

# Further Growth and Opportunity in Shariah Compliant Investment Funds & Superannuation

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A nighttime photograph of the Sydney Opera House and the Sydney Harbour Bridge. The Opera House is on the left, illuminated with warm lights. The Bridge is a large steel arch spanning the water, also illuminated. The city lights are visible in the background under a dark sky.

## *Disclaimer*

*The information presented on these slides is not advice and is intended to provide general information only. It does not take into account your individual needs, objectives or personal circumstances.*





When America sneezes,  
the rest of the world catches a cold

&

The Umbilical cord is the US dollar

*01*



Orange – Dow Jones

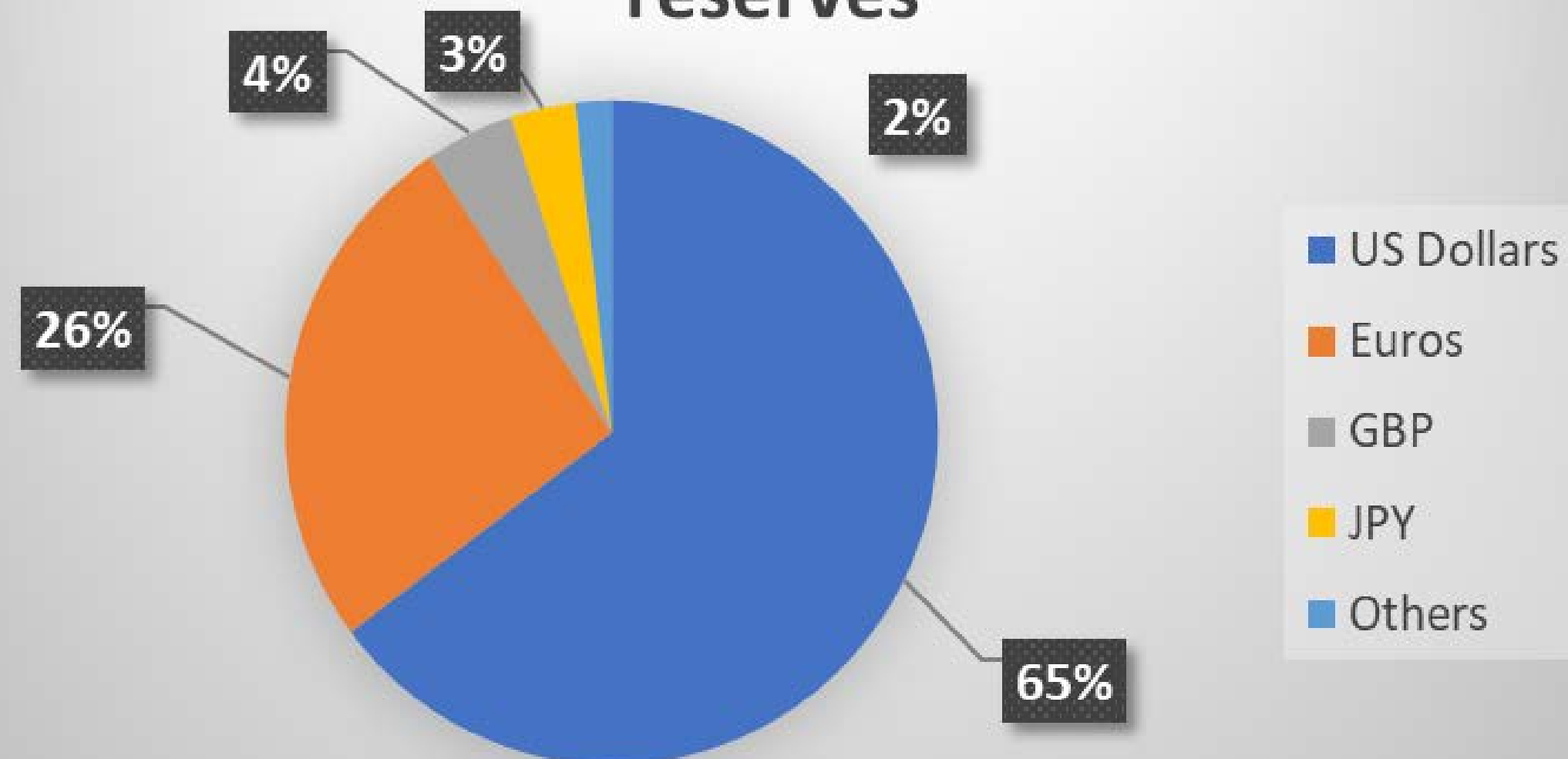
Green – Hang Seng

Purple– ASX200



# The importance of the US Dollar

Currency composition of Worldwide reserves



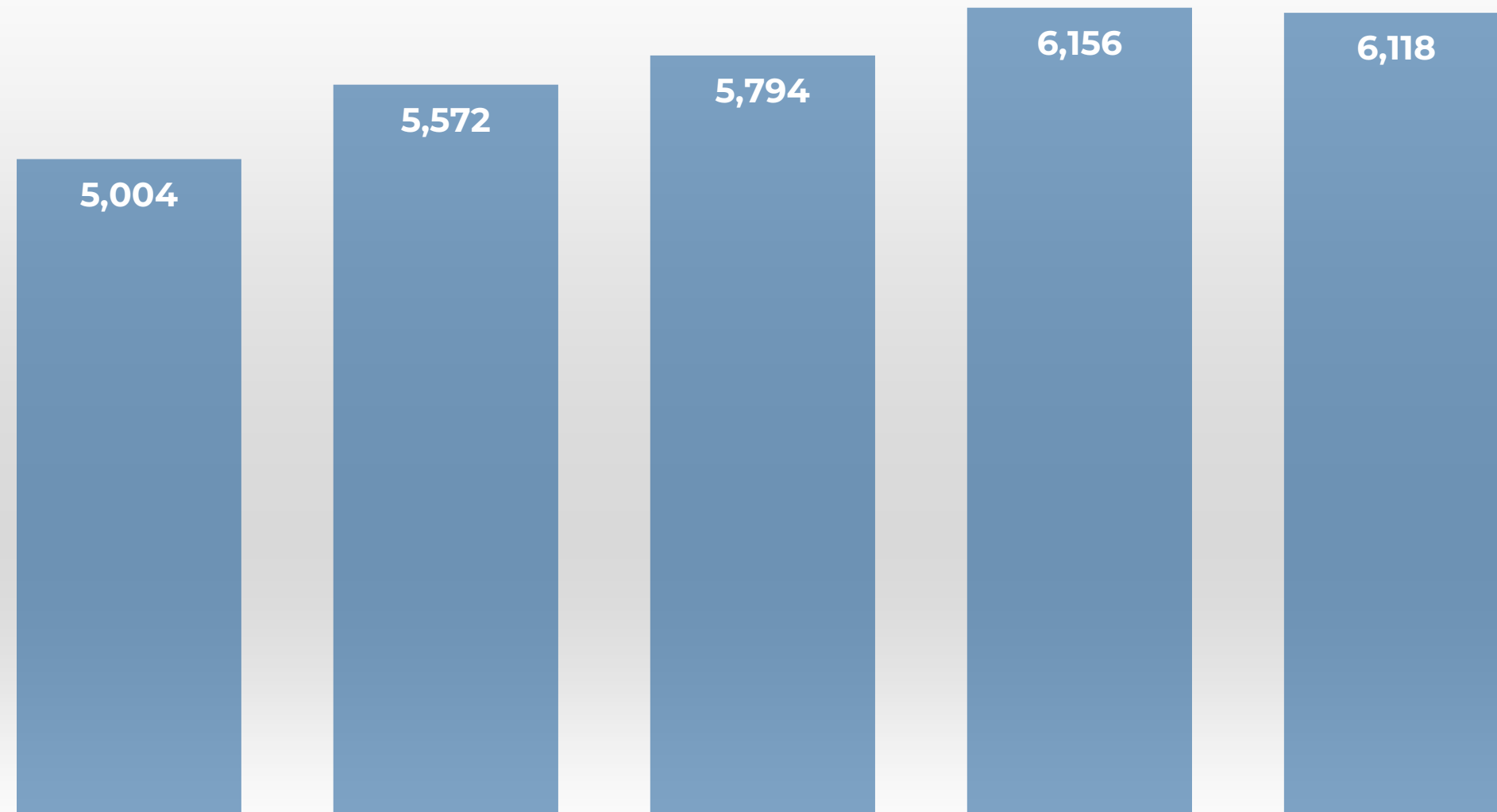
Source: International monetary fund

Country	Region	Currency	Code	Peg Rate	Since
<i>Bahrain</i>	ME	Dollar	BHD	0.376	2001
<i>Djibouti</i>	Africa	Franc	DJF	177.721	1973
<i>Eritrea</i>	Africa	Nakfa	ERN	15.000	2005
<i>Hong Kong</i>	Asia	Dollar	HKD	7.75	1998
<i>Jordan</i>	ME	Dinar	JOD	0.709	1995
<i>Lebanon</i>	ME	Pound	LBP	1507.5	1997
<i>Oman</i>	ME	Riyal	OMR	0.3845	1986
<i>Qatar</i>	ME	Riyal	QAR	3.64	2001
<i>Saudi Arabia</i>	ME	Riyal	SAR	3.75	2003
<i>UAE</i>	ME	Dirham	AED	3.6725	1997

