MARMORE
MENA INTELLIGENCE
A MARKAZ Subsidiary

October 2019

Sovereign Wealth Funds

GCC Institutional Investors

Research Highlights:

Analyse the role played by SWFs of GCC countries and forecasting their asset size

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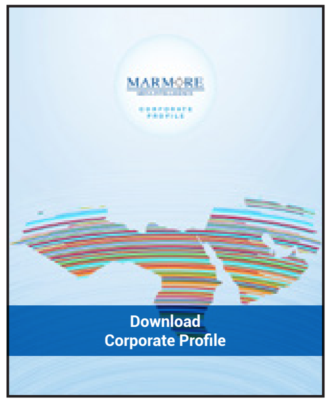
About Marmore



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» Consistent track record of quality, in-depth research offerings;

» Skilled team with extensive experience in advanced quantitative and qualitative analysis techniques;

» Deep understanding of MENA market and access to wide-ranging database

» Delivers high quality, client specific, insightful research reports; highlighting key client issues and uncovering key answers/opportunities for the clients.

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Chapter 1

Executive Summary

The countries in the GCC region, house some of the largest SWFs in the world. Driven by oil trade and higher realizations during periods of elevated oil price led to the development of Sovereign Wealth Funds (SWFs) in the GCC. Prominent among them are Abu Dhabi Investment Authority (ADIA), Kuwait Investment Authority (KIA), Public Investment Fund (PIF) of Saudi Arabia and Qatar Investment Authority (QIA). According to a June 2019 ranking published by the Sovereign Wealth Fund Institute (SWFI), the largest fund in the GCC is the Abu Dhabi Investment Authority (ADIA). Founded in 1976, it manages the third-largest amount of assets in the world, behind only Norway Government Pension Fund and China Investment Corporation. In total, six of the top-20 SWFs in the world are from the GCC.

The proposed transfer of Saudi Aramco ownership to Public Investment Fund (PIF) of Saudi Arabia could catapult PIF as the largest sovereign wealth fund in the world. It is widely expected that the 5 percent stake sale of Aramco would yield USD 100bn, which would value the firm at USD 2tn. This along with the current fund value of about USD 320bn would easily dwarf other SWFs in asset size.

SWFs in oil exporting economies, were initially set up as a reserve fund to channel surplus oil revenues into the national economic development. Over the years, mandate of the SWFs has expanded and now includes a diverse array of activities across geographies. Economic stabilization role of SWFs came into prominence when oil prices collapsed to USD 10 per barrel in 1990s and economies stagnated. Similarly, post the gulf war, Kuwait Investment Authority (KIA) was instrumental in rebuilding the country's economy. During the global financial crisis of 2008, KIA invested USD 3bn in Citi group, which it sold in Dec 2009 for USD 4.1bn making a profit of USD 1.1bn.

Regional SWFs that hitherto had been passive in their approach have increasingly become proactive and more direct in their investments approach. For instance, in the case of UAE-based Mubadala Development Company, its managers often have a seat on the board, and they are actively involved in managing the companies they invest in. Also, it seeks its overseas investments to boost knowledge and technology transfers to UAE. SWFs and Investment funds also have had an important role to play in the development of the local economy in the GCC region. They have huge ownership stake in major companies that are listed on the stock market. GCC SWFs reportedly own roughly 22% of the GCC stock market (measured by market capitalization).

GCC SWF's mostly invest the assets in a diversified global portfolio in order to provide with them a steady and stable source of income into the future. GCC SWFs have accumulated close to USD 2.97tn and constitute more than 37% of Global SWFs.

Gulf's sovereign wealth funds are seeking to increase their allocations to assets like private equity, infrastructure and real estate, while scouting for new opportunities in emerging markets. Also, SWFs in the region are becoming increasingly sophisticated in their operations. While investment objectives have certainly changed, including geographical and sector focus — diversification remains a key and common objective, as they seek to reduce their reliance on energy, oil and gas prices.

Thus, the GCC SWFs invest in several asset classes. For instance, ADIA long term portfolio targets minimum of 32%-42% developed equities, 10%-20% emerging market equities, 1%-5% small cap equities, 10%-20% government bonds, 5%-10% credit, 5%-10% alternatives, 5%-10% real estate, 2%-8% private equity, and 1%-5% infrastructure and 0%-10% cash.

GCC SWFs divide management of fund between external fund managers and an in-house investment team. Investment allocations within the country, direct acquisitions, co-investments in infrastructure domain and private assets are usually handled by in-house team. While investments in alternative assets, are usually handled by external managers. Funds have also accelerated their hiring, increased their personnel to strengthen their in-house investment capabilities. SWFs continue to invest to improve their process and data systems to better manage and support their investment and operation teams. Post the global financial crisis additional emphasis has been provided to strengthen their risk management system

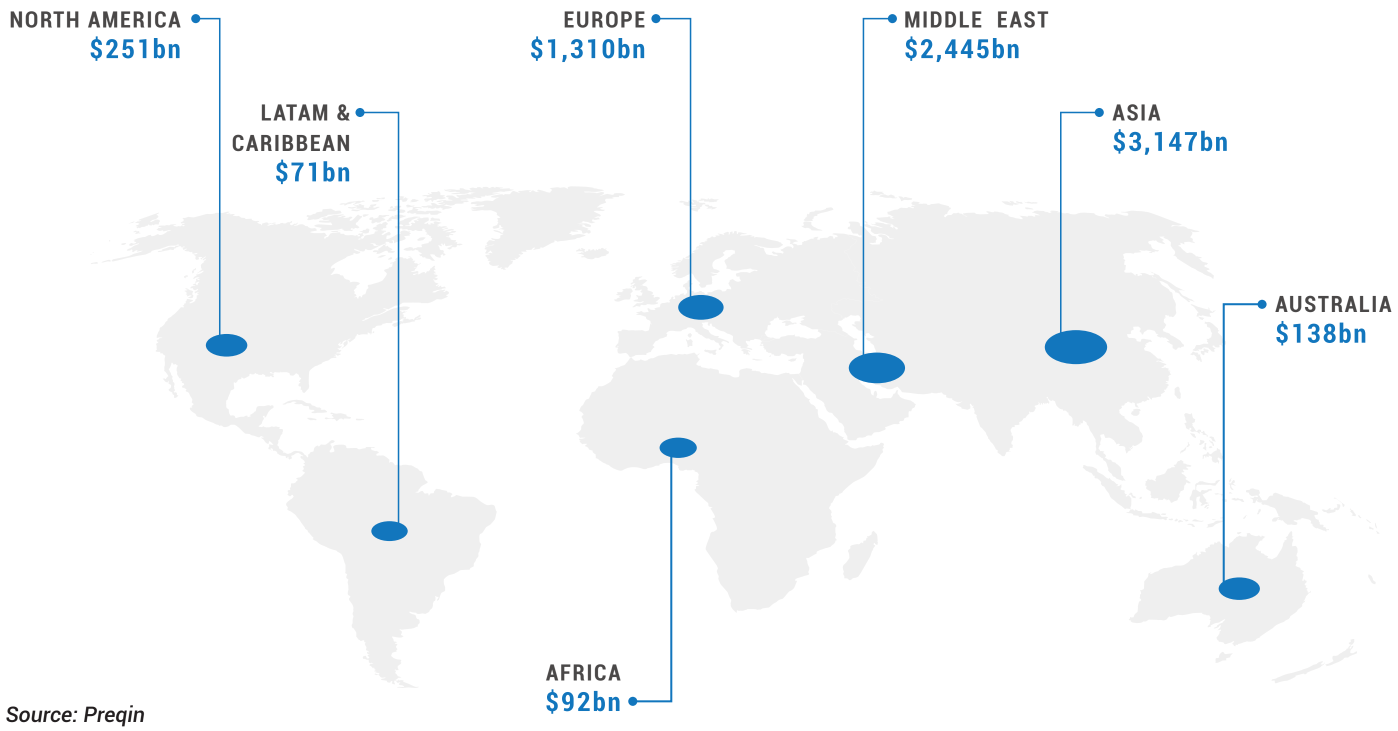
By sectors, GCC SWFs are investing in a large way in technological ventures like aerospace, renewable energy, electric vehicles, nano technology, healthcare satellites, semi-conductors and ICT. Emerging markets are another recent theme for the Gulf's sovereign funds, notably emerging markets India and China.

