Qatar Investment Fund

Equity investment in a growing economy

Investment trusts

Qatar Investment Fund (QIF) aims to generate long-term capital growth from a relatively concentrated portfolio of c 25 holdings. The majority of the fund is invested in companies listed in Qatar, but up to 15% may be listed in other Gulf Cooperation Council (GCC) countries. Qatar has favourable economic growth led by infrastructure spending and population growth, as the Qatari government actively moves away from its traditional reliance on hydrocarbon-based revenues. QIF is benchmarked against the Qatar Exchange index – its NAV total return has outperformed over one, three and five years.

12 months ending	Share price (%)	NAV (%)	Qatar Exchange (%)	MSCI Emerging Markets (%)	FTSE All-Share (%)
31/01/13	10.4	8.1	1.9	7.6	17.2
31/01/14	24.5	28.5	27.8	(10.2)	14.2
31/01/15	13.0	13.9	6.7	5.2	(2.3)
31/01/16	(16.6)	(21.1)	(22.1)	(20.9)	(9.7)
31/01/17	10.8	16.6	14.3	25.4	6.1

Source: Thomson Datastream. Note: All % on a total return basis in US$.

Investment strategy: Active stock selection

Jubin Jose manages QIF using a four-stage investment process: quantitative analysis, fundamental analysis, portfolio construction and equity trading. When selecting stocks, he incorporates his current views of the macro environment. Meeting with the managements of existing and potential portfolio holdings is an important part of the investment process. QIF's portfolio of c 25 holdings is primarily Qatari-listed companies; exposure to companies listed in other GCC countries is allocated on a tactical basis, dependent on the relative outlook for economic growth and equity valuations. Gearing of up to 5% of NAV is permitted, but so far has not been utilised; at end-December 2016, cash was 1.1% of NAV.

Market outlook: Relatively high growth in region

Qatar's economic growth compares favourably with other countries in the region. The government has been successful in reducing the percentage of GDP derived from hydrocarbon revenues and there are significant infrastructure projects underway, ahead of the 2022 FIFA World Cup. Meaningful population growth in Qatar is also an important driver of economic growth. The recent designation of Qatar by FTSE Russell as a secondary emerging market versus a frontier market, suggests the country has a growing relevance for investors.

Valuation: Scope for discount to narrow

QIF's current 18.8% discount to NAV is wider than the averages of the last one, three and five years (13.9%, 13.7% and 13.5% respectively). The board actively manages the discount via regular share repurchases and tender offers. Given QIF's record of outperformance versus the benchmark, there is scope for the discount to narrow if investor appetite for the region increases. Although aiming for capital growth, QIF has a progressive dividend policy; the annual dividend has increased in five of the last six financial years. The current dividend yield is 3.8%.

23 February 2017

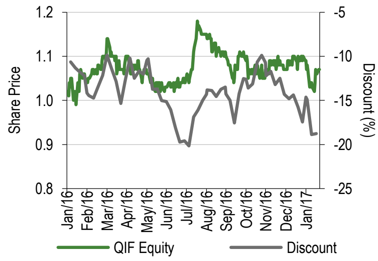
Price*	**$1.06**
Market cap	**$109m**
AUM	**$134m**

NAV*	$1.30
Discount to NAV	18.8%

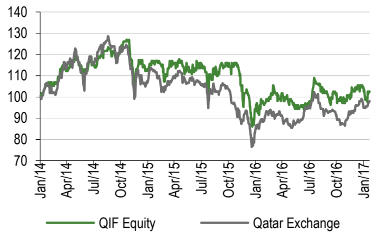
*As at 16 February 2017.

Yield	3.8%
Ordinary shares in issue	102.8m
Code	QIF
Primary exchange	LSE
AIC sector	Country Specialists – Other
Benchmark	Qatar Exchange

Share price/discount performance



Three-year performance vs index



52-week high/low	$1.18	$1.02
NAV** high/low	$1.38	$1.18

**Including income.

Gearing

Cash*	1.1%

*As at 31 December 2016.

