



# **Market Volatility: Friend or Foe?**

## **Asset Management For Global Takaful Industries**

**Optimizing Takaful & ReTakaful Risk Returns  
through Asset Allocation & Diversification**

**The International Takaful Summit**

London, July 2012

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**Chief Executive**

**CIMB-Principal Islamic Asset Management Sdn Bhd**

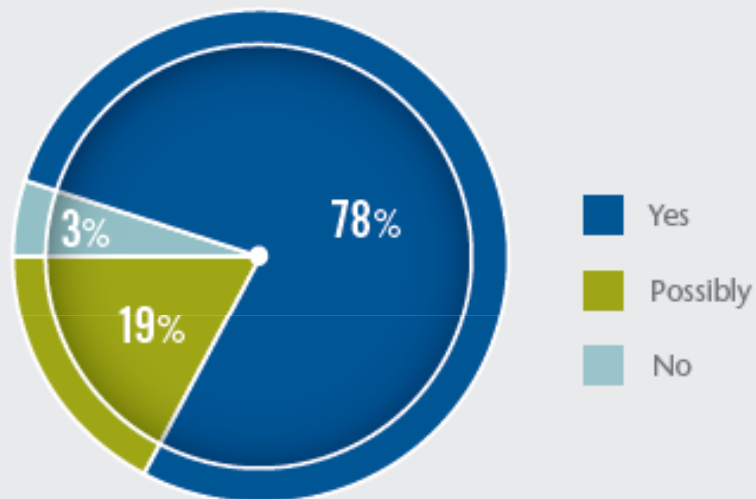
# The bad news: We're in Volatile times & more are expected to come...

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Results of a survey recently conducted

FIGURE 1.1a

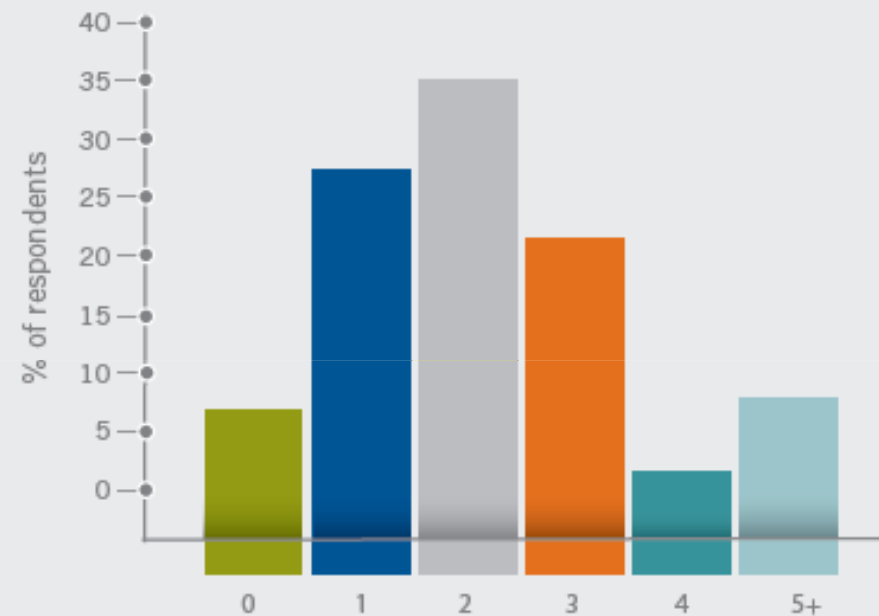
Are capital markets now in an era of frequent volatility and price dislocations?



