# Ajeej MENA Fund
## Quarterly Newsletter: December, 2009

Ajeej Capital
P.O. Box 295517
Riyadh, 11351
Saudi Arabia
Tel: +966 (1) 496 1166
Fax: +966 (1) 496 8806

info@ajeej.com

**FUND INFORMATION**

**Pricing:**
Monthly NAV

**Fund Classes:**
Participating Shares
Class A Shares

**Current NAVs (USD):**
P-Shares 76.85
A-Shares 76.61

**Prime Broker:**
Credit Suisse

**Fund Custodian:**
HSBC

**Fund Lawyers:**
Walkers

**Fund Auditors:**
KPMG

**Fund Administrator:**
Apex

**Bloomberg Ticker:**
AJEEJMN KY Equity

**ISIN Code:**
KYG016361027

**Fee Structure:**
Management 2%
Performance 20%
Hurdle Rate 8%
High Water Mark

**Minimum Subscription:**
Initial USD1m
Subsequent USD100k

January 2010

Dear All,

Happy New Year to all, and best wishes for 2010. The **Ajeej MENA Fund** returned **-2.3%** net for the month of December 2009 **(YTD +16.1%)**. December was a very volatile month in many regards, and at one point in early December, the GCC markets were leading the chorus for the world as the Dubai saga not only appeared to have a contagion effect regionally, but globally stirring a domino effect of fears of distressed emerging market systemic failures.

Whilst the Dubai episode could have been avoided and was certainly not a strong note to end the year on, there is not much we as investors can do as we watch the erratic behavior of the captains of politics do their thing.

The UAE certainly suffered the most from the Dubai saga, which unveiled on Nov. 25 on the eve of the Eid Holidays. For the month the Abu Dhabi exchange was up +2.8% (YTD +14.8%) and the Dubai market was down -7.1% (YTD +10.2%). However, it is worth noting that neither market has recovered to its pre-crisis level. Whist the Real estate companies for the most part in both markets had a solid bounce back, the banks with exposure to Dubai World continued to linger (ENBD, ADCB). Further weakness kicked in for the start of the year, with the surprise announcement on Aabar and Arabtec, which provided another manifestation of the bailout on a corporate level, placing yet another nail in the coffin of governance. This was particularly critical for a company like Arabtec, which has been generally viewed as being quite transparent on the ensuing problems relating to the real estate sector in the UAE. While dynamics and sentiment continue to place pressure on the markets, long term valuations based on conservative assumptions of cash flow and balance sheet drivers look quite compelling.

The Saudi market was certainly the best performing market in the GCC; for the year it was up +27.5%, however it dropped -3.68% in December on the back of rumors concerning q4 provisions from the banks. At first glance the aggregate return for the market looks quite solid, but it is important to note that just under 2/3 of the positive gains came from the petrochemical sector which was up over 70% by the end of the year. December also witnessed the announcement of the Saudi budget, which was expansionary in nature and the largest in history at SAR540bln (USD144bln). It needs to be made clear however, that the drivers for the budget are forward looking and that

they signal to two important themes: a) a focus on education and healthcare; b) and an ongoing and growing defense budget. The macroeconomic landscape looks favorable for this regional giant, but the challenges for the 2010 are significant as we start to address important foundations to a growing population, and the ensuing needs related to maintaining a healthy and sustainable economy. We would be looking to the banks to play a much more important role during the year by unlocking credit into the markets. Whilst clearly scarred by the bygone mistakes related to name lending, it is important that they don't jeopardize growth on the balance sheet at the expense of a few bad apples. The economy is in need for the banks to step in on what they have traditionally done and fill the void of project finance, as well as begin building a base for SME lending to help support the government.

The Kuwait index was up 1.0% (YTD -10.0 %). The market certainly had a strong month, but the year was extremely negative, and largely related to endemic issues ranging from macro to specific bottom up matters. The country certainly has tremendous potential but its framework has a major default, and the signaling on all levels has caused a massive gridlock making the market unattractive. Moreover, FDIs have suffered with the botched Dow Chemicals deal. Corporate issues related to Agility and ping-pong on the interplay of the consumer bail-out coupled with lack of clarity on KIA support of the domestic market makes the rise-up challenging. Could all the bad news be factored in? Perhaps, as many think this is the contrarian play of 2010. Let's wait and see.

The Egyptian market has been the star performer for MENA market this year up 35.1% for the year and +5.8% for the month. In spite of a strong performance in December and resilience to the contagion of Dubai during the latter parts of the month, it certainly decoupled from EM trends in Q4 and lost –8.2% for the quarter vs. a gain of 8.0% for MSCIEM. The macroeconomic outlook seems to be fine, the Prime minister stated lately that the government is expecting a growths of 5%, 6% and 8% for 2010, 2011 and 2012 respectively…and these announcements historically tend to be overly conservative; in any case, there are tremendous pockets of opportunities in this market.

