

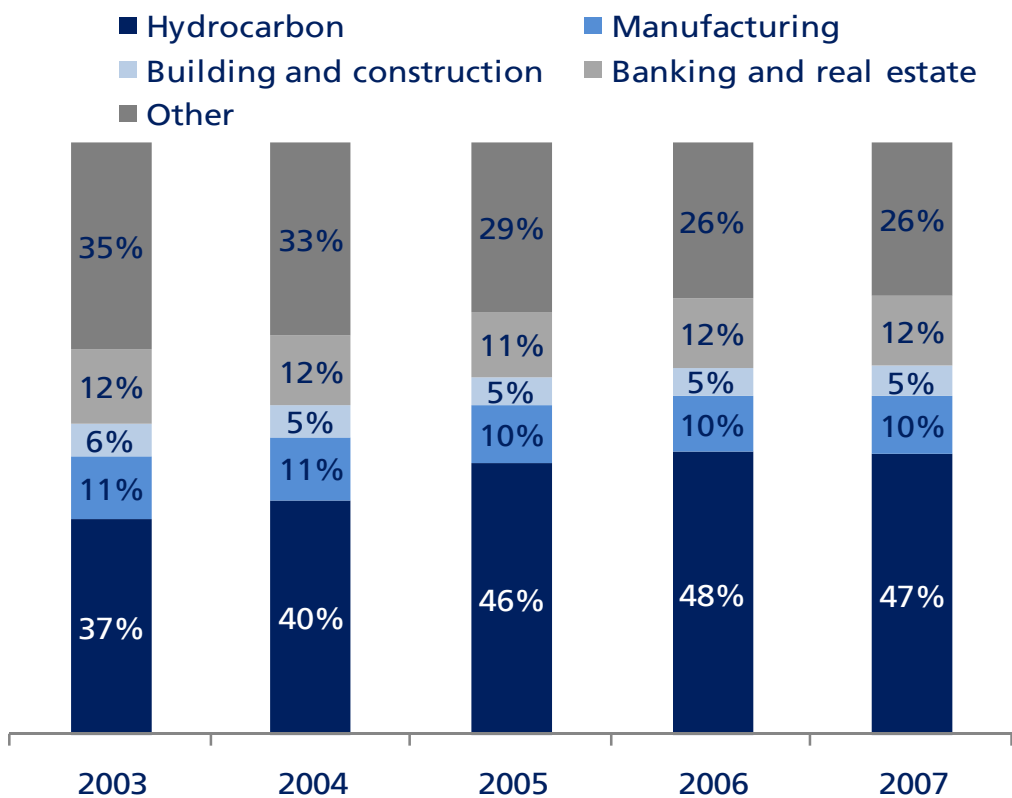
The Road Ahead: The GCC Markets in 2010

Is a Cold Front Heading our Way?

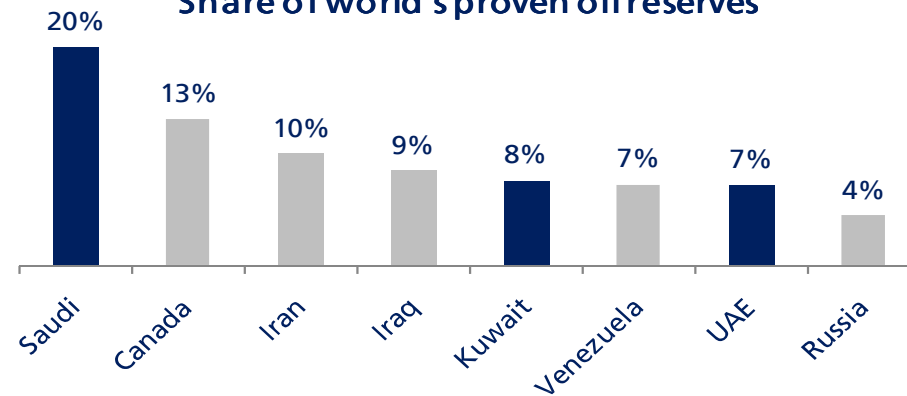
CFA Presentation
January 30th, 2010

GCC – a play on oil

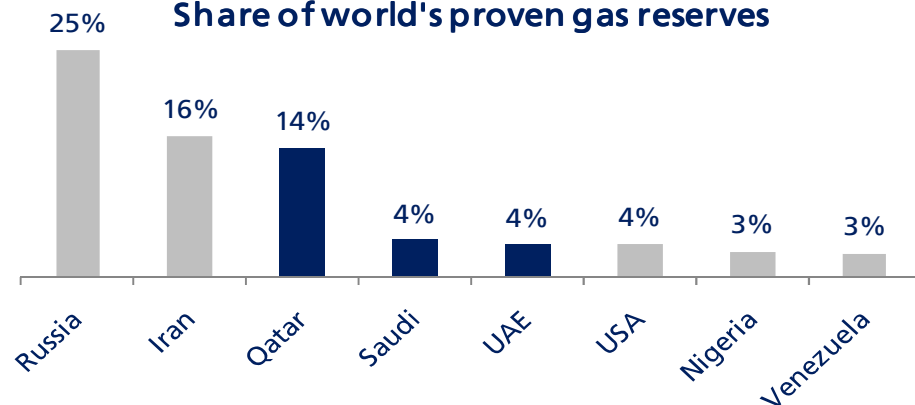
GCC GDP composition



Share of world's proven oil reserves



Share of world's proven gas reserves



Source: Oil and Gas Journal, Jan 2009

GCC markets & economies

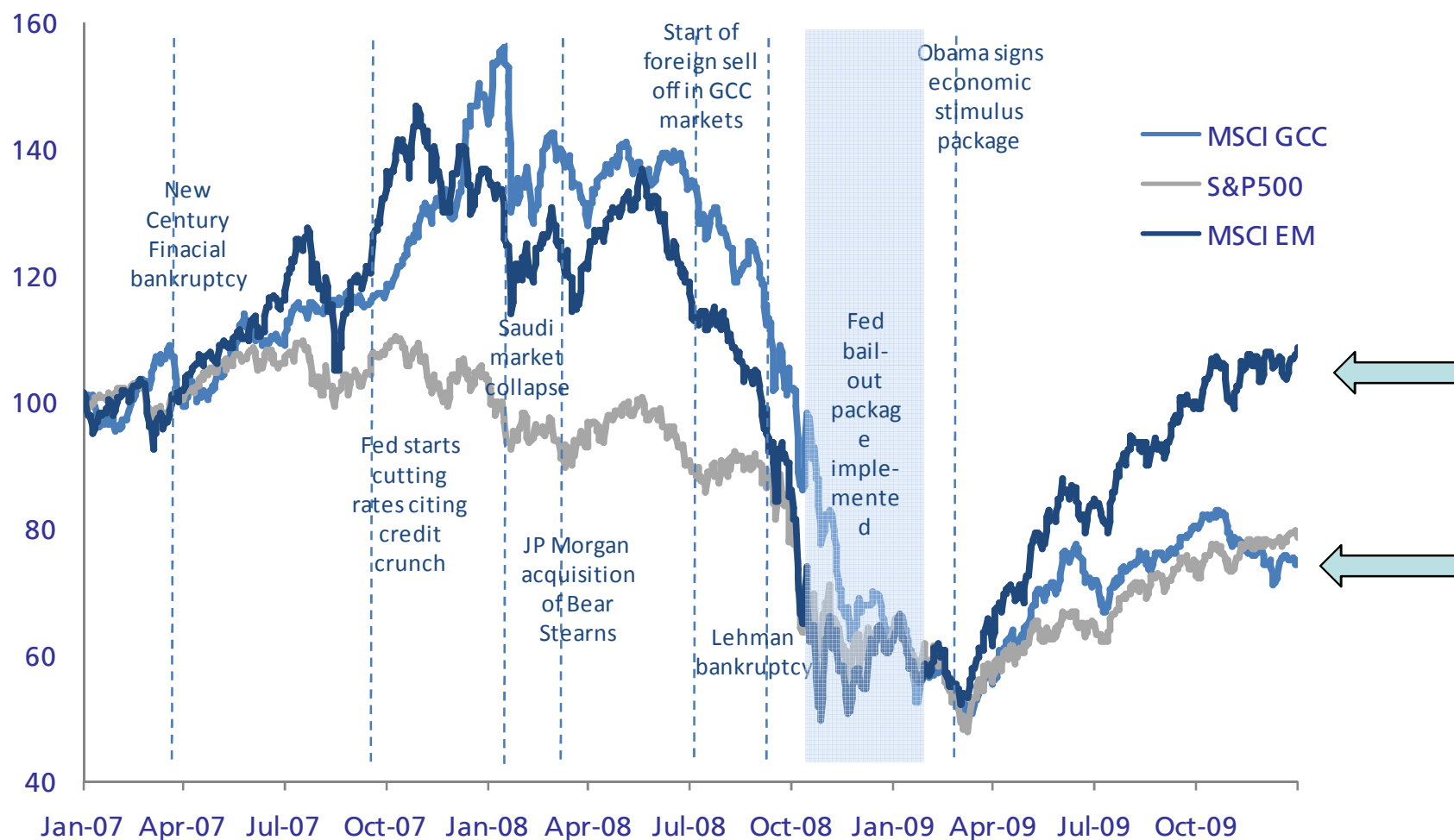
- GCC markets offer good breadth – 123 listed Cos each with MCap >\$1bn
- Qatar's per capita income is the third highest in the world (after Luxemburg and Norway)
- Given the impressive GDP growth, per capita Income and a favorable structural outlook the Mcap / GDP Ratio of 0.8 looks attractive

