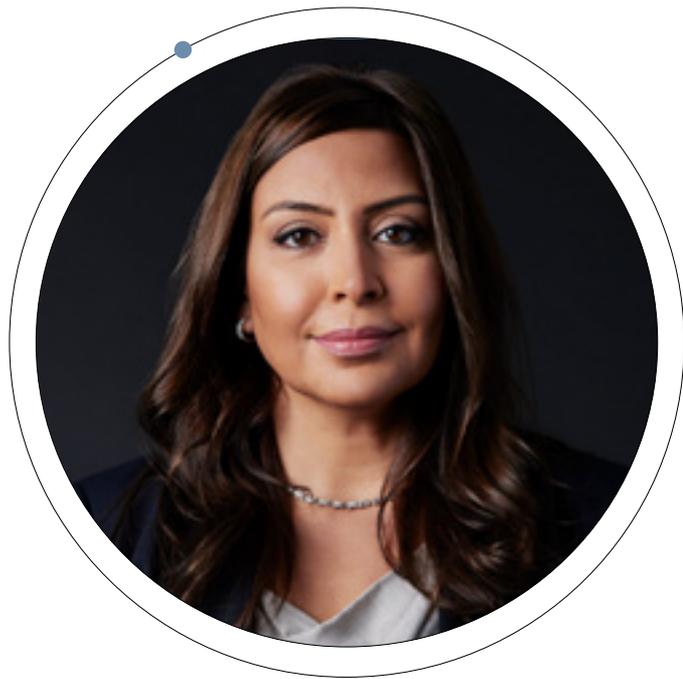


INVESTOR RETURN REQUIREMENTS IN THE GCC

2022
Fourth Quarter

An Inside Look into GCC Investor Expectations in an Era of Interest Rate Hikes and Slow Global Growth



“

The inaugural edition of the survey last year was so well received that, this year we decided to broaden the pool of respondents to include more diverse viewpoints

111

Respondents

As a trusted regional provider of high quality research, SICO prides itself on having our finger on the pulse of investor sentiment, which is why we were keen on producing our second annual investor returns requirements survey. The first iteration of this survey, which directly gauges the economic outlook and return expectations of CEOs, CFOs, investment managers, fund managers, and institutional investors in the GCC, came out in 2021 at a time when the investment community was fresh out of COVID restrictions and uncertain about the path forward. At the time, we set out to provide clarity in an investment landscape that was full of ambiguity.

The inaugural edition of the survey was so well received that this year we decided to broaden the pool of respondents to include more diverse viewpoints from 111 respondents and more than six countries across the MENA region. Survey takers were once again asked to share their opinions on expected returns from different asset classes such as cash deposits, real estate, government bonds, and private equity, as well as their expectations regarding economic performance across the GCC in 2023.



RESPONDENTS ARE ALL EXPECTING HIGHER RETURNS ON THEIR CASH AND EQUITY INVESTMENTS, AMID INTEREST RATE HIKES LED BY THE FED'S AGGRESSIVE MONETARY TIGHTENING.



Investors are most optimistic about the economies of Saudi Arabia, the UAE, and Qatar

As we head into the new year, we find ourselves faced with a new set of challenges, including weak growth forecasts across the globe, expected fall in demand for oil due to economic slowdown, high inflation, and fear that we are entering into recession. Here in the GCC, we fare better than most. According to a recent Reuters poll of economists, growth on average is expected to hit 4.2% in the GCC, much better than the forecasted IMF global average of 2.7% but lower than the 6.6% growth that we experienced in 2022.

Within this backdrop, our 2022 survey highlighted some interesting trends. Respondents are all expecting higher returns on their cash and equity investments, amid interest rate hikes led by the Fed's aggressive monetary tightening, compared to their expectations tracked in last year's survey. This is also reflected in higher rates expectations for 10-year government bonds relative to last year. In tandem, private equity investors continue to demand higher than 14% returns on their investments and when it comes to real estate, the required rate of return for most respondents ranged between 6-8% with expectations from the UAE coming in on the higher side at 9-11%.

Inflation remained the single most important concern for investors and the possibility of a recession in 2023 was widely expected among our respondents.

In terms of geographies, investors are most optimistic about the economic performance in Saudi Arabia, the UAE, and Qatar, most likely due to ongoing mega events and giga projects in those countries, which is great news for SICO as we strengthen our foundation in Saudi Arabia through our recently acquired subsidiary SICO Capital, a full-fledged investment bank, and as we leverage the IPO boom in the Emirates through our subsidiary SICO Financial Brokerage in the UAE.

Equally important to providing visibility on market dynamics through these annual surveys is being able to translate these results into products that meet the needs of GCC investors. As an asset manager, broker, market maker, and investment bank, it is crucial for us to understand what products to offer, at which prices, and in which markets.

Once again, we are pleased to share the aforementioned results with you in greater detail on the upcoming pages of this report. We are grateful to all our respondents who took the time to share their valuable opinions with us. We hope you will find the results in this report to be insightful and useful in helping you navigate your investments and your business in the coming year.

Najla M. Al Shirawi
Chief Executive Officer



As we head into the new year, we find ourselves faced with a new set of challenges, including weak growth forecasts across the globe, expected drop in demand for oil due to economic slowdown, high inflation, and fear that we are entering into recession. Here in the GCC, we expect to fare better than most

Higher returns required amid unanimous inflationary concerns

Survey Results Summary

We surveyed a group of C-Suite executives, investment and fund managers, business owners and institutional investors in the GCC on their expectations regarding investor returns for various asset classes.

The most striking finding compared to last year's survey is that, across all GCC countries, investors expect a cash deposit return of above 3%, compared to less than 3% in 2021.

Investors in Qatar and Oman curbed their expectations on real estate investments compared to 2021, choosing an expected rate of return of 6-8% this year, compared to 9-11% last year. UAE investors expect the highest return, 9-11%, on real estate investments.

There has been no change in expectations for 10-year USD government bonds, with investors in Saudi Arabia, the UAE, Kuwait, and Qatar expecting 3-5%, while their peers in Oman and Bahrain seek returns of 6-8%.

No change was witnessed in private equity return expectations, which stood at above 14%.

Listed equities should generate returns between 9% and 11% in Saudi Arabia, the UAE, and Qatar, which compares to 6-8% only for Saudi Arabia and the UAE last year. Investors in Kuwait, Oman, and Bahrain seek returns of 6-8%.

Minimum Unleveraged Required Return by Asset Class in the GCC

Asset Class	Saudi Arabia	UAE	Qatar	Kuwait	Oman	Bahrain
Listed Equities	9-11%			6-8%		
10-Year USD Government Bonds	3-5%				6-8%	
Real Estate	6-8%	9-11%	6-8%			
Private Equity	Over 14%					
Cash Deposits	Over 3%					

