

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

**UNAUDITED INTERIM CONDENSED FINANCIAL  
STATEMENTS**

**30 JUNE 2021**



**Ernst & Young & Co. (Certified Public Accountants)**  
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**Independent auditor's review report on the interim condensed financial statements  
To the Unitholders of Morgan Stanley Saudi Equity Fund (Managed by Morgan Stanley  
Saudi Arabia Company)**

**Introduction:**

We have reviewed the accompanying interim condensed statement of financial position of Morgan Stanley Saudi Equity Fund (the "Fund") managed by Morgan Stanley Saudi Arabia Company (the "Fund Manager") as at 30 June 2021, and the related interim condensed 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") endorsed in the Kingdom of Saudi Arabia. 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

Saad M. Al-Khathlan  
Certified Public Accountant  
License No. (509)

Riyadh: 29 Dhul-Hijjah 1442H  
(8 August 2021)



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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	<b>30 June 2021 SR</b>	<i>31 December 2020 SR</i>
<b>ASSETS</b>			
Bank balance		<b>1,913,318</b>	1,663,600
Financial assets at fair value through profit or loss (FVTPL)	6	<b>62,153,882</b>	47,608,640
Other assets		<b>41,254</b>	13,211
<b>TOTAL ASSETS</b>		<b>64,108,454</b>	49,285,451
<b>LIABILITIES</b>			
Management fee payable	7	<b>187,103</b>	159,916
Accrued expenses	8	<b>131,211</b>	93,837
Other payables		<b>174,362</b>	151,469
<b>TOTAL LIABILITIES</b>		<b>492,676</b>	405,222
<b>EQUITY</b>			
Net asset attributable to Unitholders of redeemable units		<b>63,615,778</b>	48,880,229
Redeemable units in issue		<b>106,174</b>	108,635
Net asset value attributable to per unit		<b>599.17</b>	449.95

The accompanying notes 1 to 15 form an integral part of these interim condensed financial statements.

Morgan Stanley Saudi Equity Fund  
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INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2021

	<i>Notes</i>	<i>For the six-month period ended</i>	
		<b>30 June 2021</b>	<b>30 June 2020</b>
		<b>SR</b>	<b>SR</b>
<b>INCOME</b>			
Net unrealised gain (loss) on financial assets at FVTPL		<b>10,377,016</b>	(6,984,162)
Net realised gain (loss) on financial assets at FVTPL		<b>5,348,609</b>	(1,211,905)
Dividend income		<b>791,894</b>	1,040,615
		<b>16,517,519</b>	(7,155,452)
<b>EXPENSES</b>			
Management fee	7	<b>344,968</b>	355,374
Other expenses	9	<b>196,626</b>	166,348
		<b>541,594</b>	521,722
<b>Profit (loss) for the period</b>		<b>15,975,925</b>	(7,677,174)
Other comprehensive income		-	-
<b>Total comprehensive income (loss) for the period</b>		<b>15,975,925</b>	(7,677,174)

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Morgan Stanley Saudi Equity Fund  
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**INTERIM CONDENSED STATEMENT OF CASH FLOWS**  
For the six-month period ended 30 June 2021

	<i>For the six-month period ended</i>	
	<b>30 June 2021</b>	<b>30 June 2020</b>
	SR	SR
<b>Operating activities</b>		
Profit (loss) for the period	<b>15,975,925</b>	(7,677,174)
Adjustments for:		
Net unrealised (gain) loss on financial assets at FVTPL	<b>(10,377,016)</b>	6,984,162
	<b>5,598,909</b>	(693,012)
Working capital adjustments:		
Increase in financial assets at FVTPL	<b>(4,168,226)</b>	(4,639)
(Increase) decrease in other assets	<b>(28,043)</b>	259,234
Increase (decrease) in management fee payable	<b>27,187</b>	(21,828)
Increase (decrease) in accrued expenses	<b>37,374</b>	(812)
Decrease in other payables	<b>22,893</b>	-
Net cash flows from (used in) operating activities	<b>1,490,094</b>	(461,057)
<b>Financing activities</b>		
Proceeds from issuances of units	-	1,200,000
Payments on redemption of units	<b>(1,240,376)</b>	(1,958,114)
Net cash flows used in financing activities	<b>(1,240,376)</b>	(758,114)
<b>Net increase (decrease) in bank balance during the period</b>	<b>249,718</b>	(1,219,171)
Bank balance at the beginning of the period	<b>1,663,600</b>	3,867,779
<b>Bank balance at the end of the period</b>	<b>1,913,318</b>	2,648,608

