Perspectives

Al Mal Capital
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December **2019**

MENA Equity Outlook 2020

MENA Equity Markets: 2019 Review

2020 MENA Macro Highlight: The Recovery Continues

MENA Equity Markets: 2020 Outlook

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Happy New Year and welcome to the 31st edition of Perspectives.

2019 was an excellent year for Global Equities. Among the major markets, the US led with a stellar 29% return, while the MSCI Emerging market Index delivered 16%. Strong gains were recorded across the globe including in the UK, Germany, Australia and Japan. However, not all of these economies are in the best of shape. The bull run has been driven primarily by "dovish" monetary policy implemented by the major central banks.

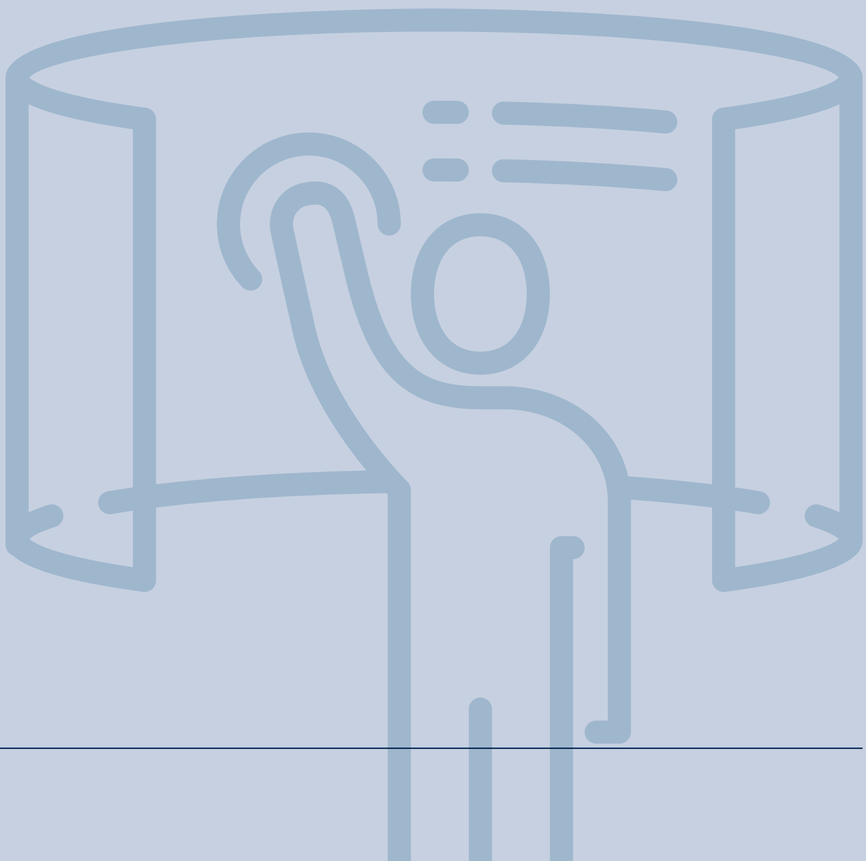
Even though the MENA region lagged its peers, it still generated a decent 8.2%, the best return in the last six years. Brent Oil is closing the year at USD 68 a barrel, 27% higher than the beginning of the year. The Al Mal MENA Equity Fund performance for the period is slightly ahead of its benchmark.

The key highlight for the year was the inclusion of Saudi Arabia in emerging market indices of MSCI and FTSE resulting in billions of dollars in passive inflows. The fourth quarter also saw the much-awaited IPO of ARAMCO, successfully raising USD 25bn.

In this publication, we first look back on the Middle East and North Africa (MENA) region's performance in 2019. We then focus on the major trends that could shape the economic outlook in MENA in 2020. The last part of this publication summarizes our regional market preferences for 2020 and highlights the key investments themes for the region.

We hope you will enjoy this issue.

Part 1: MENA Equity Markets 2019 Review



It has been three years since the investment approach and management team of Al Mal Mena Equity team has been revamped. In the coming pages, we review Middle East equity markets action in 2019, we then share our investment views and convictions for the next year.

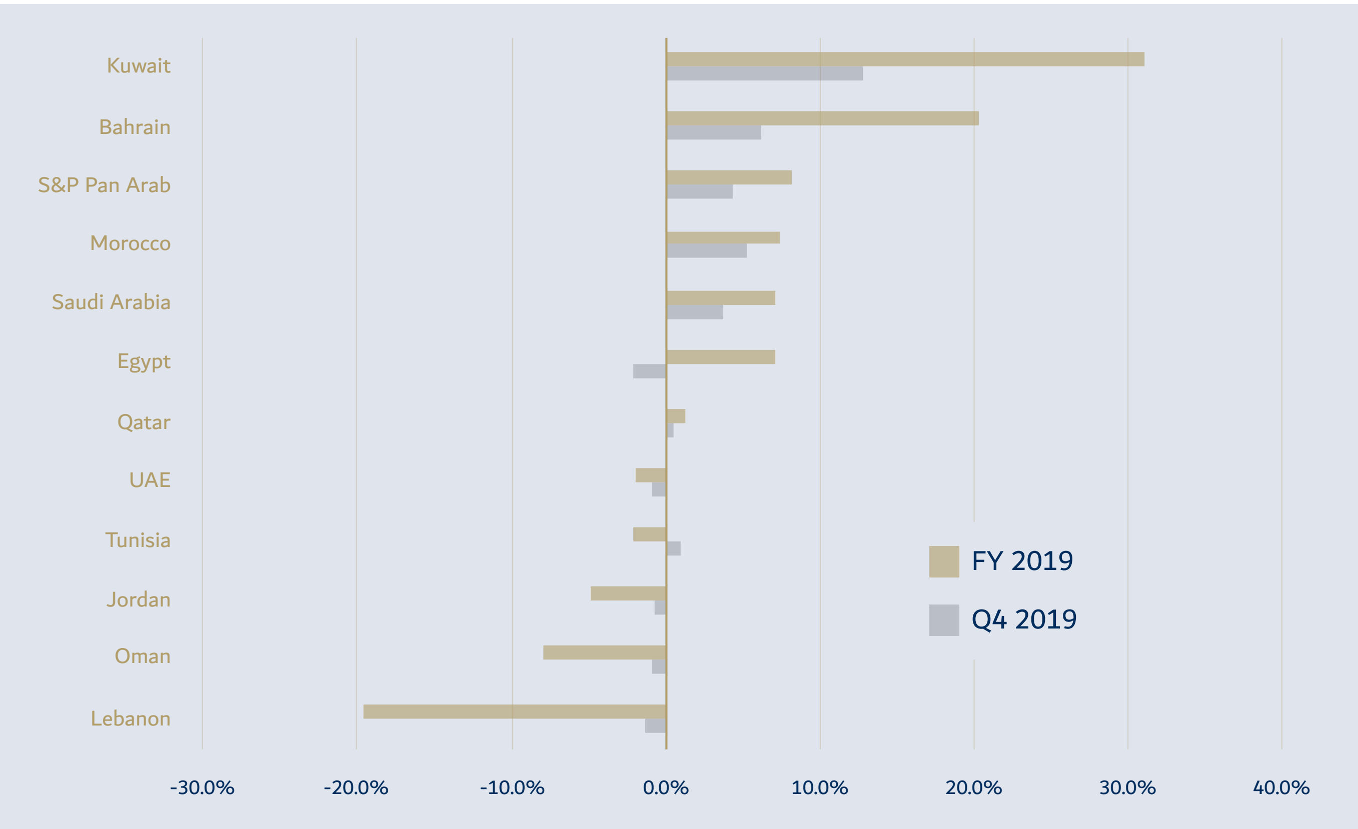
The Best Regional Markets in 2019

The S&P Pan Arab index ended the year with a gain of +8.2%, below the MSCI Emerging Markets index which ended the year up +15.4%. While the S&P Pan Arab index rallied in Q4, it lagged international markets, as U.S equities and emerging markets ended the quarter up +8.5% and +11.4%, respectively. We note that the oil over the quarter was in-line with regional equity markets gaining 8.6%.

It was a heterogeneous year for Middle East equities with the strongest performance from Kuwait (+31.1%), Bahrain (+20.4%), Morocco (7.4%), Saudi Arabia (+7.2%), Egypt (+7.1%) and Qatar (+1.2%) whereas UAE (-2.0%), Tunisia (-2.1%), Jordan (-4.9%), Oman (-7.9%), and Lebanon (-19.6%) had a challenging year.

We also note that foreign flows were very strong in the GCC in 2019, mainly due to the upgrade of Saudi Arabia to EM and other index trades. For Saudi Arabia, since May, small-caps (+c. 16%) and mid-caps (+c. 2%) significantly outperformed large-caps (c. -5.9%). In terms of sector performance, consumers reported the best yearly returns during 2019, followed by Financials, while the worst sector performance was from Industrials followed by materials.

Market Performance (in USD)



The Fourth Quarter of 2019 in the Rearview

Key Highlights of the Quarter

SAUDI ARABIA

News flow was heavily dominated by the Aramco IPO over the last quarter. The stock was offered at a valuation of USD 1.7tn. The 1.5% size translated to more than USD 25bn, making it the largest IPO in history, well ahead of Alibaba's USD 21.8bn. ARAMCO made a strong debut on Tadawul with the stock opening limit up at 10% on the first day and hit the USD 2tn mark the next day on traded value of more than USD 4bn. Post this we see the market liquidity flowing more into the midcap space. This in general better suits our style of bottom-up picks based on fundamental research.

Saudi Arabia began implementing the landmark reform allowing women to receive passports and travel abroad without permission from a male 'guardian'. Local media reported that the number of women who crossed the entry points of the Eastern Province alone exceeded 1,000 within a few hours.

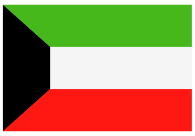
The US Fed left interest rates unchanged and suggested it would hold them steady throughout the election year with the economy solid. This is good news for banks in Saudi as their liabilities do not reprice much when rates fall, therefore compressing margins.

UAE

Emirates NBD approved a USD 1.76bn rights issue, to mitigate the impact on capital from the acquisition of the Turkish Bank. The offer received total funded commitment in excess of AED 18bn, implying oversubscription by 2.8 times. Non-UAE investors demand made up more than 60% of this, driven by the recent increase in Foreign Ownership Limit from 5% to 20%.

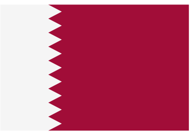
Dubai's economy is set to rebound next year, expanding 3.2%, according to the Government. Growth impetus would come from the hosting of Expo 2020. This year growth picked up in the second half following the introduction of stimulus measures by both the federal and the emirate's government. Major policy initiatives were introduced and contributed to bolstering domestic demand, reducing the cost of doing business, boosting SME liquidity and supporting the tourism and real estate sectors.

Villa and townhouse sales hit a five-year high in the first three quarters of 2019, driven by the introduction of affordable housing to the emirate, according to statistics from Property Finder. This shows that demand still exists for the right product type. October saw Dubai property sales hit the highest monthly mark since 2008, as per data from DLD. Property finder said - "There is a lot of new supply in the market that is priced affordably and as we get closer to Expo 2020, we have seen many consumers decide this is the right time to buy. This is an indication of consumer confidence in the market-leading to 2020''. Off-plan properties account for 60% of the residential transactions to date and are still the favorite for investors due to attractive prices, payment plans and waiver of fees.



KUWAIT

After a long wait, MSCI announced on December 18, its decision to include Kuwait in the Emerging Markets Index effective May 2020. **This will be the 4th GCC market to gain the EM status and will have a beginning weight of around 0.7%, resulting in passive flows of USD 2.5 billion.**



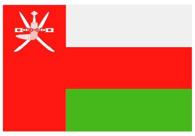
QATAR

Qatar's foreign minister has said recent talks had broken a protracted stalemate with Saudi Arabia and that Doha would study demands by its Gulf rivals. The US has expressed hope that the discussions would lead to resolution, which among other things would restore overflight access and reopen Qatar's only land border (with KSA). **The country has just announced the biggest budget in 5 years with a spending of QAR 90bn, to complete infrastructure projects including facilities for the 2022 FIFA World Cup.**

EGYPT

Positive news continued to flow in from Egypt. **The Central Bank cut policy rates by 100 bps bringing the discount rate to 12.75% - which is now 350 bps lower than the beginning of the year.** The Ministry of Petroleum stated that the production of gas is expected to reach 51.1mn tones of gas in the current FY19/20 following the entry of the production of the Zohr gas field into the grid. Tourist arrivals increased by 30% y/y so far this year.

