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# MENA ASSET MANAGEMENT BAROMETER

An Annual Market Survey Report

No. 1 / APRIL 2013

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**An annual market survey report conducted on behalf of the Qatar Financial Centre Authority and prepared by MENA FUND MANAGER**

## Qatar Financial Centre

**Qatar Financial Centre (QFC)** is a financial and business centre established by the government of Qatar in 2005 to attract international financial services and multi-national corporations to grow and develop the market for financial services in the region. QFC aims to help all QFC licensed firms generate new, and sustainable, revenue streams. It provides access to local and regional investment opportunities. Business can be transacted inside or outside Qatar, in local or foreign currency. Uniquely, this allows businesses to operate both locally and internationally. Furthermore, QFC allows 100% ownership by foreign companies, and all profits can be remitted outside of Qatar.

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**The QFC Regulatory Authority (QFCRA)** is an independent statutory body and authorises and supervises businesses that conduct financial services activities in, or from, the QFC. It has powers to authorise, supervise and, where necessary, discipline regulated firms and individuals.

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# FOREWORD

## By Shashank Srivastava
## CEO and Board Member of the Qatar Financial Centre Authority (QFC Authority)

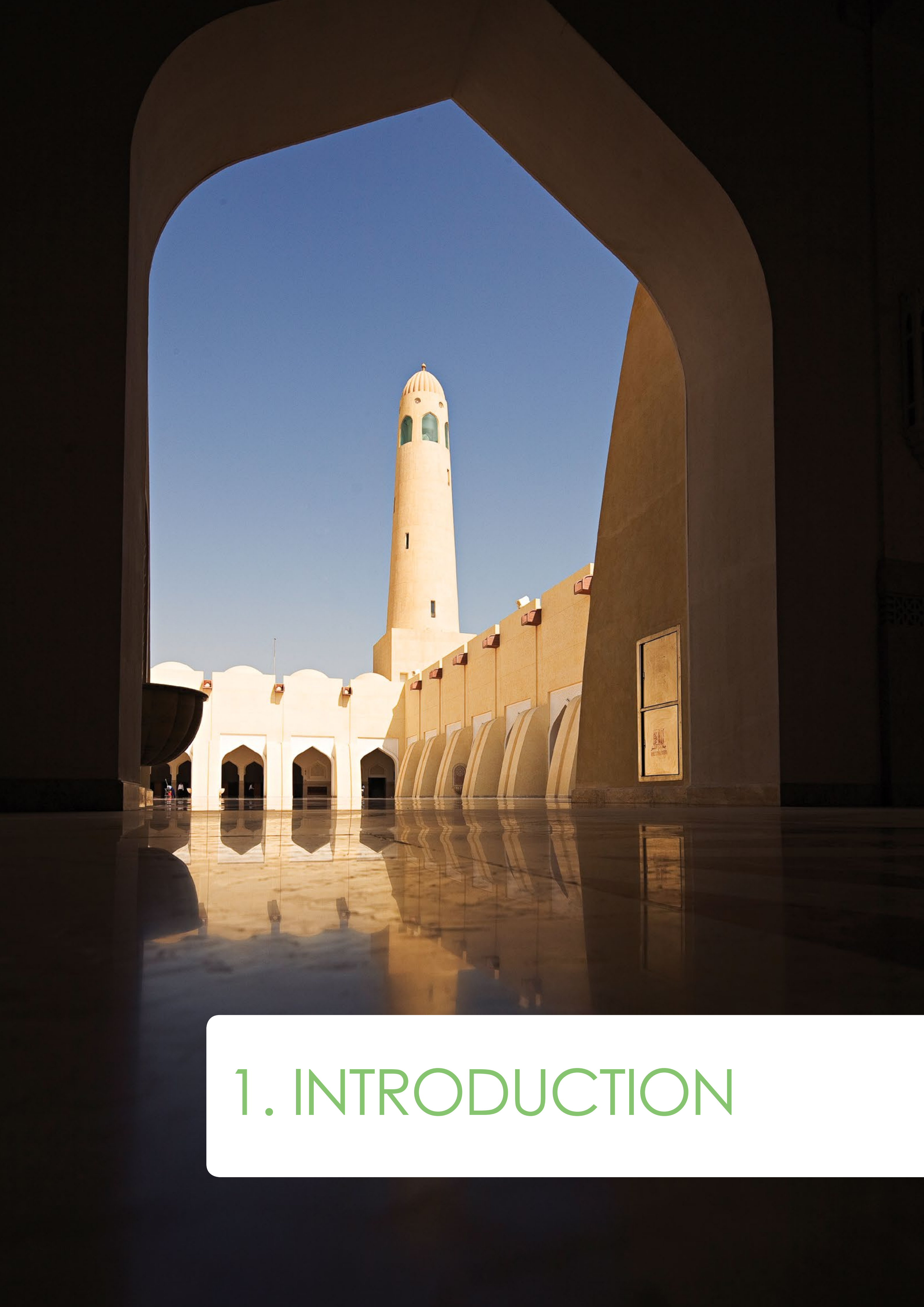
We are pleased to present the first edition of the annual *MENA Asset Management Barometer*.

This inaugural edition provides a current and detailed insight into the asset management industry across the MENA region. We hope that over time, the *Barometer* will contribute to enhance the transparency of the MENA asset management marketplace and that it will provide participants with an additional benchmark for decision-making.

Our unique *Barometer* is based on in-depth interviews with 45 senior executives from regional and international asset management companies and from government investment entities operating in MENA. It offers a comprehensive picture of current market sentiment and will track this over time. This first survey has found that asset managers across the MENA region are united by the need for clearer regulation and better distribution opportunities. Interestingly, despite the recent political turmoil, managers are showing an increasingly 'risk-on' attitude as they talk about the growth potential in local equity markets.

The *Barometer* provides both a regional overview and a detailed country-by-country breakdown of the different asset classes and market participants in MENA.

We hope you will enjoy reading and benefit from the findings of our first *MENA Asset Management Barometer*.



# 1. INTRODUCTION

# EXECUTIVE SUMMARY

**1. Barometer**

Over 70% of MENA's asset managers remain confident about 2013. The majority of this optimism stemmed from GCC-based firms, who believed that the combined force of increased government investment and dynamic local equity markets would make the six GCC states attractive investment locations.

Managers outside the GCC are less positive. Egypt-based financial professionals predicted that future growth would hinge on the country's delayed parliamentary elections and a return to economic normalcy. A number of *Barometer* respondents expressed concern that the current instability could have a long-term drag on financial markets across MENA.

Different geographies united around the impact of regulation, with all participants predicting that new rules would have a measurable effect on MENA's asset management space. The majority of respondents were extremely supportive of the region's Shariah-compliant sector, with new regulation in Egypt, Oman and Bahrain expected to have a positive impact on investor activity. However, managers also said that a lack of unified regulation across MENA was damaging distribution and investment opportunities, as well as pushing up asset management overheads.

**2. Regional overview**

All managers expressed concern that continued political unrest in MENA would hamper growth in the long-term, although a smaller number cited change as an economic opportunity. In stark contrast to concerns about political fragmentation, the biggest investment trend mentioned by managers was a return to a more risk-on environment.

This was chiefly characterised by a description of asset managers moving from fixed income to equities, or at least a re-weighting of portfolios to an equity parity or bias.

**3. Country guides**

The lack of a uniform approach to foreign ownership, direct investment and fund marketing rules was a factor that many managers found frustrating. However, while complex layers of regulation frequently divided countries, a number of MENA nations were united by their strong fundamentals – a condition that *Barometer* respondents said would make them ripe for both increased domestic investment and foreign allocations.

Qatar and the UAE seem to be particularly well-poised. *Barometer* respondents said that the countries' infrastructure spending programmes and successful attempts to build a relevant hub for financial service firms would continue to pay-off in 2013. The rest of the GCC was also tipped for growth, although, the overhang of stock market illiquidity and opaqueness of corporate ownership structures continue to be points of concern.

# 2. BAROMETER

# METHODOLOGY

*MENA Asset Management Barometer* findings are based on 45 in-depth telephone interviews with senior personnel at banks, fund management firms, sovereign wealth funds and pension funds across the MENA region. The data used in the report – unless clearly stated – was collated using information sourced from *Mena FM*, Zawya and MSCI. All survey results and performance figures focus on firms operating in the GCC, Egypt and Morocco.

Data accompanied by the Barometer logo reflects results from 45 Barometer interviews, conducted on behalf of the Qatar Financial Centre Authority (QFCA) by *Mena FM*.

We would like to thank the following firms for taking part in the *Barometer's* research:

**AB Invest**
**ABC Treasury Group**
**Abraaj Capital**
**Abu Dhabi Equity Partners**
**Al Mal Capital**
**Al Masah Capital**
**Al Rajhi Capital**
**Arqaam Capital**
**Bahrain Mumtalakat Holding Company**
**Bakheet Investment Group**
**Bank Muscat Asset Management**
**Bank of London and Middle East**
**Bin Zayed Group**
**Blominvest**
**Caam Saudi Fransi**
**EFG-Hermes**
**Emirates NBD Asset Management**
**Global Investment House**
**Goldman Sachs**
**HC Securities & Investment**
**Duet Asset Management**
**HSBC**
**Insparo Asset Management**
**Invesco**
**JP Morgan**
**Mashreq Capital**
**Mayor Capital Management**
**MEFIC**
**Mubadala Development Company**
**National Bank of Kuwait (NBK)**
**NBAD Asset Management**
**National Bank of Kuwait**
**NBK Capital**
**NCB Capital**
**Rasmala Egypt Asset Management**
**Rasmala Investment Bank Ltd**
**Saffar Capital**
**Schroders**
**SHUAA Capital**
**SICO**
**Silk Invest**
**United Securities LLC**

# SUMMARY OF KEY FINDINGS

**1.** Confidence remains high with 70% of those taking part in the *Barometer* believing that MENA's financial markets would continue to grow in 2013. *Barometer* respondents said that GCC equity markets would hit a high note this year, with a number citing Q1 local investor inflows into regional equity funds.

**2.** Political unrest still remains the darkest cloud on the horizon. Although managers saw some distressed opportunities in the nations hit by civil upheaval, the majority were understandably concerned that a 'never-ending' Arab Spring would have a significant impact on their businesses.

**3.** Domestic unrest is tempered by the largesse and inward investment of MENA governments. *Barometer* respondents said that an increase in infrastructure spending in MENA, but particularly the GCC, would inject life into the markets, increase liquidity and encourage the inflow of foreign investment capital.

**4.** *Barometer* respondents tipped local equity markets to outperform in 2013, while almost 50% of mutual fund managers were contemplating a new equity strategy. Shariah-compliant products – across all strategies – also remain popular, with managers expecting increased interest in the space this year from local and international investors.

**5.** Regulation remains both a threat (52%) and an opportunity (48%) according to *Barometer* respondents. Managers across MENA were united by the need for a more uniform regulatory approach to the distribution and marketing of funds.

**6.** Operational issues weigh heavily on the minds of managers in the region – building a better IT infrastructure and using a third-party administrator were cited as key developments. All of this comes at a cost – 34.2% of respondents said business expense would increase in 2013 – but the biggest cost of 2013 (after salaries) was the prospect of absorbing new local and global regulation.

# BAROMETER INDEX

| **Continued growth of MENA markets** | **% of response** |
|---|---|
| Managers are confident in the continued growth of MENA financial markets | 70 |
| **Largest negative impact on local markets** | |
| Political unrest | 38 |
| **Largest positive impact on local markets** | |
| Increased spending of local governments | 80 |
| **What will be the best performing asset class of 2013?** | |
| Equities | 42 |
| **Top planned product/strategy launches in 2013** | |
| Equity | 47 |
| Shariah-compliant | 42 |
| **Source of mutual fund investment from** | |
| MENA investors | 68 |
| Global investors | 32 |
| **Is regulation seen as a challenge or an opportunity?** | |
| Challenge | 52 |
| Opportunity | 48 |
| **Will costs increase in 2013?** | |
| Stay the same | 55 |
| Increase | 34 |
| **Largest operational expense** | |
| Regulation and compliance | 77 |

# SURVEY RESULTS

Asset management in the MENA region (GCC, Egypt and Morocco) sits at a critical juncture. After a challenging three years, the sector bounced back in 2012 with a run of more positive performance and is now, according to *Barometer* respondents, preparing for a period of growth.

Over the course of 45 in-depth interviews with local and global asset management professionals, the *Barometer* found that this future extension of MENA's asset management industry would be determined by a combination of external economic factors, domestic demand structures, continued state involvement in local economies and a slowly improving and stable regulatory and supervisory environment.

*Barometer* respondents described 2013 as a year of consolidation where the prospect of better market conditions could encourage a more 'risk-on' approach by managers. Third-party fund managers, who have struggled of late to pick up traction from both local and global investors, also spoke of a climate of net inflows and renewed investor interest.

Solid performance was expected to be bolstered by positive GDP growth, particularly in the GCC, and inflation levels that although rising, have been largely kept under control – despite the cut in some states' fuel subsidies – by government intervention. Oil prices are expected to remain high, contributing to increased liquidity and state spending. However, there is some concern that future faltering demand from China and the US could start to see prices fall later in the year.

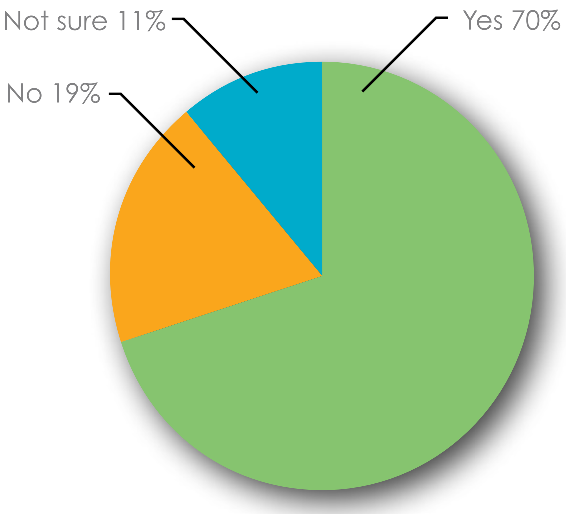
**"We believe investment strategies focusing on local economies and yield will do well in 2013"**

Jadwa Investment

The largest cloud on the horizon remains the lingering political impasse of the Arab Spring. Asset managers cited elections in Egypt as the most significant event of 2013. However, others mentioned that the long-term financial health of MENA hangs more on the inter-generational transition in Saudi Arabia, than on the recent gyrations of post-revolutionary states.

Those who responded to the *Barometer* expected regional equities, after a slow start, to return double digits in 2013. Respondents also anticipated fixed income in the region, buoyed by new sukuk product and regulation, to hold investor interest, despite falling yields.

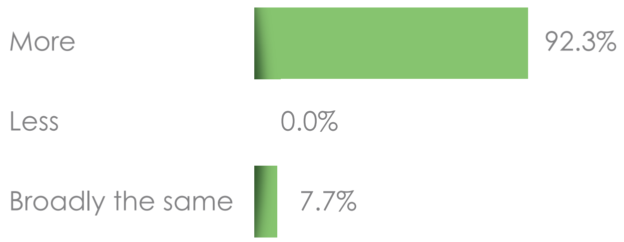
**Barometer 1: Beyond the future of your own business, are you confident in the continued growth of domestic markets?**



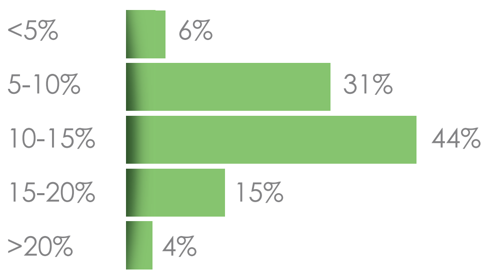
# Future growth

The majority of asset managers taking part in the *Barometer* were positive about continued future growth, expecting total assets under management (AuM) across MENA to increase over the next 12 months. Respondents believed that growing domestic cash reserves would be put to work in the equity markets as a more risk-on mood begins to drive investment management decisions.

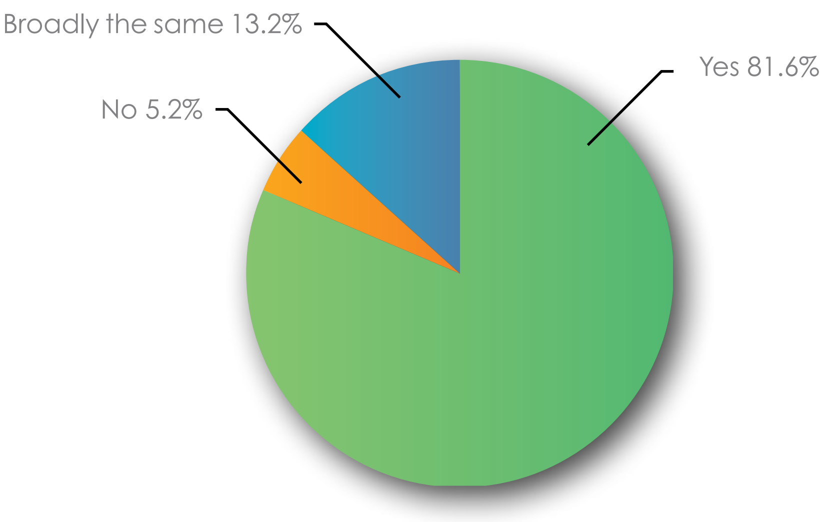
### Barometer 2: Do you expect your AuM by the end of 2013 to be more or less than your firm's current total?




### Barometer 3: By how much will your AuM grow over 2013?




### Barometer 4: Do you expect to garner more fee income in 2013?



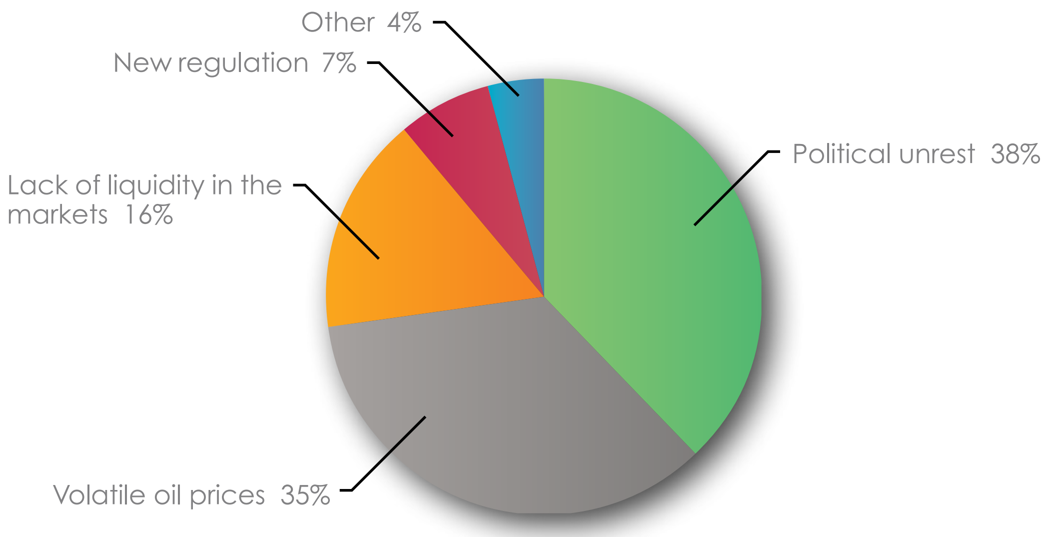

**"After a decade or so of rapid growth (albeit interrupted by severe corrections) there is now further room for growth in GCC equity markets. They are presently considered as frontier markets and have the potential to be reclassified under the emerging category"** Securities and Investment Company

**"We are anticipating growth this year in equities, we think the equity markets have some opportunities still for our clients and we expect them to be looking across a number of different geographies as they expand these investments"**

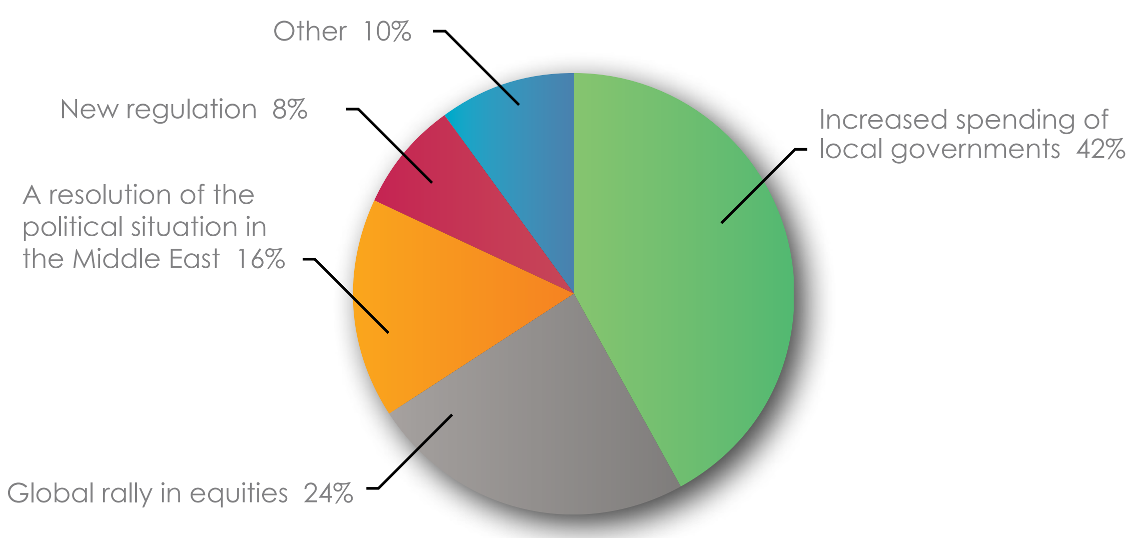
JP Morgan

*Barometer* respondents remained realistic, but confident, about the future. Most were cognisant that anticipated growth could be buffeted by the still challenging global macro-economic climate, particularly volatile oil prices and local political concerns – especially April 2013's elections in Egypt. However, the majority felt that the GCC in particular remained a strong investment opportunity and a relevant place for asset management firms to establish operations.

### Barometer 5: Which factors could have the largest negative impact on local markets in 2013?

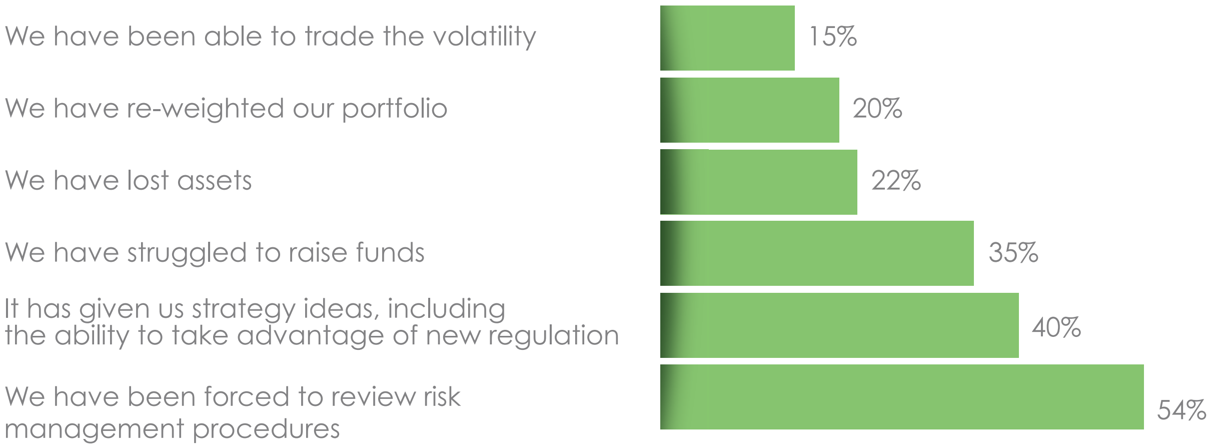



### Barometer 6: Which factors could have the largest positive impact on the markets in 2013?



The impact of the Arab Spring continues to challenge local and regional financial markets. However, in the short-term the GCC – in particular the UAE, Qatar and Saudi Arabia – has benefited from instability in the region, by being widely perceived as a 'safe-haven' for assets from across wider-MENA. Based on unprompted responses more than 40% of the *Barometer*'s interviewees also saw trading opportunities embedded in the dislocation, particularly the ability to seek out distressed investments. Others cited opportunities to ride the capital flows that are currently moving to the GCC and to trade the volatility. Most *Barometer* respondents remained concerned about continued political arrest, but the majority believed local markets were robust enough to recover.

### Barometer 7: How has the Arab Spring impacted your business (unprompted responses)?




*Barometer* respondents described the opportunity set across the whole of MENA as uneven. According to the research, countries with an "advanced regulatory" structure, a "track record in public/private partnerships" and an "even political process" were most likely to attract the majority of capital.

### Barometer 8: Will your portfolio be overweight, underweight or neutral on the following countries in 2013?

| Country | Average response |
|---|---|
| UAE | Overweight |
| Oman | Overweight |
| Qatar | Overweight |
| Saudi Arabia | Overweight |
| Bahrain | Neutral |
| Egypt | Neutral |
| Kuwait | Underweight |
| Morocco | Underweight |

**"We want to see more investment tools being approved, short selling, sukuk, endowment funds, different kinds of derivatives and new regulations related to fund management"**

HC Securites & Investment

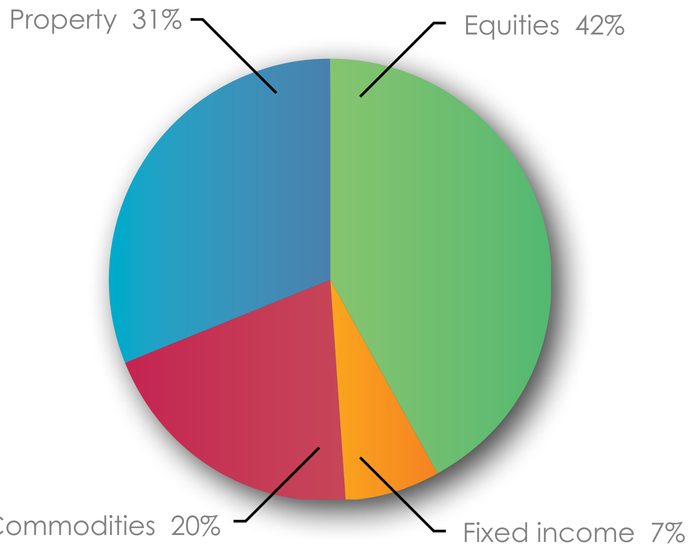
# Asset classes

*Barometer* respondents viewed MENA equities as a good buying opportunity for emerging markets investors in 2013. With GCC equities trading at an average 6% discount compared to other emerging markets, the *Barometer* also predicted a period of growth in the same period. According to the respondents, equities are set to return between 10 and 15% with Saudi Arabia, Qatar and UAE companies - propelled by strong internal investment and consumption dynamics - expected to outperform the rest of the region.

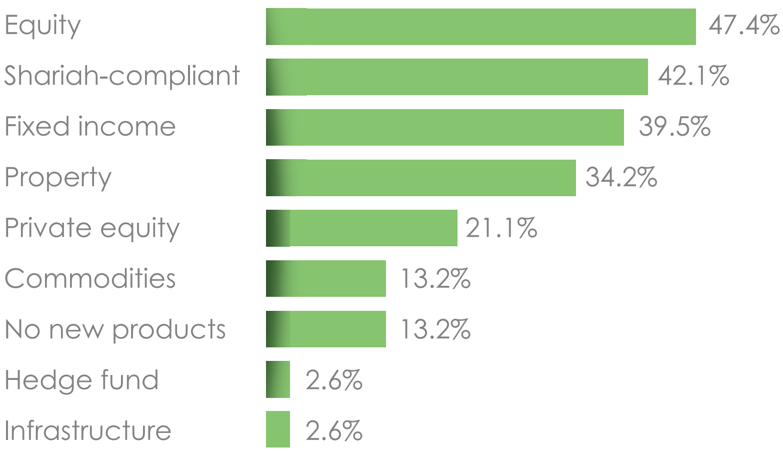
Managers responded positively to this trend of de-risking - seeing it as an opportunity to improve liquidity and inject fresh money into the market. According to the *Barometer*, asset managers in the region are planning to launch a batch of new equity, fixed income and Shariah-compliant strategies in 2013, to meet investor demand. There has also been an increased interest in alternative products, particularly property funds.

**“Currently there are no fixed income or sukuk investment instruments in Egypt, so there is pent up demand”** EFG Hermes, Egypt

**Barometer 9: What will be the best performing asset class in 2013**




**Barometer 10: What new products/strategies do you plan to launch in 2013?**



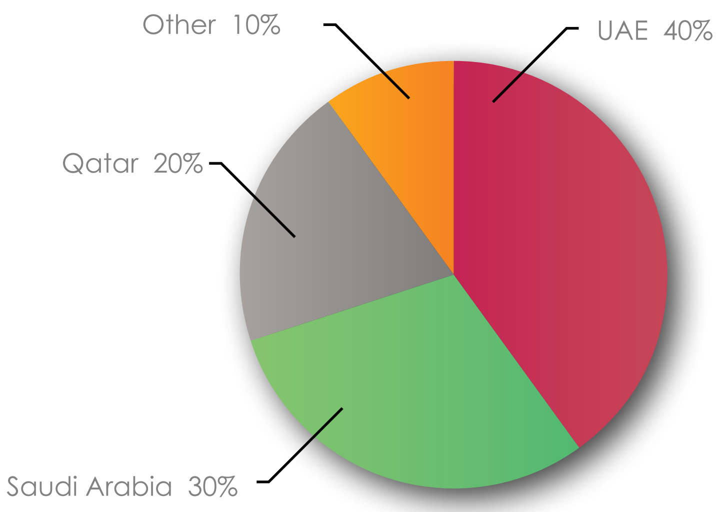

Equity strategies may dominate new launches in 2013, but fixed income also remained popular amongst managers. Despite yields being overshadowed by high predicted equity returns and the move to a more risk-on environment, *Barometer* respondents said that public and private debt was becoming a mainstream and popular investment vehicle in MENA. The fixed income space was also set for more debt issuances in 2013 as well as increased investor interest in its Shariah-compliant version, sukuk.

# Distribution trends

As the GCC develops, increasing numbers of managers see it as serving the financial needs of the rest of MENA. Cross-border relationships and more GCC-wide distribution of funds is expected to be a growing hallmark of the way that certain sectors within the MENA asset management community sell product. Of those questioned, almost 70% spoke of establishing another regional hub, while 60% of those surveyed already had another presence within the GCC or wider-MENA. Many wanted to set up further afield – with London, New York and Singapore the most popular bases.

Qatar did well among managers searching for second locations, but fell behind Saudi Arabia and the UAE as the most popular area to set up a new office. Of the 70% who discussed establishing a new presence, the UAE proved the top location among 40% of managers, Saudi 30% and Qatar 20%.

**Barometer 11: Where in MENA would you establish a new office?**




**"There is a very interesting market opportunity, which is to develop an asset management enterprise here in the Middle East"**
Goldman Sachs

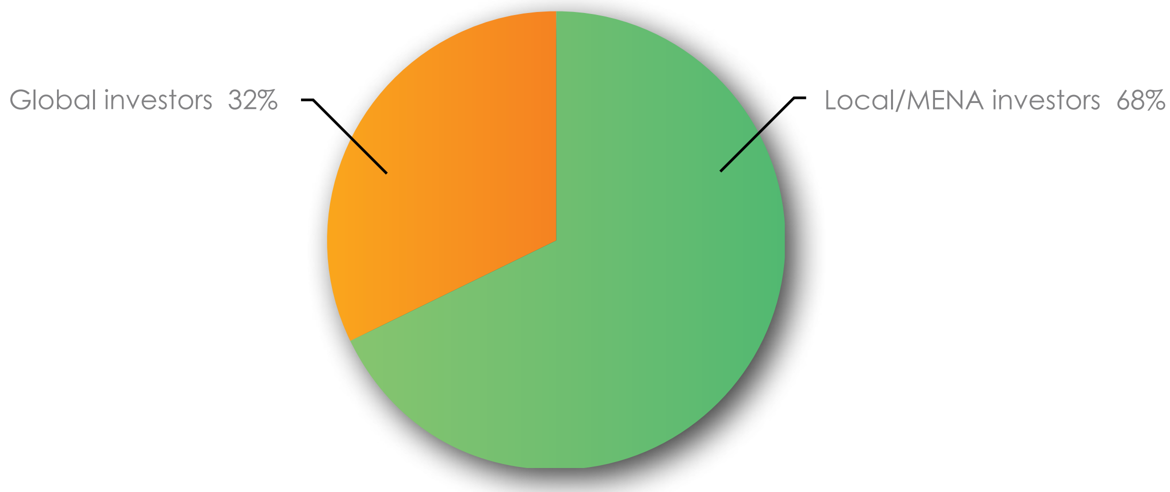
# Investor activity

Despite raised expectations, overall investor activity, particularly portfolio flows from foreign investors, still remains relatively low. *Barometer* respondents believe concerns over market breadth, low liquidity, ownership structures and volatility have discouraged increased activity from large global investors.

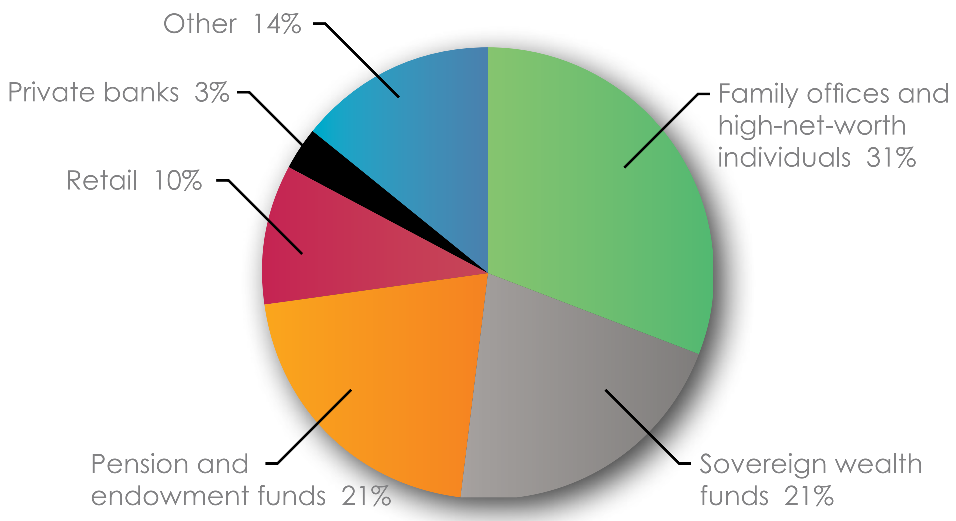
**"More diversity on local indices in terms of sectors and new listings in sectors other than financials would help"** SHUAA Capital

**“Introducing more asset classes will lead to a more diversified market. Easing the company listing / IPO regulations will increase the depth of the market”** Jadwa Investment

### Barometer 12: Where is the majority of your investment from?



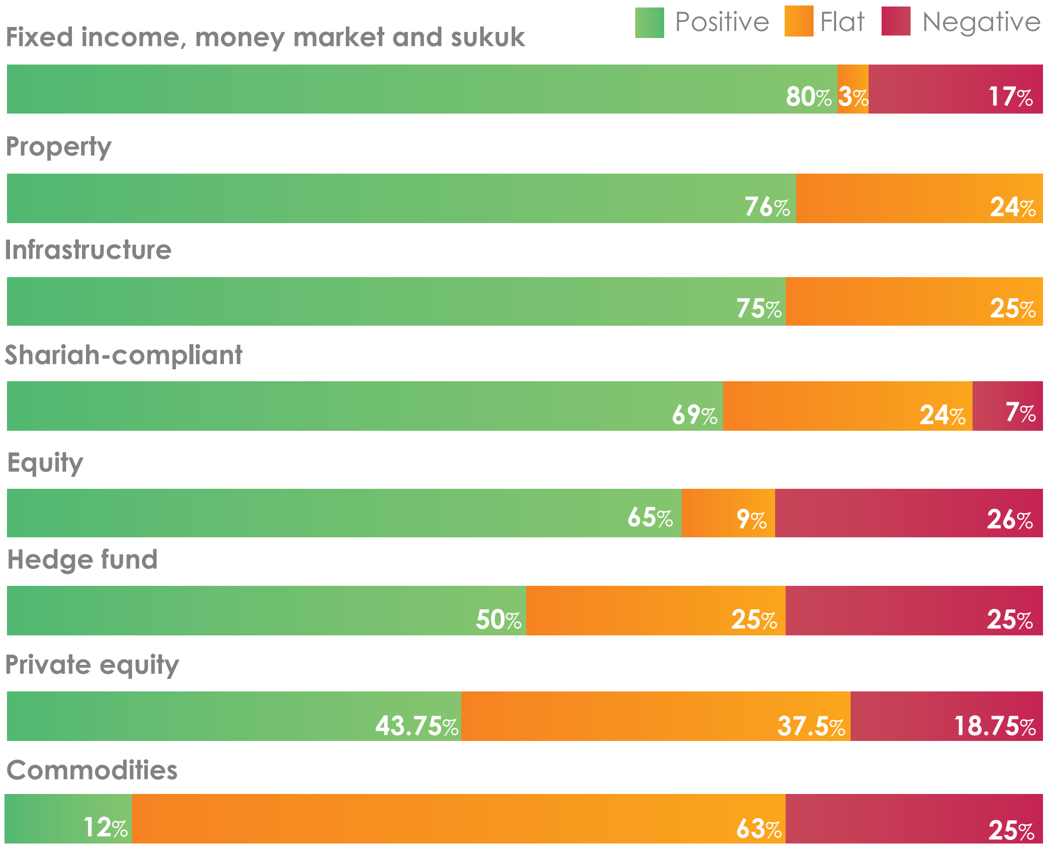

### Barometer 13: Average expectations of investor compostion by the end of 2013 according to respondents




A number of *Barometer* respondents spoke of renewed interest from US and European institutional investors. Managers who specialised in Shariah-compliant products were starting to see an uptick in interest from Asia and Australia.

The majority of firms (61.5%) benefited from positive performance in 2012, with new investor subscriptions and fund launches also boosting the overall assets of managers across the region. Those who saw a decline were primarily hampered by redemptions, as nervous investors retreated into cash. Net investor activity was positive, but only 38.5% of those who reported good performance across 2012 saw new investor subscriptions. A testament to a sclerotic and disjointed 12 months.

### Barometer 14: What were the fund flows to your different products in 2012?




Although a sea change in investor activity in 2013 certainly isn't anticipated, there was an expectation that allocators would begin to consider a return to equities and equity vehicles – if managers could overcome scepticism about volatility and the diversity of regional equity markets

One of the *Barometer*'s key sentiments was a return to a more 'risk-on' environment. This was chiefly characterised by a description of asset managers moving from fixed income to equities, or at least a re-weighting of portfolios to an equity parity or even bias.

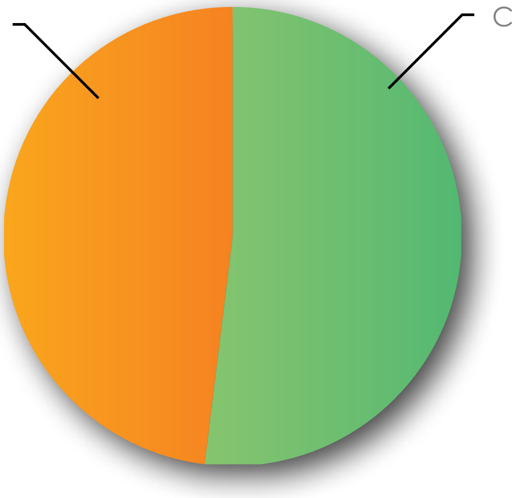
**"The low yield environment is really making clients think about 2013 as an opportunity set where we can try to find innovative solutions and maybe see some opportunities in the equity space"**

Goldman Sachs

# Regulation

Regulation remains both a challenge and an opportunity for asset managers. Ownership limits for foreigners and a lack of uniform regulation in the markets themselves is perceived as a weakness. However, a number of managers applauded recent attempts to streamline distribution activities and create space for new sukuk products.

**Barometer 15: Do you see regulation as a challenge or opportunity?**



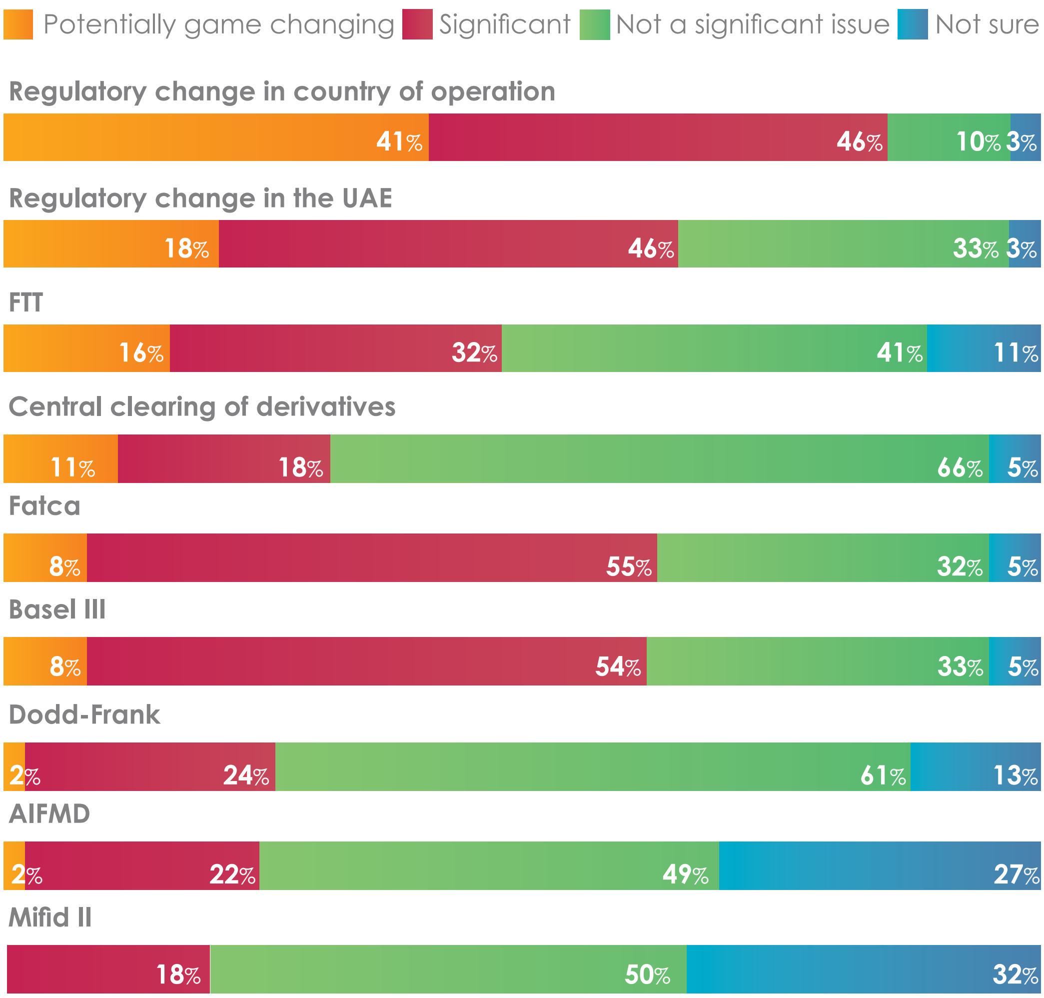

The lack of a "single track" GCC was cited by *Barometer* respondents as a key challenge, with separate GCC countries possessing varying rules and regulations with respect to investment banking, asset management and the promotion of investment products.

Managers who took part in the *Barometer* called for more harmonisation and a greater consolidation of regulatory values. Arguing that a one-track regulatory system across the GCC, and one eventually covering the wider MENA-region, would make it substantively easier for asset managers to streamline their own operations, control cost and focus on managing assets, rather than shifting business models to accommodate different national regulatory environments.

> **"Probably one of the things to think about more long term in the GCC is a passporting scheme. It would enable local investors to access a variety of products and global investors to see the attractiveness of the MENA region"** Goldman Sachs

Global regulation remained worrisome, but keeping up with local MENA regulation was potentially the most difficult task. Shifting regulatory change in each manager's country of operation was described as the most pressing concern – particularly by managers in Kuwait, Egypt and Saudi Arabia.

**Barometer 16: How important are the the following to you? Would you say potentially game changing, significant, not significant, or not sure?**

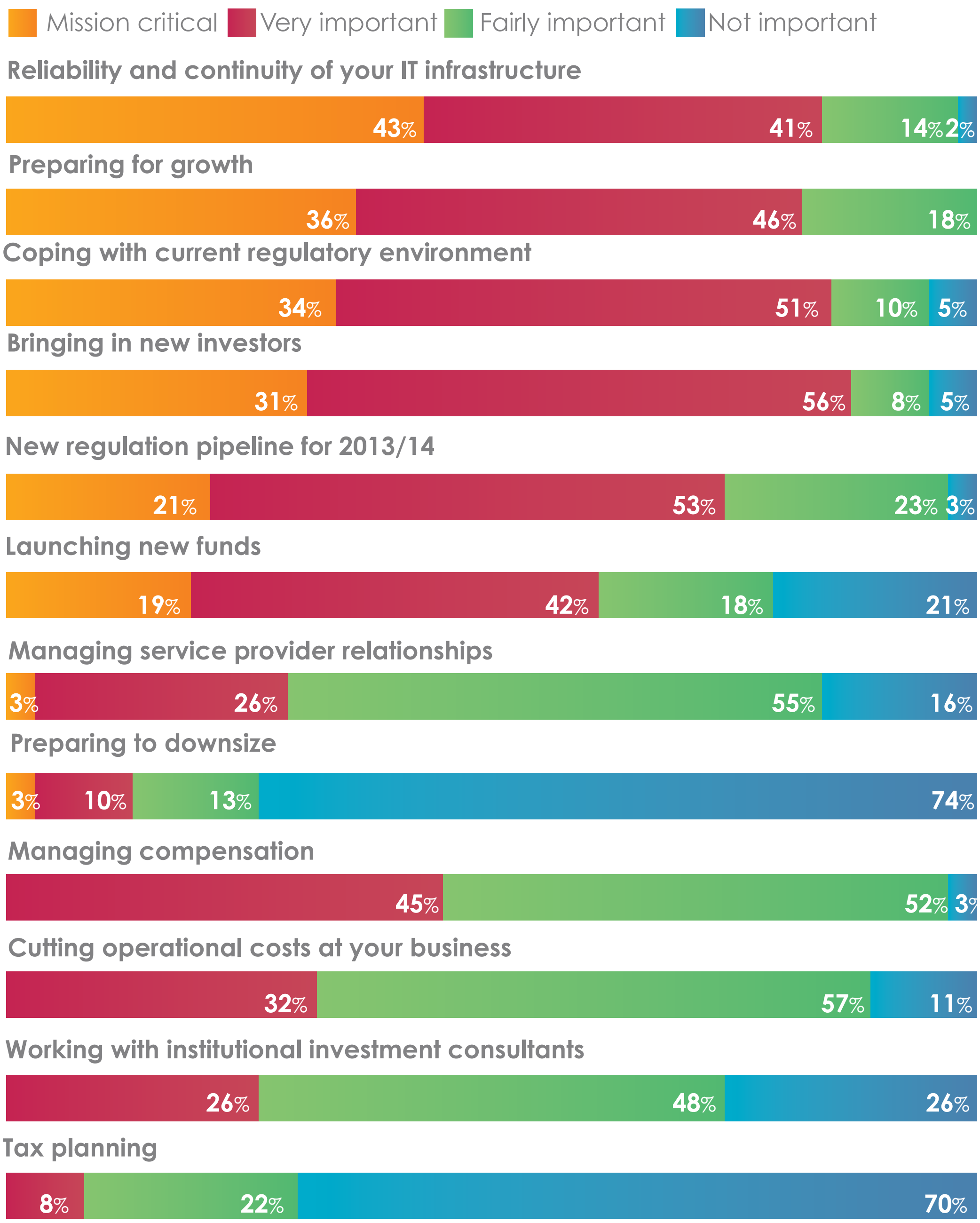



# Infrastructure and cost

Solid fundamentals, improved performance, more products and an increasingly engaged investor base have created the relevant conditions for future asset management growth. However, managers who responded to the *Barometer* were convinced that the opportunities created by improved markets could not be seized without the relevant infrastructure.

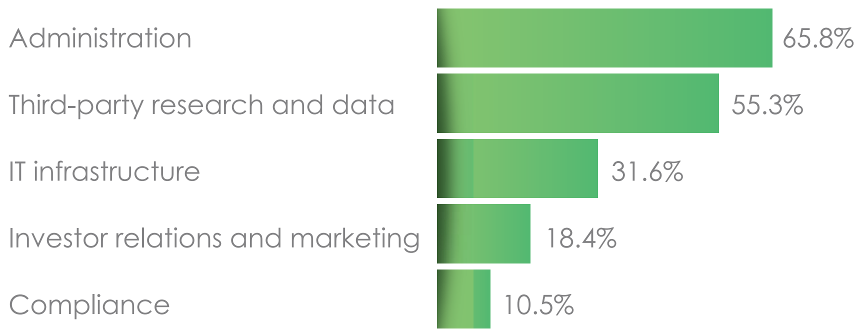
Possessing the right IT infrastructure was deemed 'mission critical' to future growth by a number of respondents. Although technology might be thought of as unrelated to the *Barometer*'s other key mission critical considerations – regulation and preparing for growth – according to respondents, possession of the relevant internal tech systems was deemed essential to both.

**Barometer 17: How important are the following for your firm? Would they be mission critical, very important, fairly important or not important?**




In fact, the right infrastructure was closely linked to business success. Running better businesses and gaining investor traction by possessing a high quality operational backbone was a key factor in growth according to *Barometer* respondents. An increasing number of managers were using outside service providers – whether administrators to strike the NAV or custodian services – to achieve better operational transparency, an area of independent oversight that investors still believe is deficient in the region.

### Barometer 18: What outsourced services are you likely to use in 2013?

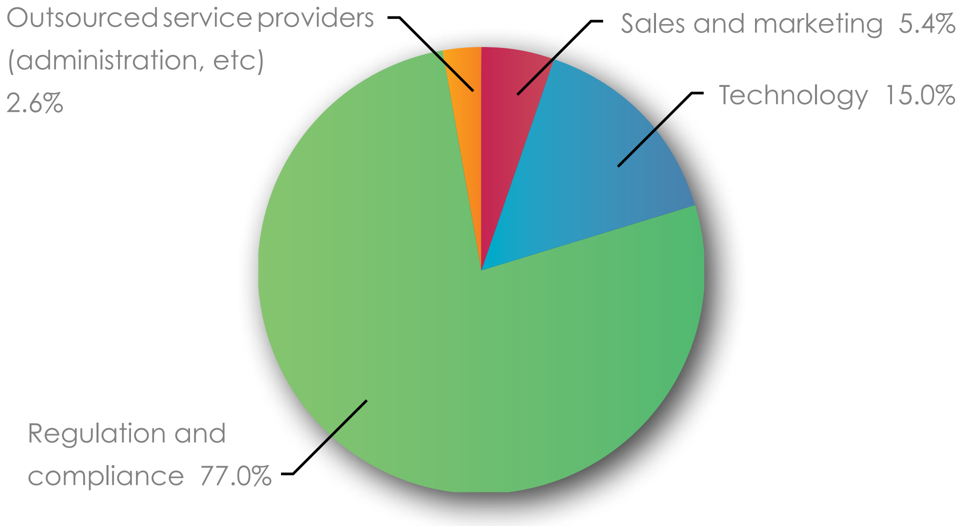



Fostering the right infrastructure has made running asset management businesses increasingly expensive. However, managers – by and large – found paying for outsourced services a relatively minor business expense and often a cost-effective solution.

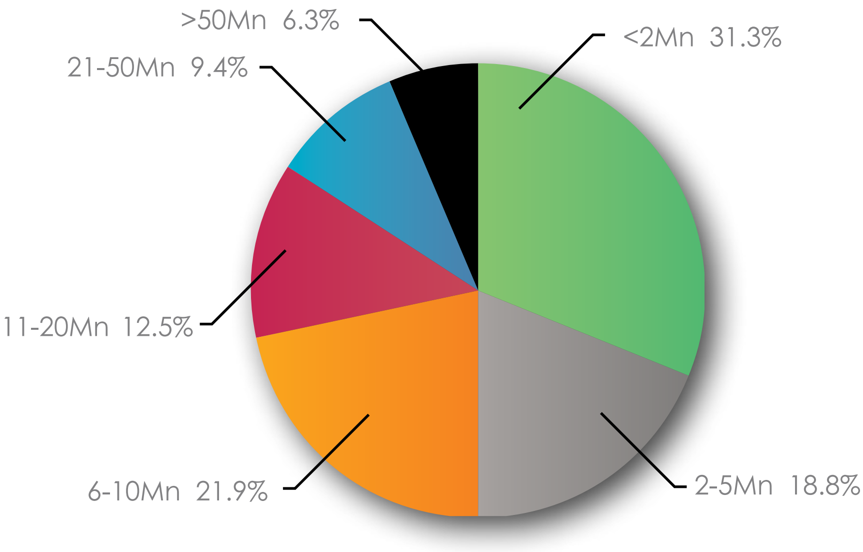
Most reported the role played by outsourced service providers to be good value for money and a necessary part of sound practice. Regulation and compliance was described as the most significant cost centre of 2013 – although many managers said they were also factoring the opportunity of more sukuk regulation and the launch of new offices and product into this overall expense.

