MARMORE
MENA INTELLIGENCE
A المركز MARKAZ Subsidiary

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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

Organizational Background

Marmore MENA Intelligence provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Marmore is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please *click here*)

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, *click here*)

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018" award by Global Investor, a Euromoney Group company.** To learn more, visit www.marmoremena.com

Experience/Qualifications

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Marmore's strengths can be summarized as follows:

» 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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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.