

Why Global Institutions Are Underweight the Gulf: The Case for a Dedicated Allocation to the United Arab Emirates

Sizing the structural under-allocation to the Gulf and the diversification case for a dedicated UAE sleeve

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ABSTRACT

This paper examines why global institutional portfolios remain markedly underweight the Gulf relative to the region's economic weight, market depth and risk-adjusted opportunity, and sets out the case for a deliberate allocation to the United Arab Emirates by international pensions, insurers, endowments and fund-of-funds. Drawing on the literature on international diversification, home bias, emerging-market integration and the illiquidity premium, the study advances five propositions concerning the existence of the allocation gap, its causes, and the return and diversification consequences of closing it. Using a stylised allocation framework with clearly stated and labelled assumptions, it compares the United Arab Emirates with emerging and developed-market alternatives, models the effect of adding a measured Gulf sleeve to a representative global portfolio, and tests the sensitivity of the result to the principal assumptions. The analysis finds that the under-allocation is consistent with structural and behavioural frictions rather than a considered assessment of the opportunity; that a currency peg and common-law financial-centre infrastructure place the United Arab Emirates closer to a developed-market risk profile than its emerging-market classification implies; and that, because Gulf returns correlate only loosely with global equities and bonds, a measured allocation can raise a portfolio's expected return while leaving its risk unchanged or lower. The paper concludes with an implementation framework covering sizing, access, structuring, pacing and manager selection, and discusses the limitations of the analysis and avenues for further, data-driven research.

JEL Classification: F21, G11, G15, G23, O53

Keywords: Gulf allocation, United Arab Emirates, institutional investors, international diversification, home bias, emerging markets, portfolio construction, illiquidity premium

1. INTRODUCTION

A persistent gap separates the capital that global institutions allocate to the Gulf from the allocation that the region's economic size, market depth and risk-adjusted opportunity would justify. The largest pensions, insurers, endowments and fund-of-funds, institutions whose explicit mandate is to construct efficient, well-diversified portfolios, hold exposure to the Gulf that rounds close to zero, even as the region accounts for a meaningful and rising share of global output and investable assets. The under-allocation is measurable, it has persisted across cycles,

and it is increasingly difficult to reconcile with the principles of portfolio construction that the same institutions apply elsewhere.

This is not, on its face, a problem of opportunity. The benefits of international diversification have been understood since the foundations of modern portfolio theory (Markowitz, 1952) and were shown to extend across borders by a long line of subsequent work (Grubel, 1968; Solnik, 1974). Yet investors the world over continue to hold portfolios concentrated in their home markets to a degree that the diversification literature cannot justify, a regularity so robust it has its own name, the home-bias puzzle (French and Poterba, 1991; Lewis, 1999). The Gulf under-allocation can be read as a particular and acute instance of this broader pattern: a region that offers genuine diversification is systematically omitted from global portfolios for reasons that have more to do with habit, classification and familiarity than with a considered judgement on the merits.

The omission matters because the conditions that once justified caution have changed. For much of the period in which global allocation patterns were set, the Gulf was assessed through the lens applied to emerging and frontier markets, a lens that prices high currency risk, weak institutions and shallow access (Bekaert and Harvey, 1997; Harvey, 1995). That lens no longer fits a jurisdiction whose currency has been pegged to the United States dollar for four decades, whose financial centres operate under common law with independent courts, and whose private-asset markets have deepened materially over the past decade. The risk that an allocator actually bears in a well-structured Gulf allocation is, this paper argues, closer to a developed-market profile with an emerging-market growth premium than to the fragile profile its legacy classification implies.

The purpose of this paper is to set out, in decision-grade terms, the case for a deliberate allocation to the United Arab Emirates for an international institutional investor that has not yet made the move. It is written for the chief investment officer, the head of alternatives and the investment committee weighing a first allocation, and it seeks neither to advocate uncritically nor to dismiss real risks, but to test the candidacy of a Gulf sleeve against the criteria such an institution would genuinely apply. In doing so it makes three contributions. First, it quantifies the allocation gap and attributes it to identifiable structural and behavioural frictions rather than to a verdict on the opportunity. Second, it assembles the affirmative case across the dimensions an institution weighs, macro resilience, governance, currency, risk-adjusted return and, decisively, diversification, and expresses the portfolio-level effect through a stylised allocation framework. Third, it translates the case into a practical implementation framework covering sizing, access, structuring, pacing and manager selection.

The stakes in resolving this question are not marginal. Global institutional assets are measured in the tens of trillions of dollars, so even a small shift in the share allocated to the Gulf represents a very large absolute flow, and for the individual institution the difference between an efficient and an inefficient global portfolio compounds materially over the long horizons that pensions, insurers and endowments invest across. A diversification opportunity that improves risk-adjusted return by a meaningful margin, left uncaptured for reasons of habit, is therefore costly in precisely the terms these institutions are mandated to optimise. The question of whether the Gulf belongs in a global portfolio is, in this sense, not a niche curiosity but a live and material allocation decision, and it deserves to be assessed on evidence rather than settled by default.

The remainder of the paper is structured as follows. Section 2 reviews the relevant literature on international diversification, home bias, emerging-market integration and the illiquidity premium, and develops five propositions that organise the analysis. Section 3 describes the data and the stylised methodology, including the assumptions, the comparative framework and the portfolio-construction model used to assess the diversification effect. Section 4 presents and discusses the results, covering the allocation gap, the risk-return comparison, the correlation structure, the frontier effect, the opportunity set and three illustrative allocator cases. Section 5 reports robustness and scenario analysis. Section 6 sets out implementation considerations. Section 7 offers concluding comments, including the study's limitations and directions for further research. A statement of disclosures, the references and appendices follow.

2. LITERATURE REVIEW AND PROPOSITIONS

The case for a Gulf allocation sits at the intersection of four established strands of the finance literature: the theory and evidence of international diversification, the home-bias puzzle, the integration and pricing of emerging markets, and the literature on illiquidity and the private-markets premium. This section reviews each strand and, from it, develops the propositions that the subsequent analysis examines.

2.1 International Diversification

The proposition that combining imperfectly correlated assets improves the risk-return trade-off of a portfolio is the foundational result of modern portfolio theory (Markowitz, 1952). Its extension to international markets, that diversifying across countries offers gains beyond those available domestically because national markets are driven partly by local factors, was established early (Grubel, 1968; Levy and Sarnat, 1970; Solnik, 1974) and has been repeatedly confirmed, with the caveat that the size of the benefit varies with the degree of market integration and rises when correlations between markets are low (Bekaert and Harvey, 2003). The practical corollary is that the diversification value of an asset to an institution depends less on the asset's standalone risk than on its correlation with the rest of that institution's portfolio: a moderately risky asset that moves independently of the existing book can reduce overall portfolio risk. This insight is central to the argument advanced here, because the case for the Gulf rests more on its low correlation with global markets than on its standalone return.

2.2 The Home-Bias Puzzle

Against the clear theoretical case for international diversification stands the persistent empirical fact that investors overwhelmingly favour their home markets. French and Poterba (1991) documented that investors in the major economies held the great majority of their equity wealth domestically, far more than diversification theory would prescribe, and the pattern has proved durable across decades and asset classes (Lewis, 1999; Coeurdacier and Rey, 2013). The explanations advanced, information asymmetry, familiarity, transaction and access costs, and behavioural preference for the known, are precisely the frictions that this paper argues underlie the Gulf under-allocation. Importantly, the literature treats home bias as a costly deviation from optimality rather than a rational response, which implies that regions omitted for these reasons represent foregone diversification rather than correctly avoided risk. The Gulf, distant from the main centres of institutional capital and historically unfamiliar to Western allocators, is a natural candidate for such omission.

2.3 Emerging-Market Integration and Classification

A substantial literature examines how emerging markets are priced and how their expected returns and risks evolve as they integrate with global capital markets (Harvey, 1995; Bekaert and Harvey, 1997, 2003). A consistent theme is that segmented or newly integrating markets can offer returns and diversification benefits that diminish as integration proceeds and the market is more fully incorporated into global portfolios, an early-mover dynamic of direct relevance to an under-allocated region. Equally relevant is the role of classification itself: index providers' market-classification decisions exert a powerful influence on capital flows, because a large share of institutional allocation is benchmark-driven (MSCI, 2024). A region whose index weight understates its economic significance will be structurally under-owned by benchmark-following capital regardless of its merits. The Gulf's position, too developed in its institutional and currency arrangements to be assessed as frontier yet carrying a low index weight, leaves it in a classification gap that the analysis below treats as a principal cause of the allocation shortfall.

2.4 Illiquidity, Private Markets and the Endowment Model

Because a practical Gulf allocation is expressed substantially through private assets, the literature on illiquidity and the private-markets premium is directly pertinent. The endowment model associated with Swensen (2009) rests on the proposition that long-horizon investors can harvest an illiquidity premium and access inefficiently priced private markets that shorter-horizon investors cannot, and the broader literature on expected returns treats illiquidity as a compensated risk factor (Ang, 2014; Ilmanen, 2011). For an institution with a genuine long horizon, the illiquidity of Gulf private assets is therefore not only a cost to be managed but, in part, a source of compensated return. The same literature cautions that the realisation of these benefits depends heavily on manager selection and on disciplined pacing across vintages, themes that recur in the implementation section of this paper.

2.5 The Limits of Diversification

A mature treatment of diversification must also acknowledge its limits. A well-documented concern is that correlations among risky assets tend to rise in periods of market stress, precisely when the protection of diversification is most valued (Longin and Solnik, 2001; Page and Panariello, 2018). Any claim that an allocation improves portfolio resilience must therefore be qualified by the recognition that the diversification benefit may attenuate in a severe, globally correlated crisis. This paper takes that caution seriously: it does not assume diversification is perfect or constant, it stress-tests the central result against a rise in correlations in Section 5, and it frames the recommended allocation with a margin of safety rather than at the level a benign, static correlation assumption would justify.