Going ahead, SWF assets are expected to grow more slowly and, in some cases, may even decline from their current levels as the governments, in an attempt to cover their burgeoning fiscal deficits due to persistent lower oil prices, could dip into the SWF assets. Notwithstanding this, by 2024, it is expected that KSA would have assets of USD 939 billion, UAE of USD 1,687 billion, Kuwait of USD 911 billion and Qatar of USD 493 billion. It is expected that Gulf's sovereign funds are likely to allocate more towards achieving economic goals at home in future. This will most pertinently be seen in investments in Qatar, which is expected to spend upwards of $200bn on new infrastructure ahead of it hosting the World Cup in 2022, and in the UAE, where Dubai will host the 2020 World's Expo.

Global Sovereign Wealth Funds

Sovereign Wealth Funds (SWFs) are state owned investment vehicles for managing national wealth. SWFs have their origins, dating back as far as 1950s, (Kuwait from 1950s, while the rest started during the 70s) when the oil rich countries started saving their surpluses for meeting their future needs. GCC economies, which are endowed with finite pool of hydrocarbon resources, realized the need to convert them into diversified assets. The rationale behind the initiation of SWFs in the region was that these diversified assets could provide with them a steady and stable source of income, which could last for future generations. Working towards that end, it led the GCC region to form some of the largest SWFs in the world. For example, among the top five SWFs that have over USD 500bn of assets, two of them are from the GCC region.

Figure 2.1: AUMs of SWF Globally by region



Source: Preqin

GCC Sovereign Funds Arriving at the Global Stage

SWFs in the region have generally been passive in their approach and have followed a long-term, conservative investment strategy. In fact, until 1990s, most SWFs were risk averse and held dollar-denominated treasury securities. At USD 40 per barrel of oil, GCC countries were not able to generate substantial surplus and their scale of operations remained largely confined within their geographies.

Dramatic rise in oil prices since 2003, spurred by globalization and increased trade with the onset of World Trade Organization, helped GCC countries in accumulating ample foreign reserves. The need to diversify revenue streams and move away from their dependency on hydrocarbons gained momentum as SWFs started exploring investment opportunities abroad. Having saturated investment opportunities at home, SWFs not only sought newer investment avenues but also started focusing on maximizing their returns.

A shift in the portfolios towards developed market equities, international real estate, private equity and other riskier asset classes was witnessed especially in the case of Qatar Investment Authority (QIA) and Kuwait Investment authority (KIA).

Table 2.1: GCC SWFs Asset Size

Sovereign Wealth Fund	Country	Inception	Assets (USD bn)
Abu Dhabi Investment Authority	UAE	1976	696
Kuwait Investment Authority	Kuwait	1953	592
SAMA Foreign Holdings	KSA	n.a	493
Qatar Investment Authority	Qatar	2005	320
Investment Corporation of Dubai	UAE	2006	234
Public Investment Fund	KSA	2008	320
Mubadala Development Company	UAE	2002	227
Emirates Investment Authority	UAE	2007	45
Oman State General Reserve Fund	Oman	1980	21
Mumtalakat Development Company	Bahrain	2006	17
Oman Investment Fund	Oman	2006	6
Sharjah Asset Management	UAE	2008	0.8

Source: SWF Institute; latest available data as of June, 2019

Multiple Roles of SWFs

Initially set up as a reserve fund to channel surplus oil revenues into the national economic development, mandate of the SWFs has expanded over the years and now include a diverse array of activities across geographies.

Economic stabilization role of SWFs came into prominence when oil prices collapsed to USD 10 per barrel in 1990s and economies stagnated. Saudi Arabian Monetary Agency (SAMA) which had been accumulating and managing surplus oil revenues since the 1970's helped cushion the severity of the economic crisis by injecting funds into the Saudi Arabian economy and stimulating activity. Similarly, post the gulf war, Kuwait Investment Authority (KIA) was instrumental in rebuilding the country's economy.

In the recent past, SWFs played a critical role during the global financial crisis by helping the bigger banks in the US and European Union (EU) shore up long-term capital, at a time when global liquidity waned. KIA invested USD 3bn in Citi group during the financial crisis of 2008, which it sold in Dec 2009 for USD 4.1bn making a profit of USD 1.1bn. Singapore's Temasek Holdings Pte, KIA and China Investment Corp. are among the sovereign funds that helped U.S. investment banks replenish more than USD 200bn of capital during the time of financial crisis. On a similar fashion, Barclays Plc which was Britain's 2nd largest bank then received funds amounting to USD 8.7bn from Abu Dhabi and Qatar's SWFs. Abu Dhabi pocketed USD 2.19bn as profit when it sold the shares in 2009. Closer to home, KIA injected over USD 5.4bn into Kuwait capital markets, to arrest the market fall and stabilize volatility, at the time of global financial crisis.

Regional SWFs that hitherto had been passive in their approach have increasingly become proactive and more direct in their investments approach. For instance, in the case of UAE-based Mubadala Development Company, its managers often have a seat on the board and they are actively involved in managing the companies they invest in. They seek abroad investments to boost knowledge and technology transfers. For instance, when Mubadala took a 5% stake in Ferrari it brought along with the potential to set up a Ferrari theme park in Abu Dhabi. Similarly, when it invested USD 8bn in a Research & Development (R&D) partnership program with General Electric, it secured General Electric commitment to increase its investments and technology transfers to UAE[1].

[1] Knowledge at Wharton

Profile of GCC Sovereign Wealth Funds

Abu Dhabi Investment Authority (ADIA) is stated to be the largest SWF in GCC Region. Founded in 1976, it manages the third-largest amount of assets in the world, behind only Norway Government Pension Fund & China Investment Corporation. Also, among the top-10 global SWFs are those overseen by the Kuwait Investment Authority and Saudi Public Investment Fund (PIF). In total, six of the top-20 SWFs in the world are from the GCC. The profile of GCC Sovereign Wealth Funds based on publicly available information is produced below.

United Arab Emirates (UAE)

Abu Dhabi Investment Authority (ADIA)

ADIA portfolio consists of over a dozen asset classes and sub-categories. As per the disclosures, it earned 7.0% annualized returns over the last 30 years and 6.9% annualized return over the last 20 years. The fund states that about half of ADIA's portfolio consists of index-replicating, or passive, strategies within quoted markets. ADIA as a practice does not invest in the domestic market (UAE). It has over 1,700 employees spanning 65 nationalities.

Recent Portfolio Additions by ADIA

Noteworthy investments of ADIA in recent times have been in varied sectors like healthcare, asset reconstruction, infrastructure, AgroSciences, insurance, packaging solutions etc. The investments sizes are in the range of USD 500 million to USD 1.0 billion. Some of these investments are as follows.

