

Global Sukuk Portfolio Management New Challenges

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FTW

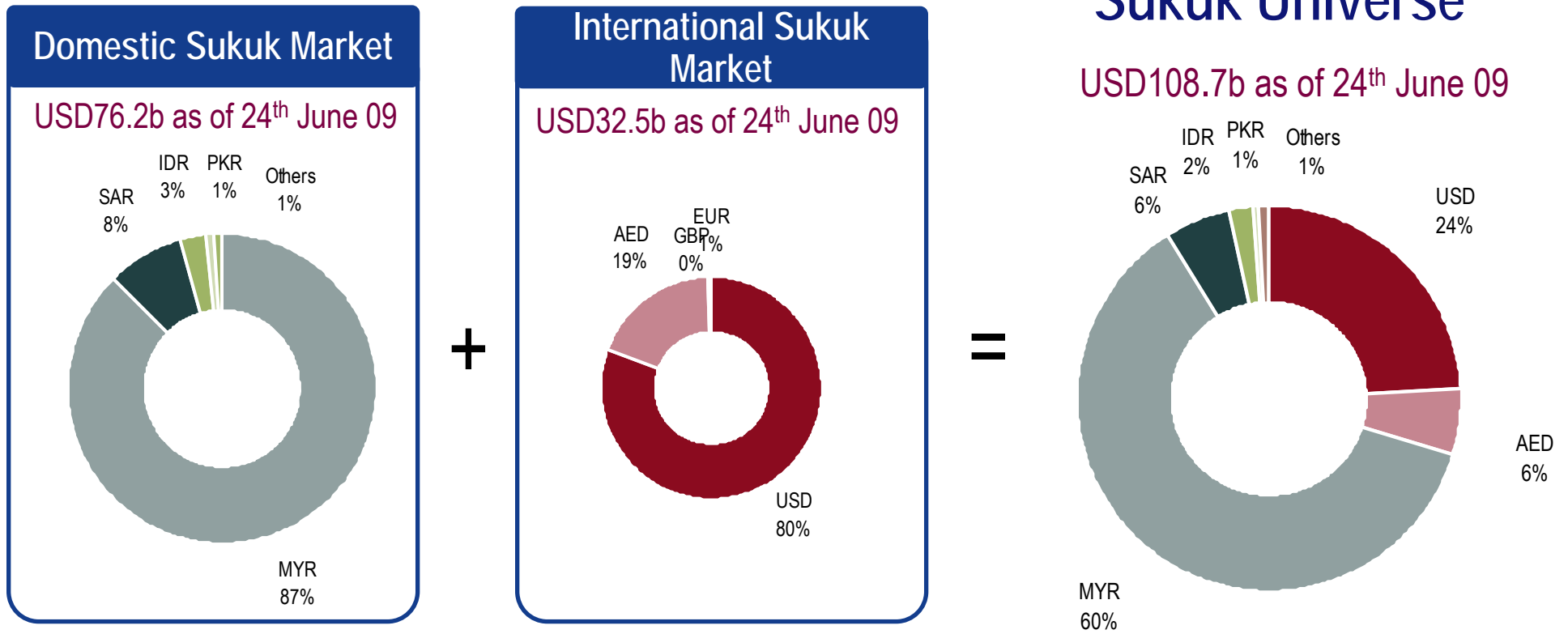


Managing a Global Sukuk Portfolio, New Challenges

- Main Challenge
- Defining the Eligible Market
- Selecting a Benchmark

Global Sukuk Portfolio Management

Main Challenge - The Sukuk Universe Composition



USD109b in Outstanding Volume with 30% in International Issuances

Outstanding volume is estimated based on data available on 24th June 2009 and the prevailing current exchange rate

Source: Bloomberg, FFTW



Global Sukuk Portfolio Management

Main challenge – Developmental stage of the Global Sukuk market

Setting up the rules:

- Global Sukuk investment guidelines require broader deviation from Global Conventional investment mandates
- Search for diversification (e.g., geography, currency)
- Clarity in definitions: Quasi sovereign - GRE's versus corporate Sukuk
- Unbiased approach to benchmark selection
- Objective risk limits (e.g., tracking error)
- Active consultation with the Shari'a Board throughout the process