2.6 Propositions

From this literature, the paper develops five propositions that the subsequent analysis examines using a stylised allocation framework:

Proposition 1. Global institutional allocation to the Gulf is materially below the level implied by the region's economic and market weight (the allocation gap).

Proposition 2. The allocation gap is consistent with structural and behavioural frictions, benchmark inertia, legacy classification, access cost and home bias, rather than with a considered assessment that the opportunity is unattractive.

Proposition 3. On a currency- and risk-adjusted basis, the United Arab Emirates exhibits a profile closer to a developed market with a growth premium than to the broad emerging-market complex with which it is classified.

Proposition 4. Because Gulf assets correlate only loosely with global equities and bonds, adding a measured Gulf sleeve to a representative global portfolio raises expected return without increasing, and potentially while reducing, portfolio risk.

Proposition 5. The diversification benefit is sensitive to the correlation assumption and to manager selection, and attenuates under a stressed, high-correlation scenario, so the benefit should be claimed with a margin of safety.

2.7 Sovereign Capital, Regional Integration and the Hub Economy

A further strand of context concerns the role of sovereign and quasi-sovereign capital and of regional integration in shaping Gulf asset markets. The Gulf is unusual among investment destinations in the scale and sophistication of its sovereign wealth, which provides both a stabilising presence in domestic markets and a demonstration effect for foreign capital, since the willingness of large, long-horizon domestic institutions to deploy at home is informative about the opportunity (Invesco, 2024). Regional integration initiatives and the development of the United Arab Emirates as a trade, logistics and financial hub further broaden the catchment of locally situated assets well beyond the domestic economy, a structural feature that supports the durability of returns and is not well captured by a narrow national-accounts view of the region.

For the diversification argument, the importance of this context is that the principal drivers of Gulf asset returns, government investment programmes, regional trade and capital flows, local real-asset supply and demand, and the hub economy, are substantially distinct from the drivers of the global equity and bond cycle. This provides an economic rationale, beyond the statistical observation of low historical co-movement, for expecting Gulf returns to diversify a global portfolio, and it is consistent with the integration literature's finding that less globally integrated markets offer greater diversification benefit until integration proceeds (Bekaert and Harvey, 2003).

2.8 Synthesis and the Gap in the Literature

Taken together, these literatures establish a clear theoretical expectation: a region offering returns driven by local factors, accessible through institutional-grade infrastructure and currently under-owned for reasons of habit and classification, should represent a foregone diversification opportunity for global investors. Yet while the literatures on international diversification, home bias, emerging-market integration and the illiquidity premium are individually mature, little published work brings them to bear specifically on the Gulf as an institutional allocation, a gap this paper seeks to begin to fill. The study's contribution is therefore to apply an established theoretical apparatus to an under-examined case, to organise the resulting analysis around explicit and testable propositions, and to translate it into an implementation framework, while being candid that the empirical validation of the propositions awaits the maturation of the region's data infrastructure, an avenue identified in the concluding section.

3. DATA AND METHODOLOGY

This study is analytical rather than empirical: its aim is to assess the case for a Gulf allocation using a transparent, stylised framework whose assumptions are stated explicitly, rather than to

estimate parameters from a proprietary dataset. This approach is appropriate to the question, which concerns the prospective portfolio consequences of an allocation an institution has not yet made, and for which forward-looking, clearly-labelled assumptions are more honest than the extrapolation of a short and unrepresentative return history. The figures presented throughout are modelled on the assumptions set out below and in Appendix A, and are intended to illustrate relationships and orders of magnitude that an allocator can then validate against its own data and live market inputs.

3.1 Data Sources and Inputs

The qualitative inputs to the analysis, the scale of the allocation gap, the macro and institutional characteristics of the United Arab Emirates, and the structure of the regional opportunity set, are drawn from public sources including multilateral and market-classification publications (International Monetary Fund, 2024; MSCI, 2024) and industry surveys of regional alternative assets (Preqin, 2024). The quantitative inputs to the stylised model, namely the expected return, volatility and correlation parameters for the United Arab Emirates, emerging markets and developed markets, are indicative calibrations informed by these sources and by the broader literature on emerging-market returns and the private-markets premium (Bekaert and Harvey, 2003; Ang, 2014; Ilmanen, 2011). They are not estimates from a single dataset and should not be read as forecasts; their role is to make the structure of the argument explicit and testable. Appendix A records the base-case parameters in full.

3.2 Comparative Framework

The first component of the methodology is a comparative assessment of the United Arab Emirates against two reference groups, a broad emerging-market composite and a developed-market composite, across the dimensions an institution weighs: expected net return, volatility, currency risk and the quality of governing institutions. The purpose of the comparison is to test Proposition 3, that on a currency- and risk-adjusted basis the United Arab Emirates resembles a developed market with a growth premium more than it resembles the emerging-market complex. The comparison is deliberately conservative in the return premium it ascribes to the Gulf and deliberately explicit about the volatility reduction attributable to the currency peg, so that the conclusion does not depend on aggressive assumptions.

3.3 Portfolio-Construction Model

The second and central component is a stylised mean-variance framework used to assess the effect of adding a Gulf sleeve to a representative global portfolio, following the standard apparatus of portfolio theory (Markowitz, 1952). For a portfolio combining an existing global allocation with weight $(1 - w)$ and a Gulf sleeve with weight w , the portfolio expected return and variance are given by the familiar expressions in which the variance depends on the weights, the individual variances and, critically, the correlation between the Gulf sleeve and the existing portfolio. The key analytical point, which Section 4 develops, is that when this correlation is low, the marginal contribution of the Gulf sleeve to portfolio risk is far smaller than its standalone volatility, so that a modest allocation can improve the portfolio's risk-adjusted return. The model is used to trace the effect of the allocation on the portfolio's position relative to the efficient frontier and to quantify, for three representative institutions, the change in expected return and volatility from a measured allocation.

Two features of the model deserve emphasis. First, it is deliberately simple and transparent; it is not an optimisation that searches for a single "optimal" weight, which would convey false precision, but a tool for showing the direction and approximate magnitude of the allocation's effect across a sensible range. Second, the correlation parameter is treated as the central uncertain input, and Section 5 accordingly stresses the result against a material rise in correlation of the kind observed in market crises (Longin and Solnik, 2001; Page and Panariello, 2018), in keeping with Proposition 5.

3.4 Assumptions and Their Justification

The base-case assumptions are set out in Table 1. The expected return ascribed to the United Arab Emirates sits above the developed-market assumption, reflecting a growth and private-markets premium, but below the level that an aggressive reading of recent regional performance might support, so as not to overstate the case. The volatility assumption sits well below the broad emerging-market assumption, reflecting the removal of currency risk by the dollar peg and the dampening effect of strong sovereign balance sheets, but above the developed-market assumption, acknowledging genuine concentration and liquidity risk. The correlation of the Gulf sleeve with the existing global portfolio is set in a moderate range, consistent with the regional drivers of Gulf asset returns, and is the variable subjected to the most rigorous sensitivity testing.

Table 1. Base-Case Assumptions for the Stylised Allocation Model

Parameter	Developed markets	Emerging markets	United Arab Emirates
Expected net return (% p.a.)	6.8	8.5	9.2
Volatility (% p.a.)	13.0	18.5	11.0
Currency risk vs USD	Low	High	Low (pegged)
Correlation with global portfolio	High	Moderate-high	0.40 to 0.45
Primary access	Liquid	Liquid / fund	Fund / direct

Indicative, forward-looking assumptions used to illustrate the analysis; not forecasts. See Appendix A.

4. RESULTS AND DISCUSSION

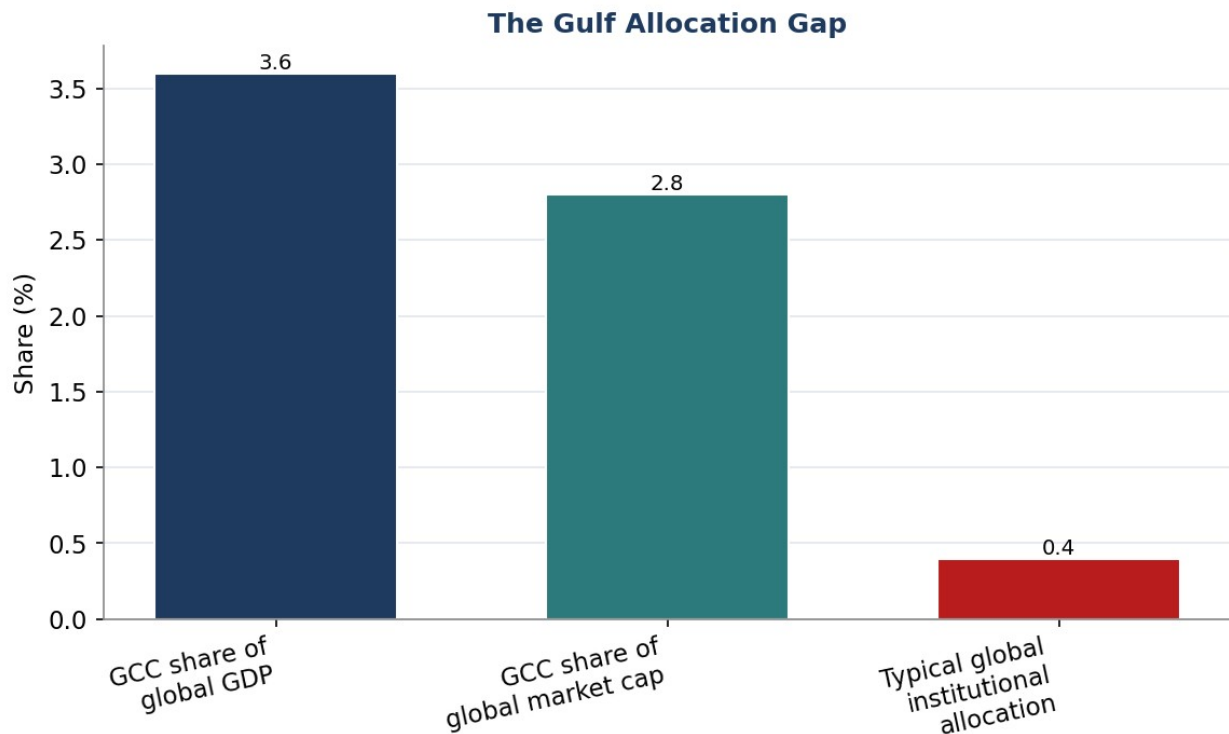
This section presents the results of applying the framework of Section 3 and discusses their implications. It proceeds in the order of the propositions: the allocation gap (Proposition 1) and its causes (Proposition 2); the comparative risk-return profile of the United Arab Emirates (Proposition 3); the correlation structure and the portfolio-level diversification effect (Proposition 4); the regional opportunity set; and three illustrative allocator cases that bring the analysis together. Robustness and the stressed-correlation scenario (Proposition 5) are reported separately in Section 5.

