

Fund Strategy & Outlook

The Saudi market had a weak performance in February with the TASI Index losing 1.8%. The Fund lost 1.7% during the month. Turnover decreased 16.5% MoM with daily traded value averaging SAR 3.75 billion

All TASI sectors were down in February, with the exception of the Utilities, Capital Goods, and Retailing sectors which were up by 7%, 3.5% and 1.4%, respectively. Media, Consumer Services & Transportation sectors were among the worst performing sectors losing 15%, 7.5% and 4.3%, respectively. Banks underperformed losing 4%, while materials lost 0.72%. The fund's Cash decreased to 8.5% at month-end.

Brent gained 1% in February to end the month at USD 56.51/barrel, but on average was flat MoM. OPEC compliance with agreed supply cuts stood at 94% at the end of February.

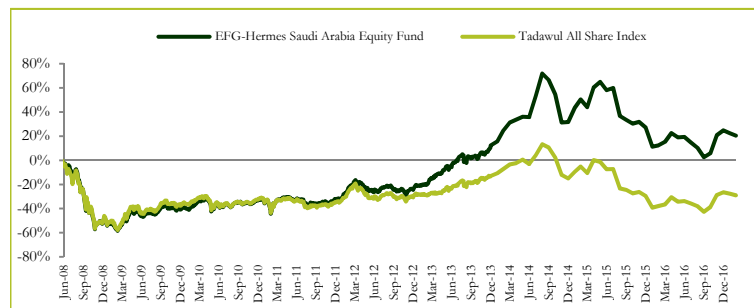
The Parallel Market ("NOMU") started off on a positive note as all seven listed companies posted a strong performance during the first few days of trading. The Investment manager believes that it is too early to invest in these small/micro cap names as the liquidity and investor appetite for such issuances needs to be watched. Nevertheless, if a company has strong fundamentals and is attractively priced, the fund manager would be open to invest in such companies.

The banking sector is underperforming YTD and is currently trading below its historical average at 10.0x EPS 2017e with a yield of 4.5% for 2018. The settlements of government receivables has proved to be positive for certain sectors but this has resulted in early repayment of loans and lower demand for working capital financing – which has been reflected in the lending growth in Jan 2017 at 1.8% YoY – the lowest in almost seven years. There is also the potential for an uptick in provisioning in 2017 for banks at which we did not see a spike occur already in Q4 2016. There is a positive note on the improved outlook for US rate hikes and hence a boost for margins in the sector.

The government has suspended domestic bond issuances for the fifth month in a row, as there is enough liquidity in the system. The 3 month Saibor rate has also come down by 21bps during February. We expect the bond issuances to resume in March and the government to announce an international sukuk offering soon.

There are further headwinds expected in 2017 across different sectors, as the government may raise fuel and utility prices in the summer and that will coincide with the implementation of the new expat levy. It is currently unclear how much of the new fees will be passed onto employees and how much will be absorbed as costs, potentially to be partly passed onto consumers. Consumption pressures are also expected to sustain in 2017 and therefore the focus will likely be on streamlining operations, cutting costs and rationalizing spending plans. There are however companies that are better positioned to withstand cost pressures against new fees and that have expansionary plans underway that will underpin top line growth and these are the ones that should outperform.

The Investment manager believes that the Saudi market will remain rangebound with a downward bias in the short term and expects to book profits in select names and increase exposure to large cap names. Progress towards MSCI and FTSE EM Index inclusions would be watched carefully.



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*	-1.7%	-1.8%	0.1%
YTD	-3.5%	-3.3%	-0.2%
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**	20.4%	-29.0%	49.4%

* MTD figures reflect performance between January 31, 2017 and February 28, 2017.

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

¹ TASI is a price return index

Fund Characteristics

No. of Holdings	28
Weighted Market Cap	SAR 66.3 billion
Dividend Yield*	3.9%
P/E Ratio 17	15.8

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

Fund Metrics

	Saudi Fund	TASI
Volatility	22.9%	23.0%
Beta*	0.97	-

*Calculated vs. the Tadawul All Share Index (TASI) since the Fund's inception

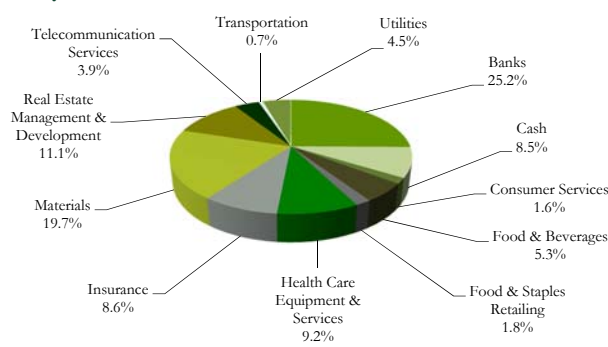
Top Holdings

Holding	Sector	% Holding
Al Rajhi Bank	Banks	10.4%
Saudi Basic Industries Corp	Materials	9.1%
Advanced Petrochemical Co	Materials	4.5%

Fund Information

NAV per share	SAR 12.0421
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