

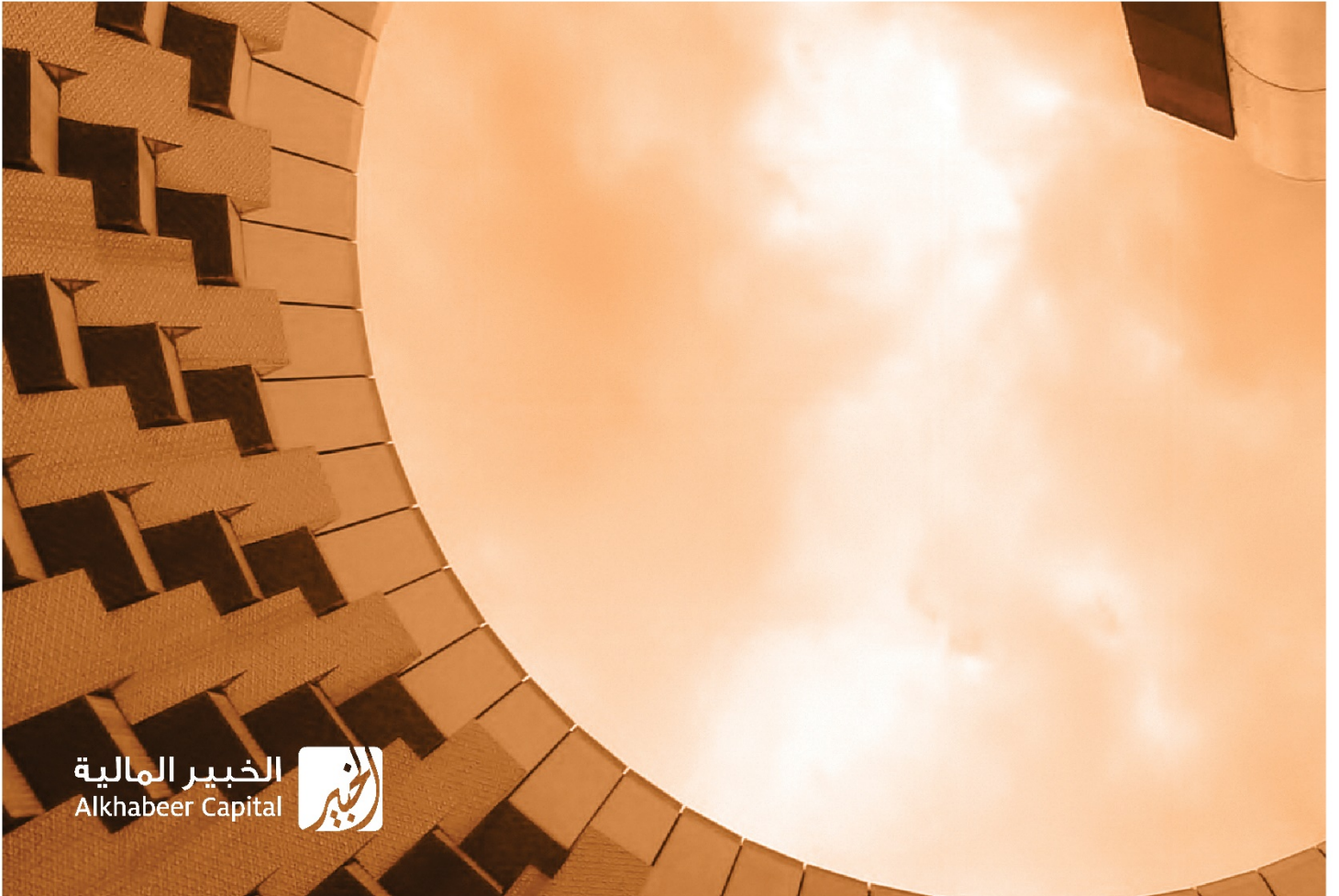
الخبير للدخل  
Alkhabeer Income



Annual Report 2022

# ALKHABEER DIVERSIFIED INCOME TRADED FUND

(A Closed-Ended Shari'a-Compliant Investment  
Traded Fund Listed on Saudi Tadawul)



الخبير المالية  
Alkhabeer Capital





## ALKHABEER CAPITAL

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## DISCLAIMER

This document does not constitute an offer to buy, subscribe or participate in any way in Alkhabeer Diversified Income Traded Fund, nor shall it (or any part of it) form the basis of, or be relied on, in connection with, or act as inducement to enter into any contract whatsoever. Prospective investors should read carefully Alkhabeer Diversified Income Traded Fund's Terms and Conditions and their contents related to investment risks as well as other Alkhabeer Diversified Income Traded Fund documents prior to making any investment decision. Alkhabeer Diversified Income Traded Fund documents are available on Alkhabeer Capital's website [www.alkhabeer.com](http://www.alkhabeer.com). Fund reports are also available on the Fund Manager's website. This investment is not a cash deposit with a local bank. The value of the amount invested and any other income which may arise therefrom, may increase or decrease. All prospective investors are required to make their own determination, with their own financial and legal advisors, and evaluate all risks involved. No assurance can be given that the targeted and projected results will be achieved. Moreover, past performance of Alkhabeer Diversified Income Traded Fund is not a guarantee of future performance. By investing in the Fund, the investor acknowledges having read and accepted Alkhabeer Diversified Income Traded Fund's Terms and Conditions. This investment may not be suitable for all investors. The past performance of the Fund or the past performance of the Benchmark, if any, is not an indicator of the Fund's future performance. The Fund may invest in Securities issued by the Fund Manager or any of its affiliates, commensurate with the Fund's objectives, investment policies and practices as provided in the Fund's Terms and Conditions. Alkhabeer Capital may hold a share in the Funds it manages. No assurance can be given to Unit subscribers that the absolute performance of the Fund, or its performance as compared to the benchmark, will recur or be similar to any previous performance. Moreover, no assurance can be provided by the Fund Manager concerning the achievement of the investment objectives. Subscribers shall before subscribing take into consideration the risk factors as described in the Fund's Terms and Conditions and Information Memorandum, which may adversely affect the Fund's Net Asset Value. The subscribers may lose their subscriptions in the Fund, and such loss may result in the total loss or reduction of the value of the Units. The Fund Manager or any of its affiliates shall not be liable for any loss which may be suffered by the Fund, unless such loss is caused by deliberate negligence on the part of the Fund Manager. All prospective investors shall make their own decisions or by seeking advice from their professional advisors, in respect of the legal and financial risks and taxes applicable to this Fund.

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# (A) FUND INFORMATION

## 1. NAME OF THE FUND

Alkhabeer Diversified Income Traded Fund.

## 2. FUND INVESTMENT OBJECTIVES, POLICIES AND PRACTICES

- The Fund's investment objective is to generate periodic income for investors by investing in income generating assets which are compliant with the guidelines of the Shari'a Supervisory Committee.
- The Fund seeks to achieve its objectives by investing in diversified income-generating assets that are compliant with the guidelines of the Shari'a Supervisory Committee, to generate periodic income for the Fund. The Fund Manager plans to invest in Sukuk, Trade Finance Transactions, Leasing Transactions, Income Funds and Murabaha Transactions, either directly or through investment funds. Asset distribution as a percentage of the Fund's total asset value based on the last audited financial statements, is as follows:

| Asset Type                              | Minimum | Maximum |
|-----------------------------------------|---------|---------|
| <b>SUKUK</b>                            | 0%      | 40%     |
| <b>TRADE FINANCE TRANSACTIONS</b>       | 0%      | 40%     |
| <b>LEASING TRANSACTIONS</b>             | 0%      | 40%     |
| <b>INCOME FUNDS*</b>                    | 0%      | 25%     |
| <b>CASH AND MURABAHA TRANSACTIONS**</b> | 0%      | 5%      |

\* Notes concerning investment in Income Funds:

- In the event the Income Funds invest in any of the aforementioned types of assets, the limits of investment in those Funds shall be independent of the limits specified for each type of those investments.

\*\* Notes concerning investment in Murabaha Transactions:

- In normal circumstances, the Fund Manager will not hold Cash or invest in Murabaha Transactions in excess of 5% of the Fund's Net Asset Value (NAV). However, in case of liquidation of some investments (until the Cash is re-invested), or in exceptional cases, the allocation to Cash and Murabaha Transactions may be increased up to 100% the Fund's NAV.

- Description of Asset Types and Fund Strategies:

### INVESTMENT TYPE:

1. **Sukuk:** Investment shall be made in Sovereign, Quasi-Sovereign or corporate Sukuk that are issued locally and internationally by way of a public offering or private placement, and are in compliance with the Shari'a Guidelines of the Shari'a Supervisory Committee, and denominated either in Saudi Riyals or US dollars, or in any other currency pegged to the US dollar.

The Fund Manager has the right to invest in any investment-grade Sukuk issuance, with no more than 5% of the Fund's assets to be invested in sub-investment grade or non-rated Sukuk, provided that the average credit rating of

**INVESTMENT TYPE:**

the Sukuk portfolio is of an investment grade (i.e. BBB- / Baa3 or higher according to Standard & Poor's / Fitch or Moody's rating). In case of split ratings, the lower rating shall apply.

The Fund can invest in Sukuk through an Intermediary. The Fund Manager shall be responsible for appointing the Intermediary in accordance with the laws and regulations issued by the Capital Market Authority.

- 2. Trade Finance Transactions:** Investment in Trade Finance Transactions shall be made through a diversified portfolio of short-term and asset-backed and/or insurance-backed Trade Finance Transactions. They shall be compliant with the Shari'a Guideliness of the Shari'a Supervisory Committee spread across international markets outside the Kingdom of Saudi Arabia, and subject to the laws and regulations issued by the financial and supervisory bodies regulating these markets in the countries in which they operate. The Fund Manager will engage an Executing Broker to execute the Trade Finance Transactions. In this case, the Executing Broker shall comply with the investment guidelines as agreed upon with the Fund Manager. The Fund Manager shall be responsible for appointing the Executing Broker in accordance with the laws and regulations issued by the Capital Market Authority.
- 3. Leasing Transactions:** Investment in Leasing Transactions shall be made through a diversified portfolio consisting of medium to long-term leasing contracts that are compliant with the Shari'a Guideliness of the Shari'a Supervisory Committee, used to supply different types of equipment in multiple sectors, spread across international markets outside the Kingdom of Saudi Arabia, and subject to the laws and regulations issued by the financial and supervisory bodies regulating these markets in the countries in which they operate. These sectors include, but are not limited to, transportation, public utilities, maritime transport, cleaning and maintenance, chemicals production, food packaging, and healthcare. The Leasing Transactions are secured by the ownership of the assets for the benefit of the Fund. The Fund Manager will engage an Executing Broker to execute the Leasing Transactions. In this case, the Executing Broker shall comply with the investment guidelines as agreed upon with the Fund Manager. The Fund Manager shall be responsible for appointing the Executing Broker in accordance with the laws and regulations issued by the Capital Market Authority.
- 4. Income Funds:** Investment shall be made in Income Funds that are managed by fund managers, including the Fund Manager, licensed by the Capital Market Authority or a similar regulatory body in the event of investing in funds outside the Kingdom of Saudi Arabia, provided these Transactions are compliant with the Shari'a Guideliness of the Shari'a Supervisory Committee. These Funds invest in various income-generating asset types, including, without limitation, Trade Finance Transactions, credit financing, Leasing Transactions, Sukuk, income generating shares, and Murabaha Transactions. When investing in any of these Funds, the Fund Manager will ensure that the investment strategy of the target fund is consistent with the Fund's investment strategy. The Income Funds that may be invested in include public funds as well as funds offered through private placement, provided that investment in the private funds does not exceed 25% of the Fund's Net Asset Value.
- 5. Murabaha Transactions:** Investment in Murabaha Transactions shall be made in Saudi Riyals with banks licensed by the Saudi Central Bank operating in the Kingdom of Saudi Arabia, provided these Transactions are compliant with the Shari'a Guideliness of the Shari'a Supervisory Committee.

