

Islamic Instruments for Asset Management

Professor Rodney Wilson

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Islamic asset management vehicles

Islamic open ended mutual funds

- Islamic unit trusts
- Unit prices move in line with underlying shares
- Invest in listed companies and *sukuk*

Closed end funds

- Initial subscriptions
- Capital invested for a period of fixed duration
- No further subscriptions once initial offer fully subscribed
- Invest in private equity, leased assets and real estate

Islamic investment companies

- Value may be at a premium or discount to the value of the underlying assets

Advantages of funds as a vehicle for Islamic investments

Fund can accept responsibility for *shariah* compliance

- *Shariah* monitoring in-house
- Outsourcing of *shariah* monitoring to institutions such as Dow Jones Islamic Indices

Information provided on *haram* income or capital gains that may reflect such income

Purification

- Deduction of income before distribution
- Advice on how much should be donated to charity

Islamic fund categories, 2011, %

Equity	54
Money Market	17
Mixed	15
Real Estate	7
<i>Sukuk</i>	5
Other	2

Objectives of Islamic funds

Growth funds

- Aim to achieve capital gains

Income funds

- Aim to maximise dividend income

Balanced funds

- Aim to produce income and modest growth

Recovery funds

- Invest in undervalued companies

Global equity funds

Regional and country funds

- US, Europe, Japan, Asia

Emerging market funds

Portfolio investment through brokers

Discretionary

- Professionals given powers over day to day asset management
- Assets can be managed through a trust
- *Amana* is duty of a trusted person (*amin*) with absence of liability for losses except if breach of duty
- *Wakala* agency contracts with the manager as *wakil*
- *Daman* involves contract of guarantee with trustee (*damin*) liable for losses

Advisory

- Tied and independent advisors
- Commissions and fees for advice provided
- One off advice or continuous portfolio monitoring

