

FALCOM Saudi Petrochemical ETF is an Open-Ended Investment Fund listed in the Saudi Stock Market (“Tadawul”). The Investment Fund represents contractual arrangement based on Agency (Wakala) contract between the Fund Manager and the Investors established by virtue of the approval of Capital Market Authority on 11/07/1431AH corresponding to 23/06/2010 AC.

The Fund abides by the provisions of the Investment Funds Regulations and ETF Instructions issued by the Capital Market Authority, its amendments, appendixes and any directives issued by the Capital Market Authority as related thereto.

### **Fund Manager**

#### **FALCOM for Financial Services ("FALCOM")**

FALCOM is a Juridical Licensed Person by virtue of license No. 37-20-060 dated 29/4/1427H under the Regulations of the Licensed Persons issued by the Capital Market Authority.

## **FALCOM Saudi Petrochemical ETF (the “Fund”)**

### **THE INFORMATION MEMORANDUM**

The prospective investors must carefully read the contents of this “Information Memorandum” and the Fund’s “Terms and Conditions”, published separately, and acquaint themselves with the risks involved in the investment, take the advice of their professional advisors and should satisfy any regulatory requirements prior to investing in the ETF.

**23/06/2010**



## Disclaimer

The Capital Market Authority (“CMA”) has approved the issuance and offering of the ETF Units and listing of the ETF Units on the Saudi Stock Exchange (“Tadawul”) however the Authority’s approval must not be interpreted as a recommendation by the CMA for purchasing the ETF Units or investing in the Fund.

The Capital Market Authority shall not be responsible for the accuracy of the information disclosed in the Information Memorandum and the Fund’s Terms and Conditions.

The Capital Market Authority shall not be responsible for any losses that may incur as a result of investing in the Fund.



*In the Name of Almighty Allah, the Merciful and Benevolent  
Thanks Almighty Allah and Peace be Upon the Prophet*

## Notice to Investors

(Whenever the text requires so the use of any pronoun in this document would contain the male and female gender and the singular will include the plural and vice versa).

**This Information Memorandum is furnished to prospective Investors so that they may consider the opportunity to invest in the Units of the Fund. Prospective investors are requested to carefully read contents of this document and the “Terms and Conditions” of the Fund, published separately, prior to taking any decision to invest in the Fund. The Units of the Fund will be listed on the Saudi Stock Market (“Tadawul”) for trading in the exact fashion of stocks of listed companies.**

The Fund invests in the investment universe of the Benchmark Index, FSPI Falcom Saudi Petrochemical Index, which consists of Sharia’h compliant shares of all companies in the Petrochemical sector of Saudi Stock Exchange (“Tadawul”).

The Fund aims at replicating the performance of the Benchmark index before any income, fees or expense. However, there are no representations or warranties that the Fund performance, at any time, will fully match the performance of the Benchmark Index.

The composition of the Benchmark Index and relative weights of underlying assets may change and the component securities of the Index may be delisted.

The prospective investors should carefully consider the goals of the investment, the potential risks factors and the fees and expenses of the Fund prior taking any decision of investing in the Fund. Such information is available in the Terms and Conditions which could be obtained free of charge from the Fund Manager.

The Fund may be exposed to the investment risks like other investments. The prospective investors are to carefully review potential risk factors as indicated under section "Principal Risks of Investment in the Fund" of the Information Memorandum.

The contents of this Information Memorandum and the Fund’s Terms and Conditions should not be construed as investment, legal or tax advice. The information provided by the Fund Manager does not constitute an offer, solicitation of Units or an advice to purchase Units in the Fund.

The individual investors can buy and sell their Units on Tadawul through licensed broker and dealers. The price of the Fund Unit will be determined by the supply and demand factors in the market and it could be more or less than the net asset value per unit.

The buying of ETF Units on the exchange will be considered as an acceptance by the investor of the ETF’s “Terms and Conditions”.

The payment of Zakat shall be the sole responsibility of the Investors. The Fund Manager or the Fund will not calculate, pay out or be responsible for calculating/ paying of Zakat on the investments or on any capital appreciation derived there from.

The Board of Directors of the Fund, whose names appear herein, collective and individually, accept the responsibility for the information contained in the Information Memorandum and Fund “Terms and Conditions”. To the best knowledge and belief of the Board of Directors of the Fund, who has taken all reasonable care to ensure that such is the case, the information contained therein is in accordance with the facts and contains no omission likely to affect the information and adequacy of the same.

The approval of the Capital Market Authority for the offering of the Fund has been issued on 11/07/1431H corresponding to 23/06/2010 C. The Capital Market Authority has approved the listing of the Fund's Units in the stock market on 11/07/1431H corresponding to 23/06/2010 C.

All the information in this Information Memorandum and the Fund’s Terms and Conditions have been given as of the date of issuance, unless expressly otherwise specified herein.

This document, the Information Memorandums, is not construed as complete and it does not include all the information related to the Fund and must be read in conjunction with the Terms and Conditions of the Fund that can be obtained free of charge from the Fund Manager’s offices.

The Information Memorandum and Terms and Conditions of the Fund are the lawful property of the Fund Manager. Therefore, these may not be distributed or copied, as a whole or in part, nor may any of its contents be disclosed without prior written permission from the Fund Manager and may not be used except for the purpose that stipulates its issuance.

## Fund Salient Features

### Name of the Fund

FALCOM Saudi Petrochemical ETF

### Fund Manager

FALCOM Financial Services

Prince Mohammed Bin Abdulaziz Road (Tahilyah)

P. O. Box 884, Riyadh 11421

[www.falcom.com.sa](http://www.falcom.com.sa)



### Market Maker

FALCOM Financial Services

### Custodian and Administrator

FALCOM Financial Services

### Index Provider

Saudi Stock Exchange (“Tadawul”)



### External Auditor

PricewaterhouseCoopers

King Faisal Foundation Bldg.

Tel. No. +966-1-4654240

P.O. Box 8282, Riyadh 11482



## Fund Summary

**Name:** FALCOM Saudi Petrochemical ETF

**Currency:** Saudi Riyal

**Risk:** High

**Benchmark Index:** FSPI Falcom Saudi Petrochemical Index

**Investment Objectives:** FALCOM Saudi Petrochemical ETF aims to provide investors with long-term capital appreciation and growth by way of passively investing in the listed equities of Petrochemical sector of Saudi Stock Exchange (“Tadawul”). The Fund seeks to achieve the results that correspond to the performance, before fees and expenses, of the Benchmark Index.

**Investment Strategy:** The Fund is passively managed by way of fully investing, barring a small cash portion, into the components of Benchmark Index in the same weightings with the aim of replicating the performance of the Index

**Minimum Creation and Redemption for Market Maker:** One Block of 25,000 ETF Units

**Initial Offering Size for Market Maker:** SAR. 500,000 per Creation Unit

**Initial ETF Unit Value:** SAR. 20

**Days of receiving the requests for Creation and Redemption of ETF Units:**  
Each Business Day before 15 minutes of the market close

**Valuation Point:** Net Asset Value (NAV) daily at the End of Day and Indicative Net Asset Value (iNAV) to be disseminated at Tadawul and the Fund Manager website every 15 seconds during trading hours

**Subscription Fees:** None

**Management Fees:** 50 Basis Points per annum of the NAV (Excluding Custodian, Index Provider and other fees and expenses)  
In all cases, Total Expense Ratio (TER) will not exceed 1% of Fund’s average NAV

**Auditor's Fees:** SAR 20,000 per annum

**Date of Initial Offering:** 05/07/2010 AC

Individual Investors may buy and sell individual ETF Units directly through Saudi Stock Exchange (“Tadawul”)

## Table of Contents

	Definitions	9
	Fund Description	14
1	Name of ETF	14
2	Fund Constitution	14
3	Fund Investment Objective	14
4	Principal Investment Strategy and Policies	14
5	Description of the Benchmark Index	17
6	Principal Risks of Investment	20
07	Characteristic of ETF Units	23
08	Primary Market Operations: Procedures of Creation and Redemption	23
09	Secondary Market Operations: Buying and Selling of ETF Units	25
10	Valuation of Fund	26
11	Distribution Policy	27
12	Fees and Expenses	27
13	Regulator	28
14	Dealing Costs	29
15	Fund Manager	29
16	Custodian	30
17	Market Maker	31
18	Auditors	32
19	The Fund Board of Directors	32
20	Conflicts of Interests	33
21	Register of Unit holders	34

22	Rights & Liabilities of Unit holders	34
23	Reporting to Unit holders	35
24	Winding up of Fund	35
25	Complaints Procedures	36
26	Fund Financial Statements	36
27	Liquidation and Appointment of Liquidator	36
28	Modifications to the Terms and Conditions of Fund	36
29	Governing Law	37
30	Compliance with Investment Funds Regulations	37
31	Fund Manager's Indemnity	37
32	Appendix (1): Conflict of Interest Statement	38
33	Appendix (2): Index Components and Weightings	39
34	Appendix (3): ETF Basket	40



## Definitions

Administrator	Administrator is the party that carries out the set of activities needed to support the running of the Fund. These activities include, but not limited to calculating and disseminating NAV and iNAV, calculation and maintenance of Fund's records and expenses etc. Falcom Financial Services acts as the Fund Administrator for the Fund.
Authority	Capital Market Authority ("CMA") in the Kingdom of Saudi Arabia.
Basket of Shares	List of stocks and their respective quantities, whose value along with cash portion is equals to the value of a Block of ETF Units.  Fund manager disseminates information on the Basket of Shares on each business day basis.
Benchmark Index	The Index performance of which the Fund seeks to replicate. Fund invests in the components of this Index in the same proportion
Block of ETF Units	Equals 25,000 ETF Units
Business Day	Each day on which Banks and Exchange are open for regular exchange and banking activities in the Kingdom of Saudi Arabia.
Cash Portion (Per Block of ETF Units)	$\frac{\text{Total Fund's Cash \& Cash Equivalents} - \text{Fund's Total Liabilities}}{\text{Total Number of Outstanding ETF Units}} \times 25,000$
Commencement Date	Determined date for commencement of accepting requests for Creating Units in the Fund.
Creation	Means creating new ETF Units via primary market operation
Creation Unit	A reference to a Block of ETF Units, that a Market Maker receives from Fund Manager (via Custodian) in exchange of the basket of shares plus cash portion for creation of ETF Units.
Custodian	A person who is authorized under the Authorized Persons Regulations of the Authority to conduct the securities activity of custody.  FALCOM Financial Services will be the Custodian for the Fund.
ETF Unit(s)	Non-voting measurable investment Units in the Fund that represent proportional participation in the Fund's assets.

Exchange	The Saudi Stock Exchange including where the context permits any committee, sub-committee, employee, officer, servant or agent to whom any function of the Exchange may for the time being be delegated, and “on Exchange” means any activity taking place through or by the facilities provided by the Exchange.
Exchange – Traded Fund (ETF)	<p>A Collective Investment Scheme with variable capital that issues Units. ETF Units are listed in the exchange and are traded like shares of listed companies.</p> <p>ETF Units are Created and Redeemed in blocks of Units on in-kind basis against a basket that comprises underlying stocks and Cash portion.</p>
FALCOM	FALCOM Financial Services
FALCOM Financial Services	<p>A Saudi Closed Shareholding Company incorporated under the Ministry of Commerce &amp; Industry’s decree number 3488 dated 20/11/1427 AH.</p> <p>Falcom Financial Services is a Juridical Person licensed by the Capital Market Authority under license number 37-060 -20 dated. 29/04/1427 and complies with the terms of the Licensed Persons Regulations issued by the CMA.</p>
Financial Year End	<p>12-month calendar period, ending December 31, over which the Fund reports its annual performance and profits.</p> <p>Financial year for 2010 ending December 31, 2010 will be shorter than 12 months depending upon the Fund launch date.</p>
Fund Director	An individual appointed as a member of a fund board of an investment fund in accordance with the Investment Funds Regulations.
Fund Manager	<p>An authorized person that is authorized to carry on managing activities under the Authorized Persons Regulations and is responsible for the administration, custody and management of the assets of an investment fund.</p> <p>FALCOM Financial Services will be the Fund Manager for the Fund.</p>
iNAV (Indicative Net Asset Value)	<p>iNAV is the value of the Fund at a particular point in time during trading hours.</p> <p>iNAV is calculated as total value of all Fund holdings using last trade prices plus Cash (&amp; Cash Equivalents) minus all Accrued Charges as of the last business day’s NAV.</p>

iNAV per Unit (Indicative Net Asset Value Per Unit)	Fund's iNAV divided by the total number of outstanding ETF Units. iNAV per Unit is disseminated every 15 seconds during trading hours by the Fund Manager.
Independent Fund Director	A fund director who; is not an employee of, or a director of the fund manager or any of its affiliates, or any sub-manager or custodian for a fund on whose fund board the director serves; and does not have a material business, or contractual relationship with the fund manager or any sub-manager or custodian for such fund.
Index Component	Each of the shares comprising the Benchmark Index;
Index Provider	The party that is officially responsible for setting the rules, computing, maintaining and disseminating the Benchmark Index.  For the Fund, the Saudi Stock Exchange ("Tadawul") is the Index Provider.
In-Kind basis	Exchange of ETF Units with underlying stocks and the cash portion of a Creation and/or Redemption Unit
Market Maker	A person authorized by the Authority for Dealing, in the capacity of principal.  All primary market operations will be undertaken through authorized Market Maker(s)  FALCOM Financial Services will be the Market Maker for the Fund.
Market Maker Agreement	An Agreement between the Fund and Market Maker that allows Market Maker to exchange ETF Units with a basket of underlying stocks and cash AND vice versa with Fund Manager through Custodian.
Investment Funds Regulations	Investment Funds Regulations issued on 03/12/1427 AH corresponding to 24/12/2006 AC by the Capital Market Authority in the Kingdom of Saudi Arabia.
NAV ( Net Asset Value)	Fund Net Asset Value (NAV) is the value of the Fund at the end of each business day.  NAV is calculated as total value of all Fund holdings using Closing prices plus Cash (& Cash Equivalents) minus all Accrued Charges calculated as of end of the business day.

NAV per Unit (Net Asset Value per Unit)	Fund's NAV divided by the total number of outstanding ETF Units. NAV per Unit is calculated and disseminated at the end of each business day within two hours from the time of market close.
Operation Date	Effective date when the Fund starts its operations – which succeeds the date of closing the initial offering period for the Creation Units of the Fund or any other date as determined by the Fund Manager.
Operations	Means all the transactions of the Fund including Creation and Redemption of ETF Units, sale and purchase of investments in the index portfolio etc.
Participants	Holders of Fund's Units
Primary Market Operation	Refers to the activity of creation and redemption of ETF Units done between the Fund and the authorized Market Maker(s).
Redemption	Means redeeming or cancelling of ETF Units via primary market operation
Redemption Unit	A reference to a Block of ETF Units, that a Market Maker offers to Fund Manager (via Custodian) to be exchanged with the Basket of shares plus cash portion for redemption of ETF Units.
Regulations	Investment Funds Regulations and any guidelines thereof.
Regulator	Capital Market Authority (“CMA”) in the Kingdom of Saudi Arabia.
Saudi Laws	The laws and regulations prevail in the Kingdom of Saudi Arabia.
Secondary Market Operation	Refers to buying and selling of ETF Units on Tadawul.
Tadawul	The Saudi Stock Exchange.
Terms and Conditions	The contracts containing those disclosures and provisions required by Article 15 of the Investment Funds Regulations.
Tracking Error	Percentage amount a fund's performance deviates from its benchmark index.  Tracking Error is measured as the standard deviation of difference between daily return of the Fund and that of the Benchmark Index.

