



Islamic Investment Funds, Distribution Challenges and the role of the Shariah Board

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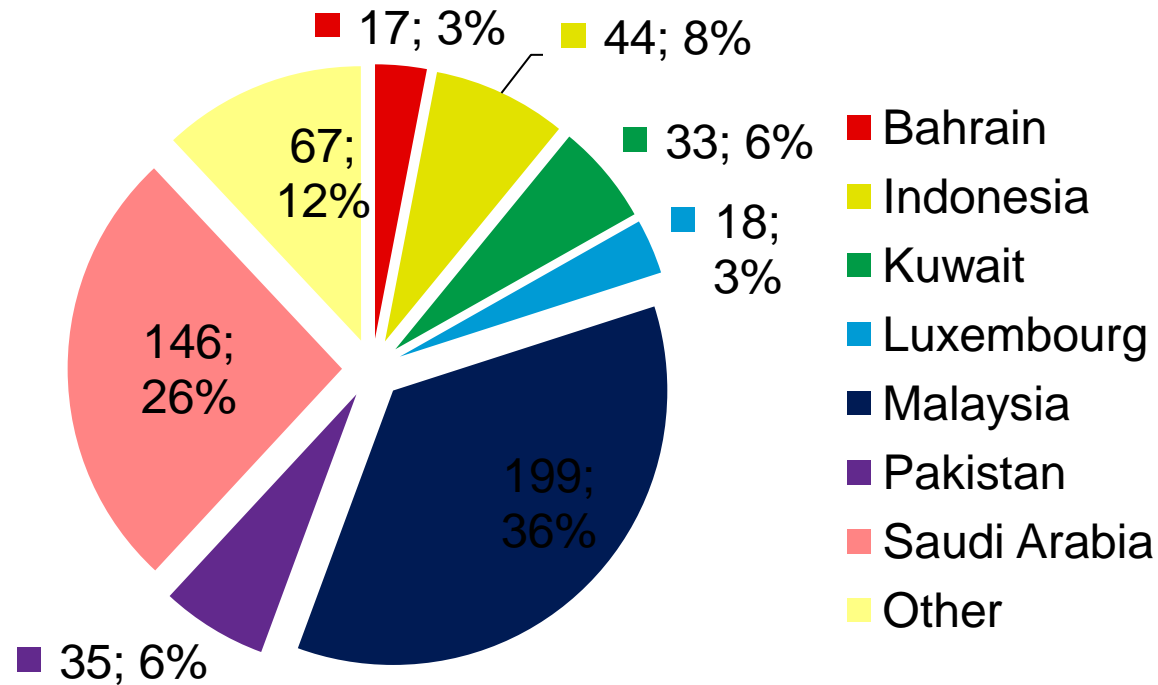
The Basics

- No alcohol, tobacco, pork-related products, defence/weapons and entertainment.
- Financial Ratios
 - total debt divided by trailing 24-month average market capitalization is 33% or more.
 - Cash plus interest-bearing securities divided by trailing 24-month average market capitalization is 33% or more.
 - Accounts receivables divided by 24-month average market capitalization is 33%.
- No financial services firms
- Many indices available.