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Edison profile page

Qatar Investment Fund is a research client of Edison Investment Research Limited

Exhibit 1: Company 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 is listed on the main market of the London Stock Exchange.

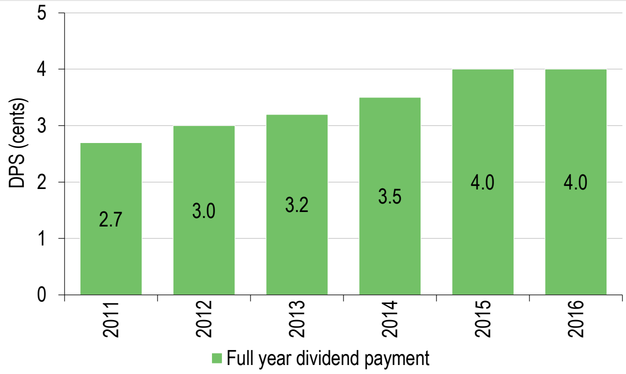
Recent developments

- 22 February 2017: Announcement of time-scheduled buyback programme, ending 17 November 2017 for a maximum $1m allocation (equivalent to less than 1% of shares outstanding).
- 26 January 2016: Q416 investment report for three months to 31 December 2016. NAV return before dividends of -2.7% versus benchmark 0.0%.
- 14 October 2016: Q316 investment report for three months to 30 September 2016. NAV return before dividends of 5.7% versus benchmark 5.6%.

Forthcoming		Capital structure		Fund details	
AGM	November 2017	Ongoing charges	1.77%	Group	Epicure Managers Qatar, Qatar Insurance Company
Interim results	March 2017	Cash	3.5%	Manager	Jubin Jose
Year end	30 June	Annual mgmt fee	0.9%	Address	Tamin Street, West Bay, PO Box 666, Doha, Qatar
Dividend paid	February	Performance fee	No		
Launch date	31 July 2007	Trust life	Indefinite	Phone	+974 44962 222
Continuation vote	Discontinuation proposed every third year from 2012	Loan facilities	N/A	Website	www.qatarinvestmentfund.com

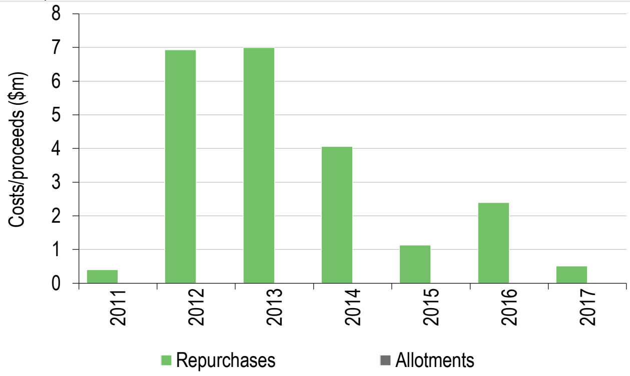
Dividend policy and history (financial years shown)

QIF pays one final dividend, declared in December and paid in February out of income received from the portfolio. It has a progressive dividend policy.

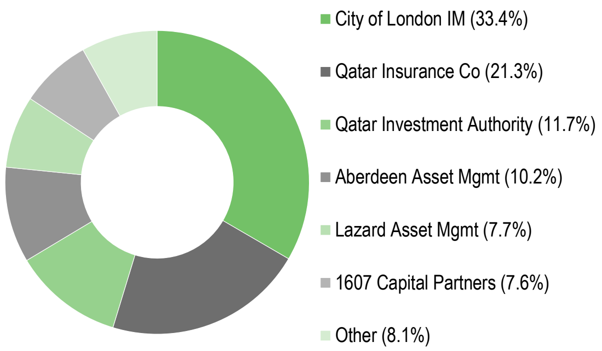


Share buyback policy and history (financial years shown)

