

# MEFIC Saudi Freestyle Equity Fund Annual Report - 2019

2019



## Article 71(H)

### A Top Ten Holdings

Name of Stock	% Holding in the stock*
i AI RAJHI BANK	12.35%
ii Mouwasat Medical Services	8.26%
iii Herfy Foods	7.83%
iv United International Transportation Co	6.25%
v Bank AlJazira	5.81%
vi Bupa Arabia for Cooperative Insurance	5.66%
vii Jarir Marketing Co	4.87%
viii United Electronics Company	3.96%
ix The National Shipping Co of Saudi Arabia	3.36%
x Saudi Company for Hardware	3.18%

### F Standard Measure of Risk

i Standard Deviation – Fund	8.38%
ii Standard Deviation -Benchmark	17.36%

\*the top 10 stock holdings are as at Oct 01, 2019

The other information are based on Dec 31, 2019.

### B Fee Details

Name	% of Total NAV
i Management Fees with VAT	1.9%
ii Other Fees with VAT	0.5%
iii Total Expenses Ratio	2.40%

### C Profit Distribution

	Amount	%
C Profit Distribution	Nil	0.00%
D Dealing Expenses in the Fund	12,910.19	0.18%
E Fund Manager Investment in the Fund	-	0%
H Fund Borrowing %	Nil	0.00%

### G Fund & Index Performance (2019)

	YTD	Benchmark	Alpha
	16.16%	11.31%	4.85%

## Annex 5

i Name of the Fund	MEFIC Saudi Freestyle Equity FUND
ii Investment Objective	MEFIC Freestyle Saudi Equity Fund is an open-ended investment fund which aims to achieve capital growth over the long term through investing primarily in stocks of Shariah compliant companies that are listed on the Saudi Stock Exchange (Tadawul) and Parallel market (Nomu).
iii Policy & Procedure	Terms & Conditions Available on Tadawul Website
iv Distribution of Income & Gain Policy	No Distribution of Dividend
v Statement of Fund Report	<b>Fund Annual Financial Report as of December 31, 2019 is available on Tadawul and MEFIC website and available on request to investors at free of charge.</b>

### B Fund Performance Table

	1 Year	3 Year	5 Year	Inception
Return	16.16%	NA	NA	35.65%

	2018	2019
NAV	6,753,842	7,251,431
Unit Price	116.7793	135.6508
NAV High	119.3039	135.8615
NAV Low	99.9103	116.5626
Number of Units	57,834	53,457
Annual Return (YTD)	16.78%	16.16%
Expense Ratio	2.40%	2.40%
Income distribution	0.00%	0.00%
Annual Voting	No voting has been done	

# MEFIC Saudi Freestyle Equity Fund Annual Report - 2019

2019



## C Fund Fees and Expenses

	2018	2019
Management Fee with VAT	121,646	133,458
Other Expense with VAT	34,756	38,131
Total Expense Ratio	2.40%	2.40%

## 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-2019, MEFIC had assets under management (AUM) of SAR 7.27M.
Investment Fund Performance	MEFIC Saudi Freestyle Equity Fund yielded a YTD return of 16.16% as compared to benchmark Index of 11.31%, Alpha of 4.85%
Material Changes	<ul style="list-style-type: none"> <li>• Custodian fees is changed to 0.08% in Article 7 in the T&amp;C, Article 5 in the Information Memorandum and Article 6B in the Summary.</li> <li>• Audit fees is changed to 35,000 SAR, mentioned in Article 7 in the T&amp;C, Article 5 in the Information Memorandum, and Article 6B in the Summary.                             <ul style="list-style-type: none"> <li>• Indicator measurements fees is changed to 22,500 SAR in Article 7 in the T&amp;C, Article 5 in the Information Memorandum, Article 6B in the Summary.                                     <ul style="list-style-type: none"> <li>• Changing Ibrahim Alhedaithy Job title to CEO in Article 10 in the Information Memorandum.</li> </ul> </li> </ul> </li> <li>• Adding MEFIC REIT and removing Local Equity MEFIC Fund from the Fund Board in Article 10 in the Information Memorandum.                             <ul style="list-style-type: none"> <li>• Adding 2017 Revenues and Profit in Article 12 in the Information Memorandum.</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Audit fees is changed to 30,000 SAR, mentioned in Article 7 in the T&amp;C, Article 5 in the Information Memorandum, and Article 6B in the Summary.</li> </ul>

