Characteristics	Islamic capital market	Conventional capital market
Shari'a framework	Islamic capital market products are designed based on Shari'a law-Shari'a scholars ensure adherence to Islamic laws and provide guidance	Not based on religious laws or guidelines
Prohibited transactions	Islamic capital market restricts stocks of companies dealing in unlawful activities such as gambling, pork, alcohol, tobacco, pornography and arms & ammunition	Except for money laundering and the financing of criminal activities, these activities are permitted
Financing	Islamic banks provide equity capital to a project or venture. Losses are shared on the basis of equity participation while profits are shared on a pre agreed ratio	Venture capital companies and investment banks which typically take equity stakes and management control of an enterprise for providing start up finance
Prohibition of interest	Islamic capital market restricts charge of interest	Charge of interest is not restricted
Sukuk-Bond market	Sukuks issued are backed by underlying Shari'a-compliant asset	Bonds issued are in the form of debt paper that represents underlying debt payable at maturity. It follows the principle of interest-based lending

Figure 34: Difference between Islamic and conventional capital
Source: NCBC Research

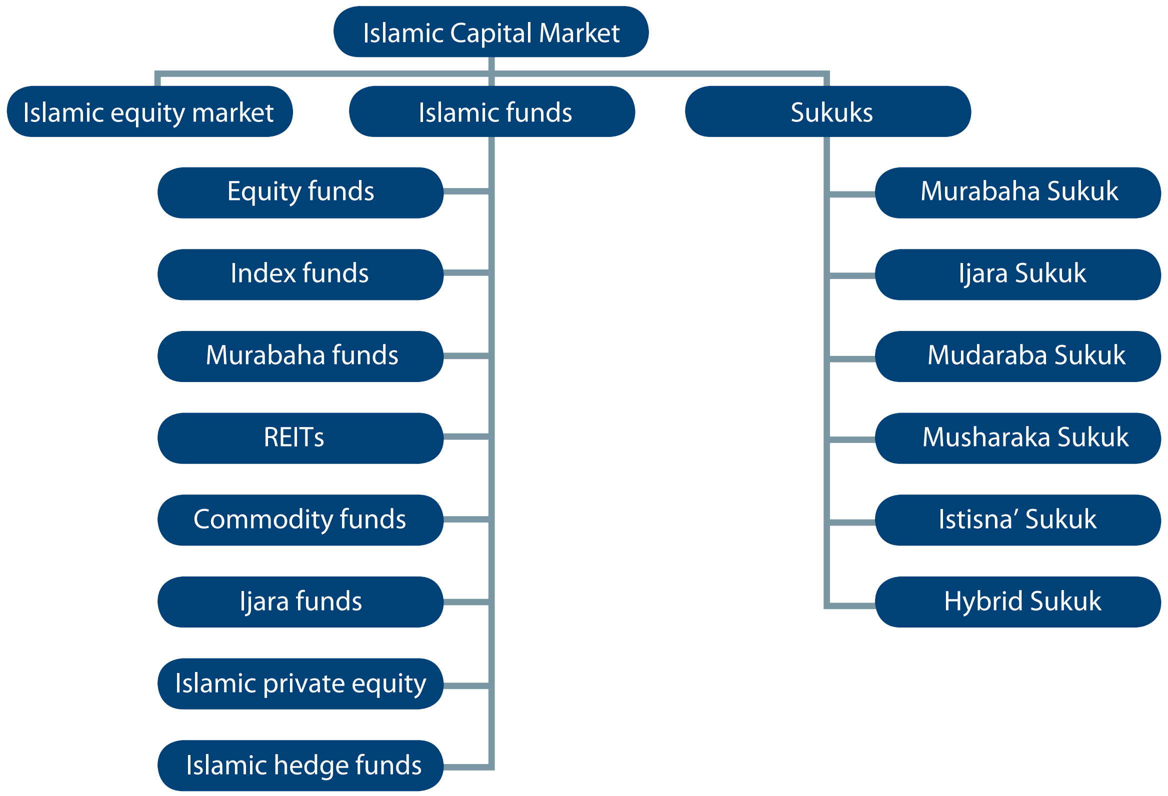

Figure 35: Major Islamic capital market products

CHAPTER 5
Islamic Funds Products

5.1. Introduction – The Islamic equity market

The Islamic equity market covers Shari'a-compliant shares of companies that do not engage in activities that are considered haram (forbidden) in Islam. These include ventures involving gambling, pork (food businesses), alcohol (wine and liquor makers), tobacco (cigarette and related product companies), pornography (entertainment and hotel stocks) and arms and ammunition. Similar restrictions pertain to companies whose debt is to a large extent interest-based or those that derive a significant proportion of their net income from interest payments on deposits held in conventional financial institutions. Such entities are excluded even if their main business is otherwise halal (permissible). In addition, equity offerings of conventional financial services institutions (including banks, mortgagers and insurers) and companies with high debt or cash positions are also not classified as Shari'a-compliant.

The identification of Shari'a-compliant stocks enables the establishment of Islamic indices. The Islamic equity index was first launched in Malaysia by RHB /Unit Trust Management Bhd in May 1996. This was followed by the launch of Dow Jones Islamic Market Index (DJIM) by Dow Jones & Company in February 1999 and the Kuala Lumpur Shari'a Index (KLSI) by Bursa Malaysia in April 1999. In October 1999, the FTSE Group also launched the FTSE Global Islamic Index Series. Major index providers—which include MSCI, S&P, and Dow Jones—have in recent years launched a large number of similar Islamic indices.

