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Reinvention, innovation, inclusion

There is no denying that Halal investments are becoming a global phenomenon, yet it is also a fact that many investors, including Muslims, are still unfamiliar what Shariah investments entail. The pervasive misconception and lack of public awareness continue to be a hurdle for the sector, compelling many Islamic investment managers to reinvent themselves.

One major transformation, or transition rather, is that managers and service providers are aligning themselves with the environmental, social and governance as well as socially responsible investment movement to ride on the sector's phenomenal international rise. We are also seeing industry participants exploring new distribution channels and strategies with technology at the core of their efforts. Needless to say, the status quo of the Islamic investment management space, like its conventional counterpart, is being shaken with the advent of new fintech players vowing to democratize Shariah financial opportunities with more affordable, convenient and superior products and services.

In this report, we have curated a series of analytical and editorial articles highlighting the latest trends and developments in the Islamic investment space. We will also be sharing with readers key themes and insights from IFN Investors Forum 2018 as discussed by industry leaders.

It is certainly an interesting time for the industry — rather than resigning to a state of flux amid a fast-evolving digital and fintech revolution, industry participants are seizing this change as an opportunity to reach to a broader audience through out-of-box thinking. We look forward to the innovations emerging from the reinvention of the space to be more inclusive.

Most sincerely,

Vineeta Tan
Editor
Islamic Finance *news*

Surge in demand for ethical products could provide lift for Shariah investments

Asset management in the Islamic finance industry means multi-class Shariah compliant alternative asset management. There are an estimated two billion Muslims in the world but not all of them are bankable, and not more than 20% of Muslims worldwide are financially included. This means the potential pool of Muslims from which Islamic banks and financial institutions can draw their clientele does not exceed 400 million. PROF EMILIO ESCARTIN writes.

Given the current global size of Islamic financial assets of US$2.5 trillion as at June 2018, Islamic financial assets per Muslim capita are estimated to be US$5,732. However, this is only hypothetical, as no more than 25% of the bankable Muslims are either interested in or are tapped by Islamic financial institutions.

This implies that Islamic banks and financial institutions worldwide are chasing a pool of 100 million Muslim customers. Based on this 100 million pool, the Islamic financial assets per Muslim capita stands at US$22,930. It is estimated that by doubling the pool of Muslim customers to 200 million, the size of the industry will increase by 2.5 times to US$5.7 trillion. Assets of Islamic financial institutions have grown by an average of 17% per annum over the past 10 years to reach over US$2.5 trillion in June 2018, suggesting robust demand for Islamic investing.

The industry size is much larger — half of S&P500 are Shariah compliant — and is valued at US$3 trillion alone. The major Islamic finance centers are Malaysia, the UK, Luxembourg and the UAE. Countries like Hong Kong, Singapore, Indonesia, Turkey and Spain are still at the initial stage of developing their Islamic markets. It is expected that Islamic finance will continue to grow at this rate for the next few years and that total assets in Islamic finance could reach US$8 trillion by 2025.

The demand for Islamic banking and Islamic products is increasing and these products and services are being introduced by well-known financial institutions. As more non-Islamic markets show increased interest in Islamic finance, a growing number of new Islamic financial institutions are being introduced internationally. This is an industry that is still evolving, developing and growing. The industry has also grown from retail banking to commercial banking and, more recently, into investment banking. Its sophistication and product offering have developed along with this change.

Islamic financial institutions have taken the form of commercial banks, investment banks, investment and finance companies, insurance companies and financial service companies. Among the various asset classes on offer, the most common forms of Shariah compliant funds are equity funds, real estate funds and commodity funds. But a significant portion of Islamic funds is concentrated in equity investments. However, Islamic finance has also recently developed a wide range of products in the area of private equity and where there were significant product gaps in fixed income, these have since been mostly filled by Sukuk.

There are over 450 Islamic financial institutions and most of them offer asset management solutions. In 2017, the number of Islamic asset management institutions with over US$10 billion-worth of Shariah compliant assets under management (AuM) were 45, followed by 100 with AuM between US$1 billion to US$10 billion and over 140 Islamic financial institutions with AuM between US$100 million and US$1 billion. The vast majority are located in the MENA region (GCC and non-GCC countries) and the remaining in Asia, where Malaysia is the largest country in that region. The UK is the 9th country in that ranking and the first western country followed by Luxembourg.

External challenges

Shariah compliant financial services continue to develop in various parts of the world at different rates of growth. Spain is launching and developing new initiatives in this field, such as the Al Andalus Islamic Private Equity Fund domiciled offshore. Also countries like the UK and Luxembourg both play a significant role in the growth and expansion of the Islamic asset management industry, promoting activity and home to several Islamic financial institutions where the main shareholders are from the GCC. This is due in part to variations in viewpoints of Shariah interpretations, which can be regarded as the strength of Islamic finance and the Shariah scholars' ability to adapt.

Islamic finance has the potential to help address the challenges of ending extreme poverty such as launching tailor-made wealth management products and boosting shared prosperity. The institutional Islamic asset management industry is also facing other challenges such as the digitalization of banking, fintech solutions, robo-advisors, cryptocurrencies (with the discussion about Shariah compliant or non-Shariah compliant) and the consolidation of the Islamic financial sector through mergers and acquisitions.

As new Islamic asset management institutions are being launched in the market, new customers are continuously coming on board, structural issues are being resolved and products are evolving rapidly. But in the meantime, while Islamic finance was developed for the Muslim community, there is a genuine socioeconomic component that renders it equally attractive to investors of all faiths.

Ethical investment and Islamic investment products share some common ground and the recent surge in demand for ethical products could provide a lift for Shariah investments, notwithstanding Islamic finance's transparent and rigorous risk management platform. For instance in Malaysia, Shariah compliant products are ethical and tend to be more competitive than conventional financial products. This is a big window opportunity to develop Islamic finance in other countries around the globe, keeping the growth of the industry in double digits for the coming years.

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Islamic funds gaining ground on conventional funds through small and mid-cap strategies

There is apparent growing investor interest in Shariah compliant funds from increasing awareness and demand for socially responsible investments and additional sources of portfolio diversification. As of 2015, Islamic assets under management globally reached US$71.4 billion. Malaysia has been leading the global growth of Islamic assets, with 222 launched Shariah compliant funds totaling a net asset value (NAV) of RM77.97 billion (US$18.83 billion) and accounting for 23% of NAV of Bursa Malaysia's market capitalization as of April 2018, according to the Securities Commission Malaysia (SC). JASON CHONG explores.

Malaysia has been playing an important role in putting Shariah compliant investments on center stage and pitting this asset class against conventional investments by pinpointing investors' demand for environmental, social and governance-compliant investments. In January 2017, the SC introduced the Islamic Fund and Wealth Management Blueprint to promote further growth of the Islamic fund and wealth management industry. It also issued the Guidelines on Sustainable and Responsible Investment Funds, as Shariah principles promote the pursuit of positive social outcomes alongside commercial returns. These developments and experiences provide Malaysia a solid position from which to explore and strengthen the linkages between Islamic investing and socially responsible investing.

In addition, Bursa Malaysia in 2016 introduced Bursa Malaysia-i, the world's first integrated end-to-end Islamic securities exchange platform and the marketplace for trading of Shariah compliant capital market instruments. Bursa Malaysia-i offers a comprehensive range of exchange-related facilities including listing, trading, clearing, settlement and depository services, leveraging on the existing infrastructure with enhancements to incorporate Shariah compliant features. As at January 2018, there are 14 Islamic participating organizations offering Islamic stockbroking services, either on a fully-fledged or window basis.

But one of the more important developments was the launch of the FTSE Bursa Malaysia MidS Cap Shariah Index in May 2017, which provides investors with a precise benchmark for Shariah compliant investments in Malaysian small and mid-cap companies. This paved the way for the growth of investment strategies focused on SMEs and allows investors and fund managers to more effectively benchmark their investments' performances.

Despite advances in the Shariah compliant fund industry, there are still a few challenges that it needs to address.

First, Shariah compliant funds are deemed more expensive compared to conventional funds, in view of additional costs paid to Shariah advisors. There is also the general perception that Islamic funds underperform conventional funds, especially during bull markets.

Second, there is a need to improve on Shariah screening capability. At present, most fund managers are purchasing stocks which are constituents of a Shariah index, limiting the investment universe for their funds. Any stocks that are not constituents of the Shariah index need to undergo Shariah screening, of which the cost is exorbitant.

Third, there is a lack of reputable sources of reference for Shariah compliant securities, especially in the context of global equities. The industry and regulators need to create global standards and principles that will be used by index providers and Shariah consultancies in screening for Shariah compliant securities.

In addition, certain infrastructure may not be as developed in the Shariah space, such as the limited number of service providers performing share class hedging for Shariah compliant funds.

Increasing focus on Asian small and mid-caps

Investing in a Shariah compliant fund is not as simple as filtering out the non-Shariah compliant stocks from a conventional fund.

Taking the FTSE Bursa Malaysia Emas Index (conventional index) versus the FTSE Bursa Malaysia Emas Shariah Index (Shariah index) as an example, the conventional index has 46 stocks in the financial sector (including real estate), representing 33% of the index. Most stocks under the financial sector and gaming stocks (5% of the index) are non-Shariah compliant, as per the Shariah Advisory Council of the SC. These contribute approximately 38% of the conventional index. Effectively, this means fund managers will need to find replacements for the gap of non-Shariah compliant stocks to reposition the portfolio. In addition, to replace the heavily weighted financial constituents such as major banks in Malaysia, it will mean going down to more stocks beyond the top market capitalization ones to obtain an equal weight.

As a result, we are seeing the rise of Shariah compliant funds that focus on small to medium-sized companies across the Asia Pacific region. Such companies have the potential to grow faster than larger companies, offer more attractive valuation, hold niche positions in global brands' supply chains and most importantly, they are in diverse geographic jurisdictions that are all part of an ongoing growth story.

The market expects GDP growth for Asia Pacific to reach 5.8% in 2018 according to Bloomberg, and strong growth is expected to continue in the years to come. This is driven by the region's strong domestic demand from a growing middle class; millennials making up a larger size of the population; increasing trade with the rest of the world, which in part feeds off the continued economic recovery in developed economies; and China's Belt and Road initiative. Therefore, super-imposing a conventional fund over a Shariah compliant fund will result in the difference of the former being heavily weighted in financials while the latter is relatively more fragmented in sectorial weightings, bringing more diversity to the portfolio both in terms of risk and return.

Jason Chong is CEO of Manulife Asset Management Services.

How index innovation is propelling further growth of Islamic markets

Since the introduction of the Dow Jones Islamic Market World Index nearly 20 years ago, there has been a tremendous amount of index innovation as the Islamic investment community has demanded increasingly granular and sophisticated investment solutions while adhering to the tenets of Islamic law. The index solutions of S&P Dow Jones Indices encompass a range of asset classes, themes and strategies in order to meet the diverse benchmarking needs of the Islamic investment community. MICHAEL ORZANO and JOHN WELLING write.

Range of Islamic indices has grown to meet the evolving needs of the Islamic finance industry

Today, S&P Dow Jones Indices publishes more than 10,000 Shariah compliant indices each day. In the early years, we brought to market broad benchmarks covering various regions as well as large-cap indices focused on prominent blue-chip companies. Soon thereafter, Shariah compliant versions of popular benchmarks such as the S&P 500 Shariah Index were introduced. In the past few years, Shariah compliant index development has expanded to include smart beta and multi-asset class strategies.

Dividend strategies

Dividend indices have long been popular with conventional investors due to their income properties and indication of long-term value. The S&P High Yield Dividend Aristocrats (HYDA) was launched for conventional investors in 2005 and its success has led to the subsequent launch of its Shariah counterpart — the S&P HYDA Shariah. The index is formed by screening companies within the S&P 1500 for Shariah compliance, followed by the further selection of companies that have consistently increased their dividends over the past 20 consecutive years. The result is a modern dividend capture index available for use by Shariah conscious market participants.

Table 1 highlights the favorable risk and return characteristics of the S&P HYDA Shariah compared to the conventional S&P HYDA and S&P 500 over the past 10 years.

