# AUM INDUSTRY POISED FOR GROWTH

**THE ASSET UNDER MANAGEMENT (AUM) INDUSTRY IN QATAR IS STILL IN A NASCENT STAGE BUT IS POISED TO GROW IN THE COMING YEARS AS THE GOVERNMENT IS ENCOURAGING MORE INVESTORS INCLUDING FOREIGNERS TO DERIVE MAXIMUM BENEFIT FROM THIS UNTAPPED INDUSTRY WITH LARGE POTENTIAL.**

BY VL SRINIVASAN

The asset management industry's current market size in Qatar is relatively small compared with its peers in the region and is valued around QR46 billion, though Qatar is among the richest countries and ranked seventh in the world with GDP per capita income as high as $72,677 in 2019.

Despite these favourable factors, there are only eight asset management firms operating in Qatar, of which six are licensed by Qatar Financial Centre and two were operating under the regulation of Qatar Central Bank at the end of 2018. Qatar Insurance Company has also registered a subsidiary "Epicure Investment Management" at Qatar Financial Centre in May this year with an initial capital of QR1.8 million. The new company is yet to commence activities such as investment business consultation among others. However, the asset management industry in the country is expected to witness sharp growth over the next few years as there is a massive untapped market potential.

"Though the asset management industry in Qatar is less developed, Qatar-domiciled funds have an AuM to GDP ratio of only 0.2% as compared to this global AuM as the percentage of global GDP is around 15%," M.R.Raghu, head of research at Kuwait Financial Center (Markaz) and managing director of Marmore Mena Intelligence Kuwait, said.

Improving the quality of listings and increasing the pool of securities and associated financial products could be instrumental in improving the prospects of the domestic asset management industry.

"Wider ownership outside the family business will further increase the retail and institutional investor's interest and overall liquidity in the market. Further, the affluent population base majority, which currently invests more in developed markets, provides huge opportunities for the domestic asset management industry," he said.

**PRIVATE WEALTH GROWS IN MIDDLE EAST**

In the Middle East, private wealth continued to experience positive growth between 2016 and 2017 (8%), and this growth is projected to remain steady over the next five years according to a report by The Boston Consulting Group (BCG) entitled "Global Wealth 2018: Seizing the Analytics Advantage."

According to the report, global personal financial wealth grew by 12% to QR736.05 trillion ($201.9 trillion) in 2017. The main drivers were the bull market environment in all major economies—with wealth in equities and investment funds showing by far the strongest growth—and the significant strengthening of most major currencies against the dollar. Personal wealth in the Middle East rose by 11% to QR13.83 trillion ($3.8 trillion) in 2017, a significant increase compared with the CAGR for the previous five years. In comparison, personal wealth in Qatar has grown at 9% between 2016 and 2017.

According to Capgemini's World Wealth Report 2019, global high-net-worth-individual (HNWI) wealth declined by 3% for the first time in seven years, primarily driven by a slump in equity-market performance and slowing economies in key regions. After a stellar 2017, stock markets faced turbulence in 2018 as global market capitalisation declined by 15% amid high volatility. Against a backdrop of significant global wealth decline, Asia-Pacific was impacted the most while Europe also experienced a noticeable dip in HNWI wealth. Asia-Pacific, a global powerhouse for the last seven years, accounted for 50% of global wealth decline led by China, which accounted for 25% of the global wealth decline. Europe was responsible for about 24% – or $500 billion – of the overall $2 trillion decline in HNWI wealth. The Middle East offered the only positive news while North America's and Latin America's performances were mixed. The Middle East recorded an increase in HNWI population and wealth (6% and 4%, respectively), while North America was almost flat. Latin America witnessed HNWI wealth declines of 4% even though population increased by 2% as ultra-HNWIs, who dominate the wealth landscape, are more vulnerable within a declining economic scenario.

