



Jadwa REIT Saudi Fund Risk Report

Submitted By:



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Fund Details

Fund Name	Jadwa REIT Saudi Fund
Fund Manager	Jadwa Investment Company
Listing Exchange	Tadawul (Saudi) Stock Exchange in February 2018
Type of Fund	Closed-ended Shariah Compliant
Authorized Capital	SAR 1,950,000,000 (186,509,785 units)
Fair Value NAV per unit	11.36 (as of 31 Dec 2023)
No. of Properties	9
Fund Term	99 Years, extendable for additional periods
Risk Level	Below Average / Low

Key Risks

Risk Type	Risk Description	Risk Mitigation
Economic Risk	Changes in economic conditions, including, for example, inflation, new government regulations, political events and trends can affect the Fund's prospects.	Regular monitoring of macroeconomic conditions and regulatory trends in laws is being carried out by the Fund Manager. Proactive steps are taken to mitigate or minimize the impact as much as possible.
Legal and Regulatory Risk	Failure to adhere to laws, rules and regulations as stipulated by CMA can result in suspension of trading or cancelation of the Fund's listing.	The Fund Manager has recruited qualified personnel to manage the Fund and monitor all regulatory requirements such as compliance and risk management. These qualified personnel take all necessary steps for establishing and confirming to avoid any non-compliant practices under the supervision of the Fund Manager.
Occupancy Risk	Risk when expected occupancy rates are not achieved, which affects the profitability of the Fund.	All properties acquired by the Fund have strong economic fundamentals and cash-generation characteristics, thus providing significant margins of safety on occupancy rates. The Fund normally engages in long term leases ranging between 3 and 20 years with notice period of 12 months, which also mitigates the risk of not achieving the expected occupancy rates.
Development Risk	Development risks associated with real estate projects under development include delay in construction, costs exceeding planned allocations that may affect the profitability and / or financial feasibility of the Project.	Currently, all the properties owned by the Fund are fully developed. Thereby there is no development risk exposure towards the Fund.
Credit Risk	Risks relating to the inability of tenants to meet their payment obligations towards the Fund.	Credit analysis/ assessment is conducted by the Fund Manager before on boarding any new tenants. For the existing tenants, regular monitoring of outstanding dues towards the Fund and follow up for payments is done by the Fund Manager.
Financing Risk	Financing risk occurs when the Fund is unable to raise financing from market to continue/expand its operation.	The Fund has a committed SAR 1 billion credit line facility from Banque Saudi Fransi out of which SAR 202 million is utilised, which assures that the financing risk is at a minimal.
Lease Renewal Risk	Lease renewal risk is the risk of nonrenewal of existing leases or renewal at lower than current lease rate that might impact the rental income of the Fund.	The Fund enters into long-term operating lease contracts with tenants for space in its investment properties with lease terms ranging between 3 and 20 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent.



