

the INVESTOR

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WHAT AMERICAN INVESTORS WANT IN KUWAIT

VIET NAM - A LAND OF HUGE INVESTMENT OPPORTUNITIES

REGIONAL SOVEREIGNS FOCUS ON ECONOMIC DIVERSIFICATION



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WE WORK TO PROMOTE INVESTMENT OPPORTUNITIES AND ACTIVITY IN KUWAIT, STRENGTHEN INVESTMENT POLICY AND REGULATION FOR THE BENEFIT OF THE COUNTRY'S NATIONAL ECONOMY AND FUTURE DEVELOPMENT.



Investor Briefs

Brexit: Gulf funds may adopt a wait-and-see approach

According to market observers, most of the Gulf sovereign wealth funds are expected to adopt a wait-and-see approach in the aftermath of Britain's exit from the European Union as the potential implications from Brexit are yet to be gauged. The final vote to leave the EU has generated certain amount of uncertainty in the London residential market in which many Gulf businessmen are heavily invested. The observers believe that there could be a drop in demand and prices for real estate properties in the UK, prompting investors to look for new pastures.

Undoubtedly, many foreign funds, including GCC funds, will feel the pinch resulting from the uncertainty, at least in the short-term, forcing them to look for other options. A few Gulf funds could possibly move out from the UK to other economies such as the US or to emerging economies like China or Japan despite the uncertainties in these countries over the coronavirus. At the same time, post-Brexit UK will open a plethora of new investment opportunities to investors as they expect British assets could be available at bargain prices under the current circumstances.

Shift in global supply chains to open up automation investment opportunities

Global supply chains may be gearing up for a tectonic shift, reversing a decades-long shift to emerging markets in coming years. Companies in more than 80% of 12 global sectors (\$22 trillion market cap) in each of North America, Europe and Asia-Pacific (ex-China) have implemented or announced plans to shift at least a portion of their supply chains from current locations, notes BofA Securities in an investment note from its global research team.

Citing a survey covering more than 3,000 companies, the note identifies several factors driving this change including automation lowering labor costs in developed economies, narrowing of tax arbitrage and growing national security concerns as well as issues related to carbon footprint size associated with long supply chains.

"We don't think investors are

fully prepared for this tectonic shift. In our view, the US could be a significant beneficiary of this process, while Chinese firms are perhaps most at risk. Even more striking, our survey found almost universal intent to use automation. This suggests our forecast of a doubling in industrial robots to 5 million units by 2025 may prove conservative, with bullish implications for capex and manufacturing. While our Economics team expects a cyclical recovery in US manufacturing by mid-2020, valuations and fund positioning suggest investors are not positioned for a sustained recovery in manufacturing. Increased spend in automation and manufacturing would have multiplier effects on the broader economy and be beneficial for financial services that cater to them. We recommend investors add exposure in automation," BofA concludes.

Wealth asset investor appetite for risk declines



Sarah Sanders

Reported 23% of wealthy clients in the Middle East plan to move assets over the next three years, according to an EY global survey. The survey indicates a significant drop in investor appetite for moving assets, down from 32% the preceding three years. Asset moves happen especially during major life events like when clients start a new business, buy a house, receive or inherit large sums of money.

Factors impacting choice of wealth asset management providers include quality and reputation of services, product diversity, advisory capabilities, pricing, personal attention and increasingly, technological solutions. "Wealth management clients in the region are cautious and do not want to trust one provider with all of their assets. Instead, they tend to work with institutions that have a long history of success in more stable markets abroad," explains Sarah Sanders MENA Wealth and Asset Management Leader EY.

"Clients that do consider investing their assets in the region are often curious to see how the local market might develop. There is therefore a great opportunity for wealth asset providers in the region to cultivate relationships with these clients and build trust over time, ultimately leading to an increase in the number of assets invested in the Middle East."



Viet Nam - A Land of huge investment opportunities

On 26th August, 2021, Viet Nam Embassy in Kuwait in partner with Union Investment Companies (UIC) organised a conference for investment promotion between Viet Nam and the Middle East within the framework of Webinar's theme "Fostering investment cooperation between Viet Nam and the Middle East: potential, opportunities and new approaches" hold by Ministry of Foreign Affairs and Ministry of Planning and Investment of Viet Nam. The event brought together more than 300 delegates from ministries, agencies, research institutes, representative offices, businesses, associations, investment funds and localities of Viet Nam and Middle East countries.

