

Risk Assessment Report 2021



Fund Manager	SICO Capital Company
Name of the Fund	SICO Saudi REIT
Type	Sharia-Compliant Closed-Ended Real Estate Investment Fund
Objective	Provide current income to investors by investing in structurally developed and income-generating real estate assets of no less than 75% of the total value of the fund's assets according to the latest audited financial statements in structurally developed and income-generating real estate assets in the Kingdom of Saudi Arabia. In addition, the Fund may invest in real estate outside the Kingdom of Saudi Arabia up to a maximum of 25% of the Fund's total assets.
Tenure	99 years
Risk Level	High

Key Risk	Description	Mitigation
Market Risk	Market risk refers to the risk of loss resulting from adverse movements in market prices in particular Real Estate sector and changes in the conditions of supply and demand therein. Moreover, funds' performance depends on the sectors the property operates in, which will also be affected by regional and local economic and political conditions along with higher competition resulting in lower Real Estate values, which could have an impact on the value of Fund-owned real properties and the Fund's Investments.	Evaluating the property market in that specific region on semi-annual basis to understand the market conditions that can affect the valuation and tenancy and take necessary actions as appropriate. Regular review of valuations by independent evaluators to assess the future trend and its impact on the fund prices and taking required actions. Regular review of interest rate trends to assess its impact on financing cost of the fund and considering actions to mitigate the higher financing costs.
Credit Risk	The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Fund is exposed to credit risk in case of delay or default from the tenants and other debtors including bank balances and rent receivables.	<p>For Bank balances, the Fund's policy is to enter into financial instrument contracts only with reputable counterparties. Fund manager limit fund's credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties.</p> <p>For rent receivables The fund manager regularly monitor outstanding dues and follow up with tenants for payments.</p>

Liquidity Risk	<p>1. Inability to convert assets into cash without a loss of capital or income in the process.</p> <p>2. Inability to service the debts of the fund.</p>	<p>1. Any sale of asset shall be planned through a proper sale process keeping market conditions into consideration.</p> <p>2. Debt Service Coverage Ratio of more than 400% provides adequate comfort on ability to service debt</p>
Interest Rate Risk	<p>Risk of increase in profit payments due to increase in interest rate volatility impacting the fund's net income.</p>	<p>Fund has obtained Islamic financing amounting to SAR 149.89 Mn dated 09 March 2021 from a local Bank, which has a variable a financing cost.</p> <p>The effect on the net assets value of the fund as a result of change in finance cost as at 31 December 2021 due to a reasonably possible change in commission rate, with all other variable held constant, is as follows In case there was 1% change in the commission rate the impact on the net asset value will be c.a. SAR 1.5 Mn.</p> <p>No specific hedge mechanism in place for mitigating the variable interest rate risk. However fund manager is working on evaluating the most appropriate structure for the Fund's capital to achieve the maximum interest of the Fund's unit holders.</p>
Country Risk	<p>The risk that new governmental regulation, policy and taxation; or political and social instability, could negatively impact the Fund's performance and/ or its liquidity</p>	<p>The Fund manager closely monitors Saudi Arabia's regulatory/ policy/ tax landscapes and to anticipate and being prepared for any potential change</p>

Regulatory Risk	Risk of not fulfilling legal and regulatory regulations as applicable to the fund.	The fund strictly follows all relevant governance and regulatory regulations. The company's governance and compliance department has an oversight on the fund Management activity.
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Concentration Risk

Excessive concentration of real estate type or sector or geographic location.

The Fund invests in 3 Real Estate assets located in Makkah and one asset located in Riyadh.

The Fund is highly concentrated in terms of sector exposure & geography exposure; however, the fund manager is continuously working to reduce this concentration.

The Fund Manager is working continuously to diversify fund's portfolio in terms of sector and location and thus investment objective has been changed to increase the investments limitations of income-generating real estate in any city within the Kingdom of Saudi Arabia rather than limiting the investment concentration in the holy cities of Makkah and Medinah.

As of December 2021, the fund manager is studying acquisitions in Riyadh city for offices and commercial properties.

