Kuwait Financial Centre "Markaz"
RESEARCH

April 2008

GCC Asset Allocation & Volatility

Markets On A Roller Coaster Ride

Research Highlights:

Kuwait was the best performer among all GCC markets with MTD returns of 2.0% and YTD returns of 13.8%

Our asset allocation model is underweight on Saudi Arabia and the UAE and overweight on Kuwait for April 2008

Kuwait, UAE and Bahrain reported increase in volatility in March

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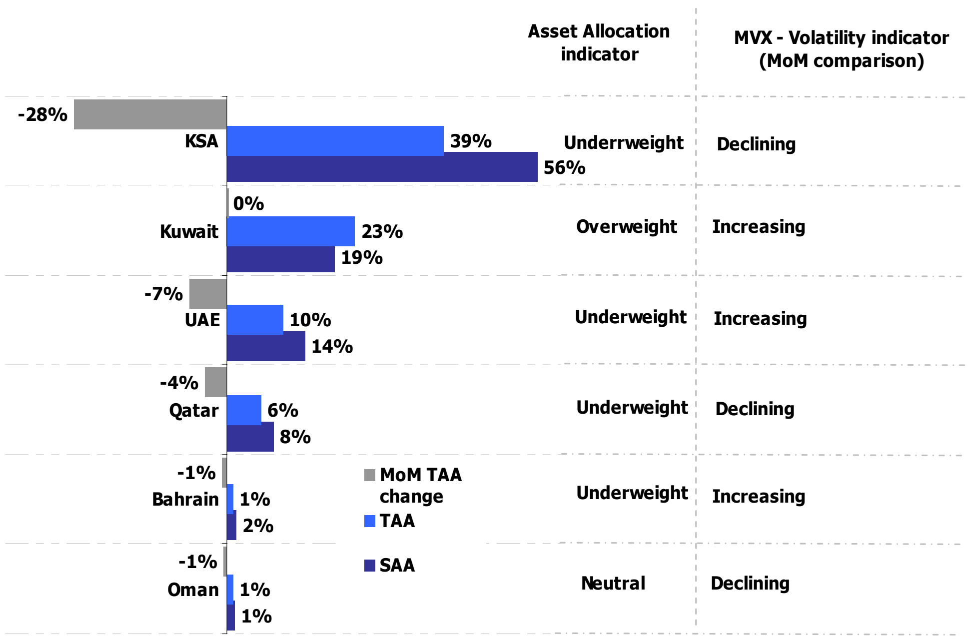
Asset Allocation and Volatility Indicators – March 2008



Source: Markaz Research
Note: TAA weights will not add up to 100% due to leverage/cash

Mirroring global financial market developments, March 08 was a punishing month for GCC when the MSCI GCC index declined by 7.7%. Saudi Arabia led the losers with a whopping fall of 11.24% as compared to a gain of 6.37% in February'08. All GCC markets, except Kuwait, recorded a month-on-month (MoM) decline. The Kuwaiti market significantly outperformed other GCC markets and posted a MoM return of 2%. Volatility, which eased a bit in the month of February after a spike in January, showed a mixed trend in March. Our tactical asset allocation model suffered due to being overweight on Saudi Arabia. It underperformed the benchmark by 158bps.

Significant changes in our asset allocation recommendation include:

- The model is turning conservative as it increases the cash allocation to its maximum limit of 20% thereby being underweight on Equities for April' 08.
- The model is mostly underweight on all major markets except Kuwait
- Allocation to Saudi Arabia has been decreased from 67% in March to 39% in April.
- Eventhough, Kuwait carries a nuetral weight, the allocation is more than the strategic allocation weight of 19% due to re-balancing of excess cash.

Performance Review of Proprietary Quantitative Asset Allocation Model – March 2008

The TAA model performed poorly in March due to maximum allocation to the Saudi market

For the month of March, the TAA momentum-based model posted a loss of 9.1%. Our TAA model underperformed the SAA methodology by 158 bps, and on a year-to-date (YTD) basis, it underperformed by 398 bps. This is due to the mean reverting nature of the market, a trend not corroborated by its long-term behavior.

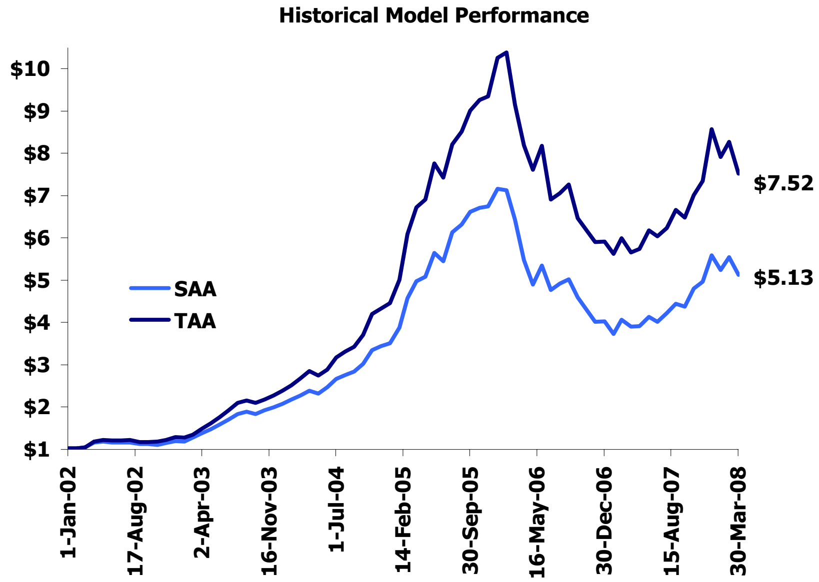
Returns from the TAA model underperformed the SAA in March mainly due to the overweight position in the Saudi market, which recorded a loss of 11.2% during the month.

As mentioned in our March' 08 report, we continue to monitor the results of our mean reversion model, which continues to outperform the SAA by 158 bps for the month and 410 bps for the YTD period from January 2008 to March 2008.