## E Custodian Information

Name & Address	Albilad Capital, King Fahd Branch Rd, Riyadh 12313.
Custodian Responsibilities	All necessary measures regarding custody and safe keeping of assets for unit holders.
Custodian Opinion	<p>According to the agreement with the custodian, they are not required to provide a statement of opinion on the following:</p> <ul style="list-style-type: none"> <li>• issued, transferred and redeemed the units in accordance with the provisions of the Investment Funds Regulations and the fund's Terms and Conditions;</li> <li>• valued and calculated the price of units in accordance with the provisions of the Investment Funds Regulations, the fund's Terms and Conditions and the information memorandum;</li> <li>• breached any of the investment restrictions, limitations and borrowing powers applicable to the Investment fund Regulations.</li> </ul>

## F Auditor Information

Name & Address	BDO Dr. Mohamed Al-Amri & Co. P.O. Box 8736, Riyadh 11492, Kingdom of Saudi Arabia
Auditor Opinion	Based on our (BDO Al-Amri) review, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSS") endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

## **MEFIC SAUDI FREESTYLE EQUITY FUND**

### **Annual Performance Report**

**As of 31 Dec 2019**

### **Fund Board of Directors**

#### **FUND OBJECTIVE**

The fund aims to achieve capital appreciation on the long term through investing in Shariah compliant listed companies in Saudi equity market.

#### **STOCK MARKET REVIEW – 2019**

Year 2019 proved to be an eventful year for Saudi Arabia where the developments pertaining to inclusion of the TASI in the MSCI EM and FTSE EM Indices and the Saudi Aramco IPO kept the investors interest alive in the Saudi Stock Market. These factors helped Saudi stock market to show a decent return of 7.19% during 2019.

In 2019, KSA saw a major surge in foreign inflows as the country's main index got included into MSCI Emerging and FTSE Emerging indexes during the year. The MSCI EM inclusion (2.83% weight) resulted in foreign inflows of around SAR 40bn. Similarly, the FTSE EM inclusion (2.86% weight) resulted around SAR 20bn inflows into the country. Aramco's inclusion in MSCI EM and FTSE EM Indices with a weight of 0.16% and 0.47% respectively pushed up TASI's weight in both the indexes, with additional inflow of SAR 2.4 and SAR 1.4bn, respectively.

Oil prices closed 2019 with the biggest gain in three years with an increase of 34% to close the year at USD 67.77/b for Brent crude. The surge came primarily on the back of hopes of better economic outlook as US and China inched closer to a trade deal.

#### **FUND PERFORMANCE TABLE (Dec-2019)**

<b>Performance</b>	<b>1M</b>	<b>3M</b>	<b>YTD</b>	<b>1Y</b>	<b>Since Inception</b>
Fund	5.98%	4.38%	16.16%	16.16%	35.65%
S&P Shariah Index	6.69%	3.73%	11.31%	11.31%	20.80%
TASI	6.17%	3.68%	7.19%	7.19%	16.09%
Fund Performance					
Information Ratio					
Beta					
Alpha	-0.71%	0.65%	4.85%	4.85%	14.86%

## **FUND FINANCIAL STATEMENTS**

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

## **BOARD MEETING DISCUSSION – KEY TAKEAWAYS**

- MEFIC Saudi Freestyle Equity Fund was ranked as the best Saudi Shariah Fund Performance in 2018 with a 16.78% return.
- YTD MEFIC Saudi Freestyle Equity Fund return was 9.61%.
- Comparing MEFIC Saudi Freestyle Equity Fund to S&P Shariah index, the fund had outperform the benchmark with an 11.52% return compared to 5.61%.
- MEFIC Saudi Freestyle Equity Fund had no breaches since the last Fund Board Meeting.
- CMA inspection was discussed along with no observations.
- Fund Board Members were informed with the last update in T&C, Information Memorandum and Summary.
- It is confirmed to the Fund Board, in accordance with the Article 13 of IFR, that the Fund has no conflict of interest.

## **APPROVALS**

- No major approval was considered.

**MEFIC SAUDI FREESTYLE FUND**  
Managed by  
**MIDDLE EAST FINANCIAL INVESTMENT COMPANY**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2019**  
together with the  
**INDEPENDENT AUDITOR'S REPORT**

**MEFIC SAUDI FREESTYLE FUND**  
Managed by Middle East Financial Investment Company  
**THE FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
For the year ended 31 December 2019

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## INDEPENDENT AUDITOR'S REPORT

**The Unitholders of  
MEFIC Saudi Freestyle Fund  
Riyadh, Kingdom of Saudi Arabia**

### **Opinion**

We have audited the financial statements of **MEFIC Saudi Freestyle Fund** (the "Fund") managed by Middle East Financial Investment Company (the "Fund Manager") which comprise the statement of financial position as at 31 December 2019 and the statements of comprehensive income, changes in net assets attributable to unitholders and cash flows for the year then ended, and notes 1 to 17 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, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by Saudi Organization for Certified Public Accountants ("SOCPA").

