Target 2023 Sukuk Fund

A Historical Investment Opportunity

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DEFINING INVESTMENT DIRECTION

Markets events summary

The unexpected and sudden outbreak of the COVID-19 pandemic has given rise to unprecedented market volatility. As lockdowns were progressively enforced in several countries, the markets initiated a massive selloff, while the pace of progression of the virus outside of China accelerated dramatically. The shut off of some of the world's most prominent economies in both developed and emerging markets has raised concerns over the global growth.

While these global events unfolded, OPEC members and world's largest producers, KSA and Russia, entered in an oil price war which has added on to the already strong downward pressure coming from the sharp decline of the demand stemming from economic shutdown.

In the face of this unprecedented situation, we see a dry out in liquidity which has exacerbated the negative move in asset prices. Funds outflows and deleveraging have accelerated, leading investors to sell in order to meet redemptions. In response to challenge posed by recent events, global authorities have offered unparalleled support through a rapid expansion of monetary and fiscal policy, estimated globally to a whopping $7 trillion stimulus.

While it is unquestionable that the current levels of oil prices, hovering around $20, create a challenging economic environment for Middle Eastern issuers, we are of the view that governments such as Saudi Arabia and UAE can and will support their domestic economies, helped by their low sovereign debt level. At the same time, net oil importing countries should present attractive investment opportunities, as pressure on fiscal deficit is partially lifted.

Target 2023 Fund

Our fund was positioned defensively going into market selloff, with a relatively high diversification (29 lines), low duration (2.8 years), a balanced mix of Investment Grade and High Yield Sukuk and a full allocation to US Dollar, with no exposure to non-dollar emerging currencies.

As part of our active investment strategy, we remain proactive in the period of current market price dislocation and exploit opportunities created as a result of general market disruption. Within the context however, we plan to keep a defensive stance in the near term as well as preserve the rating quality of the portfolio.

We Managed to reduce Our exposure to Oman and Bahrain before the selloff started while adding some short-dated IG positions like DIB senior and ESIC (Emirates Strategic Investment Company) which both fell much less than the spectrum.

Opportunities

As much as we are aware that banks and investors are preoccupied with margin calls and sometimes liquidations where leverage is involved, we cannot help but highlight the investment opportunities offered by the current market prices to Sharia investors who have investable cash on hand.

As the Sukuk markets are presenting a historical opportunity for investors, our Target 2023 Sukuk Fund offers a route to take advantage of this temporary market dislocation: a balanced portfolio profile in terms of risk, an access to higher than usual returns on high-quality credit with optimised diversification, a short duration and no recourse to leverage.

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