Source: Principal Global Investors/CREATE Survey 2012

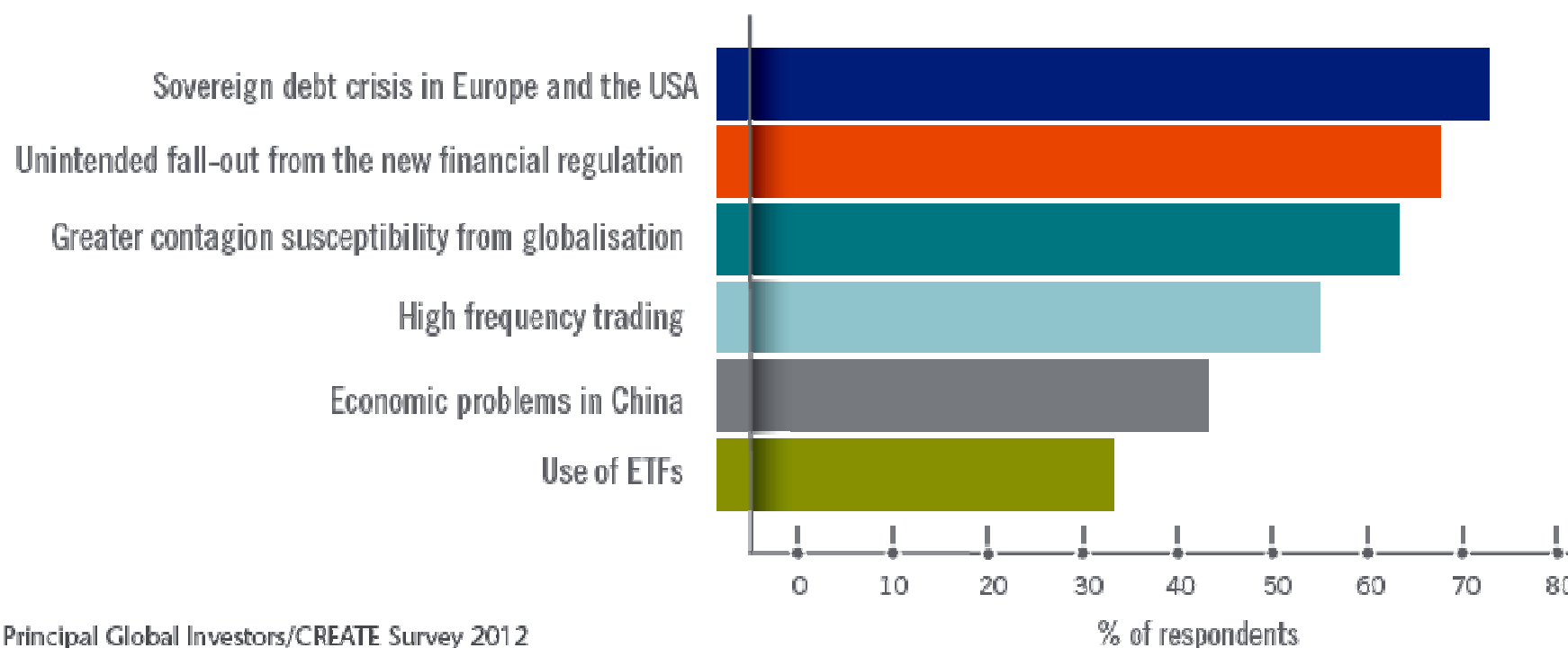
FIGURE 1.1b

How many more systemic crises—like the current one—do you expect over the rest of this decade?



## External Factors are driving Global Volatility

FIGURE 2.1 What factors would drive volatility in capital markets over the next 3 years?



