Beyond convention

The QFC/Campden Wealth
Middle East Wealth Study 2013

Campden Research
A division of Campden Wealth

qatar
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About this report

With a decade of expertise in serving the needs of family businesses and significantly wealthy families around the world, Campden Wealth was thrilled to spearhead this unprecedented analysis of private wealth in the Middle East, the Qatar Financial Centre/Campden Wealth Middle East Wealth Report 2013. Having conducted similar research in Europe, North America and Asia-Pacific, Campden found a foray in the Middle East to be a logical next step for the deployment of the company's unparalleled expertise in a fascinating, yet poorly understood, segment of the world economy.

The research includes a mix of in-depth interviews and surveys, in which 47 wealth owners took part in the summer and autumn of 2012. For more information, please refer to the Methodology section at the end of this report.

About Campden Wealth

Campden Wealth is the leading independent provider of information, news and education for generational family business owners and family offices globally in person, in print, via research and online.

Campden Research supplies market insight on key sector issues for its client community and their advisors and suppliers. Through in-depth studies and comprehensive methodologies, Campden Research provides unique and proprietary data and analysis based on primary sources. For more information about Campden Research please visit campdenresearch.com or email research@campden.com

Campden Wealth also publishes the leading international business titles *CampdenFB*, *CampdenFO* and *CampdenNXG*. *CampdenFB* is aimed at members of family-owned companies in at least their second generation. *CampdenFO* is the international magazine for family offices and private wealth advisers. *CampdenNXG* meets the needs of next-generation wealth owners, focusing on succession-related issues. For more information visit: CampdenFB.com

About the Qatar Financial Centre

The Qatar Financial Centre Authority ("QFC Authority") is the commercial arm of the Qatar Financial Centre ("QFC"). Set up by the government of Qatar in 2005, the QFC also consists of an independent financial regulator, the QFC Regulatory Authority, and an independent judiciary comprising a civil and commercial court and a regulatory tribunal. The QFC Authority is responsible for leading the expansion of Qatar's financial services sector and for developing relationships with the regional and global financial community. In February 2010, the QFC Authority unveiled a new strategy focusing on the creation of a global business hub for three core markets – asset management, reinsurance and captive insurance.

The QFC provides Qatari and international firms with access to local and regional investment opportunities, including over $137 billion of prospective infrastructure investment in Qatar through to 2015, as well as over $1.2 trillion of planned investment across the Gulf Cooperation Council. The QFC offers a strong legal and regulatory environment for firms modelled on global best practice and many leading international and local firms have already obtained QFC licenses. These comprise a vibrant mix of investment banking, private banking, (re)insurance and asset management firms within the regulated space, and consultancy service providers, law firms and financial services recruitment firms in the non-regulated arena.

The favourable business environment created by the QFC and the QFC Authority enables firms to quickly establish a physical presence in Qatar and the region. Business can be carried out inside or outside Qatar, in local or foreign currency. Uniquely, this allows businesses to operate both locally and internationally. Furthermore, the QFC allows 100% ownership by foreign companies, and all profits can be remitted outside of Qatar. With the ability to engage in both onshore and offshore business, QFC-licensed firms have the chance to participate directly in one of the most economically dynamic regions of the world.

Methodology

The QFC/Campden Wealth Middle East Wealth Report 2013 is the result of exclusive proprietary research conducted by Campden Research in the summer and autumn of 2012.

The goal of the research is to shed light on the most important themes of relevance to private wealth owners in the Middle East, focusing particularly on the Gulf Cooperation Council economies.

Individuals participated in this research on the understanding that the findings would be aggregated, with nothing attributed to specific organisations or persons. This principle was adhered to throughout the project.

It should be emphasised that the findings of the QFC/Campden Wealth Middle East Wealth Report 2013 reflect the views of individual survey participants. While the survey covers a broad range of wealth levels and operating models, it does not purport or claim to provide a comprehensive picture of this diverse and private segment of the financial services landscape.

Executive Summary

Wealth in the Middle East, and particularly in the six countries that make up the Gulf Cooperation Council ("GCC"), is a global phenomenon today. But the nature of that wealth, especially from an individual perspective, is often misunderstood. This report is designed to shed light on Middle Eastern wealth holders and on how they interact with providers of financial services designed to meet their needs.

Big wealth…

Estimates of the Middle East's wealth are fraught with difficulties, not least because the process of wealth creation is opaque at the best of times. Of course, this isn't very different to what might be the case elsewhere, but the lack of transparency can create difficulties estimating the levels of wealth controlled by individuals. The most authoritative estimates place the region's overall wealth at more than $4.5 trillion, with approximately 35 billionaires.

…driven by family businesses…

If providers of financial services need to know one thing about the Middle East, it is that the family business unit is very powerful and pervasive. Indeed, as much as 75% of the private sector's economic activity in the GCC is controlled by family businesses. That importance was reflected in the survey, where 60% of respondents were members of family businesses.

…but entrepreneurs are equally vibrant

Family businesses are dominant, but the spirit of entrepreneurship in the Middle East is alive and well – a fact highlighted by this report. Needless to say, the two might not be mutually exclusive, whereby people behind a family business would often describe themselves as entrepreneurs as well as family business owners. This was particularly true of companies that were still in transition between the first and the second generation. But an increasingly wide group of wealth owners in the Middle East described themselves as entrepreneurs. Providers of financial and other business services to the Middle East will increasingly need to bear this in mind and provide products and services to cater to this business class.

Middle East wealth owners like their banks…

Nearly 40% of the sample group said they had an excellent relationship with their private banker and/or wealth manager, with only 7% saying it was poor. This appears to be an overriding endorsement of private banks in the region. It certainly compared favourably with Campden Wealth's annual European family office study, where satisfaction levels were much lower against the background of the fallout from the financial crisis of 2008/2009. Of course, the Dubai property crash was directly linked to the financial crisis, but for the most part, the Middle East avoided the worst of the crisis and this certainly had a bearing on wealth owners' relationships with service providers like private banks.

…but the banks have plenty to worry about

Respondents might be happy with their relationships with private banks, but they were still questioning these relationships more than ever. Sixty percent of respondents said they scrutinised their relationship with their private bank/wealth manager more frequently than they did a year ago. Rather more worrying for private banks and wealth managers servicing the ultra-high net worth individuals in the Middle East, was that 80% of respondents felt bankers didn't take responsibility for their bad decisions. The respondents also wanted more transparency about the level of fees.

Regional investors are taking much more control…

Wealth owners in the region were increasingly keeping their money in the Middle East, with 55% of respondents saying they invested locally rather than internationally. This is a significant development, and backs up studies showing capital from emerging markets is staying put and being deployed much more in these markets than in the past. Financial centres like Qatar, Dubai and Abu Dhabi were increasingly being seen as safe havens to deposit money. This was probably brought into focus more than ever by the large sums of money that entered these jurisdictions during the Arab Spring and that is continuing to do so. The survey also found that respondents described themselves as "very active" in the management of their assets.

…and want healthy returns…

While many ultra-high net worth investors in other parts of the world are coming to terms with an environment characterized by low investment returns, Middle Eastern investors appear as bullish as ever. More than 60% of participants said they pursued "wealth creation", rather than "wealth preservation". Typically, that would mean few would be content with less than 8% growth of their investments.

…but often based on low risk investments

As with most investors, Middle Eastern wealth owners wanted high returns with relatively low risk, hence their preference for cash and property in their portfolios. But alternatives investments such as hedge funds and private equity were also popular among the respondents, which could help to explain their expectation of higher returns.

The Middle East has few family offices…

As with other emerging markets, the Middle East had few family offices based in the region. Indeed, given the level of wealth, there was very little correlation with the number of family offices and the number of wealth owners, as there is in Europe and the US. Through anecdotal evidence, Campden estimates there are currently between 60 and 75 family offices in the Middle East, most of them located in the GCC economies. The number did increase significantly when a more informal definition was applied, which included investment structures within the principals' companies. In this case, Campden estimates that there are just over 100 family office-like structures in the GCC. Of course, significant wealth owners in the region might have family offices based in London, Geneva or Paris, but placing an estimate on this number is extremely difficult.

…and multi family offices haven't emerged as an alternative…

The multi family office model hadn't gained critical mass in the Middle East. This was largely due to the same factors hindering their rise in other emerging markets, namely a lack of trust to pool money with other families in such a structure. Intra-family investing took place with much more of a business perspective, rather than a family office one. This wasn't expected to change in the near future.

…but the family office model will grow rapidly

Although family offices have yet to take hold among the investment structures of the very wealthy in the Middle East, at least within the region, the potential was compelling. Campden estimates that just as large sums of money have poured into the financial centres of Dubai and Qatar during the Arab Spring – rather than going to Switzerland or other financial centres outside of the region – so too will family offices be increasingly located in these centres. Boosting this trend is likely to be the recent adoption of dedicated Single Family Office Regulations by the Qatar Financial Centre, as well as the existence of similar regulations at the Dubai International Financial centre. These regulations are designed to streamline and speed up the procedures for establishing a family office on those centres and are likely to significantly contribute to the growth of these entities in the Middle East.

1

Introduction

Key findings

- The Middle East is a region of rich diversity that does not lend itself easily to generalisations concerning business culture and customs
- It is a region whose emergence as an economic powerhouse is relatively recent, even though it has been years in the making
- The performance of economies in the region has outpaced that of the rest of the world by a wide margin. In turn, Qatar's staggering growth, sustained over an extended period of time, has been all the more impressive
- The surpluses enjoyed by countries in the region have been structured as sizeable sovereign wealth funds that have enjoyed rapid growth and been deployed across the global economy
- The region's tumultuous history, marked by constant ebbs and flows, informs the way business is conducted; inter-personal relationships drive deals to a larger extent than elsewhere
- The family is at the core of Middle Eastern societies, and this is very much apparent in the business culture; multi-generation business dynasties are common
- Concerns about discretion and privacy are prevalent, and the business culture is defined by an emphasis on personal relationships and trust

1.1 An overview of the structure of this report

The inaugural Middle East Wealth Report by the QFC and Campden Wealth brings an important contribution to the analysis of the biggest trends regarding the wealth community in one of the most dynamic, diverse and exciting regions of the global economy.

This research sets out to outline the defining features of private wealth in the Middle East in terms of origins and deployment, then moves towards examining the relationship between wealth principals and those who advise them, focusing in particular on the quality of the relationships between advisers and advisees, taking into closer account the principals' view on the services they receive. It then shifts focus towards investments and asset allocation trends, and compares these trends with other parts of the world. This is done from the perspective of the ultra-high net worth individual, defined as those with investable assets of at least $35 million, and further up the wealth chain of family office clients.

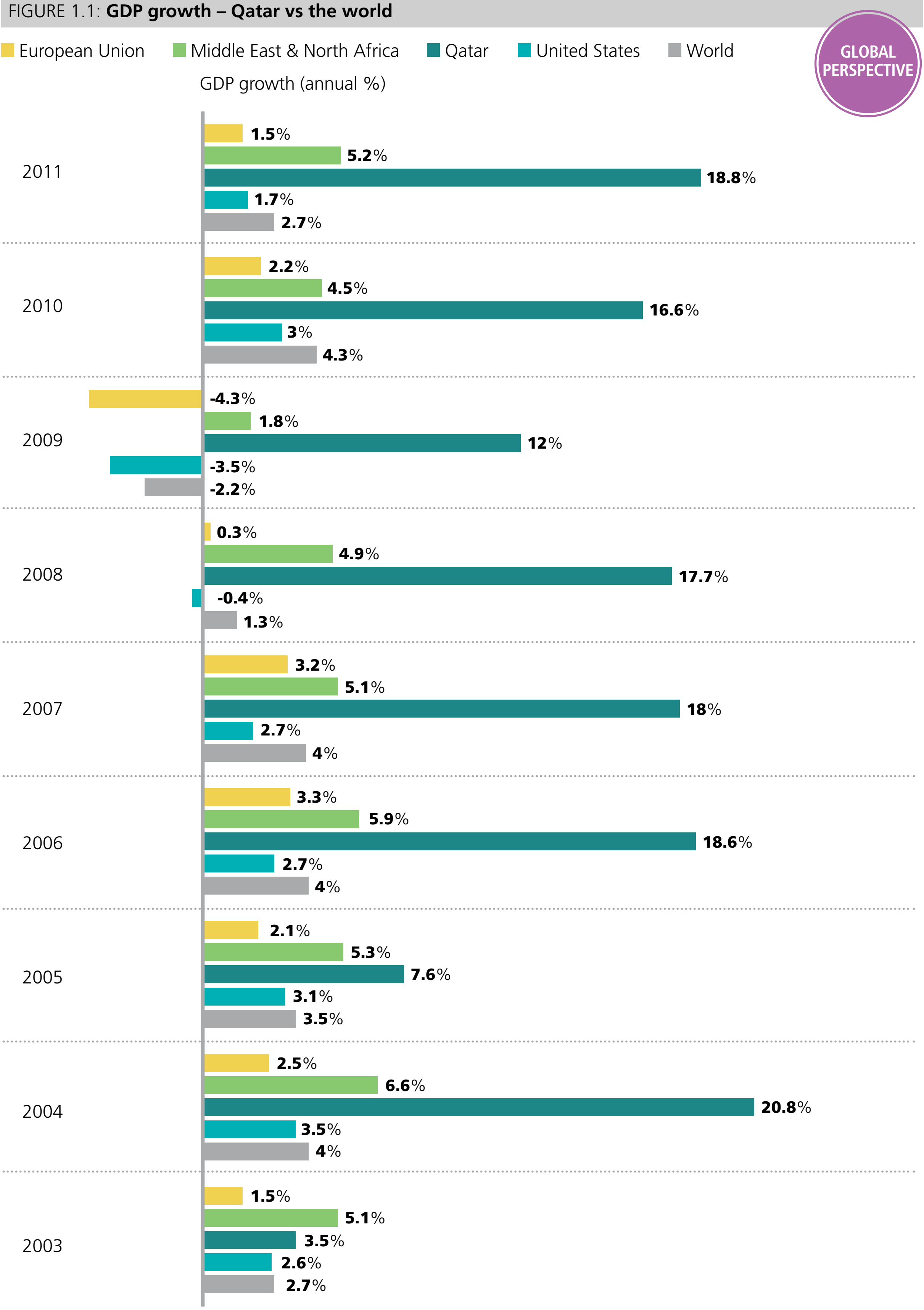
1.2 A region of rich diversity, insufficiently understood

Spanning from Iran to as far west as Morocco, the space that the rest of the world knows as "the Middle East" encompasses immense diversity that transpires in all aspects of life, including the business practices of utmost relevance to this study. In recognition of this, the report will shy away from generalisations wherever possible. At the same time, some over-arching themes and trends of significance to the entire region will be identified, and a degree of generalisation will be inevitable.

For the purpose of this report, much of the analysis will focus on the Gulf Cooperation Council countries – that is Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain and Oman. It is mainly in this part of the Middle East that the world has seen the emergence of a global economic powerhouse, driven by Saudi Arabia and augmented in recent years with the extraordinary wealth and development of the UAE and Qatar. Of course much of this has been lead by the vast oil, and more recently gas, reserves in the region. But as these economies have matured, their ability to diversify into other sectors, particularly in services and construction, has been impressive. Increasingly, places like Saudi Arabia, Qatar and the UAE are gaining a reputation as massive investors outside of the region. These investors are private individuals (the best known by far being Saudi Arabia's Prince Alwaleed bin Talal) and sovereign wealth funds.

Taken as a whole, the Middle East has outpaced economic growth rates in most other regions in the world in the last 10 years. Indeed, apart from the difficult years of 2009 and 2010, when the global financial crisis was at its worst, the Middle East has achieved GDP growth of 5% or above (see Figure 1.1). Of course, much of this has been driven by strong growth in places like Qatar, which has achieved extraordinary GDP growth for much of the last 10 years – sometimes more than 15% a year.

FIGURE 1.1: **GDP growth – Qatar vs the world**



Source: World Bank

The extent of Qatar's economic expansion is apparent even beyond the very strong growth rates shown in Figure 1.1. While Qatar has deployed its financial surpluses to make a series of high-profile financial investments that will be described later in this report, it is has also helped with bailouts in crisis-struck Greece and Italy – the latter being a member of the Group of Eight (the world's largest economies) and boasting an economy several times the size of Qatar's. Just how significant these outflows have become was highlighted in a Barclays Capital report which found capital outflows grew six-fold in 2011 compared to the previous year, reaching $62.6 billion (€48.8 billion).

Such investments have cemented the public profile of Qatar as a globally-oriented state with boundless ambitions, a notable example being the successful bid to host the World Cup tournament in 2022 – arguably the highest-profile sporting event in the world after the Olympic Games.

The above-mentioned facts and figures notwithstanding, it is a fair assessment to say that knowledge of the Middle East has not grown with nearly the same speed. More often than not, outdated clichés and misperceptions about the Middle East abound, and are clearly visible in how outside companies approach this region steeped in a complex history in which mythology and facts can sometimes be difficult to tell apart. This research endeavours to make a contribution towards a new, evidence-based approach to this region.