The growth of the Islamic equities market can be gauged from the progress made in Malaysia, one of the main centres of Shari'a-compliant finance. The number of Shari'a-compliant equities listed on Bursa Malaysia has increased steadily from 787 in 2004 to 848 in May 2009. The market capitalization of these stocks has more than doubled since 2003 to US$ 709 million as of July 2009. In fact, Shari'a-compliant securities accounted for 64% of the total market cap of Bursa Malaysia in 2008, compared with 58% in 2003. Other markets with a high percentage of Shari'a-compliant share listings include Saudi Arabia and the Gulf region. The DJIM consists of around 2,700 listings out of a total of 4,500 listings on the DJ global index, non Islamic, with a market capitalization of about US$ 15 trillion, or around 45% of total DJ global index market capitalization. This shows that the universe of Shari'a-compliant shares globally is deep, rich and perfectly fine for anyone who wants to make a proper allocation of equities on a global basis.

5.2. Islamic funds

Islamic funds are managed in conformity with Shari'a principles, with investments made in instruments that earn profits in ways that are deemed halal. Fund types range from those that invest in equities, sukuk and commodities to real estate investment trusts (REITS), PE funds, ETFs, money market funds and hedge funds. These funds are advised by a board of Shari'a scholars whose responsibility is to ensure that the portfolio held and the fund management process comply with Shari'a principles. These funds are subjected to two basic conditions:

1. The return on investment in the fund is not fixed and is calculated on a pro-rata basis from the actual profit earned by the fund

2. The fund can only invest in Shari'a-compliant assets, i.e., both the investment vehicle and its terms must con-

form to Shari'a principles.

The evolution of Islamic funds dates back to 1968 when the first Islamic fund Dana Al-Aiman was launched in Malaysia. After that, the first Islamic equity fund launched in Malaysia was by Arab-Malaysian Unit Trust Berhad Malaysia in 1993. Since then, Shari'a-compliant funds have gained traction among investors as investment vehicles.

The growing awareness and rising popularity of these products in majority-Muslim countries have supported their expansion. This is reflected in the 19.7% CAGR in terms of assets under management (AUM), witnessed by the global Islamic funds industry during the period 2003-2007[16], compared with 17.0% CAGR for the conventional global asset management industry during the same period. Despite the global recession that engulfed the capital markets, AUM of Islamic mutual funds reported a steady 4.9% Year on Year growth in 2008 to US$ 43 billion. This increased to US$ 44 billion in Q1 '09. Note, however, that this includes the broadest measurement of funds, and does not measure mutual funds alone but also many other types of investment vehicles, including illiquid private equity (PE) and real estate funds.

In terms of geographical distribution, Islamic funds are mainly domiciled in Malaysia and the GCC countries, given their large and growing Muslim population base, which has begun to show a preference for investing in Shari'a-compliant financial products and services. Of these, Malaysia and Saudi Arabia are the largest contributors, given their large economies. The two countries account for 42% of total Islamic funds.

