The Investcorp Newsletter

INVESTCORP

THE REVIEW

Georg Jensen:

Scandinavian luxury brand acquired

Plus:

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Investcorp diversifies funding profile with successful $250 million five-year bond issue

Debut dollar-denominated bond follows successful loan financing in June 2012.

In November last year Investcorp announced that its wholly owned subsidiary, Investcorp S.A. had successfully issued a $250 million 5-year bond, priced at 8.25% per annum. As the first ever public debt issue by a non-investment grade asset manager out of the Middle East in the capital markets, this is a milestone event for us. The bonds, which mature in November 2017, are guaranteed by Investcorp Bank.

The offering was well received from a wide array of over 95 global investors, resulting in an oversubscribed order book that included private banks subscribing for 60% and institutional investors subscribing for 40% of the offering. The distribution of bond investors was geographically well-diversified with 46% of investors from Europe (including the UK), 27% from the Middle East, 15% from Asia and 12% from the United States.

Commenting on the transaction, Rishi Kapoor, Chief Financial Officer, said: "The success of our first dollar-denominated public bond issue demonstrates the appeal of Investcorp's business model to a broad international debt investor base. Following on from our recent successful $529 million loan financing in June, the bonds will add further flexibility and duration to our overall liquidity and funding profile and provide a robust platform for the pursuit of our business objectives over the medium term."

Bank of America Merrill Lynch, Citigroup, Credit Suisse, ING, JP Morgan and RBS were joint lead managers and bookrunners on the offering.

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THE REVIEW

Building for the future

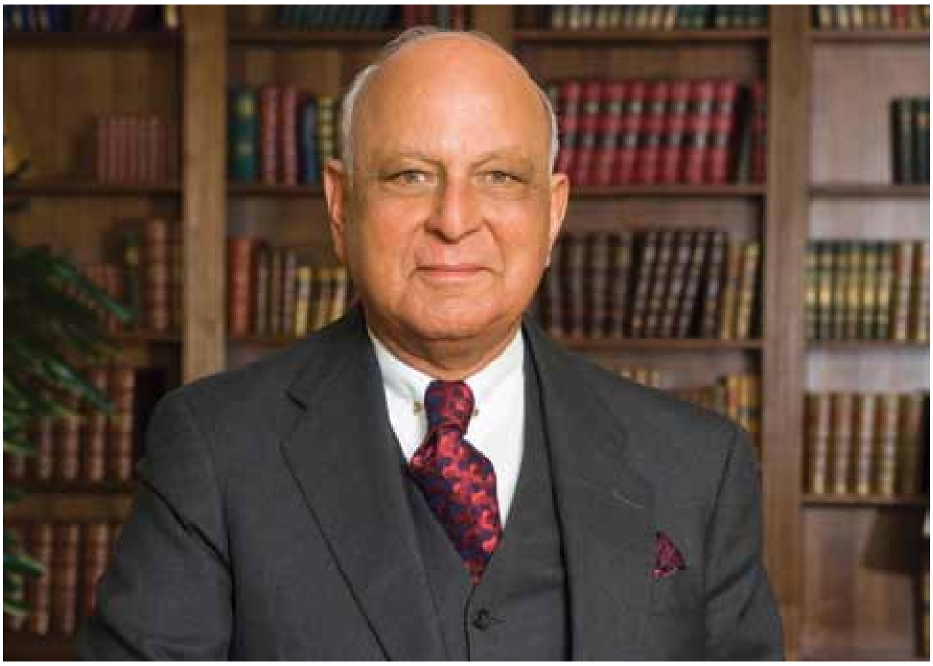
To begin, I wanted to highlight some key successes for 2012 as well as for the first six months of our new financial year.

In our last set of full year results, despite challenging global economies, we delivered our third year of positive net income since the 2008 financial crisis. During the year, we delivered $649 million in proceeds to investors, a significant achievement for which we should be proud as it is a testament to the strength of our business model.

Building on these successes, the start of our new financial year has been exceptionally busy both in terms of deals and exits. During the summer, we acquired Archway and Esmalglass for a combined consideration of $550 million with Esmalglass representing our first acquisition in Spain, a significant achievement for our European investment team. Within the luxury brand space, in which we have significant expertise of building global luxury brands, we acquired Georg Jensen in Scandinavia for $140 million. This represents a fantastic addition to our portfolio with its globally respected 100 year history of design excellence.

Moving into the Middle East, our Gulf Opportunity Fund acquired a 35% stake in Kuwait's Automak, a major player in the vehicle rental and fleet leasing business with over 4,500 vehicles and a blue chip client base.

Our real estate teams have also been exceptionally busy. In the US, we acquired a series of office properties in North Carolina and Texas totalling 900,000 square feet for $140 million and soon followed with the acquisition of a multi-family property portfolio in Texas for more than $100 million.



A number of our portfolio companies have also done exceptionally well. Fleetmatics listed on the NYSE in October and was well received by the market. In addition, we completed the sale of FleetPride, North America's largest truck and trailer parts distributor, for more than $1 billion as well as the sale of CCC Information Services.

We also recently completed a $250 million international bond issue, strongly supported by investors from across the globe with significant demand from Europe, the Middle East, Asia and the United States.

As we enter a new year in our long history, our business remains strong, well financed and continues to enjoy tremendous support from both shareholders and strategic partners upon which its success is founded.

For 2013, we will continue to build our business and our international franchise. We will strengthen our historically strong Gulf presence via a series of planned new office openings and will seek to capitalize on the opportunities that exist within this region.

I believe we are uniquely positioned for steady and sustained growth in the year ahead and I would like to thank our hugely talented staff, whom together have made Investcorp the globally recognized and quality brand that it is.

Nemir A.Kirdar
Executive Chairman and CEO

Continuing our portfolio of luxury brands

On the 5th November last year we acquired Scandinavia's leading luxury retailer Georg Jensen, for $140 million from private equity group Axcel Capital Partners. As part of this transaction, Investcorp has teamed up with David Chu, the luxury brand entrepreneur and founder of Nautica, who will join the company as Chief Creative Director and Co-Chairman of the Board.
Also joining the Board will be Guy Leymarie, former Chief Executive Officer of DeBeers Diamond Jewellers, Cartier International and Dunhill.

Previously Tiffany and Gucci. Now Scandinavia's Georg Jensen

"Georg Jensen stands to become one of the leading hard luxury brands in the 21st century."

Georg Jensen is a global luxury brand that designs, manufactures and distributes jewelry watches, fine silverware and high-end homeware. With a history that spans over 100 years, the Georg Jensen brand has a deep heritage in silversmith and represents quality craftsmanship and timeless designs.

