



Coverstory
Fund Management
Al Safat Investment Company

A trailblazing approach to fund management

 Alice Parker

Established in 1983, Al Safat Investment Company is licenced by the Capital Market Authority to practice five securities activities in Kuwait. Since inception, the company has captured the right sentiment in managing clients and their investment portfolios, while offering a host of other financial services in private equity, investment banking and asset management. As a member of Kuwaiti Union of Investment Companies, it plays an active role in propelling the development of investment entities in the country. Interestingly, the company's underlying portfolio is underpinned by an array of sectors and led by a highly experienced team with an impressive track record in enterprise transformation and restructuring.

Al Safat Investment Company has captured Kuwait's market sentiment full well and is continuously diversifying investors portfolios for rewarding opportunities and returns



ASIC revenue growth

22%
in last three years

In August, the GCC equity markets delivered their fifth consecutive positive results, with the Kuwait All Share Index registering a 6.6 percent gain. Most of the 'inclusion' premium has been wiped off the value of Kuwaiti equities, and that the decision by MSCI to delay its upgrade of Kuwaiti equities from frontier to emerging market status is considered to be a blessing in disguise, as it provided time for companies to stabilise prior to the inclusion inflows. It is observed that liquidity in the Kuwait market has improved, increasing by 45 percent last month. The Kuwaiti parliament has also adopted a new law that will allow companies to opt for a settlement with creditors or a restructuring plan before they are forced to declare bankruptcy. The development is fulfilling as it seeks to protect ailing companies and attract foreign investors. Overall, the market sentiment for Kuwaiti equities is positive.

Al Safat Investment Company's long-standing focus on 'capitalising on promising investments by maintaining financial control mechanisms and seeking rewarding opportunities' has allowed it to thrive in the marketplace, creating sustainable opportunities for local and international investors. Against this background, Chairman of Al Safat Investment Company Abdullah Hamad Al Terkait in an exclusive interview with Global Business Outlook, discusses the company's plans of action in securing investor interest, diversifying investment portfolios, building unique wealth management strategies and a broad outlook for the Kuwaiti funds market.

How is Al Safat diversifying its investment activities and services in accordance to Islamic Shariah principles?

While Islamic finance has evolved and shifted from the traditional realms of Islamic commercial banking to different types of financing institutions, sophistication and product offerings have lagged behind.

Currently, a significant portion of Shariah compliant investments are concentrated in equity investment funds. However, the next phase of product offerings will appear in areas of private equity and fixed income, in addition to traditional sukuks. At Al Safat Investment Company, we are aiming to be ahead of these trends as we continue to diversify our offerings in the market and capture this opportunity.

One of our strategic goals is to focus on government projects and local companies with an emphasis on small and medium enterprises in Kuwait and the Middle East. We are also aware that as mainstream and widespread adoption of these Islamic products come into play, there will be a need to address credibility by harmonising standards and practices across the region and the rest of the world. In the future, we would like to be working closely with regulators and policymakers to address these concerns and keep Islamic finance at the forefront of innovation in the financial world.

Can you describe the unique wealth management strategies and how these strategies are helping clients in the private and public sectors to make the right investment choices?

Al Safat Investment Company offers a range of portfolio management solutions with robust execution capabilities that suit every investor's risk appetite. While managing wealth, we consistently focus on providing our clients with the best strategic guidance and premium service, which in turn has helped us to build long and lasting relationships with them. Our clients' discretionary portfolios managed by the company have exceeded 34 percent in year to date return, outperforming both Kuwait Premier and main indexes. Not many could have predicted at the turn of the year that this type of black swan event could affect markets worldwide. Estimates on GDP contraction for the second quarter of 2020 ranged from 30 percent

to 60 percent on an annualised basis. The contraction was unprecedented.

For that reason, we have always maintained diversified portfolios for our clients with robust strategies. These kinds of long-term strategies with highly dynamic approaches that can be shifted from aggressive to conservative based on market conditions and circumstances have helped us to stand against the pandemic, hold our position in selective stocks and maintain good performance during the year. As a reputed investment company in the country, we have a duty of educating and assisting our investors and the general public, which is also a part of our social responsibility. We have released educational videos for the public to comprehend the principles and risks associated with investing. That said, we are releasing weekly market summary reports that will allow people to monitor and assess the trends, while staying up to date with the latest valuation metrics and critical news that are affecting the market.

