

Morgan Stanley

MORGAN STANLEY SAUDI ARABIA

The Morgan Stanley Saudi Equity Fund

Annual Report 2017

IFR, Article 71 (b)

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Fund Directory

Name of the Fund	Morgan Stanley Saudi Equity Fund
Fund Manager	<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 www.MorganStanley.com</p>
Custodian	<p>The Custodian 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>
Administrator	<p>The Administrator is HSBC Saudi Arabia Limited HSBC Head Office, North Olaya Road P. O. Box 9084 Riyadh 11413 Saudi Arabia</p>
Registrar	<p>The Registrar is HSBC Saudi Arabia Limited Head Office, North Olaya Road P. O. Box 9084 Riyadh 11413 Saudi Arabia</p>
Auditor	<p>The Auditor is Ernst & 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 an 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

	2015	2016	2017
Net Assets 31.12 (SAR)	84,787,624.60	36,147,185.10	26,692,249.86
Net assets per unit 31.12 (SAR)	270.6118	297.4348	303.7828
Highest Net Assets Value per unit (SAR)	360.8536	298.2796	314.6477
Lowest Net Assets Value per unit (SAR)	260.7018	220.4247	274.3219
Units in Issue 31.12	313,318.31	121,529.79	87,866.23
Income Distribution Per Unit	0.00	0.00	0.00
Total Expense Ratio	2.37%	2.54%	3.18%

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	2.13	8.32	100.16	203.78
Tadawul All Share Index	N/A	N/A	0.22	-13.28	6.25	36.61

The Annual total return for each of the last 10 financial years (or since Inception):

DESCRIPTION	DATE	ANNUALIZED RETURN
Saudi Equity Monthend NAV	31-Dec-09	19.55 ¹
Tadawul All Share Index	31-Dec-09	15.73 ¹
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
Saudi Equity Month end NAV	31-Dec-17	2.13
Tadawul All Share Index	31-Dec-17	0.22

¹ 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 2017
Management Fee	476,969.53
Custody Fees (0.10%) Minimum Fees 112,500	112,500.28
Fund Admin Fees (0.15%) Minimum Fees 150,000	150,000.00
Audit Fees	50,000.00
Registration Fees	9,825.00
Board Fees	9,000.00
Transaction charge	29,250.00
Brokerage Fee	28,706.49
Total Expense	866,251.30
Average AUM	27,270,902.07
TER For 2017	3.18

4. Material changes having affected the fund

Performance was driven by normal business activities and portfolio positioning. However, due to the small size of the fund, total expense ratio is relatively high.

5. Disclosure of annual voting rights

COMPANY NAME	EVENT	DATE	AGENDAS	VOTING DECISION OF MSSEF
Bahri	Ordinary General Assembly Meeting	16-Jan-17	1. Vote on the election of BoD members	Abstained from voting
			2. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			3. Vote on the BoD decisions from January 1, 2017 to January 13, 2017	Disagreed
			4. Vote on the distribution of cash dividends for 2016	Agreed
Advanced Petrochemical	7th Extraordinary General Assembly Meeting	7-Mar-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Company's financials of 2016	Agreed
			3. Vote on Auditor's report for 2016	Agreed
			4. Vote on the distribution of cash dividends for 2016	Agreed
			5. Vote on authorizing the BoD to distribute cash dividends for 2017	Agreed
			6. Vote on the recommendation of the BoD to pay up to SAR 200,000 to each BoD member for FY 2016	Agreed
			7. Vote on discharging BoD members from liability for 2016	Agreed
			8. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			9. Vote on amending the company's bylaws	Disagreed
			10. Vote on the formation of Audit committee	Agreed

