INVESTCORP

Quarterly Shareholder Update

Q1 FY2019

For the period July 1, 2018 to September 30, 2018

"The first quarter of this fiscal year 2019 has seen Investcorp achieve new milestones in terms of delivering on its growth strategy, both from a multi—asset class offering and entering new markets. We have successfully acquired a strategic minority investment in a Swiss Private Bank and we launched our debut investment in China to invest in pre-IPO technology companies.

In parallel, our institutional client base has grown beyond the Gulf, to include institutions in the United States, Europe and Asia.

Investcorp's assets under management now stand at more than $22 billion and we are looking forward to foster our uniquely global position during the rest of this Fiscal Year, a position that will serve the interest of our shareholders and clients".

- Mohammed Alardhi, Executive Chairman

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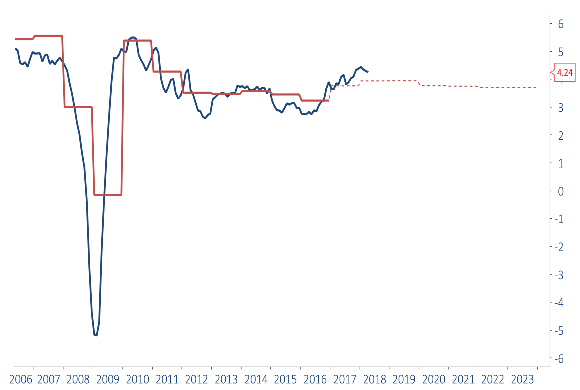
Table of Contents

Macro and Business Environment

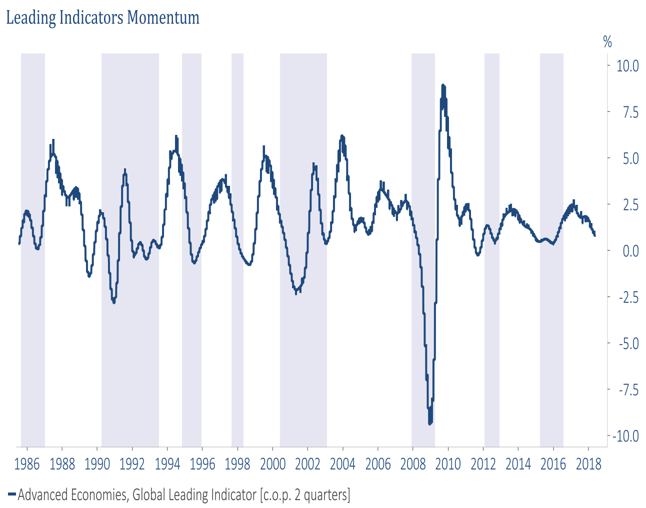
In recent months, reflationary forces have continued to drive the global economic environment, with growth stabilizing at an above-trend pace and inflation normalizing higher thanks to lower output gaps globally, with the United States definitely ahead in its cycle. However, a "Goldilocks" environment, understood as a scenario of accelerating growth with limited sustained price pressures, is still considered probable. A revival in productivity, fueled by higher capital expenditures and faster new technology adoption rates could well extend the current business cycle beyond expectations.

As can be seen in the following chart, while global gross domestic product remains on track for robust performance this year – to slightly above 4% – the modest downturn in recent months, which is apparent in the second chart, suggests that economic momentum has hit a soft patch, which likely stems from a confluence of factors.

