



Islamic & Socially Responsible Investing in Mutual Funds

Presented by

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Islamic Investment Funds Definition

- ❑ The 'Islamic Investment Fund' is a joint pool wherein the investors contribute their surplus money for the purpose of its investment in conformity with the **Islamic Sharia**.
- ❑ In Islamic Investment (Equity, Venture Capital, or Trust-type) Funds are so structured that the Fund's share owners entrusts the Mudarib (Manager) to act in their behalf.
- ❑ In the Islamic Investment Funds the Returns on Investments depend on the actual profit or loss generated by the Fund.

Islamic & Conventional Equity Funds Basic Differences

❑ Conventional Equity Funds:

- ❖ Any and all traded firms, Company or Enterprise, regardless of activity engaged, qualifies for investor's ownership of stocks. The sole criteria to purchase the stock is the Company's ability to prosper and produce high dividends and opportunity to increase in Capital-Gain share value.
- ❖ The taking of interest is considered the cost of doing business.

❑ Islamic Equity Fund:

- ❖ Prohibits the Share acquisition of any companies whose income is derived from Gambling, Alcoholic beverages, Financial lending for interest, either with or without risk, derivatives, selling short or any other method in conflict with Sharia Islamic Law. Also borrowing at interest (leverage) is impermissible.
- ❖ The principal of Sharia does not allow 'interest' to be considered as a part of the cost of a product or service, it does not add to the end value and plays no part in the commercial system.

Islamic Investment Funds Growth

- ❑ Investment Funds constitute one of the fastest growing areas of Islamic finance. At present, total value of equity funds under Islamic management varies between US\$ 1 to 3 billion.
- ❑ **Main reasons for the rapid growth:**
 - ❖ There is a growing interest from Muslim investors.
 - ❖ Islamic Sharia Boards are demonstrating greater understanding.
 - ❖ The Islamic Mutual funds are generating better returns.
 - ❖ The Conventional Banking Industry is emulating the Islamic Investment Instruments and appointing Sharia Boards' Advisors for Sharia compliance.
 - ❖ Availability of Islamic Indexes.
- ❑ Without taking capital appreciation into account, Islamic Mutual Funds are growing at a rate of between 20-25 percent a year.
- ❑ The growth of the sector has been explosive. According to the Failaka Investment Inc. in April 2000 more than 85 Islamic Equity Funds have been identified world-wide.

Islamic Equity Fund

- At present, Islamic Mutual Funds concentrate on various asset classes such as:
 - ❖ Trade Finance & Commodities
 - ❖ Leasing
 - ❖ Real Estate
 - ❖ Venture Capital
 - ❖ Equities.
- Islamic Mutual Equity Funds are one of the fastest growing areas of the Islamic Finance Industry. There are about 85 Islamic Equity Funds around the world, of which about half originate in the Middle East.
- The future growth of the sector may be further encouraged by the launch of Islamic equity indexes. Serious efforts have been established to track the movements of stocks conforming to Sharia in the Global Equity markets. The series comprise Dow Jones Islamic Market Index (DJIM), FTSE Global Index & four FTSE sub-indexes covering North America, Europe, Pacific Rim and South Africa, - with its own Sharia Committee - and MSCI Eastern European Index.

