

The Investment Funds

- **Types of the investment funds at Al Rajhi Capital:**
 1. Equity Funds.
 2. Mudarbah Commodity Funds.
 3. Balanced Funds.
 4. Real Estate Funds.
 5. Sukuk Funds.

The General sharia controls for the mutual Funds:

- **Mortgage of the mutual Funds' units.**

The units held by the customer in the mutual funds, may be put under mortgage for the company against the debt which the customer owns, whether these mutual funds are owned by the company or by others; provided that the activity of these funds and its business shall be permissible by the sharia rule.
- **Transfer of ownership of units in a mutual fund:**

The company may form a document that allows mutual fund units to be transferred from one investor to another investor, and it is entitled to charge transaction fees.
- **Zakat of the mutual fund Units:**

Due to variation of investment periods from one investor to another; it is difficult to determine the exact period of passage of one year (hawl) for each individual investor. This makes it easier to calculate the zakat of the investor's fund. Hence, every investor should pay the zakat of his wealth by himself once a full year(hawl) has passed.

A) Equity Funds:

- **General Information about the Equity Funds:**

This is an investment channel in the field of local, regional and global equities of the joint stock companies across all sectors or in specific sectors. In its capacity as "Fund Manager", the company undertakes the management of these funds according to the provisions of the sharia-based leasing contract (Ijara contract) to be concluded between the company "the lessee" and the investors (the lessors).

- **Types of Equity Funds:**

There are a number of funds that work well in the field of stocks, namely:

- 1- Al Rajhi Local Equity Fund.
- 2- Al Rajhi Fund for Petrochemicals and Cement equities.
- 3- Al Rajhi GCC Equities Fund.
- 4- Al Rajhi Mena equities Fund.
- 5- Al Rajhi Global Equities Fund .

- **Management of the Equity Funds:**

Al- Rajhi Capital "Fund Manager", endeavors to bring together a collective relationship between the customer, the management and operation of the Fund for fees to be agreed upon. In its capacity as a financial entity separate from the company's assets- in the equities of local, regional or global companies pursuant to the objectives, strategies and risks agreed upon between the two parties in the Fund Agreement.

- **The sharia rules for the Equity Funds:**

The company "Fund Manager" must comply with the following rules:

1. The company may charge fees for its efforts
2. The company may be paid a lump sum or a common share from the investors' funds in return for the participation or the redemption.
3. The company, as the fund manager, shall bear all the expenses related to its work as a lessee. The fund shall not bear such expenses.
4. The Fund shall bear the expenses related to marketing, the costs of redemption monies, transfers, remunerations of the consultative bodies, accounting and auditing fees, registration fees, and commissions to agents, etc.
5. In its management of the equity funds, the Company must adhere to the sharia rules issued from the Sharia Board, regarding the investment and trading in equities.
6. The Fund manager must exclude the illicit element from the profits of the joint stock companies which have prohibited revenues according to sharia.

B) Mudarba Commodity Funds:

- **Summary of the Commodity Funds:**

This is an investment channel which is based on the possession of goods and commodities traded in the global markets, and selling them on a deferred price basis to financial institutions, after searching for the best offered prices and ensuring the financial solvency of these institutions. The company gains a percentage of profit during its management of the Fund, according to the sharia provisions of Mudarba Contract.

- **Types of Commodity Funds:**

1. The Mudarba Commodity Fund - Riyal.
2. The Mudarba Commodity Fund - Dollar.

- **Management of Mudarba Commodity Fund:**

Al Rajhi Capital "Fund Manager" as a mudarib (the investment manager) undertakes the management and operation of the fund, as a financial entity independent from the company assets. Purchasing commodities and goods available in the global markets, and selling them for a deferred payment after searching for the best buyers in terms of profit. The company strives to achieve financial solvency, investment risks, pursuant to the objectives, strategies and risks agreed upon between the two parties in the Fund Agreement.