4.1 The Allocation Gap

The first result concerns the scale of the gap itself. Measured against the region's share of global output and of investable market capitalisation, the typical global institutional allocation to the Gulf is several multiples too small, as Figure 1 illustrates. A gap of this shape is the signature of a

structural anomaly rather than a considered underweight: it is the pattern produced when a region is omitted by default rather than excluded by judgement.

Figure 1. The Gulf Allocation Gap



Indicative comparison of the Gulf's economic and market weight against typical global institutional allocation.

The evidence supports Proposition 1. The region's weight in the global economy and in investable markets sits well above its weight in institutional portfolios, and the divergence is too large and too persistent to be explained by transient factors. The result is consistent with the home-bias literature (French and Poterba, 1991; Lewis, 1999), which establishes that investors systematically under-hold unfamiliar and distant markets relative to the diversification-optimal allocation, and it sets up the question that Proposition 2 addresses: whether this omission reflects a rational assessment of the opportunity or a set of removable frictions.

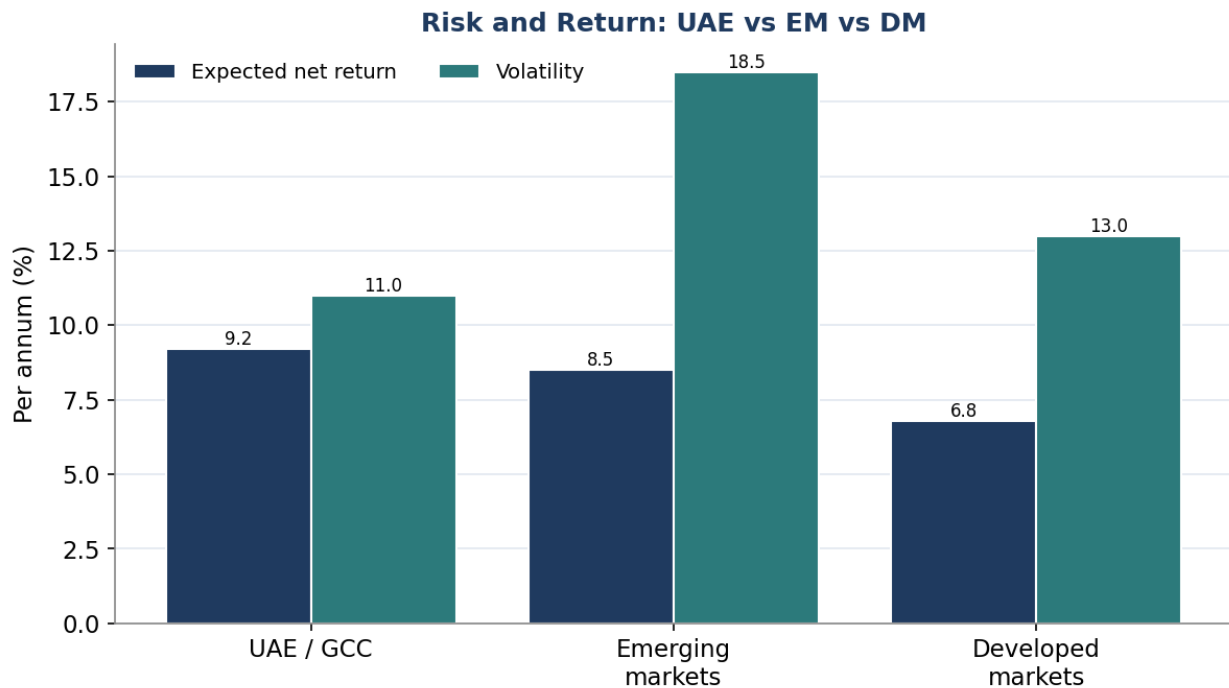
4.2 Why the Gap Persists

Examination of the causes supports Proposition 2: the gap is consistent with structural and behavioural frictions rather than a verdict on the opportunity. Four mechanisms, each grounded in the literature, account for it. Benchmark inertia channels allocation toward index weights that understate the region's significance, a powerful effect given the dominance of benchmark-driven investing (MSCI, 2024). Legacy classification causes the region to be assessed with the high-risk lens appropriate to frontier markets but not to a pegged, common-law jurisdiction (Bekaert and Harvey, 1997). Access cost, historically material, has fallen sharply with the maturation of the financial centres but is still perceived as high. And familiarity bias, the documented tendency to under-hold the unknown (Coeurdacier and Rey, 2013), completes the picture. None of these is a statement about the quality of Gulf assets; each is a friction of structure or habit, and each erodes as a region matures and early movers demonstrate that the obstacles are surmountable, an early-mover dynamic consistent with the integration literature (Bekaert and Harvey, 2003).

4.3 The Comparative Risk-Return Profile

Figure 2 reports the modelled comparison of the United Arab Emirates against emerging and developed markets on expected return and volatility, the result that tests Proposition 3.

Figure 2. Risk and Return: United Arab Emirates versus Emerging and Developed Markets



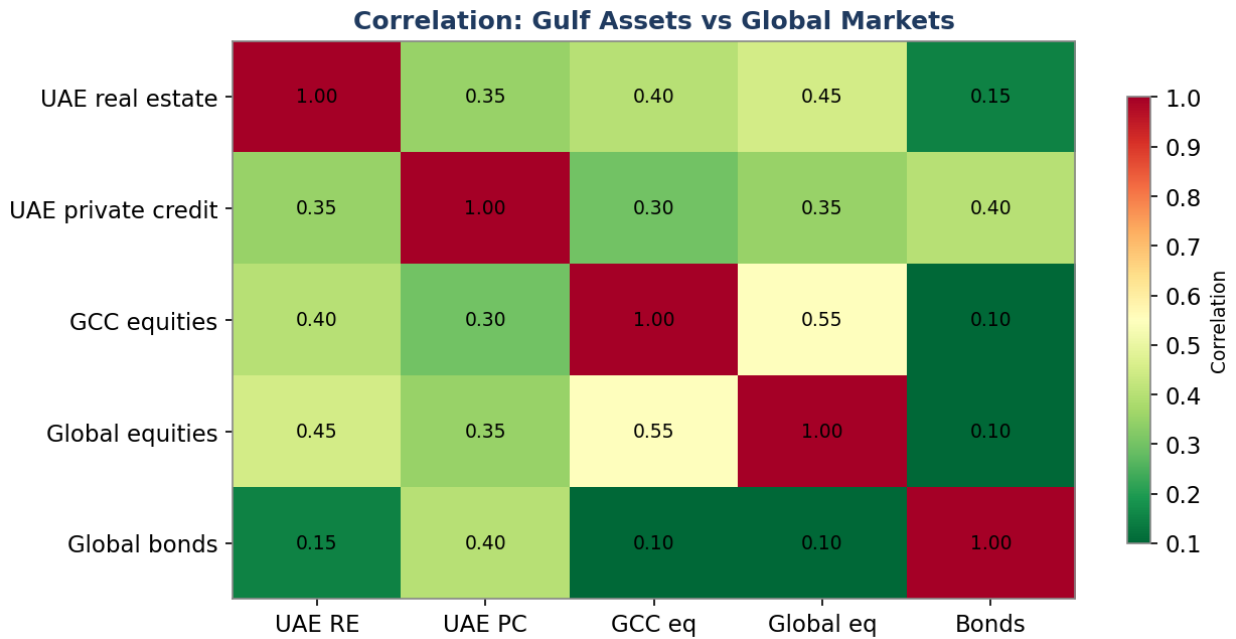
Indicative expected net return and volatility; modelled on the assumptions in Table 1.

The modelled profile supports Proposition 3. The United Arab Emirates offers a return above the developed-market assumption, consistent with a growth and private-markets premium (Ang, 2014; Ilmanen, 2011), but at a volatility materially below the broad emerging-market assumption, because the dollar peg removes the currency risk that dominates emerging-market volatility and the sovereign balance sheet dampens the cycle. The resulting risk-adjusted return compares favourably with both reference groups. The implication for the allocator is significant: an institution that has been pricing the Gulf as if it carried full emerging-market volatility has been mispricing it, and the correction of that mispricing is itself a source of opportunity. The peg, in particular, functions as a standing risk reduction embedded in the asset class, an advantage the broad emerging-market complex does not share.

