

Mr. Bader M. Al Sa'ad
Managing Director of
Kuwait Investment Authority

Achievement Award

ARAB BANKERS ASSOCIATION OF
NORTH AMERICA

NEW YORK, SEPTEMBER 26, 2011

ABANA Speech: FINAL

Thank you Larry.

Good evening Ladies and Gentlemen

It is an honor for me to be recognized by the Arab Bankers Association of North America. This award is a recognition of the achievements of my colleagues and staff of KIA. Their dedication and team-work were the primary drivers of KIA's continued success. It is a privilege to see KIA's close friends in the audience tonight.

Dear friends. It is difficult to speak about the global economy in front of such a distinguished gathering. It is difficult to talk about investments when there is more than 10 trillion dollars of assets under management present in the audience. I don't believe that I can add further value to you on the US downgrade or on the Euro debt crises. However, I intend to share with you some of my concerns regarding these events, which could have been resolved differently in a wiser fashion.

2011 has been a unique year in terms of fundamental changes in the Developed Economies. We normally saw sovereign problems arising from the East and the South. Such as Latin America in the 1980s. And Asia in the 1990s.

However, I thought that those countries with a long history of democracy would show statesmanship, especially during a crises. That there would be an indivisible unity. Indivisible, as called in your Pledge of Allegiance. This turned to be not true. We are disappointed by politicians who are more interested in the results of the ballot boxes.

Previously, we used to take decisions on fundamental economic basis. Now, we are expected to make investment decisions on the basis of reactions of politicians.

We were free to make independent investments decisions. Now, we have become hostages to irresponsible behavior of politicians.

We thought that the US would meet its responsibilities and commitments as the sole reserve currency of the world. Instead, we found out that the objective was to get reelected.

What happened during the debt negotiations, for sure, will make many countries think twice about the investment environment and the future economic outlook of the US. Once bitten twice shy. Countries have taken notice of the lack of responsibility by the global economic power. China issued a statement where they publicly voiced their strong

concerns regarding the status of US debt holdings by non-US entities. Other countries signaled their uneasiness regarding the status of the dollar as a global reserve currency.

As outsiders, we are upset at what is happening in the US today. It is not the US we know and is definitely not the US which can be.

The imminent problem is the short in demand. And demand cannot be created when millions are unemployed. Nor when balance sheets of households are weak. The increase in the debt ceiling is not the solution. It is the beginning of the problem.

Especially since the agreement was politically driven. And was not based on structural fundamentals. When you borrow nearly half of your current expenses, in commercial terms, you are bankrupt.

I always believed that the US Treasuries were the only true risk free assets in the world. I learnt in school that you benchmark every asset against US Treasuries. Only last month, I realized I was wrong. Treasuries are no longer risk-free. In a span of few weeks, more than 7 trillion dollars of capitalization was wiped out. It is because, do we cut taxes or we should cut spending? This is what I meant by irresponsibility.

For Europe, I think the problem is deeper. It is a problem of trust. People are not buying their government debt. So, the ECB stepped in and became the sole buyer. To restore confidence, people need leadership and the will. The solution cannot be on a temporary and patchwork basis. It is not about Greece as it is already priced as a default. It is about 30% of Europe's GDP. The high sovereign debt pushed countries to adopt austerity programs. However, without growth, their balance sheets will remain weak. Therefore

- the fiscal policy has to be coherent;
- the labor market needs to be restructured; and
- individual sovereign debt should be replaced by single Euro issue.

We are facing increases in regulations of banks and financial institutions. Increases in requirements of common equity capital. These regulations were issued in haste and in reaction to high unemployment. They were done by politicians to pacify public opinion against financial institutions during and after the crises. These regulations will not create jobs. These regulations will slow growth.

Let me share with you some of my thoughts on the Arab Summer. That is when you harvest the fruits of Spring.

Just few weeks into the Egyptian revolution, Larry called me and asked me about my opinion regarding events in the Arab world. I told him then that I am not optimistic. Unfortunately, I am still pessimistic.

Few months prior to the start of the Egyptian revolution, the ruling party won a landslide absolute majority through so called free elections. Where were these voters during the revolution few months later? There was no support for the ruling party. Although, President Mubarak was the head of the Army, it was a surprise how fast the regime collapsed.

Immediately, the Military Council started ruling. And the Army took over the transfer of power. The problem now is that the Army is receiving orders instead of issuing orders. It started to react to the demands of the people. And the people selected the road of revenge and not the path of Nelson Mandela.