The Fund	FALCOM Saudi Petrochemical ETF (the “Fund”) is an open-ended collective investment scheme that is allowed to list and trade its Units in the Saudi capital market pursuant to the approval issued by the Capital Market Authority.
Underlying Assets	All assets of the Fund including stocks and cash.
Underlying Stocks	Stocks held in the Fund
Unit Price	Market value of ETF Unit determined by the forces of demand and supply.
Units	Same as ETF Units (see definition above.)
Units holders	Holders of Units of FALCOM Saudi Petrochemical ETF.
Valuation Day	The day on which the NAV of FALCOM Saudi Petrochemical ETF is determined and is agreed to be all business days of Saudi Arabia.



## FUND DESCRIPTION

1	<b>Name of ETF</b>	FALCOM Saudi Petrochemical ETF
2	<b>Fund Constitution</b>	<p>a) The Terms and Conditions of the Fund has been issued on 11/07/1431 H corresponding to 23/06/2010 C.</p> <p>b) The first Creation Units are offered on 23/07/1431 H corresponding to 05/07/2010 C (the commencement date).</p> <p>c) The ETF Units will be listed and start trading on Tadawul on 28/07/1431 H corresponding to 10/07/2010 C.</p>
3	<b>Fund Investment Objectives</b>	FALCOM Saudi Petrochemical ETF aims to provide investors with long-term capital appreciation and growth by way of passively investing in the listed equities of Petrochemical sector of Saudi Stock Exchange (“Tadawul”). The Fund seeks to achieve the results that correspond to the performance, before fees and expenses, of the Benchmark Index.
4	<b>Principal Investment Strategy and Policies</b>	<p><u>Fund Investment Strategy</u></p> <ol style="list-style-type: none"> <li>1) The Fund invests at least 95% of its assets in equities of petrochemical sector that are Shariah-compliant, listed and traded on Tadawul in the Kingdom of Saudi Arabia.</li> <li>2) The Fund will passively invest in the components of FSPI Falcom Saudi Petrochemical Index, the Benchmark Index, however Fund rebalancing activities will be undertaken periodically (at least once a quarter) to ensure proper tracking of performance of the benchmark index and keeping of adequate cash in the Fund.</li> <li>3) The Fund will invest in the components of Benchmark Index in the same weights and proportions while keeping adequate amount of cash to account for the Fund expenses and liabilities on ongoing basis.</li> <li>4) Unlike many mutual funds, the Falcom Saudi Petrochemical ETF does not try to “beat” the Benchmark and does not seek temporary defensive investments when the market declines or appears overvalued. The Fund seeks to replicate the performance of the Benchmark Index.</li> <li>5) The Fund manager will assess appropriateness of the Benchmark Index at least on an annual basis in order to ensure that the overall Fund objectives of long-term growth and capital appreciation are appropriately achieved.</li> </ol>

		<p><u>Fund Investment Policies</u></p> <ol style="list-style-type: none"> <li>1) The Fund seeks to replicate the performance of the Index by way of keeping a minimum tracking error.</li> <li>2) Fund manager will aim at maintaining a maximum annual tracking error of 1%, after considering all income, fees and expenses.       <ol style="list-style-type: none"> <li>i. Tracking Error is measured as the standard deviation of the difference between daily return of the Fund and that of the Benchmark Index.</li> </ol> </li> <li>3) The Fund seeks to achieve a correlation coefficient of 0.99, on annual basis, between the daily return of Benchmark Index and that of the Fund.</li> <li>4) The Fund will only Create and Redeem on in-kind basis i.e., the basket of stocks along with a small cash portion. Details of Creation Unit i.e., the basket of stocks and cash will be announced by Fund Manager on daily basis.</li> <li>5) Fund will participate in the Corporate Actions of its investments in the best interest of ETF Unit holders. For instance, when offered, Fund will subscribe to the right issues of any of its underlying stocks whereas the Index will also be rebalanced accordingly, taking care of tracking error concern. The required cash for exercising rights, as needed, will be generated by proportionately selling off the existing equities in the Fund (Proportionately means that after selling off, the weights of the underlying stocks remains approx. same as that of the Benchmark Index). Accounting for rights issue and other corporate actions will be carried out as per industry norms and Generally Accepted Accounting Principles.</li> <li>6) Dividends received from the companies held by Fund will primarily be kept in the Fund for fees and expenses etc. Refer to Dividend Distribution Policy elsewhere in the document for details.</li> <li>7) In case of other corporate actions such as mergers, acquisitions etc, Fund manager will take action in the best interest of unit holders. However, if a material discrepancy between ETF weights and index weight arises due to corporate actions, FM will rebalance the ETF accordingly.</li> </ol>
--	--	--

		<p>8) Fund itself will not take Shariah compliance certification of the equities. The Benchmark Index is Shariah Compliant and Fund will only invest in the components of the Benchmark Index. The Index screens stocks for Shariah Compliance on quarterly basis and deletes the stocks that become Non-Shariah compliant. Accordingly, Fund will also be rebalanced however, Fund Manager will keep investor's best interest while selling off the non-Shariah compliant stock. Fund will then buy stocks in order to be back in proportion with Index's allocation.</p> <p>9) In case of change in Index (deletion / addition of stocks), Fund manager will seek to bring the Fund investments back in line with that of Index by way of rebalancing.</p> <p>10) The Fund may temporarily suspend the Creation and Redemption of Units during the Fund's rebalancing phase.</p> <p>11) The Fund is authorized to invest only in the equities of companies that are Shariah Compliant, listed and traded on Tadawul and are part of Tadawul's Petrochemical Sector.</p> <p>12) The Fund may invest the cash in short term money market instruments e.g., Murabaha as deemed suitable by Fund Manager in view of Fund's investment objectives.</p> <p>13) The Fund is not authorized to lend to any person</p> <p>14) The Fund is not authorized to borrow; thus Fund Manager will not engage in any activity that can be deemed as a borrowing activity.</p> <p>15) The Fund will comply with the investment limitations requirements of Article 39 of the Investment Funds Regulations issued by the Authority.</p> <p><u>Suspension of the Fund Underlying Stocks</u></p> <p>16) The Capital Market Authority may suspend the listing of security(s) held by the Fund, as it thinks fit in certain circumstance. In such event the fund will act in the following manner:</p> <p>i. Suspend the unit creation and unit redemption activity until such time the issue of listing is resolved</p>
--	--	---



		<p>ii. Adopt the alternate valuation method (fair value practice), with prior approval of CMA, to the extent it relates to the suspended security</p> <p>17) The fund will not face the risk of tracking error in short term as the suspended security will continue to remain index constituents until the update time. The close price and number of free floated shares prior to the suspension will be used for index calculations.</p> <p>18) In case the suspension continues beyond the update time both index and the Fund will delete the security at the update time.</p> <p>19) The Fund valuation will follow the rule of conservatism and adopt the methodology that reflects the fair value of Fund assets.</p> <p>20) Tracking Error: Since the Fund seeks to replicate performance of the Benchmark Index in order to achieve its investment objective of long-term capital appreciation and growth, the key risk is that of undesirable tracking error. The Fund manager has adequate tools available (for instance, spreadsheet based correlation models etc) to assist with modeling and estimation of tracking error. Fund manager will review the tracking error on ongoing basis in order to mitigate this risk.</p> <p>21) Liquidity Risk: ETF Units are listed on Tadawul for individual investors to buy and sell at any time during trading hours. Fund manager has made agreement(s) with Market Maker(s) to provide liquidity. Market Maker(s) are to provide offer two way quotes on Tadawul with a maximum bid-ask spread of 2%. The Market Maker faces the price risk while creating and redeeming of ETF Units due to potential untoward price movement of the component stocks. To mitigate this risk Fund has provide Market Makers with “instant creation and redemption” enabling them to have access to the created ETF Units and Component basket of stocks almost instantaneously via respective Creation and Redemption process.</p>
5	<b>Description of Benchmark Index</b>	<p>1) Name of the Benchmark Index is FSPI Falcom Saudi Petrochemical Index.</p> <p>2) FSPI Falcom Saudi Petrochemical Index tracks the performance of all Shariah compliant Petrochemical sector equities of Saudi Stock Exchange (“Tadawul”) and weighted by free float market capitalization.</p>

	<p>3) The components and their respective weightings of the benchmark index are provided in Appendix 2 as of July 04, 2010. (The ETF Basket as of July 04, 2010 is attached as Appendix 3)</p> <p>4) Tadawul is the Index Provider.</p> <p>5) Index Value will be calculated using the closing prices.</p> <p>6) Liquidity criteria: The number of non-trading days for a stock must be less than or equal to 7 for it to be eligible for inclusion in the index.</p> <p>7) Shariah Compliance: For inclusion in Benchmark Index, the stocks are assessed for Shariah compliance by FALCOM Shariah Board once companies announce their financial result on Gregorian calendar quarterly basis. The Shariah compliance list is generally prepared in between quarter ends.</p> <p>8) The information on the Index is available at both of “Tadawul” and FALCOM websites.</p> <p>9) The value of Index will be updated every 15 minutes on Falcom’s website during Tadawul trading hours.</p> <p>10) Modification to the Benchmark Index: The Index will be modified as per Tadawul’s Customized Index Terms: A quarterly review is carried out on the first Saturday after the end of each Gregorian calendar quarter with respect to the following:</p> <ul style="list-style-type: none"> <li>i. Updating Free Floating Shares: The number of free floated shares is updated at the end of the each Gregorian calendar quarter. In between Quarter ends adjustment are made to free float share due to any corporate action. Continuity in the indexes value is maintained by adjusting the company’s market capitalization to account for the difference in the number of free floated shares.</li> <li>ii. Modification to components is made in between quarters upon Shariah Compliance certification.</li> <li>iii. Suspension: Suspended companies will continue to remain index components until the update time. The close price and number of free floated shares prior to the suspension will be used for index calculations.</li> </ul>
--	---

		<p>iv. Delisting: If a component company gets delisted, it will be deleted from the Index on the delisting date at any time between quarterly reviews.</p> <p>11) In event of that Index Provider is unable to continue to provide the Benchmark Index service, the Fund Manager will seek to move to another Index Provider in a reasonable time frame.</p> <p>12) Benchmark index for the Fund will not be changed. However, the Index will be reviewed at least annually to assess the appropriateness of Index in serving the overall purpose of achieving Fund investment objectives.</p> <p>13) Shariah Guidelines: Following are the general guidelines that are followed by FALCOM Shariah Board for Shariah Compliance certification of companies:</p> <p>1. <u>Activities Related Guidelines</u></p> <p>i. equities of companies that are involved in impermissible activities such as:</p> <ul style="list-style-type: none"> <li>- interest bearing financial activities such as conventional banks activities or dealing in interest bearing financial instruments;</li> <li>- producing, distributing and marketing of impermissible products such as cigarettes, cigar and such alike.</li> <li>- production and publication of pornographic films, books and profligacy, irreligion periodic and such alike.</li> <li>- derivatives, including but not limited to, options, futures, swap and preferable shares;</li> </ul> <p>ii. forward currency transactions;</p> <p>iii. equities or other securities issued by companies whose income from activities relating to any of the following sectors:</p> <ul style="list-style-type: none"> <li>a. conventional banking or insurance or any other interest related activity;</li> <li>b. the manufacture or distribution of alcohol products;</li> <li>c. the manufacture or distribution of arms;</li> <li>d. gambling;</li> <li>e. the production, packaging, processing or any other activity relating to pork or pork products and other non <i>halal</i> meat;</li> <li>f. resorts and hotels that provide non Halal</li> </ul>
--	--	---

		<p>(impermissible) services;</p> <p>g. manufacturing, marketing and distributing of liquor, drugs and such a like; or</p> <p>2. <u>Financial Matters Related Guidelines</u> Companies with the following financial ratios:</p> <p>i. Total interest bearing debt divided by market value of its assets is greater than 33%. (Note: total debt = short term debt + current portion of long term debt + long-term debt);</p> <p>ii. Cash, bank deposits and short term interest bearing securities divided by market value of its assets is greater than 33%; or</p> <p>iii. The sum of interest bearing income from interest or other impermissible sources divided by total income of the company is greater than 5%.</p> <p>14) FALCOM Financial Services Shariah Advisory Board: Following are members of FALCOM Financial Services Shariah Advisory Board:</p> <p>i. Shaikh/ Abdallah Ibn Sulaiman Almanie</p> <p>ii. Dr. Mohammed Ibn Ali Al Garie</p> <p>iii. Dr. Hamad Ibn Abd Al Rahman Al Junaidil</p>
6	<b>Principal Risk of Investing in the ETF</b>	<p>Investors should consider the following risk factors (not to be considered as the exhaustive list) associated with investing in the FALCOM Saudi Petrochemical ETF, which may cause them to lose money.</p> <p>1) <b>Investment Risk.</b> An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount. The Fund Manager does not make any warranty or representation that the stated investment objectives of the Fund will be achieved.</p> <p>The investment in the Fund will not be considered as deposit at any local bank marketing or selling the securities or belonging to the Investment Fund .</p> <p>2) <b>Equity Risk.</b> A principal risk of investing in the Fund is equity risk, which is the risk that the value of the securities held by the Fund will fall due to general market and</p>

		<p>economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate, or factors relating to specific companies in which the Fund invests. For example, an adverse event, such as an unfavorable earnings report, may depress the value of equity securities of an issuer held by the Fund; the price of common stock of an issuer may be particularly sensitive to general movements in the stock market; or a drop in the stock market may depress the price of most or all of the equity securities held by the Fund. In addition, common stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition .</p> <p>3) <b>Passive Management Risk.</b> The Fund adopts passive management method by seeking to replicate the Benchmark Index performance. The method is different than the active management method that seeks to outperform the Benchmark index performance by actively and directly selecting the shares. Thus, the Fund may retain underlying stocks regardless of the performance of the stocks or certain industry. Retaining the stocks of companies without responding to the variable circumstances and factors of the market or the performance level of certain shares may cause a decrease on the returns of the Fund .</p> <p>4) <b>Risk of Low Correlation.</b> The Fund's return may not exactly match the return of the Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Index, and may incur costs in buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Index.</p> <p>The Fund may not be fully invested into equities at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet various fees and expenses .</p> <p>5) <b>Concentration Risk.</b> The Fund's investment universe is limited only to the FSPI Falcom Saudi Petrochemical Index, which only contains equities from the Petrochemical sector of Saudi Stock Exchange ("Tadawul"). The Fund's investments will be concentrated accordingly since the Fund invests as per the Index's component allocation and weights. Thus, the value of the Fund's Units may rise and fall more than the value of shares of a fund that invests in securities of</p>
--	--	---

