

Outlook and Future Growth Potential for Islamic ETF in Indonesia

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CATATAN PENTING

INVESTASI MELALUI REKSA DANA MENGANDUNG RISIKO. CALON INVESTOR WAJIB MEMBACA DAN MEMAHAMI PROSPEKTUS SEBELUM MEMUTUSKAN UNTUK BERINVESTASI MELALUI REKSA DANA. KINERJA MASA LALU TIDAK MENCERMINKAN KINERJA MASA DATANG.

Agenda



Indonesia's Potential



Exchange Traded Fund (ETF)



Sharia ETF in Indonesia

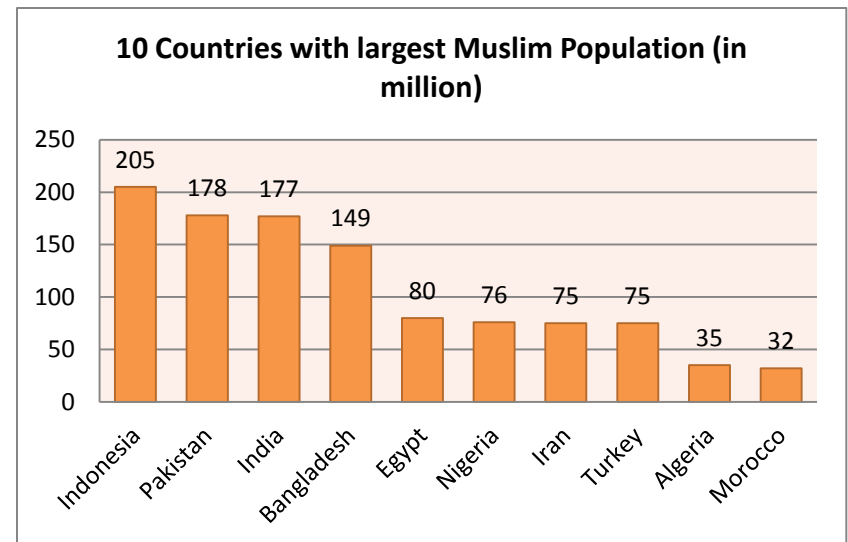
Potential and Challenges

POTENTIAL

- Indonesia's great fundamentals
 - Abundant natural resources: metal & minerals, oil & gas, agribusiness, aquaculture, livestock, etc.
 - Rising middle class population: 230+ million population (4th largest; about 1/4 is middle class), GDP per capita to hit USD 5,000 in 3 years
 - Strong macroeconomic numbers: positive GDP growth in the past decade, debt-to-GDP ratio less than 25%, sovereign rating upgrade to investment grade, mild inflation
- Largest Muslim population in the world
 - 205 million Muslims live in Indonesia (88% of total Indonesian population, and 13% of total global Muslim population)
 - Huge potential but equally very challenging domestic landscape, especially on demand side

CHALLENGES

- Lack of financial investment awareness
 - Only 284,179 securities account (SID) holders (as of Jan 2013)
 - Mutual fund industry size was about 5% that of banking industry
 - Low penetration and largely untapped market
- Government initiatives and legal framework



Source: Pew Forum, 2011

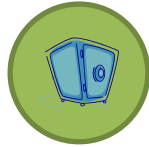
Market Channel

- Needs for Sharia-compliant investments which fulfill:
 - Instant and immediate access
 - Coverage of Indonesian market for exposure to its growth potential
 - Instant diversification
 - Public access and ownership
 - Fair and efficient pricing
- Solution: Stock Exchange to be the most effective and efficient channel distribution of investment products
 - Instant and continuous price discovery
 - Distributor of sovereign wealth and economic growth
 - Public access

Indonesia's Sharia Financial Assets Comparison



Indonesia Banking Asset
(including Sharia's)
Rp 4,211 trillion



Sharia Banking Asset
Rp 193 trillion



Mutual Fund Industry AUM
(excluding Sharia)
Rp 198 trillion



Sharia Mutual Fund AUM
Rp 8 trillion



Market Capitalization
ISSI – Indonesia Sharia
Stock Index
Rp 2,824 trillion

Source:
Bank Indonesia, 31 Jan 2013
Bapepam-LK (OJK), 31 Mar 2013
Bloomberg, 4 April 2013

