

Blom Arab Markets Balanced Fund

2016 Annual Fund Report

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Investment Fund Information

❖ Fund Name

Blom Arab Markets Balanced Fund

❖ Benchmark

55% S&P Pan Arab Composite Index.
45% S&P MENA Bond and Sukuk Index

❖ Inception Date

June 19, 2013

❖ Investment Objectives and Policies

The Fund is designed to provide Investors with an opportunity to achieve growth in invested capital over the medium to long term. It is planning to make its investments in accordance with medium and long term strategies, by investing in stocks, equity-linked securities, money market instruments, and fixed income securities, and in mutual Funds that invest in such securities and financial instruments, including investment Funds that are managed by the Fund Manager or its affiliates in the MENA region

Strategies of the Fund

The Fund aims to provide Investors with the opportunity to achieve capital growth over the medium to long term, using the investment strategies described below. Whilst the Fund will not limit its investments to those securities that form part of the Benchmark, it will benchmark itself against the Benchmark for the purposes of giving Investors an indication of performance relative to an existing standard. HSBC Saudi Arabia Limited will calculate the benchmark and provide it to the Fund Manager on every valuation day. The fees payable to the Fund Manager will not, however, be determined by reference to performance measured against the Benchmark or another comparable.

Level of Concentration - Sector and Country

The Fund will not use a strategy that excludes any particular industries, but will maintain the highest possible level of flexibility, while its investments will be limited to investments in MENA region.

The Fund Manager intends to observe the following restrictions in all its investments:

A maximum of 70% of the Fund NAV will be invested in equity-linked securities and stocks;

At least 30% of the Fund NAV will be invested in money market and fixed income instruments;

No more than 45% of the Fund NAV will be invested in Saudi Arabia; and

No more than 20% of the Fund NAV will be invested in any other country.

Other Restrictions - on the type of securities / other investment assets

The Fund's investment strategy will be subject to the following restrictions:

No more than 5% of the value of the securities of any single issuer may be held by the Fund.

The Fund's exposure to any one issuer will not exceed 15% of the Fund NAV at any time.

The Fund may not invest more than 10% of its NAV at any time in any class of securities issued by any single issuer (at the time of investment in such securities), except the securities issued by the government of the Kingdom Saudi Arabia, governments of member states of the Organization for Economic Cooperation and Development (OECD), and member states of the Gulf Cooperation Council (GCC).

The Fund may not invest more than 10% of its NAV from time to time in illiquid investments.

The Fund may not assume, guarantee, endorse, or become directly or contingently liable for any

obligation or indebtedness of any person (whether natural or legal).

The portfolio of the Fund will not include any security where a call is to be made for any sum unpaid on that security unless that call could be met in full out of cash or through securities that can be converted into cash from the Fund's portfolio within five days.

The Fund may not invest in derivatives.

The Fund may not lend money to any person (whether natural or legal), but it may acquire debt instruments in conformity with its investment objectives as set out in this Information Memorandum.

Borrowing Powers

The maximum borrowing limit of the Fund will not exceed 10% its NAV at the time of borrowing, except in the case of borrowing from the Fund Manager or an affiliate of the Fund Manager to meet redemption requests in accordance with the Regulations.

Investment in Other Funds

The Fund may not acquire units of any other investment fund if the total units acquired exceed 10% of the NAV of the acquiring fund or 10% of the NAV of the target fund. The Fund investment in other investment fund units may not exceed 15% of the Fund NAV at any time.

❖ **Distribution of income and gain policy**

Dividends and/or income are reinvested in the Fund not paid out or distributed to investors.

❖ **The Fund Reports are available upon request free of charge www.blom.sa**

Fund Performance

	2014	2015	2016
NAV at year-end (USD)	16,872,887	10,969,891	10,000,030
NAV/unit at year-end (USD)	1,089.55	991.60	999.85
Lowest NAV (USD)	1,048.28	955.94	910.40
Highest NAV(USD)	1,186.25	1,108.42	1,023.03
Units at year-end	15,486.11	11,063.04	10,001.56
Distribution/ unit	-	-	-
Expense Ratio	2.23%	2.65%	2.37%

	1 year	3 year	Since Inception
Total Return	0.83%	-4.28%	-0.02%

	2013	2014	2015	2016
Annual Total Return	8.92%	4.3%	-8.99%	0.83%

Fund Expenses

Fee Type	Amount	Pct. Of average NAV
Management Expense	USD 157,503	1.50%
Custodian Expense	USD 24,000	0.23%
Administrator Expense	USD 24,000	0.23%
Transaction Expense	USD 4,560	0.04%
Audit Expense	USD 12,000	0.11%
Fund Board Expense	USD 10,000	0.10%
CMA Expense	USD 2,000	0.02%
Miscellaneous	USD 12,657	0.12%
Total	USD 246,720	2.37%

❖ **The measures of performance have been consistently applied.**

❖ **Material changes that occurred during the period and that affected the performance of the fund**

No Material changes occurred during 2016

❖ **Exercise of annual voting rights**

The Fund Manager abstained from voting during 2016

❖ **Fund board meeting**

Board Resolution dated 30/08/2016

Discussion Topics

- a. 2016 performance review of the Fund
- b. Approving the financial statements (year-end 2015)
- c. Discussion of CMA findings during their audit (Jan 2016)
- d. Discussion of potential conflict of interest
- e. Review of third-party contracts
- f. Review of the Fund's terms and conditions including financial disclosure

Resolutions

- g. The board recommended steps to address CMA's findings
- h. The board found no material conflict of interest

Board Resolution dated 01/11/2016

Discussion Topics

- a. 2016 performance review of the Fund
- b. Approving the financial statements (semi-annual 2016)
- c. Compliance officer's review of funds' compliance with laws and regulations.
- d. Follow-up on CMA findings during their audit (Jan 2016)

Resolutions

- e. The board recommended monitoring compliance through utilizing the newly acquired IT system
- f. The board approved steps taken to address CMA comments

❖ **Fund breaches of the Investment Fund Regulations effective Nov 06, 2016**

The Fund exceeded the permitted exposure of 10% to one class of security by 29 bps (pursuant to Article 41 "g") from December 21st, 2016 until year-end. The Fund Manager eventually took the necessary steps to rectify the breach.