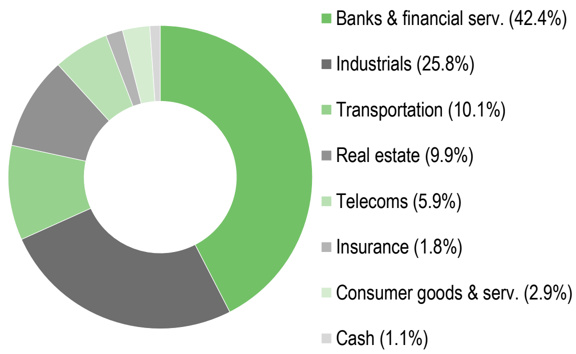
The share repurchase policy is described on page 7 (chart excludes tender offers).



Shareholder base (as at 22 February 2017)



Portfolio exposure by sector (as at 31 December 2016)



Top 10 holdings (as at 31 December 2016)

			Portfolio weight %	
Company	**Country**	**Sector**	**31 December 2016**	**31 December 2015***
Qatar National Bank	Qatar	Banks & financial services	19.4	18.2
Industries Qatar	Qatar	Industrials	11.7	11.9
Masraf Al Rayan	Qatar	Banks & financial services	9.2	11.0
Qatar Electricity & Water	Qatar	Industrials	7.9	7.7
Qatar Islamic Bank	Qatar	Banks & financial services	7.4	7.3
Qatar Gas Transport	Qatar	Transportation	6.4	N/A
Ooredoo	Qatar	Telecoms	5.9	4.7
Barwa Real Estate	Qatar	Real estate	4.9	5.1
Gulf International Services	Qatar	Industrials	3.8	8.4
Commercial Bank of Qatar	Qatar	Banks & financial services	3.6	5.7
Top 10			**80.0**	**85.1**

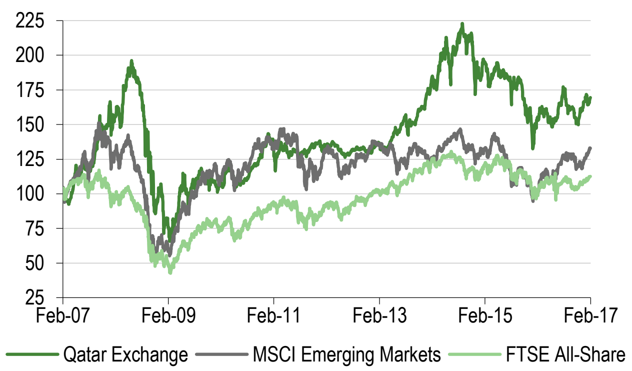
Source: QIF, Edison Investment Research, Morningstar, Bloomberg. Note: *N/A where not in December 2015 top 10.

Market outlook: Relatively higher economic growth

As shown in Exhibit 2 (left-hand side) the Qatar Exchange index has outperformed both the MSCI Emerging Markets and the FTSE All-Share indices over the last 10 years, although its performance has been more volatile reflecting significant moves in the oil price. Qatar is one of the wealthiest economies in the world and the government is working towards reducing the dependence on hydrocarbon production, as outlined in the Qatar National Vision 2030; currently c 70% of GDP is generated outside of the hydrocarbon industries, which compares to c 40% five years ago. While Qatar is not the cheapest stock market in the GCC (Exhibit 2, right-hand side), its 2017 projected economic growth is higher. In its October 2016 World Economic Outlook, the International Monetary Fund forecast 2017 Qatari GDP growth of 3.4%, which compares to a range of 1.8% to 2.6% for the other GCC countries. The 2017 forward P/E multiple of the Qatar Exchange index of 13.7x compares to a range of 9.6x to 16.5x over the last five years.