**Dealings, methods and tools that the Fund Manager may use in making the Fund's investment decisions**

- The Fund will rely on the Fund Manager's vision and discretion based on the domestic and global economic conditions, findings of financial studies and available information on market investment opportunities. The Fund Manager will also rely on the Fundamental Analysis and valuation of each investment opportunity based on the strength of the financial position and projected returns, in addition to the analysis of the technical indices and the level of risks associated with each opportunity. Investments considered as suitable opportunities will subsequently be selected.
- The Fund Manager will rely on the analysis of the best available offerings of Trade Finance Transactions, Leasing Transactions and Murabaha Transactions, in terms of returns and the level of risks, with a view to maximizing returns and minimizing risks. This also applies to the risk-return analysis of available Sukuk and funds, such that the Sukuk and funds of reputable and creditworthy issuers are selected.
- The Fund Manager seeks to invest in any investment-grade Sukuk issuance. However, the Fund Manager shall not invest more than 5% of the Fund's assets in sub-investment grade or unrated Sukuk, provided the average credit rating of the Sukuk portfolio is of an investment grade (Baa3/BBB- or higher according to Standard & Poor's / Fitch or Moody's rating). In case of split ratings, the lower rating shall apply.
- When investing in unrated entities, such entities shall be assessed based on the internal assessment process used by the Fund Manager. The Fund Manager assesses the unrated entity based on a number of factors, including, without limitation, the credit rating of the country where the entity belongs, the creditworthiness, and the efficiency of assets and profits. The maximum limit for investing with unrated entities or instruments is 25% of the total size of the Sukuk portfolio, but not exceeding 5% of the Fund's total asset value.
- When investing in Income Funds, the Fund Manager will evaluate each fund based on the risk-return profile of each fund and the past performance of the manager of such funds, in addition to other criteria, including, without limitation, the target fund's creditworthiness and its investment policies and procedures.
- Investment decisions made by the Fund Manager shall be in line with the sound and prudent investment practices which achieve the Fund's investment objectives as stated in the Fund's Terms and Conditions and Information Memorandum. This includes that the Fund Manager acts to the best of its ability to ensure as follows:
  1. That the Fund's investments are based on a careful and prudent distribution of risks, without undermining the Fund's investment objectives, policies and Terms and Conditions.
  2. That sufficient liquidity is available for the Fund to meet any expected payment request, such as accrued expenses and fees which are payable by the Fund.
- In extraordinary conditions, the Fund Manager may, at its discretion, hold more than 5% and up to 100% of the Fund's NAV in the form of cash liquidity, investments in money markets, Murabaha Transactions and/or funds investing in Murabaha Transactions.
- Risks shall be assessed and necessary action shall be taken to ensure the best interest of the Unitholders in line with applicable laws and regulations.
- The Fund Manager adopts a risk management policy aimed at defining and assessing the potential risks as quickly as possible, and addressing these risks to minimize their effect. The Fund Manager studies and assesses the risks involved in any assets before investment. Risks are re-assessed annually.

### **3. INCOME AND DIVIDEND DISTRIBUTION POLICY**

The Fund Manager will distribute to the Unitholders semi-annually 100% of the semi-annual profits received out of the returns on the Fund's investments, after deducting expenses from the Unitholders. This distribution, however, does not include the capital gains on the sale of the underlying investment assets, which may be reinvested in other assets or distributed in full or in part at the Fund Manager's discretion.

The Fund will distribute the dividends within forty (40) Business Days after the last day of each half year and at the end of each Gregorian year, i.e. during August and February of each Gregorian year. Any distributed cash dividends will be deposited in the Unitholder's investment account.

### **4. THE FUND MANAGER AVAILS FUND REPORTS UPON REQUEST, FREE OF CHARGE**

### **5. DESCRIPTION OF THE FUND'S BENCHMARK**

The Fund's performance benchmark is 12 months LIBOR + 300 bps.

# (B) FUND PERFORMANCE

## 1. FINANCIAL INDICATORS AS AT THE END OF 2021 AND 2022\*

|                                                                                         | 2021                                                                                                                                                                                                              | 2022                                                                                                                                            |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>FUND NET ASSET VALUE</b>                                                             | SAR 484,469,700                                                                                                                                                                                                   | SAR 470,237,783                                                                                                                                 |
| <b>FUND NET ASSET VALUE PER UNIT</b>                                                    | SAR 10.2465                                                                                                                                                                                                       | SAR 9.9455                                                                                                                                      |
| <b>FUND NET ASSET VALUE PER UNIT HIGH AND LOW DURING THE YEAR</b>                       | Unit Value High = SAR 10.2465<br>Unit Value Low = SAR 10.1462                                                                                                                                                     | Unit Value High = SAR 10.0028<br>Unit Value Low = SAR 9.9455                                                                                    |
| <b>NUMBER OF OUTSTANDING UNITS</b>                                                      | 47,281,470 Units                                                                                                                                                                                                  | 47,281,470 Units                                                                                                                                |
| <b>DIVIDENDS DISTRIBUTED PER UNIT**</b>                                                 | SAR 0.430                                                                                                                                                                                                         | SAR 0.54                                                                                                                                        |
| <b>RATIO OF EXPENDITURES TO NET ASSET VALUE</b>                                         | 1.59%                                                                                                                                                                                                             | %2.61                                                                                                                                           |
| <b>RATIO OF TOTAL EXPENDITURES TO AVERAGE NET ASSET VALUE***</b>                        | 1.60%                                                                                                                                                                                                             | %2.60                                                                                                                                           |
| <b>RATIO OF LOANS TO TOTAL ASSET VALUE, EXPOSURE PERIOD AND MATURITY DATE</b>           | 18.86%<br>Facilities amounting to a sum of SAR 37,509,796 for one month ending on 10 January 2022, renewable monthly.<br>Facilities amounting to a sum of SAR 75,796,490 for three months ending on 9 March 2022. | 9.33%<br>Facilities amounting to a sum of SAR 48,754,009 for three months ending on 8 March 2023 and were renewed to end on 8 June 2023.        |
| <b>RESULTS OF COMPARISON OF THE FUND'S PERFORMANCE TO THE BENCHMARK SINCE INCEPTION</b> | The NAV per Unit performance for the period was 4.26% compared to the Benchmark (12-month LIBOR + 300 bps) of the same period, which was 3.24%.                                                                   | The NAV per Unit performance for the period was 6.35% compared to the Benchmark (12-month LIBOR + 300 bps) of the same period, which was 9.87%. |

\* The Fund was incepted on 7 January 2021.

\*\* On 7 August 2022, the Fund Board approved cash dividend distributions of SAR 0.26 per Unit for the period from 01 January 2022 to 30 June 2022. The distributions were paid on 23 August 2022.

\*\* On 29 January 2023, the Fund Board approved cash dividend distributions of SAR 0.28 per Unit for the period from 1 July 2022 to 31 December 2022. The distributions were paid on 19 February 2023.

\*\*\* The Fund's average NAV for the year was SAR 471,592,646.00.



## 2. PERFORMANCE RECORD\*

### a) Total Return for 1, 3 and 5 Years and Since Inception\*

| Period                 | For One Year | For Three Years | For Five Years | Since Inception |
|------------------------|--------------|-----------------|----------------|-----------------|
| <b>TOTAL RETURN **</b> | %2.09        | NA              | NA             | %6.35           |

### b) Total Annual Return for Each of the Last Ten Years or Since Inception

| Period                 | 2021  | 2022  | Since Inception |
|------------------------|-------|-------|-----------------|
| <b>TOTAL RETURN **</b> | %4.26 | %2.09 | %6.35           |

\* The Fund was incepted on 7 January 2021.

\*\* Total Return = NAV + Total Dividends

Table showing service charges, commissions and fees incurred by the Fund over the year. The total ratio of expenses shall be clearly disclosed. Any circumstances where the Fund Manager decides to waive or reduce any fees shall also be disclosed.

| ITEM*                                                                       | AMOUNT (SAR) |
|-----------------------------------------------------------------------------|--------------|
| <b>FUND OPERATOR FEES</b>                                                   | 545,599      |
| <b>MANAGEMENT FEES</b>                                                      | 5,455,996    |
| <b>SHARI'A SUPERVISORY COMMITTEE FEES</b>                                   | 15,000       |
| <b>CUSTODIAN FEES</b>                                                       | 92,000       |
| <b>AUDITOR FEES</b>                                                         | 40,250       |
| <b>DIRECTORS' REMUNERATION (INDEPENDENT DIRECTORS)</b>                      | 26,000       |
| <b>FORMATION EXPENSES</b>                                                   | 158          |
| <b>REGISTRATION EXPENSES</b>                                                | 211,774      |
| <b>REGULATORY FEES</b>                                                      | 395,457      |
| <b>INTEREST ON FACILITIES</b>                                               | 3,004,239    |
| <b>OTHER EXPENSES</b>                                                       | 2,464,269    |
| <b>TOTAL FEES AND EXPENSES OF THE FUND</b>                                  | 12,265,582   |
| <b>NET VALUE OF MANAGED ASSETS</b>                                          | 470,237,783  |
| <b>RATIO OF TOTAL FUND FEES AND EXPENSES TO NET VALUE OF MANAGED ASSETS</b> | %2.61        |

\* Including VAT, as applicable.

### 3. ANY MATERIAL CHANGES DURING THE PERIOD AFFECTING THE PERFORMANCE OF THE FUND, WHICH MUST BE DISCLOSED

The balance of the financing facilities obtained by the Fund was SAR 113,306,286 as at 31 December 2021. The Fund paid part of the financing during the current year, making the balance of the financing facilities SAR 48,754,009 as at 31 December 2022.

### 4. DISCLOSURE OF ANNUAL VOTING PRACTICES

N/A.