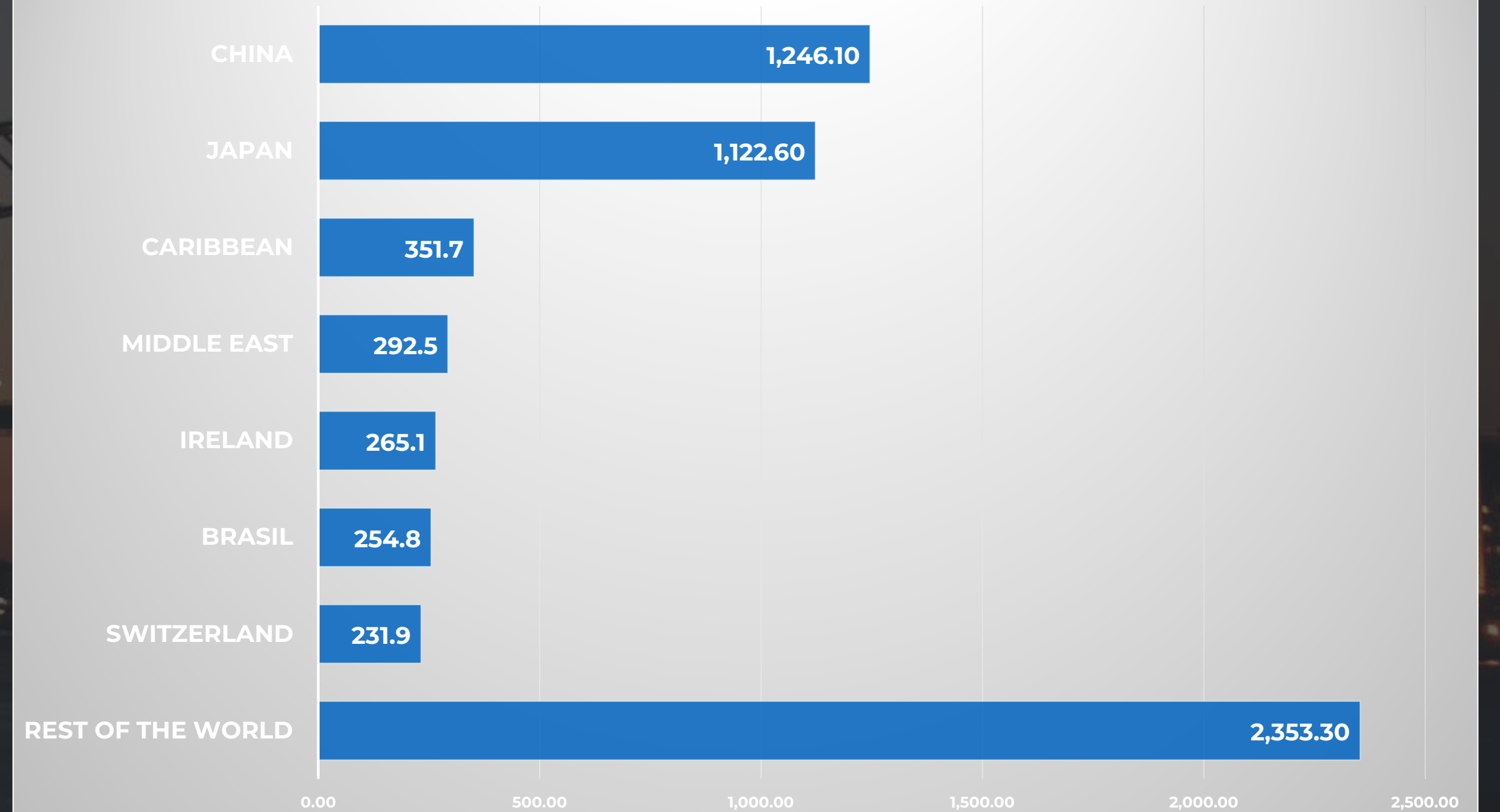
Source: Investopedia

# The importance of the US Dollar

Foreign holdings of US Debt \$trillion

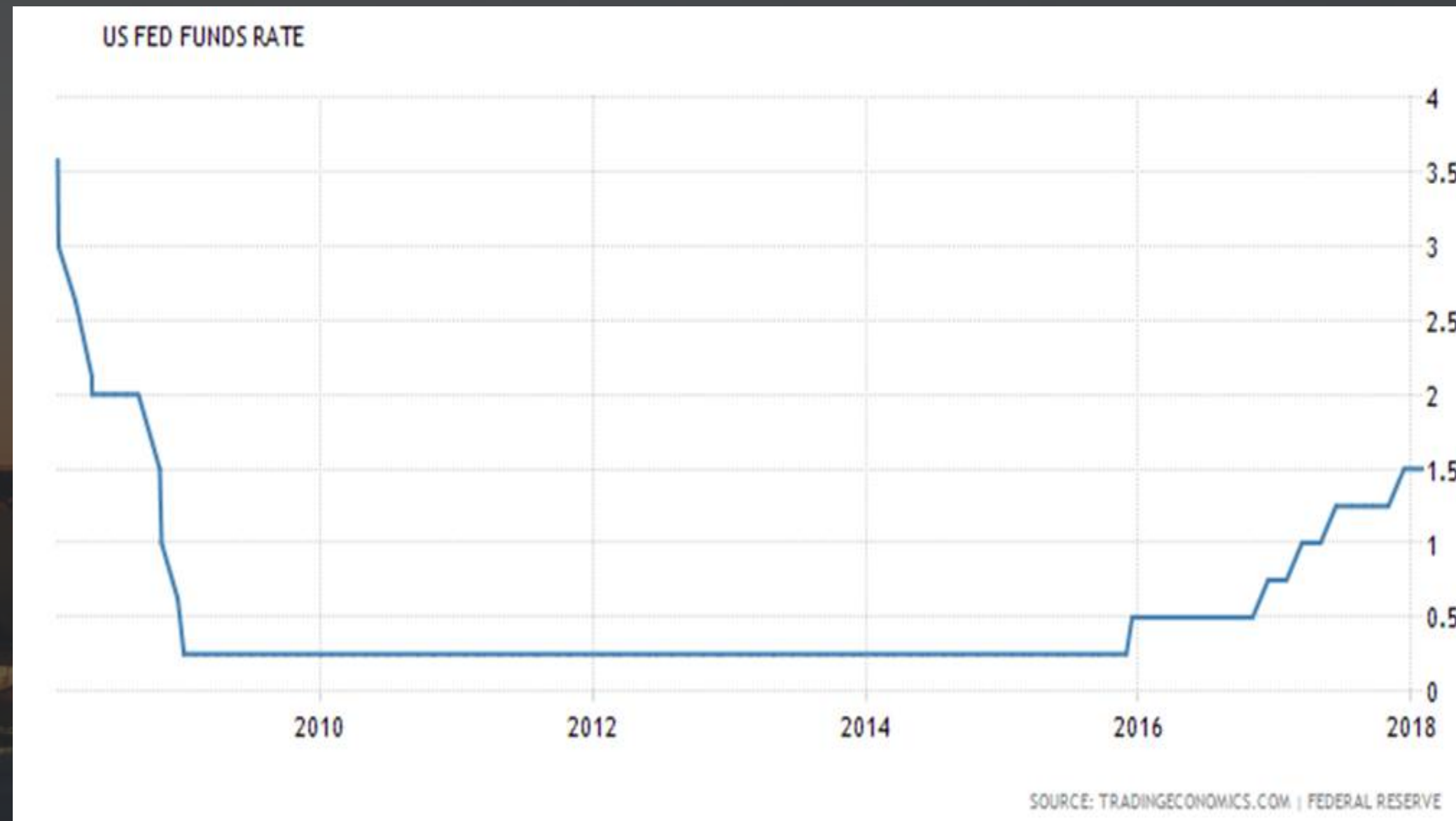


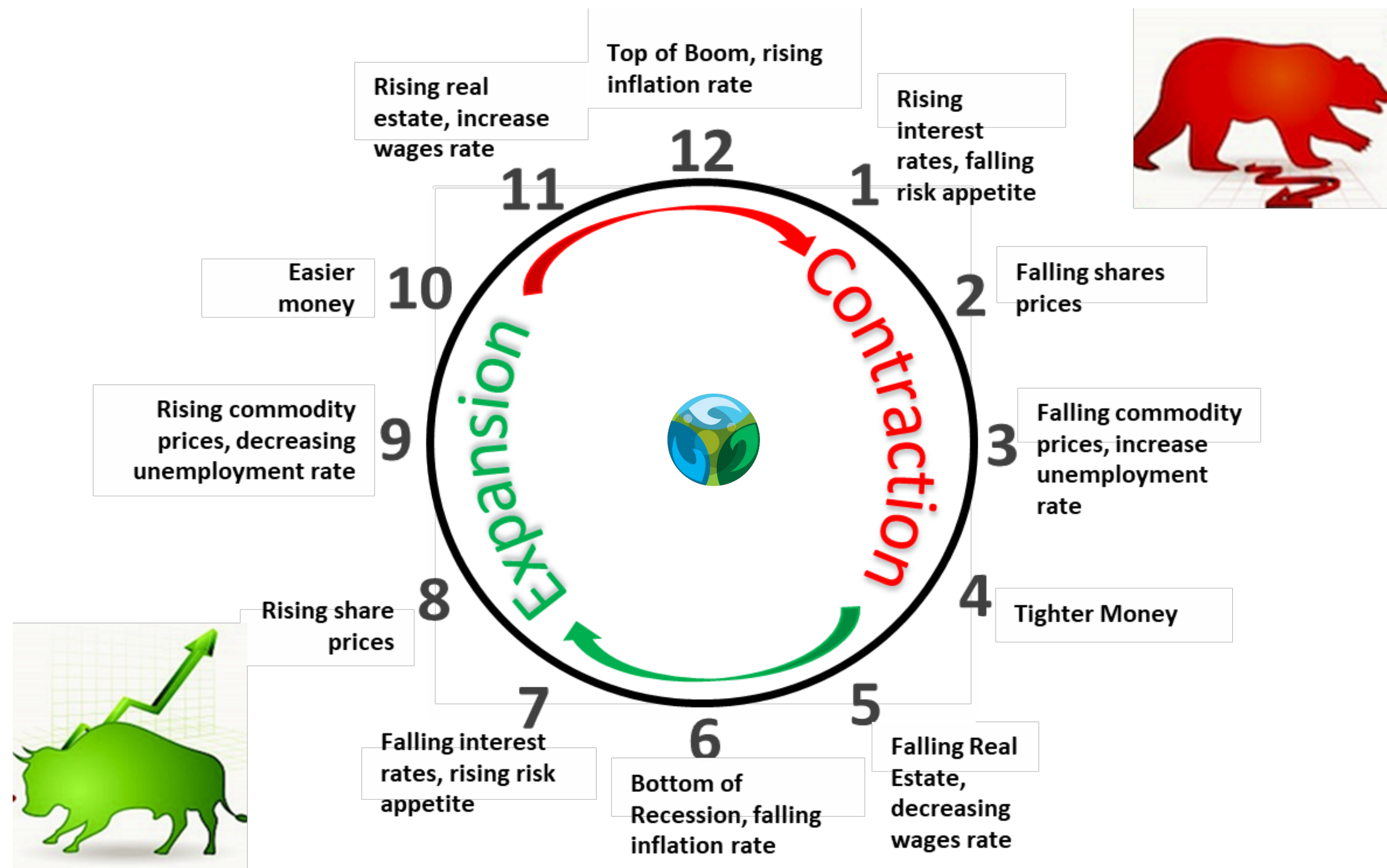
Foreign holdings of US Debt 2016 \$billion





# US Economic Data







# Global Funds management industry 2017

Global AUM Trillion \$USD



Global AUM Trillion \$USD





# Global Islamic Funds management industry

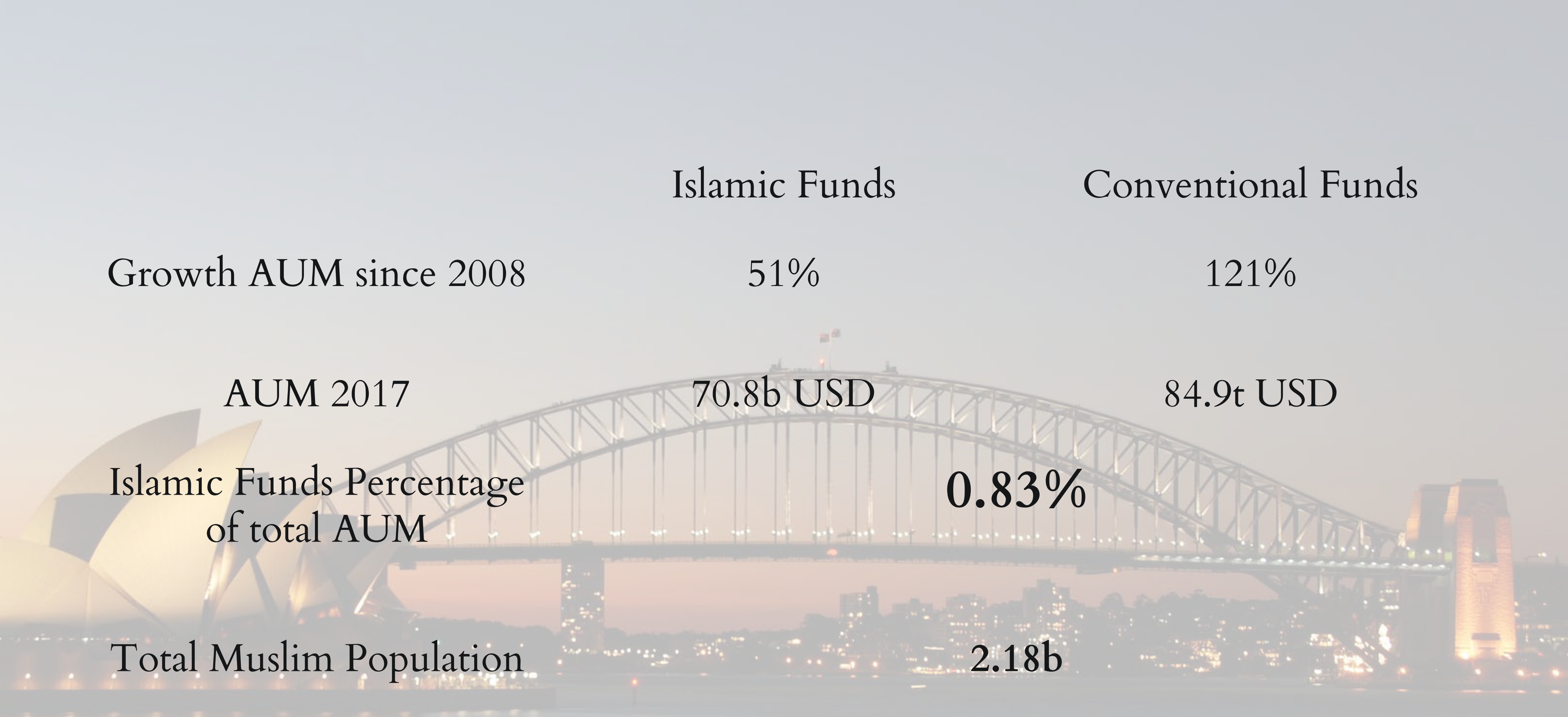