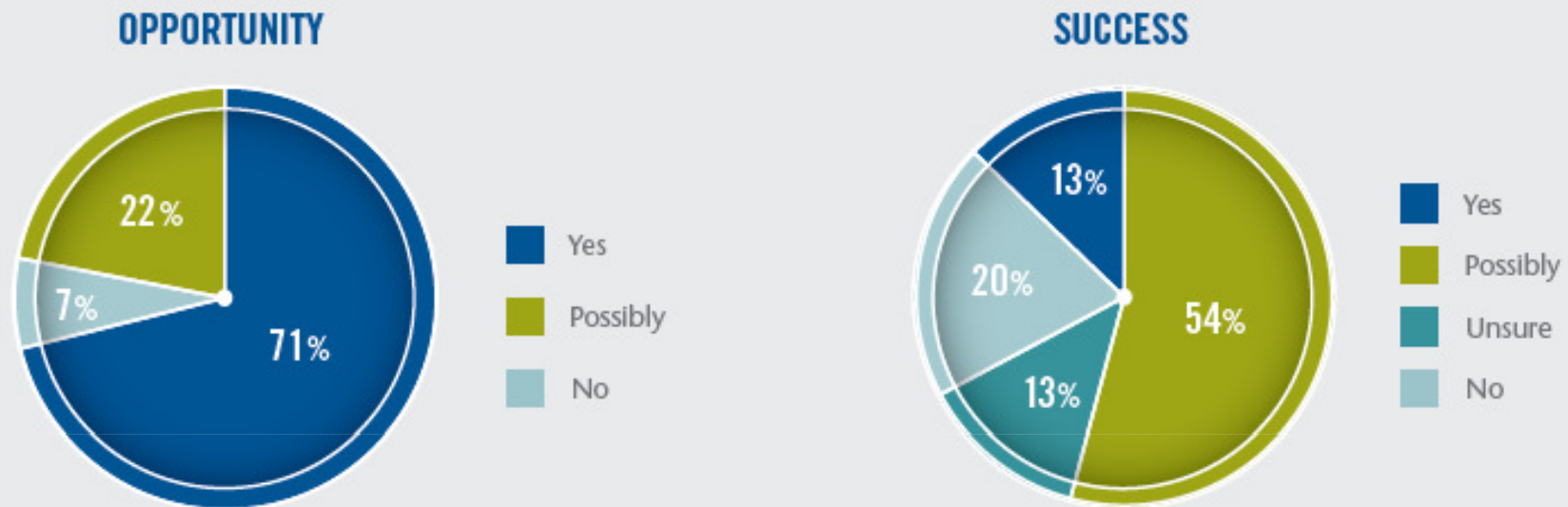
Source: Principal Global Investors/CREATE Survey 2012

**Investors are being pragmatic in the face of too many wild variables that cannot be modelled on a spreadsheet**

## The good news: There is hope!

FIGURE 1.2

Will greater volatility offer a great opportunity to active managers and will they succeed in delivering good returns net of fees over the next 3 years?

