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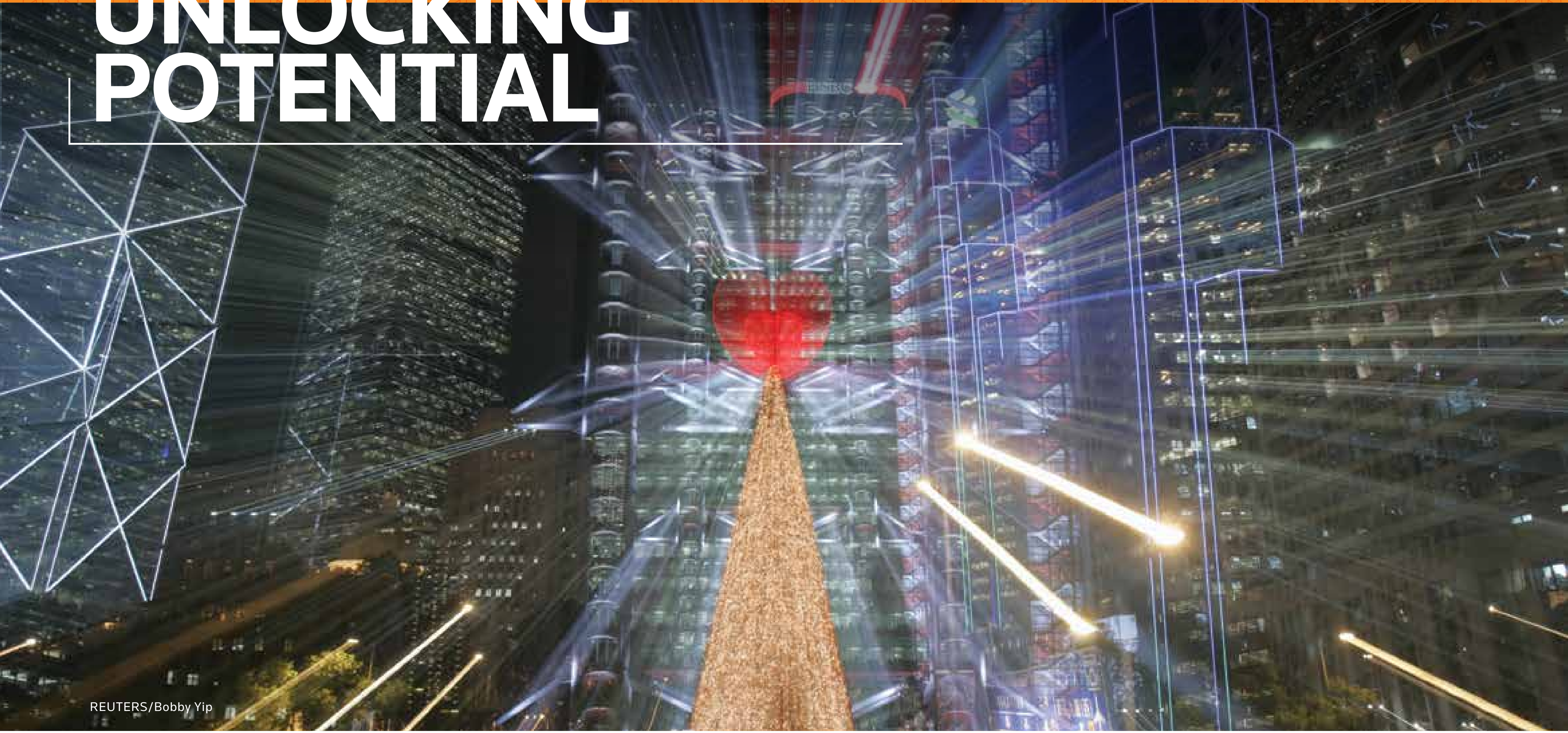
GLOBAL ISLAMIC ASSET MANAGEMENT OUTLOOK 2015

UNLOCKING POTENTIAL



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ISLAMIC FINANCE GATEWAY

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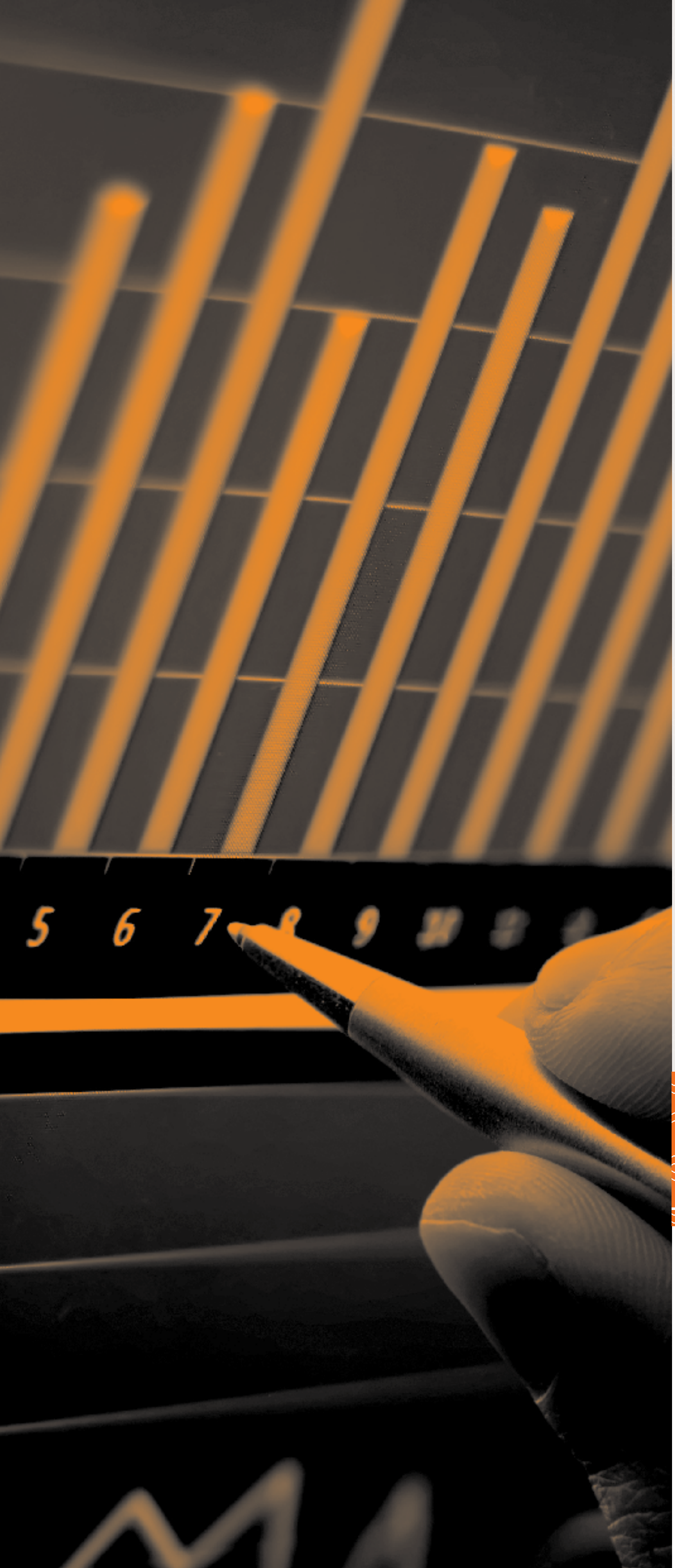

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EXCLUSIVE

FOREWORD

A labourer installs tiles onto the exterior of the unfinished gate to a residential complex in Xiangyang, Hubei province December 28, 2010. REUTERS/Stringer

Looking past the mirage towards the oasis

Incoming asset managers need to move past the presumption of a captive Shariah-compliant market and patiently focus on alpha generation strategies and localized and well thought out distribution strategies.

DR. SAYD FAROOK
Global Head Islamic Capital Markets,
Thomson Reuters

In the space of two years since we launched our last Global Islamic Asset Management report, the buzz around Shariah-compliant capital has grown several fold. A large contributor to this trend was the debut sukuk issuances by several non-Muslim sovereigns, including the likes of Hong Kong, Luxembourg, South Africa and the United Kingdom. Add to this was the specific identification by the widely quoted and distributed State of the Global Islamic Economy report of a very large population segment — Muslims, 1.7 billion and counting — that are just coming of age and who are likely to power middle class growth in many of the countries in Africa, Asia and the Middle East.

I should be the last one to say this but: Don't be smitten by the large numbers and the demographic dividend, at least not until you have done your homework on how best to tap this very unique and attractive market.

Yes, the Muslim demographic is one of the largest identifiable market segments in the world and it is growing into middle class status in much of the world.

- Yes, economic and political power is shifting to many countries in the Islamic world.
- Yes, a number of Islamic countries are playing a much more dynamic and proactive role in attracting capital and building long-term infrastructure.

Yet, there are a number of pitfalls asset managers and financial institutions fall prey to when tapping this space.

The first is assuming a nice growth story can replace a well thought-out and consistently refined market entry and execution strategy.

The second is building an investor base that is patient and willing to stick it out for the long-term (i.e. beyond the track record years).

As the graveyard of 'liquidated fund' managers will tell you, neither is easy but they are very possible and real. Many have been able to do this in countries as wide as the United States and Australia through to the Islamic economic heartlands of Malaysia and Saudi Arabia.

The obvious ingredients required for success are competence and performance. But let us focus more on what I believe is the biggest challenge to hold back asset managers — distribution.

Most asset managers fail to reach the required $100 million mark that would allow them to raise funding from institutional investors, subject to demonstrating a track record of at least three years. They dwindle around the $10-50 million mark until their strategic investors get tired of the lack of profitability / scale and pull out.

To get to this $100 million magic marker, you can have two different types of strategies: the first is to get one large strategic investor who will back you to the tune of $50 to $60 million and allow you to use their name to reach out to other institutional investors. This is still a difficult task, unless you are very well connected to the key power brokers in the institutional investor space.

The other is to build a book from a universe of patient and long-term retail investors who are compelled to invest — i.e. through their retirement schemes or superannuation programmes.

Here's the challenge — despite the significant amount of capital the GCC and broader Muslim majority countries hold, there is a glaring shortage of patient and long-term retail investors, as the government regulatory environment in these regions do not actively encourage defined contribution for compulsory investment options for retirement. Instead, they focus on defined benefit indemnity plans which are not traditionally routed to the institutional investment community and are managed by the companies themselves.

As such, the markets which lend themselves to this story are the OECD countries which have, over several decades, built a strong asset management industry off the back of continued pension money flowing in from millions of workers.

One such case study is a relatively new asset manager in Australia, Crescent Wealth, which has surpassed the $100 million threshold after only three years of operations. What were the lessons of how they did it?

1. **Built strategic relationships to provide credibility**
   The CEO invested in strategic partnerships with institutions like AON Hewitt, Thomson Reuters, HSBC Amanah, Saturna Capital and many others to build the credibility which a startup asset manager could not establish themselves. This is not just limited to organisations but also a core base of influential and strategic advisory board members at both a domestic and international level.

2. **Effective messaging**
   He also aggressively developed strong third party endorsement around his brand including appearing heavily on all forms of media implicitly promoting Crescent Wealth. Essential to the success of this campaign was a consistent message of strong outperformance underpinned by ethical Islamic principles.

3. **Focused on champions**
   The CEO then focused on brand champions who resonated with his core audience, such as Bachar Houli, an Australian rules footballer, who resonates with a wide audience in states such as Victoria.

4. **Targeted distribution strategy to core superannuation (pension) base**
   The CEO micromanaged his business development by hiring high calibre executives and quality business development specialists focused on meeting the needs of his core audiences.

5. **Leverage industry best of best to deliver outstanding performance**
   Crescent Wealth was able to deliver outstanding performance achievements by partnering with the most accomplished investment managers across core asset classes — i.e. their international equity and property funds.

The ultimate lesson for me from this case study is that you need to know your core investor market well and focus on distribution excellence with high quality partners which lend credibility to your brand and investment approach.

We cannot underestimate here the prominence and networked credibility of the CEO. I am providing a nice case study of what needs to be done, but this is not necessarily a rule book for success.

On behalf of Thomson Reuters, I would like to express our gratitude to the Islamic Finance Gateway team under the leadership of Mustafa Adil and Ammar Radhi, specifically Redha Al Ansari, Shereen Mohammed, Shaima Hasan and Emmy Abdul Alim, who have painstakingly authored this rich and detailed overview of the global Islamic asset management space.

I'd also like to express my sincere gratitude to the investors and asset managers who have sacrificed their time and effort to contribute articles or respond to our survey, the first such quality survey attempting to understand their perspectives and perceptions in relation to market conditions and the dynamics of the Islamic asset management landscape.

I hope you enjoy the rest of the report and are able to benefit from its insights for building your asset management business in the Shariah-compliant / ethical investment space.

Sayd Farook

Dr. Sayd Farook
Global Head Islamic Capital Markets
Thomson Reuters

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EXECUTIVE SUMMARY

The skyline of Singapore's central business district is seen at dusk as operations continue at a PSA International port terminal in Singapore September 25, 2013. REUTERS/Edgar Su

Islamic asset management is a US$60 billion industry forecasted to grow to at least US$77 billion by 2019. The latent demand, though, is a potential US$185 billion in five years. There are substantial growth opportunities but the industry will not be able to live up to its fullest potential in the near- to mid-term to bridge the US$108 billion supply-latent demand gap.

A good 2014, moderating into steady growth

In 2014, Assets Under Management (AUM) of total global Islamic funds grew 5.3% from the previous year and the number of funds jumped by 11%.

Additionally, there were two very positive signs for the industry in 2014 — the year saw the lowest number of liquidated funds since 2008 at US$127 million compared to US$315 million in 2013; and the total size of new funds launched increased to US$2.27 billion from US$1.52 billion in 2013, representing a 49% rise.

We consider these two figures a sign of an industry beginning to moderate into a steady growth trajectory after being hit first by the global financial crisis and then the Arab Spring.

However, we take a conservative and cautious outlook on growth for the near- to mid-term despite substantial opportunities primarily because of the size and scale of challenges to growth that, we believe, market players will not be able to fully overcome by 2019.

The industry lacks scale and a middle ground. There is big — funds =/>US$1 billion — and there is small — funds <US$10 million. In 2014, 12 funds, each over US$1 billion, made up 43% of total AUM and 50% of total AUM were held in funds smaller than US$10 million each.

Islamic asset managers are faced with challenging business models, operational hurdles, and the lack of product diversification and investments keep scale and hence growth, at bay. Additionally, outside of Saudi Arabia and Malaysia, the industry continues to work within a largely unsupportive regulatory framework, suffers from a lack of government support and absence of clear Shariah-compliant investment avenues. Further, while Shariah-compliant investments enjoy strong demand demographics they have hence far been underutilised; targeting the different segments has been largely inefficient due to poor marketing strategies, inadequate government support and recent market conditions that have negatively impacted market performance (especially the Arab Spring and more recent regional geopolitical instabilities).

In 2014, 84% of total Islamic AUM were held in eight countries. Top domiciles Saudi Arabia and Malaysia accounted for 69% of total AUM. There were only 30 other domiciles that have Islamic funds and six of these — Cayman Islands, Guernsey, Ireland, Isle of Man, Jersey, Luxembourg — held 15% of total Islamic AUM.

Pockets of growth outside Saudi Arabia and Malaysia

We pick the following areas as the ones likely to contribute to growth in the near- to mid-term:

1. **Pakistan and Indonesia:** In 2014, the performance of major players Saudi Arabia and Malaysia fell short; the former dipped 79% and Malaysia chalked up the lowest return of -6.0%. On the other end of the growth spectrum Pakistan's performance surged to 20.4% from 10.8% in 2013 and Indonesia rebounded from a horrific 2013 (-22.38%) to register positive growth of 12.18%. Both are currently enjoying stable political climates and a renewal of efforts to expand and deepen their respective Islamic finance industries across all sectors. Indonesia, especially, is making revisions to Islamic pensions and pilgrimage funds that will boost its overall Islamic AUM.

2. **China:** Picking up speed? Islamic funds registered in non-Organisation of Islamic Cooperation offshore centres already figure prominently in the global Islamic asset management space but we may see Islamic funds slowly picking up speed in other non-OIC markets. In particular, China holds promise for a new growth market.

   Malaysian and Hong Kong asset managers are collaborating to market Islamic funds to China's retail clients, with funds focused initially on the Far East and Southeast Asia. China's 23 million Muslims are viewed as a potential investor base. There is also increasing interest in the China market from the Middle East.

A man takes a picture of his friend in front of the Pakistan Monument in Islamabad, Pakistan, May 4, 2015. REUTERS/Faisal Mahmood

We highlight four areas that have the potential to substantially grow the global Islamic asset management industry:

1. **Socially responsible investments:** The AUM for SRI funds is a low US$3.6 billion but the outlook is bright. The Malaysian market looks most promising after the launch of the country's ESG Index and guidelines for SRI Sukuk. The potential for the Islamic asset management industry is the convergence of conventional SRI and ethical Shariah-compliant principles and values.

2. **Pension funds:** Pension funds represented 0.2% of global Islamic funds in 2014, amounting to US$146 million in 64 funds. Malaysia had the highest number — 33 — followed by Pakistan (21) and the UK (10). In late April, Malaysia announced that its state pension fund will have a Shariah-compliant option by 2017. The fund is worth US$160 billion and an Islamic option will boost the AUM of the global sector. Pakistan and Indonesia are also developing their Islamic pension funds.

3. **Funds passporting:** Funds passporting has the potential to provide a level playing field to all participants and expand the potential investor base. In 2014 there were 179 UCITS funds with a total AUM of US$2.47 billion representing 4% of total global Islamic AUM. Passporting is slowly becoming a reality for some Islamic finance core markets; Southeast Asia's passporting scheme has just kicked off — ASEAN's Collective Investment Scheme (CIS) framework, introduced in August 2014, enables Malaysian, Singaporean and Thai investors to trade mutual funds issued in these countries if such funds meet the required standards. Funds passporting for the GCC has been discussed at length but no concrete measures have been introduced.

4. **Wealth management:** Almost 70% of Middle Eastern wealth is transferred overseas. To attract this wealth into Islamic funds, Islamic wealth managers need to manage different assets from real estate to short-term money market instruments. However, Shariah requirements result in IWM struggling from lack of liquidity solutions and limited product range. IWM needs to compete with professionals overseas by providing attractive yield and a superior level of consultancy.

GLOBAL ECONOMIC OUTLOOK 2015

A floating installation of 25,000 wishing spheres line Marina Bay as the city's financial district is seen in the background, ahead of the New Year's Day countdown celebrations, in Singapore December 31, 2014. REUTERS/Edgar Su

Could the world slip into another global recession?

This is as good as global recovery gets

Since 2009, each new calendar year has brought declarations of the end of the crisis and predictions of an economic upswing. This time the mood is gloomy, and with reason. Weak growth turns out to be the new normal, not part of the transition.

Growth, just

By Edward Hadas, Economics Editor — Reuters Breakingviews

At the beginning of 2014, many people were optimistic about the world economy. For the fifth straight year, it had seemed safe to declare the lingering effects of the 2008 financial crisis over and done with. This time is different: 2015 is likely to begin in a merited atmosphere of gloom.

Investors are looking at the financial system with increasing dismay. Monetary policy has never been so loose for so long in developed economies, and yet lending, investments and consumer spending are still restrained. A beefed-up banking system is not yet funding rapid hiring or strong GDP growth. Abenomics — the stimulative policy package of Japanese Prime Minister Shinzo Abe — seems to be losing its shine, commodity exporters have big problems and the United States may just be bumping along a bit better than the rest.

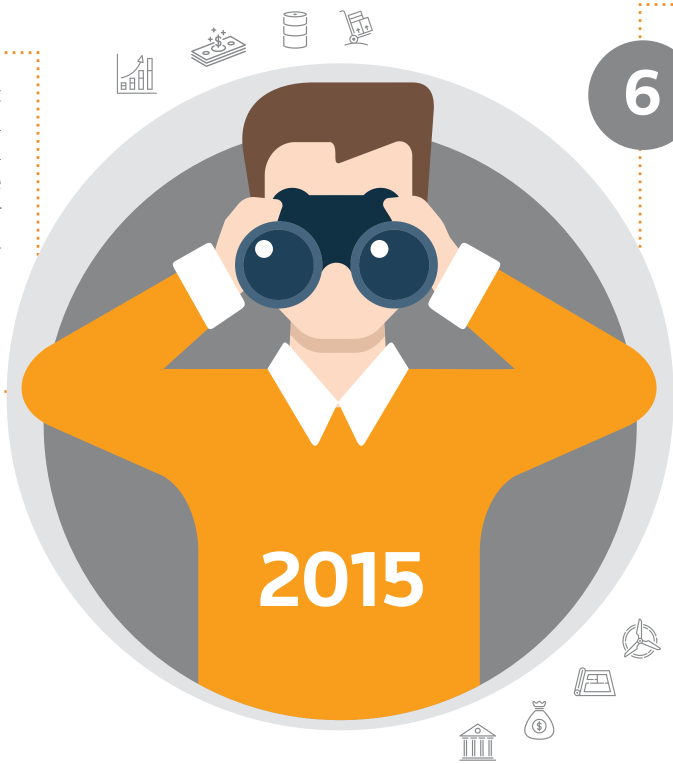
"Lowflation", basically stable prices, is set to make everything worse. The already heavy debt loads of both consumers and governments will become more burdensome as nominal GDP growth slows down. The sharp fall in commodity prices may increase spending power in some countries, but it could turn lowflation into outright deflation.

Policymakers have responded to the financial stress with more hope than action. Governments are reluctant to increase fiscal deficits and central bankers are trying to minimize or end their unconventional policies. The inability to respond strongly may even have reached China. After decades of managing rapid growth without any significant accidents, the authorities have yet to deal effectively with a malfunctioning property market

Structural reforms, from easing employment regulation in rich European countries to strengthening the business framework in developing economies, might help. But reforms always face resistance, otherwise they would already have been enacted. The opposition is often strongest when the economic prospects are doubtful, as they are now. Besides, reforms work slowly, so it would take years for a major drive to deliver results.

For 2015, the monetary authorities probably still have sufficient credibility to prevent a new financial crisis, barring a major increase in geopolitical tension. But another year of frustratingly slow growth will be hard to avoid.

Key economic and political trends driving asset managers and investors



1 GCC investment destination

The opening of Saudi Arabia's stock market to direct foreign investment mid-2015 will build on the GCC's large trade/ fiscal surpluses and aggressive diversification drive to make the six-member bloc a bigger investment draw only tempered by regional political turmoil.

2 Positive Outlook in SEA

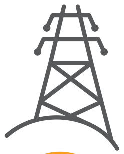
Following guidelines for Sustainable and Responsible Investment

Growth in the Southeast Asia and Pacific region is still relatively at acceptable levels but the drop in trade and lower productivity continue to leave their mark due to the drop in crude oil price. Malaysia, the biggest global sukuk funds market, has witnessed a drop in sukuk issuance in 2014. However the outlook is promising, following guidelines for Sustainable and Responsible Investment and recent plans to establish a new Shariah-compliant retirement fund.

3 Global economic engines: U.S., EU, China

The major oil-producing Arab nations continue on their course for diversification and speed up greater trade flows with China as competition in oil production with the United States intensifies and the European Union's stagnant economies negatively impact North African Arab economies.

4 Resource conflicts: Energy concerns



The United States' shale oil boom, increased outputs from other non-OPEC members, and subdued demand worldwide will keep oil prices in the $80 range through 2015. Potential impacted volumes from regional conflicts in Libya and Iraq will not be significant to move the needle on oil prices.

5 Economic recovery in Egypt

Confidence is creeping back into Egypt's battered economy. Tourists are slowly returning and alternative energy projects will lure investments. But the political stability backing investor confidence will be tested as security concerns on the Rafah and Libyan borders linger.

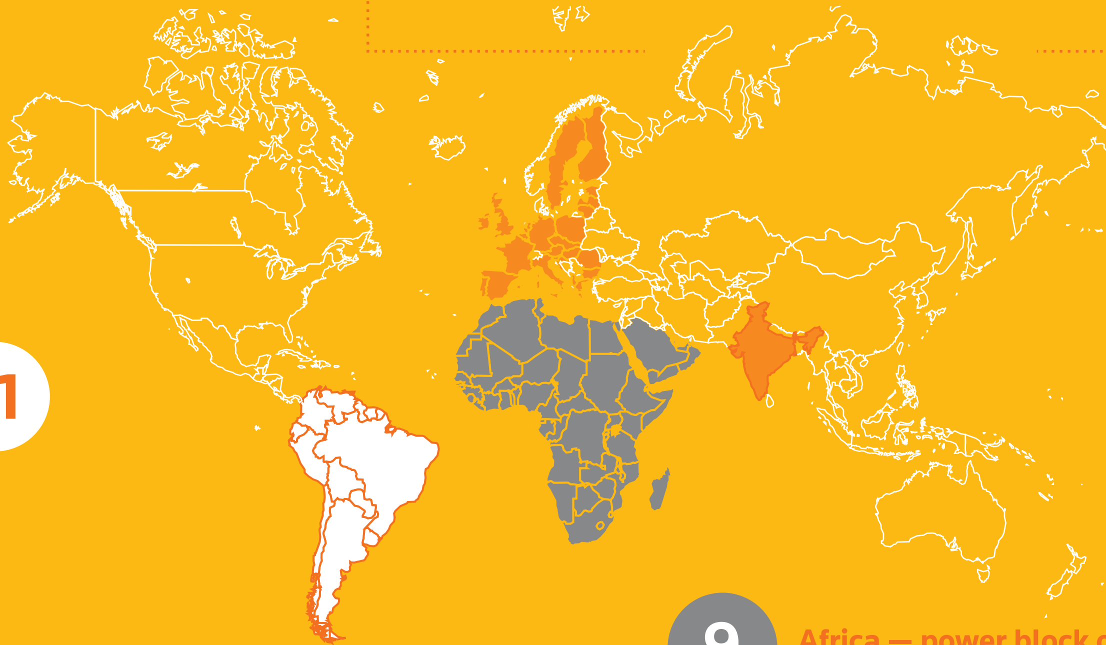
6 Digital economy in the MENA region

Growing internet penetration will boost e-commerce to $15 billion. Tech startup investments will seed and grow to innovate the MENA digital space. Leading the region, GCC governments will latch onto and further strengthen their one-stop portals and inter-operability.

EU — is there any hope?

7

A prolonged economic slump highlights Europe's core problem: a crisis in the French-German partnership. Populist parties are rising and the UK could leave the EU. Although many countries still want to join, it's up to Paris and Berlin to make the case for a rejuvenated Europe.



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India — Modi's growth

The country's decade-long obsession with GDP expansion has proved costly. It stoked inflation and damaged balanced sheets due to a lack of effort to boost production. By contrast, Prime Minister Narendra Modi's reforms promise a slow buildup to a more enduring increase in output

11

Emerging Market — what to watch in 2015?

Developing nations tend to get into trouble after seven fat years. By that yardstick, a meltdown is due. If rising U.S. interest rates help trigger a crisis, investors will look for relatively safe economies. Hungary, Mexico and the Philippines are the most attractive shelters.

9

Africa — power block or struggling?

Rapid African growth is likely to continue in 2015. But too much spending and borrowing has led many countries into trade deficits. As lenders become more discriminating, the state of the balance of payments, along with freedom from Ebola, will become keys to continued growth.

10

South America — revival year?

For four years, the region has mostly lagged world economic growth. The IMF predicts another year of the same. While Pacific-oriented countries will shine, Brazil, Argentina and Venezuela will suffer. With a couple of exceptions, misguided policies are coming home to roost.

An IMF Perspective: The impact of economic and political trends on regional and global markets

NATALIA TAMIRISA,
Chief of the Regional Studies, Middle East and Central Asia Department International Monetary Fund (IMF)

The interview answers were prepared with the supportive inputs of other IMF staff, including Tim Callen, Paul Cashin, Chris Jarvis, and Pritha Mitra.

With Saudi Arabia's investment reforms and other GCC countries getting attention as global emerging market hotspots, will the region become a mainstream investment destination in 2015?
Equity prices in several GCC countries increased sharply through late summer last year, driven by strong economic growth, the inclusion of Qatar and UAE in the MSCI Emerging Market Index, planned EXPO and FIFA-related investments in UAE and Qatar, and the news that Saudi Arabia would allow increased foreign access to its stock market. However, the decline in oil prices has negatively affected these markets in recent months. Looking forward, reforms to further develop equity and debt markets in the GCC are important to provide additional sources of finance to companies and a broader range of products for savers.

What will be the economic impact of global economic engines such as the U.S., EU and China on MENA countries in 2015?
Continued solid recovery in the U.S. is expected to have positive consequences for the rest of the world, including MENA, particularly through increased import demand. However, the weakness and fragility of recovery in the euro area do not bode well for the region, especially Maghreb countries that have important linkages with Europe through trade, investment, and remittances.

China's growth is expected to moderate in 2015 as the economy transitions to a more sustainable path. This is part of a broader narrative of slowing growth in emerging markets compared to the rates they experienced before the global financial crisis. The related reduction in import demand, including for commodities, has important implications for the global oil markets, weighing on oil prices.

If the recent decline in oil prices is sustained through 2015, MENA oil exporters will see their fiscal and external balances worsen. Oil exporters with large buffers can avoid sharp cuts to their fiscal spending plans, thereby supporting growth of the non-oil sectors. Yet, if the oil price shock proves to be persistent, oil exporters who do not save enough for future generations and/or have limited buffers would need to reassess their medium-term fiscal spending plans. MENA oil importers benefit from lower oil prices. The breathing space provided by lower oil prices allows countries with weak fiscal positions to reduce public debt and build up their buffers against future adverse shocks.

The normalisation of the U.S. monetary policy and expected increases in U.S. interest rates are likely to tighten financial conditions in the MENA region (particularly in the Gulf Cooperation Council countries because of their exchange rate pegs) and to dampen the growth of domestic private credit. They may also make external financing (and possibly FDI) more expensive for the region. However, these interest rate spillovers are likely to be only partial, because of limited financial integration of the MENA region, and occur with a delay.

How do investors view the Gulf countries?

The Gulf Cooperation Council countries have been perceived as an attractive portfolio investment destination in part owing to their strong macroeconomic fundamentals, particularly solid economic growth and large fiscal and external buffers. The inclusion of the UAE and Qatar in the MSCI Emerging Markets Index effective May 2014 helped further boost investor interest in the region, particularly from passive investment funds. Clearly, these markets have been affected by the drop in oil prices, and their near-term trends will be closely linked to oil prices.

Will the new and upcoming FDI projects result in India repositioning itself as a global investment hub with greater economic openness? Will India take the steps required to ensure foreign companies set up for the long-term?

Inward FDI into India remains very low (at around 2% of GDP) compared to other peer countries. While India has gradually opened up and removed restrictions on FDI, a number of sectors still remain subject to approvals and limits on foreign ownership share. Steps have been taken to further liberalise the FDI regime, in particular in the railways infrastructure, construction, insurance, and defense sectors. Despite these positive moves, for India to become a "global investment hub" significant improvement in its business environment, infrastructure and connectivity as well as accelerated structural reforms are needed.

> ***"If the oil price shock proves to be persistent, oil exporters who do not save enough for future generations and/or have limited buffers would need to reassess their medium-term fiscal spending plans."***

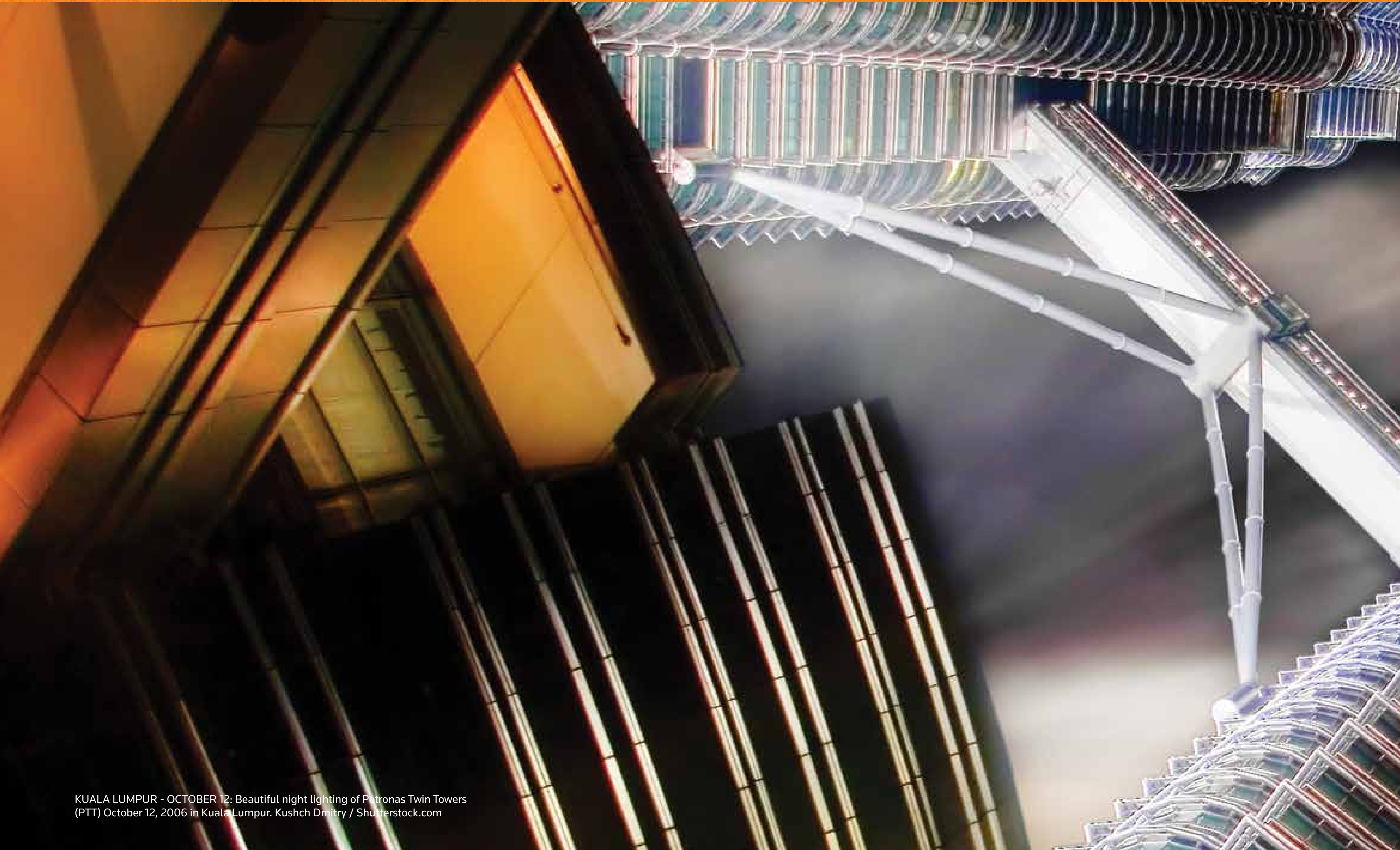
What does Egypt need to spur economic recovery? How much financing will the country need?

Egypt's economic prospects have improved significantly during the last year as the political roadmap is advancing and the authorities have begun to take crucial steps toward achieving their objectives. They have embarked on bold subsidy and tax reforms, are pursuing a disciplined monetary policy, expanding social policies, and have initiated wide-ranging regulatory and administrative reform efforts to improve the business environment and boost investment. Policies implemented so far, along with renewed confidence, are starting to produce a turnaround in economic activity and investment. We project that growth will reach 3.8% in Fiscal Year 2014/15.

However, there is still a long way to go. Egypt faces major economic challenges, namely low growth, high unemployment, a high fiscal deficit, and a fragile external position. It is very important to promptly secure macroeconomic stability and create the conditions for strong and inclusive growth and job creation. It will be important that the government continues to implement its planned policies, including measures to control the wage bill, the introduction of the VAT and mining laws, and the strengthening of public financial management and that it continues the subsidy reform in future years.

So Egypt has made a good start but there is a long way to go. External financing and investment will be important to support Egypt's transition. However, the amount of financing needed will depend on many factors, including the strength of economic policies, external conditions, and Egypt's capacity to absorb new investment.

CHAPTER ONE: THE ISLAMIC FUNDS MARKET IN 2014



KUALA LUMPUR - OCTOBER 12: Beautiful night lighting of Petronas Twin Towers (PTT) October 12, 2006 in Kuala Lumpur. Kushch Dmitry / Shutterstock.com

2014 marked the largest record of funds launched

1,181

NUMBER OF ISLAMIC FUNDS OUTSTANDING

US$60.65 billion

TOTAL AUM OUTSTANDING ISLAMIC FUNDS

The scale of Islamic funds is still much smaller compared to that of conventional funds

<9.99 million
484 FUNDS

10-49 million
295 FUNDS

50-99 million
102 FUNDS

+100 million
96 FUNDS

HIGHLIGHTS OF 2014

US$2.27 billion

TOTAL AUM OF ISLAMIC FUNDS LAUNCHED IN 2014

Money market largest asset type reflecting cautious investor appetite in 2014:

Equity
Launched in 2014: 63
US$ 625M

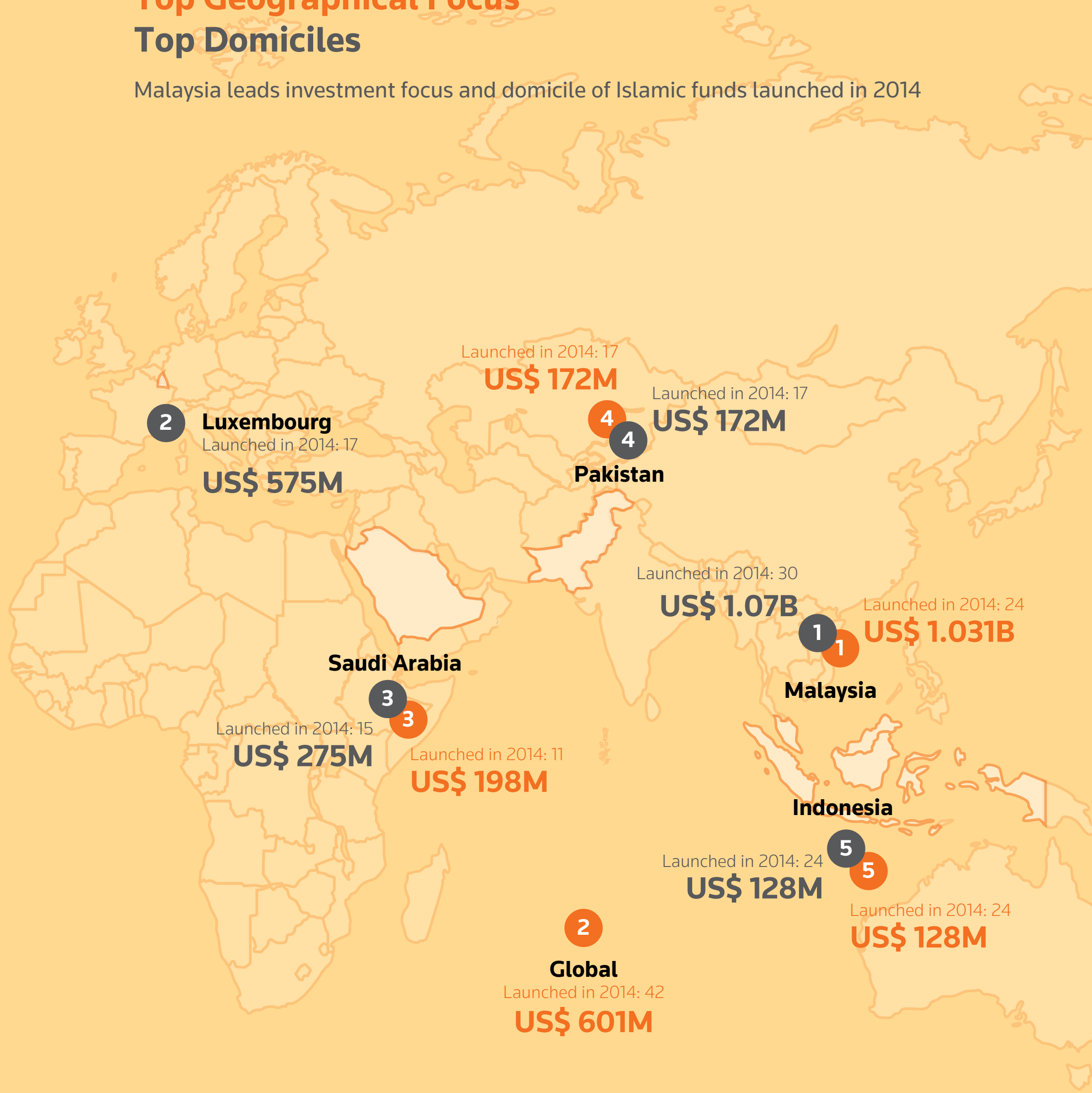
Sukuk
Launched in 2014: 23
US$ 204M

Mixed Assets
Launched in 2014: 34
US$ 538M

Money Market
Launched in 2014: 17
US$ 900M

Top Geographical Focus
Top Domiciles

Malaysia leads investment focus and domicile of Islamic funds launched in 2014



NEW SIZEABLE FUNDS LAUNCHED IN 2014

A few new sizeable Islamic funds were launched in 2014 that may have the potential to increase in asset size provided they employ successful growth strategies

NAME	ASSET TYPE	FUND MANAGER	DOMICILE	AUM 2014 (US$ Million)
Maybank Dana Najiyah	Money Market	Maybank Asset Management Sdn Berhad	Malaysia	560.37
HSBC Amanah Global Equity Index Y GBP C	Equity	HSBC Investment Funds (Luxembourg) SA	Luxembourg	120.23
Kenanga Islamic Income Series 3	Money Market	Kenanga Investors Berhad	Malaysia	183.74
Az Multi Asset - Global Sukuk Master Euro Dis	Mixed Assets	AZ Fund Management SA	Luxembourg	121.08
SC Core Diversified Strategies Fund B	Mixed Assets	SEDCO Capital Luxembourg S.A.	Luxembourg	123.36

INDUSTRY SIZE AND COMPOSITION

Global Islamic Funds

2014 registered highest number of funds launched — an increase of 49% from 2013 — and lowest level of liquidation.

Despite the continuous growth of the global Islamic asset management industry it still remains a very small portion of the Islamic finance industry — approximately 3.5%.

