The Investcorp newsletter
May 2012

THE REVIEW

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The UK's leading educational tester bought

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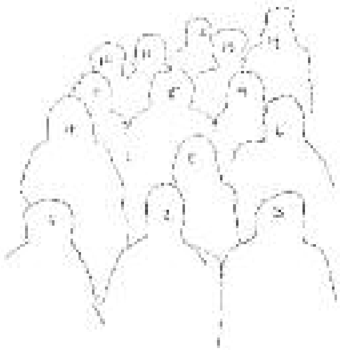
INVESTCORP

Board of Directors meets in Bahrain

Photograph taken on the occasion of the meeting of the Board of Directors in January 2012.

1. *Abdul-Rahman Salim Al-Ateeqi (Chairman of the Board)*
2. *Nemir A. Kirdar (Executive Chairman and CEO)*
3. *Abdul Aziz Jassim Kanoo (Vice Chairman)*
4. *Hussain Ibrahim Al-Fardan*
5. *Mustafa Jassim Boodai*
6. *Jassim Bin Abdulaziz Al Thani*
7. *Abdul Rahman Ali Al Turki*
8. *Mohamed Bin Isa Al Khalifa*
9. *Majid Saif Al Ghurair*
10. *Abdullah Mohamed Alireza*
11. *Farouk Yousuf Khalil Almoayyed*
12. *Abdullah Mohammed Mazrui*
13. *Mohammed Bin Mahfoodh Bin Saad Al Ardhi*
14. *Khalid Rashid Al Zayani*



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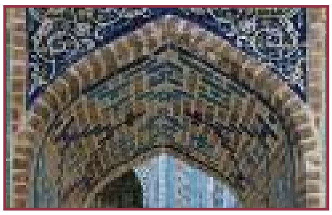
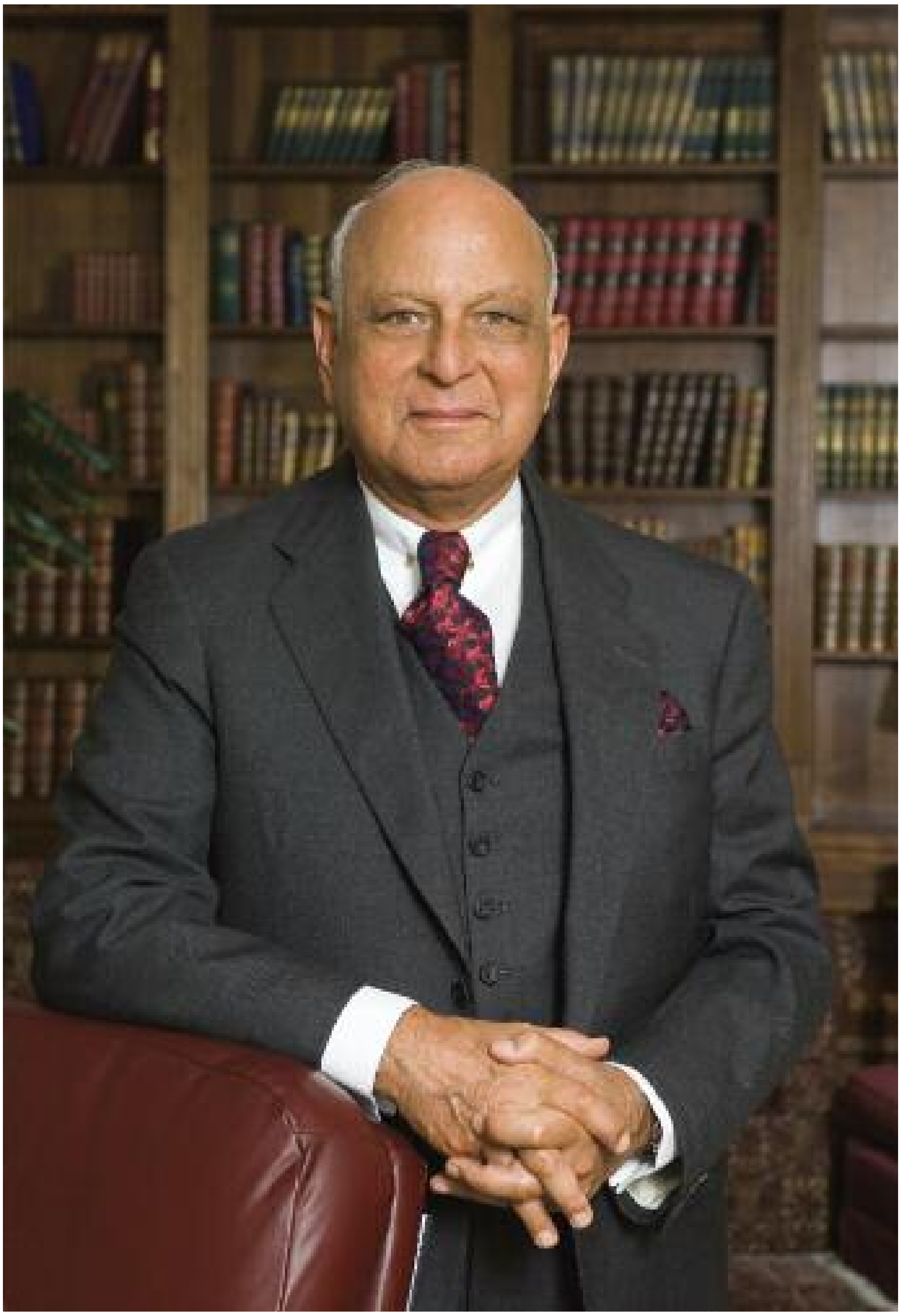


The path is made by walking it



Last month I had the honor of delivering a keynote address at the first Bloomberg conference in Doha on how alternative investments had evolved into a global asset class. It covered the origins of alternative investments, and presented how we started.