Country	MSCI GCC Wt	Actual MCap \$bn	No.of Listed Cos	No of Cos > \$ 1bn	No of Cos > \$500m	Nominal GDP 2009E \$bn	MCap to GDP (x)	PopIn m	Per Capita Inc \$000
Saudi	59.0	322	134	41	62	380	0.8	24.9	19,345
UAE	9.2	108	132	33	48	229	0.5	4.8	54,607
Kuwait	21.1	94	204	21	34	115	0.8	3.4	45,920
Qatar	7.1	88	45	21	26	93	0.9	1.1	93,204
Bahrain	1.0	16	43	5	8	19	0.8	0.9	27,248
Oman	2.6	18	64	2	9	52	0.3	2.7	18,988
GCC	100.0	646	622	123	187	887	0.8	37.7	28,500
GCC Ex-SAUDI	41.0	324	488	82	125	507	0.7	12.8	46,400

Source: SICO Research, Bloomberg, IMF

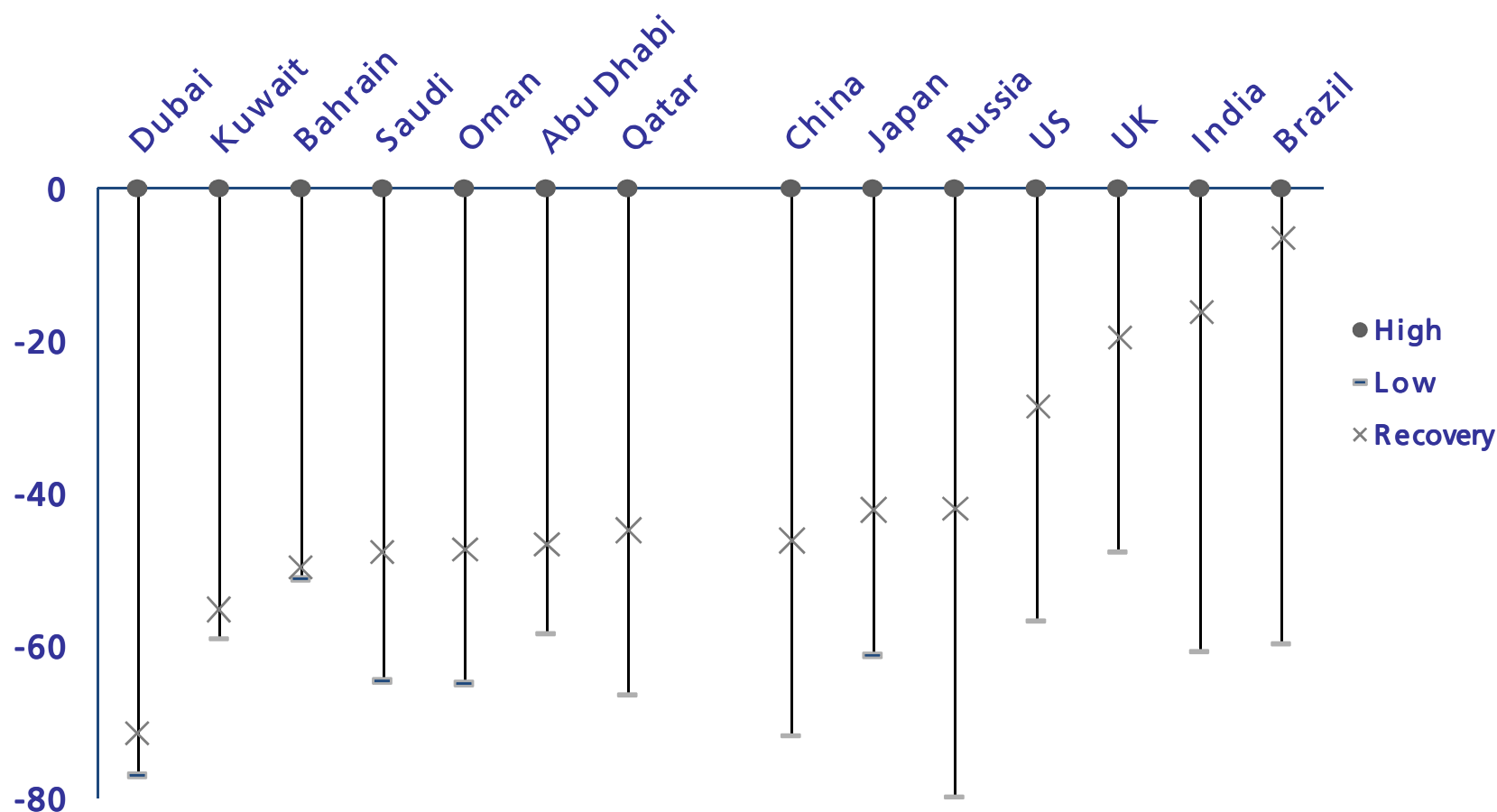
Data as of 31st December 2009

Post Trauma – GCC is dragging behind EM...