**"We are looking at the ways and means that will enable us to outsource our compliance requirements"** MEFIC

### Barometer 19: Beyond salaries, what will be the biggest area of cost in 2013?

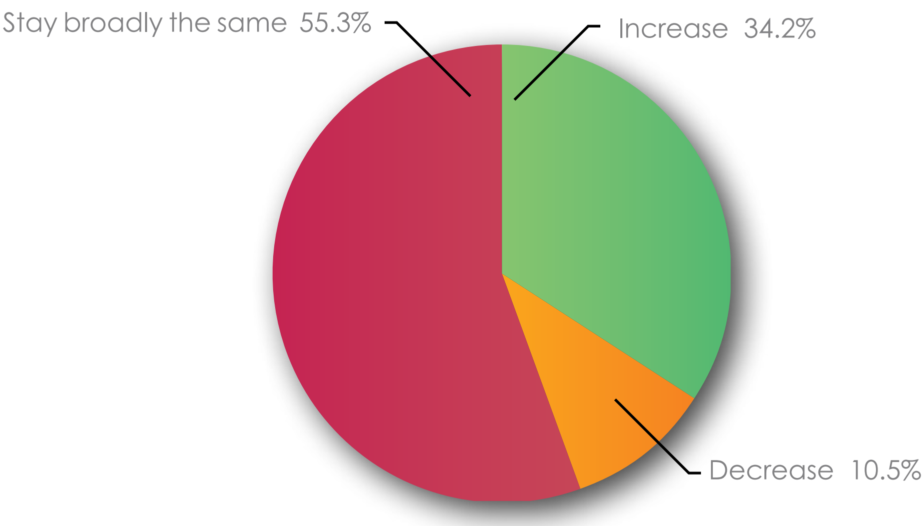


**Barometer 20: What was your firm's total fee income in 2012 ($)?**

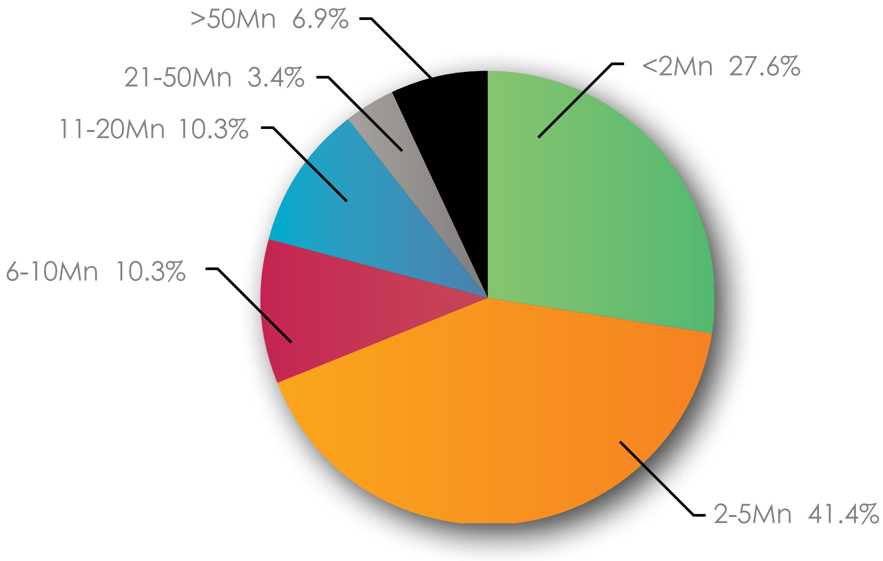



**"A broad set of structural cost increases, many created by regulatory challenges and distribution, have pushed breakeven prices higher over recent years"** HC Securities & Investment

**Barometer 21: Do you expect your firm's total costs to change in 2013?**

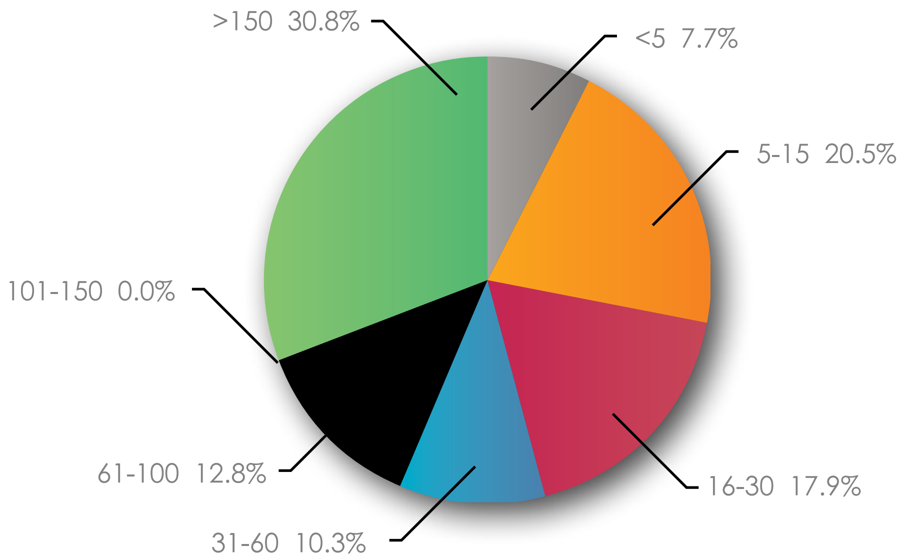


## Barometer 22: What were your total business operating costs in 2012 ($)?



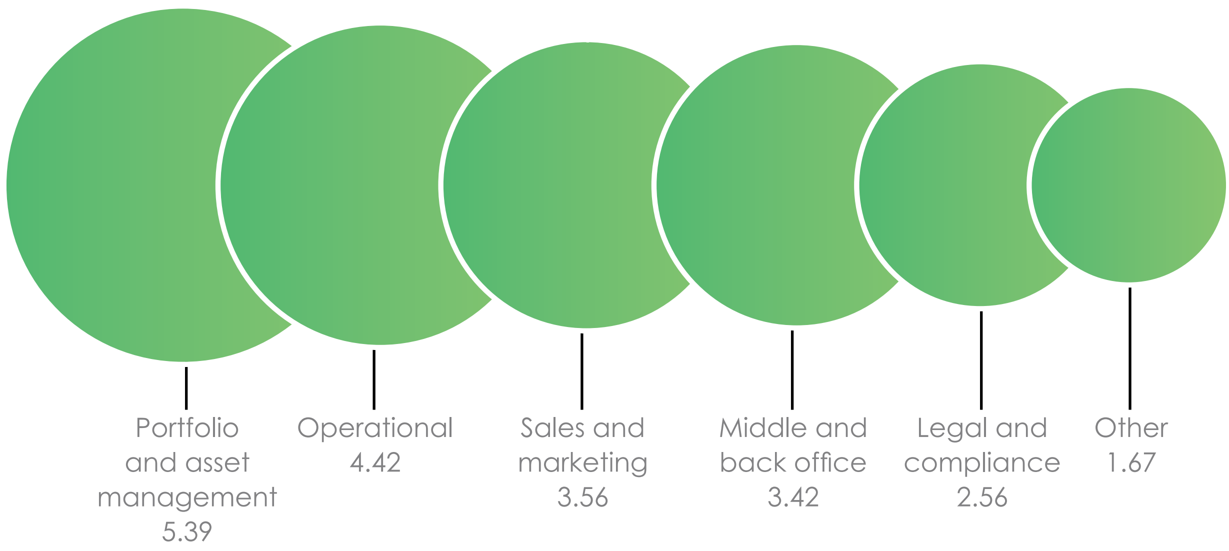

The salary burden at asset management firms remains significant – over 90% of respondents cited wage bills as their number one cost centre – but in terms of headcount these divisions tend to be fleet footed. Almost 50% operated with staff numbers of less than 30. Many of the large banks and SWFs interviewed have considerably more employees, over 30% had more than 150 – however, a much smaller number of these staff were concerned with day-to-day asset management duties.

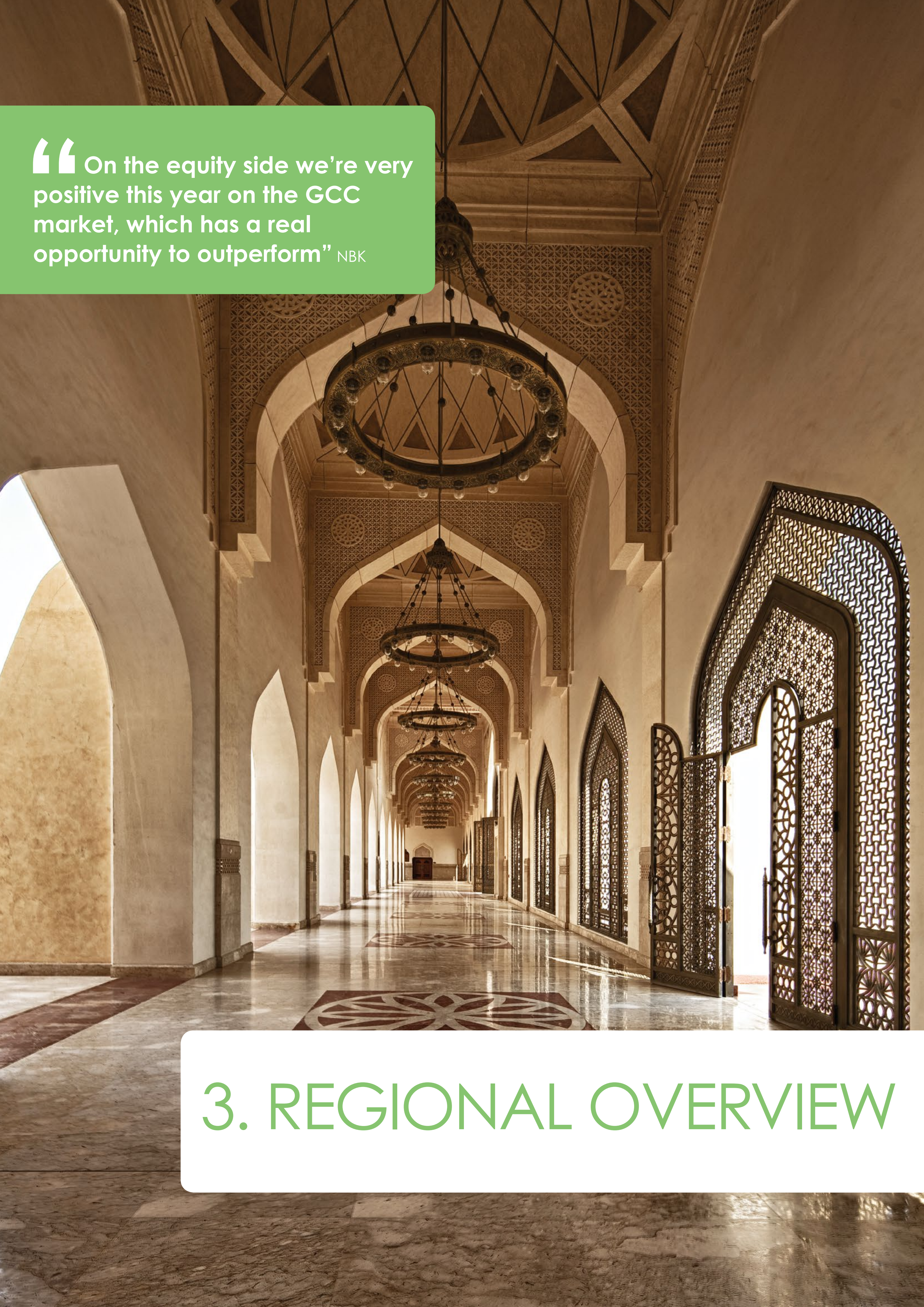
## Barometer 23: How many full-time employees currently work for your organisation?



The majority of current staff are employed as part of the frontline portfolio management team. However, looking at future hiring plans revealed a series of different results. When asked about recruitment needs in 2013, a significant number of *Barometer* respondents cited hiring plans in their compliance, operational and legal teams. In line with a more positive mindset, a number of firms also cited sales and marketing roles as a recruitment priority in 2013.

**Barometer 24: Can you rank (with 6 being highest and 1 lowest) where you deploy the majority of your total number of staff?**





"On the equity side we're very positive this year on the GCC market, which has a real opportunity to outperform" NBK

# 3. REGIONAL OVERVIEW

# INTRODUCTION

## Strong fundamentals underpin a growing asset management sector

With a citizenry of over 380Mn, MENA accounts for 6% of the global population and a combined GDP of over $2Trn. A key international energy exporter, the region plays a crucial role in the world economy, while enjoying the economic benefits offered by high oil prices.

Last year the combined economies of MENA's oil producing nations surged by 5.5%. These surpluses have enabled the region's net energy producers – particularly the six GCC countries – to successfully embark on long-term plans of economic growth and diversification. Systematic programmes of internal investment – often far-sighted multi-year plans for growth – have enabled GCC governments to avoid both political upheaval and the worst of the ongoing financial crisis.

MENA countries (in this report, Egypt and Morocco) outside this circle – often net importers of energy – tend to possess a broader economic profile, but lower growth rates, due to a combination of state debt, lack of foreign direct investment and, for a number, the recent political upheaval of the Arab Spring.

The GCC has benefited from this wider volatility. *Barometer* respondents were quick to flag up the 'safe-haven' nature of its capital markets, as well as the economic power that resides in the combined wealth of this region's governments, sovereign wealth funds and high-net-worth individuals.

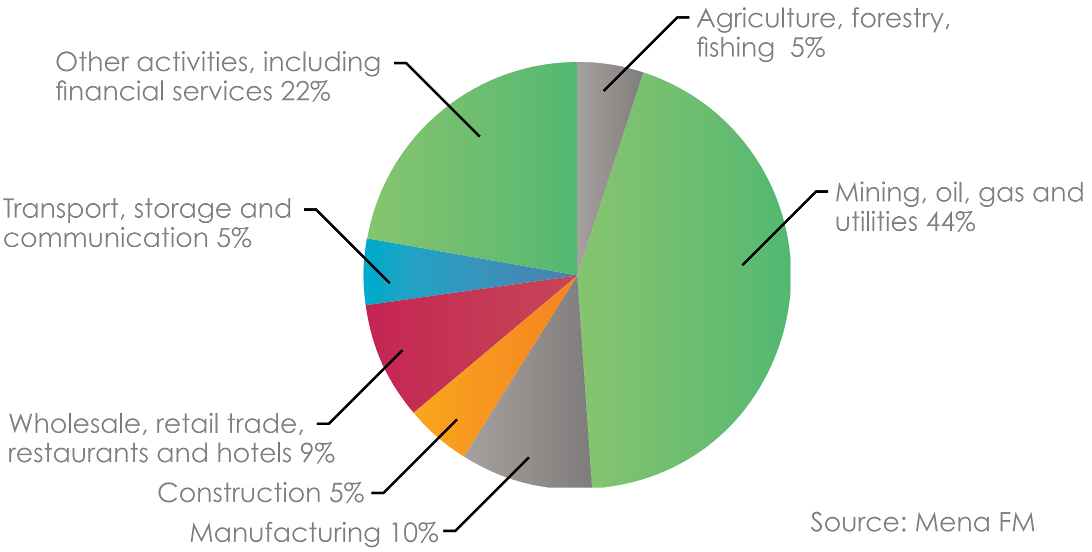
Other MENA countries are currently attempting to emulate aspects of the GCC's recent success, with the creation of economic enterprise zones and the deployment of new financial regulation – particularly in the area of Shariah finance. With capital markets seen across the region as a key growth area, this report sought to analyse and define the current trends in asset and fund management.

> **"Wealth continues to grow at a rapid pace in the region given the unprecedented budget surpluses, particularly in the GCC. This represents an opportunity to capture the increasing investable capital of individuals and institutions"** NBK

As diverse politically as it is economically, MENA can be broadly separated into absolute monarchies (Saudi Arabia), monarchies with a democratic overlay (Kuwait) and fully fledged democracies (Egypt). The Arab Spring has shaken the kaleidoscope of the region's political systems, with changes in Egypt a particularly stark example. However, change is also occurring in the GCC, with many states considering a transition from strict monarchical government to a more constitutional model. Regardless of the political system, the promotion of healthy financial markets remains a key objective of all MENA governments. Recent regional and global volatility have hampered this ambition by creating liquidity issues, political unpredictability and stalled investor activity – a series of overlapping factors that have all served to slow development.

However, after a better than expected 2012 – a period where financial service earnings grew by 179% during the first three quarters and with finance now accounting for over 6% of the GCC's total GDP (Fig 1) – the majority of asset managers taking part in the *Barometer* were positive about continued future growth, expecting AuM across a large part of MENA to increase "substantially" over the next 12 months.

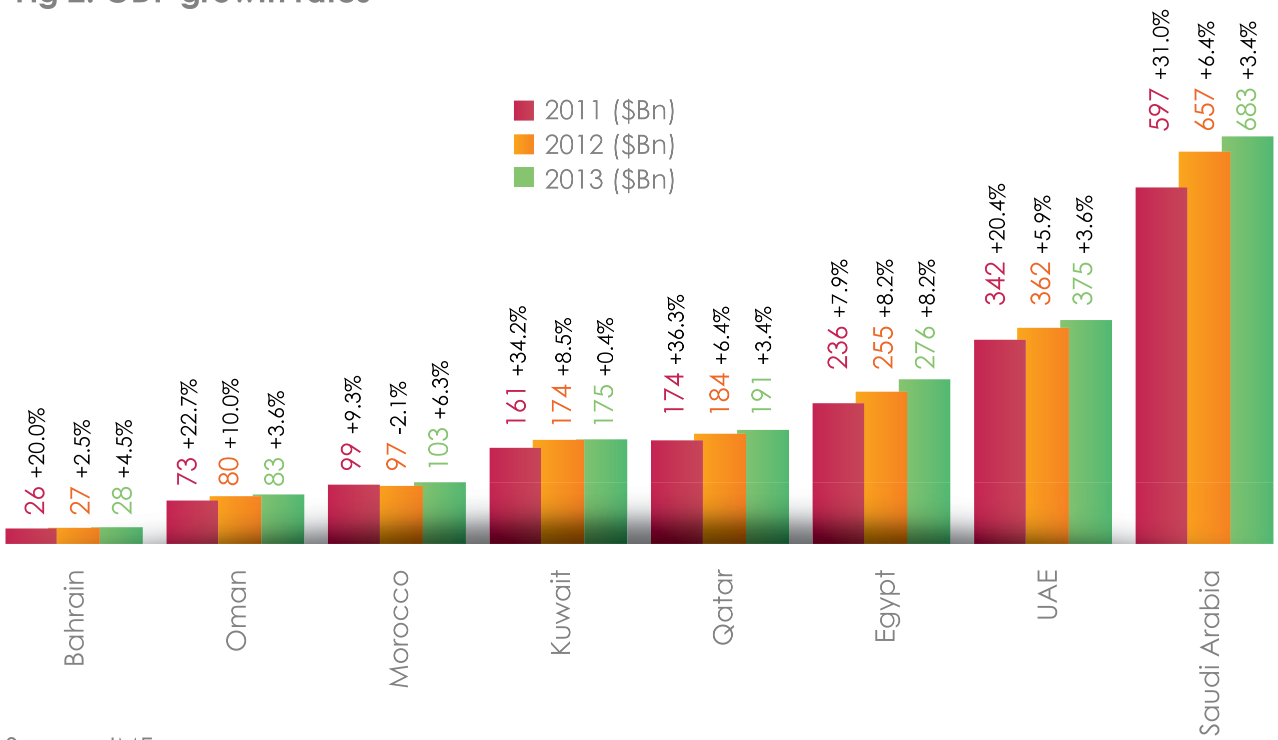
**Fig 1: MENA GDP breakdown 2011**




Source: Mena FM

The GCC's potential for growth was particularly highly praised, with the majority of *Barometer* respondents citing its solid fundamentals and ambitious economic development plans. The region continues to benefit from the current strength of hydrocarbons, a young and rising middle class, increasing GDP (Fig 2) and growing private consumer spending.

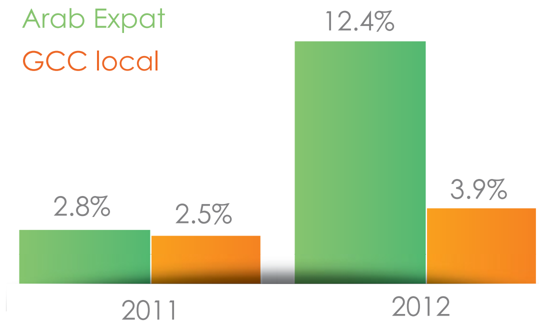
**Fig 2: GDP growth rates**




Source: IMF

Positive fundamentals have been supported by governments, and their agencies, around the GCC who have continued to increase localised spending to boost domestic opportunities in both the public and private sector. Although a range of inward investment has been partly compelled by the unrest of the Arab Spring, asset managers see the influx of government liquidity as driving stronger, more efficient stock markets and nurturing the GCC's nascent fixed income industry, as more private sector companies issue bonds (Fig 3), particularly sukuk, Shariah-compliant, debt instruments.

**Fig 3: Year-on-year change in local fixed income allocations**

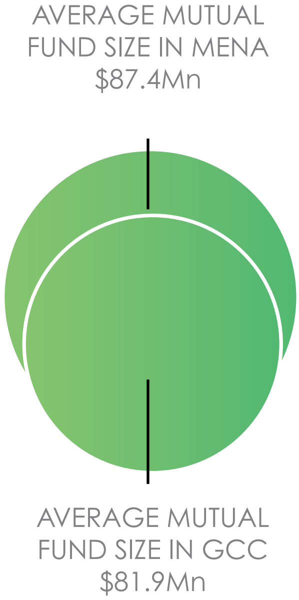



Source: Invesco

These positive local conditions are also being driven by external forces. The inflationary pressures created by Western government quantitative easing programmes are expected to continue to push up the value of equities and commodities across the GCC, leading to higher returns for managers and increasing the average size, and total number, of the region's mutual fund vehicles (Fig 4).

Over the course of 45 in-depth interviews the *Barometer* found that future growth in the GCC's asset management sector would be determined by a combination of these external factors, domestic demand structures, continued state involvement in local economies and an improved and stable regulatory and supervisory environment.

**Fig 4: Average mutual fund size**




Source: Zawya, Mena FM

**"The three main strengths of the GCC market - growth in consumer demand, government spending and a young population"**

Duet Asset Management

**"2013 should be a positive year with key opportunities centring around continued government spending and the ebbing of local political concerns"**

SHUAA Capital

# Key opportunities

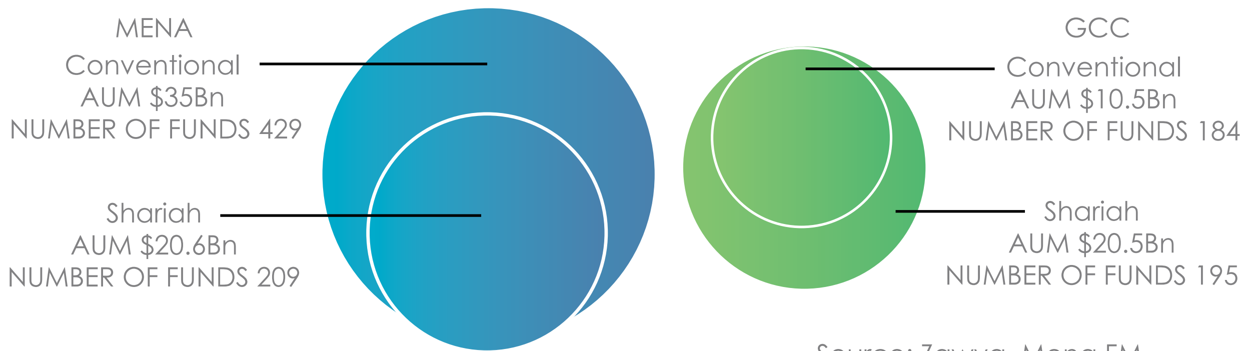
Asset managers of all stripes were generally positive about 2013, believing that GCC markets, in particular, which have recently lagged behind their global peers, look attractive at current levels of valuation.

Trading at a 6% discount to other emerging markets, GCC equities were predicted to enjoy a period of growth in 2013 and, according to the *Barometer*, are set to return between 10 and 15% with Saudi Arabia, Qatar and the UAE poised to out-pace the rest of the region.

## GCC key trends – opportunities

1. Signs of resurgent stock market performance. Managers expected a level of growth capable of significantly boosting the GCC's combined market cap of $750Bn and broadening local equity markets
2. A larger fixed income market, expected to grow in size and diversity as more regular debt issuances – public and private – come to market in 2013 and 2014
3. A stable and competitive banking system – well capitalised, highly liquid and with supportive shareholders
4. Safe-haven status of the GCC and its likely long-term stability, particularly compared to the rest of MENA
5. A growing local familiarity with investment products and better distribution of these products
6. Revived property markets, particularly in the UAE
7. Islamic products driving more local, regional and global investment flows (Fig 5)
8. Large state surpluses and increased state spending
9. A growth in oil production and the potential for higher oil prices
10. Gradually improving regulation and the portability of using the GCC as an asset management hub
11. The return to a 'risk-on' environment with more activity from both local investors and global allocators, who are showing an increased interest in frontier markets, particularly equities
12. The development of a fully diversified institutional investor base, including a local private pension funds industry and existing state pensions that are becoming willing to engage with local markets

**Fig 5: Conventional funds vs Shariah funds**




Source: Zawya, Mena FM

Institutional investors, according to *Barometer* respondents, were also encouraged to participate in GCC markets by the ongoing growth of financial centre venues, like the Qatar Financial Centre (QFC) and the Dubai International Financial Centre (DIFC). These centres continue to nurture the creation of a domestic fund management market and have also provided a key location for custodial and fund administration services.

Managers saw the QFC and DIFC's specialist fund centres as being a catalyst for the rest of the region's asset management sector. According to the *Barometer* they remain the most attractive venue for global managers to set up both distribution and manufacturing operations.

## Challenges

According to the International Monetary Fund (IMF), growth in MENA is expected to slow to 3.6% in 2013, from 5.3% in 2012 and the 6.5% recorded in 2011. High oil prices in 2011 and 2012 allowed GCC countries to witness GDP growth, lower inflation and current account surplus.

*Barometer* respondents expressed concerns at a potential stagnation in oil prices, leading to a financial slowdown. However, they also pointed out that the non-oil sector remains robust and is expected to grow at over 5% in the core GCC countries.

GDP growth is expected to out-pace Western markets and will, according to the *Barometer* respondents, hover around 4-5% for 2012/2013. Inflation has been rising, but is not expected to spiral out of control.

However, despite continued growth and a clear potential, the GCC's asset management sector is facing a number of internal and external challenges. Chiefly: the high dependence on oil, political uncertainty in wider-MENA and the huge challenge of diversifying local economies, whilst creating the relevant infrastructure for a vibrant capital markets business.

Despite the challenges, most managers were expecting MENA to emerge from the "long Spring" as a fitter and leaner place to do business. A number even cited unexpected benefits – including Egypt's planned Shariah-compliant financial regulation, while the majority of respondents urged a systematic approach to risk management to negotiate the short-term uncertainty.

In the midst of both market challenges and opportunities, the relative stability of the GCC was cited as the leading contributor to flows, with a home market bias creeping into investment strategies and replacing a broader-MENA approach for a number of asset managers.

Those who responded to the *Barometer* backed this narrower focus, describing the opportunities currently present in the GCC and the challenges, despite long-term investment opportunities, in correctly quantifying investment risk in Egypt, Lebanon, Jordan and Iraq.

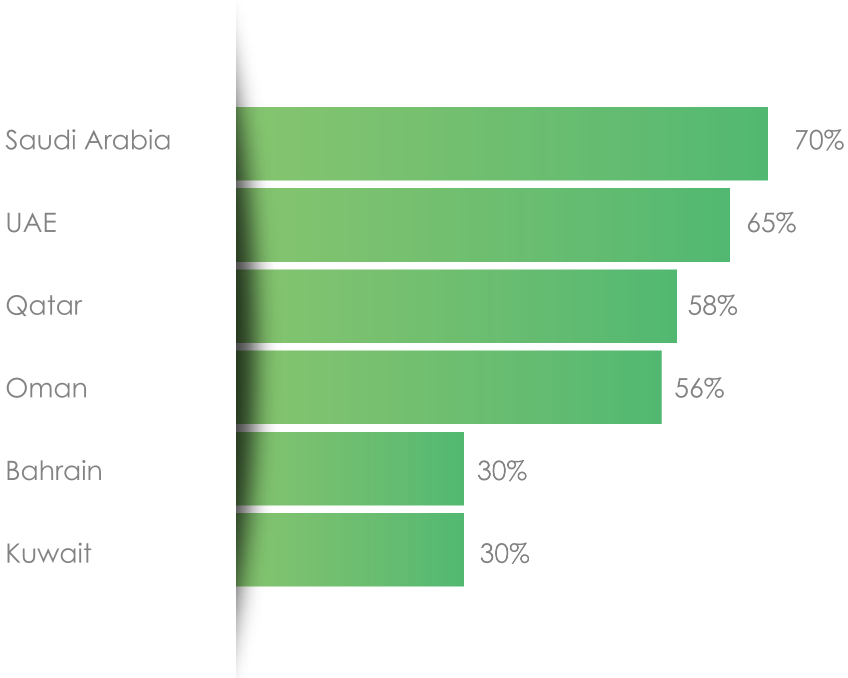
This current divergence of regional fortunes meant asset managers across the spectrum were re-weighting portfolios to strip out uncertainty and focus on the GCC, or, in most cases, a limited basket of GCC countries.

*Barometer* (Q1) respondents described the opportunity set across the whole of the GCC as uneven. According to the research, countries with an "advanced regulatory" structure, a "track record in public/private partnerships" and an "even political process" were most likely to attract the majority of capital.

In the same way that the ongoing Euro crisis has concentrated investors' minds on the core and, unless distressed specialists, persuaded them to avoid the periphery, asset management firms within the GCC are now thinking in largely domestic terms.

Saudi Arabia, Qatar and the UAE remain particularly attractive from a valuations perspective, with banking and petrochemicals across all three – both underleveraged and offering high dividends – seen as the stocks likely to do well in 2013.

### Barometer Q1: Which countries do you see portfolio growth coming from in 2013?

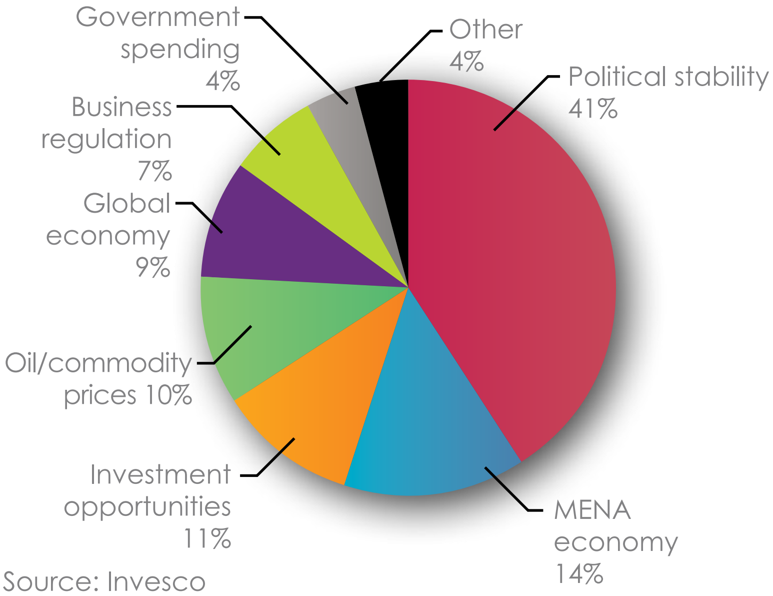



**"You have to put the region into two camps – GCC and MENA ex-GCC. In the GCC there is much more confidence and we expect no political issues in the medium term"** NBK

### MENA – key country asset management trends according to *Barometer* respondents

1. Saudi remains the largest, most liquid, diversified and therefore attractive regional market. *Barometer* respondents favoured bank and petrochemical investments. SABIC - the oldest and largest Saudi petrochemicals company – was highly tipped by respondents
2. UAE, especially Dubai, kicked off 2013 with a renewed zeal and signs of recovery in its real-estate market. Property development giant Emaar was seen as leading the property charge following a positive 2012
3. Qatar, after seeing almost $1.5Bn of net foreign outflows over the past two years, is well placed for a reversal of recent trends. According to *Barometer* respondents it offers a number of good opportunities despite the disappointment of not seeing the market open up for direct investments
4. Kuwait remains handicapped by the prolonged political impasse
5. Oman has displayed strong economic growth, but liquidity remains one of the major issues for its stock market
6. Bahrain witnessed a significant social and political outcry in the wake of the Arab Spring. *Barometer* respondents believed it would take some time for investor confidence to return to the market, particularly after recent demonstrations
7. Egypt, as in 2012, will remain volatile, with politically related news headlines the main driver of the local market, rather than fundamentals. Furthermore, delisting of assets (Mobinil, EFG, OCI) also increases the risk of the country losing its MSCI emerging markets status
8. *Barometer* respondents called for more clarity in Morocco's corporate transparency rules

Fig 6: Rationale for wider-MENA investment in GCC




Source: Invesco

The sound economic fundamentals of the GCC will help it to consolidate the safe-haven status it acquired through the political dislocation created by the Arab Spring. According to *Barometer* respondents it has done particularly well from wider MENA investment, with 85% of regional managers, citing inflows from MENA countries outside the GCC. Participants in an Invesco study believed that the wider-MENA capital flowing into the GCC – with a bias towards Saudi, UAE and Qatar, was driven by the factors in Fig 6.

This flow of wider-MENA capital into the GCC, which has mostly found a home in money market funds, is expected by *Barometer* respondents to continue in the short to medium term, with many expecting these 'safe' inflows to take on a more 'risk-on' guise as investors "latch on to a new economic cycle" and show an appetite for "moving up the yield curve" and "taking on more risk".

Managers responded positively to this trend of de-risking - seeing it as an opportunity to improve liquidity and inject fresh money into the market - and are planning to launch a batch of new equity, fixed income, Shariah-compliant and property strategies in 2013 to meet demand.

Although keen to make the most of the attraction of this safe haven status, managers are concerned that the benefits of political stability could be short term, with a reversal in flows once the political situation elsewhere in MENA begins to ease. Many of the recent inflows are still held in money market funds – the traditional home for short-term investments. This means that the flow of capital to the GCC may slow over time, although economically attractive centres like Qatar, UAE and Saudi are expected to maintain momentum.

## Key differences in the GCC and harmonisation

Despite the structural unifier of the GCC, there remains a series of important differentiators between the economies that make up this union. The asset management firms that reported to the *Barometer* described UAE, Saudi Arabia and Qatar as all poised to experience consistent growth in 2013. While Kuwait and Bahrain were all tipped to emerge more slowly.

Managers – who were still fully expectant of inflows stemming from the wider-MENA region, as well as global investors – also described the flow of capital between GCC principals as stilted, despite the economic partnership.

**"Although we call it the GCC, when it comes to fund raising it is still a strangely localised environment. Most domestic money is managed in the same country by local managers"** NBK

A handful of regional banks and distribution platforms sit outside this prevailing trend - HSBC, Citi, and Bank of America Merrill Lynch all have successful cross-border distribution networks and have been the true beneficiaries of the recent political uncertainty, because they are seen as safe havens from domestic strife.

However, even relatively large regional players, like NCB Capital (NCB) and the National Bank of Kuwait (NBK), still derive the bulk of investment from a local base. Similarly, a number of sovereign wealth funds (SWFs) have slowed GCC-wide investment, in favour of more domestic infrastructure projects. Although this strategy remains heavily dependent on the political status of each SWF's home state, and is likely to reverse overtime, it has also been responsible for a slowing of cross-border GCC flows.

Many independent and bank-owned fund managers who took part in the *Barometer* saw cross-border distribution in the GCC as key to their future development, albeit a trend that will develop slowly.

*Barometer* respondents said that a network of independent fund managers – many based in the UAE and Qatar – are best placed for the GCC and wider-MENA's cross-border distribution opportunities. A number of large regional banks, with asset management units, expressed admiration for the fleet footed independents in the Qatar Financial Centre (QFC) and Dubai International Financial Centre (DIFC) and a "business model that is predicated on independence and cross-border opportunities".

Bank-owned asset managers tend to have localised relationships because of historical ties and localised sales forces. Independent managers – a hedge fund or a small long only fund – with nimble marketing teams are more capable of fostering cross-regional appeal. However, many still struggle to diversify because of regulatory impasse and because, realistically, they are only competing for 2-3% of local money that will leave its home GCC state.

For example, a large Saudi-based firm, like Samba, will easily have $3-4Bn in equities, based on its local retail relationships. A small independent manager will have $50-150Mn per fund based on cross-border selling, while a handful of genuine multinationals – like HSBC – are able to sell product at scale across the region.

Despite the challenges, the *Barometer* found that a number of GCC managers were eager to capitalise on cross-border distribution potential by setting up secondary and tertiary GCC offices in 2013. The UAE, Saudi Arabia and Qatar remained the most popular venues, while globally Singapore was considered a top location for a new marketing hub, particularly with those offering Shariah-compliant vehicles.

**Location, location, location**

As the GCC grows, increasing numbers of managers see it as serving the financial needs of the rest of MENA. Of those questioned almost 70% spoke of establishing another regional hub, while 60% of those surveyed already had a second presence within the GCC or wider-MENA. Many wanted to set up further afield.

Of the 70% who discussed setting up in a new location, the UAE proved popular amongst 40% of managers, Saudi 30% and Qatar 20%.

The long-term future of intra-GCC flows are difficult to define, according to *Barometer* respondents, although most saw asset flows between GCC states as a growing trend. However, others pointed out that despite being designed as a free trade bloc, cross-border investment on both the retail side and institutional side is still comparatively low. These tensions mean it is more likely in the short term that GCC assets will flow outside of the region – an issue that local asset managers need to overcome.

## Distribution opportunities

There are a number of distribution opportunities for fund managers. The UAE's emerging independent financial advisor network was seen as a strong and influential presence – particularly among the expat investor community.

Managers responding to the *Barometer* said that GCC-based financial advisors were also adding to an atmosphere of increasing risk tolerance and were capable of driving more investment into the equity product of managers.

This emerging advisory network was expected to become the norm in a number of GCC hubs and would, according to *Barometer* respondents, follow a developmental life-cycle that would see them move from the expat market to more local advisory work – particularly if a regional private pensions industry takes off.

**"Over the next few years the GCC investment advisory market is looking very interesting"** Invesco

### *Barometer* response: The emerging GCC Independent Financial Adviser (IFA) market

1. In the short-term, a growing IFA market would chiefly aid Western expats looking for investment opportunities.
2. Home market bias. A degree of domestic bias will see managers who cater to a particular national demographic gain traction – for instance UK nationals will be interested in the offshore product typically marketed in the UK
3. Development of a non-European expat market. Many local banks have tapped into the non-resident Indian (NRI) market, as they cater to the investment needs of over six million Indian nationals living and working in the GCC. Increasingly this segment is being targeted by advisory firms who are hiring Indian nationals as advisors
4. Penetrating the local market. *Barometer* respondents were keen to see a GCC-wide 'Retail Distribution Review', that will encourage more cross-border retail investment and lead to an up-skilling and localisation of the intermediary market

While a meaningful independent advisory network hatches in the GCC, wider distribution opportunities are also being created via the desire of large regional banks to extend reach and diversify product, with many contemplating outsourcing asset management work, while amplifying internal distribution structures.

Currently a number of large banks have 'white-label' relationships with local managers – for example Rasmala and the Commercial Bank of Dubai – where the product of a third party is badged and distributed by a domestic bank. Managers and banks who spoke to the *Barometer* expect these relationships to increase.

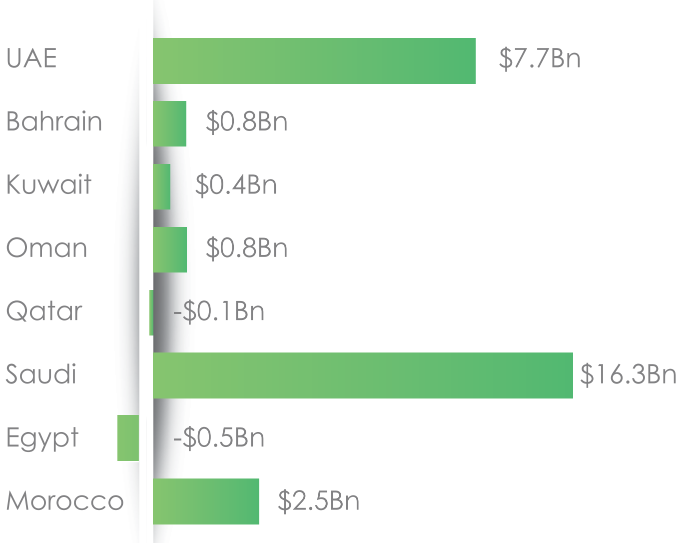
## Foreign investors

Overall activity and portfolio flows from foreign investors still remains relatively low. *Barometer* respondents believed concerns over market breadth, low liquidity, ownership structures and volatility have discouraged increased activity from large global investors.

Direct outside investment into MENA remains focused on the main markets – UAE, Qatar and Saudi – over 40% of direct foreign investment has gone into the UAE, 19% in Qatar and 16% in Saudi Arabia, where investor access is more challenging (Fig 7).

The GCC will continue to represent an attractive market, although the potential for external capital to flow into domestic asset classes remains restricted by regulation. A further opening up of GCC equity markets for foreign investors, combined with positive performance is potentially a major catalyst for the region.

**Fig 7: Direct foreign investment in equity markets 2011**




Source: World Bank

> **"One of our priorities this year is pensions and endowment funds - institutional money stays with you for the longest amount of time"**
> Mashreq Capital

All asset managers view the return of global investors into the market as a boost for regional indices and a vital marker in the move from frontier to emerging market status. From a regulatory perspective, the bulk of local managers were keen to see GCC markets open up more, a change that was unlikely to come about on a unilateral basis, but has seen some progress.

A number of *Barometer* respondents spoke of renewed interest from US and European institutional investors, with many talking about a significant equities mandate expected from Norway's sovereign wealth fund and renewed activity from larger US pension and endowment funds.

Managers who specialised in Shariah-compliant products were starting to see an uptick in interest from Asia and Australia, which both continue to increase demand for Islamic products.

> **"We see a lot more investment coming from outside the Middle East – particularly North America, Europe and Asia. Pension and endowment funds will be looking outside local markets for growth returns"** Abraaj Capital

Beyond the uncertainties in market conditions, *Barometer* respondents said that global investors could also be secured with more palatable structures and operational standards. Almost 30% of local fund managers employ offshore vehicles, while an increasing number expressed interest in the potential of employing an Ucits, or other onshore, wrapper.

Respondents cited performance as the key to capturing the interest of international allocators, but also suggested that operational excellence was similarly important. Industry best practice such as the separation of custody, administration and brokerage from the asset management function is increasing, with Bahrain-based firms setting the pace on this. Further, positive developments on this front will help the industry to grow and establish a stronger presence with Western investors, believed *Barometer* respondents.

### Fig 8: GCC stock market foreign ownership restrictions 2012

| STOCK MARKET | |
|---|---|
| UAE | None for GCC citizens |
| | Max 49% |
| | UAE partner needed |
| | None in DIFC |
| Bahrain | None |
| | 10% ownership cap per investor |
| Kuwait | Max 49% |
| | 5% ownership cap per investor for banks |
| Oman | Max 70% |
| Qatar | Max 25% |
| | No participation in IPOs |
| Saudi Arabia | Max 25% for GCC citizens |
| | No direct participation in stock markets for non-GCC |
| | Non-GCC access via mutual funds, swaps and ETFs |

Source: DB Research

**"The real challenge is going to be dealing with myriad regulation which is not harmonised and differs between countries in the region"** Saffar Holdings

Presently, direct investment by foreigners in Saudi listed companies is not permitted while in other GCC countries it is restricted. Generally, the region's capital markets regulatory framework was perceived by *Barometer* respondents to require further development. While the successful evolution of comprehensive and active capital market regulation mechanisms, particularly in countries such as Kuwait, Saudi Arabia and UAE, would have a positive impact on asset management businesses.

The GCC remains attractive when it comes to corporate governance, as measured by the World Bank's governance index. Although as with all aspects of the region there are variations across states with well-defined financial hubs like Dubai and Qatar scoring higher than their neighbours.

Managers responding to the *Barometer* were also mindful of the pressures of international regulation, particularly capital adequacy rules, on the local banking system. Those who commented on regulation cited Basel III as having the most significant impact on the asset management units of large banks either operating, or situated, in the region.

A number of respondents described Basel III as potentially game changing. With banks concentrating on preserving capital adequacy ratios it will be harder to gain longer term loans for project finance and for business development goals and objectives.

Other non-local regulation was also a source of concern. The region's nascent hedge fund sector – which struggles in a region without clear cut and uniform derivatives or short selling rules – was concerned about the EU's Alternative Investment Fund Managers Directive (AIFMD) initiative. For more than one manager this was a vexation that was driven less by concerns around the punitive nature of the regulations and more around the lack of clarity.

**"Our concern with AIFMD is that it could lead to less investor choice and more cost and so as implementation starts really in the middle of this year I think that AIFMD will be a major challenge"** Goldman Sachs

Although asset managers were concerned about more local regulation becoming a dead hand on innovation, most saw change – particularly the recent Emirates Securities and Commodities Authority (SCA) reforms and continuing developments within the QFC – as "very positive steps" and "crucial in creating a mutual funds industry that can be properly regulated across the GCC".

## Equities

Managers in the equities space, according to *Barometer* responses, found last year's conditions for asset-raising challenging. Flows across the board were still net positive, if sclerotic, particularly compared to the pan-GCC popularity of money market funds.

Although a sea change in 2013 certainly isn't expected there was an expectation that investors would begin to consider a return to equities and equity vehicles – if managers could overcome scepticism about volatility and the diversity of regional stock markets (Fig 9).

### Fig 9: Top 10 equity funds in MENA by performance over 3 years

| FUND MANAGER | FUND NAME | SHARIAH-COMPLIANT | FUND SIZE ($Mn) | 1 YEAR PERF (%) | 3 YEARS PERF(%) | END DATE |
|---|---|---|---|---|---|---|
| SHUAA Capital | Qatar Gate Fund (N) | | 4.0 | +5.0 | + 55.7 | Dec-12 |
| SHUAA Capital | Qatar Gate Fund (Q) | | 4.6 | +4.9 | + 52.9 | Dec-12 |
| Jadwa Investment | Jadwa GCC Equity Fund | ✔ | 5.0 | +22.0 | + 51.8 | Jan-13 |
| Jadwa Investment | Jadwa Saudi Equity Fund | ✔ | 32.4 | +22.9 | + 49.8 | Jan-13 |
| Saudi Fransi Capital | Al-Saffa Saudi Equity Trading Fund | ✔ | 90.2 | +19.5 | + 48.5 | Jan-13 |
| NCB Capital | AlAhli Saudi Mid-Cap Equity Fund | ✔ | 17.6 | +16.0 | + 46.2 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah GCC Equity Fund | ✔ | 19.6 | +21.2 | + 41.9 | Jan-13 |
| Riyad Capital | Riyad Small and Medium Cap Fund | ✔ | 6.4 | +17.5 | + 41.1 | Jan-13 |
| Riyad Capital | American Stock Fund | | 316.5 | +13.8 | + 39.1 | Jan-13 |
| ANB Invest | Al Arabi US Equity Fund | | 6.8 | +18.1 | + 38.0 | Dec-12 |

Source: Zawya

**"Most are predicting a high-level return in equities, so that is a huge opportunity particularly when we have seen investors underweight in equities. This is a key opportunity for the business"** HSBC

However, despite these nerves – amplified by political concerns – a number of GCC equity specialists are confident that 2013 will see a significant rebound in the performance of local equity markets. A narrow band of *Barometer* respondents predicted a bull-run. A broader selection of asset managers were actively reweighting portfolios towards equities or considering launching and marketing new MENA and GCC focused equity vehicles.

In recent history the GCC's stock markets have followed a divergent path, with Dubai, Kuwait and Bahrain still at only just over 50% of their index value immediately prior to the financial crisis. In contrast, Oman, Saudi and Abu Dhabi have staged a significant recovery and have reached between 80-90% of pre-crisis index levels (Fig 10).

Last year gains may have been mixed, but crucially liquidity levels improved (Fig 11). While a general market sentiment of a return to growth has contributed to a growing confidence.

### Fig 10: GCC stock market performance

| | 2012 return |
|---|---|
| Saudi Arabia | 6% |
| Kuwait | 4% |
| Abu Dhabi | 10% |
| Dubai | 21% |
| Qatar | -5% |
| Oman | 1% |
| Bahrain | -6% |

Source: Regional stock exchanges

**"Asset managers are hampered by low liquidity and the narrowness of the stock market – a detriment to large foreign institutional investors"**
SHUAA Capital

Liquidity, or rather the lack of it, has been a major bugbear for asset managers trading the GCC markets. Some of this was assuaged in 2012 with a significant boost in trading levels, particularly in Saudi Arabia – where traded value lifted to 77% in 2012. Traded value in the UAE was 25%, Kuwait grew by 20% - Qatar dropped by 31%, while Bahrain remained static, recording a 2% rise. The majority of regional trading volume also exists at the Saudi exchange.

*Barometer* respondents claimed that many of the GCC's listed entities are difficult to trade publicly because shares are concentrated in the hands of a small number of beneficial owners. The retail bias of stock markets and the continued lack of institutional investors – circa 15% of all trading activity, compared to 70% in Western markets – will also continue to make stock market performance uneven.

Listings on the GCC stock exchanges tend to be concentrated in a small number of sectors, making true portfolio diversification for asset managers trading local markets challenging. Even in the currently buoyant petrochemicals sector *Barometer* respondents complained that some of the best performing energy companies – the Kuwait Oil Company and the Abu Dhabi National Oil Company – remain unlisted.

The lack of diversity has been a barrier to institutional participation from pension funds, life insurance and endowment funds and the types of investors who would traditionally support markets during choppy periods. With the majority of local stock market participation from 'hot' retail money, there will remain a tendency towards illiquidity and volatility for some time to come, despite the positive fundamentals.

However, substantial improvements have been made and the situation is expected to continue to improve via government spending and a healthier IPO pipeline. Sector composition is expected to broaden, particularly in the almost absent tech space, where a number of MENA sovereign wealth funds are currently trying to foster local expertise and infrastructure.

Post-financial crisis there had been a slowing of fresh stock market IPOs. However, corporate advisors who spoke to the *Barometer* expected a small increase in 2013, while a number of asset managers who are investing in and around the IPO space, are planning to launch MENA focussed IPO funds in the second half of 2013.

**"The IPO pipeline in 2013 is going to be better across the GCC as there are definitely more firms looking for an exit"** Abraaj Capital

With asset managers expecting less volatility, better liquidity, a busier IPO pipeline and improved equity performance, the *Barometer* found that GCC equities were proving to be a particularly popular option among managers who described the market fundamentals as looking attractive following a period of uncertainty.

A large swathe of GCC-listed companies continue to perform well at relatively low P/E ratios, delivering valuation and return opportunities that are higher compared to the rest of the world.

**Top regional equity picks (% Barometer respondents):**

Bank stocks - 82%

Property and infrastructure firms - 64%

Health - 58%

**Top country picks (% Barometer respondents):**

Saudi Arabia - 74%

UAE - 70%

Qatar - 68%

## Property, private equity and real assets

The *Barometer*'s interviews revealed that property funds have enjoyed a recent surge in investor interest and inflows. This renewed vigour is supported by a pick-up in deal flow and commercial property transactions in the GCC, with much of the activity focused on the UAE.

According to the Dubai Land Department, property transactions grew by 21% to $17Bn in the 1H of 2012, with $7.7Bn of this stemming from direct foreign investment. This easing of the UAE's property slump has been inspired by the global lift in commercial property prices, but also by local uncertainty driving cash into the GCC. Saudi mortgage law, with its intention to double the Kingdom's housing stock, could also contribute to the resurgence of property vehicles.

In fact, managers who took part in the *Barometer* said that political uncertainty and volatility continued to push up interest in tangible and real assets across the board, with many planning to market existing property funds or launch new private equity ventures (Fig 11).

**Fig 11: Largest MENA-focused private equity funds**

| FUND NAME | GEOGRAPHIC FOCUS | FUND SIZE ($) |
|---|---|---|
| Abraaj Buyout Fund IV | MENA<br>South Asia | 2.6Bn |
| IDB Infrastructure Fund II | Africa<br>Asia<br>Middle East<br>South Asia<br>United States | 2.0Bn |
| Infrastructure and Growth Capital Fund | MENA | 2.0Bn |
| Gulf Opportunity Fund I | GCC<br>MENA | 1.1Bn |
| Ithmar Fund III | GCC | 1.0Bn |
| IDB Infrastructure Fund L.P. | MENA | 980.0Mn |
| Swicorp Joussour Fund | GCC | 712.0Mn |
| ADCB Macquarie Infrastructure Fund | GCC<br>MENA | 630.0Mn |
| Global Buyout Fund L.P. | China<br>India<br>MENA<br>Pakistan<br>Turkey | 615.0Mn |
| ICD Food & Agribusiness Fund | MENA | 600.0Mn |

Source: Zawya

**"One of the things that we've picked up is a real interest in high yielding assets globally and also real assets. The themes for this year will be around yield in general, but will also be around real estate and infrastructure investment"** Invesco

Niche opportunities and single deal transactions, often with local co-investors, are currently the main driver of the region's private equity business. Many of the private equity players spoken to by the *Barometer* were tracking the direction of sovereign wealth money, as they looked to benefit from government investment in opportunities like local infrastructure, education and healthcare.

