

Growth opportunities in pension funds and sustainable investing

Asset management institutions are companies managing funds of, among others, individuals, businesses, foundations and governments. These types of companies are also often called asset, fund or investment management companies. The people who are in charge of managing the funds are interchangeably referred as asset managers, fund managers, investment managers and portfolio managers. Asset management institutions can be either independent companies or affiliated with some major financial institutions such as commercial banks, insurance companies, investment banks and universal banks. FAROUK ABDULLAH ALWYNI delves further.



Farouk Abdullah Alwyni is CEO of Alwyni Consulting and the chairman of the Center for Islamic Studies in Finance, Economics and Development (CISFED). He can be contacted at faalwyni@alwynicapital.co.id

Table 1: Islamic funds' outstanding value by universe (2018) (US\$ billion)

1.	Mutual funds	97
2.	Exchange-traded funds	9
3.	Insurance funds	2
4.	Pension funds	0.37

Source: Islamic Finance Development Report, 2019

Table 2: Top 10 countries in Islamic funds outstanding (2018) (US\$ billion)

1.	Iran	35
2.	Malaysia	27
3.	Saudi Arabia	21
4.	UK	10
5.	Indonesia	3
6.	Luxembourg	3
7.	US	2
8.	South Africa	2
9.	Pakistan	2
10.	Kuwait	1

Source: Islamic Finance Development Report, 2019

Some major corporate and public pension funds also often perform the function of asset management in-house. Similarly, other large public and private institutions also internally manage some of their funds. However, considering that some investments require expertise in many different asset classes such as equities, bonds, real estate and alternative investments, these large institutions also diversify the placements of their funds into some asset management companies.

The growth of Islamic finance also necessitates the establishment of Islamic asset management institutions to manage Shariah compliant assets such as Islamic equities, Sukuk, commodities and real estate. As in the conventional model, the term 'fund' is mostly used in the Islamic asset management industry to describe a separate pool of (financial) resources managed on behalf of a client by a financial institution. This financial

institution as discussed previously could come in many forms, but the main objective is the same: to optimize the return of the financial resources it manages without violating the principles of Shariah.

Based on the data from the Islamic Finance Development Report 2019, Islamic funds grew steadily to US\$108 billion in 2018 from US\$58 billion in 2012. It was projected that by 2024 it could reach US\$216 billion. However, compared to Islamic banking assets, the total Islamic assets under management (AuM) of asset management companies are still relatively small. In 2018, total Islamic banking assets stood at US\$1.76 trillion whereas the value of total AuM was only US\$108 billion. As shown in Table 1, these funds consist of mutual funds, exchange-traded funds, insurance funds and pension funds.

These assets were also concentrated in three countries, namely Iran, Malaysia

and Saudi Arabia (Table 2). These three countries accounted for 77% of total Islamic funds outstanding. Some non-Muslim-majority countries such as the UK, Luxembourg, the US and South Africa have a sizable amount of Islamic funds under management. From all of these combined figures, it could be inferred that: firstly, the current state of major players in Islamic asset management industry is still concentrated in Malaysia and Saudi Arabia.

Excluding Iran whose Islamic asset managers were not in the list, there were 25 asset management companies from Malaysia and Saudi Arabia listed among the 50 biggest Islamic asset managers representing 50% of the number of Islamic asset managers in Table 3. With 56 OIC member countries and a growing number of Muslim communities in non-member countries totaling around 1.8 billion Muslim globally, there should be large room for growth for the asset management industry.

Secondly, looking at Table 2, pension funds still played a very marginal role in the Islamic asset management industry. As the awareness to build more solid



SECTOR FEATURE

ISLAMIC INSTITUTIONAL ASSET MANAGEMENT

Islamic institutional pension funds grows in Muslim countries, there would be a major change in the industry. Take for example Indonesia — the country's Financial Services Authority in 2016 issued a regulation pertaining to a Shariah-based pension program.

As of December 2018, total pension funds in Indonesia stood at around US\$57.9 billion with state agency social security entity BPJS Ketenagakerjaan alone contributing around US\$21.7 billion. Most of the pension fund entities are still managed conventionally and thus most of their funds currently are still invested in conventional instruments. If there is even a small shift in the pension fund industry, say 5% of the total, it would contribute almost US\$3 billion to Islamic funds. That would be a 100% increase to the present Islamic funds.

The same could also be said for Malaysia if pension schemes such as the Employees Provident Fund with around US\$206 billion in AuM and the Retirement Fund or KWAP with US\$34 billion in AuM could increase their Shariah proportion gradually over time. Furthermore, the amount would be much more significant if other Muslim countries start building a well-developed pension program system.

Finally, another potential opportunity to develop the industry is when Islamic asset management institutions or those conventional institutions managing Islamic assets integrate the Shariah compliant approach with sustainable investing. Based on the 2019 McKinsey report, sustainable investing has experienced a meteoric rise, standing at US\$30 trillion, a 10-fold increase since 2004.

In the US alone, it was estimated that 26% of the total US assets under professional management was managed using sustainable, responsible and impact investing, according to the 2018 Report on US Sustainable, Responsible and Impact Investing. Sustainable investing, known as economic, social and governance (ESG), in fact has now become mainstream. Some major indices have also included ESG indices such as MSCI, Dow Jones and FTSE.

In view of the aforementioned, considering that the substance of Shariah is basically aligned with the

Table 3: Fifteen (of 50) biggest managers of Islamic assets (2016) (US\$ billion)

Rank	Company	Country	Total AuM (US\$ million)
1.	NCB Capital	Saudi Arabia	7,445.9
2.	Public Mutual	Malaysia	7,232.1
3.	Jadwa Asset Management	Saudi Arabia	6,599.3
7.	Maybank Asset Management	Malaysia	2,953.6
9.	Absa Capital	South Africa	2,086.3
12.	Franklin Templeton Investments	US	1,784.8
15.	Eastspring Investments	Singapore	1,367
17.	BNP Paribas Investment Partners	France	1,321.2
22.	Al Rayan Investment	Qatar	861.5
23.	Nomura Investment Management	Japan	854.6
24.	Aberdeen Asset Management	UK	657.2
27.	NBAD Asset Management	UAE	418
31.	NBP Fullerton Asset Management	Pakistan	331.4
32.	Markaz	Kuwait	307.3
39.	Mandiri Investasi	Indonesia	123.5

Source: asianinvestor.net

principles of sustainable investing, integrating both aspects could further boost the Islamic asset management industry. In fact, based on a 2019 study from Schroders, 57% of global investors consider sustainability factors when selecting an investment product. The figures are even higher in Asia (66%). Two predominantly Muslim countries, Indonesia and the UAE, where data is

available, also have a higher preference toward sustainable investing, with 76% and 62% respectively. Here, Islamic asset management institutions could play a critical role in optimizing this opportunity and further expand the market base by offering Shariah sustainable investing products to potential investors. ☺

**FRESH PERSPECTIVES
HELP YOU
RISE ABOVE**

Offering Middle East-based clients a wide range of award winning and innovative Islamic transaction solutions, the Maples Group delivers the highest standard of legal, fund and fiduciary services our clients expect.

LEGAL SERVICES
FIDUCIARY SERVICES
FUND SERVICES
REGULATORY & COMPLIANCE
ENTITY FORMATION & MANAGEMENT

maples.com/dubai

**MAPLES
GROUP**