



Opalesque Round Table Series '13 GULF

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Editor's Note

Changed Capital Flows in the Gulf

As in any other region, investors in the Middle East are shifting their portfolios as a response to the current market environment and challenges, with many moving away from fixed income. Tangible assets and “anything with an income component” are in demand. Innovative firms are structuring even Private Equity vehicles to include a yearly dividend.

“Huge increase” in investment funds activity

80% of new formed funds set up by Gulf-based managers are closed-ended – real estate, private equity, and some venture capital funds focusing on the region, while 20% are open-ended funds including hedge funds and other funds investing in listed equities. These types of funds weren't launched in the region for a couple of years. Many of the fund launches are quite sizable with \$300m+ seed money from key institutions and ultra high-net worth individuals. Fueling the growth for those funds is a change of the capital flows of the local wealth. In the old days, a lot of capital would flow to overseas markets. Today, significant capital is staying in the Gulf and funding local funds and projects.

Coming to the Gulf is not an easy way to raise money

Apart from the well known Sovereign Wealth Funds, local pensions and smaller institutions such as insurance and investment companies, an ever growing, attractive segment of the Gulf investor community is the high and ultra high net worth and family office sector. The local family offices aren't just Emirati, but also many Indian, Pakistani or Iranian wealthy families who have been operating from the Gulf since the '70s. But tapping Gulf-based investors hasn't become any easier. The “fly in, fly out” approach may not be the correct formula - maintaining a local presence or cooperating with a local firm is recommended.

The Opalesque 2013 Gulf Roundtable, sponsored by Eurex and Maples Fund Services, took place May 20th 2013 in Abu Dhabi with:

1. Akber Naqvi, **Executive Director/Fund Manager, Al Masah Capital**
2. Dr. Amin El Kholy, **Managing Director Asset Management, Arqaam Capital**
3. Biswajit Dasgupta, **Executive Director, Treasury, InvestAD**
4. Christian Stauffer, **Founding Partner, CEO, EuroFin Asia Group**
5. Fred Tabbal, **Regional Head of Fund Services - Middle East, Maples Fund Services**
6. Philip Ireland, **Partner, Maples & Calder**
7. Phillip Sacks, **Senior Associate, King & Spalding**
8. Renaud Huck, **Senior Vice President, Head of UK Institutional Investor Relations, Eurex**

The group also discussed:

- Opportunities with REITs, dividend strategies, credit and frontier markets
- Why this huge demands for Sharia products?
- Trade finance, a low volatility, zero correlation strategy, becomes available as Sharia compliant fund
- The elephant in the room: what to do with EMIR, DFA and other regulations
- Cayman versus UCITS? Cayman still the jurisdiction of choice for Gulf based managers. How to do Saudi CMA funds the right way
- Why has Dubai's DIFC been so successful?

Enjoy the read!

Matthias Knab
knab@opalesque.com

Participant Profiles



(LEFT TO RIGHT)

Christian Stauffer, Fred Tabbal, Akber Naqvi, Renaud Huck, Matthias Knab
Philip Ireland, Phillip Sacks, Dr. Amin El Kholy

Introduction

Akber Naqvi
Al Masah Capital

My name is Akber Naqvi. I am from a company called Al Masah Capital. We are based in the DIFC in Dubai and have been in operations now for about two-and-a-half years. We are a specialist alternative investment manager, primarily focusing on three areas: private equity, real estate, and asset management.

Renaud Huck
Eurex Group

My name is Renaud Huck. I am Senior Vice President at Eurex Group, the largest derivatives exchange and clearing house in Europe.

As the Head of the Buy-Side Relations, my role is to engage with the buy-side: hedge funds, asset managers, pension funds, sovereign wealth funds, central banks, and to develop our relationship with them, whether on the trading or on the clearing side. I am also in charge of promoting exchange listed and OTC cleared initiatives and offerings.

Previously I had a similar role for a competitive North American exchange, and before that I worked for about 15 years as an investment banker and trader in the fixed income and equity derivatives area

Christian Stauffer
EuroFin Asia Group

My name is Christian Stauffer, Founder and CEO of EuroFin Asia Group based in Singapore. We are a specialist investment manager for trade finance strategies, with an Asian and Middle East focus. We run both conventional and Islamic compliant strategies. Our vehicles are amongst the few in Asia and the Middle East giving investors access to this low-volatility, absolute return asset class.

Since incepting our first fund in 2006, we have financed over \$3bn in international trade flows, mainly in Asia, and look forward to amplifying our footprint in the Middle East through our new Sharia compliant trade finance fund.

Fred Tabbal
Maples Fund Services

My name is Fred Tabbal. I am the Regional Head of Fund Services for Maples Fund Services in the Middle East and I have been in the region for seven years.

Maples Fund Services is part of the Maples Group, which provides legal, fiduciary and fund services. Maples Fund Services is a global service provider with an innovative technology-based approach to traditional fund administration. We currently administer assets in excess of 40 billion globally. The Middle East has a significant percentage of that, and it's one of our fastest growing offices.

Philip Ireland
Maples and Calder

My name is Philip Ireland. I am a partner with the law firm Maples and Calder, which is also part of the Maples Group. I am based in our Dubai office where I am the head of the investment funds practice and also the head of the British Virgin Islands law group. As a firm we advise on the laws of the Cayman Islands, the British Virgin Islands and Ireland, although in our Dubai office we only advise on the laws of the British Virgin Islands and the Cayman Islands. Our clients include leading onshore law firms such as King & Spalding and global financial institutions as well as boutique investment management firms, who come to us because of our expertise and reputation for excellence. We are proud of that reputation and work hard to maintain it.

Phillip Sacks
King & Spalding

My name is Phillip Sacks. I am a Senior Associate at King & Spalding where I run the investment funds practice for the Middle East. We have three Middle East offices in Dubai, Abu Dhabi, and Riyadh. We structure and establish investment funds of all types, including Sharia compliant and conventional funds.

Dr. Amin El Kholy
Arqaam Capital

My name is Amin El Kholy. I am from a company called Arqaam Capital. We are a frontier and emerging markets investment bank. We started operations in June of 2008. We have seven business lines; corporate finance M&A, capital markets - comprising fixed income, equities and derivatives, custody, treasury and asset management, which is the department that I represent. Our main office

is in Dubai, with a research center in Beirut, which covers sell-side research covering 121 MENA companies, and also separately our independent buy-side research center for asset management. In addition we have offices in Tripoli, Libya and a brokerage firm in Cairo.

Biswajit Dasgupta
Invest AD

My name is Biswajit Dasgupta. I am Executive Director of Treasury for Invest AD. Invest AD is the brand name of Abu Dhabi Investment Company, so we are a Abu Dhabi Government owned entity.

The principal businesses are asset management with a geographical focus on Middle East and Africa and treasury and capital markets. In terms of asset classes we are present in private equity, listed equity, and fixed income. We also do proprietary investments, which covers the FICC assets, as well as real estate and infrastructure.



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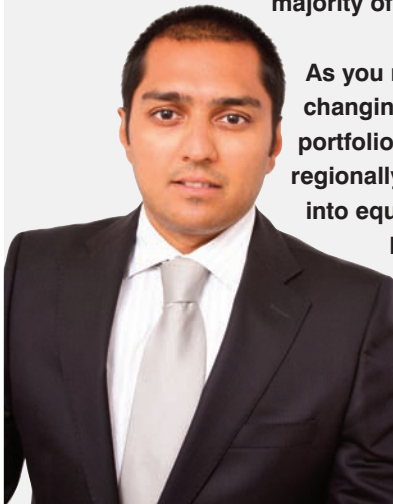
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These days if you are an equity investor, you are a happy investor, no? Many of you run funds in the region, please tell us more about your funds and the opportunities you see midterm?