In May 2019, Luxinva, a subsidiary of ADIA entered into exclusive negotiations together with other partners to acquire Nestlé Skin Health from Nestlé S.A. for an enterprise value of CHF 10.2 billion. In February 2019, through its subsidiary it partnered with Kotak Investment Advisors Limited to launch the Kotak Special Situations Fund, which will target a range of non-performing loan (NPL) opportunities in India. The fund is being anchored by a $500 million commitment from a wholly owned subsidiary of ADIA. Also, ADIA and funds advised by Triton have formed a consortium to acquire 100% of IFCO. Triton and ADIA will have an equal share in the investing entity. IFCO is the leading global provider of reusable packaging solutions for fresh foods, serving customers in more than 50 countries.

In August 2018, ADIA with other partners successfully bid for 51 per cent ownership of WestConnex, the largest road infrastructure project currently underway in Australia. In July 2018, it partnered with other firms for the planned acquisition of Arysta LifeScience Inc. that specializes in the development, formulation, registration, marketing and distribution of differentiated crop protection solutions, including BioSolutions and seed treatment products. The agreement expects ADIA to invest $600 million for an approximately 22% shareholding in UPL Corp. UPL Corp in turn will invest about $4.2 billion for acquisition of 100% of Arysta. In June 2018 ADIA reached an agreement to acquire up to 21.4% of the shares in Pension Insurance Corporation Group. Pension Insurance Corporation Group is the parent company of Pension Insurance Corporation (PIC), a specialist insurer and leading provider of bulk annuities to UK corporate pension schemes. PIC has in excess of £25 billion in financial assets, supporting the benefits of more than 150,000 individuals. The acquisition is an investment by ADIA's Private Equities Department (PED). PED target sectors include financial services, healthcare, industrials, technology, and consumer products

Other SWFs in UAE

Other large SWFs in UAE are the Investment Corporation of Dubai, Mubadala Investment Company, Abu Dhabi Investment Council, Emirates Investment Authority, RAK Investment Authority and Sharjah Asset Management.

One of Abu Dhabi's smaller investment funds, Mubadala plays a key part in the government's efforts to diversify its economy. Its investments and joint ventures are designed to bring international companies into the Emirate, building up local skills and creating jobs. It focuses on four main areas: technology and industry; aerospace and engineering; energy; and emerging sectors such as healthcare, real estate and infrastructure. It has joint ventures and investments with the likes of commodities trader Trafigura and technology giant IBM and runs a $10bn global investment fund with China Development Bank Capital. It also owns the local renewable energy specialist Masdar. Mubadala's investments comprise over 50 businesses and investments in over 50 countries, and aggregate value of over USD 225 billion. International Petroleum Investment Company (IPIC) another SWF in UAE was merged in recent years with Mubadala. IPIC was set up to invest in oil and gas companies around the world. IPIC's portfolio reportedly included stakes in Austrian Petrochemicals firm Borealis, Japanese oil refiner Cosmo Oil and electricity provider Energias de Portugal.

Abu Dhabi Investment Council, which was launched in 2007, is a second tier fund that invests with an aim to help domestic economic growth and facilitate the development of local companies in the global arena. ADIC's investments include stakes in local lenders like National Bank of Abu Dhabi and Abu Dhabi Commercial Bank, as well as Abu Dhabi Aviation Company, and Abu Dhabi Investment Company.

Another UAE's SWF is Investment Corporation of Dubai (ICD) that acts as the main investment arm of the Dubai government, has interests in many sectors, including holdings in the Emirates and FlyDubai airlines, local property developer Emaar and Emirates NBD bank.

Kuwait

The fourth largest SWF is the Kuwait Investment Authority (KIA) that has roots tracing back to 1953. It usually is a passive investor, avoiding majority or controlling interests in most of the companies it invests in. It runs two funds: the General Reserve Fund (GRF) and the Future Generations Fund (FGF). By law, at least 10% of the all state revenues are transferred to the FGF every year. KIA reported that it earned 5% annualized return on FGF and GRF assets. The fund has invested into various local and global projects. This includes the fund's stake in Kuwait Petroleum Company, London City Airport and Dubai Parks. KIA also holds high-profile stakes in German car manufacturer Daimler, BP, Vodafone and HSBC. At the beginning of 2017, KIA announced that it aims to increase the allocation of funds managed in-house, from less than 2% to as much as 8%. Also, it plans to invest more in private assets and global infrastructure projects. In the past, KIA had invested US$ 3 billion in the US$ 12.5 billion Citi Group Convertible Preferred Securities and US$ 2 billion in the US$ 6.6 billion Merrill Lynch Convertible Preferred Stock.

Saudi Arabia

Public Investment Fund (PIF) of Saudi Arabia, is the major SWF in Saudi Arabia. PIF was originally established in 1971 to invest in commercial projects, but for much of its operating life it has been a traditional holding company. However, in March 2015 a decree was issued transferring oversight of PIF from the Ministry of Finance to the Council of Economic and Development Affairs, with the fund's goals brought in line with Saudi Vision 2030.

In late October 2017 the government launched the PIF Program 2018-20, which aims to develop the PIF into a global sovereign wealth fund that will also enhance investments into Saudi economy. The Saudi government plans to increase PIF's assets under management from $230bn in 2017 to $400bn by 2020, and then expand the figure further to $2trn by the year 2030.

In 2016 PIF invested $3.5bn in Uber, the ride-hailing app, and entered an agreement to invest $45bn in a $100bn-technology fund in partnership with Japan's SoftBank. It also announced plans in May 2017 to contribute $20bn to U.S. private investment firm Blackstone Group to finance infrastructure projects in the U.S. PIF presently invests in telecom, aerospace, energy, green technologies, along with special focus on housing finance, renewable energy and information technology. The firm also invests in a range of non-oil sectors within and outside Saudi Arabia. The firm invests and finances projects in Saudi Arabia. The firm also undertakes investments indirectly across multiple geographies.

PIF is expected to benefit from government plans to offer shares representing around 5% of state-owned oil company Saudi Aramco through an Initial Public Offering (IPO). The proceeds, expected to be worth a potential $100bn, would be transferred to the fund for reinvestment. The SWF already has considerable reserves, with the government allocating it SR100bn ($26.7bn) from the central bank in November 2016.

PIF recently announced its plans to raise stake in ACWA Power International a private energy sector company, from 25% to 40%. PIF also announced that it executed a $1 billion investment agreement with Tesla rival Lucid Motors that will provide the funding needed to commercially launch Lucid's first electric vehicle, the Lucid Air, in 2020. By investing in the rapidly expanding electric vehicle market, PIF is gaining exposure to long-term growth opportunities, supporting innovation and technological development and driving revenue and sectoral diversification in the Kingdom of Saudi Arabia In other developments, PIF is expected to be involved in theme park construction with U.S. entertainment operator Six Flags. It is also participating in efforts to develop a domestic defense industry. In May 2017 PIF established Saudi Arabian Military Industries with the aim of reducing its reliance on foreign purchases of military equipment. PIF's domestic portfolio includes stakes in Saudi Basic Industries Corporation – one of the world's biggest chemicals manufacturers – and National Commercial Bank, the Kingdom's largest lender.

