



Opalesque Exclusive: As wealth in the MENA region grows, what areas are of interest to those institutions and HNWIs choosing for diversification outside of the region?

By Kirsten Bischoff, Opalesque New York: Regional capital markets within the Middle East have developed in tandem with an increase in wealth, and the reinvestment of revenues into the MENA region has helped spark an economic boom at a time when the US and Europe are experiencing economic contractions. However, MENA assets are also looking to other areas of the globe in which to diversify their investments.

Dubai-based Capintro Partners is an alternative investment placement specialist which matches investors in the Middle East region with alternative asset managers in the hedge fund, private equity and real estate spaces. The firm is in the process of surveying MENA based institutional investors as to allocations by geography, strategy, asset classes, etc and will release the results of this survey in the first quarter of 2009. In advance of this information Opalesque had a chance to speak with Capintro Partners Founder Mahmoud Al Khawaja about the nuances of MENA investor relations and the strategies his MENA based clients are looking for when they look to invest outside of the region.

Investing in the MENA region

To put the growth of the MENA region amidst the global credit crisis in perspective Al Khawaja sites Zawya, a business and finance information portal servicing the MENA region which reports MENA region IPOs in the first half of 2008 totaled \$9.335 bln (a 76% year over year increase). “An active asset management industry has flourished with the creation of the DIFC (Dubai International Finance Centre). As the asset management industry has developed we have also witnessed the emergence of MENA based or MENA focused hedge funds,” says Al Khawaja

Capintro, which is aligned with one of these MENA focused managers believes the regional ability to provide diversification and returns during a challenging global environment is proven by 12 month manager returns of +39%. The global markets have taken notice of this growth as well, as the 2008 Deutsche Bank Alternative Investment Survey showing institutional investors favoring the MENA region as the best performing region of 2008.

MENA-based investors looking outwards for global value plays

As Middle East sovereign wealth funds have become active investors in US and European bank markets these same regions hold attractive niche developing markets. Specifically, “the Eastern European region, driven by strong economic growth primarily in the natural resource area, the continued economic reforms and the implementation of free enterprise has received strong investment mandates.” Al Khawaja says. Additionally, Capintro sees increasing investor interest in the India and China equity markets. “Despite the major market corrections there remains compelling justifications for large investments in those regions. We have received inquiries from investors who recognize the long term growth potential of these regions, particularly in the areas of infrastructure, agriculture, real estate and natural resources.”

Utilizing fund of funds vehicles continues to be a trend for the larger institutional investors, as many do not yet have the in-house expertise to build and adequately monitor intricate portfolios. To that end, those fund-of-funds which offer global, low volatility, multi-strategy, multi-manager products garner the most interest. Capintro sees the greatest interest in its European fund of fund manager which has posted annualized returns of 10.12% over the past 10 years and its US based fund of funds manager which has consistently outperformed its peer group by +400 bps over the past 4 years. In addition to performance, both of these fund of funds managers also boast the length of track record and depth of manager experience which is so attractive to MENA based investors.



While fund of funds have historically been the investment choice for MENA region assets, the growing number of high net worth individuals seeking to invest in the hedge fund space has brought with it a greater interest in single strategy managers. “These single manager investments are attractive as there is no overlay fee which is typically found in fund of funds products. Among the specific strategies that are of investment interest are equity long/short, commodities, certain fixed income arbitrage strategies and other main stream strategies which are less esoteric and more plain vanilla in nature. The main reason for this is that we found investors to be less responsive to more complicated and less transparent investments.”

In addition to shying away from less transparent investments, MENA-based investors still require an additional amount of wooing. “We would recommend that fund managers consider establishing liquid share classes in order to attract MENA investors who have traditionally been accustomed to higher levels of liquidity. We would specifically encourage this for managers who manage funds with lockups or less liquid strategies.” Additionally, Al Khawaja specifically points out the traditional 10% holdback on investment redemptions as one of the hedge fund practices which MENA-based investors are not comfortable with. Those funds which require investors to wait until year end and/or final audits to receive the entirety of their redemption will have a more difficult time securing capital from MENA-based investors.

Knowing the nuances

As the wealth in the MENA region gains comfort and sees opportunity in other investment strategies Al Khawaja stresses the need for funds to form alliances with local partners. “Local firms have knowledge of competing local investment opportunities and a strong understanding of the local interest rate environment and each country’s central bank regulations and limitations in investing in hedge funds.” The region as a whole is comprised of countries with many nuanced regulatory differences. “Some countries have begun implementation of Basel II which assigns risk weightings to investments while others simply place asset allocation restrictions on banks based on paid up capital or net customer deposits.”

Corporate website: www.capintropartners.com