4.4 Correlation Structure and the Diversification Effect

The central result concerns diversification, and it tests Proposition 4. Figure 3 reports the modelled correlation structure between Gulf assets and global markets, and Figure 4 traces the consequence for the efficient frontier.

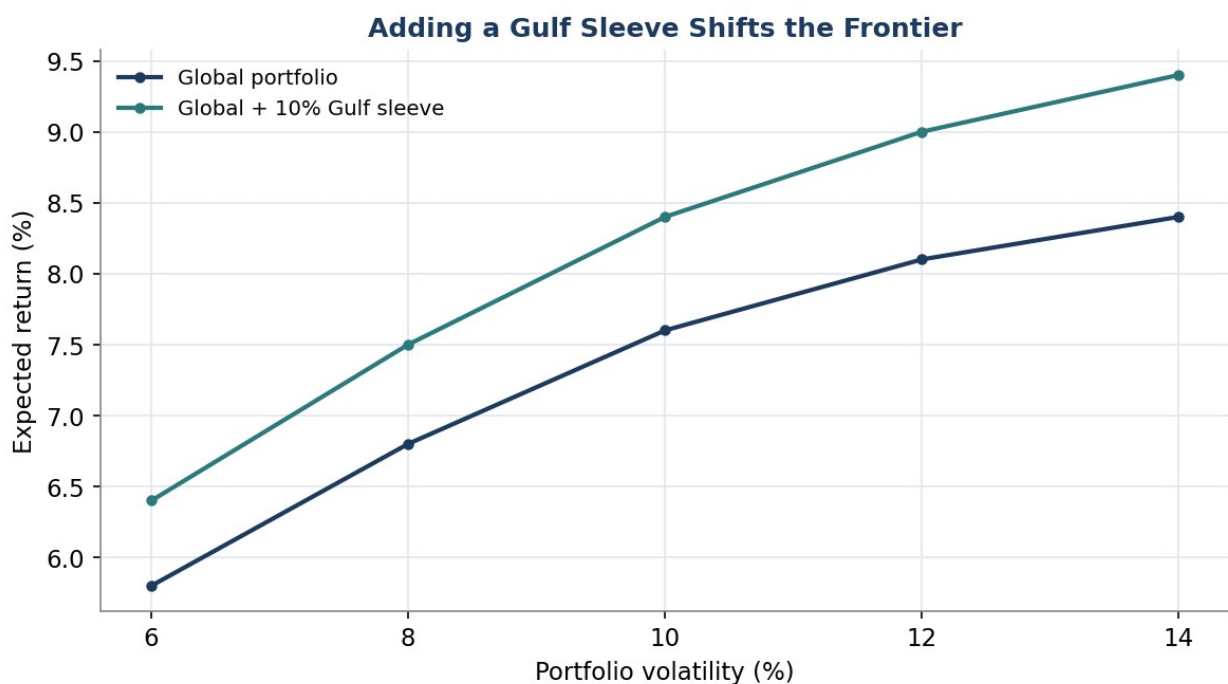
Figure 3. Correlation: Gulf Assets versus Global Markets



Indicative correlations; low correlation with global equities and bonds is the source of the diversification benefit.

The correlation structure is the mechanism behind the entire case. Gulf real estate, private credit and equities are driven substantially by regional factors, government spending, local supply and demand, and the hub economy, that do not move in lockstep with the global equity and bond cycle. The diversification literature establishes that it is precisely this low correlation, rather than standalone return, that determines an asset's contribution to portfolio efficiency (Markowitz, 1952; Solnik, 1974). Because the correlation is moderate, the marginal contribution of a Gulf sleeve to overall portfolio risk is substantially smaller than its standalone volatility would suggest, which is what allows a modest allocation to improve the risk-adjusted return of the whole.

Figure 4. Adding a Gulf Sleeve Shifts the Efficient Frontier



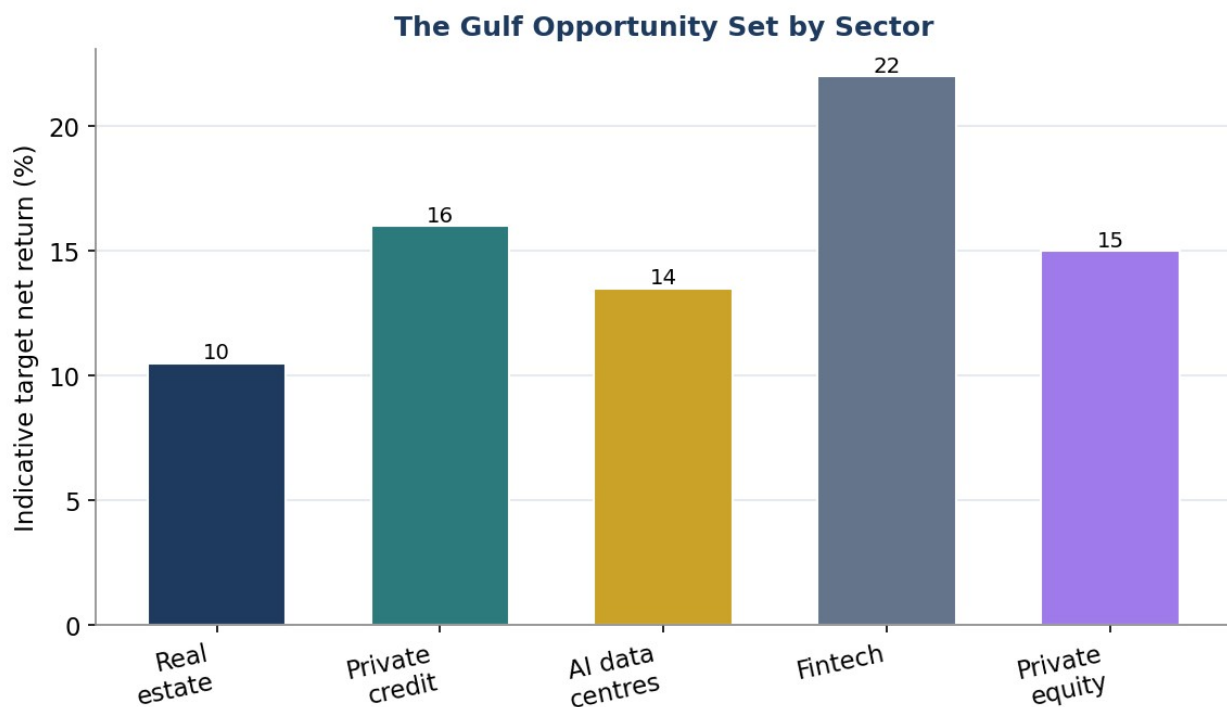
Modelled: a measured Gulf allocation shifts the representative global frontier up and to the left.

Figure 4 expresses the portfolio-level effect. The global portfolio combined with a measured Gulf sleeve sits above and to the left of the same portfolio without it, delivering more return for a given level of risk across the relevant range. The improvement does not come from taking more risk; it comes from adding a return stream that the existing portfolio does not contain and that moves only loosely with the risks it already carries. This is the result that most directly supports an allocation decision, because it speaks to the institution's actual mandate, the improvement of risk-adjusted return, rather than to the standalone appeal of any single Gulf asset. Subject to the stressed-correlation caveat examined in Section 5, the modelled evidence supports Proposition 4.

4.5 The Opportunity Set

A Gulf allocation is not a single trade but a choice among distinct opportunities, each with its own return, risk and capacity. Figure 5 reports indicative target net returns across the principal sectors, which allows an allocator to calibrate entry to its mandate.

Figure 5. The Gulf Opportunity Set by Sector



Indicative target net returns by sector; modelled and dependent on structure, vintage and selection.

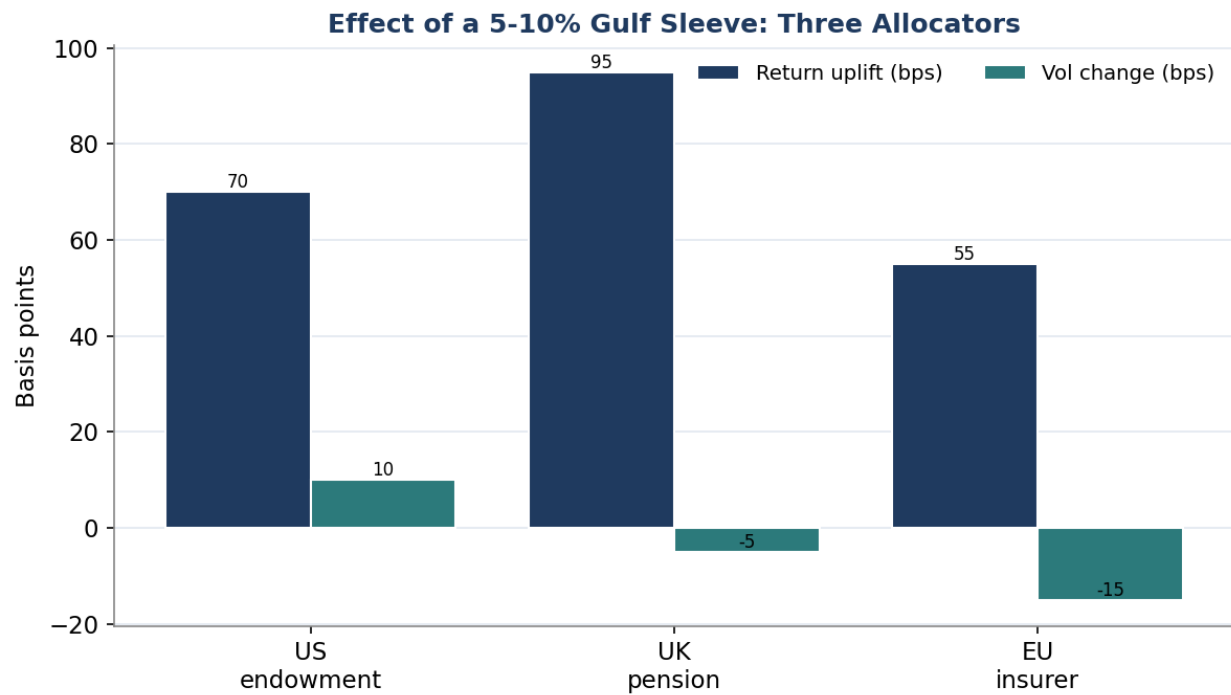
The breadth of the opportunity set is itself part of the case, because it allows the Gulf to function as a diversified, multi-strategy sleeve rather than a single concentrated bet. Real estate offers the most established and accessible entry point, with income and inflation protection. Private credit offers the standout yield opportunity, where well-structured lending against regional real assets can generate double-digit coupons difficult to source at comparable risk elsewhere, consistent with an illiquidity and complexity premium (Ang, 2014). Digital infrastructure, and AI data centres in particular, offers infrastructure-style cash flows with growth optionality as the region positions itself as a compute hub. Fintech offers the highest growth potential and the highest dispersion, and private equity offers equity-like returns with the value-creation upside of an under-intermediated market. An income-oriented institution might lead with real estate and private credit; a growth-oriented one with digital infrastructure, fintech and private equity. In

