

INTERIM REPORT – H1 2019  
- HSBC Saudi Companies Equity Fund -

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**A. Management Information**

**1. Fund Name** HSBC Saudi Companies Equity Fund

**2. Fund Manager**

**Name** HSBC Saudi Arabia  
**Address** 7267 Olaya, AlMurooj  
Riyadh 12283-2255  
Kingdom of Saudi Arabia  
**Phone:**920022688  
**Fax:** +966112992385  
**Website:** www.hsbcSaudi.com

**3. Fund Sub-Manager (if any)**

**Name** None  
**Address**

**4. Advisor (if any)**

**Name** None  
**Address**

**B. Detailed Fundamental, Material, Notifiable, or Significant Changes Made on the Fund's Terms and Conditions During the Period**

- Resignation of His Excellency Governor/ Ihsan Abbas Hamzah Bafakih from the fund board

The changes to the funds' prospectus as follows:

Paragraph	Previous Fund Board	New Fund Board
Members of the Fund Board	<ol style="list-style-type: none"> <li>Daniel Lima (Chairman)</li> <li>Haitham Alrashed (Dependent Member)</li> <li>Ihsan Bafakih (Dependent Member)</li> <li>Ali Alothaim (Dependent Member)</li> <li>Tariq Altuwaijri (Dependent Member)</li> </ol>	<ol style="list-style-type: none"> <li>Daniel Lima (Chairman)</li> <li>Haitham Alrashed (Dependent Member)</li> <li>Ali Alothaim (Dependent Member)</li> <li>Tariq Altuwaijri (Dependent Member)</li> </ol>

- Amendment in the fees and expenses

Type	Percentage/Amount																		
Management fee	1.70%																		
Custody fee	0.03% per annum of the total assets held by the Custodian. Transaction fees (USD): USD 8 per transaction																		
Fund Admin Fees	0.05%																		
Fund Operating expenses	<table border="1"> <thead> <tr> <th>Details of fees</th> <th>SAR</th> <th>Discretionary value</th> </tr> </thead> <tbody> <tr> <td>Auditor fees</td> <td>30,000</td> <td rowspan="8">Will not exceed 0.2% from the fund NAV</td> </tr> <tr> <td>CMA fees</td> <td>7,500</td> </tr> <tr> <td>Tadawul fees</td> <td>5,000</td> </tr> <tr> <td>Fund independent Directors fees</td> <td>Up to 20,000</td> </tr> <tr> <td>Index fees</td> <td>Up to 35,000</td> </tr> <tr> <td>Sharia board expenses (if applicable)</td> <td>6,000</td> </tr> <tr> <td>Other expenses</td> <td>Based on the actual cost</td> </tr> </tbody> </table>	Details of fees	SAR	Discretionary value	Auditor fees	30,000	Will not exceed 0.2% from the fund NAV	CMA fees	7,500	Tadawul fees	5,000	Fund independent Directors fees	Up to 20,000	Index fees	Up to 35,000	Sharia board expenses (if applicable)	6,000	Other expenses	Based on the actual cost
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	Tadawul fees	5,000																	
	Fund independent Directors fees	Up to 20,000																	
	Index fees	Up to 35,000																	
	Sharia board expenses (if applicable)	6,000																	
Other expenses	Based on the actual cost																		

Note that the sum of fund management fee, custody, admin and fund operating expenses shall not exceed in total 2% of fund average AUM and any additional expenses in relation to these items shall be paid by the fund manager. Moreover, the fund will be charged directly Dealing costs, financing expenses and VAT and any other taxes.

- Adding definition of Operating Expenses and the Admin in the definitions table.
- Amend Board of Directors remuneration of Fund's independent Board members to be paid by the Fund.

