

Qatar Investment Fund

Not about oil

Qatar Investment Fund (QIF) offers exposure to growth in Qatar's diversifying economy, which is benefiting from prudently reinvested oil "super profits". Qatar is seeing above average GDP growth and its stock market has shown low correlation with the oil price. The fund seeks to capture the benefits of infrastructure investment, national development and diversification underpinned by wealth accumulated from hydrocarbon reserves. Prudence at national and fund level and the implicit government backing enjoyed by many of QIF's portfolio companies may make this an interesting fund for investors seeking capital growth and a yield of c 3%.

12 months ending	QIF share price	QIF NAV	Qatar Exchange	MSCI Emerging Markets	FTSE All-Share
30/11/11	9.2	12.4	4.7	(16.8)	(7.1)
30/11/12	8.0	(1.3)	(1.9)	17.8	24.2
30/11/13	28.9	25.3	23.5	3.7	22.3
30/11/14	32.0	28.6	28.5	1.1	(0.0)
30/11/15	(8.5)	(13.8)	(21.1)	(15.8)	(3.0)

Note: Twelve-month rolling discrete US\$ % total return performance.

Investment strategy: Top down and fundamental

There are 43 stocks listed on the Qatar Exchange (QE), of which 20 make up the QE benchmark index. The manager of QIF identifies long-term trends and selects holdings to benefit from those following detailed bottom-up analysis. Opportunities to capture value in the shorter term are also taken where the manager believes a stock is mispriced. Up to 15% of the portfolio may be allocated to stocks listed on exchanges of Gulf Cooperation Council (GCC) states other than Qatar, allowing alpha to be captured where it arises in the region.

Market outlook: Non-hydrocarbon growth robust

Although oil and gas prices have reduced to less than half their mid-2014 levels, Qatar's economy is more resilient to the fall than most other hydrocarbon exporters. The state has accumulated substantial reserves to provide a buffer to lower oil- and gas-related income, which amount to almost \$120k per capita (Norway's sovereign wealth amounts to \$165k per capita). These reserves and increased discipline in current spending should allow the government to maintain its strong commitment to \$200bn of infrastructure projects being undertaken in the next seven years to provide public services to the growing population. Along with a detailed plan for economic diversification to develop the private sector, the high level of infrastructure spend is set to support strong growth in the non-hydrocarbon economy (for example, QNBK projects c 10% pa 2015-17). Companies in QIF's investable universe are well-positioned to take advantage of this growth.

Valuation: Yield above 3%

QIF is currently trading well below its three-year average discount to NAV (14.1%), at 3.2%, also below the average for EM investment trusts (9.5%). Qatar's growth prospects and relative stability, along with QIF's yield of just over 3% suggest the narrower of the discount can be sustained.

Initiation of coverage

Investment companies

1 December 2015

Price **\$1.28**
Market cap **\$176.6m**
AUM **\$182.2m**

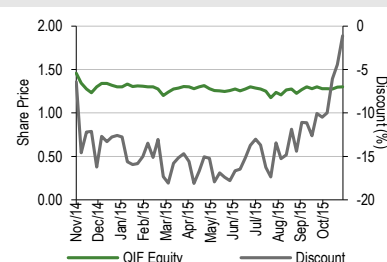
NAV* \$1.32
Discount to NAV 3.2%

*Excluding income. At 1 December 2015

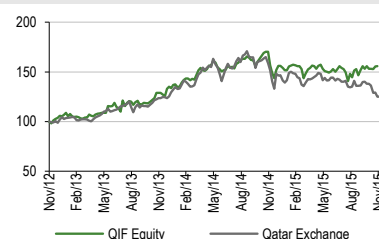
Yield 3.1%
Ordinary shares in issue 138m
Code QIF

Primary exchange LSE
AIC sector Country specialists

Share price/discount performance



Three-year cumulative perf. graph



52-week high/low \$1.46 \$1.14
NAV** high/low \$1.70 \$1.40

**Including income.

Gearing

Cash 1.1%

*As at 30 September 2015.

Analysts

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[Edison profile page](#)

Exhibit 1: Trust at a glance
Investment objective and fund background

QIF aims to deliver capital growth through exposure to the Qatari economy by investing in companies listed on, or soon to be listed on, the Qatar Exchange. 15% of the fund may be invested in companies listed in other GCC countries. QIF is incorporated as a closed-end investment company in the Isle of Man and listed on the main market of the London Stock Exchange.

Recent developments

- 11 September 2015: Annual Report to 30 June 2015 published.
- 15 October 2015: Tender offer for up to 14% of issued share capital posted.
- 29 October 2015: Quarterly report to 30 September published.
- 12 November 2015: AGM, 97% of eligible shares were validly tendered. Discontinuation vote defeated by 94% of those voting.

Forthcoming

Announcement of tender offer price	7 December 2015
Interim results	February 2016
Year end	30 June
Dividend paid	February
Launch date	31 July 2007
Continuation vote	Discontinuation proposed every third year from 2012.

