

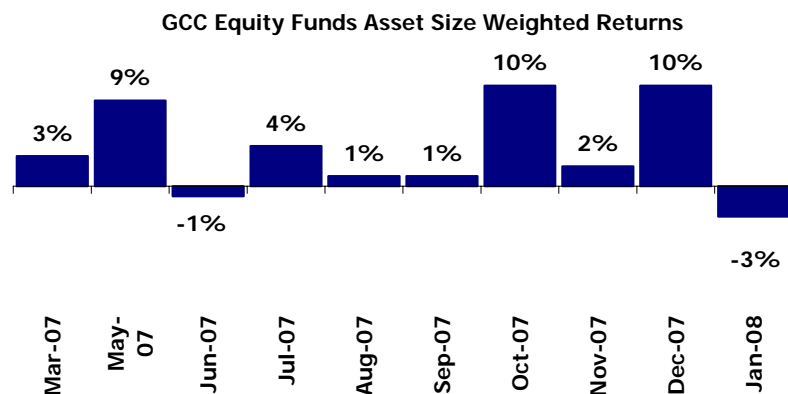
March 2008

GCC Equity Funds

Challenging Start for 2008

After a spectacular December, January 2008 turned volatile and provided the least returns in the last 12 Months (LTM). MSCI GCC declined by 9%, spear headed by Saudi Arabian market with a loss of 13.4%. The GCC equity funds on an asset weighted average returned a negative 3% compared to a rollicking 10% in December 2007. (Figure 1).

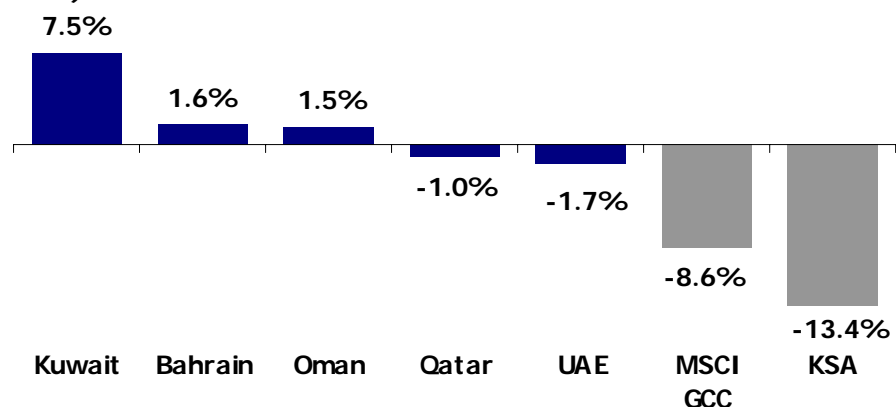
Figure 1: Performance Trend of GCC Funds



Note: Ex-Saudi Arabia Funds have not been considered

The decline in the three markets (Saudi Arabia, UAE and Qatar) which comprise 75% of the total market capitalization in the GCC region ensured the aggregate MSCI GCC index returning -8.6%. Kuwait, however, bucked the trend and posted a positive return of 7.5%. (Figure – 2), while Bahrain and Oman provided some relief. Managers were seen increasing cash and reducing Saudi exposure in response to the mayhem.

Figure 2: Performance of GCC Markets and Funds (January 2008)



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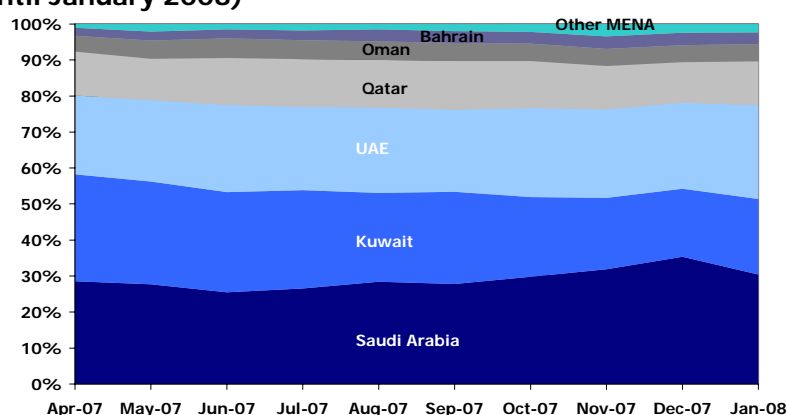
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In response to the decline in Saudi Arabia, funds were seen reducing their allocation to Saudi Arabia. The aggregate allocation to Saudi Arabia declined by 5% on a MoM basis to 30%. (Figure – 3). Funds such as Khaleej Equity Fund, SIB GCC Equity Fund and AlBasha'er GCC Equity Fund considerably decreased their exposure to the Saudi market. Khaleej Equity Fund decreased its allocation by 11%, SIB GCC Equity Fund and AlBasha'er GCC Equity Fund reduced allocation by 8%. Bahrain also witnessed a 100 Bps decrease in fund allocation. The decline in fund allocation to the Saudi Arabia and Bahrain was compensated by increased allocation to Kuwait (up 2%), the UAE (2%) and Qatar (1%). The 26% fund allocation to the UAE was the highest since April 2007. AlBasha'er GCC Equity Fund increased its exposure to the UAE market by 7%. Allocation to Oman and other MENA markets remained unchanged from December 2007 levels.

