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Caravanning for commerce

UBS, Lazard Asset Management, Citi, The Bank of New York Mellon have all established a presence in the Middle East. Dubai, Qatar, Saudi Arabia and Bahrain are all jostling for business and trying to establish themselves as the financial hub of the region. **Angelique Ruzicka** finds out who is attracting the most attention.

The days of the 'suit case' fund manager and banker appear to be officially numbered when it comes to doing business in the Middle East. The asset management and banking industry have realised that when it comes to dealing with the region it is no longer good enough to merely fly in and fly out again. As a result, a number of institutions have set up businesses on the ground in the United Arab Emirates (UAE).

Lazard Asset Management is one of the latest firms to get a licence to open an office in Bahrain. It plans to provide asset management advice to clients in Bahrain and the wider GCC, on both conventional and Shari'a compliant products and services. The office will be managed by Edward Remington-Hobbs, director of client service and business in the Middle East.

Even hedge funds have been attracted by the Gulf. Lionhart, which specialises in multi-strategy arbtrage, obtained approval in July this year to open an office in Dubai, which will be headed by Jim Quinn.

Firms that already have a foothold there are expanding their business. UBS is perhaps one of the most rapidly expanding financial institutions in the Middle East. This year, it has stormed dramatically ahead in the Middle East by opening an office in Saudi Arabia and simultaneously announcing that it is applying for a license to operate in Qatar.

UBS Saudi Arabia plans to open by the end of the year, following authorisation by the Capital Markets Authority (CMA).

UBS has a long established history in the Middle East; it opened its first office in Beirut in 1964 and has increased its presence ever since. It already has an office in Dubai and was a founding member of the Dubai International Financial Exchange (DIFX).

"WHAT BECOME APPARENT OVER THE LAST TWO TO THREE YEARS WAS THAT WE NEEDED THE PRODUCT SPECIALISTS TO BE BASED IN THE REGION"

UBS has also made a string of new hires to beef up its resources in the region. In July this year it appointed Per E Larsson as CEO for the entire Middle East and North Africa region and as a member of the group managing board. Larsson starts on 1 October this year. In addition, UBS has hired Mohamed Sammakia to become CEO of its Saudi Arabia division.

"As the world's largest wealth management firm, UBS has to play in the markets that generate the most wealth. The Gulf region is an area that is currently experiencing phenomenal growth. UBS has catered to investors from this region for some time, but mostly through off-shore private banking services," explains Alois Pirker, senior analyst at Aite Group. "The recent trend is to an establish on-shore presence that complies with local rules and regulations and allows wealth managers to cater to their clients' in their home country."

Pirker adds: "This will also allow UBS to cater to a larger range of clients, and particularly those individuals that hesitated to move their assets off-shore or did not quite have enough assets to justify the effort involved."

SERVICE PROVIDERS FOLLOW ON

Traditional and alternative asset management firms have flocked into the Middle East and so too have their service providers. The Bank of New York Mellon (BNY Mellon) was awarded their licence to operate in the Dubai International Financial Centre (DIFC) in April 2008. BNY Mellon found the need to establish its business there even though it said it had relationships dating back to the 1900s in the region and has presence in Abu Dhabi, Cairo and Istanbul.

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"What became apparent over the last two to three years was that we needed the product specialists to be based in the region. It was no longer adequate having them fly in from New York and London. When the region grew in wealth and sophistication, we needed to have them based here," said Hani Kablawi, managing director, head of Middle East & Africa at BNY Mellon.

Citi Global Transaction Services announced in July this year that it's offering securities and fund Services business to clients in Bahrain for the first time. It's had a physical presence in the country since 1969.

Competition is fierce and Qatar, Bahrain, Saudi Arabia, and Dubai's are all vying for business from foreign investment management firms and their service providers.

At the moment there doesn't appear to be a front runner when it comes to the UAE. The various jurisdictions in the Middle East have their work cut out for them too as they try and convince financial firms that they can offer the same benefits as the 'big guns' such as the Caymans, British Virgin Isles, Luxembourg and Dublin.

Tahir Jawed, managing partner of law firm Maples & Calder says most funds are still set up in the Cayman Islands. "It's been the most popular from a regulator and investor confidence perspective and people find the jurisdiction reliable," he says. "Most funds are domiciled in the Caymans, sold and invested in the Middle East and serviced pretty much anywhere."

The DIFC is looking to attract more funds to be domiciled in Dubai and they are constantly updating the legislation and fee structure to make it more user-friendly. But there still aren't many funds domiciled in the DIFC. "Arguably, it's a new jurisdiction and investors are not familiar with Dubai yet. And given the costs involved in the Cayman Islands there aren't many good reasons for not doing it there. Of course, it depends on the type of fund you set up, but I'd be surprised if it were cheaper to do it in the DIFC than in the Caymans," adds Jawed.

A much favoured jurisdiction to domicile funds in currently in the Middle East is Bahrain. Although Pictet already has a rep office in Dubai but when it comes to domiciling funds Emad Mostaque, investment manager of Pictet Asset Management argues in favour of Bahrain. "A lot of locals will list on the Bahrain market as the legal structure is a bit better than Dubai's. Dubai's rules are new whereas Bahrain's structure is more developed and people know the case law," says Mostaque.

Dubai's reputation for financial probity has dramatically improved in recent years but robustness of the legal structure has been challenged of late. Reports from financial website, Arabian Business said the former vice president of Dubai Islamic Bank (DIB) Rifaat Othmani, one of the UAE's biggest Shari'a compliant lenders, has recently been detained on alleged fraud charges.