Qatar, was an obvious suspect of the Dubai Saga, however it managed to recover from its troughs closing down -3.3% for the month, and after a dismal start, ending the year in the black, up 1.1% at the end of 2009. It was a real disappointing performer in 2009, but nonetheless, it has a great profile based on valuations moving forward. The market should not score high on depth and breadth, however we think this is massively over shadowed by its macroeconomic profile. Qatar should be one of the fastest growing economies in the world in 2010 and 2011.

**The 2009 MENA marathon landscape**

We closed 2009 on a down-tick regionally, with the residual effect of Dubai weighing heavily on investor confidence. 2009 came with its challenges, both regionally and globally, yet emerging markets have had a V shaped recovery vis-à-vis their stock markets' performances in general. For us regionally and specifically pertaining to ourselves as conviction investors, the passing of time has enabled us to gain more visibility in the post crisis era for our investable universe. In short we are extremely confident about the opportunity set, and we

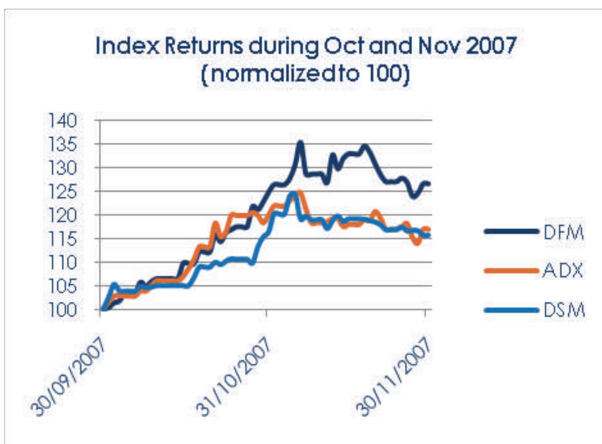
have had the ability to put to test our conclusions on fundamental drivers giving us more confidence on our convictions as we enter in 2010.

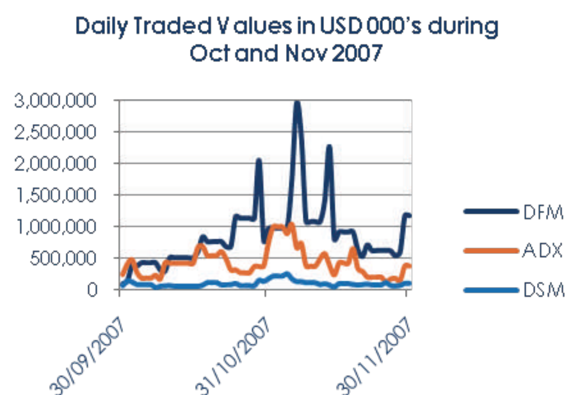
So why did MENA lag the rest of emerging markets? It seems to be the pervasive question that many of our investors have been asking. Whilst there is no clear right or wrong answer I think it would be prudent to try to address this question from the perspective of investor composition.

**Retail**

Earlier in the decade retail investors for many of the GCC markets were the engine driving the growth. In fact, from the period of 2002-2006, it was this dynamic that enabled the markets to trade at a premium to GEMs. This obviously was catalyzed by strong macroeconomic drivers during the period, limited investment vehicles (basically, it was buy real estate or invest in the stock market), strong purchasing power further enhanced by bank leverage, and lastly the trickle down mechanism of last resort (specifically Saudi – growing from having around 80,000 brokerage accounts ca. 2002, up to 4mln accounts ca. 2006!).

The crash came in q4 2005 and q1 2006. The endemic asset bubble, which had been stretched beyond imagination, fell apart burning retail investors in a massive fashion. On the other hand, foreigners in the market during this period were largely irrelevant, and the balance of 2006 through q3 2007, was a restructuring period for them. Subsequently their share of the trading wallet after this period picked up both in relative and nominal terms as we entered into q4. The rally began and the entrant foreigner on many asset classes (driven by multiple strategies: oil trade, currency de-peg, relative valuations, lagged de-coupling etc.) began to drive the markets, excluding Saudi Arabia of course. For many markets retail had a leading indicator finally.




Source: Bloomberg

The crash of 2008, where we should have been better insulated, was followed by expectations of intervention from both a market perspective and macro perspective that were never met. Unfortunately, governments were silent during the critical periods and it turned out to be a double whammy for the retail investor.

