A REGIONAL COOPERATION IN ISLAMIC FINANCE: INFRA FINANCING & WEALTH MANAGEMENT

ASEAN CAPITAL MARKET CEO SUMMIT
Kuala Lumpur
12 February 2015
Global Islamic finance assets reached USD2 trillion as at end 2014, and is expected to surpass USD3 trillion by 2018.

Greater regional cooperation for ASEAN in Islamic finance will enhance linkages with GCC market and rest of the world.
WHY AN ISLAMIC FINANCE NICHE FOR ASEAN

Tap growing regional wealth and new investor base seeking alternative investment class; financing the real economy

New Investor Base

ETHICAL INVESTORS
There are shared values between Islamic finance and socially-responsible investments (SRI)

- US SRI market worth USD6.6 trillion
- Europe SRI market worth USD19.0 trillion

REGIONAL WEALTH
Increasing wealth seeking new investment class

- Middle East wealth at USD2.11 trillion
- Asia Pacific wealth at USD14.2 trillion

Merits of Islamic Finance as Intermediary

#YnotIF
Sustainable
Ethical
Inclusive

Good Governance

Partnership

Non-speculative

Link to Real Sector

ASEAN Infrastructure Needs

ASEAN INFRASTRUCTURE
ASEAN infrastructure needs at USD7 trillion between 2015 to 2030

- Vietnam: USD170 billion between 2013-2020
- Cambodia: USD12-16 billion between 2013-2022
- Indonesia: USD235 billion between 2013-2020
- Malaysia: USD100 billion between 2013-2020
- Thailand: USD105 billion between 2013-2020
- Myanmar: USD320 billion by 2030
- Singapore: USD15.7 billion spent in 2014
- Philippines: USD110 billion between 2013-2020
- Brunei & Laos: N.A.

ASEAN ISLAMIC FINANCE INDUSTRY EXPECTED TO DOUBLE BY 2018

ASEAN’s Islamic finance industry is expected to grow from USD388 billion currently to reach USD770 billion by 2018

**ASEAN’s sizeable Islamic finance industry**

<table>
<thead>
<tr>
<th></th>
<th>Banking 1H 2014</th>
<th>Funds End-2014</th>
<th>Takaful 1H 2014</th>
<th>Sukuk End-2014</th>
<th>Total (in USD bil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASEAN</td>
<td>172.1</td>
<td>22.1</td>
<td>3.1</td>
<td>190.3</td>
<td>387.6</td>
</tr>
<tr>
<td>Asia</td>
<td>203.8</td>
<td>23.2</td>
<td>3.9</td>
<td>204.3</td>
<td>435.2</td>
</tr>
<tr>
<td>GCC</td>
<td>564.2</td>
<td>29.4</td>
<td>9.0</td>
<td>93.2</td>
<td>695.8</td>
</tr>
</tbody>
</table>

Currently makes up 19.4% of global market share of USD2 trillion global Islamic finance industry, expected to reach 26% global share by 2018

**ASEAN’s current Islamic finance footprints**

<table>
<thead>
<tr>
<th></th>
<th>Islamic Banking Assets (in USD bil)</th>
<th>Percentage of Total Banking Assets 1H 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>20.5</td>
<td>4.63%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>141.1</td>
<td>24% (end 2014)</td>
</tr>
<tr>
<td>Brunei</td>
<td>6.3</td>
<td>41%</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.8</td>
<td>&lt; 1%</td>
</tr>
<tr>
<td>Philippines, Singapore</td>
<td>• 61 of 306 stocks (20%) on the Philippines Stock Exchange are Shariah-compliant as of Jan 2015</td>
<td>&lt; 1%</td>
</tr>
<tr>
<td></td>
<td>• Singapore-listed plantations and REITS issued sukuk in 2014, including cross-border issuances</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>N.A.</td>
<td></td>
</tr>
</tbody>
</table>

An ASEAN niche in Islamic finance will allow us to benefit from the USD770 billion industry

Sources: KFH Research, mixed cut-off dates by segment
### Case Study: Sime Darby USD800 mil Sukuk

**Allocation by Investor Region**

<table>
<thead>
<tr>
<th>Region</th>
<th>5 year tranche</th>
<th>10 year tranche</th>
</tr>
</thead>
<tbody>
<tr>
<td>M’sia</td>
<td>71%</td>
<td>43%</td>
</tr>
<tr>
<td>Middle East / Europe</td>
<td>17%</td>
<td>47%</td>
</tr>
<tr>
<td>Asia</td>
<td>12%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Allocation by Investor Type**

- Public Sector, 65%
- Financial Inst., 21%
- Asset Managers, 4%
- Insurance Co., 10%

*Source: Joint Lead Managers*

### Multi-Currency Sukuk

- **Government of Malaysia**
  - **USD1.25B** (2010), **USD2B** (2011) - 6x, 4.5x oversubscribed
- **Khazanah Nasional**
  - **SGD1.5B** (2010), **SGD600M** (2013), **RMB500M** (2011) 2.09x oversubscribed, USD357.8M (2012) 3.4x oversubscribed
- **Axiata** - RMB1.0B (2012), 7x oversubscribed
- **Sime Darby** - USD800M (2013), 10x oversubscribed
- **Tesco Stores** - MYR3.5B (2007)
- **Malaysia Airport (KLIA)** – MYR2.2B (1996)
- **PLUS** - RM30.6B (2012)

