

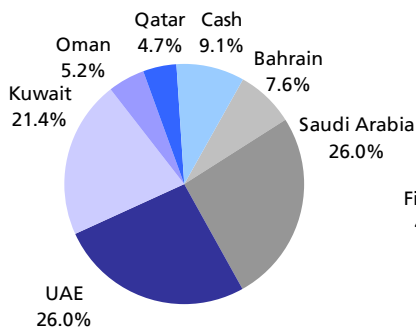
Manager's Commentary

A positive tone reverberated in the GCC markets in October, except for Kuwait that experienced a slight correction (-0.6%). Investors' sentiment was boosted by an influx of third quarter earnings announcements. Dubai triumphed over a spell of negative returns and recorded the highest gain of 24.7%. Abu Dhabi continued its positive momentum gaining 20.1%. In both the UAE markets, property and financial sectors thrived on foreign funds. Foreign interest is likely to deepen further as Dubai Financial Market hosts a road show in New York in November. It seems the US sub-prime worries are now part of a dim and distant past for the Gulf region. Moreover, a spike in oil prices that exceeded \$95 per barrel in face of a waning US dollar fuelled the petrochemical sector. Other GCC markets that posted positive gains include Qatar (16.3%) and Oman (14.8%). Elsewhere, the Saudi bourse also revived appreciating by 10%, while Bahrain advanced by 4%.

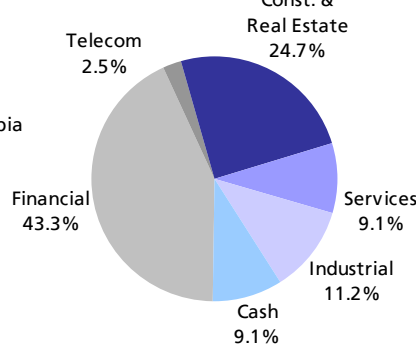
The Khaleej Equity Fund appreciated by 7.3% for the month. In contrast, the MSCI GCC Index went up 9.3%. Our stock picks in the UAE contributed significantly to the fund's returns followed by investments in the Qatari and Saudi markets. First Gulf Bank and Arabtec made an impressive run with returns of 36% and 31% respectively. Arabtec has strong fundamentals and enjoys a leading position in the market on the back of the real estate boom and its technical expertise. Additionally, the fund's top holdings, Industries Qatar (IQCD) and Emaar Properties gained 28% and 21% respectively. IQCD benefited from high international petrochemical and fertilizer prices and posted a 39% increase in third-quarter profit. In favour of Emaar's stock, was news of its deal with Bawadi for a Dh60 billion (\$16.34 billion) project.

During the month, we reinforced our position in Emaar and RAK Properties and several financial equities including Ithmaar Bank. At the same time, we booked profits in Arabtec and industrial stocks such as IQCD and National Industries Group. Our rigorous investment strategy reduced overall cash to only 9.1% at the end of the month. In the past three months, we reserved a higher cash allocation of around 20%-30% to position ourselves for investing into Saudi equities and to subscribe to the Galfar IPO in September. The Galfar stock fetched rewarding results as the share price sky rocketed (+108%) after it got listed. We feel some of the markets have risen too sharply. Therefore, going forward we plan to hold 10-15% cash as a cushion for possible correction.

Country Allocation



Sector Allocation



Fund Statistics

Price Earnings Multiple 2007 (x)	12.3
Dividend Yield 2006 (%)	3.2
Number of Holdings	46
Annualized Return (%)	25.0
Largest Monthly Gain (%)	14.8 (Mar 05)
Largest Monthly Loss (%)	-8.2 (May 06)
% of Positive Months	72
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
October 2007	7.3	9.3
Year to Date 2007	29.8	25.8
Last 3 months	8.6	10.5
Last 6 months	21.4	22.3
Last 12 months	23.1	11.4
2006	-13.9	-45.9
2005	56.8	na*
2004 (April - Dec)	27.0	na*
Since Inception	122.5	na*

* Benchmark was launched in June 2005

Fund Information

Launch Date	March 15, 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	<SIC0>
Bloomberg Code	KHALEQY BI
Fund Listing	Bahrain Stock Exchange
Custodian	Gulf Clearing Company

Top Holdings

Name	Country	(%)
Emaar Properties	UAE	8.4
Agility	Kuwait	4.4
SABIC	Saudi	4.1

Risk Statistics

Annualised Standard Deviation (%)	15.4
Sharpe Ratio	1.3
Information Ratio	0.53
Beta	0.47
Alpha (%)	14.9

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