Islamic equity funds are the most common type of funds that invest in Shari'a-compliant stocks. Approximately 52% of the total assets of Shari'a-compliant mutual funds are allocated to equity, compared with 42% for conventional mutual funds, according to Ernst & Young. Based on the total AUM of Shari'a-compliant mutual funds' worth US$ 43 billion during 2008, the size of Islamic equity funds can be estimated to be around US$ 23 billion.

5.2.1. Islamic equity funds

Islamic equity funds are not allowed to purchase, hold, or sell shares of Shari'a non-compliant stocks because this would mean direct participation of the shareholder in a prohibited business. Apart from these general guidelines, different equity funds have self-defined impositions for stock screening. For instance, some funds may have a threshold limit of 5% on percentage contribution of interest income to total income of the company. These funds mainly generate profits through capital gains or dividends distributed by the portfolio companies. In the case of dividends, a certain fraction of the dividend, which corresponds to the section of interest income of the company, must be given to charity. This process is called 'purification'.

5.2.2. Islamic index funds

An Islamic index fund is a fund that tracks an Islamic equity index, primarily investing in the constituent stocks of a particular market index, such as the Dow Jones Islamic Index. This strategy enables investors to spread risk across a basket of securities. Index funds also help reduce volatility by decreasing the impact of large price swings above or below the average return in a single security. Consequently, index funds are increasingly gaining in importance.

5.2.3. Shari'a PE funds

An Islamic Private Equity (IPE) fund is a pooled investment vehicle used for making investments in companies or projects that comply with Shari'a guidelines. Typically, investors become limited partners or more commonly shareholders in an offshore fund vehicle and then participate in the profits or losses from investments made by that fund. Just like any conventional PE fund, the main objective of an IPE fund is to exit investments for a return higher than the price originally paid. While they were virtually non-existent in 2002, IPE funds in Arabia attracted huge, disproportionate amounts of investor money in the period from 2003 through 2007, taking in an estimated US$ 50 billion or more; a figure far greater than any other single category of funds, in particular standard format mutual funds.

5.2.4. Shari'a-compliant Exchange Traded Funds

ETFs have high transparency, low costs, high liquidity and diversification among the equity markets they track (although by definition they are not diversified across asset classes). They are also tax efficient and require small minimum investments.

Some of the largest global providers of ETFs are expanding their range of ETFs and actively pursuing Islamic markets and investors. There has been an increase in use of ETFs within Shari'a-compliant equity and sukuk indices, including Dow Jones, FTSE and S&P. The first Shari'a-compliant ETF in the United States was launched in July 2009. It tracks the Dow Jones Islamic Market International Index, which covers 100 companies in 23 countries outside the United States.

5.2.5. Shari'a-compliant hedge funds

Hedge funds are a relatively new concept in Islamic finance. Hedge funds invest in various asset classes such as equities and commodities and are typically of a high-risk/high-return nature often times hedging their investment portfolios to offset potential losses. Some of the investment techniques widely employed by hedge funds, (including the use of leverage and short selling of stocks), are generally incompatible with the principles of Shari'a. However, promoters of this sector have been able to develop funds under the guidance of Shari'a scholars, which now offer somewhat similar although more limited economic effects as that offered by conventional hedge funds. The salam contract, which duplicates a forward purchase mechanism, is the preferred method of insuring these hedge funds remain Shari'a-compliant. Demand for hedge funds might expand in the future if investors in Islamic countries recognise the benefits that these types of investments might bring to an investment portfolio. While some Muslims may continue to hold reservations about the Shari'a compliancy of certain hedge fund products, the growth of the market is likely to bring greater consensus among Islamic scholars on techniques that are acceptable under Shari'a law and greater certainty for fund promoters and investors alike.

[16] Islamic funds and Investments report 2009, by Ernst & Young

5.2.6. Murahaba funds

Murahaba funds invest in murahaba transactions as defined by Shari'a financial law. As one example, an asset manager will use investor funds to buy commodities from the international market and resell these commodities to a third party at cost plus a fixed profit margin to be paid on deferred payment terms. The profit margin is agreed initially at the time of purchase of the commodity. The murahaba portfolio does not own any tangible assets since the commodity is sold to the clients immediately after the purchase, while the deferred payment becomes a debt payable by the client. Consequently, murahaba funds are typically closed-ended, and not traded in the secondary market.