### 5. REPORT OF THE FUND BOARD

#### (a) Names of the Fund Board Members and Type of Membership

| # | Director's Name               | Type of Membership                      |
|---|-------------------------------|-----------------------------------------|
| 1 | MR. AMMAR AHMED SALEH SHATA   | Chairman of the Board - Non-Independent |
| 2 | MR. AHMED SAUD HAMZA GHOUTH   | Director - Non-Independent              |
| 3 | MR. HISHAM OMAR ALI BAROUM    | Director - Non-Independent              |
| 4 | MR. FAROUQ FOUAD AHMED GHULAM | Director - Independent                  |
| 5 | MR. AHMED ABDULELAH MAGHRABI  | Director - Independent                  |

#### (b) Brief Description of the Qualifications of the Fund Board Members

|                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DIRECTOR'S NAME               | Mr. Ammar Ahmed Saleh Shata                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| TYPE OF MEMBERSHIP            | Chairman of the Board - Non-Independent                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| CURRENT POSITION              | Mr. Ammar is the founder and Chairman of the Board of Alkhabeer Capital.                                                                                                                                                                                                                                                                                                                                                                                                               |
| QUALIFICATIONS AND EXPERIENCE | <ul style="list-style-type: none"> <li>• He has over 30 years of experience in the fields of corporate finance, structured finance, asset management, Islamic financial product development and Islamic investment and banking services.</li> <li>• He holds a master's degree in economic planning and a bachelor's degree in electrical engineering from the University of Southern California, United States of America.</li> <li>• He is also a CFA charterholder, USA.</li> </ul> |

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>DIRECTOR'S NAME</b>               | <b>Mr. Ahmed Saud Hamza Ghouth</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>TYPE OF MEMBERSHIP</b>            | Director - Non-Independent                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>CURRENT POSITION</b>              | Mr. Ahmed is the CEO and Board Member of Alkhabeer Capital.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>QUALIFICATIONS AND EXPERIENCE</b> | <ul style="list-style-type: none"> <li>• He has over 20 years of experience in corporate banking services, Islamic finance, asset management and private equity. Currently, he is a board member of several real-estate funds, private equity funds and capital market listed funds.</li> <li>• During his previous engagement with the Saudi National Bank (SNB), he gained extensive expertise in loan portfolio management and Islamic loan structuring. His responsibility to oversee the Asset Management Department at Alkhabeer Capital has exposed him further to various expertise in real estate development and income generating funds as well as equity funds.</li> <li>• He holds a bachelor's degree in accounting from King Fahad University of Petroleum and Minerals, Dhahran, Saudi Arabia.</li> </ul> |
| <b>DIRECTOR'S NAME</b>               | <b>Mr. Hisham Omar Ali Baroum</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>TYPE OF MEMBERSHIP</b>            | Director - Non-Independent                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>CURRENT POSITION</b>              | <ul style="list-style-type: none"> <li>• Mr. Hisham is the Deputy Chief Executive Officer of Alkhabeer Capital.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>QUALIFICATIONS AND EXPERIENCE</b> | <ul style="list-style-type: none"> <li>• He has more than 20 years of experience in the management of financial institutions, management of investments and business development.</li> <li>• Prior to joining Alkhabeer Capital, he served as Executive Vice President at Elaf Group, where he was responsible for planning and strategy implementation. He began his career at the Asset Management Group of the Saudi National Bank (SNB), where he served for nine years in various roles.</li> <li>• He holds a bachelor's degree in accounting from King Abdulaziz University in Saudi Arabia, and has a diploma in investment portfolio management and financial markets from the Arab Academy for Banking and Financial Sciences.</li> </ul>                                                                       |
| <b>DIRECTOR'S NAME</b>               | <b>Mr. Farouq Fouad Ahmed Gholam</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>TYPE OF MEMBERSHIP</b>            | Director -Independent                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>CURRENT POSITION</b>              | Mr. Farouq is the Executive Director of Alpha Capital Group.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>QUALIFICATIONS AND EXPERIENCE</b> | <ul style="list-style-type: none"> <li>• He has more than 20 years of comprehensive experience in legal affairs, Islamic finance, investment and financial structuring.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

|                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                      | <ul style="list-style-type: none"> <li>• He served as Executive Partner and the Head of Asset Management at Alkhabeer Capital (from August 2006 to August 2009). Prior to that, he was the Head of Product Development and Operational Risks at the Saudi National Bank (SNB), where he was responsible for launching and structuring investment funds.</li> <li>• He holds an LLM degree, specializing in international business and trade transactions from Washington College of Law, USA, and a law degree from King Abdul Aziz University, Jeddah, KSA.</li> </ul>                                                                                                                                 |
| <b>DIRECTOR'S NAME</b>               | <b>Mr. Ahmed Abdulelah Maghrabi</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>TYPE OF MEMBERSHIP</b>            | Director -Independent                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>CURRENT POSITION</b>              | Mr. Ahmed is a co-founder and the Vice President of Abdulelah Mohamed Ali Maghrabi Commercial Est. He is engaged in the management of the Group's Equipment and Transportation divisions. In addition, he is actively involved in developing the policies, strategies and operational plans of the Group.                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>QUALIFICATIONS AND EXPERIENCE</b> | <ul style="list-style-type: none"> <li>• He has more than 19 years of comprehensive experience in the fields of heavy equipment, transportation and real estate development.</li> <li>• Previously, he was the Procurement Manager at Mohammed Ali Maghrabi &amp; Sons Company, where he was responsible for overseeing the construction of Le Meridian Jeddah.</li> <li>• He holds a bachelor's degree in management information systems from Whittier College - California, USA, and a diploma in hotel management from the United States of America.</li> <li>• Mr. Ahmed is a member of the Project Management Institute (PMI) and is a certified Project Management Professional (PMP).</li> </ul> |

The Fund Manager acknowledges that all the Fund Board members:

- (a) are not adjudicated bankrupts or placed under liquidation; and
- (b) have not committed any acts of fraud, crime against honor or breach of trust; and
- (c) have the requisite skills and experience which qualify them to be Fund Board members.

The Fund Manager further acknowledges that each of the two Independent Directors satisfies the definition of "Independent Director" as contained in the Glossary of Defined Terms Used in the Regulations and Rules of the Capital Market Authority.

### **(c) Description of the Roles and Responsibilities of the Fund Board**

The Fund Board members have the following responsibilities:

- Approving all material contracts, decisions and reports to which the Fund is a party, including - without limitation - approving the contracts for providing management services to the Fund and the contracts for providing custody services. This, however, excludes contracts which are executed in accordance with the investment decisions related to any investments which the Fund had made or will make in the future.
- Approving a written policy on the voting rights related to the Fund's assets.
- Overseeing and, where appropriate, approving or ratifying any conflict of interest the Fund Manager has disclosed.
- Meeting at least twice annually with the Fund Manager's Compliance Committee or Compliance Officer to review the Fund Manager's compliance with all applicable laws and regulations, including - without limitation - the requirements as stipulated in CMA's Investment Funds Regulations, as amended.
- Approving all changes as provided in Articles (62) and (63) of the CMA's Investment Funds Regulations prior to the Fund Manager obtaining the approval of the Unitholders and the CMA or notifying them (as applicable).
- Ensuring the completeness and accuracy of the Fund's Terms and Conditions and any other document (whether contractual or otherwise), that includes disclosures related to the Public Fund and/or the Fund Manager and its management of the Public Fund, in addition to ensuring compliance of the foregoing with the provisions of CMA's Investment Funds Regulations, as amended.
- Ensuring that the Fund Manager carries out its responsibilities in the best interest of the Unitholders, in accordance with the CMA's Investment Funds Regulations, as amended.
- Reviewing the report on the performance evaluation and quality of services provided by parties concerned with the provision of material services to the Fund as described in Paragraph (L) of Article (9) of CMA's Investment Funds Regulations, in order to ensure that the Fund Manager carries out its responsibilities to the best interest of the Unitholders, subject to the Fund's Terms and Conditions and the provisions of CMA's Investment Funds Regulations, as amended.
- Acting with integrity, good intent, due care and diligence and in the best interest of the Unitholders.
- Recording minutes of meetings including all actions taken during the meetings and the decisions made by the Fund Board.
- Approving the appointment of the Fund's Auditor.
- Reviewing the report containing all complaints and action taken in relation to them as provided in Paragraph (m) of Article (9) of the Investment Funds Regulations issued by the CMA Board, the Fund's Terms and Conditions and the provisions of the Investment Funds Regulations, as amended, issued by the CMA Board.

The Fund Manager shall provide all necessary information on the affairs of the Fund to all Fund Board members to enable them to carry out their duties. None of the Fund Board members may be held liable to the Unitholders for any damages, losses, costs, expenses or other obligations incurred by the Unitholder or the Fund's assets, unless caused by a deliberate act, bad intent or gross negligence on the part of the Fund Board members.

**(d) Details of the Remuneration of the Fund Board Members**

The Fund shall pay SAR 5,000 per annum to each independent director, plus an attendance fee of SAR 4,000 for each meeting. Two independent directors were appointed. Therefore, the total remuneration to be paid to both directors will be a lump sum of SAR 10,000 per annum, plus an attendance fee of SAR 4,000 per meeting to each member. It is expected that a minimum of two meetings (and a maximum of four meetings) will be held each year. Thus the total attendance fee expected to be paid to both directors will be a minimum of SAR 16,000 (and a maximum of SAR 32,000) per annum. As such, the total remuneration expected to be paid during the year to the two independent directors during the year is a minimum of SAR 26,000 (and a maximum of SAR 42,000). In addition, the Fund shall pay all actual travel and accommodation costs incurred by each independent director to attend meetings (if applicable), up to a maximum of SAR 15,000 per annum to the two independent directors. These annual costs and fees shall be calculated and paid semi-annually. Non-independent directors will not receive any fees.

**(e) Conflict of Interest**

In its ordinary course of business, the Fund transacts with related parties. The Fund Manager and the Fund Board find that transactions with third parties are carried out under the same conditions of transacting business with other parties. Transactions with related parties are subject to the limits defined in the regulations and instructions issued by the regulatory authorities concerned in the Kingdom of Saudi Arabia. In addition, good governance best practices are also applied and adopted by the Fund Manager in the performance of its activities. The annual financial statements contain a note on financial transactions with related parties.

During the Fiscal Year ended 31 December 2022, the Fund Board did not find any transactions with related parties involving any event of conflict of interest. The Fund Board acknowledges that all financial transactions and contracts entered into with the Fund are subject to the policies and procedures applicable to conflict of interest.

**(f) Other Funds Managed by the Fund Board Members**

The following Fund Board members are also members of the boards of other funds managed by the Fund Manager:

| FUND'S NAME                                           | FUND TYPE         | DIRECTORS   |              |               |               |                |
|-------------------------------------------------------|-------------------|-------------|--------------|---------------|---------------|----------------|
|                                                       |                   | Ammar Shata | Ahmed Ghouth | Hisham Baroum | Farouq Ghulam | Ahmed Maghrabi |
| Alkhabeer Real Estate Residential Development Fund II | Private Placement | Chairman    | Director     |               |               |                |
| Alkhabeer Car Rental Private Equity Fund              | Private Placement |             | Chairman     | Director      |               |                |
| Alkhabeer Real Estate Opportunity Fund I              | Private Placement | Chairman    | Director     |               | Director      |                |
| Alkhabeer Real Estate Opportunity Fund II             | Private Placement |             | Chairman     | Director      |               |                |
| Alkhabeer Education Private Equity Fund I             | Private Placement | Chairman    | Director     |               |               |                |
| Alkhabeer Education Private Equity Fund II            | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Education Private Equity Fund III           | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Education Private Equity Fund IV            | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Education Private Equity Fund V             | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Education Private Equity Fund VI            | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Education Private Equity Fund VII           | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Saudi Private Equity Fund I                 | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Saudi Private Equity Fund II                | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Private Equity Industrial Fund IV           | Private Placement |             | Chairman     | Director      |               | Director       |
| Alkhabeer Multi Asset Private Income Fund I           | Private Placement |             | Chairman     | Director      |               |                |
| Alkhabeer Hospitality Fund I                          | Private Placement |             | Chairman     | Director      |               |                |
| Alkhabeer REIT                                        | Public Placement  | Chairman    | Director     | Director      | Director      |                |
| Alkhabeer Waqf Fund I                                 | Public Placement  | Chairman    | Director     |               | Director      |                |
| Alkhabeer Growth and Income Traded Fund               |                   | Chairman    | Director     |               |               | Director       |

