

Peer Group:
GCC
Fund Manager/Adviser:
Team
Location:
Manama, Bahrain
Launch Date: March 2006
Fund Size (November 2008):
US\$39m

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)

Since its launch in March 2006, this fund has achieved considerable success. It is run as a more concentrated version of the S&P AA-rated Khaleej Equity Fund (KEF). Even allowing for the difference in mandate, which in the case of this fund excludes Saudi Arabia, the overlap with KEF is extremely high.

Head of asset management Shakeel Sarwar has been involved with this portfolio since launch and with KEF since 2004. Over the last 12 months, Sarwar has split the investment side of the team into two units, one focused on research and the other on portfolio management. Malik Zahir has been appointed to lead the analysts while Naveed Ahmed has rejoined the group as day-to-day manager of this fund. These changes address our concerns over the depth of the resources and the amount of responsibility falling directly on Sarwar's shoulders. It is also encouraging to see the team has been stable over the last year.

The approach is research intensive. Analysts are in charge of idea generation and their views are reflected in the fund. The portfolio managers are nevertheless free to add their own perspective, both from the top-down and bottom-up. Sarwar has the final say on portfolio construction and retains the right to veto. The ex-Saudi nature of this mandate might in some cases result in the team's second-best ideas being purchased for this fund. This is somewhat mitigated by the more concentrated nature of this portfolio.

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. We keep Sarwar in high regard, as his approach has proved rigorous, while still allowing for flair to transpire. While Ahmed's role in this fund is growing we take comfort from the fact that Sarwar is still closely involved with portfolio construction. The fund is rated AA by S&P.

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) and Naveed Ahmed (five years' experience) are those most involved with this fund. Ahmed is the day-to-day manager.

Style: This focused GCC ex-Saudi fund is constructed mainly bottom-up but within the context of a top-down overlay. There is no style bias, with the fund holding both growth and value stocks.

Past performance: Since inception in March 2006 to the end of October 2008, the fund has returned -2.4% compared to -32.7% of the MSCI GCC ex-Saudi index benchmark.

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 years' experience) 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 move 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	28
Turnover ratio (%)	N/A
% in top 10	27

TOP 10 HOLDINGS (01/11/08)

	%
KAMCO	4.2
Burgan Bank	3.6
Ithmaar Bank	3.0
Agility Public Warehousing	2.7
Kuwait Projects	2.7
Abu Dhabi National Energy	2.4
Qatar Telecom	2.3
Sorouh Real Estate	2.3
First Gulf Bank	2.2
Industries Qatar	2.0

* In top 10 holdings a year ago

ALLOCATION BREAKDOWN (01/11/08)

	Fund %
Bahrain	5.0
Cash	54.0
Kuwait	16.0
Oman	3.0
Qatar	7.0
UAE	15.0

SICO GULF EQUITY FUND

Peer Group: GCC



MANAGEMENT STYLE

• The fund is built primarily bottom-up irrespective of the MSCI GCC ex-Saudi index and has no predefined style bias. It aims to return over 10% a year over the mid-/long term.

• The universe of regional stocks is screened for size (\$500m minimum) and liquidity (\$0.5m daily trading). This shortlist of 150 names is then reduced to 70 stocks, 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, reasonable or low valuations and, finally, a catalyst.

• The portfolio holds around 25-30 stocks. Position sizes can be 1-3% for less liquid names with considerable upside (up to a total of 15-20% of the fund); 3-5% for liquid names with at least 20% upside; and 5-10% for extremely liquid names (above \$10m/day) with at least 30% upside. Exposure to individual countries is limited to 50%, resulting in a forced underweight to Kuwait. Stop losses (10% absolute monthly fall) prompt a re-evaluation of the investment case.

• The fund is priced monthly. Cash can reach 50%. Turnover averages 50%.

PORTFOLIO REVIEW

The fund is in a period of transition and Sarwar believes 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. Moreover, 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.

Activity over the year has included reducing the larger banking names in Kuwait in Q2. Large index constituent Zain (MTC) was also avoided.

Unlike the Khaleej fund, this portfolio has recently gone back into Oman, albeit with an underweight. The overlap with Khaleej is nevertheless high and there currently are only seven stocks (or 7.6% of the fund) held in this fund that are not in the ex-Saudi portion of the Khaleej portfolio.

Cash was built in October and November and, when interviewed, it was around 60% of the assets.

In 2008, turnover has been higher than usual and is estimated to be above 100%.

PERFORMANCE ANALYSIS (NOVEMBER 2008)

Launched in March 2006, the fund has since significantly outperformed its MSCI ex Saudi benchmark. The strong returns have been achieved primarily through solid bottom-up stock selection. Top-down asset allocation calls have also helped, in particular the recent move to raise the cash balance to 60%.

Up until September 2008, the vast majority of the added value came from stock selection, while holding some cash at the start of the year detracted. Stock selection in Kuwait and Qatar was the main driver of returns, offsetting weaker country allocation, the latter largely a result of the underweight in Kuwait.

More recently, asset allocation (cash) was the main driver. A significant portion of the fund's added value has come from the team's high-conviction ideas, which tend to be highly weighted in this portfolio, while the second tier stocks have been more mixed. These include Arabtec, Kipco, Industries Qatar and KFH (zero weighted for most of the period). Not holding Zain (MTC) has also helped. In contrast, Aldar Properties, Agility and Tamweel have detracted.

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004	2005	2006	2007	YTD 31/10/2008
	%	%	%	%	%
Fund				37.2	-23.3
Index**				42.9	-37.8

** S&P/IFCI GCC

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