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Middle East
& Africa

MIDDLE EAST AND AFRICA: RIPE FOR INVESTMENT BOOM

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TABLE OF CONTENTS

A look back at FundForum Middle East & Africa 2017

SHIFTING DYNAMICS MAKE AFRICA RIPE FOR INVESTMENT BOOM

Criselda Diala-McBride

The continent offers a healthy mix of investing options for those willing to explore this market.

Recent political, social and economic developments are powering Africa's transformation, and fund managers would do well to note the investment opportunities opening up in the continent, according to a panel of experts at FundForum Middle East and Africa.

"Many look at Africa as a tough market. In most of the time, it is tough because policies are influenced by macroeconomic circumstances, such as the depression of oil prices. There are also monetary policies around protecting their currencies," says Gavin Butcher, Director, Optis Investment Management. "But many of those markets have now turned a corner and stabilised their currencies. There are also some good companies ." Economic indicators appear to be making the case for investors to park their cash in Africa. The continent provides a strong consumer base, owing to its rapidly expanding population, which stood at over 1.2 billion as of 2016.

Based on the latest World Bank data, Africa also boasts sizeable markets in terms of GDP, such as Nigeria (US$ 405 billion), Egypt (US$336 billion), South Africa (US$294 billion), Algeria (US$156 billion), and Morocco (US$101 billion).

"There's opportunity to invest in power generation."

Shuaib Audu, CEO, Stanbic IBTC Investments Limited, a subsidiary of Standard Bank, says the population of Africa, particularly Nigeria, is also young with average age of less than 25 years old, creating enormous opportunities in various sectors.

"Investors may have a negative notion of Africa, but I believe they should look at some of the changing trends. For example, 30 years ago, most African countries were ruled by military regime. Today, democratic economies are spreading across Africa," he says.

Audu adds that more than 50 per cent of Nigeria's population, for example, have no access to electricity. According to the International Energy Agency, more than 620 million people or two-thirds of the population in Sub-Saharan Africa live without electricity, while around 730 million people rely on dangerous forms of cooking, such as fuelwood and charcoal.

"Now, some may see that as a downside, but you can also look at the upside – there's opportunity to invest in power generation. Some countries have recognised that trend. China has invested more in Africa, compared with Europe and the United States," he points out.

> "There's opportunity to invest in power generation."

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Where opportunities lie

Africa's diversity also leaves investors spoiled for choice, says Ola Sowemimo, chief investment officer, EcoBank. "Quite often, when investors consider investing in Africa, they go to the largest markets, such as Nigeria, where there is liquidity. But from our standpoint, we see potential in the French African countries as well," he says. Sowemimo explains that French-speaking African countries, including Côte d'Ivoire, Senegal, Mauritius and Gabon, may not share the same fundamentals as in other African states.

"In Nigeria, you may have commodity issues based on oil, but Côte d'Ivoire and Senegal are less dependent on oil and have a more diversified economy. They also managed to grow, with average rate of six to seven per cent; they have lower inflation, listed equities and more importantly, the West African franc is pegged to the euro," he notes.

Although West African countries are smaller, with their combined population representing just a third of Nigeria's, they share important commonalities, such as language, currency and central bank.

"These countries may not be popular , but you have to remember that they are world's largest producer of coco, gold, rubber and palm oil. They are mostly ignored, probably because there's an element of language barrier since most investors are in the US and the United Kingdom. But anyone looking to invest in Africa should consider these markets," Sowemimo says.

Growth sectors

Ngaa Gumbo, portfolio manager, Atria Africa, believes that investors should wake up to the potential of the continent's rapid urbanisation. World Bank data suggests that the share of Africans living in urban areas will grow to 50 per cent by 2030, from 36 per cent in 2010.

"With rapid urbanisation comes the opportunity to invest in developing housing projects to accommodate people who are relocating from rural areas to the cities," says Gumbo. "In addition, there are opportunities to invest in modernising infrastructure, in order to facilitate intra-African and international trade. Building airports and seaports will improve Africa's connectivity."

Audu is bullish about the agriculture sector, saying: "Around 60 per cent of the world's arable land are located in Africa. However, only 10% of the world's produce come from Africa.