Table 1: Allocation and Market Performance

Markets	Tactical Asset Allocation (%) (March 2008)	Market Performance (%)	YTD%
Saudi Arabia	67	-11.24	-18.26
UAE	17	-5.86	-4.33
Kuwait	23	1.99	13.77
Bahrain	2	-3.16	1.26
Qatar	10	-8.76	-0.27
Oman	1	-2.51	11.81
Cash/(Loan)	-20		
TAA	100	-9.08	-12.26
SAA		-7.49	-8.28
Source: Markaz Analysis			

Figure 1: Historical Model Performance



Source: Markaz Research

In the GCC region, Kuwait recorded the highest monthly increase of 21% in volatility

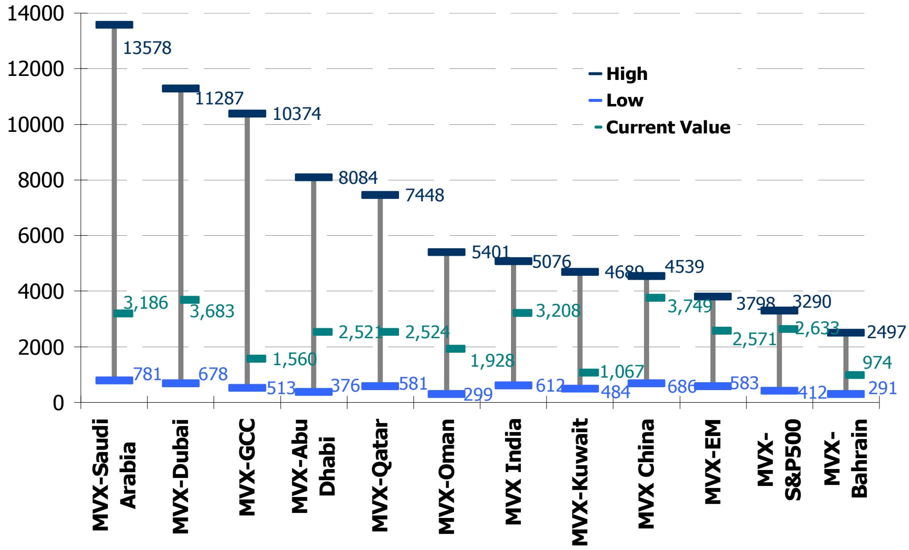
Volatility

On the volatility front, the GCC markets exhibited a mixed performance in the percentage of volatility. Saudi Arabia, Qatar and Oman registered a fall in volatility, while others like Kuwait, Bahrain and the UAE recorded a rise. Kuwait witnessed the highest spike in volatility as compared to the rest of the GCC markets.

The GCC markets volatility levels were lesser than that of the emerging market volatility levels. The MVX of GCC is at 1560 as compared to MVX EM at 2571 and MVX S&P 500 at 2633. Among the GCC markets, Dubai is the highly volatile market with the MVX at 3683, a tad lower than China.

China remains the most volatile market followed by Dubai

Figure 2: Comparable MVX Levels as of March 31, 2008



Source: Markaz Research

Key Trends & Inference			
Index/Country	**MVX Spot as on 31 Mar 2008**	**% Chg (MoM)**	**Inference**
Bahrain	974	13	MVX Bahrain increased 13% in March and was up 73% on a trailing twelve-month basis.
Kuwait	1067	21	Though MVX Kuwait registered an increase of 21% in March, it was trading 4% below its 120-Day MVA.
GCC	1560	-26	MVX GCC decreased 26% in March compared to its 57% decline in February 2008.
Oman	1928	-26	MVX Oman declined 26% in March compared to its 39% decrease in February 2008.
Abu Dhabi	2521	5	After declining 52% in February, MVX Abu Dhabi was up 5% on a MoM basis. It was up 59% on a trailing twelve-month basis.
Qatar	2524	-10	Declining 10%, MVX Qatar was 17% below its 120-Day MVA[2].
Emerging Markets	2571	16	Rising 16% in March 2008, MVX EM was trading 5% above its 120-Day MVA.
S&P500	2633	29	Volatility in S&P increased 29%; MVX was up 150% on a trailing twelve-month basis.
Saudi Arabia	3186	-32	Among all tracked markets, MVX Saudi Arabia recorded the highest decrease of 32% on a MoM basis. It was trading 18% below its 120-Day MVA[2].
India	3208	52	India MVX recorded the highest increase of 52% in March.
Dubai	3683	4	MVX Dubai posted an increase of 4% in March as against a decline of 54% in February.
China	3749	20	MVX China was trading 38% higher than its 120-Day MVA.

Note: [1] – Variation calculated on a MoM basis
[2] – 120-Day Moving Average

Correlation

Short-Term

The Short term correlation for all the GCC markets Ex-Saudi Arabia has witnessed a decline as against the S&P 500 when compared to March 2008. Saudi Arabia, till March had a 0% correlation against S&P 500 and it has increased to 4% for the 12 Months ending April 08. (Table – 2) However, the correlations continue to be low as compared to GEM correlations with the S&P 500 at more than 30% levels. Saudi Arabian markets fell by 11% in comparison to the 1.15% and 4.70% fall in S&P 500 and GEM markets respectively during Mach' 08.

Short-term correlations seem to be on the rise while long-term correlations continue to be attractive between GCC and rest of the world

Table 2: Short-Term Correlation

1Y Correlation (April 2007–March 2008)									
	Saudi Arabia	Kuwait	Dubai	Abu Dhabi	Qatar	Oman	Bahrain	S&P 500	GEM
Saudi Arabia	100								
Kuwait	8	100							
Dubai	28	21	100						
Abu Dhabi	26	26	70	100					
Qatar	18	16	38	49	100				
Oman	23	15	32	40	35	100			
Bahrain	5	22	9	11	17	10	100		
S&P 500	4	3	1	(0)	(1)	7	2	100	
GEM	14	10	19	19	21	14	3	30	100

Source: Markaz Research

Long-Term

Over the longer term horizon, the correlations of the GCC against the GEM markets increased as compared to the previous month. The decline in returns across all the markets in the first quarter of the current year can be attributed to this increase in correlations. However, the spike in correlations has not been significant.