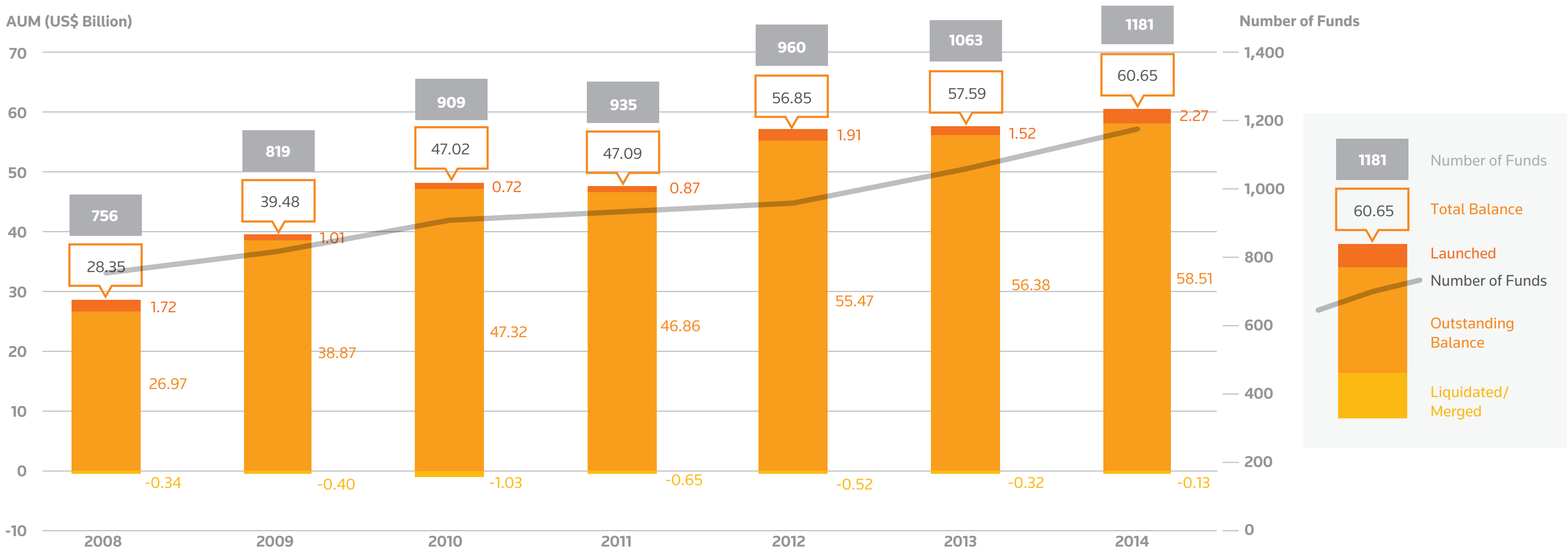
Islamic asset management has been growing since 2008 and in 2014 the industry reached a high of US$60.65 billion in Assets Under Management (AUM). While AUM grew by 5.3% in 2014 from the previous year, the number of funds enjoyed double digit growth — 11%— for the same period. Notably, the year registered the fewest number of liquidated funds indicating a healthy environment. The funds liquidated in 2014 amounted to US$0.13 billion compared to US$0.32 billion in 2013. On the other hand, the size of new funds launched was US$2.27 billion in 2014 compared to US$1.52 billion in 2013, representing a 49% growth.

1,181
Number of Islamic Funds Outstanding

US$60.65 billion
Total AUM Outstanding

3.5
percentage of Global Islamic Assets ICD Thomson Reuters Islamic Finance Development Indicator 2014

AUM of Global Islamic Funds Outstanding (2008 - 2014)

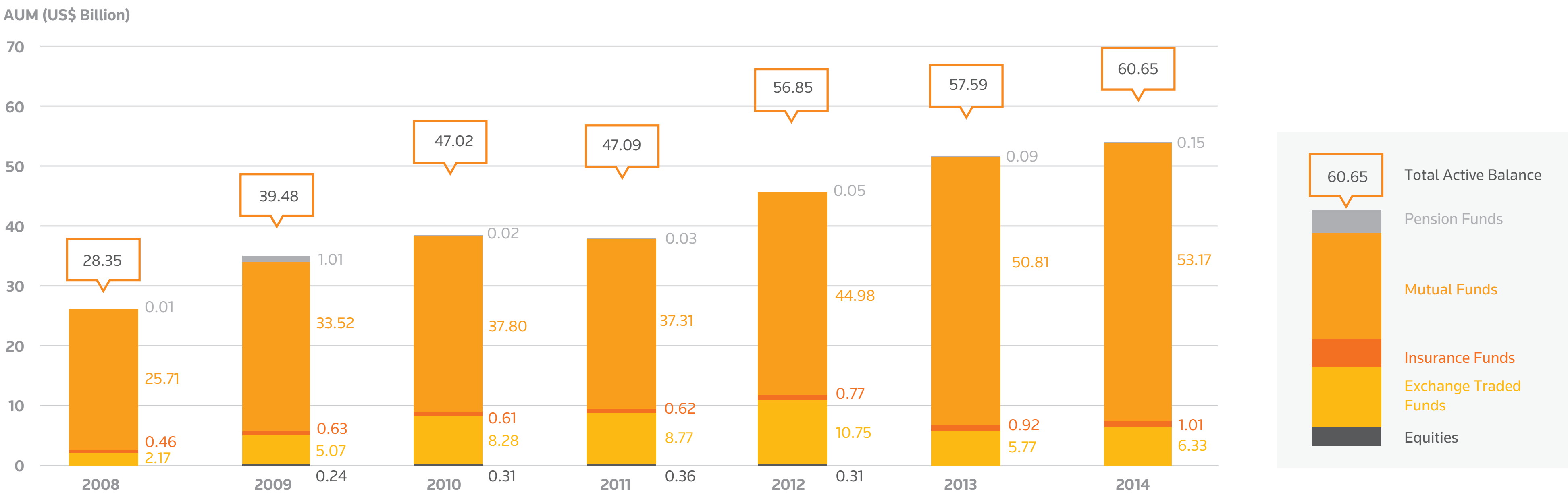


Mutual funds dominated in 2014, making up 88% of total global Islamic funds.

The rest of the market consists of Exchange Traded Funds (ETFs) at approximately 10%, and insurance, pension and equities make up the remaining 2%.

Mutual funds is the biggest asset universe in terms of AUM standing at 88% of the total Islamic asset management industry. The industry as a whole has enjoyed a compounded annual growth rate (CAGR) of 13.5% since 2008. Similarly, mutual funds grew at a CAGR of 12.9%. There were two very positive signs in 2014 — the year witnessed the lowest number of liquidated funds since 2008 at only US$127 million compared to US$315 million in 2013; and the total size of new funds launched increased to US$2.27 billion from US$1.52 billion in 2013, representing a 49% rise. US$2.26 billion of the US$2.27 billion in new funds launched were mutual funds. In terms of overall industry AUM, the second largest asset universe (after mutual funds) is ETFs representing 10.4% of the industry with AUM of US$6.33 billion in 2014. The growth of ETFs has slowed down significantly; in fact there was only one new ETF launched in 2014 and 2013 that was relatively small in size at US$6 million. ETFs were active in 2007 and 2008 when 20 funds in total were launched over the two years.

AUM of Global Islamic Funds Outstanding - Breakdown By Universe (2008 - 2014)

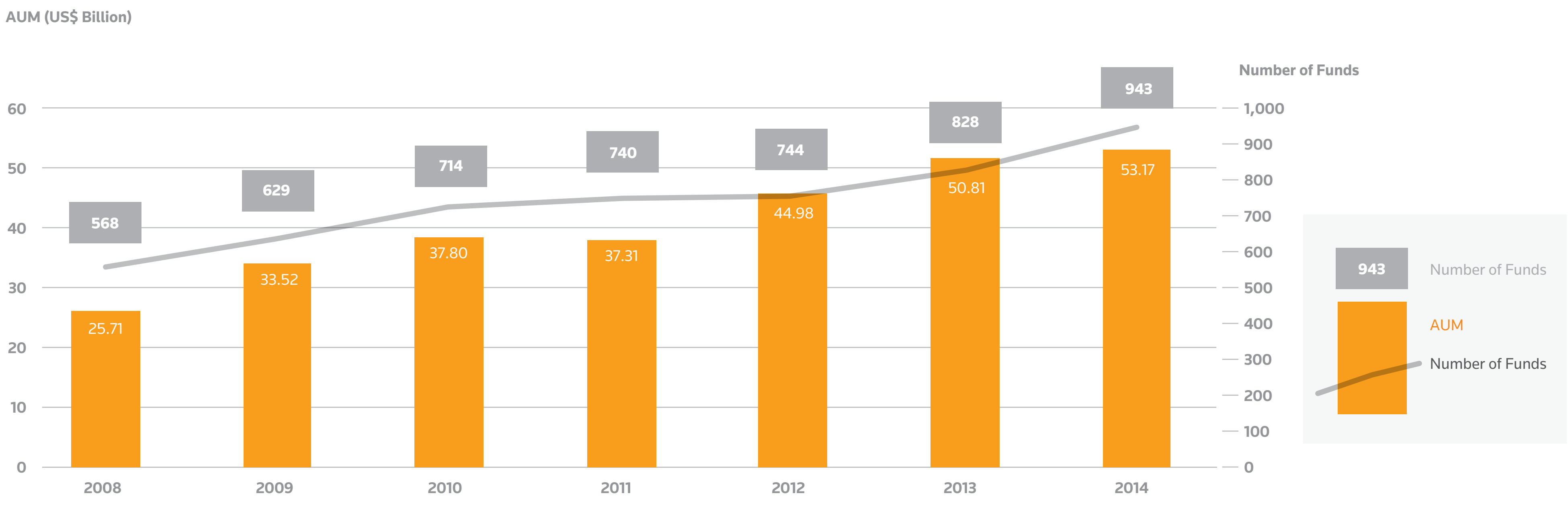


Diversification and liquidity continue to drive Mutual Funds growth.

4% growth in AUM, 14% growth in number of funds in 2014. However, the majority are under the US$1 million scalability mark.

Mutual funds have long been favoured by most market players for a number of reasons, including: a) mutual funds offer diversification. Unlike other individual stocks managers can choose a wide range of asset classes; b) they are undeniably convenient; investors can avoid complicated decision-making situations when investing in mutual funds, unlike stocks where investors have to devote a lot of time studying companies and monitoring them; and c) mutual funds are more cost efficient; the trading costs are generally divided among all investors, while in stocks, costs at times are so high that any gains are cancelled out. Liquidity is another area that makes mutual funds favourable as investors can promptly cash out. For example, in open-ended investments, investors get their money back based on Net Asset Value (NAV) and close-ended funds can be traded in a stock exchange.

Global Islamic Mutual Funds Outstanding (2008 - 2014)



UNIVERSE CHARACTERISTICS

By Domicile

The top domiciles Saudi Arabia and Malaysia accounted for 69% of total assets under management and 40% of the total number of Islamic funds outstanding by the end of 2014.

32
Number of Domiciles For Islamic Funds Outstanding

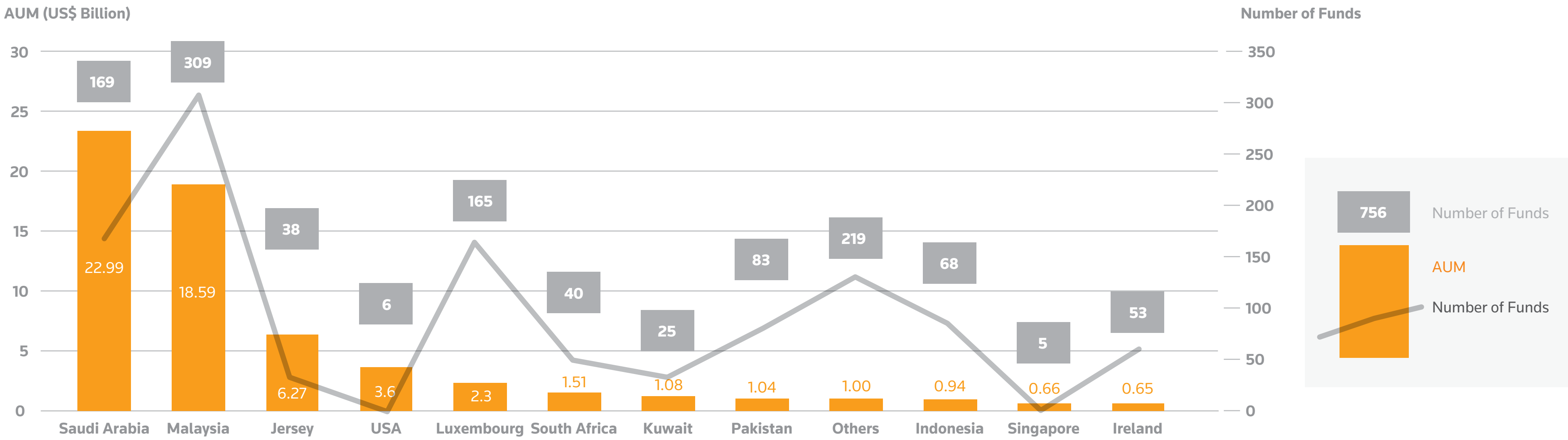
Outside of biggest markets Saudi Arabia and Malaysia, offshore jurisdictions Cayman Islands, Guernsey, Ireland, Isle of Man, Jersey, and Luxembourg held 15% of total Islamic AUM and 23% of the total number of Islamic funds in 2014.

Luxembourg almost matches Saudi Arabia in number of funds but not in asset size — 42% of Luxembourg's Islamic funds are smaller than US$1 million, while 58% of Saudi Arabia's Islamic funds manage more than US$20 million.

With the spread of Islamic finance to non-Muslim countries, more domiciles are opening up to the idea of Islamic funds. For example, Hong Kong debuted its US$1 billion sukuk in September 2014 while RHB Asset Management launched Hong Kong's first Shariah-compliant fund a few months before Hong Kong's debut sukuk was issued.

In terms of AUM of funds launched in 2014, Malaysia led with US$1.07 billion, or 47% of total AUM launched, followed by Luxembourg with AUM of US$575 million (25%). As a comparison, in 2008 Malaysia launched US$956 million (56%) and Luxembourg launched US$122 million (7%).

Global Islamic Funds Outstanding - Breakdown By Domicile - (FYE 2014)



By Asset Class

By AUM size, money market was the most dominant type of Islamic funds launched in 2014, which reflects a continuing risk aversion by investors since 2013.

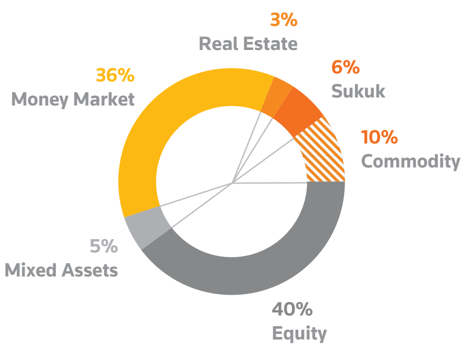
It is ranked second for Islamic funds outstanding by the end of 2014.

Sukuk's portion of Islamic funds launched, on the other hand, has dropped significantly since 2009. Yet, the increasing expectation of this asset class to grow — since non-Islamic issuers such as the UK, Luxembourg, Hong Kong, South Africa, and Goldman Sachs issued their debut sukuk in 2014 — will attract investors seeking added portfolio diversification. Malaysia and GCC are forecasted to launch more corporate sukuk due to growing refinancing needs.

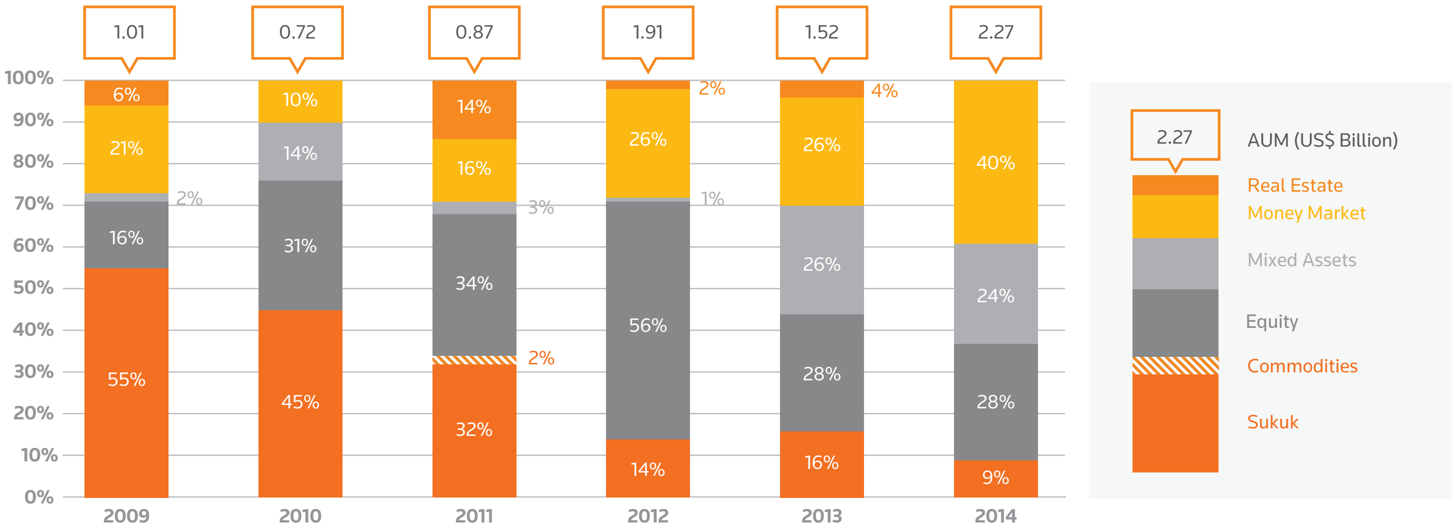
Breaking down the AUM balance of funds outstanding by the end of 2014, equity is the biggest slice, boasting an AUM of US$24 billion. Equity funds are heavily domiciled in Malaysia (42%) and Saudi Arabia (33%). 75% of the AUM outstanding for the money market asset class is domiciled in Saudi Arabia while Malaysia takes the biggest portion for sukuk funds (58%). Real Estate Islamic Funds are spread between Singapore (39%), Kuwait (28%), Malaysia (26%) and Saudi Arabia (7%).

Low oil prices are affecting the commodity asset class as well as equity class, especially for oil exporters, as lower oil revenues are expected to slow economic growth and remove stock bubbles. Breaking down equities into sectors, petrochemicals will be directly affected negatively, while transport and logistics will benefit from such a decline. Sectors that depend heavily on demographics, such as retail and food are regarded as safe while stocks that are facing higher fees and taxes due to governments raising revenues from sources other than oil are considered risky. For example, Bahrain and Oman raised natural gas prices, which has affected related industries in their countries such as aluminium and cement.

AUM of Global Islamic Funds Outstanding By Asset Class (FYE 2014)



AUM of Global Islamic Funds Launched By Asset Class (2009 –2014)



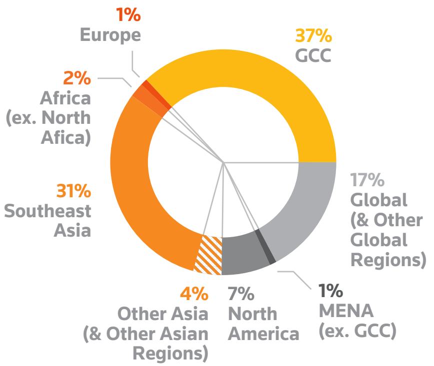
By Geographical Focus

Saudi Arabia tops Islamic funds by geographical focus, making up 33% of the total AUM outstanding.
Malaysia trails (29%), followed by global focus (17%), and United States (7%).

Looking at the geographical distribution and focus of Islamic funds launched over the last six years, it is primarily Southeast Asia that dominates AUM of Islamic funds launched; this is represented by individual countries focus (Malaysia, Indonesia, and Thailand) and ASEAN as a whole region. By domicile, all Islamic funds outstanding that are domiciled in Indonesia and Thailand are focused locally, while 99% of Malaysia's funds are invested locally and the rest are invested in the ASEAN region. Although GCC tops in terms of Islamic funds outstanding, its share of funds launched has been sliding over the years.

Global and other global regions (such as global emerging markets, including BRIC) geographical focus have made up a big portion of Islamic funds outstanding and in terms of Islamic funds launched in the last three years. 53% of the globally focused Islamic funds outstanding are domiciled in Luxembourg, Ireland and Saudi Arabia.

AUM of Global Islamic Funds Outstanding By Geographical Focus* (FYE 2014)



*For presentation, the geographic focus countries and regions are summarised into larger regions:

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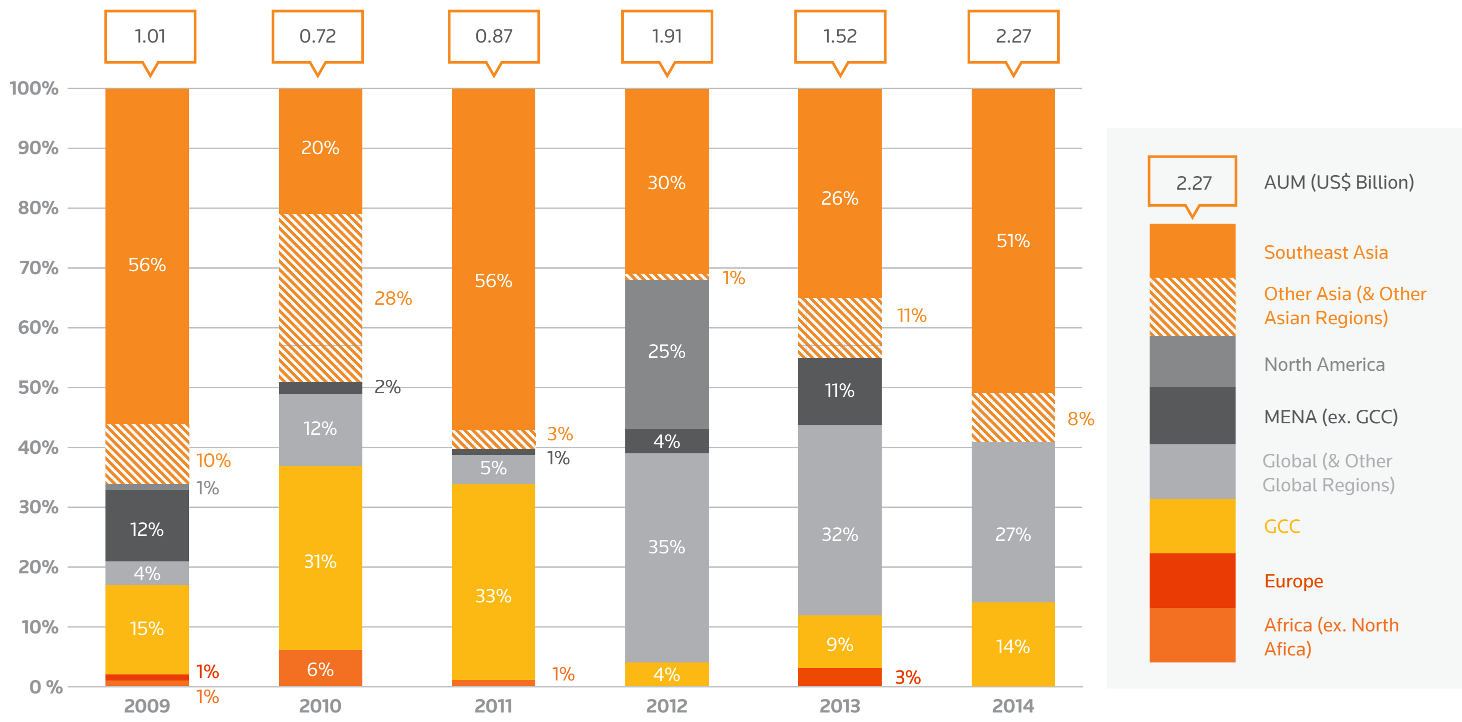
AUM of Global Islamic Funds Launched By Geographical Focus* (2009 – 2014)



A worker stands on a steel bar at the construction site of Kuningan City super block in Jakarta February 2, 2010. REUTERS/Beawiharta

Asian Market Trends, Opportunities and Challenges in 2015

By SANDEEP SINGH
Country Head, Malaysia
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Favourable demographics, ongoing urbanisation and rapid adoption of new technology are driving strong and persistent economic growth in Asia outside Japan. With Indonesia — the world's fourth most populous country and home to a Muslim population of over 200 million — building Islamic finance services in its economy, the potential appetite for Shariah-compliant investments in Asia is significant.

Demand growth forecast in 2015

In 2015, the strongest growth in demand for Shariah-compliant products is expected to come from Muslim-majority countries where Shariah investing is already well established and investors are comfortable with the concept, particularly Malaysia and Brunei. Increasing investor interest is also evident in Indonesia, Singapore and Hong Kong.

Sukuk: evolving for a changing market

Of the Shariah-compliant products available in Asia, sukuk investments represent the most dynamic source of demand growth in the region.

Sukuk is rapidly establishing itself as a product distinct from conventional fixed income. Sukuk instruments attract a broad range of investors for their low correlation with other asset classes and diversification opportunities. This wider product appeal could make sukuk funds particularly potent as a means for Shariah-compliant investment companies to establish a presence in new markets.

Malaysia the market leader

The liberalisation of the Malaysian bond market last year, notably the removal of mandatory credit ratings for corporate bonds and sukuk, is regarded as a positive step in developing the country's sukuk market. While most sukuk issuances remain in Malaysia's local currency, international issuers such as European and Japanese banks—attracted by the depth and liquidity of the Malaysian market—are beginning to issue in foreign currencies as well.

Efforts to build Malaysia's reputation as a key centre for socially responsible investments include the launch in 2014 of the Environmental, Social and Governance (ESG) Index, which aims to more closely align Islamic finance and ethical finance.

Malaysia's regulatory requirement to separate pure deposits from investments in Islamic bank deposit accounts could potentially lead some banks to experiment with short-term sukuk instruments (similar to money market funds in conventional finance). This could provide a new source of business for the fund management industry and potentially change the face of the country's sukuk market.

> ***“Favourable demographics, ongoing urbanisation and rapid adoption of new technology are driving strong and persistent economic growth in Asia outside Japan. With Indonesia — the world's fourth most populous country and home to a Muslim population of over 200 million — building Islamic finance services in its economy, the potential appetite for Shariah-compliant investments in Asia is significant.”***

Indonesia broadens its investor base

While Malaysia remains the global leader in total sukuk issued and outstanding, Indonesia is the most regular issuer of global sovereign sukuk in Asia. For the fifth straight year, the Indonesian government is set for an international sukuk issue (scheduled for the first half of 2015). With each issue, Indonesia has been consistently widening its investor base and improving trade volumes. The Indonesian authority is also encouraging consolidation of its Islamic finance industry and is building a new regulatory system for sukuk, including retail sukuk.

When interest rates rise

The rising interest rate environment in the U.S. is expected to have a ripple effect in emerging Asia, including the two main sukuk issuers in the region, Malaysia and Indonesia. However, recent data and developments in both these countries have been encouraging. In the fourth quarter of 2014, Malaysia's annualised growth rate was stronger than expected at 5.8%. Overall, GDP grew by 6% for the year and the current account surplus rose to 4.6% from 4% in 2013. The Malaysian government remains focused on progressive deficit reduction with the aim of attaining a balanced budget by 2020 (Source: Bank Negara Malaysia, February 2015). While slower, GDP growth in Indonesia was still a decent 5% in 2014. (Source: Statistic Indonesia)

In the absence of external price pressures, monetary policy has been relatively accommodative in both countries, while growth challenges have pushed the Indonesian and Malaysian governments to engage in ambitious reforms. Both countries have moved decisively to curb food and oil subsidies, which should lead to further improvements in public finances. The drop in oil prices has also proved beneficial to a number of other sukuk issuers in Asia, holding out the prospect of improvements in trade and current account balances as well as fiscal deficits.

The modest correlation of sukuk to fixed income markets, along with relatively low beta characteristics, means any possible increase in global bond volatility could be contained in the sukuk space.

A significant mismatch between supply and demand remains, with retail and corporate interest in investment-grade sukuk far exceeding supply. Banks, non-bank corporations and sovereigns alike are aiming to diversify and optimise their funding profiles and increase their profile in the Islamic finance market. Throughout Asia, the need for Islamic banks to conform to stringent Basel III capital requirements should also feed into demand for sukuk.

Shariah-compliant equities: moving beyond local shores

Shariah-compliant equity funds in Asia currently reflect a strong domestic market bias among investors that is perpetuated by the fragmented nature of the industry, which often lacks the scale and resources to offer products beyond a relatively narrow range. Growing unmet demand for more diverse equity offerings, such as regional and global Shariah equity funds, could spur consolidation among existing industry players. Entry of existing global investment managers could also boost the Shariah-compliant investment industry through a higher global profile, potentially facilitating an alignment of interests between socially responsible investment (SRI) businesses and Shariah-compliant investors.

Institutional investors comprise a substantial and growing proportion of Asia's Shariah investor universe. One of the key initiatives in this marketplace has been the development of innovative structures to access assets held within institutions such as waqf and takaful. Private equity is another interesting area, as the shared risk-and-reward characteristics of the asset class are a particularly appropriate structure for Islamic investors.

Passport to new markets

Relative to its potential market, Asia's Shariah-compliant investment industry remains relatively small; however, the recent emergence of ASEAN fund "passporting" could soon alter the landscape as Shariah-compliant products find their niche as a source of diversification for investors.

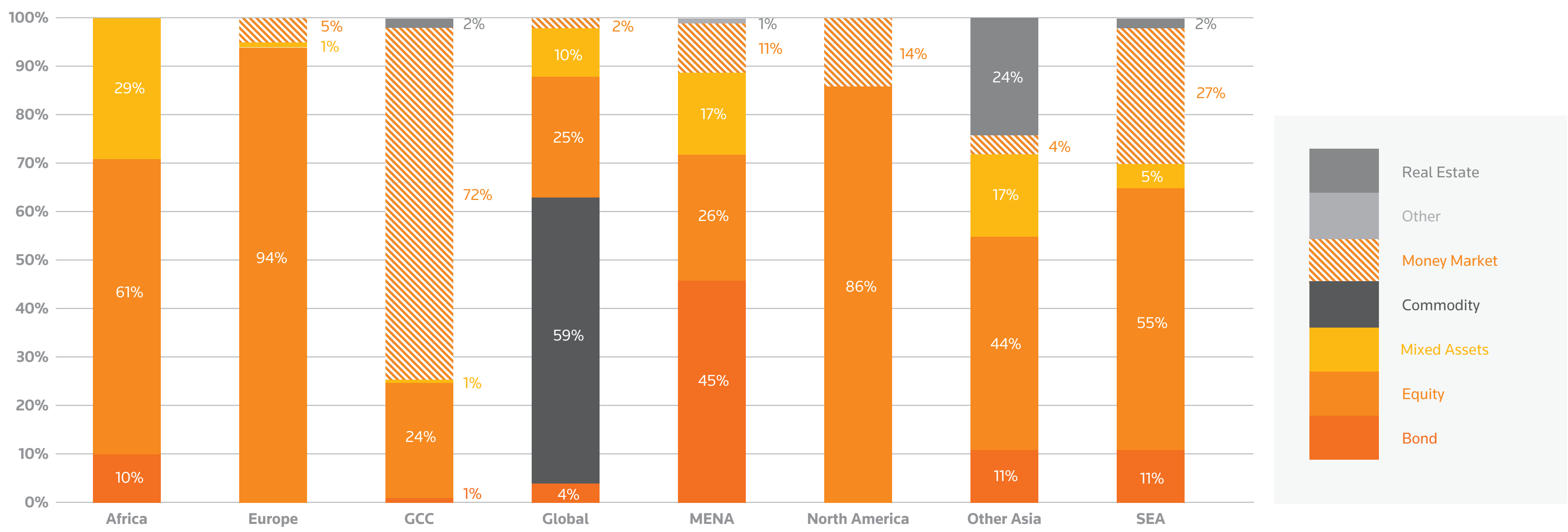
Should the fund passporting initiative be extended beyond ASEAN, it could be a game changer in markets such as Hong Kong, where Shariah-compliant investing has yet to receive mainstream attention. Hong Kong's position as a gateway to mainland China augurs well for future growth of Shariah-compliant investing in Asia.

By Asset Type and Geographical Focus

Each region had a different asset focus.

Europe and North America are overwhelmingly dominated by equity funds. Conversely, the GCC is dominated by money market funds with a smaller proportion of equity funds. While equity makes up about half of funds in Southeast Asia and other Asian regions/countries, other asset types give Asia's portfolios more diversity, including money market, real estate, mixed assets and sukuk.

AUM of Global Islamic Funds Outstanding By Geographic Focus* and Asset Type (FYE 2014)



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The usual market players are standing strong.

However, as Islamic finance spreads globally we are witnessing a growing investment appetite for Islamic funds of emerging nations, especially for equity.

If we rank Islamic funds by type and geographical focus, Saudi Arabian-focused money market funds are the most dominant type of Islamic funds outstanding with an AUM of US$15.76 billion followed by Malaysian-focused equity funds with a total outstanding AUM of US$9.62 billion. These are followed by global commodity Islamic funds with a total AUM of US$6.17 billion.

Taking into consideration the AUM of Islamic funds launched in 2014 only, most were money market funds focused on Malaysia, followed by globally-focused Islamic mixed assets funds, then globally-focused Islamic equity funds. Collectively, these funds made up 62% of all Islamic funds launched in 2014.

Saudi Arabia's stock market will be opened to foreign investors in 2015 and there's potential for the Kingdom to follow in Qatar and UAE's footsteps in gaining MSCI Emerging Market status (which the two countries achieved in 2014). Asset managers in the Middle East are getting ready to capture the expected investment inflows into the Arab world's biggest market. Therefore, more allocations are expected for equity-based Saudi-focused investments.

However, while there is a worry the Saudi market will be overvalued due to oil revenues the collapse of oil prices have adjusted stock prices to reasonable levels, making the Saudi bourse look more attractive to investors.

Meanwhile, there has been a substantial focus on expanding Shariah-compliant investment products outside the Middle East and Southeast Asia, which are the core centres for Islamic finance. Malaysian and Hong Kong asset managers are collaborating to market Islamic funds to China's retail clients, with funds focused initially on the Far East and Southeast Asia. China's 23 million Muslims are viewed as a potential investor base. There is also increasing interest in the China market from the Middle East — one of the word's most aggressive Middle Eastern investors, the Qatar Investment Authority (QIA), launched a US$10 billion fund investing in the region (albeit not Shariah focused), signalling the potential for Shariah-compliant strategies to be aimed towards China.

Another BRIC economy, India, came close to giving its highest-profile endorsement to Islamic funds in December last year but the country's largest public sector bank has put on hold its launch of an Islamic equity fund. India is home to 166 million Muslims and the potential for growth in the Islamic funds sector is significant. Shariah-compliant funds are not new in India; the country already has the Taurus and Tata ethical equity funds. The latter launched India's oldest Islamic funds in 1996 and has an AUM of US$24.23 million. Alas, investment in Indian sukuk in the near future is unlikely as the country still lags in developing corporate and sovereign sukuk.

By Currency

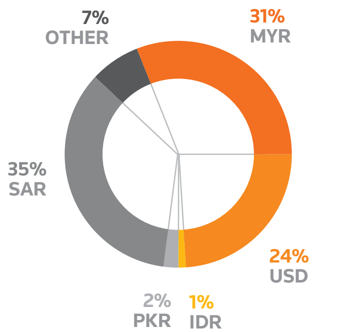
Islamic funds outstanding are held in 26 different currencies but three dominate — Saudi Riyals, Malaysian Ringgit, and US dollars make up 90% of total Islamic funds outstanding.

Malaysian Ringgit-dominated Islamic funds accounted for almost half of the AUM for the funds launched in 2014 followed by USD and SAR Islamic funds. The AUM of USD-dominated funds jumped in 2012 with more than half of launched Islamic funds in this period, but then declined to 17% of total AUM launched in 2014.

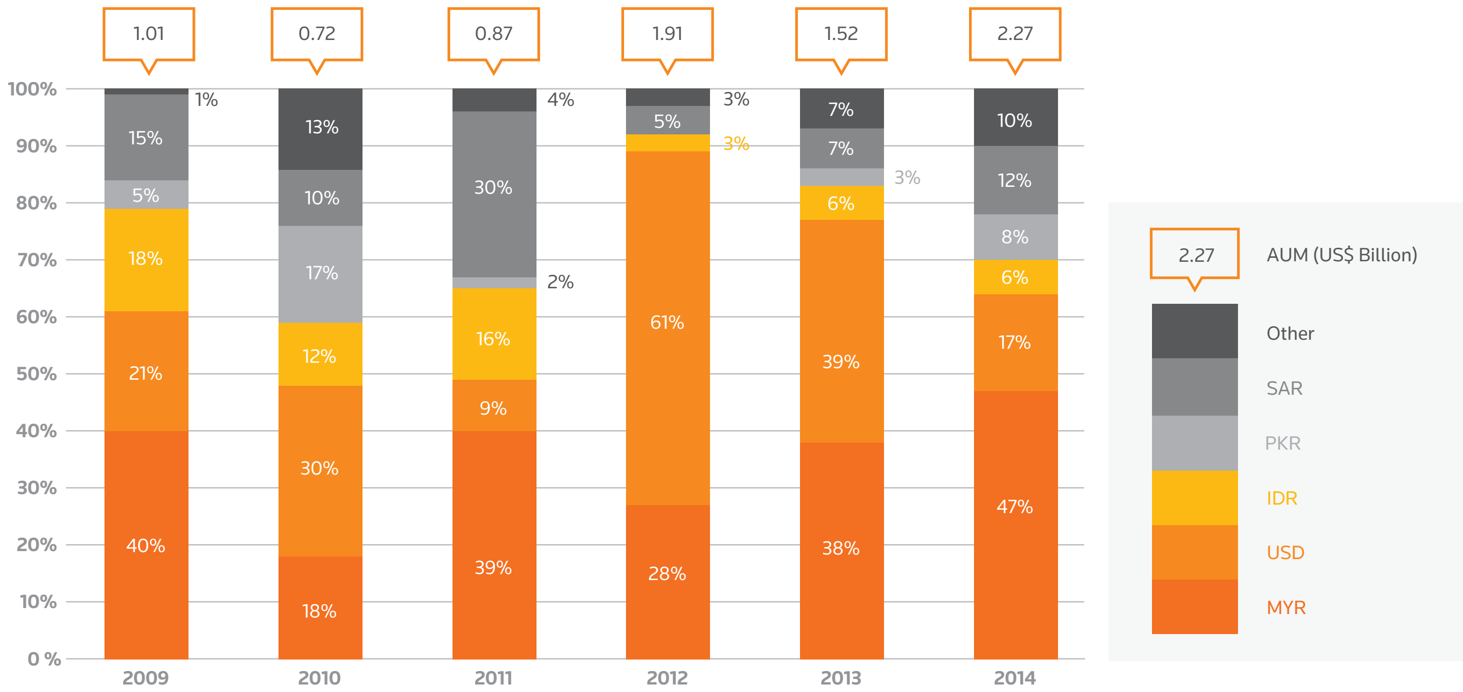
When breaking down USD-dominated funds by domicile, Jersey takes the biggest portion (42%) followed by United States (25%), Saudi Arabia (13%) and Luxembourg (13%) while Ireland, UAE, Bahrain, Cayman Islands, France, Guernsey, Hong Kong, Isle of Man, Malaysia, Qatar and Switzerland share the rest.

In terms of number of funds, USD- and MYR-dominated funds make up almost two-thirds of Islamic funds outstanding by the end of 2014. Although SAR-dominated funds make up the biggest portion (35%) of AUM of Islamic funds outstanding, it consists only 10% by number of funds.

AUM of Global Islamic Funds Outstanding By Currency (FYE 2014)



AUM of Global Islamic Funds Launched By Currency (2009 — 2014)



By Size of Fund

In terms of fund size, 40% of the Islamic funds launched in 2014 are smaller than US$1 million; these are mostly equity mutual funds domiciled in Luxembourg.

12
Number of Islamic funds outstanding that are over US$1 billion

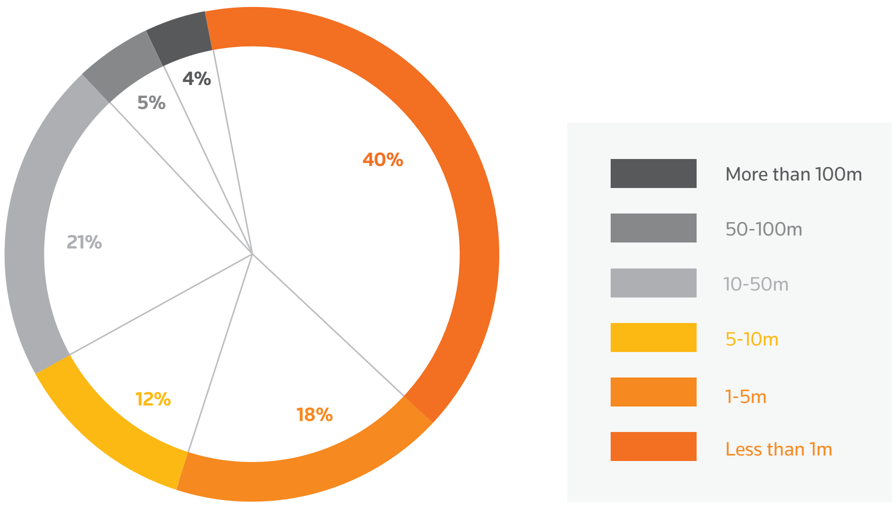
US$25.8 billion
Total AUM of Islamic funds outstanding that are over US$1 billion

50% of Islamic funds outstanding by end 2014 were smaller than US$10 million; these are mostly equity funds domiciled in Malaysia, Luxembourg, Pakistan, Saudi Arabia, and Indonesia.