5.2.7. Islamic real estate investment trusts (REITs)

An Islamic REIT is an investment trust in which investor funds are collectively pooled (individuals and companies) and invested in real estate in accordance with Shari'a law. The investment is generally in the form of buying, managing, selling and leasing of real estate, or purchasing shares in publicly listed real property companies. However, an Islamic REIT will not invest in debt securities in real property companies, as a number of conventional REITs do. Islamic REITs are required to follow Shari'a guidelines just as any Islamic fund would, with the same prohibition against underlying haram assets as other Islamic funds. As a result, Islamic REITs are not allowed to invest in properties that have tenants not in compliance with Shari'a principles, such as hotels or casinos.

Islamic REITs help investors to benefit from diversification, transparency and expert management. Additionally, they "democratize" real estate ownership by allowing both institutional and individual investors to own a portion of operating real estate properties. Like conventional REITs they are required to pay out most of the cash flow derived from operating properties, typically 90% of their net cash flow and by nature are not highly leveraged, ensuring stability of income to investors. However, Islamic REITs currently suffer from the lack of an active secondary market; only two Islamic REITs of the total of thirteen in Malaysia are listed. There are as yet no Islamic REITs in Arabia, although it is presumed that there is a potential rich and rewarding market there for future development.

5.2.8. Islamic commodity funds

Islamic commodity funds invest in commodities that are permissible according to Shari'a, i.e., commodity funds cannot invest in companies that deal in alcohol, pork, or other prohibited assets. The Shari'a guidelines pertaining to commodity funds include that the seller of the commodity must own the commodity at the time of sale, which would in turn prohibit short selling of commodities by fund managers. Furthermore, the price of the commodity must be fixed and agreed by both the parties at the time of sale. The sale is deemed invalid if the price depends on an uncertain event. Therefore, an Islamic commodity fund is not allowed to take a position in the futures commodity markets.

5.2.9. Ijara funds

An ijara fund invests in leasing transactions that comply with Shari'a principles. The fund typically purchases assets such as equipment and vehicles which are leased for rental income. The income from these rentals is distributed on a pro-rata basis to the fund holders. There are certain terms and conditions to be followed in the leasing transaction. For example, the leased asset should not be used for impermissible Shari'a activities. Moreover, the lease rental must be fixed and decided between both the parties at the time of entering into a contract. In fact there are very few ijara funds outside of the small number available to institutional investors. The development of ijara funds for a wider market has yet to take place in any meaningful way, but could itself become a major growth area.

5.3. History and size of the industry

Shari'a-compliant funds have a relatively short history. They first appeared in the late 1960s in Malaysia and in the mid-1970s in the Middle East. Their demand was driven mainly by individuals, who were attracted by the idea of faith-based investments.

Although growth in Shari'a-compliant funds was slow to take off in the 1970s and 1980s, the industry steadily grew over the last decade. The exact size of the industry is not clear since many funds are distributed by private placement. Currently, AUM is estimated to be between US$ 50 billion and US$ 70 billion across as much as 900 funds. The number of funds is expected to reach 1,000 by this year. Bear in mind, however, that these numbers indicate numbers of funds and AUM for all types of fund structures, including PE funds. In fact the number of "traditional" funds, i.e., those that are liquid, transparent and of a minimum size and history, is very small and comprises an unusually small amount of total AUM.

5.4. Who is driving this growth?

A large number of global and regional players in the form of banks, financial institutions, and government bodies are all involved in promoting the Islamic funds industry. Many of the large Middle Eastern banks are distributing Shari'a-compliant funds, mostly from Malaysia and Saudi Arabia. US and European fund managers also have some Shari'a-compliant funds, although the actual number is paltry compared to their conventional mutual funds businesses. There has also been a worrying emergence of Shari'a-compliant structured products, mostly by large western banks, which are by nature based on derivatives and therefore inappropriate for any but the most sophisticated investors. In short, the development of a standard mutual fund industry was severely handicapped during most of the last decade by over-emphasis by investors in PE and a strong supply push of structured products. Very few professional efforts were made to produce liquid, transparent Shari'a-compliant funds that could actually be used by professional asset managers. It is thought that with near collapse of many IPE houses there will now be an opportunity for "plain vanilla" Islamic mutual funds to grow and prosper.