Our Comparative Findings of Shariah ETF Development

	United States	United Kingdom	Malaysia	Indonesia
Number of Shariah ETF	1*	10	1	-
The Date Shariah ETF First Introduced	1 July 2009*	7 December 2007	31 January 2008	-
Tickers	JVS*	ISUS, ISDU, ISWD, IWSD, ISEM, ISDE, XIMT, XSHE, XSHJ, XSHU	MyETF-DJIM25	-
Total Assets Under Management	USD 2.2 million ¹	USD 150 million ²	USD 91 million ²	-
Muslim Population (% of total country population)**	2.6 million (0.8%)	2.9 million (4.6%)	17 million (61.4%)	205 million (88%)
GDP per Capita[^]	USD 48,387	USD 38,592	USD 9,700	USD 3,509
Government Support	None	Active; creating level-playing field	Active; creating dedicated SOE	-

* The ETF ceased trading on 19 October 2010

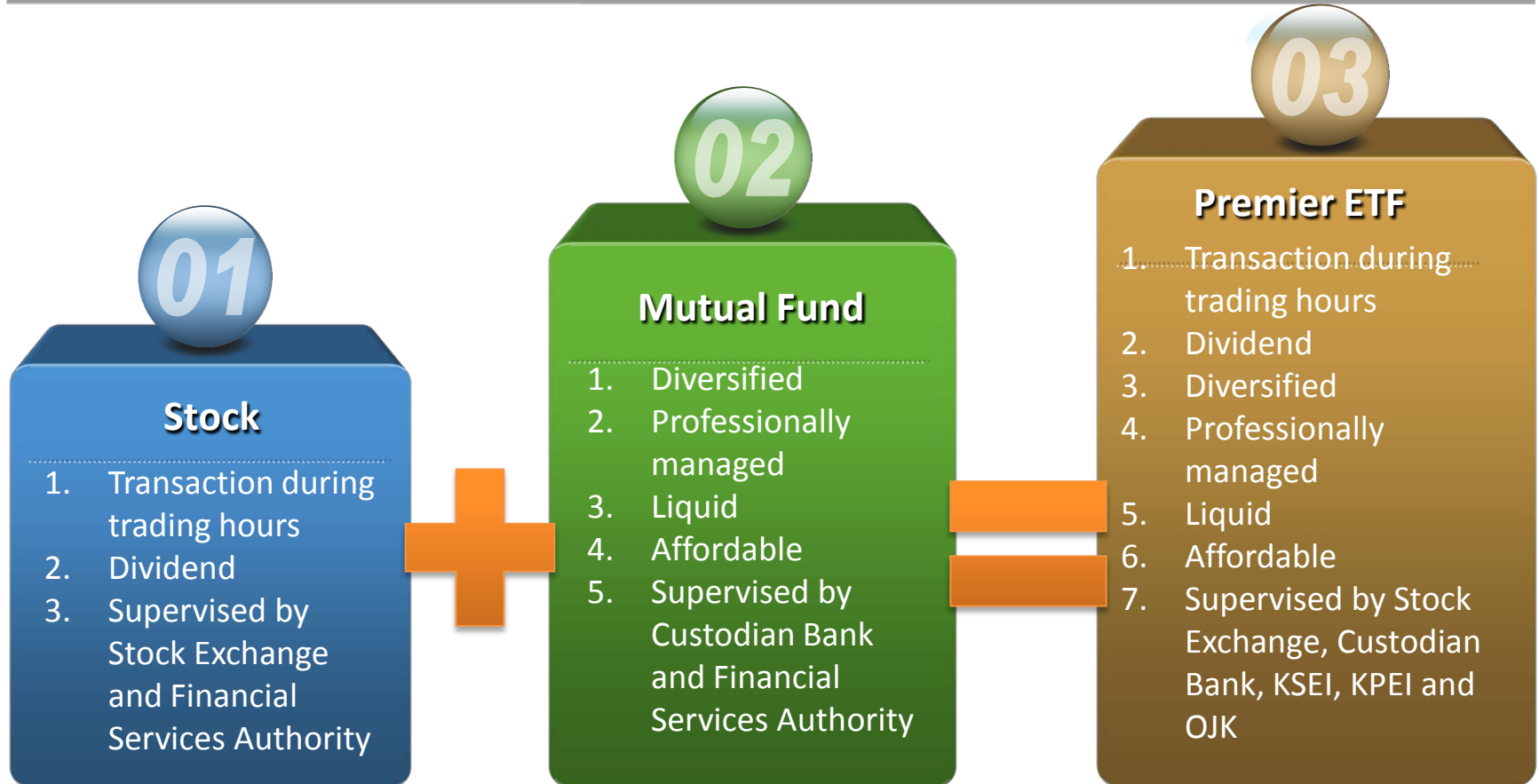
** Pew Forum, 2011

[^] In 2011, IMF World Economic Outlook Database

¹ As of August 2010

² As of 5 April 2013, Bloomberg

ETF – Exchange Traded Fund



- **ETF combines investment benefits of Mutual Fund with transaction flexibility of Listed Equity**
- ETF aims to provide **investment return equivalent** to the performance of its **benchmark index**
- **Multi-agency supervision** by Custodian Bank, Stock Exchange authorities, and regulator (OJK)



Telkom



LONSUM



antam



MAP

PT MITRA ADIPERKASA TBK



PT Adaro Energy, Tbk.



