Ajeej Capital
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FUND INFORMATION

Pricing:
Monthly NAV

Fund Classes:
Participating Shares
Class A Shares

Current NAVs (USD):
P-Shares 87.11
A-Shares 86.44

Fund Custodian:
HSBC

Fund Lawyers:
Walkers

Fund Auditors:
KPMG

Fund Administrator:
Apex

Bloomberg Ticker:
AJEEJMN KY Equity

ISIN Code:
KYG016361027

Fee Structure:
Management 2%
Performance 20%
Hurdle Rate 8%
High Water Mark

Minimum Subscription:
Initial USD1m
Subsequent USD100k

January 2012

Dear All,

Happy New Year and best wishes for 2012. As we close out a very challenging year, the forecasts on many of the factors that caused angst in 2011 unfortunately maintain leading roles in the 2012 chapter. As we reflect on last year's Arab Spring, (*Which in truth is an Arab winter if only to be seasonally correct and reflect the resultant challenges versus the 'rebirth of nations' initially promoted)* US gridlock politics, structural flaws of the EU, and volatile growth forecasts on the BRICs, it is difficult to set a clear course without paying homage to the above stated themes in relation to price performance of our underlying positions in the portfolio, whilst being cognisant that there are pockets of strength in MENA emanating from both a macro and micro perspective making it a tricky yet promising environment. In fact we have dedicated a section in this letter to reflect this strength from a helicopter view, despite the fact that we are many things, but certainly not helicopter pilots. Moreover, the distinction and bifurcation within MENA is much more perverse and it is prudent to decouple the GCC, Levant and North Africa from one another for some time to come. Although our scope as a fund will not change, our preferences particularly in the last 2 years have already been GCC centric and we don't envision a remarkable change in this regard.

December was a strong month to this challenging year where we were up **4.6%** for the month and **6.2%** for the year. We enter 2012 with a cash cushion of over 35%, providing us with ample fire power to identify and take advantage of the right risk reward ratio in this environment that would exude resilience from a bottom up perspective under various sensitivities both regionally and globally. This is predicated upon a fundamental premise earn outs for our portfolio companies and assessing return distributions for our confidence intervals over the next 2 years on our investment universe, which belies greater variability on the respective intrinsic values, thus naturally forming a more narrow bandwidth of investable companies at this current juncture. We are comfortable with this flexibility, particularly with the expanded scope of our discovery process, which is being fed with a very interesting backlog of investment prospects. Moreover, our cash position prepares us for volatility, permitting us to take advantage of entries to many companies we follow given the right trade off.

"Diligence is the mother of good luck"
-**Ben Franklin**

OK, OK, OK! There are many variations to the quote above ranging from Oprah to Sinatra to the Dalai Lama, but truly, since we launched the fund the level of diligence and the process has been improving so that we may exploit on better opportunities over time. Thus far we have not pounced on our convictions in the manner we would have liked to yet; after all hindsight is always 20/20, and the last four years have ultimately played a role in our own crisis of confidence that we are overcoming as we begin to bank our experience curve both on knowledge and cultivated relationships of our investable universe. 2011 had its fair share of mistakes yet we continue to improve upon our quarterly regression analysis of our performance both quantitatively and qualitatively. Moreover, dissent is promoted provided it is well articulated and thorough, which allows us to leverage each other's individual learning. As part of Coolidge's quote *"Persistence and determination alone are omnipotent"* our resilience amidst chaos will not waver and this could not be done without the support of all of you.

“The Good, the Bad and the Ugly”

So unfortunately for those of us who experienced 2011 there was less of the former, but more of the latter, however the year was not without its shine amidst an otherwise general cloudy forecast. Of course the paradigm shifts are in action politically and we have spent a great deal of time analysing our house views on Egypt and the socioeconomic foundation that was erected over the past few decades. Not because we are vested per se, but due to the strategic importance of this market both from a political and investment landscape.

We will discuss the Ugly first and that has been the Egyptian market down -49.3% for the year. In July of ‘11 we had categorised the market as an enigma wrapped in a riddle, well thereafter the market unwound with the severe teething process leading to great pains and lack of visibility for this post revolution transition. The market drops were further pronounced in sectors such as real estate and financial services, but there was no true pocket of stability in this market. The Egyptian market was simply bad and ugly in 2011, and whilst this process is defining and longwinded it may also provide some interesting bottom up opportunities in 2012 (the EGX30 has rallied over 10% in January so far, as we are writing this letter) however, it continues to be a dangerous market to play in. Therefore, in 2012 one should tread the market with caution even if a compelling opportunity is uncovered.

The Emirati markets were also dire in 2011 with index levels in Dubai hitting 5 year lows on what can only be described as pathetic volumes. Abu Dhabi was down -11.7% while Dubai was down -17.0%. The indices don’t give an honest clear picture though, as especially the Abu Dhabi index is masked by its odd constituent weighting Qatar Telecom (“Qtel”) cross-listing in Abu Dhabi represents 10% of the market whereas in its home market it accounts for half that). The banking sector was extremely resilient in Abu Dhabi with broad based recoveries, whilst the real estate companies hit life time lows going below there original IPO prices (and hence below par values) with drawdowns in excess of 50% for both former darlings. The market leader Etisalat was the main driver for the market drop given its weak corporate earnings trend. In contrast, in Dubai, where real estate provides greater index representation, Emaar down -25% for the year weighed heavily in the market. Banks in Dubai did not fare as well as Abu Dhabi, despite bettering other market industries. Former bellwethers Air Arabia and Tabreed were down -29% and -70% respectively....Ugh!!!! Both markets continue to have structural challenges and we see no reason why these challenges would desist in 2012; however, there still are interesting opportunities, albeit with limited play out in 2012 making the carry cost into the market high for the year. Moreover with strong bank performance in 2011 and challenges on corporate growth and liquidity this year the banks may have a tough time ahead of them. That being said, specifically in the banking sector valuations look compelling given the balance sheet risks and the phase of macro restructuring that is currently taking place. So the niggling question is what to do with this distressed real estate mainly in Abu Dhabi. Is it in play? Well for those that may be listed perhaps. Mubadala seems to be regretting its exposures but the distress is over done for certain names and perhaps worth paying attention to particularly if one can realise any physical trends on the market.