Akber Naqvi: We started Al Masah Capital in 2010 when the markets were obviously still going through the flux of the 2008 crisis, and everything was still in movement. So we started out at an interesting time with a certain mindset in terms of what we would offer to the market. And then as it happens with many young companies who are willing to change, we had to adapt pretty quickly to the new reality. Initially we set our focus on private equity and asset management, and within asset management we were thinking of listed equities in the MENA region, but we found pretty quickly that the market demand was completely different. We actually found that at that time most of the MENA demand was focused on fixed income.

That meant that we had to pivot very quickly in terms of corporate strategy. It was an issue of survivability to cater to this new demand, and we did, and in fact we managed to do this very successfully. To a certain extent, that experience also contributed to the foundation of what we are right now, managing \$500m just two and a half years later, with the majority of that in fixed income.



As you rightly mentioned, the risk profile of the investors and the demands of the market are changing, and a lot of our existing and potential customers and clients are shifting their portfolios as well. I think this is happening globally, and it is definitely happening here regionally. We are trying to move away from fixed income, because the yield is not there, and into equities. And that move obviously has merit, because our regional markets are among the best performing in the world. Right now Dubai is up 40%, so we are riding that wave as well.

As we consider ourselves a specialist, so the solutions we try to come up with are very niche. In equities we are focusing right now more on dividend strategies and special opportunities, in private equity we focus on healthcare, education and hospitality and in real estate our current focus is the commercial space.

Renaud Huck: As an exchange we are adapting to changes in the regulatory landscape. Everybody is aware of acronyms such as EMIR, DFA - these regulatory changes are the big elephant in the room and therefore difficult to navigate. As a market infrastructure company, one of our objectives is to deliver solutions for the marketplace, and that includes the buy-side community.



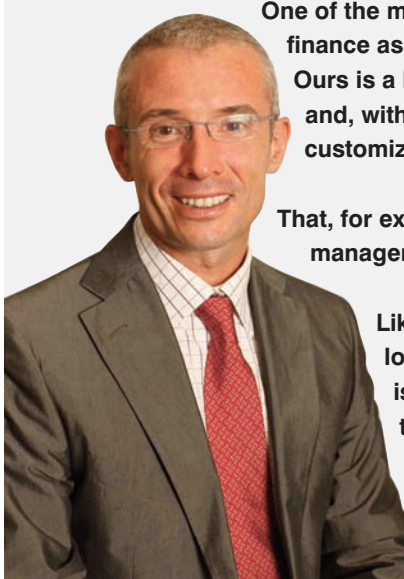
Renaud Huck

We are also eager to grow and provide more services here in the Middle Eastern markets. One of our top priorities is the Asian region as a whole and especially the Middle Eastern region.

Going forward, we are putting more people on the ground and looking at more relationships with entities such as the buy-side, sell-side and supra-nationals. The closer a company can get to the client base, the more it gets done. Beyond that we are also eager to grow our relationships with government agencies and universities. We do that currently very successfully in other parts of the world and also want to develop such an offering in this region.

Christian Stauffer: We are a niche manager because we specialize exclusively on trade finance as an investment strategy. This is where our strength and our existing business lies. We try to resist looking for the next trend or boom market because we find that quite challenging and not aligned with how we run our business. Our goal is to make money on transactions and in environments that we can control.

We have been running the same strategy in different formats for slightly over 10 years. Most of our investors look at trade finance as a kind of low volatility, zero correlation strategy that yields an alpha or superior risk adjusted return. The majority of our investor base is institutional (primarily pension, insurance and annuity companies) or family offices, and our aim is to produce steady, continuous returns together with a commitment to preserve capital for them.



One of the most interesting recent developments for our business has been the packaging of trade finance assets into different structures, depending on the specific requirements of the investor. Ours is a highly customizable class of asset in terms of duration, return, and transaction type, and, with our significant experience and recognition in the market, we are able to provide customized solutions and products.

That, for example, is how we ended up advising Asiya Investments, one of the top tier GCC managers, on the Sharia compliant trade finance fund that we now run together.

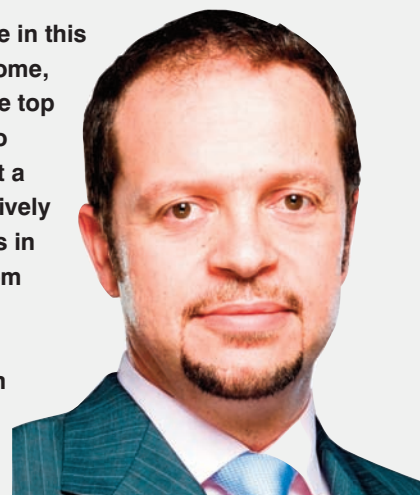
Like Akber and many others, we see a very important trend in fixed income. People are looking at the large amount of fixed income in their portfolios and realize they have an issue. Trade finance has the benefit of generating a fixed-income like return but without the mark-to-market downside that you will have when interest rates rise. In fact, in case of an increase in rates, the yield of a trade finance fund such as ours will increase. These characteristics are clearly what drive investors toward the asset class and seek out our products.

Dr. Amin El Kholy: Asset management in Arqaam developed very much in line with the strategy of the firm as a whole. We look at the part of the world which goes south from Turkey, and east from Morocco and go all the way across South Asia. We started with the Middle East and North Africa region, but on the plan has always been phase two and phase three to look at the rest of that part of the world.

And the focus is very much on the long-term secular opportunity, which will be subject to cycles, at times not looking attractive but at other times offering extremely attractive entry points. However, the long term trajectory for that region in terms of economic growth and capital market development is solid. We are building our business around allowing investors to make use of that opportunity.

We also sought to differentiate ourselves by looking beyond the overall growth profile in this region. If you want to capitalize on that growth, whether through equities or fixed income, you could just take the general asset class exposure, in which case you could buy the top few names in the key markets. There is another opportunity within that we are keen to exploit, which relates to information arbitrage and the more specialist knowledge that a niche regional player can target in terms of undiscovered opportunities in these relatively inefficient markets. You can derive as much, if not more, return from the inefficiencies in the markets by doing your homework and getting the research right, as you could from just getting the generalized growth.

Hence it was a strategy to put in place very detailed, very thorough buy-side research teams, able to find these opportunities and capitalize on them. To give you an example, our long only equity strategy last year was up 25% while the MENA



markets returned around 5%, and with the inclusion of Turkey 19%.

The idea is that you are able to take two sources of return and target them in a long-term investment strategy. We continue to add to our product lines, both in terms of geography and asset class, to allow us to have multiple products which, over the long-term, allow the clients to shift between them. We are also always interested in opportunities that are not necessarily correlated to the market that can give you attractive return profiles.

Biswajit Dasgupta: We are essentially a frontier market asset manager in one division of our business. We have been building this business since 2007/2008. Since then, but particularly over the past two years, we have been talking about the attractive valuation in Middle Eastern and African markets and the opportunities that exist there to pretty much all our clients. All our clients are globally diversified, and indeed some made that jump to invest in 2011 or 2012, and the rest are now starting to come on board.

What helps us in our business is of course the fact that we were there early, and that we also try to put our portfolio managers on the ground to get the benefit of real life as opposed to a desktop research. This has been extremely helpful. We cover Middle East and Africa, including Sub-Saharan Africa, and while the portfolio managers are all based in Abu Dhabi and in Turkey, at least once every quarter they are on the ground in the regions we invest in.



That has paid extremely good dividends over the recent past. Pretty much every single one of our funds is now handsomely beating the benchmark, and of course the benchmark itself has already done well, so this looks very good for our investors this year.