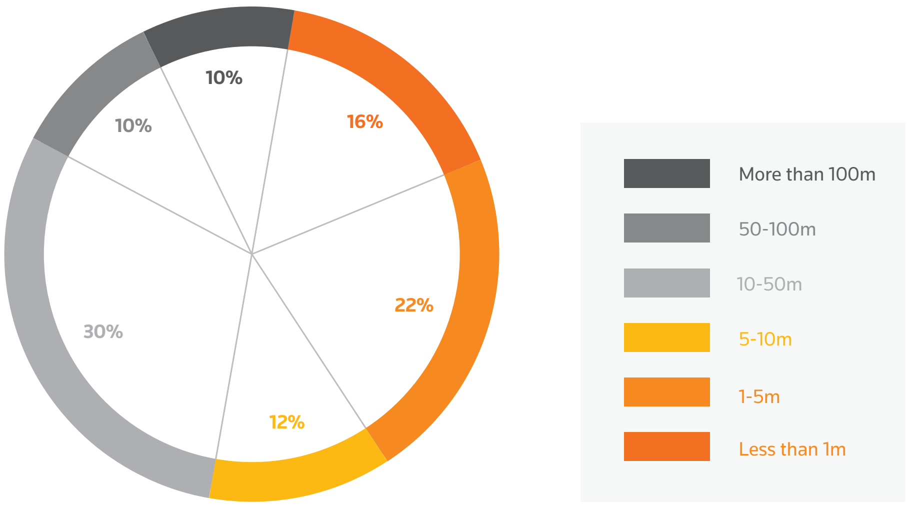
As for the Islamic funds that are bigger than US$100 million, 72% are domiciled in Malaysia and Saudi Arabia and these are mostly focused locally (65% of Islamic funds that are bigger than US$100 million are focused in Malaysia and Saudi Arabia).

Top Ten Islamic Funds
Further breaking down the Islamic funds outstanding over US$100 million, 12 Islamic funds are bigger than US$1 billion, with largest AUM reaching up to US$4.7 billion. The total AUM of these top 12 Islamic funds represent 43% of total fund AUM outstanding, adding up to US$25.8 billion. 11 of these 12 funds are equity and money market mutual funds while the rest are exchange traded commodity funds (ETFs Physical Gold).

Number of Global Islamic Funds Launched By Fund Size (2014)



Global Islamic Funds Outstanding- Fund Size (End of 2014)



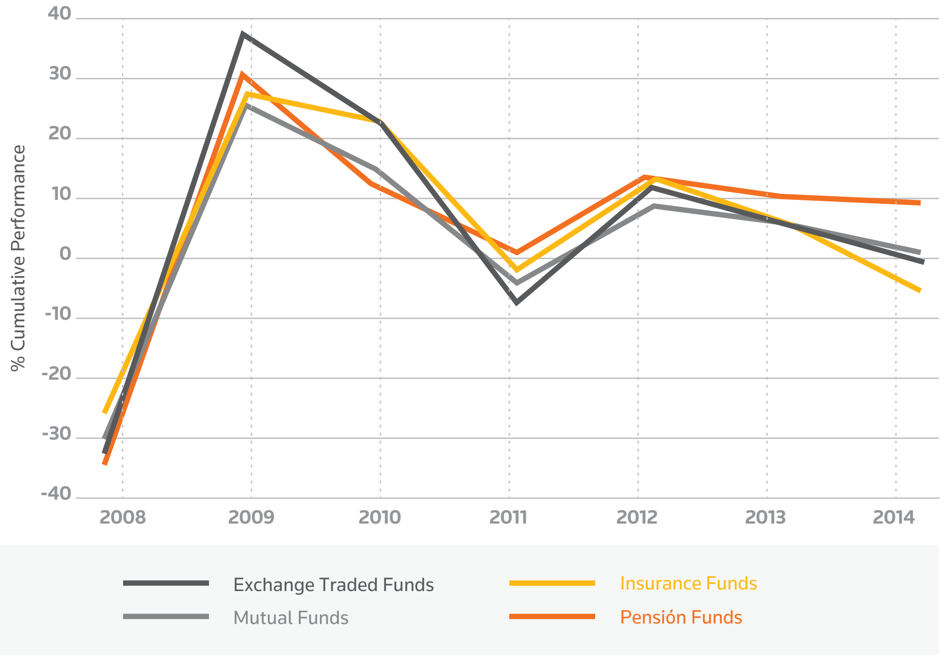
Asset Type and Universe

Since 2011 pension funds have been outperforming other asset universes. A weak Malaysian economy coupled with weak Ringgit put mutual funds and ETFs in the "Danger Zone" in 2014.

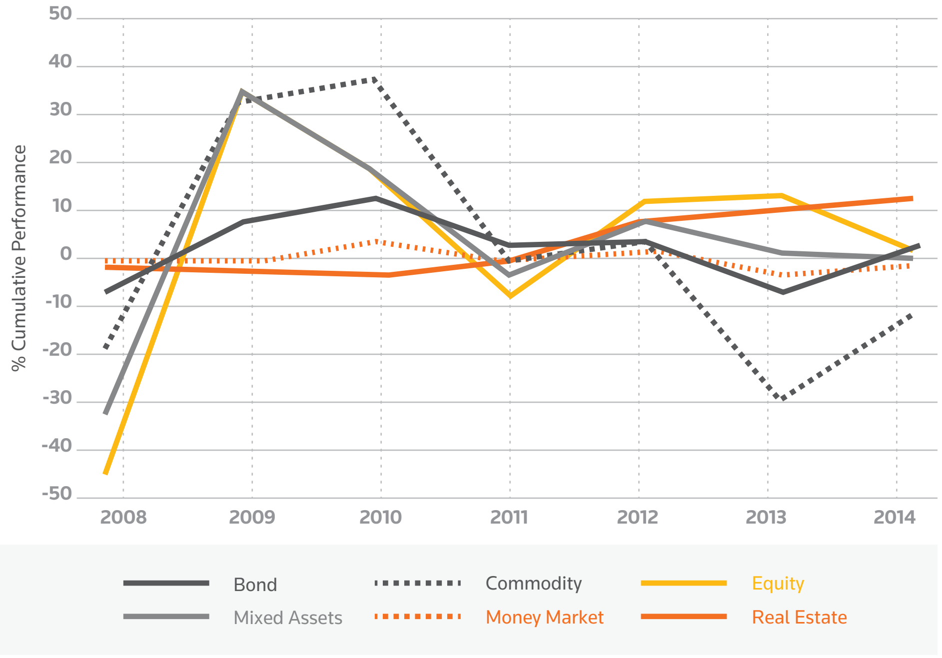
Real Estate has proven to be the most stable and resilient asset class since the financial crisis. Commodity has been suffering since 2010 but is on the rebound.

The performance of the funds industry has been relatively volatile and while asset universes were able to recover after the financial crisis, they took another hit in 2011 with the political unrest across MENA. It did not take long for performance to pick up again in 2012, but since then, the performance has been weak. The top performer in the asset universe was pension funds at about 10%, followed by mutual funds at 1.8%. ETFs and insurance funds reported negative performance of -0.20% and -4.7%, respectively in 2014. In terms of asset classes, Real Estate remains the only class over the years to perform exceptionally well reaching 12.9% in 2014 from just 1.2% in 2011 and it also remains the least volatile despite a challenging environment. Equity, which is a major player in terms of value and volume in Islamic funds, performed poorly in 2014 with performance of just 2.32%, representing a significant drop from 13.1% in 2013. This is due to the poor performance of the Malaysian economy and Ringgit following the drop in palm oil production (one of the main sources of income for the country), which resulted in negative performance in 2014 for all the equity funds.

Average Islamic Funds Performance By Asset Universe (2008 - 2014)



Average Islamic Funds Performance By Asset Type (2008 - 2014)



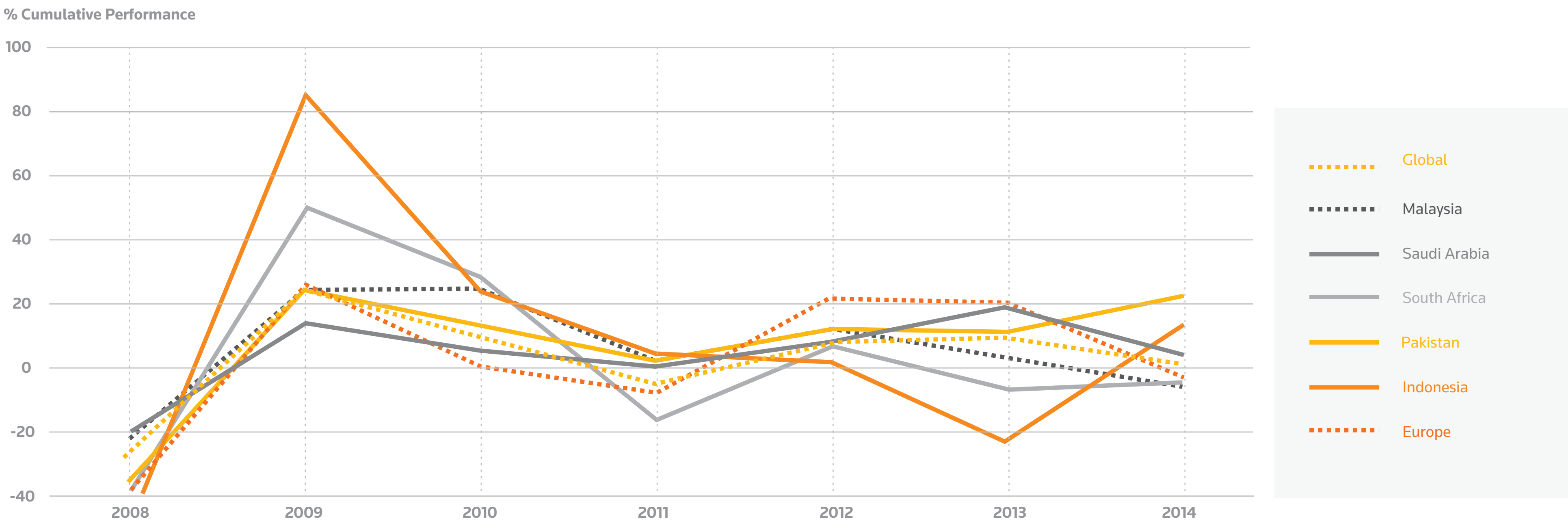
Geographic Focus

The performance of major players fall short, accumulating negative to zero returns; Saudi Arabia's performance dipped 79% in 2014.

Pakistan and Indonesia are the only markets with positive returns at 20.4% and 12.2%, respectively. Malaysia chalked up the lowest return at -6.0% due to drop in palm oil production.

Malaysia's economy was significantly affected by the drop in production of its main cash crop, palm oil, whose price plunged 50% following dry weather. As a result, 2014 saw the second worst performance since 2008's plunge (-24.0%) due to the financial crisis. On the upper end, Pakistan is the best performing country in 2014, thanks to cheap oil prices doubling its performance from 10.8% in 2013 to 20.4% in 2014. In addition, following the presidential election in 2013, Pakistan is currently enjoying a stable political environment as well as a steady currency. Indonesia's positive performance doesn't come as a surprise. There is a renewed drive in the Islamic space, with the country hitting the accelerator pedal to widen and deepen its Islamic finance industry and on the cards is a mega Islamic bank as well as revisions to takaful, retakaful, Islamic pension funds, and pilgrimage funds. The new government has also ramped up infrastructure spending and hopes to introduce more underlying assets to boost sukuk volumes that would be needed to part-finance the state's budget deficit.

Average Islamic Funds Performance - Selected Geographical Focus (2008 - 2014)

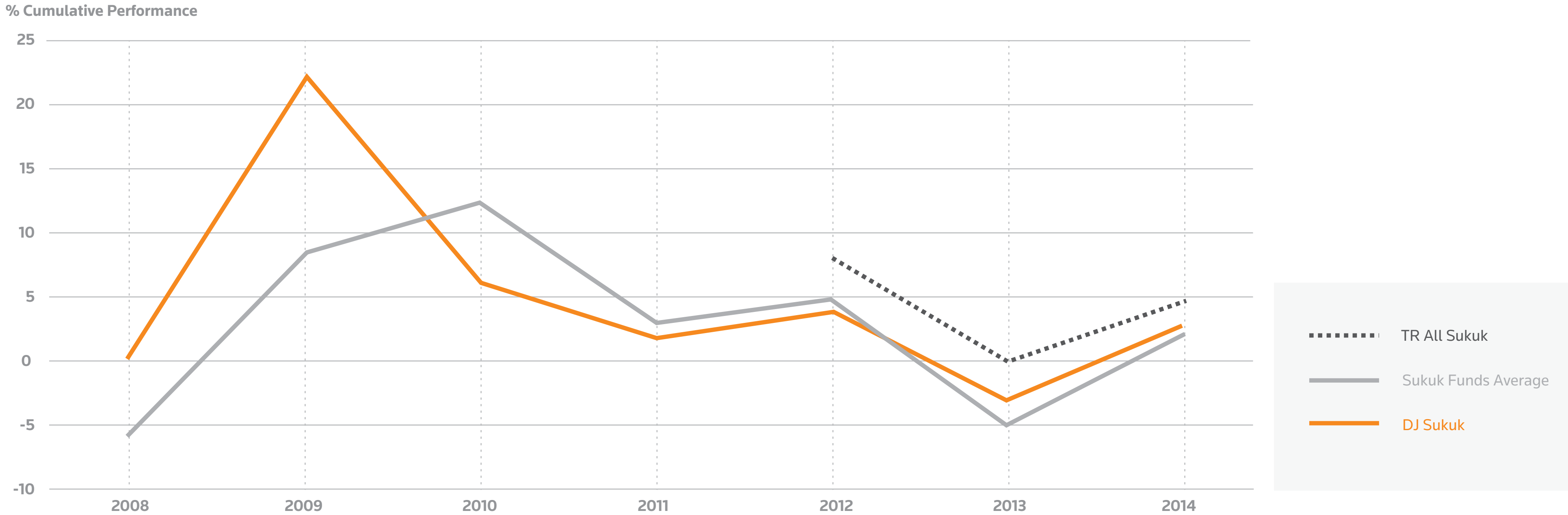


Sukuk

The overall performance of sukuk is picking up and Malaysia as the biggest market finished 2014 on a negative note.
Funds with geographical focus in Pakistan, Indonesia, GCC and global have all performed well.

Sukuk funds performed well in a majority of markets, pushing up overall performance to 2.44% in 2014 from -4.6% a year ago. The best performing country was Pakistan (26 funds) ending 2014 with 12.5% performance followed by Indonesia (44 funds) at 3.6%. Indonesia reported a solid performance in 2014, after a disappointing -19.1% in 2013. As an oil importing country, the drop in oil prices has been good for Indonesia. On the other hand, the world's biggest sukuk funds market, Malaysia, reported a performance of -2.8% primarily as a result of the devaluation in the ringgit against the dollar. Unexpectedly, this has affected overall sukuk issuances in Malaysia, which has historically accounted for 65%-70% of total global market issuances. The issuance in the first three months of 2015 dropped 56% compared to the same period in 2014. GCC sukuk funds (10 funds) have performed satisfactorily at 3.3% in 2014 from 0.56% in 2013. While GCC countries are also affected by the plunge in oil prices, their currencies stand firm as most are pegged to the dollar, which has appreciated.

Sukuk Average Performance (2008 - 2014)



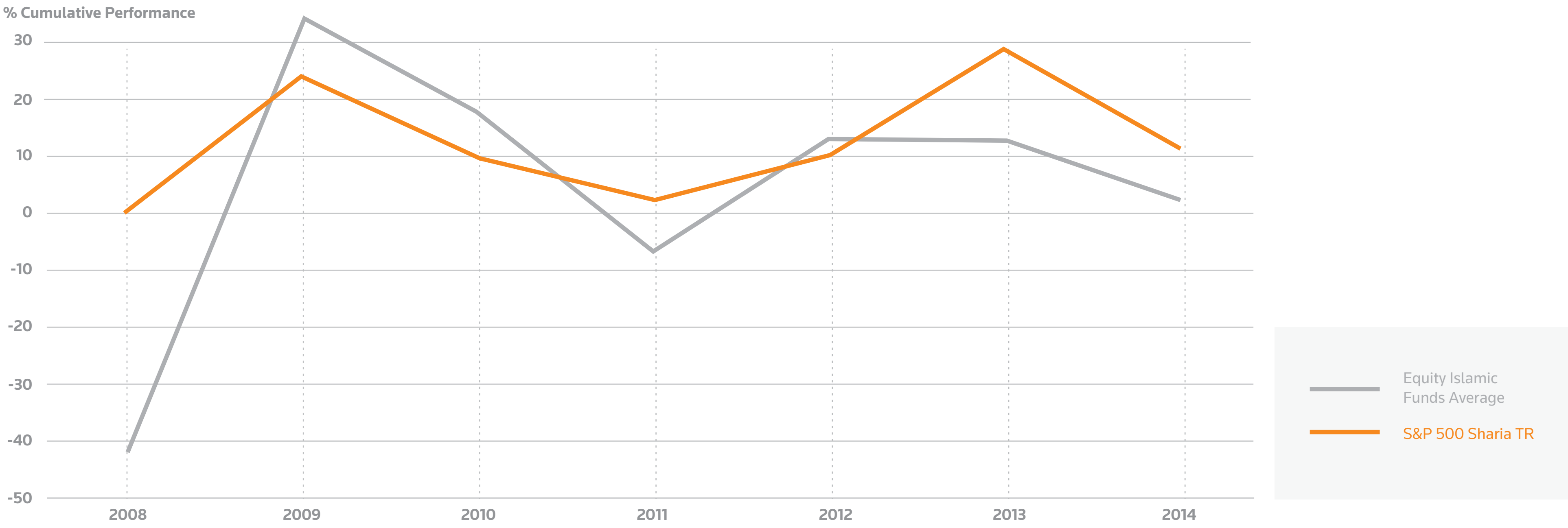
Islamic Equities

Shariah-compliant equity funds struggle further with the drop in palm oil prices in Malaysia and are yet to outperform benchmarks since 2011.

Equity funds were slowly recovering but took another hit particularly in Malaysia, which holds 37% of the total value of global Islamic equity funds. The Malaysian ringgit has been one of the worst performing currencies in Asia, shrinking the value of assets and balance sheets of local Malaysian corporates and financial institutions in the international markets. The Eurozone crisis also negatively hit the performance of all equity funds with focus on Europe. European equity funds reported a negative performance in 2014 at -5.0% from an exceptionally high 18.8% in 2013. Hard currencies were also affected — the Euro, for example, lost about a quarter of its value since mid-2014.

Malaysia was affected by the drop in palm oil prices and this strained the overall performance of equity funds at 2.32%, which is a significant drop from 13.1% in 2013. Similar to other countries in the region, Malaysia is a net energy importer but the drop in oil prices has not helped the economy cover shortfalls from the drop in prices of palm oil.

Islamic Equities Average Performance (2008 - 2014)

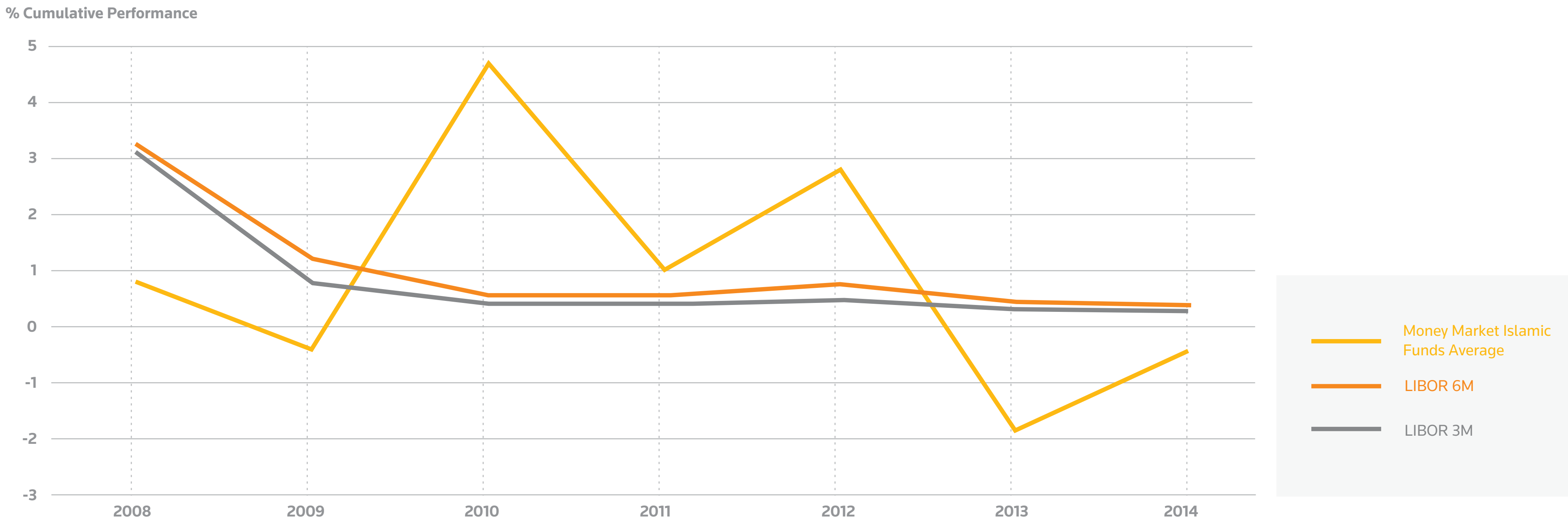


Islamic Money Market

Money market funds are en route to deliver alpha returns after 2013 chaos and benchmarks are reaching lowest levels in the past decade.

The performance of money market funds continues to be volatile compared to benchmarks. However, the poor performance is expected to bounce back in 2015 with the increased number of new money market funds launched in 2014. 2013 registered the worst performance in the money market sector reaching -1.9% return compared to 2.73% in 2012. Over the course of 12 months, 2014 ended on -0.44% performance, indicating a promising outlook. By nature, money market funds are top picks for investors looking to offset volatility risk. This indicates that investors have become even more risk-averse in 2014, shifting from riskier investments such as equities, sukuk and real estate to money markets. Thomson Reuters Lipper data show that the fund flows to money markets in 2014 increased by 55% compared to 2013 as investors' risk appetite waned. In 2014, money markets made up 40% of the total funds industry in terms of value compared to 26% in 2013.

Money Market Average Performance (2008 - 2014)



Pedestrians are reflected on a stock quotation board at a brokerage in Tokyo November 26, 2013. REUTERS/Yuya Shino

Indian Prime Minister Narendra Modi (C, wearing orange shawl) waves as he takes part in a run for unity after flagging it off to mark the birth anniversary of Indian freedom fighter and a lawmaker Sardar Vallabhbhai Patel, in New Delhi October 31, 2014. REUTERS/Adnan Abidi

The state of the Indian asset management landscape serving Shariah sensitive customers: Opportunity size and challenges

By SHARIQ NISAR,
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Islamic financial institutions looking for investment opportunities beyond the West and Middle East will find the Indian market a very good place for their funds. A large number of Shariah-compliant stocks are available from various sectors such as IT, drugs and pharmaceuticals, automobile ancillaries, cement, steel and mining. In fact the Islamic options available in India are wider and much better than the availability of the same in most Islamic countries.

In the last few years India has emerged as one of the world's most promising growth economies. The world's largest democracy offers some very clear advantages: with a population of approximately 1.5 billion India provides huge human and natural resources at a lower cost relative to the global average.

India represents economic opportunities on a massive scale. The economy offers an abundance of technical and managerial talent and most importantly, India has a demographic advantage that will see the proportion of its working age population continue to grow to more than 64% by 2021 (Economic Survey 2013-14). More than 50% of the population is currently below the age of 25 and more than 12 million people enter the labour market every year. By 2030, India is expected to have the largest labour force in the world.

India's major strength lies in its bottom-up potential. Companies are well-run and valuations are reasonable given current earnings growth. The International Monetary Fund (IMF) forecasts India's GDP growth rate to be above that of China in 2016 when India will be the fastest growing major economy with projected GDP growth of 6.5% against China's 6.3%.

Capital flows

India needs an estimated US$1 trillion to overhaul infrastructure such as ports, airports and highways to boost growth. Policy makers are well aware of this requirement and are making all possible efforts to attract foreign investments into the country. To attract foreign inflows, the government has relaxed the FDI policy in sectors such as defence, railways and construction activities.

In the last decade India has stood among the top most favoured nations for foreign investments. It is the fourth most favoured investment destination by transnational corporations, according to the United Nations Conference on Trade and Development (UNCTAD) Report 2014.

In 2013 FDI inflows into India was US$28 billion which grew to over US$40 billion in 2014 (both debt and equity). To date this year, the inflows have been US$2.2 billion in debt and equity.

Foreign Institutional Investments (FII) have also increased from US$9.8 billion in 2013 to US$40 billion in financal year 2014-15.

DIPP'S — Financial Year-wise FDI Equity Inflows

S.NO.	FINANCIAL YEAR	IN US$ MILLION
1	2000-01	2,463
2	2001-02	4,065
3	2002-03	2,705
4	2003-04	2,188
5	2004-05	3,219
6	2005-06	5,540
7	2006-07	12,492
8	2007-08	24,575
9	2008-09	31,396

S.NO.	FINANCIAL YEAR	IN US$ MILLION
10	2009-10	25,834
11	2010-11	21,383
12	2011-12	35,121
13	2012-13	22,423
14	2013-14	24,299
15	2014-15 (Till Nov,2014)	18,884

On the basis of data upto Nov, 14. 2014-15 F.Y. Total FDI has been projected to USD 28,326 Mn.

Source: Securities and Exchange Board of India

The number of registered FIIs in India has shot up in the last two years. The total number of FIIs registered in the country during Financial Year 2014 was 1,710, according to the Securities and Exchange Board of India (SEBI).

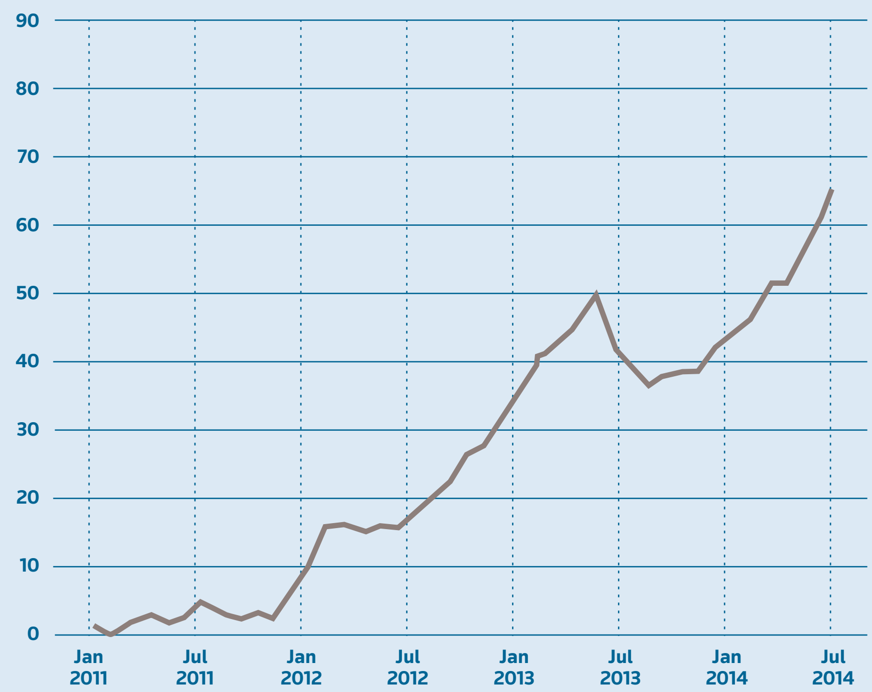
MONTH	MONTHLY FII NET INVESTMENT (IN RS. CR)	CUMMULATIVE INFLOW SINCE 2011 (IN USD BN)
Jan-11	5363.90	0.85
Feb-11	-3269.80	0.33
Mar-11	6882.60	1.42
Apr-11	7196.10	2.55
May-11	-4276.00	1.88
Jun-11	4883.50	2.65
Jul-11	10653.00	4.33
Aug-11	-7902.50	3.08
Sep-11	-1866.00	2.79
Oct-11	3078.80	3.28
Nov-11	-3263.00	2.76
Dec-11	21872.30	6.21
Jan-12	26328.70	10.37
Feb-12	35227.70	15.93
Mar-12	1792.50	16.22
Apr-12	-4896.70	15.44
May-12	3221.90	15.95
Jun-12	1180.50	16.14
Jul-12	13664.20	18.30
Aug-12	11068.70	20.04
Sep-12	19883.80	23.18
Oct-12	19215.50	26.22
Nov-12	9869.20	27.78
Dec-12	26791.90	32.01
Jan-13	25006.00	35.95

MONTH	MONTHLY FII NET INVESTMENT (IN RS. CR)	CUMMULATIVE INFLOW SINCE 2011 (IN USD BN)
Feb-13	28440.00	40.45
Mar-13	14919.00	42.80
Apr-13	10748.00	44.50
May-13	28138.00	48.94
Jun-13	-44162.00	41.97
Jul-13	-18124.00	39.11
Aug-13	-15695.00	36.63
Sep-13	7379.00	37.79
Oct-13	2128.00	38.13
Nov-13	2133.00	38.47
Dec-13	21376.00	41.84
Jan-14	13323.00	43.94
Feb-14	12741.00	45.96
Mar-14	31663.00	50.96
Apr-14	418.00	51.02
May-14	33778.00	56.36
Jun-14	30705.00	61.20
Jul-14	36046.00	66.90
Aug-14	22134.00	70.39
Sep-14	20972.00	73.70
Oct-14	16732.00	76.34
Nov-14	25476.00	80.37
Dec-14	12225.00	82.30

Forex rate of 1USD = Rs. 63.3315 is used to convert entire data to USD.

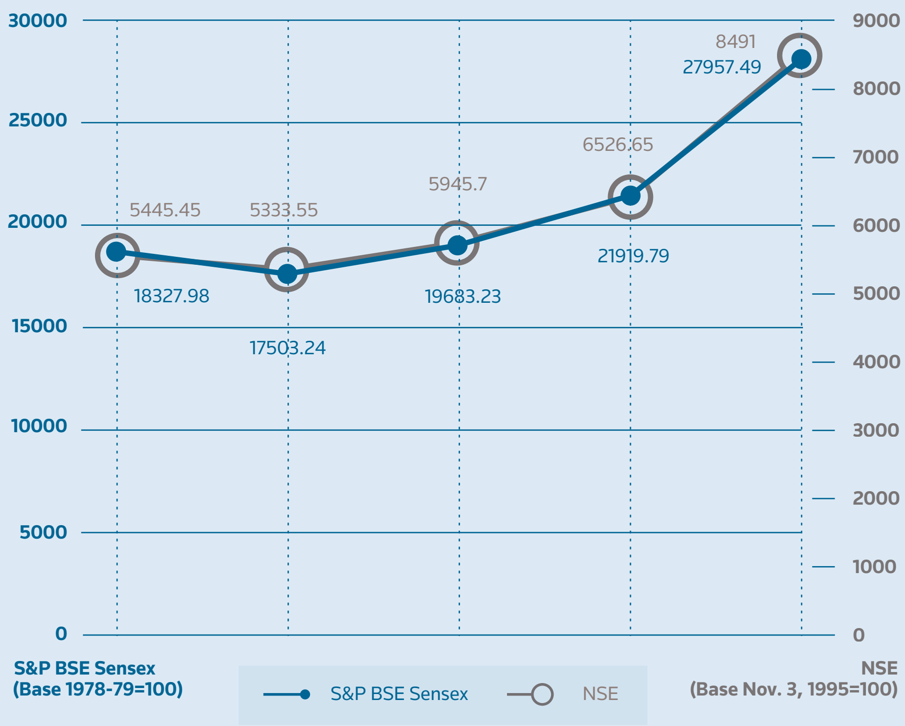
Source: Securities and Exchange Board of India

Net Cummulative FII Inflow Since 2011 (in USD Bn)



Source: Bombay Stock Exchange

Movements in Stock Market Indices



Indian Stock Market performance

Among the 23 stock exchanges in India three are major and two are among the five largest in the world.

By end December 2014 total listed companies in India numbered 10,115. Bombay Stock Exchange (BSE), established in 1875, is the oldest stock exchange in Asia. It is India's biggest bourse in terms of listed companies (5,610) and market capitalisation. Kolkata Stock Exchange has 2,802 listed companies, and the National Stock Exchange (NSE) had 1,703 listed companies at the end of December 2014. NSE is the youngest bourse to be incorporated in 1992 with an active support of the central government and its maintained institutions.

The market capitalisation of total listed companies in India jumped 176.22% from US$602.41 billion in March 2008-2009 to over US$1,664 billion at the end of March 2014-20015.

Between March 2008-2009 and March 2014-2015 BSE market capitalisation recorded a jump of over 176.41%, whereas for NSE between March 2009 and 2014 the jump was over 112%. At present P/E of BSE stands at 28.58 with the price to book value (P/B) ratio being 2.67.

Shariah-compliant investment opportunities

All the companies listed on the NSE and Fortune 500 companies listed on the BSE have been assessed for Shariah compliance. Our company, Taqwaa Advisory and Shariah Investment Solutions (TASIS), used the following screening norms for the purpose of this study:

1. Unacceptable business activities

Industries and businesses that are related to alcohol, pork-related products, conventional financial services (banking, insurance etc.), vulgar entertainment, cinema, pornography, music, casino/gambling, tobacco etc have been screened out. In addition, we have also excluded the sugar industry as most of the units in this industry produce potable alcohol from the molasses generated during the production process.

2. Financial Screenings

After removing companies with unacceptable primary businesses, all the companies were put to further test on the following financial ratios:

2a. Debt to Assets

Total Debt of the company should be less than 25% of its Total Assets.

2b. Impure Income

Interest Income plus (8%*interest bearing Investment) should be less than 3% of the Total Income of the company.

2c. Receivables to Assets

Cash plus Receivables to Total Assets should not be more than or equal to 90%.

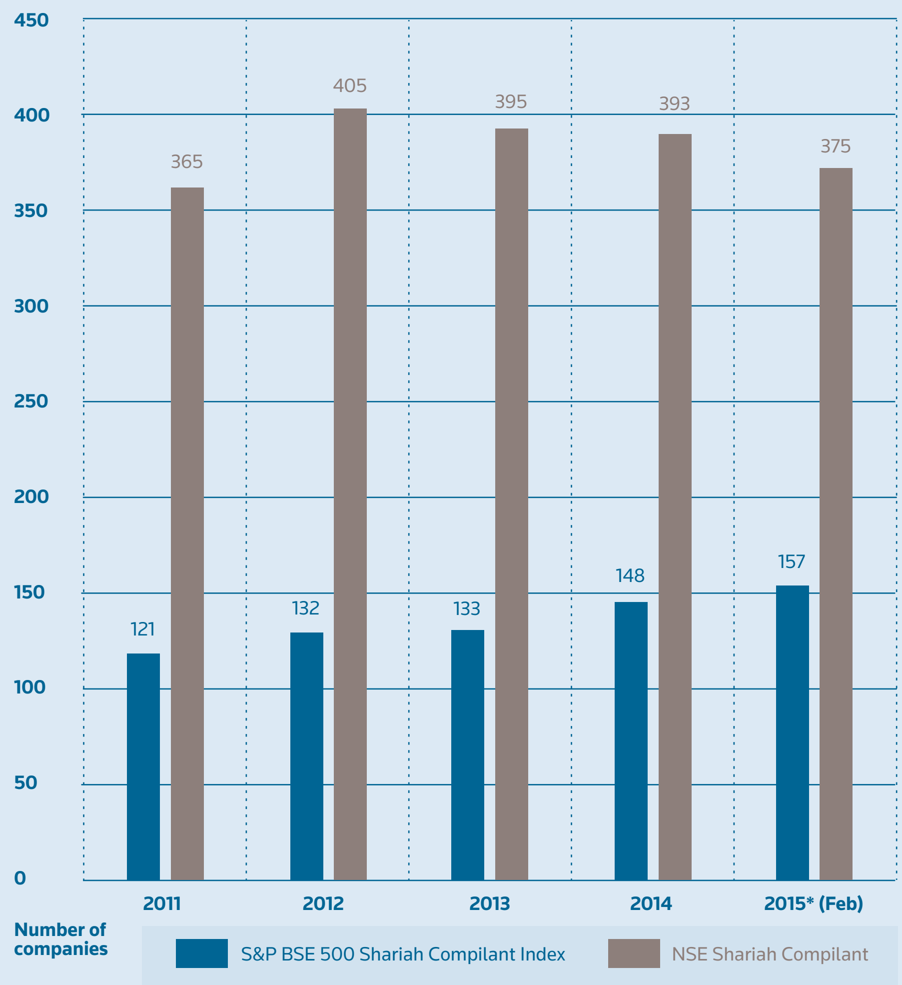
Shariah-compliant stocks in India

When we assessed the 1,710 companies listed on the National Stock Exchange (NSE) on the basis of the abovementioned tests, we found that 375 companies qualified on Shariah parameters. Market capitalisation of the qualifying stocks was 30% of the total market capitalisation of NSE listed companies.

Another remarkable finding of the study is that even when the number of Shariah-compliant stocks was very limited the share of Shariah-compliant market capitalisation never dipped below 26% of total market capitalisation.

Sector-wise, computer software, trading, drugs and pharmaceuticals and automobile ancillaries were the largest sectors among the Shariah-compliant stocks. They constituted about 34.60% of the total Shariah-compliant stocks on the NSE.

Shariah Compliant Companies



Major obstacles to Islamic Asset Management in India

- Low financial literacy
- Extremely low financial inclusion (especially among Indian Muslims)
- Restricted number of Shariah-compliant options
- Volatility in stock market since financial crisis of 2009
- Poor marketing of existing Shariah-compliant schemes
- Regulatory uncertainty and lack of formal recognition of Islamic finance in the country

The graph shows year wise performance of Shariah-compliant stocks at the NSE and BSE from 2011 to the end of February 2015.

Table: National Stock Exchange (NSE)

YEAR	MAR-2011	MAR-2012	MAR-2013	MAR-2014	FEB-2015
Total Number of Companies (Listed at NSE)	1,650	1,536	1,648	1,710	1,745
Shariah-compliant Companies	365	405	395	393	375

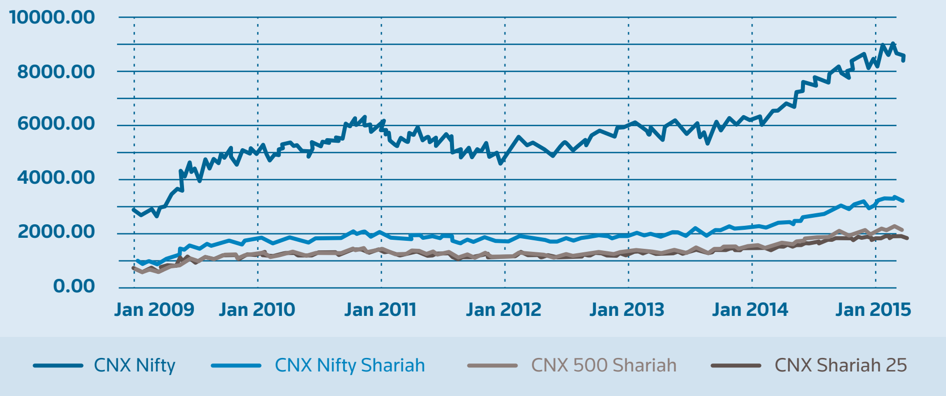
(Source: Center for Monitoring Indian Economy) CMIE. Number of listed companies varies. During the study period, initially the number of total listed companies at NSE was 1,650, which later rose to 1,745.

Table: Bombay Stock Exchange (BSE 500)

YEAR	MAR-2011	MAR-2012	MAR-2013	MAR-2014	FEB*-2015
Total Number of Companies	500	500	500	500	500
Total Shariah-compliant Companies	121	132	133	148	157

Source: CMIE

Shariah Index Performance



Indices have been rebased to 1000 on Jan 1, 2009. Source: National Stock Exchange

Annualised Returns

PERIOD	CNX 500 SHARIAH	CNX NIFTY SHARIAH	CNX SHARIAH25
5 years	12.4%	10.0%	13.8%
3 years	19.3%	15.2%	20.5%
1 year	40.6%	30.0%	42.7%
6 month	11.3%	6.1%	14.4%
3 Month	2.5%	-0.8%	4.1%

Source: NSE

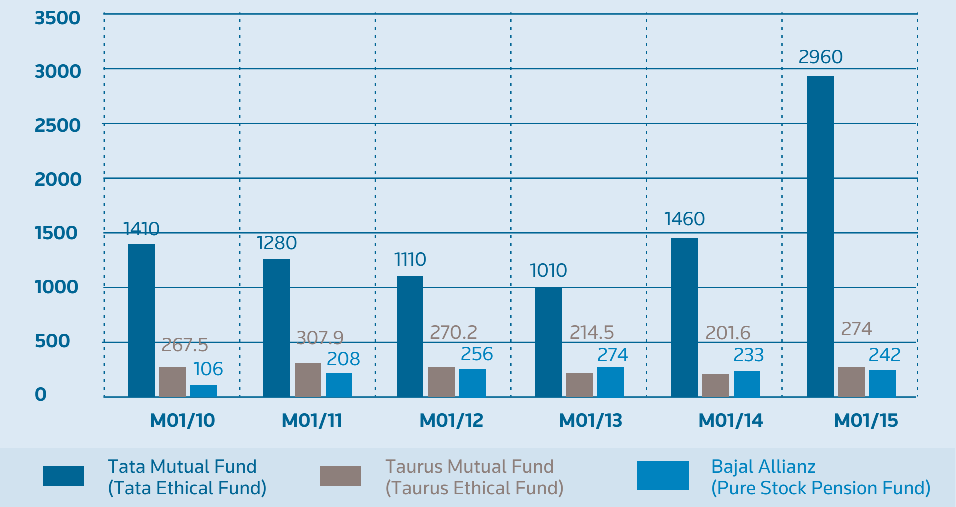
Calendar Year Returns

PERIOD	CNX 500 SHARIAH	CNX NIFTY SHARIAH	CNX SHARIAH25
2010	13.13%	11.58%	13.18%
2011	-21.29%	-19.98%	-17.84%
2012	18.01%	11.31%	13.39%
2013	15.56%	18.13%	18.62%
2014	33.09%	23.55%	34.03%

Source: NSE

INDEX DATE	CNX 500 SHARIAH			CNX NIFTY SHARIAH			CNX SHARIAH25		
	P/E	P/B	DIV. YIELD	P/E	P/B	DIV. YIELD	P/E	P/B	DIV. YIELD
31-12-2010	25.2	4.4	0.9	24.3	4.3	0.9	24.8	4.9	1.0
30-12-2011	16.9	3.4	1.7	16.6	3.3	1.7	16.9	3.7	1.8
31-12-2012	19.2	3.7	1.5	18.4	3.5	1.6	18.8	3.7	1.7
31-12-2013	20.5	3.7	1.2	19.4	3.5	1.3	21.4	4.3	1.5
31-12-2014	22.0	3.7	1.0	18.5	3.1	1.0	23.8	5.1	1.0

Source: NSE



Performance of Indian Shariah funds

At present there are three Shariah-compliant funds in India: two are mutual funds and one insurance fund.

