



Annual Report 2022

# Prudent ethical investment with a global perspective

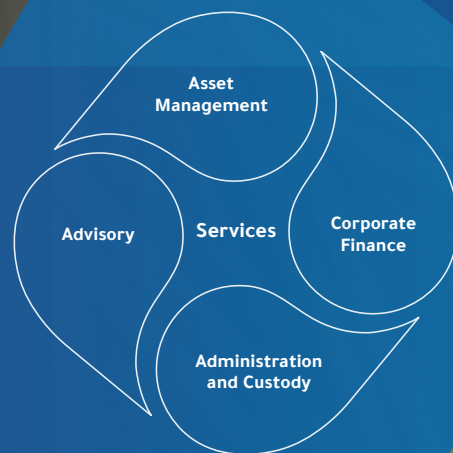


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SEDCO Capital's strategies are designed to deliver robust performance to the firm's clients, who comprise institutions, family offices, endowments, sovereign wealth funds, pension funds, ultra high net worth individuals, and other sophisticated investors.



**141%**

The SC REIT capital increase was oversubscribed by 141%, becoming one of the largest REITs on the Saudi Exchange.



**\$85 million**

SCLux, our offshore platform based in Luxembourg, raised \$241.5 million, including \$85 million from third-party clients, a record high.



**70%**

Assets under management in regional public equity grew by a remarkable 70%.



**1st**

SC Global Sukuk Fund's net return ranked first among its peers over a 5-year period.

### Asset Classes

#### Income Assets

SEDCO Capital invests in Shariah-compliant fixed income securities with high credit grades and low risk profiles, as well as other income generating assets such as leasing and infrastructure transactions.

Our fixed income investments in developed and emerging markets are diversified across global money market, sukuk, leasing and infrastructure investments depending on clients' needs, investment objectives, and risk appetite.

#### Public Equity

SEDCO Capital is an innovator in Shariah-compliant public equity investments. We were one of the first to commission Shariah scholars to establish practical guidelines for investing in equities traded across world stock markets, and we were the first to encourage and work with Dow Jones to establish Islamic indices.

We continued innovating by applying ESG criteria to all our strategies and building strong relationships with 30+ equities asset managers around the world. This drive for innovation provides SEDCO Capital and its clients with a wide choice of investment strategies and themes. We are one of few firms to offer such a large range of regional and international strategies, including both passive and active management.

#### Private Equity

We are pioneers in Shariah-compliant private equity investments in the mid-market, high potential growth segments across Europe, Latin America, US, and Asia, having established and implemented the criteria in 1997.

We provide our clients with access to private equity through two dedicated teams - focusing on private equity funds and co-investments - that have cultivated an extensive network of managers and partners representing a portfolio of more than 1,000 companies over 60+ funds.

#### Real Assets

SEDCO Capital provides a range of real estate asset management services and solutions to private and institutional clients. Our primary aim is to help clients enhance income generated from their real estate assets and boost the value of their holdings.

We invest on a principal, direct and active basis. We apply a rigorous pricing discipline and a strict underwriting process in all our investments, conducting thorough due diligence and well-defined asset management and business planning.

Our investment approach and planning are executed on prudent underwriting and acquisition pricing discipline, driven by fundamental property level asset management, value-based asset refurbishment and redevelopment, property repositioning and a clear exit strategy.



One of the most striking developments of 2022, a year of consolidation and readjustment post-Covid, is how SEDCO Capital continued to build its reputation as an international investment firm, with a strong and consistent performance record across a range of asset classes.



Our China DPM launched in September, for example, performed strongly in the last quarter, with a notable return of 11.2% for the year, generating a positive alpha of 7.2% compared to its benchmark over the same period, while Our Global Listed Infrastructure Fund stood out as the best equity performer on the platform and ranked among the top global equity performers in 2022.

At year end, we announced the first closing of the SC Private Equity Global Co-Investment Master Fund II, with a target size of \$175 million and a focus on co-investments in mid-market, high growth opportunities in the Americas, Europe and Asia.

The extensive regional and international media coverage of the fund's successful launch, and the firm's listing in Forbes Middle East's 'Top 30 Middle East Asset Management Companies', provided further welcome evidence of SEDCO Capital's increasingly widespread reputation.

While international capital markets faced challenging conditions, SCLux, our Luxembourg platform, demonstrated strong fundraising, raising a total of \$241.5 million. Third-party clients contributed \$85 million of this total, marking our highest-ever capital raised in a calendar year.

In the routine of daily business, we must always remain focused on our key objective under Saudi Vision 2030, namely contributing to the creation of a vibrant domestic capital market.

The Saudi Government's efforts to accelerate economic diversification, largely manifested through Vision 2030, are helping to stimulate most domestic business sectors.

The vast array of Public Investment Fund (PIF) and central government projects is leading to rapid expansion in the real estate and construction sectors. Expansion in domestic tourism, entertainment and leisure events - aided by the lifting of Covid-19 restrictions for the 2023 Hajj season - are also helping to sustain national economic growth.

In 2022, SEDCO Capital achieved a significant increase in Discretionary Portfolio Management (DPM) clients, winning 13 new mandates, mainly to attract capital for local IPOs, of which there were 17 during the year.

Our second capital increase of SAR 600 million for the SEDCO Capital REIT (SC REIT) was oversubscribed by 141%, making it one of the largest REITs listed on the Saudi Exchange.

The capital increase was primarily used to acquire the Jeddah retail landmark, Atelier La Vie. Following the capital increase, we anticipate SC REIT's inclusion in additional global indices, which is likely to further enhance its reputation.

Our Regional Real Estate team also completed the successful divestment of SEDCO Capital Built-To-Suit I Fund, delivering on its overall strategy and objectives. The transaction generated an IRR of 8.30% and an equity multiple of 1.42x.