Global GDP Aggregate Nowcast



Global Leading Economic Indicators – Growth

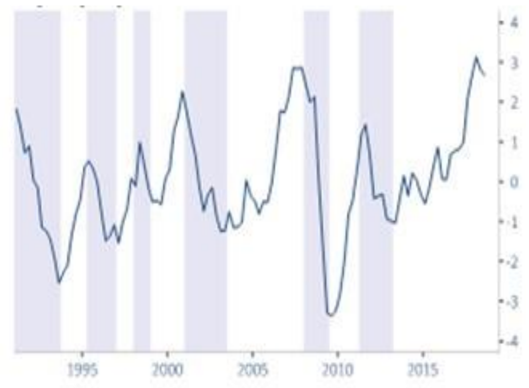


Source: Goldman Sachs, Morgan Stanley, Investcorp, Macrobond

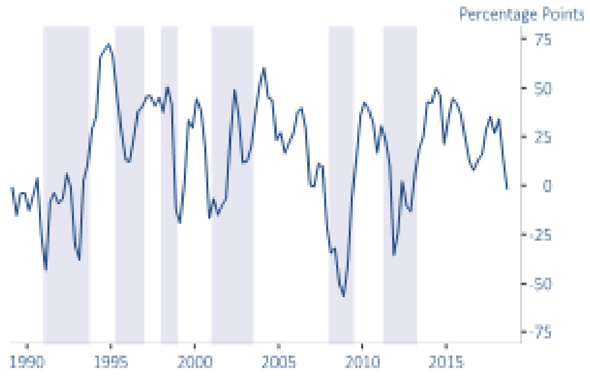
The growth trajectory appears to be diverging across regions. Boosted by aggressive pro-cyclical policies, the US economy has continued to power ahead, which stands in stark contrast to the loss of momentum being seen elsewhere. From Investcorp's standpoint, the divergence can primarily be attributed to two factors: the localized impact of certain geopolitical issues and efforts by Chinese authorities earlier this year to engineer a slow deleveraging of their economy, which they did by tightening financial conditions and the supply of credit, notably through shadow banking channels. The above factors were likely magnified and accelerated by the feedback effects on foreign exchange markets of various economic, financial and political trends. The perception that risks had become uncomfortably high outside the US spurred investors to bid up the value of the greenback, which exacerbated already tightening global liquidity conditions and left levered emerging market countries in an increasingly difficult spot.

In Europe, the fallout from faltering business confidence was particularly significant. In many parts of the region, output is nearing capacity and subject to increasing bottlenecks, as indicated by the following first chart. Consequently, there is a need for capital expenditures that can boost productivity and facilitate rapid growth while limiting inflation, which could also serve to extend the current cycle. However, uncertainty related to Italy and Brexit and concerns about heightened turbulence in emerging markets has made managers increasingly cautious about moving forward with such spending, as suggested by the second chart.

Europe Capacity Bottlenecks



Europe-Capex Expectations

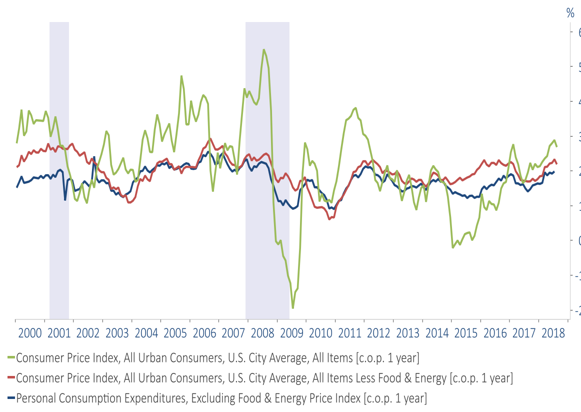


Source: Investcorp

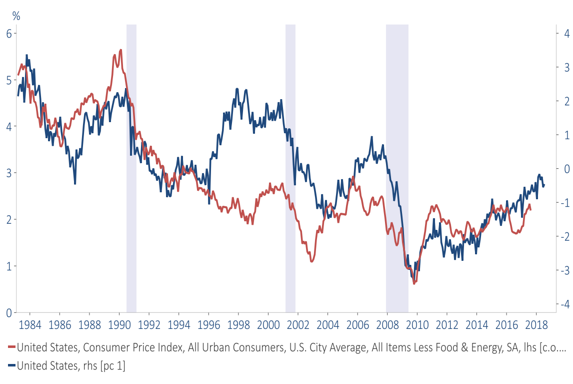
That said, Investcorp believes the current disquiet is temporary and that the longer-term outlook for Europe remains constructive, with underlying growth rates that continue to run above trend. There is little doubt that the recent slowing of momentum has raised the risks of a reversal of fortunes, but Investcorp believes it is premature to assume this in the near-term.

