Jadwa REIT Al Haramain Fund
Risk Report

Submitted By:

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Fund Description

Fund Name	Jadwa REIT Al Haramain Fund
Fund Manager	Jadwa Investment Company
Listing Exchange	Tadawul (Saudi) Stock Exchange in April 2017
Type of Fund	Closed-ended Shariah Compliant
Authorized Capital	SR 660,000,000 (66,000,000 units)
Fair Value NAV per unit	SAR 7.64 (as of 31st Dec 2023)
No. of Properties	4
Fund Term	99 Years, extendable for additional periods
Risk Level	Average / Moderate

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 personals 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 3 out of 4 properties owned by the Fund is operated by Emaar Al Diyafa Hotels Company and the remaining 1 property is fully leased.
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.	The redevelopment of a 3-Star Hotel in Makkah was completed and operation of the hotel commenced during this year. Currently, all the properties owned by the Fund are fully developed. Therefore the Fund is not exposed to any development risk.
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 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 attain financing from market to continue/expand its operation.	The Fund has a committed SAR 300 million credit line facility out of which SAR 215 million has been utilised. The Fund has been able to increase / decrease the financing facilities since inception, assuring 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 16 years. These operating leases provide tenant to pay the base rent with provisions for contractual increase in the rent.

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Risk of neglecting the property	Any adverse event leading to structural damage to the 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 1 out of 4 is leased and rest 3 properties are operating assets. During 2023, The Fund has received a dividend payment from the investment in the real estate investment Fund which represents 12.98% of the Fund's total revenue in 2023 showing diversification of income sources. The counterparty concentration risk is being 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 sector has troubles in future.	Majority of the Fund's assets are hotels, which subjects the Fund to the risks inherent in the hospitality sector. The Fund continuously explores various options for diversification. The Fund had invested SAR 50 million in closed ended Shariah compliant private real estate investment fund in 2022 for diversification. The Fund redeemed 3,587,422 units of Real Estate Investment Fund for SAR 46,792,457. The carrying value of this investment at the time of redemption was SAR 41,470,599, as a result, the Fund recognised a realised gain of SAR 5,321,858. The Fund continuously explores various options for diversification.
Risk of fixed cost bear by the Fund which will not decrease with lower revenues	A significant portion of the Fund's expenses comprises maintenance expenses, operational costs for real estate assets, and management fees. Consequently, if the Fund's income declines, these costs remain constant, leading to a reduction in available funds for distributing dividends to unitholders.	The management fees in 2023 was 6.14% of the total expense. Moreover, the Fund ensures that the management fees are a variable percentage of the revenue to ensure that if leases decrease the fees also decrease accordingly. Whereas the other fixed costs are reviewed periodically to take the necessary decision in the interest of the unitholders.
Geographical Concentration Risk	The risk arises when all the assets belong to same geographical area, this might lead to an adverse condition if that location has troubles in future.	Post changes in terms and conditions in 2020, the Fund Manager can invest a minimum 60% asset allocation in the holy cities of Makkah and Medina and remaining 40% can be invested in income generating and development real estate projects in rest of the cities inside or outside the kingdom with restrictions on concentration limits of 40% and 25% respectively. The Fund Manager is actively looking for investment opportunities outside the holy cities to ensure diversification of geographical risk.
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 is leveraged using a floating rate facility (priced at a SAIBOR +175bps) 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 preforming 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.

Risk Type	Risk Description	Risk Mitigation
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.
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 valuators for valuation of the properties to reduce the risk of inaccurate valuation. Moreover, Valuations are carried out by two independent valuators accredited by Saudi Authority for Accredited Valuators (TAQEEM). The Fund Manager uses the average of two valuations for reporting and decision making.
Environmental, Social and 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 for the valuation processes by the independent valuators. The increased awareness of the 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 Al Haramain Fund is exposed to various risks as identified above which may impact the performance of the Fund. These risks have been mitigated through the actions taken by the Fund Manager to some extent. The completion of the construction for 1 property mitigates the redevelopment construction risk . Out of 4 properties, 1 property is leased for next 1 year and rest 3 properties are operating assets managed by Al Diyafa Hotels Company. Lack of long-term leasing contracts exposes the Fund to occupancy risk. The Fund Manager is continuously exploring new investments and diversification opportunities to provide a stable stream of income to the investors including investment in other funds. The Fund is exposed to a sector concentration risk as significant portion of leasing income is derived from hotel properties. This subjects the Fund to the risks inherent in the hospitality sector. The Fund has invested SAR 50 million in closed ended Shariah compliant private real estate investment fund in 2022 for diversification. The Fund redeemed 3,587,422 units of Real Estate Investment Fund for SAR 46,792,457. The carrying value of this investment at the time of redemption was SAR 41,470,599, as a result, the Fund recognised a realised gain of SAR 5,321,858

The changes in macroeconomic conditions brought by COVID-19 had a negative impact on businesses in the holy cities and the Fund's performance in last few years. There has been improvement in Fund's performance in 2023 in term of income generated from different assets resulting in improvement of The Fund's risk rating to "**Average / Moderate"** in 2023.

End of the Report

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