Below is the comparison of exposure to various sectors between Dec 2020 and Dec 2021 as % of the market value of the portfolio, Fund Manager shall continue its effort to further diversify the portfolio.

Assets	Concentration	
	2021	2020
Hotels	79%	100%
Offices	21%	0%

Economic Risk	Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends, tax laws and other factors can affect the fund's prospects.	Regular monitoring of macro-economic conditions and regulatory trends in laws is carried out. Proactive steps to be taken to mitigate or minimize the impact as much as possible.
Occupancy Risk	Risk of fall in occupancy levels of the properties and thereby impacting the rental income of the fund.	<p>Out of 4 properties, three properties are fully occupied, and one property is vacant.</p> <p>Eskan Development and Investment Company, as the tenant of one of the properties owned by the Saudi SICO REIT Fund(Eskan Tower 4 and Eskan Tower 6), that it does not wish to renew the lease contract concluded with the Fund in accordance with the lease contract which stipulates that the tenant has the right to cancel the contract after the lapse of a period of five years from the date of the beginning of the lease term "December 27, 2017 AD" (the initial term).</p>
Property Manager Risk	Risk of early termination of the property manager contract may impact the operations of the properties that it manages.	Provision of advance notice of at least 6 months by either party before terminating the services. During this period alternative arrangement can be made.
Risk of Non-renewal of the Lease, Early termination of the lease or Finding Replacement Tenant:	Risk of non-renewal of existing leases or renewal at lower than current lease rate Impacting the rental income of the fund.	Provision of advance notice by tenants before terminating the services. During notice period alternative tenant can be searched. In some cases, the Fund Manager may accept the renewal of lease as per prevailing market conditions. Any significant impact arising due to such renewals shall be disclosed to the market.

Structural Damage Risk	Any adverse event leading to structural damage to properties owned by the fund thereby risking the income generating potential from such properties may have negative impact on income profile of the fund	Preventative maintenance on regular intervals should be carried out to ensure that properties are kept in good condition.
Distributions Volatility Risk	the risk of inability or failure to achieve the periodic or targeted future distribution obligations as per fund’s Terms & Conditions (T&C). As a result of the underperformance of funds underlying assets.	The Fund Manager meets regularly with the property agents and operators to closely monitor the performance of the assets and take prompt actions to ensure the Fund meets its performance targets. Fund Manager closely monitor: <ul style="list-style-type: none"> • Rents/receivables aging • Debt covenants to ensure that the Fund is in adherence with all the covenants including the distribution conditions.
Availability of Appropriate Investments	Fund Manager's inability to identify appropriate investments leading to negative effect on fund’s capacity to achieve desired returns.	Fund Manager will regularly study the market and will have access to reputable research reports for new investment opportunity that meets the fund’s objective.
Dependence on Key Personnel	Risk of loss of services of any of the members of management team, in general (whether through resignation or otherwise).	SICO Capital ensures that Real Estate units is staff with experienced and qualified personnel. Any vacancies are timely filled with suitable replacement staff.

Conflicts of Interest Risk	Risk of conflict of interest between the fund manager and Unit holder	Compliance function as an independent function will continuously monitor for conflict of interest cases and report the same as per applicable regulations
Operational Risk	Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally, at the Fund's service provider and from external factors such as natural disasters.	Fund Manager to manage operational risk so as to balance limiting of financial losses and damage to its reputation by achieving its investment objective of generating returns to unitholders. And by ensuring compliance with best practices, for key activities that require subject matter expertise can be outsourced to experienced and reputable service providers with strong track record.
Fund Manager Risk	Unitholders might not have the opportunity to participate in or control the Fund's daily operations or decisions including investment decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.	The Fund Manager has to set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly. The Fund Manager investment team to act in the best interest of Unitholders and to put all efforts to achieve the Fund's long term growth aspirations.
Risk of Reliance on Rent Revenues	the risk of having the majority of fund's investments concentrated in limited number of sectors exposing the Fund to the risk of economic recession.	The fund manager will put all efforts to achieve the maximum diversification possible in line with funds strategy and T&Cs. Risk management will regularly monitor concentration of real estate type, sector and geography.
Real Estate Investment General Risk:	The return on real estate investments is subject to many interrelated factors, including adverse changes in local, regional, or international economic conditions,	The Fund Manager to conduct a thorough feasibility study before acquiring any investment by analyzing the economic conditions and of the target market, as well as the Fund's ability to achieve its investment objectives. Furthermore