each case the allocation can be assembled as a diversified sleeve, which is what the diversification result of Section 4.4 assumes.

4.6 Illustrative Allocator Cases

To bring the analysis together, Figure 6 and Table 2 report the modelled effect of adding a measured Gulf sleeve to three representative institutions: a return-seeking United States endowment, a United Kingdom pension and a European insurer.

Figure 6. Effect of a Five-to-Ten Percent Gulf Sleeve: Three Allocators



Modelled return uplift and change in volatility from adding a Gulf sleeve to each portfolio.

Table 2. Allocator Case Summary

Allocator	Sleeve	Return uplift	Volatility change	Rationale
US endowment	7% across RE, PC, VC	+70 bps	+10 bps	Long horizon, return-seeking, illiquidity-tolerant
UK pension	5% in RE and private credit	+95 bps	-5 bps	Income met; diversification lowers total risk
EU insurer	5% in private credit and infra	+55 bps	-15 bps	Yield, capital-efficient and risk-reducing

Modelled figures on the assumptions in Table 1. The pension and insurer see risk fall as well as return rise.

The cases make the central finding concrete. For each institution the sleeve raises expected return, and for the pension and the insurer it does so while reducing overall portfolio volatility, because the Gulf exposure diversifies the risks already on their books. The endowment, starting from a more return-seeking position, accepts a marginal increase in risk for a larger return uplift. The variation across the three illustrates a practical point: the optimal entry differs by institution,

with income-oriented investors favouring real estate and private credit and longer-horizon, return-seeking investors able to incorporate venture and infrastructure. In every case, however, the addition improves the risk-adjusted outcome, which is the result Proposition 4 predicts and which the diversification literature would lead one to expect from a lowly correlated return stream (Markowitz, 1952; Bekaert and Harvey, 2003).

4.7 Macro and Institutional Foundations of the Result

The portfolio result of Sections 4.3 and 4.4 rests on an economic and institutional foundation that warrants explicit discussion, because the durability of both the return premium and the low correlation depends on it. The economy of the United Arab Emirates is materially more diversified than the oil-state shorthand implies, with trade, logistics, tourism, financial services and, increasingly, technology and digital infrastructure contributing alongside hydrocarbons. This diversification, combined with strong sovereign balance sheets, low public debt and a sustained reform agenda that has liberalised ownership, residency and business rules, underpins a macro profile closer to a developed market with emerging-market growth than to the fragile, commodity-dependent profile that the legacy emerging-market classification ascribes to the region.

Three features of this foundation bear directly on the analysis. First, fiscal strength provides a backstop to the economic cycle that dampens volatility, supporting the below-emerging-market volatility assumption used in the model. Second, the reform agenda has deepened the pool of investable activity, expanding the opportunity set documented in Section 4.5 and improving the capacity of the region to absorb institutional capital. Third, the position of the United Arab Emirates as a regional hub gives locally situated assets a catchment far larger than the domestic economy, supporting the durability of returns. None of these features eliminates risk, and Section 6.6 addresses the residual exposures squarely; but together they explain why the favourable risk-adjusted profile identified in the results is grounded in structure rather than in a transient cyclical upswing.

4.8 The Currency Peg as Embedded Risk Reduction

The currency peg deserves separate treatment because it is the single feature that most distinguishes the United Arab Emirates from the emerging markets with which it is grouped, and it is central to the volatility assumption that drives the comparative result. The dirham has been pegged to the United States dollar for four decades and has held that peg through multiple cycles, which removes from a dollar-based allocation the currency volatility and devaluation risk that ordinarily dominate emerging-market return distributions (Bekaert and Harvey, 1997). The practical effect is twofold. For a dollar-based institution, returns from Gulf assets are not subject to the translation risk that erodes local-currency emerging-market returns. For a sterling- or euro-based institution, the exposure becomes effectively a dollar exposure that can be hedged with deep, liquid and inexpensive instruments, rather than an illiquid local-currency exposure that is costly or impossible to hedge.

The peg therefore operates as a standing risk reduction embedded in the asset class, and it is a principal reason the sensitivity analysis of Section 5 finds the currency assumption to be among the least influential inputs to the result: most of the currency variability that would afflict a comparable emerging-market allocation is simply absent. This is not to assume the peg is costless or eternal, a sharp and sustained divergence in monetary conditions could in principle pressure it,

but its durability through past stress, and the sovereign resources available to defend it, justify treating it as a material and persistent risk-reducing feature rather than a fragile arrangement to be discounted.

4.9 Interpreting the Findings for the Allocator

Read together, the results describe a region that is under-owned for removable reasons, that carries a risk-adjusted profile closer to developed than to emerging markets, and that diversifies a global portfolio because its returns are driven by distinct factors. The most important interpretive point for the allocator is that these findings compound. The under-ownership is not merely an anomaly to be noted; it is the source of an early-mover advantage, because the integration literature predicts that the diversification benefit and any associated mispricing diminish as a region is more fully incorporated into global portfolios (Harvey, 1995; Bekaert and Harvey, 2003). An institution that allocates while the gap persists captures the benefit before it erodes and, in doing so, builds the relationships and knowledge that lower the cost of subsequent allocation.

A second interpretive point concerns the nature of the opportunity. The case made here does not depend on a bullish view of any single Gulf asset or on the continuation of recent regional performance; it depends on the structural features, low correlation, embedded currency risk reduction and institutional-grade access, that make a measured allocation improve a global portfolio largely irrespective of the precise return realised. This is a more robust basis for a decision than a directional bet, and it is the basis on which the paper recommends that the allocation be sized against its diversification contribution rather than its standalone return. The findings, in short, support not a speculative position but a structural improvement to portfolio construction, which is precisely the kind of decision an institutional mandate is designed to make.

4.10 Capacity, Market Depth and Scalability

A reasonable question for any allocator considering a new region is whether it can absorb institutional capital at scale without the act of investing itself eroding the opportunity. For the Gulf the answer has shifted decisively over the past decade. The deepening of the Dubai International Financial Centre and Abu Dhabi Global Market, the growth of a domestic and regional manager base, and the expansion of investable activity across real estate, private credit, digital infrastructure and private equity have together raised the capacity of the region to receive foreign institutional capital well beyond the level of a decade ago (Preqin, 2024). The opportunity set documented in Section 4.5 is broad precisely because the underlying markets have grown deep enough to support diversified, multi-strategy allocation rather than a handful of concentrated trades.

Capacity nonetheless remains finite relative to the largest global markets, and this has two practical implications for the allocator. First, an individual institution's allocation should be sized not only to its own portfolio but to the capacity of the strategies and managers it selects, since deploying too much too quickly into a thin strategy raises execution and pricing risk. This reinforces the case, made in Section 6, for pacing across vintages and for beginning through diversified funds. Second, the still-developing secondary market means that liquidity cannot be assumed, and the allocation should be sized to a genuine long horizon with an adequate liquidity reserve. These are constraints to be managed rather than reasons to abstain; they argue for a measured, well-paced entry of exactly the kind this paper recommends, and they are consistent

with the early-mover logic, since capacity and liquidity will broaden further as the region's weight in global portfolios rises.

4.11 The Demand Side: Evidence from Existing Allocators

A useful corroboration of the analytical case comes from the behaviour of investors who already know the region well. Gulf sovereign wealth funds and large regional family offices, the investors with the deepest local information, allocate substantial capital to domestic and regional private markets, and their sustained willingness to do so is informative: it is difficult to reconcile a thesis that the region is unattractive with the revealed preference of its most informed long-horizon investors. The growth in regional alternative-asset activity and in the manager base that serves it provides further evidence that capital is being deployed and intermediated at increasing scale (Preqin, 2024; Invesco, 2024).

There is, in addition, a demonstration effect at work. As a growing number of international institutions establish Gulf allocations and report their experience, the informational and familiarity frictions that the home-bias literature identifies as the cause of under-allocation begin to dissolve (French and Poterba, 1991; Coeurdacier and Rey, 2013). Each credible foreign allocation lowers the perceived cost of the next, which is the mechanism by which the allocation gap will, in time, close. For the allocator weighing a first move, this dynamic cuts in a specific direction: the evidence of informed local demand and of accelerating foreign interest supports acting before the gap closes rather than waiting for the consensus to form, since the diversification benefit and the early-mover advantage are greatest precisely while the region remains under-owned.

