Ajeej MENA Fund
Annual Letter & Factsheet: December 2017

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FUND INFORMATION

Pricing:
Monthly NAV

Fund Classes:
Issued Shares
Class A Shares
Class L Shares

Current NAVs (US$):
Issued Shares 207.23
Class A Shares 195.31
Class L Shares 189.68

Fund Custodian:
Deutsche Bank

Fund Lawyers:
Walkers
King & Spalding

Fund Auditors:
KPMG

Fund Administrator:
Maples Fund Services

Bloomberg Ticker:
AJEEJMN KY Equity
AJEEMNA KY Equity
AJEEMNL KY Equity

ISIN Code:
KYG016361027
KYG016361100
KYG016361282

Dear All

A belated Happy New Year and wishing you all the best for 2018 from all of us here at Ajeej. We have now passed the official 10 year mark and whilst we would have liked to do so with positive momentum, the challenges and the visibility of the land scape have made this current phase challenging for our strategy. 2017 saw an underperformance for the AMF as we lost -1.1% and -0.1% on our separate share classes respectively, while the benchmark S&P was up 4.6%. We are obviously not happy with that performance; however, as we introspect on our opportunity losses, realised losses, and unrealised losses, it is important to draw the lessons which will enable us to take advantage of such an experience curve for the better. As we always tell investors, we re-iterate 3 year value continuously; however, the bandwidth of perceived T+3 pro-forma numbers has had a wider spread for much of our portfolio over this past year. So faced with that challenge we have spent much of our time re-calibrating methodologies to reduce this variability in order to build conviction, while concurrently maintaining our active membership of the markets and sticking true to our investment theses.

We anticipated at the start of 2017 that the year would be one of continuous and significant change in Saudi. And as anticipated, we bore witness to the liberalisation of several social policies: women finally were given the green light to drive, the curtain was lifted on movie theatres and female football fans finally levelled the playing field. There were also developments in regulatory policy in several sectors, and ongoing restructuring of subsidies and economic policies including fees related to expat workers and their families. With such significant change in the country, there has understandably been some trial and error as the government tries to balance between implementing its preferred policies and avoiding upsetting citizens. This landscape has continued to present challenges for us in assessing the bottom up outlooks for businesses operating in Saudi, as the nature of announced regulatory change can be reversed or modified materially, as seen in the extension of the balanced budget plan from 2020 to at least 2023 and the reversal of government worker allowances, but can also be implemented as stated and on the stated timeline (as VAT implementation has been to date).

While the economic and regulatory changes were a full year 2017 story, the anti-corruption drive in Saudi began in Q4 and was a driver for the portfolio's underperformance during the quarter. The portfolio held stocks of several companies associated with individuals that were caught up in the purge: Tayyar, Fawaz Al Hokair, Bupa, Dallah, and Banque Saudi Fransi (as Kingdom Holding is becoming a shareholder). The prices of these stocks fell by varying degrees as individual check-ins to the Ritz were reported. In each case we have made an assessment of the likely impact on the business, if any, resulting from the respective developments. The government stated that there should be no impact on businesses as the anti-corruption efforts are targeted at individuals only, but nonetheless we have tried to assess the potential for second-hand impacts. We reduced some of the exposure to Tayyar as we try to better understand the implications on its government-related business, which serves as an annuity stream that will fund the firm's new business initiatives and the drivers of our investment case. Otherwise, we did not reduce exposure to these names, and in fact took the opportunity to add exposure to Hokair at a lower price.

We do continue to believe that the changes in Saudi will lead to longer term benefits for the economy and many of the companies operating in Saudi. Navigating from point A to point B remains a challenge given the murkiness of the waters along the way, but we continue to invest significant effort in monitoring and understanding the impacts of events as they happen.

Outside of Saudi, Q4 was a weak quarter for the UAE markets and for Kuwait. While the portfolio had very limited exposure to Kuwait, it did have high exposure to the UAE, averaging 34% (including London-listed NMC) for the quarter. Anecdotally, some of the weakness in the UAE and Kuwait markets was due to heavy selling from UHNWI and HNWI Saudis liquidating assets in the face of the corruption purge. Given the political developments with Qatar earlier in the year, there was not much remaining in that market to be sold, so the dynamic there was a bit different. After underperforming for most of the year, Qatar had a strong rally in December, with the index moving up 10.5% for the month. The portfolio's lack of exposure to Qatar was a negative driver for December's relative performance, but a milder contributor to full Q4 underperformance. For the year, underexposure to Qatar remained a positive contributor for the portfolio.