*Barometer* respondents were also drawn to the value proposition of many GCC and MENA businesses, describing them as "undervalued entities, generating great cash-flows and with cogent expansion plans". While in the past many of these businesses would tap the regulated banking sector for funding, a number were now considering private equity backers.

**"There are a number of select private equity opportunities for us with small to medium sized enterprises providing seed or venture capital"** Saffar Capital

According to *Barometer* respondents although some private equity inflows will stem from regional banks and global invstors, as with other investment vehicles the majority of investment will come from families and private money, looking to diversify away from core businesses and holdings. *Barometer* respondents said that local investors were actively searching for niche opportunities, as they attempted to decrease volatility and search for better yield.

One leading regional private equity player said: "HNWIs want to allocate money to non-core related businesses, not listed on public exchanges. The parties that we think are interesting are mid-cap domestic demand driven businesses, such as education or healthcare, or food retailing – these are all areas that we are focusing on."

In fact most regional private equity players who responded to the *Barometer* were currently focused on domestic businesses particularly those unlikely to fall victim to economic cycles, Eurozone and US pressures or the vagaries of the Arab Spring.

And while managers trading in securities and fixed income were reluctant to invest in countries recently impacted by political change, private equity players were a little more bullish. Egypt was deemed to hold enormous potential, although most players were keeping their powder dry until after the country's April 2013 elections.

However, despite the opportunities for niche deals, there was some concern that private equity players would struggle to raise assets, with investors still nervous about illiquidity and tying up money for elongated time horizons, particularly given ongoing uncertainty in wider-MENA.

## Fixed income – emerging asset class, bolstered by the need for Shariah-compliant investment

Fixed income remains a relatively undeveloped area in the GCC and wider-MENA. However, Bahrain, Qatar and the UAE have seen the development of increasingly bustling bond markets, which, over the last year, have continued to see an increase in investor activity and fresh debt issuances.

The use of Islamic debt instruments is also expanding – leading to more sukuk-style products, which are picking up traction from global and local investors (Fig 12) seeking low-risk returns from Shariah-compliant fund vehicles.

## Fig 12: Top 10 fixed income funds in MENA by performance over 3 years

| FUND MANAGER | FUND NAME | SHARIAH-COMPLIANT | FUND SIZE ($Mn) | 1 YEAR PERF (%) | 3 YEARS PERF (%) | END DATE |
|---|---|---|---|---|---|---|
| Mashreqbank | Makaseb Income Fund | | 40.7 | + 18.0 | + 36.6 | Dec-12 |
| CI Asset Management | Commercial International Bank Fund | | 964.9 | + 11.6 | + 31.4 | Jan-13 |
| Commercial Bank of Dubai | Al Dana Global Fixed Income Manager Selection Fund | | 8.6 | + 8.6 | + 23.4 | Mar-11 |
| National Bank of Abu Dhabi | NBAD Global Debt Securities Fund | | 1.7 | + 4.1 | + 16.7 | Dec-12 |
| Riyad Capital | US Dollar Bond Fund | | 0.02 | + 2.7 | + 15.1 | Dec-12 |
| ANB Invest | Al Arabi Global Bond Fund | | 5.9 | + 4.7 | + 14.1 | Dec-12 |
| Blominvest Bank | Blom Bond Fund | | 334.3 | + 2.7 | + 12.7 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Imtiyaz Liquidite | | 175.7 | + 3.9 | + 12.6 | Dec-12 |
| Valoris Management | Emergence Fund | | 264.3 | + 3.2 | + 12.2 | Dec-12 |
| Valoris Management | Emergence Bond Fund | | 370.3 | + 3.8 | + 12.2 | Dec-12 |

Source: Zawya

Local fixed income should remain a popular asset class in 2013, despite a renewed interest in equities. Global differentials in yield will continue to drive investment in local sovereign debt, where returns are still considered attractive on a risk return basis, compared to US-denominated yields (Fig 13).

Asset managers reporting to the *Barometer* also described the likely continuation of a trend that has seen local allocators become more comfortable with the concept of debt as a diversifier and as a method to reduce equity related volatility in their portfolios.

## Fig 13: Interest rates for US/Qatar government bonds and UAE bonds

| | Maturity | Yield |
|---|---|---|
| US | 2017 | 0.18% |
| Qatar | 2017 | 2.50% |
| DP World | 2017 | 5.00% |
| Dubai Holding | 2017 | 10.10% |

Source: Invesco

**"We expect good growth opportunities in the fixed income markets led by new issuances from both sovereigns and corporations"**

Securities and Investment Company

At $23.7Bn – in H1 2012, the value of sovereign, corporate and sukuk bonds was 54% higher than the same period in 2011 – pointing to a growing maturity of debt markets, particularly in the corporate sector, where $38Bn worth of MENA bonds will mature in 2013.

Just like the region's larger equity space, debt issuance exhibits a strong geographical and sector bias. According to data form Deutsche Bank a major share of outstanding GCC debt stems from the UAE, while Qatar and Saudi account for 24% and 16% of the market share, respectively (data as H1/12). In wider-MENA, Egypt and Morocco both have small but relatively mature debt markets, with $150Mn and $123Mn of issuances respectively in January 2013.

Clearly, this is still an underdeveloped sector. At the end of 2010 public and private debts markets in the GCC represented just 17% of GDP – showing tremendous room for growth. Equity markets remain more mature, the value of which roughly equates to 75% of GDP.

The opportunity of an under-penetrated market is obvious, however, *Barometer* respondents also described the lure of higher equity returns, and the beginning of a risk-on environment, potentially overshadowing the nascent bond market in 2013. Others disagreed saying fixed income would continue to represent a growing force in the GCC, with more Shariah-compliant vehicles and a growing complexity in product.

If there is a tailing off in conventional fixed income products, managers expect to journey up the yield curve with more esoteric vehicles. One of the areas of interest reported by both buy-side and sell-side managers was the senior secured product – the credit of banks, offering a high yield – of local banks.

Sukuk debt instruments continue to breathe serious life into the GCC's fixed income space. *Barometer* respondents said that one of the most highly anticipated pieces of legislation in 2013 will be Egypt's introduction of sukuk regulation, a rule change that is perceived as a genuine opportunity across the MENA investor set.

## Shariah-compliant

A growing number of asset management products – across all asset classes – are Shariah-compliant. In fact Shariah assets now account for 66% of the AuM in GCC funds and 37% in MENA (Fig 5 and 14).

**"There is a lot of opportunity in two key areas: growth of Islamic finance and growth of Islamic institutions"** United Securities

### Fig 14: Country breakdown of Shariah and conventional assets

| | Conventional funds ($Mn) | Number of funds | Shariah funds ($Mn) | Number of funds | Total AuM ($Mn) | Total % Shariah |
|---|---|---|---|---|---|---|
| Bahrain | 1159.7 | 31 | 160.1 | 9 | 1319.7 | 12% |
| Kuwait | 3010.1 | 26 | 1177.2 | 23 | 4187.3 | 28% |
| Oman | 510.7 | 12 | 0.0 | 1 | 510.7 | 0% |
| Qatar | 81.2 | 7 | 75.3 | 4 | 156.5 | 48% |
| Saudi Arabia | 4680.1 | 79 | 18802.2 | 148 | 23482.3 | 80% |
| UAE | 1039.1 | 28 | 244.2 | 10 | 1283.4 | 19% |
| Egypt | 9791.8 | 72 | 126.8 | 12 | 9918.6 | 1% |
| Morocco | 14779.8 | 173 | 16.8 | 2 | 14796.6 | 0% |

Source: Zawya

Managers who responded to the *Barometer* saw significant opportunities in the growth of Islamic finance as way to extend investor reach and levels of AuM. Primarily these new investors could be sourced from within the GCC, particularly from the region's emerging pension funds industry and retail investors. Respondents also reported a second wave of interest stemming from the wider-Islamic world, particularly Asia.

## Fund management – after a series of setbacks, MENA's fund management sector could benefit from greater diversification and positive equity markets in 2013

Collective investment schemes across MENA remain at a relatively early stage of development, particularly compared to the institutional heft of sovereign wealth funds and family offices.

However, the proliferation of these products continues, despite the recent market volatility and slowing of inflows. Mutual funds, according to *Barometer* respondents, are seen as providing some of the region's most interesting investment strategies, while the growing popularity of Shariah-compliant collective investments schemes continues to provide growth opportunities, particularly when combined with changing financial regulation across the GCC and wider-MENA.

Independently managed funds are also seen as potentially the best method for harnessing the investment of global institutions, that are either prevented from direct investment or prefer the mediation of third-party managers.

*Barometer* respondents said that the region's mutual funds were predisposed to invest in a wider number of asset classes than other investors. This approach, once it reaches scale and maturity (Fig 15 and 16), will provide an increase in liquidity and also a diversification service for the region's other asset managers.

Collective investment schemes were also responsible for the bulk of intra-GCC flows, contributing to a growing culture of cross-border investment activity.

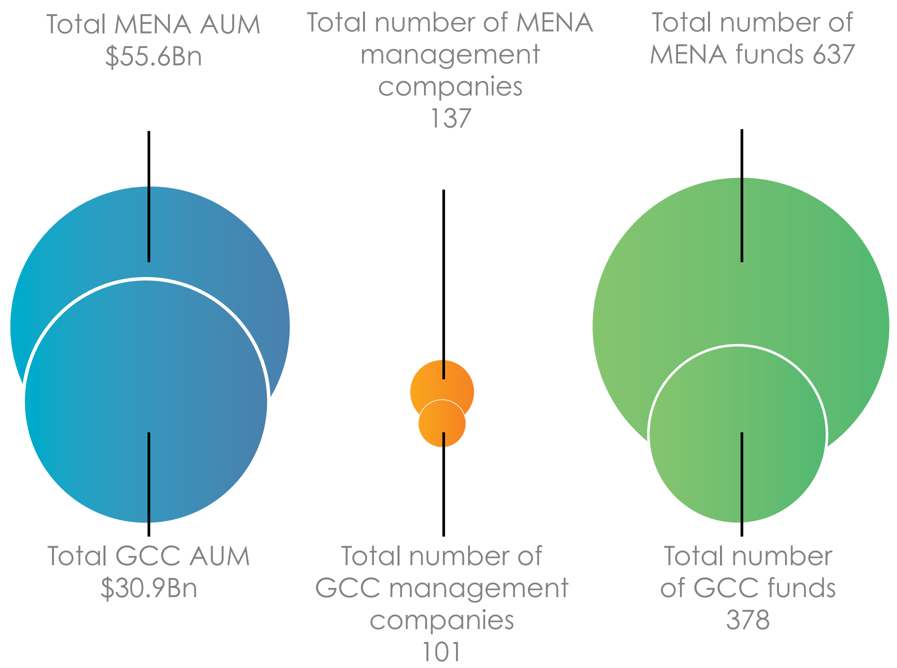
**"There's a lot of liquidity and a lot of money that needs to be invested and investors in the region are becoming more interested in holding a diversified basket of investments"** Mayar Capital Management

### Fig 15: Top 10 funds in MENA by performance over 3 years

| FUND MANAGER | FUND NAME | SHARIAH | SIZE ($Mn) | 1 YEAR PERF (%) | 3 YEARS PERF (%) | END DATE |
|---|---|---|---|---|---|---|
| Falcom Financial Services | Falcom IPO Fund | ✔ | 4.0 | + 60.7 | + 114.3 | Jan-13 |
| KSB Capital Group | KSB IPO Fund | ✔ | 6.4 | + 21.5 | + 68.9 | Dec-12 |
| Bakheet Investment Group | Bakheet IPO Fund | | 24.9 | + 29.7 | + 63.1 | Jan-13 |
| SHUAA Capital | Qatar Gate Fund (N) | | 4.1 | + 5.0 | + 55.7 | Dec-12 |
| SHUAA Capital | Qatar Gate Fund (Q) | | 4.6 | + 4.9 | + 53.0 | Dec-12 |
| Jadwa Investment | Jadwa GCC Equity Fund | ✔ | 5.0 | + 22.0 | + 51.8 | Jan-13 |
| Jadwa Investment | Jadwa Saudi Equity Fund | ✔ | 32.4 | + 22.9 | + 49.8 | Jan-13 |
| Saudi Fransi Capital | Al-Saffa Saudi Equity Trading Fund | ✔ | 90.2 | + 19.5 | + 48.5 | Jan-13 |
| NCB Capital | AlAhli Saudi Mid-Cap Equity Fund | ✔ | 17.6 | + 17.6 | + 46.3 | Jan-13 |
| NCB Capital | AlAhli Global Real Estate Fund | ✔ | 13.3 | + 17.9 | + 45.8 | Jan-13 |

Source: Zawya

## Fig 16: MENA fund management universe 2012




Source: Zawya, Mena FM

Although equity funds account for the greatest number of fund vehicles across MENA, the total assets held in these vehicles only hovers at around 40% across the GCC (Fig 17) and only 25% across MENA (Fig 18). Money market instruments remain the dominant force in terms of total AuM, possessing 49% of AuM in the GCC and 55% of total industry assets across MENA.

With asset gathering a priority, many managers saw the potential of bank distribution deals, where specialist product from independent managers, would be white labelled by regional banks. This provides a major opportunity for asset management firms, who would receive a much needed capital injection via reaching a deal with a regional bank. In return banks are searching for greater product diversification.

## Fig 17: Breakdown of GCC fund numbers by asset class

| | AuM ($Mn) | NUMBER OF FUNDS | Overall % of AuM |
|---|---|---|---|
| Equity | 12163.1 | 199 | 39.3 |
| Fixed income & sukuk | 1310.9 | 28 | 4.2 |
| Hedge funds | 154.1 | 2 | 0.5 |
| Money market | 15165.2 | 55 | 49.1 |
| Property | 289.8 | 1 | 0.9 |
| Others | 1856.8 | 93 | 6.0 |
| Total | 30939.9 | 378 | 100 |

Source: Zawya

## Fig 18: Breakdown of MENA fund numbers by asset class

| | AuM ($Mn) | NUMBER OF FUNDS | Overall % of AuM |
|---|---|---|---|
| Equity | 13982.5 | 274 | 25.2 |
| Fixed income & sukuk | 6978.9 | 98 | 12.6 |
| Hedge funds | 154.1 | 2 | 0.3 |
| Money market | 31781.8 | 113 | 57.3 |
| Property | 289.8 | 1 | 0.5 |
| Others | 2468.0 | 149 | 4.1 |
| Total | 55655.1 | 637 | 100 |

Source: Mena FM, Zawya

The continued success of money market vehicles, particularly Saudi Trade Finance Funds, across MENA points to their ongoing popularity amongst local corporate entities for short-term liquidity management. Money market products have also benefited from the uncertainty surrounding the region's recent political upheaval.

Bank-owned and affiliated product continues to dominate the sector, but independent managers are beginning to make inroads despite the barriers to entry. *Barometer* respondents, who said that squeezed management fees were making it harder to run viable businesses, described an AuM of $250Mn – across the management firm – as rendering a business operationally sound and acceptable to the due diligence checks of investors.

As independent managers move up the value chain, an AuM of $500Mn-$1Bn provides firms with enough institutional heft to attract allocations from local SWFs and global investors.

However, on average funds across the GCC tend to be smaller than $100Mn, with GCC-only vehicles averaging $81.9Mn and MENA funds reaching an average of $87.4Mn. Saudi Arabia and Egypt boast the largest funds, with averages of $103.5Mn and $118.1Mn. Although these figures can be rolled into the total AuM of management firms, *Barometer* respondents described a host of similarly weighted products, pursuing similar strategies that would struggle to reach triple figures in managed assets.

# SOVEREIGN WEALTH FUNDS, PUBLIC PENSIONS AND FAMILY OFFICES

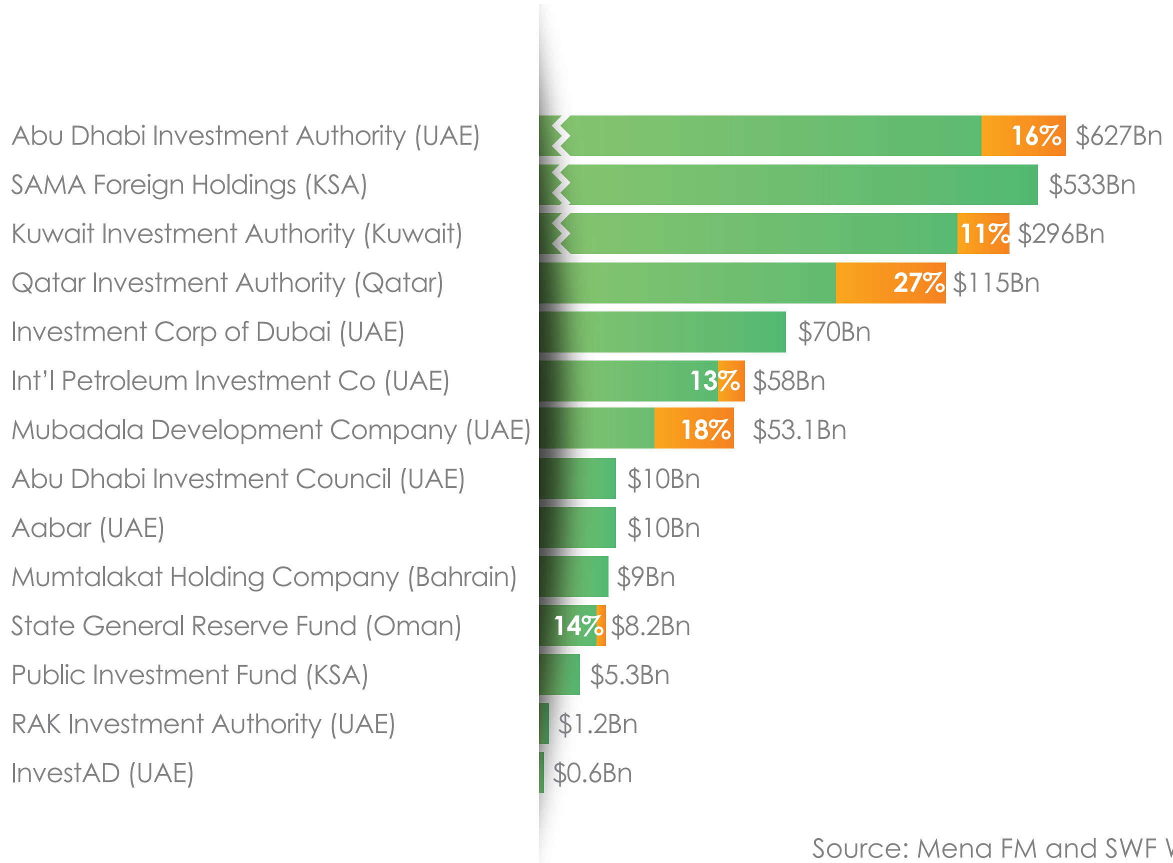
## Creating liquidity and growth opportunities for home markets

About 68% of the GCC SWFs' direct investments are in the developed economies with Qatar Holdings as high as 92%. GCC SWFs have also started increasing their focus on domestic and emerging markets, in line with other global SWFs, in an effort to capture higher yields.

In particular, funds with a specific mandate to invest locally have, post the Arab Spring, increased their investment in infrastructure to help stabilise economies and ease political strife (Fig 19).
During the financial crisis of 2008 many SWFs played key roles in shoring up Western institutions. They are now performing a similar role in home states, providing liquidity and increasing direct investment, particularly to financial institutions, energy, utilities and infrastructure sectors.

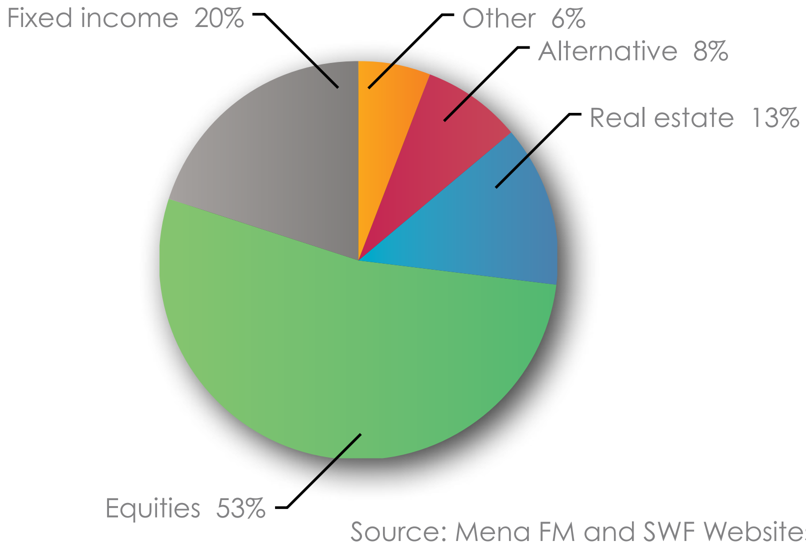
Since 2008, SWF investment has become increasingly diverse. Over the last five years the overall share of SWF investment into financial services has dropped, replaced by more active investment in industrials, materials, telecoms and consumer goods. Currently there is a renewed focus on technology investment – as funds look to diversify local economies and foster a home grown tech industry.
The portfolio structure of GCC SWFs is heavily focused on equity and fixed income, which together represent 70% of total funds allocated on average (Fig 20). Real estate is the third largest asset class.

**Fig 19: Top 20 Soverign Wealth Funds and assets**




Source: Mena FM and SWF Websites

**Fig 20: SWF portfolio allocation across asset classes**




Source: Mena FM and SWF Websites

**"We see the government and quasi-government investors as the top priority in 2013. Due to their various fiscal plans, they need to invest in local economies and this could benefit the wider fund management sector"** Global Investment House

A sector breakdown reveals that financial services still remain a core part of SWF investments, amounting to 30% of total asset allocation on average. QIA is the GCC SWF with the highest allocation to financial services (just below 50%). The infrastructure sector is covered by virtually all the GCC SWFs but only represents a small share of their investments at between 5 to 10% of the total portfolio. This is expected to double over the course of 2013.

SWFs account for the lion's share of the GCC's investable assets (over $1Trn – of which 75% stems from Saudi and the UAE) – approaching 80% of the region's total, according to Mena FM data, with this overall share rising to as high as 88% according to a recent survey by Invesco. This renders SWFs the most powerful asset managers in the GCC.

The significance of SWF influence on local markets and the wider GCC's financial services sector was acknowledged by all of the *Barometer's* participants. Described as "government subsidised large-cap traders", the ability of SWFs to become major commercial partners with high grossing economies, like China, was seen as an important function to the economic well-being of the rest of MENA.

For many independent fund managers the ability to attract local SWF investment was also seen as the most crucial way to build sustainable business models, particularly given the diversification programmes of many large state funds, who, according to asset managers, have upped enquiry rates with third-party funds over 2012 and early 2013. The bulk of respondents to the *Barometer* said that SWF assets would account for an increased overall share of AuM levels by the end of the year.

In line with its changed mandate a SWF like Bahrain's Mumtalakat, is taking advantage of domestic investment opportunities and is looking closely at hospitality, real estate, industrial partnerships and investment in the financial and telecommunications sectors.

This recalibrated focus is currently being investigated, and replicated, by other regional SWFs, in the hope that large injections of government liquidity will kick-start stock markets and encourage other regional players to invest locally.

**Sovereign wealth funds perspective 1:**

"We had a strategy which was aimed at creating geographical diversification and asset class diversification, but, following the Arab Spring, we have now re-focused our strategy on direct investment in the local economy

This means Mumtalakat's priorities are now more domestic oriented. I would say there are currently three priorities at the heart of this strategy: real estate, industrial sectors and a focus on enhancing our portfolio companies.

A fourth focus would be identifying emerging strategies in other sectors of interest. The real estate and industrial sectors will keep us busy for 2013, but we need to create initiatives for 2014."

**Bahrain Mumtalakat Holdings Company**

However, not all SWFs are pursuing the same investment strategy. Those whose nation states have been left unscathed by the Arab Spring, and who enjoy high levels of liquidity due to oil revenues, are still looking at asset class diversification and global investment opportunities.

For instance in the UAE, Mubadala is planning to achieve general growth of investment in its portfolio, across a number of different industry verticals, in line with the goals of its sole shareholder, the government of Abu Dhabi.

**Sovereign wealth funds perspective 2:**

"Opportunities revolve around being a liquid investor with ample capital to put to work for the right kinds of opportunities in our target area, be that in our established industries or potentially in new industries. We remain 'opportunistically strategic', which means we can move large amounts of capital very quickly if we see the right kind of opportunity.

We're currently expanding our remit and looking at new geographies. We've made our first investments in South America (Brazil) and China last year and we continue to look at emerging opportunities in new markets. We have an ability to play globally and choosing the right spots is both an opportunity and a challenge."

**Mubadala Development Company**

## The emergence of local pension funds

While SWFs and regional family offices account for the largest share of investable assets, the growing presence of other local institutional investors, such as pension funds, is a boon to both GCC markets and for local mutual fund managers looking to grow their asset base.

However, *Barometer* respondents pointed out that a fully-fledged GCC private pensions industry is some time away, as most private employers and employees still rely on the lump sums rolled up in 'End of Service Benefits' agreements.

Public pensions are in a stronger position, with over $170Bn of AuM across the nine systems in the GCC. Benefits are generous – often paying 80% of final salary – but ultimately unsustainable, as liabilities grow over the next 40 years. *Barometer* respondents were eager to see second and third tier pension plans emerge that would provide the region's mutual fund space with sticky institutional money, smooth volatility and inject more liquidity into the markets.

With the relevant reforms – to encourage occupational pension plans and private saving schemes – an energised GCC pension sector could become an important lynchpin in the region's capital markets infrastructure. The private and occupational pensions sector remain small, although there is expected to be future growth as well as a more flexible approach to portfolio management as the GCC's nine public pensions (Fig 21) move away from cash balances and look to use local equity and debt products to improve portfolio performance.

### Fig 21: GCC Public Pension Plans

| PENSION FUND | AuM ($Bn) | Country |
|---|---|---|
| General Organisation of Social Insurance; Public Pension Agency | 116.7 | Saudi Arabia |
| Public Institution for Social Security | 40.5 | Kuwait |
| Social Insurance Organisation | 9.3 | Bahrain |
| General Pensions and Social Security Authority; Abu Dhabi Retirement Pensions & Benefit Fund | 3.0 | UAE |
| Civil Service Employees' Pension Fund; Public Authority for Social Insurance | 2.2 | Oman |
| General Retirement and Pension Authority | 1.6 | Qatar |

Last year's decision by Qatar's Pension and Social Insurance Authority to invest $440Mn in a real estate deal marked a major move by a Gulf pension fund into the local markets. Other GCC public systems have also increased their entanglement with local investment, with more engagement with regional equity and corporate debt instruments.

Many GCC pension funds still remain overly reliant on money market funds and bank deposits, stymieing returns and threatening to create large deficits. Yet, with the example set by Qatar fund managers in the region see the signs of a more active investment mind-set emerging. A number of *Barometer* respondents suggested that the GCC's foreign workers could at some point be enrolled in the region's public funds, "tripling pension pots" and encouraging greater use of private pension style structures, by embedding voluntary contribution and savings schemes inside existing public pension wrappers.

*Barometer* respondents expressed a wish to see the development of a robust pensions market, with more defined regulation. In terms of inflows many regional fund managers see the fostering of a local pensions sector as the best method of developing sustainable business models.

## HNWI: searching for sustainability and diversification

The current HNWI dynamic in MENA is less about allocating to third-party managers and more about expanding family businesses into new areas. Because of the barriers to entry the returns anticipated from business expansion are potentially far greater than money invested into a range of asset classes or funds.

According to Deutsche Bank, figures for MENA suggests that assets held by HNW individuals have grown by 9% per year on average between 2004 and 2010 – a share of 4% of the total global HNWI wealth pot. Inevitably, the GCC takes the major share of this wealth, with *Mena FM* data suggesting the current total stands close to $1.1Trn. Much of this wealth is placed abroad - close to 60% - but, according to *Barometer* respondents, the current opportunity set in the GCC, combined with ongoing uncertainty in the US and Europe is contributing to an upswing in domestic investment by HNWIs.

The power of families in the GCC presents a series of challenges for local asset managers – private ownership means that regional exchanges remain illiquid and seldom reflect local profit and growth prospects. The situation is particularly challenging for private equity companies, who can struggle to source investment because local families are disinclined to cede or share control.

However, the right family involvement can lead to better governance. Asset managers pointed out that family offices exercise an important stewardship role, with between 20 and 30% of listed company board members coming from influential regional families.

Managers who reported to the *Barometer* also described a thaw in the willingness of wealthy families to invest in third-party managers. Recently, political risk has seen family offices in the region look for a series of liquid, low-risk assets. This engagement has ranged from zero risk asset classes like cash, to securitised property, debt markets and even an increased interest in equity markets. Families are still hawkish about illiquid asset classes, like private equity or property, but show a growing interest in defensive assets, like gold.

Increased diversification has meant a renewed focus from independent managers on winning family office mandates. Smaller managers in particular have managed to raise assets via the promise of providing investment portfolio diversification services for HNWI and regional family offices.

"Whichever sector they (HNWI) are in, often oil and gas, they realise the need to diversify away from this, perhaps in to healthcare and education," said a small private equity manger. Another boutique fund manager had raised the bulk of its assets in 2012 by managing fixed income and equity portfolios for HNWIs. "That's how we have positioned ourselves, but over time and certainly after we hit a 3 year track record or pass assets of $500Mn we will start to look at attracting institutions, particularly sovereign wealth funds."

Family offices across the GCC have always controlled a significant number of the region's investable assets, frequently choosing to invest directly. However, managers responding to the *Barometer* said there were now greater opportunities to manage the money of families, as wealth transferred to second and third generations.

**"Many family offices will start shifting allocations towards more professional money managers"** Arab National Bank

Third-party asset managers see this transfer as an opportunity to sell their services as a risk management tool capable of diversifying family wealth away from core businesses.  This has seen a particular focus on a growing range of fixed income products, as well as non-correlated alternatives like hedge funds.

# FUNDS WITH GCC/MENA FOCUS

Total AuM $3.2Bn Total Number of funds 89

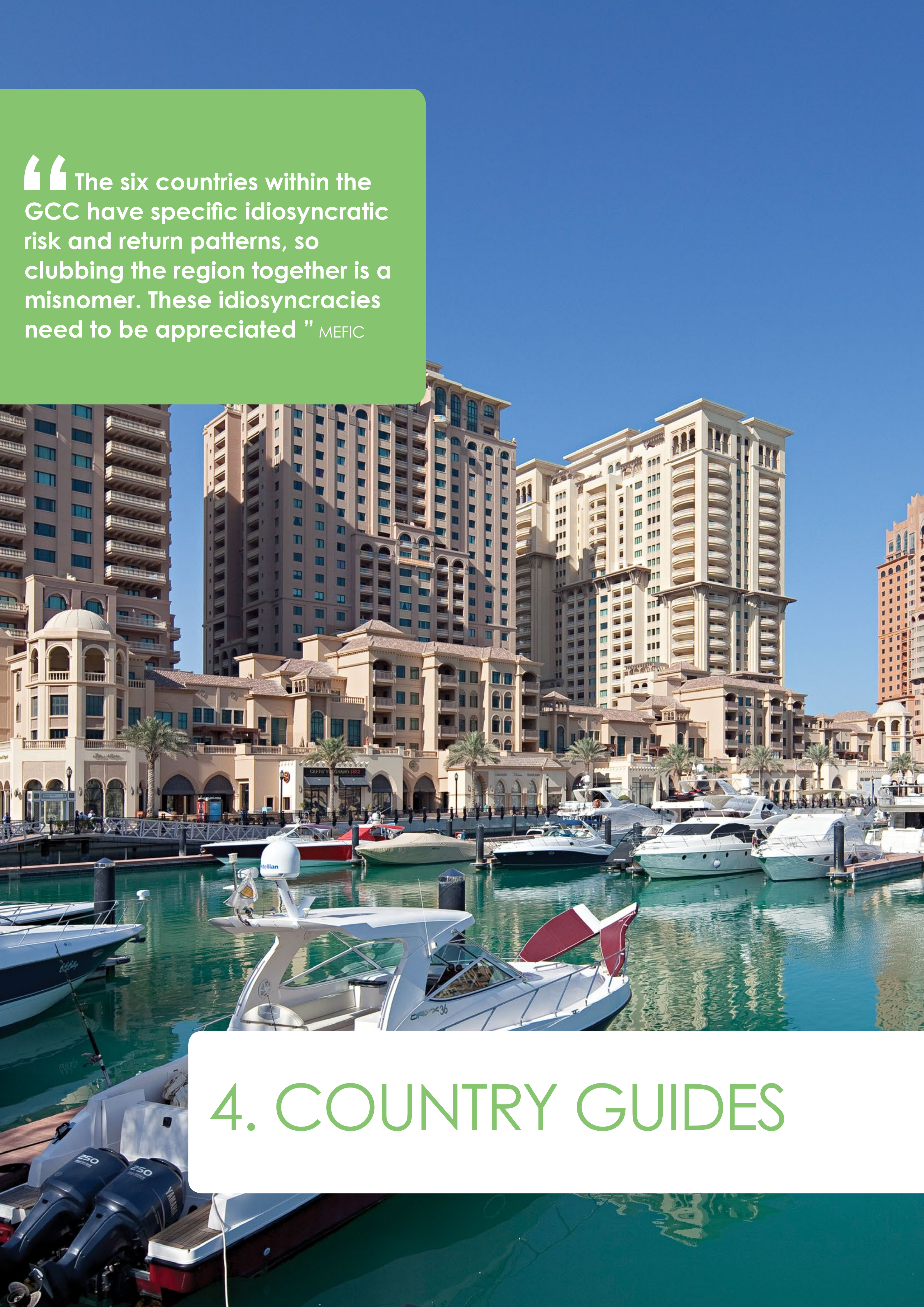
Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|
| Abu Dhabi Commercial Bank | ADCB Arabian Index Fund | | 54.1 | 4.8 | 7.7 | Feb-13 |
| Ahli Capital Investment Company | Al Ahli Gulf Fund | | 58.9 | 4.7 | 4.2 | Dec-12 |
| Al Arabi Investment Group | Arab Bank MENA Fund | | 32.2 | 10.2 | 8.2 | Dec-12 |
| Al Arabi Investment Group | IIAB Islamic MENA Fund | ✔ | 6.6 | 5.6 | 5.8 | Dec-12 |
| Al Bilad Investment Company | Akar Fund | ✔ | 0.8 | 17.8 | 8.3 | Feb-13 |
| Al Bilad Investment Company | Amwal Fund | ✔ | 1.3 | -2.4 | -7.1 | Feb-13 |
| Al Hilal Bank | Al Hilal GCC Equity Fund | ✔ | 9.3 | 13.6 | - | Feb-13 |
| Al Mal Capital | Al Mal MENA Equity Fund | | 4.3 | 7.4 | 16.0 | Feb-13 |
| Al Muthana Investment Company | Al Muthana GCC Islamic Banks Fund | ✔ | 28.2 | 5.2 | 10.2 | Jan-13 |
| Al Rajhi Capital | Al Rajhi GCC Equity Fund | ✔ | 61.6 | 8.1 | 23.6 | Feb-13 |
| Al Rajhi Capital | Al Rajhi GCC Shares Capital Protected Fund (90%) | ✔ | 6.3 | 4.7 | - | Dec-12 |
| Al Rajhi Capital | Al-Rajhi MENA Dividend Growth Fund | ✔ | 14.9 | - | - | Feb-13 |
| Al Rayan Investment LLC | Al Rayan GCC Fund (F) | ✔ | 12.5 | 15.7 | - | Jan-13 |
| Al Rayan Investment LLC | Al Rayan GCC Fund (Q) | ✔ | 48.3 | 15.6 | - | Jan-13 |
| Al Sharq Investment | Zumorroda GCC Fund | | 11.4 | 7.7 | 13.7 | Jan-13 |
| Alistithmar Capital | SAIB Arab Companies Fund | ✔ | 7.5 | 8.8 | 21.8 | Feb-13 |
| Alistithmar Capital | SAIB GCC Equity Fund | | 59.3 | 10.4 | 27.0 | Feb-13 |
| Alistithmar Capital | SAIB Sukuk Fund | ✔ | 8.0 | 3.7 | - | Feb-13 |
| Al-Khabeer Capital | Al-Khabeer GCC Equity Fund | ✔ | 3.2 | 2.3 | - | Feb-13 |
| Arbah Capital | Arbah IPO Fund | ✔ | 7.8 | 6.2 | - | Feb-13 |
| Audi Capital | Arabian Opportunities Fund | | 15.7 | 9.4 | 16.4 | Feb-13 |
| Bank Muscat | Bank Muscat Money Market Fund | | 25.3 | - | - | Feb-13 |
| Bank Muscat | Bank Muscat Oryx Fund | | 15.9 | 11.9 | 21.8 | Feb-13 |
| Bayan Investment Company | Al-Themar Fund | ✔ | 7.9 | 5.7 | -13.6 | Dec-12 |
| Commercial Bank of Dubai | Al Dana GCC Income Fund | | 74.0 | 15.6 | - | Jan-13 |
| Daman Investments | Daman Fifth Fund | | - | 0.6 | - | Dec-12 |
| El Rashad Asset Management | Arab Islamic Fund of Funds | ✔ | - | - | - | - |
| Falcom Financial Services | Falcom Arab Markets Fund | ✔ | 6.3 | 17.2 | - | Feb-13 |
| Franklin Templeton Investments (ME) Limited | Alpha MENA Fund | | 5.3 | 12.6 | 20.3 | Feb-13 |
| Global Investment House | Global Energy, Petrochemical, and Downstream Industries Fund | | 20.4 | 4.5 | 19.2 | Feb-13 |
| Global Investment House | Global GCC Islamic Fund | ✔ | 8.2 | 11.6 | 19.5 | Feb-13 |
| Global Investment House | Global GCC Large Cap Fund | | 129.2 | 11.4 | 28.7 | Feb-13 |
| Gulf Baader Capital Markets | The First Mazoon Fund | | 10.8 | 6.2 | 10.9 | Feb-13 |
| Gulf Investment Corporation | Gulf Bond Fund | | 172.0 | 6.7 | 20.8 | Feb-13 |
| Gulf Investment Corporation | Gulf Islamic Equity Fund | ✔ | 10.8 | 7.9 | 14.9 | Feb-13 |
| Gulf Investment Corporation | Gulf Premier Fund | | 102.8 | 7.2 | 22.1 | Feb-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah GCC Equity Fund | ✔ | 19.6 | 20.7 | 42.8 | Feb-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah GCC Equity Income Fund | ✔ | 28.2 | - | - | Feb-13 |
| Invest AD | Invest AD - GCC Focus Fund | | 1.0 | -1.1 | - | Nov-12 |
| Jadwa Investment | Jadwa GCC Equity Fund | ✔ | 5.0 | 18.6 | 50.0 | Feb-13 |
| Jadwa Investment | Jadwa GCC Equity Index Fund | ✔ | 2.9 | 7.5 | 21.0 | Feb-13 |
| Jadwa Investment | Jadwa Arab Markets Equity Fund | ✔ | 5.0 | 16.7 | 41.6 | Feb-13 |
| Jadwa Investment | Jadwa Global Sukuk Fund | ✔ | 23.0 | 6.5 | 17.6 | Feb-13 |
| Jadwa Investment | Jadwa Saudi Riyal Murabaha Fund | ✔ | 71.9 | 0.7 | 1.6 | Feb-13 |
| Kuwait and Middle East Financial Investment Company | Gulf Gate Fund | | 8.2 | -1.7 | -9.8 | Jan-13 |
| Kuwait Finance and Investment Company | Al Basha'er GCC Equity Fund | ✔ | 61.2 | 8.9 | 2.8 | Jan-13 |
| Kuwait Financial Centre | Markaz Fixed Income Fund | | 16.1 | 6.4 | - | Jan-13 |
| Kuwait Financial Centre | Markaz Arabian Fund | | 34.0 | 10.0 | 16.7 | Jan-13 |
| Kuwait Investment Company | Al-Atheer Fund | | 61.6 | 13.4 | 9.8 | Jan-13 |
| Mashreq Capital | Mashreq Al Islami Income Fund | ✔ | 52.6 | 12.2 | 35.2 | Feb-13 |
| Mashreqbank | Makaseb Arab Tigers Fund | | 21.7 | 17.5 | 34.5 | Feb-13 |
| Mashreqbank | Makaseb Income Fund | | 40.7 | 18.6 | 40.0 | Feb-13 |
| Naeem Financial Investments | MENA MAC Fund | | 4.9 | - | - | Feb-13 |
| Naeem Financial Investments | NAEEM MENA Growth Fund | | 4.0 | 6.6 | -18.4 | Feb-13 |
| National Bank of Abu Dhabi | NBAD GCC Opportunities Fund | | 20.5 | 4.1 | 11.2 | Feb-13 |
| National Bank of Abu Dhabi | NBAD Cautious Income Fund | | 189.7 | - | - | Feb-13 |
| National Bank of Abu Dhabi | NBAD Sukuk Income Fund | ✔ | 15.1 | - | - | Feb-13 |
| National Investments Company | Al Mada Investment Fund | ✔ | 41.7 | 11.9 | 18.7 | Jan-13 |
| National Investments Company | Mawarid Industrial and Petroleum Services Fund | ✔ | 41.5 | 5.9 | -3.8 | Jan-13 |
| NCB Capital | AlAhli GCC Growth and Income Fund | ✔ | 30.3 | 7.9 | - | Feb-13 |

Source: Zawya

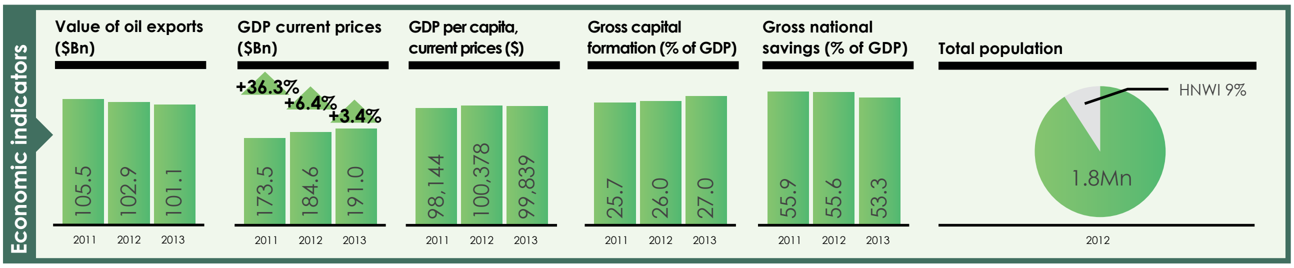
| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|
| NCB Capital | AlAhli GCC Trading Equity Fund | ✔ | 67.5 | 10.0 | 25.0 | Feb-13 |
| NCB Capital | AlAhli US Dollar Sukuk and Murabaha Fund | ✔ | 124.4 | 2.4 | - | Feb-13 |
| Noor Financial Investment | NOOR GCC Islamic Fund | ✔ | 16.0 | 6.5 | 6.9 | Dec-12 |
| QNB Banque Privée (Suisse) | QNB Debt Fund | | - | - | - | - |
| Riyad Capital | Riyad Gulf Fund | ✔ | 63.9 | 12.2 | 20.4 | Feb-13 |
| Royal Capital PJSC | Royal Capital MENA Fixed Income Plus Fund | | 16.4 | 5.3 | - | May-12 |
| Royal Capital PJSC | Royal Capital MENA Multi-Market Strategy Fund | | 15.0 | 2.8 | - | May-12 |
| Samba Capital | Al Musahem GCC Fund | | 43.3 | 8.2 | 26.4 | Feb-13 |
| Samba Capital | Al Raed GCC Fund | ✔ | 10.5 | 9.8 | 24.2 | Feb-13 |
| Saudi Fransi Capital | Al Danah GCC Equity Trading Fund | ✔ | 5.6 | 17.5 | 32.6 | Feb-13 |
| Saudi Fransi Capital | Al-Badr Murabaha Fund SAR | ✔ | 260.3 | 0.7 | 1.6 | Feb-13 |
| Saudi Fransi Capital | Al-Badr Murabaha Fund USD | ✔ | 23.7 | 0.8 | 1.5 | Feb-13 |
| Saudi Fransi Capital | Al-Qasr GCC Real Estate And Construction Equity Trading Fund | ✔ | 8.4 | 17.1 | 35.8 | Feb-13 |
| Saudi Fransi Capital | SAR Money Market Fund | | 348.9 | 0.8 | 1.8 | Feb-13 |
| Saudi Fransi Capital | USD Money Market Fund | | 26.5 | 0.8 | 1.5 | Feb-13 |
| Saudi Hollandi Capital Company | Al Yusr GCC Equity Fund | ✔ | 4.1 | 11.2 | 24.9 | Feb-13 |
| Saudi Hollandi Capital Company | GCC Financial Institutions Equity Fund | | 10.6 | 7.3 | 17.8 | Feb-13 |
| Securities & Investment Company | SICO Khaleej Equity Fund | | 65.1 | 11.2 | 22.2 | Jan-13 |
| Securities & Investment Company | SICO Money Market Fund | | 10.3 | 1.1 | - | Jan-13 |
| Securities & Investment Company | Al Islami GCC Equity Fund | ✔ | 17.9 | 8.1 | 12.3 | Dec-12 |
| Securities & Investment Company | SICO Gulf Equity Fund | | 23.0 | 12.7 | 19.8 | Jan-13 |
| Securities & Investment Company | SICO Arab Financial Fund | | 4.8 | 7.3 | 26.1 | Jan-13 |
| Tharawat Investment House B.S.C. | Tharawat Sukuk Fund | ✔ | 8.9 | 6.2 | - | Dec-12 |
| Union National Bank | Al Samaha Islamic Fund | ✔ | 7.0 | 7.8 | 2.0 | Feb-13 |
| United Securities LLC | United GCC Fund | | 18.8 | 16.9 | - | Feb-13 |
| Vision Investment Services Company | Vision Al Khair GCC Fund | ✔ | - | - | - | - |
| Vision Investment Services Company | Vision Emerging GCC Fund | | 25.5 | 13.9 | 27.6 | Feb-13 |
| Vision Investment Services Company | Vision Real Economy GCC Fund | | 23.2 | 14.9 | - | Feb-13 |
| Watani Investment Company | NBK Gulf Equity Fund | | 51.1 | 3.0 | 12.0 | Feb-13 |

> "The six countries within the GCC have specific idiosyncratic risk and return patterns, so clubbing the region together is a misnomer. These idiosyncracies need to be appreciated" MEFIC



# 4. COUNTRY GUIDES

# QATAR



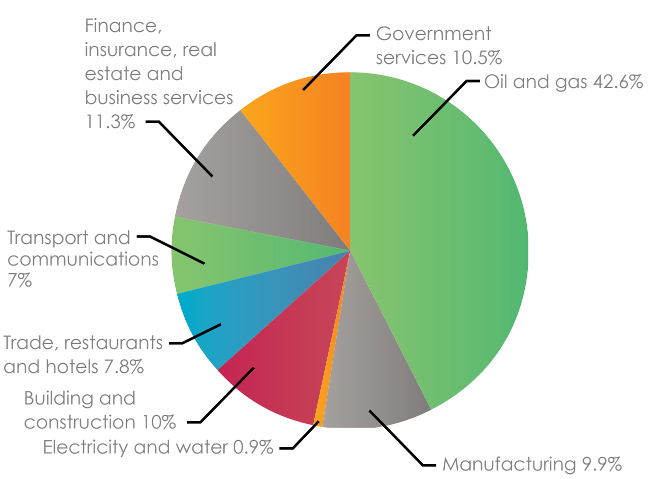

## Background

Qatar is the richest country on earth as measured by GDP per capita and has been ruled as an absolute and hereditary emirate by the Al Thani family since the mid-19th century. In 1995, H.H. Sheikh Hamad bin Khalifa Al Thani became Emir and has forged close links with the US. H.H. the Emir says Qatar will hold its first national legislative elections in 2013.

Having successfully completed its 20-year investment programme to commercialise its substantial natural gas resources in 2011, Qatar has embarked on an infrastructure investment programme in the non-hydrocarbon sectors

According to the International Monetary Fund (IMF), real GDP growth is projected at 6.6% in 2012, driven mainly by non-hydrocarbon sector growth. Average inflation is expected to remain low at 2%, although the overall fiscal surplus is projected to remain high at 8.1% of GDP and the external current account is projected to record a surplus of 29.8% of GDP in 2012. Annual GDP per capita in 2012 was $100,000 with an unemployment rate of just 0.6%.

**Qatar GDP breakdown (2012)**




Source: Qatar Statistics Authority

Continuing to develop deep and liquid domestic debt markets is expected to bring important benefits to Qatar, including raising funding for the large infrastructure investment programme, enhancing the monetary transmission mechanism and facilitating liquidity management. The IMF has recommended developing a well-diversified domestic and foreign institutional investor base (including pension, insurance and investment funds) that can help diversify financial intermediation to capital markets by increasing the demand for long-term financial assets.

Established in 1995, the Doha Securities Market (DSM) officially started operations in 1997. Since then the exchange has grown to become one of the leading stock markets in the GCC region and was renamed the Qatar Exchange. It is regulated by the Qatar Financial Markets Authority (QFMA), the regulatory and supervisory authority for the capital markets in Qatar.

Established in 2005, the Qatar Financial Centre (QFC) is a financial and business centre established to grow and develop Qatar's financial services sector, a key element of the country's strategic development agenda. As of 2012 there were 11 investment funds registered in Qatar with assets under management of $156.5Mn (48% of which was Shariah-compliant).

## Qatar's economic growth plans

The Qatar 'National Vision (QNV) of 2030' outlines the country's long-term plans by providing a framework within which the nation's economic growth can be developed.

The QNV 2030 outlines five overarching national goals:

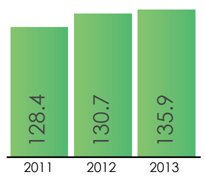
- Modernisation and preservation of traditions
- Intergenerational justice
- Managed growth and expansion
- Building up the know-how and quality of the workforce and selecting the optimum path of development
- Economic growth, social development and environmental management

The QNV initiative commenced in 2003, in response to the need for greater policy integration for effective development. It was based on Qatar's permanent constitution, as well as a comprehensive stakeholder engagement process between 2005 and 2007.

## Financial markets

The Qatar Exchange's market capitalisation fell by 1.9% during February 2013 to reach QR466Bn ($128Bn), compared to QR475Bn ($130Bn) at the end of the previous month. The index of the Qatar Exchange lost 196 points to close February at 8,528 points.

**Stock exchange market cap ($Bn)**



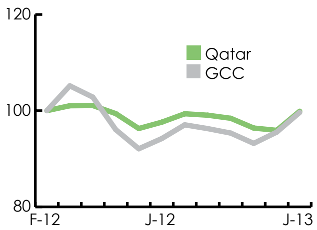

Market capitalisation as a percentage of GDP (80%) is higher in Qatar than in any other GCC state with the exception of Bahrain, which has a similar number of companies listed on its exchange.

Trading value increased by 12.5% to reach QR5.2Bn ($1.4Bn) compared to QR4.6Bn ($1.3Bn) at the end of January. Trading volume reached 124,666,525 shares as against 90,738,046 for the preceding month, while the number of transactions reached 65,533 compared to 64,943 during January.

The banking and financial services sector led trading value during February 2013, accounting for

### MSCI View

**MSCI IMI: Qatar vs GCC**




The Qatar equity market is the third largest market (in terms of free-float adjusted market capitalisation) within the GCC region. Over the three years to January 30, 2013, the Qatar equity market enjoyed close to a 50% return, although its liquidity deteriorated with a 27% drop in the market's average traded value ratio. It is dominated by three sectors: Financials (54%), Industrials (18%) and Telecommunication Services (16%).. All other sectors together represent only 12% of the Qatar equity market, with Information Technology and Health Care absent. The MSCI Qatar Index is currently classified by MSCI as a Frontier Market. As a result of MSCI's previous annual country reviews, which include extensive consultations with international institutional investors, the MSCI Qatar Index has met nearly all of the requirements for potential inclusion in the MSCI Emerging Markets Index. The principal remaining issue concerns low ownership limit levels imposed on foreign purchases of Qatar company stock, compared with country markets in the MSCI Emerging Markets Index. In addition, institutional investors are in the process of gaining experience with the false trade prevention mechanism introduced in 2012 by the Qatar Exchange. MSCI will communicate its decisions resulting from the current MSCI Annual Market Classification Review in June 2013.

