



## 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.

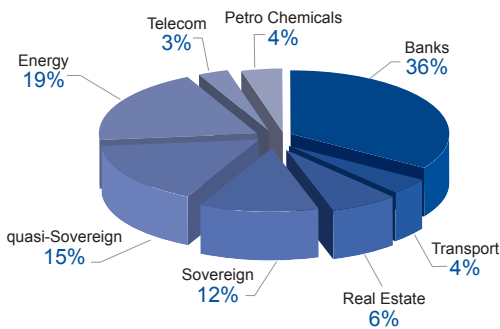
All sectors of the bond market will be utilized to add value including:

- Debt instruments issued by governments and 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

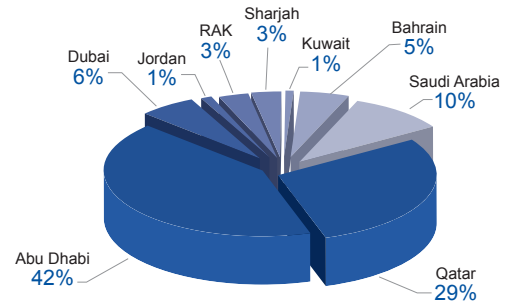
## Key Facts

|                                       |                                     |
|---------------------------------------|-------------------------------------|
| Funds Name                            | : Gulf Bonds 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

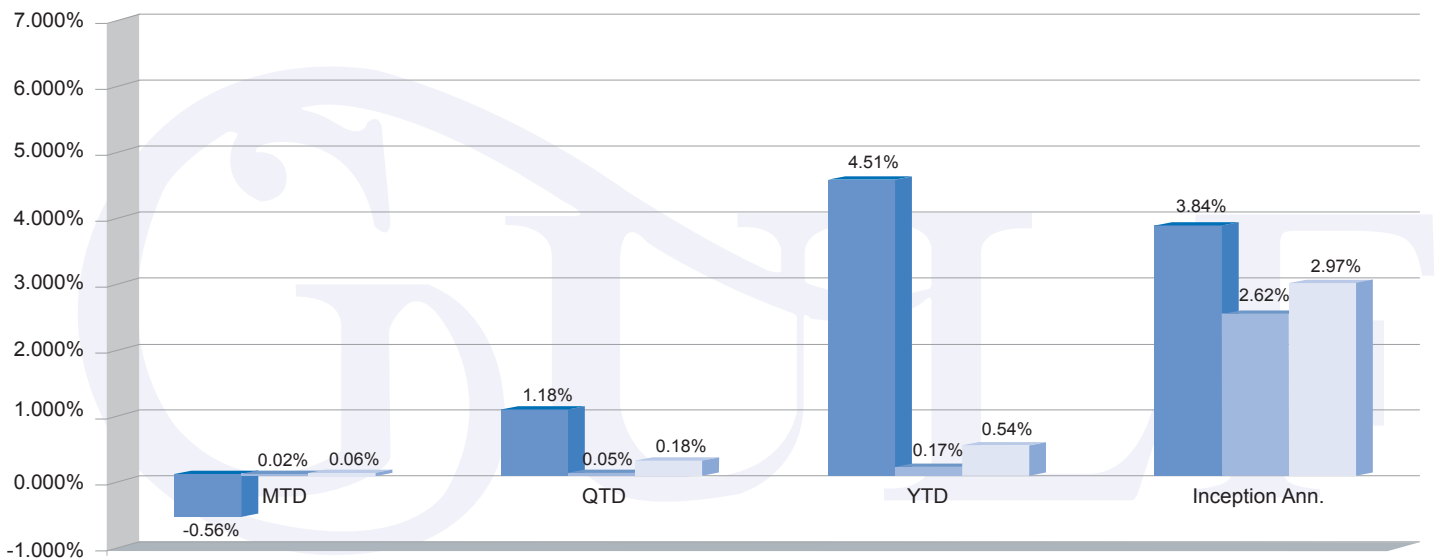


## Performance - Net Asset Value

### Fund & Benchmarks Performance

As of 30th September 2011

Fund Returns are based on the NAV prices.



GIC Gulf Bond Fund Net Asset Value as of 30th September 2011 is \$150,934,629.27 - \$12.8649 NAV/unit.

