

MEFIC REIT Risk Assessment Report / December 2022

- Based on the instructions of the Capital Market Authority in relation to real estate traded funds, the basic risks related to the MEFIC REIT Fund have been evaluated based on an objective assessment of all risks related to the fund that may have an impact.

Number	Type of risk	Risk Description	Applies	do not apply	Risk evaluation mechanism
1	The risk of not having a guarantee of a return on investment	With regard to the fund manager's making the obligatory donation of the difference in dividends if it falls below the target, There is no guarantee that the fund will succeed in achieving returns for investors, or that the returns will be appropriate with the risks of investing in the fund and the nature of the transactions described in these terms and conditions. It is possible for the value of the units to decrease or for investors to lose some or all of their invested capital	✓		The fund manager does not provide any guarantees that the fund will succeed in achieving returns to investors, except for what has been mentioned in the terms and conditions The fund manager seeks to achieve the best performance for the fund's real estate in order to protect shareholders' rights.
2	Limited operating history risks	The fund does not have an operating history by which potential investors can judge the fund's performance and successes. Although the fund manager has extensive experience in managing real estate funds, the fund manager has limited experience in managing real estate investment funds due to the recentness of their legislation in the Kingdom. In addition, the nature of future investments in the fund as well as the nature of the risks associated with them may differ materially from the investments and strategies that the fund manager undertook in the past. Also, past results achieved by the fund manager are not necessarily indicative of future performance. Therefore, the novelty of the product is a risk as it is difficult to predict the extent of a change in the value of units or in the returns that are supposed to be distributed.	✓		The fund manager has managed an income-generating real estate fund, and as the nature of the income-generating real estate fund is close to the nature of the MEFIC REIT fund, except it is available for trading, the fund manager is making every effort by relying on qualified and experienced people to manage the fund through complete familiarity with the factors that are Affecting the fund and the market conditions in which it is traded.
3	Risks of non-compliance with related regulations	The fund may become ineligible to be a real estate investment traded fund according to the regulatory instructions of real estate investment traded funds, which would have negative effects on the liquidity of their units' trading, which may negatively affect the value of their investment. The requirements to maintain the fund's status as a real estate investment traded fund have not been tested. In addition, subsequent changes may be made to the requirements to maintain the fund's status as a REIT. Prospective investors should note that there is no guarantee that the fund, after being selected to be a real estate investment traded fund, will remain a real estate investment traded fund. Or, it will continue to maintain this status (whether due to non-fulfillment of regulatory requirements or otherwise). In the event that the fund fails to fulfill any of the regulatory requirements necessary to maintain its status, the Capital		✓	

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		Market Authority may suspend trading of units or cancel the listing of the fund. The inability to list the fund in the Saudi Stock Exchange "Tadawul" could lead to negative consequences for the possibility of marketing the units and their liquidity and value, which may negatively affect the unit's trading price or return on investment.			
4	The risk of not having liquidity in the market	The fund intends to apply for the units to be accepted for trading on the Saudi Stock Exchange "Tadawul". The acceptance of this application should not be seen as an indication that there will be a liquid market for units or that they will develop, or that if they develop they will continue indefinitely after acceptance. In the event that a liquid trading market is not developed or maintained, the liquidity of the units and their trading prices may be adversely affected. In addition, in the event that this market is not developed, relatively small transactions or decided dealings on units may have a significant negative impact on the market value of units, and it may be difficult to implement actual transactions or decided dealings related to a large number of units at a fixed price. The limited number of units and / or unit owners may indicate the existence of limited liquidity in these units, which may negatively affect the following: (1) the investor's ability to achieve a return on some or all of his investment and / or (2) the price that is from During which this investor can achieve the return and / or (3) the price at which units are traded in the secondary market. In addition, a large percentage of units may be issued to a limited number of investors, which may adversely affect the development of an active liquid market for units. In addition, although the units will be tradable, the market liquidity in regards of units may be less than the market for the shares of listed companies. This may negatively affect the unit's trading price or return on investment.	✓		There are currently no risks arising from not trading the units in the main market, and it should be noted that there is a possibility of a risk of not having liquidity in the market if the fund units are traded in the parallel market.
5	Risks of increased sales of units and changes in prices	The sale of a large number of units by unit owners may lead to a decrease in the unit's trading price, and any rumors about the fund's performance may lead to unit owners selling their units, which will affect the unit price. There are many factors that may negatively affect the market price of units, including the general movement in the local and international stock markets, real estate markets, prevailing and expected economic conditions, interest rates, financing costs, investor trends, and general economic conditions. The unit market may be exposed to fluctuations, and the lack of liquidity may have a negative impact on the market value of units. Accordingly, purchasing these units is suitable only for investors who can bear the risks associated with these investments, which may negatively affect the unit's trading price or return on investment.	✓		After listing there was a market maker portfolio to reduce unit's volatility in the market. Moreover, the fund manager has a qualified team that target to operate the fund in a efficient way
6	Risks of changes in interest rates and general economic conditions	Changes in economic conditions, including interest rates and inflation rates, business conditions, competition, technological developments, political and diplomatic events, and tax laws would materially and negatively affect the business and opportunities of the fund. In particular, an increase in interest rates may cause investors to claim a higher return to compensate for the increase in cash and opportunity costs. As a result, the attractiveness of the units as an investment opportunity may	✓		The fund entered into a financing agreement "Profit Rate Cap", as the rate of profitability on financing is limited to a higher ceiling, and it was agreed that the profit rate does not reach a higher level than the higher ceiling level in all cases.