Table 3: Long-Term Correlation

3Y Correlation (April 2005 – March 2008)									
	Saudi Arabia	Kuwait	Dubai	Abu Dhabi	Qatar	Oman	Bahrain	S&P 500	GEM
Saudi Arabia	100								
Kuwait	16	100							
Dubai	19	17	100						
Abu Dhabi	20	18	55	100					
Qatar	3	10	11	18	100				
Oman	8	10	13	13	20	100			
Bahrain	6	20	7	10	11	14	100		
S&P 500	(2)	2	(1)	(2)	(4)	8	3	100	
GEM	5	4	7	6	6	9	2	32	100

Source: Markaz Research

GCC markets lost nearly 8% in March 08 thanks to a 11% fall in Saudi Arabia

Market Review

The GCC markets have exhibited significant swings since January 2008. Markets started the year on a weak note but showed signs of recovery during February. However, they tumbled again in March. All GCC markets except Kuwait witnessed a decline during the month. While Saudi Arabia led the pack with a 11.2% decline, the Qatari market fell 8.8% in March 2008. Kuwait was the only market in the GCC region to witness an increase in the first three months of 2008 (Table 4). As a result, on an YTD basis, it outperformed all other GCC markets with a return of 13.8%. The Kuwaiti market was closely followed by the Omani market, which returned 11.8% YTD. While Kuwait made the highest contribution to the total volume traded, Saudi Arabia topped the chart in terms of value traded in the region (Table 5).

Table 4: Market Indicators

Indicators	M. Cap (USD Bn)	Last Close	Mar 08 %	YTD %	07 %	P/E 07	P/E 08
Saudi (TASI)	488	9,135	-11.24	-18.26	40	20	15
Kuwait (KSE)	213	14,288	1.99	13.77	25	13	11
Abu Dhabi (ADI)	116	4,556	-5.38	0.10	52	17	12
Dubai (DFMGI)	103	5,352	-10.21	-9.78	44	22	-
Qatar (Doha SM)	105	9,555	-8.76	-0.27	34	17	10
Bahrain (BAX)	29	2,790	-3.16	1.26	24	8	7
Oman (Muscat SM)	26	10,103	-2.51	11.81	62	13	11
MSCI GCC	659	720	-7.71	-10.30	47	19	NA

Source: Excerpt from Markaz "Daily Morning Brief" March 1, 2008
CY08 Estimates are Markaz Earnings Estimates

Kuwait continues to be the star performer of the year with a YTD of nearly 14%

Table 5: Volume and Value Traded

Indicators	Volume Traded (Mn)	% Of Volume Traded	Volume LTM Avg (Mn)	Value Traded (USD Mn)	% Of Value Traded	Value LTM Avg (USD Mn)
Saudi Arabia	4,242	21%	4,693	42,498	60%	53,362
Kuwait	8,245	41%	7,033	14,907	21%	13,567
UAE	7,007	35%	11,686	9,995	14%	12,456
Qatar	176	1%	297	2,518	4%	2,994
Bahrain	179	1%	107	191	0%	139
Oman	397	2%	288	837	1%	530
Total	**20,246**			**70,946**		

Source: Respective Stock Exchanges, Markaz Research; LTM refers to Last Twelve Months

Saudi Arabia

Table 6: Saudi Arabia Key Market Statistics

Key Statistics (March 2008)			
Volume Traded (Mn)	4,242	LTM Average Volume Traded (Mn)	4,693
Value Traded (USD Mn)	42,498	LTM Average Value Traded (USD Mn)	53,362
Top 5 Concentration Market Cap(%)	48	Top 5 Concentration Market Volume (%)	51

Source: Respective Stock Exchange, Markaz Research

The Saudi market posted a MTD loss of 11.2% and YTD loss of 18.3% in March

March proved to be another weak month for the Saudi market in 2008. Low volumes failed to sustain the recovery of February and the market plunged 11.2% on a MoM basis in March. On an YTD basis, the Saudi market continued to significantly underperform the remaining GCC markets and lost 18.3%. Total volumes in the market declined 19.8% to 4,242 Mn in March from 5,290 Mn in February. (Table – 6)
Samba witnessed the highest decline among the heavy weight stocks during March at -24%, taking its YTD losses to 37%. The PE contraction too has been quite significant. As at 31st Dec 2007, the stock was quoting at 22.44x its last twelve month earnings (LTM) and this has fallen down to 14.07x. The stock has witnessed a decline in spite of the news flow being positive. The company announced its plans for expansion and expressed interest in acquiring 67% stake in Egypt's Banque Du Caire.
The other major losers in March included Al-Rajhi bank, Saudi Telecom and Sabic which declined by 19%, 15% and 11% respectively. Saudi Telecom Co plans to spend about USD15 Bn in acquiring firms and licenses outside its home market in 2008.

Kuwait

Table 7: Kuwait Key Market Statistics

Key Statistics (March 2008)			
Volume Traded (Mn)	8,245	LTM Average Volume Traded (Mn)	7,033
Value Traded (USD Mn)	14,907	LTM Average Value Traded (Mn)	13,567
Top 5 Concentration Market Cap(%)	36	Top 5 Concentration Market Volume (%)	29

Source: Respective Stock Exchange, Markaz Research

In March, Kuwait posted MTD and YTD returns of 2.0% and 13.8%, respectively

In March, the Kuwaiti market posted positive but mediocre returns of 2% and outperformed all other markets in the GCC region. In terms of YTD returns, it was the best GCC market with gains of 13.8%. Aref Energy Holding and Mena Holding Group led the market and were the top gainers in the month with returns of 117.8% and 96.1%, respectively. Both volume and value traded were higher than the twelve-month average for the month of March. Relatively, the concentration of the top five in terms of market cap and volume remained lower than other markets (Table 7).