I agree there is a certain amount of fatigue with fixed income, and people are starting to look with much more interest at equities. I think this is a trend we will see more of, and also strategies like trade finance Christian has been talking about make a lot of sense in the current environment. People are still looking for yield, but are getting increasingly wary of the risks in fixed income.

Matthias Knab

Fred, your firm administers funds and you told us that this region is among the fastest growing in your firm. Can you tell us more about the dynamics in the region here from your perspective?

Fred Tabbal: Early last year we started to see a significant spike in activity as it relates to investment funds. We are a full service provider on the ground here, and we see all types of structures. We have the flexible platform to really accommodate any type of structure or strategy, but let me point to a few strategies that have really played an active role in fueling our business.

I think it shouldn't be a surprise to anyone in this room that tangible assets in this part of the world are still favored with investors, and the two asset classes that come to mind are private equity and real estate.

We have seen some of the most established managers launch new funds and new products. The interesting thing is that these new products are sizable. They are not the old \$30m to \$50m, but we are looking at \$300m+, with seed money from key institutions and ultra high-net worth individuals.

The growth we see is very encouraging, and it comes both organically from existing managers and also from new players in the region. Some of them are tying up with outside institutional players. One in particular is an infrastructure fund. Those types of funds are back in the region.

Looking at real estate, we are probably the only ones here providing services to several REITs, and from my experience they have seen significant growth in terms of asset base and capital.

Some of these funds are generating 7% or 8% net yield. At a time when you practically get nothing on your money globally, these funds are quite attractive to many investors.

One additional element that is really fueling the growth for those funds is a change of the capital flows of the local wealth. In the old days, a lot of capital would flow to overseas markets. A lot of that capital is now staying here and really funding private equity infrastructure projects, and, of course, real estate, which continues to be very popular with investors.

There is another area that I should talk about, and that is the credit area. We have seen a number of credit funds launch mainly to support the SME sector which employs over six million people in the region. Every government here understands the significance of this sector. The governments of Saudi, UAE, Qatar are really pushing the lending to the SME sector because at the end of the day it is about job creation, and it also gives perspective and security for a very young population. However, the banks in particular had really turned their backs on the sector, but now there is a wake-up call and they are starting to really work with it. Meanwhile, a few asset managers here and outside of the UAE have recognized the need for capital and launched credit funds in both conventional and Islamic compliant structures. Those managers on their end are able to attract a lot of institutional money from within the region and from abroad, and I expect this to continue.



Fred Tabbal

Single manager funds still come in the door, but not in the same size. We are not seeing a volume of those, and I think it's going to continue when it comes to real estate or REITs, because there is demand for anything with an income component in the region here.

Philip Ireland: My expertise is in establishing offshore funds that are domiciled in the Cayman Islands, and 2008 through 2010 were pretty lean years for new fund formations. That changed at the beginning of 2012 when there was a clear uplift in activity, and at the moment I am seeing a lot of people from the region looking to set up funds. I tend to see only those managers who are using Cayman Islands (and occasionally British Virgin Islands) structures, so I certainly don't see all of the funds that are being set up in the region, but I understand that Cayman still remains the domicile of choice for fund managers, certainly for private equity funds as well as for open and closed-ended fund structures generally.



Like Fred, I haven't seen as many open-ended as closed-ended and real estate private equity type funds. However, an interesting observation regarding open-ended funds is that regional managers are now seeking to attract investors from outside the region. That is a change, because when I first arrived in Dubai in 2006, the impression I got was that a lot of regional managers were very much focused on regional investments and regional investors. Certainly in the last couple of years managers have sought to attract investors from outside the region, and successfully so, which reflects well on the region and on the local markets as a whole.

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Philip Ireland

I am currently working on a couple of equity funds where we set up the standard structure of a Cayman master fund and a Cayman feeder fund for non-U.S. investors together with a Delaware feeder for U.S. investors. For managers who are trying to expand their investor base internationally, that is a credible set up which mirrors the structures that you would see in other well-established regions.

In terms of strategies, there certainly aren't as many straight equity funds compared to the good old days. When I came to Dubai seven years ago, there were a lot of people who were trying to start their own small equity funds. Those people seemed to have disappeared for a while, but they are back now with more sophisticated strategies and more realistic ambitions. I see a good number of established fund managers with varied, but not terribly ambitious strategies. These funds are not highly leveraged and are seeking to invest in stable and established markets. Most of these managers invest in local markets too, which is a very positive sign for the region.

Phillip Sacks: At King & Spalding, we have seen a huge increase in investment funds activity over the last 12-18 months. We have just hired a new funds specialist who has joined us from New York.

Our funds team based in Dubai and Riyadh advised on 30 new funds in 2012 alone. Probably 80% of these funds are closed-ended – real estate, private equity – but we also saw some open-ended funds including hedge funds and other funds focusing on listed equities, which we haven't seen for a couple of years.

Hedge funds are not so popular in the Middle East because, if you are a Sharia compliant investor, you can't invest in funds which are engaged in short-selling. Having said this we have seen some hedge funds activity over the last 12 months or so.

Another area that has also picked up is venture capital. We advised on three venture capital funds in 2012. Again, that's something we haven't seen for a couple of years. These venture funds are focusing on startups in the region, particularly the UAE and Saudi Arabia.

For private equity and real estate investments, Saudi Arabia is the name that keeps popping up on everyone's target list, and also Turkey.

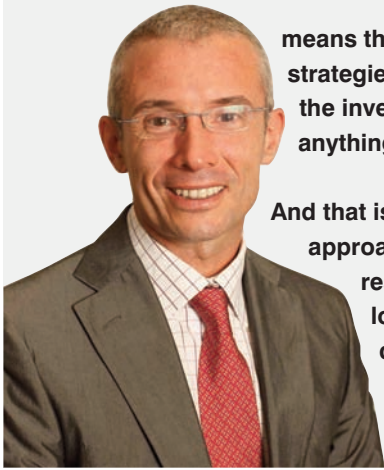
Obviously there are some structuring challenges when investing into places such as Saudi Arabia, because you have to deal with tax and foreign ownership restrictions. These are real challenges, but for those that are prepared to do it there are some very good opportunities with very good returns. We have also seen a lot of regional fund managers recently market to local as well as foreign investors.

So the good news is that there are a lot of new funds being established and a lot of funds' activity in the region. Having said this, in general the capital raising is still taking longer, even for the larger, well-known managers, than it would have taken a few years ago. The managers are getting the target commitments, but it's taking longer, and that is the case with all managers across the board.

I can confirm that credit funds are finding a nice niche at the moment. I don't know whether or not that market is going to be saturated soon, but managers are looking at the opportunity very closely in the region.



Christian Stauffer: That ratio Philip referred to, 80% of new launches being closed-end funds versus only 20% being true hedge funds is very interesting. While being a hedge fund doesn't necessarily mean it's a liquid strategy and closed-ended funds aren't all necessarily invested in illiquid strategies, I believe this ratio is a good sign because it



means that investors and allocators are admitting that you can't generate alpha in certain strategies if you have to remain highly liquid. And on the other hand they may also realize that if the investment has to be highly liquid, one might be better off buying a tracker than doing anything else.

And that is the challenge I see when it comes to equity funds, unless you have the kind of approach that Amin explained earlier where you add on value for the investor with your own research to a particular market. Just look into any available database, how many equity long/short managers have beaten the index, over an institutional cycle? There will of course always be a manager who ranks first in any given year, but if you are looking how many beat the index over an institutional cycle of five years or 10 years, then suddenly it gets very thin.

Christian Stauffer

From the investor perspective, I believe the big difference with these kinds of "value-added" strategies – closed-ended or open-ended – is that you need an implementation team. That means you are contracting a manager to outsource something you don't have the internal skill-set to do, at a variable cost, depending on your fee arrangement.