Execution only services

- Brokerage for a modest fee

Institutional investors

- Pension funds and *takaful* operators use brokerage rather than funds

Portfolio design

Weighting

- Ratio of equity to bonds or *sukuk*
- Ratio of money holdings to investments

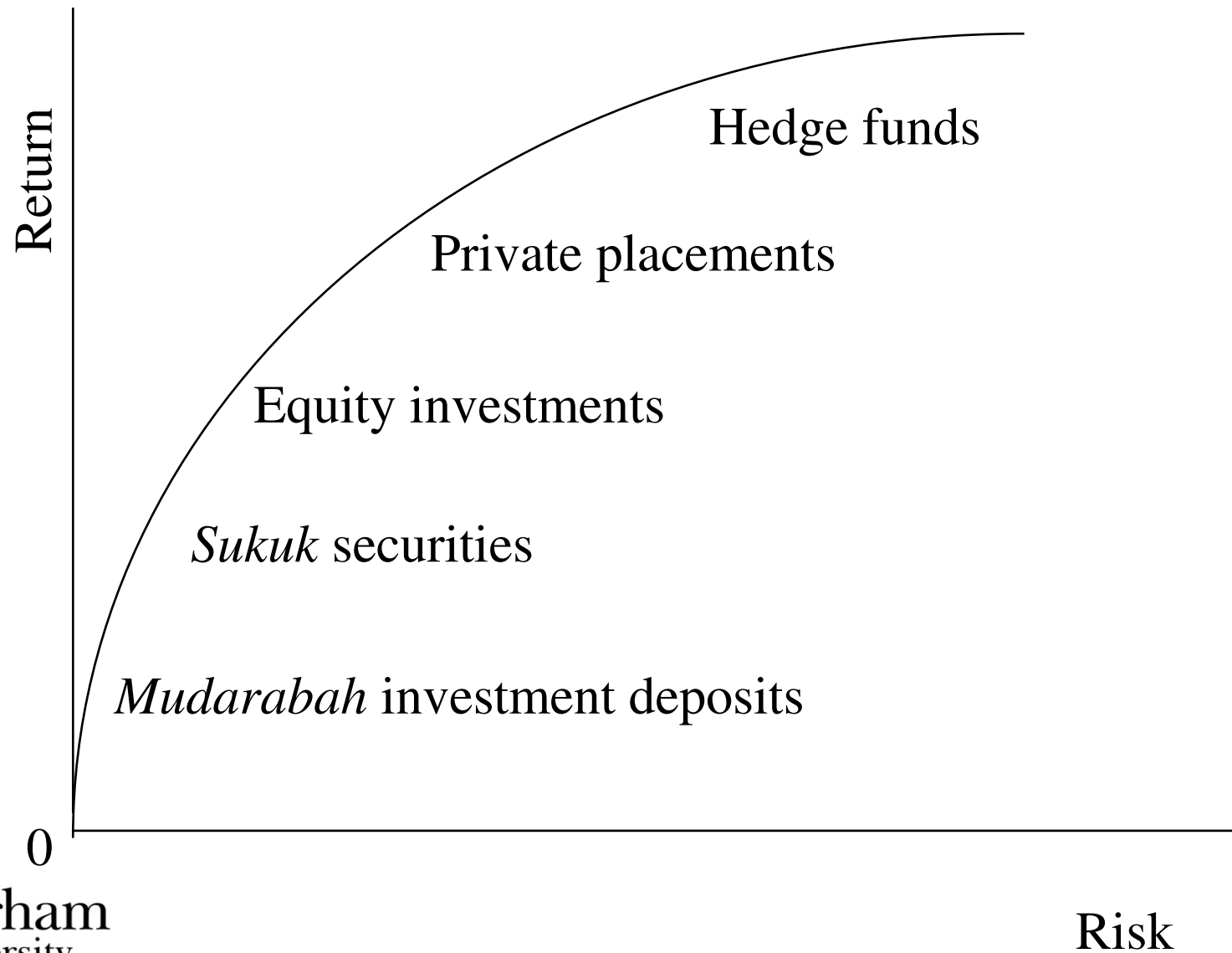
Liquidity

- Proportion of real estate and property
- Notice *mudaraba* deposits, unspecified and specified
- Family *takaful* investment

Balanced or skewed

- Aim of regular, modestly rising income while capital maintained
- Opportunistic, with focus on possible capital gains, but possibility of losses

Risk assessment



Screening of equity investments

Financial screens

- Total debt outstanding does not exceed one third of total capital
- Investment in cash and interest bearing securities do not exceed one third of total capital
- Receivables and cash do not exceed 50% of capital

Sector screens

- Avoid conventional banks
- Pork production and distribution
- Breweries and distilleries
- Gambling and casino operations
- Morally disreputable media including films and publications

Primary and secondary business

- Investment in supermarkets, hotels and airlines possible if less than 5% or 10% of business doubtful from an Islamic perspective