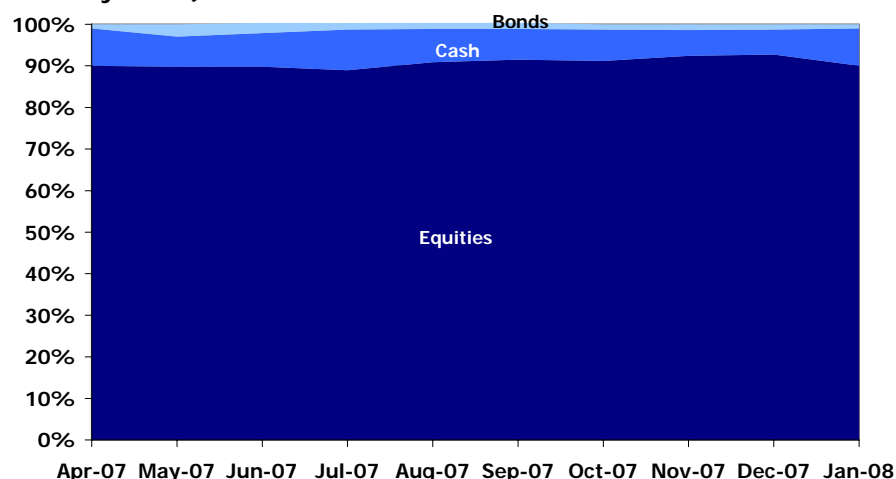
Figure 3: Allocation Trends by Geography – GCC Equity Funds (until January 2008)

Fund allocation to the Saudi market decreased to 30% in January from 35% in December



The decline in January seems to have also instilled some amount of caution amongst money managers. Mutual funds have reduced their exposure to equities as an asset class and have increased their allocation to cash and bonds. (Figure 4) Mutual funds decreased their equity allocation to approximately 90% in January 2008 from 93% in December 2007. This represented the lowest equity allocation since July 2007. Furthermore, on average, the cash held by GCC funds increased by 3% to 9%

Figure 4: Asset Allocation Trends – GCC Equity Funds (until January 2008)



Performance review of GCC Equity Funds – January 2008

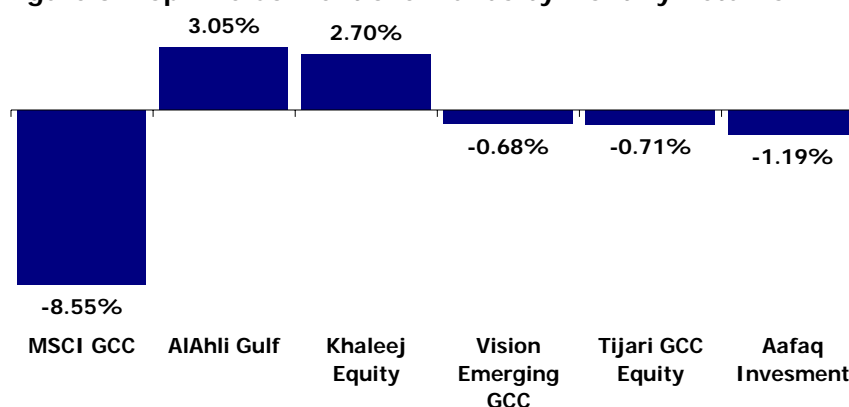
Only 4 of the 24 funds posted positive returns

This section reviews the performance of GCC equity funds. Due to the lag in reporting performance, we have reviewed the same only until January 2008.

