February 2009

Dear Partners,

The **Ajeej MENA Fund (AMF)** returned -**3.7%** net for the month of January 2009, **-36.2%** net for the 16 months since our launch on October 1, 2007. Certainly, not an ideal start for the year with most markets down both regionally and globally against the backdrop of the future viability of financial institutions in developed countries. It is clear that market volatility continued amidst concerns of Q4 numbers and global woes.

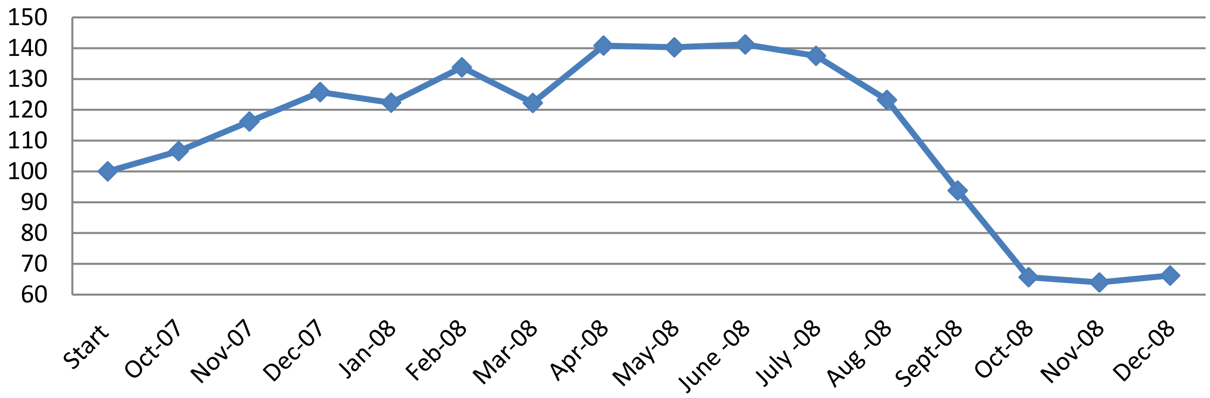
The largest market in the region, Saudi Arabia, certainly started the year in high gear going up over 10% in the first two weeks of the year, only to dip down amidst leakage of negative corporate earnings. Yet another volatile month yet ending essentially flat.

As for the rest of MENA, the UAE markets continued their never ending decline with the DFM down -7.1% and the ADSM down -5.6%. The market is currently pricing in massive uncertainty and lack of guidance from the respective leaders. Qatar got off to the worst start ever with a massive draw down of -23.7%, although recovering from the intermonth low of -33.3%. Kuwait in virtual no mans land had a substantial loss of -13.1% reflecEgypt bucked the trend with impressive gains of +13.42% **(YTD -28.12%)** and +9.29% **(YTD -56.43%)** respectively, **mainly through institutional propping**. On the other hand, Kuwait's even more obvious propping attempt failed miserably, resulting in a loss of -12.31% **(YTD -38.03%)** for the month. Saudi Arabia was slightly up December, recording gains of 1.37% **(YTD -56.49%)**, despite Oil hitting its 4 year low. Euphoria over the budget perhaps?

The Emirates continued their downward spiral with Dubai closing down -16.7% **(YTD -72.42%),** securing its position as one of the worst 5 performing markets globally in 2008. Abu Dhabi wasn't far behind, down -13.9% **(YTD -47.49%),** further magnifying the concerns of the ripple effect of real estate on the overall economy. **The MSCI Arabian Index lost -5.82% in December** and closed **the year down -54.96%**.

Please find below the Ajeej historical NAV:

NAV Movement Since Inception



The 2008 MENA Marathon

It is certainly a year that goes down in the history books globally, let alone in our markets in the MENA region. This paradigm shift unfortunately fell into our laps at an early stage of the development of the fund, and our reading of the situation globally and the effect on the region was off during the critical months of September and October. In these months we continued to run in the original direction of the race without taking heed of the detour signs, and despite the poor weather forecasts for global markets.