5.5. Centres of excellence

There are only a few jurisdictions worldwide that have created incentives or welcomed the development of Islamic funds. The most prominent international financial centre to promote Islamic funds has been Kuala Lumpur, with its Malaysian Financial Centre Initiative (see www.mfci.com). Most likely the Central Bank of Bahrain and the DIFC have been second in promoting Islamic fund products, but like the rest of the industry in Arabia, they are both heavily concentrated on PE for much of the last decade. Other centres of Islamic funds would include Saudi Arabia, with now over 130 funds with regulatory approval and national distribution. Recently the governments of Luxembourg, France, Germany and Ireland have made statements supporting the development of Islamic investment product markets.

5.5.1. Bahrain

Bahrain is regarded as the best-regulated financial centre in the Middle East and has made substantial efforts to retain its reputations as a regional financial capital. Until recently, financial services made up 27.6% of Bahrain's GDP, with over 400 licensed financial institutions employing 14,000 persons. Additionally, Bahrain is ranked in the top six jurisdictions for domiciliation of Islamic funds.

Bahrain's funds industry is home to more than 2,483 funds. About US$ 1.3 billion there, is invested in 87 Islamic funds (as of May 2008), which was 78.5% more than in 2006 according to the Central Bank of Bahrain. Presently, there are 29 Islamic banks, 15 Islamic insurance companies (takaful), and 1 re-takaful company operating in Bahrain. Many conventional banks also offer Islamic windows within their operations.

From a tax perspective Bahrain remains competitive for funds, with no corporate taxes, no income taxes and no taxes on personal wealth.

The Central Bank of Bahrain (CBB), implements a comprehensive reporting framework specific to the needs of Islamic banking and insurance.

Bahrain is also home to important Islamic banking institutions, such as the AAOIFI, the International Islamic Financial Market (IIFM), the General Council for Islamic Banks and Financial Institutions, and the International Islamic Rating Agency.

5.5.2. Irish Financial Services Centre (IFSC)

Ireland recently announced tax, legal and regulatory changes that encourage the development of Islamic investment products in the IFSC. Even though as of yet there is nothing of substance in terms of actual products issued or managed, all the main constituents of the Irish financial services industry have some initial involvement in this industry, including accountancy firms, law firms and fund service providers. Additionally, the Irish Funds Industry Association (IFIA) is actively involved in promoting Ireland as a destination for Islamic investment products.

5.5.3. Malaysia

Malaysia boasts the largest number of Shari'a funds in the world. In November 2008 Shari'a funds domiciled and managed in Malaysia totalled 145, compared to 131 in Saudi Arabia, according to a report by Cerulli Associates, a research and consulting firm specializing in asset management and distribution trends worldwide.

Malaysia possesses a highly developed regulatory structure for Islamic asset management. It has attracted a number of international Shari'a managers by offering a host of tax and other incentives.

While Malaysia boasts the largest number of funds, Malaysian-domiciled Shari'a funds are only a fraction of the size of Saudi funds. In total, Malaysian-domiciled Shari'a funds manage US$ 7.2 billion of assets, compared to US$ 22 billion held in Saudi funds. Fund managers in Malaysia need to do more to build up assets in each of its Shari'a funds, rather than simply continuing to launch more funds.

5.5.4. Saudi Arabia

Saudi Arabia plans to open its financial centre, the US$ 8 billion King Abdullah Financial District, in Riyadh, in 2010. Saudi Arabia is the second largest domicile for Islamic funds (19% of total funds) after Malaysia. In terms of asset size, it is home to the world's largest - the AlAhli Saudi Riyal Trade Fund, with US$ 3.6 billion in AUM (as of October 2008); that is, nine times the size of Malaysia's biggest fund, the Public Ittikal Fund.

5.6. Distribution

Cross-border distribution of funds—either conventional or Islamic—is problematic at best and impossible at worst. Several very large American mutual fund companies and a couple of European ones have mastered the art of global distribution. Making matters worse for anyone wishing to make meaningful cross-border distribution of Islamic funds is the substantial difference in interpretation of Shari'a laws between different Islamic schools in different countries. These differences can be so great that a fund manager may have to create separate funds for different Muslim countries.

