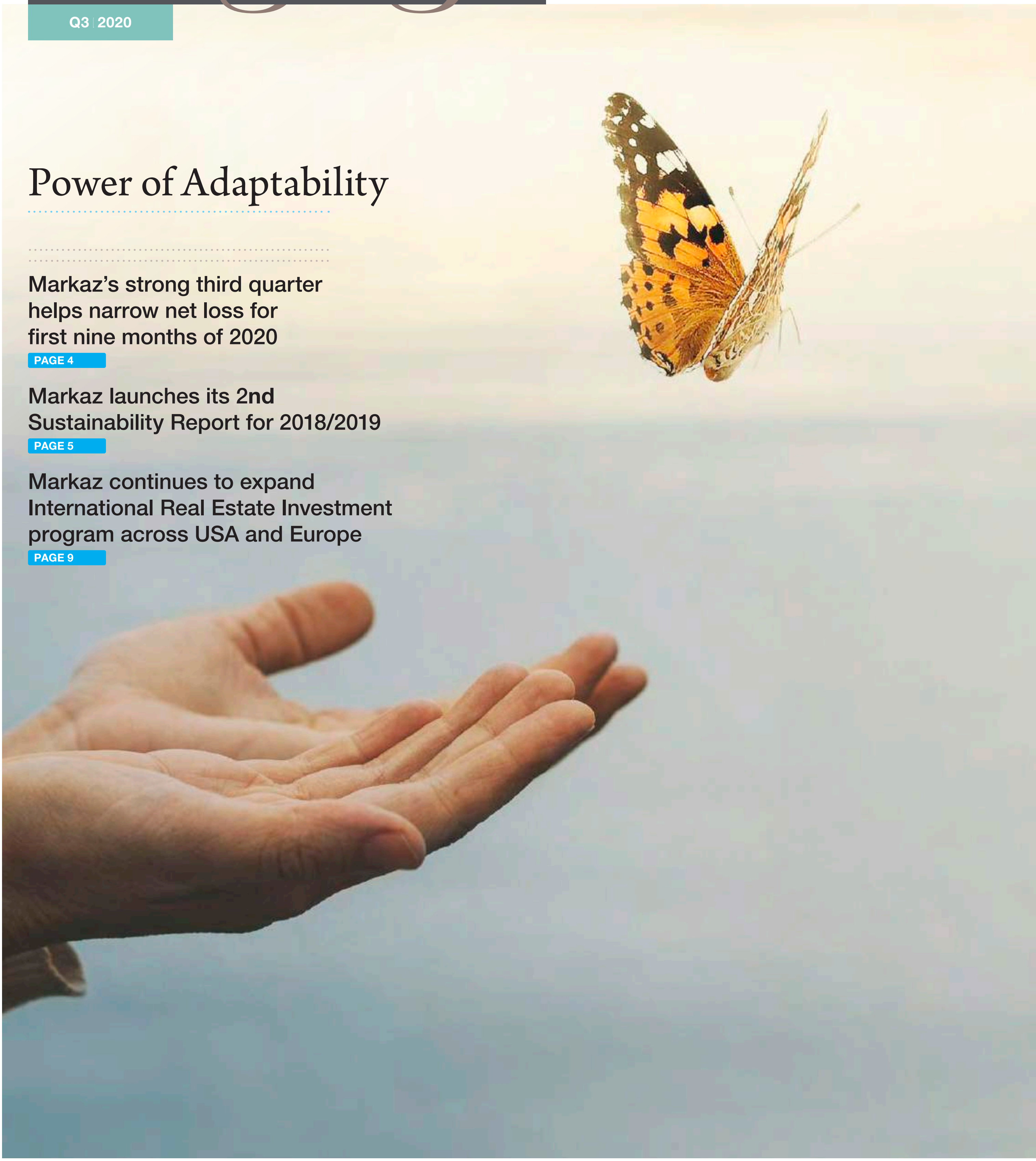
engage

MARKAZ
المركز

Q3 | 2020



Power of Adaptability

engage

Issue 16, Q3 2020

IN THIS ISSUE

EDITORIAL TEAM

Sondos Saad: Editor-in-Chief; **Khaled Almubaraki:** Editor MENA Real Estate; **Ahmad Al-Shalfan:** Editor MENA Equities; **Rasha Othman:** Editor Capital Markets; **Abdulrazzaq Razooqi:** Editor Advisory; **Sadon Al-Sabt:** Editor International Real Estate; **M. R. Raghu:** Editor Published Research; **Peter Kelly:** Editor Human Resources; **Syam Kumar:** Editor Information Technology; **Anu Abraham:** Editor Compliance; **Velmurugan Natarajan:** Editor Risk Management

engage@markaz.com

Farewell Bu Abdulaziz

As you step down from your role as our CEO, you leave behind a better Markaz than when you started sixteen years ago. Your contribution was invaluable; you have motivated us to pursue excellence, your commitment to governance and ethics helped safeguard the company during challenging times, and you have built Markaz's brand as a center of knowledge that influenced decision and policy makers. During your tenure, Markaz won a record number of awards that stand as witnesses to the underlying quality of our products and services.

As a leader, you effectively balanced between the best interest of the shareholders, the staff, the clients, and the society in which we operate. Very few leaders are effective in serving all four stakeholders simultaneously; you gave each your full attention. You were committed to transparency towards the shareholders, made our environment conducive for the growth and development of our staff, dealt with all our clients equitably irrespective of size, and diffused our knowledge as a contribution to the society through numerous publications, seminars and conferences.

A message from Markaz new CEO

Mr. Ali H. Khalil

As we embark on this journey of new opportunities, riding on the power of adaptability, we look to the future with confidence

The asset management and investment banking industries, like the rest of the world around us, are going through unprecedented changes. This change has ruptured standard practices, demanding of us a heightened ability to think, act, adapt and innovate. Markaz has adopted a rational and confident approach to the changing situation, which is evident from the way we have successfully addressed the uncertainties and fears triggered by the global pandemic while upholding the interests of our clients and shareholders.

Markaz's proactive response to the emerging situation reflects its organizational culture that embraces change. Adaptability has always been at the forefront of Markaz's operations, and this has ensured our sustained performance over the years. We consider the changing situation as an opportunity to realign our strategies and continue exploring new growth avenues.

My responsibility as the new CEO of Markaz comes amid these exciting times. As we embark on this journey of new opportunities, riding on the power of adaptability, we look to the future with confidence. Our focus will remain on enhancing our capabilities, improving our offerings, engaging with our clients to understand their needs, and further expanding our markets to create sustainable prosperity for all our stakeholders.

Our success is anchored in the contribution of each member of the staff; as such, we will leverage the knowledge, capabilities and drive of each one at Markaz and work together towards pursuing our common vision.

MARKAZ NEWS

Markaz's strong third quarter helps narrow net loss for first nine months of 2020 amid pandemic-induced uncertainty

Net profit for three months ending September 30 jumps to KD 4 million from 1.6 million reported in year-earlier period.

Markaz reported a net profit of KD 4 million for the third quarter ending September 30, 2020, reducing the net loss attributable to shareholders to KD 6.02 million for the first nine months (9M) of 2020. The decline is primarily attributable to a non-cash loss from fair value of financial assets through profit and loss of KD 5.22 million as compared to a gain of KD 3.99 million in 9 million 2019.

The economic activity started to recover in the third quarter after facing a major setback in the first half of the year due to the ongoing pandemic. However, this initial stage of recovery is slow-paced as the GCC economy continues to experience other pressures in the form of subdued oil prices and overall business sentiment. Amidst these challenges, Markaz's business has been uninterrupted, ensuring its clients' objectives are being achieved while focusing on protecting the health and safety of its employees.

Economic activity started to recover in the third quarter after facing a major setback in the first half of the year due to the ongoing pandemic

Markaz reported asset management fees of KD 5.45 million in 9 million 2020, a marginal decline of 1.6% y-o-y, however in Q3 2020 asset management fees were KD 2.2 million, a sharp growth of 68% compared to our previous quarter. Investment banking fees for the nine months were KD 0.32 million, a decline of 31% y-o-y.

Revenues were supported by a boost in net rental income by 124% y-o-y, contributing KD 1.80 million. This was driven by the completion of rental properties launched last year in the UAE and KSA. Loss from financial assets at a fair value reached KD 6.03 million out of which KD 0.81 were actual realized. Markaz recognized an impairment of properties of KD 3.12 million due to the current weak regional real estate market. Markaz AUM at the end of the period closed at KD 1.03 billion down by 5.7% compared to 9 million 2019.

Markaz EVP - Published Research shares insights at IFN Kuwait OnAir Forum 2020

M. R. Raghu invited as panelist on "Funding, Infrastructure, Capital Markets and Responsible Finance Initiatives in Kuwait" forum.

Mr. M. R. Raghu, Executive Vice President, Published Research at Markaz and Managing Director of Marmore MENA Intelligence, participated as a panelist at the IFN Kuwait OnAir Forum. He was invited to speak about "Pioneering Change in Islamic Finance" on a panel titled "Funding, Infrastructure, Capital Markets and Responsible Finance Initiatives in Kuwait" and held on October 20, 2020.

The pandemic will halt growth rate of regional Islamic and conventional banks in 2020 as they focus on preserving asset quality rather than expansion

During the Panel, Mr. Raghu said: "The Covid-19 pandemic will halt growth rate of the regional Islamic and conventional banks in 2020 as they focus on preserving asset quality rather than business expansion. Islamic banks are likely to see a greater effect over conventional banks on asset-quality indicators since they typically have a higher proportion of exposure to real estate and cannot charge late payment fees. On a positive note, most of the Islamic and conventional banks entered this difficult period from a relatively good position in terms of asset quality, profitability, and capitalization. Islamic banks in Kuwait have been at the forefront of embracing and adopting digital initiatives. Higher digitalization and fintech collaboration could help strengthen their resilience in a more volatile environment and open new avenues for growth."

MARKAZ NEWS

Markaz launches its second Sustainability Report for 2018/2019

As a testament to its steadfast commitment to doing business in a responsible and sustainable fashion, Kuwait Financial Centre “Markaz” announced the release of its second Sustainability Report, for the 2018 and 2019 period, expanding the positive trends demonstrated in the first edition, and reinforcing its commitment to clients, business, people and community at large.