Back when Investcorp was founded in the early 1980s, the phrase alternative investments did not even exist. Nonetheless, the concept was clear to us. Investcorp would act as a bridge between the Gulf private sector and investment opportunities in the Western industrialized countries.

In doing this Investcorp would not duplicate the financial services already operating in the Gulf, nor provide traditional investment products such as bank deposits, equities in quoted companies and fixed income instruments already available to Gulf nationals. We focused instead on non-traditional investments in areas where we saw new types of opportunities. We were pioneers, the first in the region to offer private equity and later hedge funds, making the path as we walked, envisioning an industry that did not exist, and creating a demand in the Gulf for these new asset classes.

Now, of course, alternative investments are widely accepted and globally there is said to be $5 trillion invested in this asset class. Today, all sophisticated international investors allocate a portion of their diversified investment portfolios to alternative investments. It would be unthinkable for them not to.

While Investcorp was the very first financial institution in the Gulf to specialize in alternative investments and to function as a bridge between the Gulf and the West, in the following years others copied our model. Imitation is the best form of flattery, even if it brings competition, and, as a result, there is now a healthy, competitive industry serving the interests of Gulf investors.

However, Investcorp's longevity brings with it experience and track record which provides investor confidence, and this is the reason why we continue to be able raise substantial funds and return money to our clients in the region even during periods of challenges and economic uncertainty.

A pathfinder at its foundation, Investcorp has proved to be a solid and stable institution. You, our committed strategic partners, know this more than anyone, and we greatly value your support and role in our success.

Nemir A. Kirdar
Executive Chairman & CEO

Money to spare – and a place to invest it

Only one global brand name asset manager has emerged in the GCC, despite the region's $2 trillion asset pools – Investcorp. Matein Khalid explains why.

It is ironic that the GCC, with its $2 trillion asset pools, has not produced one global brand name asset manager apart from Investcorp. The bear markets in GCC equities and property have naturally devastated regional asset managers, most of whom are sub-scale, long-only boutiques with no real ability to generate alpha, or bank subsidiaries whose ability to launch new funds during market peaks is an art form. I was shocked when several UAE banks launched a succession of leveraged UAE property and UAE equity funds at the peak of the credit bubble, saddling their clients with 70-80 percent NAV losses.

While credible specialist asset managers exist in individual countries – Oryx, the Gulf's first country fund, was launched in Oman more than a decade ago – there is no real MENA hedge fund industry and few of the hundreds of Shari'ah-compliant funds have demonstrated the scale or the performance to make real money for their sponsors, let alone their clients.

The embryonic "equity culture" of the region, with its wild IPO rollercoaster (remember the streets clogged with Dana Gas IPO subscribers or the Qatari soccer stadium full of IPO applicants) has died, killed by its own excesses, archaic new issue protocols, the greed of promoters and a brutal, secular bear market in regional equities.

Global asset managers concentrate on the Gulf's sovereign wealth funds, institutional investors and family offices to raise assets. The Abu Dhabi Investment Authority, the Kuwait Investment Authority and the Qatar Investment Authority alone manage more than a trillion dollars in assets in global markets and asset classes that include even esoterics such as commodities, hedge funds and emerging markets property. Yet the scale of petrocurrency reserves managed by the sovereign wealth funds dwarfs the size of their individual domestic stock markets, forcing them to be global, multi-strategy, multi-asset class investment empires.

Commercial banks with wide distribution networks in highly affluent markets have built scale in asset management. Saudi Arabia's National Commercial Bank, AlRajhi, and Samba Financial have sophisticated Saudi equities, GCC debt, and even international mutual funds, managed across a spectrum of Shari'ah-compliant and conventional styles.

Egypt's EFG Hermes leveraged its expertise in its home market to build a regional asset management business, with several institutional mandates and brand name funds. India's ICICI Bank has leveraged the Gulf's multi-million non-resident Indian population to build profitable offshore mutual funds, private equity and even venture capital funds.

> ***"Commercial banks with wide distribution networks in highly affluent markets have built scale in asset management"***

A number of regional investment banks built asset management franchises, yet their model has also been decimated by losses on proprietary trading, the ice age in investment banking, the shallow depth of the regional investor constellation and the high fixed-cost leverage implicit in the asset management business model. Regulatory norms also need to upgrade the infrastructure of asset management.

So what were the unique circumstances that enabled Investcorp to emerge as the Gulf's first and only world class investment management firm?

One, a visionary leader with impeccable timing, Nemir Kirdar, the CEO of Chase Manhattan Bank's Bahrain office, saw the unique opportunity to recycle Arab petro-dollars into leverage buyout deals on Wall Street in 1982, at the dawn of one of history's most explosive bull markets.

Two, Investcorp's shareholders were the *crème de la crème* of regional investors, with no single business group dominating the shareholding base.

Three, Investcorp concentrated on the world's most liquid and sophisticated capital markets in Europe and America, only later moving beyond leveraged buyouts into real estate and hedge fund-of-funds management.

And four, Investcorp attracted global institutional investors with deal offices in London and New York.

