

# Takaful solutions Enhancing yield by investing in Sukuk

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# NBAD Asset Management Objectives



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- I. Industry update
- II. The benefits of asset management
- III. What to look for when selecting a manager

# NBAD Asset Management Group

## Who are we?



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- AMG is one of the largest asset managers by Asset Under Management in the UAE market
- We manage portfolios for clients ranging from individuals to large institutions
- Our investment team have on average 14 years experience in financial markets
- We partner with clients to deliver solutions to their needs and bring innovative products to the marketplace
- We recommend only products that we feel are in clients' long term best interests

# NBAD Asset Management Group

## Our Shari'ah credentials



- ✓ Our entire research team and the majority of our fund managers and middle office are qualified Islamic Finance practitioners
- ✓ NBAD has been managing Shari'ah compliant portfolios since 2005 on the equity side and the Fixed Income team has experience of running Shari'ah compliant funds since 2008.
- ✓ We run a number of segregated Islamic mandates for quality institutions in the UAE and GCC region
- ✓ Mark Watts CFA was formerly the Head of Islamic Asset Management for Qatar Islamic Bank where he set up, launched and managed what is now the world's largest internationally available Sukuk fund

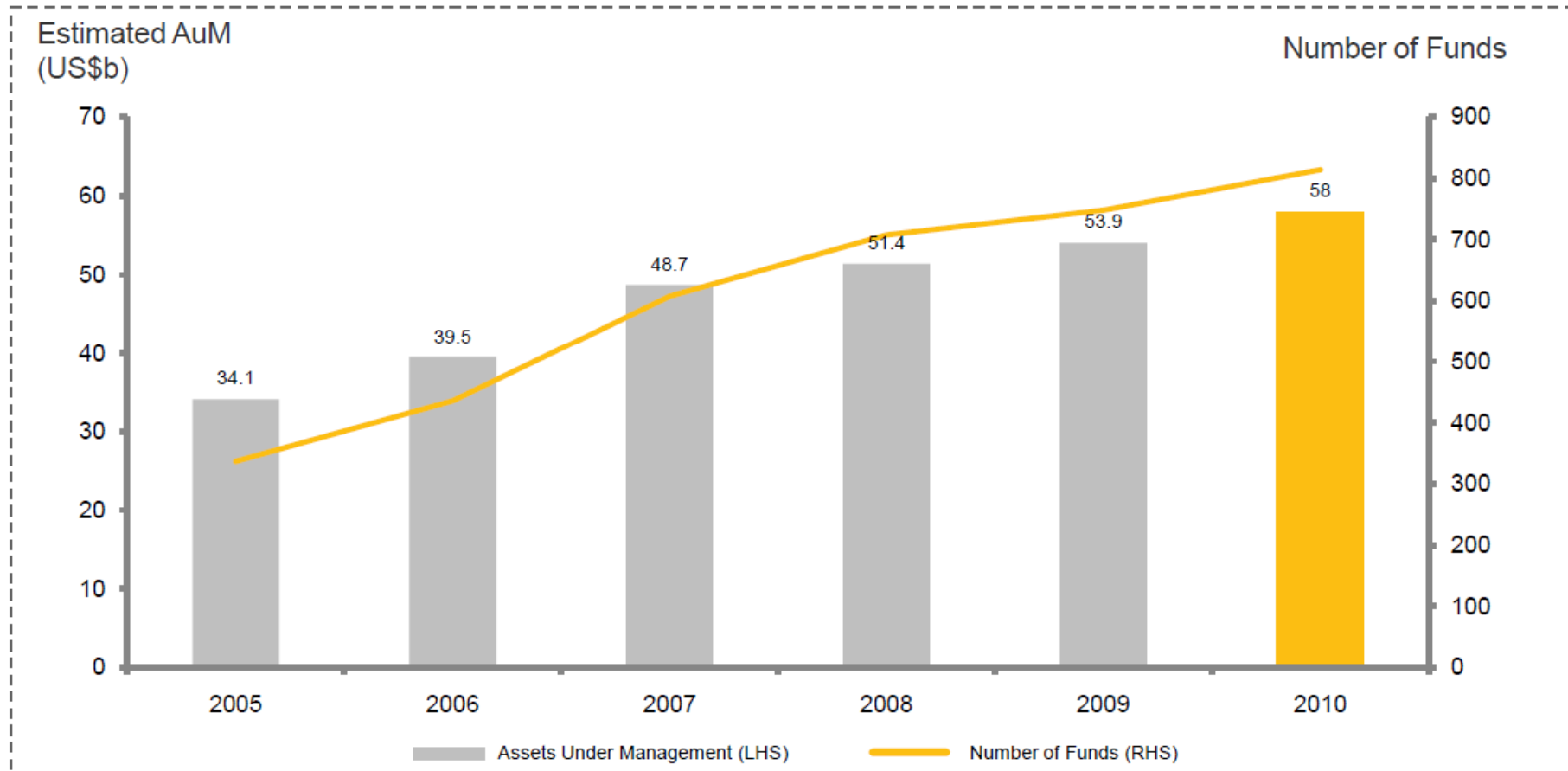
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## The current market – only part of the picture



