Iraq - A Year in Review 2014

February 2015

After what was one of the most turbulent years in Iraq's modern history, there are reasons to be cautiously optimistic. The events of June when the so called Islamic State of Iraq and Sham (ISIS) captured Mosul and reached the gates of Erbil were ensued by a military campaign and forming a new, more widely accepted government. In addition, a breakthrough agreement was reached between the Central Government and the Kurdistan Regional Government (KRG). The political situation seems to have settled but the military conflict continues. A victory against ISIS is more likely than not, but the timing, extent and repercussions remain unclear.

The economy took a double hit in 2014 with the decline in oil prices and the advancement of ISIS into large parts of the country. According to our estimate, GDP is likely to have contracted by 2.3% in 2014 and is expected to witness a sharper decline of 3.7% in 2015 before it starts to accelerate in 2016. This is due to lower oil prices and to a lesser extent, the loss of economic output in the ceased territories. The 2014 budget is expected to record a deficit which is likely to reach 9.5% of GDP in 2015. The shortfall is a function of lower oil prices and the escalating cost of the military operations.

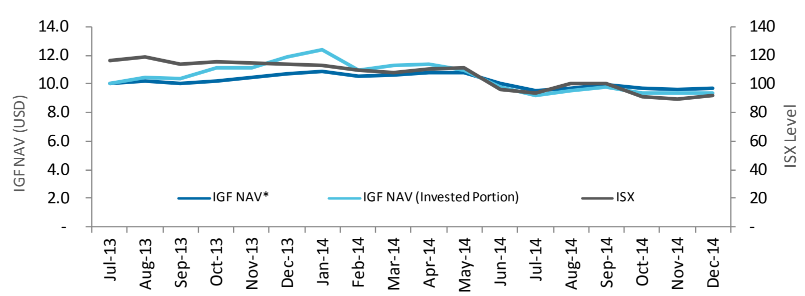
Oil production reported a marginal growth in 2014. Average daily production stood at 3.1 mbpd compared to 3.0 mbpd in 2013, despite a temporary loss of production in some of the northern fields. The sector was intact as 87% of Iraq's production comes from the southern fields which continued to report growth in output. Assuming no further deterioration, production should report healthy growth in 2015. However, official expectations of 3.8 mbpd might prove ambitious.

The stock market suffered a blow as a result of the year's events. Foreign selloff reached over 80% of turnover in some of the large market caps and pushed prices to record lows. On a year on year basis, the official Iraq Stock Exchange (ISX) index was down 18.8%.

Earnings of listed companies took a hit as a result of economic contraction and political deterioration. Baghdad Soft Drinks (IBSD), the largest industrial stock by market capitalisation saw its earnings drop by 8.5%. Given the severity of the year's events, the loss to earnings appears to be limited. The banking sector was worse affected with earnings decline of over 20%. Our largest holding in the sector, Bank of Baghdad (BBOB), reported a 22% drop in profits in the first three quarters of the year.

Iraq Gate Fund outperformed the market by a wide margin in 2014, albeit on negative performance. On a year on year basis, gross NAV was down 9.55% and 3.96% since inception. The market was down 18.8% during 2014. Since IGF inception, the market lost 21.11% of its value. We attribute our strong relative performance to three factors, 1) low entry prices, 2) our positions in small capitalisation stocks, and 3) the exclusion of market large cap, Asiacell (TASC) from our portfolio.

Iraq Gate Fund and ISX Performance



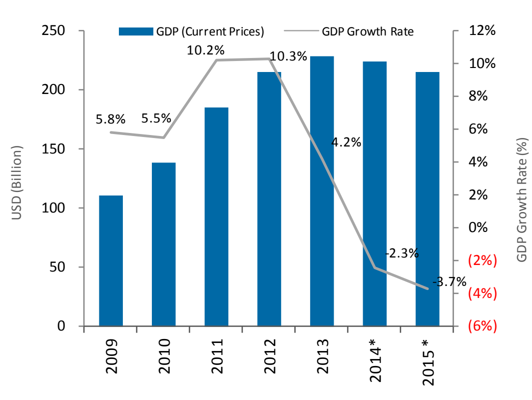
*NAV Figures are Gross. Source: Iraq Stock Exchange, Akkadia Partners.

Suha Najjar
suha.najjar@akkadiapartners.com

Zeid Imam
zeid.imam@akkadiapartners.com

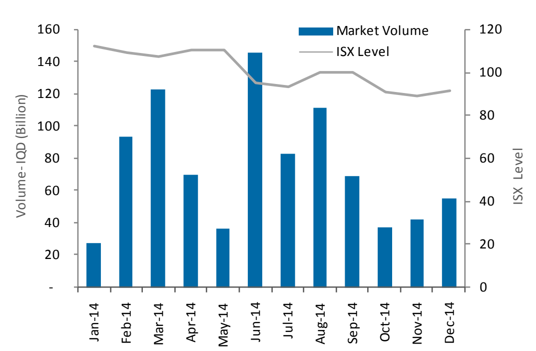
Edgo House
186 Sloane Street
London SW1X 9QR
United Kingdom
info@akkadiapartners.com

GDP and GDP Growth



*Akkadia Partners Estimates.
Source: Central Bank of Iraq, Akkadia Partners.

ISX Volume and Level (2014)



Source: Iraq Stock Exchange, Akkadia Partners.

Oil Exports and Revenues (2014)

	Exports (mb)	Revenues ($m)	Average Price ($/b)
January	69.1	7,074	102.4
February	78.4	8,002	102.1
March	74.3	7,506	101.0
April	75.3	7,581	100.7
May	80.0	8,078	100.9
June	72.8	7,469	102.6
July	75.7	7,741	102.3
August	73.6	7,171	97.4
September	76.3	6,918	90.7
October	76.3	6,190	81.1
November	75.3	5,238	69.6
December	91.1	5,161	56.6

Source: Ministry of Oil, Akkadia Partners.

Regional Markets (2014)

	Value	1 Year % Change
Egyptian EGX 30 Price Return Index	8,927	31.6%
Qatar Exchange Index	12,286	18.4%
Bahrain Bourse All Share Index	1,427	14.2%
Dubai Financial Market General Index	3,744	11.1%
Abu Dhabi Securities Market General Index	4,529	5.6%
Amman Stock Exchange General Index	2,165	4.8%
Blom Stock Index Lebanon	1,170	1.8%
Saudi Arabia Tadawul All Share TASI Index	8,333	(2.4%)
Kuwait Stock Exchange Weighted Index	439	(3.1%)
Palestine Stock Exchange Index	503	(7.1%)
Muscat Securities MSM 30 Index	6,343	(7.2%)
Kuwait Stock Exchange Index	6,536	(13.4%)
Iraq Stock Exchange Index	92	(18.8%)

Source: Bloomberg, Akkadia Partners.

Politics

The year 2014 could pass as one of, if not the most turbulent in Iraq's hostile modern history. The year started with uncertainty ahead of the national elections that took place on the 30th of April. These were the first elections after the withdrawal of US troops in 2010. The elections came at a time of heightened political tension; the spread of extremists groups in strategic parts of the country and a war in nearby Syria that had direct implications on Iraq.

The back then incumbent ruling party, State of the Law Alliance won the highest number of seats in parliament amid allegations of violation and impropriety. The number of seats secured by the former Prime Minister, Nouri Al Maliki, fell short of the majority required to form a government. Following the elections, all eyes were on the Prime Minister's ability to form a government and win himself a third term, an issue that was staunchly opposed by his rivals. The political focus changed in early June when events took a dramatic turn in a different direction. The so called Islamic State of Iraq and Sham (ISIS) (also known as ISIL or IS) captured several cities in the Northern part of the country including the strategically important city of Mosul, the second largest in Iraq. The situation further deteriorated in early August when ISIS captured more territories including the town of Qaraqosh and advanced to within 30 km from Erbil, the capital of Kurdistan. As a strategic ally of the US, the risk posed to Kurdistan raised alarm bells globally. Following the shockingly rapid gains of the extremists group, US President Barak Obama authorised targeted airstrikes in Iraq. The campaign was later joined by a number of other countries.

It became apparent that a political solution was necessary to unite the country in its fight against ISIS. Simultaneously, efforts in Baghdad focused on forming a unity government that is capable of leading a fractured population. After lengthy and difficult negotiations, the three positions, namely president, prime minister and house speaker were filled with candidates that seemed to be accepted by the majority of Iraq's political players, internally and externally. This was followed by filling the critical posts of defence and interior ministers.

The political situation seemed to have settled but the military conflict remains at large. The risk of advancement into the capital Baghdad and the southern parts of the country has been contained through military operations and bringing in parts of the disgruntled population into the political scene. However, Mosul and large parts of the disputed territories remain in the hands of ISIS. The air campaign has so far proved to be ineffective and limited. While a victory against ISIS is more likely than not, the timing, extent and repercussions seem uncertain.

