



Islamic Funds – Market dynamics & Opportunities

By Dr. Pierre Weimerskirch

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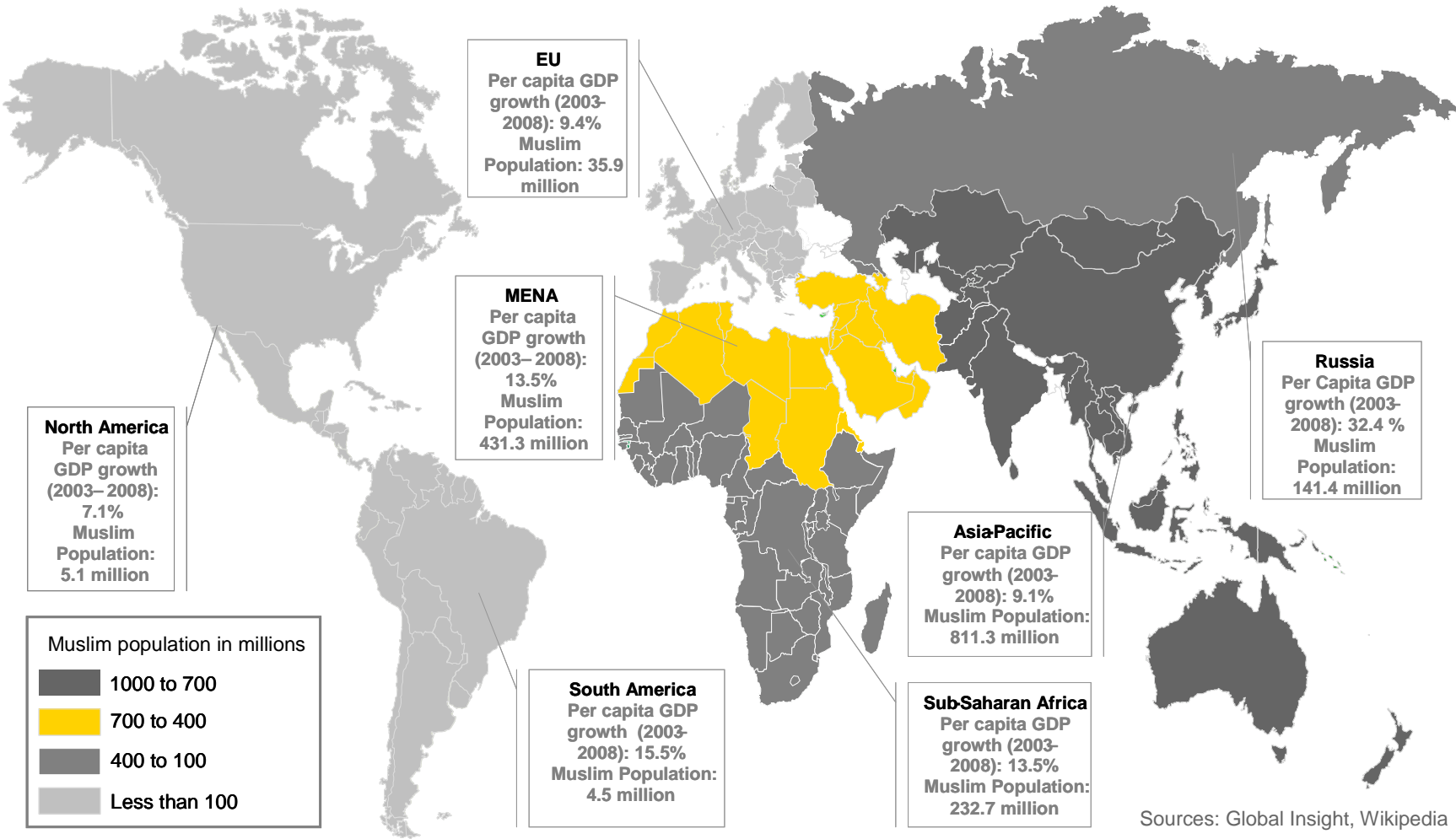
European Forum of Islamic Finance

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- ▶ Investor segmentation
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- ▶ Potential asset management revenue pool
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- ▶ Conclusions

Islamic funds landscape

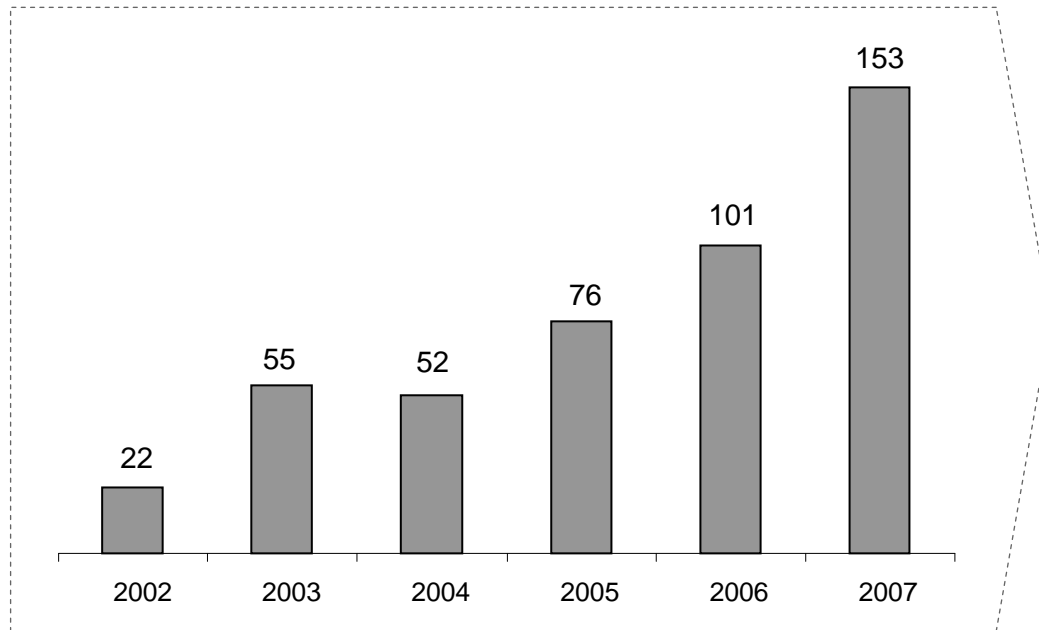
Success factors: wealth & Muslim population