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Global Islamic Fund Management Industry



Source: Eurekahedge, Zawya, Ernst & Young analysis

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## Creative destruction – a market positive!



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Global Islamic Funds - Annual Launches and Liquidations

Number of Funds



Source: Zawya, Eurekahedge, Ernst & Young analysis

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## An asset mix at odds with portfolio theory



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Assets Under Management of Islamic Funds by Categories (2010)



Source: Zawya, Eurekahedge, Ernst & Young analysis

\*Note: Other includes alternative investments and feeder funds





- A wide range of asset allocation strategies from ultra cautious to ultra aggressive
- Many allocating or managing in house, some outsourcing
- Mismatches to liabilities which may cause longer term issues

Asset Class	Traditional insurer	Takaful
Cash	10	10 - 70
Fixed income/Sukuk	70	0 - 50
Equities	0 - 20	0 - 80
Real estate	0 - 10	0 - 40



- We can do it better in-house our selves
- If you are managing the money what do we do?
- Lack of investment advice
- Lack of local institutional quality investment management

Are there solutions?

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## Can you do it better or cheaper yourself?



There are a number of good reasons why engaging a professional to manage your exposure makes sense:

1. Leaves you to focus on your area of expertise
2. We constantly watch the markets and newsflow for opportunities to protect or add value
3. Our team is trained to investigate balance sheets and we make over 100 company visits a year to meet senior management
4. We do not pay brokerage and have negotiated sub market custody fees, meaning we are CHEAPER than an individual approach
5. We have scale in execution and do a whole market search for the best price which can save anything from 10bps to 100bps

**Taking the worry and cost out of investing**

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## Liquidity management – solving client problems



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### Problems:

- Our cash is yielding us next to nothing and our fixed overheads remain unchanged, how can I improve my income levels?
- My portfolio is too exposed to equities and real estate how can I diversify?
- I hold some bonds but do not really analyse the credits in a systematic fashion and am relatively undiversified. I place money with banks but do not really have a developed way of measuring bank risk

### Solutions:

- ✓ An allocation Sukuk can deliver yields of up to 6%
- ✓ Sukuk is a diversifier versus Equities and Real Estate
- ✓ The GCC market is a liquid market and investors can allocate into and out of the asset class as they see fit. Look for a partner with a dedicated fund management function backed by an experienced team of analysts who systematically research the market.



- A close match to existing objectives with relatively low duration assets if required
- A focus on safety and stability with the ability to offer 'safe haven' status in times of trouble
- A low correlation to other traditional asset classes, lowering the overall portfolio volatility and enhancing value
- A higher income yield than cash deposits with the opportunity to participate in credit market upside as the global economy recovers

