

INTERIM REPORT – H1 2019  
- HSBC Saudi Equity Income Fund -

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## A. Management Information

**1. Fund Name** HSBC Saudi Equity Income Fund

### 2. Fund Manager

**Name** HSBC Saudi Arabia  
**Address** 7267 Olaya, AlMurooj  
Riyadh 12283-2255  
Kingdom of Saudi Arabia  
**Phone:** 920022688  
**Fax:** +966112992385  
**Website:** www.hsbcSaudi.com

### 3. Fund Sub-Manager (if any)

**Name** None  
**Address**

### 4. Advisor (if any)

**Name** None  
**Address**

**B. Detailed Fundamental, Material, Notifiable, or Significant Changes Made on the Fund's Terms and Conditions During the Period**

- Resignation of His Excellency Governor/ Ihsan Abbas Hamzah Bafakih from the fund board

The changes to the funds' prospectus as follows:

Paragraph	Previous Fund Board	New Fund Board
Members of the Fund Board	<ol style="list-style-type: none"> <li>Daniel Lima (Chairman)</li> <li>Haitham Alrashed (Dependent Member)</li> <li>Ihsan Bafakih (Dependent Member)</li> <li>Ali Alothaim (Dependent Member)</li> <li>Tariq Altuwajri (Dependent Member)</li> </ol>	<ol style="list-style-type: none"> <li>Daniel Lima (Chairman)</li> <li>Haitham Alrashed (Dependent Member)</li> <li>Ali Alothaim (Dependent Member)</li> <li>Tariq Altuwajri (Dependent Member)</li> </ol>

- Amendment in the fees and expenses

Type	Percentage/Amount																		
Management fee	1.70%																		
Custody fee	0.03% per annum of the total assets held by the Custodian. Transaction fees (USD): USD 8 per transaction																		
Fund Admin Fees	0.05%																		
Fund Operating expenses	<table border="1"> <thead> <tr> <th>Details of fees</th> <th>SAR</th> <th>Discretionary value</th> </tr> </thead> <tbody> <tr> <td>Auditor fees</td> <td>30,000</td> <td rowspan="8">Will not exceed 0.2% from the fund NAV</td> </tr> <tr> <td>CMA fees</td> <td>7,500</td> </tr> <tr> <td>Tadawul fees</td> <td>5,000</td> </tr> <tr> <td>Fund independent Directors fees</td> <td>Up to 20,000</td> </tr> <tr> <td>Index fees</td> <td>Up to 35,000</td> </tr> <tr> <td>Sharia board expenses (if applicable)</td> <td>6,000</td> </tr> <tr> <td>Other expenses</td> <td>Based on the actual cost</td> </tr> </tbody> </table>	Details of fees	SAR	Discretionary value	Auditor fees	30,000	Will not exceed 0.2% from the fund NAV	CMA fees	7,500	Tadawul fees	5,000	Fund independent Directors fees	Up to 20,000	Index fees	Up to 35,000	Sharia board expenses (if applicable)	6,000	Other expenses	Based on the actual cost
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	Fund independent Directors fees	Up to 20,000																	
	Index fees	Up to 35,000																	
	Sharia board expenses (if applicable)	6,000																	
Other expenses	Based on the actual cost																		

Note that the sum of fund management fee, custody, admin and fund operating expenses shall not exceed in total 2% of fund average AUM and any additional expenses in relation to these items shall be paid by the fund manager. Moreover, the fund will be charged directly Dealing costs, financing expenses and VAT and any other taxes.

- Adding definition of Operating Expenses and the Admin in the definitions table.
- Amend Board of Directors remuneration of Fund's independent Board members to be paid by the Fund.

