GULF BOND FUND

Gulf Investment Corporation

مؤسسة الخليج للاستثمار

Gulf Bond Fund Newsletter of Gulf Investment Corporation — **Oct 2011**

NAV per share : $ 13.0139 — **Oct return : 1.16%**

Fund Objective

The Fund aims to generate a return in excess of returns on investment in short term bank deposits. Moreover, the fund seeks maximum current income and price appreciation consistent with preservation of capital and low total return volatility.

Investment Strategy

The fund is a total return bond portfolio that primarily invests in debt issues of entities in GCC countries. Debt issues of entities incorporated outside GCC countries may be included on opportunistic basis.

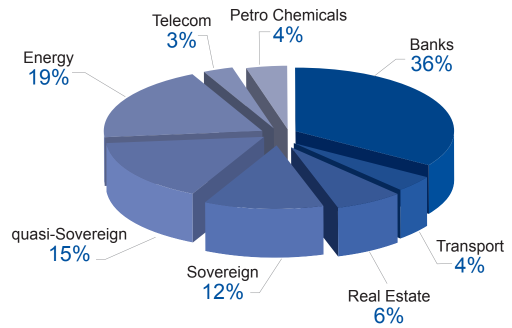
All sectors of the bond market will be utilized to add value including:

- Debt instruments issued by governments an government agencies
- Debt instruments issued by corporates and financial institutions
- Asset backed securities
- Shari'ah compliant debt and money market instruments
- Conventional money market instruments
- The fund may also invest in third party funds or structured instruments and vehicles

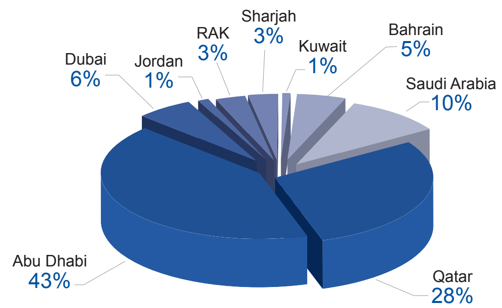
Key Facts

Funds Name	:	Gulf Bond Fund
Fund Manager	:	Gulf Investment Corporation
Inception Date	:	May 2005
Initial Subscription	:	US$ 100,000
Subsequent Subscription & Redemptions	:	US$10,000
Subscriptions & Redemptions	:	Weekly
Fund's Custodian	:	Gulf Clearing Company & HSBC Bank
Auditor	:	Ernst & Young, Kingdom of Bahrain
Management Fees	:	0.375% of NAV
Application Laws	:	Kingdom of Bahrain