Developed in full accordance with the Global Reporting Initiative (GRI) Standards, it highlights the company’s contribution to the global goals. It is strongly tied to the United Nations’ Sustainable Development Goals (SDGs), the Kuwait National Development Plan (KNDP) and Boursa Kuwait Sustainability Disclosure Guide.

The report underlines Markaz’s commitment to evaluating its sustainability performance, and to transparently report the results to all stakeholders

A Holistic Approach to Sustainable Growth

The report underlines Markaz’s continuous commitment to measuring and evaluating its sustainability performance, and to transparently report the results to all stakeholders. The company is a proactive steward of responsible business strategies and practice, and has always been a strong advocate for sustainability. The report is not required under regulation or compliance; therefore, submitting itself to evaluation against these global standards is a compelling affirmation of Markaz’s ethical approach and its pursuit of best practices. Doing so reflects a core belief, that the only way to operate is by recognizing and carefully managing the impact of its activities upon its internal and external stakeholders and on the communities it serves.

Deena Y. AlRefai, Senior Vice President Investor Relations, gave her view: “We see growing social, economic and environmental challenges, but also, of course, many opportunities. Markaz works to provide innovative financial solutions in a time of change. Our holistic approach takes sustainability into account. We engage positively with stakeholders, to embed and optimize governance, economic, people, community and environmental factors. This approach further emphasizes Markaz’s sustainable success and its contribution to ESG.”

Key Components of Markaz’s Sustainability Development

Governance

AlRefai added: “Markaz is known for its strong and effective governance, the source of its ethical and transparent business practices. Our strategic approach, underpinned by adherence to sound policies and principles, strengthens stakeholder journeys into sustainable growth.”

Economy

Striving to deliver healthy returns and contribute to economic development, Markaz has focused on calculating its Sustainability Return on Investments (SROI). Active innovation ensures a wider and longer lasting economic impact, and so its products’ growth and performance highlight the wider positive impact of sustainability practices, for both financial and non-financial outcomes.

People

An essential element of Markaz’s sustainable development is its people. Markaz establishes a work environment that enables personal best performance, a daily experience that encourages creativity and that attracts and retains professionals committed to the clients, to the community and to the environment. Markaz’s reputation emanates from the efforts of team members who ⊕ PG 7

MARKAZ NEWS

Markaz witnesses three-fold improvement in efficiency of Graduate Development Program during pandemic

With 166 hours of mentorship in investment management along with soft skills training.

Markaz announced that its Markaz Graduate Development Program (MGDP) has been progressing despite the continuing Covid-19 pandemic. With the activation of strategic partnerships and the adoption of technology, the company has seen a three-fold improvement in the efficiency and the effectiveness of the training program for Kuwaiti youth.

Undeterred by the lockdown and severe mobility restrictions that were enforced in Kuwait in recent months as parts of the country's efforts to limit the spread of Covid-19, Markaz continued to host MGDP, although remotely. The company's HR team swiftly restructured the program, in an effort to accommodate the change in the mode of delivery and make sure that trainees have easy access, while also ensuring the quality and standard of training.

Mimicking a traditional classroom provides trainees a heightened sense of community, including digital avatars for easier interactions

Markaz partnered locally with AMIDEAST, a leading American organization engaged in international education, training, and development activities in the region, and globally with Lean Tech, which enables companies to build and launch cutting-edge financial products, to continue offering training and mentoring to fresh graduates. The company also introduced virBELA, a virtual reality software that enables remote collaboration. Mimicking a traditional classroom experience and providing trainees a heightened sense of community and togetherness, the software allows them to craft digital avatars and interact with others as they would in a physical setting.

Mr. Peter Kelly, EVP, Human Resources at Markaz, said: "At Markaz, we attach great importance to our culture of high agility and adaptability; this allowed us to navigate this year's unique challenges in the market conditions to the benefit of our all our stakeholders. We approached the continuity of this important Graduate Development Program with the same urgency, leveraging the power of partnerships and technology despite mobility restrictions and heightened uncertainty. The virtual program, however, turned out to be even more effective than our pre-Covid-19 version. Our trainees have appreciated the quality and the outcome of their training, and we remain committed to providing our youth with learning opportunities that create a meaningful impact not only on their personal and professional lives but also for society as a whole."

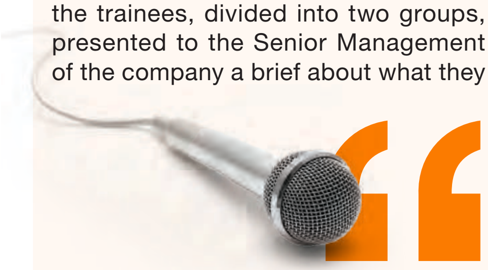
A year-long program, the MGDP has been running for four consecutive years, as it aligns with the company's CSR strategy by supporting the development of Kuwait's local talent pool. Similarly, it enables fresh Kuwaiti graduates to gain a deep understanding of various operations at Markaz's different departments. Upon completing modules totaling 166 hours of training, the participants were awarded certificates in Investment Management. They were also provided soft skills training such as creative thinking, problem-solving, business etiquette, time management, and emotional intelligence. At the end of the program, Markaz will offer trainees a recommendation letter, in support of their future careers and job applications. Markaz will begin receiving applications for joining the fifth consecutive MGDP by the end of November. Kuwaiti graduates can apply for the program by contacting Markaz at mgdp@markaz.com.

Pivotal Forum offers platform for Markaz Graduate Development Program trainees to share Covid-19 learnings

Forum translates novel ideas by Markaz's human talents into meaningful initiatives.

"A platform for Markaz prime capital, human talents, to express their opinion constructively on how to improve our internal and external business environment, raise issues that are deemed critical by the attendees, and provide ideas on how to improve the competitiveness at Markaz."

In yet another milestone in the success story of the Markaz Graduate Development Program, this year's Pivotal Forum featured the trainees of the program. In addition to proposing new ideas and ventures to implement in the company, the trainees, divided into two groups, presented to the Senior Management of the company a brief about what they have learned and how Covid-19 positively impacted their training.



Both groups have mentioned that despite the Covid-19 pandemic, they were still able to acquire via state-of-the-art online platforms the knowledge and skills that they would have received in a physical setting. For soft skills, they attended local online courses given by AMIDEAST, and for hard skills, they were offered courses on the VirBELA platform given by Lean Tech. Both groups proposed innovative ideas that would benefit Markaz tremendously.

CONTINUED FROM PG 5

Markaz launches its second Sustainability Report for 2018/2019 on education sector

embody Markaz's values and ethical reputation, within a culture that creates opportunities for career growth, optimizing everyone's potential to meet and exceed client expectations.

Community

Keen to fulfill its commitment to providing inclusive solutions, Markaz focuses on the local community as well. Community engagement means delivering on economic needs of the nation in equal consideration of surrounding social needs. These needs go hand in hand when the focus is on sustainable growth.

We engage positively with stakeholders, to embed and optimize governance, economic, people, community and environmental factors

The environment

"A sustainable environmental impact cannot be achieved," AlRefai concluded, "without the consistent availability of solutions that incorporate this thinking, which we ensure through our diligent contribution to ESG. We are primarily experts in finance and client services, but in all we do, we promote and nurture environmental stewardship. Our internal practices focus on digitization to minimize and manage waste, and we work to maximize environmentally-friendly processes and practices."

Markaz is keen to add value in all areas of operation, and to lead by example with the various reporting and research efforts it makes throughout the year, with all key stakeholders' interest at heart. One of its recent contributions was the launch of its 'Procurement Guide to contractual arrangements between governmental & quasi-governmental entities and the company', in an effort to establish guided contractual relationships between both the private and government sector.

Click here to view the report.

GETTING TO BUSINESS

Markaz exits project in Lebanon and distributes USD 6 million to investors in Markaz Real Estate Opportunities Fund

With Clemenceau Residence project generating total profit of 25%.

Markaz, the Manager of the Markaz Real Estate Opportunities Fund (MREOF), announced a successful exit in Clemenceau Residence development in Lebanon, and partial distribution of profits realized to the unitholders of the fund with the amount of USD 6 million. The total profit of the project is estimated to be 25%. With this distribution, the fund has now returned to the investors all of their capital with a return on investment of approximately 6%. Clemenceau Residence represents the largest investment of MREOF, which is a Shari'ah-compliant closed-ended fund.

Mr. Bassam N. Al Othman, Executive Vice President, MENA Real Estate, commented: "Over the years, Markaz has carved out a reputation for itself as a leading asset manager offering an impressive portfolio of attractive top-tier income-generating funds. Our real estate products have seen sustained demand as a result of our strong focus on prudent quality investments that are delivered with due diligence, timely acquisitions, and world-class execution. We have always remained keen on harnessing our real estate market expertise to manage properties efficiently to yield stable income and generate returns for our investors and shareholders."

The continuing success of MREOF is a testament to the resilience of our investment products and our in-depth real estate investment experience in the MENA region

"The continuing success of our MREOF is a compelling testimony to the robustness and resilience of our investment products and signifies our in-depth experience in real estate investments in the MENA regions. I would like to take this opportunity to thank our investors for their continued support and trust, while we continue divesting the remaining investments", Mr. Al Othman added.

Launched in 2007, the Markaz Real Estate Opportunities Fund was established to benefit from the rise of the real estate market in the MENA region through the development of residential and commercial real estate properties. The strategy for the fund has been to collaborate with local mid-size developers who are knowledgeable of the local market execution and supply/demand side, then exiting the investment through the sale of developed real estate units within the real estate market.

The fund, which had an offering size of approximately USD 60 million, has exited from investments in Saudi Arabia, Qatar, Jordan, and Lebanon. The investments focused predominantly on development projects in various real estate segments and sought to benefit from the supply-demand imbalance in the regional real estate markets. Markaz's portfolio of real estate investment products also includes the Markaz Real Estate Fund and Markaz Gulf Real Estate Fund (a private placement fund). Markaz currently manages real estate investments in the region with a total value of more than USD 1 billion (as of 30 June 2020), through providing a full spectrum of services asset management, development, and property management.

Markaz continues to expand International Real Estate Investment program across USA and Europe

Following a series of successful sales transactions throughout 2020.