The Saudi market was by no means bad or ugly, but we also cannot say it was a strong year for the market being down -3.1%. We can tell you that if you ***insured* only *cement*** in 2012 you would have had the time of you your life. Unfortunately we did neither.... These two sectors were each up around 30% on average. The macro picture is undoubtedly robust with no clear deviations apparent and political succession is on track with no bold actions taking the “*road more travelled*” and essentially brushing this problem for a ***snowy*** day. These thoughts continue to resonate in people’s minds along with regional geopolitics. Another matter that has recently dawned is of an operational persuasion, and related to the employment of Saudis, bestowing the onus on the private sector. This carrot and stick approach of maintaining going concern business through quota employment has been institutionalised through the Nitaqat program, frazzling quite of few companies. This unfortunately increases challenges for those operating a business in KSA and applies to quite a few of our portfolio companies, whereby (some even perhaps immaturely) blamed increased costs to this specific program. Pointing the finger at the powers that be is a big no-no in our parts, but don’t worry they are still listed albeit less popular. From a market perspective Saudi volumes picked up as speculators in the market have been playing mid-caps Insurance and Agros driving their volumes and prices up with high spikes of liquidity. As we have previously explained to you, the relationship between real estate and public equities is an interesting one as they are inversely correlated on liquidity and ultimately price. Real estate has slowed down and we are beginning to see speculators and market players re-entering public equities.

The players in the market have returned with strong velocity with volumes up 45% for the year in Saudi, and an average market daily turnover of USD 1.3 billion. So, keeping in mind that there is a real chance of the market opening up it could potentially be a very interesting year from the perspective of active players in our home market.

With Qatar expanding its role in the region and the world from trophy assets abroad to supporting democracies in the Islamic world, it confidence is bolstered as it continues to benefit from annuity income from its gas trains. Perhaps they go with the mantra that if you invest behind enough white elephants people's vision will blur towards grey. Therefore, the well funded VC structured country continues to invest for growth regardless of cost and often at the expense of institutionalisation. The desire to add depth in the market is clear with a drive to encourage midcaps to list; credit must be given to the carrots associated with the field of dreams. The market was indeed the only one that was positive for the year, up 1.1%, mainly driven by the banks which for the most part had extremely strong fundamental performances with QNB outdoing itself to become the region's most profitable bank (USD 2.1 billion) taking over its MENA rival Al Rajhi Bank by a thread. The valuations in Qatar are not stretched; however depth is a challenge for this market. We continue to like the market and despite having only one holding in it, we will look at increasing exposure to it upon weakness.

Lastly we thought it would be useful to reflect on our December 2010 newsletter in which we discussed the opportunity set and themes for 2011, and discuss the continuation of these themes moving forward in 2012. As market movements were not really categorised as Good the below reflects the lights of Good in an otherwise Bad or Ugly year.

Theme	2011	Discussion Newsletter Dec 2010	2012	Discussion
Qatar Macro	"+"	Theme continues to have legs and we will continue to overweight our convictions in the market as yields provide a foundation and growth creates appreciation. Also optionality on MSCI EM inclusion not factored.	"+"	**2011** - It was a positive attribution for us playing mainly the banking sector with QNB. So we felt good about this and it played well for us. The best performing macro play for the year was Masraf Rayan (45 %). **2012** – Thesis holds QNB is a rock but trying to find more plays outside of banking. We feel slightly underexposed in the portfolio but would expect to add to this theme during the year.
UAE Banks	"+"	The theme will play a big role, but it is more stock specific, we believe our holding continues to exhibit strong performance and with further confirmations on the sector we could diversify along to this sector with UAE banks.	"N"	**2011** – It was a positive attribution for us with ADIB on the forefront playing well for the portfolio. Best performer was ADCB (+ 35 %) but given its current asset quality issues we remained cautious on the name. **2012** – Neutral will continue to play this exposure through the conviction in ADIB although not a ground breaking year. Any further weakness on stock makes a good entry point.
Saudi Banks	"N/+"	Enhanced provisions to take on a more normalised effect enhancing earnings, but tangible work will be needed for balance sheet growth. Positive on a 3 year basis, but more signals of real life on balance sheet need to be visible for a serious exposure for the fund.	"N"	**2011** –The banks were more of a N/- for the year. Our exposure to SABB and BSF was essentially value neutral for the portfolio **2012** – Unfortunately the drivers are not clear even with balance sheet growth pressure on NIMs continues and with no clear interest rate rise to benefit from unique liability costing of banks not likely to play out big in the portfolio in 2012, despite one possible conviction position which if due diligence highlights opportunity we will size in.