Christian Stauffer: In the future I believe we will see an increase in demand for non-securitized credit strategies like direct-lending, asset-backed lending etc. Investors are applying a similar rationale to these asset-backed credit investments as they do to their real estate portfolio- i.e. at the end of the day you always have a physical asset that has an economic value, be it a house, a boat, a cargo, or a REIT.

We will see a lot more of these real-asset related strategies becoming available for investors. Trade finance is just one of them, but you see container financing, truck, boat, equipment financing, any kind of assets, because the traditional lenders like the banks are withdrawing from that middle segment market.

There is nothing new in trade finance or in leasing of containers. The only thing that is new here are the new vehicles that have been formed in the last 10 years that now also give the more generic investors an easy access to this asset class as the banks further withdraw from them.

We are often confronted with the misperception that trade finance is a small and narrow market. The reality couldn't be more different: the yearly value of the physical exchange of commodities in the world is about \$8tn. If you add the supply chain financing we are looking at \$17 to 18tn. Assuming that 20% of this is non-banking finance or non-bank lending, we are clearly looking at a vast market.



Akber Naqvi: I want to talk for a moment about fund structures and their significance. When we started out, most of the AUM that we raised was in a Luxembourg SIF umbrella fund structure, because there was a comfort level among our local investors regarding this structure. After this success with our Luxembourg SIF structure, we launched a UCITS IV fund, and I think we were one of the first asset managers in the MENA region to get this license from CSSF in Luxembourg. Our rationale was that besides opening up the European markets for us, the stakeholders in the local markets will continue to become more sophisticated, and they will want structures that are very similar to what people are comfortable with in Europe and in Asia.



And we were then very pleasantly surprised when we went and started marketing our first sub-fund, the Mena Dividend Fund in UCITS IV and received a very healthy response from the Far East, because they are already comfortable with UCITS IV.

Akber Naqvi

We have also become creative on the private equity and real estate side in terms of some of the Cayman structures that we are putting in place. Here, the Cayman SPCs are becoming very popular. So as an asset manager today, you not only need to understand the market from the strategy point of view but also be aware of the regulations and sophistication of the clients, which then helps you select and create the different fund platforms you need.

Renaud Huck: The only constant in all our businesses is change. After two really bad years in terms of volume of exchange traded instruments in 2011 and 2012, the beginning of 2013 saw volumes picking up significantly. That for me raises the question: whether there is a reversal in market sentiment taking place or whether the shift is due to the changing regulatory landscape?

I believe it is a bit of both. I think that we are in a situation where investors have had to reflect on why all of a sudden, very sound, very sophisticated entities such as hedge funds and asset managers were unable to generate alpha. I don't think they have suddenly become totally inept or totally dysfunctional, but rather that the market itself was experiencing a massive global transition.

I believe it is the beginning of a new era. The financial market and the structure of the way the market is going to operate going forward will change dramatically. The way end investors and buy-side market participants will access financial markets is going to change. And I think that during the past three or four years investors have been through a massive and steep learning curve. They have realized that, the way the market was operating was not going to be the same, the entire domination of OTC was going to come to an end.

There are definitely some niche markets where it is going to be difficult to find listed proxy instruments, but I think that the equity market, the way it is structured, and products like ETFs, return swaps and variance swaps are instruments which can easily replicate the OTC space. And we see it also quite dramatically in more vanilla and standardized instruments, such as IRSs, interest rate swaps, that you can now trade in the U.S. through exchanges. It is also something that we are working on at Eurex.

We are also looking equally at inflation futures products, whether swaps or bonds. We have launched a new range of global MSCI Indices; MSCI World, Europe, Frontier markets, and shortly we will also launch emerging markets and single country indexes.



Renaud Huck

I think that's the way forward for investors who want transparency in pricing, who want safeguards where products are settled on a daily basis, and where they can see the daily marks. Equally regulators are now paying closer attention and want to have the upper hand on everything, after maybe missing the big picture of the Lehman situation and seeing the market almost collapsing.

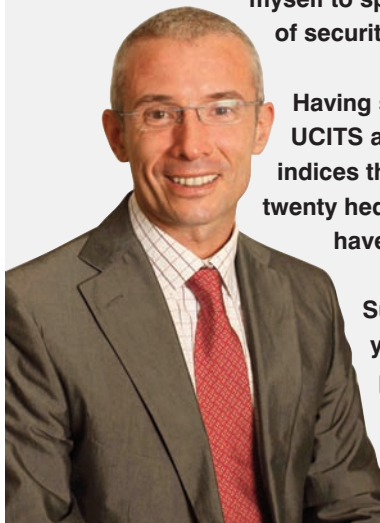
Christian Stauffer: I wanted to come back to what Akber said about fund structures. What I'm about to say will probably cost me some friends but I think one is better invested with a good manager in a Cayman structure than with the wrong manager in a UCITS structure.

I also believe that the trend is not so much about a particular structure or fund type, the issue that will become more relevant is the regulation under which the manager is operating.

A second trend I see is an evolution in the relationship between manager and allocator. I believe that the future will see investment managers and allocators becoming partners, as I said earlier, the investor will use the manager as a means of outsourcing a skill set for which the allocator receives a fee.

I also need to mention that there are certain things that can't be done in a UCITS III or IV format. If a strategy can be

run in a UCITS format, then it's just a cost. Of course, there are a number of subtleties that come to play like the role of the custodian and such things, and of course the two Philips at this table are certainly much more qualified than myself to speak about those. But it is also important to notice that the investor isn't buying any kind of security insurance because he is investing in a UCITS.



Having said that, recently you see more allocations going into UCITS because most of those UCITS are long-only global equity funds. They have to compete with an almost infinite list of indices that you can trade on a second by second basis on the exchange. The typical two and twenty hedge fund needs to be a kind of superstar to be able to beat the type of liquidity that they have.

Summing up, I believe most changes in the landscape come from the regulatory side, and you see that everywhere: Singapore, Dubai, Geneva, London, New York. From the investor perspective, the most important criteria in my view is to ensure that you select the right manager and that there is a match between a strategy and the vehicle like closed-end or UCITS. If you are with the wrong manager in UCITS, you won't be saving that much.

Dr. Amin El Kholi

I agree with both Christian and with Akber in some aspects. I believe a lot depends on the life-cycle of the investment opportunity you are considering. For example, if you look at large caps in the MENA region or a similar type of product, that segment is quite mature and has become the domain of UCITS structures. If you want the conventional relative-return, long-only equity strategy, there is no better place to go than UCITS, because you are only slightly restricted in terms of your strategy and in return it opens up a wider distribution market for you.

I also agree with Christian in that certain less conventional strategies which are relatively new in terms of their life-cycle do not fit neatly into established structures. For example, our conviction driven concentrated value-seeking equity strategy would have lost a few percentage points of performance if we had to stick to the UCITS 40-10-5 restrictions. I think there is room for both approaches.

We are looking at a very exciting part of the world, but over time even these new opportunities will eventually narrow in scope. It could take two, five or even 10 years, but with the amount of liquidity in the global system now, these opportunities tend to be discovered eventually, and ultimately even the less traditional strategies can come under more conventional regulatory frameworks. However, some strategies will remain in the domain of what we call 'alternatives' which cannot be conveniently boxed into standard structures. I also agree that investors will never get 100% comfort purely from a regulatory structure, although it gives you some confidence for sure, but I believe some UCITS feeders invested into Madoff's funds.

Phillip Sacks

From the funds that we set up, I would say 90% are Cayman Islands funds. I haven't seen a Luxembourg fund for a couple of years. As a firm, we are neutral as to the fund domicile. I tend to think that if someone wants to set up a Luxembourg fund, they often go directly to a Luxembourg law firm. We don't practice Luxembourg law, although we have got 17 or 18 offices around the world.

