



IRAQ

The Two Sides of the Same Coin

"Iraq stands to gain almost \$5 trillion in revenues from oil exports over the period to 2035"

- IMF

"Iraq sees at least 9.4 percent GDP growth to 2016"

- Central Bank of Iraq

"The economy's size could triple by 2024"

- Bank of America Merrill Lynch

"This oil-driven growth will turn the country into one of the largest oil exporters globally within the next decade and into a US\$ 2 tn economy by 2050"

- Citigroup

The two sides of the same coin

Iraq is generally portrayed by the media as a "basket case". Clearly violence, chaos and death make headlines.

However, the media often ignores the revival evident in the underlying Iraqi economy. The fact of the matter is, there is another more promising side to Iraq.

In the last decade Iraq has tripled its oil production, posted GDP annual growth rates of around 10%, and has seen the market capitalization of its stock exchange nearly triple in the past three years.

"Islamic militants extend battle into another Iraqi province"

- NY Times

"21 Iraqi militants die after explosion at bomb-making class"

- The Guardian

"Bomb attacks kill at least 24 in Iraq capital"

- Reuters



IRAQ IN TEN YEARS

	2003	2013
Nominal GDP (US\$ bn)	12	225
GDP capita (US\$)	500	6800
GDP growth (%)	-41	9
Oil Production (mn b/day)	1.3	3
Population (mn)	27	34
Mobile users (mn)	Negligible	29
Government	Dictatorship	Democracy
Government debt (US\$ bn)	>100	19.3
Net foreign reserves (US\$ bn)	5	80

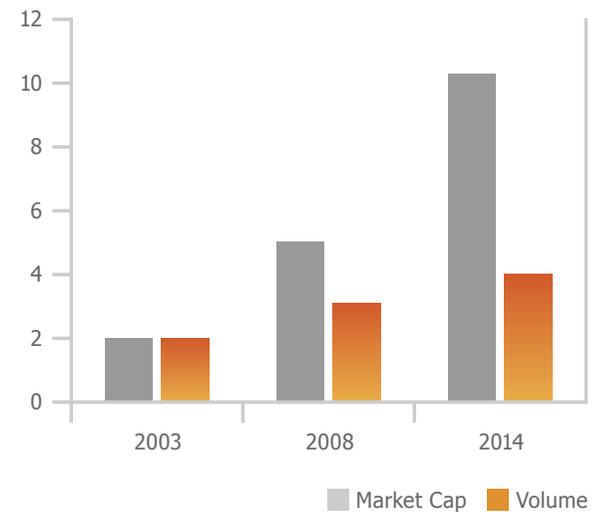
INVESTMENT OPPORTUNITIES

The Iraq Stock Exchange (ISX) may have over the past five years experienced the world's fastest EPS growth rate. However, this phenomenal growth has yet to be reflected in stock prices. We are of the view that Iraqi equities have potential for one of the greatest rallies within the developing market universe. Among the 82 companies listed on the ISX, the telecom and banking sectors are dominant in terms of market capitalization followed by the industrial and real estate sectors. Liquidity is on the rise but rarely exceeds US\$ 5 mn per session. Foreign participation is growing but local investors typically account for over 90% of daily volume.

There are 21 listed private banks on the ISX. Profit before tax increased by an astonishing 29% CAGR between 2007 and 2012. Still, we can with ease find quality banks trading below 10x trailing earnings and 1 - 1.5x book value, despite ample room for further growth. The market is heavily under-penetrated where only about 15% of Iraqis have bank accounts. Also, banks have only "dipped their toes" into conventional banking and are today mostly focusing on foreign exchange, central bank deposits and issuing letters of guarantee. At present, the Iraqi banking industry is dominated by state-run banks, namely Rashid Bank and Rafidan Bank. However, as competition gears

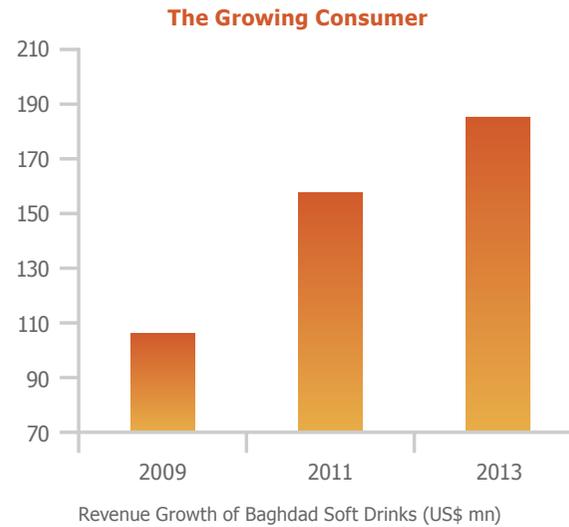
up, private banks are gaining market share and their growth potential is enormous, as today, they only account for 10% of the industry's assets. ▶

Market Cap rising with new listings and stellar growth in the banking sector



Mansour Bank is a great example of the many opportunities we find in the banking sector. Last year the bank's net income was up 115% on the back of revenue growth of 75% and margin improvement. The stock gained 50% while its PE multiple contracted from 25x to 14x trailing earnings. During one of our meetings with the bank's CEO he commented on the industry and its potential: "Banking in Iraq is like a 40 day old baby" he said.

