

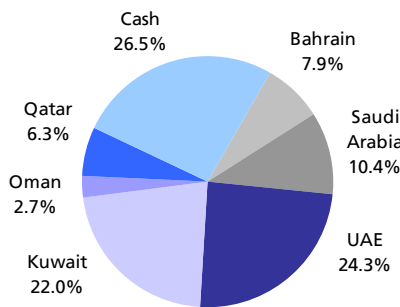
Manager's Commentary

The GCC markets turned in mixed numbers this month. Qatar (-1.8%) and Bahrain (-1.6%) lost some of the ground they gained last month. Abu Dhabi (-1.3%) and Dubai (-0.4%) continued their slow slide downwards. On the other hand, Saudi Arabia (+9.2%) continued its uptrend after a steep recovery in July. Oman (+3.5%) and Kuwait (+1.1%) also did reasonably well this month continuing the positive performance seen in previous months.

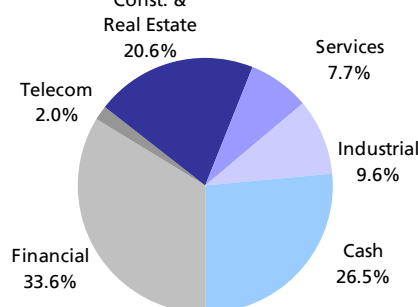
The Khaleej Equity Fund was down marginally, losing 0.2% for the month. On the other hand, the MSCI GCC Index benefited from its high exposure to Saudi Arabia and increased by +1.9%. Our fund also gained a fair share from the rally in Saudi equities, mainly through SABIC (+6.4%) and Saudi Telecom (+9.2%). However, our performance was somewhat dampened by our stock allocations in Kuwait. One of our top holdings, Agility (-10.1%) was impacted by a rival company's IPO offering. We believe the investors had a knee-jerk reaction as the new company was not a major threat to Agility, given its strong regional presence and expertise. Notwithstanding this fact, the IPO has been revoked, resulting in a surge in Agility's stock price. Emaar closed flat, after severe selling, driven by uncertainty regarding the land-swap deal with Dubai Holding and the US subprime jitters. The cancellation of the deal and subsequent announcement of the company to develop land in prime locations of Dubai, has boosted investor sentiment. We remain upbeat on the company's prospects and its upcoming IPO in India. During the month, MTC and KFH contributed positively to the benchmark. We exited these stocks a few months ago, as we felt they were overvalued. However, we will reassess these stocks once they fall within our target range.

Our fund strategy was to strengthen our position in Emaar by exploiting the temporary drop in prices. We also booked some profits in Raysut and SABIC at their month highs. We feel that the Saudi market has risen too far too fast, and choose to tread with caution. The additional cash generated through subscriptions in August, will be effectively re-deployed using investment ideas generated through our recent corporate visits.

Country Allocation



Sector Allocation



Fund Statistics

Price Earnings Multiple 2007 (x)	9.8
Dividend Yield 2006 (%)	4.0
Number of Holdings	34
Annualized Return (%)	23.3
Largest Monthly Gain (%)	14.7% (Mar 05)
Largest Monthly Loss (%)	-8.2% (May 06)
% of Positive Months	71
Maximum Drawdown- Peak to Trough (%)	21.8
Length of Drawdown (months)	10
Time to Recovery (months)	12

Investment Objective

The Fund seeks long-term capital appreciation by investing principally in equity securities listed on the stock markets of GCC countries.

Fund Returns (%)

	Fund	MSCI GCC Index
August 2007	-0.2	1.9
Year to Date 2007	19.2	16.0
Last 3 months	3.6	3.3
Last 6 months	16.2	13.4
Last 12 months	20.8	-3.4
2006	-13.9	-45.9
2005	56.8	na*
2004 (April - Dec)	27.0	na*
Since Inception	104.4	na*

* Benchmark was launched in June 2005

Fund Information

Launch Date	March 15, 2004
Management Fee	1.5%
Performance Fee	10% over 10% pa
Subscription & Redemption	Monthly
Subscription Deadline	Five Business days before month end
Redemption Deadline	Ten Business days before month end
Minimum Subscription	US\$100,000
Reuters Code	<SICO>
Bloomberg Code	KHALEQY BI
Fund Listing	Bahrain Stock Exchange
Custodian	Gulf Clearing Company

Top Holdings

Name	Country	(%)
Emaar Properties	UAE	7.5
SABIC	Saudi Arabia	5.1
Agility	Kuwait	5.1

Risk Statistics

Annualised Standard Deviation	15.5
Sharpe Ratio	1.18
Information Ratio	0.53
Beta	0.46
Alpha (%)	16.8

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