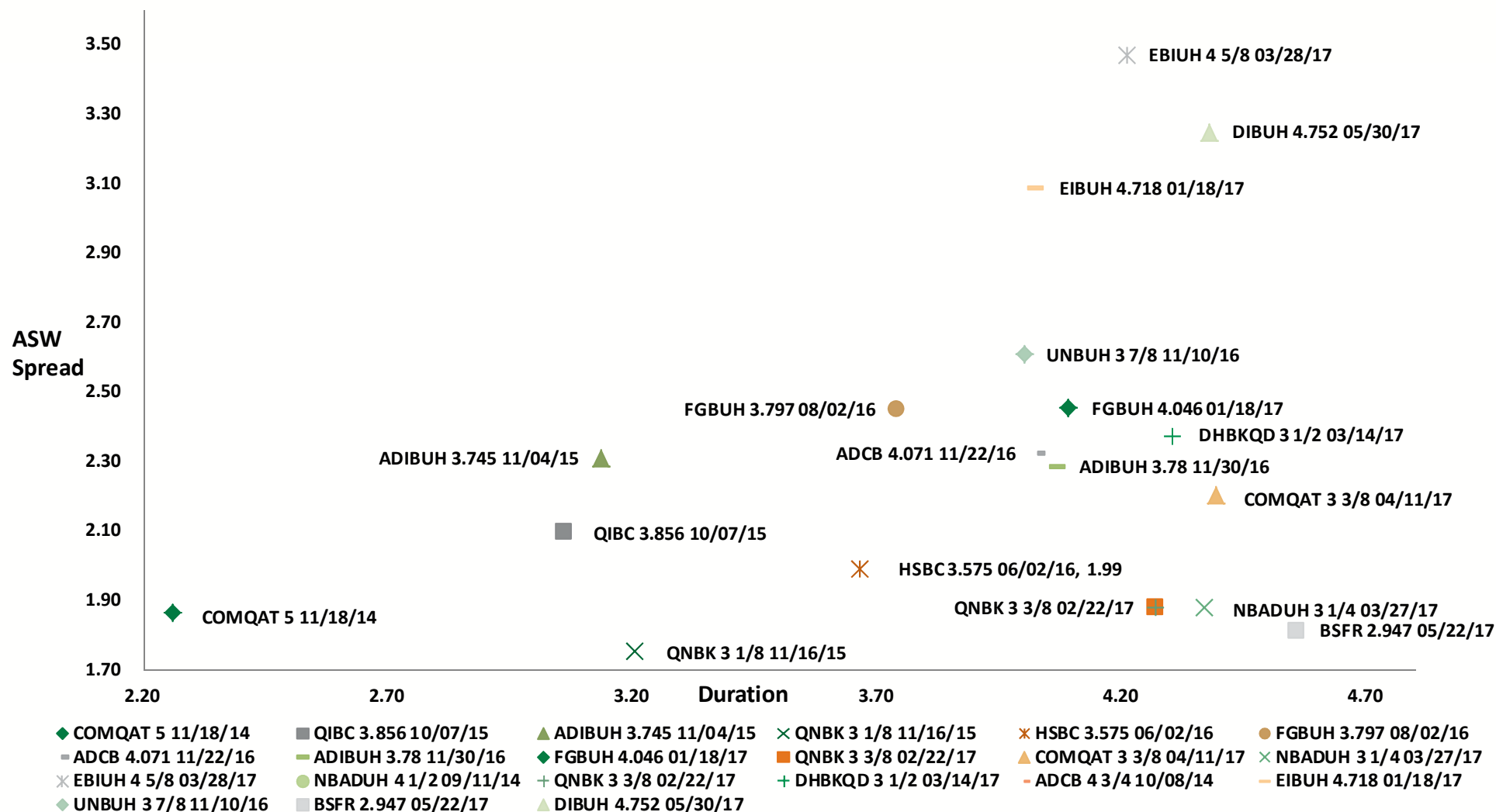
**Solutions tailored to your needs**

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## Proactive management – Best value assessment



