

Shariah-Compliant Investments: Risks and Returns

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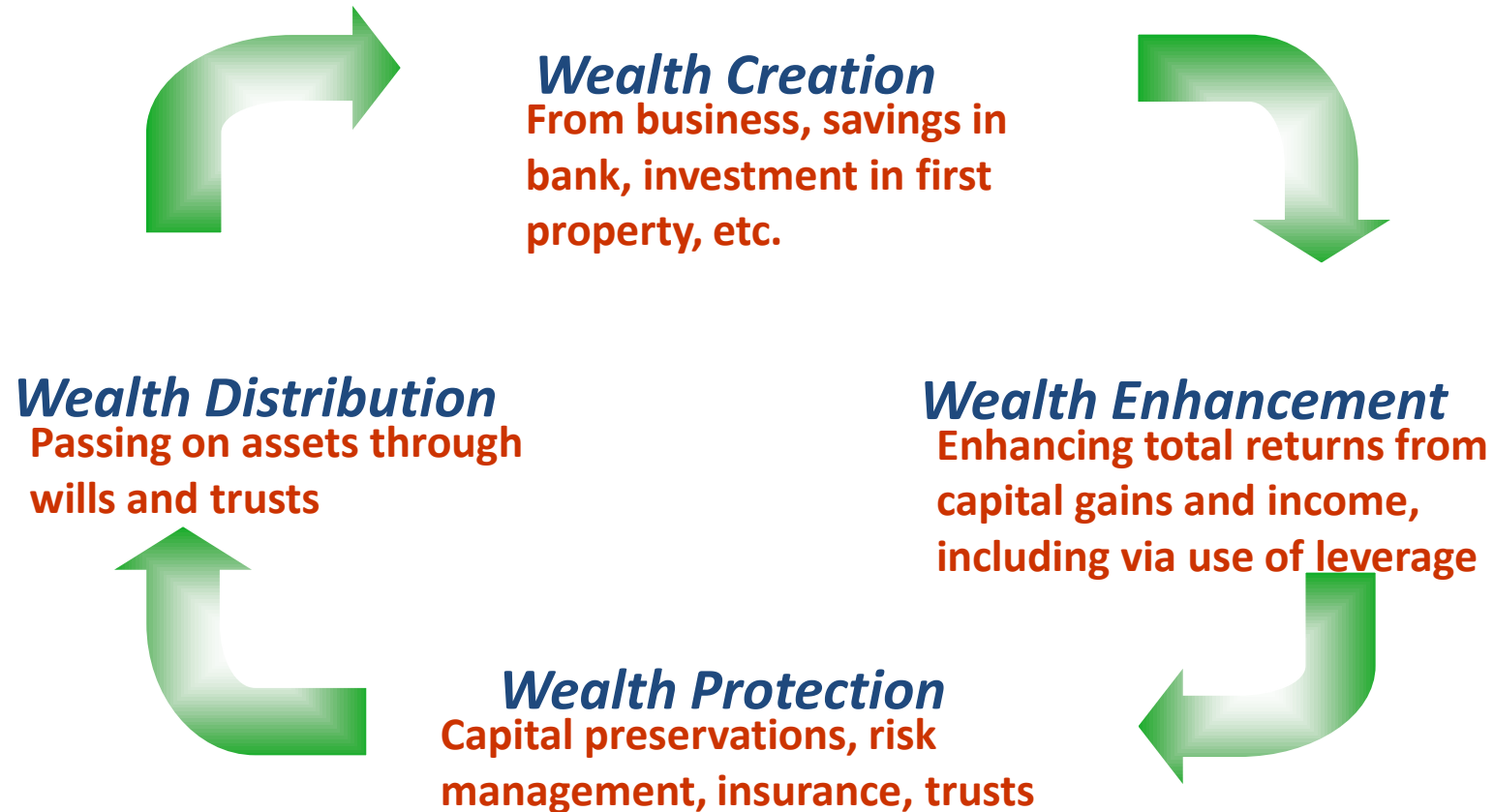
Goals of Islamic investment & wealth management in prevailing values and holistic purpose

Islamic financial planning that is applicable to all

- Liability and Cashflow Management
 - Budgeting and Expenses Management
- Risk Management:
 - Takaful Plans, Emergency Savings
- Wealth Distribution:
 - Zakat, Donations

The Islamic wealth management cycle

Islamic Wealth Management is concerned with providing end-to-end solutions using products and services throughout the wealth management cycle in compliance with Shariah principles.