The start of 2009 was visibly tepid, especially with the negative fundamental outlook glob-

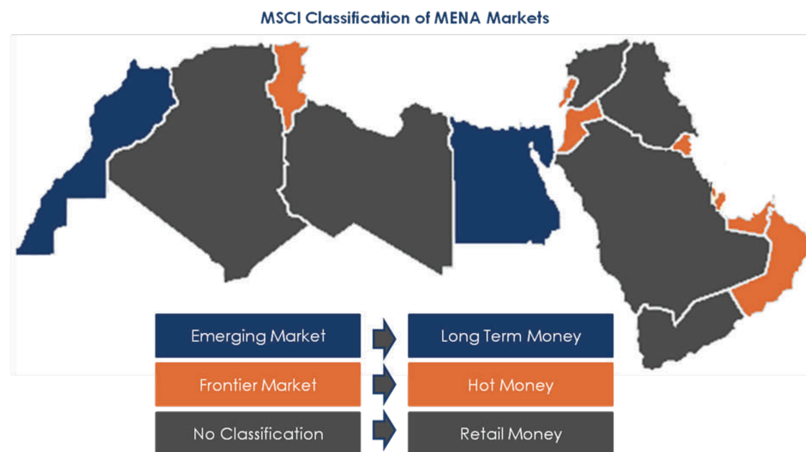
ally. The negativity among retail was such that as global forecasts improved, acting to catapult emerging markets' price actions, most sectors in MENA underperformed. Further erosion of retail confidence based on the two years prior was purely focused on domestic manifestations of the global crisis. Elevated provisioning and large corporate bankruptcies did not help to create any sustainable demand to drive the markets up. Frustratingly, retail seemed to be listening only to the negative news, whether it was regional or global.

So moving forward what can we expect out of retail? We are certainly not proposing that no more skeletons lie in the closet, and certainly the skeletons differ remarkably from one market to the next. However, we believe based on the domestic issues, the probability of further erosion of confidence is low. Obviously, global indicators and regional politics cannot be ignored, but as credibility is restored in the corporate sector and oil prices are maintained in the range of USD60-80 we feel that retail confidence can be revived.

**Foreign**

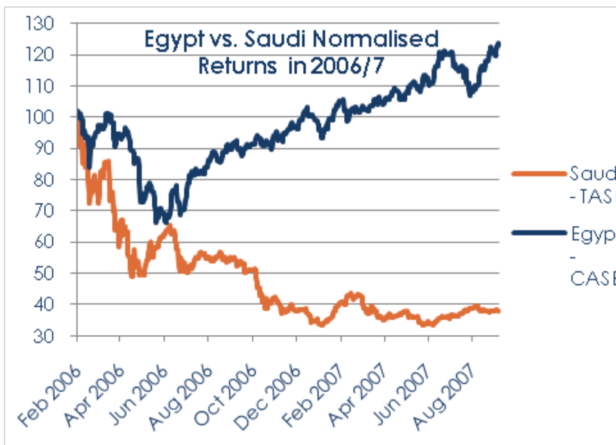
Unfortunately the framework of attracting foreign money in a sustainable manner did not and does not exist for the

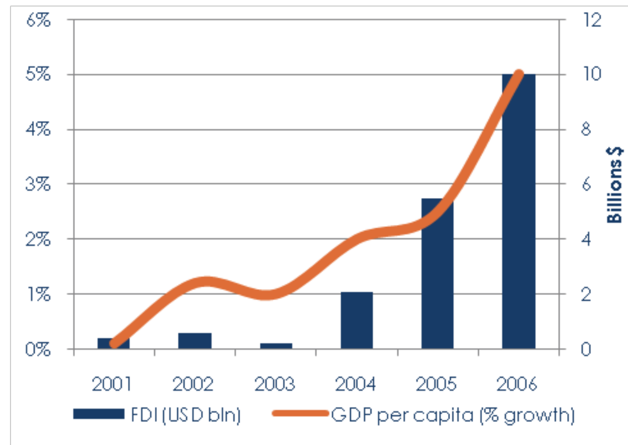
MSCI Classification of MENA Markets




Source: MSCI Barra

Ironically, the most powerful economies in MENA, the GCC, are either unclassified or part of the frontier market investment pot. Hence, this attracts the hottest component of foreign money to the GCC, which is unwilling to make off-benchmark bets on the region especially if there is no momentum (price action) on the markets. As retail was uncommitted to the markets in 2009 the interplay between the two made it very difficult to create upwards momentum despite the strong foundation of positive macroeconomic indicators. The next important step which certainly moves in conjunction with capital market depth and breadth is adding the GCC to the MSCI EM Index. However, the most important market to be added to this club is Saudi Arabia, as it will alone put the region on the map and attract the right type of foreign investor that will help institutionalize the markets purely by their inclusion and ultimately elevate the region to a new level. We feel that this is imminent and that the CMA is working tirelessly on finding a legal mechanism which would comply with the statutes of the MSCI to essentially put the region on the map. The market with the greatest depth in MENA, Egypt, was included in the MSCI EM Index on May 31st, 2001, and it is clear that it has benefitted greatly over an investment cycle by increasing the institutionalization of its investor composition.