Musharaka versus equity investment

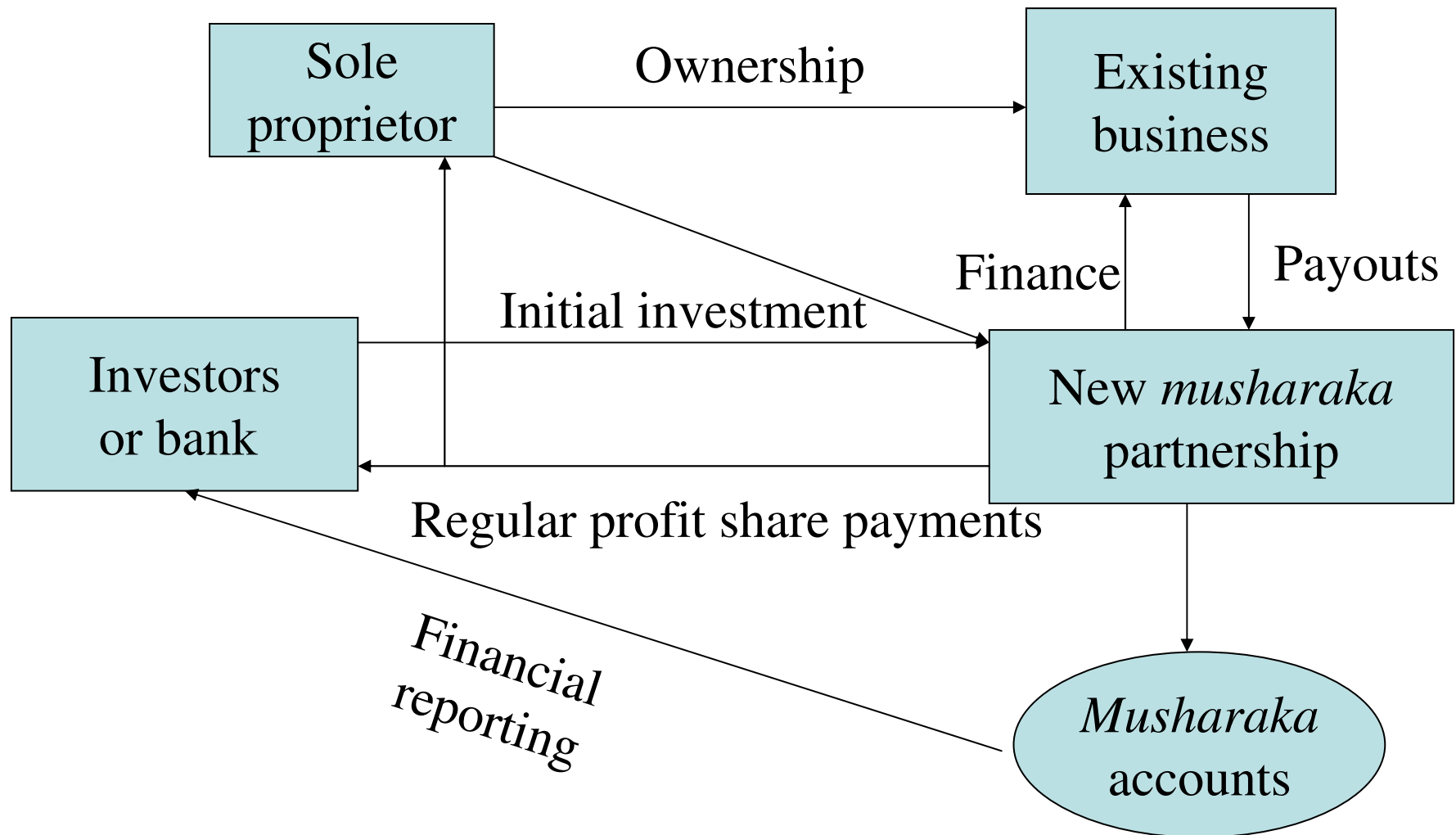
Musharaka

Venture of limited duration
Partnership with joint ownership
No exit without agreement of partners
Investors obtain profit share
Little probability of asset gains when venture terminates

Equity investment

Company exists in perpetuity
Exclusive ownership by shareholders
Exit at any time if company listed
Investors get dividends
Focus on capital gains and market value of equity

