

SEDCO  
CAPITAL



سدكو  
كابتال

# Prudent ethical investment with a global perspective

Annual Review 2018



**Contents**

2 About SEDCO Capital  
3 Highlights of 2018  
4 Chairman's Statement  
6 Board of Directors  
8 CEO's Message  
10 Executive Management  
12 Business Review  
18 Corporate Review  
24 Contacts

**Our philosophy**

SEDCO Capital's philosophy is based on three principles: ethical investment, diversity and partnership.

**Ethical investment**

We are committed to adding value to society by complying with Shariah and environmental, social, and governance (ESG) principles. In 2014, We were the first Shariah-compliant asset manager to become a signatory of the UN Principles for Responsible Investment.

**Diversity**

Our offering is broad and innovative, satisfying the risk and return appetite of investors. This allows portfolio allocation across multiple asset classes and geographies, covering an array of investment styles and strategies.

**Partnership**

We believe that partnerships create scale, reduce the cost of doing business, increase negotiating power, and provide greater access to investment opportunities. Our partnership model ensures transparency and creates lasting relationships, mutual trust and shared success.

SEDCO Capital has a global perspective, with offices in Jeddah, Riyadh, London and Luxembourg, and a network of strategic partners and investments around the world.

**Asset classes**

-  **Real Estate**  
Regional and international
-  **Private Equity**  
International
-  **Public Equity**  
Regional and international
-  **Income Assets**  
Regional and international



SEDCO Capital's landmark achievement of 2018 was the initial public offering (IPO) of SEDCO Capital REIT, which raised more than SAR 600 million from 74,000 investors. This was followed by signing a SAR 600 million banking facilities agreement for the fund.



International acquisitions included the €86 million off-market purchase of an office building in the Levallois-Perret area of Paris, and a £31.75 million property deal in the UK. Commitments were made to new funds in the USA, Europe, India and Latin America, along with new private equity co-investments in China, UK, USA and South Korea.



International business development activities won new mandates and a strong presence in international platforms, leveraging the firm's competitive advantage as the only Shariah-compliant asset manager with a truly global offering.

New clients were attracted across MENA and international markets while sustaining relationships with investors globally and keeping them abreast of market trends through in-person visits and global investor conference calls.



Buy-side activity played a prominent role as new clients were attracted across the region and further afield. This was supported by providing ad hoc services such as due diligence and market intelligence. Sell-side advisory services were strengthened, as were relationships with financial advisors, corporate investors and family institutions.

SEDCO Capital has collaborated with eFront, the leading provider of specialist software for the financial industry, which is part of BlackRock, as part of the firm's plan to offer Administration and Custody services.

SEDCO Capital REIT, publicly listed during the year, is now being administered in-house as the pilot for launching the same services to other funds.



Like all forward-looking businesses in the Kingdom, SEDCO Capital is fully committed to the Saudi Vision 2030 program and we have aligned our business strategy to develop the opportunities that the various initiatives create.

**Vision 2030 continues to attract international attention – and rightly so. It has already started to succeed in many respects, such as attracting foreign direct investment.**

Vision 2030 is also having a beneficial impact on small businesses and sectors such as healthcare, education, entertainment, tourism, hospitality and a range of other areas vital to social and economic development. Reducing Saudi Arabia's economic reliance on hydrocarbons is a crucial long-term objective, but we are already seeing how this can be achieved.

By aligning our strategy with Vision 2030, SEDCO Capital matches national aspirations with our own corporate goals, generating domestic prosperity while performing well for investors.

Increasingly, we do not cater to Shariah compliant investors only. We are attracting many global investors who seek access to ethical asset classes because of their greater resilience and impressive performance.

This was evident in our 2018 performance, marked by significant achievements across our full spectrum of activities. Among them were completion of the initial public offering for SEDCO Capital Real Estate Investment Trust, raising more than SAR 600 million from 74,000 individual and institutional investors.

In private equity, we committed to more funds than in any year since our inception. In co-investment initiatives, we executed six transactions, providing growth capital to leading consumer, healthcare, industrial and tech-enabled businesses around the world.

Similar to 2017, our ethical investment funds outperformed their competitors and conventional peers. In terms of regional public equity, 2018 saw the benefits of foundations laid a year earlier, enabling us to increase assets under management by 466% year-on-year.

In recording these achievements, the Board of Directors acknowledges the outstanding contribution of Hasan AlJabri over his seven years as CEO of SEDCO Capital. He has now advanced to become CEO of SEDCO Holding and we are confident that he will acquit himself in that post with equal distinction.

We welcome Samer Abu Aker, our new CEO, who has the confidence of the Board and shareholders in guiding and leading SEDCO Capital's future direction.

Thanks are also due to our strategists, asset managers and fund managers for their hard work throughout the year, and to all our team members who have contributed so much to our 2018 results.

I thank our shareholders for their continued faith in us, our Board of Directors for their wisdom and foresight, and of course our clients and investors for their continued confidence in our excellence-driven approach.

We look forward to rewarding your trust by safeguarding your interests and generating sound returns. We remain committed to our world-class standards, next year and in those to come.

**Ahmed Suleiman Banaja**  
Chairman



**Ahmed Suleiman Banaja**  
Chairman

Mr. Banaja is SEDCO Capital's Chairman of the Board. He joined SEDCO Capital's Board in 2008, and also served as the firm's first CEO from 2008 to 2010 - a position in which he helped oversee SEDCO Capital's founding and initial structuring. He also serves as Director of Al Faisaliah Group and SEDCO Holding.