Global Islamic AUM Billion \$USD



Global Islamic AUM Billion \$USD







	Islamic Funds	Conventional Funds
Growth AUM since 2008	51%	121%
AUM 2017	70.8b USD	84.9t USD
Islamic Funds Percentage of total AUM	0.83%	
Total Muslim Population	2.18b	
Total Muslim Population %	28.26%	
Average growth in AUM per year	5.1%	12.1%

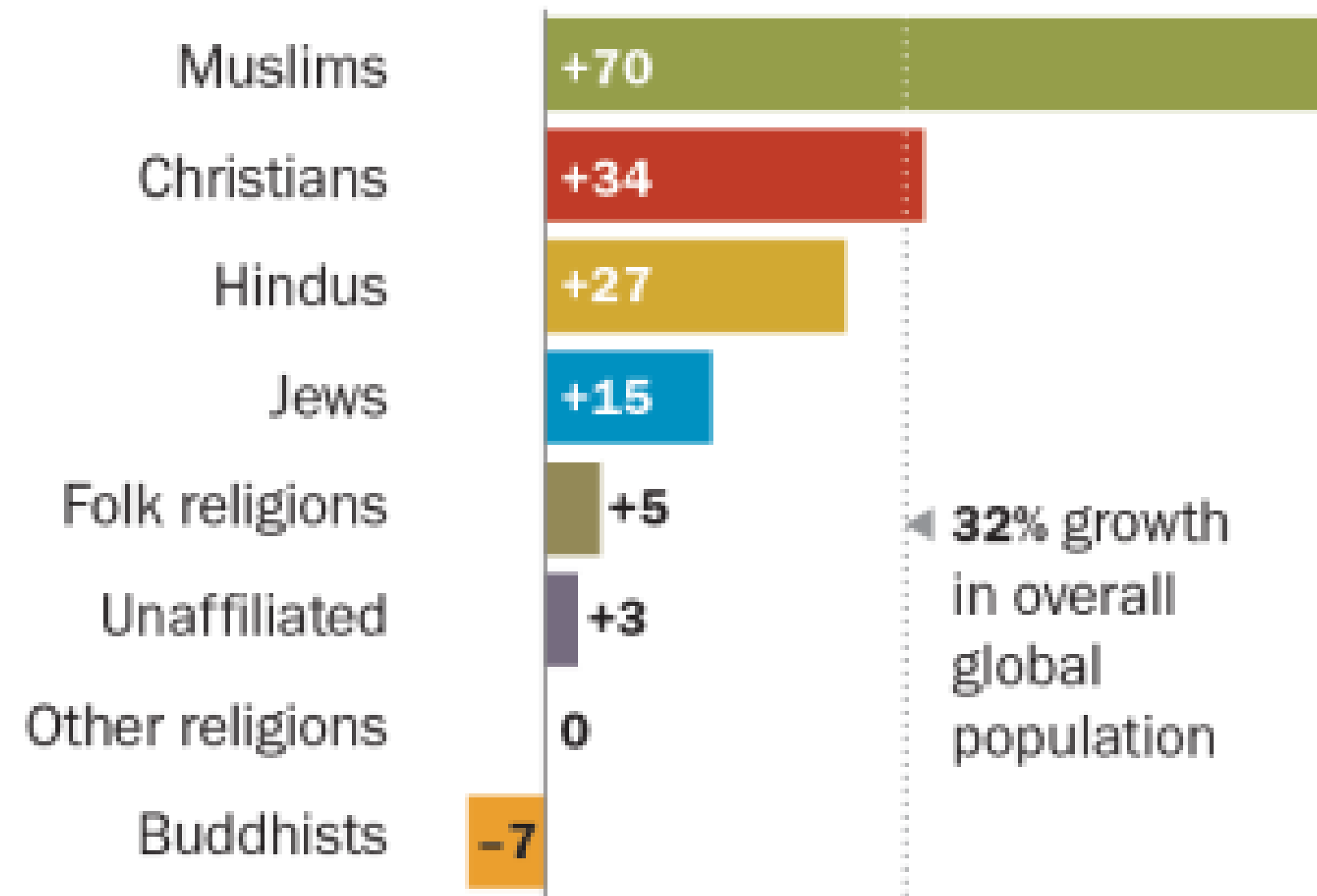
Source: Global Ethical Fund analyst team

