AJEEJ capital

Ajeej MENA Fund
Annual Letter & Factsheet: December 2015

Ajeej Capital
info@ajeej.com
www.ajeej.com

FUND INFORMATION

Pricing:
Monthly NAV

Fund Classes:
Issued Shares
Class A Shares
Class L Shares

Current NAVs (US$):
Issued Shares 191.99
Class A Shares 180.95
Class L Shares 172.71

Fund Custodian:
Deutsche Bank

Fund Lawyers:
Walkers
King & Spalding

Fund Auditors:
KPMG

Fund Administrator:
Maples Fund Services

Bloomberg Ticker:
AJEEJMN KY Equity
AJEEMNA KY Equity
AJEEMNL KY Equity

ISIN Code:
KYG016361027
KYG016361100
KYG016361282

January 2016

Dear All,

"Be fearful when others are greedy, and be greedy when others are fearful."
- **Warren Buffet**

A belated Happy New Year and best wishes for 2016 from the Ajeej team. Unfortunately, we have become accustomed to volatile Decembers, keeping us on our toes as we await the very few economic primers to help guide our fundamental outlook for 2016. There were no immediate surprises to speak of, but just as the Fed announced its strategy pertaining to rates, Saudi Arabia unveiled its first leg of subsidy reform. 2015 was a year where much transpired in the region and to our dismay it appears that the seeds of the Arab Spring have succumbed to the arid political landscape, which is devoid of passion. This unfortunately lends itself to a much more complicated and convoluted geo-political picture in MENA. The imminent integration of Iran into the global economy has escalated the face-off with the GCC and increased the geographies of the proxy wars considerably, particularly when compared to the past 25 years. Defining the landscape is germane to our investment strategy despite being bottom-up biased, therefore the fluidity and dynamism keeps us vigilant as we overlay both the realities and the possible scenarios across our investment universe. Unfortunately, 2015 was a loss making year for the AMF with the Class A shares down -1.6% for the year and the Class L shares down -4.3% for the year. We endeavour to make money for all of you on an annual basis; however, our investment strategy is not defined by the start of the Gregorian calendar, but rather the constant re-iteration of value on a rolling 3 years. Since inception (Oct 2007) our compounded return is 8.2% vs. -1.3% for the S&P Pan-Arab and -4.9% for the MSCI EM. We firmly believe that we can increase this compounded return moving forward, but not without the inevitable interim gyrations. We thank you sincerely for placing your trust in Ajeej and we aspire to provide you with exceptional risk adjusted returns over the long term. We are neither fearful, nor greedy at this juncture; however, the opportunity set looks attractive as we are in the process of stress testing the business plans of the companies in our focus group.

Our investment strategy continues to evolve and we begin this year trying to translate both the indirect and direct effects of subsidy reform in Saudi Arabia and to a lesser degree the rest of the region. Whilst the direct effects are clear, it is the indirect effects which we will need to hypothesise upon and test over the next few quarters. We, of course, are not alone in this challenge as the direct allocators of invested capital are going back to the drawing board to both assuage and mitigate the negative effect on this structural change on their contribution margins and strategise on how to pass-thru and optimise efficiencies. Moreover, with the subsidy reform in its early phases, with a lack of clarity as to the slope of reform and in an economy like Saudi where this presents an 8-10% of GDP opportunity, how fast will this pace be? This ultimate reversal clearly goes a long way in curbing the budget deficits at current oil prices and would create a modest surplus at the US$ 60 per bbl that Saudi Arabia is likely targeting as a medium term equilibrium. Of course there are implications to unwinding the proverbial welfare state system in Saudi, particularly when a great deal of this transfer which comes from firms and individuals is used to embark upon proactive regional foreign policy which is complicated and presents no clear definition of an end game. We are by no means

opining on the policy, but rather reflecting upon the challenges of this transfer at a very difficult juncture. In the lower Gulf states the challenge is less acute given the size of the indigenous population and the ability to target them in order to assuage the "citizen". Gulf states continue to suffer from the commonly known Dutch disease and have been (for the most part) unable to diversify their economies from the outset (in their case it is somewhat congenital); however, unlike other countries which have been victims of the disease, the GCC has stockpiled US$ 2 trillion in reserves to utilise in diversifying the economy. The foundation has been laid which paves the way for strategic structural changes of governance, which enhance the accountability and responsibility of the various captains of the economy. During the oil windfalls a great deal of investment was done in both infrastructure and education, and it is pivotal that the pace of investing behind the human capital base has not slowed down. We believe this is very clear to the leadership and we will await the rollout of this factor in its various facets for the economies. The current market volatility is exacerbated by this uncertainty coupled with tightening financial system liquidity, further compounded by the ailments plaguing the global market with central bank decoupling (stronger US$ and higher rates in the GCC) and slowing EM growth and debt woes. So as there is much to absorb between structural changes in the economies, dynamic geopolitical alliances, oil economics and general global concerns across all asset classes, we are going to be kept very busy as we navigate the portfolio through 2016 and beyond.

As a firm we have grown our AUM base to approximately US$ 800 million, effectively leading to a close of the strategy, and opening up only upon redemptions from current investors. This is an important milestone for Ajeej not only in the quantitative achievement, but more importantly on the type of investor base that subscribes to a similar investment horizon period and understands the tenets of our investment philosophy. This enables us to focus on our task at hand and steer clear from volatile redemption cycles, which many EM/MENA peers may be facing given the macro backdrop before us. We will spend the balance of the letter going into industry/macro themes in addition to further detail on our core positions within the portfolio.

CAN WE GROOVE TO THE BEAT OF MENA? – The Grammy's - name the winners. We've included nominees for "Song of the Year" from different years, see if you can remember the year, whether or not they won and the artist…one song wasn't nominated, but should have been…also can anyone spot the Easter Eggs?