It is worth noting that the demand-side and analytical perspectives reinforce one another. The analytical case predicts that an under-owned region with distinct return drivers should offer a diversification benefit; the demand-side evidence shows informed local capital already deployed and foreign interest accelerating; and the integration literature explains why the two will converge as the gap closes. An allocator persuaded by the theory need not rely on it alone, and an allocator persuaded by the revealed behaviour of informed investors need not rely on that alone; the two lines of argument point to the same conclusion from different starting points, which is the strongest form a practical investment case can take.

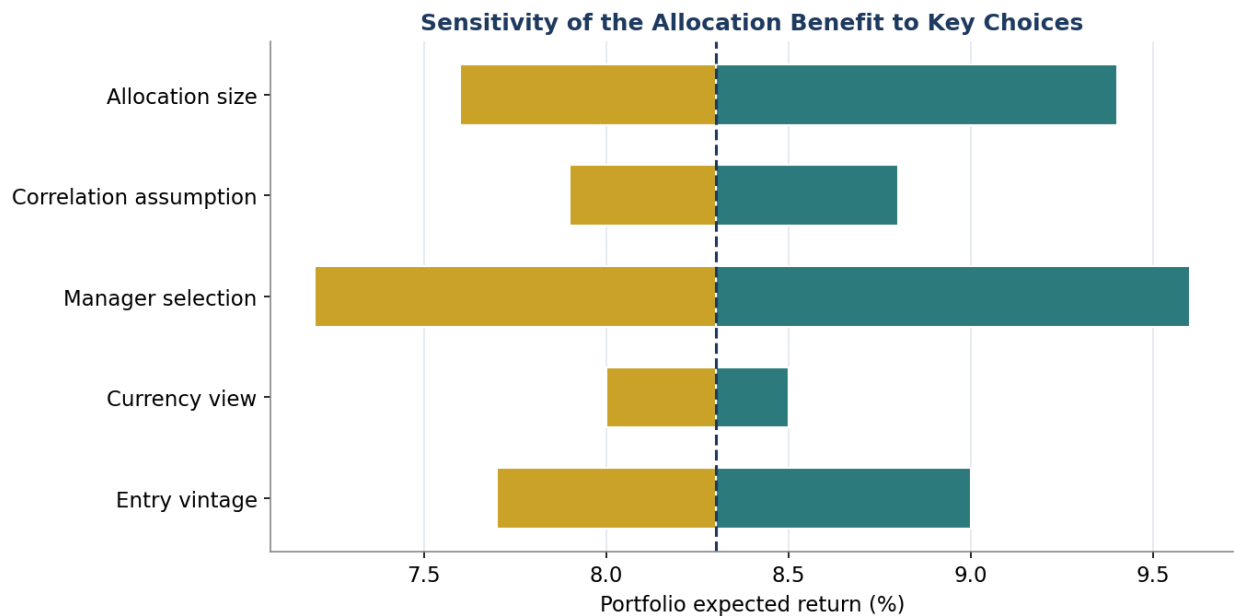
5. ROBUSTNESS AND SCENARIO ANALYSIS

The central result of Section 4, that a measured Gulf sleeve improves a portfolio's risk-adjusted return, rests on assumptions, and a disciplined analysis must establish how sensitive the result is to them and how it behaves under stress. This section addresses Proposition 5 in two ways: a sensitivity analysis of the principal assumptions, and a stressed scenario in which correlations rise as they do in market crises.

5.1 Sensitivity to Key Assumptions

Figure 7 reports the sensitivity of the portfolio outcome to the five inputs that most plausibly affect it, each varied around the base case while the others are held constant.

Figure 7. Sensitivity of the Allocation Benefit to Key Assumptions



Each bar shows the swing in portfolio expected return from varying one assumption around the base case.

The ordering is instructive and consistent with the propositions. Manager selection and the correlation assumption move the result most, which aligns with the analysis: the benefit depends on capturing the region's returns through capable managers (Swensen, 2009; Ang, 2014) and on the low correlation that delivers the diversification dividend (Markowitz, 1952). Allocation size and entry vintage matter but are secondary, and the currency view matters least, because the peg removes most of the variability there. The practical implication is that an institution should concentrate its diligence on manager selection and on validating the correlation benefit against its own portfolio data, the two levers that most determine whether the allocation delivers, rather than on refining assumptions that move the result little.

5.2 The Stressed-Correlation Scenario

The most important robustness test concerns the limit of diversification. The literature establishes that correlations among risky assets tend to rise in periods of severe, globally correlated stress, attenuating the protection of diversification precisely when it is most valued (Longin and Solnik, 2001; Page and Panariello, 2018). To test the result against this, the model is re-run with the correlation between the Gulf sleeve and the global portfolio raised substantially, approximating a crisis in which regional and global markets move together. Under this stressed assumption, the diversification benefit attenuates materially: the frontier improvement narrows, and for the most conservative institutions the risk reduction can disappear, leaving the case resting more on the return premium than on diversification.

Two conclusions follow, and both are reflected in the paper's recommendations. First, the benefit of a Gulf allocation should be claimed with a margin of safety rather than at the level a benign, static correlation assumption would justify; this is why the implementation framework recommends a measured allocation sized conservatively and held with adequate liquidity. Second, even under the stressed scenario the allocation does not become harmful: the return premium persists, and the attenuation is of the diversification benefit rather than a reversal into a concentration penalty. The result of Proposition 4 is therefore robust in direction, though its

magnitude is state-dependent, which is the honest characterisation of any diversification claim (Page and Panariello, 2018).

5.3 Comparison with Alternative Diversifiers

A disciplined allocator will ask whether the diversification the Gulf offers could be obtained more simply from other sources, and the comparison is instructive. A broad emerging-market allocation provides exposure to non-developed-market growth but brings with it the very currency volatility and integration risk that the Gulf, through its dollar peg and institutional infrastructure, largely avoids; the diversification it offers is therefore bundled with risks that the Gulf allocation does not require the investor to bear (Bekaert and Harvey, 1997). Traditional defensive diversifiers such as gold or government bonds reduce risk but contribute little or no income and growth, and in the case of bonds offer diminished diversification in an environment where equity-bond correlations have proved unstable (Page and Panariello, 2018). Other real-asset and private-market diversifiers can be valuable but are often already represented in an institution's existing book, so their marginal diversification contribution is smaller than their standalone profile suggests.

What distinguishes the Gulf sleeve is the combination it offers: a return premium consistent with growth and an illiquidity premium, low correlation grounded in genuinely distinct economic drivers, and a currency arrangement that removes the largest emerging-market risk. It is the conjunction of these features, rather than any one in isolation, that makes the allocation difficult to replicate through existing holdings, and it is the reason the diversification benefit identified in Section 4.4 is additive to, rather than duplicative of, the diversification an institution has typically already achieved. The comparison does not imply that the Gulf should displace other diversifiers; it implies that the Gulf occupies a distinct position in the diversification toolkit that is currently absent from most global portfolios.

6. IMPLEMENTATION CONSIDERATIONS

A persuasive case is of limited value without a practical path to act on it. This section translates the analysis into an implementation framework covering sizing, access, structuring, pacing and manager selection, and addresses the principal risks and their mitigants. The guidance draws on the private-markets and endowment literature, for which disciplined implementation is as important to realised returns as the allocation decision itself (Swensen, 2009; Ang, 2014).

6.1 Sizing the First Allocation

A first Gulf allocation should be large enough to matter to the portfolio and to justify the diligence and relationship-building it requires, yet small enough to respect the institution's genuine familiarity and to be built without straining liquidity. For most institutions a target in the range of three to ten percent of the alternatives or total portfolio, reached over several years, is a sensible envelope, with the precise figure set by mandate, risk appetite and conviction. Two principles govern the sizing. First, the allocation should be sized against its diversification contribution rather than its standalone return, because, as Section 4.4 showed, even a modest sleeve improves the whole portfolio. Second, the first allocation is partly an option: it builds the relationships, local knowledge and manager access that make a larger and better-informed second allocation possible, and it should be valued for that optionality as well as for its direct contribution.

6.2 Access Routes

The route by which an institution takes its exposure shapes cost, control, diversification and the capability required, and the principal routes form a spectrum from commingled funds, through separately managed accounts and co-investment, to direct and joint-venture investment. The sensible path for most institutions is to sequence these routes: begin in funds to build exposure and knowledge with the least operational burden; add co-investment as relationships and capability develop, lowering the blended fee load and lifting net returns; and consider separately managed accounts and direct structures only once the institution has earned the local insight that makes them safe. Matching the route to the institution's stage is among the most important and most frequently rushed decisions in building a regional allocation, and beginning through funds and trusted managers is also the answer to the common and legitimate objection that the institution lacks local capability.