"There's a huge gap and enormous opportunities there. If you look at the size of Nigeria's GDP, US$405 billion, around 30 to 40 per cent comes from agriculture, and yet, the sector accounts for less than one per cent of the forex proceeds. So there's a lot of room for growth."

Meanwhile, Sowemimo sees huge potential in mobile technology, particularly financial technology (fintech). GSMA Intelligence notes that 46 per cent, or more than 500 million people, of Africa's population are subscribed to mobile services. The mobile ecosystem has also generated 6.7% of the continent's GDP and 3.8 million jobs in 2015.

"The number of banks that have mobile technology platform for conducting financial services, such as money transfer and credit access, is growing at a rapid pace. We see a massive growth in the financial sector, in general, as opposed to the oil and gas sector," Sowemimo concluded.

GCC ECONOMIES ADAPT TO LIFE IN A POST-OIL ERA

by Criselda Diala-McBride

Fiscal and regulatory reforms are helping the region cope with the oil price slump.

The dramatic drop in oil prices delivered a crushing blow to GCC nations, which heavily rely on petrodollars to line their coffers, plunging their economies deep into the red. But the commodity slump also served as a wake-up call for governments to implement fiscal reforms to help their countries weather the storm.

Speaking at this year's FundForum Middle East and Africa, Charles-Henry Monchau, managing director, CIO and head of Asset Management, Al Mal Capital, says the six oil-producing countries that make up the GCC have been transformed from having surplus economies to running a combined deficit of US$160 billion in 2015.

"Before the oil price shock, GCC economies' national budget is 75 per cent dependent on oil and gas, growth has slowed and budget deficit has gone up. But I think the governments are handling the situation well," he says, adding that the region's sovereign wealth funds (SWFs) have stepped to keep the economy afloat.

"Governments are addressing the issue in the short term by cutting expenses, widening the revenue base and implementing reforms. But perhaps more importantly, in the long term, they are focusing on diversifying their economies, developing human capital, and moving towards privatisation," Monchau says.

In Saudi Arabia, for example, the government is carrying out the National Transformation Programme (NTP) as part of Saudi Vision 2030. Oman also unveiled last year its own economic diversification strategy called Tanfeedh, which aims to develop sectors with massive growth potential, including manufacturing, tourism, transport and logistics, mining and fisheries.

All these developments are creating massive investment potential, adds Monchau: "With every crisis comes an opportunity and this is a once-in-a-lifetime opportunity for GCC governments to transform their economies."

SWFs bring cash piles home.

Globally, SWFs hold more than US$8 trillion worth of assets, with the world's largest – Norwegian Oil Fund – hitting the US$1-trillion mark recently. But according to Ehab El Sawy, head of Securities Services-MENA, Standard Chartered, around 44 per cent of global SWFs' asset concentration come from the Middle East and North Africa region.

Traditionally, regional SWFs are outward looking in terms of investing, but the oil price slump has prompted them to change tack, says Racha Alkhawaja, group chief distribution and development officer, Equitativa. "The largest SWFs in the region are from the UAE and Saudi Arabia and historically they have been fully invested abroad. But recently we're seeing a definite shift in their asset allocation by looking at investment opportunities locally," she says. "We're starting to see this trend and since the lack of oil income, governments have implemented reforms making investing here more attractive for regional SWFs."

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Mandagolathur Raghu, investment strategist at Kuwait Financial Center (Markaz), agrees, saying that such reforms have been in the way of cutting petrol and utility subsidies, which represent the bulk of public expenditure.

GCC governments are also in the process of rolling out a region-wide value-added tax (VAT) starting 1 January 2018, which, according to International Monetary Fund estimates, could add two per cent to regional GDP. In Saudi Arabia, the government has started implementing a so-called 'white-land tax', a 2.5 per cent levy imposed on undeveloped commercial and residential land in urban areas. In 2015, the kingdom also opened Tadawul, its stock market, to international institutional investors. Most recently, Saudi lifted the ban on female drivers.

Reforms making region competitive
All these reforms are geared towards not only boosting government revenues, but also making the region more competitive and opening doors for capital inflows, says Raghu.