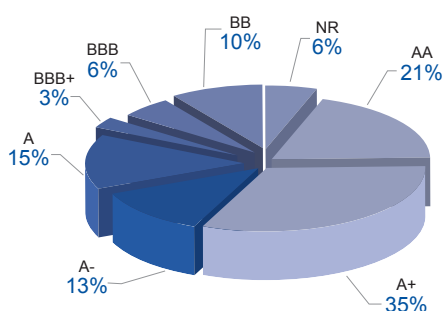
■ GIC - NAV / unit Performance  
■ Benchmark - USD 3 Months LIMID  
■ Benchmark - USD 12 Months LIMID

## Monthly Performance

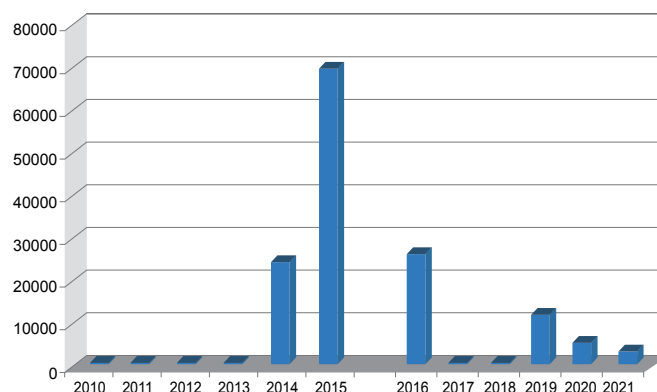
Annualized Since Inception Rate of Return : **3.84%**

| 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 |       |       |       | 4.51  |

## Rating Profile



## Maturity Profile



## GCC Outlook

September witnessed the continuation of global uncertainty, with the resolution of the debt crisis in Europe appearing distant, and Italy quickly emerging to be the new trouble spot, on a scale much larger than either Greece or the other peripheral economies. Italy also faced a one-notch downgrade to 'A' from 'A+' by S&P.

In the US, the much anticipated US Fed meeting resulted in the announcement of 'Operation Twist', which in turn resulted in a drop in yield for long term US Treasuries. 10Y yield fell below 1.7% and 30Y yield fell below 3%. The Fed's negative outlook on the US economy also resulted in significant volatility in the market.

The GCC market generally mirrored global trends, with general risk aversion in the EM pushing spreads higher. The HSBC/Nasdaq GCC Spread Index widened by more than 50bps during the month and touched 325bps, its highest levels during 2011, causing spreads to tighten marginally.

CDS spreads in the regional market widened significantly during the month, reaching the levels witnessed during Arab uprisings. Dubai widened by 115bps, to reach a high of 505bps, before cooling down. Even stronger credits like Qatar (114bps), Saudi Arabia (127bps) and Abu Dhabi (125bps) were trading significantly wider.

In our view, the sell off was mainly driven by technicals, as the mistake of parking the bulk of regional issues with international accounts for the purpose of liquidity and funding diversity, is coming back to bite the regional market. However, going ahead, we expect the high beta names such as Bahrain and Dubai to remain more volatile than low beta names, which have a bigger upside potential, especially in the short end of the curve.

Activity in the primary credit market has remained muted. The conventional bond market tracked the global market with players adopting a wait and watch policy as long as volatility and global uncertainty remains. However, launch of benchmark issue by UNB, is expected to cause a revival in the markets. The success of the issue will be important indicator of the risk appetite of the market and will reignite the market.

Bahrain has also set up a framework to issue up to USD 9.3bn in bonds. However, no timeframe has been specified for the issue. An USD 1bn project bond is likely to be launched by a Gulf borrower for the first time, during next 6 months.

The activity in Sukuk market was also very subdued with only one issue of USD 53.1mn from CBB, Bahrain. There was not much action on the rating front. Fitch affirmed Abu Dhabi's rating at 'AA' with a 'Stable' outlook.

We expect the nervousness and risk aversion in the market to continue. Poor liquidity has also increased the pain. Issuers planning to tap the primary market in the near future will find the environment challenging. We believe that for right quality issuers from this region, there is likely to be a good demand. However, the recent spike in spreads isn't what potential issuers are looking for. EM in general, and GCC market is particular, is expected to outperform the wider market as global uncertainty continues.

The GCC markets offer better upside potential as they are backed by countries with strong credit fundamentals and trade comparatively cheaper in its rating class. The regional pipeline remains strong, but the timing of issues will depend on global factors.