The oldest among them is Tata Ethical Fund that was launched in 1996 as Tata Core Sector Equity Fund and later renamed Tata Ethical Fund. Another Shariah-compliant Mutual Fund scheme was launched by Taurus Mutual Fund in 2009. This is India's first scheme with official approval of Shariah compliance from India's capital market regulator Securities and Exchange Board of India (SEBI).

The third Shariah-compliant fund was launched by an insurance company Bajaj Allianz in 2009. It was possible then for an insurance player to launch an investment scheme without any insurance cover. To use this opportunity this scheme was launched but due to a change in regulation this scheme had to later provide insurance cover which compromised its Shariah compliance prospects. The scheme is on a decline.

Bright prospects

As compared to many other developing countries India has been a star performer in recent years, both in terms of returns and attracting funds from overseas. Favourable demographics, the wide opening of the economy and global competitiveness have kept India on the economic radar of global players. Leading indicators and available information both suggest that the Indian economy is poised to build upon the gains achieved in the recent past. The government's special emphasis on manufacturing, buoyant equity markets, strong foreign exchange reserves and stable currency, and the lead performance of the service sector all point to a brightening of prospects for the Indian economy in the future. Consequently, the return from the equity market has also been very handsome. Islamic financial institutions that are looking for investment opportunities beyond the West and Middle East will find the Indian market a very good place for their funds. Shariah-conscious domestic investors also find Indian stock markets a better place to invest. A large number of Shariah-compliant stocks are available from various sectors such as IT, drugs and pharmaceuticals, automobile ancillaries, cement, steel and mining. In fact the Islamic options available in India are wider and much better than the availability of the same in most Islamic countries.

CHAPTER TWO: MARKET PERCEPTIONS AND OUTLOOK

People look at the skyline of the central business district from the Skybridge of The Pinnacles at Duxton public housing estate in Singapore April 25, 2013. REUTERS/Edgar Su

ISLAMIC FUNDS GROWTH PROJECTIONS

We project the supply of Islamic funds to grow by 8% per annum to reach $77 billion by 2019.

Our projection is based on the following assumptions:

Assumption #1: Islamic Funds Supply

In the past 5 years, Islamic funds have grown an average of 9.55% per annum. We expect growth to continue but we take a conservative position; we project growth of Islamic funds in the next 5 years at a conservative **8% per annum** because despite the opportunities (that we have presented throughout this Report), markets still face numerous challenges that can only be ironed out in the mid- to long-term. Based on this 8% per annum growth estimate, we expect the Islamic funds market to grow to **$77 billion** by 2019.

Assumption #2: Islamic Funds Latent Demand

The amount available for investment by retail and institutional investors is taken as the current stock of total banking deposits and total outstanding mutual funds. In order to distinguish between the two, sophisticated investors would usually invest more money in mutual funds to diversify their income and gain higher returns than just leaving them in a fixed deposit with a bank. Therefore, the higher the level of total mutual funds to total available investment in the market, the better.

In order to measure the current latent demand and potential future demand for Islamic funds, we use the ratio of Islamic mutual funds to total available Islamic investments, and benchmark this against the prevailing ratio within developed markets.

As most OIC countries are categorised as developing countries, our assumption is that they will follow in the same steps as developed markets such as the U.S., the European Union and Canada, to diversify their financial market structure.

Conventional mutual funds has become an essential component in the financial architecture of developed markets. Our assumption is that **the Islamic finance market (which covers predominantly the developing economies of MENA and Southeast Asia) will follow in the same path as the developed markets and that eventually the percentage growth of Shariah-compliant market segments and asset classes should grow to the same levels as their peers in developed markets.**

Assumption #3: Islamic banking deposits

We take the top 8 Islamic finance markets to represent our sample of the whole Islamic market as the total Islamic banking assets (excluding Iran) of these 8 countries account for around 90% of total global Islamic banking assets.

The banking deposits (Islamic + conventional) in these 8 markets currently account for an **average of 68%** of their total banking assets. According to our calculations as presented in our Islamic Finance Development Indicator 2014 Report, total global Islamic banking assets reached **$895.26 billion** in 2013 excluding Iran ($1.214 trillion including Iran). Using the average of 68% for Islamic banking deposits as well, this would translate to **$609 billion** total Islamic deposits (ex-Iran). As total Islamic finance assets rose by 10% from 2012 to 2013, **we conservatively estimate that Islamic banking deposits will grow 8% per annum up to 2019.**

Assumption #4: Ratio of mutual funds to total investable funds

The development of an Islamic funds market directly correlates to: **the ratio of mutual funds to the total level of available funds/assets for investment.** Hence, the higher the percentage of mutual funds to the total investable amount, the better.

Currently the ratio of Islamic mutual funds to total Islamic investable funds is **8.7%** ($52.2 billion of $599.82 bln). The ratio of mutual funds to total investable funds in the developed financial markets of the U.S., Canada, and the EU is an average of **36%**. Islamic mutual funds ratio needs to grow by more than 27% to reach the level of the advanced conventional markets. However, almost a third of conventional mutual funds are complex products including derivatives and non-Shariah-compliant products. Add this to the dearth of diversity of Shariah-compliant products, **we target a ratio of 18% Islamic mutual funds to total Islamic investable funds.** At this 18% ratio, **Islamic funds latent demand currently translates to $126 billion in 2014 with a supply gap of $73.8 billion.**

The current latent demand for Islamic funds is $126 billion; there is a supply-demand gap of $73.8 billion.

Top Islamic Finance Countries

COUNTRY	TOTAL BANKING ASSETS	DEPOSITS	% DEPOSITS TO TOTAL BANKING ASSETS
UAE	$635,682,975,306	$389,365,351,630	61%
Malaysia	$615,204,855,000	$435,399,450,717	71%
Saudi	$568,641,708,663	$420,120,790,337	74%
Qatar	$274,324,336,757	$208,414,958,256	76%
Kuwait	$191,292,950,762	$130,198,016,295	68%
Bahrain	$79,118,421,053	$41,567,368,421	53%
Indoneisa	$429,187,145,451	$317,095,888,158	74%
Turkey	$767,635,000,000	$442,787,000,000	58%
Weighted Average	$3,561,087,392,992	$2,384,948,823,813	68%

Source: Latest statistics as provided by the central banks of each of these 8 countries

Top Developed Markets

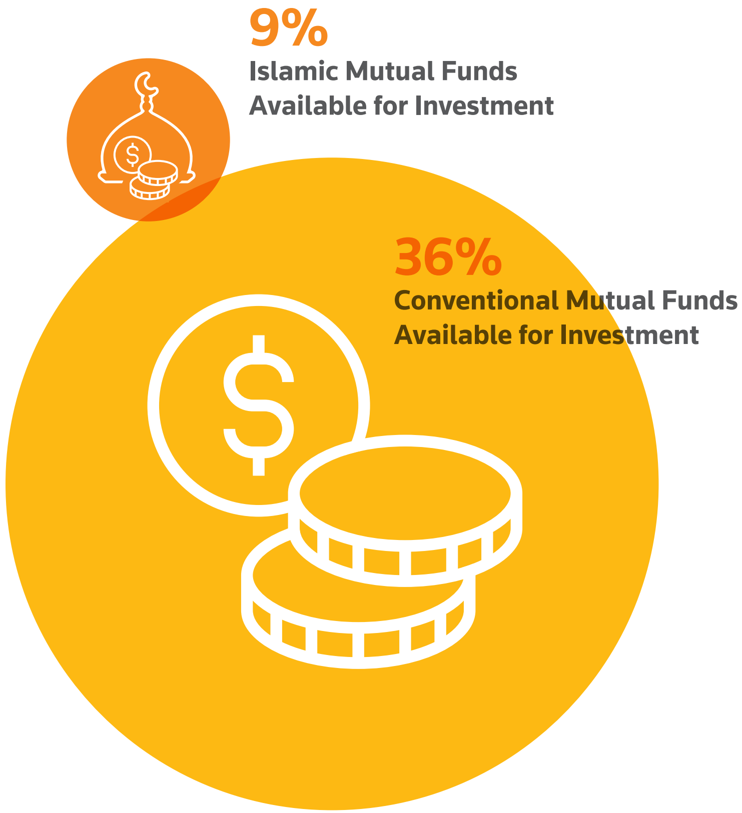
COUNTRY/ REGION	TOTAL BANKING ASSETS	DEPOSITS	MUTUAL FUNDS	% DEPOSITS TO TOTAL BANKING ASSETS	% FUNDS TO FUNDS + DEPOSITS
United States	$15,347,900,000,000	$12,416,300,000,000	$7,918,348,490,360	81%	39%
Canada	$2,086,824,064,321	$1,442,267,419,962	$495,452,891,961	69%	26%
EU	$34,558,021,098,581	$15,860,312,841,033	$12,222,626,409,604	46%	44%
Average				65%	36%

Latent Islamic funds demand is expected to reach $185 billion by 2019 with supply-demand gap of $108.44 billion.

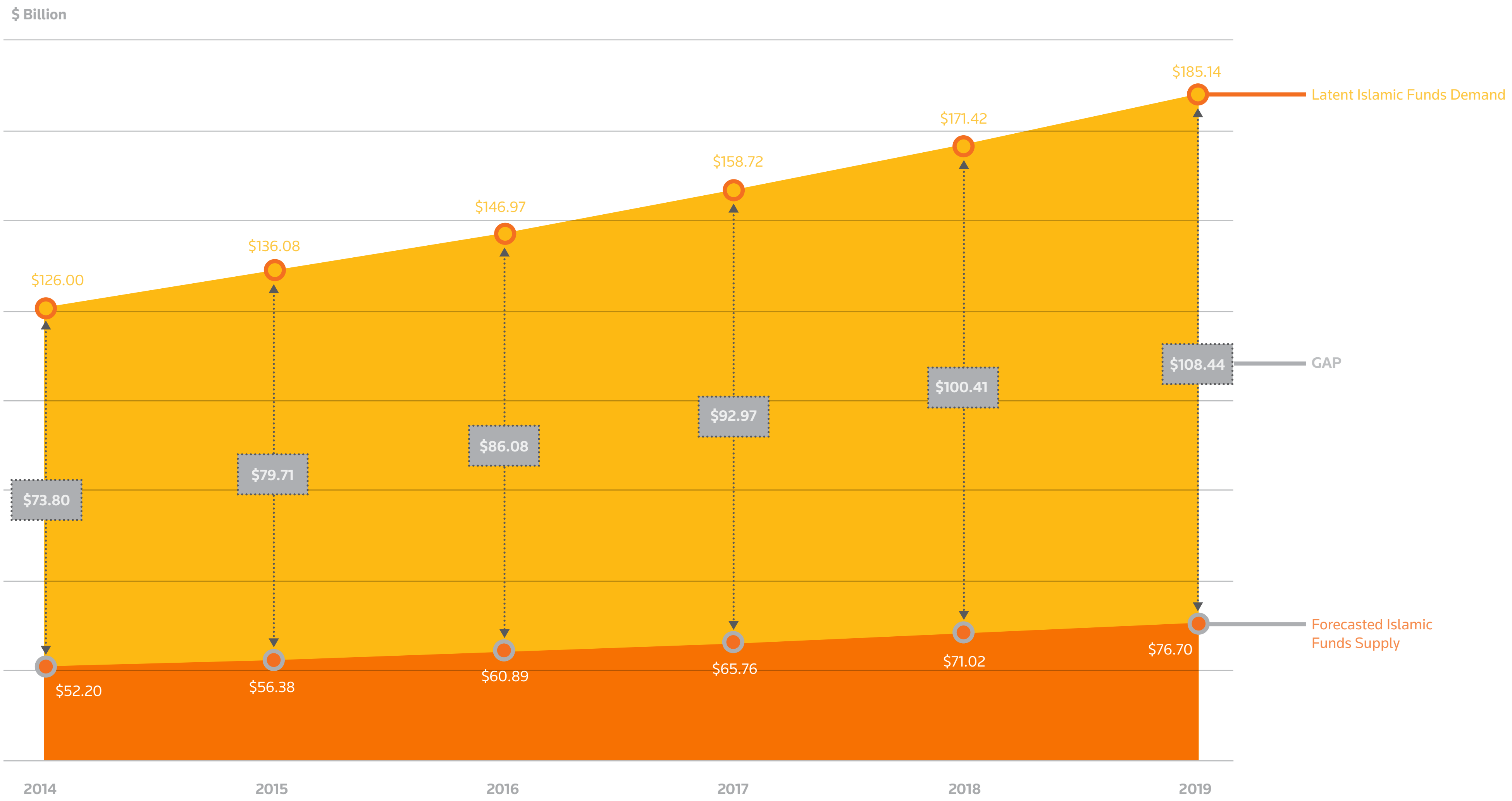
Supply and Demand Gap for Islamic Funds

YEARS/$BILLION	2014	2015	2016	2017	2018	2019
SUPPLY						
Islamic Funds*	$52.20	$56.38	$60.89	$65.76	$71.02	$76.70
LATENT DEMAND						
Islamic Banking Deposits**	$647.81	$699.63	$755.60	$816.05	$881.33	$951.84
Total Available Islamic Investment (Deposits + Funds)	$700.01	$756.01	$816.49	$881.81	$952.35	$1,028.54
Islamic Funds to Available Islamic Investment Ratio	18%	18%	18%	18%	18%	18%
Latent Islamic Funds Demand	$126.00	$136.08	$146.97	$158.72	$171.42	$185.14
GAP	**$73.80**	**$79.71**	**$86.08**	**$92.97**	**$100.41**	**$108.44**

*Forecasted Islamic Funds Average Growth Rate is 8%
**Forecasted Islamic Banking Deposits Growth Rate is 8%



Islamic Funds Growth Model



GLOBAL ISLAMIC FUNDS PREFERENCES AND OUTLOOK SURVEY 2015

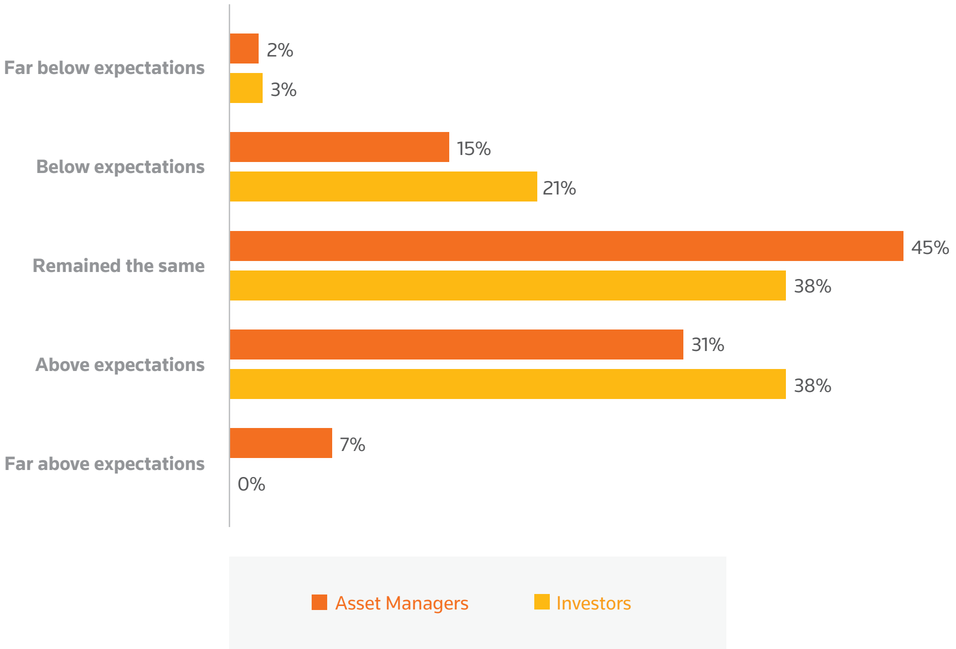
Performance & Geographical Mandate

Our survey of investors and asset managers reveal that despite the financial crisis, the Arab Spring in the MENA region, and the Euro crisis, the majority of investors and asset managers believe that performance and efficiency during the past five years remained the same or surpassed expectations.

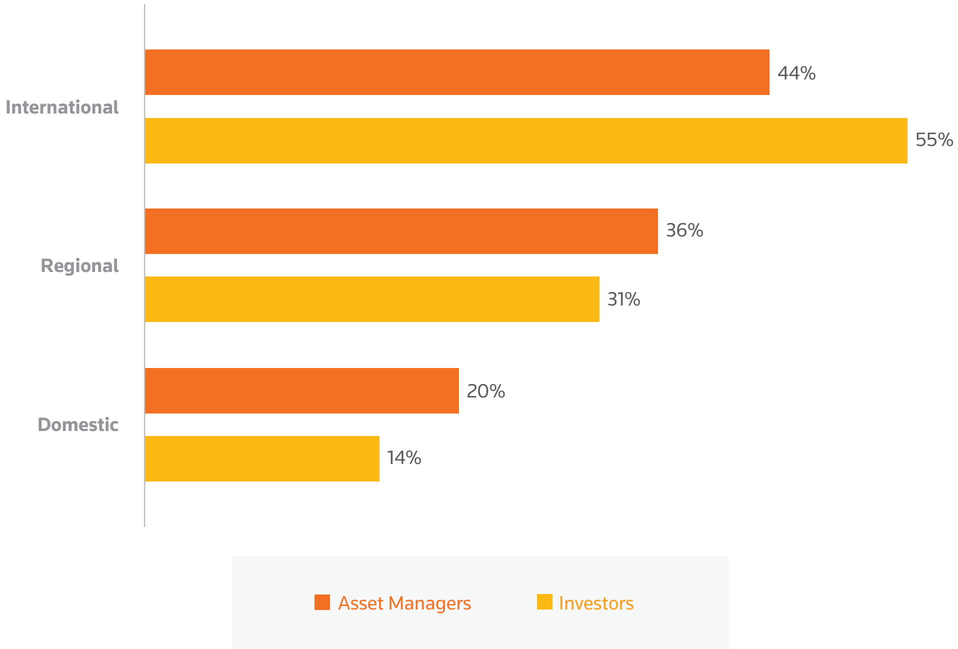
86% of investors have appetite for investments outside their home country. More specifically, 55% of investors have the appetite for global investments and 31% are focused on regional investments. This indicates investors' confidence in markets that were previously politically unstable due to the Arab Spring. Similarly, asset managers also have the same appetite for investments. 80% of managers would target markets outside their home country and only 20% would invest domestically.

The majority of survey participants believe that efficiency and performance remained the same or were above expectations. This perception is highly positive considering what global markets have had to weather in the last five years — the financial crisis, Arab Spring in the MENA region and the Euro crisis. 38% of investors are happy with their returns for the past five years. From the asset managers' perspective, 46% believe that performance has remained the same, and 31% define efficiency and performance as being above expectations.

How would you define the efficiency and performance of Shariah-compliant funds during the past 5 years?



What preference best describes your geographical mandate in 2015 and 2016?



Regional Focus & Asset Universe

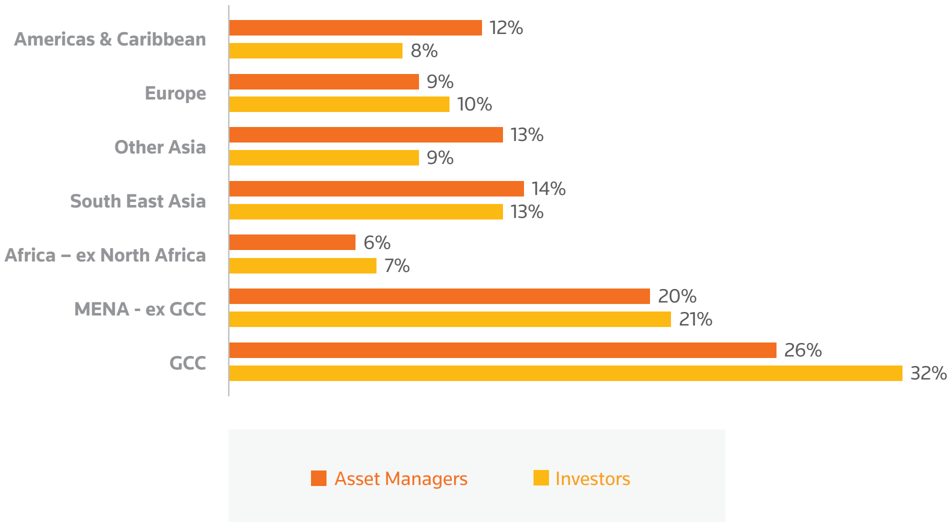
Investors and asset managers choose the GCC as their first investment destination, thanks in part to friendly FDI regulations in addition to Saudi Arabia's announcement to open up its equity markets to foreigners.

MENA ex-GCC comes in as second preferred destination for investments following the relatively quick recovery after the Arab Spring and the announcement of huge infrastructure projects in Egypt.

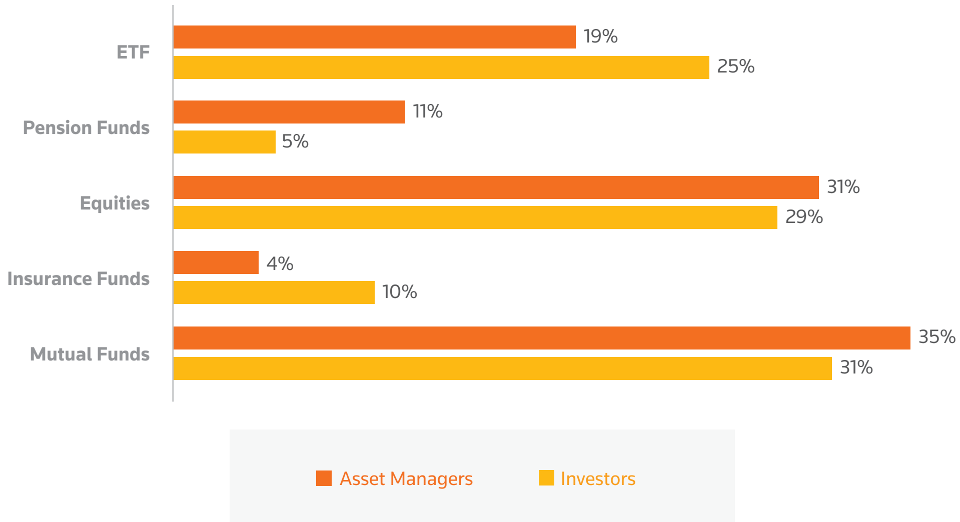
Mutual funds were the top preference for both investors (32%) and managers (35%), which comes as no surprise given the benefit mutual funds offer especially in terms of diversification. An interesting trend that we observe from our survey findings is growth in ETFs — 19% of managers and 25% of investors are expecting to tap ETFs in 2015 and 2016. Islamic ETFs are not currently very popular with only 25 funds worldwide.

In terms of regional focus, both investors and asset managers choose the GCC as their preferred regions for deploying their investments. Most GCC countries are considered business friendly for foreigners. Saudi Arabia is a good example of a market attracting foreign investors, with its plans to further open its capital markets to foreign investors in May/June 2015 which will allow equity ownership in the region's biggest economy (a system that is already in effect in Bahrain). Interestingly, MENA ex-GCC is also becoming a favourable investment destination for a majority of investors and managers, after a relatively fast recovery from the Arab Spring, in addition to the huge infrastructure projects in Egypt announced in May 2015.

What preference best describes your regional focus in 2015 and 2016?



What type of funds vehicle would you prefer the most or expect to use in 2015 and 2016?



Asset Class & Investment Strategy

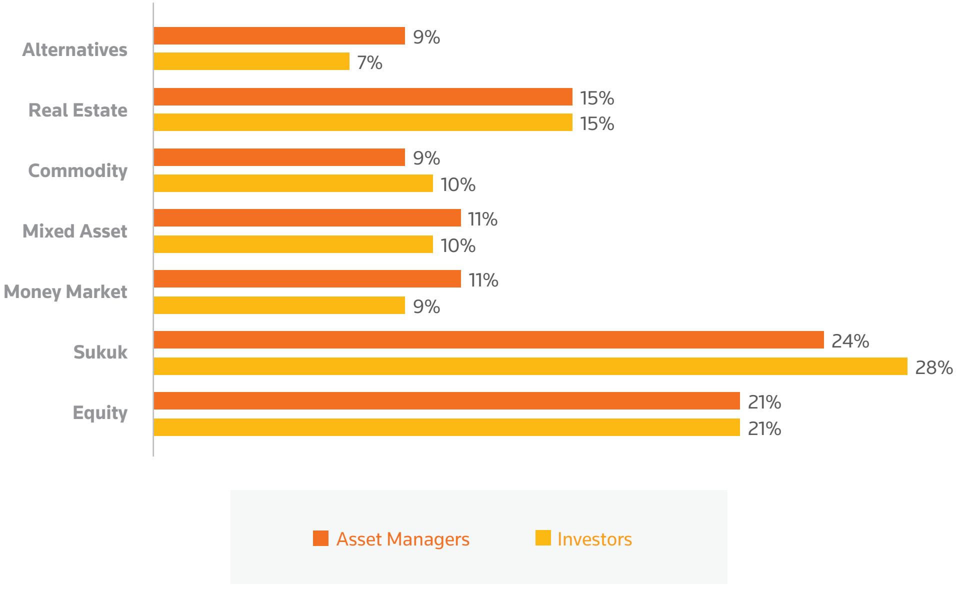
Investors and asset managers most prefer sukuk and equity for 2015 and 2016.

Given the positive outlook for funds, both asset managers and investors are showing signs of becoming significantly bullish in 2015 and 2016.

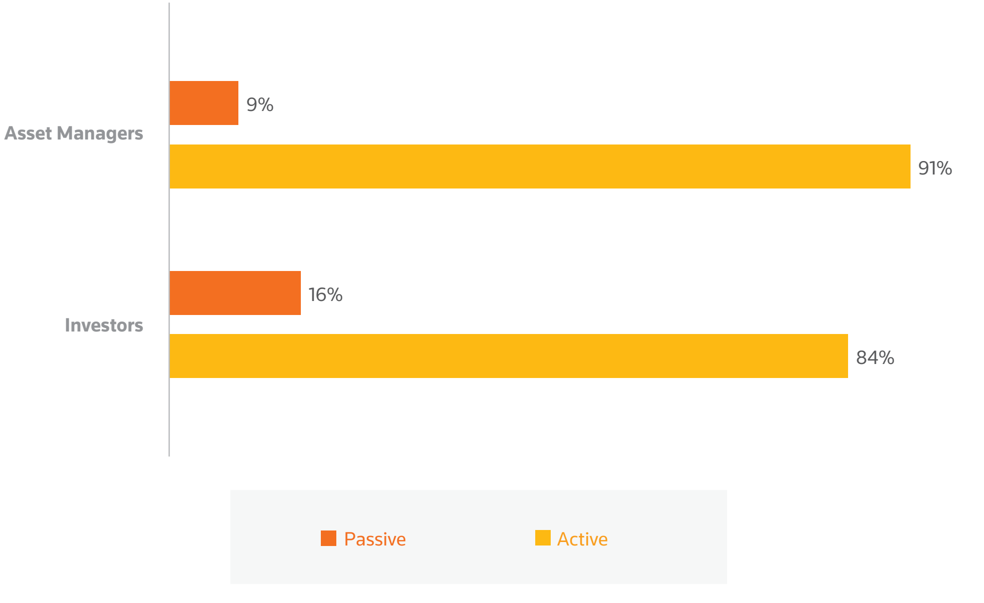
Sukuk and Equity funds are the most preferred asset classes for both investors and managers for 2015 and 2016. This is the current market trend especially for sukuk following 2014's milestones when 19 different jurisdictions tapped the sukuk market compared to 16 in 2013. A number of countries made their debuts in 2014, namely Hong Kong, Luxembourg, Senegal, South Africa, and the United Kingdom. The sukuk market also witnessed a corporate sukuk in the Maldives, and similarly welcomed the first Japanese and conventional U.S. bank to the sukuk market. The responses also indicate that the risk appetite of investors and managers is slightly waning as sukuk is considered a less risky investment compared to equities and real estate. However, equity is the second most preferred asset class followed by real estate; overall there is a positive outlook for 2015 and 2016.

Given the positive outlook for funds, both asset managers and investors are showing signs of becoming significantly bullish in 2015 and 2016. More than 90% of managers that we surveyed prefer an active investment strategy for 2015 and 2016. There have been a number of developments recently that would encourage managers to be active; these include funds passporting in Southeast Asia and FDI in Saudi Arabia. Only 9% of managers and 16% of investors are passive; this could be due to unstable oil prices and the weakening of some hard currencies such as the Euro, British Pound and Malaysian Ringgit, to name a few.

What asset class in Shariah-compliant funds would you prefer the most or expect to tap in 2015 and 2016?



What is your most preferred investment strategy for 2015 and 2016?



Sales Strategy & Challenges

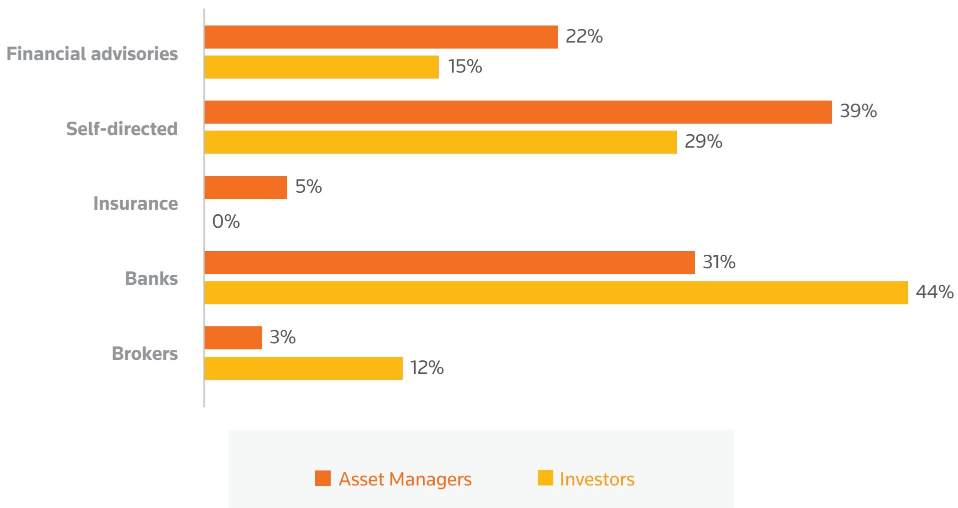
The majority of investors capitalise on their relationships and trust with their respective banks for their investment mandates. Asset managers are mostly self-directed. However, there is a lot of room for further collaboration with banks to attract the 44% of investors who choose banks.

Apart from scalability, availability of expertise and compliance with new regulatory requirements are the main concerns for investors and managers.

When it comes to deploying a sales strategy, 44% of investors prefer investing through banks, as it is easier for them to deposit their cash with banks. Investors' relationship with and trust in their banks also play a part. 29% of investors are self-directed. For asset managers, 39% are self-directed. However, managers should strengthen their relationship with banks to capitalise on the 44% of investors who prefer going through banks for their investments.

Apart from the industry's primary challenge of lack of scale, we surveyed investors and managers on 10 other different challenges. Interestingly asset managers believe the top challenge the industry faces is the availability of expertise. We believe that expertise will become more readily available as Islamic finance grows in general. On the other hand, investors rank compliance with new regulatory requirements as their top challenge as different jurisdictions have different requirements in terms of tax, foreign ownership, and other legal complications. Finding new opportunities was also picked as one of the top challenges faced by both investors and managers. This is, to some extent, a common Islamic finance industry challenge as there are limited options available for Shariah-compliant investments.

What is your most preferred sales strategy for Shariah-compliant funds?



Please rank the top 5 challenges you face in the Shariah-compliant funds industry

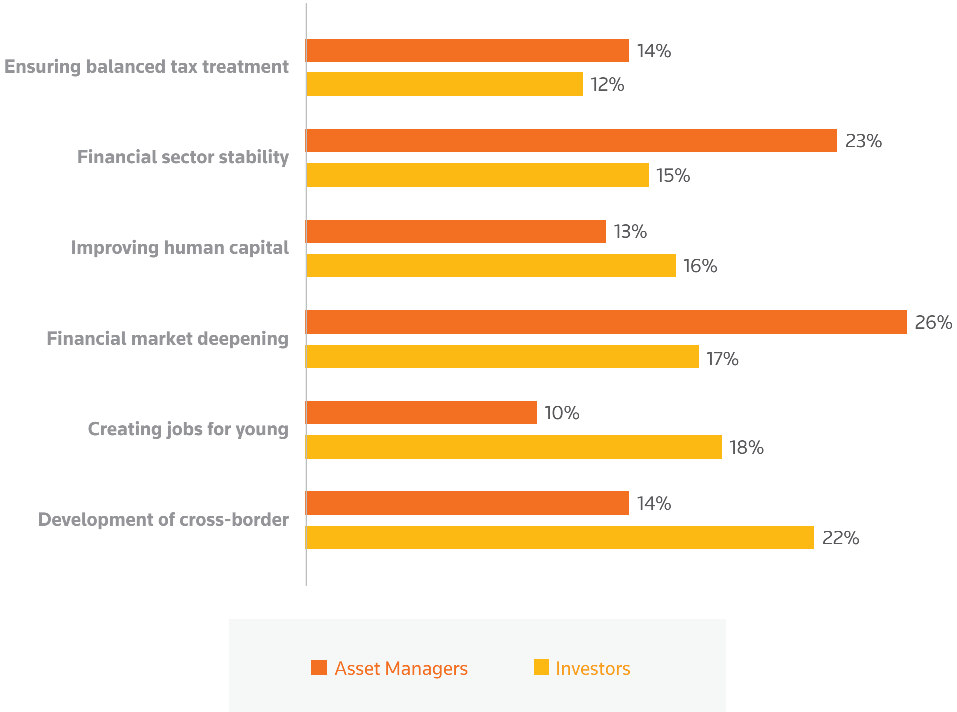
Government Priorities

Asset managers emphasise financial market deepening; new instruments are needed given the limited investment options available to them.

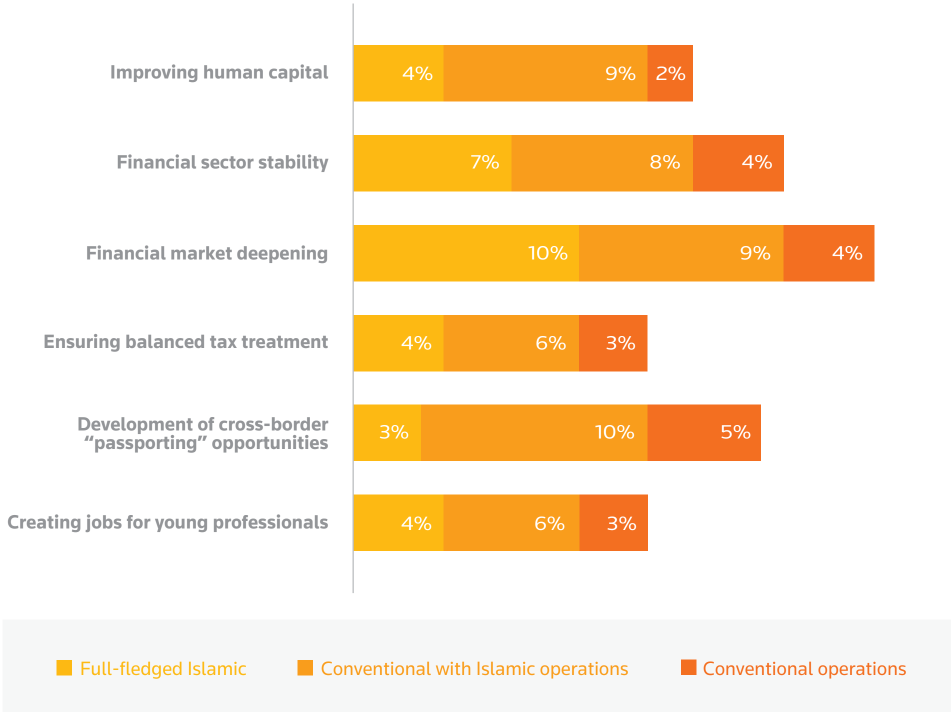
Investors want governments to develop cross-border passporting opportunities as a majority of them would like to invest globally.

About a quarter of investors would like governments to develop cross-border funds passporting opportunities as the majority of investors would like to invest globally. Asset managers believe that governments should work on deepening the financial markets in terms of liquidity and tradability, and also make more investments available to them. Creating jobs for young professionals is also a top concern for investors as unemployment in some countries persist. The second top concern for asset managers is financial sector stability; this comes amid the unstable backdrop following the drop in oil prices hitting oil-exporting GCC countries, the drop in palm oil prices in Malaysia, and devaluation of some hard currencies.

Which area do you think should be a top government priority in your home country with regards to Shariah-compliant funds?



By Organisation Classification



The Egyptian Exchange bell is seen at the stock exchange in Cairo,
April 28, 2015. REUTERS/Mohamed Abd El Ghany

Fund Criteria

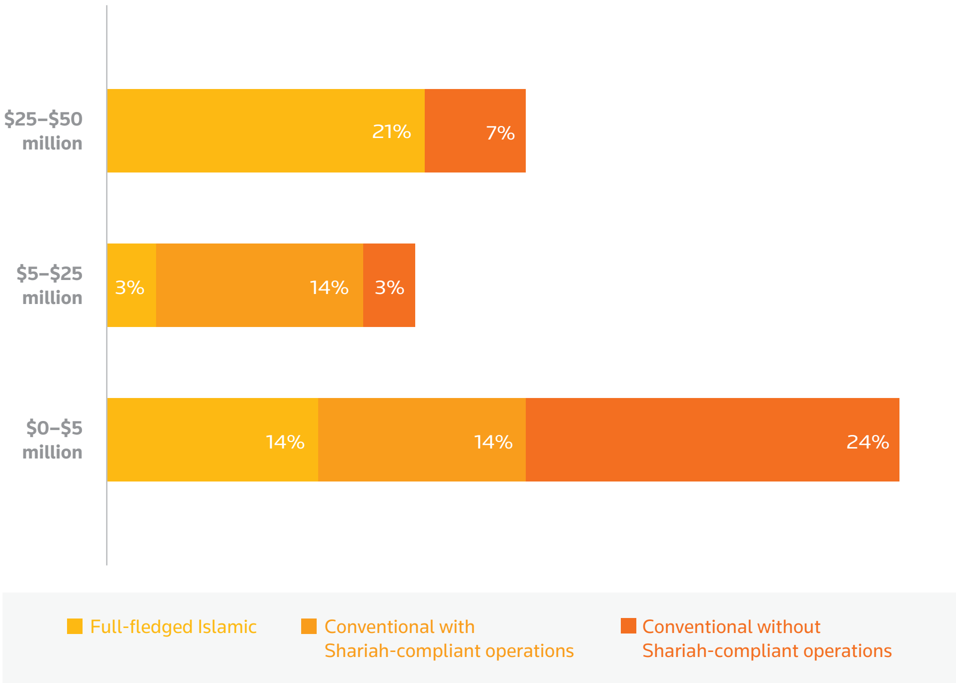
The planned level of investment in Islamic funds vary for investors but when considering a fund to invest in their top concerns are almost equally weighed.

52% of investors plan to invest less than US$5 million in Shariah-compliant funds in 2015, but a sizeable proportion — just under 30% — are willing to invest over US$25 million. The investors who are willing to allocate at least US$25 million in Islamic funds are primarily banks with full Shariah operations.

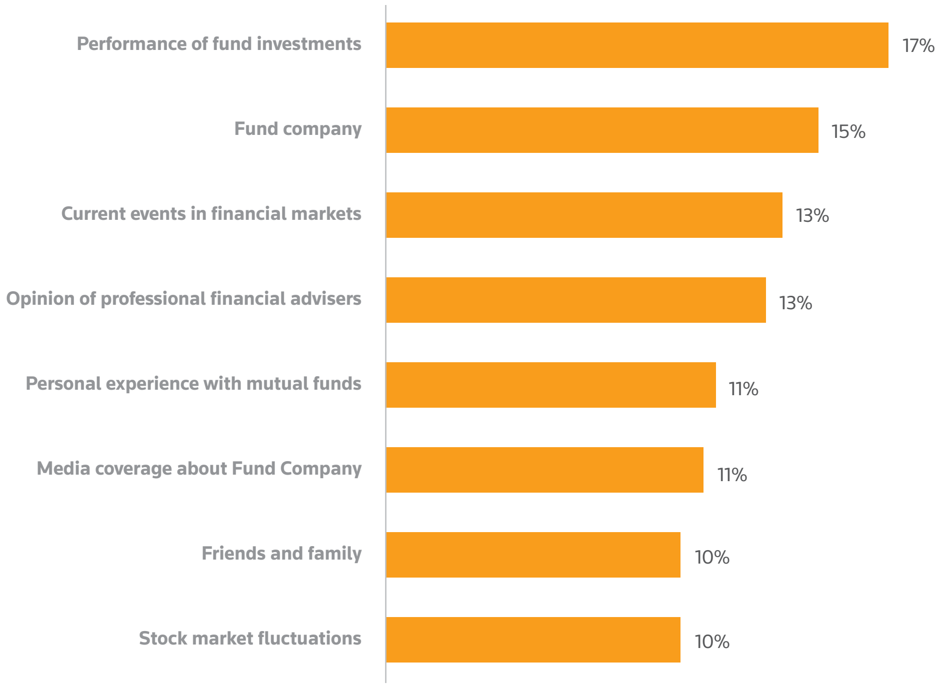
The keenness of some investors to place a large sum into Islamic funds indicates the level of maturity and awareness of the Islamic finance market within their regions, a reason why many GCC and Southeast Asian investors plan to invest more than US$25 million.

Investors have a range of concerns when considering investment in a fund. While performance of funds is the most important consideration, followed by the selection of asset manager, very little separate these top two from the other factors. This indicates that investor concerns should be considered homogenously when it comes to choice of fund.

How much are you planning to invest in Shariah-compliant funds in 2015?