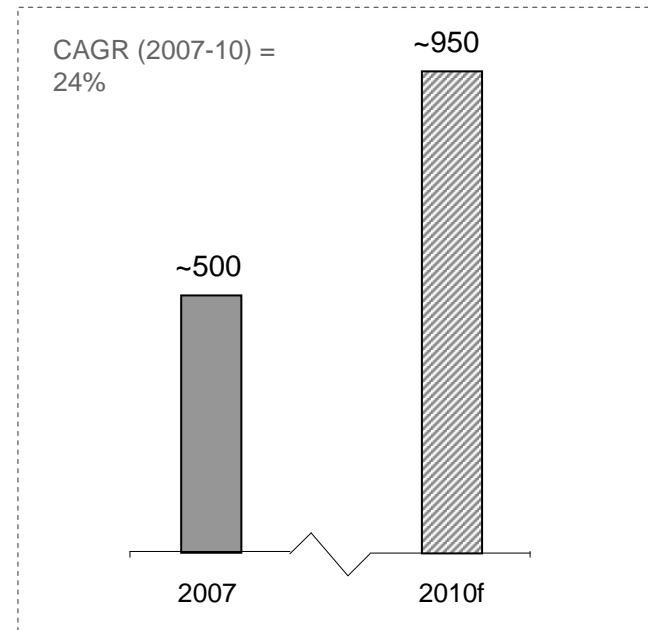
Islamic funds landscape

Continued strong growth trend

Number of Incepted Shari'a Compliant Funds Per Year



Total Number of Shari'a Compliant Funds



- ▶ At the end of Q1 2008, there were over 500 Shari'a compliant funds in the world
- ▶ New fund issuance has increased significantly with 153 funds established in 2007 alone
- ▶ The total Islamic funds universe could easily reach 1,000 funds by 2010

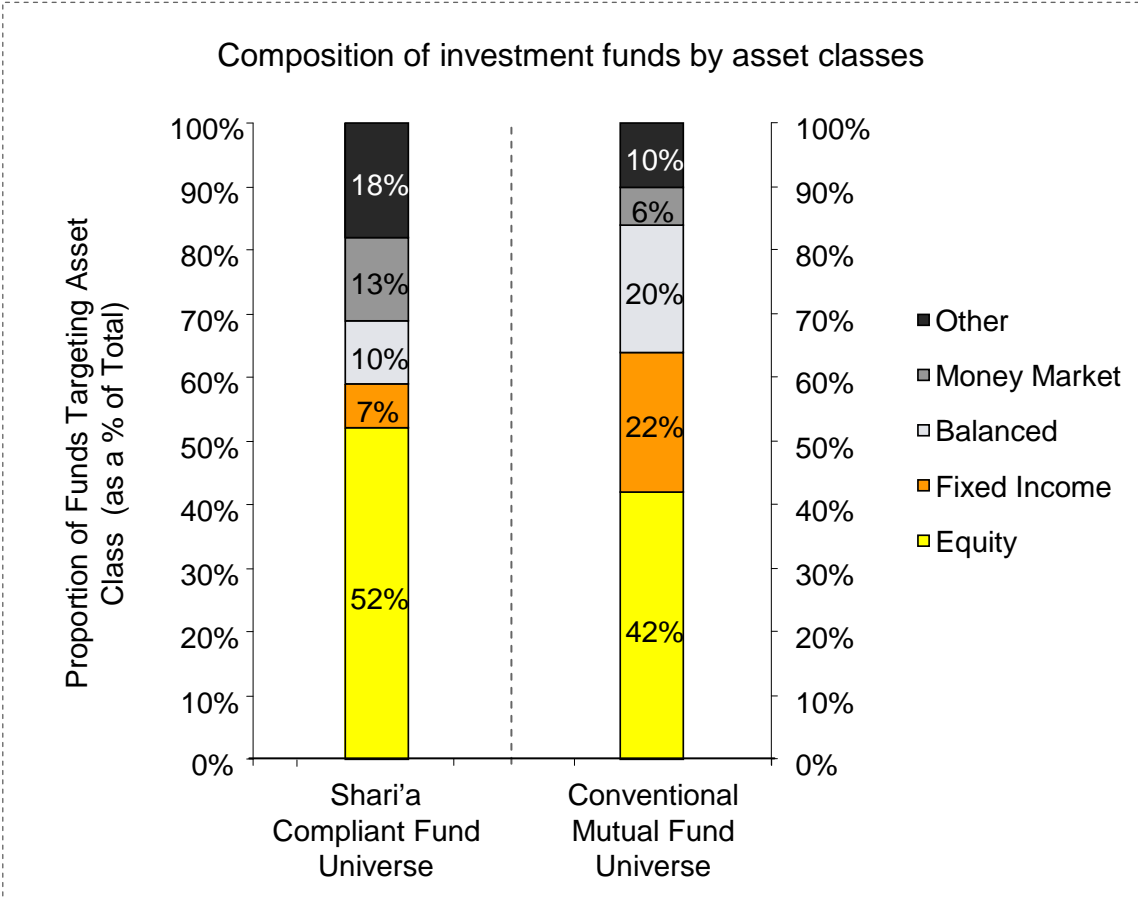
Note: Forecast assumes a conservative additional 160 funds a year and an attrition rate of 10 funds a year through to 2010

Source: EurekaHedge Islamic Funds Database, Ernst & Young Analysis

Islamic funds landscape

Asset allocation

- ▶ Shari'a compliant investment funds essentially target equities and money market instruments (65%)...
- ▶ While conventional funds present a more balanced and fixed income oriented asset allocation.



