

PERFORMANCE AS OF JULY 2010

EQUITY FUNDS	Launch Date	NAV Per Unit	YTD 2010	Since Inception
Al Mal UAE Equity Fund	April 2006	AED 0.65	-5.9%	-35.1%
Al Mal MENA Equity Fund	June 2008	USD 6.26	1.3%	-37.4%
Al Mal Liquidity Fund (AED)	April 2009	AED 1.06	2.32%	5.62%
MULTI-STRATEGY FUND				
Al Mal Opportunities Fund	April 2010	USD 8.71	-12.9%	-12.9%

No recovery is ever truly smooth, but the undulations being experienced suggest that we have yet to shake off the shackles of the last downturn, and still need to pay for the debt-fuelled excesses that have been building for the past generation. The only constant is change – and seemingly at an accelerating clip. In the past few months we have had a flash crash in the S&P 500, a major sell off in commodities, a crisis in the Euro that spread throughout the European banking system, sovereign debt fears, stress tests, a China slowdown, new financial regulations, new capital requirements in Europe, and a massive EU bailout package. That was only May and June; thereafter, attitudes reversed surprisingly quickly. We have recently had renewed optimism in the Chinese economy, a blistering rally in Europe on the back of strong economic data out of Germany and the UK, perception of solid earnings out of major European banks, and a notable move in commodities that started in the agricultural space and spread to everything. In the meantime, and thanks to unprecedented stimulus and repurchases, long-term interest rates continue to tick lower, economic data continue to frustrate in the US and Japan, and corporate earnings that persistently beat market expectations in the second quarter.

All this seemingly discordant information makes one wonder about longer-term bias and direction. Is there a debt crisis in Europe or is the European economy perfectly fine? Is China slowing down or will they go the way of every economy that has ever had a massive asset bubble, and crash? Is the US recovering or has Bernanke emptied his bag of tricks, and is it time for a double-dip? There is the potential for an extremely wide range of outcomes, and we managed to get a dose of both ends of the spectrum in just one quarter.

Regionally, the story has been nowhere near as interesting, and not in a good way. Amid a backdrop of severe investor indifference, Saudi and Qatar sold off in May with the price of crude, but recovered in June and have gone pretty much sideways since then. Kuwait and Egypt followed global weakness into early July, and then reversed course in the last week of July. The UAE has remained weak throughout this entire period as negative sentiment on Aldar and Arabtec coupled with the Aabar/IPIC news has kept buyers on the sidelines. For the most part, MENA markets demonstrated lower relative volatility when compared to their global peers as well as more depressed trading volumes.

FUND SUMMARY

EQUITY FUNDS

The Al Mal UAE Equity Fund (-5.9% to July end 2010) has outperformed the MSCI UAE Index by 6.4% in 2010, ranking as one of the top performing locally managed UAE equity funds thus far this year. In addition, for the fourth consecutive quarter, the Fund has earned the top spot on Zawya Funds Ranking as of March 2010 as a result of its superior returns and lower volatility over a three year track record. While global markets seem destined for range bound trading, UAE markets are showing signs of bottoming from a near- to medium-term perspective. In the early stages of the second quarter, market participants despaired at record low turnover and were frustrated over falling prices. Currently, the market place exudes a sense of disinterest, which is exacerbated by the summer effect. Nevertheless, while the Fund has been allocating capital towards cyclical names, the portfolio retains a rather large defensive stance.

The Al Mal MENA Equity Fund (+1.3% to July end 2010) has outperformed its benchmark by 7.2% since inception due to our successful sector and geographic allocation calls. China’s move to slow their real estate sector as well as Europe’s move toward fiscal discipline has placed the stock market recovery at risk, muddling the perception of a global V-shaped macroeconomic recovery. Fortunately for markets, rhetoric in July from the US Federal Reserve Chairman Bernanke and colleagues expressed the willingness to aid their economy should risks of a double-dip recession rise. The ‘surprising’ reactive stance has somewhat provided markets with a positively biased direction, despite the uncertain global picture. Consequently, in the month, the Fund reallocated capital towards the materials sector in Saudi Arabia driven by a robust set of earnings results, stable pricing and capacity expansions. Additionally, to counteract the cyclical plays in the Kingdom, we expanded our defensive positions by entering telecommunication names in Egypt and Kuwait.

LIQUIDITY FUND

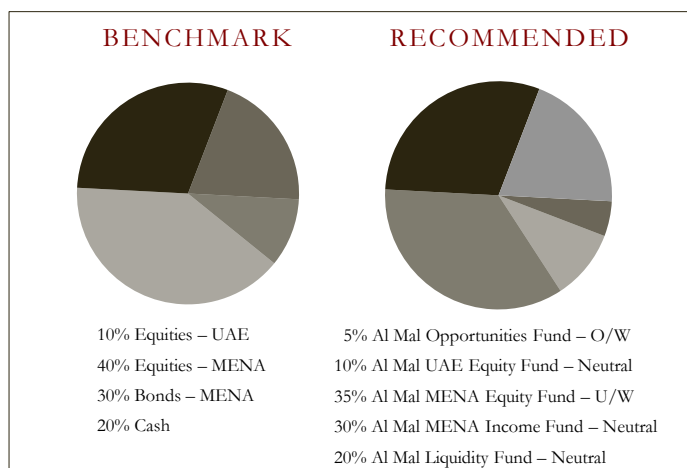
The Al Mal Liquidity Fund (AED) (+2.32% to July end 2010, +5.62% since inception April 2009) annualized 7-day net yield was at 3.45% as of July end, from 4.09% in March 2010, still residing well above one month EIBOR at 1.84%. As 2Q10 earnings hit the newswires, the tune was no different than the previous quarter as rising provisions and continued balance sheet recapitalizations remained buzz words. Constructively, the second quarter provided clarity into provisions related to Dubai World. Despite continued negative news on the UAE banking sector, repeated balance sheet attention has aided a general slow decline in rates; nevertheless, the Fund is taking full advantage of numerous institutions offering higher short term rates.