As far as global inflation is concerned, the path of least resistance remains to the upside, with rising commodity prices and smaller output gaps leading to trend normalization across developed markets. In the US, for instance, all inflation measures have climbed higher in recent quarters, as illustrated in the series of charts below, with sub-4% unemployment helping to revive wage growth amid an ever-decreasing output gap.

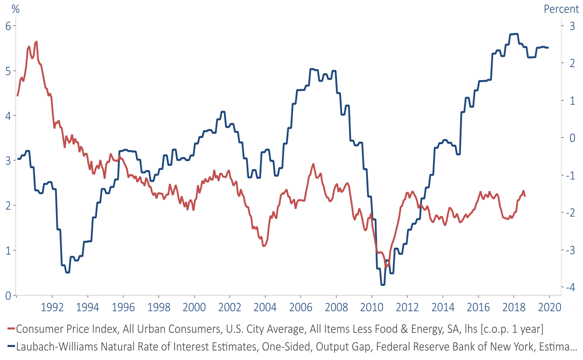
US Inflation Measures



US CPI and Composite Wages Indicator



US CPI and Output Gap



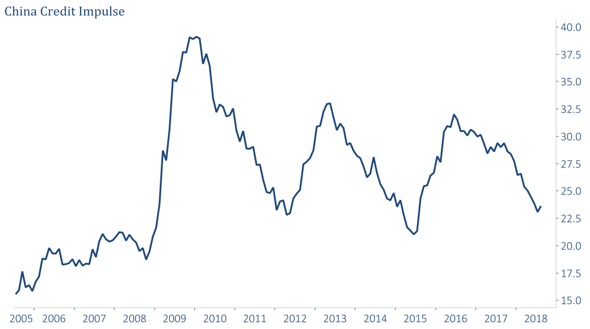
Source: Investcorp

Rising US tariffs will likely exacerbate matters: econometric models suggest that the full-scale implementation of additional levies on Chinese goods – including those that have already been imposed on $50 billion in annual imports and the $200 billion that are planned – could boost the personal consumption expenditure price index (PCEPI) by 10-15 basis points. Should the Trump administration decide to follow through on its threat to add the remaining $267 billion of imports from the world's second largest economy to the mix, it could ratchet PCEPI up another 20-25 basis points.

Heading into this year, there was concern that the deliberate tightening of credit by Chinese authorities in an effort to reorient their economy would trigger a slowdown. By nature, efforts to transform credit channels and implement other structural reforms are a challenging exercise, fraught with mis-calibration risks. Such risks have likely been compounded by the external pressures being applied by the Trump administration with its multiple tariff announcements, which are having a direct impact and are generating secondary-order effects on business sentiment in China.

Amid a confrontation with the US with seemingly no clear end in sight, policymakers in China have changed gears on efforts to rein in the supply of credit; they have facilitated measures that have stabilized and led to a mild rebound in the country's credit impulse, illustrated below. In addition, Investcorp believes the Chinese government will seek and be able to execute measures designed to cushion any economic weakness that may feed through in coming quarters.

China Credit Impulse



Source: Macrobond, Bloomberg

The Gulf Cooperation Council (GCC) region witnessed a mild recession in 2017, with real Gross Domestic Product (GDP) contracting by -0.2% driven by the effect of the OPEC oil production cuts as well as overall economic slowdown. Growth in Saudi Arabia in particular contracted by -0.7% last year on the back of government spending cuts as well as oil production cuts. The International Monetary Fund (IMF) expects the overall GCC real GDP growth in calendar year 2018 to pick up to 1.9% underpinned by expansionary fiscal policies implemented by the GCC governments and recovery in oil prices. Non-oil GDP growth is expected to grow to 2.7% in 2018 compared to 1.8% in 2017, on the back of pro-growth government initiatives and a slower pace of fiscal consolidation.

