



SEDCO Capital REIT
Annual Report 2018

Fund Name

SEDCO Capital REIT Fund is a public closed-ended Shariah compliant traded real estate investment fund, established in accordance with the laws and regulations applicable in the Kingdom of Saudi Arabia and complies with the regulations and instructions of the CMA.

Fund Objectives and Dividend Policy

Acquire developed and ready to use properties in order to generate regular rental income and distribute at least 90% of the Fund's net profit to the Unitholders throughout the term of the Fund. Dividend will be paid out within 30 business days following the end of June and December of each calendar year, excluding capital gains from the sale of assets which may be reinvested for acquiring assets for the interests of Unitholders.

Fund Factsheet

Fund Size Upon Listing	SAR 600 million
Number of Units Listed	60 million units
Fund Currency	Saudi Riyals (SAR)
Headquarters	Kingdom of Saudi Arabia
Operation Date	1 April 2018
Date of listing the Fund in TADAWUL	1 May 2018
Fund Term	99 (ninety-nine) years following the date of listing
Target Dividend	6.1%
Actual Dividend (on an annual basis)	6.1%

Assets Targeted by the Fund for Investment

The Fund intends to achieve its objectives and enhance the value of shareholders' capital by:

- Investing in developed and ready to use properties in order to generate regular rental income.

- Re-invest the annual retained earning (10% of total annual income) and capital gains from property sales in developed and ready to use assets in order to generate regular rental income, upon distribution of at least 90% of the Fund's net profit as throughout the term of the Fund to the Unitholders.
- Invest in low-performing assets, but promising, as the Fund Manager sees in view of their location or structural and design characteristics, in order to increase their operational efficiency and raise their rates of return more than those generated at the time of acquisition by modifying one or some of the characteristics such as design, leasing strategies associated with tenant mix and lease price, and reasons for use.
- Invest no more than 25% of the Fund's total assets value, according to the latest audited financial statements, in the real estate development activities, whether owned by the Fund or not, or to renovate or redevelop those assets.

Fund Updates

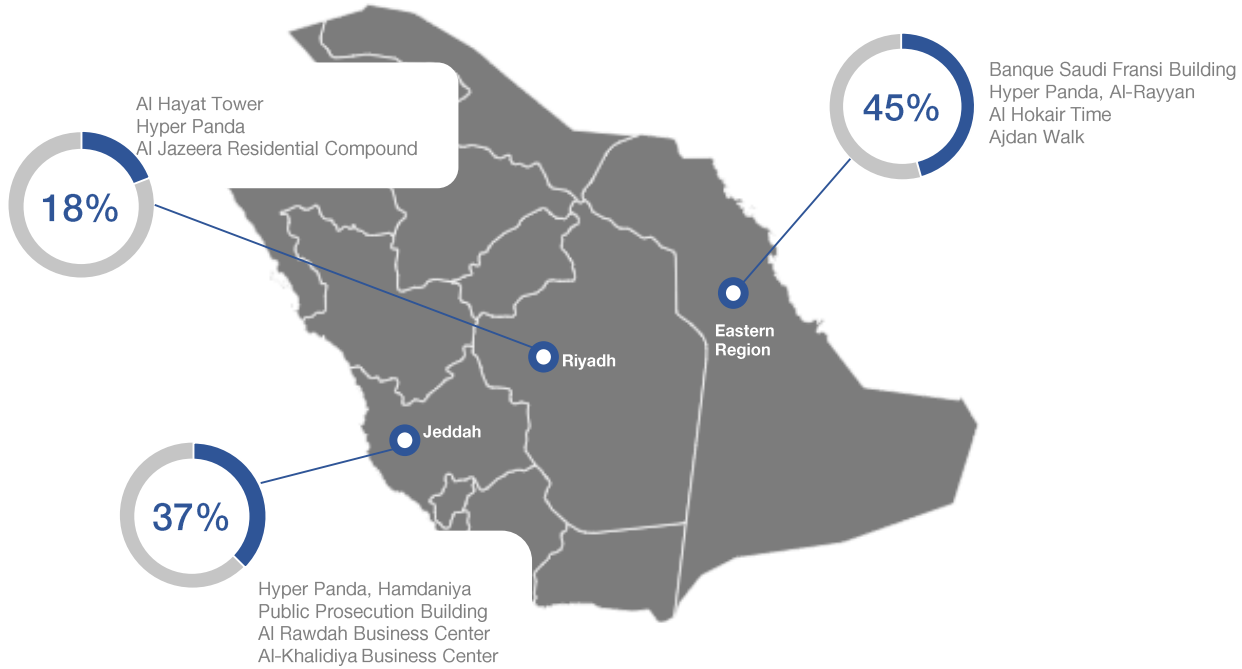
- The occupancy rate of the real estate portfolio raised by 4% compared to the figure stipulated in investors semi-annual report as at 30 June 2018.
- A Sharia-compliant facility was signed with Al Rajhi Bank on 30 April 2018. The facilities amount to SAR 600,000,000.
- Whitecubes and ValuStart valued SEDCO Capital REIT properties as at 13 December 2018.
- Cash balance of the Fund amounted to SAR 111,955,644 as at 31 December 2018, including SAR 69 million payable for the acquisition of Ajdan Walk and rent received. Part of the balance was used for distribution of dividends at Q4 of 2018.