So, why did we get it wrong in the critical months? We contended that the region was to be better insulated from global madness due to several factors: 1) MENA markets had already seen their crash in early 2006, bringing PEs of 40+ down to the 10-15x range; 2) Excluding petrochemicals, most companies have a local or regional focus, in contrast to many export oriented emerging markets; 3) The region demographically is young, and cities are being built and rebuilt with a largely unconditional commitment to fiscal spending; 4) The capital markets are at a point of inflection, moving to a new level of regulation and transparency; 5) The very real cushion of budget surpluses, based on three digit average oil prices for the year at the start of Q3 '08 was overwhelming. Finally, all these factors arose at a time when markets where very thin, making confirmations difficult to read.

Therefore, it follows that as conviction managers, where we take concentrated positions with an obvious bottom up bias, we were slow to reweight the silos of both dynamics and sentiment away from the fundamentals, leading to this poor performance in September and October. However, similar to Stella, we feel that we have gotten our groove back, as we are recalibrated to the landscape of the prevailing environment taking on a much more cautious nature, yet have a clear understanding that tremendous pockets of opportunities are present.

The underlying expectation of 2009, if nothing else, is that we have clarity of both the top down and bottom up fundamentals of the landscape for the coming investment cycle. It is difficult to forecast what is in store, as the structure of visibility has moved from an elliptical shape to a rectangular one, with several blind corners created over the past quarter. As such, we expect to get to at least the first corner in the next few months, providing the needed clarity to size into the convictions on our MENA opportunity set. Of course, on a selective basis there are already opportunities with greater visibility today, due to the fact that they have significantly lower sensitivities to credit finance, real estate, global industry factors and pronounced economic slowdowns. Furthermore, we continue to have our directional hunches, in which we will maintain limited exposures, until visibility arises. The defensive stance we are currently employing as a conviction manager is unlikely to hold throughout this year, but no definitive calls can be made until we gain further traction on 2009.

So what are the themes of clarity? In no specific order: 1) Oil; 2) corporate earnings; 3) domestic fiscal stimulus; 4) lower Gulf real estate; 5) commitment to greater transparency and regulation; 6) institutional restructuring of global portfolios – after the carnage; and 7) global economic indicators.

Oil is a tough call to make, especially under the violent volatility on this commodity. The retail market sentiment, in its purest sense, will be driven by respective fiscal budget breakeven levels. This of course is very psychological in nature, but at least provides an important swing around such an anchor.

We talked about corporate earnings last newsletter, and ultimately this will enable the market in both Q4 '08 and Q1 '09 to gain an understanding on the trickle down effect globally onto the real economy. As such it will provide the high visibility factor that we all desire. You have two camps here, one which believes that the market has overshot its expectations on negative earnings growth and the other which believes it is still not fully factored in. This disjointed in nature may provide opportunities on a select bottom up basis during the coming quarter. In either case, this will provide a foundation for potentially a floor, or an adjustment for a new base on the landscape of fundamentals for many varying industries in the MENA markets. In many sectors we have moved away from balance sheet concerns and are focused on how companies will deal with a negative earnings growth cycles. However, some of the sectors which we believe continue to carry balance sheet risks are financial services in Kuwait and UAE, and real estate in the UAE and few other markets.

