
MENA Alternatives Myth or Reality?

Middle East Alternative Investments Summit 2009

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Mashreq Asset Management

If you are about to describe the truth, leave elegance to the tailor

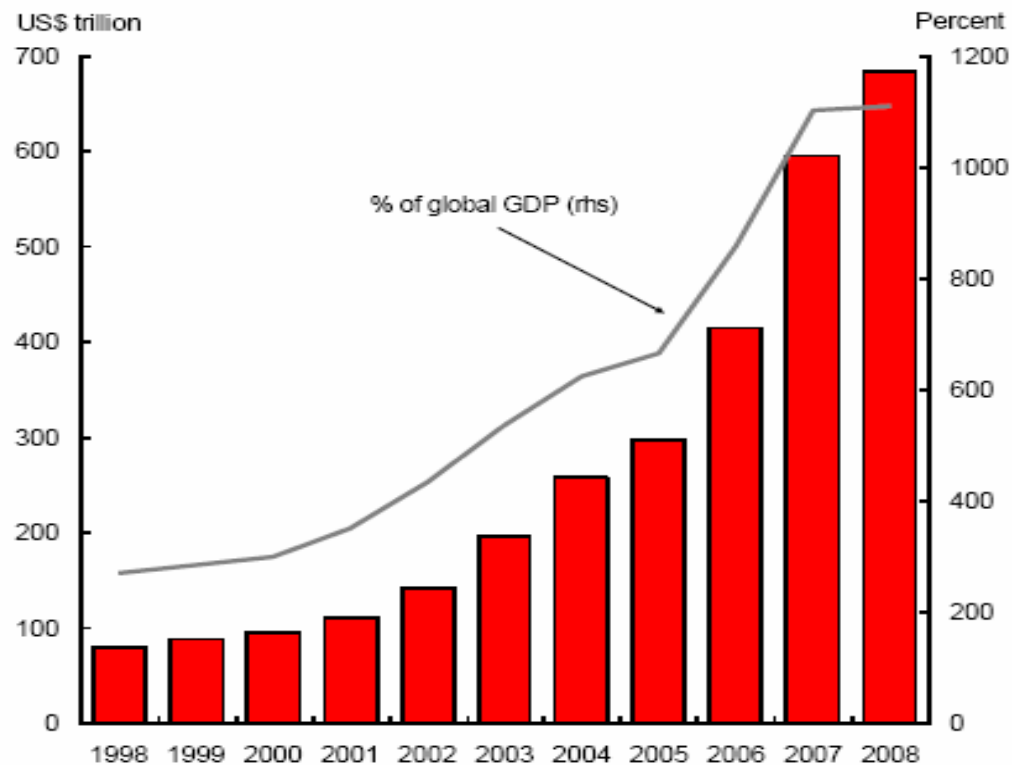
- Albert Einstein

Derivatives – the Menu

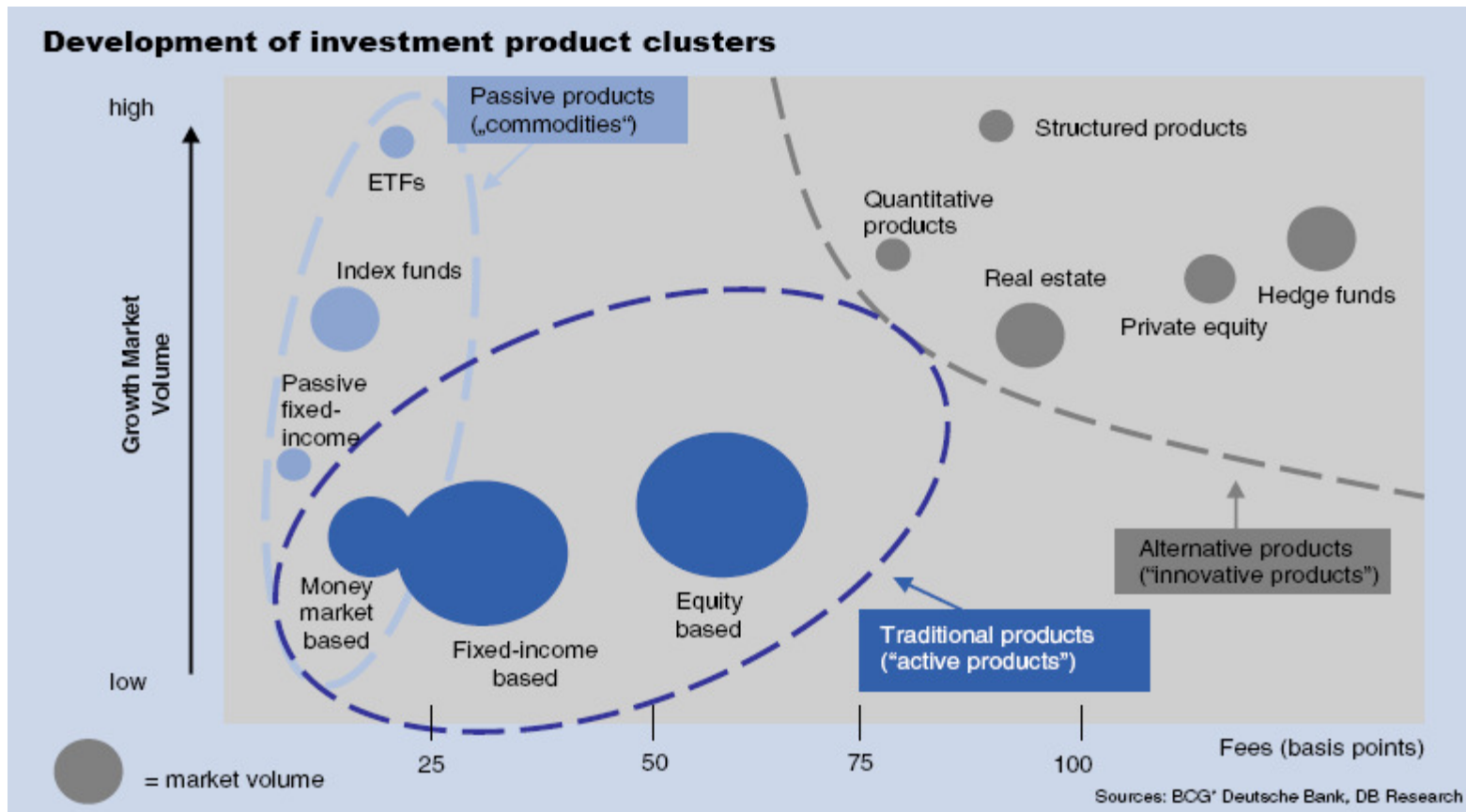
- **Defined as those securities whose values and cash flows are determined by the behavior of other securities, i.e. the underlying securities, including :**
 - Options
 - Futures
 - Swaps, including credit default swaps
- **Alternative investment vehicles use other types of transactions / securities including short sales, convertibles**

Growth in Derivatives

Derivatives, 1998-2008



MENA Asset Management Industry – Trends for the Future



A Hedge Fund with MENA Underlying?

- **No short selling arrangements for stocks listed on any exchange**
- **No options, or futures market of any meaningful nature**
 - Regulated vs Unregulated
 - Exchange vs Over the Counter
- **Swaps: only as part of the global marketplace**

Aren't the Local Market Volatile Enough Already - Why Derivatives?