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Source: Bloomberg

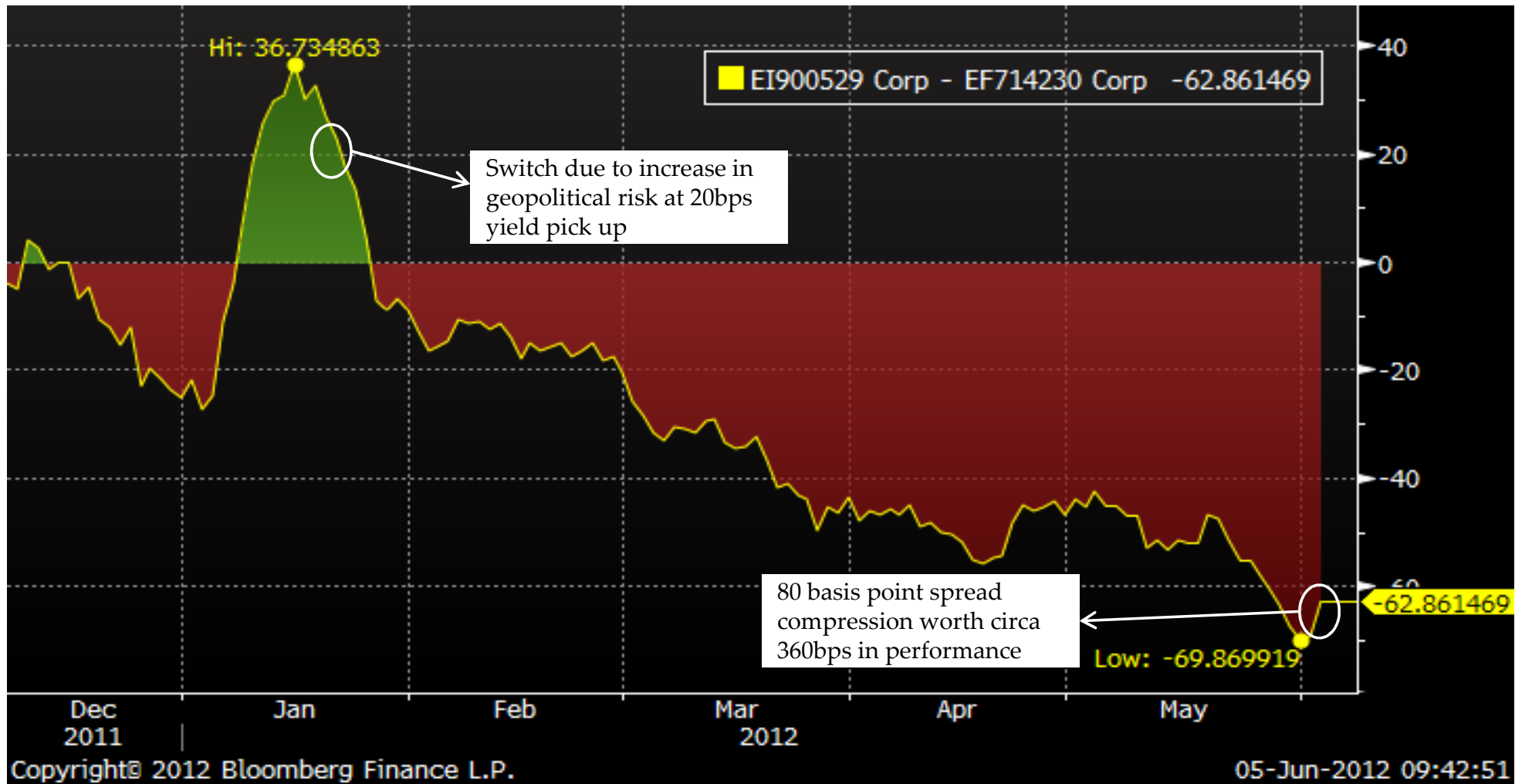
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## Proactive management: Relative Value trade



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### Switch RASGAS 2016 into TAQA 2017



