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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2020

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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Morgan Stanley Saudi Equity Fund

Opinion

We have audited the financial statements of Morgan Stanley Saudi Equity Fund (the "Fund") managed by Morgan Stanley Saudi Arabia Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, the Fund's terms and conditions and the Information Memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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INDEPENDENT AUDITOR'S REPORT
To the Unitholders of Morgan Stanley Saudi Equity Fund

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young

Fahad M. Al-Toaimi
Certified Public Accountant
License No. 354

Riyadh: 16 Sha'ban 1442H
(29 March 2021)

شركة ارنست ويونغ وشركاهم محاسبون قانونيون
EY
ترخيص مهني رقم ٤٥
PROFESSIONAL LICENCE No. 45
ERNST & YOUNG & Co. PUBLIC ACCOUNTANTS

STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

	Notes	***31 December 2020 SR***	*31 December 2019 SR*
Assets			
Bank balance		**1,663,600**	3,867,779
Financial assets at fair value through profit or loss (FVTPL)	7	**47,608,640**	60,619,360
Other assets		**13,211**	320,553
Total assets		**49,285,451**	64,807,692
Liabilities			
Management fee payable	9	**159,916**	191,791
Accrued expenses	8	**93,837**	58,834
Other payables		**151,469**	-
Total liabilities		**405,222**	250,625
Equity			
Net assets attributable to unitholders of redeemable units		**48,880,229**	64,557,067
Redeemable units in issue		**108,635**	156,515
Net asset value attributable to per unit		**449.95**	412.47

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	***2020*** ***SR***	*2019* *SR*
Income			
Net unrealised (loss) gain on financial assets at FVTPL		**(570,485)**	3,261,716
Net realised gain on financial assets at FVTPL		**4,972,665**	3,224,740
Dividend income		**1,497,519**	2,577,491
		5,899,699	9,063,947
Expenses			
Management fees	9	**706,970**	795,671
Other expenses	10	**383,427**	340,786
		1,090,397	1,136,457
Profit for the year		**4,809,302**	7,927,490
Other comprehensive income		**-**	-
Total comprehensive income		**4,809,302**	7,927,490

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2020

	2020	*2019*
	SR	*SR*
Operating activities		
Profit for the year	**4,809,302**	7,927,490
Adjustments for:		
Net unrealised loss (gain) on financial assets at FVTPL	**570,485**	(3,261,716)
	5,379,787	4,665,774
Working capital adjustments:		
Decrease (increase) in financial assets at FVTPL	**12,440,235**	(8,258,228)
Decrease (increase) in other assets	**307,342**	(320,553)
(Decrease) increase in management fee payable	**(31,875)**	69,015
Increase (decrease) in accrued expenses	**35,003**	(10,627)
Increase in other liabilities	**151,469**	-
	12,902,174	(8,520,393)
Net cash flows from (used in) operating activities	**18,281,961**	(3,854,619)
Financing activities		
Proceeds from issuances of units	**1,200,000**	13,280,500
Payments on redemption of units	**(21,686,140)**	(6,462,170)
Net cash flows (used in) from financing activities	**(20,486,140)**	6,818,330
Net (decrease) increase in bank balance during the year	**(2,204,179)**	2,963,711
Bank balance at the beginning of the year	**3,867,779**	904,068
Bank balance at the end of the year	**1,663,600**	3,867,779

The accompanying notes 1 to 16 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2020

	2020	*2019*
	SR	*SR*
Net asset value (equity) at the beginning of the year	**64,557,067**	49,811,247
Profit for the year	**4,809,302**	7,927,490
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**4,809,302**	7,927,490
Issue of units during the year	**1,200,000**	13,280,500
Redemption of units during the year	**(21,686,140)**	(6,462,170)
Net change from unit transactions	**(20,486,140)**	6,818,330
Net asset value (equity) at the end of the year	**48,880,229**	64,557,067

REDEEMABLE UNITS TRANSACTIONS

Transactions in redeemable units for the year ended 31 December are summarised as follows:

	2020	*2019*
	Units	*Units*
Units at the beginning of the year	**156,515**	139,187
Issue of units during the year	**2,907**	33,761
Redemption of units during the year	**(50,787)**	(16,433)
Net change in units	**(47,880)**	17,328
Units at the end of the year	**108,635**	156,515

The accompanying notes 1 to 16 form an integral part of these financial statements.