The International Real Estate Investment program of "Markaz" delivered a solid performance in 2020. It produced healthy returns for its clients despite the challenges of the Covid-19 pandemic, confirming its position as a leading asset manager in the MENA region. Being a leader in anticipating market conditions and industry trends, Markaz leveraged opportunities presented by the pandemic, successfully completing a series of sales transactions from its real estate portfolio in the USA and Europe. Building on this success, and on the expertise of its team, Markaz is steadily expanding its real estate investment program in these international markets.

Deena Y. AlRefai, Senior Vice President, Investor Relations at Markaz, was "very pleased with the performance of our real estate investments across the US and Europe. This year represents another milestone for the program's success and our capability to achieve attractive returns despite continuing uncertainty across all markets and sectors. Our competitive edge comes from having a fully operational office in the USA for over 30 years, with its highly experienced team building and proactively leveraging our strategic partnerships with leading partners."

AlRefai highlighted that the International Real Estate Investment program reflects Markaz's consistent success in creating value for its stakeholders, through its well-designed, innovative investment solutions, steeped in five decades of hands-on experience. A solid track record has increased investor appetite, which Markaz sees increasing with each new transaction and product launch. Having the well-earned trust of investors and other stakeholders, she observes, is key to Markaz's ability to realize healthy returns from the program.

We are amplifying our existing development program in the USA, and very similarly in Europe, expanding into Poland, Germany and the Netherlands

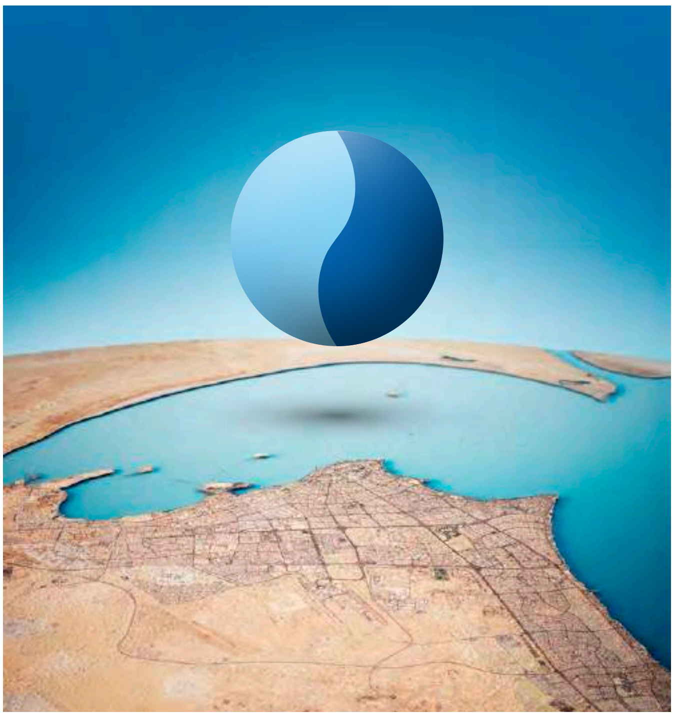
AlRefai added: "We remain focused on expanding our portfolio in existing and new markets across the USA and Europe. The current market conditions have and will continue to create, if well-selected, exciting opportunities. Capitalizing on the partnerships we have built with leading partners, service providers, and lending institutions over the past 30 years, we are amplifying our existing development program in the USA, and very similarly in Europe, expanding into Poland, Germany and the Netherlands. In a parallel strategy, the team is currently assessing the landscape for sectors that have been temporarily impacted by the Covid-19 pandemic, but which have enduring future potential, such as hospitality."

Markaz remains one of the leading asset managers in the region, performing consistently over the years with a track record springing from its research-based approach to durable investment decisions. Markaz has been active in the US real estate market since launching its first syndicated transaction there in 1977. Since 1988, Markaz has been conducting its real estate transactions through its Mar-Gulf USA real estate arm, which is a wholly-owned subsidiary. Over these highly-active thirty years, Markaz has been involved in the ownership and development of real estate properties across industrial, storage, retail, residential, and office segments across the entire USA, with total acquisitions exceeding USD 1.8 billion as of September 30, 2020.

GETTING TO BUSINESS

Markaz launches ‘Procurement Guide’ for contractual arrangements with governmental and quasi-governmental entities

Furthering its commitment towards promoting public-private partnerships.



Markaz recently announced the launch of its ‘Procurement Guide to Contractual Arrangements between Governmental and Quasi-Governmental Entities with Markaz’, in an effort to establish guided contractual relationships between the public and private sectors. The development of the guide stems from Markaz’s keenness to participate in the sustainable growth and development of the national economy, represented through offering advisory and consultancy services to the government and quasi-government institutions. Accordingly, the guide provides a brief of the capabilities of Markaz in procuring such services to the public sector.

The procurement of services by public sector entities are subject to the Tender Law 49/2016 as amended by Law 74/2019 and its executive regulations 30/2017 (the “Tender Law”), which regulates public and limited bids or solicitations. The guide outlines what Markaz can offer to meet the needs of a public sector entity, and the processes and procedures of ‘Limited Solicitations’. It also clarifies the parameters for establishing a ‘Service Provider’ company, the benefits of outsourcing to a ‘Joint Venture’, and the phases for assessing solicitations and bids by governmental and quasi-governmental institutions, pursuant to international practices.

Commenting on the Procurement Guide, Sheikh Humoud Salah Al Sabah, Assistant Vice President, Government Business Relations at Markaz said: “The launch of the Procurement Guide to Contractual Arrangements between Governmental & Quasi-Governmental Entities falls in line with Markaz’s efforts to reinforce the partnership between the private and public sectors. It is one of the development pillars in the State of Kuwait, which depends on the public sector benefiting from the practices of an efficient private sector, while encouraging competition across the local markets, making it a key area of focus in light of this significant economic transitional period”.

The development of the guide stems from Markaz’s keenness to participate in the sustainable growth and development of the national economy

He added: “Strategic partnerships between the private and public sectors come in different forms, and it is imperative that each party fully understands how it can benefit from the other, with the aim of improving the overall economic status and increasing productivity levels. Stemming from this belief, Markaz took the initiative to launch the ‘Procurement Guide’ to outline the main services offered by Markaz to public entities, and how to fully benefit from them”.

Markaz’s Procurement Guide shares the four different stages of ‘Contracting for Advisory Services’, which begin with ‘Request for Proposal, followed by the Invite Response to RFP, also known as ‘Prequalification’, then the Evaluation phase, and finally, the Project Award. On a global level, public entities have outlined minimum standards for procurements based on the monetary value. The policies and procedures revolve around the core procurement principles like fairness, effectiveness, quality, economic benefits, and transparency. With the set fundamental principles, the public bodies most likely follow a fit-for-purpose approach depending on the size and the intricacies involved in the project, in addition to observing the value for money principle.

The guide also highlights key factors to ensure the successful implementation of projects between both sectors, in relation to cultural, technical, strategic, and financial aspects. While quality is the primary factor in consulting services, price is also an important criterion. However, the price weight depends on the evaluation methodology chosen. Contracts are awarded to applicants with the highest combined scores that meet the criteria for technical and financial requirements and emphasize the principle of value for money.

The two key services provided by Markaz to government and quasi-government entities are Asset Management Services, and Consultancy and Advisory Services. Asset Management Services covers investment portfolios focused on different types of financial securities in different markets; and investment portfolios in real estate, private equity, and other alternative investments, in addition to investments into collective investment schemes and investment funds managed by Markaz. Whereas Consulting and other outsourcing services include financial advisory and restructuring, operational advisory and restructuring, management consultancy, sector studies, and strategy reviews and updates. It also encompasses the governance framework and policy reviews and updates and legal and administrative services within the legal framework of the public sector entity.

Competing with competency!

2020 has allowed HR to complete one of its major deliverables - a complete framework for our professional and management competencies.

Why are competencies important?

Competencies are one of those dry, somewhat technical areas of human resources and human capital management that are often hard to understand in terms of their value to business growth.

But it is quite straightforward once you lift the lid – by defining what expertise and success look like in action, and according to regional and international industry standards, you can see where your people need to be, assess where they currently are, and start thinking about how to close gaps. This in turn will enable them, and therefore Markaz overall, to be the best it can be!

So, what are 'competencies'?

We have defined three categories of employee and manager ability: the professional skills required to carry out each job role, the ways of behaving that best turn such technical proficiency into positive business results, and, for jobs with a responsibility for leading the way, capabilities in the key dimensions that make Markaz itself an industry leader.

We call these, respectively, technical competencies, behavioral competencies, and leadership competencies.

How did we map our competencies?

Setting up a valid framework can be an expensive and time-consuming effort, often involving big-name, big-ticket consultancy projects.

While the results of this kind of intervention are of course premium products, they can often be overly-complex and hard to implement at a practical level – a wonderful library that the 'average manager on the street' is simply too busy to decrypt! Nothing is left out, resulting in complicated, multi-layered matrices of multiplying levels and sub-levels! And for that very reason, the indisputably excellent outcome becomes almost always unusable at the point of delivery!

So, we did something else. We utilized our strong internal reference points and knowledge bank to select, filter, and customize from widely-available models – those of professional bodies, and business and industry leaders known to be centers of excellence, which we accessed directly and matched to what we do here at Markaz.

How did our competency map turn out?

The project took us six months of intensive internal work, synthesizing and confirming externally-proven competency descriptions into a framework suited to Markaz. Our map for each position was strictly limited to the top five capabilities for technical competencies of the role, focused on the top three core behaviors at each level, and kept within the seven dimensions we established as key to the Markaz brand of leadership.

We utilized our strong internal reference points and knowledge bank to select, filter, and customize from widely-available models

And for every competency above, we can now assess and progress our people through The Four E's of the Markaz talent pool – the degree to which the employee or manager is Entrant, Emerging, Experienced, or Expert.

We now feel very satisfied that our competencies reflect 'who we are' – if you are an individual employee in our firm, you will now be able to know what excellence in your work 'looks like' via simple, but meaningful, technical abilities; you can model yourself against clear and understandable success behaviors, and you will be influenced to lead in close alignment with our 'business DNA'.

What will we use the competency framework for?