- **Derivatives have a legitimate role in risk management**
- **But users of such securities must be clearly defined**
 - Speculative versus genuine risk mitigation
 - Use of leverage or 'gaining' leverage through derivatives
- **'Final' owners of risk must be competent and aware owners**

Controlling Risks to Financial System

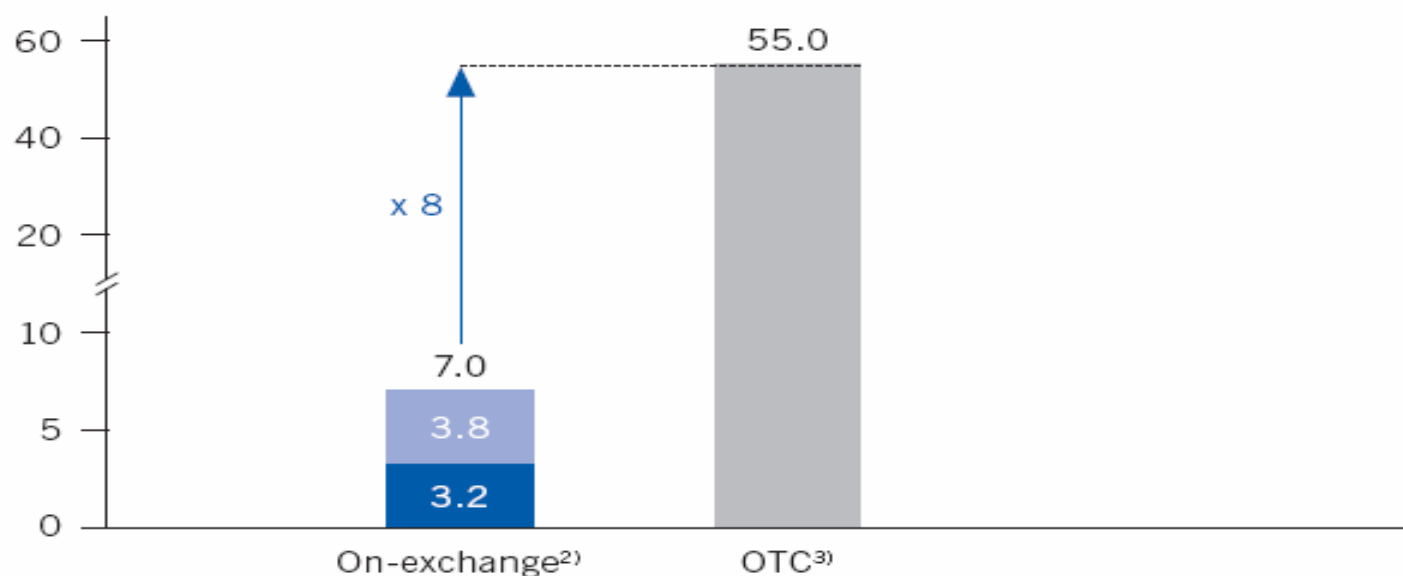
- **Transparency and disclosure standards must be rigorous and defined**
- **Derivatives trading and clearing must be efficient**
 - Organized exchange
 - Cost and price effective
- **Regulating balance sheet and 'off balance sheet' exposure**
- **Managing the size of exposures for banks and financial intermediaries**
- **Identifying the nature of exposure for all other non-financial entities**

Organized Exchange is the Way Forward

- **Standardization of products lead to efficient and low cost solutions**
- **Focus on a few standard and high demand products will enhance liquidity**
- **Allow for regulator to guide development of product suite**
- **Client segment and users / investors in derivatives can also be controlled (licensing regime)**