Exhibit 2: Performance of indices and regional valuations

Performance of indices (last 10 years total return in US$)



GCC valuations (as at 3 February 2017)

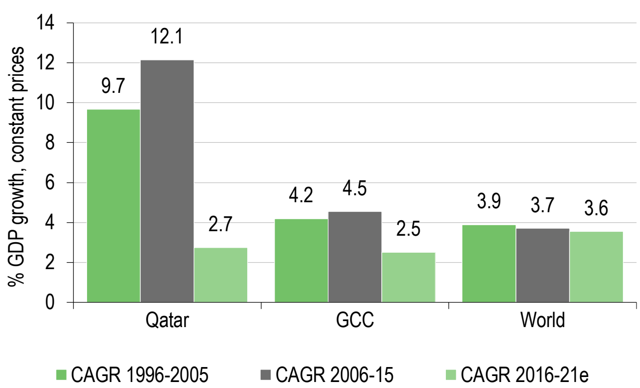
Market	P/E current (x)	P/E 2017e (x)	P/E 2018e (x)	P/B (x)	Div Yield (%)
Bahrain	9.1	N/A	N/A	0.5	4.2
Dubai	15.3	10.7	9.2	1.3	3.7
Kuwait	16.4	11.5	10.2	1.2	3.5
Oman	11.1	9.7	9.4	1.2	4.9
Qatar	15.9	13.7	12.2	1.6	3.7
Saudi Arabia	17.5	14.4	13.0	1.6	3.3

Source: Edison Investment Research, Bloomberg

Infrastructure spending ahead of the 2022 FIFA World Cup is estimated at c $200bn – the major projects are shown in Exhibit 3 (right-hand side); this will help development of the tourist industry, which has been hampered by the historical lack of infrastructure in Qatar. The Qatari government is also encouraging tourism by issuing short-term visas for passengers who have long transfer times at the airport, to enable guided tours of Doha and its surroundings. A growing population coupled with high levels of personal consumption should also support economic growth; Qatar's population grew by 8.9% between December 2015 and November 2016 to 2.64 million.

Exhibit 3: GDP growth and infrastructure projects

GDP growth



Major infrastructure projects in Qatar

Project	Sector	US$bn	End
Lusail mixed-use development	Construction	45.0	2019
Qatar Integrated Rail	Transport	40.0	2026
Hamad International airport (phase I & II)	Transport	23.5	2020
Ashghal Expressway programme	Transport	20.0	2018
Ashghal local roads & drainage	Transport	14.6	2019
Bul Hanine oilfield redevelopment	Oil & gas	11.0	2028
Barzan gas development	Oil & gas	10.3	2020
Barwa Al Khor development	Construction	10.0	2025
Hamad port	Transport	7.4	2020

Source: Edison Investment Research, IMF, Qatar National Bank

For investors looking for exposure to the Gulf region, a fund investing in a country with attractive growth prospects via a diversified portfolio, with a good performance track record versus its benchmark may be of interest.

Fund profile: Equity investment in growing economy

Since launch, QIF has been managed by Epicure Managers Qatar, which has been a wholly-owned subsidiary of Qatar Insurance Company (QIC) since 2012. QIF is managed by Jubin Jose, who has worked at QIC since 2007. QIF is incorporated in the Isle of Man and is listed on the Main Market of the London Stock Exchange, having moved from AIM in May 2011. It aims to generate long-term capital growth from investment primarily in Qatar-listed and pre-IPO companies and is benchmarked against the Qatar Exchange (QE) index, a capitalisation-weighted index of the 20 largest and most liquid companies listed on the Qatar Exchange. QIF may also invest in companies listed or soon to be listed in other GCC countries (up to a maximum of 15%). At the time of investment, no single holding in a QE company may exceed 15% of QIF's NAV or 125% of its index weighting, whichever is greater, and no non-index stock may exceed 15%. No holding may exceed 5% of the shares outstanding of a single company. Gearing of up to 5% of NAV is permitted, but to date has not been used.

