

INVESTCORP

Quarterly Shareholder Update

Q3 FY2018

For the period January 1, 2018 to March 31, 2018

"We are pleased to report strong performance during the period, driven by the positive underlying performance across all asset classes and supportive market conditions in the US and Europe. Our robust balance sheet, experience and expertise enable us to take advantage of interesting investment opportunities globally. We look forward to the rest of 2018 and beyond with great confidence as a bigger, more geographically diversified firm with a broader range of products which we hope will see us continue to deliver value to our clients and shareholders".

- Mohammed Alardhi, Executive Chairman

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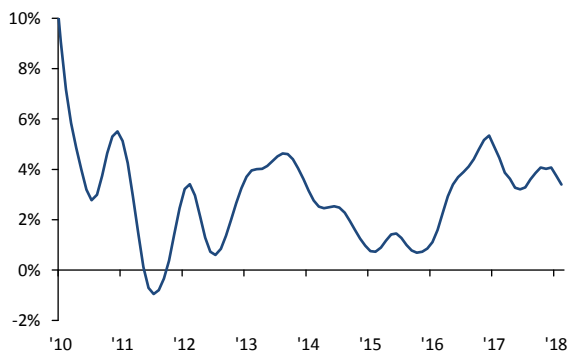
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Macro and Business Environment

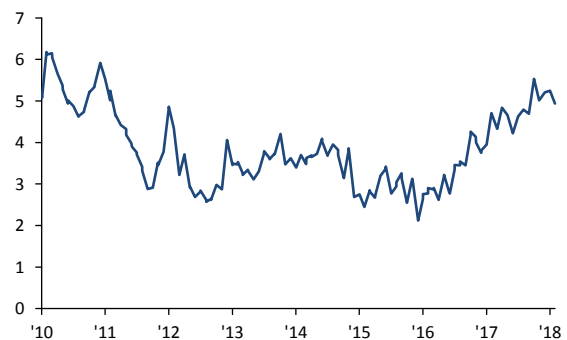
In recent months, global growth momentum has softened slightly. Growth rates across developed economies have also stabilized at above-trend levels, remaining consistent with a gradual narrowing of output gaps. Lending further weight, the Goldman Sachs Current Activity Indicator ('CAI'), which serves as a useful global growth nowcast, still suggests a pace of economic activity close to 5%. In summary, with earnings growth remaining well supported, the outlook for risky assets remains positive.

Nevertheless, while the environment remains encouraging for the immediate period ahead, it is prudent to monitor developments in certain regions and indicators for signs of a reversal. So far, the return of inflation has been taken relatively well amid well-anchored growth expectations, however this may not necessarily remain the case as time marches on.

Global Leading Economic Indicators – Three-Month Momentum



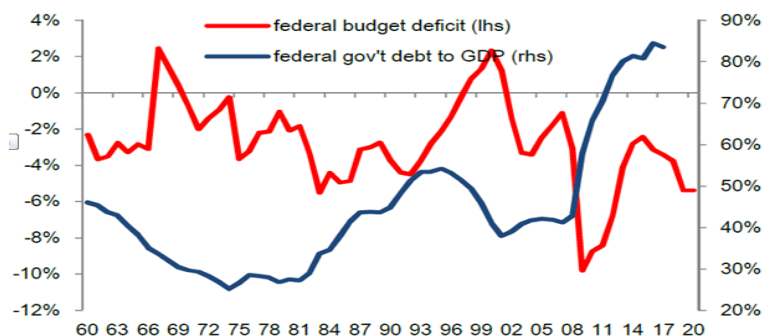
World Current Activity – Global GDP Nowcast



Source: Goldman Sachs, Investcorp

Starting with policy developments in the US, the recent federal budget deal boosted spending caps for the 2018 and 2019 fiscal years by \$143 billion and \$153 billion, respectively. The majority of the overall increase, approximately 56%, is dedicated to defense, with the balance allocated across the Trump administration's other key policy initiatives (e.g., infrastructure, opioid treatment, border protection). The package also contains \$84 billion in financial assistance for communities affected by recent natural disasters. That said, it is worth keeping in mind that the actual outlays this year will likely be limited, as the government typically takes time to implement funds, though the opposite is expected to hold true in 2019. To some extent, this is expected to help sustain growth into next year, but it also sets up a potential cliff-risk scenario in mid- to late 2020, when much of this government-spending tailwind will likely be exhausted.

