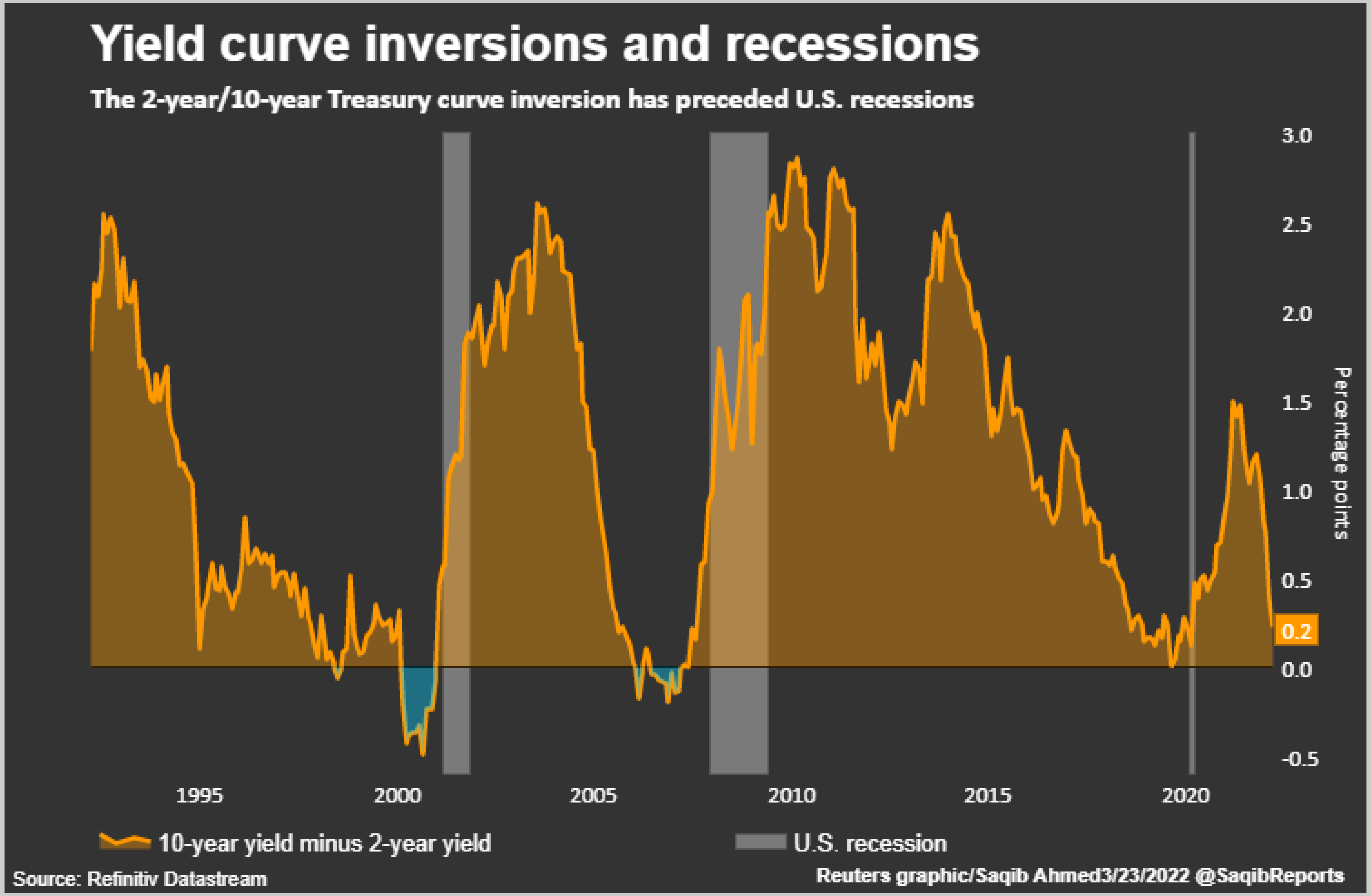

An inverted yield curve is typically a sign that investors are worried about the economy and recessions have followed when yields on 2-year Treasuries have risen above those on 10-years. That part of the yield curve has so far not inverted, although the gap between yields has narrowed dramatically in recent weeks.

