

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

30 JUNE 2020

**Independent auditor's review report on the interim condensed financial statements
To the Unitholders of Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley
Saudi Arabia Company)**

Introduction:

We have reviewed the accompanying interim statement of financial position of Morgan Stanley Saudi Equity Fund (the "Fund") managed by Morgan Stanley Saudi Arabia Company (the "Fund Manager") as at 30 June 2020, and the related interim condensed statements of comprehensive income, cash flows and changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

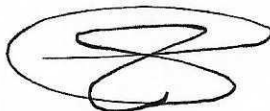
Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

For Ernst & Young



Yousef A. AlMubarak
Certified Public Accountant
License No. (427)

Riyadh: 22 Dhul-Hijjah 1441H
(12 August 2020)



Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	<i>Notes</i>	30 June 2020 SR	31 December 2019 SR
ASSETS			
Cash and cash equivalents		2,648,608	3,867,779
Financial assets at fair value through profit or loss (FVTPL)	6	53,639,837	60,619,360
Other assets		61,319	320,553
TOTAL ASSETS		56,349,764	64,807,692
LIABILITIES			
Management fee payable	7	169,963	191,791
Accrued expenses	8	58,022	58,834
TOTAL LIABILITIES		227,985	250,625
EQUITY			
Net asset attributable to Unitholders of redeemable units		56,121,779	64,557,067
Redeemable units in issue		154,155	156,515
Net asset value attributable to per unit		364.06	412.47

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2020

		<i>For the six-month period ended</i>	
		<i>30 June 2020</i>	<i>30 June 2019</i>
	<i>Notes</i>	<i>SR</i>	<i>SR</i>
INCOME			
Net unrealised (loss) gain on financial assets at FVTPL		(6,984,162)	7,029,855
Net realised (loss) gain on financial assets at FVTPL		(1,211,905)	1,424,593
Dividend income		1,040,615	1,367,267
		(7,155,452)	9,821,715
EXPENSES			
Management fee	7	355,374	395,888
Other expenses	9	166,348	167,514
		521,722	563,402
(Loss) profit for the period		(7,677,174)	9,258,313
Other comprehensive income		-	-
Total comprehensive (loss) income for the period		(7,677,174)	9,258,313

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

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INTERIM CONDENSED STATEMENT OF CASH FLOWS
For the six-month period ended 30 June 2020

	<i>For the six-month period ended</i>	
	<i>30 June 2020</i>	<i>30 June 2019</i>
	SR	SR
Operating activities		
(Loss) profit for the period	(7,677,174)	9,258,313
Adjustments for:		
Net unrealised loss (gain) on financial assets	6,984,162	(7,029,855)
	(693,012)	2,228,458
Working capital adjustments:		
Financial assets at FVTPL	(4,639)	(11,149,738)
Other assets	259,234	(19,762)
Management fee payable	(21,828)	88,305
Accrued expenses	(812)	3,215
Net cash flows used in operating activities	(461,057)	(8,849,522)
Financing activities		
Proceeds from issuances of units	1,200,000	12,237,500
Payments on redemption of units	(1,958,114)	(2,402,183)
Net cash flows (used in) from financing activities	(758,114)	9,835,317
Net (decrease) increase in bank balance during the period	(1,219,171)	985,795
Cash and cash equivalents at the beginning of the period	3,867,779	904,068
Bank balance at the end of the period	2,648,608	1,889,863

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Morgan Stanley Saudi Equity Fund
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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2020

	<i>30 June 2020 SR</i>	<i>30 June 2019 SR</i>
Net asset value (equity) at the beginning of the period	64,557,067	49,811,247
(Loss)/profit for the period	(7,677,174)	9,258,313
Other comprehensive income for the period	-	-
Total comprehensive income for the period	(7,677,174)	9,258,313
Issue of units during the period	1,200,000	12,237,500
Redemption of units during the period	(1,958,114)	(2,402,183)
Net change from unit transactions	(758,114)	9,835,317
Net asset value (equity) at the end of the period	56,121,779	68,904,877

REDEEMABLE UNIT TRANSACTIONS

Transactions in redeemable units for the six-months period ended 30 June are summarised as follows:

	<i>30 June 2020 Units</i>	<i>30 June 2019 Units</i>
Units at the beginning of the period	156,515	139,187
Issue of units during the period	2,907	31,178
Redemption of units during the period	(5,267)	(6,085)
Net change in units	(2,360)	25,093
Units at the end of the period	154,155	164,280

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund

(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

As at 30 June 2020

1 INCORPORATION AND ACTIVITIES

Morgan Stanley Saudi Equity Fund (the “Fund”) is an open-ended investment fund created by agreement between Morgan Stanley Saudi Arabia Company (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The objective of the Fund is to seek long-term capital appreciation and returns from investments in the Saudi equity market.

