



Morgan Lewis

ADVANCED TOPICS IN

HEDGE FUND PRACTICES

CONFERENCE

MANAGER AND INVESTOR PERSPECTIVES

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Distributing Funds in the Gulf Region

Speakers



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Securities Regulations in the Gulf – Recent Developments

GCC Passporting Finally Announced

- Implementing regulations yet to be issued, though they are expected this year
- This is likely to give further boost to the DIFC and ADGM as the two premier financial “free zones” in the region
- Until then, important to comply per jurisdiction

Sector Growth

- Heightened focus on digital infrastructure, crypto, and FinTech, in addition to conventional infrastructure
- Utilities co-leading the way with SWF in such initiatives
- Focus on Saudi Arabia and the UAE, led by governmental entities and SWFs
- Family offices in the two jurisdictions, plus Kuwait, are also actively involved
- Legal and regulatory infrastructure is catching up but expectation is that most transactions will need to be “structured” around existing regulations

Governments Focused on Credit Market due to Pressure on Bank Balance Sheets

- Growth in private credit funds led by regional and international players
- Security perfection and enforcement is one challenge
- Another is the need to strengthen and clarify the role of “security agent”

Alternative Asset Managers Acquiring Deal Terms, Not Just IR Terms

- This is led by the growth of in-bound work
- SWFs are setting expectations that GPs invest into their economies
- Most arrangements still seeded by SWFs

Islamic Investors Continue to Seek Structured Exposure to Alternatives

Principal Islamic Investment Considerations



Global Islamic finance assets stood at \$4.3 trillion in 2022



The choice of a Shari'a-compliant structure will depend on the nature of the business, industry involved, and leverage levels and lifecycle of the corporate/target



The structures we will cover are intended to assist managers in sidestepping leverage restrictions (1:3 debt-to-equity ratio) but not the sector prohibitions: primarily the vice industry, arms, and conventional banking and insurance



In conventional banking and insurance, leeway is given when investments involve FinTech or InsurTech solutions, or where there is no exposure to interest-based lending



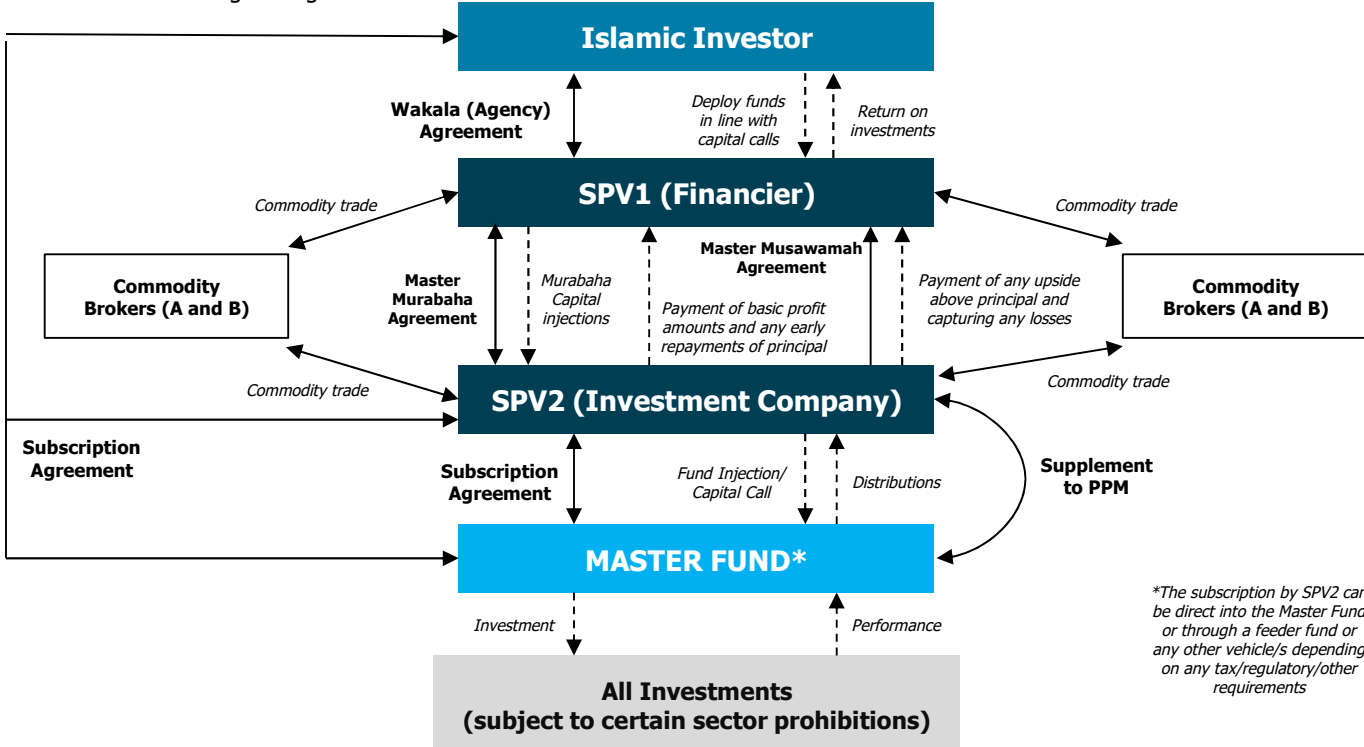
The role of Shari'a scholars is key—their certification is required for closing to occur



