The Asset Management Review

Eighth Edition

Editor
Paul Dickson

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PREFACE

Despite significant improvements in the global economic landscape in the years since the global financial crisis some ten years ago, the macroeconomic position is looking increasingly complex and global growth has been hampered by various geopolitical factors, including political uncertainty and the rise of populist movements in Europe. As the UK prepares for Brexit, absent any agreement to the contrary currently set to take place at the end of October 2019, political uncertainty remains around the form and extent of any UK–EU deal relating to financial services, and as to whether any transition period (during which UK firms would remain able to access to EU markets on current terms) will be agreed. This has had, and is likely to continue to have, a potentially destabilising effect on the UK asset management sector and its clients. The impact of the UK's decision to leave the EU is thus already being felt, not only in the UK and across the European continent, but also more widely.

Nevertheless, the importance of the asset management industry continues to grow. Nowhere is this truer than in the context of pensions, as the global population becomes larger, older and richer, and government initiatives to encourage independent pension provision continue. Both industry bodies and legislators are also increasingly interested in pursuing environmental, social and governance (ESG) goals through private sector finance. For example, the European Commission has proposed a package of measures seeking to introduce sustainable finance into current regulations to make it easier for investors to identify and invest in such projects.

This should not be a surprise: lack of shareholder engagement has been identified as one of the key issues contributing to the governance shortcomings during the financial crisis. Given the importance of the asset management industry in investing vast amounts on behalf of clients, the sector is the natural focus of regulatory and governmental initiatives to promote effective stewardship and take the lead in instilling a corporate cultural focus on sustainability and ESG initiatives.

The activities of the financial services industry remain squarely in the public and regulatory eye, and the consequences of this focus are manifest in ongoing regulatory attention around the globe. Regulators are continuing to seek to address perceived systemic risks and preserve market stability through regulation. In Europe, further significant changes to the regulatory landscape for investment services were introduced by the revised Markets in Financial Instruments Directive regime (known as MiFID II), which has applied since 3 January 2018. In the UK, the Financial Conduct Authority continues to focus on the asset management industry. In 2017, it published its asset management market study on the performance of the asset management market for retail and institutional investors, and is beginning to implement its findings during the course of 2018. In contrast, the Trump administration in the US has signalled a deregulatory agenda, which includes plans to repeal the Wall Street Reform and Consumer Protection Act of 2010 (also known as the Dodd-Frank Act).

It is not only regulators who continue to place additional demands on the financial services industry in the wake of the financial crisis: the need to rebuild trust has led investors to call for greater transparency around investments and risk management from those managing their funds. Senior managers at investment firms are, through changes to regulatory requirements and expectations as to firm culture, increasingly being seen as individually accountable within their spheres of responsibility. Industry bodies have also noted further moves away from active management into passive strategies, illustrating the ongoing pressure on management costs. This may, in itself, be storing up issues for years to come.

The rise of fintech and other technological developments, including cryptocurrencies, data analytics and automated (or 'robo') advice services, is also starting to have an impact on the sector, with asset managers looking to invest in new technologies, seeking strategies to minimise disruption by new entrants, or both. While regulators are open to the development of fintech in the asset management sector, they also want to ensure that consumers do not suffer harm as a consequence of innovations. Regulators across various jurisdictions are working together to develop a global sandbox in which firms can test their new technologies.

This continues to be a period of change and uncertainty for the asset management industry, as funds and managers act to comply with regulatory developments and investor requirements, and adapt to the changing geopolitical landscape. Although the challenges of regulatory scrutiny and difficult market conditions remain, a return of risk appetite has also evidenced itself and the global value of assets under management continues to increase year on year. The industry is not in the clear but, prone as it is to innovation and ingenuity, it seems well placed to navigate this challenging and rapidly shifting environment.

The publication of the eighth edition of *The Asset Management Review* is a significant achievement, which would not have been possible without the involvement of the many lawyers and law firms who have contributed their time, knowledge and experience to the book. I would also like to thank the team at Law Business Research for all their efforts in bringing this edition into being.

The world of asset management is increasingly complex, but it is hoped that this edition of *The Asset Management Review* will be a useful and practical companion as we face the challenges and opportunities of the coming year.