Capital structure

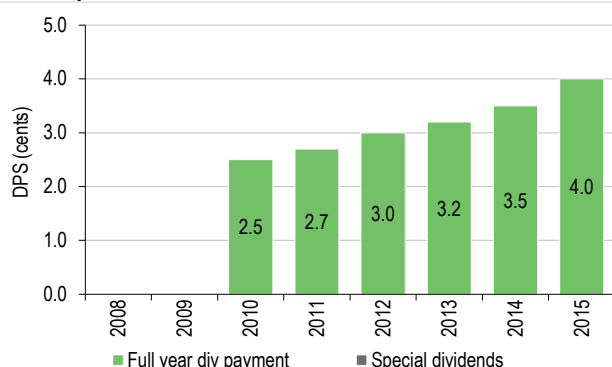
Ongoing charges	1.61%
Cash	1.1%
Annual mgmt fee	1% of NAV
Performance fee	15% of NAV outperformance of the index – see page 11.
Trust life	Indefinite
Loan facilities	N/A

Fund details

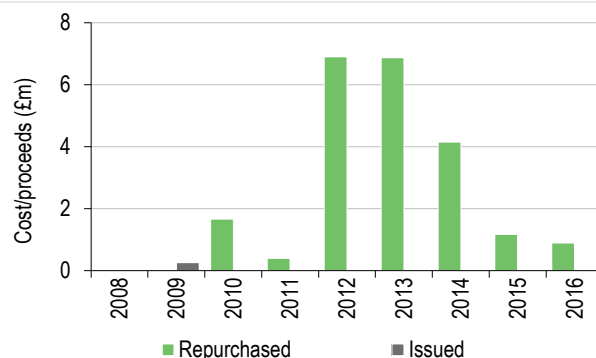
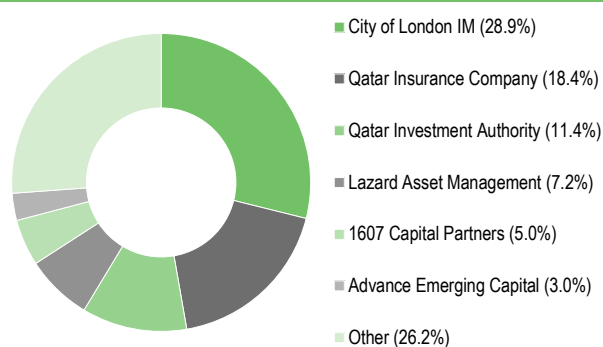
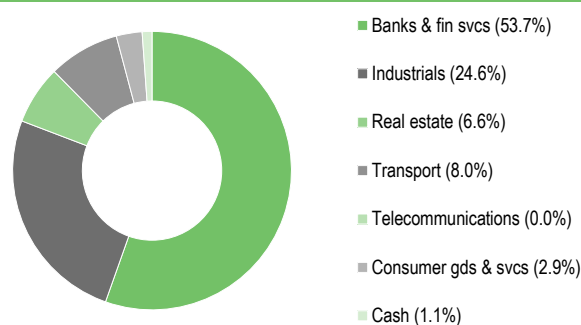
Group	Epicure Managers Qatar, Qatar Insurance Company
Manager	Jubin Jose
Address	Tamin Street, West Bay, PO Box 666, Doha, Qatar
Phone	+974 44962 222
Website	http://www.qatarinvestmentfund.com/

Dividend policy and history

QIF pays one final dividend a year, declared in December and paid in February, out of income received from the portfolio. It has a progressive dividend policy. Financial years to end June shown below.


Share buyback policy and history

The share repurchase policy is described in detail on page 11. A resolution to repurchase up to 14% of the outstanding shares was passed at the 12 November 2015 AGM.


Shareholder base (as at 30 October 2015)

Portfolio exposure by sector (as at 30 September 2015)

Top 10 holdings (as at end September 2015)

Company	Country of listing	Sector	Portfolio weight %	
			30 September 2015	30 September 2014
Qatar National Bank	Qatar	Banking	18.8	13.4
Industries Qatar	Qatar	Industrials	13.2	13.7
Masraf Al Rayan	Qatar	Banking	11.9	1.8*
Qatar Islamic Bank	Qatar	Banking	8.5	4.5*
Commercial Bank of Qatar	Qatar	Banking	7.9	9.1
Qatar Electricity & Water Co.	Qatar	Utilities	6.5	4.1*
Gulf International Services	Qatar	Industrials	4.9	4.2*
Doha Bank	Qatar	Banking	4.6	4.8
Qatar Gas Transport	Qatar	Transport & Logistics	4.1	0.2*
Barwa Real Estate	Qatar	Real Estate	3.5	6.6
Top 10 (% of portfolio)			83.9	73.2

Source: Qatar Investment Fund, Bloomberg, Morningstar. Note: *Not in September 2014 top 10.

Qatar: Background and outlook

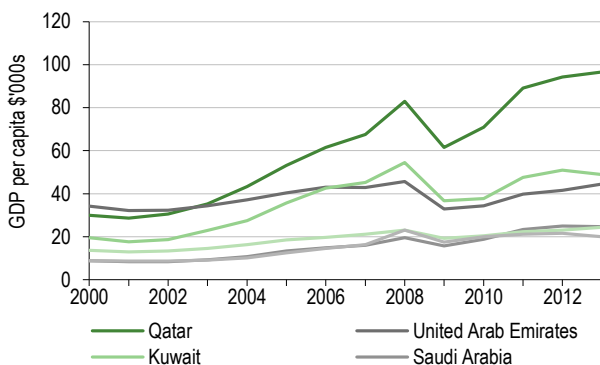
Background

Qatar is a peninsula in the Arabian Gulf, slightly smaller than the Falkland Islands, attached to Saudi Arabia and just south of Bahrain. Immediately north of the peninsula is the world's largest gas field, the North Field, shared roughly 70:30 with Iran. The exploitation of this and other hydrocarbon resources has transformed Qatar into the richest country by GDP per capita today.