From our perspective, investors sometimes get bogged down on where the fund is domiciled. I think you can pretty much do anything you would like in a Cayman structure. I can't think of anything that you can do in a Luxembourg structure that you couldn't do in a Cayman structure - unless you require a more regulated vehicle for retail investors.

I think the more important question is where the fund manager is domiciled and regulated. If anyone is going to be sued, it's not generally going to be the fund, because the investor would in effect be suing itself; investors generally go after the manager. Therefore, investors want to know that the manager is regulated and domiciled in a jurisdiction where the laws will be enforced properly.

In my view, that is why the DIFC has been so successful - not as a jurisdiction for domiciling funds, but as a jurisdiction for asset managers to be based and licensed. The DIFC is full of asset managers, but to date only about eight funds have ever been established in the DIFC. I think this reflects the fact that investors like to know that the manager is in a licensed and regulated entity but may not care so much if the fund is not heavily regulated.

In terms of having a flexible structure which can be set up easily in a cost efficient way, I generally advise clients to go for Cayman. You could also go for BVI as these jurisdictions are almost interchangeable. We tend to only look at Jersey, Irish and Luxembourg structures if our investors are in Europe and the fund needs a European "passport" or where the underlying investments are in Europe.

For Middle Eastern investors, managers need to bear in mind that these investors are generally in a tax neutral jurisdiction and if the investments are also located in the Middle East then it is difficult to see why any fund manager in the Middle East would choose a Luxembourg structure because you are just adding to the cost and regulation. You generally want a fast, tax neutral jurisdiction such as Cayman or BVI.

Philip Ireland

I agree with Phillip's reasoning for using the Cayman Islands as a fund domicile. Obviously I have a vested interest in people setting up their funds in Cayman, but frankly, if someone is intent on setting up a non-Cayman domiciled UCITS fund, then I am not going to persuade them otherwise.

Philip Ireland: One of the key drivers in terms of choice of domicile is the investor base that is being targeted. If a manager is targeting retail investors (and particularly retail investors in Europe), they will want some level of comfort that the fund itself is subject to some regulation and indeed they will probably be required to be so regulated. Luxembourg fits the bill for such managers in that it is a very popular and well used domicile for establishing UCITS funds, as is Ireland where Maples can assist.

In terms of the Cayman funds, often these are very big ticket funds set up for institutional investors where the regulator takes the view that these people are large enough to look after themselves, and that they really don't need to have regulatory oversight of the funds.

All Cayman open-ended funds are regulated, but typically with a very light touch. This is not negligence on the part of the regulator, but they take the view that if you are putting in a million dollars or more in a fund then presumably you know what you are doing.



Fred Tabbal: We as a leading fund administrator talk to new managers all the time, sometimes before the lawyers talk to them, and I have to agree with you that nine out of ten are opting for cost efficient, well-tested jurisdictions, and ones that are popular with investors. Cayman is still the jurisdiction of choice for most of the world's hedge funds; I don't see that changing.

People in the Middle East are quite impatient, and they are very cost-sensitive. When they see a Cayman fund getting set up in a matter of few weeks, they welcome that.

We all know the asset management industry is fairly small but highly competitive. You can see some managers launch with a UCITS structure, but their lifespan can be very short, simply because they cannot continue to support the fee structure of all the service providers required, and they ultimately fail, and that doesn't bode well. That is also a reason why Cayman is still more popular.



When I first moved to this region, nobody knew what an administrator was and probably too few people paid attention to risk management too. These days, in light of the change in the regulation, all of a sudden the appointment of the administrator already happens in the early stages, and everybody is looking at risk management systems to put in place. They embrace having a local administrator on the ground, with full service capability, risk management systems and transparency. Independent fund administration is now well-understood by investors, by asset managers, by banks – things like corporate governance, the use of independent directors, all these things are really growing in the region, which is very positive.

Akber Naqvi

We as a specialist asset manager are not just saying, 'we are going to use UCITS or we are going to use Cayman'. The key for us is more about having the vehicles open, so whenever you execute a strategy you have that vehicle available for different investor groups to use it. We are in many ways agnostic regarding the structure, but we make sure we have the vehicles in place where there is demand. For example, we also have gone ahead and obtained our license from the UAE Securities and Commodities Authority (ESCA) in Abu Dhabi, because there is a specific need for that. So we won't judge like "this one is right or wrong", but more like "let me have the different options" for our different investors.

Phillip Sacks: I just wanted to add one thing while on this topic. The one domicile that is becoming extremely popular is Saudi Arabia. We have seen a large amount of funds domiciled in Saudi Arabia in the last two years. The funds legislation in Saudi Arabia is fairly flexible and user friendly and Saudi Arabia has to a large extent replaced Bahrain as the local funds jurisdiction of choice.

As a firm, we probably set up more Saudi funds than any other law firm in the Middle East. The reason why they are becoming so popular is because there is no foreign ownership restrictions, which means foreigners can now invest into the Saudi Arabian market in a legal and tax efficient basis. Saudi CMA funds at present are not taxed. The tax authority in Saudi Arabia does not know how to tax Saudi CMA funds, because it's not a legal entity, and therefore foreigners are not subject to 20% income tax or 5% withholding tax. So straight off the bat you have got a 25% advantage.



Dr. Amin El Kholy

Everybody who has launched a CMA-regulated fund indicated that it was difficult to understand whether or not you can charge performance fees. Banks just raised their management fees and ignored performance fees. What is your experience? Has anybody managed to successfully implement a performance fee?

Phillip Sacks

Yes, in all the funds that I have set up in Saudi Arabia I have seen both a management fee and a performance fee, as long as it's set out in the documents correctly.

If you are talking about carried interest then strictly speaking that is not possible because you can't have different classes of units in a CMA fund, so the fund couldn't pay different distributions to different unit holders. However, it is possible to structure the carried interest as a contractual fee and therefore managers can still be charging performance fees (but it would not be paid to the manager as a distribution).

Matthias Knab

We already highlighted a number of good news coming from the investor side: more funds are being funded, more money is being invested right now, and that more local money is actually staying in the local markets. Tell me more about who this local Middle Eastern or Gulf based investor is? From the outside people think first of the Sovereign Wealth Funds, but I believe the investor universe is much broader than those, right?

Dr. Amin El Kholy: I am not going to attempt a detailed definition of all the various segments of the GCC market. I simply want to highlight one way of looking at the potential of the market. You have correctly identified the segment represented by sovereign wealth funds and a relatively small number of large institutional investors which account for a disproportionately large share of the investable assets in the region. This segment is extremely well covered by virtually every firm which seeks to sell investments globally. This on the one hand makes it very hard to raise assets from, while on the other hand an inevitable component of your target list. You can start with five names, which and perhaps stretch it to 20 names within which you are addressing a big bulk of the available AUMs in the region.

I would caution against building a sales strategy on this segment alone because it could take longer to succeed than the capital base of a small firm would last. Clearly it is a great boost if you succeed in that segment but it would be a high-risk strategy if not supported by other sources of target AuMs.

There is the other end, namely the retail segment, which is typically an interesting segment in other parts of the world, but unfortunately is not hugely promising in the GCC since it is smaller than it is in many other parts of the world due to a lower population size. The large expat population in the GCC also tends to have its own banking relationships from their home countries as well as independent financial advisors selling such products which further shrinks the target market.

The institutions that are able to tackle the remainder of that segment successfully are predominantly the large local banks in each country, who therefore will get most of the benefit of whatever product they manage to sell successfully. Their success is based on their existing clients in that segment and their effective use of call centers, branches and other channels to place product. The quality of the underlying product and manager is relatively insignificant for the success of asset gathering. The better banks attempt to put quality products on their platform, but the reality is the incentive isn't as strong.

