Quarterly Shareholder Update

Q3 FY2016
(QUARTER ENDED 31 MARCH 2016)

"Since inception over thirty years ago, Investcorp has acted as the trusted bridge between the Gulf and the West and we are now on an ambitious journey to more than double our assets under management in the medium term. We remain committed to pursuing innovative investment opportunities, exploring exciting growth initiatives for our business and fostering a culture of integrity and excellence across the firm."

– Mohammed Al Ardhi, Executive Chairman
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*Figures throughout may not add up due to rounding*
Macro and Business Environment

Global markets have survived remarkable bouts of volatility during the past ten months. The turbulence occurred against a backdrop of continued concerns about tumbling oil prices, China's outlook and the pace of global growth. After January’s noisy downside surprises, consensus expectations for global growth have stabilized, helped by a steady US economy and easier global monetary policy. The Federal Reserve softened its rate-hiking stance and has signaled taking greater account of economic circumstances overseas.

In the US, first quarter earnings releases have bolstered confidence in the underlying strength of the US economy. The stronger dollar remains a headwind for earnings rather than the real economy, although there has been a pullback lately. Core inflation has resumed its upward momentum and evidence of diminishing slack in the labor market is again becoming apparent. Under the circumstances, it is a good bet that inflation will be moving higher.

In the Euro area, the region’s modest recovery has continued to gain traction, driven by lower energy prices, unusually accommodative monetary policies, and a weaker currency. Positive trade conditions, further monetary easing and, perhaps, some fiscal spending should keep the economic rebound on track.

In emerging markets, growth prospects have picked up amid an improved outlook for oil prices. Geopolitical risks will likely play a greater role in MENA economies over the next few years. In the GCC, despite the recovery in oil prices from January lows, prices remain far below the $100+ levels seen in early 2014. This has contributed to large budget and current account deficits in GCC countries. Governments are responding with tighter fiscal policy, including cutting energy subsidies, lower spending and raising non-oil revenues.

In China, the devaluation of the Yuan in early January helped to plunge markets into another volatility episode. Subsequent actions by the People’s Bank of China helped to stabilize capital outflows and calm fears of a major devaluation of the Yuan. Chinese authorities still have plenty of ammunition left to defend their currency and stabilize the Chinese economy, at least in the short run. Still, the structural issues in the Chinese economy have not disappeared and will continue to be a concern over the longer term.

In both the US and Europe, deal volume and private equity backed corporate investment activity was down in Q1 CY16 compared to Q4 CY15, largely influenced by the macroeconomic volatility in the quarter. Volumes are ticking back up now that the economic situation has stabilized. Median EV/EBITDA multiples remain high and in fact increased in Q4 CY15. Mid-market investors have become correspondingly more selective in order to generate appropriate risk-adjusted returns for investors.

For corporate investment – MENA, although the oil price decline has negatively impacted GCC countries, oil importing countries such as Turkey are expected to benefit. Overall, despite the current oil price and volatility in capital markets, the region continues to benefit from favorable demographic trends, continued government expenditure in key sectors, large foreign reserves and relatively low debt levels.

Commercial real estate market fundamentals in the United States show steady improvement in a majority of metropolitan areas. A healthy US economy continues to drive demand for US property with an increase in leasing activity, market rents and values. US employment levels are growing steadily and the unemployment rate remains at 5%. As labor markets tighten, higher wage growth is beginning to make a long-awaited appearance.
These positive trends are having a favorable impact on the office, multifamily, retail, industrial and hospitality sectors in which Investcorp invests. Demand for US real estate remains robust. Significant capital is flowing into the sector and financing continues to be readily available at attractive rates and terms.