Geographical Diversity

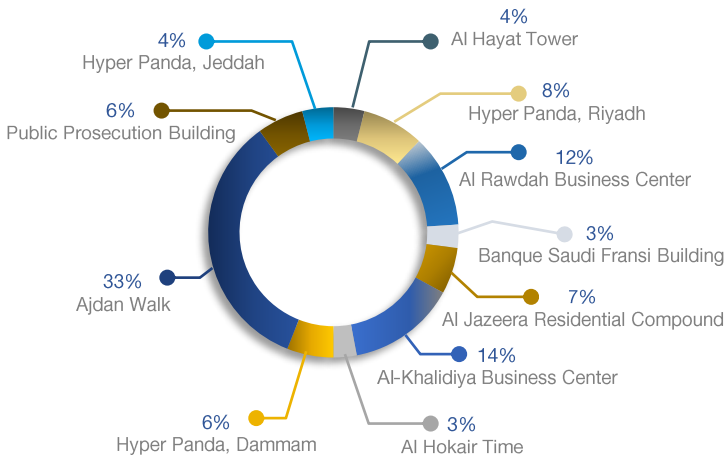
Since Fund inception, the Fund's assets were concentrated in Riyadh and Jeddah at 33% and 67%, respectively.

The Fund Manager, in order to mitigate concentration risks and maximize benefits for the Unitholders, acquired 4 assets in different sector in Eastern province, In Q3 2018 the Fund acquired the building leased to Banque Saudi Fransi (retail sector), Hyper Panda – Al-Rayyan Branch (retail sector), and Al Hokair Time (entertainment sector). In Q4 2018, the Fund Manager acquired Ajdan Walk (entertainment / office sector).

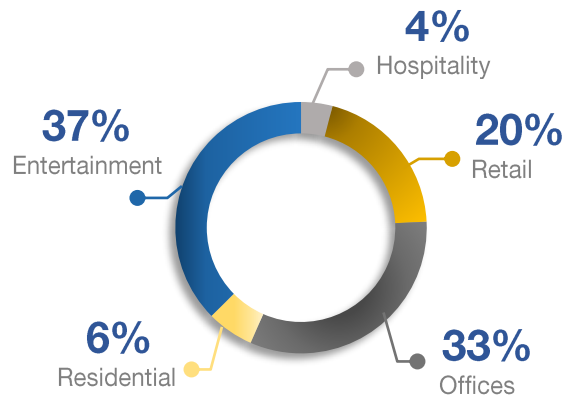
Fund Assets



Assets Allocation



Sectoral Diversification of the Portfolio



Fund Assets - Riyadh

Al Hayat Tower
Apartments Hotel



Description	Hotel apartments located on Ka'ab Bin Malik Street, Al Maathar District, Riyadh
Sector	Hospitality
Building Area/m²	6,574
Occupancy Rate	100%
Annual Income	SAR 3,400,000
Tenant	Dar Al Masarat Arabia Company Limited

Hyper Panda - Riyadh




Description	Hypermarket in Riyadh - Ishbilliai District Branch
Sector	Retail
Building Area/m²	10,784
Occupancy Rate	100%
Annual Income	SAR 5,822,670
Tenant	Al Azizia Panda United Company


Al Jazeera Residential
Compound





Description	Residential compound located in the center of Riyadh on Mashaja Bin Saud Street, Sulaymaniyah District
Sector	Residential Sector
Building Area/m²	10,730
Occupancy Rate	97%
Annual Income	SAR 6,902,000
Tenant	Multi-Tenants

Fund Assets - Jeddah


Public Prosecution Building		Description	The Public Prosecution Building, located on the Rahmaniya Road, Al-Rayyan District, Jeddah
		Sector	Office sector
		Building Area/m²	14,574.81
		Occupancy Rate	100%
		Annual Income	SAR 5,500,000
		Tenant	Saudi Commission for Investigation and Prosecution (Public Prosecution)


Al-Khaldiya Business Center		Description	An administrative and commercial center located on Prince Sultan Street, Al Khalidiyah District, Jeddah
		Sector	Office sector
		Building Area/m²	19,671.29
		Occupancy Rate	80%
		Annual Income	SAR 11,388,410
		Tenant	Multi-Tenants


Hyper Panda - Jeddah		Description	Hypermarket is located in Hamdaniya Street, Al-Hamdaniya District, Jeddah
		Sector	Retail
		Building Area/m²	5,858
		Occupancy Rate	100%
		Annual Income	SAR 2,845,151
		Tenant	Al Azizia Panda United Company


