

# Success of Islamic Investment Funds

## An Experience of Al-Tawfeek

*Prepared by*

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*Ladies & Gentlemen,*

*Al Salamu Alaikum Wa Rahmatu Allah Wa Barakatuh,*

My presentation is basically from the perspective of an individual who has witnessed and participated in the growth of Islamic finance industry over the last 15 years. **I will seek to support the view that the Islamic Investment Funds – despite contemporary challenges – are a viable alternative by outlining how an important part of any financial system – investment portfolio management – has been adapted to comply with Sharia requirements.**

### **I. Background**

Al-Tawfeek Company, is one of the major subsidiaries of Dallah AlBaraka Group "DBG". DBG, a large Saudi conglomerate, was formed in 1969 by Sheikh Saleh Kamel and is now a prominent multinational firm with over 300 operating companies with more than 60,000 employees in all disciplines in 43 countries. Today, the Dallah AlBaraka group is a highly diversified commercial establishment with a balance sheet of over US\$ 7 billion, distributed in three main sectors: Business Sector, Media Sector, and The Financial Services Sector. The Group operates in Industry, Agriculture, Trade, Transport, Communication, Banking, Insurance and Health Services. Over 40 banks and financial institutions form the group's Financial Services Sector.

Al-Tawfeek Company for Investment Funds Ltd. is a recognized leader in the creation and development of Islamic investment funds designed to meet the needs of the rapidly growing Islamic banking and investment consumer base.

Al-Tawfeek has played a crucial role in establishing recognized standards for investments that conform to Sharia principles. It has launched 14 investment funds of different asset classes. Incorporated in 1992, Al-Tawfeek specializes in medium to long-term financing of earlier-stage companies and infrastructure projects, as well as equity participation in listed and unlisted businesses in diverse economic sectors ranging from heavy industry, manufacturing, commercial and retail sectors, as well as real estate development. Al-Tawfeek provides corporate syndication, underwriting, issue agent, and placement services. Its paid-up capital is in excess of US\$300 million and assets under its management are more than US\$1 billion.

## **II. Strategic Alliances with Major International Fund Managers:**

As part of the global financial community , Al-Tawfeek has developed/maintained business allies and strategic mutually beneficial relationships with several international financial institutions. The following table shows some examples of such relationships:

1. Roll & Ross Asset Management	USA	Al-Safwa Int'l Equity Fund
2. Nomura Investment Banking (ME)	JAPAN	AL-Nukhba Asia Equity Fund
3. Commerzbank Asset Management	GERMANY	AlSukoor European Equity Fund
4. Brown Brothers Harriman & Co.	USA	Albaraka Dow Jones Islamic Index
5. Maple Wood Management LP	USA	Manar Private Equity

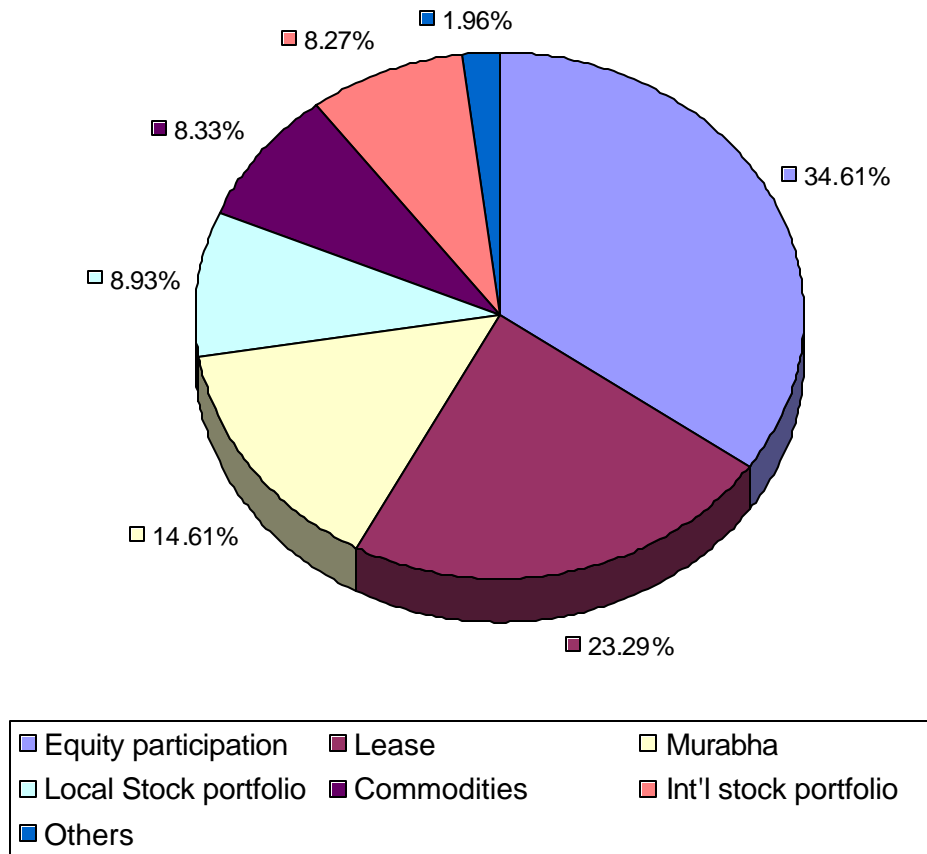
## **III. Al-Tawfeek's Investment Portfolio – Islamic Financial Instruments**