Against the backdrop of a turbulent security situation, there are some reasons for optimism on the political front. One of the important gains of such a painful turn of events is the settlement of a bitter and long standing dispute between Baghdad and the Kurdistan Regional Government (KRG). The rapid deterioration in the second half of 2014 was a timely wake up call to all political players regarding the danger posed by the extremists group on the whole country. Settling differences and sharing power was a crucial part of a political solution necessary to rid the country from an unprecedented risk of disintegration.

The tension between the Central Government and the Kurdistan Regional Government eased with an oil deal towards the end of the year. The threat posed by ISIS has pushed both sides to settle a long standing disagreements that helped to deepen the divide of a country on the verge of a breakup. The agreement was seen as a breakthrough on all fronts. A preliminary agreement was reached by which KRG was to supply 150,000 barrels of oil in exchange for an immediate pay-

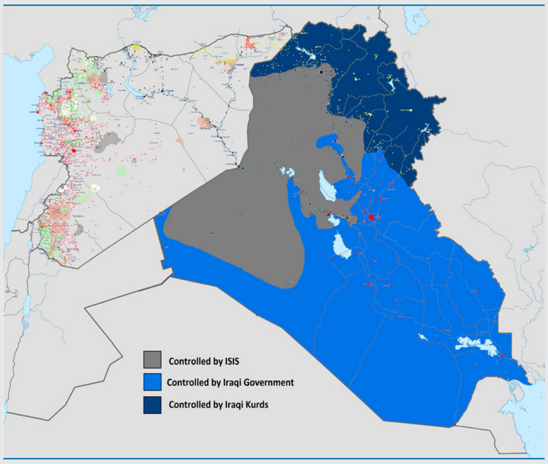
2014	
January	*ISIS militants took control of Fullujah.*
February	*Extremists attacks across Iraq.*
March	*ISIS militants seized the village of Sarha in North of Iraq.*
April	*First National Elections after US troops withdrawal.*
May	*Nouri Al Maliki (State of the Law) won highest number of seats in parliament but fell short of securing the majority required to form a government.*
June	*ISIS seize control of Mosul and other towns in Northern Iraq.*
July	*ISIS executes 1,700 students of the Air Force College in Spiker base in Tikrit, Iraq.* *Fuad Masum named as the President of Iraq.* *Salim Al Jabouri named as the Speaker of the Council of Representatives.*
August	*ISIS took control of Qaraqosh in Northern Iraq and advances to within 30 km from Erbil.*
September	*Air strike campaign against ISIS commences led by the US.* *Prime Minister Nouri Al Maliki resigns.* *Haider Al Abadi named as the Prime Minister.*
October	*ISIS captures the city of Hit.* *New Defence and Interior ministers named.*
November	*Iraqi forces capture the city of Beji and make gains in Diyala province.* *Kurdish Peshmerga forces make progress in several territories.*
December	*Kurdish Peshmerga and Iraqi forces make progress in several territories.*

ment of USD 500 million. A second agreement was secured towards the end of the year under which KRG would ship 250,000 barrels a day to Turkey, and a further 300,000 barrels a day through the Baghdad-controlled pipeline to the port of Ceyhan in Turkey. In exchange, KRG would receive its annual share of the federal budget at 17%.

Another equally important milestone is forming a government that seems, at least from the outset, accepted by the different political factions. The new government was quick to make an impact. Rounds of diplomacy have mended relationships with neighbouring countries that were estranged for years by the previous government.

Amongst the most significant achievements of the new Prime Minister, Haider Al-Abadi, is tackling corruption and the budget issue. Malpractices have been unleashed and exposed, especially in the army. On the other hand, serious efforts were made to tackle the budget, another heated issue during 2014. Due to the various factors resulting in a very turbulent year, a budget was not passed in 2014. The impact of such was damaging for the economy, where the much needed investment and infrastructure spending came to a halt to the detriment of a sustainable economic development. A budget has not yet been passed for 2015 given that the most crucial variable, namely the oil price, is proving to be a fast moving target. However, it has been brought to the top of the political agenda and is likely to pass in the first few months of the year (please refer to page 6).

Military Landscape (Jan. 2015)



Source: Akkadia Partners.

The Economy

GDP and GDP Growth. Since 2009, real GDP growth in Iraq has been one of the highest amongst developing countries, driven by an accelerated increase in oil production. The IMF has forecasted real GDP growth to average or exceed 8% for the period 2013-2018.

Growth over the past two years has fallen short of expectations. During 2013 real GDP growth slowed to 3.7% due to a drop in oil exports. One of the bottlenecks in Iraq's dynamic oil sector is poor refining and export infrastructure. The IMF stated towards the end of 2014 that real GDP growth will drop by nearly 0.5% in 2014. Our own estimate indicates that GDP is likely to have dropped by 2.3% in 2014. Our estimates are based on the following factors:

- According to Iraq Ministry of Oil, average production in 2014 was 3.1mbpd. This was below the hoped for 3.5 mbpd as a result of the interruption to production in the northern fields,
- According to the same source, prices achieved in 2014 were at an average of USD 92 per barrel, compared to USD 102 per barrel in 2013,
- Oil generates close to 65% of GDP. The second largest contributor to GDP is social services at 14%. The non-oil sector is likely to have contracted in 2014 on the basic assumption of a halt in operations and loss of economic activities to ISIS in the ceased territories. In addition, investments and trade throughout the country are likely to have contracted.

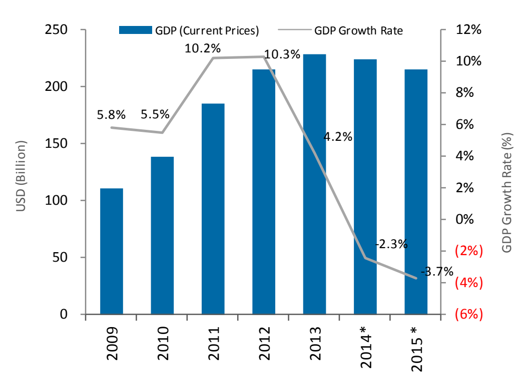
Oil producing countries experienced negative shocks to their economies as a result of the sharp decline in oil prices during the last few months of 2014. Iraq is likely to be one of the worst affected, over and above the impact of lower prices due to the following:

- Loss of economic output from the territories captured by ISIS,
- Slowdown in economic activities and investments across the country due to political uncertainty,
- Interruption to production in the northern fields,
- High dependency on oil which generates 65% of GDP and 98% of public revenues.

We anticipate that GDP will witness a sharper decline of 3.7% in 2015 based on the following assumptions:

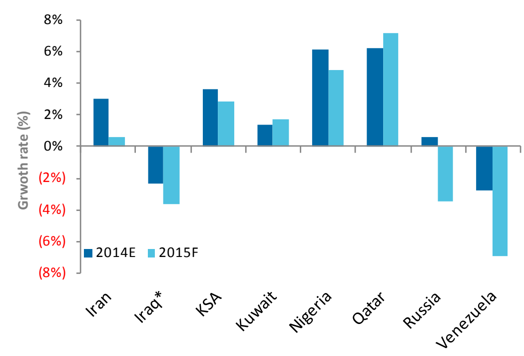
- Government estimate of production at 3.8m barrels per day. This estimate assumes that production from the northern fields will not be interrupted and will be consolidated with the rest of the economy. It also assumes some growth in the southern fields. While such forecast is not unrealistic, it might be a bit ambitious given the various challenges facing the sector namely poor infrastructure and a hostile security situation particularly in the northern parts of the country,

GDP and GDP Growth



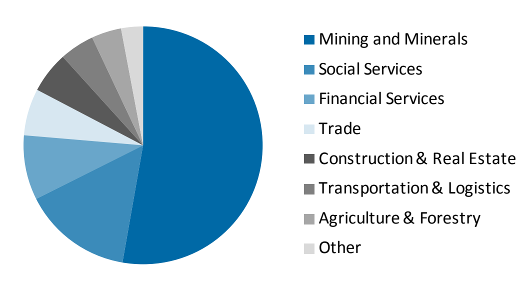
*Akkadia Partners Estimates.
Source: Central Bank of Iraq, Akkadia Partners.

Real GDP Growth in Oil Producing Countries



*Akkadia Partners Estimates. Source: IMF, Akkadia Partners.

GDP Composition (2013)



Source: Central Bank of Iraq, Akkadia Partners.