Al Rawdah Business Center		Description	An administrative and commercial center located in Prince Saud Al Faisal Street, Al Rawdah District
		Sector	Office sector
		Building Area/m²	13,335
		Occupancy Rate	72%
		Annual Income	SAR 7,625,343
		Tenant	Multi-Tenants

Fund Assets - Dammam

Banque Saudi Fransi Building		Description	A building leased Banque Saudi Fransi located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
		Sector	Retail Sector
		Building Area/m²	879
		Occupancy Rate	100%
		Annual Income	SAR 1,500,000
		Tenant	Banque Saudi Fransi

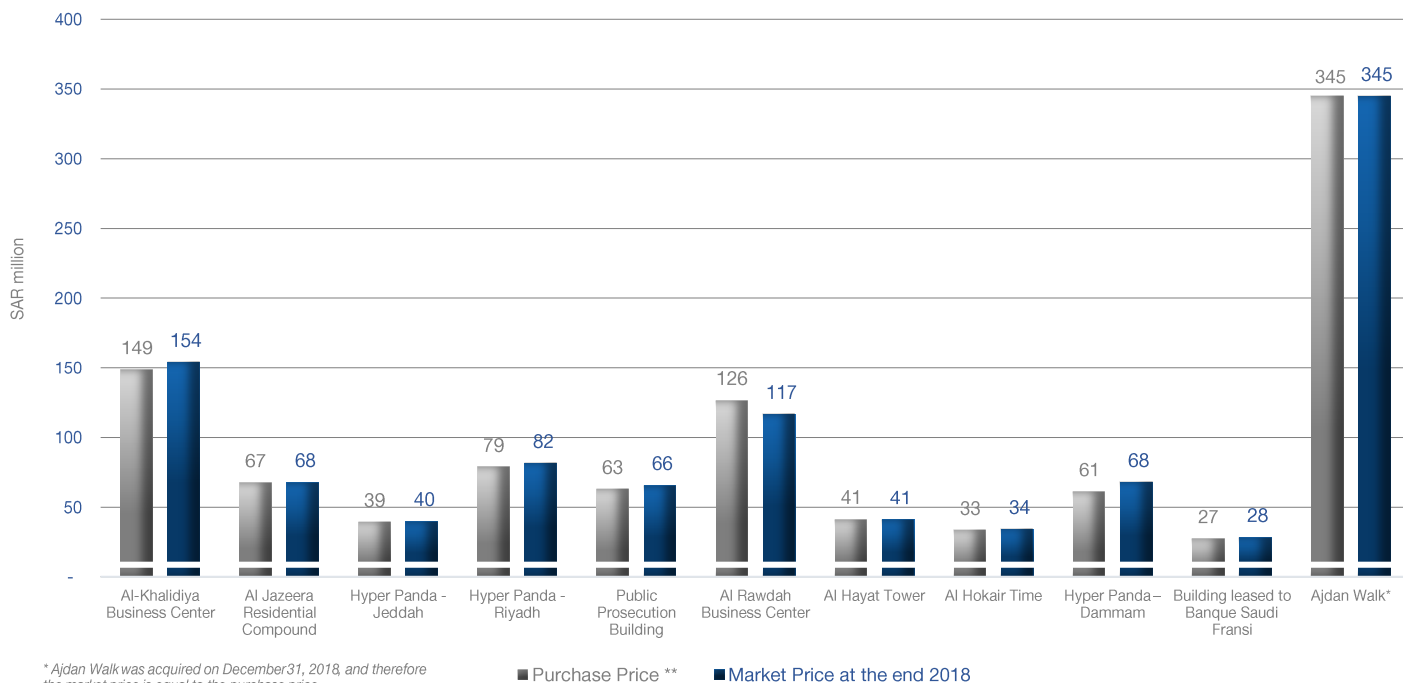
Hyper Panda - Dammam		Description	Panda Hypermarket is located on Imam Ali Bin Abi Talib, Al Rayyan District, Dammam
		Sector	Retail
		Building Area/m²	9,800
		Occupancy Rate	100%
		Annual Income	SAR 4,966,761
		Tenant	Al Azizia Panda United Company

Al Hokair Time Center		Description	Al Hokair Time is located on the east coast of Dammam
		Sector	Entertainment sector
		Building Area/m²	3,326
		Occupancy Rate	100%
		Annual Income	SAR 2,200,000.
		Tenant	Abdulmohsen Al-Hokair Group for Tourism and Development Company

Ajdan Walk		Description	Ajdan Walk is located on Prince Turki Street in Al Khobar
		Sector	Entertainment / Office sector
		Building Area/m²	32,212
		Occupancy Rate	100%
		Annual Income	SAR 25,000,000
		Tenant	AlOula Real Estate Development Company

Market value vs. Purchase Price

The market value of the Fund's assets at the end of 2018 raised by 1.04% to reach SAR 1,042 million, based on the average valuation of two independent accredited real estate valuers, ValuStrat and Whitecubes, compared to the total purchase cost of assets of SAR 1,031 million.