Media Nusantara Citra

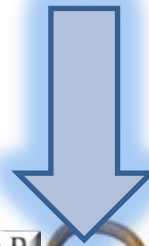


Gas Negara





Indonesia GDP

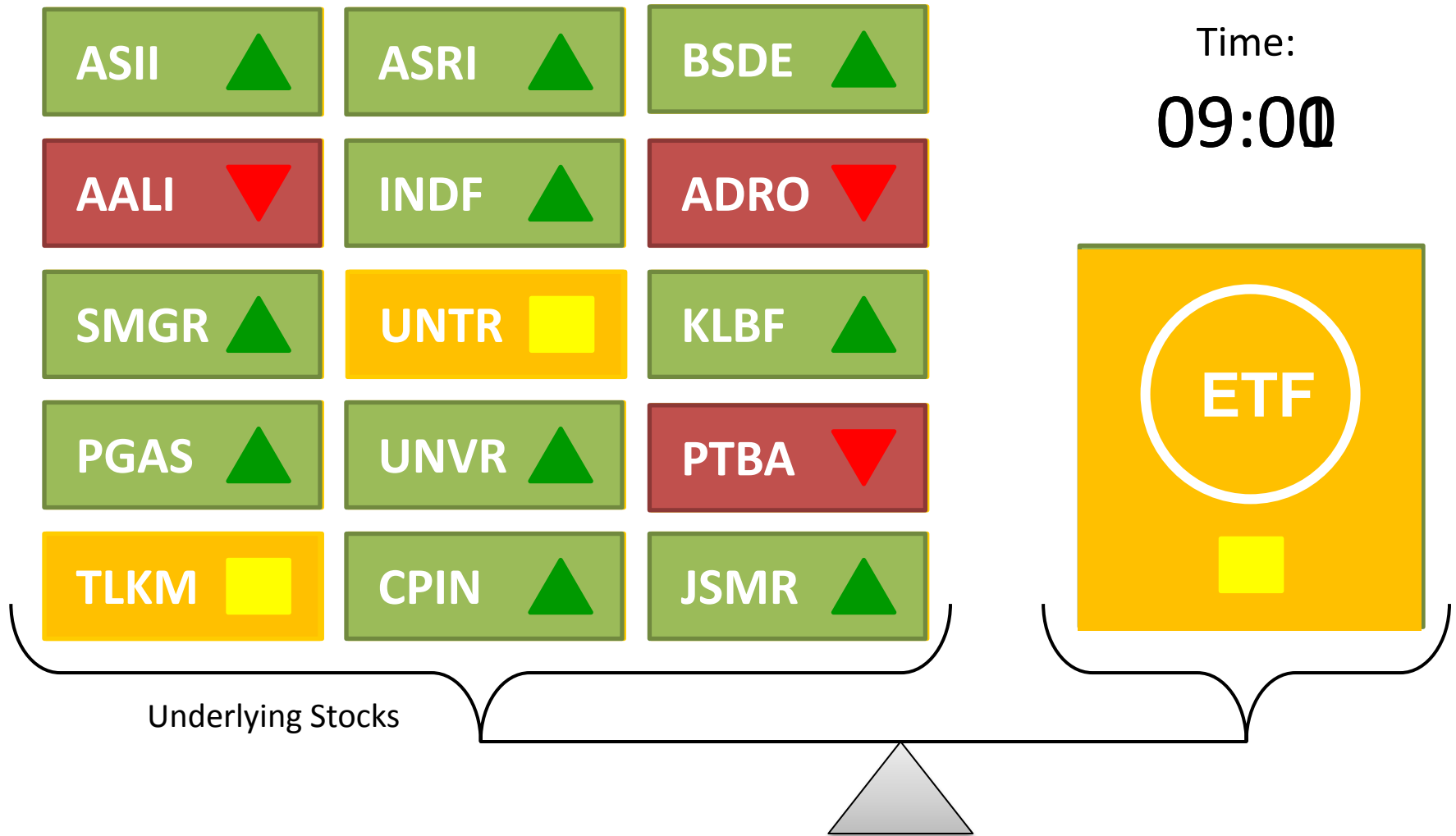


One Click

