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INVESTCORP

Business Review H1 FY12

For the period July 1, 2011 – December 31, 2011

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Note: figures in this document may not reconcile due to rounding

EXECUTIVE SUMMARY

Market Environment

- H1 FY12 saw a significant deterioration in the global economy, triggered by an intensification of the Eurozone sovereign debt and banking crisis. The appointment of new technocratic governments in Greece and Italy and the EU leaders' 'fiscal compact' was generally seen as progress. However, market sentiment remains exceptionally nervous and volatile and current conditions make forecasting the direction of the global economy particularly challenging. Negative ripples from the Eurozone mean that forecasts for global growth have been significantly downgraded over the last few months.

- Within the Eurozone, 2012 GDP is predicted to decline by 1% compared with earlier forecasts of 1% growth. While some countries are more badly affected, the downturn is affecting all EU economies. In contrast, US economic performance has been better than expected over the final few months of 2011, showing increased job creation, stronger manufacturing and services activity and an improvement in consumer spending. The US is, however, predicted to see 2012 growth pick up only modestly from 2011 and the US presidential election makes it unlikely that there will be any progress on the country's long-term fiscal position during 2012.

- Emerging market economies are expected to see a predicted healthy 5.4% growth in 2012, although this will be relative to 2011 and 2010. Falling inflation in 2012 should give emerging market central banks, which have been focused on tackling inflation, more scope for supportive policies. However, the Euro crisis has also put the market spotlight on high government debt levels and current account deficits in some emerging markets.

- Overall, financial markets remain risk-averse, not least due to heightened concerns about geopolitical risks that could have potential implications for oil prices. This backdrop, together with lower global inflation and modest growth, means that US Treasury yields are forecast to stay in their current range over 2012 and German government bond yields are forecast to rise only modestly by the end of calendar 2012. We believe these exceptionally low yields will stimulate international investors to put money to work in alternative assets that are seen to be less correlated with major risks such as a worsening sovereign debt situation.

- With economies expected to show signs of improvement from mid-2012, early forecasts for 2013 foresee global growth of 3.7% led by a modest recovery in Europe and a reacceleration in emerging markets. This positive medium-term outlook will provide additional incentives for investors to invest selectively in appropriately-priced alternative investment opportunities during the coming year.

- The six economies of the Gulf Cooperation Council (GCC) are expected to grow by 4% in 2012, following growth of over 7% in 2011, with any economic uncertainties resulting from the

Arab Spring having been counterbalanced by high oil prices and increased government spending.

- While growth in Kuwait and the UAE is expected to remain broadly similar to 2011, the forecast is for Saudi Arabia to see relatively slower growth in 2012. Reflecting lower increases in LNG production, Qatari growth will drop back to a more normal 6%, after exceptional 15-20% growth rates in 2006-11. Bahrain is expected to see growth accelerating to around 3.6% in 2012, well above 2011 growth of 1.5%. With inflation pressures now relatively modest, GCC countries have continued to extend social and employment programs to help spread the benefits of economic growth.

- Oil demand is likely to remain relatively strong in 2012, with emerging markets compensating for weaker demand from developed economies. Global oil demand is, however, forecast to rise by a relatively modest 2% annually in the period 2013-2016. Oil price predictions for 2012 have moved upwards recently as a result of rising geopolitical tensions and the GCC current account surplus is predicted to rise to $279 billion in 2012, compared with $163 billion in 2011. Break-even oil price levels for GCC budgets have continued to increase, with the Saudi break-even price poised to hit $98 in 2012. Sovereign credit spreads for GCC countries are lower than in early 2011 but still above pre-crisis levels.

Business Environment

- The environment for our **corporate investment – North America & Europe** business has continued to improve, with 2011 the strongest year for transaction volume globally since 2008. Exits dropped in the fourth quarter of 2011, but exit activity is still well above immediate post-crisis levels. Competition for new deals is still driving high purchase price multiples. Financial deleveraging, especially in Europe, is expected to become increasingly important. Corporates will remain cautious buyers in current conditions, but the need to put funds to work means many are forecasting a further growth in secondary buyouts. Lower leverage will probably lower ex-ante return expectations from investments, but with attendant lower levels of financial risk in the capital structure of buyout transactions. The desire to commit money to private equity as an asset class remains high, given its track record of attractive, non-correlated returns. Recent research has further underlined the outperformance of private equity over the cycle, compared to investments in public companies.

- Our **corporate investment – technology** business saw positive trends continue as technology firms, fuelled by cash resources and the need to maintain leadership positions, drove the increase in mergers and acquisitions in the technology sector to the highest level since 2007. Corporate spending on IT continues to increase, driven by automation, efficiency and regulation and increasingly integrated consumer eco-systems using the internet are supporting demand for products and services. High operational leverage gives large technology companies the cash resources to fund acquisitions, while they will also seek to divest non-core assets. However, given the macro economic backdrop, 2012 may be characterized by smaller, midmarket deals. Despite some recent high multiples, sellers' expectations are likely to become more realistic. Given a lack of debt finance, those with cash will be strongly positioned. The exit environment is likely to remain focused on trade sales and secondaries, with recent financial market conditions having dented the tentative revival of the IPO market.

- Our **corporate investment – MENA** business saw mergers and acquisitions activity in the MENA region continue to fall, reflecting geopolitical and market uncertainties. While GCC growth remains firm, political factors and the higher oil prices are having a strongly negative effect on oil-importing MENA countries. Governments face a complex task in undertaking tough economic reforms while managing high public expectations and financing very challenging budget needs. Lack of liquidity on regional stock exchanges remains a challenge with exchange turnover ratios still well below pre-2008 levels. Recent Saudi market liberalization moves have been welcomed, but there is unlikely to be a regional IPO exit market for some time. Nonetheless in both the GCC and the broader MENA markets, strong companies will continue to be able to outperform, and financing their growth will produce investment opportunities for investment firms who combine strong resources and patience with unique market insights and relationships.

- Overall, the environment for our **real estate investment** business has been improving although it still has some residual challenges from the overhang of the 2008 financial crisis. The US real estate market has continued to stabilize, with investment transaction activity in 2011 up 91% over 2010. The recovery remains mainly concentrated in high quality properties in major markets with reliable cash flow. Debt finance is becoming more available. High levels of maturing real estate loans are triggering acquisition opportunities for advantaged buyers and CMBS, despite current depressed conditions, is likely to continue to play a role in real estate capital markets, providing attractive investment opportunities. Operating fundamentals for all major property types continue to improve gradually and capitalization rates decreased in the fourth quarter of 2011 for the sixth consecutive quarter, including in secondary and suburban markets, as investors seeking yield moved beyond Class A properties. North America is currently viewed by investors as the region offering the best real estate investment opportunities, and volatile global markets could lead to international investors increasing allocations to US real estate.

- 2011, particularly the second half, was a difficult year for **hedge funds** globally, with market sentiment gyrating between risk-off and risk-on with high levels of volatility as a consequence of extreme and also highly unusual market conditions that were triggered by the European sovereign debt crisis and accentuated by the political deadlock and brinkmanship in the US leading to its ratings downgrade by S&P. Despite all this, there is substantial evidence that 2012 will continue to see significant institutional funds committed globally to hedge fund investing. While hedge funds underperformed their long-term targets in 2011, they still maintain the ability to generate relatively non-correlated returns, which is a major selling point at a time when virtually all others assets have become increasingly correlated. Clearly investors and funds will seek to learn lessons from the past few months. The signs are that there will be greater allocations to macro strategies along with portfolio insurance, in order to limit risks, with less interest in hedge equities and event driven strategies. Firms that have a good understanding of investors' need for capital preservation while unearthing low-correlation opportunities, will be well positioned in the current climate.

Financial Performance

- Investcorp's fee income in H1 FY12 was $82.0 million, a strong increase on $71.7 million from the same period last year, largely as a result of a significant increase in acquisition and placement activity. Asset-based income for the period declined to $10.5 million from $97.0 million in H1 FY11. This was primarily due to the poor global environment for hedge fund returns. Gross operating income in H1 FY12 was therefore $92.5 million compared to $168.7 million in H1 FY11, and overall net income for H1 FY12 declined to $5.3 million compared to $56.2 million in H1 FY11.

- Fee income in H1 FY12 was driven by a 41% increase in activity fees to $29.7 million as a result of a significant increase in placement activity. Total deal-by-deal placement increased by 117% to $159 million from $73 million (H1 FY11). Management fee income remained stable at $44.2 million (H1 FY11: $44.8 million). Performance fees also increased, despite the negative return environment in hedge funds, as a result of the outperformance of client customized accounts against performance benchmarks.

- Gross asset-based income, including the impact of unrealized changes in fair value of corporate investment and real estate co-investments, fell to $10.5 million (H1 FY11: $97.0 million). Most of this was a result of a decline in hedge fund returns due to the poor environment that led to negative returns across the industry.

- Operating expenses in H1 FY12 were 23% lower at $64.0 million (H1 FY11: $83.2 million), as a result of reductions in fixed operating expenses and lower variable compensation accruals. Interest expense also fell by 21% to $22.9 million as Investcorp's average level of debt continued to decline in line with our plan targeting long-term deleveraging of the balance sheet.

- At December 31, 2011, total assets were $2.7 billion, a decrease of 4% on the position at June 30, 2011. Some cash liquidity and a drawdown of committed forward start facilities have been used to repay maturing medium and long term debt. Co-investment assets have remained steady at $1.9 billion with exits and placement activity offsetting new acquisitions and fair value increases in corporate investment and real estate portfolios. Co-investments as a multiple of book equity increased marginally to 1.9x.

- We maintained ample levels of immediately accessible cash to meet underwriting and operational cash flow. Cash needs for new underwriting of new investments has been reduced by the co-underwriting arrangement with institutional partners that was concluded in June 2011 and provides an additional $250 million of underwriting firepower. Total accessible liquidity was $0.4 billion at December 31, 2011.

- Total liquidity at December 31, 2011 was $1.0 billion, which continues to exceed the amount of term debt maturing over the next two calendar years. Total liabilities remain unchanged, at $1.8 billion, reflecting the drawdown of revolving facilities net of medium and long-term debt repaid during the period.

- Investcorp's credit ratings by Fitch Ratings, Capital Intelligence and Moody's Investor Service have not changed. Updated credit opinions from the rating agencies are expected in H2 FY12.

- Net book equity (including unrealized fair value adjustments) at December 31, 2011 was $1.0 billion. The 7% reduction in book equity from June 30, 2011 primarily reflects the payment of FY11 appropriations approved by shareholders at the Annual General Meeting in September 2011. Our capital adequacy ratio at December 31, 2011 was 23.0% (June 30, 2011: 25.7%), comfortably in excess of the Central Bank of Bahrain's regulatory minimum requirement of 12%.

Investment and Realization Activity

- We took a particularly disciplined approach towards investment activity during the first half of FY12, against the background of a deteriorating global economy. In corporate investment we invested $173.9 million in new investments including the acquisition of Sur La Table and the acquisition of a majority stake in Thought Equity Motion by the Investcorp Technology Partners III Fund. We also facilitated several add-on acquisitions for portfolio companies including eviivo Limited, FleetPride and Veritext. We deployed $94.9 million in six new real estate investments, including three properties that were placed with clients in a Sharia-compliant portfolio US Diversified Properties X Portfolio, a fourth property and two debt investments.

- We made a successful exit of Accuity Inc., a former subsidiary of SourceMedia Inc. An agreement was signed for the sale of Redington International Holding Limited held by the Gulf Opportunity Fund I. In real estate we agreed the highly profitable sale of the W South Beach investment, which was successfully closed in January 2012. Total realization proceeds and other distributions to Investcorp and its clients during H1 FY12 were $412 million.

Portfolio Commentary

- At December 31, 2011 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $862.8 million across 17 portfolio companies. The total co-investment amount represented 45.7% of total balance sheet co-investments at December 31, 2011. The five largest investments represent 64% of the total portfolio and 56% of shareholders' equity at December 31, 2011. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – technology was

$72.1 million at December 31, 2011. Technology Ventures Fund I and Fund II are fully invested. The $500 million Investcorp Technology Partners Fund III, raised in 2008, is currently 55% deployed. The carrying value of Investcorp's balance sheet co-investment exposure in corporate investment – MENA was $19.9 million at December 31, 2011. The $929 million Investcorp Gulf Opportunity Fund I has 47% of its capital called.

- Investcorp's hedge funds co-investment portfolio delivered unlevered returns of -5.7% on our gross exposure of $1.0 billion, including non-recourse leverage, during H1 FY12. This was a consequence of extreme and also highly unusual market conditions triggered by the European sovereign debt crisis.

- At December 31, 2011, Investcorp's real estate co-investments totaled $227 million compared with $188 million at June 30, 2011. This represents 12.0% of total balance sheet co-investments at December 31, 2011, compared with 9.8% at June 30, 2011. Investcorp currently has 23 active real estate investment portfolios, including two debt funds. The $108 million US Mezzanine Fund I and the $176 million Investcorp Real Estate Credit Fund are both fully deployed. A third real estate debt fund is in fundraising and is expected to have a first close in Q3 FY12.

Fundraising

- Total placement and fundraising in H1 FY12 was $735.5 million. Corporate investment deal-by-deal placement was $120.0 million, principally related to Sur La Table, which was acquired in Q1 FY12. We raised $39.1 million through the placement of real estate portfolios. New subscriptions into hedge funds from institutional investors were $576.4 million.

- Total assets under management decreased slightly to $11.6 billion at December 31, 2011 from $11.8 billion at June 30, 2011. Client assets under management decreased to $8.7 billion at December 31, 2011 from $8.9 billion at June 30, 2011 with new fundraising offset by reductions in assets under management from corporate investment and real estate exits and negative hedge funds performance.

- Hedge fund assets under management at December 31, 2011 were $4.6 billion, $3.6 billion from third party clients and $1.0 billion of balance sheet co-investments. 69% of client assets under management were from US institutional investors and 31% from Gulf private and institutional investors. 58% of client hedge fund assets under management are now through customized accounts while the percentage of assets in fund of fund products has continued to decrease to 11% from 16%. Assets under management with single managers stand at 31%.

DISCUSSION OF RESULTS

Net income

Net income consists of (i) **fee income** generated from transactional activity and managing client AUM; and (ii) **asset-based income** earned on Investcorp's corporate investment, real estate and hedge fund co-investments, as well as invested liquidity. Asset-based income includes the impact of unrealized changes in fair value of corporate investment and real estate portfolios.

Income ($m)	H1 FY12	H1 FY11	% change B/(W)
Fee income	82.0	71.7	14%
Asset-based income	10.5	97.0	(89%)
Gross operating income	**92.5**	**168.7**	**(45%)**
Provision for impairment	(0.4)	(0.4)	13%
Interest expense	(22.9)	(28.8)	21%
Operating expenses	(64.0)	(83.2)	23%
Net income	**5.3**	**56.2**	**(91%)**
Earnings per ordinary share ($)	9	88	(90%)

Gross operating income in H1 FY12 was $92.5 million (H1 FY11: $168.7 million). Fee income increased strongly from last year largely as a result of a significant increase in acquisition and placement activity.

The decline in asset-based income to $10.5 million (H1 FY11: $97.0 million) was primarily due to a negative return environment for hedge funds during the second half of 2011, when the European sovereign debt crisis, accentuated by a slowing and more recessionary economic environment, created significant market volatility.

A reduction in fixed operating expenses as well as a lower variable compensation accrual in line with the lower income earned in H1 FY12 led to a 23% reduction in operating expenses to $64.0 million (H1 FY11: $83.2 million). Interest expense also fell by 21% to $22.9 million as Investcorp's average level of debt continues to decline in line with Investcorp's ongoing balance sheet deleveraging plans.

Overall net income of $5.3 million was positive despite a $99.2 million adverse swing in hedge fund asset based income for H1 FY12 compared to H1 FY11.

Fee income

Fee income earned in H1 FY12 increased by 14% to $82.0 million (H1 FY11: $71.7 million). The improvement was driven by a 41% increase in activity fee income from $21.1 million to $29.7 million as a result of a significant increase in placement activity in H1 FY12. Total deal-by-deal placement increased by 117% from $73 million to $159 million. Management fee income remained stable at $44.2 million (H1 FY11: $44.8 million). Performance fees also increased, despite the negative return environment in hedge funds, as a result of the outperformance of client customized accounts versus their performance benchmarks.