Another important development for PIF is the government 's privatization program, which aims to raise $300bn through the sale of state assets and these will be transferred for reinvestment by the PIF and other agencies. In July 2017 Mohammed Al Tuwaijri, the minister for economy and planning, announced that moves were under way to sell the state-owned power generation firm and water desalination company, among others. Also, the government plans to transfer ownership of all of the Kingdom's airports to the PIF as part of its efforts to privatize the facilities.

Another source of sovereign funds in Saudi Arabia is the holdings of its central bank, Saudi Arabian Monetary Agency (SAMA), a value of USD 493 billion in reserves. The bank is stated to have held most of the foreign holdings in low-yielding US bonds. The Saudi government has been drawing down some of its savings to cover budget deficits in recent years, which has dented the value of SAMA's holdings. The Central Bank reported SR1.85tn ($493bn) in foreign assets as of June 2019, down from SR 2.7tn at the end of 2014.

Qatar

Qatar Investment Authority (QIA), the SWF arm of Qatar, is estimated to have assets worth USD 320 billion. QIA has large stakes in household names in financial services such as Credit Suisse, Barclays, Agricultural Bank of China, Banco Santander Brasil, and the London Stock Exchange as well as a portfolio comprising Volkswagen, Porsche, Tiffany, LVMH, Sainsbury's or Harrods. Other investments include the QIA's stake in French oil major Total, Royal Dutch Shell and BAA, the owner of London's Heathrow airport. QIA, is known as an investor in high-profile European assets such as the Shard skyscraper and Harrods department store in London, as well as Credit Suisse.

In the South East Asia, QIA bought Asia Square Tower 1 in Singapore for about S$ 3.4bn ($ 2.45bn). The tower has 1.287 million sq ft of space, which includes retail, and office. QIA also owns the landmark Raffles Hotel in Singapore through its unit Katara Hospitality. In addition, QIA agreed to buy a HK$ 4.78bn ($616 mn) stake in Lifestyle International Holdings, operator of the SOGO department stores in Hong Kong and mainland China. Also, a QIA backed consortium was reported to have completed $ 6.8bn takeover of Australian freight (port and rail) giant Asciano.

In North America, QIA also into joint venture with Brookfield Property Partners, for buying a 44% interest in $8.6bn mixed use project "Manhattan West", in New York. Manhattan West is a five-building, 7 million sq ft development project on the west side of Manhattan. The project consists of residential and office towers, as well as a possible hotel development. In UK, QIA previously invested with Brookfield in projects such as Canary Wharf in London. QIA owns 28.6% of Songbird, which in turn owns 69% of Canary Wharf Group (CWG). CWG rivals the City of London as a financial services center.

Though QIA has made several mega investments across the globe it is to be mentioned that in September 2016, the *Financial Times* suggested the fund could have lost $12bn as a result of the downturn in the fortunes of some of its shareholdings, like Volkswagen, Glencore and the Agricultural Bank of China. It has also previously invested in German car maker Porsche and U.K bank Barclays.

Bahrain

Bahrain's Sovereign Wealth Fund, Mumtalakat Holding Company has an estimated $17bn assets under management, according to the SWFI. Mumtalakat Holding, established in 2006, is mandated by the Bahraini government to diversify the island's economy by targeting investments in equities including healthcare, technology, financial services and real estate. It is not constrained by predetermined amounts of investments in any given year or targeted to any specific geographic area or business sector and their investment scope includes both local and international opportunities.

In 2014, Mumtalakat signed a mutual investment agreement with the Russian Direct Investment Fund. In October 2015, Mumtalakat, along with Blackstone Group and Dubai-based Fajr Capital, bought a significant stake in the UAE's GEMS Education, and in 2016 the SWF acquired notable equity stakes in UK-based water treatment company Envirogen Group and European health care provider KOS Group. In 2016, $ 250mn of investments were made in office buildings across Texas and Arizona, through a partnership with US-based Regent Properties, and acquired a significant equity stake in UK-based water treatment company, Envirogen Group.

Mumtalakat holds stakes in more than 40 firms in non-oil sector, including Bahrain Telecommunications Co (Batelco), Alba, Gulf Air, Kuwait-based gas manufacturer Gulf Cryo and UK car firm McLaren. Industrial, the service sector, real estate and tourism sectors, are potential target sectors for the fund. Mumtalakat, through its wholly owned subsidiary Bahrain Real Estate Investment (Edamah), has a deal in place with Fairmont Hotels & Resorts to build a 215-room luxury resort in the Al Jazayer area of Bahrain.

Market Presence in GCC countries

SWFs and Investment funds have had an important role to play in the development of the local economy in the GCC region. Government sponsored institutions such as General Organization for Social Insurance (GOSI), Public Pension Agency (PPA), Qatar Investment Authority (QIA), Abu Dhabi Investment Authority (ADIA); Kuwait Investment Authority (KIA) etc. have huge ownership stake in major companies that are listed on the stock market. For instance, among the top 25 companies in GCC, that cumulatively account for approximately USD 664bn of market capitalization SWFs ownership stands at 32.2% (measured by market capitalization). Inclusive of Government ownership, the ownership among top 25 stocks stands at 51.1% (measured by market capitalization).

Table 4.1: Top 25 Companies (By Market Cap USD Bn)

Sovereign Wealth Fund	Market Cap (USD bn)	SWFs Stake	Government Stake	SWF + Government Stake
Saudi Basic Industries Corporation SJSC	95.0	70.0%	5.7%	75.7%
Saudi Telecom Company SJSC	58.7	70.0%	13.8%	83.8%
Qatar National Bank QPSC	48.3	0.0%	51.9%	51.9%
Al Rajhi Banking & Investment Corp SJSC	47.3	0.0%	5.9%	5.9%
National Commercial Bank SJSC	47.0	44.3%	10.5%	54.8%
First Abu Dhabi Bank PJSC	44.1	37.0%	0.0%	37.0%
Emirates Telecom Group Co PJSC	38.5	60.0%	0.0%	60.0%
Saudi British Bank SJSC	22.8	0.0%	10.8%	10.8%
Riyad Bank SJSC	20.8	21.8%	26.0%	47.7%
National Bank of Kuwait SAKP	20.6	0.0%	5.5%	5.5%
Samba Financial Group SJSC	19.7	22.9%	18.6%	41.5%
Saudi Electricity Company SJSC	19.7	0.0%	81.2%	81.2%
Industries Qatar QPSC	19.2	0.0%	67.0%	67.0%
Emirates NBD Bank PJSC	16.9	55.8%	0.0%	55.8%
Saudi Arabian Mining Co SJSC	16.4	65.4%	0.0%	65.4%
Abu Dhabi Commercial Bank PJSC	16.1	46.7%	0.0%	46.7%
Kuwait Finance House KSCP	15.8	24.1%	24.0%	48.1%
Emirates Islamic Bank PJSC	14.8	0.0%	99.9%	99.9%
Almarai Company SJSC	14.5	16.3%	0.0%	16.3%
DP World PLC	14.0	0.0%	80.5%	80.5%
Banque Saudi Fransi SJSC	13.5	0.0%	9.0%	9.0%
Qatar Islamic Bank QPSC	11.2	16.9%	0.0%	16.9%
Arab National Bank	10.0	0.0%	7.2%	7.2%
Alinma Bank SJSC	9.7	10.0%	5.8%	15.8%
Yanbu National Petrochemicals Co SJSC	9.5	0.0%	58.6%	58.6%