Asset Allocation to GCC Fixed Income

Contents

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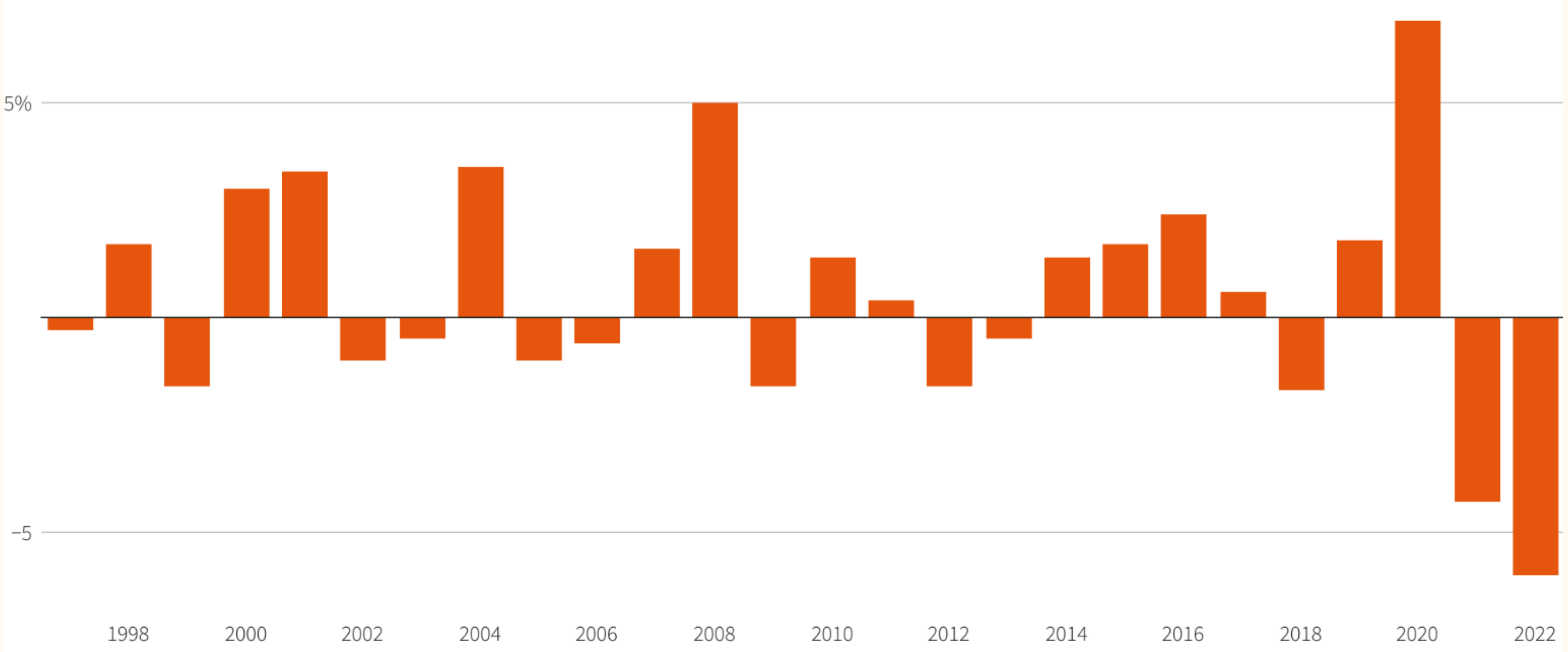
State of BofA Treasury Index

- Asset Class Review

Bonds bleed

The ICE BofA Treasury Index <.MERG0Q0> has logged its worst start to the year in history, down 6%, through March 22.



