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# ISLAMIC ASSET MANAGEMENT'S ROLE IN ENHANCING TAKAFUL PROVIDERS' ASSETS

## *“Asset Management for Takaful Companies”*

The International Takaful Summit 2009

The Middle East Business Forum & Akfar Consulting

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ISLAMIC ASSET MANAGEMENT

# FIVE PILLARS OF ISLAMIC FINANCE

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- The ban on interest
- The ban on uncertainty or speculation
- The ban on financing economic activities in certain sectors
- The profit- and loss-sharing principle
- The asset-backing principle

Islamic finance must be used towards real activities, e.g. trade finance, construction finance, leasing

# TAKAFUL INDUSTRY POTENTIAL

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Most Islamic countries' insurance penetration < 1% of GDP

Compare with:

UK's insurance penetration → 12.4% of GDP

USA's insurance penetration → 9.4% of GDP

## Islamic Countries have:

Favorable  
demographics

Rising  
income

Demand for  
Shariah-compliant products

2007: Takaful market USD 3.4 bn

**2012: Takaful market estimated between USD 6 and 7.7 bn**

Islamic asset management an essential component  
to support projected takaful industry growth and development

# SELECTION OF ASSETS

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## Islamic Equities

- Screened for Shariah compliance at the operational level
- Screening based on industry type, financial ratios, & tolerable benchmarks

## Islamic bonds or Sukuk

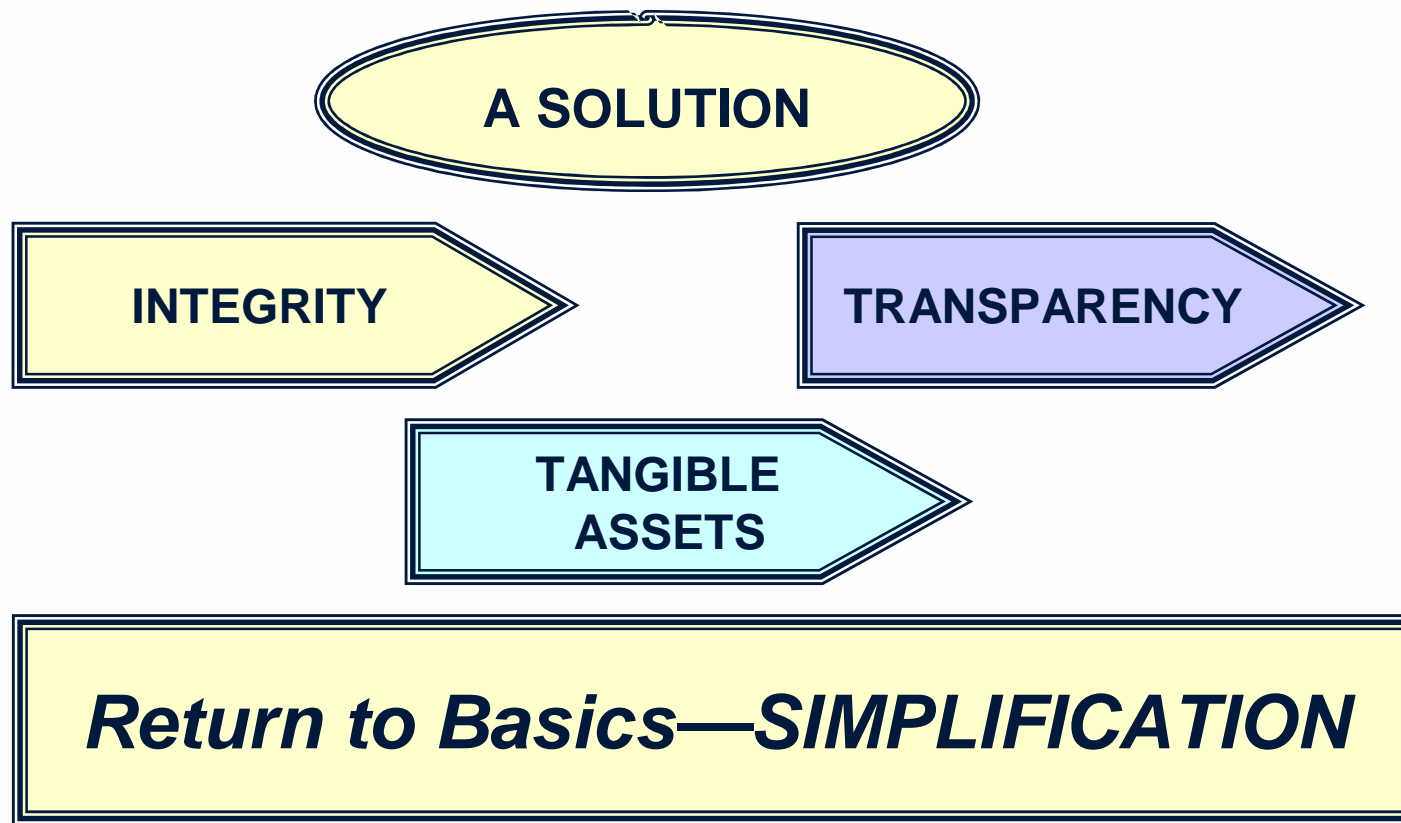
- Trust certificates or participation securities granting investors an ownership claim to underlying assets along with the cash flow or profit and risks commensurate with such ownership.
- Differs from conventional bonds, which are based on the exchange of paper for money with interest imposed to measure returns and liabilities.
- Sukuk issuers must use proceeds in a Shariah compliant manner