Even among the wealthy GCC states Qatar stands apart and has continued to grow its GDP per capita ahead of its neighbours. Immigration to work in the hydrocarbon industry, on infrastructure projects and perform other private sector jobs has meant that the indigenous population is now only around 25% of the total (see Exhibit 4). More than 50% of Qatari citizens are employed by the state and the entire blue collar workforce is foreign, with many middle management jobs also going to non-Qataris. The government is an absolute monarchy with executive power held by the Emir, HH Tamim bin Al Thani, who succeeded on his father's abdication in 2013. The Al Thani family has held power in the area since the 1820s and the emir is advised by appointed ministers and a Consultative Assembly of 35. Qatar has not suffered the upheavals many Arab countries have since the Arab Spring began in December 2010. Prosperity has probably played an important role in this stability and public sector pay was increased by 60% in 2011.

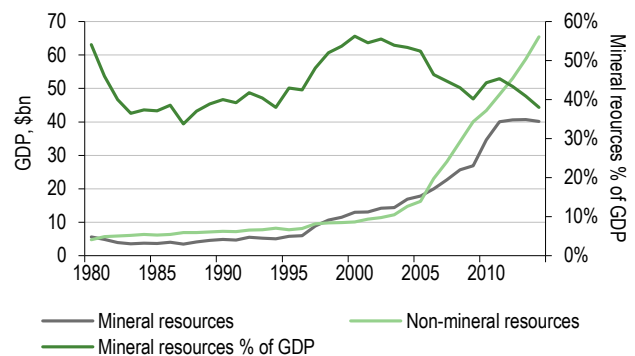
The oil and gas boom began later for Qatar than for other GCC states, with major exploitation not taking place until the 1970s, before which time it was reliant on fishing and pearls. It has the third-largest natural gas reserves in the world and significant oil reserves as well. These are exploited by the national oil company, Qatar Petroleum, in JVs with international oil companies including Shell and Total. The period of major growth in oil and gas extraction came to an end in 2011 and, reflecting government policy, Qatar has achieved the greatest diversification from hydrocarbons among GCC economies. There are no oil or gas companies listed in Qatar.

Exhibit 2: Qatar GDP per capita vs other GCC states



Source: World Bank

Exhibit 3: Resources contribution to Qatar GDP



Source: Qatari Ministry of Development Planning and Statistics

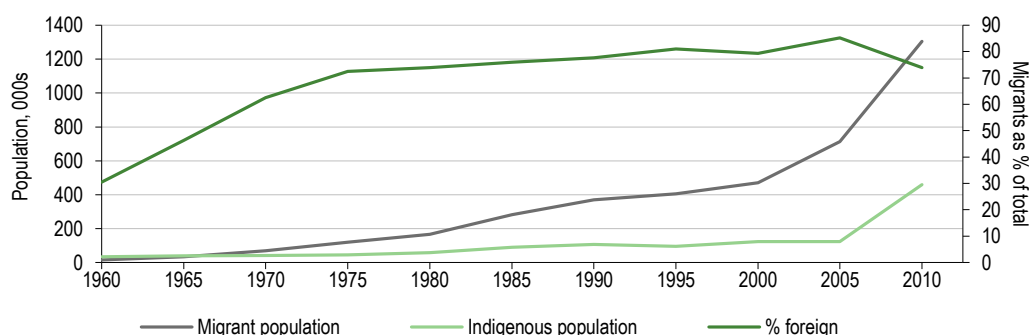
Economy and institutions

In 2008 the government published a clear strategy, *Qatar National Vision 2030* (QNV30), which acknowledges that "hitherto, Qatar's progress has depended primarily on the exploitation of its oil and gas resources. But the country's hydrocarbon resource will eventually run out". The third of QNV30's four pillars is economic development and the country specifically aims to diversify the economy to provide a sustainable replacement for oil and gas wealth. The promotion of competition, attraction of foreign investment, development of a knowledge-based economy, open and flexible economic structures, transparency and accountability are all enshrined in QNV30. The strategy for setting the path to achieve the vision (Qatar National Development Strategy, QNDS)

was published in 2011 and made several assumptions, including that the oil price would average \$86 per barrel from 2011-16 (should current prices persist until the end of 2016, the average over the period will be c \$90). We forecast prices of \$60 in 2016, \$70 in 2017 and a long-term real oil price of \$80, although the government has also run a scenario analysis for an oil price of as low as \$34 (the 2009 low). Although this would move fiscal balances into deficit, accumulated surpluses and IM packages ensure that the planned spending is covered.

The estimated spend on physical infrastructure is \$200bn between 2014 and 2022 (the timing has been brought forward from 2030 so that transport projects in particular will be complete before the 2022 FIFA World Cup. While significant spending is being devoted to preparation for the World Cup, projects directly related to this account for less than 10% of the planned total. Not only do the infrastructure projects satisfy demand for services like transport, healthcare and education, they also add to demand by attracting foreign workers, who have made up more than 70% of the population since the 1970s (the North Field was discovered in 1972).

Exhibit 4: Qatar's population (total of 2.2m in 2014)



Source: World Bank, last census in 2010. Note: The rise in indigenous Qataris at the last census is not explained in the government statistics portal, but may be due to naturalisation of non-Qataris after the 20-year minimum residence or different information-gathering methods.

As well as physical infrastructure, several institutions have been created or given additional mandates to help execute the national development strategy:

The Qatar Investment Authority (QIA), Qatar's sovereign wealth fund, was founded in 2005 to manage the country's budget surpluses and with a specific aim of minimising the country's reliance on hydrocarbon prices. A major investor domestically and internationally, the QIA has been instrumental in supporting the Qatari banking sector throughout the global financial crisis, announcing plans in 2008 to buy up to 20% stakes in all domestic banks listed on the Qatar Exchange and purchasing the domestic equity portfolios of seven of the nine in March 2009. The QIA bought \$2.7bn of Qatari banks' exposure to real estate financings in June 2009 and issued \$16.4bn of bonds and sukuk in 2010 and 2011 to absorb excess liquidity. The QIA had \$256bn of assets and was the ninth largest sovereign wealth fund in June 2015, according to the Sovereign Wealth Fund Institute (fourth by assets per capita). Among the QIA's foreign assets are large stakes in Sainsbury's, Volkswagen, Miramax, EADS, Lagardère, Harrods, Credit Suisse, Canary Wharf, Paris Saint-Germain FC, the Shard, the Shell Building and London's Olympic Village.

