

**Al Rajhi MSCI Saudi Multi Factor Index Fund  
(Managed by Al Rajhi Capital)**

**AUDITED FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORT**

**FOR THE PERIOD FROM 20 JANUARY 2019 TO 31 DECEMBER 2019**



**Ernst & Young & Co. (Certified Public Accountants)**  
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**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND  
(MANAGED BY AL RAJHI CAPITAL)**

**Opinion**

We have audited the financial statements of Al Rajhi MSCI Saudi Multi Factor Index Fund (the "Fund") managed by Al Rajhi Capital (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income for the period from 20 January 2019 to 31 December 2019, changes in equity attributable to the unitholders and cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi Organization for Certified Public Accountants and the applicable provisions of the Investment Funds Regulations issued by the Board of the Capital Market Authority, and the Fund's terms and conditions and the Information Memorandum, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND  
(MANAGED BY AL RAJHI CAPITAL) (continued)**

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

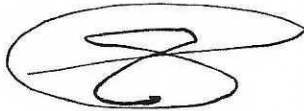
**INDEPENDENT AUDITOR'S REPORT  
TO THE UNITHOLDERS OF AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND  
(MANAGED BY AL RAJHI CAPITAL) (continued)**

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

for Ernst & Young



Yousef A. AlMubarak  
Certified Public Accountant  
License No. 427

Riyadh: 20 Sha'aban 1441H  
(13 April 2020)



# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Statement of financial position

As at 31 December 2019

	<i>Note</i>	<i>SR</i>
<b>ASSETS</b>		
Bank balance		<b>444,769</b>
Financial assets at fair value through profit or loss (FVTPL)	5	<b>50,397,093</b>
<b>TOTAL ASSETS</b>		<b>50,841,862</b>
<b>LIABILITIES</b>		
Management fee payable	6	<b>120,049</b>
Redemption payable	7	<b>331,821</b>
Accrued expenses		<b>6,003</b>
<b>TOTAL LIABILITIES</b>		<b>457,873</b>
<b>EQUITY</b>		
Net assets attributable to unitholders of redeemable units		<b>50,383,989</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>50,841,862</b>
Redeemable units in issue		<b>4,850,677</b>
Net asset value attributable to each per unit		<b>10.39</b>

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The attached notes 1 to 14 form an integral part of these financial statements.

## AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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### Statement of comprehensive income

For the period from 20 January 2019 to 31 December 2019

	<i>Notes</i>	<i>SR</i>
<b>INCOME</b>		
Net unrealized gain on financial assets at FVTPL		<b>1,082,275</b>
Net realized loss on financial assets at FVTPL		<b>(2,047,721)</b>
Dividend income		<b>1,928,293</b>
		<hr/>
<b>TOTAL INCOME</b>		<b>962,847</b>
		<hr/>
<b>EXPENSES</b>		
Management fees	6	<b>(452,744)</b>
Purification charges	8	<b>(18,516)</b>
Other expenses		<b>(22,637)</b>
		<hr/>
<b>TOTAL EXPENSES</b>		<b>(493,897)</b>
		<hr/>
<b>NET INCOME FOR THE PERIOD</b>		<b>468,950</b>
		<hr/>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>-</b>
		<hr/>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>468,950</b>
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The attached notes 1 to 14 form an integral part of these financial statements.

## AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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### Statement of changes in equity

For the period from 20 January 2019 to 31 December 2019

	<i>SR</i>
Net income for the period	<b>468,950</b>
Other comprehensive income for the period	-
	<hr/>
Total comprehensive income for the period	<b>468,950</b>
Issue of units during the period	<b>86,868,829</b>
Redemption of units during the period	<b>(36,953,790)</b>
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<b>EQUITY AT THE END OF THE PERIOD</b>	<b>50,383,989</b>
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### *Units*

#### REDEEMABLE UNIT TRANSACTIONS

Transactions in redeemable units during the period are summarised as follows:

Issue of units during the period	<b>8,432,077</b>
Redemption of units during the period	<b>(3,581,400)</b>
	<hr/>
Net increase in units	<b>4,850,677</b>
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<b>UNITS AT THE END OF THE PERIOD</b>	<b>4,850,677</b>
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The attached notes 1 to 14 form an integral part of these financial statements.

## AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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### Statement of cash flows

For the period from 20 January 2019 to 31 December 2019

	SR
<b>Operating activities</b>	
Net income for the period	468,950
<i>Adjustments to reconcile net income to net cash flows used in operating activities:</i>	
Unrealised gain on financial assets at FVTPL	(1,082,275)
Working capital adjustments:	
Increase in financial assets at FVTPL	(49,314,818)
Increase in redemption payable	331,821
Increase in management fee payable	120,049
Increase in accrued expense	6,003
Net cash flows used in operating activities	<u>(49,470,270)</u>
<b>Financing activities</b>	
Proceeds from issuance of units	86,868,829
Payment on redemption of units	(36,953,790)
Net cash flows from financing activities	<u>49,915,039</u>
<b>Net increase in bank balance</b>	<u>444,769</u>
<b>Bank balance at the end of the period</b>	<u>444,769</u>
<b><u>Operational cash flows from dividends:</u></b>	
Dividends received	<u>1,928,293</u>

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The attached notes 1 to 14 form an integral part of these financial statements.



# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements

At 31 December 2019

### 1. INCORPORATION AND ACTIVITIES

Al Rajhi MSCI Saudi Multi Factor Index Fund (the “Fund”) is an open-ended investment fund created by an agreement between Al Rajhi Capital (the “Fund Manager”), a wholly owned subsidiary of the Al Rajhi Banking and Investment Corporation (the “Bank”), and investors (the “Unitholders”) in the Fund. The address of the Fund Manager is as follows:

Al Rajhi Capital, Head Office  
8467 King Fahad Road, Al Muruj District  
P.O. Box 2743  
Riyadh 11263  
Kingdom of Saudi Arabia

The Fund aims to achieve a medium to long term capital growth by tracking the performance of MSCI's Saudi Multi Factor Index which complies with the Al Rajhi Shariah Boards rules. The Fund seeks to achieve performance equal to the benchmarks performance by using a passive management approach where the Fund invests in the benchmarks constituent companies according to their weights.

The approval from the Capital Market Authority (the “CMA”) for the establishment of the Fund was obtained via letter no. 18788553 dated 26 Rabi Awal 1440H (corresponding to 4 December 2018). The Fund commenced operations on 20 January 2019, accordingly, these are the first financial statements of the Fund for the period from 20 January 2019 to 31 December 2019.

The Fund has appointed AlBilad Investment Company (the “Custodian”) to act as its custodian. The fees of the custodian are paid by the Fund Manager.

The Fund Manager is responsible for the overall management of the Fund's activities. The Fund Manager can also enter into arrangements with other institutions for the provision of investment, registrar or other administrative services on behalf of the Fund.

Based on historical information, between 40% to 50% of the Fund's units are redeemed throughout the period.

### 2. REGULATING AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by the Capital Market Authority (“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 (“Amended Regulations”) published by the CMA 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 AND SIGNIFICANT ACCOUNTING POLICIES

#### 3.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (“SOCPA”) (collectively referred to as “IFRS as endorsed in the KSA”).

#### 3.2 Basis of preparation

The financial statements are prepared under the historical cost convention, using the accrual basis of accounting except for investments held at FVTPL that are measured at fair value. These financial statements are presented in Saudi Arabian Riyals (“SR”), which is the Fund's functional currency. All financial information presented has been rounded to the nearest SR.

#### 3.3 Significant accounting policies

The following are the significant accounting policies applied by the Fund in preparing its financial statements.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements (continued)

At 31 December 2019

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Significant accounting policies (continued)

##### *Cash and cash equivalents*

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as 'cash and cash equivalents'.

For the purpose of the statement of cash flows, cash and cash equivalents includes bank balances.

##### *Financial instruments*

###### *(i) Classification*

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or
- b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or
- c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

##### *Financial assets*

The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset
- Financial assets measured at amortised cost  
A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets measured at fair value through profit or loss (FVTPL)  
A financial asset is measured at fair value through profit or loss if:
  - i. Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (SPPI); and
  - ii. It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
  - iii. At initial recognition, it is irrevocably designated as measured at FVTPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.
- The Fund investments includes investment in mutual fund instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements (continued)

At 31 December 2019

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Significant accounting policies (continued)

##### *Financial liabilities*

- Financial liabilities measured at fair value through profit or loss (FVTPL)  
A financial liability is measured at FVTPL if it meets the definition of held for trading. The Fund does not hold any financial liabilities measured at FVTPL.
- Financial liabilities measured at amortised cost  
This category includes all financial liabilities, other than those measured at fair value through profit or loss.

