

---

*Investment Funds: Experiences and Ambitions*

It pleases me to address this honorable gathering today. I wish at the outset to express my earnest appreciation for the invitation received from Al-Shal Company for Exhibitions and Conferences to sponsor this conference. I also wish to commend the choice of the conference theme, "Investment Funds: Experiences and Ambitions", which represents a welcome initiative from our colleagues at the Al-Shal Company, to allow us the opportunity to study and discuss numerous issues connected to these important instruments of financial markets, reviewing relevant experiences of other countries, and exchanging views on that subject. This will undoubtedly enrich the State of Kuwait's nascent experience in this regard and contribute to its development.

As is known, investment funds are considered among the most effective investment instruments in financial markets, as they are an organized means of collective capital management, which plays an important role in the collection and investment of the savings of economic units, whether individuals or institutions. This role is manifest in many developed and emerging world markets, where the significance of investment funds is growing and increasing in terms of volume, type, and role in financial markets. A telling indicator is the trend revealed by the statistics for the end of March of 2002, regarding the change in capitalization of investment funds in certain countries. In the United States of America, there are

---

8381 such funds, with US\$ 7062 billion in volume of assets. Over the last three years, their annual growth has averaged 7.5% for the volume and 4.5% for the number. In France, their volume has reached US\$ 735 billion and their number 7682, with an average annual growth rate of 7.3% and 7.1% respectively. In Britain, their volume has reached US\$ 346 billion, with an average annual growth rate of 5.4%; their number has reached 1844 and has grown at an average annual rate of 3.3%. In Canada, the volume of investment funds has reached US\$ 280 billion, with an average annual growth rate of 8.1%, their number growing during the same period by 20.8%. In Germany, the volume of investment funds has risen to US\$ 213 billion, with an average growth rate of 3.8%, and an increase in number of 10.6%. Last, investment funds have experienced a large increase in volume in Hong Kong, growing by 20.5% to US\$ 189 billion for 960 funds.

Undoubtedly, introducing investment funds and increasing consumers' awareness concerning their function and role is a basic requirement in boosting demand for these important investment instruments, given the newness to the Kuwaiti market of investment funds. This, in turn, will contribute to enhancing the effectiveness of their role in the local market, particularly in the Kuwait Stock Exchange.

Worth noting is that the Kuwaiti market witnessed a marked development in regard to the establishment of investment funds, particularly in the last two years. Thirty active investment funds are registered with the Central Bank of Kuwait, with objectives ranging from investing in securities such as shares and bonds – noting that the majority of invest-

---

ment funds fall under that category of objectives – to investing in money market instruments such as treasury bills and bonds, bank deposits, certificates of deposit and real estate investments. Some investment funds exercise their activity according to the provisions of Islamic Shari'a. The total assets managed by these funds is KD 1.1 billion. Such an amount has a bearing on investments, particularly in the Kuwait Stock Exchange, where it accounts for about 12% of the market value of listed companies.

To my mind, the Kuwait Stock Exchange can still accommodate more investment funds, especially with the increasing awareness of the advantages they offer in terms of safety and return on capital. These funds are investment instruments suitable for Kuwaiti market investors, particularly small investors seeking to invest into other than conventional instruments such as bank deposits, so as to benefit from the collective management of funds by specialists in funds management and investment, as opposed to a situation where the investor deals directly with the market. We all know how small investors incur losses following any unfavorable developments in the Kuwait Stock Exchange. This is attributable in essence to insufficiency of relevant knowledge and experience.

I wish to point in this regard to the availability of a good legislative and regulatory structure in Kuwait, based on the Decree Law No. 31 of 1991 regarding Dealing in Securities and the Establishment of Investment Funds, and the Executive Memorandum thereof. This Law regulates the activity of investment funds, sets the requirements for their establishment, and

---

determines the entities allowed to establish them; these entities are Kuwaiti shareholding companies whose objectives encompass investing funds on behalf of third parties. Such companies are mostly local banks and investment companies, and have the required investment experience for managing investment funds. Investment fund managers are obligated by virtue of this Law to contribute no less than 5% of the fund's capital, as a warranty of compliance with the provisions of this Law, its executive memorandum, the fund's by-laws, and the instructions issued by the supervisory and regulatory authority of the banking and financial system in Kuwait. The Law defines the roles of the fund managers, the investment trustee – which is one of the entities supervising the fund manager – and external auditor. It also obliges the fund manager and investment trustee to disclose any connected interests and prohibits the fund manager and staff from entering into any transactions with the fund, either in their own capacity or on behalf of their relatives to the fourth degree, unless by permission from the investment trustee and supervisory body.