Can you tell us about Al Safat being granted licenced for five securities activities and what is the role of these activities in transforming the future of the investment landscape in Kuwait?

Al Safat Investment Company is regulated and licenced by the Capital Markets Authority and the Central Bank of Kuwait to carry out five securities activities. These activities are Investment Portfolio Manager, Collective Investment Scheme Manager, Investment Advisor, Subscription Agent and Investment Controller. That said, Activity of Credit Financing is under the supervision of the Central Bank of Kuwait. The main objective of practicing the aforementioned activities is to enhance the spirit of competitiveness and build confidence between clients and the stock market in a way that it serves the investment sector, increases opportunities for growth and development in the market sector and maximises profits for all individual and corporate dealers.



What are the chief factors that could influence Kuwaiti funds market performance in the short-term and medium-term?

At present, we are facing turbulent times in the market due to the pandemic. The impact of excess supply due to oil conflicts, lower demand due to national lockdowns and restrictions on movements are weighing on the price of oil—which has plummeted by 65 percent. The Kuwait market was naturally going to be a victim of the price drop, as close to 90 percent of government income and export revenue comes from petroleum.

On the positive side, the inclusion of Kuwait in the MSCI Emerging Markets Index calls for celebration, but we are seeing muted responses as passive fund flows are expected to be around \$1 billion lower than previous estimations. With that, there is always going to be downward pressure on fund flows and investment climate. However, the recent news on vaccine development brings fresh optimism and signals the beginning of the end. Kuwait has acted promptly in securing doses for its most vulnerable population. The coming months will slowly but surely see a return to pre-pandemic normal. This will play a big role in stabilising the economy and helping investors to plan for the future with a certain degree of certainty.

Can you elaborate on the types of advisory services provided through select examples?

Al Safat Investment Company provides many consulting services to its clients, in accordance with the licences obtained from the regulatory authorities, such as the Capital Markets Authority and the Central Bank of Kuwait. Al Safat offers services to manage third-party funds through investment portfolios owned by clients, which includes 65 portfolios with total assets under management for clients and groups reaching \$250 million, through trading shares of listed and unlisted companies in Boursa Kuwait.

This is in addition to establishing and managing the Collective Investment Scheme, for example, the Al Safat Local Equity Fund. The Investment Controller service monitors and supervises the collective investment



schemes established and managed by others, in addition to providing an investment advisor service related to securities in return for a commission. The company also sells, exhibits and collects securities in the best interest of its issuer for the purpose of remarketing or reissuing securities, known as Subscription Agent.

Al Safat acts as an intercessor in lending and borrowing transactions. What are the challenges faced as an intercessor during such financial activities and how is the company preparing to face these challenges?

We have had to reign in our lending business this year on the back of having a lot of uncertainty with regard to a few traditional industries. The pandemic was the final nail in the coffin for some of the industry players. Coupled with near-zero interest rates around the world, many companies have been able to borrow from banks and governments, raising concerns about the sustainability of their finance and operations. It becomes difficult as an intermediary to lend out at profitable rates. We have had to keep a balance between maintaining

profitability and servicing our clients during these challenging times.

At Al Safat Investment Company, we are focused on the financial health of our group companies and ensure that companies requiring growth capital such as healthcare and sanitation products have enough cash to rapidly expand their business. We have identified shifts taking place in the country and across the world and are looking to provide funding to industries in the future. We have already devised a plan to patiently build a good lending portfolio, add benefit to the growing market and widen our exposure in the coming years.

How is Al Safat's stock trading performance in local and international governmental institutions and what is your outlook for the stock market in Kuwait?

Internationally, we are focusing on private equities, and at the right time, we will begin to invest in leading stock markets following our strategy that fits each market and its circumstances. In 2019, we outperformed the Kuwait Boursa Premier and main indexes by following and applying our dynamic long-term strategy that can be

shifted from aggressive to conservative based on market conditions and circumstances. This is possible due to our mechanism in selecting stocks and assessing the weight of each investment and sector. Boursa Kuwait is on the right track to become one of the most attractive emerging markets in the world. Of late, we have seen that the stock market in Kuwait has become stronger, and global crises is having less impact on the market compared to the effect they had 10 years ago. The anticipation is encouraging and several companies are planning to increase their investments in the market, including us.

