we now see is that companies listed in the Qatar stock exchange can reach out to the [wider] investment community."

Time for Qatari ETFs?

From a corporate perspective, Jose says he has also seen more openness and transparency. "It's now easy for us to get in touch with management. In 2007 when we started doing research there was no third party research available. Now that has changed."

Jose acknowledges the efforts of the Qatar Exchange in moving things forward. "They have done a lot of work. They're ahead of other markets, still evolving but moving ahead. The next level the Qatar Exchange needs to get to is to bring in more products to the market, such as ETFs. We will see some launched in 2014. There are also bonds trading, which is not a huge factor but you can see trading happening. They have introduced access to systems, to brokers. In terms of technology they've made substantial changes. Some things are yet to take off – there's the proposal of margin trading, short selling, derivatives. I can see all those being introduced in coming years. It augurs will for market development."

Another important factor for Qatar, says Jose, will be increasing numbers of companies coming to market via initial public offerings (IPOs). "A few companies wanted to come to market previously but interest was not that great. Now they will come back to the market. The capital market is a way of raising capital and these companies are not starving for cash, but we have our fingers crossed. These actions may create a lot of focus back on the equity market."

Khan is less convinced that the secondary equity market will take off in Qatar in the near future. "As an issuer, you most probably only do an IPO if there is no other way of funding your business, and banks in Qatar have ample liquidity. Demand from an investor perspective may also be limited as rules for allowing companies to list on the main exchange are already not that stringent."

Qatar has done a good job in raising its profile, helped in part by the global focus on events such as the 2022 FIFA World Cup. Gaining MSCI emerging market status will help further. "We see people coming to the local market, wanting to meet managers," says Jose. "We're seeing some big conferences. All in all it's pretty positive."

THE RECIPE FOR QATAR'S MARKET DEVELOPMENT

By Afa Boran, head of asset management, Amwal

Those not that familiar with Qatar may be surprised to hear its GDP increased from just $10bn in 1999 to around $200bn in 2013. By any measure, this is astonishing growth in such a short period of time. With such rapid economic growth, while it is not always easy to keep up on other fronts, Qatar's financial markets are evolving rapidly.

However, there are two key challenges to be overcome for the long-term success of the Qatar equities market:

1) **Low penetration of professional asset managers.** Although there are no official figures, we estimate total assets under management with asset managers to be a few billion dollars. Why is this figure so low given such high wealth accumulation in recent years? The answer to that is actually hidden between the lines: wealth accumulation is very recent. Many investors subscribed to shares in the stock market during their initial listing and since then saw significant rise in their value driven by the rapid growth in the economy. Since they invested at very cheap levels, they are probably not yet focused on managing the portfolios actively. Given that there are stocks that gained more than 300% in the last three years, as well as stocks that have declined by 40%, the case for active management of portfolios is very persuasive.

2) **Low liquidity.** Qatar's stock market is reasonably large by emerging markets standards, with a market capitalisation of around $160bn. This is despite several major state-owned companies like Ras Gas, Qatar Petroleum or Qatar Airways not being listed on the stock market. The critical issue is one of low secondary market liquidity, which needs to be addressed in light of the upcoming MSCI upgrade. While Qatar will officially be on global asset managers' radar, many active managers may continue to overlook the market due to its small share in the MSCI EM index, and particularly due to the inability to trade in good volumes. Passive inflows, while good, are unlikely to sustain liquidity over the long term. The recent MSCI downgrade of Morocco from emerging to frontier market status, due to poor liquidity, is a stark reminder that momentum needs to be sustained.

> "QATAR'S STOCK MARKET IS REASONABLY LARGE BY EMERGING MARKETS STANDARDS"
>
> Afa Boran, Amwal