Paul Dickson
Slaughter and May
London
August 2019

Chapter 23

UNITED ARAB EMIRATES

Nabil A Issa, James R Stull, Macky O'Sullivan and Sayf Shuqair[1]

I OVERVIEW OF RECENT ACTIVITY

The United Arab Emirates (UAE) is arguably the centre of the private equity and asset management industries in the Middle East. With a recent focus on economic and legal reforms, a low-tax regime and a high quality of life, numerous international firms have set up their regional hubs in the UAE, and many talented and educated expatriate and local professionals have put down roots here. Among other factors, the historical strength of the UAE's economy and stable government as well as the country's expected growth led MSCI to upgrade the UAE to its emerging market index in mid-2014.

Within the UAE, Dubai has become the epicentre of financial services transactions and innovation in the asset management sector in the Gulf Cooperation Council (GCC) and greater Middle East region, surpassing Beirut, Bahrain, Kuwait and Riyadh. Abu Dhabi, the country's capital, is known for its more conservative and patient investment strategy, and is home to some of the world's largest and most prominent sovereign wealth funds.

During the global financial crisis, Dubai, with a focus on financial transactions, was particularly hard hit, resulting in a near-default on its debt payments and a subsequent bailout from Abu Dhabi. Many predicted the financial crisis would be the end of Dubai, and would result in a transformative change to Dubai's free-spending and 'casino-like' culture. However, following certain significant restructurings and policy changes, Dubai has entered a period of sustainable growth, with significant projects in the tourism and real estate sectors announced in anticipation of the World Expo in 2020.

Abu Dhabi weathered the financial crisis by implementing a patient economic vision, buoyed by high oil prices. This approach resulted in four straight years of double-digit fiscal surpluses in the lead-up to 2015, which in turn led to massive budgets for the government to invest in mega-projects, and to focus on important sectors of the economy such as healthcare and education. With an economy predominantly based on oil and related hydrocarbon revenues, the recent slump in oil prices has drastically reduced revenues for Abu Dhabi, which appears to be entering a stage of economic transition toward a more sustainable and diversified economy highlighted in Abu Dhabi Vision 2030.

The slump in oil prices has taken a considerable bite out of the total market capitalisation, as many of the companies listed on the stock exchanges in the UAE (NASDAQ Dubai, the Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADX)) derive substantial revenues from oil production and related-energy industries. Stock exchanges in

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the UAE have recorded lower net profits. The total trading value on ADX fell 18 per cent in 2016 to 49 billion dirhams from 60 billion dirhams in the previous year. In 2017, ADX underperformed by 3.3 per cent. Although the total traded volume of stocks on ADX dropped 26 per cent in 2018, the performance of First Abu Dhabi Bank (which comprises just below one-third of the index, in value terms) was strong enough to provide an overall boost to the market. The ADX index finished the year 10.7 per cent higher. Dubai's stock market ended 2018 with a 25 per cent annual loss, the worst year since the global financial crisis a decade ago, as the real estate and tourism sectors struggled. Although oil prices have recovered from early 2016's multi-year lows, they remain below the average prices of previous years. In response to the new reality of lower oil revenues, the UAE has reformed its budget by cutting spending through a reduction in fuel subsidies and electricity subsidies. In Abu Dhabi, for example, electricity subsidies have been scaled back and water tariffs increased.

To create additional income to cover the decrease in oil revenues, the government is imposing corporate taxes on onshore companies and a recently implemented value-added tax (VAT). The International Monetary Fund has hailed this decision, which it believes will strengthen the country's fiscal position. It is not expected that taxes would be imposed on companies operating in a free zone in the UAE, where most funds and investment managers are domiciled. Accordingly, it is not expected that the proposed taxes will have a substantial negative impact on the asset management industry in the UAE.