The Islamic finance sector is often blamed by outsiders and insiders alike for lacking a common framework, although there are a number of bodies who continually work on creating standards and best practices for Islamic financial institutions. In fact, there will never be true homogeneity among different schools of Islamic thought, and equally across various types of investment assets. In a way this may actually prove fortunate, as it could be the root cause of greater innovation in the Islamic banking industry. And, fortunately, as we've seen in Malaysia and Saudi Arabia, there are existing Islamic fund markets that have reached relatively impressive levels of AUM and product diversification, indicating there can be much more growth in the wider Islamic world.

Until now funds have tended to serve local marketplaces, with Saudi funds sold to Saudis and Malaysian funds to Malaysians. About 40% of Islamic funds are domiciled in just two countries: Saudi Arabia (18%) and Malaysia (22%), according to EurekaHedge, the world's largest independent data provider and research house in 2008. A host of other countries such as the UAE, Singapore, Indonesia, Bahrain, Hong Kong and Pakistan have also launched a number of fund offerings, but for the most part cross-border Islamic fund sales are not driving vast new growth in the Islamic fund space. Western banks and asset managers have shown almost no interest in this industry. There is no full-scale effort at any western bank to provide Islamic asset management or wealth management services, and at most there are no more than a handful of products available for Muslim investors seeking these options.

5.7. Cost of running funds

Shari'a-compliant funds have some additional costs not borne by conventional funds. These costs relate exclusively to slightly different wording in underlying fund documents, and to obtaining an initial and then annual fatwa. An equity fund will also have to pay for a screening process to filter non-compliant listings. However, these additional costs are but a small fraction of setting up any fund. In general, it can be said that the cost of creating, managing and administering Shari'a-compliant funds is nearly identical to the costs of conventional funds.

5.8. Appointment of a Shari'a board

The main difference with Shari'a funds is the necessity to appoint a Shari'a board. A Shari'a board provides guidance to the directors of the fund and to the investment manager on matters of Shari'a law and in particular on whether or not the proposed investments of the fund are Shari'a-compliant. The Shari'a board should consist of experts on matters of Islamic law and practice. The AAOIFI has stated that a Shari'a board should consist of at least three Shari'a scholars.

The board is also empowered to issue fatwa which are religious rulings issued after an examination of fund rules and investments made by a fund, which in effect certifies that the fund is 'Shari'a-compliant'. The fatwa is an important precondition in order for a fund to be marketed to prospective investors as Shari'a-compliant.

Fortunately there are now several companies that will take a Shari'a advisory contract, and provide all related services on a turnkey basis and at a relatively low cost if AUM is proposed at the equivalent of US$ 20 million or more. Shari'a advisory firms benefit fund managers by attending to Shari'a compliance issues, and allowing the manager to focus on fund management, marketing and administration matters. Firms like BMB Islamic offer turnkey Shari'a advisory services.

5.9. Annual Shari'a audit

Shari'a-compliant funds may also be audited on an annual basis to ensure their investment policies, operations and administration continue to adhere to Shari'a principles even after launch.

5.10. Investment restrictions

A Shari'a fund must ensure that the underlying businesses in which it holds securities are Shari'a-compliant. A Shari'a fund's offering document should entail the Islamic-based investment restrictions.

The fund may not invest in any business whose underlying activities are prohibited under Shari'a. An investment manager of a Shari'a fund will therefore not include any companies involved in the typical prohibited areas of alcohol, tobacco, pork, etc.

A Shari'a fund's investment manager will also employ a financial screening process to ensure that the companies do not employ excess leverage, or generate or pay significant amounts of interest. There are a number of financial index providers that publish Shari'a-compliant indices that can be used by investment managers for the screening process.

In addition, a Shari'a fund may not invest in interest–bearing instruments. It may not invest in conventional derivatives and may not sell short. These restrictions have in the past been seen to rule out Shari'a-compliant hedge funds. However, due to recent innovations in Shari'a engineering techniques, Shari'a-compliant hedge funds may be a possibility.

5.11. Purification of non-Islamic income

Any income generated by a Shari'a-compliant fund that is identified as "impure", such as interest income, must be 'purified' by the separation of that income and its payment to an authorized beneficiary, such as an Islamic foundation (*waqf*) or charity. Shari'a boards or advisors are responsible in identifying "impure" funds and in following through with their charitable distribution.

One way to achieve purification is for fund administrators to calculate the portion of non Shari'a-compliant income at each of a fund's valuation points. This non-compliant income is then disbursed to a charity chosen by the investment manager and approved by the Shari'a board or advisor. Notably there is no specific materiality threshold to determine a level of pure versus impure income. Such decisions are made by the Shari'a board or advisor, and may even change from year to year.

