

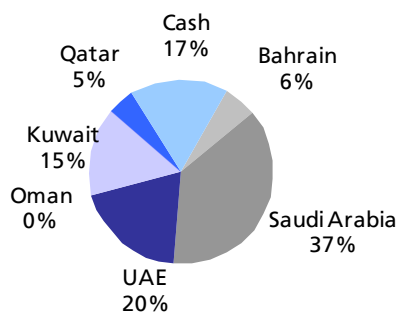
## Manager's Commentary

September did not offer any respite to investors as all regional markets recorded their sharpest declines in recent times. The market trend which was already negative during the previous two months accelerated pace with a massive selloff across the entire region. Saudi Arabia that defied any sort of correction during the preceding month fell 14.8%. Other markets also depicted a similar trend retreating in the range of 10-12%. Bahrain, which has traditionally been a steady and stable market also succumbed to this wave of selloff and dropped by 8.5%.

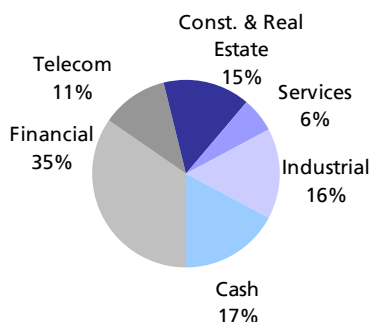
With major US financial institutions either declaring bankruptcy or being bailed out by the government and increasing fears of the global market collapse, investors resorted to panic selling. This selloff was across all major global markets and especially in the emerging markets. The MSCI Emerging Markets index was down 11% for the month with many markets retreating by much more (Russia - 24.4%, Brazil -17.3%, and Taiwan -15.8%). Within the gulf, investors fled from the market in fear of major repercussions of the global crisis on financial institutions across this region. This, coupled with concerns over rising interbank rates which would result in a slowdown in growth, weighed heavily on investors' minds.

On the back of these difficult and unprecedented times, the NAV of Khaleej Equity Fund declined by 13.5% versus a 16.7% decline in the MSCI GCC benchmark. On a year to date basis, the fund is down 10.1% versus a 30.7% drop in the benchmark. In such a scenario, all eyes are on the global markets and until these markets show some sign of stability, volatility in the gulf bourses would continue. However, once the dust settles, we believe that investors would realize that fundamentals of the GCC markets are largely intact and are trading at compelling valuations as compared to other emerging markets. Although it is difficult to predict the market bottom, we believe that the GCC markets due to their cheap valuations and healthy growth prospects present an attractive investment opportunity to investors who are patient and have a long term investment horizon.

### Country Allocation



### Sector Allocation



## Fund Statistics

Price Earnings Multiple 2008 (x)	10.4
Price to Book Multiple Latest (x)	2.6
Dividend Yield 2007 (%)	4.0
Number of Holdings	38
Annualized Return (%)	19.3
Largest Monthly Gain (%)	14.8 (Mar 05)
Largest Monthly Loss (%)	-13.5 (Sep 08)
% of Positive Months	69
Maximum Drawdown- Peak to Trough (%)	22.1
Length of Drawdown (months)	4
Time to Recovery (months)	na

## 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*
September 2008	-13.5	-16.7
YTD 2008 (Jan-Sep 08)	-10.1	-30.7
Last 3 months	-21.4	-23.5
Last 6 months	-15.3	-20.3
Last 12 months	6.9	-13.2
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-Sep 08)	121.6	48.7

\* 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	5.9
Emaar Properties	UAE	4.5
Qatar Telecom	Qatar	3.9

## Risk Statistics

Annualised Standard Deviation (%)	17.2
Sharpe Ratio	0.83
Information Ratio	0.74
Beta	0.55
Alpha (%)	13.3

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