Looking forward to 2023, we will look to refine and enhance our strategy to further scale the operation and improve how we do business. The comprehensive review we have commissioned will generate valuable feedback to help guide our future direction and we look forward to reporting the main findings in due course.

In closing, I thank our Board of Directors, regulators, management team and workforce for their wise counsel and ongoing support for the firm in achieving long-term growth and creating stakeholder value.

**Abdullah Baarmah**  
Chairman



## Board of Directors



### **Abdullah Baarmah** Chairman

Mr Baarmah joined the SEDCO Capital Board in 2010, before which he was heading the Global Fixed Income Department at NCB Capital. He commenced his career in banking as a futures trader with the National Commercial Bank's Treasury division in 1994, and went on to hold positions of responsibility in the division.

He holds a degree in Business Administration from the University of Portland, Oregon, USA.

### **Rayyan Nagadi** Vice Chairman

Eng. Nagadi is CEO of SEDCO Holding. He was previously an advisor to His Excellency the Minister of Finance and currently serves on the boards and executive committees of several companies including the Capital Market Authority's Advisory Committee.

Eng. Nagadi brings more than 20 years of experience in both the public and private sectors, leading mega projects in various sectors including banking, public utilities, petrochemicals, infrastructure and building materials.

He holds a Bachelor's Degree in Applied Electrical Engineering from King Fahd University of Petroleum & Minerals (KFUPM), Dhahran, Saudi Arabia.

### **Hasan Aljabri** Board Director

Mr Aljabri was previously CEO of SEDCO Holding (2019-21) and SEDCO Capital (2010-19). He has more than 33 years' banking and investment experience, including senior roles at the National Commercial Bank, NCB Capital and Samba Financial Group.

While at NCB Capital, Mr Aljabri was a Board member and Managing Director, and also served as Chairman of the Funds Board covering all of NCB Capital's 27 mutual funds.

He served as Chairman of the Saudi Chapter of the World Presidents' Organization. He is currently a board member of several Saudi companies.

He has a BSc in Engineering from American University of Beirut and is a graduate of Columbia University's Executive Management Program.

### **Abdulrazzak Elkhraijy** Board Director

Mr Elkhraijy serves as Chairman of SEDCO Capital's audit committee. He has over 30 years' experience in regional banking and has served in several senior roles with the National Commercial Bank, including as Head of the bank's Islamic Banking Development Group.

Apart from his duties as a board member of SEDCO Capital, Mr Elkhraijy also serves on the board of Trustees of the Accounting and Auditing Organization for Islamic Financial Institutions, and on the General Council for Islamic Banks and Financial Institutions.

He holds a BA in Economics and Business from Macalester College, St Paul, Minnesota, USA.

### **Abdullah Alhwaish** Board Director

Mr Al-Howaish is Chairman of Amlak International Real Estate Finance Company and Standard Chartered Capital Saudi Arabia. He is also a Vice-Chairman and a Director of several companies such as Halwani Brothers Company, Alessa Industries Co. and Al-Ittefaq for Steel Industries Company.

Mr Al-Howaish also holds the chairmanship and membership of multiple committees, including the executive and internal audit committees in many companies and in various vital sectors of the Kingdom.

He has 30 years' experience in banking and private and government companies, where he held senior executive positions with institutions such as the National Commercial Bank, the Saudi British Bank and the Arab National Bank.

Mr Al-Howaish holds a Bachelor's degree in Economics from King Abdulaziz University, Jeddah, Saudi Arabia.

### **Hashim Almihtar** Board Director

Mr Almihtar is an expert in family wealth management through his work in several family offices and international companies across different sectors and industries.

He has a Master's degree, a Diploma in Management, Design and Manufacturing, and a Diploma in Financial Management for Non-Financial Managers (ACCA) from Cambridge, UK. He also holds a Bachelor's in Manufacturing Systems Engineering with Management from King's College, London, UK.

**Another notably strong year for SEDCO Capital across all departments, 2022 was marked by record highs, successful co-investments and divestments, and the launch of our second global private equity fund.**

The launch of the SC Global Co-investment Fund II attracted new Limited Partner commitments, the standout event of the year for private equity. Three new co-investments in Brazil, the US, and Europe were also concluded, while the success of the international private equity program, which distributed more than \$130 million, has accelerated plans for a regional program that will leverage the firm's experience and execution capabilities.

In regional public equity, our assets under management grew remarkably by 70%, while local public equity funds generated alpha through our relative return strategy.

To further boost assets under management, we plan to launch at least two new structured products. The introduction of a Shariah compliant leveraging facility for DPM clients is on schedule, due to roll out in mid 2023.

International public equity also performed well, with SCLux raising a record high of \$85 million from third-party clients. Assets under management remained stable at about \$1.75 billion. In 2023, we will migrate our five remaining SIF funds to the new UCITs platform, having obtained regulatory approval during 2022. We are also progressing the launch of a new passive REIT fund, a global small cap fund, and an Asia growth equity fund.

Turning to income assets, the SC Global Sukuk Fund ranked first among its peers over a five-year period in terms of net return, while assets under management in our SC Money Market Fund grew by more than 40%.

Future plans include a structured product to provide clients with efficient access to diverse investment ideas, and the launch of three new funds: SC Global Sukuk Feeder Fund, Al-Ittihad MMF, and SC Multi Asset Fund.

In regional real estate, we exited the SC Built-To-Suit I Fund (Yusr) on an 8.30% IRR and 1.42x equity multiple, while the SC REIT capital increase was oversubscribed by 141%, becoming one of the largest REITs on the Saudi Exchange.

Having secured MoUs for four new real estate development funds, amounting to SAR 1 billion, the sector looks set to maintain its momentum into 2023 and beyond.

For international real estate, the highlights of 2022 were completing the construction of The Village senior living property in Houston (with leasing now exceeding 90%) and the sale of the British School in Texas. Favorable, fixed-rate refinancing was also secured for the 150 Minuteman property near Boston. In the coming year, and subject to capital market conditions, we will evaluate the sale of The Village property, and the Levallois property in France.