Summary of leased and non-leased Assets, Occupancy Rate, and Weighted Average Lease Expiry (WALE)

Property	Leased/non-leased	Occupancy	WALE
Al Hayat Hotel Apartments Tower	Leased	100%	6 years
Hyper Panda - Riyadh	Leased	100%	9.5 years
Al Jazeera Residential Compound	Leased	97%	0.5 years
Public Prosecution Building	Leased	100%	0.2 years
Al-Khalidiya Business Center	Leased	80%	1.7 years
Hyper Panda - Jeddah	Leased	100%	9.2 years
Al Rawdah Business Center	Leased	72%	0.9 years
Building leased to Banque Saudi Fransi	Leased	100%	6.9 years
Hyper Panda - Dammam	Leased	100%	6.0 years
Al Hokair Time	Leased	100%	18.4 years
Ajdan Walk	Leased	100%	10.0 years
All Assets are leased and income generating		94%	5.0 years

Portfolio Occupancy Rate

The occupancy rate of the real estate portfolio raised by 4% compared to the figure stipulated in investors semi-annual report as at 30 June 2018.



Dividend Distributions

The Fund Manager intends to distribute semi-annual cash dividends to investors of no less than 90% of the Fund's net profit within 30 calendar days following the end of June and December of each calendar year, excluding the capital gains arising from the sale of assets which may be reinvested in additional assets for the interests of Unitholders.

Since listing, the Fund has distributed the following CoC dividend:



Transactions with related parties

The Fund Manager has transactions with related parties summarized as follows:

- The rental of units at Al Khalidiya Business Center.
- Maintenance and operation contracts for three of the Fund's properties.

Rents with related parties represent 4.94% of total fund revenues whereas maintenance contracts account for 15% of total fund expenses. The Fund Manager confirms that all these transactions and contracts have been based on the principle of equality among all customers and without any preference.

Related parties are:

- Arabian Entertainment Co., Ltd
- Al - Mahmal Facilities Services Company
- Tazweid Talent Co.

*6.1% on annual basis

Topics discussed and resolutions issued by the fund board

DATE	TOPICS	RESOLUTIONS
28 May 2018 (First Fund Board Meeting)	<p>The Fund's Board of Directors discussed the progress of the Fund's operations during the first month of listing the Fund on Tadawul on 1 May 2018. The existing agreements related to the Fund's assets and the performance of the Fund were reviewed to ensure that the Fund has achieved the target returns as promised by the Fund Manager during the offering period. Topics discussed:</p> <ul style="list-style-type: none"> Property management and maintenance agreements Updating the memberships of the Board of Directors 	<ul style="list-style-type: none"> Approve agreements with certain entities that provide property management and maintenance services for the Fund's assets. It was agreed to update the directorship lists of all members of the Board of Directors associated with other companies or investment funds in order to avoid any conflict of interest.
3 July 2018	<ul style="list-style-type: none"> Dividend distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for the second quarter ended 30 June 2018.
3 July 2018	<ul style="list-style-type: none"> Acquisitions 	<ul style="list-style-type: none"> The Fund's Board of Directors approved the acquisition of 3 properties in Dammam: (1) Bank Saudi Fransi Property, (2) Panda property, and (3) Alhokair Time.
2 August 2018	<ul style="list-style-type: none"> Draft of Interim Financial Statements 	<ul style="list-style-type: none"> The Fund's Board of Directors approved the draft of Interim financial statements prepared by the external auditor for the period from 1 April 2018 to 30 June 2018.
15 October 2018	<ul style="list-style-type: none"> Dividend distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for the third quarter ended 30 September 2018.
22 October 2018	<ul style="list-style-type: none"> The addition of valuers 	<ul style="list-style-type: none"> The Fund's Board of Directors decided to add 3 more accredited valuers: (1) Esnad, (2) White Cubes, and (3) ValuStrat, subject to CMA approval.
1 November 2018 (Second Fund Board Meeting)	<ul style="list-style-type: none"> Alkhalidiyah Business Center proposal Handling the Fund's expenses 	<ul style="list-style-type: none"> The Board of Directors decided to consider the Fund Manager's proposal and study every option available for improvements related to the construction of a parking lot that follows the Khalidiyah Business Center to increase the attractiveness of the building at a cost of SR 16 million. The Board of Directors approved granting the fund manager a sum of SR 500,000 to be disposed of at his discretion in order to manage the Fund assets and expenses.
27 December 2018	<ul style="list-style-type: none"> Dividend distribution 	<ul style="list-style-type: none"> The Fund's Board of Directors approved a dividend distribution for the fourth quarter ended 31 December 2018.
30 December 2018 (Third Fund Board Meeting)	<ul style="list-style-type: none"> The acquisition of Ajdan Walk 	<ul style="list-style-type: none"> The Fund's Board of Directors approved the acquisition of Ajdan Walk property which would significantly contribute to the Fund's returns.