Potential size \$24t USD



## Muslims projected to be fastest-growing major religious group

*Estimated percent change in population size, 2015-2060*



Source: Pew Research Center demographic projections. See Methodology for details.

"The Changing Global Religious Landscape"

PEW RESEARCH CENTER

## Islam will be largest religion in the world by 2070, says report



Muslim men kneel on Broadway Ave. as they take part in afternoon prayers CREDIT: CARLO ALLEGRI/X90181

By **Olivia Rudgard**, RELIGIOUS AFFAIRS CORRESPONDENT

1 MARCH 2017 • 5:44 PM

Islam is the only religion growing faster than the world's population, and it will be the largest in the world by 2070, research has found.



A nighttime photograph of the Sydney Opera House and the Sydney Harbour Bridge, illuminated against a dark sky. The Opera House's white, sail-like structure is prominent on the left, while the bridge's steel arch spans the background. City lights are visible in the distance.

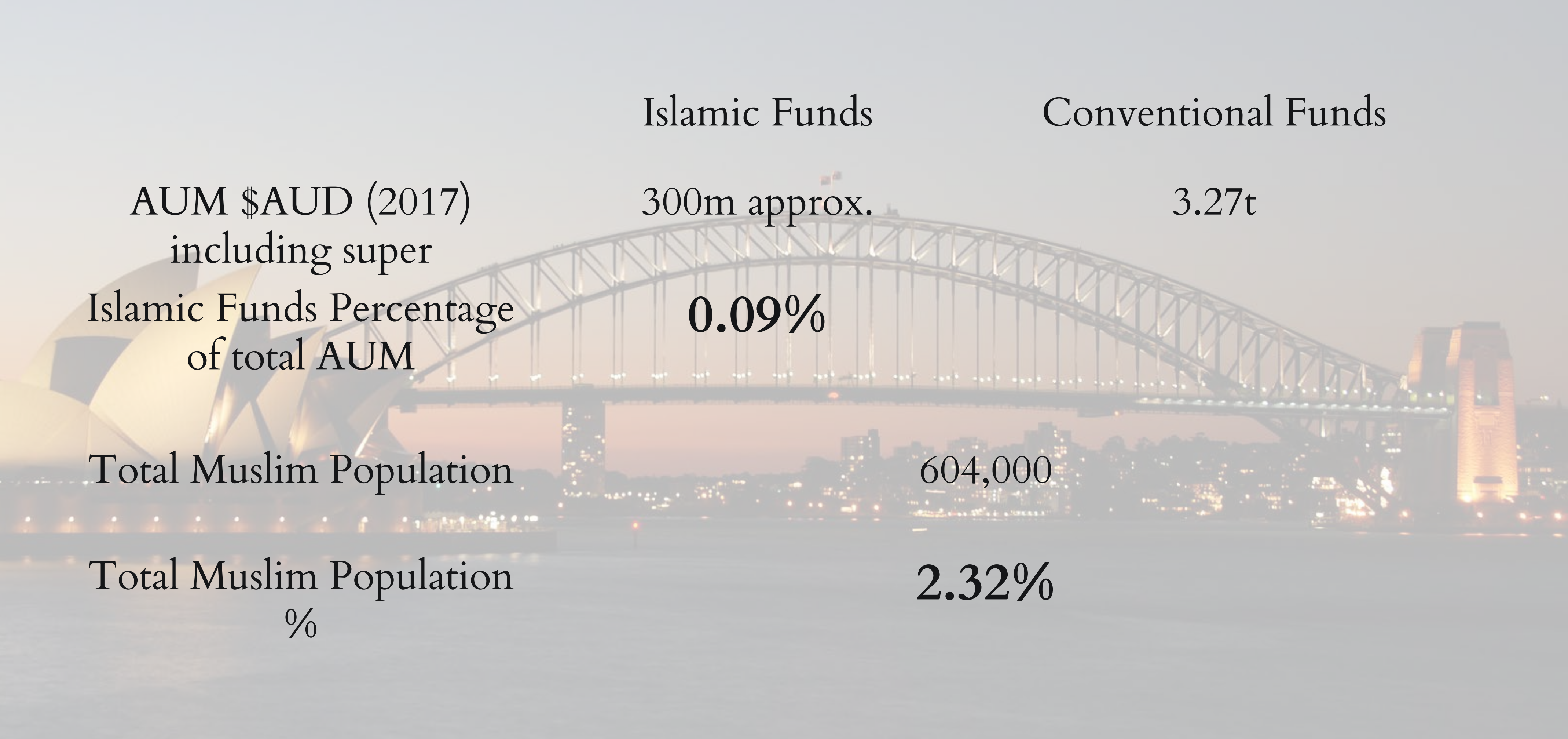
# Islamic market and the need for services in Australia

- Latest figures show Islam as the second largest religion in Australia
- Fastest growing religion in Australia with 77% increase in past decade
- 604,000 declared Muslims in Australia
- Estimated to be 10m by 2055

02



# Global Funds management industry 2017



Source: Global Ethical Fund analyst team

Potential size \$7.58b AUD



# Demand for Islamic financial products

## **Islamic finance sector set to lose growth momentum in 2018**

S&P Global Ratings says slowdown in key markets, depreciation of local currencies to weigh on industry



**Islamic finance in 2018: slow growth is the new normal**



# Why is demand not high for Islamic asset management

According to some industry experts, the result is a combination of the following:

- The impact of policy responses to the decline of oil prices in core markets
- The lack of standardisation in the industry, which is still made up of a collection of small industries
- Lack of consistent performance, and
- Insufficient Islamic community awareness and *desire*





