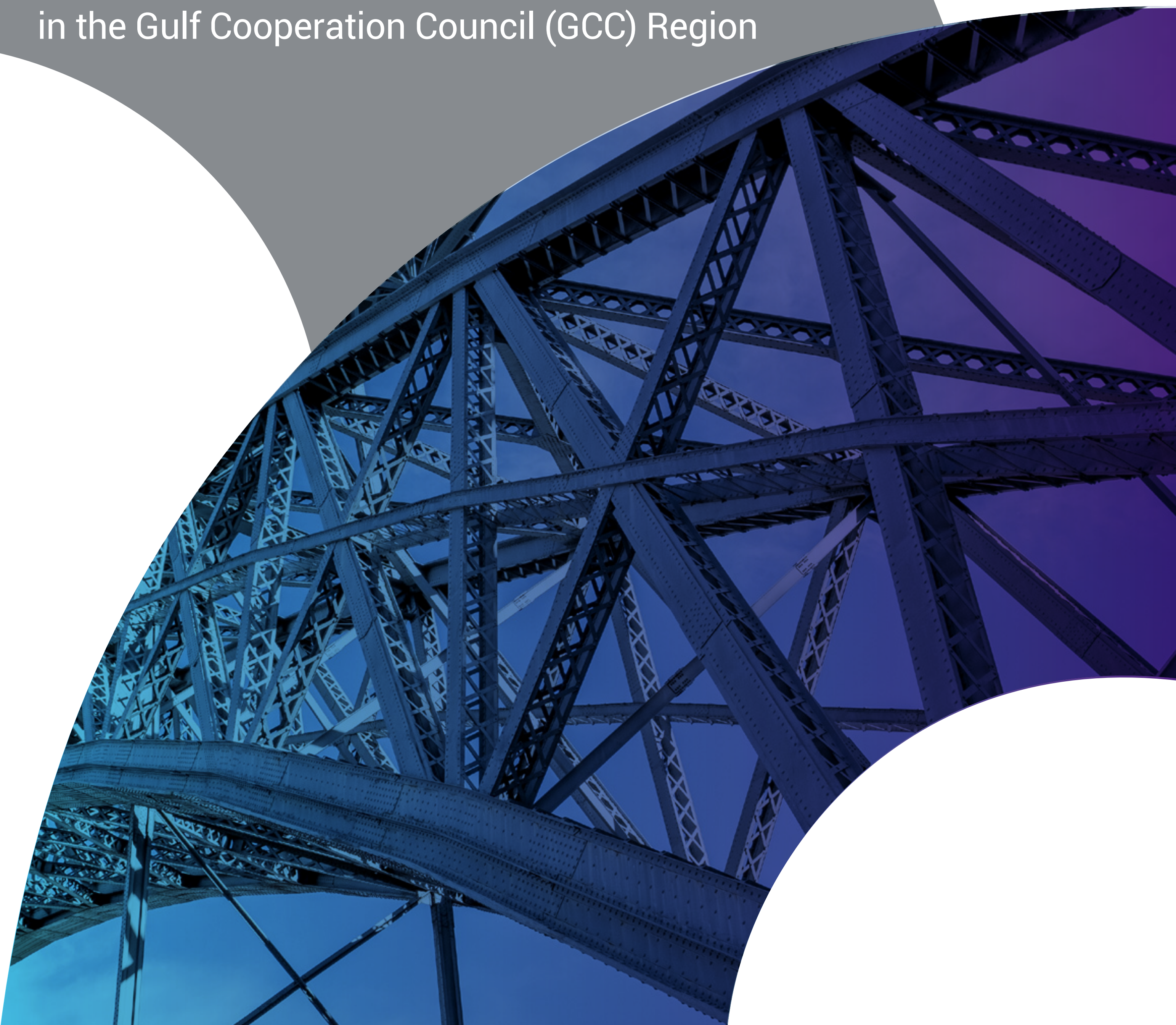
The Gulf Capital Market Association

and

Middle East Investor Relations Association

GUIDE FOR BEST PRACTICE DEBT INVESTOR RELATIONS

in the Gulf Cooperation Council (GCC) Region



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1. INTRODUCTION

This Guide was first written in 2011. Given the time elapsed since then and the market changes that have taken place, not least in size, reach and scope of the market offering, in both debt and equity, it is timely to update the Guide.