- Amend Sharia Board Member's remuneration of Fund's Sharia Board members to be paid through the Fund. (if applicable)
- Amend cover page of the Arabic name of the Summary in the funds' prospectus to match the naming in IFR.
- Replace the signatory boxes with one signatory box that covers all three documents (Terms & Conditions, Information Memorandum and Summary)
- Amend Manamgnet fees wording.
- Update the position of Mr. Majed Najm HSBC Board Member.

**C. *Investment Activities of the Period***

During the 1<sup>st</sup> half of FY19, the Fund reduced its exposure to the petrochemical sector, mainly due to the significant drop in prices and margins of petrochemical products, affecting the sector's profits during Q1 of FY19. Profits declined by approximately 41%. Moreover, the Fund made profits in the banking sector, following the strong performance of the banking index during the 1<sup>st</sup> half of the year.

**D. *Commentary on Investment Fund's Performance During the Period***

During the 1<sup>st</sup> half of 2019, S&P Saudi Equity Shariah Index increased by approximately 12.93%. The 1<sup>st</sup> half of 2019 was volatile for the Saudi Stock Exchange, which peaked at 9,361.96 and then closed at 8,821.76 by the end of the 1<sup>st</sup> half of the year. It was affected by fluctuations of oil prices, which declined from its peak of H1 \$74 per barrel, to end H1 of 2019 at \$64 per barrel towards the end of June, 2019. Noteworthy, in a multi-stage process during the 1<sup>st</sup> half of the current year, the Saudi Stock Exchange joined the Emerging Market Index, which attracted foreign investors during the period with cash flows of SR 54 billion (US\$ 14 billion). The Saudi Stock Exchange is expected to have an MSCI weight of 3% when the Stock Exchange fully completes its joining process during the current year.

At the end of the 1<sup>st</sup> half of FY19, the Fund's performance increased by 10.11%, lower than the benchmark by approximately 2.82%. The lower increase in the Fund's performance compared with the benchmark was due to the maximum limit of 20% on investment in one share, which limited the Fund Manager's ability to take positive outlooks with respect to certain equities of weight greater than 20% on the Benchmark Index.

**E. *Valuation or Pricing Errors during the Year***

None.

**F. *Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund During the Year***

There is no additional information to be disclosed; however, investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, regulatory, tax, and/or investment advisors.

**G. *Distribution of Management Fees (only if the fund is substantially investing in other funds)***

Not Applicable.

***H. Special Commission Received by Fund Manager (if any, including what they are and the manner in which they were utilized)***

The Fund Manager receives reports published by HSBC SA Brokerage which are accessible to all HSBC SA Brokerage clients. In addition, HSBC SA Brokerage facilitates meetings between the Fund Manager and listed companies in the Saudi market upon request.

**HSBC SAUDI COMPANIES EQUITY FUND**  
**An open-ended mutual fund**  
**(Managed by HSBC Saudi Arabia)**  
**Interim condensed financial statements**  
**For the six-month period ended 30 June 2019**  
**together with the**  
**Independent auditors' review report**



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**Certified Public Accountants**  
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# Independent auditors' review report on the interim condensed financial statements

## To the unitholders of HSBC Saudi Companies Equity Fund

### Introduction

We have reviewed the accompanying interim condensed financial statements of **HSBC Saudi Companies Equity Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprises:

- the interim condensed statement of financial position as at 30 June 2019;
- the interim condensed statement of comprehensive income for the six months period ended 30 June 2019;
- the interim condensed statement of changes in net assets (equity) attributable to the unitholders for the six months period ended 30 June 2019;
- the interim condensed statement of cash flows for the six months period ended 30 June 2019; and
- the notes to the interim condensed financial statements.