Financial Performance

Fund Size	As of 31 December
Net market value of the Fund's assets at the end of the financial year (Fair Value)	602,081,783
Net market value of the Fund's assets per unit at the end of the financial year (Fair Value)	10.0347
Net market value of the Fund's assets at the end of the financial year (Book Value)	578,983,917
Net market value of the Fund's assets per unit at the end of the financial year (Book Value)	9.6497
Highest net asset value per unit for each financial year (Fair Value)	10.0347
Lowest net asset value per unit for each financial year (Fair Value)	9.8281
Income distribution per unit	0.4575
Percentage of expenses borne by the Fund	3.54%
Net Income	6,433,917
Distribution Yield	6.1% (on an annual basis)

Services, fees and commissions paid by the Fund to external parties throughout the year

Indicator	As of 31 December
Operating expenses	6,132,619
Management fees	4,464,019
Finance fees	1,379,771
Professional fees	762,607
Other costs	635,567
Depreciation and amortization	7,948,748
Total expenses	21,323,331

Performance record

Period	Total return
Since Inception	6.1% (on an annual basis)
One Year	6.1% (on an annual basis)
Three Years	N/A
Five Years	N/A
2018	
Total Return	6.1% (on an annual basis)

The Fund Manager also received the following fees for the acquisitions of Banque Saudi Fransi building, Hyper Panda-Dammam, Al Hokair Time and Ajdan Walk, which represent capital expenditures:

- Acquisition fee: SAR 2,981,250
- Brokerage Fees: SAR 4,747,500

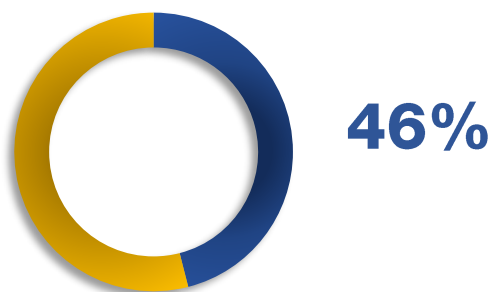
The Fund Manager also received a financing arrangement fee of SAR 7,500,000.

Special commissions received by the Fund Manager

The Fund Manager has not received any special commission during the period.

Leverage

An amount of SAR 504 million has been used to finance the acquisition of properties located in Dammam and Al Khobar, Banque Saudi Fransi Building, Al Hokair Time, Hyper Panda and Ajdan Walk.



Stock

Since listing, the stock has experienced different levels of volatility hitting a lowest of SAR 7.00 then rebounded due to the positive news, such as the dividend distribution announcements and the successful acquisitions by the Fund, to finish 2018 at SAR 8.01.

Risk Assessment Report

The activities of the Fund involve a variety of external risk factors such as market, credit, liquidity, operation risks. Furthermore, there are risks related to the asset class itself.

The Fund's overall risk management program focuses on predictability of financial markets and seeks to minimize the potential negative impact on the Fund's financial performance. Accordingly, risk assessment focuses on the most important risk factors, including, but not limited to:

Summary

Based on the audited financial statements and the achievements during the year, the fund has achieved its objectives by reaching a distribution of 6.10% on an annual basis, and that's what the fund manager has promised.

Main risks	Description	Assessment
Market Risks	Market risks arise from external factors such as macroeconomic conditions, competition, supply and demand, political changes, foreign exchange, etc.	The Fund Manager regularly monitors volatility and changes in the overall economic environment, local real estate markets including capitalization rate, inflation rate, taxation, valuations, competition from similar assets and other factors. Given these factors, the Fund Manager believes that the impact of current market factors can be mitigated by diversification of asset classes that add stability to the portfolio while minimizing exposure to economic volatility. In addition, the risk of vacancies is managed through pro-active asset management tactics. Market research is conducted to avoid any economic constraints as much as possible.
Risks related to the use of bank financing	Bank financing is associated with multiple risks such as interest rate and leverage related to refinancing risk. The risk of higher interest rates is associated with the risk of financial loss that may ultimately affect the financing conditions of the Fund.	The Fund Manager uses bank financing to enhance returns to investors. Based on the expected interest rate trend, the Fund Manager may resort to other financial instruments to manage these risks. The Fund Manager recognizes that raising leverage may lead to unexpected losses.
Credit Risk	Credit risk arises from the possibility that tenants will encounter financial difficulties and their inability to meet their rental obligations.	Credit risk is mitigated by geographical diversification, a variety of tenant mix and different asset classes, and ongoing credit ratings for tenants. For new leases, a credit assessment is performed on an ongoing basis, and the tenant's credit and arrears are monitored closely by the Fund Manager.
Development risk	Development risks associated with real estate projects under development include: Delay in construction and its impact on financial performance, costs exceeding planned allocations that may affect the profitability and / or financial feasibility of the Project, and the inability to meet the expectations of revenue on completion. Delay may lead to legal risk.	This type of risk is somewhat mitigated based on the fact that the Fund is entitled to invest a maximum of 25% of the value of its assets in assets under development. The Fund Manager also aims to mitigate these risks by managing the contractual framework of real estates.
General asset class risk	General asset class risk include, for example, stock price volatility, potential deviations between net asset value and market price, possible decline in share price and liquidity risk.	The market price of units may be affected by changes in general market conditions, volatility in stock markets and many other factors beyond the control of the Fund Manager.