Summary of fees ($m)	H1 FY12	H1 FY11	% change B/(W)
Management fees	44.2	44.8	(1%)
Activity fees	29.7	21.1	41%
Performance fees	8.0	5.9	37%
Fee income	**82.0**	**71.7**	**14%**

Asset-based income

Gross asset-based income, including unrealized changes in fair value of investments fell to $10.5 million (H1 FY11: $97.0 million). Most of the decline was a result of negative hedge fund returns in line with the generally negative return environment across the industry. Fair value and capital gains on the corporate investment portfolio increased 90% over last year, driven by the exit of Accuity and continued improvement in underlying operating performance of most investee companies. Real estate related income declined year-on-year as exit gains and distributions of rental income were offset by lower valuations in economically sensitive sectors that were impacted by expectations of a slowdown in the US economy.

Asset-based income ($m)	H1 FY12	H1 FY11	% Change B/(W)
Corporate investments	65.4	34.4	90%
Hedge funds	(58.6)	40.6	>(100%)
Real estate	2.2	13.5	(84%)
Treasury and liquidity income	1.5	8.5	(82%)
Gross asset-based income	**10.5**	**97.0**	**(89%)**

Treasury income includes interest income earned on invested cash liquidity and the impact of hedging decisions on managing interest rate and foreign exchange risk. The decline in treasury and liquidity income reflects the year-on-year fall in average money market and high credit quality short tenor asset yields as well as lower average levels of liquidity carried on the balance sheet.

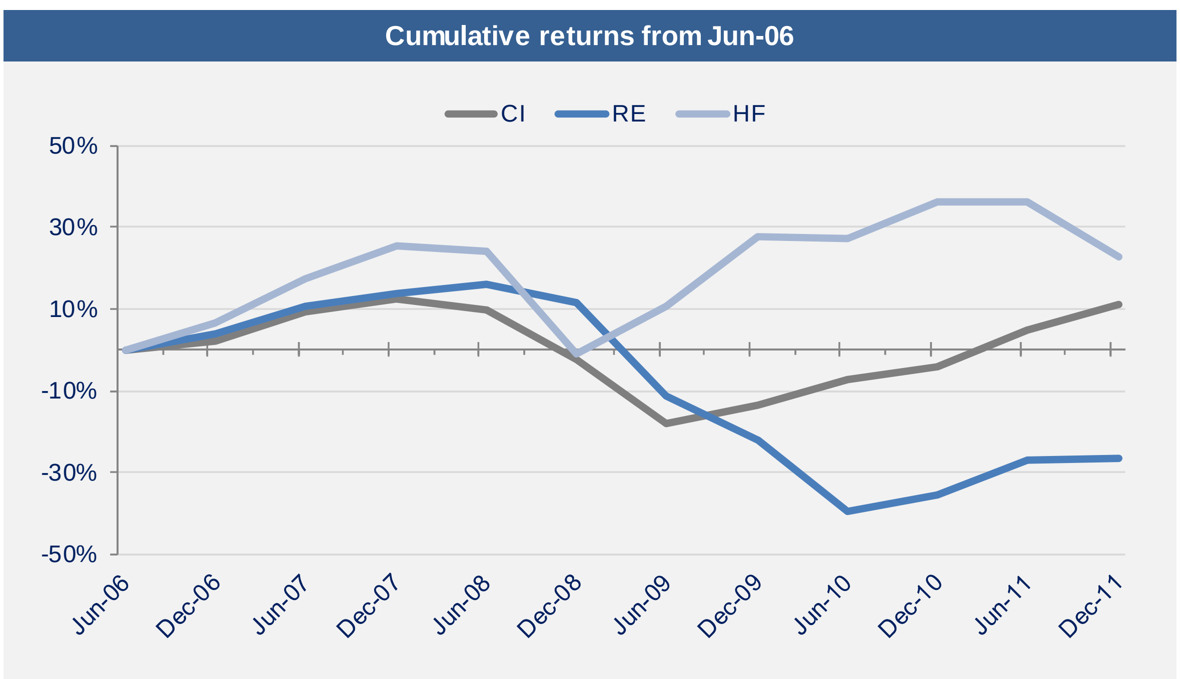
The table below shows the average balance sheet co-investment yield (absolute) for each of the last six half year periods.

Asset yields	H2 FY09	H1 FY10	H2 FY10	H1 FY11	H2 FY11	H1 FY12
Corporate investments	(16.2%)	5.6%	7.2%	3.6%	9.5%	6.1%
Real estate	(20.7%)	(12.1%)	(22.5%)	6.9%	13.1%	1.0%
Hedge funds*	11.9%	15.5%	(0.4%)	7.1%	(0.3%)	(9.6%)
Average co-investment yield**	(4.1%)	3.8%	0.9%	3.8%	4.9%	0.4%

* Non $ weighted, levered returns on net balance sheet co-investment

** Includes treasury and liquidity income

The chart below illustrates the cumulative returns for each asset class since June 2006 on a non-dollar weighted basis.



Cumulative returns for hedge funds over the period from June 2006 were 23%, despite a 10% decline over the last six months ended December 31, 2011 due to adverse global market conditions. Driven by successful exit activity and strong underlying earnings performance across the investee companies, corporate investment returns continued their steady upward trajectory since June 2009 with a 6% return in H1 FY12 and a cumulative return of 11% since June 2006. Real estate returned 1% over the previous six months, with the rental and interest income generated by the portfolio more than offsetting unrealized fair value declines over the period. Although cumulative losses are 26% since June 2006, they are now well above the trough levels seen 18 months ago.

Asset-based income by asset class

The tables below summarize the metrics for asset-based income for corporate investment (CI), hedge funds (HF) and real estate investment (RE):

CI asset-based income KPIs ($m)	H1 FY12	H1 FY11	% Change B/(W)
Asset-based income	65.4	34.4	90%
Average co-investments (excluding U/W)	1,072.0	944.6	13%
Absolute yield for period	6.1%	3.6%	2.5%

HF asset-based income KPIs ($m)	H1 FY12	H1 FY11	% Change B/(W)
Asset-based income	(58.6)	40.6	>(100%)
Average co-investments	630.0	591.3	7%
Non $ weighted returns	(9.6%)	7.1%	(16.7%)

RE asset-based income KPIs ($m)	H1 FY12	H1 FY11	% Change B/(W)
Asset-based income	2.2	13.5	(84%)
Average co-investments	214.1	197.5	8%
Absolute yield for period	1.0%	6.9%	(5.8%)

Interest expense

Total interest expense of $22.9 million in H1 FY12 was 21% lower than H1 FY11. Investcorp's balance sheet deleveraging continued with average interest-bearing liabilities declining by 10%. This reflects the repayment of medium and long term debt facilities over the last year net of amounts drawn from the final tranche of the forward start facility signed in December 2009. The average cost of funding has decreased due to a greater relative proportion of low cost short-term liabilities and given repayment of maturing term debt. This has offset the impact of higher priced term debt facilities that have come on-stream since H1 FY10. Average US$ LIBOR and EURIBOR rates have continued to remain low.

Interest expense ($m)	H1 FY12	H1 FY11	H1 FY12 vs H1 FY11 H/(L)
Average short term interest-bearing liabilities	417	334	83
Average medium & long term interest-bearing liabilities	1,399	1,688	(289)
Average interest-bearing liabilities	**1,815**	**2,021**	**(206)**
Interest expense	22.9	28.8	(5.9)
Average LIBOR rate set (1 month)	0.3%	0.3%	(0.0%)
Spread to LIBOR rate set (1 month)	2.2%	2.6%	(0.4%)
Cost of funding	2.5%	2.8%	(0.3%)

The table below breaks down the impact on interest expense from these two components.

Interest expense variance ($m)	H1 FY12 vs H1 FY11
Due to lower average interest-bearing debt	2.9
Due to decrease in average cost of funding	3.0
Total variance	**5.9**

Operating expense

Operating expenses decreased by 23% from $83.2 million in H1 FY11 to $64.0 million in H1 FY12 due to a combination of reduced fixed operating expenses and lower variable compensation accruals in line with the lower net income for the period. Staff compensation represented 40% (H1 FY11: 51%) of total operating expenses.

Other expenses comprise non-compensation personnel costs (including staff training and recruitment), professional fees paid to external advisors and service providers, travel and business development, and administration and infrastructure costs. Other expenses decreased by 6% to $38.7 million in H1 FY12, primarily as a result of a decrease in professional fees.

Opex metrics ($m)	H1 FY12	H1 FY11	Change
Staff compensation	25.3	42.0	(40%)
Other opex	38.7	41.2	(6%)
Total opex	**64.0**	**83.2**	**(23%)**
Full time employees (FTEs) at end of period	**306**	**307**	**(1)**
Staff compensation per FTE	82.8	136.9	(54.1)
Other opex per FTE	126.5	134.2	(7.8)
Total staff cost / total opex	40%	51%	(11%)
Opex / (net income + opex)	92%	60%	33%

Income by segment

The following table summarizes the revenue contribution of each business segment, showing fee income and asset-based income earned by each business unit.

Summary by business units ($m)	Fee income			Asset-based income			Total		
	H1FY12	H1FY11	Change	H1FY12	H1FY11	Change	H1FY12	H1FY11	Change
Corporate investment	54.4	48.0	13%	65.4	34.4	90%	119.8	82.4	45%
Hedge funds	18.7	16.4	14%	(58.6)	40.6	>(100%)	(39.9)	57.0	>(100%)
Real estate investment	8.9	7.3	22%	2.2	13.5	(84%)	11.0	20.8	(47%)
Treasury & liquidity	-	-	-	1.5	8.5	(82%)	1.5	8.5	(82%)
Revenue contribution	**82.0**	**71.7**	**14%**	**10.5**	**97.0**	**(89%)**	**92.5**	**168.7**	**(45%)**
Operating expenses	(50.2)	(58.0)	13%	(13.8)	(25.3)	45%	(64.0)	(83.2)	23%
Interest expense	-	-	-	(22.9)	(28.8)	21%	(22.9)	(28.8)	21%
Provision for impairment	-	-	-	(0.4)	(0.4)	13%	(0.4)	(0.4)	13%
Net Income	**31.8**	**13.7**	**>100%**	**(26.5)**	**42.5**	**>(100%)**	**5.3**	**56.2**	**(91%)**

Revenue contributions across both corporate investment and real estate investment were positive during H1 FY12. Fee revenues in corporate investment increased due to higher transactional activity. Total hedge fund income in H1 FY12 was significantly lower than in H1 FY11, as a result of the negative return environment. Total income for real estate investment also declined as a result of lower asset-based income, although fee income improved due to increased transactional activity. Net fee income of $31.8 million, a key indicator of Investcorp's overall performance and health, more than doubles (132% higher) compared to last year's level of $13.7 million.

Balance sheet

Key balance sheet metrics are shown in the table below.

Balance sheet metrics	Dec-11	Jun-11
Total assets	$ 2.7 billion	$ 2.9 billion
Financial leverage*	1.6x	1.7x
Liabilities / equity	1.8x	1.7x
Shareholders' book equity	$ 1.0 billion	$ 1.1 billion
Co-investment / equity	1.9x	1.8x
Regulatory risk asset ratio (Basel II)	23.0%	25.7%
Residual maturity - medium & long term facilities	76 months	67 months

* Adjusted for transitory balances

Assets

At December 31, 2011, total assets were $2.7 billion, a slight decrease from the previous fiscal year-end. Some cash liquidity and a drawdown of committed forward start facilities has been used to repay maturing medium and long term debt. Co-investment assets have remained steady at $1.9 billion with exits and placement activity offsetting new acquisitions and fair value increases in investment portfolio.

Assets ($m)	Dec-11	Jun-11	Change H/(L)
Cash & equivalents	247	353	(106)
Other liquid assets *	3	13	(10)
HF co-investments	623	607	16
CI and RE co-investments	1,264	1,311	(47)
Other (working capital & fixed assets)	609	575	35
Total assets	**2,746**	**2,859**	**(112)**
Co-investment assets	**1,887**	**1,918**	**(31)**

* Non-cash equivalent

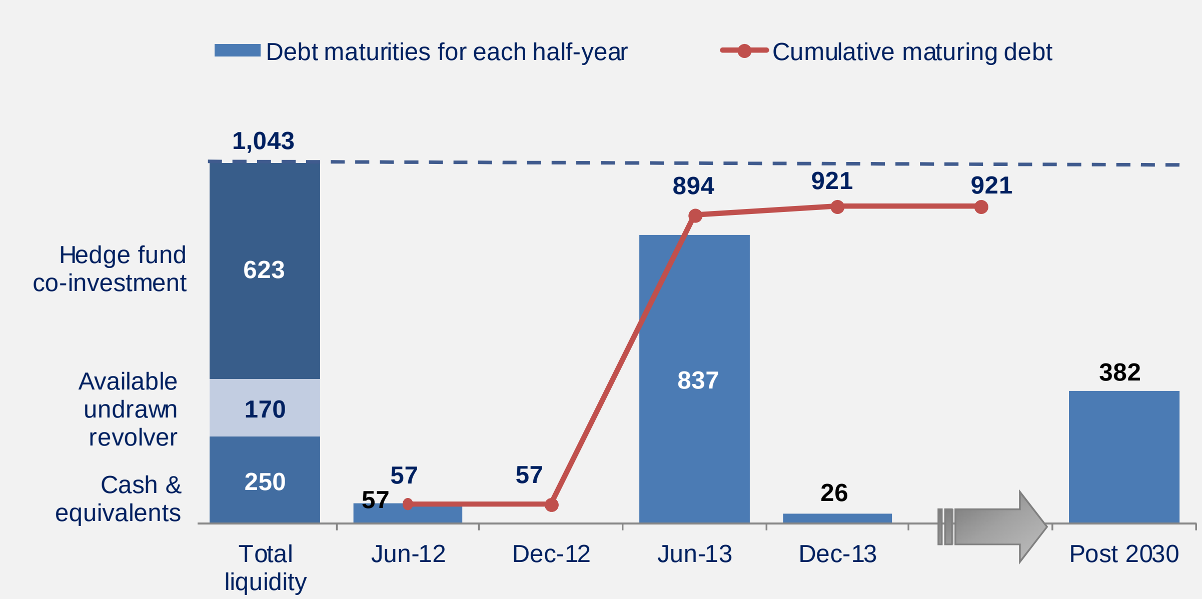
Co-investments in corporate investment, hedge funds and real estate investment as a multiple of book equity increased to 1.9x from 1.8x at June 30, 2011. Investcorp continues to be a significant co-investor alongside its clients in each of the lines of business, accounting for 21% of total AUM at December 2011. Investcorp's long-term target continues to be to focus on growth in client AUM while retaining 5% to 10% in individual investments as a co-investment on the balance sheet.

Liquidity

As part of its liquidity management policy, Investcorp maintains levels of immediately accessible cash to meet its underwriting and operational cash flow requirements. The level of cash required to be held for underwriting of new investments has been reduced by the co-underwriting arrangement with institutional partners that provides an additional $250 million for underwriting firepower. Total accessible liquidity, which includes undrawn revolvers, was $0.4 billion at December 31, 2011.

Total liquidity at December 31, 2011 was $1.0 billion, comprising $0.4 billion of cash and undrawn revolvers and $0.6 billion held in hedge fund co-investments. Approximately 68% of hedge fund liquidity is contractually available within a three month period. The level of total liquidity is in excess of Investcorp's loan covenants which require a minimum of $750 million in total liquidity and also exceeds all medium term-debt repayments due over the next two calendar years. Thereafter, no other debt facilities are due for the next ten years.

Liquidity cover ($m)



Liabilities

Total liabilities remain unchanged, at $1.8 billion, reflecting the drawdown of revolving facilities net of medium and long term debt repaid during the period.

Liabilities ($m)	Dec-11	Jun-11	Change H/(L)
Client & other deposits	302	318	(16)
Medium term debt & deposits	508	523	(14)
Medium term revolvers - drawn	231	158	73
Long term debt	597	575	22
Other	118	225	(107)
Total liabilities	**1,757**	**1,798**	**(42)**

Credit ratings

Below is a summary of Investcorp's current public credit ratings:

Agency	Rating grade	Comment
Capital Intelligence	BBB+ Stable Outlook	Rating and outlook confirmed in March 2011
Moody's Investors Service	Ba2 Negative Outlook	Rating and outlook confirmed in March 2011
FitchRatings	BB+ Negative Outlook	Rating and outlook confirmed in February 2011

Fitch and Capital Intelligence affirmed Investcorp's credit ratings in early 2011 and issued detailed credit opinions, citing solid capital, a strong return to profitability and diversified sources of funding. Moody's credit rating also remained unchanged following the release of their credit opinion in March 2011. Updated credit opinions from all three rating agencies are expected in H2 FY12.

