

The Evolution of the Gulf Investor

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Summary

In recent years, there has been an uptick in private capital fundraising from and investment into the Gulf region. Meanwhile, economic growth and vitality within the region have outpaced traditional Western markets, and cross-border partnerships are increasingly common. This robust activity has attracted interest from fund managers, family offices, and limited partners across the U.S., Europe, and Asia, in addition to legacy stakeholders within the region. But historically, outsiders have had little understanding of the region's investment landscape. On October 8, 2024, *"The Evolution of the Gulf Investor"* drew out perspectives from general and limited partners to explore the regional private capital landscape and how investors might develop relationships and pursue opportunities in the Gulf.

Key highlights from the discussion include:

- Private capital in the Gulf region has been more active and faster growing than traditional private capital markets, attracting outside capital.
- Recent private capital investments in the Gulf region continue to shift away from traditional oil and gas businesses, trending towards direct-to-consumer businesses, fintech, and sustainability firms.
- Exit activity remain challenging for smaller companies, though the IPO market is becoming more active, with regional IPO volumes often exceeding those in developed markets.
- Regional investors with new funds and family offices have continued to pour sizable amounts of capital into the Gulf region.
- Fundraising in the region requires patience and building trust through long-term relationships and indications of commitment to the region's wellbeing.

Economic Diversification and Growth

Nations across the Gulf region have made substantial progress in reducing their dependence on oil and gas, leading to increasing economic diversification across sectors. For example, over the past 20 years, oil and gas contribution to the United Arab Emirates' (UAE) economy dropped from two-thirds to one-third today.¹ This shift continues to be a meaningful catalyst for economic growth, with Saudi Arabia and the UAE leading here. In contrast to Western markets, Gulf nations are in the midst of sharp economic expansion, which have all benefited from supportive government policies promoting innovation and sectoral development. The environment in the Gulf has not only attracted investors, but diversified its stakeholders, who are enabling growth in the region beyond its success in oil and gas.

A Golden Age of Investing and Private Capital

In recent years, private capital groups have shifted their attention to the Gulf region. Panelists noted that economic activity in the area has historically been driven by government spending on construction and building materials and investments in oil and gas businesses. Most of these businesses have been government-owned or large, publicly listed firms, providing limited room for private capital to enter. However, following the COVID-19 pandemic, consumer-driven

¹ U.S. International Trade Administration, "United Arab Emirates—Oil and Gas," *Energy Resources Guide*, 2021, <https://www.trade.gov/energy-resource-guide-united-arab-emirates-oil-and-gas#:~:text=Approximately%2030%20percent%20of%20the,utilization%20of%20unconventional%20gas%20resources>.

technology-enabled businesses gained economic traction, opening a window for private capital investors to participate in the Gulf's economic growth.

Venture capital has been a primary beneficiary of these shifts, particularly in Saudi Arabia, UAE, and Egypt. Venture investors have also gained from state-sponsored matching initiatives, which have created an encouraging environment for business growth. Technological innovations and sectoral development conducive to B2B and direct-to-consumer investments have had positive impacts.

These initial venture investments have laid the foundation for an increase in later-stage investment activity. LPs based in the Asia, Europe, the U.S., and local sovereign wealth funds are increasingly interested in growth equity investments in the region. These investments have focused on similar emerging growth sectors to those in the West, including fintech, hospitality, business services, and healthcare.

While much of venture activity has focused on investing in businesses that replicate successful existing models in developed markets (e.g., Careem *vis-à-vis* Uber), there are still considerable opportunities for more region-specific "homegrown" models bespoke to the Gulf's unique needs. Panelists estimate that innovation in the Gulf region, which has lagged the U.S. by 5-10 years, has accelerated the appetites of outside investors, especially in the face of global economic challenges that are constraining growth in traditional venture markets.

Liquidity Challenges

The panelists also discussed the challenges and factors shaping exit investment activity across the Gulf region. For the most part, investors in the region exit through mergers and acquisitions. About 50% of exits involve strategic buyers, many of whom are located outside the region and desire to "crack" the Gulf market. However, there are limits on such sales, as most strategic buyers require a majority stake, which entrepreneurs may be reluctant to part with. Financial buyers are present, though the market appears underpenetrated as investor appetite has historically leaned towards larger companies.

Historically, IPOs in the region were seen as less attractive exit options but have been gaining momentum, particularly on regional exchanges (this is true of both main and secondary markets). For example, the Saudi IPO market is particularly deep, with many Gulf Cooperation Council companies establishing a significant presence in Saudi Arabia to qualify for public listings on the Saudi stock exchange. Similarly, the UAE is emerging as a viable market for IPOs. As a result, the

Saudi and UAE IPO markets have recently started approaching all of Europe in terms of dollar volume raised.²

Fundraising: Navigating the Gulf

With slowdowns in fundraising in the U.S. and developed regions, many GPs are turning to the Gulf region to raise capital. These fund managers are attracted by the region's deep pools of capital and the opportunities to diversify their LP investor base.

Culture in the Gulf region tends to prioritize long-term relationships and loyalty over speed. Panelists warned that many Gulf capital providers are wary of adverse selection (i.e., GPs viewing the Gulf as a "last resort" for fundraising). Reflecting these concerns, investors seeking to engage with Gulf stakeholders should recognize the importance of building trust and meaningful connections in the years ahead of asking for capital. Relationships are particularly critical to successful partnerships in this region.

Sovereign wealth funds in the Gulf are similarly evolving, with an increasing expectation of reciprocal investments from global investment partners. Some global firms have even established local headquarters, underscoring their commitment to longer-term partnerships. Co-investments also offer additional avenues for collaboration, though LPs should thoughtfully consider the timing, structure, and decision to pursue a single concentrated investment over a diversified portfolio.

Ultimately, relationships in the Gulf are built on mutual trust, patience, and a shared vision for long-term growth. Rather than approaching the market with a purely transactional mindset, investors will find that consistent engagement, warm relationships, and a demonstrated commitment to the region can foster credibility and pave the way for sustainable success.

Conclusions for the Journey Ahead

The discussion provided insights into the dynamics of the Gulf region's private capital industry, highlighting the catalysts behind its recent growth and critical considerations for stakeholders interested in regional partnerships. As the market evolves and global interest rises, the region's investors are poised to become even more influential. While U.S. and European markets face heightened uncertainty, economic momentum and aligned stakeholder interests have positioned the Gulf as a compelling arena for private capital activity.

² EY, "With the Market in Flux, How Can Your IPO Journey Stay the Course?," *EY Global IPO Trends 2023*, <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/services/ipo/documents/ey-global-ipo-trends-2023-q4.pdf>.