5.12. Custody of assets and cash management

Although the custodian of a Shari'a-compliant fund does not itself need to operate along the lines of an Islamic bank, it must still service Shari'a-compliant funds without violating Shari'a principles. The prohibition of interest prevents a fund from lending or borrowing on interest, and arrangements need to be put in place with the custodian to deal with overdrafts in a Shari'a-compliant manner. The custodian will also need to ensure that assets of a Shari'a fund are held in custody in compliance with Shari'a principles.

5.13. Are Islamic products more attractive?

The ultimate goal of the Islamic asset management industry is to create investment products that are seen as amongst the best in class in any category, and to be purchased not only by Muslims but also people of other faiths, such as Christians or Hindus or Jews. While strictly adhering to Shari'a compliance is a requirement, so is achieving investment goals, transparency and meeting the needs of investors. Parts of the Islamic fund industry may have achieved this goal, whereby anecdotal evidence shows some non Muslims buying Shari'a-compliant investment products. However, the number of non Muslim investors is still small, in part because so little of the Shari'a-compliant investment universe meets international standards, which will be discussed in the next section.

CHAPTER 6

Islamic Asset Management: A Review of the Industry

6.1. Introduction

Within the global asset management industry—with tens of trillions of dollars in AUM worldwide in pension funds, insurance companies, endowments, mutual funds, bank treasuries, corporate treasuries, private banking and sovereign wealth funds—Islamic asset management may become the fastest growing, most dynamic and most promising segment.

This chapter will attempt to qualify and quantify the universe of Islamic asset management and indicate where the industry may be heading. It will try to make sense of what is today a very heterogeneous, informal and irregular industry, without the clarity of organization that one sees in conventional asset management. It will also attempt to direct the reader to areas of opportunity, as well as highlighting where the industry may have erred in fulfilling the needs of investors, both institutional and individual.

The universe of available funds considered, held in cash or securities and bearing a recognized fatwa, is said to have reached over US$ 950 billion at the end of 2008[17]. Of this, however, no less than 74% is said to be within commercial banks, meaning less than US$ 250 billion is in assets outside murahaba and cash deposits. Among that sum not more than US$ 50 billion is in funds of all kinds, excluding assets in investment banks, which we assume are tallied as PE funds. At 10% of the total, investment bank assets of also US$ 50 billion illustrate the mismatched allocations between mutual funds and PE. Rarely anywhere, anytime, have PE assets equalled mutual fund assets. This will be discussed in more detail below.

If we extrapolate from 2009 data in the Capgemini-Merrill Lynch World Wealth Report, we can see that about US$ 2.5 trillion of managed assets worldwide are owned by Muslims, albeit nearly all of which must be conventionally managed since not even US$ 100 billion exists in Islamic mutual funds and PE (murahaba and cash, of course, cannot be considered as managed assets). This indicates that Muslims have only placed 4% of their managed assets into Shari'a-compliant investments, of which half is in mutual funds and half in PE funds. Put another way, 96% of Muslim wealth is managed conventionally, and only 2% is invested in Islamic mutual funds. Clearly this indicates extraordinary potential for growth. We need to remind ourselves there is no easy way to extract reliable numbers in this industry. No single source offers a full and complete summary of Islamic investment products. Here, we have patched together information from public sources, as well as compiled our own data sets, but we are certain the numbers are far from perfect. Readers may only want to use these numbers indicatively. However poor the data, we can still guess gross allocations of Shari'a-compliant assets and make comparisons to conventional assets in developed and developing economies. We can also with some justification declare whether there are mismatches between world standards for conventional asset allocation and those found in the Islamic asset universe.

Given that predominantly or wholly Muslim countries are by and large emerging economies, where nominal savings rates are as high as 5% of GDP per year, one can conclude substantial new money for investing is produced every year, at least in the range of US$ 250 billion or more (assuming a conservative US$ 5 trillion annual GDP for the Muslim world, which does not include net new savings of Muslims in non-Muslim countries). Total offshore savings accumulated since the late 1970s by the private sectors of Saudi Arabia and the Arabian Gulf region should now easily be well above US$ 1 trillion. One could further extrapolate from that sum a total of

[17] *Islamic Finance 2010*, London, January 2010