

Morgan Stanley

# MORGAN STANLEY SAUDI ARABIA

## The Morgan Stanley Saudi Equity Fund

Annual Report 2016

IFR, Article 71 (b)

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## Fund Directory

<b>Name of the Fund</b>	Morgan Stanley Saudi Equity Fund
<b>Fund Manager</b>	<p>Morgan Stanley Saudi Arabia, a closed joint stock company established under the laws of Saudi Arabia with Commercial Registration Number 1010224144 dated 18/9/1427H, issued in Riyadh, and licensed by the Capital Market Authority.</p> <p>The address of the Fund Manager is: Al Rashid Tower, 10th Floor Al Ma'ather Street, Riyadh P. O. Box 66633, Riyadh 11586 Tel: +966 (11) 218 70 00 Fax: +966 (11) 218 71 44 <a href="http://www.MorganStanley.com">www.MorganStanley.com</a></p>
<b>Custodian</b>	<p>The <b>Custodian</b> is HSBC Saudi Arabia Limited HSBC Head Office, North Olaya Road P. O. Box 9084 Riyadh 11413 Saudi Arabia Tel: +966 (11) 299 23 13 Fax: +966 (11) 299 23 85</p>
<b>Administrator</b>	<p>The <b>Administrator</b> is HSBC Saudi Arabia Limited HSBC Head Office, North Olaya Road P. O. Box 9084 Riyadh 11413 Saudi Arabia</p>
<b>Registrar</b>	<p>The <b>Registrar</b> is HSBC Saudi Arabia Limited Head Office, North Olaya Road P. O. Box 9084 Riyadh 11413 Saudi Arabia</p>
<b>Auditor</b>	<p>The <b>Auditor</b> is Ernst &amp; Young P.O. Box 2732 Riyadh 11461 Saudi Arabia Tel: +966 (11) 273 4740 Fax: +966 (11) 273 4730</p>

## A. Investment Fund Information

### 1. Name of the investment fund

The Morgan Stanley Saudi Equity Fund

### 2. Investment objectives and policies

The Fund's investment objective is to provide long-term capital appreciation and growth. It intends to pursue these objectives by investing in shares listed and traded on the Saudi Stock Exchange, Tadawul, and in shares offered in the course of a IPO. The Fund's performance will be measured against the Tadawul All Share Index ("TASI") for the purposes of providing investors with an indication of performance relative to an existing standard.

### 3. Distribution of income and gain policy

The Fund is an income accumulation Fund, whereby its net income will be reinvested in the Fund and not distributed as dividends on the Units. Reinvestment of income will be reflected in the value and price of the Units.

**Reports are available upon request free of charge from the Fund Manager.**

## B. Fund Performance

### 1. Fund summary

	2014	2015	2016
Net Assets 31.12 (SAR)	99,137,711.00	84,787,624.60	36,147,185.10
Net assets per unit 31.12 (SAR)	280.4537	270.6118	297.4348
Highest Net Assets Value per unit (SAR)	342.2133	360.8536	298.2796
Lowest Net Assets Value per unit (SAR)	221.9946	260.7018	220.4247
Units in Issue 31.12	353,490.50	313,318.31	121,529.79
Income Distribution Per Unit	0.00	0.00	0.00
Total Expense Ratio	2.45%	2.37%	2.54%

## 2. Fund performance record

The total return for 1 year, 3 years and 5 years (or since inception):

DESCRIPTION	INCEPTION DATE	RETURN TYPE	1 YEAR CUM	3 YEAR CUM	5 YEAR CUM	SINCE INCEPTION CUM
Saudi Equity Monthend NAV	6-Jan-09	Net	9.91	35.28	112.04	197.43
Tadawul All Share Index	N/A	N/A	4.32	-15.53	12.35	36.31

The Annual total return for each of the financial years since Inception:

DESCRIPTION	DATE	ANNUALIZED RETURN
Saudi Equity Monthend NAV	31-Dec-09	19.55 <sup>1</sup>
Tadawul All Share Index	31-Dec-09	15.73 <sup>1</sup>
Saudi Equity Monthend NAV	31-Dec-10	17.23
Tadawul All Share Index	31-Dec-10	8.15
Saudi Equity Monthend NAV	31-Dec-11	0.09
Tadawul All Share Index	31-Dec-11	-3.07
Saudi Equity Monthend NAV	31-Dec-12	8.20
Tadawul All Share Index	31-Dec-12	5.98
Saudi Equity Monthend NAV	31-Dec-13	44.87
Tadawul All Share Index	31-Dec-13	25.50
Saudi Equity Monthend NAV	31-Dec-14	27.55
Tadawul All Share Index	31-Dec-14	-2.37
Saudi Equity Monthend NAV	31-Dec-15	-3.51
Tadawul All Share Index	31-Dec-15	-17.06
Saudi Equity Monthend NAV	31-Dec-16	9.91
Tadawul All Share Index	31-Dec-16	4.32

<sup>1</sup> Fund inception date is 6 January 2009.

