



# ISLAMIC FUNDS: GEARING UP

The global Islamic funds industry is poised for growth witnessing greater demand for Shariah-compliant investment, supported by increasing range of Islamic financial assets available in the market. As at end 1Q2017, the total global Islamic assets under management (AuM) were USD70.8 billion and the number of Islamic funds stood at 1,535. There were only 802 funds with AuM of USD47 billion in 2008.

**MALAYSIA**  
WORLD'S ISLAMIC FINANCE  
MARKETPLACE

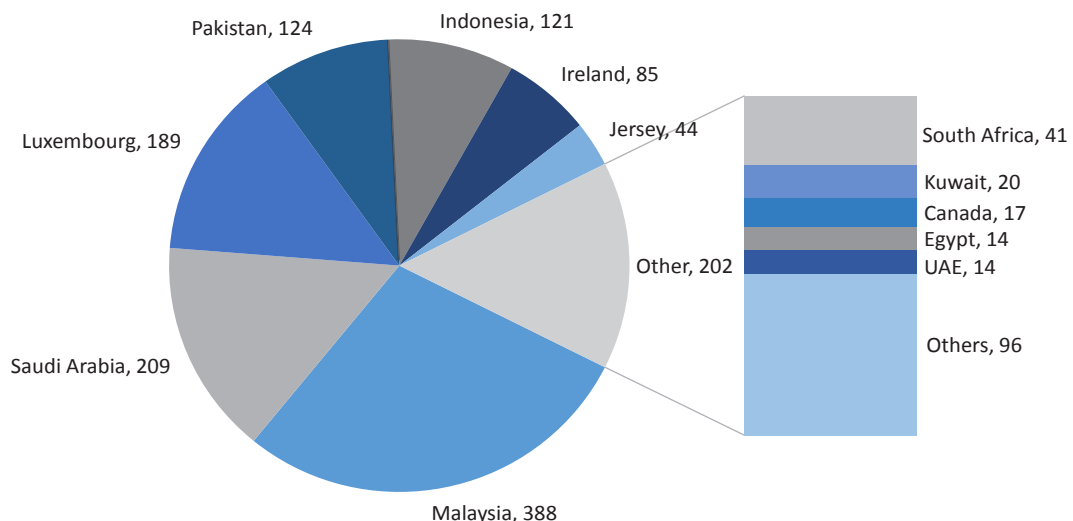


The global Islamic fund and wealth management sector is on the rise, a natural outcome of the growing demand for Shariah-compliant investment supported by increasing range of Islamic financial assets available in the market. As at end 1Q2017, the total global Islamic assets under management (AuM) were USD70.8 billion and the number of Islamic funds stood at 1,535<sup>1</sup>. There were only 802 funds with AuM of USD47 billion in 2008.

The industry now forms as part of the emerging development in the wealth and management industry, a result of the growing interest from large and established fund managers tapping into this window of opportunities. This sector continued to experience growth and poised for rapid evolution spinning off from just catering for affluent investors who wish to invest surplus funds in a Shariah-compliant manner. Islamic investment opportunities are now accessible to institutional investors as well as non-Muslim investors to diversify their investments through Shariah-compliant funds. Eyeing on the broader prospects, globally, high net worth individuals (HNWI) wealth is projected to nearly triple in size from 2006-2025 to surpass USD100 trillion by 2025, propelled by strong Asia-Pacific growth<sup>2</sup>. It is reported HNWIs hold less than one third of their global wealth with wealth managers, underscoring the potentials to amass HNWIs total investable wealth.