Listed Equities

9 - 11

**Investor
required
annual return
for Saudi
Arabia,
the UAE,
and Qatar**

0%

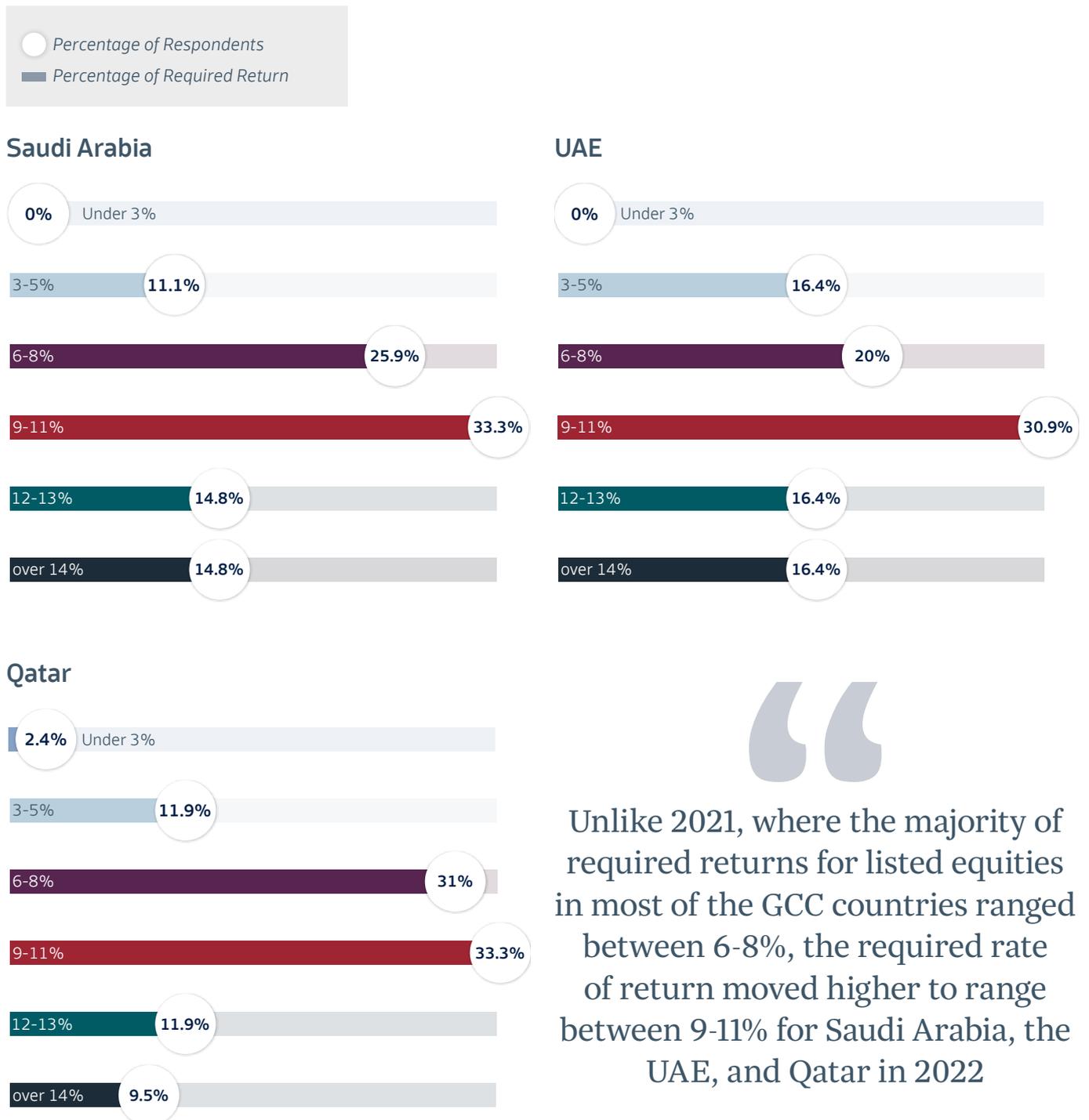
Compared to 6-8% for Saudi Arabia and the UAE in 2021

Listed Equities

Despite the suboptimal global market environment as inflationary pressures continue to rise, the GCC is wellshielded from these conditions as the region continues to benefit from rising energy prices and fiscal surplus. This reflected positively on capital market activity and overall investor confidence, with the total number of GCC IPOs in 1H 2022 reaching 23

listings and raising c. USD 13.7 billion, outperforming the comparable period for the last 10 years. Saudi Arabia and the UAE specifically have been outperforming the market with notable listings, including the “Dubai Electricity & Water Authority” on the DFM, “Bourouge” on the ADX, and “Retail Urban Development” on the Saudi Exchange.

Investor required annual returns for listed equities over the next 12 months, including dividends & capital gains

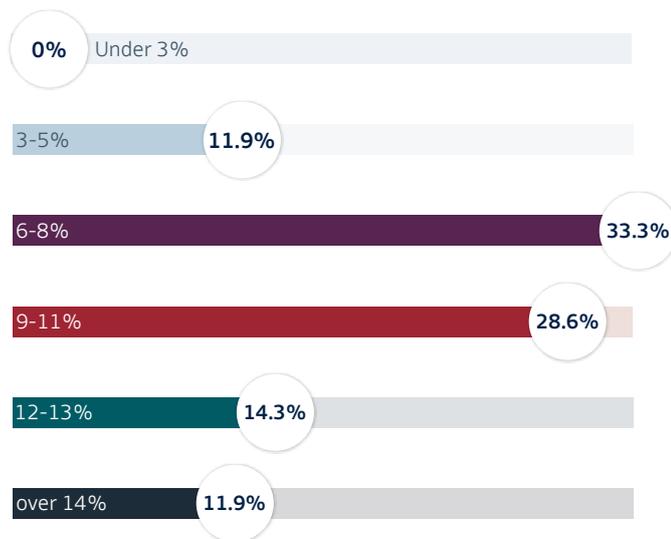


Unlike 2021, where the majority of required returns for listed equities in most of the GCC countries ranged between 6-8%, the required rate of return moved higher to range between 9-11% for Saudi Arabia, the UAE, and Qatar in 2022

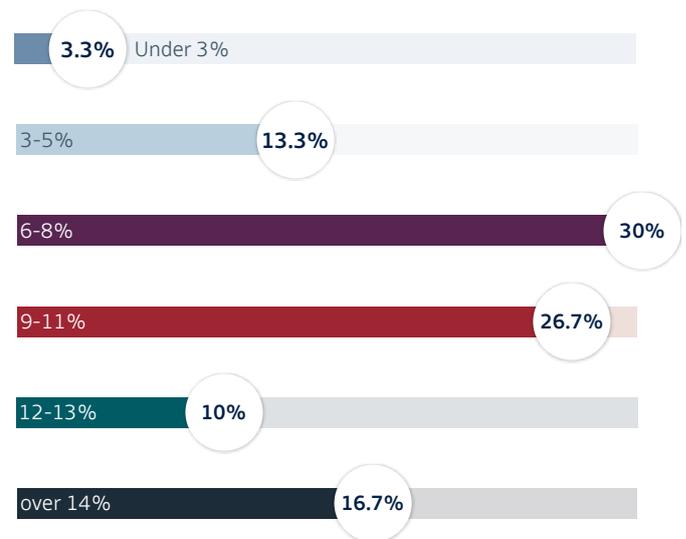
Listed Equities

○ Percentage of Respondents
 ■ Percentage of Required Return

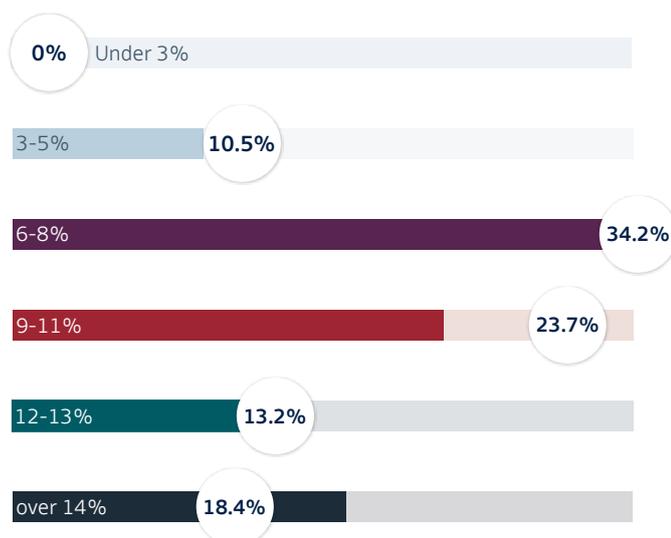
Kuwait



Bahrain



Oman



The majority of responses for Bahrain, Oman, and Kuwait required a 6-8% return range for listed equities, with investors requiring returns of 9-11% coming in second for these markets



Nishit Lakhotia
Head of Research



WE ARE FACING RATHER UNPRECEDENTED TIMES IN TERMS OF INTEREST RATE VOLATILITY AND A PACE AT WHICH MONETARY TIGHTENING IS HAPPENING (LED BY THE US) AFTER YEARS OF LOOSE MONETARY POLICY. DISCOUNT RATES ACROSS ASSET CLASSES WILL NATURALLY EVOLVE AND IT IS PERTINENT TO UNDERSTAND WHAT VARIOUS ASSET MANAGERS AND DECISION MAKERS ARE CONSIDERING REGARDING THEIR INVESTMENTS AND EXPECTED RETURNS.