The lessons of Investcorp are surely relevant to the next generation of GCC asset managers.

Matein Khalid is head of Capital Markets and advisor to the chairman of the Bin Zayed Group in Dubai.

UK's leading educational tester acquired

Sector: Education
Bought: March 2012
www.gl-education.com

We have bought one of the UK's leading educational providers, GL Education Group (GLE), in partnership with its management. GLE, formerly known as Granada Learning Group, provides integrated assessments, stakeholder surveys, self-evaluation systems and professional development services for the primary and secondary education sector. It was acquired from investors Veronis Suhler Stevenson.

GLE was founded in 1981 and provides teachers with products and services that measure students' core abilities and help them to make decisions about learning paths. The company has two business units – GL Assessment and GL Performance. Together, the units provide more than 15,000 schools with the tools they need to help raise standards in child education.

GL Assessment provides an overall picture of a pupil's abilities, motivations, strengths, anxieties, school-based relationships and future learning behaviors through its cognitive ability, subject- and curriculum-based and psychological assessment products. Its portfolio includes the Cognitive Abilities Test (CAT), the UK's most widely used test of reasoning ability in children, York Assessment of Reading for Comprehension (YARC), the UK's foremost reading ability test, and Pupil Attitudes to Self and School (PASS), an all-age survey measuring pupil views.

GL Performance supports schools in performance management through services such as school self-evaluation and stakeholder surveys, data interpretation and analysis services and other professional development support.

James Mahoney, a managing director in our Corporate Investment team, says, "GLE commands a leading competitive position in the UK education assessment market. The company has built a portfolio of market-leading products and benefits in a very stable market, underpinned by increasing demand for assessments.

"Rather than simply measuring attainment, GLE products enable schools to measure pupil potential and monitor their progress in the development of core skills. The products also enable them to identify specific learning impediments and disabilities. These capabilities are fundamental to higher performing schools and education systems globally."

GLE managing director Adrian Eaglestone adds, "Investcorp has a track record of helping its portfolio companies to reach their potential internationally and is a highly complementary partner for us.

"We see significant opportunity for growth in our core markets, as well as in international markets, plus the potential to accelerate our growth through further acquisitions. This transaction provides us with a strong capital base and a partner to pursue these opportunities."

A passion for cooking – and growth

Sector: kitchenwares
Bought: September 2011
www.surlatable.com

America's premium kitchenware retail brand – Sur La Table – has been acquired by Investcorp at a time when middle and high income consumers are fuelling the rapid growth of culinary businesses in the US and around the world.

Founded in 1972 with one store in Seattle, Washington, Sur La Table – inspired by classic French cookware and techniques – had 86 stores at the time of purchase. It now has 92 leased outlets in 27 states across the US, where its profitable sales channels also include a website, a catalog and social media platforms such as Twitter and Facebook.

The company's buyers travel the globe looking for new and authentic kitchenware, from panini presses and cast-aluminum rolling pins to espresso and ice cream makers, ovens, and table linens and accessories.

As well as selling top quality cooking-related equipment, the brand runs a culinary education program that attracts more than 100,000 students a year in more than 30 store locations. Its stores host book signings by celebrity chefs such as Jamie Oliver, Martha Stewart, Mario Batali, Bobby Flay and Rachael Ray, and it organizes culinary vacations in the US and abroad.

Sur La Table has been named best kitchen store in America by *Atlantic Monthly*, and one of the best stores in the US by *Food & Wine* magazine.

The company – whose headquarters is still in Seattle – was acquired from the Behnke family and investment firm Freeman Spogli & Co. Both remain as investors.

"Sur La Table's management team has built a market leading, multi-channel retailer with a unique product offering and a high level of customer service," says Mohammed Al Shroogi, Investcorp's President of Gulf Business. "We believe that Sur La Table is well positioned in its existing markets and has multiple

From amuse-bouche to banquet: Sur La Table has grown from one outlet to cover the US





opportunities for growth including new store expansion and e-commerce."

Jack Schwefel, CEO of Sur La Table, adds, "I am very excited about our new partnership and our future growth opportunities with Investcorp. Sur La Table is the leading destination for those with a passion for cooking and a love for food, and we will maintain the values that reflect our character and commitment to our customers, our employees and the communities in which we live and work."

America's favorite: more than 100,000 attend cooking lessons in 30 stores every year, learning everything from the basics of pastry to creating exotic cakes and meals for impressive dinner parties

Sale of Accuity delivers $360 million to investors

Sector: online data
Sold: November 2011
www.accuitysolutions.com

Accuity, the global payment routing, financial data and regulatory services provider, has been sold to Reed Elsevier for $530.1 million, allowing $360 million in gross proceeds to be returned to our investors.

Accuity was one of two businesses spun out of our $350 million purchase of what was Thomson Media in 2004. The Accuity sale alone represents a gross return of approximately 2.3x our original investment.

The company now has a greater than 95 percent customer retention rate and double-digit annual revenue growth based on subscriptions. With offices in the United States and Britain, it provides banks, large companies and government agencies with online data services. All top 25 American banks and most large global financial institutions are customers.

The other business created out of the 2004 acquisition is SourceMedia, which publishes a stable of financial services titles such as *American Banker*, *The Bond Buyer*, *On Wall Street* and *Information Management*. Investcorp investors will continue to own interests in SourceMedia until the time comes for an exit.

Investment in video pioneer

Sector: video licensing and storage
Bought: January 2012
www.T3Media.com

Investcorp Technology Partners (ITP), through the Investcorp Technology Partners III fund, has bought a significant minority stake in T3Media (formerly Thought Equity Motion), a video management and footage licensing service.

