INTERNATIONAL
Herald Tribune
THE IHT ONLINE

Deutsche plans hedge fund for Islamic investors

Bloomberg News
TUESDAY, MAY 17, 2005

Deutsche Bank plans to start its first hedge fund for Muslim investors, shunning investments in alcohol, tobacco and securities that pay interest.

The fund, aiming at institutional investors and wealthy individuals in Asia and the Middle East, will probably start by June, according to Geert Bossuyt, head of the bank's Investment Products Group in London. In addition to bonds, equities and real estate, it offers Muslim portfolio managers a wider range of investment options that comply with Shariah, Islam's legal code.

"Many Islamic investors are looking for absolute returns, and few solutions are available," Bossuyt said in a recent interview. "There are not many Shariah hedge funds, or even Islamic bonds, and most of them are not really liquid."

Hedge funds, loosely regulated pools of money, are attracting record amounts this year, lifting worldwide assets to $1 trillion, according to data from Hedge Fund Research, a firm in Chicago that follows hedge funds.

The funds' returns fell 1.75 percent in April, the worst monthly performance since September 2002, according to Hennessee Group, a consulting firm in New York. The average return last year was 8.9 percent.

There were $30 billion of Islamic bonds outstanding at the end of 2004, according to the Monetary Authority of Singapore. By contrast, more than $500 billion of U.S. government securities trade every day on average among the 22 primary dealers, those firms authorized to trade directly with the Federal Reserve Bank of New York.

Deutsche Bank's fund will be called the Islamic HF Tracker and will try to match the returns of the HFRX Global Hedge Fund index, Bossuyt said. He declined to say what types of securities the fund will hold.

HFRX Global has fallen 2.7 percent in 2005, versus a 4.8 percent decline in the Standard & Poor's 500-stock index. It climbed 2.7 percent in 2004, compared with 9 percent for the S&P 500. The HFRX Global index tracks more than 4,000 funds and is compiled by Hedge Fund Research.

Deutsche Bank's Islamic hedge fund may be too risky for many investors, said John Sandwick of Encore Management in Geneva, who helps oversee about $100 million for wealthy clients including Islamic investors from the Middle East.

"Honestly I cannot think of anyone who needs this kind of security," Sandwick said in an interview on May 2. "Where does something like this fit into a traditional portfolio for long-term household savings?"

The fund may also carry fees that deter investors, Sandwick said.

"Don't forget hedge funds are bad enough in terms of fees and commissions, where the first 5 percent in profits is eaten up in costs of doing business," Sandwick said.

Deutsche Bank declined to say what the costs will be. Most hedge funds charge an annual management fee of 1 percent to 2 percent of assets and 20 percent of profits.

Investments that comply with Islamic rules totaled $200 billion to $500 billion worldwide as of the end of 2004, the Financial Services Authority in Britain estimated. The assets will probably grow by at least 15 percent a year, according to research by Aseambankers Malaysia, the investment banking unit of Malayan Banking, Malaysia's biggest lender.

In 2003, HSBC Holdings, Europe's biggest bank by market value, became the first lender from abroad to do Islamic business in Indonesia, which has the world's largest Muslim population, more than 200 million.

"The Islamic market is getting more and more sophisticated, and as the market develops, you would expect to get demand for more sophisticated products," Mahmoud Abushamma, head of HSBC Syariah, the bank's Islamic unit in Jakarta, said. "At the end of the day, we are driven by the type of Islamic products the market needs."