Middle East is always viewed as a potential region for investment cooperation, but its investment in Viet Nam remains modest and has yet to match their potentials. Though 13 Middle East countries have invested in Viet Nam, the number of their projects here stands at only 135, worth 917 million USD in total. Some Middle Eastern investors have participated in many large projects in Vietnamese localities through capital contribution with third parties.

Viet Nam continues to welcome foreign di-

rect investment (FDI), and the government has policies in place that are broadly conducive to foreign direct investors. Factors that attract foreign investment include recently signed free trade agreements, political stability, ongoing economic reforms, a young and increasingly urbanized population, and competitive labor costs. Viet Nam has attracted 33,070 valid foreign-invested projects with a total registered capital of \$384 billion and 60.4 percent of the sum (\$231.86 billion) was disbursed from 1988 through 2020.

Similar to all countries around the world, Viet Nam is significantly impacted by the Covid-19 epidemic, which limits the movement of investors, and reduces the attraction of new foreign investment. However, in the last 12 months, there are some highlights in attracting foreign investment in several industries as well as in some localities in Bac Lieu, Ho Chi Minh City, Hanoi, etc.

Total foreign direct investment (FDI) in Viet Nam in 2020, including newly registered capital, adjusted registered capital and value of capital contribution and share purchase of foreign investors reached 28.5 billion USD. Viet Nam received Disbursement Capital 19.9 billion USD in FDI in 2020

– almost as much as the USD 20.3 billion received in 2019. Of the 2020 investments, 48% went into manufacturing – especially in the electronics, textiles, footwear, and automobile parts industries; 18% in utilities and energy; 15% in real estate; and smaller percentages in assorted industries. The government approved the following significant FDI projects in 2020: Delta Offshore’s USD 4 billion investment in the Bac Lieu liquified natural gas (LNG) power plant; Siam Cement Group’s (SCG) USD 1.8 billion investment in the Long Son Integrated Petrochemicals Complex; a Daewoo-led, South Korean consortium’s USD 774 million investment in the West Lake Capital Township real estate development in Hanoi; and Taiwan-based Pegatron’s USD 481 million investment in electronics production.

Viet Nam’s success in attracting FDI should be measured not only by the amount of registered capital or disbursements but also by the efforts to improve the investment climate.

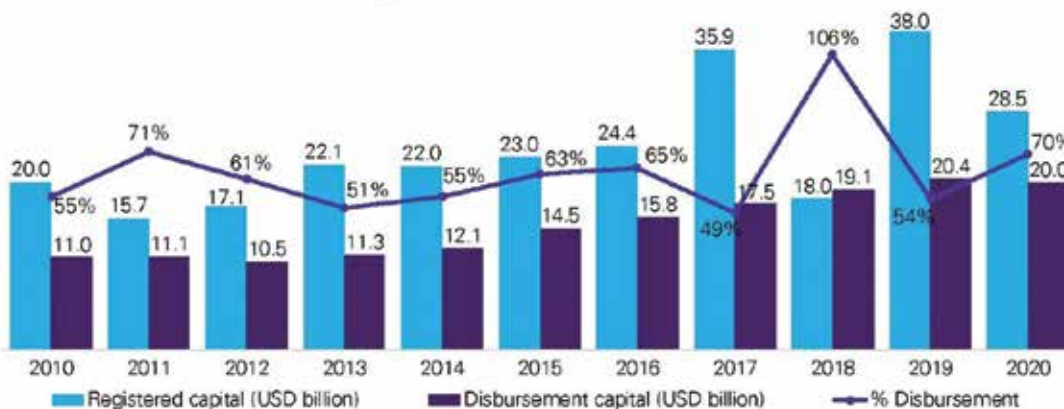
7and encouraging investor-friendly reforms. Viet Nam has trading relationships with more than 200 countries, with 45 bilateral investment treaties and is party to 26 treaties with investment provisions. Viet Nam is also a member of 17 free trade agreements (FTAs), including the EU-Viet Nam Free Trade Agreement (EVFTA), came into force August 1, 2020 and the related EU-Viet Nam Investment Protection Agreement (EVIPA). EVIPA replaces 21 signed bilateral investment treaties between Viet Nam and individual European countries.

Recently, Viet Nam continued to sign the UK-Viet Nam Free Trade Agreement on De-



ember 31, 2020, which comes into effect May 1, 2021. Viet Nam has also signed the Regional Comprehensive Economic Partnership (RCEP), one of the crucial agreements in the region on November 15, 2020. While these agreements lower certain trade and investment barriers for companies from par-

Foreign Direct Investment in Vietnam



Source: Economist Intelligence Unit; World Bank



participating countries, Middle East companies may find it more difficult to compete without similar advantages.