Focus on The Middle East's sovereign wealth funds

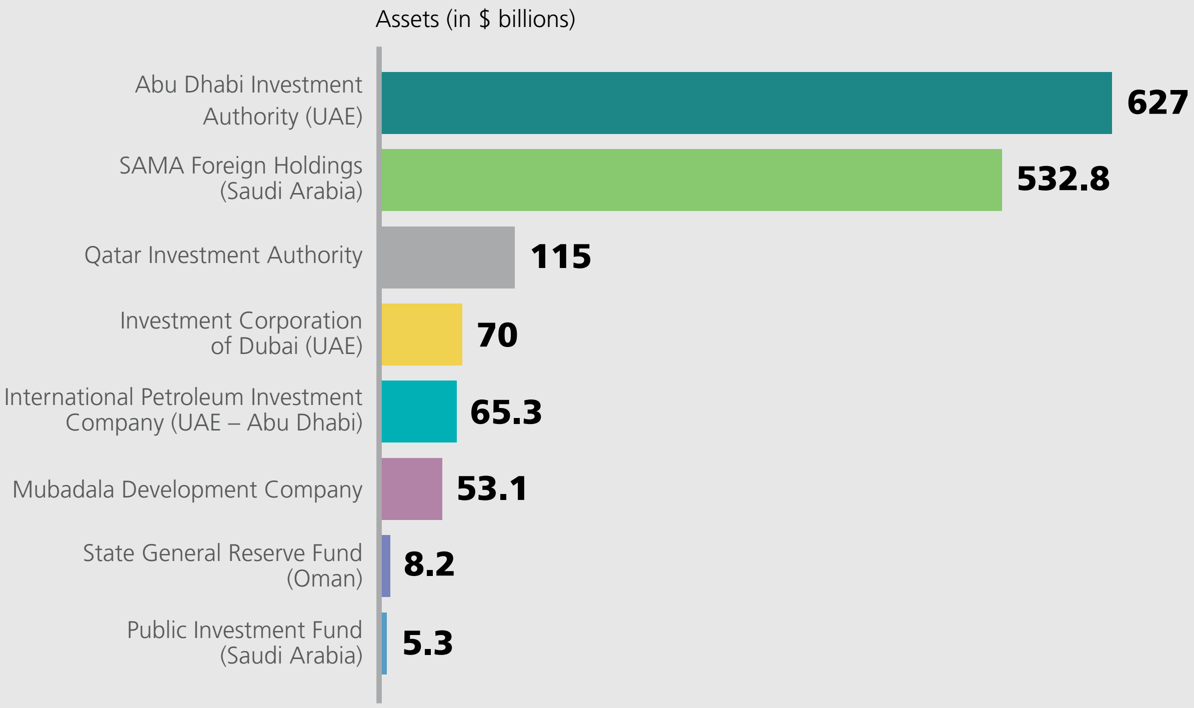
There can be few more potent illustrations of the rise of the Middle East as a powerhouse region in the global economy than the sovereign wealth funds established by the countries in the Gulf Cooperation Council.

The world's first sovereign wealth fund, in its modern iteration, was indeed established in the Middle East, by Kuwait in 1953, before the emirate even gained its full independence from the British empire. Rather strikingly, however, despite reportedly having assets of about $296 billion at its disposal, the Kuwait Investment Authority has been surpassed by a number of other SWFs established much later, including the Abu Dhabi Investment Authority (ADIA) with $627 billion and Saudi Arabia's SAMA Foreign Holdings with $532 billion in assets. Notably, ADIA is the world's second-largest sovereign wealth fund after Norway's, which was established in 1990 and manages about $716 billion. This figure, however, is subject to some speculation due to a relative lack of transparency regarding exactly how much ADIA has under management, with some estimates making it the largest sovereign wealth fund in the world.

In a further reflection of Qatar's remarkable surge in prominence, the country's main SWF, the Qatar Investment Authority, has reached $115 billion in assets having only been established in 2005.

Moreover, such is the abundance of assets available to some Middle Eastern governments that they saw fit to establish multiple SWFs, so as to better and more efficiently manage their respective holdings. Qatar is a case in point, with dedicated vehicles for property investments (Qatari Diar) and for strategic equity holdings (Qatar Holding).

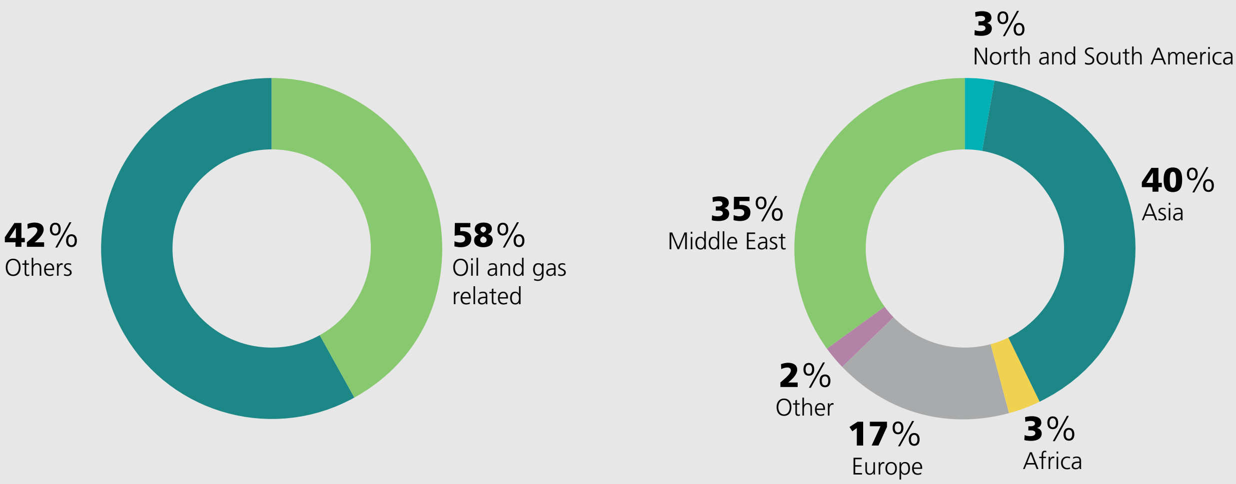
TABLE 1.1: **Sovereign wealth funds**



Source: Sovereign Wealth Fund Institute, February 2013

An analysis of where and how SWFs from the Middle East have deployed their capital suggests a canny tendency towards snapping up high-profile assets that might have fallen on tough times, as well as a willingness to play a long game, investing in illiquid holdings for an extended period of time. Above all, however, these funds are seen as an insurance policy for the long term, reflecting the determination of policymakers throughout the Middle East to avoid the so-called resource curse that has blighted countless other countries, and to ensure the prosperity generated by oil and gas today will last long after these natural reserves have been depleted.

TABLE 1.2: **SWF's by funding source**



Source: Sovereign Wealth Fund Institute, February 2013

1.3 History and family play a vital role in the business culture

The complexity of the Middle East's history owes a lot to the region's place in the world, at the confluence of several civilisations. It has manifested itself in the form of constant change and volatility, which in turn have inevitably informed the way business is conducted here, resulting in idiosyncrasies that outsiders might overlook, or ignore at their peril.

Perhaps as a consequence of the sometimes turbulent history of the Middle East, the role of the family as a cornerstone of society is arguably more pronounced than in other parts of the world. Amid constant shifts in political control, throughout conflicts and other vicissitudes, the family is seen as a source of continuity and stability to a greater extent than in western societies. By extension, businesses founded and nurtured by multi-generational dynasties are a hallmark of the Middle East.

Any examination of the Middle East and its business practices, including the issue of wealth, would be incomplete without recognising the central role of the Islamic faith in society. In particular, the provisions of Shariah law governing financial activities and matters related to succession are of utmost relevance to wealth owners in the Middle East. This report will touch on these matters accordingly.

In what might be a result of the oft-turbulent history of the region and the omnipresence of vast extended families in business, a recurring theme encountered in conducting this research was an emphasis on discretion. The confidentiality of information and the trustworthiness of guarantees that information will be safeguarded.

Advisers and other experienced "Middle East hands" have stressed that wealth owners in the area will never be fully satisfied with the confidentiality guarantees they are given, and cautioned that these deeply-entrenched doubts almost inevitably result in a tendency to underreport assets and other data. The quantitative research undertaken for this study showed evidence of this trend. However, rather than attempt an inherently inaccurate effort to apply a correction to the survey results, the research reports the findings as they were, adding caveats and considerations as needed.

2

Wealth and its origins

Key findings

- Family businesses in the Middle East dominate the region's economies, with as much as 75% of economic activity in the private sector in the GCC accountable to family-owned companies. The importance of this source of wealth in the region was reflected in the survey with around 60% of respondents saying their wealth comes from a family business
- The family businesses included in the research achieved considerable annual turnover, with more than a tenth saying their companies had sales of $1 billion a year or more
- Despite the significant role that family businesses play in the region's overall wealth, entrepreneurial activities emerged as a big source of wealth creation – a finding that defies clichés of inherited estates or oil-derived wealth accumulating effortlessly
- All participants in the research had assets of $10 million or more, with 61% saying they had assets between $10 million and $100 million. Thirteen percent had assets between $500 million and $1 billion, and 9% had assets of more than $1 billion
- Most participants in the research came from the first or second generation of the family. The rest represented later generations in a balanced manner
- Construction and related sectors were the most significant wealth-generating industries, with 56% of survey respondents having made their fortunes in these industries

2.1 Economic realities defy hackneyed clichés

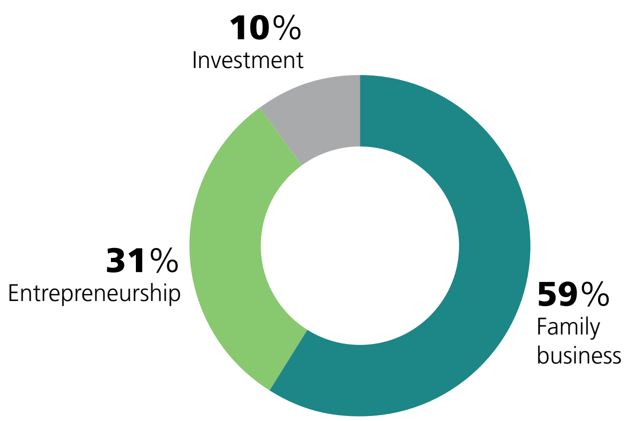
The economic crises that have buffeted the global economy since 2008 have placed the Middle East, or at least the GCC, in a much starker contrast to the rest of the world, as the abundance of liquidity and assets in the area became an anomaly in times when liquidity was scarce almost everywhere else, before corporate profits resurged and boosted treasuries in some western economies. Thus, even if western companies have almost unprecedented reserves of cash at their disposal, their aversion towards deploying this cash shows a degree of nervousness about the future that is simply not visible in GCC countries, where eye-popping investments are made far and wide throughout the world economy. The evidence of an abundance of liquidity in the region bolstered an enduring stereotype of the Middle East – of it being a region of resource-derived wealth and little else, defined by complacency as fortunes accumulated with relatively little effort.

While it can hardly be denied that oil and gas have played a crucial role across the region in defining its economic development – to say nothing of its geopolitical stature – the research shows a significantly more nuanced picture regarding the diversity of its sources of wealth, as well as the destinations of its deployment.

2.2 Family businesses play an important role as sources of wealth

The majority (59%) of the respondents to the survey reported that the source of their wealth was a family business. So, the role of family businesses in the GCC is greater than most other parts of the world, where typically the family business sector contributes between 40% to 50% to private sector activity in economies like Germany and the US. In the GCC, 75% of private-sector activity is made up by family businesses, according to research by ATKearney & PWC.

FIGURE 2.1: **What is the source of your wealth?**

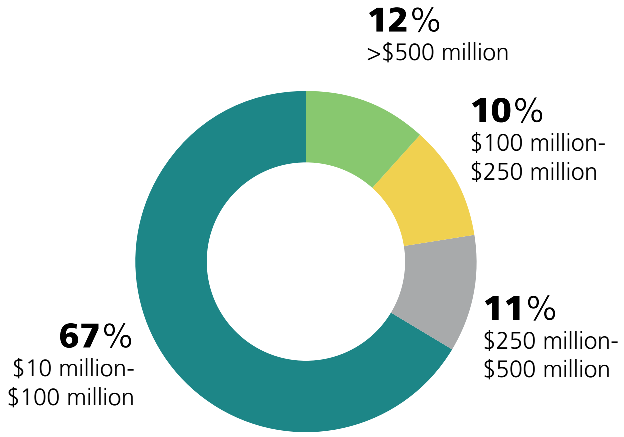


Source: QFC/Campden Wealth Middle East Wealth Report 2013

It's sometimes difficult to know when an entrepreneurial business becomes a family business and vice versa, and the Middle East is no exception to this blurring of descriptions. For example, around 48% of family businesses in the Middle East say they are first-generation firms, but many of these companies would also describe themselves as entrepreneurial. Thirty-one percent of businesses classified themselves as entrepreneurial first, rather than family businesses. The research sought to distinguish between multi-generational family businesses and entrepreneurial businesses in an effort to get a sense of the magnitude of entrepreneurial efforts in the sample. It is noteworthy that none of the respondents reported turnover in the bracket between $500 million and $1 billion for entrepreneurial businesses.

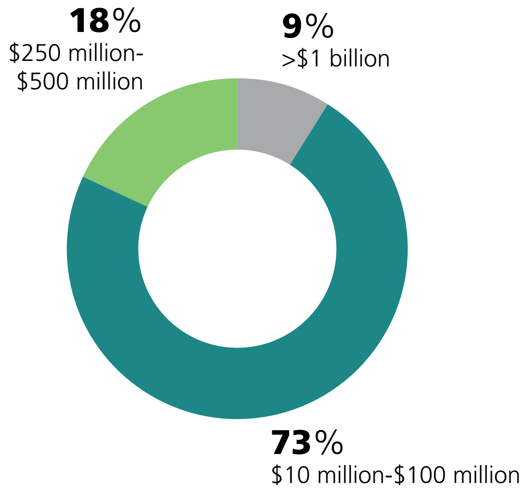
The bulk of the family businesses represented in the research reported annual revenue of between $10 million and $100 million. However, at the top end of the range, more than 10% of the respondents came from family businesses with annual sales of at least $500 million.

FIGURE 2.2: **What is the turnover of your family business?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 2.3: **What is the turnover of your entrepreneurial business?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

> "What you have, quite frequently, is that younger members of wealthy families have set out on their own and have built entrepreneurial businesses with little, if any, seed money from their parents. They've benefitted from connections, to be sure, they've had introductions. They did not exactly start with an empty wallet and a dream. Nevertheless, these younger generations deserve credit for having built, operated and grown viable businesses in sectors that their parents had never been active in." **Family office executive, Dubai**

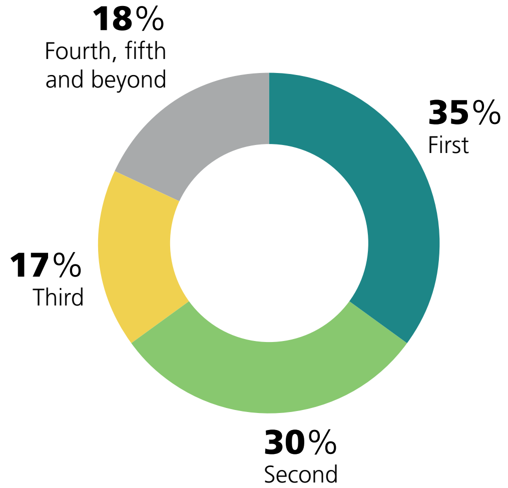
2.3 Multi-generation families are frequent and well represented

The generalisations that some outsiders apply to the Middle East fall short of capturing the scope of the economic activity taking place there. However, a trend that does apply to the region as a whole relates to the importance of the family as a cornerstone of society, and as a foundation of the region's business culture. De facto business dynasties, consisting of multi-generational extended families with interests across several (and not necessarily related) industries are commonplace.

The survey benefitted from the participation of respondents representing a broad generational spectrum. More than a third of them came from the first generation of family businesses, and slightly fewer came from the second generation. The family business mirrors somewhat the findings from a study for the Jeddah Chamber of Commerce and Industry, which found that 48% of GCC-based family businesses were in their first generation and 33% were in their second generation.

The remainder in our survey were almost evenly spread between a family's third, fourth and fifth or higher generations. In contrast, according to the Jeddah Chamber of Commerce and Industry only 15% of family businesses in the GCC are in their third generation, while only 4% are in their fourth.

FIGURE 2.4: **Which generation of the family do you represent?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

The data gathered speaks of the resilience of Middle Eastern wealthy families and contradicts the often-quoted saying "from rags to riches to rags in three generations". Specific issues related to succession will be dealt with later on in the study, but for the time being it is worth noting that anecdotal evidence collected throughout the region suggested that within family businesses, the involvement of younger members of the founders' family is increasingly planned alongside professionalised structures of training and mentorship.

> "The patriarch asked me to design a two-year training programme for his son and nephews, whereby they started as customer-facing representatives in a lowly travel agency. Only after proving themselves in those positions did they progress to higher levels, and no complaints were allowed. They were told flat out that nothing was beneath them, and their bosses were instructed to treat them like ordinary employees. The entire programme was meant to last two years. One of the individuals is still in it, four years later, because his progress was slower." **Family office executive, Bahrain**

Case study Family business spotlight

The Kanoo Group – Steeped in history

Perhaps one of the best known and oldest family businesses in the Middle East is the Kanoo Group, which has established itself as a conglomerate working across the Pan-Persian Gulf countries in a multitude of sectors. With historical roots going back to 1890 in Bahrain, Kanoo bills itself as "one of the largest, independent, family-owned, groups of companies in the Gulf Region".

Originally a modest shipping and trading company, it has now grown to become a shipping industry leader in the Arabian Gulf region. Kanoo was also one of the first travel companies in the Middle East. Whereas in 1937 it provided refuelling services to sea-planes en route from Europe to Asia and Australia, only a decade later Kanoo Travel was the Gulf's first internationally-accredited travel agency.

Kanoo Group's diversification forays into other sectors have been less obvious, but all the more impressive as a result. One of the earliest took place in the mid-1960s, when Kanoo Machinery provided equipment and services to the UAE, assisting the establishment of the country's infrastructure for the oil and gas industry.

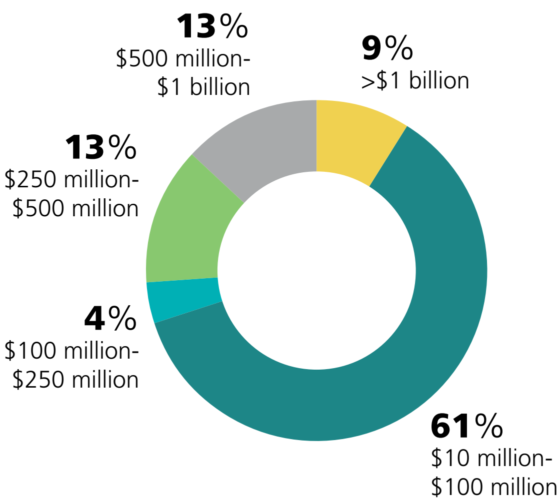
The Kanoo Group employs more than 4,000 people and it operates in Bahrain, Saudi Arabia, the UAE, Oman, Yemen and Qatar, in sectors such as logistics, property, oil and gas, industrial chemicals, retail, IT, engineering – as well as the initial shipping and travel businesses that made its name.