> **“In the past few years, Shariah compliant index development has expanded to include smart beta and multi-asset class strategies”**

For investors focused on regions outside the US, additional Shariah compliant dividend indices include the S&P Pan Arab Dividend Shariah and S&P GCC Dividend Shariah. These offerings each include 30 stocks from within the relevant regions that have increased or maintained dividends for a minimum of three consecutive years.

Table 1: Returns comparison of the S&P 500 vs. S&P HYDA and S&P HYDA Shariah			
	S&P 500	S&P HYDA	S&P HYDA Shariah
Total return (% annualized)			
3 years	16.1%	15.9%	16.5%
5 years	14.5%	13.5%	14.5%
7 years	15.6%	14.7%	15.6%
10 years	10.9%	12.1%	13.8%
Standard deviation (%)			
3 years	9.4%	9.1%	10.2%
5 years	9.6%	9.2%	10.3%
7 years	10.6%	9.8%	10.3%
10 years	14.7%	14.1%	13.5%
Risk-adjusted return			
3 years	1.7	1.8	1.6
5 years	1.5	1.5	1.4
7 years	1.5	1.5	1.5
10 years	0.7	0.9	1.0

Source: S&P Dow Jones Indices. Charts and graphs are for illustrative purposes only. Data as of the 31st August 2018. Index performance based on total return in US dollars. The S&P High Yield Dividend Aristocrats Shariah was launched on the 1st June 2017. All information presented prior to an index's launch date is hypothetical (back-tested), not actual performance.

Table 2: DJIM Target Risk indices — target allocations			
Index risk profile	Equity (%)	Fixed income (%)	Cash* (%)
Conservative	20	72	8
Moderately conservative	40	54	6
Moderate	60	36	4
Moderately aggressive	80	18	2
Aggressive	100	0	0

Source: S&P Dow Jones Indices

Multifactor indices

The S&P GIVI® Shariah is a rules-based series designed to deliver both lower volatility and performance by weighting component companies by intrinsic stock value rather than by traditional market capitalization. This multifactor approach considers a company's book value and discounted projected earnings in order to capture two essential contributors to portfolio performance — low volatility and value. Demand for this investing approach within conventional portfolios has found its place within Shariah indices and has been made available in the form of global, developed, emerging and various regional Shariah indices. The S&P GIVI Shariah indices highlight multifactor index solutions available to Shariah investors.

Multi-asset benchmarks

Demand for multi-asset indices has increased in recent years as investors seek to maximize growth and minimize risk. The S&P Pan Arab Shariah Balanced indices combine Pan-Arab Shariah compliant equities and Sukuk in several predefined allocations in order to target various risk profiles. Varied equity-to-Sukuk allocations are available, including 75% equity, 60% equity and 25% equity offerings.

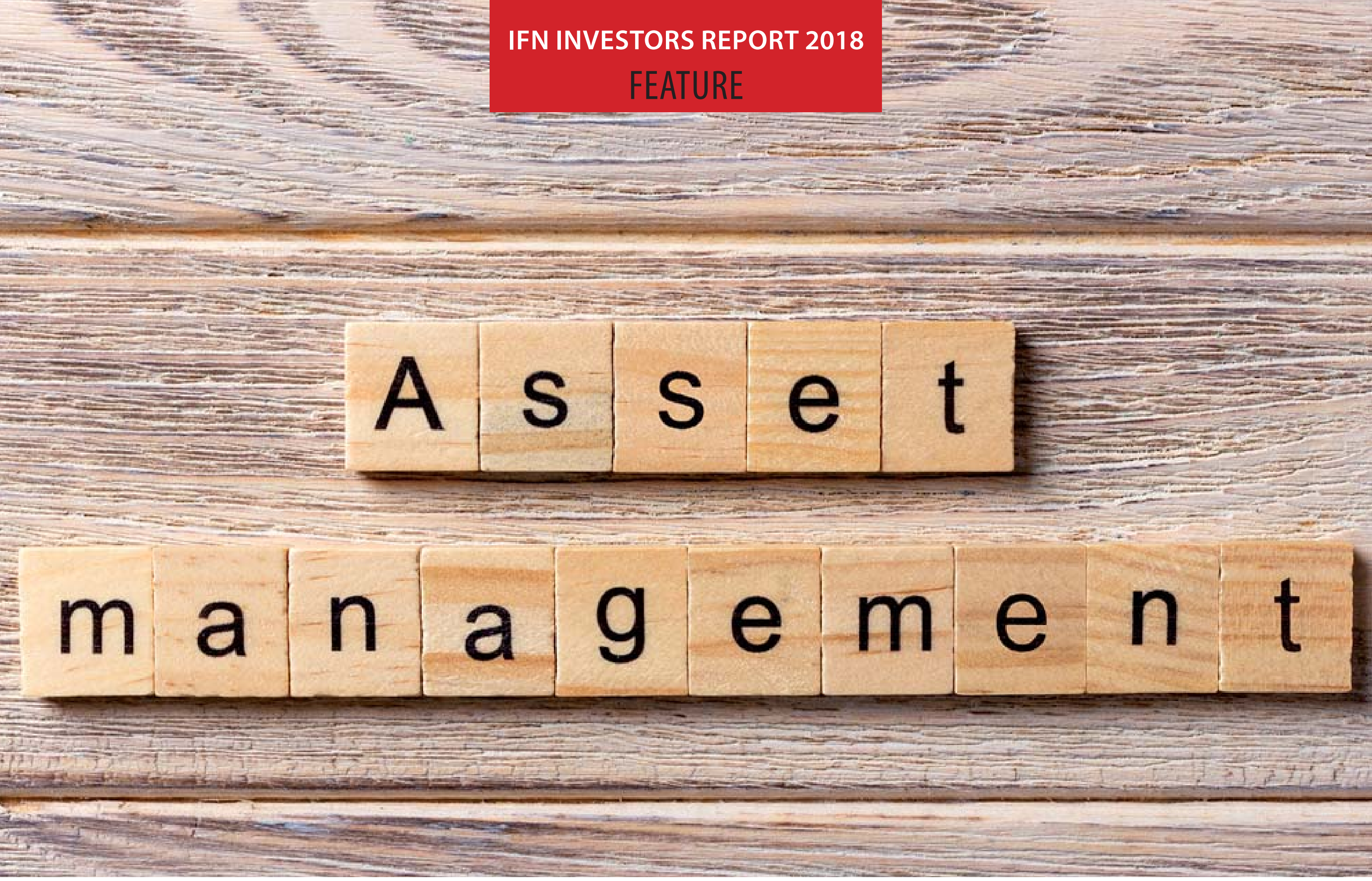
Most recently, the DJIM Target Risk Shariah indices were introduced to the market. Each available index has a predefined allocation to equities, fixed income and a cash component in order to target defined risk profiles. For example, the Dow Jones Islamic Market Target Risk Moderate Index reflects a 60% allocation to Shariah compliant global equities, 36% to Sukuk and 4% to a cash component. The assigned risk level depends on the allocation to equities and indices are available under five separate risk profiles as displayed in Table 2. Market participants also have the choice of capturing global equity exposure or US-only equity exposure from the various offerings. Such developments allow a wider variety of choices to be available in terms of asset classes and allocation options across various investment landscapes.

"Although Islamic equity indices are necessarily limited in coverage, particularly in certain sectors such as financials, Shariah compliant index innovation has largely mirrored that of the conventional space"

Conclusion

Islamic indices provide market participants with a comprehensive set of benchmarks covering both equities and Sukuk as well as a wide variety of investment themes and strategies. Although Islamic equity indices are necessarily limited in coverage, particularly in certain sectors such as financials, Shariah compliant index innovation has largely mirrored that of the conventional space. Today, Shariah compliant index solutions encompass a range of asset classes, themes and strategies in order to meet the diverse benchmarking needs of the Islamic investment community.

Michael Orzano is the head of global equity indices and John Welling is the associate director of product management, equity indices at S&P Dow Jones Indices. They can be contacted at michael.orzano@spglobal.com and john.welling@spglobal.com respectively.



Asset management — retail: The ETF trend and the REIT boom

Islamic funds are expected to have performed better in 2017 than in 2016 as the global recovery has finally become broad-based and stable. Last year even marked a record-breaking year for stock markets despite geopolitical tensions and uncertainties especially from the Gulf and the Korean peninsula. The year 2017 has also been marked by the growth of two asset classes, exchange-traded funds (ETFs) and REITs. MARC ROUSSOT writes.

Overview

Over the past 20 years, the global Islamic funds market has been a rising sector with assets under management (AuM) worth US$70.8 billion at the end of the first quarter of 2017, in comparison with US$47 billion in 2008, according to Malaysia International Islamic Financial Centre. The number of Islamic funds has also increased to 1,535 from 802.

However, the global Islamic funds market remains a niche industry representing only 3% of the global Islamic financial services industry.

Last year, data from the IFSB depicted a rather contrasting overview of the Islamic asset management segment, slowing that Islamic funds' AuM had been decreasing since 2014 and that between 2015 and 2016, it had fallen from US$71.3 billion to US$56.1 billion. During the same period, the number of Islamic funds had also slightly decreased from 1,220 to 1,167 and nearly 30% of the funds had become inactive.

> ***"Money market and equity funds continue to dominate the portfolio of Islamic funds globally, following closely the composition of fund types in Saudi Arabia and Malaysia, both being the two largest drivers in this space"***

Money market and equity funds continue to dominate the portfolio of Islamic funds globally, following closely the composition of fund types in Saudi Arabia and Malaysia, both being the two largest drivers in this space.

In addition, a majority of funds are domiciled in Malaysia and Saudi Arabia. Asset managers based in both of these countries hold more than 67% of the total global Shariah compliant AuM. Saudi Arabia alone contributed a 35.6% share, with US$25.2 billion-worth of AuM (209 Islamic funds) as at the end of the first quarter of 2017. Malaysia has the most number of Islamic funds globally with 388 funds managing a total AuM of US$22.6 billion.

Stock markets

The performance of the global stock market has been exceptional in 2017 as it ended in a record high gaining more than US$8 trillion in value over the year. This is due to a strong worldwide economy, US President Donald Trump's tax cuts and central banks continuing to ease monetary policies.

Although most major stock exchanges posted sizeable gains, Qatar's stock market tumbled by 18% as a result of its diplomatic crisis with several Arab nations including Saudi Arabia, Bahrain, the UAE and Egypt.

Islamic versus conventional

Most S&P and Dow Jones Islamic indices outperformed their conventional counterparts for the year 2017 as information technology companies — which tend to be overweight in Islamic indices — gained a whopping 39.4% beating the overall market by a wide margin, and financials — which are underrepresented in Islamic indices — experienced some weakness. This marked a reversal from 2016 where a surge in the financial sector late in the year caused Shariah compliant benchmarks to lag.

As at the 2nd April 2017, the S&P 500 Shariah Index outperformed its conventional counterparts on a yearly basis gaining 15.27% against 13.99%. Also, the S&P Global BMI Shariah gained 18.02% while the S&P Global BMI gained 15.73%.

The Dow Jones Islamic Market World grew by 17.32% while the Dow Jones MENA Total Return Index grew by 11.52%. However, the FTSE Shariah All-World Index recorded a 17.3% return while the FTSE All-World Index registered a 19.4% return on a 12-months basis.

The ETF trend and the REIT boom

ETFs and REITs are two of the fastest-growing asset classes in the Islamic asset management industry.

REITs are particularly flourishing in the Gulf. As at the end of the first quater of 2018, 12 Shariah compliant REITs have been listed on Tadawul and more are expected to soon be traded on Saudi Arabia's stock exchange as new vehicles are launched or announced almost on a monthly basis. In addition, Oman issued in January a regulation accommodating REITs (See IFN Report Volume 15 Issue 04: 'Shariah compliant REITs to boost Oman's Islamic finance industry').