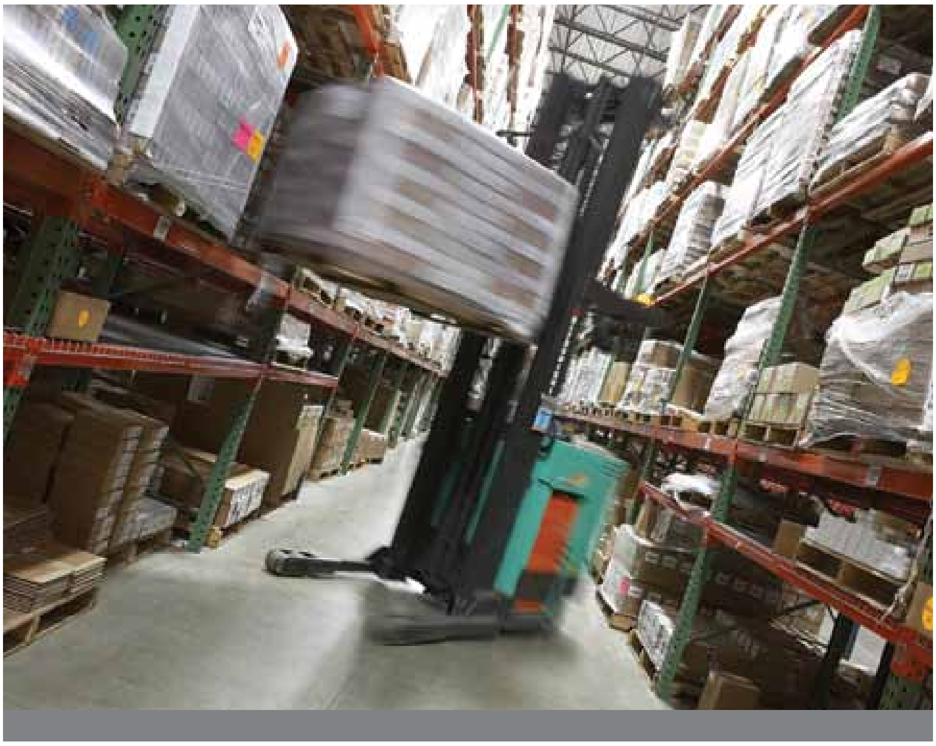
Hazem Ben-Gacem, Head of our European corporate investment activities, comments: "We are pleased to be entrusted with taking Scandinavia's preeminent luxury brand to a global level. We believe that in partnership with the current solid management team, led by Ulrik Garde Due, and luxury retail legend David Chu, Georg Jensen stands to become one of the leading hard luxury brands in the 21st century, leveraging on its brand legacy and a unique Scandinavian design DNA that stems from the early work of Mr. Georg Jensen himself."

Georg Jensen was founded by the eponymous Danish designer in 1904. Today the business has 94 fully owned stores and three franchised stores across the world. The vertically integrated Company has approximately 1,200 employees worldwide. In 2011, the Company had sales of approximately $160 million. Georg Jensen is part of the Royal Scandinavia Group which was bought by Axcel in 2001.

Ulrik Garde Due, CEO of Georg Jensen since 2007, said: "We are delighted to be working with Investcorp, which has an unrivalled experience of building luxury brands. Investcorp's commitment to developing the brand will ensure we are able to further strengthen Georg Jensen's position globally as the leading Scandinavian luxury lifestyle brand."

David Chu, the new Co-Chairman of the Board and Chief Creative Director, says: "I am proud to team up with such an outstanding management team to together lead Georg Jensen forward. It has a world famous design heritage and a global reputation for outstanding luxury product and quality that we will take to the next level."

Investcorp acquires Archway Marketing Services, Inc.



In July 2012, Minnesota-based Archway Marketing Services, Inc., a provider of marketing logistics and fulfilment services in North America, was acquired for approximately $300 million.

Archway is a leading provider of marketing logistics and fulfilment services on behalf of its large group of Fortune 500 clients. Archway's solutions include fulfilment services, vendor management, digital print, print management, transportation management, consumer promotions, business intelligence and decision support. Each solution is designed to reduce the cost of marketing logistics, improve marketing execution and enhance the brand experience at every touch point of their clients' marketing initiatives.

Archway has been ranked on the Inc. 500 | 5000 list of the fastest growing private companies for three consecutive years. Investcorp will work closely with Archway's management team to further grow its customer base and consolidate the industry.

"Over the past four years, despite economic headwinds, Archway has more than doubled in size, broadened its service offerings, and emerged a leader in the marketing logistics and fulfilment industry," explains Chris McCollum, a Managing Director in the North American corporate investment team. "We look forward to partnering with Archway to continue this strong growth and expansion of its leadership position in this growing industry."

Archway was acquired from an investor group led by Tailwind Capital, Black Canyon Capital and members of the management team.

"Investcorp's operational and financial resources are tremendous assets to Archway as we seek to build on our success - increase our scale, broaden our service offerings and become more valuable to the clients we serve," says Clay Perfall, CEO of Archway. "We're excited by the opportunity to continue our progress with the support and sponsorship of Investcorp."

Backing the leader in ceramics color technology

Esmalglass, a leading global supplier of intermediate products for the ceramics industry, was aquired by Investcorp in August 2012. It was purchased from international investment firm 3i and some of the company's founders. While our corporate investment team has been investing in leading businesses in Europe for 30 years, this marks our first transaction in Spain.

Established in 1978 in Villareal, Spain, Esmalglass produces high quality ceramic glazes and colors, as well as inkjet inks, a revolutionary printing technology to decorate tile surfaces.

The company expanded its product portfolio of frits and glazes into colors through the acquisition of Itaca in 1999, transforming it into a leading producer of intermediates for the ceramic industry.

Dedicated to highest quality products, customer-oriented service, world class technical assistance and continuous innovation, the company has become a global leader in its sector, leveraging its position in ceramic colors to drive the ongoing transition towards inkjet inks.

Esmalglass' products are sold to more than 450 customers worldwide. The company has more than 1,000 employees and a global presence with manufacturing and mixing plants in Spain, Brazil, Portugal, Italy, Indonesia, Russia and China. These global activities are also supported by large design and technical assistance teams in all the major ceramic markets across the world. In 2011, Esmalglass generated a turnover of approximately €270 million.

Daniel Lopez-Cruz, Managing Director in our corporate investment team in London, said: "Our depth of experience in a range of markets has enabled us to identify interesting investment opportunities in Europe in these challenging economic times. Esmalglass operates in a global industry that has been consistently growing over the last decade. The company markets a wide range of mission critical intermediate products for ceramic and porcelain tile manufacturers around the world. It also provides unparalleled design support and technical assistance to its clients".

"We're excited about the company's growth prospects due to its strong franchise in emerging markets – over 50% of sales come from Latin America, Middle East and Asia – and its leading position in the fast growing inkjet ink technology sector. We're also backing an extremely experienced management team that has been responsible for driving the company to its current preeminent position and which is fully committed to taking Esmalglass to its next phase of development."

Dr. Vicente Bagán and Dr. Antonio Blasco, Co-CEOs of Esmalglass, commented that they view Investcorp as an ideal partner to back and support the company's international growth plans. "This transaction provides us with a strong capital base and an experienced partner to pursue these opportunities. In addition, the reinvestment alongside Investcorp by the management team and some of Esmalglass' original founders provides the required continuity to the company's strategic plan."

esmalglass·itaca grupo

CEO James Travers visits the NYSE trading floor to witness Fleetmatic's first trade.

IPO for Fleetmatics

One of our current portfolio companies, Fleetmatics, completed an Initial Public Offering and began trading under the symbol "FLTX" on the New York Stock Exchange on 5th October last year. It offered 7,812,500 shares of its common stock at a price to the public of $17.00 per share. Barclays and BofA Merrill Lynch acted as joint book-running managers for the offering, with RBC Capital Markets, Stifel Nicolaus Weisel, and William Blair as co-managers.