Source: Bloomberg



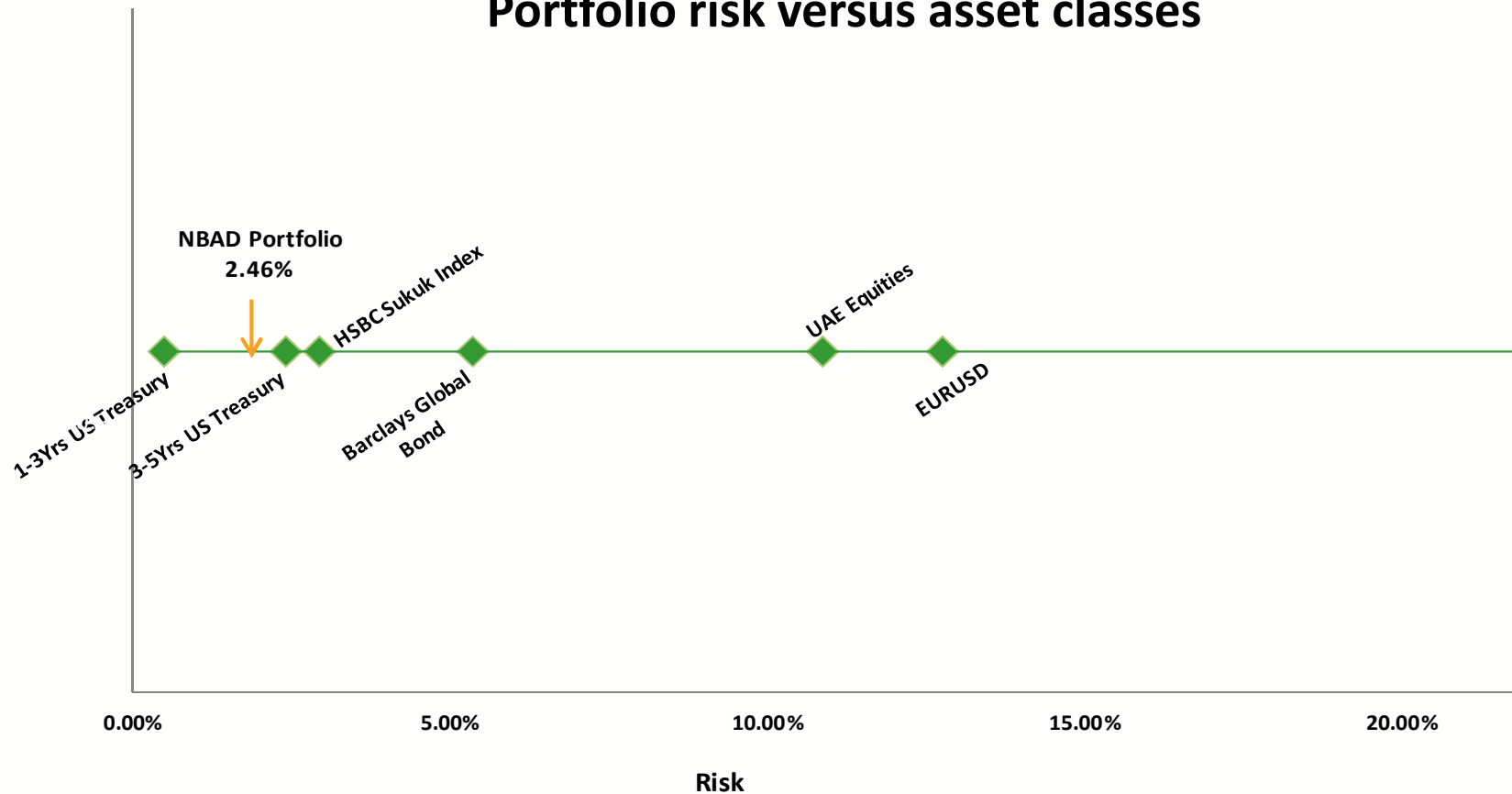
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## Sukuk represents a low risk solution



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### Portfolio risk versus asset classes



Source: Bloomberg /NBAD, annualized daily risk data 26<sup>th</sup> July 2011 to 31<sup>st</sup> May 2012, all performances are calculated net of fees, NBAD Portfolio: NBAD Islamic Institutional Portfolio (Takaful) since inception, UAE Equities: Abu Dhabi Stock Exchange Market, Global Equities: MSCI Global Equities, EURUSD: EUR/USD Exchange rate, HSBC Sukuk Index: HSBC/NASDAQ Dubai US Dollar Sukuk Index (SKBI), Barclays Global Bond: Barclays Aggregate Global Bond Index  
1 – 3 yr US Treasury: Barclays 1 – 3 yr US Treasury index, 3 – 5 yr US Treasury: Barclays 3 – 5 yr US Treasury index