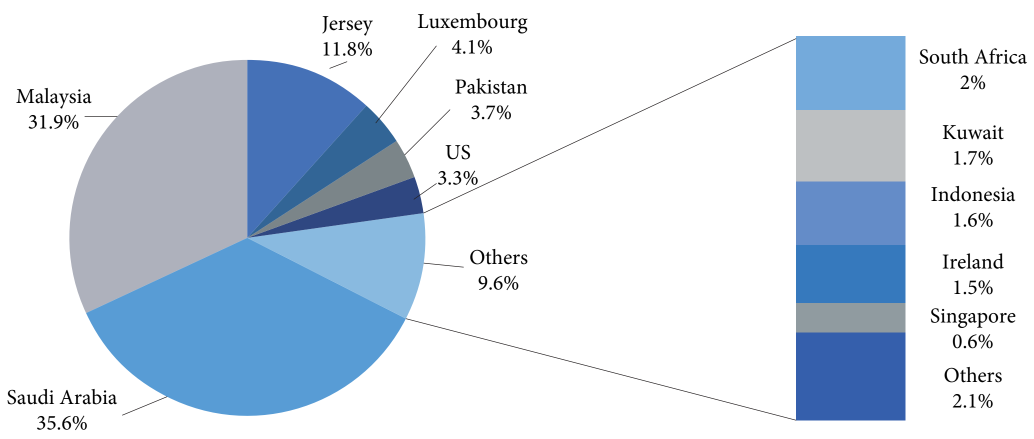
ETFs are the other fast-growing asset class. They have been mushrooming over the past 12 months with three gold ETFs launched in Iran and Malaysia by Kian Capital Management, Lotus Investment Bank and Affin Hwang Asset Management.

In January, another Malaysian company, i-VCAP Management, rolled-out the country's first Islamic US dollar-denominated ETF. The asset management firm is working on introducing other foreign-currency Shariah ETFs while exploring Islamic leveraged and inverse ETFs. This year, Masraf Al Rayan, a Qatar-based fully-fledged Islamic bank, issued the Al Rayan Qatar ETF, Qatar's first Shariah ETF.

Outlook

The performance of the stock market may not be as good in 2018 as it was in 2017. Following March's sudden correction, President Trump's decision to apply tariffs on steel and aluminium has already impacted stocks and could very well affect the global economy if this leads to a trade war with China.

Chart 1: Global Islamic assets under management (AuM) by domicile as at the end of first quarter of 2017



Source: Thomson Reuters, MIFC Estimates

Islamic structured products: Too complex for their own good?

There is no doubt that Sukuk continue to be the star performer of the Islamic finance industry, and are regularly deployed for an array of transactions including infrastructure development, Basel III liquidity requirements and even social welfare funding. However, other Islamic structured products have simply not attracted a similar level of interest in the UAE, despite the obvious advantages these products offer to companies looking to manage risk exposure (particularly in the context of trade finance, where plain vanilla hedging instruments may not be sufficient) and to sophisticated investors looking to customize their investment portfolio to meet specific risk-return objectives. So, RAHAT HUSSAIN DAR asks, why haven't these Islamic structured products found a ready market in the UAE?

While practitioners may provide a number of definitions for Islamic structured finance, this generally involves the packaging together of different Islamic finance structures and techniques to produce new, often bespoke, financial products which are created to satisfy a particular requirement that cannot be met through standardized financial products available in the market.

Given the western banks' unrivaled expertise in structuring financial products, it is not surprising that they have played a leading role in developing this sector over the last 30 years by adapting (to a greater or lesser extent) existing structured products to offer Shariah compliant variants including Islamic equity-linked notes, Islamic commodity-linked notes, exchangeable/convertible Sukuk, Islamic forward contracts for foreign exchange hedging, mortgage-backed Sukuk, Islamic options and Islamic profit rate swaps.

So despite the obvious benefits and variety of Islamic structured products, why have they not found widespread favor in the UAE? The lack of uptake could be attributed to a number of factors including the negative association between complex structured products and the 2008 financial meltdown, the prevailing view of some prominent Shariah scholars that such products are not Shariah compliant (whether on the grounds that they represent uncertainty and excessive risk-taking, or that, particularly in the case of options and swaps, they are not connected to real world activity) or the lack of any active trading market for such products (the overwhelming majority of Sukuk issued in the UAE are on a private placement basis and even listed Sukuk are generally held to maturity).

However, it is the perceived complexity of Islamic structured products that seems to dominate many discussions regarding their uptake, or lack thereof, in the UAE market. While some have criticized their complexity, it is important to remember that this complexity is often a reflection of the sophisticated risks and underlying variables that these products represent, and the fact that these products are often being tailored to address very specific investment or hedging needs.

Furthermore, the Islamic structured products market has matured over the past few decades to include products that reference a wide variety of underlying variables, including inflation rates, commodity prices, mortality statistics and hedge fund returns. As these variables are often complex, it should come as no surprise that the structured products that reference them are also complex.

Criticism that this complexity is often manufactured to confuse investors and mask undesirable features is largely unfounded.

The complexity associated with structured products also has other repercussions, including illiquid markets (as there will be a limited number of buyers and difficulty in pricing) and increased time and cost for structuring (Shariah scholars will need to be engaged to confirm that all aspects of the product are Shariah compliant).

Islamic structured products are often multilayered instruments involving a number of transactions (which may include liquidity facility funding, currency exchange mechanisms and other instruments that have been created specifically for the relevant product) and often require intensive discussions with Shariah scholars, in order to align the commercial and Shariah requirements.

This often leads to situations where Fatwas contain a number of exemptions which are specific to the particular circumstances of the transaction. While this shows that Islamic finance has the flexibility to adapt to new products, it also highlights the fact that Fatwas issued for Islamic structured products often establish no valuable precedent and may be inconsistent with the views of other Shariah scholars (thus undermining the possible market for such products).

While the complexity of Islamic structured products may not be an issue for sophisticated investors, all stakeholders in the Islamic structured finance industry should work together to create products that are less complex and more transparent, particularly if they want to tap into the retail investor market.

Other issues such as the chronic shortage of suitably qualified and experienced Shariah scholars, the lack of precedent-setting Fatwas, the lack of mutual recognition of Fatwas among Shariah scholars and the lack of a liquid market are equally applicable to all sectors of the Islamic finance industry. It remains to be seen when and how these issues will be addressed and whether Islamic structured products (other than Sukuk) will also make their mark in the region.

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Islamic asset management on the rise in Canada

Islamic finance and more broadly, the Islamic economy, are markets whose consumers and needs should be addressed particularly in Canada. A strong business case other than its strategic location to the US, Asia, Europe, and the MENA region can be made for Canada, relative to its western counterparts, to play a vital role in creating the first North American Islamic finance hub. MOHAMAD M SAWWAF discusses.

The business case includes and is not limited to Canada's competitiveness with the country currently ranked 14th out of 137 countries, according to the Global Competitiveness Report published by the World Economic Forum. Canada is also 18th among 190 world economies for ease of doing business, according to the World Bank's annual ratings, and lastly, when it comes to macroeconomic fundamentals, Canada is one of only two countries in the G-7 to enjoy a 'AAA' credit rating from Moody's Investors Service, Fitch Ratings and S&P Global Ratings.

Primary opportunities for Islamic asset management are global and many of Canada's asset managers have looked abroad for these opportunities even though domestic demand is quite strong. According to Thomson Reuters Lipper and fund reports, as at the end of 2014, the total Islamic fund assets under management (AuM) in Canada stood at US$240 million, represented by US$18 million in equity funds and the remainder in bullion (commodity) funds. There is clearly an opportunity for the creation of funds that represent asset classes outside of commodities and resources.

A recent report from Pew Research Center called 'The Future of The Global Muslim Population' estimates that, by 2030, there will be about 2.7 million Muslims living in Canada, and they will make up approximately 6.6% of the population. Currently, Muslims make up about 2.8% of the country's population and is the fastest-growing component of the population. Moreover, the study shows that relative to the total population, the number of Muslim consumers is growing faster in Canada than in the US.

Furthermore, if we look to Canada's neighbors south of the border, where most of the Islamic finance assets reside, US$3.63 billion is in equity funds where only 2.2% is invested in non-equity-based funds. A lack of fixed income-type products such as Sukuk funds, money market funds, Islamic mortgage funds as well as real property (non-REIT) funds emphasizes the ongoing and ever-growing demand for such asset classes not only to balance out risk and volatility but to provide diversification within a client's portfolio.

According to data collected by Manzil Capital, a private Islamic investment firm, the average Canadian Muslim household income is US$124,571 with average investible assets of approximately US$160,851. Knowing this, it could be projected that there is over CA$10 billion (US$7.51 billion) in asset management opportunities from this demographic alone.

Saturna Capital, a US-based fund manager that manages the Amana Funds which are deemed to be Shariah compliant and socially responsible, has approximately US$4 billion in AuM. It has been estimated that between 60-70% of the funds they manage come from non-Muslim investors driven primarily by the fund's performance and the fact that there is a focus on socially responsible investment strategies.

To this, we turn our attention to a recent 2016 report published by the Global Sustainable Investment Alliance which stated that since 2014, assets being professionally managed under responsible

investment strategies have hit US$22.89 trillion, an increase of 25%. In relative terms, this represents 26% of all professionally managed assets globally. The report continued to state that the largest three regions, in terms of assets, were Europe, the US and Canada respectively.

Specifically, there was a 49% year-on-year increase with a 22% compound annual growth rate to US$1.09 trillion in assets managed in Canada using one or more of the responsible investment strategies. In relative terms, these assets represent 37.8% of the total managed assets.

A specific sustainable sector that is quite the attraction can be found in agriculture. Canada is the fifth-largest agricultural exporter in the world, and the agriculture and agri-food industry employs 2.3 million Canadians or one in eight jobs, and contributes over US$110 billion annually to Canada's GDP, more than the national GDP of two-thirds of the world's countries. Canada produces about 75% of the world's maple syrup and is the world's largest producer and exporter of flaxseed, canola, pulses, oats and durum wheat.

Canada is ripe for the opportunity to present itself as a vanguard for Islamic finance in North America. Its population, strategic location, sound banking system, macro and microeconomic factors along with its ambitious infrastructure development agenda, provide an environment rich in investment opportunities for Shariah compliant investors given the asset-backed or asset-based requirements of Islamic finance. Moreover, its financial regulatory regime has been proven to be compatible with many Islamic finance activities.

Mohamad M Sawwaf is the chief executive and co-founder of Manzil Capital. He can be contacted at mohamad@manzil.ca.

Islamic Solidarity Fund for Development

The Poverty Reduction Arm of the Islamic Development Bank Group

Exciting growth ahead for Islamic asset management in Saudi Arabia

As the country with the two holy cities of Makkah and Madinah, the Kingdom of Saudi Arabia (KSA) is known for its conservative and strict Islamic culture, at least until the recent moves of allowing women to drive and the opening of its first cinemas in 35 years, among others. However, FAKRIZZAKI GHAZALI suggests that one would be surprised to know that there is much more freedom when it comes to Shariah investing, as the asset management sector has little differentiation between Islamic and conventional while promotion of Shariah compliant investments could have existed by nature.

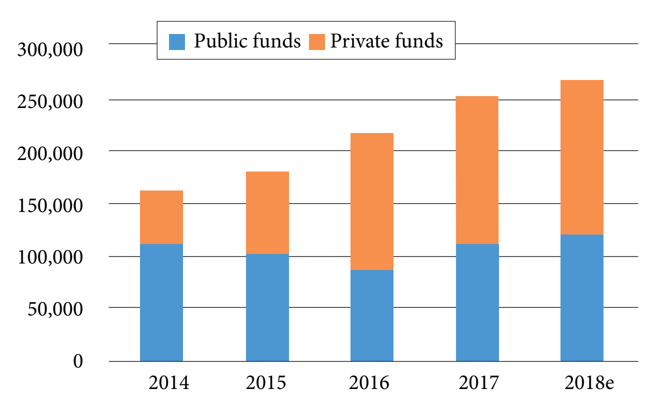
As a result of little differentiation between Islamic and conventional, the licensed asset managers in the KSA, or better known as authorized persons (APs), are free to offer their investment products in any format, whether as Shariah or otherwise but the former remains prevalent and a key growth driver, in line with the growing importance of the KSA to global investors' portfolio moving forward.

Islamic asset management in the KSA is set for another positive year after penciling a growth of 16.3% in 2017. This trend is expected to continue with more inflows into the region with the main drivers being index inclusion as well as the graduation of the KSA's equity and international bonds into global indices. More government-induced policies will provide support to serve as catalysts to keep the market exciting, in addition to more licenses for foreign authorized persons. A conservative 10% growth could translate to circa US$6.7 billion in inflows which could also potentially bring total assets under management (AuM) to break the SAR300 billion (US$79.95 billion) mark under the best case scenario.