On the blue chip front, Mobile Telecommunications Co (ZAIN) prepared for an IPO in Bahrain that is likely to be announced before the end of June 2008. During March, National Bank of Kuwait (NBK) acquired 40% stake in Turkish Bank. However, the stock was down 6.6% during the month. Kuwait Finance House was planning to expand its operations in China, India, Indonesia and Algeria. However, the stock lost 9.2% during the month. Agility's full-year net profit was KD153.9 Mn (USD576.4 Mn) and posted a 10.5% fall in fourth-quarter profit of KD34.9 Mn. The Company's stock price fell 15.9% in March. Heavyweight National Industries Group (NIND) also posted a loss of 13.4% during the month after returning 3.2% in February.

UAE

Table 8: UAE Key Market Statistics

Key Statistics (March 2008)			
Volume Traded (Mn)	7,007	LTM Average Volume Traded (Mn)	11,686
Value Traded (USD Mn)	9,995	LTM Average Value Traded (USD Mn)	12,456
Top 5 Concentration Market Cap(%)	48	Top 5 Concentration Market Volume (%)	62

Source: Respective Stock Exchange, Markaz Research

The decline in UAE markets comes on the back of low volumes and value traded on the bourses. The volumes fell by 45% as compared to Feb' 08. It has to be noted that in Feb' 08, both ADSM and DFMGI witnessed 5.71% and 5.62% increase respectively. The top five stocks contribution to the market volumes too reduced from 69% in Feb' 08 to 62% in March' 08. (Table – 8)

Among the front line stocks, Emaar properties witnessed a decline of 13%. The stock as at the end of Mar' 08 was trading at 10.18x its trailing twelve month (TTM) earnings. This is almost at a 50% discount to its last 2 year average PE discounting the TTM earnings.

The other biggest decline in the UAE market during Mar' 08 was that of DIB, which fell by 15%. During the start of the month, the bank announced the results of its wholly owned subsidiary Dubai Islamic Bank Pakistan. The results were strong with a 152% growth in assets and 273% growth in deposits.

Qatar

Table 9: Qatar Key Market Statistics

Key Statistics (March 2008)			
Volume Traded (Mn)	176	LTM Average Volume Traded (Mn)	297
Value Traded (USD Mn)	2,518	LTM Average Value Traded (Mn)	2,994
Top 5 Concentration Market Cap(%)	53	Top 5 Concentration Market Volume (%)	59

Source: Respective Stock Exchange, Markaz Research

The Qatari market posted a MoM loss of 8.8% in March as against positive returns of 10.4% in February

The Qatari market posted a MoM loss of 8.8% in March as against returns of 10.4% in February. This was the worst MoM performance since January 2007, when it had registered a loss of 9.8%. Liquidity, in terms of volume and value traded, was low in March 2008 compared to the trailing twelve-month average (Table 9). On an YTD basis, the market recorded a loss of 0.3%. This was due to the poor performance of heavyweight stocks, as the top five stocks (in terms of market capitalization) posted losses in the month.

Qatar telecom and Industries Qatar declined by 16%. Qatar telecom's Oman unit Nawras announced plans to invest RO100 Mn in 2008 and also short listed two banks advice on a possible IPO. The news flow on Industries Qatar was also positive with the company announcing major expansionary projects. The expansionary projects are valued at QAR 20 Bn ($5.5 Bn) and is expected to boost production capacity of Qafco 5 to 3.8 million tons of ammonia and 4.3 million tons of urea.

Oman

Table 10: Oman Key Market Statistics

Key Statistics (March 2008)			
Volume Traded (Mn)	397	LTM Average Volume Traded (Mn)	288
Value Traded (USD Mn)	837	LTM Average Value Traded (USD Mn)	530
Top 5 Concentration Market Cap(%)	52	Top 5 Concentration Market Volume (%)	40

Source: Respective Stock Exchange, Markaz Research

After 11 consecutive MoM positive returns, the Omani market posted a loss of 2.5% in March

After posting MoM positive returns for the 11th consecutive time till February, the Omani market posted a negative return in the month of March. Consequently, its YTD returns decreased to 11.8% from 14.7% in February 2008. In March, the total volume traded increased 24.1% to 397 Mn, while the total value traded rose 25.5% to USD837 Mn (Table 10).

Among the top five heavyweights, Bank Muscat (BKMB) registered a 39.4% increase in net profit to RO84.2 Mn in 2007 from RO60.4 Mn in 2006. However, the BKMB stock fell 9.7% during the month.

Bahrain

Table 11: Bahrain Key Market Statistics

Key Statistics (March 2008)			
Volume Traded (Mn)	179	LTM Average Volume Traded (Mn)	107
Value Traded (USD Mn)	191	LTM Average Value Traded (USD Mn)	139
Top 5 Concentration Market Cap(%)	59	Top 5 Concentration Market Volume (%)	87

Source: Respective Stock Exchange, Markaz Research

The Bahraini market posted a monthly loss of 3.2% in March as against positive returns of 2.9% in February

The Bahraini market recorded a loss of 3.2% in March compared to returns of 2.9% in February. It registered 1.3% returns YTD. Liquidity, in terms of volume and value traded, declined by 41% and 65% respectively on a MoM basis (Table 11).

The weak stock price performance of heavyweight banking stocks such as Al Ahli United Bank (AUB) and Arab Banking Corp (ABC) pushed the market down. ABC continued to be a victim of sub-prime mortgage crisis, which led to a 38% plunge in its full year net profits. The stock price fell by 34.1% during the month. Investcorp acquired Randall-Reilly Publishing Company, LLC, a media and information company focused on the trucking and construction markets in the US. United Gulf Bank agreed to buy a stake in Dubai Islamic Bank unit, Millennium Finance Corporation, in line with its expansion plans. Heavyweights such as Gulf Finance House (GFH), and Bahrain Telecommunications Company (BATELCO) also took a hit of 13.9% and 4.0%, respectively.

