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Islamic Asset Management & Success Story from Pakistan

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الله أكبر

Session Outline

- Global Islamic Finance Industry
- Pakistan' s Mutual Funds Industry
- Al Meezan Investments
- Challenges facing Asset Management industry in Pakistan
- Al Meezan - A Success Story
- Way forward for Asset Management in Bangladesh

*“Ye who believe! Fear Allah and give up what remains of interest, if you are truly believers. But if you do it not, **then beware of war from Allah and His Messenger.**”*

-(Surah Al Baqara, Verse 279)



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Global Islamic Finance Industry

Emergence of Islamic Financial Industry

1963-75

- First Islamic Bank setup in Egypt
- Dubai Islamic Bank (first Islamic private commercial bank, 1975), the Faisal Islamic bank of Sudan (1977) and the Bahrain Islamic bank (1979).

1983-84

- Iran fully converted its banking and economic system to an Islamic one

1985-90

- The High Council of OIC (Organization of Islamic Conference) declared Takaful /Islamic insurance as Sharia'h compliant (1985)
- Amana Income Fund, the world's first Islamic Mutual Fund was created in Indiana (1986)
- Sudan introduced Islamic Banking (1989)
- Islamic bond market emerged when the first tradable *Sukuk* were issued by Shell MDS in Malaysia (1990)

1991-2005

- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established to advise on Islamic finance standards all over the world (1991)
- Islamic Financial Services Board (IFSB) setup in Malaysia to establish standards (2002)
- Islamic Bank of Britain became the first Islamic commercial bank established outside the Muslim world (2004)

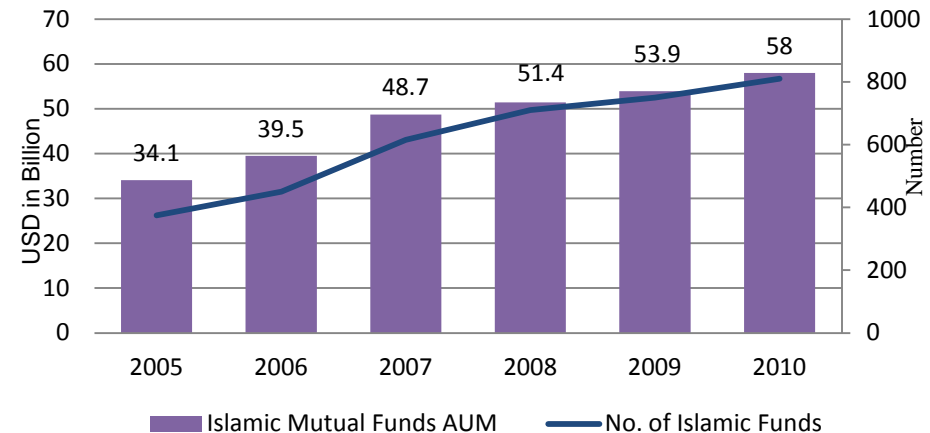
2012

- Islamic Finance posting 15-20% growth globally
- Operating in about 75 Muslim & non-Muslim countries
- 275 Islamic Financial Institutions globally

