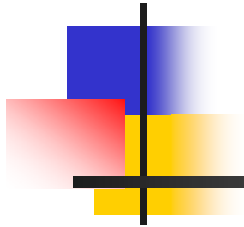


# PRODUCT INNOVATION IN ISLAMIC FINANCE



## Perspective from a buyer

*a presentation by*

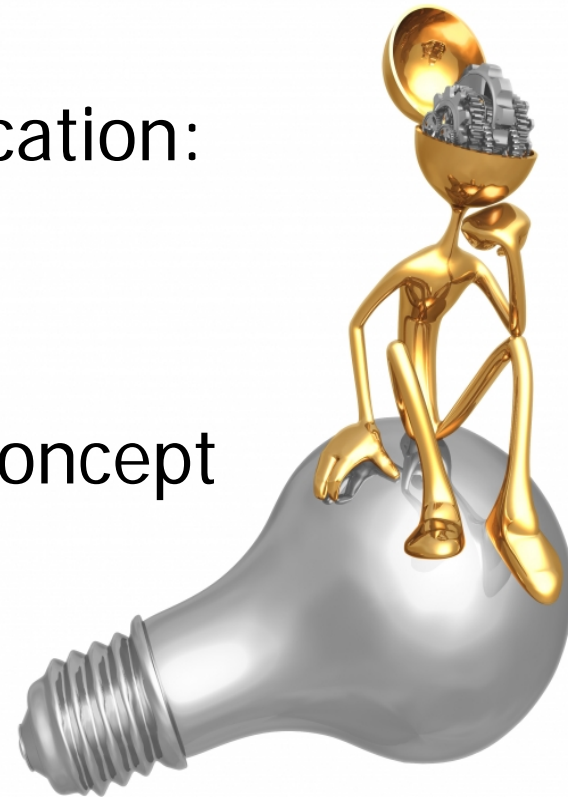


ENCORE

John A. Sandwick  
Managing Director  
Encore Management S.A.  
Geneva, Switzerland

# Islamic Asset Management in practice

- Sharia-compliant portfolio allocation:  
a myth in place
- Modern Portfolio Theory and concept  
of the Efficient Frontier