### 3. Actual fees and fund expenses paid by the investment fund

The table below shows the actual fees and fund expenses paid by the investment fund during the year.

DESCRIPTION	PERIOD 2016
Management Fee	1,210,773.13
Custody Fees (0.10%) Minimum Fees 112,500	112,500.01
Fund Admin Fees (0.15%) Minimum Fees 150,000	150,000.00
Audit Fees	50,000.00
Registration Fees	10,050.00
Board Fees	17,586.00
Transaction charge	54,562.50
Brokerage Fee	139,179.77
<b>Total Expense</b>	<b>1,744,651.41</b>
Average AUM	68,756,144.49
<b>TER For 2016</b>	<b>2.54</b>

### 4. Material changes having affected the fund

Performance was driven by normal business activities and portfolio positioning.

## 5. Disclosure of annual voting rights

COMPANY NAME	EVENT	DATE	AGENDAS	VOTING DECISION OF MSSEF
Advanced Petrochemical	10th Ordinary General Assembly Meeting	1-Mar-16	1. Vote on the BoD report for FY 2015	Agreed
			2. Vote on Company's financials of 2015	Agreed
			3. Vote on Auditor's report for 2015	Agreed
			4. Vote on the distribution of cash dividends for 2015	Agreed
			5. Vote on the recommendation of the BoD to pay SAR 200K for each BoD member for FY 2015	Agreed
			6. Vote on discharging BoD members from liability for 2015	Agreed
			7. Vote on the recommendation of BoD to appoint external auditors for 2016	Agreed
Tawuniya	Ordinary General Assembly Meeting	21-Mar-16	1. Vote on the BoD report for FY 2015	Agreed
			2. Vote on Company's financials of 2015	Agreed
			3. Vote on Auditor's report for 2015	Agreed
			4. Vote on the distribution of cash dividends for 2015	Agreed
			5. Vote on the recommendation of the BoD to pay SAR 1.79 Mn to the BoD members for FY 2015	Agreed
			6. Vote on discharging BoD members from liability for 2015	Agreed
			7. Vote on the recommendation of BoD to appoint external auditors for 2016	Agreed
			8. Vote on the appointment of two BoD members	Agreed
			9. Vote on signing contracts that have interest to the BoDs and major shareholders	Agreed
			10. Vote on the election of new Audit Committee	Agreed
Petrochem	Ordinary General Assembly Meeting	5-Apr-16	1. Vote on the BoD report for FY 2015	Agreed
			2. Vote on Company's financials of 2015	Agreed
			3. Vote on Auditor's report for 2015	Agreed
			4. Vote on discharging BoD members from liability for 2015	Agreed
			5. Vote on the recommendation of BoD to appoint external auditors for 2016	Agreed
			6. Vote on the financial deals that took place in 2015 with Saudi Arabian Industrial Investment Co.	Agreed
			7. Vote on the election of new BoD members	Agreed
Bahri	Ordinary General Assembly Meeting	6-Apr-16	1. Vote on the BoD report for FY 2015	Agreed
			2. Vote on Company's financials of 2015	Agreed
			3. Vote on Auditor's report for 2015	Agreed
			4. Vote on discharging BoD members from liability for 2015	Agreed
			5. Vote on the distribution of cash dividends for 2015	Agreed
			6. Vote on the recommendation to pay SAR 1.8 Mn as a remuneration to the BoD members for FY 2015	Agreed
SIIG	Ordinary General Assembly Meeting	13-Apr-16	1. Vote on the BoD report for FY 2015	Agreed
			2. Vote on Company's financials of 2015	Agreed
			3. Vote on Auditor's report for 2015	Agreed
			4. Vote on the recommendation of BoD to appoint external auditors for 2016	Agreed
			5. Vote on discharging BoD members from liability for 2015	Agreed
			6. Vote on signing contracts and deals between SIIG and other companies that took place in 2015	Abstained from voting
Arabian Cement Co.	Ordinary General Assembly Meeting	28-Apr-16	1. Vote on the BoD report for FY 2015	Agreed
			2. Vote on Company's financials of 2015	Agreed
			3. Vote on Auditor's report for 2015	Agreed
			4. Vote on discharging BoD members from liability for 2015	Agreed
			5. Vote on the recommendation of BoD to appoint external auditors for 2016	Agreed
			6. Vote on the recommendation to pay SAR 1.8 Mn as a remuneration to the BoD members for FY 2015	Agreed
			7. Vote on the distribution of cash dividends for 2015	Agreed
Advanced Petrochemical	6th Extraordinary General Assembly Meeting	28-Jul-16	1. Vote on the increase in the company's share capital through bonus shares	Agreed
			2. Vote on the election of new BoD members	Abstained from voting
Riyad Bank	Ordinary General Assembly Meeting	24-Oct-16	1. Vote on the election of new BoD members	Abstained from voting
Riyad Bank	Ordinary General Assembly Meeting	26-Dec-16	1. Vote on the election of new Audit Committee	Agreed