Minimum Unleveraged Required Return by Asset Class in the GCC

10-Year USD Government Bonds

3-5

**Investor
required
annual
return in
Saudi Arabia,
the UAE,
Kuwait, and
Qatar**

0%

Unchanged from last year

10-Year USD Government Bonds

Required returns for Bahrain and Oman's 10-Year USD government bonds remained between 6-8%, which is similar to 2021, whereas other GCC countries' required returns were lower in 2022 compared to 2021, ranging between 3-5%.

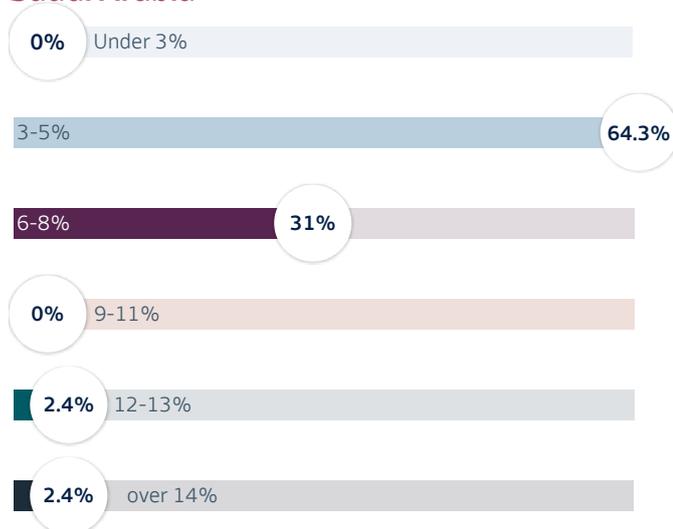
However, there was a marked increase year-on-year for investors now expecting 6-8% returns in other GCC countries, as compared to 2021.

During this challenging year, the defensive nature of GCC bonds left them well positioned to deliver a resilient performance in 2022. Taking into consideration the interest-rate volatility in 2022, coupled with the EM bond sell-off, GCC bonds have experienced some of the lowest declines (as measured by the FTSE MENA GCC Index).

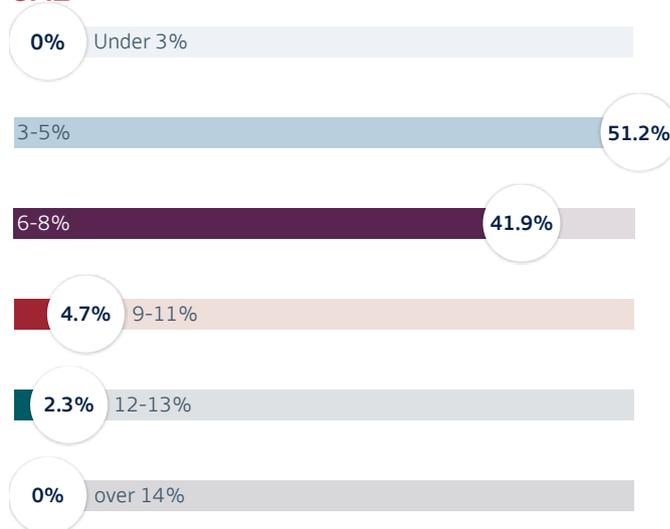
Investor required annual returns for 10-year USD government bonds over the next 12 months, including coupons & held to maturity



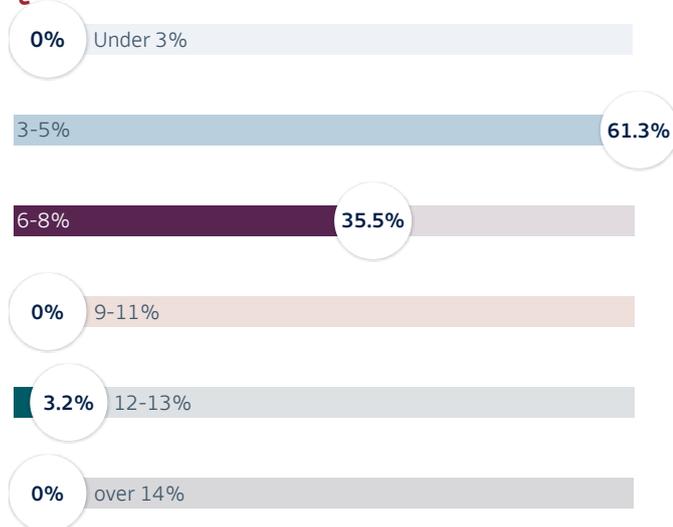
Saudi Arabia



UAE



Qatar



In Saudi Arabia and the UAE, 31% and 42% of respondents, respectively, require a 6-8% return in this year's survey, compared to 17% and 12% in 2021