# Impact of Oil policy and Revenue

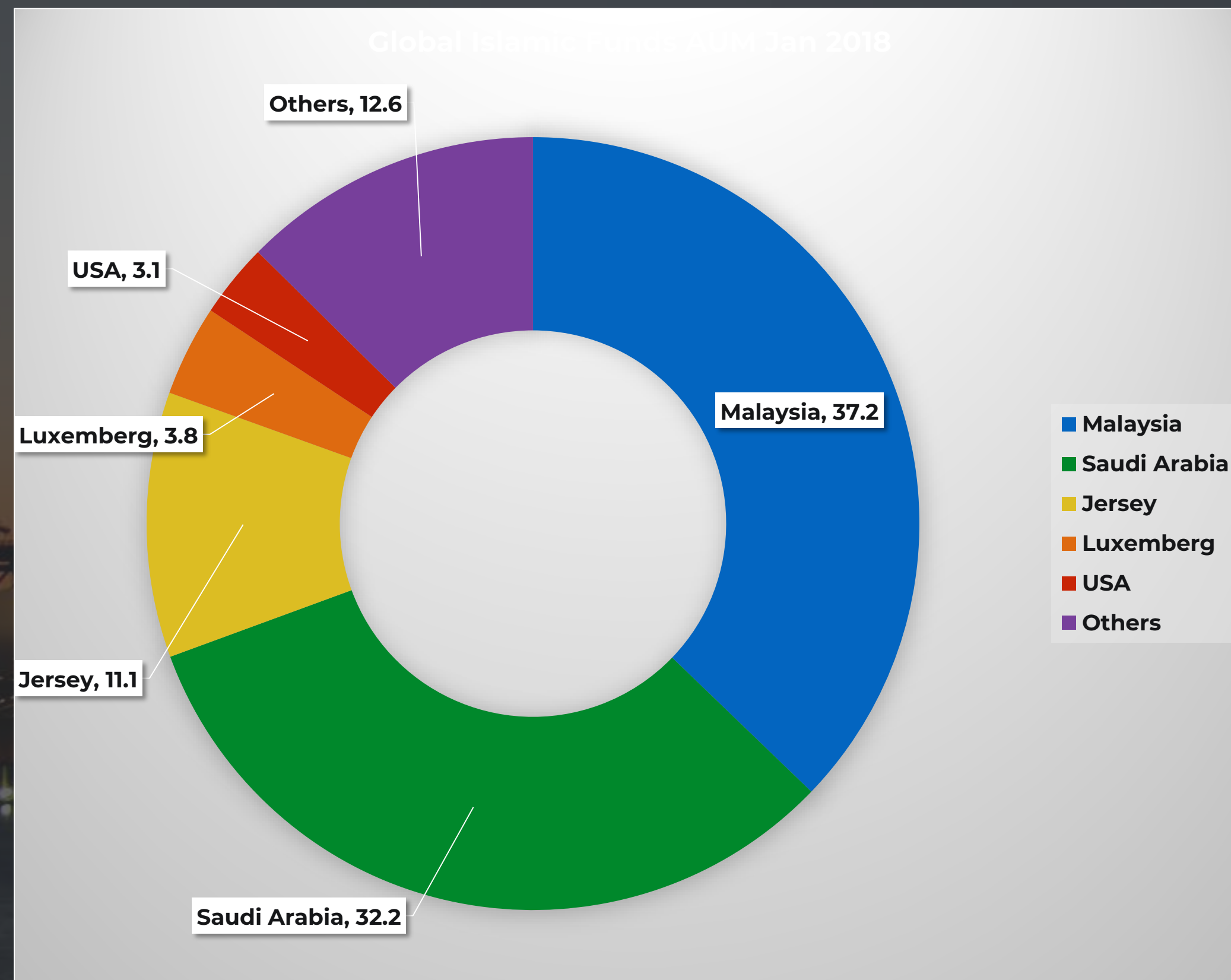
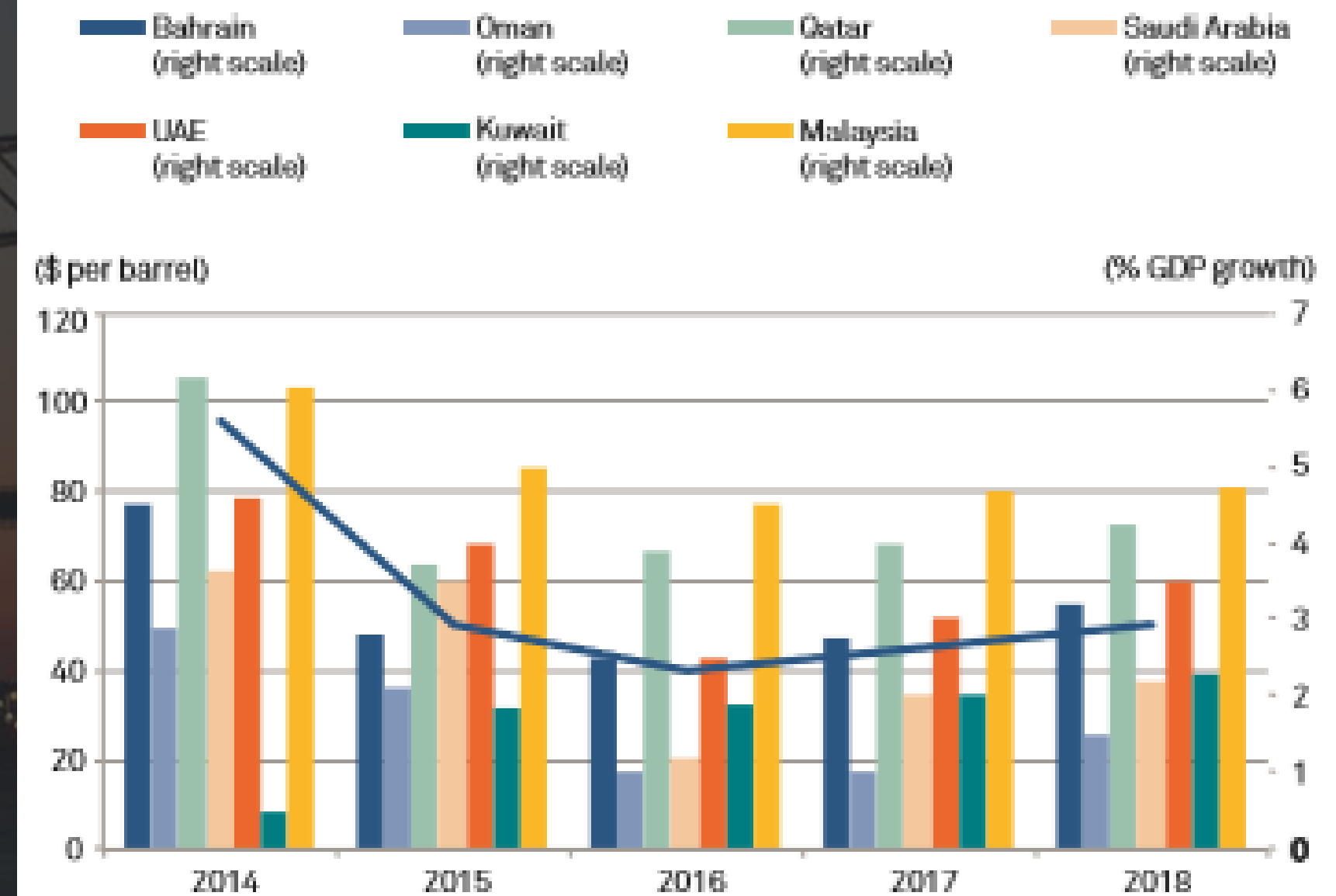


Chart 1 - Oil Prices And Economic Growth In GCC Countries And Malaysia\*



\*Average oil price for 2014/2015; S&P Global Ratings' projections for subsequent years. GCC—Gulf Cooperation Council. Source: S&P Global Ratings.

© Standard & Poor's 2018.





# Lack of standardisation

- Accounting and Auditing organisation for Islamic Financial Institutions (AAOIFI)
- Islamic Financial Services Board (ifsb)
- Asian–Oceanian standard–setters group (aoss), and
- Various local orientated standards



