

## **Terms and Conditions of the Fund**

### **Name of Fund**

FALCOM Saudi Equity ETF Fund  
Open-end public investment fund

### **Fund Manager**

FALCOM FINANCIAL SERVICES COMPANY

(FALCOM Saudi Equities Fund) has been certified as being Shari'ah compliant by the Shari'ah Board appointed for the Investment Fund.

The Fund Manager acknowledges that these terms and conditions and other Fund documents are subject to the provisions of the Investment Fund Regulations and the Investment Funds Regulations issued by the Capital Market Authority.

The Fund Manager further acknowledges that the terms and conditions of the Fund and other documents include fair, correct and non-misleading disclosure of all material information and facts relevant to the Fund.

"Potential investors who may receive these Terms and Conditions should read the Terms and Conditions, the Memorandum of Information and other documents carefully, review the risks associated with the investment and take advice from their advisors. Moreover, they should take into account legal requirements before making any decision on investing in any of the Fund units by signing and accepting them when participating in any of the units of the Fund"

### **Date of issuance of these terms and conditions**

16/03/2010 AD

### **The last update date for the brochure**

10/10/2021 AD

### **Date of approval by the Authority for the establishment of the Fund and the issuance of its units**

30/03/1431 AH corresponding to 16/03/2010 AD

This is the modified version of the terms and conditions that reflects the resignation of the fund board member, based on our letter sent to Capital Market Authority on the 10/10/2021AD

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## 1. General Information

### A. Name of Fund Manager

FALCOM Financial Services Co, a legal person licensed under License No 060-20-37 dated 29/04/1427 under the regulations of Capital Market institutions issued by the Capital Market Authority.

### B. Head office address of the Fund Manager

Address of Fund Manager:

Head Office – Olaya General Road

PO Box 884 Riyadh 11421

Phone: 8004298888

Fax + 966 (11) 2054831

### C. Website of the Fund Manager

[www.falcom.com.sa](http://www.falcom.com.sa)

### D. Name of the Custodian and the license number issued by the Capital Market Authority

AlBilad Capital, a Saudi closed Single Shareholder Company licensed by the Capital Market Authority under License No. 08100-37 dated 01/08/1428 AH corresponding to 14/08/2007 AD to carry out the services of dealing as an agent and a principal and guaranteeing coverage, management of Investment Funds and portfolios. As well as arranging, advising and saving related to Securities.

### E. Website of Custodian

[www.Albilad-capital.com](http://www.Albilad-capital.com)

## 2. Applicable Law

FALCOM Saudi Equities Fund and the Fund Manager shall be subject to the Capital Market Law and its executive regulations and other applicable laws and regulations applicable in the Kingdom of Saudi Arabia.

## 3. Objectives of the Investment Fund

### A. Objectives of the Investment Fund

The Fund seeks to achieve growth and long-term capital gains through the passive management of a Market Basket of Saudi Equity listed in the Saudi market in order to achieve a performance level similar to the performance of the index before fees and expenses.

### B. Investment policies and practices

- The Fund invests at least 95% of its assets in companies equities that are compliant with Shari'ah regulations listed and traded in the Tadawul market in the Kingdom of Saudi Arabia.
- The Fund follows a passive management approach to investing in the components of the FALCOM 30 Index portfolio for Saudi Equities (Benchmark Index) index. In any case, the

rebalancing operations are carried out periodically (at least every quarter) in order to ensure that the performance of the index is consistent and sufficient cash is available in the Fund.

- The Fund invests in the components of the Fund's portfolio, taking into account the relative weight of the asset allocation, while adequate cash is maintained in the Fund on an ongoing basis to meet expenses and any other obligations to the Fund.
- The Fund does not seek to outperform the index, such as other funds. It does not seek temporary entry into defensive investments when the market is low or in the case of excessive valuation. The Fund seeks to simulate and match the benchmark performance.
- The Fund Manager will, yearly at least, evaluate the index to ensure that the fund's long-term growth and capital gains objectives can be properly realized.

### **Investment Policies**

- The Fund seeks to track the performance of the index by maintaining the deviation ratio at the lowest level.
- The Fund Manager seeks to maintain a margin of deviation in comparison to the performance of the index by a maximum of 1%, taking into consideration factors of income, fees and expenses. "The deviation ratio can be measured as a deviation coefficient for the increase or decrease in each day of the fund's return compared to the daily performance of the index."
- The Fund seeks to achieve a correlation coefficient of 0.99 on a yearly basis between the daily return level of the benchmark index and the Fund's daily return.
- The Fund deals with issuing and recovering units in kind only (a basket of equities in addition to a cash share). Details of the units' bundles, the components of the stock basket and the monetary component are posted by the Fund Manager on a daily basis.
- The Fund exercises its rights resulting from the actions of the companies related to its investments in order to best benefit the holders of the Fund's units. For example, in the exercise of rights of issue, the Fund participates in the exercise of the rights of issue to any of the shares invested in which the index in turn the process of rebalancing its portfolio accordingly with the concern to address any deviations that may occur. The cash required to exercise the rights of issuance (if necessary) may be provided by the relative sale of some components of the Fund's portfolio of shares (the relative sale means the relative weight of the portfolio compared to the index after the sale). The calculation of the rights to issue and the actions of other related companies is carried out in accordance with the normal course of business and generally accepted accounting principles.
- Distributions received by the Fund will be retained in the Fund initially for purposes of fees, expenses, etc. (refer to the Distribution Policy under these Terms and Conditions).
- In the event of any other actions of companies such as mergers, acquisitions or otherwise, the Fund Manager shall conduct the necessary actions to the best benefit of the unit holders. However, in the event of any discrepancy between the relative weights of the Fund relative to the relative weight of the Index as a result of any of the actions of the companies, the Fund Manager shall rebalance the portfolio accordingly.

- The Fund does not reconcile its portfolio with Shari'ah controls. In any case, the index that the Fund invests in its portfolio complies with Shari'ah controls. The Fund only invests in the index portfolio. The index purifies the shares of its portfolio for Shari'ah purposes on a quarterly basis and eliminates shares that violate Shari'ah controls. Accordingly, the Fund Manager rebalances his portfolio and the Fund Manager takes into account the interest of the unit holders in the event of the disposal of shares that violate the Shari'ah controls. The Fund then buys more shares to achieve a relative match with the benchmark portfolio.
- If the index changes (the disposal or increase of shares), the Fund Manager shall endeavor to position the Fund again with the index portfolio level by rebalancing the Fund's portfolio.
- The Fund may temporarily suspend the issuance and redemption of units during the rebalancing phase.
- The Fund is authorized only to invest in Saudi Equities compliant with Shari'ah controls, listed and traded in the Saudi Stock Exchange (Tadawul) within the index's portfolio.
- The Fund may invest its cash in short-term cash market instruments such as Murabaha transactions at the discretion of the Fund Manager and within the Fund's investment objectives
- The Fund is not authorized to grant loans to any third parties.
- The Fund is not authorized to borrow and therefore the Fund Manager will not perform any operations that can be construed as borrowing.
- The fund shall comply with investment restrictions provided in clause no. 41 of investment fund regulations issued by the authority.
- Delisting the shares in which the Fund invests:

The Capital Market Authority may delist the shares in which the Fund invests. In such a case, the Fund shall act in the following cases:

- (A) It shall stop the issuance or redemption of unit bundles until the issue of listing of shares has been resolved.
- (B) It shall adopt an alternative valuation method (based on fair value) after the prior approval of the Capital Market Authority in respect of shares that have been delisted.
  - The Fund does not face the risk of tracking a short-term performance deviation as the shares that have been delisted continue to form part of the index's portfolio until the time of update. The number of traded free float shares and their closing prices are used before the listing is stopped to calculate the index.
  - If the listing continues to be suspended after the update date, both the Fund and the Index will dispose of the outstanding shares at the date of the update.
  - The fund follows the principle of a conservation when evaluating the Fund and adopts a method that reflects the fair value of the Fund's assets.
  - Addressing Performance Deviation Ratio: The fund seeks to track the performance of the index to achieve its investment objectives in achieving growth and capital gains in the long term and there are no fundamental risks of undesirable deviation in performance. The Fund Manager has adequate tools (such as quantitative and other analysis models) to assist in finding solutions and

estimating deviations. The Fund Manager shall review any deviations that may occur and apply procedures that mitigate the impact of those risks.

- **Liquidity risk:** The Fund's units are listed in Tadawul to be available to investors for trading during the day trading hours. The Fund Manager has signed agreements with the Market Maker to provide liquidity in the market. The market maker prices the units in Tadawul so that the margin between the selling and buying price does not exceed 2%. The market maker faces pricing risks while issuing and redeeming market units. To mitigate the impact of these risks, the Fund provides the market maker with the possibility of immediate issuance and redemption of the Fund's units enabling it to access the Issued Units and the components of the Market Basket through immediate issuance and redemption operations.

#### **4. Fund Term**

FALCOM Saudi Equity trading Fund is a public open-end investment fund and there will be no specific term nor a maturity date for the Fund.

#### **5. Investment Limitations and restrictions**

During the Fund's management period, the Fund Manager shall abide by the limitations and restrictions imposed by the Capital Market Authority Regulations issued by the Capital Market Authority and the terms and conditions of the Fund and the Memorandum of Information in accordance with Shari'ah standards.

#### **6. Fund Currency**

Saudi Riyal

#### **7. Charges for Service, commissions and fees**

##### **A. Details of all fees charged to the Fund**

- **Management Fees:** 0.5% (50 basis points) of the net asset value per annum calculated on each calendar day as a percentage of net asset value and paid to the Fund Manager every quarter as receivables.
- **Administrative Fees:** 0.22% (Twenty-two basis points) of net asset value per annum calculated on each calendar day as a percentage of the net asset value and paid to the administrator each quarter as receivables.
- **Custody Fees:** 0.03% of net asset value calculated on each calendar day as a percentage of the net asset value and paid to the custodian monthly as receivables.
- **Index Fee:** 0.10% (ten basis points) of net asset value per annum calculated on each calendar day as a percentage of net asset value. Index fees shall cover Index Service Provider fees and any related publishing expenses.
- **Listing Fees:** 0.08% (eight basis points) of net asset value per annum payable for trading the annual rate of the fund's expenses does not exceed 1% (100 basis points of net asset value).

- Dealing costs: The Fund issues and redeems unit bundle only in exchange for an exchange. However, for purposes of rebalancing the portfolio, the Fund may purchase and sell shares of the Index. Such transactions may result in a transaction cost that is estimated at cost and incurred by the Fund as a deduction from its assets.
- **The Fund Manager shall bear the following actual and normal expenses incurred after the inception of the Fund:**
  - Expenses of publishing unit prices in newspapers and other information systems and listing the Fund's units in stock markets (if any).
  - Expenses of the liquidator in case of liquidation.
  - Expenses related to the publication of annual reports.
  - Any other actual operating expenses payable to other persons dealing with the Fund.

The above expenses are part of the fund management fees.

- The market maker's compensation for the issuance and redemption services of the units, if any, shall be paid by the administrator as a deduction from fees payable to him.

**Value-Added Tax "VAT"**

- The VAT will be applied in accordance with the regulations issued by the General Authority for Zakat and Income Tax on all fees, expenses and costs.
- All fees and charges mentioned in these Terms and Conditions do not include VAT unless otherwise stated.

**B. Details of payments for transactions charged for subscription, redemption.**

Investors or market maker is not subject to issuance or redemption charges. In any event, investors shall bear the brokerage fees in the market when buying or selling units of the Fund.

**C. Any special commission to be concluded by the Fund Manager**

N/A

**8. Valuation and Pricing**

**A. Valuation of Fund assets**

Securities listed or traded in the financial market: it is evaluated at the last transaction price in that market. If such securities are suspended, they will be settled at the latest rate prior to the suspension, unless there is a conclusive evidence that the value of such securities has fallen below the suspension price.

Any other investment: the fair value determined by the Fund Manager based on the methods and rules approved by the Custodian and after verification by the Fund's Chartered Accountant.

**B. Number and Frequency of Valuation Points**

There will be a regular indicative Valuation for the net asset value of the Fund by issuing an indicative Valuation every 15 seconds during trading hours, as well as a net asset Valuation at the end of the day.

**C. Actions to be taken in case of mis- Valuation or mis-pricing**

- If a fund asset is incorrectly valued or the unit price is incorrectly calculated, the Fund Manager shall document the error directly and promptly report the error in the valuation or pricing which constitutes 0.5% or more of the unit price to the Authority. This is immediately disclosed on the Fund Manager's website, on the Market's website and in the Fund's reports.
- The Fund Manager will reimburse all affected unit owners (including former unit holders) for all errors in the valuation or pricing without delay.

**D. Method of calculating unit price.**

- Net Asset Value represents the net value of the Fund at the end of each working day. The net asset value is calculated by calculating the value of all the assets of the Fund at the closing price, in addition to any existing monetary items minus any accrued expenses at the end of the working day. The net asset value of the unit is calculated by dividing the result by the number of units existing at the valuation time.
- The indicative price is an indication of the net asset value of the Fund during the trading hours where the last trading price is used while the indicative price is calculated. The same remaining steps are taken to calculate the net asset value as the expenses due are netted depending on the net value of the assets by the end of the last trading day to reach the net indicative value of the unit.
- In both cases, the net asset value of the unit of the fund as well as the reference price for unit trading can be reached by dividing the net asset value by the number of units existing at the time of calculation.
- The purpose of issuing the unit price is to clarify the relative relationship between the net asset value of the Fund unit and the market value of the unit's trading.