10-Year USD Government Bonds

6 - 8

**Investor
required
annual return
for Bahrain
and Oman**

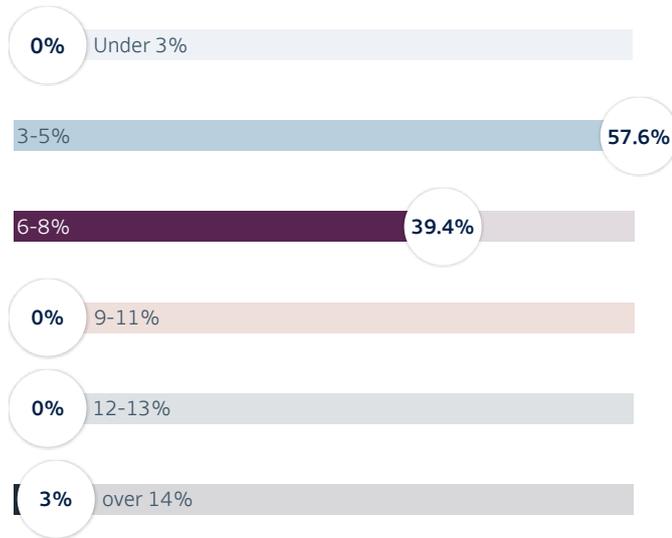
0%

Unchanged from last year

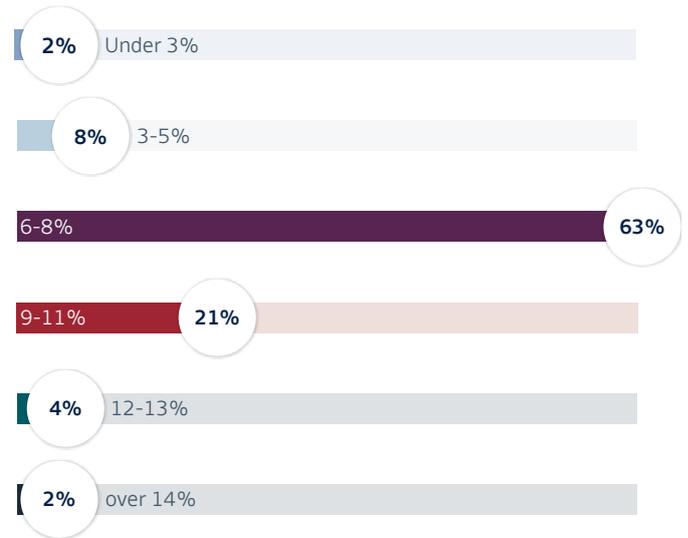
10-Year USD Government Bonds

○ Percentage of Respondents
 ■ Percentage of Required Return

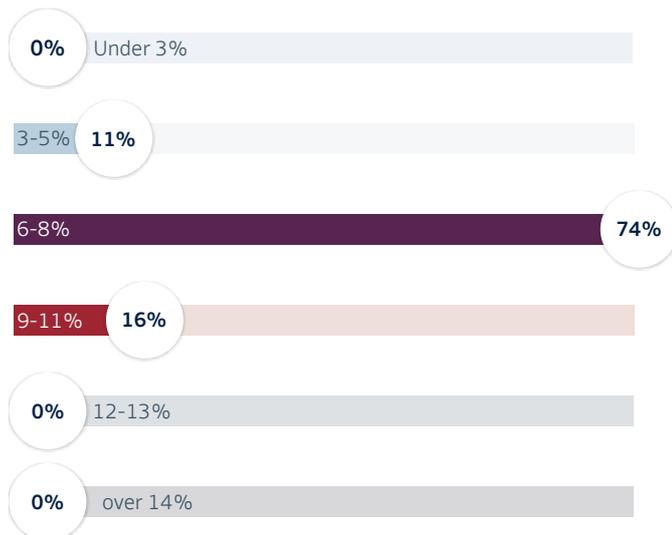
Kuwait



Bahrain



Oman



39% of respondents require a return of 6-8% in Kuwait this year compared to 8% of respondents in 2021



Wissam Haddad

Head of Investment Banking and Real Estate



WITH RAPIDLY INCREASING INFLATION, CENTRAL BANKERS GLOBALLY HAVE BEEN AGGRESSIVELY INCREASING INTEREST RATES IN AN ATTEMPT TO TEMPER INFLATION EXPECTATIONS — HOPING THAT SUCH EXPECTATIONS DO NOT BECOME INGRAINED AND UNCONTROLLABLE. SIMILARLY, INVESTOR RETURN REQUIREMENT EXPECTATIONS PLAY A CRITICAL ROLE IN VALUATIONS ACROSS ASSET CLASSES AND SPEAKING DIRECTLY TO INVESTORS, THROUGH THIS ANNUAL SURVEY, IS ONE WAY OF MEASURING THESE EXPECTATIONS.

Real Estate

6 - 8

**Investor
required
annual return
for Oman,
Qatar,
Saudi Arabia,
Bahrain,
and Kuwait**

0%

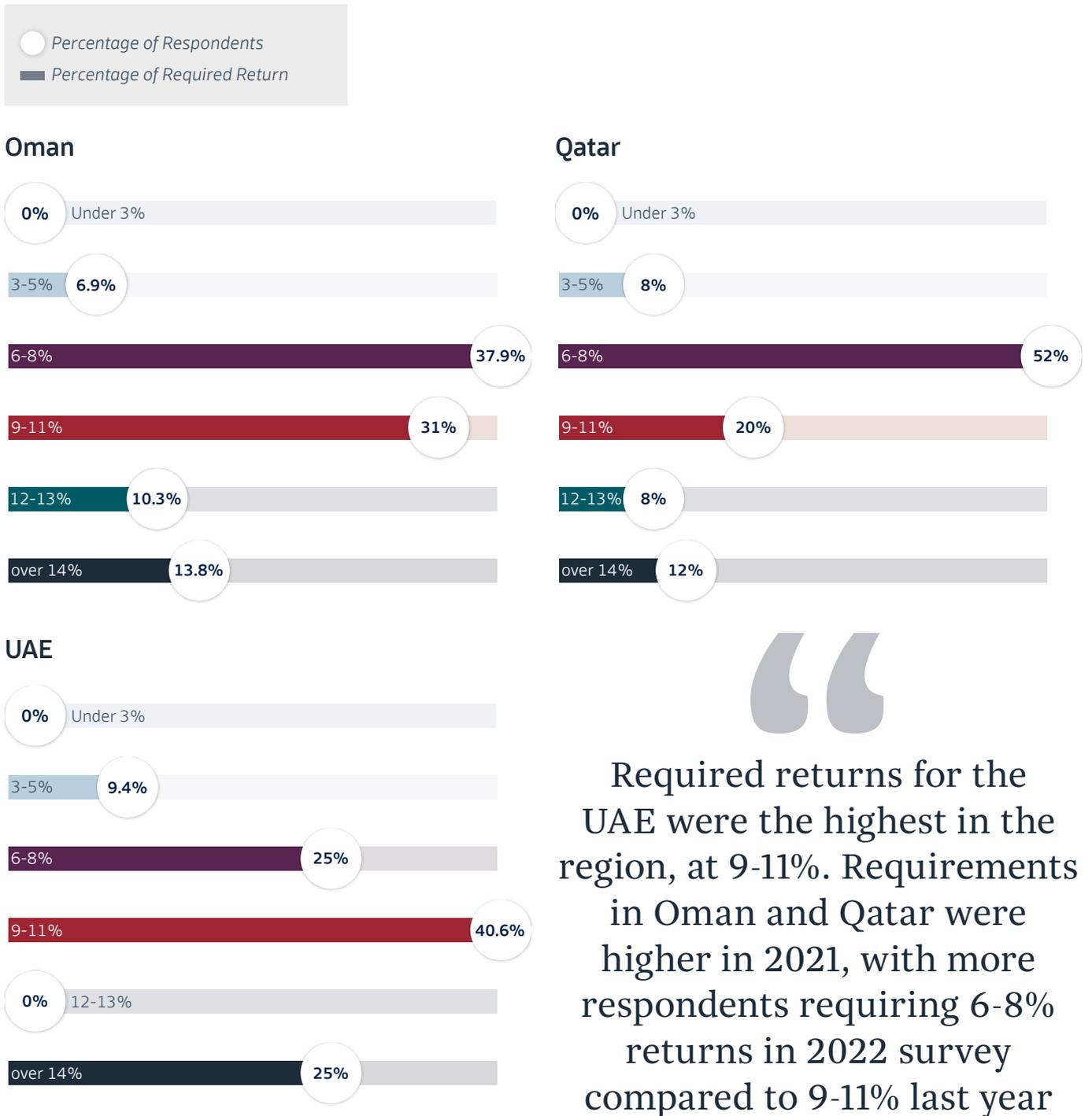
Compared to last year, required annual returns were higher for some countries, but remained the same for the UAE

Real Estate

Investor confidence in the real estate sector remained positive, with the likes of the UAE and Saudi Arabia witnessing growth trajectories across the residential, office, retail, and hospitality sectors. Government-led initiatives aimed at

delivering on ambitious real estate developments, on both the commercial and residential fronts, especially in Saudi Arabia, are anticipated to fuel further demand for real estate from investors and end-users.

