

Morgan Stanley

MORGAN STANLEY SAUDI ARABIA

The Morgan Stanley Saudi Equity Fund

Semi-Annual Report 2019

IFR, Article 71 (C)

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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 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 Manager

1. Review of the investment activities during the period.

Portfolio Activity

During the first half of 2019, we increased allocation to the food sector on relatively attractive valuation. Selectively, we increased allocation to the REITs sector in names that offer sustainable and attractive dividend yields, in our view. During the period under review, we participated in the initial public offerings of two companies.

On the other hand, we reduced allocation to the banking sector, given increasing likelihood of a rate cut in the second half of 2019 and declining interbank rates, which bodes negative for the sector profit margins. We also reduced allocation to the chemicals sector on weaker margin outlook as end product prices remain under pressure. Our cash allocation increased slightly to 2.7%, which is mostly driven by ongoing rebalancing.

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

Performance Review

During the first half of 2019, the Fund returned 17.2% (net of fees), while the benchmark (TASI) rose by 12.7%. Stock selection was major contributor to the outperformance while sector allocation also contributed positively. The largest positive contribution was from the banking sector, followed by the real estate, while, the consumer durable and retailing sectors contributed negatively.

Since inception (6 January 2009), the Fund has outperformed TASI by 252.7% (cumulative), net of all fees and expenses.

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

None

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

None

5. Where an investment fund invests substantially in other investment funds, a statement must disclose on the proportion of the management fees charged to the fund itself and to funds in which the funds invests.

Not applicable

6. 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.

C. Unaudited Financial Statements

The Unaudited Semi-annual Financial Statements for the period ended 30 June 2019 are provided in both English and Arabic in the following pages:

**Morgan Stanley Saudi Equity Fund
(Managed by Morgan Stanley Saudi Arabia
Company)**

**UNAUDITED INTERIM CONDENSED FINANCIAL
STATEMENTS**

30 JUNE 2019

Independent auditor's review report on the interim condensed financial statements To the Unitholders of Morgan Stanley Saudi Equity Fund

Introduction:

We have reviewed the accompanying interim statement of financial position of Morgan Stanley Saudi Equity Fund ("the Fund") managed by Morgan Stanley Saudi Arabia ("the Fund Manager") as at 30 June 2019, and the related interim statements of comprehensive income, cash flows and changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review:

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion:

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 endorsed in the Kingdom of Saudi Arabia.

For Ernst & Young



Yousef A. AlMubarak
Certified Public Accountant
License No. (427)



Riyadh: 20 Dhul-Qadah 1440H
(23 July 2019)

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2019

	<i>Notes</i>	30 June 2019 SR	31 December 2018 SR
ASSETS			
Cash and cash equivalents		1,889,863	904,068
Investments at fair value through profit or loss	6	67,279,009	49,099,416
Dividend receivable		18,104	-
Prepaid expenses		1,658	-
TOTAL ASSETS		69,188,634	50,003,484
LIABILITIES			
Management fee payable	7	211,081	122,776
Accrued expenses	8	72,676	69,461
TOTAL LIABILITIES		283,757	192,237
EQUITY			
Net asset attributable to Unitholders of redeemable units		68,904,877	49,811,247
Redeemable units in issue		164,280	139,187
Net asset value attributable to each unit		419.44	357.87

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
For the six-month period ended 30 June 2019

	Notes	<i>For the six-month period ended</i>	
		30 June 2019 SR	30 June 2018 SR
INCOME			
Net unrealised gain on investments at fair value through profit or loss		7,029,855	4,746,967
Net realised gain on investments at fair value through profit or loss		1,424,593	1,596,251
Dividend income		1,367,267	683,304
		<u>9,821,715</u>	<u>7,026,522</u>
EXPENSES			
Management fee	7	395,888	249,555
Other expenses	9	167,514	199,754
		<u>563,402</u>	<u>449,309</u>
Net profit for the period		9,258,313	6,577,213
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>9,258,313</u>	<u>6,577,213</u>

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2019

	<i>For the six-month period ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>
	SR	SR
OPERATING ACTIVITIES		
Net Profit for the period	9,258,313	6,577,213
Adjustments for:		
Net unrealised gain on investments at fair value through profit or loss	(7,029,855)	(4,746,967)
	2,228,458	1,830,246
Working capital adjustments:		
Investments at fair value through profit or loss	(11,149,738)	(4,840,085)
Dividend receivable	(18,104)	(27,084)
Prepaid expenses	(1,658)	-
Management fee payable	88,305	133,827
Accrued expenses	3,215	7,117
Net cash flows used in operating activities	(8,849,522)	(2,895,979)
FINANCING ACTIVITIES		
Proceeds from issuances of units	12,237,500	3,908,000
Payments on redemption of units	(2,402,183)	(1,910,946)
Net cash flows from financing activities	9,835,317	1,997,054
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	985,795	(898,925)
Cash and cash equivalents at the beginning of the period	904,068	946,965
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,889,863	48,040