As regards Funds

Total Number of Islamic Equity Funds: 560 *

Domicile



First Funds



Massachusetts Investors
Trust: March 1924



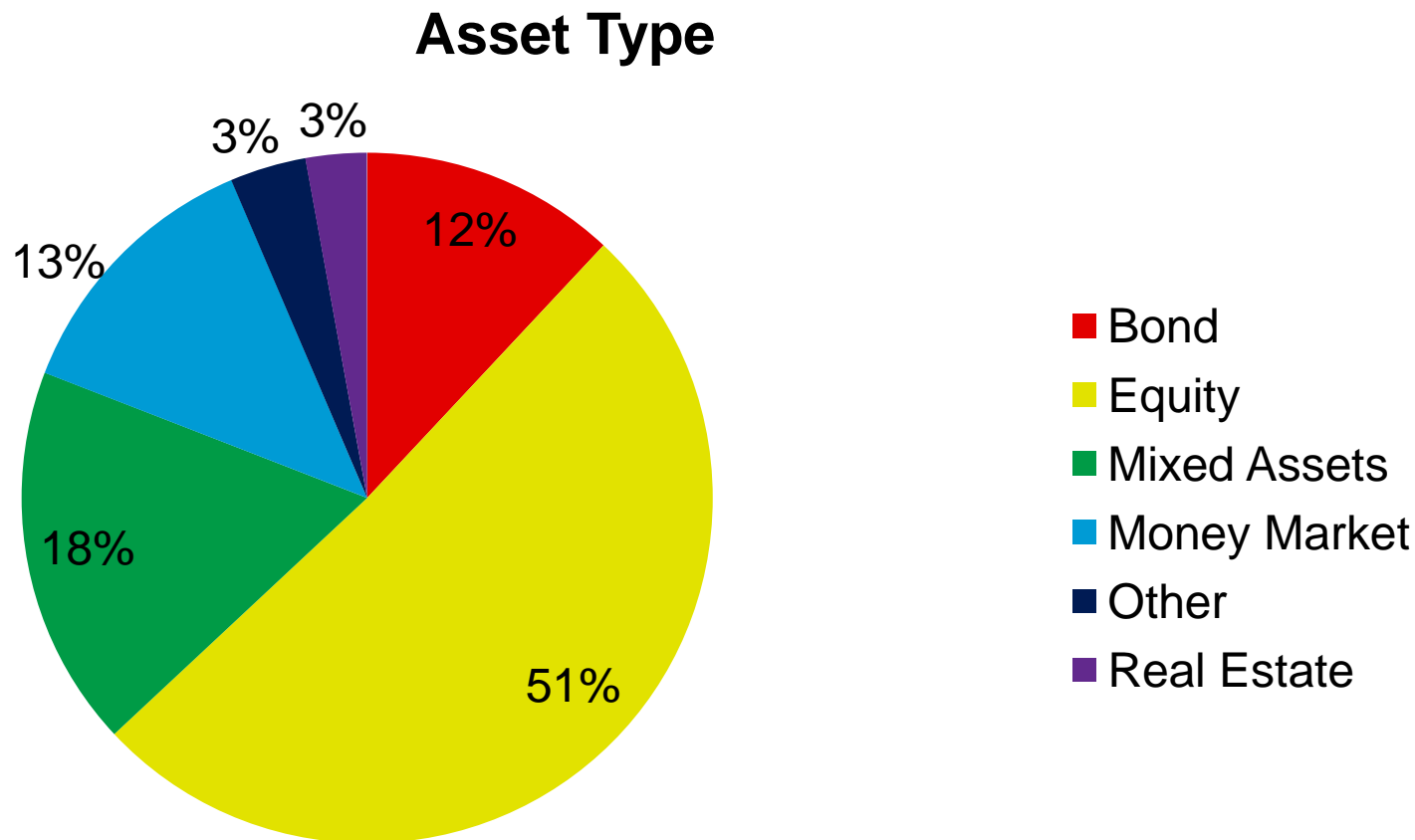
Dana Al-Aiman:
September 1968



First Islamic Funds

Fund Name	Fund Manager	Location	Inception
Dana Al-Aiman	Mara Unit Trust	Malaysia	May-68
Tabung Amanah Bakti	Tabung Amanah Bakti	Malaysia	May-71
Amana Income Fund	Saturna Capital	USA	Jun-86
Mendaki Growth Fund	Mendaki Holdings Pte. Ltd.	Singapore	May-91
Futuregrowth AlBaraka	Futuregrowth AlBaraka	South Africa	Jun-92
Al Rajhi Local Share	Al Rajhi Banking & Invest.	Saudi Arabia	Jul-92
AlAhli US Trading Equity	National Commercial Bank	Saudi Arabia	Jan-93

Funds by Asset Type



Source: Thompson Reuters

Analysis of Current Funds



Total Global AUM: \$37billion (est.)*

Asset Type	N° Funds	Assets as of 31/03/2010
Bond	67	1124.12
Equity	286	16712.13
Mixed Assets	100	1989.62
Money Market	71	15474.25
Other	20	1009.61
Real Estate	16	1239.08
Total	560	37548.8

* Thomson Reuters

Islamic Equity Fund Performance as viewed as a unique asset class

- In the past, a technology bias
- Exclusion of banking stocks
- Exclusion of highly leveraged firms; somewhat analogous to income funds
- Exclusion of prohibited industries that may be the current high-fliers

Fixed Income resolved: Sukuk Is Well-Established



- Number and size of issues expected to increase
- In early years, biggest problem is over-subscription
- 3-4 Funds outside of Malaysia



Progress is Here

- Large, proven, successful funds now exist across the board (Europe, GCC, and Asia)
- Popularity and awareness is at all-time high (demand is strong)
- Information is improving
- Gaps in Asset classes are disappearing rapidly

Private Equity in the Middle East

- PE is a relatively new asset class in the Middle East
- Investors and corporates in the region have been active in PE since the 1980s, however, they have traditionally used a direct investment approach as opposed to a fund approach.
- This trend is slowly changing. PE funds have only caught on over the last 6-7 years.
- Over 130 PE funds have raised funds in the MENA region in recent years. This includes PE, VC, Real Estate Equity Investment as well as Infrastructure.
- A majority of these funds are investing in the MENA region with a handful investing in Europe, US and Asia.



Islamic Private Equity

- Islamic PE investing is very new, and an innovation from direct investment. The first Islamic PE fund was launched in 2000 by Kuwait Finance House.
- There is a growing interest in PE by Islamic institutions, most notably Arcapita, Gulf Finance House, Unicorn Investment Bank and Venture Capital Bank.
- Islamic PE as an asset class is still in its infancy and has not fully developed in terms of investor awareness or sophistication.



Islamic Private Equity

There are many different types of PE funds; each with subtle issues for Islamic fund managers.

- Similar to listed shares; debt the biggest issue
- Buy-out/Privatizations/LT capital gains/income.
- Brownfield/Greenfield (debt issues)
- Infrastructure (structuring challenge/debt issues)

Distribution Issues

- The same as conventional
- Varies geographically
- Institutional vs. Retail
- Bank network vs. Stand alone

Role of Shariah Advisory Firm



Establishing credibility with end-investors

- Structure Product (with manager and law firm)
- Establish Shariah-compliant investment guidelines
- Endorse Product (issue Islamic fatwa)
- Review for on-going compliance



Spasibo (Спасибо)

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