		<p>companies in a broader range of industries.</p> <p>6) <b>Non-Diversified Fund Risk.</b> The diversification chances of the Fund Portfolio are limited within the framework of the Index portfolio and in view of the Fund's strategy. The Fund may invest its assets in the shares of limited number of issuers in large proportions in comparison with the Funds that have chances to diversify the investment across the market. Hence, changes in the market value of few large investments could cause greater fluctuations in Unit price than would occur in a diversified fund.</p> <p>7) <b>Shariah Compliance Risk:</b> A stock is deleted from the Benchmark Index in the event of its becoming non-Shariah compliant. The investors face the risk a stock being sold by the Fund because of Shariah non-compliance which may adversely affect the performance of the Fund as and when compared to a conventional Fund which is not Shariah compliant.</p> <p>8) <b>Liquidity Risk:</b> Unlike conventional Investment Funds the Investors have the opportunity to buy and sell ETF Units on the Exchange at any time during the trading hours. However, Individual Investors can not sell ETF Units to or redeem ETF Units directly from Fund Manager. Fund Manager has executed agreements with Market Maker to provide liquidity on the Exchange by way of providing two way quote (Bid-Ask) at a maximum bid-ask spread of 2%. However, there are no warranties that the liquidity will always be available on the exchange. Market Maker, for several reasons, may not be able to continuously provide the required liquidity. Individual investors holding ETF units in sufficient quantities may contact Market Maker to arrange for the in-kind redemption of ETF Units directly from the Fund Manager, as the law permits.</p> <p>9) <b>Risk of Under-Pricing:</b> The prices of ETF Units while trading on exchange are determined by the forces of demand and supply. Fund manager at every 15 seconds disseminates iNAV, the Indicative Net Asset Value of the Fund, through out trading hours. However, due to attendant supply and demand, the prices of ETF Units will, from time to time, fluctuate from the iNAV. The market price of ETF Unit may be higher or lower than the iNAV. Thus, Individual Investors face the risk of having ETF Unit priced below its iNAV. However, generally the deviations between market price and iNAV are small.</p>
--	--	---

		<p>10) <b>Suspension of Trading of Underlying Stocks:</b> If the trading of underlying stocks gets suspended on the Exchange, the Fund Manager may be unable to disseminate iNAV, NAV and further the primary market activity of Creation and Redemption of ETF Units may get suspended. This may have adverse impact on the price of ETF Units in the market. Investor face the risk of holding ETF Units, wherein one or more of the underlying stocks are not traded in the market posing investors to untoward price and liquidity risk.</p>
7	<b>Characteristic of ETF Units:</b>	<p>1) The Fund's Units are all of the same type with the same value, privileges, rights and they have no voting right. The Fund's Units will not represent any relative equity for its holders in the underlying stocks held in the Fund – but representing proportionate share in the Fund.</p> <p>2) Each Creation Unit contains 25,000 ETF Units</p> <p>3) Each Redemption Unit contains 25,000 ETF Units</p> <p>4) Initial value for ETF Unit will be SAR.20/- (Saudi Riyal Twenty)</p> <p>5) The process of creation and redemption of ETF Units will be on in-kind basis whereby Fund Manager and Market Maker(s) will interexchange ETF Units and the Basket of shares, through custodian, for the purpose of creation and redemption of ETF Units.</p> <p>6) The Fund units will be created electronically without paper certificates.</p>
08	<b>Primary Market Operation – Procedure of Creation and Redemption:</b>	<p>1) The primary market operations can only be carried out between Fund Manager and the authorized Market Maker(s). The Creation and Redemption activities are done on the basis of blocks of ETF units only (<i>For the Fund, one block equals 25,000 ETF Units</i>), referred as Creation Unit and Redemption Unit respectively.</p> <p>Following is the brief account of the mechanism for in-kind Unit Creation.</p> <p>a) Fund Manager will disclose the details of the Creation Unit i.e., the corresponding Securities and cash on a daily basis prior to start of the trading. One Creation Unit equals to a block of 25,000 ETF Units.</p>

		<p>b) Market maker will apply to Fund Manager for the ETF Unit Creation.</p> <p>c) At the same time, Market maker will deposit with custodian the securities and cash, corresponding to the number of Creation Units that it intends to create.</p> <p>d) Fund Manager, after initial checking, will approve the Unit Creation application.</p> <p>e) Custodians will ensure that the securities and cash deposited by Market Maker appropriately correspond to the ETF Unit Creation request.</p> <p>f) Custodian will then transfer the deposited underlying securities from Market Maker account to the Fund account.</p> <p>g) Custodian will liaise with Exchange for ETF Units creation (Exchange will create and list the Units)</p> <p>h) Creation Units will then be deposited to Market Maker account.</p> <p>i) Market Maker may post the Asks in the exchange (an offer to sell) or simply keep the newly created ETF units in its inventory (<i>The maximum spread that Market Maker can have while posting bids and asks on the exchange is 2%.</i>)</p> <p>j) At End of Day, exchange will check the underlying securities and the ETF units issued for any discrepancy.</p> <p>k) In case of any discrepancy between number of ETF Units issued and number of the underlying securities received, the Custodian will make good all the differences as needed. Fund Manager will calculate the right amount of cash for the day, as per the Fund policies. Any shortfall/access in the creation of ETF units will be settled, through Custodian, with Market Maker at the end of the day.</p> <p>2) The procedure for redemption of ETF units, as follows, will be in the similar fashion:</p> <p>a) Market maker will apply to Fund Manager for redemption the ETF Units.</p> <p>b) At the same time, Market maker will deposit Redemption Unit(s) in Market Maker account with custodian that it intends to redeem.</p> <p>c) Fund Manager, after initial checking, will approve the Unit Redemption application.</p> <p>d) Custodian will ensure that the ETF Units deposited by Market Maker appropriately correspond to the ETF Unit</p>
--	--	--



		<p>Redemption request.</p> <p>e) Custodian will liaise with the Exchange for redemption of ETF Units (Exchange will redeem and delist the Units from Depository Services)</p> <p>f) Custodian will then transfer the corresponding underlying securities and the cash portion to the Market Maker's account.</p> <p>g) At End of Day, exchange will check the underlying securities and the ETF Units redeemed for any discrepancy.</p> <p>h) In case of any discrepancy between number of ETF Units redeemed and number of the underlying securities delivered, the Custodian will make good all the differences as needed.</p> <p>i) Fund Manager will calculate the right amount of cash for the day, as per the Fund policies. Any shortfall/access in the redemption of ETF units will be settled, through Custodian, with Market Maker at the end of the day.</p> <p>3) Cash portion will be calculated at the End of Day on Forward NAV basis (i.e., it will be assumed that no units are created and redeemed during the day.) The valuation follows the conventional mutual fund methodology. Cash portion is exchanged during the day, based on last business day's cash values, with Market Maker however net settlements are done at the end of the day.</p> <p>4) End-of-day deadline / cut-off time for submission of application to create and redeem ETF units is 15 minutes prior to the close of market.</p>
09	<p><b>Secondary Market Operation - Buying and Selling of ETF Units</b></p>	<p>Individuals Investors can not participate in the primary market activity directly with Fund Manager for the purpose of creation and redemption of ETF Units. However, the investors may do so by contacting the authorized Market Maker(s), since only Market Makers can engage in primary market operation directly with Fund Manager.</p> <p>The ETF Units will trade in exact fashion of the listed stocks on Saudi Stock Exchange ("Tadawul".) Individual investors thus can buy and sell ETF Units, during the daily trading hours, on Tadawul via the authorized brokers and dealers in the market.</p> <p>The investors are subject to cost of trade execution as per Exchange trading rules and regulations.</p>

10	<b>Valuation of Fund</b>	<p>The valuation points are two (a) intraday at the frequency of every 15 seconds, (b) end of day. The terms used to differentiate these two valuation points are Indicative Net Asset Value (iNAV) and Net Asset Value (NAV) respectively (refer to definition section of document for meaning of these terms).</p> <p>Fund Net Asset Value (NAV) is the value of the Fund at the end of each business day. NAV is calculated as total value of all Fund holdings using closing price plus Cash (&amp; Cash Equivalents) minus all Accrued Charges calculated as of end of the business day. NAV per Unit is calculated as Fund's NAV divided by the total number of outstanding ETF Units.</p> <p>The completion of process and dissemination of NAV per unit will be done within two hours from the time of market close.</p> <p>The INAV is an indication of NAV, during the trading hours. In calculating the INAV last trade price is used. The remainder of the process will exactly be the same as in the case of NAV where the accrued charges, as per last business day's NAV, will be deducted to arrive at INAV.</p> <p>In both NAV and INAV cases the valuation information will be communicated in the form of NAV and INAV per unit. This is arrived at by dividing the Net Asset Value by the number of units in issue.</p> <p>The NAV and INAV of the Fund and the Units will be expressed in Saudi Riyal and will be available freely to the investors via the office of the Fund Manager or via the website of Tadawul and FALCOM: - <a href="http://www.falcom.com.sa">www.falcom.com.sa</a> and <a href="http://www.tadawul.com.sa">www.tadawul.com.sa</a>.</p> <p>The purpose of issuing the INAV is to proportionate the relationship between net asset value per unit and the market trading value per unit of the Fund.</p> <p>The Net Asset Value per Unit will be calculated by the Administrator in accordance with generally accepted accounting standards.</p> <p>An indication of type of charges that will be deducted from the Gross Asset Value is as follows:</p> <ul style="list-style-type: none"> <li>(i) Fund management fees and other fees of third parties' services rendered to the Fund – if any.</li> <li>(ii) The administrator and auditors fee</li> <li>(iii) The custodial services charges</li> <li>(iv) The Index Provider fee</li> </ul>
----	--------------------------	--

		<p>In normal circumstance, the fund manager will follow the process defined above for valuating. However, in circumstance beyond his control he will seek to find the second best alternate for valuating the assets held. One example of such case is delisting of stock (held by fund manager) by CMA/TADAWUL. In cases where he will opt to fair value practice (instead of market value) and a proper disclosure will be made first to the Capital Market Authority (for their approval) and after obtaining the approval to the general public using the TADAWUL, FALCOM website and any other mode of communication that is deemed appropriate.</p>
11	<b>Distribution Policy</b>	<p>The dividends received by Fund investments will generally be kept in the Fund. The Fund does not make regular distributions to Unit holders and the dividends will be reflected on the net asset value of the Fund.</p> <p>The Fund manager may reinvest the excess cash, whenever feasible, by proportionately buying into the existing equities of the Fund with the key objective of tracking the Index.</p> <p>Nonetheless, the excess cash may be distributed to ETF unit holders in the form of dividends as deemed appropriate by Fund Manager in view of Fund's objectives. Any such distribution will be subject to approval of the Fund's Board of Directors.</p>
12	<b>Fees and Expenses</b>	<p>The Fund neither charges the subscription and redemption fees to Market Maker(s) nor to the individual investors. However, the investors may be liable to pay relevant brokerage commissions to their respective brokers for on exchange buying and selling of ETF Units.</p> <p>The breakdown of total expenses charged and paid by the fund manager out of fund's assets is as follows:</p> <ul style="list-style-type: none"> <li>(i) Management Fees:- 0.50% (Fifty Basis Points) of Net Asset Value per annum. The management fee will be calculated and accrued as a percentage of the net asset value at each Valuation Day and payable Quarterly to the Fund Manager in arrears.</li> <li>(ii) Administrator Fee:- 0.22% (Twenty Two Basis Points) of Net Asset Value per annum. The administrator fee will be calculated and accrued as a percentage of the net asset value at each valuation day and payable quarterly to the Administrator in arrears.</li> <li>(iii) Custodial Charges:- 0.10% (Ten Basis Points) of Net</li> </ul>

		<p>Asset Value per annum. The custodian charges will be calculated and accrued as a percentage of the net asset value at each valuation day and payable quarterly to the Custodian in arrears.</p> <p>(iv) Index Fee: - 0.10% (Ten Basis Points) of Net Asset Value per annum: To be calculated and accrued as a percentage of the net asset value at each valuation day and payable quarterly in arrears. The Index Fee covers the fees paid to Index Provider and all the costs related to dissemination of Index.</p> <p>(v) Tadawul Listing and Basic Registration Fee:- Up to 0.08% (Eight Basis Points) of Net Asset Value per annum to be paid to the Exchange.</p> <p>The Total Expense Ratio (TER) of the Fund will not exceed 1.00% (Hundred Basis Points) of the Fund's NAV.</p> <p>The Fund Manager will bear the actual ordinary expenses that are incurred after commencing the Fund operations, such as follows:-</p> <ol style="list-style-type: none"> <li>1- Expenses for publishing the details of Unit rates in the newspapers, electronic means, other information systems and listing of the Fund's Units in the stock markets.</li> <li>2- Fees due to the liquidator in case of liquidation.</li> <li>3- Expenses related to the publication of the annual reports.</li> <li>4- Any other actual operation expenses payable to persons dealing with the Fund.</li> </ol> <p>The above expenses are considered as part of the management fees of the Fund.</p> <p>The market maker compensation, if any, for in kind unit creation/redemption services shall be paid by the administrator out of his fee.</p>
13	<b>Regulator</b>	<p>Regulator is the Capital Market Authority (CMA.)</p> <p>The Fund shall be abide by the terms and conditions of the Investment Funds Regulations and ETF Instructions issued on 03/12/1427 AH corresponding to 24/12/2006 by the Capital Market Authority (CMA), the regulatory body of the Fund.</p> <p>The Fund Manager, Market Maker and Custodian are all regulated by the CMA.</p>

14	<b>Dealing Costs</b>	<p>The Fund only creates and redeems units on in-kind basis however for the purpose of rebalancing of portfolio Fund may engage in buying and selling of underlying stocks.</p> <p>Transactions pertaining to such rebalancing or other activities relevant to the Fund, in underlying assets, will be booked at cost. Any dealing cost, therefore, will be paid out of Fund assets.</p>
15	<b>Fund Manager</b>	<p><u>Fund Manager:-</u></p> <p>The Fund Manager is FALCOM Financial Services. FALCOM Financial Services is an authorized person under the Authorized Persons Regulations vides license number 060 20-37 and date of 24/4/1427 AH.</p> <p><u>Address of the Fund Manager:</u>  FALCOM Financial Services  Prince Mohammad Ben Abdul Aziz (Tahliya) Street  P.O. Box 884 Riyadh 11421  Tel +966(1)2114725  Fax +966(1)4617268  <a href="http://www.falcom.com.sa">www.falcom.com.sa</a></p> <p><u>Functions of Fund Manager:-</u></p> <ol style="list-style-type: none"> <li>1- To establish FALCOM Saudi Petrochemical ETF</li> <li>2- To appoint the Market Maker and arrange for initial seeding of fund from him. On an ongoing basis, coordinate with market maker for creation and Redemption of fund's units.</li> <li>3- To appoint Index Provider and agree with him the continuous criteria for creation, calculation and dissemination of index.</li> <li>4- To appoint the Custodian and coordinate, on ongoing basis, creation and Redemption of fund's units.</li> <li>5- Setting up policies of the Fund, determining the mechanism/procedures of Creation and Redemption of Units.</li> <li>6- To arrange for the listing of FALCOM Saudi Petrochemical ETF.</li> <li>7- Ensure to seek the replication of Benchmark Index performance and correct any deviations.</li> <li>8- To monitor the performance and operation of the Fund and to seek to achieve its goals within the framework of the announced policies and strategy.</li> </ol>

		<p>9- Determine and announce the underlying basket of shares and cash portion, if any.</p> <p>10- Ensure periodic re-balancing the components of the portfolio in line with the index rebalancing.</p> <p>11- To assure liquidity is provided by the Market Maker.</p> <p>12- Ensure proper calculation and dissemination of the NAV and the INAV of the Fund.</p> <p>13- Ensure publication of the information related to the index.</p>
16	<b>Custodian</b>	<p><u>Custodian :-</u></p> <p>The Custodian is FALCOM Financial Services. FALCOM Financial Services is an authorized person under the Authorized Persons Regulations vides license number 060 20-37 and date of 24/4/1427 AH.</p> <p><u>Address of the Custodian:</u></p> <p>FALCOM Financial Services Olaya Street P.O. Box 884 Riyadh 11421 Tel +966(1)2114717 Fax +966(1)2054819 <a href="http://www.falcom.com.sa">www.falcom.com.sa</a></p> <p><u>Functions of the Custodian :-</u></p> <p>1- To keep physical custody of fund's assets, when required.</p> <p>2- In line with pre-agreed procedure and as per the fund manager's instruction process the request initiated by market maker for unit creation/redemption in the following manner:</p> <p>(a) Verify the components of underlying basket is in line with the basket information announced by fund manager</p> <p>(b) When processing Unit Creation application, Custodian should arrange to transfer the underlying basket of stocks and cash portion from market maker's account to the Fund account.</p> <p>(c) When processing Unit Redemption application, Custodian should ensure availability of the ETF Units in market maker's account</p> <p>(d) Arrange for Creation/Redemption and ensure</p>