The Turkish economy registered a real GDP growth of 7.4% in the first quarter (Q1) of 2018, in line with full year 2017 growth, mainly fueled by a credit impulse supported by state loan guarantees and fiscal expansion policies. A decision to hold snap elections in the country during the end of June created further political uncertainty causing the Turkish Lira (TL) to depreciate by 24% against the US Dollar during the third quarter of 2018. The IMF expects Turkey's real GDP growth in 2018 to moderate towards 4.4% as the impact of expansionary fiscal measures implemented in 2017 fades and as interest rates increase.

Business Activity

Investcorp recently decided to rename the Corporate Investment (CI) business as Private Equity (PE) and the Alternative Investment Solutions (AIS) business as Absolute Return Investments (ARI). These changes, which are more aligned with industry best practice and terminology, are meant to help stakeholders understand Investcorp's business better, especially as the firm continues with its global expansion.

Private Equity (formerly Corporate Investment)

In August, Investcorp's Private Equity team in North America (PE-NA) announced an investment in **United Talent Agency (UTA)**, a leading global talent and entertainment company. UTA is known for its dedicated digital media group helping clients – from A-list talent to Fortune 500 companies – capitalize on a rapidly changing entertainment, media and business landscape. Private Equity – Technology has also acquired Berlin Based **Softgarden,** a fast-growing Human Resource (HR) software provider offering innovative recruiting solutions to a diversified set of German midmarket and enterprise customers.

In August, PE-NA completed the sale of **Nobel Learning Communities**, one of the leading providers of private education in the US, to Spring Education Group, the leading PreK-12 private school operator in the US and portfolio company of Primavera Capital Group, a leading Asia-based investment firm. Since acquiring Nobel Learning in 2015, Investcorp has worked closely with the company to achieve significant growth, acquiring 25 schools, opening nine greenfields and driving organic enrollment thereby collectively achieving EBITDA growth of 50% during its period of ownership.

Also in August, PE-MENA announced that its Gulf Opportunity Fund has completed the sale of its remaining 15.65% equity shareholding in **Gulf Cryo** (a leading manufacturer, distributor and service provider of industrial gases in the MENA and Turkey region) to other shareholders of the company.

In September, PE-MENA completed the IPO of **Leejam** (Fitness Time) on the Saudi Stock Exchange (Tadawul). Leejam marks the Firm's second Saudi portfolio company to successfully list on the Tadawul, the first fitness chain to list in the region, and the first company to list on the Saudi exchange so far this year. Leejam is the leading operator of health clubs in the Middle East with 150 clubs operational and under construction, $193 million of sales, $78 million of EBITDA, $46 million of Net Income and around 1.3x of Net debt to EBITDA as of December 2017.

In September, Investcorp signed in Hong Kong its first private equity investment in China, in partnership with China Everbright Limited, one of China's most respected sovereign investment groups. The $100 million investment will be made predominantly in seven of China's largest leading technology companies. Investcorp's investment in China marks a continuation of its global expansion strategy and a new exposure to the world's second largest economy.

Other private equity news

In July, Investcorp and The Riverside Company added German replacement parts supplier, Ratioparts, to the platform of Investcorp's portfolio company, **Arrowhead.** Based in Euskirchen, Germany, Ratioparts is a leading European distributor of aftermarket replacement parts for outdoor power equipment and forestry applications.

In July, Investcorp's portfolio company, **Dainese,** opened its London store on 56 Commercial Street, a trendy area close to Old Spitalfields Market. The store is the reference point for those who love dynamic sports and allows customers to get a hands-on look at Dainese's motorcycle, ski and bike collections.

In August, Investcorp's portfolio company, **L'azurde**, announced that it had signed a Share Purchase Agreement to acquire 100% of the equity of Izdiad, the Saudi Franchisee of the TOUS International Jewellery brand. TOUS is an international lifestyle brand focused on affordable luxury with more than 620 stores in over 53 countries.