2.4 Concerns about discretion are prevalent

In terms of the size of the fortunes of the respondents, the concerns about discretion caused some participants to offer only vague details about their assets. Among those who did respond to questions related to their net worth, more than 30% of respondents said they had fortunes of between $100 million and $1 billion, while more than 25% reported a net worth of $500 million or higher. But the majority (61%) reported wealth of between $10 million and $100 million.

However, in both the cases of net worth and company turnover, experience shows a bias towards underreporting, owing to the aforementioned worries regarding discretion and the perils of unsolicited demands on the family assets.

FIGURE 2.5: **What is the size of your family's fortune?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

Case study **Family business spotlight**

Olayan Group – Sprawling conglomerate

Founded in 1947, the Olayan Group is an emphatic statement of the speed and magnitude of wealth creation and growth experienced by the Middle East. The Saudi Arabia conglomerate traces its roots to the General Contracting Company (GCC), which was started by Suliman Olayan with a loan secured on his home and had reputed US contractor Bechtel as its first customer. Alongside Bechtel, GCC worked on the Trans-Arabian Pipeline. Soon thereafter, the group started a food and consumer products distribution business, and by the 1960s it also had offshoots in trading and insurance, and initiated activity in New York and London.

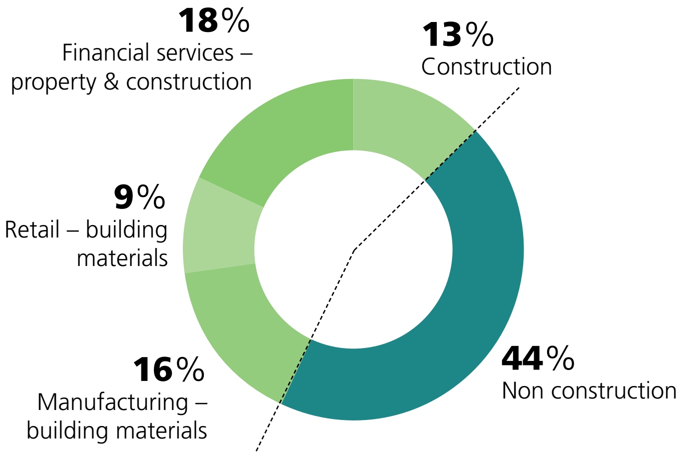
From the model of the relationship it had with Bechtel, the company pioneered the use of strategic partnerships and entered longstanding relationships with some of the best known companies in the world, including Coca-Cola, Kimberly-Clark and General Foods.

The late 1980s saw the Olayan Group diversify into sectors such as light manufacturing and franchising. However, investments in international markets, consisting of holdings across Europe and the US, are arguably the core activity of the conglomerate, which now employs 15,000 people in about 50 affiliated companies.

2.5 Construction is a main source of wealth creation

As far as the sectors represented in the report are concerned, 56% of the respondents have businesses in the construction-related sectors – in a reflection of the recent property boom in places like Dubai and Abu Dhabi. This was especially evident in the fact that beyond the headline figures for each sector, significant segments of the participants reported being active in sectors directly related to construction, such as the manufacturing and retailing of building materials, or financial and environmental services for the construction sector.

FIGURE 2.6: **Construction-related sectors and percentage of respondents active in these sectors**

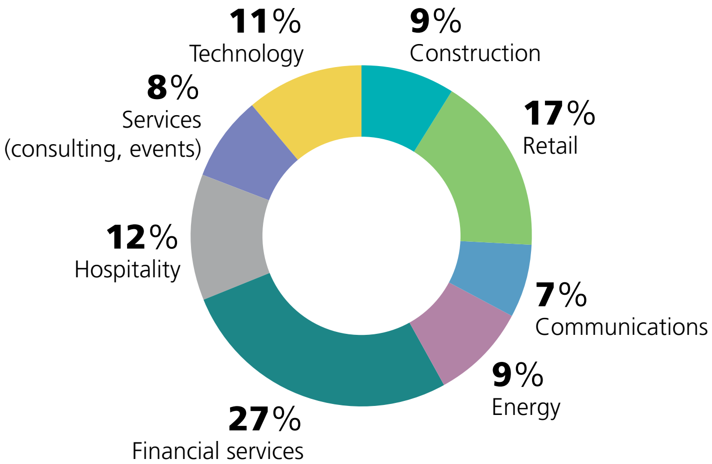


Source: QFC/Campden Wealth Middle East Wealth Report 2013

2.6 Entrepreneurial businesses show a different profile

The heavy representation of construction-related sectors came from the respondents whose wealth derived from family businesses. By contrast, research participants whose wealth was made in entrepreneurial ventures tended to be active in the service sector, in areas like retail and financial services. Indeed, only 9% of respondents in the entrepreneurial segment described themselves as active in construction, whereas 27% reported to be involved in financial services and another 17% said they had interests in retail.

FIGURE 2.7: **Entrepreneurial business, which sector is it in?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

2.7 Investment activities emerge as important source of wealth creation

The fact that financial services was the best represented sector among participants with entrepreneurial businesses is a reflection of the sharp growth in the banking and securities industry in the last two decades.

The Qatar Financial Centre Authority and the Dubai International Financial Centre have been increasingly prominent and active venues for banks, asset managers and other related businesses. In addition, this shows the increasing degree of financial disintermediation that can be found in the economies of the Middle East, most notably in Dubai where, according to one senior banker, "one can find almost the same degree of variety and levels of service and skills across all imaginable financial markets as they would in Hong Kong or even London and New York". While that might be a slight exaggeration, the research unveiled considerable evidence of the rise of financial services as an avenue for wealth creation in the region.

> "I know of many cases, among the families that I know well, of sons and daughters being sent to the best business schools in the US with their fathers intending that as the foundation for them being groomed to take over the family business. But then, when these sons and daughters returned, the father was in for a shock. They'd hear 'Sorry, dad, I'm not interested in running your car distribution business, or your franchise of prominent western brand portfolio. I want to run a hedge fund.' You cannot imagine the impact of that. Most of these family patriarchs not only did not understand what a hedge fund was, but they pretty much despised the financial sector as a whole."
> **Senior banker, Dubai, 15 years of experience in the Middle East**

2.8 Geographic diversity is well represented

Participants in the research were spread across the Middle East – reinforcing the status of the region as a powerhouse of the world economy. Even at face value, the residency of the respondents highlighted the geographical span of the region: besides Dubai and the broader UAE, the report benefitted from a wide sample of respondents from Oman, Bahrain, Lebanon, Egypt, Jordan, Saudi Arabia and Kuwait.

However, a more attentive examination of where these respondents were active in terms of their business interests revealed a wider spread. A large number reported business interests in the mature economies of Western Europe, with some saying the former communist bloc of Eastern Europe was also a market. Notably, Russia emerged as both a destination for Middle Eastern investments and as a source of assets that are now domiciled in the Gulf. Further afield, research participants reported being active in markets in the Far East, as well as North and Latin America.

The Arab Spring, and the resulting socio-political unrest throughout the region, most notably in Egypt, has resulted in what local practitioners have described as a sudden, swift and sizeable migration of assets towards Dubai from countries that were either experiencing unrest or were seen as vulnerable to possible unrest. Thus, according to official government estimates from early 2013, as much as $8 billion in capital flows migrated to the UAE in the aftermath of the Arab Spring.

Whether those assets would remain in Dubai was a question open to further investigation, but for the foreseeable future, this shift was perceived as evidence that the DIFC had "arrived" as a desirable location to place assets and conduct business on a global scale. In the words of one adviser previously based in Egypt: "whereas until 2011 we might have been merely considering to move assets to the DIFC, it became the obvious emergency option. And there's nothing to signal that we should not stay here for the long run."

3

Wealthy families' relationship with advisers

Key findings

- Vast amounts of wealth in the Middle East, estimated at about $4.5 trillion, have led some to think the region, or at least the GCC, is a new El Dorado of easily-earned fees for bankers and advisers
- Despite the fallout from the global financial crisis, nearly 40% of respondents said they had an excellent relationship with their private banker and/or wealth manager. Only 7% said it was poor. This was a much more positive response than in Europe...
- …and more than 60% of respondents said the relationship with their private banker or wealth manager had stayed the same in the last year
- …Nevertheless, nearly 60% of respondents said they scrutinised their relationship with their private bank/wealth manager much more than they did a year ago and, more disturbingly – at least for wealth management providers – more than 80% felt bankers didn't take responsibility for their bad decisions
- The research showed wealth owners having a relatively tight grip on their affairs, despite their close relationships with trusted advisers
- Fees charged for wealth-management services were also a problem, with 75% of participants in the research saying that private bankers failed to provide enough transparency about the level of fees charged
- At the same time, participants in the research said they were willing to pay fees for wealth management, but only if they received value for those fees
- Forty-one percent of respondents said private bankers or wealth managers were their most important adviser…
- …but lawyers also scored highly, with 31% of respondents saying they were their most important financial adviser

3.1 Wealth management in the Middle East – before and after the financial crisis

In terms of assets per high net worth individual (dollar millionaire) and ultra-high net worth individual (holding more than $30 million in investable assets), wealth in the Middle East is more than twice as concentrated as it might be in Europe or North America. Wealth advisers thus have the opportunity to service fewer accounts that are larger in size – an attractive way to earn fees from a lower cost base.

Estimates vary regarding the amount of Middle Eastern assets being managed, and a figure frequently encountered is that of around $4.5 trillion by the Boston Consulting Group. However, it is generally proven that most of these assets are kept in accounts outside the region, in jurisdictions such as Switzerland or the UK. In addition, there are some estimates of a further $800 billion in assets ready to be managed by prospective bankers or other advisers, on account of the fact that much of the recent growth in private wealth has stemmed from economic activity, rather than the performance of existing investments.

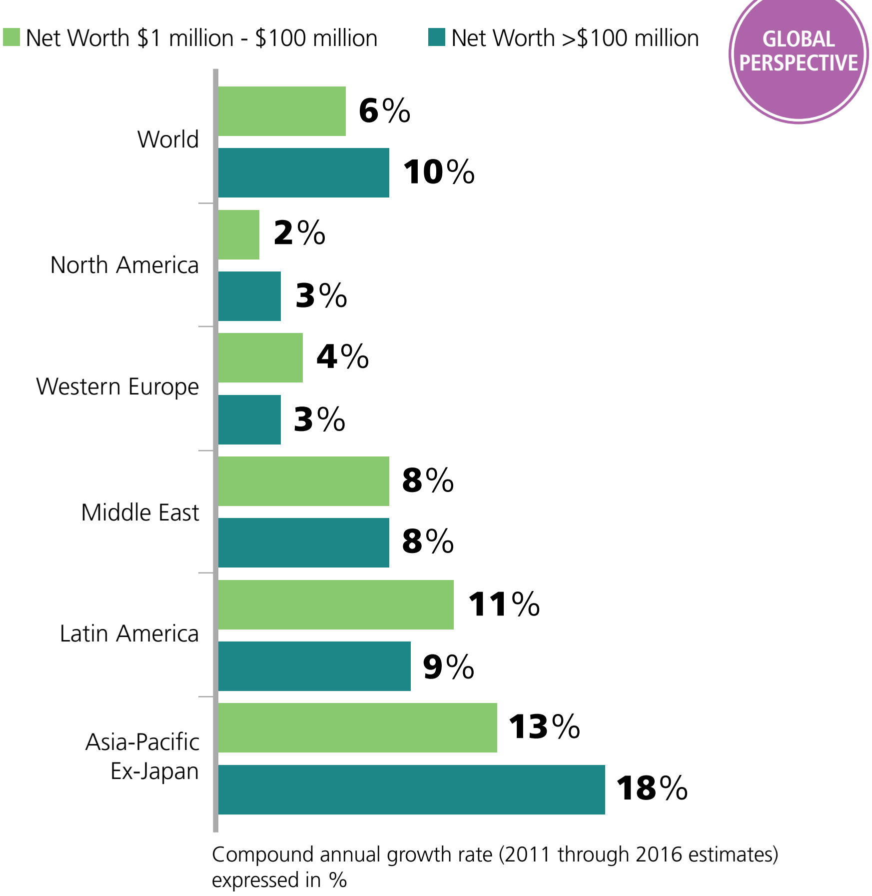
The number of wealthy individuals in the region, be they high net worth or ultra-high net worth, is estimated to have grown by between 5% and 6% per year in the last two years. However, the concentration of assets in the hands of fewer individuals is more evident in the Middle East than in the rest of the world, and the number of high net worth individuals and ultra-high net worth individuals is significant. In addition, the growth of private wealth, is expected to be robust in the next few years, with the Middle East being outpaced by Asia-Pacific and Latin America, but doing far better than the developed world.

FIGURE 3.1: **The number of wealthy individuals in the Middle East (selected countries)**

Country	HNWIs (dollar millionaires)	UHNWIs (>$30m in investable assets)
Oman	3,260	140
UAE	53,800	775
Qatar	4,160	290
Kuwait	13,600	720
Saudi Arabia	23,200	1,225
Total	**98,020**	**3,150**

Source: Bryanne Michael

FIGURE 3.2: **Growth in private wealth, HNWIs and UHNWIs**



Source: Boston Consulting Group

During the pre-crisis years, bankers and other advisers might have found themselves in the enviable position of earning their fees under relatively little scrutiny. A combination of well-performing financial markets, rising oil prices and relative geopolitical stability conspired to create a benign climate overall. As long as the returns were decent, wealthy clients seldom took the time to understand how they accrued.

"Before Lehman went bankrupt, I would try calling clients to give them an update. I'd prep myself on the latest allocations and trends. Almost invariably, the call would end in 10 minutes. Are we up? By how much? And that was that." **Senior banker, UAE**

Much of this dynamic owes to a prolonged period of accelerated growth during which, in the words of one adviser: "even if things were not great, they were not bad – or not as bad as to warrant concern."

Owing to their status as emerging economies, and propelled by oil exports, the countries of the GCC have been able to enjoy dynamic growth, with abundant upside potential always remaining untapped, without the worries that beset more mature countries. As a consequence, the patriarchs of family businesses went about developing their conglomerates and broadening their interests with an assumption that there was always room to grow somewhere they operated.

3.2 The role of the trusted adviser

An additional trend, noted frequently by long-time practitioners throughout the Middle East, would be for many of these family patriarchs to have an adviser (de facto lieutenant or confidante), whom they entrusted their business dealings to, and who would act as a sounding board for their decisions, big or small. In light of the highly-personalised (and personality-driven) business culture prevalent in the Middle East, the relationship between a principal and such an adviser would take years to develop and would come to be regarded as sacrosanct by both parties.

Organisationally, when it came to managing their wealth, it has been quite common for Middle Eastern families to house this effort under the auspices of the finance/accounts department of the business or conglomerate that had generated the wealth to begin with.

Between the tight bond that exist between wealth principals and their trusted confidantes, and the business of wealth management being housed inside finance departments, outsiders seeking the wealth-management business of families would encounter a formidable and multi-layered obstacle. Both the confidantes and the finance departments charged with looking after a patriarch's – and by extension, his family's – wealth would guard their entrusted position jealously and mount a not insignificant opposition to any perceived intrusion that could pose a threat to that position.

"These relationships are laden with emotion; they go back decades to a time when what is now a sprawling conglomerate was then three men and a pickup truck. Maybe the trusted adviser doesn't know everything he should about portfolios, about asset allocation. As a matter of fact, you can almost be sure that he doesn't know all that. And maybe his returns could have been better. But he's got the ear of the patriarch. He's got the history. And no amount of fancy PowerPoints, with performance graphs and irrefutable proof that you, as a financial professional, could help them, will sway things. Trust trumps performance. Make no mistake about that." **Investment adviser, 20 years' experience in the Middle East, based in Dubai.**

In light of the above, the research found it necessary to dwell at some length on the relationship between wealth owners and their advisers, be they private bankers but also lawyers, accountants and tax advisers.

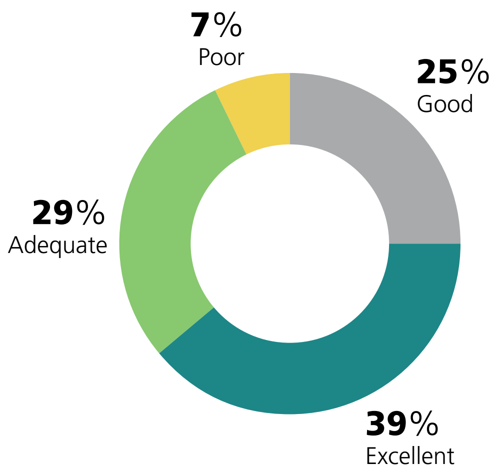
3.3 Relationship with wealth advisers described in contradictory terms

Most participants said the relationship they have with their banker or wealth manager was either adequate or better, with only 7% saying it was poor. Indeed, as many as 39% of participants said the relationship was excellent. This was in contrast to what has been the case in Europe, where Campden's annual European Family Office Survey has for the last four years shown a deep dissatisfaction with private bank and wealth manager relationships. Although this has eased somewhat in 2012, the trend was a noticeable difference between the Middle Eastern wealth sector and that of Europe.

However, a significant portion of respondents in the Middle East described the same relationship as either adequate or poor. When invited to elaborate on their answers, participants said that they felt they received off-the-shelf products and "nothing creative".