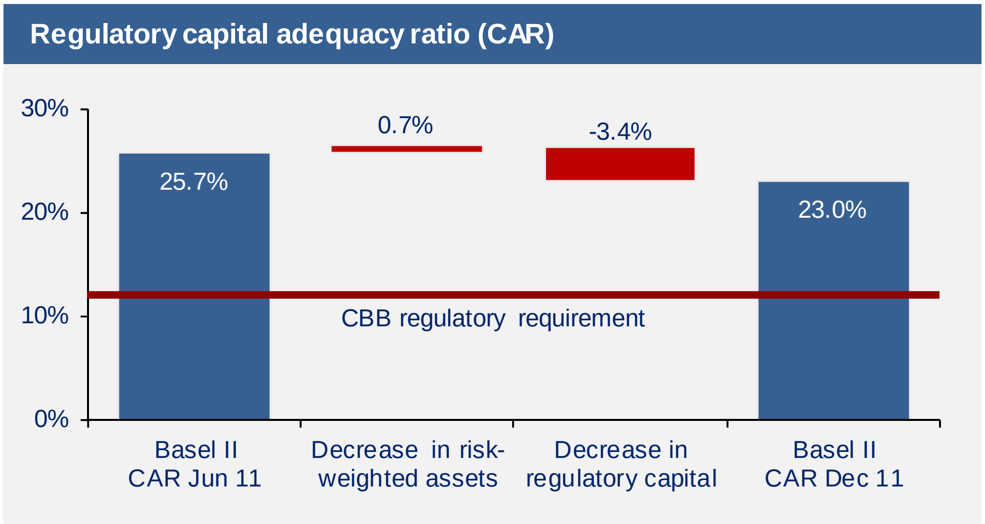
Book equity

Net book equity (including unrealized fair value adjustments) at December 31, 2011 was $1.0 billion. The 7% reduction in book equity from June 30, 2011 primarily reflects the payment of FY11 appropriations, including dividends, that were approved by shareholders at the Annual General Meeting in September 2011.

Equity ($m)	Dec-11	Jun-11	Change H/(L)
Ordinary shareholders' equity	456	443	12
Preference share capital	511	511	-
Proposed appropriations	-	75	(75)
Fair value & revaluation adjustments	22	31	(8)
Net book equity	**990**	**1,060**	**(71)**

Regulatory capital under Basel II

The Basel II capital adequacy ratio (CAR) at December 31, 2011 was 23.0% (June 30, 2011: 25.7%), comfortable in excess of the Central Bank of Bahrain's (CBB) regulatory minimum requirement of 12%.



The Basel III accord includes measures to strengthen the quality and amount of capital, reduce leverage, and focus on the adequacy of 30-day liquidity coverage. If the proposals are implemented in their current form by the CBB, we do not believe that they would impose additional requirements on Investcorp's liquidity.

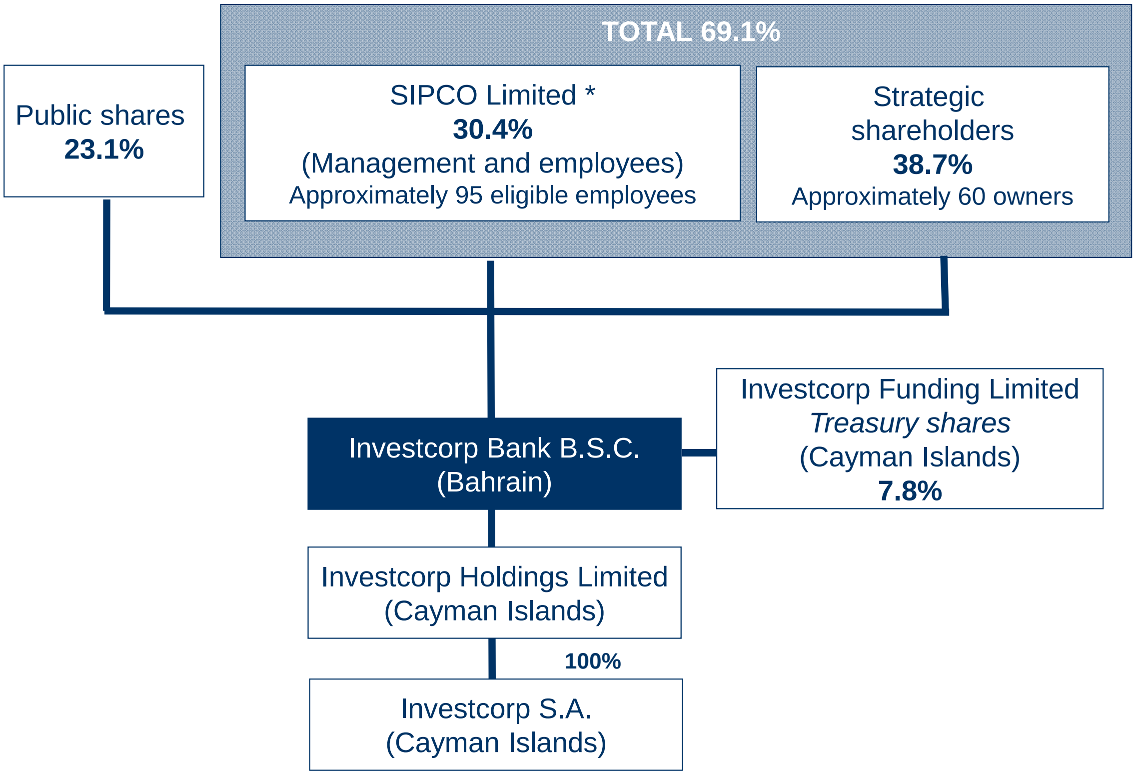
The relevant risk weights across each asset category, applied at December 31, 2011 are summarized below and have not changed during H1 FY12.

Asset class / segment	Basel II methodology Dec '11	Basel II risk weight Dec '11
Corporate investment	Standardized Approach ("STA")	150%
Real estate	Standardized Approach ("STA")	200%
Hedge funds	Banking Book ("STA")	150%
CI & RE underwriting	Standardized Approach ("STA")	100%
Operational risk	Basic Indicator Approach ("BIA")	15%

In addition to regulatory capital adequacy, Investcorp assesses the adequacy of economic capital needed to support the business objectives of each business line. Various risk models are used to determine the economic capital needed to cover unexpected losses from investment or other risks and sustain the bank's activities within a determined risk tolerance level and through unfavorable investment environments. This internal economic capital approach complements the regulatory capital requirement, as defined by the CBB, which is based on the Basel II Accord.

Shareholder base

At December 31, 2011, Investcorp remains a management-controlled company, with management controlling the voting of 69.1% of Investcorp's ordinary shares in concert with strategic shareholders. The public float of 23.1% is split between owners holding 22.8% in ordinary shares on the Bahrain Bourse, and 0.3% of beneficial ownership held in the form of unlisted GDRs.



*Includes 13.7% in shares that are held for future sale to management under the SIP plan. The Group has approval from the Central Bank of Bahrain ("CBB") to hold up to 40% of shares for the SIP plan. On the balance sheet these shares are accounted for as the equivalent of treasury shares.

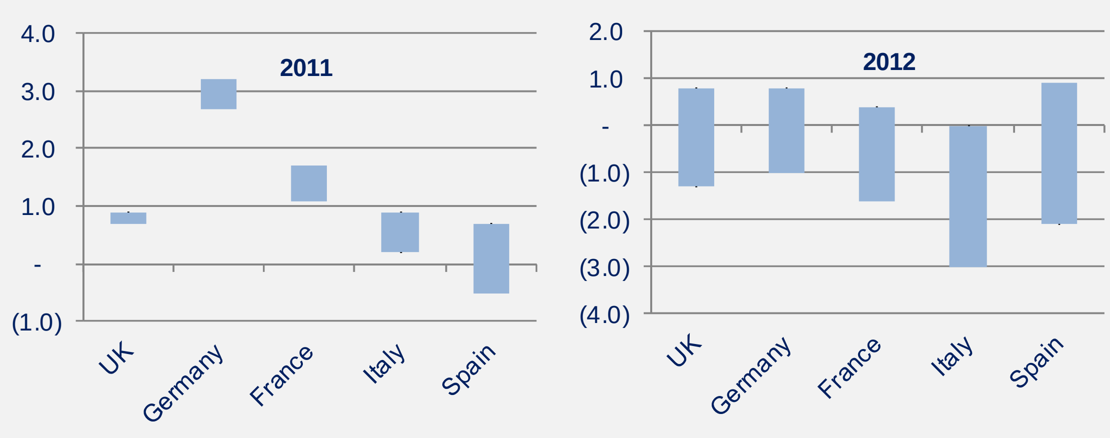
MARKET CONTEXT

The global economy

The second half of calendar 2011 saw a significant deterioration in the global economy, triggered by an intensification of the Eurozone sovereign debt and banking crisis and the policy gridlock in the United States with S&P cutting its triple-A credit rating. The appointment of new technocratic governments in Greece and Italy in November, and the EU leaders 'fiscal compact' in December, was generally seen as progress. However, with the recent credit downgrades of many Eurozone countries, including France, and with uncertainty over Greece's debt restructuring, market sentiment remained volatile. Nevertheless, the European Central Bank's December decision to offer €489 billion in three-year liquidity to the banking system, with a second LTRO (Long-term Refinancing Operation) auction due shortly, has for the moment significantly improved market sentiment, with government bond yields in Italy and Spain starting to fall from stressed levels. Financial markets will nonetheless remain susceptible to changing perceptions of the momentum in tackling the debt crisis, with key forthcoming events including the March EU summit on the fiscal compact, the establishment of the permanent European Stabilisation Mechanism by July, the further evolution of the Greek situation and fiscal measures in other EU states.

As a result of these negative ripples from the Eurozone, forecasts for global growth in 2011 and 2012 were significantly downgraded at the end of 2011, with global 2011 growth now expected to be only 3.2%, compared with earlier predictions of 4%.

Eurozone GDP growth forecasts in % (Hi-Lo forecasts)



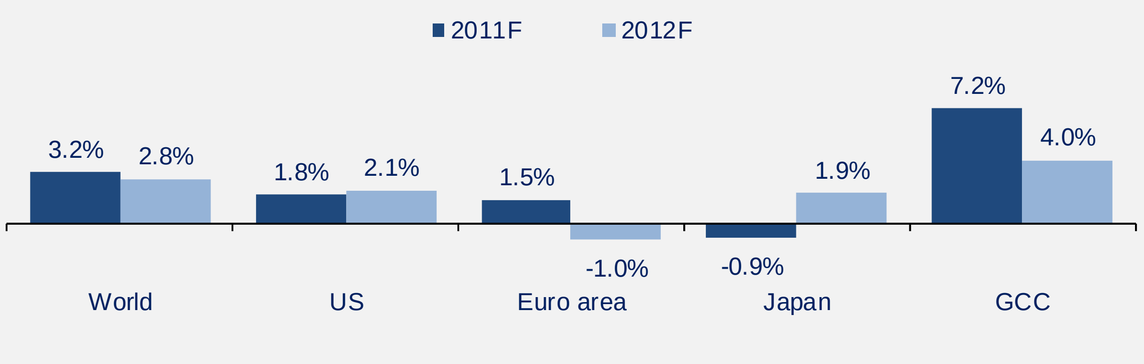
Source: The Economist, poll of forecasters January 2012

Within the Eurozone, fiscal and credit tightening and a sharp drop in economic confidence pushed the region back into recession in the last quarter of 2011. 2012 now seems set to bring a predicted 1% decline in GDP compared with earlier forecasts of 1% growth. While some countries are more badly affected, the downturn is affecting all EU economies. This includes Germany, which recorded strong growth of around 3% for 2011 as a whole, but is believed by forecasters to have seen GDP fall slightly in Q4. Economies closely linked to the Eurozone core, such as Sweden and central/eastern Europe, are expected to experience a sharp slowdown and the UK could have fallen back into a shallow recession.

In the US, by contrast, economic performance was better than expected over the final few months of 2011, showing increased job creation, stronger manufacturing and services activity, and an improvement in consumer spending. January brought encouraging US jobs data, and disposable incomes are now predicted to rise 3% in 2012 due to faster wage growth and lower inflation, which will underpin growth in consumption and GDP of around 2%. US growth will remain constrained by high consumer debt levels and high unemployment and the housing sector is likely to remain a drag on the economy, with up to 40% of households with a mortgage in negative equity. In addition, the presidential election makes it unlikely that there will be any progress on the US's long-term fiscal position during this calendar year, but the unwinding of some stimulus measures will create some fiscal drag, with public-sector deleveraging also dampening the economy.

Current conditions make forecasting the direction of the global - and US - economy particularly challenging, with *The Economist* poll of forecasters in February showing a range of forecasts for US 2012 growth from 1.3% to 2.5%.

Global GDP growth forecasts



Source: IIF and IMF

Emerging market economies are likely to see healthy but lower growth in 2012 predicted at 5.4%, compared with 6% in 2011 and 7.2% in 2010. Falling inflation in 2012 will give emerging market central banks, which have been focused on tackling inflation, some more scope for supportive policies. However, the Euro crisis has also put the market spotlight on high government debt levels in some emerging markets. Japan rebounded post-Tsunami with a V-shaped recovery and it is thought that the coming year should see steady growth, though it is noteworthy that Japan's trade balance was in deficit in 2011 for the first time since 1953.

After a period when investors had been highly risk-averse, January 2012 saw a sharp change in investor sentiment, with a broad recovery in global markets that saw 45 out of 46 equity markets advance and investors thus regaining 60% of 2011's losses. Risk appetite could however once again be affected by developments in the sovereign debt crisis and by heightened geopolitical risks that could have potential implications for oil prices. This backdrop, together with lower global inflation and relatively modest growth, means for example that US Treasury yields are forecast to stay in their current range over 2012, with Government bond yields rising only modestly by year end. We believe these exceptionally low yields on 'risk-free' assets, combined with an improvement in market sentiment will stimulate international investors to continue to put a portion of investments to work in alternative assets which are at least partially de-correlated with macroeconomic risks.

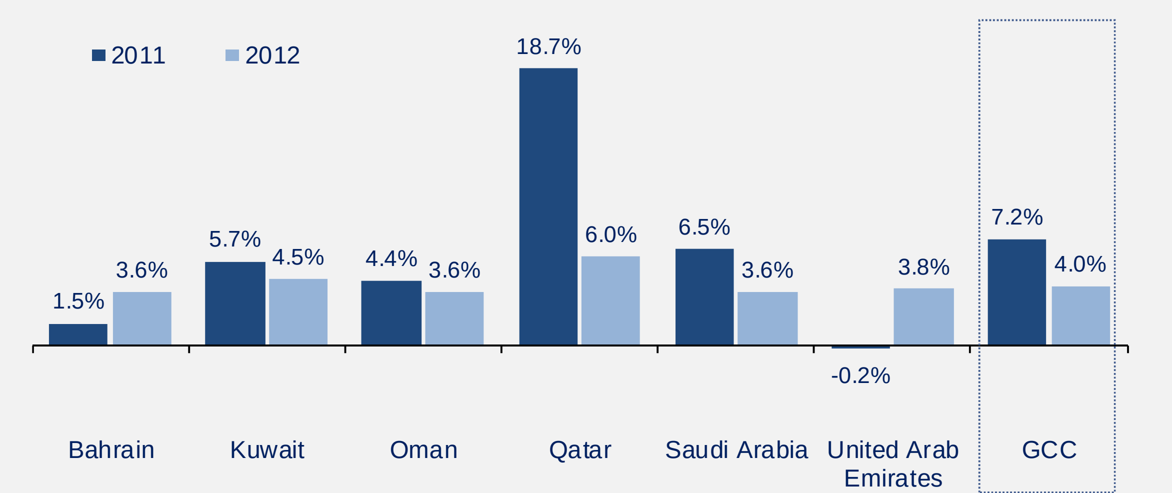
With economies expected to show signs of improvement from mid-2012, early forecasts for 2013 foresee global growth rebounding to 3.7%, led by a modest recovery in Europe and a reacceleration in emerging markets. This positive medium-term outlook is expected to provide additional incentives for investors to continue to invest selectively in the coming year in appropriately-priced alternative investment opportunities.