On 21 January 2017, the President of the UAE, His Highness Sheikh Khalifa bin Zayed Al Nahyan, issued a law creating the Mubadala Investment Company, a company wholly owned by the government of Abu Dhabi. The new company is the merger of two of Abu Dhabi's sovereign wealth funds, the International Petroleum Investment Company (IPIC) and Mubadala Development Company (Mubadala), and their respective assets. The law formalised the announcement made in 29 June 2016 that IPIC and Mubadala would merge, thereby creating an entity with assets worth an estimated US$130 billion. The merger is viewed as part of a larger government strategy to diversify the economy and create stronger entities for its growth. While some cost-saving measures have been put in place and attempts have been made by the government to rein in spending, there has also been investment into other regional asset managers, with the completion of the acquisition of an aggregate 20 per cent interest by Mubadala in Bahraini investment manager Investcorp being an example of this. The merger of IPIC and Mubadala was followed by the announcement in March 2018 by Crown Prince Sheikh Mohammed bin Zayed of the consolidation of Abu Dhabi Investment Council (ADIC) with Mubadala Investment Company. ADIC will become part of the Mubadala group, with a combined portfolio worth over US$200 billion. This is the latest consolidation of state-run companies in Abu Dhabi and is another step towards efforts being made by the government to accelerate the diversification of the UAE's economy. Lower oil prices have led the UAE to tighten its spending and to consolidate its investment vehicles to generate higher returns.

Abraaj, the largest private equity firm in the Middle East with assets under management of US$13.6 billion, filed for provisional liquidation in June 2018, and has been in discussions with a number of global asset managers and private equity firms about the potential sale of some of its key funds and assets. This followed the resignation of its chair and founder, and the finding by Deloitte that Abraaj had commingled about US$95 million after it faced cash shortages. It is currently unclear what effect these developments will have on the private equity and asset management industry in the UAE and the wider Middle East region. However, there are concerns that this will impact the appetite of fund investors to commit, deepen investor perceptions of a lack of transparency and adversely affect the capabilities of fund managers to raise capital. Despite the burgeoning tech economy, concerns about governance and due diligence in the region may be blunting investors' enthusiasm for Middle East-focused funds, with data provided by Emerging Markets Private Equity Association (EMPEA) showing that in 2018 only US$91 million was raised through two vehicles. Despite some uncertainty, the future of the asset management industry in the UAE, albeit being in a state of transition, looks strong, and the UAE is a very bright spot in a turbulent region. To sustain the growth in the financial services and asset management sectors, the UAE and the emirates of Dubai and Abu Dhabi have recently published new financial services and funds regulations seeking to provide clarity and confidence to both managers and investors alike and to encourage further growth of the industry. The UAE also introduced a federal bankruptcy law in December 2016, which modernises the insolvency regime in the country to be more in line with international norms, and which should assist asset managers and other businesses when operating in the UAE.

II GENERAL INTRODUCTION TO THE REGULATORY FRAMEWORK

Financial services such as investment management are generally provided in the UAE from three hubs, namely onshore in the UAE (i.e., outside of a designated free zone), the Dubai International Financial Centre (DIFC) and the Abu Dhabi Global Market (ADGM), each of which has its own rules and regulations. The DIFC and the recently created ADGM are economic free zones within the UAE that have been created to encourage foreign investment by offering foreign businesses attractive concessions and a number of investment incentives, including a zero per cent tax rate and the ability to own a 100 per cent subsidiary (foreign ownership restrictions apply outside the free zones).

i Onshore UAE

From 2012 to 2014, primary responsibility for overseeing the licensing, regulation and marketing of investment management was transferred from the UAE Central Bank (the Central Bank) to the Emirates Securities and Commodities Authority (SCA), with the SCA confirming the implementation in the UAE of a 'twin peaks' model of financial services regulation and supervision. Under this model, the Central Bank remains responsible for systemic stability, prudential oversight and monetary policy, while the SCA is responsible for conduct of business matters (including consumer protection and financial markets oversight). Any firm (whether based inside or outside the UAE, including free zones in the UAE) that intends to conduct investment management activities in the UAE outside of a free zone must obtain a licence from the SCA prior to conducting such activities. The Investment Management Regulations implemented by the SCA define 'investment management' as the management of securities portfolios for the account of third parties, or the management of mutual funds in accordance with the investment objectives and policies defined in the investment management agreement between the investment manager and its client.