The Fund Manager is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum. 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 the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information 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 the 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 30 June 2019 interim condensed financial statements of **HSBC Saudi Companies Equity Fund** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**Abdulaziz Abdullah Alnaim**  
License No: 394

4 August 2019  
Corresponding to: 3 Dhul Hijjah 1440H



**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Interim condensed statement of financial position**  
**As at 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<i>30 June 2019 (Unaudited)</i>	<i>31 December 2018 (Audited)</i>
<b>ASSETS</b>			
Cash and cash equivalents	<i>10</i>	220,191,739	7,860,374
Investments at fair value through profit or loss	<i>11</i>	2,018,838,263	2,053,440,858
Receivables and advances		<u>13,571,303</u>	<u>21,583,916</u>
<b>TOTAL ASSETS</b>		<b>2,252,601,305</b>	<b>2,082,885,148</b>
<b>LIABILITIES</b>			
Accrued expenses	<i>13</i>	<u>18,788,324</u>	<u>4,982,434</u>
<b>TOTAL LIABILITIES</b>		<b>18,788,324</b>	<b>4,982,434</b>
<b>NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS</b>			
		<u>2,233,812,981</u>	<u>2,077,902,714</u>
Units in issue (numbers)		<u>80,542,056</u>	<u>82,497,733</u>
Net assets value (equity) per unit – Dealing	<i>17</i>	<u>27.73</u>	<u>25.19</u>
Net assets value (equity) per unit – IFRS	<i>17</i>	<u>27.73</u>	<u>25.19</u>

The accompanying notes (1) to (19) form an integral part of these interim condensed financial statements.

The interim condensed financial statements and accompanying disclosures in the report are signed off on behalf of the Fund Board by:

**Saqib Masood**  
Chief Investment Officer

**Chistie K Moinuddin**  
Chief Financial Officer

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Interim condensed statement of comprehensive income (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<i>30 June 2019</i>	<i>30 June 2018</i>
<b>INVESTMENT INCOME</b>			
Net gain on investments at fair value through profit or loss	<i>12</i>	180,714,153	308,190,931
Dividend income		<u>49,304,076</u>	<u>51,370,353</u>
<b>TOTAL INCOME</b>		<b>230,018,229</b>	<b>359,561,284</b>
<b>EXPENSES</b>			
Management fees	<i>14</i>	19,686,956	18,500,888
Other expenses		<u>91,686</u>	<u>11,775</u>
<b>TOTAL EXPENSES</b>		<b>19,778,642</b>	<b>18,512,663</b>
<b>NET INCOME FOR THE PERIOD</b>		<b>210,239,587</b>	<b>341,048,621</b>
Other comprehensive income for the period		--	--
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b><u>210,239,587</u></b>	<b><u>341,048,621</u></b>

The accompanying notes (1) to (19) form an integral part of these interim condensed financial statements.

The interim condensed financial statements and accompanying disclosures in the report are signed off on behalf of the Fund Board by:

**Saqib Masood**  
Chief Investment Officer

**Chistie K Moinuddin**  
Chief Financial Officer

**HSBC SAUDI COMPANIES EQUITY FUND**  
(An open-ended mutual fund)

**Interim condensed statement of changes in net assets (equity) attributable to the unitholders (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

	<i>30 June</i> <i>2019</i>	<i>30 June</i> <i>2018</i>
<b>Net assets (equity) attributable to the unitholders as at the beginning of the period</b>	<b>2,077,902,714</b>	1,944,511,233
Net income for the period	<b>210,239,587</b>	341,048,621
<i>Subscriptions and redemptions by the unitholders:</i>		
Proceeds from issuance of units	<b>39,202,364</b>	51,544,054
Payments for redemption of units	<b>(93,531,684)</b>	(47,977,988)
<b>Net change from unit transactions</b>	<b>(54,329,320)</b>	3,566,066
<b>Net assets (equity) attributable to the unitholders as at 30 June</b>	<b>2,233,812,981</b>	2,289,125,920

**UNIT TRANSACTIONS**

Transactions in units for the period ended 30 June are summarised as follows:

	<i>30 June</i> <i>2019</i>	<i>30 June</i> <i>2018</i>
	<i>(In numbers)</i>	
<b>Units at the beginning of the period</b>	<b>82,497,733</b>	84,799,751
Units issued during the period	<b>1,428,048</b>	2,059,020
Units redeemed during the period	<b>(3,383,725)</b>	(1,945,016)
<b>Net (decrease) / increase in units</b>	<b>(1,955,677)</b>	114,004
<b>Units as at end of the period</b>	<b>80,542,056</b>	84,913,755

The accompanying notes (1) to (19) form integral part of these interim condensed financial statements.