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 and Fund Manager in accordance with the professional code of conduct and ethics that are 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 its requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters include:

<b>Valuation of investments</b>	
<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>Investments at fair value through profit or loss comprises a portfolio of equity securities listed on the Tadawul, Kingdom of Saudi Arabia. These instruments are measured at fair value with the corresponding fair value changes recognized in the statement of comprehensive income.</p> <p>The fair value of these securities is determined through the latest published closing price per share on the reporting date.</p> <p>We considered this as a key audit matter given the significance of the valuation on the financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• An assessment of the methodology, appropriateness of the valuation technique and inputs used to value the investments.</li> <li>• Ensuring the shareholding in respective shares through custodian statements.</li> <li>• Testing the valuation of investments at the reporting date from Tadawul.</li> </ul>
<p>Refer to note (6f) for the accounting policy and note 7 for relevant disclosure.</p>	

## Other information

Management is responsible for the other information. The other information in the annual report comprises Fund Managers' report to unitholders but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the management and Those Charged With Governance for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements endorsed by SOCPA, the requirements of the Investment Fund Regulations as published by Capital Market Authority ("CMA") in the Kingdom of Saudi Arabia and Fund's term and condition with respect to the preparation and presentation of financial statements, and for such internal control as the management determines is necessary to enable the preparation of the 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 the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Those Charged with Governance, in particular the Audit Committee, are responsible for overseeing the Fund's financial reporting process.



## **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 ISAs 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 ISAs, 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 Manager's/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.
- 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 the management and 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.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other regulatory requirements**

Further, we confirm that in our opinion the accompanying financial statements of the Fund comply, in all material respects, with the requirements of the Investment Fund Regulations published by CMA in the Kingdom of Saudi Arabia and the Fund's terms and conditions with respect to the preparation and presentation of the financial statements.

**For Dr. Mohamed Al-Amri & Co.**

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



Riyadh, on 29 Sha'ban 1441 (H)  
Corresponding to: 22 April 2020 (G)

**MEFIC SAUDI FREESTYLE FUND**  
 Managed by Middle East Financial Investment Company  
**STATEMENT OF FINANCIAL POSITION**  
 As at 31 December 2019  
 (Saudi Riyals)

	Notes	<u>31 December 2019</u>	<u>31 December 2018</u>
<b>ASSETS</b>			
Cash and cash equivalents	7	260,648	2,492,542
Investments	8	<u>7,005,027</u>	<u>4,274,746</u>
<b>Total assets</b>		<u><b>7,265,675</b></u>	<u><b>6,767,288</b></u>
<b>LIABILITIES</b>			
Management fee payable	10&11	10,551	9,961
Other expenses payable	10&11	<u>3,693</u>	<u>3,486</u>
<b>Total liabilities</b>		<u><b>14,244</b></u>	<u><b>13,447</b></u>
<b>Net assets attributable to unitholders</b>		<u><b>7,251,431</b></u>	<u><b>6,753,841</b></u>
<b>Units in issue – numbers</b>		<u><b>53,456.5930</b></u>	<u><b>57,834.2275</b></u>
<b>Net assets value - per unit</b>		<u><b>135.6508</b></u>	<u><b>116.7793</b></u>
<b>Contingencies and commitments</b>	9		

The accompanying notes from 1 to 17 form an integral part of these financial statements.

**MEFIC SAUDI FREESTYLE FUND**  
 Managed by Middle East Financial Investment Company  
**STATEMENT OF COMPREHENSIVE INCOME**  
 For the year ended 31 December 2019  
 (Saudi Riyals)

	Notes	<u>2019</u>	<u>2018</u>
<b>INCOME</b>			
Realised gain on disposal of investments at fair value through profit or loss	8	<b>346,023</b>	497,325
Unrealised gain on investments at fair value through profit or loss	8	<b>783,736</b>	281,307
Dividends income		<b>186,665</b>	212,658
Other income		<b>59</b>	1,144
<b>Total income</b>		<b><u>1,316,483</u></b>	<u>992,434</u>
<b>EXPENSES</b>			
Management fee	10&11	<b>127,102</b>	115,853
Other expenses	10&11	<b>44,486</b>	40,549
Transaction's cost		<b>12,910</b>	44,039
		<b><u>184,498</u></b>	<u>200,441</u>
<b>Profit for the year</b>		<b>1,131,985</b>	791,993
<b>Other comprehensive income for the year</b>		<b>-</b>	-
<b>Total comprehensive income for the year</b>		<b><u>1,131,985</u></b>	<u>791,993</u>

The accompanying notes from 1 to 17 form an integral part of these financial statements.