Main risks	Description	Assessment
Operating risks	Risk of loss due to failure of internal processes, operational procedures, external events, loss of key personnel, service providers, as well as business continuity risks.	<p>The Fund Manager has developed a framework for monitoring and controlling day-to-day activities to mitigate operational risks. This includes holding periodic meetings to identify potential operational risks and review and resolve operational issues. The Fund Manager also follows a well-considered approach to monitoring, identifying and managing operating risks associated with the day-to-day management and maintenance of the Fund's real estate portfolio. Internal audits are conducted periodically to review process compliance and to identify and correct any gaps in procedures. A business continuity plan has been developed to mitigate the risk of continued business resulting from catastrophic interruption or losses.</p> <p>In addition, from the perspective of key staff risks, the Fund Manager did not make any significant changes in the organizational structure during the year. The Fund Manager regularly monitors the performance of service providers.</p>
Liquidity Risk	Liquidity risk has many dimensions such as inability to meet rental obligations or exit from real estate in accordance with the contractual agreement.	<p>The cash flow generated by operating the real estate portfolio represents the principal source of liquidity used to repay periodic interest arising from financing and general and administrative expenses of the Fund. The Fund Manager is therefore keen to ensure that sufficient funds are available to meet all obligations in a timely and cost-effective manner. In addition, the Fund Manager shall associate excess funds with short term deposits in accordance with cash management policies and procedures. Lower liquidity in the real estate market may affect valuations.</p> <p>Exit from a real estate at a lower cost of acquisition (including the cost arising from the acquisition) may reduce the expected returns to investors.</p>
Regulatory risks	The Fund operates according to the guidelines and controls as set forth in the "Real Estate Investment Traded Funds Instructions" issued by CMA. There could be more regulatory risks related to the real estate market or general policy.	The Fund Manager has followed an effective approach to monitoring of regulatory requirements in all the Fund's management activities such as compliance and risk management aimed at establishing and confirming appropriate controls to avoid non-compliance.
Legal risks	The risks involved in legal arrangements, contracts, agreements and obligations.	The Fund Manager has departments and sections specializing in legal and compliance matters, directed by the Chief Executive Officer, who is responsible for guidance to ensure compliance with all organizational and compliance matters.
Cybercrime risks	Cybercrime such as cyber-security incidents and any event that may adversely affect or threaten the confidentiality, integrity and / or availability of SEDCO's information resources. Cybercrime may cause significant losses.	The Fund Manager has taken necessary measures and actions to monitor and reduce these risks. In spite of comprehensiveness of these measures, they ensure that financial results are not adversely affected in the event of any violations or breaches of regulations and accounts, God forbid.
Valuation risk	The quality of valuation does not meet the organizational standards.	The Fund Manager values the Fund's real estate assets based on a valuation prepared by independent valuers accredited Saudi Authority for Accredited Valuers (TAQEEM). The average values of the valuations are taken. If there is a significant difference between the valuations, the Fund Manager shall appoint a third valuer.
Risks of fund placement and reinvestment	Risk of delay in placement of funds in good assets	This risk is mitigated by proactive market research of the source of potential good investment opportunities.

Real Estate Market in Riyadh*

Hospitality Industry

By the end of 2018, total hotel room inventory reached 13,700 apartment. Hotel occupancy rates rose by one basis point to 55% during the period from the beginning of 2018 to November compared to the same period last year. Meanwhile, average daily room prices fell by 10% year-on-year to around SAR 637. This is largely due to the continued increase in supply, resulting in an 8% decrease in revenue per available room to around SAR 350 during the same period.

JLL expects the development of new infrastructure, entertainment options and festivals will help diversify Riyadh's tourism base, particularly the demand for entertainment. In contrast, hotel owners are likely to diversify their offerings and focus on improving their services, updating their interior designs and introducing new technologies to meet new requirements.

Retail sector

In 2018, nearly 98,000 m² of retail space was delivered, of the total retail space in the retail outlets market, which is much less than the average area delivered in the past three years of 150 thousand m². Most of these areas fall under the category of small malls, thus increasing the total retail outlets of shopping malls in Riyadh to 2.15 million m².