Global Sukuk Portfolio Management

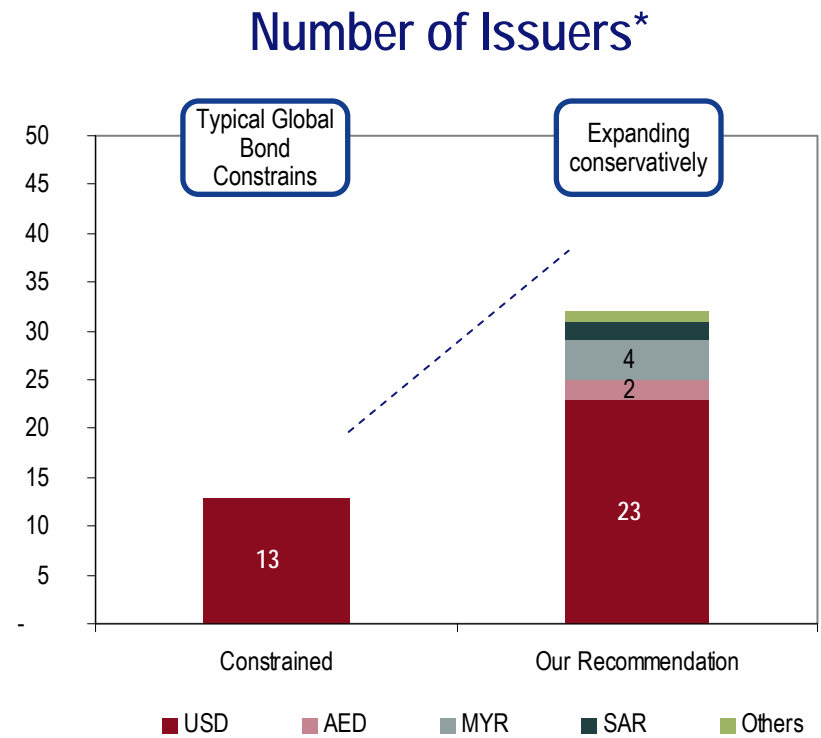
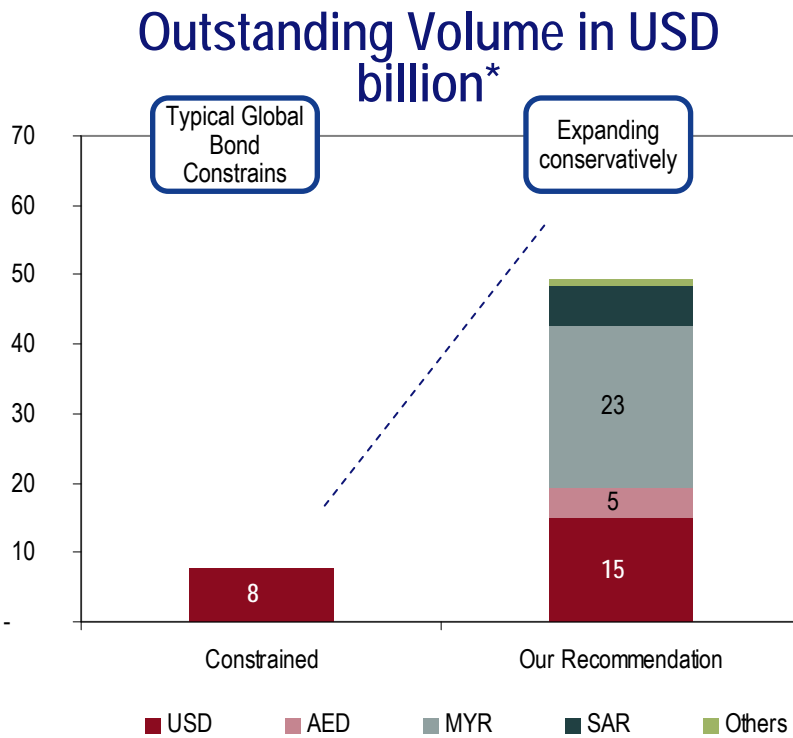
Defining Eligible Market - Idealized approach to overcome present challenges

Potential Options:

- Allow exposure to all sovereign issues (rating requirements can be defined)
- Allow implied ratings for unrated sovereign, government or quasi sovereign Sukuks
- Allow exposure to convertible Sukuks
- Allow manager's internal/proprietary ratings for unrated corporate Sukuks
- Allow exposure to local currency Sukuks (e.g. MYR, SAR, SGD, AED)
- Allow exposures to match selected index weighting ratios
- Allow exposures to non-benchmark Sukuks (percentage of NAV can be defined)

Global Sukuk Portfolio Management

Defining Eligible Market - Constrains under a conventional Global Bond Portfolio approach