*Source: Bloomberg, IFIS, Zawya, KFHR*

### Conventional vs. Sukuk Yields

#### 3-yr bond yield matrix

<table>
<thead>
<tr>
<th></th>
<th>Q3 14</th>
<th>Q4 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>MGS</td>
<td>3.51</td>
<td>3.70</td>
</tr>
<tr>
<td>AAA</td>
<td>4.09</td>
<td>4.18</td>
</tr>
<tr>
<td>AA</td>
<td>4.25</td>
<td>4.34</td>
</tr>
</tbody>
</table>

#### 3-yr sukuk yield matrix

<table>
<thead>
<tr>
<th></th>
<th>Q3 14</th>
<th>Q4 14</th>
</tr>
</thead>
<tbody>
<tr>
<td>GII</td>
<td>3.64</td>
<td>3.74</td>
</tr>
<tr>
<td>AAA</td>
<td>4.04</td>
<td>4.12</td>
</tr>
<tr>
<td>AA</td>
<td>4.20</td>
<td>4.28</td>
</tr>
</tbody>
</table>

*Source: BPAM, 31 December 2014*

### To-date, Malaysia has been major issuer of infrastructure sukuk, issuing more than USD10B of sukuk for infrastructure projects in 2014 (2013: USD5.4B)

*Source: KFHR*
FOR EXAMPLE: MALAYSIA’S ISLAMIC FUND MANAGEMENT VALUE PROPOSITIONS

Global Islamic Funds AUM (2008 – 17 Sept 2014)

- Global Islamic funds reached USD75.8 bil with 1,161 funds
- Saudi Arabia and Malaysia hold 65% Shariah-compliant AUM

Source: Zawya, Bloomberg, Eurekahedge, KFH Research Database

KLCSI and Shariah Index Performance (as at 31 Dec 2014)

- Positive return (4.23%) for Shariah index vs. conventional (-2.62%)

Islamic Capital Market Products (as at June 2014)

- Islamic Unit Trust Funds MYR45 bil (13%)
- Islamic Fund Mgmt MYR105 bil (17%)
- Shariah Equities MYR1,088 bil (61%)
- Islamic REITs RM14 bil (42%)
- Islamic ETFs MYR320 mil (32%)
- Islamic Private Retirement Schemes MYR80 bil (27%)
- Islamic Wholesale Funds MYR18 bil (27%)

Source: Securities Commission Malaysia

Islamic Fund Management Companies (IFMCs)

<table>
<thead>
<tr>
<th>Local IFMCs</th>
<th>Foreign IFMCs (including JV*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AmIslamic Fund Management</td>
<td>Asian Islamic Investment Management*</td>
</tr>
<tr>
<td>BIMB Investment Management</td>
<td>CIMB Principal Islamic Asset Mgmt*</td>
</tr>
<tr>
<td>i-VCAP Management</td>
<td>Aberdeen Islamic Fund Management</td>
</tr>
<tr>
<td>Kenanga Islamic Investors</td>
<td>Amundi Islamic Malaysia</td>
</tr>
<tr>
<td>Muamalat Invest</td>
<td>BNP Paribas Islamic Asset Management</td>
</tr>
<tr>
<td>Maybank Islamic Asset Mgmt</td>
<td>Eastspring Al-Wara’ Investments</td>
</tr>
<tr>
<td>Pelaburan MARA Investment</td>
<td>Franklin Templeton GSC Asset Mgmt</td>
</tr>
<tr>
<td>RHB International Islamic Asset Management</td>
<td>Nomura Islamic Asset Management</td>
</tr>
<tr>
<td></td>
<td>KFH Asset Management</td>
</tr>
<tr>
<td></td>
<td>Guidance Investments</td>
</tr>
<tr>
<td></td>
<td>Saturna</td>
</tr>
<tr>
<td></td>
<td>Threadneedle Asset Management</td>
</tr>
</tbody>
</table>

Source: Bloomberg
MALAYSIA: BUILDING BLOCKS OF ISLAMIC FINANCIAL MARKET

Strategic initiative:
• Financial Sector Blueprint (FSBP)
• Capital Market Masterplan (CMP)

Legal framework:
• Islamic Financial Services Act (IFSA)
• Capital Market Services Act (CMSA)

Diverse players and talent base

Robust legal, regulatory and supervisory framework

Products breadth and depth

Comprehensive infrastructure

YnotIF

• Shariah Advisory Committee (SAC) at Bank Negara and Securities Commission level

Efficient & transparent price discovery
• Efficient settlement system (RENTAS)
• Bursa Suq Al-Sila
• Bursa sukuk listing

• Sukuk
• Equities
• Discretionary mandate
• Collective investment schemes (ETF, REITs, Business Trust), Unit trust funds
• Commodities
• Private Equity

13 Investment banks
16 Islamic banks
4 International Islamic Banks
20 Islamic fund management companies
Dedicated training institutions & research centres

INCEIF
THE GLOBAL UNIVERSITY IN ISLAMIC FINANCE

ISRA
International Shariah Research Academy for Islamic Finance

MyClear
Malaysian Electronic Clearing Corporation
Subsidiary of Bank Negara Malaysia

Bursa Suq Al-Sila

• Shariah governance
Thank you

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