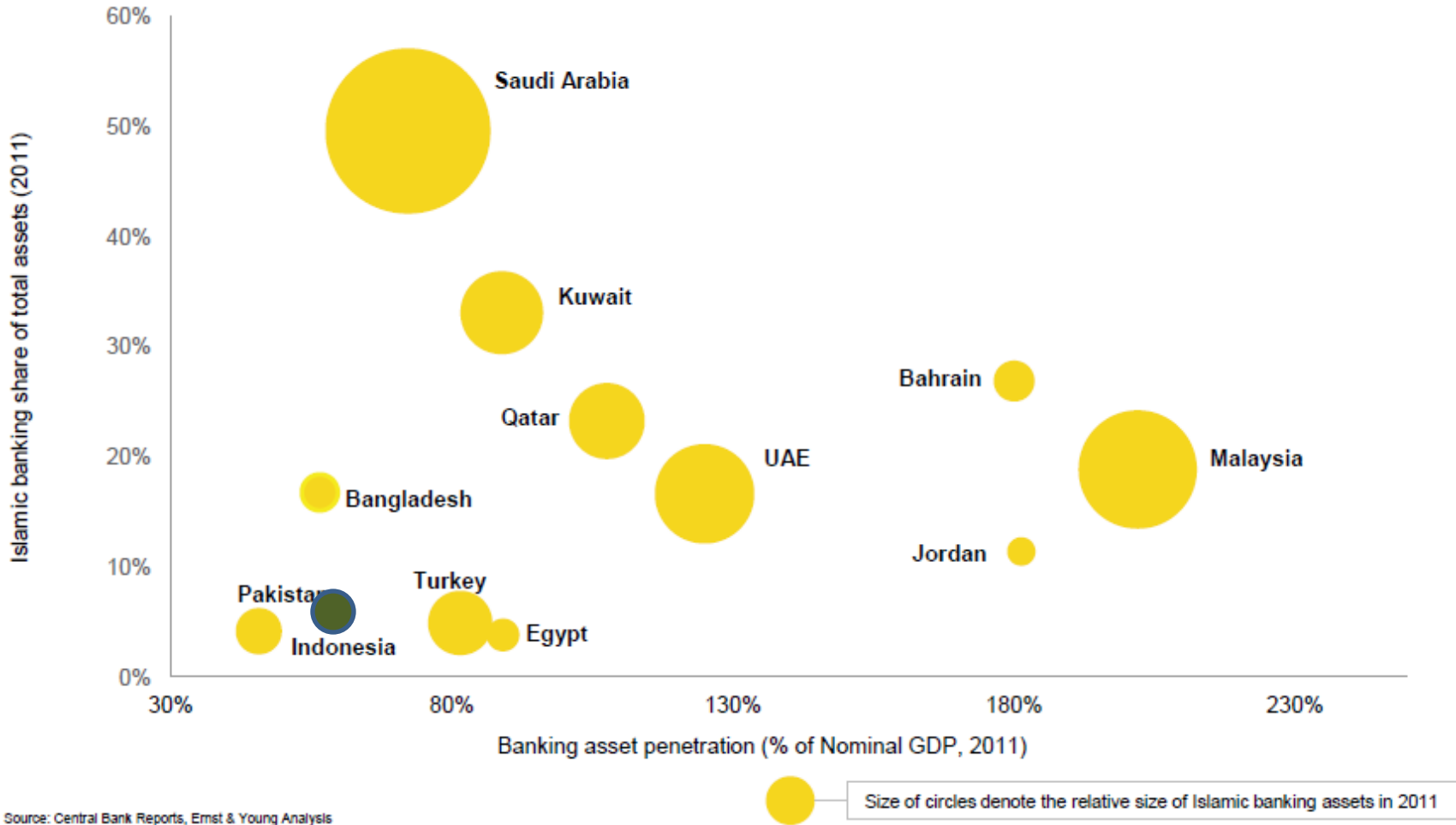
Global Islamic Assets

- Global Islamic Banking assets held by commercial banks are expected to cross USD1.8 trillion in 2013, up from the USD1.3 trillion of assets held in 2011
- Top 20 Islamic banks have registered a growth of 16% per annum in the last 3 years
- Top 20 Islamic banks hold 57% of the total global Islamic banking assets
- PricewaterhouseCoopers estimates Islamic banking will grow at a compound annual growth rate of 15% to 20% until 2015
- Islamic Funds Industry grew to USD58 billion (2010), achieving 7.6% growth YoY

Global Islamic Funds Management Industry



Banking asset penetration (% of Nominal GDP) and Islamic banking market share of total assets (%) in 2011



