

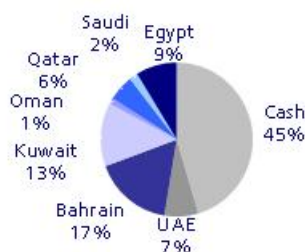
Manager's Commentary

October witnessed severe downturn in all major global markets. Regional equities were no exception to this trend and all markets except Abu Dhabi (-16%) and Bahrain (-9.8%) declined in excess of 20%. The low market activity was attributable for the relative better performance of Bahraini equities. Egypt and Dubai recorded the biggest losses decreasing by 29% and 33% respectively. Declines in Egypt were partly on account of worries over the potential increase in the budget deficit due to lower expected tourist arrivals. Market performance in Dubai reflected investor worries over the prospects of its real-estate market.

Insurance companies and investment banks were among the biggest decliners during the month. Investors were particularly concerned about the potential losses in the investment portfolios of these financials. Investment companies such as Kuwait Financial Centre, Global Investment House and Shuaa Capital declined by 45%, 40% and 35% respectively. Financials exposed to the insurance industry such as Oman National Investment, Company for Corporate Insurance and Qatar Insurance recorded declines of 53%, 49% and 35% respectively. During the period, investors preferred to stick to large cap financials such as Saudi British Bank (-3%) and National Bank of Kuwait (-13%).

The SICO Arab Financial Fund (SAFF) was down 16.4% in August and is down 23.3% for the year. Despite this double digit decrease, the fund was among the best performing funds in the region. On the other hand, S&P GCC Financial Index dipped by 22.9% for the month and is down 40.8% for the year. The fund benefitted from our relatively high cash allocation and exposure to large cap financials in the region. We remain cautious about the near term prospects of the markets and we are currently in the midst of restructuring our portfolio. During the month, we increased our cash allocation from 26% to 45%. We aim to further reduce our investments in financials whose revenues are exposed to the real-estate markets and/or investment income; however, we see value in large cap financials with strong balance sheets and core income growth. Going forward, we intend to continue to increase our exposure to this segment.

Country Allocation



Sector Allocation



Fund Statistics

Price Earnings Multiple 2008 (x)	9.0
Price to Book Multiple(x)	1.1
Dividend Yield 2007 (%)	5.3
Number of Holdings	30
Annualized Return (%)	-6.0
Largest Monthly Gain (%)	8.4 (Dec-07)
Largest Monthly Loss (%)	16.4
% of Positive Months	60
Maximum Drawdown- Peak to Trough (%)	33.4
Length of Drawdown (months)	5
Time to Recovery (months)	NA

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
October 2008	-16.4	-22.9
Year to Date 2008	-23.3	-40.8
Last 3 months	-31.3	-36.4
Last 6 months	-32.0	-42.6
2007 (Aug'07-Dec 07)	20.7	31.5
Since Inception (Aug 07- Sep 08)	-7.4	-22.1

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	HSBC Middle East

Top Holdings

Name	Country	(%)
Burgan Bank	Kuwait	4.0
EFG	Egypt	3.4
NBAD	UAE	2.0

Risk Statistics

Annualised Standard Deviation	23.5
Sharpe Ratio	NA
Information Ratio	0.8
Beta	0.7
Alpha (%)	4.4

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