

THE INTERNATIONAL



ISLAMIC FINANCE FORUM

Dubai

13 – 17 April 2008 • Jumeirah Beach Hotel, Dubai, UAE

Shariah ETF: The Malaysian Experience

Zainal Izlan Zainal Abidin
Chief Executive Officer
i-VCAP Management Sdn. Bhd.



www.iiff.com

What is an ETF

- | **Essentially a unit trust or mutual fund that is listed and traded on an exchange**
- | **Open-ended fund with in-kind creation and redemption mechanism**
- | **Performance objective is to closely track performance of underlying benchmark or index**
- | **Typically passively managed, through investments in “basket” of securities**
- | **ETF composition can be based on either full or representative replication**

Benefits of Investing in an ETF (1)

- | **Convenience / Accessibility**
 - *Multiple investments in a single transaction*
 - *Immediate effective ownership in basket of securities*
- | **Risk Management / Diversification**
 - *Spreading of investment holdings over a basket of securities*
- | **Transparency**
 - *Constituent stocks, indicative NAV, unit price readily available*

Benefits of Investing in an ETF (2)

- | **Tradeability / Liquidity**
 - *Units can be purchased or sold anytime during trading hours of the exchange*
- | **Low Transaction Cost**
 - *Mainly brokerage*
 - *Typically no front-end charges*
- | **Low Expense Ratio**
 - *Less frequent transactions*
 - *Lower fee for passive management*

Risks of Investing in an ETF

| Market Risk

- *Performance of ETF or its underlying securities may be adversely affected by economic, political or other issues*

| Tracking Error / Manager Discretion

- *ETF performance may not closely track performance of underlying benchmark/index*

| Discount or Premium

- *ETF unit price on the exchange may be at discount or premium to its NAV*

Uses & Applications of an ETF

- | **Tactical strategy for asset allocation**
- | **Cash “equitisation”**
- | **Core vs. Satellite components of portfolio**
- | **Access to less liquid or more regulated markets or asset classes**
- | **Portfolio diversification**

Shariah ETF in Malaysia

MyETF Dow Jones Islamic Market Malaysia Titans 25 (MyETF–DJIM25)

- *Listed on Bursa Malaysia Securities on 31 January 2008*
- *1st shariah ETF listed in Asia*
- *Currently largest shariah ETF in the world (NAV: US\$220mil)*
- *Benchmark Index – Dow Jones Islamic Market Malaysia Titans 25*

Shariah Features of MyETF-DJIM25 (1)

- | **Screening of securities for Shariah compliance**
 - ***Dow Jones Shariah Advisory Board***
 - ✓ ***Determines composition of Benchmark index***
 - ✓ ***Reviews and audits Benchmark index and DJ Islamic Market Indexes methodology on regular basis***
 - ***Securities Commission of Malaysia's Shariah Advisory Council***
 - ***Shariah Advisor of the Fund***

Shariah Features of MyETF-DJIM25 (2)

- | **Strategies to handle index share that is not compliant with Fund's shariah policies & guidelines**
 - *Rebalance portfolio among the remaining index shares*
 - *Replace relevant index share with compliant, non-index share that has high correlation with the substituted index share*
 - *Invest in cash or cash equivalents*

Shariah Features of MyETF-DJIM25 (3)

- | **Income purification process**
 - *Separating impure income from the Fund*
 - *The 'Impure ratio', determined by index provider (Dow Jones), is applied to income/dividends received in order to calculate amount to be set aside*
 - *The impure income is distributed to charities*
 - *Process is conducted semi annually*

MyETF-DJIM25 Performance