"Rock the Casbah" / Year: __________ / Won: Y/N / Artist: ____________________________

Saudi Arabia once again had a year of two halves whereby the first 2 quarters, leading into implementation of the QFI in June, were up 10% boasted resilient market returns, only to be reversed during the balance of year, closing the 2015 down -17.1%. Coincidentally the introduction of p-notes in Saudi happened in August 2008, so we are pleased we have established the mechanics of opening up the market once and for all. During the first year of the new leadership in the house of Al-Saud, it would be an understatement to say that it was a year of transformation. We articulate this in detail later on, however whilst in many ways the initiatives are refreshing the pace is daunting. Consumer confidence is clearly rattled under the prevailing oil environment, regional foreign policy, domestic political change and subsidy reform. This is certainly a great deal to absorb in one year, so the results are unsurprising. Setting aside the visibility on foreign policy there is a clear positive outcome for the others modes of transformation; however this will require time. The budget was resilient given the current environment with only a 2% cut in spending compared to last year's budget, but notably over 22% of the budget is linked to "general support" which one would assume is a buffer for the regional foreign policy. The ensuing reality of tightening liquidity is being felt across the economy coupled with restructuring of government projects and more restrictive financing on going concern initiatives. It is unlikely we have reached concerns of job security on the local labour force; with that said, it is evident that the cycle of job substitution is coming to an end in the pursuit of creating fuller employment which needs to be fulfilled quickly through job creation as the economy diversifies. There is much analysis on both the sustainability and utilisa-

tion of the sovereign balance sheet, but it is clear that the current leadership will be bold in transforming the coffers over the medium term. Moreover, regarding the existing oil policy in its multiple tiers, ranging from strategic market share in core markets to need based revenues, it is the overall consensus through the supply and the cost curve of oil that US$ 60 represents a ceiling rather than a floor, and it is incumbent on the leadership that the economy needs to function effectively with this long term target. With subsidy reforms affecting a great deal of our portfolio companies, both directly and indirectly from a disposable income and confidence perspective, it will certainly further set apart the quality of the companies in Saudi Arabia whilst dealing with these challenges. We look forward to interesting entries in many of these companies given the prevalence of volatility driven by both the macro and micro uncertainties. We remain very closely in touch with the management of our core companies as we enter the genesis of a new normal in this market.

"Against All Odds" / Year: __________ / Won: Y/N / Artist: ______________________________

The UAE markets were down in Dubai -16.5% and Abu Dhabi -4.9% for the year. The market no doubt felt the pressure of lower liquidity across the economy. Moreover, the physical real estate market softened considerably in both the primary and secondary markets, but showed resilience in land sales transaction. Notwithstanding these weaknesses, on a relative basis to history the economy is more solid than in the past, but is of course not impervious to feeder city slowdowns affecting both REVPAR and ultimately retail sales. Despite these challenges in the economy and certain fractures in the SME affecting asset quality for some of the banks, the reforms and regulations put in place over the last 4 years make for a much softer landing and a better framework to absorb the current slowdown. Moreover, the UAE embraced further reforms early on in the year with Abu Dhabi increasing water and electricity tariffs and the deregulation of fuel prices ahead of the other GCC peers. Moving forward, the Iran factor should be a positive overlay for the country, although it does create some challenges given the clash in foreign policy stance. Valuations in the market look attractive given the long term risk reward and we continue to find great opportunities in the UAE markets and as such as a country exposure will continue to play an important component of the portfolio moving forward.

"Don't Speak" / Year: __________ / Won: Y/N / Artist: ______________________________

Egypt over the years certainly averted being amongst the failed states that have plagued MENA since the Arab spring; however, the challenges faced by the new leadership clearly have been running their course and this has reflected in the stock market which posted one of the worst equity performances in 2015 losing more than -35% in US$ terms. Obviously, it is an unenviable task to have inherited such a structurally socio-economic mess. The strengths and the hope of the Sisi regime upon his arrival were premised on solidarity across the various spheres of influence ranging from the judiciary to the intelligence, something which the later Mubarak era lacked. This solidarity promised to unveil swift economic reforms and attempt to make up for the residual dead weight loss in the economy witnessed during the revolutionary period. Furthermore, the regional importance that Egypt exudes under Sisi vis-à-vis the GCC is not to be taken for granted: Iran face-off led to an economic put option to restructure the economy. With his 2 year anniversary ensuing as president, all these strengths have dissipated and the pain of the economic challenges — be it chronic deficits, inevitable devaluation of the currency, structurally weakened tourist sector, weakened civil liberties (hence the subtitle of the section) and no ensuing universe investment laws to provide a clean framework by which to invest — have deflated the tyres of the most optimistic of people, whether they ride a tuk-tuk or drive a new Beatle. Whilst the market continues to offer value, the uncertainty of challenges makes it difficult to maintain a serious commitment to companies within the investment universe in Egypt.

"A Hard Day's Night" / Year: __________ / Won: Y/N / Artist: ____________________________

Qatar, in many regards, was meant to be the bastion of stability in this current low priced energy environment amongst the resource endowed countries of the GCC. This was based on its lower fiscal break-even and its significantly lower welfare needs of its small indigenous population. This discourse, however, has proved to be the weakness of the country given the problem that we have mentioning for years, which is that it simply lacks depth. As it completed the project development phase to secure the economy through its LNG development over the much of the last decade it was viewed as a funded and fuelled VC investment, but since then its actions and missteps have put the country in a more challenging situation. Its project oriented mentality had focused on branding and trophy assets, which lack economic viability, and its once secure annuity streams are being challenged both from the Atlantic and Pacific basins of LNG coming from the US and Australia. The repricing of contracts to Asia have taken an axe to the income streams of the government, and with an unlikely repeat of a Fukushima (one hope) there is little reprieve on the horizon for their LNG model as happened in 2011. Additionally, given its political posturing during the Arab Spring and its aspirations of not only being a swing producer in LNG, but also a swing producer of regional diplomacy, the landscape and evolution of the economy make the outlook less than ideal. This by no means is to conclude that the country will face distress; however, its strategic missteps in developing the economy and choosing to seek relevance politically whilst using its wealth and nimbleness to seek relevance on an international level is disappointing. We hope the next set of manoeuvres taken by the leadership reflect the new reality of its annuity stream and its true diplomatic clout to match the new realities of the Middle East. This broader backdrop keeps us away from the market for whilst it has less of a short term challenge, its long term strategy seems vague and unclear. We continue to follow a handful of companies which offer good value, so it would not be a complete surprise to take a core position under a certain set of circumstances.

Bottom-Up Stories and Top-Down Themes:

Budget Saudi (the car leasing business not the government forecasted P&L):

Operationally 2015 was another very strong year for Budget Saudi (the largest global franchisee of the Avis Budget brand), with 15% revenue growth and 12% net income growth, very much in line with our forecasts. Despite the strong underlying engine driving Budget's growth (investment in long term passenger vehicle leasing, a growing light commercial vehicles leasing business, and a strong short term rental business alongside steady performance in used car sales), the Saudi market spent much of 2015 and 2016 to date seemingly convinced that the company was more of a jalopy and less of the reliable vehicle we believe it to be. Budget ended the year down 23% and well off its highs, despite stable growth and clear communication from management on the steady drivers of the business. In part this was due to a stake reduction by the founding shareholder (part of a diversification of family wealth, rather than anything specific to Budget); beyond that, the sell-off was accentuated by declining foreign interest in small/mid-cap Saudi names in 2H 2015.

