

TalkingPoints

The Evolution of Index Investing in the Middle East



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Passive investing has accelerated throughout MENA, and adoption has become more widespread. Assets within ETFs and passive mutual funds listed in the region surpassed USD 500 million for the first time in May 2022. As regulation and markets evolve and asset managers embrace passive strategies, learn more about the indices that are fueling this growth.

1. What can you tell us about the growth of passive investing in the Middle East?

Although passive investing in the region is still in its early stages, the growth rate has been steadily building in recent years. Saudi Arabia was the first adopter of indexing, although the UAE has recently taken the lead. Meanwhile Kuwait, the second largest investment base, has yet to report passive funds. According to research from Chimera, there are currently 12 ETFs listed on the MENA markets—6 in the UAE, 3 in Saudi Arabia, 2 in Qatar, and 1 in Egypt. Six of these have been listed in the past two years.

However, it is also important to note that many in the region invest via index products that are domiciled in Europe or other global markets, so it is difficult to gauge the full scope and growth of indexing driven by regional investors.

2. What are the key drivers for the acceleration of passive investing in the MENA region?

Similar to what we've seen in many other parts of the world, the MENA investment community recognizes the benefits of index-based investing, notably the lower costs and greater transparency relative to actively managed funds. In addition, the inability of most active funds to outperform broad benchmarks has also been a key contributor to the adoption of passive investing.

¹ Sunil Kumar Singh. "ETF in nascent stage in ME." International Finance. June 15, 2022.

In our first edition of performance findings for the MENA region, the [SPIVA MENA Year-End 2021 Scorecard](#), we published the performance of actively managed MENA equity funds denominated in local currencies against the performance of their respective S&P Dow Jones Indices (S&P DJI) benchmark indices over 1-, 3-, 5- and 10-year investment horizons. Over a five-year period ending Dec. 31, 2021, 88% of active MENA equity funds underperformed the [S&P Pan Arab Composite](#), while 95% of GCC funds similarly lagged the [S&P GCC Composite](#), and 92% of Saudi funds underperformed the [S&P Saudi Arabia](#) over the same period.

Exhibit 1: Percentage of MENA Equity Funds Outperformed by Benchmarks

Fund Category	Comparison Index	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
MENA Equity	S&P Pan Arab Composite	85.19	80.00	88.24	92.31
	LargeMidCap Index				
	S&P Pan Arab Composite	74.07	80.00	88.24	89.74
GCC Equity	S&P GCC Composite	84.62	91.30	95.24	85.71
Saudi Arabia Equity	S&P Saudi Arabia	89.47	72.73	91.67	90.00

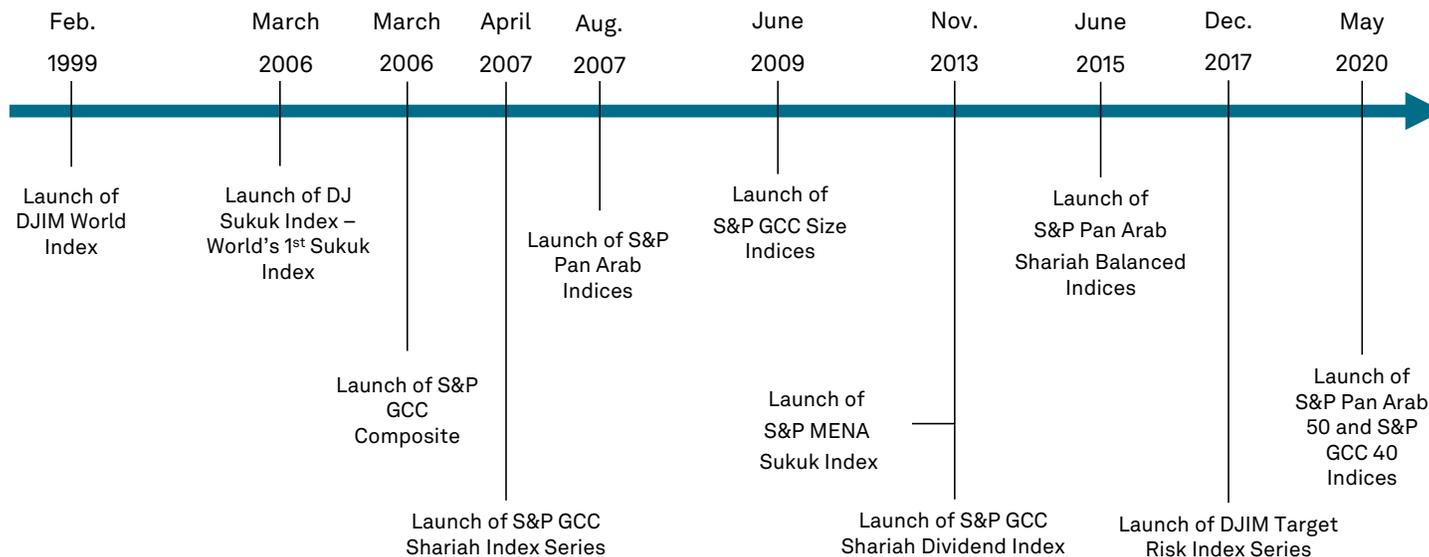
Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. Outperformance is based on equal-weighted fund counts. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

