

Morgan Stanley Saudi Arabia Funds

Morgan Stanley Saudi Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the twelve month period up until 31 December 2025, the Fund returned -6.31% (net of fees)¹, while the benchmark returned -12.84%. Since inception until 31 December 2025, the Fund returned 14.79% (annualised, net of fees)¹, while the benchmark returned 4.11%.

Market Review

The market entered the fourth quarter of 2025 with tempered expectations following a strong September rebound post foreign ownership limits (FOL) news. In the fourth quarter, Tadawul All Share Index (TASI) was down 8.4% (total return) and down almost 10% (total return) in 2025. The annual decline was impacted by the weak oil price environment, fiscal tightening, and persistent local institutional selling and investor disappointment with FOL implementation plans. FOL increasing to possibly 100% from 49% is still on track, in our view, and we associate a high probability of it happening in 2026.

The government's 2025 budget was shaped by lower oil prices and reduced oil production. Revised 2025 government spending estimated at SAR 1,330 billion led to the deficit revised higher to approximately 5.3% of gross domestic product (GDP). Planned government spending of SAR 1,313 billion was slightly below 2025's revised level, while the budget deficit was projected to narrow to approximately 3.3% of GDP. The government targets GDP growth at around 4.6% in 2026, driven primarily by private sector and higher oil production volumes. The Saudi Ministry of Finance also announced cuts to their borrowing plans in 2026 to approximately SAR 200 billion, versus almost SAR 400 billion raised in 2025, a 50% decline. This suggests government project spending rationalization is likely to continue in 2026. Government focus has shifted to artificial intelligence (AI)/technology and other programs that have a relatively near-term and a better-defined returns versus long-term projects such as the urban development project NEOM, which we consider a positive move.

The oil price outlook in 2026 remains weak. Continued supply growth from U.S. shale (more disciplined, capital-efficient growth), Brazil, Guyana, and other offshore producers, including the OPEC+ announced production increase, means supply remains high. Various industry reports suggest Brent crude to trade near \$60 per barrel and perhaps dipping to mid-\$50 per barrel levels. The geopolitical situation both in the region and globally is another factor. A peace deal between Ukraine and Russia could alter the oil supply dynamics while any flare-up in regional tensions may push oil prices higher.

Saudi Arabia's purchasing manager's index (PMI) remained consistently in expansionary territory through 2025, which reflects healthy continued strength in non-oil activity. Consumer spending remained resilient throughout 2025, supported by strong employment trends. This spending trend is increasingly driven by services; that is, the leisure, travel and hospitality sectors. Private sector activity remains a core pillar of growth, and the PMI signals continued expansion, despite a softer oil backdrop, and inflation remains well managed, with a targeted intervention in housing.

Government reform programs continue as suggested by the new real estate regulations, increase in diesel prices and expected change in the FOL limit.

Saudi market (TASI) valuations levels have moderated with price-to-earnings (last 12 months) at 18x versus the last two-year average of approximately 21x (according to Bloomberg data).

Portfolio Activity

During the quarter, exposure to the materials sector was increased to take advantage of rising product prices and expanding exploration activities. Moreover, the energy sector allocation was raised during the quarter as we continue to see value in the sector given the favourable demand-supply dynamics combined with the anticipated increase in FOL in the Saudi market.

On the other hand, exposure to the real estate sector was reduced due to the recent regulatory changes, which are expected to have a negative impact on the sector in the near term. The reduction in the transportation sector was mainly market driven as our stance remains unchanged for the sector.

Strategy and Outlook

Primary market driver for 2026: potential FOL increase, representing a meaningful liquidity event. Earnings growth likely to remain muted near term, but lower prices create selective stock opportunities.

Banks: Loan growth to continue but at a slower pace, easing margin pressure.

Health care: Maintain overweight, while monitoring rising supply risks.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 31 December 2025.

Tourism/Vision 2030: Attractive medium-term value supported by ongoing project execution.

Real Estate: Near-term pressure from regulatory changes. Positive medium- to long-term outlook driven by demand, lower rates and foreign ownership reforms from 2026.

Chemicals: Cautious stance due to oversupply, with focus on stock-specific opportunities.

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).

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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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These investments are designed for investors who understand and are willing to accept these risks. Performance

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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.