

MEFIC Murabaha SAR Fund Annual Report

التقرير السنوي لصندوق ميغك للمرابحة بالريال السعودي

Article 71

A Top Ten Holdings

Name of Stock	% Holding in the stock
i Murabaha investment 1	8.60%
ii Murabaha investment 2	6.87%
iii Sukuk investment 1	5.28%
iv Murabaha investment 3	5.27%
v Murabaha investment 4	5.16%
vi Murabaha investment 5	5.14%
vii Murabaha investment 6	5.13%
viii Murabaha investment 7	3.57%
ix Murabaha investment 8	3.51%
x Murabaha investment 9	3.51%

B Fee Details

Name	% of Total NAV
i Management Fees	0.5%
ii Other Fees	0.0%
iv Total Expenses Ratio	0.5%

	Amount	%
C Profit Distribution	Nil	0.00%
D Dealing Expenses in the Fund	Nil	0.00%
E Fund Manager Investment in the Fund	5,091,598.72	1.74%
H Fund Borrowing %	Nil	0.00%

F Standard Measure of Risk

i Standard Deviation – Fund	0.28%
ii Standard Deviation -Benchmark	0.02%

G Fund & Index Performance (2016)

	YTD	Benchmark	Alpha
	2.81	1.04	1.77

* the information in based on the year 2016

Annex 5

A Investment fund information

i Name of the Fund	MEFIC SAR MURABAHA FUND
ii Investment Objective	To provide capital increase and liquidity through investment in low risk money market instruments which are shariah compliant and provide a return above 3 month SAIBOR
iii Policy & Procedure	Terms & Conditions Available on Tadawul Website
iv Distribution of Income & Gain Policy	No Distribution of Dividend
v Statement of Fund Report	Fund Annual Financial Report as of 31 Dec 2016 is available on Tadawul website and available on request to investors at free of charge

B Fund Performance Table

	1 Year	3 Year	5 Year	Inception
Return	2.81%	2.1%	2.01%	1.61%

	2013	2014	2015	2016
NAV	86,838,046	361,810,636	570,959,702	292,987,318
Unit Price	103.08	105.47	106.94	109.94
NAV High	103.08	105.48	106.94	109.94
NAV Low	101.43	103.07	105.47	106.94
Number of Units	842,395	3,430,437	5,338,989	2,664,906
Expense Ratio	0.51%	0.51%	0.51%	0.51%
Income distribution	0.00%	0.00%	0.00%	0.00%

C Fund Fees and Expenses

	2014	2015	2016
Management Fee	826,260	2,359,443	2,157,684
Other Expense	0	524	1,528
Total Expense Ratio	0.5%	0.5%	0.5%

D Fund Manager Information

Name & Address	MEFIC Capital, 7758 King Fahed Road Olaya Riyadh 12333
Investment Activities	MEFIC Capital is an Authorized Person regulated by CMA with License # 37-060209. MEFIC Capital's investment management business focuses on the management of public-listed funds, private placements, and real estate funds. MEFIC offers broad range of investment products to meet the varying investment needs and risk profiles of both institutional and retail investors. As at 31-Dec-2016, MEFIC had assets under management (AUM) of SAR 2.2bn, and MEFIC funds outperformed benchmarks during the period under review.
Investment Fund Performance	In 2016, the fund generated a return of 2.80% as compared to benchmark return of 1.04%, Aplha of 1.76%
Material Changes	None

MEFIC Murabaha SAR Fund Annual Report

التقرير السنوي لصندوق ميفك للمرابحة بالريال السعودي

E Custodian Information

Name & Address	MEFIC Capital, 7758 King Fahed Road Olaya Riyadh 12333
Custodian Responsibilities	All necessary administrative measures regarding custody of assets; Taking custody & protecting fund assets
Custodian Opinion	MEFIC verifies that the below have been done in accordance with IFR & Funds' Terms and Conditions 1. Issuance, transfer and redemption of the units 2. Valuation and calculated the NAV price of units 3. Not breached any of the investment restrictions, limitations and borrowing powers