The fund manager: Jubin Jose

The manager's view: Positive on Qatari outlook for 2017

The manager notes that Qatari stocks sold off early in 2016 on the back of a weak oil price, but higher commodity prices are now having a more positive economic impact for energy-producing countries. The announced crude oil production cuts by both OPEC and non-OPEC suppliers in November 2016 has led to more positive investor sentiment towards Qatar and the manager is encouraged that there is now more liquidity in the stock market.

Jose explains the fall in the oil price has led to large budget deficits in some Middle East countries, which has led them to meaningfully cut back on their spending and raise capital in international credit markets. Although running a budget deficit, which is the first in 15 years (the IMF estimates 7.6% of 2016 GDP), Qatar is better positioned than some other countries in the region as its budget breakeven oil price is lower ($52.4 per barrel versus $66.7 for Saudi Arabia, for example). Qatar is a major gas producer; the gas price is broadly based on the oil price but output is not affected by the announced oil production cuts. However, the falling oil price and rising government debt has encouraged the Qatari authorities to focus on improving efficiency. There had been ex-pat redundancies until early 2016, but there are now signs of increased hiring, such as Sidra Medical Centre, which is advertising for c 3,000 jobs, reflecting an improving economic outlook.

Within the Qatari banking system there has been a liquidity crunch due to low deposit formation. Loan-to-deposit ratios have grown from 105-108% to 115%, which has led to higher non-performing loans and weak bank stock prices. However, the manager notes that liquidity is slowly improving and so far in Qatar, there have been no defaults; unlike in some other GCC countries. The manager has retained his bank holdings, believing that they will work through their provisioning cycle; the sector is still profitable and banks continue to lend.

FTSE Russell has upgraded Qatar to secondary emerging market from frontier market status, which is occurring in two stages; September 2016 and March 2017. This is expected to attract total passive fund flows of c $1bn. The Qatari stock market rallied ahead of the September 2016 change (before falling back) and the manager expects a similar move ahead of March 2017. Hence he is positive on the short-term outlook for the stock market, and while shares may subsequently correct, he is more constructive for the second half of 2017 due to higher commodity prices and the outlook for a stronger economy than in 2016, driven by continued infrastructure spending and population growth.

Asset allocation

Investment process: Four-stage process

There are four stages to QIF's investment process: quantitative analysis, fundamental analysis, portfolio construction and equity trading. An initial screen focuses on market cap, stock liquidity and company valuations. Companies passing the screen are subject to rigorous fundamental analysis, including an assessment of financials and managements' track record and strategy. The manager incorporates his views on the macro and individual sector environments and regular meetings with the managements of current and potential portfolio holdings are an important part of the investment process. When deciding whether a company is worthy of inclusion in the QIF portfolio, the manager considers the upside potential for the stock, while adhering to its risk limits and guidelines. The manager constructs a financial model for each portfolio holding; this is updated quarterly, or when there is a significant change in a company's earnings outlook. Efficient trading in and out of positions is a key part of the investment process. A position may be sold if valuation targets are achieved, if the original buy thesis comes into question or if a better investment opportunity becomes available.

Current portfolio positioning

At end-December 2016, QIF had 23 holdings: 16 listed in Qatar and seven in UAE; during Q416, exposure to UAE increased from 4.3% to 6.8% of NAV. QIF's top 10 positions accounted for 80.0% of the portfolio; this was a decrease in concentration from 85.1% at end-December 2015 – nine positions were common to both periods.

QIF's largest position is Qatar National Bank (QNB), which can be viewed as a proxy for Qatari economic growth. The bank is heavily supported by the Qatari government, which is its largest shareholder; QNB operates in more than 30 countries, with a network of more than 1,200 branches. The recent acquisition of Turkish bank Finansbank is accretive to QNB's earnings and cements its position as the largest bank in the Middle East and Africa region.

