



**Risk Score**

High

**Risk assessment date**

March 2024

# Risk Assessment



## Income distribution risk



### Description

- The Fund aims to provide periodic rental income to unitholders through its investments in income-generating properties. Any failure to perform its basic assets would expose the Fund to the risk of inability or failure to achieve periodic or targeted distribution obligations in the future in accordance with its terms and conditions.
- Moreover, according to the terms and conditions of the facilities provided to the Fund, the Fund must meet a number of conditions under the distribution test in order to be able to distribute profits to the unitholders. Any breach of these terms may result in the Fund being unable to make such distributions.
- Further, the Fund pays interest expenses, the Fund might be in a position where a big portion of the cash generated from operations is used to service the debt (interest) and hence impacting its ability to distribute dividends.

### Mitigation

- The Fund's approach to mitigating these risks is to ensure that the underlying assets are performing well and generating expected cash flows.
- Alandalus Mall: The Fund has entered into long-term contracts with major tenants, and is constantly looking for ways to ensure that the mall has a diverse range of tenants.
- AlAndalus Mall Hotel: The Fund Manager has entered into an agreement with Hilton to operate the hotel. This will ensure we attract guests on consistent basis.
- Salama Tower: The 18 floor office building is fully leased for 5 years to one primary tenant (Head lease with 0.7 years remaining).
- Qbic Building: The property is fully leased to one primary tenant (the Ministry of Municipal, Rural Affairs and Housing) The lease was renewed on similar terms for a term of 3 years starting 25 February 2023.
- Specific marketing strategies related to increasing demand for the Fund's properties are also being implemented property managers and/or operators..
  - The Fund Manager meets regularly with real estate agents and operators to closely monitor asset performance and take immediate action to ensure the Fund achieves its set objectives.
  - The Fund Manager closely monitors debt covenants to ensure that the Fund is complying with all covenants, including distribution testing.



## Exit risk

### Description

- The Fund invests in real estate assets that are illiquid in nature. This exposes the Fund to the risk of being unable to liquidate the underlying assets in a timely manner and in accordance with the Fund's strategy. These risks become more significant as the Fund approaches maturity.

### Mitigation

- The Fund has a long term to maturity (99 years, extendable) and the Fund's units remain tradable on the financial market, giving unit holders the ability to exit at a time of their choosing based on prevailing market prices.
- The Fund invests in real estate assets located in distinctive and central locations in a major city. These assets are characterized by high demand from investors, due to their quality and ease of liquidation compared to other real estate assets.



## Credit risk

### Description

- The risk is that one party to a financial instrument will cause a financial loss to the other party by not fulfilling its obligations. The Fund is also exposed to bank credit risks and lease receivables (receivables from tenants under operating lease contracts).

### Mitigation

- With regard to bank balances, the Fund's policy is to enter into contracts for financial instruments only with reputable counterparties.
- For outstanding rents, the Fund always seeks to enter into long-term rental agreements with established and reputable tenants. The mall also has a diverse and strong mix of tenants, which is considered the best strategy to mitigate tenant risks.



## Concentration risk

### Description

- **Portfolio concentration:** The Fund invested in 4 real estate assets, 3 of which are located in the city of Jeddah and one in the city of Riyadh. Although this portfolio concentration may increase the total returns of the unitholders, if a material loss results from any significant investment, the returns of the unitholders may be lower compared to if the Fund had invested in a diversified portfolio.
- **Concentration of clients and tenants:** The Fund is distinguished by its diversification in terms of its client base and adopts four properties, two of which are rented to one tenant: QBIC Plaza and Salama Tower. While having a single tenant may promote the stability of rental income streams over the long term, the risk is that a tenant defaults could cause the property to lose its entire rental income, putting the fund in the difficult position of finding a replacement in time and overcoming liquidity challenges.

### Mitigation

- As part of the Fund Manager's efforts to diversify the Fund's asset base, the Fund Manager completed several acquisitions in Jeddah and Riyadh. The distribution of the Fund's assets was as follows (percentage of the Fund's total revenues):

Assets	Revenue concentration/ concentration	
	2022G	2023G
Shopping Center	68 %	67 %
The hotel	8 %	9 %
Office center	12 %	12 %
Office tower	12 %	12 %

- The Fund Manager continues to explore additional options to diversify the portfolio and mitigate these risks, by searching for additional properties that meet the risk and return profile requirements to add to the portfolio contents.



## Valuation risk

### Description

- The risk that the Fund 's market value will fall significantly below its net asset value. This may be due to overvaluation of the underlying assets.

### Mitigation

- The Fund Manager manages these risks through:
- **Pre-acquisition:** Carrying out due diligence and evaluation procedures to ensure that the Fund does not pay too much upon acquisition.
- **Post-acquisition:** Focus on achieving long-term value for the unitholders, their ability to generate sustainable recurring rental income and long-term growth potential.
- To value its assets, the Fund relies on two independent valuations from two reputable real estate valuation companies (Deloitte and Esnad). These valuations are reviewed and examined internally by the Fund Manager to ensure that they do not exaggerate the fair value of the assets.
- The risk that the Fund 's units will be valued at less than net asset value also results from general market sentiment and opinions about the REIT sector and real estate in general. The Global Valuation Benchmarks study shows that REITs in most countries trade below net asset value.



## Liquidity risk

### Description

- Liquidity risk is the risk that the Fund will not be able to generate sufficient cash resources to settle its obligations (such as debt service, dividends, operating expenses, and capital expenditures) in full when they fall due, or that it will be able to settle such obligations on substantially unfavorable terms.