**MEFIC SAUDI FREESTYLE FUND**  
 Managed by Middle East Financial Investment Company  
**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS**  
 For the year ended 31 December 2019  
 (Saudi Riyals)

	<u>2019</u>	<u>2018</u>
Net assets value at 1 January	6,753,841	-
Profit and total comprehensive income for the year	1,131,985	791,993
<b>Changes from unit transactions</b>		
Proceeds from issuance of units	1,361,589	20,108,401
Payments against redemption of units	(1,995,984)	(14,146,553)
<b>Net change from unit transactions</b>	<u>(634,395)</u>	<u>5,961,848</u>
<b>Net assets value at 31 December</b>	<u>7,251,431</u>	<u>6,753,841</u>

**TRANSACTIONS WITH UNITHOLDERS**

	<u>2019</u>	<u>2018</u>
	<u>Units</u>	<u>Units</u>
<b>Units at 1 January</b>	57,834.2275	-
Units issued during the year	11,411.2415	180,894.4355
Units redeemed during the year	<u>(15,788.8760)</u>	<u>(123,060.2080)</u>
<b>Units at 31 December</b>	<u>53,456.5930</u>	<u>57,834.2275</u>

The accompanying notes from 1 to 17 form an integral part of these financial statements.

**MEFIC SAUDI FREESTYLE FUND**  
Managed by Middle East Financial Investment Company  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2019  
(Saudi Riyals)

	Notes	<u>2019</u>	<u>2018</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
<b>Profit for the year</b>		<b>1,131,985</b>	791,993
Adjustments for:			
Realised gain on disposal of investments at fair value through profit or loss	8	<b>(346,023)</b>	(497,325)
Unrealized gain on investments at fair value through profit or loss	8	<b>(783,736)</b>	(281,307)
		<u>2,226</u>	<u>13,361</u>
Changes in operating assets and liabilities:			
Proceeds from sale of investments at fair value through profit or loss		<b>3,670,949</b>	12,820,401
Purchase of investments at fair value through profit or loss		<b>(5,271,471)</b>	(16,316,515)
Management fee payable		<b>590</b>	9,961
Other expenses payable		<b>207</b>	3,486
<b>Net cash used in operating activities</b>		<b><u>(1,597,499)</u></b>	<b><u>(3,469,306)</u></b>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Proceeds from subscription of units		<b>1,361,589</b>	20,108,401
Payments against redemption of units		<b>(1,995,984)</b>	(14,146,553)
<b>Net cash (used in) / generated from financing activities</b>		<b><u>(634,395)</u></b>	<b><u>5,961,848</u></b>
Net (decrease) / increase in cash and cash equivalent		<b>(2,231,894)</b>	2,492,542
<b>Cash and cash equivalents at beginning of the year</b>		<b><u>2,492,542</u></b>	<u>-</u>
<b>Cash and cash equivalents at 31 December</b>	7	<b><u><u>260,648</u></u></b>	<b><u><u>2,492,542</u></u></b>

The accompanying notes from 1 to 17 form an integral part of these financial statements.

## **MEFIC SAUDI FREESTYLE FUND**

Managed by Middle East Financial Investment Company

### **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2019

(Saudi Riyals)

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#### **1. THE FUND AND ITS ACTIVITIES**

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

The Fund aims to achieve capital growth over the long term through investing primarily in stocks of Shariah compliant companies that are listed on the main and parallel stock market of Saudi Arabia and included in Standard and Poor’s Shariah index.

The Fund commenced its operations on 14 Rabi’ Al-Thani 1439H (corresponding to 1 January 2018G). The approval from Capital Market Authority (“CMA”) for the establishment of the Fund was granted in its letter number 17/3403/5/3 dated 18 Ramadan 1438H (corresponding to 13 June 2017G).

The Fund is required to maintain minimum net assets of SR 10 million however, the Funds registered under CMA received an exemption to meet the said requirement till 31 December 2020 by way of circular dated 29 November 2018.