**(g) Items discussed and resolutions issued in relation thereto, including the Fund's performance and achievement of the Fund's objectives**

| Meeting                                                | Main Subjects and Fund Board Resolutions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Meeting (No. 1-2022) on 31 March 2022</b></p>    | <ol style="list-style-type: none"> <li>1. Specifying a clear financial leverage upper limit, and the necessity to develop a policy showing the upper limit for obtaining internally approved additional financing. The newly developed policy shall be presented to the Board for approval by circulation.</li> <li>2. Considering the possible restructuring of the Fund's existing Sukuk by investing in short term investments generating better returns. An expert in this field shall be engaged if required at the Fund Manager's discretion.</li> <li>3. Adding a page to the presentation of each meeting held in accordance with policies, listing the Fund's approved service providers.</li> <li>4. Developing an internal policy to regulate the process and procedures of obtaining financing for the Fund(s). The policy shall subsequently be sent to the Fund Board members for approval.</li> <li>5. Adding a table of income fund indices showing the ranking of the Fund and how it compares to other income funds in terms of the Fund's current return, net return and total return, with comparison in terms of the absolute return and the market benchmark.</li> <li>6. Approving the Fund's green classification to be maintained.</li> </ol>                                                                                              |
| <p><b>Meeting (No. 2-2022) on 17 November 2022</b></p> | <ol style="list-style-type: none"> <li>1. Searching for a general standard similar to the Fund and comparing it, without limitation, in terms of (volume - index - performance - latest developments - expected returns).</li> <li>2. Considering the option of adding structured financing programs as an additional asset class for the previous five months, and the extent of its effect on the portfolio if added. The results of each month shall be presented separately pending completion of the final report on addition structured financing programs as an additional asset class.</li> <li>3. Adding analysis of expected returns over a long period of time, and clearly showing the Fund's share price based on which expected returns were analyzed in the table on page 26 of the attached Fund Manager presentation.</li> <li>4. Submitting a clear study on the possibility of adding the new asset classes, and presenting them to the Fund Board members during the next meeting.</li> <li>5. Based on Fund input and considering the necessary ongoing supervision of the Fund's performance, the Fund's classification shall be changed to yellow as of the next meeting, and the current Fund classification shall be maintained for the current period.</li> <li>6. Approving the Fund's green classification to be maintained.</li> </ol> |
| <p><b>Additional Resolutions by Circulation</b></p>    | <ol style="list-style-type: none"> <li>1. The Fund Board's Resolution made on 24.01.2022 concerning the approval to pay cash dividends Q2 of FY 2021.</li> <li>2. The Fund Board's Resolution made on 09.02.2022 concerning the review of the 2021 annual report on complaints and action taken.</li> <li>3. The Fund Board's Resolution made on 20.02.2022 concerning the approval of the Terms and Conditions Memorandum.</li> <li>4. The Fund Board's Resolution made on 17.03.2022 concerning the approval of the financial statements (audited) for fiscal period ended 31.12.2021.</li> <li>5. The Fund Board's Resolution made on 27.03.2022 concerning the approval of the 2021 Annual Report.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |



**Meeting**

**Main Subjects and Fund Board Resolutions**

6. The Fund Board's Resolution made on 04.08.2022 concerning the approval to pay cash dividends for the period from 01.01.2022 to 30.06.2022 (H1 of FY 2022).
  7. The Fund Board's Resolution made on 19.08.2022 concerning the approval to complete legal requirements in order to proceed with the Vertical Village acquisition process.
  8. The Fund Board's Resolution made on 04.04.2022 concerning the approval of the summary proforma financial statements (unaudited) for the six month period ending 30 June 2022.
  9. The Fund Board's Resolution made on 10.10.2022 concerning the approval of Alkabeer Diversified Income Traded Fund Investor Report for Q3 of FY 2022 (quarterly report).
  10. The Fund Board's Resolution made on 21.11.2022 concerning the verification of independence of Alkabeer Diversified Income Traded Fund Board Members.
-

# (C) FUND MANAGER

## 1. NAME AND ADDRESS OF THE FUND MANAGER



**Alkhabeer Capital**

CMA license 07074-37

P.O. Box 128289

Jeddah 21362

Kingdom of Saudi Arabia

Tel: +966 12 658 8888

Fax: +966 12 658 6663

CR 4030177445

www.alkhabeer.com

## 2. NAME AND ADDRESS OF THE SUB-MANAGER AND/OR INVESTMENT ADVISOR (IF ANY)

N/A.

## 3. REVIEW OF INVESTMENT ACTIVITIES DURING THE PERIOD

**Ijara:** The Fund Manager invested 36.6% of the Fund's assets in Ijara transactions, including several types of equipment and companies as at the end of 2021, the majority of which are in the United States of America. The Ijara portfolio is expected to generate a total return of 6.5% per annum.

**Trade Financing:** The Fund Manager invested 28.5% of the Fund's assets in trade financing transactions with several counterparties in several sectors, the majority of which are in the European Continent. All of the executed transactions are short term in nature, generating returns ranging between 6.5% to 12.0% per annum.

**Sukuk:** The Fund Manager invested 6.3% of the Fund's assets in Sukuk of different credit ratings, including sovereign sukuk and corporate sukuk. The Fund Manager obtained credit facilities to support increasing the returns of the portfolio to over 4.80% per annum, while maintaining an investment grade weighted average portfolio's rating.

**Income Funds:** For the purposes of diversifying Fund investments, the Fund Manager invested 23.2% of the Fund's assets in income funds, ranging between private financing, Ijara, trade financing and securitization. They are expected to generate an annual return ranging on average between 7.0% to 8.0%.

Allocating the remaining Fund assets as cash liquidity for investing in trade finance transactions and income funds in 2023.

#### **4. REPORT ON THE FUND'S PERFORMANCE DURING THE PERIOD**

The NAV per Unit during the period from 1 January 2022 to 31 December 2022 was 1.86% (including 5.10% cash distributions).

Cash dividends were distributed to Fund Unitholders for the period from 1 January 2022 to 31 December 2022 totaling SAR 25,531,993.80, or SAR 0.54 per Unit. Thus the ratio of distributions to par value equals 5.40%.

#### **5. DETAILS OF ANY CHANGES TO THE FUND'S TERMS AND CONDITIONS DURING THE PERIOD**

The Fund's Terms and Conditions were updated on 28 February 2022.

#### **6. ANY OTHER INFORMATION WHICH CAN ENABLE THE UNITHOLDER TO MAKE A WELL FOUNDED DECISION BASED ON SUFFICIENT INFORMATION ON THE FUND'S ACTIVITIES DURING THE PERIOD**

N/A.

#### **7. IF THE FUND INVESTS IN OTHER FUNDS, THE PERCENTAGE MANAGEMENT FEES INCURRED BY THE FUND ITSELF AND THE UNDERLYING FUNDS MUST BE DISCLOSED**

As at 31 December 2022, the ratio of the management fees of underlying funds was 0.34%.

#### **8. STATEMENT OF SPECIAL COMMISSIONS OBTAINED BY THE FUND MANAGER DURING THE PERIOD, CLEARLY SHOWING THEIR TYPES AND USES (IF ANY)**

N/A.

#### **9. ANY STATEMENTS AND OTHER INFORMATION REQUIRED BY REGULATIONS TO BE INCLUDED IN THIS REPORT**

N/A.

#### **10. MANAGEMENT TERM OF THE PERSON WHO IS REGISTERED AS FUND MANAGER**

Since the Inception of the Fund on 7 January 2021.

#### **11. THE RATIO OF EXPENSES OF EACH FUND AS AT THE END OF THE YEAR, AND THE WEIGHTED AVERAGE OF THE RATIO OF EXPENSES OF ALL MAIN UNDERLYING FUNDS (WHERE APPLICABLE) SHALL BE DISCLOSED**

The average ratio of expenses of the underlying funds was 0.60% as at the end of 2022.

# (D) CUSTODIAN

## 1. NAME OF AND ADDRESS OF THE CUSTODIAN



### **Alinma Investment Company**

CMA license 08134-37

King Fahad Road

P.O. Box 55560

Riyadh 11544

Kingdom of Saudi Arabia

Unified Number: 8004413333

Fax: +966 11 290 6299

Email: [info@alinmainvest.com](mailto:info@alinmainvest.com)

[www.alinmainvest.com](http://www.alinmainvest.com)

## 2. BRIEF DESCRIPTION OF THE CUSTODIAN'S OBLIGATIONS

- Notwithstanding any delegation by the Custodian to one or more third parties under the provisions of CMA's Investment Funds Regulations or the Capital Market Institutions Regulations, the Custodian shall remain fully responsible for compliance with the Investment Funds Regulations.
- The Custodian shall be liable to the Unitholders for any losses caused to the investment fund due to any fraud, negligence, misconduct or willful default on the part of the Custodian.
- The Custodian shall be responsible for taking custody of, and protecting the fund's assets on behalf of unitholders, and taking all necessary administrative measures in relation to the custody of the fund's assets.
- The Custodian may delegate his obligations and responsibilities to the Fund to one or more third parties or to any of its affiliates to act as Fund Sub-Custodian. The Custodian remains fully responsible for its obligations in accordance with the Investment Funds Regulations, whether it discharges its responsibilities directly or delegates them to a third party under the provisions of CMA's Investment Funds Regulations or the Capital Market Institutions Regulations. The Custodian shall be liable to the Fund Manager and the Unitholders for any losses caused to the investment fund due to any fraud, negligence, misconduct or willful default on the part of the Custodian. The Custodian shall pay the fees of the Sub-Custodian out of its own resources.

# (E) FUND OPERATOR

## 1. NAME AND ADDRESS OF THE FUND OPERATOR



### **Alkhabeer Capital**

CMA license 07074-37

P.O. Box 128289

Jeddah 21362

Kingdom of Saudi Arabia

Tel: +966 12 658 8888

Fax: +966 12 658 6663

CR 4030177445

[www.alkhabeer.com](http://www.alkhabeer.com)

## 2. BRIEF DESCRIPTION OF THE OBLIGATIONS AND RESPONSIBILITIES OF THE FUND OPERATOR

The Fund Operator shall, in relation to the Fund, perform all the administrative duties and obligations required in accordance with the Investment Funds Regulations, as well as other undertakings which may be necessary to implement and achieve the purposes, policies and objectives of the Fund. For example, without limitation:

- Keeping the books and records related to the operation of the Fund;
- Valuating the assets of the Fund.

The Fund Operator may appoint specialized sub-operators to the Fund, subject to the Fund Board's approval. They may be replaced at the Fund Manager's discretion, subject to the Fund Board's prior approval. The Fund Operator shall pay the fees and expenses of any sub-operator out of its own resources.

## (F) AUDITOR

### Name and Address of the Auditor



**Al Azem, Al Sudairy, Al Shaikh & Partners CPA's & Consultants**

**Member of Crowe Global**

P.O. Box 21499

Jeddah 40097

Kingdom of Saudi Arabia

<https://www.crowe.com/sa>

## (G) FINANCIAL STATEMENTS



Smart decision. Lasting value.

