ADDRESS BY
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Building Greater Inter-Connectivity
Through Islamic Investing

A very good morning to you all. I am grateful to Allah Subhanahu Wata'ala for this opportunity to address you at the Islamic Forum Dubai 2014. My thanks go to the organiser, Franklin Templeton Investments, for the kind invitation to share my thoughts and views. Two weeks ago, the Kuala Lumpur Islamic Finance Forum named Franklin Templeton GSC Asset Management in Malaysia the 'Most Outstanding Islamic Asset Management Company'. Given their deep and visionary involvement in the Islamic asset management industry, not just in Malaysia and here in Dubai but worldwide, I place high hopes on the success of this Forum.

2. Before I begin my address, I want to extend my sincere appreciation to the Government of Dubai for the warm welcome conferred on my delegation and myself. I pray for the continued good health of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Ruler of Dubai and His Highness Sheikh Hamdan bin Rashid Al Maktoum, Deputy Ruler of Dubai. May Allah protect Their Highnesses and may the people of Dubai continue to prosper under their wise leadership.

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3. Islamic investments today are not only an established but also a rapidly growing asset class. From humble beginnings, and after more than three decades of, at times, hesitant growth, this asset class has broadened and deepened to now provide both an investment alternative for the more than 2 billion Muslims today, as well as a complement for non-Muslims in the international fund management community. The size of Islamic assets today is estimated at upwards of USD 1.8 trillion and growing by 5 to 20 per cent per annum. It comprises not just equities but *sukuk* securities, money market instruments, commodity funds, real-estate investment trusts and exchange-traded funds.

4. Islamic finance is fast becoming mainstream global finance. As many of you would be aware, in June this year, the United Kingdom became the first sovereign issuer of *sukuk* outside the Islamic world. The small issue of £200 million was met by demand of £2.1 billion. A USD 200 million issue by Senegal in July, a USD 1 billion issue by Hong Kong in September and a USD 500 million issue early this month by South Africa, followed this.

5. These sovereign issues mark a milestone and a coming of age of sorts for Islamic finance and asset management. Far from being an either or proposition, Islamic assets can serve the purposes and be a blessing both for the *ummah* as well as countless others. For the latter that want less volatile and more secure assets or socially responsible and ethical investments, they can more easily access these products irrespective of their beliefs.

6. I would be remiss if I did not say that what has made this all possible is the vision and leadership of Muslim countries, among which I would count Dubai and my own country, Malaysia, as major players. In addition is the willingness and ability of global market participants to capitalize on this opportunity to structure and market investment products to increasingly diverse investors. We are, as the saying goes, "standing on the shoulders of giants" and what we are reaping today and the bright prospects that we face is the result of the unstinting and selfless work that has gone before.

7. In order to preserve and capitalise on this position, however, we must continue to strive to remain relevant amidst times of great change and to grow this asset class through responsible and timely innovation. Obviously this is not going to be possible without considerable investments in human capital, particularly research, education and training. These include financial institutions but also the investment community and, importantly, those responsible for Islamic jurisprudence and policymakers. We must strive to make Islamic finance, and the ecosystem in which it operates, as dynamic and information-rich as possible.

8. One major reason why Islamic investing must be approached proactively is the issue of performance. Over the past twenty years, a virtual industry has arisen among researchers with tens, if not hundreds, of empirical studies comparing the performance of Islamic assets relative to conventional ones. The objective has been to determine if there is a cost or penalty of so-called 'faith-based investing'. Not too surprisingly, the evidence is mixed, depending on the markets involved, the time periods, analytical techniques, screening methods and so forth. Some studies have found positive evidence of under-performance while others have shown over-performance over the standard benchmark indices. Still others have yielded inconclusive results.

9. Overall, I share what I think is the eminently sensible conclusion that there is no overarching reason to assume that Islamic investment funds must necessarily be at a disadvantage due to more restricted choices *if* there is sufficient diversity and depth in these choices. This is especially so given that it is only proper that Islamic assets be compared with other asset classes with approximately the same amount of risk. What needs to be done then is to ensure that there is adequate supply of investment instruments and products that are in line with sha'riah principles and whose characteristics help ensure that investors in Islamic assets are not unduly hampered.

10. Efforts, must of course, continue to ensure the soundness and integrity of Islamic assets. They have to be true not just to good investment principles but also the ethical values enshrined in the teachings of Islam. After all, the purpose is not to establish an asset class for its own sake but to put into practice the commands of the Almighty, Allah (s.a.w.). The ultimate objective of Islamic investing is to achieve *al falah*, or success, happiness and well-being in this world and the hereafter through efficiency and effectiveness but also with fair dealing and economic justice.

11. The significance of this may, of course, be lost on investors of other faiths and belief systems. For them, the ultimate proof is not the intentions but the inherent practical soundness of Islamic investment assets. This places a heavy responsibility on the governing institutions of Islamic finance to set standards for risk management, operations, auditing and financial reporting. The good work of the Islamic Financial Services Board, the Accounting and Auditing Organization for Islamic Financial Institutions, the International Islamic Financial Market and the International Islamic Rating Agency, during the past decade or so has been absolutely crucial in this regard.