# ISLAMIC ASSET MANAGEMENT

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Against backdrop of financial meltdown, the next wave of product innovation aims to achieve → ??

After being burnt, what do retail and institutional investors seek → ??



# SOLUTION: BENEFITS WITH ISLAMIC INVESTMENT

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## 1. Prudence & overall risk diversification

→ comes with integrating Islamic into the mainstream investment portfolio

## 2. Investment performance comparable to mainstream

→ YET enables one to invest with a social cause

## 3. Although can be seen as constraint from European perspective due to exclusion of certain industries

→ financial screening ratios on debt, cash, and receivables in the Islamic investment process see that the financial interests of the investors are looked after

## 4. Positioning Shariah compliant investing to a broader investor base successfully requires

→ there be no risk-reward disadvantage vs mainstream investing

# WHY ISLAMIC WORKS: MITIGATING MISCONCEPTIONS

## Misconception

## The Truth is...

Products only relevant to Muslims

Covers Larger Investor Base  
Both Muslims and Non-Muslims

Products are too complicated

Only difference is the Islamic screening process

Restricted Universe

2,545 stocks, USD 9.3 trillion market cap-  
Dow Jones Islamic Market World Index\*  
> 50% of SP500 is Shariah (by mkt cap)\*\*  
Low Debt + Limited Downside

Performance Drag

Not Inferior to Conventional  
Performance: Return, Volatility, Risk-  
Return Profile

# INDEX COMPARISON: 10-YR ANNUALISED PRICE RETURN

GLOBAL INDICES	10-YEAR
Dow Jones Islamic Market World Index	-0.74
Dow Jones World Index	-0.74

U.S. INDICES	10-YEAR
Dow Jones Islamic Market U.S. Index	-2.22
Dow Jones U.S. Index	-2.72

BLUE CHIP INDICES	10-YEAR
Dow Jones Islamic Market Titans 100 Index	-2.26
Dow Jones Global Titans 50 Index	-5.41

EUROPE INDICES	10-YEAR
Dow Jones Islamic Market Europe Index	-0.19
Dow Jones STOXX TMI Index	-0.58

# HOW TO SELECT AN ISLAMIC FUND MANAGER

# HOW TO SELECT A FUND MANAGER

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- End-to-end Shariah-compliant process
- Focus is on Islamic as a solution, not as a product offering
- Provides research and analytics
- In-house Shariah council
- Islamic credentials

