



AFC IRAQ FUND REPORT

Fund Category	Iraq Public Equities
Country Focus	Iraq
Subscriptions	Monthly at NAV (five days before month end)
Redemptions	Monthly at NAV 60 days notice for Class A, 180 days notice for Class B.
Benchmark	RSISX Index
Fund Manager	Ahmed Tabaqchali
Investment Manager	Asia Frontier Capital (Iraq) Ltd., Cayman Islands
Investment Advisor	Asia Frontier Investments Ltd., Hong Kong
Fund Base Currency	USD
Minimum Investment	USD 25,000
Subsequent Investments	USD 10,000
Management Fee	Class A - 1.8% p.a. of NAV Class B - 1.5% p.a. of NAV
Performance Fee	Class A - 18% p.a. of NAV appreciation with high watermark Class B - 15% p.a. of NAV appreciation with high watermark
Fund Domicile	Cayman Islands
Launch Date	26 th June 2015
Custodian	Iraq Depository Centre (IDC)
Auditor	Ernst & Young, Hong Kong
Administrator	Custom House, Singapore
Legal Advisor	Ogier, Hong Kong
US Tax Advisor	Morgan, Lewis & Bockius LLP, Boston

Contact Information

Asia Frontier Capital Ltd.
www.asiafrontiercapital.com

Mr. Ahmed Tabaqchali
CIO
Asia Frontier Capital (Iraq) Ltd.
Fax: +852 3904 1017
amt@asiafrontiercapital.com

Mr. Stephen Friel
Marketing Director
Asia Frontier Capital Ltd.
Tel: +852 3904 1079, Fax: +852 3904 1017
sf@asiafrontiercapital.com

Registered Office:
c/o Elian Fiduciary Services (Cayman) Limited,
89 Nexus Way, Camana Bay, Grand Cayman,
KY1-9007, Cayman Islands

Hong Kong Office:
Asia Frontier Investments Limited
1208, 12th Floor, Loon Kee Building
267-275 Des Voeux Road Central
Hong Kong

A Brief History of the Situation in Iraq. By Ahmed Tabaqchali

To understand the situation in Iraq it is essential to understand the history of how Iraq got to this position in the first place. Below is a brief highlight to explain some of the key events leading to the situation in Iraq today:

- Iraq was previously under the rule of an equal opportunity oppressor. Saddam Hussein's regime wasn't a Sunni one oppressing a Shia majority but a tribal regime centered on Mr. Hussein and his tribe in Tikrit that was oppressing all Iraqis in equal measure. The Kurds in the north and especially the Shia's in the south received further oppression following the first Kuwait war in 1991 when both rose in rebellion, encouraged by the first Bush administration. The international collusion at the time established a no fly zone in the north that ultimately led to the semi autonomy enjoyed by the Kurds today, however no such line was established in the south and thus the Shia in the south were brutalized to suppress the uprising. Any dissent, whether Sunni, Shia or Kurd was crushed and all Iraqi's, except the regime's inner circle, lived through the twin nightmares of the sanctions and an oppressive state for over a decade.
- Iraq was a one party state and like all such states the only way for individuals to advance in society was to be members of the party especially as the government and state owned enterprises were the largest employers in the country. As a result most Iraqis joined the Baa'th party as a necessary evil which spanned all sectors of the economy and life. Granted the hierarchy and upper echelons were committed members, however the rank and file were not and did not enjoy any special privileges.
- Two of the most disastrous decisions of the Coalition Provisional Authority (CPA) under Paul Bremer following the 2003 war, were the disbandment of the Iraqi army and the criminalization of the Baa'th party which included the barring of all former party members from all government jobs then and in future. Thus suddenly a significant number of innocent members of society, that if not oppressed directly under the regime were never the less subject to the brutal state control, found themselves without any hope and excluded from the new Iraq under the CPA or under any new government to be established in Iraq. Al Qaeda exploited this situation with great success in the years after 2003, especially in Anbar.
- The American military response in 2007 of "Al Sahwa" or the "Arab Sunni Awakening" in Anbar involved the return of these un-franchised tribes into the fold with promises of inclusion in the new Iraqi Army. The end result was the crushing of Al Qaeda at the time and the start of the relative stability that saw Iraq begin to prosper. This also saw the beginning of the initial investment driven recovery in the Iraq market.
- It should be noted, however, that during the prior government's two terms in office, which ended last summer, it followed disastrous sectarian policies that alienated the Kurds and Sunni's. Its actions in Anbar were even worse as it not only reneged on promises made by the Americans but also persecuted these same tribes.



AFC IRAQ FUND REPORT

- Anbar and its marginalized tribes rose in peaceful demonstrations inspired by the Arab Spring of 2011, however, they were brutally crushed and as a consequence it turned to an uprising. ISIS, in a replay of Al Qaeda earlier, exploited these grievances and most of Anbar, apart from a few pockets including the government compounds in the provisional capital Ramadi, were under ISIS control in January 2014, six months before the fall of Mosul. At the time the state's military response included indiscriminate airstrikes that targeted civilian and military targets in equal measure.
- It was clear to all involved parties, particular the US & Iran, that the prior government had to be replaced by an inclusive one made up of all Iraqis to combat ISIS and to build and repair the damage of the past. This ultimately happened in September with a new inclusive government that's started the torturous process of repair. One of its main successes was the signing of the oil accord with the Kurdish Regional Government, which was covered in our previous newsletters and can be found on our website by clicking on the following link ([click here](#)).
- The formation of a new, inclusive government is only a start as the prior leadership was, and still is, firmly entrenched in power through the network of cronies and related parties that were employed in the state throughout the last 8 years. These parties still exercise considerable power and are actively sabotaging the work of the new leadership. Their largest success is the failure to pass the National Guard law, which was a crucial part of the inclusion process as it involved the hiring of local tribes throughout the country to defend and hold areas targeted by ISIS.
- This meant that the tribes in Anbar were not recruited into this National Guard unit and were left on their own to hold off the vastly more effective armed ISIS. In this context, the fall of the government compound in Ramadi would have been an inevitable event.
- It seems that in Iraq's three steps forward, two and half steps backward position that is emerging that all solutions, short of inclusion of the tribes of Anbar, will not yield sustainable results and as such the task of liberating Mosul looks to be next to impossible. Ultimately, I expect that the current leadership will, with the help and drive of the international coalition, succeed in reclaiming Anbar through the formation of National Guard units. It could also see the creation of local units equivalent to the, mostly Shia, Popular Mobilization units. This is the umbrella organization of militias reporting to the Iraqi government, however, this type of event is more likely to happen towards year end.

DISCLAIMER

Investments in equities in Iraq are subject to market risk, idiosyncratic risk, liquidity risk, and currency exchange rate risk. The fund may use financial derivative instruments as a part of the investment process. This document does not constitute an offer to sell, or a solicitation of an offer to buy shares in AFC Iraq Fund. We will not make such offer or solicitation prior to the delivery of an offering memorandum, the operating agreement or articles of association, a subscription booklet, and other materials relating to the matters herein. Before making an investment decision, we advise potential investors to read these materials carefully and to consult with their tax, legal, and financial advisors. The materials have not been reviewed by the regulatory authority of any jurisdiction. Investment is open only to accredited investors as defined by the relevant legal jurisdiction of residence and/or nationality. We have compiled this information from sources we believe to be reliable, but we cannot guarantee its accuracy. We present our opinions without warranty. Past performance is no guarantee of future results. © 2013 Asia Frontier Capital Limited. All rights reserved.