

Morgan Stanley Saudi Arabia Funds

Morgan Stanley Saudi Equity Fund

EMERGING MARKETS EQUITY TEAM

Performance Review

In the twelve month period up until 30 September 2025, the Fund returned -1.55% (net of fees)¹, while the benchmark returned -5.91%. Since inception until 30 September 2025, the Fund returned 15.50% (annualised, net of fees)¹, while the benchmark returned --%.

Market Review

In the month of September, the market (Tadawul All Share Index, or TASI) rebounded by 8% (total return), taking the third quarter 2025 return to +4%. The gain was driven by the news of Saudi Arabia possibly increasing the foreign ownership limit (FOL) to 100% from the current 49%. The market rallied by approximately 5% on the day (24 September) of the announcement. Light foreign investor positioning (most global emerging market and emerging market managers are underweight Saudi Arabia) contributed to the sharp rebound. Further details of this potential change remain pending. An FOL increase to 100% could drive up to \$10 billion of inflows into the Saudi equity markets, mostly through passive flows, as estimated by MSIM. Saudi authorities are working to attract more foreign inflows via regulatory reforms (e.g., easing foreign ownership limits) and further improvements in market accessibility.

Due to lower oil prices, reduced government spending in the second half of 2025 and into 2026 is a key discussion point among investors. However, MEED data shows the project pipeline is strong with more than \$100 billion per year of new projects entering execution stage in 2025 (estimated) and 2026 (estimated), an approximately 20% jump over 2024 levels.

The OPEC+ production increase continued in September, as eight OPEC+ countries formally decided to implement a 137,000 barrels per day (bpd) increase. This increase was on top of the OPEC+ net production increase of approximately 350,000 bpd announced in August. Oil prices, though, have shown some resilience; Brent recently has been trading mostly in the \$60-\$70 per barrel range.

Saudi Ministry of Finance (MoF) issued the 2026 pre-budget statement, indicating expenditure of SAR 1,313 billion, slightly lower than 2025 revised spending of SAR 1,330 billion. The deficit for 2026 is projected at 3.3% of gross domestic product (GDP) vs. a revised deficit for 2025 of 5.3% of GDP. The higher budget deficit in 2025 was mostly due to lower revenues as oil production and prices fell. MoF estimates GDP of 4.6% in 2026 driven by private sector activity. This suggests a healthy level of economic activity going into 2026.

Headline inflation has been muted; however, the real estate segment has seen near double-digit increases. Recently several measures have been announced by the government to control costs and increase housing supply, including a tax on undeveloped land in certain jurisdictions, issuance of low-cost land plots and a five-year rent freeze in Riyadh.

We are entering the earnings reporting season and future market direction will be impacted by corporate results vs. expectations. Generally, the market's earnings expectations remain muted.

Portfolio Activity

During the quarter, exposure to the banking sector was increased to take advantage of the anticipated monetary easing cycle. Moreover, the energy sector allocation was raised during the quarter to capitalize on the anticipated increase in foreign ownership limits in the Saudi market and strong very large crude carrier (VLCC) shipping rates.

On the other hand, exposure to the health care sector was reduced. The sector has performed well over the last few years. Given the increase in competition and aggressive expansion by hospitals, we decided to trim the allocation. We also reduced exposure to the insurance sector during the quarter, reflecting expectations of lower investment income amid anticipated interest rate cuts and intensifying price competition.

During the quarter, we also participated in initial public offerings (IPOs) which were offered to the institutional investors.

Strategy and Outlook

The Saudi market is showing signs of recovery after underperforming most of this year. Government measures to attract foreign flows combined with the relatively low valuation levels appear to be the key driver. Recent indications also suggest that the local institutional selling may slow down, which has been a drag on the market.

The banking sector's loan growth is expected to continue growing but perhaps at a slower pace. Slower loan growth is expected to reduce pressure on profit margins, which has been a key headwind.

¹ Source: Morgan Stanley Investment Management Limited. Data as of 30 September 2025.

We are maintaining our overweight stance on the health care sector but remain vigilant of increasing supply risks. Tourism-related companies continue to offer good value in the medium term based on Vision 2030 programs.

Due to the recent regulatory changes, the real estate sector is expected to be under pressure in the near term; however, we are positive on the medium- to longer-term outlook due to healthy underlying demand, expected decline in interest rates and regulations to allow foreign ownership from 2026.

News flow suggesting that China is looking into shutting down chemical plants that are older than 20 years was taken positively by the investors, as chemical sector stocks rebounded. However, we are cautious on the sector outlook due to continuing oversupply conditions.

For further information, please contact msimsa@morganstanley.com

Fund Facts

Launch date	06 January 2009
Base currency	Saudi Riyal (SAR)
Benchmark	Tadawul All Share Index

Annualized Performance in Saudi Riyal, net of fees, vs benchmark (%)

Calendar Year Returns (%)	2024	2023	2022	2021	2020
Fund	18.04	39.65	3.16	45.21	9.09
Benchmark ²	0.58	14.21	-7.12	29.83	3.58

² The benchmark is a price return Index.

INDEX INFORMATION

The **Tadawul All Share Index (TASI)** is the major stock market index which tracks the performance of all companies listed on the Saudi Stock Exchange. The Index is disseminated by the Saudi Stock Market. Volume in the index excludes small trades (trades with value less than Saudi Arabian Riyal 15000).

IMPORTANT INFORMATION

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The investment performance of the Morgan Stanley Saudi Equity Fund is calculated on a total return basis (i.e., with cash dividend reinvested), while the investment performance of the benchmark is provided on price return basis (i.e., it does not include dividends). The dividend yield as per Bloomberg for TASI was 3.30% as of 31 March 2025.

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may be more substantially affected by economic events.

These investments are designed for investors who understand and are willing to accept these risks. Performance may be volatile, and an investor could lose all or a substantial portion of his or her investment.

Please click this hyperlink to the [Information Memorandum](#) for further information-regarding the principle risks, terms and conditions of investing in the Morgan Stanley Saudi Equity Fund.