Islamic Investment Equity Fund

Name of Fund	Fund Promoter	Investment Advisor	Fund Size (US\$m)	Return since Inception ●
Global Equity Funds:	Worms & Cie/SEDCO	Permal Asset Management	120.00	43.90%
AlFonar Investment Holdings	Al-Rajhi Banking & Inv. Corp.	UBS Asset Management	-	55.01%
Al Rajhi Global Equity	Al-Tawfeek Co. for Invest. Funds	Roll & Ross Asset Mgt.	5.7	-
Al-Safwa International Equity	Robert Flemings	Fleming Investment Mgt	-	37.3%
Oasis International Equity	National Commercial Bank	Wellington Management	9.5	-
Global Trading Equity	The International Investor	Wafra Invest. Advisory Grp./TII	61.1	19.03%
Al-Bukhari Global Equity	The International Investor & Pictet	Pictet & Cie	-	45.54
Al-Dar World Equities	Riyad Bank	Riyad Bank	12.40	28.60%
Riyad Equity Fund 2	Al Baraka Islamic Bank BSC (EC)	Mercury Asset Management	5.587	55.30%
Global Equity Fund	Al Baraka Islamic Bank BSC (EC)	Global Asset Management Ltd.	-	-
GAM Al-Kawthar	Arab National Bank	Schroeder Invest. Mgt. Intl.	3.0	18.76%
Arab Investor Crescent Fund	Miraj International Investment Ltd.	Royal Bank Invest. Mgt.	-	-
Miraj Global Equity Fund	Barclays Private Bank	n/a	-	-
Barclays Islamic Portfolio				-
Asia Equity Funds:				
Al-Nukhba Asia Equity Fund	Al-Tawfeek Co. Investment Funds	Nomura Invest. Banking (ME)	19	51.33
Middle East Equity Fund :				
Al-Rajhi Middle East Equity	Al-Rajhi Banking & Invest. Corp.	Bakheet Financial Advisors KSA	-	3.63%
East European Equity Funds :				
Al-Dar East European Equities	The International Investor & Pictet	Pictet & Cie	13	-33.36

Islamic Investment Equity Fund

Name of Fund	Fund Promoter	Investment Advisor	Fund Size (US\$m)	Return since Inception ●
European Equity Funds:				
Al-Sukoor European Equity Fund	CICM/ Al-Tawfeek Co.	Commerze Int'l Capital Mgt.	18.0	-
Al-Dar East European Equities	The Int'l Investor & Pictet	Pictet & Cie	21.5	38.40
Europe Trading Equity Fund	National Commercial Bank	-	-	-
AlFanan Europe Ltd.	Worms & Cie/SEDCO	Permal Asset Management	19.0	4.70%
Capital Protected Equity Funds :				
Al-Ahli US Secured Fund Index	Faysal Islamic Bank of (BH)	Banque National de Paris (Bahrain)	-	-
Faysal Shield Fund	National Commercial Bank	Deutsche Bank	252.0	-
Al-Ahli US-Secured Fund				
Small Cap Equity Funds :				
TII Small Cap	The International Investor	Pictet Asset Management UK Ltd.	23.1	41.00%
Small-Cap Trading Equity	National Commercial Bank	-	-	-
Small-Cap Fund	Al-Rajhi Banking & Inv. Corp.	Merrill Lynch	-	8.69%
ZAD Growth Fund	ZAD Assset Management LLC.	Awad & Associates/Roanoke A. M.	-	29.24%
Emerging Markets Equity Funds :				
Ibn Majid Emerging Markets	The International Investor	UBS Brinson	19.80	19.2%
Country Equity Funds:				
Saudi Arabia Equity Funds:				
Al-Arabi Saudi Co. Shares	Arab National Bank	-	-	-
Al-Rajhi Local Share	Al-Rajhi Bank. & Invest. Corp.	Al-Rajhi Banking & Invest. Corp.	-	-35.48%
Saudi Trading Equity	National Commercial Bank	Bakheet Financial Advisors	-	-
Egypt Equity Funds :				
Al-Rajhi Egypt Equity	Al-Rajhi Bank. & Invest. Corp.	EFG Hermes (Egypt)	-	-24.68%

Islamic Investment Equity Fund

Name of Fund	Fund Promoter	Investment Advisor	Fund Size (US\$m)	Return since Inception ●
US Equity Funds:				
Alkhawarizmi	The International Investor	Axa Rosenberg Investment Mngmt. Ltd.	16.9	5.80%
US Trading Equity Fund	National Commercial Bank	-	-	-
AlFanan US Capital Value	Worms & Cie/SEDCO	Permal Asset Management	30.0	2.8%
AlFanan US Capital Growth	Worms & Cie/SEDCO	Permal Asset Management	27.0	7.8%
South Africa Equity Funds :				
Oasis Crescent Fund	Oasis Asset Management	Oasis Asset Management	n/a	-

