

# INVESTCORP

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**JANUARY - MARCH 2011**

**Q3 FY11**

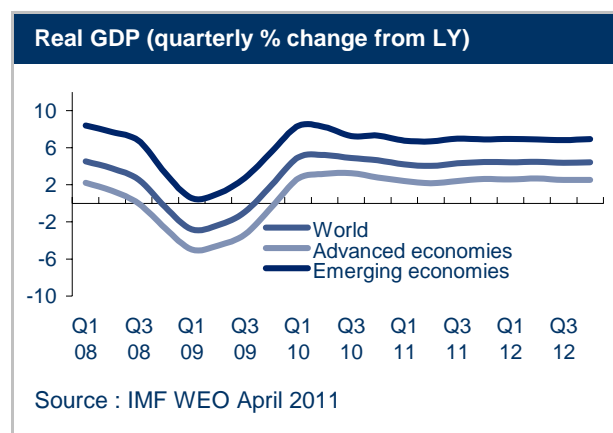
**QUARTERLY SHAREHOLDER UPDATE**

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Investcorp is pleased to provide you with a quarterly progress report on business activities during the fiscal year-to-date period from January to March 2011. This is not an offer to sell, or a solicitation of an offer to buy, securities and, in particular, any of the following information that relates to Investcorp's investment products does not constitute an offer to sell, or a solicitation of an offer to buy, any such investment products.

## MACRO ENVIRONMENT

The world economies are forecast to continue growing during the second half of 2011, with emerging economies leading the recovery at a GDP growth rate of 6.5%. GDP growth for advanced economies has been revised upwards to 2.4% and appears increasingly self-sustaining despite the impact from the Japan earthquake and a sharp increase in the price of oil.



Inflationary pressures from higher food and commodity prices are evident in some regions and monetary policy is being tightened in response. In the West, there is a growing divergence between the US and Europe on their respective approaches to monetary policy. The US Fed has continued to keep short term interest rates at historically low levels, in contrast to the ECB which has begun to tighten.

GDP growth forecasts for MENA in calendar 2011 remained steady at 4.1%.

	2007	2008	2009	2010	2011e
<b>MENA</b>	<b>6.2%</b>	<b>5.1%</b>	<b>1.8%</b>	<b>3.8%</b>	<b>4.1%</b>
Bahrain	3.0%	2.4%	2.4%	3.3%	3.1%
Kuwait	4.5%	5.0%	-5.2%	2.0%	5.3%
Oman	6.7%	12.9%	1.1%	4.2%	4.4%
Qatar	26.8%	25.4%	8.6%	16.3%	20.0%
Saudi Arabia	2.0%	4.2%	0.6%	3.7%	7.5%
UAE	6.5%	5.3%	-3.2%	3.2%	3.3%
Turkey	4.7%	0.7%	-4.7%	8.2%	4.6%
Egypt	7.1%	7.2%	4.7%	5.1%	1.0%

Source : IMF WEO April 2011

Unprecedented anti-government protests were seen in parts of the MENA region in the first few months of 2011, affecting oil prices. In Bahrain, the government declared a State of National Safety for three months from 15<sup>th</sup> March 2011. Investcorp's Bahrain office was fully operational throughout the preceding period and since then. The GCC approved a \$20 billion economic aid package for Bahrain and Oman with the Saudi government separately approving a \$135 billion economic stimulus package for its citizens.

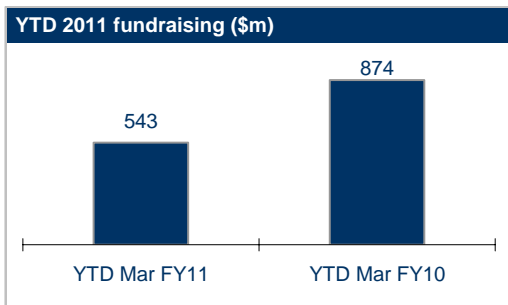
## CLIENT ACTIVITY

Although the regional unrest had a temporary impact on clients across the GCC, stalling some investment decisions, clients are now more active and are likely to continue to invest as long as the situation does not destabilize again.