As we move into 2016, there is no question that challenges lie ahead for Budget, but the penalty paid by the stock to date is far too large for the magnitude of these challenges (a likely slowdown of growth in the trucking and long term leasing business as FMCG companies' growth slows, and a likely slowdown in used car sales) that company faces. While organic growth in the long term leasing and trucking businesses will slow simply due to the slowing business cycle, we see opportunities for 'substitution' growth through fleet outsourcing (as has been seen in developed markets like the US and UK during previous down cycles) as Saudi corporates move to an operating cost structure (leasing) for their fleets and away from a fixed investment structure

(with its upfront costs and personnel requirements).

With respect to used car sales, it is reasonable to expect a slowdown in growth of this business (profits from this business represent 75% of Budget's bottom line) but not a collapse. In fact, looking at the UK used car market since 1990 over several economic cycles, dealer volume sales of used cars are the most resilient through recessions, falling only 3-5% of pre-recession levels vs drops of 25-30% in new car sales through recession cycles. Prices of used cars do fall further than volumes and fluctuate more, but this is a factor (as we expect will happen for Budget) of used car fleet aging: corporate lessees tend to extend their leasing contracts rather than taking new cars and thus the resale values of used cars coming to market are older, as they are more aged.

In view of this, we maintain our opinion that Budget's positioning as the largest rental car player in Saudi while offering better service in a semi-commoditised industry will sustain its short term rentals business. At the same time, we expect its long term leasing and trucking businesses to continue growing, albeit at a slower rate for the next 2-3 years, as it benefits from fixed-to-operating fleet substitution effects amongst its clients. And finally, although we expect weakness in the used car sales business, we believe that management will use its considerable experience and multiple sales channels (auctions, showrooms and direct sales) to manage this line of business through the coming period.

As we look at Budget in comparison to other Saudi companies, its relative price dislocation (trading < 9x P/E vs 12.6x for the Tadawul while 2015 growth was ahead of the market, a level it last traded at in 2008) and steady dividend (4.6% trailing dividend yield and 40% payout ratio for the last 8 years) also make the stock appealing. Management has a long history of managing earnings volatility (primarily through fleet growth/disposal adjustments and pricing adjustments on used car sales) and we expect them to continue to do so despite what is likely to be a challenging used car market in 2016.

Dubai Parks:

Dubai Parks and Resorts and its three integrated theme parks (Legoland, motiongate, and Bollywood Parks) marched steadily closer to reality throughout 2015. Following heavy post-IPO punishment in weak markets in December 2014, Dubai Parks rallied strongly through 2015, ending the year up 55%. The stock price seemingly moved upwards as the domes of Bollywood Parks and the rides at Legoland and motiongate (or perhaps more importantly the cooling system and chillers that will keep the queues air-conditioned?) rose above the hoardings along Sheikh Zayed Road. The Ajeej team made numerous visits to the site during 2015, and met team members from construction foremen to the videographers and marketers designing the company's exhibit for travel and tourism conferences. Under the aegis of Meraas (the founding and majority shareholder) and the Ruler of Dubai (the founder of Meraas) Dubai Parks made great strides towards creating the so-called 'fourth pillar' of Dubai tourism. Adding a theme park complex to the trifecta of beach, malls and luxury hotels is a core part of Dubai's goal of extending the length of stay of visitors from 4 nights to 7 over the next decade.

In 2016, the focus for Dubai Parks will shift from the question of 'Can they build it?' (Yes, they can and have, thus far on time and on budget) to 'Will they come?' as the company ramps up its marketing campaigns, launches ticket sales, and prepares for a soft opening in September/October and a likely official opening in December. Dubai Parks management has relatively conservative forecasts on visitor numbers and cross-park visits, with tickets priced at approximately US$ 80 per park, close to global averages. With each park targeted at a different demographic: Legoland for families, motiongate for teens and adults, and Bollywood Parks for South Asians of all ages, a key question will be how many multi-park visitors will they be able to drive through bundled ticket sales (their current forecasts are relatively conservative when compared with cross park visits in

the UK and US theme clusters). That question won't be answered until 2017 at the earliest, but we feel that management of Dubai Parks (with a mix of local talent and theme park managers with decades of experience both in South East Asia and the US) is well up to the challenge.

NMC Health: see MENA healthcare write up below.

Bupa Arabia:

Following several years of planting, the time for harvesting has come. Bupa Arabia has continued showing healthy growth in its top line, and that is now bearing fruit in strong bottom line growth. After fantastic growth in gross written premiums (GWP) in 2014 (80.6% up), the company was able to achieve further double digit growth in 2015 (GWP up 27.7%), and to improve its market share by a considerable margin (Q3 2015 health insurance market share of 42.6% vs. 36.3% at end 2014). The slowdown in growth of GWP (due to the larger base year in 2014) has not prevented the company from reaching new high levels of earnings. As one of the most successful medical insurance companies in the region, Bupa was able to improve its margins with the growth in the size of its business, benefiting from economies of scale. The company has reported net income before zakat for the full year 2015 of SAR 645 million, up 114% YoY (after 104.5% earnings growth in 2014), taking advantage of its experience in the healthcare industry supported by its mother company, Bupa International.

During 2015, Bupa Arabia held the top position in the portfolio throughout the year. This obviously benefited overall alpha generation as the stock outperformed the market during the year; it closed 2015 up 15.6% while the Saudi market was down -17.1%.

So is the story done? After all, it has maintained its position at the top of the AMF's core holding not only for 2015, but for much of 2014 too. We are still positive on the performance of Bupa going forward. We expect the company to continue reaping more of the fruits of its labour in the sector, and benefit from the economies of scale supported by its high quality management team and their consistent track record. As an added boost, the company sits on SAR 4.3 billion of Murabaha deposits and will benefit from the recent increases in interest rates to post better earnings.

Tawuniya (Co. for Cooperative Insurance):

Another interesting story in the insurance industry is the Co. for Cooperative Insurance, known as Tawuniya. Tawuniya is the largest insurer in Saudi Arabia and the region in terms of GWP. Unlike Bupa, which has a pure medical insurance focus, Tawuniya provides Shari'ah-compliant non-life insurance including medical, motor, fire and property, marine and aviation, and energy, as well as life insurance and reinsurance. Medical insurance accounts for 60% of total GWP, motor for 19%, and the remaining 21% is divided among the other lines.