Exhibit 4: Portfolio sector exposure vs Qatar Exchange index

	Portfolio end-December 2016	Portfolio end-December 2015	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Banks & financial serv.	42.4	43.2	-0.8	38.4	4.0	1.1
Industrials	25.8	28.0	-2.2	22.4	3.4	1.2
Transportation	10.1	7.2	2.9	7.1	3.0	1.4
Real estate	9.9	9.0	0.9	19.6	-9.7	0.5
Telecoms	5.9	4.7	1.2	6.0	-0.1	1.0
Insurance	1.8	5.1	-3.3	6.4	-4.6	0.3
Consumer goods & serv.	2.9	2.1	0.8	0.0	2.9	N/A
Cash	1.1	0.6	0.5	0.0	1.1	N/A
	100.0	**100.0**		**100.0**		

Source: Qatar Investment Fund, Edison Investment Research. Note: Numbers subject to rounding.

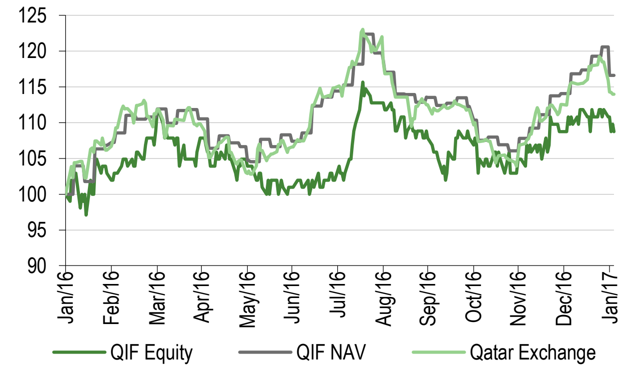
As shown in Exhibit 4, on a sector basis, the majority (approximately two thirds) of QIF is invested in financials and industrials; over the last 12 months, the largest increase in exposure is transportation, while the largest decrease is insurance. QIF is overweight financials, industrials and transportation versus the index and also has a c 3% exposure in consumer goods & services, which is currently not represented in the index. QIF has significant underweight exposure in real estate, this is due to a zero weighting in Ezdan Real Estate, which represents c 13% of the index – the manager remains cautious about the company's valuation.

Performance: Outperformance versus benchmark

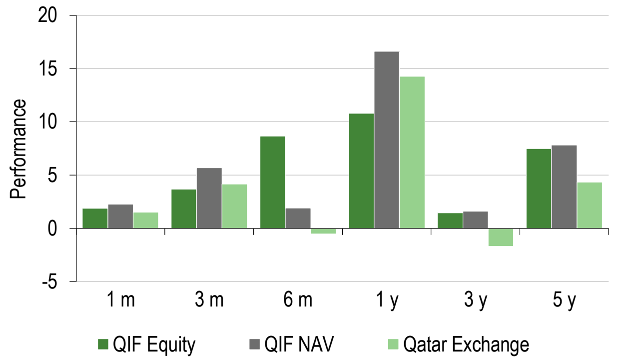
QIF's absolute returns are shown in Exhibit 5 (right-hand side) – although there were robust NAV and share price total return performances over one year, they were lower than the prior 12 months, leading to more modest returns over three years.