In dealing with the Unitholders, the Fund Manager considers the Fund as an independent accounting unit.

#### **2. REGULATORY FRAMEWORK**

The Fund is governed by the Investment Funds Regulations (“the Regulations”) issued by CMA as amended up to 16 Sha’ban 1437 H (corresponding to 23 May 2016 G) detailing requirements for investment funds operating in the Kingdom of Saudi Arabia.

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

Subscription / redemption requests are accepted on all days on which the Tadawul (Saudi stock market) is open.

The value of the Fund’s portfolio is determined twice a week on Monday and Thursday (each being a “Valuation Day”). 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 (Fund’s assets minus Fund’s liabilities) by the total number of outstanding Fund units on the next valuation day.

#### **4. BASIS OF PREPARATION**

##### **4.1 Statement of compliance**

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements endorsed by Saudi Organization for Certified Public Accountants (“SOCPA”), and requirements of the Investment Fund Regulations as published by the Capital Market Authority (CMA) and the Fund’s Terms and Conditions, so far as they relate to the preparation and presentation of the financial statements of the Fund.

##### **4.2 Basis of measurement and going concern assumption**

These financial statements have been prepared under the historical cost convention, except for certain financial assets, which are measured at fair value. These financial statements have been prepared following the accruals basis of accounting except for cash flow information.

The Fund does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of liquidity.

##### **4.3 Functional and presentation currency**

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

## MEFIC SAUDI FREESTYLE FUND

Managed by Middle East Financial Investment Company

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Saudi Riyals)

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#### 4.4 Financial year

The financial year of the Fund commences on 1 January and ends on 31 December of each calendar year, unless otherwise stated.

#### 5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

##### NEW STANDARDS AND AMENDMENTS EFFECTIVE

The following new standards, amendments and interpretations are also effective for the first time in these financial statements but none had a material effect on the Fund:

- IFRS 9 Financial Instruments – Amendments related to Prepayment Features with Negative Compensation

##### STANDARDS ISSUED BUT NOT YET EFFECTIVE

##### Other Amendments

The following amendments to standards that are issued but not yet effective and none are expected to have a significant impact on the Fund's financial statements:

Effective date	Amendments relate to following topics
1 January 2020	IAS 1 Presentation of Financial Statements, disclosure initiative brought some conceptual clarification.
1 January 2020	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, disclosure initiative brought some conceptual clarification.

#### 6. SIGNIFICANT ACCOUNTING POLICIES

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

##### a) Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, cash at bank and custodian and other short-term highly liquid investments with original maturities of three months or less, which are available to the Fund without any restriction.

##### b) Fund management fee and other expenses

Fund management fee and other expenses are measured and recognized as a period cost at the time when they are incurred.

##### c) Provisions

Provisions are recognized whenever there is present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

##### d) Zakat and Income Tax

Zakat and Income Tax are the obligation of the Unitholders and have not been provided for in these financial statements.

##### e) Net asset value

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



## **MEFIC SAUDI FREESTYLE FUND**

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#### **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***f) Financial instruments***

Financial instruments are recognized when the Fund becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### ***i) Financial assets***

The Fund determines the classification of its financial assets at initial recognition. The classification depends on the Fund's business model for managing the financial assets and the contractual terms of the cash flows.

##### ***(I) Classification***

The financial assets are classified in the following measurement categories:

- a) Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- b) Those to be measured at amortized cost.

For assets measured at fair value, gains and losses will be recorded in the statement of comprehensive income. For investments in equity instruments, this will depend on whether the Fund has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

##### ***(II) Measurement***

At initial recognition, the Fund measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income as incurred.

##### ***Debt instrument***

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. The Fund classifies debt instruments at amortized cost based on the below:

- a) The asset is held within a business model with the objective of collecting the contractual cash flows; and
- b) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and commission on the principal outstanding.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective commission rate ("ECR").

##### ***Equity Instrument***

If the Fund elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognized in the statements of comprehensive income as other income when the Fund's right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through profit or loss. Changes in the fair value of financial assets at fair value through profit or loss shall be recognized in other gain/ (losses) in the statements of comprehensive income as applicable.

##### ***(III) De-recognition of financial assets***

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognizes its retained interest in the asset and associated liability for amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of the transferred financial asset, the Fund continues to recognize the financial asset and also recognizes a collateralized financing for the proceeds received.