Sector Breakdown



Country Breakdown

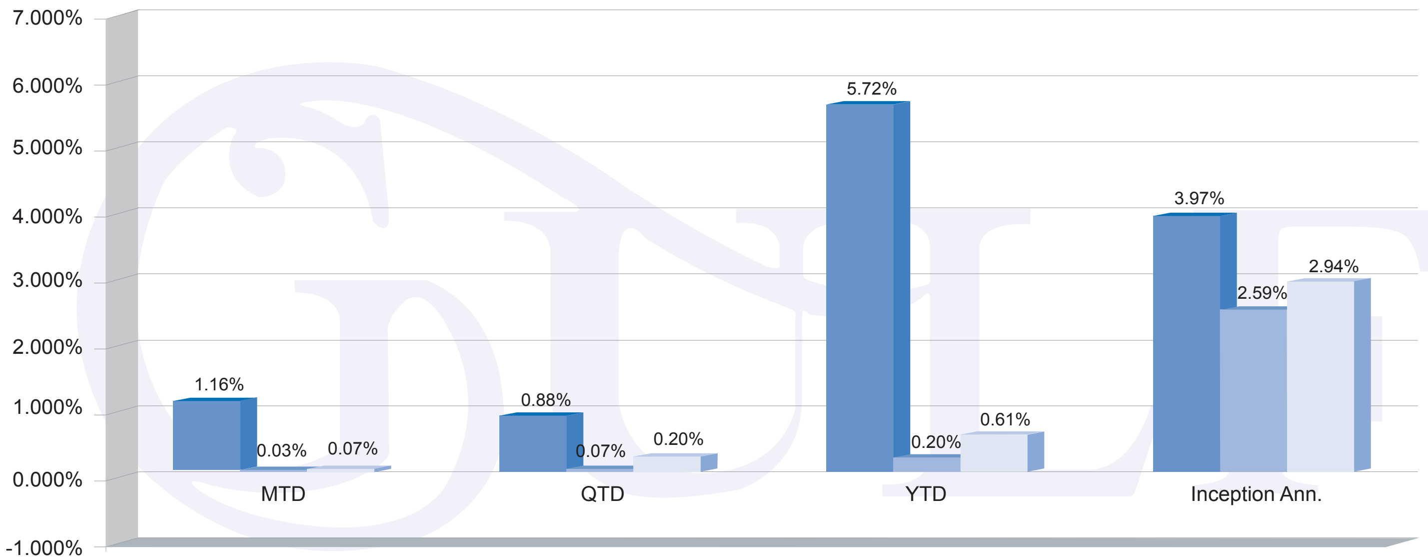


Performance - Net Asset Value

Fund & Benchmarks Performance

As of 31st October 2011

Fund Returns are based on the NAV prices.



GIC Gulf Bond Fund Net Asset Value as of 31st October 2011 is $152,682,005.21 - $13.0139 NAV/unit.

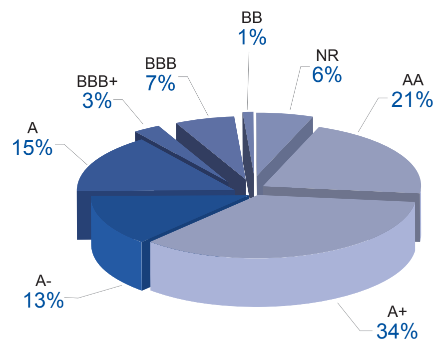
- GIC - NAV / unit Performance
- Benchmark - USD 3 Months LIMID
- Benchmark - USD 12 Months LIMID

Monthly Performance

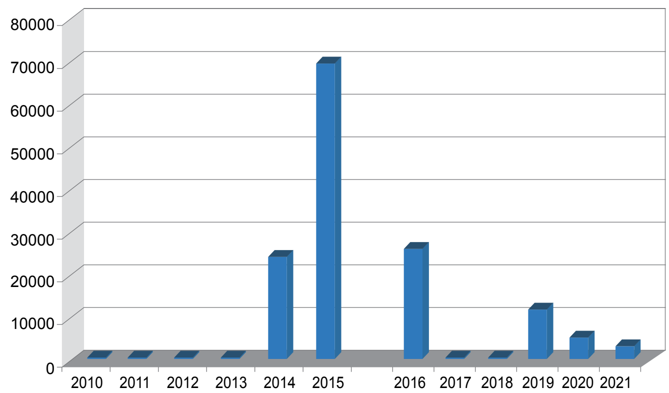
Annualized Since Inception Rate of Return : **3.97%**

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2005			0.03	0.24	0.63	0.25	0.31	0.22	0.48	0.31	0.41	0.34	3.27
2006	0.44	0.39	0.42	0.45	0.45	0.59	0.32	0.34	0.48	0.59	0.54	0.40	5.55
2007	0.58	0.46	0.47	0.48	0.53	0.46	0.40	0.21	0.37	0.41	0.32	0.46	5.26
2008	0.28	-1.12	-0.21	0.45	0.57	-0.55	0.65	0.01	-0.47	-0.44	-1.65	-1.43	-3.87
2009	-2.48	-2.70	0.71	1.69	1.25	2.97	0.41	0.85	1.54	1.21	-1.35	-0.55	3.44
2010	0.44	0.15	1.44	0.77	0.06	0.43	1.60	1.22	0.89	0.34	-0.64	0.21	7.12
2011	0.41	-1.63	1.58	1.71	1.37	0.09	1.46	0.29	-0.56	1.16			5.72