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Interim condensed statement of cash flows (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

	<i>30 June</i> <i>2019</i>	<i>30 June</i> <i>2018</i>
<b>Cash flows from operating activities</b>		
Net income for the period	210,239,587	341,048,621
<i>Adjustment for:</i>		
Unrealised gain on investments at fair value through profit or loss	(102,598,830)	(298,898,667)
	107,640,757	42,149,954
<b>Net change in operating assets and liabilities</b>		
Decrease / (increase) in investments at fair value through profit or loss	137,201,425	(13,520,545)
Decrease in receivables and advances	8,012,613	6,564,677
Increase in accrued expenses	13,805,890	--
<b>Net cash generated from operating activities</b>	266,660,685	35,194,086
<b>Cash flows from financing activities</b>		
Proceeds from issuance of units	39,202,364	51,544,054
Payments for redemption of units	(93,531,684)	(47,977,988)
<b>Net cash (used in) / generated from financing activities</b>	(54,329,320)	3,566,066
Net increase in cash and cash equivalents	212,331,365	38,760,152
Cash and cash equivalents at the beginning of the period	7,860,374	55,897,442
<b>Cash and cash equivalents as at the end of the period</b>	220,191,739	94,657,594

The accompanying notes (1) to (19) form integral part of these interim condensed financial statements.

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**1 GENERAL**

HSBC Saudi Companies Equity Fund (“the Fund”) is an investment fund established through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and investors (“the unitholders”).

The objective of the Fund is to achieve capital appreciation over the medium to long-term by investing in Shariah compliant Saudi equities listed on Tadawul (Saudi Stock Market).

The Fund is managed by the Fund Manager who also acts as the administrator of the Fund. Albilad Capital is the custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price.

**2 REGULATING AUTHORITY**

The Fund is governed by the Investment Fund Regulations (“the Regulations”) published by the Capital Market Authority (“the CMA”) on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) detailing requirements for all investment funds operating within the Kingdom of Saudi Arabia. The Regulations were further amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) (“the Amended Regulations”). The Fund Manager believes that the Amended Regulations was effective from 6 Safar 1438H (corresponding to 6 November 2016).

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes in the Terms and Conditions relates to the change in fee structure and enhancement of investment objectives. The Fund updated its terms and conditions which were approved latest by the CMA on 27 Shawwal 1440H (corresponding to 1 July 2019).

**3 SUBSCRIPTION / REDEMPTION (DEALING DAY AND VALUATION DAY)**

The Fund is open for subscriptions / redemptions of units on each business day (a “Dealing Day”). The value of the Fund’s portfolio is determined on each business day (a “Valuation Day”). The net asset value (equity) of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets value (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant Valuation Day.

**4 BASIS OF PREPARATION**

These interim condensed financial statements have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund’s Terms and Conditions and the Information Memorandum.

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 31 December 2018.

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**5 FUNCTIONAL AND PRESENTATION CURRENCY**

These interim condensed financial statements are presented in Saudi Arabian Riyal (“SR”), which is the Fund’s functional currency.

**6 BASIS OF MEASUREMENT**

These interim condensed financial statements have been prepared on a historical cost basis, (except for investments at fair value through profit or loss (“FVTPL”) which are stated at their fair value) using the accrual basis of accounting.

The Fund Manager 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, the Fund Manager 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 interim condensed financial statements continue to be prepared on the going concern basis.

The financial statement captions in the interim condensed statement of financial position have been presented in the order of liquidity.