The second half of CY15 and the first quarter of CY16 have been a challenging period for the hedge funds industry. During this period, the industry generated returns of -5.7% as measured by the HFRI Fund of Funds Composite index. This weak performance reflects the volatile environment for risk assets, particularly in July-August 2015 and January-February 2016. Returns were -3.6% in January-February 2016 alone before recovering somewhat with a 0.8% return in March. Reflecting the subdued performance in Q1 CY16, global hedge fund AuM fell marginally to $2.86 trillion from $2.90 trillion.
Business Activity

Corporate Investment

In March, we completed the acquisition of The Wrench Group, a leading provider of essential home services, including heating, ventilation and air conditioning (HVAC), plumbing, electrical and water quality services. Operating in four of the fastest growing metropolitan markets in the United States (Atlanta, Dallas, Houston and Phoenix), The Wrench Group serves over 140,000 customers through four prominent brands: Abacus, Berkeys, Coolray and Parker & Sons. With approximately $150 million in revenue for 2015, the company is positioned as a leading provider of home services in each of its markets due to high brand recognition and commitment to exceptional customer service.

In March, TelePacific signed a definitive agreement to acquire DSCI, a leading provider of managed services in the Northeast of the United States. With the addition of DSCI, TelePacific will have more than 50% of its business in the fast-growing managed services segment and a complete set of products. The acquisition was financed through a new debt facility under an existing credit agreement and no additional equity was required from Investcorp.

The sale of N&W to Lone Star Funds was completed in March. Founded in 2000, N&W is the largest manufacturer of food and beverage vending machines in Europe.

In March, Tyrrells completed the acquisition of Lisa’s Crisps; a German organic hand-cooked potato crisps brand and manufacturer.

The sale of Icopal to GAF, North America’s largest roofing manufacturer, was completed In April. Icopal is the world’s leading producer of roofing and waterproofing membranes and the market leader in the Nordic countries in the area of roof installation services and was sold for a total enterprise value of €1.0 billion.

A definitive agreement to sell CSIdentity, a Technology Fund III investment, to Experian for an enterprise value of $360 million was signed in April. CSIdentity is a market leading provider of enterprise level identity theft protection technology solutions to businesses and government agencies.

A minority equity stake in Gulf Cryo, a Gulf Opportunity Fund I investment, was sold by existing shareholders, including Investcorp, to Bahrain-based Mumtalakat in March.

Other corporate investment news

In February, CI North America hosted a two-day conference in Miami for CEOs of Investcorp’s North American portfolio companies. The opening evening had speeches from Executive Chairman Mohammed Al Ardhi and guest speaker David Gergen, senior political analyst at CNN and former advisor to four US presidents. The conference saw interactive panel discussions on innovation and the use of technology, human resources and talent management, and creating growth.

In March, CI MENA held an Investcorp Partners Meeting in Istanbul. The meeting brought together leaders in Turkey to discuss investment in family-owned and private businesses. The Executive Chairman delivered the opening speech followed by presentations from Co-CEOs Mohammed Al-Shroogi and Rishi Kapoor, and Senior Advisor, Savio Tung.
Real Estate

In February, we completed the assembly of the **Boca Raton and Minneapolis Residential Portfolio** with the acquisition of the two-property Minneapolis Multifamily Portfolio, located in Minneapolis, Minnesota. This has been combined with the three-property Boca Student Housing portfolio, located in Boca Raton, Florida acquired in December 2015. The combined portfolio was acquired for a purchase price of approximately $220 million.

In February, we acquired **733 Tenth Street**, a Class A, 170,813 sq. ft. luxury office building, for approximately $180 million. The 100% occupied property, located in the heart of Washington D.C.’s East End office submarket, is the first acquisition under a new ‘Club Deal’ initiative focused on core-quality, long-term hold assets in key gateway markets.

In January, we closed the successful refinancing of the **Princeton Forrestal Village** first mortgage, a US Commercial Properties VI Portfolio investment. As part of the refinancing, approximately $20 million will be distributed.

All three properties from the **Chicago Multifamily** portfolio, one of four assets in the 2013 Residential Properties Portfolio, were realized in January: Woodlands at Crest Hill, Fountains at Stone Crest and Lakes at Fountain Square.

