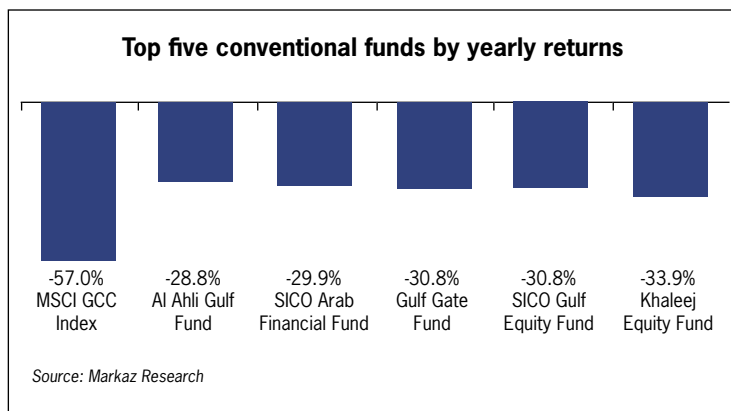


GCC equity funds see assets halve

The assets under management of GCC equity funds declined fast in 2008, shrinking 46 per cent between April and December. A **Markaz** report.

The GCC markets experienced a rollercoaster ride in 2008. The first half of the year was characterised by a boom in property markets and record high prices of oil, as well by other commodities that fuelled concerns of high inflation. But the second half of the year provided a contrast, with commodity prices cooling down and crude prices plummeting 70 per cent from their highs of US\$147 per barrel in July. Property prices also crashed as the global credit crisis engulfed financial markets. Consequently, investor sentiment turned negative, fund managers began hoarding cash and investors began redeeming.

The aforementioned circumstances caused the assets under management (AUM) of both country-specific and pan-GCC funds to contract 46 per cent from April to December. The most contraction



was witnessed among Bahraini funds, with AUM plunging 75 per cent in the nine-month period. UAE funds saw a 62 per cent decline in AUM. The country with the least contraction was Kuwait, where AUM declined 26.6 per cent from US\$6.37 billion in April to US\$4.7 billion in December.

The AUM of conventional funds declined 46 per cent from US\$13.7

billion in April to US\$7.4 billion in December, while the AUM of Islamic funds shrank 45.6 per cent to US\$4.4 billion in this period. It comes as no surprise that fund performance suffered. Any gains made during the first half of the year were subsequently reversed, causing all funds to end 2008 with losses, most of which were in the double digits.

Top five conventional funds (2008)													
Performance (%)							Geographic equity asset allocation (Dec-08)						
Fund name	Fund manager	Inception	AUM (US\$ mn)	2008 (%)	2007 (%)	LTM risk (%)	Saudi Arabia	Kuwait (%)	UAE (%)	Qatar (%)	Oman (%)	Bahrain (%)	Other MENA (%)
Al Ahli Gulf Fund	Al Ahli Bank of Kuwait	Nov-03	75	-28.76	29.57	23.97	12	44	15	9	1	20	0
SICO Arab Financial Fund	Securities & Investment Company	Aug-07	16	-29.90	20.72	23.81	13	18	0	0	18	33	18
Gulf Gate Fund	Kuwait and Middle East Financial Investment Co.	Aug-06	NA	-30.78	24.00	20.10	24	41	11	19	4	0	0
SICO Gulf Equity Fund	Securities & Investment Company	Mar-06	35	-30.80	37.30	26.15	0	35	16	8	30	11	0
Khaleej Equity Fund	Securities & Investment Company	Mar-04	70	-33.90	44.13	27.56	45	16	11	11	7	9	0