12. On the whole, while certain issues remain, international rule- making and standard-setting efforts by governing institutions and agencies have been good. Where more progress needs to be made appear to be in the area of compliance. For example, industry surveys have found that uncomfortably high numbers of Islamic finance institutions have yet to implement the IFSB's Risk Management Standard. Only a minority of Islamic financial institutions are reported to have applied or secured a credit rating. In many countries, the application of the Accounting and Auditing Organization are reported to be problematic, not least due to the shortage of qualified auditors.

13. There would therefore seem to be some ground to cover still to ensure the underlying safety and sustainability of Islamic financial institutions. The leadership of Islamic financial institutions themselves, however, cannot afford to be complacent and must take more proactive action in ensuring that they comply with best industry practices. Asset managers also have a role to push for the adoption of standards and practices as they have a duty of care to their investors. I am confident, however, that with stakeholders working in concert and with much closer cooperation among the regulators in both Islamic and non-Islamic countries, these issues can be worked out.

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14. A large proportion of Islamic investment today takes place on a cross-border basis. In terms of forging inter-connectivity, the effects of Islamic finance are global and should be recognised as such. By providing much-needed capital, industry talent, regulatory bodies and business networks, it draws people of all races and creeds closer together, not just Muslims. With the earlier provisos that Islamic financing and asset management need to be managed progressively and sustainably, this increasing closeness cannot but have positive effects in promoting greater mutual understanding and acceptance of Islamic finance by all.

15. The world's financial centres have already staked their claims to this growing segment of the market. By all accounts, Asia – in particular, East, Southeast and South Asia – could well send Islamic financing, asset creation and asset management services soaring to the next level. Asia is witnessing unparalleled rates of wealth creation. By end 2014, the number of high net-worth individuals in the region are expected by some analysts to surpass those in North America and Europe. Assets of high net-worth Asians are placed at around USD 12.7 trillion, while those of the latter two regions are expected to be USD 10.9 trillion.

16. The International Monetary Fund estimates that the size of China's economy is already larger than the United States' on a purchasing power parity basis. Direct investment flows into Asia accounted for around 25 percent of all global flows in 2012. Ex-Japan investment flows have increased more than threefold since 2003, touching USD 332

billion in 2012. Direct investment from the Gulf Cooperation Council economies into Asia ex-Japan economies stood at almost USD9 billion in 2012, an increase of about 10 percent since 2010 and indications are that this figure is rising.

17. Looking forward, the outlook is even more encouraging. The region will contribute to more than 50 per cent of global growth through 2018. On average, it is expected to grow almost twice as fast as the rest of the world over the next decade. The expansion of Asia's middle class population, including in Malaysia, will be a vital driver. By 2030, the OECD projects that Asia will account for 66 percent of global middle class consumption, rising more than six times to 3.2 billion people from 525 million in 2009. Combined with high savings rates and rising wages, there is significant long-term potential for the expansion of consumption.

18. Closer to my home, ASEAN is a rapidly growing region with a population of over 600 million, that is, about half the population of China and twice the population of the US, and a total GDP of approximately USD 2.3 trillion. The OECD projects GDP growth of 5.5 per cent per annum through to 2017. The region is in the process of integrating to form an ASEAN Community with three main pillars, namely, economic, political-security and socio-cultural. I would particularly point to the area of infrastructure development financing needs, especially among Asia's and ASEAN's developing economies. According to studies done, ASEAN's financing requirements for at least the next two decades are considerable. The Asian Development Bank, for example, has estimated this at USD 60 billion a year to 2016 and very probably beyond.

19. As is well-known, infrastructure financing is large and potentially lucrative but also very challenging. Apart from counter-party risks, the others typically associated with these kinds of projects include risks emanating from suppliers, construction, currency mismatches, duration and demand. With the concepts of risk and reward sharing firmly built into Islamic project financing, it would seem exceptionally suited to the region. Malaysia is gearing up to support Islamic financing and investing requirements of the region. By working in collaboration with other Islamic financial centres, particularly those that have project finance experience, we can ensure that the growth in Islamic assets continues to rise at rapid rates.

20. Malaysia is currently home to 19 dedicated Islamic fund managers whose investment capabilities and skills are targeted towards the Asia Pacific region in general and South East Asia in particular. Through their worldwide networks, these entities have the potential to attract and mobilise global liquidity into Islamic investments. Malaysia's Islamic assets under management has been increasing at a rate of 22.3 percent for the last five years and accounts for approximately 17 percent of the total fund management industry in Malaysia. At current growth rates, the share of Islamic assets is expected to double every four years. The prospects for partnerships in this area are very bright.

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21. The region that is likely to take Islamic finance and investing to the next level is Asia, particularly East and Southeast Asia. Economic growth and wealth creation in this part of the world is expected to continue albeit at possibly more sustainable rates. Infrastructure financing, in particular, is going to be very important and is exceptionally suited for Islamic finance. Malaysia is scaling up to meet the demand but welcomes partnerships to ensure greater penetration of this historic opportunity.

22. I wish everyone a belated *awal Muharram*. My wish for the New Year is to build our considerable achievements with an even greater sense of purpose and dedication. I wish all of you attending this conference great success.

Wabillahhitaufik walhidayah
Wassalamualaikum warahmatullahi wabarakatuh.