Theme	2011	Discussion Newsletter Dec 2010	2012	Discussion
Fertilisers	"+"	Where current prices lie on the value chain of phosphates and operational attainment, the market will re-rate companies with smooth operations. Moreover don't be surprised to see additional project announcements out of a company like Maaden.	"+"	**2011** –Our exposure to this sector has played out nicely as we were referring mainly to Maaden. Urea also played out well as an industry but no direct exposure for us. **2012** – We continue to be + on Maaden and neutral on balance of fertilisers. Maaden has many challenges but the development of its overall portfolio and growth in minerals at current levels makes it an important part of our portfolio.
Real Estate	"N"	Too many pockets and there may be some winners and losers in this segment. The market however is pricing in more distress particularly in the UAE, not surprising given physical market trends and lack of institutionalisation of regulations over the period. However into the future and with more top down clarity on both the regulatory and physical market this sector will bounce back in a big way.	"-/N"	**2011** –We had no exposure whatsoever to real estate and it played out negatively **2012** – There is value in the market but the realization could take years and the dynamics unappealing. Given this the level of distress is overdone on some companies, so it is not beyond the realm of possibility of exposure on unique opportunities as they arise with proper catalysts of realisations associated with it.
KSA Infrastructure	"-/+"	The next two years to shine are companies benefitting from ARAMCO trickle down. Commoditised infrastructure like cables looks challenged although should be better than 2010, but questionable.	"N"	**2011** –Increased demand was met with increased competition locally (private) and internationally. The perceived ARAMCO play benefitted the pockets of our portfolio and speculators played mid cap infrastructure particularly around KSA Budget announcements. Price leading earn out **2012** – Aramco is moving slowly and no real demand coming through in the next 9 months but thesis holds. One has to be patient with our Aramco counterparts.
Petchems	"N/+"	Some interesting valuations loom, a sector not to be ignored.	"N"	**2011** –The sector was – for the year with a strong twist of volatility. This was a positive attribution to the portfolio particularly due to our defensive exposure of product mix within the sector. **2012** – We will continue to be underweight the sector and with likely more downside to oil couples with weakening demand across the Petchems product matrix slow. Undeserved drawdowns on company specific stocks present a good entry levels to add exposure to our intensive list of companies which we follow.
Domestic Retail KSA	"N"	The neutrality unwinds into the future to being positive, but you have certain growth companies reaching maturity and others that have risks to earn out and margin where on the back of feedstock volatilities	"N/+"	**2011** –Our selected companies played out well in retail. Obviously Mobily was a disappointment however volatility in the year allowed for some great entries to add exposure. **2012** – Our exposure and play out in the sector will continue and it will continue to form an important constituent of the portfolio many discoveries we are looking for in this sector.

MENA - A Bastion of Stability

"The Chinese use two brush strokes to write the word 'crisis'.
One brush stroke stands for danger; the other for opportunity.
In a crisis, be aware of the danger - but recognise the opportunity."
-***John Fitzgerald Kennedy***

Many EM investors would not agree with the above title driven primarily by the political risk in the region. The reality is that political risk has been elevated in developed markets such as Europe and the US at the same time, albeit with a much different flavour. Therefore, it would be prudent to divide the region and assess risk accordingly. The irony of our claim does not escape up us by any means; however, we believe that this paradox is quite defensible. Moreover, with the bulk of our market miscategorised as frontier and the most important market unclassified the opportunity is not mainstream, but do remember that *"opportunities are seldom labelled"*.

2011, was a year where you merely picked your poison be it domestic, regional, global, natural or man made. With the contagion of the EZ sovereign debt crisis weighing heavily over investors' minds, financial markets everywhere suffered not so much by returns, but rather by the whiplash of volatility, detracting from the attractiveness of the equity asset class everywhere. According to ICI data, investors redeemed over $140bln from equity based mutual funds during the year, and as they thinned out, volatilities kept on climbing as it was becoming increasingly simple to move the frail markets.

MENA had a particularly hairy start to the year with the advent of a socio-political renaissance, which left markets in disarray, albeit briefly; however, despite the hectic start, the balance of the year for the region's markets was, at best, uneventful. In fact while the world became increasingly focused on the troubles in Europe, concerned over the possibility of an over heating Chinese economy, or infuriated with infantile political brinkmanship in the US…the Middle East was inwardly focused for once, and took strides to improve its various frameworks covering the political, social or economic spectra.

The countries comprising the Gulf Corporation Council were rudely woken up by the Arab Spring to the realisation that economic and social reform was unavoidable. Saudi Arabia, the sleeping giant, finally stirred with King Abdullah announcing a reform package in March that was put in place partly to facilitate the trickle down and secondly the appease the general populace. Many critics since then have commented that for every step taken forward, an extra one has been taken back, so much so that the country seems to be river dancing in one spot for the most part. These reforms are double edged swords as they increase the welfare entitlement at a time when one should be encouraging the opposite. The cost though is stability through a direct transfer subsidy to the local citizens enjoying the greatest and most transparent form of a trickle down. The GCC's stability, assuming limited contagion from the Levant, seems to be under grasps for now, but there is no denying concerns of other neighbours around the peninsula north and south. In either case, the situation is fluid and one needs to keep a watchful eye, whilst steering along the course of increased institutionalisation and elevated governance; this in time will lead to the next phase of evolution for many GCC countries.

Understandably MENA over the past 4 to 5 years took a back seat to other frontier and EM markets, as most investors in the world were more comfortable with risks that they understood better, and from a relative value stand point the MENA story wasn't shining brightly enough to negate the comfort and risk factors; hence funds flooded into the BRICs.