Tamweel, the Dubai based mortgage lender, has also seen employee arrests on fraud charges this year. According to financial site Zawya, Tamweel's former chief executive is being held by poice in Dubai as part of a financial probe. But Dubai is fighting the fraud every step of the way and the arrests are just the latest stage in its broadening corporate clean-up campaign.

A PLACE TO EXPAND BUSINESS

What Dubai does offer though is also a place in which to expand your business further says Kablawi: "In Abu Dhabi we got to a point where we needed to grow further and a rep office licence doesn't always allow

"THE LICENCE FROM THE DIFC FITS VERY NICELY WITH WHAT WE ARE TRYING TO DO IN PUTTING MORE SALES PEOPLE IN TO THE REGION"

you to do that. The licence offered by the DIFC fits very nicely with what we are trying to do in putting more sales people into the region."

The DIFC itself is also a very convenient place to work as all the asset management firms, securities services businesses, lawyers and other financial firms are all located in the same place and it's all within easy walking distance.

"Dubai has a really interesting work environment. Walking around the coffee shops and offices does have a feel of Canary Wharf or perhaps Wall Street. It gives employees here a good feeling of working here," adds Kablawi.

Dubai is also favoured as it has the most tolerable view toward Western values in the Middle East. And this is perhaps where it wins hands down above the rest. "It's the nicest place to live in the region and the least conservative and the most developed in terms of expat living," believes Mostaque.

FINANCIAL COMMITMENT

While firms like UBS make it look so easy setting up in the Middle East, the truth of the matter is that it's not. Sometimes the process can take a while and to reduce the waiting time it's important to collect information and be ready for anything from the outset. Getting all the documentation in order should not be the only concern. "It all depends on how efficient the asset manager is and what preparations they have done in raising funds," warns Jawed.

He adds: "Some managers get ahead of themselves on the documentation but then don't get the financial commitments in and that slows things down." TFB

Spoilt for choice

Private equity is the most popular product in the Middle East currently, but asset management firms are attracting investors with other types of funds too. Angelique Ruzicka finds out what is wetting investors' appetites

No one really knows how much money there is in the Middle East. It's bound to be a fantastic number, but investors there have scant reason to advertise their worth to attract business. "No one has a real interest in disclosing how much money they have. Their philosophy is that if you really want to work with me, you will find a reason to do so and bridge your capabilities. And why should they put a signpost saying '$400bn available here,'' argues Peter Preisler director and head of EMEA at T.Rowe Price.

Full disclosure of wealth may never be available but the good news is Middle East investors are keen to invest. Here, wealthy high net worth individuals and institutions are sophisticated in their own right and want to diversify away from resources such as oil and gas. Even though these commodities helped to create their fortunes in the first place they realise the importance of diversification in the event that they run out.

What has become largely popular is investing in private equity. "It's booming in the region because of all the infrastructure work that is constantly underway in building healthcare facilities, schools, hotels and other tourism facilities," says Tahir Jawed managing partner of law firm Maples & Calder.

According to financial website Zawya, the last three years has seen a boost in private equity fund raising activity in the region. The number of funds has more than doubled during this time with 22 funds in 2007, compared to 16 in 2006 and 12 in 2005. Total funds raised by private equity operators in the MENA (Middle East North Africa) region was $6bn in 2007, an enormous jump from 2005, which saw $2.4bn in total funds raised.

The opportunities for private equity investors aren't about to dry up. According to Abraaj Capital, one of the UAE's largest private equity firms, investments needed in the Middle East's infrastructure projects are valued at $676bn over the next ten years.

MIDDLE EAST & AFRICA

The rise of MENA funds shows how much opportunity the region presents for managers and their investors. There are many reasons to invest in MENA says Pictet, who themselves have set up a Luxembourg domiciled fund to invest in the region. "It's a place that is awash with liquidity, obviously because of the high oil prices, while the rest of the world is draining of liquidity," explains Oliver Bell, head of emerging markets specialist equities for Pictet Asset Management.

Bell believes the MENA region can be compared to the way India and China were just before they gained huge interest and investment. "There is a lot of infrastructure going on that is akin to what's happening in India and China. It's got the same demographics to India, with around 50% of people under 25 in need of jobs."

CONCENTRATING ON COMPLIANCE

But the way forward seems to be in catering to the demand of Shari'a compliant products. This year Western financial firms have been quick off the mark in offering these products.

In June, Investec Asset Management announced its partnership with Jadwa Investment, a Shari'a-compliant investment provider in Saudi Arabia, which will see it managing Jadwa's Africa Equity Freestyle Fund. The fund's remit is to target Saudi investors who are looking to capitalise on the investment prospects offered by Africa.

Meanwhile, New Star and Emirates NDB Group launched the Emirates Islamic Global Property fund, which will provide investors with access to global commercial property while still being Shari'a compliant. The fund is managed by Emirates Investment Services (EIS), the asset management arm of Emirates NBD Group and will focus on continental European and Asian direct commercial property.

Providers of exchange traded funds (ETFs) are also trying to appeal to Islamic investors. Deutsche Bank's db x-trackers listed three regional ETFs cover the S&P 500, S&P Europe 350 and Japan 500 – and they are all Shari'a compliant. To complement the regional ETFs db x-trackers is also listing a global Shari'a compliant ETF on Dow Jones Islamic Market Titans 100.

The launch of the Shari'a ETFs follows after Deutsche Bank introduced an array of specialist products on credit indices and emerging markets like Vietnam. "The progression of this was to look at Shari'a investing as well. We think it could be big in the future so we wanted to put in place products that are compliant with people's religious beliefs," explained Manooj Mistry, head of db x-trackers UK.