## SPOTLIGHT ON QATAR

In 2016 to 2017, private wealth was driven primarily by the positive development of life insurance and pensions. In Qatar, personal wealth is projected to grow at a Compound Annual Growth Rate (CAGR) of 7% and expected to reach QR918 billion ($270 billion) in investible assets by 2022. "Taking an in-depth look at wealth distribution, Qatar non-investible assets are expected to increase at a CAGR of 23% in the next five years, while investible wealth growth is projected to accelerate at a CAGR of 7%," explained Markus Massi, Senior Partner & Managing Director of BCG Middle East's Financial Services practice, in the BCG report. "When it comes to asset allocation, currency and deposits, at 45%, were the highest proportion of assets in Qatar in 2017, followed by offshore assets at 41%, equities and investment funds at 10%, and life insurance and pensions at 3%. By 2022, currency and deposits, and life insurance and pensions are expected to experience slight growth to 53% and 5%, respectively. For offshore assets, and equities and investment funds will experience a decline to a respective 36% and 6%," Massi added. At 24%, life insurance and pensions drove growth by asset class between 2016 and 2017 in Qatar. Other drivers of asset class growth included currency and deposits at 21%, and offshore assets at 5%. Equities and investment funds and bonds experienced negative growth at -16% and -2%, respectively. Looking to the future, growth by asset class is expected to experience a slightly slower but steady growth, with life insurance and pensions at 23% and currency and deposits at 11% CAGR over the next five years. In the same period, growth in offshore assets will remain constant at a CAGR of 5% and equities and investment funds and bonds will accelerate to -2% CAGR and -1% CAGR, respectively. While offshore share is expected to decline over the next five years from 41.4% in 2017 to 35.5% in 2022, it will continue to grow at a CAGR of 4.6% to reach QR338.52 billion ($95 billion) in Qatar in the same period.

## IPA TO BOOST FDIS

Further, Qatar has set up the Investment Promotion Agency (IPA) with the aim of further attracting foreign direct investment (FDI) in line with objectives set out in the Qatar National Vision 2030. The agency will be a single and complete source for investment solutions in Qatar by attracting FDI in all of the country's priority sectors. The entity will also pursue targeted, sector-specific investment promotion agendas and co-ordinate investment promotion and marketing activities with key stakeholders, as well as develop policy advisory. The IPA Advisory Board, which is chaired by the Minister of Commerce and Industry, HE Ali bin Ahmed Al Kuwari, recently met and discussed the agency's strategy, roadmap and budget, as well as the key target sectors and incentives plan. The Minister later said that Qatar has already been an attractive hub for foreign direct investment and launching the IPA would add to Qatar's efforts to further boost FDI into the country. The agency will achieve this through a number of initiatives such as working with stakeholders to support international businesses wishing to set up operations in Qatar. "We are committed to stimulating Qatar's

**"WE ARE COMMITTED TO STIMULATING QATAR'S ECONOMIC DEVELOPMENT BY ATTRACTING FOREIGN DIRECT INVESTMENT THROUGH A NUMBER OF AVENUES. THE IPA WILL ENHANCE THESE EFFORTS BY ENCOURAGING MORE INTERNATIONAL INVESTORS TO SET UP IN QATAR, LEADING THE COUNTRY INTO A NEW PERIOD OF ECONOMIC GROWTH."**

**HE ALI BIN AHMED AL KUWARI**
Minister of Commerce and Industry
State of Qatar

"WITH UNCERTAINTY HAVING RISEN IN THE REGION SINCE OIL PRICES BEGAN FALLING IN LATE 2014, AND THE BLOCKADE OF 2017, INVESTOR APPETITE FOR RISK PLUNGED. SAFER, BUT LOWER, RETURN ASSETS HAVE BEEN SOUGHT, SUCH AS GLOBAL FIXED INCOME AND REAL ESTATE."

**AKBER KHAN**
Senior Director—Asset Management Group
Al Rayan Investment

economic development by attracting foreign direct investment through a number of avenues. The IPA will enhance these efforts by encouraging more international investors to set up in Qatar, leading the country into a new period of economic growth," he added. Foreign investments, including foreign direct investment (FDI) and portfolio investment, in Qatar amounted to QR722.6 billion by the end of the first quarter of this year, recording a month-on-month increase of 1.1 percent, or QR7.9 billion compared with QR714.7 billion reported for the previous quarter (Q4 2018).