When we consider the balance sheet of a company, there is always equity capital, perhaps the purest form of risk capital. From this starting point in the lifecycle of businesses, businesses generally fund themselves as long as they can through internally generated cash. The next port of call for funding requirements is commonly banks or some other form of debt finance, including bonds or Sukuk.

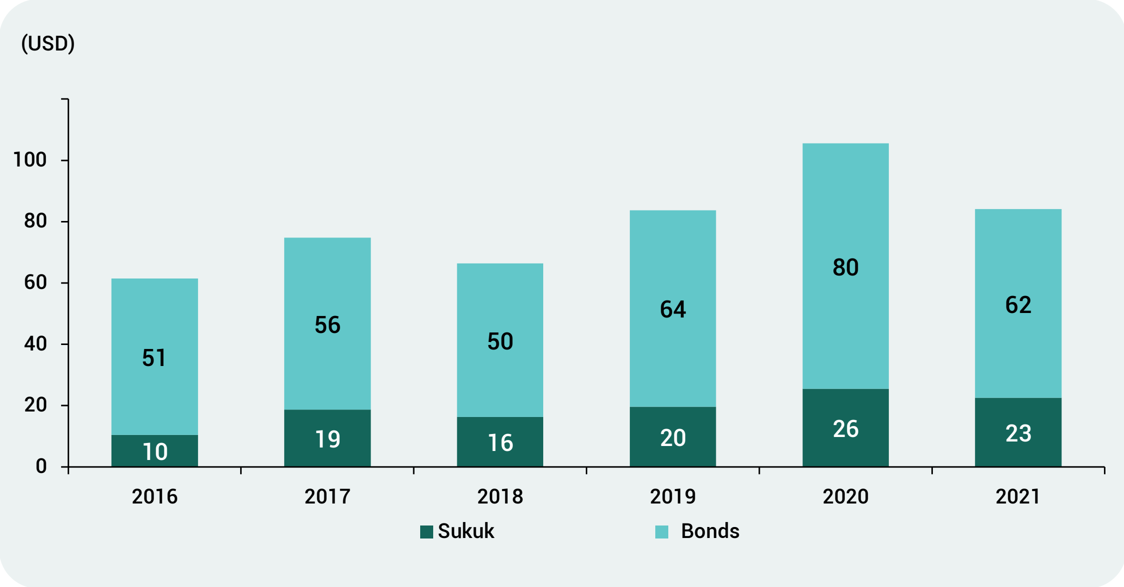
The fundamental difference between debt and equity is that debt holders rank above shareholders in a worst-case scenario. Debt is a legally binding obligation to repay the debt, while equity has no such promise to pay back. Accordingly, equity investors take a greater risk and in turn, expect a bigger return on their investment given there is no obligation to repay equity capital nor to pay a dividend. Another important difference between debt and equity is that debt has no official central register by which issuers and investors can track existing debt holders. Equity by contrast has a formal share register of ownership. Moreover, some jurisdictions allow issuers to trace beneficial share ownership through Company Law requirements.

One principle common to both debt and equity holders is that they can expect to be treated equally as far as any Investor Relations ("IR") go. Naturally, both debt and equity investors are interested in the financial side of the business, not least what is shown on the balance sheet, if not through other financial statements. That said, to paraphrase the other financial statements, it has been noted that turnover is vanity, profitability is sanity, while cash is reality. After all, the ability to service and repay a debt is uppermost in a debt investor's mind.

