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Letter From the Emirates

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We wrap our recent MENA travelogue with a keen look at Abu Dubai and Dubai, the principal emirates of the UAE. According to the Khaleej Times, the region "is emerging as a global magnet for capital, bolstered by rising foreign investor appetite, strong fundamentals, and a robust pipeline of IPOs across diverse sectors." Given this time of macro uncertainty, "the UAE's financial markets are standing out for their stability, depth, and reform-driven momentum."

It is also ripe for private market investors. The UAE's Ministry of Economy reports 90% of the region's private companies are family owned. These businesses also represent 40% of the country's GDP. Petro dollars are channeled to government funds and individuals in ruling families, some more entrepreneurial than others. These include conglomerates, financial services, car dealers (Toyota is the largest) and construction (malls and hotels). Estimates run as high as $30 trillion for the size of private capital investments by 2030.

UAE remains the most successful economy in the region, with alcohol and tourism diversifying away from their oil and gas revenues. While the majority of Kuwaiti investments are international, the Emirates focus domestically as well. This includes infrastructure (roads and airports), as well as data centers and logistics companies. Sovereign wealth funds here are as sophisticated as any in the world. Savvy investors work to diversify their holdings.

Dubai's Financial Center (DIFC), governed by Dubai Financial Services Authority, comprises thousands of hedge funds, wealth and asset managers, and family businesses with $700 billion in AUM. Private capital is a major part of this growth, with a wide variation of commitment to the asset class. Some are "fully allocated," some just taking their first tentative steps.

As elsewhere, education here is of critical importance, particularly given the nature of family offices. Since our first visits three years ago, investors have become more sophisticated in their understanding of the complexity and diverse structures available to access private capital. Investors and allocators can consider among closed and open funds, evergreen and term, public and private, as well as allocations including more liquid or higher yield strategies.

Private capital, real estate and infrastructure remain the most developed alts, with PE more advanced than private credit. Slower deployment to distributions is a challenge. Nevertheless, Abu Dhabi and Dubai's growth initiatives will greatly benefit PE (see *Chart of the Week*).

Questions this month about private credit echoed similar concerns in other geographies. Supply/demand worries are common. Given all the fundraising in private credit, is there too much money chasing too few deals? Also, with rates coming down and spreads tightening, is now a good time to invest in private credit?

Our answers – supply/demand is well-balanced for US middle market direct lending, and spreads are increasingly favorable to syndicated bank loans – are consistent across the globe. We expect our MENA clients and friends to reap these and other private credit benefits into the future.