Riyad Bank	Extraordinary General Assembly Meeting	27-Mar-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Auditor's report for 2016	Agreed
			3. Vote on Company's financials of 2016	Agreed
			4. Vote on discharging BoD members from liability for 2016	Agreed
			5. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			6. Vote on the distribution of cash dividends for 2016	Agreed
			7. Vote on remuneration of BoD members for FY 2016	Agreed
			8. Vote on the Audit committee's report	Agreed
			9. Vote on approving 4 related party transactions	Agreed
			10. Vote on amending the bank's bylaws	Disagreed
			11. Vote on amending article 4 of the bank's bylaws	Agreed
			12. Vote on approving allocation of income and dividends for FY 2017	Agreed
Bahri	Extraordinary General Assembly Meeting	12-Apr-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Company's financials of 2016	Agreed
			3. Vote on Auditor's report for 2016	Agreed
			4. Vote on discharging BoD members from liability for 2016	Agreed
			5. Vote on the election of Audit committee members	Agreed
			6. Vote on authorizing BoD to distribute cash dividends in biannually and quarterly basis	Agreed
			7. Vote on the recommendation to pay SAR 1.8 Mn as a remuneration to the BoD members for FY 2016	Agreed
			8. Vote on amending the company's bylaws	Disagreed
Sahara	Extraordinary General Assembly Meeting	18-Apr-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Auditor's report for 2016	Agreed
			3. Vote on Company's financials of 2016	Agreed
			4. Vote on discharging BoD members from liability for 2016	Agreed
			5. Vote on the distribution of cash dividends for 2016	Agreed
			6. Vote on amending the company's article of association	Abstained from voting
			7. Vote on amending article 19 of the company's bylaws	Abstained from voting
			8. Vote on amending article 21 of the company's bylaws	Abstained from voting
			9. Vote on amending article 46 of the company's bylaws	Abstained from voting
			10. Vote on the election of Audit committee members	Agreed
			11. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			12. Vote on the recommendation of the BoD to pay SAR 200,000 to each BoD member for FY 2016	Agreed
Altayyar Travel Group	Extraordinary General Assembly Meeting	20-Apr-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Auditor's report for 2016	Agreed
			3. Vote on Company's financials of 2016	Agreed
			4. Vote on discharging BoD members from liability for 2016	Agreed
			5. Vote on amending the company's article of association	Agreed
			6. Vote on the election of Audit committee members	Agreed
			7. Vote on approving charter of nomination and remuneration committee, and board membership policy	Agreed
			8. Vote on approving related party transactions	Agreed
			9. Vote on authorizing a BoD member to be involved with other companies	Agreed

			10. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			11. Vote on approving 13 related party transactions	Agreed
NCB	Extraordinary General Assembly Meeting	3-May-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Company's financials of 2016	Agreed
			3. Vote on Auditor's report for 2016	Agreed
			4. Vote on the distribution of cash dividends for 2016	Agreed
			5. Vote on authorizing the BoD to distribute cash dividends on a biannual or quarter basis	Agreed
			6. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			7. Vote on the recommendation of the BoD to remuneration to BoD members for FY 2016	Agreed
			8. Vote on discharging BoD members from liability for 2016	Agreed
			9. Vote on approving related party transactions (between the bank and Tawuniya)	Agreed
			10. Vote on amending the bank's article of association	Agreed
			11. Vote on approving executives incentive stock program	Agreed
			12. Vote on approving Audit committee charter	Agreed
			13. Vote on the election of Audit committee members	Agreed
			14. Vote on approving the bank's corporate social responsibility policy	Agreed
Bupa	Extraordinary General Assembly Meeting	8-May-17	1. Vote on the BoD report for FY 2016	Agreed
			2. Vote on Auditor's report for 2016	Agreed
			3. Vote on Company's financials of 2016	Agreed
			4. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			5. Vote on approving related party transactions for FY 2016 and 2017	Agreed
			6. Vote on the distribution of cash dividends for 2016	Agreed
			7. Vote on the recommendation to pay SAR 2.9 Mn as a remuneration to the BoD members for FY 2016	Agreed
			8. Vote on discharging BoD members from liability for 2016	Agreed
			9. Vote on amending the company's bylaws	Agreed
			10. Vote on approving BoD remuneration policy	Agreed
			11. Vote on approving remuneration committee policy	Agreed
			12. Vote on approving long-term incentive plan and authorize BoD to execute it	Agreed
			13. Vote on authorizing share repurchase program in the context of the employee incentive plan	Agreed
SGS	Ordinary General Assembly Meeting	18-May-17	1. Vote on Company's financials of 2016	Agreed
			2. Vote on the BoD report for FY 2016	Agreed
			3. Vote on Auditor's report for 2016	Agreed
			4. Vote on discharging BoD members from liability for 2016	Agreed
			5. Vote on the recommendation to pay SAR 4.2 Mn as a remuneration to the BoD members for FY 2016	Agreed
			6. Vote on the recommendation of BoD to appoint external auditors for 2017	Agreed
			7. Vote on approving related party transactions	Agreed
			8. Vote on electing a member of the Audit committee	Agreed
			9. Vote on allowing directors to be involved with other companies	Agreed
			10. Vote on allowing BoD members to be involved with other companies	Agreed
			11. Vote on approving dividend distribution policy	Agreed