**Total fund AuM (by domicile)**

**$157Mn**

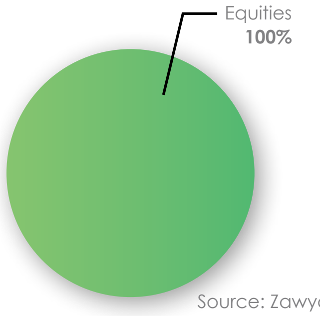
**Average fund size**

**$14.23Mn**

**Number of funds**

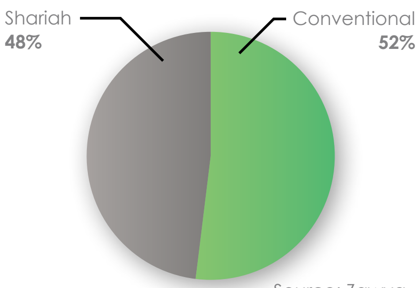
**11**

**Funds by asset class (%)**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

35% of total trading value, followed by industrials, which accounted for 30%. The consumer goods and services sector and real estate accounted for 10% each, followed by transportation (7%), telecoms (6%) and insurance (2%).

Unsurprisingly, the banks and financial services sector also led trading volumes, accounting for 33% of the total trading volume, followed by the real estate sector, which accounted for 23%. Industrials accounted for 17%, followed by transportation (15%) and telecoms and consumer goods and services with 5% each.

Eighteen of the 42 listed companies ended the month higher, while 23 saw their value fall and one remained unchanged.

A recent survey of 90 institutional investors across 12 MENA countries found that investor sentiment towards Qatar was particularly positive. The survey highlighted rapid shifts in market and asset allocation (which up to now have favoured bonds and private equity investments) towards a growing cross section of investible product, including mutual funds, hedge funds, exchange traded funds (ETFs) and money market instruments.

## Regulatory environment

**Key regulators: Qatar Central Bank (founded 1993); Qatar Financial Markets Authority (founded 2005); Qatar Financial Centre Regulatory Authority (2005). In 2012 plans were approved to make the Qatar Central Bank the single regulatory authority, responsible for all banks, financial services and insurance firms.**

In December 2012, the Law of the Qatar Central Bank and the Regulation of Financial Institutions was enacted. The new law is seen as an important step in advancing the framework for financial regulation in the State of Qatar, promoting financial stability and expanding the ambit of regulation to cover areas requiring new and enhanced financial regulation within the state.

It also lays the foundation for increased co-operation between the regulatory bodies in Qatar as they develop and apply regulatory policy and implement international standards and best practices to deliver the objectives of the Qatar National Vision 2030 and Qatar National Development Strategy 2011-2016. In addition to its existing responsibilities for the supervision of banking and financial services institutions, Qatar Central Bank (QCB) acquires responsibility for the licensing and supervision of insurance companies, reinsurance companies and insurance intermediaries that were previously licensed by the Ministry of Business and Trade.

The law introduces important new provisions dealing with consumer protection, client confidentiality, protection of credit information, regulation of Islamic financial institutions, merger and acquisition of financial institutions and settlement of disputes. It makes clear that the conduct of financial services in the state requires that a licence be obtained from the competent authority and provides sanctions for persons who conduct such activities without the required licence.

The law mandates QCB to act as the supreme authority in framing the policies for the regulation and supervision of all financial services and markets in the state. The Financial Stability Committee is the mechanism established under the law to help deliver this objective by providing recommendations to the board of directors of QCB.

The Financial Stability Committee provides a formal structure for co-ordination among the regulatory bodies and is charged with the following functions:

- Identifying and assessing risks to the financial sector and markets, and recommending solutions to manage and mitigate such risks
- Co-ordinating the work of the financial regulatory authorities in the state with a view to enhancing co-operation and information exchange in order to establish a consistent and co-operative regulatory and supervisory environment
- Proposing policies related to regulation, control and supervision of financial services businesses and markets overseen

Minimum capital requirements by the Qatar Financial Centre Regulation Authority, the independent regulator of the QFC, for fund managers range from $250,000 (for operating a collective investment fund if restricted to providing fund administration) to $2Mn for dealing in investments as principal. The QFC Regulatory Authority uses a principle-based regulatory regime that embraces transparency, predictability and accountability.

## Equity and fixed income funds

Qatar is home to a nascent but fast growing fund management industry of $156.6Mn spread across six managers and 11 fund vehicles. Virtually all of these assets are placed in equity vehicles, which together are responsible for 99% of AuM, all are currently managed by the country's five largest asset management firms – the largest of which is Al Rayan Investment with $58.2Mn in AuM.

The majority of Qatar's funds, registered under the state-owned Qatar National Bank are mainly retail-oriented. As well as the 11 active open-ended funds domiciled in the market, there are also a growing number of privately placed vehicles.

The country's buoyant economy currently also has 12 Qatar-focused funds – a mixture of domestic and international funds – with total assets of $138.4Mn. All of these vehicles are focused on the local equity market.

Chief among local equity funds in performance terms, The Qatar Gate fund, run by SHUAA Capital, has been able to ride recent market volatility over three years, becoming one of the region's best performing players, with a 55.7% (December 12) performance, but a small AuM of $4.0Mn.

One of a number of Qatar-focused strategies, the fund invests in domestic markets, as well as the stock of wider-MENA companies doing business in Qatar. Its run of positive performance is expected to see fresh mandates in the 1H of 2013.

Qatar's largest equity fund by AuM is HSBC's Al Rayan GCC Fund. One of the country's growing number of Shariah-compliant vehicles, the fund invests in a range of GCC equities. Its portfolio also consists of a small number of GCC-wide fixed income and money market instruments. Established in May 2010, the fund has one-year returns of 15.6% and a YTD (31 January 2013) of 4.7%. It charges a management fee of 1.25% and a 10% performance fee.

The equity funds that concentrate on the Qatari economy tend to have a bias towards banking and industrial stock, both market segments that are tipped to do well in 2013. Equity vehicles in the country have made a solid, if unspectacular, start to the year, keeping pace with the MSCI Investable Market Indices's 1.77% YTD (5 March). *Barometer* respondents tipped the Qatari exchange to shift into a higher gear in the 2H of 2013, citing an increase in direct foreign investment as a catalyst for growth.

Managers reporting to the *Barometer* cautioned that despite the market's promise and the significant growth expected in the wider economy, the exchange's liquidity is largely concentrated in a handful of traded equities, with the majority of stocks still held as core investments, or strategic holdings, by large institutions.

Foreign investment in the Qatari stock exchange is still showing positive signs. A pick up in local and foreign direct investment will improve stock market performance and liquidity, while the country's equity-based mutual funds are also enjoying a period of inflows, with investors eager to partake in the development of Qatar. However, given the robust growth of the wider economy – which has been growing in nominal terms by 20% per annum over five years – some *Barometer* respondents were doubtful if the equity fund management sector could hope to keep pace with this or benefit from substantial inflows.

A number said that this could be countered by a greater diversity of product, including the emergence of more fixed income funds managed from Qatar. Given the relative maturity of Qatari debt markets, now the second largest after the UAE in the GCC, there will be a number of opportunities for new fund launches in the space later this year.

Currently Qatar has one fixed income vehicle, QNB's Debt Fund. The vehicle, which launched in

December 2012, will invest its assets in fixed income instruments issued by governments, central banks and private companies located in Qatar and the GCC. It is targeting an initial AuM of $20Mn.

### Key fund manager

**Qatar National Bank (QNB)**
Ajay Kumar heads up the asset management arm of Qatar's largest bank, QNB. The firm manages the twin Al Watani funds.

## Alternative funds

The alternative asset management sector in Qatar – like the rest of the country's fund management universe – remains at a relatively early stage of development. However, according to *Barometer* respondents it stands to benefit from three distinct conditions over the course of 2013:

- Increased infrastructure spending;
- The financial support of government agencies;
- Financial regulation that is working to encourage strategy diversity among the country's pool of asset management firms

These conditions are serving to drive strategy innovation and manager diversity. Managers who responded to the *Barometer* said that Qatar was the most likely MENA jurisdiction to introduce meaningful short-selling regulation, capable of aiding the creation of a domestic hedge fund sector. Although there was some confusion about how advanced and concrete these plans were, hedge fund management firms that responded to the *Barometer* all picked Qatar as their favoured location to establish a presence in the GCC.

Private equity players are particularly drawn to the Qatar Financial Centre (QFC). Last year Qatar signed a deal to co-invest $250Mn with Barclays' natural resources private equity investment unit (BNRI). The investments in BNRI portfolio companies will be done through the Qatar Asset Management Company, a joint venture between the Qatar Investment Authority (QIA) and the Qatar Financial Centre Authority (QFCA). BNRI will open a regional headquarters in the QFC and will relocate key investment professionals to Doha to manage BNRI's global portfolio. In another joint venture, Qatar Holding, part of the QIA, formed emerging markets manager Aventicum Capital Management with Credit Suisse in November 2012. The firm's investment professionals and portfolio managers will relocate to Doha to manage investments.

A number of private equity and infrastructure funds are keen to engage with the country's infrastructure boom via direct investment or by taking stakes in companies associated with the projects' supply chains. The evidence for this interest is palpable: Qatar is ranked first in MENA and the second globally in terms of opportunities for infrastructure investments, according to a report published by global built asset consultancy, EC Harris. The country, which pegs its riyal to the US dollar, has outlined public investment plans worth $95Bn over five years to 2016, as it prepares to host the 2022 World Cup.

While infrastructure projects will feed new alternative fund structures and boost public-private partnerships, Qatar also has a long-term interest in developing as a centre for Islamic finance. Currently almost 50% of the funds located in the country are Shariah-compliant vehicles, marking it out – along with Saudi Arabia – as one of the region's most important fund centres for Islamic finance.

Chief among the country's Islamic product is Global Investment House's Al-Beit Al-Mali Shariah Compliant Fund. With $17.1Mn in AuM, the fund's assets are invested in Shariah-compliant Qatari equities – it will also invest in unlisted equities. The vehicle has had stellar – 42.3% – returns over three years and is currently up 3.9% YTD, as of 30 January 2013.

The position of Islamic finance in Qatar, according to *Barometer* respondents, bodes well for its future, as demand for Shariah-compliant products grows – particularly from MENA's internal markets and new centres of demand in south-east Asia, Australia and among a tranche of UK and European pension funds.

And, unlike the domestic Islamic finance industry in Saudi Arabia, Qatar's products are designed for 'export' rather than domestic consumption. As the Islamic finance market continues to emerge, this according to the *Barometer*, will turn Qatar into a centre of Shariah-compliant expertise, as well as a key international distribution hub for Shariah-compliant products.

## Investor overview

### Key investors

- Lacking a well-developed private and employer-managed pensions industry, Qatar's total retirement pot sits at approximately $1.6Bn and is managed by the country's state pension provider – the General Retirement and Pension Authority.
- Qatar's high-net-worth community is MENA's fifth largest centre of private wealth, with approximately 300 ultra-high-net-worth individuals (UHNWI) holding $45Bn in assets. Qatar has 12 billionaires, responsible for $17Bn in assets.
- Qatar's mutual fund management sector is responsible for assets of $156Mn. As much as 27% of its total AuM is invested across the wider-GCC and MENA.
- Direct foreign investment has dropped in 2011, with –$86.6Mn in net outflows. 2013 is expected to see a reverse of this trend.
- Qatar's sovereign wealth fund, The Qatar Investment Authority, is responsible for assets over $115Bn.

**SWF brief: The Qatar Investment Authority (QIA)**

The QIA was founded in 2005 by the government of Qatar to manage the country's oil and natural gas surpluses. It is estimated to hold in excess of $115Bn of assets and has a strategy of minimising risk from Qatar's reliance on energy prices. It predominantly invests in international markets and within Qatar outside the energy sector. The QIA has a diverse portfolio - with a significant investment in real estate, via its $42Bn property investment and development company, Qatari Diar, as well as a series of large stakes in financial services firms. Its portfolio also extends to investments in hedge funds and a number of opportunistic and special situations holdings. Qatar Holdings is the QIA's prime vehicle for strategic investment , with a portfolio that includes investments in international concerns, including retail, financial services and technology. The chief executive and chairman of the QIA is H.E. Sheikh Hamad bin Jassim bin Jaber Al-Thani.

**Investor brief: General Retirement and Social Insurance Authority**

With $1.6Bn in AuM, Qatar's state pension fund is becoming an increasingly powerful and active investor. Under the guidance of its investment director, Aisha Mohammed Saad Al Nuaimi, the fund is moving from a position of holding the majority of its assets in cash, to engaging with local markets. Last year it completed a $440Mn property deal, this year *Barometer* respondents have predicted a series of allocations to the country's domestic mutual fund managers.

Qatar's plans to host the World Cup remain a significant opportunity in attracting foreign investment – leading to considerable economic expansion and greater international involvement with stock market performance. However, currently nearly 87% of the market capitalisation is domestic demand driven, a remarkably high ratio of local investor bias, particularly given the openness and attractiveness of the Qatari market.

As more foreign investors engage with Qatar, this provincial profile will change over time. In fact as increased numbers of foreign investors and wider-MENA mutual funds engage with the Qatari markets, *Barometer* respondents expected to see an unbundling of state assets into the market as well as an increased wave of initial public offerings (IPOs) from family held businesses; a trend that would inject much-needed liquidity and diversity into the equities space.

Expat workers coming into Qatar will also increase the investor and product base. *Barometer* respondents predicted that the increased visibility of Qatar will have a major impact on the way that funds are sold in the region. With expat workers flowing into Qatar it is expected to follow a trend set by the UAE and witness the growth of a nascent financial advisory industry.

A significant segment of the domestic HNWI community was also cited as a key investor base. Although fund managers who responded to the *Barometer* cited the challenge of gaining traction with Qatari HNWIs, particularly with the majority currently investing into private businesses, rather than personal accounts.

Those family offices who are diversifying family businesses by investing into new asset classes, were more inclined to invest directly rather than bear the extra layer of fees for mediated fund management services. Mutual fund managers expected this to shift over time, but expressed concern that the wait for domestic HNWI money would be a long one.

Qatari government agencies were cited as a more encouraging area of investment. It remains unlikely that Qatari sovereign wealth money will change its global focus in favour of increased domestic investment.

## Distribution strategies and costs of business

The cost of doing business in Qatar was described as reasonable by *Barometer* respondents who cited the nation's capital requirements and authorisation fees as competitive, when compared to other jurisdictions in the GCC and MENA. In terms of value for money it came third overall according to the rankings of *Barometer* participants. Its funds infrastructure was also highly regarded, coming out top among its GCC peers in the *Barometer* research. The helpfulness and level of engagement of the state regulator was also highly regarded, being ranked – by *Barometer* respondents – in equal first position with Bahrain's regulatory authorities.

As an international fund management hub Qatar is gaining a reputation for efficiency and sophistication. In fact, along with the UAE's DIFC, a number of managers cited it as a viable alternative to some European centres – including Switzerland – which are currently challenged by regulatory uncertainty. In fact, more than one respondent said that it – together with the DIFC – could become the regional base for new and existing hedge funds trading in the region or simply distributing to investors across MENA.

In terms of the type of managers and strategies setting up operations, Qatar received the most diverse votes of confidence spanning asset classes and strategy types.

Emerging market hedge fund Insparo is planning to set up an office in the country to improve research capability and help with asset raising and distribution, while EFG Hermes is currently establishing a joint venture with a regional bank in Qatar.

A number of bank-owned fund management units also saw it as the most viable hub in which to set up a new presence. While the majority of these new offices were initially marketing and research hubs, *Barometer* respondents said that over time a Qatar-base would become a fully functioning portfolio management centre, capable of manufacturing new product focused on the immediate region or elsewhere. ■

### Key developments: opportunities and challenges

- Qatar's likely infrastructure boom ahead of the World Cup will drive investment
- After a difficult 2012 characterised by the withdrawal of some foreign capital, asset managers are expecting Qatar to perform well in 2013 – it is already showing signs of inflows
- Valuations are at a significant discount to the rest of MENA, which could attract investor activity, particularly with more infrastructure projects
- MSCI upgrade decision is due in June. Most *Barometer* respondents believed that Qatar would remain as a frontier market, until it reforms foreign ownership limits

# Qatar

Total AuM $156.6Mn Total Number of funds 11 Total number of managers 6

Source: Zawya

## Funds domiciled in Qatar (including Qatar focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Qatar AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Al Rayan Investment LLC | Al Rayan GCC Fund (F) | ✔ | 12.0 | 58.2 | 12.4 | - | Dec-12 |
| Al Rayan Investment LLC | Al Rayan GCC Fund (Q) | ✔ | 46.2 | 58.2 | 12.0 | - | Dec-12 |
| EFG-Hermes Holding | Al Waseela Fund (F Class) | | 15.0 | 36.0 | 1.5 | 24.9 | Dec-12 |
| EFG-Hermes Holding | Al Waseela Fund (Q Class) | | 21.1 | 36.0 | 0.7 | 24.7 | Dec-12 |
| Global Investment House | Al-Beit Al-Mali Shariah Compliant Fund | ✔ | 17.1 | 17.1 | -0.2 | 30.8 | Dec-12 |
| QNB Banque Privee (Suisse) | Al Watani Fund | | 22.3 | 36.5 | -0.9 | 26.8 | Dec-12 |
| QNB Banque Privee (Suisse) | Al Watani Fund 2 | | 14.2 | 36.5 | -0.9 | 26.8 | Dec-12 |
| QNB Banque Privée (Suisse) | QNB Debt Fund | | - | 36.5 | - | - | - |
| SHUAA Capital | Qatar Gate Fund (N) | | 4.0 | 8.6 | 5.0 | 55.7 | Dec-12 |
| SHUAA Capital | Qatar Gate Fund (Q) | | 4.6 | 8.6 | 4.9 | 53.0 | Dec-12 |
| The First Investor | The First Investor GCC Equity Opportunities Fund (Q) | ✔ | - | - | - | - | - |

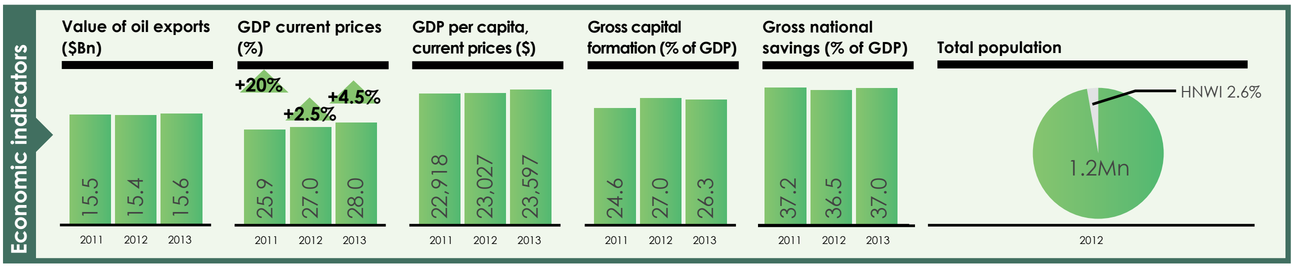
## Funds focused on Qatar (managed from MENA ex. Qatar)

Source: Zawya

Total AuM $20.5Mn Total Number of funds 4

| Fund manager | Fund Name | Domicile | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Bakheet Investment Group | Bakheet Qatari Trading Equity Fund | Saudi Arabia | ✔ | 2.1 | 6.7 | - | Feb-13 |
| KSB Capital Group | KSB Qatar Equity Fund | Saudi Arabia | ✔ | 0.5 | -2.3 | - | Feb-13 |
| Mashreqbank | Makaseb Qatar Equity Fund | Bahrain | | 9 | 5.4 | 33.3 | Feb-13 |
| Watani Investment Company | NBK Qatar Equity Fund | Bahrain | | 26.1 | 1.6 | 40.5 | Feb-13 |

# BAHRAIN

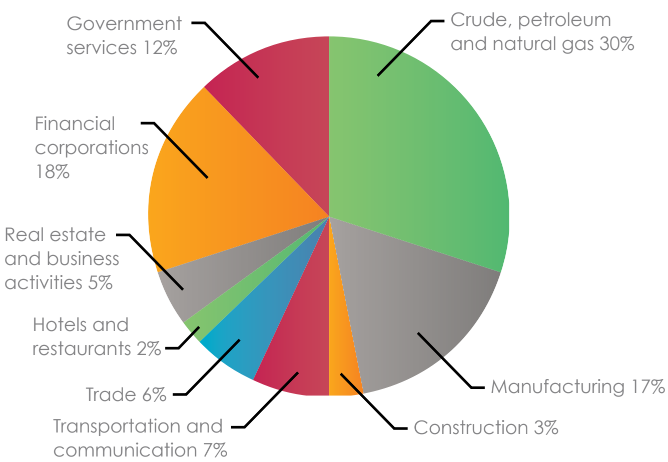



## Background

Bahrain has been ruled since 1999 by H.H. King Hamad. In 2002 the government issued a unilateral new constitution and declared Bahrain a Kingdom.

Bahrain has a National Assembly constituting a Shura Council and the Council of Representatvies. The Shura is appointed by H.H. the King, while the Council of Representatives is elected by a majority vote in single member constituencies.

**Bahrain GDP breakdown (2011)**




Source: Central Bank of Bahrain

Bahrain's oil and aluminium sectors remain robust, with the former contributing over 85% of fiscal and external receipts. The private sector has continued to build up assets overseas, with the overall net international investment position increasing to $19.6Bn in Q3 2011 (from $17Bn at end 2010).

The asset management industry in Bahrain emerged in the 1970s and has grown steadily to the point where asset managers distribute more funds than from anywhere else in MENA. As of 2012, there are 40 local funds managing assets worth $1.3Bn and over 2,000 international funds with assets under management of close to $10Bn.

Funds focused on external investment accounted for 98% of total AuM for Bahrain-domiciled investment funds.

The Central Bank of Bahrain (CBB) was created in September 2006 and is responsible for maintaining monetary and financial stability in the Kingdom of Bahrain. It is also the single integrated regulator of Bahrain's financial industry.

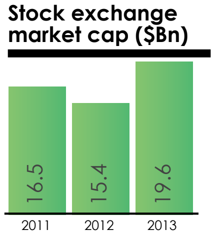
## Bahrain's economic development plan

'The Bahrain Economic Vision 2030' is a comprehensive financial strategy for Bahrain that provides a clear direction for the continued development of its economy. Developed over the course of four years in consultation with over 1,000 Bahrainis from the public sector, private sector, academia and civil society, Vision 2030 will be underpinned by a national economic strategy detailing strategic initiatives across a range of sectors which together will deliver the long term aspirations outlined within the Vision.

Vision 2030 identifies three key challenges and opportunities and describes how Bahrain will respond to each. The three challenges are:

- Transforming the Bahraini economy by focusing on developing the quality and number of jobs for Bahrainis and improving skills for job seekers
- Competing in an increasingly global market place by encouraging innovation and developing new and growth sectors in the economy
- Exploiting unprecedented growth opportunities as the GCC continues to develop

## Financial markets




While Bahrain has achieved a higher degree of economic diversification than most of its hydrocarbon-dependent neighbours – hydrocarbon export revenues as a proportion of its total exports is only just over one third – it has struggled to keep pace in other areas.

Figures from the IMF indicate that in 2011 (the most recent full year for which data is available), oil production rose by over 10% across the GCC economies and non-hydrocarbon growth increased in all countries except Bahrain, where social unrest was a negative factor.

Bahrain's debt-to-GDP ratio was 36%, the highest outside Qatar (where rising debt is part of a strategy to develop a sovereign yield curve to support debt market development) and it is projected to experience a current account deficit by 2017.

Bahrain Bourse was established in 2010 to replace the Bahrain Stock Exchange (BSE) formed in 1987. The exchange has grown in the number of listed securities with 49 equities, 11 bonds (both conventional and Islamic) and 31 mutual funds currently listed. As of December 2012, market capitalisation stood at $15.4Bn.

Trading is carried out through 12 securities brokers active in the market and day-to-day trading takes place through an automated trading system. There is also an automated clearing, settlement and central depository system.

Capital market developments continue to be encouraging. The Bahrain Financial Exchange (BFX), the first multi-asset exchange in the MENA region, continues to experience growth in its membership and customer base together with higher liquidity and lower trading costs due to narrow bid-ask spread.

The launch of the BFX Futures on the US dollar versus the Indian Rupee (USD-INR) currency pair as an index was indicative of the innovative capabilities of the exchange and won the 'Most Innovative Forex Product' award at the 2012 Jordan Forex Expo & Awards. The next highest traded contract was BFX Gold Futures, followed by BFX EUR-USD Futures and BFX Natural Gas Futures.

Many foreign financial institutions have set up or are setting up operations in Bahrain to take BFX membership, while others have taken remote membership and are trading from foreign jurisdictions. BTX generated turnover of $27.3Bn on more than one million contracts during its first full year of trading to November 2012. Growth has been even more pronounced in the early months of 2013, with total cumulative trading turnover exceeding $50Bn.

The compound monthly growth rate of the BFX trading volume for the period December 2011-January 2013 was 69%, driven by the rapid expansion of the derivatives segment due to the increase in membership and overall market participation.

## Regulatory environment

**Key regulator: Central Bank of Bahrain (September 2006)**

The mutual funds industry is one of the fastest growing segments of the financial sector in Bahrain. In an address to the World Islamic Funds and Capital Markets conference in May 2012, Abdul Rahman Al Baker, executive director of financial institutions supervision at the Central Bank of Bahrain (CBB), said there was around $9Bn in assets under management across more than 2,700 funds and that the industry had been growing at an annual average of 15%

As of March 2012 there were 100 Islamic funds incorporated and registered in Bahrain with total assets of $1.7Bn. The regulatory framework for collective investment undertakings or CIUs has provided for a wide range of investment funds catering to various categories of investors from retail to high-net-worth individuals and institutional investors. In order to further enhance the existing framework, the CBB released a new edition of its rulebook, which provides rules and regulations pertaining to the authorisation and supervision of CIUs domiciled or offered for sale in Bahrain.

The new regulation recognised the importance of expanding key areas such as corporate governance, as well as the role and responsibilities of each relevant party in a scheme. It expanded the variety of funds that can be established in Bahrain, by introducing rules governing real estate investment trusts (REITs) and private investment undertakings (PIUs).

The CIU rules provide a foundation for the establishment and management of funds that comply with Shariah principles. Rahman Al Baker acknowledged there were several factors that needed to be taken into account to further the growth of the Islamic investment industry and create deep and vibrant Islamic capital markets.

These include building a system that would be able to facilitate effective and efficient capital and trading flows, which requires further development of an Islamic financial system which has a range of institutions (including banking, takaful, capital market, fund and wealth management entities), a conducive legal and Shariah framework and a comprehensive range of Islamic financial products and services.

He also referred to the importance of adopting proper corporate governance in the Islamic investment industry, creating straightforward regulation for Islamic investment products and having a pool of finance professionals well versed in both the capital market and Shariah knowledge.

Minimum capital requirements for fund managers ranges from BHD125,000 ($332,000) to BHD1Mn ($2.7Mn).

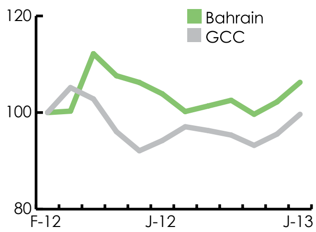
## Equity and fixed income funds

Bahrain is home to a fund management universe of $1.3Bn spread across 19 managers and 40 fund vehicles. Almost half of these assets are placed in equity vehicles (49.8%), with the majority of the remainder (43.2%) in fixed income and an emerging sukuk market. The average size of a fund managed from Bahrain is $33.0Mn, while 94% of the country's total AuM is spread across its 10 largest asset management entities.

### MSCI View

The Bahrain equity market is the smallest (in terms of free-float adjusted market capitalisation) and least liquid market within the Gulf Cooperation Council (GCC) region. Over the three years to January 30, 2013, the Bahrain equity market posted negative returns of nearly -50% and its liquidity significantly deteriorated with a market average traded value ratio of less than 2%. It is strongly dominated by three sectors: Financials (34%), Telecommunication Services (32%) and Materials (13%). The MSCI Bahrain Index is currently classified by MSCI as a Frontier Market. Considering the narrow investment opportunity set of the Bahrain equity market (resulting from the limited number of investable companies/securities in terms of size and liquidity), MSCI is currently not considering making any proposal for reclassifying the MSCI Bahrain Index to Emerging Market status.

**MSCI IMI: Bahrain vs GCC**




**Total fund AuM (by domicile)**

**$1.3Bn**

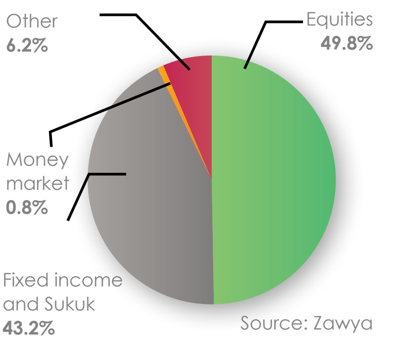
**Average fund size**

**$33.0Mn**

**Number of funds**

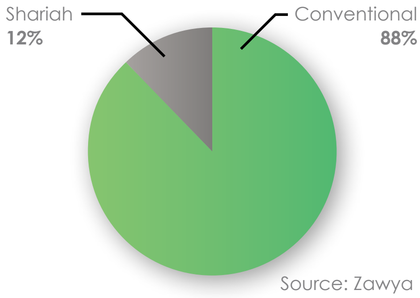
**40**

**Funds by asset class (%)**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

Currently there is only one fund solely concentrating on the Bahrain market – the SICO Selected Securities fund, managed by the local Securities & Investment Company. With an AuM of $7Mn the fund's assets are invested in equities listed, or expected to be listed, on the Bahrain Bourse. Launched in May 1998 it has returned 6% YTD (28 February 2013) but is flat (0.0%) over three years.

With four decades of experience in the funds industry, Bahrain is the elder statesman of the MENA funds space. Famous for its regulation and foreign investor-friendly approach, the country does more than most to encourage foreign investment into its growing financial industry. Recent political uncertainty has created widespread unease in investor circles – leaving some local managers nervous about outflows and the future performance of the country's equity markets.

This uncertainty, despite solid performance figures of 8.30% YTD (5 March), may contribute to a slowing of investment in the Kingdom, which given the longevity of its financial services centre still falls short of the pre-crisis levels reached by the likes of the UAE and Qatar.

However, *Barometer* respondents remained sanguine about recent protests, saying that for the most part they remained confident in Bahrain's fundamentals and a potentially positive year for its equity markets. Equity managers cited the best investment opportunities as being companies in the consumer and banking segments. Although a number of larger managers cited market access problems, despite the opportunities, due to liquidity issues.

Over three years the most successful Bahrain based fund is focused on Qatar. NBK Capital's Qatar Equity Fund has a YTD of 5.5% (28 February 2013) and is primarily invested in the Qatari stock exchange. Over 12 months, the Makaseb Emirates Equity fund is the performance leader and has benefited from the recently robust performances of its target UAE stock markets. Returning 19.96% (12 December) last year, the fund is maintaining its upward trajectory with a YTD of 11.35% (13 February) and reports of fresh investor inflows.

However, its $3.38Mn AuM remains small compared to the average size of compatriot funds ($32.99Mn), while it accounts for only 10% of its parent's – Mashreqbank – total assets. Over three years (12 December) it is soundly beaten into 10th place in Bahrain's equity funds performance stakes by two of its stable mates, the Makaseb Arab Tigers Fund (up 34.46%) and the Makaseb Qatar Equity fund (up 33.33%), as well as NBK's Qatar fund.

Bahrain's largest equity fund is HSBC's Global GCC Large Cap Fund, managing close to $130Mn. The fund, which was established in February 2005, invests in the equities of companies listed on GCC stock exchanges.

Changes over the last 24 months such as the restructuring of the country's stock exchange and the development of the Kingdom's robust regulatory system are part of a drive to diversify Bahrain's economy away from oil and towards the financial sector, in line with the Economic Development Board's Economic Vision 2030.

This has enabled the mutual fund industry to steadily expand over the past few years, with one local fund manager still describing the Kingdom as "the funds centre of the MENA region".

"Asset managers focusing on MENA markets have a long-term positive outlook on the regional market and its institutions," says Royal Capital's head of GCC business development, Meshal Al Faras. "Our due diligence led us to conclude that Bahrain offers a robust regulatory environment for fund domiciliation with quality service providers."

The attractiveness of Bahrain as a fund domicile has enabled it to build up a solid base of institutional asset managers. A handful of MENA's largest fixed income products, including the $340Mn Blom Bond Fund, are based in the country.

The Blom Bond Fund, managed by Blominvest Bank, is up over 12% for the last three years, with a current YTD of 1%. It invests in USD denominated fixed income instruments such as Lebanese Government Eurobonds, Central Bank Certificates of Deposit and fixed income securities issued by Lebanese alpha banks.

### Bahrain's key fund managers

**Securities and Investment Company (SICO)**
Despite a declining local market, Bahrain-based SICO has managed to maintain benchmark-beating performance across its funds. SICO CEO, Anthony Mallis is a respected member of the region's funds industry, with more than 34 years' experience in the banking world, and 12 years at SICO.

**BlomInvest**
Lebanon's leading player, BlomInvest is a champion of the local market, with a series of locally facing funds. Michel Chikhani, head of asset management, spearheaded a move into Saudi Arabia in 2010, with the Blom Saudi Arabia Fund following in July 2011. The firm has another eight funds in its stable, investing into Lebanon, Jordan and Egypt.

## Alternatives

One of the trademarks of Bahrain's fund industry has been its emphasis on Islamic product, an area that has enabled it to broaden its local business, but also increasingly appeal to international investors and developers of fund product.

In late 2010, the CBB authorised the formation and marketing of the Hyperion Australian Equity Islamic Fund, the first Shariah-compliant offshore fund comprised of Australian stocks.

A number of Bahrain-based institutions continue to develop their expertise in this space, including Kuwaiti managers Global Investment House and the National Investments Company. The Al Mada Investment Fund is a $43.7Mn Shariah-compliant equities fund managed by the National Investments Company. Investing in a basket of Shariah-compliant equities across the GCC, it has returned over 18% across three years and is up 5.2% YTD (31 January 2013).

Shariah-compliant investment opportunities, diversified product offerings and nimble regulation have long been trademarks of Bahrain's fund industry. As the Kingdom regains ground following the global economic downturn, Bahrain's Economic Development Board is keen to stress the potential for Shariah innovation that still exists in the country's relatively developed fund space and domestic markets.

## Investor overview

### Key investors

- Bahrain's $9.3Bn public pension system – the Social Insurance Organisation is more involved with local markets than the majority of its MENA peers. Although still holding the majority of its reserves in cash, it has a 25% exposure to equities and a 10% exposure to fixed income. A number of fund managers who responded to the *Barometer* also reported an increase in interest in regional mutual funds
- Bahrain's mutual fund management sector is responsible for assets of $1.3Bn
- Direct foreign investment continues to increase with net inflows of $781Mn in 2011
- Bahrain's sovereign wealth fund – the Mumtalakat Holding company – has $9Bn under management. It is currently recalibrating its investment strategy to focus on local opportunities, including domestic mutual fund managers. Today, Mumtalakat holds minority and majority stakes in over 35 commercial enterprises. Its portfolio of companies spans a variety of sectors, including aluminium production, financial services, telecommunications, real estate, tourism, transportation and food production

The increase in private and institutional wealth within the region has led to a need for increased sophistication and greater diversity of investment vehicles. Bahrain is currently home to one of the widest range of funds – in terms of strategy – in the GCC, but as demand increases there will be a need for further diversification to cater to an increasingly wealthy population.

New players will be needed to satisfy the high growth in demand for wealth management services, while domestic investors – frequently HNWI – who have grown up with Bahrain as a leading financial service centre, have become more sophisticated in their product requirements.

Increased domestic investment from the state sovereign wealth fund and pension fund, will also have a positive impact on Bahrain's economy – injecting more liquidity into the system, driving more diversity in the stock market and encouraging more external investment as renewed rates of internal investment push up prices. According to *Barometer* respondents Bahrain's leading asset management firms are expected to respond with more product for local retail investors, but also for larger institutional investors.

The depressed economic landscape of the past few years has also increased interest in one sector in particular: Islamic-compliant vehicles. Investors are increasingly looking towards ethical and Shariah-compliant funds, with Bahrain one of the Gulf's preferred destinations for Islamic product. Moves towards greater standardisation in the Islamic finance industry will help to aid development in the sector, as will investments being made by the CBB to increase the number of trained Islamic finance professionals.

Another unique selling point is the country's proximity to Saudi Arabia and the potentially lucrative, but largely closed, funds industry therein. Given this geographical and political closeness, a number of international investors are looking to co-invest with local asset managers on joint projects that will gain access to the Saudi market.

## Fund distribution strategies and cost of business

Although a number of large banks control Bahrain's means of fund distribution, until recently, the CBB's attitude towards discreet marketing by foreign managers had been fairly relaxed. However, this has now become more restrictive and on 3 April 2011 the CBB proposed a new regulation with respect of financial products offered in Bahrain. If adopted, it will become a criminal offence to market a fund without a license.

Those considering a Bahrain-domiciled fund favourably cited the layers of regulatory detail associated with establishing and distributing from the region. CBB regulators were regarded by *Barometer* as "some of the best in the region" a characteristic that was seen as ultimately better serving the end investor and helping to promote the credibility of the regional asset management industry.

This comprehensive process is generally seen as reassuring in the post-crisis climate of increased transparency and due diligence, but in the rapidly changing funds space, there is always room for improvement. Asset managers contemplating Bahrain expressed a desire to see its regulatory framework evolving towards more sophisticated investment products, such as alternative or leveraged products – something the CBB is currently considering.

Cost of operation was described as competitive and according to *Barometer* responses, Bahrain was the region's fifth most cost effective country to establish a management firm from. Distribution is dominated by a handful of local banks and their asset management offshoots, with firms like Gulf Investment Corporation and SICO being some of the main players. ■

### Key developments: opportunities and challenges

- Bahrain's 2013 budget indicated a cutback in spending – however this will be difficult to implement and the country is expected to register a fiscal deficit in 2013
- Central Bank of Bahrain is seen as a sound regulator – Barometer respondents said it frequently sets an example to other regulators across the GCC and wider-MENA region and has a clear regulatory framework for direct investment strategies
- Current political instability is having a negative impact on investor confidence
- However, a series of planned infrastructure developments will provide investment opportunities across 2013
- A growing expertise in Islamic finance – well placed to cater for increased demand in Islamic financial products

# Bahrain

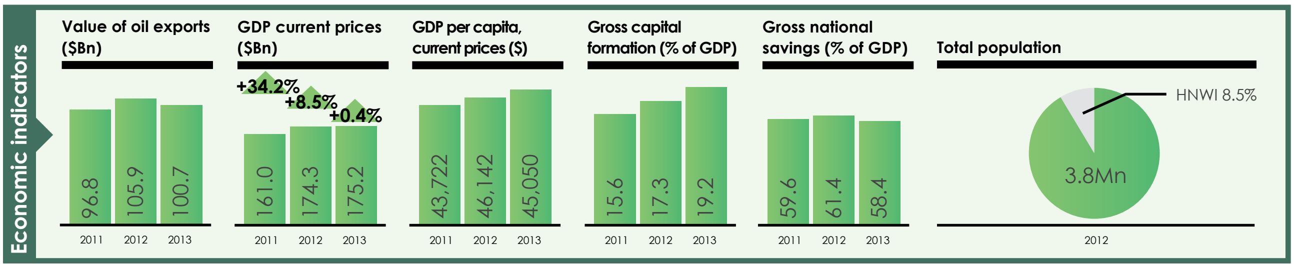
Total AuM $1.3Bn Total Number of funds 40 Total number of managers 19

Source: Zawya

## Funds domiciled in Bahrain (including Bahrain focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Bahrain AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Al Arabi Investment Group | Arab Bank MENA Fund | | 32.2 | 38.8 | 10.2 | 8.2 | Dec-12 |
| Al Arabi Investment Group | IIAB Islamic MENA Fund | ✔ | 6.6 | 38.8 | 5.6 | 5.8 | Dec-12 |
| Al Madar Finance and Investment Company | AlMadar US Index Fund | ✔ | 15.8 | 15.8 | 12.3 | 38.4 | Jan-13 |
| Al Mal Capital | Al Mal MENA Equity Fund | | 4.3 | 4.3 | 8.7 | 18.5 | Jan-13 |
| Bank Muscat | Bank Muscat MSCI Kuwait Fund | | 0.6 | 0.6 | -10.0 | -12.4 | Jan-13 |
| Blominvest Bank | Blom Bond Fund | | 334.3 | 334.3 | 2.7 | 12.7 | Dec-12 |
| Franklin Templeton Investments (ME) Limited | Alpha MENA Fund | | 5.1 | 5.1 | 15.3 | 17.6 | Dec-12 |
| Global Investment House | Global Distressed Fund | | - | 182.3 | 3.1 | 7.4 | - |
| Global Investment House | Global Energy, Petrochemical, and Downstream Industries Fund | | 20.4 | 182.3 | 5.6 | 19.0 | Jan-13 |
| Global Investment House | Global GCC Islamic Fund | ✔ | 8.2 | 182.3 | 13.4 | 19.8 | Jan-13 |
| Global Investment House | Global GCC Large Cap Fund | | 129.2 | 182.3 | 13.0 | 30.3 | Jan-13 |
| Global Investment House | Global Islamic Fund of Funds | ✔ | 5.4 | 182.3 | - | -23.4 | Nov-09 |
| Global Investment House | Global US Dollar Money Market Fund | | 1.0 | 182.3 | -0.7 | -1.5 | Dec-12 |
| Global Investment House | The Zenith Fund | | 18.1 | 182.3 | -6.2 | - | May-12 |
| Gulf Investment Corporation | Gulf Bond Fund | | 168.5 | 281.2 | 7.2 | 20.6 | Jan-13 |
| Gulf Investment Corporation | Gulf Islamic Equity Fund | ✔ | 10.8 | 281.2 | 11.7 | 13.7 | Jan-13 |
| Gulf Investment Corporation | Gulf Premier Fund | | 101.9 | 281.2 | 10.4 | 22.4 | Jan-13 |
| Kuwait Finance and Investment Company | Al Basha'er GCC Equity Fund | ✔ | 61.2 | 61.2 | 8.9 | 2.8 | Jan-13 |
| Kuwait Financial Centre | Markaz Arabian Fund | | 34.0 | 34.0 | 10.0 | 16.7 | Jan-13 |
| Mashreqbank | Makaseb Arab Tigers Fund | | 21.7 | 76.8 | 18.2 | 34.5 | Nov-11 |
| Mashreqbank | Makaseb Emirates Equity Fund | | 3.4 | 76.8 | 20.5 | 14.5 | Jun-11 |
| Mashreqbank | Makaseb Emirates Opportunities Fund | | 2.0 | 76.8 | 19.9 | 6.4 | Jun-11 |
| Mashreqbank | Makaseb Income Fund | | 40.7 | 76.8 | 18.0 | 36.6 | Dec-12 |
| Mashreqbank | Makaseb Qatar Equity Fund | | 9.0 | 76.8 | 5.4 | 32.8 | Dec-11 |
| Naeem Financial Investments | MENA MAC Fund | | 4.9 | 8.9 | - | - | Jan-13 |
| Naeem Financial Investments | NAEEM MENA Growth Fund | | 4.0 | 8.9 | 5.7 | -19.1 | Jan-13 |
| National Investments Company | Al Mada Investment Fund | ✔ | 41.7 | 41.7 | 7.9 | 10.2 | Dec-12 |
| Royal Capital PJSC | Royal Capital MENA Fixed Income Plus Fund | | 16.4 | 31.5 | 5.3 | - | Mar-12 |
| Royal Capital PJSC | Royal Capital MENA Multi-Market Strategy Fund | | 15.0 | 31.5 | 2.8 | - | Mar-12 |
| Securities & Investment Company | SICO Arab Financial Fund | | 4.8 | 115.3 | 7.3 | 26.1 | Dec-12 |
| Securities & Investment Company | SICO Gulf Equity Fund | | 23.0 | 115.3 | 12.7 | 19.8 | Dec-12 |
| Securities & Investment Company | SICO Khaleej Equity Fund | | 65.1 | 115.3 | 11.2 | 22.2 | Dec-12 |
| Securities & Investment Company | SICO Kingdom Equity Fund | | 5.4 | 115.3 | 11.3 | - | Dec-12 |
| Securities & Investment Company | SICO Money Market Fund | | 10.3 | 115.3 | 1.1 | - | Dec-12 |
| Securities & Investment Company | SICO Selected Securities | | 6.7 | 115.3 | 6.2 | 2.4 | Dec-12 |
| Solidarity Group Holding BSC(c) | Solidarity Global Growth Fund | ✔ | 1.5 | 1.5 | 1.3 | 4.3 | Oct-12 |
| TAIB Bank | TAIB Saudi Fund | | 0.4 | 0.4 | -7.4 | -9.2 | Jan-13 |
| Tharawat Investment House B.S.C. | Tharawat Sukuk Fund | ✔ | 8.9 | 8.9 | 6.2 | - | Dec-12 |
| Watani Investment Company | NBK Gulf Equity Fund | | 51.1 | 77.2 | 5.7 | 14.2 | Jan-13 |
| Watani Investment Company | NBK Qatar Equity Fund | | 26.1 | 77.2 | 1.6 | 44.7 | Jan-13 |

# KUWAIT

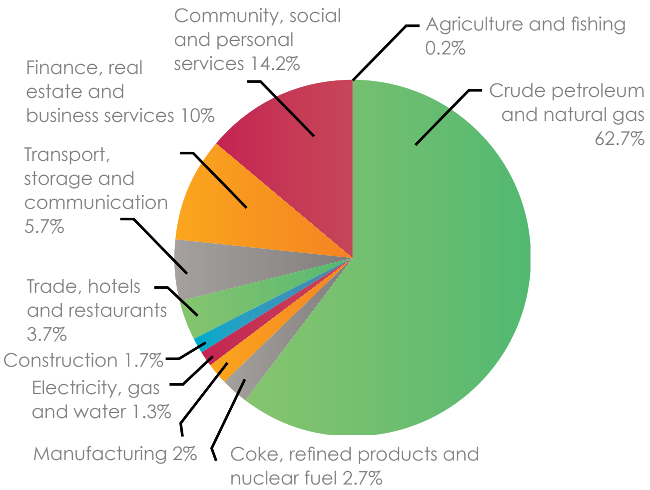



## Background

Kuwait, founded in 1961, is a constitutional emirate with a parliamentary system of government. Legislative power is controlled by the hereditary Emir, H.H. Sabah Al-Ahmad Al-Jaber Al-Sabah and the National Assembly, which is elected every four years.

Non-oil economic activity was expected to expand by 5.5% in 2012 and fiscal and external surpluses are projected to remain over 30% and 40% of GDP respectively. Inflation is expected to moderate slightly to 4.4%, due to a decline in global food inflation that is expected to offset a slight increase in non-food inflation reflecting the impact of public sector wage increases.

**Kuwait GDP breakdown (2011)**




Source: CMA

Kuwait has sizeable wealth held abroad – in addition to the Kuwait Investment Authority's (KIA) assets, cross-border private sector investments were estimated at over $51Bn in 2010 (equivalent to 41% of GDP).

The majority of investments are in the GCC (about 40% of portfolio investment), rendering Kuwait particularly vulnerable to financial market fluctuations in the region. The private sector's exposure to the rest of the MENA region is relatively small (7% of portfolio investment).

Investment companies have been under pressure since the beginning of the global financial crisis given their exposure to domestic, regional and international equity and real estate markets and their dependence on short term foreign lending. While there was some initial progress in restructuring during 2009–10, the sector hit renewed setbacks due to adverse market conditions in 2011 and the re-emergence of global liquidity strains.

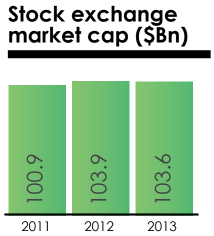
### Kuwait's economic development plan

'Kuwait Vision 2035' is a long-term government project aimed at diversifying the Kuwaiti economy and turning it into a major financial hub and trade centre by 2035. It aims to:

- Recover the pioneering regional role of Kuwait and transform it into a financial and trade centre, attractive to investors, where the private sector plays the lead role in economic activity creating competition and promoting efficiency; with supportive national governmental institutions providing adequate infrastructure, appropriate legislative framework and an inspiring business environment
- Provide a climate for balanced human development, safeguarding social values and national identity, preserving the community's values and its Arab and Islamic identity;
- Strengthen the democratic system, respect for the constitution, and promote justice, political participation and freedom

## Financial markets

In May 2012, the Kuwait Stock Exchange (KSE) implemented the first phase of the X-stream trading system developed by NASDAQ OMX.




Market changes implemented so far include the withdrawal of the 'board lot' rule eliminating the 'odd lot' market; calculation of closing prices in a closing auction, not just by the last traded price; use of price/time priority by auctions (previously priority was given to the earliest order); classification of companies into sectors by the International Classification Benchmark (ICB, a product of FTSE International which has been licensed for use by KSE); the introduction of the Kuwait 15 index (KSX15), which is designed to be investable in order to support a range of new products and services; and support for new order types.

The first phase of X-stream entailed major changes in the operations of brokers, most of whom previously relied on workstations supplied by KSE and who typically had little or no IT capability.

Brokers are now equipped with their own order management systems and many are building more sophisticated back offices.

The second phase of the new trading system enables KSE to introduce a wide range of new products and services, potentially including ETFs, futures and options in the international form, market-makers for appropriate products, fixed income instruments (including sukuks) and new indices.

In the meantime, the Kuwaiti Capital Markets Authority (CMA) continues to make progress towards the privatisation of the exchange and the establishment of the new company that will own the privatised entity.

Forwards were introduced in 1998, followed by futures and online trading in 2003 and options (2005).

The KSE's market capitalisation has consistently been one of the largest of Arab markets, with more than 200 companies totalling in excess of $100Bn in market value and a market capitalisation to GDP ratio of approximately 100%.

## Regulatory environment

**Key regulators: Kuwait Capital Markets Authority (2010);**
**Central Bank of Kuwait (1952)**

Kuwaiti investors were introduced to trading in stocks with the creation of the National Bank of Kuwait in 1952. Over the following decades, the government issued a number of laws and rules to regulate stock trading activities, culminating in 1983 with the establishment of the Kuwait Stock Exchange (KSE), which was mandated to organise and regulate trading activities.

These regulatory responsibilities were transferred to the Capital Markets Authority (CMA) in 2010.

Central Bank of Kuwait (CBK) has intensified its supervisory procedures, particularly those concerning risk management including following-up the conduct by banks using financial stress tests on a semi-annual basis, as well as emphasising the importance of internal evaluation of capital adequacy (ICAAP), with the beginning of the transition to oversight using the risk based supervision method.

A specialised team was formed to draw up a transition plan and to develop inspection reports, as well as to establish continuous follow-up mechanisms. In this context, a risk assessment system was applied in accordance with the CAMEL-BCOM method on local banks, where the quantitative part of the mentioned oversight technique was adopted and a work team was formed to implement this system.

CBK has taken measures for the application of Basel III supervisory standards, developing a package of regulations to strengthen the quality of capital and financial leverage and enhancing standards for liquidity ratios aimed at improving liquidity risk management and the degree of stability in the use of financial resources.

New regulations regarding corporate governance standards have been developed to substitute the corporate governance standards issued in May 2004, taking into account the recommendations of the World Bank Report of October 2010 regarding corporate governance assessment in Kuwaiti banks and the lessons learned from the global financial and economic crisis.

Supervision of investment companies was transferred from CBK to the Kuwaiti Capital Markets Authority as of September 2011 and the role of the CBK became limited to supervision of financing activities of these companies. The supervision of investment funds was also fully transferred to the Capital Markets Authority, with which CBK has a permanent joint working team.

New instructions were issued regarding financial leverage ratio, rapid liquidity and external borrowings, as well as specifying the required periodic data to follow-up the financing operations performed by investment companies and the format of submission.

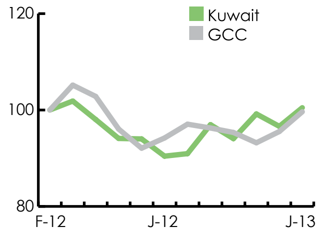
Minimum investment fund capital has been set at not less than KWD5m ($18Mn) or its equivalent in other currencies.

## Equity and fixed income funds

Kuwait is home to a fund management network of $4.2Bn spread across 24 managers and 49 fund vehicles. More than 70% of these assets are placed in equity vehicles, with the majority of the remainder in property, fixed income and money market funds. The average size of a Kuwait-based fund is $85.5Mn, while 93% of the country's total AuM is spread across its 10 largest asset management entities.

**MSCI View**

**MSCI IMI: Kuwait vs GCC**




The Kuwait equity market is the second largest market (in terms of free-float adjusted market capitalisation) within the Gulf Co-operation Council (GCC) region. Over the three years to January 30, 2013, the Kuwait equity market enjoyed a 7% return, however its liquidity strongly declined over the period from 200% to 100% market average traded value ratio. It is strongly dominated by three sectors: Financials (58%), Telecommunication Services (23%) and Industrials (14%). All other sectors together represent only 5% of the market, with the Consumer Discretionary, Energy, Information Technology and Utilities sectors completely absent.

The MSCI Kuwait Index is classified by MSCI as a Frontier Market. MSCI consulted in 2008/2009 with market participants on a proposal to reclassify the MSCI Kuwait Index to Emerging Market status. The feedback from international institutional investors was negative. The main reason for rejecting the proposal was related to investors' concerns relative to the market's accessibility. There have been few improvements in this area and MSCI has no plans to review the market classification of the MSCI Kuwait Index.