Rents of retail outlets in all categories of shopping centers fell in 2018. Being the most influential category of malls, local malls recorded a 10% decline compared to the last year. At the same time, rents fell in both of super regional commercial malls and regional malls at a lower rate due to limited supply. In contrast, vacancy rates across all commercial centers rose to 15% by the end of the year.

JLL expects the nature of retail outlets in Riyadh to evolve in line with the growth of the city's workforce, which has a strong purchasing power. To attract this consumer base, new shopping malls are expected to offer more entertainment options and food and beverage outlets, adopt unique designs and interactive technologies, and expand their tenant mix to global brands.

Residential sector

The average rent of residential units in Riyadh compared to last year decreased by 1% for apartments and 2% for villas in Q4 of 2018 compared to the same period in 2017. Sale prices also fell by 1% for apartments and by 3% for villas during the same period. Compared to the previous quarter, there has been no significant drop in sale prices or rents, indicating that the market is slowly reaching its bottom. Housing market in Riyadh is expected to continue to decline in 2019, albeit at a slower pace, with more supply being delivered.

With the completion of the Riyadh Metro Project, JLL expects the overall situation of the housing market to change significantly as the value of properties close to the transportation network is expected to increase.

The total supply of apartments and villas in Riyadh is 1.3 million units. Most developers are still committed to providing affordable units in line with the Government's initiative.

Real Estate Market in Jeddah*

Office sector

The average rent of commercial offices in Jeddah declined by 19% in 2018. The rents of Class A quality management areas decreased by 14% to SAR 1015 per square meter, while rents of Class B administrative premises in sub-areas decreased by 22% to an average of SAR 548 per square meter, with owners adjusting rents in line with market levels.

Vacancy rates increased during this quarter to 21%. JLL expects rents to decline in the next 12 months and that vacancy rates will rise due to additional supply and competition.

JLL expects the sector to benefit from investments in large infrastructure projects such as the recently operated Al-Haramain Rail Project linking Jeddah to Jeddah Airport and King Abdullah Economic City. The expansion of King Abdul Aziz International Airport is also expected to attract further attention as it helps to establish Jeddah as a leading regional trading hub.

Retail sector

In 2018, nearly 32,000 m² of retail space was delivered, which is much less than the average area delivered in the past three years.

Retail outlets in regional malls continued to decline during Q4 of 2018, down by 5% compared to the past year. In contrast, rents in major regional trading markets remained stable against the backdrop of limited supply. Vacancy rates remained relatively stable as tenants continued to provide incentives to retain tenants and maintain good occupancy rates.

With the rapid social and economic changes in the Kingdom, cinemas, food and beverage outlets and entertainment options have become vital features of malls and are expected to play an important role in the forthcoming mix of supply, as mall operators will benefit from new opportunities.

Real estate Market in Dammam*

Office sector

In H2 of 2018, 73 thousand m² of administrative space in Dammam were delivered, bringing the total administrative area by the end of 2018 to 921 thousand m². The new administrative areas in Al Khobar were concentrated in more than 40% of the units delivered, followed by Dhahran (35%) and Dammam (25%). The average rent of administrative areas in Dammam decreased by 2% during 2018 to reach SAR 989 per square meter. Vacancy rates remained relatively stable to reach 31% by the end of 2018.

Retail sector

About 36,000 m² of total retail space was delivered in 2018, accounting for a significant decrease from the 65,000 m² average recorded over the past three years. Completion of a few retail outlet projects in the H2 of 2018 resulted in total retail space being increased to 1.1 million m². 80% of the new supply falls under the category of small malls, 40% under the category of local malls and 15% under the category of daily supply malls. It is expected that in 2019 an additional 136 thousand m² will be delivered, mostly under the category of local shopping malls. Retail rental prices in Dammam Metropolitan were further down with vacancy rates up to 6%. Average rents in super regional shopping malls and regional shopping malls fell by 3%, while local malls recorded a 7% drop in the year.

Entertainment sector

The Eastern Province Municipality has offered more than 100 diverse investment opportunities and activities of more than 3 million m² in public auctions, which will contribute to the promotion of development and quality of life elements, including an integrated sports and leisure city, a car track, a museum, a training center, chalets, resorts, environmental and marine parks, playgrounds, horse clubs, yacht anchorage, marine clubs, water games, transport and equipment support services, a range of restaurants, cafes, art and heritage sites, a popular market and other activities that will contribute to the development of the Eastern Province as a unique tourist destination. It is worth mentioning that living standards in the Province are similar to those of the industrially advanced countries. Average salaries in Al Khobar and Dammam are the highest among all major cities in Saudi Arabia. For example, Dammam has an average monthly salary of about SAR 7,000 per month, which attracts investment in the region and creates a fertile recreational environment.