Competency for an HR professional is the common language for all people processes. When you know what a job requires a person to be able to do, how the best people doing it most often act, and what your leaders most usually succeed by focusing on, everything connects.

We take and use this framework to ensure consistent and impactful standards, when we:

- Hire people who will properly fit, and who will quickly excel in their jobs.
- Organize learning and experience for people to be good at and continuously improve in their jobs, and to grow their careers by developing skills that will lift them into bigger roles.

PG 12

CONTINUED FROM PG 11

Competing with competency!

- Assess how people are shaping up when we appraise them, and take steps to enhance their performance by bolstering qualities that most leverage business results.
- Ensure that the character of Markaz is a guide for developing our leaders at all levels.

When are we introducing this new framework?

Because our department heads have been integrally involved in the development of this competency suite, and have both ownership of and familiarity with the model, we are in a position to give it a soft launch in our 2020 end-of-year appraisal process.

While we will dedicate a great deal of effort in 2021 to ensuring everyone in Markaz fully understands the competencies relevant to their role and level, there is no learning like 'on-the-job', so between applying the practical results of this exercise to assess our people against the new norms and following up with in-depth training on how to get the very best from this framework, both for individual employees as well as for Markaz, we hope to quickly embed a sturdy and reliable tool through which to grow our most important underlying assets of all – the Markaz staff.

GETTING TO BUSINESS

Transforming Financial Management Department for higher efficiency

Challenge 2020. We are always looking to improve and innovate in Markaz. With the Finance department's continuous development in mind, we decided to turn the 2020 disruption of Covid-19 into a positive opportunity, which we would use to further strengthen our vital contribution to Markaz. We set ourselves the objective of leaving 2020 with our internal reorganization, our proactivity in business planning, and our overall service offering completely reviewed, repositioned, and refreshed.

The **Finance Vision** is to be a trusted business partner within Markaz. To ensure that we efficiently provide unique value-added services to the wider business, our aim became to adopt the very latest practice and technology to streamline operations and transactions. This was our spur to innovate – not only so we could improve our current ways of working but also because we saw we had new challenges to address. We looked to find the best and most effective ways to continuously enhance the delivery of our core mandate, which is to safeguard our clients' assets.

Working on the engine while still driving the car. Markaz already had good systems in place to allow for remote working, which enabled us to achieve our goals even through extended periods of lockdown and limited office attendance. We did not lose valuable time and, in fact, put it to great use, positively delivering on our ongoing responsibilities while working to increase and realign our capabilities.

We undertook a full review of our operating model focusing on the three key areas of **People, Process,** and **Technology.** We wanted to ensure that we implemented current best practices and that we would be organized to adapt to the changing demands that future business strategies within the evolving business environment would inevitably bring. Our Technology road map was focused on ensuring end-to-end, totally client-centric processes with a clean-up and reduction of operational tasks, with those routines and our complex suite of internal and reporting automated to the greatest possible extent.

Service offering. These functional changes saw an immediate payback in our ability to deliver an improved budgeting approach as we neared the close of the year.

Budget 2020 was designed primarily with the business in mind rather than the output. We developed a **Five-Year Strategic Review** rather than a single year 2021 budget. We worked closely with our colleagues in HR and IT to deliver cross-functional support to each of the business units, enabling them to maintain a clear and simple focus on their strategic themes and immediate term planning, for both efficiencies and prudent growth. A five-year view shone a light on synergies and cross-business interactions and complementary initiatives, and how they would need to be integrated across Markaz. We spent a lot of time encouraging the business to think creatively and collaboratively, and we truly saw a much greater level of feedback and engagement in the process, with real ownership of stretch objectives.

2020 has been a very transformational year, but, at Markaz, we say that in a positive way – we emerge with, and will continue to develop – a Finance team that every day, and in every way, adds to the overall success of Markaz in serving its clients excellently.

Transformation underway at Markaz to emerge as strong winner in post-pandemic world of 'new normal'

Alexander Salamoun, Senior Vice President at Markaz, shares his insights on company's ongoing efforts to enhance operational efficiency to optimally position Markaz for changing requirements and dynamics of industry

The world is eagerly awaiting the successful roll-out of a COVID-19 vaccine, and with it, the hope of a subdued pandemic and return to normalcy. Whenever and however this occurs, the pre and post-pandemic "normal" will definitely not be the same. The realignment of the post-acquisition and middle office is one small step towards Markaz's transformational efforts to better position for the new normal.

Q: What thoughts would you like to share with us during these unusual times?

A: As the world economy navigates through the Covid-19 pandemic, digests its repercussions, and anticipates the shape of the recovery, it is becoming evident that the world will be a very different place with early adopters likely to emerge as strong winners. We at Markaz have anticipated the requirements of the 'new normal' and have accelerated our efforts towards enhancing efficiency and transforming the organization. A comprehensive corporate strategy has been developed that focuses on three key pillars that we like to call the 3 Ps (People, Processes, and Products). The focus will be to upskill/re-skill our people, automate, and integrate our processes as well as enhance and diversify our product offerings.

Q: What changes have been done that are part of the realignment of the post-acquisition and middle office functions?

A: The realignment of the post-acquisition and middle office functions into one department is one of several milestones that aim to optimally position Markaz for the changing requirements and dynamics of the industry. The change mainly focuses on integrating the middle office functions across the different asset classes and then realigning them with the post-acquisition department.

We at Markaz have anticipated requirements of the 'new normal' and have accelerated efforts towards efficiency and transforming the organization

Q: What is the rationale behind the realignment from Markaz's perspective?

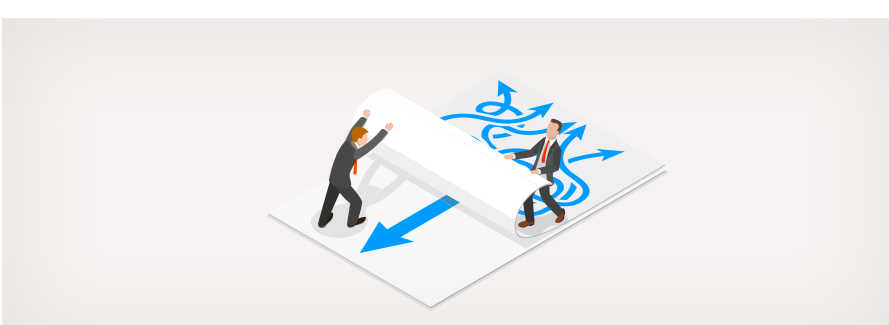
A: The most evident answer and the first thing that comes to my mind is to enhance operational efficiency. In this context, enhanced efficiency will be achieved by the drive to do more with the same number of people. The integration and realignment of the departments will allow us to synergize the previously siloed capabilities of the team members. I truly believe that it is your typical case of the whole will be greater than the sum of parts (one plus one is greater than two). In addition, the change ticks all the boxes related to the 3 Ps referenced above. The realigned department will grow the skill set of existing team members, increase the adoption of automation across the organization, and enable new product development initiatives. The intended net impact of the change is to position the department as a key enabler in the organization that will promote top and bottom line growth.

Q: What is the rationale behind the realignment from the perspective of clients, shareholders, and other stakeholders?

This is a very good question and is a perfect continuation of the previous one. Every initiative and action we take at Markaz is taken with the best interest of our clients, shareholders, and stakeholders in mind. This alignment of interests allows all parties to share the benefits in an optimal manner. Any ripple effect from the benefits to Markaz will be trickled down to all stakeholders. These include a more comprehensive and diverse product offering, improved operational and financial performance as well as increased transparency and standardization.

Q: Would you like to add anything and share with us some departing thoughts?

I am a strong believer, with a disclaimer that this belief could be utopic, that any individual or organization will eventually take the correct or most appropriate course of action. This course of action can be either taken willingly in a timely manner or by force driven by market requirements and needs. The latter will no doubt cause much more pain and have a more long-lasting adverse impact on the entity. It gives me great comfort that we at Markaz have understood the requirements of the new normal and accelerated our efforts to transform.



INFORMED OPINION

GCC markets continue recovery in third quarter as governments ease coronavirus restrictions and announce support measures

The Kuwaiti market continued its recovery gaining 6.61% in the third quarter and ending the nine-month period on a loss of 9.73%. The market had a choppy start to the quarter as the market lost 1.6% in July on negative events, the first being the admittance of the Emir to hospital, the second was S&P's revision to Kuwait's outlook from neutral to negative, and finally, the first half results announcements that were in the most part below estimates.

The market later reversed July's losses putting on a stellar performance in August and recording a monthly gain of 8.2%, amid increased foreign buying ahead of the upcoming MSCI rebalancing in November. Large caps and banking stocks ignored the weak first-half earnings and were the best performers in August as they are the names expected to be added to the MSCI EM indices in the coming upgrade event.

August's rally continued into September with the market traded value increasing even more as both local and active foreign buyers continue to position in large caps ahead of the MSCI event. The rally was however disrupted by news regarding the Emir's health and then demise on the last trading session of the month, losing more than 2% in that session alone. That said however the index still managed to end September on a gain of 1.8% despite Moody's' decision to downgrade Kuwait's long-term foreign and local currency issuer rating two notches to A1 from Aa2, and changing its outlook to stable.

The S&P GCC benchmark returned 11.0% in Q3, the second consecutive quarterly recovery this year after the large losses incurred in Q1

The S&P GCC benchmark returned 11.0% in the third quarter, recording the second consecutive quarterly recovery this year after the large losses incurred in the first quarter. This brings the YTD performance of the index to a loss of only 3.8% after reaching a bottom of 26% in mid-March. The quarter's large gains were across the board; however, the Saudi market was by far the best performer. Gains were encouraged by the recovery in the oil markets in addition to strong performance beating earnings expectations mostly in Saudi and Qatari banks.

The Saudi S&P benchmark gained 13.6% in the third quarter. Investors in the Saudi market disregarded the pricey valuations, the fiscal challenges, and the austerity measures and are awarding quality names or names with a story of some sort in the short or medium-term with sizeable premiums. Traded values in the Saudi market spiked dramatically during the quarter, increasing almost 80% compared to the second quarter if the Aramco Sabic deal is excluded. The increase in the market's liquidity was driven by larger retail contributions concentrated on speculative names, however, affecting the majority of the market. The Saudi government's handling of the Covid-19 spread also seems to be in the right direction as cases are showing a steady decline and no signs of a second wave are apparent. Saudi officials announced the easing of some travel restrictions such as ending all air, land, and sea transport restrictions after 1 January 2021, allowing citizens of the Gulf States and non-Saudi nationals with residence permits to enter Saudi Arabia from 15 September provided they have tested negative for the coronavirus within the previous 48 hours of arrival, and the gradual resumption of the Umrah pilgrimage.