**7 USE OF CRITICAL JUDGMENTS AND ESTIMATES**

The preparation of these interim condensed financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Fund’s accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

**8 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018.

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**9 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD**

Effective 1 January 2019, the Fund has adopted IFRS 16 - Leases. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The impact of adoption of IFRS 16 was not material to the Fund's interim condensed financial statements.

**10 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise of cash with banks who have investment grade credit ratings, as rated by the international rating agencies.

**11 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Investments at fair value through profit or loss comprise of the following sector exposures as at reporting date:

	<i>30 June 2019 (Unaudited)</i>		<i>31 December 2018 (Audited)</i>	
	<i>Cost SR</i>	<i>Fair value SR</i>	<i>Cost SR</i>	<i>Fair value SR</i>
<i>Equities</i>				
Banks	543,487,900	782,768,095	613,919,011	776,806,295
Materials	440,141,750	540,740,064	620,248,184	743,160,262
Retailing	132,722,950	155,542,814	69,018,592	80,168,144
Telecommunication Services	81,959,657	111,502,116	148,519,424	181,848,089
Food Beverages	100,913,767	92,059,649	110,428,140	87,828,306
Consumer Services	81,950,782	80,796,283	12,492,203	12,972,221
Insurance	64,639,915	73,191,244	109,897,329	111,951,174
Health Care Equipment & Services	57,412,765	67,303,776	45,897,218	38,369,303
Capital Goods	62,031,715	62,263,775	23,003,384	20,337,064
Real Estate	43,991,168	43,821,971	--	--
Commercial & Professional Services	6,969,690	8,848,476	--	--
<b>Total</b>	<b>1,616,222,059</b>	<b>2,018,838,263</b>	<b>1,753,423,485</b>	<b>2,053,440,858</b>

**12 NET GAIN FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>For the six-month period ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
Realised gains for the period	78,115,323	9,292,264
Unrealised gains for the period	102,598,830	298,898,667
<b>Total</b>	<b>180,714,153</b>	<b>308,190,931</b>

Realized gain on investments at FVTPL is calculated based on weighted average cost of securities.

**13 ACCRUED EXPENSES**

Accrued expenses include management fee payable (inclusive of VAT) to the Fund Manager.

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**14 TRANSACTIONS WITH RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party of the Fund comprise of HSBC Saudi Arabia (being the Fund Manager, Fund Board and administrator of the Fund).

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager. These transactions are carried out on the basis of approved Terms and Conditions of the Fund.

The Fund Manager charges to the Fund on each Valuation Day, management fee at a rate of 1.7% of Net assets value (2018: 1.7% of Net assets value). All Fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory and index fees, etc, are included in the management fee.

Subscription fee up to 2% is not considered in these interim condensed financial statement of the Fund, as investment in the Fund are always net of subscription fees. The Fund does not charge any redemption fees on redemption of units.

During the period, the Fund entered into the following transactions with related parties in the ordinary course of business.

Related party	Nature of transactions	Amount of transaction for the six-month period ended		Closing balance	
		30 June 2019	30 June 2018	30 June 2019 (Unaudited)	31 December 2018 (Audited)
HSBC Saudi Arabia (Fund Manager)	Fund management fee	<b>19,686,956</b>	18,500,888	<b>3,172,617</b>	4,122,611

**HSBC SAUDI COMPANIES EQUITY FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**15 FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Fund measures certain financial 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 by 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 Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in assumptions about these factors could affect the fair value of financial instruments.

Valuation models

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value hierarchy – Financial instruments

The table below analyses financial instruments at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

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**15 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

*Fair value hierarchy – Financial instruments (continued)*

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

	<b>30 June 2019 (Unaudited)</b>				<b>Total</b>
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Investments at FVTPL	<b>2,018,838,263</b>	<b>2,018,838,263</b>	--	--	<b>2,018,838,263</b>
Total	<b>2,018,838,263</b>	<b>2,018,838,263</b>	--	--	<b>2,018,838,263</b>
	<b>31 December 2018 (Audited)</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments at FVTPL	2,053,440,858	2,053,440,858	--	--	2,053,440,858
Total	2,053,440,858	2,053,440,858	--	--	2,053,440,858

During the period, no transfer in fair value hierarchy has taken place for the investments at fair value through profit or loss.