Source: Central Bank Reports, Ernst & Young Analysis

Source: Ernst & Young's World Islamic Banking Competitiveness Report 2013

Islamic Financial Markets

- Seven core markets for Islamic Banking include: Saudi Arabia, Kuwait, UAE, Bahrain, Qatar, Malaysia and Turkey
- Top three markets for Islamic Banking Assets (2011)
 - Saudi Arabia (USD 207 billion)
 - Malaysia (USD 106 billion)
 - UAE (USD 75 billion)
- New markets embracing Islamic Financial Industry are
 - Turkey (Asya Bank raised USD 300 Million in Murabaha syndicated loan; Kuvveyt Turk to launch Germany's first Islamic Bank)
 - Egypt (Issuing sovereign Sukuks & developing new regulatory framework for Islamic Banks)
 - Iraq (contemplating Islamic Banking legislation)
 - Libya (implementing its Islamic Banking framework)
 - Indonesia (Bank Indonesia projects that in 2013, growth of Islamic banking assets will be in the range of 36% to 58%)



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Pakistan's Mutual Funds Industry

Emergence of Mutual Funds

1962

• Mutual Funds introduced by National Investment Trust (NIT) offering open-end funds

1966

• Establishment of ICP with an additional mandate to manage closed-end funds

1971

• Government issued Investment Companies and Investment Advisors Companies (IC & IA Rules) to allow private sector closed-end funds

1983

• First closed-end fund launched in private sector

1995

• Asset Management Companies Rules, 1995 to provide necessary legal framework for launching and managing open-end funds by the private sector

1990s

• Many new Investment Advisory Companies and introduction of new funds in the market

1995

• Al Meezan Investment Management was formed

2006

• Total **14 AMCs** managing **37** mutual funds. Total Mutual Funds Industry size at FY'06 **PKR 168 Billion (USD 2.8 Billion)**.

2008

• Introduction of Non-Banking Finance Company (NBFC) rules for regulating asset management services

2012

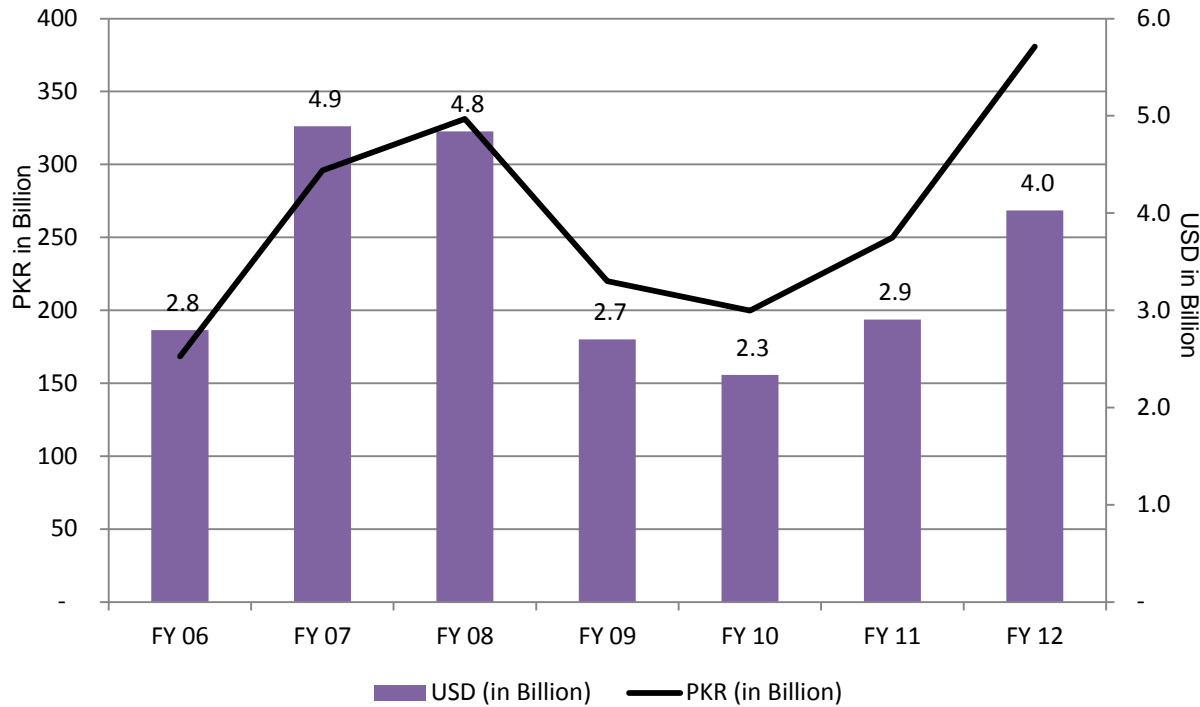
• Total number **26 AMCs** managing **170** mutual funds. Total Mutual Funds Industry at FY'12 at **PKR 381 Billion (USD 4 Billion)**.