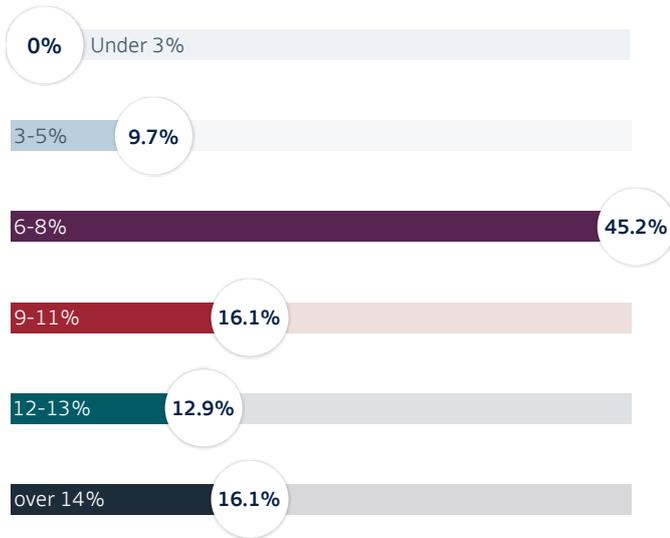
Investor required annual returns for real estate over the next 12 months, including total distributions & capital gains



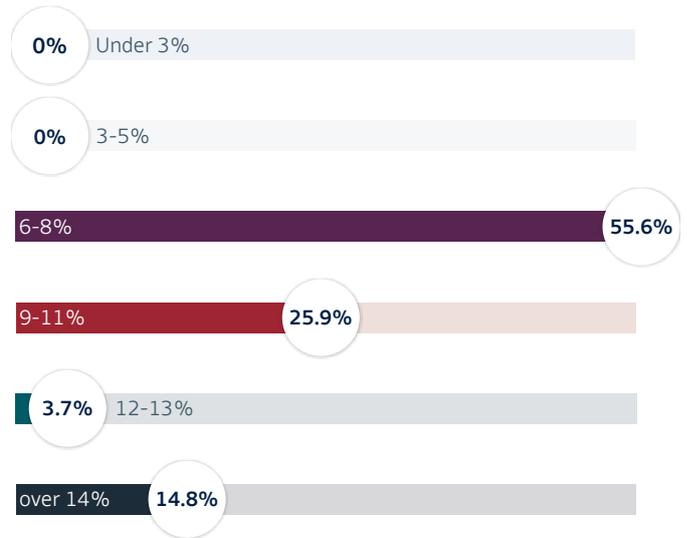
Real Estate



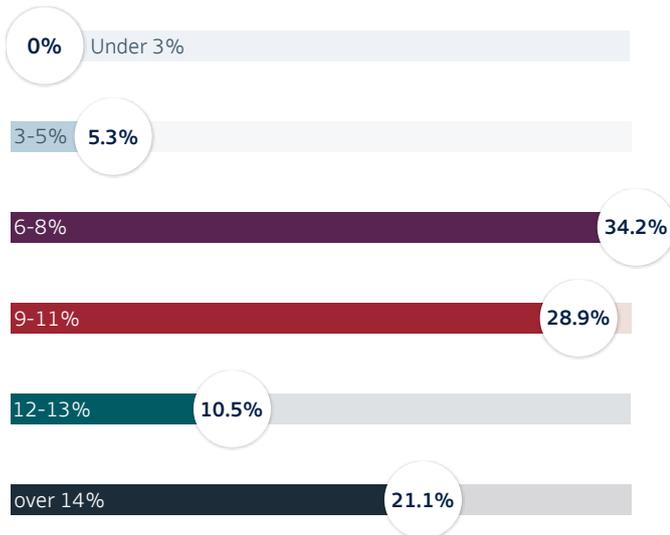
Saudi Arabia



Kuwait



Bahrain



Expectations in Saudi Arabia, Kuwait, and Bahrain on real estate investments are very similar this year compared to last year

Private Equity

> 14

**Investor
required
annual return
across all GCC
countries**

0%

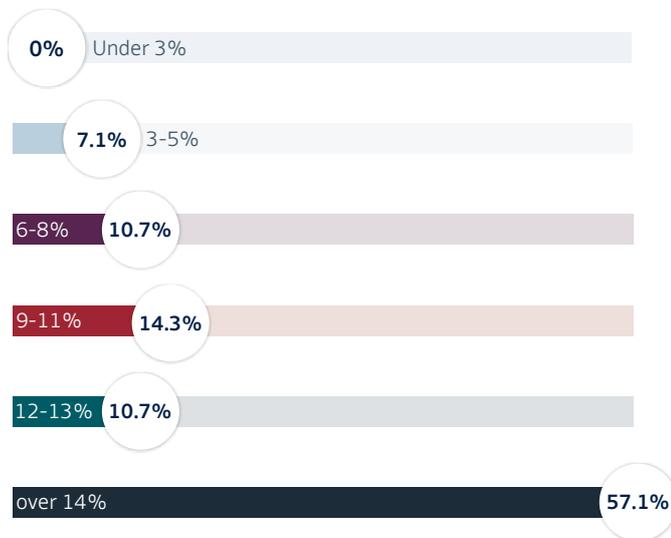
Unchanged from last year

Private Equity

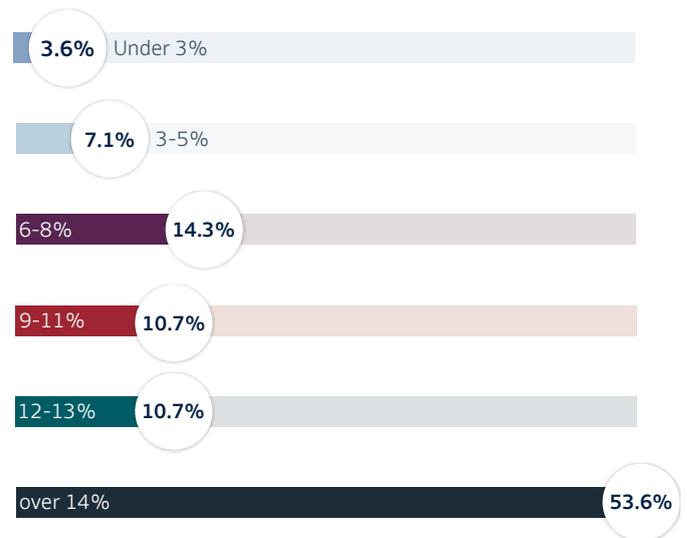
Investor required annual returns for private equity over the next 12 months, including total distributions & capital gains



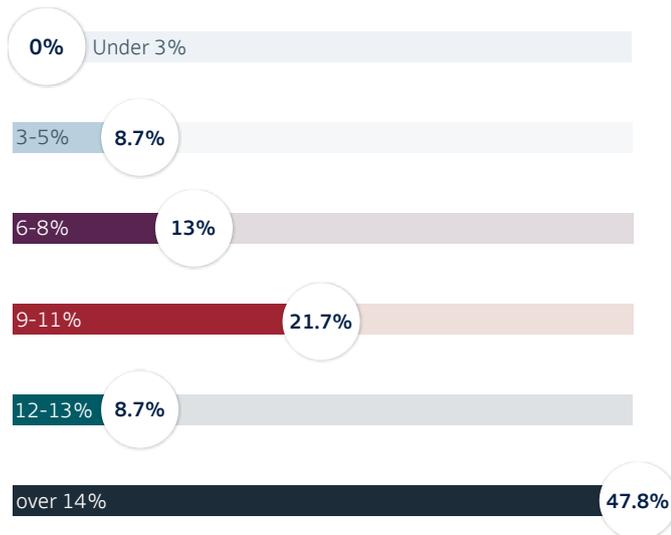
Saudi Arabia



UAE



Qatar

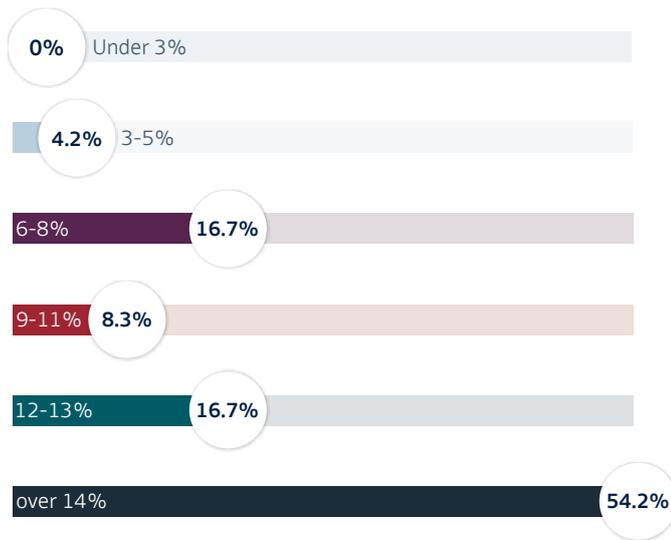


Private equity required the highest returns among all asset classes included in the survey, reflecting the relatively higher risk associated with it