Exhibit 5: Investment company performance to 31 January 2017 in US$ terms

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



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

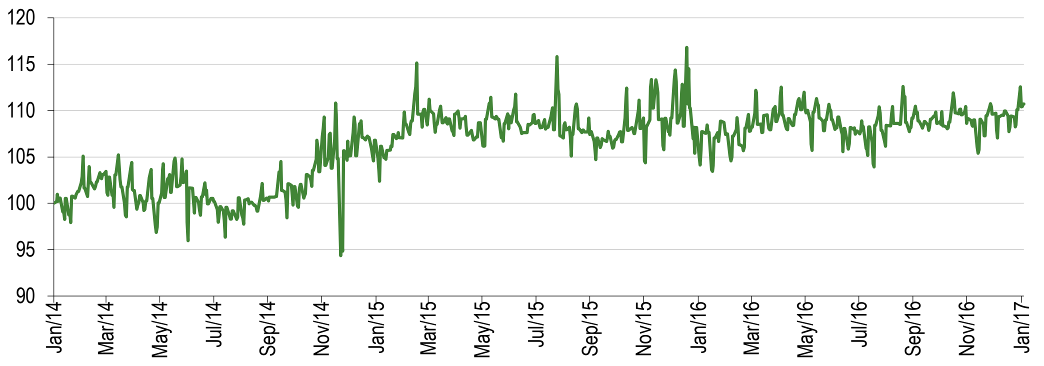
Exhibit 6 shows QIF's relative performance over both short and longer periods. Its NAV has outperformed the Qatar Exchange index over all periods shown. As a reference to UK-based investors, QIF's NAV and share price total returns have outperformed the FTSE All-Share index over one, three and five years.

Exhibit 6: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years
Price relative to Qatar Exchange	0.3	(0.5)	9.2	(3.0)	10.0	16.1
NAV relative to Qatar Exchange	0.7	1.5	2.4	2.1	10.4	17.8
Price relative to MSCI Emerging Markets	(3.4)	2.8	3.6	(11.7)	0.1	42.3
NAV relative to MSCI Emerging Markets	(3.0)	4.8	(2.9)	(7.0)	0.5	44.4
Price relative to FTSE All-Share	0.4	(2.0)	6.6	4.4	11.5	14.6
NAV relative to FTSE All-Share	0.8	(0.1)	(0.0)	9.9	12.0	16.3

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-January 2017. Geometric calculation.

Exhibit 7: NAV total return performance relative to Qatar Exchange index over three years

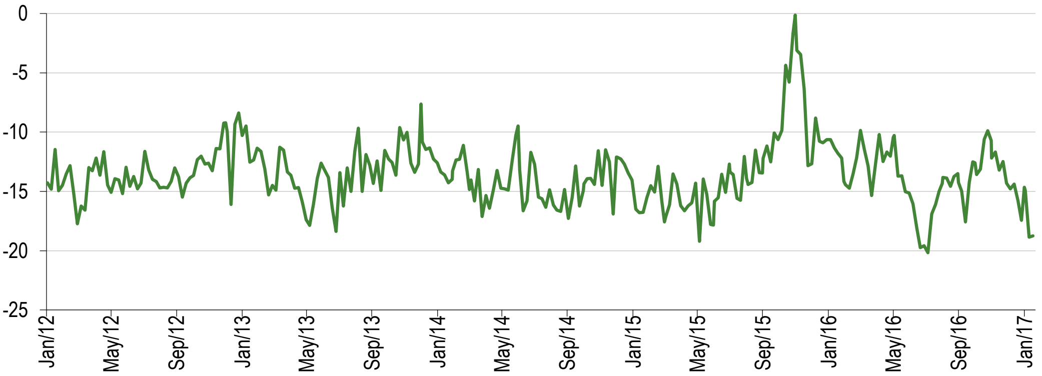


Source: Thomson Datastream, Edison Investment Research

Discount: Wider than historical averages

QIF's current 18.8% share price discount to NAV is wider than the 13.9% average of the last 12 months (range of 9.9% to 20.2%). It is also wider than the averages of the last three and five years of 13.7% and 13.5% respectively. Annual tender offers in November/December have a tendency to narrow the discount, sometimes sharply, as shown in Exhibit 8.

Exhibit 8: Share price discount to NAV over five years (%)



Source: Thomson Datastream, Edison Investment Research

QIF's board actively manages the discount via regular tender offers and share repurchases. Tender offers are graduated up to a maximum 15% of issued share capital and occur annually when QIF's average discount in a 12-month period exceeds 10%; the tender price is a 1% discount to formula asset value (NAV minus the costs of undertaking the tender offer). In the period from 8 October 2015 to 6 October 2016, QIF's average discount was 12.3% so a tender offer was proposed for up to 12% of shares outstanding (excluding treasury shares). The proposal was accepted at the 17 November EGM and on 12 December 2016, 14.046m shares (12% of the share capital) were tendered at a price of $1.1973.