Before we explore Debt Investor Relations, let us consider the GCC capital markets for equity and debt. In 2021 GCC equity capital market primary raising was USD 8.5 billion (Source: Iridium "The Renaissance of IPOs in the GCC", April 13, 2022) and the first 6 months of 2022 saw record capital raising of almost USD 12 billion. As with debt, the main GCC equity capital markets are important components of global EM indices. Debt, and particularly capital market debt, has become an increasingly important component of the funding picture in the region. Moreover, the regional Debt Capital Market has deepened and widened over the past decade when looked at from almost any point of view. As a backdrop, the Emerging Market (EM) debt universe, in which the GCC market is a component, has tripled in size over the last decade, and with local currency instruments growing in relevance. The Middle East is a key player in this story. From being a negligible contributor of debt instruments a decade ago, the region now supplies new issuance in significant volume and is a major component of global bond indices. The region also boasts 4 AA rated sovereigns (Abu Dhabi, Kuwait, Qatar and UAE) meaning that the Gulf issuers are often the ones able to reopen emerging markets during periods of global Emerging Market stress.

The trends are borne out in the data. New issuance volumes increased from 2014 to 2021 from USD 21.0bn to USD 85.3bn. 2020 was a record year for the GCC Debt Capital Market, with volumes hitting USD 106bn across 201 various issuances. Government related entities (GREs) accounted for USD 50.15bn of that total. Although 2022 has seen lower volumes due to concerns around recession and tightening by central banks to battle inflation, market participants expect volumes to resume their upward trajectory.

Following global trends, GCC Bond Issuance Volumes Dipped in 2021



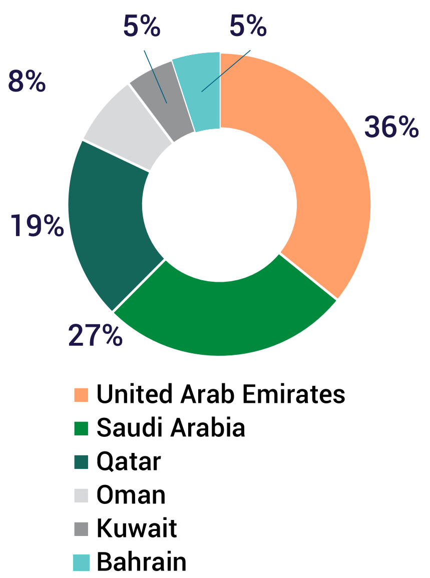
Source: Emirates NBD Capital and Bloomberg

Sovereigns, which used to sit out of the markets, are applying global practices in their debt management operations. Sovereigns increasingly issue in both international and, more recently, on a regular basis in local currency markets, some of them accessible directly via global clearance systems. By constructing and then extending these national yield curves, the sovereigns support market access by both GREs and the private sector.

Meanwhile, a wider diversity of companies and industries have seen the benefits of accessing public debt markets, whether it be more diverse funding sources, achieving longer tenors, benefiting from the transparency of robust disclosure and investor demands to mature as companies. The practices of treasury management and IR have risen to new levels comparable to global peers.

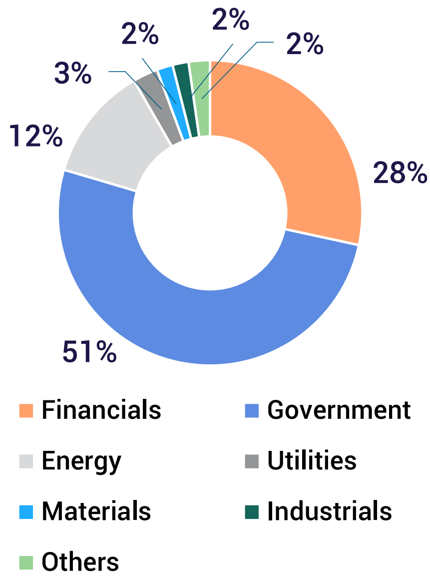
UAE has been the Biggest Issuer of GCC Bonds/ Sukuk

(2019-2021)



GREs accounted for the bulk of the regional issuances

(2019-2021)



Source: Emirates NBD Capital and Bloomberg

The complexity of instruments available has evolved as well and is far from the five year plain vanilla format of the past. Green, social and sustainable bonds, as well as project bonds are increasingly issued, each in both conventional and Sharia compliant format as well as in a variety of currencies.

Even Exchange Traded Funds (ETFs) composed of bonds are being offered. In tandem, the regional fixed income investor base is more engaged than ever. Consequently, issuers have prioritized engaging regularly not only with global investors, but also with a deepening regional asset management and funds industry.