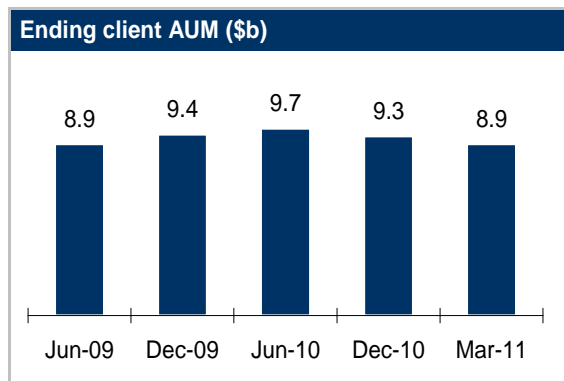
Fundraising during the third quarter of Fiscal 2011 was \$103 million, bringing the total for the nine months year-to-date to \$543 million. Fundraising in the Gulf for corporate investment and real estate was \$48 million for the three month period. This compared to \$12 million for the same period in the previous fiscal year.

The placement team is currently completing the placement of two corporate investment transactions, Veritext and FleetMatics, and a new real estate portfolio, "Commercial VI".

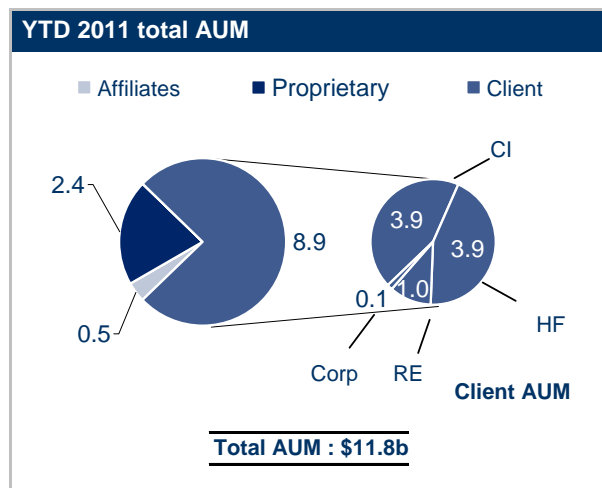
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Total client AUM decreased by 4% in the quarter from \$9.3 billion as of December 2010 to \$8.9 billion as of March 2011. The decline in client AUM was due to the impact of realizations from the corporate investments portfolio.



Total AUM, including Investcorp's proprietary co-investments, decreased from \$12.2 billion to \$11.8 billion in line with the reduction in client AUM. Proprietary AUM remained unchanged at \$2.4 billion.



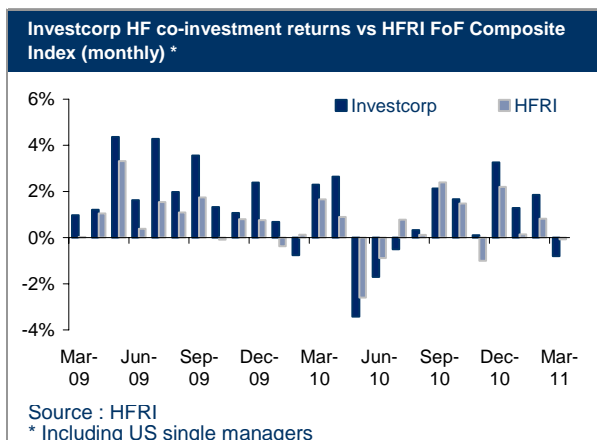
## BALANCE SHEET CO-INVESTMENTS

The table below shows the absolute returns on Investcorp's co-investments by asset class for the three month period:

Asset yields	H2 FY10	H1 FY11	Q3 FY11
Corporate investment	7.2%	3.6%	1.3%
Real estate	(22.5%)	6.9%	3.6%
Hedge funds (Non-\$ Weighted)	(0.4%)	7.1%	2.3%
<b>Total*</b>	<b>0.9%</b>	<b>3.8%</b>	<b>1.4%</b>

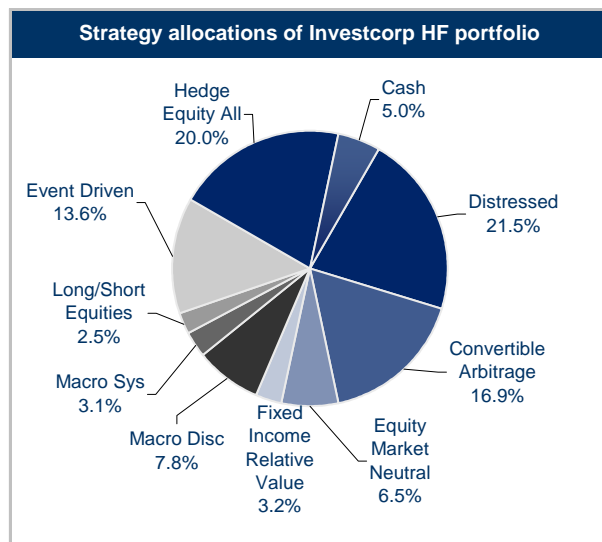
*\*Including Corporate*

Fair value changes for corporate and real estate investments were positive. The return in corporate investments was the result of gains on realized deals. The real estate yield of 3.6% was driven by rental and other income distributions from underlying properties. Investcorp's hedge funds co-investment portfolio delivered returns of 2.3% during the quarter. The return on a gross basis, after adjusting for the effects of leverage, was approximately 1.6%. The HFRI Fund of Funds Composite Index indicates that the industry generated a 0.9% return for the same period.



