

Prudent ethical investment with a global perspective

Annual Report 2019





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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 Saudi and 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.

Highlights of 2019

ASSET MANAGEMENT

SEDCO Capital REIT Fund was accepted for inclusion in the FTSE EPRA/NAREIT Global Real Estate Index - the benchmark that tracks the performance of listed real estate companies in developed and emerging countries worldwide. Cash dividends increased to 6.6% from 6.1% a year earlier, supported by the stable 92% occupancy rate.

New development of Yusr International School through the SEDCO Capital Built-to-Suit Real Estate Fund I was completed ahead of budget.

Private equity clients enjoyed record distributions, receiving about half a billion Saudi Riyals at 2.6x from the private equity program.



ADVISORY

SEDCO Capital sustained its advisory relationships with investors, keeping them abreast of market trends through regular contact and in-person visits. The team also focused on industry outreach, updating manager selection criteria, rating of managers, and knowledge-sharing.

The result was to help clients make investment decisions by providing access to the Advisory team's executional capabilities in research, asset allocation recommendations, and risk assessment.



Asset classes

Real Estate

Regional and international



Private Equity

International



Public Equity

Regional and international



Income Assets

Regional and international



CORPORATE FINANCE

Sell-side and buy-side advisory services were strengthened, as were relationships with financial advisors, corporate investors, and family institutions while continuing to target equity and debt placement services.

Buy-side activity continued to play a key role as new clients were attracted across MENA and international markets.



ADMINISTRATION AND CUSTODY

Most of SEDCO Capital's real estate and private equity funds are now being administered in-house. The plan to eventually offer Administration and Custody services to external clients includes collaboration with eFront, the leading provider of specialist software for the financial industry.



Matching SEDCO Capital's corporate objectives with national aspirations

Firstly, Vision 2030 is now maturing and having a profoundly beneficial effect on perceptions of Saudi Arabia as a destination for foreign direct investment. This has been further boosted by the innovative and progressive approach adopted by the Capital Market Authority (CMA). The resulting environment has allowed the skills and expertise of SEDCO Capital to flourish as never before.

We had already aligned our strategy with Vision 2030, sharing the commitment to goals of national prosperity and ensuring that we devote and direct our own efforts to their achievement. By matching SEDCO Capital's corporate objectives with national aspirations, we create a synergy that enhances our own performance.

The CMA is also to be commended for its bold initiatives and taking the lead in removing impediments to investment decision-making. The new and enhanced regulations coming into effect have clarified a number of areas and we now have an environment that is so much more conducive to facilitating and supporting businesses and investors. This was very evident in regional public equity, with inclusion of the Tadawul on major global indices being marked by net inflow of US\$ 24 billion in foreign direct investment.

SEDCO Capital's 2019 performance owes much to these factors, which contributed to significant progress across the spectrum of our activities.

We increased dividends from the SEDCO Capital REIT Fund by 50 basis points to 6.6% and the fund was also accepted for inclusion in the FTSE Global Real Estate Index.

We acquired prime properties in Europe and the USA, while concluding exits worth about US\$ 173 million, achieving excellent capital growth as well as returns over the holding periods.

Our private equity clients enjoyed record distributions, receiving about SAR 500 million, and our public funds in Luxembourg again outperformed most of their conventional and Shariah-compliant competitors.

On behalf of the Board of Directors, I extend thanks to all the firm's management and employees and congratulate you on the results achieved in 2019. Thanks are also due to our shareholders, our Board of Directors, our regulators, and of course our clients and investors.

SEDCO Capital remains committed to world-class standards and we look forward to rewarding your trust by continuing to generate outstanding returns while always safeguarding your interests.

Ahmed Suleiman Banaja

Chairman

A NUMBER OF IMPORTANT FACTORS FOR SEDCO CAPITAL OVERLAPPED AND INTERSECTED OVER THE COURSE OF 2019, TOGETHER ENABLING US TO ACHIEVE REMARKABLE RESULTS FOR OUR INVESTORS AND SHAREHOLDERS.





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 a Board Member of 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 a 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, UK.

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 Oregon, USA.

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 National Commercial Bank - including as Head of the bank's Islamic Banking Development Group.

Apart from his duties as a 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, USA.



Dr. Hanı 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, USA 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.

Before 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, USA - an institution of which he is a trustee emeritus.

Abdullah Bin Ibrahim Al-Howaish

Board Director

Mr. Al-Howaish is Chairman of Amlak International Real Estate Finance Company and Standard Chartered Capital Saudi Arabia. He is also a Vice-Chairman and a Director of several companies such as Halwani Brothers Company, Alesa Industries Co., and Al-Ittefaq for Steel Industries Company.

Mr. Al-Howaish also holds the chairmanship and membership of multiple committees, including the executive and internal audit committees in many companies and in various vital sectors of the Kingdom.

He has 30 years of experience in banking and private and government companies, where he held senior executive positions with institutions such as the National Commercial Bank, the Saudi British Bank and the Arab National Bank. Mr. Al-Howaish holds a Bachelor degree in Economics from King Abdulaziz University, Jeddah, Saudi Arabia.

Hashim Almihtar

Board Director

Mr. Almihtar is an expert in family wealth management through his work in several family offices and international companies across different sectors and industries.

He has a Master's degree, a Diploma in Management, Design and Manufacturing, and a Diploma in Financial Management for Non-Financial Managers (ACCA) from Cambridge, UK. He also holds a Bachelor's in Manufacturing Systems Engineering with Management from King's College, London, UK.

One of the most notable years in the firm's history

IN ONE OF OUR BEST EVER YEARS, THE KEY HIGHLIGHT OF 2019 WAS THE EXCELLENT RETURNS THAT SEDCO CAPITAL MANAGED TO ACHIEVE FOR INVESTORS. AS OUR CHAIRMAN OUTLINED, THE IMPROVED MARKET ENVIRONMENT AT HOME IN SAUDI ARABIA WAS A KEY FACTOR.



The role of the government sector and the Capital Market Authority has been dynamic, raising the image of the Kingdom globally and helping to make our domestic market an attractive proposition for international investors. Similarly, Vision 2030 is providing significant impetus both domestically and internationally.

On the global scene, we had to contend with geopolitical issues, trade tensions, interest rate uncertainties, and continued fears of market corrections. Against this background, we managed to record one of the most notable years in the firm's history, distinguished by conspicuous success across our full range of asset classes.

A prominent highlight was our 'Built to Suit' project in Saudi Arabia where our regional real estate team succeeded in delivering the property almost one year before the due date. This was acknowledged by investors, proving that SEDCO Capital can diligently manage and deliver this type of project.

Public equity was driven by Saudi Arabia's inclusion on the MSCI that gave the market good momentum, coupled with the fact that our team has in-depth expertise and an excellent record in analyzing markets and selecting stocks.

Excellent results across all capital markets - developed and emerging - had a spill-over effect on related asset classes such as private equity.

International real estate was active on both the acquisition and exit sides. We acquired a prime office building in Paris - the firm's largest single acquisition to date - as well as logistics and office properties in Chicago and California. We also concluded exits worth about US\$ 173 million. These included the Hampton Inn hotel in Nashville, Catalysts student housing in Florida, and Kindered Rehabcare in Texas.

In Saudi Arabia, our SEDCO Capital Real Estate Income Fund II and our SEDCO Capital REIT Fund performed well, as market sentiment improved and institutional investors appreciated the greater efficiency and benefits of a listed REIT managed by professionals.

SEDCO Capital is the only Shariah-compliant firm in Saudi Arabia that has signed-up to the United Nations' Principles for Responsible Investment (PRI). We are not only a signatory but actively engaged on how to develop and further strengthen our PRI initiatives. One of these is our new collaboration on listed equities with a Swiss-based institution that will be global in nature and Shariah and ESG compliant.

Internally, we have strengthened controls and enhanced governance, refined our strategy - with a focus on private equity co-investment - and implemented new systems that further boost our transparency and quality of reporting.

Our Luxembourg platform is changing its structure, which will open the door for retail investors - not only the sophisticated - and we want other institutions to be able to white label our products.

Looking ahead, we are cautious, as always. In this context, Saudi Arabia is one of the markets where we see the most opportunity. Further strengthening our presence in Riyadh will help to fulfill a number of our strategic objectives.

As is evident from SEDCO Capital's outstanding performance over the year, our people are an invaluable asset. They are key to achieving superior returns and justifying the continued faith shown in us by our investors around the world.

Sustained investment in the development of our people, and enhancing their skills and capabilities, is therefore a constant priority as we strive to create a professionally fulfilling environment that in turn generates benefits for our clients. My thanks are due to all employees for their contribution to our 2019 results.

Similarly, I thank all our investors for their continued trust and support. We look forward to maintaining our relationships, and to working on their behalf to achieve investment objectives.

As stressed earlier, we gratefully acknowledge the vital guidance provided by regulators, especially the Capital Market Authority in Saudi Arabia, and of course the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.

Samer Abu Aker
Chief Executive Officer

Executive Management

1 **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 role. His association with SEDCO Capital spans nine years.

Apart from his responsibilities as a 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.

Before joining SEDCO Capital, he held senior management positions with 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.

2 **Valerio Salvati**

Chief Investment Officer

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

He began 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 JP Morgan Asset Management as Head of Portfolio Management. After a significant term at JP Morgan, Mr. Salvati moved on to head the Discretionary Portfolio Management Department for Deutsche Bank Wealth Management in the UK.

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

3 **Abdulwahhab Abed**

Head of Regional Business Development, Marketing and Communications

Mr. Abed is Head of Regional Business Development - his latest role in over a 14-year association with SEDCO Capital. He chairs the firm's Product Development Committee and sits on the Investment Committee and the Management Committee.

His experience with SEDCO Capital makes him particularly skilled in due diligence, monitoring and divestment operations for private equity funds and 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 has also sat on the Investment Committee for the SEDCO Capital Partners Group Co-Investment Fund, helping to set investment direction and strategy.

Mr. Abed has a Bachelor of Arts (Finance and Economy double major) and an MBA with a focus on finance from Bentley University's McCallum School of Business in the US.

4 **Ayman AlBashir**

Head of International Business Development and Advisory

Mr. AlBashir is Head of International Business Development and also heads the advisory arm. He is a member of the firm's Investment, Management, and Product Development Committees.

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.

Before 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 Bachelor's and Master's degrees in Industrial Engineering.



5 **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, Chartered Alternative Investment Analyst, and an Energy Risk Professional.

6 **Samer Shaaban**

Head of Corporate Finance

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

Before joining SEDCO Capital in 2005, he had held 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. Mr. Shaaban has also completed the Accelerated Development Programme from the London Business School in the UK and is both a Certified Professional Accountant (CFA) and a Certified Management Accountant (CMA).

7 **Talal Aljedaibi**

Head of Finance and Operations

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

Dr. Talal's previous employers include PwC and NCB Capital. As a qualified accountant (Saudi SOCPA) and a control professional, he is continuously engaged with governance, productivity and operations, and 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's degree from the American University (DC, USA) and a Bachelor's degree from KFUPM, Dr. Talal uses knowledge research and analytical skills to tackle strategic and day-to-day corporate problems. He is as an advocate of corporate culture change and a practicing mentor and a weekly columnist.

8 **Sultan Sukkar**

Head of Compliance and AML

Mr. Sukkar is the Head of Compliance and AML at SEDCO Capital. He joined the firm in 2014 and has more than 15 years of experience. His previous positions include Head of Compliance and AML at Saudi Portfolio Securities; Compliance Manager, Private & Investment Banking at Samba Financial Group; and Senior Associate, Assurance Services at PricewaterhouseCoopers Saudi Arabia.

Mr. Sukkar holds a BSc in Accounting from the College of Industrial Management, King Fahd University of Petroleum & Minerals in Dhahran, KSA,

and an MBA from the Kania School of Management, University of Scranton, Pennsylvania, USA.

A number of other training and certifications include Islamic Finance Qualification (CISI), Certified Shariah Adviser and Auditor (AAOIFI), and CMA Advanced Certificates in Compliance and AML.

9 **Rakan Alhuthali**

Head of Internal Audit

Mr. Alhuthali has eight years of experience in accounting and auditing and implements a system of financial reporting that ensures the firm's performance and transparency. He is a member of various committees within SEDCO Capital.

Prior to SEDCO Capital, Mr. Alhuthali served with SEDCO Holding as Internal Audit Manager. He also served as Engagement Auditor at Ernst & Young Saudi Arabia and, before that, he accumulated diverse experience across a range of industries.

Mr. Alhuthali holds a Bachelor's in Accounting with honors from King Abdulaziz University, Jeddah, KSA. He also holds a Master's in Auditing and Accounting Information Systems from Southern Illinois University, USA.



Generating strong returns by investing in sound assets across diversified markets



AN INCREASING NUMBER OF CLIENTS
ARE UPGRADING FROM ADVISORY TO
DISCRETIONARY PORTFOLIO MANAGEMENT,
A TESTAMENT TO THE FIRM'S EXCELLENT
TRACK RECORD AND REPUTATION.

6.6%

Cash dividends from SC REIT increased to 6.6% in 2019, up from 6.1% a year earlier, supported by the stable 92% occupancy rate.

US\$173m

The firm also concluded a number of exits in 2019, worth about US\$ 173 million in total.

Asset Management

Providing world-class investment instruments is at the core of SEDCO Capital's existence. These range from regional and international public equity to private equity and regional and global real estate. Clients also benefit from discretionary portfolio management, SEDCO Capital making allocation decisions on their behalf in alignment with 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 help clients improve income generation from their real estate assets and boost portfolio valuation.

Regional Real Estate

In the MENA market, SEDCO Capital generates opportunities in Shariah-compliant property investments and portfolio strategies that achieve optimized risk-adjusted returns. The portfolio caters to investor appetites across the risk spectrum and covers all sectors - from industrial, commercial and residential to retail, hospitality and education.

An outstanding highlight of 2019 was the inclusion of the SEDCO Capital REIT Fund (SC REIT) in the benchmark FTSE EPRA/NAREIT Global Real Estate Index. This index is free-float adjusted, market capitalization-weighted, and designed to track the performance of listed real estate companies in developed and emerging countries worldwide.

Distribution frequency increased to quarterly rather than semi-annual. Cash dividends from SC REIT increased to 6.6% in 2019, up from 6.1% a year earlier, supported by the stable 92% occupancy rate.

SEDCO Capital Real Estate Income Fund I is under liquidation as the last asset was sold at the end of 2019. The fund is expected to generate a 7% net return to investors. SEDCO Capital Real Estate Income Fund II exceeded target dividends by 50 basis points in distributing 7.5% for 2019, supported by 100% occupancy.

The new development of Yusr International School through the SEDCO Capital Built-to-Suit Real Estate Fund I was completed ahead of budget, taking 14 months for the new boys' campus and 20 months for the girls', against the underwriting construction period of 24 months.

International Real Estate

SEDCO Capital's International Real Estate team invests in a diverse commercial real estate portfolio comprising retail, office, multi-family, senior living, industrial/logistics, and healthcare. With assets under management across the US, Asia and Europe, the firm's efforts in 2019 were focused on exiting past investments and recycling capital into well-located core assets with a view to longer-term holding.

In Europe the firm acquired a prime office building in Rueil-Malmaison in Paris for € 250.3 million, the largest single acquisition to date. The building is leased for 12 years to Danone.

In the US, the firm acquired two properties for a total of US\$ 121.5 million. One is a Class A logistics property in Chicago leased to FedEx; the other a biolab/office building in California leased to Valent, a subsidiary of Sumitomo.

2.6x

SEDCO Capital clients enjoyed record distributions in 2019, receiving about half a billion Saudi riyals at 2.6x the deployed amounts from the PE program.

The logistics property is 29,000 m² in area, at a prime location in downtown Chicago. It was built in 2015 for FedEx, and has 11 years remaining on the lease. The Valent building is in a well-established office location in San Francisco. The property is 9,700 m² in area and is 100% leased to Valent for 20 years.

The firm also concluded a number of exits in 2019, worth about US\$ 173 million in total. Among them was the divestment of Hampton Inn hotel in Nashville. The property was acquired in 2016 and was sold for US\$ 103.5 million, equivalent to US\$ 500,000 per key and achieving a gross return of 40%.

Catalysts, a student housing property in Florida acquired in 2013, was sold for US\$ 41.0 million, generating a return of 7.3%, and Kindered Rehabcare, a healthcare property in Texas, bought in 2012, sold for US\$ 28.5 million, generating a return of 11%.

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, representing a portfolio of more than 500 companies.

Overall, private equity performance was positive in 2019, with valuations continuing an upward trajectory - particularly in the 'growth' stage - comparing very favorably to long-term indices in the US, emerging markets and globally.

Despite challenges in allocation due to being over-subscribed or highly-leveraged top-quartile funds in developed markets, the firm continued to invest in value-driven stable companies. Without changing the investment strategy, the team sourced fund managers with impressive track records and willing to accommodate SEDCO Capital's prudent ethical investment principles.

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 dealing in non-ethical sectors. Growth funds in the US\$ 250 million to US\$ 1 billion range were preferred, focusing on middle-market companies. The allocation strategy targeted investments in healthcare, technology and consumer goods.

Private equity fund investment tended towards growth opportunities in developed markets. Although emerging market allocation remained at 58%, the target is to achieve a 50:50 split with developed markets.

Commitments were made into four new funds - two European growth funds, a consumer-focused US fund, and a US/Europe healthcare specialist fund.

SEDCO Capital clients enjoyed record distributions in 2019, receiving about half a billion Saudi riyals at 2.6x the deployed amounts from the PE program. Given the slow growth outlook, distributions are expected to normalize in 2020.





The acquisition of one of the largest gymnasium chains in Latin America was concluded, along with a regenerative medicine company in the US focused on birth-tissue derived products. A Brazilian diagnostics and imaging services company was also acquired.

Four co-investment deals in 2019 included closing the first 'private investment in public equity' (PIPE) deal - the acquisition of Venus Concept following a merger with Restoration Robotics. This resulted in a combined listed entity offering non-invasive energy-based medical devices for a broad range of esthetic procedures.

The acquisition of one of the largest gymnasium chains in Latin America was concluded, along with a regenerative medicine company in the US focused on birth-tissue derived products. A Brazilian diagnostics and imaging services company was also acquired.

Looking to the future, the firm's strategic principles will continue, seeking new managers in emerging and developed markets and re-ups (reinvesting) with good existing managers.

Public Equity

Regional public equity

Net inflow of US\$ 24 billion in foreign direct investment marked 2019 as the year of index inclusion for the Kingdom, with the Tadawul (Saudi Stock Exchange) being added to the MSCI, FTSE, and S&P Emerging Market indices.

The S&P GCC Shariah Index generated more than 10% in total returns. In the second half of the year, retail and construction sectors in Saudi Arabia gradually recovered, with the non-oil Purchasing Managers' Index peaking in November.

A highlight for the Gulf region was the world's largest IPO as Saudi Aramco went public, raising US\$ 25.6 billion. Trading on the Tadawul began on 11 December 2019 and shares immediately rose by 10% to SAR 35.20, giving Aramco a market capitalization of about US\$ 1.88 trillion. This made Aramco the world's most valuable listed company and it subsequently became the first to achieve a US\$ 2 trillion valuation.

International public equity

SEDCO Capital's public funds in Luxembourg comprise a broad array of diversified instruments, each in the care of a renowned asset manager. As in 2017 and 2018, Shariah-compliant indices outperformed their conventional counterparts during the year, and SEDCO Capital funds outperformed most of their conventional and Shariah-compliant competitors.

The firm continued to optimize its core and satellite strategies, removing two active global funds and preparing for the launch of the new UCITs platform (Undertakings for the Collective Investment in Transferable Securities) in 2020.

Most of the firm's private equity strategies posted stellar returns in 2019, with risk appetite strongly improving in Q4, boosted by more accommodating central banks and the easing of US/China trade tensions.

For the next cycle, expectations for a re-rating of equity valuations may be overdone. Improvement in growth is already priced in at a time when policy rates are already low. Elevated cross-asset valuations imply greater asymmetric tail risk, but if the trade war evolves into a stable truce, we expect the US dollar to soften and emerging markets (especially Asia) to outperform, along with European equities.

Income Assets

SEDCO Capital offers expert advice for investors seeking returns and capital appreciation from Shariah-compliant money markets, Sukuk, leasing, and infrastructure investments. The firm manages two flagship funds - one local money market fund and the other in global Sukuk - as well as overseeing a number of discretionary mandates.

Local and regional money market investments fared well in 2019 as higher short-term interest rates enabled the fund to place Islamic deposits at higher rates, thus improving absolute performance.



Our advising services strategy is to focus on the high net-worth, family office, sovereign, endowment and institutional client segments.

The improved market environment resulted from the Federal Reserve's multiple interest rate hikes in 2018, and continued even as the tide shifted and the Fed began to cut short-term rates toward the second half of 2019. SEDCO Capital's team was able to protect the fund's yield by increasing tenure significantly just before these interest rate cuts took place.

The year was also exceptional for Sukuk, which posted double-digit returns driven by a significant downward shift in the US treasury yield curve. The yield component of Sukuk was particularly strong at the beginning of 2019, as a result of the Fed's significant tightening throughout 2018.

SEDCO Capital's funds were able to achieve strong returns without taking excessive credit risks because the firm confines its exposure to investment-grade counterparties only. The team focused on enhancing returns by implementing the right strategy in light of its interest rate outlook, expanding its network of counterparties, and further reducing any inefficiencies in administrative or structural costs.

Looking ahead to 2020, achieving returns as exceptional as 2019 may be challenging. SEDCO Capital will continue to manage its strategies with the same diligence to achieve best possible outcomes in both absolute and relative terms.

Advisory

SEDCO Capital's advisory services are carefully tailored to each client's needs, helping them 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, family office, sovereign, endowment and institutional client segments.

The firm's main advisory services role applies to strategic and tactical asset allocation, periodic rebalancing, and managing gaps in the portfolio structure. This is undertaken in consultation with the client, and in accordance with client needs and instructions.

SEDCO Capital helps clients to make investment decisions by providing access to the Advisory team's executional capabilities in research, asset allocation recommendations, and risk assessment.

In 2019, the firm's Advisory arm sustained its relationship with investors and kept them abreast of market trends through in-person visits. 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, supported by research, risk and advisory teams so that all asset classes are 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 - along with a monthly economic health check. 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.

SEDCO Capital will continue to manage its strategies with the same diligence to achieve best possible outcomes in both absolute and relative terms.

Corporate Finance

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

Our buy-side activity continued to play a prominent role in 2019 as new clients were attracted across MENA and international markets. Our team also provided ad hoc services such as market intelligence and valuation, 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 businesses. We continued to target equity and debt placement services.

Administration and Custody

Administration and Custody services are an essential part of successfully managing investment fund portfolios. SEDCO Capital's expertise and infrastructure in this area have been integral to its own impressive performance and are now being offered to third-party clients.

As part of the firm's expansion, these resources are being further developed so that they may benefit local and regional financial institutions.

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, management and reporting, with a special focus on public equity, private equity, real estate, leasing and infrastructure.

In 2018, SEDCO Capital REIT became the firm's first publicly listed real estate investment traded fund, and later the successful pilot project for in-house administration. This led to the launch of the same services to other SEDCO Capital funds, including real estate and private equity.

Today, six more funds are administered in-house: SEDCO Capital Income Fund I, SEDCO Capital Income Fund II, SEDCO Capital Built-to-Suit Fund I, and SEDCO Capital Built-to-Suit Fund II (all real estate), in addition to the SEDCO Capital Partners Group Co-investment Fund and SEDCO Capital STIC Shariah Fund III (private equity).



Prudent Ethical Investing leadership

Continued strategic business development, product innovation, and proactive risk management underpin SEDCO Capital's excellence in asset management, advisory, corporate finance, and administration and custody. These activities are further supported by outstanding operational, legal and compliance resources, coupled with compelling regional and global marketing and communication initiatives.

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

Business Development

The firm's business development function takes a global perspective, gathering intelligence, monitoring trends and working closely with the Product Development team to create the next generation of best-in-class investment products.

The process entails maintaining close relationships with local and international investors, drawing on their needs and aspirations to help generate new opportunities, while fostering awareness of SEDCO Capital's superior returns and expertise.

Throughout the year, the team enhances market understanding of the benefits arising from investment products such as specialized real estate opportunities for private investors and new income asset strategies focused on Shariah-compliant money market instruments and Sukuk.

Regional Business Development

Continuing the previous year's success story - having won the single largest endowment mandate, valued at US\$ 220 million - we were again successful in attracting major new clients.

The firm signed a new multi-asset strategy through discretionary portfolio management accounts with a prominent endowment and a well known charity. Several other new mandates included a leasing product, ATEL Leasing Fund IV, and SEDCO Capital Real Estate Built-to-Suit Fund II.

In addition, SEDCO Capital was recognized for its key role in the multi-asset management of an endowment's discretionary portfolio in Saudi Arabia. The firm's focus on multi-asset strategies and the diversity of product offerings is a precursor to securing new endowment business and further expanding the overall client base.

Increasing our client network and building awareness of the SEDCO Capital brand was advanced by participating in many events. These included the King Khalid Foundation workshop (in conjunction with SAMA and the Ministry of Finance) where SEDCO Capital presented its Prudent Ethical Investing (PEI) approach.

International Business Development

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

SEDCO Capital Global Funds, based in Luxembourg, has one of the world's largest Shariah-compliant specialized investment fund offerings, with assets under management well in excess of US\$ 1.2 billion - from family offices, institutions, sovereign wealth funds, and endowments across the world.

SEDCO CAPITAL GLOBAL FUNDS, BASED IN LUXEMBOURG, HAS ONE OF THE WORLD'S LARGEST SHARIAH-COMPLIANT SPECIALIZED INVESTMENT FUND OFFERINGS.



INCREASING OUR CLIENT NETWORK AND BUILDING AWARENESS OF THE SEDCO CAPITAL BRAND WAS ADVANCED BY PARTICIPATING IN MANY EVENTS.



Annual training programs enhance compliance and AML/CTF awareness and understanding among all employees including the Board of Directors and Executive Management team.

Risk Management

SEDCO Capital's Risk Management Department provides risk assessment for processes, investment instruments, and in-house and external asset managers. In overseeing SEDCO Capital's responsible investment approach, the department has defined the firm's Prudent Ethical Investing philosophy that combines Shariah-compliant principles with the tenets of ethical and responsible investment.

The department also quantifies operational, market, and business risk across portfolios and products, conducting 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. The Chief Risk Officer regularly presents on responsible investments at international conferences and events.

Risk Management conducts regular reviews of operational and investment risks, such as ICAAP and Basel Pillar 3, quarterly risk issues and credit. 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.

The department has also taken over responsibilities for the Luxembourg platform, particularly oversight for investment strategies.

A 2019 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 and its budgeting and reporting systems. Finance and Treasury manages liquidity and funding requirements while maintaining strong relationships with external auditors, Zakat consultants, and tax authorities.

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

The department took the lead in ensuring that all Zakat, FATCA/CRS and VAT transactions were compliant with the regulations, and all returns finalized efficiently and on time.

The Finance and Treasury team adopted the International Financial Reporting Standards in 2018 and have since taken a crucial role in keeping all accounting transactions in line with new IFRS specifications.

In 2019, the Finance and Treasury Department set the financial plan for the following year and obtained the necessary 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 Anti-Money Laundering

Ensuring regulatory adherence across the firm is the responsibility of the Compliance and Anti-Money Laundering Department. It sets stringent policies and procedures to maintain leadership in this area, with particular emphasis on combating financial crimes including money-laundering and terrorist financing.

OPERATIONS AND INFORMATION TECHNOLOGY HELPS TO ENHANCE SEDCO CAPITAL'S RELATIONS WITH FINANCIAL INSTITUTIONS ACROSS THE GLOBE.

The department maintains a strong relationship with regulators, specifically the Capital Market Authority (CMA) as well as Commission de Surveillance du Secteur Financier (CSSF) for external compliance; while collaborating with SEDCO Capital management to develop and strengthen control mechanisms.

Annual training programs enhance compliance and AML/CTF awareness and understanding among all employees including the Board of Directors and Executive Management team. These programs illustrate the roles and responsibilities of each employee in compliance and combating financial crimes.

The department's cooperation with the CMA has strengthened over the years, helping facilitate CMA's approval of the new Built to Suit Fund II, as well as various private equity fund placements, and expanding the firm's market share in Luxembourg. The department has a highly experienced team who ensure full adherence to applicable laws and regulations throughout the organization.

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 maintenance of the Investment Book of Record.

Operations and Information Technology helps to enhance SEDCO Capital's relations with financial institutions across the globe by strengthening existing relationships and embarking on new ones.

A key initiative has been the launch of eFront to further strengthen our 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 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 applying a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management, control and governance processes.



SEDCO CAPITAL IS THE FIRST SAUDI AND SHARIAH COMPLIANT COMPANY TO SIGN THE UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT AND ACHIEVED OUTSTANDING RESULTS IN UNPRI'S ANNUAL ASSESSMENT.

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.

All observations are presented to the Audit Committee, which is independent and reports to the Board of Directors. The Audit Committee ensures 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.

Product Development and Shariah Monitoring

Turning ideas and insights into investment tools is the domain of SEDCO Capital's Product Development Department. It leads the creation of products and instruments that align with market opportunities and investor appetites.

Feasibility studies are conducted on potential products to gauge market response, and the team collaborates with other departments within the firm to ensure they have all that they need to develop new products and offer them to the market.

In 2019, the team undertook projects for local and international markets, launching new offerings and refining and enhancing existing materials.

The department also undertook enhancement of the AML policy to meet global standards, taking the initiative to unify it with Luxembourg's regulatory requirements.

Development of the new UCITS platform continued, with the first phase due for launch in 2020. The new platform is one of most innovative Shariah and ethical funds in the world.

Legal

The Legal Department is responsible for managing all legal affairs relating to SEDCO Capital and its various entities. The department's primary responsibility is to safeguard the firm's assets, reputation and operations against legal risks arising in relation to its business relationships, contracts and agreements, compliance with all applicable laws, and litigation.

Middle Office

Middle Office Department fulfils a series of important functions, such as ensuring that all compliance requirements have been completed, attending to product related Board meetings, 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.





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

Middle Office is also responsible for supporting marketing, business development and product development. This includes preparing periodical publications and new business proposals, to customer care and dealing with any complaints that 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 is instrumental in raising the firm's profile, showcasing its achievements and product innovations. Year-round, the department works to position SEDCO Capital as a world-class asset manager and strengthen its brand equity, setting a solid foundation for business development and new client acquisition. Marketing also has a prominent role in promoting the strength of SEDCO Capital's Prudent Ethical Investment approach.

Key areas of activity include generating positive media exposure and organizing participation in industry events and panels. During 2019, the department achieved prominent coverage of SEDCO Capital in *Forbes Middle East*, where the firm was presented as a pioneer and continuing leader in ethical and responsible investments.

SEDCO Capital is the first Saudi and Shariah-compliant company to sign the United Nations Principles for Responsible Investment and achieved outstanding results in UNPRI's annual assessment, surpassing all other asset managers by scoring A+ in most categories.

In further promotion of its Shariah-compliant and ethical investment strategy, SEDCO Capital in partnership with the CFA Institute, presented a case study of its best practices. It also presented its expertise in endowment management and investment at the Saudi and Malaysian Experiences Forum in Waqf Investment and Management.

Sponsorships included the EuroMoney conference and hosting the Financial Sector Conference (both in Riyadh), the Responsible Finance and Investment Summit in Abu Dhabi, and the International Executive Program in Islamic finance (Jeddah).

In Egypt, it participated in a workshop organized by IdealRatings and in Riyadh took part in the Issuers and Investors Forum on Ethical Principles and Sustainable Investment in the Kingdom and Beyond.

Launch of a monthly publication, *Eyes on Markets*, further strengthens perceptions of SEDCO Capital's leadership, producing an authoritative journal that covers the latest news on global and regional capital markets.

These continuous activities led to SEDCO Capital winning several 2019 awards, including Market Leadership and Best Asset Manager at the Islamic Business and Finance Awards.

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