

INVESTCORP

# Quarterly shareholder update

July – September 2011

Q1 FY12

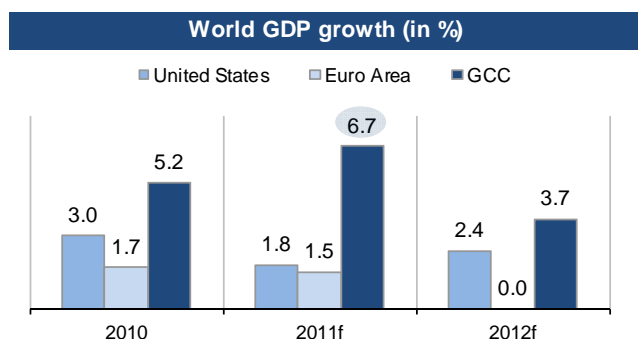
Investcorp is pleased to provide you with a quarterly progress report on business activities during the fiscal year-to-date period from July through September 2011, "Q1 FY12". This is not an offer to sell, or a solicitation of an offer to buy, securities and, in particular, any of the following information 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

During the first quarter of Investcorp's fiscal year 2012, global financial markets witnessed sharply higher levels of volatility. Despite a brief recovery in both equity and credit markets in October, the global economy and financial markets continue to navigate through a challenging and uncertain environment.

The 11<sup>th</sup> hour process to agree an increase in the US debt ceiling and the equally contentious political process in Europe has damaged market confidence. In contrast to the aftermath of the 2008 crisis, when world leaders were united in efforts to boost growth and stimulate economies, a lack of clarity and consistency of policy, especially in Europe, has unnerved investors. Questions about the sustainability of the single currency in light of concerns about European sovereign risk continue to weigh heavily on global sentiment.

Many leading economists and market commentators have talked of the possibility of a double dip recession due to declining economic growth in advanced economies, the danger of unsustainable sovereign debt levels in the US and Europe, and the impact of deleveraging in the public and private sectors. GDP growth in Europe for calendar 2012 is now forecast to fall to zero.



Source : IIF October 2011

Real GDP for the GCC region in 2011 is projected to expand by 6.7%, helped by a significant increase in the region's oil and gas output. The 2012 forecast is for a more normalized 3.7% growth level due to the effects of expected lower demand for oil as well as a recovery of oil production in Libya. The real GDP growth forecasts for each individual country within the GCC region are shown below.

in %	2010	2011f	2012f
Bahrain	4.5	2.2	3.3
Kuwait	2.9	4.4	3.1
Oman	4.1	4.4	4.5
Qatar	18.3	18.0	5.3
Saudi Arabia	3.8	5.8	3.7
UAE	3.2	4.4	3.1

Source : IIF October 2011

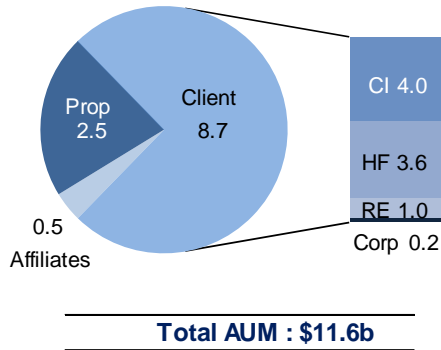
## Executive summary

### Client activity

Client AUM fell by 2% to \$8.7 billion in the first quarter of FY12. This was largely due to a drop in hedge funds AUM as a result of a negative performance in the quarter combined with light placement activity during the traditionally slow summer months, the holy month of Ramadan and Eid. Fundraising activity is expected to pick up during Q2 FY12. The newly acquired corporate investment, Sur La Table, was launched for placement at the end of September and a new real estate portfolio will be offered to clients in November. In hedge funds there is a strong pipeline of potential new mandates.

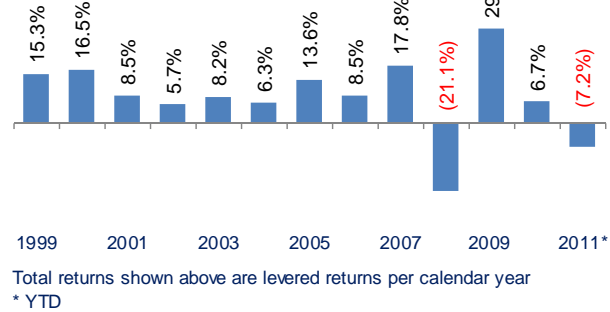
Total AUM, including Investcorp's proprietary co-investments, decreased to \$11.6 billion compared to \$11.8 billion at June 2011. Proprietary co-investments remain unchanged at approximately \$2.5 billion.

**YTD 2011 total AUM (\$b)**



down 5.0% over the same period and the S&P 500 index fell by 13.9%.