The UAE S&P benchmark ended the third quarter on a quarterly gain of 5.3% making it the worst performer among GCC peers. The UAE faces the biggest economic challenges among its GCC peers. Second-quarter results, especially in the banking sector, were heavily affected by the coronavirus (Covid-19) pandemic, especially in Dubai. Earnings in Abu Dhabi were down 15% in the quarter compared to those of Q2 2019, while earnings in Dubai were down 52% compared to the comparable quarter of last year. Traded volumes slightly improved in Abu Dhabi driven by some spikes in speculative trading and foreign inflows resulting from additions of a few names to EM indices following an increase in their foreign ownership limits. The UAE cabinet announced a new round of stimulus where the UAE will deliver a three-stage "flexible package" of measures to bolster the economy, including steps to support the labor market and encourage investment.

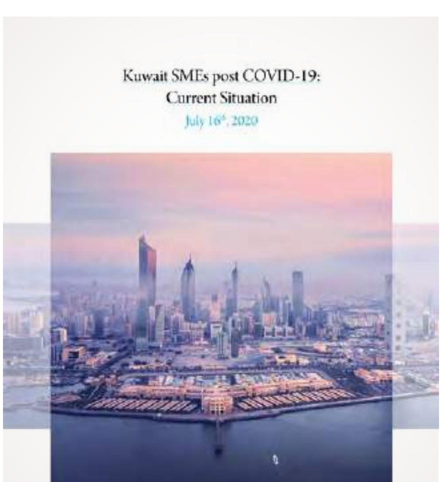
The Qatari S&P benchmark gained 8.8% in the third quarter bringing the benchmark's YTD performance to a loss of 2.6%. Earnings in the Qatari banking sector were the most resilient when compared to other GCC markets. The aggregate banks' net profits dropped a mere 9% in the second quarter and 8% in the first half of 2020. The aggregate earnings of Qatari companies in the first half were down 19% during the first half of the year amounting to QAR 15.9 billion. Further coronavirus restrictions were eased during the quarter in Qatar as the country moved into Phase 3 of easing of Covid-19 restrictions. The Ministry of Education announced that all public and private schools in Qatar will start the 2020/2021 academic year in three stages starting from September 1, making it the first in the Gulf to take such a step. Stimulus initiatives in Qatar continued during the quarter as Qatar Development Bank extended the national program to provide guarantees to local banks to grant interest-free loans to companies affected by the coronavirus outbreak an additional three months.

Markaz issues “Kuwait SMEs post-Covid-19: Current Situation” special report

Enforcing procurement laws and funding of SME Fund are key solutions to support SMEs.

Markaz issued a special report titled “Kuwait SMEs post-Covid-19: Current Situation”, which sheds light on the importance of the SMEs sector on the Kuwait economy. It also delves into the financing challenges faced by SMEs in relation to the banking sector and the National Fund for SME Development (The SME Fund) amid the Covid-19 outbreak, as well as government actions taken throughout this period and possible ways to mitigate the impact of the pandemic.

The report highlighted the role played by the SMEs sector in the Kuwaiti economy, where it contributes around 3% of the GDP, with the gross value added by the SMEs of KD 1,216 million (2019). Moreover, it stated that there are approximately 25,000 to 30,000 SMEs in Kuwait, representing about 90% of the total number of companies, with 40% of these companies in the wholesale/retail trade and hotels and restaurants, whereas 33% are in the construction and industry sectors.



The report highlighted the role played by the SMEs sector in the Kuwaiti economy, where it contributes around 3% of the GDP at KD 1,216 million (2019)

The economic impact and financial challenges faced by SMEs were also addressed in the report, where the pandemic caused disruption across various business activities in this sector. It showed that most of the small enterprises have limited cash reserves, and labor shortage, due to restrictions on movement, which resulted in major challenges leading to the loss of revenue, and temporary business closure, impacting the sector’s cash flow. In turn, this will essentially affect the ability of SMEs to resume work.

The report also shed light on the series of actions taken by the Kuwait government and how efficient they were in support of SMEs, where it included the provision of soft loans based on the Council of Ministers’ decision No. 455 issued on 31/3/2020. The primary objective of the funding is to fund cash flow pertaining to payment of rents, salaries, and payments to suppliers. However, the decision No. 455/2020 did not encourage banks to provide loans to SMEs, and consequently, a new law, which still requires parliament approval, was proposed guaranteeing 80% of the loan by the government, and presents SMEs with the opportunity to apply for a loan with a maximum loan value of KD 250,000 mainly to pay for salaries and rent.

Accordingly, the Central Bank of Kuwait (CBK) has extended incentives to banks to lend to SMEs by reducing the risk weights for SME loans and putting in context a series of conditions, whereby loans are granted only to existing clients of banks. The requirements also stipulate that the SME business should be in a value-adding sector to the national economy and be capable of creating national employment. In addition, the business should have been profitable pre-Covid-19 and should not have defaulted on any of its loan obligations. The business should also belong to a sector that has been affected by a lack of mobility due to Covid-19, and the SME borrower should also not distribute any profits as dividends during the period of the loan. All these conditions are designed to safeguard the lender from credit default risk. However, lenders risk turning away the majority of prospective borrowers due to these conditions. That said; coordination between related authorities is still anticipated.

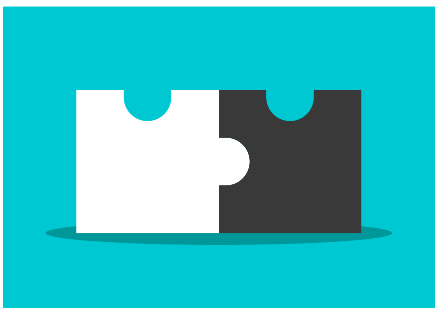
In an effort to mitigate the overall impact of the pandemic on this sector, the Markaz report suggested the enforcement of the procurement law, to meet the needs of SMEs in terms of contracts and procurement. It also suggested empowering the SME Fund to delegate its operations to the private sector and position the fund only as a regulator, while supporting with capital to grow the SME sector.

The “Kuwait SMEs post-Covid-19: Current Situation” report comes as one of a series of reports issued by Markaz and falls in line with the company’s commitment to providing studies and analysis on the performance of various sectors that contribute to the advancement of Kuwait’s growth, and keeping up with the nation’s endeavors that support the overall prosperity of its economy.

INFORMED OPINION

Markaz: Industries Qatar leads the top GCC M&A transactions during Q3 2020 with the acquisition of a minority stake in Qatar Fertiliser Company

The financials, industrials and IT sectors witnessed the highest number of transactions



Qatar's industrials sector leads the top GCC M&A transactions during Q3 2020 as per a report recently issued by the Investment Banking Department at Kuwait Financial Centre "Markaz". Industries Qatar announced they intend to acquire an additional 25% stake in Qatar Fertiliser Company ("QAFCO") for a total consideration of USD 1.0 billion. QAFCO was established in 1969 as a joint venture between the Qatari government and a number of foreign investors with an aim to diversify the economy and utilize the nation's immense gas reserve. Moreover, the company's current shareholding structure is as follows: Industries Qatar (75%), Qatar Petroleum (25%). Upon the successful completion of this transaction, Industries Qatar would increase its total ownership to 100%, becoming the sole owner of QAFCO.

The second largest transaction involves National Petroleum Construction Company ("NPCC") and National Marine Dredging Company ("NMDC"), who are in the midst of evaluating the opportunity to combine their operations upon receiving an offer from General Holding Corporation and other minority shareholders of NPCC. The key terms of the offer states that NPCC shareholders will transfer NPCC to NMDC in exchange of the issuance of an instrument that is convertible into 575.0 million ordinary shares, or 70% of NMDC's issued share capital. At a convertible share price of USD 1.2, the transaction would result in an estimated value of USD 688.8 million.

Moreover, Raha AlSafi Consortium has been awarded a bid for the First Milling Company, one of four milling companies to be privatized by the Saudi government, for a total consideration of USD 540.0 million. The consortium is comprised of the following parties: Almutlaq Group, Al Safi Abunayyan Holding and Essa Al Ghurair Investment Company. The next transaction oversaw Delivery Hero acquire 100% of Instashop, a leading online grocery platform, for a total consideration of USD 360.0 million. It is worth noting that this value is comprised of two components including a cash payment of USD 270.0 million and a deferred payment of USD 90.0 million, which is dependent on meeting certain milestones. Lastly, the UAE's Edge Group announced its intention to acquire a 40% stake in Advanced Military Maintenance Repair and Overhaul Center ("AMMROC") for a total consideration of USD 307.0 million. AMMROC offers maintenance, repair & overhaul and support services for fixed and rotary wing military aircraft in the MENA and South Asian regions.

The GCC market received a slightly weaker level of interest from foreign buyers in Q3 2020 when compared to the previous quarter

GCC M&A Growth

According to Markaz's report, the number of closed M&A transactions in the GCC during Q3 2020 decreased by 23% relative to Q3 2019 however it remained stable relative to Q2 2020. Kuwait, Qatar and the United Arab Emirates each recorded a growth in the number of closed transactions relative to the previous quarter whereas Bahrain and Saudi Arabia each witnessed a decline in the number of transactions that closed throughout this time period. Oman on the other hand did not report any closed transaction throughout the quarter.

Acquirers and Targets

A majority of the transactions completed during Q3 2020 and Q2 2020 were carried out by GCC acquirers, accounting for 65% of the total number of transactions that closed during Q3 2020, while foreign acquirers accounted for 13%. The remaining 22% represents transactions for which the buyer information was not available. GCC acquirers also dominated the market during the previous quarter as they accounted for 65% of the total number of closed transactions while foreign acquirers accounted for 22%. Once again, the remaining 13% represents transactions for which the buyer information was not available.