Cost of Transactions: Exchange Trading is the Way

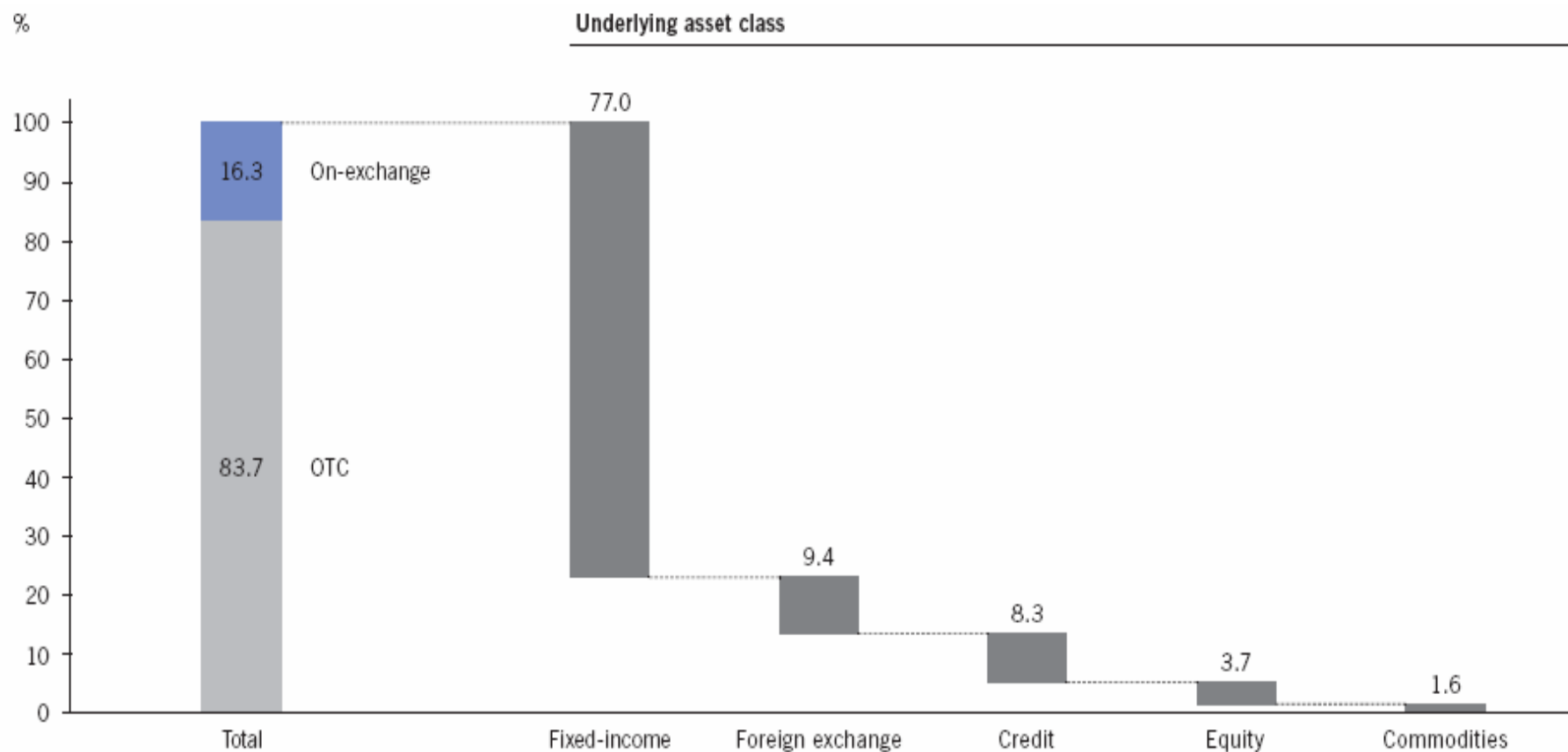
€ per €1 million notional amount traded¹⁾



- Pre-trading and market making (broker-dealers)
- Trading and clearing (exchanges and clearing houses)

10 Explicit (trading and clearing fees) and implicit (bid-ask spread from market makers) costs for both sides of a transaction
Source: BIS, WFE, Annual reports, McKinsey

Global Derivatives Market – Exchange vs OTC



11 Source: BIS, WFE, FIA

The Journey has Just Begun

- **Absence of deep and liquid capital markets, both equity and fixed income**
- **Beginnings of OTC market for certain products**
- **Opening of Saudi market will prove a fillip for investment banks and derivative securities**
- **The issue of 'sharia' compliant derivative securities**
- **Human capital as a prerequisite for sound and balanced development of derivative securities**
- **Learning from the developed market experience – someone always carries the risk – all risk cannot be 'sold' away!**

It does not matter how slowly you go so long as you do not stop.