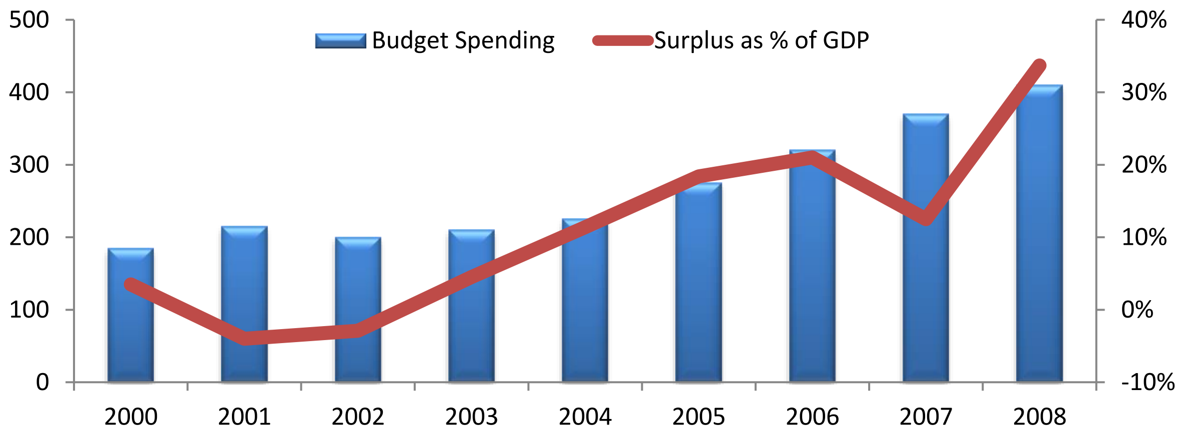
In the lower gulf real estate, mainly the UAE, we need to see a pronounced correction hit these markets and watch how it plays out vis-à-vis developers, contractors, financiers and ultimately homeowners. Who knows? But the implications on the entire economy are concerning, and we will all be monitoring the progression of this story carefully. We think it will be a drawn out process yet believe that there will be distressed opportunities even in

2009, perhaps. Whilst fundamentally there may be value at these levels, the sentiment may continue to drag the markets down, and the onus is bestowed upon the captains of industry and politics to build a much stronger and transparent regulatory framework with federal standardization. They need to wake-up to the ensuing reality. The hope of the soft landing for Dubai real estate before the global financial crisis was a high probability, but with the existing picture the workout plan is pivotal. A great deal of cohesion is necessary and less dreaming a prerequisite.

Many factors are out there, but our goals in order to derive alpha in '09 will be a combination of visibility and stability on our region and the global environment. We feel we should hit this corner in 2009. There are historical opportunities out there and we feel that there will be confirmations in 2009 that will enable us to take advantage of these opportunities as we swim back towards our high-water mark.

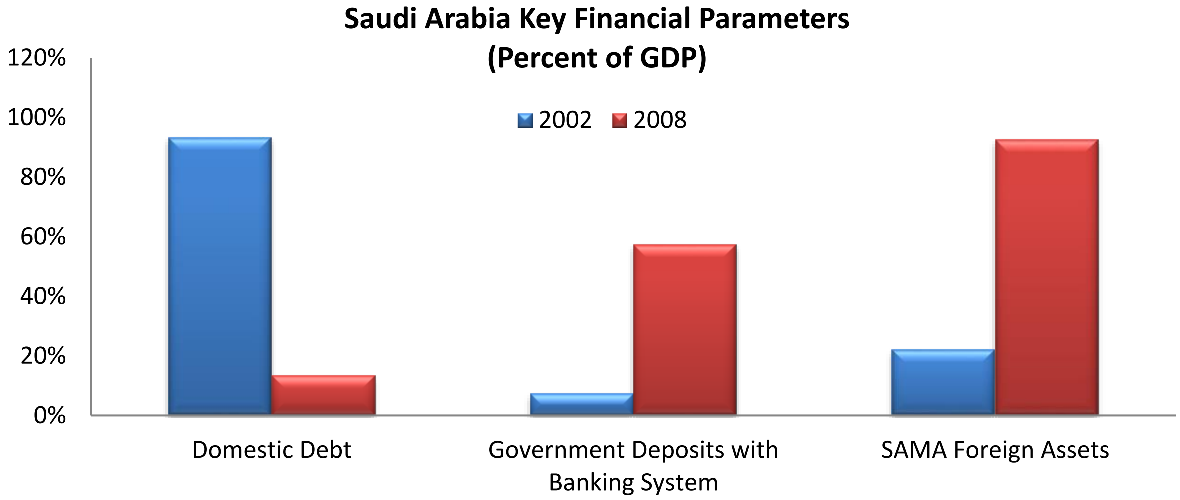
Saudi Arabia's 2009 Budget....... it's time to shine, "ma fi mushkila" (no problem)!