3. When and why was the S&P Pan Arab Index Series created?

The S&P Pan Arab Indices include the 10 investable countries in the MENA region, and the 6 GCC countries serve as the basis for the S&P GCC Indices. The latter series was launched in December 2004, while the broader universe of indices was launched a year later in 2005.

The purpose of these offerings was to create a comprehensive set of indices covering the region to support local and global investors and were the first of their kind in the region. Underlying country-level data is sourced from the [S&P Global BMI](#) and S&P/IFCI Indices, which represented the first frontier market index launched in the mid-1990s, becoming key foundations for the extensive legacy and history of benchmarks in the region.

Exhibit 2: S&P DJI's History of Activities in the GCC



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Chart is provided for illustrative purposes.

4. What are the key characteristics and benefits of this series?

The regional suite of indices represents our best-in-class capabilities of S&P DJI, including robust methodology, governance and operations framework. Additionally, our MENA benchmarks are representative of the needs of local and foreign market participants. Key characteristics include the following.

- Comprehensive suite of benchmarks with versions relevant to global investors, GCC residents and domestic investors
- Can be segmented by country, region, size and sector
- Broad adoption in the region by active and passive managers
- Full set of Shariah-compliant versions as well through the S&P Pan Arab Shariah

5. How has the series performed through the recent downturn in global equity markets?

Following a near-flat year in 2020, the S&P Pan Arab Composite gained 33% in 2021, as the regional economy regained strength, and all 10 MENA country indices finished the year in positive territory, a contrast against the broader backdrop of global emerging markets, which gained just over 1% in 2021. MENA countries declined during Q2 2022, offsetting the first quarter's gain, finishing flat halfway through the year. The performance, however, stood in stark contrast to the S&P Emerging BMI (down 16.1% H1 2022) and all major developed markets during H1 2022, as central bank actions to contain runaway inflation weighed on markets.

Exhibit 3: Comparative Regional Returns

Benchmark	H1 2022 (%)	2021 (%)	2020 (%)	3-Year (%)	5-Year (%)	10-Year (%)
S&P Pan Arab Composite	0.4	32.7	1.2	18.1	15.2	15.0
S&P GCC Composite	1.6	35.2	2.1	18.6	15.8	15.9
S&P Emerging BMI	-16.1	1.2	15.5	18.0	16.7	15.5
S&P 500®	-20.0	28.7	18.4	18.6	17.0	13.7

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2022. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

6. Have we seen further innovation around the series?

Our MENA equity benchmarks have served as the basis for our widely recognized Shariah indices and provide the necessary building blocks to support dividend, multi-asset, factor and ESG offerings, as well as custom benchmark solutions. Our regional fixed income and sukuk benchmarks sit alongside the equity benchmarks to provide true multi-asset index-based solutions. Notable regional flagship benchmarks are included in the following index series.

- S&P GCC Composite Indices
- S&P Saudi Arabia Domestic Indices
- S&P MENA Bond Indices
- S&P MENA Sukuk Indices
- S&P GCC Factor Indices

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