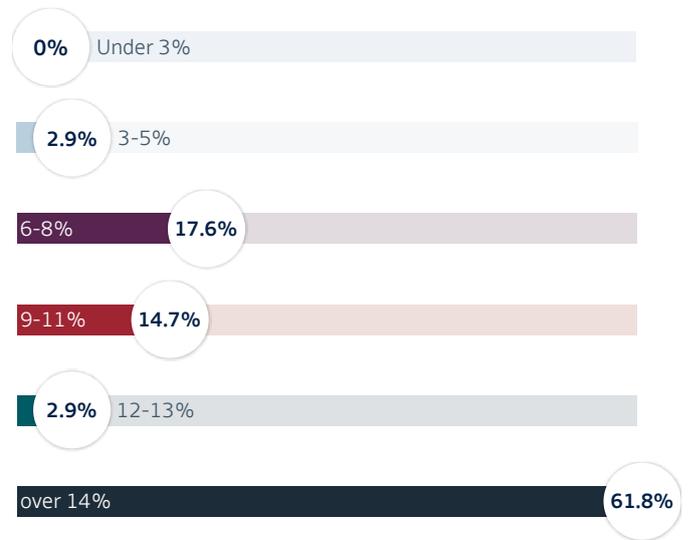
Private Equity

○ Percentage of Respondents
 ■ Percentage of Required Return

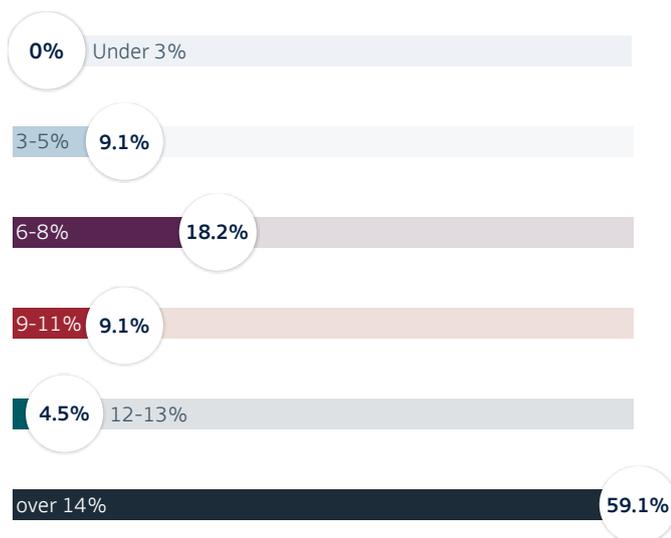
Kuwait



Bahrain



Oman



In Bahrain, 62% of respondents expect a return higher than 14% on Private Equity in 2022 compared to 39% of respondents in 2021

Cash Deposits

≥ 03

**Investor
required
annual return
on cash
deposits
across all
GCC countries**

0%

Compared to less than 3% last year

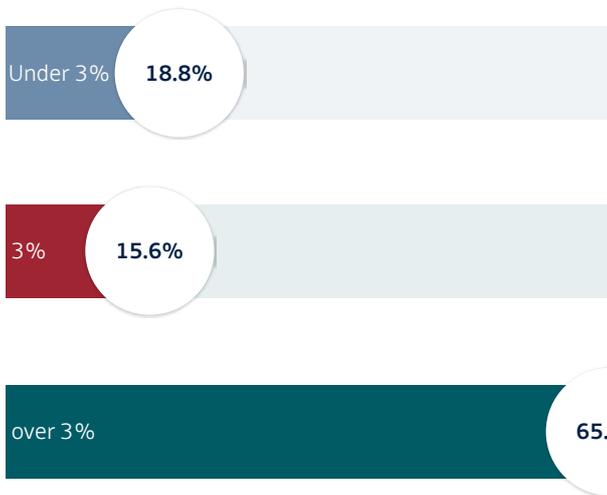
Cash Deposits

For all GCC countries, required returns on cash deposits (in local currencies) are higher than 3%, unlike last year where the majority were below 3%, driven by high inflationary pressures.

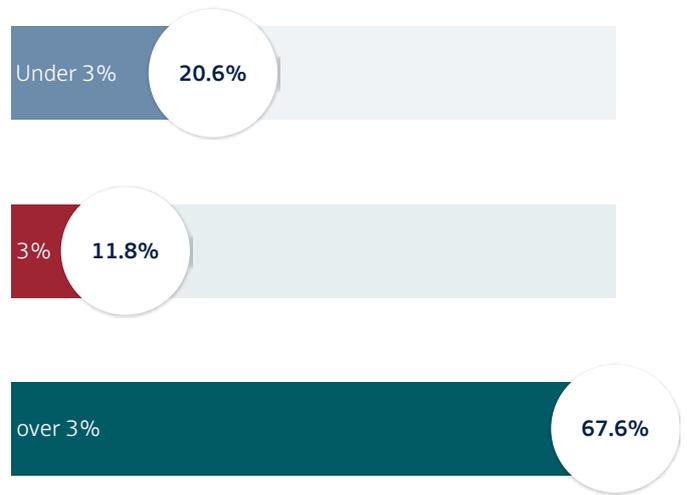
Investor required annual returns for cash deposits in local currency over the next 12 months, including interest & profit



Saudi Arabia



UAE



Qatar

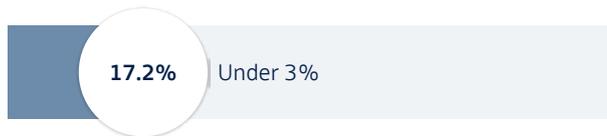


72% of respondents require a return of above 3% on cash deposits in Qatar in this year's survey compared to 16% of respondents last year

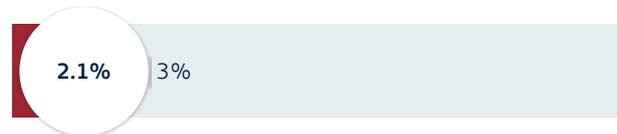
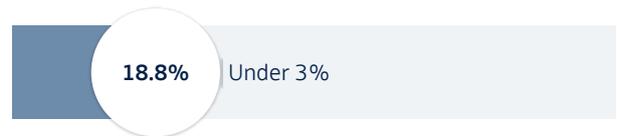
Cash Deposits

○ Percentage of Respondents
 ■ Percentage of Required Return

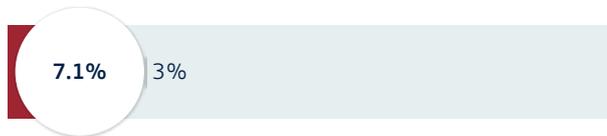
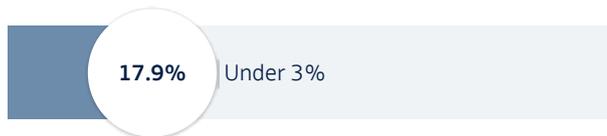
Kuwait



Bahrain



Oman



In Bahrain and Oman, 79% and 75% of respondents, respectively, required a return of more than 3% in 2022 survey compared to 41% and 36% in 2021

MORE THAN
60% OF
RESPONDENTS
ARE POSITIVE
ABOUT SAUDI
ARABIA, THE
UAE, AND
QATAR.

Compared to 50% last year.