Fleetmatics is a leading global provider of fleet management solutions for small and medium-sized businesses delivered as software-as-a-service (SaaS). The company's solutions enable businesses to meet the challenges associated with managing local fleets, and improve the productivity of their mobile workforces, by extracting actionable business intelligence from real-time and historical vehicle and driver behavioral data.

Fleetmatics' intuitive, cost-effective Web-based solutions provide fleet operators with visibility into vehicle location, fuel usage, speed and mileage, and other insights into their mobile workforce, enabling them to reduce operating and capital costs, as well as increase revenue. Fleetmatics serves more than 16,000 customers, tracking more than 280,000 vehicles worldwide. Fleetmatics' solutions are marketed and sold under both the Fleetmatics and SageQuest brands.

James Travers and the team ring the opening bell at the NYSE.

FleetPride sold to TPG for over $1 billion

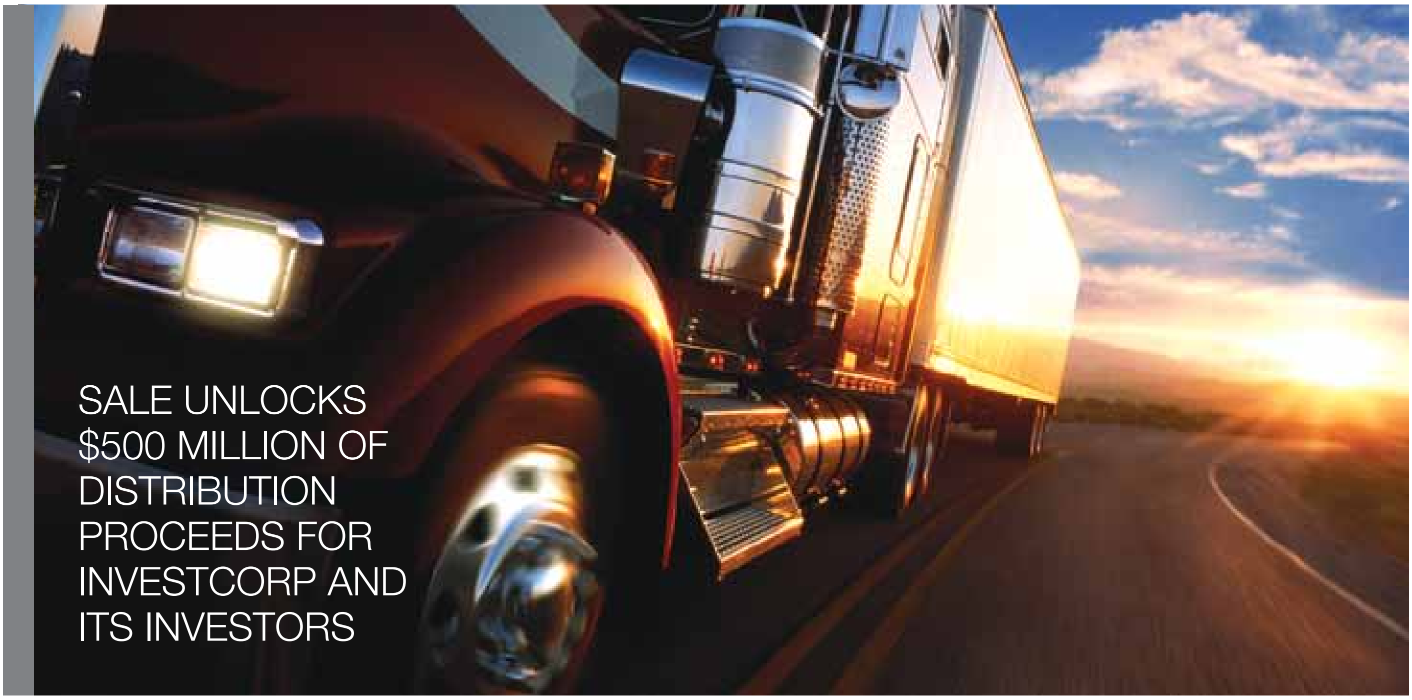
In November 2012, we announced the sale of FleetPride, North America's largest truck and trailer parts distributor, to TPG, one of the largest private equity investment firms globally, for more than $1 billion.

Steve Puccinelli, Managing Director and Head of Corporate Investment for North America and Europe explains: "FleetPride represents the type of core, mid-market corporate investment that we typically target in the US.

We worked closely with FleetPride's management team from a very early stage in our investment to successfully implement strategic growth plans, thereby enhancing the company's operations. The success of the FleetPride investment is a testament to our ability to grow our portfolio companies, even during challenging economic conditions, while maximizing the returns for our investors."

FleetPride is an active participant in the $22 billion US truck and trailer part aftermarket, and is now the largest truck and trailer parts distributor in North America, with a presence in key commercial and economic hubs throughout the United States.

Since its acquisition of FleetPride in 2006, Investcorp has supported a total of 31 add-on acquisitions by the company, strengthening its cross-country supply chain and adding total acquired sales of over $270 million. We have helped increase FleetPride's branch count to 248 with operations in 45 US states. Our initiatives increased the company's EBITDA from $52 million at the time of purchase in June 2006 to over $100 million forecasted for 2012, helping generate a net return of more than 200% for investors.



FleetPride
Heavy Duty Experts

Investcorp completes the sale of CCC Information Services

Active period of sales results in proceeds of more than $1 billion for Investcorp and its investors.

Investcorp has successfully completed the sale of CCC Information Services to Leonard Green & Partners, L.P.

CCC is the nation's leading provider of advanced software and workflow tools to the insurance automotive claims and collision repair industries. The sale unlocks approximately $550 million in proceeds for Investcorp and its investors.

The sale of CCC closes out an active period of sales for Investcorp in North America. In November, we completed the $1 billion sale of FleetPride to TPG (see page 11). Together, the CCC and FleetPride sales have netted more than $1 billion of proceeds for Investcorp and its investors.

Steve Puccinelli, Managing Director at Investcorp and Head of Corporate Investment for North America and Europe said: "CCC is a true market leader, and we have enjoyed a successful partnership with the company's stellar management team over the past several years. Working alongside management, Investcorp was able to support CCC's business objectives, its expanded market presence, and, through substantial investments in technology and infrastructure, its development of new products to further penetrate the insurance and automotive markets and strengthen and improve the company's product offering. This is emblematic of the value that Investcorp brings to each of its portfolio companies."

During the period of Investcorp's ownership since February 2006, CCC's EBITDA grew organically by more than 50%.

INFORMATION SERVICES INC.

Investcorp and Kingsguard Advisors form strategic partnership

Former Goldman Sachs executives Rishi Chadda and Cyrus Pouraghabagher bring global macro fixed income expertise to Investcorp's Single Manager Platform.

In October last year, we announced a strategic partnership with Kingsguard Advisors, LP, a New York-based investment firm founded by former Goldman Sachs senior executives, Rishi Chadda and Cyrus Pouraghabagher. The partnership will offer Kingsguard support and stable growth capital while providing Investcorp and its investors access to a global macro-driven fixed income strategy.

Kingsguard Advisors is a global macro-driven fixed income investment firm that seeks to generate profits from opportunities across the entire fixed income spectrum including rates, volatility, credit and mortgage markets. The firm is designed to create consistent value for its investors across market cycles with a strong emphasis on capital preservation.