Note: Performance data through March 22 of respective years
Source: Refinitiv

Reasons:

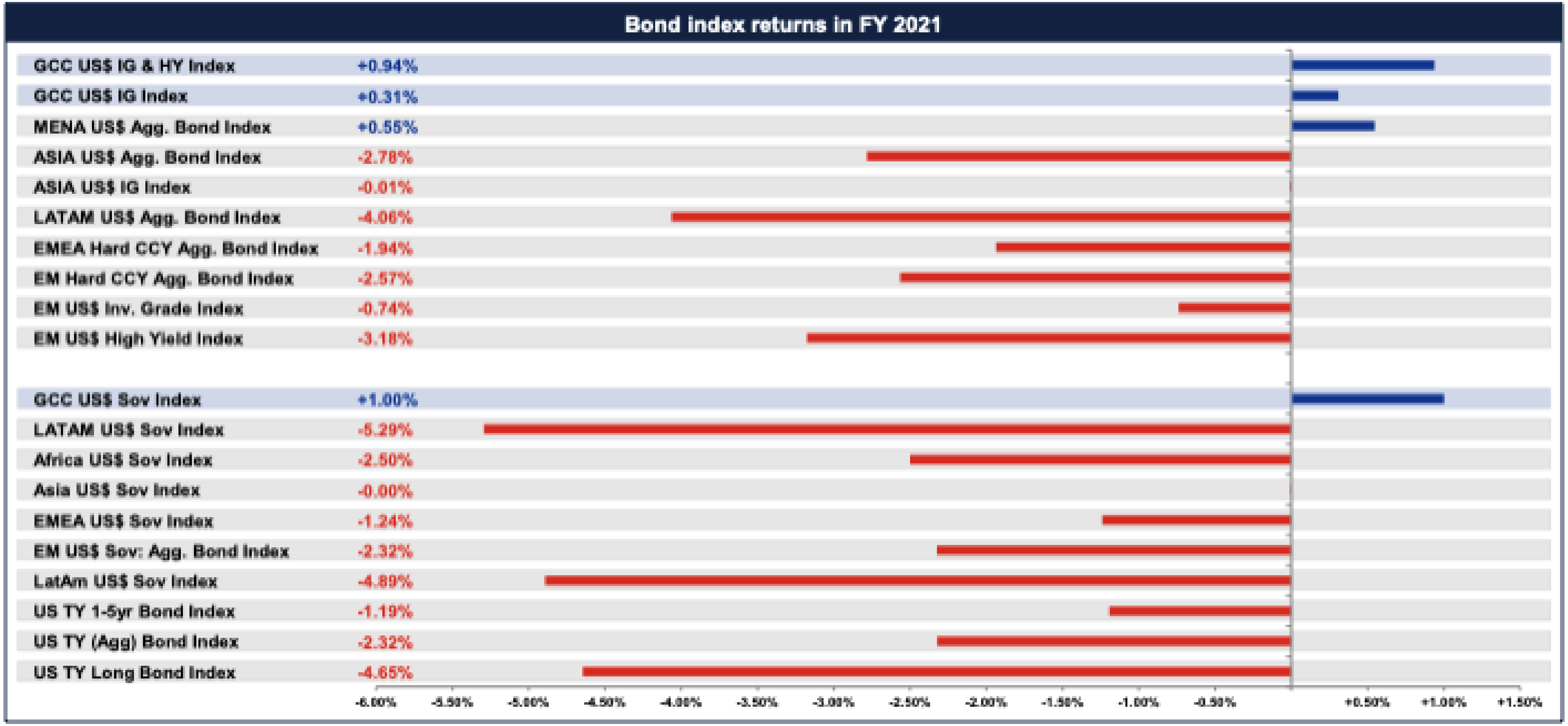
- Inflation 2022
  @ 7.9%
- Aggressive Rate Hike
  @11 more expected till '23
- Front Loading Increase
  @ 50 bps each
- Ending QE & Tapering
  @ Net Zero from March'22