In July 2016, the SCA adopted new investment fund regulations (2016 Fund Regulations), which repealed the prior investment fund regulations (which were adopted in 2012 and amended in 2013), clarified the formation process for the establishment of locally domiciled funds and introduced significant changes to the marketing of foreign domiciled investment funds in the UAE. The 2016 Fund Regulations impose substantial hurdles and costs for managers seeking to promote foreign funds in the UAE, and have generally been subject to negative feedback. Managers wishing to market foreign funds onshore in the UAE had far fewer options: they could register the fund with the SCA and enter into a distribution arrangement with a locally licensed placement agent, engage in reverse solicitation (where the investor inside the UAE initiates the transaction) or rely on a private placement exemption when offering to sovereign entities. However, in January 2017, the SCA issued regulations governing promotion and marketing that reintroduced several private placement exemptions, contemplate the potential listing of certain types of funds and explicitly allow for foreign funds to rely on reverse solicitation when offering in the UAE. Additionally, in March 2019, a new passporting regime was introduced to allow locally domiciled funds to be marketed across the UAE, the DIFC and the FSRA as further discussed in Section V below.

ii DIFC

The Dubai Financial Services Authority (DFSA) is the independent regulator of all financial and ancillary services conducted through the DIFC, including investment management. The rules and regulations governing investment management in the DIFC are set out in the Collective Investment Law 2010, the Collective Investment Rules module of the DFSA Rulebook (CIR) and the Regulatory Law. The Regulatory Law provides that financial services may only be carried on in the DIFC by a firm authorised and licensed by the DFSA. Managing a collective investment fund is defined under the General Module of the DFSA Rulebook as being legally accountable to the unitholders in a fund for the management of the property held for or within a fund under the fund's constitution; and establishing, managing or otherwise operating or winding up a collective investment fund. A DFSA fund management licence is required to manage a collective investment fund in the DIFC. Fund managers from reputable jurisdictions outside the DIFC (external fund managers) may establish and manage DIFC-based domestic funds without having to obtain a DFSA licence provided certain conditions are satisfied. For example, the domestic fund must be managed from a place of business that is in a jurisdiction either included in the DFSA's Recognised Jurisdictions List (as published on the DFSA website) or assessed by the DFSA as providing an adequate level of regulation.

iii ADGM

In October 2015, the ADGM financial services regulations (the Regulations) were enacted. Under the Regulations, firms carrying on financial services business such as investment management in the ADGM are subject to licensing by both the ADGM (in terms of the obligation to hold a commercial licence) and the ADGM Financial Services Regulatory Authority (in respect of the financial services licensing). The Regulations contain two key prohibitions, namely providing financial services without a licence or exemption, and making an authorised financial promotion. The Regulations to some extent mimic the types of funds permitted in the DIFC, and contemplate public funds, exempt funds and qualified investor funds. The ADGM has also sought to be a hub for real estate asset management in the region, and has introduced a private real estate investment trust (REIT) regime that has proven to be popular.

III COMMON ASSET MANAGEMENT STRUCTURES

The most common forms of asset management in the UAE are privately managed accounts and offshore structures. Privately managed accounts have long been popular in the region as managers have targeted capital from high-net-worth individuals, family offices and government-related investors in the UAE. For collective investment schemes, managers have generally looked to the Cayman Islands (and to a lesser extent other offshore jurisdictions) as the domicile of choice due to comprehensive corporate and funds laws and predictable legal regimes. Additionally, locally domiciled funds in the DIFC and ADGM have become increasingly utilised in the past couple of years.

Large local banks, such as First Abu Dhabi Bank (created upon the merger of National Bank of Abu Dhabi and First Gulf Bank in April 2017) and Emirates NBD Bank, have established public mutual funds onshore under the Central Bank and SCA regulations. However, to manage an onshore fund, a manager requires an SCA fund management licence, which the SCA only recently began issuing. Similar to other funds jurisdictions in the region, onshore funds are not legal entities, but rather are contractual entities formed upon execution by the manager and the investors of the fund's terms.

The DIFC and DFSA have actively promoted the funds industry in the DIFC, with the DIFC recently publishing its 2024 growth strategy, which outlines fund management as its strategic focus area of the long term. However, the DIFC funds industry has yet to flourish, and only approximately 35 funds have been established in this jurisdiction. However, the DIFC recently adopted the qualified investor fund (QIF) regime, which can be established in an expedited time frame and is subject to significantly less oversight than other UAE-based fund structures. A QIF structure is designed to be offered only through private placement to experienced investors, with a minimum investment of US$500,000 per investor and a maximum of 50 investors per fund. To manage a QIF or any other DIFC-domiciled fund, an entity must be licensed by the DFSA. As further encouragement to consider establishing in the DIFC, the DFSA has introduced a fast-track licensing process with reduced fees and share capital for those entities that are seeking to establish in the DIFC for the purpose of launching a fund.