Macro Economic Indicators

	2009A	2010A	2011A	2012A	2013A	2014E	2015F
GDP Current Prices IQD (Billion)	130,642	162,065	217,327	251,908	267,396	261,117	251,571
GDP Current Prices USD (Billion)	111.66	138.52	185.75	216.04	229.33	223.94	215.76
Real GDP Growth (%)	5.81%	5.54%	10.21%	10.29%	4.21%	(2.35%)	(3.66%)
Population (Million)	30.16	30.96	31.76	32.58	33.23	33.89	34.57
GDP Per Capita (USD)	3,702	4,474	5,849	6,632	6,901	6,607	6,241
Budget Balance, as (%) of GDP	2.02%	3.19%	13.83%	11.55%	2.58%	(5.40%)	(9.94%)
Current Account Balance, as % of GDP	0.0%	3.0%	12.5%	7.0%	3.8%	2.9%	2.3%
Core Inflation (YoY)	(2.80%)	2.40%	5.60%	5.60%	1.90%	4.70%	6.20%
CBI Policy Rate	8.80%	6.25%	6.00%	6.00%	6.00%	6.00%	6.00%
Net Foreign Reserves (USD Billion)	22.7	32.7	50.2	67	77	84.9	67
USD/IQD, CBI Official	1,170	1,170	1,170	1,166	1,166	1,166	1,166

Source: Central Bank of Iraq, IMF, Akkadia Partners Analysis.

- GDP composition is unlikely to change in the foreseeable future. The new government seems to have the intention to reform on both the political and economic fronts. It is possible for Iraq to witness a pickup in investment activities during 2015 as government efforts to attract foreign investment and rebuild the country bear fruits. This is likely to have a positive impact on the non-oil sector but it will not necessarily alter the composition of GDP in the short term given that growth in the hydrocarbon sector will continue to outpace that of other sectors,
- Oil prices have dropped below USD 50 per barrel in the early weeks of 2015. The draft budget assumes a price of USD 56 per barrel. By far, lower oil prices are the most detrimental factor for the Iraqi economy in 2015. Although Iraq is expected to witness the highest growth in oil production amongst oil producing countries, in the short term, such growth will be insufficient to offset the sharp decline in oil prices.

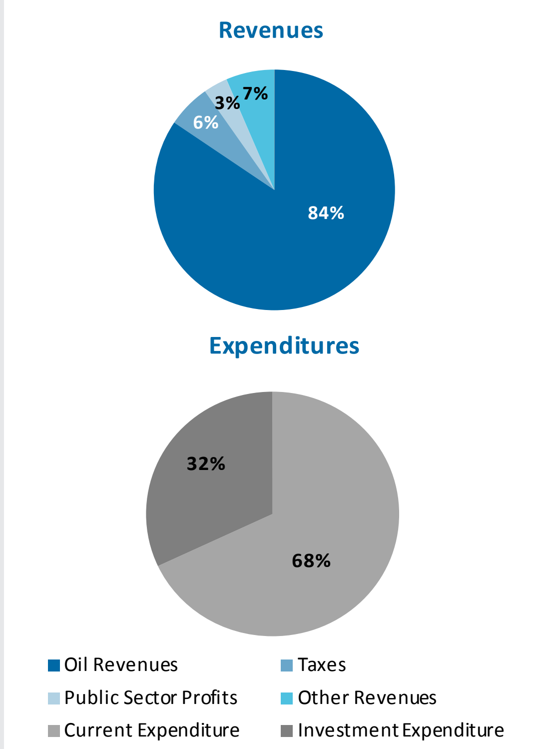
The Budget. The budget is a central point in Iraq, on various fronts and for various reasons. Aside from the many issues surrounding it, it is generally difficult to accurately assess the figures. According to the Central Bank of Iraq (CBI) statistics, the budget has exhibited a surplus until 2013. This does not come as a surprise given the rapid growth in oil revenues. A fiscal surplus is always a welcomed indicator especially for a war torn country in desperate need of reconstruction, however in Iraq it demonstrates a deficiency in spending policies. The lack of progress on the capital spending meant that public services and rebuilding efforts were minimal leaving the country with poor infrastructure and for the large part, a dysfunctional economy.

The Ministry of Finance publishes budget proposals that show the composition of spending between operational and investment at 70% and 30% respectively. Investment spending has consistently fell short of projections. This came to the detriment of a sustained economic growth leaving the economy extremely vulnerable to economic and political shocks as was demonstrated in 2014.

Another factor to take into consideration is the high level of corruption prevailing during previous administrations. It is not possible to accurately assess the magnitude of government revenues lost to corruption, but they are likely to be significant.

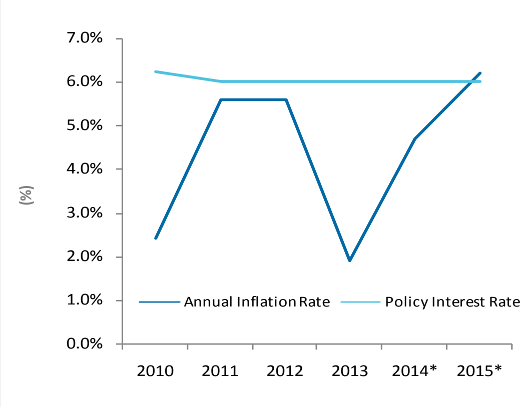
The budget is a victim of a hostile political environment. It can be viewed as a result but also a cause. The most obvious case is the dispute between the Central Government and the Kurdistan Regional Government. A disagreement centring on oil contribution from the region to the central budget and actual payment of the region's 17% share of the budget has been a stumbling block economically and politically for years. It was also used as a tool for forming political alliances over the years. Less publicised issues were the dissatisfaction of a number of provinces, especially the oil rich ones, with their share of the budget relative to their contribution.

Government Budget (2015)



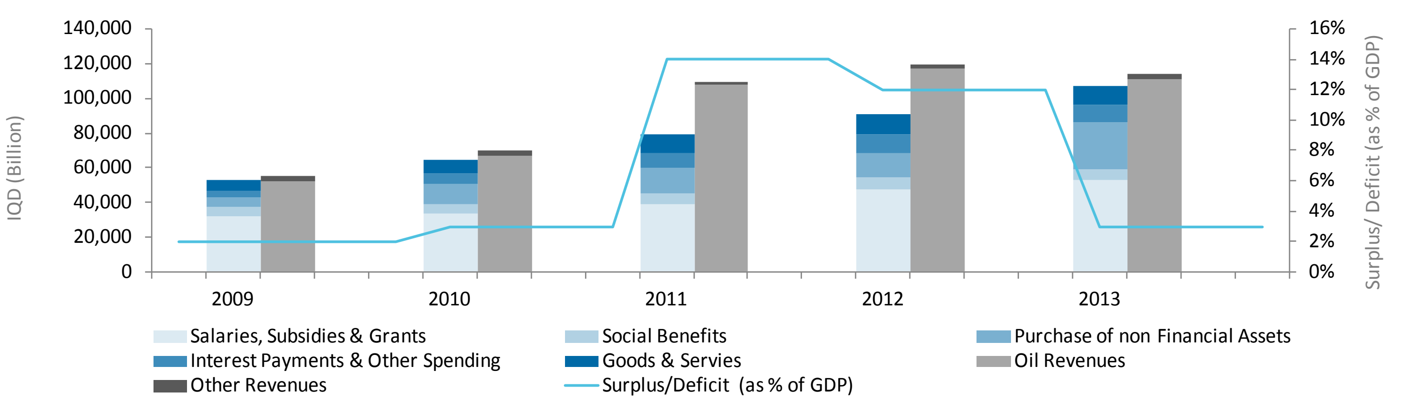
Source: Iraq Parliament, Akkadia Partners.

Infaltion and Policy Interest Rates



**Akkadia Partners Estimates.*
Source: Central Bank of Iraq, Akkadia Partners.

Government Revenues and Expenditure (2009-2013)



Source: Central Bank of Iraq, Akkadia Partners.

The budget issue came to the forefront in 2014. With high level of uncertainty prior to and during the elections followed by the rapid advancement of ISIS into the north, a budget was never passed. The figures have not yet been published but it is likely that the budget will exhibit a large deficit. On one hand, revenues are expected to decline reflecting lower production and prices. On the spending side, escalating costs of the conflict with ISIS have taken their toll on the budget. These are composed of two elements; funding the military conflict and to a lesser extent, subsidising an internally displaced population of nearly 2 million people.

With supressed oil prices and ongoing military operations against ISIS, the 2015 budget is also likely to see a wide deficit. A draft submitted earlier in the year proposed some austerity measures. A budget for 2015 of IQD 119 trillion (USD 102 billion) was approved by parliament towards the end of January. The budget was based on oil production expectations of 3.3 million barrel per day at a price of USD 56 per barrel.