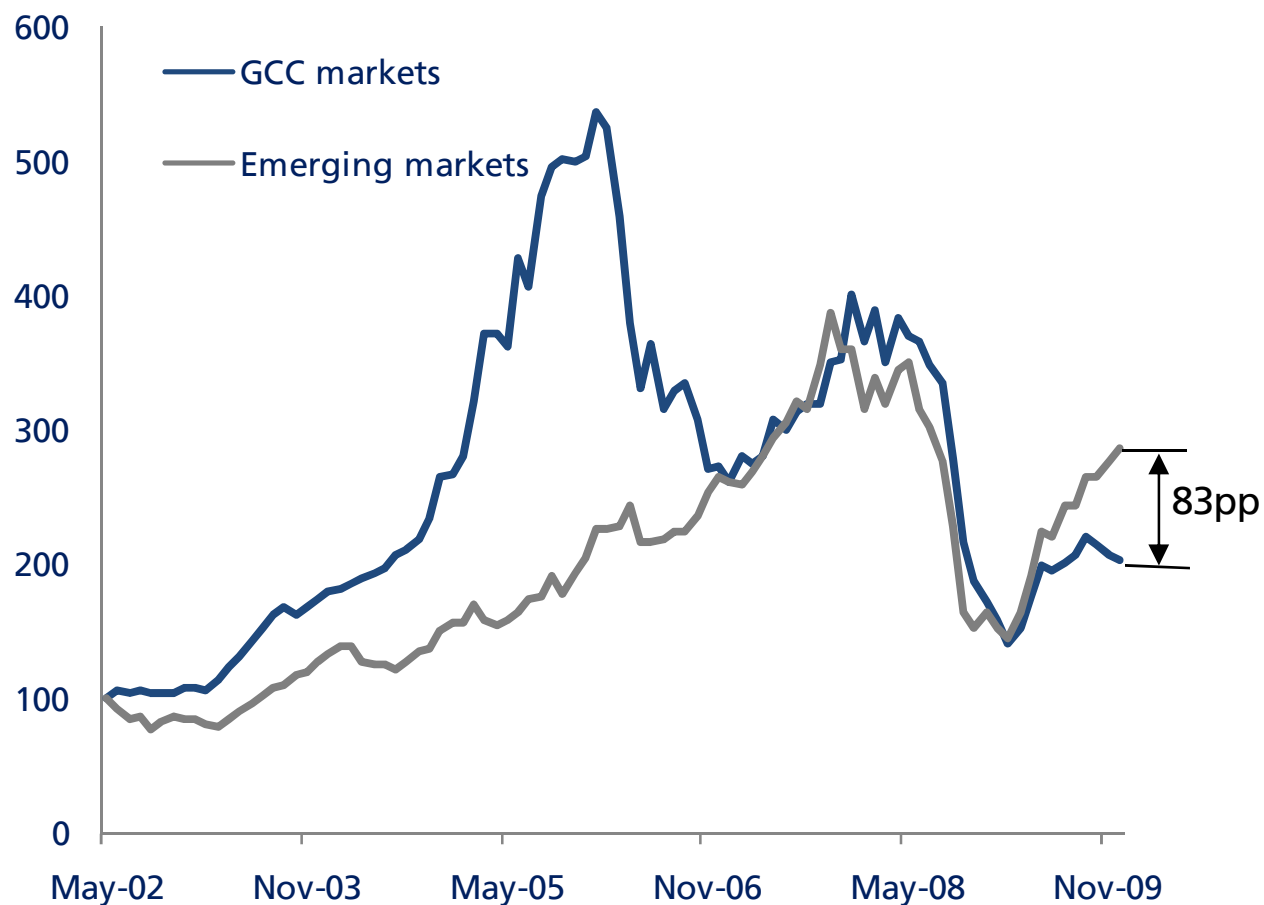
GCC markets: still at an early stage of recovery

Peak to trough (percentage points) and recovery to date



Source: Bloomberg, SICO Asset Management Research
Data as at 31st December 2009
The period considered is Jun'07 to date

Underperformance of GCC markets in 2009



	MSCI GCC Index	MSCI EM Index
May'02 – Feb'06	+425%	+126%
Feb'06 – Dec'08	-67%	-21%
2009	+18%	+74%
May'02 – Dec'09	+103%	+186%

Source: Bloomberg, SICO Asset Management Research
Data as at 31st December 2009

Valuations have supported GCC Markets recovery



Source : Bloomberg, SICO AMR

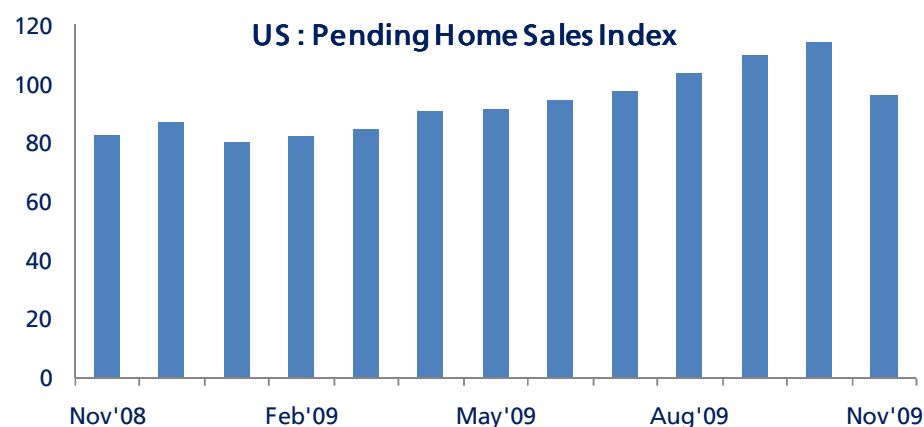
Global economic recovery to continue in 2010

- Almost all major economies exited recession by the 3rd quarter of 2009.
- In the near term governments are not expected to curtail supportive fiscal and monetary measures
- We share the consensus view that the recovery would continue in 2010

Real GDP growth for key economies

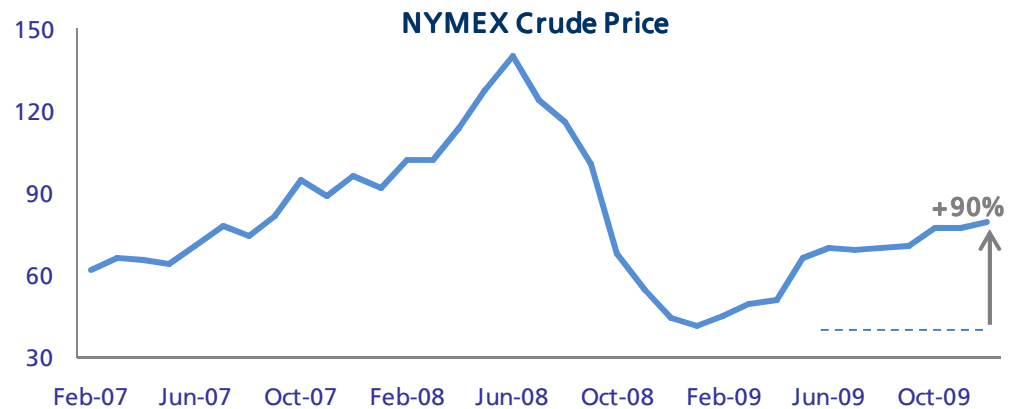
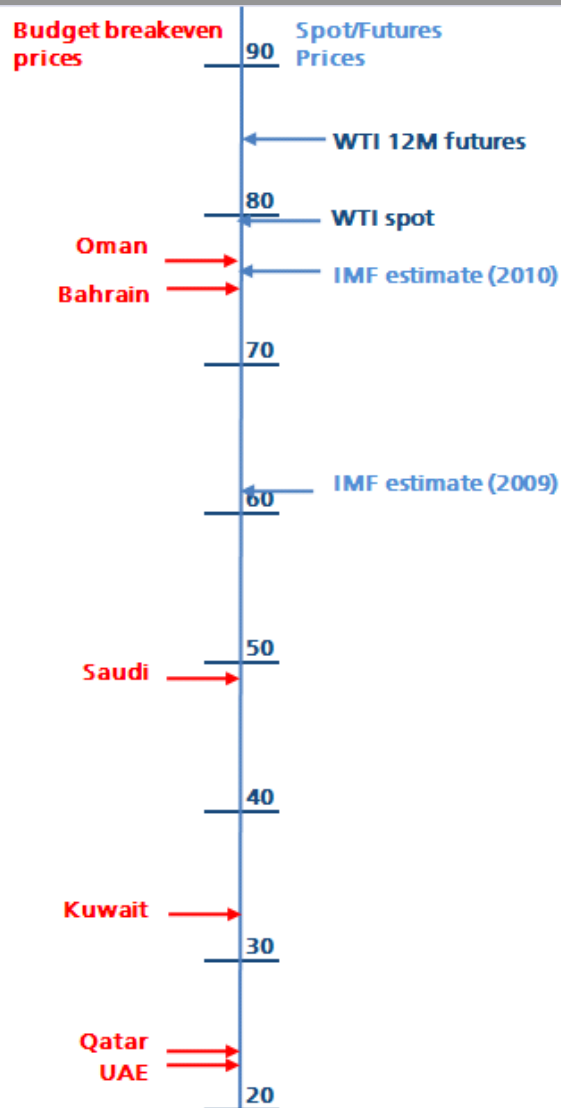
Country	2008E	2009E	2010E
US	0.4	-2.7	1.5
Eurozone	0.7	-4.2	0.3
UK	0.7	-4.4	0.9
Japan	-0.7	-5.4	1.7
Brazil	5.1	-0.7	3.5
Russia	5.6	-7.5	1.5
India	7.3	5.4	6.4
China	9.0	8.5	9.0
GCC	6.6	0.7	5.0