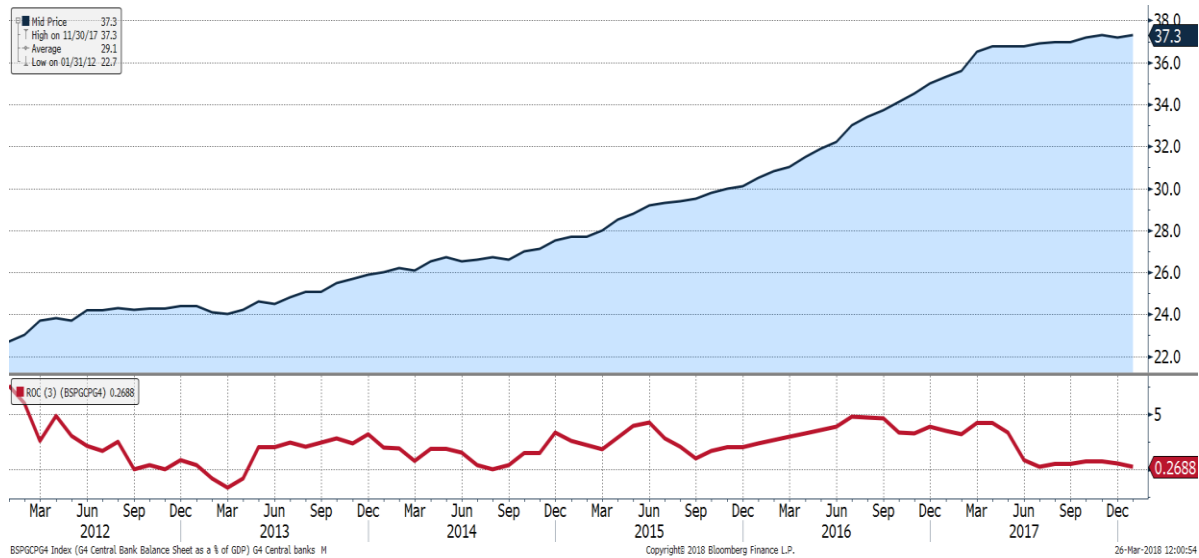
US Federal Budget Deficit as % of GDP vs US Federal Debt to GDP



Source: JP Morgan

Investcorp continues to actively monitor the global provision of liquidity to financial markets. In recent times, the academic evidence that central banks' quantitative easing policies have compressed risk premiums has grown stronger, which implies that a shift the other way could adversely affect sentiment and equity valuations. At present, G4 central banks are continuing to pump liquidity into the system, as shown below, led mainly by the ECB and Bank of Japan, but should monetary policy normalization grow more widespread, the risks are to the downside.

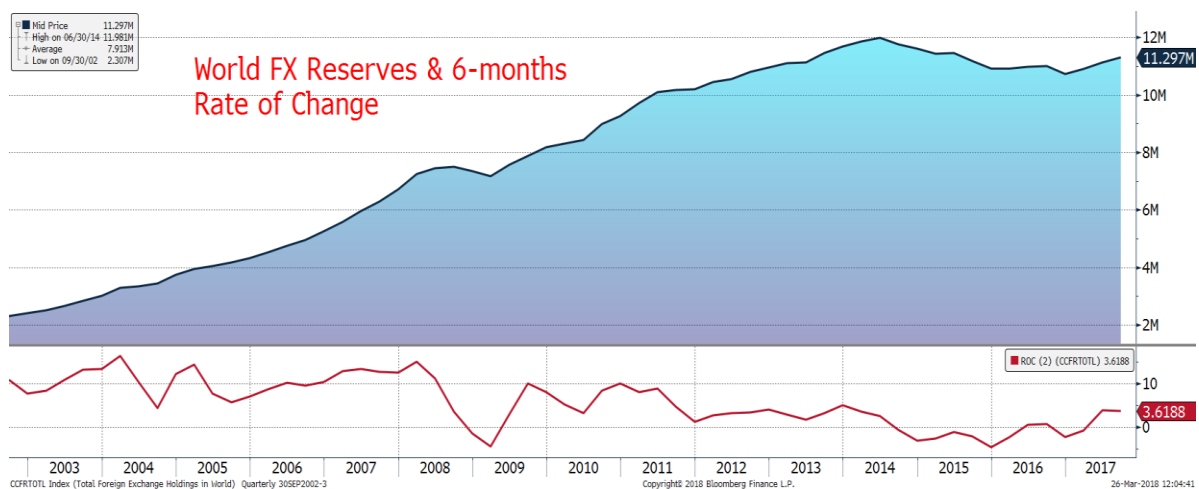
G4 Central Banks Balance Sheet (as a % of GDP); 3-Month Rate of Change