On a positive note, allocations to Egypt, which we have not actively invested in for much of the history of the fund, were (relative to their sizing) quite strong positive attributions as a whole. And this serves as a neat segue to a brief on our history and relationship with Egyptian equities, which we expect will continue to feature more prominently in the AMF going forward.

A Tragicomedy Called Egypt – ACT III: "After the Flood"

As you all know, we started Ajeej and launched the AMF in 2007. Back then, the MENA region was a very different animal, although just as volatile. An endemic MENA bubble, and its subsequent pop, wiped billions of dollars of value from the market, and had a large impact on shaping the market dynamics, leaving a sour taste in investors' mouths, especially in the GCC. In the post bubble recovery period (2006-2007) the best performing market was Egypt, and deservedly so. It stood above its MENA peers in terms of institutionalisation (the CMA in Saudi was barely shifting into second gear, whereas its Egyptian counterpart had been around for eons overseeing one of the oldest continually operating stock markets in existence). Egypt also provided one of the broadest asset bases in terms of the publicly tradable sector, boasting more listed equities than Saudi, the UAE and Qatar combined. Most importantly, it was the most diversified of the region's economies and had been a crowd favourite among EM managers since it devalued its currency in 2003/4; notably it was also part of the MSCI EM Index, while the UAE and Qatar were frontier and Saudi was…well, still is unclassified. With that back drop, one could safely assume that Egypt should have had a strong foothold in the AMF portfolio from the outset, and should have maintained its position to some degree over the past decade; however, upon reflection the reality for the AMF was very different, with Egyptian companies only making rare and often chequered appearances.

Our love/hate relationship with Egypt predates Ajeej. In fact, some of the largest alphas in the pre-AMF era, as the founders were building the strategy track record, came from Egypt. In 2005, at a time when Saudi retail investors were leveraged to the hilt, and the market was trading at absurd multiples (about triple of today's averages), Egypt offered a much more attractive risk reward backdrop that enabled it to recover quickly post the '06 crash. Investments in Orascom Telecom (OT), for example, turned out to be hugely profitable for the pre-Ajeej track record. At the time, OT was ranked as one of the world's ten largest wireless telco operators, and was leading the pack in terms of frontier market expansion. This is in contrast to today's telco picture, which has Etisalat, STC and Ooredoo in the foreground, and OT being relegated to what is effectively an investment vehicle for its founder.

So, after the track record was built and the fund was launched, the day-1 portfolio did indeed have Egyptian exposure, albeit in a limited capacity; and this lasted for the first year and a half or so. The reason we never built larger allocations in 2007 and 2008, was that the relative valuations in the GCC were much more attractive at the time. The other markets were going through a bit of an economic renaissance as oil was comfortably trading in the triple digits fuelling massive government spending programmes, and the markets themselves had never recovered from the aforementioned bubble and bust. With that in mind, allocations to Egypt hovered around 10% for most months from inception until the financial crisis. Once the financial crisis hit, it was the Egyptian allocation that was the first to go, as we felt that contagion, from a fundamental perspective, would be more clearly felt in Egypt as the world adjusted to its new norms. What we did not expect is that when investor flows started to return to the EM space in 2009, Egypt would be a direct beneficiary and rally strongly, negating fundamental headwinds, and making it one of the best performing equity markets globally in 2009 and 2010. This was a period that was challenging as we are conviction investors, and building conviction in Egypt then was going to take a lot more work.

With the premise of trying to build more conviction, we made our way over to Egypt a few times in 2009 and again in 2010, to try and get a better understanding of the state of affairs on the ground. Ultimately, whatever small single digit allocation existed at the time, dissipated completely by the summer of 2010 reflecting our concern with the market which rose considerably as a result of our repeated visits. Although we did not forecast the 2011 revolution, we were certainly not comfortable with the socio-political picture in general. In 2010, Egypt had an octogenarian president with no assigned vice-president and no clear line of succession (at least not one that was easily digested by the real power in the country, the Egyptian Army). Additionally, any time we met with a captain of industry, CFO or CEO to ask about the inevitable planning of succession, we were met with a typically Egyptian reassuring “take it with a grain of salt” explanation that everything was going to be alright…insha’allah…without actually providing any context or content. Suffice to say we reduced out 1%-2% allocation to zero, much to the chagrin of our investors, as it continued to outperform the region and EM space for the balance of the year.