Grade the parameters for importance when considering investment in a fund



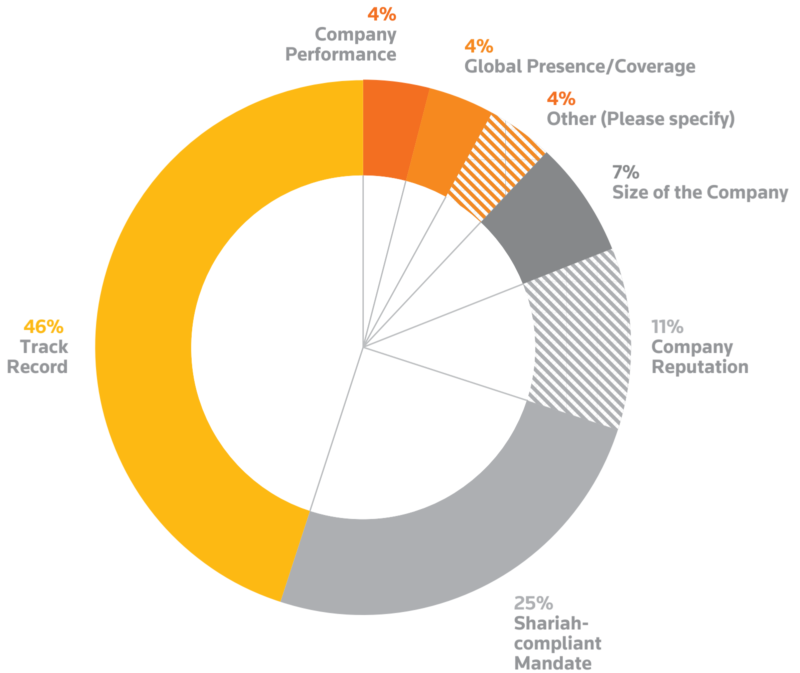
Asset Manager Selection

Breaking down investors' selection of asset managers, track record is considered most important for almost half of investors; most demand a track record of at least three years.

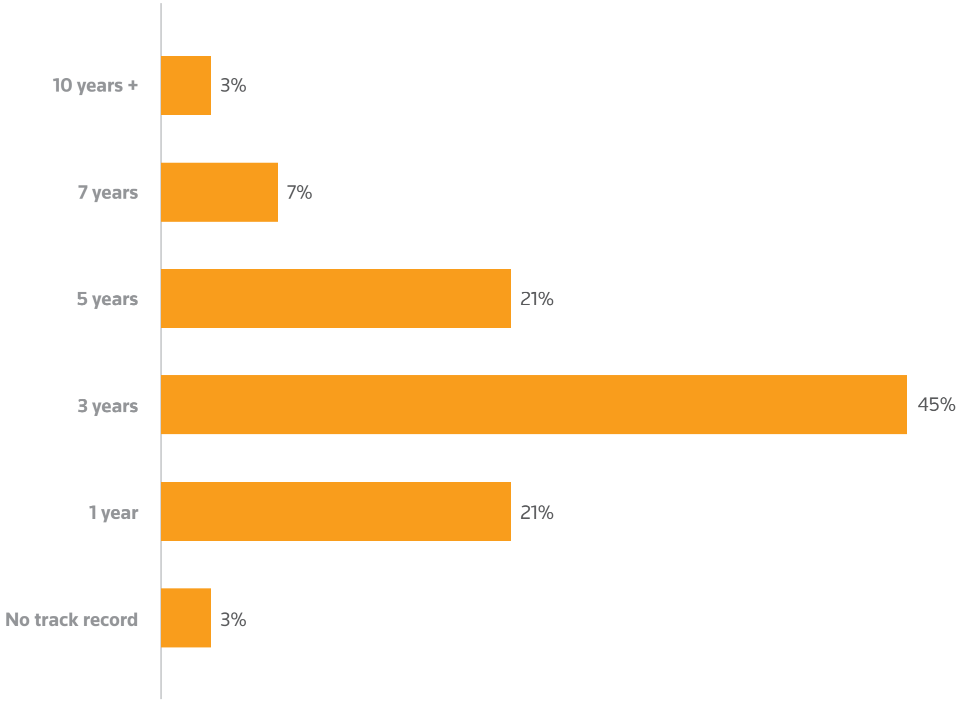
Only 25% of investors say that Shariah compliance mandate is a priority when selecting an asset management company; investors are drawn more to Shariah-compliant products than they are overly-concerned about asset managers being Shariah-compliant overall. Others invest in Islamic funds for strategies other than Shariah compliance. (Related details in the following pages.)

46% of investors consider an asset manager's track record to be the most important factor when selecting an asset management company. A key point of analysis would be funds performance, and on this point most investors prefer Islamic funds to have a minimum track record of three years. 40% of the Islamic funds launched in 2014 had AUM of less than US$1 million and in order for these small asset managers to grow and survive, they need to demonstrate their due diligence to investors by limiting tracking errors.

What is the most important factor when selecting an asset management company for your investments?



What is the minimum track record you require to consider a fund?



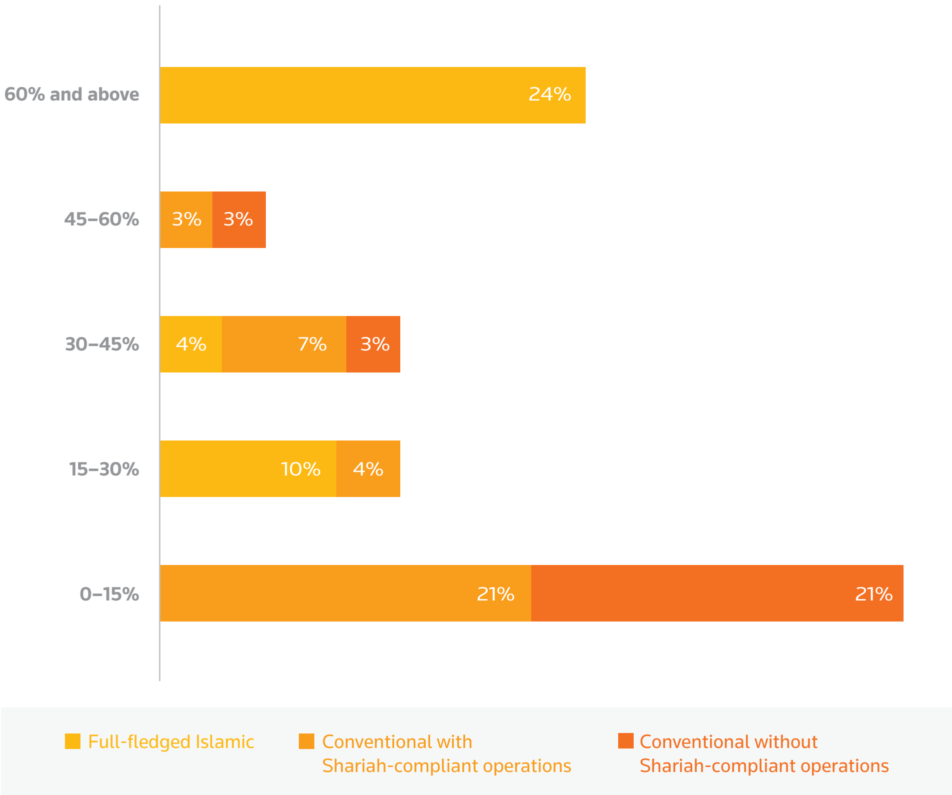
Shariah-compliant Capital Allocation

Shariah compliance is the main reason for investing in Islamic funds and allocations vary in line with different investment strategies and type of institution.

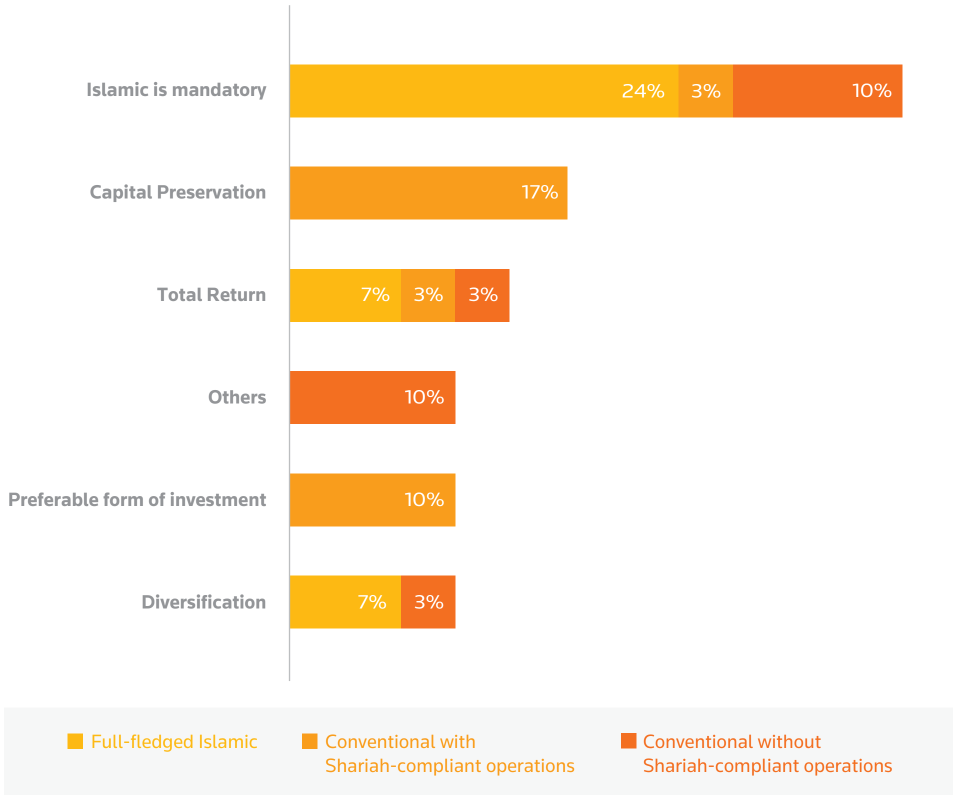
A variety of Islamic investment products are offered to potential investors and most fully Shariah-compliant investors (mainly banks) tend to invest a portfolio holding of 60% or more in Islamic funds. Most of their conventional counterparts (with or without Islamic operations) choose to allocate less than 15% of their portfolios to Islamic funds.

More than a third of investors are driven by mandatory Shariah-compliance as their primary purpose for investing in Islamic funds. Others seek to conform with other investment strategies such as capital preservation, which available Islamic asset classes like money market or equities provide.

How much of your portfolio is currently invested in Islamic funds?



What is the primary purpose for investing in Shariah-compliant funds?



Potential Growth

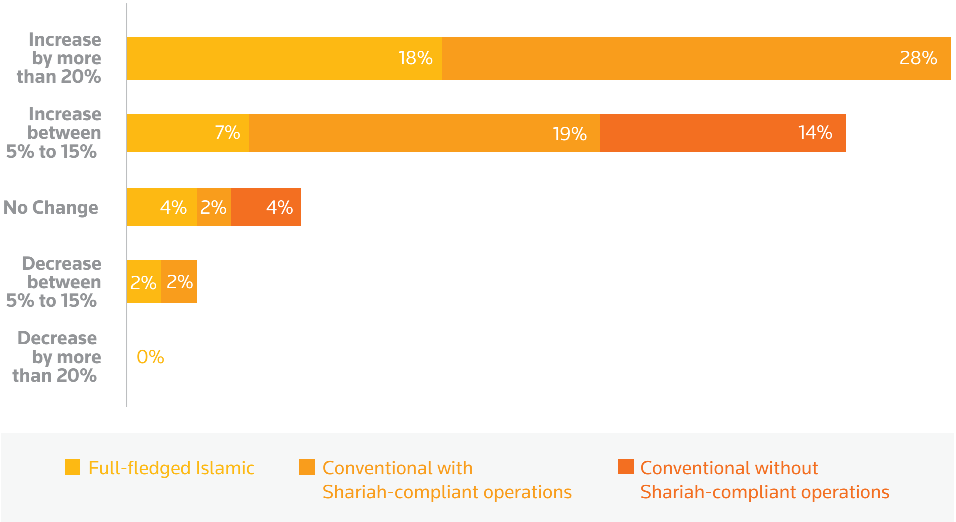
Most asset managers are willing to increase their Islamic investments in the next 12 months, especially Islamic asset managers who are optimistic about the potential growth of their AUM.

87% of asset managers expect an increase in their AUM, especially Islamic asset managers or those exposed to Shariah operations. Expectations are almost split between an increase of more than 20% and between 5% and 15%. These increases could take the form of new fund launches or value increase of existing funds. Fewer than 5% of asset managers would shrink their AUM by 5% to 15% and the good news for the industry as a whole is that there are no expectations that AUMs will shrink more than 20%.

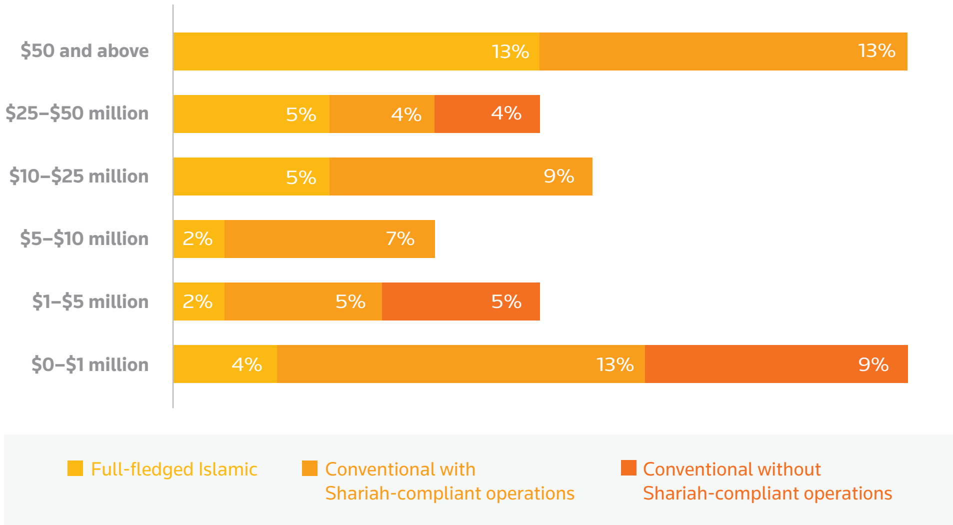
In terms of value of investments, 26% of surveyed asset managers — split between full-fledged Islamic and conventional with Islamic operations — are planning to place US$50 million or more in Shariah-compliant investments.

Investment in certain asset classes such as sukuk is becoming more attractive to both investors and asset managers. Investments in equities are also on the rise as many corporates in developed Islamic finance regions such as the GCC are incentivised to use Shariah-compliant instruments as the disparity between the cost of conventional and Islamic finance is narrowing. For example, Saudi Arabia's National Commercial Bank (NCB) has pledged to become fully Islamic within the next few years and Qatar's Vodafone has ensured that all of its financial activities are Islamic (the markets responded positively to this move and Qatar Vodafone share price climbed after the announcement was made).

What increase/decrease in your assets under management do you expect during the next 12 months?



How much are you planning to invest in Shariah-compliant investments in 2015?



Attracting Investors

Asset managers continue to reach out to retail capital but institutional funds are still pivotal to AUM growth.

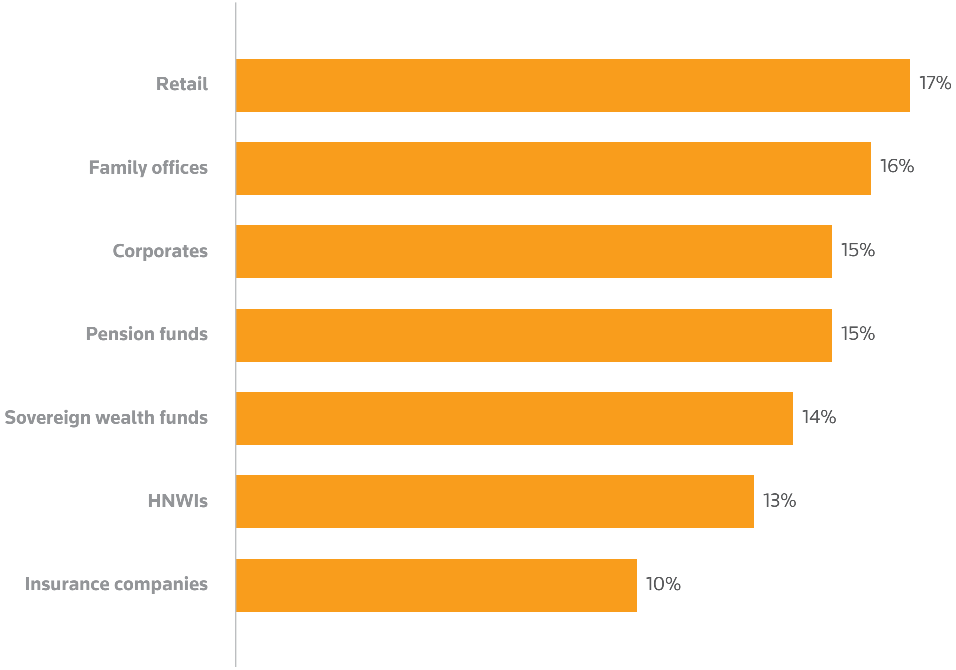
Access to institutional funds will certainly help the growth of Islamic funds and in order to overcome competition from the conventional space, asset managers would need to meet investors' primary concerns — performance and a track record of at least three years.

Yet, the required performance parameter to attract institutional investors is proving to be tricky for most Islamic asset managers. Other challenges faced by asset managers, such as the plunge in oil prices, currency devaluation and other market conditions, are equally viewed with the need for proper risk management, finding new investment opportunities and maintaining investor confidence.

To achieve the required AUM growth, retail and HNWI clients are targeted by 30% of asset managers while the remaining 70% have set their sights primarily on the institutional base. As the Islamic asset management industry works to gain scale and needed returns by attracting institutional funds, many survey respondents are seeking to attract institutional investors mainly through family offices, corporates and pension funds.

As an asset manager, what are the greatest challenges that your company will face in 2015 and 2016?

Rank the top 3 client segments that will be your main target in 2015 and 2016.



Regulatory Environment

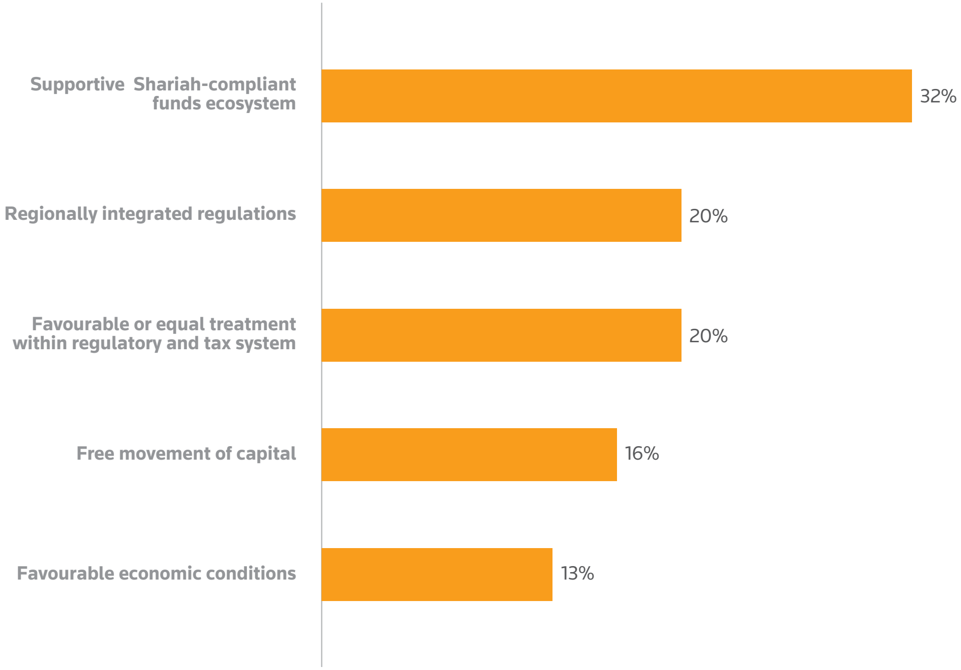
Although adapting to new regulatory regimes is not considered a major challenge, most asset managers view their current regimes negatively and prefer a supportive Shariah framework within their domiciles' ecosystem.

When asked about the selection of jurisdiction for establishing Islamic funds, a Shariah supportive ecosystem remains a priority. This includes a favourable or equal treatment within the regulatory and tax systems. However, a lot of asset managers consider collective investment schemes important — these are manifested as regionally integrated regulations, and free movement of capital — as these open new markets, and could eventually lead to lower costs and better delivery. Unsurprisingly, many asset managers, especially within the GCC and Southeast Asia, want funds passporting (e.g. similar to the EU's UCITS).

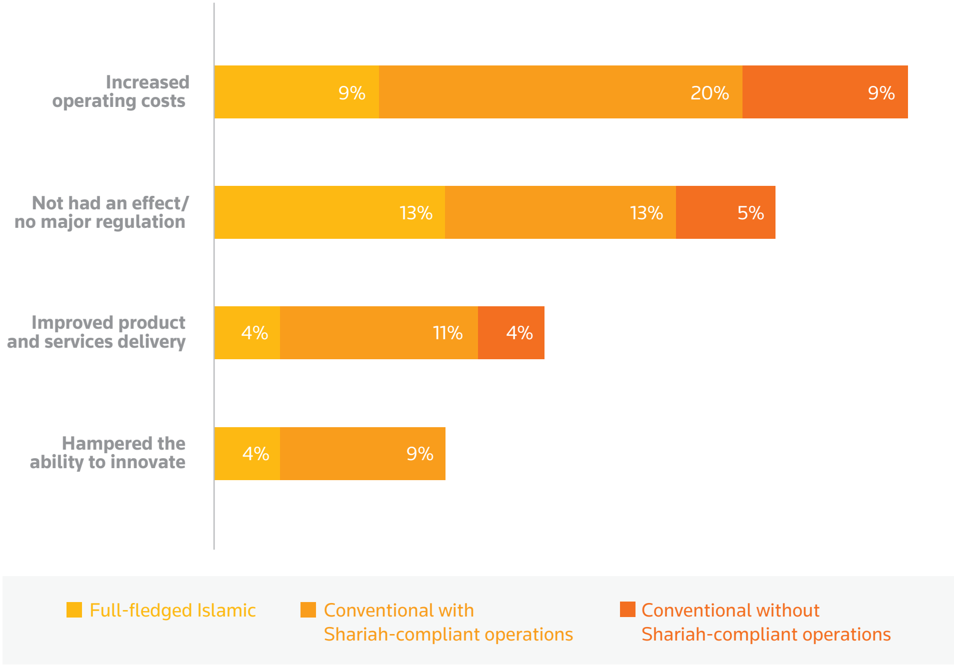
51% of asset managers found regulations to increase costs or hamper further development through innovation, within the last twelve months.

These views may change in the next few months for Saudi focused investments as Tadawul welcomes foreign investors; local and regional asset managers anticipate increased fund inflows because of this.

What is the most important factor when selecting a jurisdiction for establishing or launching Shariah-compliant funds?



Which of the following most accurately describes how regulations have impacted your company over the past 12 months? Regulations have...



CHAPTER THREE: CHALLENGES TO ADDRESS

People walk past clocks at Reuters Plaza in London in this undated handout photo. May 1, 2007. REUTERS/Jon Jones/Handout


10
5

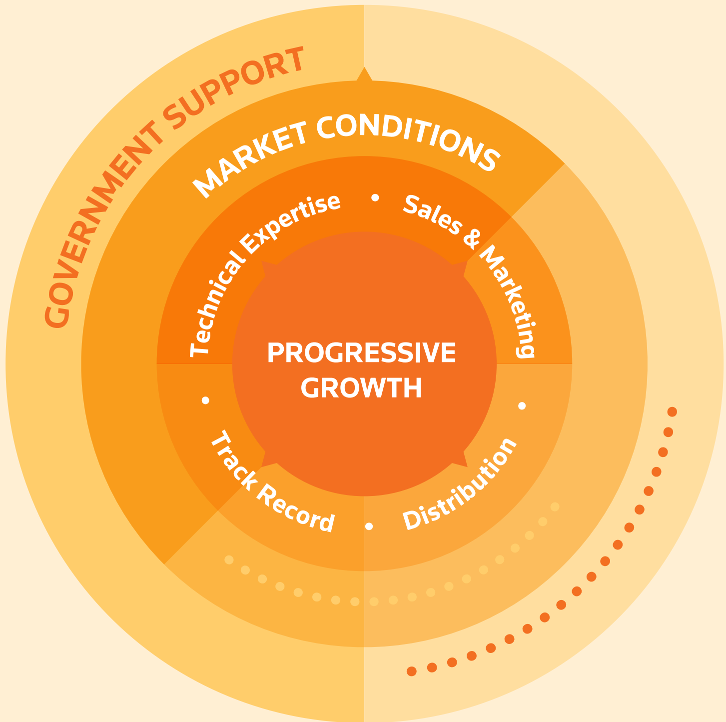
Islamic asset managers are faced with challenging business models, operational hurdles, and the lack of product diversification and investments keep scale and growth at bay.

Islamic asset managers are confronted with a challenging business to promote and sell, particularly to draw in non-Muslim investors at a time when markets are still recovering from recent global and regional crises. Additionally, the young industry continues to work within a largely unsupportive regulatory framework, lack of government support and absence of clear Shariah-compliant investment avenues.

Survey analysis: market challenges

Compliance with new legal/ regulatory requirements	16%
Finding new investment opportunities	13%
Availability of expertise	13%
Process efficiency and quality management	10%
Market conditions	9%
Others	39%

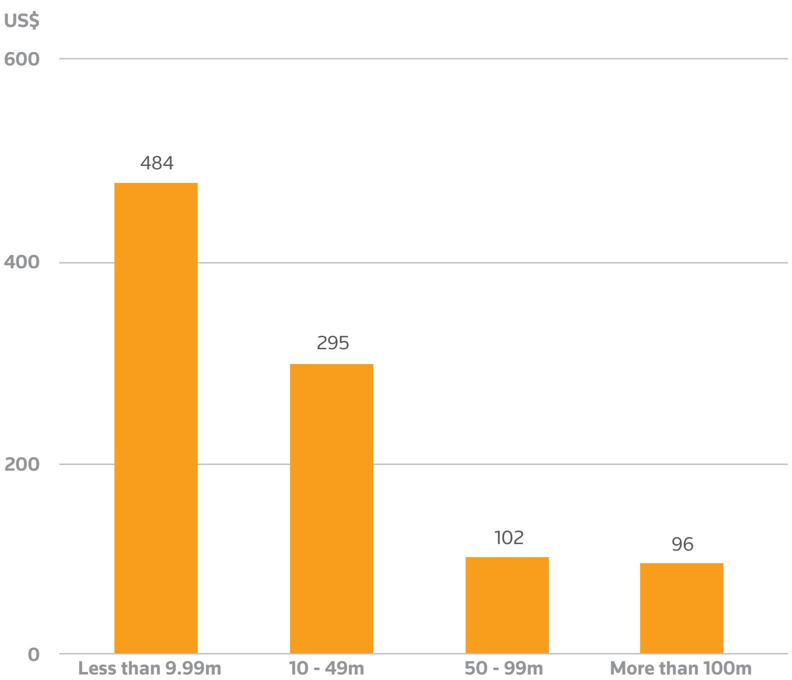
Industry ecosystem



Islamic mutual funds have yet to harness and tap into the potential sizeable demand for Shariah-compliant investments worldwide.

The Islamic mutual funds sector is still dominated by a few large players capable of attracting investors with their track records and experience in the market. These large players in the Islamic space are smaller than their conventional counterparts but a few new sizeable Islamic mutual funds were launched in 2014 which may have the potential to increase in asset size provided they employ successful growth strategies, widen their distribution networks and continue to demonstrate satisfactory performance levels.

Islamic mutual funds AUM outstanding In US$ - By size (FYE 2014)



New sizeable funds launched in 2014

LAUNCH DATE	NAME	ASSET TYPE	FUND MANAGER	DOMICILE	AUM 2014 (US$ MILLION)
2014	Maybank Dana Najiyah	Money Market	Maybank Asset Management Sdn Berhad	Malaysia	560.37
2014	HSBC Amanah Global Equity Index Y GBP C	Equity	HSBC Investment Funds (Luxembourg) SA	Luxembourg	120.23
2014	Kenanga Islamic Income Series 3	Money Market	Kenanga Investors Berhad	Malaysia	183.74
2014	Az Multi Asset - Global Sukuk Master Euro Dis	Mixed Assets	AZ Fund Management SA	Luxembourg	121.08
2014	SC Core Diversified Strategies Fund B	Mixed Assets	SEDCO Capital Luxembourg S.A.	Luxembourg	123.36

A handful of familiar names dominate the market

NAME	ASSET TYPE	FUND MANAGER	DOMICILE	AUM 2014 (US$ BILLION)
AlAhli Saudi Riyal Trade	Money Market	NCB Capital Company	Saudi Arabia	4.79
ETFS Physical Gold	Commodity	ETFS Metal Securities Limited	Jersey	4.71
Al Rajhi Capital SAR Commodity	Money Market	Al Rajhi Capital	Saudi Arabia	2.56
International Trade Finance Fd (Sunbullah SAR)	Money Market	Samba Capital and Investment Management	Saudi Arabia	2.15
AlAhli Diversified Saudi Riyal Trade	Money Market	NCB Capital Company	Saudi Arabia	2.10
Amana Growth Fund	Equity	Saturna Capital Corporation	USA	1.93
Amana Income Fund	Equity	Saturna Capital Corporation	USA	1.45
Public Ittikal	Equity	Public Mutual Berhad	Malaysia	1.32
Public Islamic Dividend	Equity	Public Mutual Berhad	Malaysia	1.31
CIMB Islamic DALI Equity Growth	Equity	Cimb Principal Asset Management	Malaysia	1.28
RiyadC-Commodity Trading Fund (SAR)	Money Market	Riyad Capital	Saudi Arabia	1.14
Affin Hwang Aiiman Cash I	Money Market	Affin Hwang Capital	Malaysia	1.04

Shariah-compliant investments enjoy strong demand demographics but they are underutilised; targeting the different segments has been largely inefficient due to poor marketing strategies, inadequate government support and recent market conditions that have negatively impacted market performance.

The scale of Islamic mutual funds has been small compared to the conventional mutual funds sector despite strong demographics for Shariah-compliant investments that can provide opportunities to scale up. Shariah-compliant investments share similarities with ethical and socially responsible investments yet few asset managers have been successful at converging the sectors, let alone attract a new set of investors outside mainstream Islamic markets. Government support can also play an important role in channeling proportional institutional capital into Shariah-compliant and/or SRI funds but few countries have taken concrete steps to support this growth area.

SCALE OF FUNDS

Demand determines the scale of funds

CAPITAL

80% RETAIL

UHNWIs
HNWIs
Middle Class
Working Class

20% INSTITUTIONAL

Sovereign Wealth Funds Pension Funds
Takaful /Awqaf/ Endowments

RECOMMENDATIONS

SOCIALLY RESPONSIBLE INVESTMENTS

Align investment strategies to ethical investing and improve disclosure of screening methodologies used, further promote investment strategies

GOVERNMENT SUPPORT

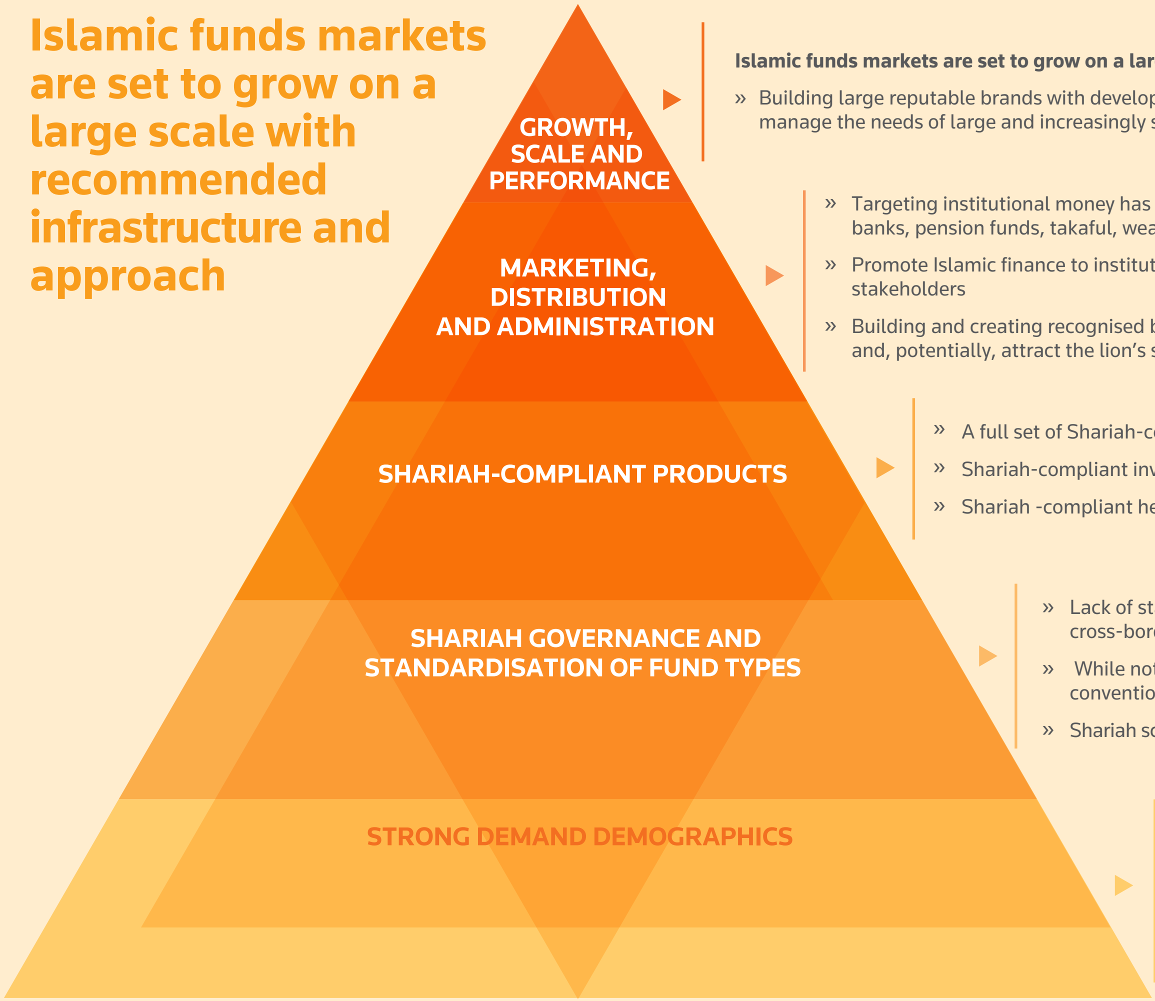
Support increase linkages between Shariah-compliant and ethical investments through unifying ethical and Islamic screening methodologies

BUILDING TRACK RECORD

Continue to build solid and positive track record in order to progressively create traction by improving business efficiencies

A bottom-up solution approach is imperative to scale up the development of Islamic funds

Islamic funds markets are set to grow on a large scale with recommended infrastructure and approach



Islamic funds markets are set to grow on a large scale with recommended infrastructure and approach

- Building large reputable brands with developed systems, processes and Shariah-compliant investment expertise will be needed to manage the needs of large and increasingly sophisticated investors.

- Targeting institutional money has been relatively slow. Asset management firms can target institutional funds (SWFs, central banks, pension funds, takaful, wealth management firms and private banks)
- Promote Islamic finance to institutional investors in order to align their investment mix with the ethical preferences of their key stakeholders
- Building and creating recognised brand with global reach is necessary to tap into high potential markets and large investors and, potentially, attract the lion's share of new assets.

- A full set of Shariah-compliant instruments has yet to be developed in the retail and institutional marketplaces.
- Shariah-compliant investment products are still scarce and more diverse products are needed in the market.
- Shariah -compliant hedging products are required to empower asset managers to offset and protect against risks.

- Lack of standardisation and harmonisation of Shariah opinion still poses a major obstacle to cross-border transactions.
- While not a major hurdle, costs associated with setting up and financing Shariah boards can put off conventional asset managers, unless economies of scale can be reaped across the industry.
- Shariah screening processes can also be expensive, which all add up to costs (such as management fees).

Shariah-compliant investments can cater to the needs of a growing set of demographics if approached with the right strategy and channels. These markets can be categorised into three segments:

- Existing Islamic assets in MENA, GCC and SEA (primarily Malaysia and Indonesia)
- Islamic countries or countries with large Muslim populations
- Europe and the U.S.

Building a robust institutional investor base for Shariah-compliant funds:
A U.S.-based Fund Manager Experience

By **BASHAR QASEM,**
President and CEO, Azzad Asset Management

In navigating the US financial landscape and competing for market share, Shariah-compliant mutual funds quickly learn to appreciate the significance of institutional investors — pension funds, banks and other larger financial institutions. These types of investing entities, sometimes referred to as "smart money," pool funds on behalf of others and invest those funds in a variety of different financial instruments and asset classes.

In recent years, alternative assets (real estate, private equity, and most notably, sukuk) have made up an increasingly large share of institutional investment in the U.S. For firms specialising in unconventional asset classes, possibilities abound. In the following overview of the institutional market, we will highlight some of the ways in which mutual funds with a specific focus on alternative assets like sukuk can leverage a heightened interest in the Shariah-compliant investing space.

Sukuk — A Game Changer?

Sukuk, especially those represented by U.S.-registered Shariah-compliant funds, appear to be at the beginning of a dramatic period of scaling, transcending their historic niche and meeting the needs of main-stream capital markets. Sukuk funds offer institutional investors the potential for enhanced diversification and portfolio stability, along with the added advantage of sometimes paying a modest premium over conventional bonds.

Concerns about the global interest rate environment at a time of slowing economic growth in much of the world enhances the appeal of Shariah-compliant fixed income in the eyes of institutional investors. In times of volatility, sukuk generally perform better than conventional bonds, according to Ihab Salib, head of international fixed income for Federated Investors, one of the largest investment management firms in the United States. Federated is also the portfolio manager of my firm's Azzad Wise Capital Fund, the first Shariah-compliant fixed income mutual fund in the United States. According to Salib, because sukuk cannot be shorted, there is less risk of manipulation by hedge funds, which adds to an already heightened level of interest from institutional investors. The role of similar funds in the future of institutional investing in the U.S., therefore, should not be underestimated.

Institutional Investor Profile

The role and influence of institutional investors has grown over time. The proportion of U.S. public equities managed by institutions has risen steadily over the past six decades, from between 7 and 8% of market capitalisation in 1950, to about 67% in 2010[1]. The shift has come as more American families participate in the capital markets through pooled-investment vehicles, such as mutual funds and exchange traded funds (ETFs).

1 Marshall E. Blume and Donald B. Keim, Working Paper, *Institutional Investors and Stock Market Liquidity: Trends and Relationships*, The Wharton School, University of Pennsylvania (Aug. 21, 2012), available at http://finance.wharton.upenn.edu/~keim/research/ChangingInstitutionPreferences_21Aug2012.pdf, p.4.

Institutional investors are known to improve price discovery, make allocations more efficient, and promote management accountability. They aggregate the capital that businesses need to grow, and provide trading markets with liquidity, an essential quality for capital markets globally.

Institutional players invest in a variety of asset classes. The standard allocation is approximately 40% of assets to equity and 40% to fixed income[2]. Another 20% of total assets is allocated to cash and alternatives. (These figures can vary from institution to institution.) In 1980, only 18% of all institutional assets were invested in equities, an asset class that has seen the most growth within the last generation[3]. Along with fixed income, it is now at a mature and relatively stable position on the allocation chart, leaving the remaining 20% to be exploited by alternative-oriented investments.

Shariah-compliant equity mutual funds began in the 1980s in the U.S., with the aforementioned Azzad Wise Capital Fund emerging as a fixed income option in 2010. This fund has represented a new and unique alternative investment option for U.S. institutional investors in search of emerging market yield and uncorrelated investment returns to complement the traditional equity and fixed income sleeves of their allocations. The following breakdown of the institutional investor marketplace explores key players as well as prospects for Shariah-compliant funds, specifically fixed income-oriented funds, in each.

> ***"We expect that investors of all stripes, including those in the categories outlined above, will continue to see Shariah-compliant fixed income mutual funds as a diversification tool that offers traits consistent with alternative investments."***

Pension Funds

Pension funds are the largest part of the institutional investment community in the U.S., controlling roughly $10 trillion, or approximately 40% of all professionally managed assets, according to the Washington, D.C.-based Investment Company Institute[4]. The largest pension fund in the United States, California Public Employees' Retirement System (CalPERS), has total reported assets of more than $295 billion as of December 31, 2014[5]. Although pension funds have significant risk and liquidity constraints, they are often able to allocate a small portion of their portfolios to investments that are not easily accessible to retail investors. This includes private equity, hedge funds, and increasingly, Islamic investments. It is here that we see the most room for the growth and accommodation of Islamic fixed income funds by traditional asset managers. This is due in part to the fact that the Global Financial Crisis has compelled pension plans to look for instruments backed by real assets to comply with stricter investment committee standards.

Insurance Companies

Insurance companies are also a large part of the institutional investment community in the U.S. These entities, which include property and casualty insurers and life insurance companies, take in premiums to protect policy holders from various types of risk. The premiums are then invested by the insurance companies to provide a source of future claims and a profit. Conventional insurers in the U.S. are highly unlikely to adopt Shariah-compliant funds due to their preference for more time-tested products. However, as legitimate takaful operations take root in the United States, the potential for both industries to grow in tandem remains a possibility. In the interim, the market for Islamic fixed income funds in the insurance space rests abroad with mutual or cooperative structures like takaful.

Foundations

Foundations are the smallest institutional investors, typically created by wealthy families or companies and dedicated to a specific public purpose. The largest foundation in the United States is the Bill and Melinda Gates Foundation, which held $43.5 billion in assets at the end of 2014[6]. We continue to see possibilities for expansion in the charitable space due to the ingrained social impact characteristics of Shariah-compliant

2 The Conference Board, 2010 Institutional Investment Report: Trends in Asset Allocation and Portfolio Composition (November. 2010) ("Conference Board Report").

3 Ibid.

4 Available at http://www.icifactbook.org

5 Available at https://www.calpers.ca.gov/index.jsp?bc=/investments/home.xml

6 Available at http://www.gatesfoundation.org/Who-We-Are/General-Information/Foundation-Factsheet

funds, especially those like the Azzad Wise Capital Fund that offers exposure to the Islamic banking sector and its focus on community investing and empowerment.

The Road Ahead

The institutional market for sukuk funds has grown dramatically over the past decade—and there is room for further expansion. Globally, this growth reflects rising wealth in the Middle East and, secondarily, parts of Southeast Asia.