F Auditor Information

Name & Address	BDO Dr. Mohamed Al-Amri & Co. P.O. Box 8736, Riyadh 11492, Kingdom of Saudi Arabia
Auditor Opinion	The financial statements have been prepared and audited in accordance with SOCPA standards, the Investment Funds Regulations, the fund's terms and conditions 1. Financial statements give a true and fair view of the net income and the net gains or losses of the investment fund's assets in that accounting period; T 2. True and fair view of the financial position of the investment fund at the end of the period.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by
**MIDDLE EAST FINANCIAL INVESTMENT
COMPANY**
**FINANCIAL STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2016**
TOGETHER WITH THE
INDEPENDENT AUDITORS' REPORT

MEFICSAUDI RIYAL MURABAHA FUND
MANAGED BY MIDDLE EAST FINANCIAL INVESTMENT COMPANY
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
For the year ended 31 December 2016

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INDEPENDENT AUDITOR'S REPORT

To: **The Unitholders of
MEFIC Saudi Riyal Murabaha Fund
Riyadh, Kingdom of Saudi Arabia**

Scope of Audit

We have audited the accompanying financial statements of **MEFIC Saudi Riyal Murabaha Fund** (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprises the balance sheet as at 31 December 2016 and the related statements of income, cash flows and changes in net assets attributable to the unitholders for the year then ended including related notes from 1 to 14, which form an integral part of these financial statements.

Fund Manager's responsibility for the financial statements

The Fund Manager is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The Fund Manager has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Fund Manager, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Fund as of 31 December 2016 and the results of its operation, its cash flows and changes in net assets attributable to Unitholders for the year ended 31 December 2016 in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Fund; and
- comply with the requirements of the Investment Funds Regulations as published by the Capital Market Authority in Kingdom of Saudi Arabia and the Fund's terms and conditions with respect to the preparation and presentation of financial statements.

For Dr. Mohamed Al-Amri & Co.



Gihad M. Al-Amri
Certified Public Accountant
Registration No. 362



13 March 2017 (G)
14 Jumada II' 1438 (H)

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
BALANCE SHEET
 As at 31 December 2016
 (Saudi Riyals)

	<i>Note</i>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
Cash and cash equivalents	7	76,557,787	363,817,591
Murabaha placements	8	167,688,634	130,655,056
Investments	9	48,869,343	76,741,140
Total assets		<u>293,115,764</u>	<u>571,213,787</u>
<u>LIABILITIES</u>			
Management fee payable	10	128,445	254,112
Total liabilities		<u>128,445</u>	<u>254,112</u>
NET ASSETS ATTRIBUTABLE TO THE UNITHOLDERS		<u>292,987,319</u>	<u>570,959,675</u>
Units in issue (numbers)		<u>2,664,905.83</u>	<u>5,338,988.60</u>
Net assets value – per unit		<u>109.94</u>	<u>106.94</u>

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

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
STATEMENT OF INCOME
 For the year ended 31 December 2016
 (Saudi Riyals)

	<i>Notes</i>	<u>2016</u>	<u>2015</u>
<u>INCOME</u>			
Profit on Murabaha placements		9,383,022	5,296,557
Special commission income		3,621,186	3,205,393
Unrealized gain / (loss) on investments held for trading	9(a)	306,549	(311,400)
Realized loss on investments held for trading		-	(1,141,515)
Realized gain / (loss) on held to maturity investments		559,935	(59,078)
Dividend income	10	-	1,735,294
Other loss		(452,017)	(1,147)
Total income		<u>13,418,675</u>	<u>8,724,104</u>
<u>EXPENSES</u>			
Management fee	10	(2,157,684)	(2,359,443)
Bank charges		(1,528)	(524)
Total expenses		<u>(2,159,213)</u>	<u>(2,359,967)</u>
NET INCOME FOR THE YEAR		<u>11,259,462</u>	<u>6,364,137</u>

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

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
STATEMENT OF CASH FLOWS
 For the year ended 31 December 2016
 (Saudi Riyals)