**Total fund AuM (by domicile)**

**$4.2Bn**

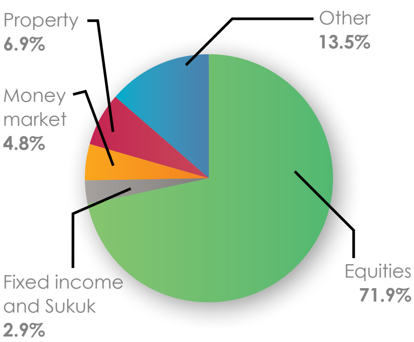
**Average fund size**

**$85.8Mn**

**Number of funds**

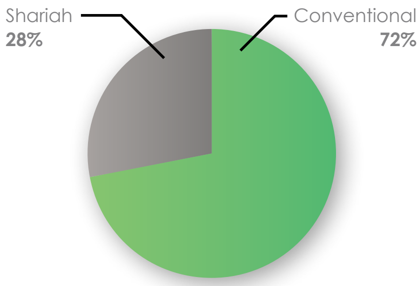
**49**

**Funds by asset class (%)**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

A number of domestic and international funds are currently concentrating on the investment opportunities presented by Kuwaiti markets. There are 43 of these funds, with a total of $4.0Bn in AuM. The majority of these vehicles are in the equity space with $2.9Bn under management, with fixed income and money market funds accounting for $308Mn.

While the media have likened Kuwait's still-disputed December 2012 election and the connected disturbances as a worrying echo of the Arab Spring, many in the investment community see things differently – the election could be the springboard that allows the government to push its plans through, spur the economy into growth and inject new life into an equities market that has been through a season of volatility and disappointing returns.

Despite the volatility, some Kuwaiti managers have managed to buck the downward trend. The Tharwa Investment Fund, operated by the Tharwa Investment Company, has posted three year returns of over 35% with a strategy pinned on investing in Kuwaiti stocks. The fund, which is up over 10% YTD (28 February 2013) also invests in short to medium term money market securities.

The country's largest equity fund by AuM is the Kuwait Investment Company's Al-Raed Fund. With returns over three years of 7.2% the fund invests in mixture of Kuwaiti equities and the equity strategies of other mutual funds. It is currently up 1.6%YTD – one of a number of Kuwaiti equity funds experiencing a positive start to the year.

As performance picks up, Husayn Shahrur, head of Mena Equities at Kuwait-based NBK Capital, believes that many fund managers are reassessing their stance on the country. "Most managers, regional or international, have been very negative on Kuwait equities over the last few years," Shahrur told the *Barometer*. "However, I believe they need to rethink their position, at least in the short term. We are seeing some positive vibes in terms of more spending and more projects being pushed through, so it is possible for the market to outperform in the next few months. There are opportunities in the listed equity market in Kuwait with the banking sector being the largest and most liquid, in addition to a few names from the real estate, telecom, and industrial sectors."

Khaled Abdel Majeed, managing partner at hedge fund MENA Capital, said that while his fund does not have any positions in Kuwait at the moment, it is actively considering it. He said that he expected the new parliament would still "flex its muscles" to some extent – in challenging government contracts and spending – but would undoubtedly be more 'malleable' than its predecessor. If this happens, a number of sectors could benefit.

"The state is the primary driver of the economy, so the more the state spends, whether it is on salaries or investment projects, the more money circulates," said Majeed. "I would imagine the primary beneficiaries would be the building materials companies like the cement companies and also the contractors. Those would be the first in line, and then the banks."

However, Majeed said that he had been put off Kuwait's two main cement companies – Kuwait Cement and Gulf Cement – because they were trading on high multiples and had investment portfolios which made their balance sheets somewhat opaque.

Youssef Lahlou, portfolio manager at Silk Invest, is also relatively upbeat about the country's prospects. Kuwait's banking sector in particular has suffered while the development plans have been on ice, and so might be expected to benefit as they now materialise, he suggested. Lahlou said that the Kuwaiti stocks that remain particularly interesting are those that have diversified their business across the region, rather than being too reliant on the Kuwaiti economy.

"Before the elections we were underweight Kuwait, but now we are more neutral, until we see what's going to happen on the political scene in the next few weeks," said Lahlou. "Things are so volatile and we are not sure that this parliament is going to hold for the next few months. For us at Silk Invest, we still have Kuwaiti companies in the different funds that we hold, but the important thing we're looking for is that companies are diversified outside of Kuwait."

He highlighted Burgan Bank, which he said had made a 'smart' recent acquisition in the form of Eurobank Tekfen in Turkey, and also had a presence in Jordan and North Africa. He also admires food company Americana, and says he held telecoms group Wataniya until it was the subject of a recent tender offer from Qatar's Qtel in October 2012.

During the dislocation, fixed income products have also become a bigger presence in the Kuwait market, increasing their overall AuM and finding an investment audience among a domestic retail base.

The GIC KD Bond Fund, managed by the Kuwait Investment Company, achieved returns of over 7% last year and is currently up 1.4% YTD (28 February 2013). The fund's assets are mainly invested in domestic bonds and debt instruments. The fund also has limited exposure to a number of money market funds.

## Kuwait's key fund managers

**NBK Capital**

Salah Al-Fulaij CEO at NBK Capital, began his career at NBK almost 30 years ago, and now heads up a business worth over $7Bn. In a recent interview with *Mena FM* he explained how trust and reputation form the cornerstones of his business model. He hopes to attract new global investors as local market conditions pick up.

**Markaz (Kuwait Financial Centre)**

Kuwait Financial Centre, or Markaz, has been offering asset management services in Kuwait since 1974 and boasts a current AuM of close to ($3.1Bn). A leading player in the Kuwait space, Manaf Alhajeri CEO heads up a portfolio of 12 funds, including the KWD89.37m ($314Mn) MENA-facing Markaz Investment & Development Fund.

## Alternatives

Kuwait's alternatives market is chiefly characterised by its focus on property and infrastructure investments. Accounting for over 6% of domestic funds under management, property vehicles in the country tend to focus on a fairly narrow band of commercial real estate in Kuwait, and across wider-MENA.

Kuwait's impasse in new infrastructure spend has created a drag on property prices, but an upswing in rental income for commercial real estate has pushed up yield and provided property investors with solid returns. Direct investment in both commercial and residential real estate remains a key portion of the portfolios of the country's HNWIs.

The commercial property segment for the retail space is also expected to see growth, by approximately 5%, as a positive trend has been established in the shopping/malls business. A strong demand potential, factored together with a current limited supply of retail spaces for vendors, are key determinants for uplifting the segment's outlook.

In the mutual fund space the Markaz Real Estate Fund, Kuwait's only pure retail property fund, has been able to achieve a solid performance of 4.38% over three years, while gathering assets of close to $300Mn, making it one of the largest fund vehicles in the country.

A larger swathe of local property investment derives from local private equity players, including the Muthanna Investment Company, part of the Kuwait Finance House, and AMWAL International Investment Company, an investment company that specialise in development deals across MENA.

Kuwait has a long established Islamic finance centre, dating back to 1977 when the country's first Islamic bank, the Kuwait Finance House was established. Islamic finance institutions in Kuwait now consist of two Islamic banks and 31 Islamic investment companies with a combined market share of more than 26% of the domestic banking and financial sector. They also manage an additional 11% of total off-balance sheet accounts.

From a supervisory point of view, the Central Bank of Kuwait (CBK) has been involved in the regulation of Islamic finance since the early 1990s, when several Islamic investment companies were established under its supervision.

*Barometer* respondents described Kuwait's Shariah-compliant finance regulation as some of the most sophisticated in the region, comparing it favourably to more recently mandated Islamic-financial centres across the Gulf. However, the maturity of the centre was not matched by its pro-activeness in the space, with other newer financial centres being more forward about marketing their expertise and attracting new funds. Kuwait currently has $1.2Bn in Shariah-compliant assets, 28% of its entire fund universe.

Global Investment House's Al-Durra Islamic Fund is one of Kuwait's largest, with $145.0Mn in AuM, Shariah-compliant funds. Currently up 9% over the last 12 months (28 February 2013) the fund's assets are invested in Kuwaiti Shariah-compliant equities of listed Islamic companies that are representative of the Global Islamic Index.

## Investor overview

### Key investors

- Lacking a private and employer managed pensions industry, Kuwait's total retirement pot sits at approximately $40.5Bn and is managed by the Public Institution for Social Security
- Kuwait's high-net-worth community is MENA's third largest centre of private wealth, with approximately 735 ultra-high-net-worth individuals (UHNWI) responsible for $125Bn
- Kuwait's mutual fund management sector is responsible for assets of $4.2Bn
- Direct foreign investment has increased considerably after 2008's low water-mark, with net inflows of $400Mn in 2011
- The Kuwait Investment Authority is the region's third largest sovereign wealth fund. It has $296Bn of AuM, 11% of which is invested across a number of opportunities in MENA

**SWF brief: The Kuwait Investment Authority (KIA)**

The Kuwait Investment Authority (KIA) was founded in 1953 to manage the funds of the Kuwaiti Government in light of financial surpluses after the discovery of oil. KIA is estimated to hold close to $300Bn of assets, and is one of the world's largest sovereign wealth funds. It manages the Kuwait General Reserve Fund, the Kuwait Future Generations Fund, as well as any other assets committed by the Ministry of Finance. The KIA holds significant stakes in a number of large global financial and manufacturing brands, including Citigroup and Daimler AG. It also invests locally, often via domestic financial companies.

Kuwait was placed on MSCI's review list for moving up to emerging market status in 2008/9, but unlike Qatar and the UAE, was dropped from the list and has not made a reappearance. One reason for this is that many public companies in Kuwait still lack transparency – a situation that remains challenging for mutual funds operating in the state.

Sebastien Lieblich, global head of index management at MSCI, explained: "The biggest concern is equal rights for foreign investors in Kuwait. From what investors tell us, there are issues in terms of how stocks are closely held by families – many family members will hold amounts that are just below the level where they have to disclose them, and this isn't apparent to the outsider. So the stock is not as liquid or as available as it seems. This is a problem that is well known in Kuwait, and while we have seen progress in many other areas in the last 12-18 months, I am not sure it has changed for the better."

However, while it might be thought that recent political squabbles would be a setback for progress and future investment, few economic commentators see the recent crisis as related to the Arab Spring; there appears little appetite for revolution in a country where more than 80% of Kuwaiti nationals are on the public sector payroll. On the contrary, many consider that the impasse between government and parliament was a long-running problem and that the recent tensions might help resolve it.

"We don't see the political upheaval in Kuwait in any way on a par with Egypt or the other countries affected by the Arab Spring," said Trevor Cullinan, Sovereign Credit Analyst at Standard & Poor's, which rates the country as AA and with a stable outlook. "Kuwait is a very wealthy economy, with a very strong government asset and external position, and the current level of political risk, in our view, is not sufficient to offset that."

He added that S&P still sees Kuwait as a very oil-dependent economy, and anything the government could do to diversify would be viewed positively by analysts.

Nevertheless, Kuwait was the GCC destination of choice for foreign investors a decade ago and actioning the development plan is the key to recapturing its glory days, suggests Youssef Lahlou, portfolio manager at Silk Invest.

"The Kuwaiti government has this large surplus every year and I don't think they feel the urgency to work on the country's development plan. But for investors there is urgency for Kuwait to develop and to spend some of its budget surplus for the country to go ahead and get back to the level it was before. Kuwait was leading the GCC countries and now it is way behind: there is a saying that 'Kuwait is the past, Dubai is the present and Qatar is the future'. But I think Kuwait has everything it needs to move ahead, if only they can achieve political stability."

Trading volumes on the Kuwait Stock Exchange (KSE) for the period 1 January-28 February 2013 show that Kuwaiti investors sold KWD2.47Mn ($8.7Mn) more stocks than they bought over this period. Investors from the GCC region were even more active sellers, with a balance of almost KWD5Mn ($17.6Mn). Most of these stocks were picked up by overseas investment funds.

## Fund distribution strategies and cost of business

In line with recent regulatory amendments in most GCC states marketing a fund to local investors has become more challenging for foreign managers, who can no longer rely on discreet introductions. Prior to the formation of the CMA, the marketing of foreign securities and financial services was done under the approval of the Ministry of Commerce and Industry.

In 2010 this responsibility passed to the newly created CMA, which became the sole regulator of the marketing, offer and sale of securities and financial services in Kuwait. The regulator has changed, but the substance of the law remains fairly similar: if a foreign firm intends to market, offer and sell securities in Kuwait the firm must apply to the CMA for a licence to market, or sell the product through a licensed entity in Kuwait.

However, the CMA has been much more hawkish in its application of the regulation as it tries to formalise existing rules and mitigate some of the after effects of the global crisis, when many retail investors in Kuwait complained about a culture of mis-selling. This has left distribution in the hands of Kuwaiti commercial banks, primarily catering to a large domestic retail base and a slither of external investors from the wider-GCC, particularly Saudi Arabia and Qatar. ■

### Key developments: opportunities and challenges

- Political turmoil has blocked much needed infrastructure work, making investors reluctant to commit
- If the new government can establish itself, it has a series of ambitious investment plans, which could lead to a period of sustained growth
- Kuwait's banking sector in particular has suffered while the development plans have been on hold, and so might be expected to benefit if projects now materialise
- Establishment of the Kuwait CMA in April 2011 has helped to clarify regulation and is slowly improving Kuwait's regulatory fabric
- However, many investors are still concerned about lack of equal rights for foreign investors in Kuwait

# Kuwait

Total AuM **$4.2Bn** Total Number of funds **49** Total number of managers **24**

Source: Zawya

## Funds domiciled in Kuwait (including Kuwait focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Kuwait AuM ($Mn) | 1 Years Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Ahli Capital Investment Company | Al Ahli Gulf Fund | | 59.0 | 187.9 | 4.7 | 4.2 | Dec-12 |
| Ahli Capital Investment Company | Al Ahli Kuwaiti Fund | | 128.9 | 187.9 | 7.9 | 3.6 | Dec-12 |
| Al Aman Investment Company | Al Aman Islamic Fund | ✔ | 14.0 | 14.0 | 6.3 | -4.7 | Jan-13 |
| Al Dar Asset Management Company | Al Dar Fund of Funds | ✔ | 5.0 | 181.2 | -23.6 | -27.6 | Dec-12 |
| Al Dar Asset Management Company | Al Dar Money Market Fund | ✔ | 160.3 | 181.2 | -27.5 | -39.0 | Jan-13 |
| Al Dar Asset Management Company | Al Dar Securities Fund | ✔ | 3.9 | 181.2 | -2.9 | -19.2 | Dec-12 |
| Al Dar Asset Management Company | Al Nokhba Fund | ✔ | 12.0 | 181.2 | 4.6 | -7.9 | Dec-12 |
| Al Muthana Investment Company | Al Muthana GCC Islamic Banks Fund | ✔ | 28.3 | 39.6 | 1.6 | -2.5 | Dec-12 |
| Al Muthana Investment Company | Al Muthanna Islamic Index Fund | ✔ | 11.4 | 39.6 | 2.5 | -6.0 | Dec-12 |
| Al Safat Investment Company | Al-Safat Local Shares Equity Fund | ✔ | 14.8 | 14.8 | -15.2 | 48.0 | Jan-13 |
| Al Sharq Investment | Zumorroda GCC Fund | | 11.4 | 11.4 | 7.7 | 13.7 | Jan-13 |
| Al Tijari Investment Company | Tijari Islamic Fund | ✔ | 3.5 | 3.5 | -2.4 | -19.0 | Dec-12 |
| Bayan Investment Company | Al-Themar Fund | ✔ | 7.9 | 16.0 | 5.7 | -13.6 | Dec-12 |
| Bayan Investment Company | Ea'mmar and Estethmar Fund | ✔ | 8.1 | 16.0 | - | -22.9 | Dec-12 |
| Burgan Bank | Burgan Equity Fund | | 293.2 | 293.2 | 8.3 | 8.7 | Dec-12 |
| CapCorp Investment Company | CapCorp Local Fund | ✔ | 20.9 | 20.9 | 11.1 | 12.0 | Dec-12 |
| Coast Investment and Development Company | Coast Investment Fund | | 149.0 | 149.0 | 8.9 | 7.8 | Dec-12 |
| Global Investment House | Al-Durra Islamic Fund | ✔ | 144.9 | 460.1 | 10.7 | 6.9 | Jan-13 |
| Global Investment House | Global 10 Large Cap. Index Fund | | 270.7 | 460.1 | 1.9 | 29.4 | Jan-13 |
| Global Investment House | Global Al-Mamoun Fund | | 11.8 | 460.1 | 12.5 | 22.2 | Jan-13 |
| Global Investment House | Global Bond Fund | | 22.9 | 460.1 | 13.9 | -23.9 | Dec-12 |
| Global Investment House | Global KD Money Market Fund | | 9.7 | 460.1 | 3.7 | -27.7 | Dec-12 |
| Gulf Investment Corporation | GIC KD Bond Fund | | 36.5 | 36.5 | 7.0 | 6.1 | Jan-13 |
| Housing Finance Company | Masaref Investment Fund | | 14.2 | 14.2 | -1.9 | 27.9 | Dec-12 |
| Industrial and Financial Investments Company | Sanaya Dow Jones Kuwait Index Fund | | 36.1 | 36.1 | 8.6 | 10.4 | Dec-12 |
| KIPCO Asset Management Company | KAMCO Investment Fund | | 91.1 | 91.1 | 2.1 | -0.5 | Dec-12 |
| Kuwait and Middle East Financial Investment Company | Al Rou'yah Fund | | 123.6 | 131.7 | 0.7 | -3.9 | Dec-12 |
| Kuwait and Middle East Financial Investment Company | Gulf Gate Fund | | 8.2 | 131.7 | -5.9 | -14.5 | Dec-12 |
| Kuwait Finance and Investment Company | Al Wasm Fund | | 7.0 | 7.0 | 12.5 | -25.7 | Jan-13 |
| Kuwait Financial Centre | Markaz Fixed Income Fund | | 16.1 | 958.4 | 6.4 | - | Jan-13 |
| Kuwait Financial Centre | Markaz Forsa Financial Fund | | 63.5 | 958.4 | 8.3 | 4.9 | Jan-13 |
| Kuwait Financial Centre | Markaz Investment and Development Fund | | 326.9 | 958.4 | 7.7 | 10.2 | Jan-13 |
| Kuwait Financial Centre | Markaz Islamic Fund | ✔ | 55.4 | 958.4 | 16.8 | 8.3 | Jan-13 |
| Kuwait Financial Centre | Markaz Mumtaz Investment Fund | | 206.6 | 958.4 | 8.3 | 12.8 | Jan-13 |
| Kuwait Financial Centre | Markaz Real Estate Fund | ✔ | 289.8 | 958.4 | 2.8 | 4.4 | Dec-12 |
| Kuwait Investment Company | Al-Atheer Fund | | 61.7 | 740.7 | 13.4 | 9.8 | Dec-12 |
| Kuwait Investment Company | Al-Hilal Islamic Fund | ✔ | 30.0 | 740.7 | -1.0 | -6.1 | Dec-12 |
| Kuwait Investment Company | Al-Raed Fund | | 513.0 | 740.7 | 9.7 | 8.5 | Dec-12 |
| Kuwait Investment Company | KIC Bond Fund | | 49.4 | 740.7 | 2.0 | 0.0 | Dec-12 |
| Kuwait Investment Company | Kuwait Investment Fund | ✔ | 86.7 | 740.7 | -2.0 | -13.6 | Dec-12 |
| National Investments Company | Al Darij Investment Fund | ✔ | 37.2 | 714.7 | 8.1 | 10.0 | Dec-12 |
| National Investments Company | Al Safwa Investment Fund | ✔ | 88.1 | 714.7 | -0.4 | -7.9 | Dec-12 |
| National Investments Company | Al Wataniya Investment Fund | | 462.2 | 714.7 | 2.2 | -3.1 | Dec-12 |
| National Investments Company | Mawarid Industrial and Petroleum Services Fund | ✔ | 40.6 | 714.7 | 6.3 | -5.6 | Dec-12 |
| National Investments Company | Zajil Services & Telecommunications Fund | ✔ | 86.6 | 714.7 | 1.2 | 14.2 | Dec-12 |
| Noor Financial Investment | NOOR GCC Islamic Fund | ✔ | 16.0 | 16.0 | 6.5 | 6.9 | Nov-11 |
| Tharwa Investment Company | Tharwa Investment Fund | | 28.3 | 40.3 | 15.0 | 36.3 | Jan-13 |
| Tharwa Investment Company | Tharwa Islamic Fund | ✔ | 12.0 | 40.3 | 8.7 | 13.8 | Jan-13 |
| Watani Investment Company | NBK Kuwait Equity Fund | | 8.9 | 8.9 | 11.1 | 37.1 | Jan-13 |

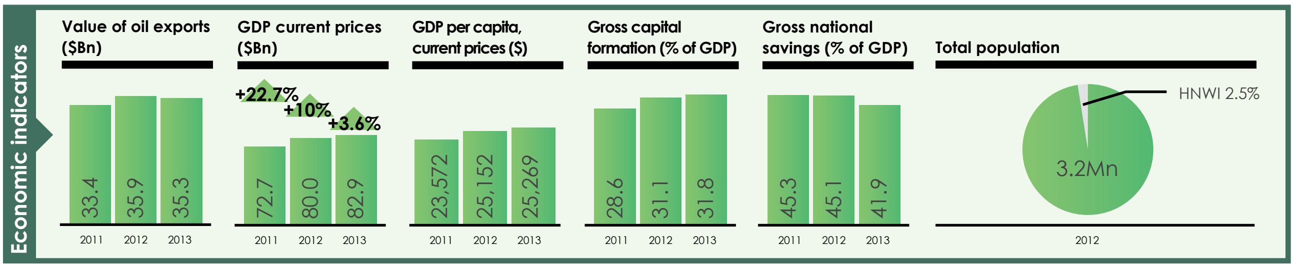
## Funds focused on Kuwait (managed from MENA ex. Kuwait)

Total AuM **$16.5Mn** Total Number of funds **3**

Source: Zawya

| Fund manager | Fund Name | Domicile | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Al Bilad Investment Company | Al-Seef Fund | Saudi Arabia | ✔ | 10 | 6.9 | -5.2 | Feb-13 |
| Bank Muscat | Bank Muscat MSCI Kuwait Fund | Bahrain | ✔ | 0.6 | -10.9 | -19.5 | Dec-12 |
| Global Investment House | Global Islamic Fund of Funds | Bahrain | | 5.4 | - | -23.422 | Dec-12 |

# OMAN




## Background

Oman occupies a strategically important location at the mouth of the Arabian Gulf. It is an absolute monarchy in which all legislative, executive and judiciary power ultimately rests in the hands of the hereditary Sultan, Qaboos bin Said Al Said.

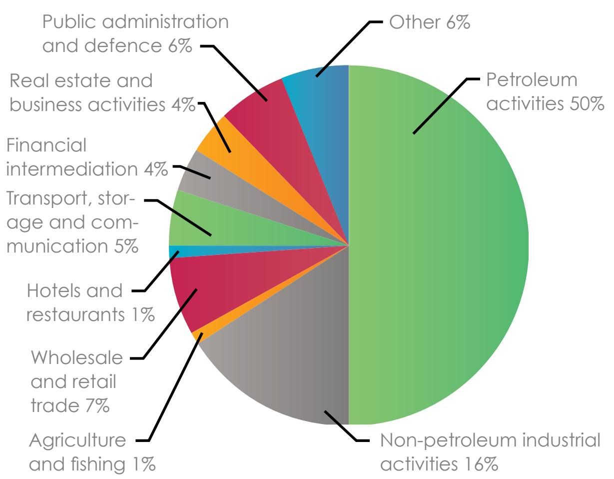
The Omani legislature consists of an upper chamber (whose members are appointed by the Sultan) and a lower chamber, whose members are elected by popular vote. However, the Sultan makes the final selections and can negotiate the election results.

The Omani economy has picked up strongly since 2009. Driven by increasing government spending and higher oil prices, real GDP growth is estimated to have reached 5% in 2012.

With higher oil revenue and despite an estimated 16% increase in government expenditure, the fiscal and external surpluses are estimated to have increased to 9.8% and 12.7% of GDP in 2011.

Price pressures have remained moderate, with consumer price index inflation holding steady at about 4% during 2011.

**Oman GDP breakdown (2011)**




Source: Central Bank of Oman

The economy has been largely unaffected by turmoil in international financial markets. Omani banks are well capitalised and have little exposure to the Eurozone. Although the local stock market fell by 16% in 2011, real sector activity has been essentially unperturbed and bank credit has continued to accelerate.

Central Bank of Oman executive president Hamood Zadjali told a recent capital markets conference that GCC countries could not continue to finance high cost development projects through budgets, given that revenues are dependent on volatile oil prices.

Across the GCC – including Oman – the financial sector is generally dominated by the banking sector, which is highly concentrated with a few domestic players involved in the market. In addition, domestic debt markets have not been considered essential in a region with an abundance of liquidity and capital from oil and gas revenues and relatively easy access to international capital markets.

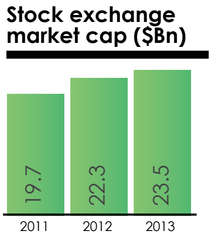
As such, domestic government and corporate debt issuance remains relatively limited.

## Oman's economic growth plan

In 2011 Oman endorsed a new five-year plan. The plan – part of the county's long-term development strategy, 'Oman 2020' – aims to achieve real GDP growth of 3% annually and keep inflation under control following a sharp rise during the pre-crisis oil boom period. Oman plans to spend $78Bn in its five-year development plan to 2015 and is forecasting economic growth of 5% a year. The strategy is one of the largest ever development schemes launched by Oman, targeting massive investments and intensification of plans to diversify its oil-reliant economy. The plan will also drive to expand the country's oil and gas production and increase hydrocarbon reserves. This is the eighth development plan issued by the Omani government with the overall aim of diversifying the economy as well as controlling inflation and maximising growth.

## Financial markets

The Muscat Securities Market (MSM) has been relatively active since the start of 2013, with the MSM 30 Index rising from an average of 5760 in 2012 to 5999 (as of 6 March). The number of companies traded each day has risen from an average of 48 last year to 52 and average share trading volumes for early March were almost three times higher than the average for 2012.




However, the bond market has experienced significant decline, with the number of bonds traded falling from a daily average of more than 92,000 last year to just over 10,500 as of 6 March. Unsurprisingly, the value of bonds traded fell sharply from OMR162.4Mn ($421.8Mn) to OMR12.3Mn ($31.9Mn), although the number of daily trades rose by more than half from 1321 to 2148.

The total number of securities traded on 6 March 2013 was just over 50 million compared to a 2012 daily average of 17.4 million. Total market capitalisation on 6 March was OMR12.2Bn ($31.7Bn), up from OMR11.7Bn ($30.4Bn) at the end of last year.

Omanis were responsible for 87.5% of all purchases and a slightly lower percentage (86.3%) of sales. Foreign (non-GCC or Arab investors) accounted for almost 8% of purchases compared to just under 3% of sales, suggesting a growing overseas influence on the market.

Institutions currently purchase 44.8% of all shares and account for 55.3% of market turnover, while on the sell side the equivalent figures are 61.8% and 63.9% respectively.

Several measures were introduced to develop the capital markets space in Oman during the last 12 months, including an improved stock market trading platform. The MSM launched an upgraded version of its e-trading system in February, teaming up with NYSE Euronext to migrate to NYSE Technologies' NSC V900 trading platform.

The system is designed to improve performance and reduce time spent by brokers in processing transactions, stated MSM director general Ahmed Salh Al-Marhoon, who described the new platform as complementing MSM's business strategy to further increase liquidity in its capital markets by simplifying and enhancing its infrastructure.

## Regulatory environment

**Key regulators: Central Bank of Oman (1974)**
**Oman Capital Market Authority (1998) - enforces regulations required to develop the capital market and insurance sectors**

The Central Bank of Oman was founded in 1974. The Capital Market Authority is the regulatory, legislative and supervisory governmental institution responsible for regulating the capital market and insurance sectors in the sultanate.

During 2012 the Central Bank of Oman confirmed a revision to its fee structure for application and licensing of all banks, finance and leasing companies and money exchange houses in the sultanate applicable from 1 January 2013.

It also issued the long-awaited Islamic Banking Regulatory Framework (IBRF), which covers all issues concerning Islamic banking, including information on licensing requirements, general obligations and governance, accounting standards and auditor reports, powers of supervision and control, capital adequacy and credit, market, operational and liquidity risks.

In November 2011 the Muscat Clearing and Depository Company (MCDC) announced plans to implement a delivery-versus-payment (DVP) settlement model from Q3 2012. Along with DVP settlement, this move also removed broker access to investors' securities held in accounts opened with custodians.

It meant that custodians would be able to take part in the settlement process by becoming clearing members and would be able to reject or confirm trades, with settlement obligations moving to broker clearing members in the case that the custodians reject the trades. It also introduced a fails management process, including buy-in and cash close-out.

Capital markets rating agency Thomas Murray reported that the settlement model would have a positive impact on counterparty risk and that by allowing custodians to reject trades, the market would also allow failed trades (for example, where brokers may not fulfil their settlement obligations). Depending on the effectiveness of the fails management, the impact on liquidity risk was calculated at 'on-watch'. The agency also observed that implementing a trade rejection/confirmation mechanism would give custodians more control over the securities of their clients, creating a positive impact on operational risk.

Elsewhere, the Oman Capital Market Authority (CMA) has been conducting a capital market awareness campaign in conjunction with MCDC and Muscat Securities Market (MSM). The campaign aims to introduce the CMA as regulator of the capital and insurance markets and explain the role of MSM and MCDC. It also aims to educate investors and policyholders about the various aspects of the sectors and discuss economic and financial issues relevant to the capital and insurance markets.

Oman has a minimum capital requirement for fund managers of $5Mn.

## Equity and bond funds

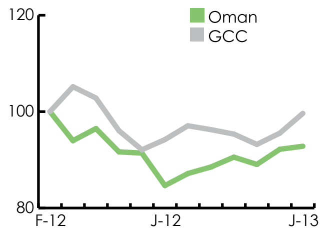
Oman is home to a fund management universe of $510.7Mn spread across six managers and 13 fund vehicles. Almost all of these assets (95%) are in equity focused funds, which manage $485.3Mn in AuM across 12 funds. Fixed income and sukuk vehicles account for Oman's second largest pool of assets with one fund managing $25.3Mn – approximately 5% of the overall fund universe. All of Oman's fund assets are handled by six financial institutions, with an average fund size of $39.3Mn.

Oman currently has 7 funds, with a total of $392.4Mn in AuM, focused on its domestic markets. All of these funds are traded on the local equity markets,

**MSCI View**

The Oman equity market is the second smallest market (in terms of free-float adjusted market capitalisation) within the Gulf Co-operation Council (GCC) region. Over the three year period to January 30, 2013, the Oman equity market posted negative returns of -16% and its liquidity deteriorated with a 56% drop in the market's average traded value ratio to 40%. It is strongly dominated by three sectors: Financials (55%), Telecommunication Services (20%) and Materials (10%).

**MSCI IMI: Oman vs GCC**




The MSCI Oman Index is currently classified by MSCI as a Frontier Market. Considering the narrow investment opportunity set in terms of sizable companies in Oman (i.e., meeting the minimum size requirements for the MSCI Emerging Markets Index), MSCI is currently not considering making any proposal for reclassifying the MSCI Oman Index to Emerging Market status.

**Total fund AuM (by domicile)**

**$510.7Mn**

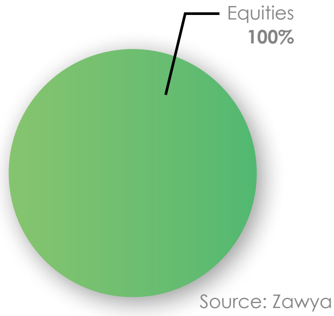
**Average fund size**

**$39.3Mn**

**Number of funds**

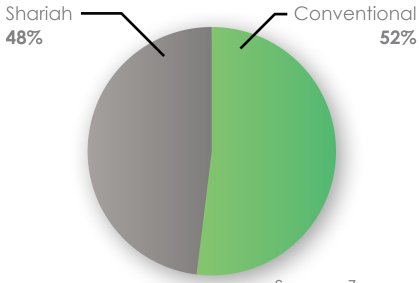
**13**

**Funds by asset class (%**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

with Bank Muscat's Investment Stabilization Fund the largest of this group with an AuM of $325.4Mn.

Oman's funds industry, which mostly invests in the equity markets in Oman and the wider-GCC, is primarily structured, developed, managed and distributed by local banks. BankMuscat, Oman Arab Bank and the National Bank of Oman are the dominant forces with fund portfolios that frequently lean towards the MENA staples of oil, banks, infrastructure and telecommunication companies.

The nation's top performing equity vehicle over three years has been Vision Investment Services Company's Emerging GCC Fund, with returns of 27.6%. The fund invests in the equities listed on a variety of GCC exchanges and charges a management fee of 1.5% and a performance fee of 15%.

Vision's high performing vehicle fights for space in a fund universe dominated by Bank Muscat and its flagship Investment Stabilization Fund. With $325.4Mn in AuM, this one product accounts for 84% of Oman's total fund universe and has a one-year track record of 7.14% (January 13), despite a recent run of poor performance which saw it down by -5.46% (January 13) over the last three years. The fund's assets are mainly invested in listed equities, with a focus on the MSM 30 Index Companies.

Oman's lack of equity sector diversification has contributed to a number of investment barriers, with *Barometer* respondents urging the Omani authorities to boost the country's equity base by 'unbundling' and listing some of its own project companies, including oil subsidiaries and petrochemical companies - a move that would go some way to expanding the market and magnetising investor interest from across MENA.

Some managers in the region are already predicting a healthier IPO market contributing to better returns in 2013. Last year Bank Nizwa, the sultanate's first Islamic bank, attracted OMR681Mn ($1.77Bn) of bids in its initial public offer (IPO) of shares, while market participants expect to see a series of new IPOs, again primarily in the banking sector, later this year.

Debt issuance is infrequent in Oman, while active fixed income trading – with most funds choosing to keep hold of their bond assets until maturity – is also rare. However, in line with the rest of the region, Oman managers are experiencing greater demand for fixed income products, particularly from institutional investors and those negatively impacted by the volatility of equity markets during the recent global economic turmoil.

This has led to substantial regional players – like Bank Muscat - diversifying away from purely equity-centric products into fixed income investment. Bank Muscat's announcement was followed by the launch of a money market fund – a relative rarity in the country – and one that is slowly helping to foster, along with new Islamic finance regulation, a more diverse funds landscape in Oman.

The Bank Muscat Money Market Fund was launched in June 2012 and currently has $25.3Mn in AuM. The fund's assets are primarily invested in money market instruments, providing the vehicle with a steady low risk return. It is currently up 0.2% YTD (3 March 2013) and has posted 0.8% returns since inception.

As such, Oman's fund market has made a name for itself as cautious and risk averse. The country's new Islamic finance regulations are eagerly anticipated, and it is hoped they will continue to add greater depth to the market. The fixed income space is also expected to be propelled by new sukuk law currently at the public consultation stage, according to a statement released by the Capital Market Authority (CMA) earlier this year.

The draft proposals come at a time of increasing investor demand for these products as banks seek to manage their liquidity. Oman is currently the only country in the GCC yet to introduce Islamic finance in some capacity. Real estate firm Tilal Development Company, and a number of other Omani companies and banks, have already announced plans to float Islamic debt instruments during the coming year, once the regulation is ratified.

## Oman's key fund managers

**BankMuscat**

BankMuscat has a history of producing investor-friendly products – the firm manages the first Riyal-based capital guaranteed product (Muscat Capital Guaranteed Fund 1) and the GCC's first index-tracking fund (Muscat Fund). In 2011, the firm launched its first Luxembourg-domiciled fund, the S&P GCC LargeCap Index Fund, and it is mulling more Ucits-structured product launches, as well as the inevitable move into Islamic finance.

## Alternative funds

Limited in terms of fund numbers (14) and strategy (all are equity focussed), Oman's recent regulatory journey to becoming an Islamic fund centre is designed to diversify the country's asset management base. Encouragingly, demand in the market seems to be clearly present. A recent report on the retail market in Oman has found that the vast majority of Omani consumers would use Islamic financial products and services if they were available within the sultanate.

The report, *Islamic finances in Oman – sizing the retail market*, undertaken by the Islamic Financial Advisory and Assurance Services (IFAAS), found that 85% of consumers would be keen to take up the services and indicates strong support for Islamic finance products across all sectors in the retail market. *Barometer* responses suggest that an expected wave of Shariah-compliant funds in Oman stands to raise as much as $200Mn in the first year of operation.

The purpose of the report, Oman's first independent market survey, was to measure the current behaviour of consumers and predict future market trends. According to the report, 59% of those asked were very interested and 26% were interested in opening up an Islamic savings account, with 70% expecting to do so within a year of the service becoming available. Half of these expected to open an account within the first three months, and 77% said they expected to take out Islamic financing in the next two years.

It also found that 80% of consumers currently use conventional banking, with 60% saying that they were "bothered" about this due to its non-Shariah-compliant nature.

The market is known for being small, illiquid and conservative. But banks and asset managers anticipating new regulation already have a backlog of new Islamic funds and products. The Oman Arab Bank is readying a product for market, while the country's ahlibank will also launch its first Islamic fund, covering the MENA region, following approval from the Central Bank of Oman and the Capital Market Authority (CMA).

## Investor overview

### Key investors

- Oman's retirement pot sits at approximately $2.2Bn and is divided between its two state providers – the Civil Service Employees' Pension Fund and the Public Authority for Social Insurance. Unlike other GCC public pension funds, Oman's retirement systems are active investors in local markets, straddling portfolios that comprise at least 36% in equity allocations
- Oman's high-net-worth community is MENA's eighth largest centre of private wealth, with approximately 140 ultra-high-net-worth individuals (UHNWI) holding $18Bn in assets
- Oman's mutual fund management sector is responsible for assets of $510.7Mn, with an average fund size of $39.3Mn
- Direct foreign investment has dropped in recent years but in 2011 still accounted for net inflows of $788Mn, down from a high of $3Bn in 2008
- Oman's sovereign wealth fund – the State General Reserve Fund – has $8.2Bn in assets. It invests 14% of its AuM across MENA

**SWF brief: The State General Reserve Fund**

The State General Reserve Fund was established in 1980 by royal decree and is part of the Ministry of Finance. It invests excess oil revenues in a diversified portfolio of non-oil overseas assets, aiming to ensure the country's economic stability and sustainable development. The fund's assets are estimated at more than $8Bn.

Oman is dominated by domestic investors. At least 70% of Omani geographical asset allocation is sourced from the local market, rendering it closer in style to conservative countries like Saudi Arabia, rather than the more outward looking GCC states of Qatar and the UAE.

Like most MENA asset management centres, the profile of local investors is split between the high value retail investment of HNWI and large government backed agencies that will generally invest beyond borders. Oman has few differences to this model, with a number of large family offices, owning a significant part of the Omani banking system, and the Ministry of Finance operating a sovereign wealth fund.

However, unusually, when it comes to investing internally it is the country's two large public pension funds that carry the greatest clout. Vision Investment Management runs several funds made up primarily of pension fund money, while asset management company Nifco, is owned by local pension funds.

In line with the recent run of global uncertainty Omani domestic investors have been looking to invest more in cash. This will inevitably lead to more internal money market funds or perhaps money leaving Oman to be invested in more mature money market funds elsewhere in the GCC. Regional and international investors, tend not to focus on Oman as a market in its own right, with *Barometer* respondents saying that in some cases the market lacks, despite excellent regulation, the relevant transparency to make sound investment decisions.

Commenting on the Oman-bias of local investors, international managers also described a number of barriers to entry, complaining that the decision making process of the state's powerful pension funds was not completely transparent, rendering Oman a market that is difficult to invest in, but perhaps more challenging still when it comes to the distribution of product.

## Fund distribution strategies and cost of business

An attitude prevails among a significant number of Omanis that they would rather run and manage their own assets, than use third party fund managers. According to *Barometer* responses managers have been able to address this prejudice by selling fully diversified fund product as a risk management tool and a diversifier to HNW family holdings. This has made some inroads through a period of dislocation, but Oman's fund investor base remains small and grows at a relatively slow pace.

The position of large local banks as the key distributors helps with local brand recognition, but has failed to push Oman managed product into the rest of the GCC or wider-MENA. Because of this, a number of *Barometer* respondents described a situation where Oman had failed to capitalise on last year's perception of the GCC as a safe haven for asset allocation.

One *Barometer* interviewee said: "One of the things we noticed last year in terms of private capital flow was that during the Arab Spring, private money was moved out of countries where there was a lot going on – Egypt, Syria and so on – and went into well-known Gulf safe havens. But that didn't particularly include Oman because it isn't really a transient capital place in the same way that Dubai might be."

The lack of expats involved in the local market adds to this insular approach, meaning that with a narrow band of bank-owned distribution hubs and fund management firms Oman's market will make slow inroads with domestic investors, but it will take time before investors from the wider-GCC commit allocations to investment opportunities in Oman or Omani-based fund managers. ■

### Key developments: opportunities and challenges

- New Shariah regulation should improve market liquidity in Oman and will kick-start a much vaunted Sukuk industry
- Sukuk will enable investors to make the most of the country's boom in infrastructure projects as plans for news airports, highways and hospitals are rolled out
- Market is currently undervalued, so represents a good buy – particularly the solid banking sector, which is expecting to see a number of IPOs
- Poor sector diversification still contributes to investment barriers. Barometer respondents wanted to see a drive to list companies

# Oman

Total AuM $510.7Mn Total Number of funds 13 Total number of managers 6

Source: Zawya

## Funds domiciled in Oman (including Oman focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Oman AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Bank Muscat | Investment Stabilization Fund | | 325.4 | 386.9 | 7.1 | -5.5 | Jan-13 |
| Bank Muscat | Bank Muscat Money Market Fund | | 25.3 | 386.9 | - | - | Jan-13 |
| Bank Muscat | Bank Muscat Muscat Fund | | 20.3 | 386.9 | 7.0 | -9.9 | Jan-13 |
| Bank Muscat | Bank Muscat Oryx Fund | | 15.9 | 386.9 | 11.3 | 22.5 | Jan-13 |
| Gulf Baader Capital Markets | The First Mazoon Fund | | 10.8 | 10.8 | 6.2 | 11.2 | Dec-12 |
| Oman Arab Bank | Oman Al Arabi Fund | | 18.6 | 18.6 | 3.8 | - | Jan-13 |
| The Financial Corporation Company | Al Amal Fund JIA | | 9.9 | 18.2 | 7.9 | -2.3 | Dec-12 |
| The Financial Corporation Company | Majan Capital Fund JIA | | 8.4 | 18.2 | 13.0 | -8.7 | Dec-12 |
| United Securities LLC | United GCC Fund | | 18.8 | 18.8 | 15.6 | - | Dec-12 |
| Vision Investment Services Company | Vision Al Khair GCC Fund | ✔ | - | 57.3 | - | - | - |
| Vision Investment Services Company | Vision Emerging GCC Fund | | 25.5 | 57.3 | 14.0 | 28.0 | Feb-13 |
| Vision Investment Services Company | Vision Emerging Oman Fund | | 8.7 | 57.3 | 7.6 | 2.0 | Feb-13 |
| Vision Investment Services Company | Vision Real Economy GCC Fund | | 23.2 | 57.3 | 14.8 | - | Feb-13 |

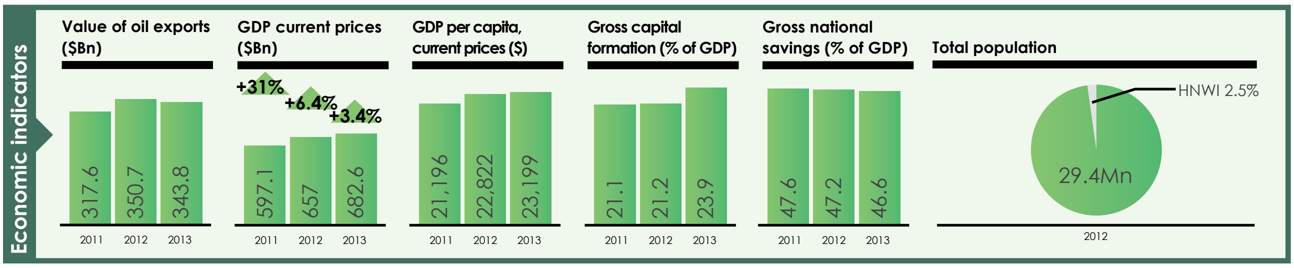
## Funds focused on Oman (managed from MENA ex. Oman)

Total AuM $1.0Mn Total Number of funds 1

Source: Zawya

| Fund manager | Fund Name | Domicile | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Muscat Capital | Muscat Capital Oman Premier Fund | Saudi Arabia | | 1.0 | 6.2 | - | Feb-13 |

# SAUDI ARABIA



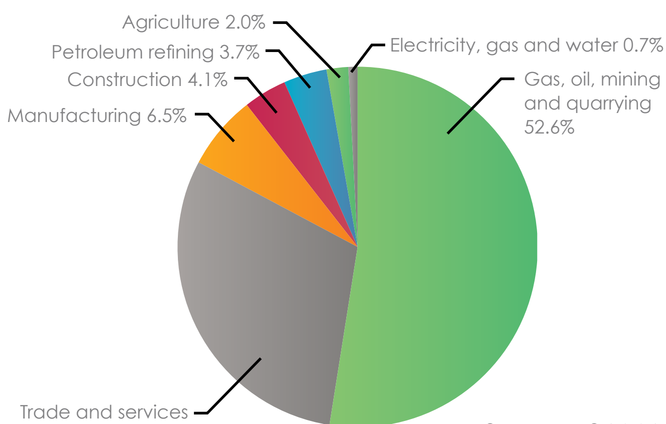

## Background

Saudi Arabia is the second-largest country in the Arab world (after Algeria). It was founded in 1932 and has been an absolute monarchy, currently ruled by H.H. Abdullah bin Abdulaziz Al Saud, since its inception.

The outlook for the Saudi economy remains buoyant, according to the IMF's most recent annual economic review. The oil sector continues to dominate the economy, but strengthened budgetary institutions have reduced the linkage between the oil price and the level of fiscal spending and progress has been made in diversifying the economy. Supported by increased government spending and supportive monetary policy, overall real GDP is estimated to have grown by over 6% in 2012, with 8% growth recorded in the non-oil sector. The construction sector grew at over 10% – which is a testament to the country's infrastructure boom.

Despite a programme of increased spending, the government has room to save, setting aside a portion of the extra oil revenues for future generations. International reserves, which constitute the principal savings component of oil wealth, exceed half a trillion dollars (77% of 2012 GDP). The banking sector also remains highly capitalised and liquid, with improved profitability. On current trends, real GDP is projected to fall to 4.2% in 2013.

**Saudi Arabia GDP breakdown (2011)**




Source: SAMA

## Saudi Arabia's economic growth plan

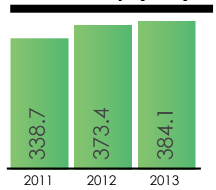
Saudi's 'Vision 2025' plan is supported by three pillars. While the first pillar defines the future direction of Saudi economic development, the second and third pillars have established a system of "process and review" that will help to diversify the nation's economy away from oil revenues, while fostering a larger industrial, manufacturing and financial services base. The progress of the plan received support from the country's '9th National Development Plan' (NDP), which was cleared and approved by the Saudi Cabinet in 2010. The 9th NDP allocates $385Bn for various development goals, a record amount and a 67% increase in spending on the eighth NDP.

Under the new plan, the largest share of government spending (50.6%) is set aside for "human capacity development", including the education sector and labour skills improvement. Social development and health care receive 19% of total allocations, economic resource development 15.7%, transportation and telecommunications 7.7% and municipal services and housing 7.0%.

## Financial markets

At the end of February 2013, the Tadawul (Saudi Stock Exchange) All Share Index or TASI closed at a level of 6,998

**Stock exchange market cap ($Bn)**



points, down 0.64% from the close of the previous month. On a year to date basis, the TASI registered an increase of 2.9% or 197 points. The highest close level for the index during the month was 7,087 on 16 February.

Stock market capitalisation grew substantially between 2000-2012, although certain segments of the financial system (such as fixed income securities) remain relatively underdeveloped. The share of bank loans going to small and medium-sized enterprises is below the levels in other countries. Consequently, it is seen as important to support the emergence of a strong small-business sector in a manner that facilitates a transition to regular financing sources.

Total equity market capitalisation at the end of February 2013 was SAR1431Bn ($382Bn), a decline of 0.6% over the close of the previous month. The total value of shares traded for the month of February reached SAR118Bn ($32Bn). The value of shares traded by individual domestic investors was SAR105Bn ($28Bn) (89%) for buying and SAR111Bn ($30Bn) (93.56%) for selling. The value of shares traded by institutions was SAR12Bn ($3.2Bn) (10%) for buying and SAR6.7Bn ($1.8Bn)(6%) for selling, while the value of shares traded by foreign investors was SAR1.4Bn ($27Mn) for buying and SAR1Bn ($27Mn) for selling.

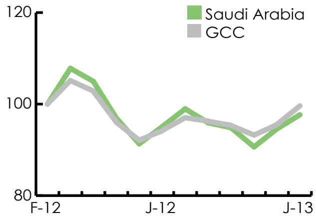
The total number of shares traded (adjusted to all corporate actions during the period) in February was 4.7 billion compared to 4.65 billion in January. The total number of transactions executed was 3.2 million compared to 2.79 million trades for the month of January 2013.

Despite some of the GCC regional markets being more than 30 years old, they have yet to evolve as

### MSCI View

Saudi's equity market is by far the largest market (in terms of free-float adjusted market capitalisation) within the GCC region. Over the three years to January 30, 2013, the Saudi Arabia equity market posted a return of 11%, with very strong liquidity demonstrated by a market average traded value ratio of more than 500%. Nine of the 10 GICS sectors are represented in the Saudi Arabia equity market, with the three largest sectors being Materials (40%), Financials (29%) and Telecommunication Services (12%). Information Technology is the only sector not represented.

**MSCI IMI: Saudi Arabia vs GCC**




The Saudi equity market is closed to foreign direct investment and foreign investors can only access the market through derivative products such as SWAPS and P-Notes. Most international institutional investors have expressed their concerns that using such tools may be too risky. Consequently, MSCI does not cover the Saudi Arabia equity market in its international regional indices, such as the MSCI Frontier Markets Index, but instead has introduced the MSCI Saudi Arabia Domestic Index as a stand-alone index. MSCI will revisit its position on the potential introduction of an MSCI Saudi Arabia Index once Saudi authorities open their equity market to foreign direct investment.

**Total fund AuM (by domicile)**

**$23.5Bn**

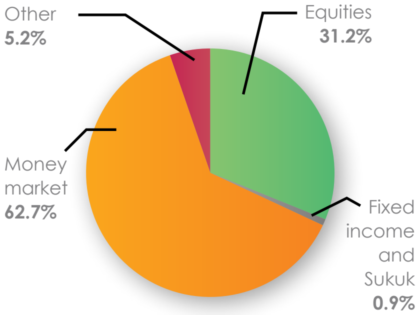
**Average fund size**

**$103.5Mn**

**Number of funds**

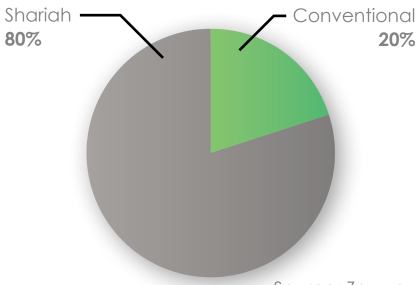
**227**

**Funds by asset class (%)**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

sizable platforms for capital raising, acquisitions and divestitures. For example, Saudi Arabia – the most active and vibrant economy in the region – has only 164 listed companies compared to more than 2,000 in China where the exchange was established seven years after Saudi Arabia.

Saudi Arabia is the leading market for Islamic funds with funds marketed by fund managers in Saudi Arabia accounting for 48% of global Islamic assets under management.

The ratio of mutual funds to nominal GDP is 4.2%, which is higher than other GCC states, but some way behind developed countries such as the UK, US and Australia.

## Regulatory environment

**Key regulator: Saudi Arabia Capital Market Authority (2003)**

Saudi Arabia maintained second place among GCC states in the 2013 World Economic Forum Global Competitiveness Report on the back of a number of improvements to its competitiveness in recent years that have resulted in a solid institutional framework, efficient markets and sophisticated businesses.

Saudi Arabia's Capital Markets Authority (CMA) has been streamlining the regulations for licensing, listing and foreign participation. It is also actively improving the regulatory framework for listing and corporate governance with a view to building more depth.

The Saudi Stock Exchange (Tadawul) Company was formed in 2007. A ministerial committee formed in 1984 regulated and monitored market activities until the CMA was established in 2003. The CMA is the sole regulator and supervisor of the capital market, issuing rules and regulations to protect investors and ensure fairness and efficiency in the market.

The CMA's latest release of new listing regulations is aimed at making the Saudi Stock Exchange (Tadawul) an attractive destination for GCC companies. In addition to some other capital markets reforms, this particular initiative is being viewed as a move to further solidify the leading status of Tadawul in the region, possibly making it a true regional exchange.

New listing rules are expected to generate cross listing, thus offering diversification opportunities to Saudi investors in their home market. The rules allowing foreign companies to list on the Tadawul and the introduction of new instruments such as convertible bonds and warrants is part of the CMA's strategy to broaden and diversify the market's base of investors by introducing a new variety of financial instruments.