Kingsguard will become the latest investment advisor to join our Single Manager Platform, which now has six single managers and a total of more than $1.8 billion in assets under management. We will provide Kingsguard with an initial investment as well as risk oversight, marketing, and operational support. Historically we provide initial seed capital ranging from $50 million to $100 million in funds to be managed by the single managers.

Kingsguard will focus on capitalizing on market opportunities across the entire fixed income spectrum including the rates, volatility, credit, and mortgage markets. The Kingsguard team has deep expertise in macro analysis, fixed income trading, and fundamental and technical research.

"We are delighted to partner with Rishi and Cyrus, and to have their level of specialization and expertise in global macro fixed income strategies available on the Single Manager Platform," says Deepak Gurnani, our head of hedge funds and Chief Investment Officer. "We've held the view for a long time that emerging managers have the ability to play an important role in the management of an investor's portfolio. The partnership with Kingsguard provides Investcorp and its investors with exposure to an emerging manager with insight into opportunities across a full range of fixed income products."

Messrs. Chadda and Pouraghabagher have a combined 28 years of experience at Goldman Sachs, where they focused extensively as principal risk takers across liquid fixed income products, mortgages and structured credit markets.

"We're excited about the opportunity to partner with Investcorp, which has a strong record of success seeding early stage investment funds such as ourselves," says Mr. Chadda.

Mr. Pouraghabagher explains: "Investcorp provides the investment and operational risk management support necessary to grow our firm so that we can focus on delivering alpha to our investors."

Most recently, Mr. Chadda managed a multi-billion dollar proprietary portfolio as head of Goldman Sachs' Liquid Products Group, and focused primarily on fixed income interest rate products including governments, futures, derivatives and mortgage securities.

Mr. Pouraghabagher led Goldman Sachs' Mortgage Derivatives and Non-Agency RMBS trading desks. He was instrumental in navigating the firm through the 2007/2008 credit crises as lead manager of the firm's multi-billion dollar subordinate credit risk across residential mortgages.

"Kingsguard's macro approach to fixed income investing is very well positioned to succeed in the current market environment," adds Nick Vamvakas, head of development for Investcorp's single manager platform. "Rishi and Cyrus have a tremendous amount of relevant experience that will serve them and our investors well."

Kingsguard officially launched operations on 1st November 2012. The investment team is led by Messrs. Chadda and Pouraghabagher who began their careers together as analysts in the Mortgage Department at Goldman Sachs and worked together in various positions over the past 15 years.

Shifting Equilibrium in Private Equity

Scott Freidheim, CEO - Europe, Investcorp.

Over the past decade or so, private equity has increased in terms of number of firms from just under 1,800 to 4,500 at the end of 2011 and assets under management have increased from below $400 billion to $2 trillion. Along with this shift in increasing power came intensified competition. For private equity and its participants, that continued shift appears to be poised to reverse. The forces behind both demand and supply are pushing to create a new equilibrium.

The Demand Side

Since 2000, fierce competition has arisen from the steady rise in private equity dry powder combined with the pre-financial crisis ease of access to debt capital from banks. Average purchase prices for acquired companies based on the EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) multiples paid in transactions increased from 7.5x in 2002 to 9.5x in 2008.

Today, dry powder, or uninvested capital committed to private equity funds, stands near record highs at $1 trillion. However, since the financial crisis, the lack of access to similarly high pre-crisis levels of leverage, or debt capital, has been one of the key factors that has made it difficult for private equity firms to put their capital to work and valuation levels have softened some. In 2011, valuations of private equity acquired companies were 9.1x in the US and 8.9x in Europe. It is because dry powder remains at 87% of all time highs that valuations have not been materially affected. This very well may change over the next two years.

> "In an investment world where the search for yield has been challenging, private equity has delivered. The asset class may well be getting better for all participants who can weather the storm."

Very strong fundraising years in 2006 through 2008 filled private equity coffers with capital. Much of that capital was put to work in pre-financial crisis years. However, much remains. With those capital commitments came provisions that private equity funds were to invest committed capital in a five year period. It has been difficult for funds to put the money to work, especially capital raised in 2008. With the implementation of Basel III and tougher regulatory capital standards, financial institutions are forced to reduce, not increase, the assets they hold. Thus, leverage has been more difficult to come by. At times, private equity firms have been able to convince their limited partners to extend the five year investment period. Today, however, it is very difficult to negotiate an extension on a commitment that was made pre-crisis, as the environment and their portfolio is very different today on so many dimensions. Thus, much of the dry powder from pre-crisis fundraising will be disappearing over the next 12 months. Even though private equity funds have very high levels of dry powder, firms are trying to fundraise in advance of this expiration of committed capital. Today, more than 1,800 funds are on the road. This is near an all time high number seeking to raise close to $800 billion. The task is a very challenging one. Fundraising, which declined dramatically from $679 billion in 2008 to $306 billion in 2009, failed to recover in 2011 when only $268 billion was raised.

In Europe, it is particularly challenging. Only 29% of funds that closed in the second quarter of 2012 managed to conclude their fundraising in under a year with almost half of funds taking 19-36 months.

Fundraising is also taking the longest for those targeting Europe. In 2011, PE funds only raised approximately 40% of what they targeted compared to 110% at the peak in 2007. Thus, the demand side appears poised to soften meaningfully, especially in Europe.

The Supply Side

Private equity has committed growing amounts of capital over the past decades by acquiring family owned companies, publicly traded companies, subsidiaries of publicly traded corporations and other private equity owned companies.

Much attention has been given to the likely increase in supply of companies that have been and will continue to become available from governments and corporations looking to divest assets to strengthen their financial condition. However, the private equity industry itself should be a powerful source of supply as private equity funds sell their record setting number of portfolio companies.

In the five years preceding the crisis, private equity deal value exceeded two trillion dollars. This compares to less than $500 billion for the five years before that. However, due to the lack of available leverage and lack of clarity in the economic environment in North America and Europe, the annual transaction value amounts since the financial crisis are one fifth the average levels in 2006 and 2007. Notwithstanding, from 2005 to 2011, the total number of companies owned by private equity with an enterprise value of $150m+ in North America and Europe has increased every year.

Private equity firms are ultimately in the business of buying and selling companies. The terms of their funds demand that they eventually sell their companies. Historically, private equity holds investments for four years. Since the financial crisis, it has been difficult to monetize these investments due to the lack of an adequate initial public offering market, the conservative nature of corporate buyers that have focused on strengthening their balance sheets and light private equity activity due to lack of leverage.

The pressure on private equity firms to release this supply is mounting. The two trillion in deal value deployed in the five years preceding the crisis remains largely in private equity hands. These companies eventually have to come to market. Additionally, as many funds are actively in the market seeking new funds, the managers have great incentive to demonstrate to their limited partner investors exits to show their ability to navigate in these difficult market conditions. Combined, these forces will increase the supply of companies available over the coming years.

Over the next two years, we may see a reduction in demand from private equity for assets at the very time that there is meaningful growth in supply. In an investment world where the search for yield has been challenging, private equity has delivered. The asset class may well be getting better for all participants who can weather the storm.

Broadening our real estate holdings with new office properties portfolio

In September last year, Investcorp made two real estate equity acquisitions and one debt financing investment in six high-quality office properties across key markets in the US. The transactions equate to more than 900,000 square feet of real estate and the combined investment totals over $140 million.

