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Islamic asset management

Abstract. This article looks at the development and growth of lslamk investment funds through the prism of several key asset classes. In the course of the article, past existing and recently innovated investment products provide a template for understanding the Islamic asset management process. The product examples illustrate the ways in which the development of the Islamic fund management capability has benefited the entire Islamic financial sector. Is three greater opportunity for efficient portfolio diversification, and if not, why not? What has impedance development, and what is the extent of those impediments? This article aims to offer an insight to these issues and, hopefully, the solutions. Equity investment, as a key topic in this article, provides an interesting illustration of Islamic fund structuring and also demonstrates one or two of the elements that have consistently been proven critical to the successful launch of an Islamic investment fund.
Keywords: Islamic banking, takaful, salam salam sukuk and Murabaha.

The mainstream financial system is familiar with money itself being the commodity, and income returns are correlated merely to the time value associated with the investment. The development of the Islamic financial sector has been based upon the productive use of money for the growth of the economy and the benefit of the community [1, p. 278-279].

Until relatively recently, much of the product innovation within the Islamic financial sector was primarily engineered to meet the specific investment risk and return criteria of the Islamic commercial banks. From the mid - 1970s onwards. Islamic banks were able to enjoy increasing success in the retail market, thereby mobilizing significant deposits and simultaneously generating a requirement for short-term investment assets so that obligations to retail customers were assured. The International trade and commodity markets initially became the principal focus of Islamic finance, largely due to the huge turnover in physical assets and the short-term profile of the trade flow. A variation of short-term financing techniques were implemented to deliver Islamic finance to the market place. After a slow start the momentum within the fund management sector has increased dramatically and, since the mid-1990s, it has become a hugely fashionable industry, attracting the involvement and participation of a number of the largest global banks and blue chip fund managers. It has also served to support the emergence of several, sophisticated Islamic investment banks . As is well known, construction of a balanced portfolio requires access to a range of asset categories and investment horizons and a professional, portfolio manager will seek performance through prudent and diversified allocation. This clearly requires more than the cash and bond equivalent investment structures. Numerous initiatives by major firms have recently encompassed real estate (both direct and securitized), traded commodities, global, emerging and regional equities and even some direct equity investment programmers in an endeavor to appeal to the more adventurous, yield-conscious client. Amongst the matrix options, the *murabaha* contract quickly dominated as a money management tool. Trade finance facilities were structured and extended to companies on a full commercial risk basis or. at the request of the investor, incorporating third-party security in the form of a standby letter of credit or guarantee that was usually issued by an agent bank that may also have structured the transaction. The objective of the *mudarabas* was to invest in bank-secured trade transactions that generated profits more or less equivalent to those available through placing deposits in the international money markets. The *mudarib* was then able to take a pre-determined share of the profits before distributing the balance (effectively dividends) to investors

The principal sponsors of the early trade and commodity funds were the Saudi commercial banks, with Samba launching its US dollar and Saudi riyal trade portfolios as far back as 1986. Products were structured to deliver retail investment opportunities to local customers, deemed likely to become increasingly attracted to the *halal* investment opportunities offered by Islamic financial institutions. The *mudaraba* concept was both efficient and economical for the sponsor, who retained discretion over investments. Somewhat ironically, the trade funds also benefited from wholesale investment by the Islamic banks, which were attracted to the short-term, low-risk investment profile and were hungry for asset diversification [2, p. 38-43].

The Islamic financial sector has yet to complete the establishment of its own financial market infrastructure. Much of its liquidity is dependent upon structured investment solutions. The operational procedures and systems that will allow investment assets to be traded through a regulated secondary market environment have not yet been fully implemented.

Murabaha has been a remarkably dependable contract and a mainstay for Islamic banks seeking short- term investments with a similar risk-return profile to the interbank deposit. There is a valid argument that there has been over-dependency on the *murabaha* contract, which has impeded the development of other liquidity management products.

The counter-argument is that as well as enabling the Islamic banks to manage and derive profit from short-term cash balances, the wholesale murabaha trade and commodity-based structures have served to expand the investment asset base of the islamic banking sector. The contract has certainly provided an asset stream for the *mudaraba* portfolios, which have been an undoubted success and aggregate funds invested run into billions of dollars. The *mudaraba* investment product is widely adopted by both Islamic and conventional banks. Some might say that the *mudarabas*. bearing many of the features apparent in mainstream mutual funds, laid the foundations of the Islamic fund management industry. A trade *mudaraba* has some issues to deal with in managing the positions so that it is not a fund that trades in debt. Ideally such a fund should be a closed-ended fund to avoid trading in debts [3].

Limited *Shari'a* endorsement of investment in the international stock markets. The traded commodity funds were intended to capitalize on the experience of the earlier bank-secured commodity investment structures based upon trade finance. The sponsors' objectives were to deliver a higher-yielding, relatively liquid, investment to institutional and private investors seeking portfolio diversification. The investment bankers sought to provide clients with exposure to commodities via physical trades transacted through international commodity exchanges and other suitable trade-based investments [3, p. 373].