Mutual Funds Industry (Sept, 2012)

Banking Assets	
Total Banking Deposits	PKR 6,315Bn
Total Islamic Banking Deposits	PKR 621 Bn
Islamic Banking Deposits as a % of total Banking Deposits	9.93%
Total Mutual Funds Industry	
AUM	PKR 329 Bn
Open-end	PKR 305 Bn
Closed-end	PKR 24 Bn
No. of Funds	170
Open-end	156
Closed-end	14
No. of AMCs	26
Mutual Funds as a % of total Financial Industry	4.96%
Islamic Mutual Funds Industry	
AUM	PKR 54 Bn
Share of total Mutual Funds Industry	16.29%
Total no. of Funds	37
Islamic Mutual Funds AUM as a% of Total Islamic Financial Assets (Banking + Mutual Funds)	7.88%

Source: State Bank of Pakistan (SBP) for Banking data

AUMs of Mutual Fund Industry





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Al-Meezan Investments

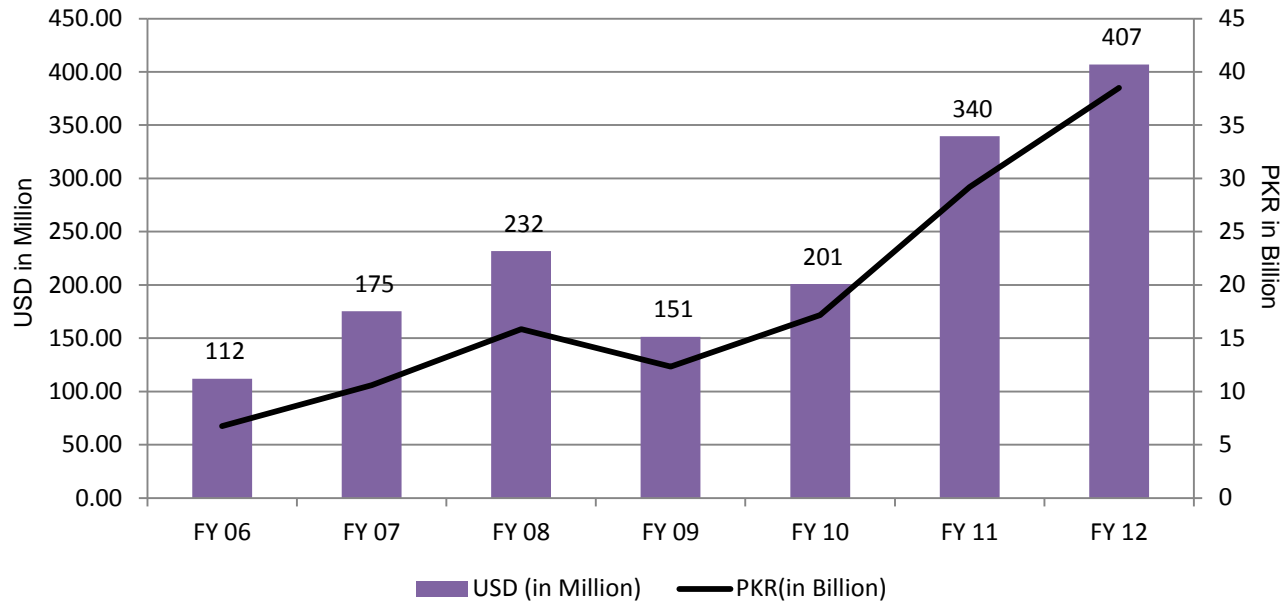
Introduction

- Established in 1995, Al Meezan Investment Management Limited (Al Meezan) is a Non-Banking Finance Company.
- Licenses to perform Asset Management, Investment Advisory as per the NBFC Rules.
- Main area of business is investment management; specifically developing, floating and managing both open and closed end funds and the discretionary management of client portfolios
- Only Sharia'h compliant asset management company in Pakistan.
- Impressive track record of **seventeen** years in managing mutual funds and institutional portfolios.
- The first asset management company in Pakistan to launch Shariah compliant debt, money market, government securities, pension, index and capital protected funds.
- Strong institutional sponsors – Meezan Bank(65%) & Pak Kuwait Investment Company (30%)
- Compliance with CFA Institute' s Asset Manager Code of Professional Conduct

Sharia'h screening criteria

- **Sharia 'h Board**
 - Chairman- Justice (Retd.) Mufti Muhammad Taqi Usmani