Saudi Fransi Bank	Extraordinary General Assembly Meeting	23-May-17	1. Vote on amending the bank's bylaws	Abstained from voting
Mouwasat	Extraordinary General Assembly Meeting	24-May-17	1. Vote on amending the company's bylaws	Agreed
A. Othaim Market	Extraordinary General Assembly Meeting	19-Jun-17	1. Vote on amending the company's bylaws	Agreed
AIHokair	Ordinary General Assembly Meeting	16-Jul-17	1. Vote on the election of the Audit committee	Agreed
			2. Vote on the election of BoD	Abstained from voting
			3. Vote on allowing BoD to serve on the board from July 1, 2017 to the date of the meeting	Agreed
AIHokair	Ordinary General Assembly Meeting	15-Aug-17	1. Vote on the BoD report for Q1 2017	Agreed
			2. Vote on Auditor's report for Q1 2017	Agreed
			3. Vote on Company's financials of Q1 2017	Agreed
			4. Vote on the recommendation of BoD to appoint external auditors for Q2, Q3 and Q4 2017; and Q1 2018	Agreed
			5. Vote on discharging BoD members from liability for Q1 2017	Agreed
			6. Vote on the recommendation to pay up to SAR 200,000 as a remuneration to the BoD, and SAR 3,000 for attendance per meeting	Agreed
			7. Vote on approving the allocation of income to retained earnings	Agreed
			8. Vote on approving 4 related party transactions	Agreed
Alandalus	Ordinary General Assembly Meeting	20-Aug-17	1. Vote on approving the sale of company's assets	Agreed
SABB	Ordinary General Assembly Meeting	27-Sep-17	1. Vote on approving related party transactions (between the bank and HSBC Asia Holdings and related companies)	Agreed
SABIC	Extraordinary General Assembly Meeting	8-Oct-17	1. Vote on amending the company's bylaws	Agreed
			2. Vote on the election of BoD	Agreed
Al Rajhi Bank	Ordinary General Assembly Meeting	22-Oct-17	1. Vote on the election of BoD	Agreed
			2. Vote on the election of the Audit committee	Agreed
			3. Vote on approving the BoD remuneration policy	Agreed
			4. Vote on approving nomination and remuneration charter	Agreed
			5. Vote on approving BoD membership policy	Agreed
			6. Vote on approving related party transactions (between the bank and Al Rajhi Takaful)	Agreed
Savola Group	Ordinary General Assembly Meeting	2-Nov-17	1. Vote on approving remuneration and nomination committee charter	Agreed
			2. Vote on amending the Audit committee charter	Agreed
			3. Vote on approving the BoD and executives remuneration policy	Agreed
			4. Vote on approving BoD membership policy	Agreed
Yansab	Ordinary General Assembly Meeting	9-Nov-17	1. Vote on approving BoD membership policy	Agreed
			2. Vote on approving the BoD and executives remuneration policy	Agreed
			3. Vote on approving nomination and remuneration charter regulations	Agreed
			4. Vote on approving the corporate social responsibility policy	Agreed
SADAFCO	Ordinary General Assembly Meeting	20-Nov-17	1. Vote on approving dividend distribution policy for FY 2017/2018	Agreed
Budget Saudi	Extraordinary General Assembly Meeting	11-Dec-17	1. Vote on approving nomination and remuneration charter	Agreed
			2. Vote on approving the BoD and executives remuneration policy	Agreed