Therefore, Egypt chose to satisfy the hearts, and not the minds, of their people. Nearly all of Egypt's economic drivers are either in jail or in court, fighting for their survival. Anyone remotely associated with President Mubarak's regime has been neutralized.

Egypt needs to urgently reduce its deficit. Under the current circumstances, it is a mission impossible. The longer the demonstrations last; the more the fiscal problems; greater the capital outflows; and faster the depletion of foreign exchange reserves.

It is not necessary that all revolutions lead to a western style democracy which has a peaceful transfer of power between regimes. For example, after 8 years from the removal of Saddam Hussain, Iraq is still struggling for security.

Another example, in Yemen, despite President Saleh leaving the country few months ago, the regime is still in power. Why? The opposition's only goal was the removal of President Saleh from power. There were no institutional objectives for governance. The opposition's goal was personal. The opposition will continue to fail in Yemen as long as they have no coherent strategy to govern.

Democracy is not only the results of the ballot box. It is the accumulated culture of a society. It is an institutional behavior of a people.

Currently, there is a lack of credibility in the results of elections in the Arab world.

All this will change.

Now, let me share with you some of KIA's performance results and forward looking views.

In the past, KIA was known as an "easy client" with a lack of active management.

Rarely was an external fund manager terminated for poor performance.

In 2005, this has changed dramatically. Where the KIA had 25 external fund managers with 45 portfolios, we now have 62 external fund managers with 120 portfolios. The number of mandates increased from 10 to 28. The KIA now has a road map in place to actively manage the managers. A policy was created by KIA's in-house team based on our experience. In the past, this was significantly underutilized. We are now reaping the benefits. For example, last year, 64% of the external fund managers outperformed their benchmarks. The added value was nearly 12 basis points, on top of double digit absolute performances. We now have a record high level of outperformances of external fund managers.

Since 2005, the various actions taken by KIA related to external fund managers were:

- Terminations : #31 value \$29 billion
- Partial withdrawals : #28 value \$19 billion
- Partial additions : #96 value \$52 billion
- New appointments : #91 value \$56 billion

KIA's performance has improved. Our 20 year performance is 8.5% annually. KIA's assets under management has grown by a multiple of four with the main spurt occurring since 2004. Concurrently, the KIA reduced its earnings volatility as well as improved its risk diversification.

The KIA decided to broaden its exposure into regions and asset classes which were once off-limits. Instead of concentrating only in the developed mature markets, we moved into faster growing emerging economies. A deliberate push was also made into non-traditional asset classes. In addition to public equities and fixed income, we are now active in various types of alternatives. Also in a wider range of classes of fixed income instruments including Emerging Markets and High Yields. We increased our risk appetite from a minimum of AA to BBB minus for corporates and sovereigns.

KIA's intention is to continue to increase its exposure in high growth economies without ignoring value investment opportunities in mature markets.

Here are some examples of KIA's changes in our Strategic Asset Allocation:

- Emerging Markets exposure increased

March 2004

Zero %

March 2007

6%

March 2010

8%

- Decrease in Traditional Asset Classes (%)

<u>March 2004</u>			<u>March 2007</u>			<u>March 2010</u>		
<u>Equities</u>	<u>Fixed Income</u>	<u>Total</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Total</u>	<u>Equities</u>	<u>Fixed Income</u>	<u>Total</u>
71	16	87	58	15	73	52	21	73

- The KIA’s Alternative Investment space was dominated by problematic real estate properties and few large unquoted investments. In 2011, we are now invested in the entire menu of alternatives with a serious commitment towards increasing our exposure to such investments.
- KIA intends to grow our real estate investments by at least another 10% of our Strategic Asset Allocation.

So far, 2011 has been one of the most difficult year in my 30 year professional life. Interest rate is zero. Developed Economies are caught up in a sovereign debt crises. Some large economies are heading into a recession. Some with political deadlock. Emerging economies have inflationary pressures; asset bubbles; and prospects of a hard landing.

While all is not well in the world today, I remain hopeful that wisdom will overcome party politics.

Dear friends, I want to thank you very much for giving me this opportunity to speak to you tonight. And for your support of this event.

I also want to thank ABANA for this distinguished recognition.

Lastly, on our part, I want to assure you that the KIA will continue with all its efforts to remain as one of the leading global professional investors.

Thank you very much.