We have set some challenging targets for 2023, including new KPIs covering third party fundraising and income generation. We are also evaluating a potential revision of our Shariah guidelines to expand our fund manager universe.

Our investors and business partners around the world have once again demonstrated their unwavering loyalty to SEDCO Capital and our innovative investment approach. Such support is always hard-won, and we will look to repay it by continuing to deliver long-term growth.

In closing, we acknowledge and thank the Capital Market Authority of Saudi Arabia, the CSSF in Luxembourg, and our regulators in the UK and UAE for their guidance and counsel, and the SEDCO Capital team for their dedication and commitment. We remain confident in our ability to deliver the sustainable growth and exceptional value to clients and shareholders that is central to our mission.

**Samer Abu Aker**  
Chief Executive Officer





## Executive Management



**Samer Abu Aker**  
Chief Executive Officer

Mr Abu Aker is CEO of SEDCO Capital and brings more than 20 years' industry experience to his role. His association with SEDCO Capital spans 10 years.

Apart from his responsibilities as CEO, Mr Abu Aker chairs SEDCO Capital's Investment Committee and Management Committee, where he is involved in setting the direction of the firm's governance, investment and compliance operations.

Before joining SEDCO Capital, he held senior management positions with the Bank of New York (New York), Alternative Investment services (Bermuda) and Royal Bank of Canada. He is a Certified Public Accountant (CPA) and holds a BA with an accounting major from Canada's Brock University.

**Abdulwahhab Abed**  
Chief Business Development Officer

Mr Abed is Chief Business Development Officer - his latest role in a 15-year association with SEDCO Capital. He chairs the firm's Product Development Committee and sits on the Investment and Management Committees.

His experience with SEDCO Capital makes him particularly skilled in due diligence, monitoring and divestment operations for private equity funds and co-investments. Previous roles at SEDCO Capital include Head of Corporate Finance and Vice President and Director of Private Equity, where he was involved in a portfolio of almost 100 private equity investments around the world.

Mr Abed has a Bachelor of Science (Finance and Accounting) double major and an MBA with a focus on finance from Bentley University's McCallum School of Business in the US.

**Ahmed Tourson**  
Chief Financial Officer

Mr Tourson has been with SEDCO Capital since 2015. He previously worked with Deloitte & Touche Middle East and KPMG Saudi Arabia in independent auditing, quality assurance, and financial advisory.

Mr Tourson has more than 10 years' experience in investment operations, securities, support services, auditing and financial analysis. He holds a Bachelor's in Accounting Sciences from King Fahd University of Petroleum and Minerals.

**Christian Guckel**  
Chief Risk Officer

As Chief Risk Officer, Mr Guckel focuses on investment research, portfolio construction and portfolio analytics. He joined the firm in 2014 and is a member of the Investment Committee, Asset Management Committee and Tactical Asset Allocation Committee.

Previously, he was an Investment Director for a Swiss asset management and advisory services firm. He also served as Portfolio Manager at Man Investments' multi-manager business and with HSBC Trinkaus & Burkhardt in the Structured Solutions Group. He started his career in risk control and management with Stadtsparkasse Magdeburg.

Mr Guckel has an MBA from Colorado State University and a Master's (equivalent) in Finance from Otto-von-Guericke University, Germany. He is a certified Chartered Financial Analyst, a Financial Risk Manager, Chartered Alternative Investment Analyst, and an Energy Risk Professional.

**Sultan Sukkar**  
Head of Compliance, AML & Shariah Monitoring

Mr Sukkar is the Head of Compliance and AML at SEDCO Capital. He joined the firm in 2014 and has more than 15 years' experience. His previous positions include Head of Compliance and AML at Saudi Portfolio Securities; Compliance Manager, Private & Investment Banking at Samba Financial Group; and Senior Associate, Assurance Services at PricewaterhouseCoopers Saudi Arabia.

Mr Sukkar holds a BSc in Accounting from the College of Industrial Management, King Fahd University of Petroleum & Minerals in Dhahran, KSA and an MBA from the Kania School of Management, University of Scranton, Pennsylvania, USA.

He has a number of other training and certifications, including Islamic Finance Qualification (CISI), Certified Shariah Adviser and Auditor (AAOIFI), and CMA Advanced Certificates in Compliance and AML.

**Anas Baksh**  
Head of Internal Audit

Mr Baksh joined SEDCO Capital in January 2021. His experience over 15 years includes key roles in global and leading Saudi companies. His expertise spans external and internal audits, risk, control and assurance and finance.

He began his auditing career with Deloitte in assurance and external auditing. This was followed by his role as a Retail Banking Financial Controller at The National Commercial Bank (NCB), before moving into NCB's Internal Audit Department with responsibility in the Finance and Risk areas. Before joining SEDCO Capital, he headed the newly established Finance Department at the Ministry of Culture (Jeddah Historical District Program).

Mr Baksh is a Certified Fraud Examiner (CFE) and holds a Master's of Accounting & Information Systems degree from Middle Tennessee State University (MTSU) in the USA and a Bachelor's in Accounting from King Fahd University of Petroleum and Minerals, Saudi Arabia.

**Rayan Habis**  
Head of Human Resources

Rayan Habis joined SEDCO Capital in 2021 as Head of Human Resources, based in Jeddah. He has more than 16 years' professional HR experience in leading private wealth management; utilities and trading services industries; active involvement and responsibilities in building policies; leading different HRM initiatives; executing mega projects in manpower resourcing and rewarding; organization development, learning and development; and employee relations.

Mr Habis started his career at Rabigh Arabian Water & Electricity Company in the Human Resources Department. He then joined SEDCO Holding as Head of Organization Development & Excellence in 2014.