### LOW DOMESTIC RATES WILL BE HELPFUL

Senior Director—Asset Management Group with Al Rayan Investment, Akber Khan, said that the low deposit rate environment would be helpful for the investment industry as both individual and institutional savers feel pressure to enhance returns; investments are often the obvious alternative. If Qatar Central Bank reduces domestic interest rates as US rates fall during 2019, this should further increase investor interest in the local asset management industry. "With uncertainty having risen in the region since oil prices began falling in late 2014, and the blockade of 2017, investor appetite for risk plunged. Safer, but lower, return assets have been sought, such as global fixed income and real estate. Encouragingly, in 2019, we are seeing more investors beginning to increase allocation towards higher risk assets such as equities," he pointed out. He further said that the newly formed IPA was expected to take steps to help develop and promote the local asset management industry; clearly a welcome initiative. Within the domestic economy, while there are certainly areas of weakness, positive signs are also evident. As an example, the government's focus on boosting tourism has started yielding results, with healthy increases seen in visitor numbers by both air and sea. Hence, despite significant growth in room supply, hotel occupancy has risen during 2019 to levels comparable with much of the region. Relevant for construction, an upturn has been seen in the number of building permits issued. With equity markets being a forward-looking indicator, it will be interesting to see how far in advance of the 2022 FIFA World Cup investors will begin pricing in the consumption boom that Qatar will enjoy. Given the scale of the event, and the requirement for tens of thousands of security and organisational staff, the population will surge far in advance of the tournament, not just as a result of visitors during the four weeks of matches, he said. "Risks to the industry primarily relate to markets and sentiment, so an acceleration in the deterioration of the global economy would obviously be negative and would also hurt the oil price. Any corresponding slowdown in government spending would have a negative multiplier effect on the economy," he added.

### BRIGHT PROSPECTS

The MSCI upgrade, elevating Qatar to Emerging Market status, has increased liquidity on the Qatar Stock Exchange and encouraged foreign inflows into the local market, enhancing the profile of domestic companies beyond the GCC. As the economy continues to grow and diversify, there is expected to be a rise in the number of affluent and wealthy households. This trend should boost demand for professional asset managers as individuals become increasingly sophisticated and attracted to options that can protect and grow their investment portfolios through diversification and asset allocation strategies. Dr Ataf Ahmed, Global Head of Asset Management at QInvest, said the long-term prospects for Qatar's asset management industry were "very positive" given it has been still in a nascent stage of development and continues to demonstrate high growth potential. In recent years, the FIFA World Cup in 2022 has represented an important catalyst for the nation's socioeconomic plans, helping to ensure that the strategic targets of Qatar National Vision 2030 remain on track despite the recent blockade. "A notable challenge for domestic asset managers is the complexity of the regulatory environment as there are currently multiple regulators stipulating conflicting directives on the industry. While memoranda of understanding have brought some consistency, there is still a tendency for local regulators to focus too much on domestic firms and not enough on 'suitcase bankers,' who fly in and out while operating outside of the parameters imposed on firms such as QInvest," he averred. Currently, the majority of investors still have a highly defensive mindset and a focus on yield. At QInvest, our fastest-growing product line in recent years has been the range of funds available on the Qinvest SQN Income Fund platform. "We are launching our fourth fund imminently to capture investor demand for the 7% annual dividend it will distribute on a monthly basis," he said.

**STRONG REGULATORY FRAMEWORK**

CEO of Aventicum Capital Management Qatar Fahmi Alghussein too said that the prospects for the asset management industry in Qatar for the long term are positive, also because the country and the regulatory authorities are offering every support there is by developing a strong regulatory framework to boost and create a vibrant asset management industry. According to him, the Qatari investor base is becoming more sophisticated as it diversifies into other asset classes and geographies. Therefore, institutions like Aventicum Capital Management need to broaden their spectrum of products and services to enable them to compete with global asset managers which come to Qatar on a regular basis to offer HNWIs, family groups and local institutions best-in-class products and services. "In a competitive global environment we must raise the standards of the talent pool to ensure it is qualified and competent to represent their respective companies, have the right product knowledge and avoid misrepresentation of the products and services on offer," he said. This, in turn, will ensure the success of a local asset management industry, which also creates the opportunity to retain the most talent and the wealth that is being created in Qatar. "Additionally, we need to innovate the product offering by expanding the areas of interest for investors locally such as aviation finance and leasing as well as venture capital (VC) funds investing in companies that come out of the local universities and research and development foundations. This will put us onto the right path to commercial development and the eventual success of a local VC and private equity industry – similar to those in the US, Europe and Asia," he said. Aventicum Capital Management also sees opportunities to develop investment strategies that allow the company to have long and short equity strategies, which will appeal to international investors who are looking to invest in the local market (Qatar) and enhance the investment returns by using derivatives and options as hedging tools for investors. "But there are also risks to the growth of the industry if the companies become complacent, inefficient and bureaucratic. The capital markets, be it on the equity, debt or private side, need to be able to bring the players in a timely manner to avoid driving money out of our local ecosystem that still needs to be built and grow to ensure long-term sustainability," Alghussein said. "Innovation, technology and disruption are going to be a feature of our businesses and this means we need to move in pace with the changes and challenges or face irrelevance as domestic investors seek other markets and investments outside the country", he added.