Source: Compiled by Islamic Banker from various official sources. December 1999

● Performance returns calculated from valuation date

Dow Jones Islamic Market Index (DJMI) Vs Conventional Indexes Quarterly Closings (1999)

	Q1	Q2	Q3	Q4
DJIM	5.83%	12.31%	9.77%	29.22%
MSCI World	3.30%	7.30%	4.80%	23.40%
DJIM Global Tech	-	23.60%	31.67%	83.99%
Nasdaq Comp	12.30%	22.50%	25.24%	85.50%
DJIM	--	10.57%	5.12%	21.68%
S&P 500	4.60%	11.67%	4.35%	19.53%
DJIA	6.60%	19.49%	12.59%	25.22%
DJIM UK	--	--	4.80%	21.18%
FTSE 100	--	--	2.50%	17.81%
DJIM Canada	--	--	35.48%	92.21%
DJGI Canada	--	--	14.49%	42.98%
Toronto 300 (Comp)--	--	--	7.27%	29.72%
DJIM XL (Extra Liquid)	--	--	--	29.24%
DJIM Europe	--	--	--	36.16%
DJ STOXX	--	--	--	35.92%
DJIM Asia/Pacific	--	--	--	66.99%
DJGI Asia/Pacific	--	--	--	62.30%

Source: Dow Jones Indexes/Wall Street Journal, January 2000



Al-Tawfeek Company for Investment Funds Ltd.

Investment Funds

□ The Company's main activity is to initiate, create, and develop investment funds targeted to a broad range of Islamic Investment Funds.

□ There are currently 10 Islamic Funds launched by Al-Tawfeek Company.

Investment Fund	Issued Capital US\$ Million
1) AlBaraka General Fund	300
2) Lebanon Reconstruction Fund	200
3) US Real Estate Fund	52
4) Children Investment Fund	10
5) International Leasing Fund	50
6) GCC Leasing Fund	100
7) GCC (2) Leasing Fund	50
8) Al-Safwa International Equity Fund	50
9) Al-Nukhba Asia Equity Fund	50
10) Al-Sukoor Equity Fund	100



Al-Tawfeek Company for Investment Funds Ltd.

Modes of Finance

- The table below shows greatest concentration of investment activity in equity participation (55%), followed by leasing (28%),
- Remaining (17%) is represented by Murabaha.

PORTFOLIO DISTRIBUTION

BY MODE OF FINANCE

NO.	MODE OF FINANCE	(US\$ 000)	%
1	MURABAHA	104,557.68	17.28%
2	REAL ESATE ON OPR. LEASE	65,483.75	10.82%
3	FINANCIAL LEASE	112,840.98	18.65%
4	MUDARABA	1,055.23	0.17%
5	EQUITY PARTICIPATION	223,051.20	36.86%
6	LOCAL STOCK PORTFOLIO	53,766.61	8.89%
7	INT'L STOCK PORTFOLIO	40,655.01	6.72%
8	EGYPTIAN STOCK PORTFOLIO	584.21	0.10%
9	MALAYSIAN STOCK PORTFOLIO	3,077.13	0.51%
	TOTAL	605,071.80	100%



Al-Tawfeek Company for Investment Funds Ltd.

Sectoral Distribution

- Sectoral Distribution Al-Tawfeek investment activity shows the dominant weight for industrialized projects (23.96%) followed by real estate (13.38). and trade (11.3%).

PORTFOLIO DISTRIBUTION

BY SECTORS

NO.	SECTOR	(US\$ 000)	%
1	INDUSTRY	144,945.41	23.96%
2	TRADE	68,387.88	11.30%
3	REAL ESTATE	80,931.44	13.38%
4	CONTRACTING	17,971.69	2.97%
5	SERVICES	50,588.00	8.36%
6	TRANSPORT	1,928.57	0.32%
7	FINANCIAL	20,032.00	3.31%
8	PETROLEUM	54,244.51	8.00%
9	GOVERNMENTAL ENTITIES	13,333.33	2.20%
10	INDIVIDUALS	10,976.04	1.81%
11	OTHERS	141,732.93	23.42%
	TOTAL	605,071.80	100%

Sharia Compliance

Our Sharia Board consists of five eminent Scholars as shown below.