The two acquisitions represent three properties in the Keystone Office Park located in Raleigh, North Carolina and one property in the Duke Bridges office park complex located in Frisco, Texas. Investcorp also acquired a mezzanine loan secured by two office properties located in the Denver, Colorado suburb of Lakewood. The properties were combined to form the 2012 Office Properties Portfolio.

These transactions reflect our commitment to invest through both equity and debt financing in high quality, stable real estate assets at attractive valuations, and in close proximity to commercial and economic hubs.
The properties, with occupancy rates in excess of 95%, are leased by longstanding tenants including; the National Institute of Health, in Raleigh; Oracle, in Frisco and the law firm BakerHostetler, in Lakewood.

Mohammed Al-Shroogi, President, Gulf Business said: “Our real estate team has a proven track record of finding high quality assets in metropolitan communities with strong diversified employment and economic growth above national levels that provide stable and attractive cash flows. These transactions are consistent with that theme.”

Al-Shroogi added: “Office properties in high growth markets with strong demand generators are on the rebound, and can be purchased at better valuations than similar properties in major cities. Rooted in our value-oriented investment approach, we also see significant opportunities for high-quality, performing debt investments that can be acquired or originated at attractive yields.”

“Our real estate team has a proven track record of finding high quality assets in metropolitan communities.”

Oracle, a tenant at Duke Bridges office park.

1,000+ multi-family apartment portfolio acquired in Houston, Texas

Sheffield Square apartments, Texas.

Investcorp's US-based real estate arm acquired an interest in a portfolio of four multi-family properties in Houston, Texas. The May 2012 acquisition is consistent with our recent focus on high-yielding, stable real estate assets in the major metro areas of the United States.

The Texas Apartment Portfolio consists of four adjacent properties of 1,076 units in the master-planned Copperfield community of northwest Houston. The properties recently underwent a $6 million renovation and the portfolio is currently 95% occupied.

"Vacancy rates for rental apartments have declined, as home ownership in the United States has fallen to its lowest level in more than a decade," said Brian Kelley, a Principal in our real estate team.

"This shift, in the context of relatively modest new supply, has created interesting opportunities in the multi-family sector."

Investcorp financed the transaction with 10-year, fixed-rate financing.

Ryan Bassett, Vice President, real estate team, said: "The Houston metro area continues to be one of the largest and strongest job producers in the nation, and many of Houston's new jobs have been in the Energy Corridor of West Houston.

This transaction is in line with Investcorp's real estate investment approach of seeking out stable assets in major metro areas with strong fundamentals at attractive valuations. Also last year, Investcorp acquired a portfolio of office, industrial, and retail properties in the "North Bay" region of the San Francisco Bay Area for approximately $65 million.

Adding to our multi-family real estate holdings in Texas

In December 2012, our real estate team acquired a second portfolio of multi-family properties in Texas for more than $100 million. The Texas Apartment Portfolio II consists of 1,900 units across five properties in the dense metropolitan areas of Austin, Dallas and Houston, and follows Investcorp's acquisition of four multi-family properties in Houston earlier in the year (see above).

In this most recent transaction, Investcorp acquired three properties in the energy-centric city of Houston, one in Austin, home to a vibrant technology market, and one in Dallas. Collectively, the five properties currently have 91% occupancy.

Brian Kelley, Principal said: "We view Texas as a very attractive marketplace when considering multi-family property investments. Relatively low levels of unemployment, local job creation, a healthy rental market, strong underlying asset characteristics and the overall state of the economy have created very attractive conditions for real estate investment."

Four of the properties are being managed by Mosaic Residential Management while one is managed by The Carroll Organization. The Carroll Organization has also taken a joint venture interest, alongside Investcorp, in one of the Houston properties.

Mr. Kelley went on to say, "We teamed up with experienced partners who will assist us in executing our investment strategy as we continue to find opportunities where we can invest in stable assets in economically strong areas."

Villas at Edgewater, Houston

The Sphinx & the Chameleon

or Managing corporate identity

To change or not to change?
Human nature, including that of financial analysts, does not like change, because there is no change without some degree of risk. The American conglomerates of the 70s (LTV, US Industries, etc.) whose very purpose was permanent change of scope, based on logic that was essentially financial, took hard lessons. After high initial enthusiasm, these "chameleons" rapidly bit the dust. Analysts rejoiced.

> "If you want to make enemies, try to change something."
>
> Woodrow Wilson, 28th President of the United States.

Meanwhile, no one wants to stand still. The world is changing faster and faster, and all markets experience changes that require making adjustments to survive. One can no longer afford the stance of the French luxury company that reveled in saying, not so long ago, that the last little tremor in its market had been the Bolshevik revolution of 1917. This company had to adapt , not without some bloodshed, to the modern world. The sphinx itself, as ancient and storied as it was, had to endure changes forced on it by both nature and man.

Change, while necessary, is only understood if brought about with some degree of continuity, and preferably simple continuity, making it possible to recognize the identity of the company in question at any moment. Even if they have evolved considerably over the years, companies such as Boeing, Nestlé, Toyota and Air Liquide have maintained identities perceived as clear, and are always considered by investors as, at the very least, solid and reliable investments. During an economic downturn, confidence in them remains higher, analyses more indulgent and "sell"recommendations less hasty.

Conversely, investors in general, and the stock market in particular, are not especially fond of identities that are unclear or change too fast. The most surprising case is perhaps that of General Electric: despite excellent financial performance and forecasts that have always been reliable, which should make GE a market star, its stock price has remained hopelessly flat for over 15 years. What's going on? Is the market stupid?

Fact is, the "traditional" GE had a clear identity: from turbines to locomotives, it was an industrial company manufacturing heavy electro-mechanical equipment, with ramifications to the end-consumer that everyone understood (e.g. lamps and household appliances). The only "odd duck" was perhaps the chemicals division of which Jack Welch was, for that matter, the brilliant President. Over the following years, one saw GE become an important financial player with GE Capital, and then it went on to branch out into media and entertainment with NBC Universal, from television to amusement parks.

When, in the same month, one could see CNBC (the financial TV channel, subsidiary of GE…) categorize its then parent company's stock as "Industry", "Financial", "Communication", or "Conglomerate", the identity had clearly been lost. The financial analyst who understands large turbines is disoriented when he hears that an important factor of success for GE is maintaining respectable audience numbers for its prime time television programs. The financial analyst specialized in industrial competitiveness has to scratch his head and ponder how, after weathering out the end of the legendary "Friends", NBC will be able to survive after "The Biggest Loser" or "The Office"… We no longer know if Mr. GE is an engineer, a financier or a young hip screenwriter in blue-jeans.

The identity has been lost and the stock market no longer understands.

The share price is listless even if profits are excellent and on target. The well-known holding company syndrome settles in, as one wonders whether there isn't some fat ("latent slack") that needs to be trimmed at headquarters. The CEO is sniped at, as no one believes he can possibly be on top of the game in each of his potpourri businesses.

The same scenario unfolds, only much worse, if the change of identity is not only misunderstood, but in addition, financial performance turns mediocre or bad. The case of Sony, the erstwhile creative engineer (Walkman, etc.) fluttering towards the risky glitter of Hollywood, is now a classic.