Al-Tawfeek provides asset management and investment banking services to both institutions and individuals. Its open and close end Funds and private placements are designed to fit the needs of various market sectors and different investors' categories.

In the following 3 pages an overall breakdown, of financing modes, sectoral and geographical profiles are shown.

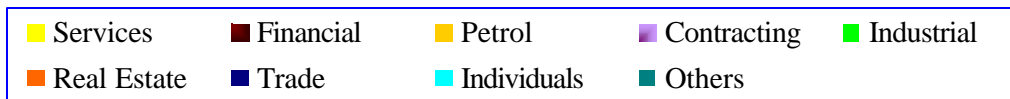
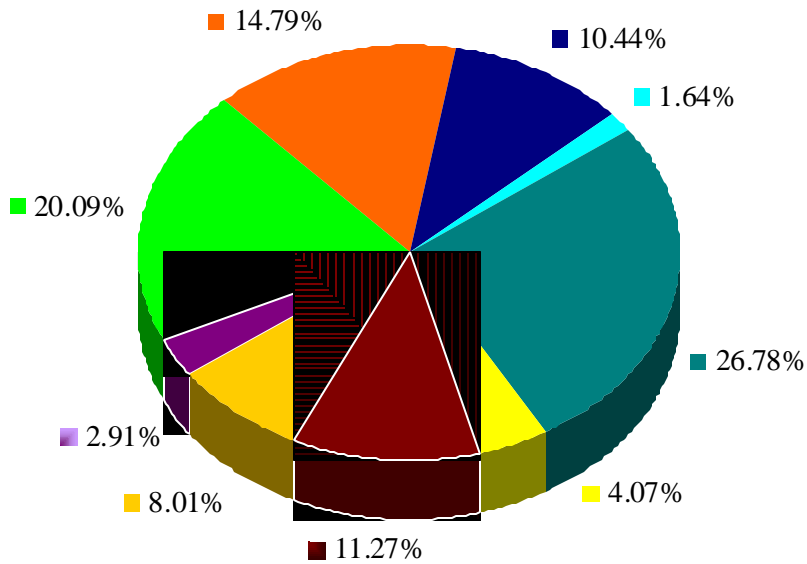
## Investment Portfolio Analysis as of February 28, 2001