## 6. Fund Board Resolutions

In 2016, the Fund's board held its meetings on 10th May and 16th November and the following resolutions were approved:

### **Board meeting held on 10th May 2016:**

- The minutes of the previous board meeting were ratified;
- Bank account authorization amendment;
- Authorization to sign off the financial statements of the Fund.

### **Board meeting held on 16th November 2016:**

- To approve the minutes of the board meeting held on 10 May 2016;
- To approve the auditor engagement letter dated 7 August 2016 and the increase in the audit fee from SAR 40,000 to SAR 50,000 for the year ended 31 December 2016;
- To approve the Information Memorandum- the Board approved.

## C. Fund Manager

### 1. Review of the investment activities during the period.

#### **Portfolio Activity**

During the year, we increased our allocation to the banking sector on improvements in net interest margin following the U.S. rate hike and tightening liquidity in the market, which helped margins to expand. We increased our allocation to the petrochemicals sector, as chemical prices continued to improve, offsetting the rise/increase in domestic feedstock prices, following subsidy cuts announced by the government in 2015. On the other hand, we reduced allocation to the cement sector on weak outlook due to excess capacity and lower demand that has resulted in declining cement prices. We also reduced our overweight on the hotels sector, as the earnings were below expectation and outlook is challenging. In 2016, we participated in three IPOs offered to institutional investors through book building process.

### 2. Write-up of the investment fund's performance during the period.

#### **Performance Review**

During the calendar year 2016, the Fund returned 9.9% (net of fees), while the benchmark (TASI) rose by 4.3%. Stock selection contributed positively to returns, while sector allocation contributed negatively. The largest positive contributions were from the Insurance sector, followed by the Petrochemicals and Transport sectors. Meanwhile, positions in the Hotels and Real Estate sectors contributed negatively.

Since inception (6 January 2009), the Fund has outperformed TASI by 161.1% (cumulative), net of all fees and expenses.

### 3. Details of any material changes made during the period.

There were no material changes during the period.



**4. Any other information that would enable unitholders to make an informed judgment about the fund's activities during the period.**

Due to net outflows, the total assets of the fund were lower in 2016 compared to the previous year.

**5. A statement on any special commission received by the fund manager during the period.**

No special commission was received by the fund manager during the period.

## Custodian

**Brief description of its duties and responsibilities,**

The custodian is a service provider to the Fund in line with **Articles 22 to 29 of the Investment Fund Regulations** issued by the Capital Market Authority. Please find below a brief summary of the responsibilities of the custodian:

- Opening of segregated accounts for the Fund in the name of the custodian for the benefit of the specific Fund;
- Safekeeping and periodic reconciliation of assets under custody;
- Movement of Funds for Fund's investment and Operational purposes based on Fund Manager instructions;
- Settlement of trades after execution and handling of corporate actions in the Fund portfolio based on Fund Manager instructions;
- Providing periodic Statements to the Fund Manager and the Fund's auditors; and
- Complying with client money rules and Investment Account Instructions issued by the CMA.

The custodian's responsibilities do not include providing an opinion on the matters set out under point 3 of Section d (Custodian) of Annex 5 of the Investment Fund Regulations.

## Auditor

The Audited Financial Statements and Audit Opinion for the year ending 31 December 2016 are provided in both English and Arabic in the following pages: