

Khaleej Equity Fund

Fact Sheet - December 31, 2007

NAV US\$246.61 ↑ 9.4%

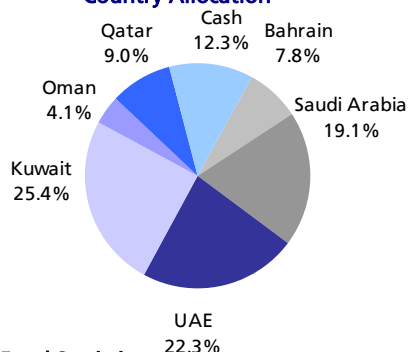
Manager's Commentary

After a series of mixed performances, the GCC markets picked up pace in December and closed on a positive footing. A strong budget surplus fuelled the Saudi market which appreciated by 18.1%. In the UAE, Abu Dhabi and Dubai gained 10.8% and 9.3% respectively. Further, buying interest in Oman (+7.0%) and Bahrain (+6.1%) boosted the markets. Meanwhile, Kuwait (+4.2%) made a recovery on the back of tax reforms. Qatar gained 2.3%. The year ended on a high note with markets averaging returns of over 44%. This solid performance is likely to continue in the New Year driven by high oil prices and continuing foreign and local investments.

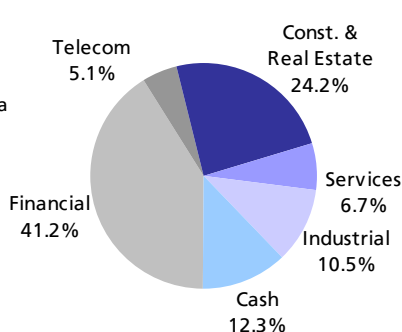
The Khaleej Equity Fund appreciated by 9.4% for the month. In contrast, the MSCI GCC Index went up by 14.1%. Our fund reaped gains from Saudi equities, notably Saudi Basic Industries Corporation (SABIC) and National Shipping. Both stocks gained 25% each. SABIC gained after its affiliate, Arabian Industrial Fibres Co., announced a capital increase from SAR 3.5bn to SAR 8.5, to pay off debt to SABIC and Public Investment Fund. The share price rose further as the company decided to raise prices of polyethylene in Europe by EUR 100 per metric ton. Additionally, Gulf Finance House (22%) and United Gulf Bank (15%) also contributed positively to the fund's performance. Emaar Properties, our top holding, rebounded (+20%) on the back of encouraging developments in its international subsidiaries. Investors reacted positively to the company's Indian IPO which is expected to receive approval in January. The launch of sales registration in the multi billion dollar real estate project in Pakistan also attracted buyers to build positions. Furthermore, Emaar's Industries and Investments unit's plans to invest AED 400mn in acquiring majority stakes in the MENA region in 2008 favoured the stock price.

During the month, we reduced our exposure to Saudi equities due to expensive valuations with key stocks trading at an average P/E of 22x vs. multiples of around 16x at which the stocks were trading a few months ago. Our conservative approach is also based on the premise that the market may be overheating while sub prime impact on the Saudi financial sector is not fully visible yet. We therefore, exited a few Saudi banks after booking profits. On the other hand, we built a position in First Finance Company, and strengthened our investment in Ithmaar Bank, Galfar, Industries Qatar and a few financial stocks in Kuwait. The total cash allocation reached 12.3% at the end of the month.

Country Allocation



Sector Allocation



Fund Statistics

Price Earnings Multiple 2007 (x)	13.1
Dividend Yield 2006 (%)	3.5
Number of Holdings	39
Annualized Return (%)	27.2
Largest Monthly Gain (%)	14.8 (Mar 05)
Largest Monthly Loss (%)	-8.2 (May 06)
% of Positive Months	73
Maximum Drawdown- Peak to Trough (%)	21.8
Length of Drawdown (months)	10
Time to Recovery (months)	12

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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
December 2007	9.4	14.1
Year to Date 2007	43.9	44.1
Last 3 months	18.9	25.2
Last 6 months	24.0	31.9
Last 12 months	43.9	44.1
2006	-13.9	-45.9
2005	56.8	na*
2004 (Apr - Dec)	27.0	na*
Since Inception (Mar'04-Dec'07)	146.6	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	LP65038262
Bloomberg Code	KHALEQY BI
Zawya Code	SICOKEF.MF
Fund Listing	Bahrain Stock Exchange
Custodian	Gulf Clearing Company

Top Holdings

Name	Country	(%)
Emaar Properties	UAE	8.2
Gulf Finance House	Bahrain	4.6
SABIC	Saudi	4.5

Risk Statistics

Annualised Standard Deviation (%)	15.5
Sharpe Ratio	1.43
Information Ratio	0.46
Beta	0.47
Alpha (%)	15.4

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Investment Bank