- Confucius

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Appendix

The Mashreq Arab Tigers Fund

- Domiciled in Ireland, and established under the European Communities UCITS (Undertakings for Collective Investment in Transferable Securities) Regulations 2003 as amended
- Listed on the Irish Stock exchange
- Middle East based Investment Manager with intimate regional knowledge and network
- The Fund will build upon the track record of the existing Makaseb Arab Tigers Fund (MATF)
- Investment Strategy is bottom up, stock specific, and benchmark unaware
- Country and sector allocations are driven by stock selection, no top down reconstitutions

Basic Facts – Makaseb Funds

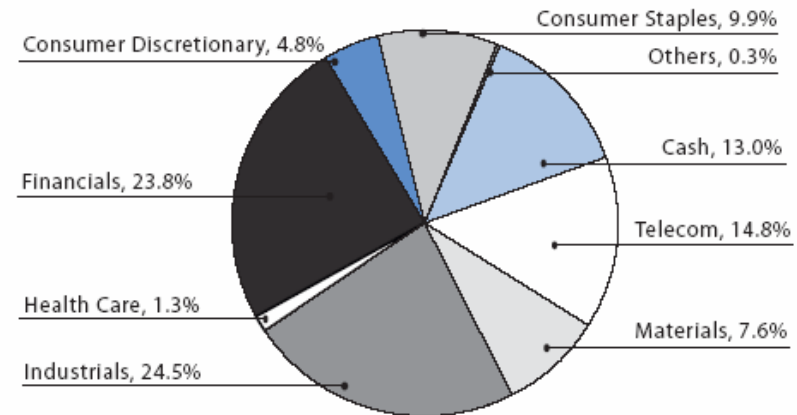
Investment Manager	Mashreq bank
Legal Vehicle	Makaseb Funds Company BSC (c)
Auditor	Deloitte - Bahrain
Registrar	Ernst & Young – Bahrain
Administrator	Gulf Investment Corporation – Kuwait HSBC Middle East
Custodian	Gulf Investment Corporation – Bahrain HSBC Middle East
Regulator	Central Bank of Bahrain
Listing	Bahrain Stock Exchange (“BSE”)
Dealing Frequency / Reporting	Daily Dealing for the Makaseb Emirates Equity Fund & twice weekly dealing for other funds; Monthly fact sheet
Information Channels	www.makaseb.com , Bloomberg, BSE