# INSTITUTIONALISED SHARIAH ADVISORY

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- Robust advisory process to enhance integrity of its Shariah decisions
- People must have traditional capital markets, investment and product development experience to ensure interpretations are practicable
- Familiarity with differences in Shariah interpretation by jurisdiction
- Its Shariah scholars are of diverse backgrounds and from various jurisdictions to promote universal acceptability of decisions across regions

# GOOD FUND MANAGER DELIVERABLES

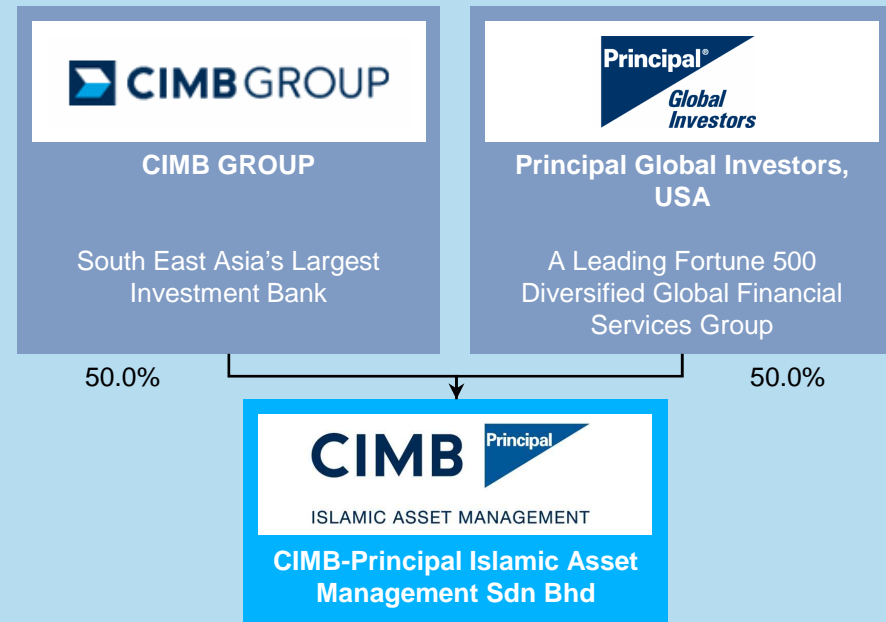
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- Islamic or not, performance is mostly driven by the skill of the fund manager and the supporting infrastructure.
- Integrity of Shariah may not translate into performance directly, but it may avoid reputational risk to the company.
- An Islamic asset management company with skillful fund managers, but with a weak Shariah component, may perform on the fund but may not gain respect from the industry.
- Some clients regard Shariah integrity with equal importance to investment performance.

# CIMB-PRINCIPAL ISLAMIC ASSET MANAGEMENT

- A joint venture between CIMB Group and Principal Global Investors, the asset management group of Principal Financial Group (PFG)
- Dedicated global franchise in Islamic asset management
- Leverages synergy of PFG's 130 years of experience in global asset management and CIMB's global leadership in Islamic Finance.
- Offers holistic and pure management of Islamic assets with end-to-end processes in accordance with Islamic principles
- Established insights on client needs

