

Strategic Directions to Raise The Attractiveness of The Asset Management Industry in The Kingdom





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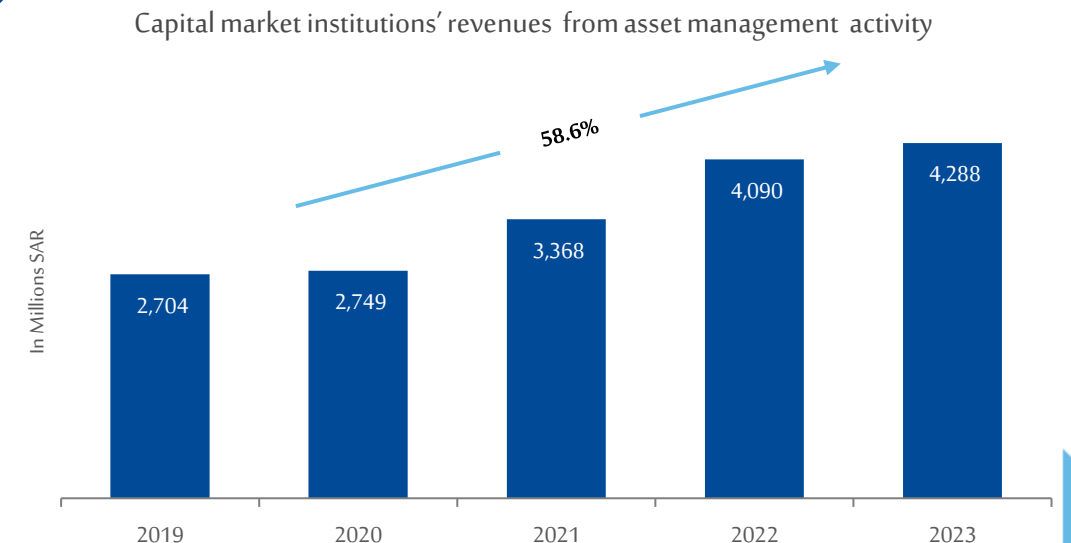
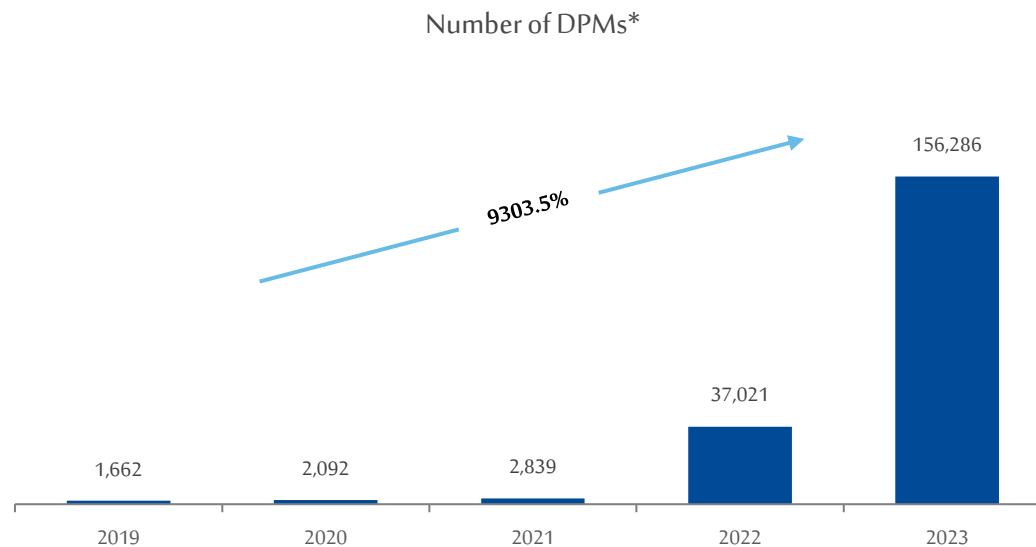
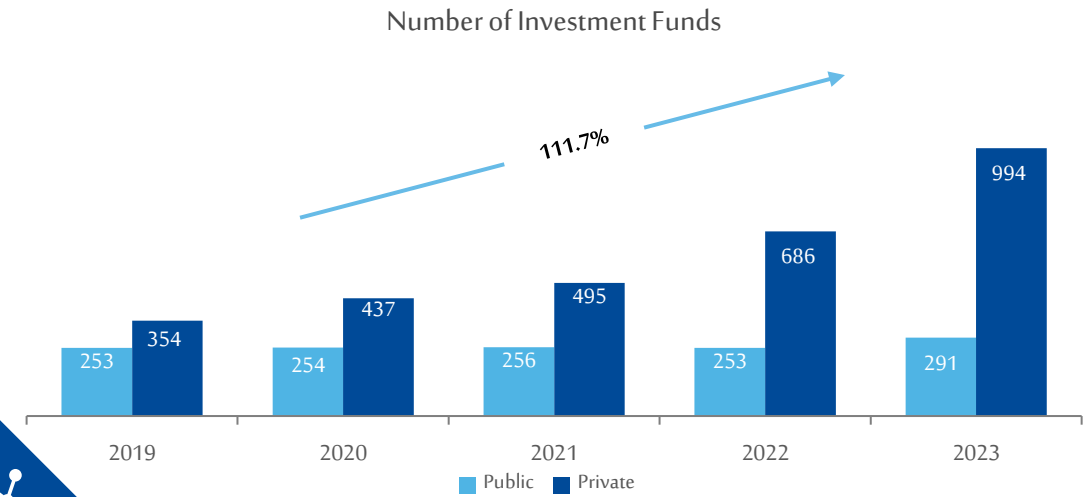
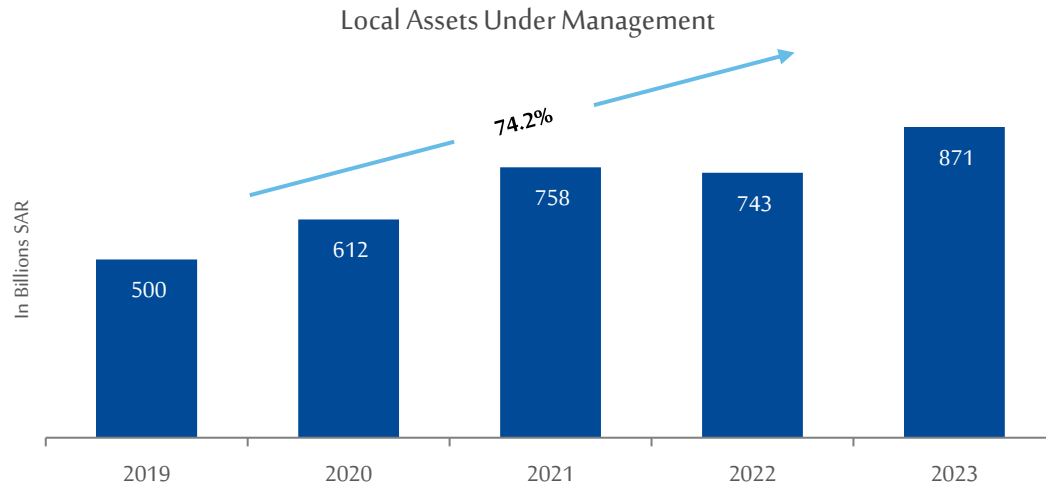