Private and public funds

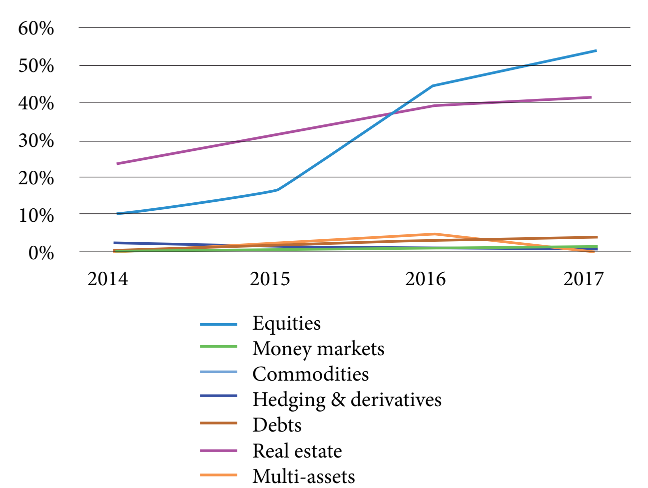
The key growth driver for asset management in the KSA is private funds. The uninterrupted growth in private funds will continue in the coming years due to their relative ease to set up, from both a timing and regulatory perspective and the bigger minimum amount (of SAR1 million (US$266,500)) makes them easy to manage compared to public funds. The influx of foreign inflows adds to the existing investor base such as companies and family offices, high-net-worth individuals, government-backed entities and organizations; private placement should be the best strategy to ensure faster deployment of investments.

Chart 1: Private and public funds' AuM (in SAR million)



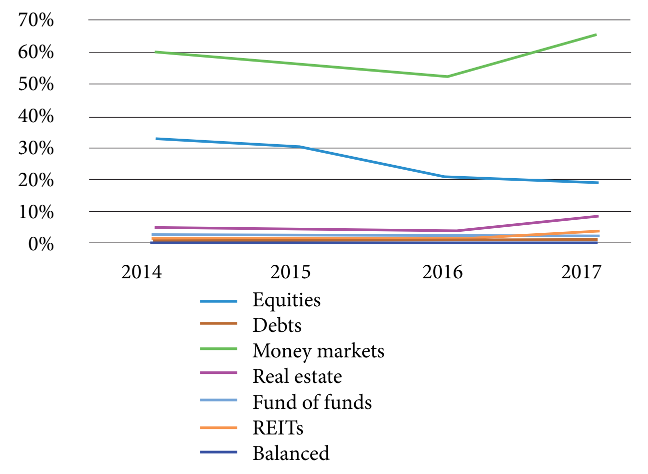
Source: Author's own

Chart 2: Private funds – equities and real estate



Source: Author's own

Chart 3: Public funds – money market and equities



Source: Author's own

Strong interest in real estate and equities for private funds paves the way for some divergence for public funds. Private funds appear to be more equity-driven for the past two years, while real estate was relatively flat during the same period albeit it is safer and easier to structure as Shariah compliant. On the other hand, money market products are mostly preferred by the majority of public investors who seek some returns from their cash holdings while keeping the

duration short. A lower preference on equities has been replaced by rising exposure to real estate (and REITs) albeit at a slower pace.

> *A lower preference on equities has been replaced by rising exposure to real estate (and REITs) albeit at a slower pace*

Growing product diversification and offerings

Usually, most of the local investors concentrate on traditional instruments such as equities (with 75% of the market capitalization being Shariah compliant) and the real estate market while there is still much skepticism about the Shariah status of money market products (with most of them structured under Murabahah) and the tradability of Sukuk instruments other than for a hold-to-maturity strategy. The entry of REITs in 2016 was a great addition into the asset class universe, but we sense the momentum has been underwhelming thus far due to expensive valuation at the initial offering stage which capped the upside potential.

More liquidity and access for investors

The Ministry of Finance, the Saudi Arabian Monetary Authority and the Capital Market Authority have taken a proactive role in creating a vibrant market for Sukuk this year by the listing of all government Sukuk and bonds on Tadawul in April 2018, which should then be followed by the introduction of retail Sukuk via placements by the banks. Earlier, the authorities appointed five banks under the primary dealers program to facilitate government Sukuk issuance which is seen as another step to boost market liquidity.

Key factor is incentives for investor education and awareness

We see buckets of opportunities in Islamic asset management in the KSA going forward with more players expected to enter the scene ahead of the market inclusion into global indices as the KSA gears up for more foreign direct investments. Increased education on investment products, financial planning, innovation in offerings and acceptance of innovative Shariah structures are needed to ensure sustainable growth in the sector.

Overall, Islamic asset management in Saudi Arabia is set to benefit from the spillover effect of being the largest economy in the Middle East with the government playing an active role in facilitating access to the market and diversifying its economy from hydrocarbons. The entry of foreign investors will make the sector more vibrant to global markets and produce exciting prospects.

SEDCO Capital, based in Saudi Arabia with over US$5 billion in AuM, is currently managing two flagship funds in local treasury and global Sukuk with a couple of discretionary mandates. The Islamic asset manager aims to become a one-stop solution by offering investors Shariah compliant solutions across asset classes to cater to various investment styles and different objectives.

Fakrizzaki Ghazali is the head of income assets at SEDCO Capital. He can be contacted at fakri.ghazali@yahoo.com.my.

Maalem Financing's Sukuk: First in Saudi from national SME lender

Maalem Financing Company, being an SME lender, opted to float Sukuk in favor of bank financings. The first tranche of SAR500 million (US$133.2 million) has Maalem's pool of loans to Saudi SMEs as underlying assets. DURGAHYENI MOHGANA SELVAM speaks to John A Sandwick, a member of Maalem's board of directors, to delve deeper.

The three-year paper was designed under the Murabahah principle. Sandwick explains to IFN that asset-backed structures were on the cards, but untested law and market familiarity made the team to decide otherwise. "While Saudi commercial law experienced a substantial upgrade in H1 [first half] 2018, including the introduction of world-class bankruptcy and asset-protection laws, these laws were still considered by legal counsel to be untested, with no established history of precedents," he says.

The privately-placed three-year paper was oversubscribed 3.6 times by institutional and individual investors from Saudi Arabia. The pricing met the expectations of investors and proceeds of the Sukuk will be used for expansion of the company.

"As is commonly known, any issuer's first Sukuk will always experience slightly higher pricing, but given this is a program it is expected the price will substantially decline during the subsequent issuances within the total program," Sandwick expounds.

But the Sukuk issuance, nicknamed Project Honeypot, had its own fair share of challenges. Other than the selection of the structure that had to favor a traditional template instead of an asset-backed structure following the new legal framework meant to facilitate asset securitization, the arranging team also faced hurdles in terms of selecting underling assets.

"Since an SME loan pool had never before been used as underlying collateral, testing and retesting of hypothetical performance scenarios were required," Sandwick says.

The instrument has a number of unique highlights, which are all considered new in the domestic Sukuk market. It is the first time in Saudi history that Sukuk financing is backing the operations of a national SME lender.

"Instead of bank financing, which is less reliable over time and in the present is almost absent for SME lending, a reliable capital market solution was engineered to ensure a steady flow of capital to the critically important SME sector," Sandwick expounds, who also adds that this is the first Sukuk from the middle market in Saudi Arabia. He further clarifies that the Saudi Sukuk market has until now been the preserve of major brand names, and Maalem's paper is the first to break the barrier.

Project Honeypot

SAR500 million

معالم للتمويل
Maalem Financing

30th September 2018

Issuer and obligor	Maalem Financing Company
Size of issue	Program size: SAR500 million (US$133.2 million) Tranche size: SAR100 million (US$26.64 million)
Mode of issue	Private placement
Tenor	36 months
Issuance price	SAR100 (US$26.64)
Profit rate	For full program, a sliding rate with weighted average yield estimated at SIBOR +450
Payment	Quarterly
Currency	Saudi riyals
Maturity date	1st October 2021
Lead manager, principal advisor and bookrunner	Albilad Capital
Governing law	Saudi Arabia
Legal advisor(s)/counsel	King & Spalding for lead manager, Clyde & Co for issuer
Listing	No listing
Rating	Tassnief: 'BB+' Capital Intelligence: 'BB'
Shariah advisor	Shariah board of Albilad Capital
Tradability	Not tradable
Face value/minimum investment	SAR1 million (US$266.392)

ENBD REIT obtains Murabahah facility

UAE: Shariah compliant ENBD REIT has confirmed a three-year US$75 million Murabahah finance facility with Standard Chartered Bank with an accordion option to upsize the facility to US$100 million. The new facility will support the REIT's focus on portfolio diversification through further acquisitions, to maximize income returns and mitigate risk.

The Shariah compliant facility is in two tranches. Tranche A (US$45 million at total drawdown) will partially repay ENBD REIT's existing debt, following oversight approval, thereby delivering a material benefit to the REIT's finance cost. Tranche B, of US$30 million, will be available to support potential acquisitions and will increase the loan-to-value ratio to 42%. The facility has a bullet payment at maturity.

Alkhabeer looks to acquire seven assets

SAUDI ARABIA: The Alkhabeer REIT Fund is planning to purchase seven assets in prime locations across Riyadh, Jeddah and Tabuk worth a total of SAR960.3 million (US$255.92 million), according to Argaam. The seven real estate assets, with a lease period of up to 15 years, will serve the retail, administrative and residential sectors. Tenants will include public agencies as well as private local and international entities. The fund manager has already signed 100 promissory notes worth SAR619 million (US$164.96 million) as rental securities for four properties.

Iran's SEO accommodates private equity funds

IRAN: The Securities and Exchange Organization (SEO) of Iran has accommodated private equity (PE) funds, Agah Group reported citing Saeed Fallah Pour, a deputy supervisor of the SEO. The minimum capital for a PE fund is IRR500 billion (US$11.91 million) and the minimum initial investment shall be no less than IRR1 billion (US$23,737.5). PE funds will have a seven-year lifetime.

MEFIC REIT obtains Islamic financing

SAUDI ARABIA: MEFIC REIT has obtained a seven-year Islamic financing facility amounting to SAR400 million (US$106.6 million) from Riyad Bank, according to a bourse filing. The funds will be used for the acquisition of income-producing properties and long-term rights contracts and to achieve the investment objectives.

Oman to see debut Islamic REIT in 2019

OMAN: Following the introduction of REIT legislation earlier this year, IFN can reveal that at least three new Shariah compliant REITs are already under construction, with a debut Islamic REIT expected to come to market in the first quarter of 2019.

Speaking exclusively to IFN, law firm Al Busaidy, Mansoor Jamal & Co confirmed that work on the new fund is "fairly advanced" and noted that the Capital Market Authority has been "extremely helpful and very flexible" in its support.

Alkhabeer REIT Fund's IPO launched

SAUDI ARABIA: Alkhabeer Capital has launched the IPO of its Islamic REIT, the Alkhabeer REIT Fund, on Tadawul. According to a statement, the IPO has a size of SAR237 million (US$63.1 million), equating to 24% of the fund's total assets. Subscription in Alkhabeer REIT units is scheduled to continue until the 29th November 2018.

The targeted return of over 9% per annum, distributed quarterly, is said to be among the highest in comparison with other real estate investment traded funds listed on Tadawul.

Arqaam Capital establishes fixed maturity Sukuk fund

UAE: Arqaam Capital has launched the Arqaam Islamic Current Income Fund 2022, a new subfund of Arqaam Islamic Funds, a Dubai International Financial Centre-based umbrella Shariah compliant fund. According to a statement, Noor Bank raised around US$130 million in subscriptions for the fund during the three-week offer period between the 17th September and the 11th October 2018. The fund has a final maturity of October 2022 and aims to provide income through investments predominantly in global Sukuk and offers a targeted annual income of 5%.

Derayah REIT acquires logistic real estate asset

SAUDI ARABIA: Derayah REIT has acquired a logistic real estate asset in Riyadh worth SAR196 million (US$52.22 million). The asset was funded through the available banking facility for Derayah REIT.