Source: Reuters, Marmore Analysis; Data as of June, 2019

GCC SWF Investment Strategies

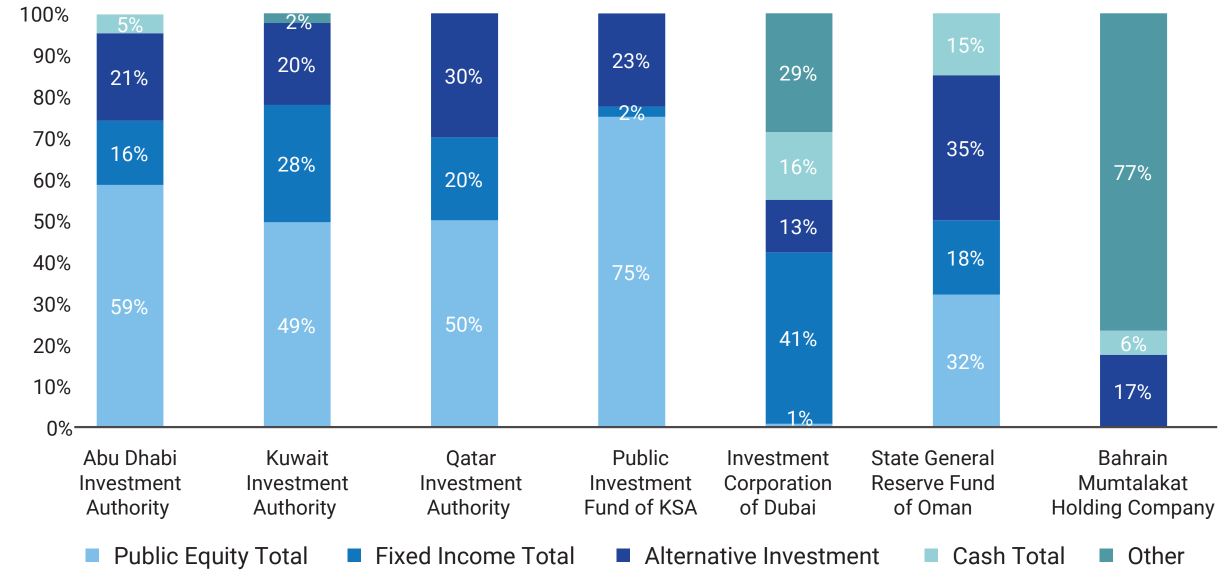
The primary mandate for SWF investment managers is to preserve its value and enhance the growth of assets, to serve the economic development needs and to ensure adequate capital is available for forthcoming future generations.

For funds with stabilization mandate, the ability to preserve notional value and liquidate assets quickly is of prime importance. Saudi Arabian Monetary Agency (SAMA) which had managed the assets in Foreign Holdings (FH) fund has adopted a conservative stance in its investment approach. As a result, investments were majorly overseas and in developed market sovereign bonds, treasury securities and cash deposits. While, illiquid assets such as private equity and riskier emerging market equities and bonds weren't looked at[2].

In contrast to the risk averse approach of KSA; Qatar, UAE and Kuwait SWFs have been relatively aggressive global investors and have considered private equity, real estate and hedge funds.

Strategic investments have also been made and stakes acquired in MNCs by GCC SWFs, which has been helpful to gain knowledge and aided in technology transfers to the local economy. QIA has often acquired trophy assets, primarily driven by branding and associated long-term benefits rather than solely based on profit maximisation objectives[3]. With most of their export revenues tied closely with global growth, it is likely that SWFs would have invested in assets that are less likely correlated with global growth.

Figure 5.1: Indicative Asset Allocation of Various GCC SWF (2018)



Source: Sovereign Wealth Fund Institute

[2] SWF Institute
[3] KPMG: Emerging Trends in SWF Landscape

Abu Dhabi, Kuwait and Qatar have a well-diversified portfolio with investments in equities, fixed income and alternative investment vehicles like real estate and private equities. Abu Dhabi Investment Authority aims to generate stable returns over the long term within established risk parameters and does not adhere to a specific investment style. The firm diversifies investments across various asset classes, industries and geographic location. Kuwait Investment Authority (KIA) adheres to a long-term investment strategy, targeting investments in the local and international markets with the aim of providing an alternative to oil reserves. Investment Corporation of Dubai has a significant portion of their holdings in cash as its banking operations require a part of its reserves to be deposited with the central bank as a regulatory requirement. Saudi Arabia PIF has the highest allocation to domestic equities among its GCC peers. Contrary to PIFs investment strategy, the Qatar Investment Authority (QIA) focuses more on foreign investments than its domestic market, predominantly investing in international markets like Europe, United States, Asia-Pacific, and within Qatar outside of the energy sector. Therefore, we see a very diverse portfolio among the GCC countries with each country following a different asset allocation strategy.

GCC SWFs are also investing in a large way in technological ventures like aerospace, renewable energy, electric vehicles, nanotechnology, healthcare, satellites, semi-conductors and ICT. As an example, Mubadala has committed to invest USD 100 billion in SoftBank Vision Fund and Saudi PIF has committed to invest USD 50 billion in this fund.

Investment Process in GCC SWFs

Kuwait

The Kuwait Investment Authority (KIA) is one of the oldest sovereign wealth fund in the world. KIA traces its roots to the Kuwait Investment Board, which was established in 1953, eight years before Kuwait's independence. KIA is split into the General Reserve Funds (GRF) and the Futures Generation Funds (FGF). Management of fund classes divided between external fund managers and an in-house investment team, Kuwait Investment Office (KIO). KIO manages funds as a global investor, with investments in all the main geographic areas and asset classes. It covers equities, fixed income, treasury, private equity, and property. KIA recently inaugurated the Shanghai office that will be a direct investor identical to the KIO. The FGF invests in regions outside Kuwait and MENA region and has a strategic approach to asset allocation involving GDP contribution, asset class, and type of fixed income assets. It has refrained from investments in businesses that have exposures to gaming and alcohol[4].

Saudi Arabia

Saudi Arabian Monetary Agency (SAMA) began in 1952 in response to rapidly increasing Government revenues. Compared to other funds of the GCC region, SAMA is a low-risk, conservative investor. In addition to bank deposits, SAMA has invested in bonds, equities and alternatives. Due to SAMA's stabilization mandate, it has an overweight position in sovereign bonds. It is estimated that U.S. treasury bonds constitute around 80% of SAMA investments[5]. SAMA uses both external and internal mandates. For its energy portfolio, external managers are used. For fixed income investments, management mostly remains in-house[6].

Saudi PIF Evolving Asset Allocation

The Saudi Arabian Public Investment Fund (PIF) that provides financing support for projects of strategic importance to the Saudi economy has been one of the main investment vehicles for the government. Historically, PIF has focused its investments in domestic equities with the aim of providing financial support to local companies and help the country diversify away from hydrocarbons. Saudi Vision 2030, launched by Prince Mohammed Bin Salman plans to reduce the oil sector's grip on the economy and create more jobs and the Public Investment Fund is considered the main vehicle to implement this plan. PIF holds stakes in some of the biggest companies and financial institutions in Saudi Arabia which includes SABIC (the top petrochemicals producer in the Middle East), Saudi Telecom Company (Saudi Arabia's largest telecommunications operator) and mining giant Ma'aden. It also owns stakes in two of the biggest lenders in the country, National Commercial Bank and Samba Financial Group[7].