Most structures we will discuss involve offshore vehicles and are intended to give Islamic investors access to Shari'a-compatible investments in non-Islamic alternative strategies. Most of these investments utilize **Murabaha**-based instruments

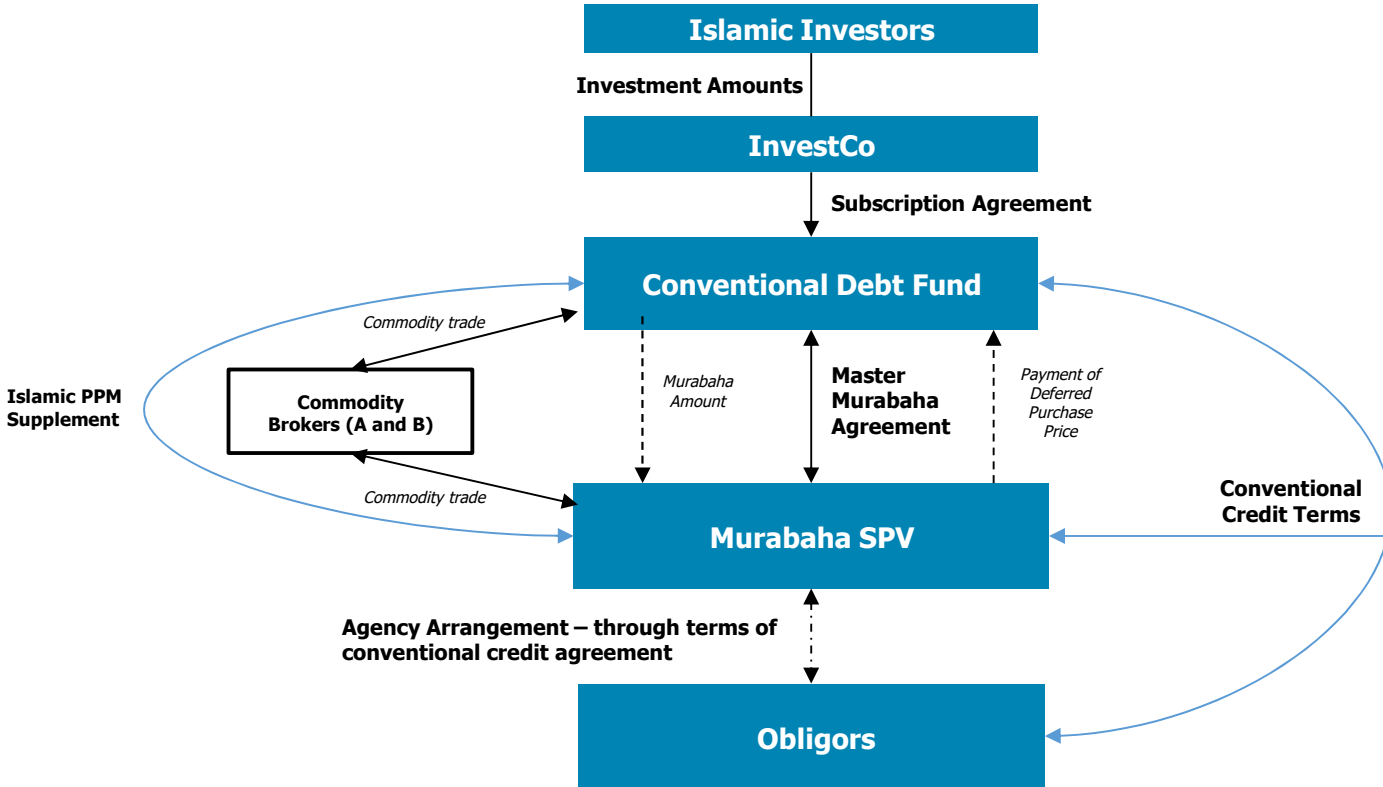
Islamic Private Equity & Real Estate Solution