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		decrease and the demand for them may decrease, which negatively affects the market value of the units. Whereas the fund may resort to financing, any increase in interest rates in the debt market would affect the financing terms of the fund. Changes in interest rates may also affect valuations in the real estate sector in general, which may negatively affect the unit's trading price or return on investment.			
7	The risk of trading at a price below the market value of the IPO price	Units may be traded at a price lower than the initial offering price at the time of subscription, and unit owners may not be able to fully recover the value of their investment. Units may be traded at a lower price than their value for several reasons, including unfavorable market conditions, weak investor expectations about the feasibility of the strategy and investment policy for the fund, and an increase in supply over demand for units. This may negatively affect the unit's trading price or return on investment.	✓		The average trading price of the fund's units is less than the listing price, similar to most REIT funds listed in the market, as the company prepares feasibility studies in addition to strategic studies in order to maintain the unit price and not to increase the supply over demand, which contributes to the drop in unit prices.
8	Distributions Volatility Risks	Although the fund, according to the instructions for real estate investment traded funds, is required to distribute at least 90% of its net income to unit owners annually, excluding capital gains resulting from the sale of assets, there are no guarantees regarding future distributions amounts, and the fund may not be able to make any distribution due to unforeseen events that lead to an increase in costs (including capital expenditures in the event of a large-scale and costly renovation work carried out urgently) or a decrease in revenues (such as in the event of low levels of rental income collection). The fund's inability to make annual distributions to unit owners may expose the fund to certain obligations that would weaken the financial performance of the fund, and the fund may also refrain from making any distributions by its financiers, according to the relevant financing documents, and those who have the right in certain cases (such as After the occurrence of a breach under the financing documents) the right to control and control the cash flows of the fund so that it is used to repay the amounts due under the financing documents. It is indicated that any interruption or decrease in the amounts of distributions to unit owners.	✓		Regarding the obligatory donation of distributions differences in the event of a decrease in the targeted distributions in accordance with the specified conditions, however, the fund guarantees a minimum level of returns with a maximum of 2% as mentioned in point No. 1, and regarding the risks of not having a guarantee of achieving returns on investment for subscribers who keep their units only without selling them.
9	The risk of increasing the ratio of management fees to fund income	The fund pays 0.35% of the fund's net asset value as management fees at the same time that the fund's rental income is fixed for a long period of time. It is expected that the value of the fund's assets will change from time to time, which may lead to a decrease or increase in the management fees paid to the fund manager. In the event of an increase, the percentage of management fees will increase as a percentage of the annual fixed income, which may adversely affect the periodic returns of the fund units.	✓		The fees increase needs unit holders approval
10	Risks of fundamental value reversal	The quoted market price of the units may not reflect the value of the fund's underlying investments. The money markets may be exposed to large fluctuations in prices and the volume of transactions from time to time, and this matter, in addition to economic, political and other conditions, leads to a negative impact on the value and price of trading units. As a closed public real estate fund, the price of a single unit may		✓	the fund manager has a qualified team that target to operate the fund in a efficient way