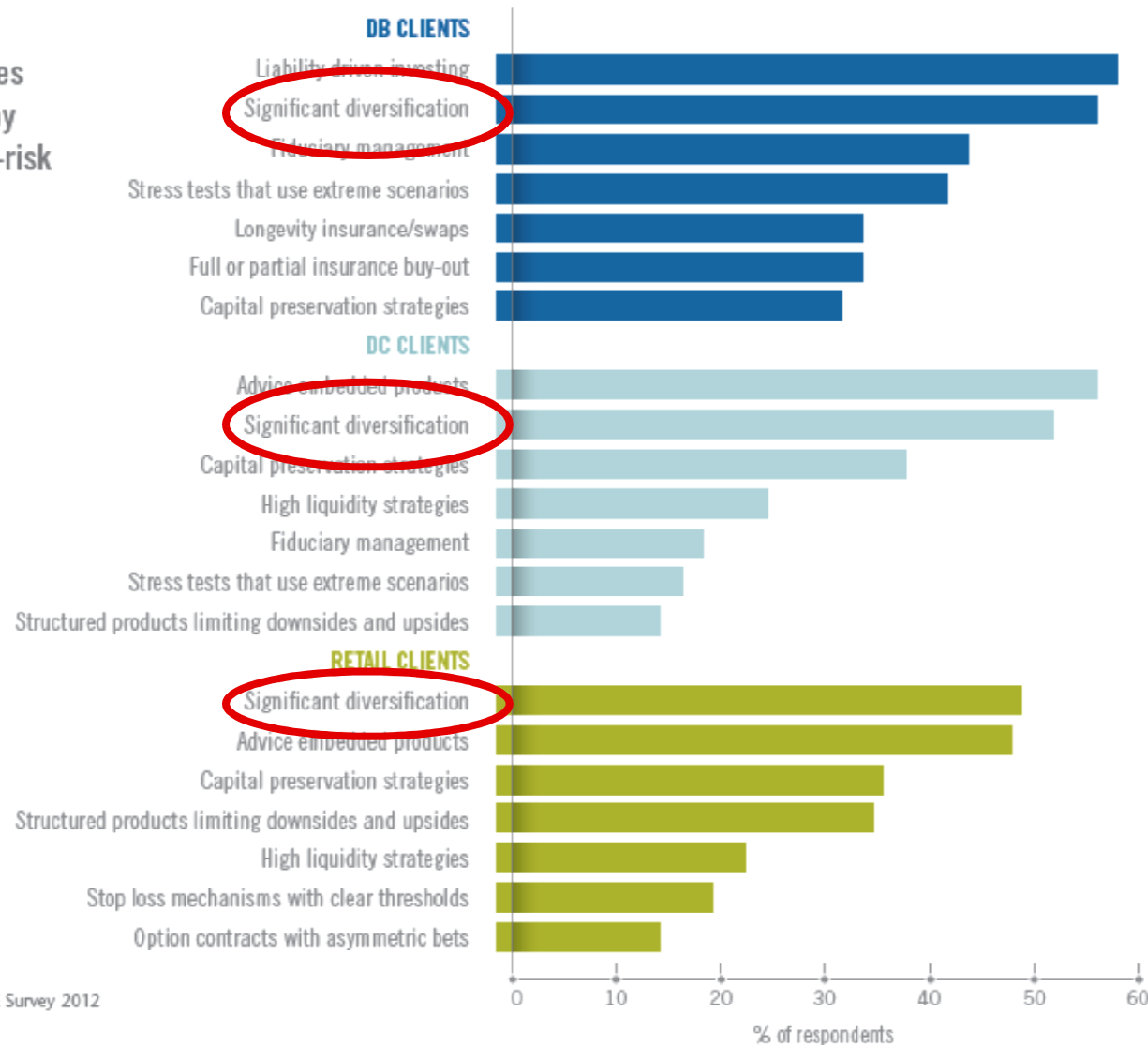


Source: Principal Global Investors/CREATE Survey 2012

# Common Answer to Address Volatility – DIVERSIFICATION!

FIGURE 2.3

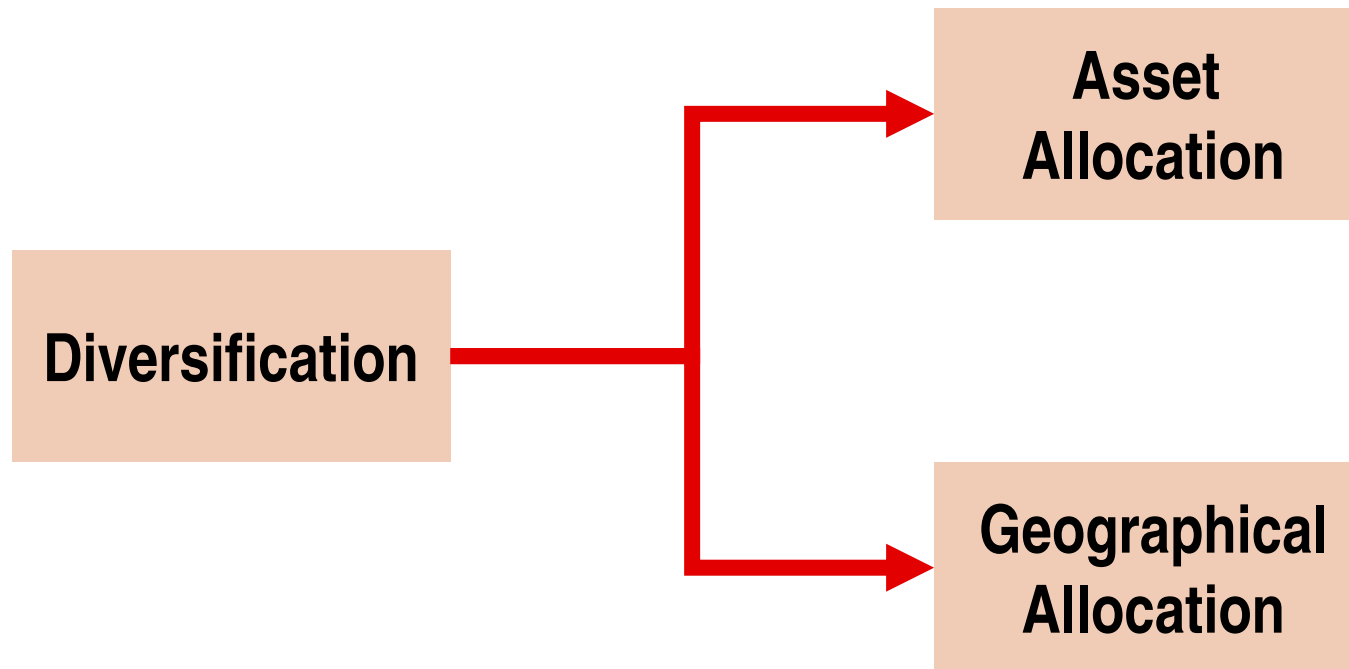
What tools and approaches are likely to be adopted by clients who choose to de-risk their portfolios?