The Obligation

- The Quran : on the Prohibition of Riba' or usury
- Al-Baqarah Verse 275
- “...Allah has permitted trades and prohibited *riba'*/usury...”
- Al-Baqarah Verses 278 - 279
- “O you who believe! Fear Allah and give up what remains of your
- demand of usury, if you are indeed the believers. If you do not do it,
- take notice of War from Allah and His Messenger: but if you turn back,
- you shall have the capital sums; deal not unjustly, and you shall not
- be dealt with unjustly.”
- O ye who believe! Devour not usury, doubling and quadrupling (the sum lent). Observe your duty to Allah that you may be successful. (Qur'an, 3:130)

The Obligation

- “Shariah defines five necessities as necessary and basic for human existence. It is the duty of every society to preserve and protect the five necessities; other wise human life would be harsh, brutal, poor and miserable here and in the hereafter”. (*Islamic Divine Law (Shariah), The Objectives of The Islamic Divine Law – Mashhad Al Allaf*)
- The five necessities are
 - Religion (Deen),
 - Life (Nafs)
 - Intellect (Aqal)
 - Progeny (Nasal)
 - Property (Maal)
- Hence the need to manage wealth in accordance to Shariah.

Aging demographic trend drives the need for Islamic estate planning

- Estate planning is becoming increasingly important to address generational wealth transfer.
- The value of unclaimed assets have increased from RM40 billion in 2009* to RM60 billion in 2013** inheritance assets that have failed to be distributed due to improper estate planning. A vast proportion of this has been classed as assets belonging to Muslims.
- Thus, there is a need for proper planning to administer one's assets.
- In Islam, the virtues of planning are revealed in Verse 47 of Surah Yusuf
 - “For seven consecutive years, you shall sow as usual and that (the harvest) which you reap you shall leave in ears, (all)-except a little of which you may eat.”

*Ariffin Sabirin, Hibah National Seminar 2013

**Fazira, Wan Zahari & Syed Muhamad Dawilah, Prosiding Seminar Antarabangsa Kelestarian Insan 2014

Benefits that disprove the misconceptions of shariah-compliant investing

Benefits of shariah-compliant investing

Same Benefits as Conventional Investing

Credible Alternative

- **Provides more choice** as valid additional investment options for Muslims and non-Muslims.
- **Diversification via an alternative investment approach:** Shariah investment guidelines are prescriptive of an alternative investment approach and can result in a more stable portfolio and provide diversification benefits to a conventional investor's overall asset allocation.

- **Comparable risk/return performance over the long-term**

- **Smaller investment universe not a hindrance to portfolio performance:**

Shariah-compliant securities in Malaysia: 673 shariah-compliant securities (Nov '14)*

Dow Jones Islamic Market Asia Pacific Index: 1353 components with market cap of USD5.1 trillion (Feb '15)

Dow Jones Islamic Market World Index: 2620 components with market cap of USD24.4 trillion (Feb '15)

Meets Investors' Requirements

- As an outcome of 2008 Global Financial Crisis, investors' desires have shifted to simplicity and clarity.
- There is a higher demand today for investment solutions that are structured with certainty, fairness, and ethics.

*Source: Securities Commission Malaysia

Do these benefits address the misconception or myth that Shariah-compliant investment performance lags conventional investment performance?