Other financial instruments such as cash in bank, other receivables and accrued expenses are short-term financial assets and financial liabilities respectively whose carrying amounts approximate fair value, being short-term in nature and the high credit quality of counterparties.

**16 FINANCIAL RISK MANAGEMENT**

The Fund has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risks;

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

***Risk management framework***

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of listed equities.

The Fund Manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Fund Board. In instances where the portfolio has diverged from target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

***Credit risk***

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

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**16 FINANCIAL RISK MANAGEMENT (CONTINUED)**

***Credit risk (continued)***

The Fund is exposed to credit risk on its bank balance and receivables. For risk management reporting purposes, the Fund considers and aggregates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk.

The Fund's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the certain credit standards.

Credit risk is monitored on a regular basis by the Fund Manager to ensure it is in line with the investment guidelines of the Fund Board.

The Fund's activities may give rise to settlement risk. 'Settlement risk' is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For all of transactions, the Fund mitigates this risk by conducting settlements through a regulated broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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

	<b>30 June 2019 (Unaudited)</b>	<b>31 December 2018 (Audited)</b>
Cash and cash equivalents	220,191,739	7,860,374
Receivables and advances	13,571,303	21,583,916
<b><i>Total exposure to credit risk</i></b>	<b>233,763,042</b>	<b>29,444,290</b>

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.

**Analysis of credit quality**

The Fund's cash and cash equivalents is held with Bank Albilad, which is rated A2 (31 December 2018: A2) based on Moody's ratings.

**Allowance for expected credit loss**

Financial instruments such as cash and cash equivalents and receivables and advances are of short term in nature and have limited credit exposure. Therefore, no allowance for expected credit losses is provided in the interim condensed financial statements.

***Liquidity risk***

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions. However the fund is allowed to borrow in order to satisfy redemptions. The Fund's securities are considered to be readily realizable as they are all listed on Saudi 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.

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**16 FINANCIAL RISK MANAGEMENT (CONTINUED)**

***Market risk***

Market Risk is the risk that changes in market prices – such as foreign exchange 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 the 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 the 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, in particular interest and foreign currency rates, remain constant.

	<b>30 June 2019</b>		<b>31 December 2018</b>	
	<b>(Unaudited)</b>		<b>(Audited)</b>	
<b><i>Net gain / (loss) on investments held at FVTPL</i></b>	<b>+ 5%</b>	<b>100,941,913</b>	<b>+ 5%</b>	<b>102,672,043</b>
	<b>- 5%</b>	<b>(100,941,913)</b>	<b>- 5%</b>	<b>102,672,043</b>

***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund is not subject to currency risks as all the assets and liabilities of the Fund are denominated in local currency. The investment risks of the fund are included in the Terms and Conditions detailed on the website of the Fund Manager at [www.hsbcSaudi.com](http://www.hsbcSaudi.com). The Terms and Conditions do not form part of the interim condensed financial statements.

**17 LAST VALUATION DAY**

The last reported valuation day for the period was 26 June 2019 (2018: 31 December 2018) and the dealing net assets value on this day was SR 27.73 per unit (31 December 2018: SR 25.19). The IFRS net assets value per unit on 30 June 2019 was SR 27.73 per unit (31 December 2018: SR 25.19).

**18 SUBSEQUENT EVENT**

There were no events subsequent to the statement of financial position date which require adjustments of or disclosure in the interim condensed financial statements or notes thereto except as disclosed in note 2 of these interim condensed financial statements.

**19 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS**

These interim condensed financial statements were approved by the Fund Board on 3 Dul Hijjah 1440H (corresponding to 4 August 2019).