### a) Distribution by Mode of Finance



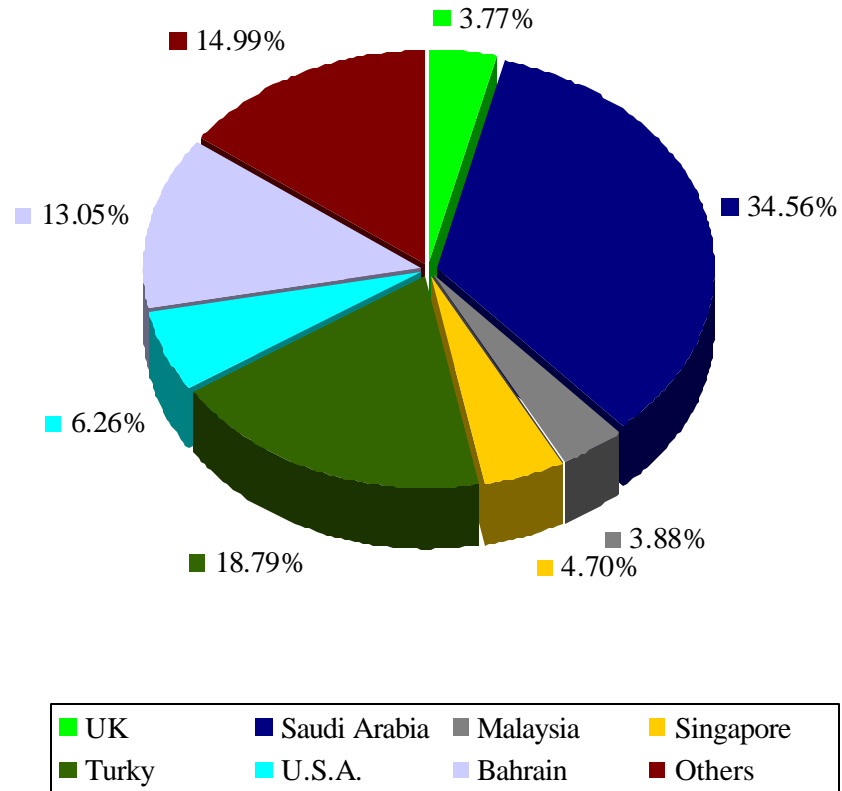
The Chart above shows greatest concentration of investment activity in equity participation (34.61%), followed by Lease and Murabaha, with (23.29%), and (14.61%) respectively.

## **b) Sectoral Distribution**



This chart above shows the dominant weight for industrialized projects (20.09%) followed by real estate (14.79). and Financial (11.27%).

### c) Geographical Distribution



The Chart shows that the geographic markets concentration was in favor of the Saudi Arabia with 34.56%, followed by Turkey 18.79%, Bahrain 13.05%.

## Al Tawfeek's Experience in Islamic Investment Funds

Since its incorporation in 1992, Al-Tawfeek has structured and launched 14 Islamic investment funds with aggregate issued capital of more than US\$ 1 billion. These funds cover almost all asset classes, which comply with the Sharia:

1. Al-Baraka General Fund
2. Lebanon Reconstruction Fund
3. Al-Madinah Al-Monouwara Fund
4. Jeddah Touristic City
5. US Real Estate Fund
6. Children Investment Fund
7. International Leasing Fund
8. GCC Leasing Fund
9. GCC (2) Leasing Fund
10. ALSAFWA INTERNATIONAL EQUITY FUND
11. ALNUKHBA ASIA EQUITY FUND
12. AlSukoor European Equity Fund
13. Albaraka Dow Jones Islamic Index Fund
14. Manar Private Equity Fund

The outstanding investment management role of Al Tawfeek Company is clearly demonstrated by the successful performance of the following exemplary funds:

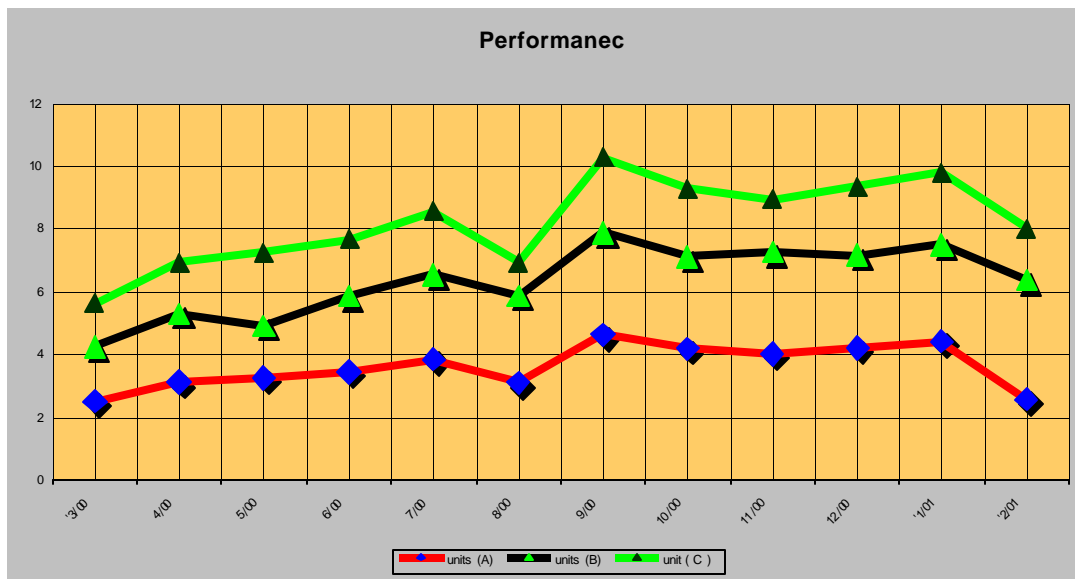
## *Al-Baraka General Fund*

### Investment Strategy

The Fund Invests in various economic sectors in the G.C.C. countries and helps to strengthen the application of Islamic economic principles. The Fund aims to earn Halal profits through Islamic investment and financing modes such as Ijara, Musharaka, Murabaha, Istisnaa', and Mudaraba, thus catering to the requirements of various investors.