Appendix 1: Model Performance – Historical

Monthly performance (%)													
SAA													
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Annual**
2002	2.18	(0.24)	2.48	10.87	1.97	(1.43)	(0.17)	0.32	(3.17)	(0.42)	(1.45)	3.73	14.94
2003	4.55	(1.09)	7.12	8.54	6.96	7.62	7.32	7.35	2.85	(2.89)	4.91	3.65	73.15
2004	4.29	4.71	4.48	4.93	(2.94)	6.69	8.07	3.51	2.97	6.53	10.54	2.62	72.57
2005	2.25	10.46	17.95	8.74	2.08	11.16	(3.48)	12.40	3.06	4.74	1.49	0.45	96.28
2006	6.15	(0.42)	(9.77)	(14.80)	(10.55)	9.17	(10.90)	3.22	2.17	(8.53)	(12.54)	0.12	(40.27)
2007	(7.55)	9.08	(4.04)	0.54	5.55	(2.81)	5.12	5.07	(1.52)	9.88	3.38	12.61	38.88
2008	(6.30)	5.81	(7.49)										(8.28)
TAA- Momentum													
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	
2002	2.18	(0.33)	2.43	13.88	2.41	(1.01)	0.67	1.01	(3.79)	(0.81)	1.23	3.39	22.33
2003	5.54	(1.45)	6.02	10.47	8.26	9.26	9.38	8.79	2.95	(2.85)	3.70	4.19	85.28
2004	5.08	5.57	6.29	6.60	(3.61)	5.19	10.00	4.11	3.49	8.30	13.21	3.10	90.92
2005	3.02	12.37	21.45	10.41	2.86	12.30	(4.26)	10.48	3.66	5.93	2.73	0.91	115.91
2006	9.80	1.19	(11.88)	(10.44)	(7.04)	7.42	(15.59)	2.24	2.93	(11.05)	(8.66)	0.18	(36.70)
2007	(5.01)	6.71	(5.56)	1.31	7.68	(2.29)	3.34	6.84	(2.77)	8.23	4.84	16.56	44.86
2008	(7.64)	4.47	(9.08)										(12.26)
Outperformance/(Underperformance)													
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	
2002	0.00	(0.09)	(0.06)	3.01	0.44	0.41	0.84	0.69	(0.63)	(0.39)	2.69	(0.34)	7.39
2003	1.00	(0.36)	(1.10)	1.92	1.31	1.64	2.06	1.44	0.09	0.04	(1.21)	0.54	12.13
2004	0.79	0.86	1.81	1.67	(0.67)	(1.50)	1.93	0.60	0.52	1.77	2.67	0.48	18.35
2005	0.77	1.91	3.51	1.67	0.78	1.14	(0.78)	(1.93)	0.60	1.19	1.23	0.46	19.62
2006	3.65	1.62	(2.11)	4.35	3.51	(1.75)	(4.68)	(0.98)	0.76	(2.53)	3.88	0.06	3.58
2007	2.54	(2.37)	(1.52)	0.77	2.13	0.52	(1.79)	1.77	(1.26)	(1.65)	1.46	3.95	5.98
2008	(1.34)	(1.33)	(1.58)										(3.98)

Source: Markaz Research

Appendix 2: Volatility Model Performance – Historical

Table 1: Markaz Volatility Index (MVX)[1]

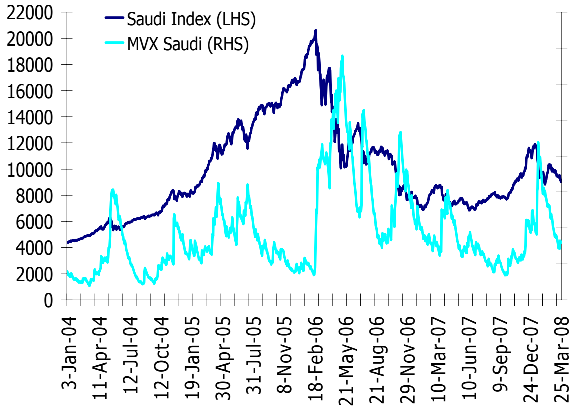
	Current Value 31-Mar-08	Historic High	Historic High Date	Historic Low	Historic Low Date	120-D Moving Average
MVX-Saudi Arabia	3186	13,578	16-May-06	781	17-Mar-04	3,882
MVX-Kuwait	1067	4,689	18-Mar-06	484	24-Oct-07	1113
MVX-Qatar	2524	7,448	12-May-05	581	8-Nov-04	3,038
MVX-Dubai	3683	11,287	19-Mar-06	678	30-Aug-04	4,131
MVX-Abu Dhabi	2521	8,084	9-May-05	376	29-Mar-04	2,929
MVX-Oman	1928	5,401	23-Jan-08	299	7-Sep-04	2,383
MVX-Bahrain	974	2,497	20-Nov-05	291	29-Dec-04	981
MVX-GCC	1560	10,374	16-May-06	513	28-Sep-07	2,248
MVX-EM	2571	3,798	20-Aug-07	583	8-Jul-05	2,455
MVX-S&P500	2633	3,290	20-Mar-08	412	19-Jan-07	1980
MVX India	3208	5,076	18-May-04	612	7-Dec-06	2242
MVX China	3749	4,539	4-Feb-08	686	28-Dec-05	2718