The dynamism and continual developments peculiar to the financial markets and instruments call for sustained follow-up on the part of the regulatory and supervisory structures, with a view to modifying them as needed in line with these developments.

Furthermore, the Central Bank of Kuwait's role in the supervision of investment funds has two basic objectives. The first concerns ascertaining the fund's compliance with the provisions of the above-mentioned Decree Law, its executive

---

memorandum and by-laws, as well as the instructions issued by the Central Bank of Kuwait, in addition to verifying the soundness of the fund's practices, the efficiency and adequacy of its internal control and risk management systems. The second objective is connected to the first, depends on it substantially, and concerns investors' protection. Investors' protection does not mean that the Central Bank of Kuwait, by allowing an investment fund to be established, entering it in its register, and supervising it, provides a guarantee against the risks to which the investors' funds or revenues targeted from subscription to the fund are exposed. Rather, investors' protection signifies - in addition to what I have mentioned on sound practices, internal control and risk management systems - ensuring the presence of regulations which guarantee that the fund managers abide by the minimum requirements of disclosure and transparency in all matters concerning the fund, starting from the establishment period throughout the fund's lifetime, in terms of performance, professional practices and results of activities. Thereby, all investors, existing and potential, will be provided with the necessary information for evaluating each fund's risks and level of performance, and accordingly taking appropriate decisions. Ultimately, it is for the investor to decide on the magnitude of risks to be taken, and type of fund to subscribe to, as the responsibility of these decisions rests solely with him.

In my opinion, responsibility in that matter is shared among the parties dealing with the investment funds market. Particularly prominent in this area are both the CBK's role as a supervisory authority whose regulations ensure the fulfillment of minimum disclosure and transparency requirements, as

---

already mentioned, and the role of the Kuwait Stock Exchange Committee whose decisions regulate trading in the market and ensure disclosure and transparency in transactions. Furthermore, the specialized media is required to fulfil its role in educating and informing investors and increasing their investment-awareness, which will help them take appropriate investment decisions. Adequate performance of these roles will undoubtedly contribute to the achievement of the required discipline in the market for investment funds, consequently boosting the development potential of that market while serving the objective of investors' protection.

I consider it important here to emphasize that the bodies permitted to set up and manage investment funds have an important role to play in developing that market and strengthening its foundations. That role is multifaceted. First, it concerns supporting the drive for specialization and diversification in investment funds, along with benefiting from relevant developments and applications in advanced markets. Examples in point are those funds specializing in specific economic sectors, such as the technology sector, medical care sector, and other productive economic sectors.

Specialization in investment funds has many advantages, particularly those deriving from its management by specialists for specific activities. This ensures better ability for drawing strategies, analyzing information, and taking sound investment decisions accordingly, thus leading to higher professionalism in the management of these funds, and better realization of their corporate investor's role in the capital markets. This role serves the interest of the national economy by supporting the

---

development and growth of its various sectors, whereby these funds act through the money market as a link between national savings, which these funds are allowed to mobilize, and the growth requirements of these sectors. The importance of this aspect is highlighted by the fact that most investment funds in the State of Kuwait are currently concentrated in the exchange of assets through the buying and selling of shares. Additionally, these funds contribute to improving investors' ability to manage risks through the diversification of their investments among various funds, while keeping abreast of the aspirations and expectations of current and potential investors.

The second fact in the role of fund managers is observing sound professional practices, and making investment decisions based on technical market studies and research covering market developments and projections, while granting due consideration to the financial positions of companies whose shares are traded by the funds. In this way the funds' activities shall not concentrate on detrimental speculation for quick profits, as such speculation negatively affects the stock market, reduces its performance, and may also reflect on the funds' activities, even if not in the short run. Undoubtedly, this goes against the purpose for which investment funds have been established.

The third fact is making available the needed qualified cadres and experienced staff for managing the investment funds, and arranging for training cadres locally and abroad, so as to equip them with the required relevant experience and capacity. This is a matter of vital importance, particularly in light of the incessant technical and technological developments in the field on the one hand, and the expected expansion in the activity of investment funds on the other.

---

I wish here to point to the importance of learning from our own experience, along with benefiting from others' experience of market participants' practices, as well as developments in technical methods of fund management.

The participation of a select group of speakers in this conference will undoubtedly enrich our knowledge in this field, as we will benefit from their experience and expertise.