However, in the recent years, PIF has followed a higher risk investment approach compared to traditional SWFs in the GCC region with respect to higher investment in equity, especially in private technology firms. This is a departure from traditional investments in fixed income and real estate that have dominated most SWF allocations in the region. The fund, which has historically invested in the domestic market on behalf of the Saudi government, has expanded its international investments from 1% to over 10% of its total asset base between 2013-18[8]. PIF is a significant

[4] Sovereign Wealth Profile, Harvard Kennedy School, 2015
[5] Setser and Ziemba, 2009
[6] Sovereign Wealth Profile, Harvard Kennedy School, 2015
[7] The National
[8] iBid

investor in Soft Bank Group's USD 100bn Vision Fund with a contribution of USD 45Bn to the fund. It has already invested in about 50 to 60 companies through Softbank with the aim to help diversify the economy and generate employment in the country. According to press reports, PIF has plans to continue to invest in the technology sector, as it has the potential to offer returns that are difficult to achieve in some of the traditional investments[9].

UAE

The Abu Dhabi Investment Authority is one of oldest funds in the GCC with 40 years since its inception. It is also the largest sovereign wealth fund in the region and second largest in the world. ADIA has a well-diversified investment portfolio consisting of equities, bonds, hedge funds, futures, real estate, private equity and infrastructure. ADIA refrains from investing in the domestic market (UAE) and is active on the international market. Abu Dhabi Investment Council invests with an aim to help domestic economic growth and facilitate the development of local companies in the global arena. Investment Corporation of Dubai (ICD) serves as the main investment arm of the Dubai government. The smaller fund - Mubadala, plays a role in governments efforts to diversify the economy. It primarily aims to investment and establish joint ventures so as to bring international companies into the Emirates in order to build up local skills and create jobs.

Qatar

Qatar Investment Authority is a relatively new fund, established in 2005. It is active in a range of classes from real estate to listed securities. Investments are done in public equities in both Qatar and internationally. Roughly, 20% of their investments are in fixed income securities such as US Government and Corporate bonds. It aggressively invests in Private equity and venture funds. It usually invests in funds of at least $500 million and will not invest more than 5% of the overall fund size. Real estate constitutes about 32% of the total assets of QIA. It invests in property globally, including Qatar, MENA region, Europe and the US. It targets high profile property such as Chelsea Barracks in London, The Raffles hotel in Singapore and The Shard in London. The SWF is instrumental in funding Qatar infrastructure for the 2022 FIFA world cup. It also invests in infrastructure globally. It has recently pledged to invest $1 billion in African infrastructure[10]. Qatar Investment Authority aims to raise investments in the United States to $45 billion in the next two years as it rebalances its portfolio of assets away from Europe.

Oman

The Sovereign Wealth Fund of Oman is named State General Reserve Fund (SGRF). It was established in 1980 with the aim to achieve long-term sustainable returns on revenues generated from oil and gas. It has managed to get an average annual return of 7.1% since its inception in 1980. It has a diversified Global portfolio with 65-85% investments in public markets and rest in private markets. Investments are done in equities (25-45%), Bonds (10-30%), Short-term assets (10-40%), Private Equity (10-25%), Real Estate (5-15%).

Bahrain

Bahrain's Mumtalakat Holding Company is the most recent SWF. Established in 2006, its main aim to manage and grow the revenues from sale of oil and gas. The assets of the fund are spilt 50% in MENA region and remainder globally.

[9] Bloomberg
[10] Preqin Sovereign Wealth Fund Review

SWF Asset Size Estimation

In order to estimate the value of SWFs we have relied on IMF projections for fiscal deficit and gross debt levels.

Table 7.1: GCC Fiscal Deficits/Surplus (USD bn)

	2019e	2020f	2021f	2022f	2023f	2024f
Bahrain	(3.3)	(3.2)	(3.0)	(2.9)	(3.3)	(3.7)
Kuwait	13.1	10.9	10.9	9.7	8.4	7.7
Oman	(7.9)	(5.9)	(4.9)	(5.9)	(7.1)	(7.6)
Qatar	11.8	13.4	13.6	15.0	15.0	16.2
KSA	(60.5)	(44.6)	(59.0)	(57.4)	(57.2)	(59.2)
UAE	(3.6)	(7.6)	(3.0)	(0.8)	1.7	2.7

Source: IMF, April 2019

Fiscal deficits would be either financed by additional debt issuance or through reserve utilization, while surplus, if any, would add on to the existing reserves. Based, on which we arrive the surplus or shortfall that shall accrue to the SWFs.

Table 7.2: Surplus/shortfall value that would be added to reserve assets (USD bn)

	2019e	2020f	2021f	2022f	2023f	2024f
Bahrain	(0.6)	(1.8)	(1.9)	(1.8)	(2.1)	(2.4)
Kuwait	13.1	10.9	10.9	9.7	8.4	7.7
Oman	0.4	(4.4)	(3.7)	(3.8)	(3.8)	(4.9)
Qatar	11.8	(0.5)	2.3	7.2	6.1	6.5
KSA	(25.2)	(31.1)	(40.8)	(53.4)	(19.2)	(12.2)
UAE	(1.3)	(8.7)	(4.4)	(2.2)	0.2	1.1

Source: IMF, Marmore Research

The surplus or shortfall in value to fund deficits post considering debt/new bond issuance would add on to existing reserves. Existing SWF reserves are projected to grow at 6% p.a which is 100bps lower than the historical returns of SWFs[11].

[11] ADIA registered a CAGR of 7% in the past 30years

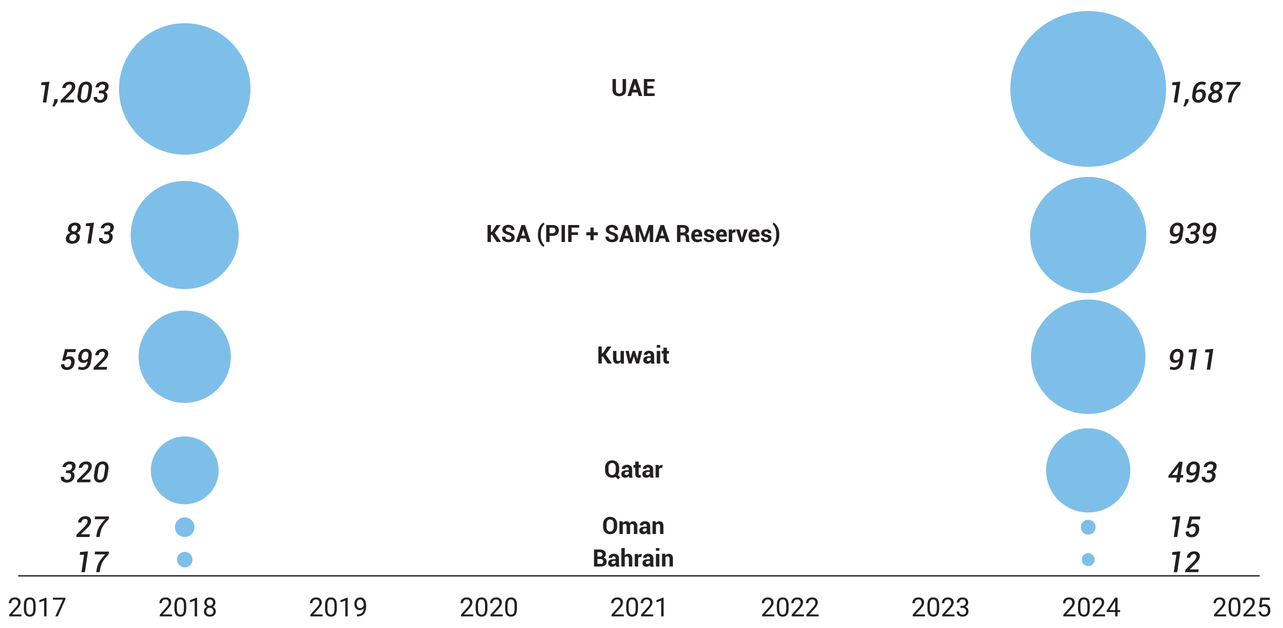
Table 7.3: SWF Assets over the years (USD bn)

