

**Manager's Commentary**

All regional markets except Kuwait (+2.9%) declined during the month. The decline in share prices was particularly acute in Egypt (-10.3%). Egyptian market adversely reacted to the inflation figures published by its central bank. Higher food and fuel cost resulted in consumer price inflation in Egypt increasing to 19.7% YoY in May compared to 16.4% YoY in April. Weak investor sentiment particularly among foreign institutional investors contributed to the 4.1% drop in Dubai. Investors in Oman (-2.0%), Saudi Arabia (-1.9%), Abu Dhabi (-1.7%) remained cautious in absence of any positive news flow. However, we expect most companies in the region to post strong second quarter earnings, this we believe will help improve the overall market sentiment.

Qatari based financials continued their upward momentum. Earnings of financials in Qatar are anticipated to benefit from significant loan growth driven by surge in population and investment. Qatar Islamic Bank (+14%), First Finance Company (+5%) were among the biggest gainers. In Egypt, the cancellation of the sale of Banque du Caire contributed to the negative investor sentiment particularly towards Egypt's small banks that were viewed as good acquisition targets. The top bid for Banque du Caire valued it at a Price to Book (PB) of 3.6x. This was lower than the multiples at which Bank of Alexandria (PB 6.1x) and Watany Bank (PB 4.9x) were sold in the past.

The NAV of SICO Arab Financial Fund (SAFF) was down by 0.8% in June and is up 14.2% for the year. The S&P Financial Index declined by 0.9% for the month and down 4.1% for the year. While most stocks in our portfolio were range bound, our Qatari based financials were the biggest contributors to the fund. Despite the bearish market sentiment, during the month, we capitalized on the overall decrease in prices to increase our stake in financials that we believe are fundamentally undervalued. This resulted in our cash allocation decreasing from 13% in May to 3% in June.

**Investment Objective**

The fund seeks long-term capital appreciation by investing primarily in financial sector equities listed in Kuwait, Oman, Qatar, Bahrain, the United Arab Emirates, Saudi Arabia, Egypt, Tunisia, Jordan, Morocco and Lebanon.

**Fund Returns (%)**

	Fund	S&P Financial
June 2008	-0.8	-0.9
Year to Date 2008	14.2	-4.1
Last 3 months	6.6	1.5
Last 6 months	14.2	-4.1
2007 (Aug'07-Dec 07)	20.7	31.5
Since Inception (Aug'07-March 08)	38.9	33.8

**Fund Information**

Launch Date	August, 2007
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	LP65077627
Zawya Code	SICOAFF.MF
Fund Listing	Bahrain Stock Exchange
Custodian/ Administration	Gulf Clearing Company

**Top Holdings**

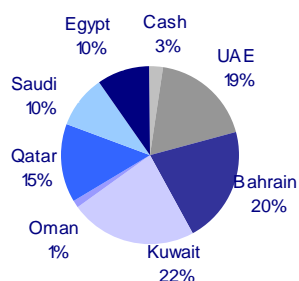
Name	Country	(%)
Gulf Finance House	Bahrain	5.5
KIPCO	Kuwait	5.2
Ithmaar Bank	Bahrain	4.9

**Risk Statistics**

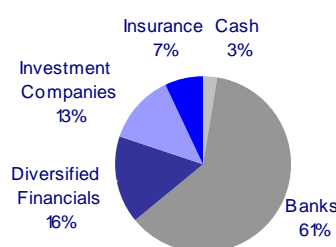
Annualised Standard Deviation	NA
Sharpe Ratio	NA
Information Ratio	NA
Beta	NA
Alpha (%)	NA

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**Country Allocation**



**Sector Allocation**



**Fund Statistics**

Price Earnings Multiple 2008 (x)	12.0
Price to Book Multiple 2008 (x)	2.8
Dividend Yield 2007 (%)	3.3
Number of Holdings	36
Annualized Return (%)	48.4
Largest Monthly Gain (%)	8.4 (Dec-07)
Largest Monthly Loss (%)	0.8
% of Positive Months	90%
Maximum Drawdown- Peak to Trough (%)	0.8%
Length of Drawdown (months)	1
Time to Recovery (months)	NA

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