Source: Eureka Hedge Islamic Funds Database, Investment Company Institute, Ernst & Young Analysis

Note: Asset class allocation in conventional mutual funds is from over 61,000 mutual funds from across the world

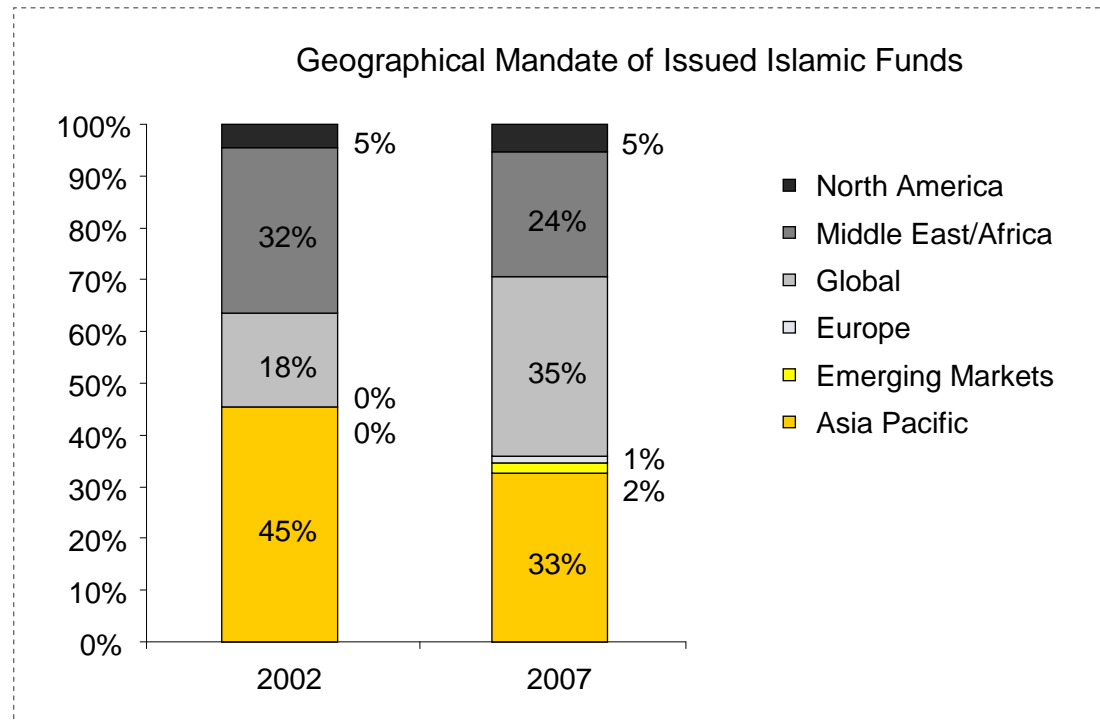
Islamic funds landscape

Predominant asset classes

Equities	<ul style="list-style-type: none">▶ Remain the dominant asset class for Islamic funds with allocation above that found in conventional mutual funds▶ Cognisant with Islamic funds through the use of screening mechanisms
Fixed Income	<ul style="list-style-type: none">▶ Underdeveloped as an asset class with allocations reflecting a lack of depth in Sukuk and other fixed income product offerings▶ Increasing issuance will alleviate supply shortages, while increasing sophistication may potentially lead to further diversification into fixed income
Balanced	<ul style="list-style-type: none">▶ Underdeveloped, particularly in markets where fixed income assets are limited▶ Funds providing exposure to equities and money markets would appear to be a potential growth area as both asset classes are popular
Money Market	<ul style="list-style-type: none">▶ Popular in comparison to conventional mutual funds▶ Largely a reflection of increased demand in the Middle East for less risky investments following stock market corrections
Other	<ul style="list-style-type: none">▶ Allocations to real estate and private equity are significantly above that found in conventional mutual funds▶ Both asset classes fit well with Shari'a compliant investments

Islamic funds landscape

Target markets based on global strategies



- ▶ In 2007, 66% of incorporated Islamic funds had either Asia Pacific or Global mandates
- ▶ For the first time, Islamic funds also exclusively targeted emerging markets
- ▶ This marks a significant shift away from Middle East/Africa, which has traditionally been the focus of Islamic funds