1 INCORPORATION AND ACTIVITES

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 7 January 2009.

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

The Fund's Manager 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 financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("IFRS as endorsed in KSA").

These financial statements have been prepared on a historical cost basis, except for financial assets held 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

(i) <u>Classification</u>
The Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

(a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or

(b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or

(c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

Financial assets
The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- ► The entity's business model for managing the financial assets
- ► The contractual cash flow characteristics of the financial asset

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments* (continued)**

***Financial assets* (continued)**

- ***Financial assets measured at amortised cost***
  A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- ***Financial assets measured at fair value through profit or loss (FVTPL)***
  A financial asset is measured at fair value through profit or loss if:

  i. Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (SPPI); and

  ii. It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell;

  OR

  iii. At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

  The Fund includes in this category:
  - *Instruments held for trading.* This category includes equity instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

Financial liabilities

- ***Financial liabilities measured at fair value through profit or loss (FVTPL)***
  A financial liability is measured at FVTPL if it meets the definition of held for trading. The Fund does not hold any financial liabilities measured at FVTPL.

- ***Financial liabilities measured at amortised cost***
  This category includes all financial liabilities, other than those measured at FVTPL.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Initial measurement

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVTPL) are measured initially at their fair value including any directly attributable incremental costs of acquisition or issue.

(iv) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at FVTPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income. Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense in the statement of comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial instruments* (continued)**

(v) Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired, or the Fund has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and the Fund has:

(a) Transferred substantially all of the risks and rewards of the asset or

(b) Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

(vi) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

(vii) Impairment of financial assets

The Fund holds trade receivables with no financing component having maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) to all its trade receivables. Therefore, the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Fund's approach to ECLs reflects a probability-weighted outcome, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Fund uses the provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If a previous write-off is later recovered, the recovery is credited to the credit loss expense.

Commission revenue on impaired financial assets is recognised using the rate of commission used to discount the future cash flows for the purpose of measuring the impairment loss.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

Redeemable Units

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Fund’s net assets in the event of the Fund’s liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder’s rights to a pro rata share of the Fund’s net assets
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the comprehensive income, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

In addition to the redeemable shares having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the comprehensive income, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable unitholders

The Fund continuously assesses the classification of the redeemable shares. If the redeemable shares cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable shares subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable shares are accounted for as equity transactions.

No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund’s own equity instruments.

Dividend income

Dividend income is recognised in the statement of comprehensive income when the Fund’s right to receive payment is established.

Net gain or loss on financial assets and liabilities at fair value through profit or loss (“FVTPL”)

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVTPL and exclude interest and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of the prior period’s unrealised gains and losses for financial instruments which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument’s initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fee and other expenses

Fee and other expenses are recognized on an accrual basis.

Zakat and income tax

Zakat and income tax is the obligation of the unitholders and is therefore not provided in these financial statements.

Foreign currency translation

Transactions in foreign currencies are translated into SR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange gains/losses.

5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Fund’s financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Significant areas where management has used estimates, assumptions or exercised judgement are as follows:

Going concern

The Fund's management has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Fair value measurement

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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Fund has only financial assets at FVTPL 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.