Introduction

The Capital Market Authority attaches utmost importance to the asset management industry as it represents one of the main securities businesses regulated by the CMA and is considered one of the most important sources of institutional investments, as this industry contributes to providing diversified investment products, professional management of clients' assets, and raising professional practices and institutional behavior in the market. As part of the role of the CMA in supporting and developing the capital market and its institutions, this document sheds light on the current state and the historical performance of the asset management industry, the opportunities and areas of development of the industry through the review of the current regulations and the mechanisms available to investment funds, taking into account the most prominent international practices. The document also outlines the strategic directions of the CMA to support the growth of the asset management industry.

First: Status Quo of the Asset Management Industry

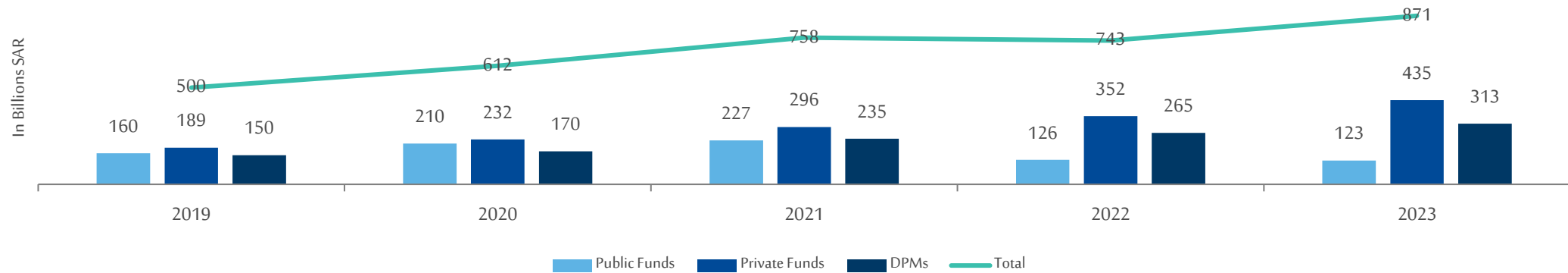
The historical performance of the most prominent industry performance indicators shows an increase in the value of assets under management, and the number of investment funds and DPMs, which contributed to the growth of the capital market institutions' revenues from asset management activity



* Includes the portfolios of financial technology companies authorized under the Robo-advisory activity.