Everyone reading this letter is abundantly familiar with the developments in Egypt over the subsequent few quarters, so we will not bore you with that particular echo; we will however highlight the more pertinent points, economically speaking, over the period of revolution and beyond. At the start of 2011, Egypt’s foreign reserves stood at around $36 billion, or to put it in other terms, approximately 6 months of imports for a country heavily dependent on importing pretty much everything. This number quickly fell as the reserves were used to try and support a currency that was spiralling out of control; and despite depreciating against the dollar, the EGP held strong against the much more relevant euro, as most of the country’s largest trading partners were (and still are) from the EU. Moreover, capital controls were imposed as a panic button measure to stop the bleed of foreign currency out of Egypt, which frankly as USD based investors we thought was somewhat concerning. So, we understandably continued to keep our distance from the market, and basically told ourselves we’ll take a closer look once the dust settles.

As far as we were concerned, the Morsi era of Egypt was not one that instilled us with confidence as investors. Realistically, it was more of a tragicomedy that we were happy to observe from a distance; and we did just that. During Morsi presidency shrinkage of the central bank’s foreign reserves continued, dropping from $36 billion to a low of $13 billion in February of 2013, just as frustration with the regime and the Brotherhood was reaching new levels of fervour. During that same period, the PMI numbers dropped violently reaching a low of 37.1 (below 50 represents contracting economic activity). In addition, Egypt, which had historically been a net exporter of gas (albeit marginally) ran out of power as reinvestments in aging fields stopped with the country unable to pay IOCs for the current and past contracts; and the bleed got even worse as the direction of flow of the gas pipe leading into Jordan and Israel was reversed. In summary, it was becoming abundantly clear the rock bottom was still quite some way away, and that unless there was a dramatic change, the country would continue to sink to new depths.

Enter Sisi stage right…In 2013, taking advantage of wide spread discontent with Morsi, the army, with Sisi at its helm, removed the incumbent president declaring it was fulfilling the will of the people (and terrifyingly notwithstanding democratic principles and due process, it probably was). A few months later Sisi was elected as the president of Egypt, and as much as one can disagree with how he came to power, it became quickly clear that this was the dramatic change that served as a turning point in the Egyptian story.

One of the first orders of business, and in order to appease investors' concerns (especially pertaining to the repatriation of dollars), in early 2014 at the behest of Sisi, a repatriation mechanism was implemented by the Central Bank of Egypt (CBE). The CBE, for a small fee, would guarantee any new capital entering the market, along with any appreciation that may accrue. This was a risky proposition for the CBE and for Egypt, because this mechanism was effectively resulting in a pyramid structure, and one much less stable than the more traditional pyramids in Egypt; all the while escrowing FDIs such that new foreign capital never trickled through to the economy. The idea was that CBE wanted to spur demand enough to get the Egyptians themselves to start reinvesting in the market, and stop hoarding dollars under their mattresses (quite literally). From our perspective, we continued to be concerned, however the introduction of the mechanism, although flawed, provided us with enough comfort to toe-dip back into the Nile. In 2014, we reallocated a small portion of the AMF (approximately 8% at its peak) to Egypt across a handful of names with varying degrees of success. The challenges for us at this point, other than the general malaise of the market were two-fold. Firstly, the market's liquidity relative to our fund size was a completely different order of magnitude compared to previous forays into the market. Secondly, we were convinced that the only way for the Egyptian market to dig itself out of the deep debt hole that they were in and give a boost to the economy was to devalue the currency and create a proper free float. So, we exited the market…again.

