

Peer Group:

MENA

Fund Manager/Adviser:

Team

Location:

Manama, Bahrain

Launch Date: August 2007

Fund Size (November 2008):

US\$20m

Group Contact No:

+973 17515000

Website:

www.sicobahrain.com

S&P ID Number: N/A



INVESTMENT STYLE

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

Please see page 2 for required research analyst certification disclosure.

Further information on S&P's fund coverage can be found at www.funds.standardandpoors.com

STANDARD & POOR'S OPINION (DECEMBER 2008)

Launched in the summer of 2007 as a vehicle providing a broad exposure to regional financials, this fund has undergone some change. Initially managed in a more benchmark-aware fashion, going forward the portfolio will be more concentrated around the team's best ideas and will bear little resemblance to the stated benchmark. The fund will also focus on investing in pure financial companies and will no longer have exposure to real estate plays. The unique nature of this mandate makes relative comparison difficult. However, there is evidence that the team's stock selection has added some value since the inception of the fund.

Like all the other funds at SICO, the approach to running this portfolio is research-intensive and rigorous. The fund is jointly managed by head of asset management Shakeel Sarwar (13 years' experience) and Naveed Ahmed (five years' experience) - who rejoined the team recently to focus on day-to-day portfolio management. Head of research Malik Zahir is also a key contributor for this portfolio, as he covers financials stocks.

Under more normal market conditions, this fund is expected to be managed in a high-conviction fashion, not dissimilar from the style adopted for the other funds run by this team and will essentially be a focused, high-conviction play on the Middle Eastern region. However, the focus for this portfolio will be primarily on bottom-up stock selection. Its current GCC bias, the area where the team's stock selection is more proven, is likely to remain.

The deliberately measured approach adopted by the top management of the bank is likely to make SICO a more stable outfit than several peers during times of significant disruption.

Despite the considerable change in the structure of the fund, our regard for the team's well-structured process and its resources allow the fund to achieve an S&P A (New) rating.

FACT FILE

Group: Securities & Investment Company BSC (SICO) is a Bahrain-domiciled investment bank set up in 1995, with main activities in asset management, corporate finance, brokerage, custody and administration of funds. It is owned by a number of regional institutions and its employees.

Team: Sarwar heads the asset management team of 11, including three managers and five analysts. They are responsible for assets around \$472m.

Fund Manager: Shakeel Sarwar (13 years' experience), Naveed Ahmed (five years' experience) and Malik Zahir (eight years' experience) are those most involved with this fund. Ahmed is the day-to-day manager.

Style: A concentrated stockpicking portfolio investing in financial companies listed in the MENA region excluding pure real estate plays. The approach is primarily bottom-up.

Past performance: Since inception in August 2007 to the end of October 2008, the fund has returned -7.4% compared to the -22.1% of the provisional S&P Financial index which is restricted to the GCC region.

FUND MANAGER & TEAM

Anthony Mallis is CEO of Securities & Investment Company BSC. Shakeel Sarwar heads the asset management unit of 11. Together with Naveed Ahmed (five years' experience) and Faisal Jiwani (five), Sarwar focuses on portfolio management. The research team is headed by Malik Zahir (eight) and includes Waruna Kumarage (seven), Aneel Kanwer (six), Zainab Mian (seven) and Alaa Alaabed (one). Hasan Haider is still part of the team, but will transition to a relationship management role. Further support is provided by one trader and one administrator.

Each analyst covers a broad sector as well as a geographic area. Zahir covers around 40-50 companies and Kumarage around 30, leaving the remaining analysts to cover a total of 20-30 companies.

Shakeel Sarwar - head of asset management - MBA (IBA Karachi), joined SICO in December 2004 and is head of asset management. His experience includes five years at Riyadh Bank (Saudi Arabia) and four years with ABN AMRO Securities (in the UK and Pakistan).

Naveed Ahmed - MBA (IBA Karachi), CFA, re-joined SICO in June 2008. He has five years' experience and was first at SICO from 2005 to 2007.