During 2012, CMA began to apply corporate governance standards and requirements on authorised persons as part of its efforts to raise the quality, transparency and disclosure levels in the securities business sector.

At a meeting with listed company executives in March 2012, the chairman of the CMA, Abdulrahman Al-Tuwaijri, stated that the process of fully opening the market to foreign investors would be "gradual" and that the regulator needed time to "make it happen in a safe and orderly manner [without] any negative impact."

In April it was reported that King Abdullah had ordered the CMA to take action against manipulation of the Tadawul, with the daily Alsharq newspaper quoting him as saying that "with the current return of investors to the stock market, there has been a return of some violations that require investigation and accountability, requiring violators' cases to be looked at by the specialised legal authority".

Dealing, custody and managing requires paid capital of SAR50Mn ($13Mn).

## Equity and fixed income funds

Saudi Arabia is home to a fund management network of $23.5Bn spread across 32 managers and 227 fund vehicles. Well over half of these assets (62.7%) are placed in money market and trade finance vehicles, which together are responsible for $14.7Bn in AuM.

Equity vehicles account for Saudi's second largest pool of assets with 101 funds managing $7.3Bn – approximately 31.2% of the overall fund universe. The remainder of the assets are held in a small number of fixed income and sukuk vehicles and a growing number of property funds. Over 96% of total AuM is held in the hands of Saudi's 10 largest asset managers.

Saudi Arabia currently has 124 funds (a mixture of domestic and international managers), with a total of $19.1Bn in AuM, focused on its domestic markets. Once again the majority of these vehicles are in money market funds with $13.9Bn under management. Saudi focused equity funds manage $4.5Bn, with fixed income and sukuk product responsible for a slender $26.4Mn. The sheer scale of Saudi's fund management sector impresses. Easily the GCC's most dominant mutual fund market in terms of total AuM, Saudi's number of funds (227) and average AuM per fund ($103.5Mn) dwarfs its GCC neighbours. However, what it possesses in size, it perhaps lacks in innovation.

With a reliance on Trade Finance vehicles, over 60% of Saudi's AuM is kept within the strictures of short-term, highly liquid and low return money market-style funds. These "fixed income light" and cash products account for almost $15Bn in AuM and tend to be the preserve of large corporates, or high-net-worth investors, seeking short-term cash management solutions.

Equity funds represent the region's highest returning ventures though, with Jadwa's Saudi Equity Fund leading the national three-year track-record pack with returns of 50.14% (Jan 13). The fund – like 80% of the Saudi fund universe – is Shariah-compliant, investing in companies listed on the Saudi equity market. With over 47 funds focused on the Tadawul, the Saudi exchange remains the region's most liquid forum for equity trades. It also remained the leader across the MENA region for new IPOs in 2012, raising $1.4Bn through seven IPOs, with an uptick on this expected in 2013 and a series of managers planning accompanying IPO fund launches.

Saudi's largest equity fund by AuM is HSBC's Amanah Saudi Equity Fund, a Shariah-compliant retail vehicle investing in the Saudi stock exchange. It charges a management fee of 1.5% and has a minimum initial investment level of $1,300. Currently it is up 30.7% over three years and has a YTD (4 March 2013) of 4.2%.

The country's equity vehicles are expected to continue to enjoy a run of positive performance, primarily driven by strong fundamentals, the dividend yields available to investors, earnings growth, and low interest rates which continue to make a compelling case for the Saudi exchange. Total value traded, which had been on the decline since peaking in 2006, surged in 2011, and has continued to increase in 2012 and 2013 – a major positive for managers and their investors.

Equity markets do not exist in isolation. Many of the equity specialists who responded to the *Barometer* cited Saudi's property and infrastructure boom as a key driver of equity values in 2013, with the state's building programme expected to drive earnings for corporates, increase liquidity in the country and push up the performance and AuM of Saudi focused mutual funds.

Like other robust MENA markets, the biggest local asset managers tend to be firmly embedded in the country's leading banks. NCB Capital, HSBC Saudi, Al Rajhi Capital; Samba Capital and Saudi Fransi Capital, are all offshoots of multi-billion-riyal parents, although standalone firms such as Jadwa Investments are making significant gains.

## Saudi Arabia's key fund managers

**Al Rajhi Capital**

One of Saudi Arabia's leading asset managers, CEO Gaurav Shah has ensured Al Rajhi Capital maintains its reputation for innovation despite competition elsewhere in the market. Shah joined the firm in July 2009 and was appointed CEO in November 2010. He has presided over a period of growth for the company, which has seen product launches including the Multi-Asset Conservative Fund (launched in June 2011) and the Al Rajhi MENA Dividend Growth Fund (March 2012). The firm manages around SAR26Bn ($6.9Bn) in assets in a portfolio of almost 20 funds.

**Falcom Financial Services**

Saudi-based Falcom continues to make waves in Saudi's emerging ETF market. Its commitment to new product has paved the way for other

ETF funds in the region and strong performance across the firm's suite of funds cements its position as a top Saudi investment house.

**HSBC Saudi**

With over $2.2Bn in its fund portfolio, and another $2.4Bn in discretionary portfolio management (DPM), HSBC Saudi is one of the region's biggest players. Led by Osamah Shaker, it has had a run of launches over the past 12 months, including the firm's debut ETF fund and a commodity fund. The firm is currently working on Saudi Arabia's first domestic sukuk programme. Shaker has spoken of his desire to expand the firm's asset management capability across the MENA region over the next few years.

**Jadwa Investments**

In 2011, Sarah Al Suhaimi made history by becoming the first female head of asset management in Saudi Arabia, when she took over from Fadi Tabbara at Jadwa Investments. Having joined Jadwa in May 2007 as senior portfolio manager, she became head of portfolio management and has played a role in the marketing and development of the company's products. Despite the high-level staff change, Jadwa's fund portfolio has performed consistently well, particularly its Saudi Equity Fund. The firm's partnership with Russell Investments has helped position it as an international player.

**Riyad Capital**

With over 30 funds covering investment areas in all markets, Riyad Capital has its client base well covered. In February 2012, Takaful Emarat chose the firm to manage its first self-seeded product, against stiff competition. Ali Al Gwaiz, CEO, heads up the firm's fund management business, as well as its wealth management, investment banking and brokerage services.

**NCB Capital**

The largest asset manager in MENA's largest market, Saudi Arabia's NCBC has over SAR45Bn ($12Bn) in AuM, and just keeps growing. The firm maintains a steady stream of fund launches, including a dividend-based fund, a real estate fund and a SME-facing fund in 2011 alone. A recently announced strategic alliance with the Trust Company of the West (TCW) and Amundi aims to further the firm's global reach and create one of the largest and most diversified Shariah fund platforms in the world.

**Saudi Fransi Capital**

Saudi Fransi CEO Al Rumayyan has unrivalled experience in the Saudi market, having spent seven years with the local regulator, the Saudi CMA. During this time, he helped to implement the game-changing swaps and p-notes initiatives, allowing foreign investors some access to the Saudi market for the first time. Now CEO at Saudi Fransi Capital, he manages SAR2.4Bn ($665Mn) in Saudi-domiciled funds alone, with another SAR2.4Bn ($665Mn) in third-party funds. In anticipation of a further opening-up of the market, the firm has launched a specialist services group aimed at international investors.

**SambaCapital**

SambaCapital takes a global view of its business, with a 25-strong mixed portfolio of products investing in international markets. However, the launch of the Al Ataa Saudi Equities Fund in July 2011 showed the firm's continued commitment to the local market.

**Saudi Hollandi Capital**

A spin-off of the SAR3.97Bn ($1Bn) bank Saudi Hollandi, Saudi Hollandi Capital has the potential to be a big player in the local market, with 22 funds under management following a series of investment fund launches in 2011 and 2012.

The dominance of equity and money market funds in the Saudi mutual fund industry can partly be explained by the limited Shariah-compliant options in the fixed income space. The sukuk market has started to pick up strongly over the last couple of years but still lacks depth, *Barometer* respondents complained that despite the local market's strengths it was sometimes difficult to construct meaningfully diversified portfolios. However, this is evolving and HSBC Saudi is one of a number of firms which have made the move into Shariah-compliant commodity funds and sukuk funds in recent years.

The HSBC Amanah Sukuk Fund is now Saudi's largest bond fund in AuM, with $67Mn. The fund's assets are invested in global sukuk as well as Shariah-compliant money market funds. It charges a management fee of 0.75% and is currently slightly down YTD, with returns of -0.05%.

## Alternative funds

Saudi Arabia is experiencing a government-sponsored construction boom, which is feeding a renewed interest in infrastructure and property fund launches. Last year, the Saudi government increased its public expenditure, in areas such as housing and infrastructure, to a record $214Bn, 39% more than originally planned, according to data from global property services firm CBRE.

The growth is helping to encourage a burgeoning alternative fund sector with a number of new real estate funds expected to enter the market. In May 2011 Saudi investment firm, NCB Capital, was one of the first to launch a Saudi-facing real estate fund, which targeted the Mecca and West Jeddah region – an area which continues to be a hotspot for development.

Last year Alkhabeer Capital also revealed plans to launch a $39.9Mn residential development fund and a $66.6Mn industrial property development fund for 'build to suit' situations. Changes to Saudi mortgage law are expected to propel new property related investment vehicles to market in 2013.

Managers who responded to the *Barometer* – both local Saudi players and asset managers from across wider-MENA – remain bullish about Saudi Arabian real estate, as well as other products associated with the country's growing population and strong growth fundamentals.

Making the most of this trend, the Islamic Development Bank (IDB) is partnering with Dutch asset manager Robeco to launch a $600Mn food and agriculture fund to invest in projects that promote steady food supply, an issue widely seen as a catalyst for last year's Arab Spring uprisings. The fund hopes to raise an initial $350Mn to begin operations, targeting institutional investors as well as governmental and multilateral organisations and will have a 10-year term.

Based in Saudi, the fund is the first public private partnership of this nature and size to address the inefficiencies and wastage facing the food and agricultural sector throughout the IDB's 56 member countries. Boosting regional food production, supply and trade, the fund's investments will also lead to job creation, transfer of technology, promotion of sustainable practices and poverty alleviation.

Saudi Arabia also possesses one of the region strongest Shariah-compliant investment sectors. Over 80%, approximately $18.8Bn, of the country's domestic funds are either fully or partially Shariah-compliant. Chief among these vehicles is NCB Capital's AlAhli Saudi Riyal Trade Fund. A $3.9Bn money market fund, it primarily invests in short-term Murabaha Saudi Riyal investments and charges a 0.75% management fee. Over three years it has returned 1.3%.

## Investor overview

### Key investors

- Lacking a private and employer managed pension industry, Saudi's total retirement pot is a huge $116.7Bn and is managed by two state providers – the General Organisation of Social Insurance and the Public Pension Agency.
- Saudi Arabia's high-net-worth community is MENA's largest centre of private wealth, with approximately 1,265 ultra-high-net-worth individuals (UHNWI) holding $230Bn in assets. In 2012, 35 new UHNWI were created – a lift of 2.8%.
- Saudi Arabia's mutual fund management sector is responsible for assets of $23.5Bn, the largest fund management sector in the GCC.
- Direct foreign investment has dropped in recent years, but in 2011 still accounted for net inflows of $16.3Bn, down from a high of $39.5Bn in 2008.
- Saudi Arabia's two sovereign wealth funds – SAMA Foreign Holdings and the Public Investment Fund – account for assets of $538Bn. The vast majority of these assets are invested overseas.

**SWF brief: SAMA Foreign Holdings**

Saudi's main sovereign wealth fund is controlled by the Saudi Arabian Monetary Authority, a part of the country's central bank. According to the Sovereign Wealth Fund Institute, SAMA Foreign Holdings is the third largest sovereign wealth fund in the world, with an estimated $533Bn in assets under management as of 2011. The majority of the wealth held in the fund is derived from the oil wealth of Saudi Arabia while the fund also manages Saudi public pensions. The fund is highly secretive regarding its holdings and investment strategies, but is believed to invest mostly in liquid, low-risk bonds, deposits and equities.

**SWF brief: The Public Investment Fund (PIF)**

The smaller of Saudi's two sovereign wealth funds, the $5.3Bn PIF was established by royal decree in 1971 to provide finance support to commercial projects which are strategically significant for the development of the national economy of Saudi Arabia and which cannot be implemented by the private sector alone either because of insufficient experience or inadequate capital resources or both. It has invested in petroleum refineries, petrochemical industries, pipelines and storage, transportation, energy, minerals, water desalination and infrastructural facilities.

The Saudi local investor is chiefly characterised as either retail money ensconced in Shariah-compliant equity funds or corporate entities – often owned by family offices – using Saudi's plethora of money market funds for short-term cash management.

Asset managers who responded to the *Barometer* complained about a lack of 'sophisticated' institutional investors. This is expected to change with the emergence of more Islamic bond (sukuk) funds as the market matures. An increase in quality sukuk issuance will enable fund managers to structure investment solutions offering greater predictability of returns and more appropriate risk reward structures, which will attract the interest of local pension funds and possibly a number of sovereign wealth funds. Following regulatory change, Saudi's significant insurance sector is also starting to channel greater premium investments through the local asset management sector – a trend described as game changing by a number of *Barometer* respondents. However, for the time being Saudi Arabia remains one of the region's most developed and reliable retail markets. Currently HNWI retail investors, who were previously investing overseas, primarily with non-Saudi managers, are looking for more local opportunities and are showing an increased interest in GCC equity markets. This will put domestic managers possessing a good regional footprint in a strong position this year, with a number of *Barometer* respondents reporting Saudi HNWI inflows into their Saudi and GCC-focused equity funds.

A lack of foreign investment was also flagged up as a future drag on Saudi markets, which remain only accessible to domiciles based in the region, or through swaps or p-notes, which are done via third parties and tend to be fee-heavy. While officials are keen to open share-buying up to international investors and increase the capital available to local companies, to date this has been little more than hearsay.

Last year there were strong rumours that Saudi Arabia would open a new investment era by implementing a Chinese-style system of Qualified Foreign Institutional Investors (QFIIs), but the authorities have yet to confirm any such changes to the present system. In fact, Saudi has a history of being one of the world's most self-contained fund centres. However, once the Saudi market opens up the wave of fresh foreign investment will be direct and will not have an immediate direct impact on the domestic mutual fund market. However, mutual fund managers who responded to the Barometer said that increased foreign investment would have a number of significant indirect benefits, primarily increasing stock market liquidity and producing a six to 12-month honeymoon period of accelerated gains – this is likely to lead to more local money entering Saudi mutual funds.

## Fund distribution strategies and cost of business

Under Saudi law a fund manager must be an authorised person in accordance with Saudi Arabia's Authorised Person Regulation (APR) and duly licensed by the CMA to manage investment funds. To become an authorised person an application must be made to the CMA. Each application must be accompanied by the detailed requirements specified in the APR.

Foreign investment funds should be marketed or advertised in Saudi via an authorised person, usually a local manager. The actual management function can be outsourced to an entity outside of Saudi Arabia but a resident manager is still required. As such, large banks – particularly NCB Capital, HSBC Saudi, Al Rajhi Capital; Samba Capital and Saudi Fransi Capital – remain the country's key distribution hubs of fund product.

The domestic asset management market has been witnessing a change with focus shifting from generic funds to more customised discretionary portfolios. Most domestic institutional investors, family offices and high-net-worth clients now prefer to have their investment managed through separately managed accounts that are catered to their specific requirements – this has pushed up fund management overheads over the last two to three years.

An emerging layer of smaller managers is developing in Saudi Arabia, but is struggling to break the implacable distribution might of the banks. Managers currently looking to carve out a meaningful presence in Saudi Arabia, while controlling costs, can partner up with a Saudi regulated entity and sell products – via a revenue share model – from a partner firm's platform. Finding the right partner can be challenging, according to *Barometer* responses, but striking such a deal was the best way to control cost and access a viable distribution network. The partnership approach was deemed to be a significantly better option than struggling for a licence and fighting for brand recognition in a crowded market.

Operating in Saudi Arabia is capital intensive. According to the Saudi-based managers who responded to the *Barometer,* the operating costs for managers were higher than elsewhere in the GCC, while the significantly larger average size of funds in the region was seen as a barrier to entry. However, a number of smaller managers were hoping to crack the Saudi market and bypass traditional distribution channels by offering diversity in a market that was characterised as being overly reliant on general non-sector specific equity funds and money market product.

Newer entrants believed they could market directly to HNWIs by promising more medium risk-style products, as well as sukuk funds.

Citing a return to a more risk-on environment, as well as attempts by HNWIs at better portfolio risk management, small managers thought both to be trends that will bring them to the attention of a new audience. However, *Barometer* respondents said that only those small managers who offered higher and uncorrelated returns could begin to make ground outside of the traditional distribution networks of banks and large asset management firms. ■

### Key developments: opportunities and challenges

■ Saudi Arabia has become more hawkish – the CMA has restricted distribution of non-domestic funds and ramped up programmes of Saudi-isation and fines for non-compliance

■ Last year many predicted Saudi to open its stock market to foreign investors, this now seems a remote possibility in 2013.

■ Concerns over political succession should be mollified with a wave of third generation Al Saud's reaching senior political office

■ Saudi has a significant infrastructure programme that represents a fairly solid investment opportunity. A new mortgage law and house building programme will also aid this.

# Saudi Arabia

Total AuM $2.3Bn Total Number of funds 227 Total number of managers 33

Source: Zawya

## Funds domiciled in Saudi Arabia (including Saudi Arabia focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Saudi Arabia AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Al Awwal Financial Services | Alawwal Periodic Income Fund | ✔ | 2.0 | 41.3 | - | - | Jan-13 |
| Al Awwal Financial Services | Alawwal SAR Murabaha Fund | ✔ | 37.8 | 41.3 | 1.6 | 3.6 | Jan-13 |
| Al Awwal Financial Services | Alawwal Saudi Equity Fund | ✔ | 1.5 | 41.3 | 14.9 | 17.8 | Jan-13 |
| Al Bilad Investment Company | Akar Fund | ✔ | 0.8 | 259.7 | 17.7 | 8.6 | Jan-13 |
| Al Bilad Investment Company | Al Murabeh Riyal Fund | ✔ | 58.5 | 259.7 | 1.2 | 2.5 | Jan-13 |
| Al Bilad Investment Company | Al-Seef Fund | ✔ | 10.1 | 259.7 | 6.7 | -0.6 | Jan-13 |
| Al Bilad Investment Company | Amwal Fund | ✔ | 1.3 | 259.7 | 0.5 | -6.2 | Jan-13 |
| Al Bilad Investment Company | Asayel Fund | ✔ | 171.1 | 259.7 | 17.7 | 25.1 | Jan-13 |
| Al Bilad Investment Company | Ithmar Fund | ✔ | 17.9 | 259.7 | - | - | Jan-13 |
| Al Jazira Capital | AlJazira Global Emerging Markets Fund | ✔ | 10.6 | 10.6 | - | - | Jan-13 |
| Al Rajhi Capital | Al Rajhi Commodities Mudaraba Fund-SAR | ✔ | 2,033.7 | 2,578.6 | 1.4 | 3.8 | Jan-13 |
| Al Rajhi Capital | Al Rajhi Commodities Mudaraba Fund-USD | ✔ | 183.5 | 2,578.6 | 1.4 | 3.8 | Jan-13 |
| Al Rajhi Capital | Al Rajhi GCC Equity Fund | ✔ | 61.6 | 2,578.6 | 10.2 | 25.1 | Jan-13 |
| Al Rajhi Capital | Al Rajhi GCC Shares Capital Protected Fund (90%) | ✔ | 6.3 | 2,578.6 | 4.7 | ' | Dec-12 |
| Al Rajhi Capital | Al Rajhi Global Equity Fund | ✔ | 13.8 | 2,578.6 | 5.0 | 23.4 | Jan-13 |
| Al Rajhi Capital | Al Rajhi India China Equity Fund | ✔ | 13.8 | 2,578.6 | 8.9 | 11.1 | Jan-13 |
| Al Rajhi Capital | Al Rajhi Local Share Fund | ✔ | 135.3 | 2,578.6 | 10.0 | 30.7 | Jan-13 |
| Al Rajhi Capital | Al Rajhi Local Shares Capital Protected Fund (90%) | ✔ | 5.6 | 2,578.6 | 10.2 | - | Dec-12 |
| Al Rajhi Capital | Al Rajhi Multi Asset Conservative Fund | ✔ | 26.8 | 2,578.6 | 2.9 | - | Jan-13 |
| Al Rajhi Capital | Al Rajhi Petrochemicals and Cement Equity Fund | ✔ | 17.7 | 2,578.6 | 7.4 | 28.6 | Jan-13 |
| Al Rajhi Capital | Al-Rajhi MENA Dividend Growth Fund | ✔ | 14.9 | 2,578.6 | - | - | Dec-12 |
| Al Rajhi Capital | Al-Rajhi Multi Asset Balanced Fund | ✔ | 51.7 | 2,578.6 | 3.7 | 9.3 | Dec-12 |
| Al Rajhi Capital | Al-Rajhi Multi Asset Growth Fund | ✔ | 13.1 | 2,578.6 | 8.4 | 20.1 | Dec-12 |
| Al Rajhi Capital | EUR Commodity Mudaraba Fund | ✔ | 0.8 | 2,578.6 | 0.9 | 2.8 | Jan-13 |
| Alinma Investment Company | Alinma Saudi Equity Fund | ✔ | 16.0 | 48.2 | 8.2 | - | Jan-13 |
| Alinma Investment Company | Alinma Saudi Riyal Liquidity Fund | ✔ | 32.2 | 48.2 | 0.8 | - | Jan-13 |
| Alistithmar Capital | SAIB Arab Companies Fund | ✔ | 7.5 | 309.5 | 10.0 | 22.7 | Jan-13 |
| Alistithmar Capital | SAIB Fund of Funds | | 7.1 | 309.5 | 4.9 | 12.6 | Jan-13 |
| Alistithmar Capital | SAIB GCC Equity Fund | | 59.3 | 309.5 | 10.7 | 27.4 | Jan-13 |
| Alistithmar Capital | SAIB Global Equity Fund | | 7.5 | 309.5 | 8.1 | 22.2 | Jan-13 |
| Alistithmar Capital | SAIB Murabaha Fund | ✔ | 5.6 | 309.5 | 0.4 | 0.8 | Jan-13 |
| Alistithmar Capital | SAIB Saudi Companies Fund | ✔ | 16.4 | 309.5 | 13.4 | 27.9 | Jan-13 |
| Alistithmar Capital | SAIB Saudi Equity Fund | | 14.8 | 309.5 | 7.1 | 15.1 | Jan-13 |
| Alistithmar Capital | SAIB Sukuk Fund | ✔ | 8.0 | 309.5 | 3.9 | - | Jan-13 |
| Alistithmar Capital | SAIB Trade Finance Fund | ✔ | 175.3 | 309.5 | 1.0 | 2.6 | Jan-13 |
| Alistithmar Capital | SAIB US Equity Fund | | 8.0 | 309.5 | 9.6 | 37.9 | Jan-13 |
| Aljazira Capital | Al Khair Global Equity Fund | ✔ | 46.8 | 362.6 | 2.4 | 16.9 | Jan-13 |
| Aljazira Capital | Al Mashareq Japanese Equity Fund | ✔ | 43.5 | 362.6 | -0.4 | 0.5 | Jan-13 |
| Aljazira Capital | Al Qawafel Commodities Trading Fund | ✔ | 157.7 | 362.6 | 1.1 | 2.1 | Jan-13 |
| Aljazira Capital | Al Taiyebat Saudi Equity Fund | ✔ | 64.4 | 362.6 | 8.7 | 30.7 | Jan-13 |
| Aljazira Capital | Al Thoraya European Equity Fund | ✔ | 50.2 | 362.6 | 9.6 | 20.8 | Jan-13 |
| Al-Khabeer Capital | Al-Khabeer GCC Equity Fund | ✔ | 3.2 | 8.6 | 2.2 | - | Jan-13 |
| Al-Khabeer Capital | Al-Khabeer Liquidity Fund Hasseen | ✔ | 5.4 | 8.6 | - | - | Jan-13 |
| Alkhair Capital | Alkhair Capital Saudi Equity Fund | ✔ | - | - | - | - | - |
| Alkhair Capital | Alkhair Capital Sukuk Plus Fund | ✔ | - | - | - | - | - |
| Al-Nefaie Investment Group | Al-Nefaie Saudi Equity Trading Fund | ✔ | 0.4 | 0.4 | -1.9 | - | Jan-13 |
| Aloula Geojit Capital | Al Johar Saudi Equity Fund | | 1.8 | 1.8 | -2.8 | - | Jan-13 |
| ANB Invest | Al Arabi Asian Equity Fund | | 5.7 | 682.3 | 15.3 | 30.2 | Jan-13 |
| ANB Invest | Al Arabi Balanced Fund | | 4.2 | 682.3 | 8.3 | 11.0 | Dec-12 |
| ANB Invest | Al Arabi Conservative Fund | | 1.8 | 682.3 | 4.0 | 4.9 | Dec-12 |
| ANB Invest | Al Arabi European Equity Fund | | 6.5 | 682.3 | 24.7 | 17.8 | Dec-12 |
| ANB Invest | Al Arabi Global Bond Fund | | 5.9 | 682.3 | 4.7 | 14.1 | Dec-12 |
| ANB Invest | Al Arabi Growth Fund | | 3.0 | 682.3 | 12.2 | 16.8 | Dec-12 |
| ANB Invest | Al Arabi Japan Equity Fund | | 2.3 | 682.3 | 4.8 | 5.3 | Dec-12 |
| ANB Invest | Al Arabi SAR Money Market Fund | | 34.9 | 682.3 | 1.0 | 2.7 | Dec-12 |
| ANB Invest | Al Arabi Saudi Equity Fund | | 53.0 | 682.3 | 3.8 | 22.0 | Dec-12 |
| ANB Invest | Al Arabi US Equity Fund | | 6.8 | 682.3 | 18.1 | 38.0 | Dec-12 |

Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Saudi Arabia AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| ANB Invest | Al Mubarak Balanced Fund | ✔ | 2.2 | 682.3 | 1.9 | 2.6 | Jan-13 |
| ANB Invest | Al Mubarak Global Equity Fund | ✔ | 4.4 | 682.3 | 7.7 | 14.5 | Jan-13 |
| ANB Invest | Al Mubarak Pure Saudi Equity Fund | ✔ | 53.8 | 682.3 | 8.9 | 19.9 | Jan-13 |
| ANB Invest | Al Mubarak SAR Trade Fund | ✔ | 400.2 | 682.3 | 1.0 | 2.5 | Jan-13 |
| ANB Invest | Al Mubarak Saudi Equity Fund | ✔ | 68.4 | 682.3 | 8.1 | 33.4 | Jan-13 |
| ANB Invest | Al Mubarak USD Trade Fund | ✔ | 29.1 | 682.3 | 0.5 | 1.2 | Jan-13 |
| Arbah Capital | Arbah IPO Fund | ✔ | 7.8 | 7.8 | 25.4 | - | Jan-13 |
| Audi Capital | Arabian Opportunities Fund | | 15.7 | 20.8 | 8.8 | 17.5 | Jan-13 |
| Audi Capital | The Saudi Index Fund | | 5.1 | 20.8 | 6.0 | 15.9 | Jan-13 |
| Bakheet Investment Group | Bakheet IPO Fund | | 24.9 | 36.7 | 29.2 | 63.1 | Jan-13 |
| Bakheet Investment Group | Bakheet Qatari Trading Equity Fund | ✔ | 2.1 | 36.7 | 6.7 | - | Jan-13 |
| Bakheet Investment Group | Bakheet Saudi Trading Equity Fund | ✔ | 9.7 | 36.7 | 11.7 | 30.7 | Jan-13 |
| Blominvest Saudi Arabia | BLOM Saudi Arabia Fund | | 15.9 | 15.9 | 4.5 | - | Jan-13 |
| EFG-Hermes KSA | EFG-Hermes Saudi Arabia Equity Fund | | 20.4 | 20.4 | 12.2 | 33.1 | Jan-13 |
| Falcom Financial Services | FALCOM 30 ETF | ✔ | 18.5 | 123.9 | 9.7 | - | Jan-13 |
| Falcom Financial Services | Falcom Arab Markets Fund | ✔ | 6.3 | 123.9 | 16.1 | - | Jan-13 |
| Falcom Financial Services | Falcom IPO Fund | ✔ | 4.0 | 123.9 | 60.7 | 114.2 | Jan-13 |
| Falcom Financial Services | Falcom Multi Asset Fund | ✔ | 0.1 | 123.9 | 4.6 | 9.8 | Jan-13 |
| Falcom Financial Services | Falcom Petrochemical ETF | ✔ | 7.2 | 123.9 | 0.9 | - | Jan-13 |
| Falcom Financial Services | Falcom Saudi Equity Fund | ✔ | 45.7 | 123.9 | 10.1 | 36.3 | Jan-13 |
| Falcom Financial Services | Falcom Saudi Riyal Morabaha Fund | ✔ | 42.1 | 123.9 | 1.4 | 2.7 | Jan-13 |
| Global Investment House Saudi Arabia | Global Saudi Equity Fund | | 116.9 | 118.9 | 7.1 | 21.2 | Jan-13 |
| Global Investment House Saudi Arabia | Global Shariah Compliant Saudi Equity Fund | ✔ | 2.0 | 118.9 | 8.5 | 16.0 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah China India Freestyle Equity Fund | ✔ | 43.7 | 1,935.7 | 7.9 | 1.8 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Commodity Index Fund | ✔ | 10.7 | 1,935.7 | -1.2 | - | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah GCC Equity Fund | ✔ | 19.6 | 1,935.7 | 21.2 | 41.9 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah GCC Equity Income Fund | ✔ | 28.2 | 1,935.7 | - | - | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Global Equity Index Fund | ✔ | 12.9 | 1,935.7 | 11.3 | 25.0 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Multi-Assets Balanced Fund | ✔ | 90.8 | 1,935.7 | 8.4 | 14.6 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Multi-Assets Defensive Fund | ✔ | 66.0 | 1,935.7 | 4.9 | 9.2 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Multi-Assets Growth Fund | ✔ | 29.6 | 1,935.7 | 12.2 | 21.3 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Saudi 20 ETF | ✔ | 4.0 | 1,935.7 | 13.9 | - | Oct-12 |
| HSBC Saudi Arabia Limited | HSBC Amanah Saudi Equity Fund | ✔ | 770.3 | 1,935.7 | 16.8 | 37.1 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Saudi Freestyle Equity Fund | ✔ | 30.3 | 1,935.7 | 23.8 | - | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Saudi Industrial Companies Fund | ✔ | 58.9 | 1,935.7 | 9.5 | 22.7 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Saudi Riyal Trading Fund | ✔ | 448.7 | 1,935.7 | 0.5 | 1.6 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah Sukuk Fund | ✔ | 66.6 | 1,935.7 | - | - | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Amanah USD Trading Fund | ✔ | 16.2 | 1,935.7 | 0.1 | 0.8 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Global Emerging Markets Equity Fund | ✔ | 33.9 | 1,935.7 | 1.4 | 10.3 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Saudi Construction and Cement Equity Fund | | 21.7 | 1,935.7 | 5.3 | 43.0 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Saudi Equity Fund | | 54.8 | 1,935.7 | 9.8 | 22.4 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Saudi Equity Index Fund | | 2.3 | 1,935.7 | 4.3 | 13.5 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Saudi Equity Trading Fund | | 73.4 | 1,935.7 | 14.5 | 34.9 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Saudi Financial Institutions Equity Fund | | 23.0 | 1,935.7 | 0.8 | -3.8 | Jan-13 |
| HSBC Saudi Arabia Limited | HSBC Saudi Petrochemical Equity Opportunities Fund | | 30.4 | 1,935.7 | 1.7 | 17.8 | Jan-13 |
| Itqan Capital Company | Aldurrah SAR Liquidity Fund | ✔ | 4.1 | 4.1 | 3.2 | 4.2 | Jan-13 |
| Jadwa Investment | Jadwa Arab Markets Equity Fund | ✔ | 5.0 | 142.4 | 19.3 | 42.6 | Jan-13 |
| Jadwa Investment | Jadwa GCC Equity Fund | ✔ | 5.0 | 142.4 | 21.9 | 51.8 | Jan-13 |
| Jadwa Investment | Jadwa GCC Equity Index Fund | ✔ | 2.9 | 142.4 | 7.2 | 22.6 | Jan-13 |
| Jadwa Investment | Jadwa Global Sukuk Fund | ✔ | 23.0 | 142.4 | 6.5 | 17.6 | Jan-13 |
| Jadwa Investment | Jadwa Saudi Equity Fund | ✔ | 32.4 | 142.4 | 22.9 | 49.8 | Jan-13 |
| Jadwa Investment | Jadwa Saudi Equity Index Fund | ✔ | 2.2 | 142.4 | 7.1 | 24.5 | Jan-13 |
| Jadwa Investment | Jadwa Saudi Riyal Murabaha Fund | ✔ | 71.9 | 142.4 | 0.7 | 1.5 | Jan-13 |
| KSB Capital Group | KSB IPO Fund | ✔ | 6.4 | 26.7 | 21.5 | 68.9 | Dec-12 |
| KSB Capital Group | KSB Murabaha Fund | ✔ | 19.0 | 26.7 | 0.6 | 1.3 | Jan-13 |
| KSB Capital Group | KSB Qatar Equity Fund | ✔ | 0.5 | 26.7 | -2.3 | - | Jan-13 |
| KSB Capital Group | KSB Saudi Equity Fund | ✔ | 0.8 | 26.7 | 3.1 | 15.8 | Jan-13 |
| Middle East Financial Investment Company | MEFIC Saudi Riyal Murabaha Fund | ✔ | 19.9 | 19.9 | 1.3 | - | Jan-13 |
| Morgan Stanley Saudi Arabia | Morgan Stanley Saudi Equity Fund | | 14.8 | 14.8 | 8.5 | 29.7 | Jan-13 |
| Muscat Capital LLC | Muscat Capital Oman Premier Fund | | 1.0 | 1.0 | 5.7 | - | Jan-13 |

Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Saudi Arabia AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| NCB Capital | Al Manarah Conservative Growth Fund | ✔ | 141.2 | 7,540.9 | -0.4 | 2.3 | Jan-13 |
| NCB Capital | Al Manarah High Growth Fund | ✔ | 36.9 | 7,540.9 | -0.1 | 9.2 | Jan-13 |
| NCB Capital | Al Manarah Medium Growth Portfolio | ✔ | 63.1 | 7,540.9 | -0.1 | 4.8 | Jan-13 |
| NCB Capital | AlAhli Asia Pacific Trading Equity Fund | ✔ | 21.6 | 7,540.9 | 1.1 | 27.6 | Jan-13 |
| NCB Capital | AlAhli Diversified Saudi Riyal Trade Fund | ✔ | 1,616.7 | 7,540.9 | 0.6 | 1.3 | Jan-13 |
| NCB Capital | AlAhli Diversified US Dollar Trade Fund | ✔ | 241.7 | 7,540.9 | 0.9 | 1.9 | Jan-13 |
| NCB Capital | AlAhli Emerging Markets Trading Equity Fund | ✔ | 99.0 | 7,540.9 | -5.2 | 14.7 | Jan-13 |
| NCB Capital | AlAhli Euro Murabahat Fund | ✔ | 15.8 | 7,540.9 | 0.2 | 1.0 | Jan-13 |
| NCB Capital | AlAhli Europe Trading Equity Fund | ✔ | 22.8 | 7,540.9 | 13.0 | 28.7 | Jan-13 |
| NCB Capital | AlAhli GCC Growth and Income Fund | ✔ | 30.3 | 7,540.9 | 9.2 | - | Jan-13 |
| NCB Capital | AlAhli GCC Trading Equity Fund | ✔ | 67.5 | 7,540.9 | 10.8 | 24.8 | Jan-13 |
| NCB Capital | AlAhli Global Natural Resource Fund | ✔ | - | 7,540.9 | - | - | - |
| NCB Capital | AlAhli Global Real Estate Fund | ✔ | 13.3 | 7,540.9 | 17.9 | 45.8 | Jan-13 |
| NCB Capital | AlAhli Global Trading Equity Fund | ✔ | 270.0 | 7,540.9 | -1.0 | 16.1 | Jan-13 |
| NCB Capital | AlAhli Healthcare Trading Equity Fund | ✔ | 45.2 | 7,540.9 | 11.7 | 27.1 | Jan-13 |
| NCB Capital | AlAhli International Trade Fund | ✔ | 209.3 | 7,540.9 | 0.7 | 1.4 | Jan-13 |
| NCB Capital | AlAhli National Investment Fund | | 62.1 | 7,540.9 | 0.5 | 1.2 | Jan-13 |
| NCB Capital | AlAhli Saudi Dynamic Trading Equity Fund (A) | ✔ | 6.4 | 7,540.9 | 2.4 | - | Jan-13 |
| NCB Capital | AlAhli Saudi Mid-Cap Equity Fund | ✔ | 17.6 | 7,540.9 | 16.0 | 46.3 | Jan-13 |
| NCB Capital | AlAhli Saudi Riyal Trade Fund | ✔ | 3,873.3 | 7,540.9 | 0.6 | 1.2 | Jan-13 |
| NCB Capital | AlAhli Saudi Trading Equity Fund | ✔ | 410.4 | 7,540.9 | 4.1 | 24.5 | Jan-13 |
| NCB Capital | AlAhli Short-Term Dollar Fund | | 28.8 | 7,540.9 | 0.8 | 1.4 | Jan-13 |
| NCB Capital | AlAhli Small Cap Trading Equity Fund | ✔ | 79.5 | 7,540.9 | -9.4 | 4.0 | Jan-13 |
| NCB Capital | AlAhli US Dollar Sukuk and Murabaha Fund | ✔ | 124.4 | 7,540.9 | 2.4 | - | Jan-13 |
| NCB Capital | AlAhli US Trading Equity Fund | ✔ | 44.1 | 7,540.9 | 6.4 | 27.4 | Jan-13 |
| Rana Investment Company | Rana Saudi Equity Fund | | 1.3 | 1.3 | 4.8 | 5.5 | Jan-13 |
| Riyad Capital | Al Emaar Fund | ✔ | 4.3 | 3,720.3 | 13.9 | 24.2 | Jan-13 |
| Riyad Capital | Al Hadi Fund | | 8.1 | 3,720.3 | 1.8 | 4.3 | Jan-13 |
| Riyad Capital | Al Hadi Shariah Compliant Fund | ✔ | 27.0 | 3,720.3 | 1.6 | 4.3 | Jan-13 |
| Riyad Capital | Al Mokdam Fund | | 8.4 | 3,720.3 | 5.8 | 15.2 | Jan-13 |
| Riyad Capital | Al Mokdam Shariah Compliant Fund | ✔ | 19.9 | 3,720.3 | 5.2 | 15.1 | Jan-13 |
| Riyad Capital | Al Shamekh Fund | | 25.4 | 3,720.3 | 8.9 | 21.0 | Jan-13 |
| Riyad Capital | Al Shamekh Shariah Compliant Fund | ✔ | 28.9 | 3,720.3 | 8.4 | 23.7 | Jan-13 |
| Riyad Capital | Al Shujaa Fund | | 12.8 | 3,720.3 | 7.2 | 17.9 | Jan-13 |
| Riyad Capital | Al Shujaa Sharia Compliant Fund | ✔ | 15.1 | 3,720.3 | 6.7 | 19.6 | Jan-13 |
| Riyad Capital | American Stock Fund | | 316.5 | 3,720.3 | 13.8 | 39.1 | Jan-13 |
| Riyad Capital | British Stock Fund | | 14.0 | 3,720.3 | 11.8 | 25.8 | Jan-13 |
| Riyad Capital | Commodity Trading Fund (SAR) | ✔ | 582.9 | 3,720.3 | 0.9 | 2.1 | Jan-13 |
| Riyad Capital | Commodity Trading Fund (USD) | ✔ | 41.8 | 3,720.3 | 0.4 | 1.1 | Jan-13 |
| Riyad Capital | European Stock Fund | | 517.4 | 3,720.3 | 7.1 | 17.0 | Jan-13 |
| Riyad Capital | Future Equity Fund | | 34.3 | 3,720.3 | 3.5 | 6.7 | Jan-13 |
| Riyad Capital | Global Equity Fund | ✔ | 51.2 | 3,720.3 | 7.8 | 25.3 | Jan-13 |
| Riyad Capital | International Bond Fund | | 27.3 | 3,720.3 | -1.4 | 4.2 | Jan-13 |
| Riyad Capital | International Fund | | 492.5 | 3,720.3 | 14.3 | 28.5 | Jan-13 |
| Riyad Capital | Islamic Balanced Income Fund | ✔ | 17.4 | 3,720.3 | 8.4 | 18.8 | Jan-13 |
| Riyad Capital | Japan Stock Fund | | 19.5 | 3,720.3 | 22.3 | -0.5 | Jan-13 |
| Riyad Capital | Natural Resources Fund | | 7.8 | 3,720.3 | -10.3 | -5.2 | Jan-13 |
| Riyad Capital | Riyad Equity Fund 1 | | 67.8 | 3,720.3 | 7.9 | 23.8 | Jan-13 |
| Riyad Capital | Riyad Equity Fund 2 | ✔ | 515.6 | 3,720.3 | 11.0 | 30.7 | Jan-13 |
| Riyad Capital | Riyad Equity Fund 3 | | 660.9 | 3,720.3 | 4.6 | 13.8 | Jan-13 |
| Riyad Capital | Riyad Gulf Fund | ✔ | 63.9 | 3,720.3 | 11.8 | 21.8 | Jan-13 |
| Riyad Capital | Riyad Money Fund | | 89.8 | 3,720.3 | 0.9 | 2.1 | Jan-13 |
| Riyad Capital | Riyad Money Fund (USD) | | 21.0 | 3,720.3 | 0.5 | 1.2 | Jan-13 |
| Riyad Capital | Riyad Small and Medium Cap Fund | ✔ | 6.4 | 3,720.3 | 17.5 | 41.1 | Jan-13 |
| Riyad Capital | South East Asia Fund | | 20.5 | 3,720.3 | 9.0 | 26.0 | Jan-13 |
| Riyad Capital | Technology Fund | | 1.0 | 3,720.3 | 6.8 | 34.2 | Jan-13 |
| Riyad Capital | Telecommunications Fund | | 0.8 | 3,720.3 | 5.9 | 26.2 | Jan-13 |
| Riyad Capital | US Dollar Bond Fund | | 0.0 | 3,720.3 | 2.7 | 15.1 | Dec-12 |
| Samba Capital | Al Ataa Saudi Equity Fund | ✔ | 39.5 | 4,017.8 | 7.5 | - | Jan-13 |
| Samba Capital | Al Fareed Fund | | 17.8 | 4,017.8 | 8.2 | 20.6 | Dec-12 |
| Samba Capital | Al Musahem Fund | | 148.2 | 4,017.8 | 7.0 | 22.9 | Jan-13 |
| Samba Capital | Al Musahem GCC Fund | | 43.3 | 4,017.8 | 8.9 | 26.0 | Jan-13 |
| Samba Capital | Al Nafees Global Commodities Equity Fund | ✔ | 7.0 | 4,017.8 | -4.0 | - | Jan-13 |

Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Saudi Arabia AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Samba Capital | Al Raed Fund | ✔ | 576.7 | 4,017.8 | 12.5 | 28.5 | Jan-13 |
| Samba Capital | Al Raed GCC Fund | ✔ | 10.5 | 4,017.8 | 12.6 | 24.5 | Dec-12 |
| Samba Capital | Al Razeen Dollar Fund | | 36.5 | 4,017.8 | 1.0 | 2.9 | Jan-13 |
| Samba Capital | Al Razeen Riyal Fund | | 570.4 | 4,017.8 | 1.2 | 3.2 | Jan-13 |
| Samba Capital | China Opportunities Fund | | 44.9 | 4,017.8 | 10.6 | 4.9 | Jan-13 |
| Samba Capital | Euro International Trade Finance Fund | ✔ | 24.1 | 4,017.8 | 0.7 | 2.4 | Jan-13 |
| Samba Capital | Samba Capital Americas Equity Fund | | 0.5 | 4,017.8 | 8.5 | - | Jan-13 |
| Samba Capital | Samba Capital Asian Equity Fund | | 4.5 | 4,017.8 | 8.3 | - | Jan-13 |
| Samba Capital | Samba Capital Europe Equity Fund | | 3.7 | 4,017.8 | 16.0 | - | Jan-13 |
| Samba Capital | Samba Capital Global Equity Fund | | 4.2 | 4,017.8 | 11.8 | - | Jan-13 |
| Samba Capital | SAR International Trade Finance Fund | ✔ | 2,382.2 | 4,017.8 | 1.3 | 3.6 | Jan-13 |
| Samba Capital | USD International Trade Finance Fund | ✔ | 103.8 | 4,017.8 | 1.1 | 3.1 | Jan-13 |
| Saudi Fransi Capital | Al Danah GCC Equity Trading Fund | ✔ | 5.6 | 913.6 | 17.5 | 32.3 | Jan-13 |
| Saudi Fransi Capital | Al Fursan Brasil, Russia, India, China Equity Fund | ✔ | 17.7 | 913.6 | -8.5 | -3.1 | Jan-13 |
| Saudi Fransi Capital | Al Naqaa Asia Growth Fund | ✔ | 9.1 | 913.6 | -0.1 | 18.3 | Jan-13 |
| Saudi Fransi Capital | Al-Badr Murabaha Fund SAR | ✔ | 260.4 | 913.6 | 0.7 | 1.6 | Jan-13 |
| Saudi Fransi Capital | Al-Badr Murabaha Fund USD | ✔ | 23.7 | 913.6 | 0.8 | 1.5 | Jan-13 |
| Saudi Fransi Capital | Al-Qasr GCC Real Estate And Construction Equity Trading Fund | ✔ | 8.4 | 913.6 | 17.4 | 35.1 | Jan-13 |
| Saudi Fransi Capital | Al-Saffa Saudi Equity Trading Fund | ✔ | 90.2 | 913.6 | 19.5 | 48.5 | Jan-13 |
| Saudi Fransi Capital | SAR Money Market Fund | | 348.9 | 913.6 | 0.8 | 1.8 | Jan-13 |
| Saudi Fransi Capital | Saudi Fransi Emering Markets Debt Fund | | 41.2 | 913.6 | - | - | Jan-13 |
| Saudi Fransi Capital | Saudi Istithmar Fund | | 82.0 | 913.6 | 13.7 | 33.6 | Jan-13 |
| Saudi Fransi Capital | USD Money Market Fund | | 26.5 | 913.6 | 0.8 | 1.5 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Aman Multi Asset Fund | ✔ | 3.6 | 483.5 | 1.8 | 3.0 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr GCC Equity Fund | ✔ | 4.1 | 483.5 | 11.4 | 25.1 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Global Emerging Markets Equity Fund | ✔ | 0.6 | 483.5 | -6.5 | - | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Global Equity Fund | ✔ | 3.0 | 483.5 | 6.8 | - | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Mizan Multi Asset Fund | ✔ | 6.1 | 483.5 | 4.4 | 7.2 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Murabaha & Sukuk Fund | ✔ | 26.4 | 483.5 | 0.9 | 2.6 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Saudi Equity Fund | ✔ | 60.6 | 483.5 | 6.8 | 16.9 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Saudi Equity Index Fund | ✔ | 1.4 | 483.5 | 12.0 | 24.8 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Saudi Riyal Murabaha Fund | ✔ | 147.3 | 483.5 | 0.7 | 1.7 | Jan-13 |
| Saudi Hollandi Capital Company | Al Yusr Tamoh Multi Asset Fund | ✔ | 3.8 | 483.5 | 8.0 | 12.7 | Jan-13 |
| Saudi Hollandi Capital Company | Aman Multi Asset Fund | | 4.1 | 483.5 | 1.4 | 1.4 | Jan-13 |
| Saudi Hollandi Capital Company | GCC Financial Institutions Equity Fund | | 10.6 | 483.5 | 7.3 | 18.3 | Jan-13 |
| Saudi Hollandi Capital Company | Global Emerging Markets Equity Fund | | 1.2 | 483.5 | 1.7 | - | Jan-13 |
| Saudi Hollandi Capital Company | Global Equity Fund | | 4.9 | 483.5 | 9.6 | - | Jan-13 |
| Saudi Hollandi Capital Company | Global Property Fund | | 1.0 | 483.5 | 15.3 | - | Jan-13 |
| Saudi Hollandi Capital Company | Mizan Multi Asset Fund | | 20.9 | 483.5 | 4.4 | 5.1 | Jan-13 |
| Saudi Hollandi Capital Company | Saudi Equity Fund | | 17.9 | 483.5 | 0.9 | 1.4 | Jan-13 |
| Saudi Hollandi Capital Company | Saudi Equity Index Fund | | 1.7 | 483.5 | 5.4 | -8.1 | Jan-13 |
| Saudi Hollandi Capital Company | Saudi Financial Institutions Equity Fund | | 16.6 | 483.5 | 2.0 | -3.3 | Jan-13 |
| Saudi Hollandi Capital Company | Saudi Riyal Money Market Fund | | 127.7 | 483.5 | 0.6 | 1.6 | Jan-13 |
| Saudi Hollandi Capital Company | Tamoh Multi Asset Fund | | 2.5 | 483.5 | 7.4 | 6.5 | Jan-13 |
| Saudi Hollandi Capital Company | US Dollar Money Market Fund | | 17.4 | 483.5 | 0.3 | 0.9 | Jan-13 |
| The Investor Company for Securities | The Investor Al Hurr Saudi Equity Fund | ✔ | 1.3 | 12.3 | 11.4 | 21.2 | Jan-13 |
| The Investor Company for Securities | The Investor Saudi Riyal Murabaha Fund | ✔ | 11.0 | 12.3 | 1.5 | 6.6 | Jan-13 |

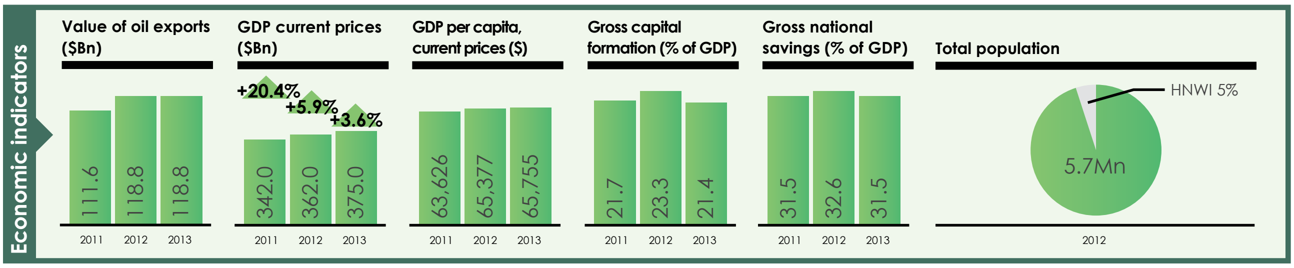
# Funds focused on Saudi Arabia (managed from MENA ex. Saudi Arabia)

Total AuM **$7.6Mn** Total Number of funds **3**

Source: Zawya

| Fund manager | Fund Name | Domicile | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Al Mal Capital | Al Mal Saudi Shariah Equity Fund | UAE | ✔ | 1.8 | 5.8 | - | Feb-13 |
| Securities & Investment Company | SICO Kingdom Equity Fund | Bahrain | | 5.4 | 11.3 | - | Jan-13 |
| TAIB Bank | TAIB Saudi Fund | Bahrain | | 0.4 | -7.4 | -9.2 | Feb-13 |

# UNITED ARAB EMIRATES

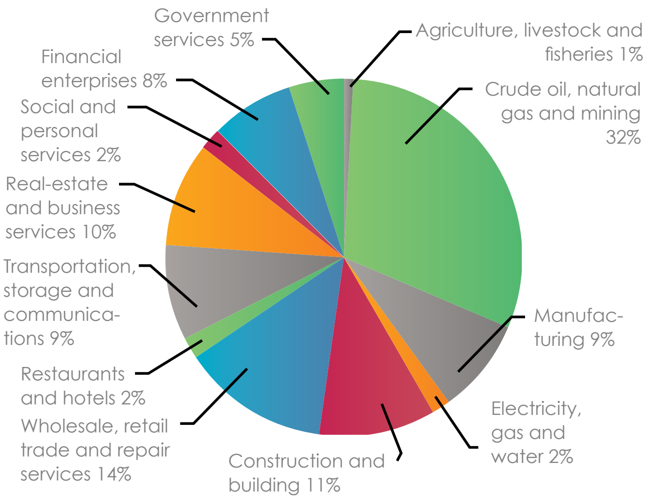



## Background

Founded in 1971, the United Arab Emirates (UAE) is a federation of seven emirates (equivalent to principalities) that are absolute hereditary monarchies. Each federation is governed by a hereditary Emir, one of whom is chosen to be the president of the federation. The current president is H.H. Khalifa Bin Zayed Al Nahyan, with H.H. Mohammed bin Rashid Al Maktoum serving as vice-president.

Despite the challenging global financial environment, the UAE has experienced continued economic recovery and strengthening of its external position in recent years. Real GDP growth is estimated to have reached 4% in 2012, supported by high oil prices and production in response to disruptions in Libya.

**UAE GDP breakdown (2011)**




**NB. -5% for imputed bank services**

Source: Ministry of Economy

Non-hydrocarbon growth also strengthened by 2.7%, backed by strong trade, logistics and a surging tourism sector, despite the continued weakness of the construction and real estate sectors in the aftermath of the 2009 crisis.