We spoke to some of you at length about why we kept out of the market in 2015 and 2016, even after partial devaluations of the currency (twice in 2015 and once in 2016 moving the USD:EGP spot rate from 7.15 to 8.88). The reality is that these spots were against the dollar, and as mentioned earlier, the EGP against the euro is much more representative of reality. And in reality, despite continued economic contraction and climbing imports, the EGP was able to absurdly appreciate against the euro from 2014 to 2016; meaning that the +30% devaluation that happened at the end of Q1 2016 simply realigned the EUR:EGP spot back to 2014 levels, which were still very expensive. So, our concern grew as we expected a big currency move to happen at some point, but whether it was imminent or in the distant future was the several million dollar question. The only thing we were able to confirm, was that it was going to happen with no forewarning so as to not allow the people and businesses (the black market gate keepers in particular) from taking advantage and positioning themselves advantageously for a large devaluation in the pound.

On the 3rd of November 2016, and with no forewarning as we had been told, the currency promptly halved in value against the dollar, and then continued to depreciate. Many investors took advantage of the situation and traded the Egyptian market heavily during this period. However, we decided to simply observe. We are not traders, nor do we pretend to know how to time the market with a pegged currency, let alone a market that is based on a highly volatile currency. So we took the next few months to visit and revisit Egypt multiple times, with the premise being that this is certainly one of the more interesting markets in our region going forward, but is it too soon? Do the fundamentals make sense? And in fact, what fundamentals should we be looking at?

Our first big trip over was in February 2017, if you look back at your newsletter history you'll find the particular commentary about it. As a reminder though, the most notable take away from that visit was that the captains who were at the helms of the various ships in the Egyptian market were still trying to figure out how to navigate the relatively foreign environment they found themselves in. Few if any of them wanted to put money to work, and frankly who would? There was no precedent within the prior 30 or 40 years of doing business in a free float currency environment, which freaked out a lot of people; moreover, with the government providing these same captains with the opportunity to dock whatever cash they had in government T-bills with 20% yields; how is one incentivised to invest elsewhere? So, as investors, we thought to ourselves, how can we expect real FDIs to start flowing back into Egypt, if the Egyptians themselves weren't willing to put their own money to work? And that ultimately became the litmus test that would trigger our re-entry to Egypt.

So fast forward a few months to Q4 2017, and the setting has changed…not drastically, but enough to create what we feel is a tipping point in the Egyptian recovery story. FX reserves have climbed back up to the $36 to $37 billion level once again (if you turn a blind eye to longer term debt repayments of course…and perhaps one should, as they are likely to be rolled over until repaid). Investments into CAPEX have begun to see a recovery, with several manufacturing and industrial firms expanding product lines and looking to export both to Africa as well as Europe. Government T-bill and bond yields have eased somewhat and no longer offer as attractive an alternative to reinvesting in one's own business. FDI's are beginning to recover organically, and not necessarily going through the CBE's repatriation mechanism (which has recently become pricier); this is especially true with the strong resurgence in tourism revenues, in fact as we send this letter out we expect Russian flights between Cairo and Moscow to resume in a matter of days for the first time since the MetroJet disaster. All this has culminated in us gaining comfort with putting money to work in Egypt, finally.

If you skip ahead to the last page of this letter, you will see that Egypt once again (and for the first time since the maiden year of the fund) constitutes over 10% of the AMF, and that number is likely to grow going forward. This does not mean that we have shifted away from our ethos of being bottom-up investors, it is simply a confirmation that for the first time since launching Ajeej over ten years ago, the macro head winds in Egypt no longer supply enough negative force to negate the bottom-up stories, which is where we have always focused.

Swimmers Beware: A Rising Tide Lifts All Boats, but Rip Currents Are Dangerous

2017 was a stormy year for the Saudi consumer (whether citizen or expat). Winds of change blew strongly, and a tide of structural and social adjustments moved inexorably to shore, creating havoc for sailors and swimmers alike. This unprecedented volatility in the normally becalmed seas of the Gulf made navigation extremely difficult, and the outlook for 2018 remains turbulent.

Expat consumers (our 'swimmers') significantly reduced their spending, as the announcement of new fees on expat employees and dependents impacted spending decisions as well as the decision to keep families in Saudi Arabia at all. Discussions with school and other service providers, as well as government statistics, indicate that expat population outflows occurred through much of the year and are expected to continue into 2018. The lump sum nature of the new dependent fees (SAR 100/month rising to SAR 400/month in 2020) at visa renewal, acts to both reduce the expat consumer's discretionary budget and to raise the likelihood of permanently getting out of the water and heading for higher ground in Egypt, Pakistan, or India.