### Performance

Performance of Al-Baraka General Fund is shown in terms of three main units A, B, C that are issued:	<b>Average ROR over the referenced period:</b>
Unit A: Can be liquidated at any time	• Unit A: 3.60 %
Unit B: Redeemable every three months	• Unit B: 6.33 %
<b>Unit C: Redeemable yearly</b>	• Unit C: 8.21



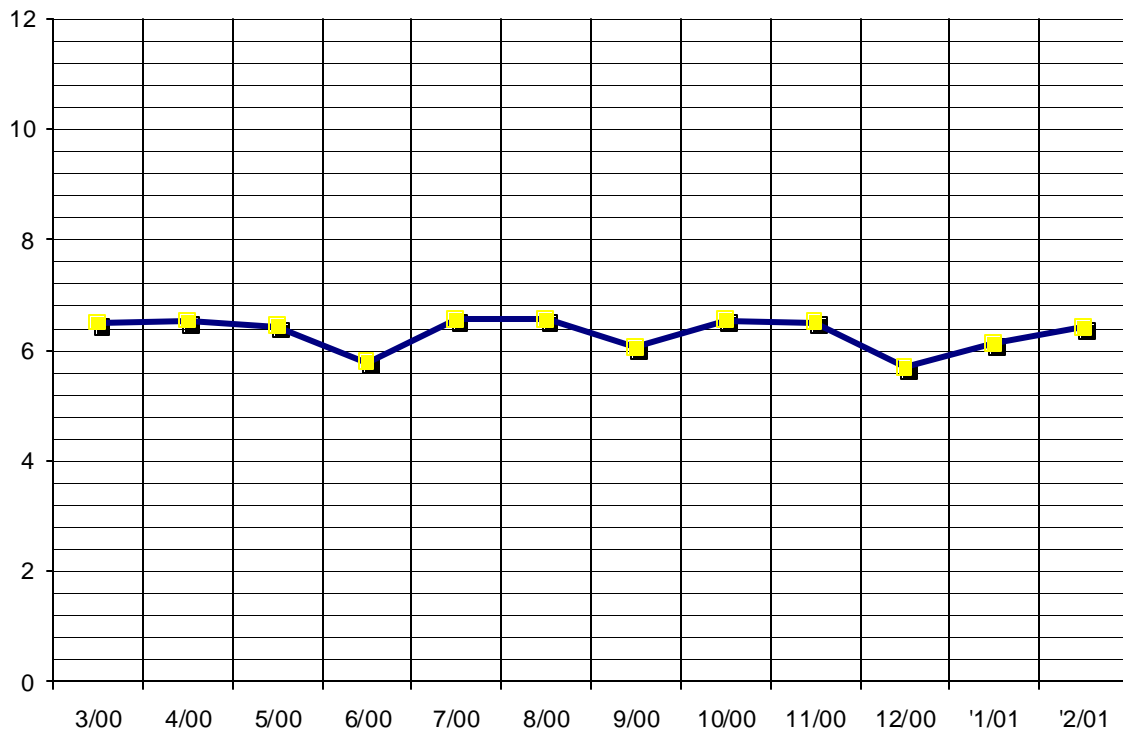
## International Leasing Fund

### Investment Strategy

1. **To** invest in diversified financial leases of capital assets in the medium term.
2. **To** provide an opportunity of earning attractive return with average risk through carefully selected leasing transactions.
3. **To** enable investors to participate in large and diversified investment activities even if they participate with small amounts.

### Performance

The performance for the International Leasing Fund shows an average ROR of 6.30% for the referenced period.