Saudi Arabia just announced its 2009 budget in December, and even though the plan is to run a deficit for the first time since 2002, the picture is far from bleak. The Kingdom has just experienced its highest budget surplus ever, positioning it on a comfortable platform from which to carry on growing. The graph below illustrates surpluses and budgets since the start of the decade:



Source: SAMA

Accumulating the above surpluses, in addition to enjoying very low leverage, whilst being fortunate of having had a very conservative deployment of foreign assets (sophisticated is not always better) means that Saudi Arabia has plenty of fuel in the tank to sustain its growth through low oil prices.



Source: SAMA, Budget Statements, Samba

The government of Saudi Arabia is committed and in good shape to continue investments for its future. Following are some highlights on the 2009 budget:

- **Saudi's highest budget in history**. The budget for Saudi for 2009 has been set to SAR475b ($126.7b). It assumes an average oil price of $43 for the year, which help generate forecasted revenues of SAR410b, in order to fund a budget that is approximately 10% higher than 2008's, albeit around 7% lower than forecasted 2008 actual expenditure. Note though that historically the government typically overspends vs. the budget by around 15-25%. This confirms that Saudi will continue spending, as they are confident oil will rebound; and they are investing for the long term, planning to take advantage of the current low project costs and low raw material prices.

- **A deficit which may be covered with around 11% of this year's surplus**. Given the status quo, the planned budget will result in a deficit of approximately SAR65b, or 3.4% of GDP, a relatively small amount given that it can be covered by only using 11% of 2008's projected surplus of SAR590b ($157b). 2008 saw the sixth consecutive year of surplus, as well as being the largest single surplus year ever; projected revenues are SAR1.1t compared with a SAR510b in 2007.

- **A 36% increase in capital investment totaling $60b** in line to complete **King Abdullah's $200 billion** five-year development plan announced in December 2008.

- **Continual focus on education and health as well as on development funds**. The following is a list of some of the largest budget allocations for 2009:
    - 28.8% for education - 1,500 new schools.

- 15.8% for Specialized Credit Development Funds / Institutions and Government Financing Programs. E.g. Saudi Industrial Development Fund and the Real Estate Development Fund.
- 10.9% for health and social affairs - 86 new hospitals.

Government debt as low as 13.5% for 2008, down from 103.5% in 1999.As we had mentioned in prior newsletters, clearly not all the projects will proceed, however enough will continue as long as oil does not fall down to the $20 and $30 level on a sustainable basis.

In addition to the promising budget, our level of bullishness on the local equities in Saudi has been strengthened because:

- The planned US$200bln fiscal stimulus package over the next 5 years is the largest in the world relative to the size of the economy.
- Inflation is easing, leaving room for public spending.
- There is a modestly levered economy, with a private credit/GDP ratio of 44%.
- The banking sector has a strong funding base in, where the current loan to deposit ratio is around 83% (the lowest in the GCC), and is one of the most capitalized globally with a 7.4x equity multiplier.
- Valuations are at historically low levels, and the market is trading at a 52% discount to its normalized long-term PE average.
- There has been no shakiness to the foundation of the real estate market, unlike GCC peers'.

Market Tid-Bits (factoids from Ahsa Street)

- Kuwait's Global Investment House (GIH) failed to repay a loan due on 15 December, prompting Fitch to lower its rating on the bank to C, or junk bond status, from BBB.
- GIH also underwrote Future Kid IPO in Kuwait despite global turmoil; no prizes for guessing which way the stock went once it listed. No one has bid on the stock since 23rd, December, when 20,000 shares were bought 24.1% below IPO price. Since then the stock has been "bidless".

