Opportunities for GCC's HNWIs: Investment Experts Survey Global Landscape

In the final panel discussion of the Hubbis Middle East Wealth Management Forum, several leading investment professionals and senior assets and markets experts surveyed the opportunities for investors in the GCC region and analysed the key developments that have emerged and the key products and trends to watch out for in the future.

These were the topics discussed:

- *Is there increasing interest in environment, social and governance (ESG) investment principles?*
- *The outlook for emerging markets.*
- *MSCI will be including Saudi Arabia in its emerging markets index at some point. How will that effect you?*
- *Is the US market still over-heated? Are we heading to the next financial crisis? When?*
- *Is the GCC warming to index and exchanged-traded fund (ETF) products?*
- *Is Gold an appealing asset class today? What role can it play in an HNWI client portfolio?*
- *Physical or paper gold?*
- *How does gold fit with Islamic finance principles?*
- *Income-driven opportunities.*
- *Alternative investments, including hedge funds, private equity, infrastructure, property, collectables.*

PANEL SPEAKERS

- **Nick Savastano**, Head of Offshore Global Life Groups and Middle East Financial Institutions, Invesco
- **Oliver Kettlewell**, Director of Fixed Income, Mashreq Capital
- **Nisarg Trivedi**, Middle East Sales Director, Schroders
- **Andrew Naylor**, Director, Central Banks & Public Policy, World Gold Council

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THE KEY TAKEAWAYS

Gold shines brighter than ever before

The dramatically improved standards, transparency, liquidity and security of the physical gold market have significantly boosted interest in the precious metal in the past decade, with demand from central banks, institutions and private clients all rising, albeit for different reasons. For HNWI buyers, it represents a non-correlated, safe-haven asset that serves as a tool for portfolio diversification and therefore should be widely understood and held. Leading protagonists of gold have been working to help gold to greater prominence in Sharia-compliant portfolios.

GCC region expands wealth and sophistication

The GCC has been on a growth and prominence fast-track in the past decade. There are far more opportunities in MENA equity and fixed income. Saudi Arabia's inclusion in the MSCI emerging markets index will be critical in helping the region's prominence among international investors. Moreover, GCC bonds are soon to be included in the Global Emerging Market Bond Index and will represent close to 13%, making it tough for active managers in leading financial centres to ignore.

Sovereign bonds less volatile than many emerging countries

Sovereign bonds in the GCC, despite all of the apparent geopolitical risk, are very stable, unlike the bonds of markets such as Russia, or Brazil and other countries. Governments in this region have very high credit ratings as a result of very low debt to GDP ratios. International buyers take note.

Income, please

Panellists generally agreed that a strong inclination towards income products persists in the region, with a growing interest also in absolute return strategies, including liquid alternatives, as well as fixed maturity strategies that eliminate bond market volatility.

DIFC boosting activity and expertise

The Dubai International Financial Centre is an ideal location from which to service clients in the region and to benefit from the rising private wealth and the growing range of opportunities. The DIFC-based firms can effectively service a world of clients and investments, from within the region and from categories from sovereign wealth funds through to HNWIs.

Let's not forget Africa

There are immense opportunities afforded by the vast continent of Africa on the GCC's doorstep. Africa was traditionally covered from either London or Switzerland, but the DIFC is taking a lot of initiatives to actually act as a connector to the Middle East. There are challenges on the compliance side, but also huge potential.

More product, more sophistication

There have been many developments in the region in the past decade, a good proportion of which have been encouraged by the actions of the DIFC. Investors are benefitting from a wider array of products that are regulated and compliant, and those same investors have been building their understanding and sophistication of investment products, and markets far and wide.

THE DISCUSSION OPENED WITH a brief introduction on the World Gold Council, which is the international market development organisation for gold, representing producers of some 80% of the annual gold output annually. The WGC does not market the producers, it promotes gold as a financial asset class.

To do so, the WGC produces research and data and insights into what drives the gold market, how gold is valued and how the gold market operates. It also sets standards, for example, to assist central banks in valuing and accounting for gold as part of their reserves, it sets supply chain standards and has been working for nearly six years on the Sharia standard for the gold market, which clarifies the Sharia rules for trading gold.

And the WGC acts as a product catalyst, for example, working with third parties, mainly financial institutions, to develop new physically backed gold products to open up the gold market to both high-net-worth investors or institutional investors and also retail investors.

Gold: physical shines, while paper reflects

The panel and audience learned that paper gold products allow investors exposure to the gold price without owning the underlying assets. Physical gold products offer legal ownership of the physical asset. Gold offers investors safety, liquidity, as well as portfolio diversification

NICK SAVASTANO
Invesco

ANDREW NAYLOR
World Gold Council

properties as a non-correlated asset that has safe haven properties.