Meanwhile, Saudi citizens (riding high on their boats in our story) dealt with their own series of unpleasant price shocks in 2017, reducing their consumption across the discretionary spectrum from cars to clothing to hamburgers. According to the General Authority for Statistics (GASTAT) monthly wages for Saudis declined by 0.3% in 2017, while monthly wages for the broad population dropped by 2.9%. As wages dropped, costs rose, with higher utility fees and fuel prices from 2016 carrying into 2017, in addition to the mid-year imposition of significant 'sin taxes' on tobacco products, soft drinks, and energy drinks, among others. As consumers reeled from the shock of higher prices and lower discretionary income, the Saudi government continued to take steps to push Saudi citizens into the private sector workforce. The hope is that with expat swimmers leaving the water in droves, and with the largesse of the state shrinking, the Saudi citizen labour force will undergo a change in mindset, making it significantly more productive and lessening the drain of expat remittances on the state as more of the private sector is driven by and in service to citizens of the kingdom.

While the drop in consumption spending (which we estimate via combined cash + POS transactions) in 2017 may seem moderate at only negative 0.8% (and an improvement on the 1.2% spending drop in 2016), it represents a sea of change from the positive 16% CAGR in consumer spending that Saudi Arabia experienced from 2007 to 2015. Far from impacting only discretionary items, as the year (and the storm) ground on, weakness in sales of basic items such as milk, juice, and baked goods grew, indicative of longer term changes in spending patterns as well as growing outflows in the expat population.

Perhaps fearing mutiny on stormy seas, the Saudi government rolled back many of the allowance cuts made for government employees in 2016 during 2017, and in fact made retroactive payments on a number of these allowances. While certainly welcomed by the populace, these adjustments were relatively small, and likely less than the new raft of price increases introduced in January 2018, encompassing higher rates for petrol, electricity, and the imposition of a 5% VAT on nearly all purchases. On a longer term positive note, Saudi Arabia is now introducing a 'Citizens Account' to support lower income Saudis with monthly cash payments. Unfortunately in the near term, this means that mid and high-income expats and Saudis will bear the brunt of the price increases, which will likely further hurt their consumption of both discretionary and non-discretionary consumer products and services offered by many of the listed consumer names. This is laid bare by looking at the totality of the consumer spending data; when we add in the spending in the Sadad payment system (primarily used for payment of government fees and utilities bills), we can see that total spending in 2017 was actually up 1.8% for the year, because of a 12% increase in Sadad payments (i.e. government fees and utility price increases). It would appear that the government is now crowding out consumer spending in its push to reduce subsidies and normalise (Saudise) the labour market.

Meanwhile the captains of the private sector continued to reduce inventories through 2017, as the value of LCs for imports into Saudi Arabia fell to 20 year lows, at times, across many categories. One might argue that from their lofty position across the private sector ships, these captains can clearly see the storms rolling in for 2018, and are trimming their sails in preparation. The 2018 – 2020 period will bring to the private sector increasing fees on expats, rising from SAR 200/month in 2017 to SAR 800/month by 2020, and expected further pressure to train and employ young Saudis, many of whose educations have left them ill-prepared for jobs in the private sector.

Unfortunately, for the broader Saudi government policy of reducing Saudi unemployment by pushing Saudis into the private sector, the private sector's reaction to weak demand and higher Saudisation requirements in 2017 was to lay off expat workers without hiring Saudi workers. GASTAT shows that in 9M 2017, 189,000 expats lost their jobs, while only 2,000 Saudis were hired. Insurance data show a slightly rosier picture of Saudi replacement vs. expats, with the number of expat beneficiaries shrinking by 869,000 while the number of Saudi beneficiaries rose by 51,000. Given that around 300,000 Saudis will enter the workforce annually for the next several years, this is far below the desired uptake under either metric (keeping in mind that health insurance numbers reflect both employees and dependents, and that Saudis typically have a higher dependency ratio than expats', so the relative difference with the GASTAT data may be smaller than it appears).

