



Derayah REIT

2020 Annual Report



A Shariah-compliant closed-ended real estate investment traded fund listed in the Saudi Stock Exchange “Tadawul”



Derayah Financial, license number 08109-27 dated 16/06/2008. A Capital Market Institution licensed by the Capital Market Authority to practice dealing, advisory, asset management, and custodial activities. Registered with CMA under provisions of Capital Market Institutions Regulations



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Shariyah Review Bureau



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Fund Manager Statement

Dear Derayah REIT Unitholders,

We are pleased to present the annual report for Derayah REIT (the “Fund”) for the Fiscal Year 2020, highlighting Fund's performance during the year and our expectations for Fund's performance in 2021. The Report includes an overview of Derayah REIT, its real estate assets, the Fund's Board of Director's Report, and a risk assessment report.

Since listing Derayah REIT on Tadawul in March 2018, our investment philosophy has been based on managing a portfolio of real estate assets diversified by geographical locations and by real estate sectors while avoiding geographical, sector, or large tenant concentrations to reduce overall risk. This approach had reflected positively on Fund's operations, cash flows, and the ability to continue distribute dividends during the COVID-19 pandemic that affected real estate investments. As a result, Derayah REIT successfully ended its third year, achieving its primary objective, enabling the Fund to generate income on investors' capital and to distribute quarterly dividends that reached a total of SR 0.685 per unit in 2020.

The year 2020 has been an exceptional year for the global and local real estate market due to COVID-19 pandemic. Although interest rates were reduced and governments throughout the world enacted several fiscal and non-fiscal policies to mitigate the adverse impact of COVID-19, some real estate sectors have suffered such as commercial, offices, and hospitality sectors.

People were reluctant to gather in public areas, while governments enforced precautionary measures to limit the contagion of the virus such as curfews, social distancing, office closure, and work-from-home orders. This had a negative impact on real estate sectors that allow people to gather. On the other hand, other real estate sectors have soared during the pandemic, most notably the warehousing and logistics sector. The demand for warehousing space has increased in conjunction with the surge in e-commerce and the keenness of merchants to provide fast delivery for their products to end-users.

To improve the Fund's returns, the Fund acquired a logistics complex in Riyadh for SR 140 million during 2020, which increased the allocation percentage to the warehouse sector from 33% to 40%, and the weighted average lease duration of Derayah REIT has increased approximately to six years from five years. The acquisition had a positive impact on the performance of Derayah REIT.

We will continue with our aim to improve Derayah REIT performance by acquiring viable and high-quality real estate assets that we expect will impact the Fund's performance positively.

We would like to extend sincere thanks and appreciation to respected Derayah REIT Fund Unitholders for their continued trust and to the board of directors for its continuous guidance and efforts in achieving the Fund's investment goals. We look forward together for more progress, and sustainable growth.

Sincerely,

Derayah Financial



Derayah REIT Fund

Derayah REIT is a Shariah-compliant closed-ended real estate investment traded Fund. The Fund operates per the Real Estate Investment Fund Regulations issued by the Capital Market Authority.

The Fund aims to generate income on investors' capital through investing in income-generating real estate assets in Saudi Arabia (excluding Makka and Medina), which will enable the Fund to generate annual returns and distribute quarterly cash dividends of no less than 90% of net profits according to Real Estate Investment Fund Regulations.

Capital Market Authority (CMA) approved listing Derayah REIT Fund in the Saudi Stock Exchange (Tadawul) on 06/12/2017G, and the Fund was listed in Tadawul on 26/03/2018.

Derayah REIT is a diversified Fund with properties in various cities and sectors. Such strategy aims to reduce asset or tenant concentration therefore reducing its related risks. The Fund currently owns 27 properties distributed across six cities in Saudi Arabia, mainly concentrated in Riyadh, followed by Dammam, Jeddah, Jubail Khobar, and AlAhsa. Properties are invested in nine real estate sectors, primarily in warehouses, office, and residential, followed by the remaining sectors. The Fund maintains a high occupancy rate at 98%

