

## Saudi's Inner Focus

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Eight years ago, Saudi Arabia initiated an ambitious plan to transform its economy and reshape its global identity by 2030. Moving beyond its traditional role as the world's top oil exporter, the Kingdom is positioning itself as a tourist destination as well as an emerging hub for international business and entertainment. Through its Public Investment Fund, Saudi Arabia earlier made strategic international investments in iconic French hotels, Hollywood studios and cutting-edge technology funds. But now, the country's focus is to increase outlays at home.

At the end of October, eight thousand CEOs and business executives converged on Riyadh for the 8th annual Future Investment Initiative (FII) Conference, where a stark reality set in: while international financial leaders were eager to secure additional capital allocations, the Saudi government signaled a pivot toward bolstering the domestic economy by announcing a one-third cut in overseas funding. This shift reflects a growing appreciation that local investments can generate a wide range of benefits.

The headline deals announced had clear connections back to the local market including a \$1 billion agreement with the Hong Kong Monetary authority to support companies based in the Guangdong-Hong Kong-Macao Greater Bay Area looking to expand into the Middle East. Meanwhile, major players like Google, Brookfield and Airbus all inked deals that reinforced the prevailing theme of the conference: capital allocation is strategically tied to driving local growth.

Saudi Arabia now requires foreign companies to base their regional headquarters within the country to be eligible to bid for government contracts. Already, 540 foreign companies have made plans to establish their headquarters in the Kingdom. Yet, foreign direct investment (FDI) has been slow to keep up. The country is aiming for \$100 billion in annual FDI by the turn of the decade, and last year investment flow reached \$25.6 billion, with United Arab Emirates, Luxembourg, France, Netherlands and the UK making up the top five countries investing in the country.

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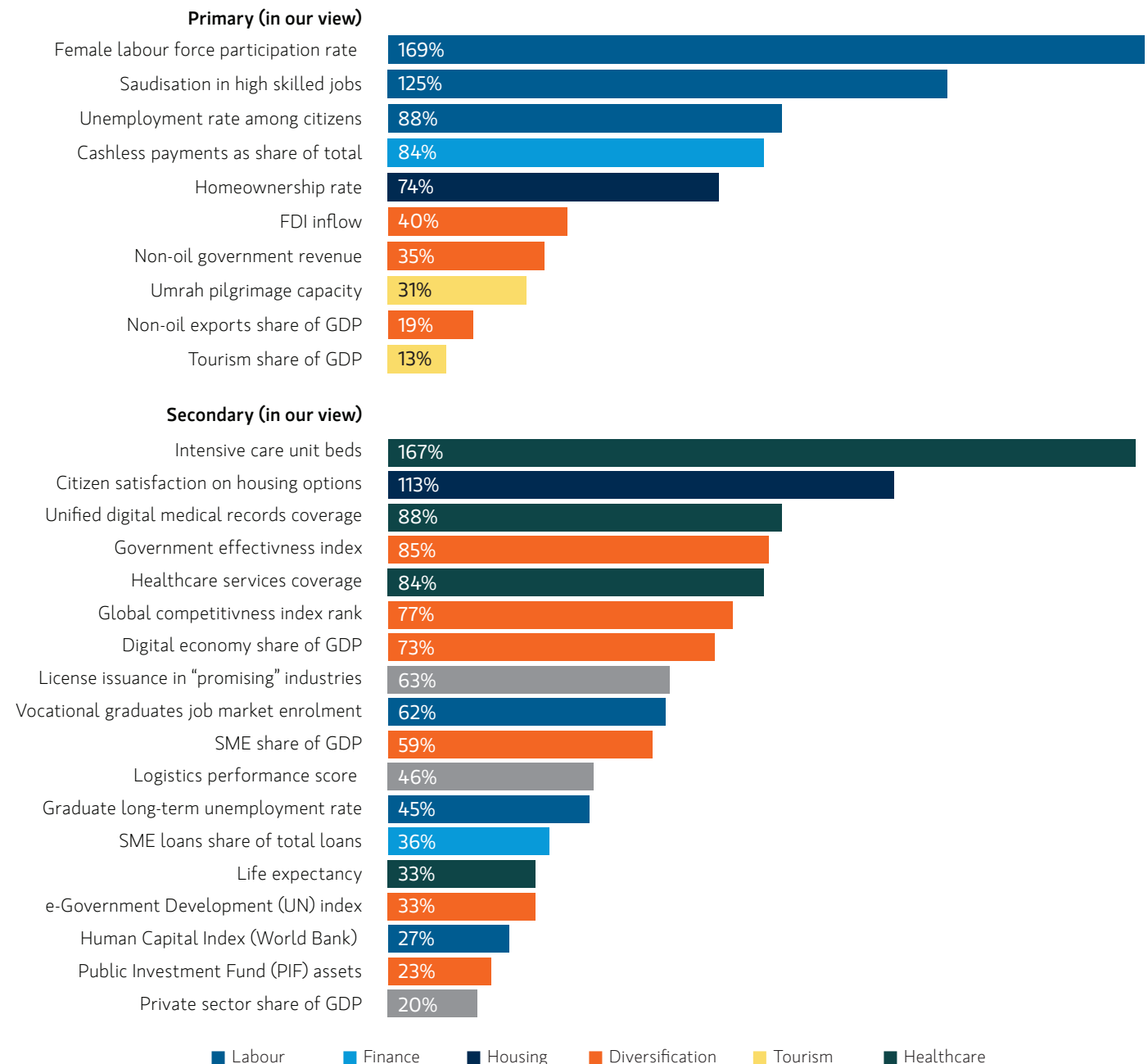
Since Crown Prince Mohammed bin Salman launched Vision 2030 in 2016, the Kingdom has made remarkable progress to introduce social and economic reforms designed to make the country more attractive to tourists and diversify its economy away from oil (*Display 1*). The country is pursuing different initiatives, from hosting premier global events like