Over the past 6 months however, the story has changed significantly in the favour of MENA, although the relative value story isn't that different from before (below are consensus forecasts for 2012 for the different regions globally):

Forward Looking KPIs in 2012	EPS Growth	Sales Growth	P/E	PEG	P/B	P/CF	EV/EB	DivYld
Middle East & Africa	83.01	21.3	11.17	1.55	2.4	12.64	8.05	4.67
GCC	59.69	41.41	10.8	1.9	1.75	6.72	8.11	4.75
Asia Pacific (Developed)	47.4	11.99	12.63	1.85	1.49	7.81	8.95	3.34
Oceania	44.47	22.43	11.45	2.6	1.94	8.47	9.53	5.14
Asia Pacific (Emerging)	42.83	35.32	12.7	1.06	2.1	9.86	8.59	3.23
BRIC	41.53	32.05	11.6	1	1.9	8.93	7.83	3.4
Asia Ex Japan	40.61	25.62	12.39	1.43	2.12	9.27	8.99	3.64
Eastern Europe	35.03	21.22	7.85	0.6	1.31	5.54	5	4.49
Caribbean and Latin America	29.49	7.09	14.9	1.23	2.59	26.53	8.11	3.71
North America	25.86	11.29	15.12	1.58	2.77	10.04	9.72	2.4
Western Europe	25.08	7.82	11.62	1.75	2.15	8.07	8.64	4.31
Scandinavia	19.88	7.18	12.99	2.02	2.7	9.16	8.49	4.2

Source: consensus data gathered by Bloomberg as of Jan 2012

Despite MENA not being the greenest region on the heat map, by no means is it the reddest either. In fact under most KPI headings the GCC/MEA regions tend to place in the top three regions globally. However, the major change today is the relative amount of risk on the table, both from the perspective of price action on the capital market as well as forward looking macro fundamental data.

Historical Volatility Heat Map	2005	2006	2007	2008	2009	2010	2011
TADAWUL ALL SHARE INDEX	24.91	48.96	21.86	37.53	25.09	14.16	17.27
QE Index	28.08	26.44	17.40	32.53	34.72	14.69	13.70
ADX GENERAL INDEX	27.08	24.55	15.63	25.35	23.75	11.18	9.36
DFM GENERAL INDEX	32.56	36.50	20.22	34.20	38.60	23.10	17.11
EGX 30 Index	26.82	31.48	16.84	35.11	32.97	21.42	28.98
KUWAIT SE PRICE INDEX		18.32	13.48	13.87	15.64	9.39	8.14
DOW JONES INDUS. AVG	10.40	9.73	13.53	32.31	23.99	15.66	18.76
S&P 500 INDEX	10.35	9.92	14.85	34.58	27.23	17.41	20.79
FTSE 100 INDEX	8.74	12.02	16.10	33.39	23.63	17.12	20.15
DAX INDEX	12.19	14.76	15.20	32.55	29.16	18.14	25.68
CAC 40 INDEX	11.05	14.15	16.37	35.38	27.33	22.51	26.25
NIKKEI 225	12.68	20.15	17.46	40.07	28.46	21.33	21.96
BRAZIL BOVESPA INDEX	25.11	23.78	26.63	46.44	32.20	20.29	23.32
BSE SENSEX 30 INDEX	16.78	22.94	23.71	42.94	34.02	15.92	20.52
MICEX INDEX	24.15	35.49	24.33	58.40	48.21	22.85	27.14
S&P Pan Arab Comp	15.47	24.96	10.28	21.37	13.53	7.52	9.14
MSCI EM	11.62	16.45	18.96	33.62	26.47	17.14	20.52
MSCI WORLD	7.92	9.50	12.05	26.83	22.85	16.00	19.45

Source: consensus data gathered by Bloomberg as of Jan 2012

The volatilities depicted above are in stark contrast to what one is used to seeing in MENA vs. the global peer group, with tepid regional fluctuations taking place despite the thin markets; a characteristic which in ironic contrast has been blamed for the increased volatilities in the West.

