

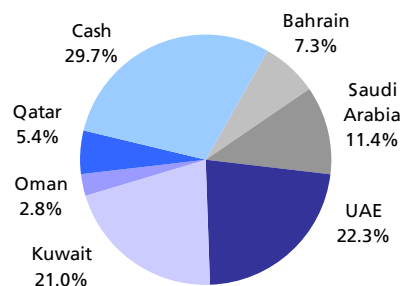
Manager's Commentary

Most of the GCC markets struck a positive chord at the end of September. Qatar recorded the highest gain of 8.2% while Oman, Kuwait and Bahrain also closed with positive returns of 5.1%, 1.3% and 0.6% respectively. The UAE markets concluded with mixed performances, so while Abu Dhabi gained 3.5%, buoyed by the real estate and banking sector, on the other hand Dubai continued its downward correction, losing 0.5% as investors resorted to profit-taking. The Saudi bourse also retreated into negative territory losing -4.8%, after encountering sell-offs in blue chip stocks, although the market did improve towards the end of the month, as restrictions were lifted for investment in the banking and financial sectors by GCC nationals.

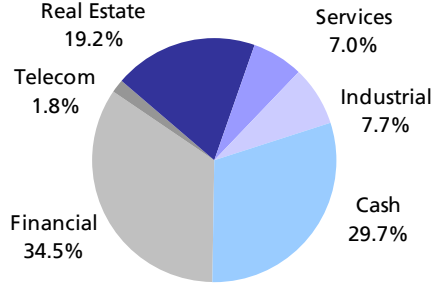
The Khaleej Equity Fund appreciated by 1.5% for the month. In contrast, the MSCI GCC Index slid -0.3%. Our fund gained from the upbeat performance of stocks in Qatar, Abu Dhabi and Oman. More specifically, Industries Qatar (IQCD) and Aldar Properties increased by 19% and 18% respectively, and were the best performers. News of IQCD's subsidiary, which is in process of finalizing negotiations for establishing two fertilizer plants, boosted investment in the company's stock. Aldar Properties soared as the company announced groundbreaking projects, including development of Ferrari Entertainment City and creation of a theme park, hotel and cinemas in partnership with Warner Bros. The company has also signed an agreement to develop a luxury business hotel and resort, and a joint venture to set up a real estate firm with \$55m capital.

During the month, we took the opportunity to subscribe to the Galfar IPO. Galfar is one of the largest, multi-disciplined engineering, contracting and construction companies in Oman. The company has a genuine and impressive profitability growth record and is run by a sound management team. Further to our fund strategy, we built a position in National Industries, a holding company for a number of diversified industrial and financial interests in the Middle East, Europe and North America. We also reinforced our position in stocks such as Bahrain Islamic Bank and National Bank of Kuwait. At the same time, we booked some profits in Sabic and Oman Cement. Consequently, our cash allocation stood at

Country Allocation



Sector Allocation



Fund Statistics

Price Earnings Multiple 2007 (x)	9.7
Dividend Yield 2006 (%)	4.0
Number of Holdings	35
Annualized Return (%)	23.2
Largest Monthly Gain (%)	14.8% (Mar 05)
Largest Monthly Loss (%)	-8.2% (May 06)
% of Positive Months	71
Maximum Drawdown- Peak to Trough (%)	21.8
Length of Drawdown (months)	10
Time to Recovery (months)	12

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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.

Fund Returns (%)

	Fund	MSCI GCC Index
September 2007	1.5	-0.3
Year to Date 2007	21.0	15.7
Last 3 months	4.3	5.9
Last 6 months	16.3	15.2
Last 12 months	19.5	-4.9
2006	-13.9	-45.9
2005	56.8	na*
2004 (April - Dec)	27.0	na*
Since Inception	107.4	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	6.8
Agility	Kuwait	4.7
IQCD	Qatar	4.1

Risk Statistics

Annualised Standard Deviation (%)	15.3
Sharpe Ratio	1.2
Information Ratio	0.56
Beta	0.46
Alpha (%)	14.2

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