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six-month period ended 30 June 2019

	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>
Net asset value (equity) at the beginning of the period	49,811,247	26,692,250
Profit for the period	9,258,313	6,577,213
Other comprehensive income for the period	-	-
Total comprehensive income for the period	<u>9,258,313</u>	<u>6,577,213</u>
Issue of units during the period	12,237,500	3,908,000
Redemption of units during the period	<u>(2,402,183)</u>	<u>(1,910,946)</u>
Net change from unit transactions	<u>9,835,317</u>	<u>1,997,054</u>
Net asset value (equity) at the end of the period	<u><u>68,904,877</u></u>	<u><u>35,266,517</u></u>

REDEEMABLE UNIT TRANSACTIONS

Transactions in redeemable units for the six-months period ended 30 June are summarised as follows:

	<i>30 June 2019 Units</i>	<i>30 June 2018 Units</i>
Units at the beginning of the period	139,187	87,866
Issue of units during the period	31,178	10,460
Redemption of units during the period	<u>(6,085)</u>	<u>(5,179)</u>
Net change in units	<u>25,093</u>	<u>5,281</u>
Units at the end of the period	<u><u>164,280</u></u>	<u><u>93,147</u></u>

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (continued)

As at 30 June 2019

1 INCORPORATION AND ACTIVITIES

Morgan Stanley Saudi Equity Fund (the “Fund”) is an open-ended investment fund created by agreement between Morgan Stanley Saudi Arabia Company (the “Fund Manager”) and investors (the “Unitholders”) in the Fund. The objective of the Fund is to seek long-term capital appreciation and returns from investments in the Saudi equity market.

The Fund has appointed HSBC Saudi Arabia Limited (the “Administrator”) to act as its custodian, administrator and registrar. The fees for the custodian and administrator’s services are paid by the Fund.

The approval from the Capital Market Authority (the “CMA”) for the establishment of the Fund was obtained via letter no. RH/639 dated 15 Sha’aban 1429H (corresponding to 16 August 2008). The Fund commenced operations on 6 January 2009.

The books and records of the Fund are maintained in Saudi Riyals (“SR”).

The Fund Manager’s registered office is P.O. Box 66633, Riyadh 11586, Kingdom of Saudi Arabia.

2 REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the CMA on 3 Dhul Hijja 1427H (corresponding to 24 December 2006) and effective from 6 Safar 1438H (corresponding 6 November 2016) by the New Investment Fund Regulations (the “Amended Regulations”) published by the Capital Market Authority on 16 Sha’aban 1437H (corresponding to 23 May 2016), detailing requirements for all funds within the Kingdom of Saudi Arabia.

3 BASIS OF PREPARATION

These interim condensed financial statements have been prepared in accordance with International Accounting Standards (IAS), “Interim Financial Reporting” (“IAS 34”) as endorsed in Kingdom of Saudi Arabia.

These interim condensed financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss that have been measured at fair value. The financial statements are presented in Saudi Riyal (“SR”) which is the functional currency of the Fund.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Fund’s annual financial statements as at and for the year ended 31 December 2018. In addition, results for the six month period ended 30 June 2019 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Fund’s annual financial statements for the year ended 31 December 2018. Several amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed financial statements of the Fund.

5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

There are several standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund’s interim condensed financial statements. In the opinion of the Board, these standards will have no significant impact on the financial statements of the Fund. The Fund intends to adopt these standards, if applicable, when they become effective.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

As at 30 June 2019

6 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of the investment portfolio on the last valuation day is summarised below:

<i>30 June 2019</i>				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<i>Sectors</i>				
Banks	49.48%	25,876,438	33,291,625	7,415,187
Materials	15.56%	9,307,328	10,466,420	1,159,092
Retailing	5.46%	3,337,376	3,672,305	334,929
Health care equipment and services	5.18%	3,141,557	3,482,438	340,881
Consumer services	4.43%	2,265,669	2,983,373	717,704
Food and beverages	3.18%	2,171,189	2,142,242	(28,947)
Telecommunication services	2.67%	1,476,785	1,799,585	322,800
Commercial and professional services	2.60%	1,418,296	1,746,178	327,882
REITs	2.21%	1,375,307	1,485,415	110,108
Software and services	2.18%	1,360,762	1,466,244	105,482
Insurance	2.04%	1,189,780	1,369,868	180,088
Food and staples retailing	2.00%	1,096,557	1,347,028	250,471
Consumer durables and apparel	1.46%	1,121,397	984,752	(136,645)
Transportation	1.03%	684,777	694,627	9,850
Energy	0.52%	331,919	346,909	14,990
	100.00%	56,155,137	67,279,009	11,123,872
<i>31 December 2018</i>				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<i>Sectors</i>				
Banks	49.13%	21,134,448	24,121,993	2,987,545
Materials	23.05%	10,259,454	11,316,958	1,057,504
Telecommunication services	4.38%	1,882,889	2,150,269	267,380
Health care equipment and services	4.30%	2,425,435	2,112,044	(313,391)
Retailing	4.24%	1,798,021	2,080,228	282,207
Consumer services	3.54%	1,603,710	1,735,944	132,234
Insurance	2.02%	831,589	991,873	160,284
Food and staples retailing	2.00%	818,964	982,449	163,485
Consumer durables and apparel	1.76%	957,077	862,960	(94,117)
Transportation	1.62%	1,019,502	796,911	(222,591)
Energy	1.51%	750,029	743,551	(6,478)
Food and beverages	1.32%	845,691	650,516	(195,175)
Pharma, biotech and life science	1.13%	678,590	553,720	(124,870)
	100.00%	45,005,399	49,099,416	4,094,017

