

## Press Clippings

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# Islamic investment going global from Iowa to Kuala Lumpur

Islamic funds industry in Asia is undergoing significant growth

by Peter Guest

**D**es Moines, Iowa seems an unlikely headquarters for a major player in the Asian Islamic funds market, but Principal Global Investors, through its long-standing joint venture with Malaysia-based CIMB Group, has ambitions to tap into the massive demand in Asia-Pacific for syariah-compliant products.

Having achieved a critical mass within Islamic accounts in their existing conventional business, the partners came to the conclusion there was a role for an Islamic specialist, according to Jim McCaughan, chief executive. "At the same time, the Malaysian government, under the Malaysian Islamic Finance Centre, has introduced certain incentives to try to make Kuala Lumpur into a centre for Islamic finance, including Islamic asset management," he says.

"Clearly there's a lot of potential there, because they're a tremendous economic success story and an Islamic country. For that reason, they've got a pretty good chance of being a base for what is, inerrationally, quite a fragmented business at the moment."

Malaysia currently represents the main source of Islamic bond or sukuk, issuance worldwide — more



McCaughan: Clearly there's a lot of potential there. Photo by Bloomberg



CIMB Bank officers at work at a branch in Kuala Lumpur. Principal Global Investors, through its long-standing joint venture with Malaysia-based CIMB, has ambitions to tap into the massive demand in Asia-Pacific for syariah-compliant products. Photo by Bloomberg

than 60% — and is the second largest market for Islamic mutual funds, with 27% of the market, behind only Saudi Arabia, which has 28%.

The monetary authorities in Singapore and Hong Kong have both made noises about attracting Islamic business, and sukuk issuance from Japan is on the increase as Tokyo looks to take some of this increasingly lucrative sector.

From this base, the Islamic funds industry in Asia is undergoing significant growth, driven by a number of important factors, not least the performance of syariah-compliant indices.

The Islamic filters preclude investment in stocks that are haram — forbidden under syariah law — which means they exclude financial institutions, due to Islamic restrictions on the payment of interest, as well as breweries, pornography, gambling and other activities deemed unethical. Highly leveraged stocks are also haram.

The indices are consequently heavily weighted towards technology, resources, infrastructure, telecommunications and consumer goods, sectors that have been beneficiaries of the demographic and economic

growth within Asia Pacific. Avoiding financial stocks in the aftermath of the subprime crisis in the US has also proved a sensible move.

It is a widespread myth, according to Datuk Noripah Kamiso, chief executive of CIMB-Principal Asset Management, that the ethical filters on Islamic products mean investors have a severely restricted investment universe and cause a performance drag. The Dow Jones Asia-Pacific Islamic index consists of 1,085 stocks, with a total market capitalisation in excess of US\$3,500 billion (RM11,550 billion).

"So it's not a restricted universe after all," Kamiso says. "And this misconception that there is a performance drag is not right. It's not inferior to conventional performance in volatility or risk-return profile, or even in total return."

Some markets are clearly already tailored to Islamic investing. In Malaysia itself, 85% of listed stocks are considered compliant — hardly surprising, given that it is a predominantly Muslim nation.

But, Kamiso says: "If you go to China, which is a non-Muslim country, and you screen the stocks, they have a lot of these stocks, manu-

facturing stocks, consumer goods, telecommunications, they are all syariah-compliant."

In fact, earlier this year one of the first actively managed Islamic Greater China equity funds was launched by Hong Kong-based Mayfair Pacific Asset Management, investing principally in H-shares (shares of companies based on mainland China but listed elsewhere) in the Dow Jones Islamic China Offshore Index, the Dow Jones Islamic Hong Kong China Titan Index and the Dow Jones Islamic Asia-Pacific Index.

Mayfair Pacific has also formed its own syariah advisory board to act as a second layer of compliance checks and to assess opportunities that may arise outside of the indices through new IPOs.

With huge regional and international demand for China-focused products, particularly from Malaysia, Pakistan and the oil-rich Gulf Co-operation Council countries, the fund has generated a lot of interest, according to Christina Tung, Mayfair Pacific founder. "I think people believe in the story and the idea," she says.

Tung is also adamant that the fund is no gimmick and is insisting

on sending every member of the staff who has contact with the fund — from senior management down to the fund accountants — for Islamic finance training, and she has made sure her syariah advisory board has respected scholars from international Islamic jurisdictions.

Products like Mayfair Pacific's mark an interesting milestone in the evolution of the Asian Islamic finance market, and challenge another misconception about Islamic finance that CIMB-Principal's Kamiso is keen to dispel — that syariah-compliant products are manufactured by Muslims for Muslims.

While sukuk and fund products may attract Islamic investors, their return profile and ethical appearance have led to interest from more secular sources. Japanese investors reportedly took up 25% of Malaysia's last sovereign sukuk issue, and both issues and advisory groups are appearing globally.

The international Islamic capital markets have some way to go before they integrate completely, but firms with a global view — whether from Kuala Lumpur, Hong Kong or Des Moines — could be best placed to profit when they do.