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#### **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***(IV) Impairment of Financial Assets***

The Fund applies expected credit loss (ECL) model for measurement and recognition of impairment loss on the financial assets and credit risk exposure that are debt instruments and are measured at amortized cost e.g., loans, deposits, receivables. An expected credit loss is the probability-weighted estimate of credit losses (i.e. present value of all cash shortfalls) over the expected life of the financial asset. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows that the Fund expects to receive. The expected credit losses consider the amount and timing of payments and hence, a credit loss arises even if the Fund expects to receive the payment in full but later than when contractually due. The expected credit loss method requires assessing credit risk, default and timing of collection since initial recognition. This requires recognizing allowance for expected credit losses in the statements of comprehensive income even for receivables that are newly originated or acquired.

Impairment of financial assets is measured as either 12 month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. '12 month expected credit losses' represent the expected credit losses resulting from default events that are possible within 12 months after the reporting date. 'Lifetime expected credit losses' represent the expected credit losses that result from all possible default events over the expected life of the financial asset.

The Fund uses the practical expedient in IFRSs 9 for measuring expected credit losses for receivables or investments using a provision matrix based on ageing of receivables. The Fund uses historical loss experience and derived loss rates based on the past twelve months and adjust the historical loss rates to reflect the information about current conditions and reasonable and supportable forecasts of future economic conditions. The loss rates differ based on the ageing of the amounts that are past due and are generally higher for those with the higher ageing.

##### ***ii) Financial liabilities***

The Fund determines the classification of its financial liabilities at initial recognition.

##### ***(I) Classification***

The financial liabilities are classified in the following measurement categories:

- a) Those to be measured at fair value through profit or loss,
- b) Those to be measured at amortized cost

##### ***(II) Measurement***

All financial liabilities are recognized initially at fair value. Financial liabilities accounted at amortized cost like loans and financings are accounted at the fair value determined based on the effective commission rate method ("ECR") after considering the directly attributable transaction costs.

The effective commission rate ("ECR") method is a method of calculating the amortized cost of a debt instrument and of allocating commission charge over the relevant effective commission rate period. The effective commission rate is the rate that exactly discounts estimated future cash outflow (including all fees and points paid or received that form an integral part of the effective commission rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to financings, payables etc.

The Fund's financial liabilities include management and other payables. Subsequently, the Fund classifies all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss which are measured at fair value.

## MEFIC SAUDI FREESTYLE FUND

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### NOTES TO THE FINANCIAL STATEMENTS

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#### **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

##### ***(III) De-recognition of financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of comprehensive income.

##### ***iii) Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

##### **g) Revenue recognition**

Gains or losses arising from changes in the fair value of financial assets carried at fair value through profit or loss are recognized in statement of comprehensive income. Details on how the fair value of financial instruments is initially and subsequently measured are disclosed in relevant notes to financial statements.

Gains or losses arising from disposal of financial assets carried at fair value through profit or loss are recognized in statement of comprehensive income on the day, transaction of disposal is executed.

##### **h) Critical accounting estimates and judgment**

The preparation of these 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 period in which the estimates are revised. Significant estimates and judgments used in impairment of financial assets are explained in relevant policy of financial instruments.

#### **7. CASH AND CASH EQUIVALENTS**

	<b><u>31 December 2019</u></b>	<b><u>31 December 2018</u></b>
Cash held with custodian	<b><u>260,648</u></b>	<b><u>2,492,542</u></b>

## MEFIC SAUDI FREESTYLE FUND

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#### 8. INVESTMENTS

	Notes	31 December 2019	31 December 2018
<b>Financial assets - at fair value through profit or loss</b>			
Listed equity securities	(a)	<u>7,005,027</u>	<u>4,274,746</u>

a) Movement in the equity securities during the year is as follows:

Opening balance		4,274,746	-
Purchased during the year		5,271,471	16,316,515
Sold during the year		(3,670,949)	(12,820,401)
Realized gain / (loss) on disposal of investments		346,023	497,325
Unrealized gain on investments		783,736	281,307
Closing balance		<u>7,005,027</u>	<u>4,274,746</u>

b) The classification of investments at FVTPL into industry groups specified by Saudi Stock Exchange is summarized as follows:

<u>Industry group</u>	<u>Market</u>	<u>market</u>
	<u>value</u>	<u>value</u>
		<u>(%)</u>
	<b>31 December 2019</b>	
Banks	1,326,919	18.94%
Insurance	443,250	6.33%
Health Care Equipment and Service	1,068,431	15.25%
Retailing	601,344	8.58%
Transportation	439,971	6.28%
Foods	728,352	10.40%
Consumer services	211,833	3.02%
Utilities	277,879	3.97%
Materials	1,219,139	17.40%
Energy	687,909	9.82%
	<u>7,005,027</u>	<u>100%</u>