Under normal circumstances, the Fund Manager follows the above-mentioned Valuation policy. In any case in other circumstances beyond his will, the Fund Manager shall endeavor to follow the best Valuation methods to assess Fund assets. For example, the process of stopping the listing of shares by the Authority or Tadawul. In some cases, the fair value may be used instead of market value after reporting to the CMA and obtaining its approval. Posting shall be made on both Tadawul and FALCOM website and in any other appropriate means of posting.

The net asset value of the Fund is calculated by the administrator in accordance with generally accepted accounting standards.

Expenses that can be deducted from the total asset value:



- (1) Portfolio management fees and fees of any other third party (if any);
- (2) Administrative and external auditor fees;
- (3) Custodian Fee;
- (4) Index Service provider fees.

#### **E. Place and time to post unit price**

The net asset value valuation process is carried out at the end of the day and the price is calculated and published within two hours of market closing time.

The Net Asset Value and Indicative Price are expressed in Saudi Riyal and are available to investors through the Fund Manager's offices or by E-Posting on the Fund Manager's website and Tadawul [www.falcom.com.sa](http://www.falcom.com.sa). [www.tadawul.com.sa](http://www.tadawul.com.sa)

### **9. Transactions**

#### **A. Responsibilities of the Fund Manager regarding Subscription and Redemption Requests Main market operations for issuance and redemption of units**

Fund operations are carried out only between the Fund Manager and the Market Maker. Issuance and Redemption operations are carried out on the basis of bundled units of the Fund, each of which contains 25,000 units traded.

#### **The exchange mechanism in kind for the issuance of the Fund's units is as follows:**

- (1) The Fund Manager will present details of unit bundles components (related shares and cash items on a daily basis before trading starts). Each bundle of units is equivalent to 25,000 units of the Fund.
- (2) The market maker shall submit a request to the Fund Manager to issue units.
- (3) The Market Maker shall at the same time deposit a basket of shares with cash with the Custodian in proportion to the number of units to be issued.
- (4) The Fund Manager shall, upon initial review, approve the issuance of the unit bundles.
- (5) The Custodian shall ensure that the basket of shares and cash items is commensurate with the number of unit bundles required.
- (6) The Custodian shall transfer the basket of shares from the market maker's account to the Fund account.
- (7) The Custodian shall coordinate with Tadawul the issuance and listing of unit bundles (Tadawul issues and lists unit bundles).
- (8) Unit bundles shall be deposited into the market maker's account.
- (9) The market maker shall record the sell orders in the market or keep the new units within his stock (the maximum margin that the market maker can handle in the market is 2%).
- (10) At the end of the day, Tadawul ensures that the number of units issued corresponds to the number of shares received.
- (11) In the case of any discrepancies between the number of units issued and the number of shares, the Custodian shall treat them properly.

- (12) The Fund Manager shall calculate the correct amounts for the Transaction Day in accordance with the Fund's policies. Any shortfalls or increases shall be settled by the custodian with the market maker at the end of the day.

**Procedures for the redeeming of traded units of the Fund:**

- 1) The Market Maker shall submit a request to the Fund Manager to redeem the Fund's units baskets.
  - 2) The market maker shall at the same time deposit the baskets of the redeemed units in the market maker's account with the custodian.
  - 3) The Fund Manager shall, upon initial review, approve the unit refund request.
  - 4) The Custodian shall ensure that the number of units deposited is consistent with the redeemed request
  - 5) The Custodian shall coordinate with Tadawul to carry out the redemption (Tadawul redeems the units and removes them from the trading register).
  - 6) The custodian shall deposit the basket of shares and monetary items in the market maker's account.
  - 7) At the end of the day, Tadawul ensures that the number of redeemed units corresponds to the number of shares received.
  - 8) In case of any discrepancies, the Custodian shall settle them as required.
  - 9) The Fund Manager shall calculate the cash required at the end of the day in accordance with the Fund's policies. Any shortfalls or increases in the redemption of the Fund's units shall be settled by the Custodian with the Market Maker at the end of the day.
- Cash required at the end of the day shall be calculated on the basis of net asset value (assuming there are no issuances or redemptions made during the day). The unit valuation mechanism follows the same mechanism of valuation of ordinary investment funds. During the day, the cash basket is exchanged with the market maker based on the value of cash for the last day. However, net adjustments are made by the end of the day.

**Secondary market operations (buying and selling the trading Fund's units)**

Individual investors cannot participate in main market operations directly with the Fund Manager for purposes of issuing and redeeming units. They can do so through the market maker as he is the only authorized entity to deal directly with the fund manager. The Fund's units are traded in the same manner as listed shares. Therefore, individual investors can sell and buy units during daily trading hours through licensed financial intermediaries.

Investors are liable to pay market-trade fees in accordance with prevailing market prices in accordance with trading rules

**B. The maximum period between receipt of the redemption request and payment of proceeds**

N/A

**C. Restrictions on dealing in the Fund's units**

Since the Fund's units are traded in the same way as listed shares, the trading restrictions of the FALCOM Saudi Equity trading fund are the same as the market's trading restrictions.

**D. Cases where units trading is deferred or suspended and procedures followed in those cases**

The Fund Manager shall have the right to suspend or postpone the dealing in the Fund's units in the following cases:

1. If requested by the Authority.
2. If the Fund Manager considers that the suspension serves the interests of the unit holders.
3. If the dealing is suspended in the market, in which the securities or other assets held by the Fund are dealt with.
4. If the listing of the shares in which the Fund invests is delayed, it may affect the valuation process of the Fund's units.
5. In the event of difficulties in the market in which the Fund deals, for example, but not limited to the lack of liquidity in the Capital Market, where the redemption or the valuation of units of the Fund is unfair or not possible.
6. In the event of a delay in the valuation process of the net assets of the Fund.

If the Fund valuation is suspended, redemption or subscription requests submitted on or after the suspension date will be executed on the next valuation date when the valuation suspension is terminated. The Fund Manager will immediately notify the Authority and the unit holders of any comments, clarifying the reasons for the suspension, and notify them in the same manner used in the suspension notice immediately after the suspension and disclose this suspension on the Fund Manager's website and the market website.

**E. Procedures under which redemption requests to be postponed will be selected**

N/A

**F. Provisions governing the transfer of ownership of units to other investors**

The Fund Manager is not permitted to transfer ownership of the Units to other investors.

**G. The ability of the fund manager to invest in the fund**

As a Fund Manager, FALCOM Financial Services may participate in the Fund as of its inception, and its contribution may be gradually reduced to the level considered appropriate.

**H. The deadline for submitting subscription and redemption requests on any trading day**  
The time to submit the issuance and redemption orders is 15 minutes before the market closes on the trading day.

**I. Procedures for submitting subscription and redemption requests in units**  
The units are purchased and sold through offers of sale and purchase during the trading periods and are subject to the rules of trading of the stock market in terms of trading periods and types of orders. Units can also be purchased and sold by establishing and redeeming these units through the market maker or any authorized entity.

**J. Minimum Subscription or Redemption**  
The minimum subscription and redemption is one bundle.

**K. The minimum amount intended to be collected by the fund manager and the extent of the impact of fund of not reaching this minimum**  
Initial issuance value: SR 50 million. If the minimum amount is not collected during the initial offering period and after obtaining the Authority's approval, the initial offering period may be extended by a maximum of 21 days and disclosed on the website.  
If the minimum amount is not collected during the Initial Offering Period, the Fund Manager will return the Subscription Amounts and any proceeds resulting from its investment to the Unit holders without any deduction.

The Fund Manager has fulfilled this requirement in the Fund's initial offering period

**L. Corrective actions necessary to ensure that the requirement of SR 10 million or its equivalent is met**  
The Fund Manager shall follow the provisions of the CMA Regulations issued by the Capital Market Authority regarding the requirements for the commencement of the Fund (where applicable).

## **10. Distribution policy**

**A. Profit and Income Distribution Policy**  
Contributions received by the Fund are generally held in the Fund. The Fund does not make periodic distributions to unit holders and any amounts available to the Fund from distributions are reflected to the net asset value. The Fund Manager may reinvest surplus liquidity where it is appropriate to buy into existing portfolio shares in order to achieve compliance with the benchmark portfolio.  
However, at the discretion of its Board of Directors, the Fund may distribute the surplus in the form of distributions to unit holders at the discretion of the Fund Manager within the Fund's

objectives. Any such distributions are subject to the approval of the Board of Directors of the Fund.

**B. Approximate date of distribution**

N/A

**C. How to pay dividends**

N/A

**11. Reporting to unit holders**

**A. Financial Reports**

- Falcom prepares initial financial reports every half year within 35 days of the end of the period examined by the Fund's External Auditor. These reports shall contain preliminary financial statements, information on the Fund Manager and any other information on the Fund's activities during the period.
- As well as an audited annual report, covering the financial statements prepared in accordance with the financial laws and regulations applicable in the Kingdom of Saudi Arabia within 70 days after the end of the Fund's financial year, including details of the financial position and performance of the Fund. In addition to information on the Fund Manager and Custodian as at the end of the financial year. The annual financial statements are audited and approved by the external auditor of the Fund.
- Within 30 days of the end of each year, the unit owners shall receive a report showing their operations during that period in addition to the number and value of the property owned by the investor during that period and the total amount for the services, expenses and fees deducted from the unit owner.

**B. Place and means of making reports available**

- These reports will be delivered through the Fund Manager's office at no charge and will be posted on the Fund Manager's website and on Tadawul's website.
- Any other financial information required to be published including unit prices or announcement of any suspension of the Units Valuation shall be posted on the Fund Manager's website or on the Tadawul's website and shall be available to investors through the Fund Manager's offices at no charge.
- Any notices to investors sent by the Fund Manager to investors according to their addresses registered in the record of unit holders when necessary or in accordance with the requirements of regulations shall be published in the daily newspapers.

**C. Means of providing unit holders with annual financial statements**

Unit holders are provided with annual financial statements upon request through the Fund Manager's office at no charge. It will also be posted on the Fund Manager's website and on the Market website.

## 12. Record of unit holders

Tadawul shall prepare and maintain a register for Fund Unit holders as the Fund's Registrar.

## 13. Meeting of unit holders

### A. Conditions in which unit holders are called for a meeting

- The Fund Manager may call for a meeting of unit owners on his own initiative.
- The Fund Manager shall call for a meeting of unit owners within (10) days of receiving a written request from the Custodian.
- The Fund Manager shall call for a meeting of the unit owners within (10) days of receiving a written request from one or more of the unit holders who together or individually own at least 25% of the value of the units of the Fund.

### B. Procedures for convening a meeting of unit holders

- The call for the unit holders' meeting shall be announced on the website of the Fund Manager and on the Market website, and by written notice to all Unit Holders and Custodian:
  1. (10) Days prior to the meeting;
  2. Not later than (21) days prior to the meeting. The notification will include the date, place, time and decisions proposed.
- The meeting of the unit holders is not valid unless attended by a number of unit holders who together hold at least 25% of the value of the units of the Fund.
- If the quorum mentioned in the preceding paragraph is not met, the Fund Manager shall call for a second meeting by posting on the website of the Fund Manager and the Market website and by sending written notice to all Unit holders and Custodian prior to the second meeting of not less than (5) days. The second meeting is valid regardless of the percentage of units represented at the meeting.
- Each unit owner may appoint a representative to represent him at the meeting of unit holders.

### C. Voting rights of unit holders

Each unit owner may make one vote at the meeting of unit holders for each unit held by the meeting time.

## 14. Rights of unit holders

- Obtain an Information Memorandum and a summary of the main information in Arabic for free from the Fund Manager.
- Obtain a summary of key information prepared by the Fund Manager in a concise and simple manner, including information on the characteristics of the Fund.
- Obtain a summary of the unit holders' register (this summary should show all information related to the applicant owner only) for free upon request.
- Exercise all rights related to units including but not limited to the right to vote in meetings of unit holders.

- Receive notification from the Fund Manager of details of the Fund's fundamental changes. (10) Days after the change takes effect.
- Redeem units (in the open-end public fund) before any significant change takes effect without any redemption fees (if any).
- Receive written notice from the Fund Manager of any significant changes proposed before (21) days after the change takes effect.
- Redeeming units (in the open-end public fund) before any significant change takes effect without any redemption fees (if any).
- Receive written notice from the Fund Manager of any necessary change in the public Fund (8) days before the change takes effect.
- Receive immediate notification from the Fund Manager when he imposes a suspension or redemption of subscription of the Fund's units and explains the reasons for the suspension.
- Receive immediate notification from the Fund Manager when he terminates the suspension or redemption of subscription of Fund Units.
- Owners of affected units shall have the right to receive compensation from the Fund Manager for all valuation or pricing errors.
- Issuing a special decision to dismiss any member of the Board of Directors of the Fund. This request shall be directed to the Fund Manager.
- Issuing a special decision to request the dismissal of any member of the Board of Directors of the Fund.
- The Fund Manager shall comply with all requirements of the unit holders' meetings in accordance with Article (70) of the Investment Funds Regulations.
- The Fund Manager shall comply with all requirements of reporting to the unit holders in accordance with Article (71) of the Investment Funds Regulations.
- In the event of merger of funds, the Fund Manager shall comply with all requirements of Part 7 of the Investment Funds Regulations.
- Receive an immediate written notice from the Fund Manager when he deposes the Custodian appointed by him.
- Receive notification from the Fund Manager of termination of the General Fund.
- Obtain information about the net asset value of the unit and the indicative unit price in the manner and time disclosed in this brochure.
- Obtain information about the targeted stock basket in the manner and time disclosed in these terms and conditions.

## **15. Responsibilities of unit holders**

It is the responsibility of the unit holders to bear the loss of their investment in the Fund or part thereof, and shall have no liability for the debts and obligations of the Fund. The unit holder shall not incur any liabilities beyond the purchase price paid for the units and shall not incur any other liabilities as a result of the acquisition of the units.