Statistics indicate an upward trend of the value of investment funds' assets and private portfolios, as well as an accelerating growth in the number of DPMs

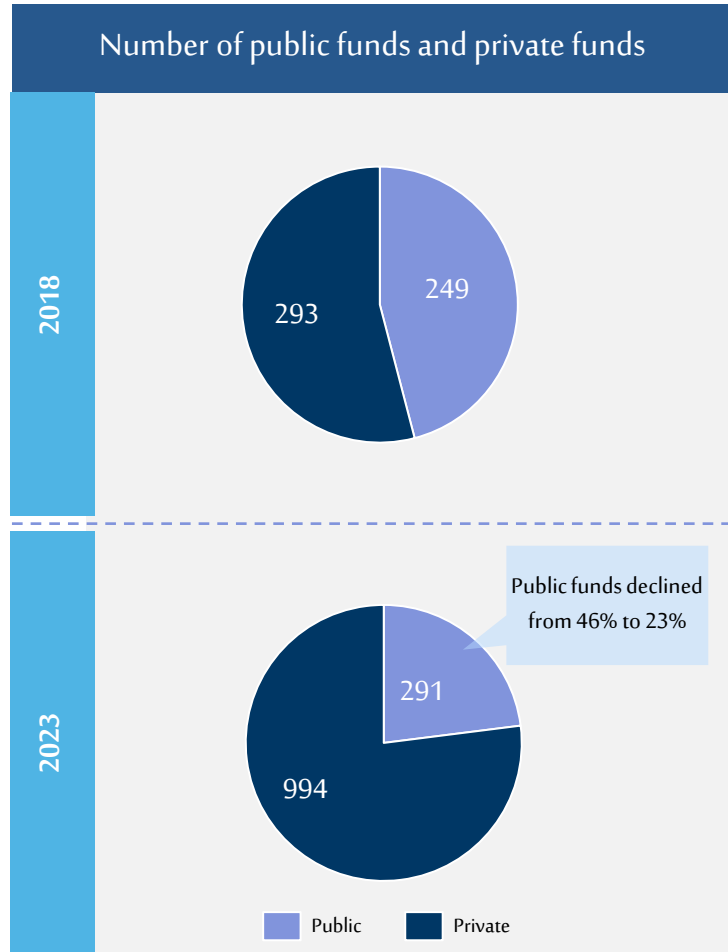
Total Value of Assets Under Management



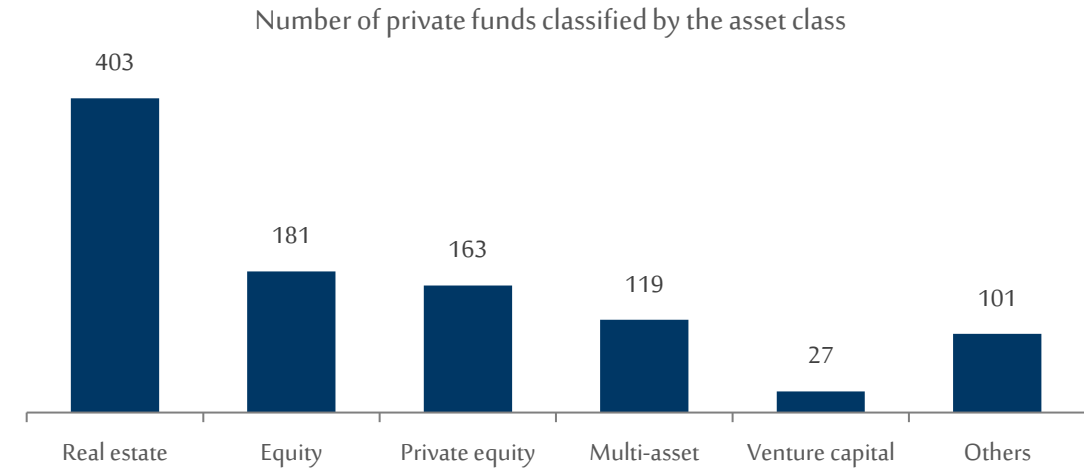
Number of managed DPMs and its total assets' value classified by the asset class (In Millions SAR)

Total assets of managed DPMs classified by the asset class							
Year	Number of portfolios	Local stocks	International stocks	Debt instruments	Investment funds	Others	Total
2019	1,662	54,621	2,188	4,112	48,247	41,179	150,347
2020	2,092	68,660	3,276	6,507	45,275	46,030	169,748
2021	2,839	135,030	3,081	9,321	40,540	46,803	234,775
2022	37,021	120,966	8,754	11,803	62,280	61,417	265,219
2023	156,286	140,645	11,555	16,685	20,837	123,312	313,034

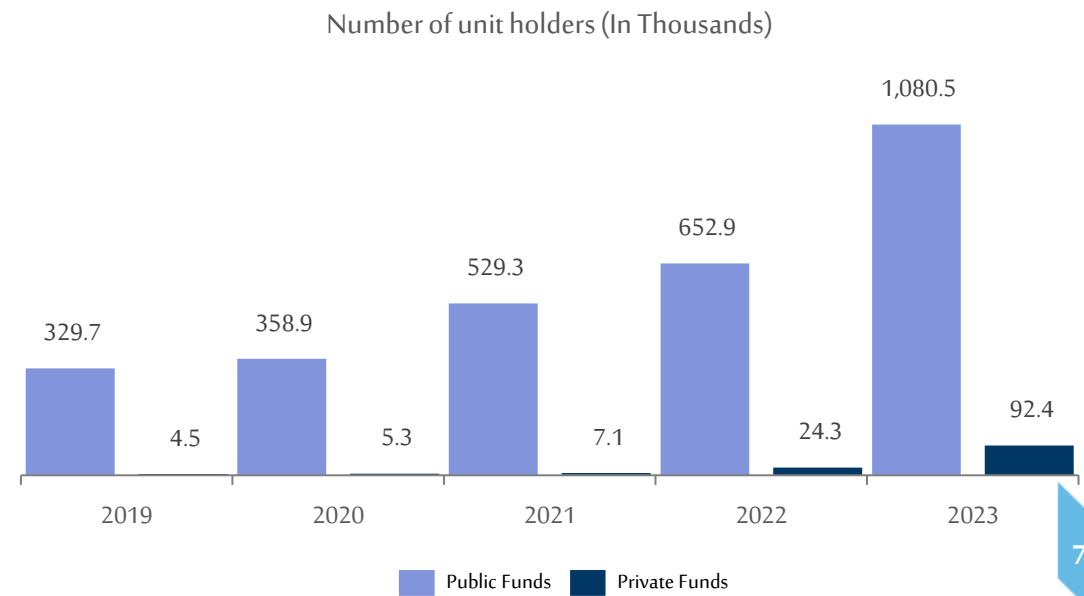
There has been a continuous growth in both public and private funds, with a significant increase in the number of funds and in the number of investors. Notably, the private funds have shown a remarkable increase, constituting 77% of the total number of funds