How is Al Safat's investor relations being protected over the years?

With the aim of strengthening the relationship between current and potential investors, Al Safat Investment Company has established a special unit for investor affairs and has also appointed persons with competence and experience in the field of dealing and

What are the persistent challenges encountered on the back of the coronavirus pandemic and how is Al Safat addressing those challenges?

Since the beginning of the coronavirus pandemic, the company has been keen to implement many precautionary measures, in terms of health and business to mitigate any risk or negative effects that may be reflected on the company and its durability. The continuity and growth of the company's business, achieving profitability, and following health procedures and measures to protect its employees and customers are among the most prominent challenges that the company has faced during the crisis. With that, it has taken many precautionary measures such as:

- Direct activation of approved emergency and business continuity plans to ensure seamless operations without any interruption
- Apply all health safety standards to promote employee safety in accordance with the guidelines issued by the health authorities
- Focus on implementing all instructions issued by official authorities, executing precautionary measures and a comprehensive plan taken by state agencies to contain the spread of the coronavirus
- Continuous flow of business activities while maintaining social distancing
- Provide programmes, mechanisms and means of protecting information related to the information technology department to carry out effective internal communication
- Build external communication with all customers, supervisory authorities and stakeholders for flexibility, scalability and efficiency
- Monitor cash flows for operating, investing and financing activities to reduce the company's exposure to liquidity risk, and oversee capital adequacy standards to cover company risks
- Supervise the company's costs and work to reduce them as much as possible
- Review the company's annual budget in 2021, taking into account the repercussions of the coronavirus crisis, potential impact of the risks and analyse the impact on financial, investment and administrative situations of the company through a periodic review of all influencing factors
- Carry out social responsibility activities to help sectors and ministries that are at the forefront of mitigating risks associated with the coronavirus

building excellent relations with investors. Trust and credibility between the company and its investors are one of the main goals that it seeks to achieve through continuous communication and by authorising them to access all the company's transactions, financial data and investments—thereby enhancing transparency, credibility and integrity between both parties. And there is keenness on the company's part to achieve the best for current investors and maximise profits in addition to providing investment opportunities with rewarding returns. This in turn will encourage new investors to cooperate with us.

What is the approach taken to cater to the needs of sophisticated investors portfolios in the next five to 10 years?

With more than 15 years of wealth management experience, Al Safat Investment Company offers portfolio management in various asset approaches that are tailor-made to meet investors' risk or return profiles. Although most investors in the country allocate their savings to passively managed accounts with very few transactions during the year—we at Al Safat Investment Company aim to beat the market through some combination of fundamental and/or technical analysis and consistent income generation from blue-chip companies. Over the years, we have beat the general market index performance and hope to market these strategies to sophisticated investors in the future.

We aim to allocate a greater proportion to the growing sectors in Kuwait such as education, healthcare, fintech, non-banking financial services and financial instruments in emerging markets. We believe the pandemic has accelerated the adoption of technology in traditional industries. There are plans to increase our product offerings in the form of Islamic private equity funds, innovative fixed income products for our consumer segment and real estate investment trusts in the future so that our customers will have a wide range of areas to invest in.

How is Al Safat building up its CSR activities and fulfilling Kuwait's needs?

We consider our social responsibility as a core factor of our company's DNA, as we believe in the importance of giving back to the society and the country we are in. We have a flexible annual CSR plan that changes with the needs and circumstances around us. For example;



during the pandemic we offered all our resources and subsidiaries under the request of the government of Kuwait. Our chemicals factory was one of the main providers donating thousands of liters of cleaning supplies and hand sanitizer liquid to the Ministry of Interiors and Ministry of Finance among others. We have also donated rugs from our factory to The Authority of Public Housing who were responsible for preparing and providing quarantine centres. Although the situation was challenging, it was our time to shine and help to an extent that we could. Alafat Tower was turned into a sanitised workplace following strict health and safety regulations. These efforts have led us to winning prestigious awards.

Can you tell us more about the strategic plans in terms of building investments and lending portfolios over the next one year?

We have a specific plan for the future of the company going forward, especially after winning a big legal case that hindered our

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