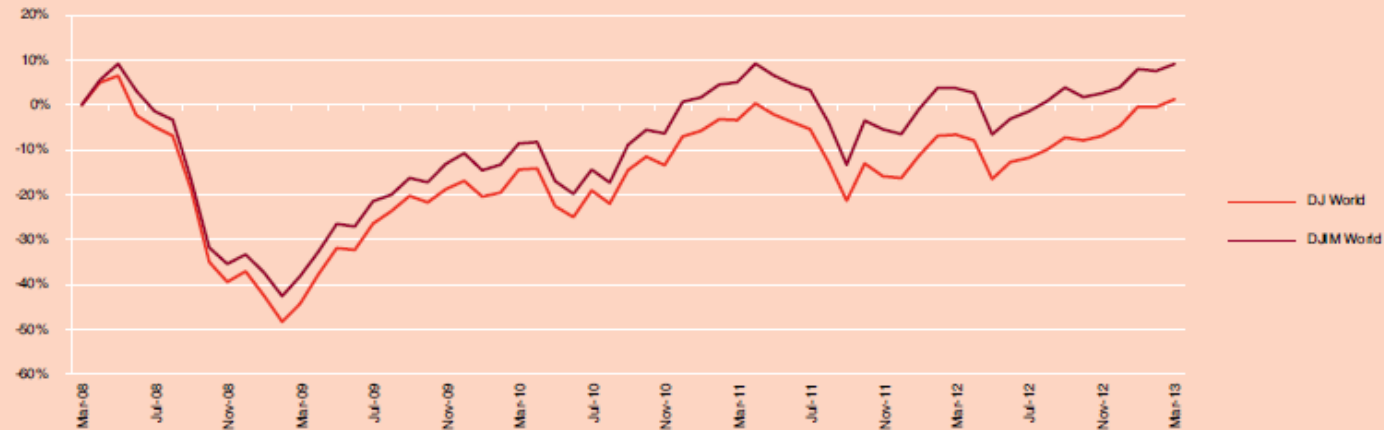
YES. Shariah and conventional investing produce similar results

- Mansor and Bhatti (2011) using monthly aggregate returns of 128 Islamic mutual funds and 350 Conventional mutual funds from 1996 to 2009 analyzed the performance of Islamic and Conventional Malaysian unit trust funds
- There is strong correlation between the Islamic and Conventional unit trust funds' portfolios with the market portfolio.
- The findings revealed that, on average, performance of both the Islamic and Conventional unit trust funds' portfolios are higher than the KLCI index during the reference period.

YES. During global market downturn, global shariah index exhibited lower volatility with similar returns

Exhibit 1: Five-Year Cumulative Index Returns*

DJ World vs. DJIM World (March 2008 – March 2013)



Source: Bloomberg

*Returns are for price levels of the Dow Jones indexes only and do not include dividend reinvestments

Exhibit 2: Comparative Returns* and Volatility

18-month bear market (October 2007 – March 2009)

	DJ World	DJIM World	Difference
Total Return	-50.48%	-43.21%	7.27%
Annualized Total Return	-37.87%	-31.83%	6.04%
Annualized Volatility	34.08%	32.47%	-1.62%

Five years (March 2008 – March 2013)

	DJ World	DJIM World	Difference
Total Return	1.26%	9.13%	7.87%
Annualized Total Return	0.25%	1.76%	1.51%
Annualized Volatility	21.94%	20.54%	-1.40%

*5th annual Ernst & Young Islamic Funds & Investment Report (IFIR 2011)

Source: Bloomberg

*Returns are for price levels of the Dow Jones indexes only and do not include dividend reinvestments

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Thank You

CIMB Islamic

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- CIMB Group's Islamic banking and finance business is supported by the Group's network of over 40,000 staff in 17 countries comprising an experienced senior management team and a global team of Islamic finance professionals in all components of the financial market. CIMB Group also has the most extensive retail branch network in ASEAN, with more than 1,000 branches as at the 31 December 2014. Outside of Malaysia, CIMB Islamic operates a universal offering in Indonesia and Singapore with a focus in wholesale banking in the other 15 countries.
- CIMB Islamic has consistently won awards and accolades in local and global Islamic banking and financial services markets from various leading national and international financial publications every year. It was recently recognised as the **"Most Outstanding Islamic Bank"** (Kuala Lumpur Islamic Finance Forum 2014), **"Best Islamic Bank" in Asia** (Asiamoney Best Bank Awards 2014), **"Best Islamic Finance Bank in Malaysia** (Alpha Southeast Asia Best Financial Institution Awards 2014), **"Best Islamic Investment Bank in Asia Pacific"**, **"Best Sukuk House of the Year in Asia Pacific"** (The Asset Triple A Islamic Finance Awards 2014), **"Award of Excellence for Best Islamic Financial Institution in Malaysia"** (Thomson Reuters: Sukuk Summit Awards of Excellence 2014) and **"Best Islamic Trade Bank in Asia Pacific"** (Trade Finance Awards for Excellence 2014) among others.