The DIFC has also adopted a special purpose company (SPC) structure through which many managers effect their private equity, real estate and alternative investments. Managers have looked to the SPC structure due to the short time frame to establish an SPC (i.e., one week versus potentially months to establish in other local jurisdictions), as well as the DIFC's legal regime (which is based on English law) and the general recognition and treatment of DIFC companies as onshore companies for tax and regulatory purposes in the GCC. The ADGM has recently introduced a comparable entity, the special purpose vehicle (SPV), which is quicker and more flexible (but less tested) than the SPC. The SPV has garnered substantial interest from managers and investors (and more recently start-ups and venture capital firms) in a short period of time since its introduction.

IV MAIN SOURCES OF INVESTMENT

The UAE is home to several prominent sovereign wealth funds, including the second-largest in the world in terms of assets under management (Abu Dhabi Investment Authority, with an estimated US$696.66 billion under management as of June 2019). These sovereign wealth funds are funded through revenues of the government, which are primarily generated through the sale of oil and other related hydrocarbons, and income from their existing portfolios.

The UAE is also home to the DIFC, which is arguably the most popular and successful financial centre in the Middle East. In 2014, assets under management of fund managers and financial institutions in the DIFC stood at US$10.4 billion. This is expected to grow to US$250 billion by 2024, signalling the expected growth in the asset management industry in the UAE.

Local banks dominate the mutual funds industry in the UAE. These mutual funds generally target retail investors in the UAE and invest into listed equities, primarily in the UAE and the greater GCC region, but also into rated debt and other fixed income products.

Many regional and international asset managers in the UAE (e.g., Abraaj, Fajr Capital, Franklin Templeton and NBK Capital) have based their operations in the DIFC. These private equity managers tend to target institutional investors and family office investors. Over the past five years, fund managers have deployed nearly US$2.1 billion in capital to UAE-based companies, primarily investing in the retail and healthcare sectors.

V KEY TRENDS

In July 2019, the UAE Cabinet approved 122 qualifying activities across 13 sectors eligible for up to 100 per cent foreign ownership in the UAE. The list of sectors includes renewable energy, space, agriculture, the manufacturing industry, information and communications, transport and logistics, healthcare, education, construction and hospitality. To benefit from this scheme, applicants will need to make an application to the Foreign Direct Investment (FDI) Authority and satisfy certain obligations including providing evidence of the deposit of the company's capital in a bank account, appointment of one or more licensed auditors for a renewable period of one year (up to six consecutive years), implementation of Emiratisation policies in the company and ongoing collaboration with the foreign direct investment (by notably maintaining regular accounts for the FDI project, notifying the date of commencement of work or production date, providing information and statistics). The decision aims to support the growth environment and to reaffirm the UAE's position on the global arena as a hub for investment.

On 11 March 2019, the SCA, the Financial Services Regulatory Authority of the ADGM (FSRA) and the DFSA announced that a new fund passporting regime will be implemented to facilitate the promotion of funds domiciled in each of onshore UAE, the ADGM and the DIFC. Under the new regime (which only applies to locally domiciled funds and not to the marketing of foreign funds), a fund manager of a DIFC domiciled fund, for example, can register with the DFSA under the passporting regime and the DFSA will notify the other regulators (i.e., the FSRA or SCA) who will then include the fund on their own respective register of funds allowing the fund to be marketed to investors in the ADGM and onshore in the UAE. The implementation of the passporting regime is seen as an important step to encourage the development of the mutual funds' market so as to achieve the goal of having more diversified investment opportunities and products.

The country's sovereign wealth funds have long invested internationally into diversified portfolios. Because of less exposure in the region, which has seen a downturn due to the slide in oil prices, and more investment in stronger international markets, the value of these funds' portfolios has not dramatically dwindled. However, it can be expected that the future budgets for UAE sovereign wealth funds will be significantly lower if the country is facing a budget deficit.

The primary asset classes for investment by local managers have been regional listed equities and real estate. With the local stock markets hit by the slump in oil revenues, managers have fallen back onto real estate more than ever. However, as opposed to the 2008 downturn, recently managers have looked to other alternative classes such as debt, venture capital and private equity. While real estate remains the dominant asset class, the past two years have seen a rise of credit funds (across the sector, including mezzanine, distressed and real estate financing funds) as well as blind-pool venture capital and private equity funds.