"In my view, there is no pure Swiss/EU/US-style private banker in the region. Their job is to be more of an intermediary between the broker/trader and the client. On a different note, however, I feel that wealth management in the Middle East is still in its very nascent form, especially with the very large local commercial banks." **Wealth principal, UAE**

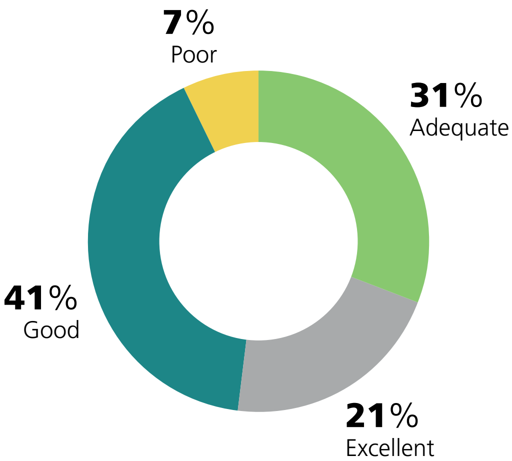
FIGURE 3.3: **How would you describe the relationship you have with your private banker or wealth manager?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

There was a subtle difference in the responses to the question regarding the level of services received from wealth managers or private bankers. Few participants went as far as saying the service was excellent, and most described it as good. But a less charitable reading of the results would be that the same number of respondents described the service as adequate or poor as those who said it was good. Among the "unimpressed" clients, the explanation offered for the level of service received was related to the banks' ability to recruit the best talent available, and their reluctance to offer adequate incentives to ensure they get the most out of their staff. One respondent mentioned the possibility of layoffs resulting in overstretched staff being unable to handle the volume of work.

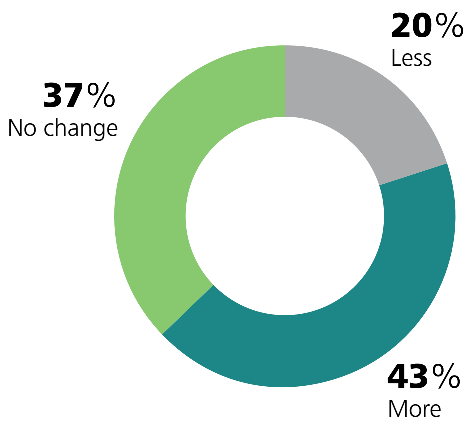
FIGURE 3.4: **How would you describe the level of service you receive from your private banker or wealth manager?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

The sense of creeping dissatisfaction at the service received became more evident as the research looked at more precise reference points for wealth owners to describe the evolution of their rapport with private bankers and wealth managers. Thus, in relation to the financial crisis of 2008-2009, marginally more survey respondents felt they were listened to better by their private bankers after the crisis, compared with those who said there had been no change.

FIGURE 3.5: **Since the financial crisis of 2008-2009, do you feel your private banker/wealth adviser is listening to you…**

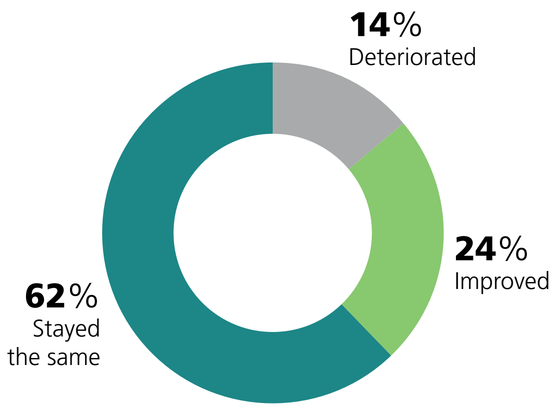


Source: QFC/Campden Wealth Middle East Wealth Report 2013

However, in a possible reflection of the relatively calmer climate in financial markets over the last year, more than 60% of survey respondents said their relationship with their private banker had either improved or stayed the same in the last 12 months.

Overall, the picture that emerges is that, in the opinion of the research participants, the Middle East suffered less from the global financial crisis, as most were either neutral or happy about the relationship they had with their advisers – empirical evidence suggests a strong correlation between such a view and a generally sanguine view of markets.

FIGURE 3.6: **Has your relationship with your private bank/wealth manager improved or deteriorated in the last 12 months?**

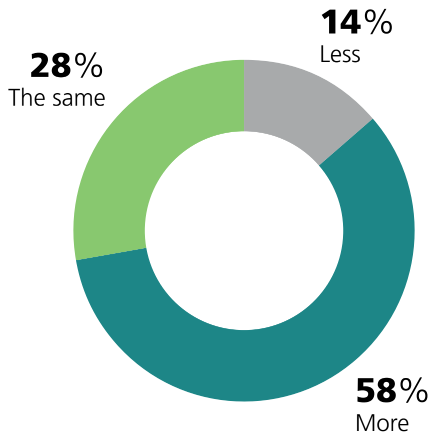


Source: QFC/Campden Wealth Middle East Wealth Report 2013

3.4 Quality of services received found wanting – upon closer inspection

At the same time, whereas research participants might have found the services they receive wanting, this could well be a result of the principals' sharpened oversight over their wealth managers, with more than half of them admitting to being more watchful than in the past.

FIGURE 3.7: **Have you paid more or less attention to the wealth management services you receive in the last years?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

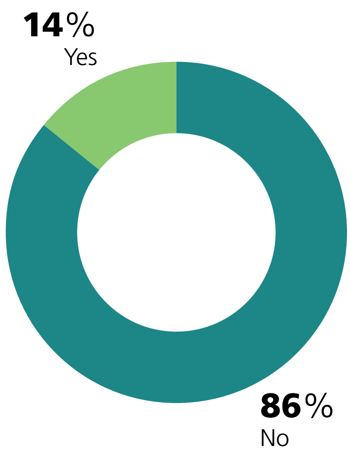
The closer scrutiny, however, appears to have revealed some insights that might give to the wealth advisers hoping to stay in the graces of their Middle Eastern clients reason to worry. A paltry 14% of respondents felt that private bankers and wealth managers took responsibility for the negative consequences of their advice and opinions, with 86% of the respondents saying that no responsibility was assumed.

Conversely, the argument that some private bankers often resort to when being accused of such things – that customers should know better about the risks they undertake – could be seen as holding true.

The responses suggest that by blaming private bankers to the extent that they did, wealth owners also failed to take responsibility for the performance of their portfolios. Furthermore, 80% of the respondents said that private banks and wealth managers do not offer enough information about their performance. Finally, 75% of research participants said that private bankers failed to provide enough transparency and clarity regarding the structure of their fees. A constant theme throughout the investigations was that fees were not discussed transparently enough at the beginning of a client/adviser relationship and that additional fees mysteriously appeared at various stages down the road.

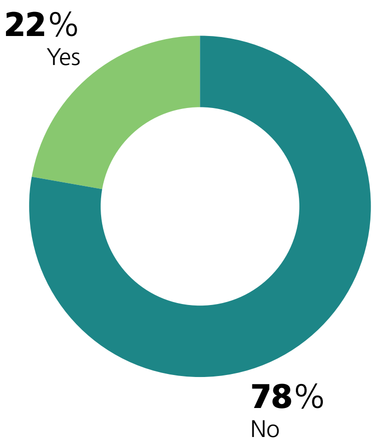
"Private bankers seem to make a lot of effort to win the business; we have great conversation right up to the moment when we sign the agreement. Once they have the accounts established, we find all sorts of fees and commissions that were never spoken of suddenly appear in our discussions. It then becomes very difficult not to be disappointed."
Wealth principal, Lebanon

FIGURE 3.8: **Do you think your bankers take responsibility for the negative consequences of their opinions and decisions?**



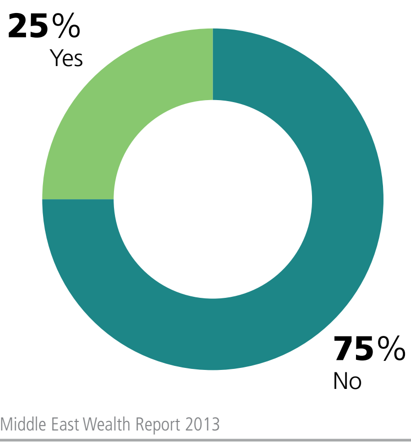
Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.9: **Do you think private banks/wealth managers provide enough information on their performance?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.10: **Do you perceive there is enough transparency and clarity in the advisers' fee structures?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

Put together, these findings reflect that wealth owners in the Middle East felt overwhelmingly uninformed about why they paid a certain level of fees to their wealth advisers, about how those fees were calculated or indeed how they were earned, since the same advisers charging the fees failed to assume responsibility for the consequences of the advice offered in exchange for the fees.

In this context, it might seem somewhat paradoxical that 55% of survey respondents said the level of fees charged by private bankers was justified, and only 45% said it was not. However, this finding becomes less surprising given the level of sophistication of the participants in the research, and their being accustomed to judging good value for money. One respondent said that he was able to "significantly negotiate down the level of the fees initially discussed", while another noted that when the performance was good and the service was on par with what was announced, fees were immaterial. On the other hand, "I feel that even a penny in fees is unjustified when they have nothing to show for it."

Case study — Spotlight on Service Providers in the Middle East

The GCC's dynamic growth – and the resulting proliferation in multi-millionaires – has spurred on the appearance of a wide range of service providers catering to the needs (be these real or imagined) of the wealthy. The most conspicuous have been the luxury retailers, yacht and jet brokers. Equally noticeable, however, has been the emergence of financial-service firms.

Private banks – Whereas previously it was customary for large western financial institutions to have outposts in the wealth centres of the Middle East, these local branches have recently grown in terms of the breadth of the services they offer. A significant factor fuelling this phenomenon has been the decision of local financial institutions, such as Qatar's Commercialbank, the Abu Dhabi Islamic Bank or the Emirates NBD and Jordan's Arab Bank, to establish their own private banking divisions, with an eye towards competing toe to toe with western rivals in this arena.

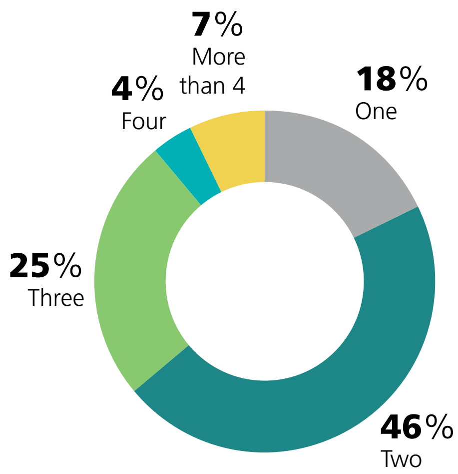
Legal advice – A similar trend to that apparent among private banks has been identifiable in the legal profession. The wealthy of the Middle East thus now have their choice of legal advice, and can pick from the local branch of international firms or a local competitor. The range of services offered is wide, and includes more niche areas such as wealth-structuring vehicles in lesser known European jurisdictions, alongside the expected offerings regarding succession and tax planning from firms such as Clifford Chance and Linklaters, as well as Loyens & Loeff from the Netherlands.

Accountancy – The Big Four (Ernst & Young, Deloitte, KPMG, PwC) have longstanding presences in the Middle East, and they, too, have had to contend with home-grown competition, even if the latter might struggle to counter the offer of global networks and expertise. Specialised services from the Big Four have recently included offerings targeted specifically at wealthy families, such as family charters, constitutions and succession plans.

3.5 Evidence of sophistication in dealings with wealth advisers

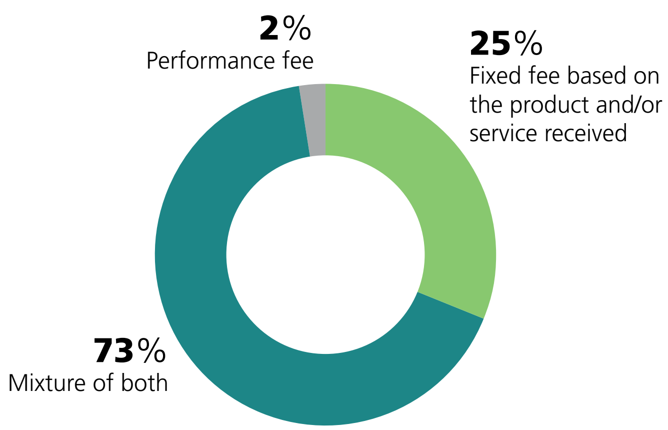
The sophistication of the research participants was evident in the fact that they were basing their evaluation on experience with a range of wealth advisers, as less than a fifth of them had dealings with only one private bank or advisory firm. Furthermore, when prompted to give their opinion on the ideal mechanism for paying fees for the advice they received, a majority of them opted for a mix between a flat fee and a performance-based one, reflecting a quest for the most precise evaluation possible for the commissions paid. In the words of one participant: "Flat fees are fine for services that warrant them. They're outrageous when there is no evidence of a services provided in return for them." Notably, however, respondents appeared to have a preference for fixed fees based on performance over variable ones, which denotes limited tolerance for paying out a cut of the returns on an investment, for example. Furthermore, they expressed an overwhelming preference for segregating the financial advice they receive for their business interest from the one related to their personal wealth.

FIGURE 3.11: **How many private banks or wealth advisers do you deal with?**



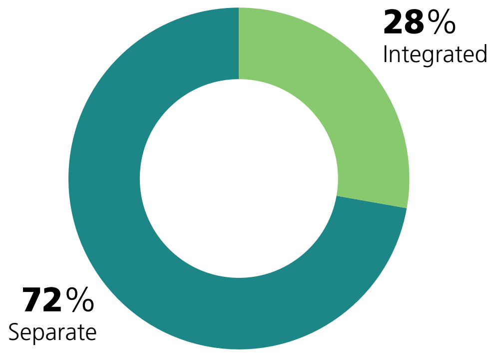
Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.12: **How do you prefer to be charged for financial services?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.13: **When dealing with financial service providers, do you prefer to receive one integrated advisory service, or to receive separate advice for your private and business wealth?**



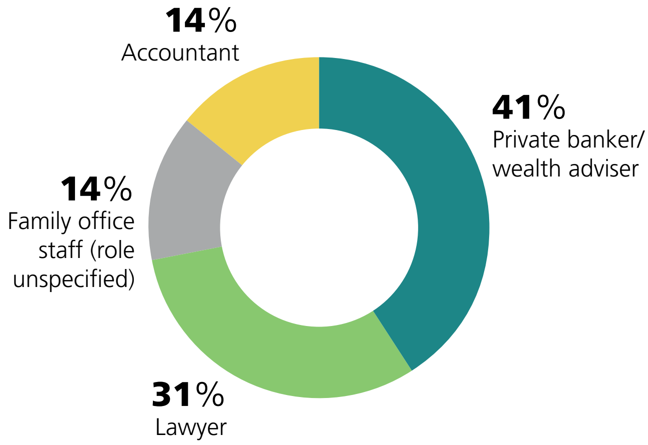
Source: QFC/Campden Wealth Middle East Wealth Report 2013

3.6 Private bankers – the best, or the best of a bad bunch?

Despite some concerns with the service provided by private banks and wealth advisors, they ranked highest among the service providers that the respondents valued the most, with 41% saying they considered private banks/wealth managers as the most important financial planning adviser. The next highest category was lawyers at 31%, which was followed, at 14% each, by family office staff and accountants. Upon closer examination, the respondents reported noteworthy levels of trust in the advice of their peers and "relatives with knowledge of investments", whom they occasionally used as sounding boards or "trusted voices outside of the industry, with no agenda or a product to sell me."

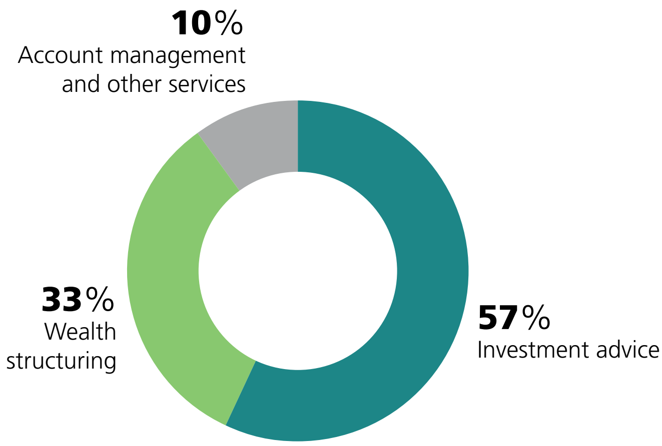
When it came to evaluating the services they received from their private bank/wealth manager in order of their importance, survey respondents focused mostly on core investment-related and wealth structuring services, appearing to value them higher and by a wide margin, over account-related services.

FIGURE 3.14: **Who do you consider your most important financial planning adviser to be?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.15: **What are the most important services you seek from your private bank/wealth manager?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

3.7 Impressions of performance based on personal evaluations

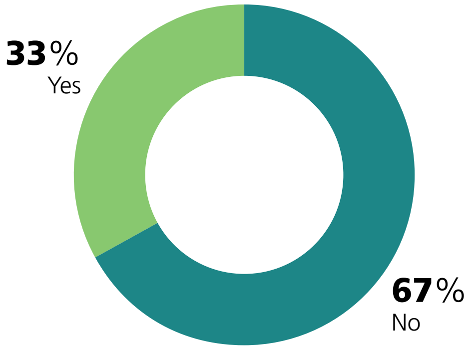
Sixty-seven percent of respondents said they did not use an independent expert to evaluate the performance and quality of the wealth advisers they used. In a further reflection of the sophistication of the respondents – and confidence in their own judgement – a majority of those who said they did not use independent experts at present also said they would not use such experts in the future.

But survey respondents were friendlier towards lawyers, with a majority of them saying that they used legal advisers to run their wealth management process. At the same time, most of those not using lawyers now, added that they would not use them in the future.

The respondents' views on the utility of accountants seemed to be more evenly balanced, with thinner differences between those who used accountants to help with wealth management and those who did not. Still, those who did not use accountants expressed reluctance to do so in the future.

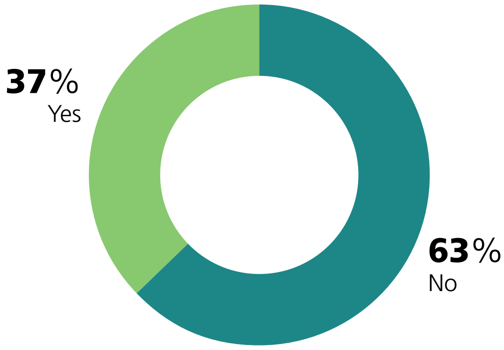
Taken together, these findings suggest a notable level of inertia for the services that were being used, and an equally notable reluctance to use new services. This reinforces the theme identified earlier in this section regarding the relative resistance to change and attachment to the familiar prevalent throughout the Middle East.