Malaysia and Saudi Arabia remain as the key domiciles contributing to the largest market share of the global Islamic funds industry. Saudi Arabia and Malaysia based Islamic managers held more than 67% of the total Shariah compliant AuM given their strong Islamic finance credentials and ready pool of investors with Shariah investments' appetite. Saudi Arabia alone contributed 35.6% share, with USD25.2 billion AuM (209 Islamic funds) as at end of the first quarter of 2017. Malaysia has the most number of Islamic funds globally with 388 funds managing total AUM of USD22.6 billion. Funds domains in Saudi are largely money market fund with the share 76% of total AUM. Malaysia has a more varied composition with equity funds contributed 45% of total AUM, money market funds stood at 32% whilst the remaining 23% are real estate, sukuk and mixed funds. Money market and equity funds continue to dominate the portfolio of Islamic funds globally following closely the composition of funds' type in Saudi and Malaysia being the two largest drivers in this space. Jersey ranked third where the funds domiciled in this jurisdiction are largely commodity type of funds i.e. gold. Luxembourg, Pakistan and the USA followed behind with USD2.9 billion, USD2.6 and USD2.3 billion of AuM, respectively.

Number of Islamic Funds Domiciled by Country as at end 1Q2017

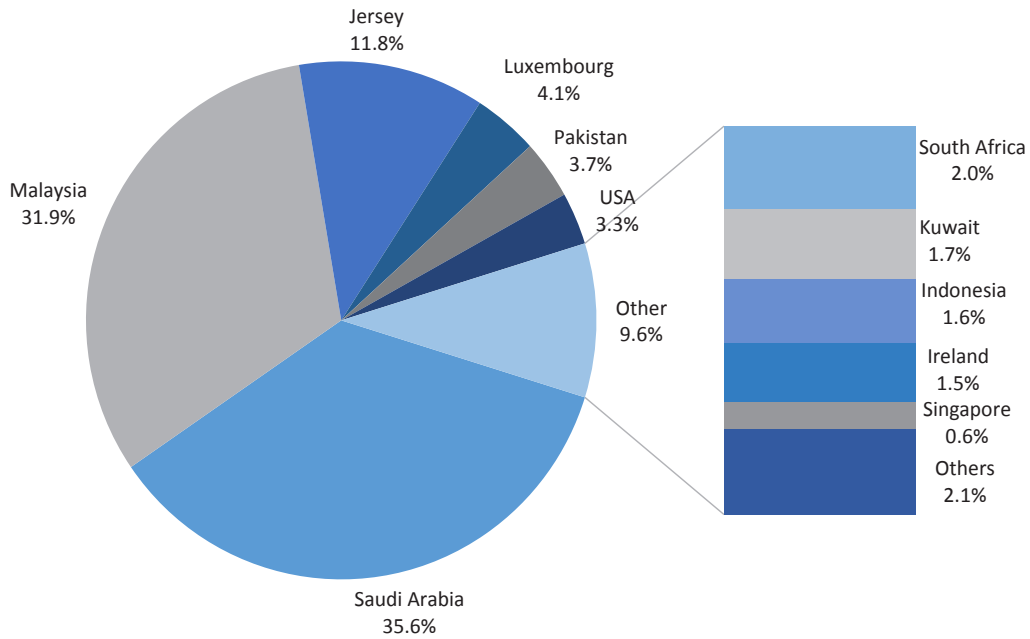


Source: Thomson Reuters, MIFC Estimates

<sup>1</sup> Thomson Reuters, MIFC estimates

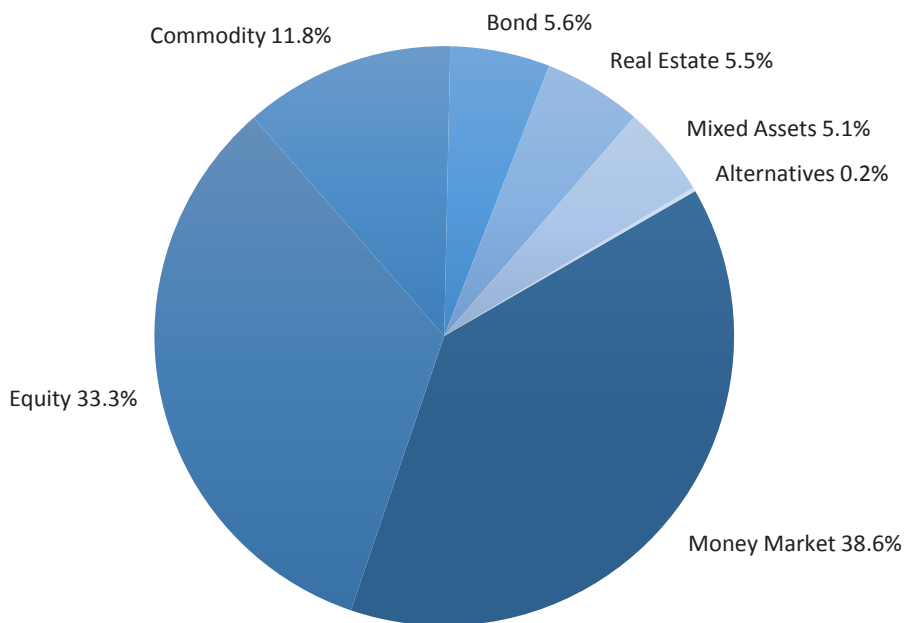
<sup>2</sup> Capgemini World Wealth Report 2016. According to the report HNWIs are defined as those having investable assets of USD1million or more excluding primary residence, collectibles, consumables and consumer durables.

**Global Islamic Assets under Management (AuM) by Domicile as at end 1Q2017**



Source: Thomson Reuters, MIFC Estimates

**Type of Islamic funds by AuM as at end 1Q2017**



Source: Thomson Reuters, MIFC Estimates