Source: Bloomberg, Investcorp

Otherwise, investors should be paying close attention to changes in world foreign exchange reserves, which also serve as potential sources of liquidity. While the pace of developed market central bank asset purchases has moderated somewhat in recent months, effectively undercutting the overall level of monetary accommodation, it has been largely offset by the increased accumulation of foreign exchange reserves by emerging market central banks.

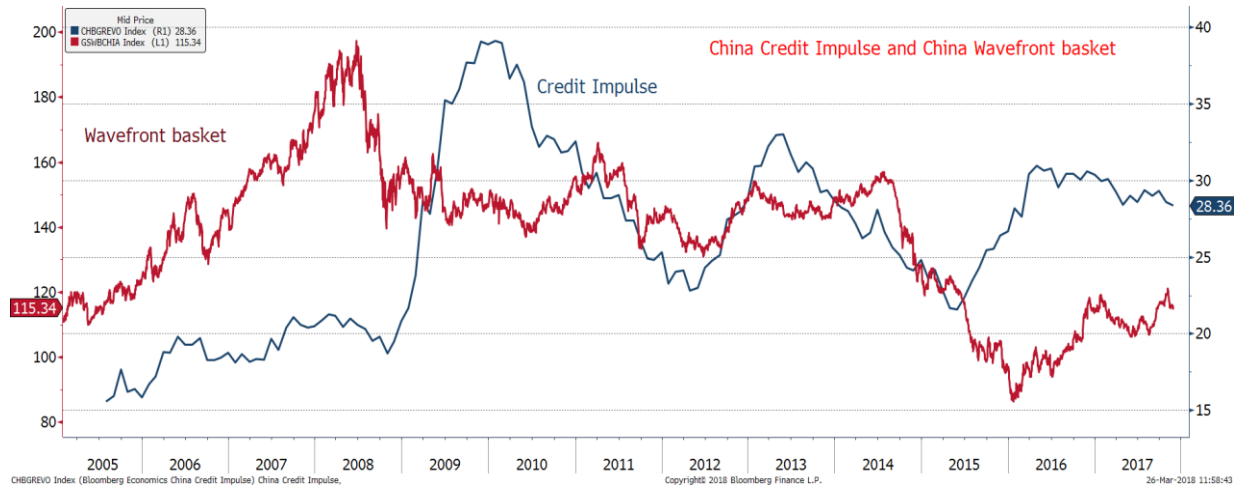
World Foreign Exchange Reserves (\$ millions); 6-Month Rate of Change



Source: IMF, Bloomberg, Investcorp

Not unexpectedly, developments in the world's second largest economy also bear watching. With Chinese policymakers prioritizing structural reforms and quality over quantity, the risks of a policy misstep have increased. As shown in the chart below, there has been a gradual tightening in the credit impulse – the change in new credit issued as a percentage of GDP – that may well have repercussions for economic growth and asset prices going forward.

Chinese Credit Impulse and Cross-Asset China Growth Factor



Source: Goldman Sachs, Bloomberg, Investcorp

Business Activity

Corporate Investment

Investcorp's Corporate Investment team in North America made two new acquisitions in Q3 FY18. In March, Investcorp announced an investment in **ICR**, a leading strategic communications and advisory firm. Investcorp is partnering with ICR, whose senior team will retain a significant ownership stake. Founded in 1998, ICR helps companies manage credibility and reputational risk to optimize shareholder value.