He began his financial career with Citibank in 1971, and then went on to hold senior positions at the National Commercial Bank in an association lasting over 12 years. Later roles saw him serve as Director of the Jeddah Urban Development and Regeneration Company, and as a member of the Economic Advisory Team to the Supreme Economic Council. Mr. Banaja holds a BSc in Mathematics and Economics from the University of Kent.



**Abdullah Mubarak Baarmah**  
Vice Chairman

Mr. Baarmah joined the SEDCO Capital Board in 2010, before which he was heading the Global Fixed Income Department at NCB Capital. He commenced his career in banking as a futures trader with the National Commercial Bank's Treasury division in 1994, and went on to hold positions of responsibility in the division.

He holds a degree in Business Administration from the University of Portland in the Oregon, the USA.



**Abdelelah Salem Bin Mahfouz**  
Board Director

Mr. Bin Mahfouz served as Chairman of the Board of SEDCO Capital from the firm's formation in 2010 till mid-2017. Apart from maintaining his seat as a member of the Board at SEDCO Capital, he also serves on the Board of SEDCO Holding. He has also served as Managing Director of SEDCO Financial Investments Group from 1997 to 2006.

He began his banking career in 1975 with the National Commercial Bank, and held positions of responsibility – including as Riyadh Regional Manager, and Deputy General Manager – in an association spanning the decade between 1980 and 1990. Mr. Bin Mahfouz holds a Bachelor's degree in Business Administration from Ohio State University.



**Abdulrazzak Mohammed Elkhraijy**  
Board Director

Mr. Elkhraijy serves as the Chairman of SEDCO Capital's audit committee. He has over 30 years of experience in regional banking, and has served in several senior roles with the NCB group - including as Head of the bank's Islamic Banking Development Group. Apart from his duties as board member of SEDCO Capital, Mr. Elkhraijy also serves on the boards of the Trustees of the Accounting and Auditing Organization for Islamic Financial Institutions, and the General Council for Islamic Banks and Financial Institutions. He holds a BA in Economics and Business from Macalester College, St Paul, Minnesota.



**Tarek Jawad Sakka**  
Board Director

SEDCO Capital board member Mr. Sakka is also the founder and CEO of leading independent investment management company Ajeej Capital. He also serves on the boards of the Middle East Specialized Cable Company (MESCC) and the Morgan Stanley Saudi Equity Fund.

Prior to setting up Ajeej Capital, Mr. Sakka has held positions of responsibility in global firms. He has served as Group Vice-President for Olayan Financing Company and as Head of Private Equity for the National Commercial Bank. He earned his MBA from Harvard Business School and also holds a BSc (Hons.) in Electrical Engineering from King Fahd University of Petroleum & Minerals.



**Dr. Hani Findakly**  
Board Director

Dr. Findakly has been discharging duties as a Director of SEDCO Capital since 2003. His previous track record includes senior roles on Wall Street – such as Director and Chairman of Dillon Read Capital Management and Vice-Chairman of the Clinton Group; both New York-based investment management firms. He has served as President and CEO of global investment management firm Potomac Bobson between 1990 and 1999. Dr. Findakly has also served with the World Bank as CIO, and as Director of the Investment Department, in an association with the organization stretching from 1975 to 1986.

He earned his Doctor of Science and Master of Science degrees from MIT, and went on to join the faculty team at the university's School of Engineering, and Center for Policy Alternatives.



**Savio Tung**  
Board Director

Mr. Tung is a Director of SEDCO Capital. He is a founding partner and Chief Investment Officer of Investcorp, where he has been involved with the firm's corporate buyout activity during a 30-year career. He also serves on the Board of Tech Data Corporation, and is an independent non-executive director of the Bank of China.

Prior to joining Investcorp, Mr. Tung has worked with Chase Manhattan Bank across its New York, Bahrain, Abu Dhabi, Hong Kong and London branches. He earned his BSc in Chemical Engineering from Columbia University – an institution of which he is a trustee emeritus.

**Over the last ten years, SEDCO Capital has grown significantly and matured as an institution, whether measured by assets under management, business lines, geographic reach, staffing or governance. At the same time, we have been able to deliver targeted returns, navigating challenging and volatile market conditions.**

Our transformation from a family office to a standalone investment firm regulated in Saudi Arabia, Luxembourg and London is a remarkable achievement. We have been able to attract major institutional and sovereign clients, a significant accomplishment as such relationships take time and efforts to materialize and are long-term in nature.

The ability of SEDCO Capital to combine Shariah and ethical, sustainable and governance (ESG) concepts in our offerings – and our global reach – makes us unique among our peers.

The past year was challenging but yet again successful. Keeping market trends and investor demands in view, we embarked on a number of initiatives such as launching new products, strengthening controls and adapting to regulatory developments.

Highlights included the launch of the SEDCO Capital REIT Public Fund (SAR 600 million). We also launched and closed SEDCO Capital Real Estate Built-to-Suit Fund (Al Yusr) at SAR 119 million, and partially exited SCRE Income Fund I and distributed about 95 percent of capital to investors.

SEDCO Capital continued to build its international co-investment portfolio in 2018 by making six investments in technology, healthcare and consumer companies in the US, Europe and Asia.

One portfolio company was listed on the NYSE and is expected to be exited in the near future.