## Malaysia's Recent Trends and Future Driving Forces

In Malaysia, the Islamic fund and wealth management is a key area of growth that is expected to drive further growth of Malaysia's Islamic capital markets and enhance its global competitiveness. The Securities Commission of Malaysia (SC) has recently unveiled its Islamic Fund and Wealth Management Blueprint to chart the medium and long-term strategic direction for the industry as

well as map out strategies and recommendations to strengthen the country's competitive edge<sup>3</sup>. The Blueprint outlined recommendations for Malaysia focusing on addressing impediments to growth and innovation, while identifying potential opportunities for collaboration and partnerships, as well as accelerating the process of scale building.

### Key Thrusts of Malaysia' Islamic Fund and Wealth Management Blueprint

#### Trust 1

- Strengthen Malaysia's positioning as a global hub for Islamic funds

#### Trust 2

- Establish Malaysia as a regional centre for Shariah-compliant sustainable and responsible investment (SRI)

#### Trust 3

- Develop Malaysia as an international provider of Islamic wealth management services

To this end, the healthy growth and development of Islamic AuM in Malaysia is substantiated by a number of initiatives among others are as follows<sup>4</sup>:

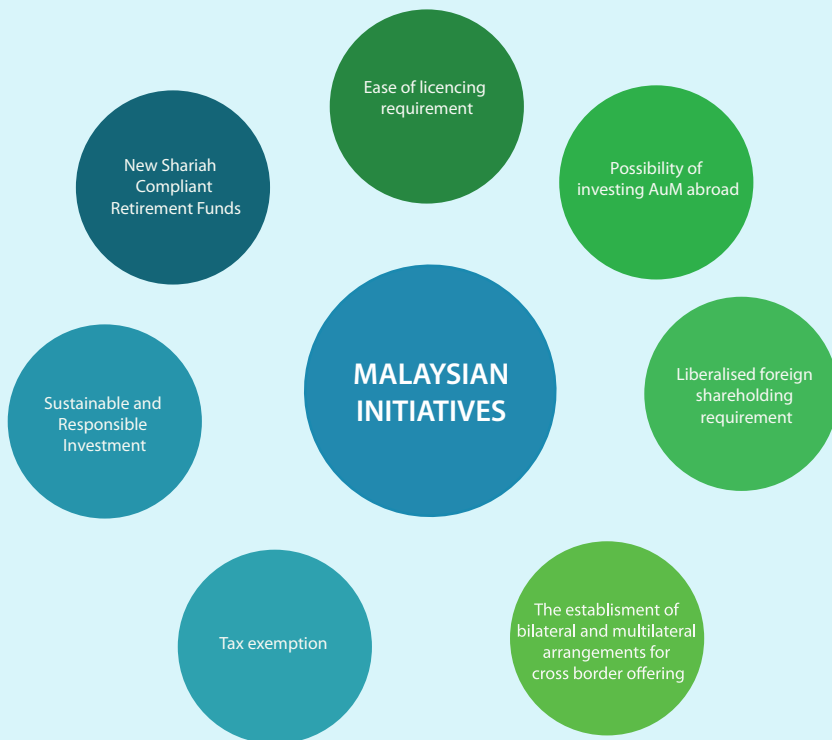
1. The easing of licensing requirements for dealing with fund management and giving investment advice.
2. The possibility for Islamic fund managers to invest their entire AuM abroad.
3. Liberalised foreign shareholding requirements of unit trust management companies which opens the door for wholly-owned foreign fund managers to launch and distribute retail funds in Malaysia.
4. The establishment of bilateral and multilateral arrangements for cross border offering of Islamic funds to promote further expansion of markets thus providing new opportunities for Islamic fund and wealth managers to grow their businesses.
5. Tax exemption until 2020 for all fund management companies on fees derived from the management of Shariah-compliant investment mandates, including Islamic real estate investment trusts and Islamic business trusts.
6. Guidelines for Sustainable and Responsible Investment.