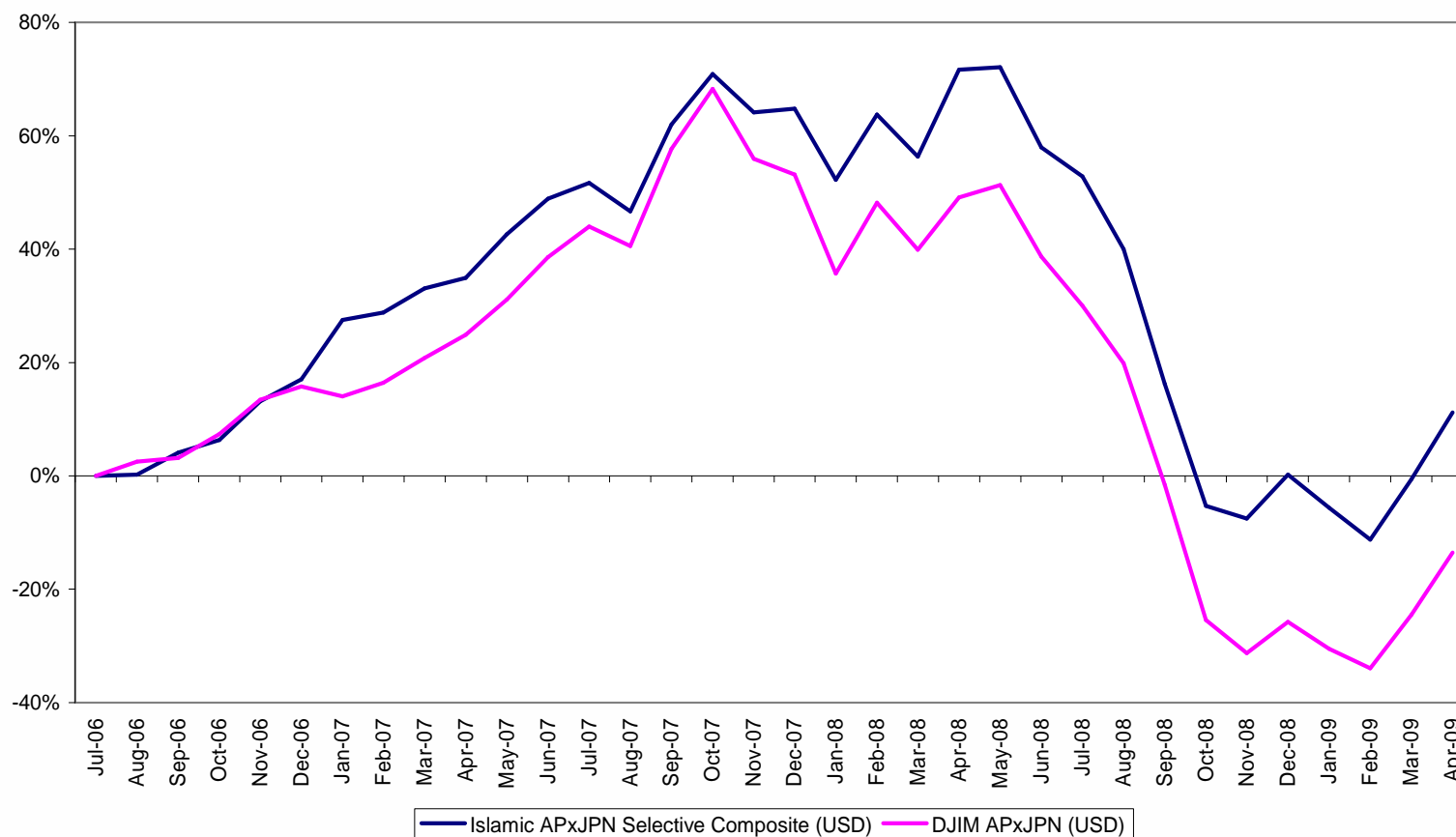
Shareholding Structure of CIMB-Principal Islamic Asset Management