In an effort to attract new fund managers and provide a cost-effective option to establish and maintain fund management companies in the DIFC, the DIFC Authority recently introduced significantly reduced fees. Fund managers looking to establish a presence in the DIFC will find that there is now no application fee payable (previously US$8,000), and there is a two-year waiver of the annual commercial licence fee of US$12,000. The DIFC has also introduced incentives for venture capital funds and managers, including flexible office space options. Additionally, there has been a reduction in the regulatory capital requirement, from US$500,000 to US$70,000 for QIFs and exempt funds, and US$140,000 for public funds. It is expected that many managers will take advantage of the lower fees and the streamlined QIF regime (a more flexible structure that is as quick to establish as vehicles in more traditional offshore funds jurisdictions). Managers setting up investment funds in the DIFC have generally been focused on private equity and real estate assets.

In February 2017, Chairman Decision No. 3/R.M of 2017 concerning Promoting and Introducing Regulations (PIR) came into effect. Importantly, the PIR expressly provides an exemption in relation to the promotion of foreign securities (including fund interests) onshore in the UAE based on a documented reverse solicitation. Foreign fund interests are otherwise generally not permitted to be promoted onshore in the UAE unless such promotion is to a qualified investor or the securities are registered with the SCA and an agreement with a locally licensed promoter is concluded.

There has been a surge in interest in the fintech sector in the UAE in the past year, with both the DIFC and the ADGM recently launching fintech accelerators. The 'FinTech Hive in the DIFC' was launched as a platform to help identify leading technology entrepreneurs and companies through a competitive process, and then offer them the opportunity to develop, test and modify their innovations in collaboration with top executives from the DIFC and regional financial institutions. In the ADGM, the Regulatory Laboratory was recently launched, authorising fintech participants for a period of up to two years to develop and test their propositions. The first group of participants was announced in May 2017, with the second group commencing activities in July 2018. In June 2018, the ADGM launched its framework to regulate spot crypto asset activities, including those undertaken by exchanges, custodians and other intermediaries in the ADGM. The framework also includes guidance from the ADGM Financial Services Regulatory Authority on the regulation of crypto asset activities in the ADGM and an application form for interested applicants to operate a crypto asset business within the ADGM. This is aimed at instilling proper governance, oversight and transparency over crypto asset activities, positioning the ADGM as a destination of choice for crypto asset players.

VI SECTORAL REGULATION

i Insurance

The UAE Insurance Authority recently passed new regulations (the Financial Regulations) restricting how insurance firms operating in the UAE can invest their money and how much exposure they can have in a particular asset class, and restrictions in relation to the domicile of investments. Insurers are permitted to hold assets in a foreign jurisdiction with a sovereign rating that is better than or at least equivalent to the sovereign rating of the UAE. However, total invested assets held outside the UAE must not exceed 50 per cent of the total invested assets or 100 per cent of the total technical provisions for policies outside the UAE (excluding unit-linked funds), whichever is greater. The Financial Regulations came into force on 29 January 2015, with insurers licensed in the UAE required to restructure their investment portfolios to comply with the Financial Regulations within the following time frames: within three years in relation to assets held in respect of life insurance contracts (by 29 January 2018); within three years for investments in real estate assets; and within two years for investments in non-real estate assets (by 29 January 2017).

ii Pensions

In general, pensions in the UAE are regulated by the General Authority for Pensions and Social Security (GAPSS). The primary objectives of GAPSS have been to expand insurance coverage for UAE nationals and expatriate residents in the UAE, and the rapid disbursement of insurance, pension and other compensation to its beneficiaries. It is expected that GAPSS may play a larger role in the future, as the UAE has contemplated pension schemes for expatriates resident in the UAE in addition to the existing pensions for UAE nationals.

The Abu Dhabi Retirement Pensions and Benefits Fund (ADRPBF) manages contributions, pensions and employee benefits for UAE nationals working for government, semi-government and private employers in Abu Dhabi. The ADRPBF is an active investor in private equity funds and has a large diversified portfolio of investments.

