

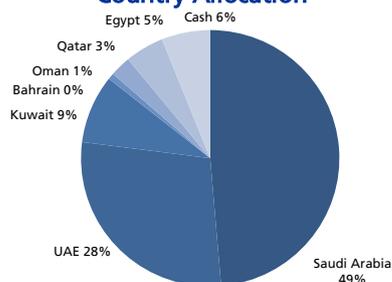
### Manager's Commentary

Regional markets continued their upward momentum in the month of December, with the S&P GCC index gaining by 4.2%. Saudi Arabia increased by 3.2% while Qatar and the UAE were up 6.6% and 4.8% respectively. Market sentiment was boosted by a 20% rally in the price of oil in the five days following OPEC's formal announcement that it would cut output for the first time since 2008.

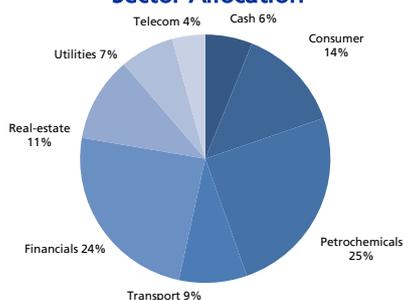
Your fund increased by 4.2% during the month, primarily driven by exposure to Saudi petrochemicals. In 2016, the fund was up 5.8% for the year while the S&P total return index was up 8.5%. Although the fund largely outperformed the index throughout the year, it ended the year underperforming the index due to off-index exposure in Egypt. In November, the Egyptian currency depreciated as much as 90%, impacting fund returns. In contrast, our investments in the GCC markets broadly performed well. Our decision to invest in petrochemicals and Saudi financials was vindicated, as these sectors handsomely contributed to the fund's returns. However, these gains did not significantly contribute to the overall portfolio alpha since both financials and petrochemicals account for approximately 50% of the index.

Given the steep rally, we believe Saudi Arabia in particular is currently fairly valued. However, we see further upside in selected petrochemicals and financials in the kingdom and have chosen to concentrate our investment in these two sectors. The disclosures that accompanied the Saudi budget were positive for the petrochemical and financial sectors. The government indicated that going forward there will be no delay in contractor payments, a measure that should help improve the quality of the bank's loan portfolio. The government also decided not to increase the feed stock prices for petrochemicals, a factor that was a significant overhang leading up to the budget announcement

#### Country Allocation



#### Sector Allocation



### Key Statistics

|  | Fund                         | Index                        |
|--|------------------------------|------------------------------|
| Price to Earnings Multiple TTM (x)               | 14.1                         | 14.7                         |
| Price to Book Multiple Latest (x)                | 1.4                          | 1.4                          |
| Return on Equity TTM (%)                         | 11.9                         | 12.4                         |
| Dividend Yield—2015 (%)                          | 3.8                          | 4.4                          |
| Number of Holdings                               | 28                           | 107                          |
| Annualized Return (%) - Last 5 years             | 7.2                          | 5.4                          |
| Annualized Standard Deviation (%) - Last 5 years | 15.2                         | 16.4                         |
| Largest Monthly Gain (%) - Last 5 years          | 12.0 (April 15)              | 11.2 (April 15)              |
| Largest Monthly Loss (%) - Last 5 years          | -12.9 (Aug 15)               | -13.0 (Aug 15)               |
| % Positive Months (%)                            | 59                           | 57                           |
| Success Ratio (%) - Last 5 years                 | 47                           | NA                           |
| Latest Drawdown-Peak to Trough (%)               | -29.2                        | -40.2                        |
| Duration of Drawdown (months)                    | 17mths<br>(Aug 14 to Jan 16) | 17mths<br>(Aug 14 to Jan 16) |
| Recovery from Latest Drawdown (%)                | 18.6<br>(Feb 16 to Dec 16)   | 21.4<br>(Feb 16 to Dec 16)   |

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### Investment Objective

The Fund seeks long-term capital appreciation by investing principally in equity securities listed on the stock markets of GCC countries.

| Returns (%)                         | Fund  | Index* |
|-------------------------------------|-------|--------|
| Dec 2016                            | 4.2   | 4.2    |
| YTD                                 | 5.8   | 8.5    |
| 2015                                | -6.2  | -14.6  |
| 2014                                | 4.7   | 0.6    |
| Last 3 Months                       | 11.3  | 15.0   |
| Last 6 Months                       | 7.1   | 9.7    |
| Last 9 Months                       | 12.9  | 12.7   |
| Last 1 Year                         | 5.8   | 8.5    |
| Last 3 Years                        | 3.9   | -6.8   |
| Last 5 Years                        | 41.3  | 29.9   |
| Last 10 Years                       | 68.6  | 16.5   |
| Since Inception (March 04 to Dec16) | 189.1 | 115.5  |

\* S&P GCC Total Return Index

### Fund Information

|                                     |                                      |
|-------------------------------------|--------------------------------------|
| Launch Date                         | March 2004                           |
| Management Fee                      | 1.5%                                 |
| Performance Fee                     | 10% over 10%                         |
| Subscription & Redemption           | Weekly                               |
| Dealing Day                         | Thursday                             |
| Subscription & Redemption Dead-line | Two Business days before dealing day |
| Minimum Subscription                | USD 100,000                          |
| Bloomberg Code                      | KHALEQY BI Equity                    |
| Fund ISIN Code                      | BH000A1CZ8W7                         |
| Custodian / Administrator           | HSBC Bahrain                         |

### Top Holdings

| Name                   | Country | (%) |
|------------------------|---------|-----|
| Emaar                  | UAE     | 7.5 |
| Saudi Electricity      | KSA     | 7.0 |
| Saudi Basic Industries | KSA     | 6.7 |

### Risk Statistics (last 5 years)

|                        |      |
|------------------------|------|
| Standard Deviation (%) | 15.2 |
| Sharpe Ratio           | 0.3  |
| Tracking Error (%)     | 4.5  |
| Information Ratio      | 1.3  |
| Alpha (%)              | 5.5  |
| Beta                   | 0.9  |