Source: EurekaHedge Islamic Funds Database, Ernst & Young Analysis

Investor segmentation

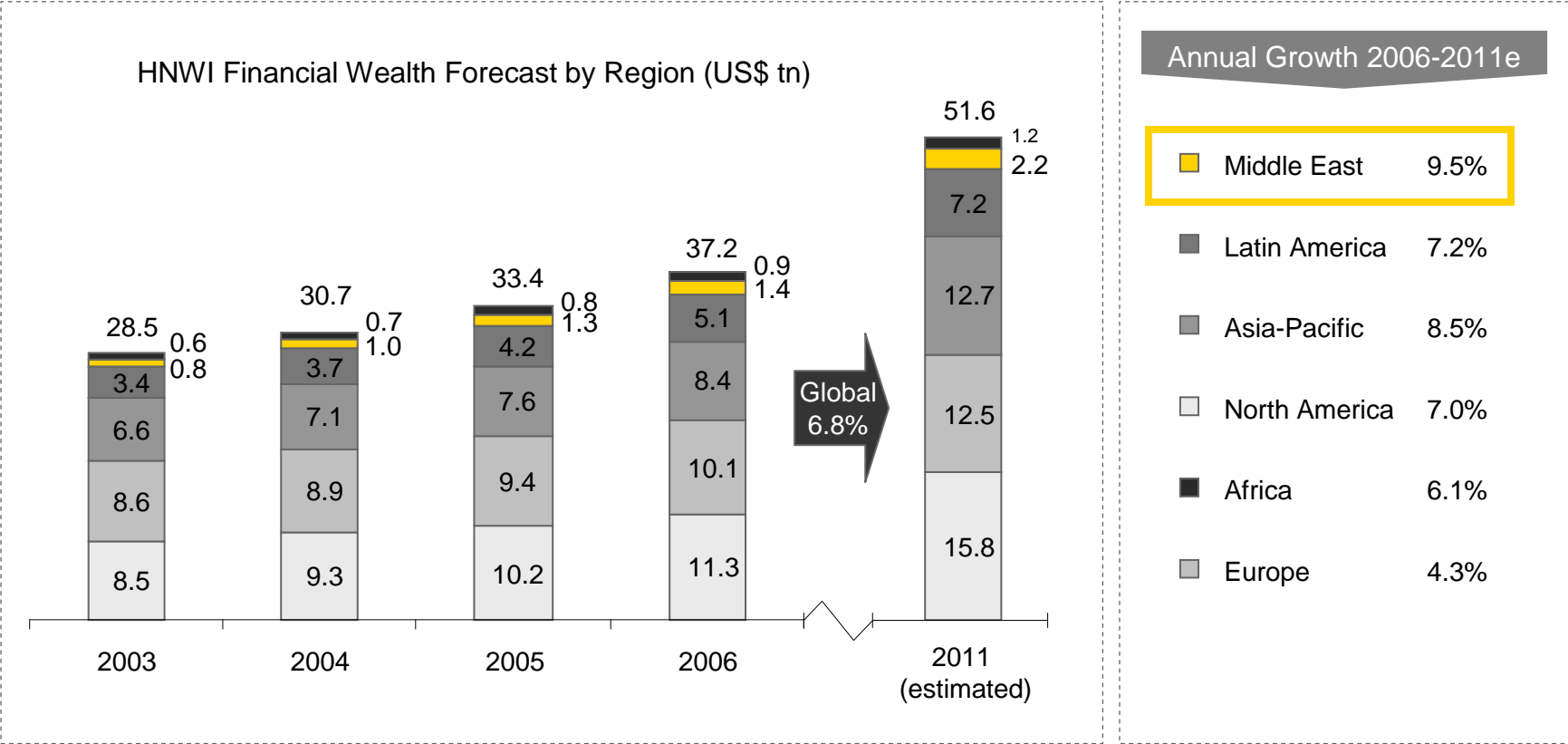
Four distinct groups of key investors

Mass Affluent	<ul style="list-style-type: none">▶ Individuals with liquid wealth of US\$ 60k to US\$ 400k	<ul style="list-style-type: none">▶ High propensity for Islamic products▶ Account for approximately 80-90% of wealthy individuals but only 30-50% of total liquid wealth
HNWI UHNWI	<ul style="list-style-type: none">▶ Individuals with liquid wealth of US\$ 400k to US\$ 4 mn▶ Individuals with liquid wealth in excess of US\$ 4mn	<ul style="list-style-type: none">▶ High propensity for Islamic products▶ Account for approximately 10-20% of wealthy individuals and 50-70% of liquid wealth
Corporate	<ul style="list-style-type: none">▶ Including pensions funds and Takaful operators	<ul style="list-style-type: none">▶ Pension funds increasingly likely to invest in Islamic products▶ Takaful operators invest entirely in Islamic products
SWF	<ul style="list-style-type: none">▶ Government run and owned investment funds that seek primarily to acquire foreign assets	<ul style="list-style-type: none">▶ Not predisposed towards Islamic product▶ Most adopt an ethical investments strategy

Source: Datamonitor 2005, Industry Interviews, Ernst & Young Analysis

Investor segmentation

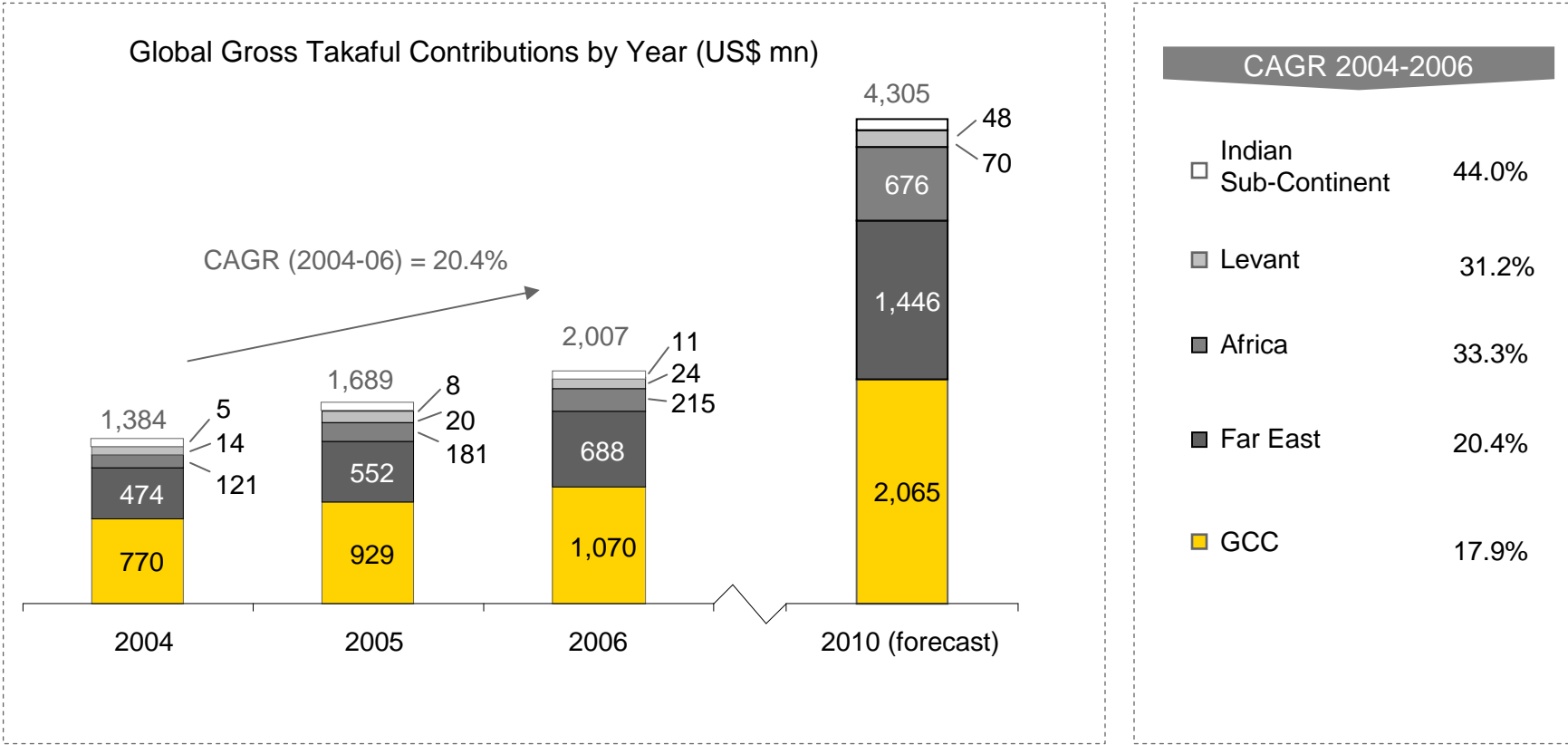
Biggest increase of HNWI in the Middle East