Currently, he is a member of the Compensation & Nomination Committees for Yusr International Schools and Alshiaka. He has an MBA and a Bachelor's degree in International Business Administration.

**Imtyaz Sattar**  
Head of Legal Affairs

Mr Sattar joined SEDCO Capital in 2021 as Head of Legal, based in Jeddah. He has more than 20 years of experience in a wide range of commercial and corporate areas including private acquisitions, joint ventures, strategic investments, and capital market regulatory matters.

Mr Sattar began his legal career with seven years at Fasken, a leading Canadian international law firm. In 2007, he moved to Saudi Arabia and has since worked with Clifford Chance, Allen & Overy/K&A, and Dentons.

Mr Sattar qualified as a lawyer in Ontario Canada. He holds a Bachelor's degree in Political Science from the University of British Columbia, a Master's in International Studies and Diplomacy from the University of Birmingham, and a Law degree and accreditation from the University of Manchester/Osgoode Hall Law School.





Our private infrastructure program delivered solid returns in 2022 and was one of SEDCO Capital's best performing asset classes.

**Asset Management**

**SEDCO Capital's strategy has consistently delivered robust investment performance to clients that include institutions, family offices, endowments, sovereign wealth funds, ultra-high net worth individuals and other sophisticated investors.**

**Income Assets**

The firm offers expert advice to investors seeking returns and capital appreciation from Shariah-compliant money markets, sukuk, leasing, and infrastructure investments. We manage two flagship funds - one a local money market fund and the other in global sukuk - and oversee a number of discretionary mandates.

In 2022, the tightening of monetary policy by many global central banks pushed valuations downward and significantly challenged the performance of various asset classes, including fixed income. However, this adversity set the stage for potential opportunities in 2023 - particularly for fixed income investors - as yields reached their highest levels in more than a decade. This bodes well for investors seeking high absolute yields, without taking excessive risks.

Central banks raised short term interest rates significantly in 2022 as inflation remained high throughout the year. As we enter 2023, inflationary pressures are expected to gradually subside, creating a more favorable environment for fixed income investments.

Money markets was one of the few attractive asset classes in 2022, as heightened interest rates translated into improved yields, without any negative price movements, given the ultra-short duration of money market instruments. As we move into 2023, we anticipate that the Federal Reserve's cycle of raising rates is approaching its end.

SEDCO Capital aims to further boost money market fund returns by closely monitoring economic and market data, and signals from the Federal Reserve, to identify and target the optimal duration metric. As the Fed reaches the peak of its tightening cycle, this approach will help our team to lock in the higher yields for as long as possible.

On the other hand, sukuk returns were negative in 2022, attributed to the significant increases in interest rates. Despite this setback, sukuk valuations offer investors an attractive entry point in 2023 to benefit from higher yields and to enjoy potential positive price gains once interest rates start falling again.

In leasing, some of our funds faced challenges in exiting assets in what was a difficult market environment. On a more positive note, our leasing funds took advantage of the global supply-chain recovery and a higher interest rate environment to deploy cash proceeds at more attractive yields. We expect the program to maintain a healthy distribution profile in 2023.

Our private infrastructure program delivered solid returns in 2022 and was one of SEDCO Capital's best performing asset classes. The program continues to benefit from a stable portfolio of essential infrastructure assets that deliver stable cash distribution. Higher interest rates are not expected to impact financing costs for most of the existing underlying assets, given our emphasis on investing with fund managers with the capability to source long term and fixed rate financing in their portfolios.

SEDCO Capital's income assets funds and portfolios achieved reasonable returns during a difficult year in which most higher risk assets registered negative returns. We continue to focus on improving returns, without exposing investors to excessive risks. Considering the economic outlook, we are focused on implementing the most suitable strategy to benefit from the current market cycle and maximize returns going forward.

**Public Equity**

**Regional Public Equity**

Continued aftershocks from the Covid-19 pandemic punctuated the economic recovery that characterized 2022. The loosening of monetary policy that was introduced to head off economic catastrophe resulted in an inflationary cycle that saw interest rates rise rapidly and a 7.4% decline in the S&P Saudi Shariah Domestic TR Index. Some 17 IPOs were listed on the Tadawul main market, however, raising more than SAR 31 billion, while 32 listings occurred on the Nomu, the Kingdom's parallel equity market.

**249bps**

Our Regional Public Equity team successfully delivered on the relative return strategies, delivering alpha of 249 basis points.



**37%**

Regional Public Equity AUMs increased by 37% to \$243 million. More than \$15 million was distributed to clients.





## Business Review

SEDCO Capital's Regional Public Equity team successfully delivered on the relative return strategies, delivering alpha of 249 basis points, although total return strategies suffered with negative returns ranging between 3 to 4%. Mandates grew by 29%, while total assets under management increased by 37% to \$243 million. More than \$15 million was distributed to clients.

### International Public Equity

After enjoying remarkable returns over the past three years, stock markets encountered their most challenging period since 2008. Simultaneously, bond prices also declined, coinciding with the surge in inflation, which reached its highest level in four decades. Some notably positive developments emerged from this difficult environment, however.

The firm's China DPM launched in September 2022 performed strongly in the last quarter, with a notable return of 11.2% for the year, generating a positive alpha of 7.2% compared to its benchmark over the same period.

Our Global Listed Infrastructure Fund, launched in 2021 to safeguard clients' portfolios in a higher inflation environment, stood out as the best equity performer on our platform and ranked among the best globally in 2022. It posted a return of -9.4%, compared to the DJ Islamic World Index, which showed a more significant decline of -24.3%.

While capital markets also faced tough conditions, SEDCO Capital's Luxembourg platform (SCLux) demonstrated strong fundraising, raising a total of \$241.5 million during the year.

Most notably, third-party clients contributed \$85 million, marking our highest-ever capital raising in a calendar year. Assets under management remained stable at about \$1.75 billion at year end, despite a 24% drop in public equity market performance.