Besides retail investors, the products will be targeted at institutional investors such as banks and wealth managers. "There are over 500 Shari'a complaint funds globally. These funds can use these ETFs in their portfolio to get exposure to the US, Europe or Japan or even globally. The screening has been done already and you don't have to worry that the portfolio will breach any investment principles," adds Mistry.

To appeal to Islamic investors ETF Securities produced a Shari'a compliant exchange traded commodities (ETC) platform. The five ETCs offer the opportunity to invest in platinum, palladium, silver, gold and a precious metal basket. "ETCs were designed to be simple and accessible tools for all types of investors. Shari'a compliance further extends the global reach of ETCs which are now traded on five exchanges in three currencies. The Shari'a compliant ETCs have grown to $2.6bn in the past 14 months with trading volumes of $2bn in July before this exciting new development," says Hector McNeil, managing partner of ETF Securities.

The opportunity for Western institutions could very well lie in the provision of Shari'a compliant funds. There are few options for Islamic banks and their treasurers and increasingly governments say a certain amount needs to be invested in Islamic products. "There aren't that many Islamic products out there but there is a lot of Islamic money," says Emad Mostaque, investment manager at Pictet. Getting into the Shari'a market doesn't mean that firms need to be too innovative in what they come up with. "From our research we found that there are very few products such as Shari'a based global emerging market funds and money market funds. So you don't need to be very exotic," advises Mostaque. However, new entrants are bound to have a tough time in getting interest from Islamic investors. "It's going to be a big market, but you will need a good reputation above all else to succeed," says Mostaque. TFB

EMPOWERING THE MIDDLE EAST FUNDS INDUSTRY

The Middle Eastern fund industry has massive potential, but needs help, explains Zawya's Pamela Chikhani

Zawya is a business information platform focusing on the Middle East and North Africa region. Our mission is to empower business and finance professionals with information and connectivity to understand and develop the regional economies.

Zawya's Funds Monitor (which readers of The Fund Business can trial at www.zawya.com/funds) is part of our wider funds mission to develop the fund management industry in the Middle East. We believe that the fund management industry in the region is still in a nascent stage and has plenty of room to grow.

To help grow the fund industry exponentially, we aim to assist two kinds of audience – the fund managers and the investors.

For fund managers we provide all the tools necessary to search, compare and track their funds with their peers. Also, fund of funds managers, especially international ones, can do their due diligence thanks to comprehensive and accurate information available in the monitor.

Investors can search, track, compare and monitor mutual, hedge and property funds performance and style through our service. Each fund has a dedicated profile with all the information necessary to make a sound investment decision. With returns of more than 40% year to date, mutual funds in the middle east are attracting a lot of foreign investors (Institutional and Retail) looking to diversify away from the downturns of their economies.

CONNECTIVITY

We recently added a new feature that supports our connectivity concept – to connect fund managers with investors. So, if an investor likes a fund and wants to get in touch with the fund manager, we have a button called 'Buy This Fund', which allows them to fill in their details and requirements. Those details are then passed on automatically to the concerned fund manager.

ZAWYA FUNDS RANKING

The regional fund management industry needs to adhere to international standard laws and regulations to realize its true potential. By providing transparency, we enable fund managers to reach an international audience that is quite demanding and conforms to strict standards.

In October we will be launching a funds ranking service. Funds will be ranked based on their returns, volatility, fees and compliance – the latter being unique for any ratings service. The compliance element assesses if a fund offers the proper legal documents, benchmarks, public disclosure of net asset value (NAV) and assets under management (AUM) in a timely manner, plus other information of interest to the investor.

We think the fund management industry will be the next big thing in the region.

By Pamela Chikhani, VicePresident – Funds Investment at Zawya

Charming the investorss

The debate rages on about whether there can ever be a truly Shari'a compliant hedge fund strategy that everyone accepts. Yet Shari'a compliant hedge funds exist and their managers are convinced they are genuine, but not everyone is charmed. **Angelique Ruzicka** investigates

Kosher and Halal – what's the difference? Apparently very little according to two candidates in a reality show in the UK called 'The Apprentice' that aired this year. Jenny and Michael proved their ignorance when, tasked with buying kosher chicken, they wandered over to a Halal butcher. It was embarrassing to watch as the dim pair allowed the butcher to bless the chicken. What makes it worse is that Michael professed to be 'a good Jewish boy', so, he really should have known better.

IGNORANCE IS NO EXCUSE

Ignorance is not an excuse when it comes to offering financial products to religious investors. If your company is aiming to offer Shari'a product, there are specific laws that need to be adhered to and scholars need to be consulted.

The rules surrounding Shari'a investment products have not remained stagnant, however. Over time Shari'a laws have adapted and what was unacceptable in the past has long since been debated and approved.

Shari'a products have evolved to accommodate those investors looking for diversification and better returns on their investments. The concept of investing in alternatives has piqued the interest of many institutional and retail Islamic investors. "Between 70-90% of HNW individuals prefer Shari'a compliant products. Corporate Islamic financial Institutions, like Dubai Islamic Bank and Noor Islamic Bank, have to invest in Shari'a compliant assets. There are $267bn in investible assets in Islamic banks in the Middle East and that needs to go somewhere," says Nik Norishky Thani, executive director of Islamic Finance at the DIFC.

But how close are Shari'a compliant hedge funds to a Western fund? The truth is they still have some way to go and it's debatable if they can even be classified as hedge funds.