Formula 1 Grand Prix races and UFC wrestling, to staging major sporting events like the 2029 Asian Winter Games and the 2034 FIFA World Cup. Additionally, it is positioning itself as a regional video game hub and starting electric vehicle production.

## DISPLAY 1

### Saudi Vision 2030 Progress Report

Progress on quantitative metrics by percent



Source: International Monetary Fund Article IV, September 2024. Tellimer Research.

Saudi Arabia is a young country, where 63% of the population is under 30, and its youth are energized by the social and economic transformation. Women, once banned for decades from driving, can now be seen behind the wheel, while unemployment among Saudi women has plummeted by more than half to just 16% in 2023. Similarly, female participation in the workforce has more than doubled to 35%. Huge strides have also been made toward “Saudization,” an initiative to develop local talent in critical industries.

The focus on local growth should bode well for domestic markets. However, data shows Global Emerging Markets Funds remain underweight in Saudi Arabia, at an average weight of 1.8%, while the MSCI EM Index weight to Saudi Arabia is approximately 4%. Investors are keenly focused on execution of Vision 2030 and sustainable results as they consider increasing their allocations to the local Saudi equity market.

The Vision 2030 transformation should ideally attract more investor attention than it already has. The local Saudi equity market has produced eye-catching returns over the last five years, especially in dedicated active domestic equity funds. However, over the last decade, passive investment strategies

dominated flows while clients who favored active strategies gravitated toward concentrated portfolios or more diversified global EM strategies with allocations heavily favoring China and India.