Setting yield objectives was challenging. An Islamic traded commodity portfolio cannot be measured against a mainstream benchmark, such as the Goldman Sachs Commodity Index, as typically the benchmark would include an excessive component of prohibited commodity contracts, as well as a futures bias that is still generally unacceptable to Islamic clients. In order to develop confidence in their products. investment bankers such as Kleinwort Benson, in partnership with the Islamic Investment Company of the Gulf (IICG - now part of Shamil Bank), established a track record for their respective commodity funds with their own seed capital. This approach - whereby the manager demonstrates a sustained or consistent on-target performance during a suitable period of incubation - is an alternative method ; of establishing that the manager's performance objectives are viable [4, p.400].

Both the Kleinwort and IICG funds were launched during the 1990s amidst sustained growth in the international equity markets. So, somewhat ironically, both products were adversely affected by a downturn in the commodity markets at the time of their launch. If they were criticised for under-perform- ing it was probably more a matter of them under-performing client expectations. Despite careful market positioning, both were expected to achieve performance in line with the global equity markets rather | than the commodity sectors that they invested in!

There are many similarities between an Islamic and a conventional lease that provide considerable incentive for a conventional user of Islamic finance. There are also a number of features of the *ijarah* contract that have found particular favour with *Shari'a* scholars and, because of this, some innovative lease funds have been structured around it

Malaysia, the majority, of scholars concur that once an asset has been purchased and sold, any further trading in the income stream (receivables) is deemed to be trading in debt. For this reason, the *murab ha* contract, with an asset that is purchased and sold immediately under deferred payment terms, is n< appropriate for securitisation. Lease income can be readily securitised without the infringement i *Shari'a* because the investor retains title to the leased asset throughout the investment period and tl security attaches to the asset, carrying the proportionate rental stream with it. *Ijarah* funds have been incorporated to capitalise on the availability of a broad spectrum of international investment opportunities. Most Islamic lease funds invest in pools of suitable leased asset (examples), which may be sold to a special purpose vehicle (SPY) owned by the fund. The fund ma ager may choose to evidence holdings to investors by issuing certificates that represent their own ship of, or title to, a percentage of the asset pool and. thereby, a pro rata share of the income stream Theoretically, as the certificate, or security, evidences title to an asset holding and there entitlement to the associated income stream, it may be traded. Although we cannot claim that the is a true secondary market as yet. fund sponsors have often injected liquidity by purchasing certified holdings from their investors. The leased assets must have a beneficial use; be permissible; lessor must take ownership risks; and ri must be set according to Islamic rules. The manager's fees may be a portion of the rental. The basis the *mudaraba* in these funds is approved in the contemporary environment based on the classical Hanbali support for mudaraba to be applied to services and leasing as well Although the first Islamic global equity products were launched in the mid-1980s, the originatior Islamic equity funds became a focus of our marketplace during the second half of the 1990s. The c cept and acceptability of Islamic investors actively participating international equity markets has long been debated by both market practitioners and *Shari'a* scholars. Even now, some still remain uncomfortable about the impact of a company's non-Sharia-compliant financial activity on share price movements and investment dividends[5, p. 578].

A classical concern of many Muslims and scholars is that the modern corporation is analogous to a *shirkah* or partnership. Thus, each investor is a partner and party to the company decisions whether permissible or not from a *Shari'a* perspective. But, a growing number of modern scholars disagree with this perspective as the decisions are predominately taken by the majority and the individual shareholder is incapable of vetoing an impermissible action. This transformation of Muslim views allowed the first significant experiments in equity investing in the global capital markets.

The first Islamic international equity funds were launched in the 1980s on a stand-alone basis by international banks. The first two were sponsored by the London fund management operations of Kleinwort Benson and UBS in 1986. These early equity products were successful in as much as they offered a much-needed opportunity for portfolio diversification and began to introduce the international equity markets to investors previously wary of mainstream involvement for reasons of *Shari'a* compliance. The products performed competitively, although their potential was restricted by the absence of consistent *Shari'a* endorsement of global equity investment and limitations in distribution [6, p. 405].

The initial experience apparently deterred other promoters and the Islamic financial sector did not refocus on the international equity markets until the mid-1990s. The re-emergence of Islamic equity funds followed the successful launch of the National Commercial Bank and Wellington fund. The success of this fund broke down the primary barriers relating to the screening of the underlying securities and defining them as permissible for Islamic investors. Acceptance of the asset class is far more widespread with products launched by international banks, fund managers, Islamic banks and joint ventures of every permutation [7, p. 255].

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Исламдық қажыландыруды басқару

Мақалада ислам банкінің шариғатқа негізделген функционалдық ерекшеліктері қарастырылған және шариғаттың Ислам экономикалық жүйесінің жеткен жетістіктердегі орны талқыланған.

Түйін сөздер: Ислам банкинг, такафул, салам, сукук мурабаха және салам.

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Управление исламскими финансами

В статье рассматриваются принципы шариата как основы функционирования Исламского Банкинга, а также описывается роль шариата в успешности Исламской экономической системы

Ключевые слова: исламского банкинга, такафул, салам, сукук мурабаха и салам.