Also in March, Investcorp agreed to the acquisition of **KSI Trading Corp.** ('KSI'), a supplier of aftermarket auto body parts in the US. Founded in 1984, KSI is an industry-leading distributor of quality replacement auto body parts servicing over 10,000 collision repair shop customers across 25 locations in 14 states.

In addition, in February, CI North America portfolio company **TPx Communications** entered into a sale and leaseback agreement with Uniti Group Inc. with respect to metro fiber assets in California, Massachusetts, Nevada and Texas. The proceeds will be used to pay down existing debt and invest in new managed services.

In March, CI North America portfolio company **Wrench** announced the acquisition of Ragsdale Heating and Air Conditioning Inc. in a deal aimed at expanding its footprint in the Atlanta market. Ragsdale is a family-owned and operated company that has been serving Atlanta homeowners and businesses for over 21 years.

Other corporate investment news

In January, CI Europe launched the first white paper for this fiscal year. This first issue, which was titled, 'Platform Investments: Buy-and-Build Comes of Age', observes the increasing prominence of buy-and-build strategies within the large buyout space.

In February, CI Europe portfolio company **Dainese** received two prestigious ISPO Awards at the world's largest trade fair for sporting goods and sportswear. The HP1 RC 'Race Carve' Ski Jacket was chosen as the winner in the Snowsports/Multi-Layer category, while the Pro-Armor Waistcoat Back Protector was selected for the Snowsports/Protection category.

In March, CRN, a brand of The Channel Company, named **TPx Communications** to its 2018 Managed Service Provider ('MSP') 500 list in the MSP Elite 150 category. This annual list recognizes North American solution providers with cutting-edge approaches to delivering managed services. TPx is debuting on the MSP Elite 150 list because of significant strategic investments it has made in the last few years to transform from a regional competitive telecom provider to a nationwide managed services carrier – a new class of MSP.

In March, Democrat Representative Mike Quigley, representing the 5th District of the State of Illinois, visited the Chicago-based headquarters of CI North America portfolio company **Paper Source**. Mr. Quigley met with employees, toured the headquarters and assisted CEO Winnie Park with a crafting project in the Design Lab. The Congressman also learned during his visit how private equity ownership has helped Paper Source expand across the country, creating hundreds of new jobs and supporting an ecosystem of a number of US-based manufacturers and family-run businesses.

Real Estate

In Q3 FY18, the **2013 Office Properties Portfolio** was realized following the sales of Pin Oak Park Portfolio in January and Oak Creek Center Portfolio in February. Pin Oak Park Portfolio, located in Houston, Texas, is comprised of five office and medical buildings. Oak Creek Center Portfolio located in Lombard, Illinois, is comprised of nine single-story and two multi-story office buildings.

Marriott Schaumburg, a 13-story full service hotel consisting of 398 rooms and a property within the **US Hotel Portfolio**, was also realized in January.

In March, two assets were realized from the **2014 Office & Industrial Portfolio** with the sales of Meridian Corporate Center, comprising nine office buildings and located in Raleigh-Durham, North Carolina, and Flagler Center, comprising eight office building and located in Jacksonville, Florida.

On the acquisition side, four industrial portfolios were acquired and assembled into the **2018 Warehouse Portfolio** during the quarter. In January, a nine-property multi-tenant industrial portfolio located in Arizona and a seven-property logistics portfolio located in Minneapolis, Minnesota were acquired. In March, a seven-building multi-tenant industrial portfolio located in Austin, Texas and a 15-building industrial portfolio located in Chicago, Illinois were also acquired.

Alternative Investment Solutions

The balance sheet co-investment portfolio delivered returns of 0.3% in Q3 FY18. The positive performance was primarily driven by Investcorp’s hedge fund partnerships and special opportunity portfolio investments. The SSARIS portfolio, illiquid and emerging alpha manager investments also contributed positively. Alternative risk premia investments detracted for the quarter.

In February, Investcorp completed a seeding deal with **Shoals Capital Management** (‘Shoals’), which currently manages approximately \$160 million. Investcorp and other institutional investors, including a large US pension plan, provided strategic capital to Shoals. Shoals employs an event-driven strategy focused on investing across capital structure and sub-sectors in the financial sector, specifically targeting opportunities that arise from changes in regulatory and capital market conditions.