In August, Investcorp portfolio company, **ICR**, launched an Executive Advisory & Corporate Transformation practice through an exclusive partnership with Elm Street advisors. This practice will work with Boards, CEO's CFO's and their teams as they navigate complex situations to accelerate value-creating strategies.

Real Estate

In Q1 FY19, the **2015 Residential Portfolio** was fully realized following the sale of Fairways at Towson, an apartment complex located in Maryland.

Also during the quarter, one asset was realized from the **2013 Commercial Portfolio** with the sale of Mountaingate Plaza, a grocery-anchored retail center and a medical office building, located in Simi Valley, California.

In September 2018, Investcorp completed the sale of Cherry Creek Club, an apartment complex in Denver from the **2015 Residential II Portfolio.**

Total real estate realization proceeds and other distributions to Investcorp and its clients were $92 million during the quarter.

Absolute Return Investments (formerly Alternative Investment Solutions)

The balance sheet co-investment portfolio delivered returns of 0.7% in Q1 FY19. The positive performance was primarily driven by Investcorp's hedge fund partnerships, special opportunity portfolio investments and liquid manager investments.

During the first quarter of FY19, there has been positive asset raising momentum with subscriptions totaling $318 million dollars, coming from several new clients. Hedge fund partnerships saw the greatest inflows with subscriptions totaling approximately $95 million for Nut Tree Capital Management and $169 million for Shoals Financials Opportunity Fund.

The table below summarizes Investcorp's latest outlook for alternative risk premia and hedge fund strategies.

Alternative Risk Premia Outlook

Equity

- Neutral on equity value
- Slightly negative on low beta

Fixed Income

- Modestly negative on fixed income carry
- Positive on fixed income trend following strategies

Commodity

- Neutral on carry, curve and momentum

FX

- Neutral on momentum
- Modestly positive on FX carry, value and mean reversion

Hedge Funds Strategy Outlook

Equities

- Neutral on equity strategies

Credit

- Slightly negative on corporate credit
- Neutral on corporate distressed and structured credit

Event Driven

- Neutral on event-driven strategies

Global Macro

- Mostly positive on macro discretionary
- Neutral on macro systematic

Relative Value

- Positive on fixed income relative value and modestly positive equity market neutral
- Neutral on convertible arbitrage
- Slightly positive on volatility arbitrage

Credit Management

US and European Loan market commentary

During Q1 FY19, the loan market maintained its strong performance, generating the largest quarterly return since 2016 across both the US and European markets, and outperforming virtually every other asset class. As has been the case throughout 2018, the best performing industries in the quarter were those that offered some of the highest yields and most significant discounts to par: Retail, Consumer Durables, and Energy in the US and Telecommunications, Healthcare and Energy in Europe. Another ongoing trend in the loan market has been the outperformance of the lowest rated loans with CCC-rated assets generating a higher return than B-rated and BB-rated assets during the quarter.

Demand for the loan asset class remained very strong in both the US and European markets. The US has experienced strong CLO originations combined with $2.2 billion of inflows to retail mutual funds bringing the year to date 2018 total to $11 billion, which compares to $9.7 billion for all of calendar 2017. In Europe, demand for loans continued unabated with CLOs, separately managed accounts, pension funds and insurance companies all contributing to strong demand for the asset class.

Fundamental conditions were also strong. Q1 FY19 GDP of 3.5% in the US represented significant economic acceleration, and corporate earnings have also been robust. In Europe, conditions were also supportive, with GDP growth of 1.7%.

The default environment remained benign in Europe with the twelve-month default rate of the European Leveraged Loan Index (ELLI) falling to just 0.11% at the end of September, although the proportion of assets trading sub-95 increased as some signs of stress emerged in specific credits. With no loan defaults in the US during the quarter, the trailing twelve-month default rate fell to 1.81%; approximately one third of this amount is attributable to a single default, iHeart Media.