SHORT SELLING DILEMMA

Conventional short selling is forbidden as Shari'a law prohibits investors from selling something that they do not own. Under Shari'a, an investor cannot borrow shares from a brokerage firm or bank, sell them in the market and profit from it. But those who have set up Shari'a compliant hedge funds have found a way around this dilemma. "Theoretically it is possible to replicate the technologies employed by conventional hedge fund managers and structure it in a Shari'a compliant manner," says Norishky Thani. "We see scholars debating three structures that replicate short selling: Salam, Arboon and Wa'ad. Theoretically these three can be used but some scholars don't agree. The substance of it is still debatable."

ALTERNATIVE INVESTMENTS?

While the debate rages on, the interest in alternatives increases and in the future, they are expected to become very sought after. According to a Merrill Lynch and Casey Quirk report published in December 2007, institutional investors are going to more than double their investments into alternatives to around $11trn by 2011.

There are a number of institutions that have launched

Shari'a compliant hedge funds despite the debate and each argues the merits of their strategy.

The first player to launch Shari'a compliant hedge funds was NewEdge. It created a suite using a platform from broker Fimat. Its hedge funds recieved $100m in from seed capital from NCB Capital, which is part of Saudi Arabia's National Commercial Bank.

THE AL SAFI PLATFORM

Other hedge funds followed suit soon afterwards. This year in June, Barclays Capital together with advisor Shariah Capital announced the launch of its alternative investment platform, the Al Safi. What has put weight behind the venture and the product is the fact that the Dubai Multi Commodities Centre Authority (DMCC), an agency of the Dubai government committed to seed five commodity hedge fund managers on the Al Safi platform. It awarded them a total of $250m ($50m each). The hedge fund managers and commodity strategies approved by the DMCC included: Tocqueville Asset Management (gold), Lucas Capital Management LLC (energy/oil & gas), Zweig-DiMenna Intl. Managers (natural resources), Ospraie Management (agriculture) and BlackRock, Inc. for global resources and mining.

"With the support of a sovereign government and the prime broker and structuring expertise of Barclays Capital to offer the first Shari'a compliant hedge funds on the Al Safi Trust alternative platform is a historic development that unites modern investment strategies with Shari'a," says Eric Meyer, chairman and CEO of Shariah Capital.

ARBOON, WA'AD & SALAM

Barclays Capital uses the Arboon method. The process establishes ownership before the sale of the asset to the market. Essentially, when a hedge fund wants to short a stock on Al Safi, the trader it uses puts an order through Barclays Capital Prime Brokerage, but the difference is that on Al Safi the broker facilitates the transaction as a purchase and not as a loan. According to Barclays Capital, hedge funds using these tools don't need to change their investment styles as it ensures that the contracts underlying the transactions are Shari'a compliant.

"The Arboon was more suited to the modern market place and

"IGNORANCE IS NO EXCUSE WHEN IT COMES TO OFFERING PRODUCTS TO RELIGIOUS INVESTORS"

we managed to adapt it pretty seamlessly for the investment manager and investor. From the prime broker's perspective we've had to modify the underlying legal documentation, so there is a lot behind the scenes but it does work perfectly," says Sheikh Yusuf Talal DeLorenzo, the chief Shari'a officer of Shariah Capital.

SPIRIT OF THE LAW

Shariah Capital and Barclays rejected the other strategies for various reasons. The problem they had with the Salam solution was two-fold. "One it did not fit in very well with the SEC (Securities and Exchange

THE PROBLEM THEY HAD WITH THE SALAM SOLUTION WAS TWO-FOLD

Commission) regulations in particular regulation T," says Sheikh Yusuf. "Secondly we found that from the Shari'a side AAOIFI (Accounting Auditing Organisation for Financial Institutions) which propagates Sharia standards, one of its standards state that Salam sales cannot be used for securities (buying and selling). It was originally an agricultural rule."

With Wa'ad they rejected the solution as they didn't approve of it from an authenticity perspective. "What it boils down to is a total return swap. You promise to exchange one basket of returns for another basket. And the problem behind that is that for such a swap to be truly Shari'a compliant (with both the spirit and the letter of the law) the underlying asset in both baskets need to be Shari'a compliant," argues Sheikh Yusuf.

The AAOIFI standards, however, appear to be the bone of contention as there are different interpretations as to what is acceptable under this law and what isn't. Richard Ellis, partner of Amiri

Capital, argues that Wa'ad is acceptable under the AAOIFI rules. Equally, Amiri have a highly respected Shari'a board, chaired by Sheikh Hussein Mohammed Hussain, who is also chair of other institutions such as Dubai Islamic Bank and Emirates Islamic Bank. "The chairman has taken the lead on this and he has scrutinised this down to the closest detail. On the stock screening system he has got to know the methodology we have adopted and provided a Fatwa," explains Ellis.

But after looking at Arboon and Salam, Amiri felt Wa'ad was more appropriate under AAOIFI law. "The early thinkers around this were looking at two contracts Salam and Arboon. These were looked at and there are a lot of concerns about their use in this application. They are contracts wih long-standing application in Islam, but AAOIFI has been outspoken about the fact that Salaam can't be used for shorting application. Arboon is contested structure some people believe it shouldn't be used for anything but others think it can," says Ellis.

"THE FIRST MOVER ADVANTAGE WILL BE DIFFICULT TO REPLICATE "

WA'AD

In essence the Wa'ad structure is based on 'promises' of buying and selling stock, and Ellis insists that there is no shorting involved and no contracts are created at the outset. Amiri's Shari'a compliant offering is a Cayman based fund and hedge fund managers will be running between $1-3bn. To ensure they had the right managers Amiri partnered with fund of fund managers Coronation, which is a South African house. "Coronation has a long standing experience in long-short fund of funds and has a big stable of managers. They are highly experienced, quality managers," says Ellis. "They run segregated accounts for us within our structure. Every time they buy a stock they have go through our screening system to know whether it's compliant or not and they have to go through the over-the-counter structure with Lehman Brothers, who is our partner on this."