State of GCC Fixed Income Bonds - Asset Class Review

Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	2021	Jan-22	Feb-22	YTD 2022
Kuwait Equity (All Share PR) 5.8%	Abu Dhabi Equity (ADI) 8.5%	Abu Dhabi Equity (ADI) 4.2%	Abu Dhabi Equity (ADI) 7.1%	Abu Dhabi Equity (ADI) 5.0%	Qatar Equity (QE Index) 3.5%	Kuwait Equity (All Share PR) 3.5%	Abu Dhabi Equity (ADI) 8.7%	KSA Equity (TASI) 4.8%	Abu Dhabi Equity (ADI) 68.2%	KSA Equity (TASI) 8.8%	Abu Dhabi Equity (ADI) 7.1%	KSA Equity (TASI) 11.6%
KSA Equity (TASI) 5.2%	Dubai Equity (DFMGI) 7.4%	KSA Equity (TASI) 4.1%	Kuwait Equity (All Share PR) 3.0%	Dubai Equity (DFMGI) 5.0%	KSA Equity (TASI) 1.6%	Qatar Equity (QE Index) 2.4%	Dubai Equity (DFMGI) 7.3%	Dubai Equity (DFMGI) 4.0%	GCC Equity (S&P GCC) 31.4%	Qatar Equity (QE Index) 7.5%	Dubai Equity (DFMGI) 4.7%	Qatar Equity (QE Index) 11.4%
Qatar Equity (QE Index) 4.9%	Kuwait Equity (All Share PR) 1.6%	GCC Equity (S&P GCC) 3.1%	GCC Equity (S&P GCC) 1.2%	GCC Equity (S&P GCC) 3.6%	GCC Equity (S&P GCC) 1.5%	GCC Equity (S&P GCC) 2.3%	GCC Bonds (S&P Index) 0.1%	GCC Equity (S&P GCC) 4.0%	KSA Equity (TASI) 29.8%	GCC Equity (S&P GCC) 7.0%	Kuwait Equity (All Share PR) 3.9%	GCC Equity (S&P GCC) 10.4%
GCC Equity (S&P GCC) 4.4%	GCC Equity (S&P GCC) 1.6%	Kuwait Equity (All Share PR) 2.8%	GCC Bonds (S&P Index) 0.7%	Qatar Equity (QE Index) 3.2%	Kuwait Equity (All Share PR) 1.1%	Abu Dhabi Equity (ADI) 2.2%	Qatar Equity (QE Index) -3.2%	Kuwait Equity (All Share PR) 3.7%	Dubai Equity (DFMGI) 28.2%	Kuwait Equity (All Share PR) 4.4%	Qatar Equity (QE Index) 3.6%	Abu Dhabi Equity (ADI) 9.8%
Abu Dhabi Equity (ADI) 2.3%	KSA Equity (TASI) 1.3%	GCC Bonds (S&P Index) 1.3%	KSA Equity (TASI) 0.3%	Kuwait Equity (All Share PR) 3.1%	Abu Dhabi Equity (ADI) 0.2%	KSA Equity (TASI) 1.8%	Kuwait Equity (All Share PR) -4.5%	Qatar Equity (QE Index) 2.1%	Kuwait Equity (All Share PR) 27.0%	Abu Dhabi Equity (ADI) 2.5%	GCC Equity (S&P GCC) 3.2%	Kuwait Equity (All Share PR) 8.4%
Dubai Equity (DFMGI) 2.2%	GCC Bonds (S&P Index) 1.3%	Dubai Equity (DFMGI) 0.5%	Qatar Equity (QE Index) 0.2%	KSA Equity (TASI) 2.8%	GCC Bonds (S&P Index) -0.8%	Dubai Equity (DFMGI) 0.7%	GCC Equity (S&P GCC) -5.0%	GCC Bonds (S&P Index) 0.8%	Qatar Equity (QE Index) 11.4%	Dubai Equity (DFMGI) 0.2%	KSA Equity (TASI) 2.6%	Dubai Equity (DFMGI) 5.0%
GCC Bonds (S&P Index) 0.9%	Qatar Equity (QE Index) -1.5%	Qatar Equity (QE Index) -0.2%	Dubai Equity (DFMGI) -1.6%	GCC Bonds (S&P Index) 0.2%	Dubai Equity (DFMGI) -2.0%	GCC Bonds (S&P Index) 0.0%	KSA Equity (TASI) -8.1%	Abu Dhabi Equity (ADI) -0.7%	GCC Bonds (S&P Index) 0.1%	GCC Bonds (S&P Index) -2.6%	GCC Bonds (S&P Index) -1.8%	GCC Bonds (S&P Index) -4.4%

