

Manager's Commentary

The Kuwaiti market was the star performer in the month of January, rallying by 13%. The gains were mainly driven by active investors opting for additional exposure in anticipation of a significant increase in the weight of Kuwait in the MSCI Frontier Market Index. Dubai was the second best performing market, gaining by 3.5%. Gains in the Dubai market resulted from foreign buying, particularly in Emaar, as well as an increase in the share price of speculative names such as GFH and Shuaa capital. Unsurprisingly, the Saudi market experienced profit-taking after three consecutive months of gains. The Saudi market was down 1.5% in January.

During the month, your fund increased by 1.3%. The fund's exposure to Zain Group in Kuwait and selected petrochemicals in Saudi contributed to the overall return. In Saudi Arabia, all sectors apart from petrochemicals reported declines in earnings in the 4th quarter. The aggregate 4th quarter earnings of Saudi companies declined 40% QoQ and 13% YoY. The consumer and construction sector earnings declined by as much as 70% YoY and 55% YoY respectively. Most consumer companies were forced to liquidate inventory by providing steep discounts, while the building material sector was impacted by lower cement prices and volumes.

In 2017, we expect another challenging year for consumer and construction companies. This year, it is widely anticipated that the government may increase the prices of fuel and electricity, an action that would contribute to lower consumer spending. As legacy projects near completion, we expect the demand for construction materials to decline further, contributing to deterioration of the sector's profitability.

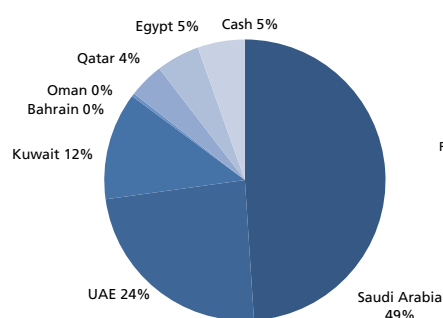
Investment Objective

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

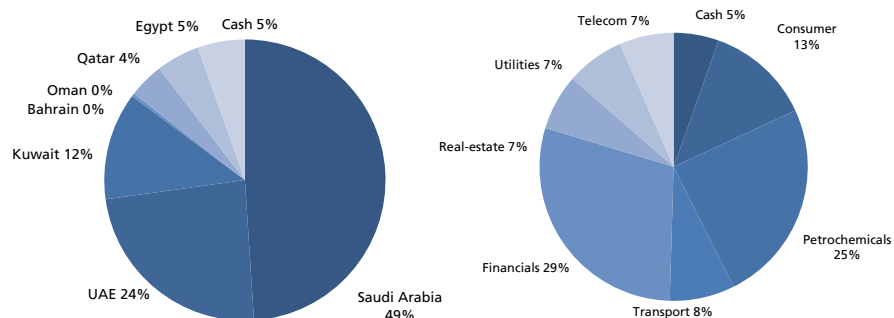
Returns (%)	Fund	Index*
Jan 2017	1.3	1.6
2016	5.8	8.5
2015	-6.2	-14.6
2014	4.7	0.6
Last 3 Months	10.7	14.2
Last 6 Months	6.1	11.3
Last 9 Months	6.4	7.4
Last 1 Year	20.2	23.4
Last 3 Years	-1.1	-8.4
Last 5 Years	39.8	28.3
Last 10 Years	70.6	27.4
Since Inception (March 04 to Jan 2017)	192.9	118.9

* S&P GCC Total Return Index

Country Allocation



Sector Allocation



Key Statistics

	Fund	Index
Price to Earnings Multiple TTM (x)	15.3	15.2
Price to Book Multiple Latest (x)	1.5	1.5
Return on Equity TTM (%)	9.9	9.8
Dividend Yield—2015 (%)	3.0	3.7
Number of Holdings	28	107
Annualized Return (%) - Last 5 years	6.9	5.1
Annualized Standard Deviation (%) - Last 5 years	15.3	16.7
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 (Aug 14 to Jan 16)	17mths (Aug 14 to Jan 16)
Recovery from Latest Drawdown (%)	20.2 (Feb 16 to Dec16)	23.4 (Feb 16 to Dec 16)

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	(%)
Saudi Electricity	KSA	7.0
SIPCHEM	KSA	5.9
NCB	KSA	5.8

Risk Statistics (last 5 years)

Standard Deviation (%)	15.3
Sharpe Ratio	0.3
Tracking Error (%)	4.5
Information Ratio	1.5
Alpha (%)	6.4
Beta	0.9

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Investment Bank **sico**

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