



ETF providers dip toes into the Middle East

By Ruth Sullivan
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Daniel Draper, global head of Lyxor ETF, says the launch was triggered by a growing interest from clients for investment opportunities in the Gulf. "We started with the most liquid market in the region and also the biggest equity market after Saudi Arabia," he says.

Sulaiman Al-Abduljader, vice-president of corporate finance investment services group at **Coast Investment and Development Company**, says: "Performance of the Kuwait stock market has been strong - up 600 per cent since 2000 - and fundamental and economic indicators show strong potential for growth in the near and medium term for investors."

Initial demand for the ETF since inception two weeks ago has been strong with a couple of institutional investors investing more than \$32m, says Mr. Draper.

Looking at the wider region, institutional investor interest is positive. A recent survey of 20 big UK pension funds, commissioned by Lyxor, showed a strong interest in investing in the Middle East, particularly in Kuwait and Dubai. Over the next three years, half planned to increase their exposure to the region.

Asset managers are aware of emerging market risks such as inflation, political risk and oil dependence but also see it as a growth area where petrodollars are now being reinvested into regional expansion and fed into non-oil related sectors such as infrastructure, telecommunications and banking.

Lyxor is not the only ETF provider eyeing the region. ETF Securities is also hatching plans. "We are currently evaluating options to list products in the region," says Hector McNeil, head of sales and marketing, but is not able to reveal more detail at this stage.

In addition to foreign investor appetite for the Middle East, demand from the region and from North Africa for shariah-compliant products such as exchange traded commodities or notes has prompted ETF Securities to make its platform consistent with Islamic investment principles. Five of its ETCs, including physical gold, platinum and silver, are now shariah-compliant. Last month its shariah-compliant ETC trading volume topped \$2bn.

Other providers are also dipping their toes into the region and beyond to North Africa. Invesco Powershares listed its Middle East and North Africa ETF on the Nasdaq last month, providing access to nearly 70 companies in markets such as Egypt, Morocco, Jordan, Oman, Kuwait and the United Arab Emirates.

The Mena Frontier Countries ETF has already attracted strong interest from institutional investors, says Ed McRedmond, senior vice-president of portfolio strategies for Invesco Powershares. "Investors are looking for low or non-correlated assets to use in their portfolio construction and the Mena countries have shown much lower correlations to markets such as the US or traditional developed and emerging markets," he says.

The new fund has already attracted about \$30m in assets with average daily trading volume of about 90,000 shares, he adds.

Hashem Montasser, head of regional asset management at EFG-Hermes, says it is still early days for ETFs in the region but agrees there is an appetite. "Institutional investors will be the first to take them up. Then retail investors will probably follow."

But he says the key issue of building up liquidity in some of the smaller Gulf Cooperation Council markets remains.

Mr. McNeil agrees there are challenges. "It is quite difficult to find an investable index for structured products as there is a lack of liquidity in some stock markets and many restrictions for foreign investors to access them."

He sees Kuwait and the United Arab Emirates among the more accessible markets for international investors and Saudi Arabia as the most restrictive.

In the broader Mena area, Mr. McRedmond is more upbeat on liquidity and says some countries have recently softened their foreign investment restrictions, providing much needed liquidity for foreign investors.

But not all ETF providers are taking the plunge. Barclays Global Investors remains cautious about launching products in the region and says there can be risks.

"If we were to list ETFs in the region, we would need to be sure they could function in a transparent way in sufficiently liquid markets," says a spokesman.

Van Eck Global has no such qualms. It recently rolled out the Market Vectors Gulf States Index ETF, which aims to replicate the performance of the Dow Jones GCC Titans 40 Index.

And, in spite of challenges and risks in the region, EFG Hermes' Mr. Montasser expects to see "a lot more products launched over the next few months".