

Reuters Summit-Islamic investors need better products-manager

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By Martin de Sa'Pinto

GENEVA, April 15 (Reuters) - While many banks have dedicated time and resources into developing products for sharia, or Islamic law-conscious investors, the available product range remains woefully inadequate, said one manager on Wednesday. [John Sandwick](#), managing director of private wealth manager Encore Management told Reuters many of the products currently on offer are overpriced and unsuitable.

"Clients in Abu Dhabi and Dubai are begging for Islamic products that meet their needs, but the salesmen have nothing," he said.

"Deutsche Bank, Goldman's and others have white labelled products for Dubai Islamic Bank, but they are mainly just derivative-based structured products with a fatwa (religious opinion) wrap."

He said most sharia-oriented investors don't want structured products, which are often too complex for ordinary investors and have high fees built in. "They want plain vanilla products they can understand," he said.

The funds space is also poorly covered, said Sandwick, noting that there are just 650 Sharia compliant mutual funds out of a total of some 300,000 globally.

"World wide the mutual funds industry has assets of \$12 trillion, but Muslim funds account for only \$20 billion of that," he said.

The ratings agency Moody's said that Islamic banking assets totalled \$600 billion at the end of 2008, and were growing at 20 percent per year.

Even so, said Sandwick, "More than 95 percent of these assets are held in commodity Murabaha (shariah-compliant sales) earning 0.5 percent annually." These products are based on the sale of assets where the profits are agreed in advance.

On the equities side, too, Sandwick said the potential market is underserved, although this could improve.

"There are plenty of viable Islamic equities out there," he said. "Once you've applied a screen to ensure products are compliant, your universe shrinks but you can sleep better at night."

He said Encore had screened the already small universe of sharia-compliant funds to eliminate poor performers and very small funds, adding the criteria of a fatwa, or rules base that was appropriate for the Arabian market. The result was surprising.

"The 50 or so funds we were left with outperformed the global funds universe by 25 or 30 percentage points. We were stunned by the results," said Sandwick.

Sandwick concurred with many observers that although down sharply, Islamic indexes performed better than other comparable indexes through the financial crisis because they avoided financials and highly leveraged companies.

"The reason is that Islamic securities are closer to the underlying asset, there's no such thing as a second or third derivative," he said.