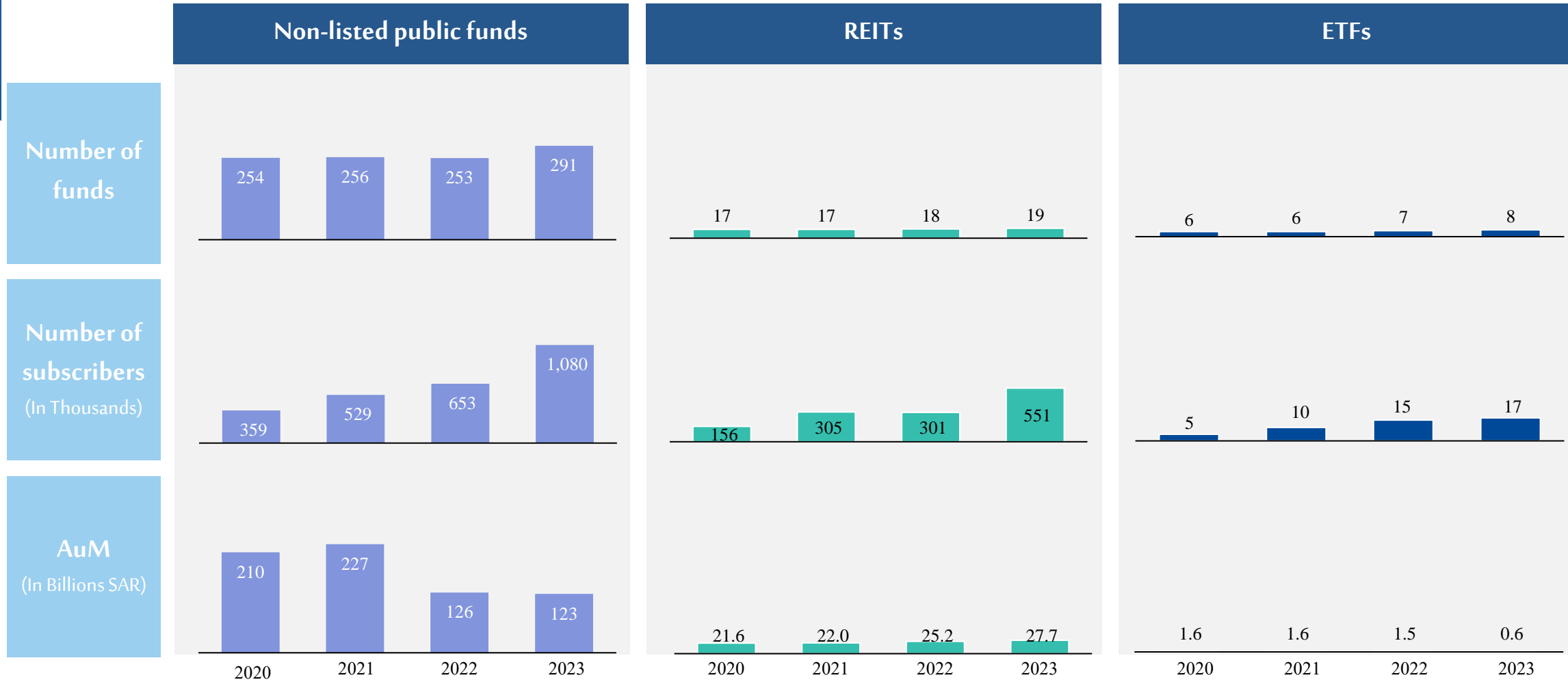
Private funds distribution by asset class (End of 2023)



An increase in the number of unit holders in public and private funds



There has been an increase in both the number of ETFs, REITs, and other public funds, as well as the number of investors in these funds