Apart from signing FTAs, Viet Nam's Government has issued many resolutions as well as action plans to realize the commitment to improve the investment climate and business community for investors. A revised Law on Corporate Income Tax has been included in the terms of the expansion project that are also entitled to investment incentives.

In February 2021, the 13th Party Congress of the Communist Party approved a ten-year economic strategy that calls for shifting foreign investments to high-tech industries and ensuring those investments include provisions relating to environmental protection. On January 1, 2021, Viet Nam's Securities Law and new Labor Code Law, approved by the National Assembly in 2019, came into force. If the Securities Law formally states the government's intention to remove foreign ownership limits for investments in most industries, the new Labor Code provides more contract flexibility – including provisions that make it easier for an employer to dismiss an employee and allow workers to join independent trade unions – although no such independent trade unions yet exist in Viet Nam.

On June 17, 2020, Viet Nam passed a revised

Investment Law and a new Public Private Partnership Law, both designed to encourage foreign investment into large infrastructure projects, reduce the burden on the government to finance such projects, and increase linkages between foreign investors and the Vietnamese private sector.

The Resolution 55 issued by the Politburo in 2019 with the aim of attracting USD 50 billion in new foreign investment by 2030, has increased Viet Nam's attractiveness to foreign investment. To further the goals of this Resolution, in 2020, the government started the revision of laws on investment and enterprise, in parallel with passing the Public Private Partnership Law to encourage high-quality investments, use and development of advanced technologies, and environmental protection mechanisms.

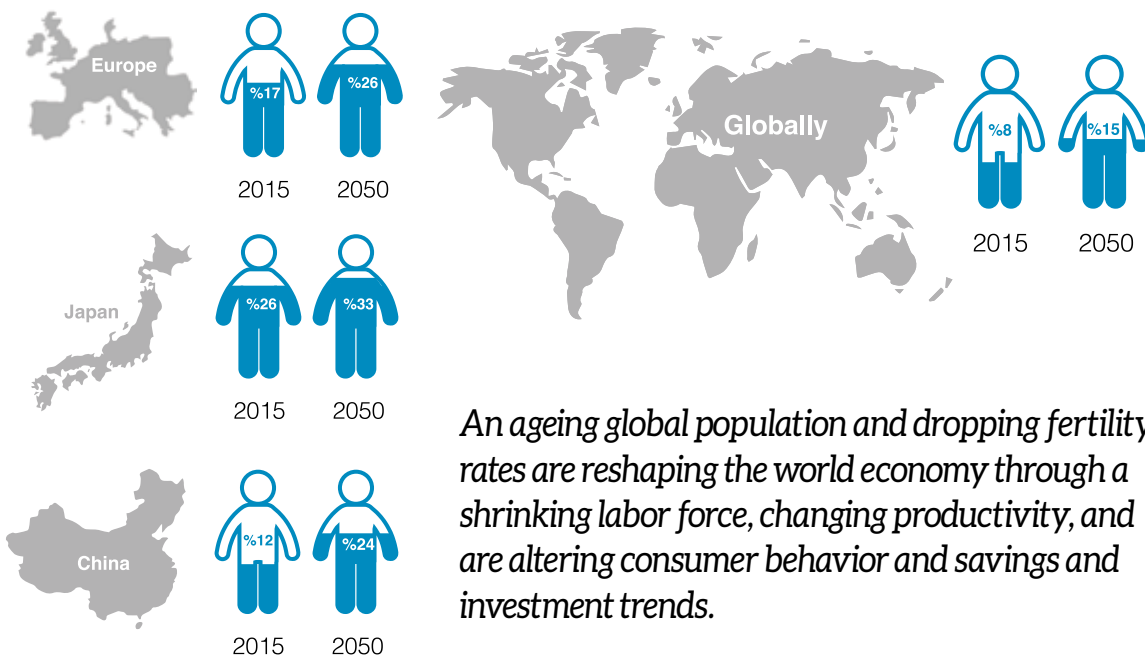
Being one of the leading investment destinations in the Southeast Asia with the advantages of geography, natural resources, and a competitive labor force, Viet Nam has been, and will always be an attractive destination for investors around the world, especially investors of the Gulf countries. With numerous unexplored sectors and a growing consumer market of 100 million people, Viet Nam will be a good partner for investors from all countries around the world.

Investment implications of global demographic shifts

Demographics are changing

Big rise expected in the +65 aged population

Source: United Nations



An ageing global population and dropping fertility rates are reshaping the world economy through a shrinking labor force, changing productivity, and are altering consumer behavior and savings and investment trends.