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 curve and momentum
- Modestly positive on carry

FX

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

Hedge Funds Strategy Outlook

Equities

- Neutral on equity strategies

Credit

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

Event Driven

- Modestly positive on event-driven strategies

Global Macro

- 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 Q3 FY18, loans proved their value as a safe haven as global capital markets exhibited volatility not seen since early 2016. US loans outperformed virtually every other asset class due to the floating rate nature of loans and continued economic strength in the US. European loans performed similarly in the first quarter, although increased new issuance later in the quarter put some pressure on secondary market prices.

Across both markets, investors expect continued strong performance for the year. Federal Reserve signals of continued increases in short term rates, strong economic performance across the US and EU and increasing demand from investors are all expected to support higher current yields, solid fundamentals and well bid secondary market prices for loans.

US and European CLO commentary

CLO activity in both the US and Europe proved robust in Q3 FY18. In the US, \$32.6 billion of new CLO issuances far exceeded Q3 FY17. European CLOs reached near record new issuances of €6.7 billion. Both markets saw significant refinancing and reset issuance as existing CLOs took advantage of strong markets to reduce their cost of financing and extend reinvestment periods. CLO debt spreads trended lower for much of the quarter, although the US and Europe both experienced some liability spread widening towards the end of the quarter. US AAA CLO spreads ended the quarter 17bps tighter than 2017 year end, while European CLO spreads were 2bps wider than year end. Although early second quarter issuance, particularly in the US where risk retention regulations were vacated by an appellate court, is expected to put additional pressure on CLO financing costs, most market participants expect to see supportive market conditions through the rest of the year.

Portfolio commentary

ICM took advantage of strong loan and CLO markets in a number of ways in Q3 FY18. Loan market strength was used to manage risk in ICM's portfolios and take advantage of relative value trading opportunities. Although the US portfolios experienced a few defaults in the quarter, all were expected and positions maintained in anticipation of high recoveries that have already at least partially been realized.

ICM also took advantage of CLO market conditions to manage the capital structures of several of their US and European CLOs. In the US, Investcorp Credit Management refinanced Jamestown VIII, taking almost 50bps out of the cost of debt capital. Europe closed Harvest XVIII, a €400 million new issue CLO, and reset Harvest VIII, extending the reinvestment period almost four years.

Client Activities

AUM & Fundraising

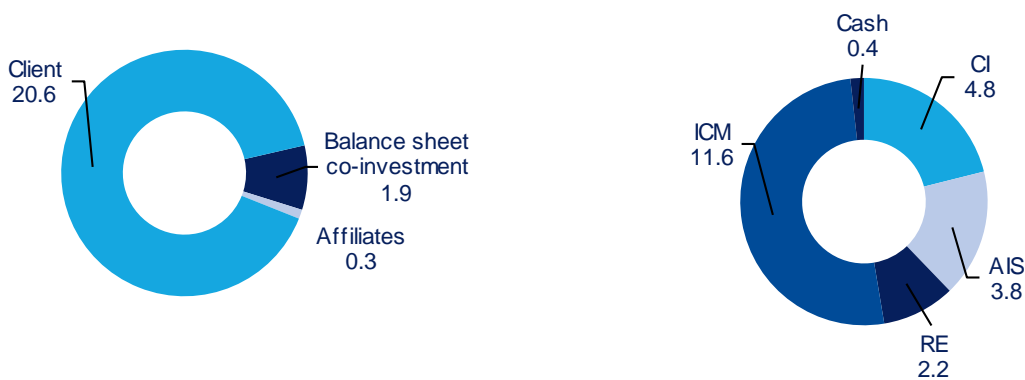
Deal-by-deal fundraising during the third quarter included the continuing placement of the corporate investment deals **ABAX** and **Kee Safety**, as well as the real estate **Midtown Manhattan** and **Florida and Arizona Multifamily** portfolios. The placement of **Credit Opportunity Portfolio I**, Investcorp's first CLO equity product offered to Gulf investors, also commenced in the quarter, as well as the **2018 Residential Portfolio** in real estate.

New AIS fundraising in the quarter totaled \$329 million. Fundraising in ICM totaled \$1.3 billion in Q3. This included the issuance of one new CLO, one CLO refinancing and one CLO reset. It also includes \$67 million of new subscriptions into the two open-ended senior secured loan funds, the ICM Senior Loan Fund and the ICM Global Floating Rate Loan Fund.