With the end of the price war among insurance companies in Q1 2013, followed by the circular from the CCHI that required all insurance companies in the kingdom to submit a third party actuarial report on the expected claims to incur during the year (we discussed this at greater length in last year's annual letter), Tawuniya was one of the companies to report a large amount of claims provisions in Q4 2013. The company had then undergone a massive change in its management and strategy; ultimately, there was a shift in management fo-

cus from market share to profitability through better policy re-pricing, improved claims management and the shedding of unprofitable contracts. Concurrently, and in order for Tawuniya to compete with other insurance companies (mainly Bupa and Medgulf), the company set a goal to improve customer service, a too frequently disregarded element of business in the oil rich kingdom.

During 2014 and 2015, Tawuniya was able to improve its margins whilst retaining its market share. The stock price ended 2015 up 61.5% and was one of the best performing stocks in the region. Tawuniya's GWP recorded good growth during the year (up 22% YoY) leading the company to maintain its position as a leader in the insurance market in Saudi.

Like Bupa, Tawuniya will benefit from economies of scale in order to improve its margins further; hence good earnings are expected. The company has a large investment portfolio of around SAR 5.4 billion, with 16% held in equities. This portfolio may see volatility, but higher interest rates should improve fixed income returns and help to mitigate occasional realised equity losses that are likely to arise.

Insurance Market Update

The Saudi insurance sector continued making healthy progress in 2015, recording double digit growth of 21.5% for 9M 2015, supported by 43% growth in the motor sector and 17% growth in the medical sector. While we are expecting a slower pace of growth in the medical sector going forward, the motor segment should be driving growth in the coming years (for once, pun not intended). Until recently, SAMA's directives of mandatory medical insurance have been better enforced than their directives regarding mandatory third-party liability (TPL) motor insurance. Soon, corrective measures have to be taken by the ministry of interior to enforce the motor TPL insurance, which should be the main catalyst of growth in the coming years.

Motor

While the motor segment raced forward with 43% growth in 9M 2015, it continues to boast the greatest growth potential. The growth, thus far, has been a result of repricing rather than regulatory enforcement and penetration. Policy prices have been revised upward several times during the year to improve margin and reduce loss ratios. Going forward, prices are expected to reflect the inflation in maintenance cost and spare parts.

Compared with the current regulation enforcement rate of 75-80% in medical, the motor TPL enforcement is at 40% or 50% at most. The total number of vehicles in Saudi is around 11 million with no more than 5 million insured! The TPL policy is a requirement to renew the vehicle's registration, but that only occurs only once every 3 years. Discussions are currently in progress to find establish the correct controls to enforce TPL insurance, and when these controls come into place, they should double the number of insured vehicles in the country and therefore lead the growth of the sector.

Another important catalyst is the government initiative to insure its own vehicles. Precise numbers are not available on the number of vehicles owned by the government and its agencies, but we estimate that approximately 1.5 to 2 million vehicles would be added to the sector if the government vehicles are insured.

Medical

The medical insurance sector continued to grow at a healthy rate, as the GWP for 9M 2015 stood at SAR 14.6 billion compared to SAR 12.5 billion in 9M 2014, a 17% growth rate. The 2015 FY GWP growth is estimated to come in at 16%. Last year, the growth stemmed from pricing adjustments, providers' inflation and new people getting insured. The total population in Saudi is around 30mn, consisting of 20 million Saudis and 10 million expats. The insurable market size is around 14 million of which 5.2 million are Saudis and 8.8 million are expats;

those represent the private sector employees that have to be insured. However, by the end of 2014 only 9.64 million were insured, with the remaining 4.36 million yet to be insured. The un-covered portion included dependents of expats as well as some Saudi workers who are employed to satisfy the requirements of Saudisation. During 2015, the CCHI enforced insurance for the dependents of expats (estimated at approximately 1.5 million people), and by September 2015 the insured population became 10.9 million according to CCHI. The remaining dependents of expats should have been insured by Q4 2015 (we will confirm this once updated data is release), resulting in an expected insured population of about 11.2 million by yearend.

While we expect the growth of the medical segment to slow down, there are still further opportunities for the sector. The main drivers include healthcare providers' inflation and insuring the remaining uninsured who are mainly Saudis (the latter depends on successful enforcement). CCHI has said that it will take measures to make the 2.5 million remaining Saudis insured, but there is no certainty on the procedure that would be followed for this promised enforcement, and in making its efforts CCHI must work with the Ministry of Labour, GOSI, and the Ministry of Interior; inter-ministerial decision making tends to be challenging in the most efficient of governments. We expect coverage of these 2.5 million Saudis to take over a year, probably at least 1.5 to 2 years; but the growth opportunity is certainly there.

In the longer term, additional factors could give a further push to the medical insurance market. Implementation of Phase 3 of the insurance initiative by the government – insuring the public sector employees – would be the main catalyst. There have been extensive discussions about privatising the public healthcare sector, and hence insuring the public sector's employees. This would probably take 4 to 6 years to be implemented and would more than double the size of the sector if approved.

How would the recent budget cuts affect the insurance sector?

The prevailing economic conditions in Saudi could put some pressure on the insurance companies that would affect their growth negatively. For instance, policyholders could choose to change to lower-tier, less expensive policies in order to cut their costs. But pressure is not expected to come on policy pricing itself, especially in the presence of SAMA's third-party actuary pricing. Eventual enforcement of medical insurance for the remaining uninsured 2.8 million Saudis employed in the private sector and TPL motor insurance would overcome any potential decline in the growth from policy "downgrades" and give a big push to the market. Price inflation and new policy issuance will aid medium term growth. We don't expect final decisions on insuring the public sector employees or insuring government vehicles to come in the near future, given the tight economic conditions, but those catalysts remain with a longer-term view.

"Staying Alive" / Year: __________ / Won: Y/N / Artist: ______________________________

MENA Healthcare: The MENA healthcare sector continued to see robust growth in 2015, with acquisitions, IPOs, and both green and brown field expansions continuing throughout the year, despite tremors in regional equity markets and slumping commodity prices. When the region catches a cold, it appears the healthcare sector stands ready to diagnose and treat it, with its rapidly expanding capacity and focus on developing regional private health care services to a global standard

Beginning in Egypt, 2015 saw the London listing of Integrated Diagnostics Holdings – the largest integrated laboratory test provider in Egypt, with a catalogue of over 1,000 different tests and growing. Although IDH was the first Egyptian healthcare provider to list in recent memory, the pipeline of potential listings, especially within the private hospital market, grew significantly during the year, as private equity players embarked on a buying spree within the private hospital and clinic market in Egypt in order to serve Egypt's growing middle class

and to reduce the medical tourism of the wealthiest Egyptians. The Egyptian health care suffers from poor infrastructure, chronic underinvestment and significant brain drain into the GCC - problems that these purchasers hope to reverse with infrastructure investment, improvements in internal processes, and further training – especially for nursing staff.