- **Profit and Loss Account:**

3. If profit is generated, the share of the fund manager "The Mudareb" of generated profit, shall be calculated based on an agreed upon percentage of the net profit, after deducting the operating expenses of the Fund. Remainder of the profits will be divided between the individual investors "the Customers", on pro-rata basis, according to the number of units he owns.
4. If losses are incurred, the fund manager "the Mudareb" will lose his efforts and work, and he will not bear any liability for any money losses, unless it becomes evident that he breached his fiduciary duty to the investors. Acting upon such things as misapplication, not doing work as it should be done, mismanagement, and workplace negligence. Without any of these examples, the financial losses shall be borne by the investors "the customers", proportional to their possession of units.

- **The sharia rules for the Mudarba Commodity Funds:**

The company "Fund Manager" must comply with the following regulation:

- 1- The fund's assets-goods and commodities- in which it is investing, shall be owned by it, and their ownership what they had already has to be approved by the Sharia Board.
- 2- Investments of funds must be in properties (assets) such as goods and the like, and not investing in currencies, gold or silver.
- 3- The fund shall bear the actual expenses relating to the fund operation, such as marketing costs, transfer costs, any services contributing to the performance of the fund, and audit fees. The company- the Mudareb- is not entitled to charge any excess amounts, whether on a percentage basis or a lump sum.
- 4- The Fund Manager "the Mudareb", shall bear the salaries wages and benefits of the Fund employees, which shall not constitute part of the Fund's operational expenses.
- 5- Units of the Fund may be traded, only after it commences its activity, and continues practicing this activity in its investment assets.
- 6- Units of the Fund may not be traded after ceasing practice its activity, such as ceasing for liquidation, if the Fund's assets contain debts or money, and in such case, the terms and provisions of money exchange, the provisions of debt sale shall be applied.

C) Balanced Funds:

- **Summary :**

This is an investment channel operating in the field of investment in equities and Mudarba in commodities, where the company, as a "Fund Manager", undertakes the management of these funds through allocating the investments in a number of equity funds and commodity funds. The company charges fees for this management according to the provisions of the sharia Ijara(Lease) Contract.

- **Types of Balanced Funds:**

There are a number of balanced funds including the following:

- 1- Al Rajhi Multi- Assets Balanced Fund.
- 2- Al Rajhi Multi- Assets Growth Fund.
- 3- Al Rajhi Multi- Assets Conservative Fund.

- **Management of Balanced Funds:**

The company "Fund Manager", undertakes the management and operation of the fund- as a financial entity separate from the company assets. Through allocating the investments in one or more of the equity funds and Mudarba commodity funds, based on the status of the financial markets, investment rates, fund objectives and strategies agreed upon between the two parties in the Fund Agreement.

- **The sharia rules of the Balanced Funds:**

The Company "Fund Manager" shall abide by the following regulations:

1. The fund's assets in which it invests, shall be owned by it, and its ownership of these assets should have been implemented according to one of the forms that are approved by the Sharia Board.
2. The company shall comply with investment rates in the Equity funds and Mudarba commodity funds, agreed upon between the Company and the customer.

H) Real Estate Funds:

- **Summary**

This is a five- year closed-end investment fund, which invests its assets in all types of real estate in order to take advantage of rent(Ijara) and distribute it among the investors. The company manages these funds based on the provisions of the Sharia-based Ijara (Lease) Contract.

- **Management of the Real Estate Funds:**

The Company "Fund Manager", undertakes the management and operation of the fund- as a financial entity separate from the company assets-by investing in leased residential, commercial, educational and medical real estate, which are distinctive in terms of their locations, value and returns, in the Kingdom of Saudi Arabia and GCC countries, based on the Fund's objectives and strategies set forth in the Fund's Agreement.

- **The Sharia controls of the Real Estate Funds:**

The company "Fund Manager", shall comply with the following regulations:

1. Assets of the fund shall be in real estate leased to practicing permissible activities of the Sharia.
2. The Fund's Assets in which it invests, should be owned by it, and its possession of such assets should have been implemented pursuant to one of the forms approved by the Sharia Board.
3. Buying and trading of the Fund's units is permitted, after the complete ceasing of its activity- such as ceasing for liquidation -, if the Fund's assets contain debts or monies, only after observing the terms and conditions of the money exchange, and provisions governing the debt sale.
4. The Fund shall bear the expenses relating to marketing, remunerations of the advisory bodies, accounting and auditing fees, as well as registration fees and commissions to agents, etc.
5. The Company, as a Fund Manager, shall bear the expenses relating to its work in its capacity as a lessee (Ajeer) and the fund shall not bear such expenses.
6. When the Fund obtains finances, the financing contract shall be according to a formula approved by the Sharia Board.