As oil prices have experienced a recent decline, however, institutional investors in the United States are increasingly viewed as a natural candidate to step into the role traditionally occupied by wealthy nations in the Gulf. We expect that investors of all stripes, including those in the categories outlined above, will continue to see Shariah-compliant fixed income mutual funds as a diversification tool that offers traits consistent with alternative investments. The added credibility and regulatory rigour stemming from U.S.-registered investment options can only help future growth prospects.

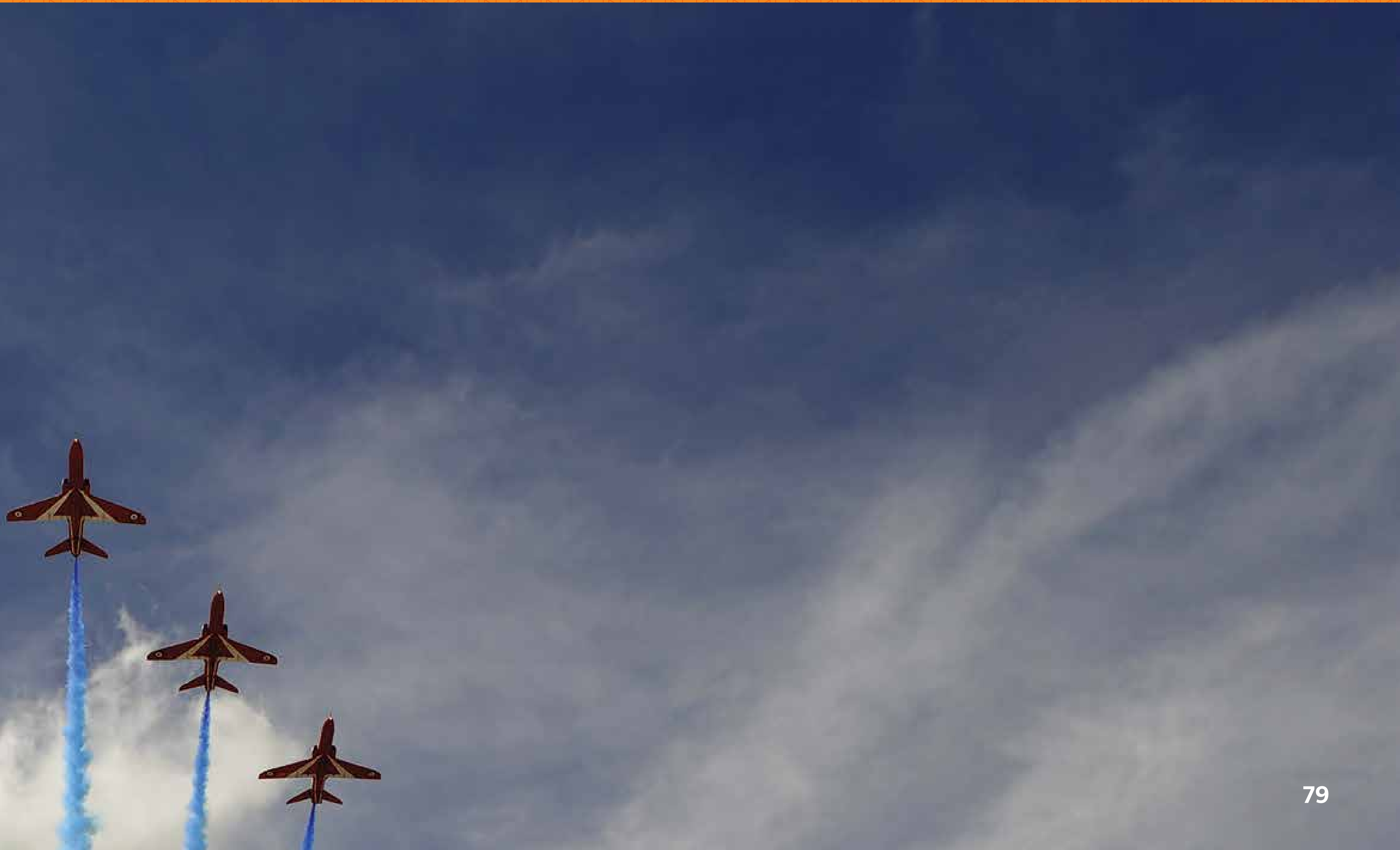
In our firm's opinion, the U.S. institutional investor base stands to benefit greatly from more substantive Shariah-compliant funds that address specific credit and liquidity needs. As offerings mature in the coming years so too will an accommodative and robust investor base.

Please consider a Fund's objectives, risks, charges and expenses carefully before you invest. Fixed income investments entail interest rate risk, the risk of issuer default, issuer credit risk, and price volatility risk. Funds investing in bonds can lose their value as interest rates rise and an investor can lose principal. The prospectus contains this and other important information. For a hard copy, please call 1-888-350-3369. Read the prospectus carefully before investing or sending money. The Azzad Funds are self-distributed. Azzad Asset Management serves as investment advisor.

A flag flies on outside of the New York Stock Exchange building in New York May 6, 2010. REUTERS/Lucas Jackson

CHAPTER FOUR: MARKET OPPORTUNITIES AND POTENTIAL

The Royal Air Force Red Arrow display team fly over ahead of the British F1 Grand Prix at Silverstone, central England, July 11, 2010. REUTERS/Nigel Roddis



Ethical investments can attract a broader spectrum of demand:

Shariah-compliant products appeal to Shariah sensitive customers, while there is growing demand for ethical or sustainable investments from all investor segments

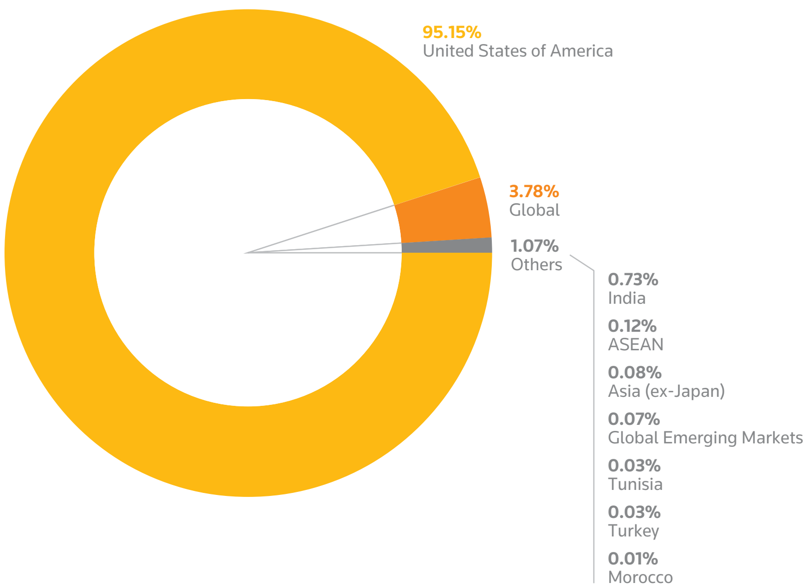
Afghan boys sit on top of a football goalpost watching a kite flying competition in Kabul, Afghanistan March 23, 2006. REUTERS/Ahmad Masoo

SRI requires blueprint, execution and acceptance from different markets to grow.

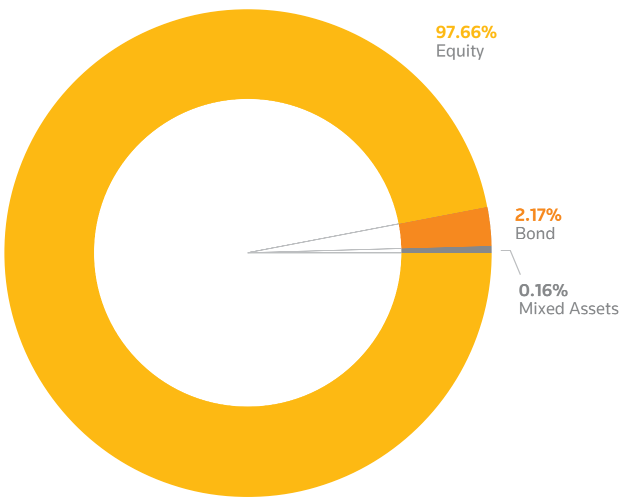
Socially Responsible Investment (SRI) funds are yet to grow with only 19 active funds with AUM of US$3.6 billion.

The outlook for Shariah-compliant SRI funds is positive. The environment is most promising in Malaysia with the support of the Securities Commission following the launch of the ESG index and guidelines for Sustainable and Responsible Investment sukuk. One form of SRI is green sukuk, a concept that was initially raised and discussed in Dubai a few years ago, but which has not materialised due to lack of support from central banks in OIC countries and participation of Islamic banks. While SRI is appealing on paper, challenges arise in proper planning, execution and acceptance from different markets. The ESG index was launched in Dec 2014 under the name FTSE4Good Bursa Malaysia (F4GBM) and is expected to attract some of the US$3.4 trillion SRI from different countries around the world. Malaysia may soon get its first sukuk under its new SRI sukuk guidelines if state-owned sovereign wealth fund Khazanah issues its planned sukuk for education and its renewable energy businesses.

SRI Funds by Geographical Focus



SRI Funds by Asset Type



The sun sets behind Borg Al-Faisalya one of two main towers in Riyadh November 20, 2007. REUTERS/Ali Jarekji

ESG and Shariah-compliant investing: when two spheres meet and merge

By HASAN AL JABRI,
Chief Executive Officer,
SEDCO Capital

In the last two decades Environmental, Social and Governance (ESG) and Shariah-compliant investing have been the two fastest growing areas of finance and showed resilience during the global fiscal turbulence especially when compared to the near-collapse of other investment categories.

The growth of ESG and Shariah-compliant investing is mostly demand-driven. Both these approaches are generating avid interest across global financial markets, driven by institutions that are increasingly devoting more resources to them. They both aim to create real value to the economy by providing real jobs that complement real growth of businesses, leading to sustainable economic development.

It is our view ESG and Shariah-compliant investing share many similar features and commonalities. In addition, we envision that these two very important investment methodologies could build on each other's success when integrated into a single umbrella, given how they both have transparent structures.

Common ground

While conventional finance has always been driven by the effort to maximise risk adjusted returns, Islamic and ESG investors have an additional goal to ensure that financial market activity is compatible with investors' ethics. Both sets of investors not only seek financial returns but economic sustainability.

ESG has become an established investment approach for global investors, stemming from a growing realisation among investors that the incorporation of such criteria into the investment process to reduce risk, drive performance, and identify investment opportunities can have a positive influence on the financial performance of companies — particularly over the long-term.

The purpose of Shariah-compliant investing is to improve living conditions and well-being, establish social equity, and prevent injustice in trade relations. In its application, waste and excessive consumption are deemed unacceptable. These elements closely resemble those of SRI: keen focus on sustainable development, creation of wealth for society, and improvement in the quality of life.

Both ESG and Shariah-compliant investment approaches demand that the businesses chosen for investment are socially useful, non-detrimental to humanity, and comply with humanist ethics. Both practice ethical exclusions as part of their investment rules, and their common list of forbidden sectors include alcohol, gambling, tobacco and weapons - businesses that are condemned or deemed harmful for man and society.

Although the principles of Islamic finance date back several centuries, its practice in modern financial markets has only been recognised in the 1980s, and it took until the start of this century for it to gain a meaningful share of global financial activity. By most estimates, the total volume of Islamic financial assets has grown by 15 to 20% annually in the last two decades, and now exceeds US$1.65 trillion.

Similarly, ESG coalesced as a recognised investment strategy in the 1980s, and only gained significant size in the last two decades especially after then United Nations Secretary-General Kofi Annan announced the United Nations Principles of Responsible Investing (UNPRI) in 2006. The total volume of assets held by explicitly ESG investors is estimated to have increased by more than 30% since 2005, and now exceeds US$13.6* trillion.

From negative screening to impact screening

Often called 'negative screening', the most common strategy of ESG is the very clear avoidance of businesses that fail to meet investors' ethical and moral standards. In the last decade though, ESG investors have actively explored positive 'impact screening' techniques — an active search for businesses that have proven their beneficial social or environmental impacts. This proactive approach also negates criticism directed towards 'green-washing': impact investors are looking to fund efforts that achieve specific and measurable change, and do not rely on marketing themselves as environmentally friendly when in fact their environmental, social and governance criteria are not very strict.

Negative screening ensures that Shariah-compliant investors do not invest in activities or structures prohibited by Islam, but these investors do not necessarily have an opportunity to support activities they believe in. The concept of development in Islam has three dimensions - self, earth and society - and all three dimensions assign heavy responsibility (or lack of it thereof) on individuals and society. If balanced development is defined as progress, positive or impact screening could open up many new doors for the Islamic investor by uniting investments that generate measurable positive social impacts.

When ESG is integrated into financial analyses, various ethical criteria are brought into the mainstream financial industry, and they help close the gaps between conventional, Islamic and ethical investments.

Based on a confluence of research, performance and demand in this field, at SEDCO Capital, we are not only Shariah investors but also ESG-compliant. In July 2014, we became the first Shariah-compliant and first Saudi Arabian asset manager to be a signatory to the UNPRI.

In public equity we have launched four ESG/Shariah-compliant funds with AUM of more than US$550 million. In private equity, among other responsible investment activities, we are the Shariah advisor to a Brazil-focused timberland fund, which emphasises sustainable development of commercially managed timberland in Brazil. In real estate, we are the anchor investor in India's leading sustainable green research complex in Bangalore.

Moving forward we aspire to deploy Shariah/ESG investment platforms across all our asset classes and investment strategies and take the total AUM under a combined umbrella of ESG and Shariah-compliant investments to more than US$850 million.

ESG and Shariah-compliant investing merged — Prudent Ethical Investing Responsibly

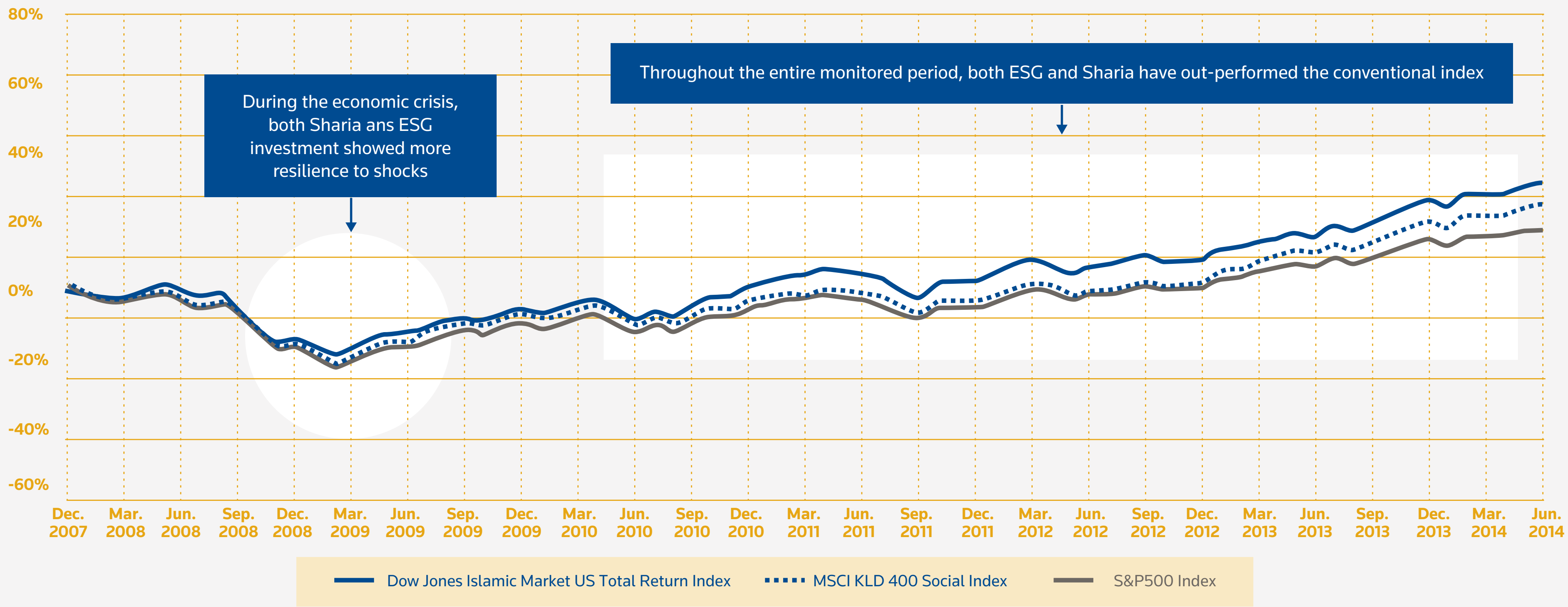
"Prudent Ethical Investing Responsibly" (PEIR) is a term created by SEDCO Capital that brings together the ESG and Shariah-compliant methodologies under one umbrella. While these disciplines are responsible in nature, Shariah adds the "Prudence" element into the equation, serving for calculated asset-backed financing risks and stronger long-term performance (see chart).

While it only allows up to 33% of capital, Shariah-compliant investing made it possible not only to outperform the conventional index, but also to be more resilient to shocks and market fluctuations. An example has been seen post-global financial crisis of 2008, where clearly under these conditions both Investment methodologies outperformed the conventional index.

Crossover and convergence

Despite an obvious association between Islamic finance and ESG — in their history, figures, definitions, developments, methods and challenges — there has been very little or almost no formal interaction between the two. Although the financial community now concurs that the two are compatible, many people think that there cannot be natural links, because they do not employ the same expertise, or target the same clientele.

The ongoing success of Islamic finance and ESG may not seem correlated today, but financial experts, research centres, ratings agencies, non-governmental organisations (NGOs) and regulators can easily consolidate the two approaches to make it so much more cohesive as to be corroborative.



Islamic finance can easily adapt many methods used in ESG with broader concepts standing to be modified in order to adhere and conform to Islamic principles. Arguably, the most important aspect that Islamic financial institutions should look to learn from ESG is its familiar engagement with managers of companies and stakeholders to encourage them to embrace responsible practices.

Green development funds which specialise in specific infrastructure assets, and sustainability funds which invest in businesses involved in waste or water management may not have Shariah compliance at their core, but have the potential to hold vast appeal for Islamic investors. On the other hand, many Islamic funds already meet the strictest criteria of the ESG investor who remains unaware of or misinformed about Shariah-compliant investing.

Values-based investing will be an industry game changer, as Islamic finance is not only seen as a veritable point of convergence between the East and the West, but also within and inside Islamic societies, in particular secularist movements in countries affected by the Arab Spring. Shariah-compliant products that focus on producing specific, socially positive impacts could be another vehicle to bridge the gap between conventional and Islamic finance by attracting non-Muslim SRI investors into the Islamic finance market.

Greater acceptance of Islamic financial products among non-Muslims can only be spurred by the continued growth of ESG among conventional investors. As long as both approaches do not have any conflicts, they are not only compatible but also complementary, and the integration of ESG criteria offers additional ethical and financial value, notably by limiting risk.

All SEDCO Capital funds that are both ESG and Shariah-compliant encourage best practices in governance and responsible investing, and above all, we hope these set an example for our peers in the Shariah and non-Shariah spheres, so that we all move equitably in the direction of sustainability.

ESG-Islamic crossover products will definitely make a market appearance if investors call for it, but the current level of compatibility suggests that eventually, there may not even be a need for separate products.

Airline tycoon Richard Branson (L) and former U.S. vice-president Al Gore hold a globe in central London February 9, 2007. REUTERS Kieran Doherty

EXPERT INSIGHT

Sustainable investing:
Empirical trends on profitability and risk

By OMAR SELIM,
Chief Executive Officer, Arabesque Partners

ANDREAS FEINER,
Head of Values Based Research and Advisory, Arabesque Partners

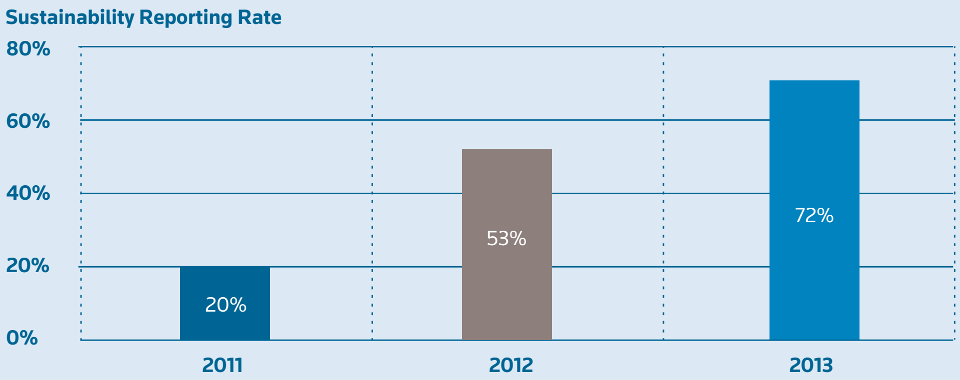
DR. TIM VERHEYDEN,
Associate, Arabesque Partners

More than one out of every six dollars under professional asset management in the United States is now in socially responsible investment, according to the Forum for Sustainable and Responsible Investment, whilst global SRI assets currently stands at $21.4 trillion — equivalent to 30.2% of all global assets under management, reports the Global Sustainable Investment Alliance. SRI, long considered a niche area in the investment landscape, has finally gained some teeth.

In part, this has been facilitated by a growing number of non-financial disclosure and reporting initiatives such as the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the International Integrated Reporting Council (IIRC), amongst others. The result has been a strong global increase in recent years in the number of companies disclosing non-financial information. Indeed, according to Bloomberg data, there has been an increase of 113% in the disclosure of carbon emissions since 2007. (Carbon emission is the most reported ESG quantitative field in Bloomberg.)

According to the Governance & Accountability Institute 72% of S&P-500 companies reported on sustainability in 2013. This is a marked increase on 20% in 2011 and demonstrates a strong shift towards environmental, social and governance (ESG) disclosure. As a result, brokerage research desks are now also covering non-financial information in more depth. For example, UBS has developed a global ESG analyser to help identify the most prominent ESG themes and global sector exposures and Société Générale has shown that a CEO value strategy which takes into account sound corporate governance principles can help outperform the overall market. Many more brokers have now increased their SRI efforts, as we can see from the growing number of analysts in SRI teams according to the latest 2014 Extel/ UKSIF SRI & Sustainability Survey.

S&P 500 Sustainability Reporting Rate



Source: Governance & Accountability Institute

However, whilst it is clear that SRI is on an upward trajectory on a global scale, there remain questions within the investment community around the level of value that ESG information can add to the portfolio. The shift of sustainable investment strategies wholly into the mainstream market hinges upon the ability of proving that ESG can deliver outperformance and superior returns to the investor.

Does sustainability add value to investors?

In a recent meta-study[1] Arabesque Asset Management conducted in collaboration with the University of Oxford, it was found that 80% of past research identified a positive relationship between sustainability practices and investment performance. Sound sustainability standards also lower the company's cost of capital according to 90% of the literature examined, whilst 88% of studies linked good corporate behaviour with better operational performance.

To further enhance this research with more empirical evidence on the effectiveness of sustainability metrics in asset management, let us examine three specific strategies on a universe of liquid global stocks[2]:

1. Worst-in-class exclusion

- By excluding companies that are in the bottom 25% of ESG performers in their respective industry

2. ESG tilt

- By doubling the portfolio weight of the top 25% ESG performers per industry and halving the weight of the bottom 25% ESG performers per industry

3. ESG momentum

- By investing in a portfolio of stocks that have witnessed two consecutive improvements in their ESG performance (as calculated on a relative basis per industry) over the last two quarters

The ESG performance is measured as a percentile rank based on ESG scores from Sustainalytics, an award-winning responsible investment research firm. Our data sample is four years in length, from 2011 to 2014[3], and portfolios are rebalanced on a quarterly basis following the above ESG strategies.

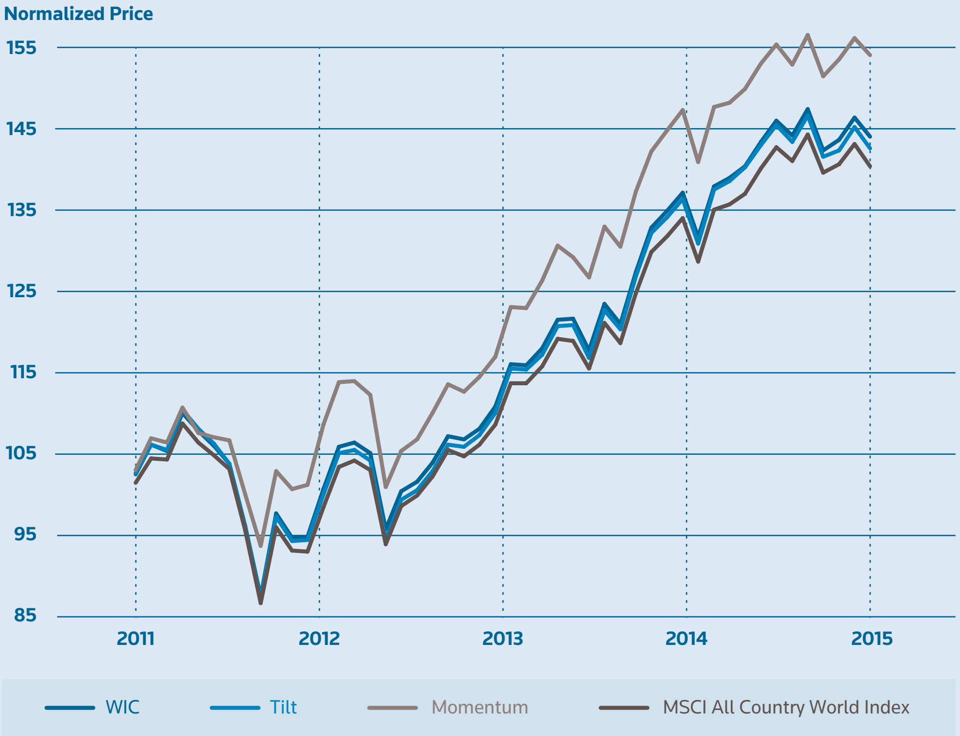
All three ESG strategies clearly outperform the MSCI All Country World Index (ACWI) benchmark. A simple exclusion of the 25% worst-in-class companies, based on an overall ESG score, leads to an outperformance of 69 basis points per year (p.a.) versus the MSCI ACWI.

1 Gordon Clark, Andreas Feiner & Michael Viehs (2015), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2508281&download=no

2 We only consider stocks with a market capitalization of at least $ 1 billion, 6-month average daily volume of at least $ 3 million and a free float of at least 10 %.

3 As the availability of data improves significantly after 2010 (from 2333 to 3316 companies), we start calculating returns from 2011 onwards.

Performance of ESG Strategies



		WORST-IN-CLASS EXCLUSION	MOMENTUM	TILT
Excess Return vs. MSCI ACWI	2011	1.88%	8.25%	1.40%
	2012	0.03%	-1.25%	-0.17%
	2013	0.32%	2.52%	0.45%
	2014	0.27%	-0.11%	-0.16%
Excess Return p.a.		0.69%	2.57%	0.42%

Tilting the portfolio towards the 'more sustainable' companies, rather than excluding the 'less sustainable' companies, contributes 42 basis points of outperformance on a yearly basis. Furthermore, a portfolio factoring only momentum in ESG scores, instead of absolute levels, achieves an outperformance of 2.57% annually versus the ACWI, with a maximum drawdown that is 5% less severe than the ACWI's and the other ESG strategies.

Particularly striking and instructive is the fact that the ESG momentum strategy particularly outperformed during 2011, when the overall market was falling.

Identifying "greenwashing"

These quantitative strategies rely of course upon the accuracy of reported data. This does pose a challenge for investment management:

1. Data vendor metrics are typically calculated using information published in a company's policy documents and sustainability reports. Consequently, ESG metrics often depend upon how a company portrays itself (known as 'greenwashing') rather than how it actually behaves in practice.
2. The voluntary nature of sustainability disclosures means that information is often inconsistent and incomplete. Larger, more profitable companies in developed markets are more likely to publish information than smaller counterparts, presenting a potential sampling bias in reporting and hindering statistical inference.
3. ESG information is published relatively infrequently — usually on an annual basis — with substantial time delays, therefore potentially limiting the efficacy of any signal to predict stock returns.

However, the systematic analysis of ESG news offers a promising alternative to overcome these data challenges.To be specific, the analysis of online media sources provides investors with a different perspective on a firm's activities by examining what a company does rather than says. Whilst ESG event-driven analysis is still an emerging area of academic research, initial studies highlight the identification of supply chain risks to predict higher stock volatility and share price underperformance.

Let us look to the recent example of McDonald's Holding Co Japan. For years, the company had a history of stable cash flows, exhibiting low stock volatility and scoring relatively well on traditional ESG policy-based metrics. But in 2015, after a series of high profile food safety concerns, supply chain problems and labour disputes, the company reported its first annual operating loss since going public.

Our research therefore suggests that ESG news can provide a complementary source of information to identify 'red flags' in companies when used in combination with more traditional (quantitative) metrics.

Combining sustainability and investment performance

With the availability of ever increasing non-financial information at our disposal comes the opportunity for a new generation of investors to seek performance through ESG integration. Arabesque Asset Management itself was launched in 2013 as one of the first asset managers to bring a quantitative approach to sustainability, with a modular and transparent investment concept.

Arabesque's modular investment process starts with a rigorous stock selection, where a liquid universe of 1,250 stocks are identified by screening and considering over 200 ESG indicators, leveraging non-financial information to power performance. The next part of the investment process applies highly sophisticated systematic approaches for fundamental company analysis as well as risk and investment management. The resulting flagship product, the Arabesque Systematic fund, selects around 100 equities using state of the art quantitative portfolio and risk management technologies whilst applying rigorous portfolio guidelines to manage downside risk.

To date, the fund has outperformed its benchmark, the MSCI All Country World Index, by more than five percentage points, with the Arabesque Systematic ranking in the top 5% within its Morningstar category. For the first time, we are seeing how a quantitative, alpha concept can be combined with sustainability to deliver return.

Summary

With more non-financial information becoming available, and in increasingly standardised ways, new opportunities are therefore opening up in the investment world. Indeed, we can see from the performance analysis of simple ESG strategies that non-financial data can improve portfolio returns. Furthermore, new and advanced analytical techniques of social networks and the media will only become more effective in separating positive action from greenwashing.

As evidence grows of the significant value that ever increasing non-financial information can bring to the investment process, surely it is only in the best interests of asset owners and managers to integrate ESG information to achieve higher risk-adjusted returns.

"Pension funds can add scale and boost the Shariah-compliant asset management sector"

A pair of elderly couples view the ocean and waves along the beach in La Jolla, California March 8, 2012. REUTERS/Mike Blake

By fund value, pension funds represent 0.2% of global Islamic funds; they amount to US$146 million in a total of 64 funds outstanding by the end of 2014.

Since 2008, the number of pension funds has more than doubled and AUM grew more than 10 times. The outstanding AUM mix consists of 54% equity funds, mixed assets (29%), sukuk (12%) and money market (5%).

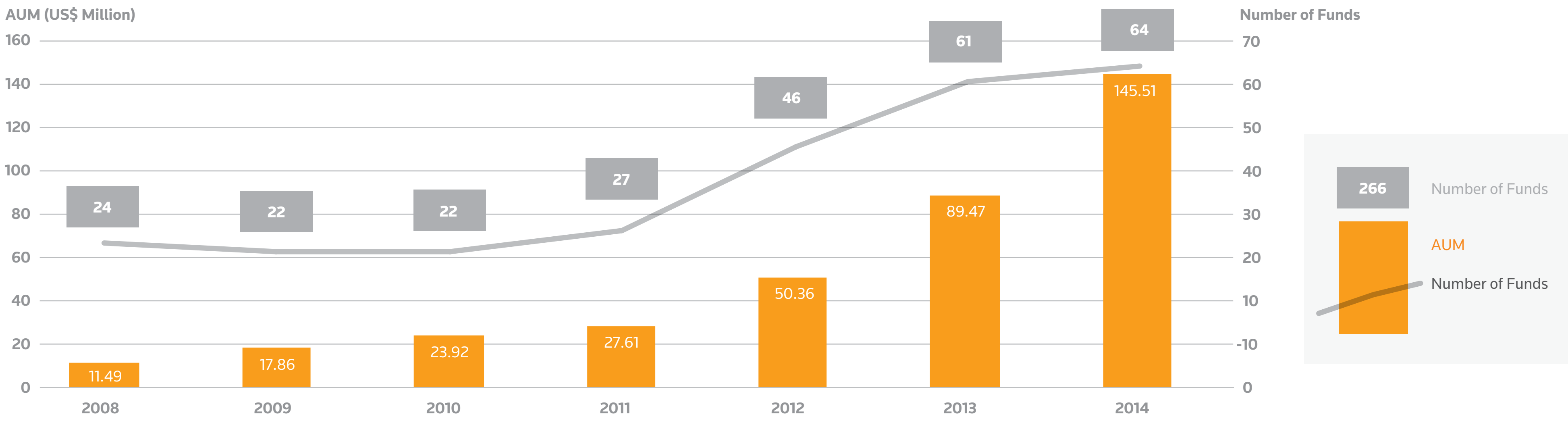
When exploring the AUM of each asset type of Islamic funds outstanding from 2008 to 2014, we note that the share of equity funds declined to 54% from 62% while mixed assets gained momentum increasing from zero to 29% of total Islamic pension funds. Both sukuk and money markets share of total Islamic pension funds AUM declined as well.

Breaking down Islamic pension funds outstanding by domicile, Malaysia tops with 33 pension funds (AUM of US$59.34 million) that were mostly launched in 2012 and 2013, followed by Pakistan with 21 funds (AUM of US$51.19 million), the UK has 10 funds (US$31.44 million) and Thailand 1 (US$3.54 million). Most portfolios invest locally and the rest are invested on a global basis or within the Asia Pacific.

Following Malaysia's and Pakistan's efforts to develop Islamic pension systems in their respective countries, Indonesia's financial services authority, Otoritas Jasa Keuangan (OJK), announced in September 2014 that it was drafting regulations for Islamic pension funds in order to fulfil the public's demand for Shariah-based pension funds.

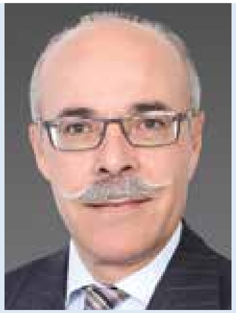
In addition, Malaysia announced a month later that it was planning to start a fully Shariah-compliant retirement fund in order to diversify away from conventional funds. Malaysia's Employees Provident Fund is currently estimated to be 40% Shariah-compliant.

Global Islamic Pension Funds (2008 - 2014)




Kuwait Towers were officially inaugurated on February 26, 1977 and are rated as a landmark and symbol of modern Kuwait.

Pension power can transform Gulf economies



By **LUC MÉTIVIER,** Chief Executive Officer, Takaud

Pension fund assets in the Gulf are growing a third faster than the global average and are projected to reach $5 trillion by 2020, yet the regional pensions industry is still at a relatively embryonic stage. Pension funds have the potential to be an engine for economic growth, and stimulate the emergence of a global-scale financial services hub.

In just one year, from 2011 to 2012, the growth in GCC public sector pension funds accelerated from 9% to 16% — and annual growth between now and 2020 is expected to average 8.8%, according to new research by accountancy and management consulting firm PwC.

This compares to projected global pension fund growth of 6.6% and dramatically highlights the regional and international opportunity for an industry that is still in its infancy.

PwC's research report, 'Asset Management 2020', forecasts that the GCC public sector's pension fund assets alone should reach $5 trillion by 2020, and this takes into account the vast pool of funds represented by the many well-established pension schemes for private sector employees.

The implications for Gulf economies are enormous. Think for a moment about where the money is invested. Evidence suggests that around 50%

is placed locally, partially in low-yielding structures. The remainder is sent offshore to be invested elsewhere. Why?

Because the industry is still under-developed and there is no means of investing the assets locally!

Say 20 to 30% (or more) of the huge regional pension funds was invested locally, what could this mean for the GCC region and what would be the benefits? It would certainly create a huge amount of money to support the local capital market and the entire economy.

Developing the three pillars

Most developed markets have three pillars that underpin their pension system: the first is the state (or government-provided) pension, the second and equally important pillar is a personal or workplace pension, and the third pillar comprises additional personal savings schemes.

However, this three-pillar pension model does not yet exist in the MENA region although the countries in the region also have populations that start working later and live longer, placing an inevitable burden on the region to deal with the increasing number of retirees that need retirement income for a longer time.

> ***"As the number of aged retirees in our region is increasing, retirement and healthcare will become critical issues [...] the speed of change over the next generation is alarming"***

The development of the pension industry in the region, mainly by financial institutions such as TAKAUD, is a practically viable option through synchronisation with the public entities in charge of state pension systems. Actually, we are now discussing this approach and believe that the second pillar of the pensions industry can be developed in cooperation.

Retirement and healthcare "critical" issues

As the number of aged retirees in our region is increasing, retirement and healthcare will become critical issues, as opposed to the looming concern of today. The speed of change over the next generation is alarming: the PwC report forecasts that the old-age dependency ratio for the world will reach 25.4% in 2050, up from 11.7% in 2010.

This is a chilling worldwide trend, where a state pension with a small amount of savings is not enough to live on comfortably and it's all too possible to run out of cash. The GCC is not immune to this trend. State pensions are financed from contributions made by expats and nationals currently in the workforce, and as pensioners live longer this model is likely to place an increasing strain on reserves and government funds.

This in turn puts more pressure on pension funds to seek higher yields from their investment. Already some public pension funds are diversifying from low-return bank deposits while trying to minimise risks.

Therefore, it's not a question of 'if' but 'when' the shift gathers momentum in recognising that MENA/GCC employees need to save (via the second pillar) to supplement their retirement.

Opportunities for GCC

This changing mindset can be a signal for a regional financial centre such as Bahrain to 'surf on this trend' and develop the regulatory regime to support the first emergence of the pension industry in Bahrain per se and as a hub for the entire region.

Of course this isn't something that happens overnight. It takes time for this type of mindset and policy change. But, GCC pension assets — representing only 6% of GDP today — are expected to more than double over the years as a result of creating more pension pillars. In many countries, pension assets equate to 100% or more of GDP.

This is the magnet that can make Bahrain and the GCC region an attractive market for global fund managers to set up in the region, extending the current capital market and financial industry and creating lasting benefits for the economy, and for all citizens, and retirees alike.

How can pension funds capture big opportunities to boost the scale of the Islamic sector?

The Malaysian opportunity

By AIDA OTHMAN,
Director, ZICO Shariah Advisory Services

The Islamic fund management industry in Malaysia has matured considerably in the last decade, adding, on average, about nine funds per year since 1993[1]. It has been further galvanised by government reforms to the pension scheme in 2012 which introduced a new, voluntary Private Retirement Scheme (PRS), following countries such as Pakistan and Turkey. The PRS allows Malaysians to purchase a variety of products from private fund management firms, making it easier for them to opt for Islamic investments.

By facilitating investments in private products by individuals, the reforms were expected to kick-start the growth of Malaysia's small private pensions sector, which the government expects to be worth RM73 billion (US$22.92 billion) by 2020. Most agree that there is a lot of potential for growth given the regulatory changes, accompanying tax incentives, growing disposable incomes and a rising culture of saving for the future.

Malaysia is presently seeing strong demand for retirement plans that are Shariah-compliant. As at 31 January 2015, Malaysia has Islamic PRS (which now comprise 17 Islamic funds out of a total of 44 funds) with a net asset value of RM 47.754 billion.

1 M. Kabir Hassan, Michael Mahlkenecht (2011), Islamic Capital Markets: Products and Strategies. John Wiley & Sons Ltd: United Kingdom, p. 229.

A greater general awareness regarding wealth management and retirement planning and direct demands from depositors have recently spurred pension funds to consider Shariah-compliant alternatives. Malaysia has one of the world's largest Islamic finance sectors and the authorities are keen on this direction — they envision the industry holding 40% of the country's total banking assets by 2020 as against approximately 23% today.

Pension funds in Malaysia in general are investing in approved financial instruments which include both conventional and Shariah-compliant ones. However, fund managers are already investing a sizeable portion of their portfolios in Shariah-compliant stocks and securities.

Malaysia's pension schemes

There are two types of pension schemes in Malaysia: (1) the defined benefits plan, a type of pension plan in which the government promises a specified monthly benefit upon retirement and (2) the defined contribution plan, a retirement plan in which a certain amount or percentage of money is set aside each year by an employee and a company for the benefit of its employee.

The defined benefit plan is only offered to civil servants. This pension scheme does not require contributions from employees — the government will be the sole contributor. It covers employees who are working in the public sector including those who are employed directly by the government, statutory bodies and local authorities. On the other hand, the defined contribution plan requires both employer and employee to contribute to the fund.

There are three pillars in Malaysia's pension framework: the Employees Provident Fund (EPF), the civil servants' pension fund (KWAP) and the PRS. In addition, the Armed Forces Fund Board (LTAT) provides a savings scheme for armed forces personnel.

The Employees Provident Fund (EPF)

The EPF is Malaysia's premier retirement savings fund, providing basic financial security for citizens' retirement. The EPF applies the defined contribution plan which is governed by the Employee Provident Fund Act 1991. Employees who are Malaysian citizens, permanent residents and non-Malaysian citizens who are either public sector or private sector workers not placed under the public pension scheme are required to contribute to the EPF.

EPF has consistently outperformed its targeted minimum dividend of 2.5% annually. Its total assets stood at RM636.53 billion as of 31 December 2014 and in Feb 2015 it declared a rate of 6.75% for 2014, the highest in over a decade. The EPF chalked up RM39.08 billion gross investment income for the financial year ended 31st December 2014, an increase of 11.16% compared with RM35 billion in 2013.

The Retirement Fund Incorporated (KWAP)

KWAP was established under the Retirement Fund Act 2007 which replaced the Pensions Trust Fund Act 1991. KWAP's role in the context of the pensionable civil service includes managing contributions, setting up investment policy and guidelines as well as investment monitoring and management. It has approximately 160,000 civil service members.

The Federal Government of Malaysia contributes 5% of the total annual budgeted emolument of the Federal Government employees while statutory bodies, local authorities and agencies contribute 17.50% of the basic salaries of their pensionable employees respectively to KWAP on a monthly basis. KWAP's assets under management stood at RM107.68 billion as of 30 September 2014 and the Fund filed a net return on investment of 6.97% for 2013.

The Armed Forces Fund Board (LTAT)

The Armed Forces Fund Board (LTAT) was established in August 1972 by an Act of Parliament (Act 1010/1973). The objective is to provide retirement and other benefits to members of the Armed Forces (compulsory contributors) and to enable officers and mobilised members of the volunteer forces in the service to participate in a savings scheme. The LTAT pays an annual dividend, bonus and special bonus to its contributors in the form of units for its active members. The Fund's assets under management stood at RM9.4 billion as of 21 December 2014.