SEDCO Capital Market Outlook

The economic downturn affected by the 2018/2017 developments is likely to continue in the short term due to new value added taxes, reduced energy subsidies and other factors, etc. In parallel, pressure on rental rates and property prices will continue.

The period between peak points in the economies of most developed countries ranges from 5-10 years, while historically there has been no contraction in the Kingdom for more than 3-5 years. Current economic indicators expect Saudi Arabia to exceed the economic downturn during 2019/2020.

Through the records of our regional real estate portfolio, we have experienced a fluctuating rate of real estate income capitalization in key locations within the major cities in the period from 2011 to 2018 from circa 9% down to circa 6.5% at the peak in 2015 and then up to about 8% in current recession. Therefore, we realize the possibility of assuming capitalization rates close to previous peak levels in the future.

Government initiatives aimed at stimulating various sectors such as healthcare, education, entertainment, recreation, tourism, etc., as well as activating the role of women, encouraged the private sector to play a key role in these areas, which contributed positively to the National Transformation Plan 2020 (NTP) and Vision 2030.

Consumer growth also increased in line with consumer awareness, taking into account the demographics of the Kingdom in terms of population growth, age groups and geographic distribution. New standards for the security, safety and efficiency of real estates have been imposed for their scarcity or lack in most existing buildings, all of which are economic drivers for high quality real estate requirements.

SEDCO Capital is looking at the medium term (2-3 years) with a positive outlook in terms of promising opportunities in real estate investment, but it takes its investment decisions based on usual professional diligence proved by meeting the conditions of the investment commitment in its income generating real estate products such as SEDCO Capital Real Estate Income Fund, SEDCO Capital Real Estate Income Fund II, and SEDCO Capital REIT, and through the high performance in its local products with a modified strategy risks, specifically SEDCO Capital Real Estate Fund for Development, Where Appropriate, which despite not completing its investment period yet, its current expectations exceeded the investment commitment conditions.

Fund Manager

Saudi Economic and Development Securities Company (SED CO Capital)
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Between Gates 7& 8
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Website: www.sedcocalpital.com
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Saudi Economic and Development Securities Company (SED CO Capital) is a Saudi closed joint stock company registered under Commercial Registration No. 4030194994 and licensed as an "Authorized Person" under CMA License No. 11157-37 dated 14/04/04/23 H M) to manage, advise, arrange, deal and provide custody services with respect to the financial securities business. SED CO Capital provides its regional and international clients, as well as high net worth individuals, with a range of financial services and solutions including advisory, arrangement, custody, dealing, and asset management.

Custodian

AL INMA INVESTMENT COMPANY
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Kingdom of Saudi Arabia



The Fund has appointed the Custodian to act as the custodian of the assets of the Fund. The assets will be registered in the name of a SPV established by the Custodian to separate the assets owned by the Fund and those owned by the Custodian.

Responsibilities of Custodian:

- Take into its custody assets managed by the Fund Manager
- Open a separate account with a local bank in the name of the Fund and deposit all cash in the account
- Separate the assets of each investment fund from its assets and the assets of its other clients and register the real estate assets in the name of a subsidiary of the Custodian.

Auditor

KPMG Al Fozan & Partners
KPMG Building
Salahudeen Al Ayoubi Street
P.O Box 92876 Riyadh 11663
Kingdom of Saudi Arabia



Statement of Auditor's Opinion: "we have audited the financial statements of SED CO Capital REIT FUND (the "Fund"), managed by SED CO Capital Company (the "Fund Manager"), which comprise the statement of financial position as at 31 December 2018, and the related statements of comprehensive income, changes in equity attributable to unitholders and cash flows for the period from 01 April 2018 to 31 December 2018, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financials statements present fairly, in all material aspects, the financial position of the Fund as at 31 December 2018, and its financial performance and its cash flows for the period from 01 April 2018 to 31 December 2018 in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA)".

The Fund's report is available at request free of charge

Important Notice

There are no material changes to the Fund's Terms and Conditions except for what have been mentioned in this report.

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This document does not represent an offer to sell or participate in the Fund in any way, and all (or any part thereof) should not constitute the basis for conclusion of any contract whatsoever, or to rely in this connection, or be an incentive for the same. This document is confidential in nature and is only directed to applicant investors selected. If you have received this document by mistake, You are hereby required to disregard its content and return it to SEDCO Capital or to destroy it. The previous performance is not a guarantee of future results. Units, dividends, fund prices and currencies may depreciate and may also rise, and investors may get less than they originally invested. Changes in currency rates may adversely affect the value, price or income of securities. For illiquid securities, it may be difficult for the investor to sell or make a profit from the securities and obtain reliable information about their value or risk, and additional fees / charges may apply. Dividend income may fluctuate and a portion of the invested capital may be used to pay dividend income.

To ensure that you well understand the Fund and how well it suits you according to your risk level, we recommend consulting an experienced investment advisor. More information about the Fund is available in the existing IPO document, which should be carefully read before investing.

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For more information



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