NBK • CAPITAL

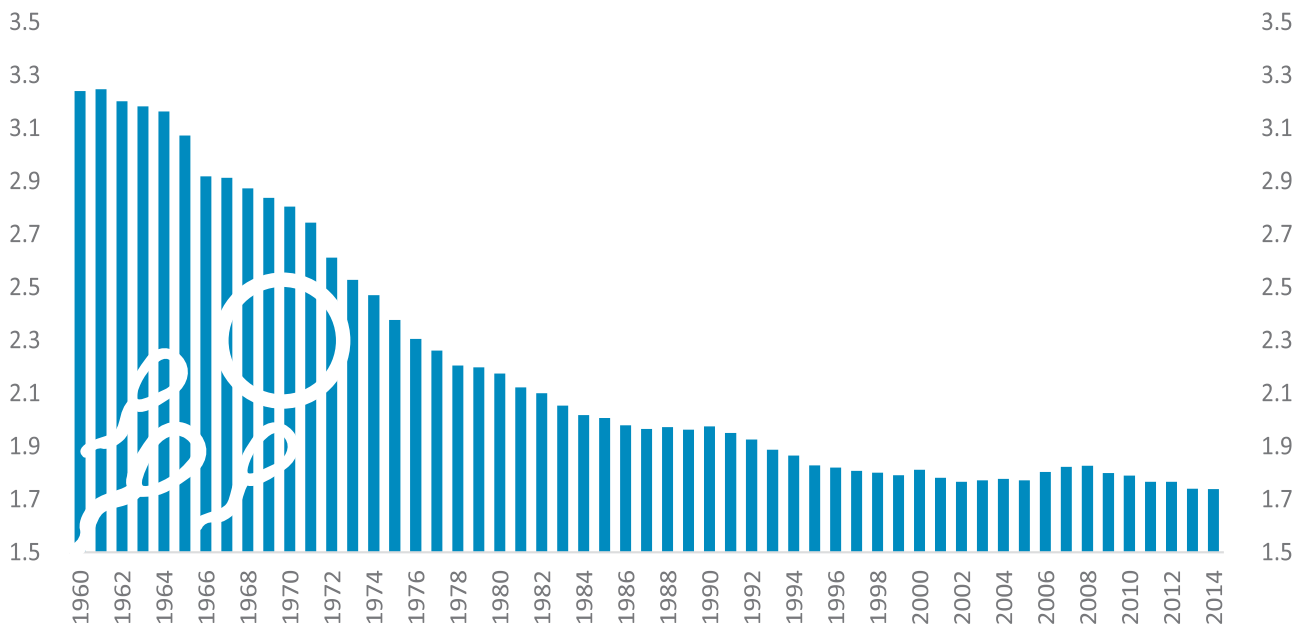
As people live longer and fertility rates drop around the globe, the world population is ageing and the overall workforce is shrinking. This is developing into a major concern, especially for industrialized nations where fertility rates have dropped below the long term maintenance level of 2.1 and where an expanding elderly population is exercising pressure on economic resources through increasing demand on healthcare services and pension plans.

Societies across the globe are ageing, with the cohort of older people that have retired

or are about to retire (aged 64+) increasing much faster than the young cohort (aged 0-15) which are supposed to replace the retirees to preserve a balance in the workforce. Such changes will alter macroeconomic variables through channels such as savings and investment behavior, spending patterns, ability and willingness to take investment risks, and labor force productivity.

Such demographic shifts could have serious economic consequences, such as low inflation, low interest rates, less effective monetary policy, and lower productivity and economic growth across the world.

Fertility Rate - OECD



Younger cohorts are generally net borrowers and their consumption patterns tend to be more inflationary. By mid-age, they become net savers, they invest, and they have the ability and willingness to take investment risk.

Population growth was found to affect inflation positively, moving aggregate demand higher and faster than aggregate supply, thus leading to inflation. When the opposite happens, it is only logical to conclude that it will be deflationary. This has significant implications on the spending patterns of the general population. Younger cohorts are generally net borrowers and their consumption patterns tend to be more inflationary. By mid-age, they become net savers, they invest, and they have the ability and willingness to take investment risk. By retirement age, they start spending from their savings and pension, they risk tolerance declines and their consumption trends become deflationary.

Although inflation has been on the rise since the beginning of 2015, the concern has recently been about deflation rather than an overshoot in inflation. Inflation could either be imported or homegrown. A strong home currency would mean cheaper imports and is therefore deflationary. This is the case of the United States currently. The US dollar index has increased by more than 25% since mid-2014 on the back of a diverging monetary policy with the rest of the world and a more stable economy. Today, the opposite is happening in Europe

and the UK, as inflation in both seems to be picking up at least partly due to weakness in the euro and the British pound.