In international real estate, we concluded the £31.75 million acquisition of a UK industrial property occupied by a leading logistics and road freight company, and in Paris we closed the €86 million acquisition of an office building in Levallois-Perret. We also concluded several divestments, taking advantage of the buoyant global market.

In regional real estate, we closed the REIT's largest investment to date, the flagship Ajdan Walk acquisition. This Al Khobar property is a retail village and open-air F&B and shopping destination.

SEDCO Capital's relations with financial institutions across the globe were enhanced during the year, strengthening existing relationships and embarking on new ones. We introduced the eFront system to further strengthen our client and internal reporting, in line with the highest industry standards.

Due to increasing cyber frauds, we introduced many control measures to mitigate threats and secure our IT infrastructure. Enhanced payment processes and other measures implemented across various payment channels and counterparties have helped to manage such risks.

We conducted events in Jeddah and Riyadh where the economist and strategist of Patria Investments gave an overview of the global economic outlook in general and Latin America and Brazil in particular.

We also participated in a King Khalid Foundation workshop in conjunction with SAMA and the Ministry of Finance, where we presented our socially responsible investing philosophy.

Looking ahead, we are in the process of transforming our umbrella structure platform in Luxembourg under the regulatory framework of the European Commission to launch new liquid assets strategies. Our team is exploring the set-up and selection of a global custodian and administrator, and we are planning to open a full-service office in Europe.

We are also in the process of launching a co-seeded ESG equity fund with a leading global wealth and asset management firm based in Switzerland that is both ESG and Shariah compliant.

Our thanks are due to our investors around the world for their trust and support. We look forward to maintaining these relationships, and to justifying their faith in our expertise by continuing to achieve superior returns.

Our own people too are an invaluable asset, as is evident from SEDCO Capital's consistent performance. Investing in the further development of their skills and capabilities is a constant priority as we strive to create an even more dynamic and satisfying work environment.

As always, we acknowledge the vital guidance provided by the Saudi Capital Market Authority and the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Considering SEDCO Capital's great accomplishments since inception, I remain positive that our growth momentum will propel us from good to great in the upcoming years across our various investment themes and products. The future holds much promise for SEDCO Capital with a number of initiatives in the pipeline and we look forward to an exciting journey.

**Samer Abu Aker**  
Chief Executive Officer

We have been able to attract major institutional and sovereign clients, a significant accomplishment as such relationships take time and efforts to materialize and are long-term in nature.





**Samer Abu Aker**  
Chief Executive Officer

Mr. Abu Aker is the CEO of SEDCO Capital, and brings over 20 years of industry experience to his dual roles. His association with SEDCO Capital spans some 8 years.

Apart from his responsibilities as CEO, Mr. Abu Aker chairs SEDCO Capital's Investment Committee and Management Committee, where he is involved with setting the direction on the firm's governance, investment and compliance operations.

Prior to joining SEDCO Capital, Mr. Abu Aker has served in senior management positions for the Bank of New York New York, Alternative Investment services Bermuda and Royal Bank of Canada. He is a Certified Public Accountant (CPA), and holds a BA with an accounting major from Canada's Brock University.

**Valerio Salvati**  
Chief Investment Officer

Mr. Salvati has joined SEDCO Capital in the roles of Managing Director, Chief Investment Officer and Head of Asset Management. He brings almost 30 years of international asset and wealth management experience to his roles.

Mr. Salvati started his banking career in the Fixed Income wing of Germany's Commerzbank before moving to the bank's Equities team. He later joined the Portfolio Management department at BCC in Rome before transitioning to JPMorgan Asset Management as Head of Portfolio Management. After a significant term at JPMorgan, Mr. Salvati moved on to head the Discretionary Portfolio Management department for Deutsche Bank Wealth Management in the UK.

Mr. Salvati is a member of the CFA UK Society, and holds an MBA in Banking and Insurance complementing his Bachelor in Political and Economic Sciences.

**Abdulwahhab Abed**  
Head of Regional Business Development, Marketing and Communications

Mr. Abed serves as Head of Regional Business Development – his latest role in over a 12-year association with the firm. He chairs the firm's Product Development Committee and sits on the Investment Committee and the Management Committee.

Mr. Abed's experience with SEDCO Capital makes him particularly skilled in due diligence, monitoring and divestment operations for co-investments.

Previous roles at SEDCO Capital included Head of Corporate Finance, and Vice President and Director of Private Equity, where he was involved in a portfolio of 100 private equity investments around the world. He also previously sat on the Investment Committee for the SEDCO Capital Partners Group Co-Investment Fund, helping to set investment direction and strategy.

Mr. Abed has earned his MBA with a focus on finance from Bentley College's McCallum School of Business in the US.

**Ayman AlBashir**  
Head of International Business Development and Advisory

Mr. AlBashir serves as Head of International Business Development while also heading the advisory arm. He is a non-voting member of three investment committees within the firm, and also part of SEDCO Capital's Product Development Committee and Management Committee.

Mr. AlBashir joined SEDCO in 2008 through the firm's management training program and has established himself as an expert in asset management and allocation. He previously served in the firm's Asset Allocation Committee, led the International Liquid Assets team, and represented SEDCO Capital in the Investment Managers Committee supervised by the CMA.

Prior to joining SEDCO Capital, Mr. AlBashir worked with STC as planning engineer, and as a network engineer for Olayan. He graduated from King Abdulaziz University with a Master of Industrial Engineering with honors.