Term *musharaka* structures



Sukuk choices

Sukuk

Salam

Murabaha

Ijara

Musharaka

Mudaraba

Convertible *sukuk*

Conventional

Bills

Bonds

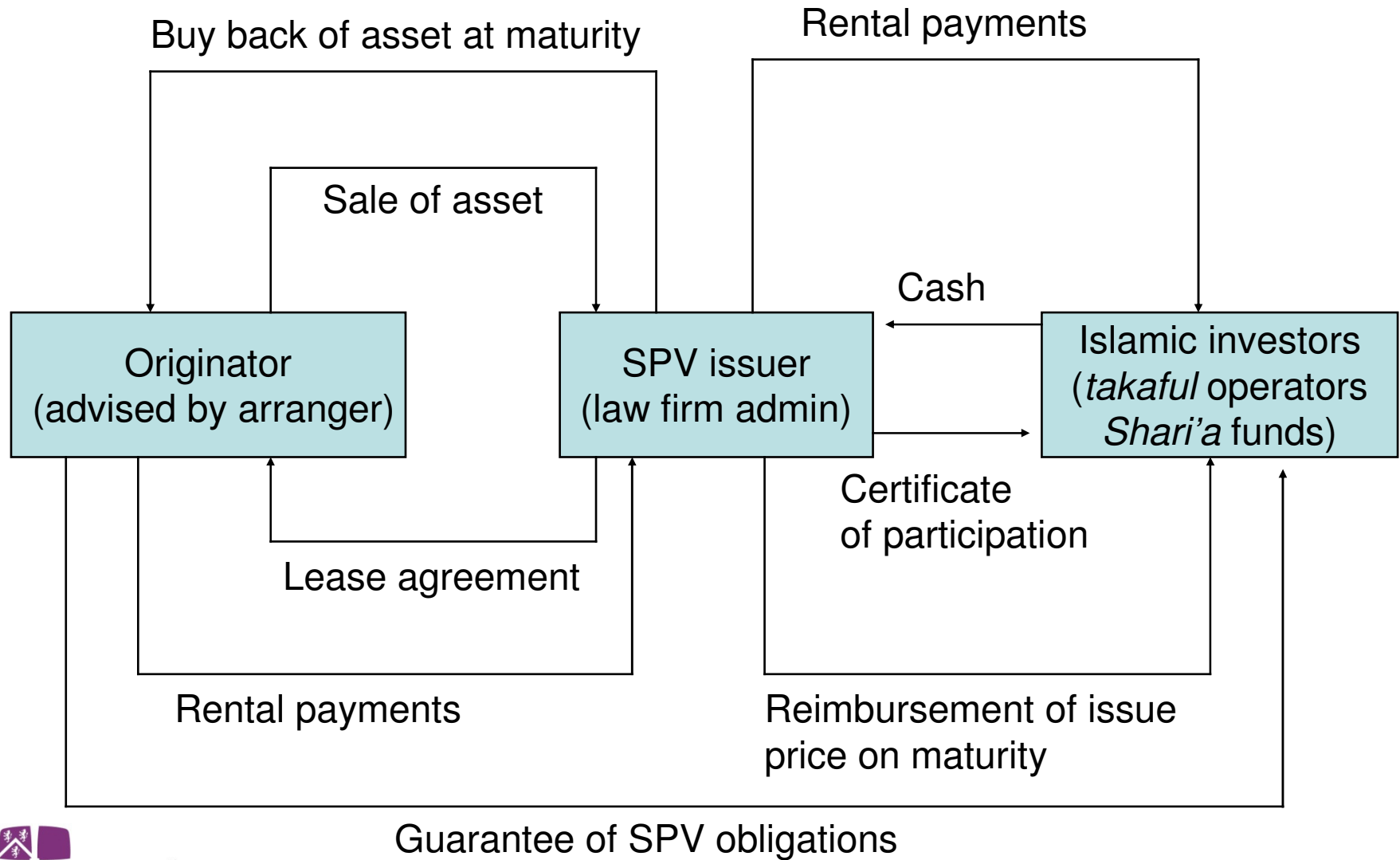
Notes

No equivalent

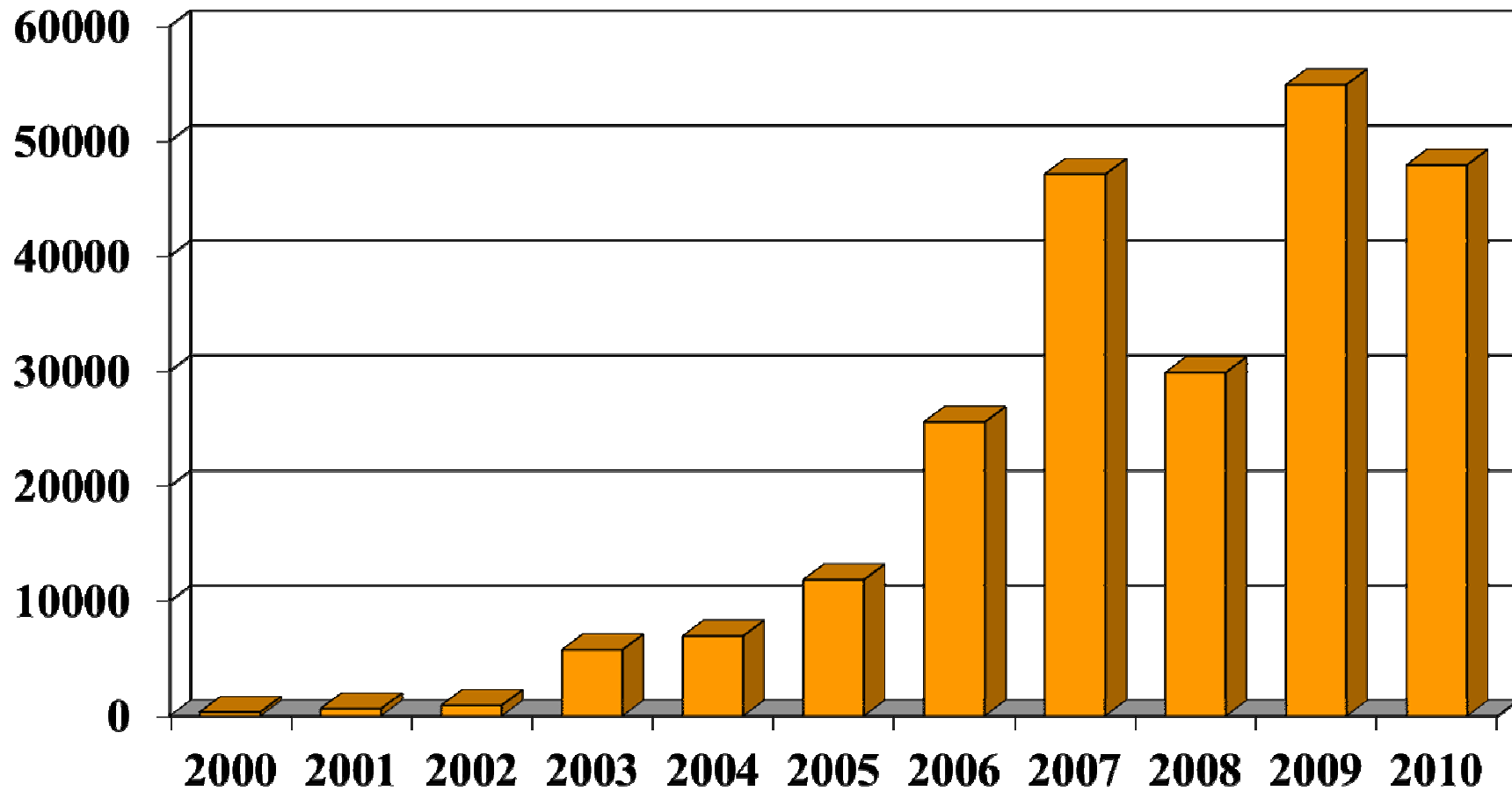
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Preference stock