The Gulf

The six economies of the Gulf Cooperation Council (GCC) are expected to grow by 4% in 2012, following 7+% growth in 2011, with any negative economic impacts resulting from the Arab Spring offset by high oil prices and increased government spending.

While the near-term growth rate in Kuwait is expected to remain similar to 2011, slower growth is forecast for Saudi Arabia in the coming year. In addition, reflecting lower increases in LNG production, Qatari growth will drop back to around 6%, after the exceptional 15-20% growth rates of the years 2006-11. Bahrain is likely to see growth accelerating to around 3.6% in 2012, well above the 1.5% growth experienced in 2011.

GDP growth in GCC countries



Source: IMF and national authorities

With inflation pressures now relatively modest, GCC countries have continued to extend social and employment programs to help spread the benefits of economic growth. Overall, Arab oil-exporting countries increased government spending by an average annual growth of 17% between 2004 and 2012.

Oil demand is likely to remain relatively strong in 2012, with emerging markets compensating for weak demand from developed economies. In 2011 Saudi Arabia, the UAE and Kuwait stepped up production temporarily, reacting to shortfalls in Libya and to high prices. Global oil demand is, however, forecast to rise by a relatively modest 2% annually in the 2013-16 period, with a resumption of Libyan production likely to add to supply.

Global oil supply and demand (mbpd)

	2010	2011	2012
Demand (mbd)	***88.3***	***89.0***	***89.9***
OECD	46.2	45.7	45.4
Non-OECD	42.1	43.3	44.5
BRIC	18.4	19.2	19.9
Supply	***87.4***	***88.3***	***89.9***
OPEC (crude)	29.5	29.8	29.9
Saudi Arabia	8.1	9.0	9.3
Libya	1.6	0.5	0.9
OPEC NGLs	5.4	5.8	6.2
Non-OPEC	34.8	35.7	36.1

Source : IIF, IEA and IIF estimates, OECD

Oil price predictions for 2012 have moved upwards recently as a result of rising geopolitical tensions. As a result, the GCC current account surplus in 2012 is predicted to rise to $279 billion, compared with $163 billion in 2011.

Oil price forecast

	WTI ($/b)	Brent
2012	111.0	115.0
2013	125.0	125.0
2014	131.0	130.0
2015	137.0	135.0
2020	185.0	184.0

Source: Barclays Capital

The public targeting of a $100 price by Saudi Arabia at the beginning of 2012 will stimulate considerable debate in oil importing and exporting countries. There is some speculation about whether oil prices could be held back in the medium-term by the development of non-conventional petrochemical extraction in other regions, as has happened in the US. Break-even oil price levels for GCC budgets have continued to increase, with the Saudi break-even price poised to hit $98 in 2012. The break-even weighted average for the GCC as a whole increased from $55/barrel in 2008 to $80/barrel in 2011.

Sovereign credit spreads for GCC countries are lower than in early 2011 but still above pre-crisis levels. Rising debt levels in some regional markets are being monitored by investors.

Dubai faces heavy debt refinancing in 2012, totalling 13.4% of GDP. However, markets have been encouraged by Dubai's return to the capital markets in 2011, and by the indications from the Dubai Government of support for government-related entities, should debt refinancing be affected by market conditions. Successful bond issues by Bahrain and Qatar in recent months have also reinforced positive sentiment. The UAE banking sector in particular is in a much stronger position than in 2008 to withstand a global downturn. The real estate market in UAE appears to have reached a floor, and, although non-performing loans could rise further, deleveraging is continuing to progress with banks rebuilding balance sheets.

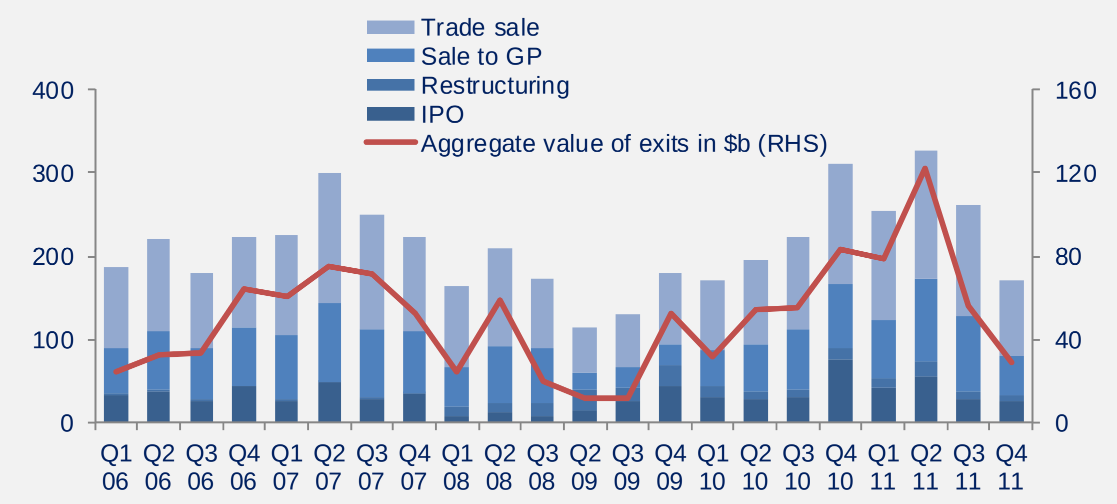
Given current economic and geopolitical challenges, GCC governments are concentrating on extending economic prosperity for their populations, along with an enhanced commitment to regional security, which is likely to include further increases in military spending. This natural focus on the immediate policy agenda was underlined by the decision at the recent GCC summit to put aside, for the present, planning for a customs union and progress towards a single currency, and to provide significant financing to Jordan and Morocco rather than potentially extending membership to them.

Business Environment

Corporate investment – North America and Europe. Private equity as an asset class had its strongest year for transactions globally since 2008 in 2011, though with a slowdown in the second half. Within this global picture, private equity investment in Western Europe fell 14% to $82 billion, whereas in the US it grew 8% to $128 billion. The intensification of the Euro crisis, together with a somewhat stronger US economy, is expected to lead to divergence in US and European private equity trends in 2012, reflecting the different business conditions.

Exits in the sector dropped in the fourth quarter of 2011, but with midmarket exits more active than mega-deals for which the exit market has largely closed. Exit activity is still well above immediate post-crisis levels. The number of potential candidates for exits is high, as exits slowed in the recession and holding periods have been increasing for several years. For example, in the US there are 4,000 private-equity owned companies that have been held for longer than three years and over 2,000 held longer than five years.

Global private equity-backed exits



Source: Preqin

Competition for new deals, with many funds commitment periods reaching their end, will drive up purchase price multiples, necessitating continued discipline in finding and acquiring new attractive investments.

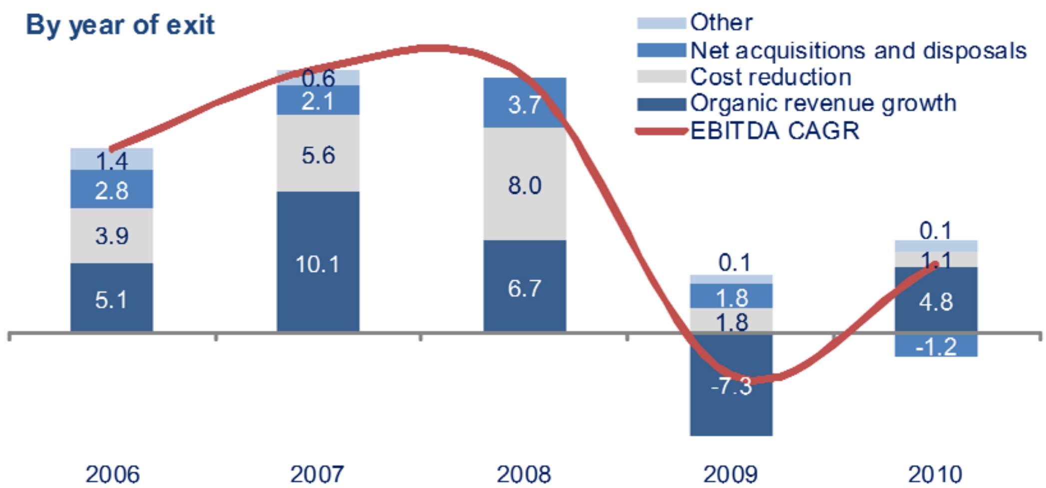
With purchase price multiples at nearly all-time highs, PE investors are not only required to write larger equity checks, but as uncertainty surrounds the debt markets, they are also forced to put in higher percentages of equity to finance deals. Globally, leveraged loans issued in the fourth quarter of 2011 stood at $170 billion, the lowest since the third quarter of 2010.

Financial deleveraging, especially in existing European portfolios, is expected to continue and may become increasingly important if growth slows.

Research on PE outperformance

Recent research has documented the outperformance of private equity over the cycle, compared to public companies. Ernst &Young's latest study shows that gross returns from European private equity exits are three times public company returns. The analysis demonstrates that, even in the period 2008-2010, private equity exits were still able overall to generate positive returns due to the ability to add value though operational improvements and organic revenue growth.

Sources of EBITDA growth from 2006 to 2010 (%)



Source: Ernst & Young

Lower leverage will impact ex-ante return expectations from new investments (albeit with a lower level of inherent financial risk), but the desire to invest in private equity as an asset class remains high, given its track record of attractive, non-correlated returns over the economic cycle. A spectrum of mid-market companies in the US and Europe have the potential to out-perform the broader economy, given the backing of an active, experienced private equity owner with the experience and capability to drive operational improvements, rooted in a clear strategy to create value.

Corporate investment – Technology. In 2011, strategic buyers within the IT sector, fuelled by cash resources and the need to maintain leadership positions, drove the increase in mergers and acquisitions in the sector by 44% to $223 billion, the highest level since 2007. This is expected to stay in place in 2012. Corporate spending on IT continues to increase, driven by automation, efficiency and regulation. Increasingly integrated consumer eco-systems using the internet are fuelling demand for products and services. Meanwhile enterprise-focused technology conglomerates are dramatically broadening their product ranges. Social media and mobile applications are growth areas for both enterprise and consumer, and the speed of disruptive change is forcing companies to consider 'large bets'. High operational leverage gives large IT corporates the cash resources to fund acquisitions, while they will also seek to divest non-core assets.

Given the macro economic backdrop, 2012 may however be characterized by smaller, midmarket deals. Consolidation, especially in Europe's fragmented technology sector, as well as the desire to acquire new technology is expected to drive activity. Despite some recent high multiples, sellers' expectations are likely to become more realistic, not least as many technology-centric PE funds need liquidity events to raise new funds. Given the lack of debt finance, those with cash, in the corporate and private equity worlds, will be superiorly positioned. Meanwhile smaller public companies will increasingly be open to take-private offers, given the lack of public market liquidity and access for such companies. The exit environment for PE-backed technology companies is likely to remain focused on trade sales and secondaries, with recent financial market conditions having dented the tentative revival of the IPO market.

Sub-sectors in which investment activity may be concentrated include software, cyber security, smartphones, semiconductors and intellectual property.

Corporate investment – MENA. In terms of private equity activity in the Middle East, the number of deals declined significantly between 2010 and 2011. According to a Zephyr database, only 11 private equity deals took place in 2011, compared with 24 in 2010.

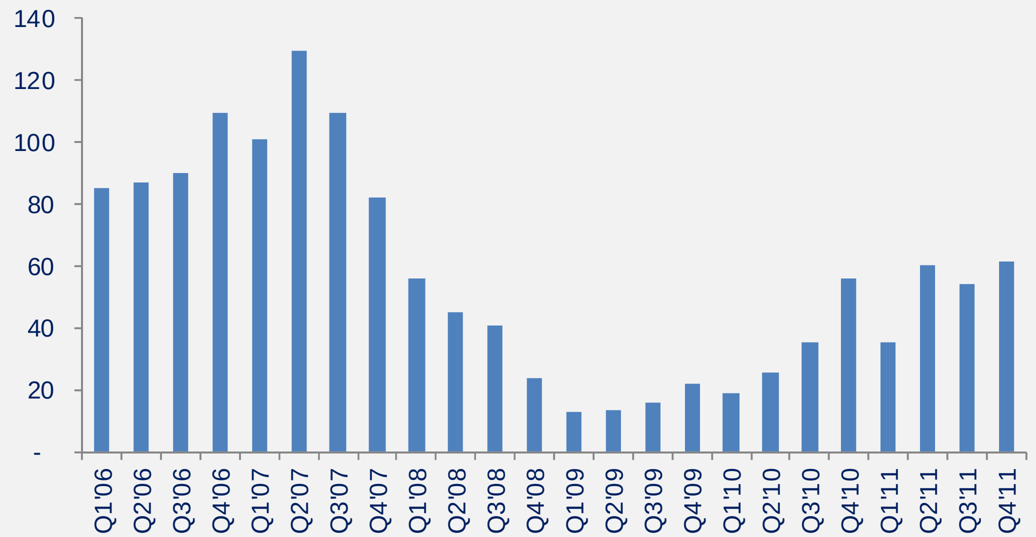
While GCC growth remains firm, political factors and the higher oil price are having a strongly negative effect on oil-importing MENA countries, with 2012 economic performance set to be the worst for a decade. Governments face a complex task in undertaking tough economic reforms while managing high public expectations and financing very challenging budget needs. Turkey remains in a strong economic position, but partly due to the impact of the Euro crisis, growth in 2012 is predicted to be less than half that of 2011.

Lack of liquidity on regional stock exchanges remains a challenge for the regional private equity industry, with exchange turnover ratios still well below pre-2008 levels. Recent Saudi market liberalization moves have been welcomed, but there is unlikely to be a regional IPO exit market for some time.

The competitive landscape has changed somewhat as many local private equity firms have been constrained by internal issues and portfolio performance. In addition, some global players that had expanded heavily into the region have now retrenched. As a result, valuations in the GCC, and broadly across the MENA region, remain attractive. The resurgence of credit markets, particularly in the GCC, should enable private equity firms to transact leveraged investments to acquire larger companies and bolster returns. In both the GCC and the broader MENA markets, strong mid-market companies will continue to be able to outperform, and financing their growth will produce investment opportunities for investment firms who combine strong resources and patience with unique market insights and relationships.

US real estate. The market has continued to stabilize, with investment transaction activity in calendar 2011 up 91% over 2010. This was mainly due to significant volume in the first half of 2011, with a slight slowdown in the second half. The recovery remains mainly concentrated in high quality assets in major markets with reliable cash flow. Volatile global markets could lead to international investors increasing allocations to US real estate.

Transaction volume is increasing but growth is moderating ($b)

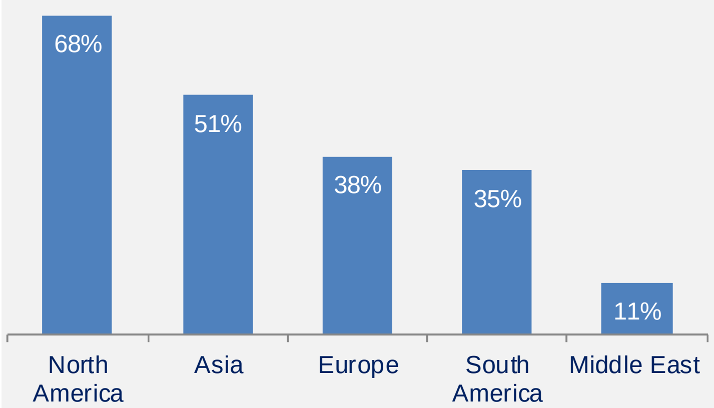


Source: Real Capital Analytics (Properties of at least $5m)

Debt finance is becoming more available. Debt spreads have widened recently, but are well below crisis levels. High levels of maturing real estate loans (circa $2 trillion from 2012-18) will trigger acquisition opportunities for advantaged buyers. CMBS, despite current depressed conditions, is likely to continue to play a role in real estate capital markets, providing attractive investment opportunities. Real estate debt issuance in 2012 is now predicted to be flat on 2011 at $35 billion, due to a slowdown in origination.