US and European CLO commentary

The US and European CLO markets remained robust in Q1 FY19. The US market priced $31.8 billion of new issuances during the quarter, taking year-to-date issuance to $100.9 billion and on track to meet calendar 2018 estimates of $125.0 billion. Europe priced €7.5 billion of new issuances during the quarter, taking year-to-date issuance to €20.8 billion with an expectation of an all-time record for the full year.

The European market saw a continuation of the trend of refinancing and reset of existing CLOs with managers taking advantage of investor demand to reduce the cost of funding. European CLO AAA spreads began the quarter in the low 80bp area but widened out to the low 90bp by September as investors absorbed the strong supply. US new issuance as well as refinancing/reset activity decreased modestly versus the first half of 2018 due to a widening of senior liabilities which rose from 107bp at the beginning of the quarter to 116bp at the end. This technical pressure was driven by the strength of the US Dollar as well as CLO supply. Despite higher financing costs, many 2016 vintage CLOs were able to lower their cost of debt capital via refinancing's and resets, while new issue equity investors continued to see value in locking in long term financing at relatively low levels.

Portfolio commentary

Investcorp continued to use the strength of the loan market to manage risk by reducing positions in those companies with more uncertain outlooks. Increased LBO activity created an opportunity to selectively add loans in the primary market that Investcorp believes offered superior risk-adjusted returns. Taking advantage of that market, Investcorp sold loans with below average spreads trading above par and culled loans that Investcorp determined had greater downside risk. In addition, Investcorp continued to scour the market for total return opportunities in the secondary market.

In Europe, Investcorp successfully reset Harvest XVI which extended the reinvestment period by over 2 years, reduced the cost of capital by over 30bp and made a one-off distribution to subordinated noteholders of €2 million.

In the US, Investcorp closed the $409 million Jamestown XI CLO on 11 July. The deal has a 2 year non-call period and a 5 year reinvestment period. Clients from Japan, Singapore and the US invested in the Jamestown XI debt tranches, most of whom are repeat investors in ICM US's CLOs.

Yields on existing CLO equity investments have begun to show signs of improvement due to lower prepayment speeds in the loan market, lower costs of capital from recent refinancing/reset activities and lower spread between 1- month and 3-month LIBOR (US CLO specific). Investcorp has been positioning its CLO portfolios defensively – with equity and high yield markets weakening in October 2018, Investcorp hopes to take advantage of better priced loans for its CLOs.

Client Activities

AUM & Fundraising

Deal-by-deal fundraising during the first quarter included the continuing placement of the private equity deals **ICR** and **KS Group**, as well as the real estate **2018 Warehouse, 2018 Residential** and **Florida and Arizona Multifamily** portfolios.

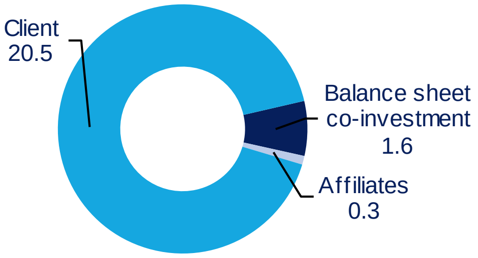
During the quarter, Investcorp launched the placement of two new real estate portfolios, **US Industrial & Logistics** and **German Office,** with investors in the Gulf & Asia.

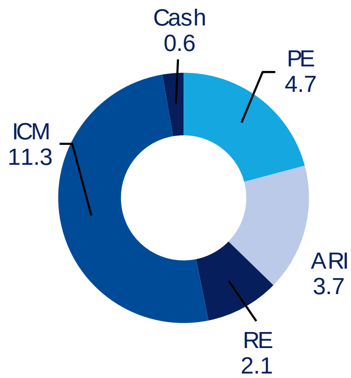
Total new subscriptions for ARI products in the quarter amounted to $318 million. Fundraising in credit management totalled $431 million in the quarter. A total of $409 million was raised from the issuance of 1 new CLO in the US. New subscriptions into the two open-ended senior secured loan funds, the ICM Senior Loan Fund and the ICM Global Floating Rate Income Fund, totalled $28 million.