Capital structure and fees

QIF is a conventional investment trust with one class of share. There are currently 102.8m shares in issue, with a further 1.4m shares in treasury. Gearing of up to 5% of NAV is permitted, but to date no borrowings have been used. There is a vote every three years, where shareholders elect whether the trust should continue; the next continuation vote is due in November 2018.

Epicure Managers Qatar (EMQ) is paid an annual management fee, which is calculated monthly and payable in arrears. The fee has been coming down in recent years; prior to 1 November 2013 it was 1.25% of NAV, which was reduced to 1.05% until 1 November 2015 when the fee was reduced to 1.00%. QIF's board reached a new, three-year agreement with EMQ for a 0.90% annual management fee from 1 November 2016. In addition, the performance fee was removed. QIF's ongoing charge for FY16 (ending June 2016) was 1.77%; this was an 11bp increase versus the prior year. The increase was primarily due to the decline in QIF's NAV during FY16, which meant that fixed costs were spread over a smaller base following a 14% tender offer and share repurchases.

Dividend policy and record

While pursuing an objective of capital growth, QIF also aims to have a progressive dividend policy (Qatar-listed companies are required by law to only pay dividends once a year). In FY16, dividends received from portfolio companies of $5.56m were 45% lower than the prior year, and were exceeded by the dividend payment of $4.74m and operating expenses of $3.12m, so QIF's annual dividend was maintained at 4c per share and was partly financed from distributable reserves. Based on the current share price, QIF's dividend yield is 3.8%.

Peer group comparison

There are no listed peers for QIF, so in Exhibit 9, we have compared the trust with the AIC Global Emerging Market sector. QIF's NAV sterling total returns have outperformed the sector simple average over three and five years and the weighted average over five years. In terms of risk-adjusted returns as measured by the Sharpe ratio, QIF is above the weighted average over three years, while lagging over one year. QIF has a wider discount and a higher dividend yield than the emerging market sector averages.

We have also compared QIF to a selection of open-ended funds that invest in the Middle East and Africa. QIF's NAV total returns are meaningfully above both the simple and weighted averages of the selected group over three and five years.

Exhibit 9: Selected peer group as at 20 February 2017

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Sharpe 1y (NAV)	Sharpe 3y (NAV)	Discount (ex-par)	Ongoing charge	Perf. fee	Net gearing	Dividend yield (%)
Qatar Investment Fund	110.2	28.9	35.5	85.6	0.6	0.1	(18.8)	1.8	No	100	3.8
Emerging markets simple average		33.3	29.8	37.2	1.2	(0.3)	(10.8)	1.9		96	1.7
Emerging markets weighted average		48.7	40.2	35.2	1.9	0.0	(10.4)	1.3		103	1.9
Mutual Funds											
Baring MENA	4.0	28.2	16.8	70.8							
Fidelity Emerging EMEA	111.7	42.1	32.5	36.1							
Franklin MENA	71.4	30.4	16.0	68.5							
JPM Emerging Middle East Equity	88.4	30.8	23.8	38.3							
Simple average		32.9	22.3	53.5							
Weighted average		35.2	25.2	45.7							

Source: Morningstar, Edison Investment Research. Note: All data in £. 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.

The board

There are four non-executive directors at QIF. Chairman, Nicholas Wilson was elected at the trust's inception in 2007 and assumed his current role in 2012. Senior non-executive director Paul Macdonald and Leonard O'Brien have also been on the board since the trust's inception. O'Brien is the only non-independent director, as he is also on the board of the investment manager. Neil Benedict is the newest member of the board; he was elected in 2010.