Appendix: Structure of Islamic funding arrangements

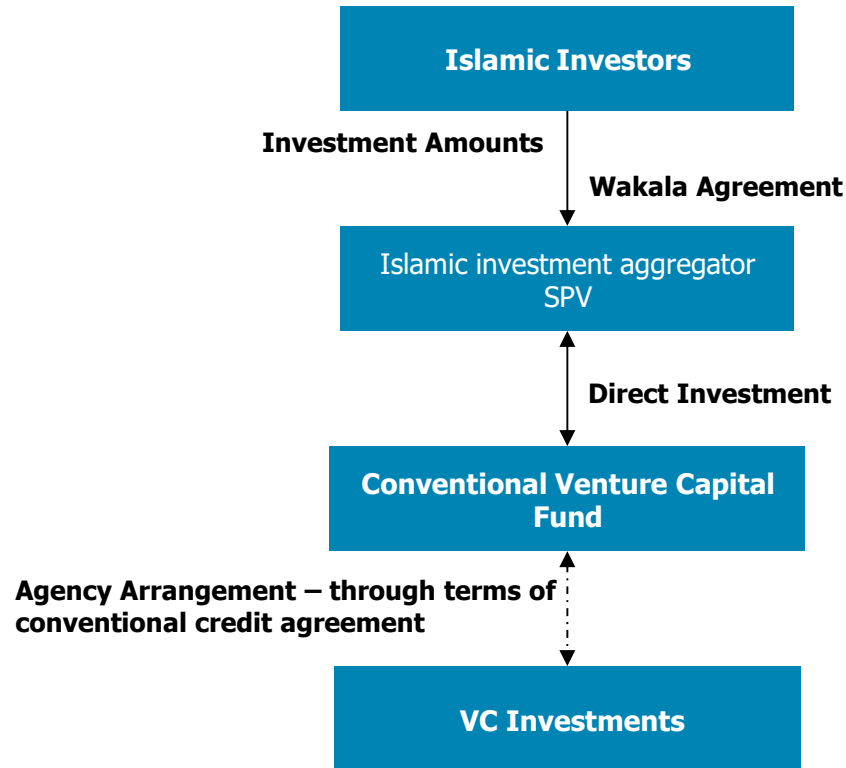


*The subscription by SPV2 can be direct into the Master Fund or through a feeder fund or any other vehicle/s depending on any tax/regulatory/other requirements

Islamic Credit Solution (Dual-Level Structure)



Low-Leverage PE/RE Investments/Venture Capital



Closing Remarks

1

Most of the above structures are designed to cause the manager to make the least number of structural changes to its underlying strategy and its documentation

2

However, it should be expected that a PPM wrapper and a side letter addressing Shari'a sector prohibitions and reporting will be required

3

Direct Islamic investment solutions are also available but in the context of single-asset private placements

4

One of the main impediments remains the lack of access to Islamic leverage, particularly in Western markets

5

Some additional headwinds include the UAE Central Bank's recent "High Shariah Authority" ruling, involvement of Shari'a advisers, and structure costs