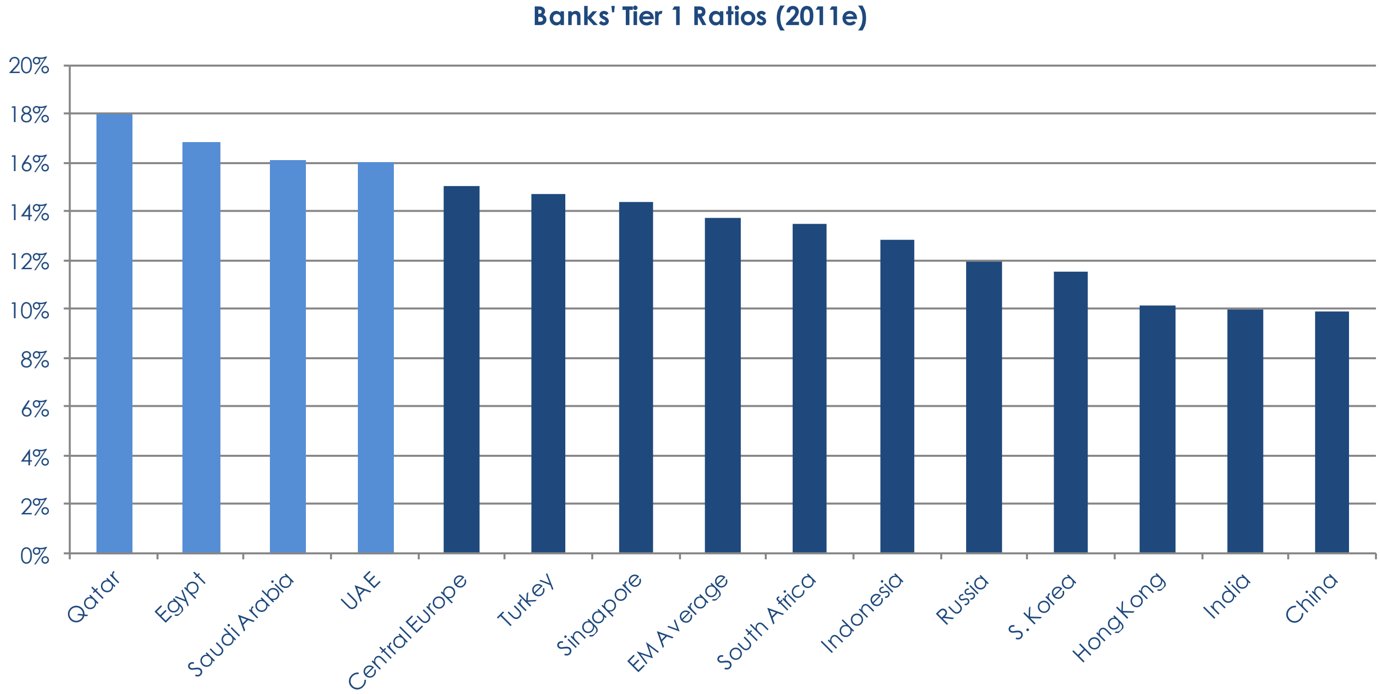
More importantly however, is MENA/GCC's ability to dislocate itself from current global concerns. At a time when developed governments around the world are pining for funds, the oil exporting nations of the GCC are awash with surpluses and boast record foreign reserves. In fact over the past decade aggregate current account surpluses for the GCC have increased threefold to nearly 1.5 trillion dollars, and with oil prices hovering around the USD 100 level, continued surplus is to be expected. Additionally, reserves are at levels that would allow expansionary fiscal budgets to be maintained whilst comfortably running deficits for years to come should oil prices decline.

Perhaps counter intuitively, the socio-political situation in MENA supports the view that expansion will continue. Since the Arab Spring, many of the regions' governments have been forced to move into 2nd and 3rd gear, albeit reluctantly. The principalities and kingdoms of the Gulf saw that the trickle down of their oil wealth had to be expedited and its reach widened, increasing the level of equality in the new socio-political atmosphere.

All figures stated as % of GDP	Budget Balance		Current Account Balance		Consumer Spending		Investment Spending	
	2011f	2012f	2011f	2012f	2011f	2012f	2011f	2012f
North America	**-8.5**	**-6.5**	**-3.1**	**-2.8**	**2.7**	**2.7**	**6.8**	**8.2**
US	-9.1	-7	-3.2	-3	2.7	2.7	7	8.8
Canada*	-1.7	-1.2	-2.1	0.4	2.6	1.8	5.3	3.6
Latin America	**-2**	**-1.8**	**-1.5**	**-1.9**	**6**	**5.7**	**11.1**	**7.4**
Mexico	-2.5	-2	-1.2	-1.6	6	6.4	11.3	5.2
Brazil	-2.5	-2.8	-2.4	-2.8	5.7	5	11	9
Argentina	-1	0.2	0.1	-0.1	6	5.5	6.2	6.1
Chile	0.9	1.4	-0.9	-1.8	7.1	5.8	18.4	15.2
Western Europe	**-2**	**-1.7**	**0.1**	**0.3**	**1.1**	**1.5**	**3.7**	**4.6**
Eurozone	-5	-4.2	-0.3	-0.1	1.1	1.4	3.8	4.9
Germany	-2.1	-1.8	5	4.7	1.4	1.6	6.8	3.6
France	-6.4	-5.4	-1.9	-1.8	1.5	1.9	3.5	5
Italy	-4.4	-3.7	-3.6	-3.3	0.8	0.9	2.5	3
Spain	-6.7	-5.8	-3.5	-3.6	0.6	0.7	-3.6	0.8
Other Western Europe	**7.4**	**6.1**	**1.5**	**1.8**	**1.3**	**1.8**	**3.6**	**3.8**
UK*	8	6.2	-2.6	-2	0.8	1.8	1.4	3.1
Norway	11	13	15	16.5	4	3.1	8.5	7.2
Sweden	1	1.5	6.7	6	3.2	1.9	9.3	6.7
EMEA	**-2**	**-2.2**	**1.3**	**-0.1**	**4.6**	**4.8**	**7.1**	**8**
Hungary	-1	-3.5	-0.4	-0.7	1.5	2	2.8	4.1
Poland	-6.7	-6.2	-3.4	-3.6	3.5	3.8	9	5
Russia	-0.5	-0.2	4.7	3.1	5	4.2	8	10
Turkey	-4	-3.6	-7	-6.6	3.5	3.7	6.6	2.9
Ukraine	-3.5	-3	-4.9	-10.1	4	5	6	6
Romania	-4.5	-3.2	-5.8	-6.6	2	4	5	7.5
Non-European EMEA	**-1.2**	**-2.4**	**4.9**	**2.8**	**5.9**	**6.4**		
Egypt*	-9.8	-10.3	-1.8	-2.3	4	1.6	-19.2	-13.8
Israel	-3.2	-3.4	2.3	2.1	4.5	3.5	6.8	4.5
Saudi Arabia	8.5	3.2	22.9	17.1	11	12	14	17
UAE	10.6	10.4	11.8	8.2	5.2	8	6.2	8.8
South Africa	-4.7	-4	-4.2	-5	2.9	2.7	8.1	8.5
Asia-Pacific	**-3.8**	**-3.2**	**2.2**	**1.9**	**3.5**	**4.1**	**15.2**	**14.9**
Japan	-9	-8	2	2.9	-0.1	0.4	2.2	4.9
Australia	-2.8	-0.8	-1.7	-2.4	2.6	3.2	4.8	7.9
New Zealand	-3	-2	-5	-3	1.5	2.6	5	12.5
Asia ex Japan	**-2.7**	**-2.2**	**2.4**	**1.9**	**6.8**	**7.5**	**18.4**	**16.9**
China	-2	-1.7	3.7	2.6	9.4	9.3	21.5	19
Asia ex Japan & China	**-3.3**	**-2.6**	**1**	**1.2**	**5.1**	**6.2**	**5.5**	**6.9**
Hong Kong	2.3	3.1	7.5	9.4	6.6	5.4	6.9	2.1
India*	-5	-4.2	-2.9	-2.5	7.1	8.2	8	10
Indonesia	-1.9	-1.7	1.6	1.5	5.1	5.1	10	10
Malaysia	-3.2	-2	12.4	12.7	7.1	6	6.5	5.2
Philippines	-3	-2.5	6.2	5.4	5.8	5.6	8.5	8
Singapore	0.5	0.7	21.9	24.2	3.9	5.5	4.5	6
South Korea	-2	-1.8	1	0.6	2.9	4.2	1.7	2.9
Taiwan	-2.7	-1.1	5.5	4.7	4.1	4.4	6.4	5.5
Thailand	-1	-0.6	5.1	5.8	3.5	5	5	5.8
Vietnam	-4.8	-4.5	-6.9	-5.7	5.7	6.3	4	6.8