# Lack of performance

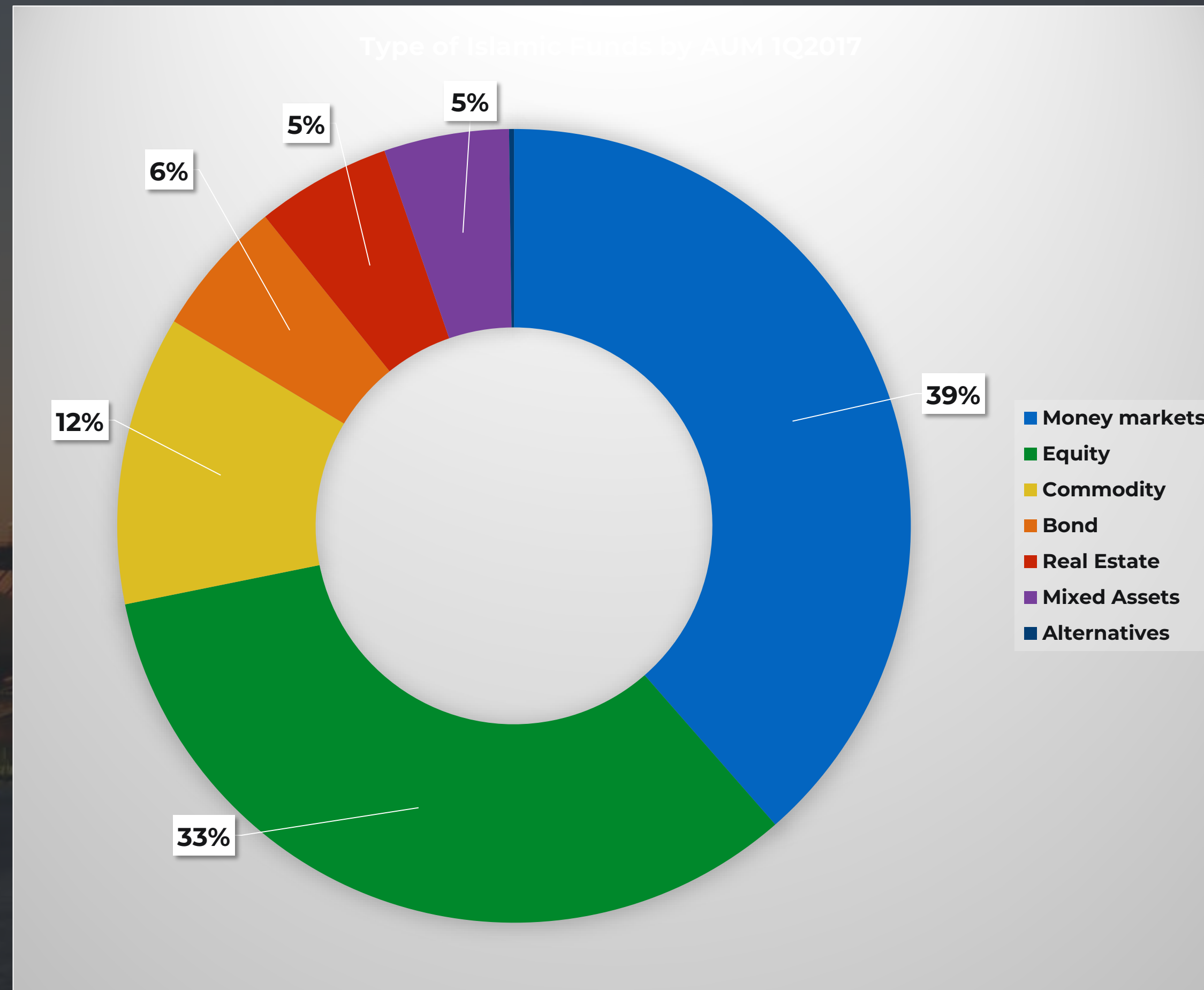


Orange – DJI – 10 years performance 106%

Green – DJIMI – 10 years performance 65%

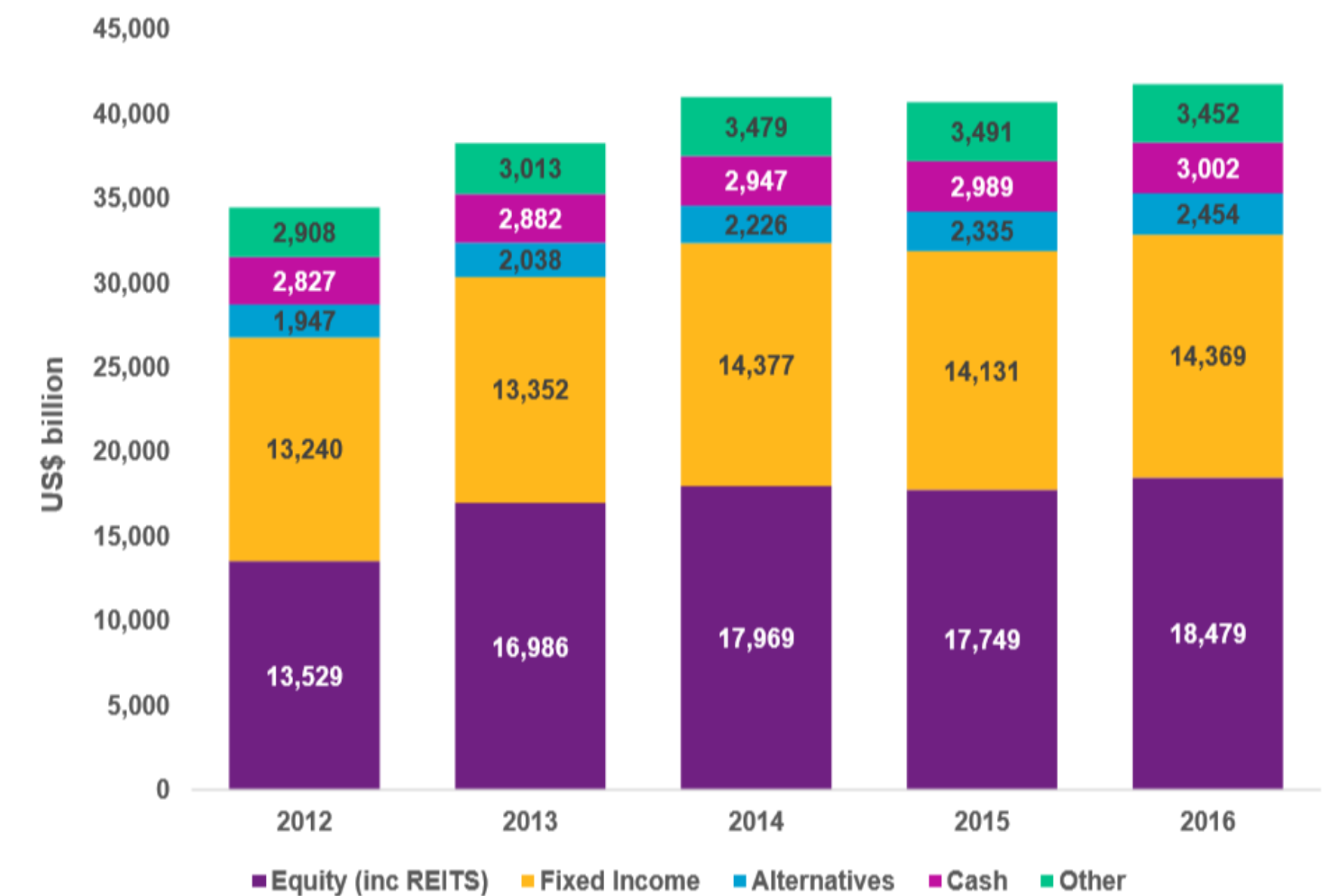


# Lack of performance



Source: Thomson Reuters, MIFC estimates

## Asset participation by asset allocation<sup>1</sup>



- Equity and fixed income assets continue to dominate with a 78.7% share of AUM.

Source: P&I/Willis Towers



# Lack of performance

Difficulty in constructing portfolios

Unable to artificially gain from market contraction

Unable to hedge with risk management derivatives

Limited in investing into market sectors and asset classes

Extremely diluted investment universe e.g.

ASX20 has only 5 compliant companies

ASX50 – 12

ASX100 – 33

ASX200 – 80

Average gain for largest Islamic funds in 2017 was 6.20%, whilst global index gained 17.51%



# Insufficient community awareness and DESIRE

Is being Halal sufficient for a Muslim?

The numbers speak for themselves regarding Islamic funds:

	Global	Australia
% of AUM	0.83%	0.09%
% All finance products	1.2%	0.005%
% Muslim population	28.26%	2.32%
Actual FUM \$	70.8b	300m
Potential FUM \$	24t	7.58b
AUM by domicile	67.5% in Malaysia & Saudi	
Top 500 FUM Managers	NIL	

Note: AUM by domicile for conventional: 59% in North America and 32% in Europe

Does the Islamic community give the same opportunity to Islamic funds as they do to conventional funds?



# Key Industry differences between Islamic and Conventional

Islamic Funds	Conventional Funds
Relatively small funds	Mega Funds
Difficulty to scale	Economies of scale
Lack of public <i>DEMAND</i>	In-built community <i>DEMAND</i>
Developing products	Advanced products
Lack of Innovation	Highly Innovative
Lacking expertise and knowledge	Advanced and refined expertise
Average AUM \$65 USD per fund	Average AUM \$394 USD per fund
Average growth rate AUM 5.1%	Average growth rate AUM 12.1%
Asset class (Equity) 33%	Asset class (Equity) 44.3%
Inactive funds 29.22%	Inactive funds 0.02%
Niche	Mainstream
Muslim community seen as Risk Adverse	Seen as Accumulators
Seen as Ethical & Alternatives	Seen as Wealth Management



# Opportunities

*The industry is in transition to Client orientated products and services*

Funds are customising to consumer needs:

Low cost passive or index funds

Exchange traded funds (ETF)

Socially responsible investing (SRI)

Customised niche funds i.e. filtered, asset classes, regions, sectors etc.

Give what the customer wants – Islamic funds potentially have all the above



# Opportunities

Australian and Global Pension funds

Leverage off Ethical Funds (SRI/ESG)