**Al Azem, Al Sudairy, Al Shaikh & Partners**  
For Professional Consulting – Member Crowe Global

**ALKHABEER DIVERSIFIED INCOME TRADED FUND – Expressed in Saudi Riyal**  
(Managed by Alkhabeer Capital Company)

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**ALKHABEER DIVERSIFIED INCOME TRADED FUND – Expressed in Saudi Riyal**  
**(Managed by Alkhabeer Capital Company)**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR’S REPORT**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

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## Independent Auditor's Report

**To: The Unitholders**  
**Alkhabeer Diversified Income Traded Fund – Expressed in Saudi Riyal**  
(Managed by Alkhabeer Capital Company)  
**Jeddah, Kingdom of Saudi Arabia**

### **Opinion**

We have audited the financial statements of **Alkhabeer Diversified Income Traded Fund (“The Fund”)** managed by **Alkhabeer Capital Company (“The Fund Manager”)**, which comprise the statement of financial position as of December 31, 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity attributable to unitholders and the statement of cash flows for the year then ended and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Fund in accordance with the professional code of conduct and ethics, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Below is the description of each key audit matters and how our audit procedures addressed to the audit matters mentioned:

| <b>Key Audit Matters</b>                                                                                                                                                                                                                      | <b>How We Addressed Key Audit Matters</b>                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Valuation of financial assets at fair value through profit or loss</b><br>As at December 31, 2022, the carrying values of financial assets at fair value through profit or loss aggregated to SAR 153.9 million (2021: SAR 170.8 million). | <ul style="list-style-type: none"><li>• We assessed the design and implementation and tested the operating effectiveness of key controls over;<ul style="list-style-type: none"><li>○ management's processes for performing valuation financial assets; and</li><li>○ IT system and the data integrity of the investment portfolio information held.</li></ul></li></ul> |



**Independent Auditor’s Report- continued**

**To: The Unitholders  
Alkhabeer Diversified Income Traded Fund – Expressed in Saudi Riyal  
(Managed by Alkhabeer Capital Company)  
Jeddah, Kingdom of Saudi Arabia**

**Key Audit Matters - continued**

| Key Audit Matters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | How We Addressed Key Audit Matters                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The fair value of these financial assets is determined through the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates.</p> <p>Estimation uncertainty exists for those assets not traded in an active market (i.e. unquoted) and where the internal modelling techniques use:</p> <ul style="list-style-type: none"> <li>• significant observable valuation inputs (i.e. level 2 investments); and</li> <li>• significant unobservable valuation inputs (i.e. level 3 investments).</li> </ul> <p>Estimation uncertainty is particularly high for level 3 investments.</p> <p>The valuation of the Fund’s financial assets in level 2 and 3 categories was therefore considered a key audit matter given the degree of complexity involved in valuing these investments and the significance of the judgments and estimates made by the management.</p> <p>Refer to note (4) to the financial statements for details of significant judgements applied in valuation of financial assets carried at fair value and note (17) which explain the investment valuation methodology used by the Fund and the critical judgments and estimates.</p> | <ul style="list-style-type: none"> <li>• We evaluated the valuation techniques, inputs and reasonableness of assumptions used by management to value financial assets.</li> <li>• We tested the valuation of a sample of financial assets. As part of these audit procedures, we assessed the key inputs used in the valuation such as cashflows, discount rates used, comparable entity data and liquidity discounts by benchmarking them with external data.</li> <li>• We assessed the adequacy of the financial assets hierarchy and also considered IFRS 9 related disclosures in the financial statements.</li> </ul> |





## **Independent Auditor's Report- continued**

**To: The Unitholders**  
**Alkhabeer Diversified Income Traded Fund – Expressed in Saudi Riyal**  
(Managed by Alkhabeer Capital Company)  
**Jeddah, Kingdom of Saudi Arabia**

### **Other Information Included in the Fund's 2022 Annual Report**

Other information consists of the information included in the Fund's 2022 Annual Report, other than the financial statements and our report thereon.

The Fund Board of Directors are responsible for the other information. The Fund's 2022 Annual Report is expected to be made available to us after the date of this report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance regarding them.

Regarding our audit of the financial statements, our responsibility is to read the other information referred to above when it becomes available to us. In doing so, we consider whether this information is materially inconsistent with the accompanying financial statements, information obtained during our audit, or otherwise materially misstated.

When we read the annual report when it is available to us, and if we find any material misstatement therein, we are required to report on this matter.

### **Responsibilities of the Fund Manager and Those Charged with Governance for the Financial Statements**

The Fund Manager is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants, the applicable provisions of the investment Funds regulation and the Funds terms and conditions, and for such internal control as the Fund Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Fund Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (the Fund Board of Directors) are responsible for overseeing the financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



### Independent Auditor's Report- continued

**To: The Unitholders  
Alkhabeer Diversified Income Traded Fund – Expressed in Saudi Riyal  
(Managed by Alkhabeer Capital Company)  
Jeddah, Kingdom of Saudi Arabia**

#### **Auditor's Responsibilities for the Audit of the Financial Statements - continued**

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Fund Manager.
- Conclude on the appropriateness of the Fund Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate to those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



**Independent Auditor's Report- continued**

**To: The Unitholders**

**Alkhabeer Diversified Income Traded Fund – Expressed in Saudi Riyals**

(Managed by Alkhabeer Capital Company)

**Jeddah, Kingdom of Saudi Arabia**

**Auditor's Responsibilities for the Audit of the Financial Statements - continued**

Among the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**AlAzem, AlSudairy, AlShaikh & Partners  
For Professional Consulting**



**Abdullah M. AlAzem  
License No. (335)**

4 Ramadan 1444H (March 26, 2023)  
Jeddah, Kingdom of Saudi Arabia

**ALKHABEER DIVERSIFIED INCOME TRADED FUND**  
(Managed by Alkhabeer Capital Company)  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2022**  
(Expressed in Saudi Riyal)

|                                                                 | Note | As at December 31, |                    |
|-----------------------------------------------------------------|------|--------------------|--------------------|
|                                                                 |      | 2022               | 2021               |
| <b>ASSETS</b>                                                   |      |                    |                    |
| <b>Current assets</b>                                           |      |                    |                    |
| Cash and cash equivalents                                       | 5    | 17,392,966         | 63,076,819         |
| Dividends receivable                                            | 6    | 5,820,868          | 4,498,681          |
| Prepaid expenses and other debit balances                       | 7    | 5,531,741          | 4,364,340          |
| <b>Total current assets</b>                                     |      | <b>28,745,575</b>  | <b>71,939,840</b>  |
| <b>Non-current assets</b>                                       |      |                    |                    |
| Financial assets                                                | 8    | 493,696,688        | 528,876,710        |
| <b>Total assets</b>                                             |      | <b>522,442,263</b> | <b>600,816,550</b> |
| <b>LIABILITIES AND EQUITY ATTRIBUTABLE TO UNITHOLDERS</b>       |      |                    |                    |
| <b>Current liabilities</b>                                      |      |                    |                    |
| Accrued expenses and other credit balances                      | 9    | 371,295            | 239,351            |
| Due to related parties                                          | 10   | 3,079,176          | 2,801,213          |
| <b>Total current liabilities</b>                                |      | <b>3,450,471</b>   | <b>3,040,564</b>   |
| <b>Non-current liabilities</b>                                  |      |                    |                    |
| Credit facilities                                               | 11   | 48,754,009         | 113,306,286        |
| <b>Total liabilities</b>                                        |      | <b>52,204,480</b>  | <b>116,346,850</b> |
| <b>EQUITY ATTRIBUTABLE TO UNITHOLDERS</b>                       |      | <b>470,237,783</b> | <b>484,469,700</b> |
| <b>Total liabilities and equity attributable to unitholders</b> |      | <b>522,442,263</b> | <b>600,816,550</b> |
| <b>Number of units issued (unit)</b>                            |      | <b>47,281,470</b>  | <b>47,281,470</b>  |
| <b>Equity per unit</b>                                          |      | <b>9.9455</b>      | <b>10.2465</b>     |

The accompanying notes from (1) to (21) form an integral part of these financial statements.

**ALKHABEER DIVERSIFIED INCOME TRADED FUND**  
(Managed by Alkhabeer Capital Company)  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
(Expressed in Saudi Riyal)

|                                                         |       | <b>FOR THE<br/>YEAR ENDED<br/>DECEMBER 31,<br/>2022</b> | <b>FOR THE<br/>PERIOD SINCE<br/>INCEPTION ON<br/>JANUARY 7,<br/>2021 UP TO<br/>DECEMBER 31,<br/>2021</b> |
|---------------------------------------------------------|-------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
|                                                         | Note  |                                                         |                                                                                                          |
| Dividends from financial assets                         |       | <b>38,950,885</b>                                       | 28,207,908                                                                                               |
| Realized (losses) / gains from financial assets         | 8     | <b>(7,163,731)</b>                                      | 942,371                                                                                                  |
| Unrealized losses from financial assets                 | 8     | <b>(9,639,939)</b>                                      | (1,257,986)                                                                                              |
| <b>Net revenue</b>                                      |       | <b>22,147,215</b>                                       | 27,892,293                                                                                               |
| <b>Expenses</b>                                         |       |                                                         |                                                                                                          |
| Management fees                                         | 10,13 | <b>(5,455,996)</b>                                      | (5,483,727)                                                                                              |
| Administration and custody fees                         | 10,13 | <b>(637,599)</b>                                        | (663,373)                                                                                                |
| Finance costs                                           |       | <b>(3,004,239)</b>                                      | (594,459)                                                                                                |
| Other expenses                                          | 12    | <b>(3,449,758)</b>                                      | (1,332,172)                                                                                              |
| Foreign currency gains                                  |       | <b>282,010</b>                                          | 347,103                                                                                                  |
| <b>Net expenses</b>                                     |       | <b>(12,265,582)</b>                                     | (7,726,628)                                                                                              |
| <b>Profit for the year / period</b>                     |       | <b>9,881,633</b>                                        | 20,165,665                                                                                               |
| Other comprehensive income                              |       | -                                                       | -                                                                                                        |
| <b>Total comprehensive income for the year / period</b> |       | <b>9,881,633</b>                                        | 20,165,665                                                                                               |

The accompanying notes from (1) to (21) form an integral part of these financial statements.

**ALKHABEER DIVERSIFIED INCOME TRADED FUND**  
 (Managed by Alkhabeer Capital Company)  
**STATEMENT OF CHANGES IN EQUITY ATTRIBUTABLE TO UNITHOLDERS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
 (Expressed in Saudi Riyal)

|                                                                           | FOR THE<br>PERIOD SINCE<br>INCEPTION<br>FOR THE<br>YEAR ENDED<br>DECEMBER 31,<br>2022 | ON JANUARY<br>7, 2021 UP TO<br>DECEMBER<br>31, 2021 |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------|
|                                                                           | Note                                                                                  |                                                     |
| <b>Equity attributable to unitholders</b>                                 |                                                                                       |                                                     |
| Equity attributable to unitholders at the beginning of the year / period  | 484,469,700                                                                           | -                                                   |
| Proceeds from initial offering of units                                   | -                                                                                     | 472,814,700                                         |
| Comprehensive income for the year / period                                | 9,881,633                                                                             | 20,165,665                                          |
| Dividends                                                                 | 19 (24,113,550)                                                                       | (8,510,665)                                         |
| <b>Equity attributable to unitholders at the end of the year / period</b> | <b>470,237,783</b>                                                                    | <b>484,469,700</b>                                  |

The accompanying notes from (1) to (21) form an integral part of these financial statements.



