

Fund Strategy & Outlook

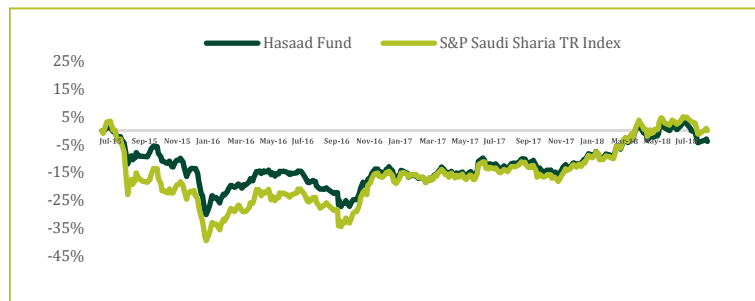
August was a 'risk-off' month where the **Tadawul All Shares Index** corrected sharply, partially in response to poor investor sentiment, aggravated by an expat exodus from the country. The declining expatriate population has negatively effected every business catering to domestic demand. For flow based businesses, the impact is visible and meaningful, with declining revenues. While in stock based businesses, such as banks, the impact is expected to be felt after a lag in asset quality.

In our opinion, the market has overshot on the downside as the macro backdrop remains strong with Brent oil gaining over 4% during the month, which is highly supportive of fiscal conditions. Moreover, the H1 budget performance suggests the government is utilizing the fiscal space created by higher oil prices to stimulate domestic demand by putting cash in the consumer's pocket. The wage bill during H1 2018 grew by 24% YoY, while social benefits grew by 90% YoY. However, spending data derived from POS transactions and ATM withdrawals suggests the consumer is still holding on to that cash as aggregate spending during H1 grew by 4.8%. In our opinion, weakness in domestic demand is amplified by poor consumer confidence which should improve as the expat exodus subsides. We are closely tracking CCHI data for private lives insured as a pick-up in that indicator would be an early indicator of stability in the system.

In the above backdrop, Hasaad exhibited negative performance of -4.2%, lagging behind the benchmark by 1.0%. This was mainly due to overweights in **healthcare** and **consumer staples** names which was negatively impacted by low domestic demand due to the expat's exodus after the government's policy on Saudization. However, we expect our holdings to recover in the medium-term as the earning power of our portfolio companies remains intact despite the challenging micro conditions.

We reiterate our positive near-term economic outlook supported by stable oil prices. The key catalyst for the market will be a pickup in capital spending by the government as announced in the 2018 budget. So far, government spending on infrastructure and transportation is behind the budgeted number. However, general expectations point to a pick up in capital spending during Q4 on key projects.

The fund is invested in high quality businesses across various sectors. **Commodity chemicals** and **banks** represent the largest investment allocation. Our investments in **petrochemicals** are well positioned to benefit from higher plastic prices and wider product spreads, while our investments in **commercial banks** are best positioned for a higher interest rate environment. Additionally, our banks in the portfolio are well capitalized and sport a liquid balance sheet capable of supporting loan growth should credit demand in the country improve. The fund ended the month with 4.9% cash which will be deployed opportunistically over the coming weeks.



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Objective

The principal objective of the Fund is medium to long term capital appreciation by investing in Sharia compliant equities listed on the Tadawul exchange.

Fund Performance

| | Hasaad Fund | S&P TR ¹ | Difference ² |
|---------------------|-------------|---------------------|-------------------------|
| Month to Date* | -4.2% | -3.2% | -1.0% |
| YTD | 9.0% | 13.7% | -4.7% |
| 2017 | 2.5% | 3.8% | -1.3% |
| 2016 | -0.3% | 10.5% | -10.8% |
| 2015 | -13.7% | -23.3% | 9.6% |
| Inception to Date** | -3.9% | 0.0% | -3.9% |

* MTD figures reflect performance between July 31, 2018 and August 31, 2018

** Fund's inception date was July 1, 2015

¹ S&P Saudi Sharia TR Index

² For comparative purposes only, the fund is managed on an absolute return basis

Fund Characteristics

| | |
|---------------------|-------------------|
| No. of Holdings | 16 |
| Weighted Market Cap | SAR 115.9 billion |
| Dividend Yield* | 4.2% |
| P/E Ratio | 18.8x |

*Figure reflects the weighted average yield of a dividend-bearing security in the fund

Fund Metrics

| | Hasaad Fund | S&P TR |
|------------|-------------|--------|
| Volatility | 13.5% | 17.7% |
| Beta * | 0.7 | - |

*Calculated vs. the S&P Saudi Sharia TR Index since the Fund's inception

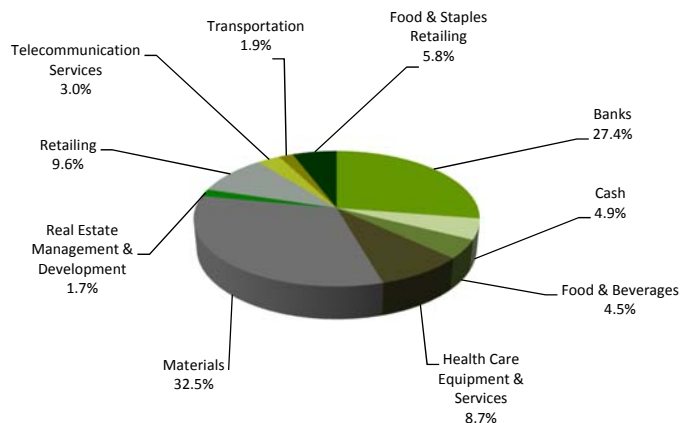
Top Holdings

| Holding | Sector | % Holding |
|-----------------------------|-----------|-----------|
| Al Rajhi Bank | Banks | 20.0% |
| Saudi Basic Industries Corp | Materials | 17.5% |
| Advanced Petrochemical Co | Materials | 7.8% |

Fund Information

| | |
|-------------------------|--------------|
| NAV per share | SAR 9.6113 |
| Launch Date | July 1, 2015 |
| Management fee | 1.25% |
| Minimum Subscription | SAR 10,000 |
| Subscription/Redemption | Twice Weekly |

Allocation by Economic Sector



Fund Identifiers

| | |
|------------------|--------------|
| ISIN | XC000A14XYV2 |
| Reuters Code | LP 68330160 |
| Bloomberg Ticker | EFHFSE AB |