Source: consensus data gathered by Bloomberg as of Jan 2012

In addition to all of the above the MENA/GCC region continues to play host to a very well capitalised banking sector, albeit one that is overly conservative at times, but nonetheless one which has had very limited exposures to European debt. The banking sector dynamic coupled with the monetary peg to the dollar, continues to reaffirm MENA's potential to withstand spill-over from further deterioration in the Eurozone.



Source: Morgan Stanley

So just to recap, MENA with specific greater focus on the GCC from a relative value perspective, looks to be one of the more attractive regions globally, consistently coming second only to Eastern Europe according to analysts' consensus. However, unlike Eastern Europe, it is relatively dislocated from Eurozone concerns. Moreover, with the current shape of balance sheets for the oil exporting nations in the region, coupled with a reinvigorated drive for reform, expansionary budgets and investments from both the public and private sectors are set to continue for years to come, regardless of global uncertainties that may come to play in 2012 and beyond.

<u>Tidbits -The Lighter & Darker Sides of MENA:</u>

In an effort to highlight the plight of the common Saudi family vis-à-vis the economic state of the country and supposed unfairness of new government aid programs being implemented, a ludicrous albeit sadly true story gained notoriety a few weeks ago. An unnamed Saudi man offered to sell his son for 20mln dollars on facebook. Allegedly, he was short on funds needed to feed his mother and his sister, after the government had forced him to shut down the illegal bail bondsman business he was running. Adding insult to injury, given that he was over 35 he did not qualify for Hafez, the new government aid program for the unemployed.

A Mufti/Sheikh came out and publicly declared that it is sacrilegious for women to work as sales persons in lingerie stores! A gutsy proclamation, especially after the king had explicitly stated that they should and will take on this specific sales role, after a sustained outcry from women living and shopping in Saudi over the past few decades, regarding the absurdity of male staff selling lingerie in what is arguably the most conservative country in the world.

A member of the Shoura council in Saudi put forward a proposal to increase the Saudi's status of being a welfare state to new heights. He proposed that all Saudi citizens regardless of the age, sex or occupational status receive a fixed monthly stipend from the government. Let's do the quick maths here: 22 million Saudi nationals receiving USD 1000 per month (that's probably the range of stipend he had in mind we think) equates to USD 264 billion. Or to put it into context over half of the country's foreign reserves. Even if one assumes the stipend is as little as SAR 500 per month, that still equates to USD 35 billion, more

Qatar's audacity seems to be growing. With seemingly limitless political cojones, not caring who they piss off in the process, Qatar took it upon itself to quite literally redraw the MENA map recently. During the Arab Games which were hosted in Doha in December, officials supplied country maps that have defined Morocco without the disputed Western Sahara, and defined Palestine not using the 1967 borders, a commonly excepted practice, but rather squeezed the reach of its borders to account for annexed settlements.

Amongst the plethora of fines dished out the CMA recently, some were fair and some displayed a penchant for the pedantic. An example of the latter was a SAR 50k fine levied on Bank al Bilad for not declaring in their annual report which corporate governance issues they now have complied with...the irony.

Not to be outdone by Dubai, Qatar is apparently aiming to be listed as many times in the Guinness Book of World Records regardless of the cost. A display that is being hailed as the biggest ever daytime fireworks show took place in Doha in December. It was designed and staged by Chinese artist Cai Guo-Qiang, the same artist who created the display for the opening ceremony of the Beijing Olympics. Unlike the Olympics' display, the Doha extravaganza used explosives normally used by the military as anti-missile decoys. The cost of the display was not disclosed, but one can assume fiscal prudence was never on the agenda; it was funded in full by the Qatar Museum Authority.