Sharia Board

- ❑ Sheikh Abdullah Bin Suleiman Al-Manai (Saudi Arabia)
- ❑ Sheikh Dr. Yousef Al-Qardawi (Egypt)
- ❑ Sheikh Muhammad Al-Mokhtar Al-Salami (Tunisia)
- ❑ Sheikh Dr. Abdul Sattar Abu Ghuddah (Syria)
- ❑ Sheikh Muhammed Taqi Usmani (Pakistan)

Sharia Screening for Equity Funds

- ❖ All companies violating a certain set of conditions, are eliminated from the Islamic Investment portfolio.
- ❖ **Field of economic activity:** Companies dealing in impermissible/products services (e.g., alcohol, pork, gambling, interest based financial institutions etc.) are excluded from the portfolio.
- ❖ **Debt/Asset ratio:** Borrowing at interest is not permissible, however, a tolerable level of 30% or less is allowed by Sharia Board to demonstrate greater flexibility.
- ❖ **Interest income received:** Companies receiving interest income should in principle be totally excluded, but a tolerable level of 5% or less is accepted by the Sharia Board.
- ❖ **Cash/Receivables ratio:** This should not exceed 49% of total assets.
- ❖ **Cleansing of returns :** After the above screening process any interest element remaining in the dividend is cleansed and distributed to charities.

Effect of Sharia Screening

❖ As part of the research for our Al-Safwa equity fund, more than 10,000 companies were analyzed.

❖ The percentages of non compliant stocks were:

Prohibited business line	:	22%
Excessive borrowing	:	62%
Excessive interest income	:	8%
Other exclusions	:	3%
Total no. of Cos. Excluded	:	95%

❖ Hence, out of 10,000 companies, only 500 were Sharia compliant.



Al-Tawfeek Company for Investment Funds Ltd.

Islamic Mutual Equity Funds

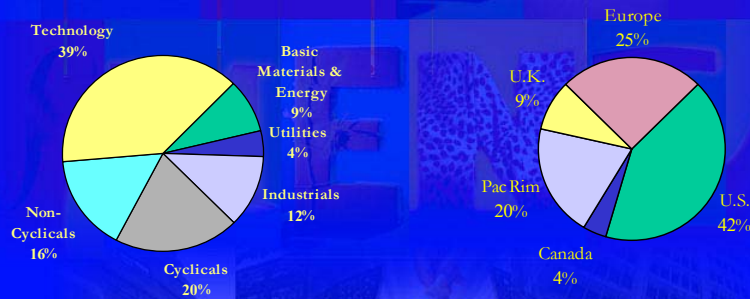
Al Tawfeek's Islamic Mutual Investment Funds have been diversified to cover major equity markets.

- ❑ **Al-Safwa International Equity Fund:** It is open-end, incorporated as limited liability company in the Cayman Islands. The objective of the Fund is to generate medium to long term capital growth, by investing Sharia-compliant diversified portfolio of equities, listed and traded on international security exchanges. It is bench-marked to the MSCI Global Index.
- ❑ **Al-Nukhba Asia Equity Fund:** It is an open-end fund organized in and under the laws of Luxembourg, dealing in stocks of Asian Pacific Markets. The Fund is designed mainly for those seeking capital appreciation over medium to long term horizons, in compliance with Sharia.
- ❑ **Al-Sukoor European Equity Fund:** As an open-ended Fund, it has been recently launched in February 2000. It is incorporated and registered in Dublin, Ireland. We believe, Al-Sukoor Fund is the first Sharia-compliant fund, with the objective to invest in European equities. AL-Sukoor Fund is bench-marked to MSCI Europe ex financials.



Al-Safwa Fund Sectoral and Geographical Distribution

Geographically, 80% of the fund's portfolio is concentrated in USA, Europe, and Canada, with 20% for Pacific Rim Countries.