The development of the Middle East debt capital market has created a supportive environment for sustainably financing the region's economies, weathering inevitable challenges that regularly arise and meeting the twin challenges of economic diversification and addressing climate change.

2.

DEBT INVESTOR RELATIONS

Debt IR is the mechanism by which a government or a corporate that issues bonds and/or Sukuk ("issuers") provides information about itself and about the financial instrument to investors and maintains a relationship with its investors.

Debt IR does not, in any sense, substitute for or operate outside of jurisdictional legal and regulatory obligations imposed on issuers.

Debt IR serves to promote engagement between issuers and investors and provides current and potential investors with the information they need to make informed investment decisions and exercise their rights, in particular the right to information and the rights outlined in bond/Sukuk agreements.

Debt IR, like equity IR, is based upon principles of transparency, accountability, predictability and accessibility, which can be served by observance of the guidelines set out herein.

Effective Debt IR can help issuers secure effective and fair pricing on a bond/Sukuk, minimize the risk premia on yields, ensure that borrowings are achieved at the lowest possible cost. Additionally, effective IR impacts secondary market performance on outstanding bonds/Sukuk.

Best practice debt IR

Consider one architrave and three pillars:

Commitment to ongoing debt services and disclosure

Issuers should devote adequate resources to debt IR. Support and active commitment by senior government officials and policymakers, and for corporates, by board of directors and executive management, are prerequisites for best practice debt IR in the GCC.

It is common practice to house debt IR within the treasury function.

Sometimes in larger organizations that use both debt and equity capital markets, both asset classes will come under the same reporting line, if not the finance function. Rather like the IR reporting line itself, it is largely down to the business depending on its objectives and resources. The most important aspect is that both debt and equity holders are professionally managed on an equal basis.

Institutionalized IR Function

a. Issuers should establish and maintain an institutionalized Debt Investor Relations Program ("DIRP").

b. A DIRP for a large organization with multiple issuances should be characterized by a dedicated IR function, designated IR officers and an IR website. There should be dedicated staff responsible for communication with investors who fulfil these duties and are recognized by investors as reliable, accessible and credible. For large and complex issuers, the IR function is likely to require a formalized IR function. For smaller organizations or infrequent issuers IR functions can fall within the strategy or communications office and for smaller financial institutions within the treasury or legal function.

For sovereign and government Issuers, the IR function may be part of an independent debt management entity or a department within another financial agency, such as the Ministry of Finance (or Treasury) or the Central Bank. The country should have these functions built into the existing framework of the Central Bank, Ministry of Finance or government agency responsible for debt management.

c. The individual(s) who is (are) responsible for communicating with investors on behalf of Issuers shall be clearly identified and reachable through a website(s). One or more official websites should contain contact information of at least one individual identified as an IR Officer (IRO) and available to receive investor questions or feedback. The information should be clearly marked and easy to access. The appropriate official may be either a designated IRO or responsible for investor communications as one of his or her core duties.

d. Staff principally responsible for IR shall take an active role in ensuring communication and information sharing across the organization. The IRO shall also be active in ensuring that information communicated by public-facing units of the organization are consistent with information provided to investors.

Dissemination of Data and Information

Ensure that the majority of investors have access to the information

When responding to an investor query, efforts shall be made to ensure, consistent with any relevant regulatory disclosure requirement, that the response is communicated and the information is made available to all investors.

Do not discriminate

Issuers shall not discriminate among recipients of information disclosed based on the recipient's profile or prior opinions and conclusions.

Data and information provided by issuers shall be relevant to the structure of the transaction

For sovereign/corporate credit bonds and asset-based Sukuk, data and information provided should be related to the issuer and/or originator as this is where the primary risk is anchored and where investors will have interest.

In asset-backed and securitised transactions, the investor focus is on the quality and performance of the underlying asset. The issuer will have to provide investors with qualitative and quantitative information about risk exposure and value of the underlying asset.

Structural information available

Information on structural factors (e.g., legal, regulatory, Shariah matters (if applicable), governance frameworks) supported by data should be available as appropriate. Issuers shall provide information on the economic situation of the region, country, and sector.