Furthermore, GCC acquirers actively acquired both regional and international companies, whereas in the previous quarter, they primarily invested in the regional market. With that being said, GCC acquirers closed a slightly lower number of transactions relative to Q2 2020. Throughout Q3 2020, GCC acquirers closed a total of nine transactions that involved international companies, which is 31% lower in comparison to Q2 2020, which oversaw a total of 13 closed transactions that involved foreign targets. Moreover, Saudi and UAE buyers each accounted for 30% of these transactions, followed by Bahraini, Kuwaiti and Qatari acquirers, who accounted for the remaining transactions. Lastly, Omani acquirers did not close any cross-border transaction throughout the quarter.

Foreign Buyers

The GCC market received a slightly weaker level of interest from foreign buyers in Q3 2020 when compared to the previous quarter. Throughout Q3 2020, foreign buyers closed three transactions whereas in Q2 2020, they completed five transactions, which translates into a 40% decline quarter-over-quarter and a 67% decline year over year. The UAE continued to be the most attractive target out of the regional markets, which is a trend that has persisted throughout the past few quarters. It is worth noting that all closed transactions throughout the quarter purely targeted UAE companies.

Sectorial View

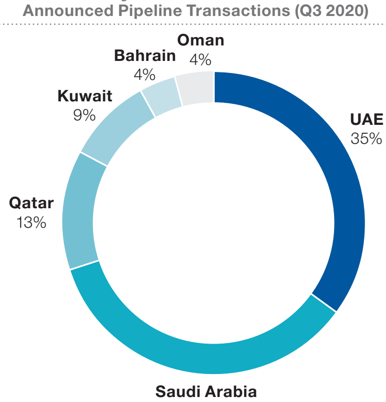
In addition, the closed transactions throughout the quarter spanned across multiple sectors which was also observed in the previous quarter. More importantly, the sectors that witnessed the greatest level of activity throughout Q3 2020 were the Financials, Industrials and IT sectors. Collectively, these three sectors accounted for 48% of the total transactions that closed throughout the quarter. The Financials and Industrials sectors were also among the sectors that witnessed the greatest level of activity in Q2 2020.

Deals Pipeline

By the end of Q3 2020, there was a total of 23 announced transactions in the pipeline, which is significantly higher relative to Q2 2020. As witnessed last quarter, the majority of these transactions involved Saudi and UAE targets, each of whom accounted for 35% of the total number of deals announced. The remaining transactions primarily included Kuwaiti and Qatari targets whereas Bahrain and Oman each announced one transaction throughout the quarter.

Geographical distribution by number of

Announced Pipeline Transactions (Q3 2020)



Top 5 M&A Deals by Reported Value* - Q3 2020

Target Company	Target Country	Buyer	Buyer Country	Percent Sought	Deal Value (USD mn)	Status
Qatar Fertiliser Company	Qatar	Industries Qatar	Qatar	25	1,000	Announced
National Marine Dredging Company	United Arab Emirates	National Petroleum Construction Company	United Arab Emirates	70	*689	Announced
First Milling Company	Saudi Arabia	Raha AlSafi Consortium	Saudi Arabia	100	540	Closed
InstaShop	United Arab Emirates	Delivery Hero	Germany	100	360	Closed
AMMROC	United Arab Emirates	Edge Group	United Arab Emirates	40	307	Announced

Source: S&P Capital IQ, GCC Stock Exchanges, Local Newspapers, Markaz Analysis
*Top deals were chosen based on transactions, which had all necessary information provided.
** The transaction value was calculated based on the following assumptions: 1) Convertible Instrument → 575.0 million ordinary shares and 2) Convertible Share Price = USD 1.2.

Number of Closed GCC M&A Transactions

Country	Q3 '20	Q2 '20	Q3 '19	% Change* (Q2 '20)	% Change* (Q3 '19)
Bahrain	1	4	0	-75%	N/A
Kuwait	6	3	8	100%	-25%
Oman	0	2	0	-100%	N/A
Qatar	1	0	1	N/A	0%
Saudi Arabia	5	6	8	-17%	-38%
United Arab Emirates	10	8	13	25%	-23%
Total	**23**	**23**	**30**	**0%**	**-23%**

Source: S&P Capital IQ, GCC Stock Exchanges, Local Newspapers, Markaz Analysis
* % changes are in comparison to Q3 2020.

Sector-wise Classification of Deals - Q3 2020

Sector	GCC Acquirers	Foreign Acquirers	Other*	Grand Total	%
Financials	4	0	1	5	22
Industrials	3	0	0	3	13
Information Technology	1	2	0	3	13
Consumer Discretionary	1	0	1	2	9
Consumer Staples	2	0	0	2	9
Logistics	2	0	0	2	9
Healthcare	0	1	1	2	9
Energy	1	0	0	1	4
Insurance	0	0	1	1	4
Media	1	0	0	1	4
Real Estate	0	0	1	1	4
Grand Total	**15**	**3**	**5**	**23**	**100**

*Other refers to deals where buyer information is not available.

INFORMED OPINION

Markaz: Issuances by GCC Sovereign entities increase by 40% year-on-year amid growing budget deficits

Primary issuances of Bonds and Sukuk in GCC amounted to USD 70.7 billion during H1-2020, an increase of 9% year-on-year.

Markaz, in its recent research report titled "GCC Bonds and Sukuk Market Survey H1-2020", highlighted the trends pertaining to Bonds and Sukuk primary issuances in the GCC region during the first half of 2020. The report showed that although primary issuances of debt were subdued during the first quarter of 2020 due to the implications and uncertainty surrounding the outbreak of Covid-19, issuing activity has picked up since and is evident by the sharp increase of 40% year-on-year in primary issuances of GCC Sovereign entities, which amounted to USD 42.3 billion during the first half of 2020. The double blow of Covid-19 and the subsequent slump in oil prices has resulted in added strain on GCC economies in terms of growing budget deficits and the need to gap them, whilst also leading to an unprecedented low interest rate environment.

The total value of GCC Bonds and Sukuk primary issuances amounted to USD 70.7 billion during H1-2020, an increase of 9% from the USD 65.0 billion raised during H1-2019. Moreover, the total number of primary issuances during H1-2020 totaled 174 primary issuances, compared to 229 issuances during the same period in 2019.

GCC Bonds and Sukuk Market

The Bonds and Sukuk market within the GCC consists of Bonds and Sukuk issued by governments or corporations for financing purposes and are denominated in either local or foreign currencies. A total of USD 70.7 billion was raised by Sovereign and Corporate entities in the GCC during H1-2020, an increase of 9% year-on-year from USD 65.0 billion raised during H1-2019.

Geographical Allocation: UAE-based issuers led the GCC Bonds and Sukuk market during H1-2020, raising a total of USD 24.6 billion, representing 35% of the total value raised in the GCC, through 95 primary issuances. Saudi Arabia followed with 28% and Qatar with 26% of the total value raised. Moreover, Kuwaiti entities raised a total of USD 2.8 billion during H1-2020, representing 4% of the total value raised during H1-2020.

UAE-based issuers led the GCC Bonds and Sukuk market during H1-2020, raising a total of USD 24.6 billion – 35% of the total value raised in the GCC

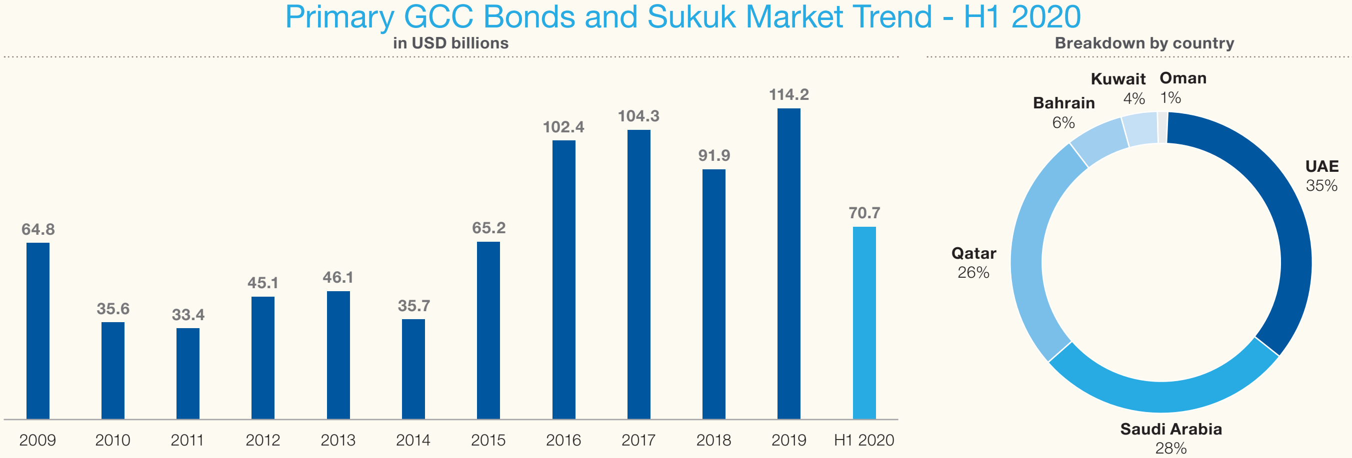
Sovereign vs. Corporate: Sovereign issuances by GCC entities amounted to USD 42.3 billion during H1-2020, which is an increase of 40% year-on-year from USD 30.1 billion raised during H1-2019. Corporate issuances on the other hand amounted to a total value of USD 28.5 billion during H1-2020, a decrease of 18% year-on-year from USD 34.9 billion raised during H1-2019.

Conventional vs. Sukuk: Conventional issuances increased during H1-2020 by 16% year-on-year compared to H1-2020, where a total of USD 55.5 billion was raised in the first half of 2020, representing 79% of the total value of primary issuances in the GCC. On the other hand, Sukuk issuances declined by 10% year-on-year to reach USD 15.2 billion during H1-2020 and representing 21% of the total value of issuances, compared with USD 17.0 billion raised during H1-2019.

Sector Allocation: The Government sector within the GCC accounted for the largest amount of primary debt issuances by value, raising a total of USD 42.3 billion, or 60% of the total value of issuances in the GCC during H1-2020, through 26 issuances. The Financial sector was second in its contribution to the total value of GCC primary issuances, raising a total value of USD 26.4 billion and representing 37% of the total market.