<u>Industry group</u>	<u>Market</u>	<u>market</u>
	<u>value</u>	<u>value</u>
		<u>(%)</u>
	<b>31 December 2018</b>	
Banks	1,225,504	28.67%
Insurance	328,293	7.68%
Materials	300,305	7.03%
Health Care Equipment and Service	806,208	18.86%
Retailing	364,952	8.54%
Transportation	306,898	7.18%
Consumer services	942,586	22.05%
	<u>4,274,746</u>	<u>100%</u>

## MEFIC SAUDI FREESTYLE FUND

Managed by Middle East Financial Investment Company

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

(Saudi Riyals)

#### 9. CONTINGENCIES AND COMMITMENTS

There were no material contingencies and commitments at the reporting date.

#### 10. MANAGEMENT FEE AND OTHER CHARGES

The Fund Manager charges the following fee as per the terms and conditions of the Fund:

##### **Subscription fee**

The Fund Manager charges each investor a subscription fee of a percentage not exceeding 2% of the subscribed amount to cover administration costs and is netted off against proceeds from issuance of units.

##### **Management fee**

Management fee at the rate of 1.75% per annum of the net assets value of the Fund at each valuation day and is payable monthly.

##### **Other expenses**

Other expenses at the rate of 0.5% per annum of the net assets value of the Fund at each valuation day and is payable monthly.

#### 11. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

In the ordinary course of its activities, the Fund transacts business with its related parties. Related parties of the Fund include the Unitholders, the Fund Manager and other funds managed by 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. Related party transactions and balances are as follows:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2019</u>	<u>2019</u>
Middle East Financial Investment Company (the "Fund Manager")	Management fee	<u>127,102</u>	<u>115,853</u>
	Other expenses	<u>44,486</u>	<u>40,549</u>
MEFIC IPO Fund	Subscription of units	<u>-</u>	<u>830,000</u>
	Redemption of units	<u>-</u>	<u>796,736</u>

<u>Related party</u>	<u>Nature of transaction</u>	<u>31December 2019</u>	<u>31 December 2018</u>
Middle East Financial Investment Company (the "Fund Manager")	Management fee payable	<u>10,551</u>	<u>9,961</u>
	Other expenses payable	<u>3,693</u>	<u>3,486</u>

#### 12. FINANCIAL RISK MANAGEMENT

The Fund's activities expose it to a variety of financial risks namely; credit risk and liquidity risk and market risk (including commission rate risk, currency risk and price risk). The Fund's overall risk management policies focuses on the predictability of financial market and seeks to minimize potential adverse effect on the Fund's financial performance. Overall, risks arising from the Fund's financial assets and liabilities are limited. The Fund Manager consistently manages its exposure to financial risk without any material change from previous period in the manner describe in notes below

## MEFIC SAUDI FREESTYLE FUND

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### NOTES TO THE FINANCIAL STATEMENTS

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(Saudi Riyals)

#### **FINANCIAL RISK MANAGEMENT (Continued)**

##### **Credit risk**

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and cause other party to incur a financial loss. The Fund is exposed to credit risk only on its bank balance which is maintained with reputed local bank and custodian in the Kingdom of Saudi Arabia. The Fund is consequently not exposed to any significant residual credit risk.

##### **Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Fund's total credit exposure. The Fund's total credit risk with respect of financial instruments is with a local bank and custodian having satisfactory credit rating.

##### **Liquidity risk**

Liquidity risk is the risk that the Fund may encounter difficulty in generating funds to meet commitments associated with financial liabilities. The Fund Manager monitors the liquidity requirements on a regular basis and takes necessary actions to ensure that sufficient funds are available to meet any liabilities as they fall due under both normal and stress conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. As at reporting date, there is no maturity mismatch between financial assets and liabilities that exposes the Fund to liquidity risk.

	<b>Carrying amount</b>	<b>On demand or less than six months</b>	<b>Six to Twelve months</b>	<b>Over one year</b>
<b><u>Financial liabilities at amortized cost</u></b>				
Management fee payable	10,551	10,551	-	-
Other expenses payable	3,693	3,693	-	-
<b>As at 31 December 2019</b>	<b>14,244</b>	<b>14,244</b>	-	-

	<b>Carrying amount</b>	<b>On demand or less than six months</b>	<b>Six to Twelve months</b>	<b>Over one year</b>
<b><u>Financial liabilities at amortized cost</u></b>				
Management fee payable	9,961	9,961	-	-
Other expenses payable	3,486	3,486	-	-
<b>As at 31 December 2018</b>	<b>13,447</b>	<b>13,447</b>	-	-

##### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market prices.