The Fund has appointed HSBC Saudi Arabia Limited (the “Administrator”) to act as its custodian, administrator and registrar. The fees for the custodian and administrator’s services are paid by the Fund.

The approval from the Capital Market Authority (the “CMA”) for the establishment of the Fund was obtained via letter no. RH/639 dated 15 Sha’aban 1429H (corresponding to 16 August 2008). The Fund commenced operations on 6 January 2009.

The books and records of the Fund are maintained in Saudi Riyals (“SR”).

The Fund Manager’s registered office is P.O. Box 66633, Riyadh 11586, Kingdom of Saudi Arabia.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding 6 November 2016) by the New Investment Fund Regulations (the “Amended Regulations”) published by the Capital Market Authority on 16 Sha’aban 1437H (corresponding to 23 May 2016), detailing requirements for all Funds within the Kingdom of Saudi Arabia.

3 BASIS OF PREPARATION

These interim condensed financial statements have been prepared in accordance with International Accounting Standards (IAS), “Interim Financial Reporting” (“IAS 34”) as endorsed in Kingdom of Saudi Arabia.

These interim condensed financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss that have been measured at fair value. The financial statements are presented in Saudi Riyal (“SR”) which is the functional currency of the Fund.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund’s annual financial statements as at and for the year ended 31 December 2019. In addition, results for the six month period ended 30 June 2020 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Fund’s annual financial statements for the year ended 31 December 2019. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed financial statements of the Fund.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are several standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund’s interim condensed financial statements. In the opinion of the Board, these standards will have no significant impact on the financial statements of the Fund. The Fund intends to adopt these standards, if applicable, when they become effective.

Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2020

6 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of the investment portfolio on the last valuation day is summarised below:

30 June 2020				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<u>Sectors</u>				
Banks	33.83%	19,638,579	18,147,018	(1,491,561)
Materials	15.49%	8,113,993	8,306,868	192,875
Food and beverages	9.87%	4,303,175	5,295,964	992,789
Health Care Equipment & Services	8.61%	4,089,564	4,619,521	529,957
Retailing	7.38%	4,004,488	3,958,412	(46,076)
Energy	4.91%	2,478,757	2,631,939	153,182
Insurance	3.43%	1,879,326	1,840,495	(38,831)
Consumer Services	3.32%	1,813,128	1,778,498	(34,630)
REITs	2.98%	1,529,691	1,596,566	66,875
Telecommunication Services	2.33%	1,012,213	1,252,208	239,995
Commercial & Professional Svc	2.31%	1,344,496	1,241,310	(103,186)
Transportation	2.31%	1,440,866	1,240,344	(200,522)
Capital Good	1.19%	551,788	639,531	87,743
Real Estate	1.07%	527,739	572,614	44,875
Pharma, Biotech & Life Sciences	0.97%	540,464	518,549	(21,915)
	100.00%	53,268,267	53,639,837	371,570
31 December 2019				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<u>Sectors</u>				
Banks	43.60%	22,883,921	26,431,647	3,547,726
Energy	8.87%	4,183,096	5,376,367	1,193,271
Retailing	8.24%	4,691,214	4,994,337	303,123
Materials	7.84%	4,577,924	4,751,919	173,995
Consumer Services	7.54%	3,835,869	4,569,175	733,306
Food and beverages	5.49%	2,767,635	3,329,010	561,375
Health Care Equipment & Services	4.16%	2,486,467	2,519,243	32,776
Insurance	3.20%	1,879,326	1,941,386	62,060
REITs	2.95%	1,375,307	1,788,886	413,579
Real Estate	2.91%	1,725,437	1,765,790	40,353
Commercial & Professional Svc	1.85%	958,860	1,118,697	159,837
Consumer Durables & Apparel	1.70%	1,063,700	1,029,922	(33,778)
Transportation	1.65%	834,872	1,002,981	168,109
	100.00%	53,263,628	60,619,360	7,355,732

Investments are listed on the Saudi stock exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2020

7 TRANSACTIONS WITH RELATED PARTIES

Management fee

Until 31 May 2018, the Fund manager was charging the management fee calculated at the rate of 1.75% per annum on the net assets value of the Fund at each valuation date, however, effective from 1 June 2018, the Fund Manager has waived 0.50% of this rate effectively reducing the rate to 1.25% per annum until the end of December 2020. Management fee expense is disclosed in the interim statement of comprehensive income and management fee accrual is disclosed in interim statement of financial position.