**Investcorp hedge fund total return**



*Balance sheet proprietary co-investments*

The table below shows the absolute returns on Investcorp's proprietary co-investments by asset class for the quarter compared to each half of FY11.

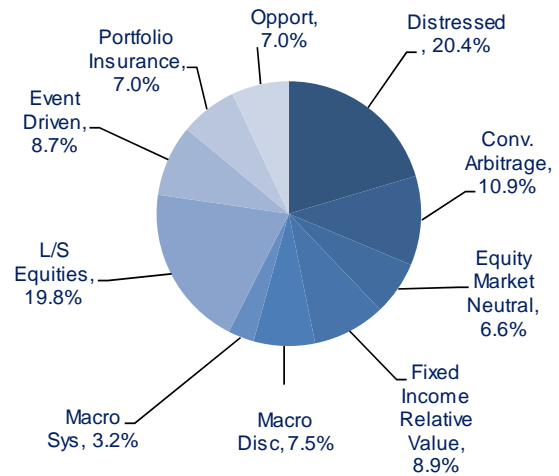
Asset yields	H1 FY11	H2 FY11	Q1 FY12
Corporate investment	3.6%	9.5%	1.5%
Real estate investment	6.9%	13.1%	1.9%
Hedge funds (Non-\$ weighted)	7.1%	-0.3%	-7.2%
<b>Average co-investment yield*</b>	<b>3.8%</b>	<b>4.9%</b>	<b>-1.4%</b>

\*Including Treasury & liquidity income

Unrealized fair value changes on corporate and real estate investments were largely flat for the quarter. The positive return in corporate investment yields was driven by exit activity in the quarter and strong underlying earnings performance across the portfolio. The returns in real estate were a result of the cash rental yield on income producing properties. The return earned by Investcorp on its balance sheet co-investment in hedge funds was negative 7.2%. The return on a gross exposure basis, after adjusting for the effect of leverage, was negative 4.4%. While hedge fund performance experienced a challenging quarter, Investcorp's unlevered co-investment return outperformed the industry. The HFRI fund of funds composite index was

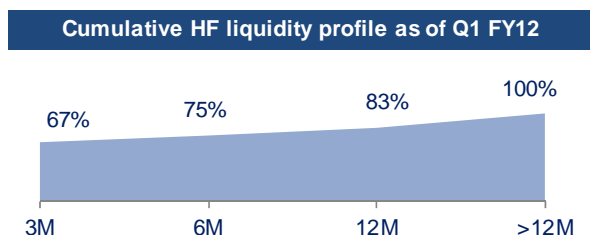
The strategy allocations for Investcorp's hedge fund co-investments at September 30, 2011 are shown below.

**Strategy allocations of Investcorp HF portfolio**



Given prevailing uncertain market conditions, the current asset allocation focus of the portfolio is to protect capital. This is reflected by an increased allocation to portfolio insurance and macro strategies and decreased allocations to hedge equities, event driven and distressed strategies. The team also continues to look for opportunities for select investments with compelling risk-reward characteristics arising out of current market dislocations, similar to the Special Opportunities Portfolio originated and placed with clients in FY11.

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



During the quarter Investcorp added a new manger to its single manger platform, the III Credit Bias Fund. The aim of the fund is to protect against sovereign and bank risk by investing and actively trading around four key market themes; sovereign default, banking crises, capital flight and risk aversion. The fund will also target investments that benefit from a deterioration of funding and liquidity conditions in global interest rate markets. An equal weighted portfolio of the single managers on Investcorp's single manager platform was down only 2.1% during the quarter, significantly outperforming the industry.

### Balance sheet management

Key balance sheet metrics are summarized in the table below.

Key metrics	Sep-11	Jun-11
Total assets (\$m)	2,897	2,859
Net financial leverage*	1.9x	1.7x
Liabilities / equity	2.1x	1.7x
Net debt (\$m) **	1,341	1,207
Total liquidity (\$m) ***	1,373	1,510
Hedge fund co-investment (\$m)	626	607
Co-investments/equity	2.1x	1.8x
Regulatory risk asset ratio (Basel II)	21.3%	25.7%

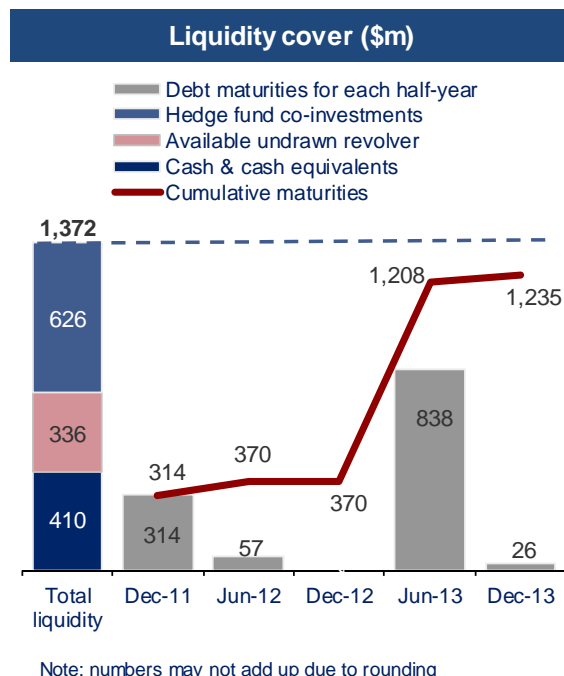
\* Calculated in accordance with loan agreement covenants