Data should be presented in market-friendly format

Issuers should provide data and information in English and Arabic. Should all information not yet be available in English, the IRO should ensure that a clear roadmap for availability of information in English will eventually match the data and information available in Arabic. Ideally, data should be presented in a user-friendly format that can be easily manipulated electronically.

Sovereign and Government Issuers: International Monetary Fund's (IMF's) Special Data Dissemination Standard ("SDDS")

It is preferable that the country subscribe to SDDS and regularly update its data. SDDS was established by the IMF to guide members having or seeking access to international capital markets in the provision of their economic and financial data to the public. The SDDS identifies four dimensions of data dissemination:

• data coverage, periodicity and timeliness;
• access by the public;
• integrity of the disseminated data; and
• quality of the disseminated data

For each dimension, the SDDS prescribes two to four monitorable elements - good practices that can be observed, or monitored, by users of the statistics.

Macroeconomic data and information

Government agencies should have a clear mandate for the compilation and dissemination of macroeconomic information. The publication should follow a pre-announced advance release calendar, and at a minimum meet the specification for timeliness and periodicity (i.e. monthly or quarterly) set forth in the IMF's SDDS. Issuers shall rely on officially approved macroeconomic data.

Sovereign Issuance in Local Capital Markets

Countries that regularly issue bonds/Sukuk in local markets should publish data including maturity profile of local instruments, forward issuance calendar and timely results of sales/auctions including subscription levels, high, low and average prices/rates submitted and aggregate prices/rates of succesful bids.

Historical information available

Investors shall be able to locate recent retrospective information for various areas of data. This could be satisfied with an accessible database of historical prospectuses and IR reports.

Forward-looking policy information available

Investors shall be able to identify the issuer's economic planning through the presentation of comprehensive economic/business outlook reports for the relevant period. For sovereign and Government issuers, this includes the identification of monetary and fiscal policy objectives, as well as assumptions for the economic variables relevant for the individual jurisdiction.

Information relating to environmental, social and governance policies and practices

Maintaining and updating lists of Environmental, Social and Governance (ESG) concerns and addressing regularly posed investor concerns.

Issuers should keep abreast of evolving developments, terminology and concepts of ESG and the ESG expectations of their investors and assess their disclosure against those expectations. These may include information on carbon emissions, progress on diversity and inclusion and mitigation strategies to counter ESG-related risks that are material to the Issuer's business. Issuers may elect to refer to well-known global sustainability metrics such as those published by World Federation of Exchanges or Sustainable Stock Exchange Initiative.

Green, Social and Sustainable Bonds/Sukuk

Issuers of labelled green, social and sustainability bonds/Sukuk should regularly report on allocation of proceeds of such issuances to ensure proceeds are used in line with the issuance framework until the full allocation of proceeds and whenever material developments occur. Reports should include identification of projects to which proceeds have been allocated, allotted amounts and the targeted impacts.

Macroeconomic or Social Stress

In times of particular stress either brought on by issuer-specific or generalized developments (macro-economic shocks, financial crises, health crises, civil strife, etc.) issuers should adapt their practices to deepen, widen and increase the frequency of their communications. Such response may include development statements addressing common concerns related to the impact of the stress or crisis on the issuer and its ability to service its obligations. The recent COVID-19 global pandemic should serve as a reminder of the need for a continued flow of information for all stakeholders.

Practices in Relation to Sukuk

Obligors in Sukuk transactions should make available information regarding the Islamic structure of the transaction and whether it is compliant with standards issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). This is particularly relevant to investors that are regulated by Central Bank of United Arab Emirates, for example.

Obligors in Sukuk transactions should over the life of the transaction, be prepared to report, upon investor request, on the adequacy of assets according to the terms of agreements with Sukuk holders.

Active investor contact list

Issuers should maintain a list of investors. Developing of investor lists should be a pro-active responsibility which can require using bondholder identification tools. For Sovereign and Government Issuers, authorities should update and maintain their investor contact lists annually. Government agencies should distribute policy, macroeconomic, fiscal and debt information to the investor list via e-mail at least quarterly and preferably on a monthly basis.