Investments are listed on the Saudi stock exchange ("Tadawul"). The Fund Manager seeks to limit risk for the Fund by monitoring exposures in each investment sector and individual securities.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

As at 30 June 2019

7 TRANSACTIONS WITH RELATED PARTIES

Management fee

Until 31 May 2018, the Fund manager was charging the management fee calculated at the rate of 1.75% per annum on the net assets value of the Fund at each valuation date, however, effective from 1 June 2018, the Fund Manager has waived 0.50% of this rate effectively reducing the rate to 1.25% per annum until the end of December 2019. Management fee expense is disclosed in the interim statement of comprehensive income and management fee accrual is disclosed in interim statement of financial position.

Board of directors

The independent directors are entitled to remuneration for their services at rates determined by the Fund's terms and conditions in respect of attending meetings of the board of directors or meetings of the Fund. Independent director's fees are currently SR 3,000 per meeting in addition to out of pocket expenses incurred for attending a meeting of the Board subject to a cap of SR 5,000 per month per independent director. The maximum yearly remuneration for each independent director is SR 50,000. Non-independent directors receive no remuneration from the Fund. The directors received a total remuneration of SR 12,000 (inclusive of directors' fees and ticketing) during the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: SR 7,476).

The Unitholders' account at 30 June included units held as follows:

	<i>30 June 2019 Units</i>	<i>30 June 2018 Units</i>
Held by the Fund Manager	<u>10,446</u>	<u>10,446</u>

8 ACCRUED EXPENSES

	<i>30 June 2019 SR</i>	<i>31 December 2018 SR</i>
Accrued audit fees	24,794	30,000
Accrued fund administration fees	16,845	12,916
VAT payable	13,513	9,134
Accrued custodian fees	11,230	9,687
Others	6,294	7,724
	<u>72,676</u>	<u>69,461</u>

9 OTHER EXPENSES

	<i>For the six-month period ended</i>	
	<i>30 June 2019 SR</i>	<i>30 June 2018 SR</i>
Fund administration fees (note 1)	47,510	68,188
Custodian fees (note 1)	31,979	51,141
VAT expenses	26,278	20,852
Audit fees	24,794	26,294
Transaction fees	20,363	17,887
Director fees	9,918	9,917
Others	6,672	5,475
	<u>167,514</u>	<u>199,754</u>

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

As at 30 June 2019

10 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled respectively:

<i>As at 30 June 2019</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	1,889,863	-	1,889,863
Investments at fair value through profit or loss	67,279,009	-	67,279,009
Dividend receivable	18,104	-	18,104
Prepaid expenses	1,658	-	1,658
TOTAL ASSETS	69,188,634	-	69,188,634
LIABILITIES			
Management fee payable	211,081	-	211,081
Accrued expenses	72,676	-	72,676
TOTAL LIABILITIES	283,757	-	283,757
<i>As at 31 December 2018</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
ASSETS			
Cash and cash equivalents	904,068	-	904,068
Investments at fair value through profit or loss	49,099,416	-	49,099,416
TOTAL ASSETS	50,003,484	-	50,003,484
LIABILITIES			
Management fee payable	122,776	-	122,776
Accrued expenses	69,461	-	69,461
TOTAL LIABILITIES	192,237	-	192,237

11 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund measures its investments in financial instruments, such as equity instruments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

The Fund measures financial instruments at fair value at each interim condensed statement of financial position date.

The Fund has only investments at fair value through profit or loss which is measured at fair values and are classified within level 1 of the fair value hierarchy. Management believes that the fair value of all other financial assets and liabilities at the reporting date approximate their carrying values owing to their short term tenure and the fact that these are readily liquid. These are all classified within level 2 of the fair value hierarchy. There were no transfers between various levels of fair value hierarchy during the current period or prior year.

Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(continued)

As at 30 June 2019

12 LAST VALUATION DAY

The last valuation day of the period was 30 June 2019 (year ended 31 December 2018: 31 December 2018).

13 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements are approved by the Fund's Management on 20 Dhul-Qadah 1440H (corresponding to 23 July 2019).