The Egyptian pound continues to strengthen and broke below the 16 level for the first time in more than two years. This was driven by inflows in the local debt market following the trade deal between China and US. The carry trade is still very attractive for foreign investors with high real yields. This shall lower the fuel subsidy bill, partly also a result of lower global crude oil price.



OMAN

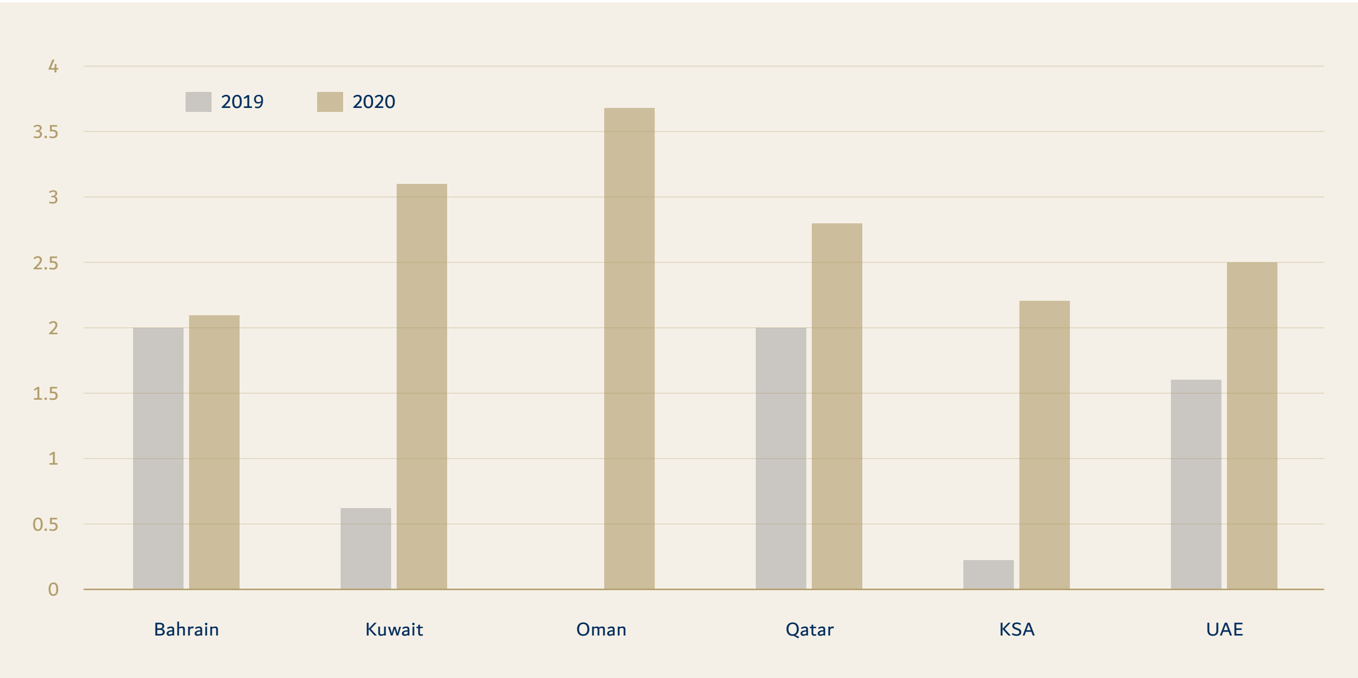
The Omani Central Bank Governor reaffirmed that the country has no plans to change its monetary policy with regard to the fixed exchange rate. **Deficit has decreased by USD 2.9bn over the past year, much better than expected – to the lowest level in five years, due to control of spending.** Furthermore, the government is not in discussions with Gulf countries for any aid package.

Aramco stock was offered at a valuation of USD 1.7tn. The 1.5% size translated to more than USD 25bn, making it the largest IPO in history, well ahead of Alibaba's USD 21.8bn.

Part 2:
2020 MENA Macro Highlight
The Recovery Continues

The economic recovery taking place across large parts of the Middle East and North Africa looks set to continue in 2020. After several years of below-trend growth, there is cause for optimism that in several key markets, the business cycle has not only turned a corner but will also gradually strengthen over the coming quarters. This will occur as policy reforms that were implemented in recent years now begin to bear fruit, while key macro and market trends such as oil prices and interest rates, not only stabilize but also provide for a more growth-friendly backdrop.

Real GDP Growth Forecasts, % year-over-year



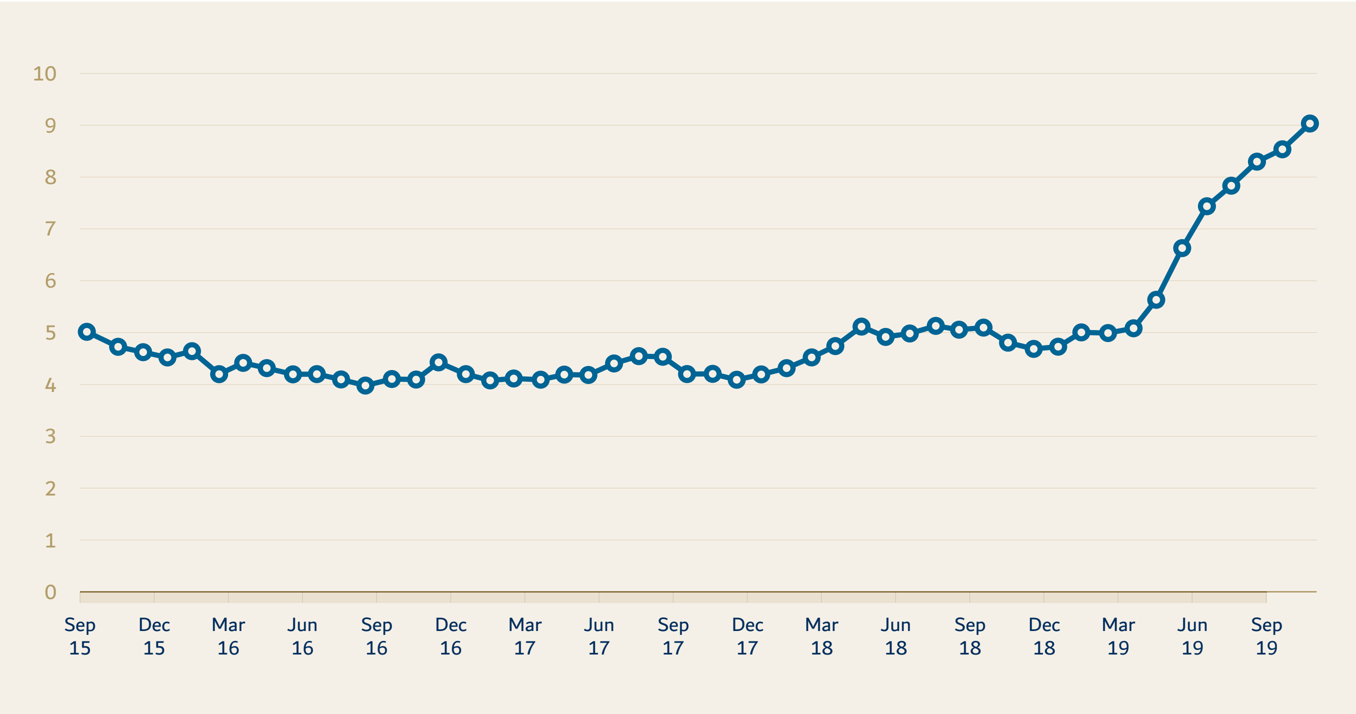
According to the IMF's latest regional forecasts, every economy in the GCC is set to see stronger growth in 2020 relative to 2019 (as we discuss below, some of the IMF's GDP projections for next year appear overly optimistic). Not only will the overall pace of growth improve across the region, but an argument can certainly be made that the largest improvement will come in the quality of the expansion. Indeed, as the regional hydrocarbon sector is not expected to provide much support in the near term, the acceleration in headline GDP growth will come almost exclusively as a result of a strengthening in the non-oil economy. For the GCC's investment thesis, it is the outlook for the non-oil economy which clearly matters most, and as a result, forecasts which point to an improvement in overall growth tend to understate the importance of the recovery taking place in many sectors.

According to the IMF's latest regional forecasts, every economy in the GCC is set to see stronger growth in 2020 relative to 2019.

The start of a critical period for the GCC...

2020 also marks the start of what could turn out to be a defining period for the GCC, as a series of landmark events over the coming three years has the potential to drastically raise the entire region's investment profile. To be sure, this has already started with the record setting IPO of Saudi Aramco that took place in early December, capping off a year which started with the 'Index Inclusion Story' that led to a record amount of foreign inflows into the local equity market. Next year, the long-awaited Dubai Expo 2020 will begin in October, bringing with it an increase in foreign businesses and tourists looking to take advantage of the six-month long trade fair by tapping into new markets and customer bases, while also raising the emirate's international profile.

Foreign Ownership on Saudi Arabia's Tadawul, %



This will subsequently be followed in 2022 by Qatar hosting the FIFA World Cup, which consistently proves to be one of the most-watched sporting events in the entire world and will undoubtedly see a record influx in visitor arrivals to the country. In combination, these three events will bring with them a level of global attention and scrutiny on the GCC that has rarely been experienced and thus serves as a critical opportunity for the region to showcase its recent reform efforts and investment opportunities.

EXPO 2020 DUBAI UAE

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FIFA WORLD CUP Qatar2022

Since 2016 there has been an unprecedented amount of economic reforms in the GCC only because oil prices have settled into a 'new normal' that is often characterized as 'lower-for-longer'.

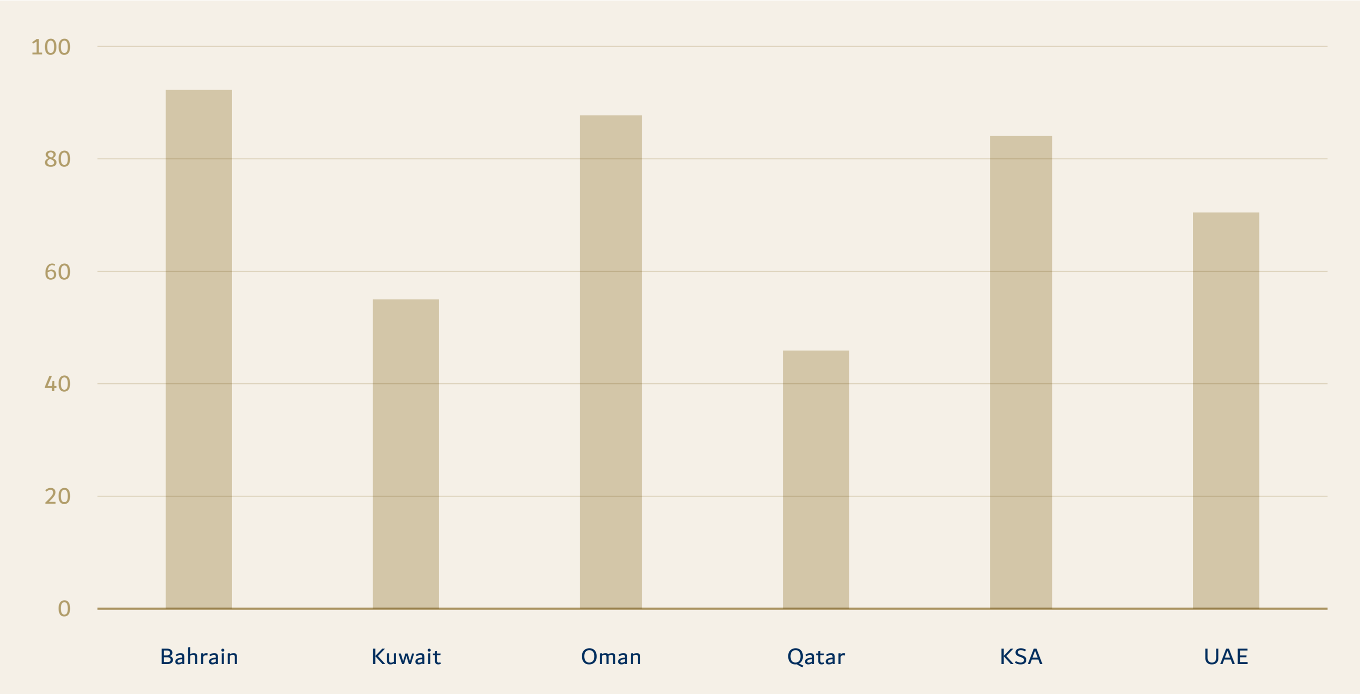
OPEC production curbs to remain in place...