# Four Categories of Assets



Deposits



Bonds



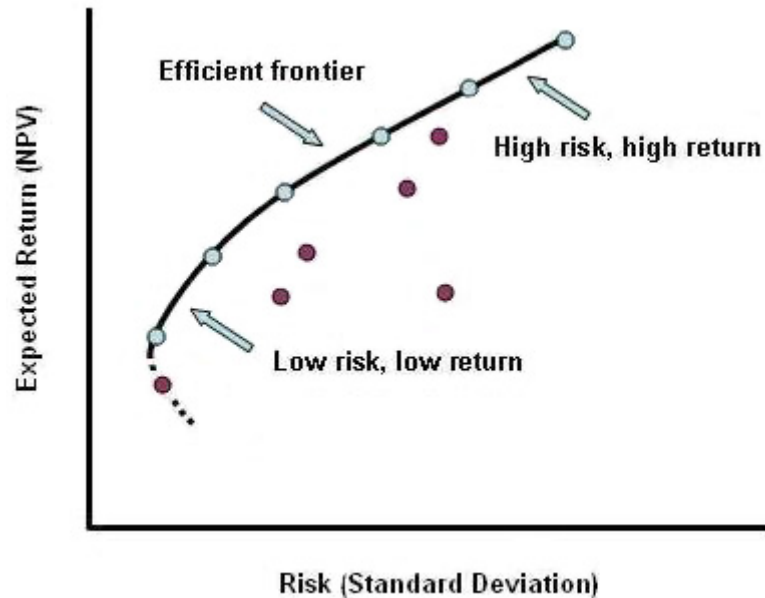
Stocks



Alternative Investments



# Risk Management in Asset Allocation



- Deposits
- Bonds
- Alternative Investments
- Hedge Funds: champions in opacity

- Time-line of innovation in traditional markets

# Traditional investment universe

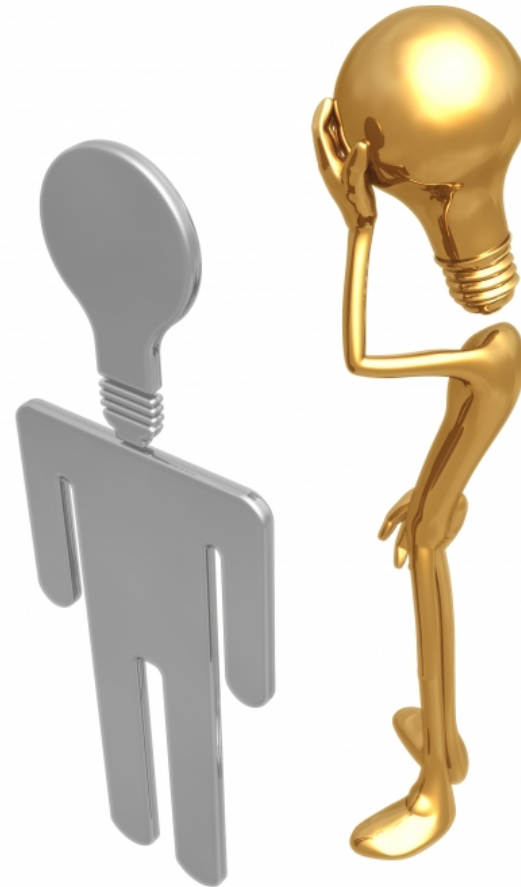
Constant  
rise  
in  
number  
of  
investment  
products



Innovation  
as  
conductor  
of  
optimal  
asset  
allocation

# Islamic investment universe

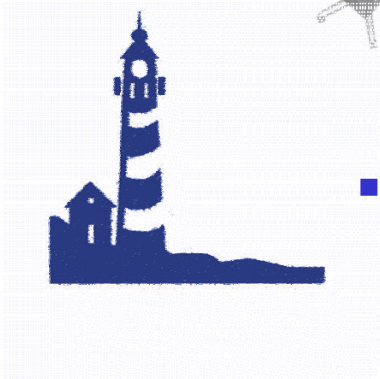
- Lack of financial products
- Muslim money under management:  
NO to sharia-compliant investing?
- New Islamically managed portfolios:  
minimum test for professionalism,  
and maximum tests for sharia  
compliance



# Problems with Allocation in Sharia-compliant investing



- Minimum number of investable assets
- Lack of financial product innovation
- Lack of financial expertise

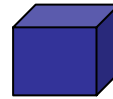


- MPT and Efficient Frontier as beacon for effective Islamic investing: religion doesn't matter

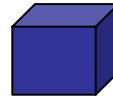
# Sharia-compliant portfolios



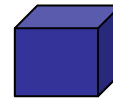
Murabaha



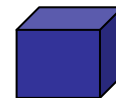
Sukuk



Stocks



Alternative Investments

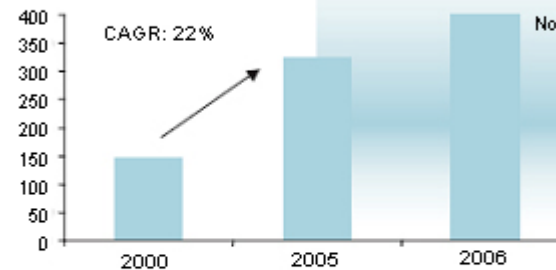




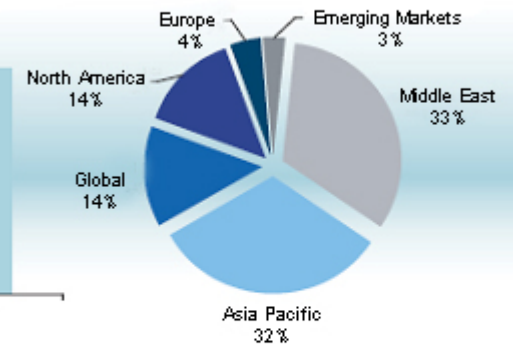
# The universe of Islamic funds

Today Islamic funds are predominantly concentrated on equities.