Source: Capgemini and Merrill Lynch 2006 and 2007, Ernst & Young Analysis

Investor segmentation

Takaful – increasingly key Islamic institutional investors

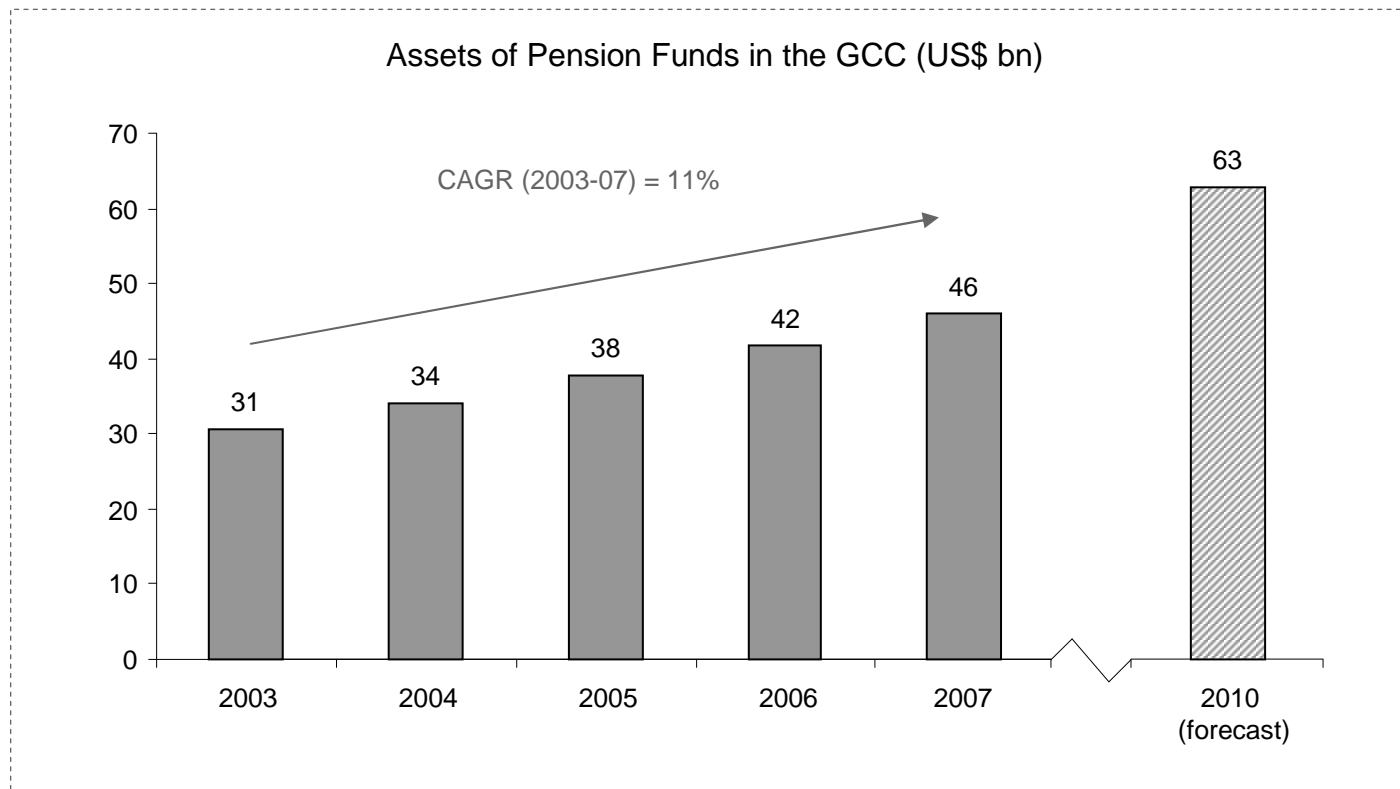


Note: Iran's financial services sector, which is entirely Islamic, has been omitted from the global analysis. The forecast for 2010 assumes growth at the individual regions' respective CAGR for 2004-2006.

Source: Takaful Re Limited and Middle East Insurance Review (2008), Ernst & Young Analysis

Investor segmentation

Pension funds (US\$ 46 bn of assets)



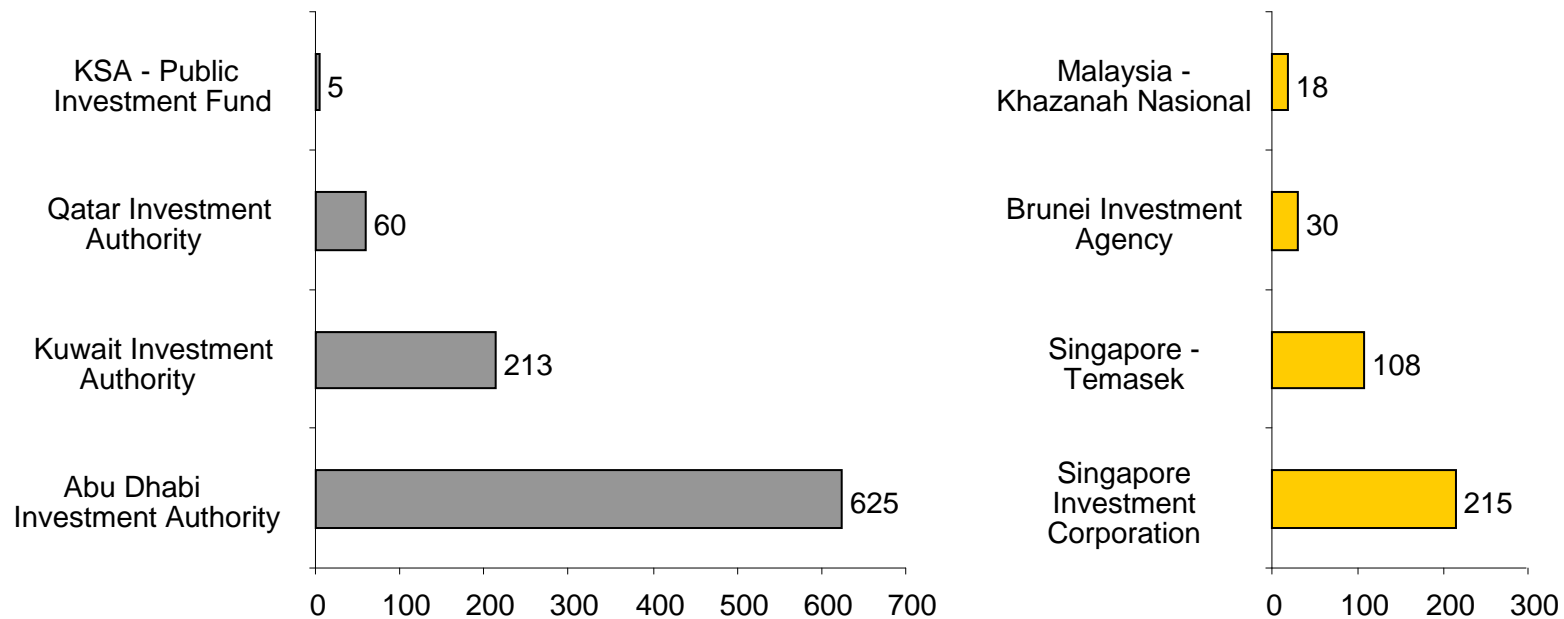
Note: Assets of Bahrain-based pensions funds, for which data is publicly available, have been used as a proxy and combined with available employee figures for other GCC funds to estimated total assets. Forecast assumes a conservative CAGR growth of 11% through to 2010.