Board of directors

The independent directors are entitled to remuneration for their services at rates determined by the Fund's terms and conditions in respect of attending meetings of the board of directors or meetings of the Fund. Independent director's fees are currently SR 3,000 per meeting in addition to out of pocket expenses incurred for attending a meeting of the Board subject to a cap of SR 5,000 per month per independent director. The maximum yearly remuneration for each independent director is SR 50,000. Non-independent directors receive no remuneration from the Fund. The directors received a total remuneration of SR 11,437 (inclusive of directors' fees and ticketing) during the six-month period ended 30 June 2020 (six-month period ended 30 June 2019: SR 12,000).

The Unitholders' account at 30 June included units held as follows:

	30 June 2020 Units	30 June 2019 Units
Held by the Fund Manager	10,446	10,446

8 ACCRUED EXPENSES

	30 June 2020 SR	31 December 2019 SR
Accrued audit fees	24,863	30,000
VAT payable	10,597	11,935
Accrued fund administration fees	6,969	7,983
Accrued custodian fees	4,649	5,322
Others	10,944	3,594
	58,022	58,834

9 OTHER EXPENSES

	For the six-month period ended	
	30 June 2020 SR	30 June 2019 SR
Fund administration fees (note 1)	42,742	47,510
Custodian fees (note 1)	29,300	31,979
Transaction fees	27,788	20,363
Audit fees	24,863	24,794
VAT expenses	24,260	26,278
Director fees	11,437	9,918
Others	5,958	6,672
	166,348	167,514

Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2020

10 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>As at 30 June 2020</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	2,648,608	-	2,648,608
Investments at fair value through profit or loss	53,639,837	-	53,639,837
Other assets	61,319	-	61,319
TOTAL ASSETS	56,349,764	-	56,349,764
LIABILITIES			
Management fee payable	169,963	-	169,963
Accrued expenses	58,022	-	58,022
TOTAL LIABILITIES	227,985	-	227,985
<i>As at 31 December 2019</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	3,867,779	-	3,867,779
Investments at fair value through profit or loss	60,619,360	-	60,619,360
Dividend receivable	3,000	-	3,000
Other assets	320,553	-	320,553
TOTAL ASSETS	64,807,692	-	64,807,692
LIABILITIES			
Management fee payable	191,791	-	191,791
Accrued expenses	58,834	-	58,834
TOTAL LIABILITIES	250,625	-	250,625

Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2020

11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund measures its investments in financial instruments, such as equity instruments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

The Fund measures financial instruments at fair value at each interim condensed statement of financial position date.

The Fund has only investments at fair value through profit or loss which is measured at fair values and are classified within level 1 of the fair value hierarchy. Management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short term tenure and the fact that these are readily liquid. These are all classified within level 2 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

12 EVENTS SUBSEQUENT TO THE REPORTING PERIOD

In the opinion of Fund Manager, no events have occurred subsequent to the reporting date and before the issuance of these interim condensed financial statements which requires adjustment to, or disclosure, in these interim condensed financial statements.

13 IMPACT OF COVID-19 ON OPERATIONS AND FINANCIAL STATEMENTS

During March 2020, the World Health Organisation (“WHO”) declared the Coronavirus (“COVID-19”) outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including the Kingdom of Saudi Arabia. Governments all over the world took steps to contain the spread of the virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines and enforced country wide lockdowns and curfews.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities and business continuity, the Fund Manager has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

As of the date of interim condensed financial statements for the six months period ended 30 June 2020, the Fund’s operations and financial results have witnessed impact due to the COVID-19 outbreak mainly as result of decline in the Fund’s investments’ fair values in line with share prices declining trend. The impact of the pandemic on the Fund’s operations and financial results till the date of the interim financial statements has been reflected in the net assets value and investments value. These developments could further impact our future financial results, cash flows and financial condition and the Fund Manager will continue to assess the nature and extent of the impact on its business and financial results.

14 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements are approved by the Fund’s Management on 22 Dhul-Hijjah 1441H (corresponding to 12 August 2020).

15 LAST VALUATION DAY

The last valuation day of the period was 30 June 2020 (year ended 31 December 2019: 31 December 2019).