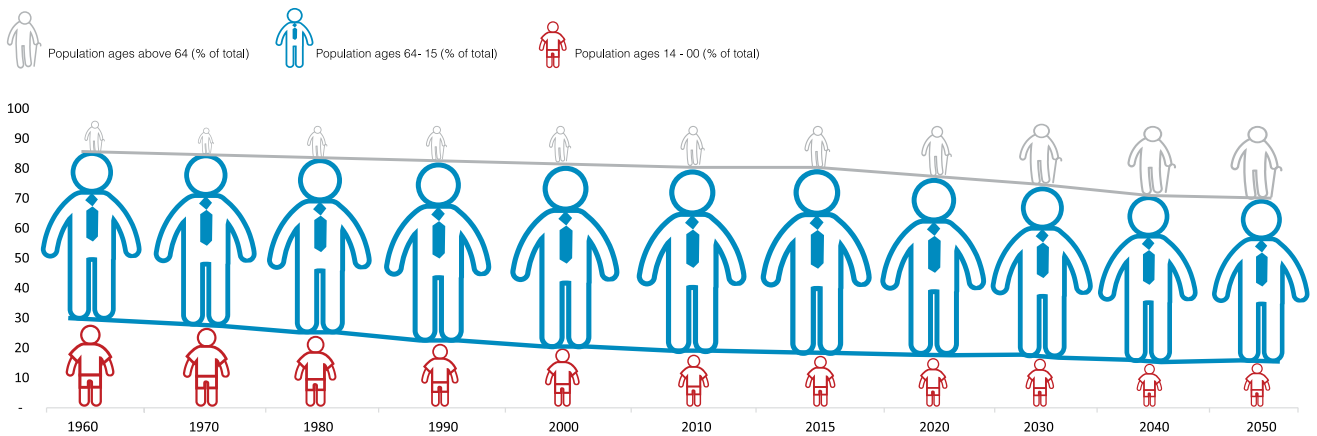
Homegrown inflation, on the other hand, results from pressures on resources. It is the “too many dollars chasing too few goods” principle. By the same token, the relationship between inflation and money supply is demand driven. If inflation was driven by the supply of money, it would have been straightforward to reflate. However, inflation is driven by the demand for money, which makes it a demographic issue. Changing economic dynamics and an ageing population seem to have the effect of smoothing and elongating economic cycles. Economic growth will have to be driven more by productivity and less by leverage.

An ageing global population and dropping fertility rates are reshaping the world economy through a shrinking labor force, changing productivity, and are altering

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consumer behavior and savings and investment trends. In such an environment of moderating economic growth, low leverage and historically low interest rate levels and inflation, it becomes increasingly difficult to conceive high returns for traditional asset classes. It follows that non-traditional asset classes such as alternatives, private debt and illiquid strategies, in general, are increasingly gaining investors’ interest in their quest to capture the extra return offered by these instruments.

Age Group Distribution - OECD



*Visit NBK Capital’s website to read the full report:
www.nbkcapital.com

Developing Kuwait's future economy through its youth

KAFO's nine communities – art & culture, entrepreneurship, education and environment, health, humanitarian, media, science & technology and sport – are also structured to support the New Kuwait vision's pillars of development.



KAFO founder Dr Fatima Al-Mousawi

One of the greatest challenges facing Kuwait's future will be the imbalance between private and public sector employment. As the World Bank has noted, Kuwait's "public sector is one of the largest in the world, with a spending to GDP ratio of 53 percent. Oil revenues are distributed through subsidies, transfers and public employment, with 80 percent of employed Kuwaiti nationals working in the public sector."

To tackle this and push the country toward becoming a cultural, commercial and financial hub, the government in 2017 launched a new strategic plan, known as New Kuwait 2035. New Kuwait 2035 is built upon seven pillars: Global positioning, creative human capital, effective civil service, developed infrastructure, high quality healthcare, sustainable and diversified economy and sustainable living environment.



The Kuwait Achievers for Future Opportunities, KAFO for short, is part of this strategy. KAFO aims to showcase local and Kuwait-based achievers, especially Kuwait youth achievers, to help them connect with opportunities in the private sector. The Amiri Diwan initiative, created in partnership with the Ministry of Youth, also aims to encourage collaboration among the country's youth achievers and develop knowledge transfer among all the populations of Kuwait.