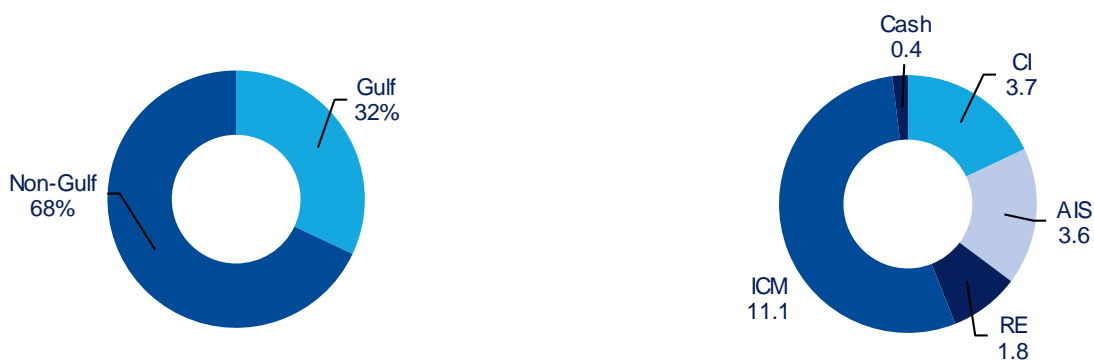
Assets under Management ('AUM')¹

As of March 31, 2018, our total AUM across all products, including our proprietary co-investments was \$22.8 billion and our total client AUM was \$20.6 billion.

Total AUM (\$ billion): 22.8



Client AUM (\$ billion): 20.6



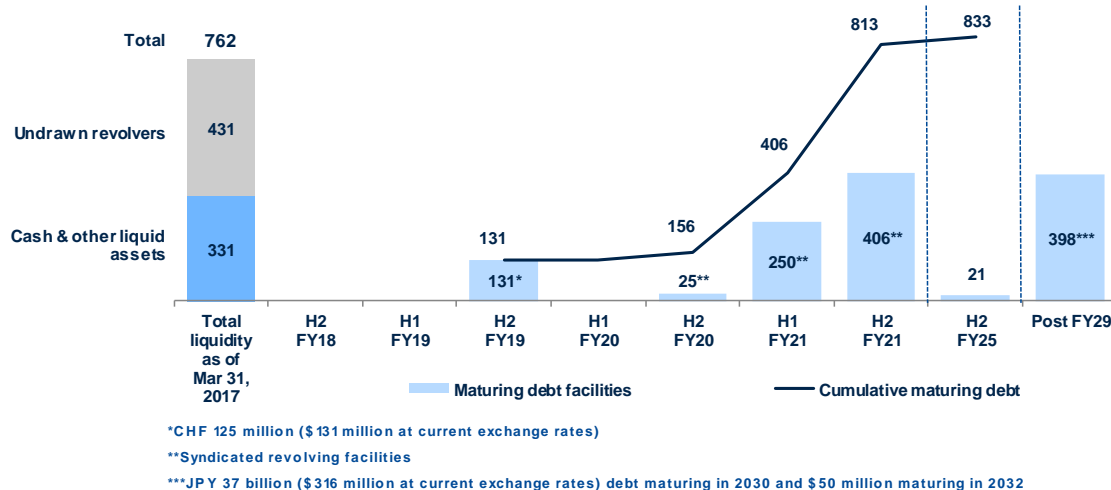
¹ AUM includes approximately \$2.4 billion of hedge fund partnerships (including exposure through multi-manager solutions), managed by third party managers and assets subject to a non-discretionary advisory mandate, where Investcorp receives fees calculated on the basis of AUM

Key Balance Sheet Metrics

	Mar'18	Dec'17
Total assets (\$ billion)	2.7	2.7
Leverage ratio ²	1.3x	1.4x
Net leverage ratio ³	0.4x	0.5x
Co-investments ⁴ /(total equity + long term capital ⁵)	0.7x	0.7x
Total accessible liquidity (\$ billion) ⁶	0.8	0.9

Co-investment assets, net of the \$50 million secured hedge fund facility, remain fully covered by permanent and long-term sources of capital.