The property, located in the Al-Sully district in Riyadh, is a logistic complex consisting of 12 stand-alone warehouses of different sizes within an enclosed perimeter. The property's total built-up area is 96,800 square meters, and built on a land area of 214,600 square meters. The property will be entirely leased to Jadeer Property Management Company, a related party to the seller, for five years (binding) commencing on the property transfer date. The property is already subleased to different tenants. The annual rent of the property will be SAR18.23 million (US$4.86 million).

RHB Group launches China-focused Islamic fund

MALAYSIA: RHB Group Asset Management has launched the RHB Shariah China Focus Fund, an equity fund which will be invested in A-shares, H-shares, real estate investment trusts, exchange-traded funds and Chinese equity-related securities.

The vehicle was launched in partnership with China Asset Management, playing the role of investment advisor.

Alkhair Capital rolls out private equity fund

SAUDI ARABIA: Alkhair Capital has launched a SAR110 million (US$29.32 million) closed-ended private equity fund focusing on Saudi Arabia's food and beverage sector, Argaam reported citing Khalid Al-Mulhim, the managing director and CEO of the asset management company.

AlAhli REIT Fund (1) obtains financing

SAUDI ARABIA: AlAhli REIT Fund (1) has obtained a 15-year Shariah compliant Ijarah facility amounting to SAR650 million (US$173.23 million) from the National Commercial Bank also known as AlAhli Bank. The deal encompasses a five-year grace period, meaning that there will be no principal repayment of the

Ijarah facility during the first five years. The proceeds of the facility will be utilized to acquire income-generating properties.

Al Rajhi REIT closes real estate deal

SAUDI ARABIA: Al Rajhi REIT has completed the acquisition of a property known as Lulu Central Logistics for SAR52.25 million (US$13.92 million), according to a bourse filing. The transaction, funded through the available Shariah compliant debt facility for Al Rajhi REIT, was completed on the 31st October 2018.

Lulu Central Logistics is a purpose-built, high-specification warehouse facility located at Al Kharj Road, Industrial Gate City, Riyadh. It has a land area of 23,716.29 square meters and a built-up area of 16,500 square meters. The property has a dry warehouse that is automated with state-of-the-art fittings and fixtures and also has a cold storage facility and repacking unit within it.

The property is fully leased to Lulu Saudi Hypermarkets with an annual rent payment of SAR3.8 million (US$1.01 million). The annual rent will be increased by 12% every five years. The current lease with Lulu Saudi Hypermarkets is for a term of 15 years starting from the 16th December 2016.

CMA approves new asset management regulations

SAUDI ARABIA: The Capital Market Authority of Saudi Arabia has approved the amended Real Estate Investment Traded Funds Instructions.

The amendments are intended to support the principle of investor protection, regulate the aspects needed to enhance the investment in these funds and set the rules which will help to mitigate the risks relevant to investing in the real estate investment traded funds.

Separately, the CMA also approved the Closed-Ended Investment Traded Funds Instructions. Some of the notable provisions are found in stating the unitholder's right to exercise all rights in relation to the units including, but not limited to, the right to vote at meetings of unitholders, besides enabling the investment of a percentage exceeding 10% of the fund's net asset value in illiquid assets. Moreover, the authority has taken into consideration a number of public views , including but not limited to, reducing the minimum amount for the fund's establishment to SAR300 million (US$79.95 million).

Welcome address by Mahdzir Othman, the director of the securities market and the acting director of the Islamic capital market at Bursa Malaysia, at IFN Investors Forum 2018 on the 14th November 2018.

It is my great pleasure to be here today at IFN Investors Forum 2018 that gathers industry leaders and experts across Asia and other parts of the world. I must first express my sincere thanks to the organizer for all their efforts in staging this event and for inviting me to be a part of the congregation. I believe this conference serves as a valuable platform for leading Islamic finance leaders who are eager to keep abreast of the latest developments of Islamic investments and explore new opportunities and trends in Asia, as well as to forge new business linkages across the globe.

Today, Malaysia is internationally recognized as the leader in Islamic finance and a key global marketplace for Islamic financial activities. Our Islamic financial ecosystem has developed to such an extent that we are able to offer a full range of Islamic financial services. Malaysia has developed a comprehensive and sophisticated marketplace and ecosystem, where you can access the integrated sectors of international Islamic finance services that comprise Islamic banking, Takaful and re-Takaful, Islamic capital markets and money markets and Islamic fund management.

Malaysia is fortunate enough to sit in a unique position benefiting from our leadership and expertise of more than three decades in Islamic finance, giving us a good vantage point to explore other developmental areas such as sustainable and responsible investing (SRI), environmental, social and governance (ESG), green, ethical, value-based and impact investing and how these could converge and integrate with Islamic finance.

Today's forum will bring you discussions on relevant aspects of Islamic or Shariah compliant investments, covering a wide-range of topics pertinent to the progress and growth of the Islamic finance industry, including among others:

(i) Islamic asset management and Shariah investing
(ii) SRI and ESG
(iii) Development of innovative products and capital market instruments, and last but not the least
(iv) Financial technology (or fintech).

Islamic asset management and Shariah investing

The asset management industry continues to play a crucial role in mobilizing savings and channeling funds to productive activities to support economic growth. Looking ahead, the industry will benefit, among others, from the rising affluence of the population especially in developing countries as well as from the growing allocation toward retirement savings. Global assets under management (AuM) are projected to increase from US$84.9 trillion in 2016 to US$145.4 trillion in 2025, where Asia is expected to be among the fastest-growing regions.

The fund management industry is a key component of the Malaysian capital market, and its overall AuM have expanded by 16.2% from RM679.3 billion (US$162.46 billion) in 2016 to RM789.6 billion (US$188.83 billion) as at the end of September 2018. The Malaysian Islamic fund industry has also progressed tremendously in tandem with global Islamic funds, and the industry has demonstrated impressive growth with an Islamic fund size of RM171.45 billion (US$41 billion), representing 22% of the total fund management industry. Additionally, Malaysia now leads the global Islamic fund industry with a 36.5% share of global AuM.

As at the end of September 2018, there were 77 fund management companies of which 55 manage Islamic funds made up of 21 fully-fledged Islamic fund management companies and 34 fund management companies offering Islamic windows, including global managers.

The development and growth of the Islamic fund management industry in Malaysia is largely supported by a comprehensive and well-established Islamic capital market ecosystem. As at the end of September 2018, the Islamic capital market represents 60.7% of Malaysia's overall capital market with a size of RM1.95 trillion (US$466.35 billion) as compared with RM1.69 trillion (US$404.17 billion) in 2016.

With regard to the Malaysian equity market, Bursa Malaysia plays a significant role in facilitating Islamic capital market activities where nearly 700 out of 900 companies or 76% of the total market are Shariah compliant. Innovation and the delivery of unique propositions, such as Bursa's fully integrated Islamic securities exchange platform, Bursa Malaysia-i, and the Shariah compliant alternative to the Securities Borrowing Lending and Negotiated Transaction Framework called the ISSBNT, have managed to further build our strength and give us the competitive edge in the Islamic capital market space.

The Malaysian equity market has seen tremendous growth, with a more than 300% increase in market capitalization since 1997, and as at the end of September 2018, Shariah market capitalization makes up 62.3% of the total market capitalization of RM1.8 trillion (US$430.47 billion).

The FTSE Bursa Malaysia Hijrah Shariah Index, comprising the 30 largest Shariah compliant companies on the FTSE Bursa Malaysia EMAS Index, has consistently outperformed the FTSE Bursa Malaysia KLCI, growing 36% from 2012 to September 2018. We expect this positive trend to continue on the back of the continuous growth in Islamic funds.

SRI and ESG

The growing demand for sustainability has seen a rapid rise of SRI and businesses embracing sustainability through sustainable business models.

One of the strategic thrusts of the Islamic Fund and Wealth Management Blueprint launched by the Securities Commission Malaysia (SC) in January 2017 is to establish Malaysia as a regional center for Shariah compliant SRI. The increase in Shariah compliant SRI funds will add to the range of investment products and significantly broaden the investor base.

The AuM of global sustainable investment reached US$22.89 trillion in 2016, compared with US$18.28 trillion in 2014, an increase of 25%. With Islamic funds being recognized as part of the SRI universe, Malaysia is currently the largest SRI fund market in Asia (excluding Japan) with a 30% market share. This substantial size of SRI AuM will provide significant potential for fund administration and investment support services firms to serve both the Islamic and SRI fund segments.

In December 2014, Bursa Malaysia launched ASEAN's first globally benchmarked FTSE4Good Bursa Malaysia Index. This ESG index measures the performance of companies demonstrating strong ESG practices. It is worth highlighting that two-thirds of the index constituents are Shariah compliant.

Development of innovative products/capital market instruments

With the development of economies, the infrastructure needs and cross-border activities in trade and finance, the outlook for the future demand for the Islamic finance industry remains bright. This then brings to the need of innovating to stay relevant and competitive and cater to the demand for Shariah compliant SRI funds.

The recently issued Guidelines on SRI Funds by the SC are another significant step toward the further development of the SRI ecosystem in the Malaysian capital market, reinforcing our position in the regional SRI segment and global leadership in Islamic finance. The introduction of the guidelines will help facilitate and encourage the further growth of SRI funds in Malaysia which is set to boost and widen the range of SRI products in the market and attract more investors into the SRI segment.

Malaysia has had a long-standing commitment to the pursuit of sustainable and inclusive growth. The most significant step is to clearly identify Islamic finance to promote sustainable businesses, practices and communities, without compromising the fundamentals of Shariah guided by the overarching objectives of Maqasid Shariah.

Bursa Malaysia has also successfully taken steps to build our strength and give us the competitive edge in the Islamic capital market space. These developments have managed to earn us numerous global recognitions, having served to broaden the market and successfully growing the number of participants which include issuers, investors and intermediaries.

With SRI on the rise, the FTSE Bursa Malaysia Hijrah Shariah Index provides equivalent opportunities for greater demand in Shariah compliant stocks. Other listed Shariah compliant products such as Shariah compliant exchange-traded funds (ETFs) and Shariah compliant REITs are also viable alternatives for investors with differing risk appetites, and we expect more of such products to gain popularity.

To date, there are six out of 10 ETFs listed on the exchange which are Shariah compliant. Bursa Malaysia is committed to rolling out more initiatives to pave the way for more listed product innovations that will spark growth and attract greater investor participation, which are aimed at improving the liquidity and vibrancy of the Malaysian ETF market.

The potential of applying financial innovation in Waqf has also proven to be a success, for example:

(i) A cash Waqf concept that gives returns like the Waqf Fund initiative by the Association of Islamic Banks in Malaysia in collaboration with the State Islamic Religious Council of 10 states to provide channels to collect and manage cash Waqf; the returns have been utilized for economic empowerment, education and health projects, and
(ii) Sukuk Waqf in countries like Saudi Arabia and Singapore to raise capital for the development of Waqf land.

In a nutshell, success stories and good practices of Waqf management should be emulated and be used as a benchmark to further spur the vibrancy of Waqf development in this country. We must also consider ways in which the Waqf system can work alongside and complement other instruments of Islamic finance and leverage on similarities in the underlying principles of the Shariah and SRI.

Financial technology (fintech)

Technology plays a significant role as an enabler in the financial services sector. It enhances efficiency, enables deeper data analytics, facilitates more customised reporting and promotes transparency, among others. In other words, it enhances the customer experience. At the same time, the prevalence of technology can enable a country like Malaysia to compete effectively with the more established markets especially if the industry here is able to create and offer substantive, value-adding service differentiation that capitalizes on technological capabilities.

The many rapid developments and innovations unfolding in our markets to adapt to the changing world have witnessed a period of considerable change impacting all dimensions of our value chain of markets and participants. In many ways, today's interconnected and technology-driven marketplace bears little resemblance to those of just over a decade ago.

As we seek to innovate and develop new products in these times of rapid change and discovery, we must consider how financial technology or digital finance might be harnessed to enhance the efficiency of asset management and utilization. The advent of blockchain technology, cryptocurrencies and tokenization, as well as other emerging breakthroughs in fields such as artificial intelligence, robotics and the internet of things, nanotechnology and so on will no doubt further enhance the potential of asset management and distribution.

Closing

I strongly believe that the integration of Shariah investing and SRI is a vital component to a dynamic and vibrant Islamic finance marketplace. It has the potential to be further developed and offers vast opportunities to ecosystem stakeholders to grow in the Islamic finance marketplace.