The Qatar Exchange (formerly the Doha Stock Market, hence the Qatar Exchange Index's ticker is DSM) plays a key role in the national strategy, helping establish Qatar as a regional financial centre, and is central to the country's financial services industry and its efforts to diversify the economy. One element of the QNDS was to achieve emerging rather than frontier market status; MSCI upgraded Qatar in June 2013 and FTSE Russell did so in September 2015. The first upgrade, which resulted in Qatar's inclusion in the MSCI EM Index in April 2015, led to capital inflows to the Qatar Exchange of around \$1bn (the Qatari riyal is pegged at 3.64 to the dollar). The catalyst for the upgrade was the change in company ownership rules extending the limit of up to

25% by non-Qataris to 49% by non-GCC citizens. Exhibit 5 shows how Qatar measures up to the MSCI market classification criteria.

Exhibit 5: MSCI market classification criteria applied to Qatar

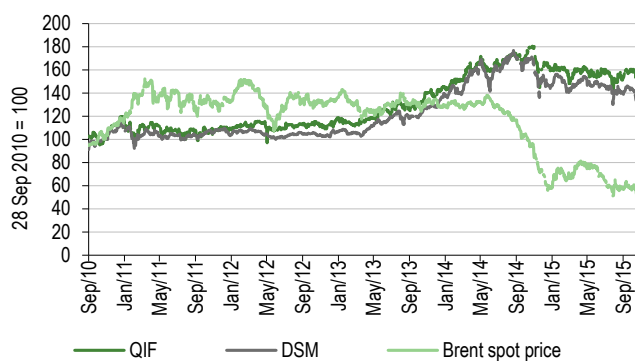
Criterion	Frontier	Emerging	Developed	Qatar
Sustainability of development	None	None	Country GNI 25% above the World Bank high income threshold for 3 consecutive years	Top since 2006
Full market cap (includes shares not in public hands)	2 companies >\$670m	3 companies >\$1,340m	5 companies >\$2,679m	18
Security size (free float)	2 cos >\$52m	3 cos >\$670m	5 cos >\$1,340m	21
Security liquidity	>2.5% ATVR	>15% ATVR	>20% ATVR	24%
Openness to foreign ownership	Some	Significant	Very high	49% ex GCC, 100% within GCC
Ease of capital inflows and outflows	Partial	Significant	Very high	
Efficiency of operational framework	Modest	Good and tested	Very high	
Competitive landscape	High	High	Unrestricted	
Stability of institutional framework	Modest	Modest	Very high	

Sources: MSCI, Qatar Exchange, Bloomberg, Edison Investment Research. Note: Data for Qatar as at 22 October 2015.

The exchange has 43 companies listed on it and is dominated by the banking and financial services sector at 44% of the free float of companies on the index; Qatar National Bank (QNBK) alone makes up 16% of the exchange as a whole. The banking sector is also the most international segment of the exchange: QNBK has subsidiaries in 27 countries other than Qatar, although most companies on the exchange derive a large majority of revenues from operations in Qatar. While greater diversity is likely to be beneficial in the long term, with hydrocarbon prices so low, government spending on infrastructure projects may well support the domestic economy above the level of others in the region in the short to medium term.

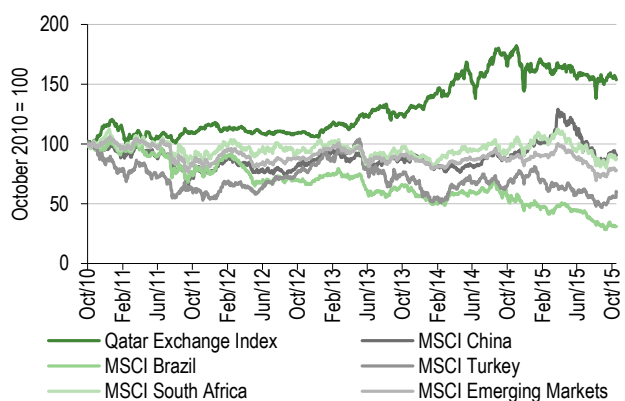
The Qatar Exchange Index, consisting of the most liquid companies on the market, has 20 constituents and has outperformed regional peers. A key strength of QIF is that this investable universe constitutes a less volatile, more developed and better capitalised group of stocks than almost any other emerging market. Importantly, the index has not shown consistent or significant correlation with the oil price over the last five years (it seems to have decoupled in January 2011 at the time of the Arab Spring) and there are no companies directly engaged in oil or gas extraction on the exchange.

Exhibit 6: QIF, DSM and Brent spot price



Source: Bloomberg, 40-day rolling correlation, average of 0.04 over the period shown.

Exhibit 7: Selected EM performance, 5y rebased, GBP



Source: Bloomberg

The Qatar Exchange tends also to have favourable valuation multiples compared with other markets, ranking highly for ROE and dividend yield in particular, without having high P/E multiples.