**Christian Guckel**  
Chief Risk Officer

As Chief Risk Officer, Mr. Guckel focuses on investment research, portfolio construction and portfolio analytics. He is a member of the Investment Committee, Asset Management Committee and Tactical Asset Allocation Committee. Mr. Guckel joined SEDCO Capital in 2014.

Previously he was an Investment Director for a Swiss asset management and advisory services firm. He also served as Portfolio Manager at Man Investments' multi-manager business, and with HSBC Trinkaus & Burkhardt in the Structured Solutions Group. He started his career in risk control and management with Stadtsparkasse Magdeburg.

Mr. Guckel has an MBA from Colorado State University and a Master's (equivalent) in Finance from Otto-von-Guericke University, Germany. He is a certified Chartered Financial Analyst, a Financial Risk Manager, a Chartered Alternative Investment Analyst, and an Energy Risk Professional.

**Samer Shaaban**  
Head of Corporate Finance

Mr. Shaaban currently serves as SEDCO Capital's Head of Corporate Finance. His association with the firm stretches back over a decade, where he has previously served as the firm's Head of International Real Estate – a role that saw him lead the acquisition and management of real estate transactions globally.

Prior to joining the SEDCO Capital team in 2005, Mr. Shaaban has served in several managerial roles with Unilever across the UAE, UK and Saudi Arabia. He holds an MBA from the USA's Pepperdine University, and a BSc in Industrial Engineering from the California State University. He has also completed the Accelerated Development Programme from the London Business School in the UK. Samer is both a Certified Professional Accountant (CFA) and a Certified Management Accountant (CMA).

**Talal Aljedaibi**  
Head of Finance and Operations

Dr. Talal Aljedaibi is heading Finance, Operations and IT departments, catering for the support of asset management services provided by SEDCO Capital and the management of its proprietary investments. Dr. Talal has experience working with global, regional and semi-governmental financial institutions, providing financial, managerial and advisory services.

His previous employers include PwC and NCB Capital. As a qualified accountant (Saudi SOCPA) and a control professional, Dr. Talal is continuously engaged with governance, productivity & operations in addition to prudent investing practices. Building on a PhD degree in "IFRS Reporting, Banks and Shariah Compliance" from the University of London – Royal Holloway UK, a Master degree from the American University – DC, USA and a Bachelor from KFUPM, Dr. Talal uses knowledge research and analytical skills to tackle strategic and day to day corporate problems. Dr. Talal is as an advocate of corporate culture change, and is also a practicing mentor and a weekly columnist.

### Asset Management

SEDCO Capital provides world-class investment instruments, ranging from domestic and international public equity to private equity and regional and global real estate. We also offer clients discretionary portfolio management, making allocation decisions on our clients' behalf in alignment with their stated preferences and risk appetites.

An increasing number of clients are upgrading from Advisory to Discretionary Portfolio Management, a testament to the firm's excellent track record and reputation.

Prudent ethical investment is fundamental to SEDCO Capital's strategy, generating strong returns by investing in sound assets across diversified markets. The firm also attracts international investors through its state-of-the-art Luxembourg platform.

### Real Estate

SEDCO Capital provides a range of real estate asset management services to a select portfolio of clients, applying the firm's financial and asset allocation expertise. The aim is to assist clients to improve income generation from their real estate assets and boost portfolio valuation.

#### Regional Real Estate

SEDCO Capital's real estate asset management skills generate exciting opportunities in the MENA market, offering Shariah-compliant investments and portfolio strategies that achieve optimized risk-adjusted returns for investors. Our portfolio caters to investor appetites across the risk spectrum. We invest across all sectors – industrial, commercial, residential, retail, hospitality and alternatives such as education.

An outstanding highlight of 2018 was our launch of the initial public offering (IPO) for SEDCO Capital REIT, the Shariah-compliant real estate investment traded fund, raising more than SAR 600 million from 74,000 individuals and institutional investors. Subsequently, we signed a banking facilities agreement with Al Rajhi Bank worth SAR 600 million for the benefit of the fund, which will be used to maximize fund revenue targets and achieve its objectives.

During the year we also closed the Ajdan Walk acquisition, the REIT's largest single investment to date.

Acquisition continued through the SEDCO Capital Real Estate Income Fund II, with two schools acquired for a total of SAR 153.5 million. This marks the end of the investment period. The fund is now fully deployed with assets valued at SAR 879.2 million across 10 assets.

We also closed the acquisition of land for the development of Al Yusr International School through the Built to Suit Fund I. Construction is currently running ahead of schedule.

#### International Real Estate

SEDCO Capital's International Real Estate team actively develops a diverse commercial real estate portfolio comprising retail, office, multi-family, senior living, industrial and healthcare assets. With assets under management across the US, Asia and Europe, the firm is well known for its prudent and principled approach to investment.

In the UK, we concluded the acquisition of a distribution warehouse for £31.75 million, reflecting a net initial yield of 5%. The property comprises a 10-hectare site and a distribution warehouse of 38,590 m<sup>2</sup>, wholly occupied by Eddie Stobart Ltd, a British infrastructure and support services company, on a full repairing and insuring lease with 17 years remaining.

Five-yearly rent reviews are to the higher of estimated rental value or 2.5% annually compounded.

In Paris, we closed the €86 million off-market acquisition of an office building in Levallois-Perret, in the north-western suburbs of Paris.

SEDCO Capital also concluded several divestments, as a result of the buoyant global market. The Blue Pearl portfolio was sold for \$46.1 million, generating an internal rate of return of 11%. A €13.1 million sale and purchase agreement was also signed for the last property in the Germany portfolio.