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INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2021

	<i>30 June</i> <b>2021</b> SR	<i>30 June</i> 2020 SR
Net asset value (equity) at the beginning of the period	<b>48,880,229</b>	64,557,067
Profit/(loss) for the period	<b>15,975,925</b>	(7,677,174)
Other comprehensive income for the period	-	-
Total comprehensive income (loss) for the period	<b>15,975,925</b>	(7,677,174)
Issue of units during the period	-	1,200,000
Redemption of units during the period	<b>(1,240,376)</b>	(1,958,114)
Net change from unit transactions	<b>(1,240,376)</b>	(758,114)
<b>Net asset value (equity) at the end of the period</b>	<b>63,615,778</b>	56,121,779

**REDEEMABLE UNIT TRANSACTIONS**

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

	<i>30 June</i> <b>2021</b> <i>Units</i>	<i>30 June</i> 2020 <i>Units</i>
Units at the beginning of the period	<b>108,635</b>	156,515
Issue of units during the period	-	2,907
Redemption of units during the period	<b>(2,461)</b>	(5,267)
Net change in units	<b>(2,461)</b>	(2,360)
<b>Units at the end of the period</b>	<b>106,174</b>	154,155

The accompanying notes 1 to 15 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 UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS As at 30 June 2021

### 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) which were amended on 16 Sha’aban 1437H (corresponding to 23 May 2016) and 12 Rajab 1442 H (corresponding to 24 February 2021) and were effective from 6 Safar 1438H (corresponding to 6 November 2016) and 19 Ramadan 1442H (corresponding to 1 May 2021) respectively. These Regulations are 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 interim condensed 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 2020. In addition, results for the six month period ended 30 June 2021 is not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

### 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 2020. Several amendments and interpretations apply for the first time in 2021, 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. Below is the list of the amended standards and interpretations:

#### *Amendments to IAS 1: Classification of Liabilities as Current or Non-Current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

Morgan Stanley Saudi Equity Fund  
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NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
(continued)

As at 30 June 2021

**5 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Fund is currently assessing the impact the amendments will have on current practice.

*Reference to the conceptual framework - Amendments to IFRS 3 Business Combinations*

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

*IFRS 9 – Financial Instruments*

Amendments regarding Fees in the '10 per cent' test for derecognition of financial liabilities.

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Fund will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Fund.

The Fund has not early adopted any standards, interpretations or amendments before their effective date.



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NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
(continued)

As at 30 June 2021

**6 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

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

<b>30 June 2021</b>				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<b><u>Sectors</u></b>				
Banks	37.25%	16,690,075	23,149,439	6,459,364
Materials	19.00%	8,813,208	11,812,311	2,999,104
Health Care Equipment & Services	10.01%	4,173,949	6,221,898	2,047,949
Capital Good	7.24%	2,477,773	4,500,731	2,022,958
Retailing	6.22%	1,908,263	3,868,926	1,960,663
Energy	4.76%	2,617,319	2,955,855	338,537
Utilities	3.97%	2,378,439	2,464,815	86,376
Consumer Services	3.53%	1,630,683	2,196,763	566,079
Transportation	2.77%	1,387,293	1,722,189	334,895
Real Estate	1.84%	1,138,756	1,143,918	5,162
Food & Staples Retailing	1.74%	1,083,066	1,084,067	1,001
Food & Beverages	1.66%	692,795	1,032,970	340,175
	<b>100.00%</b>	<b>44,991,619</b>	<b>62,153,882</b>	<b>17,162,263</b>

<b>31 December 2020</b>				
<i>Description</i>	<i>% of market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<b><u>Sectors</u></b>				
Banks	31.22%	13,040,221	14,861,537	1,821,316
Materials	21.77%	8,762,189	10,363,416	1,601,227
Health Care Equipment & Services	9.68%	3,643,889	4,609,520	965,631
Retailing	9.54%	3,505,509	4,540,444	1,034,935
Energy	5.21%	2,474,009	2,479,039	5,030
Capital Goods	4.12%	1,647,156	1,962,718	315,562
Food and beverages	3.19%	1,050,445	1,519,350	468,905
Consumer Services	2.81%	1,251,528	1,337,974	86,446
REITs	2.37%	981,402	1,125,611	144,209
Transportation	2.29%	1,015,873	1,089,536	73,663
Insurance	2.03%	876,676	968,053	91,377
Commercial & Professional Svc	2.01%	947,948	957,642	9,694
Food & Staples Retailing	1.97%	758,208	939,862	181,654
Utilities	1.79%	868,340	853,938	(14,402)
	<b>100.00%</b>	<b>40,823,393</b>	<b>47,608,640</b>	<b>6,785,247</b>

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.