Source: Markaz Analysis

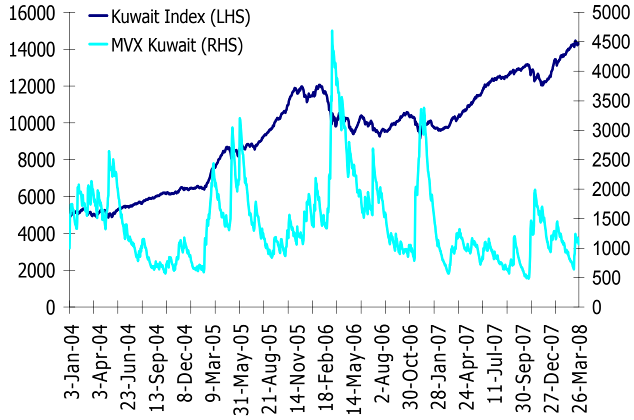
[1] Base Date Index 1000 as of January 1, 2004

Markaz Volatility Index (MVX)-Country Charts (Until March 2008)

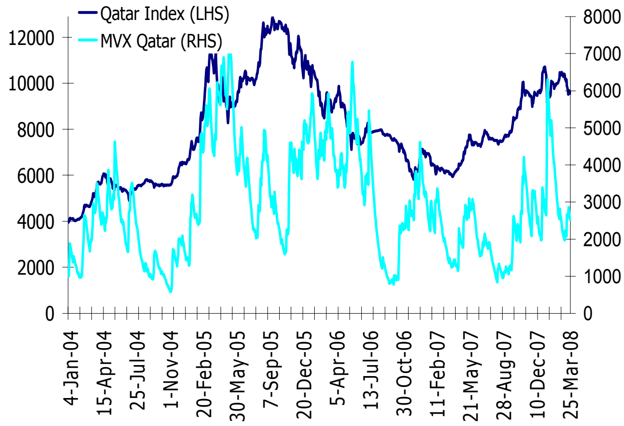
Saudi Arabia



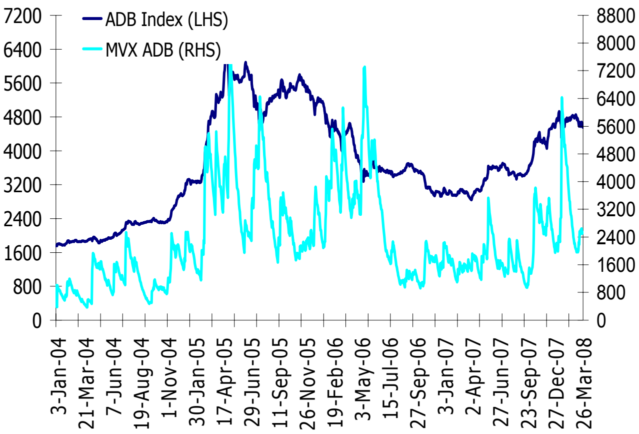
Kuwait



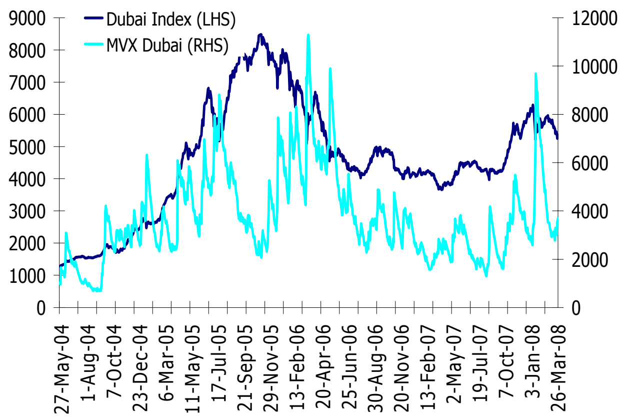
Qatar



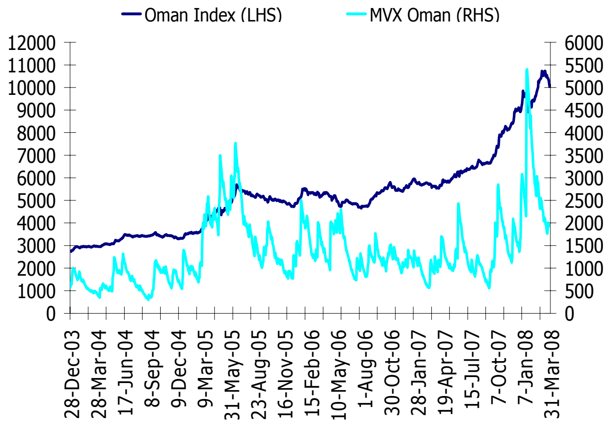
Abu Dhabi



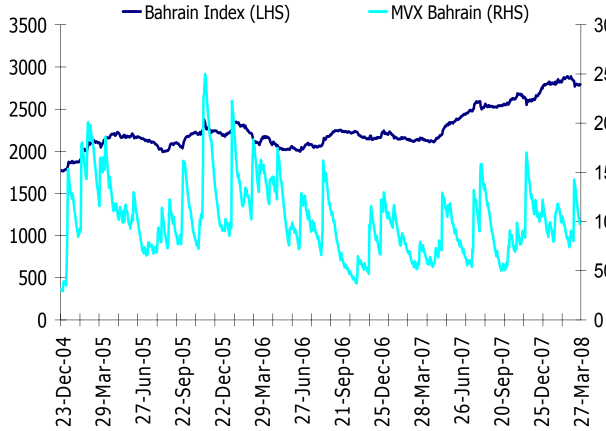
Dubai



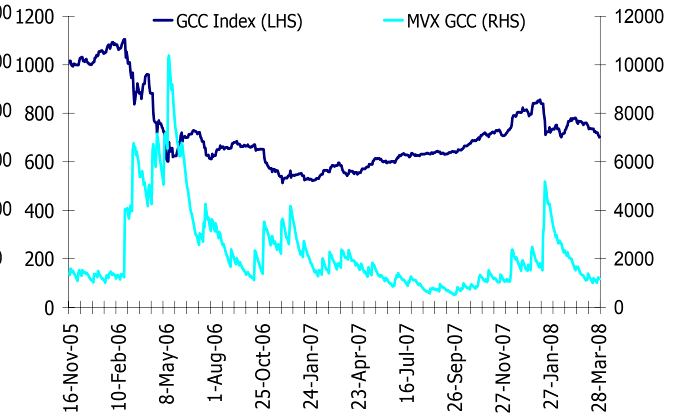
Oman



Bahrain



GCC



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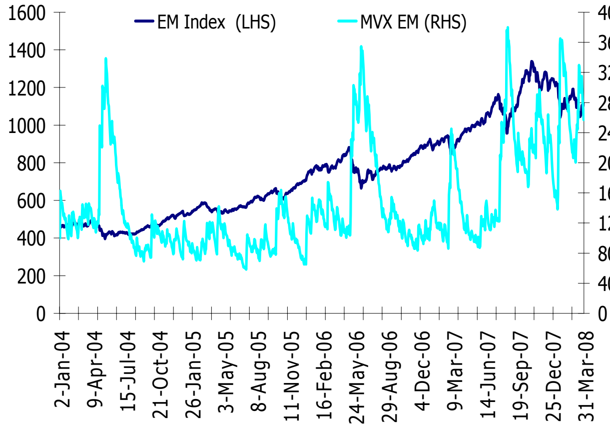
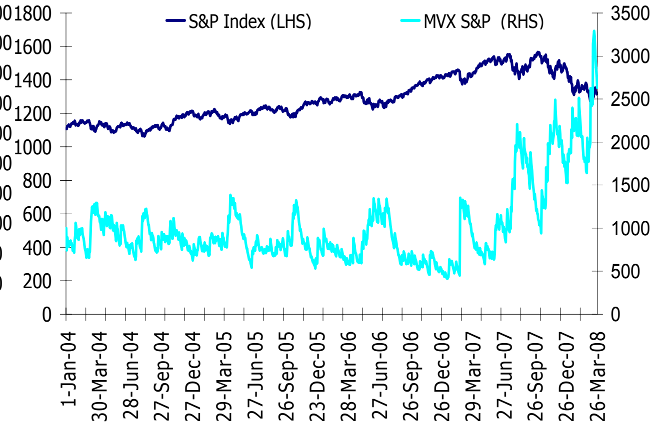


S&P500



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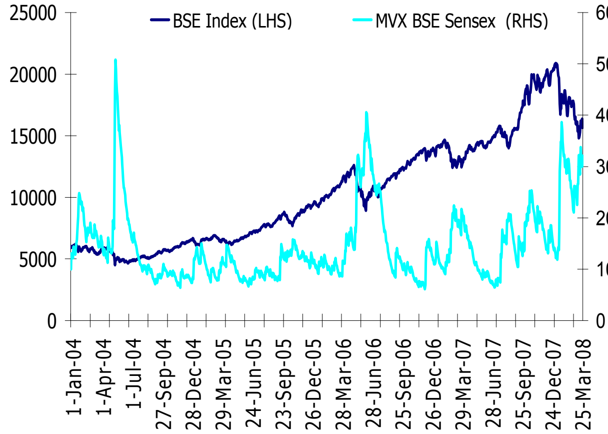
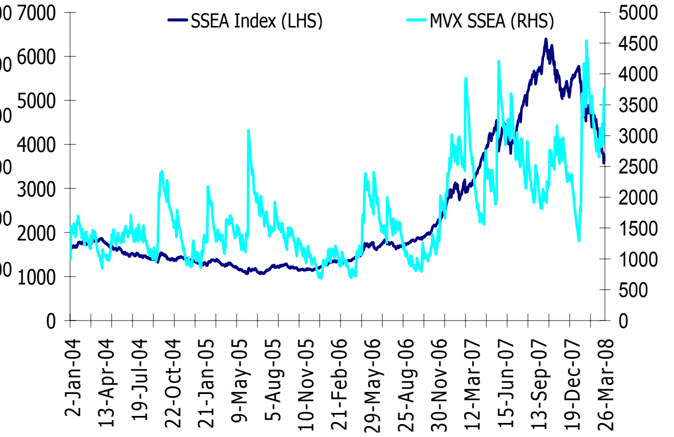


China



Appendix 3: Methodology – Asset Allocation

Strategic Asset Allocation (SAA): SAA refers to long-term policy allocation. This is a benchmark portfolio constituted based on weights derived from average market capitalization of respective stock markets. By virtue of its role of being a policy portfolio, they remain static unless the underlying share of respective markets undergoes drastic shifts. SAA can be useful to investors when it is difficult to make a call on markets. In the absence of clear directions, the idea is to stick to SAA allocation. Our SAA is provided below:

Market	Allocation (SAA)
Saudi Arabia	56%
Kuwait	19%
UAE	14%
Qatar	8%
Bahrain	2%
Oman	1%
Cash	0%
Total	**100%**

Tactical Asset Allocation (TAA): TAA refers to short-term changes made to SAA based on our call on the market. In other words, TAA assumes that we have views (positive or negative) on the respective markets and these are expressed either as underweight or overweight to the SAA. For e.g. the strategic allocation to Saudi Arabia is 56%. In a particular month, we may be bullish on Saudi Arabia and may want to increase the weight (overweight) to 70%. The stress is on short-term performance, which leaves investors' long-term risk tolerances and preferences unaffected. Currently we use momentum model which tends to increase weights to those markets that have performed well and vice-versa. Our proprietary algorithm model tactically underweight and overweight GCC markets based on this trend.