The firm's International Real Estate team secured a loan for British School totaling \$4.5 million, which will improve and enhance the distribution to investors. And six new operating partners were appointed in the US and Europe, expected to significantly enhance our execution and coverage in the future.

### Private Equity

SEDCO Capital provides clients with access to rewarding private equity investments through a dedicated team that has cultivated a network of partners across the globe, gaining access to a portfolio of more than 500 companies.

Overall, the firm's private equity performance was positive in 2018, with valuations continuing an upward trajectory – particularly in the 'growth' asset class – comparing very favorably to US, emerging market and global indices.

However, the past year was difficult for private equities in general, with emerging market valuations taking a hit in the third quarter – particularly from currencies – and a global decline at the end of the year. Due to the challenging conditions, SEDCO Capital's private equity partners deployed more capital than distributed. Although demand for co-investment opportunities remained high, our Private Equity team undertook fund investments as a more sophisticated regional strategy.

Our portfolio caters to investor appetites across the risk spectrum. We invest across all sectors – industrial, commercial, residential, retail, hospitality and alternatives such as education.



SEDCO Capital's International Real Estate team actively develops a diverse commercial real estate portfolio comprising retail, office, multi-family, senior living, industrial and healthcare assets.



Despite facing challenges in allocation, due to oversubscribed or highly-leveraged top quartile funds in developed markets, SEDCO Capital forged ahead. Without changing the investment strategy, our team sourced fund managers with impressive quartile track records willing to accommodate the firm's Shariah and ethical investment principles.

Commitments were made to eight new funds – four in the USA, two in Europe, one in India, and one in Latin America. We focused on opportunities with first-time funds (which were generally more adaptive to our Prudent Ethical Investing (PEI) guidelines) as well as established fund managers. Overall, the firm committed an additional \$100 million of investor capital to the new funds.

SEDCO Capital preferred growth funds in the \$250-500 million range focusing on middle-market companies. The allocation strategy targeted investments in the healthcare, technology, consumer goods and education sectors.

Following the firm's guidelines, no investments were made in funds carrying a large proportion of portfolio companies with leverage ratios higher than 33%, or those dealing in sectors that are not Shariah-compliant.

Fund investment maintained the nature of the allocative thrust, tending to growth opportunities in developed markets. Emerging market allocation remained at 60%, with the remaining 40% allocated to developed markets.

The firm's existing strategies will continue, but we expect to be less active in terms of selecting new fund managers and deploying new capital. The next year should be relatively stronger in terms of distributions.

New co-investments in 2018 included a leading gymnasium chain in China, a technology provider based in the UK, a leading physician services business in the US, a US-based compliance and regulatory solutions provider, and an online drivers' education platform in the US.

A follow-on investment was made in a fast-growing South Korean sunglasses company.

**Public Equity**  
**Regional Public Equity**

Throughout 2018, SEDCO Capital continued to focus on creating new products, solutions, and services to meet investor appetites across the local and regional equity markets.

In terms of regional public equity, tangible benefits arising from the foundations laid in the past two years became apparent. We increased assets under management by 466% year-on-year. Funds managed grew by 116%, while discretionary portfolios under management were up 1,478%.

A key milestone was achieving our objectives and envisaged standards for client and internal reporting. The monthly and quarterly reporting process was automated, and documented in accordance with international best practice.

The firm went live with the Prudent Ethical Investment (PEI) screening and due diligence guidelines for investee companies. We also achieved full implementation of the Bloomberg Asset and Investment Manager (BB AIM) module, assisting us in the Discretionary Portfolio Management framework.

**International Public Equity**

The firm's Luxembourg family of public funds comprises a broad array of diversified instruments, each managed by a renowned asset manager.

In 2018, Islamic indices outperformed their conventional peers and SEDCO Capital's funds outperformed most of their conventional and Islamic competitors.

Our International Public Equity team continued to optimize its core and satellite strategies, dropping two regional active funds and launching a new global defensive equity strategy that achieves downside protection.

Most major asset classes posted negative results in 2018 as markets transitioned from the low-volatility, mid-cycle environment to late cycle high volatility, driven by persistent concerns over global trade, slowing economic growth, and tighter monetary policy from central banks.

For the next cycle, we expect slowing business, greater-than-expected impact of trade tensions, increased tightening of financial conditions resulting in elevated cross-asset valuations, higher volatility of returns, rising risk premiums, and widening credit spreads.

In addition to the recent launch of global defensive equity fund, our team is working on launching a new fund in the coming year: a co-branded global ESG equity fund focusing on environmental, social, and governance principles.

**Income Assets**

SEDCO Capital offers solutions for investors seeking returns and capital appreciation from Shariah-compliant money market, commodities, trade finance, leasing, infrastructure, and Sukuk offerings.

Our dedicated team manages two flagship funds in the local treasury money market and a global Sukuk fund, as well as overseeing a number of select discretionary mandates.

Local and regional money market investments fared well in 2018 as higher short-term interest rates enabled the fund to place Islamic deposits at higher rates, thus improving absolute performance.

In anticipation of aggressive monetary tightening, we adopted relatively lower duration periods, aiming to protect against negative price movement and allowing faster investment turnover at higher rates.

We increased assets under management by 466% year-on-year. Funds managed grew by 116% while discretionary portfolios under management increased by 1,478%.



The firm's Luxembourg family of liquid funds comprises a broad array of diversified instruments, each managed by a renowned asset manager.

