SEDCO CAPITAL

SEDCO Capital REIT Fund

Risk Assessment Report

2019

SEDCO CAPITAL REIT

Risk Assessment

The Fund's activities expose it to a variety of different risk factors that are exogenous such as market risk, credit risk and liquidity risk as well as operational process related risks. Furthermore, there are risks related to the asset class REITs as such.
The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.
Consequently, the risk assessment process focuses on the most significant risk factors, which include but are not limited to:

Main Risks	Description	Assessment
Market Risk	Market Risk arises from external factors such as macroeconomic conditions, competition, supply & demand, political changes, FX etc.	The Manager monitors on a regular basis the fluctuation and changes in the overall economic environment, local real estate markets including cap rate, inflation rate, taxes, valuations, competition from other available premises and various other factors. Given these factors, the Manager believes that the impact of current market factors is mitigated through diversification of assets that adds stability to the portfolio while reducing vulnerability to economic fluctuations. Additionally, vacancy risks are managed through a proactive asset management approach. Market research is conducted to avoid any economic constraints as much as possible.
Risks related to the use of debt	The use of debt results in risks such as interest rate, leverage related to refinancing risks. Interest rate risk is the potential for financial loss arising from increases in interest rates and ultimately adversely impacting the financing terms of the Fund.	The Manager uses debt with the objective to enhance investor returns. Based on the expected trend of interest rates, the Manager may consider other financial instruments to manage this risk. Leveraging may also further exacerbate any losses.
Credit Risk	Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments.	Credit risk is mitigated by geographical diversification, diversity both in its tenant mix and asset mix and by conducting tenant credit assessments. For new leases, credit evaluation is performed and on an ongoing basis, tenant credit and arrears are closely monitored by the Manager.
Completion Risk	Risk associated with development projects underway include: construction delays and their impact on financial performance, cost overruns which could impact the profitability and/or financial viability of a project; and, the inability to meet revenue projections upon completion. Delays may result in legal risk.	This risk is somewhat mitigated based on the fact that Fund is entitled to invest only up to 25% of the value of its assets in real estate development. The Manager also aims to mitigate this risk through management of the contractual framework of the properties.

SEDCO CAPITAL REIT

Risk Assessment – Cont.

Main Risks	Description	Assessment
Operational Risk	Risk of loss resulting from failure of internal processes, operational procedures, external events, loss of key personnel, service provider and counterparty risk as well as business continuity risk.	The Manager has in place a monitoring framework to manage the day-to-day activities and mitigate operational risks. These include periodic meetings to identify potential operational risks, reviewing and resolving operational issues. The Manager has established processes to identify, monitor and manage operational risks associated with day-to-day management and maintenance of the Fund's properties. Internal audits are also carried out periodically to review compliance with processes, and to identify and rectify any lapses in procedures. A business continuity plan is in place to mitigate the business continuity risk of interruptions or catastrophic loss to its operations. Additionally, for the perspective of key personnel risk, the Manager had no material changes in the organizational structure during the year. Service providers and counterparty performance is regularly monitored.
Liquidity Risk	Liquidity Risk has many dimensions such as the risk of being unable to meet any payment obligations for exiting properties according to plan.	Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund general and administrative expenses. Therefore, the Manager ensures that there are adequate funds to repay obligation in a timely and cost-effective manner. Additionally, The Fund Manager also has a cash management process in which he has the option to utilize any excess cash in short-term deposits. Any decline in liquidity in the Saudi real estate market may affect valuations. Any exit below acquisition cost (including transaction cost) can lower the returns.
Regulatory Risk	Fund operates within guidelines as set out in the "Real Estate Investment Traded Funds Instructions" from Capital Market Authority. There can be further regulatory risk related to real estate market or public policy.	The Manager has implemented processes to monitor regulatory requirements in all fund management functions, such as Compliance and Risk Management aim to provide another layer of assurance that proper controls are in place to avoid any non-compliance.
Legal Risk	Risks involved in legal arrangements, contracts, agreements and obligations.	The Manager has a dedicated Legal and Compliance departments, who are responsible to provide guidance to ensure that all regulatory and compliance matters are adhered to.

Risk Assessment – Cont.