Communication Channels

Effective IR is based upon two-way communication between issuers and investors. This includes on access to information for analysts and direct communication with company representatives. Issuers should endeavor to use all channels of communication available to them.
These include but are not limited to:

Website

The IR section of the issuer's website should be available in Arabic and English.
For sovereign issuers, if there is not a dedicated IR website, then the Central Bank and Ministry of Finance (or Treasury) websites should be in Arabic and English. Issuers should ensure that the website is accessible and is designed to allow equal access to information and services to all users. Investors should be able to register on the website to receive relevant information on a regular basis via e-mail, such as data releases, policy information or notices and links for roadshows or conference calls. Websites should contain an archive of materials presented to investors at roadshows, conference calls, investor presentations and transcripts of speeches by key policymakers or senior management, as appropriate.

Issuer Pages on Commercial Information Services

Large organizations and sovereign issuers may in addition publish data and information electronically via commercial services that are widely available to the investor community. Such data should be consistent with and comparable in scope to that available via the issuer's website.

One-to-one meetings

Issuers shall conduct bilateral meetings with investors on a regular basis. The meetings may be held domestically or abroad.

Non-deal roadshows

Issuers should conduct informational meetings convenient for investors and not associated with transactions (non-deal roadshows), at least annually. The CFO and/or Treasurer should participate in non-deal roadshows.

Investor conference calls

Issuers should conduct regular investor conference calls. Investors should be invited via email and/or an announcement on the Issuer's website. For sovereign and government issuers investor conference calls should be on key economic data and policies at least every quarter.

Investor Conferences

Representatives of issuing companies and governments should keep aware of investor conferences and endeavor to attend in order to be available to investors.

Emails - Web-based communication with investors

Issuers shall respond to investor queries or concerns via e-mail or via an HTML-based feedback mechanism. Responses should be received within 36 hours.

Notwithstanding, these above investor contacts should not take place while blackout periods are in effect.

Feedback

Investor feedback reflected in decisions

Procedures for developing policies and for corporate decision-making should be adapted so that senior policymakers and management are aware of and able to take into account market input in making their policy/corporate decisions.

Senior policymakers' participation in IR activities

Participation by senior policymakers (Minister, Central Bank Governor or one of their deputies) and senior management (CFO and/or Treasurer) is necessary when appropriate. Senior policymakers/management should be involved in at least two of the following three activities: conference calls, bilateral meetings and non-deal roadshows.

Regular self-assessment of DIRP

Issuers should conduct regular self assessments of their DIRP on an annual basis to identify successes and gaps. The self-assessment may be conducted through a feedback survey distributed to the entire investor base or to a representative sample of the investor base. Outcome of such surveys should be conveyed to management or senior policymakers and form part of the IR strategy for the following year.

3.

CONCLUSION

To end, as we started, both debt and equity holders expect to be treated equally as far as IR goes. The target audience of investors demands more today, not least in addressing broader issues beyond simply disclosure of financial reporting requirements. IR is as much about listening and understanding our stakeholder needs and integrating all relevant data, including extra-financial metrics, into our thinking, planning and business strategy.

Best practice IR is all about recognizing IR as a strategic role in the competition for capital. Accordingly, IR means:

• Clarity in your messaging, from the purpose of your business to telling the investment story – keeping it clear and concise;

• Commitment from executive management and the Board of Directors to do the right thing by your stakeholders, including ongoing communication with the investment community;

• Consistency in good and bad times – you must keep the communication channels open;

• Credibility in your communications, starting with an authoritative spokesperson who, on behalf of the company, can be available and accessible to enquiries at all times;

• Context of your operating and regulatory environment – any disclosure and reporting must make sense to the business and should be put into the context of making the business sustainable in the eyes of your stakeholders, from employees to investors;

• Conduit – IR should be an institutionalised and dedicated role for professionals that enables a healthy dialogue between issuers and the investment community.

'The greatest problem with communication is the illusion that it has already been accomplished' – George Bernard Shaw

The benefits of IR include:

• Presence in the capital markets – in any competition, you need to be visible and accessible;

• Intelligence gathering through being in the market, listening, seeing and monitoring what's going on and what the stakeholder expectations are;

• Pricing and liquidity by being finely attuned to the market and optimal cost of capital;

• Reputation by being in the market and ready to tap the market, while leading to fair value over time.