Moving to Saudi Arabia, 2015 was a year in which the major publicly-listed hospital companies focused on ramping up newly opened capacities and in twisting enough regulatory arms to get their new built hospitals opened; the latter is often the biggest challenge in Saudi Arabia – staff ready, patients asking when to come, lights on, rooms clean – and then a long wait for that one fire code or civil defence inspector. Positively, operators report that all of these new facilities are ramping up ahead of schedule; all the while pent up demand for quality care and the now nearly decade-old push towards privatisation of health insurance continue to pay dividends for the established hospital operators, who benefit from scale in hiring, insurance company negotiations and implementation of modern record keeping and quality control systems.

Looking forward, we anticipate at least one additional Saudi healthcare operator to go public in early 2016, and in aggregate, the 4 listed operators today are currently building or ramping up almost 2,000 beds (double the current number of mature operating beds that they control approximately 2,000). Given their strong margins (and very limited impact from subsidy reforms), their strong brands (which improve negotiating power with insurers), their continued access to low cost government-subsidised debt facilities, and a clear imperative within Saudi Arabia towards privatisation of services (whether hospitals, airlines, or schooling among other sectors), we see the expected returns on capital from the hospital companies' capacity investments remaining quite strong for the next several years. In fact, we anticipate that most will announce further expansions as their current building projects finish – the private insurance sector continues to add 500k members per annum (although this rate will slow as compliance to the private sector insurance mandate reaches 100%) as job growth (even for Saudis) increasingly comes from the private rather than government sector and chronic staffing problems limit public sector health care growth. Case in point, this year one insurer started a pilot program with a bank to offer facilities to buy supplemental private sector insurance to government employees and their families.

Finally the UAE was merger and acquisition central within the MENA healthcare sector in 2015, with NMC completing 4 deals for bolt on acquisitions (a Sharjah clinic operator, a long term critical care provider, a high end outpatient clinic and homecare provider, and the region's largest IVF provider) all of which are profitable and both EBITDA and net income accretive while helping the company extend its reach into the high-paying Emirati and white collar expat patient communities, as well as the underserved middle class patient community in the Northern Emirates. Taken together, these acquisitions will also drive patient flow into NMC's new critical care hospital on the outskirts of Abu Dhabi, as along with its dedicated maternity hospital and its Dubai hospitals (where expansions on adjacent, already-owned land are a possibility). 2016 will be a year to integrate these new acquisitions while a portion of the US$ 400m facility opened for acquisitions in 2015 remains undrawn and may be used for further acquisitions or for development of the company's currently limited footprint in Saudi Arabia and Qatar.

Investors heartily rewarded NMC for its acquisitive appetite last year with the stock up 83%. Taken together, the acquisitions add about 64% to NMC's healthcare division bottom line, and 30% to the consolidated bottom line (inclusive of its pharmaceuticals, medical equipment and FMCG distribution business). More importantly as discussed we expect synergies from these acquisitions to improve patient flow into its core Abu Dhabi facilities and to set the stage for further expansions in Dubai and the Northern Emirates in the future. Despite its strong 2015 performance, NMC remains amongst the cheapest of the MENA health care operators; moreover, we expect it to have amongst the highest levels of top and bottom line growth in 2016 as its new hospitals ramp up and its acquisitions are fully integrated.

Not to be forgotten outside the NMC limelight, Al Noor Hospitals closed the year with a reverse takeover of Mediclinic International, a South African hospital operator with major operations in Dubai (5 facilities include 1 critical care hospital and another under construction). The combined entity (which gives Mediclinic access to Al Noor's A class facilities and clientele in Abu Dhabi) will see over 40% of its income coming from the UAE – the most profitable and fastest growing of its global portfolio.

As we look forward to 2016, MENA healthcare appears to be in robust condition, and should continue to expand to meet the region's growing demand for care across the lifespan: from IVF treatments to nursing homes to (especially in Saudi Arabia and Egypt) simply more beds to accommodate demand for high quality private sector care. Diagnosis: growth.

"Money for Nothing" / Year: __________ / Won: Y/N / Artist: ____________________________

Saudi Banking Sector: In December 2015, the US Federal Reserve increased interest rates for the first time in years and anticipated further gradual increases in the coming year. As mentioned in this space before, Saudi banks are positively geared toward rising rates, because their funding structure contains a high percentage of non-interest bearing deposits and the Saudi riyal is pegged to the US dollar, so that the direction of interest rates in Saudi tends to follow closely those in the US. Saudi banks benefit from rising loan rates in a higher interest rate environment, while the cost of non-interest bearing deposits remains at zero. As of late 2015, demand deposits represented 63% of Saudi banks' total deposits, by far the highest percentage within MENA.

While the Fed is likely to raise rates further only gradually, if at all, in the near term, Saudi banks should benefit from the hike already in place. Unfortunately, with the decline in oil prices leading to a slowdown in the Saudi economy, the rising rates are no longer automatically a major catalyst for the Saudi banks, because there are now many other competing factors at play at the same time. In a benign economic environment, increased interest income from the rate hike would have flowed, to a large extent, directly to the bottom line for banks holding primarily floating rate loans, leading to earnings growth that should be rewarded by the market. But in the current environment, liquidity for the Saudi banking sector is tightening, with a significant slowdown in deposit formation – for 2015, total loans for the listed banks grew by 8.2% while total deposits grew by only 1.5%, moving the sector loans/deposits ratio from 77% to 82%. Much of the overall slowdown in deposit growth can be attributed to NCB, which saw about SAR 40bn in deposit outflows in Q4 2015, but several other banks also had QoQ deposit reductions in Q4. This pressure on funding availability, if continued, should lead to banks paying more for the portion of their deposits that are interest-bearing. On the other hand, they will be less willing to lend, given scarcer funding and greater concerns about the financial health of marginal customers – they are likely to raise the rates charged on loans and thus pass on any higher costs of funding.

So, while NIMs for most Saudi banks should likely increase due to the higher US rates and tighter liquidity that should push up loan yields, the impact may be slowed, at first, due to higher costs of funding and slowing loan growth. Moreover, as the economy slows, pressure on asset quality is likely to increase, leading the banks to take higher provision charges that would reduce the benefit from higher interest income. The relative balance of these impacts can obviously be assessed with sensitivity analysis, which we perform when stress testing our valuation models.

