

2nd International Takaful Summit 2008

Asset Management for Takaful Companies

Islamic Investment Funds

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Islamic Fund Industry

- Size of Islamic Finance Industry est. \$800bn – 1tn
- Annual growth 15-20%; potential \$4tn
- Assets under Management in Islamic Funds est. \$50 - \$70bn
- +300 Islamic equity funds (125 Asia, 120 GCC with 75 KSA)
- Today's key driver for Islamic Fund industry: regional investors in GCC markets
- Positive outlook: MENA opening markets; expect reclassification from Frontier to Emerging markets; MENA as new Asset Class?

Role of Funds in the Islamic arena

- Investment considerations for takaful companies
- Funds offer investors Sharia'a compliant investments
- Portfolio diversification, risk reduction, performance & returns
- Fund manager undertakes the responsibility of ensuring Sharia's compliance of fund while making investment decisions (at operational level – fund's Sharia'a board issues bi-annual fatwa)

Fund Sponsors & Managers – rising competition

- Conventional institutions are well positioned to capitalize from their expertise

- Strong innovation capabilities and infrastructures used for conventional product development applied to creation and innovation of Islamic products with high returns
 - ✓ Equity (global, regional, emerging, frontier markets)
 - ✓ Sukuk
 - ✓ Hedge etc

- Conventional product capabilities enable risk management and accounting requirements to be satisfied even within the context of Sharia'a

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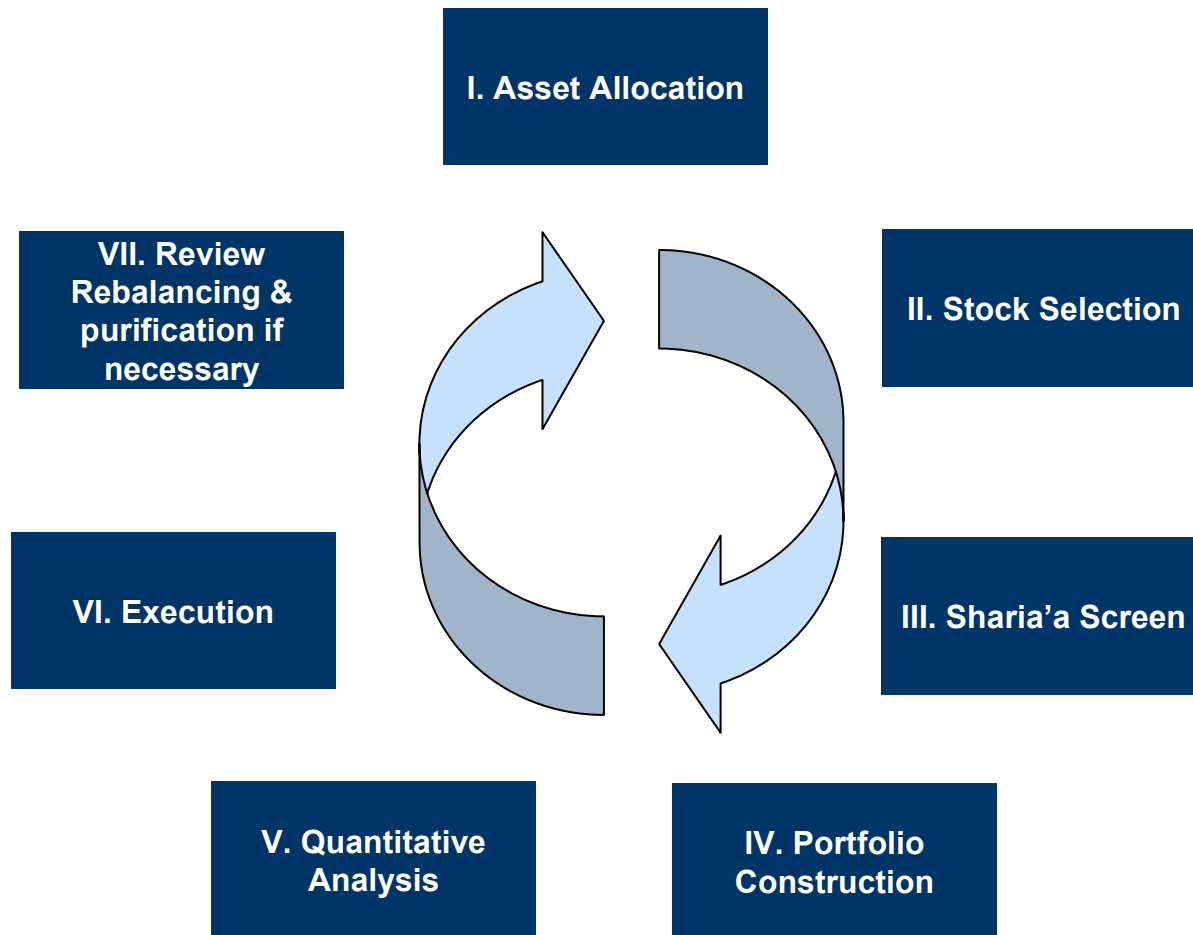
Minding the Gaps