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		be affected by a number of factors, many of which are outside the control of the fund and some of them are related to the fund and its operations, some of which affect real estate investment or stock markets in general.			
11	Risks of valuing the fund's net assets	The value of the fund's net assets is determined at least once every six months. However, the value of the fund's primary investments may change in the period between valuations. Therefore, the market price of the units can be determined based on historical information that may not reflect the current value of the fund's underlying investments. Moreover, the fees payable to the fund manager are only modified from one evaluation to another. Thus, the owner of the units is not aware of the value of the fund's assets updated during this period, and he may dispose of the units of the fund in a manner that may negatively affect his returns on the value of his investment.	✓		In the event that there is any clear discrepancy, the fund manager will inform the unit holders immediately, and the fund manager studies and carefully selects the asset valuation companies that meet all the requirements of the executive authorities so as not to harm the value of the assets by giving an unfair value to the assets managed.
12	Risks of constraints related to raising funds for future acquisitions	Distribution requirements and financing restrictions under the directives of REITs may limit the fund's flexibility and ability to grow through acquisitions. The fund intends to distribute at least 90% of its net profits to the unitholders, with the exception of profits resulting from the sale of basic real estate assets and other investments, which may be reinvested in additional assets or the maintenance and renewal of the fund's existing assets. In addition, in order to maintain the fund's status as a traded real estate investment fund, the financing ratios of the fund must not exceed 50% of the fund's total assets value. As a result, the fund has a limited ability to improve its assets or achieve growth through the acquisition of additional assets, and thus may affect the profitability of the fund, knowing that the fund can increase its capital by offering priority rights in line with the Capital Market Authority regulations and the Companies Law. Relationship.	✓		In the event that the fund manager wishes to make future acquisitions, the fund will increase its capital by offering priority rights in line with the Authority's regulations. Or the use of other options that are compatible with the terms and regulations of the REIT funds
13	Legal restrictions	The fund's investments must be made in accordance with the rules of Islamic Sharia as determined by the Sharia Board. These controls apply to the investment structure and to some extent the fund's activities and the diversification of its investments. In order to adhere to these controls, the fund may be forced to abandon the investment or part of it, or part of its income if the investment or investment structure is in violation of the Islamic Sharia regulations. In addition, when adhering to the Sharia controls, the fund may lose investment opportunities if the Shariah Board decides the existence of any proposed investment that is not committed to the Islamic Sharia regulations and therefore the fund cannot consider it. These factors may, under certain circumstances, have a negative impact on the financial performance of the fund or its investments, compared to the results that would be obtained if the Sharia investment controls of the fund were not applied.	✓		The fund is subject to the supervision of the Sharia Board. It should be noted that all the operations of the Fund are reviewed by the Sharia Board.
14	Risks of incorrect expectations and changes in market conditions	The future performance of the Fund depends largely on changes in the levels of supply and demand in the related real estate sector, which may be affected by regional and local economic and political conditions, increased competition that results in lower real estate values, the possibility of limited availability of housing loans or an increase in mortgage rates, and changes in supply levels and demand. Therefore,		✓	