Source: IMF and others



Source: National Association of Realtors

Uptrend in oil price is likely in the long run



A dollar increment in crude oil price generates US\$5bn additional revenue for the GCC economies (0.5% of 2008 nominal GDP)

Reasons for recovery...	Sustainability will depend on...
<ul style="list-style-type: none"> • OPEC production cuts • Depreciation of the US Dollar • Building up of crude inventories by countries such as China 	<ul style="list-style-type: none"> • Global economic recovery • Continuing demand from the emerging markets • Delay in capacity additions

Source: Bloomberg, IMF estimates

Economic growth expected to rebound

Percentage growth in Real GDP

Country	2006	2007	2008E	2009E	2010E
Saudi Arabia	3.1	3.5	4.6	-0.9	4.0
Qatar	15.0	15.9	16.4	11.5	18.5
UAE	9.4	6.3	7.4	-0.2	2.4
Kuwait	5.1	2.5	6.3	-1.5	3.3
Oman	6.0	7.7	7.8	4.1	3.8
Bahrain	6.6	8.1	6.1	3.0	3.7
GCC - average	5.8	5.2	6.6	0.7	5.0

Source: International Monetary Fund

Twin balances are still manageable

	Current Account			Fiscal Balance		
Country	2008E	2009E	2010E	2008E	2009E	2010E
As a percentage of GDP						
Saudi Arabia	28.6	4.1	11.4	33.6	0.6	3.9
Qatar	28.0	10.8	25.3	17.0	7.8	9.9
UAE	15.7	-1.6	5.2	31.2	7.3	8.2
Kuwait	44.7	29.4	35.3	21.0	8.5	11.7
Oman	9.1	-0.4	4.8	13.3	-4.5	-1.1
Bahrain	10.6	3.7	6.2	10.3	-7.5	-1.2
GCC average	26.3	6.3	14.2	28.0	3.5	6.2
Value in US\$bn						
GCC total	282	56	149			

Source: International Monetary Fund, others

GCC reserves remain healthy

- Regional SWFs (Sovereign Wealth Funds), aside from Saudi Arabia were significantly impacted by capital losses in 2008.
- Recovery in global equity markets and crude oil prices, thus far, point to growth fund sizes in 2009 and provides a healthy outlook for 2010 as well.

Figures in US\$ bn

Country	Sovereign Wealth Funds			
	Dec'07	Capital Gain / (Losses)	Inflows / (Outflows)	Dec'08
Saudi Arabian Monetary Agency (SAMA) and other government institutions	385	-46	162	501
Abu Dhabi Investment Authority (ADIA)/Abu Dhabi Investment Council (ADIC)	453	-183	59	328
Kuwait Investment Authority (KIA)	262	-94	57	228
Qatar Investment Authority (QIA)	65	-27	28	58
Other GCC central banks	116	0	-33	84
Total	1282	-350	273	1200

Source: Centre for Geo-economic Studies' estimates

Govt. actions continue to stimulate economy

Country	Action Taken
Saudi	<ul style="list-style-type: none"> ▪ Govt. announced a US\$200bn stimulus plan spanning over five years (Dec'08) ▪ SAMA cut the reverse repo rate by 25 bps to 0.5% (Jul'09) thus, lowering interest rates five times since Oct'08
Qatar	<ul style="list-style-type: none"> ▪ Govt. purchased investment portfolios of seven local banks (Mar'09) ▪ Govt. announced it would spend \$4bn on buying real estate investments from nine local banks (May'09) ▪ Draft law approved to slash corporate income tax from 35% to 10% for foreign companies (Jun '09)
UAE	<ul style="list-style-type: none"> ▪ Dubai issued the first half (\$10bn) of a \$20bn bond that was fully subscribed to by the UAE Central Bank (Feb'09) ▪ Abu Dhabi injected AED 16bn of capital into its banks (Feb 09) ▪ Law approved to temporarily allow the govt. to guarantee bonds sold by the local banks (Jul'09) ▪ Abu Dhabi government and the UAE Central Bank agreed to provide US\$10bn funding to Dubai Financial Support Fund part of which is will be used to repay Nakheel's Sukuk (Dec'09)

Source: SICO Asset Management Research

Govt. actions continue to stimulate economy

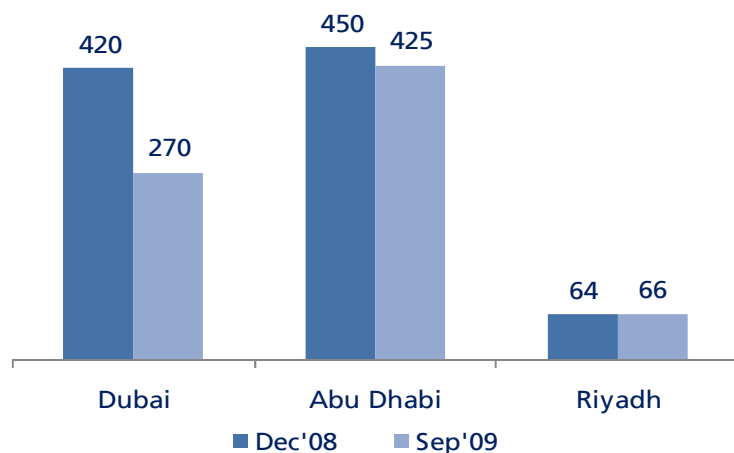
Country	Action Taken
Kuwait	<ul style="list-style-type: none">▪ Kuwait's cabinet approved an estimated \$5bn financial stimulus plan to encourage lending and assist troubled investment firms in repaying their debts. The govt. would guarantee 50% of new credit facilities and would also assist banks in buying any unsubscribed stock in capital increases (Mar'09)▪ KIA injected KD 400m in a national fund set up to support the local bourse (Apr'09)▪ KIA has prepared a draft plan to inject further liquidity into the stock market (Jul'09)
Oman	<ul style="list-style-type: none">▪ A stock market stabilization fund was launched for OMR 150m of which the govt. owned 60% (Jan'09)
Bahrain	<ul style="list-style-type: none">▪ Key policy interest rates reduced by 25 bps (Oct '08)▪ Central Bank of Bahrain cut reserve requirements to 5% from 7% (Mar'09)

Source: SICO Asset Management Research

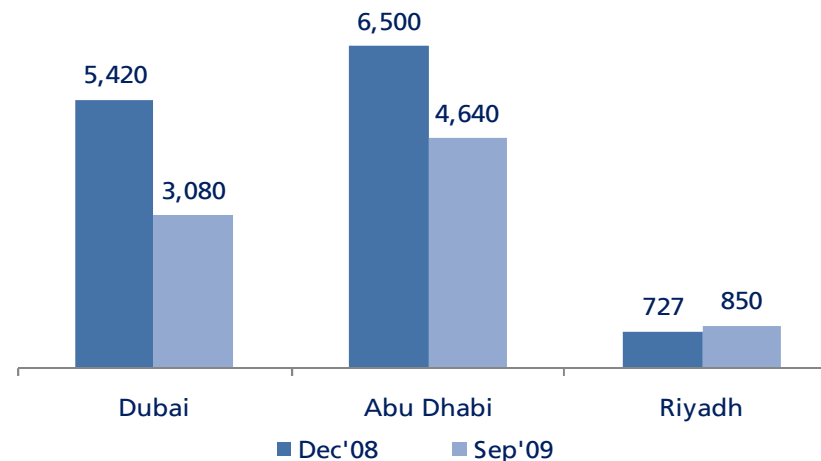
GCC real estate (ex-Dubai) looks sound

- The financial crisis had a significant impact on Dubai's real estate market as property prices and rents fell sharply
- Elsewhere in GCC - Abu Dhabi and Saudi Arabia we continue to see value in real estate.
- Market surveys show that rents and prices in Saudi Arabia have increased during 2009; Although prices in Abu Dhabi fell by ca.30% the rents dropped marginally reflecting the underlying demand for accommodation.