Remarkably, our liquid assets portfolio delivered positive alpha for our clients, thanks to the favorable contributions from our tactical asset allocation process. All active managers on our public equity platform achieved positive alpha over a rolling three-year period.

Over the next year, we will complete the migration of our existing passive SIF funds to the new UCITs platform, as we start the process of launching a new US passive equity fund. We are also preparing to launch other new passive funds, including REITs, Global Small Cap, and Asia Growth Equity.

Looking ahead, we will continue to focus on constructing robust portfolios that can generate superior returns for our clients. With expectations that the Federal Reserve will pause its actions, a likely drop in inflation, resilient consumer sentiment and recovering earnings, we expect to ignite a transition into a late-cycle phase and to see a more favorable backdrop for equity markets during 2023.

### Private Equity

Private equity performance in 2022 was 7% lower than the previous year, mainly due to a drop in valuations resulting from public market volatility. Despite the decline, private equity outperformed the public equities portfolio, which saw a drop of 8.5% over the same period.

### Private Equity Funds

SEDCO Capital invests in private equity funds valued between \$250 million and \$1 billion, focusing on mid-market and value-add managers with deep sector focus in the healthcare, technology and consumer sectors. Our fund portfolio continues to move closer to its target 70/30 geographic split between developed and emerging markets, respectively.

In accordance with the firm's Shariah and ESG guidelines, we avoid funds holding a large proportion of portfolio companies with leverage ratios higher than 33% or dealing in non-ethical activities.

Commitments in 2022 included a US technology fund with a focus on Software as a Service (SaaS) and a re-up (renewal) in a US consumer fund focused on a niche tech fund with an emphasis on beauty and wellness.

The year saw solid distributions that netted a distribution to paid-in capital of 1.60x, highlighting the self-financing quality of the program.

Looking forward, we will continue to act in line with the firm's strategic targets: seeking new top-tier managers in developed and emerging markets, and re-ups with select existing managers.

### Private Equity Co-investment

Our co-investment team, based at Dubai International Financial Centre (DIFC), completed three transactions during the year.

The investee companies are in the technology, human resources and F&B sectors, based in the Netherlands, UK and US respectively.

Following the successful launch of the SC Global Co-investment Fund II, fund raising is ongoing and expected to close by the end of 2023.

Close to the year-end, we announced the first closing of the SC Private Equity Global Co-Investment Master Fund II, with a target size of \$175 million and a focus on co-investments in mid-market, high growth opportunities in the Americas, Europe and Asia.

While focusing on healthcare, technology, consumer, business services, and industrials, the fund will not be limited to these sectors. It will seek to leverage the firm's global network of PE fund managers developed over 25+ years, during which time we have built an excellent track record of double digit IRRs, achieved by investing in private equity fund-of-funds and co-investments.

SC Private Equity Global Co-Investment Master Fund II will create a portfolio of high quality, fast growing companies that are diversified across PE fund managers, geographies and sectors. The first closing reflects our investors' belief in the opportunities presented by the fund's objectives and in SEDCO Capital's time-tested ability to unlock significant value.

To date, three transactions in high growth sectors have been completed in two continents, with more to follow.

### Real Assets

SEDCO Capital offers private and institutional clients a range of real estate asset management services and solutions, applying the firm's sophisticated asset allocation capabilities. Our primary aim is twofold: to help clients enhance income generated from their real estate assets and to boost the value of their holdings.

### Regional Real Estate

In the MENA market, we aim to generate and capitalize on opportunities in Shariah-compliant property investments and portfolio strategies that will achieve healthy risk-adjusted returns. The portfolio caters for investor appetites across the risk spectrum, in all sectors.

Building on the momentum of the previous year - which saw the successful completion of our first capital increase for SEDCO Capital REIT (SC REIT) and stronger market sentiment toward diversified public and private real estate funds - we started 2022 by focusing on two initiatives: SEDCO Capital REIT's second capital increase; and a divestment plan for the SEDCO Capital Built-To-Suit I Fund.

SC REIT maintained its impressive performance with an average occupancy rate of 98.6%, a slight increase on 2021. Cash distribution grew to 7.1%, up from 6.3% the previous year.

Following the successful launch of the SC Global Co-investment Fund II, fund raising is ongoing and expected to close by the end of 2023.

# 1.60x

Private Equity Funds netted a distribution to paid-in capital of 1.60x, highlighting the self-financing quality of our program.



# 7.1%

SC REIT's cash distribution grew to 7.1%, up from 6.3% a year earlier.



## Business Review

In December we completed SC REIT's second capital increase of SAR 600 million, resulting in a total fund size of approximately SAR 2.5 billion. The capital increase - oversubscribed 141% - was predominantly used to acquire the magnificent Atelier La Vie retail mall in Jeddah.

Since the acquisition, SC REIT has raised its market profile and seen a boost in trading volumes from local and international investors. Following the capital increase, we anticipate SC REIT's inclusion in additional global indices, which is likely to further strengthen its global reputation.

The firm's Regional Real Estate team also achieved the successful divestiture of SEDCO Capital Built-To-Suit I Fund, delivering on its overall strategy and objectives. The transaction generated an IRR of 8.30% and an equity multiple of 1.42x.

Looking ahead, and given the significant hike in interest rates during the year, the team will likely shift its focus to offering real estate development funds across the region. We have already secured a number of MoUs - valued at around SAR 1 billion - for several potential real estate development funds, expected to become operational between 2023 and 2024.

### International Real Estate

Our International Real Estate team operates globally from the firm's offices in London and Jeddah, with platform support from the Luxembourg office. It manages and invests in commercial real estate, mainly high-quality office, multi-family, industrial/logistics and healthcare properties in gateway cities.