## 16. Features of Fund Units

- Units of the Fund are of the same kind and have the same value, privileges and rights. The Fund's units do not represent a relative ownership in the Fund's shares, but represent a proportionate share of the Fund.
- Each issue or redemption bundle consists of 25,000 units of the Fund.
- The initial value of the fund unit is SAR 20.
- The process of issuance and redemption of the Fund's units shall be on an ad hoc basis where the Fund Manager and the Market Maker shall exchange units of the Fund against a basket of shares through the Custodian for the purposes of issuing and redeeming the Units.
- The Fund's units are electronically issued in the form of electronic records and are not issued in the form of paper certificates.

## 17. Changes in the terms and conditions of the Fund

**A. "This Fund shall be subject to all provisions governing the change in the terms and conditions of the Public Investment Funds and the approvals and notices set forth in the Investment Funds Regulations"**

**B. Procedures to be followed for notification of changes in the terms and conditions of the Fund**

- By owning units in the Fund, the Participant agrees that the terms and conditions of the Fund in this Brochure, the terms of the Subscription Application or any other means related to the Fund shall govern the relationship between him and the Fund Manager.
- The Participant shall further agree that from time to time, the Fund Manager may, in accordance with the applicable regulatory requirements and regulations, amend these Terms and Conditions or any other documents after obtaining the approval of the Unit Holders and then the Capital Market Authority's approval of the Fundamental Changes in the Terms and Conditions of the Fund. In such a case, the Fund's owners shall notify all units and disclose the details of the fundamental changes in their website to the market within ten (10) days of the validity of the change.
- The Fund Manager shall notify the CMA and the unit holders in writing of any significant changes proposed in the terms and conditions of the Fund. In such case, the Fund Manager shall notify the unit holders of the significant changes within 21 days from the date of the change. The Fund Manager will also disclose the details of the important changes on its website and the Market website within ten (10) days from the date of the change.
- The Fund Manager shall notify the Capital Market Authority and the unit holders in writing of any changes (8) days before the change takes effect. The Fund Manager will also disclose the details of the changes to be notified on its website and the website of the Market (21) days before the change takes effect.

## 18. Fund Termination



- The Fund Manager may terminate the Fund if it is found that the value of the Fund's assets under management is insufficient to justify the economic operation of the Fund or in the event of any change in regulations or other circumstances that the Fund Manager considers sufficient reason for termination of the Fund. In this case, the Fund Manager shall notify the Capital Market Authority and notify the unit holders in writing of its desire to terminate the Fund not less than (21) days from the date on which the Fund is to be terminated.
- If the Fund is terminated, the assets of the Fund shall be liquidated and the debts and obligations relating to the liabilities shall be settled. The remaining assets of the liquidation shall be distributed to the participants within thirty (30) days at the percent represented by their units to the total units and the Fund Manager's confirmation is given. In the event of the commencement of the Fund's liquidation, no distributions will be made to investors unless all the assets of the Fund have been liquidated and the liquidation proceeds received by the Fund Manager.

## 19. Fund Manager

### A. Functions, duties and responsibilities of the Fund Manager

- Establish, register and offer FALCOM Saudi Equity trading Fund.
- Appoint the market maker in addition to the arrangement of initial operational capital and continuous coordination with the market maker to complete the issuance and redemption of units.
- Appoint and agree with the index service provider on how to calculate, evaluate, and publish index information.
- Appoint the custodian as well as the continuous coordination of issuing and redeeming units.
- Develop the Fund's policies and determine the mechanism for issuance and redemption of units.
- Preparation for listing of fund units.
- Ensure performance matching as well as the settlement and handling of deviations.
- Monitor performance and work towards achieving the objectives of the Fund within the framework of the stated strategy and policies.
- Determine the components of the stock basket and announce them and the elements of cash, if any.
- Check periodically the rebalancing and rebalancing of the index portfolio.
- Ensure that the market maker provides liquidity.
- Ensure that the net asset value and value of the unit are properly calculated and published.
- Ensure that information relating to the index is published.
- The Fund Manager (FALCOM Financial Services Co.) shall manage the Fund wisely and fairly to achieve the investment objectives of the Fund included in this Brochure and shall, in all cases, take into consideration the interests of the Unit Holders in accordance with the terms and conditions of the Fund.
- The Fund Manager shall abide by the controls set out in paragraph (3) ("Investment Fund Objectives") of this Brochure and the relevant controls set forth in Article (41) ("Investment Restrictions") contained in the Investment Funds Regulations.

- The Fund Manager is also committed to the Shari'ah controls and periodically verifies that all the Fund's investments are in line with Shari'ah standards and guidelines approved by the Fund's Shari'ah Board under the supervision of the Fund's Shari'ah Board and to report any material violations to the Board of Directors.

**B. The right of the Fund Manager to appoint a Sub-Fund Manager**

The Fund Manager has the right to appoint a Sub-Fund Manager

**C. Provisions governing the removal or replacement of the Fund Manager**

The Authority shall have the right to dismiss the Fund Manager and take any action it deems appropriate to appoint an alternative fund manager for the Fund or to take any other measure it deems appropriate in case of any of the following cases:

1. If the Fund Manager ceases to exercise management activity without notice to the Authority in accordance with the Capital market institutions regulations.
2. In the case of revocation of the license of the Fund Manager to exercise management activity or its withdrawal or suspension by the Authority
3. In the case of a request to the Authority from the Fund Manager to cancel his license to exercise management activity
4. If the Authority considers that the Fund Manager has violated – as the Authority deems material – the obligation of the law or its executive regulations.
5. In the case of the death, deficit or resignation of the investment portfolio manager who manages the fund's assets, with no other person registered with the fund manager able to manage the assets of the funds managed by the portfolio manager.
6. Any other case that the Authority considers – on reasonable grounds – that it is of fundamental importance.

**20. The Custodian**

**A. Functions, duties and responsibilities of the Custodian**

- Physical custody of the assets of the Fund when required.
- Performing the procedures for implementing the applications submitted by the Market Maker in accordance with the Fund Manager's instructions for the issuance and redemption of the Fund's units as follows:
  - Review the components of the portfolio in the light of the information announced by the Fund Manager.
  - When executing a unit-issuing request, the custodian shall check for the units in the market maker's account.
  - Arrange to issue and redeem the Fund's units and ensure that the listing process (or stop the listing) has been properly performed by Tadawul.
  - Upon issuance, ensure that the number and value of units transferred to the Fund account is equal to the number and value of the Units transferred to the Market Maker's account.

- Upon redemption, ensure that the units (and their value) correspond to the basket of shares (and their value) assigned to the market maker.
- Settle issuing and redemption units during the day with Tadawul.

**B. The right of the custodian to appoint a sub-custodian**

The custodian is not entitled to appoint a sub-custodian

**C. Provisions regulating the removal or replacement of the custodian**

- The Authority may dismiss the Custodian appointed by the Fund Manager and take any measure it deems appropriate in the event of any of the following cases:
  1. If the custodian ceases to exercise custody activity without the Authority's consent to do so under the Capital market institutions regulations.
  2. If the custodian's license to practice of the custody activity is revoked, withdrawn or suspended by the Authority.
  3. In the case of a request to the authority from the custodian to cancel his license to practice custody activity.
  4. If the Authority considers that the Custodian has, in the manner that the Authority deems material, violated the obligation of the law or its executive regulations.
  5. In any other case, the Authority believes – on reasonable grounds – that it is of fundamental importance.

In this case, the Fund Manager shall appoint an alternate custodian and transfer the custody responsibilities to the alternate custodian within 60 days of his appointment.

- The Fund Manager may also dismiss the Custodian under written notice if he reasonably considers that the removal of the custodian is in the interest of the unit holders. In this case, the Fund Manager shall appoint an alternate custodian within 30 days after the Custodian receives the written notice. The appointment of a substitute custodian will be immediately disclosed on the website of the Fund Manager and the e-Market website.

**21. Chartered accountant**

**A. Name of the Chartered Accountant**

BDO dr. Mohamed al-Amri & co

**B. Functions, duties and responsibilities of the Chartered Accountant**

The Chartered Accountant shall review the Fund's primary and annual financial statements.

**C. Provisions governing the replacement of the chartered accountant**

If the Fund Manager wishes to appoint or change any alternative chartered accountant, it shall be approved by the Board of Directors of the Fund. Members of the Board of Directors shall

have the right to refuse to appoint the Chartered Accountant or to direct the Fund Manager to change the appointed chartered accountant in any of the following cases:

- The existence of significant existing allegations about the professional misconduct of the Chartered accountant regarding the performance of his duties.
- If the Fund's accountant is no longer independent.
- If the Board of Directors of the Fund determines that the Chartered Accountant does not have sufficient qualifications and experience to perform the audit functions satisfactorily.
- If the Authority has requested, at its sole discretion, change the designated accountant in respect of the Fund.

## **22. Fund assets**

- A. "All assets of the Fund are reserved by the Custodian specified in paragraph (20) of this Brochure in favor of the Investment Fund."
- B. "The custodian must separate the assets of each investment fund from its assets and the assets of its other customers."
- C. "The assets of the Investment Fund are collectively owned by the owners of the units. The Fund Manager, the Sub-Fund Manager, the Custodian, the Sub-custodian, the Consultant or the Distributor may not have any interest in the Fund's assets or claims in respect of such assets, unless the Fund Manager, the Sub-Manager, the Custodian or Subcontractor, Consultant or Distributor is the owner of the Fund's units within the limits of his ownership. Or, if such claims are permitted under the provisions of the Investment Funds Regulations and disclosed in these Terms and Conditions or the Information Memorandum."

## **23. Declaration of the unit owner**

With the participation of the unit holder in the Fund, he acknowledges to review the terms and conditions of the Fund, the Information Memorandum and the summary of the Fund's main information, and also acknowledges his approval of the characteristics of the units in which he participated.

# **Information Memorandum**

## **Name of investment fund**

FALCOM Saudi Equity trading Fund  
"Open-end public fund"

## **Name of Fund Manager**

FALCOM FINANCIAL SERVICES COMPANY

## **Name of Custodian**

AlBilad Capital

## **Date of issuance of the information memorandum**

16/03/2010 AD

## **The last update date**

10/10/2021 AD

The Information Memorandum of the FALCOM Saudi Equity trading Fund and its contents shall be subject to the provisions of the Investment Funds Regulations issued by the Capital Market Authority

"investors are advised to read and understand the contents of the Information Memorandum, if in doubt, please consult a professional advisor"

## **Important notice**

The Information Memorandum has been reviewed and approved by the Fund board. The Fund Manager and the fund Board of Directors collectively and individually accept full responsibility for the accuracy of the information presented herein. Having made all reasonable inquiries, the fund Board of Directors and the Fund Manager confirms to the best of their knowledge and belief, there are no false or misleading statements, or omission of other facts which would make any statement in the information Memorandum false or misleading.

The Capital Market Authority has approved the establishment of and the offering of units in the investment fund. The Capital Market Authority does not, however, take any responsibility for the contents of this information memorandum, nor does it make any representation as to its accuracy or completeness (complete, clear, accurate, and not misleading), and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. The Capital Market Authority does not make any recommendation as to the soundness or otherwise of investing in the investment fund, and the approval of

establishing the fund does not mean that the 64 Authority recommends to invest in the Fund nor confirm the authenticity of the information contained in the terms and conditions and the information memorandum, and the Authority emphasizes that the decision to invest in the fund is up to the investor or his representative

(FALCOM Saudi Equity trading Fund) has been certified as being Shariah compliant by the Shariah Board appointed for the investment fund

## **1. The Investment Fund**

### **A. Name of Investment Fund**

FALCOM Saudi Equity trading Fund.

### **B. Date of issuance of the Fund's terms and conditions**

The terms and conditions of the Fund were issued on 30/03/1431AH corresponding to 16/03/2010.

### **C. The date the Authority has approved to establish the investment fund and offer its units**

The approval of the Authority was obtained on 11/7/1431 AH corresponding to 16/03/2010.

### **D. Fund Term and maturity date**

FALCOM Saudi Equity trading Fund is an open-end public investment fund. There will not be a specific period for the fund's operation nor a date for the maturity of the fund.

### **E. Fund Currency**

Saudi Riyal

## **2. Investment policies and practices**

### **A. Investment objectives of the Investment Fund**

The Fund seeks to achieve growth and long-term capital gains through the inactive management of a Market Basket of equities of companies listed in the Saudi market in order to achieve a performance level similar to the performance of the index before fees and expenses.

### **B. Type (s) of securities in which the Fund will invest mainly**

- The Fund is authorized only to invest in the equities of companies compliant with Shari'ah controls, listed and traded in the Saudi Stock Exchange (Tadawul) within the index's portfolio. In addition the Fund may invest its cash in short-term cash market instruments such as Murabaha transactions at the discretion of the Fund Manager and within the Fund's investment objectives

### **C. Any policy of Investment concentration policies in specific securities, industry, set of sectors, inside specific country or specific geographical area**

- The Fund invests at least 95% of its assets in the equities of companies compliant with Shari'ah regulations listed and traded in the Tadawul market in the Kingdom of Saudi Arabia.
- The Fund invests in the components of the Fund's portfolio, taking into account the relative weight of the asset allocation, while adequate cash is maintained in the Fund on an ongoing basis to meet expenses and any other obligations to the Fund.

### **D. Stock markets where the Fund is likely to buy and sell its investments**

All of the Fund's investments will be in the Saudi Capital Markets.