It would then seem that the firms appreciated by investors have a clear identity with, most often, a core business that is well understood (and generally a strong brand), offering satisfactory profitability that the management gives the impression of being on top of. It comes as no surprise to find among the Fortune lists of the most admired companies names such as Apple, Google, Berskshire Hathaway, Johnson & Johnson, Amazon and Procter & Gamble. At the other extreme one naturally often finds complex companies, often losing money, the worst of which are no longer there due to bankruptcy (AEG-Telefunken, US Industries), bail-out (Westinghouse, Transamerica) or drastic reorganization (Daewoo, Alcatel-Lucent, AOL – Time Warner, ITT), the most ancient of them having been covered by the sands of time: Litton, LTV, Slater Walker, Montedison…

Consequently, what approach should one take when dealing with a problem as complex as corporate identity? The analysis presented here, inevitably oversimplified, is based on a rugged tripod approach that is interactive and progressive: the portfolio of businesses, the corporate culture and the CEO.

The portfolio of businesses

The company's type of activity is naturally the first element of corporate identity. Goodyear makes one think about tires, Danone about yogurt, and Gillette about shaving.

Maurice Marchand-Tonel.

If the portfolio evolves in a way that can be understood, without excessive fits and starts and based on a credible strategy, all goes swimmingly. IBM thus shifted from being essentially a "hardware" company to being mainly a "software" firm, with no screaming and howling from financial markets, who understood and approved the strategy, with a continuum in IBM's identity and without surprises.

Taking the complex-to-simple route, the evolution of the Schneider group also demonstrated the virtues of continuity and clarity. In the 70s the group had the image of a conglomerate shaped by a complex history. It then gradually jettisoned all of its units in mechanical engineering (Creusot-Loire, the Ernault-Somua machine-tools, etc.), chemical engineering (Speichim, etc.) and construction/public works (Spie Batignolles) focusing on growth in electricity distribution, based on the retooling of Jeumont-Schneider and the integration of Merlin Gerin, Télémécanique Electrique and Square D. The identity thus became progressively clarified and affirmed, and the initial image of a convoluted conglomerate dabbling in many sectors disappeared, to the great pleasure of financial analysts watching the strategy pay off.

Large and surprising changes in the portfolio can also end in disaster. The prolonged obstinacy of the Honeywell group, which led it to neglect its traditional activities in small control instruments to assail IBM head-on in computers, nearly cost it its life. The stubborn determination of Mitsubishi Group (keiretsu) to squander time and money launching new activities without ever first becoming a leader in its existing businesses, forced it to suffer the ultimate shame of losing face in Japan.

Similarly, the acquisition of the Canadair aircraft business by Bombardier surely pleased the proactive Canadian government. The purchase of the hemorraging railroad rolling stock Adtranz in Germany broadened the field of action, but the wake-up call to survival was harsh. It took a colossal effort from high quality management to avoid the worst and regain clarity of the corporate identity. Today, Bombardier is profitable and one of the global leaders in rail transportation equipment, as well as a segmented challenger in aeronautics.

> "Even if the core business does not change over time, the corporate culture is compelled to change constantly."

One suspects that the hardy-trapper culture of the spunky fellows from the Eastern Townships of Quebec, who had started off by launching their yellow "Skidoo" snowmobiles over the frozen tracks of North America, is no stranger to that which has, today, become a success. (However, both key divisions are highly cyclical and subject to the uncertainties of China as a major market and emerging competitor, and the road may turn out to be bumpy).

The culture of the company

We do not intend to deal with such a complex subject as corporate culture in just a few lines. We will just limit ourselves to a few simple observations.

Corporate culture is largely dependent on the type of business the company is in and its business portfolio. It's hard to imagine Google having the same corporate culture as BASF. Uniqueness of business activity naturally favors the development of a unique culture, and diversification will create multiple cultures. For example, for many years Morocco's major industrial group ONA, very diversified, attempted to create a homogenous corporate culture across supermarkets, mining pits and bank windows. The low level of buy-in by the troops to this abstract concept led a new CEO to more closely match corporate "patriotism" and each business unit.

Even if the core business does not change over time, the corporate culture is compelled to change constantly, as the competitive field broadens and intensifies. From the franco-French CGE (Compagnie Générale d'Electricité) of days gone by, only a few cultural slivers have survived in its distant offspring Alstom and Alcatel. If a major merger takes place, it either works or it fails, due to culture shock, human factors and subtle differences in business segmentation. For example, Deutsche Post and DHL realized, at their cost, that business activities that appeared very similar were, in fact, operationally and culturally very distinct.

The culture is always rooted in the history of the company, often still reflecting the personality of the iconic founder, from DuPont to Michelin or Microsoft. This culture generates a style of management, through enthusiasm at one extreme, through discipline at the other (without one excluding the other). Enthusiasm underlies companies that are generally growing, like Zegna or Amazon. Discipline often characterizes companies that have a harder time managing their size and complexity, such as United Technologies or WalMart.

This style of management relies on values, explicit or not, that are partially linked to the portfolio and type of business activity: the industrial values of the Stuttgart area or the MidWest are not the same as those of Madison Avenue or The City. Nonetheless, they are especially influenced by the human DNA at the company. Despite having business activities that are almost polar opposites, companies as different as Lafarge, Essilor and Investcorp rely fundamentally on very similar values and ethics.

The stock market understands this well and likes it. The solid companies (including the financial ones) of the MidWest are typically more resilient than some fleeting conjurors on Wall Street.

The guarantor of a lasting culture that evolves as needed, and of sustained company values, is naturally the CEO, bearer of interactive trust (or else) with the Board of Directors in the name of shareholders.

The CEO

The CEO is the touchstone of the corporate identity. He is, all at the same time, the one who is seen, who communicates, and who is in charge of the (profitable) development of the business portfolio and the corporate culture.

The alignment must be perfect and instill confidence. Otherwise, there is mistrust and people are lying in wait to trip up the President. This was the case at Home Depot a few years ago, in the complex world of retailing, where motivation in the field is essential. The CEO proclaimed his faith in a very centralized, military-style organization. After several years of declining share prices, the Board was forced to face the consequences of its mistake.

All the spotlights, external and internal, are on the CEO. For many, he IS the company, holder of its ultimate truth. One day, a financial analyst was speaking about a company in the construction industry: "Sure, I have all the figures, but the only way that I can really get a feel for the reality of the company is to look straight into the eyes of the President."

The simplest case is, naturally, indisputably that of the founder (Bill Gates, Pierre Bellon, Lakshmi Mittal, Jeff Bezos) or the recognized and competent family successor (Burelle/Plastic Omnium, Ford). In all cases, the roles of the Board and its Nominating Committee are fundamental. It is often said ,with good reason , that the critical task of identifying the future CEO must begin at the very moment the current CEO is anointed . Just think of how formidable a company Hewlett Packard would be today, had its Board followed this simple common sense precept."

Things are relatively easy when the assignment is simply continuity supported by a portfolio of solid businesses and a healthy culture. If the choice is right, our tripod (portfolio, culture, CEO) will progress harmoniously. For example, Schneider transitioned smoothly from a focus on very high voltage distribution, to medium, to low and ultra-low voltage switchgear.

The riskiest case, theoretically, but perhaps the easiest, is that of the necessary strong break from past. The company is not doing well and it's necessary to vigorously reshape the portfolio and the culture. It suffices (easily said …) to identify the miracle CEO who will reorganize things.