Source: Markaz Research

Top five Shari'ah-compliant funds (2008)													
Performance (%)							Geographic equity asset allocation (Dec-08)						
Fund name	Fund manager	Inception	AUM (US\$ mn)	2008 (%)	2007 (%)	LTM risk (%)	Saudi Arabia (%)	Kuwait (%)	UAE (%)	Qatar (%)	Oman (%)	Bahrain (%)	Other MENA (%)
Al Aseel Islamic Equity Fund	Securities & Investment Company	Sep-05	6	-38.10	35.21	28.73	42	1	8	6	0	14	29
Global GCC Islamic Fund	Global Investment House	Jul-07	36	-38.84	12.97	36.01	64	0	7	28	0	0	0
Jadwa GCC Equity Fund	Jadwa Investment	Jun-07	11	-40.79	42.11	35.28	NA	NA	NA	NA	NA	NA	NA
Jadwa Arab Markets Equity Fund	Jadwa Investment	Jun-07	12	-41.12	42.19	34.61	NA	NA	NA	NA	NA	NA	NA
AlBasha'er GCC Equity Fund	Kuwait Finance and Investment Company	Jan-06	84	-42.20	53.07	26.65	10	49	30	6	0	5	0

Source: Markaz Research

Conventional funds

The top five conventional funds outsmarted their benchmark, which recorded a loss of 57 per cent. The Al Ahli Gulf Fund (Al Ahli Bank of Kuwait) closed out the year with the best performance, reporting an annual loss of

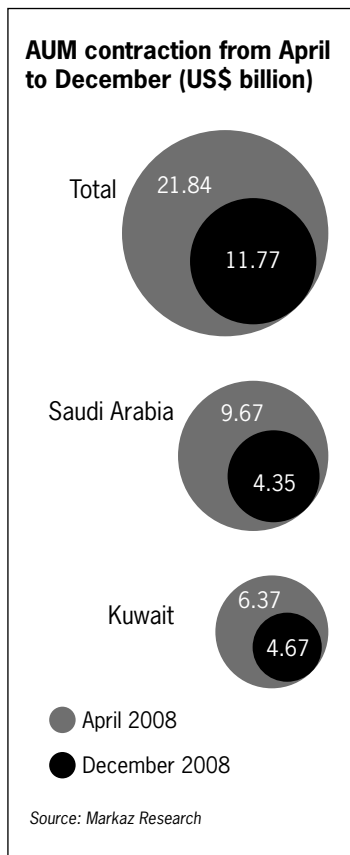
28.76 per cent. The fund had its worst performance in October, losing 18.56 per cent. The fund sat on cash in December, with an allocation of 38.04 per cent. Kuwait had the highest geographical allocation (27.4 per cent), followed by Bahrain (12.1 per cent) and the UAE (9.1 per cent). The fund's top holdings included SABIC, Agility, Emaar Properties, Gulf Finance House, Qatar National Bank and BankMuscat (detailed percentage holdings were not provided).

(3.1 per cent) and El Sewedy Cables (2.8 per cent).

Fund managers

The ever-worsening turmoil in the global market sent fund managers into panic mode in December, where managers held 29 per cent of their assets in cash compared to four per cent in July, which was the lowest level in 2008. During the month, exposure to equity fell to 71 per cent from 92 per cent in September

Within equities, exposure to Saudi Arabia and Qatar increased at the expense of Kuwait and the UAE. There was a slight increase in allocation to Saudi Arabia, from 33.5 per cent in September to nearly 36 per cent in December. Exposure to the Kuwait market fell markedly from 22.7 per cent in September to 18.8 per cent in December. The decreased confidence was even more apparent in the UAE, where allocation dropped from 21.3 per cent in September to 15.7 per cent in December.



Shari'ah-compliant funds

All top five Islamic funds outperformed the benchmark MSCI GCC Islamic Index, which plummeted 60 per cent in 2008. The Al Aseel Islamic Equity Fund (Securities & Investment Company) topped the charts with an annual loss of 38.10 per cent. In December, the fund hoarded cash with an allocation of 65.9 per cent, with the highest equity allocation going to the Saudi market (42 per cent). In terms of sectors, the fund had an 11.3 per cent exposure to telecoms, followed by nine per cent to industrials. The fund's top three holdings in December were Saudi Telecom (3.1 per cent), EPICO

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