**E. Transactions, methods and tools that the Fund Manager may use for the purpose of making investment decisions for the Investment Fund**

- F. The Fund follows an inactive management approach to investing in the components of the FALCOM 30 Index portfolio for Saudi Equities (Benchmark Index) index. In any case, the rebalancing operations are carried out periodically (at least every quarter) in order to ensure that the performance of the index is consistent and sufficient cash is available in the Fund.
- The Fund invests in the components of the Fund's portfolio, taking into account the relative weight of the asset allocation, while adequate cash is maintained in the Fund on an ongoing basis to meet expenses and any other obligations to the Fund.
  - The Fund does not seek to outperform the index, such as other funds. It does not seek temporary entry into defensive investments when the market is low or in the case of excessive valuation. The Fund seeks to simulate and match the benchmark performance.
  - The Fund Manager will, yearly at least, evaluate the index to ensure that the fund's long-term growth and capital gains objectives can be properly realized.

**Investment Policies**

- The Fund seeks to simulate the performance of the index by maintaining the deviation ratio at the lowest level.
- The Fund Manager seeks to maintain a margin of deviation in comparison to the performance of the index by a maximum of 1%, taking into consideration factors of income, fees and expenses.  
The deviation ratio can be measured as a deviation coefficient for the increase or decrease in each day of the fund's return compared to the daily performance of the index.
- The Fund seeks to achieve a correlation coefficient of 0.99 on a yearly basis between the daily return level of the benchmark index and the Fund's daily return.
- The Fund deals with issuing and recovering units in kind only (a basket of shares in addition to a cash share). Details of the units' bundles, the components of the stock basket and the monetary component are posted by the Fund Manager on a daily basis.
- The Fund exercises its rights resulting from the actions of the companies related to its investments in order to best benefit the holders of the Fund's units. For example, in the exercise of rights of issue, the Fund participates in the exercise of the rights of issue to any of the shares invested in which the index in turn the process of rebalancing its portfolio accordingly with the concern to address any deviations that may occur. The cash required to exercise the rights of issuance (if necessary) may be provided by the relative sale of some components of the Fund's portfolio of shares (the relative sale means the relative weight of the portfolio compared to the index after the sale). The calculation of the rights to issue and the actions of other related companies is carried out in accordance with the normal course of business and generally accepted accounting principles.
- Distributions received by the Fund will be retained in the Fund initially for purposes of fees, expenses, etc. (refer to the Distribution Policy under these Terms and Conditions).
- In the event of any other actions of companies such as mergers, acquisitions or otherwise, the Fund Manager shall conduct the necessary actions to the best benefit of the unit holders. However, in the event of any discrepancy between the relative weights of the Fund relative



to the relative weight of the Index as a result of any of the actions of the companies, the Fund Manager shall rebalance the portfolio accordingly.

- The Fund does not reconcile its portfolio with Shari'ah controls. In any case, the index that the Fund invests in its portfolio complies with Shari'ah controls. The Fund only invests in the index portfolio. The index purifies the shares of its portfolio for Shari'ah purposes on a quarterly basis and eliminates shares that violate Shari'ah controls. Accordingly, the Fund Manager rebalances his portfolio and the Fund Manager takes into account the interest of the unit holders in the event of the disposal of shares that violate the Shari'ah controls. The Fund then buys more shares to achieve a relative match with the benchmark portfolio.
- If the index changes (the disposal or increase of shares), the Fund Manager shall endeavor to position the Fund again with the index portfolio level by rebalancing the Fund's portfolio.
- The Fund may temporarily suspend the issuance and redemption of units during the rebalancing phase.

**G. Types of securities that cannot be included in the Fund's investments**

The Fund shall not invest in securities other than those mentioned earlier in paragraph 2 (c).

**H. Any other restriction on the type (s) of securities or other assets to which the Fund may invest**

The Fund shall abide by the investment restrictions mentioned in paragraph 41 of the Regulations of the Investment Funds issued by the Authority.

**I. The extent to which the assets of the Fund may be invested in units of a fund or investment funds managed by that manager or other managers**

Not applicable

**J. The powers of the Fund in the assumption and the policy of the Fund Manager regarding the exercise of borrowing powers and its policy statement regarding the pledge of the Fund's assets.**

- The Fund is not authorized to grant loans to any third parties
- The Fund is not authorized to borrow and therefore the Fund Manager will not perform any operations that can be construed as borrowing.

**K. Disclosure of the upper limit for dealing with any counterparty.**

Not applicable

**L. Fund Manager's Risk Management Policy.**

- Compliance with the Capital Market Law and its executive Regulations and the Investment Funds Regulations issued by the Capital Market Authority Board and other related laws and regulations in force in the Kingdom of Saudi Arabia.
- Adhere to the investment limits as set out in the terms and conditions of the Fund.
- Adhere to the investment decision-making mechanism of the Fund and to seek the maximum amount of information relevant to any investment that the Fund decides to enter into.

- To follow up the Fund's activities and the Fund Manager's commitment to its investment limits and obligations to the Client by Compliance Department.
- As for the unpredictable risks, FALCOM will make all effort to try to study these risks before making the investment decision.
- Stop listing the shares in which the Fund invests.

The Capital Market Authority may stop listing the shares in which the Fund invests. In such a case, the Fund shall act in the following cases:

- (C) It shall stop the issuance or redemption of unit bundles until the issue of listing of shares has been resolved.
- (D) It shall adopt an alternative valuation method (based on fair value) after the prior approval of the Capital Market Authority in respect of shares that have been discontinued.
- The Fund does not face the risk of tracking a short-term performance deviation as the shares that have been discontinued continue to form part of the index's portfolio until the time of update. The number of floating free float shares and their closing prices are used before the listing is stopped to calculate the index.
  - Addressing Performance Deviation Ratio: The fund seeks to track the performance of the index to achieve its investment objectives in achieving growth and capital gains in the long term and there are no fundamental risks of undesirable deviation in performance. The Fund Manager has adequate tools (such as quantitative and other analysis models) to assist in finding solutions and estimating deviations. The Fund Manager shall review any deviations that may occur and apply procedures that mitigate the impact of those risks.
  - If the listing continues to be suspended after the update date, both the Fund and the Index will dispose of the outstanding shares at the date of the update.
  - The fund follows the principle of a conservation when evaluating the Fund and adopts a method that reflects the fair value of the Fund's assets.
  - Liquidity risk: The Fund's units are listed in Tadawul to be available to investors for trading during the day trading hours. The Fund Manager has signed agreements with the Market Maker to provide liquidity in the market. The market maker prices the units in Tadawul so that the margin between the selling and buying price does not exceed 2%. The market maker faces pricing risks while issuing and recovering market units. To mitigate the impact of these risks, the Fund provides the market maker with the possibility of immediate issuance and redemption of the Fund's units enabling it to access the Issued Units and the components of the Market Basket through immediate issuance and redemption operations.

**M. Benchmark "indicative index" the provider of index, followed principles and methodology for the account of benchmark**

- The Fund's benchmark is FALCOM 30 Index for Saudi Equities.
- Index Provider: Saudi Stock Exchange (Tadawul).
- Methodology used to calculate the index: The FALCOM 30 Index for Saudi Equities is evaluated on the basis of Free (floating) capital value of the market. It shall follow up the performance of all listed and influential 30 companies listed on the Saudi Stock Exchange (based on floating free capital value) compliant with Shari'ah controls. The index value is

calculated using the ordinary value of trading in market i.e. the amount specified through market aspects and trading mechanism.

**N. The objective of using of derivatives contracts**

Not applicable

**O. Any exemptions approved by the Capital Market Authority for any restrictions or limits on investment**

None

**3. The main risks of investing in the Fund:**

- A. Investment in the Fund is considered to be a high risk investment in view of its investment in the shares of companies in the Saudi stock market
- B. The previous performance of the investment fund, or the previous performance of the index, does not indicate the future performance of the fund or index.
- C. The Fund does not guarantee to unit holders that the performance of the Fund (or its performance compared to the Index) will be repeated or similar to previous performance in the future.
- D. Investment in the Fund is not a deposit with any local bank that markets or sells securities or follows the Investment Fund.
- E. Investors in the Fund may be exposed to the risk of partial or total financial losses arising from their investments in the Fund's units.
- F. Investors should consider the investment risks listed below (but not limited to) that are associated with investments in the FALCOM Saudi Equity trading Fund, which may be exposed thereto and may affect their investment in the Fund. The risks of investing in the Fund include but are not limited to the following:

**1. Investment Risks:**

The Fund may be exposed to investment risks that could result in loss of invested amounts. The Fund Manager does not make any undertaking or commitment that the objectives of the Fund will be realized.

**2. Shares Investment Risks:**

Investment in the Fund may be exposed to the risks associated with investing in ordinary equity funds, which may include the risk of market volatility and potential fluctuations in equity prices due to supply and demand factors, inflation risks, liquidity risk and other regular and irregular risks. Equity prices can be reduced as a result of economic factors or as a result of expectations or factors relating to the companies in which the Fund invests. For example, non-positive reports on returns may lead to a market decline and public stock prices for some issuers may have a faster response to market movements. The decline in the market affects the value of the shares in which the Fund invests. The value of the Fund's portfolio may decline as a result of the issuer's inability to meet expected distributions as a result of the Company's financial position.

### **3. Passive management risk (index risk):**

The Fund follows an inactive management approach to monitor the performance of the index that differs from an active management method that exceeds the performance of the index by direct and active criticism of the target shares. This may entail the possibility that the Fund will retain components of the index's shares, regardless of developments at the macro level or in the performance of a particular stock or industry. Retain the shares of certain companies without responding to changes in market factors or in the performance of certain stocks may adversely affect the performance of the Fund.

### **4. The risk of low correlation coefficient:**

Fund returns may not match the index's returns due to the Fund's exposure to a number of operating expenses that are not applicable in the case of the index. The Fund may incur certain operating expenses in the case of the sale and purchase transactions when the rebalancing process is carried out to reflect changes in the index portfolio. The Fund's investments may not be fully in shares due to cash flows or cash reserves held by the Fund to meet any expenses or obligations.

### **5. Concentration risk:**

If the index concentrated on a specific industry or group of industries, the Fund's investments will be focused on that sector where the Fund follows the distribution and weight of the index portfolio. In this case, the values of the Fund's units may rise or fall in the market more or less than the prices of units of funds investing in shares of companies in various sectors in the market.

### **6. Risks of lack of Diversification:**

Opportunities for diversification of the Fund's portfolio are limited within the components of the indicative index "Benchmark" portfolio. The Fund may invest a significant share of its assets in the shares of a limited number of issuers as part of its investment strategy and policy compared to funds that have opportunities to diversify the investment through listed shares. Therefore, the Fund's performance may be affected by fluctuations in the performance of a relatively limited number of shares.

### **7. Risks of Shari'ah Compliance:**

In the event that any stock in the index is not compatible, it shall be disposed of and therefore the investment opportunities of the Fund are in a tight space compared to the investment world available to conventional funds, which may reduce opportunities for the Fund's investments according to Shari'ah Council.

## **4. General information**

### **A. Targeted category for investment in the Fund**

The fund is mainly targeted by individuals, institutions, government entities and others, who are interested in investing in the Saudi stock market.

## B. Profit Distribution Policy

Contributions received by the Fund are generally held in the Fund. The Fund does not make periodic distributions to unit holders and any amounts available to the Fund from distributions are reflected to the net asset value. The Fund Manager may reinvest surplus liquidity where it is appropriate to buy into existing portfolio shares in order to achieve compliance with the benchmark portfolio.

However, at the discretion of its Board of Directors, the Fund may distribute the surplus in the form of distributions to unit holders at the discretion of the Fund Manager within the Fund's objectives. Any such distributions are subject to the approval of the Board of Directors of the Fund.

## C. Previous performance of investment fund

### 1. Total return.

Cumulative revenue – 31 December 2020	One year	Three years	Five years	Since inception
The Fund	6.99%	25.29%	41.02%	75.87%

### 2. Total annual revenue for each of the last 10 years (or Since inception).

The annual revenue	The Fund
For the year 2011	-2.41%
For the year 2012	10.74%
For the year 2013	30.61%
For the year 2014	-2.96%
For the year 2015	-14.18%
For the year 2016	11.81%
For the year 2017	0.71%
For the year 2018	8.16%
For the year 2019	8.27%
For the year 2020	6.99%

### 3. The Fund's performance compared to the benchmark over the past five years.

	2016	2017	2018	2019	2020
The Fund	11.81%	0.71%	8.16%	8.27%	6.99%
The Benchmark	9.40%	-1.35%	6.09%	5.74%	5.51%

### 4. The date of dividend distribution over the past three fiscal years.

N/A

### 5. The Fund Manager will make all Fund reports available to all investors through the Fund Manager's website.

## D. Rights of unit holders

- Obtain an Information Memorandum and a summary of the main information in Arabic for free from the Fund Manager.
- Obtain a summary of key information prepared by the Fund Manager in a concise and simple manner, including information on the characteristics of the Fund.
- Obtain a summary of the unit holders' register (this summary should show all information related to the applicant owner only) for free upon request.
- Exercise all rights related to units including but not limited to the right to vote in meetings of unit holders.
- Receive notification from the Fund Manager of details of the Fund's fundamental changes. (10) Days after the change takes effect.
- Recover units (in the open-end public fund) before any significant change takes effect without any redemption fees (if any).
- Receive written notice from the Fund Manager of any necessary change in the public Fund (8) days before the change takes effect.
- Receive immediate notification from the Fund Manager when he imposes a suspension or redemption of subscription of the Fund's units and explains the reasons for the suspension.
- Owners of affected units shall have the right to receive compensation from the Fund Manager for all valuation or pricing errors.
- Issuing a special decision to dismiss any member of the Board of Directors of the Fund. This request shall be directed to the Fund Manager.
- Issuing a special decision to request the dismissal of any member of the Board of Directors of the Fund.
- The Fund Manager shall comply with all requirements of the unit holders' meetings in accordance with Article (70) of the Investment Funds Regulations.
- The Fund Manager shall comply with all requirements of reporting to the unit holders in accordance with Article (71) of the Investment Funds Regulations.
- In the event of merger of funds, the Fund Manager shall comply with all requirements of Part 7 of the Investment Funds Regulations.
- Receive an immediate written notice from the Fund Manager when he deposes the Custodian appointed by him.
- Receive notification from the Fund Manager of termination of the General Fund.
- Obtain information about the net asset value of the unit and the indicative unit price in the manner and time disclosed in this brochure.
- Obtain information about the targeted stock basket in the manner and time disclosed in these terms and conditions.