Mickey Mouse's Revenge: In one of the strangest twists of the continuing story of the Arab Spring, and specifically the revolution in Egypt, Naguib Sawiris, Egypt's richest man and arguably its most famous Coptic Christian, is to appear in court for blasphemy charges early next month. This is a revisit of a story that came out earlier in 2011 after much of the public demanded that he be reprimanded for tweeting a satirical cartoon of Mickey and Minnie dressed as conservative Muslims. Although this tweet may have been of poor taste, we believe (and everyone we have spoken with agrees) that a asinine basis for a trial. This is a very concerning and frightening case of how a minority can be oppressed under a true democracy. Had it not been for the 5 Copts appointed by General Tantawi to the People's Assembly over the weekend, Egypt's second largest religious group would have most likely had no representation in the country's new parliament.

Portfolio and Markets Review

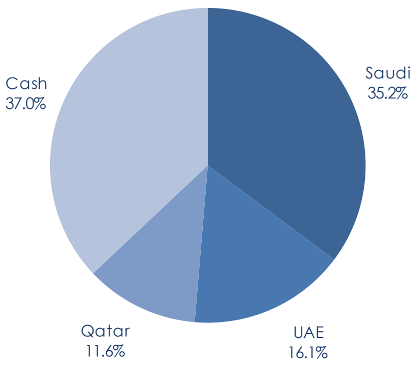
This section is available for current investors only

Ajeej MENA Fund Historical Performance

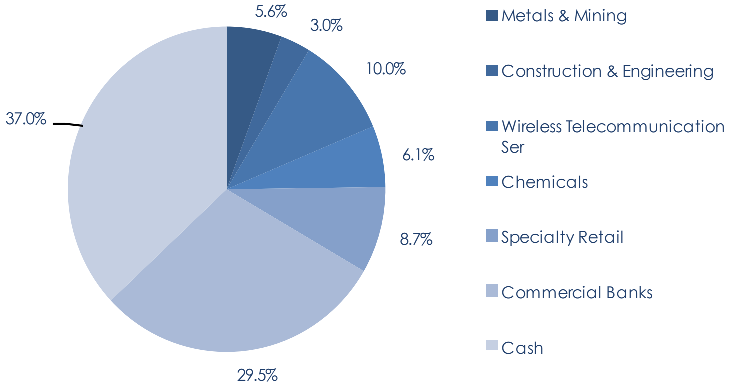
Annual Returns	2007	2008	2009	2010	2011 YTD	Since Inception
AMF %	25.7%	-47.4%	16.1%	6.6%	6.3%	-12.9%
S&P Pan Arab %	23.5%	-51.6%	13.6%	11.4%	-12.7%	-34.1%

2011 Monthly	J	F	M	A	M	J	J	A	S	O	N	D
AMF NAV	78.8	73.7	81.0	87.9	89.2	89.1	88.5	84.3	84.8	85.3	83.3	87.1
AMF %	-3.9%	-6.4%	9.9%	8.4%	1.5%	-0.1%	-0.7%	-4.7%	0.5%	0.6%	-2.3%	4.6%
S&P Pan Arab	703.6	664.0	693.0	707.1	701.0	684.5	666.5	636.6	631.9	644.7	627.1	639.1
S&P Pan Arab %	-3.9%	-5.7%	4.4%	1.9%	-0.9%	-2.3%	-2.6%	-4.5%	-0.7%	2.0%	-2.7%	1.9%

Country Allocations December 2011



Sector Allocations December 2011



Top 5 holdings in the Ajeej MENA Fund

This section is available for current investors only

Ajeej MENA Fund	December-2011
Monthly Return	4.62%
Return YTD	6.28%
Return Since Inception	-12.89%
Annual Volatility (on NAV)	8.05%
Sharpe Ratio Absolute	2.36
Alpha Benchmarked on S&P Pan Arab Composite YTD	19.02%
Value at Risk (VaR) - 95% (for the monthly holding period)	4.02%

Although we're not currently invested in Egypt, there is no denying the importance of what has taken place over the past year. We have included our views on the state if affairs as a brief supplement, providing a little more detail than prior letters.

Egypt's Nile Delta: A Fertile Land for Revolution

"You can never have a revolution in order to establish a democracy.
You must have a democracy in order to have a revolution."
-**G. K. Chesterton**

The Mubarak era in Egypt began in October 1981, following the assassination of President Anwar Sadat by Islamist radicals. His reign ended nearly 30 years later on February 11, 2011 following 18 days of unprecedented mass demonstrations. In the year since, Egyptians conducted a vigorous (and sometimes violent) public debate over the political and economic and social future of their nation.

In the messy struggle for power and influence since February 11th, the Muslim Brotherhood and various Salafist groups appear victorious for now, at least in the political sphere, where together they will hold 72% of the seats in Egypt's lower house of parliament. It is important to note that their common claim to Islam and moral rectitude aside, the two parties (Freedom and Justice Party – affiliated with the Muslim Brotherhood, and Noor Party – affiliated with the Salafists) are by no means natural allies due to their differing bases of support and competing claims of religious legitimacy.

We expect that as histories of the Mubarak era are written, the fact that 30 years of repression under Mubarak transformed Egypt's Islamist movement from a radical and violent assassinating fringe into not one, but two (!) viable and organised political movements is an outcome that many will see as one of those peculiar ironies that litter human history and provide great material for novelists and historians alike.

That the roots of the Islamist parties' current success grew and spread during the 30 years of Mubarak's rule is not surprising. We are sceptical of those commentators who have reacted with shock to the electoral success of the conservative Salafist parties in particular. As the early 20th century satirist Karl Kraus (not to be confused with the eponymous 18th century theologian) put it: "*When a culture feels that its end has come, it sends for a priest*."

