

## FMG MENA Fund

## FMG Real Estate Fund

## FMG Special Opportunities Fund

### The current Dubai and UAE situation

The UAE Central Bank on Sunday came out with a statement, the first since the initial announcement on Thursday, saying that they stand behind the country's local and foreign banks, which face losses from Dubai World's possible default, and offered them access to more money under a new facility.

So, with so many rumors going around in the Middle East with some suggesting that Abu Dhabi will bail out Dubai World. This announcement is positive and assures us that the UAE Central Bank is not going to let a possible default of Dubai World contaminate the exposed local banks.

In regards to the Dubai World debt situation, we see the following two possible scenarios:

- Dubai World is asking for *voluntary extension* on its debt obligations. Consensus suggests that this is the most likely scenario. The total amount of the debt due is \$3.5 billion which must be considered a small amount in the overall context. In the past 6 months, the Dubai government has managed to raise \$16 billion dollars from bond issues.
- Default of Dubai World. As to an actual default, this is unlikely and expectations are that neighboring Abu Dhabi will support its little brother.

Either way, a restructuring of the debt would have effects on the local (as well as some foreign). This is why the Central Bank of the UAE has extended this new liquidity facility to avert such a situation. Also, any talk of a possible bank run should be dismissed immediately.

For the past couple of days, we have been talking to portfolio managers and analysts to try and get a clearer picture of the current situation in Dubai. None of the people who we have spoken to believe that Dubai World (Dubai) will go bust. All agree that this is short term negative for Dubai.

Impact is likely to be limited in Saudi/Kuwait (due to low foreign ownership) and Egypt (Egyptian GDRs where trading in line with GEM markets on Thursday). Bahrain and Oman opened last Thursday and they were both flat. Qatar will likely be impacted as they have a high degree of foreign ownership but the fundamental story remains intact and we are still looking at 10%+ real GDP growth in 2010 for Qatar.

When the UAE stock markets in Dubai and Abu Dhabi opened today, after the 4 day religious holiday, the liquid stocks were limit down (-10%) as expected. It was however positive to see that some trading was taking place as general expectations were that UAE would be limit down without any trading. Abu

Dhabi traded around \$30m compared to the average of around \$50m/day, while Dubai only traded \$7m (average \$50-100m/day).

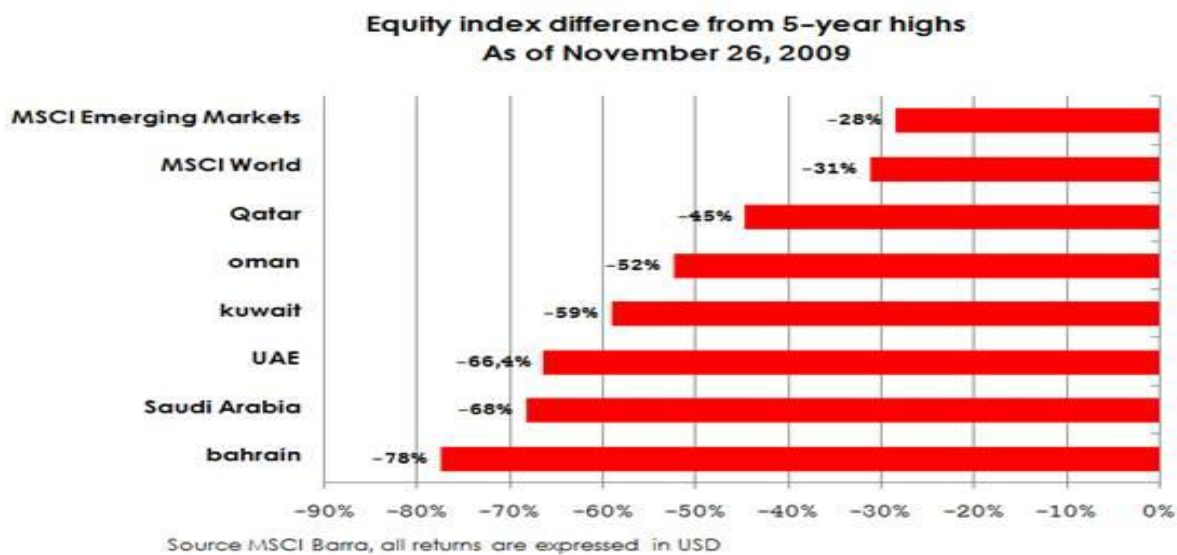
Egypt and Lebanon also opened today with the Egyptian market down around -6.5% on reasonable volumes. Trading in Lebanon was \$5m (quite average) and the bellwether stock Solidere was down -3.5%. Qatar, Kuwait, Bahrain and Jordan will open tomorrow (Tuesday) and Saudi Arabia on Saturday. Then, the UAE markets will be closed Wednesday and Thursday this week for their national day celebrations.