We feel that such an inclusion is coming, although difficult to know whether or not it will happen in 2010, it is evident that this will serve to deepen the composition and place greater accountability on the regulatory bodies, as well as improving corporate governance and rights to stakeholders from both a top down and bottom up perspective.

**GI's and SWF**

Without dwelling on this aspect of investors, at least this much is clear: the role of SWFs is unpredictable for the future, the roles of GIs can be at worst neutral and at best positive to the evolution of the depth of the capital market. Certainly their role is most needed in times of crisis, and in the past two years many have stepped up to the plate, but in some cases only after the pitcher had thrown three strikes. We would expect that they would learn from the experience of timing with regards to a market under crisis, but would not overtly count on it for many of the captains of industry.

**The Ultimate Goal**

The objective is to create sustainable demand drivers based on the merits of fundamentals and transparent frameworks. Yes, we know we are idealists and this applies to all markets, but the gap analysis of the region, puts us well behind our peers and the only way to go is up on converging towards standards. So whilst the movement may be revolutionary in nature, it is also evolutionary. The role of institutionalization and the role of independent asset managers taking a larger stake in the market can in fact keep many of the actors pertaining to said market honest in what they do and challenge the system without any clear conflicts of interest. Asset managers invest funds based on solid investment type theses whilst taking advantage of the inefficiencies in the market.

**Markets 2010**

The above purely tries to address the composition which ultimately addresses the demand side of the equation, and we do not believe that the interplay of investor composition under its current context can add a great deal more negativity.

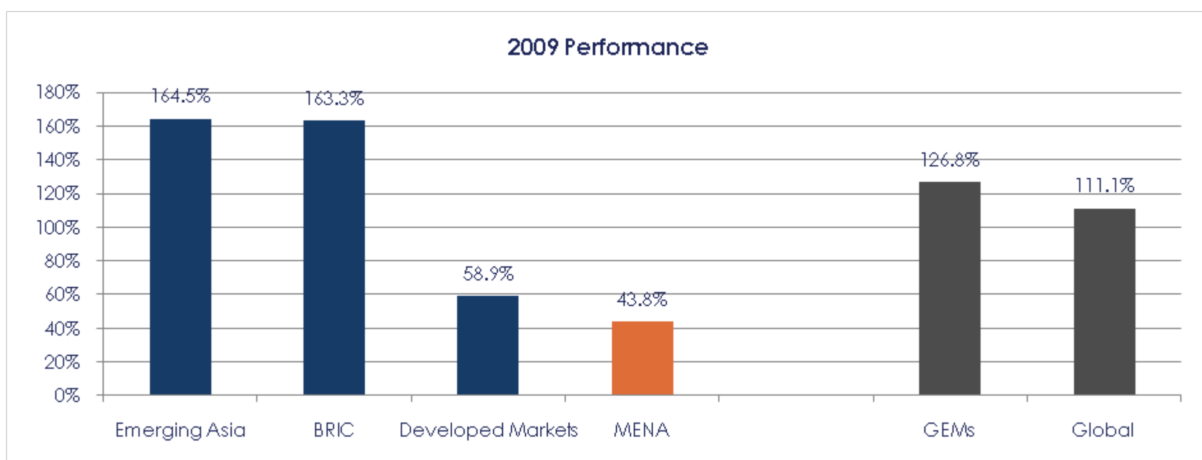
As we are bottom up investors, as long as we don't have tectonic market shifts and are able to have sectoral bifurcations in both fundamentals and price performance, this is the environment that we feel we can perform well in. In the previous quarterly newsletter we had spent a great deal of time speaking about our discipline related to increasing exposure away from cash, based on fundamental visibility, rather than purely market re-weightings based on momentum. We feel that equipped with more confirmations on underlying theses we will be able to exploit this considerably in the coming investment cycle and are extremely satisfied with the opportunity set within our investable universe.

The macroeconomic picture especially for the hydrocarbon endowed looks solid. The commitment to expansionary fiscal spending with long term trickle down implications is favorable, and with the visibility of global and domestic drivers improving the landscape looks favorable. Earnings growth looks robust in many sectors and the valuations attractive, particularly when you are drilling down. The potential is great and we would like to thank you for your confidence and hope that the coming cycle will prove to be rewarding for all of us.

We will leave you with two short pieces on the real estate and petrochemical sectors and a quick brief of the portfolio.

## Real Estate Industry

MENA real estate stocks continue to trade in a trough relative to their global peers; their recovery in 2009 was muted **(+43% MENA vs. +111% globally**). MENA RE companies are still trading at significant **discounts (avg. -43%) vs. their peaks** in June 2008, in comparison with the recovery of other global real estate stocks. Within MENA, Dubai and Abu Dhabi RE companies have underperformed the rest of the region (**2009: +6.4% AD; +30.2% D**; Since June **2008: -68% AD; -74% Dubai**).