"KAFO works in support of the New Kuwait, as a theme for dialogue and to identify different achievers that are aligned with the different pillars (of the New Kuwait Vision 2035)," explains KAFO founder Dr Fatima Al-Mousawi. "So for example, for human capital, we're arranging online courses and we've brought experts to provide content for online courses and that's our way of contributing to help achievers develop their soft skills," she said.

"We introduced the vision first and through that we came up with activities. So to correspond to the pillar of global positioning, we thought of featuring people who have won awards internationally because they brought up the name of Kuwait globally and we appreciate them through talks we've set up."

KAFO's nine communities – art & culture, entrepreneurship, education and environment, health, humanitarian, media, science & technology and sport – are also structured to support the New Kuwait vision's pillars of development.

"Take healthcare," says Dr Al-Mousawi. "KAFO is looking for experts in healthcare

and people who have won awards, and we plan activities that support the pillars. We also want people to think about opportunities. The vision is created in a way so that people can contribute. We want to have a dialogue. Make it a vision that everyone owns. It's not just a government order to follow but it's a roadmap for our collective aspirations."

Along with annual conferences, KAFO has launched initiatives including partnering with the Silicon Valley-based 500 StartUps fund to connect Kuwait youth with startup opportunities in the US and further encourage the local startup scene. The efforts, backed by the National Fund for Small and Medium Enterprises, are meant to help startup investors overcome some of the hurdles of Kuwait's business environment.

Onerous government regulations continue to contribute to Kuwait's rank of 96 out of 190 countries in the Ease of Doing Business scale. "Comprehensive reforms are needed to rebalance the economy away from the energy sector to a more diversified growth path underpinned by innovation, private sector entrepreneurship and job creation," notes the World Bank in its April 2018 Economic Outlook on Kuwait.

KAFO and similar initiatives, under the umbrella of the Amiri Diwan's New Kuwait 2035, aim to change this picture drastically in the coming years. "We want synergy and collaboration...to encourage youth to look into the private sector and to start their own enterprises and innovation," explains Dr Al-Mousawi, "and the New Kuwait 2035 of HH the Amir is the roadmap we are utilizing to achieve this."

What American investors want in Kuwait



The Investor speaks with Jeff Hamilton, Senior Commercial Officer at the US Embassy in Kuwait, to learn more about what sectors and industries US investors consider when investing here as well as their chief concerns



Senior Commercial Officer at the US Embassy in Kuwait

By Jamie Etheridge

The Investor: What is the US view on Kuwait's current attractiveness as a destination for FDI?

Jeff Hamilton: Despite lower oil prices in recent years, Kuwait continues to prioritize development of its infrastructure. Current and upcoming projects include a new airport, new hospitals, new offshore oil exploration and investments in the oil and gas sector, entire new cities, alternative energy projects and defense upgrades among others. US firms are leaders in many of these areas and will likely work on some of these projects. In many sectors, there are more potential opportunities in Kuwait than in similarly sized countries in the region. US exports to Kuwait in 2017 reached a record level - \$5.2 billion - 42% more than the previous record in 2014, and within the GCC, only the UAE and Saudi Arabia received more US exports. Kuwait is an attractive place for US firms to pursue business opportunities.

The Investor: How does the US view Kuwait's 'ease of doing business'? What are the key challenges that Kuwait has yet to address regarding investing and doing business here?

Hamilton: Kuwait has taken some steps to streamline and facilitate business processes, but the country can still be a challenging place to do business. Government projects can take many years to go from concept to fruition. Government procurement moves more slowly in Kuwait than in some other markets. Tender delays and cancellations are not uncommon. Payment delays can also be a concern for US firms. Navigating the system in Kuwait and identifying the different steps for various business processes is a challenge. It is often unclear what permissions may be required to engage in business activities and things can be implemented differently depending on the nature of the activities and those with whom you are working.

The Investor: Regarding regulation and policy, Kuwait has made some considerable strides in improving its FDI regulations, but what in your view still needs doing or has yet to reach international standards?

Hamilton: Yes, for example the "one stop shop" for some permits. Kuwait can improve its government procurement process and transparency, update its bankruptcy laws, improve its

alternative dispute resolution mechanisms and reduce or remove local content requirements in government tenders. A copyright law consistent with international standards and greater enforcement of IPR violators are also necessary.

The Investor: What sectors/industries do US investors consider most desirable and of most interest?

Hamilton: US firms are global leaders in the oil/gas, defense, healthcare, franchising, design and project management sectors among others, and are well represented in Kuwait. Several new hospitals will open in the next few years with a need for firms to support their opening and operation. Healthcare management is critical to the provision of quality medical care to patients. The government is investing in several oil/gas projects in the coming years. The Ministry of Defense is upgrading a lot of its equipment. In the longer term, potential metro and rail projects would also be of interest to US firms.