Demand and opportunities for Shariah-compliant retirement plans

Demand for Shariah-compliant retirement offerings is particularly high in fast-growing emerging markets, including the UAE, Malaysia and Saudi Arabia.

Factors that contribute to the rising demand for Shariah-compliant pension funds include a growing middle class; increasing sophistication of Islamic financial products and Islamic asset management in boosting investment returns; and the shift to ethical values in investments and the financial system in the wake of the global financial crisis.

In Malaysia, pension funds have the incentives, including a financial ecosystem, to diversify their products, increase the size of their Islamic investment portfolios and boost the scale of Shariah-compliant offerings. Some investors today might harbour the misperception that Shariah-compliant pension portfolios will not be as well diversified as conventional pension funds and as such will be more exposed to higher volatility and higher risks. With the size and maturity of Malaysia's sukuk market and Shariah-compliant equity indices, there appears to be sufficient assets available for many of the pension funds to take the first steps towards developing Shariah-compliant alternatives. Such efforts by Malaysia's large pension funds will provide opportunities for financial institutions to diversify their products, and a tremendous boost to the Islamic capital market.

From window to standalone Islamic pension fund

On a practical level, to respond to demand from existing contributors, the creation of a Shariah-compliant pension fund could be facilitated by the carving out of a portion of the existing pension funds designated for an Islamic investment operation. Such a setup would be similar to a window Islamic pension fund scheme, and would be made available to those who desire Shariah-compliant investments and income.

The Shariah structure, business model and Shariah governance for the setup will be required, and changes to the regulatory framework specific to each pension fund may be advisable to provide legal clarity and address any potential anomalies. The viability of such a measure from the financial, tax and operational perspectives (in particular the end-to-end infrastructure from collecting contributions to returning dividends) would also need to be considered.

It is possible that in the long term, taking into account members' preference, the availability of Islamic instruments and portfolio performance, that the initial set up will transform entirely into a Shariah-compliant one. A fund could also be set up, of course, entirely from fresh contributions and new members. Pension funds can also offer multiple products with diversified multi-asset investments to cater for the different needs and risk preferences of the members and broaden their opportunity in diversifying their investment portfolio.

The establishment of a stand-alone, state-backed pension fund that focuses entirely on Shariah-compliant investments would channel billions of dollars into Shariah-compliant assets in Malaysia, stimulate its Islamic finance sector and provide a model for other predominantly Muslim countries such as those in ASEAN and the Gulf. Such a fund would put Malaysia ahead of most countries in developing its pension industry and might be the world's first such institution outside Iran, where the entire financial system is designated as Islamic.

MALAYSIA ISLAMIC FINANCE REPORT 2015

Thomson Reuters, Islamic Research and Training Institute (IRTI) and the General Council of Islamic Banks and Financial Institutions (CIBAFI) will soon launch a country-specific report that will provide you with the most relevant and high-impact insights on Islamic finance investment and expansion opportunities in Malaysia.

STAY TUNED FOR EXCLUSIVE CONTENTS INCLUDING:

- Review and assessment of both the current and future sources of growth for Malaysia, their challenges and forward-looking strategic opportunities for Islamic finance
- Overview and assessment of the Islamic financial industry in Malaysia relative to the overall financial system
- Detailed assessment of consumer preferences, usage and satisfaction levels on the use of retail financial services and insights into potential strategies that can be adopted by Islamic financial institutions
- Recommendations for positioning Islamic banking, takaful and other Islamic finance sectors in Malaysia as integral contributors to the financial system and overall economic growth
- Overview assessment of Islamic finance regulatory frameworks and their impacts for the near- to mid-term
- Examination of Malaysia's Islamic finance position and role in Southeast Asia and the Middle East and an evaluation of areas of convergence and divergence
- Evaluation of Malaysia as a global Islamic finance hub through analysis of existing and planned infrastructure development and market activity
- Due diligence for unique Shariah-compliant investment opportunities in Malaysia

MALAYSIA'S FINANCIAL SERVICES SECTOR KEY FEATURES:

BANKING

- Islamic banking penetration is 3 times lower than that of conventional banking
- Islamic financing growth rate higher than the growth of Islamic banking assets in 2013
- Islamic banking deposits have promising growth momentum
- Islamic banks liquidity situation remains an issue through the transition under IFSA 2013

TAKAFUL

- Conventional insurance penetration rate is around 7 times higher than takaful penetration
- New family takaful entrants and reforms have resulted in a continuous increase in net contributions
- Family takaful funds are potential investors in sukuk investments
- Segregating composite licenses for both insurance and takaful will change structure of operators' assets

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"Passporting can provide a level playing field to all participants and thus expand the potential investor base while ensuring the products are well governed"

(L-R) Singapore's Prime Minister Lee Hsien Loong, Thailand's Prime Minister Prayut Chan-o-cha, Vietnam's Prime Minister Nguyen Tan Dung, Laos' Prime Minister Thongsing Thammavong, Malaysia's Prime Minister Najib Razak, Myanmar's President Thein Sein, Sultan of Brunei Hassanal Bolkiah, Cambodia's Prime Minister Hun Sen, Indonesia's President Joko Widodo and Philippines' President Benigno Aquino III, pose for a photo during the opening ceremony of the 26th ASEAN Summit in Kuala Lumpur, Malaysia, April 27, 2015. Malaysia is hosting the summit from April 26 to 27, 2015 REUTERS/Olivia Harris

At the end of 2014, there were 179 Islamic UCITS funds outstanding with a total AUM of US$2.47 billion representing 4% of total global Islamic AUM outstanding.

76% of UCITS funds are domiciled in Luxembourg (136 funds) with a total AUM of US$1.82 billion, 23% are domiciled in Ireland (41 funds) with a total AUM of US$627 million and the rest are distributed between France and Turkey (1 fund each).

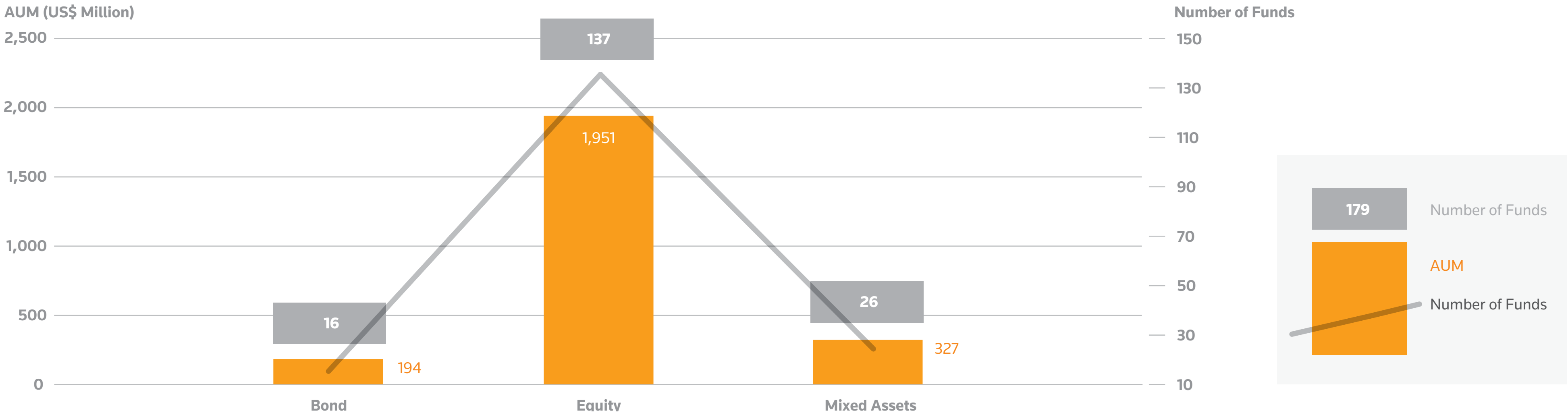
Most of Luxembourg's Shariah-compliant UCITS funds are equity funds which focus on the United States and the global level. At 82%, Luxembourg's Islamic UCITS funds make up the overwhelming majority of all the Grand Duchy's Islamic funds.

Similar models of passporting that enable funds mobility have been studied as part of Southeast Asia's ASEAN Economic Community (AEC). ASEAN's Collective Investment Scheme (CIS) framework, introduced in August 2014, enables Malaysian, Singaporean and Thai investors to trade mutual funds issued in these countries if such funds meet the required standards.

Unlike UCITS, the ASEAN CIS framework does not qualify the funds for passporting immediately once authorisation is attained from one member state. It takes a two-step process for qualification where both home and host regulators must approve the funds. Despite this, Malaysia is expected to profit from this framework especially for Islamic funds.

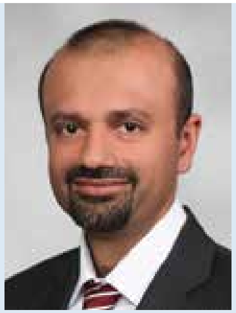
Another passporting scheme which is set to be launched in 2016 is the Asian Region Funds Passport (ARFP) which currently has four members — Australia, New Zealand, Korea and Singapore — signing the Statement of Intent. Malaysia is exploring the scheme. However, the ARFP faces several hurdles due to the presence of different jurisdictions with different regulatory and tax regimes.

Islamic UCITS Funds Outstanding (End of 2014)



A man rides an escalator near Shanghai Tower (R, under construction), Jin Mao Tower (C) and the Shanghai World Financial Center (L) at the Pudong financial district in Shanghai July 4, 2013. REUTERS/Carlos Barria

Opportunities for Islamic Funds in the ASEAN Region



By **MONEM SALAM,**
President, Saturna

Favourable demographics, expanding product offerings, and trending popularity herald sustained growth for the Islamic funds industry.

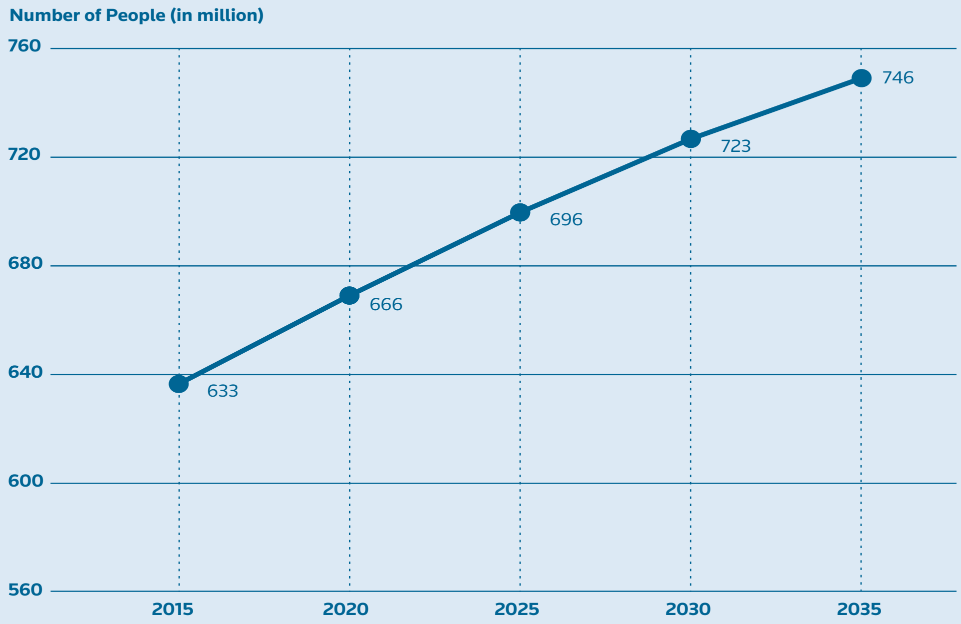
Islamic funds are perceived by some to be at a disadvantage due to the restrictions imposed by Islamic laws but they showed their resilience during the global credit crisis of 2008 and have generally been outperforming conventional funds since then.

Since 2008, the MSCI World Islamic Index, for example, has outperformed its conventional counterpart, the MSCI World Index, by 1.6%. The outperformance measures even higher in some of the ASEAN markets. The FTSE Bursa Malaysia Shariah EMAS Index, for example, has since 2008 beaten its conventional counterpart by 6.55%.

Bright prospects

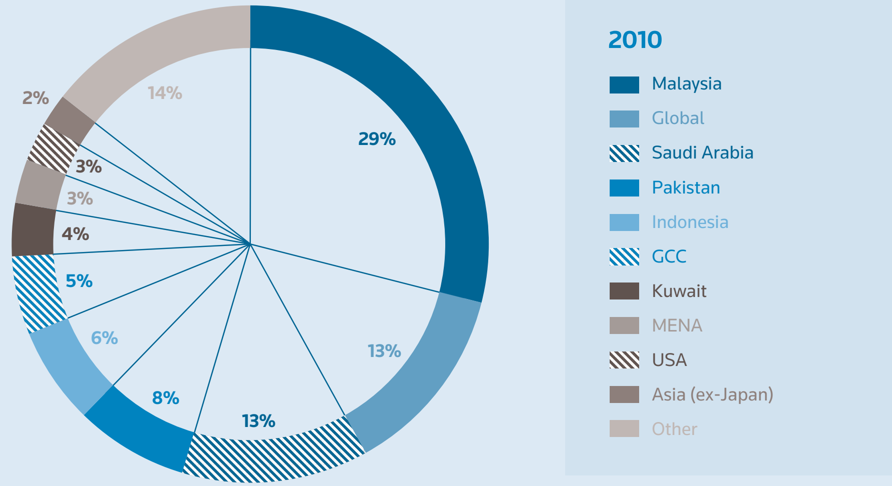
Penetration rate for Islamic funds is low in ASEAN but the region stands in a bright spot to tap anticipated Islamic fund growth. This growth is linked to the favourable demogragraphics and a rising middle class in both Malaysia and Indonesia. Malaysians and Indonesians are natural savers, either through mandated pension schemes or through hajj funds. As the younger generation moves into the work force, there will be more savers in the population; and as they move up the income ladder, they will be able to save more. In Malaysia, the example, EPF or Employees' Provident Fund, which is not Halal currently, helps allocate partial income from employees and in return they will receive pension upon retirement. However, EPF has begun shifting its investments towards Islamic and will continue this trend as more Malays enter the workforce. Tabung Haji is commonly used to facilitate savings for the pilgrimage to Mecca through investment in Shariah-compliant vehicles. Amanah Saham Bumiputera Fund provides an alternative savings vehicle for Malaysian Bumiputeras and it aims to generate long term, consistent and competitive returns for investors. Indonesia has similar EPF and Tabung Haji fund and are seeking for potentially a third fund. All of these funds have one thing in common: a large Muslim populace willing to contribute but increasingly demanding more investments in line with their beliefnfs.

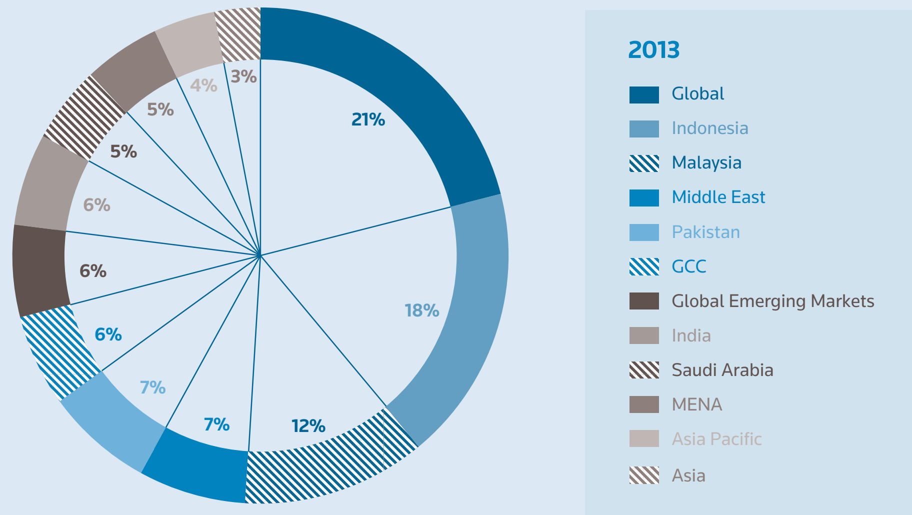
Population Forecast for ASEAN +6



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2012 Revision, http://esa.un.org/unpd/wpp/index.htm

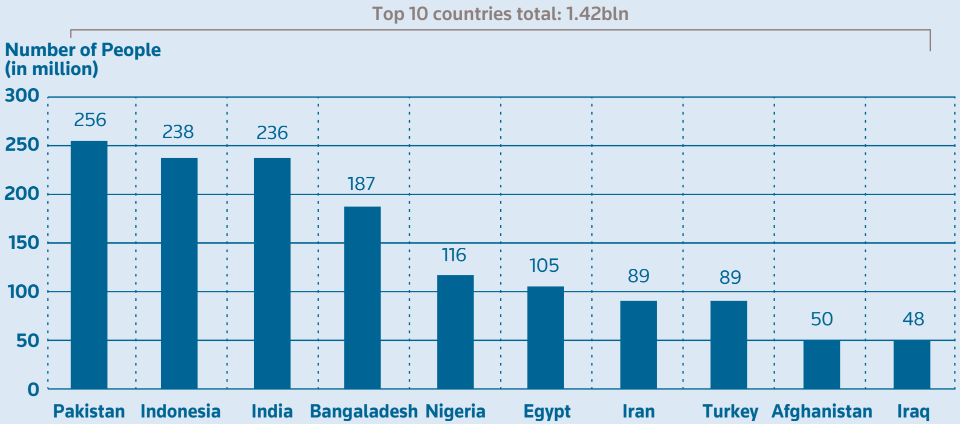
Launched Funds — Geographical Focus (2010 and 2013)





Source: Thomson Reuters Asset Management Survey 2014

Largest Muslim Population by Country: 2030



Source: Pew Research

The low penetration of Islamic funds provides room for growth opportunities. Even in Malaysia — which is known for its sound Islamic regulatory framework, well-developed Islamic market, and the largest number of Shariah-compliant funds in East Asia — Shariah-compliant unit trust funds currently only account for one sixth of all unit trust funds. The ratio is much lower in other ASEAN countries.

In 2010, 6% of newly launched Islamic funds focused on opportunities in Indonesia, rising to 18% in 2013

Cross-border potential

With ASEAN slowly moving towards regional economic integration via implementation of the ASEAN Economic Community (AEC), the unit trust industry will further liberalise, allowing a wider range of products to appeal to a broader mix of investors.

In anticipation of the AEC, Singapore, Malaysia, and Thailand have already signed an agreement, known as the ASEAN Collective Investment Scheme (CIS), to allow marketing of their licensed funds in each other's jurisdictions. The CIS significantly streamlines the retail fund marketing process, and the hope is that within the next few years other ASEAN markets will join as well. While Singapore is the leader when it comes to conventional funds, Malaysia stands to significantly benefit from its Islamic offerings. Malaysian Islamic funds can market their products to not only local Singaporeans, but also the cross-border investments made by Bruneins and Indonesians. To its north, Malaysian Islamic funds can benefit from Thailand's southern Muslim population. Currently, only one Islamic Bank exists in Thailand, and it has no meaningful presense in fund management. It is expected that Indonesia and Philippines will eventually join the ASEAN CIS, and once done, this will be another boon for the Malaysian Islamic funds, who by then, will have track records to market.

Growth of sukuk funds

In sync with the growing worldwide acceptance of Islamic equity funds, sukuk have gained popularity due to strong demand for income and capital appreciation. According to Global Islamic Asset Management, Malaysia is the leader in this arena, accounting for more than 50 percent of global sukuk assets outstanding. As of the first half of 2014, global sukuk outstanding reached US$286.4 billion[1]. Some challenges still remain:

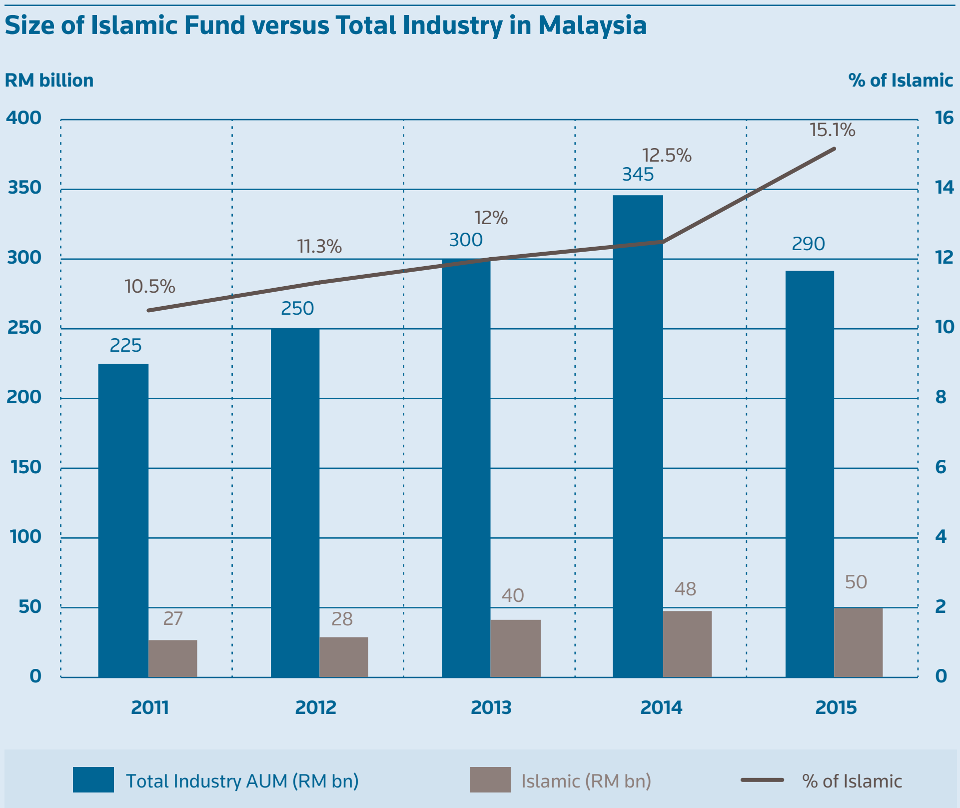
1. Malaysia's sukuk market is predominantly MYR denominated, while global investors still prefer US$ sukuk, since the two main global buyers of sukuk are Western insurance companies and GCC financial institutions
2. There is still a perception among the investors in GCC of Malaysian scholars having liberal tendencies, due to their earlier acceptence of Bai' Inah products. Malaysia has tightened their regulation with a new framework, but the perception persists.
3. Even in Malaysia, sukuk investors have been restricted to large investors because there are not economies of scale for smaller investors (retail and retail funds) to participate. In response, Malaysia and Indonesia have introduced "retail sukuk", that have lower minimums for investment that regular sukuk.

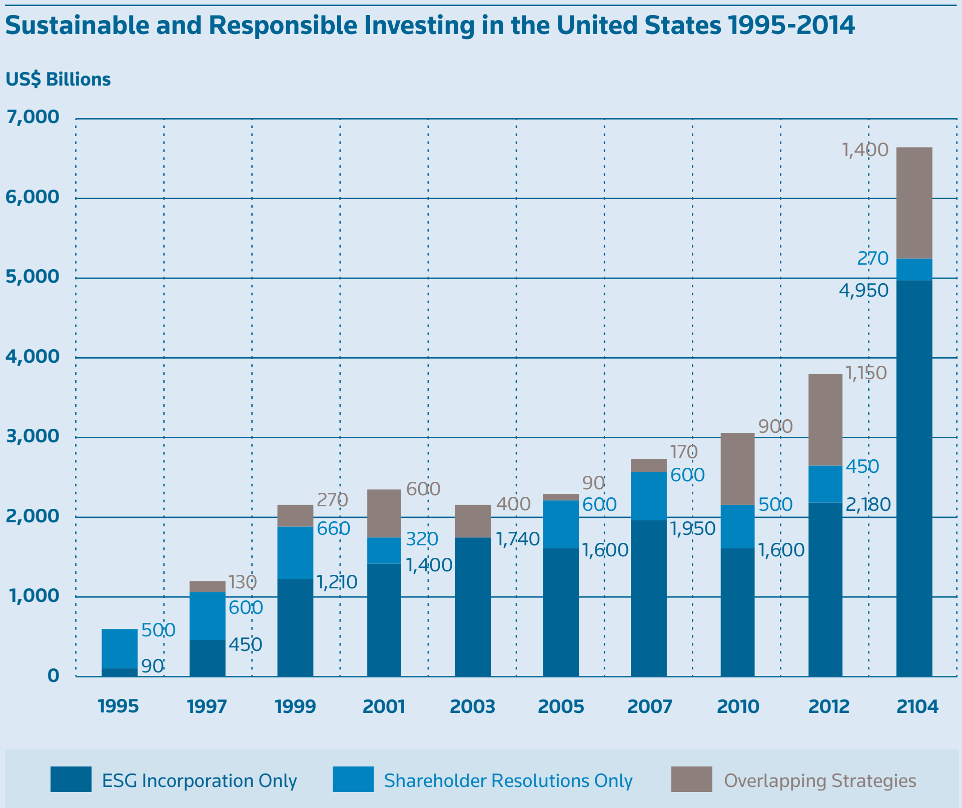
Indonesia to flourish

Indonesia, in particular, has witnessed the most significant growth in terms of Islamic fund launches driven by new infrastructure, sukuk, and Pilgrim Funds that help Muslims finance costly trips to Mecca. In 2010, 6% of newly launched Islamic funds focused on opportunities in Indonesia, rising to 18% in 2013[2]. Given the country's large Muslim population, strong GDP growth, and a planned increase in government spending, we expect to see Islamic funds targeting Indonesia to flourish moving forward. Adding to this are the pivotal roles of unit trusts and insurance companies; some have even reduced their minimum investment requirement to as low as US$4 in order to garner the masses.

1 Global Primary Sukuk Market Outperforms in 1H2014, page 5 — http://www.mifc.com/?ch=28&pg=72&ac=80&bb=uploadpdf

2 Global Islamic Asset Management Report 2014 - Page 18 http://www.zawya.com/files/islamic-reports/tr-global-islamic-asset-mgmt-report-2013.pdf





SRI investing

Another trend benefiting Islamic funds is the growth of what used to be called Socially Responsible Investing, but is beginning to be known as Sustainable Responsible Investing (SRI)[3]. From the beginning, Islamic investing has always been a component of SRI in terms of negative screening. Because Islamic fund mangers already have the processes in place to screen out investments, it will not be difficult for them to add the sustainable/positive side. In fact, one can argue that SRI is the next evolotion of Islamic Investing, combining the two injunctions in the Qur'an of "enjoining in the good" and "forbidding the evil".

Once again, seeing the natural linkages of SRI and Islamic Finance/Investing, Malaysia has come up with a framework for SRI sukuk issuances. Following on these guidelines, Malaysia's Khazanah Nasional Berhad is set to launch an green sukuk to fund education. However, even before this development, the World Bank issued a sukuk to help immunize children in underdeveloped countries. Seeing the overscription of this World Bank sukuk and then future likely success of the Khazanah sukuk, more issuances are likely, eg Australian Solar sukuk announced Feb. 15, 2015.

3 http://www.forbes.com/sites/investor/2014/04/07/sustainable-responsible-investing-can-be-profitable-heres-how/

Infrastructure projects to attract foreign capital

Last but not least, ASEAN also plays a central role in facilitating the cross-border flow of Islamic finance between Asia Pacific and the Middle East. All of the ASEAN countries need large amounts of funding for massive infrastructure projects planned in the next few years. Many of the projects will be funded internally, but funds from the Gulf Cooperation Council member countries will play a significant role as well.

Malaysia, in particular, has a well-established market infrastructure and explicit government support to become a major Islamic finance hub within the global sphere. Notable Islamic finance heavyweights such as Kuwait Finance House, Al Rajhi Bank, and OCBC Islamic Bank are positioning Malaysia as a regional platform to expand further into Asia. The entry of foreign players has expanded product offerings, opening the way for market penetration across various countries in the region.

As mentioned earlier, a key component of this cross border fund flow is the ASEAN CIS framework. Since Malaysia already has an established regulatory system in place for Islamic Finance, they have a clear advantage over Singapore and Thailand to become the gateway for funds. For those wanting an offshore location, Malaysia has also set up Lubuan as a offshore location through the Lubuan International Financial Center to facilitate.

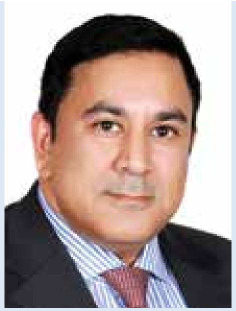
Islamic finance sees a bright future as a valuable source of flexible alternative financing for fund seekers, and the industry is likely to sustain its growth momentum through the next decade. Though much work remains to be done to build critical mass within the ASEAN region, a robust Islamic regulatory infrastructure, the evolution of Islamic finance into Sustainable Responsible Investing, and an environment of economic cooperation are laying the groundwork to reap the benefit of this growth for years to come.

"Directing Islamic wealth especially from OIC countries towards Shariah-compliant funds may be a game changer to develop Islamic Asset Management"

U.S. dollar bills are displayed in Toronto in this posed photo, March 26, 2008. REUTERS/Mark Blinch

Work on the Bahrain World Trade Centre reaches the final stages with the installation of wind turbines, which will generate electricity for the building's offices, in the Bahraini capital of Manama, March 19, 2007 REUTERS/Hamad I. Mohammed

MENA wealth management industry set to grow with widening range of investments and positive regional outlook



By **SALEEM KHOKHAR**, Executive Director, Head of Equities & Fund Management, National Bank of Abu Dhabi

The wealth management industry in the MENA region is poised to grow significantly as the investor base becomes more sophisticated and as the wealth industry becomes more institutionalised in an environment that is increasingly transparent and well-regulated.

The indigenous wealth management industry in the MENA region has significantly evolved in the last decade growing not only in size but also complexity. Strides have been made on a number of fronts including wider product offerings and a more stringent regulatory environment. The region stands tall in ranking on the basis of per capita income and the wealth management industry is evolving to cater to this status. During the previous decade oil prices and regional government spending particularly in the non-oil sector have been high and these have resulted in an accumulation of surplus wealth in the region. Private wealth in the MENA region stood at US$5.2 trillion in 2013, according to the Boston Consulting Group, and demand for wealth management products and services remains high.

Strong pillars for the MENA region include large accumulated fiscal surpluses, under leveraged balance sheets that allow scope for deficit financing, favourable demographics, low feed stock costs, no or low taxation, and pegged exchange rates.

LANDSCAPE SHIFT

The wealth management industry in the MENA region has experienced a significant shift in the competitive landscape with a growing investor base and increasing trust between investors and wealth managers. Key factors impacting the GCC wealth management landscape have been rapid economic growth and commercial diversification, a young demographic, demand for Shariah-compliant products, and changing cultural attitudes. Simultaneously investment regulations and investor protection has improved.

Today the level of disclosure by listed companies has improved significantly and it is becoming compulsory for listed companies to have investor relation departments, adding credibility and transparency to the overall institutional investment management process.

HIGH GROWTH INVESTMENT OPTIONS

Overall the region provides wealth managers with a wide spectrum of opportunities to diversify their investments whilst still generating attractive returns for investors on a risk adjusted basis.

Since early 2009, MENA markets have performed well, with monthly average value traded in the region increasing from US$40 billion to US$65 billon. This is driven mainly by Saudi Arabia (US$51 billion) followed by UAE (US$4 billion), Qatar (US$3 billion), and Kuwait (US$2 billion).

MENA markets today have an aggregate market capitalisation of US$1.2 trillion with an investable market cap of US$320 billion as measured by S&P Pan Arab MENA Mid Cap Index. MENA markets have high growth potential and strong dividend distribution history, offering a unique blend of growth and value opportunities in the equity investment space.

This growth scenario will soon welcome the opening of the Saudi stock market to direct foreign investment. Already, UAE and Qatar are part of MSCI Emerging Market Index and Saudi will likely target inclusion though 2017 would be the earliest possible date for such an event.

Additionally, the region's fixed income and sukuk offering have also grown tremendously and offer investors a stable income stream with some capital appreciation potential, and North African economies such as Egypt offer growth opportunities and an improving political environment.

The region's wealth managers have also branched out to jurisdictions like Ireland and Luxembourg with UCITS-compliant products that have attracted investors from the international community.

The region's IPO market has started to gain traction and a greater number of companies are expected to list adding further depth, liquidity and diversification beyond real estate and financials into new sectors such as healthcare and education. Recent high profile IPOs include Emaar Malls Group and NCB.

Most local banks in the region have asset management arms and there are a number of boutique wealth managers that are also present. The establishment of new independent jurisdictions like the Dubai International Financial Centre (DIFC) and the Qatar Financial Centre (QFC) has encouraged growth in the regional asset management industry with a number of international institutions setting up base in the region.

OUTLOOK POSITIVE

Looking ahead we believe MENA markets offer an attractive investment opportunity for investors. The fiscal pressure created by lower oil prices has created pockets of opportunities and various governments are taking steps to introduce reforms and improve governance.

Our take is positive on recent ministerial changes made by the new government in Saudi Arabia and we see the on-boarding of private sector personnel in key ministerial and institutional positions as a precursor to gradual reforms. These reforms could take the form of rationalisation of subsidies, tax structures and better prioritisation of projects, which in the long term will aid growth through productivity improvement, a must for GCC economies.

In addition, any move towards deficit financing would improve governance on incremental capital output ratios and accentuate focus on creating alternative revenue streams. GCC governments have rightly increased investment in regional economies in response to the oil price windfall of the last decade and with the current lower oil price governments will likely move forward with greater focus on strategic projects that will deliver economic benefit.

Our view on MENA markets remains positive and we believe episodes of short-term volatility should be used as an opportunity to build and add to fundamentally sound positions. With MENA currently trading at a PE (2015) 13.5x and PB 1.8x it offers attractive growth potential in addition to a high dividend yield.

Wealth management presents a substantial opportunity to drive growth of Islamic funds.

Global wealth growth has been driven by recovery of equity prices and healthy housing markets.

$263 trillion
Global Wealth in 2013

$52.6 trillion
HNWI Wealth in 2013

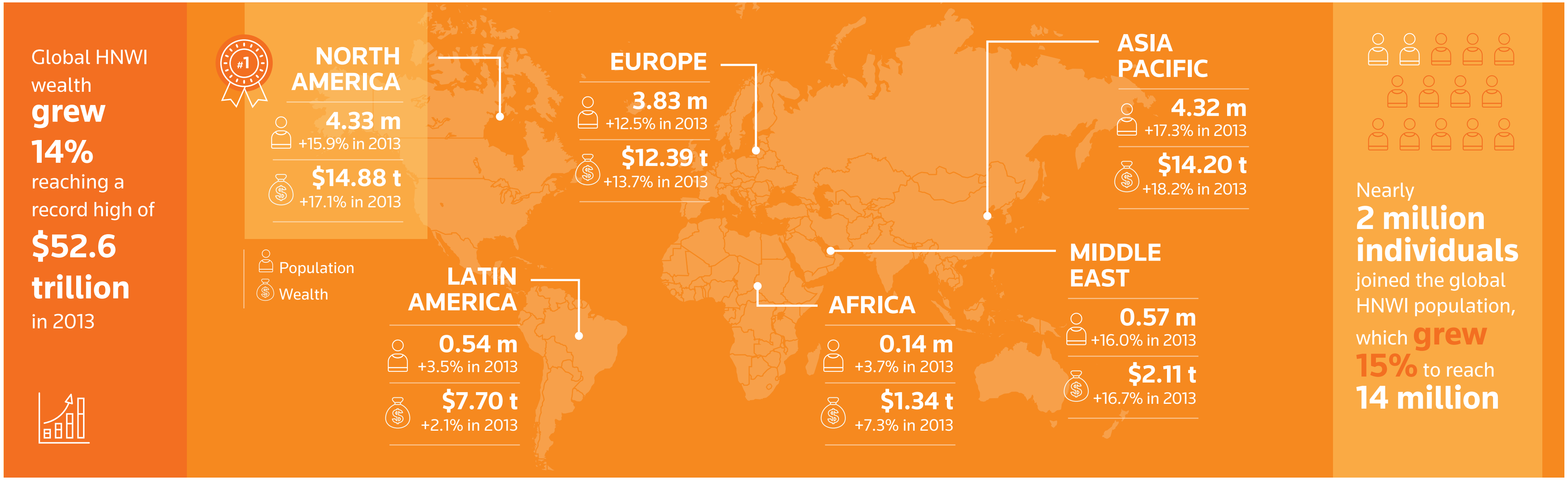
14 million
Global HNWI Population

Global wealth grew by US$20.1 trillion in 2013 to reach US$263 trillion, mostly driven by the recovery of equity prices and healthy housing markets. Globally, the wealth of high net worth Individuals grew by 14% to reach US$52.6 trillion in 2013, according to Credit Suisse Global Wealth Report 2014. Global HNWI population grew by 15% to reach 14 million individuals, with around 2 million individuals joining in 2013. The average wealth per adult also hit an all-time high of US$51,600. Switzerland tops the list for average wealth per adult totaling US$513,000, followed by Australia's US$403,000 and Norway's US$380,000.

By regions, Asia has enjoyed the highest growth rate of 18.2% amounting to US$14.2 trillion, which has made it competitive with global leader North America, which grew 17.1% and holding US$14.88 trillion in wealth in 2013. The Middle East boosts the Shariah-sensitive universe with total HNWI population of 0.57 million holding $2.11 trillion in wealth.

Global private financial wealth is expected to grow to US$198.2 trillion by 2018, with the Middle East and Africa expected to hold US$7.2 trillion, according to the Boston Consulting Group Global Wealth Market –Sizing Database 2014.

HNWI Population & Wealth



Source: World Wealth Report 2014, Capgemini and RBC Wealth Management

Islamic assets can feed into Islamic Wealth Management and Funds.

Despite the growth in Islamic wealth in Muslim countries a large proportion is redirected overseas.

It is estimated that the global Muslim population was 2.08 billion in 2014, with the majority living in the Middle East, North Africa and Southeast Asia. According to the Boston Consulting Group, Middle East and Africa private wealth increased 11.6% to US$5.2 trillion in 2013. This increase came as Middle Eastern economies bounced back, driven by floating oil prices and increased government spending on infrastructure projects. In Qatar alone (the richest nation on Earth per capita), around 18% of households hold more than $1 million in investable assets.

Islamic finance is increasingly being included in the equation of any government financial strategy be they OIC or non-OIC, especially to build infrastructure and increase private sector levels. According to the ICD Thomson Reuters Islamic Finance Development Report 2014, there are 993 Islamic financial institutions operating in around 100 countries worldwide; with approximately $1.658 trillion in Islamic assets. 73% of global Islamic assets are in Islamic banking, followed by outstanding sukuk (17%), Other Islamic financial institutions, Islamic funds, and takaful.

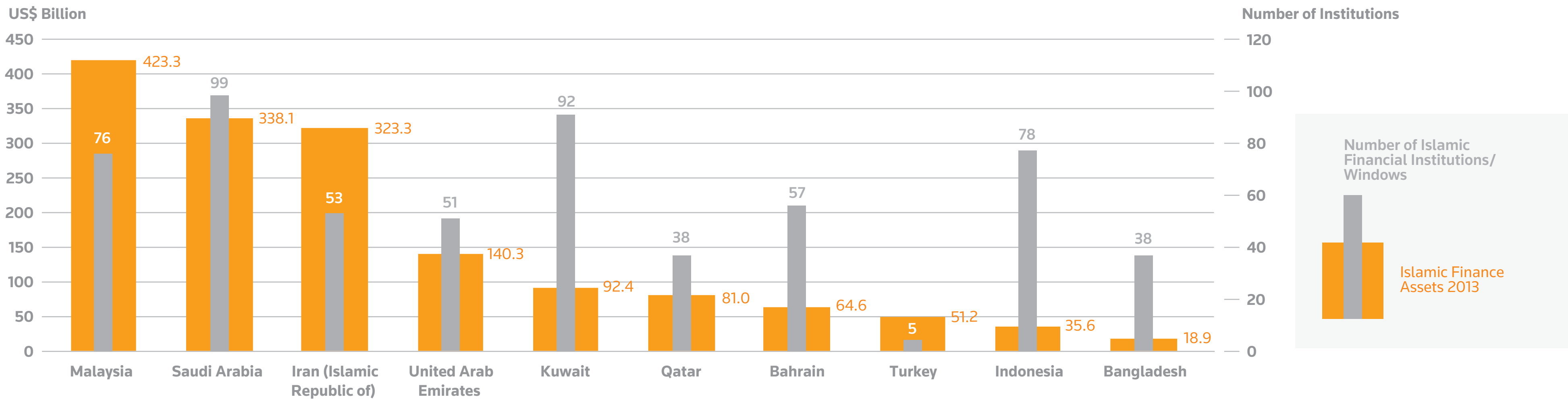
Europe led the initial drive of Islamic wealth management (IWM) via financial institutions such as BNP Paribas, UBS and Geneva-based Dar al Maal al Islami, but now other Shariah-based players have joined the market, especially in the GCC. However, IWM is still a niche market and with underdeveloped local IWM services, most Middle East investors prefer to invest overseas (70% of ME wealth is channeled abroad). However, as global stocks, bonds and real estate are expected to rally, Barclay's Private Bank Middle East has optimistically forecasted that the billions of dollars it manages for clients will witness a double-digit growth in the region, which covers both conventional and Shariah-oriented HNWIs.