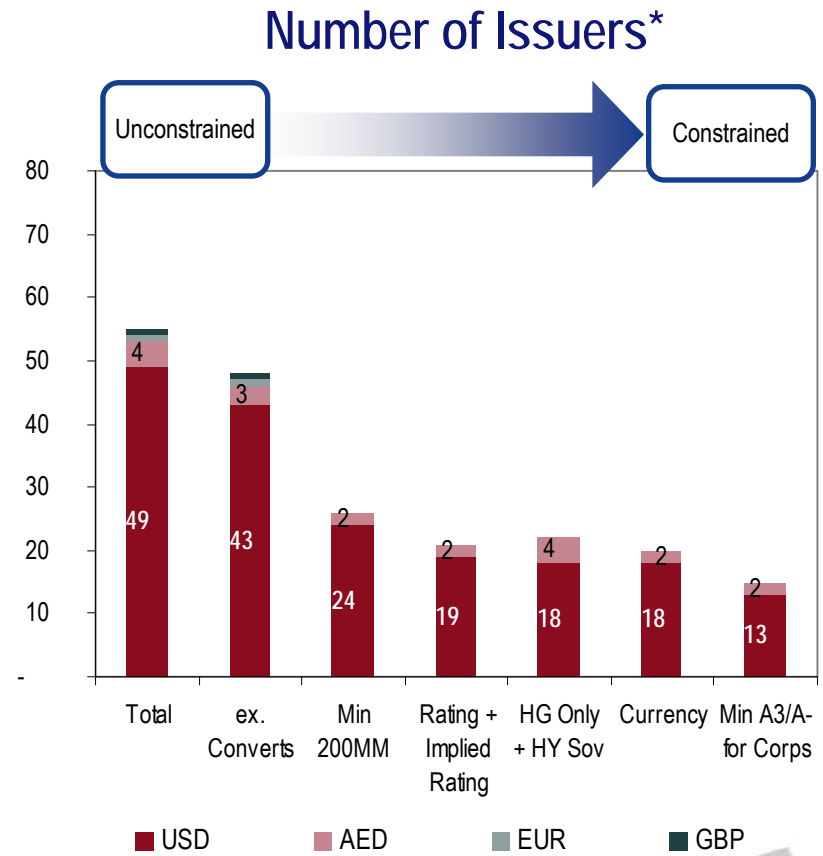
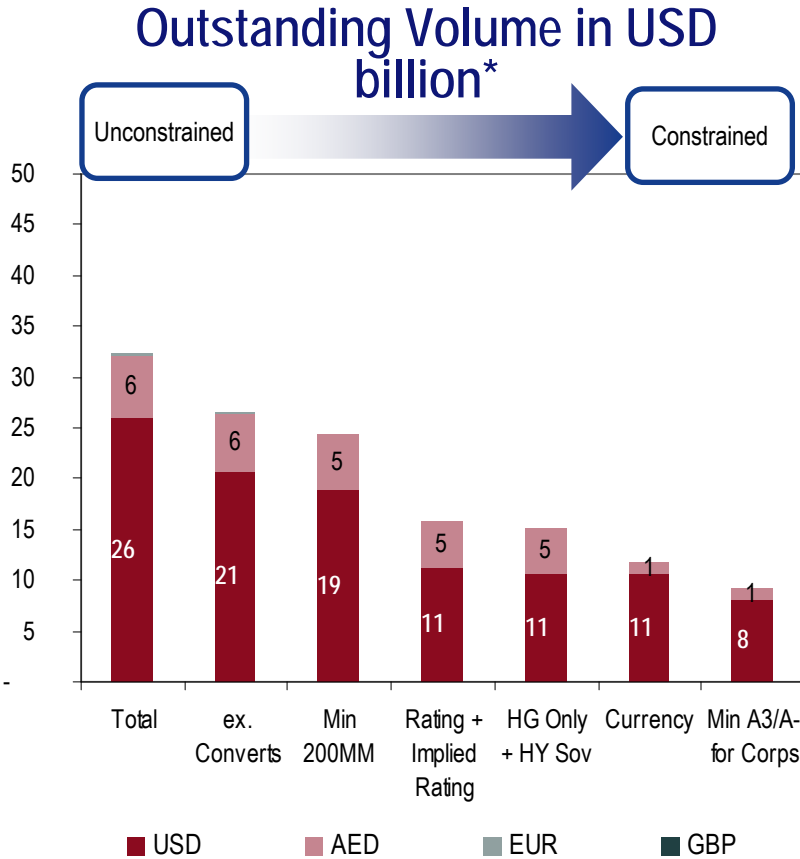