FIGURE 3.16: **Do you use an independent expert to help you assess the performance and quality of your private bank/wealth managers?**



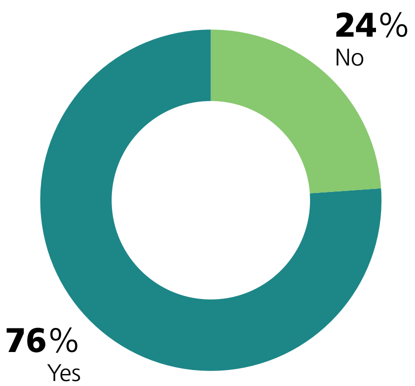
Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.17: **If no, would you in the future use an independent expert to help you assess the performance and quality of your private bank/wealth managers?**



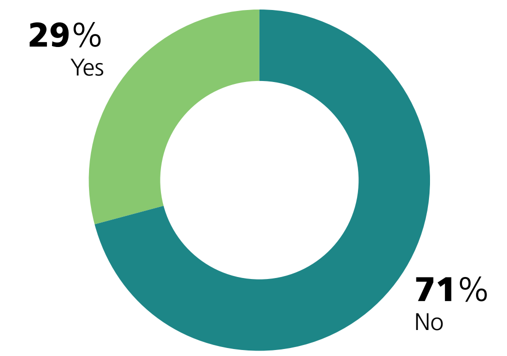
Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.18: **Do you use lawyers to help you manage your wealth management process?**



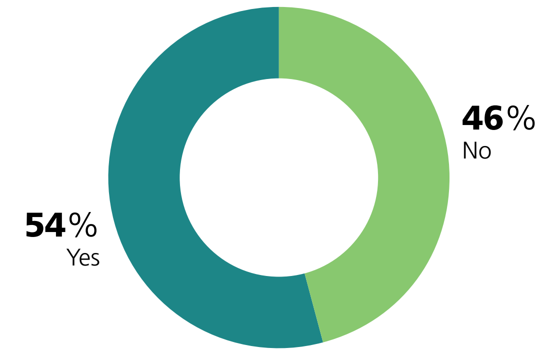
Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.19: **If no, would you in future use lawyers to help manage your wealth management process?**



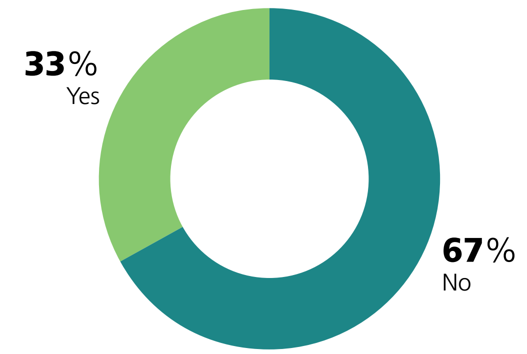
Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 3.20: **Do you use an accountant to help you manage your wealth management process?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

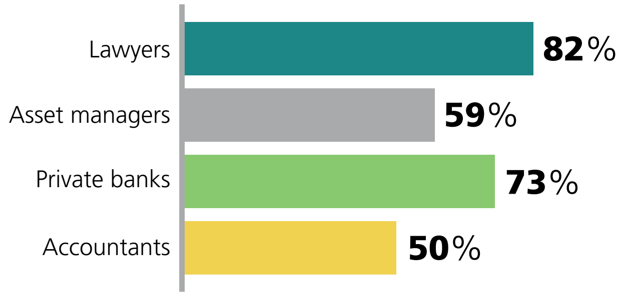
FIGURE 3.21: **If no, would you in future use an accountant to help manage your wealth management process?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

At the same time, however, among the outside advisers that respondents did use, lawyers enjoyed the highest popularity, well ahead of independent wealth experts or accountants, with 76% saying they used them to help with their wealth management process. In this regard, Middle Eastern wealth owners seemed to take a cue from their peers in Europe, who also entrusted lawyers more than other outside advisers.

FIGURE 3.22: **Percentage of respondents who said their most trusted advisers were:**



Source: The UBS/Campden Research European Family Office Survey 2012

4

Investment strategies and practices

Key findings

- The global trend towards more active involvement in the management of portfolios among the UHNW individuals is also noticeable in the Middle East, with 46% of participants describing themselves as "very active" in the management of their assets
- Middle East investors rarely talk about wealth preservation – they want wealth creation, with 65% of participants saying they were looking at wealth creation. Typically, that would mean real growth in assets under management of at least 8% or more a year
- In more detail, 55% of participants had a "growth-focused" investment objective, which looked at real returns of between 7% and 15% a year
- Despite the majority of respondents opting for "growth-oriented" or even "aggressive" investment strategies, 90% of respondents said that cash and property were either very important or important in asset allocation
- Emerging markets were deemed to be more attractive than developed ones by a margin of more than two to one among the participants in the research, with Africa being singled out as the most attractive market in this segment
- Middle East investors were increasingly keeping their money in the region, with 55% of respondents saying that they have invested in the region, rather than internationally

4.1 Focus on wealth creation, closer involvement

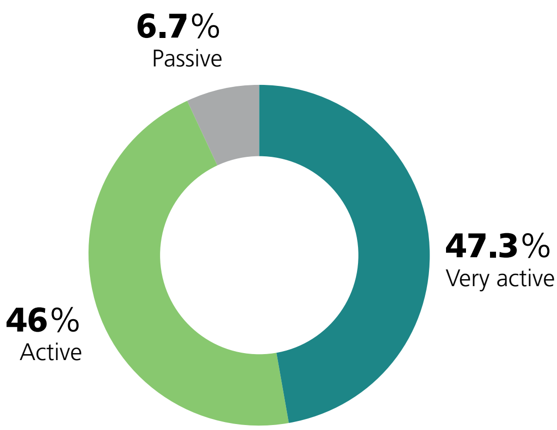
As cited earlier, a significant segment of respondents declared investments to be their main source of wealth. This reflected the increased sophistication of Middle Eastern wealth owners, and a shift away from more traditional activities such as retail, import-export or the franchising of western brands. Beyond this aspect, however, no investigation of the trends of relevance to the region's wealthy families would be complete without a section delving into their attitudes towards asset allocation and perceptions of opportunities to be had in financial markets at home and abroad.

Section 3 documented some scepticism on the part of wealth owners in the Middle East towards the value-added that could be offered to them by a range of advisers. In particular, participants felt decidedly confident in their abilities to evaluate both the quality of the wealth-management advice they received, as well as the performance of those providing the advice. The validity of these findings was boosted in no small measure by evidence that the impressions they reflected were the result of first-hand experience, not merely passive observation.

Thus, an overwhelming majority of the respondents to the survey said they were active in the management of their wealth; indeed, 46% said they were "active", with only 6.7% of them declaring themselves to be passive wealth owners. Furthermore, almost three-quarters of the participants said that they wanted to have a bigger role in the decision-making process regarding their investments.

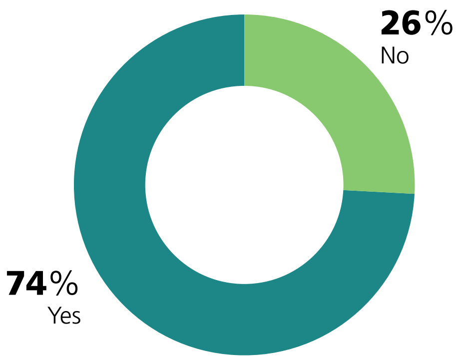
Taken together, these findings defy weathered impressions, harboured by some in the financial services industry, of passive Middle Eastern clients that can be kept happy with a minimum of maintenance.

FIGURE 4.1: **How actively are you involved in managing your assets?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

FIGURE 4.2: **Would you like to have a greater involvement in the decision-making process?**



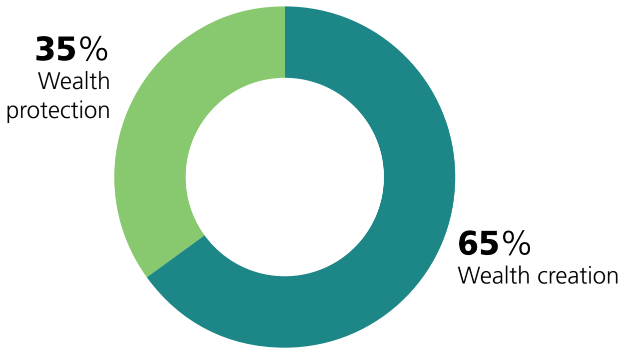
Source: QFC/Campden Wealth Middle East Wealth Report 2013

4.2 Blame the messenger?

A possible explanation for the apparent dissatisfaction towards wealth-management advice highlighted in the previous chapter may come from disappointments related to the performance achieved while following said advice. Almost two-thirds of respondents said that wealth creation was their top investment goal, rather than wealth preservation, meaning that they aimed for investment returns to increase the overall value of the portfolio, not merely to generate an income. If private bankers, more accustomed to the tamer returns needed for wealth preservation, attempted to persuade clients of the merits of such a strategy, a significant difference of opinion could arise. The dilemma is summed up well by an Abu Dhabi-based family office executive:

> “What some private bankers and investment advisers groomed in the West often forget is that they’re now working in an emerging market. The clients they have here – or, more importantly, the clients whose accounts they hope to win – are accustomed to returns well in the double digits. We’ve seen various bubbles, in property to name but one example, with some serious appreciation. These returns are addictive. The fact that they might be irrational, an aberration in the longer term, is a hard truth to swallow. So when you’re a private banker who’s cut his teeth in New York or London, and you come to a meeting in Abu Dhabi talking about the merits of 8% adjusted returns, you’ll get laughed out of the room.”

FIGURE 4.3: **What is your overall investment objective?**



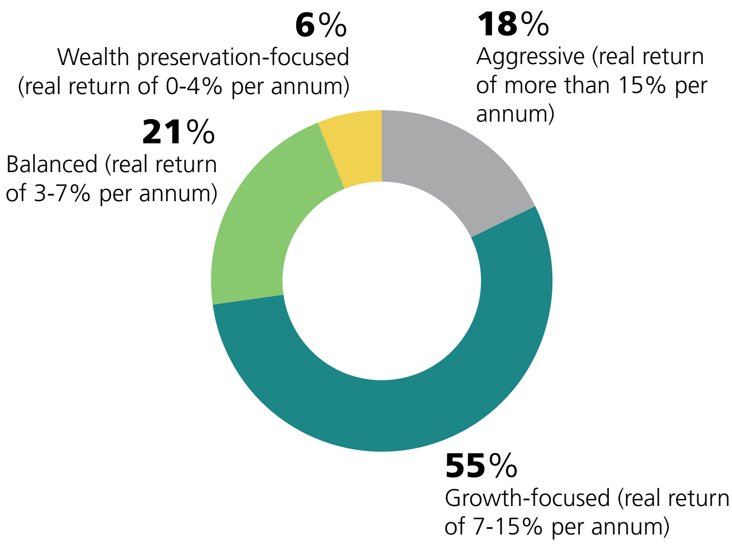
Source: QFC/Campden Wealth Middle East Wealth Report 2013

4.3 Investment expectations

The proportion of respondents that declared themselves happy with real returns of 4% or less was very small compared with the cumulative 73% of respondents who targeted real returns of 7% and above. The fact that equity and other financial markets in the region have suffered dramatic losses following the double-blow of the financial crisis and the effect of the Arab Spring on local markets has also contributed to a renewed focus on recouping losses incurred as a result of those events.

> "As far as this part of the world is concerned, 2008 is now looking increasingly like ancient history. Yes, there was the [Dubai] bubble and bailout, but we're seeing blue skies again; we're seeing a return to the happy times. Now, it might not quite be there, but there's certainly an expectation of things turning out that way." **Family office executive, UAE**

FIGURE 4.4: **How do you rate your investment objectives?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

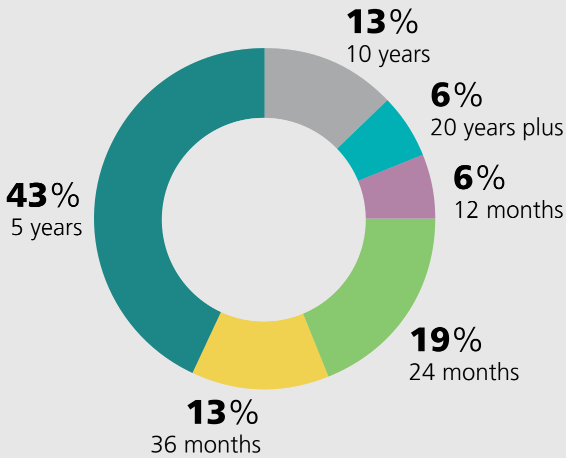
In comparison with their peers in other regions surveyed by Campden Wealth, Middle Eastern wealth owners seemed to be the most aggressive (and, arguably, most optimistic) by far, with a much heavier emphasis on wealth creation than respondents to Campden surveys in Europe, Asia, or indeed Russia. Even after discounting for regional particularities, such as the eurozone crisis, cultural preferences, or political risk perceptions, the drive for creating wealth in the Middle East, as opposed to preserving it, was striking when placed in a global context. Thus, in Europe, around 40% of single family offices declared that their main investment objective was either a balanced approach to asset allocation or wealth preservation, with 10% of research participants saying "growth" and almost no respondents saying "aggressive growth".

In Asia-Pacific, 73% of family offices said that a balanced approach characterised their investment strategy, while only 7% said they pursued aggressive growth – as many said "very conservative" wealth preservation was the main feature of their approach.

Even in Russia, which is arguably the geography that resembles the Middle East the most in terms of economic dynamism, there were no respondents to Campden research declaring aggressive growth to be their main investment objective in the last two years. Rather, the overwhelming majority of participants in the surveys there said they pursued a balanced investment approach.

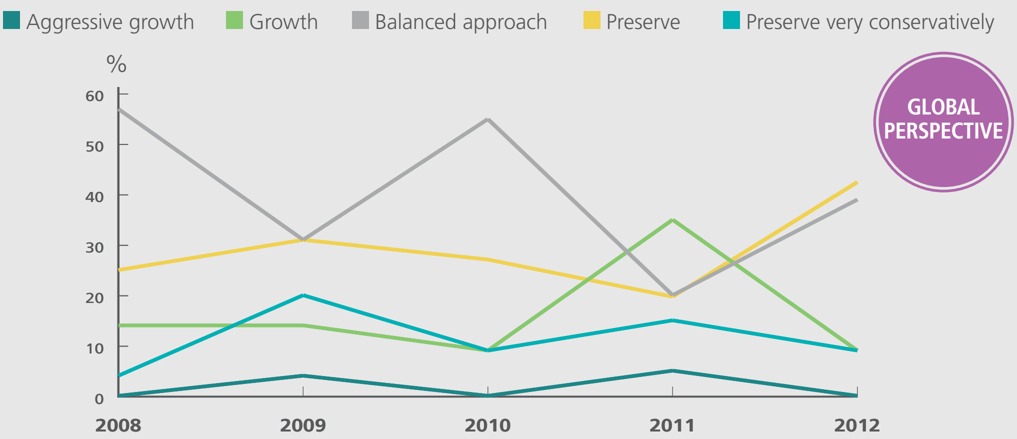
Investment objectives and attitudes to risk

FIGURE 4.5: **Family office investment horizons**



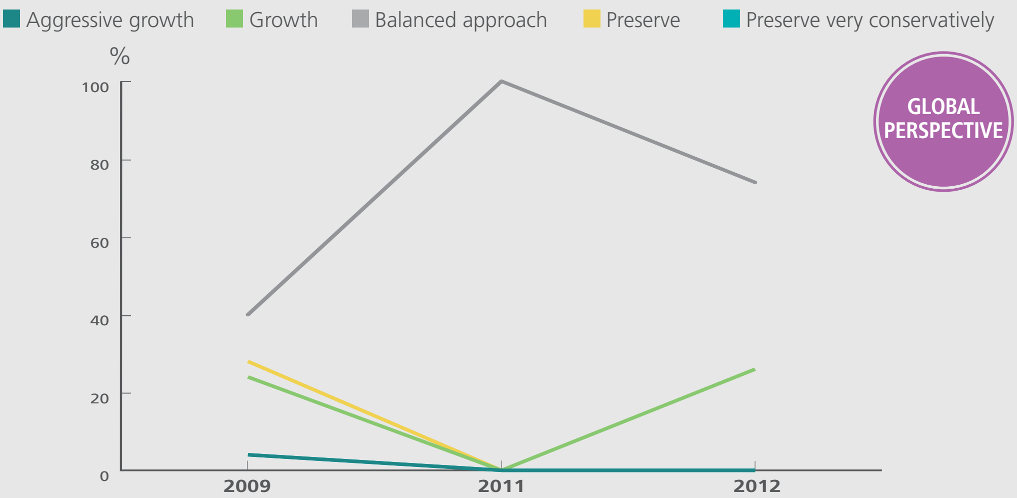
Source: UBS/Campden Research Asia-Pacific Family Office Survey 2012

FIGURE 4.6: **The main investment objective of European family offices**



Source: UBS/Campden Research European Family Office Survey 2012

FIGURE 4.7: **The main investment objective of Russian wealth individuals**



Source: UBS/Campden Research Russian Entrepreneurs Report 2012

4.4 Pockets of risk aversion remain

At the same time however, there remain pockets of risk aversion that are still very reticent to the idea of a more aggressive stance in terms of portfolio allocation. Clients that have suffered dramatic losses in recent years, be that at the mercy of financial or property markets, and who felt chastened by those losses, remain unconvinced that there was a visible turnaround in fortunes, as a multi family office executive from Abu Dhabi intimated:

> “We’ve gone to clients proposing a modest allocation of the portfolio towards equities, or towards convertible bonds. They would not even want to hear us out. All they wanted to do was to stay in government bonds. The fact that they could do better in other markets, or that they were losing money this way, was irrelevant to them. They’re scared and are likely to stay that way for a while.”

Generally speaking, anecdotal evidence suggests a high – and entirely unsurprising – correlation between the age of the investor/client and their tolerance to risk. In some cases, the embattled patriarchs who have seen a few ups and downs over the course of their lives will have a more detached attitude towards the fluctuations of markets. If, in addition, they’ve been active in investment activities, they might be inclined to take risks ahead of the crowd. If, on the other hand, they’ve made their fortunes trading, selling tangible goods or services, the vagaries of the financial markets will tell them very little.