Source: Annual Reports, Zawya, Ernst & Young Analysis

Investor segmentation

Sovereign Wealth Funds (US\$ 1.3 tn of assets)

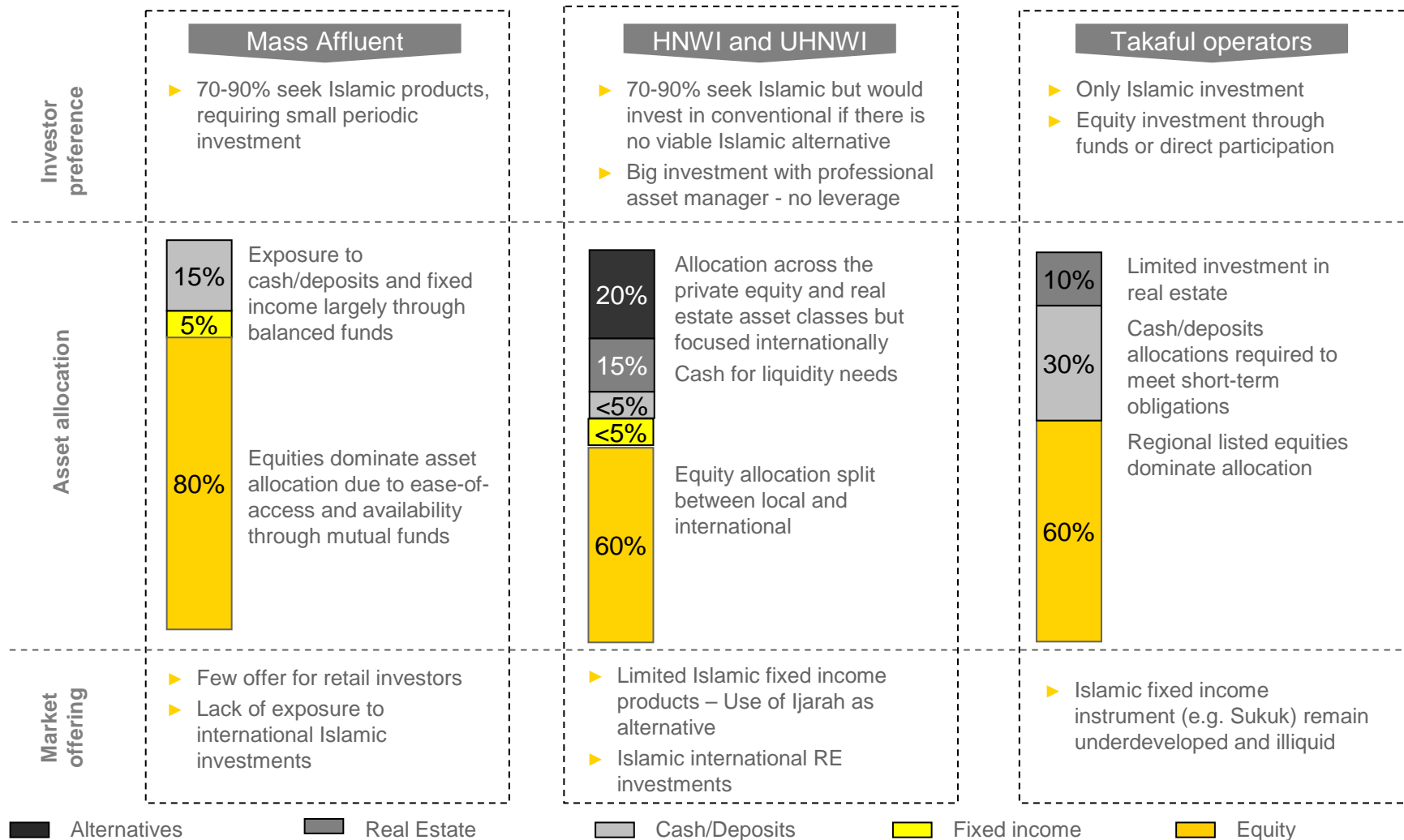
Estimated Assets (US\$ bn) of Select Sovereign Wealth Funds in the GCC and Far East