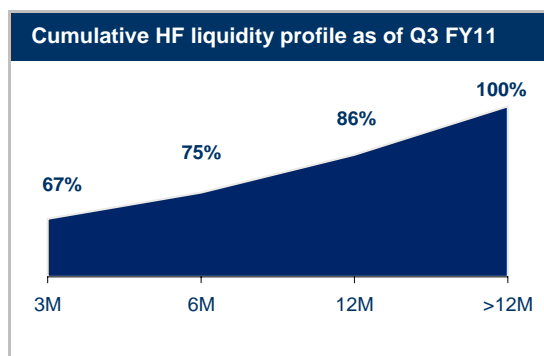
The strategy allocations for Investcorp's hedge funds co-investment portfolio at March 31, 2011 are shown below:

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The portfolio is positioned to reflect increased conviction for Distressed, Event Driven and Hedge Equity strategies but continues to hold above-average portfolio insurance due to macro-economic uncertainty.

More than two-thirds of the hedge fund co-investment portfolio can be monetized within three months.



**Ballast Capital**, which specializes in long-short equity, became the latest addition to Investcorp's single manager platform when it was seeded with \$50 million in January 2011. A further single manager seeding is planned for Q4 FY11.

Investcorp has been recognized for its outstanding contribution to the hedge funds industry by Hedge Funds World Middle East. Investcorp won two awards:

the "**Special Merit Award for Outstanding Industry Contribution**" and the "**Best Hedge Fund Manager**" for its single manager Silverback.

## BALANCE SHEET MANAGEMENT

Key balance sheet metrics are summarized in the table below.

Key metrics	Mar-11	Dec-10
Total assets (\$m)	3,038	2,913
Net financial leverage *	1.5x	1.6x
Liabilities / equity	2.0x	2.0x
Net debt (\$m) **	1,338	1,382
Total liquidity (\$m) ***	1,228	1,258
Hedge fund co-investment (\$m)	616	601
Co-investments/equity	1.8x	1.9x
Regulatory risk asset ratio (Basel II)	23.5%	23.2%

\* Calculated in accordance with loan agreement covenants

\*\* Client deposits and term debt less cash & cash equivalents

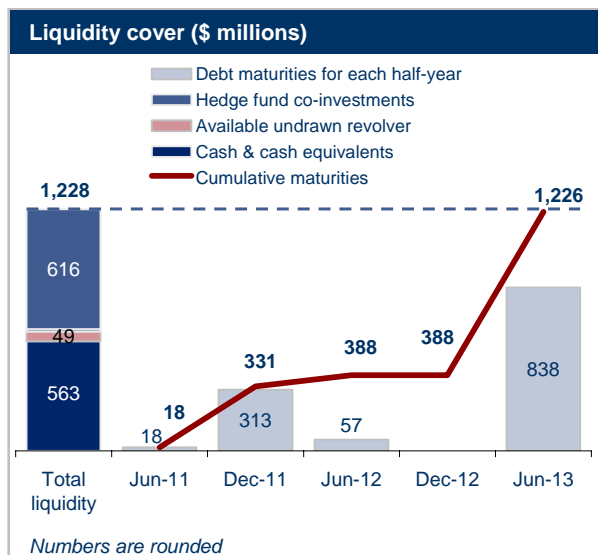
\*\*\* Cash, placement with financial institutions, undrawn revolvers and HF co-investments

Leverage, liquidity and regulatory capital all remained stable over the quarter.

Investcorp's total liquidity of \$1.2 billion is sufficient to cover debt maturing until June 2013, mitigating any near term refinancing pressure. Proceeds from the sale of Moody's International, to be received after March 31, will add over \$100m of additional cash.

The \$500 million syndicated revolving facility due for repayment in December 2011, was partially refinanced by a committed \$246.5 million forward start revolving facility, signed in December 2009 and available in December 2011. The net amount of debt due to be repaid is therefore included in the maturity graph below.

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Investcorp's current public credit ratings are shown below.