- Amend Sharia Board Member's remuneration of Fund's Sharia Board members to be paid through the Fund. (if applicable)
- Amend cover page of the Arabic name of the Summary in the funds' prospectus to match the naming in IFR.
- Replace the signatory boxes with one signatory box that covers all three documents (Terms & Conditions, Information Memorandum and Summary)
- Amend Manamgnet fees wording.
- Update the position of Mr. Majed Najm HSBC Board Member.
- Change to the benchmark of HSBC Saudi Equity Income Fund to "S&P Saudi Arabia Sharia Dividend Capped Index (Price Return)"

**C. *Investment Activities of the Period***

During the 1<sup>st</sup> half of 2019, the Fund reduced its exposure to the petrochemical sector, mainly due to the significant drop in prices and margins of petrochemical products, which affected the sector's profits during the Q1 of 2019 when profits declined by approximately 41%. Moreover, the Fund made profits in the banking sector, following the strong performance of the banking index during the first half of the year.

**D. *Commentary on Investment Fund's Performance During the Period***

During the 1<sup>st</sup> half of 2019, S&P Saudi Equity Shariah Index recovered, having closed the 1<sup>st</sup> half of 2018 with a return of 12.93%. The 1<sup>st</sup> half of 2019 was volatile for the market, peaking at 9,361.96 points to end 1<sup>st</sup> half at 8,821.76 points. This was due to fluctuations of oil prices, which declined from its peak of H1 \$74 per barrel, to end H1 of 2019 at \$64 per barrel towards the end of June, 2019. Noteworthy, in a multi-stage process during the 1<sup>st</sup> half of the current year, Saudi Stock Exchange joined the Emerging Market Index, which attracted foreign investors during the period with cash flows of SR 54 billion (US\$ 14 billion). The Saudi Stock Exchange is expected to have an MSCI weight of 3% when the Stock Exchange fully completes its joining process during the current year.

During the period, the Fund returns increased by 12.72%, surpassing the benchmark by 0.21%.

**E. *Valuation or Pricing Errors during the Year***

None.

**F. *Any Additional Information that Might Enable Unit Holders to Make Informed Decisions that are Based on Sufficient Information about the Fund During the Year***

There is no additional information to be disclosed; however, investors need to read and understand the Fund's Terms and Conditions and all related documents and/or obtain advice from their own legal, regulatory, tax, and/or investment advisors.

**G. *Distribution of Management Fees (only if the fund is substantially investing in other funds)***

Not Applicable.

**H. *Special Commission Received by Fund Manager (if any, including what they are and the manner in which they were utilized)***

The Fund Manager receives reports published by HSBC SA Brokerage which are accessible to all HSBC SA Brokerage clients. In addition, HSBC SA Brokerage facilitates meetings between the Fund Manager and listed companies in the Saudi market upon request.

**HSBC SAUDI EQUITY INCOME FUND**  
**An open-ended mutual fund**  
**(Managed by HSBC Saudi Arabia)**  
**Interim condensed financial statements**  
**For the six-month period ended 30 June 2019**  
**together with the**  
**Independent auditors' review report**



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# Independent auditors' review report on the interim condensed financial statements

## To the unitholders of HSBC Saudi Equity Income Fund

### Introduction

We have reviewed the accompanying interim condensed financial statements of **HSBC Saudi Equity Income Fund** ("the Fund"), managed by HSBC Saudi Arabia ("the Fund Manager"), which comprises:

- the interim condensed statement of financial position as at 30 June 2019;
- the interim condensed statement of comprehensive income for the six months period ended 30 June 2019;
- the interim condensed statement of changes in net assets (equity) attributable to the unitholders for the six months period ended 30 June 2019;
- the interim condensed statement of cash flows for the six months period ended 30 June 2019; and
- the notes to the interim condensed financial statements.