Average rent (residential) US\$/sq.m



Average selling price (residential) US\$/sq.m



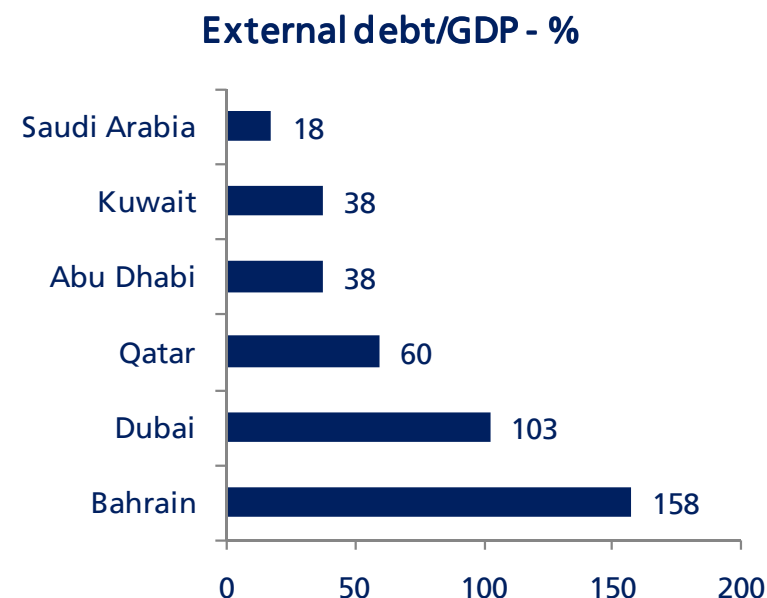
Source: Colliers

Dubai is not a proxy for the GCC

- Default fears on debts of Government Related Enterprises (GREs) sent shock waves through all GCC markets in Nov-Dec 2009.
- Although Dubai's credit problems have attracted unprecedented negative publicity to the region we believe that wider implications of Dubai's liabilities on GCC is overblown.
- Dubai accounts for only a fraction of overall GCC economy /markets and hence the prospects of the region should not be impacted in the long term.

	Dubai	GCC Total	% of GCC
Gross Domestic Product 2008 (US\$bn)	82	1073	7.6%
Population (m)	1.6	37.7	4.2%
Market capitalization (US\$bn)	47	646	7.3%
No. of listed companies >US\$ 1bn	12	123	9.8%

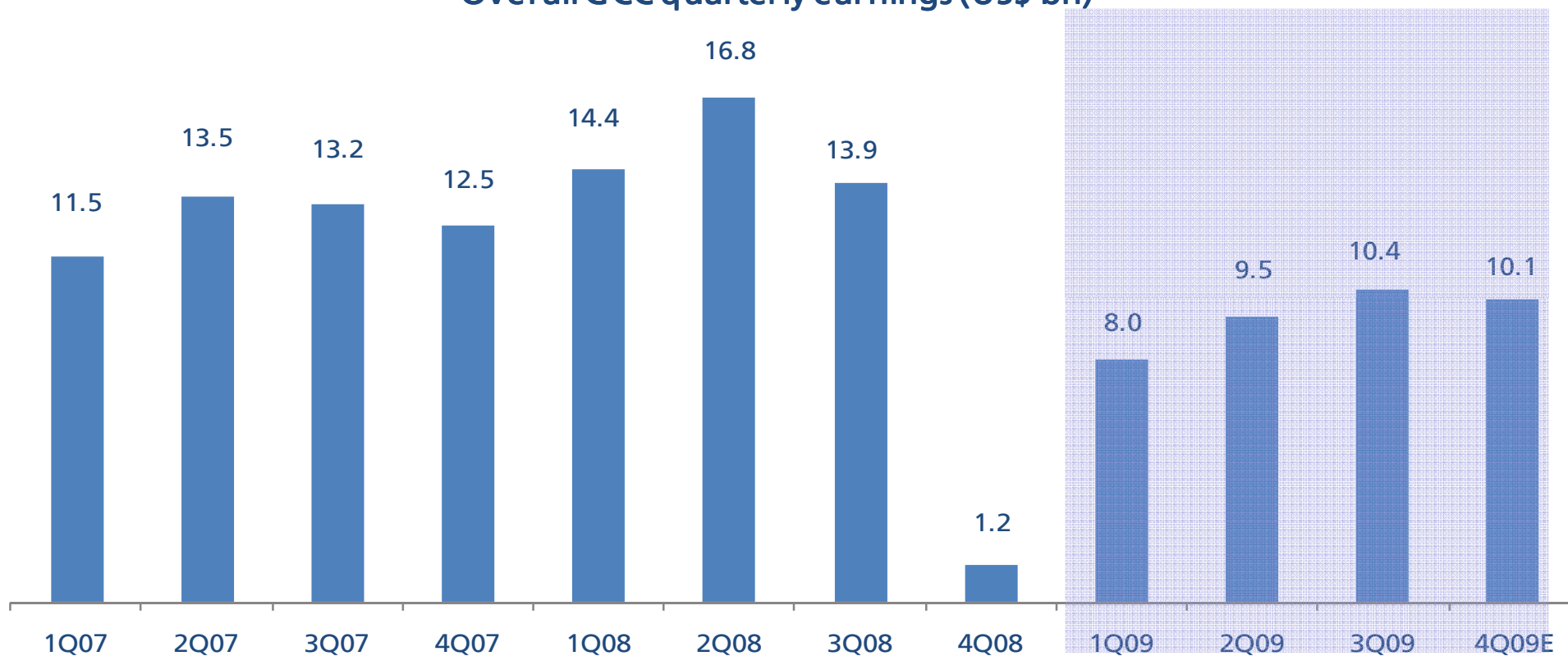
Source: IMF, Others



Note: External debt includes public and private debt

Corporate profits – quarterly trend

Overall GCC quarterly earnings (US\$'bn)



Source : Company reports, SICO AMR

Corporate earnings – yearly trend

Percentage growth

Country	2005	2006	2007	2008	2009E	2010E
Saudi Arabia	44.0	18.5	7.2	-8.0	-25.0	14.0
Qatar	44.3	23.9	35.3	29.0	3.0	16.0
UAE	130.4	16.0	26.8	0.9	-23.0	11.0
Kuwait	74.2	-2.1	34.9	-17.7	-26.0	2.0
Oman	28.8	30.5	33.0	-6.1	7.0	11.0
Bahrain	-18.5	37.7	14.6	-16.3	-40.0	20.0
GCC - average	56.5	15.0	19.7	-10.8	-21.0	12.0

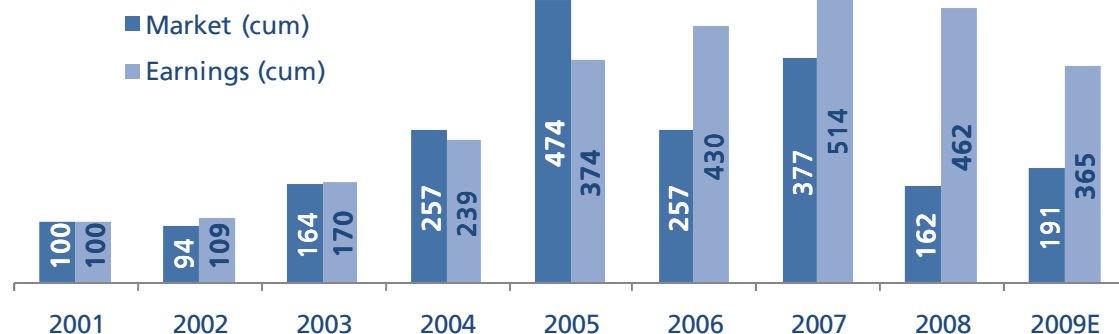
Source: SICO Asset Management Research

Corporate earnings leading market returns

Market returns vs corporate earnings growth



Cumulative market returns vs cum. earnings growth
Index (Dec'01=100)