Jack Welch was the man who did this at General Electric, where there were often, before him, several skippers for a single rower. He was a brilliant fixer before, later on, muddying up the identity of the company, thereby rendering the task of his successor even more difficult. The Board's role is clearly in question here. One does not simply appoint the CEO then nod off. One must also control the strategy, the evolution of the culture and values, and make sure that the corporate identity keeps coming across clearly to investors.

Conclusion

The agile sphinx and the wise chameleon tend to come together. The identity of the company is managed by a subtle alchemy between the three components of our tripod. The role of the board of directors is fundamental, and it is a positive development to see more and more board meetings held in the field, where the firm's real personality can best be perceived.

Identity management is a key component of strategy, and strategy is corporate war. Losing is not an option. As General MacArthur aptly said:
"In war, there is no substitute for victory"

Maurice Marchand-Tonel.

Maurice Marchand-Tonel is an Advisory Director to Investcorp's European corporate investment team. Having spent much of his early career in management consultancy with Boston Consulting Group, he went on to hold various CEO and Chairman roles including positions at Olivier Group, Sommer Allibert and Givenchy - LVMH Group. Most recently, he returned to management consultancy as a partner with Arthur Andersen/ BearingPoint.

Investing in Turkish menswear retailing

In July 2012, our private equity Gulf Opportunity Fund for the MENA region including Turkey, and Orka Group, one of Turkey's leading and fastest growing menswear retailers, announced the signing of a definitive agreement whereby Investcorp's Gulf Opportunity Fund would acquire a 30% stake in the Group.

Orka Group, through its brands Damat, Tween and D'S Damat, is a leading retailer of branded menswear in Turkey. Founded in 1986 by Süleyman and Halidun Orakçıoğlu with the introduction of its luxury brand Damat, the Group has become a respected international provider of luxury menswear. Orka's fashion products are sold in more than 250 stores and 40 different countries around the world, including franchises.

Mohammed Al-Shroogi, President, Gulf Business, said: "Our third investment in Turkey comes in a sector - the retail of branded and luxury products - in which we have unparalleled experience. Orka Group, with its high brand awareness and strong designs, has huge growth potential both locally and internationally and we are excited to be part of its future successes."

ORKA GROUP
"Fashion is our business"

Investcorp buys 30% of Orka Group, one of Turkey's leading luxury menswear retailers.

Orka Group's Chairman of the Board, Süleyman Orakçıoğlu, commented that, "Bringing in an international growth investor is a major step in the development of our Group. It will allow Orka to achieve its full brand potential and expand into new markets. With an experienced investor such as Investcorp, Orka will have an ideal partner in becoming a top luxury menswear player on the international stage."

The investment will enable the Orka Group to accelerate its growth in Turkey as well as in international markets.

The Turkish organized luxury menswear market is worth an estimated $7.4 billion and is expected to sustain its strong growth, supported by favorable demographics and increased consumer spending. Istanbul, which represents 40% of the Turkish apparel retail market, is evolving into an international shopping destination and is expected to benefit from increasing sales to tourists.

This transaction is the fifth investment by our Gulf Opportunity Fund. Earlier in 2012, we successfully exited Redington Gulf, our first investment through the Fund.

Orka Group, Damat menswear collection 2012-2013.

Driving expansion for a Kuwaiti vehicle leasing company

Gulf Opportunity Fund's sixth investment in the region.

Investcorp's Mohammed Al-Shroogi, Jim Tanner, Yusef Al Yusef and Walid Majdalani sit alongside Automak's Vice Chairman, Ghazi Omar, at a press conference to announce the deal.

At the end of September 2012, we reached agreement for our Gulf Opportunity Fund to purchase a 35% stake, through a capital injection, in Automak Automotive Company K.S.C.C, the leading independent vehicle leasing and rental company in Kuwait.

Founded in 2002 by Al Kharafi Projects Co. W.L.L. and Mr. Ghazi Omar, Automak is one of the few major players in the vehicle rental and fleet leasing business with over 15% market share in Kuwait. The company operates a fleet of more than 4,500 vehicles and provides a wide spectrum of services and products including vehicle leasing, rental, quick service and distribution of spare parts, tires and lube oil. Its premier clients include national oil companies, public ministries and multi-national corporations.

The vehicle rental and leasing sector is a growing industry in the GCC region as companies seek to de-lever their balance sheets and favor renting fleets of vehicles versus ownership. In Kuwait, the sector is expected to sustain its strong growth, supported by favorable demographics, further expansion of the oil sector and increased government expenditure. This trend is expected to continue across the GCC and the wider MENA region.

Mohammed Al-Shroogi, President, Gulf Business, says: "Automak is the Fund's sixth investment in the region and the second in a strong and established Kuwaiti company. We are proud to be entering into this partnership with Automak and its shareholders.

We believe Automak is a market leader in an attractive sector with a robust business model and is well positioned to grow locally and regionally. We look forward to working closely with Automak to continue growing and enhancing its performance."

Ghazi Omar, Vice Chairman, Automak, adds, "In just ten years, Automak has been able to establish itself as one of the largest players in the Kuwaiti vehicle leasing sector. We believe that there are attractive opportunities for growth for us and this is why we looked for a partner with experience, capital and know-how. We believe that Investcorp will be instrumental in the success of our next phase of growth.

"As a pioneer of private equity in the region we are respected globally for our expertise in this space. Our solid track record and enhanced equity base combined with our strategic support will help accelerate Automak's growth in Kuwait and abroad. We see tremendous potential in corporate, oil and individual leasing sectors in Kuwait and other markets in the MENA region," he added.

Our $1 billion Gulf Opportunity Fund invests in companies in the GCC and Turkey as well as the wider MENA region. Our investment in Automak comes two months after we acquired a 30% stake in Orka Group, in Turkey (see page 22). Other investments include stakes in Gulf Cryo (Kuwait), L'azurde (Saudi Arabia) and Tiryaki Agro (Turkey).


fishnet
SECURITY
fishnet
SECURITY

Investcorp acquires FishNet Security, Inc.

FishNet has grown organically to 28 locations in the United States and the United Kingdom and generates approximately $500 million in annual revenues.

In January 2013, Investcorp announced the acquisition of FishNet Security, North America's largest dedicated information technology security firm, from Chicago-based Lake Capital.

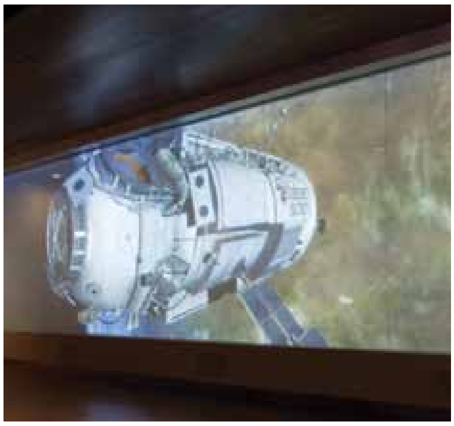
FishNet provides information security solutions that combine technology, consulting and training services. With over 5,000 customers spanning the corporate, government and education sectors, FishNet helps identify risks and develop solutions and technologies to safeguard customer's day-to-day operational security.