SEDCO Capital's team has been increasing duration across different strategies to benefit from higher yields and a potential pause in monetary tightening, adding new primary issues and money market counterparties to enhance the funds' returns.

Capital markets have given a clear signal that they believe the Fed has been too aggressive.

More accommodating monetary policy should lead to a strong recovery in Sukuk prices. Higher yields from interest rate hikes should lead to higher interest income for Sukuk and money market investments.

**Advisory**

SEDCO Capital's advisory services are carefully tailored to each client's needs. Advisory solutions help our clients to make accurate investment decisions, while Discretionary Portfolio Management actively allocates capital based on a client's pre-determined preferences.

Our advising services strategy is to focus on the high-net worth, institutional and affluent client segments.

The firm helps clients to make investment decisions by providing access to the Advisory team's research, asset allocation recommendations, risk assessment and execution capabilities.

Our international business development activities have won new mandates and a strong presence in international platforms, leveraging SEDCO Capital's competitive advantage as the only Shariah-compliant asset manager with a truly global offering. We also target new business from European institutions wanting to invest in Shariah-compliant assets.

In 2018 the firm's Advisory arm sustained its relationship with investors globally and kept them abreast of market trends through in-person visits and global investor conference calls. The team also focused on industry outreach and knowledge-sharing.

**Asset allocation**

SEDCO Capital's asset allocation function is managed by the Cyclical Asset Allocation Committee that brings together experts with diverse competencies. The committee is chaired by SEDCO Capital's Chief Investment Officer and the firm's research, risk and advisory teams and asset allocation managers are all represented.

The committee reviews market fundamentals and sentiment to score asset classes. It takes the lead in assigning weights to asset classes and decides the conviction with which to follow a strategy. This information is then used to potentially rebalance and optimize client portfolios every quarter. SEDCO Capital's asset allocation system is now a mature framework that has been in place for four years and has helped deliver superior returns and service levels for clients.

**Corporate Finance**

SEDCO Capital's Corporate Finance department provides high-quality sales-side and buy-side advisory services to the firm's clients, along with market intelligence and decision-making data.

During 2018, buy-side activity continued to play a prominent role as new clients were attracted across MENA and international markets. Our team has also provided ad hoc services such as due diligence and market intelligence, with specialist consultants sourced to meet demand and assist wherever their services were required.

Sell-side advisory services have also been strengthened, as were relationships with financial advisors, corporate investors, and family institutions. The firm continued to target equity and debt placement services for large clients. Restructuring and Initial Public Offering (IPO) services are now planned.

**Administration and Custody**

As part of SEDCO Capital's expansion plan to offer Administration and Custody services to local and regional financial institutions, the firm is building its expertise and infrastructure to augment this area of investment fund and sophisticated portfolio management.

To facilitate provision of these services, we have collaborated with eFront, the leading provider of specialist software for the financial industry which is part of BlackRock. eFront software serves companies in the private equity, real estate investment, banking, and insurance sectors.

Our team is applying eFront's latest comprehensive program – eFront Invest – for fund accounting and investment funds management and reporting, with a special focus on private equity, real estate, leasing and infrastructure.

The firm publicly listed its first real estate investment traded fund (SEDCO Capital REIT) in 2018, which is now being administered in-house as the pilot for launching the same services to other funds.



SEDCO Capital's asset allocation system is now a mature framework that has been in place for four years and has helped deliver superior returns and service levels for clients.



Our team is applying eFront's latest comprehensive program – eFront Invest – for fund accounting and investment funds management and reporting.

**SEDCO Capital's excellence in asset management, advisory, corporate finance, and administration and custody is supported by key internal corporate functions. These vital activities ensure continued strategic business development, product innovation development, proactive risk management, operational and legal support, and compelling regional and global marketing initiatives.**

Specialist teams safeguard regulatory compliance, conduct research into new products, and place Prudent Ethical Investing leadership firmly at the heart of SEDCO Capital's corporate culture.

**Business Development**

SEDCO Capital's business development function creates new opportunities by reaching out to investors across the GCC region and around the world.

It also monitors global market trends and opportunities, constantly gathering intelligence on investor preferences so that, in partnership with the product development team, the next generation of best-in-class investment products can be created.

Throughout the year, the business development team enhanced market awareness of the firm's investment products, including specialized real estate management opportunities for private investors and new income asset strategies focused on sukuk and bonds. This helped to strengthen relationships with investors while boosting SEDCO Capital's overall brand awareness.

**Regional Business Development**

The landmark achievement of 2018 was the successful initial public offering of SEDCO Capital REIT, the Shariah-compliant real estate investment traded fund, which raised more than SAR 600 million from 74,000 mainly Saudi individuals and institutional investors.

A SAR 600 million banking facilities agreement for the benefit of the fund was later signed with Al Rajhi Bank.

The firm has continued to target four distinct types of regional investor: affluent individuals with a net worth under \$1 million were indirectly served through placement agents; high net-worth individuals (worth \$1-5 million) were targeted based on opportunity; building up the firm's portfolio of ultra-high net-worth Individuals (worth in excess of \$30 million); and Saudi and regional endowments and other types of institution. One major endowment mandate was secured during 2018 and several more were close to being formalized by the year-end.

**International Business Development**

Based in Luxembourg, SEDCO Capital Global Funds has one of the world's largest Shariah-compliant specialized investment fund offerings, with assets under management well in excess of \$1 billion – from family offices, institutions, sovereign wealth funds, and endowments across the world.