<sup>3</sup> Securities Commission Annual Report 2016

<sup>4</sup> Securities Commission Annual Report 2014, 2015

### Malaysia's Islamic Funds Industry

#### Initiatives



Source: MIFC

#### Growth & Opportunities

##### MULTI-CURRENCY PRODUCTS OFFERINGS

- Launching of UCITS, unit trust and wholesale funds
- Listing and cross-listing of exchange traded funds and real estate investment trusts
- Launching of alternative funds i.e. private equity funds, waqf funds
- Launching of foreign currency exchange-traded bonds

##### CROSS-BORDER DISTRIBUTION AND OFFERINGS OF FUNDS THROUGH MALAYSIA

- ASEAN market via the ASEAN Collective Investment Scheme Framework
- Dubai and Hong Kong via SC's Mutual Recognition Agreements
- Europe via the UCITS platform in Luxembourg and Dublin

##### ISLAMIC WEALTH MANAGEMENT SOLUTIONS

- Wealth creation (portfolio investments and investment in real assets),
- Wealth protection (takaful and risk management) and
- Wealth distribution (zakat and estate management [wills, trust, hibah, waqf])

##### EXPAND INVESTOR BASE & TAP THE SRI MARKET

- Potential products may include SRI and ESG themed funds (sukuk and equity)

Recently, The Malaysia's Employees Provident Fund (EPF) introduced Shariah-compliant scheme as an option for members who wish to convert their current conventional EPF savings to one that is managed and invested in accordance with the Shariah principles. The dividend rates of this scheme will be based on the portfolio performance of Shariah-compliant investments. The Employees Provident Fund (EPF) announced that as at 23 December 2016, a total of RM59.03 billion of the initial RM100 billion fund allocated for the Shariah-compliant scheme 2017 have been taken up and 635,037 members have switched to the Shariah-compliant scheme<sup>5</sup>. This significant move will surely provide a boost to the Islamic finance industry as a whole.

Initiatives are also intensified to increase cross-border linkages with other jurisdictions in view of the benefits of greater market access. The SC has signed mutual recognition agreements with the Dubai and Hong Kong regulatory authorities in 2007 and 2009 respectively to enable the cross-border offering of Islamic funds. The Malaysia capital market regulator also entered into arrangements with the regulatory authorities of Ireland in 2011 and Luxembourg in 2012 to facilitate the offering of Malaysia's Islamic Undertakings for Collective Investment in Transferable Securities (UCITS) products.