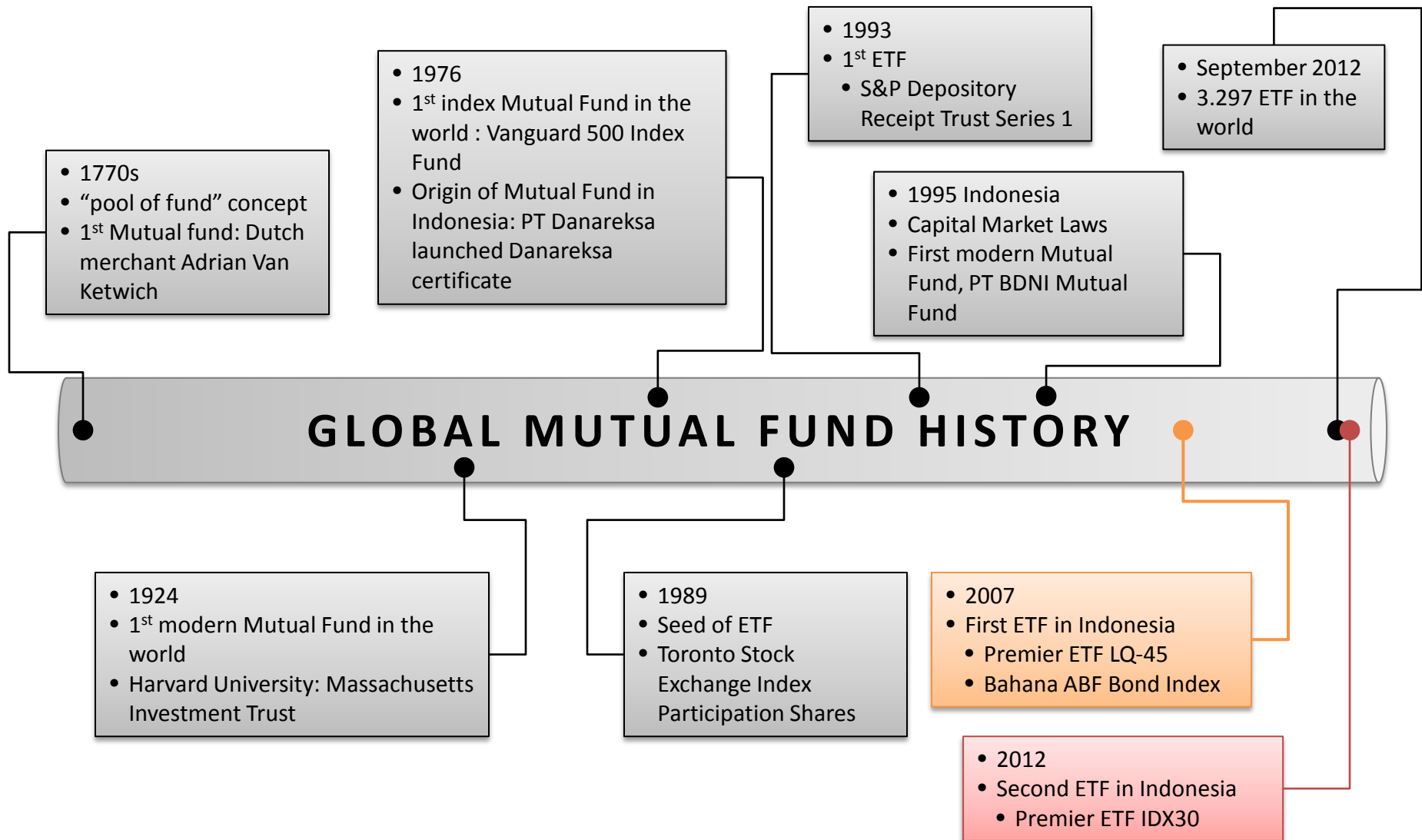


**Exchange
Traded Fund**

Underlying Asset Prices Affect ETF's

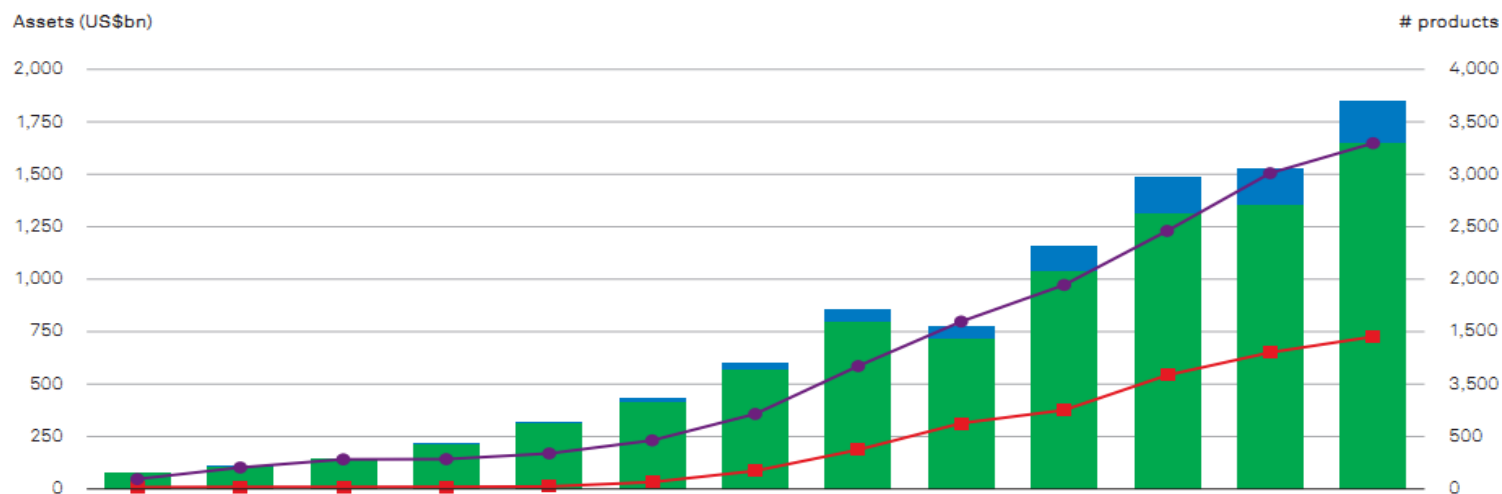


Brief History of Global Mutual Fund: ETF Development



Global ETF Growth

The 10-year CAGR for Global ETP assets is 29.7%. The 5-year CAGR is 17.7%.