With assets in the US, UK and continental Europe, our objective in 2022 was to reconstitute the portfolio to higher quality and lower risk by divesting legacy investments and recycling capital into well-located core assets.

We divested two properties in 2022 - Coral Landings in Florida and British School in Texas. Coral Landings is a retail park with an exit value of \$37.4 million that was acquired in 2015. The divestment achieved a net IRR of 9.63%. British School had an exit value of \$82 million. The property was acquired in 2014 and the exit achieved a net IRR of 6.6%.

We also refinanced two assets: The Village in Houston, Texas and 150 Minuteman near Boston, Massachusetts. The Village is a senior housing property and refinancing was undertaken to fund construction to remedy quality issues and enhance the asset. By the end of 2022, this program was nearing completion, under budget, with all units online. 150 Minuteman is a medical office property and its refinancing was undertaken because the original debt term was approaching its maturity.

### Corporate Finance

SEDCO Capital's Corporate Finance Department is an experienced sell-side and buy-side advisory resource that provides clients in Saudi Arabia with a combination of in-depth market research and invaluable decision-making intelligence.

Buy-side activity has also played a key role in attracting new clients from the MENA and international markets. Our team provides ad hoc services, such as market intelligence and valuations, and we retain specialist consultants to meet demand and assist wherever their services are needed.

The year has seen us strengthen our sell-side advisory services and relationships with financial advisors, corporate investors and family businesses, while we have continued to target equity and debt placement services.

### Administration and Custody

The key disciplines that contribute to an investment's performance - from the simplest to the most complex - are flawless execution, safekeeping, and asset maintenance. Our expertise in these areas, allied to a comprehensive infrastructure, help to minimize transactional, legal and taxation risks, and is integral to our consistent approach and overall performance.

Over the past year, we have collaborated with eFront, a specialist financial services software provider owned by BlackRock, to use eFront Invest for fund administration, investor reporting and internal reporting.

We currently administer in-house six real estate, public and private equity funds: SC REIT, SC Built-to-Suit Fund II, SC Total Return Fund, SC High Conviction Fund, SC Partners Group Opportunities Fund and SC STIC Korea Opportunities Fund.

### Advisory

SEDCO Capital's advisory services are tailored to help clients make informed decisions about their investments. Clients benefiting from bespoke services often upgrade their accounts to Discretionary Portfolio Management (DPM), testimony to the quality of our services in this area.

The firm's outstanding achievement in 2022 was securing 13 new DPM relationships. The advisory team also maintained its engagement with long-standing investors, keeping them abreast of market trends.

Our strategy is to target high net worth individuals, family offices, sovereigns, endowments and other institutional clients with the firm's advisory offering. Our role - in close collaboration with clients - normally extends to strategic and tactical asset allocation; drafting investment policy statements; governance policies; terms of reference for various committees; periodic rebalancing; and managing gaps in the portfolio structure.

We facilitate our clients' investment decisions by providing access to the advisory team's executional capabilities in research, asset allocation recommendations and risk assessment.

### Asset Allocation

Our asset allocation function is managed by the Cyclical Asset Allocation Committee that brings together experts with diverse competencies. The committee is chaired by the Chief Investment Officer, supported by research, risk and advisory teams, so that all asset classes are represented.

The committee reviews market fundamentals and sentiment to score asset classes. It takes the lead in assigning weights to asset classes and decides the conviction with which to follow a strategy. This information is then used to potentially rebalance and optimize client portfolios each quarter - along with a monthly economic health check. Our asset allocation system is now a mature framework that has been in place for four years and has helped deliver superior returns and service levels for clients.



We divested Coral Landings in Florida, a retail park with an exit value of \$37.4 million, achieving a net IRR of 9.63%.

9.63%





**SEDCO Capital's reputation for excellence in asset management, advisory, corporate finance and administration and custody is backed-up by specialist teams in all middle and back office functions.**

These include business development, risk management, finance and treasury, compliance, Shariah monitoring and governance, operations, human resources, IT, business continuity, internal audit, product development, legal, middle office, and marketing and communications.

**Business Development**

Leadership in Prudent Ethical Investing sits at the heart of SEDCO Capital's corporate culture, underpinned by our skill in strategic business development and tailoring innovative products to meet clients' needs.

It is a proven approach that has forged our reputation for excellence across all of the firm's capabilities and products, as evidenced by a strong, across the board performance during 2022.

**Regional Business Development**

Throughout 2022, SEDCO Capital secured a number of new investment mandates from Saudi Arabia based endowments, charitable foundations, family offices, and ultra-high net worth individuals, including a record 13 new Discretionary Portfolio Management (DPM) client relationships.

In regional public equity, our assets under management grew remarkably by 70% and, close to the year-end, we completed SC REIT's second capital increase of SAR 600 million, bringing its market value to around SAR 2.5 billion. By the end of December, 50,477 Saudi and foreign investors were shareholders in SC REIT, which is publicly listed on the Saudi Exchange (Tadawul).

In income assets, our future plans include a structured product to provide clients with efficient access to diverse investment ideas, and the launch of three new funds: SC Global Sukuk Feeder Fund, Al-Ittihad MMF, and SC Multi Asset Fund.



In 2022 the firm signed 13 new multi-asset strategy DPM mandates with Saudi clients.

We have finalized plans to introduce a Shariah compliant leveraging facility for DPM clients, and 2023 promises to be equally positive for regional real estate, having now secured MoUs for real estate development funds - SAR 1 billion for four funds - which will become operational in 2023/2024.

**International Business Development**

SCLux raised a record \$85 million from third-party clients during the year, with total assets under management remaining stable at about \$1.75 billion. In terms of third-party assets under management, the scalability strategy of our Luxembourg platform has been validated.

In 2023, we will migrate our five remaining SIF funds to the new UCITS platform, having obtained regulatory approval during 2022. We are also progressing the launch of a new passive REIT fund, a global small cap fund, and an Asia growth equity fund. UCITS funds are perceived as safe and well-regulated investments and are popular among retail investors.