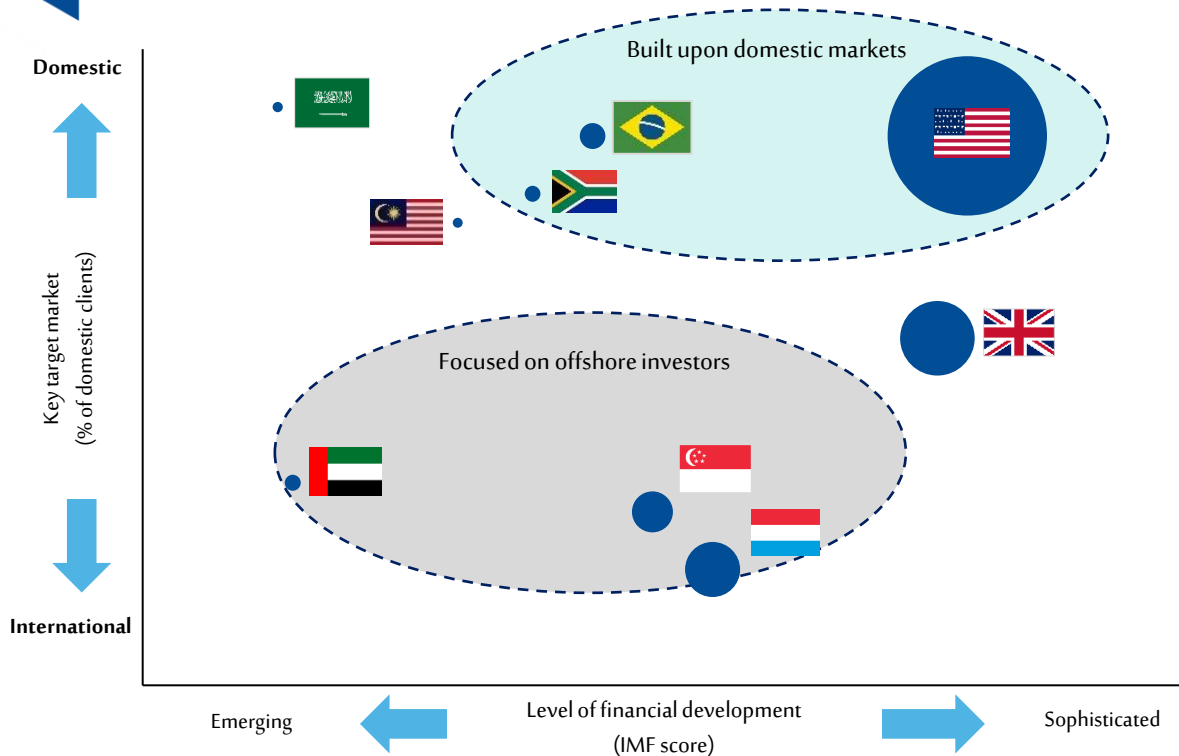


Second: Opportunities and Areas of Development for the Asset Management Industry

The international practices show 2 different approaches to grow the asset management industry:

1) Depending on local markets

2) Focusing on foreign investors



● Size of asset management market – including free zones

Source: IMF financial development index database, Strategy &

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Key success factors of the first approach

- Size of the domestic market (large local population and developed economy)
- Wide range of investable securities
- Strong motivation for people to invest in asset management products due to:
 - Tax incentives on long-term (or particular sectors) investments, and
 - Mandatory retirement savings

2

Key success factors of the second approach

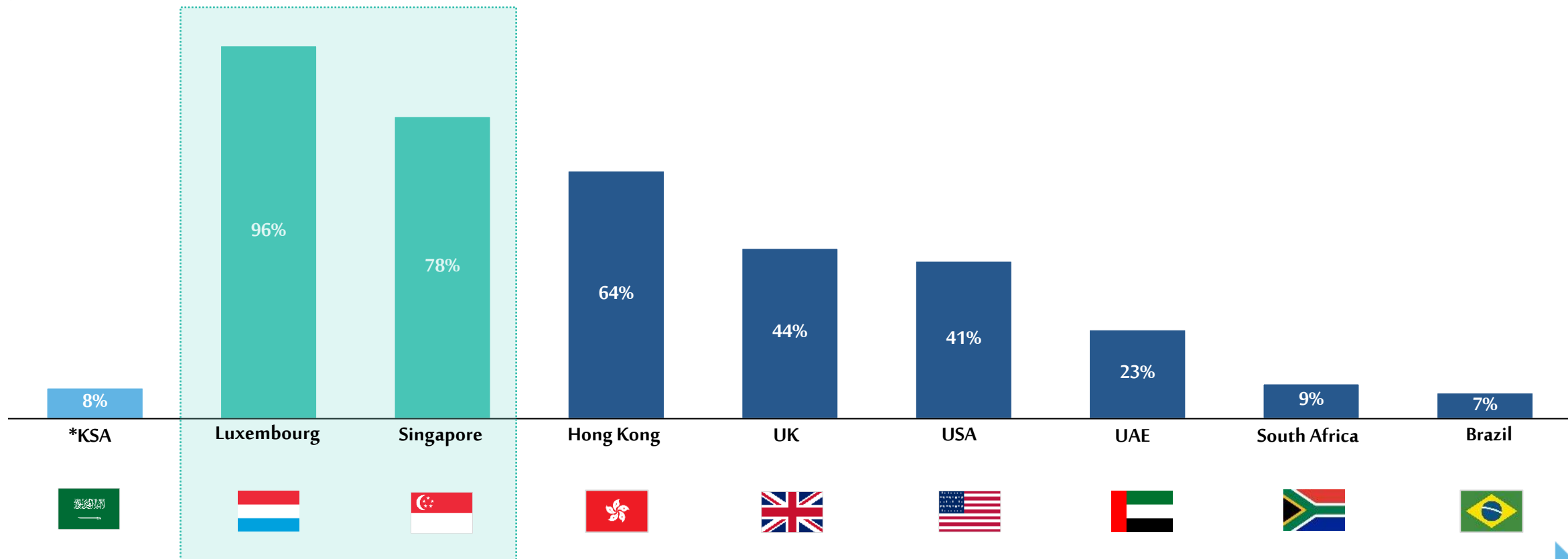
- Well understood regulatory framework aligned with the best international practices
- English common law
- Robust asset servicing eco-system
- Passporting rights to major neighbouring markets (EU, S.E. Asia)
- Favourable environment to access large offshore markets