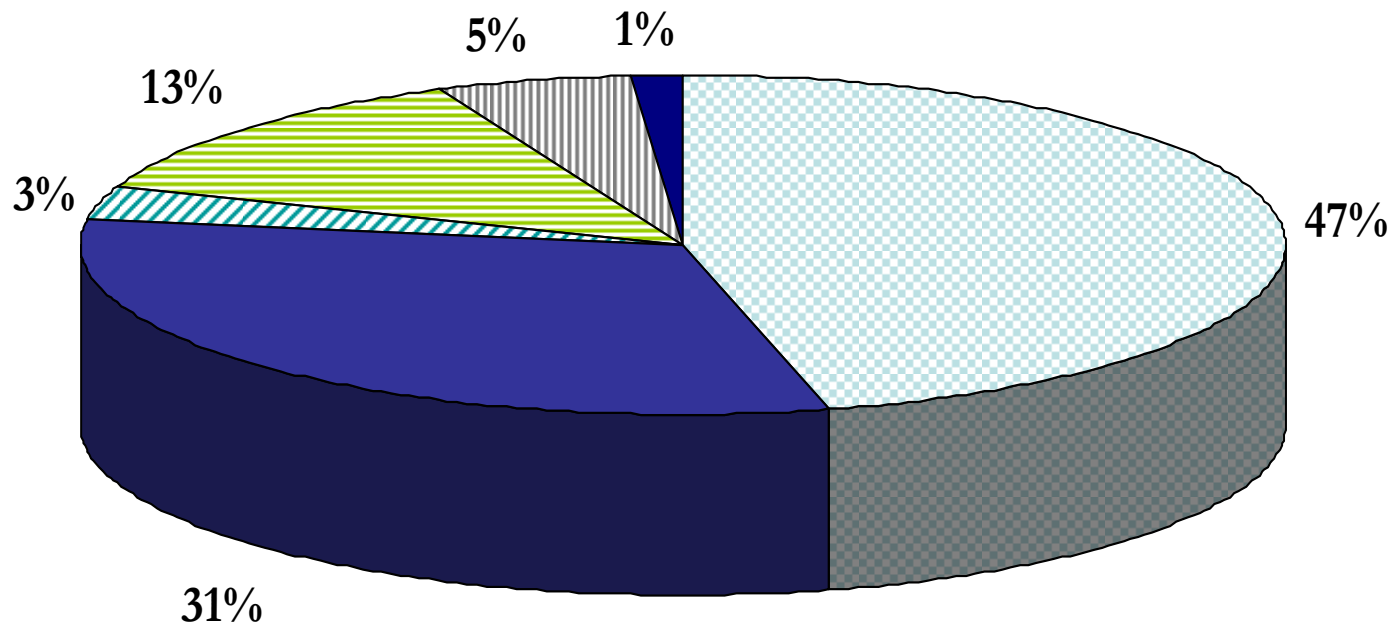
Ijara sukuk structure



Value of *sukuk* issues, \$ million



Value of *sukuk* issues by country, 2009 – 2010, %



Malaysia UAE Pakistan Saudi Indonesia Cayman



Durham
University

Real estate investment

Real estate investment

- Pricing determinants

Shari'ah perspectives