	<u>2016</u>	<u>2015</u>
CASHFLOW FROM OPERATING ACTIVITIES		
Net income for the year	11,259,462	6,364,137
<i>Adjustments:</i>		
Amortization of premium / (discount) on held to maturity investment	397,501	(36,784)
Unrealized (gain) / loss on investments held for trading	(306,549)	311,400
Realized loss from investments held for trading	-	1,141,515
Realized (gain) / loss from held to maturity investment	(559,935)	59,078
	10,790,479	7,839,346
<i>Changes in operating assets and liabilities</i>		
Murabaha placements	(37,033,578)	97,663,104
Investments held for trading	-	18,195,077
Accrued special commission income	628,939	(266,995)
Management fee payable	(125,667)	108,374
Purchase of held to maturity investment	(26,291,359)	(41,276,569)
Proceed from redemption of held to maturity investments	54,003,200	11,340,099
Net cash from operating activities	1,972,014	93,602,436
CASHFLOW FROM FINANCING ACTIVITIES		
Proceeds from subscription of units	439,954,076	342,418,612
Payments against redemption of units	(729,185,894)	(139,633,683)
Net cash (used in) / generated from financing activities	(289,231,818)	202,784,929
Net (decrease) / increase in cash and cash equivalent	(287,259,804)	296,387,365
Cash and cash equivalent at 1 January	363,817,591	67,430,226
Cash and cash equivalent at 31 December	76,557,787	363,817,591

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

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE
 TO THE UNITHOLDERS**
 For the year ended 31 December 2016
(Saudi Riyals)

	<u>2016</u>	<u>2015</u>
Net assets value at 1 January	570,959,675	361,810,609
Net income for the year	11,259,462	6,364,137
Changes from unit transactions		
Proceeds from issuance of units	439,954,076	342,418,612
Payment against units redeemed	(729,185,894)	(139,633,683)
Net change from unit transactions	(289,231,818)	202,784,929
Net assets value at 31 December	292,987,319	570,959,675

UNIT TRANSACTIONS

	Units	
	2016	2015
Units at 1 January	5,338,988.60	3,430,436.49
Units issued	4,065,651.76	3,218,989.47
Units redeemed	(6,739,734.53)	(1,310,437.36)
Units at 31 December	2,664,905.83	5,338,988.60

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

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(*Saudi Riyals*)

1. THE FUND AND ITS ACTIVITIES

MEFIC Saudi Riyal Murabaha Fund (“the Fund”) is an open-ended investment fund established and managed through an agreement between the Middle East Financial Investment Company (the “Fund Manager”) and the investors (the “Unitholders”).

The objective of the Fund is to achieve capital increase and the provision of liquidity through investment in low-risk Murabaha based trade transactions that are compliant with Shariah principles and to achieve a return above the benchmark return, which is three months SIBOR.

The Fund commenced its operations on 26 Rabi’ Awwal 1432 H (corresponding to 1 March 2011 G). The approval from Capital Market Authority (“CMA”) for the establishment of the Fund was granted in its letter number 7481/5 dated 21 Ramadan 1431 H (corresponding to 31 August, 2010 G).

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit. Accordingly, the Fund Manager prepares separate financial statements for the Fund.

2. REGULATORY AUTHORITY

The Fund is governed by the Investment Fund Regulations (the “Regulations”) issued by CMA as amended upto 16 Sha’ban 1437 H (corresponding to 23 May 2016 G).

3. SUBSCRIPTION / REDEMPTION

Subscription / redemption requests will be accepted on all days on which Tadawul is open.

The value of the Fund’s portfolio is determined daily. The net asset value of the Fund for the purpose of purchase or sale of units is determined by dividing the net value of assets (fair value of the Fund’s assets minus fund liabilities) by the total number of outstanding fund units on that day.

4. BASIS OF PREPARATION

4.1 *Statement of compliance*

These financial statements have been prepared and presented in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization of Certified Public Accountants (SOCPA), Investment Funds Regulations as published by CMA in Kingdom of Saudi Arabia and the Fund’s terms and conditions.

4.2 *Basis of measurement*

These financial statements have been prepared under the historical cost convention using the accrual basis of accounting and the going concern concept.

4.3 *Functional and presentation currency*

These financial statements have been presented in Saudi Riyals (SR), which is the functional currency of the Fund. All financial information has been rounded to the nearest SR.