- During 2003-05 markets returns were higher than corporate earnings growth
- The sharp market correction in 2006 reversed the equation and since market returns have lagged
- From 2002-08 GCC markets have increased at a CAGR of 7% compared to earnings CAGR of 24% over the same period.
- This has created a substantial latent potential in market returns which could be realized from 2009 onwards

Historical & Forward P/Es

P/E (X)	2004A	2005A	2006A	2007A	2008A	5yr avg
Kuwait	13.2	12.0	16.9	13.7	14.1	14.0
Bahrain	12.9	12.0	11.6	12.4	6.7	11.1
UAE	18.7	22.9	14.3	15.7	5.5	15.4
Qatar	18.7	27.6	15.1	15.8	9.3	17.3
Saudi Arabia	23.3	35.0	15.0	20.0	9.7	20.6
Oman	9.6	13.1	11.4	14.5	9.9	11.7
GCC	20.3	28.7	15.1	16.9	9.3	18.1

P/E (X)	2008T	TTM	2009E	2010E
Kuwait	12.3	65.4	16.6	16.3
Bahrain	6.9	20.0	16.0	11.4
UAE	7.3	13.0	9.5	8.5
Qatar	10.2	11.5	9.9	8.5
Saudi Arabia	13.9	19.9	18.5	16.3
Oman	11.2	13.4	10.5	9.4
GCC	10.8	16.9	13.7	12.2

Notes:

Data as of 31st December 2009

PEs Based on:

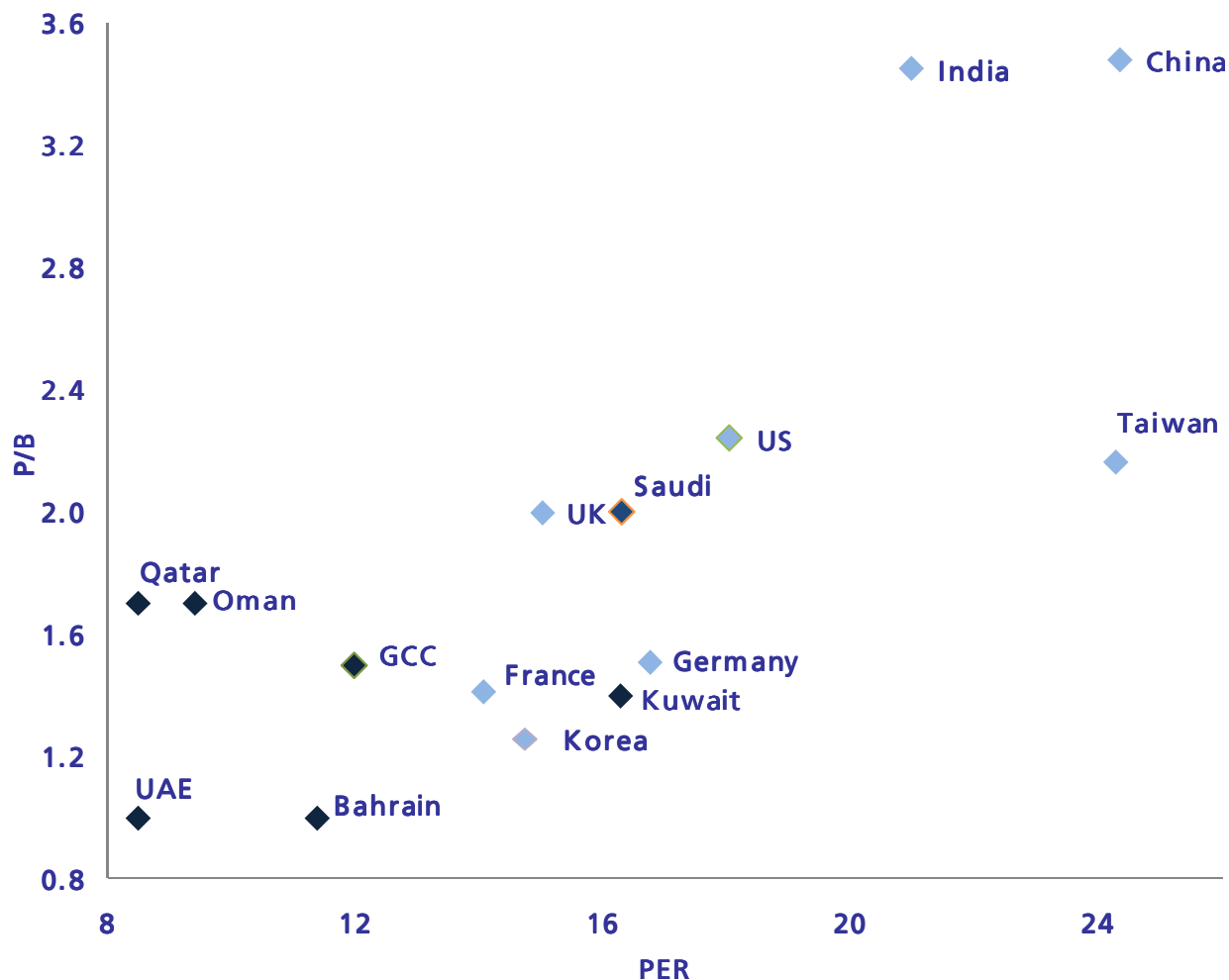
A – Actual earnings and year end market capitalization

T – Actual earnings and current market capitalization

E – Expected earnings and current market capitalization

Attractive valuations in global context

Price-to-Earnings (2010E) vs Price-to-Book (Current)



- Regional markets are currently trading at fairly attractive levels compared to the rest of the world
- Saudi looks expensive compared to the rest of the GCC (ex-Kuwait) but is justified considering long term earnings growth prospects
- Qatar looks the most attractive market from valuations point of view