### Mitigation

- The Fund Manager monitors liquidity requirements by ensuring that sufficient funds are available to meet any obligations as they arise.
- The Fund has credit facilities that can be used to meet new acquisition requirements.



## Profit rate risk

### Description

- The risk that the value of the Fund 's assets and financial instruments will fluctuate due to negative changes in profit rates/interest rates.
- Since the Fund is financed using a variable interest rate facility (SIBOR rate + spread), any negative change in the SIBOR rate will lead to higher profit/interest expenses and thus lower total returns to the unitholders.
- Over the past year, the SIBOR rate has increased significantly and is expected to continue to rise in the coming years (in line with the direction of the US Federal Reserve), which will reflect negatively on the Fund .

### Mitigation

- The Fund Manager has obtained a very competitive profit rate and also reviews and renegotiates the loan terms on a regular basis. The Fund Manager also reviews economic factors and interest rate expectations, with a focus on SIBOR rate expectations and the US Federal Reserve's policy directions.
- The Fund Manager also negotiates the interest rate spread with the bank and also assesses the feasibility of entering into any interest rate hedges.



## Indebtedness risk

### Description

- This risk is that the Fund will not be able to generate the income necessary to service its debt, which will lead to default payment.
- The Fund loan facilities compatible with the provisions of Islamic Shariah to acquire income-generating properties. meanwhile these facilities contribute to diversifying assets and increasing the Fund 's ability to distribute cash and its total return, they may lead to an increase in potential losses in adverse scenarios.

### Mitigation

- The Fund Manager closely monitors liquidity requirements by ensuring that sufficient funds are available to meet any debt repayment obligations as they arise. In addition, the Fund Manager monitors debt pledges to ensure that they are all met.



## Fund Manager's risk

### Description

- Unit holders may not have the opportunity to participate in or control the day-to-day operations or decisions of the Fund , including investment decisions and actions taken by the Fund Manager, which may have an impact on the Fund 's performance.

### Mitigation

- The Fund Manager has set up systems and controls to ensure that the Fund adheres to regulations at all times and that risks in the Fund are managed accordingly.
- The Fund Manager relies on its highly experienced investment team to work for the benefit of the unitholders and to achieve the Fund 's aspirations for long-term growth.
- In the event that certain functions/activities are outsourced to a third-party service provider, the Fund Manager shall ensure that appropriate due diligence procedures have been completed for the third-party service provider, and that the latter accepts and adheres to the Fund Manager's terms of employment.



## Geographic risk

### Description

- risks of new government regulations, policies and taxes; or political and social instability, which may negatively affect the Fund 's performance and/or the Fund 's liquidity.

### Mitigation

- The Fund invests entirely in the Kingdom of Saudi Arabia.
- The Fund manages these risks by monitoring the regulatory/political/tax aspects in the Kingdom of Saudi Arabia and by anticipating and preparing for any potential change.



## Economic risk

### Description

- These risks are represented by the deterioration of the overall economic situation and its negative impact on the performance and value of the underlying assets and thus on the Fund .

### Mitigation

- The Fund Manager continues to closely monitor the overall macroeconomic situation and any specific development in the real estate sector to ensure appropriate decisions are taken accordingly.




## Risk of assets poor performance

### Description

- This is the risk that the underlying assets will perform less than expected due to special factors such as tenant delays, high capital expenditures or high vacancy rates.
- As of December 31, 2023, the Fund has a balance of recorded approximately SAR 23.48 million in provision for losses resulting from impairment of receivables associated with operating lease contracts. The property manager continues to monitor this to ensure that all amounts owed are recovered.

### Mitigation

- The Fund Manager has followed a number of risk mitigation strategies that include: - Signing long-term contracts with anchor tenants.
- Ensuring that the Mall has a strong and diverse mix of tenants.
- Continuously perform better evaluation
- Possible ways to operate the Hotel.
- Signing a long-term lease contract with a prestigious company for the Salama Office Tower and the QBIC Plaza.
- Diversifying the assets and tenants of the Fund .
- The Fund Manager also closely monitors the performance of the underlying assets and meets regularly with property managers and hotel operators to monitor any issues/events that may lead to poor performance of the Fund.




## Operational risk

### Description

- Operational risk is the risk of direct or indirect loss arising from a variety of causes related to the operations, technology and infrastructure that support the Fund 's activities, whether internal or external to the Fund 's service provider, and from external factors such as natural disasters.

### Mitigation

- The Fund is managed by SNB Capital, a company with a proven track record and experience in asset management.
- To ensure compliance with best practices, some key activities requiring subject matter expertise have been outsourced to experienced and reputable service providers with a proven track record.
- Alandalus Real Estate Company was appointed as the operator of Alandalus Mall. The company is considered one of the most prominent shopping center management companies in the Kingdom of Saudi Arabia with a long and positive track record.
- Sama Tower and QBIC Plaza are leased under a triple net lease (NNN) to one anchor tenant each.
- In general, the Fund 's goal is to manage operational risks to achieve a balance between limiting financial losses and damage to its reputation by achieving its investment objective.




## Compliance risk

### Description

- The Fund 's failure to comply with laws, rules and regulations. These risks include: Legal, regulatory and Shariah compliance risks.

### Mitigation

- The Fund Manager continues to monitor the Fund 's compliance with its regulations, terms and conditions and will take all necessary measures to meet these requirements.



## Risk of structural damages

### Description

- Structural damage resulting from adverse events, which can jeopardize the income-generating ability of the affected property.

### Mitigation

- The Fund Manager is keen to carry out preventive maintenance on a regular basis.
- Renting real estate under a triple net lease contract, annual inspection by the Fund Manager, or disclosure by the main tenant.
- Real estate insurance on all the Fund 's assets.