Institutional and Wholesale funds

Mergers and acquisitions

Professional Licensing and knowledge

Enforceable standards

Western orientated and domicile funds





# Australian and Global Pension Funds

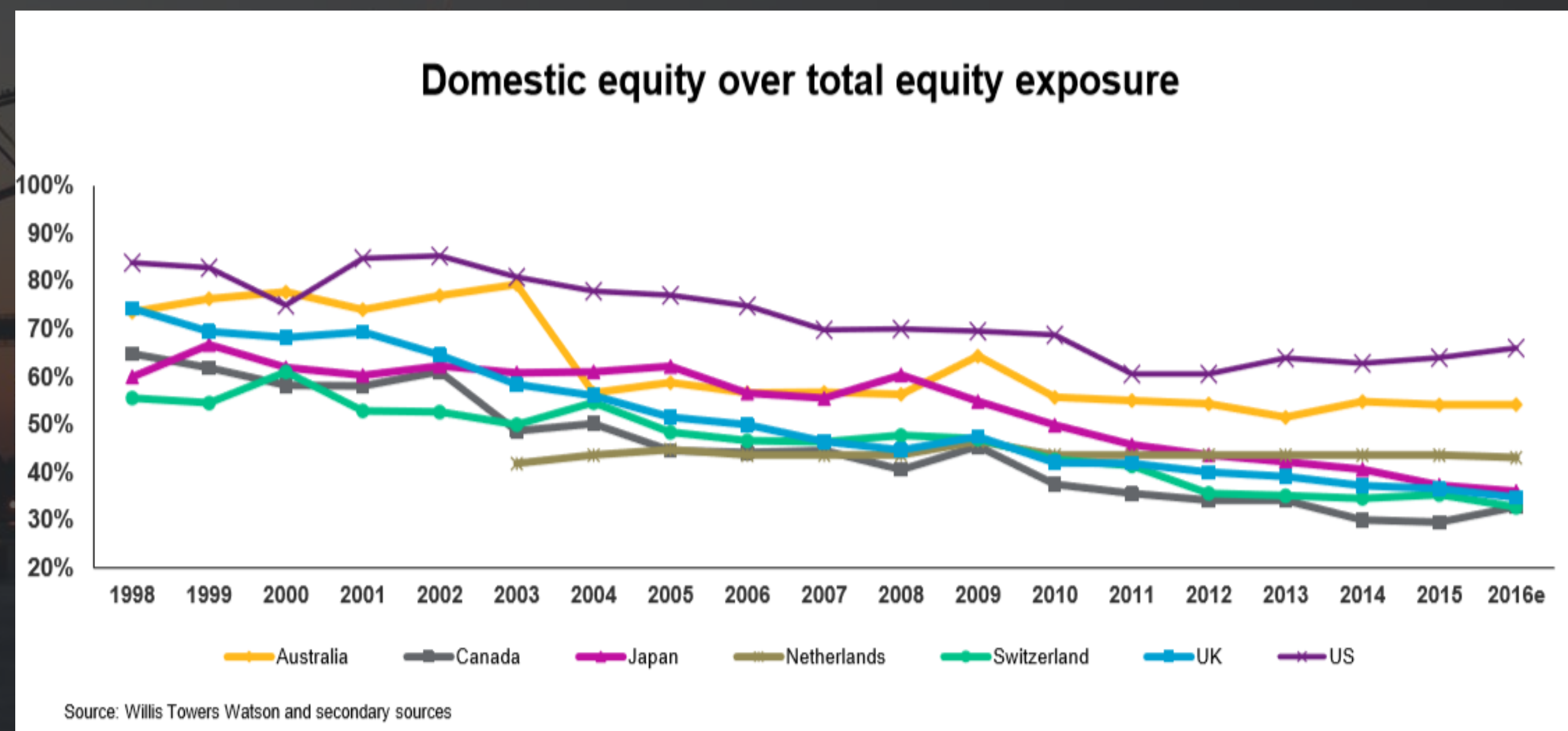
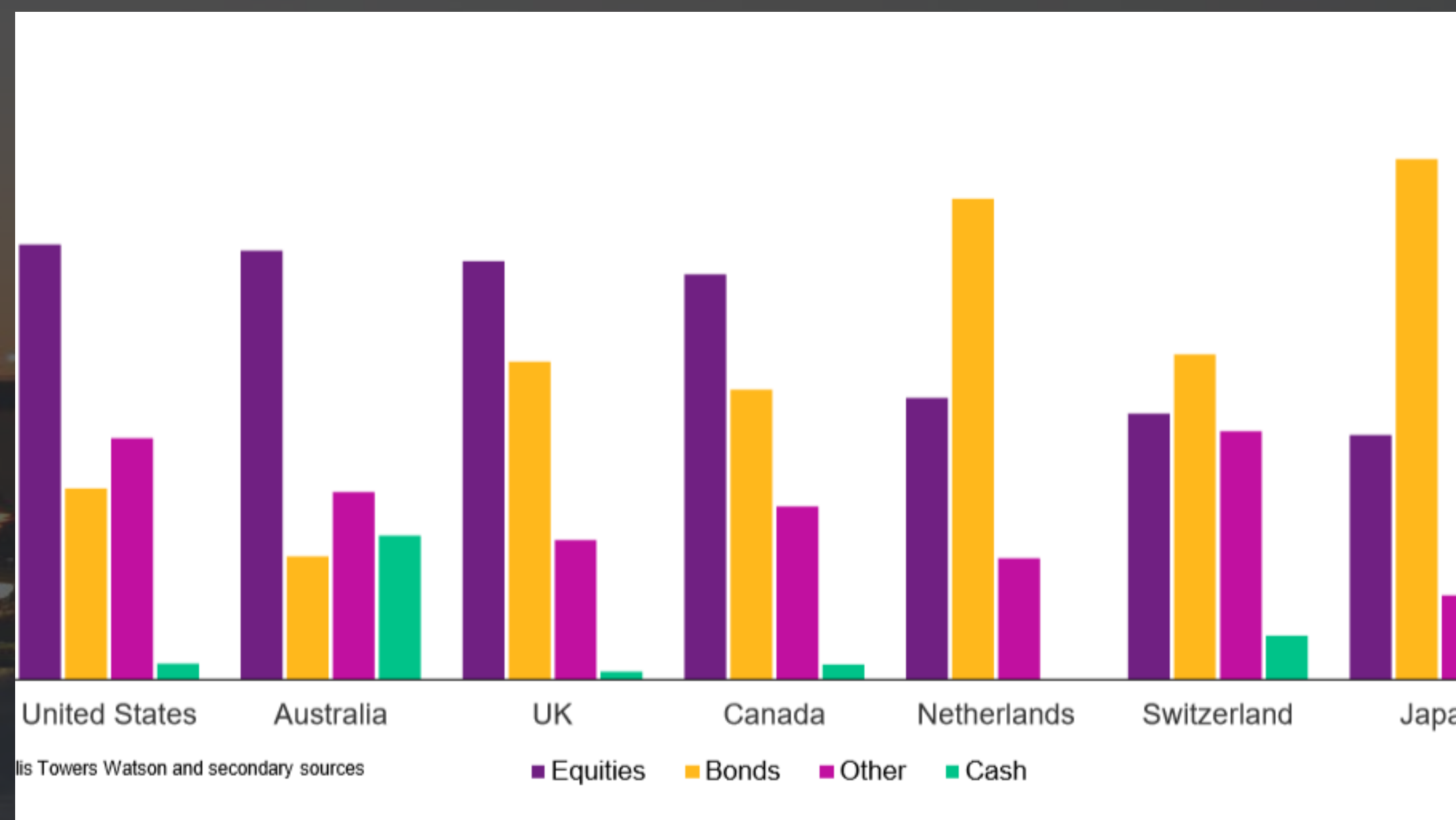
	Australia	Global
Pension fund size	1.58t USD	\$36.5t USD
Assets/GDP ratio %	126% (2 <sup>nd</sup> in world)	62%
Asset Allocation (Equities)	49% (1 <sup>st</sup> in world)	46%
Relative weight of total global market	4.3%	USA 61.7%
5 year growth rate	9.5%	China 22.4%





# Australian and Global Pension Funds

*The love for International equities*





# Leverage off Ethical funds

Growing consumer demand for ethical investing: 4 in 5 Australians prepared to switch funds

Main concerns being:

Animal Cruelty

Human rights

Pornography





# Leverage off Ethical funds

	SRI/ESG AUM	Total AUM	Percentage %	Islamic % AUM
Australia	\$600b	\$3.27t	18.35%	0.09%
World	\$22.89t	\$84.96t	27%	0.83%