> “You’ve got fathers, whose sons have told them they’re not interested in selling tyres or whatever the family business was, but they want to run a hedge fund instead, and who were given a little bit of money to run. In some cases, they did OK. In others, they failed quite miserably. You can bet that son is now more or less forced to take a closer look at selling tyres.” **Wealth adviser, UAE**

4.5 A preference for safer assets

It follows that asset-allocation considerations should broadly follow the attitudes to risk outlined above. The easily discernible investment theme in the research is a marked preference for assets they perceive to be safer, notably property, commodities, bonds and cash. Indeed, cash and property were the two most popular asset classes, with at least 90% of respondents saying the two were either very important or important to their portfolios. Equities were the next most important asset class with nearly 80% of respondents saying they were either very important or important to portfolio structure. This is an expected outlook in the context of a largely risk averse investor profile, as outlined in the interviews conducted among advisers throughout the region. While at first blush it might contradict the stated preference of wealth creation over wealth preservation, it has to be remembered that a considerable amount of wealth in the Middle East has a property element attached to it. While property was also synonymous with an investment bubble that created delicate times for Dubai, as an asset it offers the relative comfort of an easily understandable mechanism for generating returns. Equally important is the corollary that wealth owners in the survey also tended to refer prime and ultra-prime real estate – segments which have distinct characteristics.

Case study Qatar and the London property link

After purchasing vast swaths of land throughout London, to say nothing of some established and emerging landmarks in the UK capital, Qataris are the showcase example for the appetite for property that emerged as a definitive theme in the research.

Qatar's buying spree for UK assets has been in the making for some time, arguably first making an impression with the acquisition of a stake in leading grocer **Sainsbury's** – a stake now standing at 27% after a failed takeover bid in 2007. However, a few high-profile property transactions that Qatari investment vehicles have undertaken since then, cementing the emirate's profile as a land-owner in London.

Also in 2007, a Qatari consortium bought the **Chelsea Barracks** and the land underneath it for an headline-grabbing £959 million (€1.1 billion), almost four times as much as estimated initially.

Less than a year later, in early 2008, by throwing its support behind **the Shard** – an iconic skyscraper designed by renowned architect Renzo Piano – another Qatari consortium all but assured the completion of what is at present the tallest building in Europe. All for £150 million that bought an 80% stake in the project. In addition, the UK's and one of the world's most expensive apartment block, **One Hyde Park**, is also half-owned by an investment vehicle controlled by Qatar's prime minister.

In 2009, the **US** government announced that it sold the building that houses its **embassy to the UK** to Qatari Diar Real Estate Investment Group, one of the main subsidiaries of the Qatar Investment Authority, the emirate's best-known sovereign wealth fund. The building is a landmark in London's Mayfair district.

In 2010, the investment vehicle of the Qatari royal family purchased the legendary department store **Harrods**, in the iconic Knightsbridge neighbourhood that is a favourite among Middle Easterners who have made the UK their home. Also that year, a property company from Qatar purchased a development on **Oxford Street**, across from Selfridge's, which is arguably the second most famous department store in London after Harrods.

More recently, the **Olympic Village** in east London, home to "the best Olympic Games in history" was purchased by a subsidiary of Qatar's sovereign wealth fund in 2012.

Equally notable, a Qatari investment vehicle is the majority owner of **Canary Wharf Group**, the developers behind the modern financial district built in east London's Docklands area.

Thus, from the Docklands in the east and reaching as far west as Chelsea and Knightsbridge, there are enough properties either owned or controlled by Qataris to give London the moniker of **Doha-upon-Thames**.

4.6 Similarity to other emerging (and developed) markets

A comparison of asset-allocation trends in the Middle East with other regions shows a distinct mirroring in other emerging markets, notably Russia, where property and commodities were also in the highest demand as asset classes according to recent research by Campden. In addition, the preference among Middle East wealth owners towards the prime and ultra-prime segments of the property market appeared to be the extension of similar attitudes Campden found in the latest survey of family offices in Europe last year. In the words of a European property adviser, describing attitudes that could well be those of respondents to this research:

> “We meet entrepreneurs who own major businesses in Italy, Spain and other parts of continental Europe. They and their families have some fabulous homes, wonderful artwork and treasures, but they also want to invest in prime commercial property in central London. We find them properties by ringing around our contacts, and asking what price they'd be willing to sell. The entrepreneurs sometimes come over here with their grown-up children, who do the talking and translating, and when they decide to buy, it's more of an emotional decision; they'll visit the property and if they like it, and like the location, they'll just buy it, even if the rental incomes are not that attractive. Our experience is that they hold on to it and keep it in the family, rather than buy and sell.”

Case study A taste for the finer things

Qatar's sovereign-wealth funds made their entrance on western financial markets in a dramatic way in 2007, with a bid to take over renowned British grocer Sainsbury's. While the bid was unsuccessful, it did signal to the world that Qatar was a financial force to be reckoned with.

Besides the 27% stake in Sainsbury's, the Qatari investment funds have accumulated a series of other holdings in prominent brand names throughout the rest of the world. Investments include:

- More than 12% of the shares in **Xstrata**, the Swiss mining company
- A 6% stake in **Credit Suisse**
- A 5.2% stake in legendary jeweller **Tiffany's & Co.**
- Buyout of the **Paris Saint-Germain** football team
- A 17% stake in **Volkswagen**
- A stake of approximately 13% in **Lagardère**, the French publishing group
- A 1% stake in **LVMH**, the world's biggest luxury goods groups by sales
- Outright ownership of Italian fashion house **Valentino**

Not only are the transactions above headline-grabbing, but they are also reputed to have been completed on very cost-effective terms, as they employed leverage to a large extent, as banks have had no reservations about lending to Qatar – seeing its gas resources as a guarantee of the emirate's ability to pay back its loans without trouble.

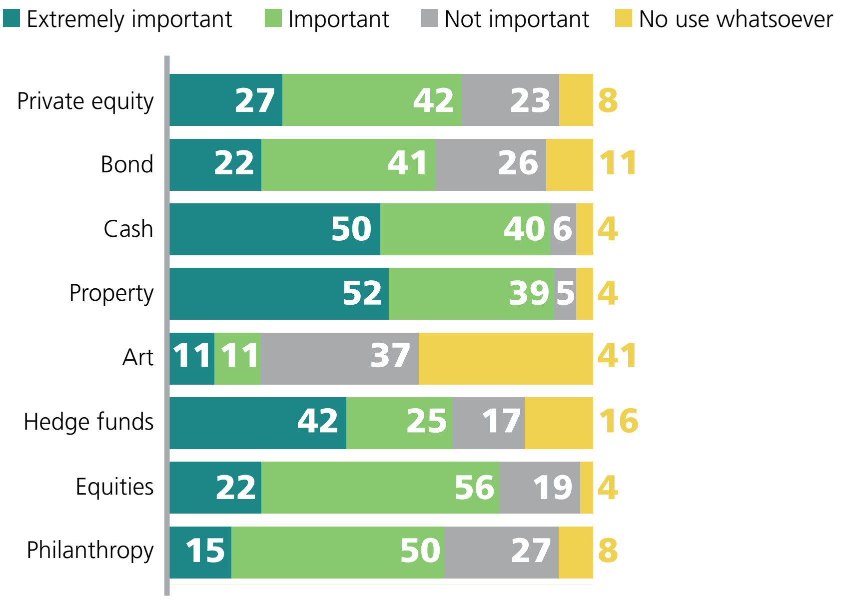
4.7 Boring is beautiful, but some spice is nice

Alternative assets appeared to be more attractive to respondents in the Middle East compared with other regions. However, this was a mixed finding, in that private-equity holdings were more attractive than hedge funds, with 69% of respondents saying that allocation to this asset class was either very important or important to their portfolios. The relatively higher appetite for alternatives, driven by private equity, clashed with distinctly low demand for such investments in Russia or Europe, as reflected in Campden's recent research in those markets. In contrast to the 42% of respondents in the Middle East who described hedge funds as "extremely important", participants to Campden research in Europe reported asset allocations of less than 10% to this class, with allocations to private equity being lower still. In Russia, hedge funds were shunned altogether, while 11% of survey respondents reported allocating portfolio resources to such funds. A possible explanation of that could be the longer lockups associated with private equity, which forced investors to commit to this asset class for longer periods of time than they would to most other holdings – including hedge funds.

Philanthropy took centre stage in the asset allocation preferences of the survey respondents, with many saying in follow-up discussions that the effort of giving away their wealth in the most effective and to the highest-impact initiatives possible took a considerable part of their time.

Participants in this research once again stood out in terms of their tolerance to risk regarding asset allocations. Wealth owners in Europe and Asia were markedly less inclined to allocate capital to emerging markets than their Middle Eastern counterparts. Conversely, respondents to Campden Wealth surveys in regions beyond the Middle East allocated more capital to developed markets, in a further reflection of their more conservative approach to investing.

FIGURE 4.8: **In terms of asset allocation in your portfolio, how important are the following asset classes?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

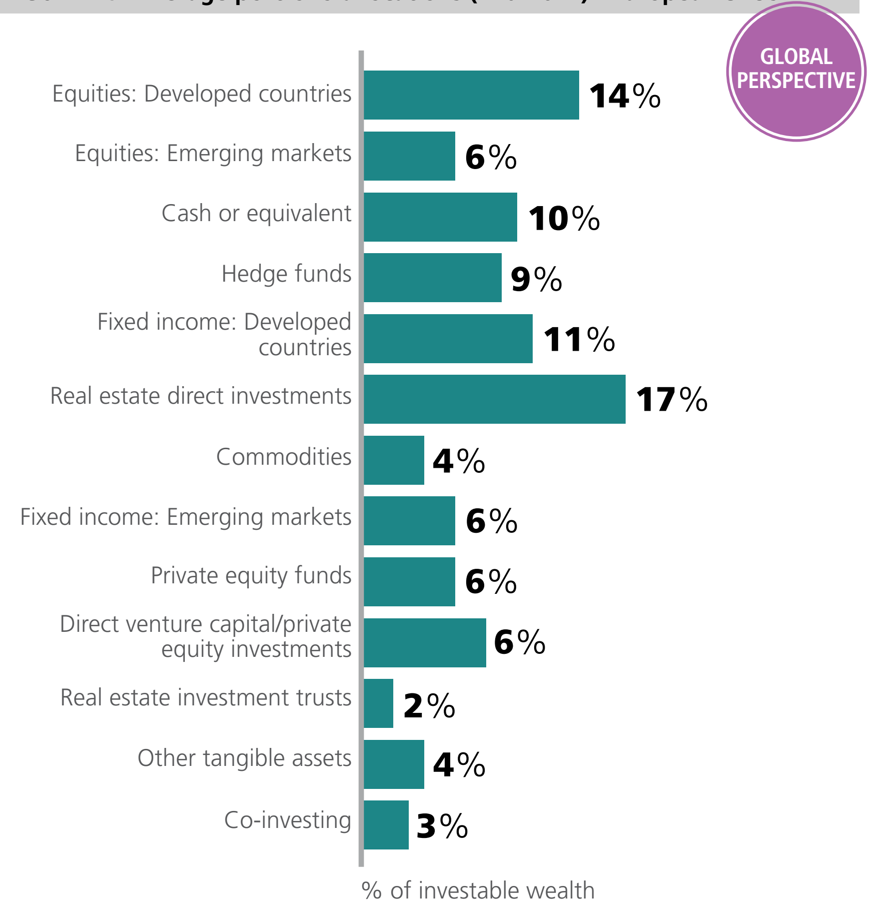
4.8 Emerging markets more attractive, Africa singled out

Geographically, participants again mirrored the responses of their peers in other emerging markets, expressing a preference for the markets they knew best – those of the Middle East. Campden data has shown that wealth owners from emerging markets have come to realise that their capacity to interpret and operate the frequently volatile environments of their home markets can translate into a distinctive comparative advantage that, in some cases, outweighs the attraction of venturing into the relatively more transparent and tamer developed markets.

Within the category of international markets outside the Middle East, other emerging markets were the second most favoured allocation, with Africa being singled out almost unanimously in follow-up discussions. The proximity to Africa, as well as the belief that its nascent markets share the characteristics that could be found in the Middle East not too long ago, appeared to fuel the respondents conviction that they are well placed to prosper there, be that as investors or as more engaged business owners.

> “We feel that Africa offers the perfect combination between the dynamism of an emerging opportunity, the familiarity with the culture, and the geographic proximity. Everything needs to be done there, the opportunities are very attractive. At the same time, quite a few investors are scared of venturing into Africa, because they see it as too risky. In contrast, that is something we relish.” **Family business executive, Oman**

FIGURE 4.9: **Average portfolio allocations (mid-2012) - European SFOs**

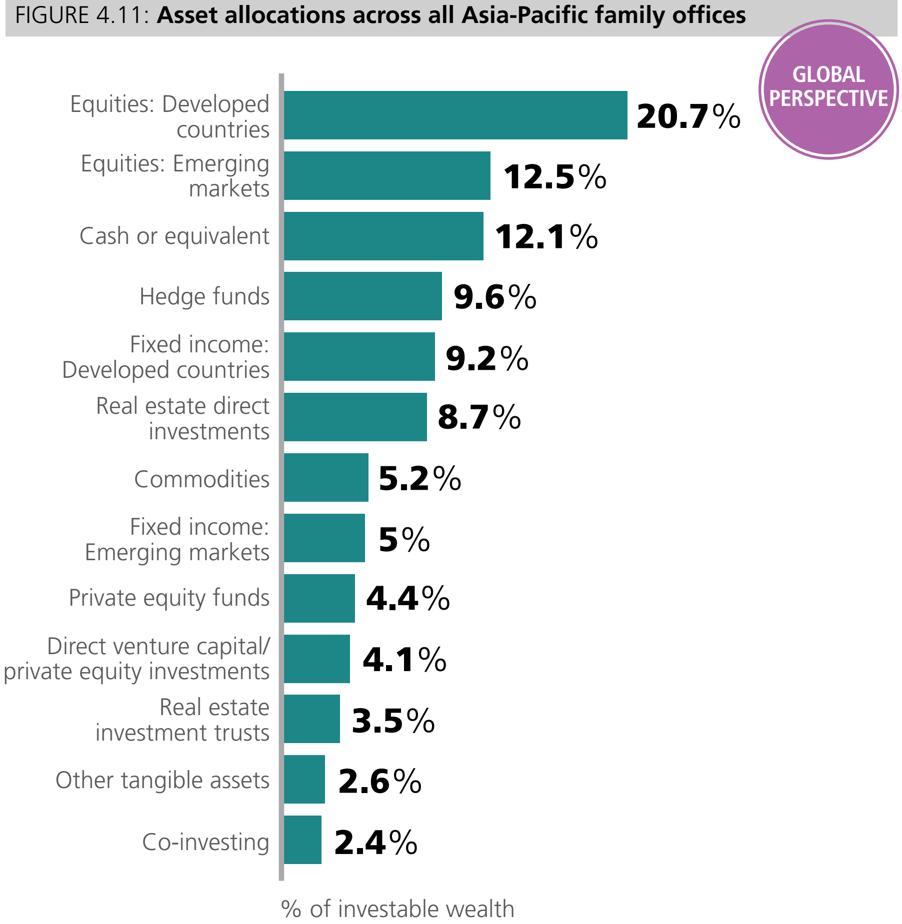


Source: The UBS/Campden Research European Family Office Survey 2012

FIGURE 4.10: **What areas do you consider as "safe harbours" for making personal investments? – Russian wealthy individuals**

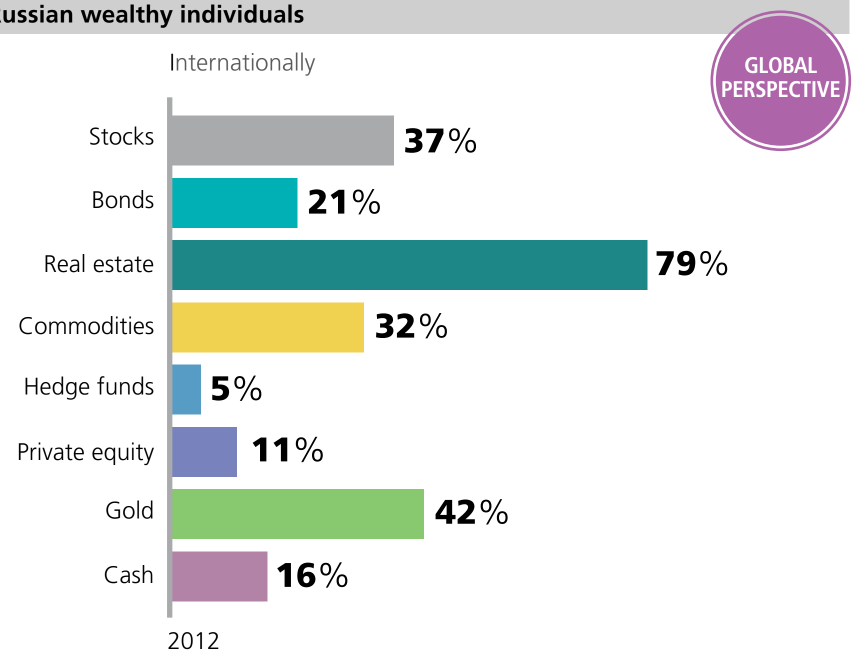
Source: UBS/Campden Research Russian Entrepreneurs Report 2012

FIGURE 4.11: **Asset allocations across all Asia-Pacific family offices**



Source: The UBS/Campden Research Asia-Pacific Family Office Survey 2012

FIGURE 4.12: **In which asset classes do you invest locally and internationally? – Russian wealthy individuals**



Source: UBS/Campden Research Russian Entrepreneurs Report 2012

4.9 The Old World preferred over the New

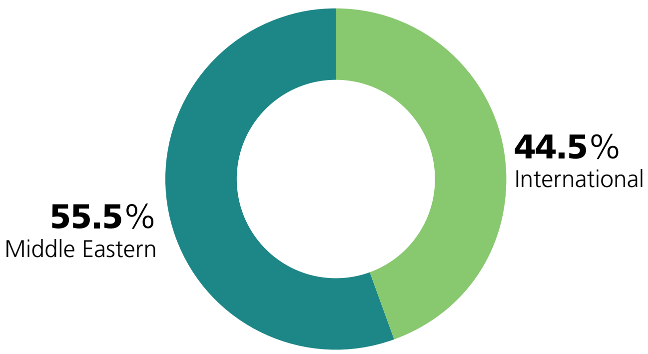
One of the most significant findings of the research was that Middle Eastern investors are keeping their investments local, with 55% of them saying they had more investments in the region than internationally. This is a noteworthy switch in investment intentions and shows the wealthy in the Middle East have faith in the prospects for the region.