**ALKHABEER DIVERSIFIED INCOME TRADED FUND**  
(Managed by Alkhabeer Capital Company)  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
(Expressed in Saudi Riyal)

|                                                                  | <b>FOR THE<br/>YEAR ENDED<br/>DECEMBER 31,<br/>2022</b> | <b>FOR THE<br/>PERIOD SINCE<br/>INCEPTION ON<br/>JANUARY 7,<br/>2021 UP TO<br/>DECEMBER 31,<br/>2021</b> |
|------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>              |                                                         |                                                                                                          |
| Profit for the year / period                                     | 9,881,633                                               | 20,165,665                                                                                               |
| <b>Adjustments:</b>                                              |                                                         |                                                                                                          |
| Finance costs                                                    | 3,004,239                                               | 594,459                                                                                                  |
| Realized losses / (gains) from financial assets                  | 7,163,731                                               | (942,371)                                                                                                |
| Unrealized losses from financial assets                          | 9,639,939                                               | 1,257,986                                                                                                |
| <b>Changes in operating assets and liabilities:</b>              |                                                         |                                                                                                          |
| Dividends receivable                                             | (1,322,187)                                             | (4,498,681)                                                                                              |
| Prepaid expenses and other debit balances                        | (1,167,401)                                             | (4,364,340)                                                                                              |
| Accrued expenses and other credit liabilities                    | (66,925)                                                | 108,675                                                                                                  |
| Due to related parties                                           | 277,963                                                 | 2,801,213                                                                                                |
| Net change in financial assets                                   | 18,376,352                                              | (529,192,325)                                                                                            |
| Finance cost paid                                                | (2,805,370)                                             | (463,783)                                                                                                |
| <b>Net cash provided by / (used in) operating activities</b>     | <b>42,981,974</b>                                       | <b>(514,533,502)</b>                                                                                     |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>              |                                                         |                                                                                                          |
| Net movement in credit facilities                                | (64,552,277)                                            | 113,306,286                                                                                              |
| Proceeds from initial offering of units                          | -                                                       | 472,814,700                                                                                              |
| Dividends                                                        | (24,113,550)                                            | (8,510,665)                                                                                              |
| <b>Net cash (used in) / provided by financing activities</b>     | <b>(88,665,827)</b>                                     | <b>577,610,321</b>                                                                                       |
| <b>Net change in cash and cash equivalents</b>                   | <b>(45,683,853)</b>                                     | <b>63,076,819</b>                                                                                        |
| Cash and cash equivalents at the beginning of the year / period  | 63,076,819                                              | -                                                                                                        |
| <b>Cash and cash equivalents at the end of the year / period</b> | <b>17,392,966</b>                                       | <b>63,076,819</b>                                                                                        |

The accompanying notes from (1) to (21) form an integral part of these financial statements.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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#### **1. THE FUND AND ITS ACTIVITIES**

Alkhabeer Diversified Income Traded Fund ("The Fund") is a Sharia compliant investment traded fund, established in accordance in the rules and regulations enforced in KSA as well as under the guidelines of Capital Market Authority ("CMA"). The Fund has been established on 7 January 2021 and managed by Alkhabeer Capital Company ("Alkhabeer Capital" or the "Fund Manager"), for the benefit of the Fund's unitholders. The Fund is ultimately supervised by the Fund Board of Directors. Alinma Investment Company acts as the Custodian of the Fund. The year 2021 is the first year of operation for the Fund.

The objective of the Fund is to generate periodic income for investors by investing in income-generating assets that are compatible with the regulations of the Sharia Board.

The establishment of the Fund has been approved by the CMA on September 17, 2020 (corresponding to Muharram 29, 1442 H). The inception date of the Fund was January 7, 2021 (corresponding to Jamada Alawwal 23, 1442 H) and the Fund was listed on Saudi Tadawul on January 19, 2021 (corresponding to Jamada Alakhir 6, 1442 H).

In dealing with the unitholders, the Fund Manager considers the Fund as an independent entity. Accordingly, the Fund prepares its own financial statements. Furthermore, unitholders are considered owners of the assets of the Fund and distributions may be made in relation to their respective ownership in the total number of outstanding units.

The Fund's term is 99 years following the date of listing units on Saudi Tadawul. The term of the Fund may be extended at the Fund Manager's discretion subject to CMA approval.

The Fund is subject to the Sharia Boards guidelines in its investments and transactions.

#### **2. REGULATORY AUTHORITY**

The Fund was established and its units are offered based on the Investment Funds Regulations issued by CMA, Resolution number 1-219-2006 dated 03/12/1427H ("Investment Funds Regulations") issued by Royal Decree No. M/30 dated 2/6/1424H and amended by the CMA Board Resolution No. 2-22-2021 dated 12/7/1442H (corresponding to 24/2/2021) to be updated with the rapid developments and changes regarding the regulations and rules of the Authority in the Kingdom of Saudi Arabia.

#### **3. BASIS OF PREPARATION**

##### **Statement of compliance**

The Fund's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants, and the provisions specified by the Fund regulations issued by the CMA, the terms and conditions of the Fund and the information memorandum.

##### **Basis of measurement**

These financial statements of the Fund have been prepared on a historical cost basis except for the items that are measured at fair value, present value, net realizable value, and replacement cost in line with the accrual basis of accounting and going concern basis for the Fund.

##### **Functional and presentation currency**

The accompanying financial statements are presented in Saudi Riyal, which is the Fund's functional and presentation currency.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **New standards, amendment to standards and interpretations:**

The Fund has applied the following standards and amendments for the first time for their annual reporting period commencing January 1, 2022.

##### **a) Amendments to IFRS 3, IAS 16, IAS 37**

- IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- IAS 16, 'Property, plant, and equipment' prohibit a fund from deducting from the cost of the property, plant, and equipment amounts received from selling items produced while the Fund is preparing the asset for its intended use. Instead, a fund will recognize such sales proceeds and related cost in profit or loss.
- IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a fund includes when assessing whether a contract will be loss-making.

The adoption of above amendments does not have any material impact on the financial statements during the year.

##### **Standards issued but not yet effective**

Following are the new standards and amendments to standards which are effective for the annual periods beginning on or after January 1, 2023 and earlier application is permitted, however, the Fund has not early adopted them in preparing these financial statements.

##### **a) Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities**

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

##### **b) Amendments to IAS 1, practice statement 2 and IAS 8**

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.

##### **c) Amendments to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction**

These amendments require the Fund to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

##### **Fair value measurement**

The fair value represents the amount that would be received from selling an asset or paid to transfer a liability between informed parties under the same terms of business with others. The fair value measurement depends on the following conditions:

- The principal market for assets or liabilities, or
- The most advantageous market for assets and liabilities in the absence of a primary market, or
- Use discounted cash flows in the absence of a major market or the most advantageous market.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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#### **Assets or liabilities measured at fair value**

- Separate assets or liabilities.
- A group of assets or a group of liabilities or a group of assets and liabilities.
- A set of accounting policies and notes that require calculating the fair value of financial and non-financial assets and liabilities.
- The Fund uses market inputs that are observable as far as possible when measuring the fair value of assets and liabilities.

The Fund determines fair value using valuation techniques. The Fund also uses the following levels which reflect the importance of inputs used in determining fair value:

- **Level 1:** quoted prices (unadjusted) in an active market for similar assets or liabilities.
- **Level 2:** valuation techniques based on inputs other than quoted prices included in Level 1 that can be observable for assets and liabilities, directly or indirectly.
- **Level 3:** valuation techniques that use inputs that have an important impact on fair value but are not based on observable inputs.

The Fund recognizes transfers between fair value levels at the end of the reporting period at the same time as the change occurs, the Fund Manager believes that its estimates and assumptions are reasonable and sufficient.

#### **Cash and cash equivalents**

Cash and cash equivalents includes cash at banks and cash at portfolios, and deposits held at call with banks with maturities of three months. They are not subject to significant risk of changes in value.

#### **Credit facilities**

Credit facilities are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the recoverable amount is recognized in profit or losses over the period of the credit facilities using the effective interest rate method. Fees paid on the establishment of credit facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be withdrawn. In this case, the fee is deferred until the withdrawal occurs.

To the extent that there is no evidence that it is probable that some or all of the facility will be withdrawn, the fee is capitalized as a prepayment for liquidity services and amortized over the period of the facility to which it belongs.

IAS 23, "Borrowing costs" requires any incremental transaction cost to be amortized using the Effective Interest Rate (EIR). The Fund accounts for finance cost (interest cost and amortization of transaction cost) as per the effective interest rate method. For floating rate loans, EIR determined at initial recognition of loan liabilities is used for the entire contract period. Borrowing cost incurred for any qualifying assets are capitalized as part of the cost of the asset.

#### **Accrued expenses and other credit balances**

Liabilities are recognized for the amount to be paid in the future for services received, whether billed by the supplier or not.

#### **Expenses**

All expenses are classified as operating expenses unless another classification is consistent with the nature of the item of expense and circumstances of the Fund.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the amount can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and taxes.

Realized gains and losses on investments at financial assets sold are determined on a weighted average cost basis.

Dividend income is recognized in the statement of profit or loss when declared (i.e. when the Fund's right to receive the dividend is established).

The following is an explanation of the sources of revenue:

#### **Sukuk investments**

Investments are made in sovereign or quasi-sovereign sukuk or corporate sukuk offered publicly or privately, issued locally and internationally and in compliance with the regulations of the Sharia Board, and the currency of these sukuk is either the Saudi Riyals, the US dollar, or any other currency linked to the US dollar. The Fund Manager has the right to invest in any investment grade sukuk issuance, and he must not invest more than 5% of the Fund's assets in sukuk rated below investment grade, or in unrated sukuk, provided that the credit rating rate of the sukuk portfolio is an investment (Baa3-/BBB or higher as rated by Standard & Poor's/Fitch or Moody's). In the event that the credit rating degrees vary according to the companies approved for the rating, the lower rating grade must be applied.

The Fund can invest in the sukuk by an intermediary broker, and the Fund Manager is responsible for appointing the intermediary broker in accordance with the rules and regulations issued by the Capital Market Authority.

#### **Trade finance deals**

Investments in trade finance deals are made through a diversified portfolio of short-term trade finance deals with asset guarantees and/or insurance contracts, in compliance with the Sharia Board's controls, distributed in global markets outside the Kingdom of Saudi Arabia and subject to the rules and regulations issued by the financial and supervisory bodies regulating those markets. in the countries in which you work. The Fund Manager will contract with an executing broker to carry out the trade finance deals. In this case, the implementing broker shall abide by the indicative investment controls agreed upon with the Fund Manager, and the Fund Manager shall be responsible for appointing the implementing broker in accordance with the rules and regulations issued by the Capital Market Authority.

#### **Leasing agreements**

Investments in Al-Ijarah transactions are made through a diversified portfolio consisting of medium to long-term lease contracts that are used to supply different types of equipment in multiple sectors, and are compatible with the controls of the Sharia Board and distributed in global markets outside the Kingdom of Saudi Arabia and are subject to the rules and regulations issued by the financial and supervisory bodies Regulating those markets in the countries in which they operate. These include - but are not limited to - transportation, public utilities, shipping, hygiene and maintenance, chemical production, food packaging, and health care. Al-Ijarah transactions are secured by the ownership of the assets in favor of the fund. The Fund Manager will contract with an executing broker to carry out Al-Ijarah transactions. In this case, the implementing broker shall abide by the indicative investment controls agreed upon with the Fund Manager, and the Fund Manager shall be responsible for appointing the implementing broker in accordance with the rules and regulations issued by the Capital Market Authority.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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#### **Income funds**

Investments are made in income funds that are managed by fund managers, including the Fund Manager, who are licensed by the CMA or a similar entity in the event of investing in funds outside the Kingdom of Saudi Arabia, provided that they are in compliance with the Sharia Board's regulations. These funds invest in different income-generating asset classes, including "but not limited to" trade finance, credit finance, Al-Ijarah, sukuk, income-generating shares and Murabaha deals. The Fund Manager will make sure when investing in any of these funds that the investment strategy of the target fund is compatible with the investment strategy of the Fund. Income funds that can be invested in include funds offered publicly or privately, provided that the investment in private funds does not exceed 25% of the fund's net asset value.

#### **Murabaha agreements**

Murabaha transactions are invested in Saudi Riyal at banks licensed by the Saudi Arabian Monetary Agency and operating in the Kingdom of Saudi Arabia, provided that they are in compliance with the Sharia Board's regulations.