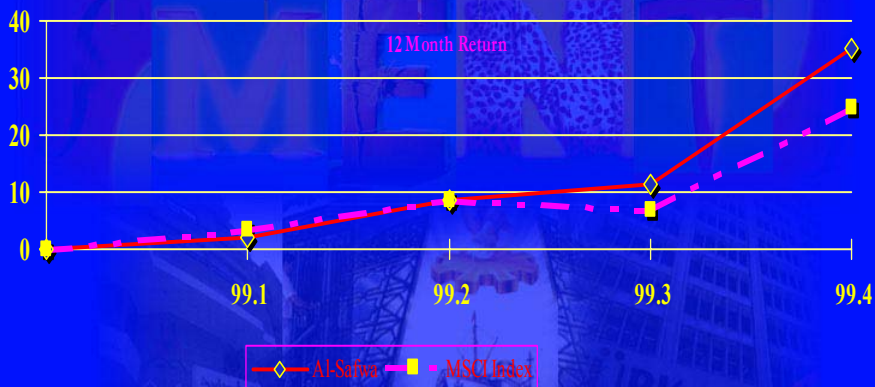


The sectoral breakdown reveals the greatest percentage (60%) on Technology, Industries, Basic Materials and Energy. This indicative that Al-Safwa is mainly directed towards industrial sectors.



Al-Safwa Fund Performance

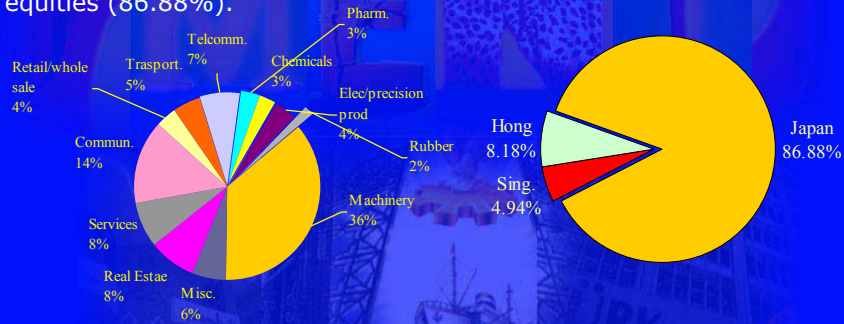
Al-Safwa Fund has out-performed MSCI during the four quarters of the year 1999 as shown by the figure below.





AI-Nukhba Fund Sectoral and Geographical Distribution

- Sectorally it shows greatest concentration of corporate shares in Machinery, Electric Machinery, Communications, Telecommunications and Transportation (62.63%).
- The remainder is distributed among Real Estate, Services, and various miscellaneous classes, as shown below.
- Geographically, Japan commands the greatest share of corporate equities (86.88%).



AI-Nukhba Fund Performance

- Dotted line shows the general upwards trend for AI-Nukhba Net Asset Value from its initial value (\$100) to its most recent level of (\$150.81) value.
- It is clear that the Fund is showing a steady upward trend for the long term.



1998/2000

Conclusion

- ❑ Islamic investment Funds have become today an undeniable fact. The number of Islamic institutions/Funds is ever increasing. New Islamic Funds with increasing amount of capital are being established. Conventional banks are opening Islamic windows for the operations of Islamic Funds.
- ❑ The Islamic Mutual Equity Funds have covered various regions and sectors world-wide and diversified their investments on Global Equity, US Equity, European Equity, Emerging Markets & Country Funds and Asia Equity Markets.
- ❑ The size of Islamic Funds is expected to be at least doubled during the next decade, and the operations of the Islamic Funds are expected to cover a large area of financial transactions including regional, sectoral and index funds, real estate investment trusts (REITs) and venture capital markets etc.
- ❑ Number of Muslim investors who Islamically accept equities investments is growing fast as a result of increasingly developed market.
- ❑ The future growth of the Islamic Financial industry may be further encouraged by the launch of Islamic equity indexes which track the movements of stocks which conform to Sharia parameters.