Source: Bloomberg; Ajeej Research

**Stock price decline mirrored physical real estate decline:** The decline in price of MENA RE stocks can be explained in part by the simultaneous decline in physical real estate prices which have fallen 30-60% from their peaks in 3Q 2008.

In Abu Dhabi and Dubai in particular, developers previously followed an off plan model, where purchasers pay for their unit in a series of installments as it is built, with 60-70% typically paid to the developer pre-completion. This method of selling encouraged flipping and speculative buying given that down payments were low – 5-10% during the boom. As the property market collapsed, the market became concerned about large levels of default by buyers who'd paid little in and were now out of the money. Developers such as **Sorouh** in Abu Dhabi and **Deyaar in Dubai** were proactive in adjusting unit pricing and consolidating customers into fewer units to protect capital and incentivize the buyer to continue paying. So far, only Union Properties P…. **UPP** has seen significant levels of default on handovers in 2009 (we estimate 25-40% of units completed). On the other hand, **land sales receivables are still an issue but so far have been manageable. For example** Sorouh and Aldar made significant land plot sales, particularly in 2007-8. The bulk of these sales were made on installment plans with about 75% of payments due after the plot was handed over to the sub developer. The collapse of the property market hit these sub developers hard, and overdue land sale receivables have increased substantially in 2009.

However, at this point, several RE stocks look **oversold** relative to the value of their underlying assets as we begin 2010 and **MENA is #1 globally for 2010 forecast growth:** On average, we expect earnings growth of 100% in 2010 for MENA companies (n=29) at the sales, operating, and net levels. In fact, for 2010 E sales growth (n=114), **8 of the top 10** RE companies globally are MENA companies. Similarly, for 2010 E EBIT growth (n=100), **6 of the top 10** RE companies globally are MENA companies. And at the net level, for 2010 E Net Income growth (n=100), **5 of the top 10** RE companies globally are MENA companies.

| Rank | Economic Zone | Market | Company | P/E2012 |
|---|---|---|---|---|
| 1 | MENA | Abu Dhabi | ALDAR PROPERTIES | 2.66x |
| 2 | Emerging Asia | Philippines | AYALA LAND | 2.82x |
| 3 | BRIC | China Hong Kong | GREENTOWN CHINA | 2.84x |
| 4 | MENA | Egypt | TALAAT MOUSTAFA GROUP (TMG) | 3.17x |
| 5 | MENA | Abu Dhabi | SOROUH REAL ESTATE | 3.18x |
| 6 | MENA | Egypt | EGYPTIAN FOR TOURISM RESORTS | 3.81x |
| 7 | BRIC | India | HDIL | 3.83x |
| 8 | MENA | Egypt | SIX OF OCTOBER DEVELOPMENT | 3.90x |
| 9 | MENA | Dubai | UNION PROPERTIES | 4.01x |
| 10 | MENA | Egypt | PALM HILLS DEVELOPMENTS SAE | 4.42x |
| | | | | |
| | **Overall** | | | **11.06x** |
| | **Emerging Markets** | | | **9.84x** |

Source: Bloomberg; Ajeej Research

There are certainly base effects impacting this standout growth performance vs. global comparables, but more importantly, regional real estate companies, most of which began operations or massively expanded existing capabilities from 2004-2006 **are only now coming into the large scale income generating phase of their life cycles.** Land sales in 2007-8 inflated their performance at the beginning of the cycle, but serious cash generation will kick off for most in 2010-2012 as they recognized unit sales. Most importantly, several of the most punished real estate stocks regionally have the most compelling earnings growth stories over the coming period and are trading at extremely attractive multiples.

**Overview of the Petrochemical industry:**

The Petrochemical industry was severely impacted by the global financial crisis. Contract prices and off-take volumes collapsed by 60% and 20% respectively, from peak to trough while Capacity utilization rates declined to 60% by end of 2008 due to significant downturn in global GDP in combination with destocking during Q4'08.
However, from the middle of 2009 key petrochemical prices have rebounded recently due to three main reasons:

**Recovery in Oil prices**: Oil is the key driver because many producers, especially the marginal ones use oil-derived naphtha as the main feedstock
**End of inventory de-stocking**: De-stocking appears to be over, but overall tight credit condition still persist and have forced the industry to operate on a more of a 'hand-to-mouth' basis
**Prices are also being supported by demand from the Asian market:** Increase in the demand from China may lack durability, as it is a combination of stockpiling and increase in domestic demand as a result of the government's fiscal and monetary expansion package.