Our private equity co-investment team - now based at Dubai International Financial Centre (DIFC) - had an active year, completing three transactions. The investee companies are in the technology, human resources and F&B sectors, based in the Netherlands, UK and US respectively.

Close to the year-end, we announced the first closing of the SC Private Equity Global Co-Investment Master Fund II, with a target size of \$175 million and a focus on co-investments in mid-market, high growth opportunities in the Americas, Europe and Asia.

**Risk Management**

The Risk Management department provides risk assessment for processes, investment instruments and asset managers. In overseeing SEDCO Capital's responsible approach to investment, the department has defined the firm's Prudent Ethical Investment philosophy, which combines Shariah-compliant principles with the tenets of ethical and responsible investment.

The department also quantifies operational, market and business risk across portfolios and products; conducts research to deliver the theoretical bedrock for the firm's investment ethos; maintains oversight of the firm's investing activities; and takes the lead in refining these guidelines and practices.

There are regular reviews of operational and investment risks, quarterly risk issues and credit. Self-reporting and process mapping workshops are held with various departments, while there are regular risk reviews for the Luxembourg platform, CMA-registered products, client portfolios and service providers.

**Finance and Treasury**

The Finance and Treasury Department oversees the firm's financial platforms, book-keeping, proprietary investments, budgeting activities and reporting systems. It also manages liquidity and funding requirements, while maintaining key relationships with banks, external auditors, Zakat consultants, tax authorities and counterparties. The department routinely draws on economic analysis to improve the firm's business strategies and to ensure that the business runs effectively and with minimum disruption.

This analysis helps to benchmark the firm's performance versus industry peers and the market, helping the management team to make informed business decisions and develop data-driven strategies.

The department produces performance reports to ensure that management decisions align with the firm's strategy, as well as to optimize costs and maximize profitability. Feasibility and forecasting analysis are used to assess the firm's financial health, to mitigate any challenges and to estimate future financial success.

Finance and Treasury also periodically generates reports to highlight business investment opportunities. Effective cash flow management ensures the adequate and timely provision of funds for the firm's operations and capital expenditure planning, as well as to facilitate investments and capitalize on business opportunities.

**Compliance, Anti-Money Laundering, Shariah Monitoring and Governance**

The Compliance and Anti-Money Laundering and Governance department ensures regulatory adherence throughout the firm. In setting stringent policies and procedures to maintain leadership in this area, there is a strong emphasis on fighting financial crime, including money-laundering and terrorist financing.

Central to the department's role is to build and maintain strong relationships with regulators, specifically the Capital Market Authority (CMA) and the Commission de Surveillance du Secteur Financier (CSSF) for external compliance. The department's highly experienced team also collaborates closely with management to develop and strengthen control mechanisms.

Annual training programs enhance compliance and build awareness among all employees of Anti-Money Laundering/Countering the Financing of Terrorism (AML/CTF). Each program illustrates the roles and responsibilities of each employee in terms of compliance and in fighting financial crime.

The firm was subject to due diligence by one of the sovereign funds in 2022, achieving satisfactory results and reflecting the success of obtaining the respective mandate.

Shariah monitoring refers to the process of observing and ensuring compliance with Islamic principles and rules. The process involves conducting regular assessments and audits to ensure that products, services, investments and operations comply with Shariah requirements.

SEDCO Capital's corporate governance objectives include maintaining and enhancing shareholders' interests, protecting stakeholders' rights, and ensuring our long-term sustainability. Corporate governance involves defining the roles and responsibilities of the various parties involved in decision-making and establishing mechanisms for oversight and control.

**Operations**

SEDCO Capital's Operations department offers a broad range of services, to the highest international standards, by investing in human capital and technology.

The department's activities include fund and DPM administration; client reporting; trade matching; reconciliation; screening and selecting different service providers and maintaining the Investment Book of Record (IBOR) and Accounting Book of Records (ABOR).

## Corporate Review

Among the year's highlights were the expansion of the IT infrastructure to achieve greater automation of fund administration; improvements to the firm's client reporting procedures by automating invoicing and reconciliation; and further innovation and evolution of investment structures to streamline the execution of client, investment, and fund transactions.

### Human Resources

The Human Resources department's mission is to provide best practices and quality services to the firm's employees, while ensuring a unified culture. The department's main duties are to hire qualified personnel to predetermined standards; to create a healthy pipeline of future leaders and successors; to develop a training and development plan to promote individual success that will build the firm's overall value; and to offer a competitive reward and compensation scheme.

The department completed several key initiatives in 2022, including upgrading the firm's pay structure to help it compete more effectively against peer groups. We also conducted an engagement survey to assess 15 tailored dimensions across the organization, which garnered an excellent response and a number of valuable insights. Through our Women's HR Leadership Program - prepared in collaboration with a renowned business university - we continued to deploy innovative schemes to empower the firm's senior female managers.

Two other projects were initiated in 2022: succession planning and Board assessment. Effective succession planning avoids disturbing business operations by maintaining an efficient process for fulfilling critical roles within the firm. Board assessment allows the firm to gauge the Board's effectiveness and develop plans, as necessary, to enhance its leadership and governance capacity.

### Information Technology

Information technology is a key strategic driver, promoting the effective stewardship of a secure, highly reliable technology infrastructure with high-quality services and support to meet the requirements of the business.

Against the backdrop of a growing number of cyber-attacks, the firm has invested in technology, people, and processes, in collaboration with our vendors, to strengthen our security against such incidents. These enhanced cybersecurity measures include robust security protocols with state-of-the-art tools to protect sensitive data and systems from cyber threats.

We also conduct regular cybersecurity awareness sessions and have launched anti-phishing campaigns to raise employee awareness of the threat. In addition to the cybersecurity team's efforts, we hired an external consultant to conduct a site survey and penetration testing of our IT infrastructure and applications to protect our clients' data.