Source: Standard Chartered Bank, Zawya, Ernst & Young Analysis

Investor preferences

Typical asset allocation per investors types

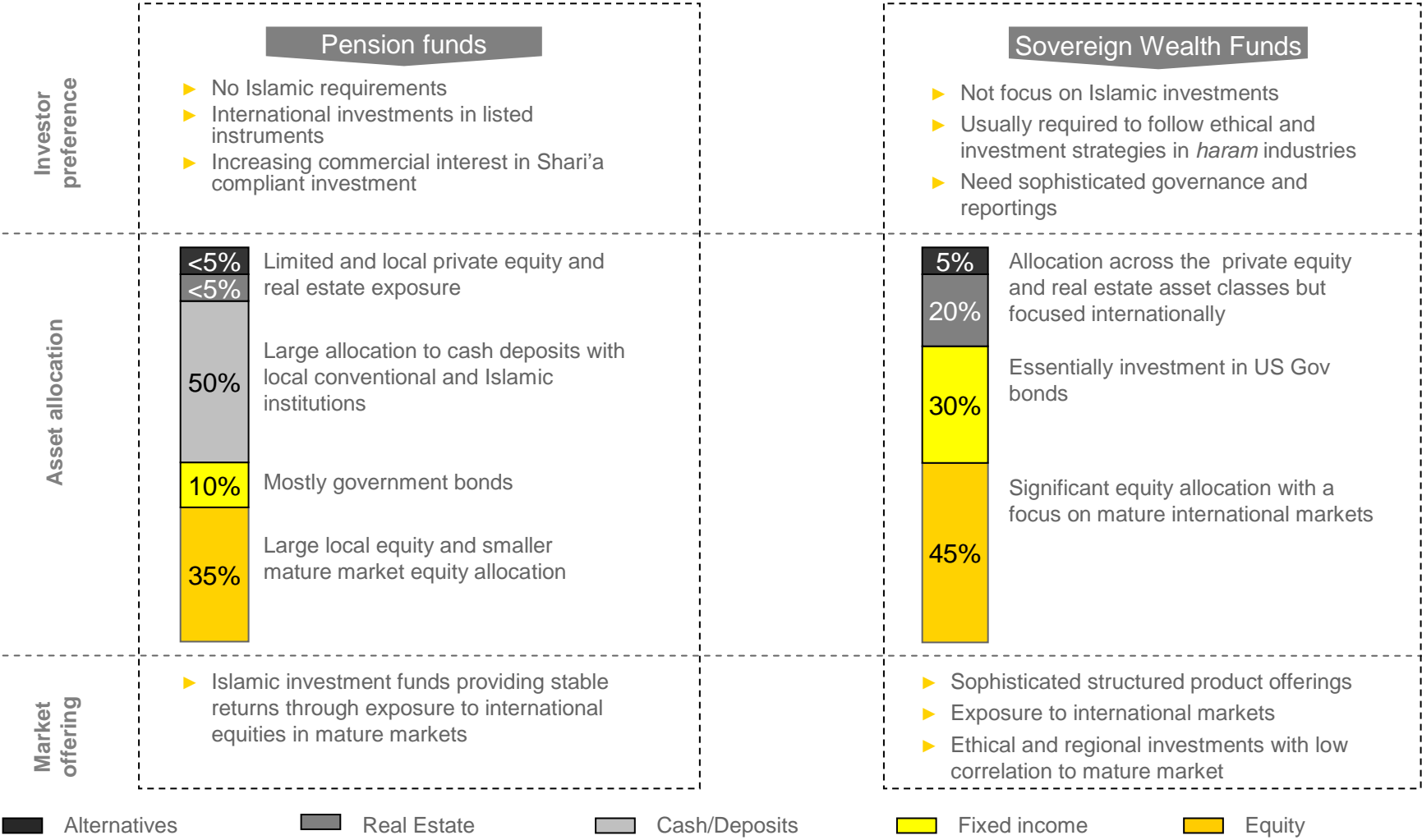


Alternatives
 Real Estate
 Cash/Deposits
 Fixed income
 Equity

Source: Industry Interviews, Ernst & Young Analysis

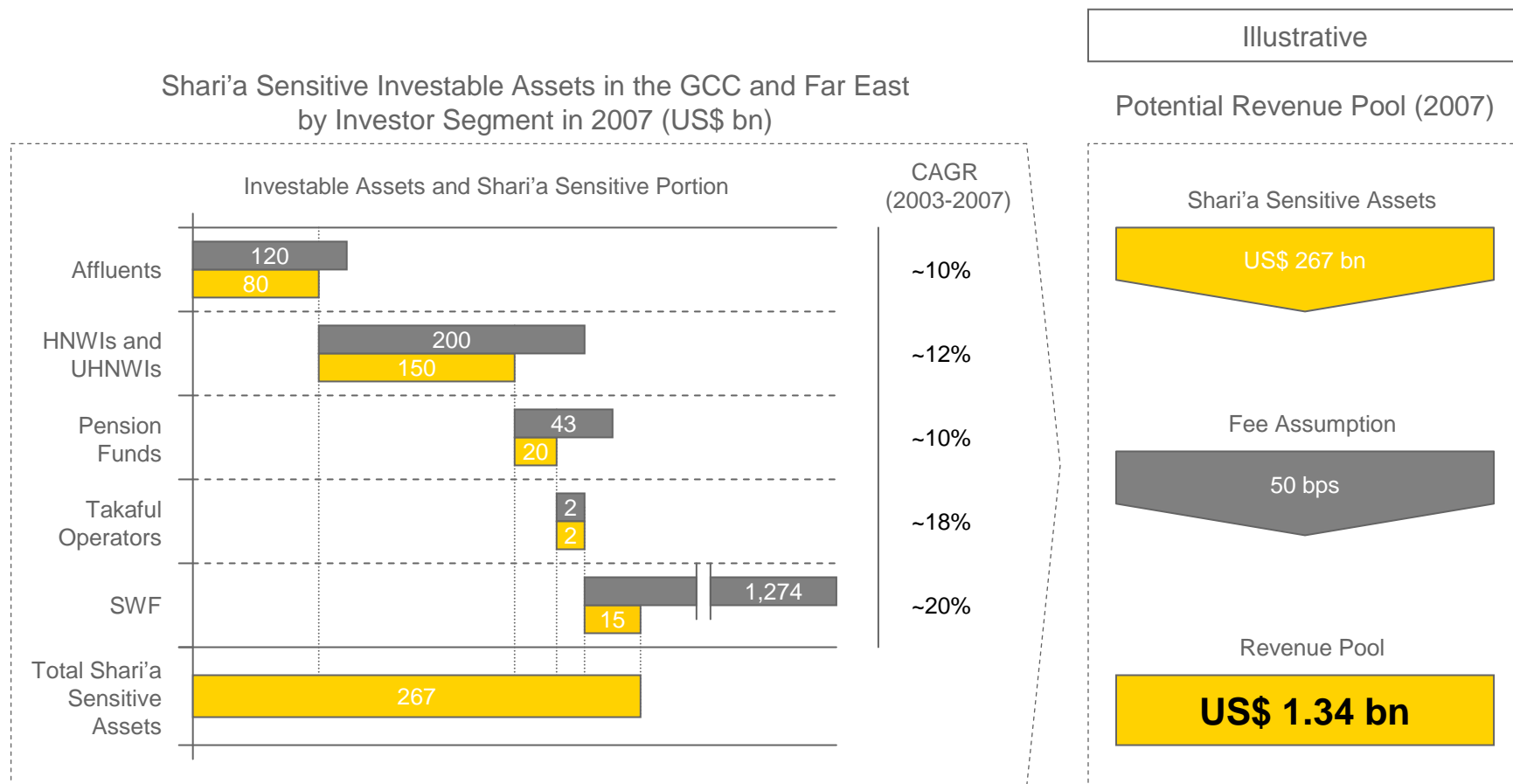
Investor preferences

Typical asset allocation per investors types



Source: Industry Interviews, Ernst & Young Analysis

Potential asset management revenue pool



Source: Industry Interviews, Data Monitor, Ernst & Young Analysis

Note: Total investable assets and Shari'a sensitive portion for investor segments are assumed using sources found in the investor segmentation and key markets sections of the report and supported by industry interviews. Wealthy individuals are for the GCC, Malaysia and Indonesia. Pension funds are only those in the GCC. Takaful operators and SWF are for the GCC and Far East.