GCC Equity v/s GCC Bonds Performance - April 2021 to March 2022

GCC Fixed Income Market - Peer Group Comparison



Source: Bloomberg/FAB

GCC Fixed Income Market - Size (FY 2021)

Primary market activity/performance | **Net Issuance ~$52bn*** | **Secondary market activity/performance**

Bonds issued during the year*	~101bn	~$49bn	Bonds matured/redeemed during the year*

Market size grew by 11% to ~$538bn*
(Hard currency bonds*)

Primary market		Secondary market	
Avg. spread tightening (diff. b/w initial guidance & final pricing spread)	33 bps	Secondary market spread tightening (Overall GCC credits)	30 bps
Overall Avg. order book size (oversubscription)	~4.0x	GCC US$ Overall Return (Inv Grade + High Yield)	+0.9%
Sovereigns oversubscription	~4.2x	GCC US$ Sovereign Return	1.0%
Inv. Grade oversubscription	~3.8x	GCC US$ IG Return	+0.3%
High Yield oversubscription	~4.6x	GCC US$ HY Return	+5.3%
Conventional bonds oversubscription	~3.8x	GCC US$ Corporate Return (Fins+Corps)*	+3.4%
Islamic bonds (sukuk) oversubscription	~5.1x	GCC US$ Sukuk Return	+2.3%

Note: * Hard currency (US$, €, £, AU$, JP¥, CA$, CHF) bonds and sukuk issuances from the six nations in the GCC. This includes both fixed and floating rate issuances of $100m or above and maturity of 1-year or above. The figures are indicative figures only as the analysis is limited by the availability of information from a third-party database; GCC US$ Corporate index is an index representing 78 liquid securities from financial and corporate issuers in both investment grade and high yield category; Source: Bloomberg / Reuters / FAB

GCC Fixed Income Market

- Opportunity

- ➢ Higher Oil prices provide fundamental support to GCC credits
- ➢ Reducing fiscal deficit or being fiscal surplus
- ➢ Pegged currency (proxy to USD)
- ➢ GCC IG & HY Bond Index spread @ 150 bps
- ➢ Structural reforms (VAT & Corporate Tax, Ease of business)
- ➢ Improving Macro Economics and credit backgrounds
- ➢ Healthy projected GDP growth rate @ 4.2% (IMF)
- ➢ Currently at a 12% allocation within the EM Fixed Income Mandate
- ➢ Size has increased by 2.75x in 6 years (± USD 550 B)
- ➢ ESG spill over as UAE and Saudi Arabia announced net zero carbon initiatives others will follow through
- ➢ Full spectrum of a solid yield curve established for benchmarking
- ➢ Coupon Focused for long term holding

GCC Fixed Income Market

- Risks

- ➔ Rapid Increase in Inflation
- ➔ Supply chain disruptions
- ➔ Aggressively Hawkish CB policy i.e
  - Front loading Interest Rates
  - Rapid Tapering
- ➔ Russia - Ukraine geo political spillover
- ➔ Re-emergence of Covid variants, that could dent recovery negatively impacting Oil demand and hence its price
- ➔ Potential Chinese meltdown impacts
- ➔ Policy Missteps (eg Turkey & China)
- ➔ Limited Sov/Fin Primary issues

GCC Fixed Income Market

- Conclusion

- ★ GCC is High Quality Long Term EM
- ★ Mostly denominated in USD
- ★ Strength of Energy sector (Oil & Gas) serves as a natural hedge against inflation
- ★ GCC is tackling the ESG challenge at a rapid pace
- ★ Relatively higher coupons compared to other EMs
- ★ Usually mispriced or inefficiently priced
- ★ Sovereign fiscal balances will support credit profiles and allow budgets to support economic growth, which should benefit spreads relative to other markets.
- ★ Valuations have improved as spreads have widened
- ★ Being selective & flexible is needed
- ★ Diversifying and not chasing HY (Bah or Oman) across GCC is key

Thank - You