# ASIA PACIFIC EX-JAPAN CUMULATIVE PERFORMANCE

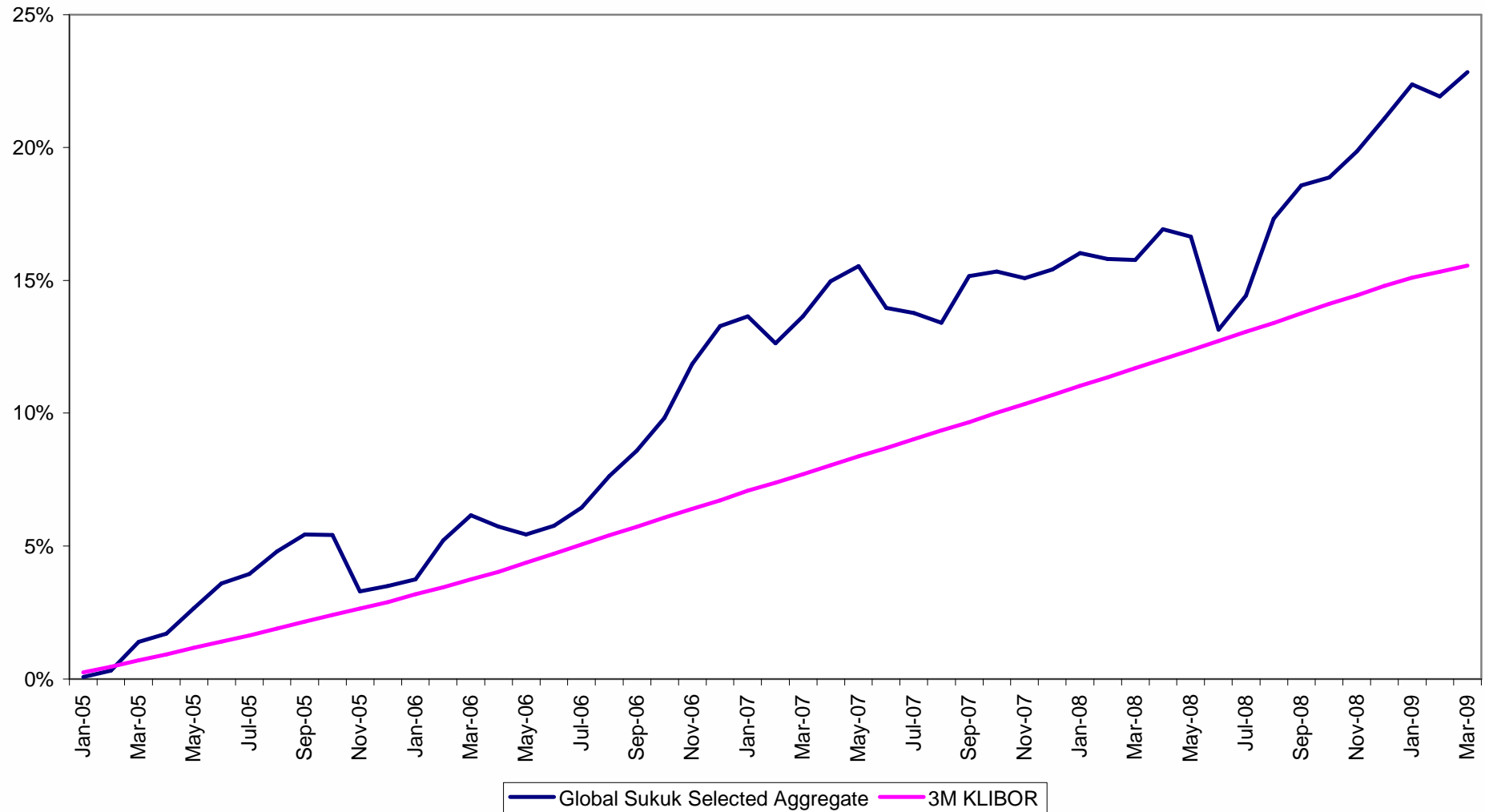
	1M	3M	6M	1Y	2Y	Since Inception
<b>Islamic APxJPN Selective Composite (USD)</b>	11.91%	17.90%	17.41%	-35.20%	-17.58%	11.22%
<b>DJIM APxJPN (USD)</b>	14.59%	24.46%	15.98%	-42.01%	-30.76%	-13.54%

Composite performance vs. benchmark



# GLOBAL SUKUK SELECTED AGGREGATE PERFORMANCE

Cummulative Performance Since January 2005



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# Thank You

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**CIMB-Principal Islamic Asset Management**  
Full spectrum of Islamic investment solutions  
customized to best meet global investors' needs and objectives.

## *CIMB Islamic Accolades*



**Islamic Fund House  
of the Year**  
2008, 2007, 2006  
**Asia Asset Management**  
THE JOURNAL OF INVESTMENTS & PENSIONS



**Best Islamic Bank  
in Asia**  
2008, 2005  
**EUROMONEY**



**Islamic Products House  
of the Year Award**  
2008  
**AsiaRisk**



**Best Sukuk House**  
2008  
**EUROMONEY**

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