Revenues were set at IQD 94 trillion (USD 80 billion), including oil revenues of IQD 80 trillion while the balance of IQD 14 trillion were non-oil revenues consisting of taxes, public sector profits and others. The budget follows an agreement with Kurdistan Regional Government (KRG) whereby the latter will export 300,000 barrels per day of oil from Kirkuk and 250,000 bpd from their own fields in return for a 17% share of the budget. The proposed 2015 figures mark a contraction from previous years. The main challenges posed for the government finances in 2015 are the sharp decline in oil prices, an escalating cost of the conflict and compensating a displaced population.

Expenditure was budgeted at IQD 119 trillion (USD 102 billion) leaving a shortfall of IQD 25 trillion. Of which IQD 80 trillion (USD 68.6 billion) are operating expenses and the balance of IQD 39 trillion (USD 33.4 billion) or 32% of total expenditure consist of investment spending on existing projects. The expenditure figures indicate some tightening, where possible. The government will withhold 15% of high-level government salaries, to be paid back in the future. In addition, Kuwait has agreed to defer Iraq's repatriations for the 1990 war for one year.

The deficit is proposed to be financed through local and foreign borrowings. In addition, Iraq plans on drawing funds from the International Monetary Fund (IMF) through its Special Drawing Rights (SDR). Import duties are likely to be introduced this year to compensate for the decline in oil revenues, however, this has not been included in the budget.

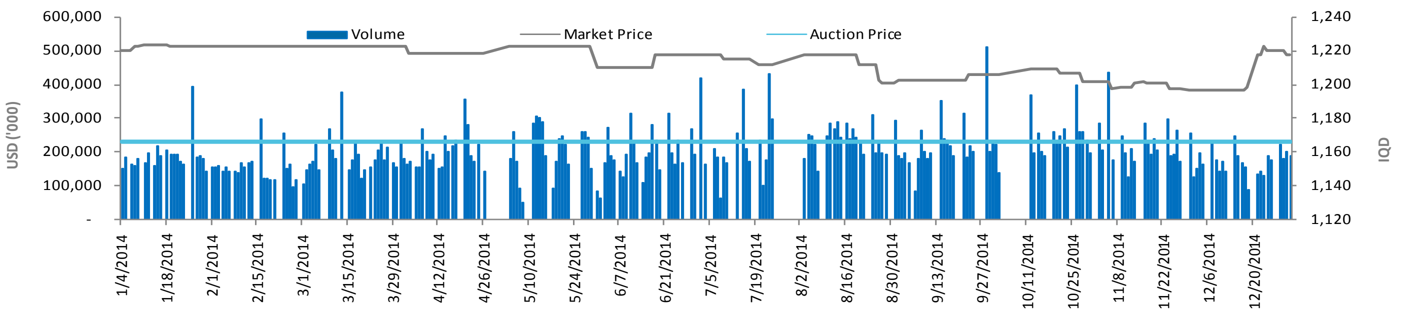
The Monetary Environment. For a war economy, Iraq's monetary environment is solid. This is demonstrated through relatively low and stable inflation and interest rates. This is a function of dollar denominated revenues which have accumulated sufficient level of foreign currency reserves providing a comfortable cushion for the Iraqi dinar. The acceleration of oil production meant that foreign currency revenues were continuously exceeding foreign expenditure which consisted of imports and to a lesser extent foreign obligations.

Inflation was therefore kept at bay with a currency that is effectively pegged to the dollar. Interest rates in Iraq are low for a post war country. However, an important consideration when assessing the monetary environment in Iraq is that interest rates are not necessary used as an indicator or a monetary tool in Iraq for a number of reasons. First, and typical of a frontier economy Iraq is predominantly cash based. According to the Central Bank, only 12% of money issued goes through the banking system. Banking penetration in Iraq is exceptionally low. Total banking credit to GDP is at 14% while loans to deposit ratio is 20%.

The banking sector, where interest rates are used as an effective tool, do not operate as a proper conduit for the economy in Iraq. The consolidated balance sheet of commercial banks is small compared to the size of the economy, let alone its potential size once economic capacity utilisation reach normal levels. This is partly self-inflicted but is also a function of the general security and economic conditions.

With sufficient foreign reserves, the Iraqi dinar was stable throughout the year, despite the decline in foreign revenues and a corresponding increase in foreign expenditure. This is partly attributed to a slowdown of non-military exports. A stable monetary environment was also reflected in the size of the Central Bank of Iraq (CBI) daily currency auction which did not witness an increase. It is not unlikely that the Iraqi dinar sees some depreciation in 2015 with a prolonged military conflict and depressed oil prices. And these two factors remain key for the outlook on the currency and every other aspect of the Iraqi economy.

CBI Currency Auction (2014)



Source: Central Bank of Iraq, Akkadia Partners.

Oil Sector

The government started the year 2014 hoping for a big rise in oil production and exports. Oil in Iraq is mainly produced from two regions (north and south). The bulk of Iraq's oil is produced in the south and shipped abroad through the Gulf. Key southern fields are Rumaila, West Qurna-1 and Zubair. The giant West Qurna-2 field began commercial production in March 2014. Production in the southern fields has been rapidly expanding since 2010 following rounds of oil auctions whereby Baghdad signed a series of service contracts with major International Oil Companies (IOC's).

The Kirkuk oilfield is the most strategic in Iraq's northern production. Kirkuk is connected to world markets by a pipeline to Turkey's port of Ceyhan. Exports of 300,000 bpd from Kirkuk ceased since early March 2014 for almost 200 days due to attacks on the pipeline which carries about a fifth of Iraq's total crude exports. Militant attacks also prevented repairs threatening to extend an outage that is the longest since the sanctions years of the 1990s. The pipeline resumed operations in October but at lower capacity.

The closure of the northern route has held back a hoped-for growth in exports that was also hampered by the dispute between the Central Government and Kurdistan Regional Government. An average of around 300,000 bpd was pumped through the Kirkuk-Ceyhan line in 2013. It was projected that exports would reach 1 million bpd by the end of 2014 with the help of a new 200-km pipeline to Turkey.

Production range in 2014 was at 2.85–3.36 million barrels per day. Average production stood at 3.11 mbpd. As illustrated in the table below, exports from Iraq's southern terminals reached 2.76 mbpd in December, the highest since at least 2003. Total exports ranged between 2.23 and 2.94 mbpd with the average around 2.52 mbpd equating to an average revenue of USD 7,010 million per month.

As most of the oil reserves are in the southern fields, thus beyond the reach of the so called militant group, ISIS, oil production was not impacted. Based on data published by the Ministry of Oil, production levels in 2014 stood at an average of 3.11 mbpd, up from 2.98 mbpd in 2013, with exports slightly increasing over 2013 levels at 2.5 mbpd. The average price of Iraqi oil was USD 92.3 per barrel compared to USD 102.2 per barrel in 2013.

June was one of the deadliest months in Iraq since calm was restored following the civil war in 2006-2008. On the 10th of June the so called "Islamic State of Iraq and Sham" otherwise known as ISIS took control of Mosul, the second largest city in Iraq and started progressing towards the capital. There were conflicting reports about the country's largest refinery in Beiji being lost to ISIS. Iraqi forces were able to recapture the refinery in the weeks that followed. With the risk of further advances by ISIS, Kurdish forces took control of the oil hub of Kirkuk, a disputed territory between the Central Government and the KRG.

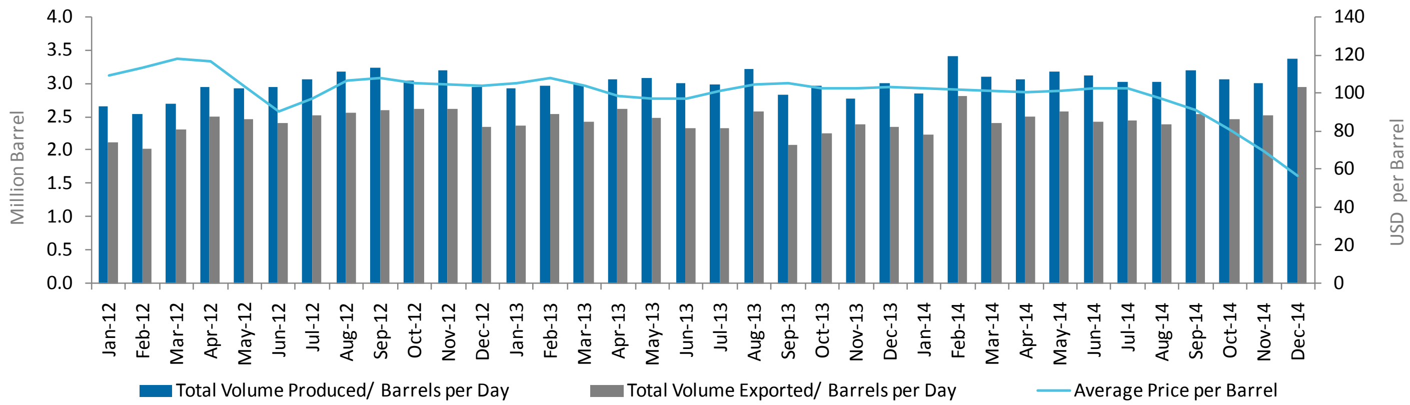
Confined to its southern terminals, Iraq's oil exports and production, were not materially affected. Oil companies operating in the south were unanimous in their action and statement of no disruption to their operations.