Rating Profile



Maturity Profile



GCC Outlook

Forget about positive US data, forget about solid regional fundamentals, when it comes to markets it's all about the European debt situation. Global markets across asset classes have been reacting to news out of the euro zone as primary catalyst for the past weeks, as the situation there overshadowed news such as, US data showing that the economy grew during third quarter at the fastest pace in a year, and positive regional GDP numbers.

While the headlines news look good from the much anticipated Europe leaders' meet on 26 October, the devil lies in details. It's great news that they've managed to increase the bail-out fund to USD1.4 trillion plus agree on "voluntary" 50% haircut arrangement for the private investors in Greek debt and bank recapitalization. The problem is, lack of clarity on how they are planning to increase the bail-out fund size from 440 billion euros to a trillion. On top of that, there are some questions as to whether one trillion euros in itself is enough. If you had one trillion euros and you had the ECB on board, that would be enough. But there's been no announcement that the ECB's on board so far.

The HSBC Nasdaq Dubai GCC conventional dollar bond index witnessed wide swings. The Yield reached levels of 5.812 during the first week before falling off to 5.096 by the month end. Spreads calculated over Libor, narrowed to 323bps from 425bps. While the execution of EU plans remain uncertain, better-than-expected economic data from the US and China has helped sentiment and allowed the upward momentum to continue. On the technical side, data on fund flows also reflects an improvement in sentiment.

5Y CDS spreads in the regional market corrected very sharply. Dubai CDS tightened to 376 from 550 levels. Qatar and Abu Dhabi CDS also came down to below 100 from above 130 levels. However, Saudi is still trading near 105 points.
Sharia compliant funding market is looking more active than the conventional space. Saudi Arabia appears to be the most active market in the Middle East credit space with Satorp, Maaden and Almarai tapping credit markets since the start of this month to fund their projects and/or growth plans.The Sukuk market's insulation from the broader doom and gloom could encourage others to tap the asset class. Among possible borrowers are Bahrain, Qatar International Islamic Bank, and Tamweel. Goldman Sachs has registered a $2 billion Islamic bond programme. Conventional bond market was very quiet. However, the successful launch of IPIC issue during late Oct, brought some activity and hope back to the market.

Rating action in the region was a mixed bag. Fitch Ratings has downgraded Bank Muscat's Viability Rating to 'bbb' from 'bbb+' and affirmed the bank's Long-term Issuer Default Rating (IDR) at 'A-'. The Outlook on the Long-term IDR is Stable. Moody's upgraded EMAAR's rating to Ba3. Moody's also upgraded Corporate Family rating of DEWA from Ba2 to Ba1.

We expect the nervousness and risk aversion in the market to continue. It's all about Europe and until a permanent and a practical solution is presented markets will remain very volatile and vulnerable. Now, it seems that a solution is in the making, we are waiting for the final details to be announced, and if the details are as encouraging as the headlines we expect an episode of " risk-on" driving the secondary bonds markets to new highs and triggering a wave of new issues .

On the other hand, and if the market recovered, new issuers might face the problem of the narrow window remaining before year end, hence, we might witness a string of issues during the month of November bringing to minds same period of last year.

Poor liquidity has also increased the pain. Issuers planning to tap the primary market in the near future will find the environment challenging. However, We believe that for right quality issuers from this region, there is likely to be a good demand.

Gulf Investment Corporation
Sharq, Jaber Al Mubarak Street
P.O. Box: 3402, Safat 13035, Kuwait
Tel: (+965) 2222 5000 Fax: (+965) 2222 5128
Website: www.gic.com.kw

Contact Person:
Malek Al Ajeel
Head of Business Development
E-mail: malajeel@gic.com.kw
Tel: (+965) 2222 5262