

جدوى للاستثمار  
Jadwa Investment



## Jadwa REIT Saudi Fund Risk Report



Submitted By:

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## Fund Details

<b>Fund Name</b>	Jadwa REIT Saudi Fund
<b>Fund Manager</b>	Jadwa Investment Company
<b>Listing Exchange</b>	Tadawul (Saudi) Stock Exchange in February 2018
<b>Type of Fund</b>	Closed-ended Shariah Compliant
<b>Authorized Capital</b>	SAR 1,580,000,000
<b>Fair Value NAV per unit</b>	SAR 11.71 (as of 31 Dec 2020)
<b>No. of Properties</b>	8
<b>Risk Level</b>	Average / Moderate

## Key Risks

Risk Type	Risk Description	Risk Mitigation
Economic Risk	Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends can affect the Fund's prospects.	Regular monitoring of macroeconomic conditions and regulatory trends in laws is being carried out by the Fund Manager. Proactive steps are taken to mitigate or minimize the impact as much as possible. The Fund Manager has availed all the relevant economic stimulus provided by the government such as delaying the VAT return filing and postponing some of the Fund's expenses to preserve the liquidity of the Fund during the COVID-19 period.
Legal and Regulatory Risk	Failure to adhere to laws, rules and regulations as stipulated by CMA can result in suspension of trading or cancelation of the Fund's listing.	No observations raised in the last CMA audit remains open which confirms that the Fund is clear of any breaches and has made a smooth progress. The Fund Manager has recruited qualified personnel to manage the Fund and monitor all regulatory requirements such as compliance and risk management. These qualified persons take all necessary steps for establishing and confirming to avoid any non-compliant practices under the supervision of the Fund Manager.
Occupancy Risk	Risk when expected occupancy rates are not achieved, which affects the profitability of the Fund.	All properties acquired by the Fund have strong economic fundamentals and cash-generation characteristics, thus providing significant margins of safety on occupancy rates. No new property has been acquired by the Fund during the year ended on Dec 31, 2020. The Fund normally engages in long term leases ranging between 3 and 20 years with notice period of 12 months, which also mitigates the risk of not achieving the expected occupancy rates.
Development Risk	Development risks associated with real estate projects under development include: Delay in construction, costs exceeding planned allocations that may affect the profitability and / or financial feasibility of the Project.	Currently, all the properties owned by the Fund are fully developed. Thereby there is no development risk exposure towards the Fund.
Credit Risk	Risks relating to the inability of tenants to meet their payment obligations towards the Fund.	Credit analysis/ assessment is conducted by the Fund Manager before onboarding any new tenants. For the existing tenants, regular monitoring of outstanding dues towards the fund and follow up for payments is done by the Fund Manager.
Financing Risk	Financing risk occurs when the Fund is unable to raise financing from market to continue/expand its operation.	The Fund has a committed SAR 1 billion credit line facility from Banque Saudi Fransi out of which 427 million is utilised, which assures that the financing risk is at a minimal.

