

# Schroder ISF\* Middle East Fund Update

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## Market Review

The MSCI World index delivered a broadly flat return over the month. The improvement in investor sentiment seen in the previous month continued into the early weeks of April. However, markets gave back some ground in the latter part of the month as concerns over fiscal difficulties in the eurozone resurfaced, with rating agency Standard & Poor's downgrading the sovereign credit ratings of Greece, Portugal and Spain. Middle Eastern markets delivered a positive overall return against this background, outperforming broader emerging markets.

Egypt was the best performing market in the region over the period, boosted by very strong returns from local index heavyweight Orascom Telecom. The Turkish market also outperformed the regional index, as it continued to rebound from weakness earlier in the year. Data was released over the month showing Turkish industrial production growing by 18.1% year-on-year in February, which was ahead of consensus expectations. Although oil prices rose over the month, the performance of the GCC markets was mixed. The UAE underperformed following the strong returns delivered in the previous month. The Kuwaiti market also underperformed, with weak returns from local index heavyweight ZAIN (mobile telecoms company) having a negative impact. The Qatari market outperformed, boosted by strong returns from Qatar Telecom. The Saudi market delivered a positive absolute return, benefiting from the strong performance of Saudi Basic Industries (involved in businesses including chemicals and metals), although the market lagged the regional index.

## Performance Comment

Stock selection and asset allocation both had a positive impact on fund performance in April. Stock selection in Turkey, the UAE, Egypt and Saudi Arabia added value, outweighing the negative impact of stock selection in Qatar. Our underweight in Kuwait (we are underweight due to relatively expensive valuations) added value, outweighing the negative impact of our overweight in the UAE (we are overweight due to inexpensive valuations).

## Outlook/strategy

The long-term case for investing in the region remains strong. Middle Eastern countries are at a relatively early stage in their development and have strong growth potential. While many of these countries continue to benefit from oil and gas riches, they are investing in new products and skills to diversify away from reliance on energy exports. The region has a young, fast-growing population which should also contribute to more rapid economic development.

Our largest overweight remains in Qatar (strong domestic growth while we are finding attractive bottom-up opportunities in this market). We also remain overweight the UAE (inexpensive valuations), Turkey (attractive valuations) and Egypt (reasonable valuations, strong macro-economic outlook). Our largest underweights remain Kuwait and Morocco (due to relatively expensive valuations in these markets). We are also marginally underweight Saudi Arabia (valuations are on the high side although the domestic macro-economic backdrop is favourable).

**Important Information:** \*Schroder International Selection Fund is referred to as Schroder ISF throughout this document.

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Schroder Investment Management (Singapore) Ltd

Co. Reg. No. 199201080H

65 Chulia Street, #46-00 OCBC Centre, Singapore 049513

Tel: +65 6535 3411 Fax: +65 6535 3486