Upon comparing countries with respect to the percentage of managed assets which originate from outside the country, it is clear that Luxembourg and Singapore attract a large share of foreign investment funds



The CMA aims to develop the regulatory environment to improve the infrastructure of the asset management industry in order to stimulate foreign investment funds and support the growth of the industry.

Foreign ownership of Assets under management



* Data includes public funds only, noting that 86.4% of the value of foreign ownership represent residents in KSA.

Source: Strategy &, All data are for the year 2020 unless more recent data are available

International practices vary with regards to allowing the distribution of foreign funds; for example, Luxembourg and the UK are two of the most flexible jurisdictions for foreign fund distribution, in stark contrast to the US

More restrictive

More flexible

- US: distribution of foreign funds not allowed (although exemptions might be granted), foreign funds offered in the US may have unfavorable tax consequences for US investors.
- South Africa: local regime is much stricter than elsewhere and many funds (e.g. UCITS) do not qualify for registration.



- Singapore: distribution is allowed pending regulatory approval. Furthermore: Requires a local representative and the manager of the offshore funds should be managing at least 1,400m in SAR.
- Brazil: fund distribution restricted to entities domiciled in Brazil.
- KSA: retail investors generally not allowed to invest in foreign funds up to SAR 200k.



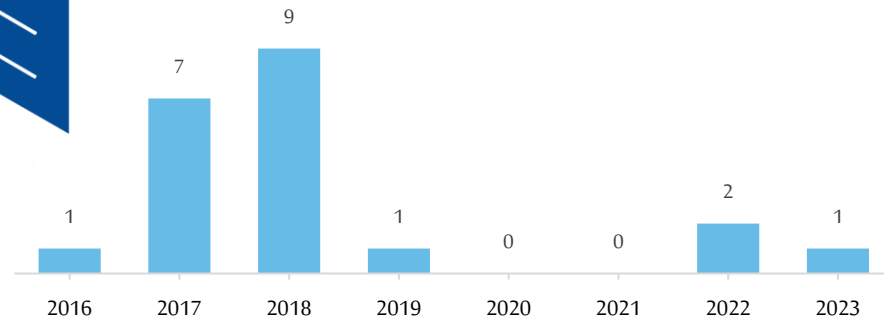
- Luxembourg: distribution is allowed pending regulatory approval. Not required to have a physical presence in Luxembourg.
- UK: distribution is allowed pending regulatory approval.
- UAE: distribution is allowed pending regulatory approval.



The implications of loosening the restrictions on the distribution of foreign funds on the local asset management industry should be carefully weighted

Looking at the relevant international practices, a need to allow a new funding channels for REITs arises, taking into consideration the decline in number of REITs' listings in the past 5 years

Listings of Real Estate Investment Traded Funds



There has been limited institutional demand for REIT listings, in contrast with a stronger demand for stock IPOs

Provide new financing mechanisms for funds

The CMA seeks to enhance the role of Real Estate Investment Traded Funds in supporting the growth of asset management activity and institutional investment through developing and improving the regulatory framework for investment funds.

International practices for regulatory frameworks related to Real Estate Investment Traded Funds:

Country	Sukuk and Bond issuance for Real Estate Investment Traded Funds	*Capital increase	Right issues for Real Estate Investment Traded Funds	Fund conversion to Real Estate Investment Traded Funds
	✗	✗	✗	✗
	✓	✓	-	✗
	✓	✓	✓	✗
	✓	✓	✓	✗
	✓	✓	✓	✗
	✓	-	✓	✗
	✓	✓	✓	✗

*Current regulations in the Kingdom allow capital increase to acquire assets only

Subscriptions to Real Estate Investment Traded Funds in the Saudi capital market are not subject to book-building and underwriting mechanisms

The CMA seeks to enhance the role of the capital market in raising capital, improve the pricing mechanism, and develop allocation standards through seeking to develop the market, support investor protection, and improve the regulatory environment.

Book-building

- Book-building is **not considered to be mandatory** across any of the jurisdictions benchmarked.
- Regulators encourage interactions with investors from a very early stage in order to decrease the likelihood of a failed listing.
- The underwriter is required to prepare an independent valuation (or appoint a sub-valuation firm), and make a Firm Commitment on the initial public offering of shares in order to ensure alignment of interests.