##### *(ii) Recognition*

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

##### *(iii) Initial measurement*

Financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified as at FVPL) are measured initially at their fair value including any directly attributable incremental costs of acquisition or issue.

##### *(iv) Subsequent measurement*

After initial measurement, the Fund measures financial instruments which are classified as at FVTPL, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at FVTPL in the statement of comprehensive income. Special commission income and dividends earned or paid on these instruments are recorded separately in special commission income or expense and dividend income or expense in the statement of comprehensive income.

##### *(v) Derecognition of financial instruments*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of the Fund's continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements (continued)

At 31 December 2019

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Significant accounting policies (continued)

##### *Financial instruments (continued)*

##### *(vi) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the statement of financial position.

##### *(vii) Impairment of financial assets*

The Fund assesses on a forward-looking basis the Expected Credit Losses (“ECL”) associated with its financial assets, carried at amortised cost, the ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime the ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL

##### *Fair value measurement*

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 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each year. The Fund determines the policies and procedures for both recurring fair value measurement, and for non-recurring measurement.

At each reporting date, the Fund analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund’s accounting policies. For this analysis, the Fund verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Fund also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above. Fair value related disclosures for financial instruments that are measured at fair value or where fair values are disclosed are discussed in Note 9.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements (continued)

At 31 December 2019

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Significant accounting policies (continued)

##### *Trade date accounting*

All regular way purchases and sales of financial assets are recognized / derecognized on the trade date (i.e. the date that the Fund commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

##### *Provisions*

Provisions are recognised when the Fund has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risk specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as finance costs.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured.

##### *Accrued expenses*

Liabilities are recognized for amounts to be paid in the future for services received, whether billed by the suppliers or not. These are initially recognized at fair value and subsequently at amortised cost using the effective interest rate method.

##### *Redeemable units*

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the Unitholder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments
- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the Unitholder's rights to a pro rata share of the Fund's net assets
- The total expected cash flows attributable to the redeemable units over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument

In addition to the redeemable shares having all of the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund
- The effect of substantially restricting or fixing the residual return to the redeemable shareholders

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features, or meet all the conditions set out, to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in net assets attributable to the Unitholders. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions.

No gain or loss is recognised in the statement of comprehensive income on the purchase, issuance or cancellation of the Fund's own equity instruments.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements (continued)

At 31 December 2019

### 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 3.3 Significant accounting policies (continued)

##### *Net assets value per unit*

The net asset value per unit as disclosed in the statement of financial position is calculated by dividing the net assets of the Fund by the number of units outstanding at period end.

##### *Management fees*

Fund management fees are recognised on an accrual basis (inclusive of value added tax) and charged to the statement of comprehensive income. Fund management fees are charged at agreed rates with the Fund Manager and as stated in the Terms and Conditions of the Fund.

##### *Special commission income*

Special commission income including special commission income from non-derivative financial assets measured at amortised cost, are recognized in the statement of comprehensive income, using effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument on initial recognition. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses

##### *Net gain or loss on financial assets and liabilities at FVTPL*

Net gains or losses on financial assets and liabilities at FVTPL are changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition as at FVTPL and exclude special commission and dividend income and expenses.

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of the prior year's unrealised gains and losses for financial instruments, which were realised in the reporting period. Realised gains and losses on disposals of financial instruments classified as at FVTPL are calculated using the weighted average cost method. They represent the difference between an instrument's initial carrying amount and disposal amount, or cash payments or receipts made on derivative contracts (excluding payments or receipts on collateral margin accounts for such instruments).

##### *Dividend income*

Dividend income is recognised in the statement of comprehensive income on the date on which the right to receive the payment for dividend is established. For quoted equity securities, this is usually the ex-dividend date. For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in the statement of comprehensive income in a separate line item.

##### *Foreign currencies*

Transactions in foreign currencies are translated into SR at the exchange rate at the dates of the transactions. Foreign exchange gains and losses arising from translation are included in profit or loss.