Market risk comprises three types of risk: commission rate risk, currency risk and price risk.

##### **Commission rate risk**

Commission rate risk arises from the possibility that changes in commission rates will affect the value of or future cash flow of financial instruments. There are no commission bearing financial instruments held by the Fund. Accordingly, the Fund is not exposed to any commission rate risk.

##### **Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The Fund's financial instruments are all denominated in its functional currency, consequently the Fund is not subject to any currency risks.

## MEFIC SAUDI FREESTYLE FUND

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### NOTES TO THE FINANCIAL STATEMENTS

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(Saudi Riyals)

#### FINANCIAL RISK MANAGEMENT (Continued)

##### *Price risk*

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk is managed by the investment manager by diversifying the portfolio and limiting concentration of investments in financial instruments specified in Term and Conditions of the Fund and specified by CMA investment fund regulations.

The internal procedures require the investment manager to manage price risk on a daily basis by monitoring fund's portfolio exposure.

If the price risk is not in accordance with the Fund's investment policy or Investment Fund Regulations, then the Fund Manager is required to rebalance the portfolio within 5 days of such breach.

##### **Financial instruments by category**

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities:

	Notes	31 December 2019	31 December 2018
<b>Financial assets</b>			
<b>- at fair value through profit or loss:</b>			
Investments	8	7,005,027	4,274,745
<b>- at amortized cost:</b>			
Cash and cash equivalents	7	260,648	2,492,542
<b>Total financial assets</b>		<u>7,265,675</u>	<u>6,767,288</u>
<b>Financial liabilities</b>			
<b>-at amortized cost:</b>			
Management fee payable	9&10	10,551	9,961
Other payable	9&10	3,693	3,486
<b>Total financial liabilities</b>		<u>14,244</u>	<u>13,447</u>

#### **13. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

As at 31 December 2019	Within 12 months SR	After 12 months SR	Total SR
<b>ASSETS</b>			
Investments	7,005,027	-	7,005,027
Cash and cash equivalents	260,648	-	260,648
<b>TOTAL ASSETS</b>	<u>7,265,675</u>	-	<u>7,265,675</u>
<b>LIABILITIES</b>			
Management fee payable	10,551	-	10,551
Other expenses payable	3,693	-	3,693
<b>TOTAL LIABILITIES</b>	<u>14,244</u>	-	<u>14,244</u>

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#### MATURITY ANALYSIS OF ASSETS AND LIABILITIES(Continued)

As at 31 December 2018	Within 12 months SR	After 12 months SR	Total SR
<b>ASSETS</b>			
Investments	4,274,746	-	4,274,746
Cash and cash equivalents	2,492,542	-	2,492,542
<b>TOTAL ASSETS</b>	6,767,288	-	6,767,288
<b>LIABILITIES</b>			
Management fee payable	9,961	-	9,961
Other expenses payable	3,486	-	3,486
<b>TOTAL LIABILITIES</b>	13,447	-	13,447

#### **14. FAIR VALUE 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Fund. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Underlying the definition of fair value is the presumption that the Fund is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, 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;



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#### **FAIR VALUE OF FINANCIAL INSTRUMENTS(Continued)**

Currently, investment in listed equity securities is the only investment carried at fair value and is designated in level 1. The Fund's other financial assets consist of cash held with custodian which is carried at amortized cost. Its financial liabilities consist of management fee and other liabilities. There was no other material Level 1, 2 or 3 asset or liability during the current and prior year reported.

The carrying values of all other financial assets and liabilities reflected in these financial statements approximate their fair values.

#### **Transfers between fair value hierarchies**

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the changes have occurred. However, there were no transfers between fair value hierarchies during the current or any of the prior periods reported.

#### **15. LAST VALUATION DATE**

The last valuation date of the year was 31 December 2019.

#### **16. SUBSEQUENT EVENTS**

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across the globe, causing disruptions to businesses, economic activity and decline in stock market indices in those jurisdictions. The Fund considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Fund.

#### **17. APPROVAL OF FINANCIAL STATEMENTS**

These financial statements were approved by the Fund's Board on 29 Sha'ban 1441 H corresponding to 22 April 2020 G.

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