Source: Principal Global Investors/CREATE Survey 2012

## Diversification Simplified

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# Asset Diversification



# TYPICAL Conventional Insurance & Takaful Asset Allocation are similar













## Typical Asset Allocation of a mature Insurance & Takaful

Asset Class	General Insurance / General Takaful	Life Insurance / Family Takaful
Liquid	10-15%	5-15%
Debt Instruments	70-80%	50-60%
Equities	10-20%	15-25%
Alternative	0-5%	0-5%

Source : Dow Jones Islamic Market Indexes Quarterly Newsletter, February 2011

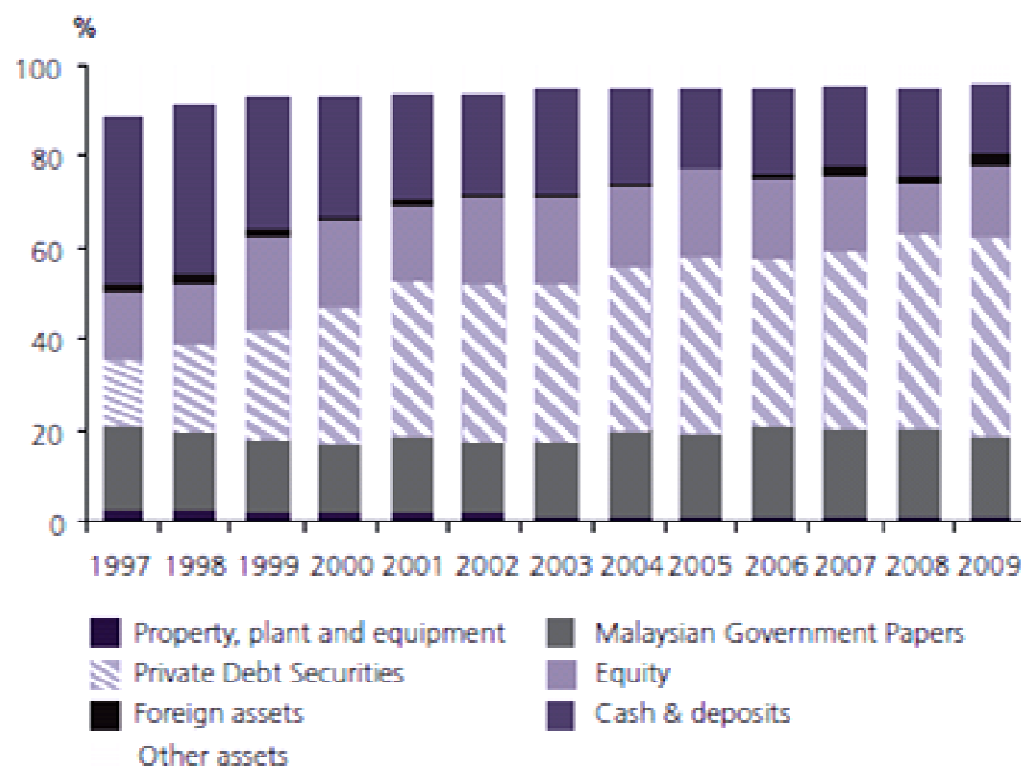
**Conventional Insurance Asset Allocation has been tried & tested for 100+ years**

## What it is.... (based on EY Report)

EY Report	GCC Takaful - 2011	Malaysian Takaful - 2011
Deposits (Liquid)	26% 	20% 
Sukuk (Debt Inst)	31% 	57%  
Equities	38% 	20%  
Real Estate (Alternative)	5%  	3%  