What I believe is a very interesting, third, segment worth addressing is the high and ultra high net worth individuals, family offices and smaller institutions such as insurance and investment companies. We as a firm fully recognize the potential of this segment, where you really need to manage the relationship in a particular way often with a single point of contact across a whole number of products and services. If you are too specialist as a relationship manager you are not likely to address all the needs of that segment. Firms who have tapped into it in the past have traditionally been the international private banks, who are very specific in what they can offer with a very limited regional offering.

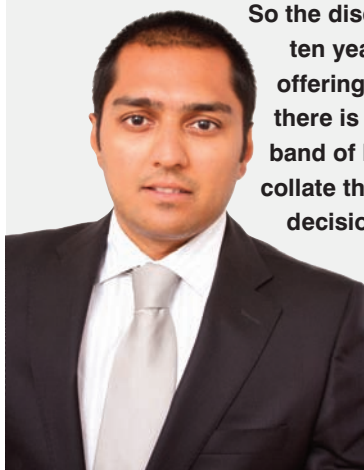


Dr. Amin El Kholy

For regional firm like Arqaam, there is great value to be derived from having a single point of contact and the right kind of relationship managers who know their clients' needs well and are able to engage them across business lines including corporate finance M&A advisory, expanding their businesses across into other emerging markets or in the region, asset management, equity, fixed income, derivatives, equity brokerage, custody of their assets and so on. It is mainly about maintaining a relationship which allows for relevant opportunities to serve the clients to be identified and addressed. This interesting market segment isn't tackled systematically and is a gap in the market.

Akber Naqvi: I completely agree with Amin in that the local family offices are potentially a very lucrative and still fairly untapped market in terms of the level of sophistication in terms of how these family offices stand vis-à-vis where the markets are, and I think what we are seeing through a lot of them, especially the ones that Amin has been talking about, a lot of them are going through a generation change, and you are going into the second or the third generation.

The young generation is obviously a bit more sophisticated, they've been educated in the west, they understand where the global markets are and they are taking that attitude and they are starting to apply it to the regional market.



So the discussions you have with them are now at the same level of mindset as opposed to may be ten years ago when the second generation was very basic. As Amin said, if you develop your offering in line with what these family offices are doing in terms of their own sophistication, I think there is a lot of potential. Many of these family offices would have a band of brothers. And these band of brothers may have five different strategies that you could address as well, so how will you collate that into one is the challenge. But probably once you develop that relationship with the main decision-maker in the band of brothers, then you can really go somewhere with your offerings.

When we talk about family offices, a lot of people assume it's just the local families. But not necessarily, there are a lot of Indian, Pakistani, Iranian families, and so on. You may consider them expat, but they have been here since the '70s and have more family ties here than they would have back home. These type of families are a very lucrative part of the market as well.

Christian Stauffer: One would be completely wrong from a perception standpoint to think that coming to the Gulf is an easy way to raise money. We did a roadshow at the end of last year during which we visited most of the Gulf countries and met a huge number of banks, family offices, independent asset managers and insurance companies. Most of them were extremely sophisticated and their investment and due diligence processes have undoubtedly been equal to what we see amongst sophisticated investors from any other part of the world.

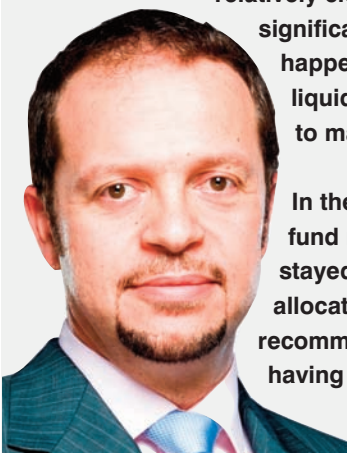
I also agree on the statement made on the sovereign wealth funds. It's clearly just a different league and one can easily understand that an institution charged with managing assets measured in the hundreds of billions of dollars would have a distinctively different mindset and investment outlook.

I have also observed that the cycle of asset development is relatively long. As was said before, and like in most markets, there isn't any quick fix. It's not a case of turning up to see a SWF once and walking away with an allocation.

I believe you need to be present in this market, the fly in and fly out approach is probably not going to prove the correct formula. One needs to be present, needs to have a presence, needs to be physically approachable, that's clearly important as well.



Dr. Amin El Kholy: The large domestic institutions like Sovereign Wealth or pension funds seemed to have stayed relatively clear of the regional markets over the last couple of cycles. However more recently, a significant number of them have invested with, seeded, or supported local managers. This shift happened when we got to a phase of the regional market cycle where the driver was no longer a liquidity-driven rush and as a result there was a genuine investment opportunity, they were able to make investments.



In the two previous cycles when we had a rush of international funds, predominantly the type of fund money that come from global macro hedge funds, the large regional institutions sensibly stayed out of the markets. But as I mentioned, their interest has changed and we have seen allocations by some of these large institutions to the regional markets. As I said before, I do not recommend building your marketing strategy purely around waiting for this type of investor, but having said that, the opportunity is now opening up in general.

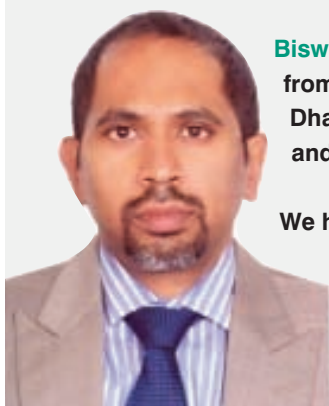
Akber Naqvi: In this region you can find a lot of ultra high net worth individuals. Many of them built their wealth through a trading operation, and we found that as a consequence of that you often find a particular mindset that is very much a trading mentality. That means everything, any asset class they look at, is seen from a trading point of view. Looking at all these things as a trade is a very unique way of looking at things.

So no matter if you are talking about private equity or the stock market, it is very interesting to have conversations with these individuals because you will always find a fundamental underlying trading point of view. Considering they are coming from this very unique mindset should always be in your own mind when you are trying to provide them any kind of solution, on top of the sophistication or advantage in the markets that they are looking for.



Biswajit Dasgupta: A very large part of our investor base is outside the region – we have mandates from widely divergent markets as Japan, Hong Kong, and Germany, and our association with Abu Dhabi certainly helps in this respect. In terms of the regional investors, I agree with both Amin and Akber.

We have also built partnerships with banks and other institutions who don't have their own asset management offering where we act as advisors or managers for them. We on the other hand don't have retail or a wealth management distribution platform of our own, so we access that market through partnerships with banks. Our own direct investor base is the large institutions.

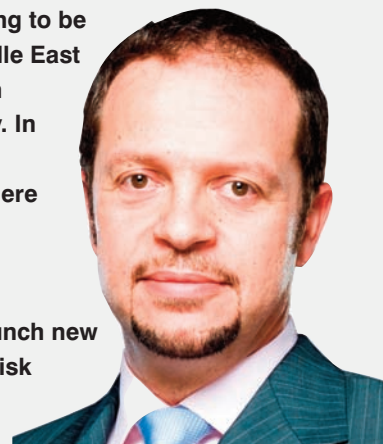


Matthias Knab

Do you want to talk a bit about new products you are working on or have launched recently?

Dr. Amin El Kholy: We are rolling our products out in phases, with a constant eye on trying to be differentiated in terms of what the investors want. The first region we focused on is Middle East and North Africa in which we included Turkey. We saw an ongoing secular opportunity in equities, and we were able to add value there and launch that offering quite successfully. In both our first two funds we used differentiated strategies, we didn't go for relative return indexed funds, which is the easiest thing to do. Rather, we actually went for products where we could show our ability to pick stocks and our ability to manage risk. That is why we created a hedge fund and a conviction concentrated portfolio of long equities.