Islamic funds landscape

Major asset managers offering Islamic funds

- ▶ Globally: Deutsche Bank, HSBC, Credit Agricole Asset Management, BNP Paribas, Société Générale;
- ▶ Regionally:
 - ▶ CIMB Islamic Asset Management (Malaysia)
 - ▶ Kuwait Finance House (Kuwait/Bahrain)
 - ▶ Shamil Bank (Bahrain)
 - ▶ Shuua Capital (UAE)
 - ▶ EIS Asset management (UAE)
 - ▶ NCB Asset Management (KSA),
 - ▶ Oasis Group Holdings (South Africa)
 - ▶ Wafra Investment Advisory Group (USA)

Islamic funds landscape

Islamic funds offering in Europe

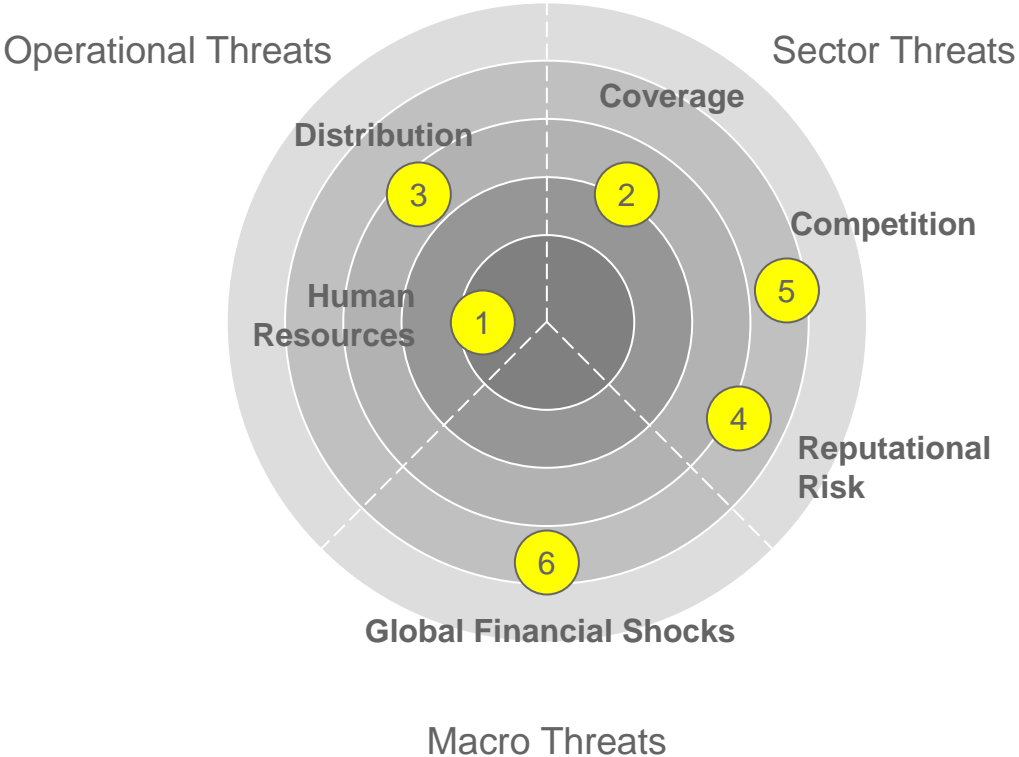
Excerpt

	Number of Islamic funds	Key promoters	Type
Luxembourg	38	Allianz, Deutsche Bank, CAAM, BNP Paribas, BLME, Citibank, SGAM, Nomura, SWIP, UBS	UCITS, UCI, lightly regulated structures
Ireland	16	DWS, Oasis crescent, Barclays	UCITS, UCI, lightly regulated structures
Switzerland	7	ABN Amro, UBS	Structured products
Germany	5	NCB (Al Ahli) Deutsche Bank	Exchanged traded funds, structured products
United Kingdom	5	SWIP	UCITS, UCI
Jersey	5	ETF Securities	UCITS, UCI, lightly regulated structures
France	2	AXA, BNP Paribas	Exchanged traded funds, structured products

Sources: ALFI, Eurekahedge database

Strategic Business Risks

Question: In order of priority, which factors would you consider your most pressing strategic business risks?



Source: Industry Interviews, Ernst & Young Analysis

Operational challenges

Excerpt

- ▶ Shari’ah compliant funds under EU law have to comply with EU law (based on EU directives for UCITS III) and the Shari’ah principles, which make it particularly difficult to assess what type of securities are eligible while respecting all criteria
- ▶ Shari’ah principles follow different schools of thought and as such leave room for interpretation, i.e. not all funds may be managed the same way
- ▶ The governance structure of a conventional fund has to co-exist with a Shari’ah board, the latter having very specific duties and responsibilities although not foreseen in any legislation
- ▶ The cash of the funds may not be managed by the custodian banks in a conventional way, but have to follow the Shari’ah principles (may not be co-mingled with the bank’s treasury and generate interest)
- ▶ The purification process, under which prohibited portions of revenue are paid out to charities in Muslim countries is not regulated under UCITS laws
- ▶ For funds with daily subscriptions/redemptions, the difference between western and Muslim calendars is a challenge

Conclusions

- ▶ Rapid economic growth continues in both the GCC and Far East
- ▶ Investable assets of investors segments are also expanding
- ▶ The Islamic funds landscape still exhibits a number of gaps and lacks depth in certain asset classes
- ▶ Investor preferences vary between investor segments and geographies
- ▶ Competitive and human resources risks are considered most critical in the Islamic asset management industry

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Contacts

Dr. Pierre WEIMERSKIRCH

Partner, Business Advisory Services

Tel: +352 42 124 83 12

e-mail: pierre.weimerskirch@lu.ey.com