 - Shariah Board members- Dr. Abdul Sattar Abu Guddah, Sheikh Essam M. Ishaq
 - Advisor- Dr. Imran Ashraf Usmani
- **Excluded Sectors**
 - Companies whose core business is not Halal e.g. conventional banking, conventional insurance, alcoholic drinks, tobacco, pork production, arms manufacturing, media & advertising
- **Accounting based screening**
 - Debt to total Assets < 37%
 - Non-compliant Investments to Total Assets <33%
 - Non-compliant Income to Total revenue <5% (Purification of Non-compliant income)
 - Illiquid Assets to Total Assets \geq 20%
 - Market price per share > Net liquid assets per share

AUMs of Al Meezan Investments





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Product Portfolio

Equity Funds			
Al Meezan Mutual Fund	Meezan Islamic Fund	Meezan Capital Protected Fund	KSE Meezan Index Fund
May-1996	Aug-2003	July-2011	May-2013



Mutual Fund



Islamic Fund



Income Funds		
Meezan Islamic Income Fund	Meezan Cash Fund	Meezan Sovereign Fund
Jan-2007	June-2009	Feb-2010



Pension Fund
Meezan Tahaffuz Pension Fund
June-2007



Balanced Fund
Meezan Balanced Fund
Dec-2004



Balanced Fund



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Al Meezan Investment Management Limited

Awards

2012



Al Meezan- Best Islamic Asset Management House of the Year 2012 (Pakistan)

2011



Al Meezan- Best Islamic Asset Management House of the Year 2011 (Pakistan)

The Financial Daily
International

Al Meezan- Fund Manager of the Year Award (Pakistan)

Meezan Islamic Fund- Best Open End Islamic Fund (Pakistan)

Meezan Islamic Fund- Best Open End Islamic Income Fund (Pakistan)

2009



Meezan Islamic Fund- Ranked 4th for 2009 (Globally)

Al Meezan Mutual Fund- Ranked 6th for 2009 (Globally)



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Challenges facing Asset Management Industry in Pakistan

