

## Fund Strategy & Outlook

The Tadawul All Shares Index fell by -1.2% in October, weighing down YTD performance to 8.3%. The sell-off was led by international investors due to specific geopolitical developments. Net outflows from QFI and swap investors stood at SAR 6.2bn, combined ownership declined from 1.58% to 1.24%.

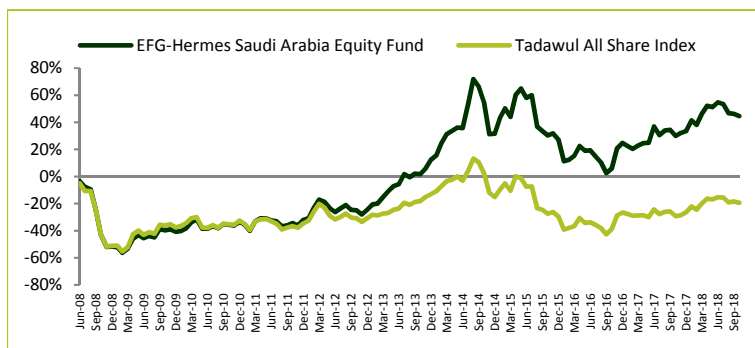
Brent was 11.2% down in September, ending the month at USD 75.04 barrel. OPEC's production stood at 33.33mn bpd reaching the highest level since 2016 driven by output increase from KSA and Libya to offset losses stemming from imposing U.S sanctions on Iran. Demand was weak in October for the first time since OPEC started boosting production in May due to increase in U.S. production benefiting from price gains that energize shale-oil drillers. OPEC and its allies are going to cut oil supply in 2019 to balance the market. In our opinion, continuing surge in U.S outputs is a threat to oil prices, however, reducing KSA daily exports will effectively wipe out most of the production increases (KSA's output reached 10.68mn bpd in October). On the other hand, lower production would negatively affect KSA's budget as production is well below the target to balance the budget.

Data disclosed by the Ministry of Finance showed the fiscal deficit at SAR 41bn for 9M'18 and SAR 7.3bn for Q3'18. Total revenues reached SAR 663bn in 9M'18 (+47% YoY) and SAR 223bn in Q3'18 (+57% YoY) boosted by oil revenues of SAR 154bn (+63% YoY) on the back of higher oil prices as well as output increase. Non-Oil revenues in Q3'18 stood at SAR 69bn (+45% YoY) mainly on the back of surge in taxes on goods & services due to 5% VAT implementation in January 2018. Total government spending for the 9M'18 reached at SAR 712bn (+25% YoY) 73% of the FY 18e and SAR 231bn in Q3'18 (21% YoY). In Q3'18, Wages grew by 16% YoY while subsidies and social benefits grew 275% by and 107% respectively. In terms of sectors, Infrastructure & Transportation and economic resources came in well below the budgeted spending for the year representing 37% and 49% of FY'18e budget respectively. Weak government spending on Infrastructure and Transportation sector overwhelmed cement industry proven by weak cement sales and higher inventory levels.

IMF increased KSA's GDP growth forecasts to 2.2% (+30bps) and 2.4% (+50 bps) for 2018 and 2019 respectively due to pick-up in oil revenues and non-oil sector. Saudi Arabia's Purchasing Managers' Index rose to 53.8 in October from 53.4 in September thanks to growth in employment and new orders. In our opinion, The 2019's expansionary spending programme which announced last month led to business sentiment improvement.

Recent data released by SAMA and GAS indicated a continuous improvement in Saudi economy. Total unemployment rate fell to 6.0% in Q2'18 from 6.1% in Q1'18, whereas the Saudi unemployment remained steady at 12.9% in Q2'18. Deposits increased by 2.1% YoY in September while credit to the private sector increased by 1.4% YoY in September. Government reserves with SAMA reached SAR 659.8bn (3.5% MoM) in September meanwhile foreign reserves grew by 4.5% YoY supported by higher oil revenue and debt issuances by the government. Combined ATM/POS transactions grew by 8.64% YoY in Q3'18.

The Saudi Fund exhibited negative performance of -1.2% in October 2018. This was in line with benchmark performance. The fund is invested in high-quality businesses across various sectors which we believe will attract inflows post Kingdom's inclusion in 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 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.



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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*	-1.2%	-1.2%	0.0%
YTD	8.3%	9.4%	-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**	44.6%	-19.4%	64.0%

\* MTD figures reflect performance between September 30, 2018 and October 31, 2018

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

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

## Fund Characteristics

No. of Holdings	17
Weighted Market Cap	SAR 86.3 billion
Dividend Yield*	4.0%
P/E Ratio	15.2

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

## Fund Metrics

	Saudi Fund	TASI
Volatility	21.6%	21.6%
Beta*	0.97	-

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

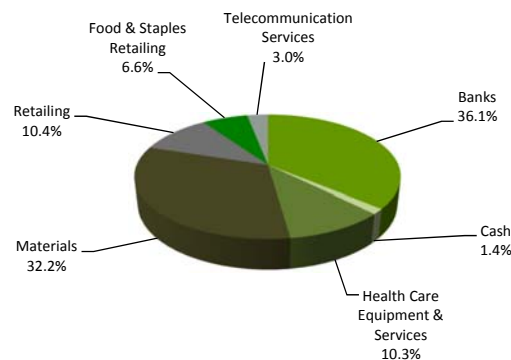
## Top Holdings

Holding	Sector	% Holding
Al Rajhi Bank	Banks	15.2%
Saudi Basic Industries Corp	Materials	9.7%
Mouwassat Medical Services Co	Health Care Equipment & Services	7.5%

## Fund Information

NAV per share	SAR 14.4588
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