

## Markets Commentary and Investment Outlook

### The Arab Spring

February 2011 was a breathless month, beginning with the closure of the 30 year Mubarak regime, and closing with deep disturbances in Libya. Previously restful states - such as Tunisia - changed governments with unexpected rapidity. Protesters demanded better government in places as varied as Iraq, Syria, Iran, Jordan, Yemen, and Oman. The sight of largely middle class, agnostic youth rising up to demand better, more accountable government should excite the world; that meaningful change should excite long term investors far more.

### Politics as Catalyst

The last quarter century provides a number of case studies which might serve to guide our thoughts and expectations. The closest parallel we note is with Indonesia, which saw transition in May, 1998, when President Suharto retired following a sustained period of protests. Like Egypt, the central issue in Indonesia was middle class dissatisfaction with government, again like Egypt the reform movement was led by a mixture of college students and younger middle class people. In the 13 years since Suharto retired, Indonesian equities have rallied by 1,125% in dollar terms, with only one meaningful down year in that period: 2008. Critical readers will note that investors gained both from equity returns and positive currency carry.

'The Turkish Model' has become a popular discussion point within our community, perhaps due to the active role played in Turkish politics by the Army. Closer scrutiny of Turkish events provides few direct parallels to our region: systemic failure of the Turkish banking system in 2000 overwhelmed an already weak coalition government, which subsequently failed. 2002's general election replaced a weak coalition with the country's first single party government since 1987, and only its second two party parliaments in 48 years. In the Turkish case, it is important to note both the moderate Islamic nature of that government, as well as the broadly benign relationship between the Government and Turkey's military. An investor buying shares in the Turkish index on 3 November 2002, the date of AKP's electoral triumph, have nearly quadrupled their investment in dollar terms.

The 1993 Russian Constitutional Crises, during which Boris Yeltsin first attempted to suspend and then shelled his own Parliament, offers a dissimilar case study. Nonetheless, there are parallels here too: rising food price inflation was a key component of popular complaint, as was poor job growth and economic under performance. And again, investors who bought Russian shares in 1994 did well, doubling their investment in three years.

We see the current complex backdrop as the climax to a sustained period of regional under development, whose logical progression is to more representative government, elastic economies, and deeper, more liquid capital markets. With inflation increasing around the world, we view our region - a net exporter of labor and energy - as positively placed; with more transparent governments and broader based opportunity; the region's growth should easily regain its position as the fastest growing region globally.

### Darkness is often deepest before dawn

While recent events have raised our expectations for the region's long term prospects, the current environment presents challenges. At the time of writing, Egypt's equity markets have been closed for 41 calendar days. The country's banking system suffered closure during the period, and while many of your holdings have told us that they see their businesses recovering rapidly, shallow appetite for credit has impeded this recovery.

Where the markets are open, volatility has increased. At the end of the month, fears of regional contagion lead to a 15% fall in Saudi share prices; sharp intervention by state entities helped the market's swift recovery. Our largest position is in the Saudi market, and thus our NAV was negatively affected by this feature. Oil prices have also been volatile, though it is important to note that Saudi has indicated a willingness to pump from surplus capacity to address shortfalls. As oil underpins both Saudi monetary and fiscal policy, we assign low probabilities to suggestions that a Saudi production disruption could lead to further sustained energy inflation.

We remain confident in the outlook for the region, its stock markets, and your fund. We have carried a relatively large cash position of 7% to create tracking error in light of the current volatility, and are looking to take stock specific risk on companies we've known for several years. It is rare to be presented with an entry point as rich as this one, and so we are busy looking for opportunities in the region.

## Fund Performance

Period	Beltone MENA	S&P Pan Arab
February	-6.7%	-5.4%
YTD	-13.4%	-9.0%
2010	16.8%	15.3%
2009	9.7%	18.2%
2008	-47.1%	-49.8%
SI	-34.3%	-27.8%

## Fund Information

NAV per Share	6.74
Launch Date	October, 2007
Listing	ISE
Structure	Open ended
Subscription / Redemption	Monthly
Minimum Subscription	USD 10,000 with no further min. on subscriptions thereafter
Management Fees	1.75% of NAV accrued daily and paid monthly
Performance Fees	15% above a hurdle rate of 10% subject to a high watermark in the relevant performance period accrued monthly and paid yearly

## Fund Characteristics

No. of Holdings	29
PE 11e*	10.4x
Earnings Growth 11e (%)*	31.2%
Dividend Yield 10e (%)*	2.8%
MCAP (USD bn)*	16.7

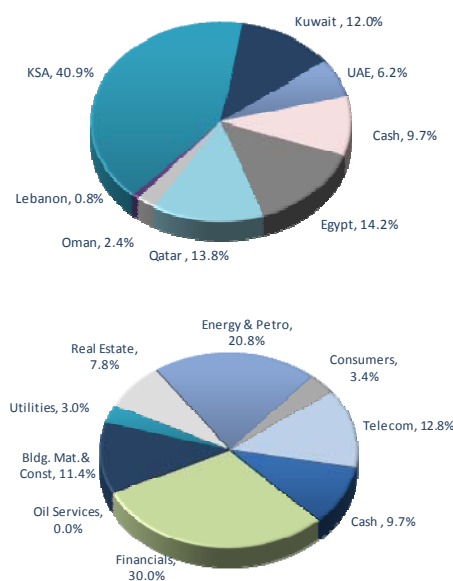
\* Weighted average calculation excludes cash position

## Top Holdings

Company	Country	% Assets
SABIC	KSA	10.1%
Al Rajhi Bank	KSA	8.9%
SAMBA	KSA	5.4%
Zain	Kuwait	4.4%
Qatar National Bank	Qatar	4.2%
Total		33.0%

Note: As of February 28<sup>th</sup>, 2011

## Country & Sector Allocation



Note: As of January 31st, 2010