| Fund Information | |
|-----------------------------|---|
| Fund Manager | Derayah Financial |
| Fund Term | 99 Years starting from listing date, extendable for similar term upon obtaining capital market authority approval |
| Listing Date | 26/03/2018 |
| Fund Currency | Saudi Riyal (SAR) |
| Fund Size on Inception Date | SAR1,075,070,350 |
| Outstanding Units | 107,507,035 Unit |
| Price On Inception Date | SAR10 Per Unit |
| Management Fee | 0.85% of Net Asset Value |
| Custody Fee | 0.03% of Net Asset Value capped at SAR120,000 annually |
| Valuation Frequency | Semi-annual. End of Jun & Dec of every Gregorian Year |
| Dividends Distribution | Quarterly cash dividends of no less than 90% of net profits |
| Tadawul Ticker | 4339 |
| Bloomberg Ticker | DERAYHR:AB |



Fund's Portfolio

Derayah REIT Fund portfolio consists of 27 income generating properties that are allocated across six main cities in Saudi Arabia and nine real estate sectors, which reduces the Fund's concentration risks.

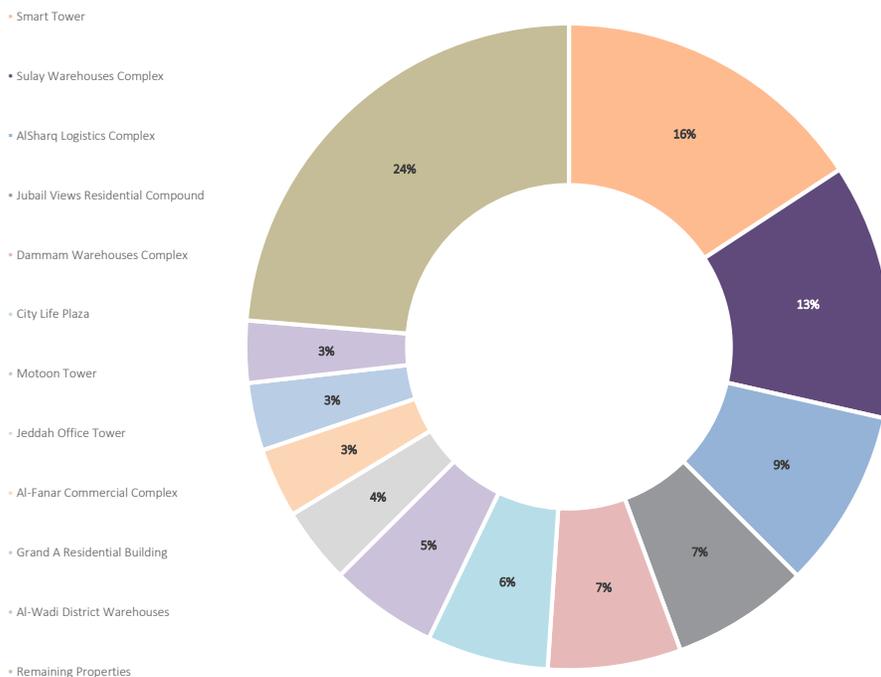
| # | Property Name | Ownership | Sector | City | Purchase Price | % of Annual Rent ⁽¹⁾ | % in Portfolio |
|--------------|--|-----------|---------------|---------|----------------------|---------------------------------|----------------|
| 1 | Smart Tower | Freehold | Offices | Riyadh | 263,500,000 | 14.97% | 15.53% |
| 2 | Sulay Warehouses Complex | Freehold | Warehouses | Riyadh | 196,000,000 | 13.65% | 11.56% |
| 3 | Jubail Views Residential Compound | Freehold | Residential | Jubail | 145,500,000 | 2.67% | 8.58% |
| 4 | AlSharq Warehouse Complex | Freehold | Warehouses | Riyadh | 140,000,000 | 8.38% | 8.25% |
| 5 | Dammam Warehouses Complex | Freehold | Warehouses | Dammam | 130,000,000 | 7.78% | 7.66% |
| 6 | City Life Plaza | Freehold | Strip Mall | Riyadh | 106,250,000 | 6.36% | 6.26% |
| 7 | Motoon Tower | Freehold | Hospitality | Riyadh | 98,000,000 | 3.93% | 5.78% |