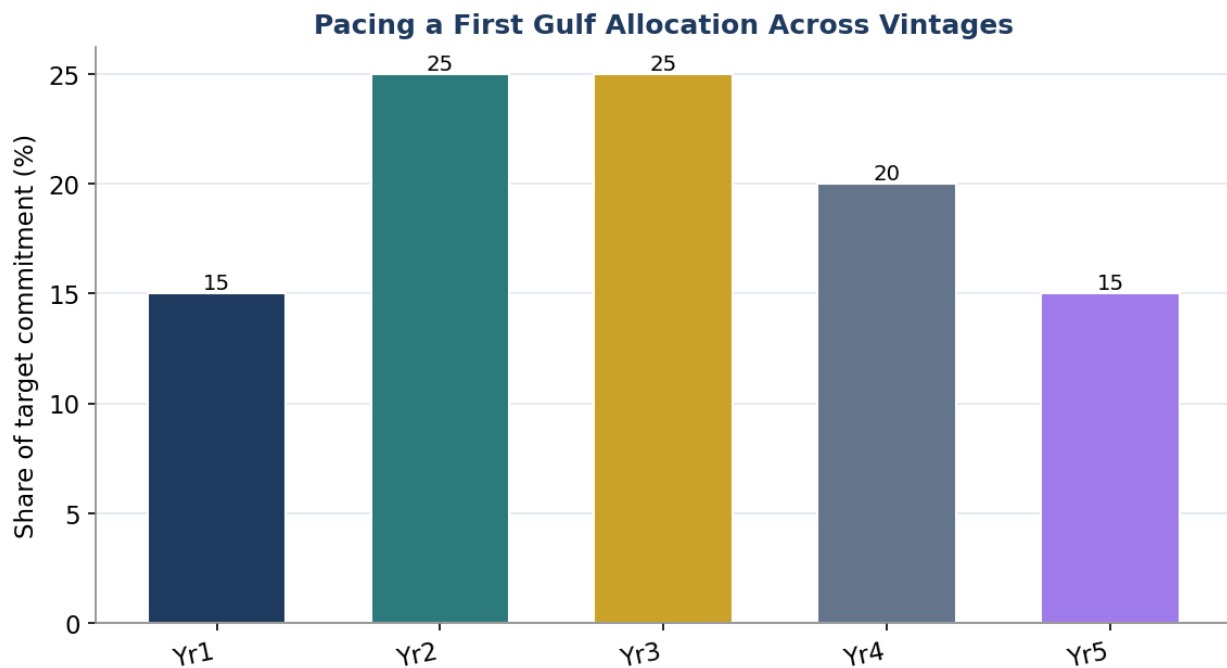
6.3 Structuring and Domicile

The mechanics of holding a Gulf allocation have been transformed by the maturation of the common-law financial centres. An international institution can structure, hold and govern its exposure through Dubai International Financial Centre or Abu Dhabi Global Market vehicles governed by common law, with familiar fund, custody and reporting standards that satisfy both its own governance requirements and those of its regulators. Two practical questions recur and both now have reassuring answers. The United Arab Emirates imposes no exchange controls and permits the free movement of capital and profits, removing the trapped-capital risk that deters allocation to some emerging markets; and the introduction of a corporate tax has been accompanied by regimes preserving neutrality for qualifying investment activity and by an expanding treaty network, so the tax treatment of a properly structured allocation is generally efficient and predictable. The combination of free capital movement and predictable tax treatment removes two of the objections most often raised against a first allocation.

6.4 Pacing Across Vintages

A Gulf allocation, like any private-markets programme, should be built across vintages rather than deployed in a single year. Committing steadily over several years diversifies the entry environment, avoids concentrating the outcome on the conditions of one moment, builds the relationships and knowledge that improve later commitments, and smooths the cash-flow profile as early commitments begin to distribute. Figure 8 illustrates a representative pacing schedule reaching the target allocation over five years.

Figure 8. Pacing a First Gulf Allocation Across Vintages



Illustrative commitment schedule reaching the target allocation over five years.

Beyond its risk-management role, pacing is a discipline that keeps the institution engaged with the market continuously rather than in occasional bursts, and that continuous engagement is what builds the manager access, local intelligence and institutional memory that distinguish allocators who succeed in a region. The institution that paces deliberately is building a capability, not merely a position, and that capability compounds in a way a single opportunistic commitment cannot.

6.5 Manager Selection in a Younger Market

Because the regional private-markets industry is younger than its Western counterparts, manager track records are often shorter, and selection requires a framework adapted to that reality. The institution cannot rely on twenty-year records that do not yet exist; it must instead weight the individual track records of the principals, the clarity and durability of the strategy, the quality of the investment process and the alignment of terms more heavily than fund-level history alone. Two cautions apply with particular force. Operational diligence should be rigorous and independent, since operational maturity cannot be assumed in a younger market; and alignment, meaningful manager commitment and fair, transparent terms, is the best available substitute for the long track record the market cannot yet provide. The literature is clear that manager selection and alignment are decisive for realised private-markets returns (Swensen, 2009), and Section 5 confirmed that selection is among the variables to which the result is most sensitive.

6.6 Risks and Mitigants

The case must be weighed against real risks. The regional economy and some asset values retain a link to the hydrocarbon cycle, mitigated by economic diversification, the sovereign backstop and the selection of assets with structural rather than cyclical demand. Private Gulf assets are illiquid and the secondary market is still developing, mitigated by sizing the allocation to a genuine long horizon and maintaining a liquidity reserve. The region carries geopolitical risk, mitigated by the stability and neutrality of the United Arab Emirates, the dollar peg and

diversification across the portfolio. And disclosure and data standards, while improving, can lag the most developed markets, mitigated by using the financial-centre regimes and insisting on institutional reporting. None of these risks is trivial, but each is manageable with the structuring, selection and pacing disciplines described above, and each is already reflected in the return premium the region offers; the allocator's task is to be paid appropriately for the risks it chooses to bear, and on that test the Gulf compares well.

6.7 A Phased Entry Framework

The implementation guidance of this section can be drawn together into a phased entry framework that sequences the allocation over time as capability and conviction grow. In the first phase, typically the first one to two years, the institution builds initial exposure through diversified, commingled funds managed by carefully selected regional managers, using the financial-centre regimes for structure and governance and committing a modest share of the target allocation in order to learn the market with limited operational burden. In the second phase, as relationships, knowledge and internal capability develop, the institution adds co-investment alongside trusted managers, lowering the blended fee load and concentrating capital in chosen transactions, while continuing to commit to funds across vintages to maintain diversification of entry timing.

In the third phase, reserved for institutions that have earned genuine local insight and scale, separately managed accounts and selective direct or joint-venture investment become appropriate, offering the lowest cost and the greatest control. The virtue of this phased approach is that it aligns the route to exposure with the institution's evolving capability, it never requires the institution to take operational or selection risk it is not yet equipped to bear, and it treats the first allocation explicitly as an investment in the optionality of a larger and better-informed second allocation. It also operationalises the paper's central recommendation, that the Gulf be approached as a deliberate, paced programme rather than an opportunistic trade, and it converts the analytical case of the preceding sections into a concrete sequence an investment committee can adopt.

6.8 Governance and Monitoring of the Allocation

A Gulf allocation, once made, should be governed and monitored with the same discipline applied to any other part of the portfolio, and several practices follow directly from the analysis. Because the case rests on diversification and on net-of-fee return, the allocation should be monitored against a net-of-fee benchmark and reviewed at least annually for whether it is delivering the diversification contribution that justified it, rather than judged on standalone return alone. The correlation of the sleeve with the rest of the portfolio, the central uncertain input identified in Section 5, should be tracked as data accumulate, so that the institution can confirm or revise the assumption on which the allocation was predicated and respond if the diversification benefit proves weaker than modelled.

Governance should also address the risks catalogued in Section 6.6 on an ongoing basis: liquidity should be monitored against commitments and a reserve maintained; manager performance and operational integrity should be reviewed with the rigour that a younger market warrants; and concentration, by sector, manager and vintage, should be measured so that the sleeve remains the diversified, multi-strategy allocation the analysis assumes rather than drifting into a concentrated position. Finally, the institution should treat each annual review as an opportunity to reassess the

size and composition of the allocation as its capability and conviction grow, scaling toward the target envelope deliberately. Approached in this way, the allocation becomes a governed programme that compounds institutional knowledge over time, which is both the source of its long-run advantage and the best protection against the risks it carries.

6.9 Common Objections Reconsidered

It is useful to close the implementation discussion by addressing directly the objections most often raised against a first Gulf allocation, since each, examined against the analysis, turns out to argue for a considered first step rather than for continued absence.

"It is too small to matter." A sleeve of five to ten percent that improves the whole portfolio's risk-adjusted return is not too small to matter; the diversification result of Section 4.4 shows that even a modest allocation does work disproportionate to its size, and smallness is an argument for a measured first step rather than for staying out.

"It is too risky." On the currency- and risk-adjusted basis established in Section 4.3, the United Arab Emirates sits closer to a developed-market risk profile than to the broad emerging-market complex; the perception of risk exceeds the measured reality, and the residual risks are compensated and manageable, as Section 6.6 sets out.

"We lack the local capability." This is precisely why the phased entry framework begins with funds and trusted managers, which supply the capability while the institution builds its own; the objection argues for the recommended sequence, not against the allocation.

"We can obtain the same exposure elsewhere." Section 5.3 showed that the Gulf sleeve's combination of return premium, low correlation grounded in distinct drivers, and embedded currency-risk reduction is difficult to replicate through holdings an institution typically already has; the diversification it provides is additive rather than duplicative.

Each objection, in other words, is real as an instinct but weak as a conclusion. Naming them explicitly is part of the discipline of deciding on the merits rather than by default, and in each case the considered response points toward a deliberate, well-paced first allocation of the kind this paper recommends.

7. CONCLUDING COMMENTS

This paper has examined why global institutional portfolios remain markedly underweight the Gulf and has set out the case for a deliberate allocation to the United Arab Emirates by international pensions, insurers, endowments and fund-of-funds. Organising the analysis around five propositions and a transparent, stylised allocation framework, it has reached a consistent set of findings. The allocation gap is real and substantial: the region's weight in global institutional portfolios sits several multiples below its weight in the global economy and in investable markets (Proposition 1). That gap is best explained not by a considered judgement that the opportunity is unattractive but by a set of structural and behavioural frictions, benchmark inertia, legacy classification, access cost and home bias, that the diversification and home-bias literatures would predict and that are eroding as the region matures (Proposition 2).