# Malaysian Insurers' learnt Asset Allocation the hard way...

Chart 1  
Life Insurers' Asset Allocation from 1997-2009



Source: Bank Negara Malaysia

Source : Risk Assessment of the Financial system, Bank Negara Malaysia  
[http://www.bnm.gov.my/files/publication/fsps/en/2009/cp01\\_001\\_whitebox.pdf](http://www.bnm.gov.my/files/publication/fsps/en/2009/cp01_001_whitebox.pdf)

Observations over time:

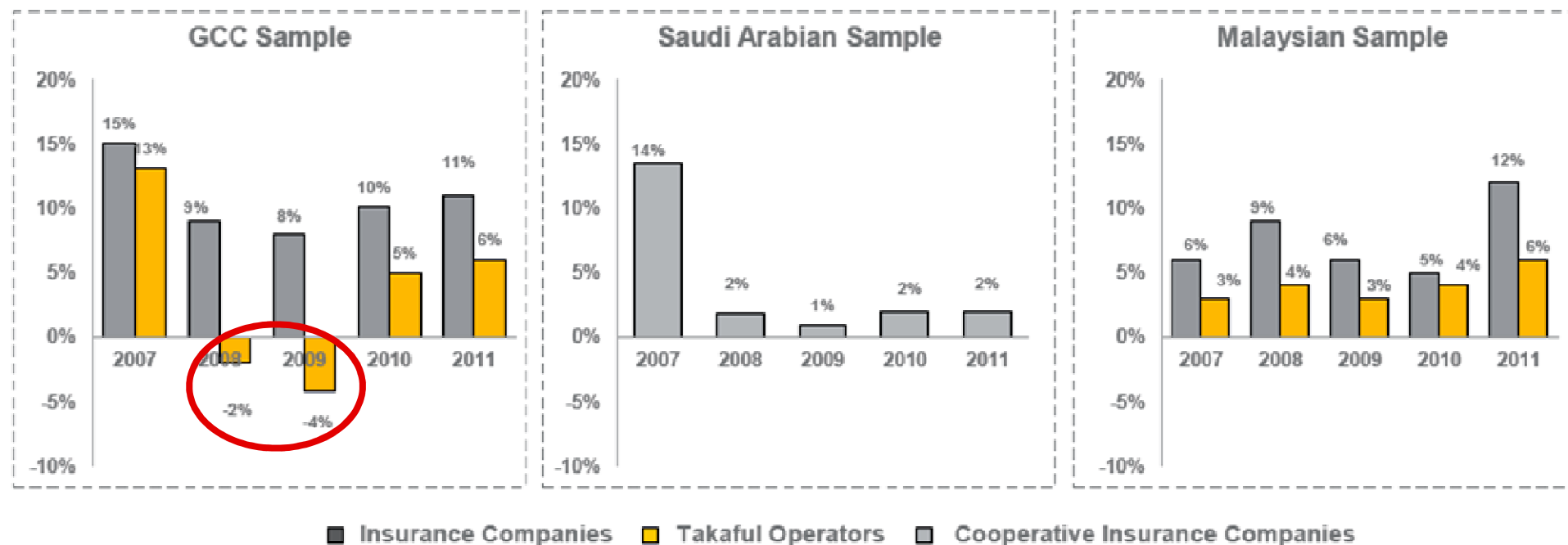
- Reducing Property investments
- Increasing debt instruments (sukuk)

**Similar to current GCC  
Takaful trend...**



# Appropriate Asset Allocation provides the stability of returns

Average return on investments for a sample of Takaful operators, insurance companies and cooperatives



Sample: No. of Companies	2007	2008	2009	2010	2011
GCC – Insurance	14	16	16	20	21
GCC – Takaful	10	10	11	6	6
Saudi Arabia – Cooperative Insurance	1	1	1	12	10
Malaysia – Insurance	7	7	7	6	6
Malaysia – Takaful	4	5	4	3	3

## Notes:

1. Where possible, publicly available corporate information has been used.
2. Quarterly results have been used in 2011 to approximate data where annual accounts were not available.
3. GCC Takaful sample excludes Saudi operators. Therefore, the graph shows a significant variation from WTR 2011.
4. Average Yield on Investments = Total Investment Returns / Total Investment.