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(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
(continued)

As at 30 June 2021

**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 2021. Management fee expense is disclosed in the interim condensed statement of comprehensive income and management fee accrual is disclosed in interim condensed 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 9,918 (inclusive of directors' fees and ticketing) during the six-month period ended 30 June 2021 (six-month period ended 30 June 2020: SR 11,437).

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

	<i>30 June 2021 Units</i>	<i>30 June 2020 Units</i>
Held by the Fund Manager	<u>8,232</u>	<u>10,447</u>

**8 ACCRUED EXPENSES**

	<i>30 June 2021 SR</i>	<i>31 December 2020 SR</i>
VAT payable	39,573	31,663
Accrued audit fees	27,274	35,000
Accrued fund administration fees	22,453	6,352
Accrued custodian fees	14,974	4,764
Accrued directors' fees	14,918	11,000
Others	12,019	5,058
	<u>131,211</u>	<u>93,837</u>

**9 OTHER EXPENSES**

	<i>For the six-month period ended</i>	
	<i>30 June 2021 SR</i>	<i>30 June 2020 SR</i>
VAT expenses	69,774	24,260
Fund administration fees	41,490	42,742
Custodian fees	28,844	29,300
Audit fees	27,274	24,863
Transaction fees	17,550	27,788
Director fees	6,000	11,437
Others	5,694	5,958
	<u>196,626</u>	<u>166,348</u>

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(Managed by Morgan Stanley Saudi Arabia Company)

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS  
(continued)

As at 30 June 2021

**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 2021</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<b>ASSETS</b>			
Bank balance	1,913,318	-	1,913,318
Investments at fair value through profit or loss	62,153,882	-	62,153,882
Other assets	41,254	-	41,254
<b>TOTAL ASSETS</b>	<b>64,108,454</b>	<b>-</b>	<b>64,108,454</b>
<b>LIABILITIES</b>			
Management fee payable	187,103	-	187,103
Accrued expenses	131,211	-	131,211
Other payables	174,362	-	174,362
<b>TOTAL LIABILITIES</b>	<b>492,676</b>	<b>-</b>	<b>492,676</b>
<i>As at 31 December 2020</i>	<i>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<b>ASSETS</b>			
Bank balance	1,663,600	-	1,663,600
Financial assets at FVTPL	47,608,640	-	47,608,640
Other assets	13,211	-	13,211
<b>TOTAL ASSETS</b>	<b>49,285,451</b>	<b>-</b>	<b>49,285,451</b>
<b>LIABILITIES</b>			
Management fee payable	159,916	-	159,916
Accrued expenses	93,837	-	93,837
Other liabilities	151,469	-	151,469
<b>TOTAL LIABILITIES</b>	<b>405,222</b>	<b>-</b>	<b>405,222</b>

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

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

As at 30 June 2021

**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.

**12 EVENTS SUBSEQUENT TO THE REPORTING PERIOD**

In the opinion of Fund Manager, no events have occurred subsequent to the reporting date and before the issuance of these interim condensed financial statements which requires adjustment to, or disclosure, in these interim condensed financial statements.

**13 IMPACT OF COVID-19 ON OPERATIONS AND FINANCIAL STATEMENTS**

The global Coronavirus (COVID-19) pandemic continues to create economic and social uncertainty throughout the world. Following unprecedented commitments to fiscal and monetary stimulus by governments and central banks globally in early 2020 we witnessed a strong recovery in asset values which continued through the end of the period. Progress continues to be made on global vaccine rollout however the emergence of further waves, particularly in developing economies, and more virulent strains remains a risk. Whilst volatility generally subsided during the period, the ultimate impact of the pandemic is difficult to predict. Economic uncertainties, which may materially affect the valuation of portfolio investments and in turn, the net asset value of the Funds remain prevalent as economies move tentatively to ease restrictions. The long-term effect of the aforementioned fiscal and monetary intervention remains unpredictable.

**14 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS**

These interim condensed financial statements are approved by the Fund's Management on 29 Dhul-Hijjah 1442H (corresponding to 8 August 2021).

**15 LAST VALUATION DAY**

The last valuation day of the period was 30 June 2021 (year ended 31 December 2020: 31 December 2020).