In early in 2014, the former Iraqi government cut budget transfers to the Kurdistan Regional Government (KRG) over oil disputes. The conflict over oil reached a climax when KRG announced that it was prepared to pump oil through a new pipeline directly to Turkey, bypassing the Central Government. The KRG's exploitation of its own oil resources has been at the centre of a long-running dispute with the Central Government. The government in Baghdad insisted that Kurdish exports through the pipeline are illegal under Iraqi law and took it as far as launching legal proceedings. In the meantime, Kurdistan was exporting some of its own oil output by truck and via a new pipeline to Turkey, despite pressure from Baghdad.

	Production			Exports				
	(North fields) bpd	(South fields) bpd	Total bpd	(North fields) bpd	(South fields) bpd	Total bpd	Av. Price/barrel (USD)	Revenues (USD mn)
Jan-14	634,000	2,214,000	2,848,000	192,000	2,036,000	2,228,000	102.42	7,074
Feb-14	619,000	2,791,000	3,410,000	292,000	2,507,000	2,799,000	102.10	8,002
Mar-14	493,000	2,596,000	3,089,000	24,000	2,373,000	2,397,000	101.02	7,506
Apr-14	426,000	2,638,000	3,064,000	-	2,509,000	2,509,000	100.72	7,581
May-14	418,000	2,759,000	3,177,000	-	2,582,000	2,582,000	100.92	8,078
Jun-14	303,000	2,808,000	3,111,000	-	2,426,000	2,426,000	102.63	7,469
Jul-14	300,000	2,712,000	3,012,000	-	2,442,000	2,442,000	102.26	7,741
Aug-14	311,000	2,712,000	3,023,000	-	2,375,000	2,375,000	97.40	7,171
Sep-14	314,000	2,884,000	3,198,000	-	2,542,000	2,542,000	90.71	6,918
Oct-14	318,000	2,736,000	3,054,000	28,000	2,433,000	2,461,000	81.14	6,190
Nov-14	315,000	2,694,000	3,009,000	28,000	2,482,000	2,510,000	69.56	5,238
Dec-14	312,000	3,044,000	3,356,000	180,000	2,760,000	2,940,000	56.62	5,161

Source: Ministry of Oil, Akkadia Partners Analysis.

Oil Production, Exports and Prices (2012-2014)



Source: Ministry of Oil, Akkadia Partners.

A breakthrough in the long standing dispute took place following the appointment of the new government in October 2014. The Central Government and KRG reached an agreement that allows for the resumption of long-withheld budget transfers to the Kurdish region. The new deal stipulates that KRG will contribute 250,000 barrels per day of its own oil exports to the federal budget. In addition, another 300,000 barrels will be exported from Kirkuk, which is currently under the control of the KRG, through a pipe that extends through Kurdistan to Turkey. This is an initial agreement that will be rolled over until such time when a more comprehensive agreement is reached.

Event	Description
Minister of Oil	Appointment of Mr. Adel AbdulMahdi as the new Minister of Oil to replace Abdelkarim Laeebee.
Karbala refinery	Karbala refinery project got the green light from the cabinet during its session on the 7th of January 2014 and was awarded to a consortium of four companies led by Hyundai of Korea. The refinery will produce oil derivatives of high international standards. The production power of the refinery is estimated at 140,000 barrels/ day. The project will require 56 months for completion and costs approximately USD6,040 million which will be spread over 4 years as part of the investment spending in the budget. The project is considered to be the biggest oil and gas project awarded in the history of Iraq.
South Refineries Company	Installation of the third refining unit at the South Refineries Company (SRC) was completed in March raising the exporting capacity of the company to 210,000 barrels/ day as of March. The new unit operates at a capacity of 70,000 barrels per day and will help support local demand.
New refineries	The Ministry announced that it is studying the construction of three new refineries in Nasriya, Missan, and Karkouk in order to meet local demand and start exporting oil products overseas.
Maysan & Halfaya oil fields	The year 2014 also witnessed the start of up-streaming of crude oil from the oil fields of Maysan & Halfaya through the new- 42 Knot, 275 Km- pipeline which is capable of exporting 1 million barrel/ day. Moreover, 2014 witnessed the start of trial production from the second unit of Halfaya field with a production power of 100,000 barrels/ day.
Badra oil field	Oil exports pumping from Badra field in Wasit province has also started for the first time in 2014 with an initial production capacity of 15,000 barrels per day. Production is expected to increase to 60,000 barrels per day in 2015 and ultimately reach 170,000 barrels per day in 2017.

Source: Ministry of Oil, Akkadia Partners.

According to the Minister of Oil, production and exports should enjoy healthy growth in 2015. The official forecast by the Ministry is 3.8 million barrels per day, including KRG production (the budget is drafted at 3.3 mbpd). If materialised, this will be an increase of 15% over the 2014 levels. The outlook on prices remains shadowed but prices are unlikely to rebound to 2013 levels during this year. The long term outlook on oil production in Iraq remains positive especially now that the decline in prices lessened the competition from alternatives. The agreement with the KRG is a welcomed development assuming it is sustainable. A tight budget and poor state of the sector's supporting infrastructure such as refining and transportation are pushing the new government to adapt a more welcoming policy towards foreign companies. As is the case with every aspect of the Iraqi economy, unity and security will determine the faith of the sector and the country as a whole.

Iraq Stock Market

The ISX ended the first three months of the year lower than its 2013 close level. April saw the index reverse and regain some of its losses. The gains extended throughout May but at a slower pace. June was one of the worst months in terms of security since calm returned to the country after the civil war in 2006-2008. The ISX was down sharply in June when it lost 14% on a month on month basis. This was the biggest monthly decline for the index. The market also witnessed high levels of Non-Iraqi sell offs reaching 86% of the total volume in a number of large market capitalisation stocks. July also continued the negative trend but to a lesser extent. Positive sentiment returned to the market during August as the new government was taking shape and the international coalition to support Iraq in its fight against ISIS gathered momentum. The index recaptured some of the losses realised during the previous two months and gained 7%. The index remained flat during September, however, the Non-Iraqi sell off sentiment continued to constitute a high percentage of market volume.

Since October 2014, the ISX official website stopped calculating and issuing the ISX index due to certain technical problems. We estimated the index level based on the monthly price change of individual stocks taking into consideration the weight of each stock based on its market capitalisation. According to our estimates, the index dropped by 9% during October on the back of poor performance of the banking sector and several other sectors. Banking stocks, which collectively constitute around 50% of the market capitalisation, fell on average by 6%. The telecommunication sector, represented only by Asiacell (TASC) and accounting for almost 37% of total market cap, lost 14.5%. November saw the ISX index lose a further 2% of its value mainly on the back of a 4.5% decrease in the telecommunication sector, a 2.3% decrease in the industrial sector, and a 4.6% decrease in the tourism and hotel sector.

The ISX saw mixed performance for large cap stocks during December. On average, the largest companies saw a positive increase of 2.4% during the month. Asiacell (TASC) saw its shares climb by 2.77%. Banking stocks, witnessed mixed performance with Credit Bank of Iraq (BROI) leading the gains by 10.5%, followed by Gulf Commercial Bank (BGUC) at 7.1%. Bank of Baghdad (BBOB), one of the largest banks by market value, lost 3.1%. The overall banking sector performance was positive during December at approximately 2.6%. The industrial sector also saw varied performance amongst its constituents with Baghdad Soft Drinks (BDSI), which is the largest contributor to the sector, declining by 1.7% while Electronic Industries (IELI) appreciating the most within the sector by 11.9%.

The overall performance of the market during 2014 was negative, with the majority of large cap stocks finishing the year in the red. On a year on year basis the ISX lost 18.8% in 2014. The turbulent political and economic situation fuelled this decline particularly in the second half of the year.

The tourism and hotels sectors were the market top gainers rising 16.6% and 2.3% respectively. The performance of the other sectors was negative but to varying degrees. The telecommunication sector, which is dominated by Asiacell, was down 29.7% by the end of the year. The investment and banking sectors were also among the worst performing sectors declining by 23% and 21.7% respectively. The industrial sector, which accounts for almost 5% of the ISX index ended the year down by 13%.