Assets under Management (‘AUM’)[1]

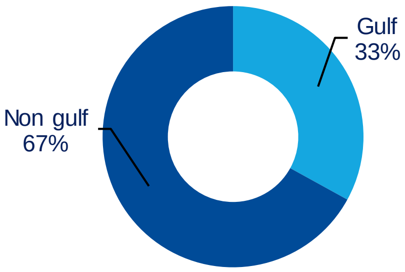
As of September 30, 2018, total AUM across all products, including proprietary co-investments was $22.3 billion and total client AUM was $20.5 billion.

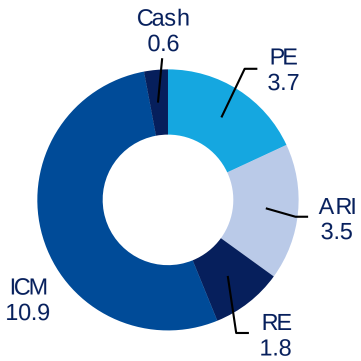
Total AUM ($ billion): 22.3





Client AUM ($ billion): 20.5





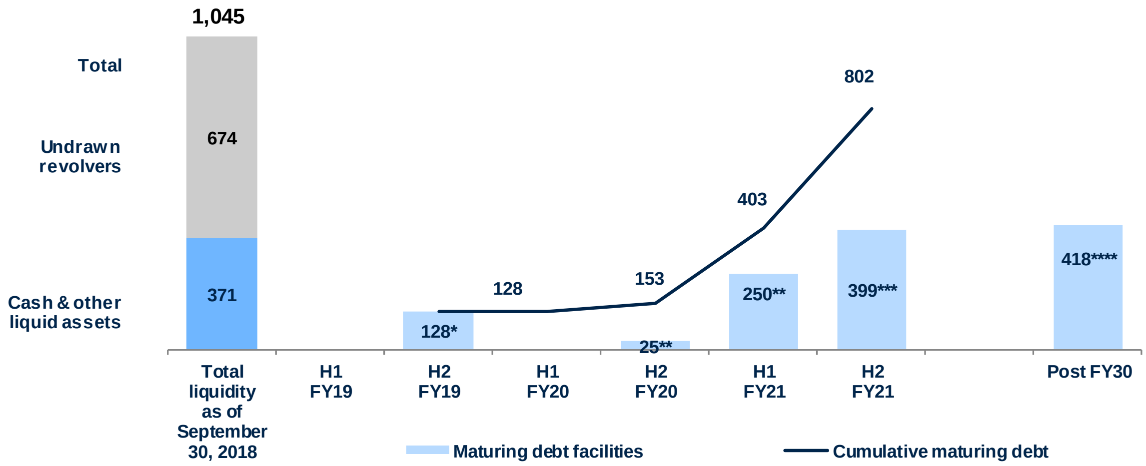
[1] AUM includes approximately $2.1 billion of hedge fund partnerships (including exposure through multi-manager solutions), managed by third party managers and assets subject to a non-discretionary advisory mandate, where Investcorp receives fees calculated on the basis of AUM

Key Balance Sheet Metrics

	Sep'18	Jun'18
Total assets ($ billion)	2.4	2.5
Leverage ratio[2]	1.3x	1.3x
Net leverage ratio[3]	0.5x	0.5x
Co-investments[4]/(total equity + long term capital[5])	0.7x	0.7x
Total accessible liquidity ($ billion)[6]	1.0	1.0

Co-investment assets remain fully covered by permanent and long-term sources of capital.

Liquidity cover ($ million)



* CHF 125 million ($128 million at current exchange rates)
** Syndicated revolving facilities
*** Syndicated revolving facilities- includes €100m ($116m at current exchange rates)
**** JPY 37 billion ($326 million at current exchange rates) debt maturing in FY30, €36m ($41m at current exchange rates) debt maturing in FY31 & $50 million maturing in FY33

Accessible liquidity, comprising undrawn committed revolving facilities plus balance sheet cash and other liquid assets was $1,045 million and substantially covers all outstanding medium-term debt maturing over the next three years.