Among developed markets, it was striking to see that participants appeared to express a marginally higher preference towards Europe than North America. This was all the more surprising in light of the seemingly never-ending troubles of the eurozone, and the inability of the European Union's leaders to commit sovereign-debt crises to the past, to say nothing of the fact that the US economy has outperformed the European one. Upon closer examination, two factors appeared to offer a plausible explanation for this finding. On the one hand, Europe was more familiar to participants in the research than North America. In many cases, London was where many of them had gone to school, the south of France and Switzerland was where they had been on vacation. Bonds formed over time across several European countries contributed to a stronger affinity to this region compared to the US. On the other hand, respondents to the survey demonstrated a significant degree of reticence towards Middle Eastern capital in the US, amid an increasingly strident and partisan political environment. In turn, this environment has contributed to the feeling among the wealth owners surveyed that the structural fiscal problems facing the US might be more difficult to solve than the challenges currently confronting European policymakers.

Politics inevitably informed the survey respondents' attitudes towards risk in general, as they considered the various factors affecting their business interests and the value of their investments. In the aftermath of the Arab Spring, wealth owners throughout the Middle East have become keenly aware of the value of political stability, as well as regulatory and legislative predictability and transparency. At the same time, however, macroeconomic factors such as inflation eroding the value of holdings came up frequently in discussions – quickly followed by complaints about a poor offering from banks in terms of instruments that offer satisfactory protection against inflation.

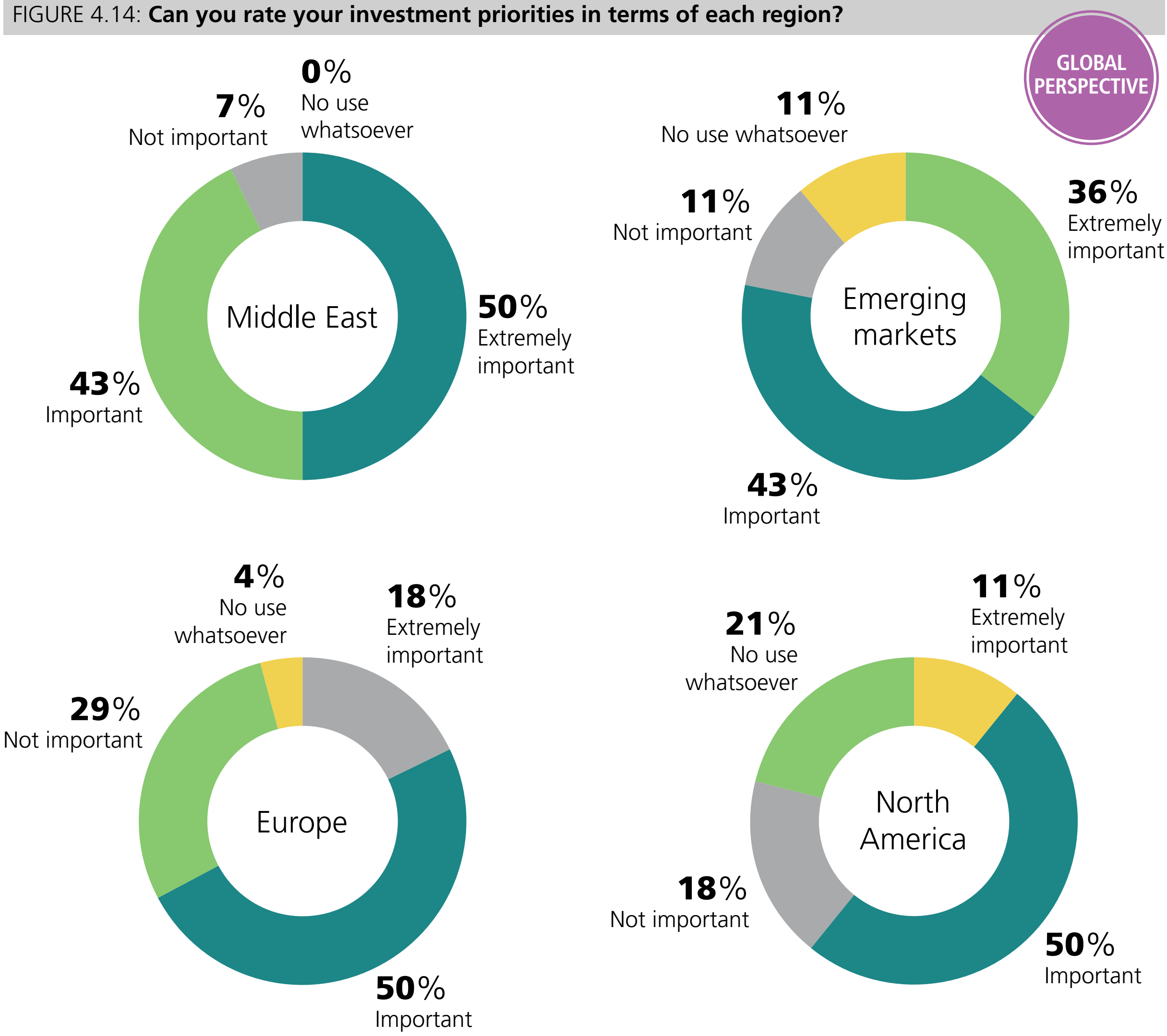
> "Generally, speaking, we can access a relatively satisfactory range of investments, either here or abroad. However, the missing products are those that can offer a suitable hedge against inflation. The erosion of buying power that occurs with inflation is a concern, and this is a macroeconomic phenomenon that has proven hard to tackle given the global environment and the features of the countries in this region."
> **Family office executive, Bahrain**

FIGURE 4.13: **In the last five years, have you been putting more money in Middle Eastern investments or international investments?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

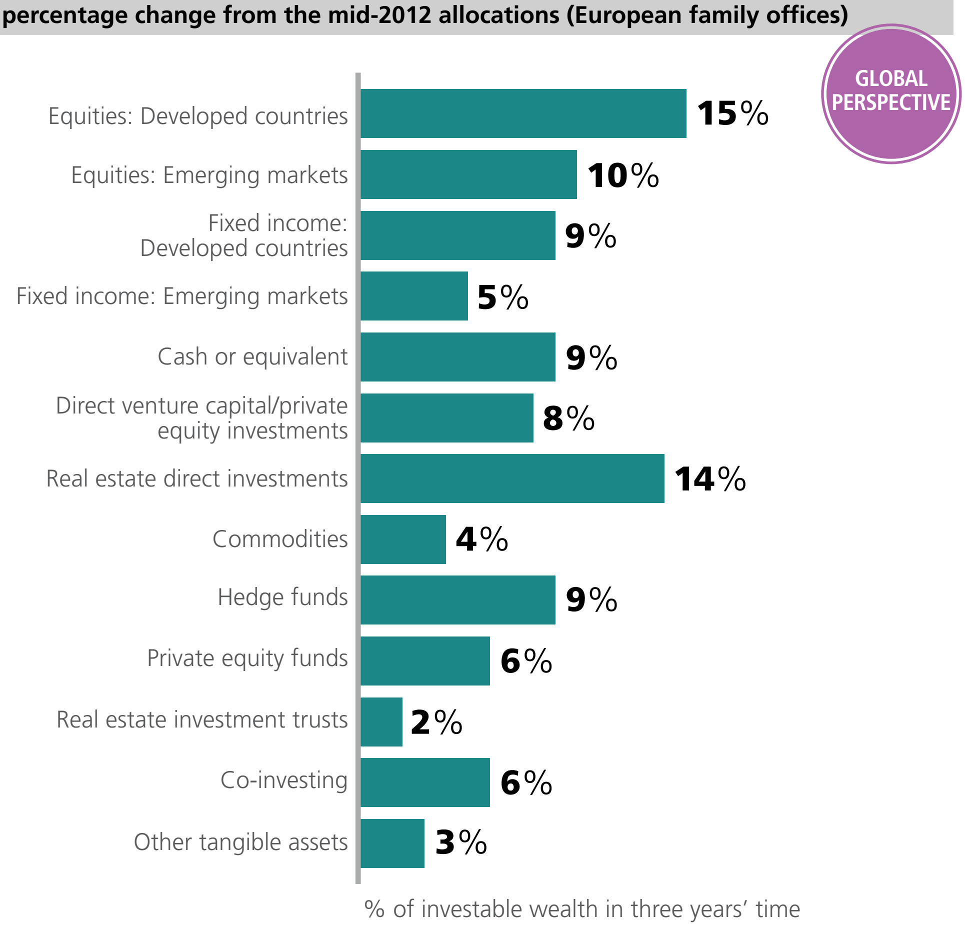
FIGURE 4.14: **Can you rate your investment priorities in terms of each region?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

Looking at the appetite for risk exhibited by participants in this research, evidence gathered by Campden suggests that it will take about three years before this attitude will be mirrored by European wealth owners or family offices. As the figure below shows, survey respondents anticipated increasing their exposure to emerging markets in the next three years by almost 80%, while decreasing their allocation towards property by 19%.

FIGURE 4.15: **Average portfolio allocations – forecast for three years' time, and percentage change from the mid-2012 allocations (European family offices)**



Source: The UBS/Campden Research European Family Office Survey 2012

5 The family office in the Middle East

Key findings

- Campden estimates that there are currently between 60 and 75 family offices in the Middle East, most of them located in the GCC countries, applying the definition of a family office as relatively institutionalised, well-structured entity
- The number would increase significantly if more informal, family office-like structures, often in operation within the principals' companies, would be included. In this case, Campden estimates that there would be just over 100 family office-like structures in the GCC countries
- That being said, the family office concept is less developed in the Middle East than in other regions with a longer track record of wealth creation, and it lags behind even Asia-Pacific, the other notable region studied by Campden, where the market is also nascent
- Of the respondents that did not have a family office, 60% said they had no intention of setting one up
- As with other emerging markets, the multi family office model hasn't taken off in the Middle East, with almost 70% of respondents saying they would not consider joining such an entity
- Among survey participants with family offices, respondents placed a high premium on the offices' value as an instrument for managing family wealth…
- …but, interestingly, they also saw the family office as an instrument for educating younger generations

5.1 Family office concept gaining ground

Wealthy families in the more mature markets of North America and Europe have long since discovered the benefits of establishing a family office to manage the fortunes they have amassed, be that alongside or instead of the operating businesses that generated the fortune. Above certain levels, wealth becomes unmanageable as a part-time effort, and they require full-time engagement. Neglecting this aspect can result in unfortunate outcomes: in the best cases, sub-optimal returns on investments and in the worst, the deterioration of the liquidity that had been created.

As is the case in other emerging markets researched by Campden Wealth, the degree of market penetration of the family office concept is relatively low in the Middle East, in comparison to Europe or North America, and even in comparison with Asia-Pacific. Arguably, this is a consequence of the relatively longer track record of wealth generation in comparison with the Middle East. At the same time, an allowance must be made for the existence of Europe-based family offices servicing Middle Eastern families, which have traditionally been based in either London, Geneva or Paris. Still, it is a fair conclusion that the concept has yet to attain maturity in the region.

Reliable figures for the number of family offices in the Middle East are hard to come by. A few valid assumptions can be made in order to arrive at an estimate. Generally accepted estimates for the worldwide number of family office places their number at around 2,500. The bulk of these – about 70% of the market – is accounted for by the two regions with the most mature markets, namely Europe and North America. Within this estimate, Campden's own research for Asia-Pacific, combining both quantitative data and anecdotal evidence, puts the number of single family offices in that region at around 100.

Using a similar methodology for the purposes of this report, Campden estimates the number of single-family offices in the Middle East to between 60 and 75, with the vast majority of them based in the GCC countries. This estimate is qualified by the fact that Campden defines a single family office as a relatively institutionalised structure, capable of a significant degree of sophistication in terms of the ability to function across jurisdictions, as well as the ability to employ the right staff for the tasks required of it. As this section will address, structures akin to a family office, but with reduced capabilities, are likely to exist in larger numbers.

The existence of such a limited number of family offices in a region with a high density of very wealthy individuals reflects the relative newness of the wealth in the region, but more likely the prevalence of operating family businesses that have yet to experience the type of "liquidity events" (be it an initial public offering, or an acquisition by a larger company) that tend to fuel the emergence of family offices in other markets.

In light of the extremely dynamic development of this exciting part of the world, and the wealth creation that has accompanied it, the emergence of an increasing number of family offices across the Middle East is almost inevitable. As this growth takes place, it is expected that it will encounter similar challenges to other parts of the world. Nevertheless, specific issues that pertain to the cultural heritage of the Middle East must be taken into account, and some of these will be dealt with towards the end of this chapter.

5.2 An even split

There was an even split among the participants between those who have a family office and those who do not. Upon closer scrutiny and follow-ups in structured interviews and qualitative research, the survey found a strong correlation between the age of the wealth and the level of structure put in place to manage it, with families in their second or third generation of wealth creation being a lot more likely to have a family office than first-generation families. Once again, this is not unexpected and mirrors the history of family offices elsewhere around the world.

FIGURE 5.1: **Do you have a family office?**

Source: QFC/Campden Wealth Middle East Wealth Report 2013

As for the likelihood of setting up a family office in the future, respondents resistant to this outnumbered those who were considering the idea.

FIGURE 5.2: **If no, would you consider setting one up?**

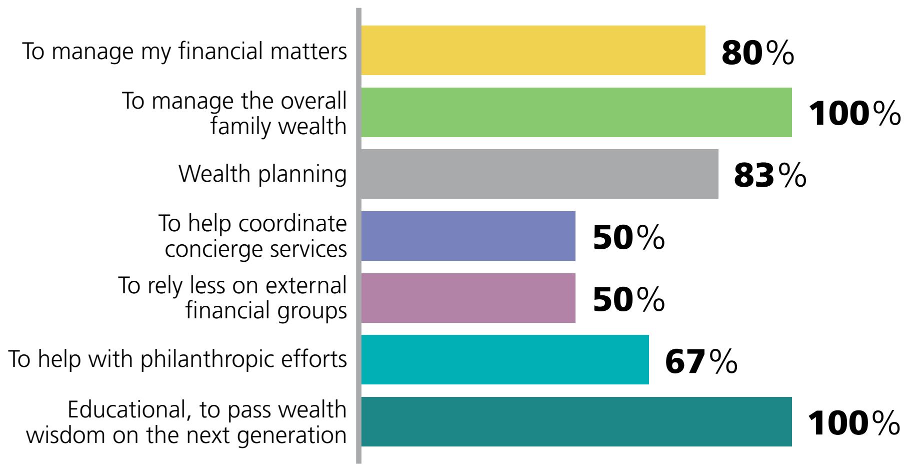
Source: QFC/Campden Wealth Middle East Wealth Report 2013

However, this finding must be qualified by at least two caveats: on the one hand, in a few cases, it emerged in interviews that respondents had an iteration of a family office, or indeed a structure that was likely to evolve into one, but were referring to it by a different moniker ("family office seems too pretentious," said one participant). On the other hand, one or two respondents confessed to having a de facto family office whose existence they were intent on keeping under wraps in order to avoid unsolicited demands on their wealth by distant, suddenly re-emerged relatives, or other parties with dubious intentions.

For the sake of transparency, the research reports the survey responses as they were given, respecting the respondents' preferences for what they were willing to disclose and how they were willing to disclose it.
In light of these caveats, even the figures for existing family offices need to be taken with the proverbial pinch of salt. That is because more often than not, such entities are outgrowths of an operating company's accounts department or, a rather basic structure that is a long way from providing wealth-management services on par with what would be required for the assets that are to be run. Obstacles to the development of proper family offices tend to be cultural more than anything, with wealth owners resisting change and taking an "if it is not broken, why fix it?" approach. Participants in the research, however, suggested that the most effective strategy for overcoming such cultural resistance was likely to be the example of respected peers.

"Private bankers and advisers can talk all they want to the wealthy Arabs. They won't get anywhere. The way you'll get them to change is to show them the example of other Arabs that have established family offices. Put them at the same table as respected veterans, patriarchs they've read about. Let them hear stories about why a family office is a good idea from these people they respect and want to emulate. That, my friend, is what will work." **Family principal, Dubai**

FIGURE 5.3: **If you are considering setting up a family office, what would be the reasons for that?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

5.3 High premium on the educational value of family offices

Among those who declared an interest in setting up a family office, it was striking to find that besides the expected goal of managing wealth – be it overall family wealth or an individual's financial arrangements – the education of younger family members about wealth-related matters and "passing on wealth wisdom to the next generations also featured prominently on the envisaged family office's list of objectives". Around the world, among wealthy families and their advisers, the adage of "rags to riches to rags in three generations" is well known. In the Middle East, a version of this is said to have been uttered by the founding ruler of the UAE as a reason for engaging on the country's striking development plan. Families in the region are almost invariably concerned about the transfer of wealth over generations because of the risk of this wealth being frittered away – sometimes in a rather undignified fashion. As was explained by a member of a prominent Saudi family:

> "Money changes people, and if you're not careful, it removes you from reality. I was lucky in that my family insisted in educating me about this. It wasn't about pretending we were not privileged, but about learning that along with the privilege comes responsibility. Sadly, you look around in Knightsbridge and Chelsea (in London) and you see supercars driven by Middle Eastern youths acting entitled and being disrespectful. More and more, families are mindful of this and trying to fight it."

5.4 Succession and Sharia law

Weighing heavily on the minds of Middle Eastern wealth owners considering issues related to succession were the implication of Sharia law for the future of their businesses and for the long-term fate of their legacy. Obligated to obey Sharia law and is tenets regarding succession, wealth owners in the region have become increasingly adept at devising innovative ways to reconcile Sharia with the realities of their families. Simply put, when faced with the realisation that the aspirations and skills of their children and other heirs painted a different picture to what would result from a Sharia-compliant succession plan, more than a few family patriarchs in the Middle East have devised ingenious mechanisms for ensuring their legacy.