On the merits, the case is strong on every dimension an institution weighs. On a currency- and risk-adjusted basis the United Arab Emirates resembles a developed market with a growth premium more than it resembles the emerging-market complex with which it is classified,

because the dollar peg removes the currency risk that dominates emerging-market volatility and the common-law financial centres provide institutional-grade infrastructure (Proposition 3). Most importantly, because Gulf returns correlate only loosely with global equities and bonds, a measured allocation raises a representative portfolio's expected return without increasing, and frequently while reducing, its risk, a result that speaks directly to the institutional mandate of improving risk-adjusted return (Proposition 4). That benefit is sensitive to the correlation assumption and to manager selection and attenuates under a stressed, high-correlation scenario, so it should be claimed with a margin of safety; but it is robust in direction, and even under stress the allocation does not become harmful (Proposition 5).

The implications for the allocator are direct. The under-allocation to the Gulf is, on the evidence assembled here, a foregone diversification opportunity rather than a correctly avoided risk, and it is of the kind the home-bias literature identifies as costly (French and Poterba, 1991; Coeurdacier and Rey, 2013). An institution that recognises the gap as an artefact of habit and structure, and that acts deliberately while it persists, stands to capture both the risk-adjusted return on offer and an early-mover advantage that the integration literature suggests will diminish as the region's weight in global portfolios rises toward its economic significance (Bekaert and Harvey, 2003). The practical path is equally clear: size a first allocation to matter without straining familiarity, enter through funds and trusted managers, structure through the financial centres, select with rigour adapted to a younger market, and build steadily across vintages. Framed this way, a Gulf allocation is not an exotic gamble but a disciplined improvement to a global portfolio.

The study is subject to important limitations, which also define its contribution. It is analytical rather than empirical: its quantitative results rest on forward-looking, clearly-labelled assumptions rather than on estimates from a comprehensive return dataset, a choice appropriate to a prospective allocation question but one that necessarily trades precision for transparency. The parameters, particularly the correlation between Gulf assets and global markets, are indicative and should be validated by each institution against its own data and live market inputs before acting; the analysis provides the structure of the argument, not a substitute for that diligence. The framework is deliberately simple and does not attempt a formal optimisation, which would convey false precision given the uncertainty in the inputs. These limitations point directly to the most valuable avenues for further research: the construction of a robust, investable return series for Gulf private and public assets; empirical estimation of the correlation structure and its behaviour in stress; and study of how that correlation evolves as the region integrates further into global capital markets. As the data infrastructure of the region's markets matures, the analytical case made here can and should be subjected to formal empirical test. In the meantime, the weight of the argument, theory, structure and the direction of the modelled evidence, favours the allocator who moves deliberately while the gap, and the advantage of being early, remains open.

A final reflection concerns timing. The trajectory of the region is toward fuller integration into global capital markets, deeper and more liquid private-asset markets, and, in due course, a larger weight in the benchmarks that direct so much institutional capital. Each of these developments will, over time, narrow the allocation gap that this paper documents and, with it, the early-mover advantage available to those who act now. The integration literature is clear that the diversification benefit and any associated mispricing of an under-owned market diminish as it is incorporated into global portfolios (Bekaert and Harvey, 2003); the implication is that the most favourable moment to establish a Gulf allocation is while the region remains under-owned and

the frictions that explain the gap remain in place. The institution that builds its allocation, its relationships and its regional knowledge ahead of that integration will be positioned to benefit from it, while the institution that waits until the case is universally accepted will find much of the advantage already priced away. The argument of this paper is therefore not only that a Gulf allocation improves a global portfolio, but that the window in which it does so most powerfully is open now and will not remain open indefinitely.

In sum, the contribution of this paper is to bring an established theoretical apparatus, international diversification, the home-bias puzzle, emerging-market integration and the illiquidity premium, to bear on an under-examined but increasingly important case, the allocation of global institutional capital to the United Arab Emirates and the wider Gulf. The analysis suggests that the prevailing under-allocation is a foregone diversification opportunity rather than a correctly avoided risk, that the region's risk-adjusted and currency-adjusted profile has been mispriced by its legacy classification, and that a measured, well-implemented allocation can improve a global portfolio in a manner that speaks directly to the institutional mandate. The propositions advanced here are framed to be testable, and their empirical validation as the region's data infrastructure matures is the natural next step. For the practitioner, however, the direction of the evidence is already sufficient to warrant placing the Gulf on the allocation agenda, and to reward the institution that approaches it with the deliberation, discipline and patience that this paper has sought to set out.

DISCLOSURES

The author is an independent researcher and transaction advisor who advises institutional and family-office investors on, among other matters, capital allocation and structuring related to the markets discussed in this paper, and may have professional or commercial interests in transactions involving the Gulf region. This paper is provided for information and educational purposes only; it does not constitute investment, tax or legal advice, an offer or solicitation, or a recommendation to buy or sell any security or to pursue any investment strategy. The figures presented are modelled and illustrative, are not forecasts, and should be independently verified. Readers should obtain advice appropriate to their own circumstances and jurisdiction before acting.

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APPENDIX A. BASE-CASE ASSUMPTIONS

Table 3. Full Parameter Set for the Stylised Allocation Model

Parameter	Indicative value
Developed-market expected net return	6.8% p.a.
Emerging-market expected net return	8.5% p.a.
United Arab Emirates expected net return	9.2% p.a.
Developed-market volatility	13.0% p.a.
Emerging-market volatility	18.5% p.a.
United Arab Emirates volatility	11.0% p.a.
Correlation, Gulf sleeve to global portfolio (base)	0.40 to 0.45
Correlation, stressed scenario	0.70+

First-allocation target sleeve	5% to 10%
Build / pacing period	5 years
Currency	AED pegged to USD

Indicative, forward-looking assumptions used to illustrate the analysis; not forecasts.

APPENDIX B. GLOSSARY

The following terms are used in this paper. Definitions are provided for the general reader and are not intended as formal legal or accounting definitions.

Allocation gap The difference between a region's or asset class's weight in the global economy or investable markets and its weight in institutional portfolios; here, the shortfall in global institutional exposure to the Gulf relative to its economic and market significance.

Abu Dhabi Global Market (ADGM) A common-law international financial centre and free zone in Abu Dhabi, with its own independent regulator and English-language courts, offering fund, company and foundation regimes used by international investors.

Benchmark inertia The tendency for capital to flow in proportion to index weights, so that markets under-represented in major indices remain structurally under-owned regardless of their fundamental merits.

Carried interest (carry) The share of investment profits paid to a fund manager, typically above a hurdle rate; a principal component of private-markets fee structures.

Correlation A statistical measure, between minus one and plus one, of how closely the returns of two assets move together; low correlation between an asset and a portfolio is the source of diversification benefit.

Currency peg A fixed exchange rate maintained between one currency and another; the United Arab Emirates dirham (AED) has been pegged to the United States dollar for four decades.

Developed markets The most economically advanced and financially integrated markets (for example the United States, the United Kingdom, the Eurozone and Japan), typically characterised by deep liquidity, strong institutions and lower expected returns than emerging markets.

Diversification dividend The reduction in overall portfolio risk, for a given level of expected return, achieved by adding an asset or sleeve whose returns are lowly correlated with the existing portfolio.

Dubai International Financial Centre (DIFC) A common-law international financial centre in Dubai, with an independent regulator and English-language courts, widely used to structure and govern regional investment vehicles.

Efficient frontier The set of portfolios offering the highest expected return for each level of risk; adding a lowly correlated asset can shift the frontier upward and to the left, improving the available trade-off.

Emerging markets Economies in the process of integrating with global capital markets, typically offering higher expected returns and higher volatility than developed markets, and often carrying significant currency risk.

Endowment model An approach to institutional investing, associated with David Swensen at Yale, that emphasises long horizons, significant allocations to illiquid and alternative assets, and the harvesting of an illiquidity premium.

Fund-of-funds An investment vehicle that allocates capital across multiple underlying funds rather than directly to assets, providing diversification and manager selection at the cost of an additional fee layer.

Home bias The well-documented tendency of investors to hold a disproportionately large share of their portfolios in domestic assets relative to the allocation that international diversification theory would prescribe.

Hurdle rate The minimum return a fund must deliver to investors before the manager becomes entitled to carried interest; also called the preferred return.

Illiquidity premium The additional expected return that compensates investors for holding assets that cannot be readily or quickly sold without a price concession.

Integration (market) The process by which a national or regional market becomes more fully incorporated into global capital markets; integration tends to raise correlations and reduce the diversification benefit a market offers over time.

JEL classification The Journal of Economic Literature system of codes used to categorise economics and finance research by subject area.

Mean-variance framework The standard portfolio-construction approach, introduced by Harry Markowitz, that selects portfolios on the basis of expected return and variance (risk), accounting for the correlations among assets.

Private credit Lending to companies or against assets outside the public bond and bank markets, typically offering higher yields in exchange for illiquidity and complexity.

Risk-adjusted return A measure of return relative to the risk taken to achieve it; an allocation can improve risk-adjusted return either by raising return for a given risk or by lowering risk for a given return.

Separately managed account (SMA) A bespoke investment mandate managed for a single institution, offering greater control and better economics than a commingled fund.

Sleeve A discrete allocation to a particular strategy, asset class or region within a broader portfolio.

Sovereign wealth fund (SWF) A state-owned investment fund that manages national savings, often derived from commodity revenues or foreign-exchange reserves; the Gulf is home to several of the world's largest.

Sukuk A Shariah-compliant financial certificate, often described as an Islamic bond, structured to comply with the prohibition on interest by conferring ownership in an underlying asset or its cash flows.

Vintage The year in which a fund or commitment begins investing; diversifying commitments across vintages spreads the risk associated with the conditions of any single entry point.

Volatility The degree of variation in an asset's returns over time, commonly measured by standard deviation and used as a proxy for risk.