| 8 | Al-Fanar Commercial Complex | Freehold | Showroom | Khobar | 60,600,000 | 2.96% | 3.57% |
| 9 | Grand A Residential Building | Freehold | Residential | Dammam | 58,800,000 | 3.74% | 3.47% |
| 10 | Al-Wadi District Warehouses | Freehold | Warehouses | Jeddah | 58,000,000 | 3.47% | 3.42% |
| 11 | AlSirteen Commercial Center | Freehold | Offices | Riyadh | 52,125,000 | 3.03% | 3.07% |
| 12 | Jeddah Office Tower | Freehold | Offices | Jeddah | 45,000,000 | 2.86% | 2.65% |
| 13 | Jeddah Khumrah Warehouses | Freehold | Warehouses | Jeddah | 44,000,000 | 3.04% | 2.59% |
| 14 | Education & Skills School | Freehold | Education | Riyadh | 41,176,470 | 2.62% | 2.43% |
| 15 | The Valley Commercial Center | Leasehold | Strip Mall | AlAhsaa | 39,500,000 | 4.17% | 2.33% |
| 16 | AlKhaleejiah Business Center | Freehold | Offices | Khobar | 38,000,000 | 2.46% | 2.24% |
| 17 | Grand B Commercial Building | Freehold | Education | Dammam | 31,250,000 | 1.87% | 1.84% |
| 18 | Al-Khalidiyyah District Warehouses (2) | Freehold | Warehouses | Dammam | 29,000,000 | 2.01% | 1.71% |
| 19 | Jubail Employees Residential Buildings | Freehold | Residential | Jubail | 24,273,685 | 1.74% | 1.43% |
| 20 | Raseel Medical Center | Freehold | Healthcare | Riyadh | 22,000,000 | 1.39% | 1.30% |
| 21 | Khalidiya District Warehouses | Freehold | Warehouses | Dammam | 18,000,000 | 1.25% | 1.06% |
| 22 | Riyadh Al-Azizia Warehouses (1) | Freehold | Warehouses | Riyadh | 14,000,000 | 0.87% | 0.83% |
| 23 | Riyadh Al-Azizia Warehouses (2) | Freehold | Warehouses | Riyadh | 11,653,160 | 1.01% | 0.69% |
| 24 | Dammam Labor Housing (2) | Freehold | Labor Housing | Dammam | 11,000,000 | 0.79% | 0.65% |
| 25 | City Walk Commercial Center | Leasehold | Strip Mall | Riyadh | 10,504,994 | 2.92% | 0.62% |
| 26 | Dammam Labor Housing | Freehold | Labor Housing | Dammam | 5,087,559 | 0.02% | 0.30% |
| 27 | Khobar Labor Housing | Freehold | Labor Housing | Khobar | 3,012,441 | 0.02% | 0.18% |
| Total | | | | | 1,696,233,309 | 100% | %100 |