- *Ijara* operating lease contracts

Unlocking the potential of *waqf*

- Islamic charitable trust leasing and securitization

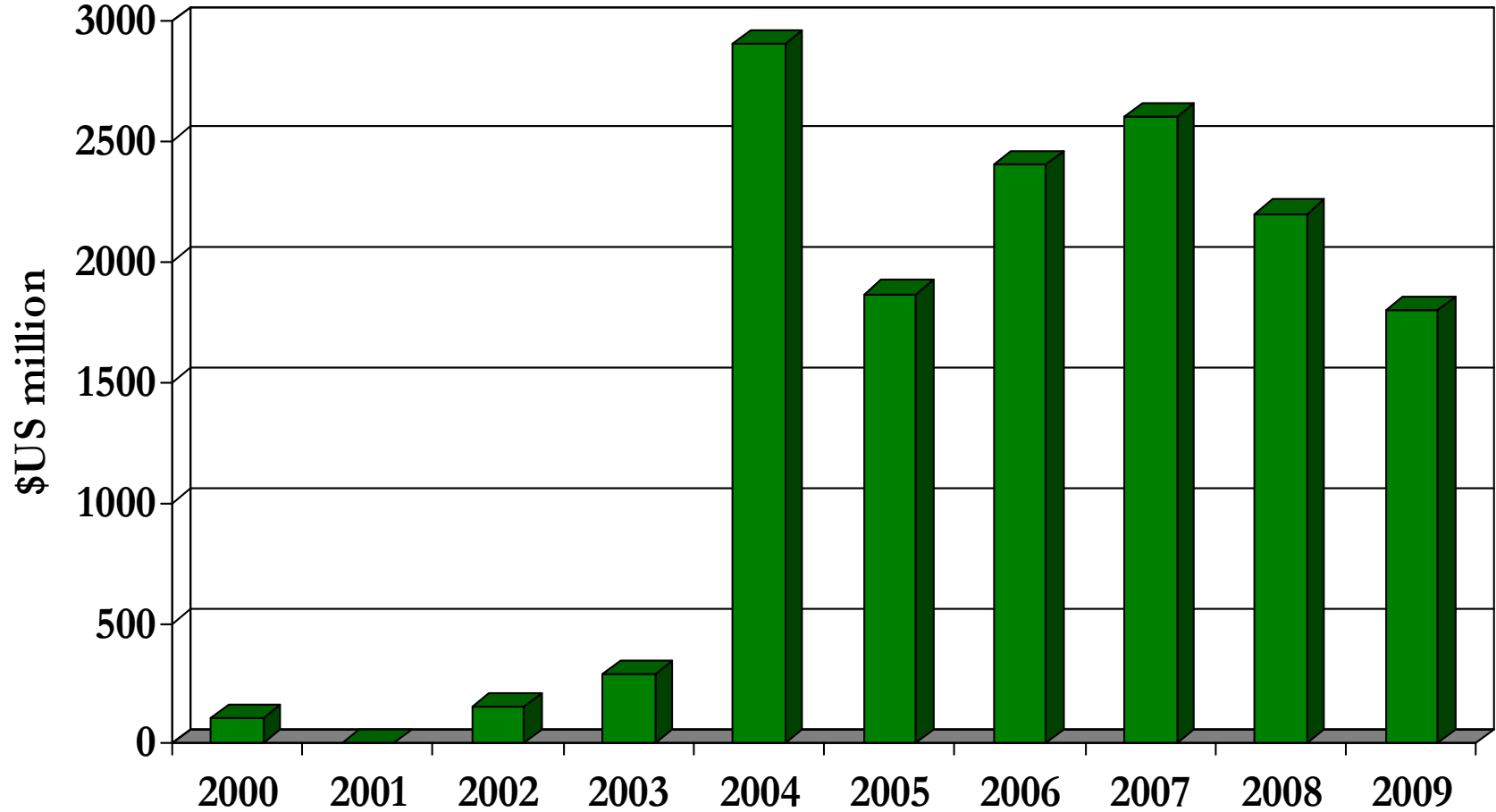
Shariah compliant residential property finance

- Islamic mortgages through *murabaha*, *ijara wa iqtina* and diminishing *musharaka*