#### **E. Responsibilities of unit holders**

It is the responsibility of the unit holders to bear the loss of their investment in the Fund or part thereof, and shall have no liability for the debts and obligations of the Fund. The unit holder shall not incur any liabilities beyond the purchase price paid for the units and shall not incur any other liabilities as a result of the acquisition of the units.

#### **F. Investment Fund Termination**

- The Fund Manager may terminate the Fund if it is found that the value of the Fund's assets under management is insufficient to justify the economic operation of the Fund or in the event of any change in regulations or other circumstances that the Fund Manager considers sufficient reason for termination of the Fund. In this case, the Fund Manager shall notify the Capital Market Authority and notify the unit holders in writing of its desire to terminate the Fund not less than (21) days from the date on which the Fund is to be terminated.
- If the Fund is terminated, the assets of the Fund shall be liquidated and the debts and obligations relating to the liabilities shall be settled. The remaining assets of the liquidation shall be distributed to the participants within thirty (30) days at the percent represented by their units to the total units and the Fund Manager's confirmation is given. In the event of the commencement of the Fund's liquidation, no distributions will be made to investors unless all the assets of the Fund have been liquidated and the liquidation proceeds received by the Fund Manager.

**G. The Fund Manager periodically assesses the risks of the Fund in accordance with an internal risk valuation mechanism related to the Fund's assets.**

**5. Charges for Service, commissions and fees**

**A. All types of payments from the assets of the investment fund**

- Management Fees: 0.5% (50 basis points) of the net asset value per annum calculated on each calendar day as a percentage of net asset value and paid to the Fund Manager every quarter as receivables.
- Administrative Fees: 0.22% (Twenty-two basis points) of net asset value per annum calculated on each calendar day as a percentage of the net asset value and paid to the administrator each quarter as receivables.
- Custody Fees: 0.03% of net asset value calculated on each calendar day as a percentage of the net asset value and paid to the custodian monthly as receivables.
- Index Fee: 0.10% (ten basis points) of net asset value per annum calculated on each calendar day as a percentage of net asset value. Index fees shall cover Index Service Provider fees and any related publishing expenses.
- Listing and Registration Fees: 0.08% (eight basis points) of net asset value per annum payable for trading and the annual rate of the fund's expenses does not exceed 1% (100 basis points of net asset value).
- Dealing costs: The Fund issues and recovers unit bundle only in exchange for an exchange. However, for purposes of rebalancing the portfolio, the Fund may purchase and sell shares of the Index. Such transactions may result in a transaction cost that is estimated at cost and incurred by the Fund as a deduction from its assets.
- The Fund Manager shall bear the following actual and normal expenses incurred after the inception of the Fund:
  - Expenses of publishing unit prices in newspapers and other information systems and listing the Fund's units in stock markets (if any).
  - Expenses of the liquidator in case of liquidation.
  - Expenses related to the publication of annual reports.

- Any other actual operating expenses payable to other persons dealing with the Fund. The above expenses are part of the fund management fees.

- The market maker's compensation for the issuance and redemption services of the units, if any, shall be paid by the administrator as a deduction from fees payable to him.

**Value-Added Tax "VAT"**

- The VAT will be applied in accordance with the regulations issued by the General Authority for Zakat and Income Tax on all fees, expenses and costs.
- All fees and charges mentioned in these Terms and Conditions do not include VAT unless otherwise stated.

**B. Fees and charges**

	Type of fees and expenses	How they are calculated	when they are paid
1	Fund management fees	Calculated proportionately on the days of the year (365 days) deducted on each valuation day.	Paid every 3 months as receivables
2	Custodian Fee	0.03% calculated at the end of the period	Paid monthly
3	Administrative fees	0.22% of NAV calculated on each valuation day	Paid every 3 months as receivables.
4	Index fees	0.10% of NAV is calculated on each valuation day	Paid annually
5	Chartered Accountant Fees	SR 20,000	Paid annually
6	Audit and disclosure follow-up fees	SR 7,500	Paid annually
7	Transaction expenses (brokerage)	Are recorded at cost and any costs relating to the trading of shares are borne by the Fund	Paid in time

**C. Details of payments for transactions charged for subscription, redemption and transfer of ownership paid by the unit holders**

Investors or market maker is not subject to issuance or redemption charges. In any event, investors shall bear the brokerage fees in the market when buying or selling units of the Fund.

**D. Any special commission to be concluded by the Fund Manager**

N/A

**E. The following is a default example of the fees and expenses of the Fund calculated on the basis of the unit holder's participation of SR 50,000 for one year and the total value of the Fund's assets is SR 10 million. Assuming that the Fund does not achieve any gains or losses during the year**

	The fund	Unite Holder
Total assets at the beginning of the year	SAR 10000000	SAR 50,000
Less:		
Fund Management fees	SAR -50,000	SAR -250
Custodian Fee	SAR -3,000	SAR -15



Chartered Accountant's fees	SAR -20,000	SAR -100
Regulatory fees	SAR -7,500	SAR -38
Index fees	SAR -10,000	SAR -50
Transaction expenses	If any	
Total fees and expenses at the end of the year	SAR -90,500	SAR -453
Net Asset Value at the End of Year	SAR 9,909,500	SAR 49,548

## 6. Valuation and Pricing

### A. How to value all assets owned by the Fund

Securities listed or traded in the financial market: it is evaluated at the last transaction price in that market. If such securities are suspended, they will be settled at the latest rate prior to the suspension, unless there is a conclusive evidence that the value of such securities has fallen below the suspension price.

Any other investment: the fair value determined by the Fund Manager based on the methods and rules approved by the Custodian and after verification by the Fund's Chartered Accountant.

### B. Number and Frequency of Valuation Points

There will be a regular indicative valuation for the net asset value of the Fund by issuing an indicative valuation every 15 seconds during trading hours, as well as a net asset valuation at the end of the day.

### C. Actions to be taken in case of mis-valuation or mis-pricing

- If a fund asset is incorrectly valued or the unit price is incorrectly calculated, the Fund Manager shall document the error directly and promptly report the error in the valuation or pricing which constitutes 0.5% or more of the unit price to the Authority. This is immediately disclosed on the Fund Manager's website, on the Market's website and in the Fund's reports.
- The Fund Manager will reimburse all affected unit owners (including former unit holders) for all errors in the valuation or pricing without delay.

### D. Method of calculating unit price for the purposes of execution of applications for subscription and redemption

- Net Asset Value represents the net value of the Fund at the end of each working day. The net asset value is calculated by calculating the value of all the assets of the Fund at the closing price, in addition to any existing monetary items minus any accrued expenses at the end of the working day. The net asset value of the unit is calculated by dividing the result by the number of units existing at the valuation time.
- The indicative price is an indication of the net asset value of the Fund during the trading hours where the last trading price is used while the indicative price is calculated. The same remaining steps are taken to calculate the net asset value as the expenses due are netted depending on the net value of the assets by the end of the last trading day to reach the net indicative value of the unit.

In both cases, the net asset value of the unit of the fund as well as the reference price for unit trading can be reached by dividing the net asset value by the number of units existing at the time of calculation.

- The purpose of issuing the unit price is to clarify the relative relationship between the net asset value of the Fund unit and the market value of the unit's trading. Under normal circumstances, the Fund Manager follows the above-mentioned valuation policy. In any case in other circumstances beyond his will, the Fund Manager shall endeavor to follow the best valuation methods to assess Fund assets. For example, the process of stopping the listing of shares by the Authority or Tadawul. In some cases, the fair value may be used instead of market value after reporting to the CMA and obtaining its approval. Posting shall be made on both Tadawul and FALCOM website and in any other appropriate means of posting.
- The net asset value of the Fund is calculated by the administrator in accordance with generally accepted accounting standards.

Expenses that can be deducted from the total asset value:

- (1) Portfolio management fees and fees of any other third party (if any);
- (2) Administrative and external references fees;
- (3) Custodian Fee;
- (4) Index Service provider fees.

#### **E. Place and time to post unit price**

The net asset value valuation process is carried out at the end of the day and the price is calculated and published within two hours of market closing time.

The Net Asset Value and Indicative Price are expressed in Saudi Riyal and are available to investors through the Fund Manager's offices or by E-Posting on the Fund Manager's website and Tadawul [www.falcom.com.sa](http://www.falcom.com.sa). [www.tadawul.com.sa](http://www.tadawul.com.sa)

### **7. Transactions**

#### **A. Initial offering.**

- Date of commencement of the tender: 27/03/2010. The first offering period has been completed
- Initial price: SAR 20

#### **B. The deadline for submitting subscription and redemption requests on any trading day**

The time to submit the issuance and redemption orders is 15 minutes before the market closes on the trading day.

#### **C. Procedures for submitting subscription and redemption requests in units**

The units are purchased and sold through offers of sale and purchase during the trading periods and are subject to the rules of trading of the stock market in terms of trading periods and types of orders. Units can also be purchased and sold by establishing and recovering these units through the market maker or any authorized entity.

#### **D. Record of unit holders**

Tadawul shall prepare and maintain a register for Fund Unit holders as the Fund's Registrar.

**E. The proceeds of subscriptions received during the initial public offering period of the Fund's units have been retained in cash or equivalent or in low risk investments such as cash market transactions with a party regulated by SAMA or a similar regulatory body outside the Kingdom and in compliance with Shari'ah until the end of the initial offering period.**

**F. The minimum amount that the Fund Manager intends to collect and the extent of the impact of not reaching that minimum**

Initial issuance value: SR 50 million. If the minimum amount is not collected during the initial public offering period, the Fund Manager may, after obtaining the Authority's approval, extend the Initial Offering Period for not more than twenty-one (21) days and shall disclose such extension on the website of the fund manager. If the minimum amount is not collected during the initial public offering period, the Fund Manager shall return the Subscription Amounts and any resulting amounts from its investment to the Unit Holders without any deduction.

The Fund Manager has fulfilled this requirement in the Fund's initial offering period.

**G. Corrective actions necessary to ensure that the requirement of SR 10 million or its equivalent is met**

The Fund Manager shall follow the provisions of the CMA Regulations issued by the Capital Market Authority regarding the requirements for the commencement of the Fund (where applicable).

**H. Cases where units trading is postponed or suspended and procedures followed in those cases**

The Fund Manager shall have the right to suspend or postpone the dealing in the Fund's units in the following cases:

1. If requested by the Authority.
2. If the Fund Manager considers that the suspension serves the interests of the unit holders.
3. If the dealing is suspended in the market, in which the securities or other assets held by the Fund are dealt with.
4. If the listing of the shares in which the Fund invests is delayed, it may affect the valuation process of the Fund's units.
5. In the event of difficulties in the market in which the Fund deals, for example, but not limited to the lack of liquidity in the Capital Market, where the redemption or the valuation of units of the Fund is unfair or not possible.
6. In the event of a delay in the valuation process of the net assets of the Fund.

If the Fund valuation is suspended, redemption or subscription requests submitted on or after the suspension date will be executed on the next valuation date when the valuation suspension is terminated. The Fund Manager will immediately notify the Authority and the unit holders of any comments, clarifying the reasons for the suspension, and notify them in

the same manner used in the suspension notice immediately after the suspension and disclose this suspension on the Fund Manager's website and the market website.

#### **I. Procedures under which redemption requests to be postponed will be selected**

N/A

#### **8. Characteristics of units:**

- Units of the Fund are of the same kind and have the same value, privileges and rights. The Fund's units do not represent a relative ownership in the Fund's shares, but represent a proportionate share of the Fund.
- Each issue or redemption bundle consists of 25,000 units of the Fund.
- The initial value of the fund unit is SAR 20.
- The process of issuance and redemption of the Fund's units shall be on an ad hoc basis where the Fund Manager and the Market Maker shall exchange units of the Fund against a basket of shares through the Custodian for the purposes of issuing and recovering the Units.
- The Fund's units are electronically issued in the form of electronic records and are not issued in the form of paper certificates.

#### **9. Reporting to unit holders**

##### **A. Financial Reports**

- Falcom prepares initial financial reports every half year within 35 days of the end of the period examined by the Fund's External Auditor. These reports shall contain preliminary financial statements, information on the Fund Manager and any other information on the Fund's activities during the period.
- As well as an audited annual report, covering the financial statements prepared in accordance with the financial laws and regulations applicable in the Kingdom of Saudi Arabia within 70 days after the end of the Fund's financial year, including details of the financial position and performance of the Fund. In addition to information on the Fund Manager and Custodian as at the end of the financial year. The annual financial statements are audited and approved by the external auditor of the Fund.
- Within 30 days of the end of each year, the unit owners shall receive a report showing their operations during that period in addition to the number and value of the property owned by the investor during that period and the total amount for the services, expenses and fees deducted from the unit owner.

##### **B. Place and means of making reports available**

- These reports will be delivered through the Fund Manager's office at no charge and will be posted on the Fund Manager's website and on the Capital market website.
- Any other financial information required to be published including unit prices or announcement of any suspension of the Units Valuation shall be posted on the Fund Manager's website or on the capital market website and shall be available to investors through the Fund Manager's offices at no charge.