Fund's Portfolio

Percentages of properties in the portfolio

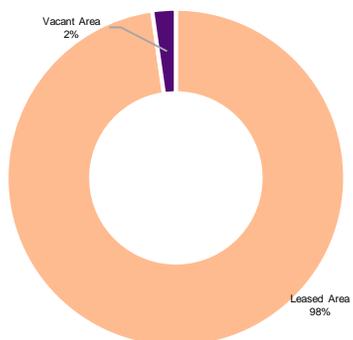
As per average valuation of 31/12/2020



Occupancy Rate

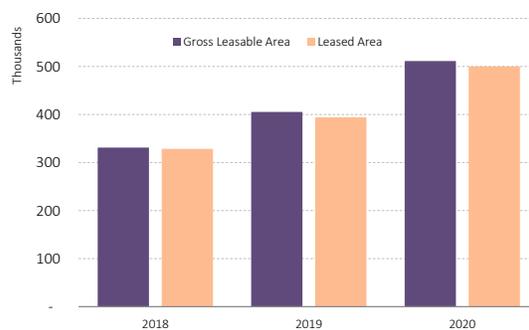
Relative to Gross Leasable Area

As in 31/12/2020



Gross leasable area and leased area since inception

Numbers are in thousands square meter

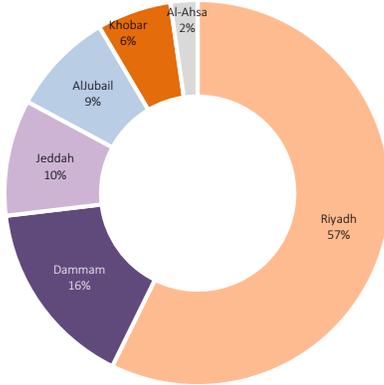




Real Estate Assets Allocation⁽¹⁾

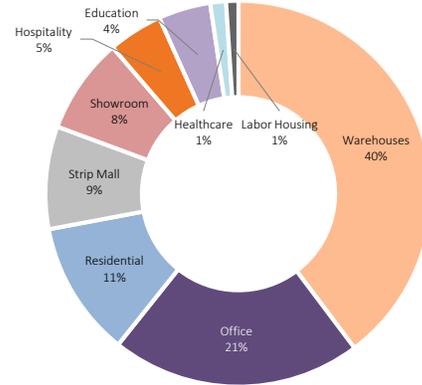
Asset Allocation per Geographical Location

The properties are distributed across six cities in Saudi Arabia, mainly concentrated in Riyadh, followed by Dammam, Jeddah, Jubail, Khobar and AlAsha

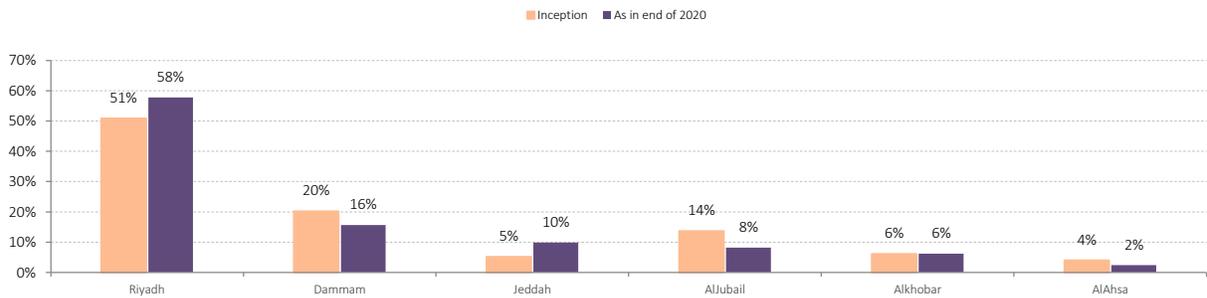


Asset Allocation per Real Estate Sector

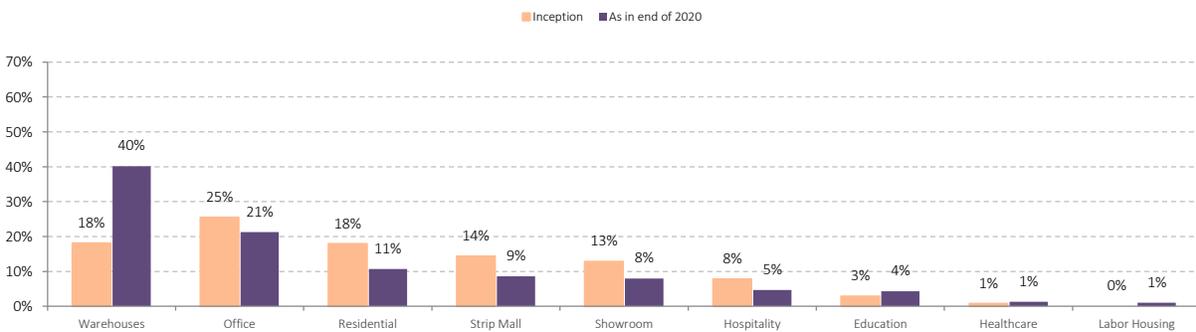
The properties are distributed between nine real estate sectors mainly in warehouses, office and residential sectors which represent 72% of real estate sectors in the Fund. Derayah REIT might invest in the same sectors or other sectors in the future.