While the Dubai government backed Barclays's platform, it remains to be seen whether Amiri's offering will receive similar attention. But Ellis insists it will. He hopes to launch the fund with over $100m from Gulf based investors and expects that he fund will grow to over $1bn. "I think there is governmental interest and there is interest from Islamic banks and institutions too. If you take the Malaysian market where we have relationships, they are looking for hedge fund allocations to compliment their other asset classes too," says Ellis.

IS CONSENSUS POSSIBLE?

There is no denying that Shari'a compliant hedge funds have captured the imagination of some investors. But it will take some time before the majority of investors can be swayed into believing that hedge funds are truly Shari'a compliant.

There is the argument of keeping the law the way it is now as Shari'a investors have largely been able to escape being burned by instruments that invest in complex derivatives that were exposed to sub-prime. Islamic finance is predicated on good business and sound fundamentals and screens have removed companies from portfolios before they went down. "People don't know this but we de-listed Enron, WorldCom and Tyco. There are examples of companies that went down that we de-listed from our indexes after our Shari'a screening detected problems. This is long before the conventional market picked it up, so we have a very successful formula," points out Sheikh Yusuf of Shariah Capital.

The problem though, going forward, for those keen on setting up Shari'a compliant hedge funds is whether or not there will ever be a method approved by all scholars. With no consensus from scholars it can only lead to further confusion from investors, both institutional and high-net-worth. A resolution is needed, and soon, before they are alienated by this concept.

But Islamic hedge funds hold great promise because of the potential business opportunity. "It opens up a whole new customer base, such as Islamic banks, Takaful, and HNW individuals. The first financial centre that figures out how to do the first Islamic hedge fund with substance and form would actually be able to attract most, if not all, of the hedge fund managers to their jurisdiction. The first mover advantage will be difficult for the next financial centre to replicate," says Norishky Thani. **TFB**

GLOSSARY:

Shari'a: In the legal terminology, Shari'a means the law as extracted by the mujtahids from the sources of law.

Salam: According to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) it is a contract for a purchase of a commodity for deferred delivery in exchange for immediate payment according to specific conditions.

Wa'ad: This structure is based on 'promises'.

Fatwa: hasan authoritative legal opinion based on Shari'a or jurists' law.

Arboon: The process establishes ownership before the sale of the asset to the market. Barclays and Shariah Capital say that under Arboon orders are seen as purchases and loans. This is conducted without any administrative impact on the hedge fund manager.

Halal: lawful; one of the five major Shari'a categorisations of human acts

BUILDING YOUR BUSINESS

Peter Hughes of Apex Fund Services Ltd considers the support that local and foreign fund managers need in the Middle East

What are the key challenges of administering funds in the region?
With the exception of Bahrain, the collective investment scheme market within the region is relatively embryonic. Rules and regulations are being drafted and implemented to meet the ever changing needs of local and international business. Investment managers are becoming more reliant upon, and seeing the advantages of, outsourcing back office functions such as administration to the likes of Apex Fund Services Ltd, and understanding the benefits of having independent administration when it comes to raising Western capital. It is challenging, but also very rewarding, to build partnerships with the region's managers. Apex views itself as being forward thinking, for example, locating in the emerging markets before our competitors. We were the first fund administration company to be approved by the Dubai Financial Services Authority to operate within the DIFC and the winner of the Hedge Funds World Awards 2008, Best Administrator in the Middle East award.

Apex has identified the differences both in terms of regulation and cross cultural diversification between the region's countries and is well placed to provide comprehensive accurate advice to fund managers wishing to set up funds.

In your experience, what types of funds have been set up recently in the region?
Private equity funds are definitely the main driver of business in the Middle East at the current time. These funds are being launched to take advantage of the booming property market in the region (property being one of the main asset classes) as well as investing Middle Eastern institutional money into the large conglomerates in the West; for example, DIC's investment into HSBC and ADIA's investment in Citigroup. Apex Fund Services Ltd has a strong fund administration IT platform available with web based reporting for both fund manager and investor combined with highly trained and experienced staff to administer this type of business. The global hedge fund business is also taking hold in the region.

Whilst initially targeting Middle Eastern family offices and high net worth individuals in the region, funds managed in the Gulf region are now attracting an inflow of Western institutional money from investment managers seeking refuge from the possible economic decline in the Western markets. The inclusion of several of the regional markets in the MSCI Emerging Markets Index in 2009 will increase the flows into GCC funds, however these investors expect an experienced independent administrator.

What are the advantages of establishing and administering funds in the DIFC?
One of the biggest advantages for establishing a fund in the DIFC is the high level of regulation. The DFSA operates a regulatory framework based on international best practice and drawing upon the experiences of London, Hong Kong and New York. International best practice is in synergy with Apex's business ethos where rigorous internal risk management and SAS 70 approved control framework to ensure top class service delivery.

In addition Dubai has a great location advantage – Dubai is able to trade and create wealth with the likes of London / New York in the West and Hong Kong / Singapore in the East on a same day basis. Dubai is also easily reached by the business traveller with world class transport and communication networks.