International corporate wealth funds and institutional investors that seek Sharia-compliant investment products are a key target. SEDCO Capital's Luxembourg and London operations each fulfil key roles in developing the firm's global investor portfolio.

**Risk Management**

SEDCO Capital's Risk Management department delivers risk assessment for processes, investment instruments, and in-house and external asset managers. It helps define SEDCO Capital's Prudent Ethical Investing approach that combines Shariah-compliant principles with the tenets of ethical investment.

Risk Management also quantifies operational, market, and business risk across portfolios and products, and conducts research to deliver the theoretical bedrock for the firm's investment ethos. The team maintains oversight of the firm's responsible investing activities and takes the lead in continuously improving these guidelines and practices.

Risk Management conducts regular reviews of operational and investment risks, such as ICAAP and Basel Pillar 3, quarterly risk issues, credit, and certain products and counterparties. Self-reporting and process mapping workshops are held with various departments, along with regular risk reviews for the Luxembourg platform, CMA-registered products, client portfolios, and service providers.

Risk Management has also taken over responsibilities for the Luxembourg platform, particularly oversight for investment strategies.

SEDCO Capital's Chief Risk Officer led the firm's strategy review in 2018 which resulted in the presentation of many new strategic initiatives to the Board. An extensive study of the Investment Committee set-up was also undertaken, based on industry best practice and research.

The Chief Risk Officer presented to conference panels at events such as the Responsible Investment Forum Europe 2018 in London, and the Fund Forum Middle East 2018 in Dubai.

A review by the Principles for Responsible Investment (PRI) resulted in excellent scores and improvements by SEDCO Capital, relative to industry peers.

**Finance and Treasury**

SEDCO Capital's Finance and Treasury department is responsible for overseeing the firm's financial platforms, budgeting and reporting systems. It manages liquidity and funding requirements while maintaining strong relationships with external auditors, Zakat consultants and tax authorities.

Currency fluctuations persisted in 2018, due to external stimuli such as Brexit and trade and tariff wars. The Finance and Treasury team had a key role in minimizing the impact of GBP volatility on SEDCO Capital, hedging its GBP exposure, which proved a valuable protection as the currency's weakening continued.



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The department also took the lead in ensuring Value Added Tax (VAT) compliance, despite the complexity of SEDCO Capital's operations and the far-reaching nature of the reforms required by Saudi Arabia's introduction of VAT.

Other changes in the regulatory landscape included the adoption of new International Financial Reporting Standards (IFRS) by 2018. The Finance and Treasury team played a central role in managing and achieving the transition.

To deliver best practice in financial reporting, the department continuously meets regulatory reporting requirements, such as periodic reporting on capital adequacy, and producing other management reports, particularly on matters related to material accounts or financial statement disclosures.

In 2018, the Finance and Treasury department set the financial plan for the following year and obtained Board approvals.

Client and supplier profiles were updated, along with a concerted move to greater efficiency and transparency by introducing enhanced reporting across key areas.

**Compliance and Shariah Monitoring**

The firm's Compliance and Shariah Monitoring division is responsible for ensuring regulatory adherence across the entire business, setting stringent policies and procedures to maintain the firm's leadership in these areas, as well as in anti-terrorist financing.

The department maintains a strong relationship with the Capital Market Authority (CMA) for external compliance while collaborating with SEDCO Capital management to develop and strengthen control mechanisms.

The team also serves as guardian for SEDCO Capital's innovative Prudent Ethical Investing approach. In 2018, this was strengthened by mandating strict rules for Shariah investing, resulting in the external Shariah auditor giving SEDCO Capital its highest rating for the fourth successive year.

Purification calculations were undertaken for all public managed funds handled by the firm, while review and revision of third-party agreements reduced some expenses by more than 40%. The Shariah Monitoring Department manual was formalized, giving consistent guidelines to all team members and partners.

The Shariah Monitoring Unit undertook a Shariah training course in Bahrain, where members obtained the IFQ Islamic Shariah Qualification. In compliance and AML training, all employees were required to pass the e-AML training conducted by Thomson Reuters, thus reinforcing awareness and understanding of the new regulations.

The department's cooperation with the CMA continued apace, helping facilitate CMA acceptance of the firm's REIT Fund and Private Placement Built to Suit Fund 1. SEDCO Capital employees are now CMA accredited, in line with requirements to ensure compliance throughout the firm.

**Operations and Information Technology**

SEDCO Capital's Operations and Information Technology department facilitates investment transactions such as subscriptions, redemptions, client reporting and management reporting. The department also handles cash management, performance calculations, custodian reconciliation, trade matching and confirmation, corporate processing for equity funds, and the maintenance of the Investment Book of Record (IBOR).

Operations and Information Technology helped to enhance SEDCO Capital's relations with financial institutions across the globe by strengthening existing relationships and embarking on new ones. Notable among these was opening an account with Euro Clear to facilitate trading of Sukuks internationally.

One of the key initiatives was the launch of a new system – eFront – to further strengthen overall reporting, in line with best industry standards and help in automating manual processes.

Given increasing cyber frauds, the team introduced many controls to safeguard payment processes, also implementing risk-mitigation measures across various payment channels and counterparties. The department updated policies and procedures to reflect the changes.

The audit of SEDCO Capital Managed Funds was completed without any major issues, while the launch of the REIT funds required retooling of the department to best handle all the critical functions.