			3. Vote on approving BoD membership policy	Agreed
			4. Vote on amending article 21 of the company's bylaws	Agreed
			5. Vote on amending article 37 of the company's bylaws	Agreed
			6. Vote on the election of the Audit committee	Agreed
			7. Vote on amending the external auditor's expenses for FY 2017	Agreed
Care	Ordinary General Assembly Meeting	14-Dec-17	1. Vote on approving related party transactions (between the company and Tawuniya)	Agreed
			2. Vote on the election of BoD	Agreed
			3. Vote on the election of the Audit committee	Agreed
			4. Vote on approving the BoD and executives remuneration policy	Agreed
			5. Vote on approving nomination and remuneration charter	Agreed
			6. Vote on approving BoD membership policy	Agreed
Sipchem	Ordinary General Assembly Meeting	19-Dec-17	1. Vote on approving nomination and remuneration charter	Agreed
			2. Vote on approving the BoD and executives remuneration policy	Agreed
			3. Vote on approving BoD membership policy	Agreed
SGS	Ordinary General Assembly Meeting	20-Dec-17	1. Vote on updating the company's corporate governance charter	Agreed
			2. Vote on updating the Audit committee charter	Agreed
			3. Vote on updating the nomination and remuneration charter	Agreed
			4. Vote on updating the BoD nomination policy	Agreed
			5. Vote on the election of a BoD member	Agreed
Spimaco	Ordinary General Assembly Meeting	24-Dec-17	1. Vote on updating the BoD nomination policy	Agreed
			2. Vote on updating the BoD and executives remuneration policy	Agreed
			3. Vote on updating the nomination and remuneration charter	Agreed
			4. Vote on the election of a BoD member	Agreed
Saudi Kayan	Ordinary General Assembly Meeting	24-Dec-17	1. Vote on approving BoD membership policy	Agreed
			2. Vote on updating the nomination and remuneration charter	Agreed
			3. Vote on approving the corporate social responsibility policy	Agreed
NCB	Ordinary General Assembly Meeting	24-Dec-17	1. Vote on approving the BoD remuneration policy	Agreed
			2. Vote on updating the remuneration and nomination committee charter	Agreed
			3. Vote on updating the BoD nomination policy	Agreed
			4. Vote on approving related party transactions (between the bank and Tawuniya)	Agreed
Jarir	Ordinary General Assembly Meeting	25-Dec-17	1. Vote on amending the Audit committee charter	Agreed
			2. Vote on amending the remuneration and nomination committee charter	Agreed
			3. Vote on amending the BoD nomination procedures	Agreed
			4. Vote on approving the BoD and executives remuneration policy	Agreed
Tawuniya	Ordinary General Assembly Meeting	28-Dec-17	1. Vote on the election of a BoD member	Agreed
			2. Vote on approving 2 related party transactions	Agreed
Advanced Petrochemical	Ordinary General Assembly Meeting	28-Dec-17	1. Vote on electing members of the Audit committee	Agreed
			2. Vote on approving the updated BoD membership policy	Agreed
			3. Vote on approving the BoD and executives remuneration policy	Agreed
			4. Vote on approving the updated remuneration and nomination policies	Agreed
			5. Vote on approving the updated Audit committee charter	Agreed

Dallah Healthcare	Ordinary General Assembly Meeting	30-Dec-17	1. Vote on updating the remuneration and nomination committee charter	Agreed
			2. Vote on updating the Audit committee charter	Agreed
			3. Vote on updating the BoD nomination procedures	Agreed
			4. Vote on approving the BoD and executives remuneration policy	Agreed
Alandalus	Ordinary General Assembly Meeting	31-Dec-17	1. Vote on amending the Audit committee charter	Agreed
			2. Vote on amending the nomination and remuneration charter	Agreed
			3. Vote on amending the BoD nomination procedures	Agreed
			4. Vote on amending the BoD and executives remuneration policy	Agreed
			5. Vote on the election of a BoD member	Agreed
			6. Vote on the election of Chairman of the Audit committee	Agreed

6. Fund Board Resolutions

In 2017, the Fund's board held its meetings on 17 May and 14 of November and the following resolutions were approved:

Board meeting held on 17 of May 2017:

- The minutes of the previous board meeting were ratified;
- Adopted the amended terms of reference- Board of Directors;
- Approved the Information Memorandum;

Board meeting held on 14 November 2017:

- The minutes of the previous board meeting were ratified;
- Approved new authorization to operate SABB bank account on behalf of the Fund

C. Fund Manager

1. A review of the investment activities during the period.

Portfolio Activity

In this section we discuss some of the portfolio activities. Similar to 2016, during 2017 also, we increased our allocation to the banking sector on improvements in net interest margin following the increasing interest rates and improving economic environment. We increased our allocation to the petrochemicals sector, as chemical prices continued to increase, supported by higher oil price and improving plant operations. On the other hand, we reduced allocation to some retail/consumer related companies. Fund continues to carry an underweight position in the cement sector on weak outlook due to excess capacity and lower demand that has resulted in declining cement prices.

2. A write-up of the investment fund's performance during the period.

Performance Review

During the calendar year 2017, the Fund returned 2.1% (net of fees), while the benchmark (TASI) rose by 0.2%. Stock selection contributed positively to returns, while sector allocation contributed

negatively. The largest positive contributions were from the Banking sector, followed by the Materials and Telecommunication sectors. On the other hand, the Pharma and Transportation sectors contributed negatively.

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.

The Fund passively breached the allocation at 10.13% (regulatory limit was 10%) for a position in Al Rajhi Bank on NAV date 22 August 2017. The passive breach was correctly identified on 23 August 2017 by the post-trade compliance monitoring, but the alert was not appropriately escalated to the investment team for corrective action until 6 September 2017 when it was determined that the passive breach had occurred. This corrective action was taken on the 7th business day following the initial breach identification. As required by Article 52 b letter was submitted to notify CMA of the passive breach on 15/9.

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.

Auditor

The Audited Financial Statements and Audit Opinion for the year ending 31 December 2017 are as follows: