



Alahli REIT Risk Assessment Report

Fund Name	AlAhli REIT Fund (1)
Fund Term	99 years, extendable for additional periods
Country	Kingdom of Saudi Arabia
Risk Level	High

Risk	Risk Description	Risk Mitigation
Income Distribution Risk	The inability or failure of the Fund to achieve periodic or targeted future distribution obligations for the Unitholders as per the Fund's T&C.	<ul style="list-style-type: none"> • The Fund has signed long term contracts with anchor tenants and is continuously looking for ways to make sure that the mall enjoys a diversified and strong tenant mix which is considered to be the best mitigation strategy against risk of tenants' delinquencies. Moreover, the hotel is operated by a global and reputable hotel chain which would help ensuring minimal vacancy rates. • Specific marketing strategies related to increasing footfall for the Fund's properties are being implemented by property managers and operators. • The Fund Manager meets regularly with the property agents and operators to closely monitor the performance of the assets and take prompt actions to ensure the Fund meets its target.
Exit Risk	The inability of the Fund Manager to liquidate the underlying assets in a timely manner and according to the Fund's strategy. This risk is more relevant as the fund gets closer to maturity.	<ul style="list-style-type: none"> • The Fund has a very long term to maturity (99 years, extendable) and the Fund's units continue to be tradable on the stock exchange, giving unitholders the ability to exit at the time of their choice based on prevailing market prices.
Interest Rate Risk	The risk that the value of financial instruments will fluctuate due to changes in return rates which are affected by interest rates.	<ul style="list-style-type: none"> • Given the nature of the Fund, any movement in profit/ interest rates would have little impact on the value of the underlying assets.

<p>Counterparty/ Credit Risk</p>	<p>The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Fund is exposed to credit risk for bank balances and rent receivables.</p> <p>As of 31st December 2018, the Fund had SAR 102 million in credit exposure to various counterparties.</p>	<ul style="list-style-type: none"> • The Fund policy is to enter into financial instrument contracts only with reputable counterparties.
<p>Concentration Risk</p>	<p>The Fund initially invests in assets concentrated in specific geographical area and industries such as hospitality and retailing. In case the Fund Investments are concentrated in one or more industries, the Fund's performance and Unit prices may be affected more adversely than in cases of various assets or properties or in case of dependence on one or more other industries.</p> <p>This risk also covers customer concentration, i.e. reliance on a small number of clients. As of 31st December 2018, the five largest customers account for 29% of the rent receivable and the Fund Manager continues to explore additional options to diversify and mitigate this risk.</p>	<ul style="list-style-type: none"> • The Fund is currently fully invested in developed real estate assets located in Jeddah (Saudi Arabia). The Fund's assets are broken down as follows: <ul style="list-style-type: none"> ○ A shopping Mall, representing approximately 85% of the Fund's AUM. ○ A hotel, representing 15% of the Fund's AUM. • The Fund Manager continues to explore additional properties that meet its overall risk-return profile to add to the portfolio's diversification mix.
<p>Valuation Risk</p>	<p>The risk that the market value of the Fund is materially lower than its NAV. This might be due to an overvaluation of the underlying assets.</p>	<ul style="list-style-type: none"> • The Fund Manager manages this risk by: <ul style="list-style-type: none"> ○ Pre-acquisition: conducting proper due diligence and valuation. ○ Post-acquisition: focusing on long term value creation for Unitholders, and on its ability to generate sustainable periodic rental income and long term growth potential. • The risk that units of the Fund are valued lower than NAV, is also driven by general market sentiment, views on the entire REITS sector and real estate in general. When benchmarking against global valuation, in most countries REITS trade at a discount (lower) to NAV.

Liquidity Risk	Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.	<ul style="list-style-type: none"> The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any commitments as they arise, either through disposal of investment properties or by taking short term loans.
Fund Manager Risk	Unitholders might not have the opportunity to participate in or control the Fund's daily operations or decisions including investment decisions and actions taken by the Fund Manager, which may have an impact on the performance of the Fund.	<ul style="list-style-type: none"> The Fund Manager has set-up systems and controls to ensure that the Fund stays in compliance with the regulations at all times and that risks at the Fund are managed accordingly. The Fund Manager relies on the expertise of its highly experienced investment team to act in the best interest of Unitholders and to achieve the Fund's long term growth aspirations. In case where certain functions/ activities are outsourced to 3rd party service provider, the Fund Manager ensures that proper due diligence is performed on the 3rd party provider and that the latter accepts and adheres to the Fund Manager's terms of business.
Country Risk	The risk that new governmental regulation, policy and taxation; or political and social instability, could negatively impact the Fund's performance and/ or its liquidity.	<ul style="list-style-type: none"> The Fund is fully invested in Saudi Arabia and it is not expected that this allocation will change soon. The Fund manages the different underlying country risks including regulatory, policy, and tax changes by closely monitoring Saudi Arabia's regulatory/ policy/ tax landscapes and by anticipating and being prepared for any potential change.
Economic Risk	The risk that a deteriorated macroeconomic situation might negatively impact the performance and value of the underlying assets and consequently the Fund.	<ul style="list-style-type: none"> The Fund Manager continues to closely monitor the general macroeconomic situation and any specific development in the real-estate sector to ensure that appropriate decisions are made accordingly.

<p>Asset Under-performance Risk</p>	<p>The risk that the underlying assets will not perform as expected due to idiosyncratic factors such as, tenants' delinquency, higher CAPEX or higher vacancy rates.</p> <p>As of 31st December 2018, the Fund has SAR 3.2 million as a general provision for potential doubtful debts. The property manager (Hamat) continues to monitor this to ensure all outstanding amounts are recovered.</p>	<ul style="list-style-type: none"> • The Fund Manager has followed a number of mitigation strategies which include: <ul style="list-style-type: none"> ○ Sign long term contracts with anchor tenants ○ Ensure that the mall enjoys a strong diversified tenant mix ○ Partner with a globally reputable hotel chain to operate the Hotel • The Fund Manager also closely monitor the performance of the underlying assets and meets regularly with the property managers and hotel operator to monitor any issues/ events that might lead to Fund's underperformance.
<p>Operational Risk</p>	<p>Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities either internally or externally, at the Fund's service provider and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.</p>	<ul style="list-style-type: none"> • The Fund is managed by NCB Capital which has excellent track record and experience in asset management. • In order to ensure compliance with best practices, certain key activities that require subject matter expertise have been outsourced to experienced and reputable service providers with strong track record. <ul style="list-style-type: none"> ○ Hamat Property Company: is considered to be one of the most prominent malls management companies in KSA with long positive track record ○ Intercontinental Hotel Group (IHG): a British multinational hospitality company with a market cap of ~US\$ 10 billion and is rated BBB by S&P. • Broadly, the Fund objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation by achieving its investment objective of generating returns to unitholders.
<p>Compliance Risk</p>	<p>Failure of the Fund to adhere to laws, rules and regulations in the target investment countries.</p> <p>This risk includes: Legal, Regulatory and Sharia Compliance risks.</p>	<ul style="list-style-type: none"> • The Fund Manager continues to monitor the Fund's compliance against regulations and its Terms and Conditions and will take all necessary actions to fulfil and meet those requirements.