	<p>adverse conditions in the local market, financial conditions of real estate tenants, buyers and sellers, changes in operating expenses, and changes in laws, regulations, and financial policies, changes in the relative appetite of different types and locations of real estate, non-insurable losses, and other factors beyond the scope of control of the Fund Manager. Any of these factors may contribute to causing material risks that negatively affect the value of the Fund's assets and the Fund's ability to generate any returns on its investments</p>	<p>the fund manager will take all appropriate procedures to sell these properties according to the market conditions at the time</p>
<p>Risks of Commercial Real Estate Market</p>	<p>The risk of worsening economic conditions adversely affecting the value and liquidity of the commercial real estate assets, level of rent yields, effective collection of rents and Tenants' ability to make payments that ultimately flow to the Fund.</p>	<p>The risk of worsening economic conditions adversely affecting the value and liquidity of the commercial real estate assets, level of rent yields, effective collection of rents and Tenants' ability to make payments that ultimately flow to the Fund.</p>
<p>Risks of Vacancy of the Real Estate for Long Periods</p>	<p>Risk of fall in occupancy levels of the properties and thereby impacting the rental income of the fund.</p>	<p>Fund manager is looking to appoint property manager/operator who will be entrusted with leasing the vacant premises as soon as possible ensuring maximum occupancy levels in these properties. In addition, tenants' agreement shall have provision of advance notice by either party before terminating the contract. During such period an alternative arrangement can be made.</p>

<p>Risk of Investments Underperformance</p>	<p>The risk that the underlying assets will not perform as expected due to idiosyncratic factors such as, tenants' delinquency, higher CAPEX or higher vacancy rates.</p>	<p>In order to mitigate such risks Fund Manager to follow a number of strategies including:</p> <ul style="list-style-type: none"> • Sign long term contracts with tenants with provisions for contractual increase in the rent • Ensure strong diversified tenant mix • Asset and tenant diversification of the Fund <p>The Fund Manager will closely monitor the performance of the underlying assets and to meet regularly with the property managers/operator to monitor any issues/ events that might lead to Fund's underperformance.</p>
<p>Real Estate Valuation Risks</p>	<p>Risk of Incorrect valuation of the properties resulting in notional and reputational losses.</p>	<p>The investment properties were valued taking into consideration a number of factors, including the area and type of property and valuation techniques using significant unobservable inputs, by two independent valuers accredited by the Saudi Authority for Accredited Valuers (TAQEEM). The Fund Manager uses the average of two valuations for reporting and decision making. Furthermore, the Fund Manager will mitigate this risk by:</p> <ul style="list-style-type: none"> • Pre-acquisition: conducting proper due diligence and valuation to ensure that the Fund does not over pay at the acquisition. • Post-acquisition: focusing on long term value creation for Unitholders, and on its ability to

		generate sustainable periodic rental income and long term growth potential
Development Risk	The Risk associated with real estate projects under development include: Delay in construction, costs overrun and time overrun which may affect the profitability and / or financial feasibility of the Project	This type of risk is relatively mitigated based on the fact that the Fund have a specified CAP of 25% on investment in assets which are under development. Furthermore the Fund Manager to perform the development work only after carrying out all necessary technical, financial and legal due diligence.
Leverage Risk	The risk that the Fund may not be able to generate necessary income to service its debt which triggers an event of default.	<p>The Fund Manager to closely monitor:</p> <ul style="list-style-type: none"> • Liquidity requirements by ensuring that sufficient funds are available to meet any debt repayment commitments as they arise • Detailed cash flows statements by property and for the total fund should be regularly reviewed to ensure that fund is adequately liquid. • Any external funding from the bank should be properly analyzed and quotes from different banks should be obtained before going ahead with any bank funding • Debt covenants to make sure that all covenants are met (all covenants are met as of 31/12/2021)