Is your market currently dominated by local or foreign fund firms?
Until recently the market was dominated by local investment managers who targeted local investment opportunities. Apex's success in the region is partially due to our business model of setting up in multiple jurisdictions to cater for local investment managers. All our service centres are fully operational with no function being outsourced. This is a model that is appreciated by the local managers in the areas in which we operate as we can be more responsive with a better understanding of the local markets. In recent months there has been an influx of foreign firms setting up in the Middle East to take advantage of the appreciating markets (uncorrelated to the West), lack of impact of the credit crisis and the liquidity of the region.

By Peter Hughes, Managing Director of Apex Fund Services Ltd

APEX Fund Services Ltd

The Dubai International Financial Centre (DIFC) and its surrounding high rise buildings reminds me of Canary Wharf in London and Paris' La Defence district, which also plays host to a number of asset management companies and other finan-cial institutions. Similarly everything here is clean, landscaped and modern.

Kevin Birkett, director of asset management at the DIFC, tells me that the initiative to attract financial business to Dubai was launched by the government in 2004. "Clearly we were working on that a little time before but that was when the legislation went through on a federal level. This enabled the government of Dubai to establish financial free zones of which this is one," he says.

Four years on, the buildings are host to a number of businesses. There are around 210 authorised firms that operate from the DIFC, 65 ancillary service providers such as lawyers and accountants, and about 500 unregulated businesses, which include anything from head hunters to coffee shops.

But it's not all going to end here. From the front the DIFC it all looks finished, but behind the square shaped building a massive construction project is underway. "The physical construction is moving very quickly, we anticipate 65 buildings on the site when it's completed and so far we have 18 finished," says Birkett as he points out the window. "There are no patches of land anymore; everything is in the course of construction. When you look at the back of the site you see buildings that are 70 storeys and still going skywards, so a lot is changing."

AMBITIOUS PLANS

The Middle East's ambitions are to diversify away from commodities such as oil and gas that have previously been the source of their wealth. For a long time now markets such as Dubai, Qatar, Bahrain, Saudi Arabia and Kuwait have jostled for position to be known as the financial hub in the region.

Dubai hopes that the foundations it has laid down by creating the DIFC and its financial regulator the DFSA (Dubai Financial Services Authority) will catapult it to the forefront of being the dominant financial hub.

Birkett never outwardly acknowledges this competition for attracting the most financial business, but hints that the DIFC is hesitant about sharing the limelight.

He admits, for instance, that the DIFC has no plans to carve out a niche for itself to attract business; instead it's happy about being 'all things to all men'. "We are looking to create a major financial centre that fits in that geographical map between the US, Europe and Asia. It may be that as a consequence of market activity that we end up with some specialisations, but that's not where we are coming from," he says.

While Dubai has no goal to become a specialist yet, there are signs that the industry is favouring setting up certain types of funds. There is a bias toward three different types of product: private equity, property and funds that invest in India and the Middle East North Africa (MENA) region.

Birkett explains the reasons for this preference: "Dubai has a historical link with India. In terms of private equity that is really how the private business of the country has been built over the years. As for property, Arab investors do prefer it when they can see a physical element of what they are investing in, and that would explain the activity in Dubai at the moment."

Dubai has fashioned itself into a well respected jurisdiction. It has modelled itself a lot on the UK's Financial Services Authority (FSA). But it has been influenced by other markets and institutions too. The DFSA's current chief executive, David

The DIFC is constantly being compared to London and the financial community recognise that it is now a major financial hub. **Angelique Ruzicka** flies out to Dubai to find out how it has attracted so much attention

cities

Knott is from Sydney and much of the investment law centres on the Australian rather than the UK model.

To set up an asset management business the fund operator has to have a presence at the DIFC. There have to be four key positions created. There needs to be a senior executive officer who is running the company, a compliance officer and an anti-money laundering reporting position (usually these positions are combined) and a financial officer.

Attracting banks, asset management companies, and service providers has not been a problem. In fact, there is a growing recognition now among the financial industry that having a physical presence in the Middle East to conduct business is a must.

Convincing companies to set up funds and be administered in Dubai is, however, a different matter. For hedge funds and other alternative product developers the winning formula of domiciling in the Caymans and being administered in Ireland is a tough one to break. For conventional funds, setting up a Luxembourg SICAV or Ucits fund is a well trodden path too and companies see little reason to change. Birkett is well aware of this problem. "The traditional route in using one of the offshore centres is just a phone call away and you get a package with documen-tation a few weeks later," says Birkett. "You have to remember we are an onshore centre. As well as the fund being registered here the fund operator has to be registered here and they have to go through the whole DFSA authorisation process and have physical presence on the ground in the DIFC. This would normally take around 10 weeks."

But the DIFC are making changes to attract businesses to the region. Initially, it started off with having a regime that insisted that everything was performed there. But now there is a consultation document looking at the merits of allowing firms to operate outside Dubai. "We were very conscious of our short term reputational risk but recently we provided a consultation document which suggested a relaxation of some of those requirements and that many of the functions can be outsourced to equally well regulated jurisdictions," explains Birkett.

REDEFINIG 'CLIENT'

Another document is looking at redefining the word 'client'. Up until now the DIFC has been an entirely wholesale jurisdiction that can only deal with high-net-worth individuals and institutions. "We have redefined the word 'client' to enable some firms within the centre to cater to retail business of they want to do so.

There will be additional regulatory requirements placed upon those firms if they choose to go down that route but there will no longer be a blanket exclusion," explains Birkett.

Birkett is under no illusion that Dubai has a chance of muscling in on the Cayman's lead but he is confident that Dubai's business will continue to develop. "I do see increasingly, as the market here develops, the merits of something with a 'made in Dubai' sticker on it. I suspect we won't encroach significantly on other offshore business, but I suspect we will get an increasing share of new business," he says.

