



Fund owner: Securities & Investment Company BSC
Fund manager/adviser: Securities & Investment Company BSC
Named portfolio manager/adviser(s): Team
Contact group: +973 1751 5000 or www.sicobahrain.com

Review period 12 months to end-December 2012

Peter Fuller, Analyst at S&P Capital IQ Fund Research, prepared and is responsible for this report; the Grading Committee is responsible for the grading.

The following report is based on information taken direct from the group either via interview or as a written document and augmented by information in the public domain. The sources of performance data are provided within the report. All opinions are our own.

Fund Research opinion (February 2013)

Securities & Investment Company (SICO) is a Bahrain-based investment bank involved in capital market activities across the GCC region. SICO Asset Management is headed by Shakeel Sarwar, who joined the group in December 2004 having worked previously for Riyad Bank in Saudi Arabia and ABN AMRO in both Pakistan and London.

Unlike many of his peers, Sarwar has been able to build an investment team that has grown steadily with relatively modest staff turnover. He has two fund managers, Naveed Ahmed and Faisal Jiwani, each with over nine years' experience, to help him set the investment strategy; and six analysts with an average experience also of nine years, each with sector responsibilities and reporting to Malik Zahir, the head of research. Broker input is a secondary resource.

Three of the six analysts were hired during the last couple of years mainly to analyse uncovered mid-cap stocks in Saudi, as well as help expand coverage across the region. This proved particularly important during the second half of last year, when the team became negative on large-cap financials and was able to take on more mid-cap exposure quickly without compromising on detailed research. As the team's fund moved down the capitalisation curve, greater emphasis was placed on daily trading volumes and the sizing of positions according to each stock's relative liquidity, as well as its growth potential.

Investment strategy is set on a weekly basis by the fund managers. During this meeting, markets, countries and stock views are discussed after which model allocations are produced. Positions can be tweaked in terms of timing and degree, by the individual portfolio managers. On a day-to-day basis, this fund remains in the capable hands of Naveed Ahmed, overseen by Sarwar and supported by the team.

This is conventional portfolio of 35-40 holdings chosen principally on a bottom-up, high-conviction and fundamentals-based approach using only companies listed in the GCC region. Compared to many competitor firms, SICO has developed disciplined risk monitoring procedures.

Top-down considerations are analysed for their impact on potential holdings. Stock selection focuses on undervalued companies, with earnings growth potential and a catalyst to unlock their potential value. Company visits and keeping in close contact with companies is considered essential.

Since launch in March 2004, the fund has outperformed its benchmark S&P GCC Price index in seven of the eight full calendar years and beaten the S&P GCC Total Return index on a cumulative view over five years to date and since launch. Performance in 2012 was driven at country level by the overweights to the UAE and Oman, coupled with an underweight to Kuwait, supported by stock selection in telecoms, consumer staples and materials. Having around 5.5% in cash, on average, cost the fund 78bps over the calendar year.

Reasonable returns in 2012 relative to the benchmark and peers from a strong and growing team allow the fund to maintain its S&P Capital IQ Gold grading.

Latest grading issued March 2013

Fund profile

Launch date	March 2004
Manager location	Manama, Bahrain
Sector	Middle East & North Africa
Peer group	GCC equities
Fund benchmark	S&P GCC index
Fund size	US\$68m (1 January 2013)

Cumulative returns

	3 years	5 years
Fund share class	13.7%	-12.1%
Index**	19.7%	-34.7%

** S&P GCC Composite TR USD

Khaleej Equity Fund

Management style

This conventional fund aims to achieve long-term capital appreciation by investing principally in companies listed on the stock exchanges of the GCC region. The managers target a medium- to long-term return of over 10% a year.

The S&P GCC index is used as the fund's benchmark largely for performance comparison purposes. Portfolio construction is primarily bottom-up, based on company fundamentals and qualitative research. Internal guidelines at country level include limiting exposure to any smaller market to 10%, while allowing up to 30% in Qatar, Kuwait and the UAE, and the benchmark weight in Saudi Arabia.

A universe of over 600 GCC stocks is screened to eliminate those capitalised at below \$250m and a daily trading liquidity of less than \$500,000. This creates a shortlist of around 250 names (85-90% of the region's market capitalisation) which is reduced to 100-150 stocks for in-depth research. The preference is for companies with sound business models, sustainable earnings, dividends, reasonable or low valuations and, finally, a catalyst to help release that value. Meeting management is considered an important part of the research process. Broker research is used but tends to be a secondary source of information.

The manager targets a portfolio of 35-40 holdings. Position sizes are set on conviction and liquidity, which tends to give the portfolio a bias towards large-/mid-cap names. Positions of 5% or more are allowed only in companies that have an average daily trading volume in excess of \$2m. Along with country restraints, the mandate has sector limits to ensure diversification. These include upper exposure limits of 40% each for banks and materials, 20% in telecoms and capital goods and 10% for any of the remaining sectors. Temporary exceptions are allowed. Clear stop-losses are used. The fund is priced weekly and has a 10% performance fee with a high-water mark on returns over 10%. Cash may reach 50%. Turnover averages 50%.