Although there has been shutdowns across Europe and the US, approximately 9 mln tons, there will be significant increase in capacity coming online, as the below example on global expected ethylene capacity coming online in the next few years putting further pressure on global capacity utilization rates.

| | 2,008 | 2009e | 2010e | 2011e | 2012e | 2013e | 2014e | Total | |
|---|---|---|---|---|---|---|---|---|---|
| Iran | 1,930 | 330 | 500 | 458 | 500 | 500 | 1,000 | 5,218 | 15% |
| Kuwait | 106 | 744 | 0 | 0 | 0 | 0 | 0 | 850 | 2% |
| Qatar | 95 | 0 | 975 | 325 | 0 | 0 | 650 | 2,045 | 6% |
| Saudi Arabia | 600 | 2,642 | 1,858 | 1,925 | 600 | 0 | 0 | 7,625 | 21% |
| UAE | 0 | 0 | 700 | 700 | 0 | 0 | 0 | 1,400 | 4% |
| India | 0 | 0 | 1,510 | 900 | 0 | 870 | 450 | 3,730 | 10% |
| China | 179 | 888 | 3,832 | 1,240 | 1,725 | 1,025 | 0 | 8,889 | 25% |
| Korea | 263 | 0 | 0 | 0 | 0 | 0 | 0 | 263 | 1% |
| Taiwan | 565 | 0 | 0 | 0 | 0 | 370 | 120 | 1,055 | 3% |
| Singapore | 0 | 0 | 667 | 1,133 | 0 | 0 | 0 | 1,800 | 5% |
| Thailand | 35 | 100 | 1,750 | 150 | 0 | 0 | 0 | 2,035 | 6% |
| Vietnam | 0 | 0 | 0 | 0 | 0 | 0 | 1,050 | 1,050 | 3% |
| Total | 3,773 | 4,704 | 11,792 | 6,831 | 2,825 | 2,765 | 3,270 | 35,960 | 100% |
| Global Capacity | 129,680 | 134,384 | 145,476 | 151,607 | 154,432 | 157,197 | 160,467 | | |
| Growth Rate | | 3.6% | 8.3% | 4.2% | 1.9% | 1.8% | 2.1% | | |

Source: Alembic Research

While North America's position as a significant net exporter of ethylene equivalents will decline substantially over the next few years. Trade flows are expected to continue to migrate to Middle East with low feedstock advantage. To support that trade there has been a great increase in Middle East chemical capacity. The 'great build-out' in Middle

East chemical capacity over the 2005-12 period is however coming or will be coming online shortly. Aside from that, Qatar has already announced a moratorium on new projects, while further development of the Saudi industry is dependent on the development of the non-associated gas reserves. Iran, has the spare hydrocarbon capacity to bring about another expansion wave, but has its hands full with the existing projects. An exception on that is what both Aramco and Qatar Petroleum announced of their new giant projects in Saudi and Qatar. However, the production in these projects will not start before 2015.

Investors and consensus both fear a deep, supply-driven cyclical trough in 2010, and extending into 2011. However, analyzing the ethylene supply, we along with some other analysts- agree and of course after considering the capacity growth scheduled for the next five years, that these concerns could be overblown, as there are doubts over whether as much as 40% of the capacity –mainly in Iran and Thailand, will start up on time. The Saudi plants on the other hand, have already started operations, with one or two exceptions. One would expect industry operating rates to trough in 2010, however we believe the Middle East chemical companies should show higher earnings on capacity growth and robust energy prices.

The MENA petrochemical universe has a fixed low-cost feedstock base. Feedstock supply is provided on a fixed basis at prices that are a fraction of those paid by the marginal players. In fact the higher the prices of feedstock, the higher the cost per marginal pound of product and, therefore, the greater the cost delta between the Middle East and the rest of the world. As long as global energy prices remain at their current high levels the Middle East, with its low-cost feedstock base, will continue to have a sustainable advantage in basic chemical production. Roughly half of the scheduled new capacity coming on stream in the region is based on ethane, which has the largest cost delta versus the rest of the world. Therefore, we may say that this combination of increased capacity and cost advantages will result in significant earnings growth for the companies in the region, unfortunately consensus is not factoring this in.

Ethane prices in the region are in the range USD0.75 to USD1.75 per mmbtu, which gives Middle East ethylene derivatives an advantage on a cost-delivered basis in all the main consuming regions. Ethane prices for some newer plants are at the top end of this range, while a price increase is scheduled in Saudi Arabia for 2012, which will increase ethane pricing from USD0.75 per mmbtu to USD1.25 per mmbtu. However, this would only represent a small dent in the cost structure for Saudi plants, and the only way in which Middle East competitiveness could be reduced would be if there was a dramatic decline in global energy prices.

**Market Tid-Bits (factoids from Ahsa Street, to be enjoyed with an Ice Cream):**

**Global Investment House transfers assets to repay debts:** Global signed an agreement with creditors to reschedule debt over a three-year period and use proceeds from the sale of assets to make payments after defaulting on a loan a year ago. The deal in-

cludes transfer of assets to special funds that will be used as security to creditors.