Maturity Profile: Issuances with tenors of 5-10 years slightly dominated the GCC debt capital markets by total value, raising a total of USD 21.3 billion, or 30% of the total value of issuances, through 31 issuances. Issuances with tenors of 10-30 came in second with a total value raised

Primary GCC Bonds and Sukuk Market Trend - H1 2020



of USD 21.3 billion through 23 issuances.

Issue Size Profile: The size of GCC Bonds and Sukuk issuances ranged from USD 5 million to USD 5 billion. Issuances with principle amounts greater than or equal to USD 1 billion raised the largest amount totaling USD 51.5 billion, representing 73% of the total primary issuances.

Currency Profile: US Dollar-denominated issuances led the GCC Bonds and Sukuk market in H1-2020, raising a total of USD 59.0 billion or 83% of the total value of issuances during H1-2020, through 109 issuances. The second-largest issue currency was the Saudi Riyal (SAR), where issuances in SAR raised a total of USD 5.5 billion or 8% of the total value of issuances in the GCC, through 5 issuances.

Rating: In terms of value, a total of 80% of GCC Conventional and Sukuk bonds were rated as Investment Grade during H1-2020 by either one of the following rating agencies: Standard & Poor's, Moody's, Fitch and/or Capital Intelligence.

Listing: During H1-2020, 113 issuances of a total of 174 issuances of Bonds and Sukuk were listed, which represent 65% of the total number of issuances with a total value of USD 67.6 billion. The London Stock Exchange is the listing exchange with the greatest traded value of GCC primary issuances during H1-2020 totaling USD 32.7 billion through 50 issuances.

Bonds and Sukuk Total Amount Outstanding in the GCC: As of 30 June 2020, the total amount outstanding of Corporate and Sovereign Bonds and Sukuk issued by GCC entities was USD 643.3 billion. Government issuances made up 58% of the total amount. The Financial sector led the Corporates with 23% of the total amount.

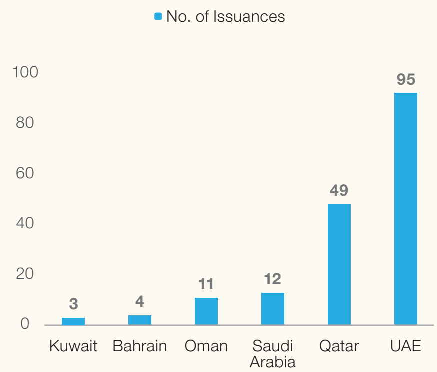
Of the amount outstanding as of 30 June 2020, USD 233.9 billion, or 36%, were issued by Saudi Arabian entities. Bonds and Sukuk by Kuwaiti entities accounted for only 5% of the total amount of outstanding debt in the GCC.

GCC Central Banks Local Issuances: GCC Central Banks Local Issuances are comprised of short-term issuances by GCC Central Banks primarily to regulate levels of domestic liquidity and issued in local currency. During the first half of 2020, the Central Banks of Kuwait, Bahrain, Qatar, and Oman raised a combined total of USD 23.8 billion (other Central Banks in the GCC do not provide regular and publicly available information on such issuances).

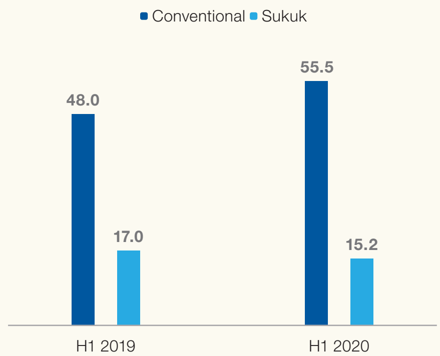
The Central Bank of Kuwait was the largest issuer, raising a total value of USD 14.1 billion during H1-2020, followed by the Central Bank of Bahrain with a total value of USD 6.6 billion.

Primary GCC Bonds and Sukuk Market - H1 2020

Number of issues by country

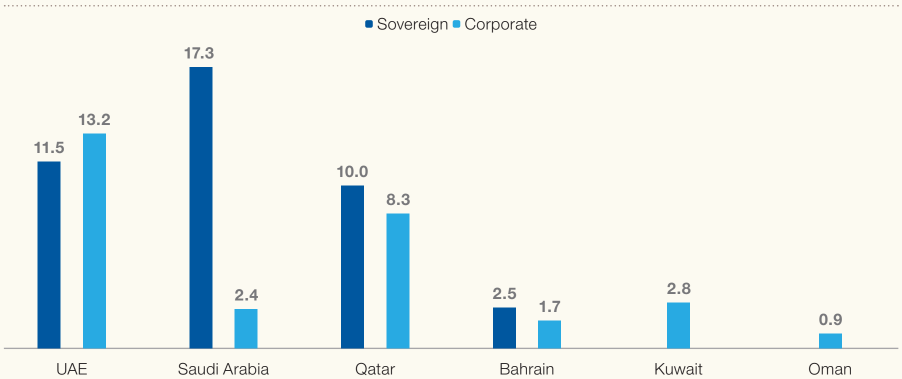


in USD billions



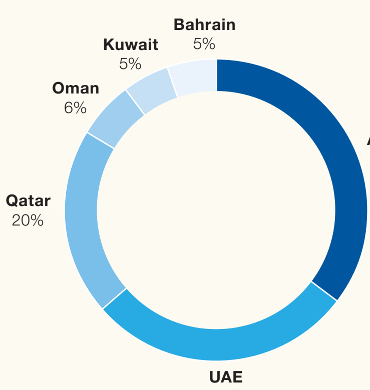
Primary GCC Bonds and Sukuk Market - H1 2020

in USD billions

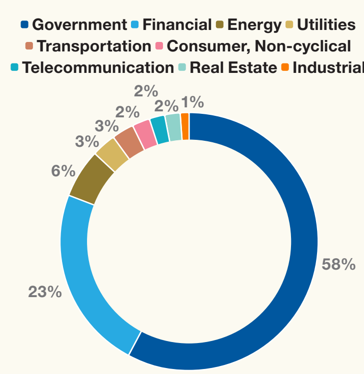


Outstanding GCC Bonds and Sukuk Issuances - H1 2020

Total value breakdown by country



Total value breakdown by sector



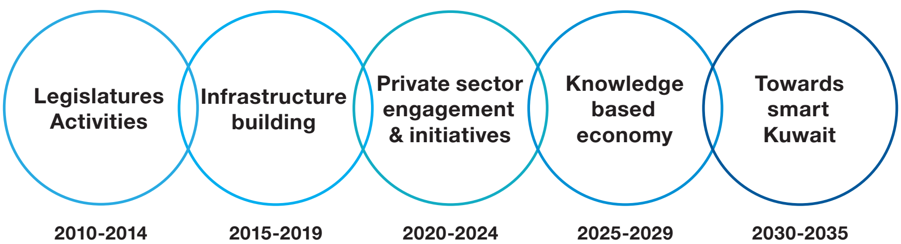
INFORMED OPINION

Reimagining development projects through PPPs

By: Sheikh Humoud Salah Al-Sabah, AVP, Government Business Relations at Markaz

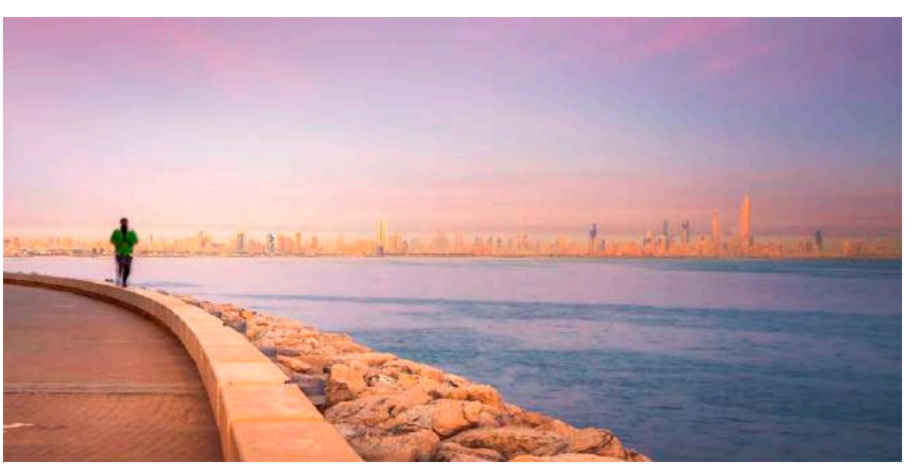
Since its establishment in the early 1700s, Kuwait was a hub and a major trade route that linked the Middle East with India and Africa. Kuwait relied on the private sector to finance the budget through taxation. When oil was discovered in the 1930s, and the first shipment was exported in 1946, Kuwait's strategy changed. The new-found wealth enabled the country to usher in an era of financial abundance and prosperity. Kuwait utilized the income from oil to transform itself into a "super" welfare state that provided everything to its citizens from the cradle to the grave. The government was in charge of all developments[1]. Most of the private sector was nationalized including electricity, airlines and, in the 1970s, the oil industry was nationalized.

In 2010, the government of Kuwait announced a new vision dubbed "Kuwait 2035". The vision entails that the government will transform Kuwait into a financial and commercial hub and the private sector will be the leader of development. The Kuwait 2035 vision comes in 5 tranches:



Source: Mahdi, K. (March 2018) Kuwait Plan for the future. International Conference on Innovation and Economic Diversification in GCC's National Development Plans.

Type of contract	Example
Build, operate, transfer (BOT)	The private sector builds and operates a project (Souq Sharq, for example) and pays the government a fixed annual fee
Operation and maintenance	The government owns the asset. However, they hire the private sector to operate and maintain the asset. London tube is an example
Design-build-finance-maintain and operate	The private sector pays a fixed lease to the government while the government enters into a purchase agreement usually "take or pay" with the private sector



We are currently in the 3rd phase of "private sector engagement & initiatives." This phase, if executed efficiently, will see the government moving away from operating and regulating to only regulating. The tools envisioned by the government to attain this goal is through a mixture of privatization initiatives and public-private partnership initiatives. In this article, we will explore the public-private partnership model and how Kuwait can leverage the private sector to increase productivity and efficiency.