And while the challenges of this large scale private-sector push towards Saudisation are manifested, it is likely to ultimately benefit the larger organised (and frequently listed) consumer players, as other smaller boats (the vast unorganised Saudi retail sector) are swamped with the new demands for Saudi employees, POS systems, VAT accounting systems, and a myriad of other new requirements. Indeed, young Saudis generally prefer working for larger name brand Saudi firms, since they offer better wages, better working conditions, and a path to promotion and management often lacking in smaller family firms. Much of the organised consumer sector is remarkably hopeful over the long term impact of these changes, as they look at the strong performance of Extra and Jarir following the mandatory closure of mobile phone shops without 100% Saudi employees; consumption of mobile phones shifted quickly and nearly in its entirety to the organised sphere. Unfortunately, neither company did significant hiring of Saudis following this change, but then hiring inexperienced sailors in the middle of a storm is typically inadvisable, even if you appear to be riding high on a cresting wave!

As both swimmers and sailors scan the horizon to determine what 2018 will bring, they will see a few rainbows brightening the stormy sky. Women will gain the right to drive in mid-2018, and Saudi Arabia's first movie theatre in over 30 years is scheduled to open in the spring (special showings of movies already took place in 2017). Moreover, the number of sectors in which a woman can work without male supervision / permission continues to grow, and dress codes for women appear to grow more relaxed with each visit we make to Riyadh. All of these changes are likely to eventually support consumption across the discretionary spectrum, as women entering the work force begin buying cars, power suits, and fast food for weeknight dinners. For the struggling captains of private sector industry, the question of whether pots of gold ultimately lie at the end of these social rainbows (and how big said pots are, and who will enjoy the benefits of the contents first) is likely to dominate discussions of where and how to navigate their ships in 2018.

Emaar, Inc.: The Saga Continues

"The saga form has often been compared to the modern literary form of the novel, but, though similarities exist, there are also important differences. Like the novel, the saga narrates a chronologically defined story, but as often as not, there is not one story, but several intertwined narratives in a saga." – **Margaret Clunies Ross, University of Sydney**

Over the past 20 years, Emaar Properties has come to symbolize Dubai's character and aspirations, even as it helped to build them. The company's name is irrevocably linked to Dubai's current emblem on the global stage (the Burj Khalifa), and it is currently building the Burj Khalifa's harbour-front doppelganger (Dubai Creek Tower) in partnership with Dubai Holding. But while the company has been a vehicle for and driver of some of Dubai's most spectacular success stories (the Burj Khalifa, the Dubai Marina, the Dubai Mall, and now Dubai Creek Harbour and Mohammed Bin Rashid City), equity investors have struggled to realize the full value of their investment in the company, which has traded at an average discount to net asset value of 45% for the past decade. Market forces have driven that discount as high as 75% and as low as 10% for brief periods of time, but generally the market has refused to fairly reward the company for its strong return on capital, its history of successful multi-sector development, or its ability to innovate new products and services to serve the Dubai and broader MENA markets.

In a bid to reduce this discount and to demonstrate the value it has created, Emaar has listed 3 subsidiaries over the past 3 years. While each listing resulted in a dividend payment to Emaar shareholders, the listed entities have done little or nothing to erase the discount at which the parent trades, and have all underperformed comparable companies, while Emaar itself has either underperformed or performed closely in line with the price performance of the listed entities, despite outperforming in the run-up to each IPO. As is clear below, however, each subsequent IPO has seen a smaller announcement – listing run up than the last for Emaar Properties itself.

	Emaar Malls IPO: Oct 2, 2014		Emaar Misr IPO: July 6, 2015		Emaar Dev IPO: Nov 22, 2017	
	Emaar Malls	Emaar Properties	Emaar Misr	Emaar Properties	Emaar Development	Emaar Properties
Announcement to IPO		**25.6%**		**6.6%**		**0.0%**
IPO Day LCY Price Return	12.1%	-4.7%	-9.9%	0.4%	-4.3%	2.6%
5 Days LCY Price Return	12.1%	-3.8%	-14.7%	-1.8%	-3.8%	0.5%
1 Month LCY Price Return	10.7%	-11.1%	-15.5%	3.1%	-15.8%	-6.4%
3 Months LCY Price Return	-7.6%	-37.9%	-41.9%	-13.3%	n/a	n/a
6 Months LCY Price Return	2.1%	-43.2%	-33.0%	-28.9%	n/a	n/a
Present LCY Price Return	-17.9%	-37.2%	-0.5%	-5.0%	-6.5%	-3.3%
Total USD Return w Div	-12.5%	-23.8%	-11.4%	-0.5%	-6.5%	-3.3%