In the case of Malaysia, we have been steadfast in working together with our partners to stimulate interest among global investors to invest in our market. Malaysia, as the world's leading Islamic finance marketplace, strives toward providing the global markets with our comprehensive and sophisticated Shariah compliant and ESG-based financial instruments.

Rest assured, the Malaysian market has so much to offer. It has a resilient financial system and innovative ecosystem that are open to the world, which would be able to help reinforce your existing diverse market financial strategies. Malaysian Islamic finance, with integration of SRI and ESG, will be the main driver of the huge growth potential in Asia and globally, coupled with the enablement of disruptive technology and fintech.

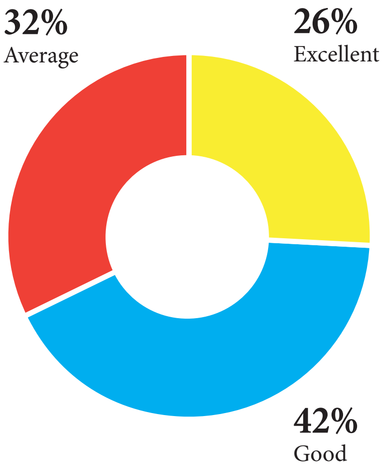
Moving forward, Malaysia will continue to play its leading role in the future growth of Islamic finance by facilitating cross-border financial activities that will support and spur the growth of its partners and beneficiaries around the world.

Before I end my speech, let me once again thank the organizer, REDmoney, for inviting me and to all forum participants, I wish all of you an insightful day ahead.

Thank you.

The Islamic Asset Management Industry: Challenges and Opportunities Going Forward

What is the real proposition for the Islamic asset management industry? Is it a thematic investment strategy or a viable, self-supporting industry? How large potentially can the market become? Does Shariah investing require a rebrand? Does the industry need to become more aligned to ESG/SRI? Through an engaging panel, we seek answers. We also take a look at key challenges facing the industry today, from reversing redemptions and outflows, to building investor confidence and trust, to alleviating fee pressure and improving distribution channels through technology.



Moderator:

DR HURRIYAH EL ISLAMY — *Executive Board Member, Badan Pengelola Keuangan Haji (BPKH)*

Panelists:

ANGELIA CHIN SHARPE — *CEO and Country Head, Malaysia and Brunei, BNP Paribas Asset Management*

GERALD AMBROSE — *CEO, Aberdeen Islamic Asset Management*

LOUISA POH — *Chief Representative, Malaysia Representative Office, 90 North Real Estate Partners*

SHAHARIAH SHAHARUDIN — *President, Saturna*

Key takeaways:

Investors still tend to believe that Islamic finance/Islamic investing is for Muslims only. Our experience at Saturna shows that more than 50% of our investors are non-Muslims and of various faiths. Some investors might think that Islamic investments are underperforming their counterparts due to limited investable universe of Shariah compliant companies. However, over the long run, the performance of Islamic benchmarks like DJ Islamic index is very similar to the DJI index.

We believe Shariah investing is value-based investing. That is to say that you don't only invest in growing companies with quality fundamentals, but are also Shariah compliant as well as considers environmental, social and governance metrics, namely ESG. Moving forward, we are transcending ourselves from negative to positive screening towards more responsible and impactful investment beyond profits.

Shahariah Shaharudin, President, Saturna

The Islamic Asset Management Industry: Challenges and Opportunities Going Forward

Key takeaways:

Most of the assets under management (AUM) of the Islamic funds are less than US$50 million and local-centric. After more than 10 years, this does not really reflect the true growth of Islamic AUM. Islamic investment is still seen as a niche segment. And this becomes more challenging when we don't see full support from OIC countries, especially when large institutions from these countries such as their sovereign wealth fund, pension institutions and central bank are not fully committed to support the asset management industry by giving dedicated Shariah mandates covering various asset classes, especially global assets. Only when we see this dedicated commitment, you will see a more vibrant and liquid Islamic capital market that will lead to innovation. The large fund size and a long term investment horizon of these institutions are critical to support the Islamic capital market. Malaysia is a good example of their commitment and how this has made Malaysia a leader in Islamic banking, finance and capital market. We cannot rely on the retail segment to develop the capital market; the institutional segment is very critical.

There is also a need to integrate within the developed and emerging markets as a much broader geographical spread for diversification is required for risk management.

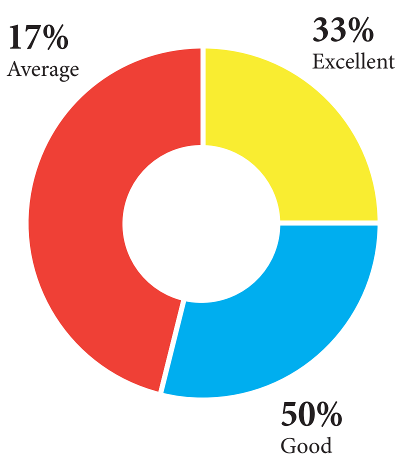
I feel that Shariah investments need to move away from being seen as religious and instead viewed for its philosophy to appeal to investors who share the same philosophy, whatever the faith. Just like environmental, social and governance (ESG) — why investors select ESG is because it's align to their core values. Hence, I feel we need to share this philosophy of investments and why we need to develop capital market products that support the philosophy. This philosophy and core values of Shariah investment may align to ESG, but Shariah investment is not necessarily ESG-compliant. When addressing ESG, we also need to look at the minimum as per the UN Global Compact Principles. As we progress, I believe ESG will become the DNA of all investment processes and may not be seen as a separate asset class as it is now.

What Malaysia has done and developed for our capital markets is commendable and OIC countries can also learn from Malaysia through the regulators such as SC, BNM and Bursa Malaysia and also institutions like EPF that now allow their contributors to even select a Shariah compliant pension scheme. The country has developed a sound Islamic capital market and infrastructure and also capacity and talent development.

Angelia Chin-Sharpe, CEO and Country Head, Malaysia and Brunei, BNP Paribas Asset Management

The Malaysian Federal Budget and Implications for Investment

LAURENCE TODD — *Director, Institute for Democracy and Economic Affairs*



IDEAS
INSTITUTE FOR DEMOCRACY AND ECONOMIC AFFAIRS

Budget 2019: Investment Implications

Key messages:

- Generous and innovative budget that delivers "recalibrated" manifesto
- The promised "sacrifices" did not really materialise but will still be needed in medium term
- Longer term direction of travel on structural reform is positive but details pending

Generous, innovative manifesto recalibration:

- Operational budget increased by over 10%
- This includes spending on manifesto promises: subsidies and welfare
- Some manifesto promises "recalibrated" to be more realistic:
  - Tolls frozen not abolished
  - Student loan repayments eased not eliminated

However, no real sacrifices:

- New taxes are very modest and no spending cuts
- As a result deficit has widened to 3.7%
- Special 30bn dividend from Petronas making up revenue this year
- To reduce deficit over next three years, sacrifices (spending cuts or taxes) will be needed

Longer term direction on structural reform is positive, but details missing.

Three case studies:

- Procurement / PPPs
- Housing
- Government-in-the-economy

Procurement / PPPs:

- Current situation is compromised by patronage and even corruption - Transition from direct negotiation to open tender in Procurement Act
- At same time government increasing outsourcing and PPPs.
- Biggest potential winners: construction, healthcare, IT, services (e.g. facilities management)

Housing:

- Significant "overhang" in the market; some price readjustment necessary
- At the same time many cannot afford a home; federal agencies crowding out developers in affordable segment
- Budget suggests a more market-led approach than feared: developer proposed price cut, no sign of "relaxed" credit policy, rationalisation of agencies involved in housing
- But long way to go, and new peer-to-peer scheme needs clarity

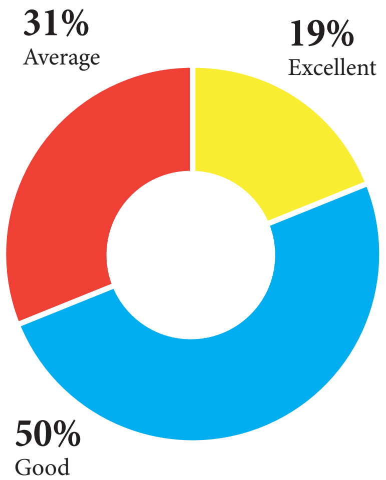
Government-in-the economy:

- Government will review statutory bodies and companies to reduce non-strategic holdings
- **Unlisted** - significant holdings in: real estate (commercial and residential); infrastructure; technology – financial performance is mixed
- **Listed** - government large shareholder in every sector of the economy. Mixed message on future policy: Finance Minister promises to reduce govt holdings, increase mobility in capital markets – but 11MP maintains govt. policy of actively acquiring equities

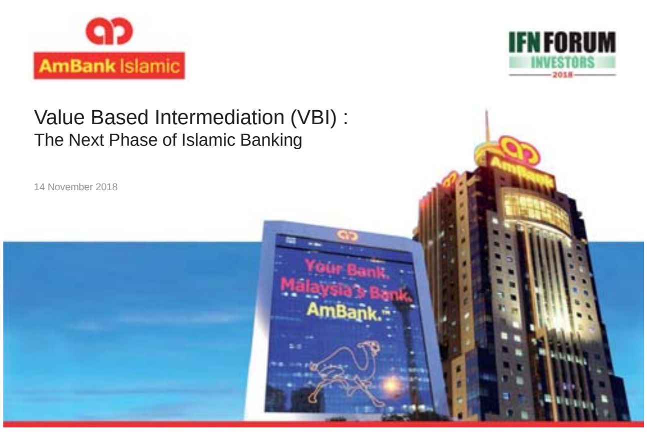
Conclusion

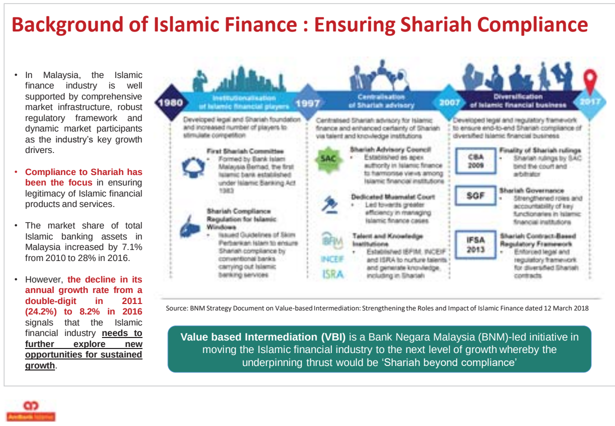
- Budget 2019 was well judged political balancing act. Fiscal retrenchment will be need in medium term and no details where sacrifices will be.
- Some cause for optimism on longer term reform, including opportunities for investment but depends on:
  - Commitment to genuine reform, which goes against entrenched interests; and
  - Focus on market-led approach

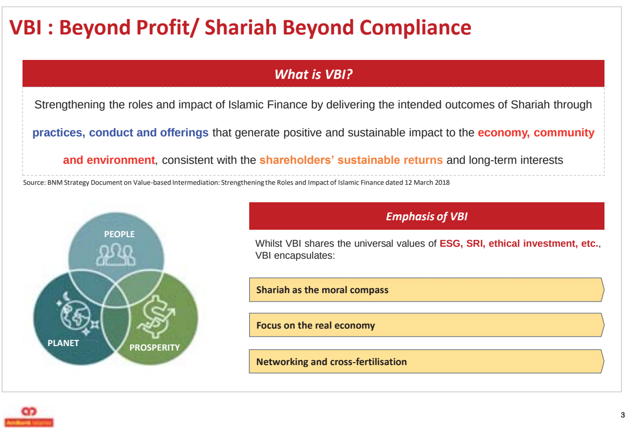
Value Based Intermediation (VBI): The Next Phase of Islamic Banking