		<p>listing/delisting of Units is properly done by the Exchange.</p> <p>(e) Upon Units Creation, Custodian should ensure that the underlying stocks (and its value) transferred to ETF account matches the ETF Units (and its value) transferred to market maker's account.</p> <p>(f) Upon Units Redemption, Custodian should ensure that the ETF Units (and its value) redeemed matches the underlying stocks (and its value) transferred to market maker's account.</p> <p>(g) Reconcile the intra day creation/Redemption activity with TADAWUL.</p> <p>For disclosure and mitigating techniques for managing the potential conflict of interest refer to conflict of interest section of this document and attached conflict of interest statement (appendix 1).</p>
17	<b>Market Maker</b>	<p><u>Market Maker:-</u></p> <p>The Market Maker is FALCOM Financial Services. FALCOM Financial Services is an authorized person under the Authorized Persons Regulations vides license number 060 20-37 and date of 24/4/1427 AH to carry out the activity of dealing as principal.</p> <p><u>Address of Market Maker:-</u>  FALCOM Financial Services  Olaya Street  P.O. Box 884 Riyadh 11421  Tel +966(1)2114793  Fax +966(1)2054819  <a href="http://www.falcom.com.sa">www.falcom.com.sa</a></p> <p><u>Functions of the Market Maker:</u></p> <ol style="list-style-type: none"> <li>1- To provide initial (primary market) liquidity by seeding the ETF.</li> <li>2- To provide buy/sell side liquidity in secondary market within the spread band of 2%.</li> <li>3- Market Maker will facilitate the creation/redemption request together with Fund Manager, Custodian and TADAWUL.</li> <li>4- Contribute to the stability of the price and demand for the Fund's units in the market by affecting the magnitude of</li> </ol>

		<p>the supply or demand as appropriate.</p> <p>For disclosure and mitigating techniques for managing the potential conflict of interest refer to conflict of interest section of this document and attached conflict of interest statement (appendix 1).</p>
18	<b>Auditors</b>	<p><b>Price water house Coopers</b> is appointed by the Fund Manager as Fund's Auditor.</p> <p><b>Fund Auditor's address:</b></p> <p>King Faisal Foundation Bldg. Tel. No. +966-1-4654240; Fax No. +966-1-465-1663 P.O. Box 8282, Riyadh 11482</p>
19	<b>Fund Board</b>	<p>The Board of Directors of the Fund consists of the following persons:</p> <p><b>1. Mr. Adeeb A. Al-Sowailim:</b> Mr. Al-Sowailim is the chairman of the Board of Directors of the Fund. Mr. Al-Sowailim is the Chief Executive Officer ("CEO") of FALCOM Financial Services. He has above 15 years in the banking and investment industry. Formerly, Mr. Adeeb worked with the Saudi American Bank (SAMBA) and Banque De Saudi Franci. He holds a Bachelor of Law degree from King Saud University, Riyadh, Saudi Arabia.</p> <p><b>2. Mr. Saleh Abdullah Al-Henaki:</b> Saleh Al-Henaki is presently Head of the Asset Management of FALCOM Financial Services. He holds a Bachelor of Arts in Quantitative Methods from King Saud University in Riyadh, Master Degree of Arts in Economics from University of Colorado in 1998 and a Master Degree of Financial and Actuarial Mathematics from University of Michigan in 2002. Saleh Al-Henaki has above 14 years of practical knowledge in investment banking, leasing and insurance with the Saudi Monetary Agency (SAMA), Al Rajehi Bank and FALCOM Financial Services. His experience comprises Portfolio Management and Capital Markets Analysis that covers Saudi market, GCC and USA.</p> <p><b>3. Mr. Atta H. Al-Bayouk:</b> Mr. Atta is an independent member of the Board of Directors of the Fund. Mr. Al-Bayouk has over 40 years of practical experience in the scope of Auditing, Zakah/Customs Advisory, Administrative Advisory and Companies'</p>



		<p>liquidation services. He is a Fellow Member of Institute of Chartered Accountants in United Kingdom and Wales. He holds a Bachelor degree in Accounting and Business Administration from King Saud University, Riyadh, Saudi Arabia. Mr. Al-Bayouk is currently providing Auditing, Zakah/Customs Advisory, Administrative Advisory and Companies liquidation services from his office in Riyadh..</p> <p><b>4. Mr. Fahad S. Al-Musabahi:</b></p> <p>Mr. Al-Musabahi is an independent member of the Board of Directors of the Fund. Mr. Al-Musabahi has over 19 years of numerous experiences in the scopes of finance, budgeting and cost control. Presently, Mr. Al-Musabahi is the Financial Advisor of Saudi Oger Group. He holds a B.S. in Accounting from King Saud University in Riyadh, Saudi Arabia. Also, he is a member of the Saudi Accounting Association (S.A.A.) and a member of the Saudi Organization for Certified Public Accountants (S.O.C.P.A.).</p> <p>The members of the Board of Directors of the Fund occupy the same positions in the Board of Directors of the following Funds:</p> <ul style="list-style-type: none"> <li>• FALCOM Saudi Equity Fund.</li> <li>• FALCOM Saudi Riyal Murabaha Fund.</li> <li>• FALCOM US Dollar Murabaha Fund.</li> <li>• FALCOM Euro Murabaha Fund.</li> <li>• FALCOM Sukuk Fund (Saudi Riyal).</li> <li>• FALCOM Multi-Asset Fund.</li> <li>• FALCOM Saudi Equity ETF</li> </ul>
20	<b>Conflict of Interest</b>	<p>Given the widespread and diversity of the Fund Manager's business, its affiliates, employees and agents a conflict of interest may arise.</p> <p>The Fund Manager (and their respective affiliates, employees and agents) may promote, manage, advise, sponsor or be otherwise involved in further collective investment vehicles. In any such case, the interest of the Fund and the Unit holders shall be observed. The Compliance Department of the Fund Manager shall take all arrangements required to handle any conflicts of interest that could arise during the Fund's operation term and fairly resolve any case.</p> <p>The Fund Manager will exert all due efforts to fairly resolve any case of conflict of interest that may occur and shall deploy its professional expertise to ensure the interest of Funds and its participants.</p>

21	<b>Register of Unit holders</b>	The accurate and update unit holder's register will be kept by TADAWUL depository in its capacity of registrar of the issue.
22	<b>Rights &amp; Liabilities of Unit holders</b>	<p><u>Rights of Unit Holders</u></p> <ol style="list-style-type: none"> <li>1- Receive confirmation of the title transfer immediately upon execution of transaction at secondary market.</li> <li>2- In case of participation through primary market – Immediately upon creation/Redemption of units by custodian a confirmation of title record.</li> <li>3- Receive information about the investment policies, investment objectives, financial position and general affairs of the ETF.</li> <li>4- Receive dividend, if any, within reasonable time but no later than 30 days of their declaration.</li> <li>5- Receive the NAV and INAV information at the interval and fashion stipulated in the offering documents</li> <li>6- Receive the underlying basket information at the interval and fashion stipulated in the offering documents</li> <li>7- Receive the periodic audited financial results at least once yearly.</li> <li>8- Receive assurance to the adherence to a Code of Ethics which requires that investment decisions are taken in the best interest of the unit holders.</li> </ol> <p><u>Voting Rights Policies</u></p> <p>ETFs are investment funds - and therefore, the voting rights of the underlying stocks are held by the fund managers, and not the fund unit holders. The policy decision for voting or note voting in the case for the share held as underlying is made in line with the Article 37 of Investment Fund Regulation that says:</p> <p>“The fund board shall consult with the compliance officer and/or compliance committee and approve overall policies regarding the exercise of voting rights attributed to an investment fund because of securities included in its portfolio of assets.</p> <p>Any voting rights attributed to an investment fund because of securities included in its portfolio of assets shall be exercised or not exercised by the fund manager after consultation with the compliance officer and/or the compliance committee.”</p> <p>The unit holders of the Fund do not have any voting right over the underlying stocks.</p>

		<p><u>Unit Holders Liabilities</u></p> <p>A Unit Holder shall not be under any obligation to indemnify the Manager or any of his appointed party in the event that the liabilities incurred by the Manager and/or his appointed party in the performance of the provisions of their obligation exceed the value of the assets of the Fund, and any right of indemnity of the Manager and/or the his appointed party shall be limited to recourse to the Fund.</p> <p>A Unit holder is not liable for any amount in excess of the purchase price paid for the units and that no further liability can be imposed on him in respect of units which he holds.</p>
23	<b>Reporting to Unit holders</b>	<p>Within forty five days as from the end of each quarter the Fund Manager will prepare a report stating the net value of assets and components of the portfolio as well as the components of the Index. This report will be available free of fee to the Market Maker, Authorized Participants and investors at their request through the Fund Manager offices.</p> <p>The Fund Manager will prepare an annual report for the Fund within sixty days as from the end of the fiscal year of the Fund – including all details of the financial status of the Fund and investments of the Fund as well as its performance and the Index components by the end of the fiscal year. Such report will be available upon request at the Fund Manager Offices free of charge.</p> <p>Any other information including the net asset value of per unit or indicative price of Unit or announcing any suspension for the evaluation of Unit will be published via the electronic web sites of the Fund Manager and Tadawul and will be available via the Fund Manager Offices free of charge.</p> <p>Any notices to be served by the Fund Manager will be published on the available means in conformity with the regulations.</p>
24	<b>Winding up/ Termination of the ETF</b>	<p>The Fund Manager may terminate the Fund if it appears that the value of the Fund’s assets under management are not sufficient enough to justify the economic operation of the Fund or in case of the occurrence of any change on the laws or regulations or any other circumstances which the Fund Manager could see as sufficient reason that stipulates terminating of the Fund subject to the approval of the Capital Market Authority and sixty days (60 days) prior notice to the Unit holders.</p> <p>In case of terminating the Fund assets will be liquidated and debts</p>

		<p>and liabilities will be settled. The remaining net assets will be distributed among the unit holders within thirty days as from the liquidation date on pro rata basis.</p> <p>In case of commencement of liquidation no distributions will be made among the investors unless all assets of the Fund are liquidated and receiving the proceeds of the liquidation by the Fund Manager.</p>
25	<b>Complaints Procedure</b>	<p>In the event of any complains or queries, it should be addressed to:</p> <p>Head of Compliance FALCOM Financial Services Head Office, Prince Mohammad Ben Abdul Aziz (Tahliya) Street P.O. Box 884 Riyadh 11421 Tel +966 (1) 2114721 Fax +966 (1) 4615216</p> <p>All the procedures of complaining will be available at request.</p>
26	<b>Fund Financial Statements</b> - Annual Audited - Semi Annual Interim	<p>The financial year of the fund will end on 31<sup>st</sup> December each year.</p> <p>The first financial year will be shortened taking into account the launch date.</p> <p>The audited Annual Financial Statement and relevant explanatory statements will be prepared within ninety (90) days from the end of the financial year of the Fund.</p> <p>The Fund Manager will also prepare, reviewed semi-annual interim financial statements of the Fund within forty five (45) calendar days of the end of the period.</p> <p>These statements will be made available to the investors, free of charge, by the Fund Manager by publishing on its website: <a href="http://www.falcom.com.sa">www.falcom.com.sa</a>, or by dispatching via mail to the registered addresses of the investors upon their request.</p>
27	<b>Liquidation and Appointment of Liquidator</b>	<p>The CMA has the authority to appoint a successor for the manager, a liquidator for the Fund or to take any action as it deems appropriate in accordance with the Investment Fund Regulations.</p>
28	<b>Modifications to the Terms and Conditions of the Fund</b>	<p>By holding units in the Fund, the unit holders agree that the terms and conditions of the Fund, terms of the Subscription Form or any other related documents will govern the relationship between the unit holders and the Fund Manager. The unit holders also agree</p>

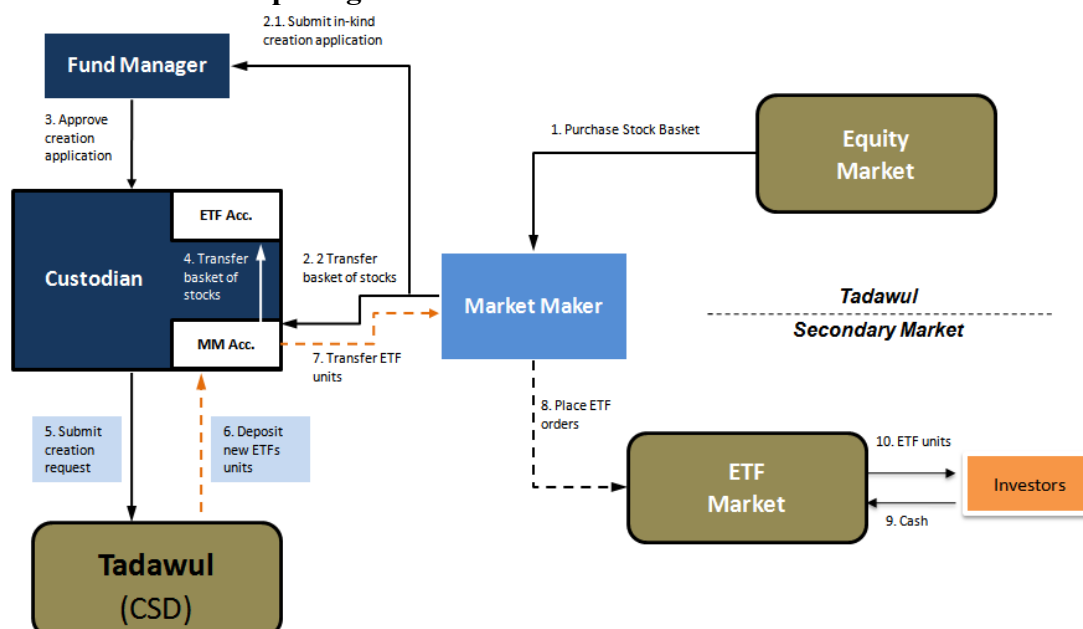
		that the Fund Manager may from time to time, at its discretion, amend these Terms and Conditions or any other documents, subject to the CMA prior consent. In such case, the Fund Manager will acquaint the investors by posting the proposed amendments (the amended text) on Tadawul and/or Fund manager's website. The amendments will become effective 60 days after the date of such notification.
29	<b>Governing Law</b>	<ol style="list-style-type: none"> <li>1. The Fund is regulated by the laws prevailing in Saudi Arabia and the regulations issued by Capital Market Authority and their amendments.</li> <li>2. Any disputes arising between the parties of this Agreement (the "Terms and Conditions") shall be referred to the Committee of Resolution of Securities Disputes in the Kingdom of Saudi Arabia.</li> </ol>
30	<b>Compliance to the Investment Funds Regulations</b>	The Fund Manager acknowledged that all Fund documents comply with the Investment Funds Regulations and ETF instructions issued by the Capital Market Authority (CMA) in Saudi Arabia and has obtained waiver from the Authority with regards to requirements of Article 27 and Article 50 (a) of Investment Funds Regulations.
31	<b>Fund Manager's Indemnity</b>	The Fund Manager indemnifies to hold all Unit holders of the fund harmless of any losses occurred due to gross negligence, misconduct and intentional fraud by any of his directors, officers, affiliates. This indemnity will not apply where the fund incur any loss by any act of the directors, officers, affiliates where they acted prudently and in good faith.