* Converts = Convertible Sukuks, Min 200MM refers to Sukuk with a minimum USD200MM in current outstanding issue size, Rating refers to Sukuk with issue rating, HG = Investment Grade, G10 = currencies from group of 10

Source: Bloomberg, FFTW. Data as of 1st July 2009

Global Sukuk Portfolio Management

Defining Eligible Market - Constrains under a conventional Global Bond Portfolio approach



* Converts = Convertible Sukuks, Min 200MM refers to Sukuk with a minimum USD200MM in current outstanding issue size, Rating refers to Sukuk with issue rating or implied ratings, HG = Investment Grade, HY = Non investment Grade, Currency refers to eligible local currency eligible for corporates issues, Min A3/A- refers to the minimum A3/A- rating for corporates based on the lower of Moody's, S&P and Fitch

Source: Bloomberg, FFTW. Data as of 1st July 2009

Global Sukuk Portfolio Management

Selecting a Benchmark – Benefits and Weaknesses

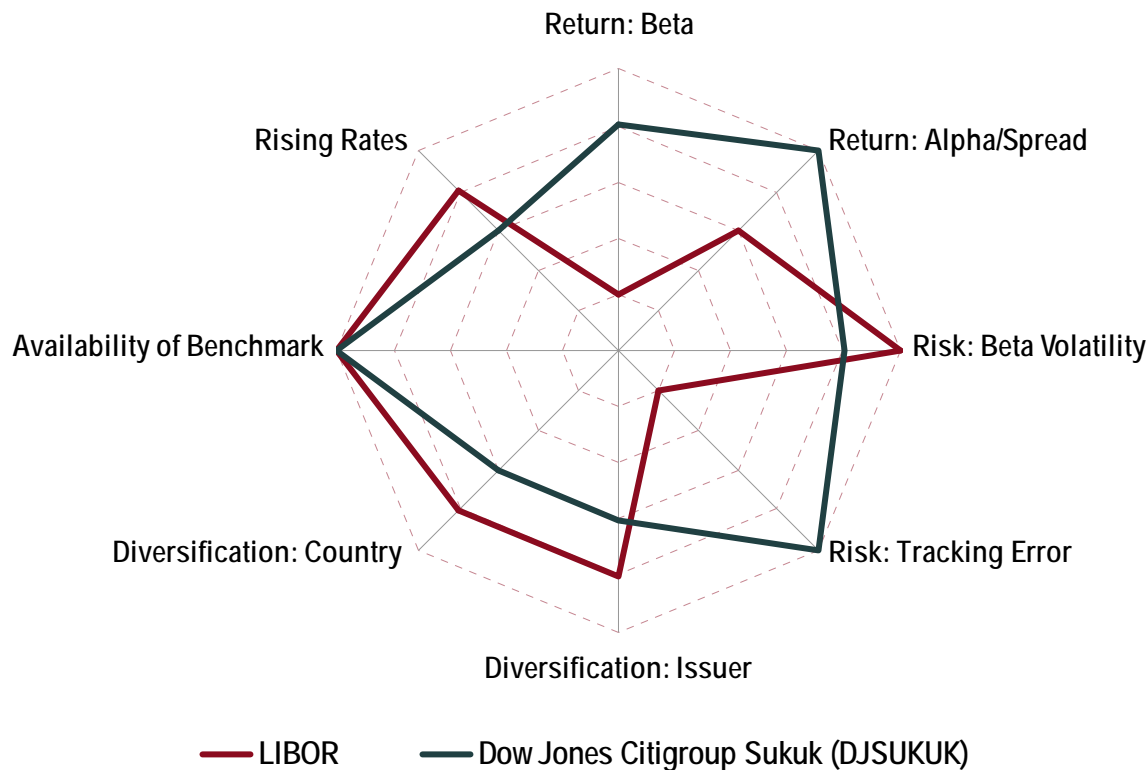
	LIBOR	Dow Jones Citigroup Sukuk Index
Positives	<ul style="list-style-type: none"> + Absolute return focus + Limited interest rate risk + Limited impact on rising rates + Low index volatility + Index is available 	<ul style="list-style-type: none"> + Absolute return + Beta return mix + Wider universe as fixed rate Sukuk is part of index + Representative of underlying risk. + Index allows for monitoring and objective measurement + Includes both floating and fixed rate Sukuks + Limited interest rate risk, lowers risk of rising rates + Index is available
Negatives	<ul style="list-style-type: none"> – Index does not represent risk hence potentially high tracking error. – LIBOR rates are low – Limited use of fixed rate Sukuk to reduce interest rate duration risk. 	<ul style="list-style-type: none"> – Developing index with only five constituent currently. The need to track the benchmark may result in high impact from monthly rebalancing – Sukuks in index may be hard to source