Operating fundamentals for all major property types continue to improve gradually. Vacancies declined in the third quarter of 2011 in most sectors with the exception of retail. Capitalization rates decreased in the fourth quarter of 2011 for the sixth consecutive quarter. Capitalization rates are now also decreasing in secondary and suburban markets as investors seeking yield also moved beyond the safety of Class A properties.

Regions viewed as best real estate opportunities



Source: Preqin

Office markets with a strong technology or energy emphasis have been attracting investor interest, whereas government cutbacks are leading to a more cautious approach to government-dependent cities.

Hedge funds. 2011, in particular the second half, was a markedly difficult year for hedge funds globally, as a consequence of extremely volatile and unusual market conditions triggered largely by the Euro crisis. In the second half of calendar 2011 the HFRI Fund of Funds Index fell by 5.3%.

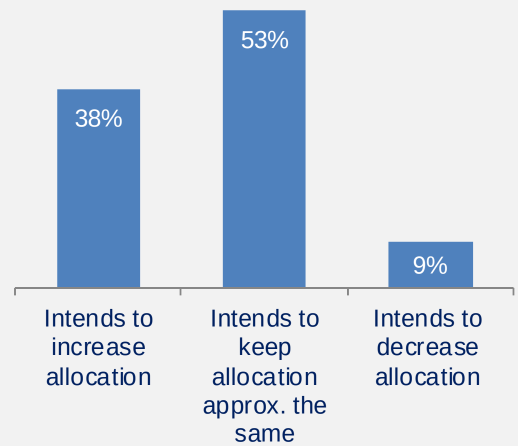
From April 2011 onwards two major factors made it difficult to generate positive returns. First, there was high volatility but low returns, either negative or positive; there were no clear trends as market conditions were infected with 'random volatility'. Second, asset classes became highly correlated, moving up and down together and making it very challenging to generate returns by going long or short.

The second half of 2011 was therefore exceptionally challenging, with quantitative-based funds performing particularly badly. Consequently, a number of hedge funds, especially in Asia and the USA, closed with prominent fund managers featured in the media explaining significant losses. Some 40% of investors saw lower-than-expected returns in 2011.

Despite the lower returns, there is substantial evidence that 2012 will continue to see significant institutional funds globally committing incremental assets to hedge fund managers. The background lies in the extremely low yields across asset classes, which makes finding positive returns very challenging. While hedge funds underperformed in 2011, they still maintain the ability to generate non-correlated returns, which is a competitive advantage at a time when virtually all other assets have become increasingly correlated.

Strikingly, according to a recent survey 38% of global institutional investors plan to increase their allocation to hedge funds. 53% will be keeping their allocation about the same and only 9% are planning to reduce their allocation.

Institutional investors' hedge fund allocation plans



Source: Preqin

Clearly investors and funds will seek to learn lessons from the past few months. Investors may be slower to commit funds, with more drawn out due diligence processes. Further bouts of the Euro crisis - which are difficult for fund managers to quantify - may slow investment flows. Many investors will seek additional routes to limit risk, particularly from sudden market dislocations, while committing to hedge funds with their capacity for non-correlated returns. The signs are that there will be greater allocations to macro strategies along with portfolio insurance, in order to limit risks, with less interest in hedge equity, event driven and distressed strategies. Firms with a good understanding of investors' needs for capital preservation, while unearthing low-correlation opportunities, will be well positioned in the current climate. Furthermore, with investors more focused on their liquidity during a stressed period, there is likely to be a further shift to investment through managed accounts, providing investors with greater transparency and reduced gating risk.

Investor redemptions for December were in the usual range for the year-end. Projections suggest that that the industry's total assets could in 2012 again hit the pre-crisis total of $2.6 trillion as a result of heavy inflows from institutional investors over the next 12 months.

INVESTMENT ACTIVITY

We have taken a particularly disciplined approach towards investment activity during the first half of FY12, against the background of a deteriorating global economy. Alternative investments continue to be able to generate alpha in a portfolio through long-term value creation, but rigorous evaluation combined with creative sourcing is more necessary than ever to find those investments that we believe are capable, ultimately, of meeting the requirements of our clients for superior returns with a controlled and well managed risk profile.

Corporate investment – North America & Europe. Overall, we have continued to target European and North American businesses in the middle market that have strong cash flow characteristics and are leaders in high growth sub-sectors in their industries. Specifically in Europe we have been focusing on businesses that have international growth prospects outside the Eurozone and also looking out for opportunities where good companies are being sold in distressed situations. In addition, we continued to look for opportunities to support growth of businesses in our current portfolio through add-on acquisitions. Generally, the macro environment and reduced availability of debt-financing makes finding opportunities that meet our risk/return profile more challenging, particularly since purchase multiples continue to be quite high. However, we believe that our sector specialization provides us with insight that enables us to define superior risk/return profiles with particular precision. We deployed $146.1 million in this sector during the first half of FY12.

Corporate investment – Technology. The technology investment market has been active, but is still an attractive buyers' market, and we have continued to look for opportunities to make control investments in profitable and growing small to medium-sized European and North American technology companies through growth buyouts, corporate carve outs or take private transactions. We have also supported growth through acquisitions by businesses in our current portfolios and we saw a number of opportunities that fit our investment criteria although it is necessary to scrutinize opportunities carefully to identify sustainable businesses that are priced appropriately. In this sector Investcorp deployed $39.1 million during the first half of FY12.

Corporate investment – MENA. We continued to evaluate minority and majority investment opportunities in the MENA region, looking in particular at opportunities in Saudi Arabia, the United Arab Emirates and Turkey. We have used the advantage of our long-standing Gulf regional experience to screen opportunities rigorously and mitigate risks through extended due diligence. We particularly targeted companies with proven business models and growth prospects in defensive industries such as healthcare, transportation and retail. We also worked in partnership with our management teams to improve operations and evaluate and execute add-on acquisitions to create value in our existing portfolio companies.

Real estate investment. Transaction volume in US commercial real estate has been solid in the first half of this fiscal year. We have looked for equity and debt investments in sectors and markets in the US where we felt good risk-adjusted returns remained achievable and we have found opportunities in both. Generally asset prices are thought to have hit bottom in most major markets and operating fundamentals for all property types have continued to improve. We have focused on assets generating strong cash flow yields, a strategy that is well suited to the gradually stabilizing market. In equity investment, we targeted high quality and stable assets, often in overlooked real estate markets, where these were attractively priced. In debt investment, we investigated opportunities to originate or acquire mezzanine debt and subordinated debt that could deliver attractive risk-adjusted returns and saw an increase in sellers of existing debt positions and opportunities to originate subordinated debt. Overall, in this sector Investcorp deployed $94.9 million of acquisition capital during the first half of FY12.

Investments

In Q1 FY12, we closed on the $146.1 million acquisition of **Sur La Table**, a leading national kitchenware retailer with locations across the United States, a transaction that was agreed in June 2011. Sur La Table has its headquarters in Seattle. It is a multi-channel retailer that has over 80 stores in the United States, but also sells through its widely distributed catalog, through its web site and through a gift registry. It sells a broad selection of kitchenware brands and products for the preparation and presentation of cooking. In addition, the company provides the largest avocational culinary instruction program in the United States, teaching more than 100,000 cooking enthusiasts a year while at the same time building customer relationships and solidifying its reputation as an authority in cooking and entertaining. This direct investment was fully placed with clients during Q2 FY12.

In December 2011 the Investcorp Technology Partners III Fund agreed to acquire a significant minority stake in **Thought Equity Motion**, the leading provider of cloud-based video management and footage licensing services, based in Denver, Colorado, USA, in a transaction that closed in early January 2012. Thought Equity Motion provides its services to large production houses and content owners and has clients including the BBC, Paramount Pictures, Sony Pictures Entertainment, National Geographic and the NCAA. The company digitizes and hosts material such as sports, news and entertainment content for clients that was previously stored on analogue tapes, and provides a platform that enables them to access their content digitally. It also arranges for them to license the content to third parties under royalty sharing agreements. The Fund invested a total of $27.7 million, making it the largest single shareholder in Thought Equity Motion.

There were two further investments through the Investcorp Technology Partners III Fund during the first half. These were both follow on investments in **eviivo Limited** totaling $7.1 million. Also during the period, the team invested $4.2 million in follow-on investments in **Kentrox Inc.** and **Zeta Interactive Corp.**, through the Investcorp Technology Ventures II Fund.

The Investcorp Gulf Opportunity Fund I provided a follow-on investment in **Tiryaki Agro**, the leading trader and supply chain manager of agro products in Turkey.

In real estate we made six new investments during the first half of the fiscal year. In September 2011, Investcorp made a $11.4 million real estate investment in **The Ashford**, a garden and townhouse multi-family community of 15 residential buildings containing 221 units, located in Atlanta, Georgia. In October 2011 we made two investments - $13.1 million was invested in **Bethesda Health City**, a 133,000 square foot medical office building in Boynton Beach, Florida and $10.7 million was invested in **Park Tower** a 120,000 square foot multi-tenant office building in Long Beach, California. All three properties were selected for their strong and stable cash flow profiles and ties to growing metropolitan communities and above-market cash yields. They were combined to form the Sharia-compliant **US Diversified Properties X Portfolio**, which saw strong demand and was fully placed with investors during November and December.

In November 2011, a $10.8 million investment was made in **The Sheffield**, a 400 unit multifamily property in Dallas, Texas which will form part of the next Sharia-compliant debt placement. In line with Investcorp's business strategy to be an active player in both debt and equity investments in US commercial real estate, we purchased, also in November 2011, two existing mezzanine loans with a principal balance of $40.1 million backed by the **Paramount Hotel**. The Paramount is an historic 20-floor hotel with 597 boutique-style guestrooms in the prime location of New York City's Times Square that was built in 1928 and most recently refurbished in 2009. In December, we acquired a $8.9 million mezzanine loan secured by **Arundel Mills**, a Hilton Garden Inn/Homewood Suites branded property of 250 hotel rooms and extended stay suites in Hanover, Maryland that will form part of a debt portfolio placement in February 2012.

Several companies in our corporate investment portfolio made add-on acquisitions to grow value as part of their investment strategies. Such add-on acquisitions enable the companies to grow revenues for example, by developing market share, by entering new markets and geographies, or by extending services or product range.

In August and September 2011, **FleetPride**, the US's largest independent distributor of aftermarket heavy duty truck and trailer parts, made two acquisitions: Interstate Turbo Supply and McDowell Truck Parts. In August 2011, an investment was made through Investcorp Technology Partners III Fund, in **OpSec Security Group**, with the successful completion of a tender offer to increase the Fund's overall ownership to a controlling position of 54.1%. In October 2011, **TelePacific Communications**, a leading provider of integrated voice and data telecommunications services to the small and medium-sized business market in California and Nevada, acquired TelWest. In November 2011, **Veritext**, the leading national provider of deposition and litigation support services to law firms, Fortune 500 corporations, and regulatory agencies in the United States, acquired Sarnoff Court Reporters. In December 2011 an Investcorp Gulf Opportunity Fund I portfolio company, **Gulf Cryo**, a manufacturer of specialty gases in the Middle East, closed on the acquisition of an industrial and medical gas company in Jordan, International Industrial and Medical Liquid Gas Company. No additional equity from Investcorp or its investors was required to complete these acquisitions.

REALIZATION ACTIVITY

There were a number of profitable exits during H1 FY12. Total realization proceeds and other distributions to Investcorp and its clients were $412 million.

In November 2011, Investcorp sold **Accuity Inc**, a former subsidiary of SourceMedia Inc (formerly Thomson Media), to strategic buyer Reed Elsevier, for an enterprise value of $530 million. This successful partial exit returned $360 million in gross proceeds and represented a gross return of approximately 2.3x the original investment. Investcorp acquired Accuity as part of SourceMedia from The Thomson Corporation in November 2004 and subsequently spun off Accuity to become a stand-alone business providing global payment routing data, AML screening data and software and professional services. Our investors continue to own their interests in SourceMedia, a leading business-to-business provider of multimedia information to the banking, financial services and related technology markets.

In December 2011 we agreed the sale of the **W South Beach Mezzanine Loan**, which was successfully closed in January 2012. In May 2010, we made an investment of $20.7 million to acquire certain discounted mezzanine loan interests in **W South Beach**, a first-class condominium hotel development on a prime oceanfront site in Miami. Investcorp and co-investors had developed this hotel in 2004 and successfully realized the investment in September 2007, returning all original invested capital plus a profit to investors. In 2010 we saw an opportunity to restructure the debt and to purchase the mezzanine debt at a significant discount. This created a new opportunity for our investors and the debt investment was placed with investors in June 2010. The sale, 18 months later, resulted in a significant overall investor return over this holding period. Investcorp continues to hold its interest in the C Mortgage Note acquired at the same time but which was not placed with investors.

Also in December 2011, an agreement was signed for the sale of the 26% stake in **Redington International Holding Limited**, the leading distributor of IT and telecom products in the Middle East, Africa and Turkey, held by the Gulf Opportunity Fund I. The stake, which the Fund acquired in 2008 for $65 million, will be sold to Redington India for a total consideration of $114.8 million with the transaction expected to close in February 2012. This marks the first exit by the Gulf Opportunity Fund I, with a net IRR of 17% and a multiple of 1.7x the original investment by clients.

As part of our strategy to manage certain challenged pre-2008 real estate investments and provide them with stable capital structures to preserve value as far as possible, we concluded two refinancings. Ownership of three investments, where it did not make economic sense to restructure, was transferred to lenders through foreclosure.

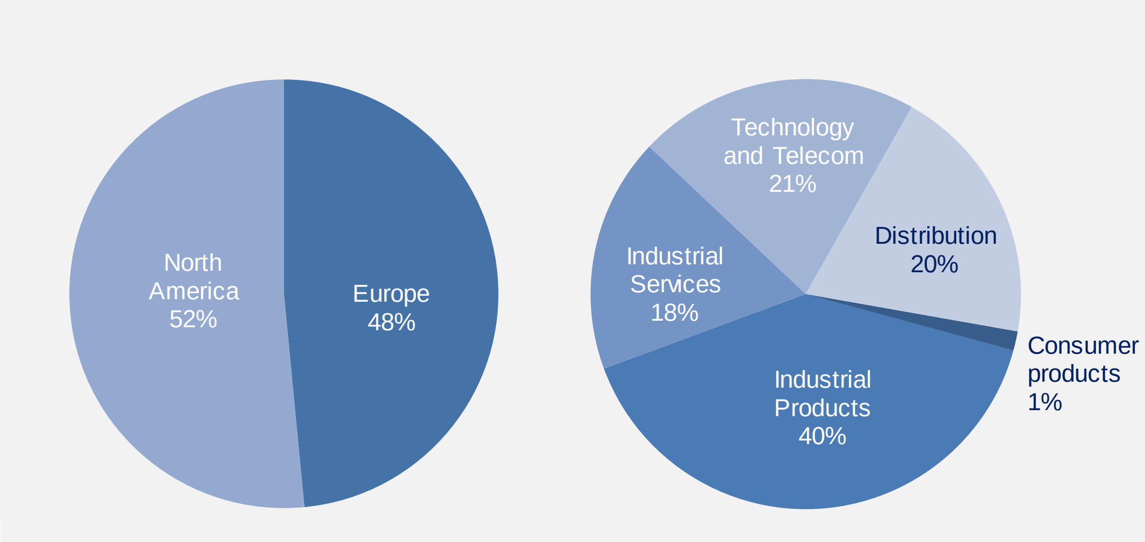
PORTFOLIO COMMENTARY

Corporate investment

Corporate investment – North America & Europe. At December 31, 2011 the carrying value of Investcorp's balance sheet co-investment in corporate investment – North America & Europe was $862.8 million (17 companies) compared with $944.8 million at June 30, 2011 (17 companies). The total co-investment amount represents 45.7% of total balance sheet co-investments at December 31, 2011, compared with 49.3% as at June 30, 2011. Please refer to the table in Note 8(a) of the Consolidated Financial Statements of Investcorp Bank B.S.C., which summarizes the December 31, 2011 and June 30, 2011 carrying values by vintage years.

The portfolio is balanced between North America and Europe and is well diversified by sector.

Corporate investment US & European portfolio at Dec 31, 2011



The five largest investments represent 64% of the total portfolio and 56% of shareholders' equity at December 31, 2011.