Monetary assets and liabilities denominated in foreign currencies are retranslated into SR at the exchange rate at the reporting date.

Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income as net foreign exchange losses.

##### *Expenses*

Expenses are measured and recognized as expenses on an accrual basis in the period in which they are incurred.

##### *Zakat and income tax*

Zakat at the Fund level is the obligation of the Unitholders and is not provided for in these financial statements.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

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## Notes to the financial statements (continued)

At 31 December 2019

### **3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **3.4 New standards, interpretations and amendments**

There are new standards, amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Fund.

#### **3.5 Standards issued but not yet effective**

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

### **4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Fund's financial statements requires the use of judgement, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenue and expenses during the period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

#### *Going concern*

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

#### *Fair value measurement*

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

For all other financial instruments not traded in an active market, the fair value is determined using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions, adjusted as necessary, and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

The Fund measures financial instruments at fair value at each reporting date. Fair values of those financial instruments are disclosed in Note 9.

## AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

### Notes to the financial statements (continued)

At 31 December 2019

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

The composition of the investment's portfolio on the last valuation day of the period.

	<i>31 December 2019</i>			
	<i>% of Market value</i>	<i>Cost SR</i>	<i>Market value SR</i>	<i>Unrealised gain/(loss) SR</i>
<b><u>Equity investments (by sector)</u></b>				
Materials	36.88	18,821,233	18,585,409	(235,824)
Financials	23.90	12,080,737	12,044,744	(35,993)
Telecommunication services	13.92	6,669,363	7,013,889	344,526
Utilities	6.18	3,005,449	3,116,775	111,326
Consumer discretionary	5.90	2,719,587	2,971,951	252,364
Real estate	3.67	1,847,679	1,850,435	2,756
Consumer staples	3.43	1,437,959	1,730,085	292,126
Industrial investment	3.01	1,370,496	1,519,333	148,837
Energy	1.83	723,485	918,875	195,390
Healthcare	1.28	638,830	645,597	6,767
<b>Total</b>	<b>100.00</b>	<b>49,314,818</b>	<b>50,397,093</b>	<b>1,082,275</b>

The above equity 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.

#### 6. TRANSACTIONS WITH RELATED PARTIES

##### A. Transactions and balances with Fund Manager

In the ordinary course of its activities, the Fund transacts business with Fund Manager and the Bank.

The Fund pays the Fund Manager a management fee calculated at an annual rate of 1% per annum calculated on the total asset value at each valuation date. The fee is intended to compensate the Fund Manager for administration of the Fund.

The management fees amounting to SR 452,744 reflected in the statement of comprehensive income represent the fees charged by the Fund Manager during the period as described above.

As at 31 December 2019, management fees amounting to SR 120,049 are payable to the Fund Manager.

The units in issue at 31 December 2019 include 56,755 units held by the employees of the Fund Manager.

The units in issue at 31 December 2019 include Nil units held by the Fund Manager.

At the end of the period, the bank balance with the Bank is SR 2,001.

##### B. Transactions with 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 5,000 per meeting up to a maximum of 2 meetings per annum per director which is paid equally by all funds supervised by the board.

Board of Directors' fees amounting to SR Nil was charged during the period. As at 31 December 2019, Board of Directors' fees amounting to SR Nil is payable to the Fund's Board of Directors.



# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

## Notes to the financial statements (continued)

At 31 December 2019

### 7. REDEMPTION PAYABLE

The redemption payable represents units redeemed by unitholders up to 31 December 2019 which were settled subsequently.

### 8. PURIFICATION CHARGES

The purification charges for the period from 20 January 2019 to 31 December 2019 amounting to SR 18,516, represent charges incurred in respect of purification of the income generated from the investee companies in order to achieve a Sharia compliant return. These charges are calculated based on the Fund's Sharia Board approved formula and paid to charities recommended by the Fund's Sharia Board through the Fund Manager.

### 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 are classified as amortized cost and 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.