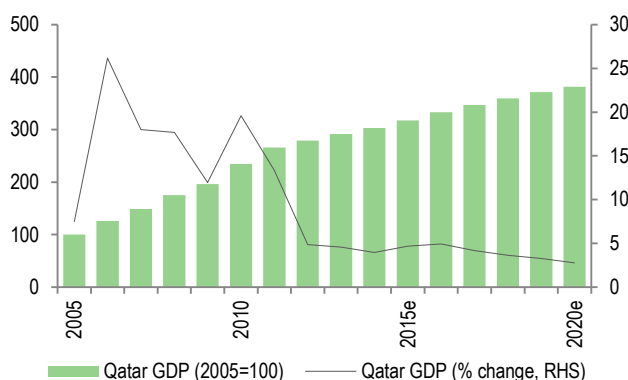
Exhibit 8: Qatar Exchange and selected comparators, valuation metrics

	Price to earnings (forward)			Price to earnings			Price to book			Return on equity			Dividend yield		
	2015e	20-year avg.	% of avg.	2014	10-year avg.	% of average	Last	10-year avg.	% of avg.	Last	10-year avg.	% of avg.	Last	10-year avg.	% of avg.
Qatar	12.2	12.8	95%	12.5	13.8	90%	1.8	2.3	81%	14.5	17.5	83%	4.4	3.5	127%
EM	11.3	11.5	98%	13.6	13.5	101%	1.8	1.8	96%	11.8	15.1	78%	3.1	2.7	115%
Kuwait	11.5	12.1	95%	14.2	16.2	87%	1.3	1.9	67%	8.8	12.6	70%	3.9	3.7	106%
UK	15.5	13.8	112%	17.3	13.1	132%	1.8	1.9	93%	7.1	12.5	57%	3.4	3.4	100%
World	15.1	15.5	97%	17.6	15.5	114%	2.1	1.9	110%	10.5	12.1	87%	2.5	2.6	97%
Rank	3	3		1	3		2=	5		1	1		1	2	

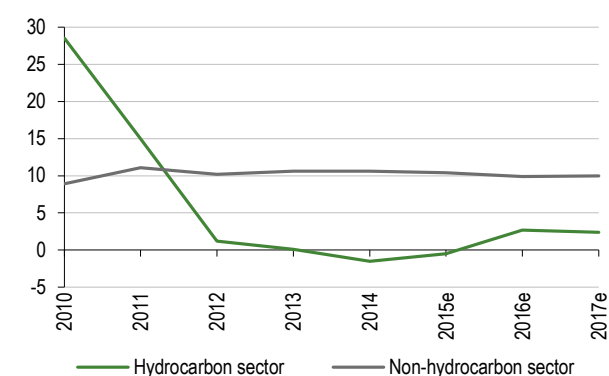
Source: Datastream, Edison Investment Research. Note: P/E and P/B are ranked from low to high, ROE and yield from high to low.

Market outlook: Resilient to oil and gas price falls

Output and prices of LNG and oil remain important for the whole Qatari economy, principally through their contribution to government revenue, even as the proportion of the non-hydrocarbon sector has increased to more than 50% of GDP. Exhibit 9 shows how, on IMF forecasts, the overall pace of economic growth is set to be more subdued than previously (3.8% CAGR 2015-20). However, within this, growth in the non-hydrocarbon sector is expected to remain very strong, at around 10% pa 2015-17 (Exhibit 10). Accumulated budget surpluses mean that Qatar has reserves, including foreign investments, which are more than sufficient to make up expected budget deficits of 4.9% and 3.7% in 2016 and 2017. As a result, spending on infrastructure projects totalling around \$200bn over the next seven years, including a rail system, a bridge to Bahrain, a new city (Lusail) capable of housing 400,000 people, a new LNG project, an underground system for Doha and preparations for the 2022 FIFA World Cup, should still go ahead as planned. There are signs that the government is looking to impose greater discipline on current spending and potentially raising tax revenue. At the margin, this could act as a brake on projected growth rates, but on a longer view might be healthy in that it would tend to ensure a more efficient use of resources.

Exhibit 9: Qatar GDP and GDP growth (IMF forecasts)


Source: IMF World Economic Outlook, October 2015

Exhibit 10: Qatar GDP by sector % change (QNBK)


Source: QNBK Qatar Economic Insight, September 2015

In addition to those directly involved in infrastructure projects such as Qatar Electricity and Water, Industries Qatar and United Development, all of the Qatar Exchange's listed companies should benefit from the spending as it feeds through to the wider economy.

Conclusion

Given fiscal prudence, long-term planning for the transition from a hydrocarbon to a diversified economy and infrastructure spend, Qatar's economy is likely to continue to grow steadily. The Qatar Exchange will probably continue to be a growth market with lower risks than others in the region and the emerging world. Given the small size of the market and the generally domestic focus of its companies, local knowledge is important for stock picking, which means that QIF's focus and

expertise may well be attractive to investors seeking growth, with the added benefit of some income.

Fund profile: Taking advantage of long-term growth

QIF is an Isle of Man company that was quoted on AIM as Epicure Qatar Equity Opportunities in June 2007, before moving to the Main Market of the London Stock Exchange in May 2011 and assuming its current name. It has been managed since inception by Epicure Managers Qatar, a subsidiary of Qatar Insurance Company (QATI) since 2012. The fund aims to deliver long-term capital growth by investing in Qatari equities, typically the 20-25 most liquid stocks listed on the Qatar Exchange (including QATI), with the ability to invest up to 15% of the fund in other GCC equities; it currently has two holdings outside Qatar, 4% of the portfolio, but has invested up to 13% in other GCC countries in the past. The benchmark is the Qatar Exchange Index (DSM), which is made up of the 20 most liquid stocks in the exchange, none of which can have more than a 15% weight in the index. Gearing is limited to 5%. No single position may exceed 15% of NAV at the time of investment or 5% of the investee company's outstanding shares. No single investment in a QE Index company may have a weighting in the portfolio above 125% of that company's weighting in the index, giving a maximum possible weight of 18.75% (which QNBK has reached).