Economic Outlook

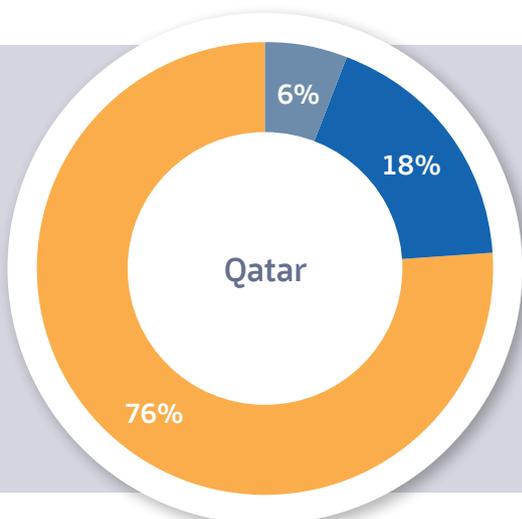
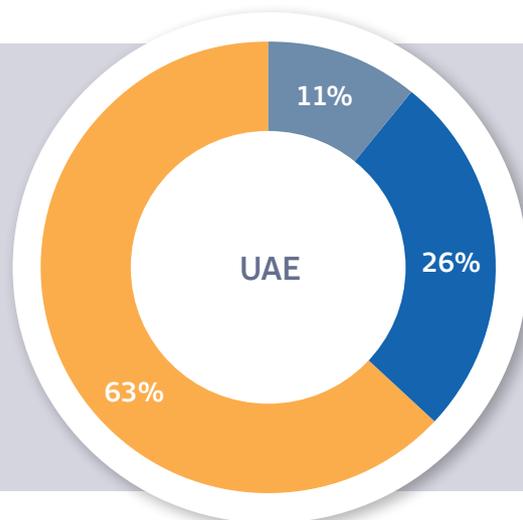
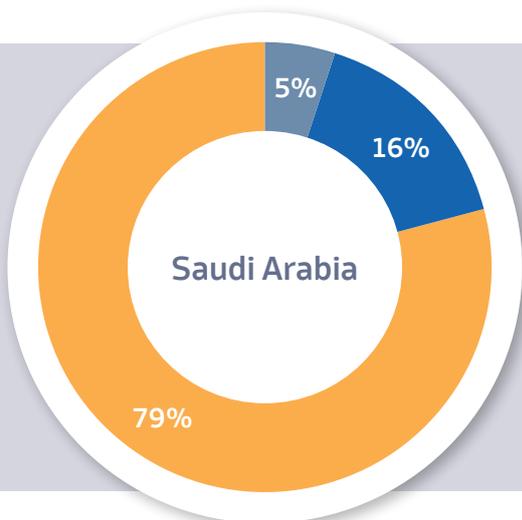
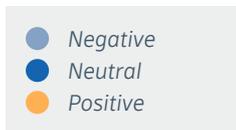
Market participants are broadly optimistic of Saudi Arabia, the UAE, and Qatar's economy, while broadly neutral for Kuwait, Bahrain, and Oman.

The positive outlook on Saudi Arabia is due to giga projects and reforms supported by strong macros from windfall in oil revenues. Qatar is hosting the FIFA world cup and getting ready for the world's largest liquefied natural gas (LNG) project, driving an optimistic outlook for the economy. In the UAE, we've been observing a pickup in tourism, an incline in consumer spending, the steadily implementation of

economic reforms, and robust activity in real estate, making investors look forward to a good year in 2023.

On the other hand, despite fiscal surplus, investors have been neutral about Kuwait due to the political deadlock. In Oman, while the fundamentals have been improving, higher spending is yet to begin and drive the economy, and the government is focused on deleveraging, which may curb growth and public investments. Bahrain, in addition to having a high breakeven for oil, is undergoing structural reforms that may stress the economy.

GCC economic outlook over the next 12 months

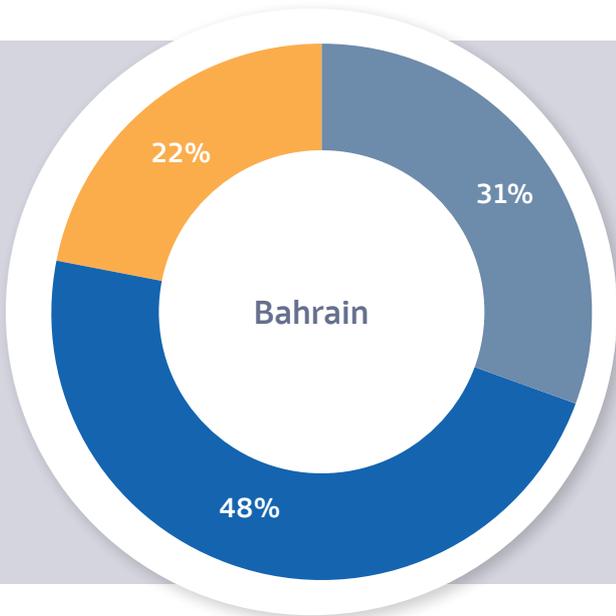
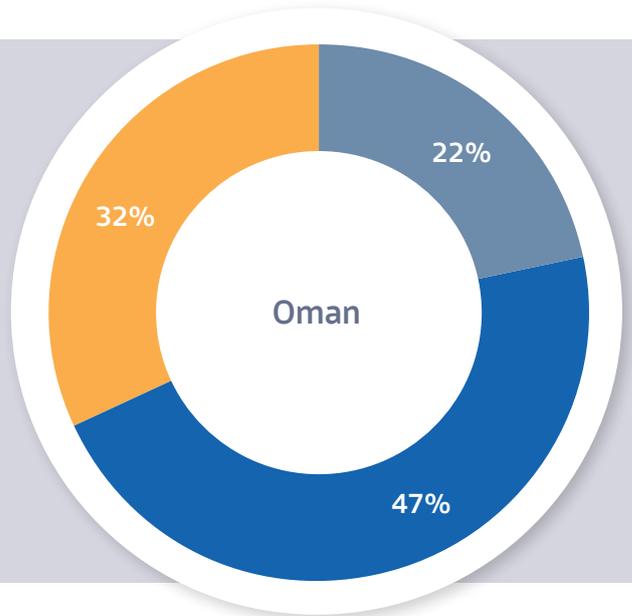
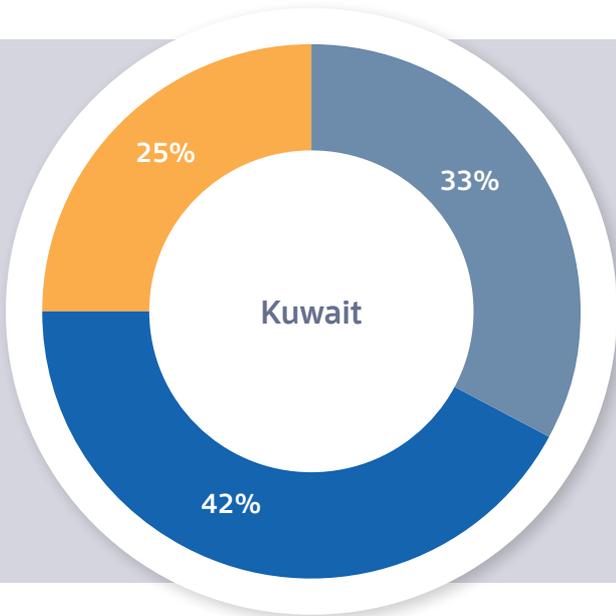


More respondents are positive about Qatar this year compared to 2021



MEGA AND GIGA
PROJECTS, TOURISM
RECEIPTS, ACTIVITY
IN REAL ESTATE, AND
ECONOMIC REFORMS
HAVE LED TO A
POSITIVE OUTLOOK
IN SOME MARKETS.

Economic Outlook



More respondents are neutral about Bahrain, Oman, and Kuwait this year compared to 2021

Issues Concerning Investors

INFLATION IS
THE BIGGEST
CONCERN
ACROSS
ALL GCC
COUNTRIES.