Portfolio company	Carrying value Dec 31, 2011 ($m)	% of total portfolio	% of total S/H equity
TelePacific	182.4	21%	18%
N&W	126.1	15%	13%
Berlin Packaging	101.0	12%	10%
Icopal	95.5	11%	10%
CCC	50.5	6%	5%
Five largest co-investments	555.5	64%	56%
Remaining co-investments	307.4	36%	31%
Total	**862.8**	**100%**	**87%**

Our portfolio companies continued to grow in calendar 2011, characterized by strong momentum in the first half of the year for both the US and European portfolios. As Europe faced strong headwinds from sovereign debt issues, our European portfolio companies experienced a more challenging second half of the year while our US portfolio continued to outperform. Aggregate EBITDA for the portfolio at December 31, 2011 was approximately $1 billion, an increase of 10% over the December 31, 2010 figure. Fourteen of our 17 portfolio companies increased EBITDA from 2010 with nine companies growing greater than 10% and six out of those nine companies growing EBITDA greater than 20% from last year. At present, leverage is low and the average debt across the portfolio is relatively modest at 4.6x EBITDA.

More detailed information on all companies in the North American and European corporate investment portfolio can be found in the Portfolio Review section.

Overall, we believe the portfolio is well positioned and that our portfolio companies have performed relatively well during this downturn due to the active management that is the hallmark of our value enhancement model.

Corporate investment – technology. The carrying value of Investcorp's balance sheet co-investment exposure in this sector was $72.1 million at December 31, 2011.

Corporate investment - technology funds	Fund I	Fund II	Fund III
Fund size	$ 230 million	$ 300 million	$ 500 million
Vintage year	2001	2005	2008
% of commitments drawn	100%	99%	55%
Investcorp commitment	$ 43 million	$ 24 million	$ 61 million
No. of investments	24	12	7
No. of exits *	21*	6*	0
Returned capital	$ 206 million	$ 42 million	$0 million
DPI (Distributions over paid-in capital)	**90%**	**14%**	**0%**

* Includes partial exits / write offs

In corporate investment - technology, Investcorp's clients are offered participation on a portfolio basis through dedicated technology funds in which Investcorp is a co-investor as well as, in some situations, on a deal-by-deal basis. Investcorp has raised three funds. The $230 million Investcorp Technology Ventures Fund I was raised in 2001. It is fully invested and in the final stages of being harvested. The $300 million Investcorp Technology Ventures Fund II was raised in 2005 and is fully invested, with $297 million deployed and $3 million held in reserve for follow on investments to support the existing portfolio companies. The $500 million Investcorp Technology Partners Fund III was raised in 2008 and is currently 55% deployed.

Corporate investment – MENA. The carrying value of Investcorp's balance sheet co-investment exposure in this sector at December 31, 2011, was $19.9 million.

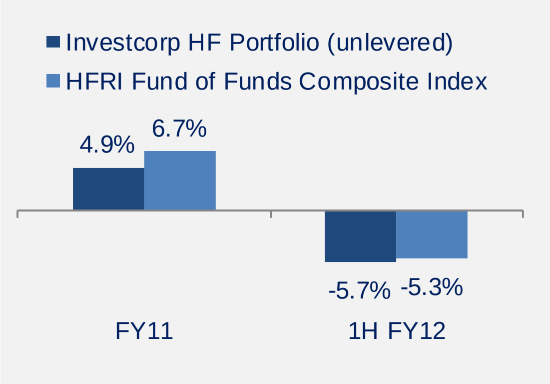
In corporate investment – MENA, Investcorp's clients have had the opportunity to participate on a portfolio basis through a dedicated fund in which Investcorp is a co-investor. The $929 million Investcorp Gulf Opportunity Fund I, with 47% of its capital committed is in the advantageous position of having dry powder available for investment at a time when MENA markets are demonstrating their relative resilience and there are attractive investment opportunities.

Hedge funds

Performance

During H1 FY12 Investcorp's hedge funds co-investment portfolio delivered unlevered returns of -5.7% on our gross exposure of $1.0 billion including non-recourse leverage. The HFRI Fund of Funds Composite Index indicated industry returns of -5.3% over the same period.

Investcorp HF performance vs HFRI



During the first half of the fiscal year, a number of events contributed to produce a challenging market environment. In the second half of FY11, a string of persistently weak data releases thwarted economic growth prospects. Longer-term issues such as debt de-leveraging and increased household savings re-asserted themselves in developed economies. Concerns about sovereign credit risk grew when Italian government bonds had their worst sell-off since the creation of the Euro. In subsequent weeks, a sell-off of Italian and Spanish bonds continued and markets began to show concern about France and Germany. The breakdown of the Italian government bond market, the third largest government bond market in the world, indicated that the European sovereign debt crisis was moving into a new phase and migrating from the periphery to core markets. Meanwhile, political parties in the US struggled to agree on a deficit reduction plan, with some members of US Congress demanding larger spending cuts in return for their support for raising the debt ceiling. While the ceiling was eventually raised, this brinkmanship unsettled markets when sentiment was already weak. It also contributed towards the downgrade of US government debt by credit-rating agency Standard & Poor's. As a result, certain hedge fund strategies – most notably Distressed, Event driven and Equity long/short - detracted from returns.

Liquidity

Investcorp's hedge funds co-investment portfolio is constructed so that a significant part of it is available for monetization in a three to six-month window.

Time period	Cumulative % available for monetization
Within 1 month	34%
Within 3 months	68%
Within 6 months	75%
Within 12 months	90%
Over 12 months	100%

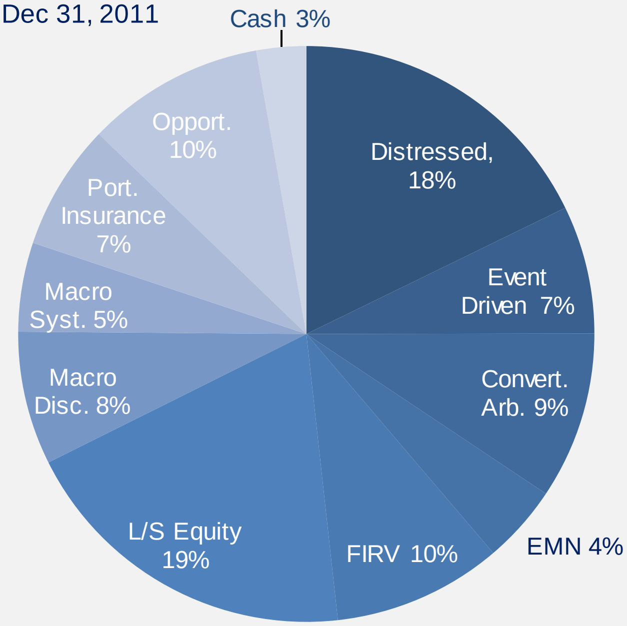
Client portfolios are also constructed with similar guidelines so that during a stress period, the liquidity needs of clients and Investcorp are both satisfied. At December 31, 2011, approximately 68% of Investcorp's hedge funds co-investment was contractually available for monetization within a three-month window. The high availability of liquidity from our hedge funds co-investments is integral to Investcorp's overall liquidity contingency planning. A large portion of the co-investment portfolio is invested through separate accounts that, in turn, reduce gating risk.

Portfolio exposures

Investcorp's balance sheet hedge funds co-investment is invested in several external hedge fund managers, including seven managers on Investcorp's single manager platform. Total gross exposure was approximately $994 million at December 31, 2011, of which $260 million was invested in the seven single managers. $371 million of the gross investment was financed through non-recourse notes, giving a net balance sheet investment at December 31, 2011 of $623 million. While Investcorp's exposure is directed through several different vehicles, the portfolio is managed on a look-through basis at the strategy level, in order to keep the portfolio consistent with the views of the investment team. Investcorp adopts a top-down view of the investment strategies when designing its hedge fund portfolio.

Strategy allocations of Investcorp HF portfolio

At Dec 31, 2011



During H1 FY12, Investcorp undertook a widespread repositioning across portfolios. This was achieved through selection of managers who did not run sizeable market exposures and also by implementing appropriate hedges through Portfolio Insurance and Opportunistic strategies. In doing so, the portfolio's aggregate allocation to the two previously mentioned strategies increased to approximately 17.1%, versus 2.6% in the beginning of FY12. In addition, allocations to Macro managers increased slightly over the same time period. These increases came at the expense of managers in the Distressed, Event driven, and Hedge equity strategies, which collectively represented 44.3% of the portfolio versus 55.0% in the beginning of FY12.

Strategy	Outlook
Portfolio Insurance	Positive
Macro	Modestly Positive
Convertible Arbitrage	Neutral
Fixed Income Relative Value	Neutral
Equity Market Neutral	Neutral
Hedge Equities	Negative
Event Driven	Negative
Distressed	Negative

Portfolio outlook and positioning

Entering the second half of FY12, we are focusing on recovery from the negative returns of last year. While the economic and financial market environment remains uncertain, we are cautiously optimistic that Governments and Central Banks will prove their willingness to reduce economic malaise and curtail systemic risk in financial markets. While on a longer term basis, some of the aggressive actions of Governments and Central Banks are likely to have repercussions, we believe they are the necessary steps to normalize the global financial markets.

The focus in 2012 is to recover from last year's negative returns, reduce risk and protect our portfolios from further market dislocations. This will be achieved through the portfolio repositioning described above. To maintain our edge, we will continue to enhance our investment processes, refine methodologies and invest in research. As a result, we remain confident that our portfolios are well positioned going forward.

Real estate investment

At December 31, 2011, Investcorp's real estate balance sheet co-investments totaled $227 million compared with $189 million at June 30, 2011. This consisted of $136.2 million of marked-to-market equity investments and $91.2 million of debt investments, held at cost less provisions for impairment. The total real estate co-investment amount represents 12.0% of total balance sheet co-investments at December 31, 2011, compared with 9.8% at June 30, 2011.

Carrying values for Investcorp's real estate co-investment by vintage year are shown below. Carrying values reflect some stabilization in real estate valuations as well as the impact of exits and deal placement during the period.

Investcorp co-investments by year ($m)	Carrying values as of Dec 31, 2011	Carrying values as of Jun 30, 2011	Change H/(L)
Vintage FY 03	1.5	1.1	0.3
Vintage FY 05	1.7	7.5	(5.8)
Vintage FY 06	22.7	25.8	(3.0)
Vintage FY 07	35.2	40.4	(5.2)
Vintage FY 08	31.5	32.7	(1.2)
Vintage FY 10	16.0	16.2	(0.2)
Vintage FY 11	12.0	32.3	(20.3)
Vintage FY 12	35.2	-	35.2
Others	71.6	32.8	38.8
Total	**227.4**	**188.8**	**38.5**

Overall, valuations on the portfolio have stabilized as the economy and operating fundamentals have improved. During the first half of the year, mark downs were limited to a small number of cases and were asset specific in nature.

Investcorp currently has 22 active real estate investment portfolios, including its two debt funds. At December 31, 2011, ten of these were on or ahead of plan. The remaining 12 portfolios, rated behind plan, are generally those holding hotel, condominium developments and offices in regions where the economic environment has generally slowed. Overall the strategy for these portfolios is to position them for medium to long term ownership in stable capital structures with modest or no additional capital investment. As of December 31, 2011, the carrying value of the investments on or ahead of plan is $153.1 million and the carrying value of the behind plan investments is $74.3 million.

The five largest co-investments are the mezzanine debt investment in Paramount Hotel (included within the ‘others’ category in the table above as it is intended to be a short-term hold), Diversified X, Best Western Hotel, W South Beach (the residual C-Note) and Diversified VII.

Portfolio company	Carrying value as at Dec 31, 2011 ($m)	% of total portfolio	% of total S/H equity
Paramount Hotel	40.1	18%	4%
Diversified X	16.8	7%	2%
Best Western	15.1	7%	2%
W South Beach	14.9	7%	2%
Diversified VII	14.0	6%	1%
Five biggest co-investments	100.9	44%	10%
Remaining co-investments	126.5	56%	13%
Total	**227.4**	**100%**	**23%**

Overall, Investcorp has concentrated on preserving and/or regenerating value in current real estate assets through aggressive management and strategic capital investment. Our attention remains on optimizing cash flow and capital reserve management, tenant retention and expense reduction programs to sustain or improve operating performance.

In addition to the deal-by-deal offering of equity and debt investments in US commercial real estate, Investcorp’s clients have the opportunity to make debt investments through a fund format. We have raised two funds to invest in and originate commercial real estate debt, in which Investcorp is a co-investor. The $108 million US Mezzanine Fund I, created in FY07, is fully deployed. The $176 million Investcorp Real Estate Credit Fund, created in FY08, is also fully deployed. A third real estate debt fund is in fundraising and is expected to have a first close in Q3 FY12.

Investcorp has continued to focus on income-producing commercial real estate with a broad diversification across US regions and property sectors and has no meaningful exposure to the US “for sale” residential housing sector.

Real estate portfolio

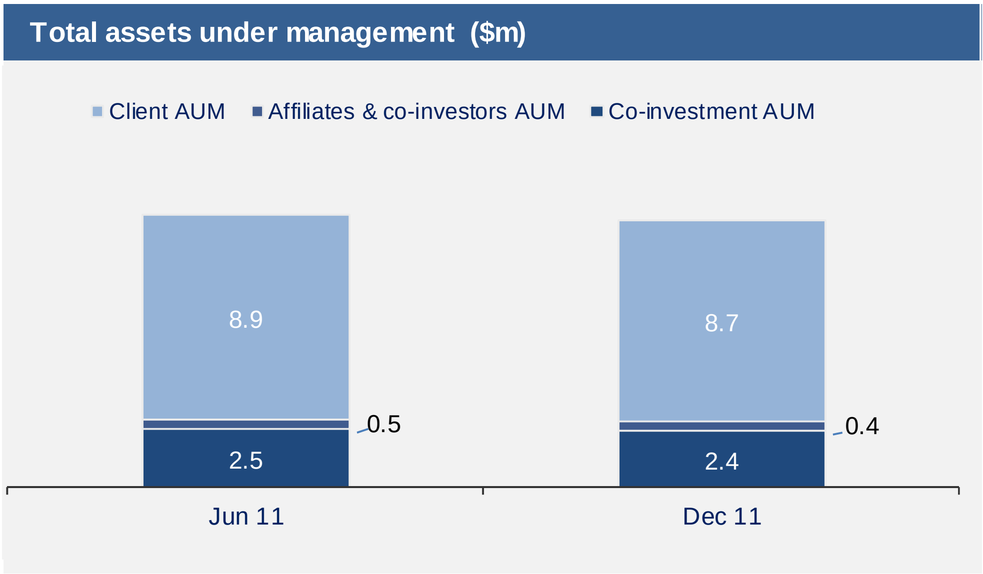
Investcorp co-investment by year ($m)	Properties original / current	Sector (of remaining properties)	Geographic location (of remaining properties)*
Diversified II	7 / 3	Office & Industrial	W
Vintage FY 03			
Commercial IV	12 / 2	Office	E
Diversified V	5 / 1	Office	E
Vintage FY 05			
Commercial V	3 / 1	Retail	SE
Retail III	8 / 8	Retail	MW
Retail IV	29 / 23	Retail	SW
Opportunity II	3 / 1	Opportunistic	W
Opportunity III	3 / 2	Opportunistic	E
Vintage FY 06			
Diversified VI	2 / 2	Retail & Hotel	SE / SW / MW
Diversified VII	4 / 4	Industrial / Office / Hotel	E / MW
Hotel	9 / 9	Hotel	E / SE / SW / MW
Bravern	1 / 1	Opportunistic	W
Vintage FY 07			
Diversified VIII	5 / 4	Office / Hotel	W / SW / MW / SE
Weststate	1 / 1	Opportunistic	W
Best Western	1 / 1	Hotel	E
Vintage FY 08			
W South Beach	0 / 0	Opportunistic	SE
Retail V	1 / 1	Retail	SW
Vintage FY 10			
Commercial VI	3 / 3	Retail & Office	SE / SW / E
Diversified IX	2 / 2	Office / Hotel	W
Vintage FY 11			
Diversified X	3 / 3	Residential / Office / Medical	SE / W
Sheffield Square	1 / 1	Residential	SW
Arundel Mills	0 / 0	Hotel	E
Vintage FY 12			
Total	**73**		