Estimation of SWFs	2018	2019e	2020f	2021f	2022f	2023f	2024f
Bahrain	16.7	17.1	16.3	15.4	14.5	13.3	11.6
Kuwait	592.0	640.6	689.9	742.2	796.4	852.6	911.4
Oman	26.7	28.6	26.0	23.9	21.5	19.0	15.2
Qatar	320.0	351.0	371.6	396.2	427.1	458.8	492.9
KSA	812.9	836.5	855.6	866.1	864.7	897.4	939.0
UAE	1,202.8	1,273.6	1,341.3	1,417.3	1,500.1	1,590.3	1,686.8

Source: SWF Institute, Marmore Research; Note for KSA PIF assets & SAMA Foreign holdings have been considered

Based on our estimates, Qatar & Kuwait assets are expected to register continuous growth as the deficits they would be incurring is quite small in value when compared with the income that they would be generating with their current reserves. While, in the case of other countries the deficit is expected to be large and would entail drawing down of their reserves leading to lower reserve assets in the future.

Figure 7.1: SWF Assets Estimates (USD bn)



Source: SWF institute, Marmore Research;

Key Trends in the GCC SWFs

Mergers among GCC Sovereign Wealth Funds

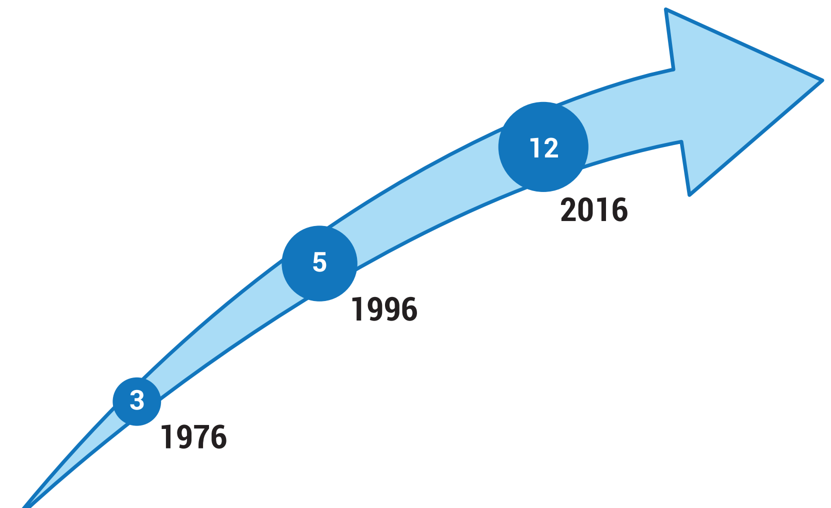
On the back of lower global oil prices, SWF merger took place in 2017, with the creation of larger funds seen as a way to cut costs and limit overlaps in operations. In 2017, for example, it was announced that Abu Dhabi merged its Mubadala Investment Company and International Petroleum Investment Company (IPIC). According to the SWFI, the new entity would be the 14th-largest fund globally, with around $125bn in assets. Historically, IPIC generated an operating cashflow of USD 3-5bn per annum which is sufficient to cover its average capital expenditure of approx. USD 2-3bn per annum. While, Mubadala Development Company generates operating cash flow of USD 1-2bn per annum which isnt sufficient to cover its capital expenditure needs of USD 3-5bn per annum. The merged firm is expected to be self-sufficient as the free cash flow of IPIC is expected to meet Mubadala's funding needs[12]. Mubadala is active in 13 sectors and more than 30 countries around the world, and is focused on developing industrial heavyweights in sectors including aerospace manufacturing, ICT, the semiconductor industry, metals and mining, and renewable energy. Meanwhile, IPIC has traditionally focused on oil and gas exploration and production, with stakes in 18 countries around the world in nations such as Kazakhstan, Pakistan and Austria. Thus the merger will provide greater degree of sector diversification for the merged entity.The new fund is expected to continue to invest in energy, infrastructure, metals, real estate and aerospace, while also expanding into new sectors.

In April 2017 reports surfaced of Oman following suit, with plans to merge the country's two main SWFs. The State General Reserve Fund (SGRF) and Oman Investment Fund would together create an entity with approximately $25bn in assets. The SGRF is the older of the two, established in 1980 to invest and manage the country's financial surplus from its oil and gas revenues. The general fund maintains assets of approximately $18bn, according to the SWFI, while the Oman Investment Fund – founded in 2006 – has around $6bn in assets.

Wider Asset Classes being Considered

SWF has grew in sophistication over time period as evidenced by the number of asset classes invested. For instance ADIA which invested in mere three asset classes in 1976 now invests in 12 asset classes.

Figure 8.1: Number of Asset Class Invested by ADIA



Source: ADIA

[12] Emirates NBD

Increased Focus on Local Economies

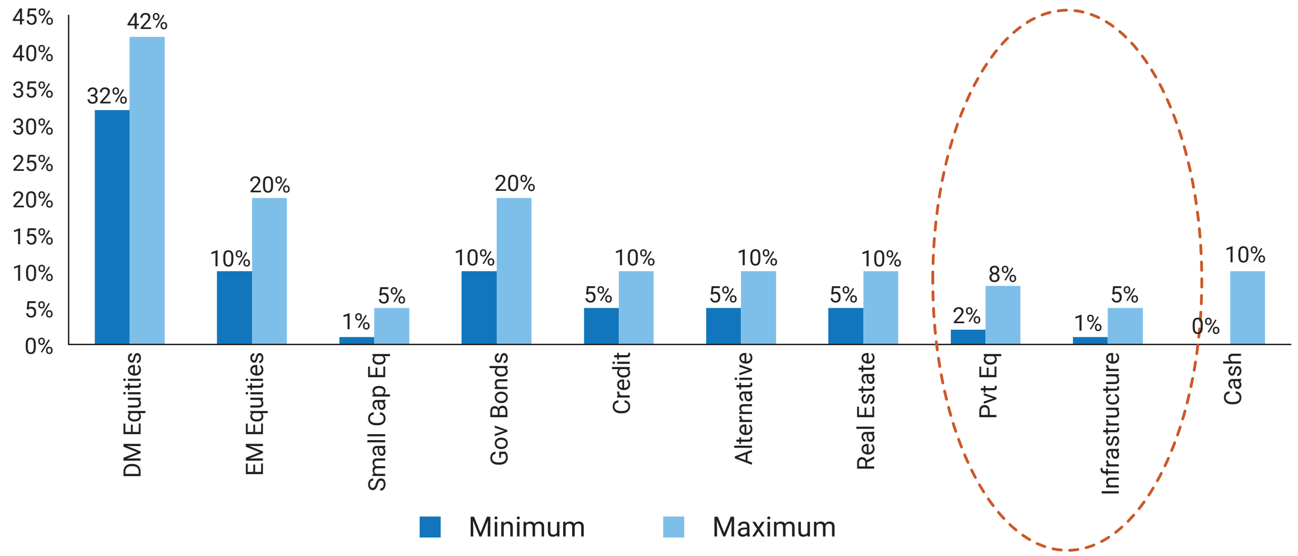
Partly driven by stagnant economy and Euro Zone debt crisis in developed economies and partly by local factors, such as Arab spring, SWFs are increasingly focusing their attention on their local markets. SWFs often turn up as financiers for national development programs. Qatar Investment Authority (QIA) injected USD 2.8bn to support the domestic banks and ensure availability of capital by absorbing significant share of non-performing loans, post the global financial crisis. Indeed, GCC focused investments by regional SWFs has surged by 70% in the recent past[13] .