Main Risks	Description	Assessment
Risk of Crimes such as Cyber Security Risks	Crimes such as cyber security incident includes any material adverse event that threatens the confidentiality, integrity and/or availability of SC's information resources and may result in financial losses.	The Manager has implemented processes, procedures and controls to help mitigate these risks. However, these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results would not be negatively impacted by the occurrence of any such event.
Valuation Risk	Quality of valuation does not meet regulatory standards.	Two independent appraisals are performed for asset valuations. The 3rd party valuers are accredited by TAQEEM i.e. Saudi Authority for Accredited Valuers. The Fund Manager uses the average of the two independent valuers for reporting purpose. In case of any material contradiction between the two valuers, the Fund Manager assigns a third valuer.
Capital Deployment Risk and Reinvestment Risks	Risk of delay in capital deployment.	The Manager aims to mitigate this risk by proactively researching the market to source potential new investment opportunities. As of reporting date, the Fund utilized SAR 490m out of the SAR 600m available leverage available, in which the Fund is fully invested according to the Fund strategy.
General Risks Related to the Asset Class REIT	General risks of the asset class include among other aspects volatility of the share price, potential deviations between net asset value and the share price in the market, potential drop in share price and liquidity risks.	The market price of the units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors beyond the control of the Manager.
Environmental, Social and Governance (ESG) Risks, in Particular Climate Risk	Environmental, Social, and Governance (ESG) risks refer to the three factors in measuring the sustainability and societal impact of an investment. ESG criteria can help to better determine the future financial performance of companies (return and risk). Any environmental issues of properties, such as the use of hazardous materials, could adversely impact its value. As part of ESG risks, climate risks may result in increased exposure to loss as assets become less liquid, generate lower income or may be subject to environmental regulation. Additionally, Climate change could make insurance too expensive.	The Manager assesses ESG risks in the analysis of investment opportunities and in its monitoring according to its responsible investment policy. In the Manager's experience, ESG assessment can complement traditional financial analysis and due diligence. The Manager has implemented processes, procedures and controls to help mitigate these risks. However, these measures, as well as its increased awareness of ESG risks, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.
Risks Related to Geopolitical Events, Natural Catastrophes, Terrorism and Health Pandemics	Geopolitical events, instability, terrorism, natural catastrophes and events such as health pandemic may negatively impact assets from valuation as well as income perspective.	Given the fact that these events are highly uncertain and unpredictable, therefore the Fund as well as the Manager may be negatively impacted by the occurrence of any such event. The Fund has sabotage and terrorism insurance for all properties which could partially mitigate these risks.

SEDCO CAPITAL

سدكو كابيتال

This document was produced by SEDCO Capital, the trading name of Saudi Economic and Development Securities Company (hereafter called "SC") with the greatest of care and to the best of its knowledge and belief. However, SC provide no guarantee with regard to its content and completeness and does not accept any liability for losses which might arise from making use of this information. The opinions expressed in this document are those of SC at the time of writing and are subject to change at any time without notice. If nothing is indicated to the contrary, all figures are unaudited. This document is provided for information purposes only and is for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or banking services and does not release the recipient from exercising his/her own judgment. The recipient is in particular recommended to check that the information provided is in line with his/her own circumstances with regard to any legal, regulatory, tax or other consequences, if necessary with the help of a professional advisor. This document may not be reproduced either in part or in full without the written permission of SC.

This document does not represent an offer to sell or participate in the Fund in any way, and all (or any part thereof) should not constitute the basis for conclusion of any contract whatsoever, or to rely in this connection, or be an incentive for the same. This document is confidential in nature and is only directed to applicant investors selected. If you have received this document by mistake, You are hereby required to disregard its content and return it to SEDCO Capital or to destroy it. The previous performance is not a guarantee of future results. Units, dividends, fund prices and currencies may depreciate and may also rise, and investors may get less than they originally invested. Changes in currency rates may adversely affect the value, price or income of securities. For illiquid securities, it may be difficult for the investor to sell or make a profit from the securities and obtain reliable information about their value or risk, and additional fees / charges may apply. Dividend income may fluctuate and a portion of the invested capital may be used to pay dividend income.
To ensure that you well understand the Fund and how well it suits you according to your risk level, we recommend consulting an experienced investment advisor. More information about the Fund is available in the existing IPO document, which should be carefully read before investing.

For more information

+96612 690 6555

P.O. Box 13396, Jeddah 21493, Kingdom of Saudi Arabia

www.sedcocapital.com

+96612 690 6599

License No. 11157-37

info@sedcocapital.com