Risk Type	Risk Description	Risk Mitigation
Risk of neglecting the property	Any adverse event leading to structural damage to properties owned by the Fund thereby risking the income generating potential from such properties.	All the properties are insured by the Fund which covers for all property damages. The Fund Manager ensures that the insurance coverage is adequate under public liability and property all risks insurance.
Property Manager Risk	Risk of early termination of the property manager contract thereby impacting the operations of the properties that it manages.	Provision of advance notice of 3 months by either party before terminating the services. During this period alternative arrangement can be made by the Fund Manager.
Counterparty Concentration Risk	This risk arises when a single counterparty has the most concentration of leased assets, this might lead to an adverse condition if the counterparty has troubles in future.	Currently 6 properties are single tenant properties with different lessees and rest 3 properties are multiple tenant properties. During 2023, The Fund has received a dividend payment from the investment in the real estate investment Fund which represents 19.06% of the Fund's total revenue showing diversification of income sources. The counterparty concentration risk is low and is further mitigated by growing the portfolio over a range of tenants and diversification of the Fund by investing in other funds.
Sector Concentration Risk	This risk arises when all assets belong to the same sector, this might lead to an adverse condition if that location has trouble in future.	The Fund has diversified the real estate assets across office, residential and commercial properties used for hospitality, education, logistics and retail. The Fund had invested SAR 450 million in closed ended Shariah compliant private real estate investment fund for diversification in 2022. The Fund redeemed 32,286,795 units of Real Estate Investment Fund for SAR 421,132,110. The carrying value of this investment at the time of redemption was SAR 380,338,445 resulting in realised gain of SAR 40,793,665. The Fund Manager continuously explores various options for diversification.
Interest Rate Risk	The risk that the value of Fund's assets and financial instruments will fluctuate due to adverse changes in profit/ interest rates.	The Fund Manager analyses its interest rate exposure on a regular basis by monitoring interest rate trends and believes that the impact of such changes is not significant to the Fund. The Fund is leveraged using a floating rate facility (priced at a SAIBOR + 150bps) and any adverse change in SAIBOR would result in higher profit/ interest expenses and consequently lower total returns to the Unitholders. The Fund Manager is mitigating the impact of increasing profit/interest rate by selling the least performing assets and using the proceeds to buy a better yielding asset and repay the debt.
Liquidity Risk	The risk of the Fund not being able to meet short term financial demands (e.g., debt servicing, dividend distribution, operating expenses) or unable to meet any payment obligations for exiting property.	Cash flow generated from operating the property portfolio represents the primary source of liquidity used to service the interest on debt, fund's general and administrative expenses. The Fund Manager ensures that there are adequate funds to repay obligation in a timely and cost-effective manner. The Fund has unutilised credit line of SAR 798 million with bank which partly mitigate the liquidity risk.
Leverage Risk	The risk that the Fund may not be able to generate necessary income to service its debt which triggers an event of default.	The Fund Manager closely monitors the detailed cash flows statements by property and the overall fund to ensure that sufficient funds are available to meet any debt repayment commitments as they arise. Moreover, the Fund Manager closely monitors the debt covenants to make sure that all covenants are met (all covenants are met as of 31/12/2023).
Exit Risk	The risk of inability to liquidate the underlying real estate assets in a timely manner and according to the Fund's strategy. This risk is more relevant as the Fund gets closer to maturity.	The Fund has a long term to maturity (99 years, extendable) and the Fund's units continue to be tradable on the stock exchange, giving unitholders the ability to exit at the time of their choice based on prevailing market prices. The Fund has invested in Real Estate assets which have suitable appetite and strong investors demand and are easier to liquidate than other Real Estate assets.



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Asset Valuation Risk	Incorrect valuation of the properties resulting in notional and reputational losses.	The Fund Manager ensures clear communication of most up to date required information to the external professional valuers for valuation of the properties to reduce the risk of inaccurate valuation. Moreover, valuations are carried out by two independent valuers accredited by the Saudi Authority for Accredited Valuers (TAQEEM). The Fund Manager uses the average of two valuations for reporting and decision making.
Dividend fluctuations risks	According to the Fund's policy, it shall distribute 90% of its net profits to unitholder, although there is no guarantee about the actual amounts that are distributed by the Fund. The Fund may see any unforeseen events which will lead to decrease in Fund's net income resulting in affecting the dividend amount for unitholders.	The Fund has distributed amount of SAR 149 million in dividends to its unitholders in the year 2023. The Fund Manager always seek to raise the Fund's net income to ensure the highest possible dividends, while studying future dividends and their timing to reduce the risk related to dividend fluctuations.
Environmental, Social & Governance (ESG) Risk	Environmental, Social, and Governance (ESG) risks refer to the three factors in measuring the sustainability and societal impact of an investment.	As part of the traditional financial analysis and due diligence, the risks arising due to environmental issues of properties and environmental regulation are accounted in the valuation processes by the independent valuers. The increased awareness of Fund Manager about ESG risks, do not guarantee that its financial results will not be negatively impacted by the occurrence of any such event.

Conclusion

The Jadwa REIT Saudi Fund is exposed to various risks as identified above which may impact the performance of the Fund. These risks have been mitigated by the actions taken by the Fund Manager to some extent. The Fund Manager is continuously exploring new investments and diversification opportunities to provide a stable stream of income to the investors.

Over the years, The Fund has diversified the tenants to lower the concentration of income from single tenant. In addition to this, The Fund has diversified between commercial, industrial, and residential properties, which lowers the sector concentration risk of the Fund. The Fund Manager continuously explores various options for diversification by purchase and sale of different assets. Unutilized credit facility of SAR 798 million helps the Fund maintain a flexible balance sheet for acquiring new assets swiftly and efficiently. The Fund had invested SAR 450 million in closed ended Shariah compliant private real estate investment fund for diversification in 2022. The Fund redeemed 32,286,795 units of Real Estate Investment Fund for SAR 421,132,110. The carrying value of this investment at the time of redemption was SAR 380,338,445 resulting in realised gain of SAR 40,793,665.

The Fund's performance in 2023 continuous to remain similar to the performance in 2022. Overall risk of the Fund has remained as "**Below Average / Low**".



End of the Report

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