Only 4 of the 24 funds tracked by Markaz posted positive returns during January 2008. The extent of decline during the month has been less intense on the Sharia compliant funds. The benchmark for Sharia compliant funds posted a positive return of 1.7% in January 2008 as compared to a negative return of 8.5% on MSCI GCC Index.

Conventional GCC Funds

Figure 5: Top Five Conventional Funds by Monthly Returns



Among conventional funds, Al Ahli Gulf Fund, which had an equity allocation of 66% in the Kuwaiti market, was the best performer with returns of 3.1%. Khaleej Equity Fund, among the top five performers in December 2007, continued with the trend, yielding monthly returns of 2.7%. Furthermore, Khaleej Equity Fund increased its exposure to equities by 6 percentage points in January 2008. Vision Emerging Fund, which provided the highest returns in December 2007, was in the third position with a monthly loss of 0.7%. (Table 2).

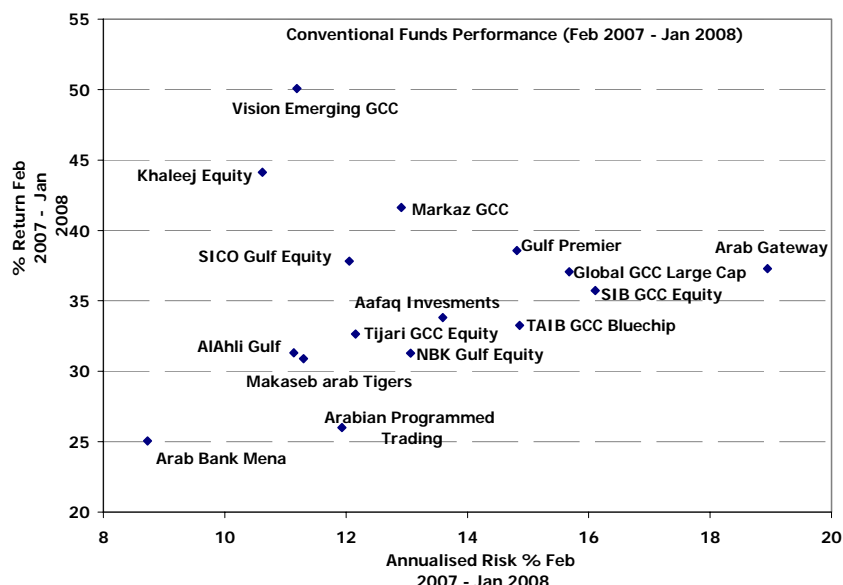
MSCI GCC posted a loss of 8.55%

Table 2: Top 5 Conventional Funds (January 2008)

Fund Name	Inception	AUM (\$ Mn)	Performance (%)			Geographic Equity Asset Allocation							
			Jan-08	YTD	2007	LTM Risk	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Other Mena
AIAhli Gulf Fund#	Nov-03	117	3%	3%	30%	11%	11%	66%	14%	2%	1%	6%	0%
Khaleej Equity Fund	Mar-04	80	3%	3%	44%	11%	11%	32%	25%	16%	5%	11%	0%
Vision Emerging GCC Fund	May-05	52	-1%	-1%	56%	11%	17%	18%	15%	17%	22%	9%	2%
Tijari GCC Equity Fund	Jan-06	42	-1%	-1%	39%	12%	29%	41%	10%	19%	0%	0%	0%
Aafaq Invesment Funds	Oct-04	56	-1%	-1%	42%	14%	4%	15%	54%	10%	4%	13%	0%

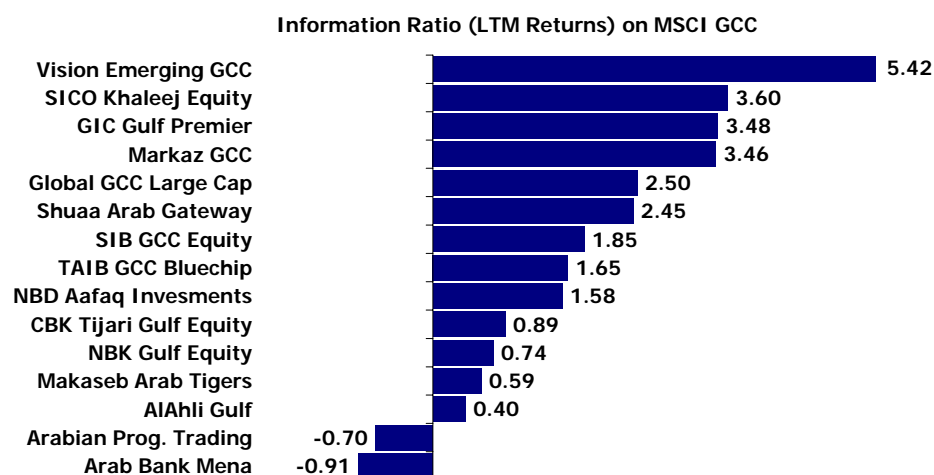
Note: Returns & Risk rounded off

Figure 6: Risk Return profile of conventional mutual funds.