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

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

Note: numbers may not add up due to rounding

Total liquidity of \$1.4 billion remains sufficient to cover all maturing debt through December 2013. Proceeds from the sale of Accuity, received in November, added more than \$50 million of additional cash on the balance sheet.



Investcorp's current credit ratings are shown below. There have been no changes or rating actions during the quarter.

Fitch Ratings	Moody's	Capital Intelligence
BB+	Ba2	BBB+
Negative outlook	Negative outlook	Stable outlook
Affirmed Feb 2011	No change thru Mar 2011	Affirmed Mar 2011

### Investment activity

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

The corporate investment team closed the acquisition of **Sur La Table** ('SLT'). SLT is a leading U.S. kitchenware retailer focused on culinary products and instructional programs. Headquartered in Seattle and founded in 1972, SLT is a multi-channel retailer operating 86 stores nationwide with a widely distributed catalog and a premium online platform. SLT also offers cooking classes for all skill levels at 24 of its stores to more than 100,000 customers annually, which builds customer relationships and solidifies its reputation as an authority in the kitchenware segment.

**FleetPride**, an existing portfolio company, made two further add-on investments during the quarter. The newly acquired **McDowell Truck Parks** will be merged with other operations in Illinois. The August acquisition of **Interstate Turbo Supply**, based in Colorado, will allow FleetPride to expand its heavy-duty parts industry in the Denver market. FleetPride has made a total of 11 add-on acquisitions during calendar year 2011 as it continues its business expansion through strategic acquisitions.

Investcorp Technology Partners III signed an agreement to acquire the full ownership and control of **eviivo Limited**. This additional investment follows the initial \$25 million investment in March 2011 to acquire a majority stake.

*During Q1, Investcorp's US-based real estate team acquired one new property. Two additional properties were acquired in October to complete the new US Diversified Properties X Portfolio. A total of \$32.5 million was deployed across the three properties.*

**The Ashford** was acquired in August in a joint venture with affiliates of Titan Real Estate Investment Group. The property is a 221 unit 'for rent' apartment community located in Atlanta. It has a history of strong occupancy averaging 95% since 2007 with current occupancy levels at 97%. The average unit is 1,244 square feet and is comprised of 31 one bedroom, 172 two bedrooms and 18 three bedroom units.

**Bethesda Health City** based in South Florida, is a 133,474 square foot medical office building. It is currently 98% occupied and is strategically located between Bethesda Health Systems' two main hospital buildings in Boynton Beach, Florida. The property was constructed in 1996 and has been consistently leased at an occupancy rate in excess of 90%.

**Park Tower** based in Long Beach, California is a 119,000 square foot Class A office building. It is currently 95% leased and the property has recently been renovated in its public communal areas. The property was constructed in 1982.

The new portfolio will be placed during Q2 FY12.

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### **Realization activity**

**Accuity**, a former subsidiary of SourceMedia, was sold to Reed Elsevier for a total value of \$530 million. Accuity is a leading provider of global payment routing data, anti money laundering screening data and software and professional services that allow organizations across multiple industries to maximize efficiency and facilitate compliance of their transactions. Investcorp acquired Accuity along with SourceMedia from Thomson Corporate in November 2004 and subsequently spun off Accuity to become a stand-alone business.

The sale of Accuity represents the fourth significant and profitable exit for Investcorp in the last 18 months. Upon the completion of the Accuity sale, Investcorp's clients will continue to own their interests in SourceMedia.

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### **Other activity**

Investcorp has joined the Hedge Fund Standards Board as a core supporter. This is an independent body that collaborates with managers and investors and promotes standards and a framework of discipline within the hedge

fund industry. The core supporters group includes other leading hedge fund firms.

Investment commitments by a UK based pension fund and two institutional investors in North America are expected to support a first close of Investcorp's third real estate debt fund in Q2.

Following approval by shareholders in late September, Investcorp paid an ordinary share dividend of \$15 per share and a 12% preference share dividend of \$120 per share, in early October.

### ***Upcoming financial calendar events***

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H1 FY12 half year-end announcement: Late January – early February 2012

Q3 FY12 shareholder update: Late April – early May 2012

### ***Contact information***

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