Assets (US\$ Bn)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Sep-12
ETF Total	74.3	104.8	141.6	212.0	309.8	412.1	565.6	796.7	711.1	1,036.0	1,311.3	1,350.9	1,644.1
Other ETP total	5.1	3.9	4.1	6.3	9.3	15.9	32.5	54.6	61.2	119.7	171.3	173.5	201.3
ETP total	79.4	108.7	145.7	218.3	319.1	428.0	598.1	851.3	772.3	1,155.8	1,482.7	1,524.5	1,845.4
# ETFs	92	202	280	282	336	461	713	1,170	1,595	1,944	2,460	3,011	3,297
# Other ETPs	14	17	17	18	21	63	170	371	625	750	1,083	1,300	1,451
# ETPs	106	219	297	300	357	524	883	1,541	2,220	2,694	3,543	4,311*	4,748

Note: The first ETF was listed in Canada on 9 March 1990. Pre-2000 historical data has been removed to allow for additional space.

AUM= Assets Under Management. Israel ETP aggregate assets and shares outstanding on China's ETFs are as at the end of August 2012.

All other data as at end of September 2012.

*# of ETPs restated as 143 additional ETNs from an European provider were added into our record with launch date between October 2011 and March 2012.

Source: BlackRock Investment Institute, Bloomberg.

- Since 2000s, global ETF assets have grown very rapidly, 29% CAGR for past 10 years
- As of September 2012, there were **3,297** ETFs globally

ETFs in Indonesia

Exchanges	# of ETFs	Indonesian Mutual Funds	AUM (Rp billion)
London Stock Exchange	1,883	Equity Funds	68,051.6
New York Stock Exchange	1,365	Fixed Income Funds	33,751.6
Korea Exchange	137	Balanced Funds	21,384.7
Tokyo Stock Exchange	129	Money Market Funds	12,731
Singapore Exchange	91	Capital Protected Funds	38,150.4
Stock Exchange of Thailand	12	Sharia Funds	6,839.1
Bursa Malaysia	5	Exchange Traded Funds	1,475.6
Bursa Efek Indonesia	3	Index Funds	216.9

Data per 28 Feb 2013, source: WFE, BEI

Data per 28 Feb 2013, source: OJK

- Currently, 3 ETFs present in Indonesia with Assets Under Management totalling Rp 1.4 trillion

Comparison Between ETF, Mutual Fund, and Stock

	Exchange Traded Fund	Sharia Mutual Fund	Individual Stock
Portfolio Management	<u>Passively</u> managed	<u>Actively</u> managed	Not applicable
Portfolio Diversification	Yes	Yes	No
Trade and Price Discovery in Real-Time	Yes (during trading hours)	No (post-trading hour) **	Yes (during trading hours)
Transaction Through	<ul style="list-style-type: none"> Authorized Participant in Primary Market Broker in Secondary Market 	Investment Manager or Mutual Fund Selling Agent	Broker
Settlement	T + 3	T + 7 (maximum)	T + 3
Transaction Cost	Authorized participant/brokerage commission	Entry fee, switching fee, and exit fee may be applicable	Brokerage commission
Management Fee	Generally 1% or lower	Generally 2-3%	None
Investment Minimum	<ul style="list-style-type: none"> Primary Market: 1 Creation Unit (100.000 Participation Unit) Secondary Market: 1 Lot 	Generally Rp 100 K – Rp 1 million	1 Lot (500 shares)
Cash Drag	ETF has little need to maintain cash for liquidity purpose (< 2%) in the portfolio, as turnover is settled in-kind*	Need to maintain cash (2% - 10%) for liquidity purpose in serving potential subscription and redemption	Not applicable

* in-kind subscription/redemption is done by buying/selling basket of stocks from/to the market, as such to minimize cash reserve

** transactions prior to 13.00 WIB shall use current day NAV (T+0), which will be published within the next day (T+1); while transactions after 13.00 WIB shall use subsequent day NAV (T+1) and will be published within T+2.