GCC Equity funds enjoy high information ratio

Figure 7: Information ratios of conventional mutual funds.

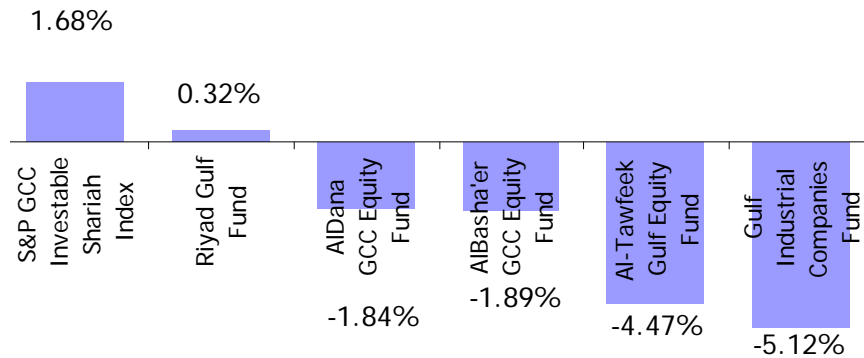


Information ratio has been used as a measure for assessing the risk and return relative to a benchmark which is MSCI GCC. Information ratio is defined as alpha/tracking error wherein alpha is the excess return posted by the fund in comparison to MSCI GCC and tracking error is the standard deviation of alpha.

Islamic GCC Funds

In January 2008, Riyadh Gulf Fund was the best performing Sharia compliant fund with returns of 0.3%. The performance of the benchmark index was better than all Sharia compliant funds as it recorded positive returns of 1.7% (Figure 8). Al Dana GCC Equity Fund posted a loss of -1.8% in January after returning 9.8% in December. AlBasha'er GCC Equity Fund was the third-best Shariah compliant fund, as it decreased its allocation in the Saudi market by 8%. Al-Tawfeek Gulf Equity Fund and Gulf Industrial Companies fund posted a loss of 4.5% and 5.1% respectively. Both these funds had a high exposure to weak Saudi market (Table 1).

Figure 8: Top Five Sharia compliant Funds by Monthly Returns (January 2008)

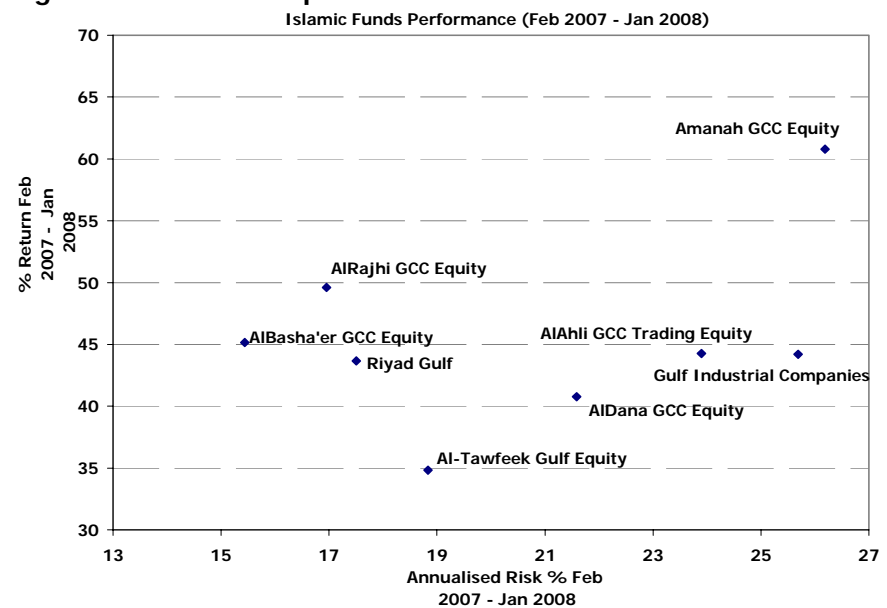


The Index was the best performer for Sharia compliant GCC Funds

Table 1: Top Five Sharia compliant Funds (January 2008)