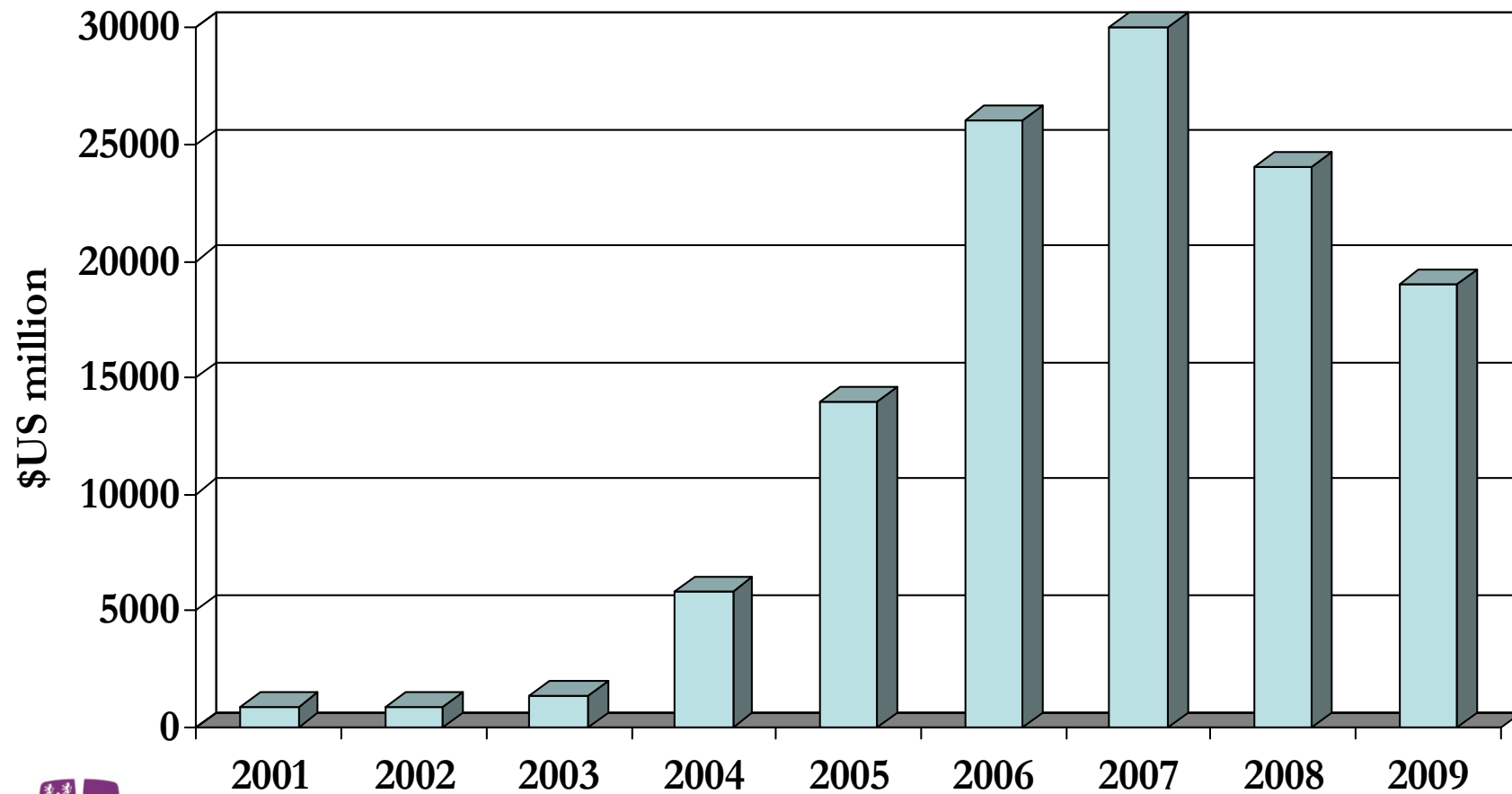
Case studies

- Shariah compliant property investment in the United Kingdom
- Kuwait, Bahrain and Emirates based Islamic real estate funds
- Growth of Islamic real estate investment funds and projects

Islamic real estate fund investment



Islamic real estate projects



Conclusions

Balanced or concentrated portfolios

- Balanced for tracker funds with passive management
- Focused and actively managed funds for higher returns
- Capitalise on knowledge and skills of the asset manager

Liquidity preferences

- Listed equity and traded *sukuk* for high liquidity
- Private equity, real estate and untraded *sukuk* for higher returns

Risk preferences

- Mature listed equity, well located real estate and money market instruments for low risk
- Technology, frontier market investments and private equity for high risk and returns