11.6%
Wealth growth in Middle East & Africa

993
Number of Islamic Financial Institutions

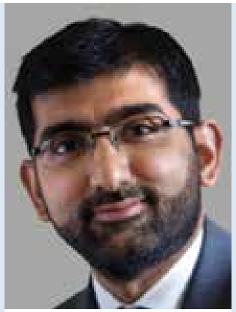
$1.658 trillion
Total Islamic Finance Assets in 2013

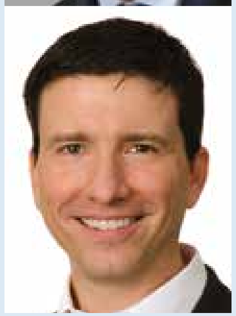
Global Islamic Finance Assets 2013 - Top 10 countries



The sun sets behind the Petronas Twin Towers in Kuala Lumpur June 26, 2006. REUTERS/Zainal Abd Halim

Crowd Capital and its Potential in Muslim Markets





By AAMIR A. REHMAN,
Managing Director,
Fajr Capital Advisors

JASON W. BEST,
Cofounder and
Principal, Crowdfund
Capital Advisors

Liew Suet Li, a young Malaysian teacher working in a rural area of Malaysia a few hundred miles south of Kuala Lumpur raised RM12,325 (nearly US$4,000) from funders across the world in early 2013. Using the Malaysian crowdfunding site pitchIN, her campaign ultimately enabled the purchase of 750 books for her students.

pitchIN is one of several crowd capital platforms in Malaysia, all established within the last few years. Others include myStartr, SocialSharity and Make the Pitch. Securities Commission Malaysia has also issued guidelines for crowd investing in February 2015. Other active markets include Indonesia (with BursaIde, Pantugan and Wujudkan), the UAE (with Aflamnah, Durise, Eureeca, Goodgate and Emerging Circle), Egypt (with Shekra and Yomken), Turkey (with Biayda and FonlaBeni) and Lebanon (with Zoomaal, and its own Capital Market Authority issuing crowd inveting guidelines in 2013). Muslim crowd capital is not limited to the Muslim world. The award-winning LaunchGood is based in the United States, while HalalFunder and the soon-to-be-launched ZakApp are based in the United Kingdom.

These are still early days for crowd capital and crowd investing in Muslim markets, but the rate at which new platforms are being launched suggests a lasting shift is underway. This shift towards crowd capital has important implications for a wide range of stakeholders, including SMEs and entrepreneurs, investors, asset managers, and governments. The potential of crowd capital in Muslim markets is beginning to show, and signals substantial opportunities ahead.

Types and examples of crowd capital platforms in Muslim markets

TYPE	CROWD GIVING	CROWDFUNDING		CROWD LENDING	CROWD INVESTING
Structure	Donation-based	Rewards-based		Debt-based	Equity-based
Examples	Goodgate	Aflamnah	Make the Pitch	Emerging Circle	Durise
	Narwi	Bursalde	MyStartr	liwwa	Eureeca
	SocialSharity	Biayda	pitchIN		Shekra
	ZakApp	FonlaBeni	Patungan		
		HalalFunder	Wujudkan		
		LaunchGood	Yomken		

Crowd investing and Islamic finance

Crowd investing and Islamic financial services are inherently compatible and mutually reinforcing.

The philosophical underpinning of the two ideas is similar. Crowd investing builds communities, encourages risk sharing, democratises wealth and channels capital to real economic activity. Islamic finance champions all four. The in-built preference for equity over debt in Islamic commercial law speaks strongly in favour of crowd investing. Screening the nature of the target business and its capital structure is required to ensure compliance, but the basic equity structure fits Islamic finance strongly. In fact, Islamic finance has a strong heritage of linking the financial economy to the real economy and ensuring that money is put to work in the production of real goods and services.

In application, too, each idea has a lot to offer the other. Islamic finance broadens the appeal of crowdfund investing in Muslim majority markets. On a like for like basis, both capital providers and capital seekers in these markets have demonstrated a preference for financial services that meet Shariah requirements. Since the prohibition of interest is the most widely known requirement, this preference is strongest in debt-based financing. Even in equity financing, however, we can expect that the most successful crowdfunding platforms will also cater to Shariah-sensitive investors and entrepreneurs.

In turn, crowd investing fills a key gap in the spectrum of Islamic financial services available today. While the Islamic financial services industry has successfully designed interest-free alternatives to debt-based financing (typically based on Islamic trade instruments), Islamic equity financing has been more elusive. Crowd investing offers a transparent, cooperative and cost effective way to do just that. In addition to independent Islamic crowd investing platforms, we may well see the next generation of Islamic financial institutions introduce elements of crowd investing to their own customers. In other financial markets in Latin America and Europe, we see large banks and financial institutions that are building and launching strategies that include crowd-based finance, and at least one GCC-based bank is already studying this possibility. These institutions are looking at crowd capital as a new business strategy and as a way to source both innovators and innovative new technology they can deploy within their enterprise.

Indeed, crowd investing offers a concrete illustration of the founding principles and highest ideals of Islamic economics and finance. Both Shekra and LaunchGood have been awarded Global Islamic Economy prizes by the Government of Dubai for their pioneering work in this area — a sign that the Islamic finance community is increasingly recognising the potential of crowd capital.

Building an ecosystem for crowd capital

Credible crowd capital platforms require more than entrepreneurs and willing investors. They also need supportive ecosystems and enabling factors, including forward-thinking regulations, effective technological solutions and cultures that can adapt to this new investment vehicle.

Key factors facilitating the development of a functioning crowd capital ecosystem include:

- a regulatory framework that leverages the transparency, speed and scale that advances in technology and the Internet can deliver to early-stage funding marketplaces;
- strong social media market penetration and Internet usage necessary to harness demographic and technology trends to drive collaboration and cultural shifts;
- a regulated marketplace that facilitates capital formation while providing prudent investor protections through education and training as well as regulation; and
- collaboration with entrepreneurial events and hubs like business plan competitions, incubators, accelerators and co-working spaces in order to create a funnel for opportunity and prudent oversight once funded.

These elements have a positive impact not only on crowd capital, but also on entrepreneurship, business innovation, capital markets, and economies overall. The benefits of building an ecosystem thus extend well beyond the direct impact of crowd capital.

Crowd investing may be useful to support existing efforts via angel networks, incubators, accelerators, co-working spaces and universities to generate innovation and entrepreneurship. It can be employed at various parts of the entrepreneurial development process. Governments, investors, universities and other multi-lateral organisations can shape policy discussions and provide education to both communities and entrepreneurs in how best to use crowd investing, what the risks and potential benefits may be, and how to integrate these efforts into larger economic development planning. The specifics of the policy proposals and crowd capital regulatory frameworks will depend on what entrepreneurship finance infrastructure currently exists, where gaps in success are occurring and how best to use innovative Islamic finance compliant financing to build the ecosystem and create jobs.

> ***"Crowd capital can be complementary to traditional capital markets in ways similar to how venture capital complements private equity and private equity complements public equity markets."***

Complementing traditional capital markets

Some observers have seen crowd capital as a competitive threat to traditional capital markets, and institutions active in traditional capital markets have not always been welcoming towards crowdfunding. Crowd capital should, however, be viewed as complementary to traditional capital markets and to participants in these markets. And with exposure to this new form of finance, traditional investors begin to embrace this new practice as largely beneficial.

The crowd capital ecosystem

ENTREPRENEURS	CROWDFUNDING PORTALS/BD's	WHITE SPACE	GLOBAL
Education services	Education services	Co-working incubator / Accelerators	Cross border money transfer
Incorporation services	Deal Flow	Investor Relations	Crowdfunding portal
Merchant services	Investor FLow	Entertainment (television, Cable)	Diaspora funnels
Accounting services	Due Diligence	Transparency / Trust Tools	Angel investor networks
Legal services	Secondary Markets	Big Data Aggregators / Analysts	
Marketing & PR services	Security	New business cases for the social web	
Due diligence	Escrow/Transfer/Title		
Investor relations	Merchant Services		
Secondary Markets	Jobs Board		

Some ways in which crowd capital is complementary to traditional capital market include:

- helping address a gap in the availability of financing for SMEs and entrepreneurs;
- preparing SMEs and entrepreneurs for future, larger-scale capital raising on both debt and equity markets;
- expanding the success of existing entrepreneurship training programmes/incubators, accelerators, university programmes, by teaching important skills regarding fundraising for a business from investors;
- encouraging investors to actively channel their savings to investments, thereby making them more familiar with investing in general; and
- providing asset managers and principal investors a pipeline of crowdfunded businesses that can become eligible for institutional investment as they mature.

Crowd capital can be complementary to traditional capital markets in ways similar to how venture capital complements private equity and private equity complements public equity markets.

Cautious optimism

While crowd capital represents a real and important opportunity, its challenges and limitations must also be recognised. As mentioned earlier, regulation is crucial to ensure that both investors and entrepreneurs are protected. Investor awareness is crucial to ensure that savers do not take excessive risk. Additionally, a functioning ecosystem — as described above — is needed for crowdfunding to have its optimal impact.

Crowd capital in Muslim markets remains highly promising. An opportunity exists for these markets to combine crowdfunding global best practice and Islamic finance traditions to create appropriate financial tools for Muslim markets. If nurtured properly, it can have a real impact in areas of key strategic importance — including access to capital, job creation, innovation, and economic diversification — across the Muslim world.

Islamic wealth management is expected to pick up speed in the Mideast, and IWM should direct capital towards Shariah-compliant funds.

As wealth is the main driver for economic growth and increase in output, demand for Islamic funds can be increased by attracting Shariah-sensitive HNWIs.

Opportunities and challenges

Digital Wealth Management

As technology advances, IWM needs to provide IT solutions to HNWIs As clients become more sophisticated, digital communication can substitute face-to-face relationships which may increase number of clients coverage and reduce travel costs

Socially Responsible Clients

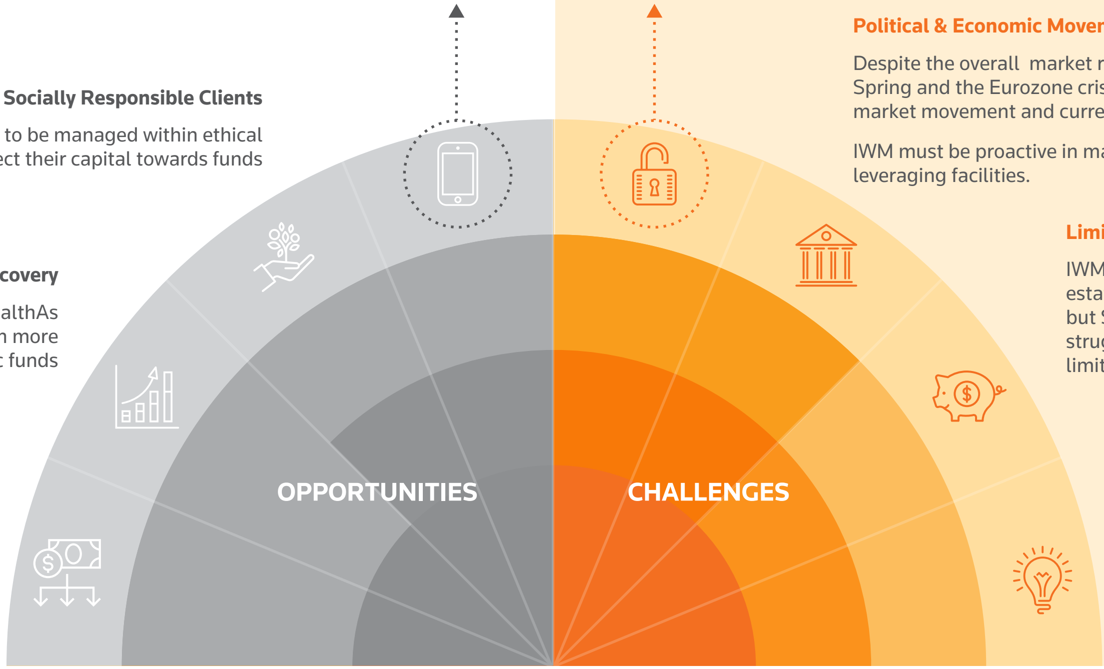
As many clients require their portfolios to be managed within ethical parameters, IWM need to redirect their capital towards funds

Rising Equities and Market Recovery

Strong equity markets lead to increased wealthAs market recovers, HNWIs demand from more returns can be directed towards Islamic funds

Growing Retail & Institutional

Demand Growing middle class empower funds sector As awareness increases, Institutional investors seek Shariah-compliant alternatives



Middle East wealth shifted overseas

Almost 70% of Middle Eastern wealth is transferred overseas
IWM need to compete with professionals overseas by providing attractive yield and a superior level of consultancy

Political & Economic Movement

Despite the overall market recovery, recent events following the Arab Spring and the Eurozone crisis, such as plunge in oil prices has led to market movement and currency fluctuations.

IWM must be proactive in managing clients portfolio despite limited leveraging facilities.

Limited products and liquidity risk

IWMs need to manage different assets from real estate to short-term money market instruments, but Shariah requirements result in IWM struggling from lack of liquidity solutions and limited product range.

Lack of talent development & market awareness

IWM is a new business and there is a lack of experienced professionals with ShariahknowledgeIWM is still a new field and the market is unaware of IWM opportunities due to limited marketing


AV.L 0.706
VOD.L 5.557
Financials -1.652
Health Care -1.178
1.178 Industrials
0.990 Energy
-0.333 Consumer Discretionary
-0.465 Utilities
-0.525 Information Technology
Chart
.FTSE
Daily
Range
Price GBP
6,700
6,650

Roadmap to building Islamic wealth: the Australian example

By TALAL YASSINE,
Managing Director,
Crescent Wealth

Someone of your age should not need to be thinking about your older pension years, right? Global pension funds have assets in excess of $27 trillion. Islamic pension funds constitute less than 1% of this figure despite Muslims representing 23% of the world's 7 billion people. The Australian compulsory pension system is the major reason for the growth in Australian Islamic wealth managers now targeting the potential market of US$20 billion in Islamic pension assets.

A new direction for Islamic finance

Five years after the financial crises, the global economic and financial system continue to operate in an environment of heightened uncertainty. World economic growth remains affected by the fragile recovery in the advanced economies and emerging economies faced bouts of destabilising financial flows due to events such as the U.S. quantitative easing taper plans and geopolitical crises.

Yet it is within this context of fragile growth and cautious optimism that the total assets of the Islamic finance industry was said to surpass US$2 trillion as of end-2014 and are likely to sustain double digit growth over the coming years to reach about US$3 trillion. Continued growth in the industry's twin engines — Malaysia and the GCC — will help the industry to continue its ongoing growth.

As Islamic finance continued to reach new heights, the expansion was complemented by trends which suggest that the industry is evolving into a deeper and more sustainable ecosystem. Key trends driving the industry include product diversification that is innovative, forward thinking and sustainable. Awareness of the industry has grown across the globe, with both Muslim and other markets taking notice, and Islamic finance has expanded into more countries in Africa, Europe and Australia.

However drilling deeper we can identify significant obstacles which the market will need to tackle in order to ensure its successful integration both internally and with the broader conventional financial space.

Building Islamic wealth will require a large boost in an essential area known as retirement savings. Indeed pensions will not only boost the national savings and broader economic outcomes of Islamic regions globally, but will also allow all Muslims to retire with dignity and with peace of mind.

Issues in maturity

Despite largely positive trends, scale continues to be a key obstacle facing the Islamic asset management industry, impacting both managers of large and smaller funds. The lack of scale continues to keep pressure on the profitability of managers.

Therefore at both levels we need to place greater emphasis on attracting institutional investment not only to survive, but to flourish. Quality service, track record, and competitive performance are just the tip of the iceberg.

Asset managers of larger funds still dominate the Shariah-compliant space meaning that the same types of structures and mandates are launched, leading to a lack of diversification. Market concentration is the result here, but flows remaining with established names and with little differentiation. This is despite the market demanding more sophisticated products and greater product ranges.

Crucial is the establishment of innovative product ranges which should perhaps be a fundamental element of Islamic finance more broadly.

Innovative product development and global diversification strategies are essential. As most Islamic financial institutions are relatively small and their operations are concentrated in one or two geographies, their portfolio of course becomes riskier as they are very dependent of the political, social and economic conditions of those geographies. Expanding their operations geographically would allow financial institutions to moderate the risk of their business and also acquire more know-how from other markets.

> ***"In developed markets, pension assets represent well over 100% of GDP, while those in the GCC represent a mere 5% of GDP."***

This is where pension funds fit in. The industry needs to encourage not only the creation of more pension funds, but the establishment of pensions funds as key investors. This is if the industry is to achieve profitability similar to the conventional funds industry. It is within this context that we look to pension funds to take the Islamic finance industry to the next level.

Pension funds the essential solution

One of the main economic challenges faced by most governments is the ageing population, which is accompanied by the longevity risk as life expectancies increase rapidly around the Muslim world. We expect to see an established increase in this risk by 2030 and yet the pension industry is less developed to meet the challenges of sustaining the aged population.

In developed markets, pension assets represent well over 100% of GDP, while those in the GCC represent a mere 5% of GDP.

There clearly lies a missed opportunity in that, globally, Islamic pension funds constitute less than 1% of pension assets. For instance, the top 300 pension funds in the world manage US$14.9 trillion but include only three funds from the OIC region, which between them manage just US$2.69 billion.

Pension funds are fundamental to the Muslim world itself, and Islamic pension funds have, to great surprise, been a missing part of the equation. Some countries such as Saudi Arabia, Malaysia, Indonesia, and Bahrain have pension funds that have diversified investment portfolios to include Shariah-compliant products. However this is not enough, as there is a major need for the large portfolios of pension funds to challenge this market gap, and help Muslims who deserve to retire in a dignified and respectful manner.

The Australian model

Australia presents a fantastic example of how a pension system can benefit an entire economy.

Here the pension industry is sized at almost US$2 trillion, almost the same size as the entire Islamic finance industry. As the world's fourth largest pension market, the findings illustrate clearly the size and long-term growth of Australia's superannuation system, which is a major driver behind the country's rapidly expanding, globally significant funds management industry.

Australia fights way above its weight in this aspect and benefit greatly. Pensions add more than 2% to Australia's annual GDP from fees revenue alone. It is actually estimated that an allocation of 20% of pension assets in the GCC would pump US$36 billion into the fund sector.

Robust and efficient pension schemes are an indicator of developed economies and financial markets, and that is why these economies commit to policies which improve such outcomes. Yet the benefits go further through a multiplier effect as we see in Australia, to the point where they allow for the innovation which allowed a dormant Islamic finance industry to flourish.

Unlike many other emerging Islamic economies, the foundations of the Australian Islamic finance industry were born when the Australian government launched the compulsory pension system (known as superannuation) in 1992. This aimed to boost national savings and combat the effects of an ageing population as part of a major reform package.

To ensure Australians have adequate funds at retirement, employers are currently legally mandated to contribute 9.5% of employee salary into a retirement fund chosen by the employee. Nationwide the Australian pension system now has a total pension savings of US$1.9 trillion, with the industry contributing more than 2% to annual GDP from fees revenue alone and now ranks as the fourth-largest pension fund industry in the world.

This has been a major reason for the growth in Australian Islamic wealth managers now targeting the potential market of US$20 billion in Islamic pension assets, based on the fact that there are over 500,000 Muslims in Australia who are required to use this system. This is a relatively small number in terms of population, which however grows in significance when total retirement saving assets are considered.

Indeed, there has been a flood of major global pension funds targeting the US$656 billion available in Australian commercial property assets as well as infrastructure across the country. Such investors gain high quality returns while the nation has flourished with capital now working to develop office, retail, industrial and social infrastructure assets. Indeed they provide crucial access to the vast liquidity of sovereigns as well as institutional investors.

Including pension funds as a central element of the Islamic funds management business model would be a favourable step forward for the industry as a whole. The outstanding success of pension models around the world should send a message to the undecided. Huge pension fund assets have allowed for further investment in all asset classes, from real estate to infrastructure, contributing to excellent improvements in human development.

Looking ahead, Australia's GDP growth is expected to improve to 3.8% by 2015 and to average at 4.1% between 2016 and 2019.

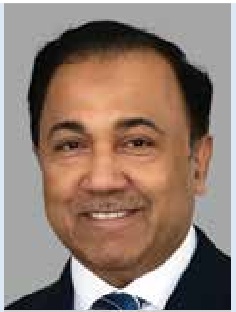
Are Muslims retiring in dignity and honour?

We hope that for Islamic finance, growth will be underpinned by robust domestic demand and a concerted effort to provide sophisticated and essential products which attract savings and ensure Muslims around the world are able to retire with dignity and with peace of mind.

Sydney, Australia - May 16, 2014: The Sydney Opera House with Harbour bridge in Sydney Australia, Designed by Danish architect Jorn Utzon . siwawut / Shutterstock.com

A labourer jumps between frames at a construction site in Haikou, south China's Hainan province November 27, 2006. China must step up efforts to combat a raft of economic woes if it is to achieve balanced growth and steer clear of a new rash of bad loans, the official Economic Daily said in an editorial on Monday. Echoing similar comments by Chinese leaders in recent months, the newspaper said recent efforts to rein in the economy had yielded some fruit, but problems such as excessively rapid credit and investment growth, and a bulging trade surplus, remained. REUTERS/Vito Lee

Private equity as a catalyst for the development of Islamic finance and the Muslim world



By **IQBAL KHAN,**
Chief Executive Officer, Fajr Capital

NOMAN TAHIR,
Business Development Director, Fajr Capital

Speaking at a Mansion House reception hosted by Fajr Capital and the Oxford Centre for Islamic Studies in February 2015, Tan Sri Dato' Azman bin Hj. Mokhtar, Managing Director of the Government of Malaysia's strategic investment fund, Khazanah Nasional Berhad, issued a call to action by stating: "Islamic finance is not part of the problem, but it is also not yet part of the solution." Tan Sri Azman's words provide a timely reminder of the current state of play for the Islamic finance industry — which has made significant progress since the early 1970s, but still has the whole of its future yet to be achieved.

While the economic instability over the last six years has cast a dark shadow on the conventional financial system, the Islamic finance industry has continued to grow at an exponential pace — with total assets expected to have surpassed $2 trillion in 2014 and steady expansion beyond core markets. Islamic finance's remarkable growth story has seen the industry achieve great success in recent decades and gain plaudits from global influencers such as Prime Minister David Cameron, IMF Managing Director Christine Lagarde, and the renowned American investor, Howard Marks, who paid tribute to the ethical values of Islamic finance at the House of Commons, UK Parliament in 2013.

The industry must, however, continue to innovate in today's dynamic world and have a solutions-orientated approach to business design and regulatory challenges for key growth opportunities — such as asset management, takaful, waqf, zakat and private equity — in order to create a demonstration effect across the Muslim world and beyond.

Private equity, for example, as an asset class in the Islamic finance industry is relatively new and, on a global scale, still very small. However, Islamic private equity activity is set to flourish over the coming years, particularly within key GCC and ASEAN markets, where business and investor confidence is buoyant and major economies remain robust. There are indeed close synergies between private equity investment and the principles of Islamic finance. Private equity investors take active equity stakes in growth businesses; seek to create enduring strategic, financial, and operational value; and share the ultimate financial rewards with fellow shareholders and management teams. In doing so, private equity brings together the twin instruments of risk sharing — mudarabah and musharakah — which are the essence of Islamic finance.

We at Fajr Capital have invested growth capital in promising companies operating across a range of strategic, demographic-driven sectors, such as Islamic financial services, infrastructure, education, manufacturing and renewable energy, among others. Together with our portfolio companies, Fajr Capital today employs over 15,000 people across the Organisation of Islamic Cooperation (OIC) countries — including operations in: Algeria, Bahrain, Brunei Darussalam, Egypt, Indonesia, Malaysia, Oman, Qatar, Saudi Arabia, Turkmenistan, and United Arab Emirates.

One of the core hallmarks of successful private equity investors is the ability to structure, nurture and drive value creation. Effective investment strategies focus on creating enduring value not only for investors or shareholders, but also the communities which the company serves. Fajr Capital's commitment to Islamic principles of ethics, fairness, and transparency has played a pivotal role in shaping our investment and value creation decisions and can serve as best practices for other Islamic institutional investors:

1. Values-based approach to financial services

Wider grassroots access to financial services is imperative for the future development of the OIC region. Islamic investment institutions should be committed to advancing a values-based approach to financial services and promoting Islamic finance as a pioneering model for financial inclusion and discipline. Fajr Capital's inaugural investment, for instance, was in Bank Islam Brunei Darussalam, Brunei's largest bank and flagship Islamic financial institution, which recently supported the World Bank to successfully launch IFFIm's US$500 million sukuk to finance projects for the Global Alliance for Vaccines and Immunisation.

2. Institutionalising social responsibility

Most companies, especially in the Muslim world, continue to implement sporadic corporate social responsibility initiatives without concrete goals or objectives. Corporate philanthropy provides an opportunity to redefine a company's overall strategic purpose, as well as increasing blessings and goodwill at both an individual and institutional level. Islamic investment institutions should commit a specific portion of their profits — over and above zakat — to their corporate foundations. We at Fajr Capital also assist our portfolio companies with developing clear CSR policies, which creates a renewed focus across the Group towards making a positive social impact.

3. Strengthening corporate governance

Strong corporate governance provides the mechanism with which the values, vision and mission of companies become institutionalised into strategic decision-making. We believe that long-term success derives from not only abiding by the highest standards of corporate governance, but also through the principle of "Shura" (consultation) with the Board of Directors, Shariah Supervisory Boards, Board Committees, and Management Forums to make informed decisions.

4. Incentivising management teams

Investment strategies should focus on investing into partnerships, into values, and into a vision for the future. Islamic investment institutions should therefore invest substantial time and resources into developing mudarabah-based long-term incentive plans that provide management teams with an ownership interest in the company and empower them to build sustainable and lasting value.

5. Developing human capital

Every public and private sector institution in the Muslim world should be focused on developing knowledge and human capital. Islam's first divine message was "read", but in some OIC countries more than half the adult population is illiterate. True long-term success therefore lies in the democratisation of knowledge — not only investing into schools and education, but also nurturing talent through employment opportunities, skills development programmes, and academic engagement.

In its essence, Islamic investment is about serving communities, not markets. The industry has made significant progress over the last decade, particularly in terms of the diversity of institutions, products and services. But we must now separate the "basic banking" from "financial intermediation" and position Islamic finance within a socially responsible framework focused on savings and real economy investments. Fundamentally, we must create the framework for an ethically enhanced Glass-Stiegel Act which reintroduces narrow banking with clear segregation between the payment system and financial intermediation.

Asset management in the real economy, for example venture capital and private equity, is emerging as a potent catalyst for the future development of both the Islamic financial services industry and the wider Muslim world. Supporting these growth sectors will be crucial to ensuring wider access and reach for Islamic finance and fortifying the industry's foundations to further democratise wealth. These much-needed reforms will take time, but must be implemented in a phased manner to bring stability and sustainability to our economies.

A worker's son plays in a salt pan near Bhavnagar, in the western Indian state of Gujarat March 5, 2009. REUTERS/Arko Datta

SURVEY METHODOLOGY

Competitors climb nets during the Tough Guy event in Perton, central England, January 30, 2011. REUTERS/Nigel Roddis

Global Islamic Asset Management Methodology

Population and Sampling

The Global Islamic Asset Management Survey 2015 consists of two separate samples: issuers/promoters and investors/traders.

ISSUERS

In collating the population of issuers, level of activity in the Islamic funds market and number of Islamic funds launched were the major consideration. A total population of 59 issuers was targeted based on Thomson Reuters data.

INVESTORS

In determining the target population of investors their level of activity in terms of investing and trading was considered. We chose investors across the full spectrum of sectors, with activity in Islamic funds industry within the last two years. A target population of 43 investment firms and investor representatives was extracted from our Thomson Reuters data.

The response rates for both issuers and investors are sufficiently significant for this exercise.

We believe that the respondents' perceptions and forecasts about Islamic funds have provided an indicative and representative cross sample of the Islamic funds industry as a whole.

Data Collection and Survey Period

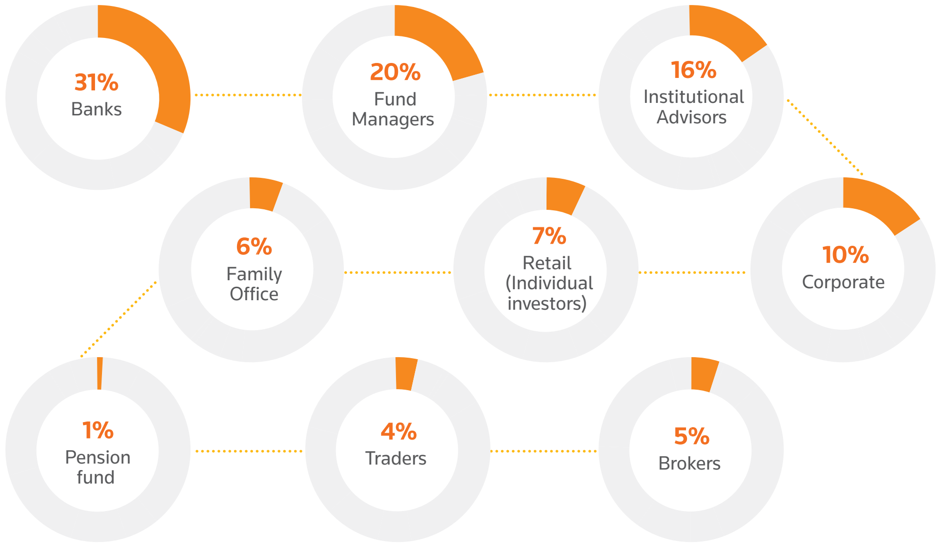
The participants were first contacted via telephone to request their participation in the survey prior to sending invitations via email. Email invitations for the survey were sent on Feb 25, 2015 and reminders were sent to non-respondents on Mar 11, 2015. The survey was closed at 1600 GMT on Mar 16, 2015.

Survey Questions

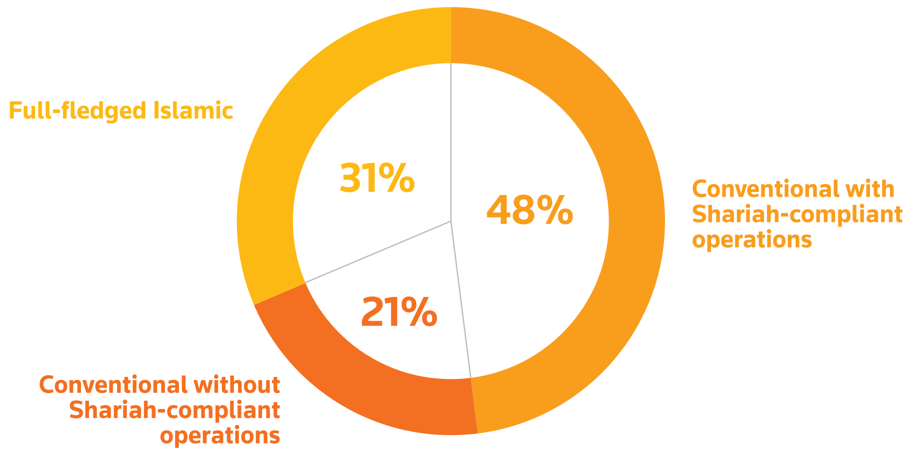
Three types of questions were presented to the target population — multiple choice questions, ranking questions, and open-ended questions.

For ranking questions, the data was analyzed such that eight points were awarded to the first choice, seven points to the second, six points to the third and so on. The weighted average results are represented in the charts.

Sector Distribution



Type of Institutions



ACKNOWLEDGEMENT

A group of joggers run across the Humber Bay Arch Bridge during extreme cold temperatures in Toronto, February 16, 2015. REUTERS/Mark Blinch

CONTRIBUTORS

Thomson Reuters and authors of the Global Islamic Asset management report gratefully acknowledge the contribution of the following experts and thought leaders for their contribution to this research:

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Aamir Abdul Rehman is a Managing Director at Fajr Capital, a private equity investment and advisory firm focused on key markets in the Middle East, South East Asia, and Turkey. Fajr Capital's shareholders include Khazanah Nasional Berhad, the Government of Brunei Darussalam, the Abu Dhabi Investment Council, MASIC (Saudi Arabia), and other leading private investors. Mr. Rehman leads the Group's arrangement and advisory businesses, advising governments, multi-lateral bodies, and private investors on matters pertaining to public policy, investment flows, and Islamic finance. He is author of the books Dubai & Co.: Global Strategies for Doing Business in the Gulf States and Gulf Capital & Islamic Finance: The Rise of the New Global Players. Prior to joining Fajr Capital, Mr. Rehman was Global Head of Strategy at HSBC Amanah, before which he was a consultant with the Boston Consulting Group. He holds bachelor's and master's degrees from Harvard University, and an MBA from the Harvard Business School.

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Director, ZICO Shariah Advisory Services Sdn. Bhd
Partner, Zaid Ibrahim & Co.

Aida Othman is a director with ZICO Shariah Advisory Services Sdn. Bhd. and a partner at Zaid Ibrahim & Co., Kuala Lumpur. She specializes in Islamic finance and has advised on wide-ranging matters in Islamic banking, Islamic capital market and takaful. She advises on products, services and operations of Islamic financial institutions (including on Shariah compliance and governance, Shariah review and Shariah audit), the legal and regulatory framework for Islamic finance and Islamic wealth management. Aida has a PhD in Comparative Law & Middle Eastern Studies from Harvard University, an LL.M from Cambridge University and law degrees from the International Islamic University, Malaysia.

Andreas Feiner
Head of Values Based Research and Advisory, Arabesque Partners

Andreas Feiner is a founding Partner of Arabesque, having previously held senior positions at Barclays. He is responsible for Arabesque's Sustainability Process, which is the basis for all of Arabesque's flagship products and Bespoke Solutions.

Andreas is co-author of the report 'From the Stockholder to the Stakeholder', a meta-study compiled with the University of Oxford identifying how sustainability can lead to financial outperformance.

Bashar Qasem
President and CEO, Azzad Asset Management

Bashar Qasem is the founder and CEO of US-based Azzad Asset Management, established in 1997. Mr. Qasem is one of the leaders and foremost experts on Islamic finance and socially responsible investing in the United States. Azzad Asset Management is investment advisor to the Azzad Funds. Mr. Qasem has served as the Azzad Funds chairman since its inception.

Coverage of both Mr. Qasem and the Azzad Funds has appeared in the New York Times, Wall Street Journal, Washington Post, Reuters, Chicago Tribune, CBS News, Voice of America and numerous other media outlets. Mr. Qasem holds the designation of Certified Shariah Auditor & Adviser (C.S.A.A.) from the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain and holds investment advisory license series 65.

Hasan AlJabri

Chief Executive Officer, SEDCO Capital

Hasan AlJabri has been a major player in investment banking and corporate finance in the MENA region for over 30 years holding leading positions in two of the region's most influential financial institutions: NCB Group and SAMBA. His achievements have driven these institutions to become leaders in corporate finance, corporate banking and investment management. He currently leads SEDCO Capital that manage and advise on investments both locally and internationally in different asset classes including private equity, public equity and global real-estate whilst ensuring that all these investments comply with the challenging Shari'a guidelines, spear heading the way into ethical investment solutions. He also sits on the boards of a diverse group of industries including FMCG, building materials, catering and finance.

He is a BSC graduate of the American University of Beirut and an Executive Management Program graduate of Columbia University.

Iqbal Khan

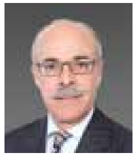
Chief Executive Officer, Fajr Capital

Iqbal Khan is the Chief Executive Officer of Fajr Capital. He is also a member of the Board of Directors of Bank Islam Brunei Darussalam, Jadwa Investment, MENA Infrastructure and National Petroleum Services. Previously, he was the founding CEO of HSBC Amanah, the global Islamic financial services division of the HSBC Group. Mr Khan is a long-time advocate of the Islamic financial services industry, serving as an advisor to government initiatives in Brunei Darussalam, Malaysia, Saudi Arabia, Singapore, United Arab Emirates and the United Kingdom. He is the 2012 recipient of The Royal Award of Islamic Finance by HM the King of Malaysia, and was recognized for his "Outstanding Contribution to Islamic Finance" by Euromoney in 2006.

Jason W. Best

Cofounder & Principal, Crowdfund Capital Advisors

Jason W. Best is cofounder and principal at the Florida-based Crowdfund Capital Advisors, which works with policy makers, institutional/professional investors and entrepreneurs on building policy and investing in the ecosystem of crowdfunding globally. Forbes.com has ranked Best as one of the ten most influential people in crowdfunding. He is an architect of the crowdfunding language in the 2012 US Jumpstart Our Business Startups Act, a published author, and entrepreneur-in-residence at the University of California Berkeley. He can be reached at jason@theccagroup.com.



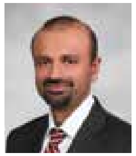
Luc Métivier

Chief Executive Officer, TAKAUD

Mr. Luc Métivier is TAKAUD's Chief Executive Officer and is responsible for building TAKAUD into a world class, best of breed provider of long term savings and private pension products that address the needs of the MENA region's citizens and residents. Consolidating upon the successes of the Company since its operational launch in 2013, Mr. Métivier will oversee TAKAUD's on-going growth across all retail, corporate and alliance product lines, and will manage its ambitious expansion plans across the MENA region, whilst leveraging off the Company's comprehensive distribution network which encompasses both proprietary and proprietary channels.

Mr. Métivier has 26 years of regional and international business experience within the financial services industry. He has a proven track record of growing sector businesses in Europe, South East Asia and the Middle East, supported by an in-depth knowledge of risk management from a financial, operational, and insurance /reinsurance perspectives.

His previous roles included Group CEO at ACR Re Takaful, a subsidiary of Asia's leading reinsurance entity Asia Capital reinsurance, CEO of AXA Insurance in Egypt, CEO of Methaq Takaful in Dubai and General Manager for the Gulf Countries at American Life Insurance Company. Mr. Métivier has also held the position of CEO at Allianz Saudi Fransi, in addition to General Manager positions at Allianz Life Egypt and Allianz Life Luxembourg.



Monem Salam
Director, Saturna Capital
President, Saturna Sdn. Bhd.

Monem Salam is a director at Saturna Capital and president of Saturna Sdn. Bhd., Saturna Capital's wholly-owned Malaysian subsidiary. He received his degrees from the University of Texas: BA (Austin) and MBA (Dallas).

He worked as the chief investment officer for ITG & Associates (Dallas) until 1999; then as a representative with Morgan Stanley (suburban Dallas) until joining Saturna Capital in June 2003. He served as the director of Islamic investing and deputy portfolio manager to the Amana Mutual Funds Trust until moving to Kuala Lumpur in 2012 to oversee Saturna Sdn. Bhd.Monem speaks at Islamic finance/investment conferences worldwide and he is co-author of "A Muslim's Guide to Investing and Personal Finance".

Natalia Tamirisa
Chief of the Regional Studies — Middle East and Central Asia Department, IMF

Natalia Tamirisa is the Chief of the Regional Studies in the IMF's Middle East and Central Asia Department. During her nearly twenty year career at the IMF, she has worked on a broad range of topics in economic policy and a diverse set of advanced, emerging and low income countries. Her research interests include macroeconomic forecasting, the economics of international capital flows, and countries' vulnerability to economic and financial crises. She holds a Ph.D. in economics from the University of Hawaii, United States, and M.S. in economics and management from the State University of Aerospace Technology, Russia.

Noman Tahir
Business Development Director, Fajr Capital

Noman Tahir oversees business development and marketing at Fajr Capital, a sovereign-backed private equity investment firm focused on high-growth Organisation of Islamic Cooperation (OIC) markets. Prior to Fajr Capital, Noman was responsible for structuring, nurturing and executing Al Jazeera Network's international and media relations strategy in key growth markets, including: the United States, United Kingdom, Turkey and India. Noman graduated from the University of Glasgow with a MA (Hons) in Economics, and is an Alumnus of the U.S. Department of State's prestigious International Visitor Leadership Programme. He is also recognised as a "Global Shaper" by the World Economic Forum.

Omar Selim
Chief Executive Officer, Arabesque Partners

Omar Selim is the founder of Arabesque and is its Chief Executive Officer. Omar has 20 years of experience in international banking, having held senior positions at UBS, Morgan Stanley and Credit Suisse. He joined Barclays in 2004, where he was responsible for a multi-billion revenue budget and over a thousand staff.

In 2012, he initiated a values-based asset management project at Barclays, originating the concept and developing it into Arabesque.

Saleem Khokhar
Head of Fund Management and Equities, NBAD Global Asset Management

Saleem Khokhar is the Head of Fund Management and Equities for NBAD Global Asset Management (GAM). Saleem and his team are responsible for managing NBAD GAM mutual funds and discretionary portfolios for SWFs, institutional clients and HNWI. Saleem has over 22 years of experience in the Asset Management Industry. Prior to joining NBAD, he was the Head of Asset Management Group at EFG-Hermes KSA. He also worked in Saudi telecom Company (Riyadh, KSA) in International Mergers & Acquisitions. He was also a Fund Manager with Abu Dhabi Investment Authority. He also served as a Fund Manager with Mitsubishi UFJ (London) for over 9 years. Mr. Khokhar holds a BSc (Hons), ACA, AIIMR.

Sandeep Sigh
Country Head — Malaysia, Franklin Templeton Investments, Malaysia

Sandeep Singh is the country head of Malaysia responsible for executing Franklin Templeton's business strategy and oversees the sales and marketing of all Franklin Templeton products (conventional & Shariah) in Malaysia.

Mr. Singh joined Franklin Templeton Investments in 1998 as the regional sales manager of Franklin Templeton Asset Management (India) Private Limited in Kolkata, India. Prior to his current appointment, he was the senior vice president and national sales director based in Mumbai, responsible for managing both retail and institutional business spread across 33 offices in India. Mr. Singh worked as senior manager — Marketing with Cholamandalam Cazenove AMC Ltd in Chennai, India prior to joining Franklin Templeton. With over 18 years of experience in the asset management industry, Mr. Singh has a proven track-record of working in a start-up environment.

Mr. Singh graduated with a bachelor of engineering (mechanical) from the Punjab Engineering College in Chandigarh, India, and holds an M.B.A. from The University of Western Australia, Perth, Australia. He is also a Certified Financial Planner.

Shariq Nisar
Director, Taqwaa Advisory and Shariah Investment Solutions (TASIS)

Shariq Nisar is the Director of Taqwaa Advisory and Shariah Investment Solutions (TASIS). He holds a doctorate in Economics from Aligarh Muslim University. In his professional life spanning more than a decade he has been the most prominent face of the Islamic Finance industry in India. He played a key role in the launch of BSE TASIS Shariah 50 Index which received worldwide acclaim. In 2013 he was appointed Senior Visiting Fellow at Harvard Law School. He is also closely associated with academic activities as a teacher, researcher and author.

Talal Yassine
Managing Director, Crescent Wealth

Talal Yassine is the Managing Director of Crescent Wealth, the Australian Islamic wealth manager which launched the world's first private Islamic pension fund.

An experienced banker and director, Talal currently serves as a Non-Executive Director on the Board of Australia Post, and the Whitlam Institute among others. He is also Chairman of the Australian Department of Foreign Affairs Council of Australia-Arab Relations.

In 2012, Talal was appointed as a Professor in the Crawford School of Public Policy, at the Australian National University and was also recently appointed as an Adjunct Professor within the University of Western Sydney School of Business.advisory license series 65.

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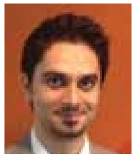

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