The Fund Manager is responsible for the preparation and presentation of these interim condensed financial statements in accordance with the International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and to comply with the applicable provisions of the Investment Funds Regulations issued by the Capital Market Authority, the Fund's Terms and Conditions and the Information Memorandum. 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 the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of 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 the 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 30 June 2019 interim condensed financial statements of **HSBC Saudi Equity Income Fund** are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

**Abdulaziz Abdullah Alnaim**  
License No: 394



4 August 2019  
Corresponding to: 3 Dhul Hijjah 1440H

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Interim condensed statement of financial position**  
**As at 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<i>30 June 2019 (Unaudited)</i>	<i>31 December 2018 (Audited)</i>
<b>ASSETS</b>			
Cash and cash equivalents	<i>10</i>	<b>10,095,244</b>	4,669,336
Investments at fair value through profit or loss	<i>11</i>	<b>257,644,819</b>	239,444,442
Receivables and advances		<b>251,895</b>	391,280
<b>TOTAL ASSETS</b>		<b>267,991,958</b>	244,505,058
<b>LIABILITIES</b>			
Accrued expenses	<i>13</i>	<b>398,897</b>	473,513
Dividend payable		--	3,062,942
<b>TOTAL LIABILITIES</b>		<b>398,897</b>	3,536,455
<b>NET ASSETS (EQUITY) ATTRIBUTABLE TO THE UNITHOLDERS</b>			
		<b>267,593,061</b>	240,968,603
Units in issue (numbers)		<b>2,456,759</b>	2,463,153
Net assets value (equity) per unit – Dealing	<i>17</i>	<b>108.92</b>	97.83
Net assets value (equity) per unit – IFRS	<i>17</i>	<b>108.92</b>	97.83

The accompanying notes (1) to (20) form an integral part of these interim condensed financial statements.

The interim condensed financial statements and accompanying disclosures in the report are signed off on behalf of the Fund Board based on the authorization issued:



**Saqib Masood**  
Chief Investment Officer



**Chistie K Moinuddin**  
Chief Financial Officer

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Interim condensed statement of comprehensive income (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

		<i>For the six-month period ended 30 June</i>	
	<i>Note</i>	<i>2019</i>	<i>2018</i>
<b>INVESTMENT INCOME</b>			
Net gain on investments at fair value through profit or loss	12	25,750,755	36,034,462
Dividend income		7,311,650	6,736,486
<b>TOTAL INCOME</b>		<b>33,062,405</b>	<b>42,770,948</b>
<b>EXPENSES</b>			
Management fees	14	2,309,758	2,057,111
Other expenses		14,296	2,935
<b>TOTAL EXPENSES</b>		<b>2,324,054</b>	<b>2,060,046</b>
<b>NET INCOME FOR THE PERIOD</b>		<b>30,738,351</b>	<b>40,710,902</b>
Other comprehensive income for the period		--	--
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>30,738,351</b>	<b>40,710,902</b>

The accompanying notes (1) to (20) form an integral part of these interim condensed financial statements.

The interim condensed financial statements and accompanying disclosures in the report are signed off on behalf of the Fund Board based on the authorization issued:

**Saqib Masood**  
Chief Investment Officer

**Chistie K Moinuddin**  
Chief Financial Officer

**HSBC SAUDI EQUITY INCOME FUND**  
(An open-ended mutual fund)

Interim condensed statement of changes in net assets (equity) attributable to the unitholders (Unaudited)  
For the six-month period ended 30 June 2019  
(Amounts in Saudi Arabian Riyal)

	<i>Note</i>	<u><i>For the six-month period ended 30 June 2019</i></u>	<u><i>For the six-month period ended 30 June 2018</i></u>
<b>Net assets (equity) attributable to the unitholders as at the beginning of the period</b>		<b>240,968,603</b>	217,263,774
Net income for the period		<b>30,738,351</b>	40,710,902
Dividends paid during the period	18	<b>(3,331,163)</b>	(3,058,444)
<b><i>Subscriptions and redemptions by the Unitholders:</i></b>			
Proceeds from issuance of units		<b>7,605,913</b>	2,126,564
Payments for redemption of units		<b>(8,388,643)</b>	(4,230,809)
<b>Net change from unit transactions</b>		<b>(782,730)</b>	(2,104,245)
<b>Net assets (equity) attributable to the unitholders as at 30 June</b>		<b>267,593,061</b>	252,811,987

