

**Peer Group:**  
Equity Bahrain  
**Fund Manager/Adviser:**  
Team

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**Website:**  
www.sicobahrain.com  
**S&P ID Number: N/A**



**Location:**  
Manama, Bahrain  
**Launch Date:** May 1998  
**Fund Size (November 2008):**  
US\$11m

### INVESTMENT STYLE

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

Please see page 2 for required research analyst certification disclosure.

Further information on S&P's fund coverage can be found at [www.funds.standardandpoors.com](http://www.funds.standardandpoors.com)

### STANDARD & POOR'S OPINION (DECEMBER 2008)

Selected Securities Fund is Securities and Investment Company BSC's (SICO's) longest-held fund and one of only two collective portfolios in this Bahraini equities sector. Head of asset management Shakeel Sarwar has been involved with this portfolio since 2004. Over the last year, Sarwar has split the investment side of the team into two units, one focused on research and the other on portfolio management. Malik Zahir has been appointed to lead the analysts while Naveed Ahmed has rejoined the group as day-to-day manager of this fund. It is encouraging to see that the team has been stable over the last year.

The approach is research intensive, with the team of analysts actively covering around 15 listed companies in detail. Unlike the other funds run by this team, the extremely concentrated nature of this market and its relatively low liquidity result in this fund being run in a far more benchmark-aware and long-term-oriented fashion. The fund is therefore likely to maintain some exposure to the larger names in the market, while aiming to add value through stockpicking

less mainstream companies. Furthermore, from next year the fund will place even more emphasis on income payments (the fund has paid a dividend for the last four years) and will distribute around 5% of its annual returns as dividends. After an initial period of weakness in 2005-2006, the current benchmark-aware approach was adopted and performance has since been consistently strong.

The deliberately measured approach adopted by the bank's top management is likely to make SICO a more stable outfit than several peers during times of significant disruption.

The nature of the mandate clearly reduces the available sources of alpha. The team's investment approach is nevertheless disciplined and rigorously implemented and we keep Sarwar in high regard. The fund achieves an S&P A rating.

### FACT FILE

**Group:** Securities & Investment Company BSC (SICO) is a Bahrain-domiciled investment bank set up in 1995, with main activities in asset management, corporate finance, brokerage, custody and administration of funds. It is owned by a number of regional institutions and its employees.

**Team:** Sarwar heads the asset management team of 11, including three managers and five analysts. They are responsible for assets around \$472m.

**Fund Manager:** Sarwar (13 years' experience) and Naveed Ahmed (five years' experience) are those most involved with this fund. Ahmed is the day-to-day manager.

**Style:** A concentrated income-oriented portfolio invested in stocks listed predominantly in Bahrain and built in a benchmark-aware fashion. The approach adopted for this fund is very long term.

**Past performance:** Since inception in 1998 to the end of October 2008, the fund has returned 166.4%, compared to 75.8% of the Bahrain All-Share index. Under the current team structure, the fund marginally underperformed in 2006 but has outperformed since.

### FUND MANAGER & TEAM

Anthony Mallis is CEO of Securities & Investment Company BSC. Shakeel Sarwar heads the asset management team of 11. Together with Naveed Ahmed (five years' experience) and Faisal Jiwani (five), Sarwar focuses on portfolio management. The research team is headed by Malik Zahir (eight years' experience) and includes Waruna Kumarage (seven), Aneel Kanwer (six), Zainab Mian (seven) and Alaa Alaabed (one). Hasan Haider is still part of the team but will move to a relationship management role. Further support is provided by one trader and one administrator.

Each analyst covers a broad sector and a geographic area. Zahir covers around 40-50 companies and Kumarage around 30, leaving the remaining analysts to cover a total of 20-30 companies.

Shakeel Sarwar - head of asset management - MBA (IBA Karachi), joined SICO in December 2004 and is head of asset management. His experience includes five years at Riyadh Bank (Saudi Arabia) and four years with ABN AMRO Securities (in the UK and Pakistan).

Naveed Ahmed - MBA (IBA Karachi), CFA, re-joined SICO in June 2008. He has five years' experience and was first at SICO from 2005 to 2007.