The Advantages and Disadvantages of underwriting and book-building when offering Real Estate Investment Traded Funds:

	Firm commitment from underwriter	Mandatory book-building
Advantages	<ul style="list-style-type: none"> • Underwriters will have a strong incentive to avoid inflated prices. • Higher due-diligence standards likely to be applied. 	<ul style="list-style-type: none"> • Greater transparency. • Lower probability of a failed listing process, as investor demand has already been tested. • Higher due-diligence standards likely to be applied.
Disadvantages	<ul style="list-style-type: none"> • Underwriter will charge higher fees in order to adopt a firm commitment. • Might not fully mitigate the risk of inflated IPO prices in case of small listings that are significantly over-subscribed due to strong retail investor demand. 	<ul style="list-style-type: none"> • Time-consuming process, requiring interactions with multiple stakeholders. • Large investors are likely to secure a significant share of attractive issues, preventing retail investors from accessing at the IPO.

Benchmark for book-building and direct listing of Real Estate Investment Traded Funds:

Country	Book-building		Underwriter	Direct listing
	Used	Mandatory	Mandatory	Used
	✗	✗	✗	✗
	✓	✗	✗	✓
	✓	✗	✗	✓
	✓	✗	✗	✗
	✓	✗	✗	✓
	✓	✗	✗	✗
	✓	✗	✗	✗
	✓	✗	✗	✓
	✓	✗	✗	✓

The diversification of investment products and available mechanisms in the financial market is appealing to both domestic and foreign capital. The CMA strives to create a regulatory environment that encourages the establishment of innovative investment products and the implementation of market mechanisms in accordance with the best international practices, while taking into consideration the maturity of the financial market

International practices for the types of investment funds and structures available to investors



- **Public Funds:** An investment fund which is established in the Kingdom and the units in which may be offered by the fund manager, in accordance with Part Four of the Investment Funds Regulations, to investors in the Kingdom otherwise than by way of a private placement.
- **Private Funds:** An investment fund which is established in the Kingdom and which is not a public fund, and the units in which may be offered by the fund manager, in accordance with Part Five of the Investment Funds Regulations, to investors in the Kingdom.



- **Registered investment companies:** Offered to the public, can be classified as a open-end, closed-end, ETF, and Alternative mutual funds.
- **Private Funds:** Lower regulatory and legal requirements.



- **UK UCITS:** Can invest only in specific types of transferable securities; approved money market instruments; units in some other regulated funds; derivatives and deposits.
- **Non-UCITS Retail Scheme (NURS):** Can hold certain types of investments which a UCITS cannot such as real property and units in other unregulated funds.
- **Qualified Investor Scheme (QIS):** Able to hold a wide variety of investments including property and precious metals.
- **Long Term Asset Fund (LTAF):** Facilitates investment in long term and illiquid assets.












- **Authorized scheme:** Offered to retail investors. Can be either a mutual fund, a REIT or an ETF.
- **Restricted scheme:** Offered to accredited and institutional investors. Can be a hedge fund, private equity, real estate or venture capital fund.



- **Public Funds:** An (open- ended or closed-ended) investment fund offered for subscription to the public investors.
- **Private Funds:** An (open-ended or closed-ended) investment fund offered for subscription to professional investors or counterparty.

*Does not include free zones

Upon reviewing international practices of asset classes available to public funds, the following observations can be made: 1) Retail clients are treated similarly in most other legislative entities. 2) Retail clients can participate in investment opportunities through highly regulated investment structures that have high liquidity. 3) Investments in complex investment structures or illiquid assets are typically reserved for qualified and institutional investors.

		International practices for asset classes offered to retail investors:					
		Mutual Fund	Exchange Traded Fund/ Real Estate Investment Traded Fund	Real Estate Fund	Private Equity Fund	Venture Capital Fund	Hedge Fund
	Public fund	✓	✓	✓	-	-	-
	Registered investment companies	✓	✓	✓	-	-	-
	UCITS	✓	✓	✓	-	-	✓
	UK UCITS/NURS	✓	✓	✓	-	-	-
	Public funds	✓	✓	✓	-	-	-
	Authorized schemes	✓	✓	✓	-	-	-
	Collective investment schemes	✓	✓	✓	-	-	-
	Unit trust funds	✓	✓	✓	-	-	-
	Retail funds	✓	✓	✓	-	-	✓

One of the most prominent features of the global asset management industry's evolution is the introduction of new fund structures to assist fund managers in managing assets more efficiently.

International practices for some of the available fund structures:

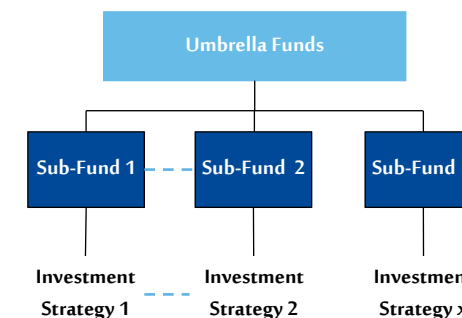
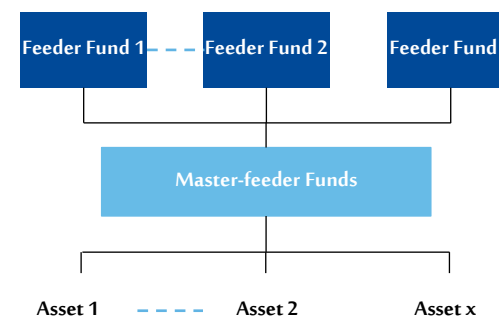
	Master-feeder funds	Umbrella funds	Active Exchange Traded Funds (Active ETFs)	Small-sized Funds
	x	x	x	x
	✓	✓	✓	x
	✓	✓	✓	x
	✓	✓	✓	x
	✓	✓	✓	x
	✓	✓	x	x
	✓	✓	x	x
	✓	✓	x	x
	✓	✓	x	x