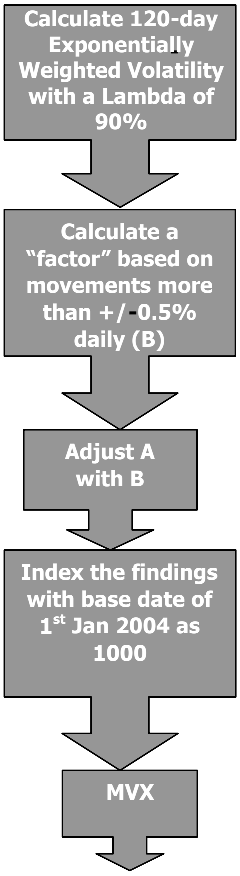
Range: Changes to TAA can be made subject to certain limits on upper and lower levels. The limits are put in place to ensure that no drastic action is incorporated in the model. It is also a tool to contain the risk of the model. Presently, the limit is set to +/- 50%. The various limits (max and min) are detailed below:

Market	SAA	Max	Min
KSA	56%	84%	28%
UAE	14%	21%	7%
Kuwait	19%	29%	10%
Bahrain	2%	2%	1%
Qatar	8%	12%	4%
Oman	1%	2%	1%

Leverage/Cash Level: Our proprietary model is tuned to restrict cash level of the portfolio to a limit of +/- 20%.

Appendix 4: Methodology – Markaz Volatility Index

Markaz Volatility Index (MVX) follows the following steps for its calculation.



- The MVX has a base date of 1 Jan 2004, for all the indices which have data from 1st Jan 2004. The average of the below mentioned parameters for all the countries is taken as the base value and converted into 1000.
- MVX is calculated based on Exponentially Weighted Moving Average (EWMA) for a period of 120-days Using EWMA provides more weight to recent volatility than historic. MVX also considers a second parameter i.e., the number of days during the previous 120 trading days where index trades outside a pre-set level. Presently, this level is +/-0.5% based on historic relationships (refer table below).
- Any movement outside this band indicates heightened level of volatility.
- The second parameter is reinforcement to the first parameter and may be influenced by the first parameter. However, since the methodology is uniformly applied across all the markets, the model is strengthened by the second parameter.

	% Number of days of deviation									
	Saudi Arabia	Kuwait	Qatar	Oman	Dubai	Abu Dhabi	Bahrain	MSCI EM	S&P	GCC
Less than +/-0.25%	16	31	23	37	14	24	45	25	37	25
+/-0.25% & '+/-0.50%	17	22	16	23	15	19	26	24	24	23
+/-0.50% & '+/-0.75%	12	18	11	15	12	13	12	18	16	14
+/-0.75% & '+/-1.00%	9	12	8	10	9	10	8	12	12	12
+/-1.00% & '+/-1.25%	9	5	8	6	8	9	4	6	6	8
+/-1.25% & '+/-1.50%	5	4	5	2	6	6	2	7	3	4
+/-1.50% & '+/-1.75%	4	2	4	2	6	4	1	3	2	4
+/-1.75% & '+/-2.00%	4	1	3	3	4	3	1	2	1	2
+/-2.00%	24	3	21	3	25	13	2	4	1	9
	100	100	100	100	100	100	100	100	100	100

Source: Markaz Research. Date Range of study: Jan 2004-May 2007.

Note: Indices used - Saudi Arabia: TASI, Kuwait – Price Index, Qatar – Doha Market Index, Oman – Muscat SM Index, Abu Dhabi – ADI Index, Dubai – DFM Index, Bahrain – BAX Index, EM – MSCI EM, S&P – S&P 500 Index & GCC – MSCI GCC Index

Markaz Research Offerings

Strategic research

Title	Release Date	Research Highlights
GCC Equity Funds: The Asset Allocation Challenge	Sep-06	Issues behind asset allocation for GCC equity funds.
GCC Leverage Risk: How real it is?	Nov-06	Examining the risk behind increased exposure of the GCC financial system to stock market.
GCC for fundamentalists: A top-down framework	Dec-06	Establishing a framework involving fundamental variables affecting GCC stock markets.
Managing GCC Volatility: Strategies and Tactics	Feb-07	Devising risk-based portfolio strategy.
Derivatives Market in GCC: Cutting a (very) long market short	Mar-07	Examining the need for derivatives market in GCC.
To Leap or To Lag: Choices before GCC Regulators	Apr-07	Examining the evolution and progress of GCC capital market structures.
A Gulf Emerging Portfolio: And Why Not?	Jun-07	A Study on Saudi, Kuwait, and UAE for Portfolio Enhancement.
A Potential USD 140 Bn Industry Review of Asset Management Industry in Kuwait	Sep-07	Examining the status of Kuwait investment industry, both managed accounts and mutual funds.
China and India: Too Much Too Fast GCC more than a global soother	Oct-07	Run up in China & India is too fast and is a cause of concern. The report suggests inclusion of GCC markets in the portfolio as a soother.
Kuwait: The New law to slash tax	Dec-07	A key obstacle to foreign investment has been removed on December 26th, 2007.
Outlook 2008: Kuwait	Jan-08	Stock selection will be challenging.
Outlook 2008: Saudi Arabia	Jan-08	Expect Consolidation
Outlook 2008: UAE	Jan-08	Earnings growth momentum to continue
Outlook 2008: Qatar	Jan-08	Stick to heavy weights
Emerging Investments trend for 2008	Jan-08	A panel discussion
GCC Outlook 2008	Jan-08	The "Life Boat" to hang on
The Vicious "Square"	Feb-08	Monetary Options for Kuwait
Banking Sweet Spots- Markaz M&A Potential Score	Mar-08	A Markaz M&A Potential Score "MMAPS" approach

Sector Research

Title	Release Date
Syria Real Estate	Apr-07
Saudi Arabia Real Estate	Jul-07
Qatar Real Estate	Sep-07
Lebanon Real Estate	Dec-07
Kuwait Real Estate	Feb-08
Jordan Real Estate	Mar-08
Algeria Real Estate	Mar-08

Quantitative Research

Title	Release Date	Research Highlights
GCC Equity Funds	Since May - 07 (Monthly)	Asset allocation strategy for GCC stock markets using an in-house proprietary model.
Asset Allocation and Markaz Volatility Indices (MVX)	Since Jul – 07 (Monthly)	Launch of Volatility Index for the six GCC markets, EM and S&P.

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