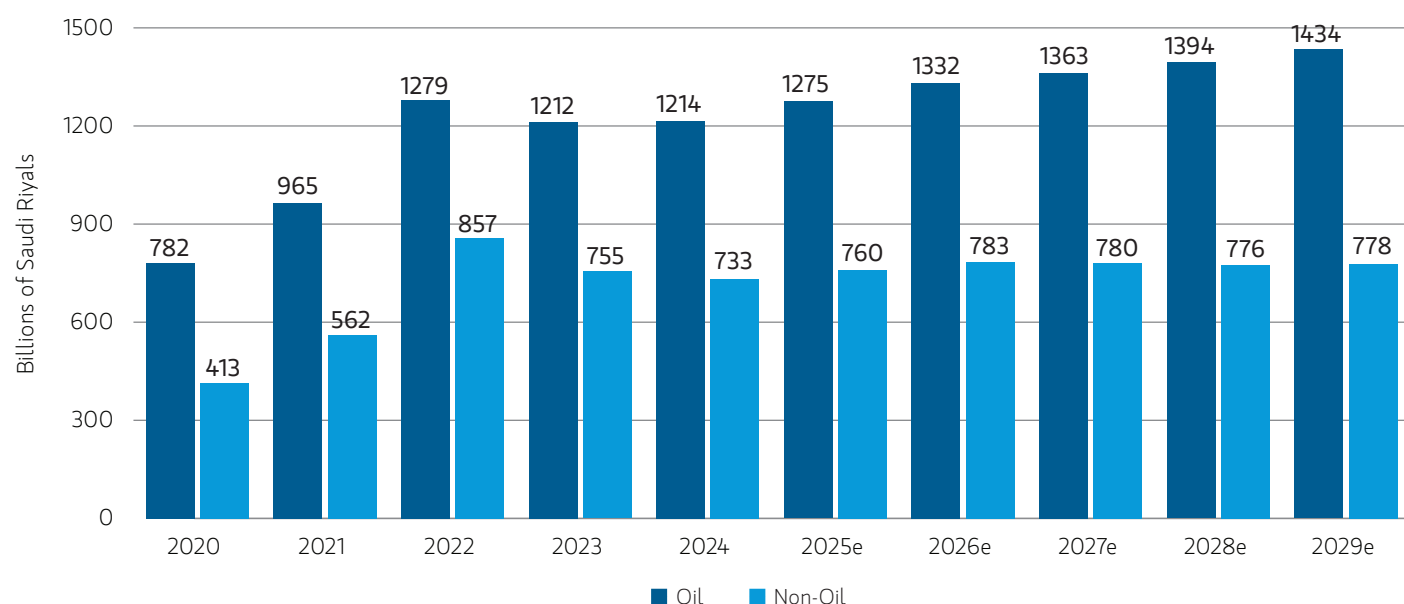
Liquidity is another critical factor as managers try to put billions of dollars to work across EM equity markets. The transformation of the Saudi economy is moving in the right direction and its IPO market is among the most vibrant in the world. But, the larger and more liquid stocks available are primarily in oil and financial sectors, typical for early-stage equity markets.

While compelling investment opportunities may arise in the small- and mid-cap sectors, global investors face critical questions: How many positions can they realistically add to their portfolios? Is it feasible to build substantial stakes that can be easily exited when needed? And then there are valuations. We’ve seen popular stocks commanding jaw-dropping multiples in the local market - some trading at 100x earnings. Such valuations can make it difficult to rationalize investment decisions when a wealth of alternatives exist across the rest of the EM universe.

## DISPLAY 2

### The Steady Rise of Saudi Arabia’s Non-Oil Revenues

Oil vs non-oil government revenues (in billions of Saudi Riyals)



Source: IMF, Saudi Ministry of Finance. Forecasts/estimates are based on current market conditions, subject to change, and may not necessarily come to pass.

The uncertainty is further compounded by the fact that many global managers have had minimal on-the-ground presence in recent years and missed the fast pace of social reform. Geopolitical conflicts make it difficult for investors to commit significant capital in a region still viewed as risky, despite the Kingdom being largely unaffected in economic terms.

Saudi Arabia's new tourism slogan, "Go Beyond What You Think," invites the world to reimagine the Kingdom as a vibrant and dynamic destination. While the path to achieving the ambitious goals of Vision 2030 presents challenges, it also offers a unique opportunity. For global investors, the landscape is rich with potential, yet navigating Saudi Arabia's growing domestic economy requires a nuanced strategy.

## Risk Considerations

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