<sup>5</sup> Employees Provident Fund



At industry level, Islamic fund managers in Malaysia continue to elevate the industry to greater heights by embarking into efforts that will further increase internationalisation of the Islamic funds industry. A number of partnership by Malaysian players with global asset management companies have taken place to enrich products offering in the domestic shore as well as in the international market. Recently, the industry witnesses launches of several innovative and global funds including the followings:

- BIMB Investment Management Berhad in partnership with Arabesque Asset Management Holding Ltd, UK launched the BIMB-Arabesque Malaysia Shariah-ESG Equity Fund. The Fund invests through a rules-based investment process into listed companies that are compliant with the principles of the United Nations Global Compact, Shariah-compliant according to the Shariah Advisory Council of the SC, and Accounting and Auditing Organization for Islamic Financial Institutions rulebooks using artificial intelligence technology.
- VCAP Asset Managers Sdn Bhd (VCAM) launched its Asean 5 ESG Opportunity Fund, a dual currency open-ended wholesale fund. The fund comprises the US dollar class units and the ringgit class units, allowing investors greater flexibility to participate in the fund.
- CIMB-Principal Islamic Asset Management (Ireland) launched its Global Sukuk UCITS Fund. The fund marks as the Malaysia's first global sukuk fund under UCITS funds structure in Dublin, Ireland.

Malaysia is currently the leading domicile for the number of Islamic funds globally holding the total AuM of USD22.6 billion. There are now 74 fund management companies in the country<sup>6</sup>. Recent innovations and global partnerships have also flourished the growth of the industry, expanding the breadth and depth of the Islamic funds industry globally.

## Global Outlook

Overall, the global Islamic funds industry is poised for growth in the upcoming years. It is projected that Islamic funds will grow by 5.05% per annum to reach USD77 billion by 2019<sup>7</sup>. The developments that have taken place on the Islamic fund management scene are making a strong case for the growing appeal of Shariah compliant investment offerings around the globe. A case in point is the recent move by Malaysia's private pension fund that is expected to lift the industry to a higher level. Especially at times when there is a growing interest and awareness towards Shariah-compliant investment asset class across jurisdictions, both from Muslim investors and non-Muslim investors. In Saudi, its national oil company Saudi Aramco also announced a potential valuation and IPO of up to USD10 trillion which is expected to boost the capital markets development in the country. Luxembourg, an emerging hub for Islamic fund and wealth management in Europe, has also witnessed innovation in developing Islamic finance services and also inviting financial technology businesses to provide new products and services to the market which is driven by the LuxFin2020 initiative.

In addition, socially responsible investing (SRI) has risen to prominence on the global investment landscape as the growing number of investors, individual and institutional alike, are seeking out investment avenues and instruments that support ethical and sustainable development in both developing and high income nations while providing competitive returns. In line with the rising interest in SRI in the global marketplace, Islamic investing is often associated with ethical practices and require the application of screening. The pursuit of positive social outcomes alongside commercial returns is indeed a natural match between the two, providing greater prospects for Islamic funds to cater to SRI investors' expectations. Globally, there are now USD22.89 trillion of assets being professionally managed under responsible investment strategies, an increase of 25% since 2014 and the largest market for sustainable investing in Asia ex Japan is Malaysia (30 %)<sup>8</sup>.

The future of the Islamic funds industry is expected to grow given the promising developments of the industry, as part of natural progression and evolution of the global Islamic financial industry.

<sup>6</sup> Securities Commission Malaysia

<sup>7</sup> Thompson Reuters Projection, 2015

<sup>8</sup> Global Sustainable Review Report 2016

#### Disclaimer

The copyright and any other rights in the selection, coordination, arrangement and enhancement of the information in this publication are owned by Bank Negara Malaysia. No part of this publication may be modified, reproduced, published or transmitted without prior permission in writing from Bank Negara Malaysia and the relevant copyright owner.

Although every effort has been made to check the accuracy and completeness of this publication, Bank Negara Malaysia accepts no responsibility or liability for errors or omissions, if any. The information published here is only up-to-date at the time of printing, and is not exhaustive and may be updated from time to time on the website: [www.mifc.com](http://www.mifc.com). Bank Negara Malaysia appreciates any feedback or suggestion for improvement.

Copyright © 2017 Bank Negara Malaysia.  
The MIFC logo is a registered trade mark in Malaysia.  
All rights reserved.