The deal, worth $28 million, makes ITP the company's largest single shareholder. Andrew Flett, an Investcorp principal in New York, and ITP's co-head Hazem Ben-Gacem, have joined T3Media's board.

Denver, Colorado-based T3Media offers cloud-based storage, access and licensing services for master-quality video. The company delivers large-scale archive management and smart-content metadata as a hosted service, reducing cost and complexity for its clients. The company's rights development, licensing and distribution offerings enable media rights holders to generate further value from their video content via sales to sectors that include advertising, film, television, publishing and interactive media.

Among T3Media's global client base are BBC Motion Gallery, Corbis Motion, HBO Archives, MGM, National Geographic, NBC Universal Archives, Paramount Pictures, Sony Pictures Entertainment and *The New York Times*.

"With its technology leadership, blue-chip client base and superb management, T3Media is well positioned to drive transformation in the video supply chain in the US, Europe and Asia," says Flett.

"T3Media is a perfect addition to our existing top-notch portfolio of media and technology companies. Our partnership will continue building what is already the fastest growing cloud-based video management service provider."

T3Media's CEO and founder, Kevin Schaff, adds, "Our partnership with Investcorp validates our leadership position, and Investcorp's global presence and relationships will fuel our growth trajectory around the world.

"With the explosion of demand for video content, video rights holders are seeking to unlock the value of their assets and make their libraries accessible for next-generation uses. At the same time, the video production community is always seeking to maximize its resources by leveraging high-quality previously shot footage."

Majority stake taken in OpSec

Sector: security
Bought: August 2011
www.opsecsecurity.com

A majority stake in OpSec Security Group has been bought by the ITP Technology Partners III fund. This follows the fund's March 2010 investment of $25.3 million, which gave Investcorp a 29.8 percent ownership stake. Following a public tender offer to acquire all the remaining shares in April 2011, the fund now owns 54.1 percent of the issued capital.

OpSec is listed on the London Stock Exchange and the offer price of 50p valued the company at some £41 million ($68 million), up from an implied value of £30 million ($46 million) at the time of the original investment. This represents a valuation multiple of 7.1x for earnings before interest, tax, depreciation and amortization over the last 12 months.

OpSec is a global provider of anti-counterfeiting and brand protection services, both in the real and online worlds. It has three divisions:

- Banknote and high security documents, from holograms to security foils, which prevent counterfeiting
- Brand protection, including product tracking, for more than 300 worldwide brands
- ID solutions to prevent document forgery

Banknotes, passports, national identity cards, drivers' licenses, drug packaging and software disks are among the items that incorporate OpSec features.

There is ever-growing demand for the company's products and services. Up to eight percent of global trade is believed to be in counterfeits, including around a quarter of all branded goods sold on the web. Some $700 billion of economic activity is lost each year because of faking. Industry analysts believe that OpSec's total potential market is worth some $1.3 billion, with growth of 10-15 percent a year.

Buy-out to control fast-growing eviivo

Sector: hotel bookings
Bought: November 2011
www.eviivo.com

eviivo, the UK's leading hotel online reservation and property management system, is now 90 percent owned by the Investcorp Technology Partners III fund.

In March, the fund invested £15.6 million ($24.9 million) to gain control of 55.2 percent of the issued shares. The fund subsequently reached an agreement to buy out other shareholders, excluding management, for £10.2 million ($15.8 million).

The transaction was completed in early November. The fund invested a further £3.3 million ($5.1 million) and a passive strategic investor will take on the remainder of the costs of the buyout.

eviivo has shown tremendous growth – at an annual rate of some 60 percent between 2007 and 2010. In 2010, the company processed more than 400,000 online bookings with a total value of more than £60 million ($95 million).

The company concentrates on selling to small to medium-sized independently owned accommodation businesses, such as bed and breakfast establishments, boutique hotels, farmhouses, inns, rental cottages and restaurants with rooms. It provides an online and offline booking system, covering reservations, room allocation, invoicing and payment, and access to the worldwide reservations market. It also manages many of its clients' websites, allowing them to avoid third-party distribution fees.

eviivo has a current client base of more than 4,800 establishments and has great opportunities for growth. For example,

large hotel chains generally receive half their bookings online but the proportion for eviivo's clients is nearer 28 percent, so there is clear scope to extend online booking numbers through its distribution channels.

There is also good evidence that eviivo can continue to grow its client numbers. The British smaller accommodation market is worth around £4 billion ($6.3 billion), with some 70 million rooms booked a year.

Investment trio offers high yields

Our US real estate team continued an active program in the fall with three equity investments worth a total of $84 million – in California, Florida and Georgia – that demonstrate our focus on high yield assets.

Placed in November as the Shari'ah-compliant US Diversified Properties X Portfolio for clients in the Gulf, they followed six real estate deals earlier in the year, adding to our mix of retail, office, residential hospitality and medical facilities.

The properties are in close proximity to large commercial and economic hubs but, as with other real estate investments earlier in the year, they are in often overlooked real estate markets where it is easier to secure private deals at attractive valuations.