"WE WERE VERY CONSCIOUS OF OUR SHORT TERM REPUTATIONAL RISK"

Keven Birkett Director, Asset Management DIFC

FROM START TO FINISH

The DIFC gets stuck in when it comes to helping firms establish themselves in the region. Short of rolling out the red carpet Birkett explains that it helps firms with everything from start to finish.

"We discuss requirements help them to formulate the business plan that will be acceptable to the regulators. We make the introduction with them and their advisors to the DFSA to submit to the DFSA," says Birkett. "We then help them with premises, act as their sponsor and liaise with the government services team to help them with visas and driving licences for their staff."

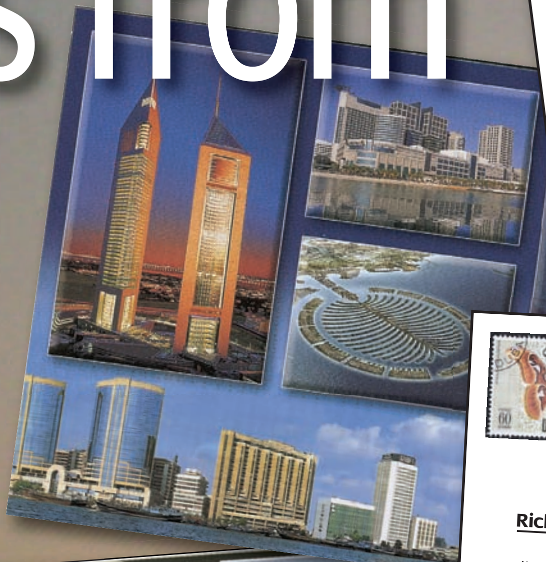
Considering the history of financial jurisdictions, Dubai is the new kid on the block. It may not be able to steal business from established players, and lacks the experience of Caymans and the BVI, but what it lacks in experience it can match with lifestyle. In the distance Birkett points out the race track and a strip of blue which he says is the pool for the horses. He jokes that he'd like to come back as one of the Sheikh's horses because of how well they are treated.

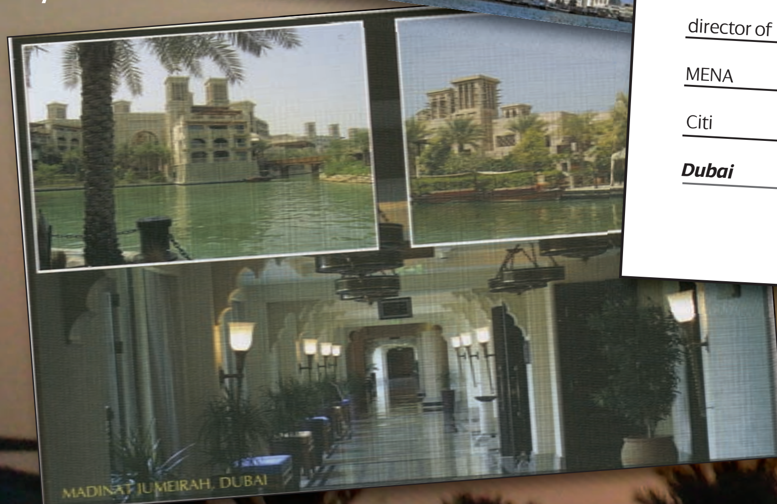
The DIFC's main goal may be to emulate 'London' but it can be so much more because of what Dubai has to offer. Here, decisions are made far quicker, there's more sunshine, no income tax and the cab fares are cheap.

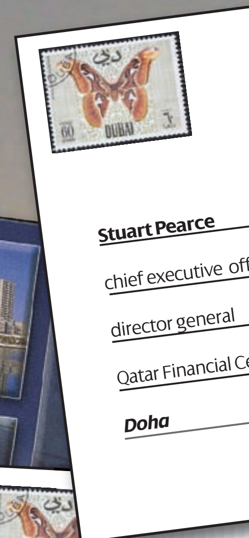
When I head out of the DIFC there's a patient queue for taxi cabs, it seems there are some things British expats still hold dear. There is no Under-ground, but why would I want to be pressed up against someone if I could sit in an air conditioned vehicle and survey the sunset. Dubai isn't the same as London, its far better. TFB

Postcards from the East

Moving to another country can be a daunting experience, but there are advantages. People do it for the work experience, to new make friends and earn more money. **Angelique Ruzicka** asks top figures in the asset management industry what it's been like moving to the Middle East.







Dubai's public relations machine has gone into overdrive recently. In the UK's The Sunday Times Magazine, which accompanies the weekend paper, it's tourist office published a full page advertisement targeting women. The title boasts: 'Dubai, for girls with high expectations' and the advertorial goes on to highlight Dubai's pros, including 'sun-drenched beaches, gleaming yachts, sumptuous spas, exotic souks, designer labels, divine cocktails'.

The women in the ads, while conservatively dressed, do give the impression that they are living in a Utopia that embraces the Western way of life. On the surface, Dubai appears very tolerant. While I was there I dressed appropriately but I need not have bothered.

Some Western women, employed at the DIFC, were dressed in short skirts and strappy tops and nobody seemed concerned.

When I returned from my business trip though, Dubai immediately hit the headlines for all the wrong reasons. The story of expat journalist Michelle Palmer allegedly having sex on Jumeirah beach with a British businessman, spread across the tabloids and broadsheets like wildfire.

In Dubai's defence, it is the most Westernised jurisdiction in the Middle East and Western women have been able to carry on more or less as normal. But there are differences and this case reminds us of that.