## Appendix 1 - Conflict of Interest Statement

The potential conflict of interest may arise due to the fact that FALCOM Financial Services will be undertaking all major functions.

For clarity the Roles, Associated Interests and Potential Conflict of Interests are provided below.

### A - The Relationship Diagram:



### B- Potential Conflict of Interest:

- (i) The Fund Manager generally seeks increased activity in primary market in order to have increased Assets Under Management. The market maker however would seek low unit creation activity at the time of high market volatility.
- (ii) The Fund Manager will seek to have good liquidity in the secondary market while the market maker would like to have the minimum commitment to provide liquidity.
- (iii) The market maker would like to have the higher spread to maximize his profit in secondary market operation while the fund manager would prefer the ETF to sell more so that the product is popular and have greater interests from the investor community.

### C- Potential Conflicts of Interests - Mitigation Procedure:

The potential conflicts of interests are managed through the following:

- (i) The implementing of Chinese walls concept and related procedure
- (ii) Making the compliance department responsible for checking and ensuring that each department's obligations toward the market and regulator is met.

The commitment embodied in the agreements is translated into service level agreements and this is then reflected into the procedure manuals. Each process will be identified and related control will be put in place. The ongoing monitoring by risk and control department and compliance will ensure that not only the obligations are met but also each department is working within the control environment set to provide assurance of effective internal control.

## Appendix 2 – Index Components and weightings

As of July 04 2010 following are the components and weighting of the Benchmark Index (Market Cap in Saudi Riyals) with the base value of 2,000. The Index Components and Weightings will change from time to time and updated versions will be available on Tadawul website ([www.tadawul.com.sa](http://www.tadawul.com.sa)) and Falcom website ([www.falcom.com.sa](http://www.falcom.com.sa))

<b>FSPI FALCOM Saudi Petrochemical Index</b>					
<b>Index Information</b>					
<b>As of July 04, 2010</b>					
<b>S.No.</b>	<b>Code</b>	<b>Name of Company</b>	<b>Price (SAR)</b>	<b>FF Mkt Cap (SAR)</b>	<b>FF Mkt Cap (%)</b>
1	2010	Saudi Basic Industries Corp.	83.00	56,170,731,566	44.47%
2	2020	Saudi Arabia Fertilizers Co.	135.75	12,301,024,939	9.74%
3	2060	National Industrialization Co.	23.10	10,640,152,839	8.42%
4	2350	Saudi Kayan Petrochem. Co.	17.45	10,510,020,964	8.32%
5	2290	Yanbu Nat'l. Petrochemical Co.	40.10	8,958,923,615	7.09%
6	2250	Saudi Industrial Inv. Group	16.75	6,672,333,188	5.28%
7	2310	Saudi Int'l. Petrochemical Co.	20.30	5,528,051,340	4.38%
8	2260	Sahara Petrochemical Co.	18.35	4,785,257,950	3.79%
9	2380	Rabigh Refining & Petrochem. Co.	27.40	4,182,064,302	3.31%
10	2330	Advanced Polypropylene Co.	19.90	2,693,285,900	2.13%
11	2210	Nama Chemicals Co.	9.20	1,182,384,000	0.94%
12	2002	National Petrochemical Co.	14.65	1,069,230,250	0.85%
13	2001	Methanol Chemical Co.	14.30	862,290,000	0.68%
14	2170	Alujain Corp.	12.70	747,776,000	0.59%
				<b>126,303,526,852</b>	

FF stands for Free Float.

### Appendix 3 – ETF Basket

As of July 04, 2010 following are the components and weighting of the ETF Basket. The ETF Basket will change from time to time and updated versions will be available on Tadawul website ([www.tadawul.com.sa](http://www.tadawul.com.sa)) and Falcom website ([www.falcom.com.sa](http://www.falcom.com.sa)).

<b>FALCOM Saudi Petrochemical ETF</b>			<b>Initial Basket Size (SAR)</b>		<b>500,000</b>	
<b>Basket Information</b>			<b>As of July 04, 2010</b>			
<b>S.No.</b>	<b>Code</b>	<b>Name of Company</b>	<b>Price (SAR)</b>	<b>Shares in Basket</b>	<b>Value (SAR)</b>	<b>%</b>
1	2010	Saudi Basic Industries Corp.	83.00	2,665	221,195.00	44.24%
2	2020	Saudi Arabia Fertilizers Co.	135.75	356	48,327.00	9.67%
3	2060	National Industrialization Co.	23.10	1,814	41,903.40	8.38%
4	2350	Saudi Kayan Petrochem. Co.	17.45	2,372	41,391.40	8.28%
5	2290	Yanbu Nat'l. Petrochemical Co.	40.10	880	35,288.00	7.06%
6	2250	Saudi Industrial Inv. Group	16.75	1,569	26,280.75	5.26%
7	2310	Saudi Int'l. Petrochemical Co.	20.30	1,072	21,761.60	4.35%
8	2260	Sahara Petrochemical Co.	18.35	1,027	18,845.45	3.77%
9	2380	Rabigh Refining & Petrochem. Co.	27.40	601	16,467.40	3.29%
10	2330	Advanced Polypropylene Co.	19.90	533	10,606.70	2.12%
11	2210	Nama Chemicals Co.	9.20	506	4,655.20	0.93%
12	2002	National Petrochemical Co.	14.65	287	4,204.55	0.84%
13	2001	Methanol Chemical Co.	14.30	237	3,389.10	0.68%
14	2170	Alujain Corp.	12.70	231	2,933.70	0.59%
		Cash			2,750.75	0.55%
					<b>500,000.00</b>	<b>100.0%</b>



# Fund Manager

## FALCOM Financial Services ("FALCOM")

FALCOM is a Juridical Licensed Person by virtue of license No. 37-20-060 dated 29/4/1427H under the Regulations of the Licensed Persons issued by the Capital Market Authority.

## FALCOM Saudi Petrochemical ETF

### “Terms and Conditions”

The prospective investors receiving these “Terms and Conditions” must carefully read the contents of these “Terms and Conditions “ and acquaint themselves with the risks involved in the investment, take the advice of their professional advisors and should satisfy any regulatory requirements prior investing in the ETF.

*Date of Issue of the “Terms and Conditions”: 23/06/2010 AC*

1



# Table of Contents

Definitions	4
Terms and Conditions	9
1 Name of Fund	9
2 Address of Fund Manager	9
3 Establishment of Fund	9
4 Commencement Date	9
5 Regulator	9
6 Fund Investment Objective	9
7 Principal Investment Strategy and Policies	9
8 Description of the Benchmark Index	13
9 Principal Risks of Investment	16
10 Currency of Fund	17
11 Initial Value of the Fund	17
13 Primary Market Operations: Procedures of Creation and Redemption	18
12 Characteristics of ETF Units	17
14 Secondary Market Operations: Buying and Selling of ETF Units	19
15 Valuation of Fund	19
16 Distribution Policy	20
17 Fees and Expenses	20
18 Dealing Costs	22
19 Fund Manager	22



20	Custodian	23
21	Market Maker	24
22	The Fund Board of Directors	25
23	Auditors	26
24	Conflicts of Interests	26
25	Register of Unit holders	27
26	Rights & Liabilities of Unit holders	27
27	Reporting to Unit holders	28
28	Winding up of Fund	28
29	Complaints Procedures	29
30	Fund Financial Statements	29
31	Liquidation and Appointment of Liquidator	29
32	Modifications to the Terms and Conditions of Fund	30
33	Governing Law	30
34	Compliance with Investment Funds Regulations	30
35	Fund Manager's Indemnity	30
36	Appendix (1): Summary of Financial Disclosure	31
37	Appendix (2): Conflict of Interest Statement	32

## Definitions

Administrator	<p>Administrator is the party that carries out the set of activities needed to support the running of the Fund. These activities include, but not limited to, calculating and disseminating NAV and iNAV, calculation and maintenance of Fund's records and expenses etc.</p> <p>Falcom Financial Services acts as the Fund Administrator for the Fund.</p>
Authority	Capital Market Authority ("CMA") in the Kingdom of Saudi Arabia.
Basket of Shares	<p>List of stocks and their respective quantities, whose value along with cash portion is equals to the value of a Block of ETF Units.</p> <p>Fund manager disseminates information on the Basket of Shares on each business day basis.</p>
Benchmark Index	The Index performance of which the Fund seeks to replicate. Fund invests in the components of this Index in the same proportion
Block of ETF Units	Equals 25,000 ETF Units
Business Day	Each day on which Banks and Exchange are open for regular exchange and banking activities in the Kingdom of Saudi Arabia.
Cash Portion (Per Block of ETF Units)	$\frac{\text{Total Funds Cash \& Cash Equivalents} - \text{Funds Total Liabilities}}{\text{Total Number of Outstanding ETF Units}} \times 25,000$
Commencement Date	Determined date for commencement of accepting requests for Creating Units in the Fund.
Creation	Means creating new ETF Units via primary market operation
Creation Unit	A reference to a Block of ETF Units, that a Market Maker receives from Fund Manager (via Custodian) in exchange of the basket of shares plus cash portion for creation of ETF Units.
Custodian	<p>A person who is authorized under the Authorized Persons Regulations of the Authority to conduct the securities activity of custody.</p> <p>FALCOM Financial Services will be the Custodian for the Fund.</p>
ETF Unit(s)	Non-voting measurable investment Units in the Fund that represent proportional participation in the Fund's assets.

Exchange		The Saudi Stock Exchange including where the context permits any committee, sub-committee, employee, officer, servant or agent to whom any function of the Exchange may for the time being be delegated, and “on Exchange” means any activity taking place through or by the facilities provided by the Exchange.
Exchange Traded Fund (ETF)	–	A Collective Investment Scheme with variable capital that issues Units. ETF Units are listed in the exchange and are traded like shares of listed companies.  ETF Units are Created and Redeemed in blocks of Units on in-kind basis against a basket that comprises underlying stocks and Cash portion.
FALCOM		FALCOM Financial Services
FALCOM Financial Services		A Saudi Closed Shareholding Company incorporated under the Ministry of Commerce & Industry’s decree number 3488 dated 20/11/1427 AH. Falcom Financial Services is a Juridical Person licensed by the Capital Market Authority under license number 37-060 -20 dated. 29/04/1427 and complies with the terms of the Licensed Persons Regulations issued by the CMA.
Financial End	Year	Means 12-month calendar period, ending December 31, over which the Fund reports its annual performance and profits.  Financial year for 2010 ending December 31, 2010 will be shorter than 12 months depending upon the Fund launch date.
Fund Director		An individual appointed as a member of a fund board of an investment fund in accordance with the Investment Funds Regulations.
Fund Manager		An authorized person that is authorized to carry on managing activities under the Authorized Persons Regulations and is responsible for the administration, custody and management of the assets of an investment fund.  FALCOM Financial Services will be the Fund Manager for the Fund.
iNAV (Indicative Net Asset Value)		iNAV is the value of the Fund at a particular point in time during trading hours.  iNAV is calculated as total value of all Fund holdings using “last trade” prices plus Cash (& Cash Equivalents) minus all Accrued Charges as of last business day’s NAV.
iNAV per Unit (Indicative Asset Value Per Unit)	Unit Net	Means Fund’s iNAV divided by the total number of outstanding ETF Units.  iNAV per Unit is disseminated every 15 seconds during trading hours by the Fund Manager.

Independent Fund Director	A fund director who; is not an employee of, or a director of the fund manager or any of its affiliates, or any sub-manager or custodian for a fund on whose fund board the director serves; and does not have a material business, or contractual relationship with the fund manager or any sub-manager or custodian for such fund.
Index Component	Each of the shares comprising the Benchmark Index.
Index Provider	The party that is officially responsible for setting the rules of computing, maintaining and disseminating the Benchmark Index.  For the Fund, the Saudi Stock Exchange (“Tadawul”) is the Index Provider.
In-Kind basis	Exchange of ETF Units with underlying stocks and the cash portion of a Creation and/or Redemption Unit
Market Maker	A person authorized by the Authority for Dealing, in the capacity of principal. All primary market operations will be undertaken through authorized Market Maker(s)  FALCOM Financial Services will be the Market Maker for the Fund.
Market Maker Agreement	An Agreement between Fund Manager and Market Maker that allows Market Maker to exchange ETF Units with a basket of underlying stocks and cash AND vice versa with Fund Manager through Custodian.
Investment Funds Regulations	Investment Funds Regulations issued on 03/12/1427 AH corresponding to 24/12/2006 AC by the Capital Market Authority in the Kingdom of Saudi Arabia.
NAV ( Net Asset Value)	Fund Net Asset Value (NAV) is the value of the Fund at the end of each business day.  NAV is calculated as total value of all Fund holdings using closing prices plus Cash (& Cash Equivalents) minus all Accrued Charges calculated as of end of the business day.
NAV per Unit (Net Asset Value per Unit)	Fund’s NAV divided by the total number of outstanding ETF Units.  NAV per Unit is calculated and disseminated at the end of each business day within two hours from the time of market close.
Operation Date	Effective date when the Fund starts its operations – which succeeds the date of closing the initial offering period for the Creation Units of the Fund or any other date as determined by the Fund Manager.
Operations	Means all the transactions of the Fund including Creation and Redemption of ETF Units, sale and purchase of investments in the index portfolio etc.

Participants	Holders of Fund's Units
Primary Market Operation	Refers to the activity of creation and redemption of ETF Units done between the Fund and the authorized Market Maker(s).
Redemption	Means redeeming or cancelling of ETF Units via primary market operation
Redemption Unit	A reference to a Block of ETF Units, that a Market Maker offers to Fund Manager (via Custodian) to be exchanged with the Basket of shares plus cash portion for redemption of ETF Units.
Regulations	Investment Funds Regulations and any guidelines thereof.
Regulator	Capital Market Authority (“CMA”) in the Kingdom of Saudi Arabia.
Saudi Laws	The laws and regulations prevail in the Kingdom of Saudi Arabia.
Secondary Market Operation	Refers to buying and selling of ETF Units on Tadawul.
Tadawul	The Saudi Stock Exchange.
Terms and Conditions	The contracts containing those disclosures and provisions required by Article 15 of the Investment Funds Regulations.  This document serves as Terms and Conditions for the Fund.
Tracking Error	Percentage amount a fund's performance deviates from its benchmark index.  Tracking Error is measured as the standard deviation of difference between daily return of the Fund and that of the Benchmark Index.
The Fund	FALCOM Saudi Petrochemical ETF (the “Fund”) is an open-ended collective investment scheme that is allowed to list and trade its Units in the Saudi capital market pursuant to the approval issued by the Capital Market Authority.
Underlying Assets	All assets of the Fund including stocks and cash.
Underlying Stocks	Stocks held in the Fund

Unit Price	Market value of ETF Unit determined by the forces of demand and supply.
Units	Same as ETF Units (see definition above.)
Units holders	Holders of Units of FALCOM Saudi Petrochemical ETF.
Valuation Day	The day on which the NAV FALCOM Saudi Petrochemical ETF is determined and is agreed to be all business days of Saudi Arabia.