Park Tower (above), Bethesda Health City (top right) and The Ashford (right)

The acquisitions are:

• **Park Tower, Long Beach, California** – A Class A, seven-storey, multi-tenant office building in a major metropolitan area and on the state's Pacific Coast Highway. Serving the communities of Los Angeles to the north and Orange County to the south, it is currently 96 percent occupied by a diverse range of 25 tenants, providing a stable long-term income stream. The largest tenant is a non-profit organization, ChildNet. Park Tower is adjacent to an historic 18-hole golf course with a 1917 landmark clubhouse. The purchase price was $21.5 million.

• **Bethesda Health City, Boynton Beach, Florida** – Bought for $37 million in a partial leaseback transaction from Bethesda Health Systems, this 133,000 square-foot healthcare facility is on a 40-acre campus on the corridor between West Palm Beach and Fort Lauderdale. Currently 98 percent leased by 17 tenants, the building has a track record of high occupancy and strong tenant retention that has consistently exceeded 90 percent since its opening in 1996. We provided 80 percent of the equity with partner Fragler Investments supplying the remainder.

• **The Ashford, Atlanta, Georgia** – A multi-family gated property comprising 221 apartments, 98 percent of which are leased. Ashford amenities include a swimming pool, a fitness center, tennis court and a clubhouse. The purchase price was $25.5 million. We bought 90 percent of the development with operating partner Titan Real Estate Investment Group purchasing the rest.

"These properties complement our growing mix of investments selected for their strong and stable tenant histories, ties to growing metropolitan communities,

and above-market cash yields," says Herb Myers, a managing director in Investcorp's real estate group.

"We believe they will provide our investors with yields that look especially attractive given the forecasted period of low interest rates and economic conditions we face today."

Placement for mezzanine deals

Mezzanine financing on a shopping mall and hotel has been completed by Investcorp Real Estate and the investment is now being placed.

A joint mezzanine share offering is in two properties: Southland Mall in Cutler Bay, Florida, and Arundel Mills Hotel in Hanover, Maryland. The financing is backed by an Investcorp loan and a mortgage on Arundel Mills Hotel from CapitalSource.

Southland Mall is a regional shopping center covering nearly 970,000 square feet approximately 15 miles south of central Miami. Set in 76 acres of grounds, it was built in 1972, comprehensively redeveloped in 1991 and expanded in 2007.

We bought the mall in 2006 and subsequently placed it with investors as part of a portfolio. We and our clients remain majority owners, with the remaining space owned and operated by Sears and Macy's. Anchor tenants include J.C. Penney, K-Mart, Regal Cinemas, LA Fitness and T.J. Maxx. Occupancy is at 94 percent. Sales among anchor tenants rose two percent over 2011 and among smaller tenants by eight percent.

Fast-growing South Florida has seen unemployment falling since June 2010 and is expected to see population

growth until at least 2020, which will facilitate continued footfall and sales growth at Southland.

Arundel Mills is a 250-room hotel branded both Hilton Garden Inn and Homewood Suites. It opened in 2009 and the two hotel brands are contained within the same 11-storey building, with Homewood Suites taking 99 rooms and Hilton Garden Inn the remaining 151.

The site lies on the corridor between Washington DC and Baltimore and is close to both the 5,000-acre Fort Meade military base and Baltimore/Washington International Airport, which serves more than 22 million passengers a year. Both drive traffic to the hotel, which out-performs its peer group.

Southland Mall, south of central Miami, was built in 1972

Being prepared for market volatility

The starkest lesson from the experience of market turmoil is that recoveries from financial crises are rarely smooth and invariably take longer than most investors expect.

Recent events demonstrate the point – the euphoric rally in equity and fixed income securities that began in 2009 has given way to volatility and renewed fears of a double-dip recession.

Our hedge funds team, however, was prepared for these conditions. They knew that the credit crisis that gripped markets in 2008 and 2009 would not recede quietly into history. Banks would need years to divest problematic assets that were weighing down their balance sheets. The cost of government programs to prop up ailing financial institutions – mostly in developed countries with the biggest banks – would also lead to the crippling public sector debt that is now straining the United States and Europe.

That awareness led us to our most recent addition to the Single Manager Platform. Reza Ali is an expert in structured credit and an alumnus of Goldman Sachs. His expertise across a range of credit-oriented investment structures, including corporate credits, student debt and sovereign credit default swaps, offers Investcorp and its clients access to investment opportunities that, by some estimates, reach into trillions of dollars.

We announced our partnership with Reza's investment fund, Prosiris Capital Management, in May last year, with the expectation that he and his team could eventually manage a multi-billion dollar portfolio, given their range of skills and the opportunities available in the market.

Prosiris's specialty complements that of another investment team on our Single Manager Platform: Silverback Asset Management, a convertible arbitrage group that has won industry accolades for its ability to find opportunities before most managers.

Silverback, which partnered with Investcorp in 2006, recognized shortly after Lehman Brothers collapsed that pervasive market fear had led investors to misprice some convertible bonds. The firm ultimately made very successful trades in the most under-priced among those bonds, and earned a spot on a Barron's list of top performing hedge fund managers.

Prosiris and Silverback stand out for their analytical skills and ability to find opportunities in the current market. Together, they epitomize Investcorp's core belief that talented and motivated investment managers can find sources of true alpha, even in tumultuous conditions. Silverback, for example, pursues opportunities in three sub-strategies of convertible arbitrage to capture differing sources of investment return and avoid relying on one type of trade.

Both investment teams are also scrupulous risk managers, which is crucially important given the current volatility and the high correlations in the movement of securities prices. For example, Prosiris has recently held as much as 40 percent of its assets in cash to maintain safe liquidity levels, and it has hedged itself against so-called tail risks – the extreme events that markets don't foresee.

