

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

**UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS AND REVIEW REPORT**

30 JUNE 2023



Ernst & Young Professional Services (Professional LLC)
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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 condensed 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 2023, and the related interim condensed statement of comprehensive income, statement of changes in equity attributable to the unitholders and cash flows for the six-month period then ended, and explanatory notes. The Fund Manager 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") as 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 financial statements consists of making inquiries, primarily of 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 as endorsed in the Kingdom of Saudi Arabia.

For Ernst & Young Professional Services

Waleed G. Tawfiq
Certified Public Accountant
License No. (437)

Riyadh: 21 Muharram 1445H
(8 August 2023)



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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		30 June 2023 SR (Unaudited)	31 December 2022 SR (Audited)
	<i>Notes</i>		
ASSETS			
Bank balance		1,291,102	1,113,638
Financial assets at fair value through profit or loss (FVTPL)	5	62,521,161	51,276,186
Receivables against sold securities		681,257	-
Dividend receivable		24,647	12,995
TOTAL ASSETS		64,518,167	52,402,819
LIABILITIES			
Management fee payable	6	347,514	171,752
Accrued expenses	7	125,716	123,349
Payables against purchased securities		161,585	-
TOTAL LIABILITIES		634,815	295,101
EQUITY			
Net asset attributable to Unitholders of redeemable units		63,883,352	52,107,718
Redeemable units in issue		77,313.62	77,313.62
Net asset value attributable to per unit		826.29	673.98

The accompanying notes 1 to 13 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 (unaudited)

For the six-month period ended 30 June 2023

	<i>Notes</i>	<i>For the six-month period ended</i>	
		30 June 2023	30 June 2022
		SR	SR
INCOME			
Net unrealised gain / (loss) on financial assets at FVTPL		10,575,014	(3,918,667)
Net realised gain on financial assets at FVTPL		802,185	7,892,693
Dividend income		940,309	891,495
		12,317,508	4,865,521
EXPENSES			
Management fee	6	347,514	471,103
Other expenses	8	194,360	249,615
		541,874	720,718
Profit for the period		11,775,634	4,144,803
Other comprehensive income		-	-
Total comprehensive income for the period		11,775,634	4,144,803

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund
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INTERIM CONDENSED STATEMENT OF CASH FLOWS (unaudited)

For the six-month period ended 30 June 2023

	<i>For the six-month period ended</i>	
	<i>30 June 2023</i>	<i>30 June 2022</i>
	<i>SR</i>	<i>SR</i>
Operating activities		
Profit for the period	11,775,634	4,144,803
Adjustments for:		
Net unrealized (gain) / loss on financial assets at FVTPL	(10,575,014)	3,918,667
Dividend income	(940,309)	(891,495)
	260,311	7,171,975
Working capital adjustments:		
Increase in financial assets at FVTPL	(669,961)	(9,778,958)
Increase in receivables against sold securities	(681,257)	-
Increase in management fee payable	175,762	31,561
Increase in accrued expenses	2,366	58,649
Increase in payables against purchased securities	161,585	-
Net cash flows used in operations	(751,194)	(2,516,773)
Dividends received	928,658	823,211
Net cash flows generated from / (used in) operating activities	177,464	(1,693,562)
Financing activities	-	-
Net increase (decrease) in bank balance during the period	177,464	(1,693,562)
Bank balance at the beginning of the period	1,113,638	3,267,059
Bank balance at the end of the period	1,291,102	1,573,497

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

For the six-month period ended 30 June 2023

	<i>30 June</i> <i>2023</i> <i>SR</i>	<i>30 June</i> <i>2022</i> <i>SR</i>
Net asset value (equity) at the beginning of the period	52,107,718	65,902,362
Profit for the period	11,775,634	4,144,803
Other comprehensive income for the period	-	-
Total comprehensive income for the period	11,775,634	4,144,803
Net asset value (equity) at the end of the period	63,883,352	70,047,165

REDEEMABLE UNIT TRANSACTIONS

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

	<i>30 June</i> <i>2023</i> <i>Units</i>	<i>30 June</i> <i>2022</i> <i>Units</i>
Units at the beginning of the period	77,314	100,867
Issue of units during the period	-	-
Redemption of units during the period	-	-
Net change in units	-	-
Units at the end of the period	77,314	100,867

The accompanying notes 1 to 13 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 2023

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 “Operator”) to act as its custodian, operator and registrar. The fees for the custodian and operating 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) which were amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) and 12 Rajab 1442 H (corresponding to 24 February 2021) and were effective from 6 Safar 1438H (corresponding to 6 November 2016) and 19 Ramadan 1442H (corresponding to 1 May 2021) respectively. These Regulations are 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 interim condensed 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 2022. In addition, results for the six month period ended 30 June 2023 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2023.

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 2023

4 CHANGES TO ACCOUNTING POLICIES

4.1 New standards and amendments adopted by the Fund

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the Fund's annual financial statements for the year ended 31 December 2022, except for the adoption of new standards effective as of 1 January 2023. The Fund has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

The following new and amended IFRSs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements.