Comparison between the allocation of real estate assets according to the geographical location since Fund's inception and at the end of 2020



Comparison between the allocation of real estate assets according to the Real Estate Sector since Fund's inception and at the end of 2020





Fund's Performance

Derayah REIT started operations on March 26, 2018 when it had 15 income-generating real estate assets with a total value of SAR 1.17 billion. The assets value increased by 34% in 2018 to SAR 1.57 billion after acquiring seven income-generating properties financed by the banking facilities available to the Fund. In 2020, the value of assets increased to SAR 1.72 billion, an increase of 8.27% compared to the end of 2019, after acquiring an income-generating warehouse complex, bringing the total number of real estate properties to 27.

The ownership of "AlSharq Warehouses Complex" was transferred to Derayah REIT in 01/09/2020G for a total consideration of SAR 140 million. The property was leased back to the seller in his personal capacity for fifteen years (non-terminable) with an annual rent of SAR11.2 million for the first five years, which will be increased to SAR11.9 million after the fifth year. The Tenant provided promissory notes signed in his personal name covering the lease payments throughout the lease duration. The property is currently subleased to more than 120 corporate and individual tenants with an occupancy rate that exceeds 90%

The bank facilities utilized by the Fund to finance its acquisitions stood at SAR 747 million at the end of 2020, representing 43% of total asset value.

Despite Fund Manager's aspiration to expand and diversify the real estate portfolio, it adopts strict acquisition criteria taking into account locations of the assets, quality of tenants, duration of leases, viability of properties from a technical, legal, and regulatory point of view, in addition to considering the Saudi real estate market trends, as well as medium and long term supply and demand factors.

Derayah REIT achieved total revenues of SAR 1.129 per unit, or a total of SAR 121 million for the fiscal year ending December 31, 2020. The Fund distributed SAR 0.685 per unit with a total value of SAR 73.5 million to Unitholders in 2020. Unit market price has increased from SAR10.50 at the beginning of 2020 to SAR11.20 towards year end. This accounts for an increase of 6.7% compared to only 4% for TASI and approximately 2% for REITs Index.

The Fund will continue to distribute quarterly dividends of no less than 90% of net profits for 2021. The Fund will seek to enhance returns to Unitholders by expanding and adding more income-generating real estate assets to the Fund's portfolio.

The Fund Manager is considering several investment opportunities that it plans to capture in the year 2021. Once completed, it is expected to reflect positively on the Fund's performance for this year.

Financial Information

| As in 31/12/2020 | |
|--------------------------------------|-------------------|
| Total Assets Value | SAR 1,725,483,873 |
| Net Assets Value | SAR 944,532,914 |
| Net Assets Value per unit | SAR 8.79 |
| Indicative Unit Price ⁽¹⁾ | SAR 8.95 |
| Total Loan Value | SAR 747,982,834 |
| LTV | %43 |
| Expenses ratio ⁽²⁾ | %2.50 |
| Average Real Estate Valuation | SAR 1,639,947,185 |

(1) Net assets value based on average valuation after subtracting all fund's liabilities including long term debts. Unit price is calculated by dividing Net Assets Value by the number of outstanding units.

(2) Relative to total Asset Value at Fair Valuation as in 31/12/2020.



Market Unit Price

At the beginning of 2020, the market price for Derayah REIT was SAR 10.50 per unit, which kept cautiously increasing before it declined to SAR 9.30 in the last week of March 2020 due to COVID-19. In late August, the market price steadily increased when the economy started to open again in late June 2020. At the end of the year, unit market price closed at SAR 11.20, recording an increase of 6.7%.

Market Unit Price

Market Unit Price during period from 01/01/2020 to 31/12/2020



Comparison between performance of Derayah REIT Fund, Saudi REIT Index, and TASI Index