Batelco | Case Study

The role of IR in engaging with credit rating agencies

Managing an issuer's relationship with its credit rating agencies often falls within the responsibilities of the IR function. Credit ratings are informed opinions on credit risk and the ability of an issuer to meet its financial obligations. They provide a standard and global benchmark on creditworthiness, and companies must cultivate their relationships with these agencies and their respective analysts as they would other stakeholders, such as shareholders, debt investors, and research analysts.

Credit rating agencies as insiders

Credit rating agencies are considered insiders and are accordingly allowed access to confidential and non-public company information. Executive Management must consider how the company's credit ratings might be affected when making certain decisions. It is therefore important that the credit rating analysts are treated as insiders and are informed in advance of material transactions or events prior to public dissemination. The IR function would be involved in the coordination of important event-driven communications, and would be well positioned to ensure consistent and timely messaging to the credit rating agencies, in line with the other IR activities.

Annual credit rating reviews

Credit rating agencies require an annual update from Executive Management on topics such as the company's strategy, operating environment, financial results, and forecasts. Typically, these sessions are face-to-face meetings with Executive Management that require the same discipline, level of preparation, and consistent messaging required for IR communications to investors or the media. Conversely, since credit rating agencies are considered insiders and have access to forecasts and confidential data, the annual credit rating review provides an excellent opportunity for a company to communicate its strategic initiatives and financial goals, which could positively impact the credit rating opinion and improve credit positioning. It also provides the opportunity to showcase the quality and depth of the Executive Management team and the confidence that they instil.

Credit rating agency reports and publications

Debt investors rely on credit ratings, which influence pricing and access to capital. Thus, credit rating reports and publications provide a key communication channel that shouldn't be overlooked by the IR function or Executive Management.

The credit rating opinion or report can assist with increasing the issuer's visibility to international investors and highlighting strengths that may not be commensurate to its credit rating. For example, the credit ratings of Government Related Entities (GREs) are often constrained by their respective sovereign ratings. However, credit rating agencies do disclose a stand-alone rating, which is often higher than the assigned credit rating.

IR take-aways

From an IR perspective, it is imperative to know your investors and build and nurture relationships. The same applies to the company's credit rating agencies and analysts. Executive Management and IR professionals should cultivate these relationships, as they would relationships with investors and research analysts. Credit rating agencies should have regular access to Executive Management and an ongoing, direct communication channel, which the IR function is perfectly positioned for. Accordingly, the management of credit rating agencies is an important element of an effective IR programme.

DP WORLD | Case Study

Introduction

The Fixed income market in the GCC remains significantly larger than equity markets still being the preferred route for capital market access for many corporates and governments. For example, GCC debt issuance in 2021 was considerably larger than equity issuance. This makes effective Debt IR crucial as it can be the difference in achieving better pricing for any issuance.

Debt IR audience includes Rating Agencies and Debt Investors:

Managing Rating Agencies

Managing the relationship with rating agencies is a key part of the IR role as the debt investors rely heavily on credit ratings. For instance, most debt investors have a mandate to invest in a certain quality of credit such as Investment Grade (IG). Consequently, companies not rated, or rated outside of this space cannot access these investors. Achieving a 'fair' rating is crucial and ensuring that the rating agency fully understands the strengths and weaknesses of the business – this is an IR role. Rating agencies are treated as insiders and can be given access to information which is non-public. Accordingly, maintaining good lines of communication with the rating analyst provides comfort to the agency that the company takes its rating seriously.

Debt Investors Universe

At DP World, similar to the equity markets, IR interacts with emerging market debt investors. The team structure of debt investors is similar to equity markets with analysts covering a corporate in detail who, in turn, support a portfolio manager. However, debt analysts typically cover a larger number of companies compared to equity analysts. Consequently, they focus more on the debt related elements of the business, such as cashflow, capex, coverage ratios and liquidity / debt maturity. There is less interest in 'growth potential' and more on 'can the corporate generate enough cash to service and repay its debt?'