- Any notices to investors sent by the Fund Manager to investors according to their addresses registered in the record of unit holders when necessary or in accordance with the requirements of regulations shall be published in the daily newspapers.

**C. The first Financial Year of the Fund ends on 31/12/2010 AD. The fund manager acknowledges also the availability of the Financial Statements for the First Financial year of the Fund and each successive year.**

**D. The audited Financial Statements of the funds is available for free upon request.**

## **10. Board of Directors of the Fund**

### **A. Board Members:**

Board members are as follows:

The Board of Directors of the Fund consists of:

- 1) Mr. Moath bin Qassem Al-Khasawneh (Chairman of the Board)**
- 3) Mr. Saleh Bin Nasser Al-Omair (dependent Member)**
- 4) Mr. Abdulkreem Bin Hamed Al-Njeedy (Independent Member)**
- 5) Mr. Mohammed Bin Msfer Al-Malky (Independent Member)**

### **Qualifications of the Board of Directors of the Fund:**

#### **▪ Mr. Moath bin Qassem Al-Khasawneh (Chairman of the Board)**

Mr. Moath Al-Khasawneh is the General Director of FALCOM Financial Services. He has more than ten years of experience in the field of financial advisory and investment, during which he worked in a number of sectors, notably: banking, industry, real estate and health, as well as the retail sector. Before he took over the tasks of the General Director, he worked as Chairman of Investment Banking Group in FALCOM Financial Services; he has also worked as a consultant to senior management and members of the Board of Directors in many companies in Saudi Arabia. Mr. Moaz has joined FALCOM in 2008 after he worked as a consultant for Deloitte Canada, where he had the opportunity to deal with a number of leading companies through the provision of advisory services in risk management, corporate governance and financial advisory services. He also holds a bachelor's degree in both finance and banking as well as in information systems from St. Mary's University in Canada, in addition to the Master's degree in Business Administration from the Dalhousie University in Canada.

#### **▪ Mr. Saleh Bin Nasser Al-Omair (dependent Member):**

Mr. Saleh Al-Omair holds a master degree in change management from Swansea University, Britain, in 2010, in addition to a bachelor's degree in business administration from the University of South Florida, United States, in 1981. He also has an American Medical Insurance Associate (HIA) certificate from the American Health Insurance Association in addition to a Certificate of Specialization in Managed Health Care (MHP) from the American Health

Insurance Association and a Certificate in General Insurance from the Royal British Insurance Institute, London. Mr. Saleh has extensive experience of more than 38 years, and he is currently a member of the Board of Directors of Nayifat Finance Company.

**Mr. Abdulkreem Bin Hammed Al-Njeedy (Independent Member):**

Mr. Abdulkreem Bin Hammed Al-Njeedy holds a master degree in Executive Management from King Fahad for Petroleum and Engineering in 2012 and holds a degree of doctor in languages from Oklahoma States, United States in 2013 he has more than 32 years experience in addition his board member and CEO of Maharah Human Resources.

**Mr. Mohammed Bin Msfer Al-Malky (Independent Member)**

Mr. Mohammed Bin Msfer Al-Malky holds a master degree in business administration from AlFaisal University – 2013, he has certificates as compliance approval from American Academy Management Finance – 2008, and he has experience more than 27 years in Financial Sector in Financial Markets and Banking and supervises business and regulatory oversight, beside he is deputy director of Finance in small and medium authority, board member at export-import bank Saudi, board member in Saudi Fintech, board member of executive and audit committees in fund of funds company under public investment fund, chairman of the credit committee in direct lending initiative in private sector, board member in Saudi Venture Capital in initiative of private sector, board member and credit committee in supporting sustainability in initiative private sector, board member in Kafalah program under credit guarantee, board member in Swan Trade Co., board member auditing in Arab Sea Information Technology.

**B. Roles and Responsibilities of the Board of Directors of the Fund:**

The responsibilities of Board members include, but are not limited to, the following:

1. Approve all contracts, resolutions and material reports to which the Fund is a party.
2. Adopt a written policy regarding voting rights relating to the Fund's assets.
3. Supervise and, if appropriate, approve any conflict of interest disclosed by the Fund Manager in accordance with the Investment Funds Regulations.
4. Meeting at least twice a year with the compliance and conformance (Compliance and Conformance Committee) officer with the Fund Manager, the money laundering and terrorist financing reporting officer to ensure that the Fund Manager complies with all applicable laws and regulations.
5. Approve any recommendation made by the liquidator in case of his appointment.
6. Ensure that the terms and conditions of the Fund, the Memorandum of Information and any other document of the Investment Funds Regulations are complied with.
7. Ensure that the Fund Manager carries out its responsibilities to the benefit of the unit holders in accordance with the terms and conditions of the Fund and the provisions of the Investment Funds Regulations.
8. Work honestly and for the benefit of the investment Fund and unit holders therein.
9. Record the minutes of the meetings that reflect all the proceedings of the meetings and the decisions taken by the Council.

### **C. Remuneration of Board Members:**

Independent Directors of the Fund shall be granted a remuneration of SAR 3,000 for one meeting and a maximum of SR 5,000 per month if more than one Board meeting is held during the month. Board members' remuneration is covered by management fees. The Council's decisions shall be taken by a simple majority.

### **D. Conflicts of Interest:**

Any Member shall disclose to the Board of Directors of the Fund about the existence of any conflict of interest in the event of voting on any decision taken by the Board of Directors of the Fund, in which the Board Member may have directly or indirectly a special interest.

### **E. All Fund boards in which the relevant member of the Board of Directors participates:**

Members of the Board of Directors of the Fund are members of the Board of Directors of the following Funds:

- FALCOM Fund for Saudi Equity.
- FALCOM Fund for Initial Public Offerings.
- FALCOM Fund for Murabaha in Saudi Riyal
- FALCOM Petrochemical ETF

The fund board hold the same positions in the following private funds:

- FALCOM Murabaha financing fund
- FALCOM Arar hills fund

## **11. Shari'ah Supervisory Committee:**

### **A. Committee members and their qualifications:**

The Shari'ah advisor to the Fund is the members of the legal board of FALCOM Financial Services, which consists of the following scholars:

- **His Excellency Sheikh Abdullah bin Suleiman Al-Manea:**

Sheikh Abdullah Al-Manea is a member of the Council of Senior Scholars in the Kingdom of Saudi Arabia since its establishment, a consultant in the Royal Court, a member of the Shura Council and a former judge of the Court of Cassation in Makkah. Sheikh Al-Manea is the Vice Chairman of the Shari'ah Council of the Accounting and Auditing Organization for Islamic Financial Institutions and the Chairman and Member of several Shari'ah Committees in Saudi and Gulf Banks. He has many publications in Islamic banking.

- **Dr. Mohammed bin Ali Al-Qari:**

Dr. Mohammed Al-Qari holds a master's degree and a PhD in economics from the University of California. He is Professor of Islamic Economics at King Abdul Aziz University in Jeddah,

and an expert of Fiqh Academy of the Muslim World League. Dr. Al-Qari is a member of many Shari'ah boards of Islamic banks in many banks around the world.

▪ **Sheikh / Abdulrahman bin Abdulaziz Al-Nafeesh:**

Master of Islamic Economics, more than ten years of experience in the field of Shari'ah supervision, Islamic financial transactions, a lecturer in cooperation at Imam Muhammad bin Saud Islamic University, He is a member of a number of Shari'ah boards in the Kingdom of Saudi Arabia. He participated in the research of SABIC Chair for Financial Market Studies and Islamic Economics magazine in King Abdulaziz University in Jeddah. He has a number of research papers, including Book of investment Funds (Shari'ah regulations and statutory provisions).

**B. Roles and Responsibilities of the Shari'ah Supervisory Committee:**

1. Study and review the Fund's investment objectives, policies, and the Fund's documents to ensure that they comply with Shari'ah standards.
2. Provide advice to the Fund Manager on matters related to Shari'ah compliance, if requested by the Fund Manager.
3. Provide advice in determining the Shari'ah criteria necessary for the selection of securities and companies or any other investments in the primary or secondary market in which the Fund is expected to invest.
4. Periodic monitoring of the conformity of the Fund's investments with Shari'ah standards.
5. Provide Shari'ah view on the extent to which the work of the Fund is in conformity with Shari'ah standards and to be included in the annual audited report of the Fund.

The Fund Manager shall abide by the standards and recommendations issued by the Shari'ah Supervisory Committee and shall ensure that they are applied to all investments of the Fund at all times.

**C. Remunerations of Shari'ah Committee Members:**

To be borne by the Fund Manager for the Fund.

**D. The criteria applied to determine the legitimacy of assets prepared for investment, the periodic review and the procedures followed in case of non-conformity with Shari'ah standards:**

The following are the Shari'ah controls adopted by the Shari'ah board of FALCOM for the selection of shares of companies:

▪ **Company Objectives:**

The shares of companies engaged in one or more of the following activities shall not be dealt with:



- Dealing with interest rates or illegal financial instruments, including activities of forbidden traditional banks.
- Production, distribution and marketing of forbidden goods such as tobacco, alcohol, drugs, pigs meat and meat of other than those mentioned in Shari'ah, gambling, resorts, hotels and restaurants with forbidden activities.
- Producing and disseminating means and publications that calls for pornography.
- Derivatives that include futures, options, carry trades and traditional equities.
- Dealing in futures contracts for currencies.
- Securities issued by companies whose sources of income are related to the following sectors:
  - Traditional banks and insurance companies or activities related to interest rates.
  - Production and distribution of alcohol products.
  - Production and distribution of weapons.
  - Gambling.
  - Production and distribution of pork or any related illegal activities.
  - Hotels and resorts offering illegal services.
  - Production and distribution of alcohol and drugs, and so on.

The committee carries out periodic reviews. If one of the Fund's assets does not comply with Shari'ah standards, the Fund Manager shall liquidate the asset, taking into consideration that the unit holders are not harmed by liquidating the asset.

## **12. Fund Manager**

### **A. Name of Fund Manager.**

FALCOM Financial Services

### **B. License No. issued by the Capital Market Authority.**

The company is licensed by the Capital Market Authority under license No. 06020-37 to carry out transactions and agent services, pledge to hedge and manage investment Funds and portfolios, arranging, advising and custody of securities.

### **C. Registered address and address of the Fund Manager.**

FALCOM FINANCIAL SERVICES COMPANY  
 Al Olaya General Road  
 P.O. 884 Riyadh 11421  
 Phone: 8004298888  
 Fax + 966 (11) 4617268

### **D. The date of the license issued by the Capital Market Authority.**

The date of the license was 29/4/1427 H corresponding to 27/05/2006.

### **E. Paid up capital for the Fund Manager.**

SR 150,000,000.

F. Financial information of the Fund Manager.

فالكوم للاستثمارات المالية (شركة مساهمة سعودية مغلقة) قائمة الدخل (جميع الأرقام بالآلاف الريالات السعودية ما لم يذكر غير ذلك)		
السنة المنتهية في ٣١ ديسمبر		الإيضاحات
٢٠١٦	٢٠١٧	
		<b>المبيعات المستمرة</b>
		<b>الإيرادات:</b>
٢١,٠٦٧	١٢,٨٧٦	عمولات على خدمات وساطة
١٥,٢٢٢	١١,٦٦٧	أرباح إدارية ورسوم الشركة في صناديق استثمارية
١,٤٤٤	١٢,٠٩٢	دخل من خدمات استثمارية
(٨,٤٠٦)	(٢٠٩)	خسارة من استثماراته صافي
<u>٢٤,٣٢٧</u>	<u>٢٨,٢٦٦</u>	
		<b>مصاريف:</b>
(٢٥,٥٢١)	(٢٧,٧٧٧)	رواتب ومكافآت ذات علاقة
(٥,٧٩٦)	(٩,٠٠٩)	تكلفة التمويل
(١٨,٦٩٩)	(١١,٠٦٤)	النفقات في خدمة الاستثمارات متاحة للبيع
(٢,٠٩٨٧)	(١١,٨٥١)	مصاريف عمومية وإدارة أخرى
(١١١,٠١٢)	(٥٩,٧٠١)	
(٨١,٨٠٤)	(٦١,٢٤٠)	
		<b>الخسارة من العمليات</b>
٢,٧٧٤	٢,٠٧٧	إيرادات أخرى
(٧٨,٠٣٠)	(١٨,٢٦٢)	الخسارة قبل الضرائب
(٦,٥٢٨)	-	ضريبة
(٨٤,٥٥٨)	(١٨,٢٦٢)	صافي الدخل لنفسه من العمليات المستمرة
		<b>عمليات متوقفة</b>
٢٤,٧٥٢	١٩,٨٥٢	الحصة في صافي دخل شركات الزميلة التابعة
<u>٥,١٩٤</u>	<u>١,٥٨٩</u>	صافي الدخل لنفسه
		<b>رأبحة السهم:</b>
(٠,٠٠٨)	(٠,٠٠٩)	الخسارة من العمليات (ريال سعودي)
٠,٠٠٠	٠,٠٠٦	صافي الدخل لنفسه - (ريال سعودي)

تغير الإيضاحات الزميلة في الصفحات من رقم ١٠ إلى رقم ٤٤ جزئياً لا تتحرراً من هذه القوائم المالية.

G. Members of the Board of Directors of the Fund Manager.

- Abdalmehsen bin Mohammad Al Saleh (Chairman and Dependent member)

He enjoys with experience over 40 years in business and investments and consultant and management through working in Samba and City Bank. He holds Bachelors degree in business and economy from Witter University in California State in 1967. In addition he holds several positions in many companies as below.

- Board member and head of audit committee and member in remuneration committee of Malath Insurance.

- Chairman/Owner of Masader Holding.