Investment adviser: Qatar Insurance Company (QATI)

About the adviser

QATI was founded in 1964 and is the largest insurer in the MENA region, with a market cap of around \$5bn and a listing in Qatar. The Qatari government owns 13.5% of the company and QIF invests in QATI from time to time as well. QATI's investment department directly manages \$2.5bn. Jubin Jose is responsible for the day-to-day management of QIF's portfolio. He has worked at QATI since 2007, having been an analyst in India before that. He has a Master's degree in economics and an MBA in finance from the Indian Institute of Finance.

The manager's view: Strategic and tactical

The manager has undertaken a significant rebalancing of the portfolio in 2015, for both tactical and strategic reasons. The sharper recovery in the UAE after the financial crisis was played in 2014 by investing close to the maximum allowable weighting of 15% in banking and real estate stocks in the UAE, Oman and Kuwait. That weighting may reduce, as the recovery has peaked in Jubin Jose's view and Qatar is again the most attractive GCC market. He expects all other GCC markets to face significant headwinds as a result of the low oil price (the manager's medium-term planning range is \$45-55) and its effects in the real estate and banking sectors in particular. Qatari banks have less hydrocarbon and more government exposure than their GCC peers, making the Qatari sector relatively less risky. Exposure to the hydrocarbon sector is less than 5% of the total, whereas lending to the government is 40% of credit exposure according to the IMF's [April 2015 report on Qatar](#). The implicit backing of the government is also a source of confidence. The manager also identifies a shift since 2012 in the Qatari economy as a whole away from growth in oil- and gas-related businesses, to growth from ones that will benefit from the diversification and maturing of Qatar. In particular, he highlights the banking sector: banks are involved in funding major infrastructure projects for the development of Qatar; they provide retail services to the workforce and commercial banking services to other industries that also serve the growing population. Investment opportunities are also to be found among the consumer-facing services; both healthcare and real estate are likely to experience long-term growth (although the latter has undergone a correction in the short term), as are transport and logistics companies, which again serve both the

population and the corporates. Finally, Jose sees the insurance sector as a short- and long-term beneficiary; all the major infrastructure projects will need to be insured, and the retail and SME insurance market is also likely to grow.

Potential tactical opportunities arise from short-term overcorrections, for instance in the real estate market and petrochemicals, which are linked to the gas industry in terms of demand and supply respectively. Also, Qatar-listed companies may only pay one dividend a year. Most choose to do so after their year end, with the record date in the fourth calendar quarter and the payment in Q1. Perhaps because many shareholders take a long view, the market does not always react fully when stocks go ex-dividend, providing a dividend arbitrage opportunity. Finally, there is a short-term opportunity now that companies may have more foreign shareholders and can therefore qualify for inclusion in international indices. For instance, Qatar Gas Transport (Nakilat), which has replaced Qatar Navigation in the fund's top 10 holdings with a 4.1% weighting, may be eligible when MSCI next updates its weightings.

Asset allocation

Investment process: Identify trends and select bottom up

Given the small number of eligible equities, the portfolio is necessarily concentrated and differentiation by asset allocation is constrained. That is not to say that QIF hugs the index. For instance, the manager has avoided Ezdan, a real estate company, as a result of concerns related to governance, and maintains this position. Incidentally, Ezdan's share price has dropped almost 15% in November 2015. More broadly, the manager has identified two main drivers of the Qatari economy – the diversification plan and population growth – and selects the portfolio to best play those in the long term while making tactical investments to take advantage of undervalued stocks, often a result of overcorrections in the market. The ability to invest 15% of the fund in other GCC stocks is used to take advantage of alpha when it is identified. The position of the manager as part of the region's largest insurer provides an excellent network and the ability to identify or confirm regional trends.

Current portfolio positioning

The banking sector dominates the portfolio at 53.7% of NAV; industrials make up a further 24.6%, both at or near three-year high weightings. The portfolio is overweight banks, industrials, consumer goods and services and transport at the expense of real estate and insurance, which are at lows over the same period. QIF has 20 investments, all now in Qatar.

Exhibit 11: QIF sector analysis

Sector	QIF Q315	QIF Q314	Change	Qatar Exchange Index	Active weight vs benchmark	Trust weight/Index weight
Banks & fin services	53.7	41.0	12.7	43.5	10.2	1.2
Industrials	24.6	22.0	2.6	18.0	6.6	1.4
Transport	8.0	4.5	3.5	6.6	1.4	1.2
Real Estate	6.6	14.6	-8.0	21.0	-14.4	0.3
Telecommunications	3.3	6.4	-3.1	4.9	-1.6	0.7
Consumer gds & svcs	2.9	2.6	0.3	1.1	1.8	2.6
Insurance	0.0	6.5	-6.5	5.0	-5.0	0.0
Cash	1.1	2.6	-1.5	0.0	N/A	N/A

Source: QIF, Qatar Exchange, Edison Investment Research. Note: Percentages may not sum to 100 due to rounding.

The largest five holdings made up 58.4% of the portfolio at the year end (47.9% at 30 June 2014) and the top 10 account for 83.4% of the portfolio (75.4% at 30 June 2014). We have shown the top five below with some valuation metrics and, since four of them are banks, compared them to their FTSE 100 peers. The Qatari banks are well capitalised, have few non-performing loans and have generated higher returns on equity than the UK banks, hence the higher P/B and P/E ratios.