6 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

a) *Standards issued and effective during the year*

The standards and interpretations that were effective in 2020 do not have significant impact on the Fund's financial statements. Below is the list of the amended standards and interpretations:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 Definition of Material
- Conceptual Framework for Financial Reporting issued on 29 March 2018
- Amendments to IFRS 16 Covid-19 Related Rent Concessions

b) *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 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. Below is the list of the amended standards and interpretations:

- IFRS 17 Insurance Contracts
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

7 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

31 December 2020 *Description*	*% of market value*	*Cost SR*	*Market value SR*	*Unrealised gain/(loss) SR*
Sectors				
Banks	**31.22%**	**13,040,221**	**14,861,537**	**1,821,316**
Materials	**21.77%**	**8,762,189**	**10,363,416**	**1,601,227**
Health Care Equipment & Services	**9.68%**	**3,643,889**	**4,609,520**	**965,631**
Retailing	**9.54%**	**3,505,509**	**4,540,444**	**1,034,935**
Energy	**5.21%**	**2,474,009**	**2,479,039**	**5,030**
Capital Goods	**4.12%**	**1,647,156**	**1,962,718**	**315,562**
Food and beverages	**3.19%**	**1,050,445**	**1,519,350**	**468,905**
Consumer Services	**2.81%**	**1,251,528**	**1,337,974**	**86,446**
REITs	**2.37%**	**981,402**	**1,125,611**	**144,209**
Transportation	**2.29%**	**1,015,873**	**1,089,536**	**73,663**
Insurance	**2.03%**	**876,676**	**968,053**	**91,377**
Commercial & Professional Svc	**2.01%**	**947,948**	**957,642**	**9,694**
Food & Staples Retailing	**1.97%**	**758,208**	**939,862**	**181,654**
Utilities	**1.79%**	**868,340**	**853,938**	**(14,402)**
	100.00%	**40,823,393**	**47,608,640**	**6,785,247**

7 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

31 December 2019 *Description*	*% of market value*	*Cost SR*	*Market value SR*	*Unrealised gain/(loss) SR*
Sectors				
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.

8 ACCRUED EXPENSES

	31 December 2020 SR	*31 December 2019 SR*
Accrued audit fees	**35,000**	30,000
VAT payable	**31,663**	11,935
Accrued directors' fees	**11,000**	-
Accrued fund administration fees	**6,352**	7,983
Accrued custodian fees	**4,764**	5,322
Others	**5,058**	3,594
	93,837	58,834

9 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 2021. The management fees amounting to SR 706,970 (31 December 2019: SR 795,671) reflected in the statement of comprehensive income, represent the fees charged by the Fund Manager during the year as described above. As at 31 December 2020, management fees amounting to SR 159,916 (31 December 2019: SR 191,791) are payable to the Fund Manager.

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 23,000 (inclusive of directors' fees and ticketing) for year ended 31 December 2020 (for year ended 31 December 2019: SR 23,288).

The Unitholders' account at 31 December included units held as follows:

	2020	*2019*
	Units	*Units*
Held by the Fund Manager	**10,447**	10,447

10 OTHER EXPENSES

	31 December 2020	*31 December 2019*
	SR	*SR*
VAT charges	**99,089**	52,930
Fund administration fees (note 1)	**85,732**	95,485
Custodian fees (note 1)	**59,224**	63,963
Audit fees	**55,000**	50,000
Transaction fees	**50,288**	42,975
Director fees (note 9)	**23,000**	23,288
Others	**11,094**	12,145
	383,427	340,786

11 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:

As at 31 December 2020	***Within 12 months SR***	***After 12 months SR***	***Total SR***
ASSETS			
Bank balance	**1,663,600**	-	**1,663,600**
Financial assets at FVTPL	**47,608,640**	-	**47,608,640**
Other assets	**13,211**	-	**13,211**
TOTAL ASSETS	**49,285,451**	-	**49,285,451**
LIABILITIES			
Management fee payable	**159,916**	-	**159,916**
Accrued expenses	**93,837**	-	**93,837**
Other liabilities	**151,469**	-	**151,469**
TOTAL LIABILITIES	**405,222**	-	**405,222**

As at 31 December 2019	*Within 12 months SR*	*After 12 months SR*	*Total SR*
ASSETS			
Bank balance	3,867,779	-	3,867,779
Financial assets at FVTPL	60,619,360	-	60,619,360
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

12 FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction
The Fund's objective in managing risk is the creation and protection of unitholder's value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing risk identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to market risk (which includes foreign currency risk and equity price risk), credit risk and liquidity risk arising from the financial instruments it holds.