- **Abdul Mohsen bin Abdul Rahman Al-Suwailem (Vice President)**

Mr. Abdul Mohsen Al Suwailem has more than 20 years of experience in the financial and banking sector and a financial and administrative consultant licensed by the Ministry of Commerce. He holds a Bachelor of Science in Administrative Sciences from King Saud University in 1992. Mr. Abdul Mohsen Al Swailem is currently the CEO and Managing Director of Al-Naifat Financing Company, and is a member of several boards of directors as shown below:

-Member of the Board of Directors - FALCOM Holdings Company

-Member of the Board of Directors - Nayifat Financing Company.

-Member of the Board of Directors – Stores & Support Services Company.

-Member of the Board of Directors – Guld Integrated Industries Company.

- **Mr. Moath bin Qasim Al-Khasawneh (Executive Managing Director/CEO)**

Mr. Moath Al-Khasawneh is the General Director of FALCOM Financial Services. He has more than ten years of experience in the field of financial advisory and investment, during which he worked in a number of sectors, notably: banking, industry, real estate and health, as well as the retail sector. Before he took over the tasks of the General Director, he worked as Chairman of Investment Banking Group in FALCOM Financial Services; he has also worked as a consultant to senior management and members of the Board of Directors in many companies in Saudi Arabia. Mr. Moath has joined FALCOM in 2008 after he worked as a consultant for Deloitte Canada, where he had the opportunity to deal with a number of leading companies through the provision of advisory services in risk management, corporate governance and financial advisory services. He also holds a bachelor's degree in both finance and banking as well as in information systems from St. Mary's University in Canada, in addition to the Master's degree in Business Administration from the Dalhousie University in Canada.

- **Fahed bin Ibrahim Al Mufarej (Board Member)**

He enjoys with an experience in handling monetary policy. He holds a bachelor degree in Administration from King Abdulaziz in 1986. In addition, he has completed many courses in monetary policy, banking, and financial analysis and has trained in an international entity, IMF. In addition he is a board member of the following companies.

-Board member and Chairman of the Audit Committee - Samba Bank  
-Board member and member of the Audit Committee - Saudi Printing & Packing Company

- **Mohammad Ibrahim Abu Jabal (Board Member)**

He has more than 15 years experience in financial and monetary, consulting and financial sector. He commenced his career at External Audit at EY Jordan, and then working as a consultant and an external auditor at Price Water House Coppers in Qatar and Saudi Arabia. He has obtained good experience in audit for commercial transaction and financial sector in GCC and Jordan markets. He has commenced financial accounting at FALCOM Financial Services, and he has been appointed the CFO FALCOM Financial Services and FALCOM Holding Company. In addition, he is board member and a member of the audit committee of several companies.

He has experience in the financing department and consultant at several business units, and been responsible to reviewing and performance financial reports and administration. He holds a bachelor degree from Jordan Private. In addition, he has many courses, programs, and training in financial analysis, financial controlling and corporate governance.

- **Salman Bin Shehween (Dependent Member)**

Mr.Salman bin Shahween has more than 37 years of experience in various fields in several government sectors. He hold a bachelor's degree in Shariah sciences from Imam Mohammed bin Saud Islamic University in 1400AH. He also currently is:

A member of the board of directors of FALCOM Holding.

A member of the nominations and remuneration committee of FALCOM Holding.

### **Roles, Responsibilities and Duties of the Fund Manager.**

- Establish, register and launch the FALCOM Saudi Equity trading Fund.
- Appoint the market maker, arrange the initial operating capital and continue coordination with the market maker to complete the issuance and redemption of the units.
- Appoint the index service provider and agree with him on the mechanism of calculating, evaluating and publishing index information.
- Appoint the Custodian and continuous coordination of the issuance and redemption of units.
- Develop the policies of the Fund and determine the mechanism for issuance and redemption of units.
- Prepare for inclusion of Fund units.
- Ensure performance matching, settlement and handling deviations.
- Monitor performance and work towards achieving the objectives of the Fund within the framework of the stated strategy and policies.
- Determine the components of the stock basket and announce them and the monetary elements, if any.

- Periodic confirmation of rebalancing operations with the level of rebalancing the index portfolio.
- Ensure that the market maker provides liquidity.
- Ensure that the net asset value and guiding value of the unit are properly calculated and published.
- Ensure that information relating to the index is disseminated.
- The Fund Manager (FALCOM Financial Services) manages the Fund wisely and fairly to achieve the investment objectives of the Fund included in this statement and in all cases takes into consideration the interests of the Unit Holders in accordance with the terms and conditions of the Fund.
- The Fund Manager shall abide by the controls set out in paragraph (3) ("Investment Fund Objectives") of this Prospectus and the relevant controls set forth in Article (41) ("Investment Restrictions") contained in the Investment Funds Regulations.
- The Fund Manager shall also abide by the Shari'ah Rules for Investment and shall periodically ensure that all of the Fund's investments are in conformity with Shari'ah standards and controls approved by the Shari'ah Board of the Fund under the supervision of the Fund's Shari'ah Board and notify The Fund's Board of Directors of any material irregularities at the time.

**H. Tasks assigned to a third party by the Fund Manager in respect of the Fund.**

None

**I. Any other business activities or interests of the Fund Manager that are of Fundamental importance.**

None

**J. Provisions governing the removal or replacement of the Fund Manager.**

The Authority may dismiss the Fund Manager and take any action it deems appropriate to appoint an alternate Fund Manager for the Fund or to take any other measures it deems appropriate in case of any of the following cases:

1. The Fund Manager ceases to exercise the activity of the Administration without the Authority's notice to do so under the Capital market institutions regulations.
2. Cancellation of the license of the Fund Manager to exercise or withdraw or suspension of the activity by the Authority.
3. The Fund Manager submits an application to the Authority to cancel his license of the exercise of management activity.
4. If the Authority considers that, the Fund Manager has violated - in the form that the Authority deems essential - the obligation of the system or its executive regulations.
5. The death of the manager of the investment portfolio that manages the investment Fund's assets, his disability or his resignation, with no other person registered with the Fund Manager capable of managing the assets of the investment Fund or the assets of the Funds managed by the portfolio manager.

6. Any other case that the Authority considers - on reasonable grounds - that it is of Fundamental importance.

### **13. The Custodian**

#### **A. Name of the Custodian**

AlBilad Capital

#### **B. License No. issued by the Capital Market Authority.**

AlBilad Financial Company is a single person Saudi company with closed shareholding licensed by the Capital Market Authority under license no. 08100-37 dated 01/08/1428 H corresponding to 14/08/2007 to carry out transactions and agent services, pledge to hedge and manage investment Funds and portfolios, arranging, advising and custody of securities.

#### **C. Registered address and work address of the Custodian.**

AlBilad Capital

King Fahd Road, Al Olia  
P.O. 140 RIYADH 11411  
Phone: 920003636  
Fax + 966 + (11) 2906299

#### **D. The date of the license issued by the Capital Market Authority.**

The date of the license is 01/08/1428 H corresponding to 14/08/2007

#### **E. The basic roles and responsibilities of the Custodians in relation to the investment Fund.**

- Physical conservation of Fund assets, if needed.
- Performing the procedures for implementing the applications submitted by the Market Maker in accordance with the Fund Manager's instructions for the issuance and redemption of the Fund's units as follows:
  - Review the components of the portfolio in the light of the information announced by the Fund Manager.
  - When executing a unit issuing order, the market maker arranges to transfer the basket of shares and other monetary items from the market maker's account to the Fund Manager's account.
  - When the unit redemption request is executed, the Custodian checks that the units are in the market maker's account.
  - Arrange to issue, redeem the Fund's units, and ensure that the listing process (or stopping the listing) has been properly performed by Tadawul.
  - Upon issuance, ensure that the number and value of the units transferred to the Fund account is equal to the number and value of the issued units transferred to the Market Maker Account.

- Upon redemption, ensure that the units (and values) of the Fund correspond to the basket of shares (and their values) transferred to the account of the market maker.
- Settlement of issuing and recovering units during the day with Tadawul.

**F. The tasks entrusted to a third party by the Custodian in respect of the investment Fund.**

Not Applicable

**G. Provisions regulating the dismissal of the Custodian.**

- The Authority may dismiss the Custodian designated by the Fund Manager or take any measure it deems appropriate in the event of any of the following cases:
  1. The Custodian ceases to exercise the activity of conservation without the Authority's notice to do so under the Capital market institutions regulations.
  2. Cancellation of the license of the Custodian to exercise or withdraw or suspension of the activity by the Authority.
  3. The Custodian submits an application to the Authority to cancel his license of the exercise of management activity.
  4. If the Authority considers that, the Custodian has violated - in the form that the Authority deems essential - the obligation of the system or its executive regulations.
  5. Any other case that the Authority considers - on reasonable grounds - that it is of Fundamental importance

In this case, the Fund Manager shall appoint an alternate Custodian and transfer the conservation responsibilities to the alternate Custodian within 60 days of his appointment.

- The Fund Manager may also dismiss the Custodian by written notice if he reasonably considers that the Custodian is to be dismissed in the interest of the unit holders. In this case, the Fund Manager shall appoint an alternate Custodian within 30 days of receiving the written notice by the Custodian. Appointment of an alternate Custodian will be disclosed on the website of the Fund Manager and the e-Market website.

**14. Investment Consultant (if any).**

Not Applicable

**15. Distributor (if any).**

Not Applicable

**16. Legal Auditor.**

**A. Name of the Legal Auditor.**

BDO dr. Mohamed al-Amri & co

**B. Registered address and work address of the Legal auditor.**

Moon tower floor 7-8

P.O Box :8736 Riyadh11492

Phone: +966 11 278 0608

Fax: +966 11 278 2883

[www.alamri.com](http://www.alamri.com) .C

**D. Core roles and responsibilities of the Legal Auditor in relation to the Investment Fund.**

The legal auditor reviews the Fund's primary and annual financial statements.



## **1. Other Information**

- a. The Fund grants unit holders the right to have access to policies and procedures to address conflicts of interest and any potential or actual conflict of interest upon request and without charge.
- b. Special discounts and commissions

Not Applicable

### **c. Zakat or Tax.**

- The Fund Manager shall not pay Zakat for the Fund
- Value Added Tax: The Value Added Tax will be applied in accordance with the executive regulations issued by the General Authority for Zakat and Income Tax on all fees, expenditure, expenses and costs. All fees and expenditure mentioned in the Fund's documents do not include Value Added Tax unless otherwise stated

### **d. Information and details of meeting of unit holders**

1. The Fund Manager shall convene the meeting of the unit holders within 10 days of receipt of a written request from the Custodian.
2. The Fund Manager shall convene the meeting of the unit holders within 10 days of receipt of a written request from one or more of the unit holders who together or individually own at least 25% of the value of the units of the Fund
3. Invitation to the meeting of the unit owners shall be announced on the website of the Fund Manager and the website of the Market and by sending a written notice to all unit holders and Custodian (if any)
  - 1) At least ten days prior to the meeting.
  - 2) Not more than (21) days prior to the meeting.The notification will include the date, place, time and decisions proposed
4. The meeting of the unit holders shall not be valid unless attended by a number of unit holders having together at least 25% of the value of General Fund units.
5. In case of not meeting the quorum stated in Clause 4. The Fund Manager will convene a second meeting by announcing this on the Fund Manager's website and the website of the market and by sending written notice to all unit holders and Custodian prior to the second meeting by five days at least. The second meeting shall be valid regardless of percentage of the units represented at the meeting
6. Each unit holder may appoint an agent to represent him at the meeting of the unit holders:
7. Each unit holder may make one vote at the meeting of unit holders of each unit held by him on the meeting time

### **e. Termination of the Fund**

- The Fund Manager may terminate the Fund if he finds that the value of the Fund's assets under management is insufficient to justify the economic operation of the Fund or in the event of any change in regulations or other circumstances which the Fund Manager deems sufficient to

terminate the Fund. In this case, the Fund Manager shall notify the Capital Market Authority and notify the unit holders in writing of his desire to terminate the Fund not less than 21 days from the date on which the Fund is to be terminated

- In the case of termination of the Fund, the assets of the Fund are liquidated and the debts and liabilities relating to the liabilities are repaid and the remaining assets from liquidation are distributed to the participants for the percentage represented by them and attributed to the total units. In the event of liquidation of the Fund, no distributions will be made to investors unless all the Fund's assets have been liquidated and the liquidation proceeds received by the Fund Manager
- f. The Fund Manager will submit complaints processing procedures upon request and free of charge. The Unit Owner may, in the event of any complaint or comment about the Fund, send them to the following address:  
FALCOM Financial Services Company  
Conformity, Compliance and Risk Management Group  
Al Olaya General Road  
P.O. Box: 884 Riyadh: 11421  
Phone: +966 (11) 2114722 – Fax: +966 (11) 2032546  
Comments can also be sent to the following e-mail:  
Addingvalue@FALCOM.com.sa
- g. The Judicial Agency Competent to solve any dispute

The Committee for the Resolution of Securities Disputes in the Kingdom of Saudi Arabia is the Judicial Agency Competent to solve any dispute arising out of or in respect of investment Funds.