#### **Finance costs**

Finance cost is recognized in the statement of profit or loss and other comprehensive income for all specific commission-bearing financial instruments using the effective interest rate method.

#### **Dividends**

Interim and final dividends are recorded as liability in the period in which they are approved by the Fund Board of Directors.

#### **Zakat**

According to the rules for zakat collection from investors in investment funds, investment funds are not obliged to pay zakat. Therefore, no provision for such obligations is formed in these financial statements.

#### **Net equity per unit**

The net equity per unit is calculated and disclosed in the financial position by dividing the net assets of the Fund attributable to unitholders by the number of issued units.

#### **Financial instruments**

A financial instrument is any contract that results in a financial asset of one entity and a financial liability or equity instrument in another entity.

#### **Financial assets**

##### **Classification and initial recognition**

The Fund classifies its financial assets in the following measuring categories:

- Financial assets measured at fair value (either through profit or loss, or through other comprehensive income), and
- Financial assets measured at amortized cost.

Classification depends on the business model of the Fund to manage financial assets, and on the contractual terms of cash flows.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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For assets that are measured at fair value, gain and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investment in debt instruments, it depends on the business model in which investment is held. For investment in equity instruments, it depends on whether the Fund has made an irreversible selection at the time of initial recognition to account for the equity instruments at fair value through OCI. The Fund reclassifies debt instruments only when its business model for managing those assets changes.

At initial recognition, the Fund measures a financial asset (not classified as part of fair value through profit or loss) at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset through OCI. In the case of financial assets measured at fair value through profit or loss, the transaction costs are recorded in profit or loss.

#### **Subsequent measurements**

##### **Equity instruments**

The Fund subsequently measures all equity investments at fair value. Where the Fund's management has elected to present the gains or losses from fair value on equity investments in OCI, gains or losses from fair value will not be reclassified subsequently to profit or loss. Dividends from such investments continue to be recognized in profit or loss as other income when the Fund's right to receive payments is established. Impairment losses and reversal of impairment losses on equity investments measured at FVOCI are treated separately within net assets.

Changes in the fair value of financial assets measured at fair value are recognized at fair value through profit or loss in profit or loss.

##### **Debt instruments**

Subsequent measurement of debt instruments depends on the Fund's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Fund classified its debt instruments:

- **Amortized cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt instrument that is measured at amortized cost and is not part of a hedging relationship is recognized in statement of profit or loss when the asset is de-recognized or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- **Financial assets measured at fair value through profit or loss**

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through statement of profit or loss (FVTPL). A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship as part of profit or loss. It is recognized in net as gains or losses in the year it occurs. Similarly, interest income from these financial assets is included as financial interest in gains or losses.

##### **Effective interest rate method**

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash inflows through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net book value on initial recognition.

**ALKHABEER DIVERSIFIED INCOME TRADED FUND**  
(Managed by Alkhabeer Capital Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**  
(Expressed in Saudi Riyal)

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**Impairment**

The Fund assesses on a forward-looking basis the expected credit losses associated with its financial assets measured at amortized cost and FVOCI. The impairment methodology used depends on whether there has been a significant increase in credit risk.

**Financial assets at fair value through profit or loss.**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as "held for trading" if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss and other comprehensive income.

**Financial liabilities**

**A financial liability is classified as follows:**

- Contractual obligation to deliver cash or another financial asset to another entity.
- Contractual obligation to exchange financial instruments with another entity under conditions that are expected to be unfavorable to the entity.
- A non-derivative contract for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.

**Recognition and measurement**

All financial liabilities are recognized initially at fair value. Subsequently, it is measured at amortized cost using effective interest rate methods. The Fund's financial liabilities include accrued expenses and other credit balances and due to related parties.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**De-recognition of financial assets**

The Fund de-recognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Fund neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Fund recognizes its retained interest in the asset and liability related to the amounts it may have to pay. If the Fund retains substantially all the risks and rewards of ownership of a transferred financial asset, the Fund continues to recognize the financial asset and also recognizes the liabilities associated with the proceeds received.



## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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On de-recognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the amount of the consideration received and accrued is recognized in the profit or loss. In addition, on de-recognition of an investment in a debt instrument classified as at FVTOCI, the gain or loss previously recognized in the revaluation reserve is reclassified to the profit or loss. In contrast, on de-recognition of an investment in equity instrument which the Fund has elected on initial recognition to measure at FVTPL, the gains or losses are recognized in profit or loss.

The Fund's financial liabilities are de-recognized only if relieved, cancelled or expired. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable, including any non-cash assets transferred or liabilities incurred, is recognized in profit or loss.

### **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of the Fund's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses and assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of assets or liabilities affected in future years.

#### **Fair value measurement of financial instruments**

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to the models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and price volatility risk. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

#### **Impairment of non-financial assets**

Assets subject to depreciation and amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in profit or loss for the amount that exceeds the carrying amount of the asset over its recoverable amount. Recoverable value is the fair value of the asset less costs to sell or value in use (whichever is higher). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separate cash flows (cash-generating units). Prior impairment in non-financial assets (other than goodwill) are reviewed to reflect the potential impairment at each reporting date.

An impairment loss recognized in prior periods is evaluated at each reporting date to determine whether there are indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that could have been determined, net of depreciation or amortization, had the impairment loss not been recognized previously.

**ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED DECEMBER 31, 2022**

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**5. CASH AND CASH EQUIVALENTS**

|                               | 2022              | 2021              |
|-------------------------------|-------------------|-------------------|
| Cash at banks                 | 16,311,192        | 52,948,718        |
| Cash at investment portfolios | 1,081,774         | 10,128,101        |
|                               | <u>17,392,966</u> | <u>63,076,819</u> |

**6. DIVIDENDS RECEIVABLE**

The value of the dividends receivable represents the profits due to the Fund resulting from investing in financial assets that the Fund has not received up to the date of preparation the financial statements.

**7. PREPAID EXPENSES AND OTHER DEBIT BALANCES**

|                      | 2022             | 2021             |
|----------------------|------------------|------------------|
| Prepaid commissions  | 2,901,321        | 3,687,005        |
| Other debit balances | 2,630,420        | 677,335          |
|                      | <u>5,531,741</u> | <u>4,364,340</u> |

**8. FINANCIAL ASSETS****a- Fair value through profit or loss:**

| <u>December 31, 2022</u>             | Sukuk<br>investments* | Investments in<br>funds* | Total              |
|--------------------------------------|-----------------------|--------------------------|--------------------|
| Balance at the beginning of the year | 76,301,844            | 94,450,491               | 170,752,335        |
| Additions                            | 12,293,276            | 274,544,048              | 286,837,324        |
| Disposals                            | (40,284,676)          | (246,559,365)            | (286,844,041)      |
| Unrealized losses                    | (8,379,719)           | (1,260,220)              | (9,639,939)        |
| Realized losses                      | (7,163,731)           | -                        | (7,163,731)        |
| Balance at the end of the year       | <u>32,766,994</u>     | <u>121,174,954</u>       | <u>153,941,948</u> |

\* The Fund re-evaluated the investments on the date of the financial statements and this resulted in unrealized losses which amounted to SAR 9,639,939.

| <u>December 31, 2021</u>         | Sukuk<br>investments* | Investments in<br>funds* | Total              |
|----------------------------------|-----------------------|--------------------------|--------------------|
| Additions                        | 120,653,420           | 95,494,466               | 216,147,886        |
| Disposals                        | (44,379,533)          | (700,403)                | (45,079,936)       |
| Unrealized losses                | (914,414)             | (343,572)                | (1,257,986)        |
| Realized gains                   | 942,371               | -                        | 942,371            |
| Balance at the end of the period | <u>76,301,844</u>     | <u>94,450,491</u>        | <u>170,752,335</u> |

\* The Fund re-evaluated the investments on the date of the financial statements and this resulted in unrealized losses amounting to SAR 1,257,986.

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**b- Amortized cost:**

| <u>December 31, 2022</u>             | <u>Investments in trade financing</u> | <u>Leasing deals</u> | <u>Islamic leasing and finance XVIII</u> | <u>Islamic leasing and finance XIX</u> | <u>Islamic leasing and finance 23</u> | <u>Total</u>       |
|--------------------------------------|---------------------------------------|----------------------|------------------------------------------|----------------------------------------|---------------------------------------|--------------------|
| Balance at the beginning of the year | 138,235,898                           | 62,155,418           | 106,528,180                              | 45,064,800                             | 6,140,079                             | 358,124,375        |
| Additions                            | 271,041,434                           | -                    | -                                        | -                                      | -                                     | 271,041,434        |
| Disposals                            | (260,822,972)                         | (18,820)             | (20,207,963)                             | (7,799,272)                            | (562,042)                             | (289,411,069)      |
| Balance at the end of the year       | <u>148,454,360</u>                    | <u>62,136,598</u>    | <u>86,320,217</u>                        | <u>37,265,528</u>                      | <u>5,578,037</u>                      | <u>339,754,740</u> |
| <u>December 31, 2021</u>             | <u>Investments in trade financing</u> | <u>Leasing deals</u> | <u>Islamic leasing and finance XVIII</u> | <u>Islamic leasing and finance XIX</u> | <u>Islamic leasing and finance 23</u> | <u>Total</u>       |
| Additions                            | 418,265,569                           | 63,935,685           | 112,662,000                              | 45,064,800                             | 6,140,079                             | 646,068,133        |
| Disposals                            | (280,029,671)                         | (1,780,267)          | (6,133,820)                              | -                                      | -                                     | (287,943,758)      |
| Balance at the end of the year       | <u>138,235,898</u>                    | <u>62,155,418</u>    | <u>106,528,180</u>                       | <u>45,064,800</u>                      | <u>6,140,079</u>                      | <u>358,124,375</u> |

- As shown in Note (11), the credit facilities are secured against the financial assets above.

**9. ACCRUED EXPENSES AND OTHER CREDIT BALANCES**

|                                          | <u>2022</u>    | <u>2021</u>    |
|------------------------------------------|----------------|----------------|
| Accrued credit facilities interest       | <u>198,869</u> | 130,676        |
| Accrued professional and consulting fees | <u>172,426</u> | 108,675        |
|                                          | <u>371,295</u> | <u>239,351</u> |

## ALKHABEER DIVERSIFIED INCOME TRADED FUND

(Managed by Alkhabeer Capital Company)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

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#### 10. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties' transactions represent the management fees, administration fees, custody fees, and compensations to the independent Board Members.

a) Due to related parties comprise the following:

| Related parties           | Nature of relationship | Nature of transaction                                    | Volume of transaction                |                                                                           | Balance          |                  |
|---------------------------|------------------------|----------------------------------------------------------|--------------------------------------|---------------------------------------------------------------------------|------------------|------------------|
|                           |                        |                                                          | FOR THE YEAR ENDED DECEMBER 31, 2022 | FOR THE PERIOD SINCE INCEPTION ON JANUARY 7, 2021 UP TO DECEMBER 31, 2021 | 2022             | 2021             |
| Alkhabeer Capital Company | Fund Manager           | Management fees                                          | 5,455,996                            | 5,483,727                                                                 |                  |                  |
|                           |                        | Administration fees                                      | 545,599                              | 548,373                                                                   |                  |                  |
|                           |                        | Expenses paid on behalf of the Fund                      | -                                    | 5,000                                                                     |                  |                  |
|                           |                        | Payments                                                 | (5,689,857)                          | (3,330,635)                                                               | 3,018,203        | 2,706,465        |
| Alinma Investment Company | Custodian              | Custody Fees                                             | 92,000                               | 115,000                                                                   |                  |                  |
|                           |                        | Payments                                                 | (117,939)                            | (54,088)                                                                  | 34,973           | 60,912           |
| Fund Board of Directors   | Board of Directors     | Aggregate compensation to Independent Fund Board Members | 26,000                               | 33,836                                                                    |                  |                  |
|                           |                        | Payments                                                 | (33,836)                             | -                                                                         | 26,000           | 33,836           |
|                           |                        |                                                          |                                      |                                                                           | <u>3,079,176</u> | <u>2,801,213</u> |

b) All transactions with related parties are approved by the Fund Manager.