Source: FFTW

Global Sukuk Portfolio Management

Selecting a Benchmark – Client Driven Process

Factors for Benchmark Selection



FFTW non-weighted Multi-Factor Scoring*

	LIBOR	DJSUKUK	Weights
Return: Beta	1	4	Client Driven
Return: Alpha/Spread	3	5	
Risk: Beta Volatility	5	4	
Risk: Tracking Error	1	5	
Diversification: Issuer	4	3	
Diversification: Country	4	3	
Availability of Benchmark	5	5	
Rising Rates	4	3	
Equal Weighted Score	27	32	

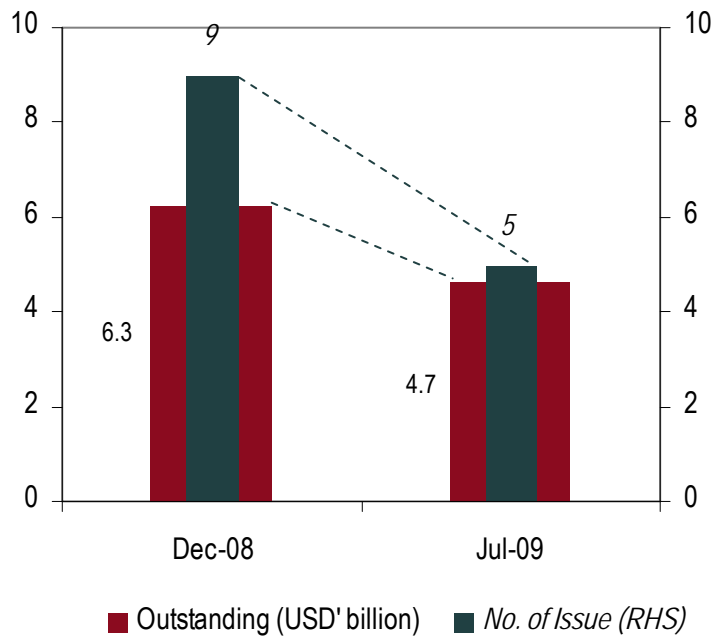
* 5 = Most Favorable, 1 = Least Favorable

Source: FFTW

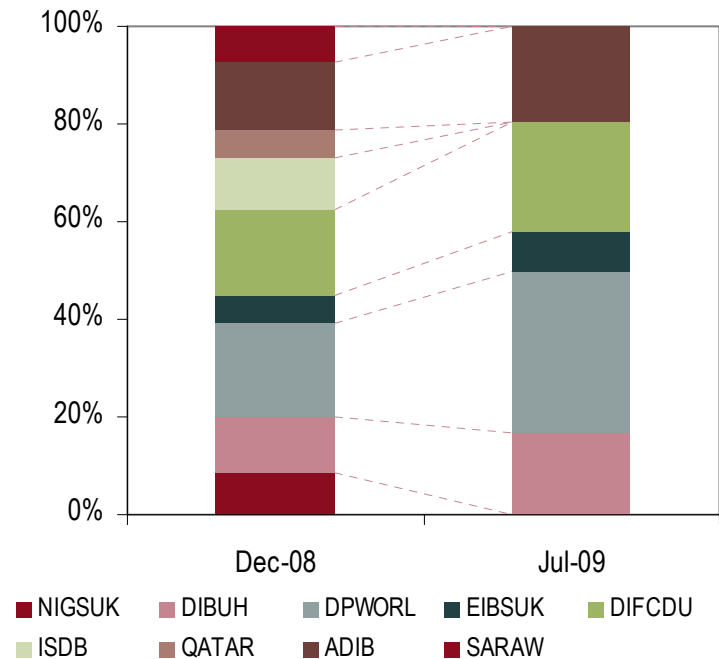
Global Sukuk Portfolio Management

Selecting a Benchmark – Cost of low tracking error i.e. tracking a developing index

Size and Number of Issues
Dec 2008 and July 2009



Composition of Issues
Dec 2008 and July 2009



Tracking the index would require rebalancing 65% of NAV between Dec-08 and Jul-09. At a 1% transaction cost, this would result in a 65bps performance drag over this period

HG = Investment grade, HY = Non investment grade
Source: Bloomberg and FFTW as of June, 2009



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