4.4 *Use of estimates and judgment*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and future years affected.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Riyals)

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been adopted by the Fund and applied consistently throughout all the years presented in these financial statements.

a) *Cash and cash equivalents*

Cash and cash equivalents comprise of cash in hand, cash at banks and highly liquid investments with original maturity of three months or less, which are available to the Fund without any restriction.

b) *Investments held for trading*

Investments are classified as “held for trading” if they are purchased for the purpose of resale in short term. Investments held for trading are initially recorded at cost which includes the purchase price plus all expenses incurred for the purpose of acquiring the securities. Subsequent to initial recognition, investments held for trading are measured at fair value and resulting gains or losses are recognized in the statement of income but excluding dividend income which are separately shown in the statement of income. Realized gains or losses at disposal and unrealized gains or losses are determined on average cost basis.

c) *Investments held to maturity*

Investments having fixed or determinable payments and fixed maturity that the Fund has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognized at cost and are subsequently measured at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired.

d) *Trade date accounting*

All regular-way purchases and sales of financial assets are recognized and derecognized on the trade date, i.e. the date that the Fund commits to purchase or sell the assets. Regular-way purchases or sales of financial assets require delivery of those assets within the timeframe generally established by regulation or convention in the market place.

All other financial assets and liabilities (including assets and liabilities designated at fair value through income statement) are initially recognized on trade date at which the Fund becomes a party to the contractual provisions of the instrument.

e) *Murabaha placements*

Murabaha placements are held to maturity investments placed with various banks and are stated at amortized cost value determined on cost plus accrued profit basis.

f) *Revenue recognition*

Profit on Murabaha placements is recognized on time-proportion basis over the period of the contract based on the principal amounts outstanding and agreed rate of profit.

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2016
 (Saudi Riyals)

SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Management fee

Management fee is charged to statement of income at rate agreed with the Fund Manager. It is calculated on each valuation day at an annual percentage of the Fund's net assets value.

h) Zakat / Income tax

Zakat / Income tax is the obligation of the Unitholders and is not provided for in these financial statements.

i) Subscription and redemption of units

Units subscribed and redeemed are recorded at the net asset value per unit on the valuation day for which the subscription request and redemption applications are received.

j) Net asset value

The net asset value per unit disclosed in the balance sheet is calculated by dividing the net assets of the Fund by the number of units in issue at year-end.

k) Financial instruments

Financial assets and liabilities are recognized at the time when the Fund becomes a party to the contractual provisions of the instrument. Any gain or loss on de-recognition of financial assets and financial liabilities is taken directly to the Statement of Income.

6. FUND MANAGEMENT FEE

Fund Manager charges the Fund, a management fee at the rate of 0.5% per annum of the Fund's net asset value, which is calculated on daily basis and payable monthly.

The Fund Manager also entitled to recover certain expenses incurred on behalf of the Fund within limits mentioned in terms and conditions of the Fund. The Fund Manager has waived its fee towards other expenses of the Fund.

7. CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
Cash held with custodian	13,577	1,127,630
Cash at banks	16,544,210	17,082,611
Short-term Murabaha placements	60,000,000	345,607,350
	<u>76,557,787</u>	<u>363,817,591</u>

Short term Murabaha placements carry an average profit rate of 3.19% per annum (2015: 1.99%) and have an original maturity period of less than three months from the date of placement.

8. MURABAHA PLACEMENTS

	<u>2016</u>	<u>2015</u>
Murabaha placements – principal amount	165,176,050	128,818,577
Accrued profit on Murabaha placements	2,512,584	1,836,479
	<u>167,688,634</u>	<u>130,655,056</u>

MEFIC SAUDI RIYAL MURABAHA FUND
 Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 31 December 2016
 (Saudi Riyals)

9. INVESTMENTS

	<i>Note</i>	2016	2015
Held for trading	9(a)	9,266,624	8,960,075
Held to maturity investment	9(b)	39,602,719	67,781,065
		48,869,343	76,741,140

a) Held for trading

Held for trading investment as at 31 December is as follows:

2016	Carrying value	Fair value	Unrealized gain
MEFIC Murabaha Plus Fund (8,724.14 units)	8,960,075	9,266,624	306,549
2015	Carrying value	Fair value	Unrealized loss
MEFIC Murabaha Plus Fund (8,724.14 units)	9,271,475	8,960,075	(311,400)

b) Held to maturity

<i>Unquoted securities</i>	Maturity date	Coupon rate	2016	2015
EIB Sukuk	18/1/2017	4.718%	6,508,621	6,663,528
Tufika 5.375 Sukuk	22/4/2017	5.375%	10,056,191	18,096,088
Turfin 3.95 Sukuk	2/5/2017	3.95%	7,537,364	11,317,547
Turksk Sukuk	25/11/2024	4.489%	15,500,543	-
Saudi Electricity Company Global Sukuk	8/4/2043	5.06%	-	10,377,332
Emaar Sukuk	18/7/2019	6.40%	-	17,575,224
Darala Sukuk	25/11/2016	5.75%	-	3,751,346
			39,602,719	67,781,065

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties of the Fund include the Unitholders, the Fund Manager and other funds managed by the Fund manager. In the ordinary course of its activities, the Fund transacts business with the Fund Manager. Related party transactions are in accordance with the terms and conditions of the Fund. All transactions with related parties are carried out based on mutually agreed prices under formal agreement.

The transactions with related parties for the year are as follows:

Related Party	Nature of transaction	2016	2015
Middle East Financial Investment Company (<i>Fund Manager</i>)	Fund management fee	2,157,684	2,359,443
MEFIC Murabaha Plus Fund (<i>Fund managed by the Fund Manager</i>)	Subscription of units	25,000,000	-

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Riyals)

RELATED PARTIES TRANSACTIONS AND BALANCES (continued)

The above transactions resulted in the following balance due to related party:

	<u>2016</u>	<u>2015</u>
Management fee payable	<u>128,445</u>	<u>254,112</u>

As at 31 December 2016 the Fund has investment of SR 9.26 million (2015: SR 8.96 million) in MEFIC Murabaha Plus Fund, a fund managed by the Fund Manager. During the year, the Fund has received dividend from MEFIC Murabaha Plus Fund amounting to nil (2015: SR 1.7 million).

11. FINANCIAL RISK MANAGEMENT

The Fund maintains position in financial instruments as dictated by its investment policy. The Fund is exposed to the following risks:

Credit risk

Credit risk is a risk that one party to a financial instrument may fail to discharge an obligation and cause the other party to incur a financial loss. The Fund is exposed to the credit risk on cash and cash equivalents which are maintained with financial institutions with good credit rating. Thus the credit risk is not considered significant.

Murabaha profit rate risk

Murabaha profit rate risk is the exposure to fluctuation in prevailing profit rates that may have an adverse effect on the Fund's financial position and cash flows. The Fund's Murabaha placements are based on fixed rates and the fund is not exposed to profit rate fluctuations.

Currency risk

Currency risk is the risk that the value of a financial instrument may fluctuate due to a change in foreign exchange rates. The Fund has sukuk and its bank balance held with custodian is denominated in US Dollars, the Fund Manager monitors the fluctuations in foreign currency exchange rates and believes that the fund is not exposed to significant foreign currency risk.

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Fund Manager monitors the liquidity requirements on a regular basis and ensures that sufficient funds are available to meet any commitments as they arise.

MEFIC SAUDI RIYAL MURABAHA FUND
Managed by Middle East Financial Investment Company
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016
(Saudi Riyals)

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. Financial instruments comprise financial assets and financial liabilities.

The Fund's financial assets comprise of cash and cash equivalents, investments in held for trading and held to maturity securities and its financial liabilities comprise of management fee payable.

Investment held for trading is carried at fair value and the fair values of other financial instruments are not materially different from their carrying values.

13. LAST VALUATION DAY

The last valuation date of the year was 31 December 2016 (2015: 31 December 2015).

14. APPROVAL OF ANNUAL FINANCIAL STATEMENTS

These annual financial statements were approved by the Fund Board on 14 Jumada II' 1438 H corresponding to 13 March 2017 G.