Liquidity and Debt Maturity Profile (\$ million)



Accessible liquidity, comprising undrawn committed revolving facilities plus balance sheet cash and other liquid assets was \$762 million and substantially covers all outstanding medium-term debt maturing over the next four 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 hedge fund co-investments

⁵ JPY 37 billion debt maturing in 2030 and \$50 million debt maturing in 2032, 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 reconfirmed in April 2018
Fitch Ratings	BB / Positive Outlook	Rating and outlook confirmed in December 2017

Investcorp held its annual rating review with both Moody's and Fitch in October 2017. Moody's reaffirmed the Ba2 rating and 'Stable' outlook in April 2018. This reflects the Company's solid market position in the Gulf Cooperation Council ('GCC') region as a leading investment provider, its healthy operating margins and good asset retention. The rating incorporates the Company'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 in December 2017. The ratings outlook remains 'Positive'.

Other Corporate News

Investcorp Honors Nemir Kirdar

In January, Investcorp recognized Nemir Kirdar, the Firm's founder and former Executive Chairman, with an Eisenhower Fellowship named in his honor. The Nemir Kirdar Fellowship will honor Mr. Kirdar's legacy and distinguished leadership in advancing international understanding and building bridges across borders and cultures. It will be awarded to the Eisenhower Fellow who most closely represents the leadership skills and values of integrity and dedication embodied by Mr. Kirdar, a devoted Eisenhower Fellowships Trustee.

Investcorp Meeting with Malaysian Minister of Finance

In January, Co-CEO Mohammed Alshroogi, Head of PRM Tim Mattar and Managing Director Harsh Shethia had a successful day in Kuala Lumpur visiting key institutions. The day was concluded with a meeting with the Finance Minister of Malaysia, Johari Abdul Ghani. The Investcorp delegation briefed Mr. Abdul Ghani on the firm's latest initiatives.

EC Speaks on Gulf Economy in Davos

On January 25th, the Executive Chairman, Mohammed Alardhi, joined a panel of discussion in Davos to discuss the Gulf's economy. The panel was hosted by Bahrain Economic Development Board and moderated by John Deferios, CNN Money Market Editor. The panel also featured leaders including H.E Mr. Khalid Al Rumaihi, CE of Bahrain Economic Development Board, Bill Winters, CEO of Standard Chartered, Dr. Victor Chu, Chairman of First Eastern Investment Group, Ahmed al-Kholifey, Governor of the Saudi Central Bank, Dr. Klaus Kleinfeld, CEO of NEOM and David Rubenstein, the Co-Founder and Co-CEO of The Carlyle Group.

Investcorp at IPEM Conference

On January 25th, Head of Corporate Investment Europe, Hazem Ben-Gacem, participated as a speaker at IPEM, the International Private Equity & Venture Capital marketplace conference in Cannes, France. Mr. Ben-Gacem shared the panel with executives from GPs including Partners Group, Hamilton Lane & Eurazeo.

His panel was focused on 'Leading GPs on sourcing, adding value and exit strategies'. He also touched upon the importance of the digital transformation of China and of socially responsible investments.

Board of Directors Meeting in Oman

On January 31st, Investcorp held its first Board of Directors meeting in Oman. Executive Chairman, Mohammed Alardhi highlighted the importance of Oman to Investcorp. Ahead of the meeting, the Executive Chairman hosted a dinner for the Board members and a group of distinguished Omani business leaders at his residence in Muscat. During the dinner, the Executive Chairman talked about Investcorp's ongoing commitment in supporting the next generation of business leaders in Oman. He announced the Firm's various initiatives to promote executive education amongst Young Omanis, including its recent partnership with INSEAD Business School and most recently the Insights Forum in Bahrain partnership with Columbia University.

Investcorp Partners with Bahrain Fintech Bay

In February, Investcorp announced its partnership with Bahrain FinTech Bay ('BFB'), the largest dedicated FinTech hub in the Middle East and Africa. Investcorp will be a founding partner of BFB, where both organizations will work closely to drive FinTech entrepreneurship in Bahrain.

Corporate Contact Information

Investcorp has offices located in Manama, Riyadh, Abu Dhabi, Doha, London, New York and Singapore.



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