When I met a friend for dinner in the Mall of the Emirates I was given the option of sitting in the 'drinking' or 'non-drinking' area of the restaurant. My choice of sitting in the area where alcohol was served hardly raised an eyebrow.

But if you were to live it Dubai or anywhere else in the Middle East, you realise how different it is.

If you want to enjoy liquor in your own home you need to obtain a licence for it. Kissing in public and sex outside marriage is forbidden. You'd have to be married if you wanted to live with your partner. Cross dressing, homosexuality and pornography are banned and there is zero tolerance for drugs.

The rules may be strict and the punishments severe if they are breached (Palmer, for example could go to prison for years).

But I for one have little sympathy for Michelle Palmer. What was she thinking? She'd been there for a couple of years so she must have been familiar with the Middle East customs and way of life.

But I don't know all the facts of

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entre Authority

Living in Doha has changed quite dramatically in three years and will continue to do so. It's very easy to adapt, although Doha is obviously not London. The economy and population are expanding very quickly with top brands and hotels opening, which reflects the nature of Qatar; looking for quality, not volume. There are lots of sporting attractions which pass through Qatar including the PGA tour in January. Qatari people are very pleasant, kind and welcoming and it is a safe, family oriented place to live. Not paying income tax makes a big difference although the rate of inflation is high.

Stephen Harrison, executive director business development, Economic Development Board, ***Bahrain***

I've lived in Bahrain for three years this time around (since 1 July 2005).

I also lived in Bahrain from 1989-92, and visited regularly from mid-2001 onwards in a previous job. I was based in London 2000-2005, but travelled extensively. We adjusted like ducks to water. My English wife Pippa and I had met in Bahrain in 1991/92, and made a conscious decision to return there with our children. It was like coming home; everyone was so welcoming and clearly delighted to see us back. Our daughter called Bahrain home rather than the UK from an early stage, as it has been for our son. The advantages of living here are the wonderful people. Bahrainis, Brits reside here among lots of other nationalities. The sunshine, great working conditions, good leisure opportunities (including the chance to travel to nearby countries easily), make up a rosy-looking future from our point of view. If pressed, I might say that Pippa and I miss more defined seasons and the odd snowfall from our Moscow days, where we used to live as well. Our son jinxed our last trip to the UK by announcing that he really wanted to see some rain; it rained almost every day, and often continuously!

Matt Wood, director, Mourant International Finance Administration, ***Dubai***

In the autumn of last year I was asked by Mourant to come down to Dubai for a two year period. I started in Dubai in February of this year. My wife and I were living in Richmond, west London and I was working in Mourant's City office previously.

We were lucky in that a work colleague put us up in his villa for a month while we found and furnished accommodation.

Finding accommodation at a fair price is very difficult and you have to be prepared to make a quick decision when you see something you like.

It probably took three months until we felt comfortable. Learning the area and being comfortable with the traffic, as well as understanding how things get done (slowly) and dealing with bureaucracy are all challenges. We were lucky in that we knew a few people, here already, and through them developed a network of friends. My company helped to get me out here financially and with visas etc but most of it was left up to us which is how I like it. The climate is arguably too hot and uncomfortable but you learn to adapt to it and go outdoors early morning or in the evening. We love the outdoors and I enjoy kite surfing and sailing while my wife dives. There is plenty of that available and we spend a lot of our spare time doing such sports. In London it was a struggle to get out of town and then the weather might thwart our plans- not so here. Some aspects of Dubai living are very expensive and for those that want to live a five star life style the whole time then they won't save anything. We definitely miss green things and on occasion a nice rain fall would be very welcome, but the planes are like shuttles and we can easily get back to Europe for some rain and greenery!

ervices

Settling in is relatively easy once administrative things like having cars and houses are sorted. Dubai is very service orientated and you live in a reasonable amount of space but are also close to a fairly big city. Access to leisure activities and travel are bonuses with India and the Maldives relatively close by.

There are some downsides; you need to go through a certain level of bureaucracy to get things done. If you have help looking after your children or house you have to sponsor them – not the end of the world, but not as convenient as it could be.

Kevin Birkett

director of asset management

DIFC

Dubai

After 30 years of commuting to my office in London I have a 10 minute drive to work and am five away from the golf course. It's a very easy outdoor type lifestyle and that appeals to me and my family. It used be that Dubai closed in July and August, but increasingly it doesn't and I stay here right the way through. Moving here does present some challenges as there is some local bureaucracy. It's difficult finding accommodation.

At the same time there are benefits when you are furnishing your apartment. In the UK they say 'we can deliver in four months' whereas here they say 'we can we deliver it this afternoon'.

the case so I can't play judge. I do hope though that they show some leniency if she can prove that her employer didn't conduct a proper induction into the ways and customs of Dubai. There is after all no website approved by any Middle East governments explaining clearly what is acceptable and what isn't. People have to find out what's acceptable through work, friends or taxi drivers and may even begin to believe that the rules are all just a myth. In Palmer's case it wasn't. But there are people who are willing to look beyond the strict rules to what the Middle East has to offer:a good quality of life, sunshine, and better pay. **TFB**

David Marshall

head of product development

EIS Asset Management

Dubai

I wish I'd done a bit more homework before we came as it's very different in terms of culture. You pay all your rent up front in one cheque. It took a few months to settle in. There is an excellent quality of life though and the work / life balance is considerably better than in the UK. I've learnt a lot about appreciating different ways of working and it's interesting to see how things like UK foreign policy can impact on UK nationals abroad. Originally I thought the climate would be one of the advantages but moving in 52 degrees heat without electricity was not. Going 'duning' in the desert is brilliant but not for the faint hearted.