**Portfolio management has delivered lower risk than the market**



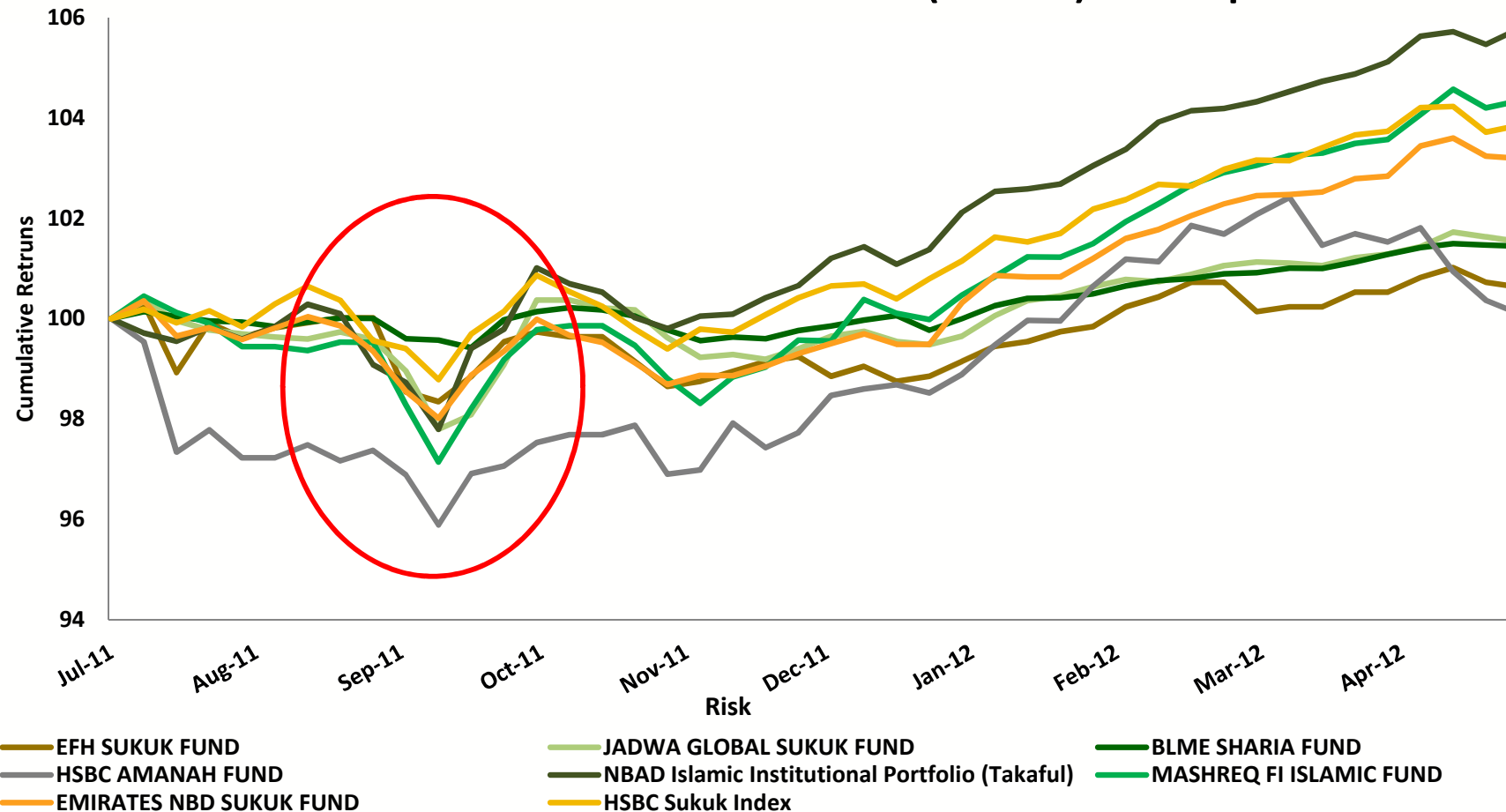
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## Downside management is key



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### NBAD Islamic Institutional Portfolio (Takaful) vs competitors