Debt IR at DP World

Debt IR reports into the office of Group CFO / Deputy CFO. Debt IR is managed by the same IR team as for the equity markets. This is done to keep the messaging consistent. However, the treasury team joins IR meetings from time to time to explain any questions on debt structure, bank lines and use of cashflow. The treasury team also uses feedback from investors to keep on top of market developments.

Roadshows

Debt roadshows are held during and before any fixed income issuances. However, it is important to keep a good line of communication with investors through hosting annual 'non-deal' roadshows for an update. Many debt investors attend fixed income conferences, and the IR team attends one or two fixed income conferences annually to keep the market updated with any developments. Relationship building and maintenance are crucial for any companies that want to become a regular issuer of debt.

Trust

Debt IR is mostly about building relationships and trust. While trust is crucial in any business, it is particularly important in the debt space as investors often 'trust' a company / management team that it will repay its debt. Building relationships and trust can lead to better pricing in the secondary market which allows companies to raise capital at more attractive terms. Market feedback suggests that the Middle East region can improve in the Debt IR space.

ESG market continues to grow

Bond issuances come in different forms and sizes. For example, there is the conventional bond with maturities ranging from 2 to 30 years or even 100 years. Each market can have its own unique bond offering. In the Middle East, we have Sukuk which are Islamic bonds that have features that meet the requirements of investors who prefer to invest in these products.

Similarly, over the last 5 years we have seen a significant growth in ESG / Green bonds. These bonds allow corporates to raise money for ESG purpose i.e. carbon reduction. Due to the increasing demand for these products, pricing has come down for corporates and it is becoming a cost-effective way to fund any ESG transition.

Conclusion

The Middle East region is becoming more important and accordingly, Middle East market allocation of capital is increasing significantly:

1) Being hedged to the US dollar helps during periods of currency volatility such as now and;
2) Weighting of other Emerging Markets is decreasing, such as Russia, for example, which makes the Middle East 'pie' somewhat larger.

Overall, there is more money flowing into the region and the fixed income market remains a crucial funding route for local corporates and governments.

| Case Study

Introduction

The IR team meets both equity and debt investors. Historically, Saudi Arabia receives many requests from Asian debt investors who wish to better understand the region. Accordingly, banks generally organize investor calls or reverse roadshows. IR is accustomed to meeting investors on a regular basis. Debt IR is managed within the IR team. Other than the meetings with debt investors, the main two activities are:

1) bond issuance support, mostly on the IR strategy, marketing materials (i.e. investor presentation) and disclosures (i.e. prospectus). For this, the IR team works in partnership with external parties, including the global coordinators/lead manager banks;

2) credit rating agencies engagement, especially during the annual credit rating review process, in delivering the message and the disclosures to share.

Another consideration of the IR team is how to diversify funding sources and potentially establish a sustainability financing framework. Those discussions are evaluated between Treasury, IR and ESG/Sustainability teams.

Reporting line

Four years ago, the Debt/Equity IR function was a department within the Treasury department. Three years ago, it moved to report to the EVP, Corporate Finance & CFO, at the same level as the Treasury department. More recently, the function has reported to the EVP, Corporate Finance & CFO, with a dotted line to the CEO. This change in the reporting line and elevation of IR demonstrates the strategic value that it plays in SABIC.

Lessons learned in managing multiple stakeholders

Developing a strong partnership with the Treasury department and Sustainability team is key. This partnership goes beyond a simple collaboration and is based on a real willingness to understand one another's roles and ensure smooth communication and partnership between the three functions.

In addition, IR now has a team of 3 members that consider ESG. They are in charge of developing the ESG IR story for SABIC and also monitoring the ESG ratings. Their feedback is then shared across the organization, including Sustainability, a team that mostly deals with the Environmental aspects of ESG.

IR take-aways

At least one IR professional should have strong Treasury expertise.
IR has proven to be a very strategic function. There are no limits to adding value to the organization, including: articulating company strategy; focusing on the delivery of key financial messages; engaging management in understanding investor needs; and driving ESG disclosures.

All IR functions have a potential to grow and to support their organizations to create value.

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