Takaful Asset classes where more funds are needed

Takaful / insurance asset needs	Equity based funds	Property rental based funds	Property value based funds	Currency / commodity trading funds	Govt. / Corporate Bonds / Sukuks	Money market funds	Venture Capital funds
Short term liquidity needs				Well served	Improving, need more	Well served	
Secure Income Returns		Improving		Improving	Some, Need more	Improving	
Secure/Low Risk Capital Growth	Well served		Improving	Improving	None, Need more	Some, Need more	
High Risk High Reward managed returns	Well served			Improving			Some, Need more

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Investment process for an Islamic Equity Fund



I. Asset Allocation

Asset Allocation determines the range of country weightings based on three factors:

1. Fundamentals: Country related themes and macro-economic outlook
2. Valuations: Attractiveness of stocks within a country based on in-house analysis
3. Market dynamics: The conditions and liquidity flows in specific stock exchanges

II. Stock Selection

Stock Selection identifies and ranks stocks based on return potential:

1. Fundamentals: the expected future financial performance of the company
2. Valuations: how current market prices compare to fund manager's fair value estimates
3. Market dynamics: ranging from liquidity of the stock to potential index inclusion

III. Sharia'a Screen

Stage 1 - Industry Screen

- The underlying business activity of a selected company is reviewed to ensure that it is halal
- 7 industry sectors have been identified as haram: Insurers, Banking, Alcohol, Pork, Defence, Gambling, and Entertainment
- Subsidiaries must also be reviewed as they may be haram if they provide a significant income stream to the parent company (e.g. car company with non-Sharia'a compliant finance subsidiary)

III. Sharia'a Screen (con't)

Stage 2 - Financial Screen

- Any non-Sharia'a compliant behavior of a selected company is examined to determine its potential impact on the company's performance and share price

- As a limited number of companies are operating in global markets in a fully Sharia'a compliant way in their cash management and debt profile, the following financial screen ratios, set by the Sharia'a committee, are applied:
 - ✓ Total debt / avg annual market capitalization <33%
 - ✓ Cash + interest bearing securities / market cap <33%
 - ✓ Account receivables / market cap <33%
 - ✓ Haram activities e.g. interest income / total revenues <5%

Sharia'a Screen – non compliance

Apart from general investment restrictions, the fund should only make investments in accordance with the fund's Sharia'a guidelines which are set out in the prospectus. Unexpected situations may lead to:

- Temporary non-compliance with Industry or Financial Screens
- Short term non-compliance with Industry or Financial Screens
- Permanent non-compliance

Sharia'a Screen – Islamic indices

Islamic indices – with different number of financial screens

- Dow Jones Islamic Market Index (DJIM)
- FTSE Global Islamic index
- S&P
- MSCI Barra

Investment Process Stages IV, V, and VI

IV. Portfolio Construction

- Determines position sizes for each selected stock within the range of allocations determined during asset allocation

V. Quantitative Analysis

- Value at Risk (VaR) calculation and optimisation to ensure consistency

VI. Execution

- Performed by traders based on fund manager's model portfolio

VII. Review, Rebalancing – and Purification if necessary

- Review and rebalancing adjusts portfolio positions back in line with the model portfolio or re-allocation of the portfolio
- Quarterly / bi-annual review by the Sharia'a advisor / board
- Any company rejected by the Sharia'a advisor / board should be divested by the Fund:
 - ✓ if the holding is in profit: the Fund must divest immediately
 - ✓ if in loss: 1 month grace period to allow orderly divestment
- Practice of purifying rejected investments through distribution for charitable purposes and in addition zakat from dividends