In December it was announced that the OPEC+ group of oil producers would not only continue with its production-cut agreement, but would also deepen these cuts through the first quarter of 2020. Judging by statements from several government officials at this latest meeting, it is believed that OPEC sees USD60/bbl as a floor for global oil prices, and is 'comfortable' with a range of prices of between USD60-70. There is also some belief that the desire to deepen cuts at this stage was related to the timing of the Saudi Aramco IPO, with little willingness on the part of Saudi Arabia to see global energy prices fall at the exact time that the company finally goes public.

Brent Crude Oil, USD/bbl

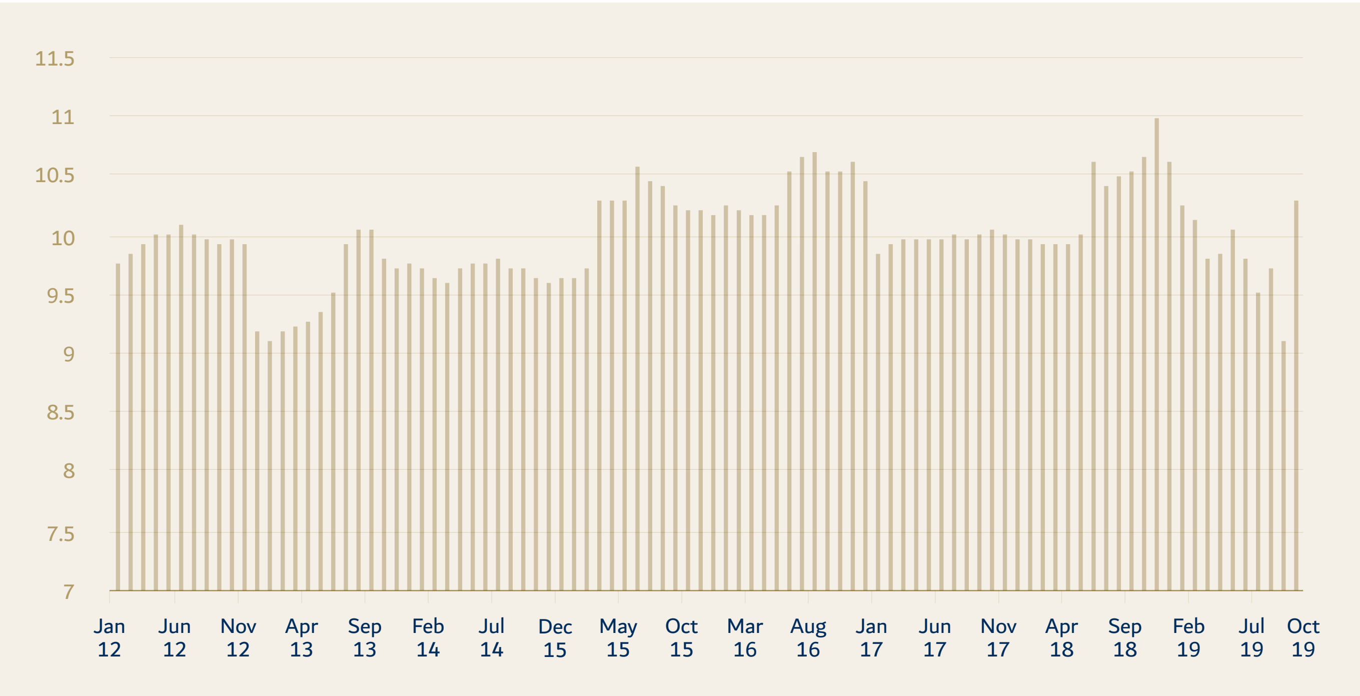
In any event, for the macro environment, oil prices between USD60-70/bbl appear to be an appropriate level for the GCC. In this range, prices are above or near fiscal breakevens (with the exception of Bahrain and Oman), thus they are not so low as to potentially force governments to cut back on spending as was the case in 2016. At the same time, prices are not so high as to incentive governments to slow down on the pace of reform implementation. Indeed, since 2016 there has been an unprecedented amount of economic reforms in the GCC only because oil prices have settled into a 'new normal' that is often characterized as 'lower-for-longer'. As these reform policies are needed to strengthen the private sector and attract foreign investment, the best-case scenario for the region's long-term outlook is for such reform momentum to continue apace in 2020. Oil prices between USD60-70/bbl will, in our view, help facilitate further liberalization of the regional economy.

Estimated Fiscal Breakeven Prices, 2020, USD/bbl



A key issue with the ongoing OPEC+ agreement is compliance, with Saudi Arabia currently reducing its own output well above its prior commitments due to overproduction (i.e. non-compliance) by several participants to the deal such as Iraq. Of the 373k b/d of additional cuts that will now be borne by OPEC, Saudi Arabia will be responsible for 167k of this reduction while non-OPEC members will reduce production by a combined 131k. For context, between January-November, average oil production out of KSA was down roughly -4% y/y, and any further reductions in oil output will only add to perceptions of economic weakness as the oil sector accounts for approximately 43% of KSA's GDP.

Saudi Arabia Oil Production, mn b/d



These output curbs – which it should be stressed are a deliberate policy – will clearly result in a slower pace of overall GDP growth next year for the entire region's hydrocarbon producers. Other large reductions will be seen in Kuwait (cutting 55k), Iraq (50k) and the UAE (60k). Although this latest agreement is only set to last until the end of Q1, at which point the policy will be reviewed, it is unlikely that production will suddenly begin to increase in Q2 or H2 20.

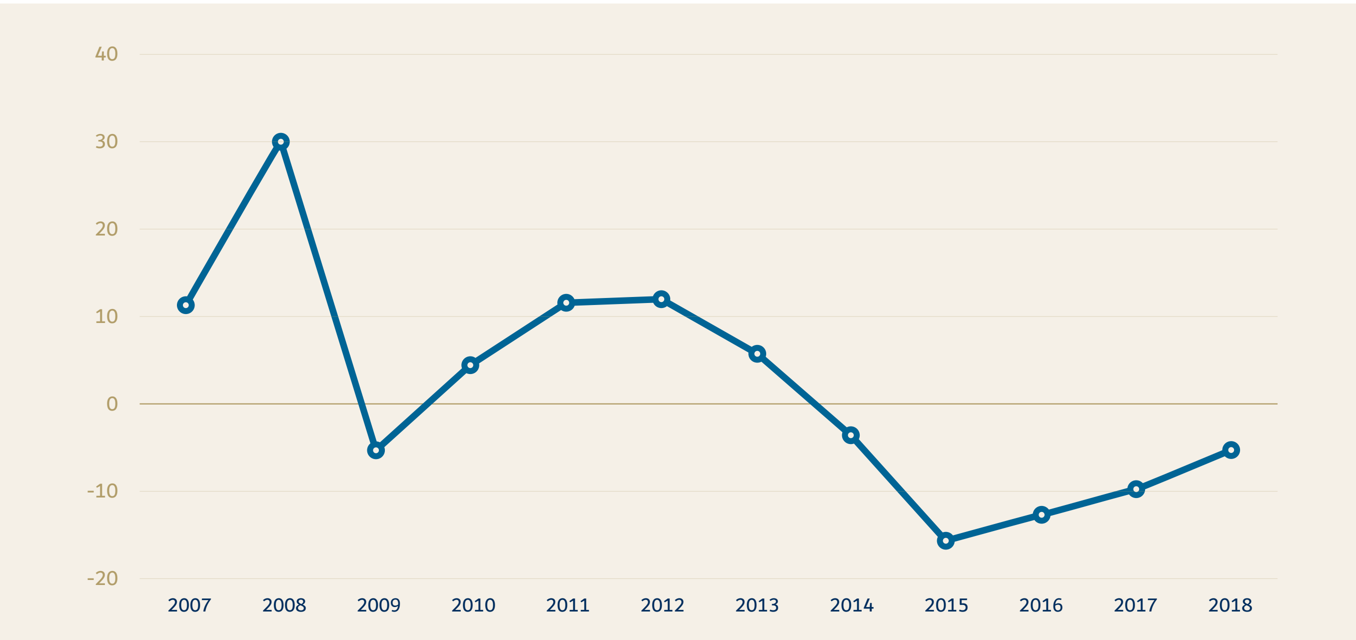
The most likely scenario, in our view, is for a stabilization in OPEC+ output through the course of 2020, particularly as production from countries not participating in the agreement (e.g. Brazil and Norway) begins to accelerate.

What this means for the regional investment profile is that headline GDP growth will not necessarily be a useful indicator for understanding the actual strength of the economic environment, as there will be a large drag in several markets from weaker oil sector GDP.

A neutral fiscal policy...

So far most indications suggest that regional fiscal policy will be broadly neutral in 2020. Saudi Arabia's 2020 budget announced in mid-December forecasts a fall in expenditure next year to SAR1.02trn from SAR1.04trn in 2019, representing a slight decline, and reversing three consecutive years of fiscal expansion. While payment of government wages is projected to be unchanged in 2020, large declines are expected in spending on Social Benefits, as well as on Goods and Services, with the fall in the latter attributable to more efficient public procurement and tendering processes, according to the finance ministry. As government spending in the GCC has traditionally been the main source of stimulus for the regional non-oil economy, monitoring fiscal policy is key to understanding potential changes in the business cycle.

Saudi Arabia Budget Balance, % GDP

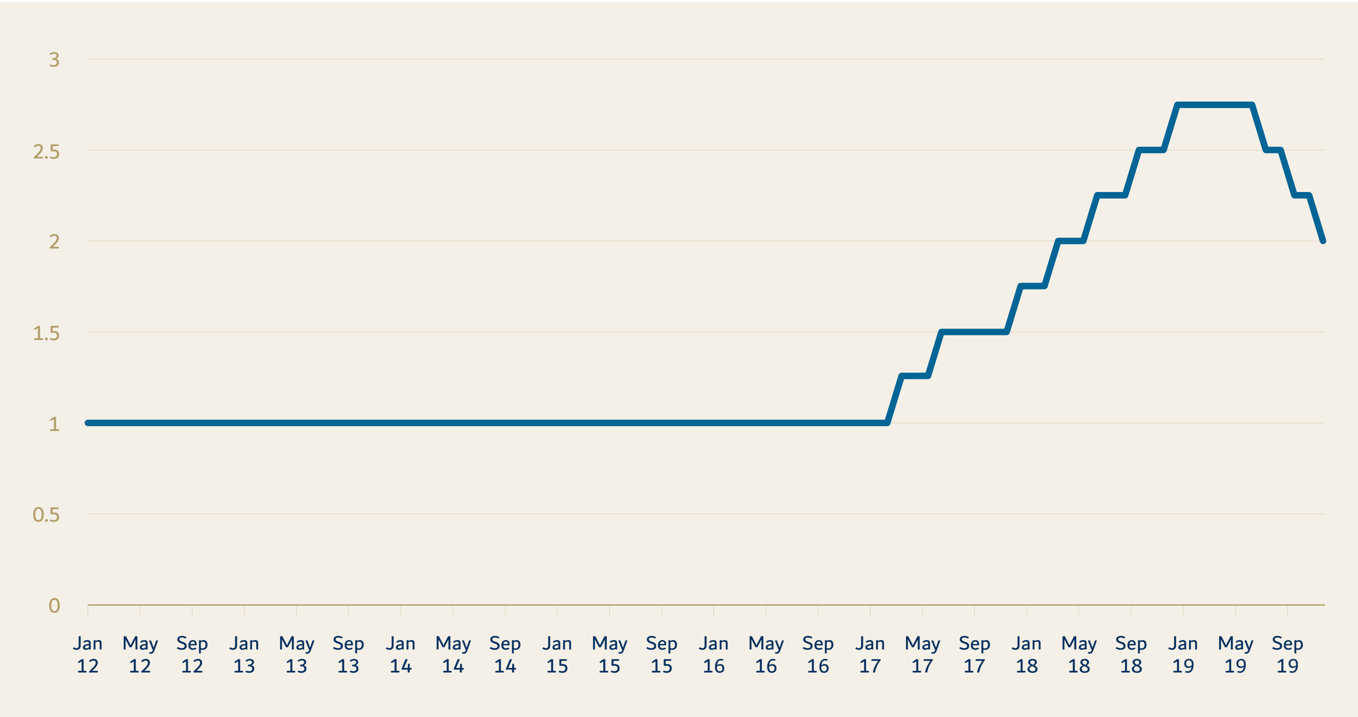


That said, in many economies, equally important to the official fiscal stance is the outlook for CAPEX from key government-related entities (GREs) or sovereign wealth funds (SWFs) which deploy significant capital in their domestic markets (i.e. off-budget spending). In the case of KSA, the Public Investment Fund (PIF) is expected to be the main source of capital spending in the local economy in 2020 as construction for several of the Kingdom's Mega Projects begins to accelerate. As a result, we would argue that the effective fiscal stance in Saudi Arabia next year will be considerably looser than many would conclude just by looking at the official budget, and that overall public spending will still be expansionary.

And a more conducive monetary policy...

The regional monetary policy environment also looks set to stabilize in 2020, providing for a more appropriate interest rate backdrop for the GCC's non-oil private sector. Three interest rate cuts by the U.S. Federal Reserve in 2019 were undoubtedly a welcome development, as the forced monetary tightening that took place in 2018 (in which there were four interest rate hikes) in sync with the softness in domestic demand (this was one of several factors that accounted for the regional economic slowdown in recent years).

UAE Interest Rate, %



Private sector credit growth has been running in the low single-digits in the majority of GCC economies, and these recent interest rate cuts should, at the margin, help to support stronger consumption and investment patterns. Economic growth without strong credit growth is difficult to achieve in any economy, and the GCC is no exception, particularly given lower levels of overall population growth, which by our estimates has fallen into the very low single-digits. Looking ahead, financial markets are pricing-in further monetary loosening in the U.S. in 2020 (roughly 25bps lower), and while this might not materialize given the ongoing strength of the American economy, at the very least, in our view it is relatively safe to say that the probability of GCC central banks being forced to hike interest rates next year are low. For the time being, monetary policy across the region is expected to remain stable.

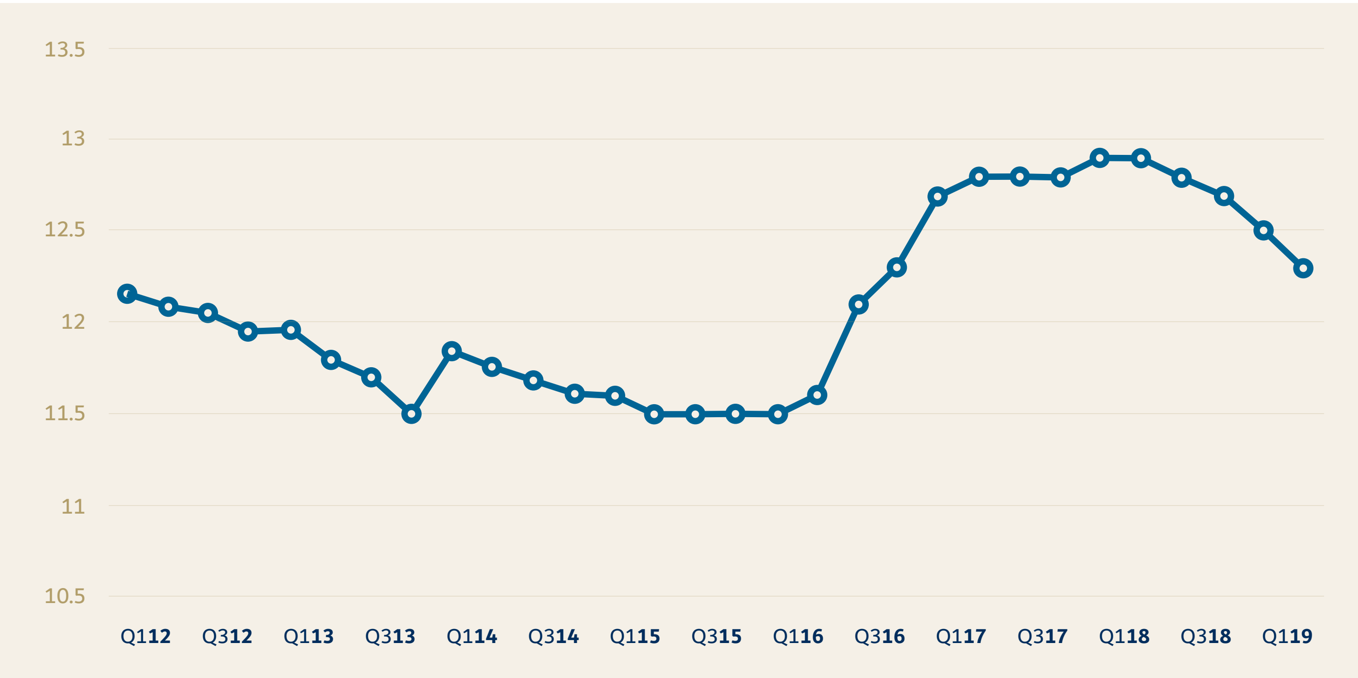
Three interest rate cuts by the U.S. Federal Reserve in 2019 were undoubtedly a welcome development.

The regional reform story has been the most prominent feature of the GCC investment landscape in recent years, highlighted most notably through Saudi Arabia's Vision 2030.

Still lots of areas for reform...

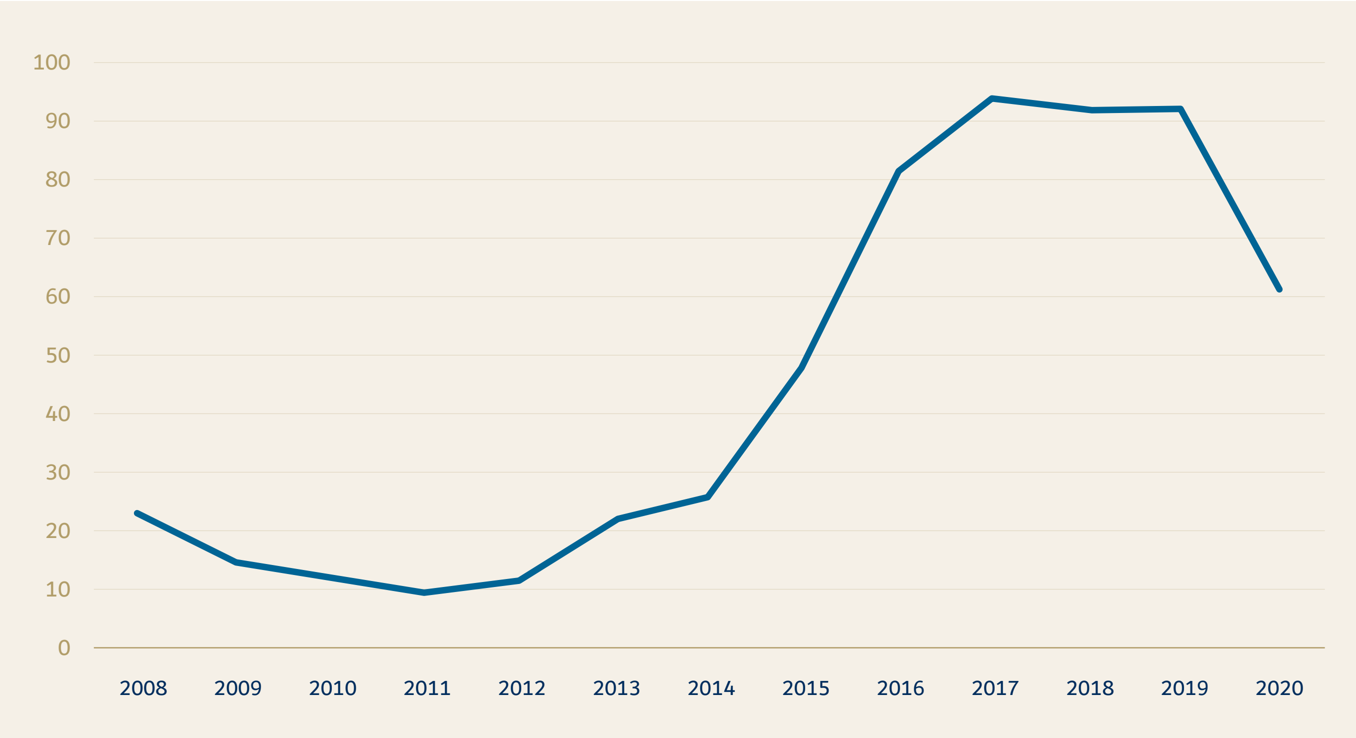
The regional reform story has been the most prominent feature of the GCC investment landscape in recent years, highlighted most notably through Saudi Arabia's Vision 2030. When thinking about the regional economic climate and the outlook for 2020 and beyond, however it is always important to keep in mind that while reform momentum since 2016 has been unprecedented, there are still many untapped areas which have yet to be liberalized that could still provide a massive amount of stimulus to the non-oil private sector. For example, the ability of investors to tap into several key industries remains constrained by foreign ownership limits or restrictions (e.g. banking, communications, etc.), which undermines efforts at attracting direct investment inflows.

Saudi Arabia Unemployment, %

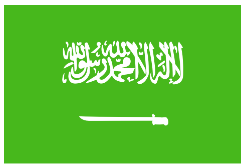


Following the introduction of VAT in KSA and the UAE in 2018, the broader trend in the region has been in the opposite direction, whereby governments have more recently been attempting to reduce or even eliminate a host of business fees and licensing costs in an effort at supporting the private sector. This is a trend that is expected to continue in 2020, and despite the recommendation from the IMF that KSA raise VAT to 10% (from 5% currently), we see the odds that this will occur as highly unlikely. Markets which have yet to implement the VAT – including Qatar, Kuwait and Oman – also appear unwilling to introduce the tax in the short term, particularly given the general weakness in private sector business activity in these economies.

Saudi Arabia's Ranking in World Bank's Ease of Doing Business Survey



It is important to note that the regional reform story has in no way been synchronized throughout the GCC. The UAE is the obvious long-term leader in reforming its business environment and investing in underlying infrastructure, however more recently it has been Saudi Arabia that has made the most progress, and in fact, posted one of the largest improvements in its global ranking according to the latest iteration of the World Bank's Ease of Doing Business Survey (moving up in the rankings to 62nd from 92nd last year).



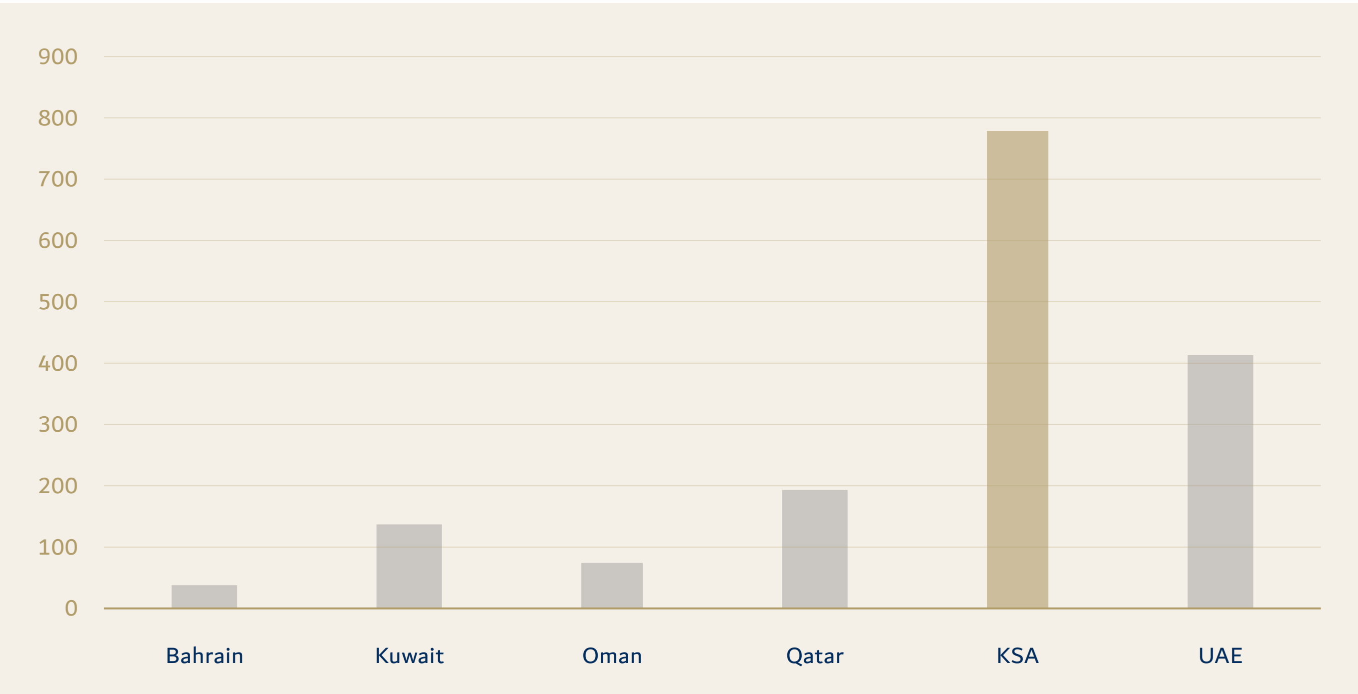
On the other end of the spectrum are markets such as Oman and Kuwait, where there has yet to be definitive progress on establishing a longer-term economic reform plan. In the case of Kuwait, one should not expect much progress in 2020, particularly given the recent cabinet reshuffle ahead of next year's elections. In Oman in contrast, most of the government's reform efforts have been concentrated on Omanization (i.e. boosting levels of Omani employment), although the impact of this has been a reduction in the expat population, which has compounded the weakness in local spending patterns.