The UAE Ministry of Labour requires employers to pay employees 'end-of-service gratuity' pay upon termination of their employment. This payment is calculated based on the term of an employee's employment with a company, provided that the maximum gratuity payable is two years' wages. As an alternative, employers can establish pension schemes that employees can opt into in lieu of the 'end-of-service gratuity' system. However, such pension schemes are not common.

iii Real property

Real estate remains the asset of choice for investors in the UAE, despite the precipitous drop in value during the financial crisis. 2013 and 2014 saw a dramatic surge in prices, but the government has taken steps to regulate the market through limited loans and mortgages, imposing transfer fees on sales and limiting certain investment structures.

Real estate companies in the UAE are increasingly seeking public listings allowing such companies to raise funds while enabling investors to gain direct exposure to prime real estate assets. Recent examples include the high-profile listing on the DFM of Dubai Parks and Resorts (a Meraas Holding group company), raising approximately US$680 million; and DAMAC Properties' trading of global depository notes on the London Stock Exchange.

In the DIFC, the CIR sets out rules and regulations specific to real estate funds, including restrictions on the types of assets a real estate fund can invest into (e.g., a real estate fund may in certain circumstances only invest up to a maximum of 40 per cent of cash in government and public securities), the type of legal structure that can be used to establish a property fund in the DIFC and requirements in relation to the establishment of an advisory committee for real estate funds.

The past year has seen an increase in REITs activity. In March 2017, Emirates NBD REIT was listed on NASDAQ Dubai. This is the second listed REIT in the UAE following the listing of Emirates REIT on NASDAQ Dubai in 2014. Several other managers, such as

Gulf Islamic Investments, Abu Dhabi Financial Group and Al Mal Capital, have announced new REITs that are expected to be listed on exchanges in the UAE in the next 12 months. REITs listed on NASDAQ Dubai are regulated by the DFSA and must comply with the public funds regulations. As of August 2017, NASDAQ Dubai is the only UAE stock exchange permitting the listing of REITs. However, the SCA and the DFM (along with the Dubai Land Department) have announced efforts to finalise regulations to permit the formation of SCA-regulated REITs to be listed on DFM.

iv Hedge funds

Hedge funds in the DIFC are regulated by the CIR, similar to other investment funds. The DFSA has implemented the Hedge Fund Code of Practice, which sets out the principal risks associated with hedge funds and similar structures and sets out best practice standards. Hedge fund managers are permitted a degree of flexibility to adapt the standards to suit their particular businesses in light of market conditions and emerging issues. These standards, inter alia, address back-office systems, valuation procedures, and the skills and resources of managers.

v Private equity

According to Preqin, there were 17 private equity-backed buyout deals in the MENA region in 2018, which was the same number as in 2017, but considerably lower than completion numbers in 2016, 2015, and 2014, when 32, 31 and 46 deals were completed respectively. Fundraising as a whole for the MENA private equity industry was slow in 2018 with the decline of Abraaj believed to be a crucial factor that has made fundraising difficult with investors having concerns about governance and due diligence in the region.

In the DIFC, the CIR sets out rules specific to private equity funds. For example, a fund manager of a private equity fund must ensure that, unless the purpose of the private equity fund is to invest in a single venture or undertaking, it does not invest more than 25 per cent of the fund in one such venture or undertaking. Additionally, the CIR sets out guidelines that must be followed by the fund manager of a private equity fund prior to entering into related-party transactions (e.g., prior investor approval by special resolution).

vi Other sectors

Sovereign wealth funds

The UAE is home to some of the most prominent sovereign wealth funds: the Abu Dhabi Investment Authority (ADIA), the Abu Dhabi Investment Council (ADIC), the Mubadala Investment Company (Mubadala), the Emirates Investment Authority (EIA) and the Investment Corporation of Dubai (ICD). ADIA, ADIC and Mubadala are all resident in Abu Dhabi, and focus on investments for the benefit primarily of Abu Dhabi but also for the UAE as a whole. EIA is also based in Abu Dhabi, but is a sovereign wealth fund established for the benefit of the seven emirates of the UAE. ICD was established in 2006 to hold the assets of the government of Dubai.

ADIA currently has an estimated US$696.66 billion in assets under management, which it commits to private equity, venture capital, real estate, debt and other alternatives. ADIA invests the surplus oil revenues generated in Abu Dhabi and focuses on international investments (with a focus on North America, Europe and emerging markets). ADIA tends to be a passive investor relying on the managers of the funds and companies in which it invests.