Standard, interpretation and amendments	Description	Effective date
Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.	Annual periods beginning on or after 1 January 2023
IFRS 17, 'Insurance contracts', as amended in December 2021	This standard replaces IFRS 4, which previously permitted a wide variety of practices in accounting for insurance contracts. IFRS 17 fundamentally changes the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	Annual periods beginning on or after 1 January 2023
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	Annual periods beginning on or after 1 January 2023

4.2 Significant standards issued but not yet effective

Standard, interpretation and amendments	Description	Effective date
Amendments to IAS 1, 'Presentation of financial statements', on classification of liabilities	These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Deferred until accounting periods starting not earlier than 1 January 2024
Amendments to IAS 1, Non-current Liabilities with Covenants	Non-current Liabilities with Covenants amends IAS 1 Presentation of Financial Statements. The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current.	Annual periods beginning on or after 1 January 2024
Amendments to IFRS 10 and IAS 28	Sale or contribution of Assets between an Investor and its Associate or Joint Ventures	Available for optional adoption/effective date deferred indefinitely
Amendment to IFRS 16, Lease Liability in a Sale and Leaseback	Lease Liability in a Sale and Leaseback amends IFRS 16 by adding subsequent measurement requirements for sale and leaseback transactions.	Annual periods beginning on or after 1 January 2024

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NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2023

5 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

30 June 2023				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<u><i>Sectors</i></u>				
Banks	31.81%	16,041,811	19,889,079	3,847,268
Health Care Equipment & Svc	10.18%	3,238,552	6,363,677	3,125,125
Transportation	9.28%	3,989,586	5,799,342	1,809,756
Materials	8.69%	5,555,635	5,433,742	(121,893)
Energy	8.45%	3,847,100	5,284,494	1,437,394
Food & Beverages	6.14%	2,543,623	3,839,908	1,296,285
Consumer Services	6.05%	2,544,927	3,779,535	1,234,608
Capital Goods	3.70%	1,033,180	2,312,802	1,279,622
Commercial & Professional Svc	2.85%	1,425,438	1,783,306	357,868
Media and Entertainment	2.33%	908,339	1,454,260	545,921
Pharma, Biotech & Life Science	2.26%	947,820	1,413,831	466,011
Retailing	2.09%	778,491	1,306,992	528,501
Real Estate	1.99%	1,285,405	1,247,049	(38,356)
Food & Staples Retailing	1.49%	703,032	930,905	227,873
Telecommunication Services	1.36%	810,617	850,077	39,460
Software & Services	1.33%	716,298	832,162	115,864
	100.00%	46,369,854	62,521,161	16,151,307
31 December 2022				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<u><i>Sectors</i></u>				
Banks	40.69%	16,927,557	20,863,034	3,935,477
Materials	11.63%	6,617,368	5,964,493	(652,875)
Energy	9.35%	4,834,865	4,793,024	(41,841)
Consumer Services	8.65%	3,636,498	4,434,866	798,368
Health Care Equipment & Services	7.08%	2,645,613	3,630,147	984,534
Transportation	5.78%	2,691,333	2,962,085	270,752
Capital Goods	5.75%	2,427,911	2,956,040	528,129
Real Estate	2.67%	1,624,994	1,368,830	(256,164)
Food & Beverages	1.92%	659,742	986,040	326,298
Telecommunication Services	1.79%	1,037,890	915,769	(122,121)
Retailing	1.42%	778,491	727,350	(51,141)
Media and Entertainment	1.37%	733,187	699,994	(33,193)
Insurance	1.02%	607,514	522,848	(84,666)
Software & Services	0.88%	476,930	451,666	(25,264)
	100%	45,699,893	51,276,186	5,576,293

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
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NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2023

6 TRANSACTIONS WITH RELATED PARTIES

Management fee

Management fee is calculated at the rate of 1.25% per annum on the net assets value of the Fund at each valuation date. Management fee expense is disclosed in the interim condensed statement of comprehensive income and management fee accrual is disclosed in interim condensed 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 9,918 during the six-month period ended 30 June 2023 (six-month period ended 30 June 2022: SR 6,000).

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

	<i>30 June 2023 Units</i>	<i>30 June 2022 Units</i>
Held by the Fund Manager	8,232	8,232

7 ACCRUED EXPENSES

	<i>30 June 2023 SR</i>	<i>31 December 2022 SR</i>
VAT payable	60,823	38,492
Accrued audit fee	27,274	35,000
Accrued fund operating fee	15,255	20,611
Accrued custodian fee	10,170	14,303
Accrued directors' fee	6,918	-
Others	5,276	14,943
	125,716	123,349

8 OTHER EXPENSES

	<i>For the six-month period ended</i>	
	<i>30 June 2023 SR</i>	<i>30 June 2022 SR</i>
VAT expenses	69,391	92,479
Fund operating fee	41,705	56,534
Custodian fee	28,711	37,689
Audit fee	27,274	27,274
Transaction fee	12,714	19,238
Directors' fee	9,918	6,000
Others	4,647	10,401
	194,360	249,615

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(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2023

9 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 2023</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Bank balance	1,291,102	-	1,291,102
Investments at fair value through profit or loss	62,521,161	-	62,521,161
Receivables against sold securities	681,257	-	681,257
Dividend receivable	24,647	-	24,647
TOTAL ASSETS	64,518,167	-	64,518,167
LIABILITIES			
Management fee payable	347,514	-	347,514
Accrued expenses	125,716	-	125,716
Payables against purchased securities	161,585	-	161,585
TOTAL LIABILITIES	634,815	-	634,815
 <i>As at 31 December 2022</i>	 <i>Within 12 months SR</i>	 <i>After 12 months SR</i>	 <i>Total SR</i>
ASSETS			
Bank balance	1,113,638	-	1,113,638
Financial assets at FVTPL	51,276,186	-	51,276,186
Dividend receivable	12,995	-	12,995
TOTAL ASSETS	52,402,819	-	52,402,819
LIABILITIES			
Management fee payable	171,752	-	171,752
Accrued expenses	123,349	-	123,349
TOTAL LIABILITIES	295,101	-	295,101

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NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
(continued)

As at 30 June 2023

10 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.

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.

11 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.

12 LAST VALUATION DAY

The last valuation day of the period was 30 June 2023 (year ended 31 December 2022: 29 December 2022).

13 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements are approved by the Fund's Management on 21 Muharram 1445H (corresponding to 8 August 2023).