Geopolitical environment to stabilize...

One area that has not helped the investment climate in recent years – that of geopolitical risks – also appears as if it could improve in 2020. Following the September attacks on Saudi Aramco's facilities, for example, the United States decided to send additional troops to the region, which has dramatically increased the potential costs to Iran (or its proxies) of escalating the conflict (thereby reducing the risks of further incidents in the near term). The war in Yemen also appears to be winding down, as discussions surrounding a potential long-term ceasefire continue, and countries gradually withdraw their troops from the conflict zone (in early December Sudan announced that it had reduced its troop presence to only 5k from a peak of 15k, with the prime minister saying the conflict could not be solved militarily).

There are also signs that the ongoing boycott of Qatar could be close to resolution, as December's Gulf Football Cup held in Doha saw teams from Saudi Arabia, the UAE and Bahrain all participate. Whether this 'football diplomacy' ends up in a lasting solution is yet to be seen, but an end to the boycott would undoubtedly prove positive for the investment thesis of Qatar and Dubai. As previously mentioned, given the amount of global attention set to focus on the GCC over the coming three years, a stable geopolitical environment would go a long way towards showcasing an attractive regional investment climate.

Nominal GDP, USDbn



Saudi Arabia will set the pace for the region...

As the largest economy in the GCC, macro trends in Saudi Arabia tend to set the pace for the wider region (KSA's GDP is estimated at USD783bn, compared to the UAE which is the second largest and estimated at USD414bn). Although growth remains below historical averages, there have been some encouraging signs in recent months. Private sector GDP growth, for example, is running at its fastest pace since 2015 at 3.5%, with particular rebounds seen in the Construction and Transport & Storage sectors (which expanded 4.9% and 6.4% respectively in Q2). More up-to-date high-frequency data has also been positive, most notably November's Purchasing Managers' Index (PMI) which rose to its highest level in four years at 58.3.

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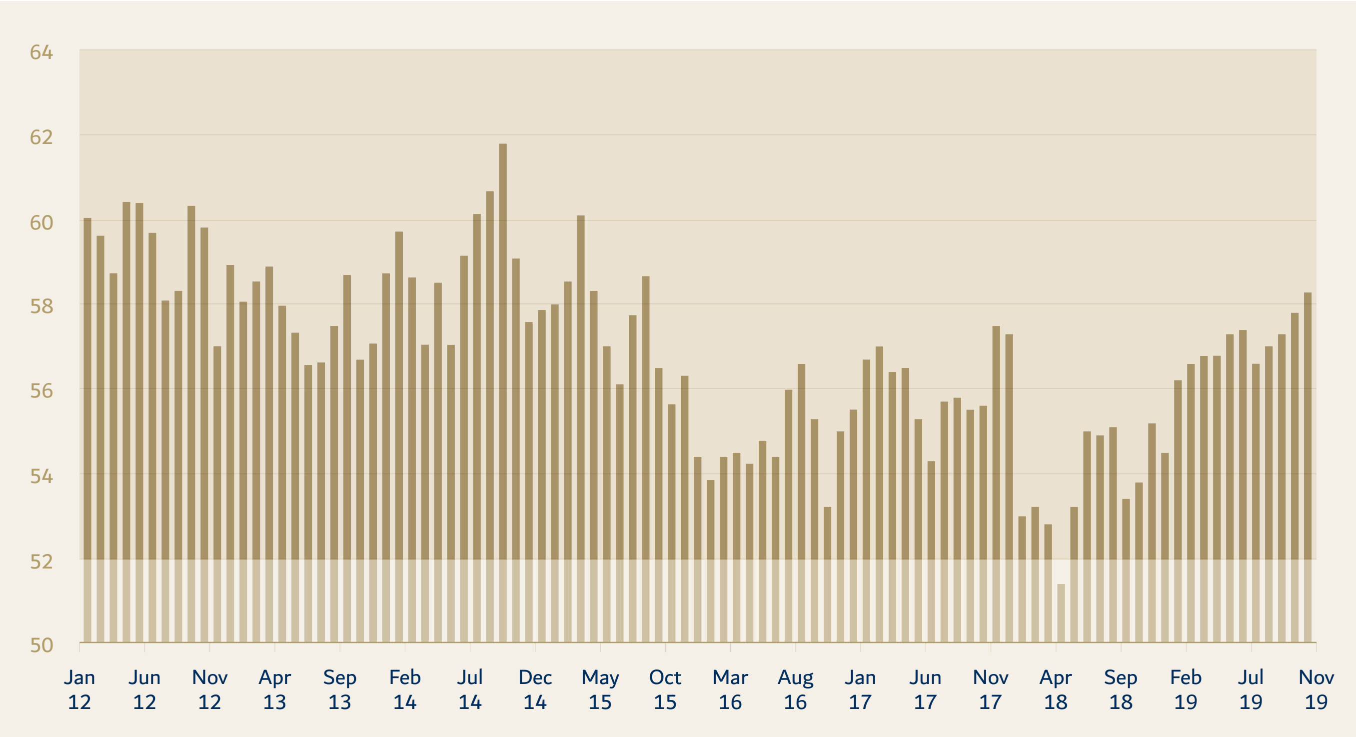
Saudi Arabia Purchasing Managers' Index



As mentioned, ongoing construction of several of KSA's mega projects will be one crucial source of growth in 2020, although thanks to social and business environment reforms as well as the government's current policy orientation, there will be other pockets of opportunity in the near term. The housing market is one such area, as a key plan of Vision 2030 is to boost overall levels of homeownership (to 70% by 2030 from 50% when the program was initiated), and progress is already evident in the surge in new mortgage finance that has been distributed in 2019. An easing in social restrictions and liberalization of the tourist visa regime, alongside a concerted effort at bringing in new high-profile entertainment events, will also serve to bolster the hospitality and service industries.

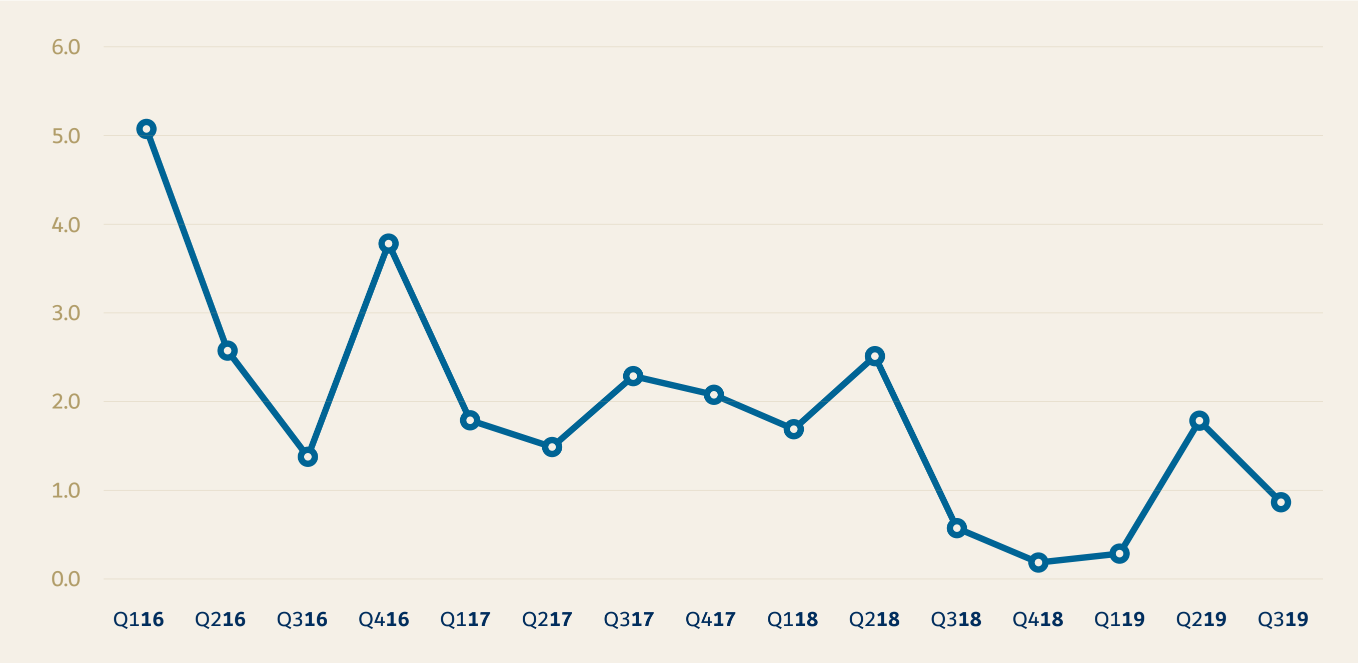
The housing market is a key plan of Vision 2030 to boost overall levels of homeownership to 70% by 2030, and progress is already evident in the surge in new mortgage finance.

70%

The UAE is shifting to a higher-quality growth model...

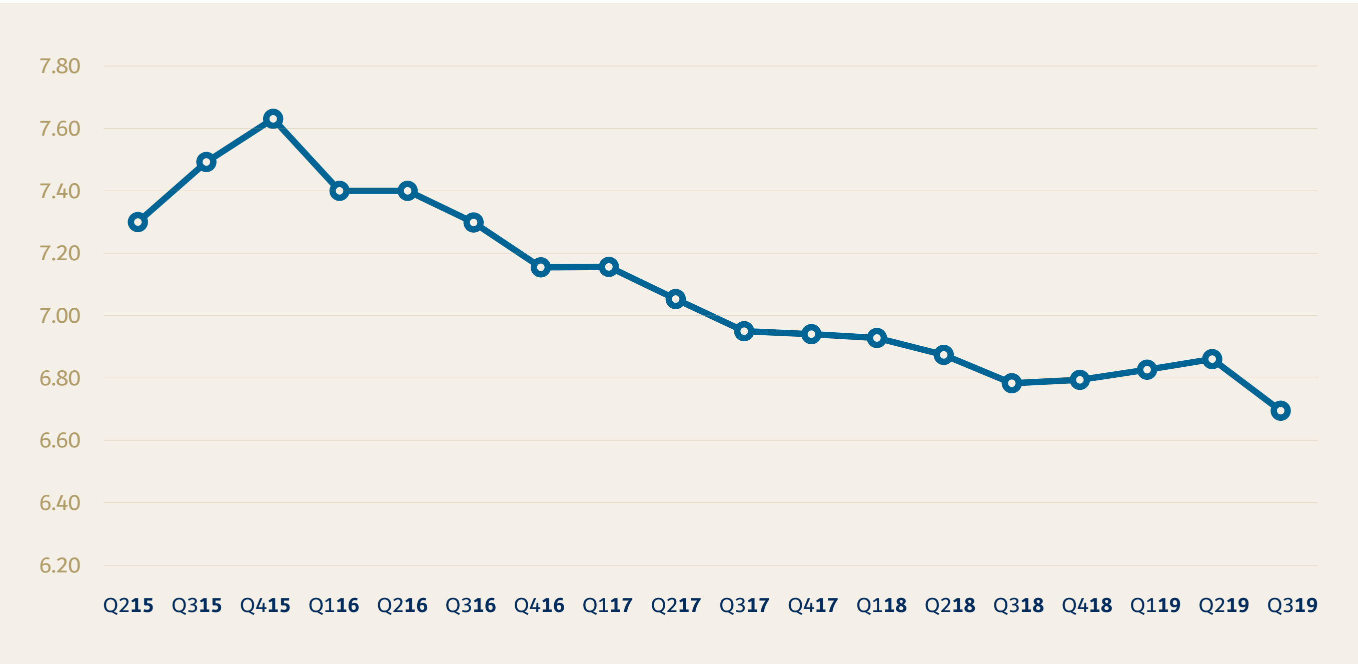
According to the latest estimates from the Central Bank of the UAE, growth in the non-oil economy is still trending in the low single-digits, with the bank's augmented economic coincident indicator (a proxy for GDP) coming in at only 0.9% y/y in Q3. This was lower than 1.8% in Q2 but still higher than what was recorded between Q3 18-Q1 19. Looking ahead, the overall pace of expansion is unlikely to improve significantly in 2020, however there should be an evolution in the sectoral distribution. Indeed, the combination of Expo 2020-related investment coming to an end, alongside what appears to be more prudent expansion plans by key real estate developers, is likely to result in much slower construction activity and overall CAPEX in the near term (this is evident, for example, in the sharp fall in new project tenders that have been issued over the course of 2019).