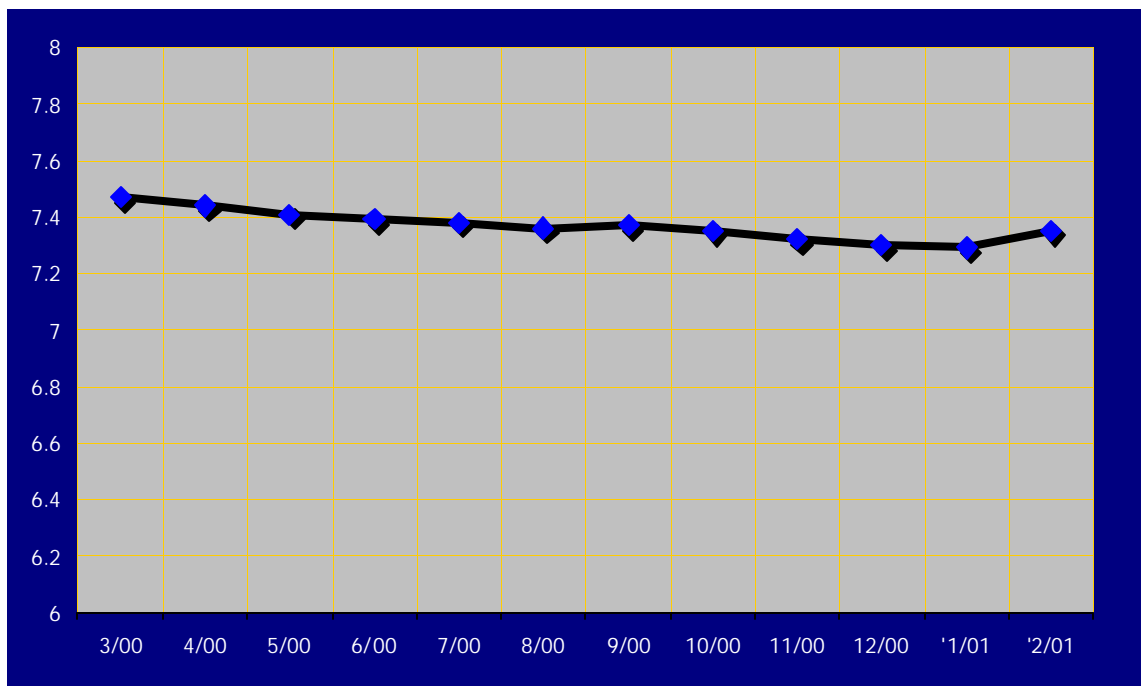
## GCC Leasing Fund

### Investment Strategy

**The Fund aims** to earn superior returns, in accordance with Sharia', through financial leases of a diversified capital assets portfolio in the GCC countries.

### **Performance**

Performance of the GCC Leasing Fund shows an average ROR of 7.3 % for the referenced period.



## **AlSukoor European Equity Fund**

### **Investment Strategy**

The investment objective of the fund is outperforming the designated benchmark on a risk-adjusted basis.

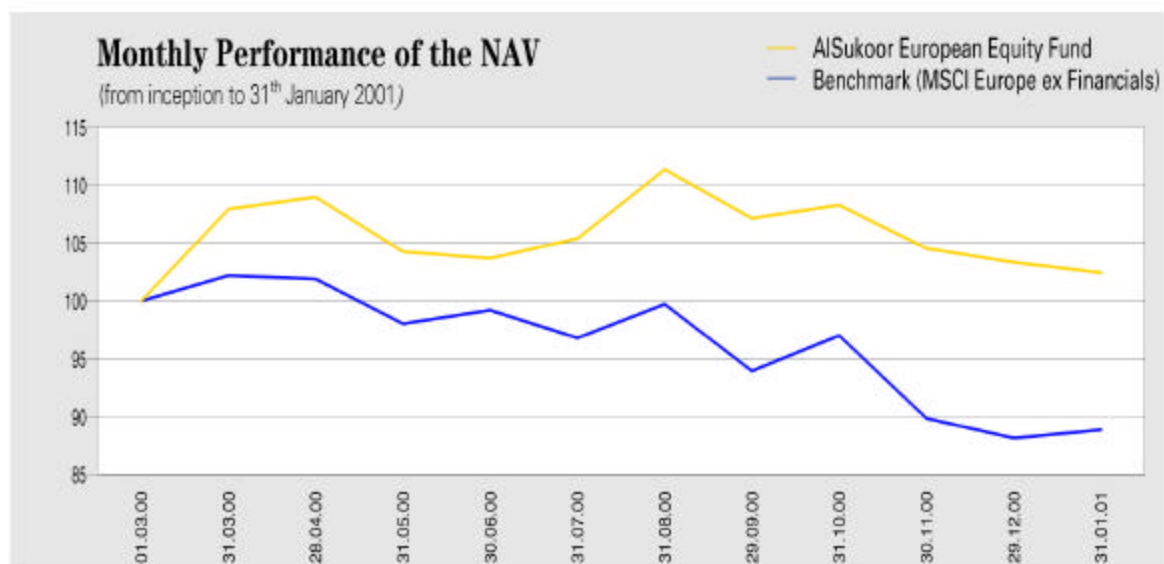
The policy is to invest in equities that are traded on recognized markets of countries included in the Morgan Stanley International (MSCI) European Index, while adhering to restrictions imposed by Islamic guidelines.