According to closing price during period from 01/01/2020 to 31/12/2020





Comparative Table Covering Performance

| Period | Net Assets Value | Net Assets Value Per Unit | | | Outstanding Units | Dividends (SAR) | Expense Ratio |
|------------------|------------------|---------------------------|---------------|--------------|-------------------|-----------------|---------------|
| | | Year End | Highest Value | Lowest Value | | | |
| 31 December 2018 | 1,070,600,370 | 9.95 | 10.06 | 9.95 | 107,507,035 | 0.651 per unit | %4.90 |
| 31 December 2019 | 1,003,340,995 | 9.33 | 9.69 | 9.33 | 107,507,035 | 0.748 per unit | %2.45 |
| 31 December 2020 | 961,541,071 | 8.95 | 9.22 | 8.95 | 107,507,035 | 0.685 per unit | %2.50 |

| Total Accumulated Return ⁽²⁾ | 1 Year | 3 Years | 5 Years | Since Inception |
|---|--------|---------|---------|-----------------|
| 2020 (dividend only) | %6.85 | %20.83 | N/A | %20.83 |

| Year | Dividend relative to IPO price | Unit Market Price (Year End) | The Change (Performance) |
|------|--------------------------------|------------------------------|--------------------------|
| 2018 | %6.50 | 8.38 | Nil |
| 2019 | %7.48 | 10.50 | %25 |
| 2020 | %6.85 | 11.20 | %7 |

Fund Expenses 2020

Derayah REIT expense ratio was 2.50% of total assets as of December 31st 2020. The Fund Manager did not waive or rebate any fees and the Fund manager did not receive any special commission during the period.

Fees, Services and Expenses Paid by Derayah REIT During 2020 (Saudi Riyal)

| | |
|--|--|
| Fund Management | 8,310,298 |
| Custody Fee | 120,000 |
| Audit Fee | 30,000 |
| Sharia Consultant | 18,750 |
| Valuations | 717,500 |
| Independent Board Members Fee | 8,000 |
| Property Management, Maintenance and Operations | 3,932,052 |
| Financing Fee | 23,622,769 |
| Capital Market Authority Fee | 7,500 |
| Tadawul and Edaa Fee | 699,999 |
| Other Expenses | 6,870,810 |
| Non-cash Expense relative to net income ⁽⁴⁾ | 366% |
| Expenses Ratio | 2.50% of Total assets value as per fair valuation |



2020 Dividends

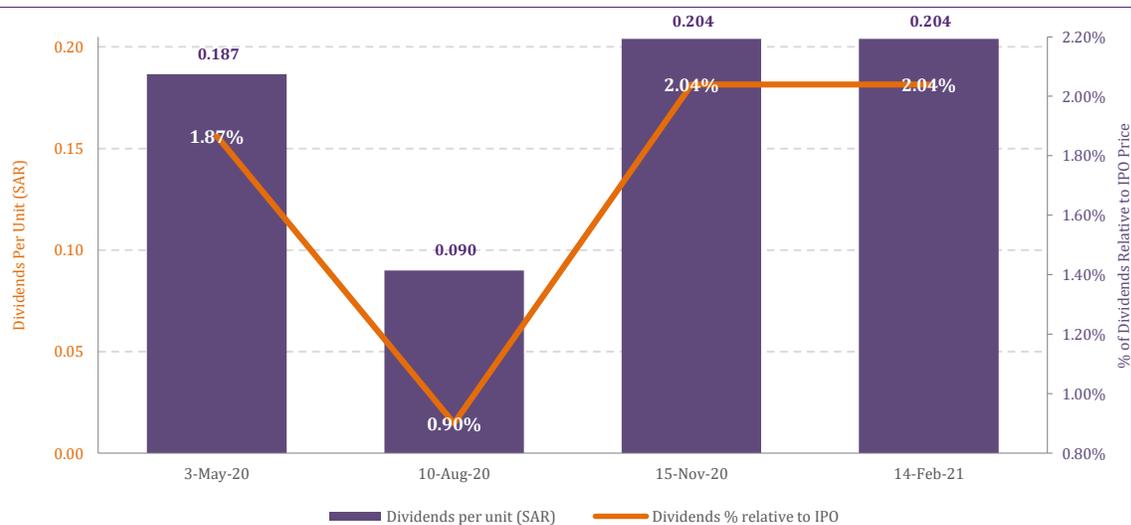
Derayah REIT adopts a dividends policy of a quarterly cash distributions of no less than 90% of net profits. In 2020 total dividends distributed to unitholders was SAR 73.5 million which equates to 6.85% annual return relative to IPO price after rent waivers granted to directly impacted tenants due to the precautionary measures to combat COVID-19. It is worthwhile to note that waived rent did not exceed 5% of Fund's total revenue for the period.