Malik Zahir - CFA, ACMA, has eight years' experience. He joined SICO in 2007 from Amba Research. He heads the research team and covers financials.

PORTFOLIO CHARACTERISTICS

No. of holdings	31
Turnover ratio (%)	116
% in top 10	30

TOP 10 HOLDINGS (01/11/08)

	%
Burgan Bank	4.0
KAMCO	3.6
EFG-Hermes	3.4
National Bank of Bahrain	3.2
Commercial International Bank	2.9
Gulf Finance House	2.7
Al Ahli Bank of Kuwait	2.6
Ithmaar Bank	2.6
National Societe Generale Bank	2.4
Qatar Insurance Company	2.2

* In top 10 holdings a year ago

ALLOCATION BREAKDOWN (01/11/08)

	Fund %
Bahrain	14.0
Cash	45.4
Egypt	8.7
Kuwait	16.2
Oman	1.3
Qatar	5.5
Saudi Arabia	1.8
UAE	7.1

SICO ARAB FINANCIAL FUND

Peer Group: MENA



MANAGEMENT STYLE

The fund is built bottom-up with no predefined style bias and very little top-down input. The S&P Financial index, which covers broader financials listed in the GCC region, is used purely for performance comparison. The fund does not invest in pure real estate companies.

The universe includes around 75-80 stocks listed in the MENA markets selected among those with above \$500m market cap and at least \$0.5m daily trading. This list is further reduced to around 50 names, which are researched in-depth. The final list includes large liquid companies, as well as names added on qualitative grounds by the

analysts. The preference is for companies with sound business models, sustainable earnings, dividends and reasonable valuations.

The portfolio holds around 20-25 stocks. Position sizes range from 3-10% depending on liquidity and conviction. Exposure to each country is limited to 50%. Stop-losses (10% absolute monthly fall) prompt a re-evaluation of the investment case.

The fund is priced monthly. Cash can reach 50%. In normal market conditions annual turnover should average 50%.

PORTFOLIO REVIEW

The fund is in a period of transition and Shakeel Sarwar reckons that it will take some time before the restructuring of the portfolio is complete, as he is being deliberately cautious in timing his move back into the market. Furthermore, owing to the exceptional market conditions, the team has applied and obtained the authorisation from the regulator to raise cash up to 100% of the assets.

The fund was in the process of selling out of real estate stocks. Exposure to pure real

estate plays has however been below 10% of the portfolio since launch.

Saudi Arabia and Oman were significantly reduced during the first month of 2008. This move was offset by the increase in Qatar, Bahrain and Kuwait. Non-GCC names have been limited to three positions in Egypt (EFG-Hermes, CIB and National SG Bank), which were initiated during in Q1 2008.

The team currently favours quality conservatively run banks with government backing and no international exposure.

PERFORMANCE ANALYSIS (NOVEMBER 2008)

Owing to the lack of comparable peers, performance evaluation for this fund is not entirely straightforward. Furthermore, the fund's benchmark currently in use is not entirely representative of the opportunity set available to the team. However, performance attribution clearly shows that the fund has added value through a combination of stockpicking, during the first three-quarters of the year, and asset allocation more recently.

Stock selection within real estate plays (an area of the mandate included in the benchmark but where the fund will no longer invest) added around one-third of

the outperformance. The rest of the outperformance came from broad-based stock selection, while holding cash at the start of 2008 proved detrimental.

Adopting a selective approach to the Islamic banking theme by overweighting Qatar Islamic Bank and zero-weighting Dubai Islamic Bank proved successful. Promptly cutting the holding in NBK also added value. On the negative side, holding Tamweel and Amlak Finance detracted. The non-GCC portion of the portfolio (not included in the benchmark) has detracted.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004	2005	2006	2007	YTD 31/ 10/2008
	%	%	%	%	%
Fund					-23.3
Index**					-40.0

** S&P Pan Arab index

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