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		incorrect expectations used by a fund manager for the purposes of making an investment decision can have a negative impact on the fund.			
15	Not to participate in the administration	With the exception of what is mentioned in the terms and conditions, investors have no right or power to participate in managing the fund or influence any of the fund's investment decisions. All management responsibilities are assigned to the fund manager. As these decisions affect the activities of the fund and thus the unit owners.		✓	
16	Relying on senior staff	The success of the fund depends mainly on the success of its management team. The loss of the services of any member of the fund management team in general (whether due to resignation or otherwise) or the inability to attract and appoint additional employees may affect the fund's work and its system. The lack of a successful team to manage the fund may negatively affect the ability to develop real estate and fund assets And the ability to negotiate because of the interest of the fund, which may be reflected in the returns of the fund and the value of its investment units.	✓		The company sets policies and procedures followed, which stipulate that the team is trained to carry out the duties of the fund manager to the fullest, in addition to having a qualified alternative team to manage the fund. An alternative plan in anticipation of any emergency.
17	Nature of investment risks	Investing in the fund requires commitment as indicated in the terms and conditions, with no guarantees to achieve returns on the invested capital. There will be no guarantee that the fund will be able to achieve positive returns on its investments in a timely manner or at any time at all (other than what was mentioned in this draft of a binding donation of the difference in distributions in the event of a reduction from the target). There may be no possibility to sell or dispose of its assets, and if it is decided to dispose of it by sale, there may be no possibility to sell it at a price that the fund manager believes represents its fair value or that it be sold within the time frame requested by the fund. Based on the foregoing, the fund may never be able to achieve any return on its assets.	✓		The fund manager does not provide guarantees, except for those mentioned in the terms and conditions.
18	Risks of potential conflicts of interest	The fund is subject to different situations of conflict of interest because the fund manager and its subsidiaries, their respective managers, managers and associates may be involved in real estate activities and other commercial activities, directly or indirectly. In this regard, the fund may from time to time deal with persons, companies, institutions or companies that are associated with the subsidiary companies of the fund manager to facilitate investment opportunities. It does not require the bodies to whom the fund's board of directors has delegated specific responsibilities (including the fund manager) to devote all of their resources to the fund. In the event that any of the aforementioned bodies dedicate its responsibilities or resources to the benefit of others, this may limit its ability to devote its resources and responsibilities to the benefit of the fund, which may affect the Fund's ability to achieve its objectives in	✓		In the event of a conflict of interest, the portfolio manager will inform the fund's board of directors of the potential for a conflict of interest, and then the board of directors will take the necessary decisions to prevent the occurrence of conflicts that could harm investors.

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		terms of growth in returns and the ability to achieve a better market value for units.			
19	Risks of unequal access to information	The fund will issue 28.5% of its units to property owners in exchange for their in-kind contribution to the fund's capital. This group also represents the real owners of the selling companies and property management companies and thus risks arise about the group of real estate owners or real estate managers obtaining essential information which the fund manager may not be aware of or may not realize that it is material. In addition, they may have the ability to interpret the information in due course, other investors may not have the capacity to do so.		✓	
20	Risks of investing outside the Kingdom	International investment - outside the Kingdom - involves many risks such as the currency exchange rate, political and economic fluctuations, high costs to the investor and information security risks. The fund manager will seek to enter into investments related to regulatory, supervisory and supervisory requirements at least similar to those applied by the Kingdom of Saudi Arabia. However, in the event that any of the above occurs, this may affect the fund's profits and / or the valuation of its assets, which may negatively affect the price of its units.	✓		The fund invested outside the Kingdom of Saudi Arabia, and it should be noted that the contract for the fund's assets outside the Kingdom was concluded with only one tenant, as the contract obliges the tenant to pay the rents for the property, which reduces the aforementioned risks.
21	Currency exchange rate risk	The fund's main currency is the Saudi riyal, but the fund may acquire real estate, enter into investments, or pay any fees or costs in a currency other than the Saudi riyal. Consequently, any change in the exchange rate of these currencies may increase the costs incurred by the fund, which may negatively affect the fund's unit price. Also, unit holders for whom the Saudi riyal is not the base currency are exposed to exchange rate fluctuations.	✓		There is no currency exchange rate risk due to the fund investing in the United Arab Emirates, where the risk of currency exchange rates decreases due to the convergence of the local currency exchange rate with the UAE Dirham.
22	Technical risks	The fund manager relies on the use of technology in managing the fund, but its information systems may be exposed to hacks, viruses, or partial or complete disruption, which limits the fund manager's ability to effectively manage the fund's investments, which may negatively affect the fund's performance and consequently the unit holders of the fund.	✓		The fund manager follows policies and procedures related to information security systems so that any attempt to penetrate and prevent viruses is detected early, in addition to the policies and procedures of the business continuity plan.
23	The risk of default of the fund manager	Whereas, the fund manager is obligated by his pure will, in the event that the fund's return is less than 5%, to donate to pay no more than a return of 2% of the MEFIC's own assets for the investor unit holders by offering, for the unsold units since the beginning of the offering. Consequently, in the event of default, the fund manager will not be able to make the obligatory donation of the difference in return if it falls below the target.	✓		The fund manager has sufficient financial solvency to enable him to fulfill his obligations towards the fund's clients.

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		<p>This includes the fund manager's failure to fulfill its obligations for one year or more than one year, as well as the risk of bankruptcy of the fund manager.</p> <p>There is also a risk that the fund will be terminated prematurely, and thus investors will not enjoy the privilege of donating the differences in return.</p>			