2014 in Numbers*

Number of Trading Sessions	227
Number of Traded Shares (Billion)	746
Trading Volume (IQD Billion)	901
Number of Listed Shares (Trillion)	5.6
Market Capitalisation (IQD Trillion)	9.5
Market Capitalisation (USD Billion)	8.14
Number of Listed Companies	83
Index Level	91.86

**As of last trading day (29 December 2014).*
Source: ISX, Akkadia Partners.

Regional Markets

	Value	1 Year % Change
Egyptian EGX 30 Price Return Index	8,927	31.6%
Qatar Exchange Index	12,286	18.4%
Bahrain Bourse All Share Index	1,427	14.2%
Dubai Financial Market General Index	3,744	11.1%
Abu Dhabi Securities Market General Index	4,529	5.6%
Amman Stock Exchange General Index	2,165	4.8%
Blom Stock Index Lebanon	1,170	1.8%
Saudi Arabia Tadawul All Share TASI Index	8,333	(2.4%)
Kuwait Stock Exchange Weighted Index	439	(3.1%)
Palestine Stock Exchange Index	503	(7.1%)
Muscat Securities MSM 30 Index	6,343	(7.2%)
Kuwait Stock Exchange Index	6,536	(13.4%)
Iraq Stock Exchange Index	92	(18.8%)

Source: Bloomberg, Akkadia Partners Analysis.

Large Cap Performance*

Name	1 Year % Change
Asiacell	(29.7%)
Kurdistan International Bank	(15.6%)
Bank of Baghdad	(24.8%)
North Bank	(49.3%)
Baghdad Soft Drinks	(24.4%)
Credit Bank Of Iraq	(56.4%)
Investment Bank of Iraq	3.1%
Sumer Commerical Bank	0.0%
Iraqi Islamic Bank	(26.4%)
Union Bank of Iraq	(31.1%)

**Arranged by Market Capitalisation.*
Source: ISX, Akkadia Partners.

Sector Gainers

Name	1 Year % Change
Services Sector	2.3%
Tourism & Hotels Sector	16.6%

Source: ISX, Akkadia Partners.

Sector Losers

Name	1 Year % Change
Agriculture Sector	(0.1%)
Insurance Sector	(9.8%)
Industrial Sector	(13.0%)
Banking Sector	(21.7%)
Investment Sector	(23.0%)
Telecommunication Sector	(29.7%)

Source: ISX, Akkadia Partners.

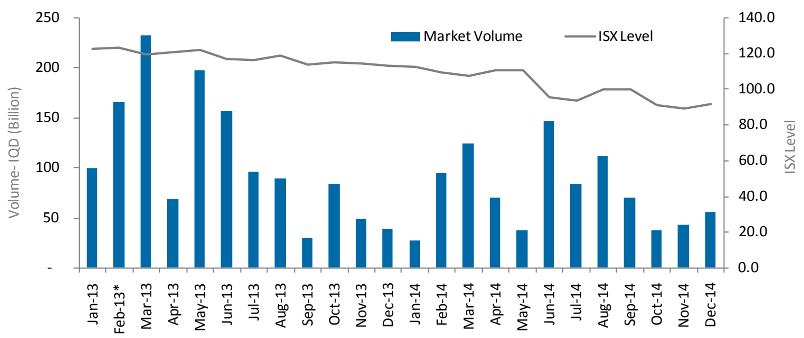
Other Market Developments

- **Change in trading systems**. The ISX and NASDAQ announced in November the successful on-schedule go-live of the X-Stream Trading System, which replaced the existing Horizon platform. NASDAQ has delivered trading technology to the ISX since 2007.

- **New listings.** The ISX did not report new listings on the official market during 2014.

- **Kirkuk for Producing (IKFP)** was delisted from the market as of 2014 as per the ISX letter on 26/11/2013, bringing the total number of listed companies on the ISX to 83 companies.

ISX Volume and Level (2013-2014)



Source: Iraq Stock Exchange, Akkadia Partners.

Biggest Gainers

Name	Price	1 Year % Change
Kharkh Tour Amuzement City	17.25	124.0%
Babylon Hotel	80.00	77.8%
Ready Made Clothes	8.45	69.0%
Al-Sadeer Hotel	28.00	49.3%
Modern Paint Industries	1.51	34.8%
Ashur International Bank	0.93	25.7%
Modern Sewing	3.50	25.0%
Karbala Hotels	1.60	23.1%
Al -Khazer Construction Materials	2.30	17.9%
Mamoura Real Estate	4.88	16.5%

Source: ISX, Akkadia Partners.

Biggest Losers

Name	Price	1 Year % change
Iraqi Engineering Works	0.90	(43.8%)
Babylon Bank	0.39	(44.3%)
Fallujah for Construction Materials	1.78	(48.4%)
AL- Kindi of Veterinary Vaccines	1.28	(48.8%)
North Bank	1.05	(49.3%)
Mansour Bank	0.84	(51.7%)
Credit Bank Of Iraq	1.05	(56.4%)
Iraqi Middle East Investment Bank	0.60	(62.5%)
AL-Badia for General Trans	1.47	(65.2%)
Iraq Baghdad For General Transportation	27.50	(66.9%)

Source: ISX, Akkadia Partners.

Corporate Earnings

With the exception of the banking sector, using earnings performance of companies listed on the Iraq Stock Exchange as an indicator of corporate performance has its limitations. The majority of companies listed on the exchange are residuals of the old Baghdad Stock Exchange. Most of these are either non-operational or non-profitable. Private sector companies that have been able to benefit from the economic transformation and upturn following 2003, continue to be privately held, i.e., not listed. Another important factor to consider is that a number of sectors in Iraq continue to suffer from the physical damage caused during years of conflict, mismanagement and neglect. The worse destruction was caused during and following the attacks in 2003 where premises and country wide infrastructure were destroyed on a wide scale.

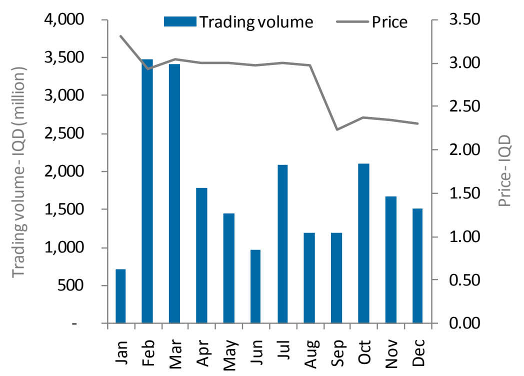
One of the fund's largest holdings is Baghdad Soft Drinks (IBSD). It is one of the market's large capitalisation stocks and perhaps the only profitable in listed sector companies. In absolute terms, the revenue and profit base of the company are low when considering that it is one of the three Pepsi Cola franchised bottlers in a market of 35 million people. Nevertheless, the company has been able to grow its revenues and profits over the past few years, albeit modestly, benefitting from its modern facilities, a growing market and improving overall operating conditions. On a compounded average basis, revenues grew by 8.4% during 2009-2014. This is lower than the corresponding growth in GDP per capita which stood at 10.4% in the same period. The slow growth in revenues is due to strong competition from cheaper imports and the start of other bottlers' operations in other parts of the country. Net profits grew by an annual average of 23% in the same period. Margin expansion was a function of improving infrastructure, thus a reduction in costs. In addition, utilising its own distribution channels resulted in significant cost savings and contributed to the improved profitability.

The company was negatively impacted in 2014 where sales and profits dropped by 7.8% and 8.5% respectively. Given the gravity of the year's events, the decline was relatively limited. This can be attributed to the same factors that prevented the company from rapidly growing its sales over the past few years. First, the Iraqi market is by large serviced by imports which have been worst impacted in 2014. This was particularly the case since the borders with Turkey and Syria, Iraq's largest trading partners, have been controlled by the extremists groups. In addition, the company's geographic focus areas, which are the central provinces, have been less affected by the advancement of ISIS.

For obvious reasons, future projections for companies operating in Iraq might lack credibility due to the high level of uncertainty on the different fronts. Assuming the security situation does not further deteriorate and the company's areas remain relatively secure, large drops in revenues and profits are unlikely due to the above mentioned factors. In fact, it is possible that the company will be able to grow its revenues over and above the historic levels as it captures market share from imports. In addition, the newly formed government seems more serious in implementing import duties as a tool of raising desperately needed public revenues but also as a protection measure for the local industry.