- h. The Fund Manager grants unit holders the right to review the terms, conditions of the Fund, the summary of key information and each contract stated in the Information Memorandum and financial statements of the Fund Manager
- i. All assets of the Fund are collectively held by the unit holders. The Fund Manager, the Sub-Fund Manager, the Custodian, the Sub-Custodian, the Consultant or the Distributor may not have any interest in the Fund's assets or claim in respect of such assets, unless the Fund Manager, Sub-Fund Manager, the Custodian, the Sub-Custodian, the Consultant or the Distributor are holders of the units of the Fund, within the limits of his ownership, or if such claims are permitted under the provisions of these Regulations and disclosed in the terms and conditions of the Fund or the Information Memorandum.
- j. There is no other known information that may enable existing or potential unit holders or their professional advisors to make a decision to invest in the Fund contrary to what is stated in the Terms and Conditions and the Information Memorandum.
- k. Any exemptions from investment regulation restrictions have been approved by the Committee in advance, contrary to what has been stated in the investment policies and practices

None

## 1. Policy of the Fund Manager in respect of voting rights

In accordance with inside Falcon's regulations of voting rights, in cooperation with the Board of Directors of the Fund, Conformity, Compliance and Risk Management group, this system will be followed in case of voting. The Fund Manager will also make voting decisions within the framework of this system by consulting the Conformity, Compliance and Risk Management group.

## 2. Additional information requirements for certain types of Funds

a. In the case of the Trading Indicator Fund

1. The holders of the FALCOM Saudi Stock Exchange Units agree to the terms and conditions of the Fund once they have subscribed to it

2. Valuation points for the Net Asset Value and the Net Asset Value of each unit

There will be a regular guiding valuation for the net asset value of the Fund by issuing an guiding valuation every 15 seconds during the trading hours, as well as an valuation for net asset value at the end of the day

3. Market maker

### **First Market Maker**

FALCOM Financial Services, a legal person licensed under License No. 20060-37 dated 29/04/1427 hijri on the basis of the provisions of the capital market institutions regulations issued by the Capital Market Authority to deal in a transaction as an original person

The address of the first market maker

Head Office - Al Olaya General Road

P.O. Box: 884 Riyadh: 11421

Phone: 8004298888

Fax: +966 (11) 2054831

[www.falcom.com.sa](http://www.falcom.com.sa)

### **Second Market Maker**

Saudi Fransi Capital Limited, a legal person licensed by the Capital Market Authority under license number 11153/37 for handling, custody, management, arrangement and consultation with commercial registration number 1010231217.

The address of the second market maker

Intersection of Al Olaya road with Al Orouba road

P.O. Box: 884 Riyadh: 11431

Phone: (11) 215 1111- Fax: (11) 215 2353

Kingdom of Saudi Arabia

### **Functions of Maker Market**

(1) Submit initial liquidity for the primary market for the establishment of trading units.

(2) Provide liquidity for the selling and buying operations in the secondary market within the permitted rate which is 2%

- (3) The Market Maker facilitates the issuance and redemption of the Fund's units in coordination with the Fund Manager, Custodian and Trading
- (4) Contributing to the stability of the price and demand of the units of the Fund in the market through intervention to increase the supply or demand for units when necessary.

#### 4. Deviation Coefficient Margin for the Index

The Fund Manager seeks to maintain a margin of deviation in comparison to the performance of the Index by a maximum of 1%, taking into consideration factors of income, fees and expenses.

## **Summary of Key Information**

### **Name of Fund**

FALCOM Saudi Equity trading Fund  
(Open public investment Fund)

### **Fund Manager**

FALCOM Financial Services Company

### **Last updated on**

10/10/2021 AD

This information summary is mainly prepared for investors to enable them to study the opportunity available to them to purchase units in the Saudi FALCOM trading stock Fund and potential investors to read the terms, conditions and other documents thoroughly before making any decision on investing in this Fund.

## **a. Key Information about the Investment Fund**

### **1. Name of Investment Fund**

FALCOM Saudi Equity trading Fund  
(Open public investment Fund)

### **2. Investment Objectives of the Fund**

The Fund seeks to achieve growth and long-term capital gains through the inactive management of a Market Basket of Saudi Equity listed in the Saudi market in order to achieve a performance level similar to the performance of the index before fees and expenses.

### **3. Investment Policies and Practices**

- The Fund shall invest at least 95% of its assets in the shares of the equities of companies that comply with the Shari'ah controls listed and traded in the Tadawul market in the Kingdom of Saudi Arabia.
- The Fund invests in the components of the portfolio of the Index, taking into account the relative weights of the asset allocation, while adequate cash is maintained in the Fund on an ongoing basis to meet expenses and any other obligations to the Fund
- The Fund follows an inactive management approach to investing in the components of the FALCOM 30 Index portfolio for Saudi Equities (Benchmark Index) index. In any case, the rebalancing operations are carried out periodically (at least every quarter) in order to ensure that the performance of the index is consistent and sufficient cash is available in the Fund.
- The Fund invests in the components of the Index portfolio, taking into account the relative weights of the assets allocation, while adequate cash is maintained in the Fund on an ongoing basis to meet expenses and any other obligations on the Fund.
- The Fund does not seek to exceed the performance of the Index, such as other investment Funds and does not seek to enter temporarily in defense investments at a low market or in the case of excessive valuation. The Fund seeks to simulate and match the performance guiding Index.
- At least on a yearly basis, the Fund Manager evaluates the Index to ensure that the Fund's long-term growth and capital gains objectives can be adequately realized.

### **Investment Policies**

- The Fund seeks to track the performance of the Index by maintaining the deviation ratio at the lowest level
- The Fund Manager seeks to maintain a margin of deviation in comparison to the performance of the Index by a maximum of 1%, taking into consideration factors of income, fees and expenses  
\* The deviation ratio is measured as a deviation coefficient for the increase or decrease in each day of the Fund return compared to the daily performance of the Index.
- The Fund seeks to achieve a coefficient of correlation of 0.99 on a yearly basis between the daily return level of the guiding Index and the daily return of the Fund:

- The Fund deals with the issuance and redemption of units only in kind (a basket of shares plus a cash share). Details of unit packages, shares basket components and cash component are announced by the Fund Manager on a daily basis
- The Fund exercises its rights resulting from companies actions in respect of its investments to achieve the best benefit for the Fund unit holders. For example, when exercising rights of issue, the Fund participates in the exercise of the rights of issue granted to any of the shares invested in which the guiding Index plays its role in rebalancing operation of the portfolio accordingly with interest to address any deviations that could occur. The cash required to exercise rights of issuance may be provided (if necessary) by means of the relative sale of some components of the Fund's portfolio of shares (the relative sale means, without prejudice to the relative weight of the portfolio in comparison to the Index after the sale). The calculation of the rights of issuance and the actions of other related companies are in accordance with the method used in the normal course of business and within accepted accounting standards.
- The distributions received by the Fund will be maintained in the Fund initially for fees, expenses, etc. (refer to the Distributions Policy under these Terms and Conditions)
- In the event of any other actions of companies such as mergers, acquisitions or otherwise, the Fund Manager shall conduct the necessary actions to the best benefit of the unit holders. However, in the event of any discrepancy between the relative weights of the Fund compared to the relative weight of the Index as a result of any of the actions of the companies The Fund Manager will rebalance the portfolio accordingly.
- The Fund does not comply its portfolio with Shari'ah controls. In any case, the Index in which the Fund invests in its portfolio complies with Shari'ah controls and the Fund only invests in the Index Portfolio. The Index purifies the shares of its portfolio for Shari'ah purposes on a quarterly basis and eliminates shares that exceed Shari'ah controls according to the guidelines of Shari'ah council. Therefore, the Fund Manager rebalances his portfolio and the Fund Manager takes into consideration the interest of the unit holders in case of disposal of shares that exceed the Shari'ah controls. The Fund then purchases more values to achieve relative consistency with the Index portfolio
- In the event of a change in the Index (disposal or increase of shares), the Fund Manager shall seek to put the Fund again with the Index portfolio level by rebalancing the Fund's portfolio.
- The Fund may temporarily suspend the issuance and redemption of units during the rebalancing operation.

#### 4. The Main Potential Risks Associated with Investing in the Fund

Investors should consider the investment risks listed below (which are not limited to) and are associated with investments in the FALCOM Saudi Equity trading Fund which may be exposed to them and may affect their investment in the Fund. The risks of investing in the Fund include but are not limited to:

- **Investment Risk**

The Fund may be exposed to investment risk that could result in the loss of the invested Funds. The Fund Manager will not make any undertaking or commitment that the Fund's objectives will be met.

- **Shares Investment Risk**

Investment in the Fund may be exposed to the risks associated with investing in ordinary shares Funds, which may include the risk of market fluctuations and potential fluctuations in shares prices due to supply and demand factors, inflation risk, liquidity risk and other systematic and irregular risks. Shares prices can be reduced as a result of economic factors or as a result of expectations or factors relating to the companies in which the Fund invests. For example, non-positive return reports may lead to a decline in the market and the general share prices of some of the issuers may be more responsive to movements in the market. The decline in the market affects the value of the shares in which the Fund invests. The value of the Fund's portfolio may decrease due to the issuer's inability to meet expected distributions due to the Company's financial position.

- **Inactive Management Risk (Index Risk)**

The Fund follows an inactive management approach by monitoring the performance of the Index. This differs from the active management method, which works to exceed the performance of the Index by direct and active selection of the target shares. This may result in the Fund being able to maintain the components of the Index's shares regardless of developments at the overall level or shares performance or specific industry performance. Maintaining shares of specific companies without responding to changes in market factors or in the performance of certain shares may adversely affect the performance of the Fund.

- **Risk of Low Correlation Coefficient**

Fund returns may not match the returns of the Index because of the exposure of the Fund to a number of operational expenses that are not applicable in the case of the Index. The Fund may incur some operating expenses in the case of selling and buying operations while rebalancing operations in order to reflect changes in the Index portfolio. The Fund's investments may not be fully in shares due to the cash flows and cash reserves maintained by the Fund to face any expenses or obligations

- **Concentration Risk**

If the Index is focused on a particular industry or group of industries, the Fund's investments will be focused on that sector as the Fund follows the distribution and weights of the Index portfolio. In this case, the values of the Fund's units may rise or fall in the market more or less than the prices of units of Funds that invest in the shares of companies in various sectors in the market



- **Risks of lack of Diversification**

Opportunities for diversification of the Fund's portfolio are limited within the components of the guiding Index. The Fund may invest a large percentage of its assets in the shares of a limited number of issuers within the framework of the investment strategy and policy compared to Funds that have opportunities to diversify through listed shares. That the performance of the Fund might be affected by fluctuations in the performance of a relatively limited number of shares

- **Risks of Shari'ah Compliance**

In the event that any stock in the index is not compatible, it shall be disposed of and therefore the investment opportunities of the Fund are in a tight space compared to the investment world available to conventional funds, which may reduce opportunities for the Fund's investments according to Shari'ah Council.

**5. Previous Performance of the Investment Fund**

1. Total Return:

Cumulative Return – 31 December 2020	One year	Three years	Five years	Since established
The Fund	6.99%	25.29%	41.02%	75.87%

2. Total Annual Return for each of the past ten years

Annual Return	The Fund
2011	-2.41%
2012	10.74%
2013	30.61%
2014	-2.96%
2015	-14.18%
2016	11.81%
2017	0.71%
2018	8.16%
2019	8.27%
2020	6.99%

3. The Fund's performance compared to the guiding Index over the past five years

	2016	2017	2018	2019	2020
The Fund	11.81%	0.71%	8.16%	8.27%	6.99%
The Index	9.40%	-1.35%	6.09%	5.74%	5.51%

**b. Services, Commissions and Fees:**

- **Management Fees:** 0.50 % (fifty basis points) of the net asset value of the Fund annually calculated on each calendar day as a percentage of the net asset value and paid to the Fund Manager every quarter as claims
- **Administrator Fees:** 0.22 % (twenty-two basis points) of the net asset value of the Fund annually calculated on each calendar day as a percentage of the net asset value and paid to the Administrator every quarter as claims
- **Custody Fees:** 0.03 % of net asset value calculated on each calendar day as a percentage of the net asset value and paid to Custodian per month as claims
- **Index Fees:** 0.10 % (ten basis points) of the net asset value of the Fund annually calculated on each calendar day as a percentage of the net asset value. Index fees cover Index Service Provider fees and any related publishing expenses
- **Registration Fees:** 0.08 % (eight basis points) of the net asset value of the Fund annually paid for trading

The annual rate of the Fund's expenses does not exceed 1% (hundred basis points) of net asset value.

- **Dealing Expenses:** The Fund issues and recovers packages of units only in exchange for an in-kind exchange. However, for purposes of rebalancing the portfolio, the Fund may purchase and sell shares of the Index. Such transactions may result in a transaction cost estimated at cost and incurred by the Fund through deduction of its assets,
  - The Fund Manager shall incur the following actual effective expenses incurred after the start of the Fund
    - Expenses of publishing the details of prices of units in newspapers, electronic media and other information systems and listing of the units of the Fund in the stock markets (if any).
    - Liquidator expenses in case of liquidation
    - Expenses related to the publication of annual reports
    - Any other actual operating expenses due to other persons dealing with the Fund
- The above expenses are part of the Fund management fees
- The market maker's compensation for the issuance and redemption of the units in kind, if any, is paid by the administrator through deduction of fees due to him

**Value Added Tax**

- Value Added Tax will be applied in accordance with the regulations issued by the General Authority for Zakat and Income on all fees, expenses, expenditures and costs
- All fees and charges stated in these Terms and Conditions do not include Value Added Tax unless otherwise stated

c. For additional information about the FALCOM Saudi Equity trading Fund and its other documents, please view the company's website [www.Falcom.com.sa](http://www.Falcom.com.sa) or the nearest FALCOM financial services branch or call our customer service number: 8004298888.

**d. Name and Address of the Fund Manager**

FALCOM Financial Services Company

P.O. Box: 884 Riyadh: 11421

Phone: 8004298888

Fax: +966 (11) 4617268

**e. Name and Address of the Custodian**

AlBilad Finance Company

King Fahd Road, Al Olaya

P.O. Box: 140 Riyadh: 11411

Phone: 920003636

Fax: +966 (11) 2906299

**f. Name and Address of the Distributer**

Not Applicable