Formed in 2007, ADIC is a spinoff of ADIA and, similar to ADIA, it invests surplus oil revenues. Whereas ADIA primarily makes international investments, ADIC maintains a stronger focus on UAE and Middle East investments. ADIC is agnostic as to asset class, and will make both direct and fund investments. It is estimated that ADIC has approximately US$111.8 billion in assets under management. ADIC is currently being consolidated with Mubadala Investment Company.

Mubadala is a sovereign wealth fund established with the purpose of diversifying the Abu Dhabi economy and providing social benefits to the UAE. It has focused on infrastructure, transportation and energy, including renewable energy. One of its most prominent investments is Masdar City, located outside Abu Dhabi, which is designed to be a hub for clean-tech energy companies and is committed to zero carbon. Mubadala recently merged with IPIC, which held the UAE's overseas oil assets, in an effort to realise synergies and promote growth in the energy, utilities, technology and aerospace sectors. It is estimated that the merged entity has approximately US$125 billion in assets under management.

EIA was established in 2007 by royal decree to represent the seven emirates of the UAE. EIA invests in many companies that operate across the UAE, such as telecommunications companies and local banks. EIA currently has an estimated US$22 billion in assets under management.

ICD is a sovereign wealth fund owned by the government of Dubai. ICD's purpose is generally to supervise and manage the assets of the government while adding value to the portfolio. ICD owns assets in the energy, transportation, banking, industrial, real estate and other sectors, including stakes in some of Dubai's most prominent companies, such as Emaar Properties, Emirates NBD Bank and Emirates Airlines. It is estimated that ICD has approximately US$196 billion in assets under management.

Family offices

Family groups are significant players in the asset management industry in the UAE, both on the manager and investor side, and are widely expected to be a very active investor group over the next year. While these family offices invest globally, many have a vested interest in investing in their home economies and the regional markets. There has been a trend of UAE family offices moving away from blind-pool funds and focusing more on trying to take direct stakes in their investments.

VII TAX LAW

Historically, the UAE has been a zero-tax jurisdiction. However, in October 2016, the UAE federal law establishing the UAE Federal Tax Authority (FTA) was issued. The FTA will be tasked with overseeing taxation in the UAE and, in particular, the implementation of the newly introduced VAT, which was implemented in January 2018. The FTA will be responsible for formulating UAE federal tax rules and regulations, including VAT, and will oversee the UAE's application of international tax obligations pursuant to tax treaties, tax information exchange treaties and global tax information exchange programmes. In addition, the FTA will be responsible for implementing all aspects of tax law including assessments, evaluations of returns, audits and the resolution of disputes.

Notwithstanding the introduction of VAT, the following taxes are not applicable in the UAE: withholding tax, corporate tax, personal income tax and capital gains tax. Oil, gas and petrochemical companies and branch offices of foreign banks are, however, required to pay taxes.

Entities established in the DIFC and the ADGM and their employees are subject to a zero rate of tax (income tax, corporate tax, withholding, capital gains, etc.). It is not expected that the new proposed taxes will be assessed on free-zone entities. Therefore, it is hoped that the tax regulations will have a negligible effect on the asset management industry in the UAE.

VIII OUTLOOK

Throughout the financial downturn and the recent slide in oil prices, the UAE has shown its resilience. It has proved that its economy operates outside of the oil and energy sectors, and that it has the infrastructure to maintain and grow its asset management industry. Regional and international managers see the UAE as the logical regional centre for the asset management industry, with Dubai serving as the hub. The DIFC is seeking to capitalise on this success by introducing simpler funds regulations to encourage more growth of the industry. In Abu Dhabi, the authorities have sought to emulate this success and make the ADGM a competitor to the DIFC as a regional funds jurisdiction. (However, recent developments with Abraaj have raised concerns about transparency, and could have an adverse effect on investor confidence and deal making in the UAE and the wider Middle East region.) Despite the tumult around the region, it is expected that Dubai will continue to be resilient, and will continue to lead the way for the MENA region in the asset management and private equity sectors. The UAE economy is expected to recover in 2019 and is forecast to achieve an average real GDP growth rate of 3.8 per cent between 2019 and 2023 (according to the Dubai Chamber of Commerce), supported by a rise in investment flows and private consumption.

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