* W=West, E=East, SW =Southwest, SE=Southeast, MW=Midwest

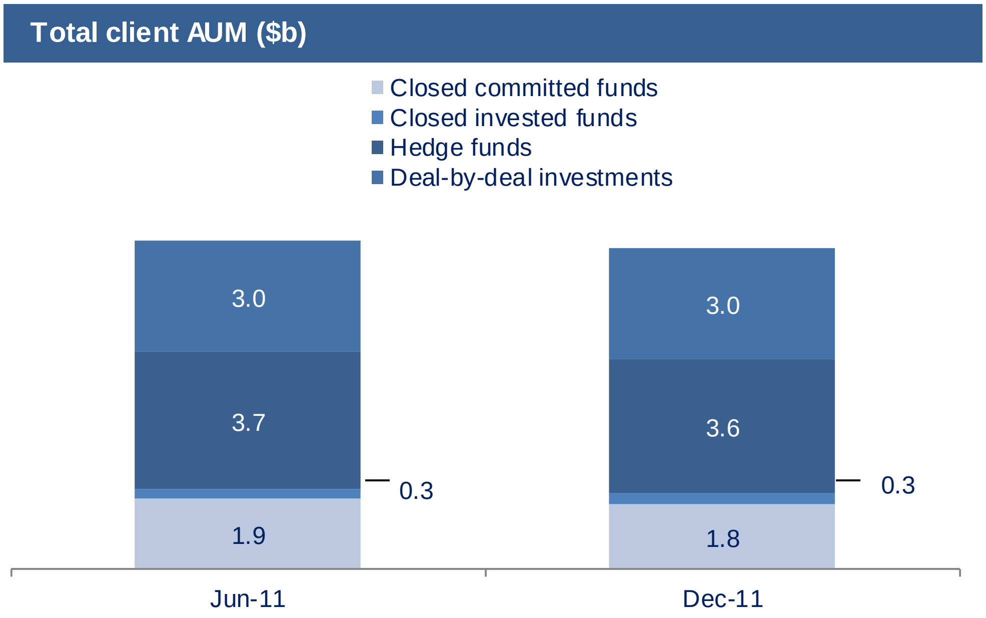
FUNDRAISING

Assets under management

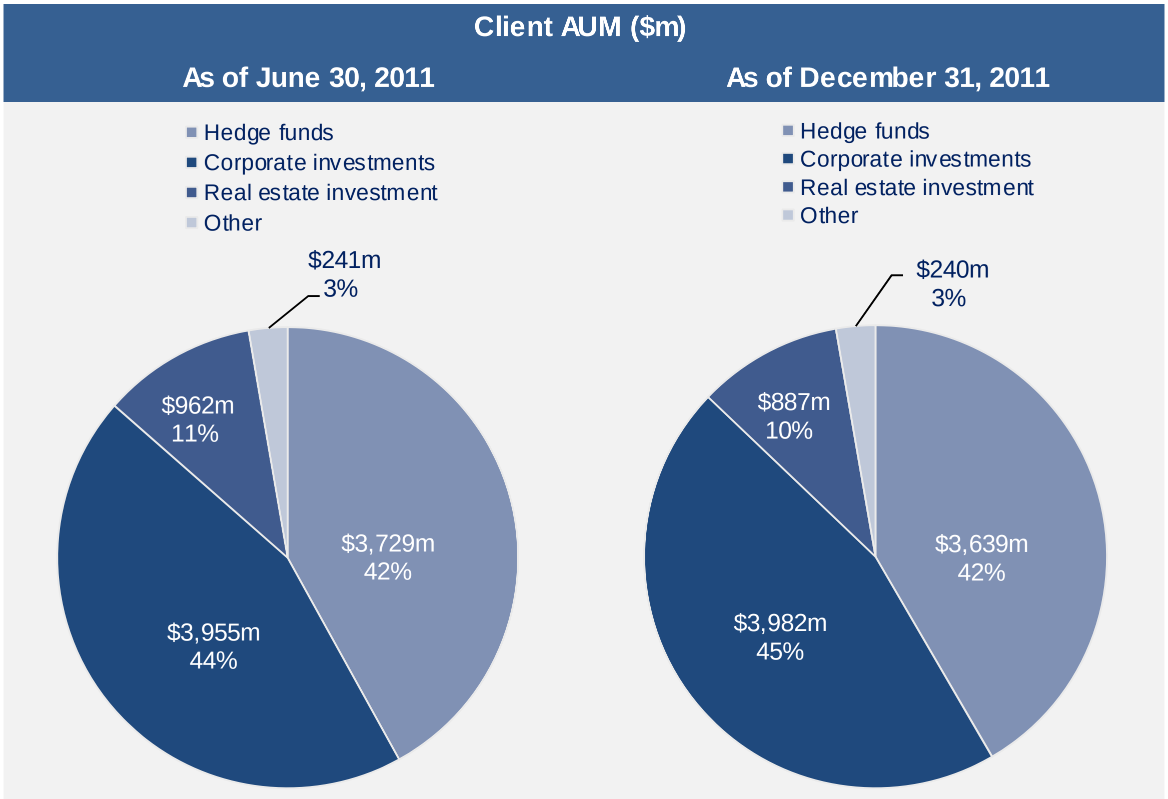
Total assets under management decreased slightly to $11.6 billion at December 31, 2011 from $11.8 billion at June 30, 2011.



Total client assets under management decreased to $8.7 billion at December 31, 2011 from $8.9 billion at June 30, 2011 with new fundraising offset by reductions in assets under management from corporate investment and real estate exits and negative hedge funds performance.



Corporate investment and hedge funds continue to be the dominant components of client assets under management. Corporate investment represents 45% of client assets under management and hedge funds 42% of client assets under management. Both have remained stable.



Key AUM and fundraising performance indicators (by asset class)

Corporate investment:

($m)	H1 FY12	H1 FY11	% Change B/(W)
Client AUM			
Closed-end committed funds	1,753	1,753	0%
Deal-by-deal investments	2,016	2,307	(13%)
Closed-end invested funds	213	212	0%
Total client AUM - at period end	**3,982**	**4,273**	**(7%)**
Average client AUM	3,969	4,414	(10%)
Equity deployed*	205	102	>100%
Deal-by-deal placement	120	59	>100%

* Includes Sur La Table, which was funded in Q1 FY12, although acquisition fees were accrued in H2 FY11.

Hedge funds:

($m)	H1 FY12	H1 FY11	% Change B/(W)
Client AUM			
Fund of funds	2,366	2,497	(5%)
Structured and levered products	164	397	(59%)
Single manager	1,109	1,020	9%
Total client AUM - at period end	**3,639**	**3,914**	**(7%)**
Average total client AUM	3,651	3,784	(4%)

Real estate investment:

($m)	H1 FY12	H1 FY11	% Change B/(W)
Client AUM			
Closed funds (Mezzanine)	113	253	(55%)
Deal-by-deal investments	774	719	8%
Total client AUM - at period end	**887**	**972**	**(9%)**
Average client AUM	925	1,041	(11%)
Equity deployed (excl. Mezz. debt)	95	25	>100%
Deal-by-deal placement	39	15	>100%

Client placement

We continued to provide alternative asset management solutions to clients through our range of corporate investment, real estate investment and hedge fund products. These are placed predominantly with private and institutional investors in the six GCC countries, but also with a number of international institutions. In particular, we market our hedge fund products to US institutions.

H1 FY12 saw strong fundraising and we raised a total of $735.5 million in the period. Corporate investment deal-by-deal placement was $120.0 million, principally relating to Sur La Table, which was acquired in Q1 FY12 and fully placed in Q2 FY12. Real estate raised $39.1 million through the placement of real estate portfolios. New subscriptions into hedge funds from institutional investors were $576.4 million.

We successfully closed placement on three deal-by-deal offerings this half. We have now fully placed ten deal-by-deal offerings in the post crisis period since the beginning of FY10.

We continued to provide our hallmark high touch client service to our Gulf clients. Our heritage and track record in the region makes us particularly trusted by Gulf investors to provide them with unique and non-traditional investment opportunities and services and to ensure that those investment opportunities are suitable for their evolving risk-return preferences.

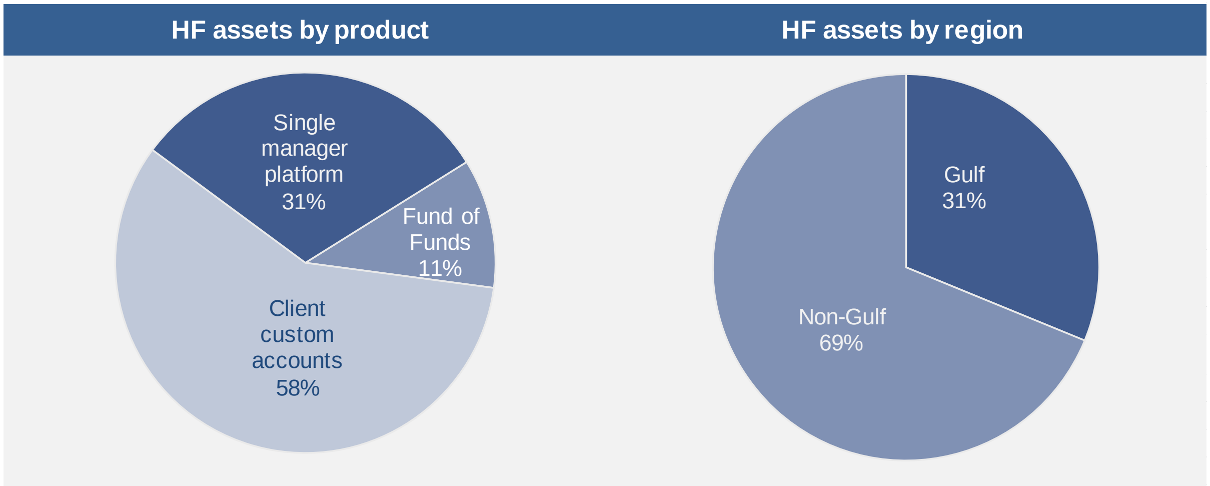
Closed-end funds

Investcorp continued fundraising for its third real estate debt fund, a first close of which is expected in Q3 FY12. This Fund will be established to invest in and originate commercial real estate debt. Fundraising is primarily targeting European and US institutional investors.

The foregoing information about closed-end funds is being provided to satisfy the requirements of the Central Bank of Bahrain. The provision of the foregoing information does not constitute an offer to sell or a solicitation of an offer to buy securities in the United States or any other jurisdiction. Interests in the foregoing funds have not been registered under the US Securities Act of 1933, as amended, or any US state securities laws, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Open-end hedge funds

At December 31, 2011, hedge fund assets under management were $4.6 billion. $3.6 billion were client assets and $1.0 billion were co-investments.



69% of client assets were from US institutional investors and 31% from Gulf private and institutional investors. 58% of client hedge fund assets are now invested through customized accounts reflecting an increasing trend towards this product. The percentage of assets in fund of fund products continues to decrease to 11% from 16%. Assets with single managers increased and stand at 31%. Customized accounts and single managers are an important component of our strategy to grow hedge fund assets under management.

At December 31, 2011, approximately 90% of hedge fund assets came from a range of institutional clients including pension funds, insurance companies, endowments & foundations, and fund of hedge funds. This high level of institutional clients provides a more stable AUM base that tends to be sticky through market cycles.

PORTFOLIO REVIEW: CORPORATE INVESTMENT – NORTH AMERICA & EUROPE

Sur La Table is a specialty retailer of culinary merchandise and a leading provider of non-degree culinary courses in North America. Sur La Table operates 92 stores nationwide with a widely distributed catalog and a premium online platform. Sur La Table offers a broad selection of the best culinary brands and an assortment of innovative kitchenware products. The company provides all the items that the enthusiast cook needs for cooking and entertaining and has a knowledgeable staff that provides high in-store service levels. Sur La Table also offers cooking classes at 30 of its stores to over 100,000 customers annually, which builds customer relationships and solidifies its reputation as an authority in the kitchenware segment.

The last decade has seen an explosion in the amount of media programming dedicated to cooking as consumers have shown a keen interest in cooking and entertaining at home. Celebrity chefs and other cooking media have generated significant awareness of cooking and reinforced mainstream interest. As a result of these trends and the continued shift away from department stores to specialty stores, the $3 billion US specialty kitchenware industry is expected to outpace the broader $14 billion US kitchenware market and grow at 3%-6% per annum over the projected investment holding period. This is driven by the cooking enthusiast who tends to be a more affluent consumer and represents the majority of the kitchenware spend in the US. Sur La Table will continue to target this highly desirable customer base with the expectation of continuing to benefit from these trends.

Sur La Table has built a multi-channel business in which each channel is profitable on a standalone basis. In the future, there are multiple avenues for growth in each channel that provide for an attractive investment thesis. These include the addition of stores in existing and new markets; the expansion of the direct sales channel; growing the newly re-launched gift registry; continuing refinement of the operating model as the company leverages its established infrastructure; driving same-store sales via proven initiatives; and expansion of the ever-evolving culinary program. The acquisition closed in Q1 FY12.

Veritext is a leading national provider of deposition and litigation support services to law firms, Fortune 500 corporations and regulatory agencies in the United States. It operates in the stable and growing legal services industry through 30 locations across six geographic regions in the largest legal markets in the United States. The company's core product is the conversion of a witness or expert's spoken testimony under oath into a certified written transcript. This is a critical service for a lawyer or general counsel and is used to build the fact base of a case. Veritext's services can be used by both the plaintiffs and defendants in nearly every litigation proceeding. The company also provides other value-added services that capture additional information during the deposition and allow clients to manage the information more efficiently.

Since acquisition, the senior management team has been strengthened with the appointment of a new Chief Executive Officer, Bob Cullen, who has subsequently recruited a high caliber team. In November 2011, the company acquired Sarnoff Court Reporters, a traditional court reporting firm focused on high-end litigation, based in California. The company was a very attractive acquisition and has moved Veritext to be the number one player in its industry's two largest markets of New York and California. In calendar year 2012 momentum will be maintained by continuing to focus on growing the company's sales force, gaining market share and expanding national footprint. The acquisition closed in July 2010.

N&W is the only pan-European manufacturer of beverage and snack food vending machines. It offers a full product range in a market otherwise composed of smaller, regional participants. N&W is over four times larger than its nearest competitor, and operates three state-of-the-art production facilities in Italy and China.

After a strong 2010 performance, which continued into the first half of 2011, there was a slowdown in demand in the second half of the year across all geographies and product categories, triggered by the uncertainty around Europe's debt crisis. Vending operators turned their attention to refurbishing and optimizing, rather than replacing, existing vending machines. Gross margins in 2011 came under pressure as the customer mix shifted towards key accounts (commanding higher discounts and more complex products).

The company embarked on a rationalization of its entire manufacturing footprint in 2010, with a view to reducing the number of European plants over the next few years and to relocating a portion of its manufacturing to Eastern Europe over the next three to five years. The closure of the Danish Odense plant was completed in June 2011. Management is now focused on implementing phase 2 of the manufacturing optimization program, driving further operational efficiency measures such as pricing optimization, product range rationalization and increased low cost country sourcing for pre-assembly activities. In addition, management is looking at an international expansion strategy that will focus on Germany, the UK, Eastern Europe, South America and Asia.

Overall, N&W is a company with a leadership position in a market where demand for new machines in the core European markets is expected to rebound once vending operators regain confidence. The acquisition closed in November 2008.

CEME is a leading manufacturer of fluid control components for household and industrial appliances such as espresso machines, steam ironing systems and gas boilers. Its main clients are well-established European manufacturers, but it is diversifying its customer base by expanding its distribution network in China, the Far East and North America.

The company is currently benefiting from positive end market dynamics with strong espresso/capsule growth and generally good retail performance by coffee and steam appliances in most European countries, as well as from an increasing demand from the US and emerging markets. Two thirds of the company's top line growth came from key customer projects. Ceme's top three customers (Nespresso, Keurig and Coca-Cola) accounted for ~€23 million in revenue, almost tripling management's initial estimates for the year. Although top line growth surpassed expectations for the year, continued high raw material costs put some pressure on gross margins, and management partially compensated for by increasing prices in 2011.

The company continues actively to seek acquisition targets in its core and adjacent markets. It expects medium-term growth trends in its end-markets to remain strong, as espresso and pad-filter machines take share from traditional filter coffee machines, and steam generators take share from traditional irons. In addition, projects with key customers such as Nespresso, Coca-Cola and Keurig are expected to support top line development for the future. The acquisition closed in July 2008.