E) Sukuk Funds:

- **Summary:**

A Sukuk Fund is an investment fund which aims to invest the subscribers' monies in sukuk which are approved by the Sharia Board of the company; provided that such sukuk shall be distinctive in local, regional and global markets and with high credit worthiness. The company, as a "Fund Manager", undertakes the management of these sukuk in accordance with the provisions of the sharia-based Lease Contract between the company (the Lessee " and the investors (the lessors).

- **Management of the Sukuk funds:**

Al Rajhi Capital, as a "Fund Manager", undertakes the management and operation of the Fund, to gain a fee to be agreed upon with the customer, as a financial entity separate from the assets of the company, in the local, regional or global sukuk approved by the Company's Sharia Board, In accordance with the objectives, strategies and risks agreed upon between the two parties in the Fund Agreement.

- **Sharia rules of the Sukuk Funds:**

The company "Fund Manager", shall undertake that, the Fund will invest in the sukuk approved by ARC's Sharia Board, which depends on a set of controls, the most important of which are the following:

1. A sukuk shall be governed by one of the sharia transaction contracts, such as a Sale, Leasing, Musharaka, Salam or Istisnaa contracts, or the like, and shall fulfill its basic elements and terms.
2. The sukuk documents shall not contain any condition or undertaking that leads to usury, gharar (uncertainty) , harm or other prohibited transactions in Islamic Sharia.
3. The sukuk documents shall not contain any condition or undertaking by which the issuer guarantees to the sukuk owner its capital, except in cases of transgression or negligence.
4. Trading in sukuk must be in accordance with the sharia controls, including the following:
 - a. If the sukuk assets are properties, benefits, services or rights, there is no objection at all to trade in them.
 - b. If the sukuk assets are currencies, they may be traded only if the provisions governing the money exchange are observed, as stated below:
 - 1- If a sukuk has been purchased by an equivalent currency to the sukuk assets currency, the amount of money must be

- received at the implementation time only, and the two currencies must be similar.
- 2- If the sukuk has been purchased by a currency different from the sukuk assets currency, the amount of money must be received at the implementation time only.
- c. If the sukuk assets are debts, they may be traded in the markets only if the debts disposition controls are observed which are as follows:
 1. If the sukuk assets are commodity debts: such as Salam, Istisnaa, and Ijara debts, there is no objection to sell them in cash to a person other than the debtor, provided that he shall not obtain profits from what is not guaranteed.
 2. If the sukuk assets are cash debts such as the Murabaha debts they may not be sold at all in cash to a person other than the creditor.
 - d. If the sukuk assets contain properties and money, or debts, the purpose of issuing the sukuk must be considered. If the purpose is the securitization of debts or money, or both of them; they may be traded only after observing their relevant rules mentioned in Paragraphs (b) & (c). If the purpose is the securitization of properties and the like, there is no objection at all to trade in them. If the purpose does not become clear, the rule applicable to the majority should be considered.

Sukuk

Investment sukuk: these are documents (certificates) of equal value, which represent common shares in the ownership of properties, benefits, services, or moral rights; or in the ownership of the assets of a particular project or a private investment activity, after collecting the value of sukuk, closing the subscription, and start using them for the purpose they have been issued for.

The most prominent types of sukuk:

1. Ijara (Lease) sukuk.
2. Mudarba sukuk.
3. Musharaka sukuk.
4. Investment Wakala sukuk.
5. Murabaha sukuk.
6. Salam sukuk.
7. Istisna sukuk.

Ijara sukuk: these are securities certificates of equal value issued by an owner of a leased property or a property that is promised to be leased, or issued by a financial broker on behalf of the owner for the purpose of selling them and collecting their price from their subscription proceeds. The property will be

owned by the sukukholders who will be entitled to obtain its profits, and subject to bear its losses.