Challenges

- **Enhancing Awareness & Confidence In Islamic Funds**
 - Raising Investor Education on Sharia'h Compliant Investments gets twice as cumbersome, owing to a lack of awareness on 'long-term' benefits of Savings coupled with a weak understanding of the principles of Sharia'h Compliant investing.
 - A growing misconception that Islamic Avenues exist for only Muslims. Islamic Funds are equally profitable for Muslims and non-Muslims alike, evidenced from the fact that the largest institutions offering Islamic Finance are conventional banking groups such as Citigroup, HSBC, SCB, etc
 - Lack of realization of the 'Safety' element offered by Islamic investments as opposed to Conventional counterparts.
 - Lack of investor knowledge leading to trust-deficit of investors in the extent to which Islamic principles are practiced in Islamic Finance Industry in Pakistan
- **Product Diversification**
 - Lack of investment avenues restricts product diversification. This is especially true for short-term investments, as Islamic Financial Instructions (IFIs) cannot invest in conventional interest based debt instruments
 - Competitive cost base and smaller share of mutual funds industry makes consistent performance difficult

Challenges-Contd.

- **Distribution**
 - Choosing an appropriate distribution networks few Islamic Banks mean a limited distribution network
- **Lack of Human Resources**
 - As Islamic Finance is still in its emerging phases, educational institutions have not yet integrated it as a core subject of learning
 - Dearth of talented human resources often means lucrative compensation packages for the limited pool of people, straining the profit margin



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Al Meezan - The Success Story

Success Factors

- **Imparting Awareness & Confidence Building**
 - **Al Meezan ensures Investor confidence in Islamic Funds through the following measures:**
 - i. Sharia'h Audit on top of Statutory Audit
 - ii. Sharia'h Audit Report certifying Sharia'h guidelines were followed by the Fund
 - iii. Purification of non-halal sources of income by giving away this portion as Charity
 - **Transparency and full disclosure**
 - Monthly performance reports inform investors how their money is being managed
 - Investors receive Fund Managers Report which includes:
 - i. Brief review of the Fund's performance during the month
 - ii. Returns including monthly, annual, and cumulative returns
 - iii. Risk and volatility of returns
 - iv. Fund composition
 - v. Top 10 holdings of the fund as a % of NAV
 - vi. Current Net Assets of the Fund
 - vii. Names of Investment Committee members and Fund Manager



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Success Factors- Contd.

- Competitive Returns

	YTD (FY13)	FY12	FY11	FY10	FY9	FY8	FY7	FY6	FY5
MIF	20%	19%	39%	31%	-30%	0%	29%	30%	40%
Benchmark	22%	14%	44%	37%	-35%	1%	17%	25%	22%
AMMF	20%	19%	38%	31%	-32%	0%	27%	28%	45%
Benchmark	22%	14%	44%	37%	-35%	1%	17%	25%	22%
MIIF	18%	8%	12%	7%	10%	9%	10% ¹		
Benchmark	6%	6%	6%	6%	7%	6%	5%		
MCF	10%	11%	11%	10%	8% ²				
Benchmark	7%	8%	8%	7%	8%				
MSF	10%	11%	12%	10% ³					
Benchmark	7%	8%	8%	7%					
MCPF-II	8%	14%							
MTPF-Equity	22%	17%	36%	32%	-26%	3%			
MTPF-Debt	9%	10%	11%	9%	10%	8%			
MTPF-MMkt	9%	11%	11%	9%	11%	8%			
KMIF	21%	-2% ⁴							
MBF	14%	17%	25%	23%	-11%	1%	26%	23%	2% ⁵
Benchmark	22%	8%	25%	21%	-14%	3%	11%	15%	13% ⁶

¹163 days of operations

²15 days of operations

³140 days of operations

⁴38 days of operations.