UAE Non-Oil GDP Growth, % y/y



As real estate and construction activity have been key sources of growth for the UAE's non-oil economy in recent years, a slowdown in these sectors will weigh on overall growth patterns. At the same time, there are signs that several key industries are beginning to stage a recovery. For example, according to the Dubai Statistics Center, the emirate's economy expanded 2.1% y/y in H1 2019, with the 'Transport & Storage' sector growing 6.2% y/y in real terms, compared to growth of only 2.1% in 2018. Moreover, the 'Wholesale & Retail Trade' sector expanded 3.3%, following on from three consecutive years of negligible growth. As these two industries combined account for 39% of Dubai's GDP, their recovery should help compensate for any slowdown in construction activity. The construction sector is clearly important to the UAE, but it should be noted that many of the jobs associated with the industry are low-wage, and do not fuel domestic spending patterns.

Dubai's Rental Yield, %

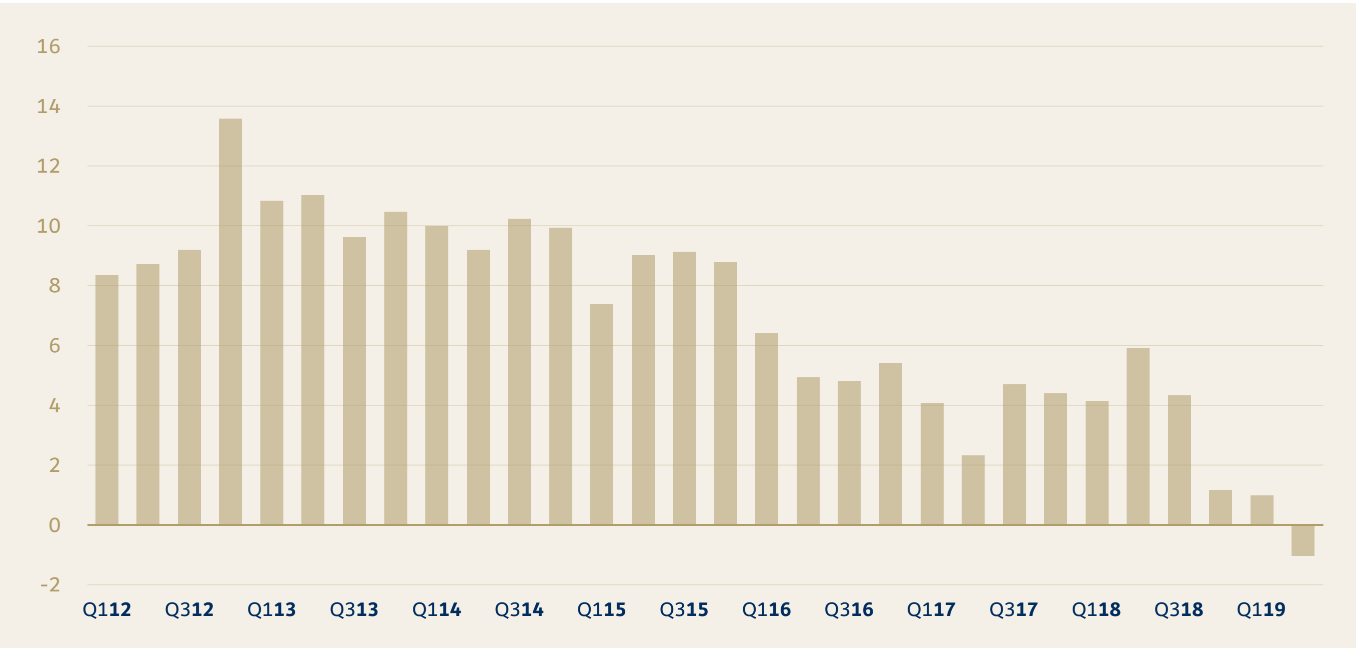


Qatar's construction boom comes to an end...

New sources of growth are needed for Qatar as the multi-year construction boom associated with preparing for the FIFA 2022 World Cup gradually comes to an end. The non-oil economy contracted -1.1% y/y in Q2 19 (overall GDP fell -1.4%). In the wider context, this slowdown is notable as Qatar has not posted a full-year recession in 25 years. Certainly, there has been some impact associated with the ongoing Qatar Boycott, including disruptions to traditional trade patterns, and any signs that the crisis could be set to end would undoubtedly prove positive for the macro and market outlook (at the time of publication, the probability of an end to the boycott was the highest it has ever been). From a long-term perspective, the ongoing expansion of the North Field LNG project will help propel headline GDP growth higher in the years ahead (the governor of the central bank is forecasting growth of 2.8% in 2020), and ensure export revenues remain a massive source of finance for government spending projects, whatever those may turn out to be.

From a long-term perspective, the ongoing expansion of the North Field LNG project will help propel headline GDP growth higher in the years ahead, and ensure export revenues remain a massive source of finance for government spending projects.

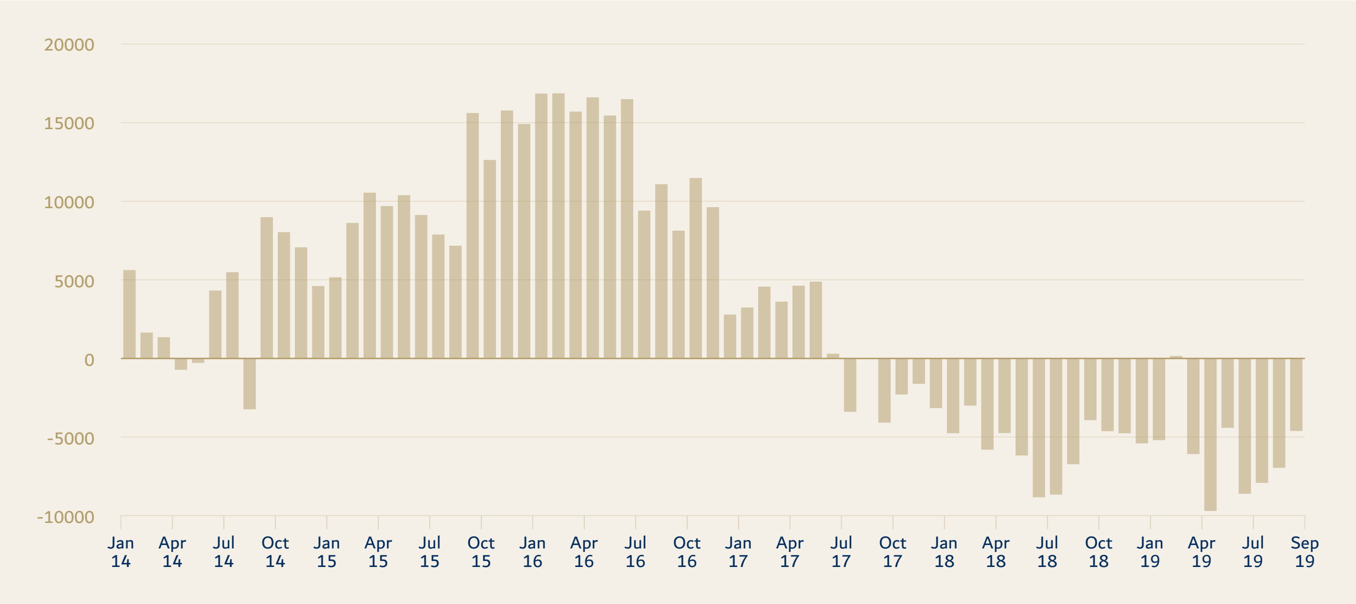
Qatar Non-Hydrocarbon GDP Growth, % y/y



Oman's economy set to underperform...

Oman is also in need of a new economic model, and unlike Qatar, the government does not have a large buffer of reserves to deploy in the domestic economy to support consumption or investment in the face of weak private sector activity. In the first half of 2019, the economy contracted -1.9% y/y (all data is only available in nominal, and not real terms), with the non-hydrocarbon sector of the economy contracting -3.4%. By GCC standards, an economic decline of this magnitude in the non-oil economy is fairly pronounced and relatively unprecedented. As previously mentioned, with expat employment falling sharply due to workforce nationalization policies (total expat employment fell -53k between Q1 and Q3 of this year), demand for everything from housing to automobiles has suffered as a result. One bright spot in 2019 has been the tourism industry, although this sector is still too small a contributor to the wider economy to be any type of game-changer for the macro outlook.

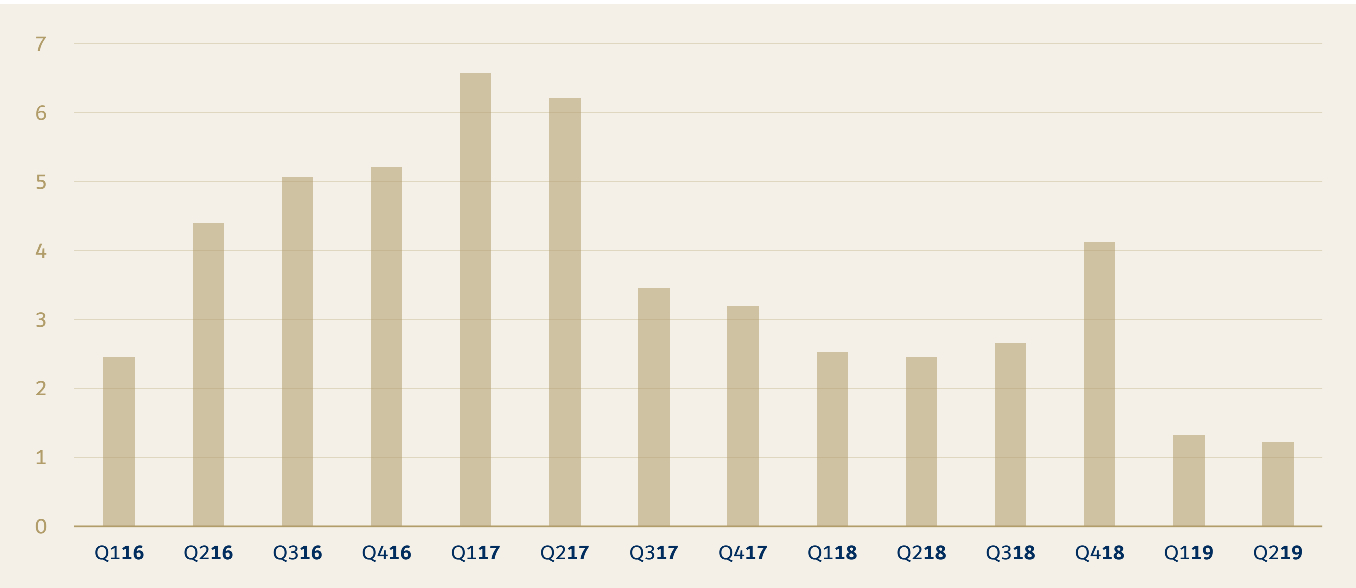
Oman Expat Employment, change m/m



Positive signs emerging in Bahrain...