MEFIC SAR MURABAHA FUND

Annual Performance Report

As of 31 Dec 2016

Fund Board of Directors

FUND OBJECTIVE

The main objective of the fund is to achieve capital increase and the provision of liquidity through investment in low-risk Murabaha based trade transactions that are compliant with Shariah principles and achieve a return above the benchmark SIBOR 3 months.

MONEY MARKET REVIEW - 2016

During the first 9 months of 2016, interest rates in Saudi Arabia climbed to the highest levels in seven years as oil's slump and increased government borrowing put further strain on the bank system. The three-month Saudi Interbank Offered Rate (SAIBOR) reached 2.38% at its peak. The liquidity crunch forced banks to offer high term deposit rates in the range of 3.5-4.0%. Meanwhile, during Oct-16, Saudi Arabia took advantage of the region's growing popularity, introducing the largest ever sovereign emerging market bond offering. It tapped international debt markets for \$17.5 billion, with an order book that totaled \$67 billion. The successful bond sale reflected the turn-around in investors' outlook and, coupled with the government's payments to the private sector, resulted in easing of the liquidity situation in the market; interest rates normalized to below 2% level post the issuance.

On the global front, after much speculation, the Fed finally raised the federal funds target by 25 bps in Dec-16. The move had little impact on local KSA markets as it was largely priced-in. Going forward, given a more hawkish outlook for 2017, with the expectations of three rate hikes rather than two; likely to keep pressure on money market rates in KSA.

FUND PERFORMANCE TABLE

Performance

Not Annualized if less than 1 Year

Performance	3 Months	6 Months	1 Year
Fund	0.33%	1.21%	2.52%
Benchmark	0.14%	0.39%	0.92%
Alpha	0.20%	0.82%	1.60%

Performance	YTD	2015	2014	Since Inception
Fund	2.80%	1.39%	2.31%	2.43%
Benchmark	1.04%	0.61%	0.72%	1.08%
Alpha	1.75%	0.78%	1.60%	1.35%

Performance	Fund	Benchmark
Annualized Return	2.80%	1.04%
Standard Deviation	0.0%	0.2%

Name	1 Year	3 Years	5 Years
Standard Deviation	0.20	0.23	0.28
Beta	0.76	0.75	1.02
Correlation	0.76	0.75	0.62
Information Ratio	1.47	1.65	1.00
R/R Ratio	4.17	2.76	2.00
R-Square	0.15	0.08	0.10
Sharpe Ratio	1.38	1.50	0.92
Tracking Error	0.04	0.04	0.06
Treynor Ratio	0.08	0.09	0.06

FUND FINANCIAL STATEMENTS

The audited financial statements for the fund have been prepared & uploaded on the Tadawul Website, within the specified time frame, in compliance with the IFR.

BOARD MEETING DISCUSSION – KEY TAKEAWAYS

- 1) The fund performance has been reviewed and it was observed that the Murabaha fund has achieved the second highest performance amongst peers and outperformed the benchmark by a significant margin.
- 2) It was mentioned to the Fund Board that in the category of operation of the fund; we have been amongst the top performing managers for the last four years.
- 3) The assets managed by the fund declined by 48% between Dec-15 and Nov-16; the primary reason being redemptions due to higher return on deposits offered by the the commercial banks to counter the liquidity crunch of 9M16.
- 4) Pursuant to the recently announced IFR regulations, the Murabaha funds are required not to exceed their single counterparty exposure to 25% of the total Fund size.
- 5) Ensuring that we comply with the requirement, MEFIC has started to increase their counterparties. We have already added United Arab Bank and are working on adding Khaleej Bank and Union National Bank at this point in time. We will actively be adding more counterparties in order to be able to obtain the best possible rates in the best interest of the unit holders.
- 6) It is confirmed to the Fund Board, in accordance the Article 13 of IRF, that the Fund has no conflict of interest.

APPROVALS

- 1) Dependent Board Member Ms. Haifa Al Obaid resigned and was replaced by Mr. Abdul Aziz Al Ghuneim.
- 2) Fund Manager Mr. Ashfaq Veryamani resigned and was replaced by Mr. Shahid Motan as the Acting Fund Manager.
- 3) Fund Board approved the change in the Auditor from KPMG to BDO Dr. Mohammed Amri.