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MENA Mutual Funds Monitor

MENA Equity Funds							
Fund name	NAV	As Of	Change (%)	*YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)
Arab Gateway Fund	42.47 USD	17-Jun-08	0.24	11	49.33	62.47	298.41
Al Aseel Islamic Equity Fund	12.42 USD	31-May-08	2.14	10.99	39.55	NA	NA
EFG-Hermes MEDA Fund	39.59 USD	31-May-08	0.69	9.39	41.65	118.85	406.91
Arab Islamic Gateway Fund	15.06 USD	31-May-08	0.53	8.74	41.41	NA	NA
Arabian Opportunities Fund	13.33 USD	17-Jun-08	0.15	7.33	NA	NA	NA
Emirates MENA Top Companies Fund (Institutional Shares)	13.62 USD	30-May-08	0.35	6.88	NA	NA	NA
Emirates MENA Top Companies Fund (Sophisticated Shares)	11.84 USD	31-May-08	10.25	6.06	NA	NA	NA
Alpha MENA Fund	132.64 USD	18-Jun-08	0.28	5.74	NA	NA	NA
First Arabian Equity 2000 Fund	37.12 USD	31-May-08	0.81	5.33	15.89	28.68	151.83
Jadwa Arab Markets Equity Fund	147.50 SAR	8-Jun-08	3.4	3.74	NA	NA	NA
Makaseb Arab Tigers Fund	12.61 USD	22-Jun-08	-0.39	2.47	26.33	NA	NA
Arab Bank MENA Fund	12.36 USD	31-May-08	-0.68	1.53	23.46	NA	NA
NBD MENA Fund	11.84 AED	1-Jun-08	0.77	1.2	28.14	NA	NA
IIAB Islamic MENA Fund	10.28 USD	31-May-08	-0.8	NA	NA	NA	NA

Fund Sponsor of Arab Islamic Gateway Fund - Shuaa Capital psc (Dubai)



- Established in 1979 to promote capital inflow into the Arab World
- Listed Dubai Financial Market and the Kuwait Stock Exchange
- Full range of regionally focused investment banking and asset and portfolio management services
- Market capitalization as of 3 July 2008: \$1.2bn
- Assets under management as of 31 March 2008: \$3.87bn
- Rated Baa2 by Moody's Investor Service
- Voted "Best Equity House in the Region" in 2004, 2007 and 2008 and "Best Equity House in the Middle East" in 2008 by Euromoney



Fund Manager AIGF – Shuaa Asset Management



- Established: March 2001 (Longest investment track record in the region)
- Services Offered: Fund Management, Institutional Mandates, Discretionary Portfolio Services
- Area of Coverage: 14 organized exchanges
- Asset Classes: Equity Capital Markets, Debt Capital Markets & Regional Structured products
- Investment Options: Conventional & Shari’ah Compliant
- Investment Style: Active and Passive Management available
- Managing: 18 mutual funds & several discretionary portfolios with 3 Islamic Mandates
- Direct AUM’s: \$1,715 mln Assets under Management as of 31 May 2008
- Resources: 38 team members with 17 Investment Professionals
- Achievements: Arab Islamic Gateway Fund Voted Best MENA Equity Fund by Failaka in 2007; **Shuaa Asset Management awarded “Best Asset Management House” at International Takaful Awards on 15 July 2008**
- Offices: Dubai



Fund Performance – June 2008

	Funds	Index	Funds %2007	Index %2007	Funds %YTD	Index %YTD	Funds %Since Inception	Index %Since Inception
	AIGF	MSCI Arabian Capped	+47.65	+45.51	+8.38	-4.08	+50.10	+22.15
	AGF	MSCI Arabian Capped	+49.28	+45.51	+8.73	-3.57	+386.55*	n/a
	EGF	MSCI UAE DC	+54.21	+43.25	+5.04	-3.92	+448.04	n/a
	SGF	MSCI SA DC	n/a	n/a	-0.54	-17.67	+41.18	+35.57
	OGF	MSCI Oman DC	+51.75	+48.11	+29.96	+19.75	+198.00	n/a
	KGF	MSCI Kuwait DC	+40.29	+27.13	+10.03	-0.35	+46.47	+19.86

*Performance since SHUAA Asset Management a division of SHUAA Capital PSC was appointed manager of the Arab Gateway Fund in February 2001

Arab Islamic Gateway Fund

Name of Fund	Arab Islamic Gateway Fund
Structure:	An open ended investment company incorporated in the Cayman Island.
Objective:	To achieve capital appreciation through investing in Arab Equities as per the Sharia'a principles as interpreted by the Sharia'a Advisors and the Sharia'a Guidelines
Markets covered:	Saudi Arabia, Kuwait, UAE, Oman, Bahrain, Qatar, Egypt, Tunisia, Morocco, Jordan, Lebanon and Palestine
Manager:	SHUAA Asset Management <i>a division of SHUAA Capital psc</i>
Sharia'a Advisor:	Dar Al Istithmar Limited, UK
Base currency:	USD
Management & Performance Fee:	1.75% & 10% over 10%
Minimum subscription:	USD 50,000
Subscription/Redemption:	Monthly
Administrator:	Close Funds Services Ltd., Channel Islands
Custodian:	RBC Dexia Investor Services Trust, UK
Bloomberg:	ARBISGA KY
ISIN:	KYG1846T1058



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