**UNIT TRANSACTIONS**

Transactions in units for the period ended 30 June are summarised as follows:

		<u><i>For the six-month period ended 30 June 2019</i></u>	<u><i>For the six-month period ended 30 June 2018</i></u>
		<i>(In numbers)</i>	
<b>Units at the beginning of the period</b>		<b>2,463,153</b>	2,478,011
Units issued during the period		<b>70,551</b>	22,092
Units redeemed during the period		<b>(76,945)</b>	(44,358)
<b>Net decrease in units</b>		<b>(6,394)</b>	(22,266)
<b>Units as at end of the period</b>		<b>2,456,759</b>	2,455,745

The accompanying notes (1) to (20) form integral part of these interim condensed financial statements.

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Interim condensed statement of cash flows (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

	<u>30 June 2019</u>	<u>30 June 2018</u>
<b>Cash flow from operating activities</b>		
Net income for the period	30,738,351	40,710,902
<i>Adjustment for:</i>		
Unrealised gain on investments at fair value through profit or loss	(17,825,829)	(39,891,196)
	12,912,522	819,706
<b>Net change in operating assets and liabilities</b>		
Increase in investments at fair value through profit or loss	(374,548)	2,254,723
Decreases in receivables and advances	139,385	(213,326)
Decrease in accrued expenses	(74,616)	367,467
Decrease in dividend payable	(3,062,942)	278,877
<b>Net cash generated from operating activities</b>	9,539,801	3,507,447
<b>Cash flow from financing activities</b>		
Proceeds from issuance of units	7,605,913	2,126,564
Payments for redemption of units	(8,388,643)	(4,230,809)
Dividend distributed during the period	(3,331,163)	(3,058,444)
<b>Net cash used in financing activities</b>	(4,113,893)	(5,162,689)
Net increase / (decrease) in cash and cash equivalents	5,425,908	(1,655,242)
Cash and cash equivalents at the beginning of the period	4,669,336	4,493,334
<b>Cash and cash equivalents as at the end of the period</b>	10,095,244	2,838,092

The accompanying notes (1) to (20) form integral part of these interim condensed financial statements.

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**1 GENERAL**

HSBC Saudi Equity Income Fund (“the Fund”) is an investment fund established through an agreement between HSBC Saudi Arabia (“the Fund Manager”) and investors (“the Unitholders”).

The objective of the Fund is to achieve capital appreciation over the medium to long-term by investing in Shariah compliant Saudi equities listed on Tadawul (Saudi Stock Market).

The Fund is managed by the Fund Manager who also acts as the administrator of the Fund. Albilad Capital is the custodian of the Fund. All income is reinvested in the Fund and is reflected in the unit price. The Fund distributes income, subject to the approval of the Fund Board, on a semi-annual basis.

**2 REGULATING AUTHORITY**

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

The Fund Manager has made certain revisions to the Terms and Conditions of the Fund. The main changes in the Terms and Conditions relates to the fee structure and enhancement of investment objectives. The Fund updated its terms and conditions which were approved latest by the CMA on 27 Shawwal 1440H (corresponding to 1 July 2019).

**3 SUBSCRIPTION / REDEMPTION (DEALING DAY AND VALUATION DAY)**

The Fund is open for subscriptions / redemptions of units on each business day (a “Dealing Day”). The value of the Fund’s portfolio is determined on each business day (a “Valuation Day”). The net asset value (equity) of the Fund for the purpose of purchase or sale of units is determined by dividing the net assets value (fair value of fund assets minus fund liabilities) by the total number of outstanding fund units on the relevant Valuation Day.