⁵Performance start date of Dec 20, 2004

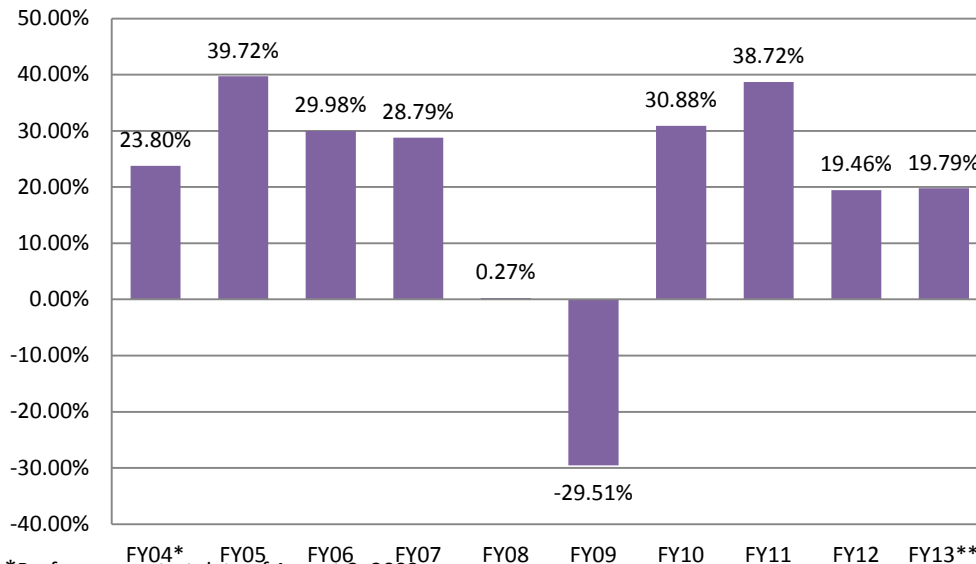
⁶Performance of benchmark is for full-year

Success Factors- Contd.

- **Consistent Performance**

- Al Meezan strives to ensure consistent returns on all its funds
- Returns of Al Meezan's flagship fund, **Meezan Islamic Fund (MIF)** has predominantly shown competitive returns.

Fiscal Year MIF Returns since inception



*Performance start date of August 3, 2003

**1H FY13

10 year average PKR depreciation against USD is 5.60%

Annualized Return Since Inception

- **PKR: 19.44%**
- **USD Adjusted: 13.03%**

Success Factors- Contd.

- **Identification of market needs**

- 95-98% of Pakistan is Muslim population which raises a strong untapped demand for Sharia'h Compliant products by investors who want to invest as per rules of Sharia'h
- Al Meezan consistently updates itself with changing market dynamics through on-going customer feedback and market research

- **Sharia'h Board**

- Each fund is guided by the principles of Sharia'h, overseen by a 'Sharia'h Advisor.' In addition to the Sharia'h Audit, each fund also appoints an external auditor that monitors the activities of the fund

- **Focus on Retail Segment**

- Of the total investor base of Al Meezan, approximately 42% are retail investors which is on the higher end compared to competitor AMCs

Success Factors- Contd.