> "What we've seen a lot of is a client that presents us with a particular outcome he envisages for his succession plan. He then asks us to design a Sharia-compliant way to arrive at that outcome. In its crudest form, such a client might have an eldest son that is unwilling – or incapable – of taking over the family's business interests. He might also have a younger daughter that applied herself, has degrees from great universities, has had a stellar career already and shows great promise. It's the reverse of Sharia, crudely speaking. What do you do? Do you force the son into something he does not want to do or does not know how to do? No. You create a succession mechanism whereby the daughter takes over while you're still alive. When you're alive, you can do what you want with your money. Sharia kicks in when you die. By then, the daughter runs the business, the son has a stipend, everyone is happy." **Dubai-based legal adviser**

Evidently, most situations tend to be significantly more complex than the above-cited example. The more visionary business patriarchs, particularly in the case of those with complex business interests and complex families, have been known to establish long-term succession plans designed to groom the best-suited candidates to take over upon their demise. Furthermore, such plans would often include provisions for discouraging siblings from breaking up the family business or from seeking to cash out on their inheritance too suddenly, depriving the company of capital.

“Our father, being the old fox that he is, wrote a constitution. And the constitution says that if we want to break away, our holding is diluted by 50%. If we still want to do this and take the cash out, this can only happen gradually, over several years. None of us gets to go away and be lazy, leaving a starved business behind.” **Second-generation family heir, UAE**

“When we were young and done with university, our father gave each of us some money to start a business. The only rule was that we could not compete with the family business, and we could not compete against each other. And we could not get any more money besides the initial sum. We had to prove ourselves.” **Second-generation heir, Bahrain**

Case study — Inheritance – Respecting Sharia law

All Muslims must obey Sharia laws when making arrangements for passing on their wealth to younger generations. Inheritance laws under Islam take into account five principles:

- The role of the individual as a trustee of wealth, rather than a master of it, must be emphasised. As a consequence, man cannot pass on wealth to others as he would please – but instead must do so according to well-defined rules
- The concentration of wealth should be broken up, away from individuals, and spread towards the broader Muslim society
- The right of ownership over property and assets gained through honest means must be respected
- The family system, as a cornerstone of Muslim society, must be strengthened and consolidated
- Work, and broader economic activity as sanctioned by Islam, must be encouraged

Sharia laws of inheritance were developed and govern in significant detail the way in which wealth can be bequeathed following death. Thus, heirs are divided into three broad categories:

1 **Dhaw-u'l Fara'id** – heirs with a definite share of the deceased assets. Within this class of heirs, there are 12 distinct categories, four for males, and eight for females.
  a Male heirs among the Dhaw-u'l Fara'id: fathers, grandfathers, uterine brothers and husbands.
  b Female heirs among the Dhaw-u'l Fara'id: wives, single daughters, son's daughters, mothers, grandmothers, full sisters, cosanguine sisters and uterine sisters.

2 **Asaba** – heirs who receive the remainder of the deceased's assets, after the Dhaw-u'l Fara'id heirs have received their shares. Sharia law states these are heirs with no female entering their line of inheritance. If the deceased has no Dhaw-u'l Fara'id heirs, then the Asabat heirs take the whole of the inheritance.

3 **Dhaw-u'l Arham** – relations to the deceased connected through females. They receive a share of the inheritance in extremely rare cases.

Under Sharia law, and bearing in mind the above considerations, only a third of a person's wealth can be distributed freely, as the deceased might see fit, with the remaining two-thirds of the fortune being required to be distributed in accordance with Sharia.

When a will stipulates the distribution of more than a third of the inheritance according to other criteria, the heirs are free to ignore this provision. In other words, they have the obligation to ensure the will is compliant with Sharia even if this means they will inherit less.

It should be noted that the above is a very brief overview of this issue. Furthermore, participants in the research have noted that Sharia courts have been known to have different interpretation of certain aspects of inheritance laws.

Source: Scott, Leah. "The incorporation of Sharia in offshore trusts" Tax Planning International Review, Bloomberg BNA, January 2009

5.5 Expectations from a family office

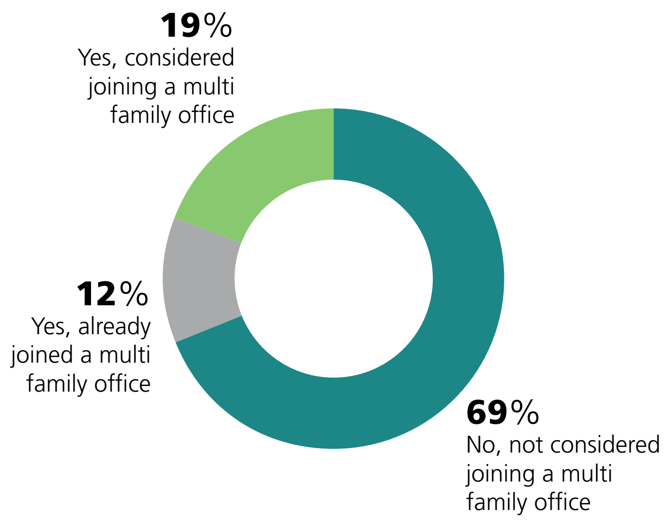
When it came to examining the expectations for the services they would like to receive from their existing or envisaged family offices, respondents tended to place a heavier emphasis on investment and financial-related services such as planning, structuring, insurance, with more than half of respondents saying these services are "very important" or "important" to them. However, while secondary and so-called "softer" services such as lifestyle/concierge management or philanthropy were ranked lower, seen as "very important" or "important" by less than a quarter of the respondents, the importance placed on them was not far behind that given to core financial services. This would suggest, once more, that wealth owners in the Middle East are an exacting audience that demand a high level of service in all aspects of life, and have high expectations from their service providers.

FIGURE 5.4: **If you are considering setting up a family office, what would be the reasons for that?**

Source: QFC/Campden Wealth Middle East Wealth Report 2013

As was the case elsewhere in the research, concerns about discretion and confidentiality transpired in discussions about family offices. Thus, when presented with the concept of multi family services, almost 70% of respondents said they would not consider joining such an entity, and they unanimously cited confidentiality concerns as a reason for their answer. While multi family offices do exist in the region, they are few and far between, and they tend to service families that are inter-related in some way.

FIGURE 5.5: **Have you joined, or considered joining a multi family office?**



Source: QFC/Campden Wealth Middle East Wealth Report 2013

Case study: QFC & DIFC – Powering the Middle East's financial-services industry

The ambition of governments in the Middle East to establish their jurisdictions as financial powerhouses to the global economy fuelled the drive to roll out a legislative and regulatory red carpet to firms seeking a presence in the region.

Through laws and regulations modelled after internationally recognised structures, both the Qatar Financial Centre and the Dubai International Financial Centre aim to attract companies seeking a foothold to the dynamic market that is the Middle East. By offering law and regulations that largely emulate familiar provisions already tried and tested in financial centres such as London, the DIFC and QFC are betting on their position on the map – at the crossroads between the time-zones of the world's other main financial hubs – as well as the proximity to the vast wealth of the Middle East in order to attract both established players of the financial services industry and start-ups.

Recognising the opportunity to attract the business of single family offices due to the evident gap between the number of such organisations and the number of families that would qualify to establish them, both the QFC and the DIFC have adopted a streamlined procedure for setting up single family offices. The requirements that must be fulfilled before applying to set up a family office, and the limitations on single family offices in the DIFC and QFC, are outlined below:

Dubai International Financial Centre	Qatar Financial Centre
Single Family Office Regulations	**Single Family Office Regulations**
• 100% of the ultimate beneficial ownership of the DIFC company consists of members of a single family (ie there is a common named ancestor)	• For the purposes of the single family office, a family is made up of one individual or group of individuals, all of whom are the bloodline of a common ancestor
• If the ultimate beneficial owner is a trust or similar entity, 100% of the principal beneficiaries/controlling individuals are members of the same family	• The family must have a minimum of $5 million of investable/liquid assets under management
• The DIFC company does not provide services to third parties; it manages a single family's proprietary assets only	• The single family office cannot hold itself out to third parties as engaging in any permitted activities by way of business in or from the QFC
• The family's net wealth exceeds the required minimum ($10 million)	• The single family office cannot solicit any third party to engage with it in carrying out any permitted activities by way of business in or from the QFC
• The DIFC company has a physical presence within the DIFC	• Engage in any activity that constitutes a regulated activity, as defined by QFC regulations
• If two or more families wish to manage their combined assets through a single DIFC company, this entity will not qualify as a DIFC single family office company and additionally must be regulated by the Dubai Financial Services Authority	

6

Outlook

Key findings

- The number of family offices will grow significantly in the Middle East, bringing the region closer in line with other regions of similar maturity
- …indeed, outside of Asia, the Middle East will see the fastest growth in family office start-ups
- Money will increasingly stay in the region, benefitting fast-growing financial centres such as Qatar and Dubai, as well as local financial institutions
- Liquidity events, leading to growth in the family office market, are likely, even though they are less likely to take the form of initial public offerings
- Staffing the new family offices throughout the Middle East will be increasingly competitive, with offices forced to pay a premium to access the skills they need
- The difficulties experienced by the financial services industry will help offices recruit staff, but this trend will be countered by some reluctance to relocate to the Middle East for some professionals that would otherwise join family offices more quickly

6.1 The future is bright

Multiple trends converge to offer an optimistic outlook for wealth creation in the Middle East. While the rest of the world might have grown accustomed to associating this region with relative turmoil, evidence of the growing confidence of entrepreneurs and businesspeople regarding the opportunities that lay ahead is not in short supply.

To be sure, remnants of the excesses that caused the property bubble in Dubai still remain, and the spectre of conflict or instability in neighbouring countries casts a pall over the outlook for all economies in the Middle East. At the same time, however, the factors that underpinned the extraordinary growth of economies such as Qatar remain unchanged. Indeed, the challenge in these instances might be more to manage success on a sustainable basis, rather than to overcome failure as a matter of urgency.

6.2 Family businesses and wealth management will professionalise further

As family businesses throughout the region mature, so too will the services required to manage the founding families' wealth and other interests. Liquidity events, the desire of older generations to retire, coupled with the younger generations' desire for other pursuits, will impress upon the families of the Middle East the need to revisit the way they approach the management and governance of their companies. The reasons for doing so are numerous and self-evident for the most part, but resistance to change from the "old way we've been doing things" has proven tough to overcome. However, the successful examples of families who have already taken steps in this direction are likely to tip the balance for many elders of the business world towards segregating the ownership of their companies from the management, and towards hiring outsiders to oversee both wealth and operating business interests.

> "You have a lot of older businesspeople – they're tired, they want to take a step back, and they want to relax. But they don't want to let go. Maybe their children aren't interested in taking over. Nothing is going to persuade these men to do what they need to do – to hire managers, to make things professional – more than if they hear from people they respect that it can be done and that it works. We went through this with our business. Until the founder was convinced by someone he respected that things like that can be possible, he didn't move. And he knew all the other arguments why he needed to shake things up." **Family business heir, Dubai**

6.3 Money will stay put

Two trends that are already unfolding in the Middle East – money staying in the region and financial institutions attracting an increased slice of that capital – will accelerate in the years ahead. Of course, this will not be a smooth or linear progression, and there will be years when more money will go to the traditional havens like Switzerland. However, money will increasingly stay in the Middle East, as the financial-services industry here grows in size and sophistication.

6.4 Liquidity events can be expected, but they will not necessarily be landmark IPOs

While liquidity events are likely to occur, several factors specific to the business culture of the Middle East might cause them to take other forms than initial public offerings. For one thing, the sheer magnitude of cashflow for some prominent businesses in the area could well enable owners to cash out through special dividends without the need to access equity markets. For another, regional markets remain relatively less mature while global markets have yet to see the end of a prolonged period of turbulence. Last, but not least, many business owners may not be ready to make an outright exit from their companies because they see compelling opportunities still lying ahead – even if they might bring in outside managers to capitalise on them.

6.5 Family offices are likely to increase in number and sophistication

As this research has shown, the number of family offices in the Middle East is very low relative to the amount of wealth present in the area. Even if less formal iterations of the family office are included in assessing the market, the reality is that the region lags other parts of the world in this regard.

As some families experience transitions, through the form of inter-generational succession, liquidity events or otherwise, as the merits of the concept become more apparent and as the pace of wealth creation is sustained, there will be an increased number of family offices being set up throughout the region. Indeed, outside of Asia, the Middle East will give rise to the fastest growth in family office start-ups over the next five years.

Likewise, the degree of sophistication of the family offices, be they the existing ones or of the newcomers to the market, is likely to increase in order to meet the demands of the families being serviced.

Within the space, however, single-family offices appear far better poised to register growth than multi-family offices, given the prevalent concerns about discretion and confidentiality highlighted in this research earlier.

6.6 Staffing and access to skills – a double-edged sword

As the number of family offices in the Middle East increases, and as they expand the range of services they offer, the demand for qualified staff will inevitably pick up. Meeting that demand could prove a brake on the pace of growth in the market, as family offices in the region may find they are competing not only with counterparts elsewhere in the world, but also with the banking or asset-management sector.

One factor that could make staffing new family offices easier is the ongoing turbulence in the financial services industry, with pressures on compensation packages being imposed on banks in Europe, and difficult business conditions effectively spelling the end of disproportionate bonuses for bankers throughout the world.

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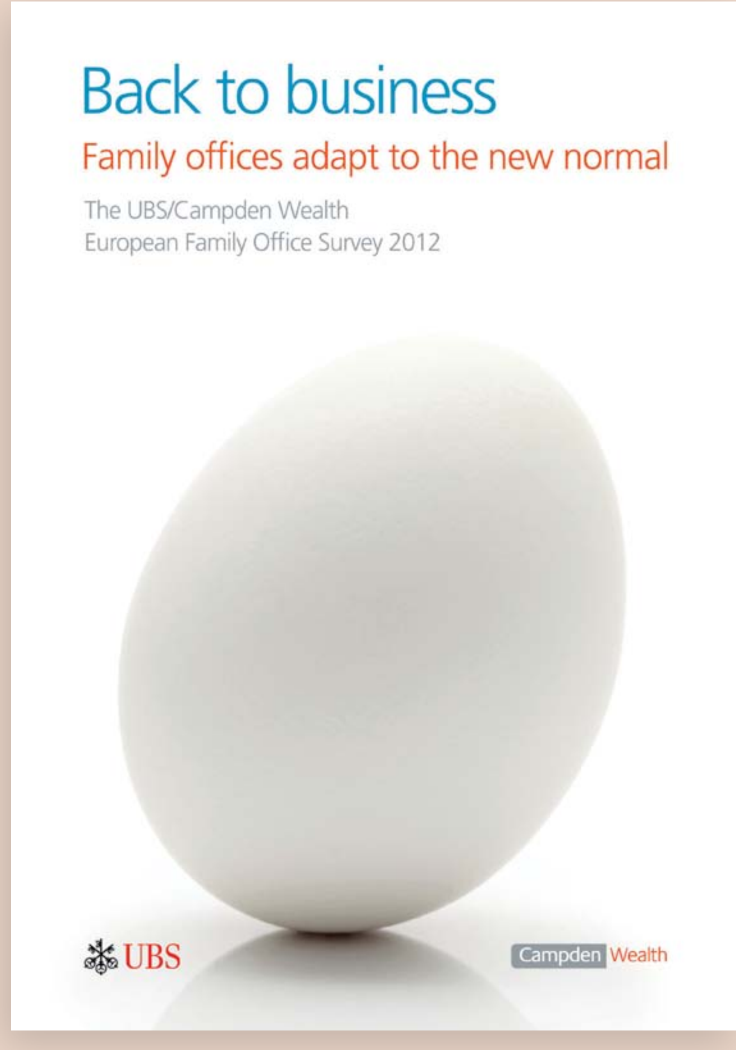
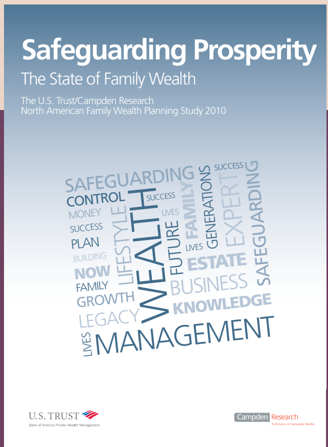
CAMPDEN RESEARCH PROJECTS PRODUCE VALUABLE BUSINESS INTELLIGENCE AND MEANINGFUL, IN-DEPTH ANALYSIS

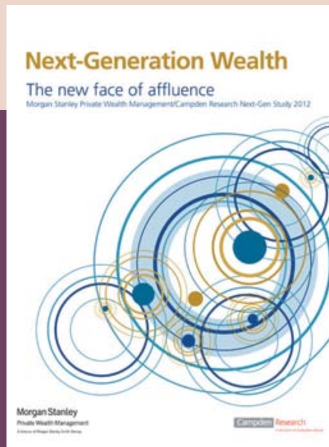


The fifth Annual Campden European Family Office survey examines the main trends challenging wealthy families since the financial crisis started escalating in 2008. It covers 59 single and multi-family offices across Europe, each with a net worth between €50 million and €1.5 billion, providing comparative data against which individual offices could evaluate their activities and strategies.

Some key findings include:

- The "new normal" climate of low returns and high volatility has led to the worst investment returns in years, forcing families to shift focus to wealth preservation rather than wealth creation
- Family offices are aiming to do a limited number of functions very well, rather than underperforming a wider range of functions
- Deeper due diligence into external investment opportunities and counterparties has become the norm





Campden Research reports have garnered widespread coverage in international business media including *The Financial Times*, *Wall Street Journal*, *Bloomberg*, *Reuters*, *The Economist*, *USA Today*, *CNBC* and the *BBC* as well as specialty and geographically based publications – *L'agefi, Corriere della Sera, The Times, South China Morning Post, Handelsblatt, Vedomosti*.

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*References the 2008 Forbes Tax Misery & Reform Index
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