The Investor: How do issues like lack of transparency, adequate bankruptcy laws, governance and others impact investment from the US?

Hamilton: US firms want to ensure there is a strong rule of law, that international firms are treated fairly, and that government tenders are conducted in a fair and transparent manner, where the best bid wins the tender. US firms also want to ensure the terms and conditions of a contract are reasonable and fair and that payments for goods and services are typically made in a timely manner.

The Investor: What are some reasons that US investors would or are considering investing in Kuwait over other GCC states like UAE, Saudi Arabia or Qatar?

Hamilton: US companies that have had success doing business in the region will likely have an excellent chance to succeed in Kuwait as well. Kuwait remains in strong fiscal shape, despite lower oil prices in recent years, due to its effective fiscal management, the low costs of extracting oil and its relatively small population. Unlike the UAE and Saudi Arabia, in Kuwait an international firm can receive an investor license and be treated as a Kuwaiti entity, rather than be required to partner with a local firm. Qatar recently announced it will implement a similar investor scheme.



The Investor: What are some things that the US is doing to expand the economic relationship with Kuwait, encourage investment in Kuwait and develop bilateral investment relations for small and medium businesses and entrepreneurs on both sides?

Hamilton: During His Highness the Amir's visit to the United States last September, a cooperation agreement was signed between the US Department of Commerce's SelectUSA program and the Kuwait Direct Investment Promotion Authority (KDIPA) to share best practices and to promote bilateral investment between our two countries. An education agreement was also signed between the US Department of State and the Ministry of Higher Education that will help increase academic and research exchanges between the two countries.

Through the Strategic Dialogue, our two countries are working to open new avenues for private sector trade and investment, resolve minor trade irritants and address concerns. We hope we will be able to continue our cooperation in enhancing the protection of intellectual property rights - this will spur investment in Kuwait and safeguard Kuwaiti consumers, to ensure they get the product quality they expect.

The Investor: What is your view on Kuwait's growing SME sector and how it is developing the talents, skills and ideas of its youth entrepreneurs?

Hamilton: Kuwait is full of young, creative and dynamic entrepreneurs. They need encouragement and support as they help diversify the country's economy. Stronger intellec-



tual property rights protections are needed to ensure their good ideas are not stolen. An updated bankruptcy law is needed to protect entrepreneurs who fail in a business venture, ensure they are not personally hamstrung by debts they cannot pay and can access credit to start new business endeavors.

Kuwaitis also need to learn that failing is part of the path to success. In the United States, 90 percent of startups fail. Twitter's founder Evan Williams failed at his first endeavor, a podcasting platform. Milton Hershey failed at three different candy companies before succeeding with Hershey's Chocolates. Almost all successful entrepreneurs have failure experiences that helped lead them to success. I know Kuwaiti entrepreneurs who have used past failures to learn how to be successful; investors rewarded

their experience, determination and solid business ideas by giving them the financing they needed for their latest ventures.

Jeff Hamilton has served in the US Department of Commerce since 2003. Currently he is the Senior Commercial Officer at the US Embassy in Kuwait City, Kuwait. In this capacity he counsels and supports US companies looking to do business in Kuwait and Kuwaiti firms looking to invest in the United States.

Prior to his current assignment, Jeff served in Bogota, Colombia; Mexico City, Mexico; Salt Lake City, Utah; and Washington DC. Jeff has a Master of Public Affairs and Master of Arts degree from the University of Texas at Austin and a Bachelor of Arts degree from the University of Oregon.



We Need Earnings Conference Calls in Kuwait

By Salah Al Wuhaib

As a representative of KAMCO Investment Company, I believe and stand by the idea that a successful corporation grows into its success through constant improvement and trust between a listed company and its shareholders. In business, it is a widely known factor that the people investing and buying into a company are the key to its achievement. All across the world, earnings calls have been a standard for all companies, especially in the United States and other developed markets, and it has become a hallmark of a market's coming of age.

An earnings call is a periodic call, usually quarterly, where the management discusses the financial performance, results and future plans of the company. Earnings calls are a place to grow and engage in discussion on improving the company's performance and relay valuable information to all interested parties. For companies, the conference calls offer an opportunity to engage a captive au-



dience, to market its vision and discuss outlook, as well as offering analysts and investors an insight into what is happening on the ground. It is an invaluable opportunity for both parties to build a relationship and trust.

