

## Fund Strategy & Outlook

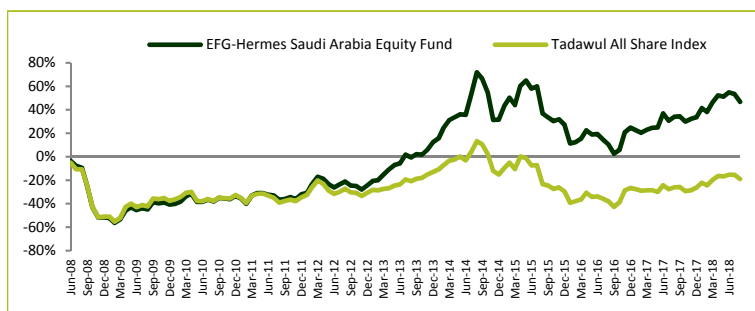
August was a risk-off month where the Tadawul All Shares Index corrected sharply partially in response to poor investor sentiment aggravated by expat exodus from the country. The declining expatriate population has negatively effected every business catering to domestic demand. In flow based businesses, 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, the Saudi Equity Fund exhibited negative performance; -4.3%, and was slightly behind the benchmark by 0.1%. However, we expect our holdings to recover in the medium term as the earnings 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 infrastrure 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 and long-term capital appreciation through investing in Saudi Arabian equity and equity related securities.

## Fund Performance

	Saudi Fund	TASI <sup>1</sup>	Difference
Month to Date*	-4.3%	-4.2%	-0.1%
YTD	9.9%	10.0%	-0.1%
2017	7.0%	0.2%	6.8%
2016	-1.9%	4.3%	-6.2%
2015	-3.4%	-17.1%	13.7%
2014	17.2%	-2.4%	19.6%
2013	48.8%	25.5%	23.3%
2012	11.2%	6.0%	5.2%
2011	1.8%	-3.1%	4.9%
Inception to Date**	46.8%	-19.0%	65.8%

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

\*\* Fund's inception date was June 17, 2008

<sup>1</sup>TASI is a price return index

## Fund Characteristics

No. of Holdings	20
Weighted Market Cap	SAR 83.3 billion
Dividend Yield*	4.3%
P/E Ratio	15.7

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

## Fund Metrics

	Saudi Fund	TASI
Volatility	21.7%	21.8%
Beta*	0.97	-

\*Calculated vs. the Tadawul All Share Index (TASI) 1 year

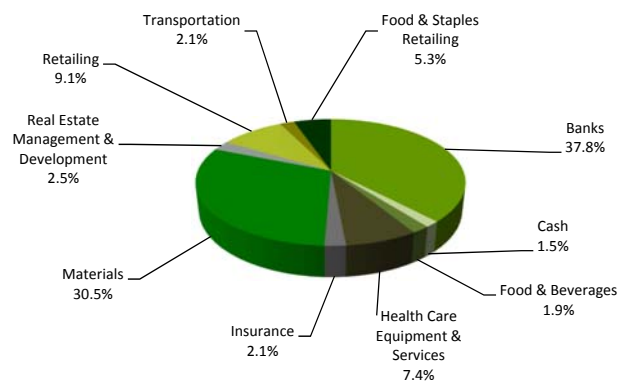
## Top Holdings

Holding	Sector	% Holding
Al Rajhi Bank	Banks	14.9%
Saudi Basic Industries Corp	Materials	9.8%
National Commercial Bank	Banks	7.7%

## Fund Information

NAV per share	SAR 14.6781
Launch Date	June 17, 2008
Management fee	2%
Minimum Subscription	SAR 50,000
Subscription/Redemption	Twice Weekly

## Allocation by Economic Sector



## Fund Identifiers

ISIN	XC000A1W4DX3
Reuters Code	LP65122906
Bloomberg Ticker	EFGSAUD AB