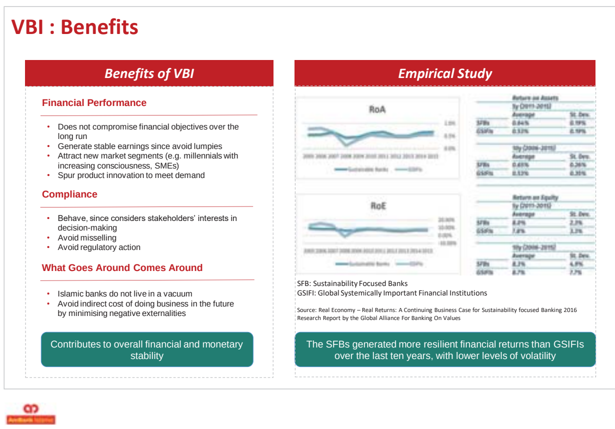


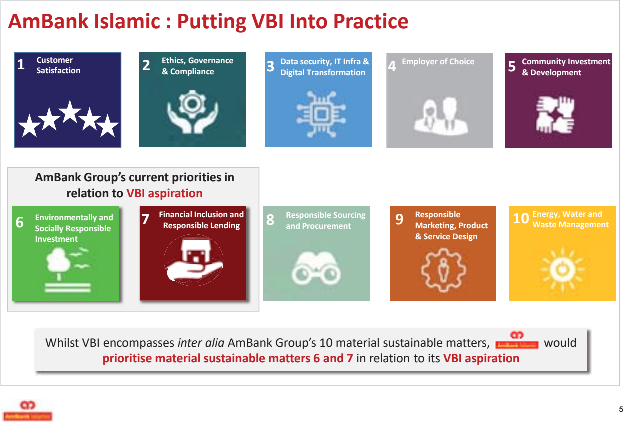
EQHWAN MOKHZANEE MUHAMMAD — *CEO, AmBank Islamic*

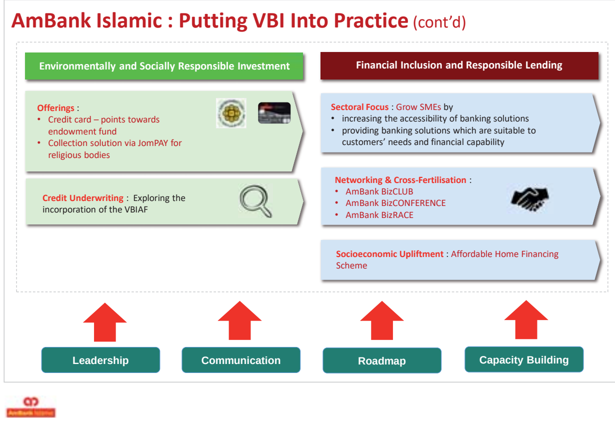


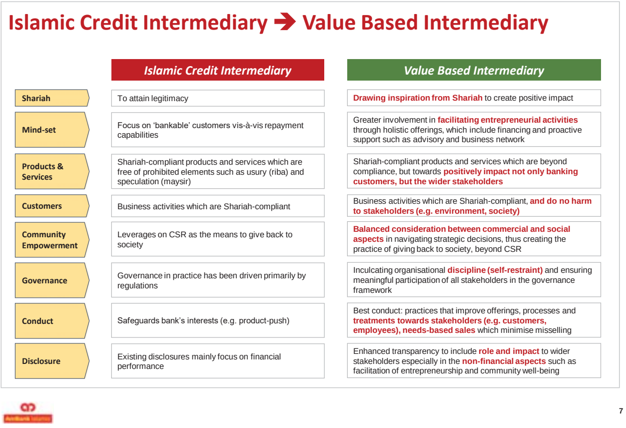






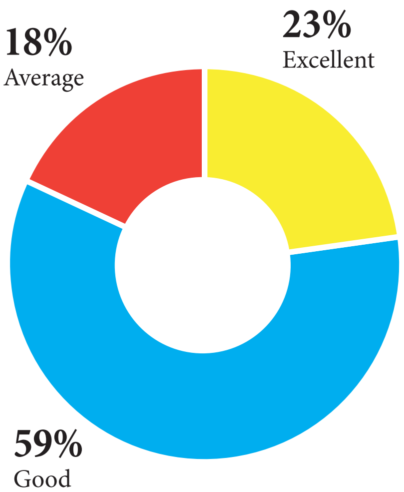






Environmental, Socially Responsible Investing and Islamic Investment: Opportunities for Development and Growth

We examine responsible, environmental and green finance in Asia and ask how ethical and Islamic finance can potentially become closer interlinked. We also discuss how Southeast Asia can grow its existing ESG niche among asset managers and owners and what role Islamic asset management can carve for itself in this. Do green bonds and Sukuk offer viable long-term investments and how can the industry address the relative scarcity of credible climate-related and low-carbon investment opportunities? When will Asia see the launch of a socially conscious ETF?



Moderator:

ELIAS MOUBARAK — *Partner, Trowers & Hamlins*

PANELISTS:

ARIFF SULTAN — *Regional Director, IdealRatings*

DR HURRIYAH EL ISLAMY — *Executive Board Member, Badan Pengelola Keuangan Haji (BPKH)*

MASUMI HAMAHIRA — *Advisor — Islamic Banking Window, MUFG Bank*

NAJMUDDIN MOHD LUTFI — *CEO and Executive Director, BIMB Investment Management*

THIAGARAJAN NADESON — *Head of Market Transformation Initiates and Education for Sustainable Development, WWF-Malaysia*

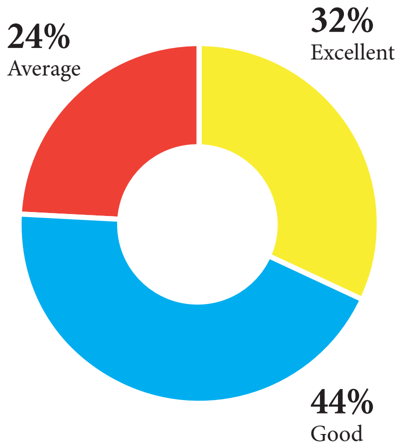
Environmental, Socially Responsible Investing and Islamic Investment: Opportunities for Development and Growth

Key takeaways:

Unlike Islamic finance, there are no global standards to define the rulebook for ESG. Each region/country/index provider/sovereign wealth fund and fund manager have their own rulebook and therefore there is a need for a custom rulebook for ESG funds. This rulebook will have to take into consideration the socio/political issues representing their region and country. There is also a data issue to consider for ESG Funds with APAC as the universe for the fund. Listed companies in APAC are not ready to report on the ESG compliance and ESG fund managers will have to rely on data providers to provide such reports.

Ariff Sultan, Regional Director (APAC), IdealRatings Inc., Singapore

Fireside Chat: The Reality of Environmental, Social and Governance Investing in Southeast Asia — Trials and Tribulations of Investing for Good



Interviewee

SHIREEN MUHIUDEEN — *Founder, Managing Director and Principal Fund Manager, Corston-Smith Asset Management*

Interviewer

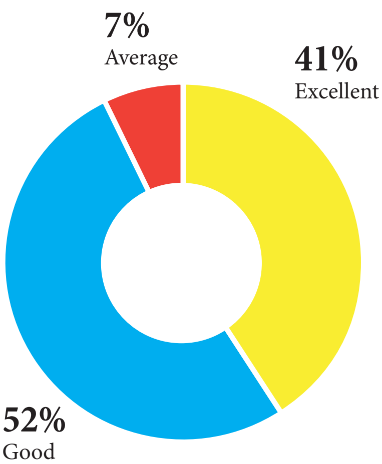
MICHAEL ORZANO — *Senior Director, Global Equity Indices, S&P Dow Jones Indices*

Products, Strategies and Styles for Islamic Asset Management

Through an expert panel we assess the market, viability and performance of the ever-expanding universe of exchange-traded funds (ETFs), as well as other passive products. We also examine the active management sector and how value for end investors is created across both styles. Finally, why do we see so few Islamic ETFs and what can be done to address this paucity? What role do exchanges play in this process?

Moderator:
HASHAM ESMAIL PIPERDY — *CEO, Mercer*

Panelists:
AHMAD FUAD ALHABSHI — *Investment Manager, Opus Asset Management*
HAKAN OZYON — *Senior Portfolio Manager, Global Ethical Fund*
LIM SAY CHEONG — *Executive Director, Head of Islamic Business Development, Nomura Islamic Asset Management*
MICHAEL ORZANO — *Senior Director, Global Equity Indices, S&P Dow Jones Indices*
VALENTIN LAISECA — *Head of ASEAN Index Sales, MSCI*



Key takeaways:

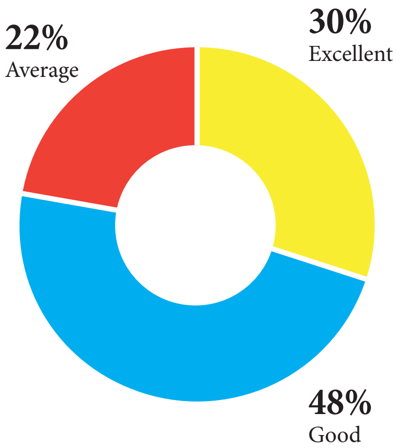
While there are limited offerings of Islamic ETFs, regulators, exchanges, asset managers and index providers are working towards addressing this gap. However it is institutional investors who need to lead by example and provide seed capital so that those products can take off.

For MSCI, Islamic indexes fall under the ESG category under the values approach. This means that the investors' main goal is to abide by Shariah principals, and performance is only a second consideration. Another approach to ESG is integration, where investors incorporate ESG consideration into the analysis with the goal of improving the risk-adjusted returns of their portfolios

Valentin Laiseca, Head of ASEAN Index Sales, MSCI

Technology Roundtable: The Rise of the Machines

What does financial technology mean for the asset management industry? Where will technology offer the most significant disruption: managing money or optimizing distribution channels, or both? We also discuss the role of blockchain, cryptocurrencies and tokenization in the asset management industry.

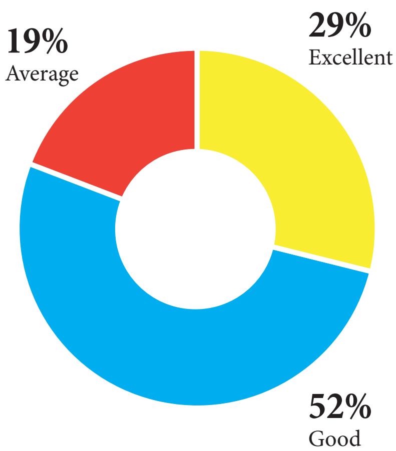


Moderator:
YOUSUF SULTAN — *Chief Technology Officer, Ethis Ventures*

Panelists:
MARTIN YOUNG — *CEO and Chief Analyst, Farringdon Asset Management Singapore*
OMAR RANA — *Co-Founder and Managing Director, Finalytix*
ROBIN LEE — *CEO, HelloGold*
WONG WAI KEN — *Country Manager — Malaysia, StashAway*

Innovation in Islamic Investment Management: Waqf

We discuss the growing importance of revitalizing Waqf through the development and use of innovative capital market instruments. We examine how, through innovative products and services, we can further develop Waqf assets in order to facilitate growth in the Islamic investment and asset management industry, thereby promoting financial inclusion and social development.