[2] Calculated in accordance with bond covenants
[3] Calculated in accordance with bank loan covenants which is net of liquidity and underwriting
[4] Excludes underwriting and is net of revolving facilities secured against absolute return investments and credit management co-investments
[5] JPY 37 billion debt maturing in FY30, €36m debt maturing in FY31, $50 million debt maturing in FY33, deferred fees and total equity
[6] Cash, placements with financial institutions and undrawn revolvers

Credit Ratings

Agency	Rating grade	Comment
Moody's Investor Service	Ba2 / Stable Outlook	Rating and outlook confirmed in October 2018
Fitch Ratings	BB / Stable Outlook	Rating confirmed and outlook brought back to "Stable" in October 2018

Investcorp held its annual rating review with both Moody's and Fitch in October 2018. Moody's reaffirmed the Ba2 rating and 'Stable' outlook. This reflects the Firm's solid market position in the GCC region as a leading investment provider, its healthy operating margins and good asset retention. The rating incorporates the Firm's adequate liquidity profile and the ongoing improvement in earnings quality due to the growth in more stable and predictable asset management fees. Following the yearly review, Fitch Ratings re-affirmed Investcorp's credit ratings at BB and brought the outlook back to "Stable'.

Other Corporate News

New appointments to Investcorp's Advisory Board

In July, Investcorp announced the appointment of Dr. Ann-Kristin Achleitner, a business economist and Professor of Entrepreneurial Finance Studies at the Technical University of Munich (TUM), to Investcorp's International Advisory Board. Dr. Achleitner is a recognized leader and a high-profile researcher in the area of entrepreneurial finance, with a particular focus on the financing of innovation, venture capital, private equity, family businesses, social entrepreneurship and financing for social enterprises

In September, Investcorp announced that Sir Michael Fallon, a British Member of Parliament and former Secretary of State for Defense, has been appointed to Investcorp's International Advisory Board. Sir Michael has served as a British Member of Parliament for more than three decades. He has held a number of senior governmental leadership roles, most notably serving as Secretary of State for Defense from 2014-2017.

Investcorp acquires a strategic stake in Banque Pâris Bertrand

Investcorp acquired a strategic minority ownership interest in Banque Pâris Bertrand Sturdza, an independent, Swiss-regulated private bank based in Geneva and Luxembourg. The Bank provides independent investment advice and customised investment solutions to over 400 high-net-worth individuals, family offices and institutional clients mainly from Switzerland and Europe.

Japan Visit

In September, Executive Chairman, Mohammed Alardhi, accompanied by Co-CEO, Rishi Kapoor, and Head of Credit Management, Jeremy Ghose, concluded a visit to Tokyo where they met several key financial industry top executives and business contacts. The purpose of the visit was to gain a better understanding of the landscape in Japan to form Investcorp's strategy for opportunities including distribution of its products to Japanese investors and investing in Japan.

Investcorp's Ordinary General Meeting & Shareholder's Conference

The Ordinary General Meeting (OGM) for shareholders took place in the Bahrain office. The meeting was attended by a number of Board members, shareholders and their representatives.

The Executive Chairman, Mohammed Alardhi, and Chairman of the Board, Dr. Yusef Al Ebraheem, were in attendance, and the shareholders approved all agenda items. Following the OGM, Co-CEO, Hazem Ben-Gacem, and CFO, Jan Erik Back, held a press conference with the Bahraini media where they commented on the last fiscal period's results and gave highlights of Investcorp's key business initiatives.

Investcorp's Shareholder Conference took place later that same day. The meeting kicked off with a welcome note and opening remarks by Investcorp's Co-CEO, Rishi Kapoor, followed by representatives from all lines of business, offering their forecasts and setting strategic goals for FY19. The discussion encompassed the anticipated business environment for the year ahead as well as the FY19 financial outlook.

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