**Dubai to maintain rent caps:** Dubai's ruler Sheik Mohammed bin Rashid Al Maktoum issued Wednesday a new decree to set limits for rent increases in the emirate in 2010. The rent caps will be similar to those set this year and will be become effective immediately, according to a statement from the ruler's office. The rent cap will be 10% if the 2009 rent is between 36% and 45% below the rent index level, and 15% if the rent is between 46% and 55% below the index level. Those paying more than 55% below the rent index level, will face a 20% rent cap

**Another Committee for Amlak and Tamweel:** another committee has been formed to deal with the ongoing saga. This time it is a special judicial committee to deal with any disputes pertaining to mortgage lenders and their creditors to safeguard their rights; No news on merger though!

**New Tough Fraud Penalties in Dubai:** Dubai issued a new law imposing tougher sentences of up to 20 years in jail for those convicted of defrauding the government of funds as it seeks to continue its clampdown on corporate crime. However, under the new law those convicted of public or private fraud could be released immediately if they return the money or reach a settlement negotiated with their debtors!! Hmmmm

**SABIC raises a new bond in a private placement:** SABIC issued 10 billion Saudi riyals ($2.67 billion) in bonds to the government's Public Investment Fund, or PIF. The private placement to the PIF, which owns 70% of Sabic, will be over several issues. The bonds have a maturity of seven years after being issued. The money will be used to finance some of the company's projects.

**Capital Markets Authority gets tough on Insider Trading:** Saudi Arabia's market regulator fined five local investors a total of 3.83 million Saudi riyals ($1.02 million) for manipulation and insider trading, a record amount to end a year in which the kingdom demonstrated its will to crack down on market violations. In three separate cases the r CMA, levied the fines on five individual investors, including one woman, but didn't name any firms or banks that processed the transactions.

**Agility seeking settlement outside courts:** it was reported in the Kuwaiti press that Agility is seeking an out of court settlement with the US government worth over $600 million; 25% of its current market cap.

**A New Rights Issue for OT:** Shareholders in Orascom Telecom approved a $800 million rights issue to pump its balance sheet and cover the expected losses from the dispute with Algerian tax authorities of approximately $600 million.

**One Stock Exchange for Dubai?** Dubai Financial Market will buy Nasdaq Dubai for $121

million. The offer comprises $102 million in cash and 40 million DFM shares. Initially the two platforms will be maintained separately with a future target of consolidation of both platforms. Borse Dubai 79% of Dubai Financial Market has debt maturing in early Feb of $2,500 million.

**Continued Expansionary Budget in 2010:** Saudi Arabia announced continuation of its expansionary budget for 2010 with a 14% increase in government spending. However even with a higher average oil price in 2010 it is likely that the increased spending will lead to another annual deficit. That being said with over USD400bln in foreign reserves Saudi Arabia is very far away from being in trouble.

**Aluminum Project back on track:** Ma'aden announced plans to build the world's largest fully integrated mine-to-metal aluminum production complex in Saudi Arabia with U.S. producer Alcoa Inc (AA). The 40.5 billion Saudi riyal ($10.8 billion) The complex, which will be 60% owned by Ma'aden and 40% by Alcoa, will also house a rolling mill with an initial annual hot-mill capacity of between 250,000 tons and 460,000 tons. According to the CEO of Alcoa "This is, I would say, a once in a lifetime opportunity for Alcoa, for Ma'aden, our partner, as well as for the Kingdom of Saudi All of that together,……, and I assume you would agree with that, gives us a unique opportunity to bring our costs down and build a low cost, super low cost aluminum production complex."

**ADIA not happy with Citigroup:** Abu Dhabi Investment Authority is demanding that Citigroup Inc. scrap a deal that would see the fund make a heavy loss on a $7.5 billion investment in the bank. The deal done at the beginning of the financial crises in November would commit ADIA to buy Citi shares at$31.83. ADIA alleges were "fraudulent misrepresentations" of the original agreement.

**What happened with our portfolio?**

Volatilities during the last month of the year were spiking up across all markets, and it was no different for our portfolio. With our exposures in the UAE and the contagion effect on GCC markets it was certainly challenging and we did a fair amount of restructuring vis-à-vis our UAE exposure.

We increased our exposure in the UAE during the month although we reduced our positions in Dubai with Air Arabia representing 90% of our Dubai exposure. We added during the month into our Abu Dhabi exposure namely on Aldar and Sorouh and added to a specific scouting position during the month. Whilst the month end reports a snap shot we have already reduced our Abu Dhabi exposure since the start of the year, and have kept our Dubai exposure limited to only Air Arabia given its defensive nature and our fundamental belief in the long term story. We are certainly concerned about the sentiment and dynamics of the UAE markets and have tightened our risk appetite, tightening our stops on the tradable portions of these core holdings. Whilst we see tremendous value in many of these RE names especially from a global and regional context, the catalysts are few and far between in the existing environment for the UAE.