Fund Name	Inception	AUM (\$ Mn)	Performance (%)			Geographic Equity Asset Allocation							
			Jan-08	YTD	2007	LTM Risk	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Other Mena
Riyadh Gulf Fund [^]	Feb-06	132	0.32%	0.32%	44.88%	17.50%	0%	29%	43%	19%	3%	7%	0%
AIDana GCC Equity Fund [^] #	Apr-06	15	-1.84%	-1.84%	60.99%	21.58%	NA	NA	NA	NA	NA	NA	NA
AlBasha'er GCC Equity Fund	Jan-06	229	-1.89%	-1.89%	53.07%	15.44%	20%	23%	30%	26%	0%	1%	0%
Al-Tawfeek Gulf Equity Fund	Aug-05	8	-4.47%	-4.47%	48.41%	18.84%	28%	9%	36%	9%	11%	0%	7%
Gulf Industrial Companies Fund	Apr-05	5	-5.12%	-5.12%	63.14%	25.69%	82%	7%	3%	7%	1%	0%	0%

Figure 9: Risk Return profile of Islamic mutual funds.



Appendix 1: GCC Equity Funds Statistics

Shariah compliant Funds

Fund Name	Institution	Country	Inception	Fund Size (USD million)	Asset Allocation				Geographic Allocation ^^^								Performance (%)					
					Cash	Equities	Bonds	Total	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Other Mena	Total	Jan-08	YTD ¹	2007	CAGR (%) ²	LTM Risk ³	
AlBasha'er GCC Equity Fund	KFICO	Kuwait	Jan-06	229	13%	87%	0%	100%	20%	23%	30%	26%	0%	1%	0%	100%	-1.89%	-1.89%	53.07%	15.22	15.44%	
AlAhli GCC Trading Equity Fund#	The National Commercial Bank	Saudi Arabia	Oct-05	305	7%	93%	0%	100%	49%	22%	16%	9%	2%	4%	0%	100%	-5.95%	-5.95%	58.86%	-2.75	23.89%	
AlRajhi GCC Equity Fund#	Al-Rajhi Bank	Saudi Arabia	Oct-05	191	0%	100%	0%	100%	33%	45%	7%	10%	5%	0%	NA	100%	-5.18%	-5.18%	64.37%	2.75	16.96%	
Riyadh Gulf Fund^	Riyadh Bank	Saudi Arabia	Feb-06	132	2%	98%	0%	100%	0%	29%	43%	19%	3%	7%	0%	100%	0.32%	0.32%	44.88%	9.75	17.50%	
Amanah GCC Equity Fund#	Saudi British Bank	Saudi Arabia	Apr-06	44	1%	99%	0%	100%	32%	20%	31%	9%	6%	2%	NA	100%	-9.57%	-9.57%	83.57%	9.36	26.18%	
AlDana GCC Equity Fund^#	Banque Saudi Fransi	Saudi Arabia	Apr-06	15	N.A	N.A	N.A	N.A	NA	NA	NA	NA	NA	NA	NA	NA	-1.84%	-1.84%	60.99%	19.43	21.58%	
Al-Tawfeek Gulf Equity Fund	Al Tawfeek Company for Investment Funds	Bahrain	Aug-05	8	0%	100%	0%	100%	28%	9%	36%	9%	11%	0%	7%	100%	-4.47%	-4.47%	48.41%	0.48	18.84%	
Gulf Industrial Companies Fund	Saudi Investment Bank	Saudi Arabia	Apr-05	5	10%	90%	0%	100%	82%	7%	3%	7%	1%	0%	0%	100%	-5.12%	-5.12%	63.14%	-2.53	25.69%	
Total				929	3%	30%	0%	33%	12%	7%	7%	5%	0%	1%	0%	33%						

¹ YTD - Year to Date, ² - CAGR: Compounded Annual Growth Rate Since Inception, ³ - LTM Risk: Standard Deviation of returns for the last 12 Months

* Fund size is not available

^The funds are not taken into calculation of averages as they are Ex-Saudi

#Geographical allocation for January is not published, therefore previous available are taken into consideration