2020 Dividend Summary

| | |
|--------------------------------------|----------------------|
| Outstanding Units | 107,507,035 unit |
| Distributed Dividend per unit | SAR 0.685 |
| Total distributed dividend | SAR 73,596,503 |
| Distribution % relative to IPO price | %6.85 |
| Distribution % relative to NAV | %7.65 |
| Uncollected Revenue | %28 as in 31/12/2020 |
| Total Revenue for the period | SAR 121,387,960 |

2020 Distributed Dividends

Total distributed dividend per unit is SAR0.685





Board of Directors' Report

Derayah REIT Fund is supervised by the Board of Directors that was appointed by the Fund Manager after receiving Capital Market Authority approval. The Board consists of six members, two of whom are independent. Fund Board's responsibilities include making a reasonable effort to ensure that the Fund Managers carries out its duties in a manner that best serves the Unitholders' interest subject to the Fund's terms and conditions and relevant regulations, in addition to settling any conflict of interest involving any Board member by judging in good faith for Unitholder's benefit. Two board meetings were held in 2020, and the below items were discussed

| Agenda Items | Decision |
|--|--|
| Discussing procedure proposed by the Fund Manager to counteract COVID-19 | For Discussion Only |
| Discussing the Fund Manager's plan regarding impacted tenants. | Approving granting tenants impacted by the precautionary measures to combat COVID-19, without exceeding 5% of Derayah REIT annual rent |
| Review the new proposed acquisitions | Approving acquiring AlSharq Warehouses Complex, with rent period of 15 years binding and signed promissory notes by the tenant in his personal name for entire lease period. |
| Contracting with Real Estate Appraisers | Approving entering into a contract with properties appraiser |
| Fund's performance during the year | For Discussion Only |
| The Impact of rent waivers on the annual rent on Derayah REIT | For Discussion Only |
| Discussing the process of dealing and handling with legal cases | For Discussion Only |
| Registration of Derayah REIT Fund for Zakat | Approving registering Derayah REIT for Zakat |
| Discuss the proposed changes to Derayah REIT Terms & Conditions | Approving the changes to Terms and Conditions |
| Reviewing previous minutes of meeting. | All minutes of meeting were approved by board members |

Conflict of Interest.

Mr. Abdulwahab AlSayed, as a board member in Derayah REIT, abstained from voting on granting waivers the tenant of City Life Plaza Motoon Real Estate Company since Mr Alsayed owns 22% in the tenant.

Fund Manager Ownership in Derayah REIT As in 31/12/2020

| | |
|------------------------|---------------------------------------|
| Fund Manager Ownership | The Fund Manager owns 3,165,559 units |
|------------------------|---------------------------------------|

Material Changes that occurred during the period

| Date | Type | Description |
|------------|----------------------|--|
| 2020/04/14 | Material Development | The impact of the precautionary measures taken to combat the novel epidemic (COVID-19) on Derayah REIT |
| 2020/09/01 | Acquisition | Acquiring logistic complex in Riyadh for a total consideration of SR140 million |
| 2020/09/06 | Zakat Registration | Derayah REIT board members approved registering the Fund for Zakat |