Makaseb Arab Tigers Fund

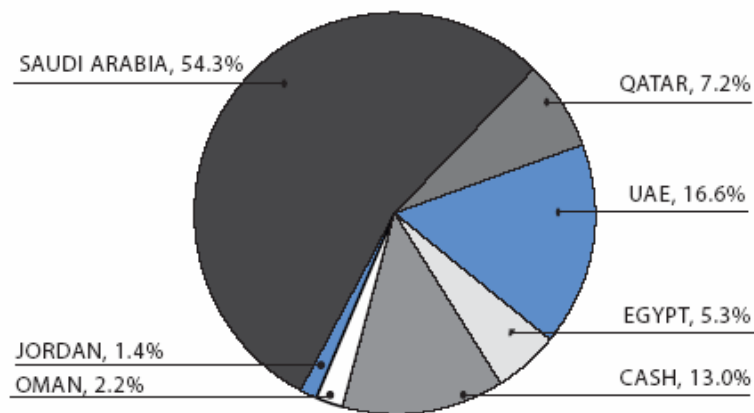
Since inception performance



Sector Allocation



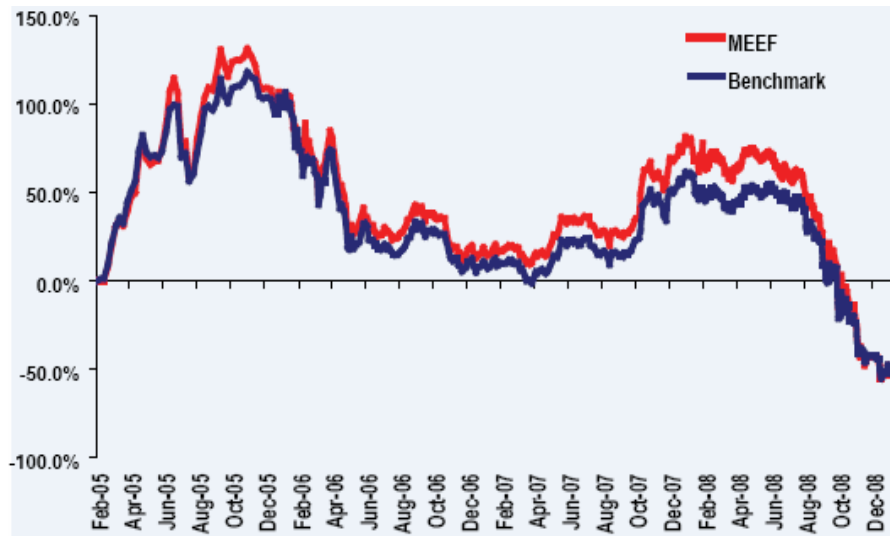
Market Allocation



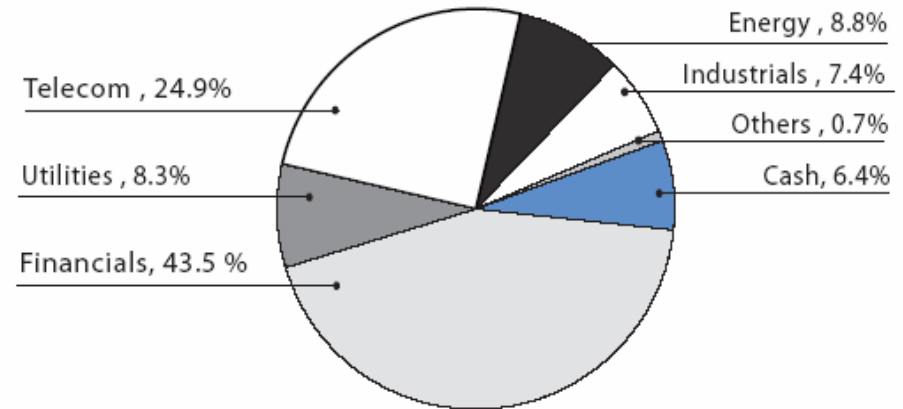
	MATF	MSCI Arabian
Since inception return - Nov 05	-43.5%	-63.6%
YTD	-5.8%	-9.7%
2008	-51.2%	-55.0%
2007	39.0%	48.2%
2006	-8.1%	-40.7%
2005 (Since Nov 22, 2005)	-3.8%	1.8%
Volatility	16.5%	22.2%
Number of positions	19	152