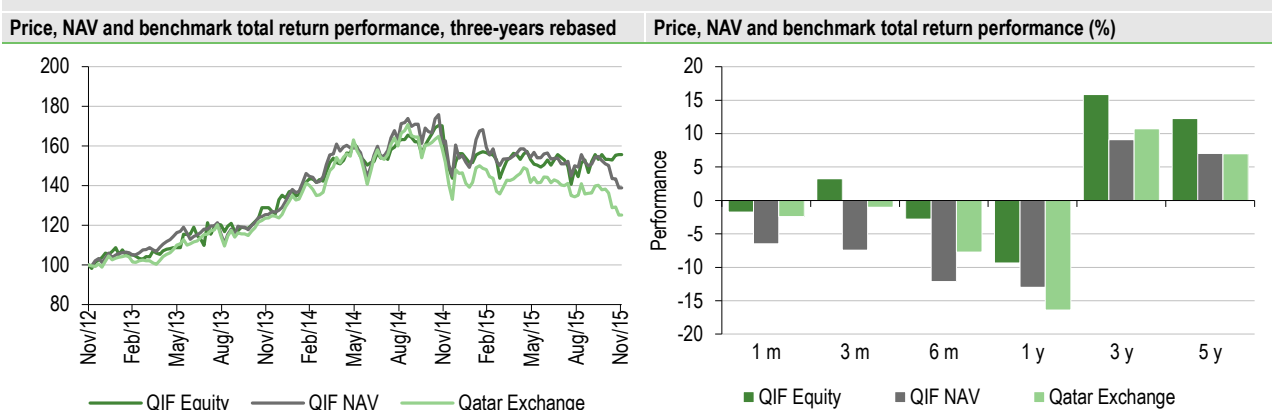
Exhibit 12: QIF top five investments, valuation and return statistics

	Sector	% of NAV	Net assets (\$m)	P/B	ROE	% non-performing loans	Total capital to risk-base	2016 P/E estimate	2014 net income (\$m)
Qatar National Bank	Banks	18.8%	133,559	2.2	20.2	1.6	16.2	10.0	2,871
Industries Qatar	Industrial	13.2%	10,039	2.0	16.7	N/A	N/A	12.5	1,741
Masraf Al Rayan	Banks	11.9%	21,995	2.6	18.7	0.1	18.4	13.4	550
Qatar Islamic Bank	Banks	8.5%	26,392	1.8	14.0	0.9	13.9	13.2	440
Commercial Bank of Qatar	Banks	7.9%	31,760	1.0	9.9	3.8	15.2	8.4	516
FTSE 100 banks average			552,953	0.7	1.3	3.7	17.6	10.3	4,565

Source: Bloomberg

Performance: Outperforming benchmark

Given the close similarity between the index and the fund's investable universe, it is unsurprising that the QIF share price has shown a significant correlation with the benchmark (a coefficient of 0.71 over five years). Performance has nevertheless been differentiated; QIF has outperformed the benchmark Qatar Exchange Index (DSM) in NAV and price terms over one, three and five years. The fund has outperformed the emerging markets and FTSE All-Share indices for all periods over three years and five, while the improving trend in relative NAV performance is evident in Exhibit 13.

Exhibit 13: Performance to end November 2015


Source: Thomson Datastream, Edison Investment Research. Note: Three-, five- and eight-year performance figures annualised.

Exhibit 14: Share price and NAV relative total return performance

	One month	Three months	Six months	One year	Three years	Five years
Price relative to Qatar Exchange	12.1	12.8	14.9	15.9	24.3	42.7
NAV relative to Qatar Exchange	1.5	(0.6)	2.0	9.3	10.9	19.8
Price relative to MSCI Emerging Markets	4.2	3.9	21.6	8.6	76.4	112.2
NAV relative to MSCI Emerging Markets	(5.7)	(8.4)	7.8	2.3	57.4	78.1
Price relative to FTSE All-Share	3.6	4.8	10.1	(5.7)	31.3	34.2
NAV relative to FTSE All-Share	(6.2)	(7.6)	(2.4)	(11.1)	17.1	12.7

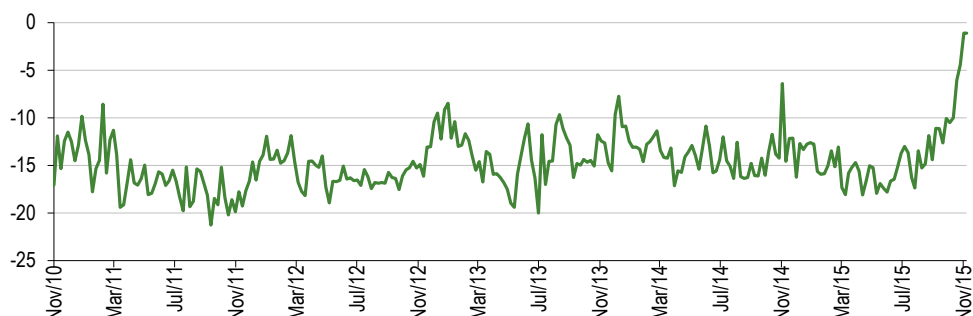
Source: Thomson Datastream, Edison Investment Research. Note: Data to 30 November 2015. Geometric calculation. SI = 31/7/07.

Exhibit 15: QIF NAV total return relative to DSM benchmark index


Source: Morningstar, Bloomberg, Edison Investment Research

Discount: At the narrow end of historical range

As shown in Exhibit 16, over the last five years QIF shares have mostly traded at a discount to NAV of between 10% and 20%, with an average of nearly 15% over this period. Although it was classified as a frontier market for much of that period and an emerging one for the rest, the Qatar Exchange Index has been less volatile than most emerging markets, which may be encouraging for investors, as may the fact that QIF's discount has actually narrowed since the fall in the oil price. In addition, the discount has narrowed significantly in November 2015 as the index has dropped.