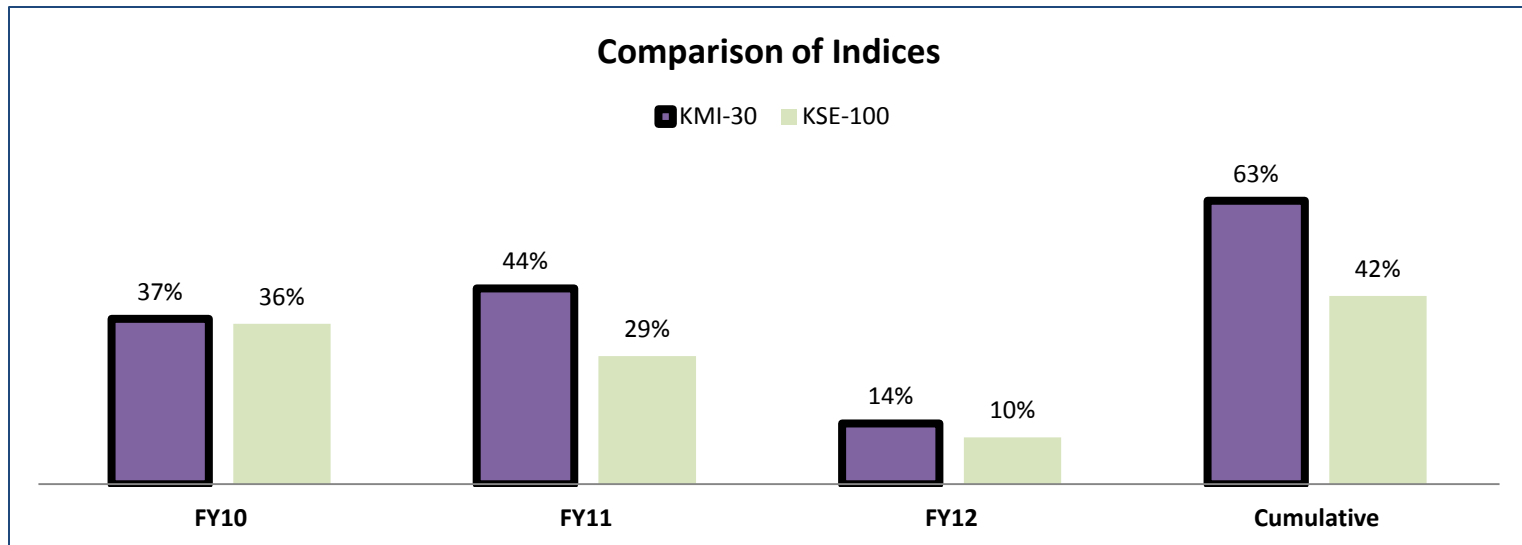
- **Strong HR Team**
 - A talented and well-diversified pool of human resources selected after a stringent hiring process
 - On-going training and development is undertaken for employees to sharpen their analytical and reasoning skills
- **Role of Trustee**
 - All assets of the Funds are under the control of an independent Trustee which oversees compliance with regulations and ensures protection of unit holders' interests

Success Factors- Contd.

- **Prudent Investment Strategy**
 - Less leverage, no speculation & gambling
 - Two rounds of audit (first Regulatory Audit, second Sharia'h Audit)
 - Islamic products involve less risk and complexity than their conventional counterparts (no derivatives, swaps etc.)
 - Asset-backed investments
 - No short-selling allowed
 - Regulatory environment in Pakistan promotes diversification in portfolios through stringent rules on permissible exposures. For instance, an equity cannot invest more than 15% in a single company and not more than 35% in a single sector
 - Research department proactively keeps a check on the rapidly changing local and global environment to identify the new investment opportunities
 - This is coupled with Sharia'h guidelines like low leveraged stocks and fixed income securities that are asset backed to ensure a prudent approach for investing
- **Compliance with Ethical Standards**
 - All of Al Meezan's employees have to ensure adherence to CFA Code of Ethics and Professional Conduct

Success Factors- Contd.

- **Collaboration with Stock Exchange**
 - Al Meezan is consistently strengthening ties with Stock Exchanges in Pakistan for upcoming products
- **Launch of Islamic Index - KSE Meezan Index (KMI-30)**
 - Only Sharia'h-compliant index in Pakistan
 - Launched in 2008 to track 30 Sharia'h-compliant companies
 - KMI-30 consistently outperformed KSE-100 over last 4 years on an annual basis





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Way forward for Asset Management in Bangladesh

Way forward for Asset Management in Bangladesh

- Cross-border market integration
- Establishment of joint ventures with experienced players in Asset Management
- Launch of regional and Global Sharia'h compliant funds, indexes & benchmarks

***Islamic Finance is no science
where the elements are hard
to put together.***

*Let us commit to integrate
Faith in Finance, beat the
controversies & shun unethical,
socially irresponsible & risky
paper gadgets to grow the
Islamic way towards a healthier
future in this world and the
Hereafter..*

Thank You.