As we write this letter today valuations for the Saudi banks have moved into highly discounted territory, with several banks trading at their current book value and at around 7x trailing earnings. The market is clearly concerned about the future financial performance of the banks. We feel that the market concerns are overdone in all but a very bearish scenario for the Saudi economy; as such, we think certain Saudi banks offer good value at current levels…continue to watch this space.

"Constant Craving" / Year: __________ / Won: Y/N / Artist: ______________________________

MENA Consumer Staples: 2015 has been a case of a rise and fall in the regional equity markets. While the highest quality consumer staple names managed to hold up for most of the year, the pain has been felt across the board. Regional beloved consumer bellwether Almarai only managed to end 2015 up 2%; however, due to Government subsidy changes it has been badly hit (along with the rest of the market), down -16% YTD as we write this letter. While nobody likes uncertainty, we have lived through this kind of volatility before and aren't ready to cry over spilt milk just yet (yes, we know this particular expression has been used by every other sell side report on the company, but it's been a stressful start to the year, so please forgive us)…

Over the past few years, relatively easy access to cheap capital has resulted in a number of capacity expansions across the food manufacturers. We have seen major plant modernisation and expansion around the Middle East, from water bottling in Abu Dhabi, burger patties, halawa and poultry in Saudi Arabia, to Hohos and Twinkies in Egypt. Recognising the huge potential demand, these companies are lining themselves up to take advantage of the region's favourable demographics: young population and a growing middle class. In addition, the grocers Farm Superstores, Alothaim and Savola are all pushing ahead with aggressive store rollout plans. While sustained depressed oil prices are likely to have an effect on consumer demand throughout the region, at the end of the day people still need to eat. During the most recent downturn in 2009, average monthly private sector wages in Saudi Arabia declined an average of -27% (only -12% for females) while, according to Euromonitor, retail spend on packaged food grew 11.2% to reach US$ 10.5 billion and spending on fast food and in restaurants increased 8% to nearly US$ 11 billion over the same time period.

In the last quarter of 2015 we did the rounds and met with management teams at most of the public consumer staple companies in the region, and while each company has its own unique position within the market, the one common thought that was on everybody's mind was consolidation within the industry. It is no secret that there is still significant opportunity for M&A on the food manufacturing front; for a number of small, family run businesses who are struggling to compete with the larger players, a market slowdown is the time to start thinking about a sale. Historically, M&A in food staples throughout the region has been somewhat limited due to overly-inflated valuations, but we expect to see valuations becoming more reasonable and strong operators like Almarai, Agthia and Edita, with healthy balance sheets and strong long-term growth plans, are best positioned to take advantage. Activity is starting to ramp up already with Agthia's recent acquisition of Al Bayan water, not only adding new geographies to Agthia's portfolio, but more importantly, helping Agthia move upstream by gaining its own water bottle manufacturing facility, and in the process, shaving a few bps off its costs. Almarai has more or less 'conquered' Saudi Arabia (poultry challenges notwithstanding), and has now set its sights on Egypt and the UAE. Almarai's potential acquisition of Egypt's Dina Farms would provide it with its own source of fresh milk (Almarai currently procures 50% of its fresh milk needs in Egypt from Dina Farms). In addition, rumour has it that Almarai is one of a number of companies looking at the potential acquisition of National Food Products in the UAE, which would vastly expand their UAE footprint with the addition of dairy processing.

While the overall market suffered in the last few months of 2015, and 2016 has had a rocky start, our view is that the long term prospects for the food sector remain fresh. With forward P/Es approaching single-digit levels we see significant opportunities for investors who look past the short-term noise and see the multi-year growth potential. We believe 2016 will be a year of differentiation, with the stronger management teams, operational swiftness and low-priced goods defining the winners. We expect that high quality names, who have survived multiple cycles through their stable and mature operations, will continue to prove themselves, and any overall market weakness provides us with attractive entry points for these core long-term defensive positions.

As mentioned earlier in this letter, we have had concerns about the potential ramifications of the subsidy re-

forms across the region and in particular in Saudi Arabia, but for the most part, these seem to have been designed so as to not hurt the low and middle-income segments. Governments, with a focus on Saudi, have tried to soften the impact of price hikes on consumers, and we expect discretionary spending (in particular at the most basic food level) should remain fairly stable. Not only do we expect certain companies to achieve double digit revenue growth with continued demand, we also expect that specific players will benefit from cheaper commodities (from corn and sesame, to skim milk powder at multi-year lows), giving a further boost to margins and bottom-line growth potential.

Overall we expect that quality operators, even in a tough market, will prove the age old adage that, in the long term, the cream always rises to the top (we did it again…sorry).

"Change the World" / Year: __________ / Won: Y/N / Artist: ______________________________

Ajeej's Take on Oil: Disclaimer: as we write this piece, Brent was hovering at around US$ 30 a barrel.

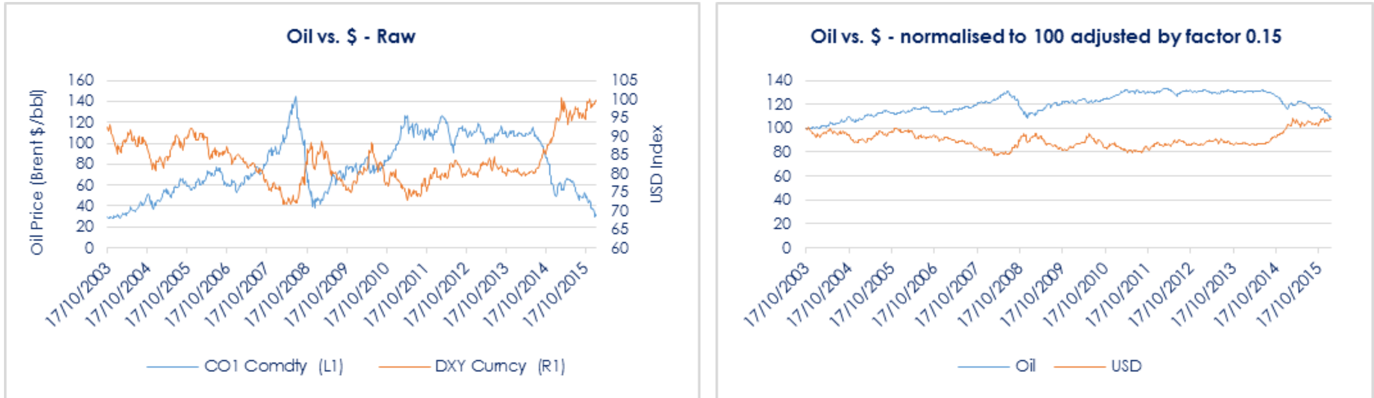
Understandably, many of our conversations, whether internal or external, over the past few months have revolved around the price of oil: what are the dynamics at play, where do we think it will head in the short, medium and long term, and what are the expected windfalls or challenges for the respective economies in MENA? With no crystal ball in hand, as nice as that would be, we will do our best to describe our view of oil and its impact on MENA, with a focus on Saudi in particular as it is by far the country whose economy is the most intertwined with our favourite fossil fuel.

