Morgan Stanley Saudi Arabia Funds

Morgan Stanley Saudi Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the twelve month period up until 30 September 2026, the Fund returned -9.72% (net of fees)[1], while the benchmark returned -9.24%. Since inception until 30 September 2026, the Fund returned 13.91% (annualised, net of fees)[1], while the benchmark returned 3.91%.

Market Review

The market (Tadawul All Share Index) declined 2.0% on a total return basis in the third quarter of 2026, while remaining up 2.9% year-to-date. The near-term outlook remains sensitive to regional developments, oil export capacity and corporate earnings. In our view, improving domestic demand is supportive, but not sufficient on its own to drive a broad market recovery.

Oil has moved back towards a supply-disruption story. The U.S. Energy Information Administration (EIA) reports that Brent spot prices averaged $114 per barrel in September, versus $91 per barrel in August, and its October outlook projects $105 per barrel in the fourth quarter of 2026 before easing to $84 per barrel in 2027. These external forecasts assume a gradual recovery in regional exports. For Saudi Arabia, higher prices do not automatically translate into stronger revenues when production and export volumes are constrained.

Saudi non-oil activity continued to improve in September, with the Riyad Bank PMI rising to 55.3 from 53.8 in August, as reported by S&P Global. New orders strengthened and hiring increased, but the recovery remained domestically led: export orders declined for a seventh consecutive month, and output growth slowed. The improvement in demand is encouraging, although supply-chain disruption and higher costs remain important constraints.

The distinction between oil and non-oil activity remains important. Revised second quarter data shows real gross domestic product (GDP) declined 4.7% year-over-year, with oil activity down 24.8%, while non-oil activity grew 0.9% year-over-year. September survey strength suggests better domestic momentum but should not be read as confirmation of a material recovery in the wider economy.

The 2027 pre-budget statement forecasts government expenditure of SAR 1,392 billion and revenue of SAR 1,202 billion, with a deficit of 3.6% of GDP. Continued funding of priority projects supports the medium-term diversification story. However, project selection, financing and the timing of actual expenditure remain more relevant for individual companies than the headline spending suggests.

Inflation remained contained at 1.8% year-over-year in August, although housing rents rose 3.9% year-over-year. Saudi unemployment was 6.5% in the second quarter, compared with 6.4% in the first quarter. These indicators remain relatively supportive of domestic demand but may not necessarily translate into improvement in household conditions.

Portfolio Activity

During the quarter, exposure to the energy sector was increased through selective additions, reflecting our positive outlook on growth prospects and favourable sector fundamentals. We also added exposure to the pharmaceuticals sector in a given name to capture attractive growth opportunities, supported by increasing health care demand and ongoing localisation initiatives.

On the other hand, exposure to the materials sector was reduced as we booked profit in a given name following strong stock performance and rising geopolitical risks, higher input and logistics costs, and potential project delays that could weigh on near-term earnings.

In the insurance sector, we reduced exposure to a certain name following its strong performance, as increasing competition could limit further upside potential. Meanwhile, the reduction in consumer services allocation was mainly driven by active portfolio repositioning, as increased market volatility presented more attractive opportunities to reallocate capital towards higher-conviction investments both within and outside the sector.

Strategy and Outlook

We retain a constructive medium- to long-term view on domestic sectors that are expected to be beneficiaries of Vision 2030 growth and expansion targets, while remaining measured on the near-term earnings outlook due to current environment.

[1] Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2026.

This Fund is authorised by the Capital Market Authority. Any investment into this Fund is made subject to the terms of the Fund Prospectus and relevant Supplement which are available from Morgan Stanley Investment Management Saudi Arabia.

We distinguish temporary commodity price support from sustainable earnings growth. Our cautious stance towards broad oil and petrochemical exposure is consistent with selective opportunities, while the portfolio remains flexible if export conditions or the longer-term supply outlook change.

Individual stock opportunities continue to play an important role in our approach. Through portfolio rotations, we shift capital towards investments offering increasingly attractive valuations. Our decisions reflect a two- to three-year earnings outlook and investment horizon. Near-term monitoring focuses on export route reliability, growth in non-oil orders, market flows and liquidity conditions, and the execution of government programmes.

We are closely monitoring developments and will adjust the portfolio as the economic and earnings outlook evolves.

For further information, please contact msimsa@morganstanley.com

Fund Facts

Launch date	06 January 2009
Base currency	Saudi Riyal (SAR)
Benchmark	Tadawul All Share Index

Annualized Performance in Saudi Riyal, net of fees, vs benchmark (%)

Calendar Year Returns (%)	2025	2024	2023	2022	2021
Fund	-6.31	18.04	39.65	3.16	45.21
Benchmark[2]	-12.84	0.58	14.21	-7.12	29.83

[2] The benchmark is a price return Index.

INDEX INFORMATION

The **Tadawul All Share Index (TASI)** is the major stock market index which tracks the performance of all companies listed on the Saudi Stock Exchange. The Index is disseminated by the Saudi Stock Market. Volume in the index excludes small trades (trades with value less than Saudi Arabian Riyal 15000).

IMPORTANT INFORMATION

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The investment performance of the Morgan Stanley Saudi Equity Fund is calculated on a total return basis (i.e., with cash dividend reinvested), while the investment performance of the benchmark is provided on price return basis (i.e., it does not include dividends). The dividend yield as per Bloomberg for TASI was 3.30% as of 31 March 2025.

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Funds that specialize in a particular region or market sector are more risky than those which hold a very broad spread of investments. Where portfolio concentration is in one sector it is subject to greater risk and volatility than other portfolios that are more diversified and the value of its shares may be more substantially affected by economic events.

These investments are designed for investors who understand and are willing to accept these risks. Performance may be volatile, and an investor could lose all or a substantial portion of his or her investment.

Please click this hyperlink to the Information Memorandum for further information-regarding the principle risks, terms and conditions of investing in the Morgan Stanley Saudi Equity Fund.

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