This is effectively what happened in Egypt during the Mubarak era as people moved from mourning the loss of Pan-Arabism into their separate pursuits: crony capitalism and Amr Khaled (Egypt's moralising version of Dr. Phil) for the wealthy, the clean-cut earnestness of the Muslim Brotherhood for the petit bourgeoisie, and the fiery populism and apocalyptic visions of the Salafists for the poor.

The growth in the percentage of the population sympathetic to the Muslim Brotherhood or the Salafists during the Mubarak era is well documented in academia, and was a popular topic of conversation in Cairo over the past decade amongst the chattering (and disapproving of this tendency) classes. One metric used to describe this trend towards religiosity (as symbolised by the wearing of headscarves and beards) was popularised through a series of photographs which went viral a couple of years ago. The photos depict the graduating classes from Cairo University over a period of nearly 5 decades. The photos simultaneously document the religious awakening experienced by the middle classes and the changing composition of the students at Egypt's public universities. Although many members of the elite of Mubarak's generation attended public universities, their children (and grandchildren) primarily attend expensive private schools, further widening the gap between wealthier liberal society and an increasingly religious lower and middle class:

1959

1978

1995

2004

During the three decades that Mubarak presided over Egypt, the country maintained its reputation as a centre of stability in an otherwise volatile region. For the first twenty years of Mubarak's rule, this vaunted stability came at the expense of economic vitality, as economic development placed a distant second to security until the lack of economic development itself became a security issue (*few of the young people who thronged Tahrir Square had fulfilling or even full time jobs – leaving them plenty of time and energy to protest*).

The regime headed by Mubarak was by no means an originator of competent technocratic thought, but rather consisted of savvy military leaders dedicated to sustaining their grip over the country by using a neat mix of soldiers and secret police to pacify any ripples of discontent. Indeed the large scale privatisation of industry and the appointment of competent technocrats to ministerial positions that are the hallmarks of Mubarak's final decade in office are best viewed as an attempt to secure the position of the regime via improvements in standards of living (ala China) rather than rational economic policy. Whether by accident or design, the regime's belated embrace of market efficiency shifted Egypt's economy into high gear, and after 2004 Egypt became one of the go-to emerging markets in the world and a magnet for foreign direct investment.

Unfortunately for President Mubarak, his shift towards the free market fell short of preventing last year's revolution because (as has been much publicised) a number of the technocratic ministers appointed to shepherd Egypt's economy into the modern era proceeded to rob the country blind. Despite these depredations, the technocrats ultimately added value to and reinvigorated an otherwise stagnant economy. Indeed, the middle class youth who helped spark the revolution via social media are largely the product of the wealth produced by the technocrats' reforms, but the incomplete nature of those reforms and the truncated trickle-down of economic benefits fomented discontent rather than the security that the regime sought.

The uneven and unequal process of development in Egypt over the past 6 or 7 years was in fact quite well illustrated by Cairo traffic during the time, as two of our team members resident in Cairo from 2006 – 2008 can attest:

There were ever more Porsche Cayenne Turbos terrorising other motorists on the road, despite the $500k price tag due to import duties.

On the other hand, there was a large increase in the number of inexpensive Korean cars which were finally made affordable to the middle class after the introduction of car loans.

Lada and Fiat 128 taxis were decommissioned in favour of cleaner and newer Daewoo and Hyundai taxis. This initiative was sponsored and promoted by the government for the benefit of everyone, especially, of course, the ultimate owners of the Daewoo and Hyundai franchises who were close to the regime's technocrats.

New highways connecting the rich suburbs of Cairo to the summer beach homes of the affluent on the Mediterranean and Red Sea coasts were built, bypassing increasingly poorer slums on the outskirts of the city (and redirecting funds from the more critical infrastructure needs of Egypt's cities).

Enormous tracts of land were allocated by the government to build more spacious and affordable housing for Egyptians. Unfortunately, Egyptians who qualified for these units were unable to continue their jobs in the central parts of Cairo since no public transportation connected their new homes to the jobs that they needed in order to pay for them.

These very visible economic imbalances in conjunction with the regime's increasing disinterest in even the appearance of a working electoral system and increased reliance on police violence and intimidation set the stage for the toppling of Mubarak. While Tunisia's successful overthrow of President Ben Ali certainly impacted Egypt's revolution, the murder of Khaled Said by Egyptian police in June 2010 and Egypt's rigged parliamentary elections in November 2010 definitely set the stage for the toppling of President Mubarak.

Throughout its rule, the Mubarak regime based its legitimacy both domestically and internationally on the twin pillars of stability and economic development even as it presided over the fragmenting society eloquently illustrated in the Cairo University pictures. That both stability and economic development came in the end to mean little more than a government of, by, and for the Mubarak regime rather than the Egyptian populace was likely Mubarak's downfall, although we would argue that the underlying structure of the regime remains firmly in place.

It is as yet unclear to us whether the newly elected parliament will eventually wrest real control from the military elite who designed and preside over the current political process (remember: advisory council elections, the drafting of a new constitution, AND a presidential election are still to come!).

As the electoral process moves forward, the rest of the Egyptian economy continues to slowly grind to a halt. Recent IMF downgrades to Egypt's growth outlook confirm what is visible to any visitor to Egypt: the economy is in neutral, starved for foreign currency, and will continue to be a very tricky place for investment until the political dust settles.