The Fund is designed to enable Islamic investors to gain exposure to European Markets, thereby achieving a high degree of international diversification.

## **AlSukoor European Equity Fund**

### **Performance**

<b>Performance</b>	<b>Fund</b>	<b>Benchmark</b>
January 2001	- 0.89 %	0.83 %
In 2000	3.35 %	- 11.87 %
In 2001	- 0.89 %	0.83 %
3 months	- 5.42 %	- 8.40 %
6 months	- 2.82 %	- 8.20 %
Since inception	2.43 %	- 11.14 %



## Albaraka Dow Jones Islamic Index Fund

### Investment Objectives

**To Match The Performance of the Dow Jones Islamic Market Index.**

Performance	Dec. 3 <sup>rd</sup> – Feb. 28 <sup>th</sup> 2001
Al-baraka DJIM Portfolio	(9.6 %)
DJIM Index	(9.9 %)

## Manar Private Equity Fund

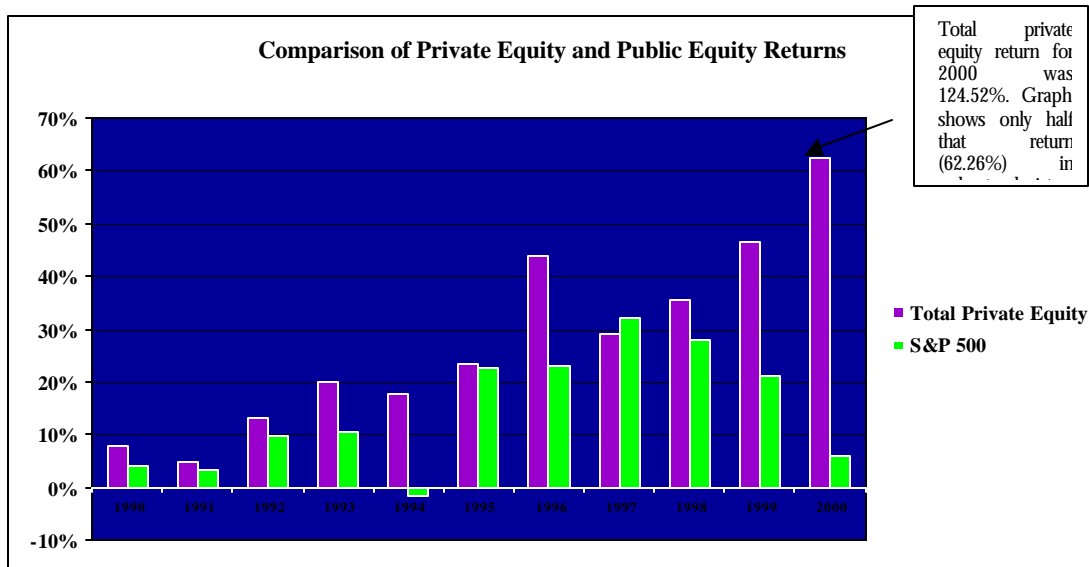
### Fund's Overview

The Manar Private Equity Fund. Has been launched to offer investors an opportunity to participate in private equity investments in accordance with Sharia.

The Fund is the first of its kind in the Islamic banking industry to build a diversified portfolio of Islamically acceptable private equity investments.

The Fund will make investments in small companies that have the potential for significant growth.

The Fund will seek to achieve an internal rate of return (“IRR”) in excess of 25%, Inshallah



## Conclusion

The size of Islamic Investment Funds is expected to be at least doubled during the next decade.

Islamic Investment Funds are expected to cover a much wider range of products (from short low risk leasing funds to long-term high-risk private equity funds).

Available funds in the Islamic world (Gulf states only is estimated to have US \$ 300 bn.of private liquidity) will imply a growing demand for such products.

With the increasing globalization in the banking sector and mergers and acquisition some international banks are taking over smaller banks with Islamic banking units, and launching new Islamic Funds.