Over the past 15 to 16 months, oil has lost over 70% of its value. The culprits, in no particular order, have been Chinese and European economic slowdowns, oil production increases in the Americas (whether shale in the north or offshore discoveries in the Latin quarters), the process of removal of Iranian sanctions (this happened to coincide with the last time that oil traded above US$ 50) and, of course, a stronger dollar. The match or rather the spark plug, as it continues to reignite the oil malaise, has been the inaction of OPEC who no longer want to play the role of the marginal producer, and in fact, since their last meeting, seem to have lost their common plot and cohesion altogether.

Our first question today is that, despite all the above elements being core drivers of the oil price demise, haven't they all been adequately priced in already? Hasn't the price overshot on the downside? We tend to think it probably has… So then where is the new equilibrium assuming that we have indeed witnessed a structural shift in the market with the supply/demand dynamic in the West changing? The slowdown in China's GDP growth has been forecast for years and is not what one would consider crippling at 6.5%; in fact, the global economy will continue to grow albeit at a slower pace according to both the IMF and the World Bank. Growth in production in the US or elsewhere is also not a recent development; in fact and in contrast, the latest reports show that over the last 6 months of 2015, more than US$ 380 billion of capital has been put on the back burner until prices recover; according to Wood Mackenzie, this equates to the shelving of 68 projects worth 27 billion barrels. Iran? Realistically, Iran will need several years and over US$ 100 billion of investments before it can make any significant impact to the global supply, and even then the numbers that are being forecast are between 600k and 1 million barrels per day, hardly a paradigm shift in production. Finally, when one couples all of the above with the fact that natural decline rates of global oil production continue to range from 4.5% to 6.7%, it begs the question, why is oil price where it is today?

Even the trusted countercyclical relationship to the US dollar, which historically had been justified by the US energy deficit and large commodity imports, no longer holds as much merit. Yet, it persists (see graphs below). Logically, since 2008 when the shale boom started and the US began to reduce its dependency on oil im-

ports, eventually shrinking imports by over two thirds, one would expect the dollar oil relationship to weaken rather than continue unabated.



So what does all this mean? Many of the fundamental arguments apparently no longer justify the oil price drawdowns, leading to the possibility that much of the more recent declines have been driven by speculation, panic and trading dynamics. We hope these are all temporary and that a new normal for oil is found sooner rather than later.

OPEC, which has a tight grip over the main oil tap, continues down the route of production brinkmanship, a route we think they were late to start the journey along. The resulting drop in prices has seen a faster than expected trickledown through to the economies of the oil exporters. The pain is most clearly felt in Saudi Arabia, the conductor of OPEC's last official cohesive stance, and MENA's economic powerhouse. As with most changes that have happened in the Kingdom historically, the recent developments pertaining to the removal of subsidies, issuing of government debt for the first time in years, culling of many expansionary projects and pausing of others, have once again been a case of procrastination followed by a just in time rush to cram as many reforms and changes as possible into as short a time span as possible. This is not an easy environment for the population at large who are experiencing an increased cost of living that younger generations would have never even considered as a possibility (the older generations have felt the pain once before in the late 70s and early 80s). For the investing community it raises challenges, as we have discussed at length elsewhere in this letter, with most sectors from insurance to petrochemicals being affected to some degree. With that said, in the long term, these developments and economic reforms will create better opportunities for growth whether we see oil recover to US$ 40, US$ 50, US$ 60 or US$ 70 a barrel.

"Royals" / Year: __________ / Won: Y/N / Artist: ______________________________

Changes in Saudi Arabia: For the past 5 years, the crown prince baton was passed at a higher frequency than expected as the natural passage of time took its toll on the aging first generation of Saud's sons. And with each passing, the pontiffs' projections for the future of the country would be adjusted accordingly. This culminated with the death of King Abdullah in early 2015 and the ascendance of his half-brother, now, King Salman. King Abdullah's reign was mostly viewed as a period of increased progressive reform, and empowerment of women as well as, in later years, a stronger push for increased local participation in the Saudi labour force. It was unclear as to what King Salman's general direction of government would be; however most pun-

dits at the time, ourselves included, had assumed that the status quo would for the most part be maintained, albeit with a slower push for continued reform.

A year later, we stand corrected. King Salman's reign, thus far, has been anything but maintaining the status quo. His first order of business last January was to call for an almost complete cabinet reshuffle. With exception of the veteran ministers of oil, finance and foreign affairs, few were spared. One of his first orders of business was streamline the decision making process in various fields; this was done through the abolishment of 12 different government bodies that were responsible for everything from education to energy to security. In regards to actual ministerial changes, the king instructed that two education ministries be merged and appointed new ministers of justice, Islamic affairs, municipal affairs, agriculture, housing, health and information, as well as appointing a new head of the intelligence services and the religious police. Notably, the new ministers of agriculture and health are, respectively, Abdulrahman Al Fadhli the previous head of Almarai, the Gulf's biggest dairy producer, and Khalid Al Falih who headed Aramco; such changes have certainly signified a stronger move towards technocratic prowess in Saudi and away from royal appointees and career civil servants. Even the Capital Market Authority saw a change in its chairmanship with the appointment of H.E. Mohamed Al Jadaan (Clifford Chance in Saudi). Beyond that, the king took no time in increasing the powers and responsibilities allotted to his nephew, Prince Mohamed bin Naïf who at the time was the deputy crown prince, and his son, Prince Mohamed bin Salman; in hindsight their respective increased responsibilities foreshadowed their upcoming promotions.

For the next few months, with an uptick in military operations in Yemen, the new Saudi government was for the most part pre-occupied finding its footing; as a result, there were few adjustments in gubernatorial or ministerial positions. Then in April, the big change (which by now was somewhat expected) took place. King Salman removed his half-brother Prince Muqrin from his post as Crown Prince, and promoted his nephew Prince Mohamed bin Naïf, thus signalling the long awaited transition to the next generation of princes. He also appointed his young son, Prince Mohamed bin Salman to the post of Deputy Crown Prince. The move to the younger generation was definitely viewed as a positive development as it put to rest the ongoing debate of which branch of the family tree would the crown be passed down through. With that said, there were a few eyebrows raised at the appointment of the still somewhat younger than average Prince Mohamed bin Salman (MBS); however, over the past year it has become apparent that the young prince is energised and driven to prove that he has rightfully earned his new title.