Regulation Governing Sharia ETF

- Bapepam-LK Regulation IV.B.3 on ETF
 - Regulates creation and administration of ETF in Indonesia
- Bapepam-LK Regulation IV.C.4 on Management Guideline for Capital Protected Fund, Guaranteed Fund, and Index Fund
 - Regulates investment policy guideline for index fund, which may be used as an investment policy for ETF
- Bapepam-LK Regulation IX.A.13 on Issuance of Sharia-compliant Securities
 - Regulates creation and administration of Sharia-compliant securities, including mutual fund
- Bapepam-LK Regulation IX.A.14 on Definitions of *Aqad* (Contract) Used in the Issuance of Sharia-compliant Securities
 - Defines *aqad* to be used in contract, which include collective investment scheme of Mutual Fund
- Bapepam-LK Regulation II.K.1 on Criteria and Issuance of Sharia-compliant Securities List (DES)
 - Explains criteria of Sharia-compliance for securities to be included in DES
- *Fatwa* DSN-MUI 20/2001 on Investing Guideline for Shariah-compliant Mutual Fund
 - Regulates administration and investment guideline for Sharia Mutual Fund
- *Fatwa* DSN-MUI 40/2003 on Capital Market and General Guideline for the Implementation of Shariah Principle in Capital Market
 - Reaffirms Sharia principle in the capital market
- *Fatwa* DSN-MUI 80/2011 on the Implementation of Shariah Principle in Trading Mechanism of Equity-based Securities at Securities Exchange's Regular Market
 - Determines permissibility for equities trading in the secondary market

Criteria of Sharia-compliant Equities

QUALITATIVE FACTORS

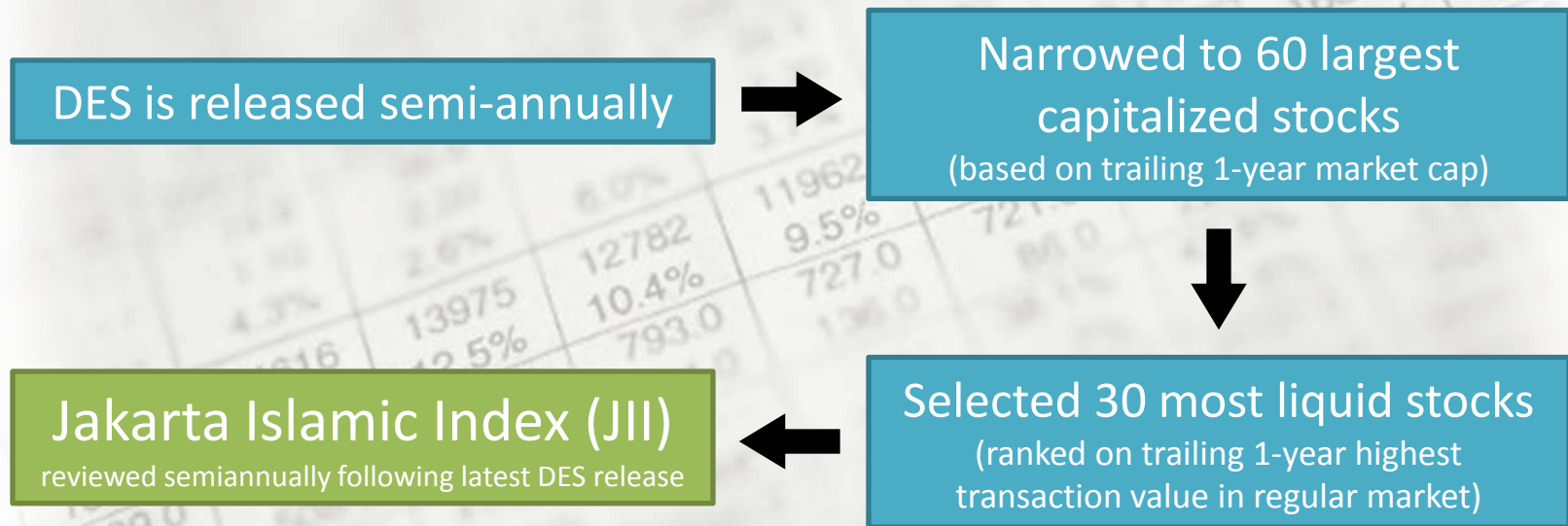
- Line of business is not forbidden by Sharia, such as:
 - Gambling
 - Prohibited trade
 - Unaccompanied by delivery of goods/services
 - Involving false supply/demand (market manipulation)
 - *Riba*-based financial services which include banking and financing companies
 - Risk trading/transfer containing elements of uncertainty (*gharar*) and/or gambling (*maisir*) such as conventional insurance
 - Manufacturers, distributors, and vendors of goods and services which are unlawful (*haram*) in substance or as decided by DSN-MUI
 - Manufacturers, distributors, and vendors of goods and services which are morally damaging and essentially harmful