Fund manager & team

Securities & Investment Company is a Bahrain-based investment bank involved in capital market activities across the GCC region. SICO Asset Management is headed by Shakeel Sarwar who over the last eight years has built a team that has grown steadily, seen few departures and is now responsible for \$625m spread across six SICO funds, three third-party funds and various discretionary accounts. Further fixed income expertise was added in 2012. The team comprises three fund managers: Shakeel Sarwar (17 years' experience), Naveed Ahmed (nine) and Faisal Jiwani (nine). They help set the investment strategy and must follow it on their individual fund responsibilities, although they can nuance it in terms of timing and degree.

Research support comes from six analysts (average nine years' experience) each with sector responsibilities: Malik Zahir (head of research), Aneel Kanwer, Waruna Kumarage, Basma Alireza, Rami Jamal and Jehangir Khan. Broker input is a secondary resource.

Shakeel Sarwar - MBA (IBA, Karachi), joined SICO in December 2004 and is head of asset management and responsible for managing SICO funds and several large discretionary managed accounts. His prior experience includes five years at Riyad Bank (Saudi Arabia) and four years with ABN AMRO Securities in both the UK and Pakistan.

Naveed Ahmed - MBA (IBA, Karachi), worked at SICO from 2005 to 2007, then re-joined the company in June 2008. He is responsible for managing several large discretionary managed accounts and supports Sarwar in managing certain SICO funds.

Faisal Jiwani - MBA (Karachi), was a sell-side analyst at Invest Capital (Pakistan) before joining SICO in 2006. He is responsible for overseeing external funds, discretionary portfolios and Islamic mandates. He also supports Sarwar in managing certain SICO funds.

Calendar-year performance

	2008	2009	2010	2011	2012
	%	%	%	%	%
Fund share class	-33.9	16.9	14.1	-5.9	5.9
Index**	-54.2	18.9	17.0	-4.5	7.1

** S&P GCC Composite TR USD

Fund benchmark: S&P GCC index

Share class screened: BH000A1CZ8W7 (Ord)

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Latest grading issued March 2013

Investment style

	Value	Blend	Growth
Large-cap			
Mid-cap			
Small-cap			

Portfolio characteristics (1 January 2013)

No. of holdings	32
% in top 10	47
Turnover ratio (%)	57

Source: Securities & Investment Company BSC

Geographical allocation (%)

Bahrain	1.0
Kuwait	6.0
Oman	6.0
Qatar	10.0
Saudi Arabia	64.0
United Arab Emirates	12.0
Cash	1.0

Source: Securities & Investment Company BSC

Grading Process

To qualify for an interview and potential grading, a fund must have a minimum two-year performance track record (three years for funds-of-hedge-funds). New funds, funds with less than two years' performance record and specialist funds can be analysed and included providing independent verifiable performance data is supplied.

The starting point for a grading is an initial quantitative screen based on performance data obtained from Lipper Inc or elsewhere. For long-only funds, discrete annual performance comparisons are made, as opposed to cumulative returns over a three-year period. Relative performance of funds within each sector is ranked by decile.

This quantitative screen captures approximately the top 20% of funds in each sector, depending on the size of the sector. For funds-of-hedge-funds the screen is based on the fund's risk/reward objective.

For more information on the fund grading process please visit our website at www.funds-info.standardandpoors.com.

Symbols and Definitions

Active funds

Grading bands for long-only funds

Platinum	The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
Gold	The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
Silver	The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Grading bands for Fund-of-hedge-funds / Absolute return / Specialist funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
Silver	The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Grading bands for Ucits III flexible beta funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
Silver	The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

Bond gradings

V	Bond fund volatility gradings of V1 to V6 reflect S&P Capital IQ's current opinion of a fund's sensitivity to changing market conditions. A volatility grading evaluates a fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For the V1 to V4 categories, risk is considered relative to a portfolio composed of government securities denominated in the base currency of the fund.
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Absolute return gradings

N	The N grading is S&P Capital IQ's indication of a fund's potential capital stability in normal markets. It is a qualitative grading but is based on annualised weekly downside deviation. N1 is the most stable, and N9 the least stable grading.
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Symbols and Definitions (continued)

Passive funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.
Silver	The fund demonstrates high standards of quality in its sector based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.

Applicable to both active and passive funds

Bronze	A previously graded fund where a newly appointed fund manager or team does not yet have the required 12 months' relevant investment management experience to achieve a Silver grading or higher.
Grading On Hold	A grading is placed On Hold when a significant change occurs at the fund manager or fund management team level and S&P Capital IQ has not yet had the opportunity to evaluate the impact on the qualitative appraisal.
Grading Removed	A previously graded fund is classified Grading Removed when a significant change occurs at the fund manager or fund management team level sufficient for the fund to no longer meet the standards to achieve a grading.
LTG recognition	A long-term grading (LTG) denotes a fund that has achieved an S&P Capital IQ fund grading at Platinum, Gold or Silver level in each of the last five or 10 consecutive years.

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