#### 11. CREDIT FACILITIES

The Fund has credit facility agreements with two commercial brokers that amounted to SAR 48.8 million as at December 31, 2022 (2021: SAR 113.3 million) and its details are as follows:

|                         | 2022              | 2021               |
|-------------------------|-------------------|--------------------|
| National Bank of Kuwait | 48,754,009        | 75,796,490         |
| Shuaa Capital           | -                 | 37,509,796         |
|                         | <u>48,754,009</u> | <u>113,306,286</u> |

##### A- National bank of Kuwait:

On December 8, 2022, Alkhabeer Diversified Income Fund obtained Islamic financing facilities from the National Bank of Kuwait in the amount of SAR 48,754,009 (2021: SAR 75,796,490), for the purpose of buying and selling precious metals (platinum). These facilities will be repaid as of March 8, 2023. After calculating the agreed Murabaha rates, the Murabaha will be renewed periodically, as these facility agreements terminate in December 31, 2025, as agreed upon.

The facilities are secured against financial assets as explained in Note 8.

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**B- Shuaa capital:**

On December 8, 2021, the Alkhabeer Diversified Income Fund obtained Islamic financing facilities from Shuaa Capital in the amount of SAR 37,509,796, for the purposes of buying and selling precious metals (platinum). These facilities will be renewed on a monthly basis. It will be repaid as of October 24, 2022, after calculating the agreed upon Murabaha rate.

The facilities are secured against financial assets as explained in Note 8.

**12. OTHER EXPENSES**

|                                                                | <b>FOR THE<br/>YEAR ENDED<br/>DECEMBER 31,<br/>2022</b> | <b>FOR THE<br/>PERIOD SINCE<br/>INCEPTION ON<br/>JANUARY 7,<br/>2021 UP TO<br/>DECEMBER 31,<br/>2021</b> |
|----------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Tadawul fees                                                   | 1,040,954                                               | 859,476                                                                                                  |
| Professional and consulting fees                               | 955,913                                                 | 378,838                                                                                                  |
| Commission expenses                                            | 907,037                                                 | -                                                                                                        |
| Compensations to independent Fund Board of Directors (Note 10) | 26,000                                                  | 33,836                                                                                                   |
| Other expenses                                                 | 519,854                                                 | 60,022                                                                                                   |
|                                                                | <u>3,449,758</u>                                        | <u>1,332,172</u>                                                                                         |

**13. ADMINISTRATIVE FEES AND OTHER EXPENSES**

The Fund is managed by the Fund manager, management fees and expenses are calculated per the terms and conditions of the Fund as follows:

**a) ADMINISTRATIVE FEES**

The Fund administrator is entitled to receive a maximum fees equivalent to 0.1% annually (as indicated in the Fund's terms and conditions) of the net asset value that is paid semi-annually.

**b) MANAGEMENT FEES**

The Fund manager is entitled to receive fees equivalent to 1% annually (as indicated in the terms and conditions of the Fund) of the net asset value that is paid semi-annually

**c) CUSTODY FEES**

The custodian is entitled to receive a maximum fee equivalent to 0.1% (as indicated in the terms and conditions of the Fund) of the annual total assets, or a minimum of SAR 100,000 per year that is paid semi-annually. According to the framework agreement for custodian services, the Fund Manager must pay the annual fees to the Custodian, which are calculated at a 1.5 point basis (0.00015) of the Fund's net asset value, with a minimum fee of SAR 80,000 and a maximum fee of SAR 100,000.

## **ALKHABEER DIVERSIFIED INCOME TRADED FUND**

(Managed by Alkhabeer Capital Company)

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022**

(Expressed in Saudi Riyal)

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#### **d) SUBSCRIPTIONS FEES**

The Fund manager is entitled to receive a subscription fee of 1% of the paid and allocated subscription amounts in the event of any future proposals to increase the Fund's capital, and these subscription fees are deducted upon receipt of the subscription amount and paid to the Fund manager, in addition to the subscription amount.

#### **14. SHARIA COMPLIANCE**

The Fund operates in accordance with the provisions of Sharia law, as determined by the Sharia advisor. The Sharia advisor has reviewed the Fund's public offering document and confirmed that it is in compliance with Sharia provisions.

#### **15. LAST VALUATION DATE**

The last date for the valuation during the year is December 31, 2022.

#### **16. RISK MANAGEMENT**

The Fund's activities expose it to various financial risks, and these risks include: market risk (including currency risk, fair value risk and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial market conditions and seeks to minimize potential adverse effects on the Fund's financial performance.

##### **a) Market risk**

###### **• Currency risk**

Currency risk is the risk that the value of a financial instrument denominated in foreign currencies will fluctuate due to changes in foreign exchange rates, in case the Fund does not hedge its currency exposure by means of hedging instruments.

During the year, the Fund did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars and accordingly the Fund does not have material exposure to other foreign currencies during the year ended 31 December 2022. Further, since the Saudi Riyal is pegged to the US dollar, the Fund is not exposed to significant foreign currency risk.

###### **• Interest rate risk**

Interest rate risks is the risk that the fair value or future cash flows of a financial instrument would fluctuate as a result of changes in interest rate. The Fund is exposed to interest rate risk because the Fund borrow funds at both fixed and floating interest rates. The risk is managed by the Fund by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring the most cost-effective hedging strategies are applied.

###### **• Other price risk**

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk).

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(Managed by Alkhabeer Capital Company)

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**b) Credit risk**

Credit risk is the risk that a counterpart will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Fund is exposed to credit risk in respect of its cash and cash equivalents, dividend receivables and other debit balances.

**c) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis to ensure the availability of sufficient funds.

**December 31, 2022:****Non-derivative financial liabilities**

|                                            | <b>Book Value</b> | <b>Less than a year</b> | <b>More than a year</b> |
|--------------------------------------------|-------------------|-------------------------|-------------------------|
| Credit facilities                          | 48,754,009        | -                       | 48,754,009              |
| Due to related parties                     | 3,079,176         | 3,079,176               | -                       |
| Accrued expenses and other credit balances | 371,295           | 371,295                 | -                       |
|                                            | <b>52,204,480</b> | <b>3,450,471</b>        | <b>48,754,009</b>       |

**December 31, 2021:****Non-derivative financial liabilities**

|                                            | <b>Book Value</b>  | <b>Less than a year</b> | <b>More than a year</b> |
|--------------------------------------------|--------------------|-------------------------|-------------------------|
| Credit facilities                          | 113,306,286        | -                       | 113,306,286             |
| Due to related parties                     | 2,801,213          | 2,801,213               | -                       |
| Accrued expenses and other credit balances | 239,351            | 239,351                 | -                       |
|                                            | <b>116,346,850</b> | <b>3,040,564</b>        | <b>113,306,286</b>      |

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**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED DECEMBER 31, 2022**

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**17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

|                                               | Book Value        |               | Level<br>(1) | Fair Value   |              | Total       |
|-----------------------------------------------|-------------------|---------------|--------------|--------------|--------------|-------------|
|                                               | Amortized<br>Cost | Fair<br>Value |              | Level<br>(2) | Level<br>(3) |             |
| <b>31 December 2022:</b>                      |                   |               |              |              |              |             |
| <b>Financial Assets</b>                       |                   |               |              |              |              |             |
| Cash and cash equivalents                     | 17,392,966        | -             | -            | -            | -            | 17,392,966  |
| Dividends receivables                         | 5,820,868         | -             | -            | -            | -            | 5,820,868   |
| Financial assets                              | 339,754,740       | 153,941,948   | -            | 153,941,948  | -            | 493,696,688 |
|                                               | 362,968,574       | 153,941,948   | -            | 153,941,948  | -            | 516,910,522 |
| <b>Financial Liabilities</b>                  |                   |               |              |              |              |             |
| Due to related parties                        | 3,079,176         | -             | -            | -            | -            | 3,079,176   |
| Credit facilities                             | 48,754,009        | -             | -            | -            | -            | 48,754,009  |
| Accrued expenses and<br>other credit balances | 371,295           | -             | -            | -            | -            | 371,295     |
|                                               | 52,204,480        | -             | -            | -            | -            | 52,204,480  |

|                                               | Book Value        |               | Level<br>(1) | Fair Value   |              | Total       |
|-----------------------------------------------|-------------------|---------------|--------------|--------------|--------------|-------------|
|                                               | Amortized<br>Cost | Fair<br>Value |              | Level<br>(2) | Level<br>(3) |             |
| <b>31 December 2021:</b>                      |                   |               |              |              |              |             |
| <b>Financial Assets</b>                       |                   |               |              |              |              |             |
| Cash and cash equivalents                     | 63,076,819        | -             | -            | -            | -            | 63,076,819  |
| Dividends receivables                         | 4,498,681         | -             | -            | -            | -            | 4,498,681   |
| Financial assets                              | 358,124,375       | 170,752,335   | -            | 170,752,335  | -            | 528,876,710 |
|                                               | 425,699,875       | 170,752,335   | -            | 170,752,335  | -            | 596,452,210 |
| <b>Financial Liabilities</b>                  |                   |               |              |              |              |             |
| Due to related parties                        | 2,801,213         | -             | -            | -            | -            | 2,801,213   |
| Credit facilities                             | 113,306,286       | -             | -            | -            | -            | 113,306,286 |
| Accrued expenses and<br>other credit balances | 239,351           | -             | -            | -            | -            | 239,351     |
|                                               | 116,346,850       | -             | -            | -            | -            | 116,346,850 |

**18. OPERATING SEGMENTS**

The Fund generates investment returns and all fund operations are executed in and out of the Kingdom of Saudi Arabia. The Fund's operations are monitored by the fund management under one sector. Thus, no separate information is required.



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**19. DIVIDENDS**

The Fund Board of Directors approved the distribution of dividends and the details are as follows:

| <b>Date of approval</b> | <b>The period it was paid in</b>   | <b>Amount per unit</b> | <b>Total</b> |
|-------------------------|------------------------------------|------------------------|--------------|
| August 3, 2021          | February 21, 2021 to June 30, 2021 | 0.18                   | 8,510,665    |
| January 25, 2022        | July 1, 2021 to December 31, 2021  | 0.25                   | 11,820,368   |
| August 4, 2022          | January 1, 2022 to June 30, 2022   | 0.26                   | 12,293,182   |

**20. SUBSEQUENT EVENTS**

On January 26, 2023, the Fund's Board of Directors approved dividend distributions in respect of the period July 1, 2022 to December 31, 2022 (second half of the year 2022) in the amount of SAR 0.28 per unit, which amounted SAR 13.239 million to unitholders. The dividends were paid on February 20, 2023.

The Fund is obligated to register with the Zakat, Tax and Customs Authority and provide information declarations starting from 2023.

**21. APPROVAL OF THE FINANCIAL STATEMENTS**

These financial statements have been approved by the Fund's Board of Directors on 3 Ramadan 1444H (Corresponding March 25, 2023).

# MAIN SERVICE PROVIDERS

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**FUND MANAGER AND  
FUND OPERATOR**

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