QUANTITATIVE FACTORS

- Issuers have to meet the following financial ratios:
 - Total interest-based debt over total asset is less than 45%
 - Total interest and other unlawful income over total income is less than 10%

Jakarta Islamic Index as a Plausible Benchmark

- Jakarta Islamic Index is an index issued by Indonesia Stock Exchange, based on Sharia-compliant Securities List (DES) including Sharia-compliant equities, as issued by OJK



- Calculation method using market capitalization weighted average
 - Reviewed semi-annually (May and November)
- A Sharia ETF would be an easy step to investing in the stock market for Investors seeking Sharia-compliant portfolio of liquid large-cap stocks based in Indonesia

Constituents of JII (Dec 2012 – May 2013)

No	Ticker	Issuers
1	AALI	Astra Agro Lestari
2	ADRO	Adaro Energy
3	AKRA	AKR Corporindo
4	ANTM	Aneka Tambang
5	ASII	Astra International
6	ASRI	Alam Sutera Realty
7	BKSL	Sentul City
8	BSDE	Bumi Serpong Damai
9	CPIN	Charoen Pokphand Indonesia
10	ENRG	Energi Mega Persada

No	Ticker	Issuers
11	EXCL	XL Axiata
12	HRUM	Harum Energy
13	ICBP	Indofood CBP Sukses Makmur
14	INCO	Vale Indonesia
15	INDF	Indofood Sukses Makmur
16	INTP	Indocement Tunggul Prakasa
17	INDY	Indika Energy
18	ITMG	Indo Tambangraya Megah
19	JSMR	Jasa Marga
20	KLBF	Kalbe Farma

No	Ticker	Issuers
21	LPKR	Lippo Karawaci
22	LSIP	PP London Sumatra Indonesia
23	MAPI	Mitra Adiperkasa
24	MNCN	Media Nusantara Citra
25	PGAS	Perusahaan Gas Negara
26	PTBA	Tambang Batubara Bukit Asam
27	SMGR	Semen Gresik
28	TLKM	Telekomunikasi Indonesia
29	UNTR	United Tractors
30	UNVR	Unilever Indonesia

Source: Indonesia Stock Exchange

Investment Benefits of Sharia ETF

- 1 Instant Diversification**
Lessen unsystematic (company-specific) risk through portfolio ownership of Index constituents in each Unit transaction
- 2 High Flexibility**
Real-time price discovery and trading flexibility during IDX' trading hours through primary and secondary markets
- 3 Continuous Liquidity**
Existence of Authorized Participant capable of providing liquidity in primary and secondary market by quoting ETFs' bid-offer prices
- 4 Highly Efficient**
Immediate and efficient addition or subtraction to market exposure in multiple geographies with relatively limited risks
- 5 Passive Management**
Low asset turnover improves cost and tax efficiency, lowers investment holding fees, and enables market-beta acquisition
- 6 Maximum Transparency**
Investor will be able to know the full constituents of ETF portfolio on daily basis
- 7 Sharia Compliant**
Fund management in accordance with the Sharia principle in capital market as stipulated in *fatwas* of DSN-MUI and Bapepam-LK (now OJK) regulations

Conclusion

- Indonesia holds tremendous potential
 - Largest Muslim population in the world, and counting
 - GDP per capita still at below USD 5,000 – rising steadily, enlarging middle-class
 - Abundant natural resources, some still untapped
 - Infrastructure remains challenging, but holds promise
 - Low penetration of investment products – can only go up
- Exchange-tradable investments remain to be the most efficient avenue
 - Public access
 - Continuous price discovery
 - Distributor of wealth and economic growth
- Sharia-compliant ETF provides portability of Indonesian growth exposure with efficiency of the exchange

Thank You

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