**Public credit rating**

Rating Agency	Rating	Outlook	Confirmation Date
Capital Intelligence	BBB+	Stable	Mar-11
Moody's Investors Service	Ba2	Negative	Mar-11
Fitch Ratings	BB+	Negative	Feb-11

Fitch and Capital Intelligence affirmed Investcorp's credit ratings during the quarter and issued detailed credit opinions, citing solid capital, a strong return to profitability and diversified sources of funding. Moody's rating also remained unchanged following the release of their credit opinion.

The geo-political unrest in the middle-east region had no impact on Investcorp's credit ratings.

## INVESTMENT ACTIVITY

The environment for corporate investment continues to improve, supported by the general economic upturn and a growing availability of new deal financing. The pipeline for transactions has increased but valuations for quality assets remain high and the buying process is competitive.

In the three months to March 2011, Investcorp completed one new acquisition and two add-on acquisitions in its corporate investment portfolio.

The new acquisition was made by Investcorp's Technology Fund III, which completed a majority buyout of **eviivo Limited** at a valuation of approximately \$25 million for a 55% stake in the company. eviivo is the UK's leading online reservation and property management system provider for the independent accommodation sector.

Another of Technology Fund III's portfolio companies, **CSIdentity Corporation** ('CSID'), completed the add-on acquisition of **identityTruth**, a builder of best-of-breed, patent-pending algorithm sets that can determine an individual's identity score. Combined with CSID's non-credit data sets and proprietary technology, the company will have the most complete identity theft protection solution suite in the market.

**FleetPride**, one of Investcorp's US buyout portfolio companies, signed an agreement with Midway Truck Parts to purchase 13 locations in Illinois and St. Louis, USA. Midway Truck Parts is an independent heavy duty truck and trailer parts distributor and service specialist in USA. The transaction is expected to close by early May 2011 and will be FleetPride's ninth add-on acquisition. No additional equity from Investcorp or investors was required for this transaction.

The U.S. commercial property market has started to show signs of improvement. Leasing activity is picking up as the job market continues to pick up and consumer spending recovers. The environment for investing is improving and there are attractive opportunities in the core-plus sector for assets with strong cash profiles.

During the quarter, an additional \$14 million of equity was deployed into a new real estate portfolio, **US**

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**Commercial Properties VI.** The final portfolio consists of three properties. **Princeton Forrestal Village**, a mixed-use development in Princeton, New Jersey, had already been purchased in December. In this quarter, the portfolio was completed with the purchase of **Coral Palm Plaza**, a shopping center located in Coral Springs, Florida acquired in a joint venture with Lincoln Equities and **Shops at Tech Ridge**, a retail center in Austin, Texas acquired in a joint venture with Global Fund Investments.

## **REALIZATION ACTIVITY**

Two portfolio investments were exited during the quarter by the corporate investment team.

In early March, Investcorp agreed to sell **Moody's International** to Intertek for an enterprise value of \$730 million. The company was acquired by Investcorp in 2007 for \$311 million. Moody's International is a company providing technical inspection, technical staffing, consulting and training services to the oil and gas, construction, mining and power generation industries and also providing system certification services to all sectors.

This is the third profitable portfolio company exit by Investcorp in the last twelve months. Upon the completion of the sale in Q4 FY11, Investcorp will have returned an aggregate of \$1.2 billion to investors as a result of these exits.

Oligo Medicines, which focuses on the development and manufacture of DNA and RNA-based medicines, was sold in February 2011 to Nitto Denko, a leading Japanese diversified materials manufacturer. The sale of Oligo Medicines completed the controlled breakup strategy of **Avecia** initiated in 2002. Avecia was acquired by Investcorp and Cinven in June 1999.

In March, **Skrill** (formerly known as Moneybookers), one of Investcorp's Technology investments, announced its intention to list on the London Stock Exchange. Skrill is one of the most exciting and highly regarded internet companies in Europe. The IPO was cancelled due to adverse IPO conditions in the UK, as several other listings in Europe and Asia were hit by adverse market sentiment in the wake of the nuclear crisis in Japan and concerns over Eurozone sovereign defaults. Skrill's management remains focused on the continued growth and development of the business and will evaluate exit alternatives again at a later date.

In real estate, two debt investments jointly owned by Investcorp's real estate **Mezzanine Fund** and **Credit Fund** were sold profitably during the quarter.

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## **FINANCIAL CALENDAR**

FY11 full year-end announcement: Late July 2011 / Early August 2011

FY11 full year-end shareholder update conference: Late Q1 FY12

FY12 Annual General Meeting: Late September 2011

Q1 FY12 shareholder update: Late October 2011

Q2 FY12 half year-end announcement: Late January 2012

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## **INVESTCORP BANK B.S.C. SHARE REGISTRAR**

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