- Kuwaiti Petrochemical Industries Co. Last month cancelled a joint venture with Dow Chemicals worth USD17.4bln. Dow Chemicals is currently demanding compensation for the lost deal. The minimum KPIC would have to pay contractually would be USD2.5bln.

- In mid-December the Kuwait Cabinet approved the launch of a fund to invest and help support the local stock market. KIA, the sovereign wealth fund, was assigned to manage and setup this fund. Although no concrete date was ever announced, it was rumored that the fund started investing into the market at the start of the New Year, but with no real impact thus far!

- SAMA lowered the repo rate — the rate at which it lends money to commercial banks — by half a percent to 2.5%, and reduced the reverse repo rate to 1.5% from 2%.The repo cut was the second such reduction in a month, while the reverse repo cut was the first such step in five months. SAMA left unchanged the cash reserve requirement for commercial banks, which had been lowered from 10% to 7% in November.

- Emirates Securities and Commodities Authority (ESCA) disapproved Emaar's 10% share buyback request owing to the company's failure to buy back shares on time previously. The company bought only 200,000 shares or 0.003% of its capital within the stipulated deadline of 24th Dec. See table below for further details:

Date	Event
02-Jul-06	first approval on 10% share buy back
02-Aug-07	cancellation of the first approval for no execution
04-Sep-07	Emaar applies to another 10% share buy back
25-Dec-07	Second approval on 10% share buy back
27-Oct-08	Emaar buys back 200,000 shares
24-Dec-08	Cancellation of the second approval for no completion

- Moody's reaffirmed Abu Dhabi's credit rating of "Aa2," the highest in the Middle East. Dubai will seek a sovereign credit rating by the middle of 2009 and is already in talks with rating agencies.

- The UAE Central Bank approved an AED/USD swap facility for all banks in the country regardless of whether or not they have a shortfall in their dirham net position.

Separately, the Central Bank governor stated the UAE expects to see credit growth of 5% to 10% in FY09, and that banks' profits will drop compared to the previous year.

- Starting from January 1, 2009, Dubai's Real Estate Regulatory Agency will require developers and banks to stop taking payments of more than 20% of the cost of properties from buyers or investors until construction begins.

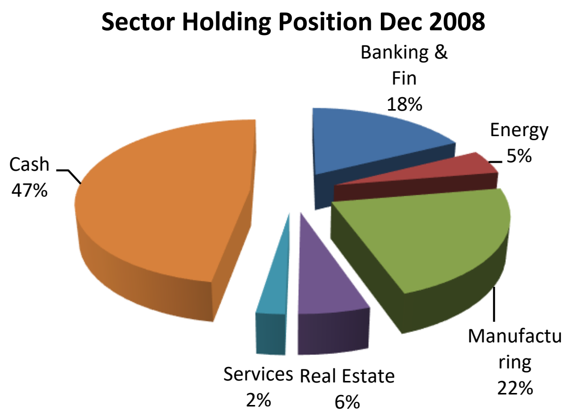
- It started as a rumor, but then official announcements were made with regards to a Tamweel and Amlak merger. Both stocks stopped trading on the 24th of November. We expected that steps would be taken to allow shareholders to exit, but instead both stocks remained priceless throughout December, with investors unable to exit or even properly value their positions. We don't have exposure to either

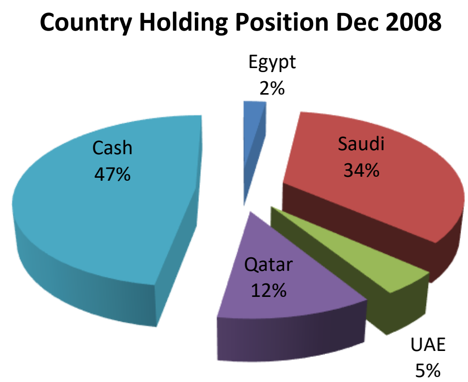
What happened with our portfolio in December?