**4 BASIS OF PREPARATION**

These interim condensed financial statements have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants (“SOCPA”) and to comply with the applicable provisions of the Investment Fund Regulations issued by the Capital Market Authority, the Fund’s Terms and Conditions and the Information Memorandum.

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 31 December 2018.

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**5 FUNCTIONAL AND PRESENTATION CURRENCY**

These interim condensed financial statements are presented in Saudi Arabian Riyal (“SR”), which is the Fund’s functional currency.

**6 BASIS OF MEASUREMENT**

These interim condensed financial statements have been prepared on a historical cost basis, (except for investments at fair value through profit or loss (“FVTPL”) which are stated at their fair value) using the accrual basis of accounting.

The Fund Manager has made an assessment of the Fund’s ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, the Fund Manager is not aware of any material uncertainties that may cast significant doubt upon the Fund’s ability to continue as a going concern. Therefore, the interim condensed financial statements continue to be prepared on the going concern basis.

The financial statement accounts in the statement of financial position have been presented in the order of liquidity.

**7 USE OF CRITICAL JUDGMENTS AND ESTIMATES**

The preparation of these interim condensed financial statements in conformity with IFRS requires the use of certain critical accounting judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment in the process of applying the Fund’s accounting policies. Such judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

**8 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies, estimates and assumptions used in the preparation of these interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018.

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**9 IMPACT OF CHANGE IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARD**

Effective 1 January 2019, the Fund has adopted IFRS 16 - Leases. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The impact upon adoption of IFRS 16 was not material to the Fund's interim condensed financial statements.

**10 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise of cash with banks who have investment grade credit ratings, as rated by the international rating agencies.

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

Investments comprise of the following sector exposures as at the reporting date:

	<u>30 June 2019 (Unaudited)</u>		<u>31 December 2018 (Audited)</u>	
	<i>Cost SR</i>	<i>Fair value SR</i>	<i>Cost SR</i>	<i>Fair value SR</i>
<i>Equities</i>				
Materials	72,327,556	91,931,306	76,366,614	91,377,420
Banks	45,265,955	63,206,831	48,359,621	60,138,830
Real Estate	33,153,592	33,371,790	21,561,820	19,505,497
Retailing	13,385,174	23,529,750	14,177,576	23,042,896
Telecommunication Services	12,344,284	21,303,618	15,923,115	24,731,930
Food Beverages	11,239,744	13,980,117	11,905,131	13,393,661
Transportation	6,778,232	8,603,220	7,179,477	7,254,208
Commercial & Professional Services	1,353,366	1,718,187	--	--
<b>Total</b>	<b>195,847,903</b>	<b>257,644,819</b>	195,473,354	239,444,442

**12 NET GAIN / (LOSS) FROM INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<i>For the six-month period ended 30 June</i>	
	<i>2019</i>	<i>2018</i>
Realised gains / (losses) for the period	7,924,926	(3,856,734)
Unrealised gains for the period	17,825,829	39,891,196
<b>Total</b>	<b>25,750,755</b>	36,034,462

Realized gain on investments at FVTPL is calculated based on weighted average cost of securities.

**13 ACCRUED EXPENSES**

Accrued expenses include management fee payable (inclusive of VAT) to the Fund Manager.

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**14 TRANSACTIONS WITH RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related party of the Fund comprises of HSBC Saudi Arabia (being the Fund Manager, Fund Board, and administrator of the Fund).

In the ordinary course of its activities, the Fund transacts business with related parties. Related party transactions are governed by limits set by the regulations issued by CMA. All the related party transactions are undertaken at mutually agreed prices and approved by the Fund Manager. These transactions are carried out on the basis of approved Terms and Conditions of the Fund.

The Fund Manager charges to the Fund on each Valuation Day, management fee at a rate of 1.7% of Net assets value (2018: 1.7% of Net assets value). All Fees and expenses related to the management of the Fund including but not limited to custody, administration, audit, regulatory and index fees, etc, are included in the management fee.