**GROWTH ENGINES**

Alghussein said that Aventicum was very fortunate to have a big pool of domestic liquidity and wealth, be it with the sovereign wealth fund, pension funds or local institutions, which is expected to grow further as the economy expands in the years ahead. This expansion is supplemented by a young population with a different risk appetite compared to their parents and grandparents who had other challenges and opportunities. This generation will seek to outsource its investment needs to regulated and trusted professional asset managers. "The support from local institutions and private investors is critical for the long-term success of the domestic asset management industry. The need to diversify strategies is a good risk management tool and creates opportunities for a healthy competitive environment where the best and smartest outperform and thus win the confidence of investors to take on risk and invest," he said. According to Raghu, the Islamic asset management industry, which still remains underdeveloped, will continue to remain a key driving factor in attracting investors. The Qatar fixed income sector is also an attractive asset class that generally has lower volatility with higher yields. For instance, among similar rated countries by S&P, the average yield (past one-year period) of a 5-yr bond is 1.3% as compared to 3.6% for Qatar. The bonds inclusion in the emerging market

**"BUT THERE ARE ALSO RISKS TO THE GROWTH OF THE INDUSTRY IF THE COMPANIES BECOME COMPLACENT, INEFFICIENT AND BUREAUCRATIC."**

**FAHMI ALGHUSSEIN**
Chief Executive Officer
Aventicum Capital Management
Qatar

"A NOTABLE CHALLENGE FOR DOMESTIC ASSET MANAGERS IS THE COMPLEXITY OF THE REGULATORY ENVIRONMENT AS THERE ARE CURRENTLY MULTIPLE REGULATORS STIPULATING CONFLICTING DIRECTIVES ON THE INDUSTRY."

DR ATAF AHMED
Global Head of Asset Management
QInvest

bond index also strengthened the case of the domestic bond market, he pointed out.

**RESTRICTIONS ON QATAR**

According to Dr Ahmed, the GCC travel ban has actually had the biggest effect on Dubai and has demonstrated the impracticalities of having a single GCC hub. In Qatar, the impact has been mixed. While it has closed off a sales market for domestic asset managers, this has been offset by reduced competition from firms based in other GCC countries. There is no doubt that Qatar now looks considerably overbanked with too many financial institutions trying to attract deposits from a limited number of depositors. The cost of funding has increased which has resulted in Qatari banks offering a much higher deposit rate than one would expect in a country with its fiscal strength, deep reserves and credit rating. For example, 12-month QIBOR rates are currently trading at almost 1% higher than 12-month LIBOR rates despite the currency peg, he pointed out. Lauding the government's efforts to wriggle out of this unexpected and challenging disruption with exceptional skill and assurance, he said proposals to encourage foreign investment and accelerate the diversification of the economy have proved successful in improving sentiment after the initial shock. This has benefited equity markets as evidenced by the Qatar Stock Exchange's strong run last year and continued, although somewhat volatile, rally in 2019. Relaxing the conditions for foreign visitors to enter Qatar, with free visas on arrival now available for 81 countries, has reduced the impact of fewer tourists from Saudi Arabia, the UAE and Bahrain. This has not only helped to benefit the tourism industry directly, but has also resulted in wider positive externalities across other domestic sectors. "By taking steps now to decrease deposit rates, investors will be forced to look beyond yield-oriented solutions and consider more productive options offered by asset managers. The first bank merger between IBQ and Barwa Bank is a welcome step in reducing the number of banks and we expect to see more consolidation, which represents a positive step for the economy. The strides made by the QFCRA, in respect to greater alignment with global regulators, can also help Qatar-based asset management firms compete on the global stage," Dr Ahmed said. Alghussein too said that every crisis creates opportunities for those willing to take the right risks and invest in their businesses. "We were amazed to see how quickly Qatar adapted to the boycott and how little impact it eventually had. We always face new challenges in our industry globally, so this is not new and will not change. The local asset management industry has adapted to a new shift of focus on product innovation and client coverage and listens to the needs of investors to adapt to the new paradigm shift," he pointed out. In the long run, with the support of all, the local asset management industry is on a solid track to continue growing and expanding. This is important as our industry needs to compete on a global level and ensure wider appeal as our markets and economics today are benchmarked against other Emerging Markets peers and international standards," Alghussein added. Raghu too said that there was adverse impact on the overall economy due to the restrictions but it was difficult to gauge the impact it had on the asset management industry. In fact, the assets under management of funds domiciled in Qatar have actually increased compared to, couple of years ago. However, to negate the impact, the government has taken several steps such as increasing the limit on foreign ownership to 100% in multiple sectors, which will attract investments from investors globally. In addition, the law on regulating the ownership and usage of real estate by expatriates in the country will increase their investments within the country, Raghu added.