Number of Islamic Funds (2000 - 2006)



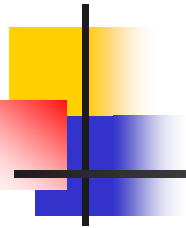
By Geographic Mandate (2005)



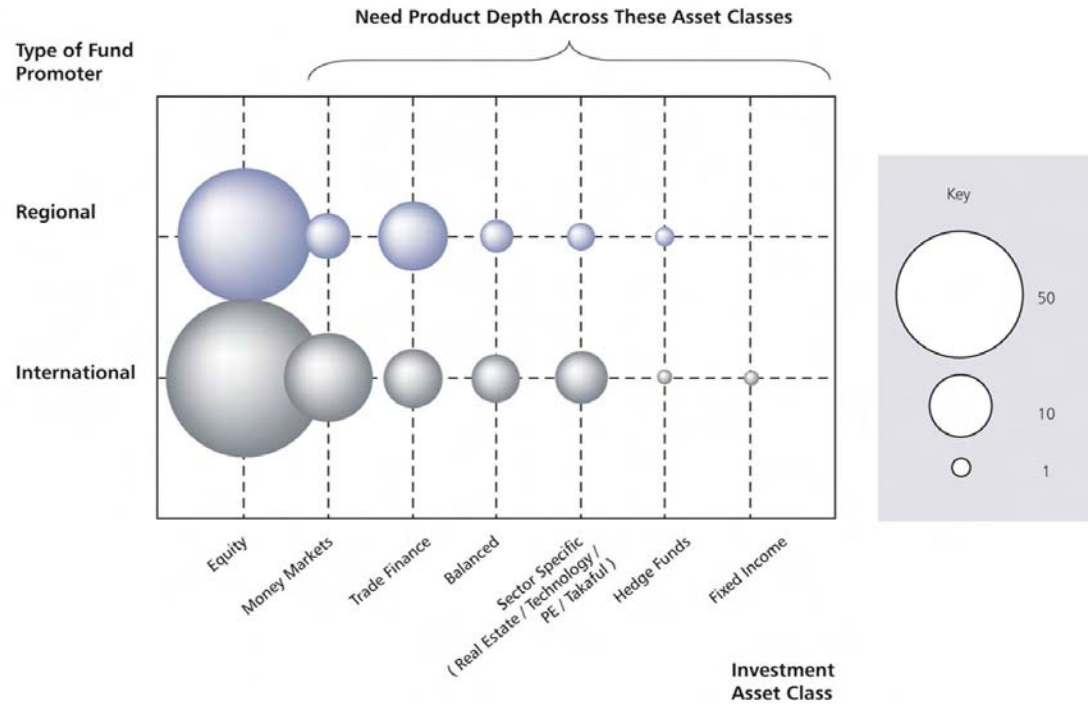
- The universe of Islamic funds has grown by an approximate CAGR of 22% between 2000 - 2005
- The total number of funds forecasted to have reached 400 by 2006
- Geographical mandates in 2005 were dominated by the Middle East / Africa and Asia Pacific regions, accounting for 33% and 32% respectively
- North American and global mandates together accounted for approximately 28%

Source: Eureka hedge, YE analysis

# The universe of Islamic funds: lack of fixed income (sukuk) funds



**Ernst & Young:**  
 "The supply of Islamic funds is concentrated on equities with substantial gaps across other asset classes"



Source: GCC Stock Exchanges; Zawya; The Banker; E&Y Analysis

# Product Innovation & Asset allocation for Islamic portfolios

- The asset allocation process: a rational plan for achieving a specific investment goal
- Religious aspects of allocation: “it is a science, not an art” (the basic principles are the same for Muslims, Christians and Jews)
- Selection of securities: “God matters”

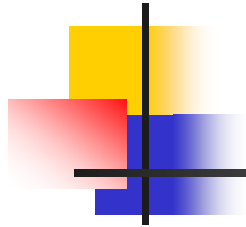




# Innovative Sharia-compliant product

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# Thank you!

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For additional information  
please contact  
[info@encoremanagement.com](mailto:info@encoremanagement.com)