While there is not yet evidence of a turnaround in Oman, in the case of Bahrain there is reason for a higher degree of optimism. In late November Standard & Poor's even revised its outlook on the country's sovereign credit rating to Positive (while affirming its B+ rating), which is one of the first non-negative moves by a rating agency on Bahrain since 2011. The rationale behind the more positive outlook, according to S&P, has been substantial progress on reforms, most notably the introduction of VAT at the start of 2019, but also the voluntary retirement scheme that has seen a reduction in the public sector workforce by 18%. Of course, much of the reason behind the more stable outlook for Bahrain has to do with the GCC's extension of an USD10bn aid package, which significantly limits risks to external repayment capacity. This is particularly important given the still low level of FX reserves, which earlier in 2019 were not sufficient to cover the monetary base (i.e. there were significant risks to the BHD peg, if one was to look at Bahrain's metrics in isolation).

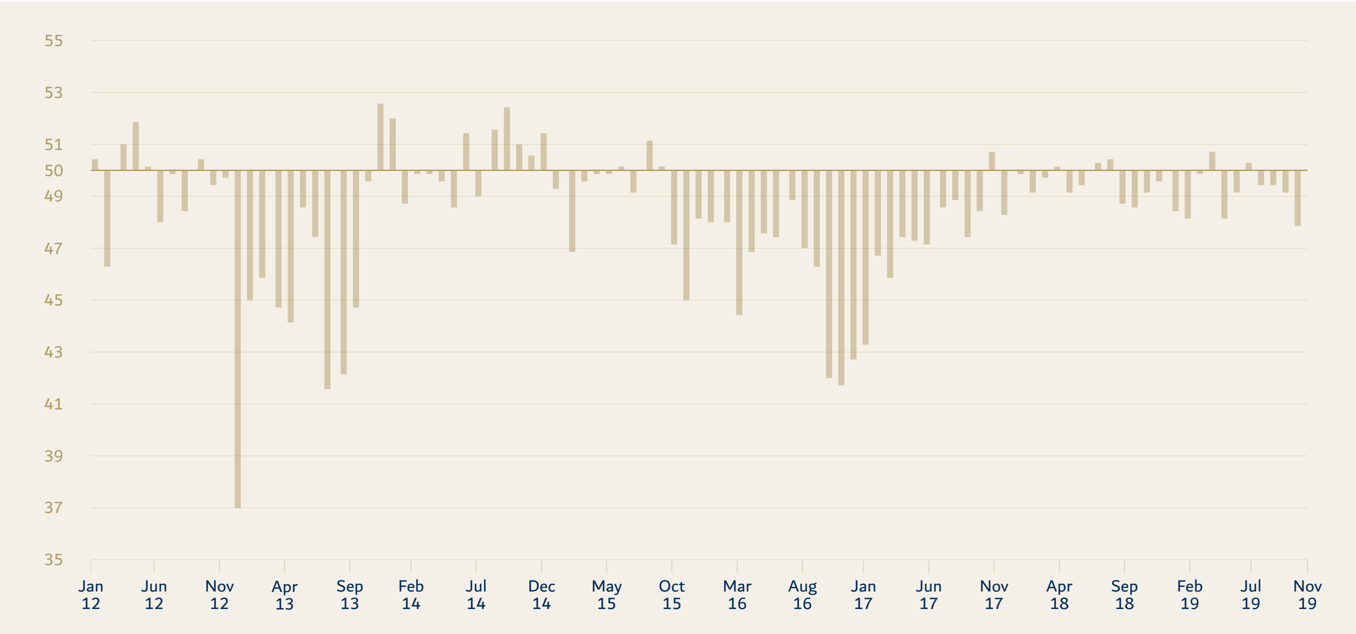
Bahrain Non-Oil GDP Growth, % y/y



An interesting year ahead for Non-GCC economies...

While 2020 should see the GCC benefit from a larger degree of stability (in macro, market and geopolitical terms), the picture is more interesting (and less predictable) in North Africa and the Levant. At this stage, what appears most certain is that the Egyptian economy looks set to be the clear outperformer across the region, with real GDP growth forecast to remain above 5% (potentially as high as 6%) for the third consecutive year. From a macro perspective, the combination of rising hydrocarbon production, a rebound in the tourism sector, as well as ongoing public investment, are helping to propel growth to multi-year highs, while from a financial markets perspective, historically low inflation alongside a stable exchange rate, are helping to fuel consistent foreign inflows into domestic equity and bond markets. The key challenge for Egypt is in shifting towards a growth model that is less dependent on government spending and employment, and more towards facilitating growth in the private sector (Egypt's PMI has consistently failed to rise above the neutral 50 level, even as real GDP growth is above 5%).

Egypt PMI



In the region's smaller frontier markets, there is likely to remain a high degree of instability due to ongoing political risks. This is particularly the case in oil producers such as Iraq and Algeria, which have both seen changes in government following large-scale public protests. If history is any guide, these types of government transitions rarely result in a more stable policy environment, at least in the short term. While foreign investors tend to have limited exposure to these markets, their stability still matters for the wider region due to their hydrocarbon output (this is particularly the case for Iraq, which is OPEC's second-largest producer). Thankfully in both Algeria and Iraq, there is little evidence that recent political instability threatens to disrupt hydrocarbon production and exports.

Lebanon's outlook might get worse before it gets better...

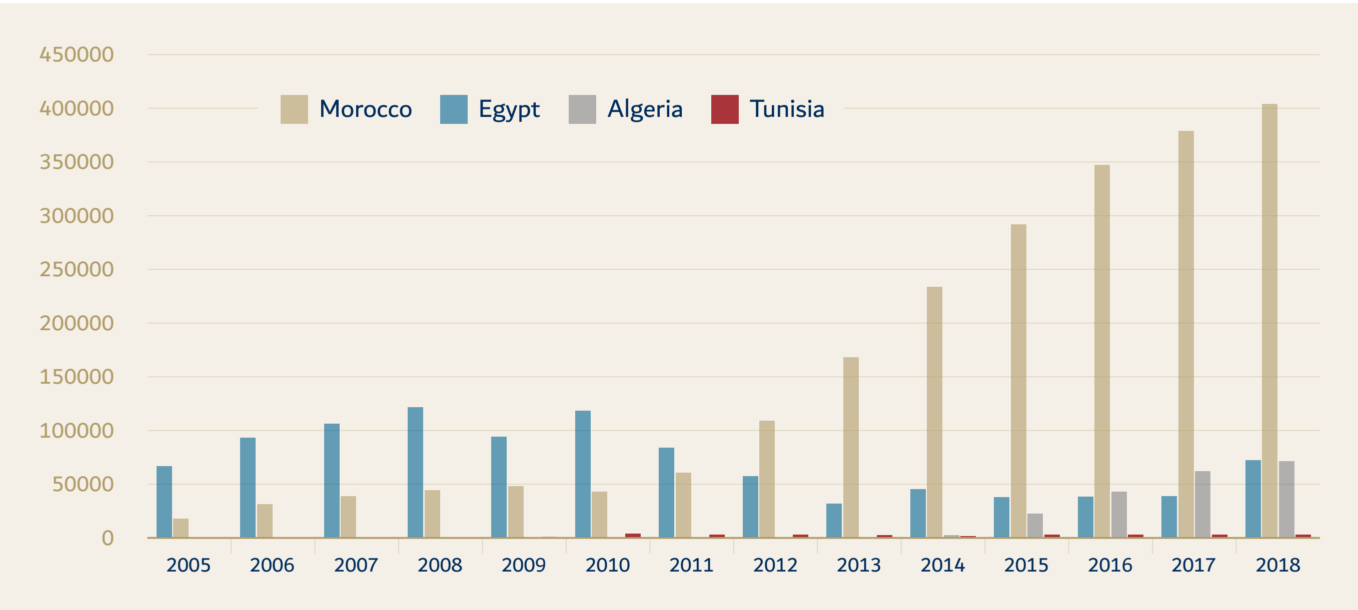
At the time of publication, Lebanon was the economy that was of most concern, as months of political unrest (on top of years of policy paralysis) threaten to be the 'final straw' that could finally push the country towards the brink of a sovereign default and de-pegging of the LBP's fixed exchange rate regime. With the central bank having imposed capital controls on banking sector deposit withdrawals and the Lebanese pound reportedly losing roughly one-third of its value on the black market exchange rate, there is little possibility that the financial system will continue to see inflows in foreign deposits (which have underpinned stability in the financial system for decades). At this stage, the only way Lebanon could avoid a potentially severe and prolonged economic and financial crisis is for the country to receive an infusion in foreign aid, whether in the form of bilateral grants or multilateral financing from the IMF. The latter would likely come with strict policy conditions, which will be difficult to implement given the lack of a functioning government, leaving the only viable option as an infusion in aid, in our view.

Lebanon Economic Coincident Indicator, % y/y (3mmavg)

While Morocco still stands out as a role model...

On a more positive note, we are still relatively optimistic on the outlook for the Moroccan economy, where growth is likely to range between 3-4% in 2020. In part, this will reflect a rebound in agricultural production, which still accounts for 15% of GDP. Yet Morocco's strong investment thesis goes well beyond higher cereal production and is more of a long-term nature due to the country's ability to continually attract foreign direct investment into export-oriented manufacturing industries such as automobiles and aeronautics. In many respects, the country stands out as a role model for oil-importing economies in North Africa and the Levant, and highlights how a coherent reform agenda (Morocco ranks 53 in the World Bank's Ease of Doing Business Survey) can fuel long-term sustainable growth in exports, rather than relying on household spending or government expenditure.

Automobile Production, Units



Part 3:
MENA Equity Market 2020 Outlook

2020

Valuation and Growth

MENA markets valuations are skewed by the large-cap names in the materials, banking and telecommunication sector, where there is very limited growth due to continuous margin compression and low volume and price growth. If we look beyond these sectors; we see a very compelling story. For example, the healthcare, industrial and real estate sectors are witnessing earnings growth at a 2-year CAGR of 39%, 27% and 29% respectively, with PEGs well below 1. Excluding the large-caps in the financial sector, you will see some names that are able to create value through differentiating their product mix and gaining market share.

MARKET	PE TTM	PE 2019	PE 2020	EPS CAGR	PEG	Beta
MSCI World	20.5	18.2	16.7	9.3%	1.96	1.00
Emerging Markets	15.4	14.6	12.8	13.8%	1.06	0.91
Frontier Markets	10.5	13.1	11.8	10.1%	1.29	0.60
MENA	16.4	15.4	14.0	10.2%	1.51	0.55
FINANCIALS SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Financials	13.8	12.4	11.9	5.9%	2.10	1.05
Emerging Financials Markets	10.1	9.8	9.2	8.1%	1.22	0.84
Frontier Financials Markets	7.3	7.9	7.4	7.6%	1.04	0.64
MENA Financials Sector	13.5	13.8	13.0	4.4%	3.16	0.54
HEALTHCARE SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Healthcare	26.3	18.7	17.2	9.8%	1.90	1.01
Emerging Healthcare Markets	44.3	30.8	26.1	18.7%	1.65	0.85
Frontier Healthcare Markets	11.0	12.2	12.3	1.3%	9.08	0.39
MENA Healthcare Sector	36.0	27.4	21.7	39.1%	0.70	0.49
REAL ESTATE SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Real Estate	23.6	24.2	24.3	0.9%	27.07	0.68
Emerging Real Estate Markets	8.7	8.4	7.2	16.6%	0.51	0.96
MENA Real Estate Sector	12.1	8.7	7.8	29.1%	0.30	0.57
INDUSTRIALS SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Industrials	20.3	18.9	16.8	11.6%	1.62	1.05
Emerging Industrials Markets	15.3	14.4	12.0	15.5%	0.93	0.83
Frontier Industrials Markets	14.8	14.8	11.9	16.2%	0.91	0.53
MENA Industrials Sector	19.4	13.6	12.1	27.3%	0.50	0.54
CONSUMER DISCRETIONARY SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Consumer Disc.	21.0	19.7	17.7	11.8%	1.67	1.02
Emerging Consumer Disc. Markets	34.3	24.1	20.0	20.1%	1.20	1.09
Frontier Consumer Disc. Markets	17.8	18.7	17.4	19.3%	0.97	0.70
MENA Consumer Disc. Sector	40.7	21.8	18.8	16.1%	1.35	0.52
TELECOM SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Telecom	16.7	13.1	12.7	4.0%	3.27	0.82
Emerging Telecom Markets	18.9	17.1	15.1	12.0%	1.42	0.68
Frontier Communication Markets	3.5	16.4	13.8	15.3%	1.08	0.58
MENA Telecom Sector	17.0	15.1	14.4	12.0%	1.26	0.48
MATERIALS SECTOR	**PE TTM**	**PE 2019**	**PE 2020**	**EPS CAGR***	**PEG**	**Beta****
MSCI World Materials	18.1	17.8	16.2	9.3%	1.91	1.05
Emerging Materials Markets	17.8	14.6	11.7	16.1%	0.90	0.85
Frontier Materials Markets	11.6	13.3	11.9	11.2%	1.19	0.49
MENA Materials Sector	33.2	27.4	19.2	28.5%	0.96	0.60

**EPS CAGR is based on 2 years growth from 2019-2021* ***Beta is measured against MSCI World Index*

Investment Themes for 2020

The fund aims to capture the upside potential prevalent in some of the undervalued mid-cap names in the MENA markets.