The telecom giant Asiacell went public last year and it was the largest company to be floated in the Middle East since 2008. Mobile communication was non-existent up until the fall of



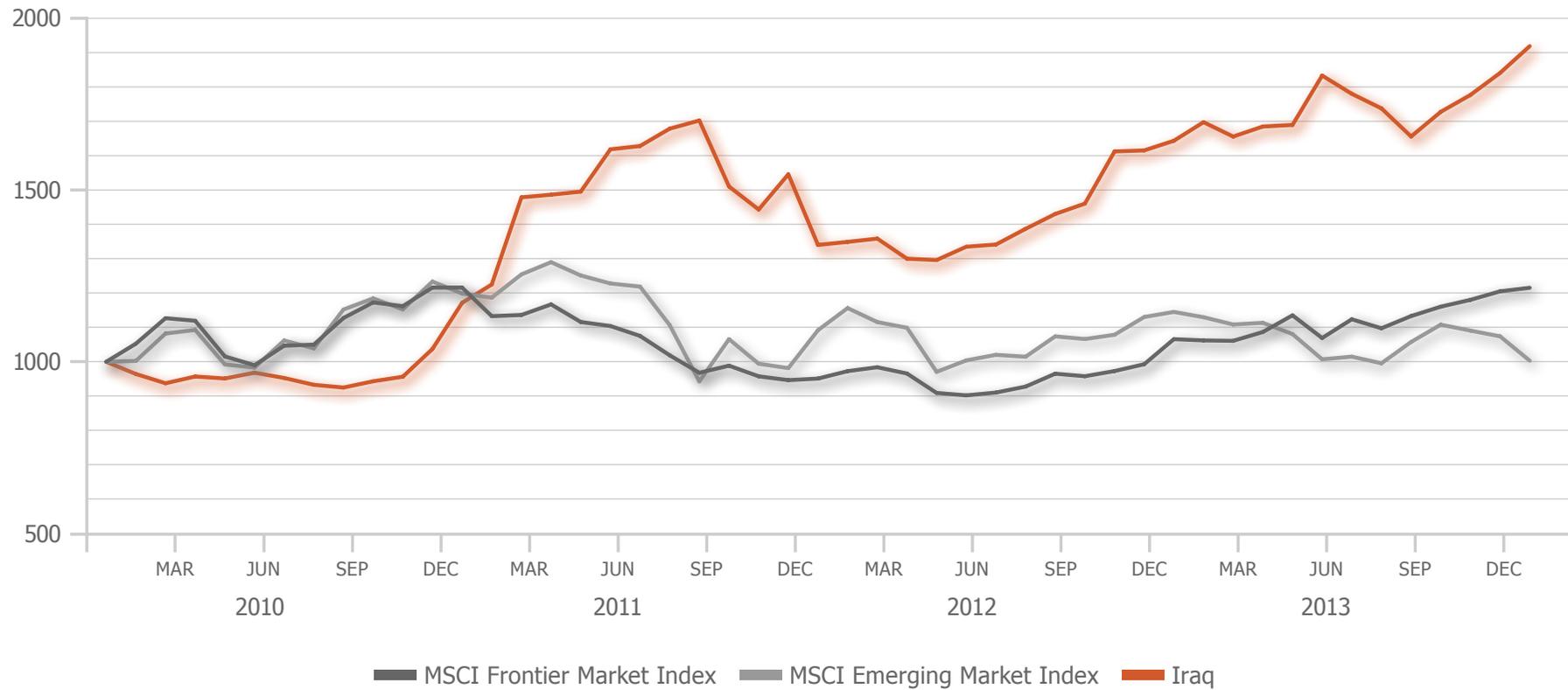
Saddam Hussein in 2003. Asiacell were pioneers, making significant investments building out infrastructure and can now leverage on its 11 mn subscriber base as the country is pushing forward with 3G services. At 7.7x trailing earnings and yielding 5.5% it certainly looks attractive when considering its growth prospects.