Malik Zahir - CFA, ACMA, has eight years' experience. He joined SICO in 2007 from Amba Research. He heads the research team and covers financials.

## PORTFOLIO CHARACTERISTICS

No. of holdings	19
Turnover ratio (%)	21.7
% in top 10	73

## TOP 10 HOLDINGS (01/11/08)

	%
Bahrain Telecommunications	11.4
Ahli United Bank	10.9
Gulf Finance House	8.0
Bahrain Commercial Facilities	7.7
Albaraka Banking	6.5
National Bank of Bahrain	6.2
Bank of Bahrain and Kuwait	5.9
Ithmaar Bank	5.8
Bahrain Maritime and Mercantile International	5.4
Innovative Investments	5.0

\* In top 10 holdings a year ago

## ALLOCATION BREAKDOWN (01/11/08)

	Fund %
Cash	2.3
Financials	67.9
Materials	11.6
Services	5.4
Telecommunications	12.8

## SICO SELECTED SECURITIES FUND

Peer Group: Equity Bahrain



## MANAGEMENT STYLE

The fund aims to outperform the Bahrain All-Share index and deliver an attractive dividend payment. From 2009 around 5% of the returns will be paid out as dividends. Asset allocation is not likely to be a main driver of returns.

The Bahraini market has around 30 listed companies, of which around 15-20 are investable. SICO's team actively covers around 15 stocks, selected from those with above \$250m market cap and with daily trading over \$0.1m. The preference is for companies with sound business models, sustainable earnings, dividends and reasonable valuations. In case of stocks with

multiple listings, the choice is for the more liquid issue.

The portfolio is built in a benchmark-aware fashion and will hold 10-15 names. Risk is assessed at a stock level. Portfolio liquidity is also closely monitored. Up to 20% of the assets can be off-index or in fixed income securities. Single stock positions tend to exceed 10% in the case of strong conviction and only for large index constituents. The largest names are unlikely to be zero weighted.

The fund is currently priced monthly but should soon move to weekly dealing. Turnover is usually low and has averaged 20% over the last year.

## PORTFOLIO REVIEW

Unlike the other funds run by this team, the portfolio has little cash. This is due to a combination of factors, ranging from the tight liquidity of the market to its more reasonable valuations.

From a sector perspective, financials were clearly underweight (70% against 84%) while materials were the largest overweight (12% against 2%).

Over the year, Bank of Bahrain & Kuwait was cut from 11% to 6% and Investcorp from 4% to around 1%. In contrast, Albaraka Banking

Group and Bahrain Commercial Facilities Company (BCFC) were purchased. Exposure to the latter company was built gradually (the stock is fairly illiquid) and was achieved by also purchasing a fixed income security issued by the company that matures in 2010.

BCFC is as the current largest overweight (+7%) while Investcorp (-7%), Ahli United Bank (-6%) and United Gulf Bank (-6%) are the main underweights. Exposure to Qatar Telecom (dual listed) is gained through the more liquid Qatari market.

## PERFORMANCE ANALYSIS (NOVEMBER 2008)

Since launch in 1998, the fund has consistently outperformed its benchmark and has consistently paid a dividend for the last four years. The current team has been responsible for this portfolio since July 2005. Poor returns in 2005-2006 were largely due to the fund having no exposure to Gulf Finance House. Since then, the approach has evolved to a more benchmark-aware one and relative returns have been on a positive trend.

More recent returns have continued to be strong. The underweight in financials (a result of the team's stock selection) hurt while the overweight in construction

& real estate added value. Being underweight the largest index constituents (Arab Banking Corporation, Ahli United Bank and Investcorp) has contributed significantly to the outperformance. The overweights in GFH and Ithmaar Bank have also added value while holding an overweight in Nass Corp and Bank of Bahrain & Kuwait has hurt.

Performance evaluation against similar funds is not very meaningful, as there is only one other fund investing exclusively in Bahrain. Under the current team, however, the fund has consistently outperformed its only competitor.

## DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004	2005	2006	2007	YTD 31/ 10/2008
	%	%	%	%	%
Fund	35.5	16.8	-0.5	31.4	-12.3
Index**				31.3	-24.5

\*\* S&P/IFCI Bahrain

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