The sharia controls of the Ijara sukuk:

- 1- Ijara sukuk may be issued, if it is a real Ijara under which the sukuk holders will own Ijara assets or benefits.
- 2- Ijara sukuk may be traded if the sukuk assets are leased properties, or identified benefits or identified services.
- 3- Ijara sukuk may be terminated by purchasing them at the market price, or the price mutually agreed upon by the sukukholder and its issuer at the termination time.

Mudarba sukuk: these are certificates of equal value, issued in order to use its proceeds in establishing a project, developing an existing project, or financing a business. The project or business assets will become a property of the sukuk holders, proportional to their stakes. The sukuk are managed on the basis of the sharia Mudarba, by a mudareb to be appointed by the shareholders or others, to manage it.

The sharia rule of Mudarba sukuk:

- 1- Mudarba sukuk may be issued if it is a real Mudarba under which the sukuk holders will own the sukuk assets, provided that they will take the profits and bear the losses.
- 2- Mudarba sukuk may be traded after the manager of the sukuk starts his activity in managing their assets.
- 3- Mudarba sukuk may not be traded during the time of their issuance, or when the manager of the sukuk ceases their management for the purpose of termination, if their assets are money or debts.

Musharaka sukuk: these are certificates of equal value issued in order to use their proceeds in establishing a project, developing an existing project, or financing a business. The project or the business assets will become a property of the sukuk holders proportional to their share acquisitions. The sukuk is managed as a partnership basis by way of appointing one of the partners, or others for its management.

Investment Wakala Sukuk: these are certificates of equal value issued in order to use their proceeds in establishing a project, developing an existing project, or financing a business. The project or the business assets will become a property of the sukuk holders proportional to their share acquisitions. The sukuk is managed by the Investment Wakala basis by way of appointing an agent on behalf of the sukuk holders, for its management.

The sharia rules for the Musharaka and Investment Wakala Sukuk:

1. Musharaka Sukuk may be issued if the partnership contract is a real contract, under which the partners-the sukuk holders- shall bear the risks associated with the damage or defect of the sukuk assets.
2. Investment Wakala Sukuk may be issued if the partnership contract is a real contract, under which the sukuk holders, shall bear the risks associated with the damage or defect of the sukuk assets
3. Musharaka and Wakala Sukuk may be traded after closing the subscription allotment of sukuk and starting the activity.
4. Musharaka and Wakala sukuk may not be traded during the time of their issuance, or when the manager of the sukuk ceases their management for termination, if their respective assets are money or debts.

Murabaha Sukuk :these are certificates of equal value ,which are issued to collect an amount of money to be used for the purchase of commodities at current price, and then sold to the party who is being financed at a deferred price or on instalment basis.

The sharia rules for the Murabaha sukuk :

1. Murabaha sukuk may be issued provided that the ownership of commodities by the sukuk holders, shall be real ownership and that, the commodities should be of types other than gold, silver and currencies.
2. Murabaha sukuk may not be traded if their assets are money or debts.
3. Murabaha sukuk may be traded, if the sukuk assets are identified commodities.

Salam sukuk: these are certificates of equal value which are issued to raise an amount of money called the Salam capital, which is paid to anyone who provides in return, precisely described commodities to be delivered to sukukholders or to their agent on a deferred date and then the sukuk holders or their agent will sell these commodities in the market and distribute their value among them.

Istisna Sukuk: these are certificates of equal value which are issued to raise an amount of money, and then make a contract with a contractor or the like, for manufacturing a precisely described commodity to be delivered on a deferred date, then the sukuk holders or their agent will sell commodities in the market and distribute their value among them.

Sharia rules for the Salam and Istisna sukuk

- 1- The Salam and Istisna sukuk may be issued provided their compliance with the provisions of both types of contracts are Islamic Sharia.
- 2- Salam and Istisna sukuk may not be traded, if the sukuk assets are money or debts.
- 3- Salam and Istisna sukuk may be traded, after the sukuk holders have received and identified the commodities, and before selling them in the market.