Risk management
The Fund's Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management of the Fund.

Risk measurement and reporting system
Monitoring and controlling risks is primarily set up to be performed based on limits established by the Board of Directors. These limits reflect the business strategy, including the risk that the Fund is willing to accept and the market environment of the Fund. In addition, the Fund monitors and measures the overall risk in relation to the aggregate risk exposure across all risks type and activities.

Risk mitigation
The Fund has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

Concentration risk
Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

In order to avoid excessive concentrations of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The investment manager is instructed to reduce exposure or to use derivative instruments to manage excessive risk concentrations when they arise.

Note 7 to the financial statements analyse the Fund's concentration of equity portfolio by industrial distribution.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The Fund is exposed to credit risk on its bank balances. Balances with bank is assessed to have low credit risk of default since the bank is highly regulated by the central bank. None of the balances with bank at the end of the reporting period are past due, and taking into account the historical default experience and the current credit ratings of the bank, the management of the Fund have assessed that there is no significant impairment, and hence have not recorded any loss allowances on these balances.

12 FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the component of the statement of financial position.

	31 December 2020 SR	*31 December 2019 SR*
Bank balance	**1,663,600**	3,867,779
	1,663,600	3,867,779

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities that are settled by delivering cash or another financial assets.

The Fund's terms and conditions provide for the terms of subscriptions and redemptions of units and it is, therefore, exposed to the liquidity risk of meeting unitholder redemptions. The Fund's securities are considered to be readily realizable as they are all listed on stock markets. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

The value of Fund's undiscounted financial liabilities at the reporting date are equal to their carrying values and are all repayable within one year from reporting date.

Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the fair value of its holdings in financial instruments.

The Fund's strategy for the management of market risk is driven by the Fund's investment objective as per Fund's terms and conditions. The Fund's market risk is managed on a timely basis by the Investment Manager in accordance with the policies and procedures in place. The Fund's market positions are monitored on a timely basis by the Fund Manager.

Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund's investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

Sensitivity analysis

The table below sets out the effect on net assets attributable to unitholders of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables remain constant.

	As at 31 December 2020 SR	*As at 31 December 2019 SR*
Strengthening of 5%	**2,541,772**	3,131,018
Weakening of 5%	**(2,541,772)**	(3,131,018)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is not subject to fluctuations in foreign exchange rates as all significant monetary assets and labilities and all significant transactions are denominated in Saudi Riyals.

12 FINANCIAL AND RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Fund has no interest bearing financial assets and liabilities and therefore management believes that the Fund is not exposed to any direct interest rate risk.

13 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 financial statements which requires adjustment to, or disclosure, in these financial statements.

14 IMPACT OF COVID-19 ON OPERATIONS AND FINANCIAL STATEMENTS

The global Coronavirus (COVID-19) pandemic continues to create unprecedented economic and social uncertainty throughout the world. During the period, global financial markets exhibited high levels of volatility which gave rise to steep and fast declines in global asset values (from 21st February 2020 through 23rd March 2020). Following unprecedented commitments to fiscal and monetary stimulus by governments and central banks globally we witnessed a strong recovery in asset values in the months following. The emergence of second and third waves as well as new variants of the virus added further to market volatility through the remainder of the year. News of the development and roll out of vaccines towards the end of the year gave rise to further volatility and a rotation towards those sectors which had been worst affected in the March sell off. Whilst the ultimate impact of the pandemic is difficult to predict, we have experienced increased market volatility and economic uncertainties, which may materially affect the valuation of portfolio investments and in turn, the net asset value of the Fund. The long-term impact of this is currently unpredictable.

15 LAST VALUATION DAY

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

16 APPROVAL OF FINANCIAL STATEMENTS

These financial statements are approved by the Fund’s Management on 16 Sha’aban 1442H (corresponding to 29 March 2021).