Backed by high oil prices and buoyant non-hydrocarbon exports, the external current account surplus is expected to be 8.3% of GDP in 2012 and 7.4% of GDP in 2013. Inflation remained subdued at an average of 1.2% in 2013, mainly due to a continuing decline in housing rents and limited pass-through of international food prices.

The UAE has also benefitted from high oil prices and economic growth in Asia. As a result of its perceived safe haven status and developed services sector, the country experienced an increase in demand for property by expatriates and a surge in tourism in the wake of the turmoil in the wider-MENA region.

## Economic growth plans across the UAE

Abu Dhabi's 'Economic Vision 2030' project seeks to ensure the continued success of the emirate's financial and social development, via a partnership between government and the state's private sector. The plan intends to create a safe and secure society and a dynamic open economy based on nine key pillars of economic and social progress. They are:

- A large empowered private sector
- A sustainable knowledge-based economy
- An optimal, transparent regulatory environment
- A continuation of strong and diverse international relationships
- The optimisation of the emirate's resources
- Premium education, healthcare and infrastructure assets
- Complete international and domestic security
- Maintaining Abu Dhabi's values, culture and heritage
- A significant and ongoing contribution to the federation of the UAE

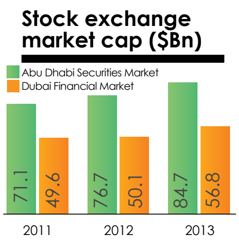
**The nine pillars will be concentrated on four key areas:**

- Economic development
- Social and human resources development
- Infrastructure development and environmental sustainability
- Optimisation of government operations.

Dubai's own strategic vision is described in its 'Strategic Plan 2015', a declaration detailing plans for urban growth and technological advancement. The plan focuses on making Dubai a more desirable place to live and to do business in, by concentrating on improvements in infrastructure, health and safety, education, and judicial fairness. The plan also addresses future concerns, such as the mounting demand for energy and water.

Both emirates' development plans are represented by 'UAE Vision 2021', a strategy document that aims to transform the UAE into "one of the best countries in the world by 2021". The plan forms the basis upon which all the UAE's seven federal entities develop their strategic and operational plans.

## Financial markets




Dubai Financial Market (DFM) was the star performer in the GCC stock markets indices of 2012, growing by 20%, followed by the Abu Dhabi Stock Exchange (ADX) with 9.5% growth.

Abdullah Al-Turifi, CEO of the Securities & Commodities Authority (SCA), said trading value grew by 24% compared to 2011, in spite of the geopolitical situation in the region and the effects of the EU sovereign debt crisis.

Local markets were able to provide opportunities for investors to achieve capital gains from trading in some stocks and strong economic growth and recovery of the real estate market meant stock investment dividends were high compared to returns from other investments.

Dividends from real estate shares topped the chart of the highest profit achieved on the local market in 2012 with investors in this sector earning mid-term profits of 42%, followed by shares in consumer goods companies, which returned 35%.

Al-Turifi referred to the Emirates Securities Market (ESM) yield of 9.5 times as 'very attractive by international standards'. Public joint stock companies achieved 19% profit growth to the third quarter of 2012 compared to the same period in 2011.

Average value of daily trading on the DFM and ADX was AED281Mn ($77Mn) in 2012 compared to AED227Mn ($62Mn) in 2011, an increase of 24%. Corporate investment inflow into these two markets totalled AED1.26Bn ($343Mn) in 2012, compared to AED206Mn ($56Mn) in 2011.

This high growth rate can be attributed to the positive inflow of corporate investment into the DFM, particularly in the first half of last year.

The board of the UAE regulator, the Securities and Commodities Authority (SCA) has recently discussed the establishment of dedicated market for small and medium-scale enterprises and newly established companies as part of an effort to create new mechanisms and products to increase liquidity in local markets.

The idea was mooted by the SCA advisory board based on preliminary studies conducted on best international practice. The board, in collaboration with other concerned bodies and in co-operation with an international professional firm, recommended conducting in-depth studies on the feasibility of establishing a second market inside the main securities market.

Liquidity management has been strengthened by a new liquidity facility and the development of domestic capital markets. Because the Central Bank of the UAE mainly relied on certificates of deposits to manage banking system liquidity, it identified a marginal lending facility as a means of providing standing liquidity when needed.

The IMF referred to developing the domestic fixed income market as a move that would support banks' liquidity management and also observed that well-developed domestic debt markets would aid the diversification of funding sources for corporates.

## Regulatory environment

**Key regulators: Central Bank of the UAE (1973) – directs monetary, credit and banking policy**
**UAE Securities and Commodities Authority (2000)**
**Dubai Financial Services Authority – regulator of all financial and ancillary services conducted through the DIFC zone (2004)**

The Central Bank of the UAE was established under the name of the UAE Currency Board in 1973. In 2000, the UAE Securities and Commodities Authority (whose role is to develop legislation that regulates business activities in the UAE capital markets) was formed and has since taken on some of the regulatory responsibilities formerly held by the Central Bank.

The number of finance companies licensed to operate in the UAE increased from 23 in 2010 to 24 in 2011, while the number of licensed investment companies rose from 21 to 22.

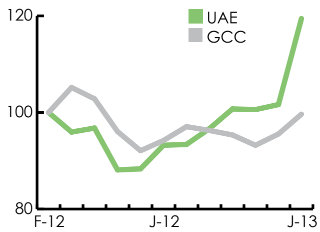
The SCA passed a number of regulations last year, among the most notable being the market-maker regulation, as well as regulations for securities borrowing and lending, short-selling and liquidity providers.

A market-maker is defined as a company with the capability to trade in certain securities which can tolerate the risk of retaining a certain size of stocks as a depository or to sell such securities for which the company acts as a market maker from the available depository.

### MSCI View

The UAE equity market is the fourth largest market (in terms of free-float adjusted market capitalisation) within the Gulf Co-operation Council (GCC) region. Over the three years to 30 January 2013, the UAE equity market posted a return of 15% and remained relatively liquid with a market average traded value ratio of 100%, but which nonetheless reduced by 50% over the same period. It is strongly dominated by the financials sector with a weight of 74% followed by the industrials sector with a weight of 23%. The energy and the consumer staples sectors account for the remaining 3% of the UAE equity market. All other sectors are completely absent.

**MSCI IMI: UAE vs GCC**




The MSCI UAE Index is currently classified by MSCI as a Frontier Market. As a result of MSCI's previous annual country reviews, which include extensive consultations with international institutional investors, the MSCI UAE Index met all requirements except for specific market accessibility issues related to custody, clearing and settlement, particularly around the false trade in place on the different UAE stock exchanges. The introduction of a proper false trade mechanism is expected during 2013. MSCI will communicate its decisions resulting from the current MSCI Annual Market Classification Review in June 2013.

**Total fund AuM (by domicile)**

**$1.3Bn**

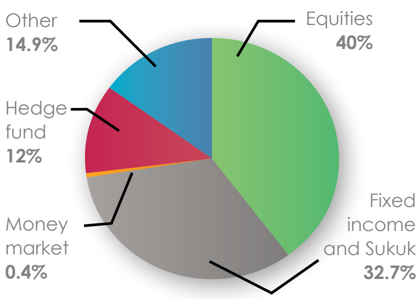
**Average fund size**

**$33.8Mn**

**Number of funds**

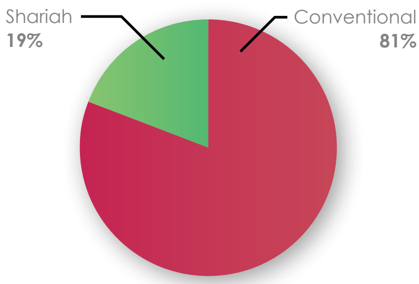
**38**

**Funds by asset class (%)**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

The market-maker regulation addresses the responsibilities of licence applicants concerning administrative and technical staff and internal supervision, licensing procedures, duration and renewal, rules for registration of foreign market-maker, market-maker's responsibilities and tasks and facilities granted to market-maker.

The regulation also outlines the prerogatives of the SCA and the financial markets in supervising market-makers, as well as violations, penalties and licence suspension and revocation. The AED30Mn ($8Mn) limit prescribed by the regulation represents the minimum capital requirement.

The drafting and development of the market-maker regulation was made in co-ordination with Abu Dhabi Securities Exchange and Dubai Financial Market. The SCA expects these markets to make some changes to their own regulations and techniques to adapt to the new regulation. They will also set the standards by which securities qualify for market-making and will show in detail which securities can be allocated and to whom.

The regulation for securities lending and borrowing regulates the temporary transfer of securities ownership from one party to another and the role of the securities lending and borrowing agent, making it compulsory for the latter to have the approval of the SCA before practicing this activity.

The regulation for securities short-selling outlines situations when short-selling of securities can be transacted and the types of securities allowed to be involved in this transaction and addresses the responsibilities of all parties involved in short-selling transactions.

The liquidity provider regulation allows listed companies to contract any licenced market-maker to act as such for the company's securities in order to improve its liquidity on the market.

## UAE Securities and Commodities Authority – changes to UAE funds regime

On 22 July 2012 the UAE Securities and Commodities Authority issued the much anticipated new UAE investment fund regulation, introducing key changes to the UAE's funds regime. According to law firm K&L Gates the new regulation will have the following impact on funds operating and distributing in the UAE:

**Transfer of regulatory supervision** – In practice, the SCA has for quite some time had responsibility for the day-to-day regulation of investment funds, including licensing and marketing. However, the regulation formalises the transfer of responsibility to the SCA from the UAE Central Bank.

**No exemptions for private placements of foreign funds** – Previously, a "tolerated practice" was accepted in the UAE which informally permitted discreet marketing of foreign funds to sophisticated investors without any requirement to obtain the approval of the UAE Central Bank. The new regulation does not contain any exemption for such "private placements" and marketing of a foreign fund in the UAE will now require SCA approval.

**Framework for domestic funds** – The regulation sets out detailed requirements for the establishment and distribution of UAE domestic funds.

**Marketing by local promoter** – All foreign funds marketed in the UAE will now need to be offered through a licensed agent (or a locally established representative office in certain circumstances).

## Equity and fixed income funds

The UAE is home to a fund management network of $1.3Bn spread across 13 managers and 38 fund vehicles. Almost half of these assets are placed in equity vehicles (22 funds managing $513.6Mn), with the majority of the remainder in fixed-income and an emerging sukuk market (nine funds managing $418.8Mn). The remainder of the assets are held in a small number of hedge funds, money market vehicles and property funds. The average size of a domestic UAE fund is $33.77Mn, while 97% of the country's total AuM is spread across its 10 largest asset management entities.

As an increasingly bustling investment

destination the UAE currently has 19 funds, with a total of $627.2Mn in AuM, focused on its domestic markets. The majority of these vehicles are in the equity space with $452Mn under management, while two UAE focused fixed income funds manage $29.9Mn between them.

The UAE's strong recent stock market performance has injected new confidence into equity managers focusing on the region. With the MSCI IMI index already up 22.17% YTD (5 March) bullish predictions continue for the 1H of 2013, with a number of regional managers telling the *Barometer* that 2013 will go down as a vintage year for fund vehicles concentrating on UAE stock markets.

The Emirates Gateway Fund, managed by SHUAA Capital, has already outperformed its peer group over three years and continues to gain solid ground this year, posting 14.38% in January versus a 13.45% gain for the S&P UAE Composite Index. Trading across all three UAE markets, the majority of the fund's gains came from a solid stock selection in banking and real estate, with a healthcare position also adding to performance through the early months of 2013.

UAE equity managers believe they are poised for inflows in the 1H of 2013. However, they also remain realistic, telling the *Barometer* that the continued upswing in the good fortune of UAE equities (the market is up 25.69% for the last 12 months, according to the MSCI IMI index) has a tendency to gloss over a series of long-term problems.

Equity managers focused on the UAE expressed concern that over time its markets will be constrained by continued poor liquidity, small cap investment opportunities and low investor interest. This will not necessarily translate as a slump, or even sluggish markets, but fluctuating trading volumes will contribute to the volatility that frequently disenfranchises investors in mutual funds and restricts the flow of international money.

Those who spoke to the *Barometer* believed that a potential merger of the UAE's three stock exchanges, the NASDAQ Dubai (DIFC), Dubai Financial Market (non-DIFC Dubai) and the Abu Dhabi Stock Exchange (rest of the UAE) could go some way to mitigating this problem, but conceded that this solution remained unlikely.

Instead, a number were looking to smooth equity returns by either widening the scope of UAE funds to take in other MENA exchanges, or, in some cases, diluting equity funds with some fixed income exposure.

In fact with equity funds potentially hampered by future volatility, there has been a push to diversify products among UAE managers. This has witnessed a lift in fixed income vehicles over the past 24 months, with managers attempting to meet investor demand for more dependable and less volatile investments.

Capitalising on this trend last year, SHUAA debuted a new fixed income/money market strategy, while Emirates NBD's MENA Fixed Income Fund has won a silver grading by S&P Capital IQ and Mashreq's Al Islamic Income Fund became the first ever Shariah-compliant fund to win an S&P grading.

Demonstrating an ability to innovate The Mashreq Al Islami's Income Fund has blazed a trail in the GCC's nascent Shariah-compliant fixed income space, hitting 35.15% over three years (December 2012), with an AuM of $52.56Mn. Out-performing UAE-domiciled equity funds, the Mashreq Capital product is managed by Abdul Kadi Hussain and demonstrates that fixed-income and Shariah-compliant products do not necessarily contribute to a drag in performance.

## Alternative funds

Although the current centre of the GCC's emerging hedge fund industry (the UAE hosts two hedge funds with $154.1Mn in AuM), Dubai's alternatives sector is chiefly known for real estate investment. Following a slide in valuations this had been a moribund market segment – although has won favour among distressed specialists. However, with property values now recovering, and the GCC still benefiting from its safe haven status, the UAE property industry is showing clear signs of growth, with prices climbing by over 20% during a six-month period.

This opportunity has inspired the revival of existing property vehicles and the attention of private equity and infrastructure investors. Mutual fund managers are also showing a renewed interest with *Barometer* respondents, including Emirates NBD, describing property funds as a viable launch in 2013.

However, while the attractiveness of real estate funds has increased, a number of managers still urged caution, describing the opportunity set represented by property as ultimately restricted by Dubai's debt and concerns that financing could dry up, particularly given lower liquidity in the banking system.

*Barometer* respondents also warned that much of Dubai's property growth is perhaps too reliant on a tourism sector that is currently buoyant, but that any dip in visitors, or signs of renewed instability on the periphery of the GCC, could again serve to devalue real-estate – halting the resurgence of Dubai's property markets and interfering with capital raising for flagship developments and new property funds alike.

Currently positive market sentiment is outweighing these concerns and over 30% of *Barometer* respondents based in the UAE said that they were considering launching a property focused product. This confidence is feeding back into the equity markets and is driving continued growth in the share price of developers.

## The UAE's key fund managers

**Abraaj Capital**
Abraaj Capital is the region's foremost private equity player, with over $7.5Bn in assets. Founded by Afri Naqvi in 2002, he has been instrumental in the firm's success over the past decade. During the past two years Abraaj has launched a $500Mn Saudi initiative, acquired North African private equity platform Amundi, and, most recently, acquired SME specialist Aureos Capital. It is now the leading private equity firm in growth markets.

**Abu Dhabi Capital Management (ADCM)**
Formerly CEO of the Abu Dhabi Capital Group, Jassim Alseddiqi established ADCM in January 2011. By the end of its first year in business, the firm had raised $40Mn through its flagship fund, the ADCM Secondary Private Equity Fund. A series of new launches are in the pipeline, including a fund of hedge funds, and a UAE-focused hedge fund. The firm aims to raise $1Bn within its first five years.

**Abu Dhabi Islamic Bank (ADIB)**
ADIB has grown from a Shariah-compliant local bank to a leading financial services operation, with a growing interest in asset management. ADIB is now the fourth largest Islamic bank in the world, offering Shariah-compliant mutual funds and discretionary accounts to a mix of retail and HNWIs.

**Al Masah Capital**
Since obtaining its DIFC licence in August 2010, Al Masah Capital has raised more than $400Mn, largely through its fixed income strategies. Ostensibly a private equity asset manager, under Shailesh Dash's leadership it has moved with the markets and its flexible approach has already paid dividends. Dash aims to have raised $1Bn in AuM by March 2013, by increasing private equity exposure and launching products including a sukuk index fund. Expansion plans are already underway, with office launches expected in Abu Dhabi and Saudi Arabia.

**The National Investor (TNI)**
Walid Hayeck is the driving force behind TNI's fund management business, employing innovative strategies such as the Blue Chip Fund, MENA Ucits Sub-Fund and Special Situations Fund. In 2011 the firm launched Etqaan Shariah Capital Partners, a first-of-its-kind Shariah-compliant private equity fund, with Kuwait's KAMCO.

**Emirates NBD Asset Management**

NBD manages approximately $1.2Bn in assets, making it one of the leading UAE managers. Employing over 40 financial specialists it offers a range of investment products, offering exposure to the regional and global markets, covering all of the main asset classes on either a Shariah-compliant or conventional basis.

**Invest AD**

Leading Invest AD's transition from SWF offshoot to standalone asset manager, Mohammed Al Hashemi has helped create a $550Mn business with four active funds. A Libya Fund was launched and withdrawn as the Arab Spring took hold, but the firm has maintained a focus on emerging Africa and may yet revisit this first-of-its-kind product.

**National Bank of Abu Dhabi (asset management group)**

As CIO and general manager of NBAD's asset management group, Alan Durrant is responsible for the firm's fund portfolio, which includes five local equity funds, five international growth funds and one ETF. In 2011, Durrant spearheaded a move into the fixed income space with the launch of a cautious income fund and plans for a cautious Islamic fixed income fund. The firm is also developing its multi-manager business, meeting with managers that can offer exposure to markets beyond NBAD's remit, as part of Durrant's ambition to create a larger asset management business.

## Investor overview

### Key investors

- Lacking a fully developed private and employer managed pensions industry, the UAE's total retirement pot sits at approximately $3Bn and is managed by two state providers – the General Pensions and Social Security Authority and the Abu Dhabi Retirement Pensions and Benefit Fund.
- The UAE's high-net-worth community is MENA's second largest centre of private wealth, with approximately 810 ultra-high-net-worth individuals (UHNWI) responsible for $120Bn. The region boasts 35 billionaires, with holdings of approximately $40Bn.
- The UAE's mutual fund management sector is responsible for assets of $1.3Bn.
- Direct foreign investment continues to increase after 2008's low watermark, with net inflows of $7.7Bn in 2011.
- Divided across multiple sovereign wealth funds, the UAE's sovereign agencies have almost $1Trn in assets. Approximately 10-15% of these assets are invested in MENA. The three largest sovereign wealth funds by AuM are Abu Dhabi Investment Authority ($627Bn); Mubadala Development Company ($60Bn) and the Investment Corporation of Dubai ($70Bn).

**SWF brief: The Abu Dhabi Investment Authority (ADIA)**

The Abu Dhabi Investment Authority (ADIA) is owned by the Emirate of Abu Dhabi and was founded to invest funds on behalf of the government of the Emirate of Abu Dhabi. ADIA does not publish its assets but its AuM is estimated at between $600Bn and $875Bn. The Sovereign Wealth Fund Institute puts the figure at $627Bn. Abu Dhabi created ADIA's forerunner, the Financial Investments Board, in 1967 to manage its oil revenues. In 1976, ADIA was created under separate management from the government to invest revenues across various assets with a low risk.

ADIA manages a diversified global investment portfolio across more than two dozen asset classes and sub-categories, including quoted equities, fixed income, real estate, private equity, alternatives and infrastructure. Approximately 80% of ADIA's assets are managed by external fund managers. In US dollar terms, the 20-year and 30-year annualised rates of return for the ADIA portfolio were 6.9% and 8.1% respectively, as of the end of December 2011. ADIA will invest a maximum of 20% of its portfolio in emerging market equities.

Challenges notwithstanding, the UAE enjoys a positive reputation from outside the region. It consistently attracts more than 15% of the foreign inflows to MENA and is considered a safe haven by many local and international investors. There is no better recommendation than a good track record and the fact that Dubai has recovered so well from the 2009 crisis has highlighted it as a market that is not only stable, but one that also possesses growth opportunities.

This sentiment has enabled the domestic fund industry to maintain a steady course, and while the UAE has yet to be bestowed emerging market status, Dubai has plenty to offer foreign fund managers and investors too. It is also one of the few markets to be plugged into allocators across the GCC and wider-MENA via a reputation as a distribution hub and natural second home for private wealth platforms and banks from across MENA.

While Dubai thrives, so far, Abu Dhabi's financial centre has yet to experience the same international focus. Following poor market liquidity through most of 2011, smaller institutions are still being forced to slash costs and cut staff. Interest from foreign investors has dropped since 2008 – and the 2012/13 market rally there has been led, in the main, by local investors – often family offices or bank-owned retail funds.

In line with a wider GCC trend, local managers are largely anticipating more investment activity from domestic and, in some cases, regional public pension funds. These state-owned institutions are currently showing more of an appetite to invest directly into local equity and bond markets, but will ultimately develop, according to *Barometer* respondents, relationships with local fund managers across all strategies.

## Fund distribution strategies and cost of business

The UAE Securities and Commodities Authority (SCA) has now implemented its new Investment Funds Regulation (see earlier box), transferring regulatory responsibility for the licensing and marketing of investment funds and for a number of related activities from the UAE Central Bank to the SCA.

The Investment Funds Regulation prohibits an entity from establishing a domestic investment fund without first obtaining approval from the SCA. With respect to the promotion of foreign funds in the UAE, this may only be done through a locally licensed placement agent with the approval of the SCA (or in some cases, through the local representative office of the fund manager).

*Barometer* respondents who commented on the new regulation said it was too early to assess its long-term impact, but that clearer guidance on distribution channels would ultimately create a more streamlined marketing process and help local and global players reach "relevant investors".

Arguably, the UAE hosts a more diverse spread of these relevant investors than any other MENA country. Its significant expat market alone represents a growing opportunity for product distribution, particularly via an emerging network of financial advisory firms. Currently these are tailored to the needs of UAE-based expat investors who will initially show a home market bias, bypassing the fund offerings of local managers in favour of brands associated with home markets.

This trend has increased the prominence of the DIFC, still regarded by foreign asset management brands as the best MENA centre to establish a distribution hub for product generally created elsewhere, but sold into the UAE and potentially the wider-GCC and MENA. Some *Barometer* respondents criticised this approach saying that using the UAE solely as a marketing hub will discourage innovation.

However, managers currently using the DIFC as a sales hub, primarily to reach Western expats, all agreed that within a five-year period they would begin to manufacture new product from this base, employing local people as asset managers and distributing new funds to investors across MENA.

Similarly the UAE's network of financial advisors is also planning to broaden its assets under advisory by catering to Emiratis, a growing investor base of NRIs (non-resident Indians) and by distributing the product of local managers.

*Barometer* respondents said that this would ultimately have a positive impact on the fund management culture in the GCC, with local managers creating and distributing products – via financial advisors – designed to appeal to a wide variety of foreign nationals. The first signs of this trend are being seen in a growing market for Rupee denominated fixed income product, currently being developed for NRIs.

A number of large global managers, as well as local players, who spoke to the *Barometer* expressed an interest in reaching this growing segment of the retail market.

A number of banks in the UAE are also attempting to increase their ability to serve this demographic by employing Indian nationals as financial advisers, while local financial advisory firms are deploying a similar strategy. *Barometer* respondents said that the next logical step would be for advisory firms, currently catering to expat investors, to employ increasing numbers of Emiratis as active selling to a domestic retail investor markets becomes the next step in the 'normalisation' of the financial advisory firm network.

This development was anticipated to occur in lockstep with the creation of an insurance linked product market and the slow emergence of a local private pensions industry across the UAE.

Mindful of the new diversity of the UAE and the relative limitation of their own product – often equity focused – banks are also trying to widen their strategy base and distribution networks. Those with existing platforms are currently adding additional strategies – particularly those within the sukuk and alternatives space. While local banks with a restricted self-managed pool are planning to 'white label' the products of others, as they attempt to diversify offerings.

Ultimately this search for wider investor audiences and diverse product represents a significant opportunity for smaller fund managers in the UAE who have struggled to reach scale and – particularly post changes in regulation – are experiencing higher costs. Those managers based in the UAE who responded to the *Barometer* expected costs to be a significant issue in 2013, with over 80% saying that increased operational expense would make it harder to effectively run businesses. ■

## Key developments: opportunities and challenges

- UAE is winning back tourism and is undergoing a realistic upswing in its property market – with an increase in prices and several large projects on the horizon (at least US$1Bn in infrastructure projects)
- Dubai's debt restructuring has been successful so far, and has eased the credit risk associated with this market
- Abu Dhabi's Al Maryah Island was seen as complimenting, rather than rivalling, Dubai's DIFC. "This will have more of a domestic focus on the UAE, whereas Dubai is an international financial centre," said one manager
- With more clear-cut foreign ownership limits than the rest of the GCC, Dubai could be upgraded to emerging market status during the next MSCI review
- A key issue in UAE remains the new SCA regulations, how they will be implemented and how they will interact with similar regulations issued by the DFSA

# United Arab Emirates

Total AuM $1.3Bn Total Number of funds 38 Total number of managers 13

Source: Zawya

## Funds domiciled in UAE (including UAE focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in UAE AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Abu Dhabi Commercial Bank | ADCB Arabian Index Fund | | 54.1 | 165.8 | 5.6 | 9.7 | Dec-12 |
| Abu Dhabi Commercial Bank | ADCB MSCI UAE Index Fund | | 29.4 | 165.8 | 38.0 | 25.9 | Dec-12 |
| Abu Dhabi Commercial Bank | Al Nokhitha Fund | | 82.2 | 165.8 | 30.0 | 15.8 | Dec-12 |
| Al Hilal Bank | Al Hilal GCC Equity Fund | ✔ | 9.4 | 56.7 | 13.6 | - | Jan-13 |
| Al Hilal Bank | Al Hilal Global Sukuk Fund | ✔ | 47.3 | 56.7 | - | - | Feb-13 |
| Al Mal Capital | Al Mal Liquidity Fund | | 5.1 | 22.5 | 2.0 | 8.4 | Feb-13 |
| Al Mal Capital | Al Mal Saudi Shariah Equity Fund | ✔ | 1.8 | 22.5 | 5.8 | - | Jan-13 |
| Al Mal Capital | Al Mal UAE Equity Fund | | 15.7 | 22.5 | 32.1 | 20.0 | Feb-13 |
| Commercial Bank of Dubai | Al Dana GCC Income Fund | | 74.0 | 112.4 | 15.6 | - | Nov-12 |
| Commercial Bank of Dubai | Al Dana Global Fixed Income Manager Selection Fund | | 8.6 | 112.4 | 8.6 | 23.4 | Mar-11 |
| Commercial Bank of Dubai | Al Dana Murabaha Fund | ✔ | 12.3 | 112.4 | 7.7 | 12.3 | Dec-12 |
| Commercial Bank of Dubai | Al Dana UAE Fixed Income Opportunity Fund | | 17.6 | 112.4 | - | - | Jan-10 |
| Daman Investments | Daman Fifth Fund | | - | 110.0 | 0.6 | - | - |
| Daman Investments | Daman Islamic Fund | ✔ | 55.0 | 110.0 | -2.1 | -12.7 | May-08 |
| Daman Investments | Daman Second Emirates Fund | | 55.0 | 110.0 | -4.0 | -2.3 | May-08 |
| Daman Investments | Daman Speculator Fund | | - | 110.0 | -13.0 | -30.8 | - |
| First Gulf Bank | Al Saqer Fund | | 138.9 | 138.9 | 15.5 | 12.5 | Dec-12 |
| Invest AD | Invest AD - GCC Focus Fund | | 1.0 | 108.4 | -1.1 | - | Nov-12 |
| Invest AD | Invest AD - UAE Total Return Fund | | 107.4 | 108.4 | 36.6 | 19.3 | Feb-13 |
| Mashreq Capital | Emerging Markets Credit Opportunities Fund | | 15.2 | 67.8 | 12.1 | 21.9 | Dec-11 |
| Mashreq Capital | Mashreq Al Islami Income Fund | ✔ | 52.6 | 67.8 | 12.0 | 34.1 | Dec-12 |
| National Bank of Abu Dhabi | NBAD Cautious Income Fund | | 189.7 | 434.6 | - | - | Dec-12 |
| National Bank of Abu Dhabi | NBAD Emerging Markets Fund | | 9.3 | 434.6 | 4.3 | 14.6 | Dec-12 |
| National Bank of Abu Dhabi | NBAD GCC Opportunities Fund | | 20.5 | 434.6 | 2.7 | 11.4 | Dec-12 |
| National Bank of Abu Dhabi | NBAD Global Debt Securities Fund | | 1.7 | 434.6 | 4.1 | 16.7 | Dec-12 |
| National Bank of Abu Dhabi | NBAD Global Equities Fund | | 0.0 | 434.6 | -4.0 | 3.8 | Dec-12 |
| National Bank of Abu Dhabi | NBAD India Equities Fund | | 1.0 | 434.6 | 3.4 | 7.9 | Dec-12 |
| National Bank of Abu Dhabi | NBAD Sukuk Income Fund | ✔ | 15.1 | 434.6 | - | - | Dec-12 |
| National Bank of Abu Dhabi | NBAD U.S. Equities Fund | | 0.2 | 434.6 | 10.4 | 31.1 | Dec-12 |
| National Bank of Abu Dhabi | NBAD UAE Distribution Fund | | 57.2 | 434.6 | 6.2 | -4.2 | Dec-12 |
| National Bank of Abu Dhabi | NBAD UAE Growth Fund | | 27.5 | 434.6 | 26.4 | 10.6 | Dec-12 |
| National Bank of Abu Dhabi | NBAD UAE Islamic Fund | ✔ | 26.1 | 434.6 | 17.4 | 5.9 | Dec-12 |
| National Bank of Abu Dhabi | NBAD UAE Trading Fund | | 86.4 | 434.6 | 14.5 | -6.2 | Dec-12 |
| Securities & Investment Company | Al Islami GCC Equity Fund | ✔ | 17.9 | 17.9 | 8.1 | 12.3 | Dec-12 |
| SHUAA Capital | Emirates Gateway Fund | | 11.8 | 11.8 | 39.0 | 34.9 | Dec-12 |
| The National Investor | TNI UAE Blue Chip Fund | | 28.8 | 28.8 | 27.8 | 19.3 | Jan-13 |
| Union National Bank | Al Itihad Fund | | 0.8 | 7.8 | 27.8 | 19.3 | Dec-12 |
| Union National Bank | Al Samaha Islamic Fund | ✔ | 7.0 | 7.8 | 7.4 | 2.1 | Dec-12 |

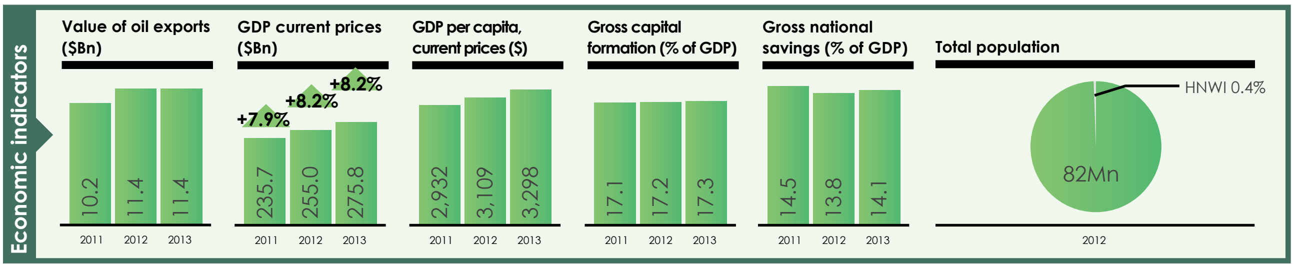
## Funds focused on UAE (managed from MENA ex. UAE)

Total AuM $5.4Mn Total Number of funds 2

Source: Zawya

| Fund manager | Fund Name | Domicile | Shariah (✔) | Fund size ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Mashreqbank | Makaseb Emirates Equity Fund | Bahrain | | 3.4 | 20 | +19.2 | Feb-13 |
| Mashreqbank | Makaseb Emirates Opportunities Fund | Bahrain | | 2 | +19.6 | +7.3 | Feb-13 |

# EGYPT



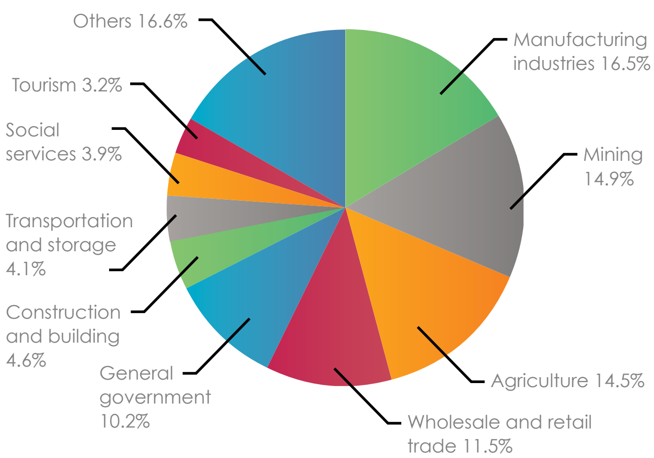

## Background

Egypt is the most populous nation in MENA. It occupies a vital strategic position, while possessing one of the most diversified economies in the region.

Economic growth has been affected by political upheaval following the revolution of January 2011, which led to the resignation of President Hosni Mubarak. A presidential election was completed in June 2012 with the election of Mohamed Morsi, who has since made moves to strengthen the powers of the presidential office.

IMF data suggests GDP grew by 2% last year and it expects growth of 3% in 2013 and 6.5% in 2017. The World Bank estimates the population of Egypt was 82Mn in 2012, with GDP of $255Bn and inflation of 10% on the back of economic growth of 2%.

**Egypt GDP breakdown (2011)**




Source: Central Bank of Egypt

The government faces the challenge of how to reconcile the need for more public spending with the objective of reducing the deficit, which rose to 11% of GDP in 2011/12. Managing the state budget will be one of the most difficult issues to address, especially taking into account some of the fixed public expenditure items, including salaries for public sector employees and subsidies.

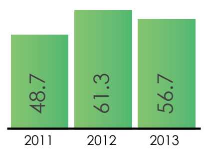
Egypt has one of the longest-established banking and financial services sectors in Africa and was the main financial centre of MENA for most of the 20th century. The Egyptian Exchange is one of the oldest stock markets in the region, tracing its origins to 1883 when the Alexandria Stock Exchange was established, followed by the Cairo Stock Exchange in 1903.

The local fund management community is represented by the Egyptian Investment Management Association (EIMA), a professional association established in 2000 to represent asset and investment management companies under the supervision of the EFSA or Egyptian Financial Supervisory Authority.

## Financial markets

Weak economic data has encouraged many investors to maintain a watching brief on Egypt. By the end of January 2013, foreign currency reserves had fallen to $13.6Bn – a decrease of 60% from early 2011 and equivalent to just three months' worth of imports – while the Egyptian pound continued to fall against the dollar and rating downgrades pushed up borrowing costs.

**Stock exchange market cap ($Bn)**




Moody's Investors Service downgraded Egypt's government bond rating to B3 from B2 in February 2013 and kept it on review for a further downgrade. Fitch revised its rating to B on 30 January, while S&P rates Egypt at the same level as Moody's.

In November 2012, the International Monetary Fund (IMF) stated that it had reached a 'staff level agreement' with the Egyptian authorities on a 22-month stand-by arrangement or loan to the amount of about $4.8Bn.

This loan was formulated to support the implementation of a national economic programme that includes fiscal reform (reforming energy subsidies and taxation); improved public financial management and transparency and accountability of public sector operations; and a fair and competitive business environment with a level playing field among investors.

A total finance package of $14.5Bn in loans and deposits on favourable terms from a range of bilateral and multilateral partners (including the IMF) is designed to boost social spending and infrastructure investment and to gradually reduce the budget deficit from almost 11% in 2011/12 to 8.5% of GDP in 2013/14. The availability of external financing will also substantially reduce Egypt's cost of borrowing.

However, progress on finalising the deal stalled in late 2012 and into early 2013 when a plan that would have reformed income tax and raised taxes on a wide range of consumer goods was not followed through.

During a press briefing at the end of February, a spokesperson confirmed that the IMF had received revised fiscal projections based on a set of policy measures that the authorities intend to implement and that IMF staff were analysing those new projections. Reports from Egypt suggest that President Morsi is now prepared to push through sales tax increases on a smaller number of products.

## Regulatory overview

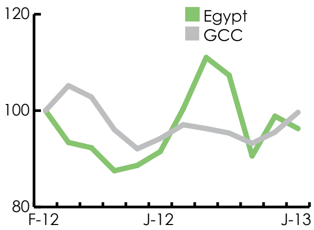
**Key regulator: Egyptian Financial Supervisory Authority (2009)**

The EFSA – established in 2009 – is responsible for supervising and regulating non-banking financial markets and instruments, including the capital market, the Egyptian Exchange and all activities related to insurance services, mortgage finance, financial leasing, factoring and securitisation. Its

**MSCI View**

The Egypt equity market is the fourth smallest market (in terms of free-float adjusted market capitalisation) in the emerging markets, behind the Peru equity market, with a weight of 0.32% in the MSCI Emerging Markets Index. Over the three years to January 30, 2013, the Egypt equity market posted negative returns of almost -21% and its liquidity reduced almost by a factor of ten to an average traded value ratio of 88%. It is mainly represented by three sectors: Financials (46%), Industrials (27%) and Telecommunication Services (19%).

**MSCI IMI: Egypt vs GCC**




The MSCI Egypt Index is currently classified by MSCI as an Emerging Market. MSCI is currently not considering making any proposal for changing the market classification of the MSCI Egypt Index.

**Total fund AuM (by domicile)**

**$9.9Bn**

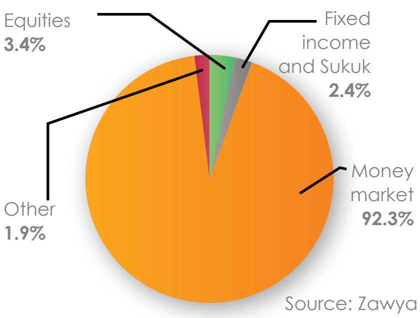
**Average fund size**

**$118.1Bn**

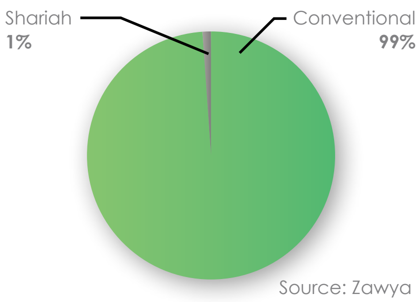
**Total number of funds**

**84**

**Funds by asset class (%)**




**Conventional v Shariah-compliant vehicles (%)**



role is to regulate the market and ensure its stability and competitiveness to attract more local and foreign investment.

The most significant forthcoming regulatory development in Egypt is the new law that will enable the country to issue its first Islamic bond or sukuk. The government hopes to issue two Islamic bonds (one for domestic investors, the other for overseas investors) by June 2013 in a move it hopes will raise up to $1Bn.

Egypt's proposed sukuk law was initially rejected by the Islamic Research Academy of Al-Azhar University, the supreme body of the country's highest Islamic authority. The Islamic scholars' objections to the bill included an article which they said would let the government lease out assets for up to 60 years.

Because Islam bans interest payments, sukuk must be backed by specific assets and pay investors with revenue from those assets. The Islamic Research Academy said the bill might allow authorities to abuse their control of public assets, although Prime Minister Hisham Qandil denied that the Suez Canal or other state facilities would be used to back sukuk issues.

Egyptian finance minister Al-Morsi Hegazy told an Islamic insurance conference in Cairo in late February 2013 that his ministry was preparing to send the revised law to the cabinet in preparation for its presentation to the Shura Council (the upper house of Egyptian parliament).

The new bill was referred to the Shura Council on 3 March 2013 for discussion, with Hegazy noting that the bill had been probed by the cabinet's legislative and economic committee where a detailed memo was drafted on the draft law. The Ministry of Finance is considering setting up several energy projects to be funded using Islamic finance.

While some investors may prefer not to invest in the first issue in order to satisfy themselves that the legal framework is appropriate, there is little doubt that there is an appetite for sukuk across the MENA region.

Whether Egypt can position itself as an Islamic finance hub is more questionable. While the country appears to have the Islamic scholars and political will to develop this market, it will face strong competition from more established locations such as Malaysia, Qatar and Dubai.

## Equity and fixed income funds

Egypt is home to a large fund management universe of $10Bn spread across 18 managers and 84 fund vehicles. Almost all of these assets are placed in short-term money market vehicles (26 funds managing $9Bn), with the remainder in equities ($400Mn) and a small number of fixed income funds ($235Mn).

Almost 99% of the country's total AuM is spread across its 10 largest asset management entities – a collection of bank owned and independent asset management firms.

Egypt's fund industry, like its economy overall, is at a crossroads. With foreign investment having dried up in the wake of the revolution, and caution seemingly ruling the day among domestic investors too, few were expecting the bounce in the country's stock market that was seen during 2012, which propelled it to the position of best performing geography in MENA on the MSCI indices.

While Egyptian equity funds were therefore at the top of the performance tables for 2012, with several returning 30%, this needs to be seen in the context of previous, and more current, poor performance and in the light of the fact that most have a much lower total AuM than they did prior to the events in Tahrir Square in 2011.

Continued political instability is always in the background, and with the country's status as an energy importer and uncertainty about when tourism and FDI flows will return, doubts about Egypt as an investment destination remain. The weakness of the Egyptian pound has also added an additional degree of risk for the non-Egyptian investor, making equity investment in Egypt the preserve of the brave.

With local markets so closely intertwined with political events, Egypt's fund managers have experienced a trying recent history. One of the leading names in the country's fund management space, EFG-Hermes, has experienced high-profile struggles and is yet to recover from the tumult that surrounded the financial crisis and Arab Spring. It is staking its future on a joint venture with Qatar's QInvest, which will see the Doha-based bank pump $250Mn into a new company, which will contain EFG's asset management, investment banking and brokerage business.

Other leading Egyptian players include Beltone Asset Management - which last year announced its own joint venture with Altree Capital which will give it access to sub-Saharan Africa - and HC Securities and Investments (HCSI), which has specialised in fixed income and money markets products.

Over the course of 2012, HCSI's Misr Al Mostakbal Investment Fund emerged as Egypt's leading equity performer, with returns of just over 28%. Specialising in a broad cross-section of the shares listed on the Egyptian stock exchange, the fund has been buffeted by Egypt's challenging start to 2013 and is down 0.14% YTD (7 March).

While the equity waters are choppy, by contrast, money market and fixed income funds have remained relatively popular with local investors. Asset management firms with strong offerings in these fields have been able to remain relatively healthy.

Over three years money market funds remain Egypt's best performing vehicles, with BlomBank's $56Mn Money Market Fund achieving 31.71% and the Commercial International Bank's flagship money market product - a sizeable $962.6Mn – on a similar 41.43%.

## Alternative funds

Egypt's government is making preparations for the country's first sovereign sukuk, following the 16 January approval of a new draft sukuk bill after Shariah scholars rejected a previous version. The creation of a viable Islamic finance industry in Egypt has eased the nerves of enervated local asset managers who see it as unlocking a new retail investor base.

A number of *Barometer* respondents cited the potential of launching a sukuk fund once the law is properly ratified and after stability returns to Egypt. According to the *Barometer*, the new government and the prevailing mood in Egypt will see the country's small Islamic finance industry – currently only 1% of total AuM – grow considerably over the next two years with local pension fund money and investable insurance premiums adding to the potential of reaching a new retail audience.

Local managers – including EFG Hermes and HCSI – are already creating product to take advantage of the new regulation, while *Barometer* respondents reported a high degree of investor interest. The current fragility of Egypt's political condition was a point of concern though, with many respondents saying that a sudden sea change in political direction would have a chilling effect on any soon to be enacted sukuk regulation. A number of *Barometer* respondents believed that a large and fully diversified Islamic finance industry in Egypt could face a number of delays before it becomes a reality.

As an advanced fund management sector, Egypt possesses a relatively broad alternatives sector, with a number of multi-strat products, combining conventional asset classes and property. Private equity vehicles also have a well-established presence in the country, with EFG Hermes a major local player.

Private equity within EFG Hermes has a track record of more than a decade of investing in a diversified set of sectors, including tourism and real estate, financial services, industrials, building materials, oil and gas, food and agribusiness, fast-moving consumer goods and retail. Over the past 13 years, the firm has raised more than $1.5Bn over nine funds.

### Egypt's key fund managers

**EFG Hermes**

Egypt's foremost asset manager, EFG Hermes, has been shaken by Egypt's political situation, but has stayed true to its home market and was rewarded in 2012 with a run of good performance. EFG's Al Massy Fund consistently outperformed its peers, while its Crédit Agricole Fund III was a clear winner among money market funds for its returns achieved with a relatively low risk.

**HC Securities and Investment**

It has not been an easy 12 months for Egypt's fund managers, but HC Securities still managed to grow its business by launching a series of funds including the Crédit Agricole Egypt Fund IV, Misr Al Mostakbal Fund, National Societe Generale Bank (NSGB) Tadawul Fund and the Arab Investment Bank Fixed Income Fund III.

## Investor overview

**Key facts:**

- Egypt enjoys a diverse and fairly robust domestic investor base. One of the few MENA nations with an actively managed state pension fund, as well as a second and third tier of employer sponsored and private pension funds, the country's total retirement pot sits at approximately 36% of GDP. With over 90% of assets in fixed income and 5% in equities, local retirement plans are powerful domestic investors.
- Shaken by last year's unrest, Egypt's high-net-worth community was responsible for a number of redemptions from local investments and fund managers, although, it's overall potency remains intact. The country remains MENA's fourth largest centre of private wealth, with approximately 490 UHNW individuals responsible for assets of $65Bn.
- Egypt's mutual fund management sector is responsible for assets of $10Bn – one of the largest centres of fund management in MENA.
- Direct foreign investment continued to decline, with net outflows of $483Bn in 2011.

The slump in investor confidence in Egypt following a flare-up in late 2012 of political unrest was a major setback for the country's economic success story, *Barometer* respondents believed. Last year post-revolutionary Egypt had been the leading bright spot of the MENA region, with a YTD performance of 56% up until October – as stability appeared to have returned.

However, the situation quickly changed following President Mohamed Morsi's decree granting his office new powers, which bypassed the judiciary. The move and the uncertainty that followed dealt a blow to financial markets with 25 November seeing the main EGX30 index experience its biggest ever one-day decline, dropping more than 9%. It went on to sink 11% in the full week amid demonstrations by the opposition and the public.

The falls were the worst since the revolution and meant that Egypt's stock market lost its ranking as the world's best 2012 performer. While the index has bounced back, it remains MENA's most volatile market in 2013 and is currently down -7.48% (8 March) according to the MSCI IMI index.

"Investor opinion is now very cautious as a result of the recent blow to the stock exchange," Nabil Farahat, managing director at Cairo Financial Investments told the *Barometer*. "Investors only have confidence in money market and fixed income funds, and are more inclined now to invest in these types of vehicles or switch to dollars."

"Investor sentiment since the recent events has been very weak," Hanzada Nessim, head of investor relations at EFG-Hermes said. "Many investors have opted to stay on the sidelines, with a wait-and-see attitude. This is also reflected in the market turnover which has declined dramatically over the recent period as well."

She said that some foreign investors had been 'cherry picking' stocks that they saw long-term value in. But she added: "Investors definitely have the right to be nervous given events on the political scene and the level of uncertainty in the market. Many investors are just waiting on the sidelines and that is reflected in the market liquidity."

With foreign and domestic retail money unlikely to return for some time, Egypt's mature pension fund sector remains a potential saving grace. Unlike large swathes of MENA where state controlled pension systems are often cut adrift from local market, in Egypt's three tiered system – state, employer and private – funds are consistently more engaged and account for a large portion of stock market, fixed income and mutual fund investment.

The current government – depending on April's elections – could also be poised to add to Egypt's layer of institutional investment, by creating a tier of state endowment funds, with the ability to invest in local fund managers.

Managers who responded to the *Barometer* described the creation of sovereign endowment funds as potentially "game changing", a development which could – combined with the arrival of more Shariah-compliant finance vehicles in Egypt – revive the fortune of local asset managers, who are currently struggling with performance and net outflows.

However, there is still an uphill struggle for Egypt's funds industry as Mahitab Orabi, managing director, Pharos Asset Management, explains: "We still need external investment. Investor appetite has improved but we hope to see more like before the revolution. Obviously everyone is still sceptical about the stability of the country."

## Fund distribution strategies and cost of business

Egypt's capital markets authority moved in July 2007 to bring local investment fund regulations closer to International Organization of Securities Commissions (IOSCO) standards with more stringent rules on fund distribution and advertising. This has made for high regulatory standards, but has done little to break up the dominance of banks when it comes to the selling of fund product.

A second tier of independent asset management firms exists, while a smaller number of insurance and joint stock companies are also responsible for fund distribution activities. While many bank-sponsored funds use independent investment managers, a practice that places investment managers more at arm's length than in other MENA countries where managers organise funds, bank dominance – according to a World Bank report – has had a negative impact on Egypt's development as a centre of fund management.

The report, *Investment Funds in MENA*, reported:

- Because investment funds compete with bank deposits for savings, banks have a disincentive to support development of a vibrant investment fund industry
- Investment managers of bank-sponsored funds may be conflicted and disinclined to undertake vigorous promotion of investment funds
- Bank dominance of the funds industry may discourage securities firms and disincline them to invest in marketing efforts to grow non-bank funds
- Individual investment managers, attempting to maintain any perceived competitive advantage, may be reluctant to cooperate in building a more active and cohesive investment managers association capable of sustaining a coordinated programme to develop the funds industry.

