

Khaleej Equity Fund

Fact Sheet - August 31, 2008

NAV US\$256.07 ↓ 7.6%

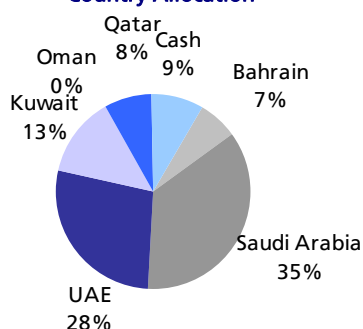
Manager's Commentary

The regional bourses witnessed a fresh wave of selling due to combination of various factors such as declining oil prices, foreign selling and worries over the sustainability of the real estate boom in the UAE. Furthermore, the negative news flow about the ongoing corporate corruption scandals in the UAE added fuel to the bearish sentiment. Consequently, Dubai, Oman, Abu Dhabi and Qatar dropped in the range of 10-12% while Bahrain and Kuwait also declined and lost around 4% of their values. Saudi Arabia was the only exception and closed marginally up for the month. However, the Saudi market was down 10% at one point during the month but recovered its losses after the Saudi regulator announced that non GCC foreign investors could invest in the Saudi market through swap agreements. Resultantly, the MSCI GCC index, with over 50% weight in Saudi only dropped by 3.5% despite double digit declines seen in most of the other GCC markets.

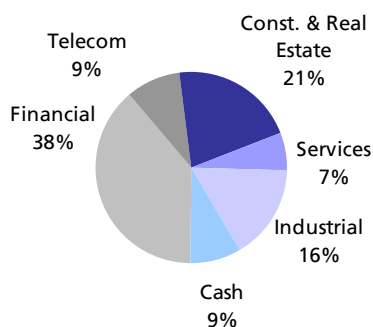
On the back of broad based declines witnessed in most of the regional markets, the NAV of Khaleej Equity Fund dropped 7.6% for the month. The main reasons for the underperformance of the fund in August were our relatively lower allocation to Saudi (35% in the fund versus 55% in the benchmark) and higher allocation to the UAE (28% in the fund versus 11% in the benchmark). In addition to this, our stock picking especially in the UAE exacerbated fund's returns as some of our holdings where foreign investors had high exposures and / or were related to the UAE real estate sector dropped significantly more than the overall market. Nevertheless, we remain confident about the medium to long term prospects of the GCC markets in general and our stocks in particular. We expect our investments to rebound sharply once the regional markets start to recover. It is pertinent to note here that our bottom up, value driven investment strategy with strong emphasis on stock picking has over the years enabled us to successfully navigate the ups and downs of the regional markets and produce superior long term risk adjusted returns for our investors.

We believe that the widespread declines seen in the regional markets over the past few weeks are unjustifiable and present an investment opportunity. The market valuations have shrunk considerably over the past few months both because of sharp declines in the regional indices as well as healthy growth in corporate profitability. The current valuations, in our view are pricing in a recessionary environment - which obviously is not the case. An important component of our current investment strategy is to reduce allocations to stocks where we currently see limited upside and build aggressive positions in blue chip stocks where we see maximum upside potential.

Country Allocation



Sector Allocation



Fund Statistics

Price Earnings Multiple 2008 (x)	10.6
Price to Book Multiple Latest (x)	2.9
Dividend Yield 2007 (%)	3.5
Number of Holdings	42
Annualized Return (%)	23.7
Largest Monthly Gain (%)	14.8 (Mar 05)
Largest Monthly Loss (%)	-8.2 (May 06)
% of Positive Months	70
Maximum Drawdown- Peak to Trough (%)	21.8
Length of Drawdown (months)	10
Time to Recovery (months)	12

Investment Objective

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

Fund Returns (%)

	Fund	MSCI GCC Index*
August 2008	-7.6	-3.5
YTD 2008 (Jan-Aug 08)	3.8	-16.7
Last 3 months	-10.0	-8.9
Last 6 months	-5.4	-14.2
Last 12 months	25.3	3.5
2007	43.9	44.1
2006	-13.9	-45.9
2005	56.8	77.5
2004 (Apr - Dec)	27.0	41.1
Since Inception (Apr 04-Aug 08)	156.1	62.4

* Prior to July 2005, a domestic GCC index is used to compute benchmark returns

Fund Information

Launch Date	March 2004
Management Fee	1.5%
Performance Fee	10% over 10% pa
Subscription & Redemption	Monthly
Subscription Deadline	Five Business days before month end
Redemption Deadline	Ten Business days before month end
Minimum Subscription	US\$100,000
Reuters Code	LP65038262
Bloomberg Code	KHALEQY BI
Zawya Code	SICOKEF.MF
Fund Listing	Bahrain Stock Exchange
Custodian/ Administrator	HSBC Middle East, Bahrain

Top Holdings

Name	Country	(%)
SABIC	Saudi	6.2
Emaar Properties	UAE	6.1
Arabtec	UAE	4.0

Risk Statistics

Annualised Standard Deviation (%)	15.8
Sharpe Ratio	1.18
Information Ratio	0.72
Beta	0.47
Alpha (%)	15.6

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