Makaseb Emirates Equity Fund

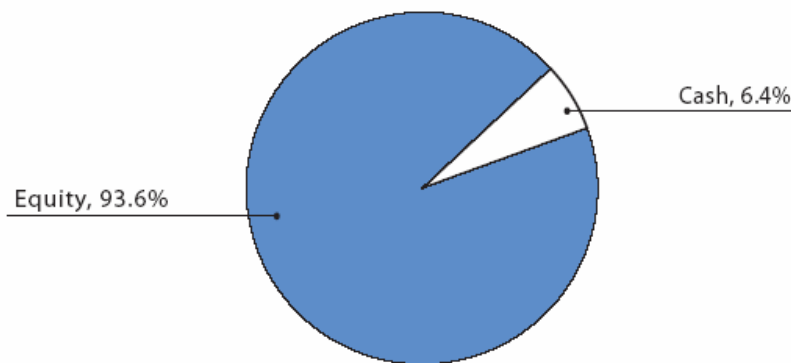
Since inception performance



Industry Allocation



Asset Allocation

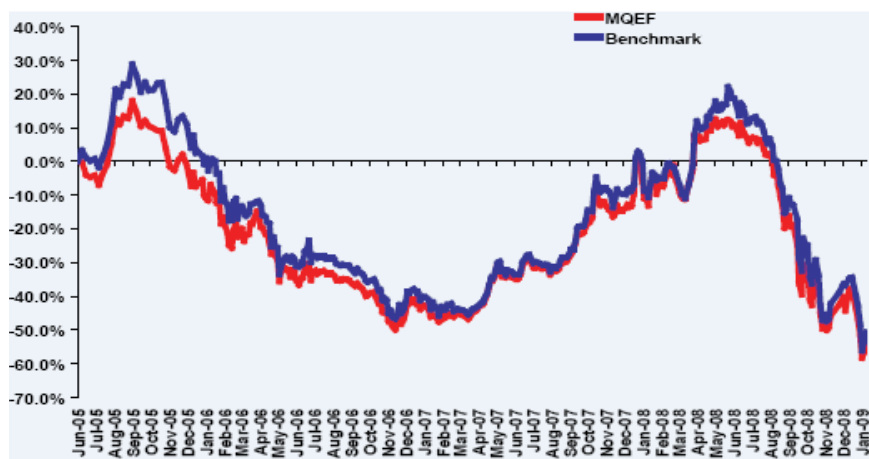


	MEEF	MSCI UAE
Since inception return	-54.61%	-56.77%
MTD return	-3.91%	-10.41%
2008 return	-72.70%	-68.84%
2007 return	50.19%	43.25%
2006 return	-42.35%	-44.48%
2005 return	99.86%	94.71%
Dispersion of return	34.27%	33.13%
Number of positions	14	21