# Leverage off Ethical funds

Top 20 global fund managers AUM – 42.3%

Top 500 global fund managers AUM – 95.64%

Top 19 Australian fund managers AUM – 39.37%

Top 16 Super funds AUM – 18%

Australian superannuation pool expected to top \$10t by 2035

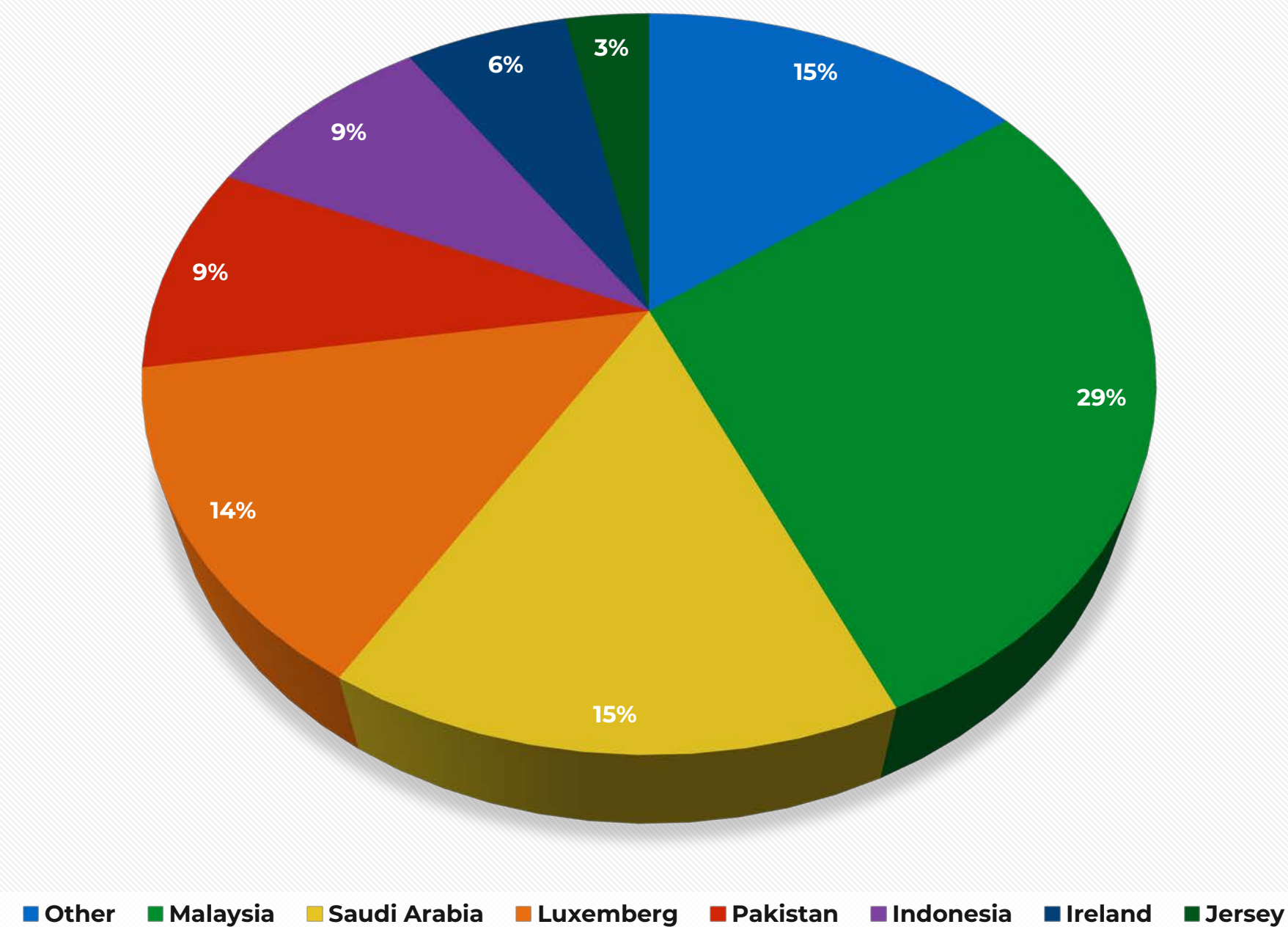




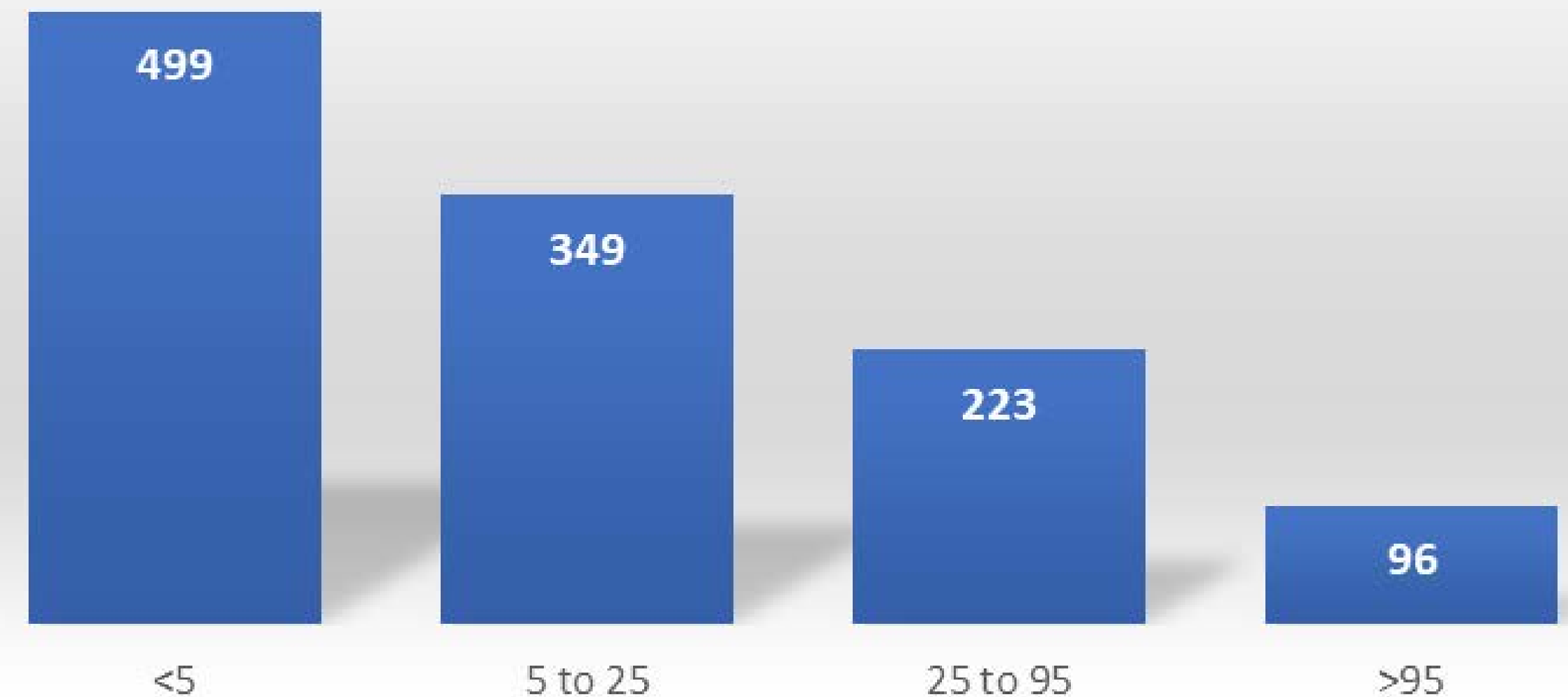
# Mergers and Acquisitions

*Lack of Economies of scale*

Islamic funds by Domicile



Number of Islamic Funds \$USD





# Professional knowledge and Licensing

**Requirements for Asset manager before licensing by government:**

Authorised Islamic finance and asset management training

Relevant experience

Member of Professional relevant Islamic Association





# Enforceable Standards

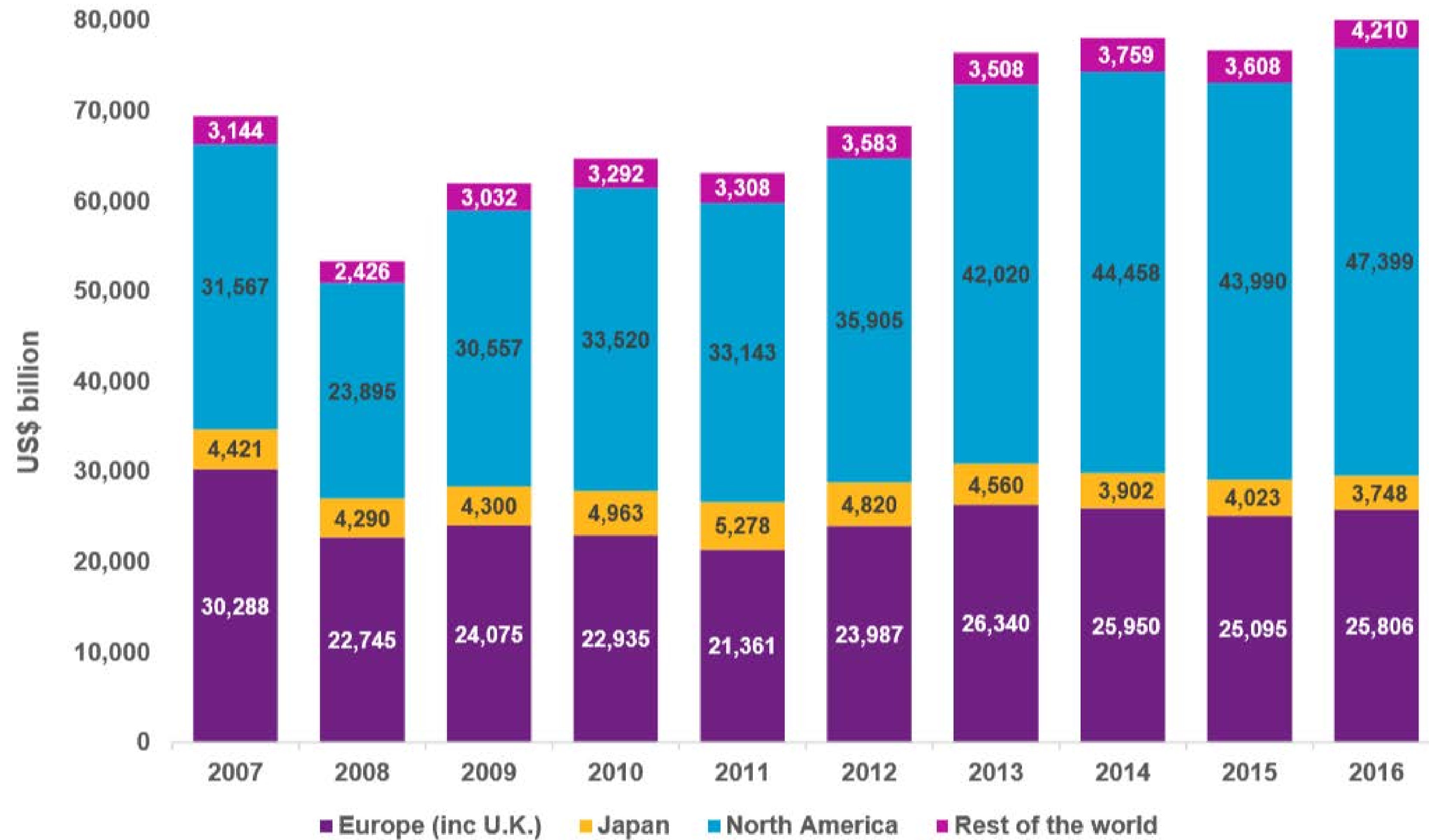
Leading Islamic standards provider e.g. AAOIFI, should be adhered to and enforceable by governments around the world as prerequisite for licensing.

Until government enforcement, standards boards should begin to endorse funds which comply.





# Western orientated and domicile funds





# Western orientated and domicile funds

## Global wealth Percentage %

Top 0.7% world population

45.6%

Bottom 73.2% world population

2.4%

USA millionaires

41%

Australia millionaires

3%

Top Muslim country Saudi Arabia  
millionaires

<1%

Global wealth in 2017 \$280t

USA owns 36% of total global wealth

Europe owns 28.5% of total global wealth





# THANK YOU 😊

## *Limitations of reliance*

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