Public-Private Partnership Explained

The main premise of a 'public-private partnership' contract is that the public sector and the private sector engage in a long-term development project or service where there is a clear split of responsibilities and rights between the two parties.

PPP projects tend to share the profits and losses among both sectors. Each country has its own laws that govern the PPP model; however, most of the laws revolve around the following fundamental contracts.

PPP models are deeply rooted in history. The Suez Canal in Egypt was one of the first mega PPP projects in the region. The canal started operation in the 1800s. After that, PPP projects were sporadic. Such projects gained prominence in the late 1970s and revolved mainly around energy projects (oil & gas and electricity). As mentioned earlier, PPP contracts come in different shapes and forms and they are executed either as a greenfield project (new project) or a brownfield project (existing projects).

Benefits of Public-Private Partnerships

There are three main players in a public-private partnership; the public sector, the private sector, and the lenders. For the private sector, the benefits are clear. The private entity will be able (in theory) to access higher leverage since the government backs the project (implicitly). Large PPP projects are usually done in consortiums, which could spread the risks across different participants. Although public-private partnership contracts come in different forms, in some PPP contracts, the government pre-purchase all the available output of a project (e.g. water and electricity), which guarantees the private entity's revenue stream.

We are currently in the 3rd phase which, if executed efficiently, will see the government moving away from operating to only regulating

As for the government, the benefits are more apparent. In theory, PPP projects result in the more efficient operation of the asset, thereby, reducing waste and cost runoffs. By engaging with the private sector, the government could "release" its funds for other projects and also transfer the execution and financial risk over to the private sector.

Although PPP projects tend to be financed through a non-recourse or unsecured debt, lenders are more willing to finance projects backed by a government with a strong credit rating than a corporation with a strong credit rating.

The development plan for 2020-2024 revolves around "private sector engagement". We believe that going forward the Government of Kuwait will rely heavily on PPP projects to attain its vision, transforming Kuwait into a regional and commercial hub.

INFORMED OPINION

Defensive sectors in GCC – a great bet in today's times

GCC stock markets have made a smart recovery in the second half of 2020, aided by a rebound in oil prices, the re-opening of GCC economies sooner than anticipated and the announcement of successful trials of Covid-19 vaccines. The recovery can be observed from the performance of the S&P GCC Composite index that increased 27% from the lows on March 16, 2020[1]. During this period of recovery, we look at the sectors that outperformed the index. We assess the performance of GCC sector indices to ascertain which sectors are good bets during uncertain times.

Are defensive sectors a great bet during volatile times?

The downturn has increased the need for fund managers and investors to look at defensive stocks. Defensive stocks are those that perform well during periods of crisis. Their businesses also tend to provide products or services that are in demand even during recessions. Examples of such sectors are consumer staples, consumer discretionary, and utilities. We can observe that the GCC Non-Cyclicals index, which consists mainly of consumer-oriented stocks, has gained 40% for the year-till-date (YTD) as against the S&P GCC composite index, which has fallen 10% YTD. During the early days of the pandemic when lockdowns were instituted, consumer spending on essentials (staples) saw an increase as people stocked up on essential items to avoid frequent visits to shops. As the economies were gradually reopened in the GCC, consumer spending on discretionary items also saw a rebound. Companies in the food, retail sectors have reported increased profits this year and have seen their share prices soar to new highs as reflected in the sectoral index's outperformance. The resilient business model and expectations of robust future growth due to increased spending underpinned by a growing population are further reasons for the sector's outperformance. This indicates that defensive stocks like non-cyclicals are a great investment bet in uncertain times.

Companies in the food and retail sectors have reported increased profits this year and have seen their share prices soar to new highs

Another index to significantly outperform the S&P GCC Composite is the GCC Healthcare index that is up 25% YTD. The Covid-19 pandemic has seen an increased investor focus on the healthcare

[1] All performance data as of 31 October, 2020

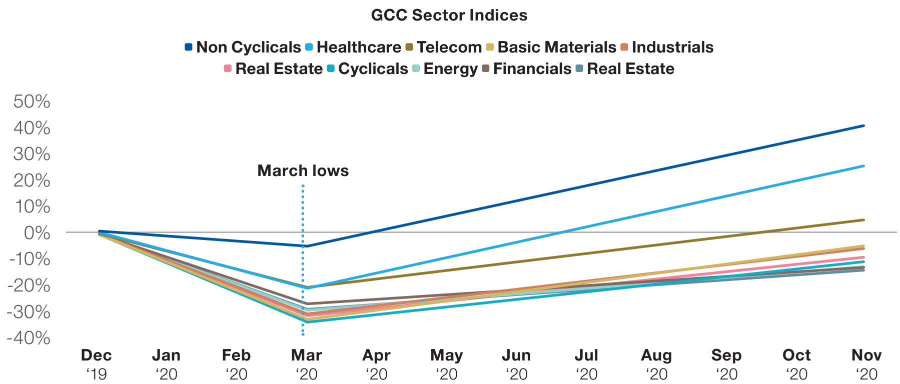
PG 22

CONTINUED FROM PG 21

Defensive sectors in GCC – a great bet in today's times

Exhibit 1:

Defensive sectors have smartly rebounded from March lows while others have languished



Source: Refinitiv; Data as of October 2020-end.
Note: 2020-start values rebased to 100. Year-to-date price performance shown along with labels

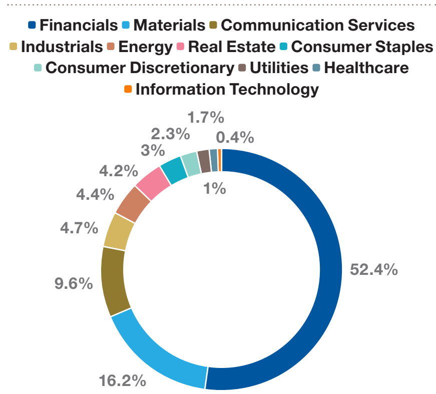
sector in the near term. GCC Healthcare stocks have benefited from the global rally in pharmaceutical stocks as governments around the world are expected to spend billions on acquiring vaccines for Covid-19 in the next few years. This along with increased hospitalizations due to Covid-19 has seen healthcare and pharma stocks outperform the S&P GCC Composite index. The long-term prospects for the sector also look good, as the GCC governments are likely to increase healthcare spending even after the pandemic ends.

Other sectors that can be considered to be defensives like telecom have also outperformed the S&P GCC Composite index with the GCC telecom index up 5% for the year. With increased internet data usage due to people being confined to their homes during the lockdown, telecom companies are expected to benefit from the crisis. In the long run, with e-learning and work from home expected to increase, the telecom sector is also expected to outperform the market.

Defensive sectors constitute a relatively small portion of the S&P GCC Composite index

Exhibit 2:

Sectoral Breakdown of S&P GCC Composite index



Source: S&P Indices

However, the weightage for defensive sectors is low at 17.6% in the S&P GCC Composite with Communication Services (9.6%), Consumer Staples (3%), Consumer Discretionary (2.3%), Utilities (1.7%), and Healthcare (1.0%). The Covid-19 crisis and the strong rebound of these sectors could result in these sectors getting a higher weightage, which can result in further outperformance in the future. This could also encourage unlisted companies in these sectors to consider IPOs as they observe their listed peers outperform the market. The market too needs an adequate number of defensive stocks as they can offer support during downturns and prevent investors, particularly institutional investors, from leaving the markets entirely.

Conclusion

The GCC markets have staged a recovery from the lows seen in March due to the falling number of coronavirus cases in the GCC and the re-opening of the economies. They have also tracked the global recovery in stock markets due to monetary easing by the U.S Federal Reserve and positive news about Covid-19 vaccines. GCC sectors like Banks, Financials, Energy, and Real estate have also seen a recovery from the low points seen in March and April. However, their recovery has been surpassed by defensive sectors, which have not only avoided losses but also provided solid gains for their investors at a time when all GCC economies are in a recession. This is something that fund managers and index providers in the GCC can consider when they build their portfolios.

Markaz collaborates with key organizations to support community and economy

In its constant endeavor to actively participate in community service and contribute to building a strong and sustainable economy in Kuwait, Markaz adopted a corporate social and economic responsibility strategy aimed at fulfilling its responsibilities to society. The Markaz CSR strategy is founded on three main pillars, namely 1) Building human capacity, 2) Aligning its business environment with the principles of sustainable development, and 3) Promoting good governance in the business environment.

In the third quarter of 2020, Markaz has supported a number of reputable organizations and activities that contribute to developing human capabilities, in order to nurture and give back to the communities where they operate.

1 Kuwait Red Crescent Society

Markaz proudly renewed its partnership with Kuwait Red Crescent Society (KRCS) as a 'Platinum Humanitarian Partner' in 2020.

Markaz's core values include economic and social responsibility, which served as the key driver of the company's renewed partnerships with the leading non-profit organizations in Kuwait. The strengthening of its long-standing relationship with KRCS comes in line with Markaz's keenness to continue providing aid to those who are in dire need, especially those hit by the global pandemic.

2 Loyac

Markaz's strong relationship with the youth development non-profit organization Loyac is represented by the renewal of its sponsorship with. This year, Markaz strategically partnered with Loyac to host its Al-Jawhar program, which aims to develop the youth's media interviewing and presentation skills by providing them with workshops hosted by the industry's leading Arab media pioneers who's skills and experience contributed to the renaissance of broadcasting in Kuwait and the Arab region.

3 The Indian English Academy School

In keeping with the belief that the youth are the future builders of society, Markaz continues to provide scholarships to students at the Indian English Academy School. By doing so, the company aims to foster skills and build a well-educated generation. The scholarships are meant to encourage students to strive academically.

iMarkaz

The 1st personalized investment app supported by Markaz experts

You can now achieve your investment goals with Kuwait Financial Centre “Markaz” through its new application iMarkaz, an interactive platform that provides you with initial investment advice, suitable for your investment requirements and supported by Markaz experts.

iMarkaz application allows you to build your investment portfolios in minutes and connects you to Markaz professionals who will be there for you throughout your investment journey.

Download iMarkaz now!

المركز
MARKAZ

Kuwait Financial Centre K.P.S.C.
Asset Management | Investment Banking

markaz.com | +965 2224 8000