We restructured our Saudi portfolio in December reducing it by 7% through a reduction in bank exposures and Almarai, which has now fallen out of our top five holdings. Since January we have once again increased our exposure in Saudi Arabia. Ma'aden continues to be our top holding, and at these current levels we see tremendous upside especially with the DAP project coming in line in during q4 of this year. There are a number of positions that we are scouting and despite expensive macro PEs in this market there is tremendous value in many names. The market has depth and breadth and we expect it to continue to be our largest geographic exposure in 2010.

Our Qatari and Egyptian exposure were largely unchanged during the month however there was some internal restructuring within these country portfolios. We expect to be adding into both portfolios during the year, based on the opportunity set made evident through our internal processes. Since the start of the year, Qatar has become our second largest geographic holding and we continue to see tremendous value, yet we acknowledge that it may be challenged given its investor composition and continued selling or lack of appetite by foreigners in the DSM.

In conclusion there are going to be some challenges in 2010, however we think this is a great entry into the MENA markets. Certainly we cannot simplify this as a massive catch-up trade, but can justify it based on the underlying value of many companies in the universe relative to growth profiles, actual vs. real perceived balance sheet risks, visibility of earnings and strategy, and relative valuations to time series and global players. Whilst it is difficult to see significant price action on the markets, there are fundamental drivers on many companies which the markets will be in a position to reward over the coming year.

Thank you for your continuous support,

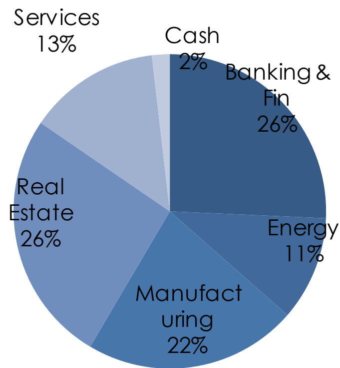
The Ajeej Capital Team

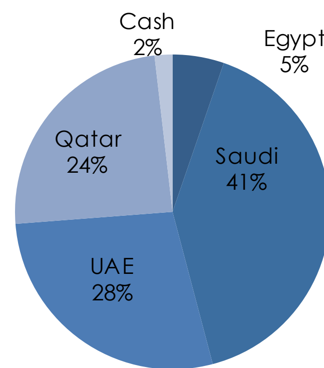
## Monthly NAVs and Returns

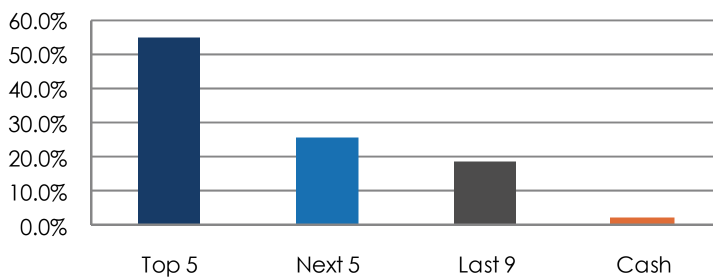
| 2007 | J | F | M | A | M | J | J | A | S | O | N | D | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Return | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 6.6% | 9.0% | 8.3% | 25.7% |
| NAV | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 106.59 | 116.16 | 125.74 | 125.74 |

| 2008 | J | F | M | A | M | J | J | A | S | O | N | D | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Return | -2.7% | 9.4% | -8.6% | 15.2% | -0.4% | 0.7% | -2.5% | -10.5% | -23.9% | -30.0% | -2.6% | 3.5% | -47.4% |
| NAV | 122.31 | 133.80 | 122.24 | 140.84 | 140.29 | 141.22 | 137.73 | 123.23 | 93.79 | 65.66 | 63.97 | 66.19 | 66.19 |

| 2009 | J | F | M | A | M | J | J | A | S | O | N | D | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Return | -3.7% | -5.6% | 3.4% | 7.9% | 8.6% | -1.5% | 3.7% | 1.3% | 12.1% | -1.6% | -5.5% | -2.3% | 16.1% |
| NAV | 63.76 | 60.20 | 62.22 | 67.12 | 72.93 | 71.86 | 74.49 | 75.47 | 84.59 | 83.25 | 78.63 | 76.85 | 76.85 |




The top 5 holdings in the Ajeej MENA Fund:

- Saudi Arabian Mining Company (Ma'aden), **15.8%**
- Commercial Bank of Qatar, **12.7%**
- Sorouh, **10.2%**
- Sahara Petrochemical Co., **8.3%**
- Aldar, **7.6%**

| Ajeej MENA Fund | December-2009 |
|---|---|
| Return (December '09) | -2.26% |
| Return (YTD December '09) | 16.11% |
| Return (Since Inception - 27 months) | -23.15% |
| Annual Volatility (on NAV) | 32.97% |
| Sharpe Ratio Absolute | -0.04 |
| Alpha Benchmarked (YTD December '09) | -1.18% |
| Value at Risk (VaR) - 95% (for the monthly holding period) | 15.77% |