## Terms and Conditions of the Fund

<b>1</b>	<b>Name of Investment Fund</b>	FALCOM Saudi Petrochemical ETF
<b>2</b>	<b>Address of Fund Manager</b>	Prince Mohammed Bin Abdulaziz Road (Tahliyah). P. O. Box 884, Riyadh 11421 Fax: +966(1) 2114725 Tel: +966 (1) 4617268 <a href="http://www.falcom.com.sa">www.falcom.com.sa</a>
<b>3</b>	<b>Establishment of Fund</b>	a) The Terms and Conditions of the Fund have been issued on 11/07/1431 H corresponding to 23/06/2010 C. b) The first Offer of Fund's Creation Units will commence on 23/07/1431 H corresponding to 05/07/2010 C.
<b>4</b>	<b>Commencement Date</b>	The Fund's ETF Units will be listed and traded on Tadawul on 10/07/2010 C.
<b>5</b>	<b>Regulator</b>	Regulator is the Capital Market Authority (CMA.)  The Fund shall be abided by the terms and conditions of the Investment Funds Regulations and ETF Instructions issued by the Capital Market Authority (CMA), the regulatory body of the Fund.  The Fund Manager, Market Maker and Custodian are all regulated by the CMA.
<b>6</b>	<b>Fund Investment Objectives</b>	FALCOM Saudi Petrochemical ETF aims to provide investors with long-term capital appreciation and growth by way of passively investing in the listed equities of Petrochemical sectors of Saudi Stock Exchange ("Tadawul".) The Fund seeks to achieve the results that correspond to the performance, before fees and expenses, of the Benchmark Index.
<b>7</b>	<b>Principal Investment Strategy and Policies</b>	<u>Fund Investment Strategy</u>  1) The Fund invests at least 95% of its assets in equities of petrochemical sector that are Shariah-compliant, listed and traded on Tadawul in the Kingdom of Saudi Arabia.  2) The Fund will passively invest in the components of FSPI Falcom Saudi Petrochemical Index, the Benchmark Index,

however Fund rebalancing activities will be undertaken periodically (at least once a quarter) to ensure proper tracking of performance of the benchmark index and keeping of adequate cash in the Fund.

- 3) The Fund will invest in the components of Benchmark Index in the same weights and proportions while keeping adequate amount of cash to account for the Fund expenses and liabilities on ongoing basis.
- 4) Unlike many mutual funds, the Falcom Saudi Petrochemical ETF does not try to “beat” the Benchmark and does not seek temporary defensive investments when the market declines or appears overvalued. The Fund seeks to replicate the performance of the Benchmark Index.
- 5) The Fund manager will assess appropriateness of the Benchmark Index at least on an annual basis in order to ensure that the overall Fund objectives of long-term growth and capital appreciation are appropriately achieved.

#### Fund Investment Policies

- 1) The Fund seeks to replicate the performance of the Index by way of keeping a minimum tracking error.
- 2) Fund manager will aim at maintaining a maximum annual tracking error of 1%, after considering all income, fees and expenses.
  - i. Tracking Error is measured as the standard deviation of difference between the daily return of the Fund and that of the Benchmark Index.
- 3) The Fund seeks to achieve a correlation coefficient of 0.99, on annual basis, between the daily return of Benchmark Index and that of the Fund.
- 4) The Fund will only Create and Redeem on in-kind basis i.e., the basket of stocks along with a small cash portion. Details of Creation Unit i.e., the basket of stocks and cash will be announced by Fund Manager on daily basis.
- 5) Fund will participate in the Corporate Actions of its investments in the best interest of ETF Unit holders. For instance, when offered, Fund will subscribe to the right issues

of any of its underlying stocks whereas the Index will also be rebalanced accordingly, taking care of tracking error concern. The required cash for exercising rights, as needed, will be generated by proportionately selling off the existing equities in the Fund (Proportionately means that after selling off, the weights of the underlying stocks remains approx. same as that of the Benchmark Index). Accounting for rights issue and other corporate actions will be carried out as per industry norms and Generally Accepted Accounting Principles.

- 6) Dividends received from the companies held by Fund will primarily be kept in the Fund for fees and expenses etc. Refer to Dividend Distribution Policy elsewhere in the document for details.
- 7) In case of other corporate actions such as mergers, acquisitions etc, Fund manager will take action in the best interest of unit holders. However, if a material discrepancy between ETF weights and index weight arises due to corporate actions, FM will rebalance the ETF accordingly.
- 8) Fund itself will not take Shariah compliance certification of the equities. The Benchmark Index is Shariah Compliant and Fund will only invest in the components of the Benchmark Index. The Index screens stocks for Shariah Compliance on quarterly basis and deletes the stocks that become Non-Shariah compliant. Accordingly, Fund will also be rebalanced however, Fund Manager will keep investor's best interest while selling off the non-Shariah compliant stock. Fund will then buy stocks in order to be back in proportion with Index's allocation.
- 9) In case of change in Index (deletion / addition of stocks), Fund manager will seek to bring the Fund investments back in line with that of Index by way of rebalancing.
- 10) The Fund may temporarily suspend the Creation and Redemption of Units during the Fund's rebalancing phase.
- 11) The Fund is authorized to invest only in the equities of companies that are Shariah Compliant, listed and traded on Tadawul and are part of Tadawul's Petrochemical Sector.
- 12) The Fund may invest the cash in short term money market instruments e.g., Murabahas as deemed suitable by Fund Manager in view of Fund's investment objectives.

- 13) The Fund is not authorized to lend to any person.
- 14) The Fund is not authorized to borrow; thus Fund Manager will not engage in any activity that can be deemed as a borrowing activity.
- 15) The Fund will comply with the investment limitations requirements of Article 39 of the Investment Funds Regulations and ETF Instructions issued by the Authority.

#### Suspension of the Fund Underlying Stocks

- 16) The Capital Market Authority may suspend the listing of security(s) held by the Fund, as it thinks fit in certain circumstance. In such event the fund will act in the following manner:
  - i. Suspend the unit creation and unit redemption activity until such time the issue of listing is resolved
  - ii. Adopt the alternate valuation method (fair value practice), with prior approval of CMA, to the extent it relates to the suspended security
- 17) The fund will not face the risk of tracking error in short term as the suspended security will continue to remain index constituents until the update time. The close price and number of free floated shares prior to the suspension will be used for index calculations.
- 18) In case the suspension continues beyond the update time both index and the Fund will delete the security at the update time.
- 19) The Fund valuation will follow the rule of conservatism and adopt the methodology that reflects the fair value of Fund assets.
- 20) Tracking Error: Since the Fund seeks to replicate performance of the Benchmark Index in order to achieve its investment objective of long-term capital appreciation and growth, the key risk is that of undesirable tracking error. The Fund manager has adequate tools available (for instance, spreadsheet based correlation models etc) to assist with modeling and estimation of tracking error. Fund manager will review the tracking error on ongoing basis in order to mitigate this risk.

		<p>21) Liquidity Risk: ETF Units are listed on Tadawul for individual investors to buy and sell at any time during trading hours. Fund manager has made agreement(s) with Market Maker(s) to provide liquidity. Market Maker(s) are to provide offer two way quotes on Tadawul with a maximum bid-ask spread of 2%. The Market Maker faces the price risk while creating and redeeming of ETF Units due to potential untoward price movement of the component stocks. To mitigate this risk Fund has provide Market Makers with “instant creation and redemption” enabling them to have access to the created ETF Units and Component basket of stocks almost instantaneously via respective Creation and Redemption process.</p>
8	<b>Description of Benchmark Index</b>	<ol style="list-style-type: none"> <li>1) Name of the Benchmark Index is FSPI Falcom Saudi Petrochemical Index.</li> <li>2) FSPI Falcom Saudi Petrochemical Index is a free-float market capitalization based index that tracks the performance all Shariah compliant equities of Saudi Stock Exchange (“Tadawul”) Petrochemical sector; weighted by free float market capitalization.</li> <li>3) Tadawul is the Index Provider.</li> <li>4) Index Value will be calculated using the closing prices</li> <li>5) Liquidity criteria: The number of non-trading days for a stock must be less than or equal to 7 for it to be eligible for inclusion in the index.</li> <li>6) Shariah Compliance: For inclusion in Benchmark Index, the stocks are assessed for Shariah compliance by FALCOM Shariah Board once companies announce their financial result on Gregorian calendar quarterly basis. The Shariah compliance list is generally prepared in between quarter ends.</li> <li>7) The information on the Index is available at both of “Tadawul” and FALCOM websites</li> <li>8) The value of Index will be updated every 15 minutes on Falcom’s website during Tadawul trading hours.</li> </ol>

- 9) Modification to the Benchmark Index: The Index will be modified as per Tadawul's Customized Index Terms: A quarterly review is carried out on the first Saturday after the end of each Gregorian calendar quarter with respect to the following:
- i. Updating Free Floating Shares: The number of free floated shares is updated at the end of the each Gregorian calendar quarter. In between Quarter ends adjustment are made to free float share due to any corporate action. Continuity in the indexes value is maintained by adjusting the company's market capitalization to account for the difference in the number of free floated shares.
  - ii. Modification to components is made in between quarters upon Shariah Compliance certification.
  - iii. Suspension: Suspended companies will continue to remain index components until the update time. The close price and number of free floated shares prior to the suspension will be used for index calculations.
  - iv. Delisting: If a component company gets delisted, it will be deleted from the Index on the delisting date at any time between quarterly reviews.
- 10) In event of that Index Provider is unable to continue to provide the Benchmark Index service, the Fund Manager will seek to move to another Index Provider in a reasonable time frame.
- 11) Benchmark index for the Fund will not be changed. However, the Index will be reviewed at least annually to assess the appropriateness of Index in serving the overall purpose of achieving Fund investment objectives.
- 12) Shariah Guidelines: Following are the general guidelines that are followed by FALCOM Shariah Board for Shariah Compliance certification of companies:
1. Activities Related Guidelines
    - i. equities of companies that are involved in impermissible activities such as:
      - interest bearing financial activities such as conventional banks activities or dealing in interest bearing financial instruments;
      - producing, distributing and marketing of impermissible products such as cigarettes, cigar and such alike.
      - production and publication of pornographic films, books and profligacy, irreligion periodic and such alike.

		<ul style="list-style-type: none"> <li>- derivatives, including but not limited to, options, futures, swap and preferable shares;</li> <li>ii. forward currency transactions;</li> <li>iii. equities or other securities issued by companies whose income from activities relating to any of the following sectors: <ul style="list-style-type: none"> <li>a. conventional banking or insurance or any other interest related activity;</li> <li>b. the manufacture or distribution of alcohol products;</li> <li>c. the manufacture or distribution of arms;</li> <li>d. gambling;</li> <li>e. the production, packaging, processing or any other activity relating to pork or pork products and other non <i>halal</i> meat;</li> <li>f. resorts and hotels that provide non Halal (impermissible) services;</li> <li>g. manufacturing, marketing and distributing of liquor, drugs and such a like; or</li> </ul> </li> </ul> <p>2. <u>Financial Matters Related Guidelines</u> Companies with the following financial ratios:</p> <ul style="list-style-type: none"> <li>i. Total interest bearing debt divided by market value of its assets is greater than 33%. (Note: total debt = short term debt + current portion of long term debt + long-term debt);</li> <li>ii. Cash, bank deposits and short term interest bearing securities divided by market value of its assets is greater than 33%; or</li> <li>iii. The sum of interest bearing income from interest or other impermissible sources divided by total income of the company is greater than 5%.</li> </ul> <p>13) FALCOM Financial Services Shariah Advisory Board: Following are members of FALCOM Financial Services Shariah Advisory Board:</p> <ul style="list-style-type: none"> <li>i. Shaikh Abdallah Ibn Sulaiman Almanie.</li> <li>ii. Dr. Mohammed Ibn Ali Al Garie.</li> <li>iii. Dr. Hamad Ibn Abd Al Rahman Al Junaidil.</li> </ul>
9	<b>Principal Risks of Investment</b>	<p>Investors should consider the following risk factors (not to be considered as the exhaustive list) associated with investing in the FALCOM Saudi Petrochemical ETF, which may cause them to lose money.</p> <p>1) <b>Investment Risk.</b> An investment in the Fund is subject to investment risk, including the possible loss of the entire principal amount. The Fund Manager does not make any warranty or</p>

representation that the stated investment objectives of the Fund will be achieved.

The investment in the Fund will not be considered as deposit at any local bank marketing or selling the securities or belonging to the Investment Fund .

- 2) **Equity Risk.** A principal risk of investing in the Fund is equity risk, which is the risk that the value of the securities held by the Fund will fall due to general market and economic conditions, perceptions regarding the industries in which the issuers of securities held by the Fund participate, or factors relating to specific companies in which the Fund invests. For example, an adverse event, such as an unfavorable earnings report, may depress the value of equity securities of an issuer held by the Fund; the price of common stock of an issuer may be particularly sensitive to general movements in the stock market; or a drop in the stock market may depress the price of most or all of the equity securities held by the Fund. In addition, common stock of an issuer in the Fund's portfolio may decline in price if the issuer fails to make anticipated dividend payments because, among other reasons, the issuer of the security experiences a decline in its financial condition .
- 3) **Passive Management Risk.** The Fund adopts passive management method by seeking to replicate the Benchmark Index performance. The method is different than the active management method that seeks to outperform the Benchmark index performance by actively and directly selecting the shares. Thus, the Fund may retain underlying stocks regardless of the performance of the stocks or certain industry. Retaining the stocks of companies without responding to the variable circumstances and factors of the market or the performance level of certain shares may cause a decrease on the returns of the Fund .
- 4) **Risk of Low Correlation.** The Fund's return may not exactly match the return of the Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Index, and may incur costs in buying and selling securities, especially when rebalancing the Fund's securities holdings to reflect changes in the composition of the Index.

The Fund may not be fully invested into equities at times, either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet various fees and expenses .