Moderator:
DR AIDA OTHMAN — *Director, ZICO Shariah*

Panelists:
FARRUKH HABIB — *Researcher, International Shari'ah Research Academy for Islamic Finance*
MAZLAN AHMAD — *Executive Chairman, Finterra*
MAZNAH MAHBOB — *Partner, Finance and Investments, Strategic Swiss Partners*
SHAMSIAH ABDUL KARIM — *Senior Vice-President, Shariah and Product Development Division, Bank Muamalat Malaysia*

SPEAKERS' LIST

Name	Job Title	Company Name
AHMAD FUAD ALHABSHI	Investment Manager	Opus Asset Management
DR AIDA OTHMAN	Director	ZICO Shariah
ANGELIA CHIN SHARPE	CEO and Country Head, Malaysia and Brunei	BNP Paribas Asset Management
ARIFF SULTAN	Regional Director	IdealRatings
ELIAS MOUBARAK	Partner	Trowers & Hamlins
EQHWAN MOKHZANEE MUHAMMAD	CEO	AmBank Islamic
FARRUKH HABIB	Researcher	International Shari'ah Research Academy for Islamic Finance
GERALD AMBROSE	CEO	Aberdeen Islamic Asset Management
HAKAN OZYON	Senior Portfolio Manager	Global Ethical Fund
HASHAM ESMAIL PIPERDY	CEO	Mercer
DR HURRIYAH EL ISLAMY	Executive Board Member	Badan Pengelola Keuangan Haji (BPKH)
LAURENCE TODD	Director	Institute for Democracy and Economic Affairs
LIM SAY CHEONG	Executive Director, Head of Islamic Business Development	Nomura Islamic Asset Management
LOUISA POH	Chief Representative, Malaysia Representative Office	90 North Real Estate Partners
MAHDZIR OTHMAN	Director of Securities Market	Bursa Malaysia
MARTIN YOUNG	CEO and Chief Analyst	Farringdon Asset Management Singapore
MASUMI HAMAHIRA	Advisor — Islamic Banking Window	MUFG Bank
MAZNAH MAHBOB	Partner, Finance and Investments	Strategic Swiss Partners
MAZLAN AHMAD	Executive Chairman	Finterra
MICHAEL ORZANO	Senior Director, Global Equity Indices	S&P Dow Jones Indices
NAJMUDDIN MOHD LUTFI	CEO and Executive Director	BIMB Investment Management
OMAR RANA	Co-Founder and Managing Director	Finalytix
ROBIN LEE	CEO	HelloGold
SHAHARIAH SHAHARUDIN	President	Saturna
SHAMSIAH ABDUL KARIM	Senior Vice-President, Shariah and Product Development Division	Bank Muamalat Malaysia
SHIREEN MUHIUDEEN	Founder, Managing Director and Principal Fund Manager	Corston-Smith Asset Management
THIAGARAJAN NADESON	Head of Market Transformation Initiates and Education for Sustainable Development	WWF-Malaysia
VALENTIN LAISECA	Head of ASEAN Index Sales	MSCI
WONG WAI KEN	Country Manager — Malaysia	StashAway
YOUSUF SULTAN	Chief Technology Officer	Ethis Ventures

ATTENDEE COMPANIES

22 Four International Corporation
90 North Real Estate Partners
AAM Commodities
Abdul Rahman Law Corporation
Aberdeen Islamic Asset Management
Aifinco
Airestec
Al Rajhi Bank
Alkhair International Islamic
Alliance Islamic Bank
Allianz Life Insurance
Alnamaa Capital Holdings Limit
Alpha One Ventures
Amanahraya Trustees
Ambank Group
Ambank Islamic
Amfunds Management
Aminvest
Applied Innovative
Ariff Consult
Asia Plantation Capital
Azimuth Global Partners
Badan Pengelola Keuangan Haji
Bank Islam Malaysia
Bank Muamalat Indonesia
Bank Muamalat Malaysia
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Buss Malaysia
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Cathect
Chemlab
Christopher Joseph & Associate
CIMB Bank
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CIMB Islamic
CIMB-Principal Asset Management
Citibank
Core Advisors
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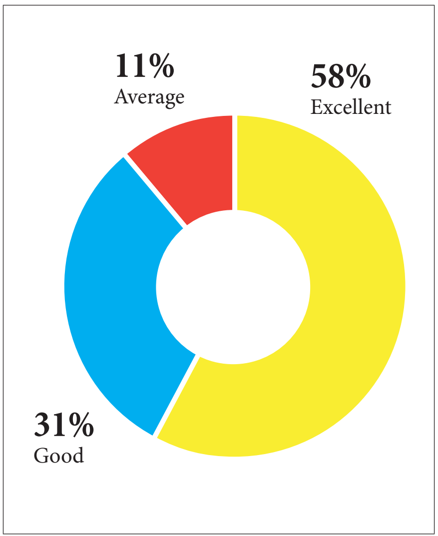
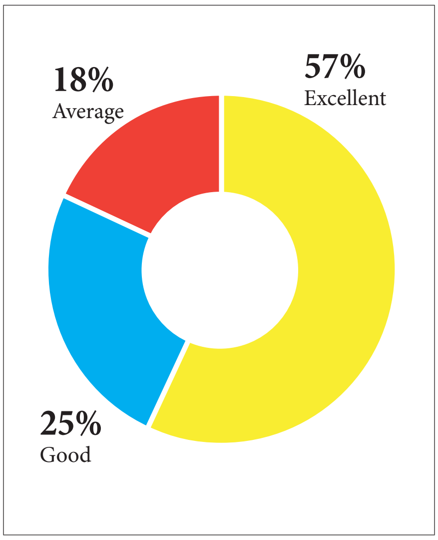
Eastspring Al-Wara Investments
Ebeam
Elixir Capital
Employees Provident Fund
ERH Marketing
Ethis Ventures
Etiqa Insurance & Takaful
FA Advisory
Factset
Farringdon Asset Management
Finalytix
Finterra
Five Pillars
FKH Holdings
Global Ethical Fund
GMX Khazanah Capital Group
Hejaz Financial
Hellogold
Herbert Smith Freehills
Heritage Amanah International
Hong Leong Investment Bank
Hong Leong MSIG Takaful
HSBC Amanah Malaysia
Humana International
Hzar IPC
Idcorp
Idealratings
IE Business School
IILM
INCEIF
Infinitium
Institute for Democracy & Economic Affairs
International Islamic Liquidity
ISRA
International Waqf Action
Intersoft
Investcorp Singapore
IDB
I-Vcap Management
J Wells Collection
Jabatan Pendidikan Politeknik
Jomwaqaf
Joseph & Co
JPPPL
KAF-Seagroatt & Campbell
KDS Global
Kenanga Investment Bank
Kenanga Investors
Koperasi Angkatan Tentera
KWAP
Lao-Syuen Dev
Lee Hishammuddin Allen Gledhil
Libyan Islamic Finance Forum
Limas House Resources
Malacca Securities
malaysia herbal shop
Malaysia Rail Link
Management Science University
Manulife Asset Management
Masryef Management House
Maybank Investment Bank
Mercer
Mercu Berharga
MIDF Amanah Asset Management
Midtou Global Financial
Mitsubishi UFJ Financial Group
MNRB Holdings
MSA
MSCI
Muamalat Invest
MUFG Malaysia
Nawa Investment
Next Gen Group Ventures
Nidzma Enteprise
Nik Ez Law Chambers
Nomura
OIC International Business Centre
Oilgas Media
Opus Asset Management
Osman Consulting
Pan Malaysian Pools
Perbadanan Nasional
PMB Investment
PwC
Project Felicity
Prudential BSN Takaful
Rahmat Lim & Partners
Rakuten Trade
Ram Ratings
RCM Engineering & Services
Red Arts
RHB Investment Bank
RHT Compliance Solutions
Robin Capital
Runningstream
S&P Dow Jones Indices
Saturna
SBI Ventures Malaysia
SCG Capital Group
Securities Commission Malaysia
Silver Bullion
Silver Ridge
Standard Chartered Bank
Stashaway
Stellar Consulting Group
STR Global
Strategic Swiss Partners
TA Securities
TED Wealth
The Business Year
The Perth Mint
Tomei Consolidated
Towers & Hamlins
Twin Pavilion Properties
UEM Group
UGL
UITM
Umison Construction
United Overseas Bank
Universiti Tun Abdul Razak
University Putra Malaysia
VKA Wealth Planners
Wan Timeline Enterprise
WL Led Lighting
WM & Co
WWF Malaysia
Wyne Oriental Traders
Zico Shariah

OVERALL EVALUATION

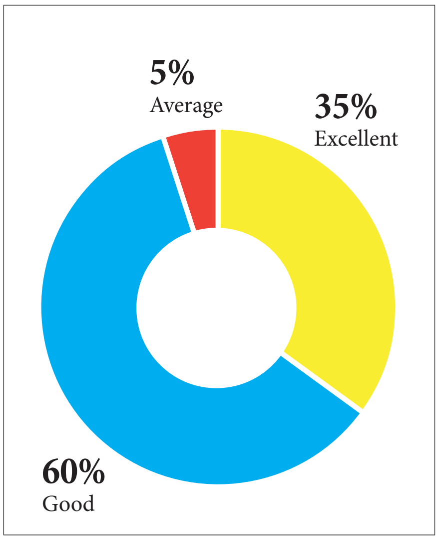
Pre-event Contact



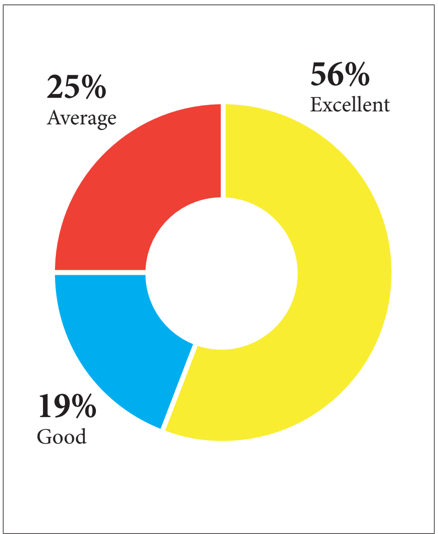
Venue & Facilities



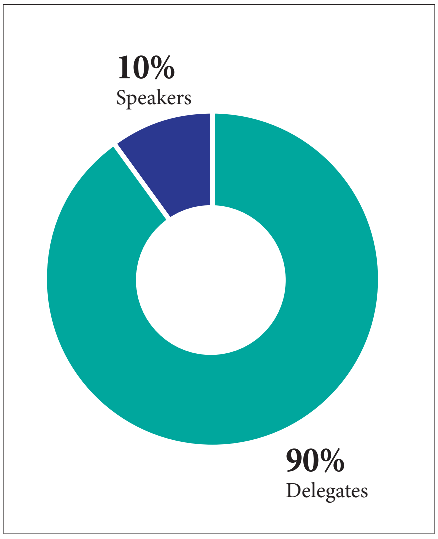
Overall Evaluation of the Event



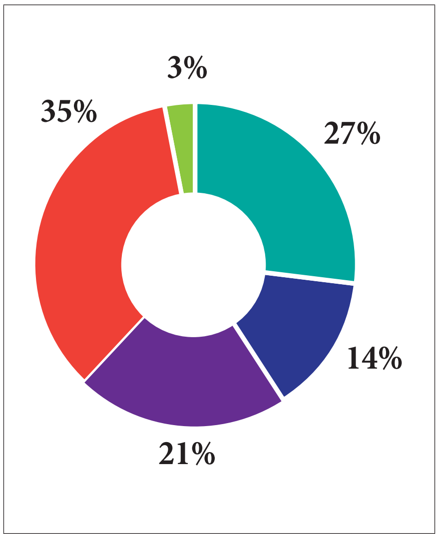
Overall Evaluation of the Speakers



Delegate Breakdown

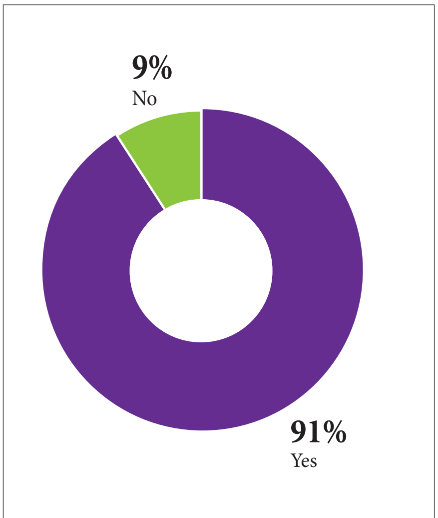


Delegate Job Title Breakdown

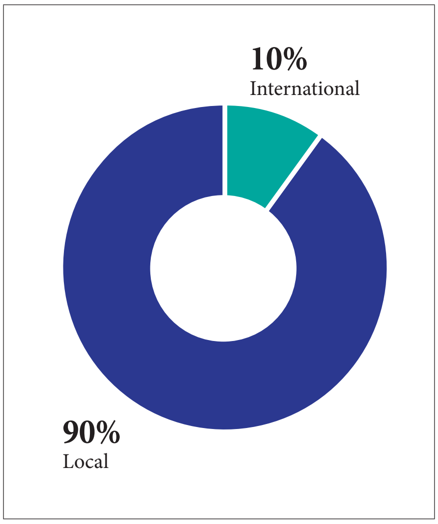


Delegate Job Title	No
Board Level Management	109
Senior Management	64
Management	84
Executive	44
Others	9
Total	**310**

Would Delegates Like to Attend IFN Investors Forum 2019?



Delegate Breakdown (International & Local)



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