Risk Type	Risk Description	Risk Mitigation
Lease Renewal Risk	Lease renewal risk is the risk of nonrenewal of existing leases or renewal at lower than current lease rate that might impact the rental income of the Fund.	The Fund enters into long-term operating lease contracts with tenants for space in its investment properties with lease terms ranging between 3 and 20 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent. Given the current macroeconomic scenario due to global pandemic, the Fund faces a higher risk related to lease renewal as compared to previous years.
Risk of neglecting the property	Any adverse event leading to structural damage to properties owned by the Fund thereby risking the income generating potential from such properties.	All the properties are insured by the Fund which covers for all property damages. The Fund Manager ensures that the insurance coverage is adequate under public liability and property all risks insurance.
Counterparty Concentration Risk	This risk arises when a single counterparty has the most concentration of leased assets, this might lead to an adverse condition if the counterparty has troubles in future.	A major portion of the Fund's leasing income is derived from Al Muhaideb Group. If, this lessee was to serve the Fund notice in the next few years, it could expose the Fund to a high cashflow risk. This risk is being mitigated by growing the portfolio over a range of tenants and diversification of the Fund by investing in other funds.
Sector Concentration Risk	This risk arises when all assets belong to the same sector, this might lead to an adverse condition if that location has trouble in future.	The Fund has not acquired any new property in the year ended on Dec 31, 2020 The Fund continuously explores various options for diversification. The Fund has amended its terms to include investing in investment funds licensed by CMA that invest in real estate sector. The Fund has invested 450 Mn SAR in closed ended Shariah compliant private real estate investment fund for diversification.
Interest Rate Risk	The risk arises due to increase in interest rate impacting the Fund's net income.	The Fund Manager analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the Fund. In addition to this, the Fund has revolving credit line with profit rates reset every 6 months at SIBOR + 200 bps. During the year ended on Dec 31, 2020, the base rate has dropped from 225 bps to 100 bps resulting in reduction of the borrowing cost substantially.
Liquidity Risk	The risk of the Fund not being able to meet short term financial demands or unable to meet any payment obligations for exiting property.	Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund's general and administrative expenses. The Fund Manager ensures that there are adequate funds to repay obligation in a timely and cost-effective manner. The Fund has an unutilised line of credit of SAR 427 million with bank which partly mitigates the liquidity risk.
Asset Valuation Risk	Incorrect valuation of the properties resulting in notional and reputational losses.	The Fund Manager ensures clear communication of most up to date required information to the external professional valutors for valuation of the properties to reduce the risk of inaccurate valuation. Moreover, valuations are carried out by two independent valutors accredited by the Saudi Authority for Accredited Valutors (TAQEEM). The Fund Manager uses the average of two valuations for reporting and decision making.
Force Majeure Risk	Risk arising due to some emergency conditions such as global pandemic or war or any other adverse conditions can affect the Fund's prospects.	The Fund Manager has amended the terms & conditions of the Fund to include "Force Majeure risks & emergency conditions". The Fund Manager periodically evaluates the COVID-19 related restrictions in the kingdom and informs the investors on the financial impact of the same. This risk has resulted in reduction in the Fund's rental income by less than 4%.
Environmental, Social & Governance (ESG) Risk	Environmental, Social, and Governance (ESG) risks refer to the three factors in measuring the sustainability and societal impact of an investment.	As part of the traditional financial analysis and due diligence, the risks arising due to environmental issues of properties and environmental regulation are accounted in the valuation processes by the independent valutors. The increased awareness of Fund Manager about ESG risks, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.



## Conclusion

The Jadwa REIT Saudi Fund is exposed to various risks as identified above which may impact the performance of the Fund. These risks have been mitigated by the actions taken by the Fund Manager to some extent. With the global wide spread of the COVID-19 virus in 2020 resulted in complete lockdown imposed by government across the globe resulting in suspension of international and domestic travels for most part of the year. COVID-19 has impacted all segments of the economy with the largest impact seen on the travel and hospitality segment. The Fund Manager has worked closely with all parties and regulatory bodies to minimize the impact of pandemic on their businesses. Due to pandemic, some of tenants had requested to reduce the rent, which has negative impact on the Fund's rental income. Given the risk mitigations above, the Fund has successfully managed to reduce its exposure to COVID-19 global risk by limiting the reduction of rental income to less than 4%. With the start of vaccination against the Covid-19 across the kingdom during 2021, the situation head back to normality which would improve the Fund's long term financial health. The Fund Manager is continuously exploring new investments and diversification opportunities to provide a stable stream of income to the investors. The Fund has invested SAR 450 Mn in a closed ended shariah-compliant private real estate investment fund to achieve diversification benefits.

The Fund is exposed to a concentration risk since a major portion of the leasing income is derived from Al Muhaideb Group. However, Al Muhaideb portfolio is diversified between commercial, industrial and residential properties, which lowers the concentration risk exposure of the Fund. Unused credit facility of SAR 427 Mn helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently.

There have been no major changes in the Fund's performance in 2020 as compared to 2019. Due to the changes in the macro-economic conditions due to COVID-19, overall risk of the Fund has increased from Below Average / Low to "**Average / Moderate**".







## **End of the Report**

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