

Fund Strategy & Outlook

The **Tadawul All Shares Index** rose by +0.6%. Positive performance partially pared August's losses and brought the index's YTD performance to +10.7%. At the sector level, strong performance amongst **banks, insurance** and **Telecoms** was slightly offset by negative performance from **consumer** and **healthcare** names on the back of weak domestic demand due to the declining expatriate population.

Brent was +6.55% higher in September, ending the month at USD 82.73 barrel. Full compliance from OPEC and Non-OPEC producers along with declining inventories are the reasons for the strength in oil prices. OPEC and its allies are pumping half a million barrels a day below the target set two months ago. Saudi Arabia increased its output by 108,000 bpd to reach 10.51mn bpd in September. The compares to a 90,000 bpd jump in August where output totalled 10.50mn bpd. In our opinion, we expect demand for Saudi oil to increase in order to fill the gap due to US sanctions against Iran's crude exports.

Thanks to higher oil prices, the Finance Minister announced public spending to reach SAR 1.106 trillion in 2019; SAR100bn more than initially forecast. Spending is expected to reach SAR 1.170 trillion by 2021. The expansionary spending is a clear message of the government's determination to support economic growth and reduce unemployment. We are closely tracking cement sales and inventory levels. Any positive updates would be indicators of expansionary budget implementation as government spending on infrastructure and transportation for 2018 is still behind the budgeted number.

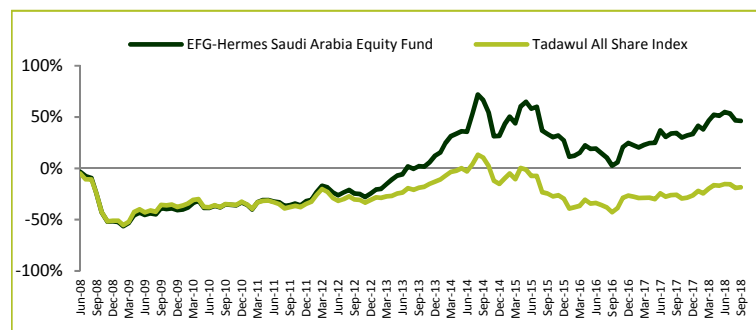
On the 26th September 2018, SAMA raised benchmark repo rate (lending) from 250 bps to 275 bps and reverse repo (deposit) rate from 200 bps to 225 bps. The objective of the policy rate adjustment is to maintain monetary stability after the US Fed interest rate hikes. In our opinion, banks with liquid balance sheets and low asset duration are expected to benefit the most from rising rates.

Moreover, Based on data derived from the SAMA report for August 2018, foreign exchange reserves rose by SAR 8.4bn MoM to stand at SAR 1,911bn (+4.5% YoY). Deposits were down by 0.6%YoY and grew by 0.3% MoM, mainly due to time and saving deposits which declined by 12.2% YoY. Cost of living increased by 2.3% YoY and declined by 0.2% MoM. Combined ATM/POS transactions fell 2.7% YoY which partly attributed to the high rate of expat departures in Q2'18. In our opinion, weakness in domestic demand is amplified by poor consumer confidence, which should improve as the expat exodus subsides.

The Saudi Fund exhibited negative performance of -0.3% in September 2018. This was short of the benchmark by 0.9%, mainly due to overweights in healthcare names which were negatively impacted by the expat exodus following the government's policy on Saudisation. Additionally, asset selection in financial and real estate sectors resulted in underperformance versus the benchmark. However, we expect our holdings to recover in the medium-term, as the macro backdrop remains strong and the earnings power of our portfolio companies remain intact despite challenging micro conditions.

We reiterate our positive near-term economic outlook supported by higher oil production and stable prices in addition to better contributions from non-oil sectors.

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.



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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*	-0.3%	0.6%	-0.9%
YTD	9.6%	10.7%	-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**	46.3%	-18.5%	64.8%

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

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

¹TASI is a price return index

Fund Characteristics

No. of Holdings	19
Weighted Market Cap	SAR 85.5 billion
Dividend Yield*	4.3%
P/E Ratio	15.5

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

Fund Metrics

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

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

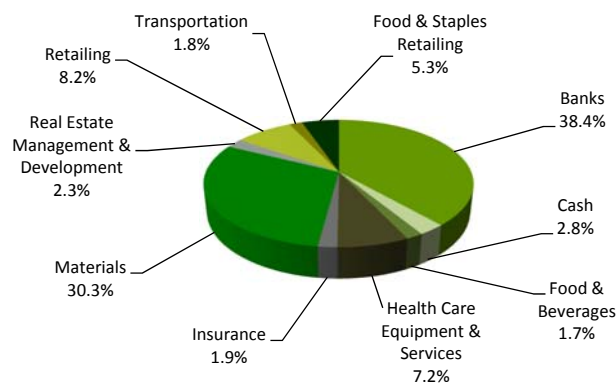
Top Holdings

Holding	Sector	% Holding
Al Rajhi Bank	Banks	15.0%
Saudi Basic Industries Corp	Materials	9.8%
National Commercial Bank	Banks	7.9%

Fund Information

NAV per share	SAR 14.6317
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	EFQSAUD AB