The Operations and Information Technology team is working with system consultants to provide enhanced and automated reporting to clients, and with global custodians and administrators as part of the plan to launch SEDCO Capital's UCITs Platform in Luxembourg.

**Internal Audit**

Internal Audit is an objective assurance and consulting function designed to add value to SEDCO Capital's operations. The department helps to achieve corporate objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.

Three SEDCO Capital departments are responsible for internal controls: Internal Audit, Compliance, and Risk Management. Working together, these departments ensure that all required policies and procedures are in place, reviewed, and approved according to the firm's delegation of authority matrix.

The Internal Audit Department ensures that the firm's controls comply with the Capital Market Authority's regulations by adopting a risk-based approach and conducting the required three-year audit plan.



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All observations are presented to the Audit Committee, which is an independent committee related to the Board of Directors. The Audit Committee ensures the accurate and timely reviews of the financial statements and accounting policies, while also supervising the work of the Internal Audit Department and the firm's external auditors. The committee held four meetings during 2018.

**Product Development and Legal**

The firm's Product Development department leads the creation of new products and instruments in line with market opportunities and investor appetites. It turns ideas and insights into tangible, marketable and documented investment tools.

The department also conducts feasibility studies on potential products to gauge market response. The team works with other SEDCO Capital functions to ensure they have the apparatus to offer new products to the market.

New products are also supported with documentation, approvals, and tax and jurisdiction decisions.

In 2018, the team continued structuring new products that meet investor appetite. These have been identified by Asset Management, Business Development, and other management functions with insight on investor preferences.

Product Development continued its long-term collaboration with the Capital Market Authority to introduce the new Real Estate Built to Suit II Fund after the successful launch of Built to Suit I. Built to Suit II was approved by CMA during the last quarter of 2018 and is due for launch in the first quarter of 2019.

New roles for the department include acting as the funds' Corporate Secretary and undertaking the middle-office reporting function. The team is also progressing with the revamp of regulations for existing SEDCO Capital instruments to comply with new regulations in Europe and other financial jurisdictions.

**Middle Office**

Middle Office department fulfils a series of important functions, such as ensuring that all required compliance requirements have been completed, attending to Board members' compensation, and comprehensive reporting to clients. It also oversees the full range of fund administration, from management meetings to annual assemblies, record-keeping, and preparation and approval of agreements.

Reporting alone is a multi-faceted task, covering everything from financial statements to reporting to the regulator and making public announcements concerning SEDCO Capital.

Middle Office is also responsible for supporting business and product development, from preparing proposals for prospects to customer care and dealing with any complaints that may arise.

Product development includes the preparation of documents and marketing packages, market study and analysis, updating and maintaining fund documents, creating and maintaining charters, and maintaining special purpose vehicles for global funds.

**Marketing and Communications**

SEDCO Capital's Marketing department plays a key role in positioning the firm as a world-class asset manager. The department engages in year-round activities that strengthen brand equity, raise SEDCO Capital's profile, and showcase the firm's achievements and product innovations. This in turn sets a solid foundation for business development and new client acquisition.

Marketing also plays a key role in promoting the strength of SEDCO Capital's Prudent Ethical Investment (PEI) approach.

The SEDCO Capital Windows on Markets program of knowledge-sharing continued, supporting the marketing team's key role in enabling the firm's leadership to speak at industry events. In 2018 we conducted events in Jeddah and Riyadh where the economist and strategist of Patria Investments gave an overview of the global economic outlook in general and Latin America and Brazil in particular. Other events were focused on defensive equity and listed real estate investment trusts. Jan Sytze Mosselaar from ROBECO and James Rehlaender, CEO of Northwood Securities in New York, were the guest speakers.

The department's strategy of proactively applying for global awards helped SEDCO Capital add to its long list of accolades. In 2018, SEDCO Capital was judged Best Asset Manager at the Banker Middle East Industry Awards, and was recognized for Best Real Estate Investment Fund at the Banker Middle East Product Awards. In addition, the firm was recognized as a Pioneer in Islamic ESG Fund Management at the Global Islamic Finance Awards.

Product Development continued its long-term collaboration with the Capital Market Authority to introduce the new Real Estate Built to Suit II Fund after the successful launch of Built to Suit I.

In 2018, SEDCO Capital was judged Best Islamic Fund Manager at the Global Islamic Finance Awards, and Best New Private Equity Fund at the Private Equity World Awards, MENA.



## Contacts

### Jeddah (Head office)

South Tower of the Red Sea Mall, 2nd floor  
King Abdulaziz (Malik) Road  
P.O. Box 13396, Jeddah 21491, Kingdom of Saudi Arabia  
Telephone: +966 (0) 12 690 6555  
Fax: +966 (0) 12 690 6599  
Email: [info@sedccapital.com](mailto:info@sedccapital.com)

### Riyadh

Localizer Mall, 1st floor  
Prince Mohammed Bin Abdulaziz Street  
P.O. Box 230641, Riyadh 11321, Kingdom of Saudi Arabia  
Telephone: +966 (0) 11 462 5662  
Email: [info@sedccapital.com](mailto:info@sedccapital.com)

### London

Cavendish Square, 8th floor 33  
London, W1G 0PW, United Kingdom  
Telephone: +44 20 3876 3153  
Email: [scire@sedccapital.com](mailto:scire@sedccapital.com)

### Luxembourg

5 Rue Jean Monnet  
L-2013 Luxembourg  
Telephone: +352 436161422  
Email: [info@scgflex.net](mailto:info@scgflex.net)