**Doubletree Syracuse**, an Investcorp Real Estate Credit Fund investment, was realized in February.

Other real estate news

In March, Investcorp announced the appointment of Neil Hasson as Managing Director to spearhead the Firm’s re-entry into the European real estate market. Mr. Hasson joins with nearly three decades of real estate investment experience with prior roles at Macquarie Group, Citi Property Investors and CPI Capital Partners Europe. Neil’s initial focus will be on core-plus opportunities in residential and commercial properties across the United Kingdom, Germany, France, Italy and Spain.

Hedge Funds

Our hedge funds balance sheet co-investment portfolio delivered returns of -3.5% in Q3 FY16. The negative performance was a direct consequence of the extreme levels of market volatility during the quarter and was in line with the broader hedge funds industry with many notable players recording double digit negative returns. By contrast, our **Alternative Beta** platform outperformed all its peers with a positive contribution during the quarter.

**Nut Tree Capital Management** (‘Nut Tree’), our latest seeded single manager, launched its fund on February 1, 2016 with a successful round of fundraising at the outset. The fund focuses on mid-market distressed credit, stressed/event-driven credit and value equities. Nut Tree has assets of $177 million as of April 1, 2016.

We launched **Special Opportunities Portfolio VI** (‘SOP VI’), a portfolio with the objective of providing investors access to the US residential non-performing loans market.
Strategy Outlook

- Our outlook on equity strategies, including special situations, is neutral
- Among event-driven strategies, we maintain our bifurcated stance of neutral on special situations and positive on merger arbitrage
- We remain positive on equity market neutral funds
- We are positive on the opportunity set available to global macro managers
- In credit, we are upgrading our outlook for distressed debt to a modest overweight
- We are modestly positive on convertible arbitrage
- Our rating on structured credit remains modestly negative

Alternative Risk Premia

**Equity**

- Our outlook on equity low beta is neutral
- We are modestly positive on equity momentum
- We maintain a modestly positive outlook on equity quality
- We maintain a positive view on equity value

**Fixed Income**

- We maintain our positive view on fixed-income carry
- We are neutral on fixed-income momentum

**Commodity**

- We are positive on commodity carry
- We maintain a modestly positive outlook on commodity momentum

**FX**

- We upgraded our view on FX carry to neutral
- We maintain our modestly positive outlook on FX momentum
Client Activities

AUM & Fundraising

During the third quarter of our fiscal year we placed the residual amount of POC, Dainese's add-on acquisition, and Bindawood Group, now oversubscribed, together with the bulk of the placement of SecureLink and the 2015 Office & Industrial Properties Portfolio. We also commenced the placement of the real estate property, 733 Tenth Street, in the quarter with the placement significantly oversubscribed in two weeks.

Placement of the Boca Raton & Minneapolis Residential Properties Portfolio and the Special Opportunities Portfolio VI commenced in March. The placement of the new corporate investment, The Wrench Group, commenced in early April.

New hedge funds fundraising in the quarter totaled $140 million.

Assets under Management

As of March 31, 2016, our total Assets under Management (AUM) across all products, including our proprietary co-investments was $10.1 billion and our total client AUM was $8.1 billion.

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1 AUM includes approximately $2.4 billion of single manager funds (including exposure through funds of hedge funds), managed by third party managers and assets subject to a non-discretionary advisory mandate, where Investcorp receives fees calculated on the basis of AUM.
Investor events

In February, Investcorp hosted Omani families and institutional investors at ‘Investing in Family Businesses in the Gulf’ at the Grand Hyatt Muscat. As well as investment professionals sharing their insights, the conference, attended by over 100 guests, also saw a number of family business executives discuss their experiences of growing alongside a private equity partner. Executive Chairman, Mohammed Al Ardhi discussed how a strategic partner can bring not only capital but also industry and operational expertise to help accelerate the growth of a family business. Co-CEO, Mohammed Al-Shroogi, spoke about Investcorp in the MENA region and how we as a partner can support regional family businesses in the next stages of their development. The event concluded with a panel discussion on the opportunities and challenges facing family businesses, followed by a networking lunch for the guests and speakers. The conference was the first major Investcorp event in Oman in its 34-year history.
Key Balance Sheet Metrics