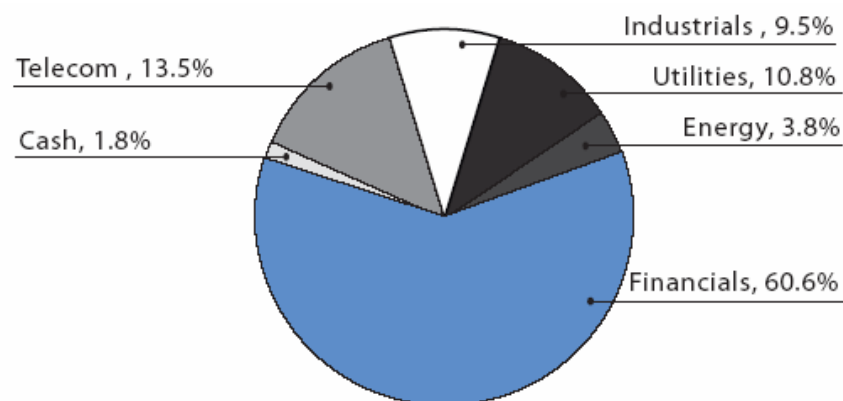
Makaseb Qatar Equity Fund



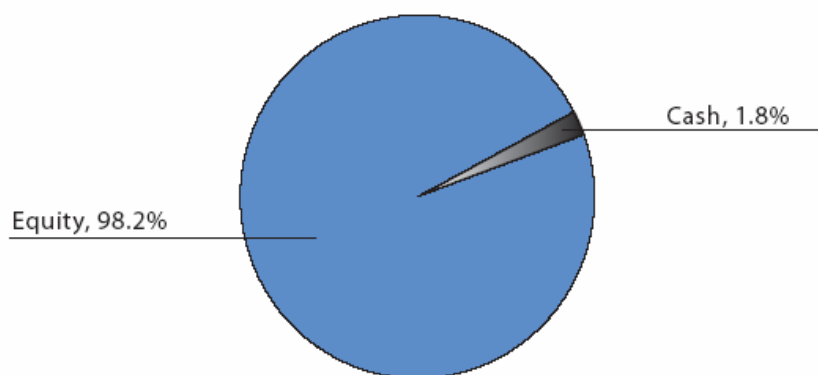
Since inception performance



Industry Allocation



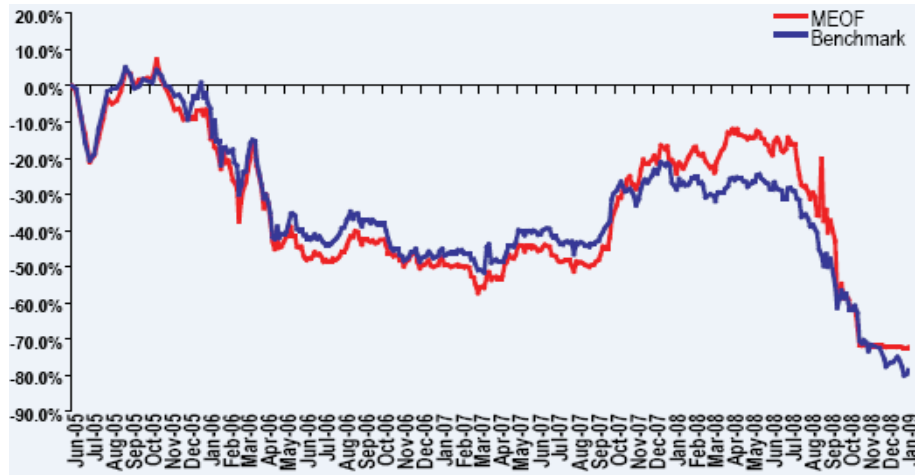
Asset Allocation



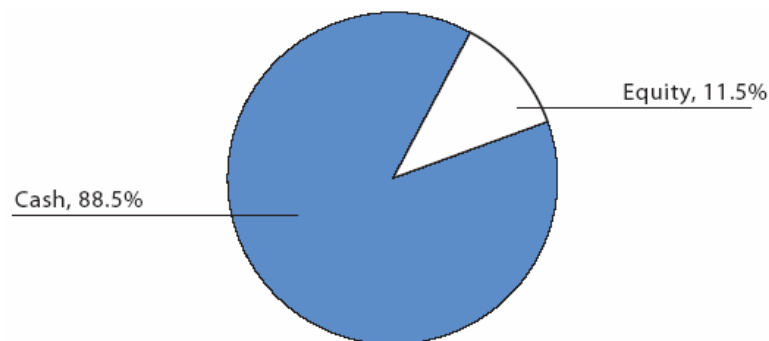
	MQEF	MSCI Qatar
Return since inception – June 05	-53.79%	-50.55%
2008 return	-28.33%	-28.26%
2007 return	47.13%	47.32%
2006 return	-39.15%	-42.63%
2005 return	-3.34%	7.72%
Dispersion of return	23.27%	23.02%
Number of positions	9	13

Makaseb Emirates Opportunities Fund

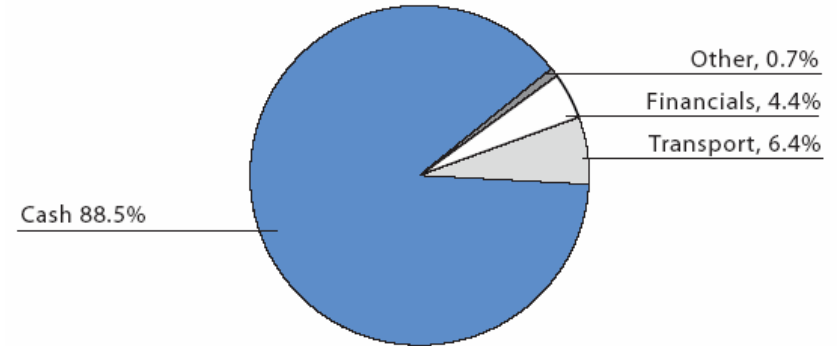
Since inception performance



Asset Allocation



Industry Allocation



	MEOF	MSCI UAE Domestic
Return since inception – June 05	-72.18%	-78.60%
2008 return	-64.63%	-68.84%
2007 return	55.5%	43.2%
2006 return	-44.5%	-44.5%
2005 return	-8.9%	-4.9%
Dispersion of return	50.7%	45.2%
Number of positions	3	21

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