Such features are even more important and pronounced in Islamic finance where the universe of acceptable Sharia-compliant assets is much smaller. Its application in Islamic finance has been boosted by WGC's collaboration with the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), a Bahrain-based body, that resulted in a collective fatwa on the gold market that would permit gold to be considered as a commodity, not a currency as it was before.

While not adopted or applied automatically, being subject to the discretion of local regulators, it has been adopted by a number of financial institutions to develop new Sharia-compliant gold-backed products.

In whatever market, or format, a standard advisory is the allocate between 2% and 10% of any portfolio in order to benefit from gold's portfolio diversification properties.

Asset management community evolving

The focus turned to the local asset management environment, with a panellist explaining that his firm's focus is on MENA equity, fixed income and even property, with some half or more of the assets Sharia compliant. "Saudi Arabia's inclusion in the MSCI emerging markets index will be important in helping the region's prominence amongst international investors," remarked one expert.

"But perhaps investors are less aware that GCC bonds are going to be included in the Global Emerging Market Bond Index," he added, "so there is likely to be an uptick in the prices for GCC bonds this month and represent almost 14% of that index, a significant portion. That makes it pretty difficult for active managers based in London, or New York, or Hong Kong to ignore, so there could be significant fund flows into the underlying local bond markets in this region."

My (GCC) word is my bond

Moreover, it is worth noting that sovereign bonds in the GCC, despite all of the geopolitical risk, are very stable, unlike the bonds of markets such as Russia, or Brazil and so forth. "Governments in this region have very high credit ratings as a result of very low debt to GDP ratios," a panellist explained. "This will mean greater prominence here amongst international investors."

A fellow panel member remarked that regional investors are currently keen on income-related funds and ideas, and from a fund perspective

NISARG TRIVEDI
Schroders

"GOVERNMENTS IN THIS REGION HAVE VERY HIGH CREDIT RATINGS AS A RESULT OF VERY LOW DEBT TO GDP RATIOS"

China's Belt and Road initiative is a key focus, for example, one particular focused fund essentially covers the involvement of some 68 countries and 40% of global GDP.

Income still a priority

Another panellist concurred that a strong focus on income products persists, although the past half year has seen a migration of interest towards absolute return strategies, including liquid alternatives. "We are seeing clients more interested in absolute return funds where they can go long and short depending on the markets. And one area we as a house are more excited about, outside the traditional asset classes, is the liquid alternative space."

The same expert noted that the Dubai International Financial Centre is an ideal location from which to service clients in the region. "You have the large sovereign wealth funds and pension funds and the institutional set of clients, all of whom obviously have their own investment models and their own individual asset allocation patterns," he explained. "And within the private wealth space we see more opportunities for these liquid alternatives and fixed income securities, for example, with hold-to-maturity strategies for bonds that take away the intermediate fluctuations in the bond prices - these investments tend to be closed-end in structure.

He added that the "good old ways" of structured notes are back. "There is some concern over these in the UAE, but outside the UAE we have seen lot of structured notes being distributed."

OLIVER KETTLEWELL
Mashreq Capital

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Risk-averse, or risk-inclined?

Another expert said that there are so many opportunities in the region, but ultimately the allocation depends on the client type. "Institutional, of course, includes sovereign wealth funds, the pension funds," he said, "then you get down to the family office space and the private local and international banks. "For us specifically in the distribution space the private banks and the other banks in this region are genuinely easier to deal with. Whichever way we look at it, the GCC offers great opportunities, as there is huge wealth here."

A panel member also highlighted the opportunities afforded by the vast continent of Africa on the GCC's doorstep. "See the great wealth creation which is happening in Africa and the amount of interest from global investors," he remarked. "Africa was always covered from either

London or Switzerland, but the DIFC is taking a lot of initiatives to actually as a connector to the Middle East. It is a challenge on the compliance side, but generally there is an enormous opportunity."

The momentum continues

The discussion closed with the panel focusing on the key developments that have helped propel the region forward. Regulatory change was cited as a key driver, both encouraging the market development, but also imposing greater compliance requirements. A panellist noted there is also greater demand for structured investments even though there are dramatically more funds of all types available today.

Another expert highlighted the greater awareness of investors around investment products and the use of mutual funds within the portfolio. "A decade or 15 years ago," he noted, "mutual funds would have been a very small part of the investor portfolio, so this is a very positive development we see. Additionally, risk tolerance has evolved, and clients have realised that if you have invested you invest for a long term, the risk tolerance has changed. Finally, I would say that the advisory community has developed but needs to be more educated, and the initiatives taken by regulators should also make sure that happens."

Standards count

The final word was on the gold market. "The formalisation of this sector has been a great advance," said a panellist, who cited bullion exchanges and standardisation and other facets that have emerged in the past decade or more. "Standards for price discovering, trading practices and liquidity, all these areas have improved and as a result, gold has become a far more mainstream asset. And for institutional buyers who want exposure, the ETFs and the gold miners offer proxies without the need for holding physical gold." ■