		<p>5) <b>Concentration Risk.</b> The Fund’s investment universe is limited only to the FSPI Falcom Saudi Petrochemical Index, which only contains equities from the Petrochemical sector of Saudi Stock Exchange (“Tadawul”). The Fund’s investments will be concentrated accordingly since the Fund invests as per the Index’s component allocation and weights. Thus, the value of the Fund’s Units may rise and fall more than the value of shares of a fund that invests in securities of companies in a broader range of industries.</p> <p>6) <b>Non-Diversified Fund Risk.</b> The diversification chances of the Fund Portfolio are limited within the framework of the Index portfolio and in view of the Fund’s strategy. The Fund may invest its assets in the shares of limited number of issuers in large proportions in comparison with the Funds that have chances to diversify the investment across the market. Hence, changes in the market value of few large investments could cause greater fluctuations in Unit price than would occur in a diversified fund.</p> <p>7) <b>Shariah Compliance Risk:</b> A stock is deleted from the Benchmark Index in the event of its becoming non-Shariah compliant. The investors face the risk a stock being sold by the Fund because of Shariah non-compliance which may adversely affect the performance of the Fund as and when compared to a conventional Fund which is not Shariah compliant.</p>
10	<b>Currency of Fund</b>	Saudi Riyal
11	<b>Initial Value of The Fund</b>	Twenty Five Million Saudi Riyal
12	<b>Characteristic of ETF Units</b>	<p>1) The Fund’s Units are all of the same type with the same value, privileges, rights and they have no voting right.</p> <p>The Fund’s Units will not represent any relative equity for its holders in the underlying stocks held in the Fund – but representing proportionate share in the Fund.</p> <p>2) Each Creation Unit contains 25,000 ETF Units</p> <p>3) Each Redemption Unit contains 25,000 ETF Units</p> <p>4) Initial value for ETF Unit will be SAR.20/- (Saudi Riyal Twenty)</p> <p>5) The process of creation and redemption of ETF Units will be on in-kind basis whereby Fund Manager and Market Maker(s) will</p>

		<p>interexchange ETF Units and the Basket of shares, through custodian, for the purpose of creation and redemption of ETF Units.</p> <p>6) The Fund units will be created electronically without paper certificates.</p>
<b>13</b>	<b>Primary Market Operations - Procedures of Creation and Redemption</b>	<p>1. The primary market operations can only be carried out between Fund Manager and the authorized Market Maker(s). The Creation and Redemption activities are done on the basis of blocks of ETF units only (<i>For the Fund, one block equals 25,000 ETF Units</i>), referred as Creation Unit and Redemption Unit respectively.</p> <p>Following is the brief account of the mechanism for in-kind Unit Creation.</p> <ol style="list-style-type: none"> <li>a) Fund Manager will disclose the details of the Creation Unit i.e., the corresponding Securities and cash on a daily basis prior to start of the trading. One Creation Unit equals to a block of 25,000 ETF Units.</li> <li>b) Market maker will apply to Fund Manager for the ETF Unit Creation.</li> <li>c) At the same time, Market maker will deposit with custodian the securities and cash, corresponding to the number of Creation Units that it intends to create.</li> <li>d) Fund Manager, after initial checking, will approve the Unit Creation application.</li> <li>e) Custodians will ensure that the securities and cash deposited by Market Maker appropriately correspond to the ETF Unit Creation request.</li> <li>f) Custodian will then transfer the deposited underlying securities from Market Maker account to the Fund account.</li> <li>g) Custodian will liaise with Exchange for ETF Units creation (Exchange will create and list the Units)</li> <li>h) Creation Units will then be deposited to Market Maker account.</li> <li>i) Market Maker may post the Asks in the exchange (an offer to sell) or simply keep the newly created ETF units in its inventory (<i>The maximum spread that Market Maker can have while posting bids and asks on the exchange Is 2%.</i>)</li> <li>j) At End of Day, exchange will check the underlying securities and the ETF units issued for any discrepancy.</li> <li>k) In case of any discrepancy between number of ETF Units issued and number of the underlying securities received, the Custodian will make good all the differences as needed.</li> <li>l) Fund Manager will calculate the right amount of cash for</li> </ol>

		<p>the day, as per the Fund policies. Any shortfall/access in the creation of ETF units will be settled, through Custodian, with Market Maker at the end of the day.</p> <p>2. The procedure for redemption of ETF units, as follows, will be in the similar fashion:</p> <ol style="list-style-type: none"> <li>a) Market maker will apply to Fund Manager for redemption the ETF Units.</li> <li>b) At the same time, Market maker will deposit Redemption Unit(s) in Market Maker account with custodian that it intends to redeem.</li> <li>c) Fund Manager, after initial checking, will approve the Unit Redemption application.</li> <li>d) Custodians will ensure that the ETF Units deposited by Market Maker appropriately correspond to the ETF Unit Redemption request.</li> <li>e) Custodian will liaise with the Exchange for redemption of ETF Units (Exchange will redeem and delist the Units from Depository Services)</li> <li>f) Custodian will then transfer the corresponding underlying securities and the cash portion to the Market Maker's account.</li> <li>g) At End of Day, exchange will check the underlying securities and the ETF Units created/redeemed for any discrepancy.</li> <li>h) In case of any discrepancy between number of ETF Units redeemed and number of the underlying securities delivered, the Custodian will make good all the differences as needed.</li> <li>i) Fund Manager will calculate the right amount of cash for the day, as per the Fund policies. Any shortfall/access in the redemption of ETF units will be settled, through Custodian, with Market Maker at the end of the day.</li> </ol> <p>3. Cash portion will be calculated at the End of Day on Forward NAV basis (i.e., it will be assumed that no units are created and redeemed during the day.) The valuation follows the conventional mutual fund methodology. Cash portion is exchanged during the day, based on last business day's cash values, with Market Maker however net settlements are done at the end of the day.</p> <p>4. End-of-day deadline / cut-off time for submission of application to create and redeem ETF units is 15 minutes prior to the close of market.</p>
--	--	--

14	<b>Secondary Market Operation - Buying and Selling of ETF Units</b>	Individuals Investors cannot participate in the primary market activity directly with Fund Manager for the purpose of creation and redemption of ETF Units. However, the investors may do so by contacting the authorized Market Maker(s), since only Market Makers can engage in primary market operation directly with Fund Manager.
15	<b>Valuation of Fund</b>	<p>The valuation points are two (a) intraday at the frequency of every 15 seconds, (b) end of day. The terms used to differentiate these two valuation points are Indicative Net Asset Value (iNAV) and Net Asset Value (NAV) respectively (refer to definition section of document for meaning of these terms).</p> <p>Fund Net Asset Value (NAV) is the value of the Fund at the end of each business day. NAV is calculated as total value of all Fund holdings using closing prices plus Cash (&amp; Cash Equivalents) minus all Accrued Charges calculated as of end of the business day. NAV per Unit is calculated as Fund's NAV divided by the total number of outstanding ETF Units.</p> <p>The completion of process and dissemination of NAV per unit will be done within two hours from the time of market close.</p> <p>The iNAV is an indication of NAV, during the trading hours. In calculating the iNAV last trade price is used. The remainder of the process will exactly be the same as in the case of NAV where the accrued charges, as per last business day's NAV, will be deducted to arrive at iNAV.</p> <p>In both NAV and iNAV cases the valuation information will be communicated in the form of NAV and iNAV per unit. This is arrived at by dividing the Net Asset Value by the number of units in issue.</p> <p>The NAV and iNAV of the Fund and the Units will be expressed in Saudi Riyal and will be available freely to the investors via the office of the Fund Manager or via the website of Tadawul and FALCOM: - <a href="http://www.falcom.com.sa">www.falcom.com.sa</a> and <a href="http://www.tadawul.com.sa">www.tadawul.com.sa</a>.</p> <p>The purpose of issuing the INAV is to proportionate the relationship between net asset value per unit and the market trading value per unit of the Fund.</p> <p>The Net Asset Value per Unit will be calculated by the Administrator in</p>

		<p>accordance with generally accepted accounting standards.</p> <p>An indication of type of charges that will be deducted from the Gross Asset Value is as follows:</p> <ul style="list-style-type: none"> <li>(i) Fund management fees and other fees of third parties' services rendered to the Fund – if any.</li> <li>(ii) The administrator and auditors fee</li> <li>(iii) The custodial services charges</li> <li>(iv) The Index Provider fee</li> </ul> <p>The exact amount of these charges is available in the summary of financial disclosure section of this document (appendix 1).</p> <p>In normal circumstance, the fund manager will follow the process defined above for valuating. However, in circumstance beyond his control he will seek to find the second best alternate for valuating the assets held. One example of such case is delisting of stock (held by fund manager) by CMA/TADAWUL. In cases where he will opt to fair value practice (instead of market value) and a proper disclosure will be made first to the Capital Market Authority (for their approval) and after obtaining the approval to the general public using the TADAWUL, FALCOM website and any other mode of communication that is deemed appropriate.</p>
16	<b>Distribution Policy</b>	<p>The dividends received by Fund investments will generally be kept in the Fund. The Fund does not make regular distributions to Unit holders and the dividends will be reflected on the net asset value of the Fund.</p> <p>The Fund manager may reinvest the excess cash, whenever feasible, by proportionately buying into the existing equities of the Fund with the key objective of tracking the Index.</p> <p>Nonetheless, the excess cash may be distributed to ETF unit holders in the form of dividends as deemed appropriate by Fund Manager in view of Fund's objectives. Any such distribution will be subject to approval of the Fund's Board of Directors.</p>

<p><b>17 Fees and Expenses</b></p>	<p>The Fund neither charges the subscription and redemption fees to Market Maker(s) nor to the individual investors. However, the investors may be liable to pay relevant brokerage commissions to their respective brokers for on exchange buying and selling of ETF Units.</p> <p>The breakdown of total expenses charged and paid by the fund manager out of fund's assets is as follows:</p> <ul style="list-style-type: none"> <li>(i) Management Fees: - 0.50% (Fifty Basis Points) of Net Asset Value per annum. The management fee will be calculated and accrued as a percentage of the net asset value at each Valuation Day and payable Quarterly to the Fund Manager in arrears.</li> <li>(ii) Administrator Fee: - 0.22% (Twenty Two Basis Points) of Net Asset Value per annum. The administrator fee will be calculated and accrued as a percentage of the net asset value at each valuation day and payable quarterly to the Administrator in arrears.</li> <li>(iii) Custodial Charges: - 0.10% (Ten Basis Points) of Net Asset Value per annum. The custodian charges will be calculated and accrued as a percentage of the net asset value at each valuation day and payable quarterly to the Custodian in arrears.</li> <li>(iv) Index Fee: - 0.10% (Ten Basis Points) of Net Asset Value per annum: To be calculated and accrued as a percentage of the net asset value at each valuation day and payable quarterly in arrears. The Index Fee covers the fees paid to Index Provider and all the costs related to dissemination of Index.</li> <li>(v) Tadawul Listing and Basic Registration Fee:- Up to 0.08% (Eight Basis Points) of Net Asset Value per annum to be paid to the Exchange.</li> </ul> <p>The Total Expense Ratio (TER) of the Fund will not exceed 1% (Hundred Basis Points) of the Fund's NAV.</p> <p>The Fund Manager will bear the actual ordinary expenses that are incurred after commencing the Fund operations, such as follows:-</p> <ul style="list-style-type: none"> <li>1- Expenses for publishing the details of Unit rates in the newspapers, electronic means, other information systems and listing of the Fund's Units in the stock markets.</li> <li>2- Fees due to the liquidator in case of liquidation.</li> <li>3- Expenses related to the publication of the annual reports.</li> </ul>
------------------------------------	--

		<p>4- Any other actual operation expenses payable to persons dealing with the Fund.</p> <p>The above expenses are considered as part of the management fees of the Fund.</p> <p>The market maker compensation, if any, for in kind unit creation/redemption services shall be paid by the administrator out of his fee.</p>
18	<b>Dealing costs</b>	<p>The Fund only creates and redeems units on in-kind basis however for the purpose of rebalancing of portfolio Fund may engage in buying and selling of underlying stocks. Transactions pertaining to such rebalancing or other activities relevant to the Fund, in underlying assets, will be booked at cost. Any dealing cost, therefore, will be paid out of Fund assets.</p>
19	<b>Fund Manager</b>	<p><u>Fund Manager:-</u></p> <p>The Fund Manager is FALCOM Financial Services. FALCOM Financial Services is an authorized person under the Authorized Persons Regulations vides license number 060 20-37 and date of 24/4/1427 AH.</p> <p><u>Address of the Fund Manager:</u></p> <p>FALCOM Financial Services  Prince Mohammad Ben Abdul Aziz (Tahliya) Street  P.O. Box 884 Riyadh 11421  Tel +966(1)2114725  Fax +966(1)4617268  <a href="http://www.falcom.com.sa">www.falcom.com.sa</a></p> <p><u>Functions of Fund Manager:-</u></p> <ol style="list-style-type: none"> <li>1- To establish FALCOM Saudi Petrochemical ETF</li> <li>2- To appoint the Market Maker and arrange for initial seeding of fund from him. On an ongoing basis, co-ordinate with market maker for creation and Redemption of fund's units.</li> <li>3- To appoint Index Provider and agree with him the continuous criteria for creation, calculation and dissemination of index.</li> <li>4- To appoint the Custodian and coordinate, on ongoing basis, creation and Redemption of fund's units.</li> <li>5- Setting up policies of the Fund, determining the mechanism/procedures of Creation and Redemption of Units.</li> </ol>

		<ul style="list-style-type: none"> <li>6- To arrange for the listing of FALCOM Saudi Petrochemical ETF.</li> <li>7- Ensure to seek the replication of Benchmark Index performance and correct any deviations.</li> <li>8- To monitor the performance and operation of the Fund and to seek to achieve its goals within the framework of the announced policies and strategy.</li> <li>9- Determine and announce the underlying basket of shares and cash portion, if any.</li> <li>10- Ensure periodic re-balancing the components of the portfolio in line with the index rebalancing.</li> <li>11- To assure liquidity is provided by the Market Maker.</li> <li>12- Ensure proper calculation and dissemination of the NAV and the INAV of the Fund.</li> <li>13- Ensure publication of the information related to the index.</li> </ul>
20	Custodian	<p><u>Custodian :-</u> The Custodian is FALCOM Financial Services. FALCOM Financial Services is an authorized person under the Authorized Persons Regulations vides license number 060 20-37 and date of 24/4/1427 AH.</p> <p><u>Address of the Custodian:</u> FALCOM Financial Services Olaya Street P.O. Box 884 Riyadh 11421 Tel +966(1)2114717 Fax +966(1)2054819 <a href="http://www.falcom.com.sa">www.falcom.com.sa</a></p> <p><u>Functions of the Custodian :-</u></p> <ul style="list-style-type: none"> <li>1- To keep physical custody of fund's assets, when required.</li> <li>2- In line with pre-agreed procedure and as per the fund manager's instruction process the request initiated by market maker for unit creation/redemption in the following manner: <ul style="list-style-type: none"> <li>(a) Verify the components of underlying basket is in line with the basket information announced by fund manager</li> <li>(b) When processing Unit Creation application, Custodian should arrange to transfer the underlying basket of stocks and cash portion from market maker's account to Fund's account.</li> <li>(c) When processing Unit Redemption application, Custodian should ensure availability of the ETF Units in market maker's account.</li> <li>(d) Arrange for Creation/Redemption and ensure</li> </ul> </li> </ul>



		<p>listing/delisting of Units is properly done by the Exchange.</p> <p>(e) Upon Units Creation, Custodian should ensure that the underlying stocks (and its value) transferred to ETF account matches the ETF Units (and its value) transferred to market maker's account.</p> <p>(f) Upon Units Redemption, Custodian should ensure that the ETF Units (and its value) redeemed matches the underlying stocks (and its value) transferred to market maker's account.</p> <p>(g) Reconcile the intra day creation/Redemption activity with TADAWUL.</p> <p>For disclosure and mitigating techniques for managing the potential conflict of interest refer to conflict of interest section of this documents and attached conflict of interest statement (appendix 2)</p>
21	Market Maker	<p><u>Market Maker:-</u></p> <p>Market Maker for the Fund is FALCOM Financial Services. FALCOM Financial Services is an authorized person under the Authorized Persons Regulations vides license number 060 20-37 and date of 24/4/1427 AH to carry out the activity of dealing as principal.</p> <p><u>Address of Market Maker:-</u></p> <p>FALCOM Financial Services  Olaya Street  P.O. Box 884 Riyadh 11421  Tel +966(1)2114793  Fax +966(1) 2054819  <a href="http://www.falcom.com.sa">www.falcom.com.sa</a></p> <p><u>Functions of the Market Maker:</u></p> <ol style="list-style-type: none"> <li>1- To provide initial (primary market) liquidity by seeding the ETF.</li> <li>2- To provide buy/sell side liquidity in secondary market within the spread band of 2%.</li> <li>3- Market Maker will facilitate the creation/redemption request together with Fund Manager, Custodian and TADAWUL.</li> <li>4- Contribute to the stability of the price and demand for the Fund's units in the market by affecting the magnitude of the supply or demand as appropriate.</li> </ol>