Fund Manager

❖ Fund Manager

BLOMINVEST Saudi Arabia, with its registered office at Al Oula Building, 3rd floor, King Fahad Road, Riyadh, P.O. Box 8151, Riyadh 11482, Saudi Arabia.

❖ Names and addresses of sub-manager and/or investment adviser

The Fund Manager did not appoint a sub-manager or investment advisor

❖ Investment activities during the period

The Arab markets have witnessed extensive volatility throughout 2016 ; oil price retest of 2015 lows early in the year coupled with eventual austerity decisions and policies adopted by most GCC governments lead to a cycle of liquidity tightening that dried up the regional financial system and severely affected their corresponding equity markets. The devaluation of the EGP in November contributed negatively – albeit in a smaller amount than benchmarked given the relatively reduced allocation to Egyptian equities at the time. In September/October GCC indices collectively dropped amid historically low average turnover. However, OPEC and the International Bond Issue on the Saudi Market coinciding in Q4 helped reverse the sentiment, and liquidity was back again bargain hunting for value. In a matter of three months, the S&P Pan Arab Composite index rallied 18% ending the year with an 4% yearly performance.

The bonds and sukuk markets were also quite volatile during the year. Governments tapped into the local debt markets to raise cash throughout 2016 and going into 2017 in order to reduce depletion of foreign currency reserves. Deteriorating liquidity in the system, US presidential elections as well as uncertainty resulting from Brexit all pushed the regional curve higher at varying times. The Fund has however managed to achieve an average return on invested capital in this asset class for the year of 5.7% with an average duration of 3.3, vs the SP MENA SUKUK AND BOND INDEX total return of about 3.8%. We have maintained an average exposure to Sukuks of around 30% of the fund's value of which 60% were allocated to financials and 40% across corporate and sovereign issuers.

❖ Investment fund's performance during the period

The fund generated a net 0.83% during the year 2016

❖ Details of any material changes made during the period

No material changes took place during the period

❖ Investment fund invests substantially in other investment funds

Throughout the year the Fund held an average of 8.2% in the Blom Money Market USD Fund and an average of 5.4% in the Blom Money Market Lira Fund. The expense ratio of both these funds amounts to 65 bps.

The Fund has also had an average exposure of 3% to the Ashmore Saudi private placement fund.

Blom Arab Markets Balanced Fund paid an average of 10 bps in management fees for all the previously mentioned funds.

❖ The Fund manager did not receive any special commission during 2016.

Custodian

❖ Custodian

HSBC Saudi Arabia Limited
HSBC Building, Olaya Road | Al-Murooj | Riyadh 11413 | P.O. Box 9084, Saudi Arabia



05-Apr-2017

To:

BLOMINVEST SAUDI ARABIA (Fund Manager)

Riyadh - Kingdom of Saudi Arabia
King Fahad Road – Al-Oula Bldg. – 3rd Floor
P.O.Box 8151 Riyadh 11482

Subject: Custodian details on Fund Report as per annexure V of the Investment Fund Regulations for the year 2016

Fund Name Blom Arab Markets Balanced Fund

1) Name and address of custodian.

HSBC Saudi Arabia Limited
2nd floor-HSBC Building, Olaya Road
7267 Olaya – Al Murooj, Riyadh 12283-2255, Saudi Arabia

2) Brief description of its duties and responsibilities,

Custodian is service provider to the Fund in line with article 22 to 29 of Investment Fund Regulations issued by the Capital Market Authority. Below are the brief responsibility of the custodian.

- Opening of segregated accounts for the Fund in the name of the custodian for the benefit of the specific Fund.
- Safekeeping and periodic reconciliation of assets under custody
- Movement of Funds for Fund's investment and Operational purposes based on Fund Manager Instructions
- Settlement of trades after execution and handling corporate action in the Fund portfolio based on Fund Manager Instructions
- Providing periodic statements to the Fund's Managers and the auditors.
- Complying with client money rules and Investment Account Instructions issued by the CMA

Since above statement is being provided for the first time after new IFR launch, we confirm that above mentioned responsibilities on part of custodian have been duly complied with.


Best Regards,
HSBC Saudi Arabia Limited.

HSBC Saudi Arabia Limited
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إتش إس بي سي العربية السعودية المحدودة
٧٢٦٧ العليا - الروج، الرياض ١٢٢٨٣-٢٢٥٥
الرقم الموحد : ٩٢٠٠٠٥٩٢٠
الموقع الإلكتروني: www.hsbcSaudi.com

Incorporated in Riyadh with limited liability. C.R. No. 1018221551, Capital SAR 500 Million (Fully Paid)
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شركة ذات مسؤولية محدودة تأسست في الرياض من قبل إتش إس بي سي العربية السعودية المحدودة
ترخيص من هيئة السوق المالية - رقم الترخيص: ٨٥٠٤٨-١٧

Auditor

❖ Auditor

Ernst & Young
Al Faisaliah Office Tower | King Fahad Road | P.O. Box 2732 | Riyadh 11461, Saudi Arabia

Financial Statements