Opportunities with Shari'ah compliance

Over the last decade, Investcorp has offered its clients 42 Shari'ah-compliant investment opportunities – an average of more than four a year.

We were early in recognizing the investment needs of our Gulf clients, providing Shari'ah-compliant opportunities across multiple asset classes from 2001.

The basic requirements of Islamic investing call for fair conduct with business partners, customers and other stakeholders, and a sense of social responsibility in all dealings. Islamic principles also require that a person who profits from the use of his money by another person assumes a proportionate share of the risk from the business in which his money is invested. Investcorp therefore seeks equity risks and returns alongside its clients through innovative structures that we have developed to codify these values.

Adherence is closely audited by an independent committee, which oversees compliance in all lines of business. Our Shari'ah Advisory Board consists of three Islamic scholars, who are consulted on all key aspects of new transactions and investment activities to ensure that these are in accordance with Islamic principles. Their review includes examination of evidence relating to the way an investment is structured, as well as compliance at the operational level.

For our corporate and real estate investments, this means that a company or property tenant must not operate in businesses that do not adhere to Islamic principles. Some examples of this are alcohol, tobacco, pork products, weapons and defense, entertainment (such as hotels, casinos and gambling) as well as conventional financial services such as banking or insurance. Once all compliance requirements have been met, the Shari'ah Board approves each investment by issuing a Shari'ah declaration.

In the first half of fiscal 2012, we launched two Shari'ah-compliant opportunities – Sur La Table and the US Diversified Properties X Portfolio – and aim to continue developing new and innovative investment opportunities that cater to our Islamic client base.

Investcorp's Shari'ah Advisory Board has a distinguished track record in the application of Shari'ah principles and is composed of these prominent scholars:

Dr Mohamed Elgari

Holding a PhD in economics from the University of California, Dr Ali Elgari is a professor of Islamic Economics at King Abdul Aziz University, Jeddah. He is an expert at the Islamic Jurisprudence Academies of the Organization of Islamic Countries and the Islamic World League. Dr Elgari is a member of the Shari'ah Boards of many Islamic banks and Takaful companies including Dow Jones, International Islamic Fund Market, Citi Islamic Investment Bank, Merrill Lynch and Saudi American Bank.

Sheikh Nizam Yaquby

A graduate in economics and comparative religion from McGill University and an internationally acclaimed scholar in the Islamic banking industry, Sheikh Nizam Yaquby has been a teacher of Tafsir since 1976. He advises a number of banks and financial institutions including Abu Dhabi Islamic Bank, BNP Paribas, Dow Jones, Lloyds TSB, Citi Islamic Investment Bank and Standard Chartered on matters relating to Islamic banking and finance.

Dr Abdul Sattar Abu Ghuddah

Dr Abu Ghuddah holds a PhD in Shari'ah law and comparative fiqh (Islamic jurisprudence) from Al-Azhar University, Cairo. He previously held the position of expert at the Ministry of Awqaf & Islamic Affairs in Kuwait. He has instructed at Imam Al Da'awa Institute (Riyadh), Religious Institute (Kuwait), and the Shari'ah College of the Law Faculty at Kuwait University. He currently serves as a member of the Shari'ah Supervisory Boards of a number of Islamic banks and financial institutions.

Family feeling for Gulf Opportunity Fund

Family-owned businesses can often be dynamic, ambitious and growth-oriented but making a jump in scale can be impossibly difficult without outside expertise. With the help of an experienced partner, new possibilities open up, as CI-MENA's Gulf Opportunity Fund (GOF) I's investments in family businesses show.

James Tanner, head of Corporate Investment – MENA (CI-MENA), recognizes that international best-practice investment strategies have to be tailored for family businesses in the MENA region, to take account of the dynamics of these companies. Of four GOF I investments, three are in family businesses.

"In terms of deal type, for instance, unlike other markets where leveraged buyouts are prevalent, investments in the region are based predominantly on acquiring significant minority stakes in family-owned businesses," he says.

"In terms of creating value in a family-owned business, the financial partner should adopt a role akin to an incubator by offering strategic and financial advice in a consultative manner, while recognizing that the family remains at the forefront of decision making.

"We place greater emphasis on strategic repositioning, rather than on assuming more debt and its associated risks. In terms of corporate governance, mutual trust and alignment of interest with the family is paramount to understand and mitigate risks associated with the deficiencies and idiosyncrasies of regional regulatory frameworks.

"Finally, as a minority partner, it is important to agree on an exit strategy upfront, be it by a trade sale, IPO or even a sale back to the family.

"We prize our relationship with each and every portfolio company we partner. We are honored to learn that our partners, especially family-owned businesses in the region, reciprocate this sentiment."

The approach works, as testimonials from Amer Al Huneidi, Chairman of Gulf Cryo, and Tiryaki Agro board member Mehmet Tiryakioglu, show.

Amer Al Huneidi, chairman, Gulf Cryo

"As the GCC's first industrial gases manufacturing company, Gulf Cryo has a long and successful history dating back to 1953. The company, started by my father Salim Al Huneidi, has survived considerable regional turbulence, including the Iraqi invasion of Kuwait, and from which we have gone on to many great achievements.

"But as the world changed, I knew that,

"The financial partner should adopt a role akin to an incubator by offering strategic and financial advice in a consultative manner, while recognizing that the family remains at the forefront of decision making"

Amer Al Huneidi

Stepping on the gas: Gulf Cryo

to continue to grow, I needed to transform this family business into a corporate enterprise run to international standards. In early 2006 some family members decided to exit and sell their shares to me and in 2008 I started to look for the ideal growth partner.

