



Gulf Investment Corporation Gulf Bonds Fund

December 2010

NAV per share : \$ 12.3097

December return : 0.21%

Since inception : 3.57%

YTD : 7.14

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.

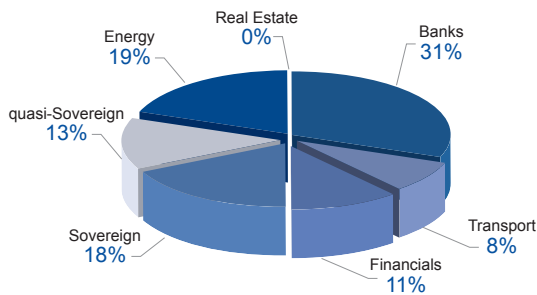
All sectors of the bond market will be utilized to add value including:

- 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

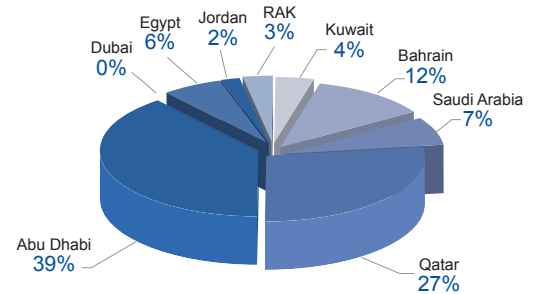
Key Facts

| | |
|-----------------------------|--------------------------------------------------|
| Funds Name | Gulf Bonds Fund |
| Fund Manager | Gulf Investment Corporation |
| Inception Date | March 2005 |
| Fund size | US\$ 50,000,000 - US\$ 1,000,000,000 |
| Unit Nominal Value | US\$ 10 |
| Minimum Subscription | US\$ 250,000 |
| Fund Tenure | Open ended |
| Net Asset Value | Calculated on a weekly basis |
| Subscriptions & Redemptions | Weekly |
| Fund's Custodian | Gulf Clearing Company & HSBC Bank |
| Administrator | HSBC Global Fund Services |
| Auditor | Ernst & Young, Kingdom of Bahrain |
| Management Fees | 0.375% of NAV |
| Application Laws | Kingdom of Bahrain |

Sector Breakdown



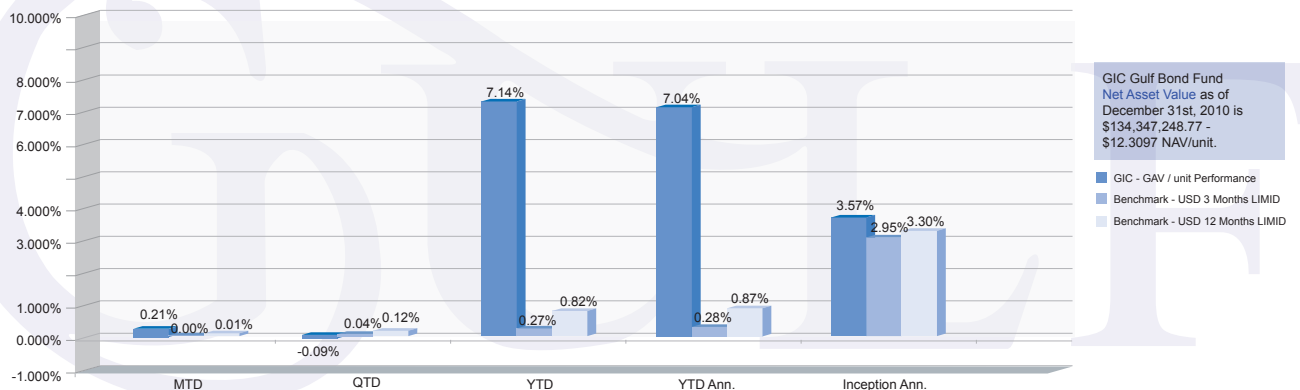
Country Breakdown



Performance - Net Asset Value

Fund & Benchmarks Performance As of 31st December 2010

Fund Returns are based on the NAV prices.



GCC Outlook

Regional credit market reversed some of its November losses as HSBC/NASDAQ Dubai GCC bond index average spread tightened to 240bps, on December 26, from its November 30th peak of 289 bps.

Although GCC names are in a better position than November, however, its lower than its previous levels pressured by increase in US treasuries which moved from 2.33% during October up to 3.33% recently on the back of better US data which triggered an outflow from treasuries to riskier assets such as equities.

Liquidity in local markets remain thin for the second consecutive month as most accounts are off for the holidays.

On the Islamic front, Sukuk are outperforming emerging-market debt for the second month in a row, Islamic debt sales increased by 34% in 2H 2010 due to growing investors demand resulting from successful restructuring agreement reached between Dubai World and majority of its lenders. This demand is expected to drive Sukuk yields further down especially with limited available

supply. We expect Sukuk issuance to pick up in 2011 especially with Saudi Arabia's \$384 billion stimulus plan, which will be partially financed through Sukuk issuance.

2011 will be a tough year for treasuries if the US recovery gained momentum and Europe credit situation found a solution, investors will continue their exit from US notes, which started few weeks ago, as fundamentals improvement and QE2 triggered appetite for riskier assets such as equities and EM bonds.

With average yields on US 10-year notes at their lowest level since 1956, and inflation fears forcing china to hike rates, money managers will start looking for higher yielding investments around the globe.

On MENA front, we expect further decline among mispriced issues that tapped the market during Q4, especially those who priced against US treasuries, and as global rates start to hike new issues will be forced to pay a higher coupon.

Furthermore, as oil prices continues its increase we might start looking at some of the riskier areas in the region such as Dubai.