everything is possible

COMMERCIAL BANK

AL WASEELA FUND – F CLASS

October 2018

Performance

Trailing Returns	Fund	QE Index
MTD [1]	-0.24%	-1.09%
YTD [2]	17.58%	15.38%
Since Inception	127.95%	59.32%

1 MTD is referenced from previous NAV date to this NAV date
2 YTD is referenced from 31 December 2017
3 Past Performance is no guarantee of future trends

Historical Net Asset Value

Month	Offer	Bid
September	19.3442	19.1508

Fund Statistics

Beta	Standard Deviation	Tracking Error
0.75	20.42%	0.09

Fund Manager's Report

Review

The Fund declined 0.24% during the month but was ahead of the market by 0.85%. Our two off-benchmark positions – NMC Health and HumanSoft Holding were the biggest contributors to loss and contributed 59bps and 32bps respectively. Top return contributor during the month was Qatar Fuel and Industries Qatar .

In the case of Qatar Fuel, the company raised foreign ownership limit to 49% and single shareholder limit to 1%. Additionally, the company floated tenders for four new fuel stations and aims to double the number of its petrol station within three years to reach 120. The strategy it appears is to saturate the market before exclusivity on fuel retailing ends. Although the increase in FOL will be supportive of share price with potential for index inclusion, we take a dim view on doubling the number of fuel stations in Qatar as most of the new stations are likely to exhibit weak economics and their only rationale is to provide a socio-economic service to the country. At current valuations, the stock is fully priced, and we plan to reduce our exposure to this business. In the case of Industries Qatar, the strength in share price was supported by high oil prices and expectations around Q3 numbers where the consensus estimates topline to grow by 27% and earnings to increase 69% YoY .

In the case of NMC Health, the stock price has come under pressure due to EM sell-off. NMC Health continues to execute on its three-prong strategy of capacity addition, capability enhancement, and geographic expansion. On capacity front, NMC Royal Hospital in Abu Dhabi is ramping up well, and management plans to increase bed capacity from 316 beds to 400 beds. On capability front, the company signed a collaboration agreement with Cincinnati Children's Hospital with the aim of converting the existing pediatrics center of excellence into a stand-alone vertical to be expanded geographically. Similarly, management is considering creating a standalone vertical for Cosmetics given the growth potential in the business and the opportunity to scale-up and expand geographically. In the same vein, the company acquired Aspen Healthcare in the UK which specializes in Orthopedics and Oncology with the aim of introducing Aspen brand and knowledge in Saudi Arabia and the UAE as a specialist care provider and using Aspen's facilities in the UK to expand Clinica Eugin presence in the country. On geographic front, the company signed O&M contracts for two hospitals in Egypt (860 beds) and two hospitals in Kenya and see this as a risk-controlled way of testing the market before establishing ownership presence. Fertility business of NMC is now a truly global business with a presence in 4 continents. Clinica Eugin entered Kenya with a greenfield expansion in Nairobi and management views this Kenyan facility as a potential hub for adjoining East African markets of Tanzania, Uganda, and Rwanda. Recently, the company released guidance for 2019 projecting high double-digit revenues and EBITDA growth with improving margins. We remain confident on the long-term prospects for the business and have full faith in the execution capabilities of the management team.

In the case of HumanSoft Holding, weaker than expected growth in college enrollments for the fall semester coupled with regulatory delays in the roll-out of new engineering majors, and slow progress on M&A weighted on the stock price. We continue to like the business due to its platform-like qualities, cash generative business model and believe there is tremendous opportunity to leverage and expand beyond tertiary education space in Kuwait. At stable run-rate, the business generates a return of 42% p.a. on invested capital, pays out 76% of that return in the form of a cash dividend, which leaves it with sufficient dry powder and a mostly un-levered balance sheet to fund growth opportunities. Any progress on leveraging the platform for expansion either in the K-12 space in Kuwait or tertiary education opportunities in the GCC are expected to be well received by the market and help unlock platform value.

As Q3 numbers start to trickle, we expect industrials to record strong growth. The read-through from QNB and Masraf Al Rayan results for the banking system is marginally negative. Despite increasing interest rates, QNB experienced NIM contraction YoY coupled with decelerating loan growth. This suggests a highly competitive pricing environment for corporate loans. Nonetheless, the bank reported a stable NPL ratio at 1.75% and adequate coverage levels at 129%. It is important to note that the impact of Lira devaluation-related to QNB Turkey was recorded in other comprehensive income, if the effect were recorded in the Net Profit, the bottom-line would have been lower by 79% and reported net profits would have declined to QAR 781mn instead of the reported QAR 3.75bn. Similar trends in NIMs, asset growth, and asset quality were observed in the case of Masraf Al Rayan. Looking ahead, the investment manager plans to reduce exposure to HumanSoft Holding and reallocate capital back into Qatar. At the same time, we plan to maintain exposure to NMC Health and expect the share price to recover after manager offered better guidance and improved outlook on the business.

	Offer	Bid
Net Asset Value as at 15 October 2018	**19.2970**	**19.1040**

Objective

The principal objective of the fund is long term capital appreciation through investing in listed Qatar and GCC equities.

Benchmark

QE Index

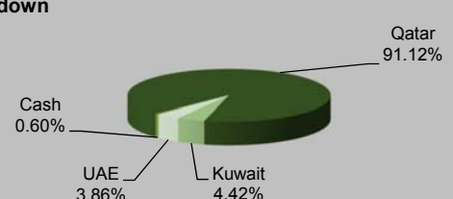
Fund Analysis

Top 5 Equity Holdings	% of NAV
Qatar National Bank	18.82%
Industries Qatar	17.34%
Qatar Islamic Bank	13.22%
Masraf Al Rayan	11.16%
Qatar Electricity and Water	7.59%

Asset Allocation

Type	Last Month	This Month	% Change
Cash	1.32%	0.60%	-0.72%
Listed Equities	98.68%	99.40%	0.72%

Geographic Breakdown



Fund Information

Currency	Qatari Riyal
Launch Date	15 April 2007
Type	Open Ended
Fund Size	QR 44,005,045
Minimum Subscription	QR 25,000 at Offer Price
Maximum Subscription	2,000,000 units at Offer Price
Minimum Subsequent Subscription	QR 5,000 at Offer Price
Subscription Fee	3.00%
Management Fee	1.50% per annum
Performance Fee	20% over Hurdle Rate of 10%
Dealing	Monthly by 7 November 2018
Valuation Date	15th day of each calendar month
Founder	The Commercial Bank (P.S.Q.C.) P.O. Box 3232, Doha, State of Qatar Tel: +974 4449 0000 Fax: +974 4449 0070 www.cbq.qa
Fund Manager	EFG-Hermes Financial Management (Egypt) Limited
Custodian	HSBC Bank Middle East Limited
License No. of Fund	IF/6/2006
Fund Registration No. at Ministry of Economy & Commerce	34168

zawya Funds Ranking

Winner of ZAWYA Fund Awards
Ranked 2nd Best Qatar Equity Fund (for 2013)

MENA FUND MANAGER PERFORMANCE AWARDS WINNER 2016 Qatar Equity

Qatar Equity Fund of the Year