Source: Bloomberg, SICO
Data as at 31st December 2009

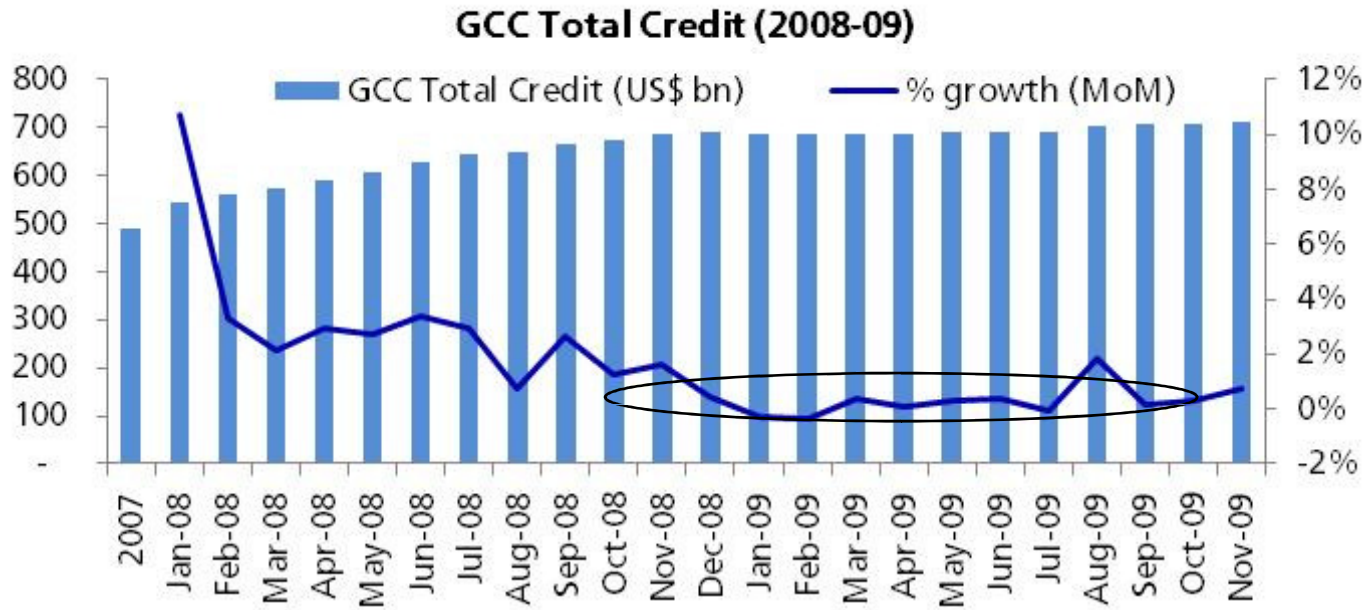
Country Summary

Country	Market Outlook	Key Positives	Risks
Saudi	Positive	<ul style="list-style-type: none"> ▪ Expansionary fiscal spending ▪ Diversified sectors ▪ Substantial sovereign reserves 	<ul style="list-style-type: none"> ▪ Default by privately-owned domestic conglomerates have created uncertainty for the financial sector ▪ Lack of commercial bank lending
Qatar	Positive	<ul style="list-style-type: none"> ▪ High economic growth ▪ Govt. support via capital injection ▪ Low breakeven oil price 	<ul style="list-style-type: none"> ▪ Limited market breadth and depth ▪ Overreliance on LNG expansions
UAE	Dubai- Negative Abu Dhabi - Neutral	<ul style="list-style-type: none"> ▪ Low breakeven oil price ▪ Substantial sovereign reserves of Abu Dhabi ▪ Strong underlying demand for real estate in Abu Dhabi ▪ Federal support for the banking system 	<ul style="list-style-type: none"> ▪ Fragility of the Dubai real estate market ▪ Adverse impacts of debt restructuring of Dubai GREs ▪ Spillover of negative sentiment from Dubai to Abu Dhabi ▪ Exposure of Abu Dhabi banks to Dubai GREs

Country Summary

Country	Market Outlook	Key Positives	Risks
Kuwait	Negative	<ul style="list-style-type: none"> ▪ Substantial sovereign reserves ▪ Govt. investment in local market 	<ul style="list-style-type: none"> ▪ Political instability ▪ Limited market breadth ▪ Overexposure to capital markets
Oman	Neutral	<ul style="list-style-type: none"> ▪ Expansionary fiscal spending ▪ Strong banking regulation ▪ Market breadth relatively strong 	<ul style="list-style-type: none"> ▪ Vulnerability of public spending to oil price volatility
Bahrain	Negative	<ul style="list-style-type: none"> ▪ Liberalized economy ▪ High dividend yield 	<ul style="list-style-type: none"> ▪ Lack of liquidity ▪ Dependence on investment banks ▪ Lack of market diversification

'Flies in the ointment' – re: the Negatives for the short term



Source: SICO, GCC Central banks

Note: The above data includes the following

Saudi data excludes overseas branches of the banks so effectively credit to residents

Oman credit to private sector, UAE loans and advances include all loans and advances net of provisions

Qatar includes all loans and advances, Kuwait includes loans and advances to private sector residents

Bahrain : Private due to non-banks

- Since January 2009 GCC credit growth has been negative to neutral as bank's risk appetite has diminished due to their deleveraging and growing risk aversion, *the cycle will be completed by year end 2010 at the earliest.*

- The impact of credit tightening has reflected itself on non-public sector growth, which was most probably negative in all six GCC members. Government spending pulled up GDP growth thru counter-cyclical spending. Again cycle unlikely to recover before year-end.

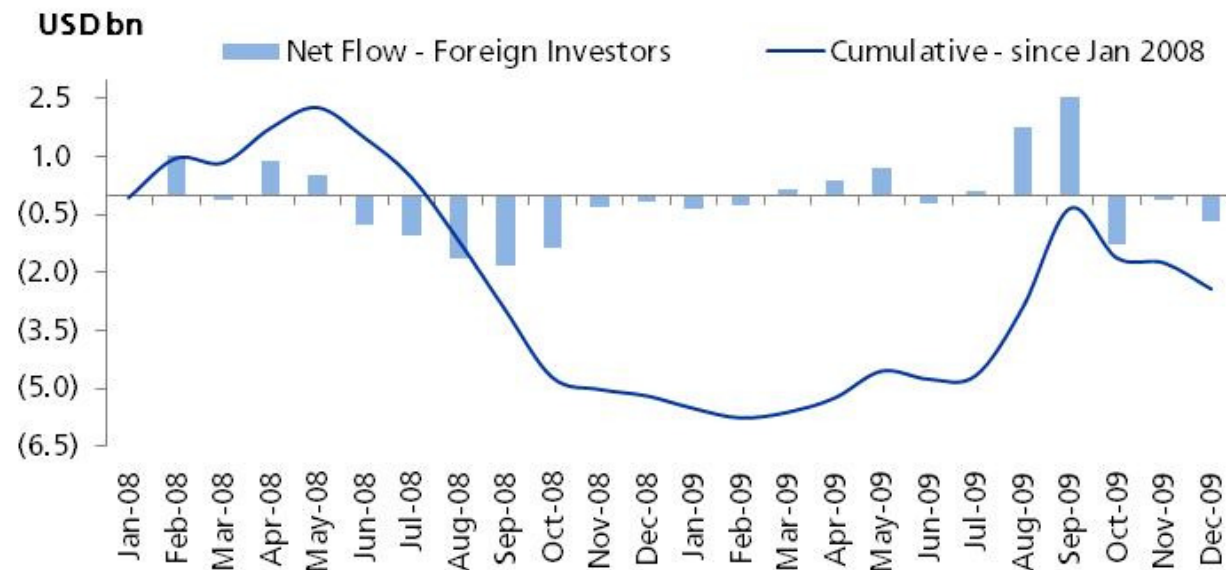
'Flies in the ointment' – re: the Negatives for the short term

Foreign ownership

	2004	2005	2006	2007	2008	2009
DFM		10.80%	7.08%	12.67%	8.00%	11.28%
ADSM					2.83%	3.38%
DSM					8.75%	8.59%
MSM	9.00%	6.49%	9.78%	11.62%	7.39%	7.40%

Source: SICO, GCC stock exchanges

DFM and DSM data include Arabs and GCC in foreigners, MSM includes Non-GCC Arabs in foreigners



Source: SICO, GCC stock exchanges

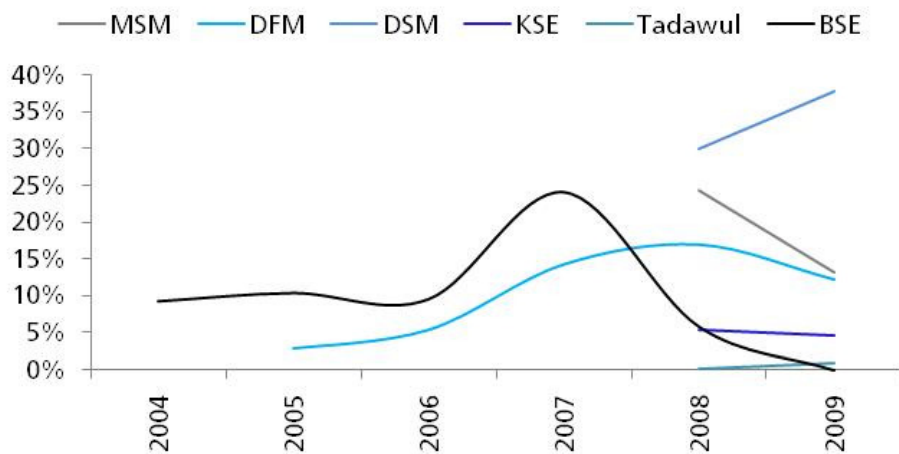
Note: The above estimate (USD 13.3 billion) does not include investments through mutual funds and in three GCC countries (Bahrain, Kuwait and Oman).

- Although foreign investment picked up during July-September 2009, after the strong rally in global markets, the interest was not sustained in subsequent months.