We remained defensive and continued to increase our cash position with this historical year coming to an end (please throw away the keys). We reduced some of our weights in several of our conviction positions on the continuous pursuit to redraw the landscape and await visibility and stability. As such we reduced our holdings in Saudi Arabia, although it is still our largest geographical exposure.

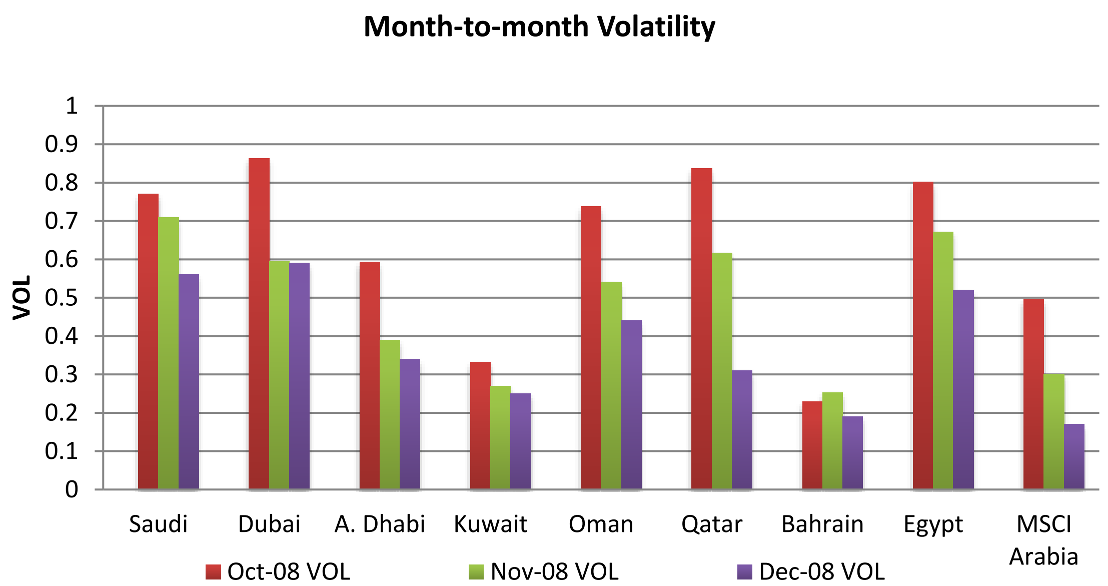
Our increased allocation to the Qatari market mainly in the banking sector, as discussed in the previous newsletter, provided positive attribution to our performance in December. The Saudi portfolio was also a positive contributor, while the UAE market continued to negatively affect the performance of the fund as the markets persisted in their trend of double-digit monthly losses. We also made some gains on our GCC hedge (a synthetic hedge made from a basket of GCC stocks) which we sized into during the month of December.

Our existing geographical exposure is likely to hold, as we see the greatest visibility in Saudi Arabia and Qatar relative to the rest of the MENA region. We will be looking to increase our equity exposure over time with fundamental and market confirmations on the companies for which we have convictions, whilst being more effective in mitigating some of the systematic risks.





The volatility of the portfolio was reduced in the month of December due to both our cash exposure in addition to generally lower volatility in our core markets as witnessed in the graph below.



The below analysis covers the period of Dec 01–31, 2008:

Ajeej MENA Fund	Dec - 2008
Return (Dec'08)	+3.47%
Return (YTD Dec '08)	-47.36%
Return (Since Inception- 15 months)	-33.81%
Volatility Annualized	29.80%
Sharpe Ratio Absolute	0.25
Alpha Benchmarked (Dec '08)	+9.29%
Value at Risk (VaR) - 95% (for the monthly holding period)	14.30%

For the calculation of Alpha, we used the MSCI Arabia as a benchmark and not the risk free rate set at 5%
VaR based on 5% probability
Sharpe ratio is calculated based on 12 months performance and all underlying values are broken down at 12 month intervals

Thank you for the continuous support.

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