Gulf's sovereign funds are likely to allocate more towards achieving economic goals at home. This will most pertinently be seen in investments in Qatar, which is expected to spend upwards of $200bn on new infrastructure ahead of it hosting the World Cup in 2022, and in the UAE, where Dubai will host the 2020 World's Expo.

Direct Investments on the Rise

Investment allocations within the country, direct acquisitions, co-investments in infrastructure domain and private assets are usually handled by in-house team. While investments in alternative assets, are usually handled by external managers. However, in the recent times SWFs had made direct investments of around USD 186bn, nearly triple the level made in 2012[14]. This could be in response to the exorbitant fees charged and disappointing returns of many asset managers.

Figure 8.2: Asset Allocation Limits at ADIA



Source: ADIA

Funds have also accelerated their hiring, increased their personnel to strengthen their in-house investment capabilities. SWFs have also adopted co-investing, a practice in which they directly invest along with the funds they have relation with, in part to pare down fees and in part to initiate deals on their own.

Increasing focus on Emerging Markets

Emerging markets are another recent theme for the Gulf's sovereign funds, notably India and China. China's foreign exchange regulator increased the amount that the Kuwait Investment Authority can invest directly into Chinese securities to more than $1bn. Qatar is one of the few other sovereign funds to have a similarly large allotment, although it is not known how much either has invested in the Chinese stock markets. Gulf funds want exposure to emerging market growth, but the risk, volatility and relative illiquidity of many emerging markets make it difficult for them to realize alpha. Thus, they tend to adopt strategies to invest in developed market companies that have sizeable exposure to emerging markets. In December 2013, ADIA bought up a $250m stake in the Indian arm of US property management firm Hines in a move that will give the fund exposure to India's real estate market. This came on the back of about $500m in placements in the year into private equity funds with exposure to India.

More recently, Abu Dhabi Investment Authority invested in two funds to provide capital for affordable housing projects through a new affordable housing fund in India. ADIA supported India's HDFC Capital Advisors to achieve the initial close of its second affordable housing fund, the HDFC Capital Affordable Real Estate Fund – 2, targeting affordable and mid-income residential projects in 15 cities. ADIA was the primary investor in both funds. The primary objective of the platform is to provide capital to developers at the land and pre-approval stage for the development of affordable and mid-income housing across India.

Also, Abu Dhabi Investment Authority (ADIA) has opened an office in Hong Kong with a view to identify new opportunities in China and other key Asian markets. ADIA has been investing and building relationships in Asia for more than three decades, with a portfolio that spans multiple asset classes.

Kuwait Investment Authority (KIA) aims to diversify its portfolio and is looking to increase its investments in emerging markets such as China, India and Brazil. KIA is keen to treble its investment of $5 billion in India, especially in areas of infrastructure, airports and highways. The KIA has invested $2 billion in India since 2017, and officials are planning to increase investments in India due to its rapid economic growth despite some bureaucratic and legal obstacles and procedures that have led to the flight of Kuwaiti investments in Malaysia and Singapore.

GCC SWFs shoring up Talent

Sovereign funds in the Gulf have been enhancing their internal expertise in terms of private equity and infrastructure deals. For instance, QIA has made senior hires in emerging markets, real estate and infrastructure space. ADIA also has new heads in its infrastructure division. An area which most funds seem to think they can improve, and that's to bring in more skills. No doubt, there's only a certain amount of technical expertise to go around. This might explain why Gulf-based funds in Saudi Arabia, Abu Dhabi and Kuwait outsource 75-100 percent of their European equity investing to third parties.

[13] KPMG
[14] Sovereign Wealth Fund Institute

Preference for Alternative Assets & Green Investments

Availability of permanent and patient capital characterized by longer time horizons has made SWFs to re-consider their limited allocations to alternative investments. Strategies that offer greater level of control over the investments and asset classes that lend itself to direct investments such as real estate and private equity has found favor amongst SWFs in the recent years. GCC SWFs are switching from conservative instruments, such as U.S. treasuries and developed market sovereign bonds - which yield at best about 2-3% to riskier asset classes such as private equity and hedge funds.

SWFs have shown preference for investments that adhere to Environment, Social & Governance (ESG) principles. In the recent years, traction towards investments that are environment friendly have been higher than the usual. Investments in renewable energy and green infrastructure were a fall out of this. During 2015-2017, ADIA invested USD 1.38 billion in renewable energy and green infrastructure. Mubdala invested USD1.3 billion in renewable energy. Ithmar capital invested USD 500 million in green infrastructure.

Enhanced Risk Management Systems

SWFs continue to invest to improve their process and data systems to better manage and support their investment and operation teams. Post the global financial crisis additional emphasis has been provided to strengthen their risk management system. People with specialized skills in risk management have been selectively hired and additional roles have been created to monitor the investments on an ongoing basis.

Policy Recommendation to tap Institutional Investors

Institutional investors play an increasingly important role in financial markets worldwide. They are often specialized investors, possessing sophisticated investing skills and manage substantial amount of capital. Due to their wide scope and scale of operations, institutional investors often play a key role in increasing market liquidity, improving corporate disclosures and influencing corporate governance.

Promote Corporate Governance Standards

Corporate governance measures focusing on rights of minority shareholders, information disclosure, responsibilities of board, ensuring board independence should be accelerated. Companies that have tapped the capital markets for financing should be made clear of their responsibility towards various stakeholders in ensuring clear, transparent, timely and complete disclosures of material information.

Table 9.1: Establishment of Corporate Governance Code

Country	Issuance of Corporate Governance code
Oman	2002
Saudi Arabia	2006
UAE	2007
Qatar	2009
Bahrain	2010
Kuwait	2013

Source: Marmore Research

Enhance Market Liquidity

Financial instruments that aren't covered by research analysts usually have meager volumes and are rarely traded. Transacting in those instruments entails significant price impact and the transaction may take days to complete. Introducing market making mechanism would help narrow down the bid-ask spread and make large volume transactions possible. Off-market bulk deals should also be actively encouraged when significant stake needs to be acquired or off-loaded between consent mutual parties under the ambit of regulatory/exchange approval.

Broaden Investment Offerings

Arsenal of investment products should be broadened to cater to multiple investors needs and requirements. Real Estate Investment Trusts (REITs), Exchange Traded Funds (ETFs) and structured products have enormous scope for expansion in GCC region.

Development and deployment of qualified finance professionals should be actively encouraged by the regulators, as they could foster product innovation by providing appropriate feedback on investor needs and concerns.

Build Market Infrastructure/Surveillance System

Fradulent activitives such as insider trading, front running trades could undermine market integrity and sap investor confidence. Every effort should be made to detect and deter market manipulation. Market infrasturcture should be upgraded to auto detect or raise alarm over fradulent transactions. Conflict of interest should be eliminated or disclosed.

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