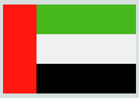
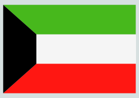
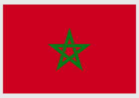
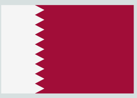
We see more growth opportunities in Egypt and deep value opportunities in the UAE markets as we continue to be overweight on both these markets and particularly in the healthcare and the industrials sectors. Saudi will continue to remain the fund's largest allocation due to the depth and the breadth of the market, yet the fund will allow bottom-up stock picking to formulate the overall allocation in Saudi. The areas where we see value are mainly in consumer discretionary, healthcare, and industrials. We see a few interesting names in

Kuwait mainly in the consumer discretionary, banking and industrial sectors. As for Morocco, the market continued to move higher due to captive flows and we see little value in the names with liquidity. Qatar seems to be on a slowdown, the main spending on infrastructure is almost complete and hence investing in the banking sector to get exposure to such spending seems to have run its course.

We continue to monitor the market in search for new opportunities. The smaller markets like Oman, Bahrain, Jordan and Lebanon have a handful of liquid names where we see no value, but we will continue to watch these markets for any liquidity event or IPOs.

On the next page we summarize our current positioning with our MENA equity funds and discretionary portfolios.

Country Specific Positioning

Market	Expected Positioning in 2020	Rationale
	Overweight ▲▲	**EGYPT** - Fastest growing economy in the Middle East with further growth expected due to ongoing reforms and 150bps rate cut in FY 20e to 11.25%. The economy grew by 5.6% in FY 19 and is expected to reach c.6.0% by FY 21e with real GDP growth of 5.5% FY 19 expected to reach 5.9% FY 20.
	Overweight ▲▲	**UAE** - Market continues to be deeply valued with Expo 2020 being the trigger for it to rerate. Expo 2020 is anticipated to have an incredibly positive impact on the UAE while acting as a catalyst to energize retail, leisure, hospitality and consumer businesses in the country.
	Selectively Opportunistic ▲▲	**SAUDI ARABIA** - Selective since it is a stock picker market; contains great long term ideas and potential opportunities. Saudi Arabia has been more successful in attracting capital inflows, reflecting areas such as its fiscal strength (low debt and high FX reserves), which continues to support demand for government debt and reforms that are expanding its economy.
	Selectively Opportunistic ▲▲	**KUWAIT** - Kuwait upgrade to EM status will continue to play out during 2020, but this is no cause for excitement as we believe a lot of it is already priced in the market. Our bottom-up analysis will drive our allocation to Kuwait.
	Underweight ▼▼	**MOROCCO** - Continues to be the most expensive market in the region with limit growth potential
	Underweight ▼▼	**QATAR** - Qatar continues to fuel growth in the hydrocarbon sector and the infrastructure spending slowing down. Very limited growth opportunities that may change if a resolution was to happen with the neighboring GCC countries.
	Opportunistic ▼	**OTHER** - We see lack of liquidity as a major concern, no stories yet, very opportunistic based on possible IPO's and M&A and or an improvement in the political and economic landscape that could stimulate the markets.

Egypt is the fastest growing economy in the Middle East with further growth expected due to ongoing reforms and 150bps rate cut in FY 20e to 11.25%.

Sector Specific Positioning

Sector	Expected Positioning in 2020	Rationale
	Overweight ▲▲	**INDUSTRIALS** - Significantly overweight on investment and infrastructure-related names which are largely benefitting from government spending. Specifically, KSA announced its 10-year industrial program which aims to develop four broad sectors – mining, manufacturing, logistics and energy – and within these sectors, create 11 new industries including automotive, biomedical and defense.
	Overweight ▲▲	**CONSUMER DISCRETIONARY** - Consumer spending continues to grow in Saudi as the government continues to relax the rules governing this sector opening up the market for growth opportunities. In the UAE consumer confidennce in expected to get a boost with the EXPO. As for Egypt, strengthening of EGP is supporting disposable income recovery and sentiment boosting consumer spending.
	Selectively Overweight ▲▲	**HEALTHCARE** - Overweight to the selective growth yhis sector presents even though the overall sector is rich in valuation. Egypt's healthcare sector continuously being underserved and thus, it is one of our biggest bets. Selective companies in the GCC continue to consistently deliver value to shareholders.
	Selectively Overweight ▲	**REAL ESTATE** - Overweight due to attractive valuation and interesting cash yields for some REITs.
	Underweight ▼▼	**MATERIALS** - Highly competitive market with low margins that are expected to reduce further.
	Underweight ▼▼	**FINANCIALS** - Although we are underweight, remains to be the largest exposure. We are selectively exposed within the GCC mainly. While yields compression is expected, balance sheet growth fueled by government infrastructure spending and mortgage financing should, in some cases, continues to support earning growth.
	Underweight ▼▼	**TELECOM** - Underweight due to very little growth in the sector and APRUs remain under pressure.

Active, transparent, experienced management has been key in our selection criteria due to their ability to grab market share and cruise through difficult times. Growth seems to be moderate overall but for select companies, we see significant growth either through capacity expansion or a recovery story. The risk/return profile of MENA companies remains the most compelling as the young population, reforms/and the opening up of the markets continue to fuel growth.

10 strong reasons to consider Al Mal Mena Equity Fund as an Investment vehicle of choice

01

Al Mal commitment

While the MENA equities team has been revamped in early 2017, the involvement of Al Mal Capital in regional equities fund management is more than 10 years old. Indeed, Al Mal UAE equity fund was created in April 2006 whereas Al Mal MENA equity fund was launched in June 2008. At a time when many regional financial firms are leaving the segment and most international asset managers continue to shun the space, Al Mal Capital is investing and expanding into Middle East equities. This is the best proof of Al Mal Capital level of commitment and conviction on our regional markets. Al Mal Capital has been of the very few long-standing MENA equity specialist and has a strong objective to be seen among the worldwide leaders in this space.

02

The strong backing of Dubai Investments

In 2015, Dubai Investments increased its ownership to obtain a majority shareholding in Al Mal Capital. Our main shareholder has been a strong supporter of Al Mal asset management team and is backing our MENA equities ambition, for instance by seeding our newly created funds.

03

The launch of the fund under a UCITS format

One of the missions of Al Mal Asset Management team is to promote MENA equities as a destination of capital for international investors. As such, we need to provide them with a fund structure which is investable. Al Mal MENA Equity Fund is currently registered in Bahrain. While this fund domicile provides the manager with many advantages (including direct access to the Saudi market), it is not investable for most international investors, would they be institutional or retail.

Al Mal Capital and Azimut Group, one of the largest European asset managers, have signed a partnership agreement to jointly launch a Middle Eastern equity UCITS fund. The strong regulation of UCITS and the resulting high level of investor protection have made them popular with supervisory authorities and investors all over the world. The UCITS brand and, particularly, Luxembourg UCITS have a large market share in a number of non-EU countries, e.g. Asia, Latin American and MENA countries. This newly established Fund was launched in June 2019 and is co-branded by Al Mal Capital and Azimut. With more than USD 60 billion in assets under management, Azimut is one of the largest and fastest-growing asset managers in Europe. And thanks to Azimut UCITS umbrella platform and their global distribution footprint, Al Mal's highly successful MENA equity strategy is now acessible to institutional and private investors around the world.

04

A unique investment approach and process

We believe that our investment approach and process is pretty unique. Our investment strategy is bottom-up fundamental through a deep research process. We favor a high conviction approach. The fund active share is around 60%.

05

Strong absolute and relative performance since early 2017

Our Flagship Al Mal Equity Fund is up +31.3% since early 2017 performance against +17.1% for the S&P Pan Arab index. Not only was the performance strong against benchmark but it did well against peers. It is also worth highlighting that an alpha of 15% with 6% tracking error implies an information ratio of 2.5x. Last but not least, the fund volatility was lower than the index despite the fund's concentration.

06

A scalable strategy

On purpose, we selected an investment universe which allows us to pick highly differentiated companies. We define our universe as GCC, Levant and North Africa (mainly Egypt and to a lesser extent Morocco). This universe is rather heterogeneous and exposed to very different dynamics (think about the impact of rising oil prices on a country such as Oman versus Egypt);

Unlike some competitors, we are not investing into illiquid micro/small-caps to generate such level of performance. We believe we can achieve exactly the same results with a USD 500-700m assets under management. Not only our strategy is scalable, but we have much higher capacity left than most of our direct competitors.

07

A highly liquid strategy

The current Bahrain registered fund offers weekly redemption frequency to investors. The same weekly frequency is offered through the UICTS Luxembourg format and can be applied to a managed account as well.

At a time when many investors believe that the only way to generate double-digit returns is to allocate to illiquid strategies such as Private Equity or real estate, it is somewhat refreshing to see that very decent returns can be achieved with a strategy which allows investors to get their money back within a week.

08

Full transparency

As our investment strategy does not imply investing into small/micro caps and because it is based on a clear, repeatable investment process, we chose from day 1 to communicate with our existing and potential clients in a transparent way and on a frequent basis.

We thus publish portfolio details and comments on a weekly, monthly and quarterly basis. We also offer direct access to portfolio managers.

09

Investing into a fund and a team which might be in the "sweet spot" of their lifecycle

In the December 2017 edition of Perspectives (Special Focus: "The Fund Lifecycle Theory"), we mentioned that many investors are under the wrong impression that the right timing to invest in a fund is when it has a long track record and large assets under management (AUM). In this article, we highlighted that "bigger" and "older" are not always better. Indeed, many institutional investors and family offices may significantly narrow down the number of fund managers, looking for at least five years' track record and over US$300-500 million in managed funds. As we highlighted in this article, several academic and industry research has suggested that large size and old age can have a negative impact on fund performance and performance persistence. The "Fund life cycle theory" suggests there is an optimum time to allocate to an asset manager - the growth and early maturity stages of a fund represent the "sweet spot" for investing. It is the time window where the fund manager is most likely to generate solid, consistent excess returns and has developed a sustainable business and stable operational infrastructure. Al Mal MENA Asset management team is highly qualified, passionate and dedicated. While past results are not a guarantee of future results, the performance achieved since the start of 2017 is a strong encouragement for the foreseeable future.

10

The upside potential of MENA equities

As mentioned earlier, we are upbeat about the near-future prospects of our regional markets. While many investors have been skeptical about the potential added value of MENA equities to a global portfolio, the last few years proved to asset allocators that Middle East markets can de-correlate from both developed and emerging markets while generating attractive returns.

To our opinion, international investors will continue to learn about the attractiveness of MENA and progressively allocate to our regional markets.

As highlighted below, the MENA region blends most of the characteristics of developed, emerging and frontier markets – this is a very unique feature.

MENA, a region like no other

As we enter into the New Year, we expect the economic recovery taking place across large parts of MENA to continue, with Saudi Arabia's macro trends setting the pace for the region.

The Al Mal MENA equity fund provides investors not only exposure to the most attractive large-cap names of the region but also aims to capture the upside potential prevalent in some of the undervalued mid-cap names in the MENA markets.

We see more growth opportunities in Egypt and deep value opportunities in the UAE markets as we continue to overweight both these markets, particularly in the healthcare and the industrials sectors.

We are selective on names in Saudi Arabia and Kuwait as we continue to allow bottom-up stock picking to formulate the overall allocation. As for Morocco and Qatar, we still see little value, due to limited growth and expensive valuations.

While our forecasts and views are always subject to changes, our commitment to serve our clients is not.

We remain at your full disposal for any specific issues you would like to discuss, so please do not hesitate to contact us.

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