

SFP

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CEO's Message

For the past decade, I have witnessed a great evolution in the financial services industry. Amongst the significant changes is the introduction of new licenses by both Bank Negara Malaysia and Securities Commission to regulate and promote a new group of professionals. These highly qualified licensed professionals will help the Malaysian public to address their financial concerns.

The first wave of agents has transformed to become professionals, providing advisory services rather than product pushing. By focusing on client's needs as their priority, these professionals will provide choices and transparency to assist clients with a holistic solution. Having said that, the number of professional financial advisers we have in Malaysia is still far from sufficient, with a ratio of 30,000 working adults to one licensed adviser. Therefore, the industry is going through this challenge of transforming agents to be able to provide holistic solutions to clients that are both competitive and transparent.

The recent measures of liberalizing capital markets by our Prime Minister, YAB Dato' Sri Mohd Najib bin Tun Abdul Razak is very positive and has been welcomed by many. Liberalized capital markets will also attract a wider participation of foreign players, thus raising the level of competitiveness that will drive growth at a faster pace. To me, this is a great advantage to our industry as we will be able to offer affluent Malaysians more sophisticated and complex products. This will greatly benefit the public as clients can now have more choices of offshore investments to select from and a variety of insurance products for client's different risk situation.

This month, Standard Financial Planner (SFP) has set yet another industry benchmark by being the first financial planning company to sign a unique term of business with Syarikat Takaful Malaysia Berhad. Through this relationship, SFP now has the full range of Islamic and conventional financial products and services to provide clients with choices. Our objective is to improve the quality of life of all Malaysians.

At SFP we believe the best advice a client could ever receive is through engaging a financial adviser that represents them. SFP is constantly striving to set standards above and beyond industry requirements so clients can have the fullest confidence when they seek the advice from our licensed financial advisers.

*Alfred Sek, CEO
Standard Financial Planner*

The Growing Interest of Islamic Funds



It is ironic that Islamic finance, which was often perceived to be at a disadvantage with the restrictions imposed by Islamic laws, would end up being more resilient during the global credit crunch.

Today, the Islamic finance industry is constantly in the limelight due to its proven ability to weather the storm in times of global economic slump whereby Shariah compliant funds offer some form of protection to investors from the impact of the financial crisis.

In fact, in the last year Islamic funds have been outperforming conventional funds via Islamic and conventional indices. This is expected considering: (a) Islamic funds cannot have any exposure to conventional financial sector stocks (which we all know have been affected by the credit crunch), (b) Investments in subprime loans are not permissible as they involve leveraged instruments (c) Islamic law prohibits making money from money (i.e. interests) as wealth can only be generated through legitimate trade and investments in assets¹.

The premise of Shariah law has allowed Shariah investments some resilience to the financial malaise so much so that the US Treasury has resorted to Shariah-compliant finance as a potential tool to salvage the US economy. On 25 October 2008, Deputy Secretary Robert Kimmitt said: "Islamic banking is an important issue being discussed right now by experts both in the public and private sectors. The US Treasury department had organised together with Harvard, a forum on 'Islamic Finance 101' for the public and private sectors as well as Congress personnel²".

Whilst this awareness would contribute to the ever growing global demand for Shariah investments, something has to be said about Malaysia's potential to meet those demands. Before we continue with the story of the growth of Shariah funds and the industry in which it operates, let's go back to the humble beginnings of our Malaysian Islamic Capital Market.

Favourable environment

Malaysia is an attractive investment destination due to a number of reasons: It has well executed policies, a facilitative regulatory environment, a growing number of intermediaries that continue to push the frontiers of product innovation and a complete, matured and well established financial system.

Bank Negara Malaysia and Bursa Malaysia have also been instrumental in providing facilitative infrastructure and the necessary regulatory framework in promoting the growth of Malaysian Islamic capital market.

The new framework introduced by Bursa Malaysia to allow Ringgit and foreign denominated Sukuk or debt securities issued by local and international entities, both listed and non-listed entities to be listed on the exchange will provide a valuable marketing tool for the Islamic fund management industry. This new framework will encourage potential issuers/investors from

all over the world to raise or invest in Islamic debt securities. To further encourage issuers to list such instruments on the exchange, the listing fees for Sukuk or debt securities listed under the new framework before 2010 will be waived.

The launch of Malaysia International Islamic Financial Centre (MIFC) initiatives in August 2006 reflects Malaysia's commitment to be the international Islamic financial hub. Malaysia is fully aware of the huge global demand for Islamic wealth management industry. The Government has introduced numerous incentives to spur the growth of the Islamic fund management industry with investment friendly policies. For instance, the relaxation of foreign equity ownership rules on Islamic fund management companies. The new ruling allows 100% foreign equity ownership for Islamic fund management companies. And on top of that, MIFC provides seed fund from various seed fund providers such as Bank Negara Malaysia, EPF, Lembaga Tabung Haji and Petronas. EPF alone had allocated RM7 billion for this initiative. The fund management companies will also be given tax exemption on all fees received in respect of Islamic fund management activities until year of assessment 2016.