Subscription fee up to 2% is not considered in these interim condensed financial statements of the Fund, as investment in the Fund are always net of subscription fees. The Fund does not charge any redemption fees on redemption of units.

During the period, the Fund entered into the following transactions with related parties in the ordinary course of business.

Related party	Nature of transactions	Amount of transaction for the six-month period ended		Closing balance	
		30 June 2019	30 June 2018	30 June 2019 (Unaudited)	31 December 2018 (Audited)
HSBC Saudi Arabia (Fund Manager)	Fund management fee	<b>2,309,758</b>	2,057,111	<b>379,831</b>	473,513

**HSBC SAUDI EQUITY INCOME FUND**  
**(An open-ended mutual fund)**  
**Notes to the interim condensed financial statements (Unaudited)**  
**For the six-month period ended 30 June 2019**  
(Amounts in Saudi Arabian Riyal)

**15 FAIR VALUES OF FINANCIAL INSTRUMENTS**

The Fund measures certain financial 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 by 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 Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Changes in assumptions about these factors could affect the fair value of financial instruments.

Valuation models

The fair values of financial instruments that are traded in active markets are based on prices obtained directly from an exchange on which the instruments are traded or obtained from a broker that provides an unadjusted quoted price from an active market for identical instruments. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair value hierarchy – Financial instruments

The table below analyses financial instruments at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of financial position. All fair value measurements below are recurring.

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**15 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)**

*Fair value hierarchy – Financial instruments (continued)*

The table below presents the financial instruments measured at their fair values as of reporting date based on the fair value hierarchy:

	<b>30 June 2019 (Unaudited)</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments at FVTPL	257,644,819	257,644,819	--	--	257,644,819
Total	257,644,819	257,644,819	--	--	257,644,819
	<b>31 December 2018 (Audited)</b>				
	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments at FVTPL	239,444,442	239,444,442	--	--	239,444,442
Total	239,444,442	239,444,442	--	--	239,444,442

During the period, no transfer in fair value hierarchy has taken place for the investments at fair value through profit or loss.

Other financial instruments such as cash in bank, receivables, dividends payable and accrued expenses are short-term financial assets and financial liabilities respectively, whose carrying amounts approximate fair value, being short-term in nature and the high credit quality of counterparties.

**16 FINANCIAL RISK MANAGEMENT**

The Fund has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk; and
- market risks;

This note presents information about the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

***Risk management framework***

The Fund maintains positions in non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises of listed equities.

The Fund Manager has been given discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio are monitored by the Fund Board. In instances where the portfolio has diverged from target asset allocations, the Fund's investment manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

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**16 FINANCIAL RISK MANAGEMENT (CONTINUED)**

***Credit risk***

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

The Fund is exposed to credit risk on its bank balance and balance held in trading account. For risk management reporting purposes, the Fund considers and aggregates all elements of credit risk exposure such as individual obligor default risk, country risk and sector risk.

The Fund's policy over credit risk is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the certain credit standards.

Credit risk is monitored on a regular basis by the Fund Manager to ensure it is in line with the investment guidelines of the Fund Board.

The Fund's activities may give rise to settlement risk. 'Settlement risk' is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For all of transactions, the Fund mitigates this risk by conducting settlements through a regulated broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

The table below shows the maximum exposure to credit risk for the component of the statement of financial position:

	<i>30 June</i> <i>2019</i> <i>(Unaudited)</i>	<i>31 December</i> <i>2018</i> <i>(Audited)</i>
Cash and cash equivalents	<b>10,095,244</b>	4,669,336
Receivables and advances	<b>251,895</b>	391,280
<b><i>Total exposure to credit risk</i></b>	<b><u>10,347,139</u></b>	<u>5,060,616</u>

The Fund does not have a formal internal grading mechanism. Credit risk is managed and controlled by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. Credit risks are generally managed on the basis of external credit ratings of the counterparties.