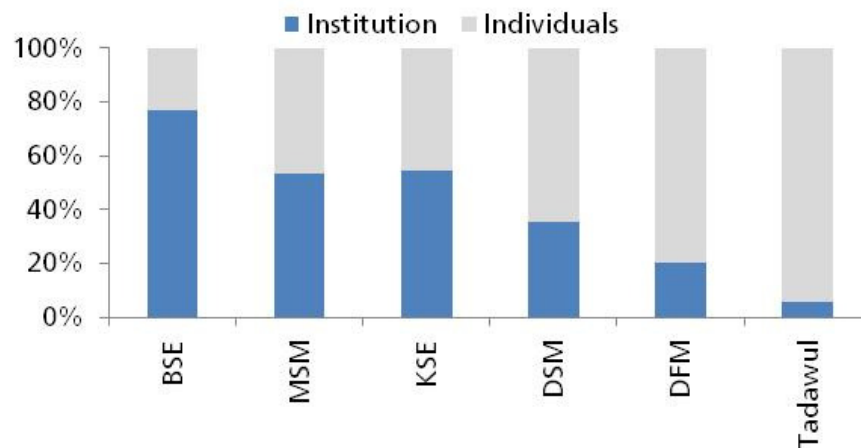
- Foreign investment in major GCC markets (UAE, Qatar and Saudi) is estimated to be USD 13.3 billion (nearly 2.5% of the market capitalisation).

'Flies in the ointment' – re: the Negatives for the short term

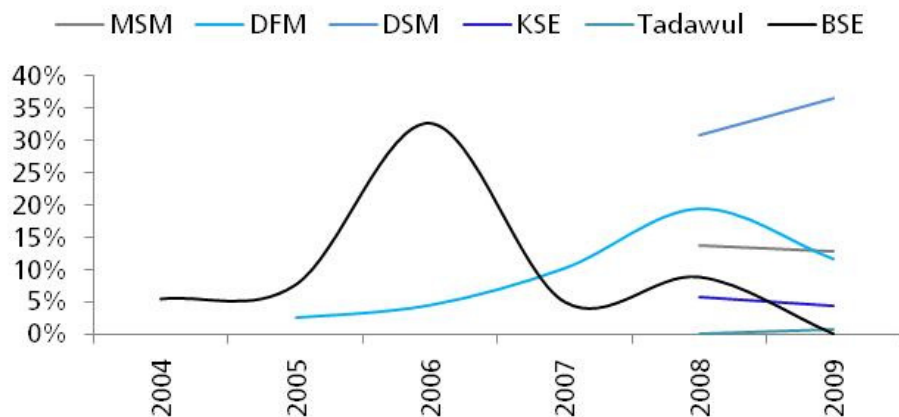
Foreigner's contribution to Buy trades



Retail vs. Institutions in Buy trades - 2009



Foreigner's contribution to Sell trades



- Investor base has reverted to be more indigenous and retail oriented with much reduced access to margin trading therefore 2 of the previous triggers (Margin Fueled Rises and Foreign Interest) to market appreciation have disappeared. This factor coupled to more pessimistic sentiment by retail investors will hold back markets.

'Flies in the ointment' – re: the Negatives for the short term



Source: Zawya, SICO

- Capital raising either through IPO's or rights issues by banks, real estate companies, as they try to rebuild balance sheets will put further pressure on the market precluding any major price rises in the short term.
- According to news reports, about 50 Saudi companies are preparing to launch IPOs or rights issues in 2010 estimated to raise SAR 40-50 billion.
- In 2009, most of the rights issues or capital injections were supported by major shareholders (e.g. ABC, GIB, Qatari and UAE banks) or respective governments easing pressure on secondary markets.

'Flies in the ointment' – re: the Negatives for the short term – cont.

- What happens in the two engines of Global growth – US and China + Euroland - will have a very major bearing on Global, GCC and Emerging Markets in general. W/V or U
 - US has its own severe economic issues, which have some way to resolve, including a new banking 'battle' – are we back to Glass Steagel?
 - China tightening interest rates – If the Chinese economy slows there will be damaging implications for commodity exporting economies and E Asian economies.
 - Additionally the EURO block will have to face the repercussions of exposed economies – Greece, Ireland, Spain, etc.
- Do not forget that the correlations between the GCC markets and other markets moved into positive territory in 2007, so that argument is invalid.

GCC markets moves more in tandem with Global markets

Correlation Matrix (2004 - 2006)

	Abu Dhabi	Dubai	Kuwait	Saudi	Oman	Qatar	Bahrain	S&P	FTSE 100	Nikkei	China	MXGCC
Abu Dhabi	1.00	0.52	0.14	0.16	0.03	0.18	0.09	-0.05	-0.07	-0.03	-0.01	0.13
Dubai		1.00	0.13	0.13	0.08	0.13	0.12	0.00	-0.03	-0.02	0.00	0.18
Kuwait			1.00	0.05	0.11	0.11	0.16	-0.05	0.04	-0.01	-0.02	0.13
Saudi				1.00	-0.01	0.05	0.03	0.01	-0.01	0.02	0.05	0.43
Oman					1.00	0.06	0.13	-0.02	0.02	0.04	0.00	0.15
Qatar						1.00	0.10	0.01	0.04	0.02	-0.03	0.13
Bahrain							1.00	0.01	0.01	0.02	-0.02	0.04
S&P								1.00	0.43	0.11	0.00	-0.04
FTSE 100									1.00	0.27	-0.03	0.00
Nikkei										1.00	0.07	0.05
China											1.00	0.09
MXGCC												1.00

Correlation Matrix (2007 - Jan 2010)

	Abu Dhabi	Dubai	Kuwait	Saudi	Oman	Qatar	Bahrain	S&P	FTSE 100	Nikkei	China	MXGCC
Abu Dhabi	1.00	0.74	0.35	0.27	0.50	0.50	0.30	0.23	0.21	0.22	0.12	0.47
Dubai		1.00	0.36	0.28	0.46	0.47	0.29	0.18	0.16	0.17	0.14	0.46
Kuwait			1.00	0.16	0.31	0.39	0.44	0.10	0.05	0.11	0.06	0.43
Saudi				1.00	0.23	0.29	0.07	0.14	0.23	0.16	0.11	0.73
Oman					1.00	0.53	0.34	0.20	0.18	0.16	0.09	0.38
Qatar						1.00	0.29	0.25	0.16	0.19	0.08	0.45
Bahrain							1.00	0.07	0.09	0.12	0.04	0.25
S&P								1.00	0.51	0.12	0.05	0.18
FTSE 100									1.00	0.37	0.21	0.24
Nikkei										1.00	0.29	0.25
China											1.00	0.17
MXGCC												1.00

Source: SICO, Bloomberg

Note: based on daily returns, S&P and FTSE 100 adjusted for time difference

Stock Pickers Market – The Facts

- The long term story for GCC equities overwhelming, but as Keynes said (more or less) “ in the long term we are all dead”
- 2010 will be a stock pickers market, there are jewels out there but you have to find them
- Volatile markets effected by sentiment and bad news, good news discounted
- The TOP DOWN model will work to a degree, but no big secular increases in equity indices – 20% probably tops
- If you are to assume that oil is on upward trend look at GCC Energy Related stock (ltd choice), defensive stocks as consumer related (ltd choice), selectively banks and telcos.

Conclusion

- Moderate global economic recovery and the resultant increase in demand for commodities is expected to provide support for healthy oil prices in 2010.
- Regional Sovereign Wealth Funds should further build up their reserves in 2010 on the back of positive economic growth and higher oil prices.
- We believe that GCC governments will continue to take steps to support the financial system and to stimulate the economy.

Conclusion

- Despite the negative publicity surrounding Dubai's liabilities we believe that its wider implications on GCC is overblown.
- We continue to monitor the lending activity in the region as it is a key catalyst for economic growth.
- Corporate earnings are expected show healthy growth as they are coming off a lower base in 2009.
- Regional markets' valuations are attractive compared to historical levels as well as their global peers, BUT SEE PREVIOUS SLIDE RELATING TO FLIES.

Thank you

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