"The new normal is that oil prices will never be above US$100 per barrel and so governments have to plan their strategy to bridge the deficit," he says. "Another interesting point is that breakeven oil prices are coming down for many oil-producing economies in the region. For example, Kuwait used to have a breakeven oil price of US$52 per barrel, now it's US$42."

Fitch Ratings says Qatar's breakeven oil price stands at US$51 per barrel, while Abu Dhabi's US$60.

Fahmi Hamid, business development director, FIM Partners, points out that certain sectors are benefitting as well, such as insurance and healthcare.

"What we're seeing in the region is that a lot of economies are going the privatisation route. In Saudi, for example, the Ministry of Health has mandated the privatisation of primary healthcare centres. Demand for hospital beds in Saudi is also very high compared with the rest of the region.

"Also tied to that is insurance, as some countries have launched mandatory health insurance scheme," Hamid says, adding that the lifting of female driving ban in Saudi would increase demand for auto insurance.

Raghu sees opportunities in education, tourism and transportation. For Monchau, the capital market is attractive.

"Fixed income and the equity side is very interesting. Last year, the GCC accounted for 20 per cent of new bond issues from emerging markets. FTSE is also looking to upgrade GCC bourses into emerging market status.
"GCC is mainly viewed as a source of capital because they have oil, but now this view is shifting and the region can also be a destination of capital," says Monchau.

TIME FOR BARGAIN HUNTERS TO MOVE INTO THE MIDDLE EAST

Criselda Diala-McBride

Despite ongoing political and military tensions in the region, there are still pockets of opportunities.

Recent sentiment about the Middle East's economic landscape has been relatively subdued, as the region suffers from a double-whammy of lacklustre growth due to depressed crude oil prices and rising regional tensions.

In the midst of this backdrop, Mishal Kanoo, chairman, Kanoo Group, believes that the Middle East still has plenty of asset classes to offer investors searching for high yields.

In his state of the industry address at FundForum Middle East and Africa, held in Dubai, Kanoo says that from an outside perspective, the region may appear to be entering a period of stagnation.

"Towards the end of last summer, you would've thought that this region is dead – there was no fiscal spend and there were political issues to contend with," he says. "We were in a 'blah' position, where you're not sure if it's going to lead to growth or recession."

Kanoo was referring to the simmering diplomatic tensions between Qatar and its regional neighbours: Saudi Arabia, United Arab Emirates, Bahrain and Egypt. Immediately after the four countries severed ties with the natural gas giant, the Qatar Stock Exchange index plummeted seven per cent.

In addition, a military conflict in Yemen has dampened any economic prospects for the country. Reutersreported recently that the cost from damage to infrastructure and economic losses from Yemen's war has now reached more than US$14 billion.

The decision by the members of the Organisation of Petroleum Exporting Countries (OPEC) to cut a further 1.8 million barrels per day of crude from the global market by holding back oil production until March 2018, prompted EmiratesNBD to lower its growth forecast for the GCC region.

However, Kanoo believes that by changing public perception about the Middle East, fund managers would find that there are pockets of opportunities in the region, despite the challenges it is facing.

Investing in the Middle East growth story

During the oil boom, regional governments have invested heavily in modernising infrastructure and developing sectors, which eventually led to job creation and economic development.

With the oil price crash came fiscal consolidation and rational spending. However, earlier investments have provided the foundation for attracting future capital inflows, says Kanoo.

Citing UAE as an example, he underscores ongoing

> "By changing public perception about the Middle East, fund managers would find that there are pockets of opportunities in the region."

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projects related to the Expo 2020, the US$36-billion expansion of Dubai World Central, and the construction of Abu Dhabi airport's US$3.2-billion midfield terminal complex.

"Abu Dhabi will also open the Louvre Museum, then the Guggenheim Museum and the Zayed National Museum. Imagine the related sectors and businesses that would benefit from these developments," says Kanoo.

The region has also, in the past, invested in upgrading its petrochemical sector and Kanoo believes the Middle East is in a strong position to become the world's petrochemical hub.