"There were two options: partner with an industry player who would probably want to consolidate our businesses, dissolve Gulf Cryo's brand and take control; or partner with a financial institution that has international depth and regional understanding and would be committed to our growth. We met Investcorp and decided that they were exactly what we were looking for.

"Since our partnership in late 2009, Investcorp has helped us gain a fresh perspective when making important business decisions. Investcorp is an active participant in board meetings, bringing international best practice and sound advice to the table.

"They have given us tremendous help in getting the company organized, setting our corporate governance and putting in place an excellent management plan. Today, Gulf Cryo has for the very first time a CEO – Naji Skaf – who is a non-family member.

"Their financial support and advice has been instrumental in helping us grow despite an environment of poor liquidity. Because of this, we are looking at expanding our operations in new markets such as Egypt, Turkey and Libya that we have not considered before. We also have the capabilities to conduct thorough due diligence and financial evaluations as we look to make add-on acquisitions.

"We believe that with Investcorp we are in a better position to become a major MENA player. Have I made the right decision to partner with Investcorp? Absolutely!"

continued on page 16 ...

New horizons: one of Tiryaki Agro's facilities

... continued from page 15

Mehmet Tiryakioglu, board member, Tiryaki Agro

"Tiryaki Agro is a typical family business. It was established by my father, Ali Tiryakioglu, in the late 1970s. The second generation took over in the 1990s and continued to grow the company successfully. At the same time, my siblings received specialist education in our industry and joined the business in 2000.

"That's when we started expanding our operations by activity and geography. Since then we have been enjoying average growth of around 50 percent a year. Today we operate in more than 80 countries and are Turkey's biggest private sector company and exporter of agro-foods.

"But this is not all we aspire to. Our vision is to become the leading regional player, especially in the Middle East, Black Sea and Mediterranean area. To achieve success in the next phase of our growth, we knew we needed to behave like a public company.

"So we started looking for a financial partner that could meet three specific criteria. First, the financial partner must be reputable and trustworthy. We saw this partnership as a marriage where chemistry would be very important. Second, the financial partner should be able to provide the equity needed to carry out our growth plan. And third, the financial partner should have the experience to help us prepare to go public. We found all three in Investcorp.

"It has been just over a year since we partnered with Investcorp and we have already seen the benefits. Investcorp has helped us establish corporate governance policies and adapt our operations in accordance to them, as well as providing us with access to high calibre professionals from the financial sector. The partnership has also increased the confidence stakeholders have in us and has further strengthened

Mehmet Tiryakioglu

"The partnership has also increased the confidence stakeholders have in us and has further strengthened our reputation among our peers in the industry and among financial institutions"

our reputation among our peers in the industry and among financial institutions.

"Tiryaki Agro was ranked the 35th fastest-growing export company in *Fortune* magazine's latest survey of Turkey's 500 largest companies in 2010. With Investcorp on board, we aim to triple our revenues and are confident of being ranked even higher next time."

$115 million Redington exit

Sector: IT and telecoms logistics
Sold: December 2011
www.redingtongulf.com

Gulf Opportunity Fund I's first exit has taken place with the sale of Redington Gulf to Redington India, which has acquired our shares to regain complete control and ownership of the company.

The Fund invested $65 million in Redington Gulf in November 2008 for a 26 percent equity stake. The sale generates gross proceeds of $114.8 million, including $2.1 million in dividends received, making a gross capital gain of $49.8 million. That represents a net 17 percent internal rate of return and a 1.7x multiple of our investors' investment. The deal closed in March 2012.