**GOVERNMENT SUPPORT**

Dr Ahmed said that a common theme arising from Qatar-based asset managers is that they would welcome greater support from government and regulators, similar to the backing that was provided to banks in the wake of the last financial crisis. Asset management is currently highly focused on the Qatari community and there is not enough emphasis placed on securing investment from expats. While some long-term expat residents see Qatar as their home and are prepared to invest at a local level, a significant proportion of the population continues to remit their savings outside the country, Dr Ahmed said. One step which has helped to foster investment through local asset managers is the introduction of permanent residency for long-term expats. However, more could still be done to encourage expats to view Qatar as their long-term home, which in turn would encourage more local investment. The benefits of this would be substantial for both the domestic economy and the nation's asset management industry, Dr Ahmed added.

**MUTUAL FUNDS**

Coming to mutual funds in Qatar, the asset management sector remains limited accounting for just QR815.36 million ($224 million), according to reports. Notably, the sector has been more developed in Shariah-compliant funds, which represent just over 50% of total fund assets. Opportunities in Qatar's fund and asset wealth exist, despite the currently limited development of the fund industry. In March 2018, Masraf Al Rayan launched Qatar's first Shariah-compliant ETF – Al Rayan Qatar ETF – with initial assets worth QR436.8 million ($120 million). This is the world's largest single-country ETF and second-largest Islamic fund. The ETF tracks the performance of the QE Al Rayan Islamic Price Index of Shariah-compliant stocks trading on the QSE. Also listed on the QSE, the fund targets foreign investors from the US, Europe and Asia. The gap between Qatari-domiciled investments in mutual funds and total wealth suggests that increasing legal stability is important for investor confidence. This may make the QFC the ideal area to promote the local asset management sector because of the legal framework in place. Domestic private wealth is estimated at QR127.4 billion ($35 billion), with 290 ultra-high-net worth individuals with more than QR109.2 million ($30 million) in investable assets. These individuals are being targeted by the QFCRA through special licences granted for foundations and investment clubs, in the former case giving legal personhood to the foundation and, in the latter, allowing for groups of up to 15 individuals to invest together without requiring licencing, the reports said.


**"WIDER OWNERSHIP OUTSIDE THE FAMILY BUSINESS WILL FURTHER INCREASE THE RETAIL AND INSTITUTIONAL INVESTOR'S INTEREST AND OVERALL LIQUIDITY IN THE MARKET."**

**M R RAGHU**
Head of Research
Kuwait Financial Center (Markaz) & Managing Director of Marmore Mena Intelligence
Kuwait

**"TAKING AN IN-DEPTH LOOK AT WEALTH DISTRIBUTION, QATAR NON-INVESTIBLE ASSETS ARE EXPECTED TO INCREASE AT A CAGR OF 23% IN THE NEXT FIVE YEARS, WHILE INVESTIBLE WEALTH GROWTH IS PROJECTED TO ACCELERATE AT A CAGR OF 7%."**

**MARKUS MASSI**
Senior Partner & Managing Director
BCG Financial Services Practices
Middle East