Notably, MBS's influence has gone from strength to strength over the past year, whether it be on economic, foreign or security related policies; consolidation of power and centralisation of decision making (around MBS to a certain degree) has been the MO of the past year. He has most notably been at the helm of the both the Yemeni operations as well as the large subsidy reform initiatives that have been rolled out since the announcement of the latest budget. On a positive note, many of his earlier critics have adjusted their positions as MBS's drive to prove himself has to an enforced higher work ethic across all ministries. This is certainly a space to watch over the next few years or even for that matter decades (he is 30 years old), as we are witnessing the rise of who is set to be possibly Saudi Arabia's longest serving and most influential ruler in decades.

Ajeej MENA Fund Monthly Returns 2015

2015 Monthly %	J	F	M	A	M	J	J	A	S	O	N	D
Issued Shares	1.5%	0.5%	0.7%	7.9%	0.2%	0.5%	2.8%	-10.0%	0.8%	-1.6%	-2.4%	-1.6%
Class A Shares	1.5%	0.5%	0.7%	7.9%	0.2%	0.5%	2.8%	-10.0%	0.8%	-1.6%	-2.4%	-1.6%
Class L Shares**	1.9%	0.6%	0.1%	9.9%	-0.3%	-0.4%	2.7%	-12.0%	0.4%	-1.8%	-2.5%	-1.5%
S&P Pan Arab	2.2%	4.0%	-5.5%	10.0%	-2.0%	-3.4%	0.4%	-11.4%	-1.3%	-2.8%	-2.8%	-1.6%

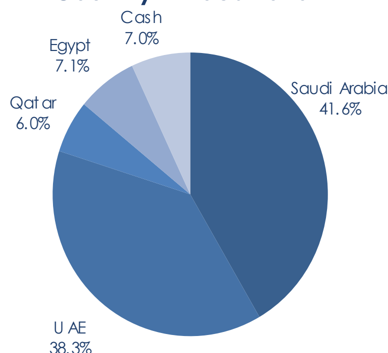
Ajeej MENA Fund Historical Performance

	Issued Shares	Class A Shares*	Class L Shares**	S&P Pan Arab	MSCI FEM	MSCI EM	MSCI World
2007	25.7%	--	--	24.5%	7.9%	3.4%	-2.7%
2008	-47.4%	--	--	-50.7%	-57.0%	-54.5%	-42.1%
2009	16.1%	--	--	18.4%	20.8%	74.5%	27.0%
2010	6.6%	6.4%	--	17.4%	24.4%	16.4%	9.6%
2011	6.3%	6.0%	--	-10.5%	-20.5%	-20.4%	-7.6%
2012	11.6%	10.4%	--	6.9%	16.9%	15.1%	13.2%
2013	57.4%	51.1%	--	26.6%	1.2%	-5.0%	24.1%
2014	27.4%	27.4%	15.6%	2.0%	3.9%	-4.6%	2.9%
2015 YTD	-1.6%	-1.6%	-4.3%	-14.6%	-20.4%	-17.0%	-2.7%

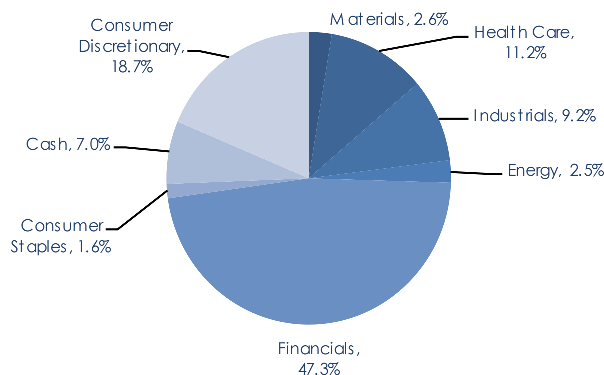
	Issued Shares	Class A Shares*	Class L Shares**	S&P Pan Arab	MSCI FEM	MSCI EM	MSCI World
1 year	-1.6%	-1.6%	-4.3%	-14.6%	-20.4%	-17.0%	-2.7%
3 years	97.5%	89.6%	--	10.3%	-16.3%	-24.7%	24.2%
5 years	134.2%	121.9%	--	5.5%	-22.2%	-31.0%	29.9%
Inception AMF	92.0%	--	--	-10.0%	-45.8%	-34.1%	1.8%
CAGR	8.2%	--	--	-1.3%	-7.1%	-4.9%	0.2%

* Class A Shares were launched as of the start of July, 2009.
** Class L Shares were launched as of the start of February, 2014. Starting NAV for Class L Shares was set to the closing NAV of Class A Shares as of the end of January, 2014.

Country Allocations



Sector Allocations



Ajeej MENA Fund Terms

	ISSUED SHARES & CLASS A SHARES	CLASS L SHARES
Minimum Investment	US$ 1mln (Issued Shares are closed)	US$ 40mln
Annual Management Fee	2% of NAV	1% of NAV if invested by July, 2014, 1.25% of NAV thereafter
Performance Fee	20% of profits with a hurdle rate of 8% gross return, and a High Water Mark	25% of alpha over the benchmark: S&P Pan Arab Large & Mid-Cap NTR
Lockup Period	1 year (soft lockup – 5% penalty if broken)	
Liquidity	Monthly (with 30 days notice)	
Currency	US$	
Investment Manager	Ajeej Capital (DIFC) Limited	

Top 5 holdings in the Ajeej MENA Fund

- BUPA Arabia, **9.9%**
- Dubai Parks & Resorts, **9.9%**
- NMC, **9.0%**
- United International Transport (Budget), **6.8%**
- Co for Cooperative Insurance, **5.3%**

Disclaimer: This document is provided for information purposes only and is not an offer or solicitation of an offer to buy/sell the securities/instruments mentioned or an official confirmation. Ajeej Capital may deal as principal in, or own or advice on securities/instruments mentioned in this report. This is not research but it may refer to a research analyst/research report. Unless indicated, these views are the authors' and should not be used to impact any investment decisions. We do not represent this is accurate or complete information and we may not update this. Past performance is not indicative of future returns. No responsibility or liability whatsoever will be accepted by Ajeej Capital for any actions taken based on this transmission. This communication is solely for the addressee and may contain confidential information. Any unauthorised copying, disclosure or distribution of this material is strictly forbidden.