Source: Bloomberg

Who deserves the blame for this state of affairs? In a typical fairy tale, a single menacing presence (evil witch, dastardly villain, strange old lady, deformed mythical creature) would emerge as the culprit, and once the culprit is identified and slayed, happily ever after arrives. There is no single villain or factor to which we can attribute the seeming failure of Emaar's IPOs, but rather a confluence of factors, benign and not, that have conspired to produce negative performance.

The tale of Emaar's IPOs is more like an Icelandic saga: "*…saga strands do not always link up to the main narrative. They may just peter out when the saga writer no longer needs a particular character or line of narration. It is common for saga authors to explain that someone or other is now "out of this saga"* – focused effort on communication and development of the business segment by management in the 18 months leading up to the offering, and then following the offering in a period of seeming benign neglect and a lack of interest in continuing to tell the story.

While in many markets, this sort of benign neglect from the parent company might be positive and lead to innovation and growth generated by the management of the listed entity, at Emaar the narrative is controlled so tightly by the group that as in an Icelandic saga, excitement and initiative seem to peter out, with management turnover, anaemic growth, and a lack of strategic vision. It is as if having given birth to these children, Emaar has difficulty sharing food with them, despite the fact that these listed companies are the legacy of the parent company.

This treatment of spun off subsidiaries results in disinterest from retail investors (who prefer to be invested in the innovative and Dubai-government aligned parent) and from institutional investors (for whom the limited free float (10-20% only) and limited liquidity (combined liquidity is less than half of the parent's liquidity, while the market cap of the 3 listed entities is larger than that of the parent) make the stocks both unattractive and nearly un-investable.

As investors, we continue to see fundamental value across nearly all of Emaar's assets, including each of the listed subsidiaries. However, we are baffled as to why management continues to repeat its mistakes in realizing the value of its subsidiaries by reducing investor relations and disclosure in the wake of each IPO, and in not encouraging management to act independently to grow each subsidiary, and in limiting the free float such that the ‘price discovery’ element of a subsidiary listing continues to not benefit the parent or the subsidiaries themselves.

Emaar Malls is the longest-listed subsidiary, and currently trades at an 18% lower price than at IPO, despite net earnings growing 47% over the period. Emaar Misr has returned (in USD) -11% since its 2015 listing, while other Egyptian real estate developers are up an average (in USD) of 86% over the same period; a period during which Emaar Misr’s earnings are up 132% in local currency terms and over 50% up in USD terms. Emaar Development listed only 2 months ago, and so far is down 2.2%, underperforming all other UAE developers (up 12% over the same period) EXCEPT Emaar Properties itself, since Emaar is down 6% since Emaar Development’s listing.

Should Emaar Properties have executed any of these IPOs? From the point of view of the saga-teller of Emaar Properties, yes: these 3 IPOs are important elements of the story of Emaar Properties itself and of the development of Dubai itself. But by allowing these strands to wither, Emaar is robbing its own story of some of its vitality, and robbing shareholders of the confidence they could have had in Emaar’s underlying value and in the value of its subsidiaries. In aggregate, these listings have generated close to 12b AED in special dividends to Emaar shareholders, equivalent to an 18% return on their listing values, but the question of where they might have been today with stronger management and better market disclosure remains for the saga-teller to answer.

We derive hope that Emaar can as yet rescue its listed subsidiaries from oblivion with the example of Emaar MGF. Emaar MGF (Emaar’s Indian JV) was the subject of a failed IPO process from 2007-9 and then a nearly non-operational company from 2010-2016, but recently the company completed a demerger with the Indian partner, whereby Emaar now fully controls Emaar India and is committed to completing existing projects and launching new ones.

As Emaar enters its third decade, it is our hope that management takes up the cause of Emaar Malls, Emaar Misr, and Emaar Development and reinvigorates their management teams and recommits to telling their stories to investors. This is not the time to leave the tale unfinished!