### 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>Within 12 months SR</i>	<i>After 12 months SR</i>	<i>Total SR</i>
<i>As at 31 December 2019</i>			
<b>ASSETS</b>			
Bank balance	<b>444,769</b>	-	<b>444,769</b>
Financial assets at FVTPL	<b>50,397,093</b>	-	<b>50,397,093</b>
<b>TOTAL ASSETS</b>	<b>50,841,862</b>	-	<b>50,841,862</b>
<b>LIABILITIES</b>			
Management fee payable	<b>120,049</b>	-	<b>120,049</b>
Redemption payable	<b>331,821</b>	-	<b>331,821</b>
Accrued expenses	<b>6,003</b>	-	<b>6,003</b>
<b>TOTAL LIABILITIES</b>	<b>457,873</b>	-	<b>457,873</b>

### 11. FINANCIAL RISK MANAGEMENT

#### *Introduction*

The Fund's objective in managing risk is the creation and protection of unitholder's value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing risk identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to market risk (which includes foreign currency risk and special commission rate risk), credit risk and liquidity risk arising from the financial instruments it holds.

#### *Risk management*

The Fund's Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management of the Fund.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

## Notes to the financial statements (continued)

At 31 December 2019

### 11. FINANCIAL RISK MANAGEMENT (continued)

#### *Risk measurement and reporting system*

Monitoring and controlling risks is primarily set up to be performed based on limits established by the Board of Directors. These limits reflect the business strategy, including the risk that the Fund is willing to accept and the market environment of the Fund. In addition, the Fund monitors and measures the overall risk in relation to the aggregate risk exposure across all risks type and activities.

#### *Risk mitigation*

The Fund has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

#### *Concentration risk*

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

In order to avoid excessive concentrations of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The investment manager is instructed to reduce exposure to manage excessive risk concentrations when they arise. Note 5 to the financial statements analyse the Fund's concentration of investment portfolio by sector distribution.

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. 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. The Fund Manager seeks to limit its credit risk by monitoring credit exposure and by dealing with reputed counterparties.

The following table shows the Fund's maximum exposure to credit risk for components of the statement of financial position.

	<i>31 December 2019 SR</i>
Bank balance	<b>444,769</b>

#### *Liquidity risk*

Liquidity risk is the risk that the Fund will encounter difficulty in releasing funds to meet commitments associated with financial liabilities that are settled by delivering cash or another financial asset.

The Fund's terms and conditions provide for the terms of subscriptions and redemptions of units and it is, therefore, exposed to the liquidity risk of meeting Unitholder redemptions. The Fund's investments are considered to be readily realizable. 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.

The undiscounted value of all financial liabilities of the Fund at the reporting date approximate to their carrying values and all are to be settled within one year from the reporting date.

# AL RAJHI MSCI SAUDI MULTI FACTOR INDEX FUND

## Notes to the financial statements (continued)

At 31 December 2019

### 11. FINANCIAL RISK MANAGEMENT (continued)

#### *Market risk*

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest 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 Fund's terms and conditions. The Fund's market risk is managed on a timely basis by the Fund 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 fair value of equities changes as the result of changes in the levels of equity indices and the value of individual stocks.

#### *Sensitivity analysis*

The Fund's financial assets at FVTPL investments are subject to equity price risk. According to the Fund's management, the effect on the statement of comprehensive income as a result of a change in fair value of equity instruments due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	<i>Change in equity price For the period from 20 January 2019 to 31 December 2019 %</i>	<i>Effect on statement of comprehensive income For the period from 20 January 2019 to 31 December 2019 SR</i>
MSCI's Saudi Multi Factor Index	10%	5,039,709

#### *Currency risk*

Currency risk is the risk that the value of a financial instrument may fluctuate due to change in foreign exchange rates. The Fund views the SR as its functional currency. The Fund's financial assets and liabilities are denominated in SR and all transactions are denominated in SR, hence, the Fund is not exposed to significant currency risk.

#### *Special commission rate risk*

The Fund has no special commission rate bearing financial assets or liabilities, therefore, the Fund Manager believes the Fund is not exposed to any direct special commission rate risk. The Fund does not hold any special commission rate bearing financial assets at fair value and therefore, a change in interest rate at the reporting date would not have any effect on the financial statements.

### 12. LAST VALUATION DAY

The last valuation day of the period was 31 December 2019.

### 13. SUBSEQUENT EVENTS

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

### 14. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Fund's management on 20 Sha'aban 1441H (corresponding to 13 April 2020).