<table>
<thead>
<tr>
<th></th>
<th>Mar’16</th>
<th>Dec’15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets ($ billion)</td>
<td>2.3</td>
<td>2.3</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>1.7x</td>
<td>1.5x</td>
</tr>
<tr>
<td>Net leverage ratio</td>
<td>0.6x</td>
<td>0.9x</td>
</tr>
<tr>
<td>Capital adequacy ratio</td>
<td>27.4%</td>
<td>27.6%</td>
</tr>
<tr>
<td>Co-investments/(total equity + long term capital)</td>
<td>0.7x</td>
<td>0.8x</td>
</tr>
<tr>
<td>Total accessible liquidity ($ billion)</td>
<td>0.9</td>
<td>0.7</td>
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Co-investment assets, net of the $175 million secured hedge fund facility, remain fully covered by permanent and long-term sources of capital.

Liquidity and Debt Maturity Profile ($ million)

In March, the maturity date of the $400 million syndicated bank loan facility was amended from July 2018 to March 2020 and the drawn margin on the facility was increased by 0.25%. In March 2017, the lenders in the facility will have the option to extend the maturity by a further one year to March 2021 at the request of Investcorp.

*JPY 37 billion ($309 million at current exchange rates) debt maturing in 2030 and $50 million maturing in 2032

Numbers may not add up due to rounding

2 Calculated in accordance with bond covenants
3 Calculated in accordance with bank loan covenants which is net of liquidity and underwriting
4 Excludes underwriting and is net of revolving facilities secured against hedge fund co-investments
5 JPY 37 billion debt maturing in 2030 and $50 million debt maturing in 2032, deferred fees and total equity
6 Cash, placements with financial institutions and undrawn revolvers
Credit ratings

<table>
<thead>
<tr>
<th>Agency</th>
<th>Rating grade</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody's Investor Service</td>
<td>Ba2 / Negative outlook</td>
<td>Rating confirmed in published Credit Opinion in Oct 2015</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Outlook changed to Negative in Mar 2016</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>BB / Stable outlook</td>
<td>Rating report published in Mar 2015</td>
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<tr>
<td></td>
<td></td>
<td>Rating and outlook affirmed in Nov 2015</td>
</tr>
<tr>
<td></td>
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<td>Ratings Navigator published Dec 2015</td>
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In March, Moody’s changed to negative from stable the outlook for Investcorp S.A.’s and Investcorp Capital Limited’s Ba2 senior unsecured debt ratings. Moody’s also affirmed Investcorp S.A.’s and Investcorp Capital Limited’s Ba2 senior unsecured debt ratings in addition to Investcorp Capital Limited’s (P)Ba2 senior unsecured MTN rating. All debts are guaranteed by Investcorp Bank B.S.C.

Also in March, Moody’s assigned a Ba2 corporate family rating and a Ba2-PD probability of default rating with a negative outlook to Investcorp Bank B.S.C. Moody’s primary methodology to analyze the Investcorp Group is now the ‘Asset Manager’ methodology. They will continue to utilize the ‘Banks’ methodology but as a secondary analytical input.
Other Corporate News

**United Nations Investments Committee**

In February, Investcorp hosted the United Nations Investments Committee’s most recent meeting at its Bahrain office. Our Chairman of the Board of Investcorp, Nemir Kirdar, is a member of the committee. The UNIC delegation, His Excellency Amr Moussa and Mr. Kirdar were welcomed by both His Royal Highness Prince Salman bin Hamad bin Isa Al Khalifa, Deputy of the King and Crown Prince of Bahrain and His Royal Highness Prime Minister Prince Khalifa bin Salman Al Khalifa. With the leaders, they discussed regional and global developments, the banking and financial sector and how Bahrain can continue on its path to becoming a leading regional financial hub.

**Investcorp Leadership Program at Oxford**

The annual Investcorp Leadership Program was held at the end of March at Oxford Saïd Business School at Oxford University. The three-day event saw 41 young Gulf business leaders attend an extensive variety of lectures, seminars and interactive classes led by industry-leading experts and Oxford Saïd Business School faculty members.
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