Asiakastieto is the leader in the Finnish credit information market and has approximately 74% market share as the dominant personal credit information database owner. Asiakastieto's business is rooted in databases, which consolidate data gathered over decades from many sources to create Finland's most comprehensive historical business and credit information database and the country's only personal credit information database. Customers include financial institutions, telecom operators, consumer credit companies, wholesalers, retailers and debt collection agencies.

Asiakastieto's growth strategy is based on leveraging its leading market position, its well established customer relationships, its resilient cash flow characteristics and its experienced management team to drive growth both in its core risk management and credit information services market, as well as in adjacent market segments. Key value creation initiatives include the improvement of sales force effectiveness by increased penetration of the existing customer base, improving transparency, objective setting and monitoring, and marketing tailored solutions to new customers. Initiatives also include ongoing investment in new product development, such as the new ID Theft Protection product, the Corporate Links of Persons in Charge service, and the new real estate offering, all of which have been rolled out in the last two years. In addition, eight key projects, identified as strategic/high potential during an 'opportunities mapping exercise' in 2010, are being introduced into the market.

The company has been performing very well over the past few years, showing resilience to the weaker economic situation in Finland. Asiakastieto is now working to counter potential adverse market conditions, such as price pressure from increased competition, and improving its competitiveness by increasing the proportion of value-added products, rather than relying on pure transactional data to drive sustained sales growth. The acquisition closed in May 2008.

Randall-Reilly is a leading diversified business-to-business media and data company focused on the trucking, infrastructure-oriented construction and industrial end markets in the United States. Its products include B2B trade publications - primarily qualified circulation titles that rank first or second in their sector - live events and trade shows, recruitment products and indoor advertising displays. In addition, its Equipment Data Associates (EDA) business is an industry-leading collector and aggregator of industrial equipment purchase data that provides subscription-based sales lead generation and market intelligence products to the industrial equipment markets.

Randall-Reilly's end markets continue to show signs of economic recovery as trucking and infrastructure related construction remain a central and necessary component to the US Economy. Trucking tonnage has improved considerably and, as the industry recovers from the depth of the crisis, there has been significant driver turnover and an aging demographic of drivers. Consequently, the biggest turnaround has been Randall-Reilly's truck driver recruiting division which has continued to invest in digest books and online recruiting websites, with exclusive rights in four of the top five trucking rest stop chains. The driver recruiting division has shown the largest increase in sales for the company, as fleets continue to advertise aggressively to hire drivers. Along with the need for new truck drivers, the trucking industry is transforming overall and there is an increased need for new innovative digital talent. Randall-Reilly is therefore focused on making digital marketing services an integral part of all its products.

Randall-Reilly also continues to put significant resources into growing the data business and launching ancillary products for EDA that provide enhanced equipment ownership and risk data. Investcorp expects this effort to entrench EDA with its customers and to drive revenue growth in calendar 2012 and beyond. The acquisition closed in February 2008.

Berlin Packaging is a leading supplier of rigid packaging in the United States. From strategic locations throughout the US, the company supplies plastic, glass and metal containers, closures and dispensing systems to customers in the food and beverage, personal care, and healthcare end markets. Through its design division, Studio 111, Berlin also provides value-added services such as packaging design and consulting services, acting as a 'one-stop-shop' for all the packaging requirements of many customers.

Berlin has a leading market position, strong management team, compelling value proposition to customers, growth-oriented culture and attractive industry structure. Sales, which declined during the 2009 recession, have more than surpassed pre-crisis levels in calendar 2011, the majority of which came from organic growth. The company continues to benefit from limited customer, product and geographic concentration, attractive free cash flow characteristics and 'best-in-class' operations and infrastructure. The company also continues to gain market share within its existing markets through new customer wins and increased penetration of existing customers, by growing the presence of the company's catalog business and Studio 111, as well as through add-on acquisitions.

The management team has been strengthened with a new Head of Supply Chain and the team continues to focus on margin improvement initiatives, tight cost controls, and continued realization of synergies from the All-Pak and Continental acquisitions. Many potential targets have noted Berlin's acquisition strategy and have shown interest in maintaining an open dialogue pursuit of additional add-on acquisitions. Berlin remains well positioned for continued strong performance through growth, both organic and through acquisition, continued margin management, sales force training, and ongoing cost control. The acquisition closed in August 2007.

Icopal is the leading European manufacturer and provider of roofing products and installation services with 30 manufacturing sites and 85 offices throughout Europe and North America. Icopal's products are used for waterproofing (flat roofs and civil engineering projects), building membranes, pitched roofing and roofing accessories, and by specialized contracting services within flat roofing.

Icopal's business strategy is focused on developing and consolidating its market position in existing markets, complementing its product offering and further expanding in Eastern Europe to secure continued growth opportunities. In addition, management is preparing for a strong rebound when demand recovers, drawing upon an institutionalized 'fill-the-gap' planning process that has identified more than 200 growth initiatives. These include setting up an in-house manufacturing capacity for breather membranes, the continued development of green waterproofing solutions and the systematic penetration of synthetic segments, ultimately ensuring continued above-market performance.

After a positive 2010 and first half of 2011 in terms of volume development, the second half of 2011 saw a slowdown in volume due to the effects of an uncertain market environment in Europe, which has pushed out a broad based market recovery in the construction industry. On top of the muted demand, raw material prices remain high. Management has put price increases in place to pass on these higher raw material costs to the customers but that has led to some loss of customers who have switched to a lower priced more commodity based type product.

Over the past two years, management has made four acquisitions including a leading Austrian-Hungarian bitumen membrane producer Villas, and a German high-end synthetic player, Wolfin, strengthening Icopal's position within the European membrane industry. Management priorities for the future include improving margins through the Procurement

Business Intelligence System (IProBis), which is a fully automated module that analyzes spending levels across all geographies and based on that, facilitates real time pricing guidance through the system. Management has also created a new function to ensure a coordinated 'go to market' approach with the new product introductions. In addition, Icopal is looking to expand into markets beyond Europe such as Brazil, Turkey and southeast Europe to drive growth. The acquisition closed in July 2007.

Armacell is a major supplier of engineered foams and expanded rubber products used in construction, industrial, sports, leisure and recreation, automotive, packaging and a wide range of custom applications. The company is the undisputed global market leader in elastomeric insulation foams. Based in Germany, it has a network of 18 manufacturing facilities in 12 countries.

Armacell is undergoing a significant business transformation, and has formed two divisions, Global Insulation and Technical Foam, and added significant talent (including a new top management team), as well as rationalizing its manufacturing footprint. The company is now positioning itself to leverage its economies of scale and scope, to develop and execute global programs and to respond to local market needs.

While industry activity levels in Armacell's traditional markets generally showed improvements in 2011, clear divergences were seen by segment and geography. Management is currently implementing a number of sales initiatives, both geographic and product focused. Armacell has also increased penetration of emerging markets, including new capacity in India and a joint venture with Zamil Industrial in Saudi Arabia. Armacell expects to achieve above-market growth through these initiatives, supported by R&D and product development in markets such as industrial, marine and petrochemical. Since the second half of 2010, the company has seen strong inflationary pressure on raw material prices. To mitigate margin pressure from this, management has been increasing prices as well as introducing a program to reduce costs and complexity. These initiatives will underpin the company's long-term growth potential. The acquisition closed in January 2007.

IPH Group (formerly 'Orexad'), the holding company of Anfidis Networks and Orexad, which was formed from the merger of Orefi and AD Industrie, is the largest distributor of industrial supplies in France. IPH Group has a presence in all regions of France, with 235 branches, including 54 acquired in 2007 from Anjac, the third largest competitor in the French market.

Industrial production in France - the biggest driver for the industrial parts and supplies markets - expanded 1.1% in November 2011 as major fiscal tightening throughout Europe, combined with the uncertainty about the region's sovereign debt crisis, weighed on the demand for French goods. However, IPH Group continued to leverage its market leading position and best-in-class key account organization by taking share from competitors and winning various large contracts.

IPH Group is also continuing its strategy of improving gross margins by focusing on pricing and procurement initiatives and further improving the penetration of its own label brand. As a result, in calendar 2011, the company experienced strong sales momentum and growth across all networks and continued gross margin improvement. Consequently, EBITDA was significantly above budget and previous periods.

IPH Group is also focusing once more on its add-on acquisition strategy and is in the process of reviewing several European candidates. The acquisition closed in June 2006.

FleetPride Corporation is the largest independent distributor of aftermarket heavy duty truck and trailer parts in the United States, with 220 distribution branches in 40 states that carry a full-line of nationally-recognized, brand name parts, as well as an assortment of exclusive-brand parts. FleetPride offers in-house remanufactured products and provides truck and trailer repair services at many locations.

In the two years since the new CEO and CFO came on board, a number of operational initiatives have been put in place that have improved profitability and generated cash flow. Significantly, management has centralized supply chain management and established a national pricing department to change the national pricing model and better control margins. As a result of the pricing initiative launched in 2010, FleetPride has grown point of sales gross profit margins by approximately 130 basis points. During 2011, FleetPride completed six acquisitions, adding approximately $50 million in aggregate sales and $6 million in run-rate EBITDA. The Midway Truck Parts add-on, acquired in May 2011, was the largest acquisition by FleetPride under Investcorp's ownership. The company also successfully completed a $415 million refinancing in December 2011 which will allow FleetPride to pursue further acquisitions.

FleetPride will continue to focus on expanding market coverage, pursuing additional strategic acquisitions, developing its national accounts and private brand growth plans. It will continue to seek to improve margins through rationalization of pricing policies and better purchasing and sourcing strategies. The company will also continue to seek to strengthen its organizational structure to be better positioned to drive its strategic plan. The acquisition closed in June 2006.

Autodistribution is the leading independent distributor of auto and truck spare parts in France, and is the largest independent auto parts distributor in Europe. The company supplies products to an affiliated network of 2,200 garages and 400 body repair shops, as well as to truck repair shops and truck carriers and fleet managers.

Autodistribution had good sales growth momentum in 2011, especially in France, while international operations were slightly more challenging. Management is currently focused on the implementation of a far reaching Profit Improvement Plan targeting €30 million of cumulated improvements by the end of calendar 2013. These initiatives include the rationalization of the regional organization, the turnaround of the loss making subsidiaries, productivity improvements, reengineering the cost structure, improvements in transportation and logistics costs, and gross margin increases.

The management team has recently been strengthened and the company significantly increased margins and EBITDA in calendar 2011. Management is also carefully monitoring its international presence, seeking long term solutions for its Italian and Polish operations and reviewing strategically attractive acquisition opportunities. The acquisition closed in March 2006.

CCC Information Services is the market leader in the United States automotive insurance claims software and information solutions industry. It provides 'mission critical' information and software solutions to parties involved in the automotive insurance claims process. CCC's products are sold on a subscription or transaction basis under multi-year contracts, resulting in a recurring and highly predictable revenue stream.

Overall transaction volumes in the industry have been relatively stable so growth needs to come from either market share gains by winning customers on the autobody side and insurance side or from new product introductions. With many key customer renewals completed, and the addition of Allstate as a bundled customer in December 2011, CCC is focused on future organic growth, with a particular emphasis on several new product introductions. The introduction of a new shop management solution for the autobody shop business, CCC One, in calendar year 2010 started to show benefits in 2011 and further new product introductions are expected to drive meaningful uplift in future years.

In 2011, CCC began to make significant investments in product development. It hired a new Chief Technology Officer to upgrade new product development and to improve technology processes. It has expanded R&D spend on new product introductions and launched a wholly-owned subsidiary in China to develop a new product suite based on CCC technology using local development and sales teams. These efforts are expected to set up the company with a much improved growth story over the coming years. In addition to growing organically, management continues to pursue potential add-on opportunities to expand into new end markets and countries. The acquisition closed in February 2006.

Polyconcept is the world's largest supplier of promotional products, created by the combination of Polyconcept, Europe's leading generalist supplier of wearable and non-wearable promotional products, and Global Promo Group Inc., the number two non-wearable promotional product supplier in the US. In April 2011, Polyconcept North America ('PCNA') acquired Trimark Sportswear Group ('Trimark'), a leading Canadian apparel supplier, marking PCNA's fourth acquisition since its establishment in 2005 and its first move into the promotional apparel category. With the addition of Trimark, PCNA became Canada's largest supplier spanning both apparel and hard goods under four industry leading brands (Leed's, Bullet Line, JournalBooks, and Trimark).

Following positive momentum in both the US and European markets in the first half of calendar 2011, performance in the second half of the calendar year varied by geography. The US continued to show positive momentum, however European market conditions became slightly challenging due to the lower-growth outlook related to the Eurozone debt crisis. Polyconcept recently conducted a European Strategic Review of the business and has since implemented a change in management. The management team is now more compact and experienced and is proving fundamental to the continued growth and performance in today's economic environment.

Polyconcept benefits from leading market positions in Europe and the US, strong and resilient cash flow generation and a strong liquidity position. Sales in calendar 2011 were solid as Polyconcept continued to leverage PCNA's leadership position in the US market. It successfully gained market share by improving the positioning of individual companies within their markets using separate 'value' and 'premium' products and services, expanding or tailoring product offerings, and by taking advantage of weak competition. The acquisition closed in June 2005.

SourceMedia is a leading business-to-business provider of multimedia information to professionals in the banking, financial services and related technology markets. SourceMedia has a distinguished portfolio of products, including some of the longest-running titles in American business publishing, such as *American Banker*, *The Bond Buyer*, and *Financial Planning*. SourceMedia also offers subscription data, software tools, directories, conferences, and trade shows.

In November 2004, Investcorp acquired Accuity along with SourceMedia from The Thomson Corporation and subsequently spun off Accuity to become a stand-alone business. In November 2011, Investcorp agreed to sell Accuity to Reed Elsevier for an enterprise value of $530 million. As part of this transaction, SourceMedia was able to sever all remaining ties with Accuity. As a result, Rebecca Knoop was hired as a dedicated CFO as the previous CFO had been shared between Accuity and SourceMedia. Also, the company's existing credit facility was refinanced while maintaining appropriate financial flexibility and the corporate logo was rebranded to symbolize SourceMedia's emergence as a diversified, digitally-focused media company.

Conditions in SourceMedia's financial services end-markets remained somewhat mixed in calendar 2011, with more pronounced improvements in certain segments, particularly *Investment Advisor* and *Financial Planning*. Advertising revenue has been slowly improving across the industry, with events and conferences also showing signs of recovery. The company has continued to shift from traditional advertising-based print publishing to a community and content-focused enterprise that will deliver products to its customers in both print and electronic formats and has had some success in introducing new products and revenue streams in the past year. Overall SourceMedia's core business, market position and brand awareness remain strong and well positioned to take advantage of the improving outlook in 2012. The acquisition closed in November 2004.

TelePacific is a facility based Competitive Local Exchange Carrier (CLEC) providing telecommunications services to small and medium sized businesses in California and Nevada in the USA. TelePacific is the leading CLEC and the largest alternative telecommunications provider to AT&T and Verizon in its market.

Despite the lagging economic recovery in TelePacific's markets, which has slowed new customer growth and reduced telecommunication usage by existing customers, the company has been successful in growing revenue and is performing very strongly relative to its peer group. In calendar 2011, TelePacific grew organically in lines provisioned through new contracted revenue and wholesale sales. It also closed on three add-on acquisitions, broadening its product options, building scale and reducing its cost structure. All of these transactions were financed through a combination of cash on hand and additional debt. TelePacific reduced its industry-leading customer churn rates through superior customer care initiatives and maintained strong profit margins. The company also resolved its expiring contracts with AT&T and Verizon and expects cost savings of approximately $13 million per year resulting from the new contracts.

TelePacific also made a significant investment in the rollout of Ethernet-over-Copper (EoC), which provides customers high bandwidth product offerings in a more cost effective way. Overall, the company has improved its competitive position over the last year through new technological platforms in order to provide higher bandwidth with less cost. TelePacific also broadened its product offering with products such as data centers and hosted VoIP, deepened its presence in existing markets and entered a new geographic market with attractive growth and profitability characteristics. TelePacific's outlook remains positive as it has positioned itself to compete and succeed in its market. The acquisition closed in April 2000.

Stratus Technologies is a global solutions provider focused exclusively on helping its customers achieve and sustain the availability of information systems that support their critical business processes. Based upon its 30 years of expertise in server and services technology for continuous availability, Stratus is a trusted solutions provider to customers in manufacturing, life sciences, telecommunications, financial services, public safety, transportation and logistics, and other industries. The acquisition closed in February 1999.