Master-feeder funds

- Each feeder fund is a regulated investment fund that represents a separate legal entity with its own manager; master fund is also a regulated entity.
- Master-feeder structures allow multiple funds using the same investment strategy to pool their capital and be managed as part of a bigger investment pool.
- May be utilized to distribute the master-feeder fund in multiple jurisdictions.

Umbrella funds

- The umbrella and each sub-fund are regulated investment funds that represent a separate legal entity with its own manager.
- Allows appointing different service providers for the umbrella fund and its sub-funds.
- Allows investors to transfer their ownership between the sub-funds of the umbrella fund.



Umbrella and master-feeder funds structures offer fund managers the ability to fundraise and manage funds in a more efficient manner

The majority of international regulations advocate for the custodian to be independent from the fund manager for public funds for the purpose of enhancing the custodian's role in preserving the fund's assets and to ensure a higher level of investor protection

International practices related to custody requirement

By Fund Type



- The assets of a public fund must be entrusted to a local depository.
- Unregulated Alternative Investment Funds, managed by a registered Alternative Investment Fund Managers, are not required to appoint a depository.



- Registered management companies are expected to place and maintain their securities in independent custody.



- Collective Investment Schemes investing in listed securities, real estate, and hedge fund require an independent custodian.
- Alternative Investment Funds (e.g. private equity funds) not regulated, do not require a custodian.

By Assets Class



- Mutual funds, hedge funds and ETFs are required to appoint an independent custodian.
- Private equity, private real estate fund and venture capital fund management are not required to appoint a custodian.



- An independent custodian should be appointed for safekeeping of the fund assets.
- For venture capital and real estate funds, the fund manager is not required to appoint an independent custodian.

Third: Strategic Directions to Support The Growth of The Asset Management Industry

Strategic Directions to Support the Growth of the Asset Management Industry

The CMA will continue to work on developing the components of the investment environment and facilitating investment opportunities, aiming to enhance the attractiveness and efficiency of the Saudi capital market, and strengthen its regional and international competitiveness. To achieve this goal, it will focus on diversifying investment products, adopting international practices in capital markets, and enhancing asset management and institutional investment to support market stability and enable investors to make informed decisions. To measure the performance of the strategic initiatives, the CMA will monitor a number of strategic indicators, including the value of assets under management, the number of investors in public and private funds, and the ratio of capital raised for alternative investment funds to the total public financing.

In order to support the growth of asset management industry, the CMA will work on the following initiatives:

#	Initiative	Initiative Objectives
1	Enabling the establishment of highly flexible fund structures	The initiative aims to examine regulatory frameworks in order to allow establishing highly flexible investment fund structures.
2	Assessing the investment and regulatory restrictions of investment funds	The initiative aims to evaluate the applied investment and regulatory restrictions, and adopt best international practices to enhance the of Investment Funds Regulations and the of the Real Estate Investment Funds Regulations.
3	Enhancing the governance of investment funds and the responsibilities of board members	This initiative aims to enhance the efficiency of investment fund governance, for the purpose of protecting the interests of investors and stakeholders, while increasing transparency and trust. Furthermore, it aims to increase the efficiency of board members' duties in order to contribute to the effective management of client funds and build the greatest possible outcome for investors.
4	Enabling subscriptions to public investment funds through e-wallets	Introducing new mechanisms for subscribing to public funds by enabling subscriptions via electronic wallets to simplify investors' access to mutual funds.
5	Developing regulatory frameworks to increase and decrease the total asset value of close-ended public funds and traded funds	Developing regulatory frameworks to increase and decrease the total asset value of close-ended public funds and traded funds to enable funds to access to capital and enhance their competitiveness and attractiveness.
6	Developing the regulatory framework for the issuance of Sukuk and debt instruments by REITs	The initiative seeks to enable investment funds to offer sukuk and debt instruments and create a new funding channel for funds other than banks and financing companies.
7	Evaluation the regulatory requirements for offering documents and their content for Investment funds	Evaluation the application documents and the content the terms and conditions of investment funds to identify areas of development.
8	Evaluating continues obligation requirements and disclosures for investment funds, and investment funds advertisement	The initiative seeks to evaluate the market disclosure requirements contained in the Investment Funds Regulations and the Real Estate Investment Funds Regulations in order to enhance the level of transparency and supervision, and ensure the provision of sufficient information to enable unit holders to make informed investment decisions.
9	Develop regulatory requirements for investment funds	Studying and amending a number of regulatory provisions in the Investment Funds Regulations and the Real Estate Investment Funds Regulations in light of the best international practices, including examining the appropriateness of allowing financial market institutions licensed to practice investment management activity to distribute their foreign funds in the Kingdom, for the purpose of raising the competitiveness of the asset management industry in the Kingdom.

Thank You