^^ Geographical allocation applies only to the equity portion of the funds

Conventional Funds

Fund Name	Institution	Country	Inception	Fund Size (USD million)	Asset Allocation				Geographic Allocation ^^^								Performance (%)					
					Cash	Equities	Bonds	Total	Saudi Arabia	Kuwait	UAE	Qatar	Oman	Bahrain	Other Mena	Total	Jan-08	YTD ¹	2007	CAGR (%) ²	LTM Risk ³	
Arab Gateway Fund	Shuaa Capital	UAE	Dec-99	397	6%	94%	0%	100%	33%	3%	40%	9%	10%	0%	5%	100%	-4.42%	-4.42%	49.28%	19.46	18.95%	
Gulf Premier Fund	Gulf Investment Corporation	Kuwait	Apr-03	237	3%	97%	0%	100%	34%	28%	18%	12%	6%	2%	0%	100%	-1.43%	-1.43%	43.19%	28.43	14.81%	
GCC Equity Fund	Saudi Investment Bank	Saudi Arabia	Jul-04	107	25%	75%	0%	100%	57%	15%	12%	9%	2%	4%	1%	100%	-4.33%	-4.33%	43.33%	19.15	16.11%	
AlAhli Gulf Fund#	AlAhli Bank of Kuwait	Kuwait	Nov-03	117	8%	92%	0%	100%	11%	66%	14%	2%	1%	6%	0%	100%	3.05%	3.05%	29.57%	0.59	11.14%	
Global GCC Large Cap Fund*	Global Investment House	Kuwait	Feb-05	75	2%	98%	0%	100%	39%	20%	26%	12%	3%	1%	0%	100%	-6.49%	-6.49%	48.92%	13.56	15.68%	
Khaleej Equity Fund	SICO	Bahrain	Mar-04	80	7%	93%	0%	100%	11%	32%	25%	16%	5%	11%	0%	100%	2.70%	2.70%	44.13%	26.86	10.62%	
Aafaq Investment Funds	National Bank of Dubai	UAE	Oct-04	56	20%	52%	28%	100%	4%	15%	54%	10%	4%	13%	0%	100%	-1.19%	-1.19%	41.57%	22.80	13.60%	
Arab Bank Mena Fund^^	Al Arabi Investment Group	Bahrain	Sep-05	48	19%	77%	4%	100%	33%	24%	13%	9%	3%	1%	18%	101%	-2.63%	-2.63%	28.88%	7.32	8.73%	
SICO Gulf Equity Fund^	SICO	Bahrain	Mar-06	50	9%	91%	0%	100%	0%	35%	31%	18%	6%	10%	0%	100%	3.10%	3.10%	37.30%	15.64	12.05%	
Vision Emerging GCC Fund	Vision Investment Services Co	Oman	May-05	52	8%	92%	0%	100%	17%	18%	15%	17%	22%	9%	2%	100%	-0.68%	-0.68%	56.49%	24.93	11.19%	
Tijari GCC Equity Fund	Commercial Bank of Kuwait	Kuwait	Jan-06	42	0%	100%	0%	100%	29%	41%	10%	19%	0%	0%	0%	100%	-0.71%	-0.71%	38.56%	-0.12	12.16%	
Markaz GCC Fund	Kuwait Financial Center	Kuwait	Jan-06	25	11%	89%	0%	100%	26%	27%	20%	15%	11%	1%	0%	100%	-1.60%	-1.60%	48.40%	8.30	12.91%	
Makaseb arab Tigers Fund	Makaseb	UAE	Nov-05	19	3%	97%	0%	100%	33%	5%	17%	0%	14%	2%	29%	100%	-3.80%	-3.80%	40.10%	7.72	11.30%	
TAIB GCC Bluechip Fund	TAIB Securities	Bahrain	Jun-03	7	2%	98%	0%	100%	40%	13%	27%	11%	4%	5%	0%	100%	-4.10%	-4.10%	43.99%	16.63	14.86%	
NBK Gulf Equity Fund#*	National Bank of Kuwait	Kuwait	Jun-05	N.A	0%	100%	0%	100%	32%	24%	19%	12%	5%	4%	4%	100%	-5.37%	-5.37%	42.26%	13.74	13.06%	
Arabian Programmed Trading Fund#	Daman Securities	UAE	Feb-05	N.A	21%	79%	0%	100%	31%	25%	38%	6%	0%	0%	0%	100%	-2.78%	-2.78%	30.77%	0.31	11.93%	
Total				1313	6%	59%	1%	67%	18%	14%	19%	7%	4%	2%	2%	67%						

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* Fund size is not available

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Source: Markaz Analysis, Zawya, Lipper

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