Based on year end prices and results, and from the outset, the company does appear to be reasonably priced based on multiples, when taking into consideration the risk factors. The stock is trading at a PER14 and P/NAV14 of 13.9x and 1.6x respectively. However, we continue to argue that the case for Iraqi equities is the expansion of earnings rather than multiple expansion. We carried an exercise using consumption per capita figures, captured population and taking out the impact of imports. Based on our top down analysis, in a normalised environment BDSI sales should

Baghdad Soft Drinks (2014)



Source: ISX, Akkadia Partners

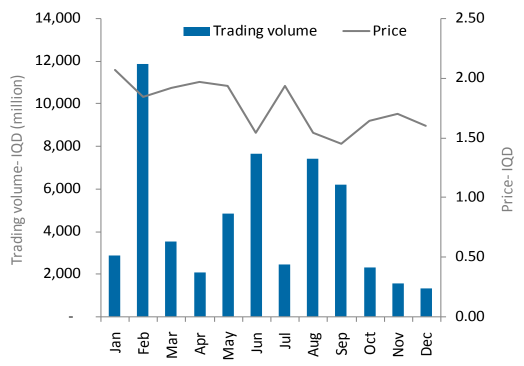
Baghdad Soft Drinks Financials

Number of Shares Outstanding	133,000,000,000
Price (as of 31 Jan 15) (IQD)	2.00
Market Capitalisation (IQD Billion)	266,000,000,000
Market Capitalisation (USD Million)	228,130,360
ISX Code	IBSD

IQD (Million)	**2012A**	**2013A**	**2014A**
Revenues	223,721	229,214	211,168
Net Profits	19,518	24,043	22,011
Cash	29,015	22,618	36,673
Shareholders' Equity	167,196	175,717	189,327
Total Assets	173,715	188,537	197,193
ROA	11.2%	12.8%	11.2%
ROE	11.7%	13.7%	11.6%

Source: ISX, Company Reports, Akkadia Partners.

Bank of Baghdad (2014)



Source: ISX, Akkadia Partners.

Bank of Baghdad Financials

Number of Shares Outstanding	250,000,000,000
Price (as of 31 Jan 15) (IQD)	1.38
Market Capitalisation (IQD Billion)	345,000,000,000
Market Capitalisation (USD Million)	295,883,362
ISX Code	BBOB

IQD (Million)	**2012A**	**2013A**	**2014A**
Banking Revenues	62,583	84,520	55,178
Net Profits	29,638	38,797	23,646
Loans	137,255	208,184	251,533
Deposits	1,046,719	1,393,584	1,353,427
Shareholders Equity	207,253	291,262	314,848
Total Assets	1,300,655	1,764,905	1,711,915
ROA	2.3%	2.2%	1.4%
ROE	14.3%	13.3%	7.5%

Source: ISX, Company Reports, Akkadia Partners.

be a 3x multiple of their current levels. Margins are also supressed in the case of BDSI due to the various operating challenges and bottlenecks. On a normalised basis and using headline indicators, the company's earnings appear to be considerably supressed.

The majority of private banks are listed on the stock exchange. Their performance is more reflective of the sector. But while bank earnings reflect the real status of the sector, Iraqi banks do not reflect the status of the economy. This is due to a number of factors such as the cash nature of the economy, the security environment, regulatory and governance hurdles. The sector as a whole is controlled by government banks and their main activities centre on government trade business and payrolls. Private sector banks act as deposit centres and the bulk of their revenues are generated from commissions and foreign currency transactions. Given the high risk environment and poor governance practices, the credit market continues to be significantly small. Loans to GDP stood at 14% at the end 2013. Loans to deposits were at 20% reflecting highly liquid balance sheets.

There is no consistent trend amongst banks in Iraq. Private sector banks have a small share of total banking assets, for reasons mentioned earlier. Accordingly, the sector in general only marginally reflects the broader economy. In addition, there is a wide variation in the performance of the various banks depending on their operational focus, shareholders' base, geographic focus, amongst other factors.

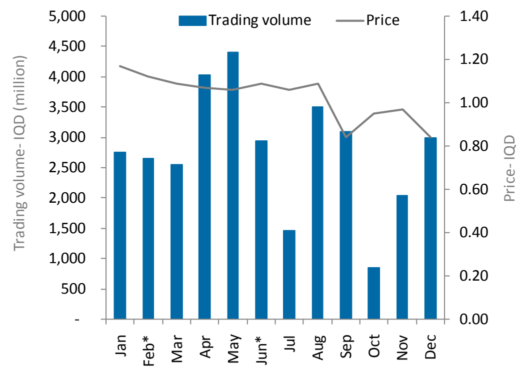
The banking sector constitutes 51.6% of our portfolio and 50.2% of the market. The fund's largest holdings in the sector are Bank of Baghdad (BBOB) and Gulf Commercial Bank (BGUC). Both banks reported a drop in earnings in 2014. We used annualised three quarter results for Bank of Baghdad as the year end results were not published by the time of issuing this report. Revenues were down 9% largely on the back of the decline in investment revenues. The bank's investment portfolio primarily consists of overnight deposits and government papers. The decline in deposits, thus excess liquidity, was reflected in lower investment revenues. A 14% increase in costs, as a result of deteriorating security contributed to an overall drop of 22% in net profits.

The contraction in the balance sheet was limited with a 3% decline in total assets. As is the case with the sector as a whole, deposits are the primary determinant of balance sheet growth. The deposit base contracted across the sector as a result of funds outflow following the advancement of ISIS into the Northern parts of the country. In the first three quarters, deposits were down 8.2%. Funds deployment was unchanged with nearly 80% of total assets in government papers and cash deposits with the Central Bank.

The year end results for Gulf Commercial Bank were in line with profits down 23.6%, also on the back of a decline in investment revenues and commissions in addition to rising costs. However, BGUC was able to grow its assets following a capital increase and a 9% increase in deposits. The disparity in balance sheet performance between the two banks is a factor of their different client base. Bank of Baghdad has a wider retail base which measures the pulse of the economy more accurately. By contrast, BGUC has a concentrated corporate base and a smaller balance sheet.

Both banks have seen their share prices decline over the course of 2014. On a y-o-y basis, Bank of Baghdad was down 24.8% while BGUC lost 21.7% of its market value. Based on year end prices, BBOB was trading at 13.04x earnings and 1.27x its book value. Gulf Commercial Bank multiples are 5.86x earnings and 0.69x book value. The premium on BBOB shares is due to the heavy foreign and strategic presence in the stock. The downside is limited in both given that book value constitutes of paid up capital and retained earnings. Asset quality is generally good and therefore the risk of write downs is limited. Earnings multiples at the current price levels are discounting the risk and future growth.

Gulf Commercial Bank (2014)



** Normalised figure to account for non-recuring unusual large block trades*
Source: ISX, Akkadia Partners.

Gulf Commercial Bank Financials

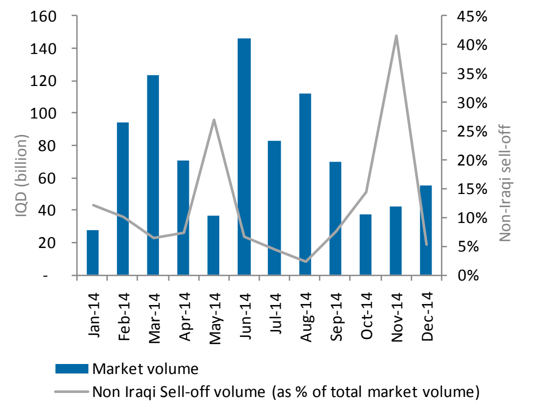
Number of Shares Outstanding	250,000,000,000
Price (as of 31 Jan 15) (IQD)	0.84
Market Capitalisation (IQD Billion)	210,000,000,000
Market Capitalisation (USD Million)	180,102,916
ISX Code	BGUC

IQD (Million)	**2012A**	**2013A**	**2014A**
Total Revenues	57,692	87,579	81,401
Net Profits	36,344	56,476	43,118
Loans	167,382	241,020	245,462
Deposits	260,780	417,143	455,212
Shareholders Equity	149,088	303,984	364,926
Total Assets	424,766	781,479	827,496
ROA	8.6%	7.2%	5.2%
ROE	24.4%	18.6%	11.8%

Source: ISX, Company Reports, Akkadia Partners.

NAV 29 December 14	USD 9.60
Fund Type	Long only equity fund
Subscription	Monthly
Redemption	Quarterly
Valuation	Monthly
Inceptions Date	Jul-13
Management Fees	2.0%
Performance Fees	20% above 8%
Minimum Investment	USD 250,000
Subsequent Investments	USD 10,000
Investment Manager	Akkadia Cayman Ltd
Investment Advisor	Akkadia Partners LLP
Administrator	Maples Fund Services
Auditor	Deloitte & Touche
Custodian	Iraq Depository Center
UK Legal Advisor	Hogan Lovells
Cayman Legal Advisor	Maples and Calder
Incorporation	Cayman Islands
Bloomberg	AKADIGF KY
Currency	USD

Non Iraqi Sell-off Volume (2014)



Source: ISX, Akkadia Partners Analysis.