Source: Companies' annual reports, Ernst & Young analysis

# Impact of Asset Allocation – Potential & Stability of Returns!

Data Source: Bloomberg  
From 2007 till May 2012



Returns on Asset Allocation	Year 2007	Year 2008	Year 2009	Year 2010	Year 2011	YTD 2012	Cumulative (Total)
Typical Takaful Asset Allocation	5.60%	-19.85%	25.58%	9.65%	3.56%	2.70%	22.08%
GCC Asset Allocation	7.22%	-22.21%	25.59%	9.80%	0.33%	1.75%	12.06%
Difference	-1.62%	2.36%	-0.01%	-0.15%	3.23%	0.95%	10.02%

# Geographical Diversification

# Case for GCC Takaful to consider diversifying geographical investments

## GCC Equity underperformed

Bloomberg Ticker	Index	Total Return	Annualized Eq	GCC xSaudi Diff Annualized Eq
MIGCW Index	<b>MSCI Islamic GCC ex Saudi</b>	<b>-57.29%</b>	<b>-16.13%</b>	
MISO Index	MSCI Islamic ASEAN	40.21%	7.24%	23.37%
MIFX Index	MSCI Islamic Far East ex Japan	0.11%	0.02%	16.15%
MIEF Index	MSCI Islamic Emerging Markets	-7.93%	-1.69%	14.44%
MIWO Index	MSCI Islamic World	2.38%	0.49%	16.62%
Period	59 Months (Sept 2007 - June 2012)			

## Not the case for Malaysian equity

Bloomberg Ticker	Index	Total Return	Annualized Eq	Malaysian Diff Annualized Eq
MIMY Index	<b>MSCI Islamic Malaysia</b>	<b>63.40%</b>	<b>10.69%</b>	
MISO Index	MSCI Islamic ASEAN	40.21%	7.24%	-3.45%
MIFX Index	MSCI Islamic Far East ex Japan	0.11%	0.02%	-10.67%
MIEF Index	MSCI Islamic Emerging Markets	-7.93%	-1.69%	-12.38%
MIWO Index	MSCI Islamic World	2.38%	0.49%	-10.20%
Period	59 Months (Sept 2007 - June 2012)			

# Moving forward, Increased interest in Emerging Markets & Bonds (or Sukuk)

TABLE A.1 Which asset classes are most likely to be chosen by your DB clients for medium-term asset allocation and which ones are likely to be chosen for short-term opportunism?

ASSET ALLOCATION:	% of respondents		OPPORTUNISM:	% of respondents	
	2012	2009		2012	2009
Global equities	58	61	Distressed debt	43	59
Global equities with emerging market revenues	54	n/a	Exchange traded funds	37	18
High income equities	46	n/a	Emerging market equities	30	34
Emerging market bonds	44	n/a	High yield bonds	29	51
Emerging market equities	43	40	Currency funds	29	25
Infrastructure	43	n/a	Hedge funds	27	21
Real estate (inc. CMBS nearing redemption)	40	48	Commodity funds	25	31
Global tactical asset allocation products	38	42	Global equities with emerging market revenues	21	n/a
Investment grade bonds	37	53	Global tactical asset allocation products	20	21
Government bonds	35	40	Global equities	18	23
Indexed / enhanced indexed equities	34	32	High income equities	17	n/a
Private equity	29	34	Emerging market bonds	15	n/a
Hedge funds	29	30	Indexed / enhanced indexed equities	12	17
High yield bonds	23	19	Investment grade bonds	11	27
Commodity funds	18	32	Private equity	9	18
Exchange traded funds	16	32	Real estate (inc. CMBS nearing redemption)	7	20
Currency funds	10	21	Infrastructure	6	n/a
Distressed debt	6	10	Government bonds	6	13

Source: Principal Global Investors/CREATE Survey 2012 and 2009

n/a = not applicable





# Pioneering A Global Islamic Asset Management





***“Adde parvum pervo magnus acervus erit”***

**A famous Latin quote**

**“Add a little to a little and there will be a great heap”**

**Thank you**

**CIMB-Principal Islamic Asset Management**

*Full spectrum of Islamic investment solutions*

*customized to best meet global investors' needs and objectives.*