FishNet boasts a deep bench of more than 1,000 industry-leading engineers, consultants, forensic teams, educators and service personnel. Founded in 1996, the company has grown organically to 28 locations in the US and the UK and generates approximately $500 million in annual revenues.

Steve Puccinelli, Head of Corporate Investment, North America and Europe said: "The IT security market is growing worldwide as institutions face next-generation security threats brought on by the increasing adoption of new technologies such as cloud computing, virtualization, social networking and mobile computing. As this trend continues, businesses and other institutions will look to technology security providers, such as FishNet, to protect business operations and objectives. FishNet is already a proven leader in the North American market and we believe the company is poised for further growth internationally, especially in Europe."

Hazem Ben-Gacem, Head of Corporate Investment, Europe and Investcorp Technology Partners added: "FishNet is a true leader in the technology security market, and we are delighted to be able to partner with them. Backed by more than 30 years of transatlantic investment experience, we will work with FishNet's management team and our colleagues in North America to expand FishNet's reach into new markets."

Gary Fish, Founder and CEO of FishNet, said: "Investcorp's global reach and significant expertise with technology companies is uniquely suited to drive FishNet's ambitious growth plans forward. We are very excited to be working with Investcorp's exceptional team both in North America and Europe."



FishNet Security's Secure365 Managed Security Services.

Security Operations Center.

2013
Office Properties Portfolio

Investcorp acquires office properties in Greater Houston and Chicago valued at $120 million.

Investcorp's most recent real estate transaction is the December 2012 acquisition of two portfolios comprised of 16 high-quality office properties in the greater Houston and Chicago metropolitan areas.
The combined 900,000 square foot portfolio is valued at approximately $120 million.

The two acquisitions, which together form the 2013 Office Properties Portfolio, include 11 properties at the Oak Creek Center located in suburban Chicago's East-West corridor in Lombard, Illinois, and five properties known as Pin Oak Park in Houston's West Loop (Bellaire submarket), less than four miles from the Texas Medical Center, the largest medical center in the world. The properties, with a combined occupancy rate of approximately 90%, are leased to a diverse roster of tenants, many of whom are involved in the healthcare industry.

These transactions are consistent with our investment approach of seeking out high quality, stable, cash flowing assets at attractive valuations, and in close proximity to major economic centers. Bellaire and Lombard are both high-income, densely populated areas, with limited new real estate supply or development – typical characteristics of the geographic areas in which we focus our investments.

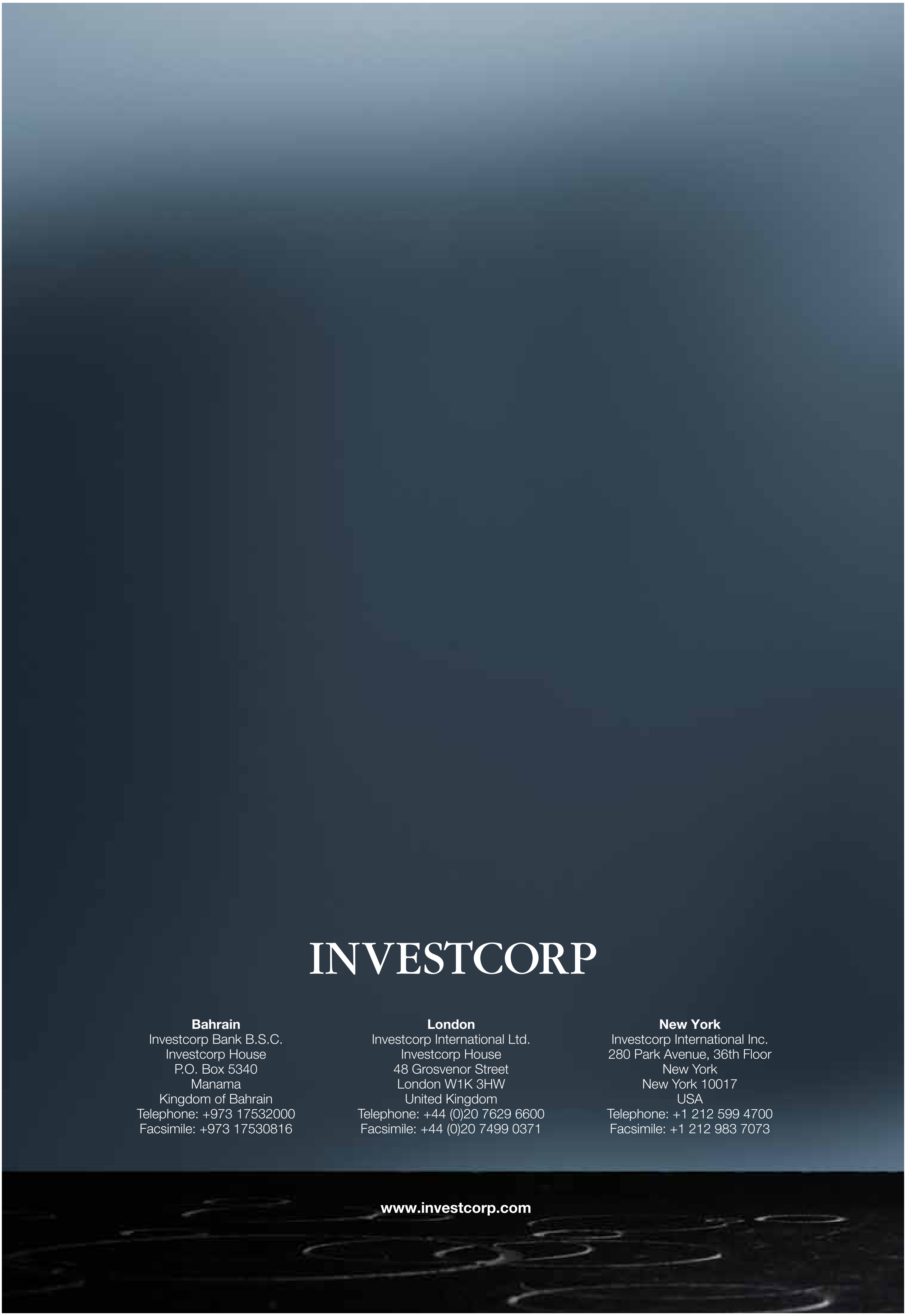
Herb Myers, a Managing Director in the real estate team at Investcorp said: "We continue to focus on high quality assets in major metropolitan areas that benefit from macroeconomic demand drivers, such as healthcare, and can generate cash yields. We selected these two portfolios, in part, as a result of an existing tenant base affiliated with the growing healthcare industry. If appropriate, we may seek additional healthcare tenants for these properties."

Investcorp joined forces with two reputable operating partners for these transactions. In the case of Oak Creek Center, we partnered with Chicago-based Golub and Company, with whom we have entered into previous transactions. For Pin Oak Park, we teamed up with Houston-based Griffin Partners.

In 2012, among other transactions, we acquired three office properties in Raleigh, North Carolina and one office property in Dallas, Texas (see page 16). Tenants in those properties include the National Institute of Health, in Raleigh and Oracle Corporation, in Dallas. We have also been active in the multi-family real estate market in the major Texas metropolitan areas of Austin, Dallas and Houston, having acquired nine multi-family properties in these cities over the last 12 months (see page 17).

Oak Creek Center, Lombard, Illinois.

Pin Oak Park, Houston, Texas.



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