MULTI-STRATEGY FUND

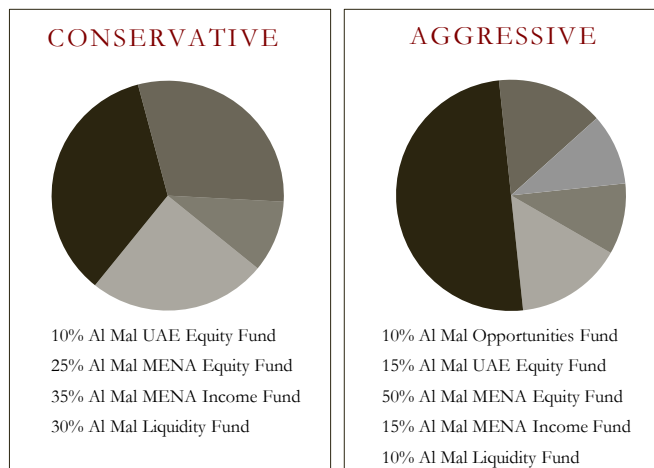
The Al Mal Opportunities Fund Class A Shares (-12.9% since inception April 2010) is designed to perform in any market environment by employing a series of allocation and hedging strategies across a variety of asset classes. The main strategies employed involve screening for relative value and mean reversion opportunities, positioning for event driven trades as well as allocating towards assets with fundamental value. The Fund’s portfolio is primarily allocated towards thematic positions but also lends secondary capital towards event-driven and short-term volatility trades. The Fund is globally oriented, but with a strong regional focus. Prior to the launch of the Class A Shares in April 2010, the Fund’s Class X Shares, performing under the same strategy, rose 41% in 2009 and 274.8% from inception (August 2007) to March 2010.

AL MAL ASSET MANAGEMENT - MENA INVESTMENT STRATEGY

ASSET ALLOCATION PORTFOLIO MODEL



RISK-BASED PORTFOLIO MODELS



U/W – Underweight; O/W – Overweight

SECOND HALF 2010 OUTLOOK

Forward View: Unusual Uncertainty, the New Irrational Exuberance?

In a recent speech, Ben Bernanke characterized the outlook for the US economy as “unusually uncertain”. Not exactly what you want to hear from a policymaker, but probably an accurate description. US policymakers clearly remain confounded by the lack of job creation this far into a “recovery”. In fact, concern elevated to the point where the language in the FOMC policy statement was enhanced to signal some relative accommodation to markets. Recent efforts to maintain the size of the balance sheet are, given the hole from which we are attempting to emerge, more supportive than stimulative at this juncture. It will seemingly take much more than this to address what are increasingly being viewed as structural challenges facing the US economy, and critically job creation as a prime lynchpin. We are also concerned that this reactionary move by the Fed may actually negatively impact markets given that it could be interpreted as a sign that the quantitative easing “experiment” has yet to prove successful.

While not every economy is not facing the challenges that the US does, it remains a primary influence – and this will mean that the recent weakness in the US economy should start to work its way around the globe. End demand in the US is slowing, which, being the largest economy on the planet, will impact global exporters. When you couple this weakening US demand with a relative slowdown in Chinese growth, as that economy passes through a temporary inventory build phase while also continuing to take the air (slowly!) out of an overheating real estate market, you have the makings of a troublesome second half. There are early but not conclusive data points emerging on the semiconductor and automotive front that support this view. It also doesn’t help that you are going to be going up against some very difficult year over year headline comparisons in Q3 and Q4. When retail investors can’t find a reason to buy stocks in the first sentence of a company press release, you are less likely to see the type of momentum buying that can support lofty valuations.

Forward View: The MENA Outlook

We have a balanced view on the investing climate looking into the next few quarters in the MENA region. When compared to the rest of the global economy, regional markets are not plagued by nearly as much uncertainty. Investors know what to expect, the problem is they are not too excited about it. Lackluster credit growth and increased local institutional and retail investor risk aversion dominate the outlook. Sovereign entities continue to take a more conservative approach to the post bust cycle. Government spending, like the recent Fed statement, can best be characterized as supportive. We have not seen ambitious stimulus programs in the region or the implementation of drastic monetary policies to support asset prices. Consequently, the already bruised private sector has responded with a wait and see approach. The only real exception to this rule is Qatar, where the government has taken steps to boost confidence in its equity markets.

We don’t expect the climate to change much in the second half, though we would not be surprised to hear more from the UAE government with respect to its domestic growth plans. The UAE has developed into a “special situation” market with the real estate sector underperformance impacting the banking system and the entire economy, and quite possibly (given its importance as an influential hub for commerce in the region) investment appetite on a pan-MENA basis. Despite the Dubai World debt drama having been nearly resolved, investors want more colour on the future of many government-related entities and the nature and extent of support to be provided to them in future. Any news on this front to break a stalemate of uncertainty could present investors with inspiration for broad-based buying in the region. We also remain keen observers of Fed policy and other exogenous factors which may drive commodity prices, as oil and hydrocarbon revenue remains the primary source of income for the region: the resulting surplus and likely spending would provide further amplitude to a recovery.

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