*Barometer* respondents said that Egypt remained an expensive place to establish and operate a fund management business, describing it as the third costliest fund management centre in MENA. ■

### Key developments: opportunities and challenges

- Egypt's market is undervalued and represents a good buying opportunity, despite ongoing market volatility
- High interest rates remain a problem in Egypt and represent a drag on future investment
- New government has been surprisingly business friendly with the planned introduction of sukuk law and endowment funds – both key opportunities for managers of funds
- Showing early signs of a recovery in fund flows, with net new investment coming into the country
- April 2013's election will be crucial for direction of market sentiment in the latter half of 2013. More importantly is the threat of instability that surrounds the process

# Egypt

Total AuM $9.9Bn Total Number of funds 84 Total number of managers 18

Source: Zawya

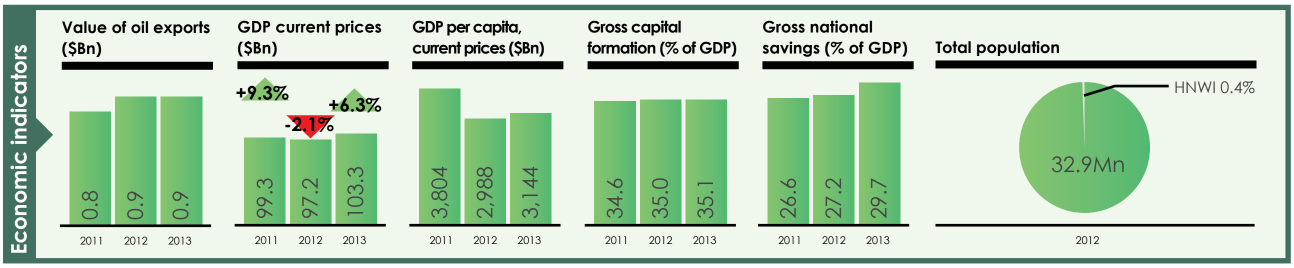
## Funds domiciled in Egypt (including Egypt focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Egypt AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Acumen Asset Management | Misr Al Khair Fund | | 3.4 | 3.4 | 26.2 | - | Dec-12 |
| Amwal for Financial Investments | Pioneers Fund I | | 1.6 | 1.6 | 8.5 | - | Jun-12 |
| Arab African Investment Management | Arab African International Bank Fixed Income Fund | | 132.1 | 385.8 | - | - | Dec-12 |
| Arab African Investment Management | Arab African International Bank Investment Fund | | 42.5 | 385.8 | 19.2 | 5.0 | Dec-12 |
| Arab African Investment Management | Arab African International Bank Money Market Fund | | 211.2 | 385.8 | 11.2 | 30.1 | Dec-12 |
| AT - Asset Management | Al Baraka Bank Egypt | ✔ | 10.9 | 10.9 | 2.0 | - | Dec-12 |
| Beltone Asset Management | ABC Bank Mazaya Fund | | 29.8 | 4,427.6 | 10.9 | 28.8 | Dec-12 |
| Beltone Asset Management | Banque du Caire Money Market Fund 2 | | 289.2 | 4,427.6 | 11.6 | 29.5 | Dec-12 |
| Beltone Asset Management | Banque Misr Money Market Fund (EGP Share) | | 3,174.3 | 4,427.6 | 11.5 | 30.4 | Dec-12 |
| Beltone Asset Management | Banque Misr Money Market Fund (Euro Share) | | 22.2 | 4,427.6 | 0.6 | 1.6 | Dec-12 |
| Beltone Asset Management | Banque Misr Money Market Fund (USD Share) | | 79.9 | 4,427.6 | 0.8 | 1.6 | Dec-12 |
| Beltone Asset Management | Beltone Equity Fund | | 0.9 | 4,427.6 | -2.3 | - | Dec-12 |
| Beltone Asset Management | HSBC Bank Egypt Money Market Fund | | 702.7 | 4,427.6 | 11.5 | 30.6 | Dec-12 |
| Beltone Asset Management | National Societe Generale Bank Fund II | | 3.0 | 4,427.6 | 20.6 | - | Dec-12 |
| Beltone Asset Management | Suez Canal Bank Equity Fund 2 | | 7.6 | 4,427.6 | 8.4 | -29.2 | Dec-12 |
| Beltone Asset Management | The Arab Bank Money Market Fund | | 118.1 | 4,427.6 | 11.5 | 30.1 | Dec-12 |
| Cairo Funds Management | Arab Investment Bank Fund II | ✔ | 0.9 | 49.1 | 8.4 | - | Dec-12 |
| Cairo Funds Management | Banque Misr Capital Guaranteed Fund | | 15.1 | 49.1 | 6.6 | 21.2 | Dec-12 |
| Cairo Funds Management | Tharwa Fund | | 33.1 | 49.1 | - | - | Dec-12 |
| CI Asset Management | Blom Bank Money Market Fund | | 56.8 | 1,128.4 | 11.9 | 31.6 | Jan-13 |
| CI Asset Management | CIB and Faisal Islamic Bank of Egypt Fund | ✔ | 5.6 | 1,128.4 | 9.9 | -36.4 | Dec-12 |
| CI Asset Management | Commercial International Bank Fixed Income Fund | | 25.9 | 1,128.4 | 13.4 | - | Jan-13 |
| CI Asset Management | Commercial International Bank Fund | | 964.9 | 1,128.4 | 11.6 | 31.4 | Jan-13 |
| CI Asset Management | Commercial International Bank Fund II | | 21.2 | 1,128.4 | 30.2 | -26.0 | Dec-12 |
| CI Asset Management | Commercial International Bank Fund IV | | 6.1 | 1,128.4 | 10.7 | - | Dec-12 |
| CI Asset Management | United Bank Money Market Fund | | 47.9 | 1,128.4 | - | - | Jan-13 |
| Delta Rasmala Asset Management | ABC First Equity Fund | | 6.5 | 194.5 | 26.8 | -7.1 | Dec-12 |
| Delta Rasmala Asset Management | Export Development Bank of Egypt Money Market Fund | | 188.0 | 194.5 | 11.2 | 30.5 | Dec-12 |
| EFG-Hermes Holding | Al Massy Fund | | 11.4 | 1,783.2 | 22.7 | 22.1 | Dec-12 |
| EFG-Hermes Holding | Arab Investment Bank Money Market Fund | | 29.1 | 1,783.2 | 11.3 | - | Dec-12 |
| EFG-Hermes Holding | Bank Audi Money Market Fund | | 34.4 | 1,783.2 | 11.4 | 30.2 | Dec-12 |
| EFG-Hermes Holding | Bank of Alexandria Fixed Income Fund | | 12.6 | 1,783.2 | 10.9 | - | Dec-12 |
| EFG-Hermes Holding | Bank of Alexandria Fund I | | 16.6 | 1,783.2 | 24.5 | -26.6 | Dec-12 |
| EFG-Hermes Holding | Bank of Alexandria Fund II | | 402.9 | 1,783.2 | 11.4 | 30.9 | Dec-12 |
| EFG-Hermes Holding | Banque Du Caire Fund I | | 17.5 | 1,783.2 | 30.7 | -30.6 | Dec-12 |
| EFG-Hermes Holding | Credit Agricole Egypt Fund I | | 8.5 | 1,783.2 | 22.1 | -17.0 | Dec-12 |
| EFG-Hermes Holding | Credit Agricole Egypt Fund II | | 9.4 | 1,783.2 | 26.2 | -19.3 | Dec-12 |
| EFG-Hermes Holding | Credit Agricole Egypt Fund III | | 136.1 | 1,783.2 | 11.6 | 31.2 | Dec-12 |
| EFG-Hermes Holding | EFG - Hermes Al Baraka Bank Egypt Fund | ✔ | 10.9 | 1,783.2 | 16.7 | -24.8 | Dec-12 |
| EFG-Hermes Holding | Egyptian Gulf Bank Fund | | 10.8 | 1,783.2 | 28.8 | -38.6 | Dec-12 |
| EFG-Hermes Holding | Faisal Islamic Bank of Egypt Fund | ✔ | 30.2 | 1,783.2 | 13.3 | -32.9 | Dec-12 |
| EFG-Hermes Holding | National Societe Generale Bank Fund | | 1,053.0 | 1,783.2 | 11.3 | 30.4 | Dec-12 |
| El Ahly Fund Management | Bashaer Fund | ✔ | 30.7 | 1,325.9 | 12.1 | 3.7 | Jan-13 |
| El Ahly Fund Management | National Bank of Egypt Fixed Income Fund | | 40.7 | 1,325.9 | 12.7 | - | Jan-13 |
| El Ahly Fund Management | National Bank of Egypt Fund I | | 12.4 | 1,325.9 | 16.0 | 13.3 | Jan-13 |
| El Ahly Fund Management | National Bank of Egypt Fund II | | 16.0 | 1,325.9 | 14.2 | 11.6 | Jan-13 |
| El Ahly Fund Management | National Bank of Egypt Fund IV | | 1,211.4 | 1,325.9 | 10.6 | 29.0 | Jan-13 |
| El Ahly Fund Management | National Bank of Egypt Fund V | | 14.6 | 1,325.9 | 13.2 | 5.3 | Jan-13 |
| El Rashad Asset Management | Arab Islamic Fund of Funds | ✔ | - | 4.7 | - | - | - |
| El Rashad Asset Management | Misr Iran Development Bank Fund III | | 4.7 | 4.7 | 14.7 | 6.2 | Dec-12 |
| HC Securities and Investment | Arab Investment Bank Fixed Income Fund III | | 4.4 | 284.6 | 12.9 | - | Dec-12 |
| HC Securities and Investment | Banque Misr Fund III | | 14.1 | 284.6 | 25.8 | 18.6 | Dec-12 |
| HC Securities and Investment | Banque Misr IV Fund | ✔ | 19.2 | 284.6 | 22.6 | 12.3 | Dec-12 |
| HC Securities and Investment | Credit Agricole Egypt Fund IV | | 2.7 | 284.6 | 12.9 | - | Dec-12 |
| HC Securities and Investment | Export Development Bank of Egypt Fund I | | 8.1 | 284.6 | 24.8 | -23.3 | Dec-12 |

Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Egypt AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| HC Securities and Investment | Misr Al Mostakbal Investment Fund | | 6.6 | 284.6 | 34.2 | - | Dec-12 |
| HC Securities and Investment | Misr Iran Development Bank Fund I | | 17.9 | 284.6 | 25.2 | 14.1 | Dec-12 |
| HC Securities and Investment | Misr Iran Development Bank Fund II | | 133.4 | 284.6 | 10.7 | 30.0 | Dec-12 |
| HC Securities and Investment | National Bank of Egypt Fund III | | 36.4 | 284.6 | 30.9 | -8.9 | Dec-12 |
| HC Securities and Investment | National Societe Generale Bank Fund III | | 1.1 | 284.6 | 22.5 | - | Dec-12 |
| HC Securities and Investment | Principal Bank for Development and Agricultural Credit Fund II | | 26.0 | 284.6 | 11.1 | - | Dec-12 |
| HC Securities and Investment | Principal Bank For Development and Agriculture Credit & Banque Du Caire Islamic Fund | ✔ | 0.9 | 284.6 | -1.4 | - | Jan-13 |
| HC Securities and Investment | Sanabel Fund | ✔ | 10.8 | 284.6 | 15.8 | -6.5 | Dec-12 |
| HC Securities and Investment | Suez Canal Bank Fund | | 3.1 | 284.6 | 20.8 | -23.6 | Dec-12 |
| Misr Capital Investment | Banque Misr Fund I | | 19.6 | 33.2 | - | - | Dec-12 |
| Misr Capital Investment | Banque Misr Fund II | | 13.6 | 33.2 | - | - | Dec-12 |
| Naeem Financial Investments | Naeem Misr Fund | ✔ | 4.7 | 4.7 | 21.2 | - | Jan-13 |
| NBK Capital Asset Management Egypt | Al Hayah Fund | ✔ | 2.0 | 177.6 | 20.7 | - | Dec-12 |
| NBK Capital Asset Management Egypt | Al Watany Bank of Egypt Fixed Income Fund | | 1.5 | 177.6 | 9.3 | - | Dec-12 |
| NBK Capital Asset Management Egypt | Al Watany Bank of Egypt Fund | | 16.5 | 177.6 | 25.2 | 25.8 | Dec-12 |
| NBK Capital Asset Management Egypt | Al Watany Bank of Egypt Money Market Fund | | 157.5 | 177.6 | 11.2 | 29.7 | Dec-12 |
| Pharos Asset Management | Pharos Fund I | | 1.0 | 1.0 | 22.1 | -3.9 | Dec-12 |
| Piraeus Egypt Asset Management | Piraeus Bank Egypt Equity Fund | | 2.8 | 38.7 | 19.7 | 7.7 | Dec-12 |
| Piraeus Egypt Asset Management | Piraeus Bank Egypt Money Market Fund | | 35.9 | 38.7 | 10.6 | 29.0 | Dec-12 |
| Prime Investments Asset Management | Al Rabeh Fund | | 2.0 | 63.6 | 8.5 | 22.2 | Dec-12 |
| Prime Investments Asset Management | Al Tameer Fund | | 3.2 | 63.6 | 19.7 | -1.4 | Dec-12 |
| Prime Investments Asset Management | Al-Zahaby Fund | | 17.6 | 63.6 | - | - | Dec-12 |
| Prime Investments Asset Management | Arab Misr Insurance Group Fund | | 2.9 | 63.6 | 18.9 | -1.0 | Dec-12 |
| Prime Investments Asset Management | BLOM Bank Egypt Fund | | 2.4 | 63.6 | 21.6 | 1.5 | Dec-12 |
| Prime Investments Asset Management | Mawared Fund | | 14.0 | 63.6 | 11.2 | | Dec-12 |
| Prime Investments Asset Management | National Bank of Egypt Fund VII | | 3.0 | 63.6 | 8.9 | -18.6 | Dec-12 |
| Prime Investments Asset Management | Societe Arabe Internationale de Banque I | | 6.3 | 63.6 | 18.7 | -2.7 | Dec-12 |
| Prime Investments Asset Management | Societe Arabe Internationale de Banque II | | 4.9 | 63.6 | 18.5 | -4.9 | Dec-12 |
| Prime Investments Asset Management | Tharaa Fund | | 7.4 | 63.6 | 11.8 | - | Dec-12 |

# MOROCCO




## Background

Ever since King Mohamed VI came to power in 1999, a series of Moroccan national governments have overseen political, economic and social transformation.

Elections were held in November 2011 following the adoption of a new constitution establishing a democratic and highly decentralised system of governance, although the king remains the ultimate authority.

The Moroccan economy has proved relatively resilient in the face of the global economic slowdown. Growth for 2011 was estimated at 5% by the World Bank (up from the 3.6% registered in 2010) with GDP growth for 2012 expected to be 3%. Fuelled by wage increases and growing investment in social housing, public works, and industrial equipment, domestic demand is expected to remain the main driver of growth.

Public expenditure has grown in recent years. Subsidies increased dramatically in 2011 and 2012, reaching 6.4% of GDP in the first half of 2012. The fiscal deficit reached 5.2% of GDP at the end of June 2012, up from 4% for the same period of 2011. Public debt (which was estimated at 47.1% of GDP in 2009) has risen steadily over the past few years as the government has borrowed to cover these expenditures, reaching 52.7% in 2011 and estimated at 56.4% in 2012.

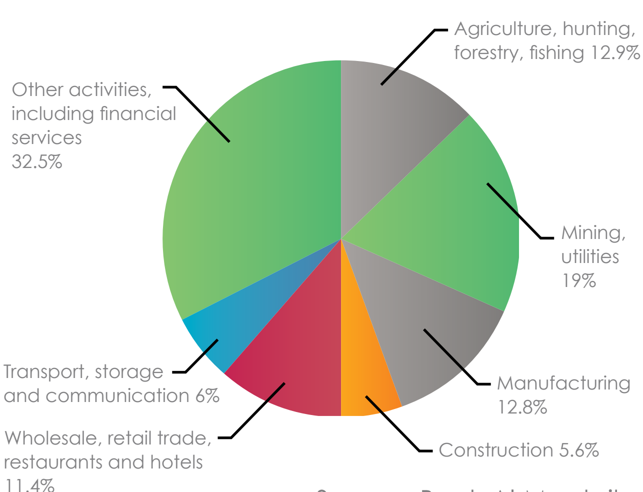
Actions to cut subsidy outlays and the public sector wage bill were expected to reduce the budget deficit to 6-6.5% of GDP in 2012.

The Casablanca Stock Exchange was formed in 1929 but was substantially reformed in 1967. In the early 1990s, Morocco started an extensive programme of reforms for its capital markets. The aim was to develop alternative financing resources beyond those of banks, expand the range of financial products linked to savings, attract foreign capital and harmonise the rules governing the financial sector.

The Conseil Déontologique des Valeurs Mobilières (CDVM, the financial markets authority) was formed in 1993 to ensure investor protection, giving accreditation to brokerage firms and specialist intermediaries – who are the only entities empowered to execute transactions in transferable securities – and creating undertakings for collective investments in transferable securities, financial intermediaries whose sole responsibility is to manage investment portfolios according to the risk diversification principle.

As of 2012 there were 175 investment funds registered in Morocco with assets under management of $14.8Bn.

**Morocco GDP breakdown (2011)**

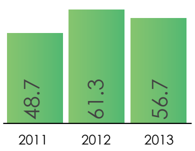



Source: Bank Al Maghrib

## Financial markets

Considering the uncertainties created by the Arab Spring and fiscal turmoil in Europe (its main economic partner), Morocco's economy is performing remarkably well. The latest edition of the annual African Economic Outlook report refers to GDP growth of 4.6% in 2011 and the expectation that similar growth rates (4.5% and 4.8% respectively) would be achieved in 2012 and 2013 on the back of robust domestic demand and steady progress in agricultural and non-agricultural production.

**Stock exchange market cap ($Bn)**




The Moroccan government has received praise for its commitment to economic liberalisation and structural reform and the adoption of a new constitution and early legislative elections meant it was able to address the social demands of its own Arab Spring movement. However, the African Economic Outlook also warns that the country still faces significant social challenges, including persistent inequality and a dysfunctional labour market, as manifested by high unemployment – especially among young graduates and women.

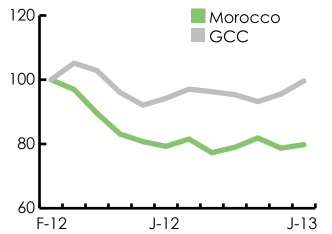
In late 2012 MSCI placed Morocco on review for a downgrade to frontier status after a decade as one of MENA's two emerging markets because of limited liquidity caused by high valuations (average daily trading volumes fell by more than 30% in 2012). However, it was widely suggested at the time that such a move could boost the market by giving it a much larger index share – Morocco represented less than 0.1% of the emerging index, whereas the growth in assets under management of international frontier funds could boost foreign investment in an exchange where many companies are trading at deep discounts and local institutional investors are moving to fixed income.

The Casablanca Stock Exchange has

**MSCI View**

The Morocco equity market is the smallest market (in terms of free-float adjusted market capitalisation) in the Emerging Markets with a weight of less than 0.08% in the MSCI Emerging Markets Index. Over the three years to 30 January 2013, the Morocco equity market posted negative returns of almost -11% and it experienced a sharp drop in liquidity with its average traded value ratio falling from 16% to 7%. It is mainly represented by three sectors: Financials (59%), Telecommunication Services (31%) and Materials (9%).

**MSCI IMI: Morocco vs GCC**




The MSCI Morocco Index is currently classified by MSCI as an Emerging Market. In June 2012, MSCI started a consultation with market participants on a proposal to reclassify the MSCI Morocco Index to Frontier Markets status. The MSCI Morocco Index may be more in line with the size and liquidity requirements of Frontier Markets following the significant decrease in liquidity since 2008, which resulted in a simultaneous decrease in the number of constituents in the MSCI Morocco Index. MSCI will communicate its decisions resulting from the 2013 MSCI Annual Market Classification Review in June.

**Total fund AuM (by domicile)**

**$14.8Bn**

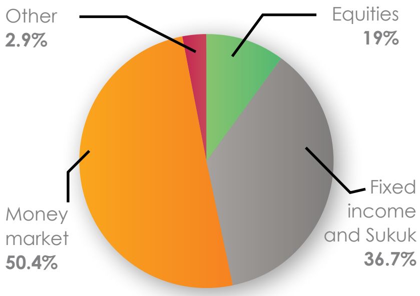
**Average fund size**

**$84.6Mn**

**Number of funds**

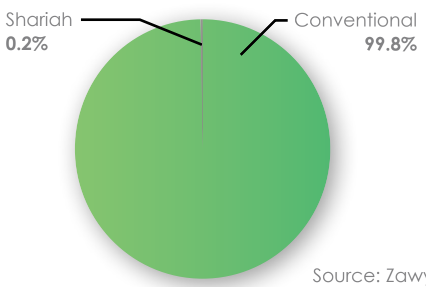
**175**

**Funds by asset class (%)**




Source: Zawya

**Conventional v Shariah-compliant vehicles (%)**




Source: Zawya

identified a number of developments that might enable it to increase its market capitalisation (it is currently Africa's fourth-largest exchange), most notably increasing liquidity in a market where fewer than 100 listed stocks trade regularly.

Proposals include a minimum free float for companies that launch IPOs and the introduction of exchange-traded funds.

## Regulatory environment

**Key regulator: Conseil Déontologique des Valeurs Mobilières (1993)**

The expected influx of investment into north Africa over the next few years highlights a growing requirement for a financial centre to serve the rapidly expanding needs of institutions and governments in this region as well as provide a platform for Western and emerging market investors (especially China and India) to support their activities in Africa.

The efforts of the government and the Moroccan Finance Board to establish Casablanca as a major financial centre are expected to help position it as a gateway to Africa. In 2011 the Moroccan Finance Board announced plans to create a significant financial hub with the capacity to become the financial heart of the African continent. Casablanca Finance City (CFC) opened for business in January 2012.

The Moroccan government intends to use CFC to align the country's business and finance capabilities (including capital markets) with global standards, improving the regulatory, tax and legal framework for doing business in Morocco and establishing a regional business hub at the heart of Casablanca.

Law firm Clifford Chance says that unlike other financial centres such as those in Dubai, Qatar or Malaysia, CFC does not have a dedicated regulatory framework. The Moroccan Finance Board is in charge of the overall project but has no regulatory or supervisory powers over CFC entities.

All financial businesses registered at CFC are subject to existing financial authorities, which include Bank Al Maghrib (the Central Bank); the Conseil Déontologique des Valeurs Mobilières or CDVM (capital markets regulator); the Direction des Assurances et de la Prévoyance Sociale (DAPS – insurance sector regulator); and the Ministry of Finance.

The Moroccan Finance Board works closely with these authorities to ensure that CFC entities are properly regulated and has entered into a Memorandum of Understanding with the Singapore Cooperation Enterprise (SCE) for the offering of expertise and assistance in the strategic development and promotion of CFC.

Under the terms of this memorandum, SCE will assist in various areas including financial regulation, governance and capital market development. SCE will also assist the Moroccan Finance Board in organising its capital markets regionalisation strategy by establishing a framework to attract foreign listings, issuers and investors.

Morocco has a minimum capital requirement for fund managers of approximately $128,000.

## Equity and fixed income funds

Morocco is home to a mature fund management network of $14.8Bn in AuM, spread across 18 managers and 175 fund vehicles. More than half (50.4%) of these assets are placed in short-term money market funds, with a total AuM of $7.5Bn. The country's mature fixed income segment accounts for 36.7% of total assets ($5.4Bn), with the majority of the remainder invested in regional and global equities ($1.5Bn). The average size of a domestic Morocco fund is $84.6Mn, while 96% of the country's total AuM is spread across its 10 largest asset management entities.

Typically asset managers in Morocco are usually one of three: Entrepreneurial companies acting on niche strategies or techniques, subsidiaries of credit institutions and large corporate subsidiaries of banking groups, as well as management companies and subsidiaries of insurance companies. The largest managers tend to be bank owned with BMCE Capital Gestion ($3.2Bn) and Wafa Gestion ($2.9Bn) the largest funds specialists by AuM.

The Moroccan government's ongoing quest for domestic funding has been driven by boosting government bond yield over the past 12 months. This has resulted in a solid run of performance for the country's fixed income funds and those money market funds trading in short-term government debt.

This return profile has meant that over a one-year period all of Morocco's top 10 performing funds have been in the fixed income space; with the Upline Perennite fund and the FCP Capital Imtiyaz fund both posting returns close to 4%.

Over three years BMCE Capital Gestion's FCP Capital Imtiyaz Liquidite fund is the best performing fixed income vehicle. The fund's assets are invested mainly in short-term Moroccan fixed income securities including corporate and government bonds. The fund, which also invests in money market instruments, is up 0.61% YTD (5 March 2013).

Morocco's largest fixed income vehicle is another BMCE fund. The FCP Capital Obligation Plus, which has returned 11.8% over three years, mainly invests in medium to long term Moroccan fixed income securities, including debt, term deposits, corporate and government bonds. It charges an annual management fee of 1.19%.

While *Barometer* respondents elsewhere in MENA showed concern that fixed income returns will be dampened in 2012, Moroccan participants expected another good run for the space, as the government continues to borrow for the longer-term. The country recently issued a dual-tranche USD denominated bond. Previously a $1Bn 10-year tranche was priced at 2.75% over US Treasuries, to which an additional $500Mn 30-year tranche was added at 2.90% above the USD equivalent.

This increased government borrowing contributed to the continued slide in equities over 2012 (Morocco was the worst performing MENA geography in 2012, with a fall of 16.5% over the year). *Barometer* respondents also blamed poor returns and volatility on the Casablanca stock market's limited liquidity, chiefly caused by over inflated valuations and the lack of transparency shown by corporate entities.

However, equities, which are now valued at a discount, were tipped to experience a resurgent 2013 and currently represent, according to *Barometer* respondents, a good buying opportunity. In fact, a number of local and global asset managers are showing a renewed interest in Moroccan listed securities.

Silk Invest currently has significant exposure to Morocco through its Africa Lions and Arab Falcons equity funds as well as its frontier market equities fund and an emerging market fund it co-manages with OFI Asset Management. The firm – in line with the responses of other *Barometer* respondents – expressed an interest in the real estate sector, especially social housing, and the banking sector, with a particular focus on institutions that are expanding outside the country such as Attijariwafa Bank and BCP.

Despite Morocco's current fixed income surge, over three years the top performing fund remains an equities strategy with $14.97Mn in AuM – the Wineo Actions fund. With a track record of 33.1% the fund – operated by Wineo Gestion and managed by Abdelhadi El Khaoudari – specialises in Moroccan equities. Meanwhile, Morocco's largest equity fund is RMA Capital's FCP RMA Cap Dynamique fund, a sector specialist investing primarily in telecom, real estate and financial stocks. Performance has been poor of late with the vehicle down by -23.5% over three years and down -4.0% YTD (4 March 2013).

## Key fund managers

**BMCE Capital Gestion**

Morocco's biggest asset manager, the $3.2Bn BMCE, has carved out a niche as a fixed income specialist. Approximately 66% of its assets under management are in fixed income products and with another fixed income product set to launch later this year – it caters to the country's mature base of institutional allocators.

**BMCI Gestion**

BMCI Gestion holds $675Mn in AuM, with a portfolio of 32 funds covering equities, fixed income and money markets. It is part of the BNP Paribas Group, allowing it a wider distribution network than most of Morocco's local managers.

**Silk Invest**
Specialising in the growth markets of the Middle East and Africa, 2011 was the year Silk Invest really arrived. A BRIC'A' mandate from OFI validated the firm's frontier strategy, while a sophisticated portfolio of Ucits-structured funds sets it apart from other industry players. CEO Zin Bekkali established the firm in 2008 and it now boasts offices in London, Cairo, Casablanca and Dubai.

## Alternative Funds

Although not as clear cut as the emerging Islamic finance industry in other MENA centres, Morocco harbours the promise of new Islamic regulation with a draft bill containing a set of regulations for the introduction of Islamic finance products expected to be added to the country's Banking Law this year.

The rule changes will provide a shot in the arm to the country's nascent Islamic banking sector and will provide scope for more Islamic products, including sukuk vehicles in the future.

According to *Barometer* respondents this, combined with a potential MSCI downgrade, will open the market to more external allocations, including Shariah compliant investment from the rest of the Arab world. The potential for these external inflows will be enshrined in the new regulation, with the country's Islamic finance reforms allowing foreign investors to own up to 49% of new Islamic banks.

Regional managers are making every effort to prepare for the arrival of a new segment of the financial services industry, with a number already planning new launches.

BMCE Capital Gestion, recently revealed that the company is investigating a range of Islamic products ahead of potential new rules. *Barometer* respondents also recognised the potential, describing Morocco as a place where a large swathe of investors would rather hoard cash than use conventional fund vehicles. Most were reluctant to put a figure on it, but *Barometer* survey responses estimates the launch of a series of Shariah products by Moroccan fund managers could initially tap unallocated capital of between $1-2Bn.

However, *Barometer* respondents also urged caution, citing the likely extended timeframe of meaningful Islamic finance regulation. Most expected any favourable changes in regulation to appear in truncated stages and for real progress to not be made within the next 12 months.

While Islamic finance will take time to develop, *Barometer* respondents see a more immediate opportunity in the infrastructure investment space. Amid a number of large public works projects – including improved social housing and transport investment – Morocco has presented a number of opportunities for public private partnerships. Such an approach has already sped up development of sectors such as agriculture, fishery, mining and renewable energy – with a number of local banks and large institutional investors looking to buy in to future projects.

## Investor overview

### Key investors

- Morocco's state public pensions system is currently valued at 36% of GDP and is predicted to hit a $151Mn funding hole by the end of 2014. Over 60% of its portfolio is currently invested in fixed income, with the balance mostly in equities. It is an active investor in Moroccan mutual funds, a trend that is expected to continues
- Morocco's high-net-worth community is MENA's 11th largest centre of private wealth, with approximately 35 ultra-high-net-worth individuals (UHNWI) responsible for $5Bn. The region's UHNWI's personal wealth fell by -12.9% between 2011 and 2012

- Morocco's mutual fund management sector is responsible for assets of $14Bn
- Direct foreign investment continues to increase with 2011's net inflows of $2.5Bn representing a post-2008 high

With one of the Africa's most advanced institutional investor scenes, Morocco's higher short term yields came at the expense of risk appetite last year, which played out in a drop of exposure to equities. *Barometer* respondents saw this as a great medium term value opportunity for activity in the equity space, which is predicted to enjoy an investment renaissance in 2013.

The majority of investment in Morocco's fund space comes from domestic institutional investors, rendering it one of the region's most mature fund centres. *Barometer* respondents predicted that Morocco's state pension fund, a powerful local investor, which is seeking higher returns to correct a growing deficit, would also increase its allocation to the equities space, via increased allocation to mutual funds.

However, direct foreign investment has been slow to appear recently, because of a combination of performance issues and a perceived lack of transparency surrounding corporate entities, who only report on a biannual basis. Morocco's emerging market status has also made it a difficult investment proposition for foreign portfolio managers, with its small weighting on the MSCI emerging markets index effectively marginalising the country in the global emerging market portfolios of international asset managers.

With an over reliance on local money, the national government and the Moroccan Finance Board is attempting to foster a new investor base, by establishing Casablanca as a major financial centre and a gateway to African investment.

The results of this campaign, the Casablanca Finance City opened for business in January 2012. Unlike other financial centres, Casablanca Finance City does not have a dedicated regulatory framework – all financial businesses registered there are subject to the existing financial authorities.

So far, Invest AD is the highest profile asset manager to open an office in Casablanca Finance City. In November last year it announced plans to jointly seed a fund with Morocco's Attijariwafa Bank that will invest in African listed equities and be co-managed by Wafa Gestion (Attijariwafa's asset management arm).

The partners will introduce each other to investment opportunities in the Middle East and Africa respectively, with Attijariwafa Bank providing brokerage and corporate banking services to Invest AD in its key African markets.

The creation of the new financial centre will also herald other launches in 2013, all predicated on the notion of diversifying the local investor base and creating a greater appeal among foreign institutions. *Barometer* respondents described these planned vehicles as a mixture of index funds, capital guaranteed funds, co-branded funds and funds targeting private equity, listed equities and bond markets in Africa.

Late last year, MSCI placed Morocco on review for a downgrade to frontier status, after a decade as one of MENA's two emerging markets, because of limited liquidity caused by high valuations.

However, such a move could have a silver lining for the market by giving it a much larger index share. It would represent more than 5% of the frontier index compared to less than 0.1% of the emerging index. With a recent growth in assets under management at global frontier market funds, this would boost foreign investment into the mutual fund sector.

## Fund distribution strategies and cost of business

In Morocco, there are more than 170 funds and 18 asset managers. Of the 18, seven are linked to banking groups and the rest are independent. Those asset managers that have links to banks dominate about 80% of the market via large distribution networks.

The asset management industry has also seen the emergence of structured funds, which currently make up 1% of AuM. Seven structured funds have been marketed since 2008 by four management companies with contractual clauses relating to capital guarantee and/or coupled to additional capped income – depending on the evolution of a basket of Moroccan equities. At the time of writing, funds managed under this category had assets under management of MAD1.48Bn ($174Mn). "The bottom line is that there is decent scope to choose from," said one *Barometer* respondent. "Clearly, there's no one looking at Morocco these days and local investors are in quite a bearish mood, which for contrarians makes it a good entry point. And, although we don't like to buy expensive things, the Moroccan market has corrected now to about 13 to 14 times price-to-earnings (PE) ratio from 15 to 16 not too long ago."

Easy access for foreign investors has so far failed to tempt investment to Morocco's fund market – although this access is viewed as a positive, long-term. Transactions can be executed in any openly convertible currency, without restrictions on volume or timelines, and as long as any taxes due under Moroccan law have been paid.

Historic links between French and Moroccan investors have also enabled fund managers from both countries to profit from a double taxation treaty. ■

## Key developments: opportunities and challenges

- Morocco is facing a MSCI downgrade to frontier market status. This is not necessarily a negative move, as it will act as a magnet for external frontier market investment
- Politically it is stable, with a new government focussing on key economic issues
- Economic growth could also be bolstered by an increase in public private partnerships, which are speeding development of sectors such as agriculture, fishery, mining and renewable energy
- Promise of new Islamic financial regulation means the potential for new investment products

# Morocco

Total AuM $14.8Bn Total Number of funds 175 Total number of managers 18

Source: Zawya

## Funds domiciled in Morocco (including Morocco focused vehicles)

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Morocco AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| AD Capital | FCP AD Bonds | | 16.2 | 93.9 | 3.7 | - | Dec-12 |
| AD Capital | FCP AD Cash | | 65.2 | 93.9 | 3.2 | - | Dec-12 |
| AD Capital | FCP AD Moroccan Equity Fund | | 12.4 | 93.9 | -21.0 | - | Dec-12 |
| Atlas Capital Management | Atlas Cash | | 98.5 | 197.1 | 3.5 | 11.0 | Dec-12 |
| Atlas Capital Management | Atlas Diversifie | | 0.2 | 197.1 | -25.5 | -19.0 | Dec-12 |
| Atlas Capital Management | Atlas Harmonie | | 44.8 | 197.1 | -0.5 | 6.5 | Dec-12 |
| Atlas Capital Management | Atlas Premium | | 53.6 | 197.1 | -14.3 | -2.2 | Dec-12 |
| BMCE Capital Gestion | BMCE FCP Capital Monetaire | | 245.3 | 3,233.8 | 3.2 | 9.9 | Dec-12 |
| BMCE Capital Gestion | BMCE SICAV IRAD | | 786.0 | 3,233.8 | 3.4 | 10.5 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Actions | | 2.5 | 3,233.8 | -19.6 | -12.9 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Balance | | 1.4 | 3,233.8 | -7.4 | 4.4 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Dynamique | | 121.5 | 3,233.8 | 3.4 | 10.8 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Immobilier | | 0.2 | 3,233.8 | -18.8 | -0.3 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Imtiyaz Croissance | | 1.0 | 3,233.8 | -6.5 | 8.5 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Imtiyaz Expansion | | 6.0 | 3,233.8 | -18.2 | -7.3 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Imtiyaz Liquidite | | 175.7 | 3,233.8 | 3.9 | 12.6 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Imtiyaz Securite | | 149.0 | 3,233.8 | 1.8 | 9.9 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Indice | | 0.2 | 3,233.8 | -21.1 | -14.4 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Institutions | | 41.7 | 3,233.8 | 1.3 | 7.7 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Maghreb | | 3.4 | 3,233.8 | -25.1 | -17.8 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Multi-Gestion | | 2.6 | 3,233.8 | -4.1 | 14.4 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Obligations Banques | | 198.0 | 3,233.8 | - | - | Dec-12 |
| BMCE Capital Gestion | FCP Capital Obligations Plus | | 1,288.2 | 3,233.8 | 3.4 | 11.7 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Participations | | 1.2 | 3,233.8 | - | -8.8 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Rendement | | 92.9 | 3,233.8 | 3.2 | 11.0 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Selection | | 0.8 | 3,233.8 | -16.4 | -8.7 | Dec-12 |
| BMCE Capital Gestion | FCP Capital Sûr | | 0.1 | 3,233.8 | -0.1 | -3.1 | Dec-12 |
| BMCE Capital Gestion | FCP Medersat.Com | | 0.5 | 3,233.8 | -6.8 | 0.6 | Dec-12 |
| BMCE Capital Gestion | SICAV Maroc Valeurs | | 42.1 | 3,233.8 | -20.3 | -16.4 | Dec-12 |
| BMCE Capital Gestion | SICAVENIR | | 73.6 | 3,233.8 | 2.3 | 10.5 | Dec-12 |
| BMCI Gestion | BMCI Cash | | 26.6 | 674.6 | 2.8 | 9.7 | Dec-12 |
| BMCI Gestion | BMCI Epargne Croissance | | 1.9 | 674.6 | -11.1 | -10.2 | Dec-12 |
| BMCI Gestion | BMCI Epargne Obligations | | 50.5 | 674.6 | 1.1 | 7.5 | Dec-12 |
| BMCI Gestion | BMCI Epargne Valeurs | | 4.4 | 674.6 | -18.1 | -5.7 | Dec-12 |
| BMCI Gestion | BMCI Monetaire Plus | | 230.2 | 674.6 | 3.1 | - | Dec-12 |
| BMCI Gestion | BMCI Tresorerie | | 334.8 | 674.6 | 2.7 | 8.5 | Dec-12 |
| BMCI Gestion | BMCI Tresorerie Plus | | 15.8 | 674.6 | 2.8 | 9.3 | Dec-12 |
| BMCI Gestion | CAT Obli Frontières | | 0.1 | 674.6 | - | - | Dec-12 |
| BMCI Gestion | Integra Cash | | 10.2 | 674.6 | - | - | Dec-12 |
| Capital Trust Gestion | Capital Trust Monetaire | | 42.4 | 50.6 | - | - | Dec-12 |
| Capital Trust Gestion | Capital Trust Obligataire | | 8.3 | 50.6 | - | - | Dec-12 |
| CDG Capital Gestion | CDG Cash | | 89.5 | 851.1 | 3.2 | 9.7 | Dec-12 |
| CDG Capital Gestion | CDG Croissance | | 0.6 | 851.1 | -12.3 | 0.2 | Dec-12 |
| CDG Capital Gestion | CDG Horizons | | 12.6 | 851.1 | 3.1 | 10.7 | Dec-12 |
| CDG Capital Gestion | CDG Izdihar | | 15.4 | 851.1 | -2.2 | 4.5 | Dec-12 |
| CDG Capital Gestion | CDG Monetaire Plus | | 117.1 | 851.1 | 3.8 | 11.5 | Dec-12 |
| CDG Capital Gestion | CDG Oblig Premium | | 43.6 | 851.1 | 1.6 | 10.3 | Dec-12 |
| CDG Capital Gestion | CDG Oblig Selection | | 54.2 | 851.1 | 1.3 | 10.5 | Dec-12 |
| CDG Capital Gestion | CDG Patrimoine | | 0.7 | 851.1 | -2.5 | 7.9 | Dec-12 |
| CDG Capital Gestion | CDG Performance | | 2.7 | 851.1 | -13.0 | -3.7 | Dec-12 |
| CDG Capital Gestion | CDG Rendement | | 0.2 | 851.1 | 2.5 | 10.7 | Dec-12 |
| CDG Capital Gestion | CDG Small & Mid Cap | | 3.1 | 851.1 | - | - | Dec-12 |
| CDG Capital Gestion | CDG Tawfir | | 34.9 | 851.1 | 2.2 | 9.2 | Dec-12 |
| CDG Capital Gestion | CDG Tresorerie | | 371.8 | 851.1 | 3.5 | 10.4 | Dec-12 |
| CDG Capital Gestion | CMR ASHOUM | | 50.4 | 851.1 | - | - | Dec-12 |
| CDG Capital Gestion | Dar Ad-Damane Fund | | 16.1 | 851.1 | - | - | Dec-12 |
| CDG Capital Gestion | FCP Allocation | | 0.1 | 851.1 | -6.6 | 8.1 | Dec-12 |
| CDG Capital Gestion | FCP CDG Multigestion | | 0.1 | 851.1 | -1.9 | 12.3 | Dec-12 |
| CDG Capital Gestion | FCP Oblig Court Terme | | 0.1 | 851.1 | 2.5 | 8.1 | Dec-12 |

Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Morocco AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| CDG Capital Gestion | FCP Opportunites | | 37.7 | 851.1 | -17.3 | -2.1 | Dec-12 |
| CFG Gestion | CFG Construction | | 1.7 | 254.4 | -26.4 | -31.2 | Dec-12 |
| CFG Gestion | CFG Corporate Bonds | | 15.4 | 254.4 | 1.8 | - | Dec-12 |
| CFG Gestion | CFG Emergence | | 2.5 | 254.4 | -21.3 | -25.5 | Dec-12 |
| CFG Gestion | CFG Liquidite | | 17.9 | 254.4 | 2.6 | 9.5 | Dec-12 |
| CFG Gestion | CFG Performance | | 28.4 | 254.4 | -19.0 | -10.8 | Dec-12 |
| CFG Gestion | CFG Perspectives | | 21.9 | 254.4 | -0.8 | - | Dec-12 |
| CFG Gestion | CFG Perspectives V | ✔ | 2.5 | 254.4 | - | - | Dec-12 |
| CFG Gestion | CFG Prevoyance | | 0.1 | 254.4 | -2.8 | - | Dec-12 |
| CFG Gestion | CFG Rendement | | 25.2 | 254.4 | 1.8 | 8.4 | Dec-12 |
| CFG Gestion | CFG Securite | | 116.9 | 254.4 | 3.0 | 9.4 | Dec-12 |
| CFG Gestion | CFG Valeurs | | 8.1 | 254.4 | -20.7 | -15.8 | Dec-12 |
| CFG Gestion | FCP Patrimoine Avenir | | 0.2 | 254.4 | -18.8 | -1.8 | Dec-12 |
| CFG Gestion | FCP Pelican | | 0.6 | 254.4 | -8.8 | -3.4 | Dec-12 |
| CFG Gestion | SICAV CFG Croissance | | 13.0 | 254.4 | -8.9 | -1.9 | Dec-12 |
| Credit Agricole Du Maroc Gestion | CAM Actions | | 0.1 | 13.4 | -8.9 | - | Dec-12 |
| Credit Agricole Du Maroc Gestion | CAM Monetaire | | 7.2 | 13.4 | 2.9 | - | Dec-12 |
| Credit Agricole Du Maroc Gestion | CAM Obligations | | 6.1 | 13.4 | -0.4 | - | Dec-12 |
| Gestar | SG Actions Plus | | 11.9 | 913.3 | -19.9 | -13.9 | Dec-12 |
| Gestar | SG Cash Garanti | | 45.3 | 913.3 | 2.6 | 8.4 | Dec-12 |
| Gestar | SG Cash Plus | | 237.9 | 913.3 | 3.7 | 11.6 | Dec-12 |
| Gestar | SG Court Terme Oblig FCP | | 82.6 | 913.3 | - | - | Dec-12 |
| Gestar | SG Epargne Plus Actions | | 0.1 | 913.3 | - | - | Dec-12 |
| Gestar | SG Expansion | | 6.0 | 913.3 | -16.5 | -8.0 | Dec-12 |
| Gestar | SG Oblig Plus | | 85.2 | 913.3 | 2.5 | 9.6 | Dec-12 |
| Gestar | SG Optimal Oblig | | 1.7 | 913.3 | 0.9 | 8.4 | Dec-12 |
| Gestar | SG Perspectives | | 9.5 | 913.3 | -8.8 | -4.3 | Dec-12 |
| Gestar | SG Tresor Plus | | 89.8 | 913.3 | 3.4 | 10.9 | Dec-12 |
| Gestar | SG Valeurs | | 343.3 | 913.3 | 3.1 | 9.9 | Dec-12 |
| IRG Asset Management | FCP IRGAM Actions | | 10.0 | 144.1 | -18.9 | -11.1 | Dec-12 |
| IRG Asset Management | FCP IRGAM Monetaire | | 50.8 | 144.1 | 3.6 | 10.4 | Dec-12 |
| IRG Asset Management | FCP IRGAM Obligataire | | 53.4 | 144.1 | 0.6 | 9.0 | Dec-12 |
| IRG Asset Management | IRGAM MONETAIRE PLUS | | 29.9 | 144.1 | - | - | Dec-12 |
| Marogest | FCP Es-Saada Obligations | | 0.1 | 61.3 | -3.3 | 0.0 | Dec-12 |
| Marogest | FCP M.S.IN Solidarite | | 0.1 | 61.3 | 1.4 | 6.3 | Dec-12 |
| Marogest | FCP Maroc Actions | | 1.2 | 61.3 | -26.9 | -29.7 | Dec-12 |
| Marogest | FCP Maroc Creances | | 0.1 | 61.3 | 2.3 | 8.5 | Dec-12 |
| Marogest | FCP Maroc Institutions | | 0.2 | 61.3 | -3.3 | 3.3 | Dec-12 |
| Marogest | FCP Maroc Investissement | | 0.8 | 61.3 | -20.4 | -25.3 | Dec-12 |
| Marogest | FCP Maroc Liquidite | | 36.9 | 61.3 | 3.5 | 10.0 | Dec-12 |
| Marogest | FCP Maroc Obligations | | 6.1 | 61.3 | -0.3 | 5.9 | Dec-12 |
| Marogest | FCP Marogest Cash | | 5.3 | 61.3 | 3.4 | - | Dec-12 |
| Marogest | FCP Tawfir Es-Saada | | 7.2 | 61.3 | 3.6 | 8.7 | Dec-12 |
| Marogest | SICAV Maroc Croissance | | 3.3 | 61.3 | -11.8 | -12.6 | Dec-12 |
| Orange Asset Managment | Orange Equity Growth | | 0.1 | 3.9 | 0.4 | 11.5 | Dec-12 |
| Orange Asset Managment | Orange Fixed Income | | 0.1 | 3.9 | 2.1 | 7.3 | Dec-12 |
| Orange Asset Managment | Orange Long Term Bonds Fund | | 0.1 | 3.9 | 0.4 | 5.5 | Dec-12 |
| Orange Asset Managment | Orange Portfolio Liquidity | | 3.5 | 3.9 | 2.6 | 8.5 | Dec-12 |
| Orange Asset Managment | Orange Shares Serenity | | 0.1 | 3.9 | -17.5 | -18.4 | Dec-12 |
| RED MED Asset Management | FCP ALPHA Dynamic Fund | | 0.3 | 22.7 | -18.2 | - | Dec-12 |
| RED MED Asset Management | FCP ALPHA Income Fund | | 7.4 | 22.7 | 2.3 | - | Dec-12 |
| RED MED Asset Management | FCP ALPHA Monetaire | | 15.0 | 22.7 | 3.6 | - | Dec-12 |
| RMA Capital | FCP RMA CAP Diversifie | | 0.1 | 2,100.6 | - | - | Feb-13 |
| RMA Capital | FCP RMA Cap Dynamique | | 766.1 | 2,100.6 | -13.6 | -21.9 | Feb-13 |
| RMA Capital | FCP RMA Cap Equity Market | | 50.4 | 2,100.6 | -15.7 | -4.2 | Feb-13 |
| RMA Capital | FCP RMA Cap Expansion | | 65.9 | 2,100.6 | -7.9 | 2.3 | Feb-13 |
| RMA Capital | FCP RMA Cap Multi Strategies | | 138.8 | 2,100.6 | -14.5 | 10.7 | Feb-13 |
| RMA Capital | FCP RMA Cap Obligations | | 540.3 | 2,100.6 | -2.0 | -1.9 | Feb-13 |
| RMA Capital | FCP RMA Cap Performance | | 40.3 | 2,100.6 | -14.8 | -5.2 | Feb-13 |
| RMA Capital | FCP RMA Cap Rendement Plus | | 284.6 | 2,100.6 | -3.8 | -3.0 | Feb-13 |
| RMA Capital | FCP RMA CAP Treso Plus | | 214.0 | 2,100.6 | 2.9 | - | Feb-13 |
| Upline Capital Management | Al Amal FCP | | 317.3 | 2,153.4 | 3.6 | 11.9 | Dec-12 |
| Upline Capital Management | Al Iddikhar Chaabi Actions | | 0.5 | 2,153.4 | -16.9 | 11.6 | Dec-12 |
| Upline Capital Management | FCP AL Badil Chaabi Asshoum | | 0.4 | 2,153.4 | -19.1 | -6.3 | Dec-12 |

Source: Zawya

| Fund manager | Fund Name | Shariah (✔) | Fund size ($Mn) | Management firm in Morocco AuM ($Mn) | 1 Year Perf (%) | 3 Years Perf (%) | End Date |
|---|---|---|---|---|---|---|---|
| Upline Capital Management | FCP Al Iddikhar Chaabi Kassir Al Mada | | 2.4 | 2,153.4 | 1.5 | 8.9 | Dec-12 |
| Upline Capital Management | FCP Al Iddikhar Chaabi Moutawassit Al Mada | | 1.5 | 2,153.4 | 1.3 | 8.8 | Dec-12 |
| Upline Capital Management | FCP Al Iddikhar Chaabi Tawil Al Mada | | 3.3 | 2,153.4 | 1.4 | 8.3 | Dec-12 |
| Upline Capital Management | FCP Al Istithmar Al Chaabi Actions | | 6.1 | 2,153.4 | -19.5 | -11.0 | Dec-12 |
| Upline Capital Management | FCP Al Istithmar Al Chaabi Diversifie | | 40.6 | 2,153.4 | -13.2 | -8.7 | Dec-12 |
| Upline Capital Management | FCP Al Istithmar Al Chaabi Tresorerie | | 866.2 | 2,153.4 | 3.4 | 11.2 | Dec-12 |
| Upline Capital Management | FCP Assanad Chaabi | | 32.6 | 2,153.4 | 1.3 | 7.9 | Dec-12 |
| Upline Capital Management | FCP Upline Horizon | | 86.2 | 2,153.4 | - | - | Dec-12 |
| Upline Capital Management | Horizon Expansion | | 2.0 | 2,153.4 | -3.0 | 11.7 | Dec-12 |
| Upline Capital Management | Kenz Actions | | 2.0 | 2,153.4 | -16.9 | 0.2 | Dec-12 |
| Upline Capital Management | Kenz Obligations | | 53.7 | 2,153.4 | 0.7 | 7.9 | Dec-12 |
| Upline Capital Management | Kenz Plus | | 363.9 | 2,153.4 | 3.5 | 11.5 | Dec-12 |
| Upline Capital Management | Kenz Rendement | | 3.7 | 2,153.4 | -9.3 | 2.7 | Dec-12 |
| Upline Capital Management | Upline Actions | | 2.0 | 2,153.4 | -13.7 | 0.4 | Dec-12 |
| Upline Capital Management | Upline Avenir | | 82.9 | 2,153.4 | -2.6 | 6.4 | Dec-12 |
| Upline Capital Management | Upline Capitalisation | | 0.1 | 2,153.4 | -0.4 | 6.2 | Dec-12 |
| Upline Capital Management | Upline Cash | | 25.5 | 2,153.4 | 3.5 | 11.2 | Dec-12 |
| Upline Capital Management | Upline Oblig Plus | | 142.2 | 2,153.4 | - | - | Dec-12 |
| Upline Capital Management | Upline Obligations | | 0.1 | 2,153.4 | 2.5 | 8.0 | Dec-12 |
| Upline Capital Management | Upline Opportunites | | 46.0 | 2,153.4 | - | - | Dec-12 |
| Upline Capital Management | Upline Perennite | | 16.5 | 2,153.4 | 3.9 | 12.4 | Dec-12 |
| Upline Capital Management | Upline Rendement | | 6.9 | 2,153.4 | 0.3 | 7.4 | Dec-12 |
| Upline Capital Management | Upline Rendement Plus | | 23.8 | 2,153.4 | - | - | Dec-12 |
| Upline Capital Management | Upline Tresorerie | | 22.3 | 2,153.4 | 3.4 | 11.0 | Dec-12 |
| Upline Capital Management | Upline Valeurs Plus | | 2.5 | 2,153.4 | -16.4 | 4.0 | Dec-12 |
| Valoris Management | Emergence Bond Fund | | 370.3 | 1,011.5 | 3.8 | 12.2 | Dec-12 |
| Valoris Management | Emergence Croissance | | 76.1 | 1,011.5 | -4.2 | 3.2 | Dec-12 |
| Valoris Management | Emergence Equilibre | | 9.5 | 1,011.5 | -3.0 | 5.9 | Dec-12 |
| Valoris Management | Emergence Equity Fund | | 9.4 | 1,011.5 | -17.6 | -9.7 | Dec-12 |
| Valoris Management | Emergence Fund | | 264.3 | 1,011.5 | 3.2 | 12.2 | Dec-12 |
| Valoris Management | Emergence Money Market Fund | | 281.1 | 1,011.5 | 3.8 | 12.2 | Dec-12 |
| Valoris Management | Emergence Performance | | 0.5 | 1,011.5 | -12.8 | 17.0 | Dec-12 |
| Valoris Management | FCP Emergence Liquidite | | 0.2 | 1,011.5 | 2.8 | - | Dec-12 |
| Wafa Gestion | CAP Securicourt | | 92.7 | 2,951.7 | - | - | Dec-12 |
| Wafa Gestion | FCP Attijari Actions | | 33.3 | 2,951.7 | -16.5 | 1.4 | Dec-12 |
| Wafa Gestion | FCP Attijari Al Moucharaka | ✔ | 14.3 | 2,951.7 | -19.6 | -2.0 | Dec-12 |
| Wafa Gestion | FCP Attijari Liquidite | | 1,297.6 | 2,951.7 | 3.4 | 10.6 | Dec-12 |
| Wafa Gestion | FCP Attijari Monetaire Jour | | 62.5 | 2,951.7 | 2.9 | 8.9 | Dec-12 |
| Wafa Gestion | FCP Attijari Monetaire Plus | | 229.5 | 2,951.7 | 3.1 | 10.0 | Dec-12 |
| Wafa Gestion | FCP Attijari Securite | | 17.5 | 2,951.7 | 1.8 | 7.6 | Dec-12 |
| Wafa Gestion | FCP CMR ACTIONS | | 50.9 | 2,951.7 | - | - | Dec-12 |
| Wafa Gestion | SICAV Attijari Diversifie | | 18.9 | 2,951.7 | -5.6 | 3.3 | Dec-12 |
| Wafa Gestion | SICAV Attijari Obligations | | 51.9 | 2,951.7 | 1.3 | 6.0 | Dec-12 |
| Wafa Gestion | SICAV Attijari Patrimoine Diversifie | | 7.9 | 2,951.7 | -10.8 | 0.8 | Dec-12 |
| Wafa Gestion | SICAV Attijari Patrimoine Multigestion | | 6.8 | 2,951.7 | -8.8 | -4.4 | Dec-12 |
| Wafa Gestion | SICAV Attijari Patrimoine Valeurs | | 52.6 | 2,951.7 | -16.6 | 2.1 | Dec-12 |
| Wafa Gestion | SICAV Attijari Selection | | 3.7 | 2,951.7 | -8.5 | -2.8 | Dec-12 |
| Wafa Gestion | SICAV Attijari Tresorerie | | 1,006.6 | 2,951.7 | 3.2 | 10.2 | Dec-12 |
| Wafa Gestion | CDM OPTIMUM | | 5.0 | 2,951.7 | - | - | Dec-12 |
| Winéo Gestion | Wineo Actions | | 15.0 | 65.2 | -10.3 | 33.9 | Dec-12 |
| Winéo Gestion | Wineo Cash | | 10.1 | 65.2 | 2.9 | 9.5 | Dec-12 |
| Winéo Gestion | Wineo Obligations | | 40.0 | 65.2 | 2.9 | 9.0 | Dec-12 |

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