Attractive Bank Valuations

	Market Cap (US\$ bn)	PE	PB	ROE (%)	Loan/Deposits (%)
Iraqi Banks					
BBOB	0.4	8	1.1	15	12
BNOR	0.5	10	1.4	14	42
BGUC	0.2	7	0.8	30	69
BMNS	0.3	8	1	10	16
Average	0.4	8	1.1	17	35
EM & FM Banks					
Al Rajhi (Saudi)	28	14	2.8	20	83
NBK (Kuwait)	15	18	1.7	10	106
ICICI (India)	18	12	1.7	15	111
COMI (Egypt)	5	10	2.7	26	55
Average	17	14	2.2	18	89

EM Emerging Markets, FM Frontier Markets, BBOB Bank of Baghdad, BNOR North Bank, BGUC Gulf Commercial Bank, BMNS Al-Mansour Bank, NBK National Bank of Kuwait, ICICI Industrial Credit and Investment Corporation of India, COMI Commercial International Bank Egypt. Source: Bloomberg

OUTPERFORMING EMERGING AND FRONTIER MARKETS



Source: Bloomberg, 2010/01/31–2014/01/31, Currency: USD, Iraq: Rabee Securities Equity Index as a proxy for ISX.

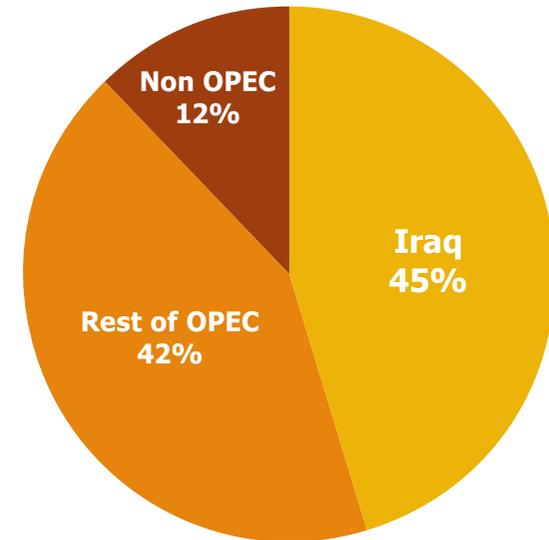
MOVING FORWARD

We believe Iraq has emerged from its darkest days and is making steady progress on the long road to post-conflict recovery. The economy has been expanding at rates that most countries would be envious of. Iraq, contrary to media's perceptions, is prospering economically and has significant upside to come.

The IMF forecast Iraq's GDP to have grown by almost 10% in 2013 while medium-term growth should reach over 8% CAGR through 2018, making it one of the world's fastest growing economies. Much of this growth stems from the expanding oil and gas industry. The International Energy Agency (IEA) estimates that by the 2030s, Iraq will be the world's second largest oil exporter. ▶



Growth in Oil Production



It is forecast that Iraq will account for 45% of the growth in global production to 2035, and that it will become the second-largest global oil exporter, overtaking Russia.



Iraq's Integrated National Energy Strategy aims to raise US\$ 6 tn from oil and gas sales by 2030 and massively increase local power generation. The strategy would see Iraq invest US\$ 620 bn in the sector over nearly 20 years. To put these figures in perspective -

Iraq's GDP is estimated at US\$ 225 bn and the ISX market capitalization is at roughly US\$ 10 bn.

Iraq is investing its petro dollars into infrastructure development and rebuilding the country which is

recovering from 25 years of war and sanctions. Although Iraq still has vast infrastructural needs, security issues and a flawed political system – the country is a fledgling, albeit imperfect democracy that has managed to show impressive growth.

In 2014 we expect to see further political power wrangling as a parliamentary election is upcoming. Violence levels in Iraq are at around one-tenth of 2007 levels but due to the pending elections we do not expect to see a tapering of sporadic violence.

The FMG Iraq Fund has a history of sound performance and is one of the largest foreign investors on the ISX. Growth in the private sector is expected to be strong and our Fund's growth and valuation metrics have never looked better. The Fund offers investors an opportunity to attain exposure to the significant growth and value found on the Iraqi stock market.

ASIA & LATIN AMERICA

Johan Kahm

Tel: +46 8 545 06 180

e-mail: johan@fmgfunds.com

EUROPE

Fredrik Edensvärd

Tel: +46 8 545 06 180

e-mail: fredrik@fmgfunds.com

**MEDITERRANEAN, AFRICA
& MIDDLE EAST**

Erik Nelson

Tel: +356 2131 4011

e-mail: erik@fmgfunds.com



Floor 6, Airways House, Gaiety Lane, Sliema, SLM 1549, Malta

Tel: +356 2131 4011 - Fax: +356 2014 1203

e-mail: malta@fmgfunds.com

www.fmgfunds.com



Disclaimer: This summary is for information purposes only and does not constitute an offer to sell or a solicitation to buy. Citizens or residents of the United States may not invest in this Fund. Opinions and estimates constitute the manager's judgment and are subject to change without notice. Past performance is not indicative of future results. Investments in Emerging Markets should be considered high risk where a portion or total loss of capital is conceivable. No assurance can be given that the investment objective will be achieved or that an investor will receive a return of all or part of his/her initial capital, and investment results can fluctuate substantially over any given time period. Please refer to the Fund's prospectus which contains brief descriptions of certain risks associated with investing in the fund. Questions should be directed to your local representative or financial advisor. This document may not be reproduced, distributed, or published for any purpose without the prior written consent of the manager.