### **What will be the effect on the FMG MENA fund?**

Short term we will see some sell off in the GCC markets and primarily in the UAE and in the stocks closest related to Dubai World. We also expect to see a negative spillover effect into the other GCC and MENA markets as international investors sell “the good with the bad”. Though there will then appear great buying opportunities in the region but the timing will depend on the news flow that emerges over the considerable closed periods ahead. In addition to this, foreign investor penetration remains low at 5.8% for Dubai and 3.4% for Abu Dhabi. This too will limit the longevity of selling pressure across the UAE.

Currently, the FMG MENA Fund has 7% exposure to Dubai listed stocks and 6% to Abu Dhabi listed stocks. The Fund is currently sitting on 13% Cash and our strategy for the coming days is to utilize the high degree of liquidity in the fund (50% of the fund has daily liquidity) and raise the cash level. Our core markets will continue to be Qatar currently at 28% and Saudi with 22% where fundamentals are strong and valuations look good.

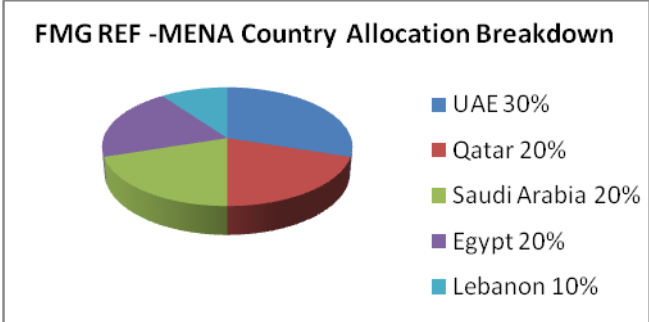
Medium – Long term this will create an extraordinary opportunity. Keep in mind that MENA markets were already trading at a discount to other emerging markets before the Thursday announcement and now due to the fact that foreigners and other market participants (us included) will sell off MENA exposure. Quality company stocks with no exposure to any of Dubai’s issues will likely be sold down with the market. The fund’s cash buffer will be used to take advantage of this excellent opportunity.



For further perspective, while other markets have risen strongly this year, the Middle East has lagged significantly. Looking at the valuations of the GCC markets versus their 5-year highs (graph above), one could argue that much of the concern is already been priced in. Despite the rise in global markets, the UAE (Dubai + Abu Dhabi) is trading at just below one third off peak value as is Saudi Arabia. Compare this to the MSCI World index, where it cannot be ignored that its recovery has for a part been fuelled by bail outs.

**Update on the FMG Real Estate Fund (REF) –MENA exposure.**

REF has around 40% exposure to the MENA region. The direct exposure to UAE is through Aldar (Abu Dhabi listed), Arabtech and Depa (Dubai). Aldar and Arabtech are highly owned by foreigners and therefore associated with UAE. They will be weakness in these two companies. Apart from these two stocks we expect limited downside for the remaining stock in the MENA portfolio. Though the negative sentiment might spill over into Qatar as it has high foreign ownership and the manager may decrease our Qatari exposure (around 20%). Our holdings in Egypt, Saudi and Lebanon (as mentioned earlier with the investment in Solidere) are not expected to be too heavily impacted. The manager intends to sell down Arabtech and Aldar and raise cash depending on market development.



**Update on FMG Special Opportunities Fund (SOF) – MENA exposure**

SOF has around 20% exposure to Qatar. Fundamentals in Qatar are solid and unchanged but as mentioned above there will likely be a short term spillover effects into this market and the manager is looking to raise as cash. As a reminder Qatar opens up on Tuesday for trading.

Finally, the Dubai government’s total debt is estimated to be \$80 billion which is roughly 15% of Abu Dhabi’s cash reserves... We will continue to monitor the situation and please don’t hesitate to contact us if you have any questions.

Erik Hultsberg & Henrik Kahm