Going forward we are building on our solid research base in two directions; one is to launch new strategies in our existing markets, meeting the needs of certain investors with different risk appetite, and the others to widen our scope geographically.

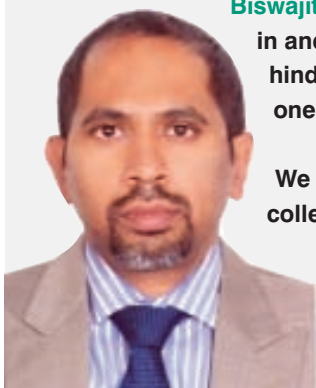


Dr. Amin El Kholy

I did mention we are looking at Africa as an opportunity to do it again with some differentiation as we did for our value fund, targeting a more concentrated portfolio looking for value opportunities on a long-term basis. We are also always looking for alternatives from the point of view of yield with uncorrelated return. So the kind of product that Christian is offering is very interesting and any similar such ideas are on our radar screen.

Our focus internally is how we can best package and best manage alternative strategies that offer

good returns and are differentiated from the mainstream products you find otherwise in the market. That is where we compete with both say other well-established boutique firms or the large banks whose equity or fixed income funds have become a commodity because they are so undifferentiated and exchangeable. As a new firm, you need to demonstrate that you are capable of doing things that others can't or don't already do in the market.



Biswajit Dasgupta: We also quite strongly believe in that approach you need to prove your expertise in and through something that is not commodity. In our case, we went into the frontier markets, in hindsight maybe a little bit too early, but in many ways that also gave us a head start. For example, one of the funds we run is an Iraq fund that we have been running for two years now.

We went in very early, the first year as you can imagine was difficult but then they started to collect a lot of steam, we are starting to attract investor interest there. We went into Sub-Saharan Africa before a lot of other people did. I believe we were the second firm globally to have an Africa fund, and that is now starting to pay handsome dividends because the markets have done phenomenally well. Our portfolio managers have added to that, so our funds have done extremely well too, and our investors are seeing significant positive alpha this year.

Biswajit Dasgupta

This has been a consistent theme in the way we have looked at the markets: trying to get in there early and also seeding the funds ourselves if necessary. We basically want to make sure that we get in first inline where we see value, so that as and when the investor interest starts coming in, we are already there.

Akber Naqvi: With the strong market shift we have seen in listed equities, the main strategy that we focused on for this year is a dividend strategy. I don't know how it will play out next year, but for this year it's been a fairly good strategy both in terms of returns and inflows into the strategy.

One aspect why the dividend strategy has worked goes back to what Fred said earlier that anything is attractive right now that has an income component attached to it. Therefore we aim to tie income components to our equity and even our private equity ventures where we make sure to pay out a dividend every year.

We are also building out or activities in discretionary mandates where we see an increasing demand from family offices and ultra high net worth individuals. For whatever reasons, some of them tend not to go into structured mutual funds or structured vehicles and prefer more discretionary direct investments.



Matthias Knab

Is this because they also like direct control over the assets, which is easy to get in a managed account format?

Akber Naqvi

Yes, the control of the assets is certainly vital for those investors. There is substantial demand for such services and we are happy that investors approach us for these services. For example in the equity space, we are often offered an advisory type of agreement where the client asks us to be the adviser to his broker account. Our approach is to express all our offerings and investment activities also in a discretionary format, almost like an asset allocation model. There is a significant scope for growth for this business, because all these family offices or individuals have all different direct investments.

They also have a plethora of options, because at the end of the day all the international banks and all the local banks and brokers are knocking on their door. Sometimes they almost need an individual or an institution sitting on top who can actually advise them on different asset allocation and investment aspects, telling them what may be good or promising and what to avoid.

Renaud Huck: I totally agree with Akber on both points. First, we similarly see a growing appetite for dividend products, so we have existing dividend futures products which are fairly recent in terms of listed products but it is the fastest growing segment that we have – there is definitely a lot of interest in those products.



Managed account futures add transparency for the end investor, and we definitely see interest from hedge funds to offer these products to their end clients. It is also true that CTAs have captured a significant amount of capital allocation from institutional investors but equally it is fair to say that the top 10 names constitute 80-85% of the allocation on a yearly basis.

So it's true that it's a shame that this allocation is not spread over the younger funds or the ones who are going to be potentially the stars of the future, but that's where the market is. And it's true that there may be a rebound as Amin was saying previously. Perhaps the sovereign wealth funds will be the ones to give a bit of allocation to those young green shoots.

Renaud Huck

And maybe now that there is some stability in the listed market and certainly more volume coming back, it will incentivize those big investors not only to give big allocation tickets to the big names but also to give a bit of allocation to the younger ones.

Looking forward in terms of products, in the context of the futurization of the industry, as an exchange we are going to offer proxy listed instruments to the OTC space products.

A thing that we may see is an exodus of second and third tier buy-side from the OTC space as well as smaller banks purely because it is going to be either too expensive or structurally too challenging to comply with new regulations.

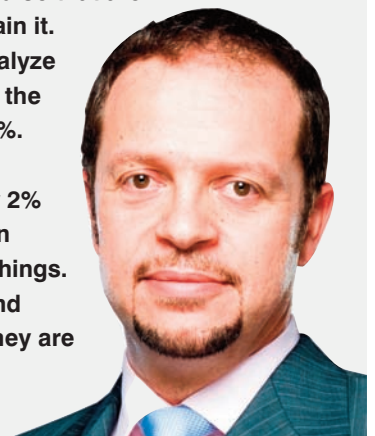
Many are already coming to the conclusion that it doesn't make sense to keep trading a few OTC trades on a monthly or yearly basis when tomorrow they could trade in a more transparent and easier STP approach.

I think this is an analysis that the industry will have to make. Also I think that progressively we should see asset classes which traditionally were more part of the OTC space being brought to exchanges and the product offering broadening.

Dr. Amin El Kholy: Akber mentioned dividend strategies, and also our firm has integrated them as part of a value fund, and we are carving it out as a separate sub-strategy and make it available to investors.

If you look at the GCC, which is dollar-based in terms of its currencies and therefore you are taking very little currency risk, you will find that from the top 300 equities you could put together a portfolio of around 50 that are in the high dividend yielding bracket who are either growing their dividend or able to sustain it. You need to base that work on proper research, it is very important that you are able to analyze the balance sheets and corporate strength of the businesses. But again, if you just look at the median dividend yields, 50% of the largest GCC companies pay dividend yields close to 5%.

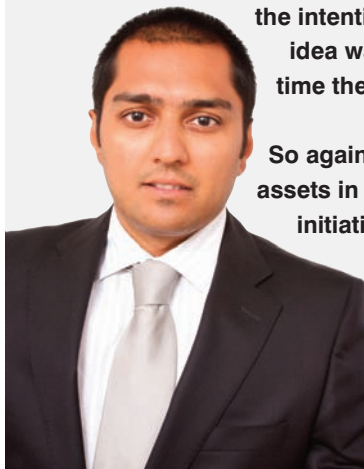
Dividend yields in other emerging and frontier markets drops away quickly to 2% or below 2% by the time move beyond the top 30% of companies by dividend yield. There is certainly an anomaly within the GCC related to strong dividends which allows you to have one of two things. You have a positive carry for a few years or you are going to realize a capital gain. We found generally that local investors are quite happy to have the dividends reinvested, because they are not looking for regular income as much as the comfort that comes from knowing that their investments are sufficiently cash generative to be able to pay regular dividends.



Phillip Sacks

An interesting development we have seen related to risk aversion is that we have seen a large increase in the number of single asset funds rather than blind pool funds. That is clearly based on investors trying to avoid certain risk and being able to do their own due-diligence on the specific asset identified in the PPM, which allows investors to make their own decision about the asset. This is a trend fund managers should also bear in mind in the Middle East.