This was followed by interest rates and recession.

“
WHILE INFLATION IS A GLOBAL CONCERN, THE GCC IS EXPECTED TO BE LESS AFFECTED COMPARED TO OTHER EMERGING MARKETS AND DEVELOPED ECONOMIES, ON THE BACK OF EXPORTING HIGHER COMMODITY PRICES AND ONGOING REFORMS IN MANY OF THE GCC MARKETS.

Key issues concerning investors



Survey Background



Objective

The second annual Investor Returns Assessment survey was undertaken by SICO between the 22nd September and 5th October 2022. Its primary objective is to maintain a pulse on market participants' economic outlook and return expectations across GCC countries and across asset classes, including stocks, government bonds, real estate, private equity and cash deposits.



Profile of respondents

A total of 111 responses were received, predominantly from regionally based CEOs, CFOs, investment managers, fund managers, institutional investors, and high-net-worth individuals. The institutional participants came in from a mix of both private and publicly traded GCC enterprises and multinational companies.

Survey Questions

1. What is your current job title?
2. In which country are you currently based?
3. What minimum total annual returns, without debt or leverage, would you currently require if you were to invest in: (if you do not invest in certain areas, kindly provide your best estimate) Stocks, 10-Year Government Bond (USD), Real Estate, Private Equity, and Cash Deposits for Bahrain, Kuwait, Saudi Arabia, Qatar, Oman, and the UAE?
Response options ranged from < 3%, to over 14%.
4. How do you feel about the economic outlook over the next 12 months for Bahrain, Kuwait, Saudi Arabia, Qatar, Oman, and the UAE?
Response options: positive, negative, or neutral.
5. Which issues are of the most concern to investors now? (Kindly select all that apply)?



Inflation



Commodity prices



Recession



Interest rates



Excessive valuations

Mode of survey

The survey was emailed to participants through a web-based link. The survey could be responded to completely anonymously.

Response selections for questions 1 and 2 were in the form of radio buttons where only one selection could be made and an “other” box was also provided.

Response selections for question 3 were in the form of drop-down boxes where only one answer could be selected. Respondents were able to provide their answers for the countries and asset classes that are relevant to their

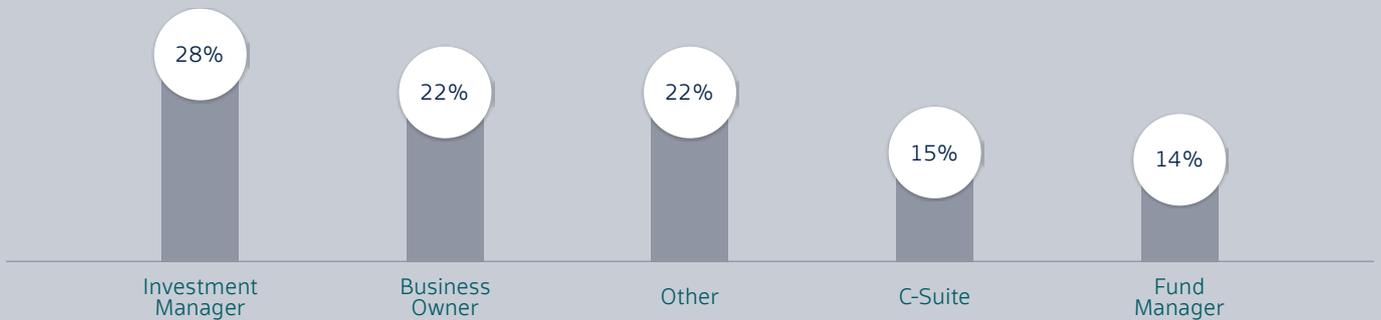
investment mandates and field of expertise, and were not mandatorily required to those that did not apply to them.

Response selections for question 4 were in the form of radio buttons where only one response could be selected per country.

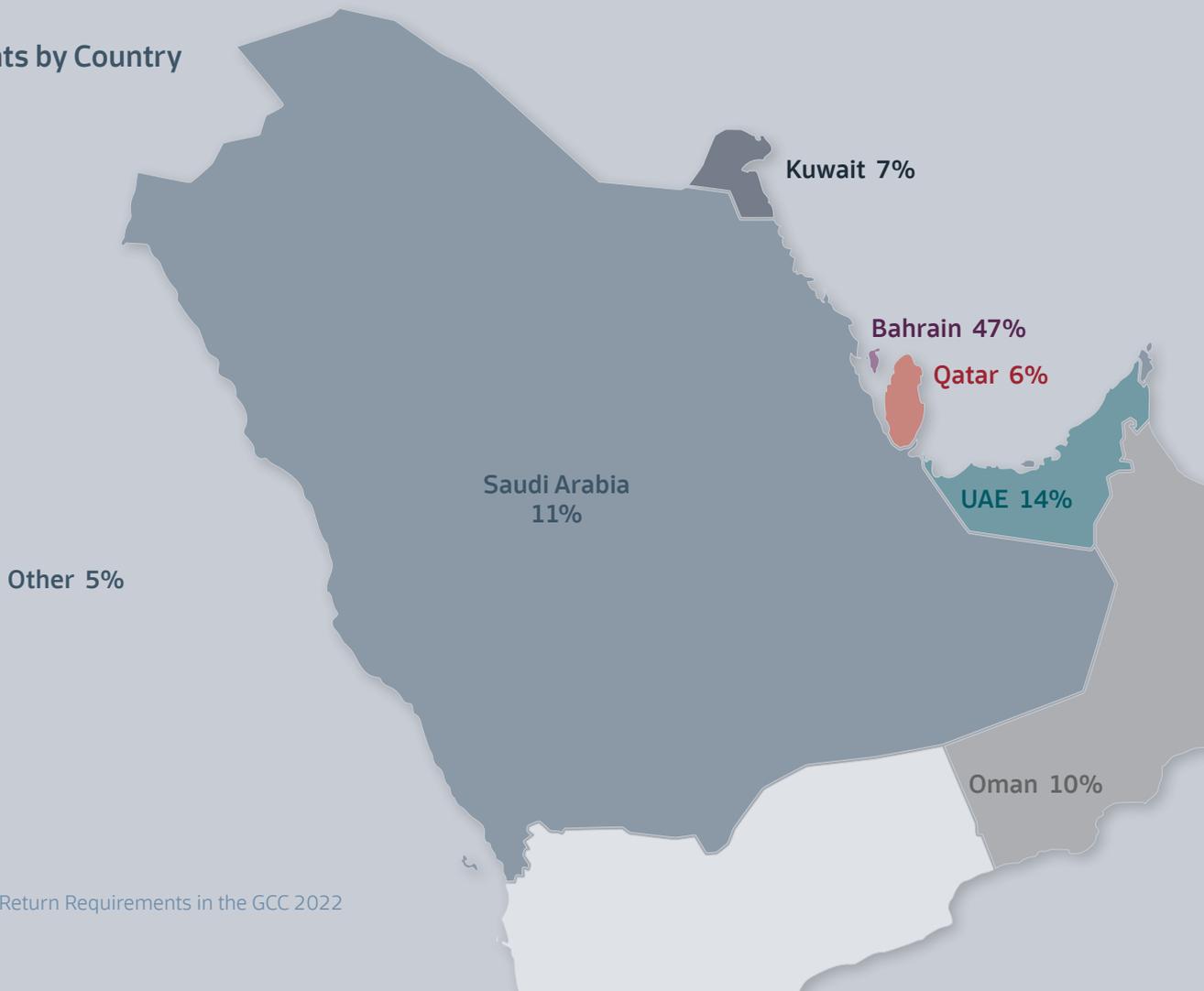
Response selections for question 5 were in the form of radio buttons where any number of responses could be selected

Participants could optionally elect to receive a gift of two e-books upon completion of the survey.

Respondents profile



Respondents by Country



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