Fund Description

An Iraq dedicated long only equity fund.

Investment Objective

Achieve long- term capital appreciation through investing in Iraqi equities.

Investment Strategy

Build long term positions in operationally and financially sound companies listed on the Iraq Stock Exchange (ISX) and companies listed elsewhere that generate a significant portion of their revenues from Iraq in addition to pre listing opportunities in private companies operating in Iraq. The fund aims to capture market upside through creating a diversified portfolio while minimising risk.

Fund Performance.

The fund outperformed the market by a wide margin in 2014, albeit on negative performance. On a year on year basis, gross NAV was down 9.55% and 3.96% since inception. The market was down 18.8% during 2014. Since IGF inception, the market lost 21.11% of its value. We attribute our strong relative performance to three factors, 1) low entry prices, 2) our positions in small capitalisation stocks, and 3) the exclusion of market large cap, Asiacell (TASC), from our portfolio.

The fund started the year with strong gains. Net Asset Value (NAV) stood at USD10.82 at the end of January, up 8.2% since inception. Moreover, the invested portion was up by approximately 24% in absolute terms. The good performance can be mainly attributed to the funds participation in several rights issues that reduce the cost of entry in a number of our large positions, particularly in the banking sector.

February saw the fund NAV decline by 2.8% on the back of a profit taking surge following the strong performance of large cap stocks during 2013 and price adjustments post rights issues. Most large caps were down during the month, but the positive relative performance of the fund was due to strong gains in a number of small caps where the fund started building positions since the start of the year. These stocks were seeing their price rally as their asset value gets unlocked mostly through the sale of non- operational assets in addition to improving operational performance.

The fund continued to outperform the market during March with the NAV gaining 6% to reach USD10.6. Profit taking in the market eased slightly thus reversing the decline in NAV witnessed in February. During the same period the ISX lost 1.84% driven by its largest constituent, Asiacell (TASC), which has been on a downfall since the beginning of the year reaching an all-time low in the middle of March before bouncing back to end the month down 4.2%.

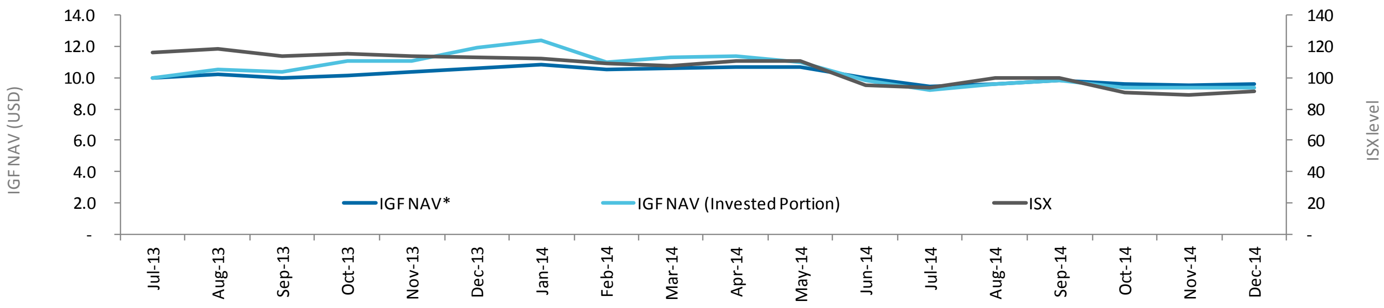
The positive performance continued throughout April with NAV reaching USD 10.71. The strong performance of the fund in April was due to two factors; first is the recovery of a number of market large caps where the fund is invested. The second factor is the exceptional performance of small caps that we started building positions in. The market bounced in April with the ISX index up 3%. Asiacell (TASC) which represents over 40% of the index gained 7.2% during the month causing IGF to underperform the market in this month since it is excluded from our portfolio. The unusually strong performance of TASC was on the back of very thin turnover. Other market large caps and the ones widely held

NAV (USD)*	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year End (%)
2013							10.00	10.19	10.00	10.17	10.36	10.62	6.18%
2014	10.82	10.52	10.60	10.71	10.69	9.97	9.47	9.61	9.86	9.62	9.54	9.60	(9.55%)
ISX	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Year End (%)
2013	124.0	122.7	122.7	120.5	121.6	117.1	116.4	118.6	113.9	115.4	114.3	113.2	(8.75%)
2014	112.6	109.4	107.4	110.6	110.9	95.5	93.7	100.14	100.20	91.03	89.18	91.86	(18.82%)

Source: ISX, Maples Fund Services, Akkadia Partners

**NAV figures are gross.*

IGF and ISX Performance



**NAV figures are Gross* *Source: ISX, Akkadia Partners.*

also reported strong gains. The fund's largest position, Bank of Baghdad (BBOB) was up 3.1% in April. Small market caps demonstrated exceptionally strong performance collectively with one of our positions up 13.6% during the month.

May saw the fund performance unchanged influenced by a combination of negative performance in the banking sector and strong rise in small market caps. The small market caps continued to yield positive performance, however given the fund's small positions relative to market large caps, these small investments were unable to offset the negative impact of the decline in banking stocks. June was the first month since fund inception when the NAV dropped below USD 10; however, the fund continued to outperform the index which was down 14% during the same month. Gross NAV at the end of June came at USD 9.968, down 6.7% compared to the previous month and 0.3% since inception. The negative performance of the fund was in part attributed to the decline in banking stocks which comprise a big portion of our portfolio. The positive return of the small market caps reversed marginally during June fuelled by escalating political tensions in the country. The negative performance was to be expected given the unfortunate events on the political front in early June.

With a positive market sentiment in August, the fund NAV was up 1.4% on a month on month basis. August and July were the only months since fund inception when IGF underperformed the market. This was due to a number of reasons; first and foremost was the strong performance of Asiacell (TASC) which was up 11% in August. Second, is the underperformance of Baghdad Soft Drink (IBSD), is one of the fund's largest holdings. The stocks lost 25% in July following high foreign selloff. IBSD is the most widely held stock amongst foreign investors. Parts of these losses were reversed in August as the stock gained 6%.

September has seen the fund NAV climb by 2.67% to reach USD9.86. This was the biggest positive monthly change for the fund since inception. The fund resumed its previous record of outperforming the index. The majority of large caps reported positive gains in the month while the index was flat mostly because its largest component, TASC, ended the month unchanged. The positive performance was driven by the banking sector.

October has seen the fund NAV decline by 2.43% reaching USD 9.62 before expenses. The decline pushed the NAV to August level and eliminated the gains realised in September. The invested portion of the fund was hit hard during October down by 4.48% due to the poor performance of the banking sector which has seen its constituents prices go down by an average of 6%. Our largest position, Bank of Baghdad (BBOB), lost 7.65% during October. On the other hand, Baghdad Soft Drinks was up 2.6%. Large cap stocks continued their decline in November.

As we were approaching the last month of the year, the fund NAV returned to its October level of USD 9.6. The majority of large cap stocks ended the year in the green during the month. However, Bank of Baghdad and Baghdad Soft Drinks, two of our major holdings, declined by 3.13% and 1.74% respectively. On average, other large cap stocks appreciated by 3.58% in December. IGF underperformed the market in December mainly due to the appreciation of Asiacell and other large cap stocks where the fund does not hold a position.

On a year on year basis, NAV was down 9.55% compared to market decline of 18.82%. Although the fund is 3.96% below its inception level, the fund still outperformed the market which lost 21.11% during the same period. Our largest holding, BBOB, lost 24.8% during the year. Baghdad Soft Drinks, which also contributes to a large portion of our invested portfolio, ended the year 24.4% down. Our most profitable position during the year was Almamoura Real Estate (SMRI). Our holdings in small cap stocks saw an average appreciation of 8% during the year.

IGF Large Holdings

Company	ISX code	Average Cost (IQD)	Price IQD	PER 14	P/NAV 14	D. Yield/P
Dar Essalam Bank	BDSI	1.01	0.89	5.27	0.73	0%
Bank of Baghdad	BBOB	1.66	1.60	13.04	1.27	7%
Baghdad Soft Drinks	IBSD	2.45	2.30	13.90	1.62	2%
Gulf Commercial Bank	BGUC	1.13	0.84	5.86	0.69	0%
Al Mamoura Real Estate	SMRI	3.75	4.90	N/A	4.45	0%
Credit Bank of Iraq	BROI	1.45	0.95	19.79	0.85	0%
Total Return for Invested Portion				**10.78**	**1.19**	

Source: Company Reports, ISX, Akkadia Partners.

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