Akber Naqvi: I agree with Phillip, and I can give you an example for that. When we started off in 2010, the intention was to launch a private equity fund focusing on healthcare and education. And the idea was to create a Cayman private equity fund with the usual seven years lock up, but at that time the clients weren't willing to put money into that.



So again we pivoted very quickly and actually created LLCs that would specifically invest into the assets in healthcare or education and now hospitality. We actually developed our private equity initiative with those LLCs that invest directly into these assets. Maybe down the line it will move to a Cayman fund that would acquire the LLCs into a commingled fund. But right now, the investors are able to relate well to the platform and the underlying assets – we deliver them a share price that obviously reflects the underlying value of the assets. So this is a model that has really worked for us, and again, you have to be kind of creative and flexible in terms of what you offer, and by doing that, our private equity initiative has really started to take-off now.

Matthias Knab

Flexibility is key.

Akber Naqvi: Correct. It just occurs to me that we haven't talked yet about Islamic Finance and Sharia products. It is obviously a small area, but it is important to this region and we see a huge demand for it.

We do feel that there are not enough quality players in this space with the correct ability to provide Sharia solutions, and I think there is still a lot of development to be done to find these really good players that can come up with the right Sharia solutions. We are kind of like a buyer of that, because we ourselves are not Sharia specialists but we are actually looking for the right partners who can come up with innovative Sharia solutions because we need them, there is a gap in the market for that.



Akber Naqvi

So I think this is a really interesting area going forward for everyone involved, be it pure Sharia-compliant specialist who know where the market is and where they want to develop the next generation of products to individual specialist asset managers who will kind of jump on that, become partners with them, and develop that area of the business.

Christian Stauffer: I mentioned earlier that we had the unique opportunity to participate in the first Asia and Middle East focused Sharia-compliant trade finance fund. This was a natural progression as we have been running a trade finance strategy on a conventional basis for over seven years now.

Clearly even in Islamic Finance there is demand for asset classes that demonstrate resilience, demand for non-directional, non-correlated classes of asset.

We seem to be in the second phase of the Sharia-compliant market. My impression was that the first phase was one of conventional strategies being replicated in Sharia-compliant way (or quasi Sharia-compliant way). Obviously, some Sharia Boards were concerned with the sanctity of some of these products, were they really fully Sharia-compliant or was there merely a Sharia veneer?

There is a true demand for truly compliant products because the overall offering is relatively small. On the liquid end, the market is well covered by Money Market funds, Sukuks, etcetera, but in a limited amount. But liquidity means sacrificing return. To achieve higher return the investor usually has to make a large step towards much lower liquidity, we are talking about five to six year lock up, the Ijarah kind of funds, which are leasing or leaseback solutions.

In between, there is a void of Islamic products able to generate a return two or three times Zakat [a Muslim's obligation to give approximately 2.5% of one's wealth to those in need] while maintaining good liquidity for the investor. I think there will be increasing numbers of managers trying to address that issue, targeting the 5% net annual return area. We are proud that our product will generate these types of returns while still maintaining a good liquidity for the investor.



If you want to fetch equivalent to an asset back-lending return, the 4-6% kind of return, from the conventional bond market, I don't know the equivalent in the Sukuks, you are talking about probably triple-B-minus at 2030 in terms of maturity. Then you need to try to figure out what kind of risk you are buying...

I mean, when you see the fixed-income market at one year pay less than 1%, there is clearly a disconnect in that market between the concept of risk and how much it pays. At the moment this balance is in favor of the ones who are issuing the paper, but as an investor I don't think that you can represent a product to your investment committee on which you are getting a 50 basis point reward and are essentially taking only downside risk, that's what you are taking, you are not taking anything else because those 50bps don't even cover the cost of due diligence at the moment.

Phillip Sacks: I think it is a smart solution for asset managers in the Middle East to also structure funds on a Sharia-compliant basis, because then you are able to exploit an additional pool of cash rich investors that you couldn't have ordinarily tapped into.

So what we've done recently is structure conventional funds in an "ethical" or "Sharia friendly" way so that a Sharia-compliant investor may invest in the fund and have their own Sharia Board to approve the investment.

It is interesting that someone mentioned that there is a gap in the market for the two to four year term funds, and I think that's another reason why credit funds are popular at the moment. Credit funds can easily be structured on a Sharia-compliant basis. The credit funds that we have seen recently have had a two to four year investment period. Equipment leasing and aircraft leasing funds can easily be structured as Sharia compliant because a lease or , an "Ijarah", is generally Sharia-compliant.

So I think that's something that managers should bear in mind -- even though the manager may not be a Sharia expert, there are ways to structure the fund so that if in the future you do have an investor who would like to invest on a Sharia-compliant basis they can do so.



Christian Stauffer

Murabaha Trade finance allows the investor to go as low as say 60 days, 90 days in term of liquidity. At that point you are really at a bottom end of the liquidity scale, comparable to the Sukuk market for example.



Renaud Huck: You were saying before how tragic the situation is for a fixed income investor getting a return of just 1%. In fact, if you go up the curve till 10 years on European bonds, the yield is no more than 1.5% for most of the cheapest-to-deliver bonds in the most industrialized European countries. So it's pretty much nought to 10 years now that this situation is a reality.

On the Sharia-compliant aspect of things, I think that exchanges have looked at solutions for Sukuk, as well as specific case studies of insurance companies, corporate bonds and Sharia-compliance of Sukuk instruments. But it is fair to say that one of the obstacles to standardize these products or to come up with a solution or a new format is the variety of the Sharia Boards. And there isn't uniformity, so you have ones who have a lot of prestige, you have ones who are very renowned, and you have ones who are less renowned.

Renaud Huck

This variety implies that depending on whom you submit your case study to, the feedback you are going to receive could potentially be very different. I think that the diversity within this space could limit the opportunity for entities such as exchanges to list Sharia-compliant products.

Matthias Knab

I wonder if anybody has ever done an analysis looking at the underlying Sharia products and plotted the sales against the recognition/reputation/score, whatever you want to call it, of the respective Sharia Boards? That would give us genuine information as to how significant the quality of the Sharia Board names is to selling a product.

Akber Naqvi

I think a lot of times to a certain degree it just turns out to be a marketing thing, an easy way to tap into that market. Also we need to keep in mind that Islamic Finance is such a nascent market, so there are so many moving parts to it.

I think just to step back, another area, if you're talking about solutions, that maybe we should definitely focus on because it's something particular to any investor base is the duration of the investment. Especially in our early days in 2010-2011, no matter which asset class, if we said anything beyond three years, there was no interest. Three years was a max, and if there wasn't any liquidity in it there was absolutely no demand. So I think it is very important what the duration is. Even on the private equity side, you struggle in terms of the investors because they wanted to lower the duration, and have liquidity as well.

So duration, even in Islamic Finance, is a very important part of the solution one has to look at simply because that's where the market demand is. Everyone is very short-term right now, so the duration is something else to focus on as well.

Fred Tabbal: We do see a major surge of Islamic Finance. We are seeing the industry staging a major comeback. and continue see record issuances in terms of size in the Sukuk market, which is very encouraging.

We have a significant book of Sharia-compliant funds and assets, and the good news is that we have a scalable and flexible platform that is able to adhere to the Sharia and reporting standards. That is important because the different Sharia scholars all have their own reported requirements. If you are not able to customize your reporting and produce the information in the format they are looking for, then you'll have issues.

The demand is there and certain institutional investors will require that it is Sharia-compliant. Sharia-compliant funds can cover a very wide spectrum that can also include PE, real estate, infrastructure, or credit. We shouldn't ignore this sector going forward.



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