In addition, Malaysia offers a strong overall Islamic finance and Shariah framework that provides a core foundation for fund management companies to use as a base to establish their Islamic fund management businesses. Malaysia has established a mutual recognition arrangement with the DFSA and is working with other jurisdictions to allow greater cross border offering of Islamic funds.

Malaysia...a regional Islamic Financial Hub

In addition to Malaysia's unique legal framework which allows comprehensive Islamic financial systems to operate in parallel to the conventional systems, the country's formation as a reputable Islamic nation and home to multi-racial society are essential facets in supporting the initiatives to become an

International
Islamic
Financial
Centre.



Malaysia's unique multi-cultural union translates the government's aptitude in harmonizing cultural and religious differences for over three decades which is crucial in sustaining healthy political and economic growth. As such, growing in multi cultural and multi religious environments where political and economic decisions are made to the best interest of the country and society, the aptitude of our Shariah Advisors is honed to be more flexible and open in accepting other schools of thoughts views in interpreting Shariah principles for the innovation of Islamic finance products and services. In Islam, there is no such thing as the majority overriding minority views. The principle of Shariah is that all schools are free to practice the religion their own way for as long as it is kept within the ambit of the Quran and Sunnah³.

The Islamic financial system in Malaysia has evolved rapidly with the increased pace of liberalisation in the Islamic financial services which led to the increase of foreign presence and participation in Malaysia's domestic Islamic financial system. Instantaneously, this has enhanced the diversity of players in the local financial system seeing the congregation of Islamic Banking players with the debut of three Islamic banking giants namely Al-Rajhi Bank, Kuwait Finance House and Asian Finance Bank.

Malaysian local bond market has also been liberalised to enable foreign entities to raise ringgit and foreign denominated funds in the domestic market.

Malaysia can now rightfully claim to have one of the most innovative and comprehensive Islamic capital markets in the world. Currently Malaysia has the world's Sukuk market accounting for 68.9% or US\$62 billion of the world's Islamic bonds. The world's first sovereign global Sukuk also came from Malaysia⁴.

These developments see Malaysia entering new phase to promote the country as an International Islamic Financial Centre with aim to strengthen its economic and financial inter-linkages simultaneously promoting greater trade and investment across borders.

All of the aforementioned elements presented not only truly demonstrate Malaysia's viability in pioneering the global growth of Islamic finance but will ensure the future growth of the Islamic capital market.

Source: Prudential Fund Management

¹ Islamic Finance Asia, *Are Islamic Indices the way to go?*
www.islamicfinanceasia.com

² Islamic Finance News Vol 5, Issue 44 (7/11/08)

³ Islamic Finance Asia, *CIMB Islamic Seeking New Conquests*

⁴ *The Malaysian Sukuk Market*, RAM Ratings

Economic Update

As at the time of writing (30 June 2009), all equity markets are heading upwards with the MSCI World Index rising by 6.4%, while the MSCI Asia Pacific Index surged by 36.4%. This signifies that the Asian markets are headed towards a cyclical recovery with the top five performing single markets being Indonesia (62.3%), India (55.1%), Taiwan (42.4%), Thailand (37.0%) and China (35.8%). All performances stated are in RM, on a year-to-date basis.

The cyclical recovery within Asia is supported by key events affecting the demand from China. In response to the Chinese government's 4 trillion yuan stimulus package, China's Fixed Assets Investment increased 32.9% year-on-year as of end May 2009. The Purchasing Managers' Index for the China manufacturing sector rose from 53.1 to 53.2 (a reading above 50 indicates an expansion). In addition to the strong growth in investments, the adjusted exports rose 0.2% month-on-month in May 2009. China's exports order index rose to 50.1 in May 2009, the first time the index has risen above 50 in 11 months, signalling that its export may have bottomed. Industrial production is rebounding and retail sales remain robust at the same time. Auto sales have surged 23.8% year-on-year in May as a result of tax cuts. Property sales by value doubled in Beijing in the first five months of 2009. In addition, property sales increased 45.3% year-on-year in the first five months across the nation. These are signs that the Chinese economy is stabilising.

For the US market, the forward-looking ISM composites (ISM Manufacturing Index and ISM Non-Manufacturing Index) for May 2009 pointed to the increasing stability of the US economy. This is despite the ISM composites remaining below the critical 50 level that generally indicates expansion. The 1.2% month-on-month gain in US' leading indicators is yet another indication of "green shoots" developing in the economy. We may gag at the over-used metaphor, but there is no denying that forward-looking indicators point to greater stability in the market and economy. A swift economic recovery is not in the cards, but the worst two quarters for US' GDP are likely to be the 4Q 08 and 1Q 09.

On the local front, most of the economic indicators, despite still being within the negative growth territory, are showing improvements in terms of a less severe magnitude of fall. This suggests that recovery is gradually taking place.

Despite the real economy not showing signs of a firm recovery, investor confidence grows as January 2009's bottom becomes apparent. Generally, the global economic growth should solidify in the second half of 2009 as fiscal stimulus packages in many countries would take effect.

Source: iFast

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