Exhibit 16: Share price discount to NAV (%)


Source: Bloomberg. Note: Negative values indicate a discount, positive values a premium.

The discount is managed through an unusual tender offer policy, which is linked to the discount to NAV: every year when the average discount to NAV has been 10% or more, the board gives shareholders the opportunity to vote for a graduated tender offer. Should the discount be 10-10.99%, the board will make a tender offer for 10% of the outstanding shares, 11% if the discount has been 11-11.99% and so on up to a maximum 15% tender offer if the stock has traded at a discount of 15% or more over the year. The buyback is priced at a 1% discount to formula asset value (FAV) per share. FAV is calculated as net asset value less the cost of undertaking the tender offer. This means that shareholders who do not participate should benefit from an uplift in NAV.

The last tender offer was completed on 23 January 2015 at a price of \$1.4859 per share with 15.5m shares (10%) being cancelled. At the AGM on 12 November, the next tender offer for 14% of the outstanding shares was approved (97% of eligible shares, 13.59% of the outstanding total was tendered), the discontinuation proposal was rejected and the price to be paid for tendered shares will be published on 7 December 2015.

Capital structure and fees

The fund has a straightforward capital structure with c 138m shares in issue and a further 1.29m held in treasury. While gearing of up to 5% of NAV may be employed, no borrowings have been used since inception.

The management fee is 1% of NAV (it was 1.25% until 31 October 2013) and the performance fee is 15% of relative outperformance of the QE Index, up to a limit of 1.5% of NAV, subject to several conditions, which means any performance fee is hard-earned:

1. Previous underperformance periods are deducted from outperformance.
2. The effect of the performance fee must not cause the performance test or opening NAV test not to be met.
3. To earn the performance fee, not only must NAV outperform the index, but it must also be higher at the end of the period than at the beginning. The fee will only become payable in the event that the NAV exceeds both target NAV (15% ahead of the index) and opening NAV. The manager can accrue unpaid performance fees when the target NAV is reached, but is below the opening NAV. These will be paid when the fund exceeds both measures in a performance period.

Dividend policy

Despite having a capital growth mandate, QIF has a progressive dividend policy subject to exceptional market circumstances. By law, Qatar-listed companies may only pay a dividend once a year, and typically do so towards the end of the first calendar quarter. QIF follows suit in Q3, but does not distribute all its dividend income. The amount of the dividend is based on a proportion of dividends received during the year net of attributable costs. Undistributed income is set aside to facilitate dividend growth. In the year to 30 June 2015 dividend income of \$10.1m exceeded the dividend payout of \$4.9m and expenses of \$3.7m. The dividend record date is after the tender offer in years when a tender offer is made. The last dividend was 4c for a yield of 3.1%.

Peer group comparison

QIF has no listed peers in the UK and only the iShares MSCI Qatar ETF invests specifically in Qatar (which has underperformed the market in the 18 months since its inception). The comparable active funds invest more widely in the Middle East and Africa and are all unlisted open-ended funds. Although there are no other country-specific, Middle-East focused, closed-end funds, we have compared QIF with the global emerging markets peer group of 13 investment trusts for illustration.

Exhibit 17 highlights that Qatar (as represented by QIF) has markedly outperformed emerging markets as a whole (represented by the averages for the emerging markets investment company sector). Despite this, QIF trades on a somewhat higher discount than the emerging markets average.

Exhibit 17: Selected peer group

	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Sharpe 5y (NAV)	Discount (ex-par)	Ongoing charge	Net gearing	Yield
Investment companies											
Qatar Investment Fund	120.3	-14.3	47.8	59.8	-0.9	0.9	0.8	-5.3	1.6	98.0	3.1
Emerging mkts average	287.8	-10.9	1.2	-6.4	-1.1	-0.1	-0.2	-8.8	1.4	91.0	3.1
Emerging mkts wtd average		-15.8	-3.8	-8.8	-1.1	-0.1	-0.1	-8.8	1.3	96.0	0.1
Mutual funds											
Baring MENA	5.2	-18.2	28.8	23.3							
Fidelity Emerging EMEA	110.4	-7.7	10.7	11.4							
Franklin MENA	104.3	-15.9	39.2	24.6							
JPM Emerging Middle East Equity	99.2	-21.4	2.6	-11.9							
Mutual funds wtd average		-15.2	17.9	8.3							

Source: Morningstar, Edison Investment Research. Note: TR = total return. Sharpe ratio is a measure of risk-adjusted return. The ratios shown are calculated by Morningstar for the past 12- and 36-month periods by dividing a fund's annualised excess returns over the risk-free rate by its annualised standard deviation. Net gearing is total assets less cash and equivalents as a percentage of net assets. As at 27 November 2015.

The board

The board has four members, three of whom have served since the fund's inception in 2007, the exception being Neil Benedict who joined in 2010. The chairman, Nicholas Wilson, has been in the role since November 2012 and was the senior independent director beforehand. He has extensive experience in asset management and is a director of RAB Special Situations and Epic Special Opportunities. He is resident in the Isle of Man. Leonard O'Brien is the only non-independent director, as he is also a director of the investment manager. He is the managing director of Salamander Fiduciary Services Group and a chartered accountant. Paul Macdonald, also a chartered accountant, is active in the European private equity market and is a non-executive director of PME African Infrastructure Opportunities. Neil Benedict is based in the US, was a managing director at Salomon Brothers where he was head of International Capital Markets. He is a fellow of the Institute of Chartered Accountants of England and Wales. The board travels to Qatar roughly once a year to meet the investment manager and maintain familiarity with the market at first hand.

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