

Fund Strategy & Outlook

The **Tadawul All Shares Index** rose by 1.6%, bringing **YTD performance to 7.2%**. The rally was driven by the Petrochemical and Banking sectors.

Brent was down 14.3% in December, ending the month at USD 53.80 barrel. The price has slumped due to the US-China trade war and global economy slowdown fears. The USA has surpassed Russia and Saudi Arabia as the world's biggest oil producer. Saudi Arabia's output reached 10.55mn bpd in December, down from 11.20 mn bpd in November. The OPEC expects world oil demand to rise by 1.29mn bpd. They also agreed to wipe off 1.2m bpd effective from January 2019. In our view, a reduction in Iran's output effective from May 2019 and OPEC's output cuts will stabilize oil price.

The budget deficit in 2018 reached SAR 136bn (4.6% of the GDP), lower than the approved budget of SAR 195bn due to 39% increase in total revenues. Total revenues in 2018 reached SAR 895bn (up 29.4% YoY) due to an increase in oil revenues as well as a higher contribution from the non-oil segments.

The government expects the budget deficit in 2019 to reach 4.2% of GDP compared to 4.6% in 2018. Total revenues are set to reach SAR 975bn (9.0% YoY) driven by higher oil and non-oil revenues. The government will continue implementing fiscal balance program initiatives in 2019, including increasing the effectiveness of VAT management, continuing the energy price reforms as well as the application of the expat levy.

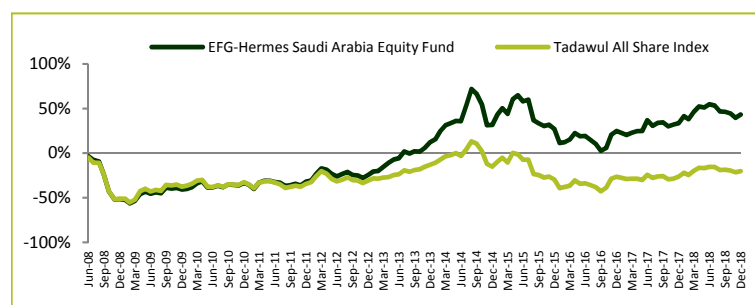
Spending is set to reach SAR 1,106bn (+7.3% YoY), driven by a 19.9% increase in capital spending. The government is planning to increase spending on housing projects, launching mega projects and developing the infrastructure to stimulate economic growth and create more jobs for citizens.

On the 19th December 2018, SAMA raised the benchmark repo rate (lending) from 275 bps to 300 bps and the reverse repo (deposit) rate from 225 bps to 250 bps. The objective of the policy rate adjustment is to maintain monetary stability after the US Fed's interest rate hikes. In our opinion, banks with liquid balance sheets and low asset duration are expected to benefit the most from rising rates.

Data released by SAMA in November showed credits to private sector grew by 2.3% YoY while deposits rose by 1.5% YoY. Government reserves reached SAR 624.6bn (-1.2% MoM), while Foreign reserves rose by 2.0% YoY. Combined ATM/POS transactions grew by 8% YoY, supported by spending surge in restaurants and hotels as well as food and beverage segments. Cost of living increased by 2.8% YoY.

The Saudi Fund exhibited positive performance of 2.6% in December 2018, outperforming the benchmark by 1.0%, mainly due to overweighs in the Material and Financial sectors.

The fund is invested in high-quality businesses across various sectors which we believe will attract inflows after Kingdom's inclusion in the MSCI EM Index in mid-2019. Commodity chemicals and banks represent the largest investment allocation. Our investments in petrochemicals are well positioned to benefit from a stable global supply/demand environment and wider product spreads. 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.



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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 ¹	Difference
Month to Date*	2.6%	1.6%	1.0%
YTD	7.2%	8.3%	-1.1%
2018	7.2%	8.3%	-1.1%
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**	43.2%	-20.3%	63.5%

* MTD figures reflect performance between November 30, 2018 and December 31, 2018
** Fund's inception date was June 17, 2008

¹TASI is a price return index

Fund Characteristics

No. of Holdings	16
Weighted Market Cap	SAR 87.8 billion
Dividend Yield*	3.9%
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	21.5%	21.5%
Beta*	0.97	-

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

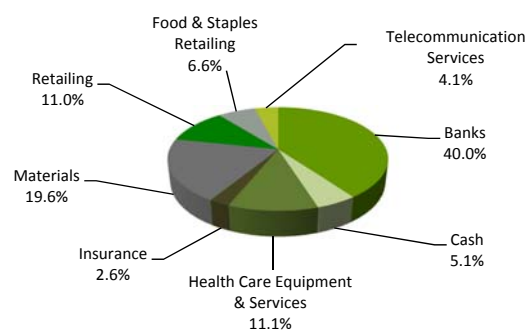
Top Holdings

Holding	Sector	% Holding
Al Rajhi Bank	Banks	15.2%
Saudi Basic Industries Corp	Materials	9.0%
Mouwasat Medical Services Co	Health Care Equipment & Services	7.9%

Fund Information

NAV per share	SAR 14.3220
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	EFSAUD AB