Traditionally, a representative of the company accompanied by a number of senior executives host the conference call, ending with a question-and-answer session – offering a platform for investors, prospective investors and analysts to deliberate on details perhaps not covered by the manage-



ment. This provides shareholders a platform to communicate and build trust with the company, promoting transparency as well as management accountability to its shareholders. The increase in transparency would ultimately encourage improved analyst coverage, leading to better understanding of the local market dynamics for investors, and ultimately a higher level of comfort when investing.

With the outstanding improvement currently taking place in Kuwait, implementing this

ritual in companies will attract the interest of international investors and raise Kuwait's governance standards. It would be the beginning of another round of developments, which will improve Kuwait's way of doing business. In the end, a company that builds quality relationships with its customers and shareholders is a company that knows the path to success.

Al Wuhaib is Chief Assets Officer, Assets Division with KAMCO Investment Company

Growing appetite for technology investments in the Middle East

‘Regional sovereigns focus on economic diversification’



By Josette Rizk

With hydrocarbon extraction receipts increasingly volatile and unpredictable, putting strain not only on hydrocarbon producers but also connected countries, governments in the Middle East have looked to diversify the economy, focusing especially on ‘high value’ sectors like technology to drive this development.

In many of the Gulf Cooperation Council (GCC) nations, the experience of the past few years has accelerated, or given rise to, programs aiming to diversify the economy, many of which place technology at their core. While the Saudi Vision 2030 might be the most well known internationally, Bahrain, Kuwait and the UAE have also launched strategic plans for the development of the economy.

Using investment to drive economic change has become a key theme, and Middle Eastern sovereign wealth funds are a central part of this. Traditionally conventional in their investment approach with a focus on public markets, the 2019 Invesco Global Sovereign Asset Management Study reveals that they have a new role in driving and promoting economic change at home.

With a greater role to play, Middle Eastern sovereigns are increasingly seen as strategic national assets, and are investing in their internal skills to bring capability up to speed with global peers:

Building internal teams, whether specialising in asset allocation strategy or the full spectrum of investment.

Developing home grown talent through secondments, training programs and other educational programs.

Developing better internal technology (100% of the Middle Eastern sovereigns in Invesco’s study were looking to better apply technology to investment strategy vs only 52% globally). Exploring new technologies and their application to portfolio management: 78% think artificial intelligence (AI) has a role to play in the management of the portfolio.



Technology is an investment theme which stretches into society: 56% of sovereigns expected AI to have a significant impact on their society – perhaps not surprising given levels of IT literacy among the young in particular.

Sovereign funds have sought to capitalise on the growth of technology in two ways:

Funds look at technology investments against the backdrop of the strategic vision for the country. Many such plans call for diversification, and knowledge transfer through investment has been a central component. Several major sovereign funds have been prominent in investing in technology, some through sizable investments in global technologically focused funds, and others through a focus on direct investment in tech, both locally and abroad.

Investment is not limited to investment

overseas. Sovereign funds are also acting as partners in domestic investments, providing regional expertise and support to foreign investors looking to bring their innovations to the region.

This is part of a wider trend: across the region, 63% of Middle Eastern sovereign funds increased allocations to direct strategic investments (directly held stakes in projects or companies of strategic value). These investments take advantage of the long investment horizons of sovereigns to maximise investment returns and other national benefits.

While many tech-focused investments have been overseas, GCC countries have been some of the most fertile ‘sandboxes’ for cutting-edge technologies. Cryptocurrency is one such technology: authorities in the UAE and KSA have been proactive in supporting the development of crypto-currencies, with a favorable regulatory regime and other government support.

For the largest sovereigns, investing in technology, especially in clean energy, has intersected with another rising consideration for Middle Eastern sovereigns: consideration and adoption of Environmental, Social and Governance (ESG) factors. Several have signed the One Planet Sovereign Wealth Funds Framework, an initiative designed to promote efficiency in capital allocation and encourage a transition to a low carbon economy.

The study of sovereigns found 83% apply an ESG policy across the fund as opposed to a single asset class such as equities. While this degree of integration is often aspirational, ESG, and environmentally conscious investment in particular, are likely to become a more prominent consideration for sovereign funds. In a sign of growing adoption of ESG within the region, 44% of Middle Eastern sovereigns argued that ESG analysis can unlock hidden value, suggesting not only changing attitudes, but also a recognition that sovereign funds are uniquely well placed to realise value from this phenomenon given their very long term perspective.

Source: Invesco Global Sovereign Asset Management Study 2019

Josette Rizk is Institutional Client Director at Invesco





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