According to the Gulf Petrochemicals and Chemicals Association, the regional petrochemical industry has expanded by almost four per cent last year, to reach 150 million tonnes of capacity and outperforming the global growth average of 2.2 per cent. The lion's share of investment came from Saudi Arabia, with the opening of Sadara Chemical, a US$20-billion joint venture between Saudi Aramco and Dow Chemical Company.
"With plastic demand growing, the need for feedstock, which is produced by the petrochemical sector, will also grow," Kanoo adds.

Aeronautics is also a promising sector for investment, according to the Kanoo Group chairman. "Nobody, other than China, buys as many aeroplanes as the Middle East, and with that comes the opportunity for banks to provide financing and insurance companies to offer coverage."

The region's growth story – from a barren desert to a financial oasis – has also attracted talent from around the world. As the population expands, demand for housing, transportation, retail, education, healthcare, and professional services has likewise seen an uptrend, he says.

'Buy low'

Kanoo admits that a dark cloud looms over the region because of the ongoing political tension.

"I don't know how and when the tension is going to end, but it shouldn't stop investors from putting and growing their money into the region," he says. "The investing adage 'buy low, sell high' applies here. Now is the time to invest in real estate, when there is a dip in the market."

In terms of equities, currently the economic climate has resulted in low profits and valuation for some of the region's major companies, making them ideal prospects for bargain hunters.

He is optimistic, however, that conflicts will eventually end, creating opportunities for investors to step in and invest in infrastructure rehabilitation development, for example, in Yemen.

"There are opportunities in various parts of the world, there are some where you may have access to and others that you won't. Here in the Gulf, especially the UAE, investment opportunities are accessible," he says.

> "Here in the Gulf, especially the UAE, investment opportunities are accessible."

FUTURE STATE OF THE INVESTMENT PROFESSION: PREPARING NOW FOR A DIFFERENT FUTURE

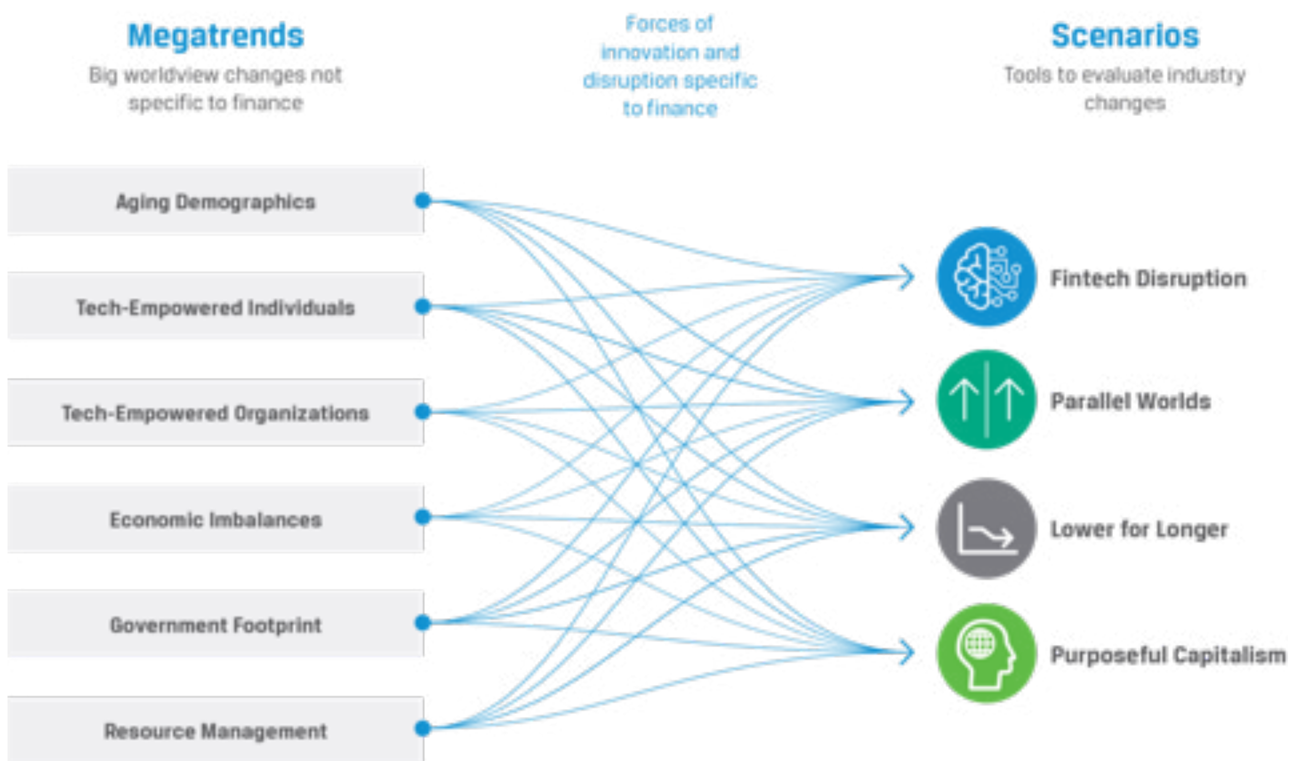
By Rebecca Fender, CFA, head of the Future of Finance initiative at CFA Institute, a long-term global effort to shape a trustworthy, forward-thinking investment profession that better serves society.