		For disclosure and mitigating techniques for managing the potential conflict of interest refer to conflict of interest section of this documents and attached conflict of interest statement (appendix 2)
22	<b>Board of Directors of the Fund</b>	<p>The Board of Directors of the Fund consists of the following persons:</p> <p><b>1. Mr. Adeb A. Al-Sowailim:</b></p> <p>Mr. Al-Sowailim is the chairman of the Board of Directors of the Fund. Mr. Al-Sowailim is the Chief Executive Officer (“CEO”) of FALCOM Financial Services. He has above 15 years in the banking and investment industry. Formerly, Mr. Adeb worked with the Saudi American Bank (SAMBA) and Banque De Saudi Fransi. He holds a Bachelor of Law degree from King Saud University, Riyadh, Saudi Arabia.</p> <p><b>2. Mr. Saleh Abdullah Al-Henaki:</b></p> <p>Saleh Al-Henaki is presently Head of the Asset Management of FALCOM Financial Services. He holds a Bachelor of Arts in Quantitative Methods from King Saud University in Riyadh, Master Degree of Arts in Economics from University of Colorado in 1998 and a Master Degree of Financial and Actuarial Mathematics from University of Michigan in 2002. Saleh Al-Henaki has above 14 years of practical knowledge in investment banking, leasing and insurance with the Saudi Monetary Agency (SAMA), Al Rajehi Bank and FALCOM Financial Services. His experience comprises Portfolio Management and Capital Markets Analysis that covers Saudi market, GCC and USA.</p> <p><b>3. Mr. Atta H. Al-Bayouk:</b></p> <p>Mr. Atta is an independent member of the Board of Directors of the Fund. Mr. Al-Bayouk has over 40 years of practical experience in the scope of auditing, Zakah/ Customs and Administrative Advisory, liquidation of companies. He is a Fellow member of Institute of Chartered Accountants in United Kingdom and Wales. He holds a Bachelor degree in Accounting and Business Administration from King Saud University, Riyadh, Saudi Arabia. Mr. Al-Bayouk is currently providing auditing, Zakah/Customs and Administrative Advisory and companies’ liquidation services from his office in Riyadh.</p>

		<p><b>4. Mr. Fahad S. Al-Musabahi:</b></p> <p>Mr. Al-Musabahi is an independent member of the Board of Directors of the Fund. Mr. Al-Musabahi has over 19 years of numerous experiences in the scopes of finance, budgeting and cost control. Presently, Mr. Al-Musabahi is the Financial Advisor of Saudi Oger Group. He holds a B.S. in Accounting from King Saud University in Riyadh, Saudi Arabia. Also, he is a member of the Saudi Accounting Association (S.A.A.) and a member of the Saudi Organization for Certified Public Accountants (S.O.C.P.A.).</p> <p>The members of the Board of Directors of the Fund occupy the same positions in the Board of Directors of the following Funds:</p> <ul style="list-style-type: none"> <li>• FALCOM Saudi Equity Fund.</li> <li>• FALCOM Saudi Riyal Murabaha Fund.</li> <li>• FALCOM US Dollar Murabaha Fund.</li> <li>• FALCOM Euro Murabaha Fund.</li> <li>• FALCOM Sukuk Fund (Saudi Riyal).</li> <li>• FALCOM Multi-Asset Fund.</li> <li>• FALCOM Saudi Equity ETF.</li> </ul>
23	<b>Auditor</b>	<p><b>PricewaterhouseCoopers</b> is appointed by the Fund Manager as Fund's Auditor.</p> <p><b>Fund Auditor's address:</b></p> <p>King Faisal Foundation Bldg. Tel. No. +966-1-4654240; Fax No. +966-1-465-1663 P.O. Box 8282, Riyadh 11482</p>
24	<b>Conflict of Interest</b>	<p>Due to widespread and diversity of the Fund Manager's business, its affiliates, employees and agents a conflict of interest may arise.</p> <p>The Fund Manager (and their respective affiliates, employees and agents) may promote, manage, advise, sponsor or be otherwise involved in further collective investment vehicles. In any such case, the interest of the Fund and the Unit holders shall be observed. The Compliance Department of the Fund Manager shall take all arrangements required to handle any conflicts of interest that could arise during the Fund's operation term and fairly resolve any case.</p> <p>The Fund Manager will exert all due efforts to fairly resolve any case of conflict of interest that may occur and shall deploy its professional expertise to ensure the interest of Funds and its participants.</p>

25	<b>Register of Unit holders</b>	The accurate and update unit holder's register will be kept by TADAWUL depository in its capacity of registrar of the issue.
26	<b>Rights &amp; Liabilities of Unit holders</b>	<p><u>Rights of Unit Holders</u></p> <ol style="list-style-type: none"> <li>1- Receive confirmation of the title transfer immediately upon execution of transaction at secondary market.</li> <li>2- In case of participation through primary market – Immediately upon creation/Redemption of units by custodian a confirmation of title record.</li> <li>3- Receive information about the investment policies, investment objectives, financial position and general affairs of the ETF.</li> <li>4- Receive dividend, if any, within reasonable time but no later than 30 days of their declaration.</li> <li>5- Receive the NAV and INAV information at the interval and fashion stipulated in the offering documents</li> <li>6- Receive the underlying basket information at the interval and fashion stipulated in the offering documents</li> <li>7- Receive the periodic audited financial results at least once yearly.</li> <li>8- Receive assurance to the adherence to a Code of Ethics which requires that investment decisions are taken in the best interest of the unit holders.</li> </ol> <p><u>Voting Rights Policies</u></p> <p>ETFs are investment funds - and therefore, the voting rights of the underlying stocks are held by the fund managers, not the fund unit holders. The policy decision for voting or not voting in the case for the share held as underlying is made in line with the Article 37 of Investment Fund Regulation that says:</p> <p>“The fund board shall consult with the compliance officer and/or compliance committee and approve overall policies regarding the exercise of voting rights attributed to an investment fund because of securities included in its portfolio of assets.</p> <p>Any voting rights attributed to an investment fund because of securities included in its portfolio of assets shall be exercised or not exercised by the fund manager after consultation with the compliance officer and/or the compliance committee.”</p> <p>The unit holders of the Fund do not have any voting right over the</p>

		<p>underlying stocks.</p> <p><u>Unit Holders Liabilities</u></p> <p>A Unit Holder shall not be under any obligation to indemnify the Manager or any of his appointed party in the event that the liabilities incurred by the Manager and/or his appointed party in the performance of the provisions of their obligation exceed the value of the assets of the Fund, and any right of indemnity of the Manager and/or the his appointed party shall be limited to recourse to the Fund.</p> <p>A Unit holder is not liable for any amount in excess of the purchase price paid for the unit and that no further liability can be imposed on him in respect of units which he holds.</p>
27	<b>Reporting to Unit holders</b>	<p>Within forty five days as from the end of each quarter the Fund Manager will prepare a report stating the net value of assets and components of the portfolio as well as the components of the Index. This report will be available free of fee to the Market Maker, Authorized Participants and investors at their request through the Fund Manager offices.</p> <p>The Fund Manager will prepare an annual report for the Fund within sixty days as from the end of the fiscal year of the Fund – including all details of the financial status of the Fund and investments of the Fund as well as its performance and the Index components by the end of the fiscal year. Such report will be available upon request at the Fund Manager Offices free of charge.</p> <p>Any other information including the net asset value of per unit or indicative price of Unit or announcing any suspension for the Valuation of Unit will be published via the electronic websites of the Fund Manager and Tadawul and will be available via the Fund Manager Offices free of charge.</p> <p>Any notices to be served by the Fund Manager will be published on the available means in conformity with the regulations.</p>
28	<b>Winding up of Fund</b>	<p>The Fund Manager may terminate the Fund if it appears that the value of the Fund’s assets under management are not sufficient enough to justify the economic operation of the Fund or in case of the occurrence of any change on the laws or regulations or any other circumstances which the Fund Manager could see as sufficient reason that stipulates</p>

		<p>terminating of the Fund subject to the approval of the Capital Market Authority and sixty days (60 days) prior notice to the Unit holders.</p> <p>In case of terminating the Fund assets will be liquidated and debts and liabilities will be settled. The remaining net assets will be distributed among the unit holders within thirty days as from the liquidation date on pro rata basis.</p> <p>In case of commencement of liquidation no distributions will be made among the investors unless all assets of the Fund are liquidated and receiving the proceeds of the liquidation by the Fund Manager.</p>
29	<b>Complaints Procedures</b>	<p>In the event of any complains or queries, it should be addressed to:</p> <p>Head of Compliance FALCOM Financial Services Prince Mohammad Ben Abdul Aziz (Tahliya) Street P.O. Box 884 Riyadh 11421 Tel +966 (1) 2114721 Fax +966 (1) 4615216</p> <p>All the procedures of complaining will be available at request.</p>
30	<b>Fund Financial Statements</b> - <b>Annual Audited</b> - <b>Semi Annual Interim</b>	<p>The financial year of the fund will end on 31<sup>st</sup> December each year.</p> <p>The first financial year will be shortened taking into account the launch date.</p> <p>The audited Annual Financial Statement and relevant explanatory statements will be prepared within ninety (90) days from the end of the financial year of the Fund.</p> <p>The Fund will also prepare, reviewed semi-annual interim financial statements of the Fund within forty five (45) calendar days of the end of the period.</p> <p>These statements will be made available to the investors, free of charge, by the Fund Manager by publishing on its website: <a href="http://www.falcom.com.sa">www.falcom.com.sa</a>, or by dispatching via mail to the registered addresses of the investors upon their request.</p>
31	<b>Liquidation and Appointment of</b>	<p>The CMA has the authority to appoint a successor for the manager, a liquidator for the Fund or to take any action as it deems appropriate in</p>

	<b>Liquidator</b>	accordance with the Investment Funds Regulations.
<b>32</b>	<b>Modifications to the Terms and Conditions of the Fund</b>	By holding units in the Fund, the unit holders agree that the terms and conditions of the Fund, terms of the Subscription Form or any other related documents will govern the relationship between the unit holders and the Fund Manager. The unit holders also agree that the Fund Manager may from time to time, at its discretion, amend these Terms and Conditions or any other documents, subject to the CMA prior consent. In such case, the Fund Manager will acquaint the investors by posting the proposed amendments (the amended text) on Tadawul and/or Fund manager's website. The amendments will become effective 60 days after the date of such notification.
<b>33</b>	<b>Governing Law</b>	<ol style="list-style-type: none"> <li>1. The Fund is regulated by the laws prevailing in Saudi Arabia and the regulations issued by Capital Market Authority and their amendments.</li> <li>2. Any disputes arising between the parties of this Agreement (the "Terms and Conditions") shall be referred to the Committee of Resolution of Securities Disputes in the Kingdom of Saudi Arabia.</li> </ol>
<b>34</b>	<b>Compliance to the Investment Funds Regulations</b>	The Fund Manager acknowledged that all Fund documents comply with the Investment Funds Regulations and ETF instructions issued by the Capital Market Authority (CMA) in Saudi Arabia and has obtained waiver from the Authority with regards to requirements of Article 27 and Article 50 (a) of Investment Funds Regulations.
<b>35</b>	<b>Fund Manager's Indemnity</b>	The Fund Manager indemnifies to hold all Unit holders of the fund harmless of any losses occurred due to gross negligence, misconduct and intentional fraud by any of his directors, officers, affiliates. This indemnity will not apply where the fund incur any loss by any act of the directors, officers, affiliates where they acted prudently and in good faith.

**This is to acknowledge that I/we have reviewed, understood and accepted these terms and conditions and their Appendixes. I have acquired a copy of these terms and conditions and accordingly I hereby sign:**

**Name of Investor:**

**Signature of Investor**

**Date:**    /    /

**Appendix (1) (Summary of Financial Disclosure):-**

	<b>Item:</b>	<b>Details:</b>
1	Subscription Fees	Nil
2	Total Fund Expenses	Up to 1% of NAV per annum (Total Expense Ratio will not exceed 1% per annum).
3	Size of Creation Unit:	25,000 ETF Units.
4	Size of Redemption Unit:	25,000 ETF Units.
5	Minimum Creation/Redemption of Units:	One Unit.
5	Initial Offering	SAR. 25 million.
6	Fees of external auditor:	SAR. 20,000/- per annum.
7	Currency of Fund:	Saudi Riyal
8	Valuation of Fund:	Each Business Day, iNAV will be at 15 seconds interval.
9	The Index	FSPI FALCOM Saudi Petrochemical Index



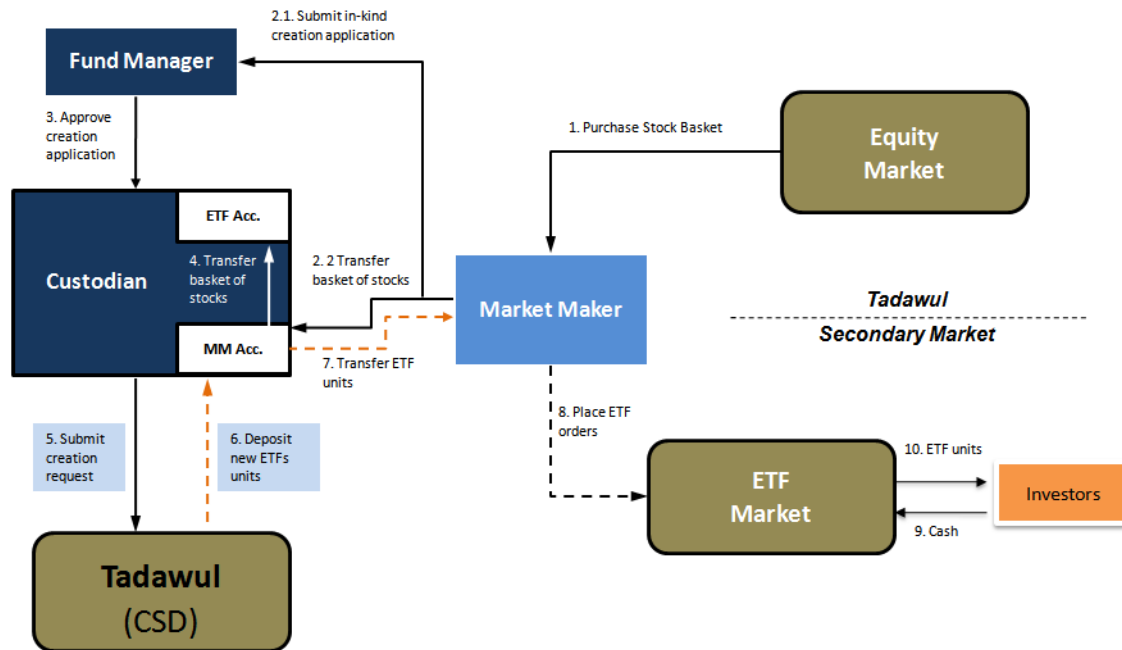


## Appendix 2 - Conflict of Interest Statement

The potential conflict of interest may arise due to the fact that FALCOM Financial Services will be undertaking all major functions.

For clarity the Roles, Associated Interests and Potential Conflict of Interests are provided below.

### A - The Relationship Diagram:



### B- Potential Conflict of Interest:

- (i) The Fund Manager generally seeks increased activity in primary market in order to have increased Asset Under Management. The market maker however would seek low unit creation activity at the time of high market volatility.
- (ii) The Fund Manager will seek to have good liquidity in the secondary market while the market maker would like to have the minimum commitment to provide liquidity.
- (iii) The market maker would like to have the higher spread to maximize his profit in secondary market operation while the fund manager would prefer the ETF to sell more so that the product is popular and have greater interests from the investor community.

### C- Potential Conflicts of Interests - Mitigation Procedure:

The potential conflicts of interests are managed through the following:

- (i) The implementing of Chinese walls concept and related procedure
- (ii) Making the compliance department responsible for checking and ensuring that each department's obligations toward the market and regulator are met.

The commitment embodied in the agreements is translated into service level agreements and this is then reflected into the procedure manuals. Each process will be identified and related control will be put in place. The ongoing monitoring by risk and control department and compliance will ensure that not only the obligations are met but also each department is working within the control environment set to provide assurance of effective internal control.