Risk Assessment Report

| Item | Description | Risk Mitigant |
|--|--|---|
| Market risk | Fund's future performance depends on changes in the levels of supply and demand in the relevant real estate sectors. Also, the increased competition may cause the value of properties to decline. Such changes may, therefore, have an adverse impact on the Fund's performance due to the decline in the rental income or net asset value of the Fund over the medium and long term. | The properties are evaluated periodically. The valuation reports include information on the market conditions, including the factors affecting supply and demand, sales, and leasing rates. Based on these reports, decisions are made, in addition to in-house studies conducted by the Fund Manager and third parties upon the Fund Manager's request. Moreover, the Fund Manager shall monitor the levels of competition through such reports and studies. |
| Legal and regulatory risks | Risks related to changes in the rules, legislation, regulations, or instructions relating to the Fund's operations may result in taking actions that affect the Fund's performance. | The Fund Manager is committed to implement and follow up the instructions issued by the relevant authorities. The Compliance and Anti-money Laundering Department regularly reviews the extent of compliance with the applicable regulations, which is discussed in the Fund's Board of Directors meetings. |
| Leasing and occupancy risks | Include the risks relating to leasing vacant spaces, the risk of abrogation and termination of leases, and the ability of tenants to meet their rental obligations, which may affect the cash flows of the Fund. | Only 2% of Fund's gross leasable area is vacant. The Fund Manager shall market the properties a few months before the end of the lease. The Fund manager will choose tenants with a sound financial position and will ensure their ability to pay rental obligations by requiring them to provide promissory notes covering the lease period, in addition to leasing the units for more than three years, if possible. |
| Risk of cash flow for property maintenance, improvement, and other works | Risks concerning the costs that may be incurred by the Fund to maintain the value of the property through maintenance and renovation, in addition to unexpected costs resulting from natural disasters or any other reasons. | The Fund Manager conducts a technical inspection to ascertain the quality of the property in terms of structure and finishing before acquisitions, to ensure that the property has no defects that may require costly maintenance during ownership thereof. The Fund Manager engages competent property managers to conduct regular inspections of the property. The Fund Manager also maintains insurance coverage against risks that may affect the properties. |
| Decrease in assets value risks | Many factors associated with the overall local economic conditions and the real estate sectors could make it difficult to sell or refinance the properties and may cause the value of the Fund's assets to decline. | The Fund Manager studies the market conditions on an ongoing basis. If the Fund Manager decides to exit any property, an appropriate strategy will be selected and approved by the Board. The Fund Manager has no plans to exit any property at this time |
| Risks of geographic and property concentration | Risks related to the concentration of the Fund's assets in a particular geographical area or real estate sector. | The Fund Manager is committed to maintaining low levels of geographic and sector concentration, which reduces the impact of any recession that may affect a particular geographical area or a specific real estate sector on the Fund's assets. |
| Risks of real estate development | Risks related to the construction and leasing of a new real estate project include delay in completing work, cost overrun, inability to secure expected rental values, and other risks. | As of the date of preparing this report, the Fund has no real estate development projects. |
| VAT associated Risks | The risks associated with the implementation of value-added tax (VAT) on the properties acquired by the Fund, which may increase the value of properties, and would adversely affect the Fund's revenues. | The Fund Manager recovered most of the value-added tax paid on the Fund's acquisitions. Therefore there is no significant impact of the application of VAT. |
| Financing risks | The use of financing creates an opportunity to increase returns to the Fund, but in the meantime time, it involves a high degree of financial risks, such as higher financing cost. | The Fund Manager is committed to obtaining financing at competitive prices and on favorable terms. |

Important Notice

The Fund's terms and conditions, financial statements, and other reports are provided on the Fund Manager's website and Tadawul website, free of charge, and may be obtained upon request from the Fund Manager.

A potential investor willing to invest in this Fund should be aware that investing in the Fund carries high risks and that no guarantee may be given that the Fund will achieve its investment objectives. Market conditions may change regularly and are affected by the overall macroeconomic conditions, the capital market, or business developments in the Kingdom of Saudi Arabia and abroad, as well as market trends in the real estate sectors. Therefore, no guarantee can be given that investors in this Fund will receive the original amount invested in the Fund in whole or in part. Therefore, any investor considering investing in this Fund should read the "Risks of Investment in the Fund" set out in the terms and conditions before making any decision to invest in the Fund. Investors should be aware that the past performance of the real estate sector, in general, is not necessarily indicative of any future performance. No guarantee can be given that the target profits will be achieved or that the Fund will not incur any significant losses. Therefore, investors should be prepared to lose part of their investment, if not all. Unitholders should be aware that investing in the Fund does not imply any guarantee of profit or not incurring a loss, as the Fund's investments are subject to the loss of actual value in whole or in part.

Moreover, the past performance of property prices is not necessarily indicative of similar future performance. Investment in the Fund is not a deposit with a local bank. The value of the investment in the Fund is subject to change and may increase or decrease.

Disclaimer

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