The future of the investment industry is important for the functioning of the global economy, for the approximately 2 million workers it employs, and for the clients and end investors that depend on it to manage around $100 trillion in assets. But there are major shifts afoot that will likely result in significant change, and leaders need a better way to think through the implications of these shifts in various combinations — for their clients, the health of the industry overall, and the ongoing sustainability of their own firms. CFA Institute recently published the Future State of the Investment Profession, which examines these issues, and we hope it will be of use to both new firms and those with decades — or even centuries — of experience.

Four Scenarios for Future Strategy

In addition to collecting data on investment leaders' views of changes they are expecting in the industry, we developed four scenarios that describe the way the future of investment management could unfold.

MEGATRENDS COMBINE FOR POSSIBLE FUTURES



Fintech Disruption

MAJOR ELEMENTS

- Fintech develops globally with a particularly strong Asia-Pacific element
- Regulatory infrastructure in finance gradually integrates technology-driven models
- Traditional active management shrinks; some growth in alternatives, smart betas, and outcome-oriented solutions
- Smart machines and systems, data analysis, and inference play a disruptive role in finance's evolution
- Financial services becomes highly personalized and digitalized everywhere
- Robo-advice and its "cyborg" variants become preferred style or tool for delivering investment advice

Lower for Longer

MAJOR ELEMENTS

- Limited success with interest rate normalization; natural interest rates stay low
- Growth challenges: indebtedness, adverse demography, excess savings, slower growth in China/emerging markets, and companies hoard cash
- Large gaps in pension coverage with longevity; pension poverty
- Moves to lower-cost, higher-tech investment solutions; premium on innovation; industry consolidates
- Disappointment with outcomes rubs off on trust; investment skill under pressure to demonstrate its value
- Geopolitical instability connects with social instability; inequality fissures; negative feelings deepen; job fears; immigration challenges

Parallel Worlds

MAJOR ELEMENTS

- Better worldwide education, healthcare, and telecoms increase societal engagement
- Potential for mass disaffection; consequences in anti-globalization, populism, and authoritarian nationalism
- New-style financial institutions enabling personalized, simple, and speedy engagement; trust is also needed
- Big data serves customization of investment products to specific segments; more reflection of personal values
- Improvement in financial literacy and empowerment produce better financial participation
- The "have-nots" act on their disillusionment with the system

Purposeful Capitalism

MAJOR ELEMENTS

- Firms and investment organizations integrate their wider purpose alongside their profit motivations
- Asset owners are more influential; they add focus to longer-term value creation and sustainability
- There is an increased attention to fiduciary responsibility in investment with better alignment
- Fierce competition for leadership talent among investment organizations; diversity and culture are draws
- Investment providers need to have a "clean license to operate," including ESG principles

Whatever the outcomes, it is our hope that the steps and ideas outlined in the study help the investment industry to realize its fullest potential.

The Future State of the Investment Profession was co-authored by Rebecca Fender, CFA; Robert Stammers, CFA; Roger Urwin, FSIP; and Jason Voss, CFA.