In terms of technology, further multiple layers of security - hardware, software, tools, and techniques - are managed, controlled, and checked as a matter of routine.

IT's effective troubleshooting and timely support to users has ensured that occasional technical issues have been quickly resolved. As a result, IT services, including the network, firewalls, disaster recovery, email, and backup, remained uncompromised, without a single incident or high-risk audit observation.

Oracle web-based applications, which automate certain internal processes, have further increased productivity, and enhanced the work environment, while complying with regulatory body requirements.

### Business Continuity

SEDCO Capital has a Business Continuity Plan (BCP) that can be activated quickly in response to events that might have a significant impact on the business. Since the timing and impact of disasters and disruptions are unpredictable, we need to be flexible when responding to actual events as they occur. The BCP ensures the effective management of risk to enable the firm to operate with minimal disruption in the event of an incident.

We use employee training and testing to verify that the necessary resources for the recovery of all critical business functions are in place and can operate to the required recovery specifications. While using cost-effective and technologically proven systems, equipment and techniques, the Risk department regularly updates the firm's recovery plans and technology to minimize the time required to recover from a disruption.

### Internal Audit

Internal Audit acts as an independent, objective assurance and consulting function. By applying a systematic approach to evaluating the effectiveness of the risk management, control and governance processes, the department adds value to the firm's operations.

Internal Audit exercises its responsibilities against the applicable standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (IIA). The department functionally reports to the Audit Committee, which is appointed by the Board. Its purpose, authority and responsibilities are formally defined and approved in the Internal Audit Charter.

During 2022, Internal Audit completed all assignments and tasks, including regulatory and process reviews and management requests, in line with the risk-based audit plan approved by the Audit Committee. All audit findings and observations raised during the year were presented to the committee, together with management action plans and their targeted closure dates.

### Product Development

The Product Development department turns ideas and insights into investment tools that align with market opportunities and investor appetites. We play a strategic role in developing and structuring new opportunities into innovative investment solutions. Feasibility studies are conducted and then we collaborate with other departments to ensure the necessary tools are in place to develop new products and offer them to the market.

In 2022, we continued to undertake new international and local projects and, importantly, started the migration of liquid strategies under SCLux to SEDCO Capital Global UCITS.

We also launched SEDCO Capital Global Co-investments Fund II in the Cayman Islands and successfully held the first closing of the Fund with \$62.7 million.

At a local level, our department structured and developed the second capital increase of SC REIT. The team has also registered the international strategies under SCLux with the Capital Market Authority, for distribution within the Kingdom.

As a new initiative, we are exploring new themes such as multi asset, private debt and other income generating assets.

### Legal

The Legal department manages SEDCO Capital's legal affairs and those of its subsidiaries and funds in the various jurisdictions in which it operates. Its primary responsibilities include safeguarding SEDCO Capital's assets, reputation and operations against legal risks arising out of its business relationship agreements, transactions, compliance with applicable laws and litigation.

### Middle Office

The Middle Office department fulfils a series of key functions, such as ensuring that all compliance requirements have been completed, comprehensive reporting to clients, and attending to product-related Board meetings.



## USD1.75bn

SCLux assets under management remained stable at about \$1.75 billion, despite a 24% drop in public equity market performance.



**In 2022, we started the migration of liquid strategies under SCLux to SEDCO Capital Global UCITS.**



## Corporate Review

The department oversees the full range of fund administration, from management meetings to annual assemblies, record-keeping and the preparation and approval of agreements. It is also responsible for supporting marketing, business development and product development. This includes preparing periodical publications and new business proposals, to customer care and dealing with complaints.

Reporting is a multi-faceted task, covering financial statements to reporting to the regulator and making public announcements concerning the firm and its funds.

Product development includes the preparation of documents and marketing packages, market studies and analysis, updating and maintaining fund documents, creating and maintaining charters, and maintaining special purpose vehicles for global funds.

### Marketing and Communications

Throughout 2022, SEDCO Capital engaged with prominent local, regional and international media to raise awareness of our achievements and consolidate our reputation as a leading asset management firm. These activities yielded regional and international media coverage around major news announcements and key achievements including, notably, the successful first closing of SEDCO Capital's Private Equity Global Co-Investment Master Fund II.

We also boosted our thought leadership profile on relevant investment topics and market trends, increasing our share of voice, and showcasing the firm's strength in depth, by fielding spokespeople for high-profile media opportunities in key markets.

The Chief Investment Officer's interview with Citywire Middle East, for example, offered valuable insights into Shariah-compliant investments and the firm's proprietary Prudent Ethical Investment (PEI) approach.

We also pursued thought leadership opportunities through panel discussions and industry roundtables, positioning SEDCO Capital's executive team as trusted voices in Shariah-compliant and sustainable investments.

The CEO's participation in the FT Future of Asset Management Europe event enhanced the firm's visibility in Europe and provided an opportunity to publicize compelling multimedia content on international platforms, including the Financial Times and leading social media channels.

The Chief Risk Officer's involvement as a panel speaker at the Global Islamic Finance and the United Nations SDGs Series 2022, and the Deloitte webinar - 'ESG and responsible investing - what is happening in the Middle East?' - helped to underscore the firm's expertise and its unwavering commitment to responsible investment.

Accolades such as the GIFA Market Leadership Award (Islamic Asset Management) 2022, and the firm's listing in the Forbes Top 30 Asset Management Companies, were welcome third-party endorsements of our industry leadership.

We also actively built our social media presence, creating engaging content and connecting with broader audiences on platforms such as Twitter and LinkedIn. By sharing key findings from the Eyes on Markets report, using creative visuals, we elevated the effectiveness of our monthly market analysis, further establishing SEDCO Capital as an authoritative thought leader.

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