**Analysis of credit quality**

The Fund's cash and cash equivalents is held with Bank Albilad, which is rated A2 (31 December 2018: A2) based on Moody's ratings.

**Allowance for expected credit loss**

Financial instruments such as, cash and cash equivalents and receivables are of short term in nature and have limited credit exposure. Therefore, no allowance for expected credit losses is provided in these interim condensed financial statements.

***Liquidity risk***

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities.

The Fund's Terms and Conditions provide for the subscriptions and redemptions of units throughout the week and it is, therefore, exposed to the liquidity risk of meeting unitholders redemptions. However the fund is allowed to borrow in order to satisfy redemptions. The Fund's securities are considered to be readily realizable as they are all listed on Saudi stock markets. The Fund Manager monitors the liquidity requirements on a regular basis and seeks to ensure that sufficient funds are available to meet any commitments as they arise.

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**16 FINANCIAL RISK MANAGEMENT (CONTINUED)**

***Market risk***

Market Risk is the risk that changes in market prices – such as foreign exchange rates and equity prices – will affect the Fund’s income or the fair value of its holdings in financial instruments.

The Fund’s strategy for the management of market risk is driven by the Fund’s investment objective as per the Fund’s Terms and Conditions. The Fund’s market risk is managed on a timely basis by the investment manager in accordance with the policies and procedures in place. The Fund’s market positions are monitored on a timely basis by the Fund Manager.

***Equity price risk***

Equity price risk is the risk that the value of financial instruments will fluctuate because of changes in market prices.

The Fund’s investments are susceptible to market price risk arising from uncertainties about future prices. The Fund Manager manages this risk through diversification of its investment portfolio in terms of industry concentration.

***Sensitivity analysis***

The table below sets out the effect on net assets attributable to unitholders of a reasonably possible weakening / strengthening in the individual equity market prices of 5% at reporting date. The estimates are made on an individual investment basis. The analysis assumes that all other variables, in particular interest and foreign currency rates, remain constant.

	<b>30 June 2019</b>		<b>31 December 2018</b>	
	<b>(Unaudited)</b>		<b>(Audited)</b>	
<b><i>Net gain / (loss) on investments held at FVTPL</i></b>	<b>+ 5%</b>	<b>12,882,241</b>	<b>+ 5%</b>	<b>11,972,222</b>
	<b>- 5%</b>	<b>(12,882,241)</b>	<b>- 5%</b>	<b>(11,972,222)</b>

***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund is not subject to currency risks as all the assets and liabilities of the Fund are denominated in local currency. The investment risks of the fund are included in the Terms and Conditions detailed on the website of the Fund Manager at [www.hsbcSaudi.com](http://www.hsbcSaudi.com). The Terms and Conditions do not form part of these interim condensed financial statements.

**17 LAST VALUATION DAY**

The last reported valuation day of the period was 26 June 2019 (2018: 31 December 2018) and the dealing net assets value on this day was SR 108.92 per unit (31 December 2018: SR 97.83). The IFRS net assets value per unit on 30 June 2019 was SR 108.92 per unit (31 December 2018: SR 97.83).

**18 DIVIDEND DISTRIBUTION**

As per the Terms and Conditions of the Fund, the Fund board made an interim dividend distribution of SAR 3.33 million at the rate of 1.35 SAR per unit (30 June 2018: SAR 3.06 million at the rate of 1.25 SAR per unit) during the period.

**19 SUBSEQUENT EVENTS**

There were no events subsequent to the reporting date which require adjustments of or disclosure in the interim condensed financial statements or notes thereto except as disclosed in note 2 of these interim condensed financial statements.

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**20 APPROVAL OF INTERIM CONDENSED FINANCIAL STATEMENTS**

These interim condensed financial statements were approved by the Fund Board on 3 Dhul Hijjah 1440H (corresponding to 4 August 2019).