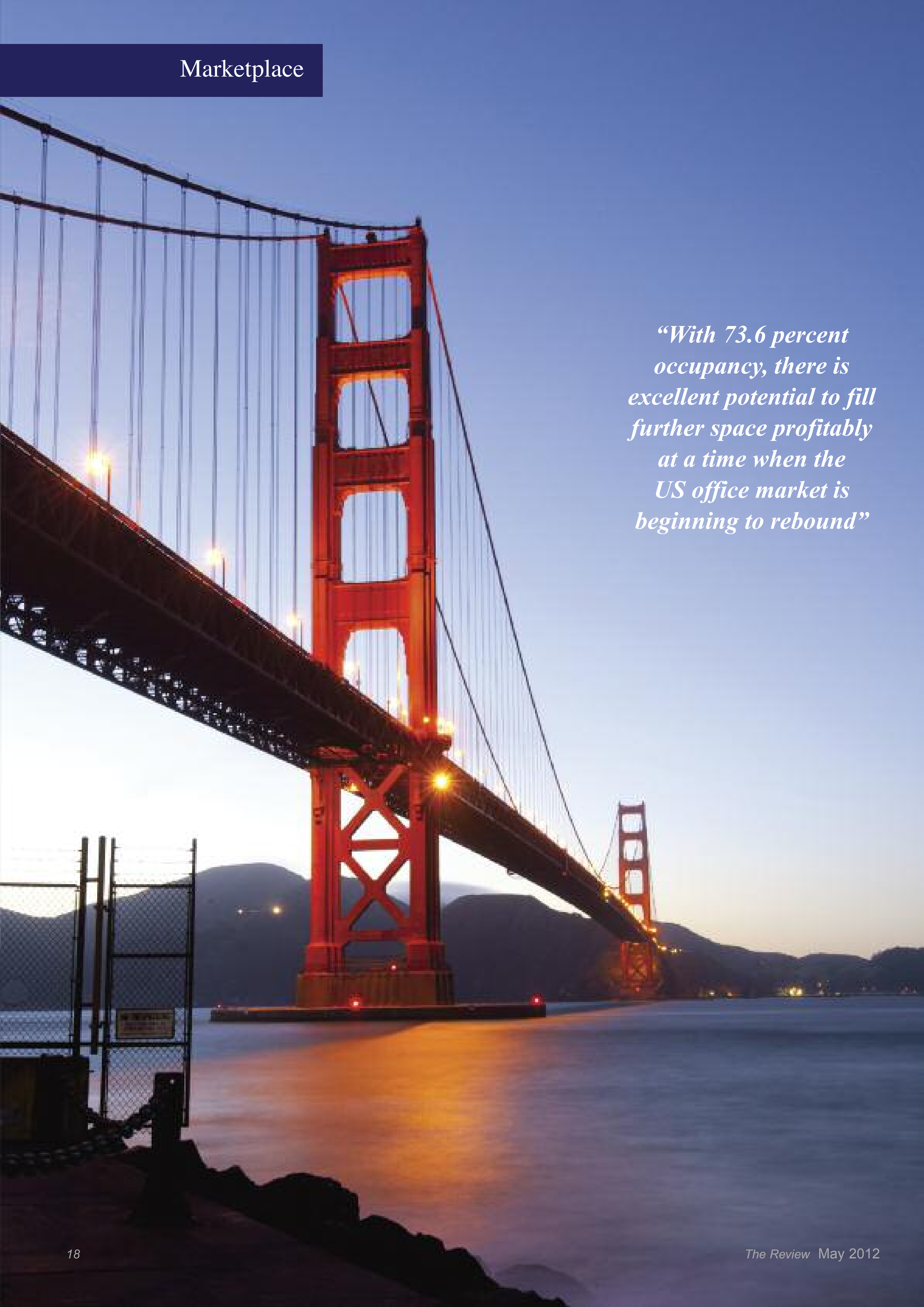
"The sale is a milestone marking Investcorp's first exit in the GCC and reinforces our ability to deliver attractive returns to our clients even under challenging economic conditions," says James Tanner, head of CI-MENA. "The sale demonstrates the strength of our value enhancement model and further confirms that the risk-return prospects of the asset class in the GCC remain very attractive."

Redington Gulf is the leading distributor of IT and telecommunications products in the Middle East and Africa. Following its acquisition of 49.4 percent of Arena, it is also the second largest in Turkey.

According to the latest industry Power List rankings, Redington Gulf has a 32 percent market share among the top 10 players – double its closest competitor – with approximately $2 billion in pro forma revenues, a portfolio of 29 brands and 2,800 clients in 23 countries. The company's global vendors include Dell, Hewlett-Packard, Cisco, Samsung and Nokia.

Tristan de Boysson, a CI-MENA managing director, says, "The success of this exit is a result of our continuous support of management over the past three years. The sale enabled us to realize the value created through organic growth and the company's stake in Arena, which we worked alongside the management team to execute in November 2010."

REDINGTON



"With 73.6 percent occupancy, there is excellent potential to fill further space profitably at a time when the US office market is beginning to rebound"

Options beyond the city limits

Diverse properties that present a unique opportunity to generate solid income returns

California North Bay area's largest property transaction so far this year has been completed by our US Real Estate arm in a portfolio deal worth approximately $65 million.

The portfolio comprises 14 buildings in a mix of office, industrial, office/industrial and retail space totalling more than 840,000 square feet. The predominantly Class A buildings are clustered around Petaluma, which lies some 35 miles north of central San Francisco in Southern Sonoma County, the largest of the Bay Area counties.

The buildings were bought at an attractive valuation and are mainly of contemporary construction, with 12 completed in 1997 or more recently. All are built to excellent standards, with high ceilings and planned landscaping that includes seating and picnic areas.

Of the total square footage, 61 percent is office space, 22 percent industrial, 15 percent office/industrial and two percent retail, currently leased to 31 tenants with strong credit profiles. The spread of types of footage means the portfolio allows exposure to different property markets.

With 73.6 percent occupancy, there is excellent potential to fill further space profitably at a time when the US office market is beginning to rebound. In 2011, 49.5 million square feet of office space was let, against 19.5 million square feet in 2010, with areas close to Southern Sonoma County leading national demand. We are working with San Francisco real estate operator and owner PB&J Acquisitions to maximize the opportunity the portfolio represents.

Currently, tenants include Wells Fargo Insurance, Kaiser Permanente, The California State Compensation Board, Gap, Dr Pepper Snapple Group, Ally Financial, Thermo Fisher and Starbucks Coffee. Most of the vacant space is in two of the portfolio's best quality buildings.

The San Francisco area itself is economically healthy, diverse and stable, with a growing jobs market. It is home to 30 Fortune 500 companies and the largest concentration of venture capital firms in the world.

This latest addition to our real estate investments reinforces our focus on buildings close to major US cities but positioned in sometimes-overlooked real estate sub-markets where attractive valuations can be found, along with opportunities to add value.

Herb Myers, an Investcorp Real Estate managing director, says, "The acquisition of a diverse group of properties presents a unique opportunity to generate solid income returns while advancing leasing and operating income over a longer time horizon.

"The multi-assets nature of this portfolio should enable us to pursue a number of value-creating options."

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