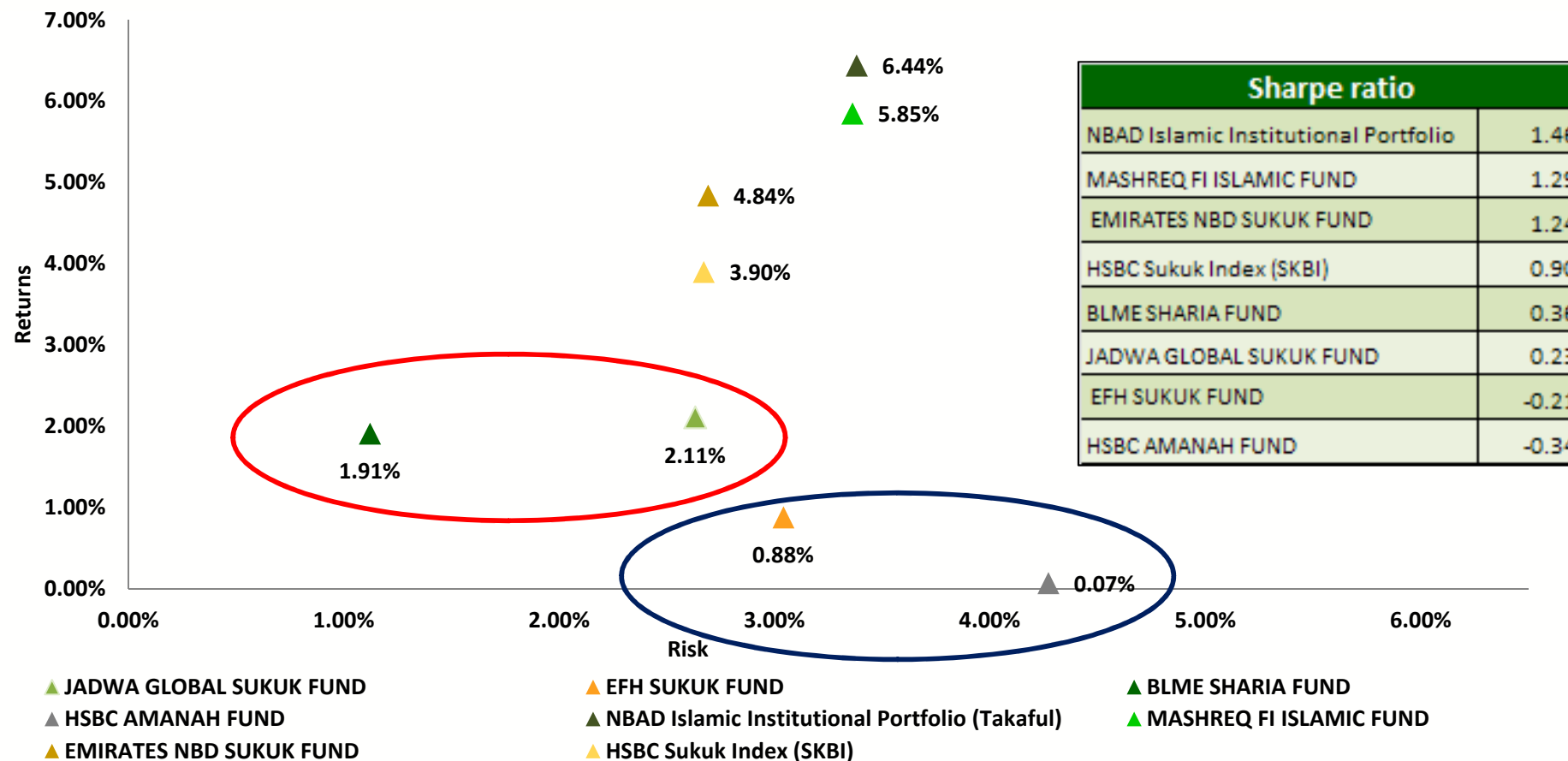


Source: NBAD/Bloomberg, weekly data 26<sup>th</sup> July 2011 to 31<sup>st</sup> May 2012, all performances are calculated net of fees, return is not annualized, NBAD Islamic Institutional Portfolio (Takaful): NBAD Islamic Institutional Portfolio (Takaful) since inception, EFH Sukuk Fund: EFH Global Sukuk plus fund, Mashreq FI Islamic Fund: Mashreq Al Islami Fixed Income Fund, HSBC Amanah Fund: Amanah Defensive Portfolio, BLME Sharia Fund: BLME Fixed Income Sharia fund, Emirates NBD Global Sukuk Fund: Emirates Global Sukuk Institutional, Jadwa Global Sukuk Fund: Jadwa Global Sukuk Fixed Income Fund, HSBC Sukuk Index: HSBC/NASDAQ Dubai US Dollar Sukuk Index:

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## Not all managers are equal

### NBAD Islamic Institutional Portfolio (Takaful) vs islamic competitors



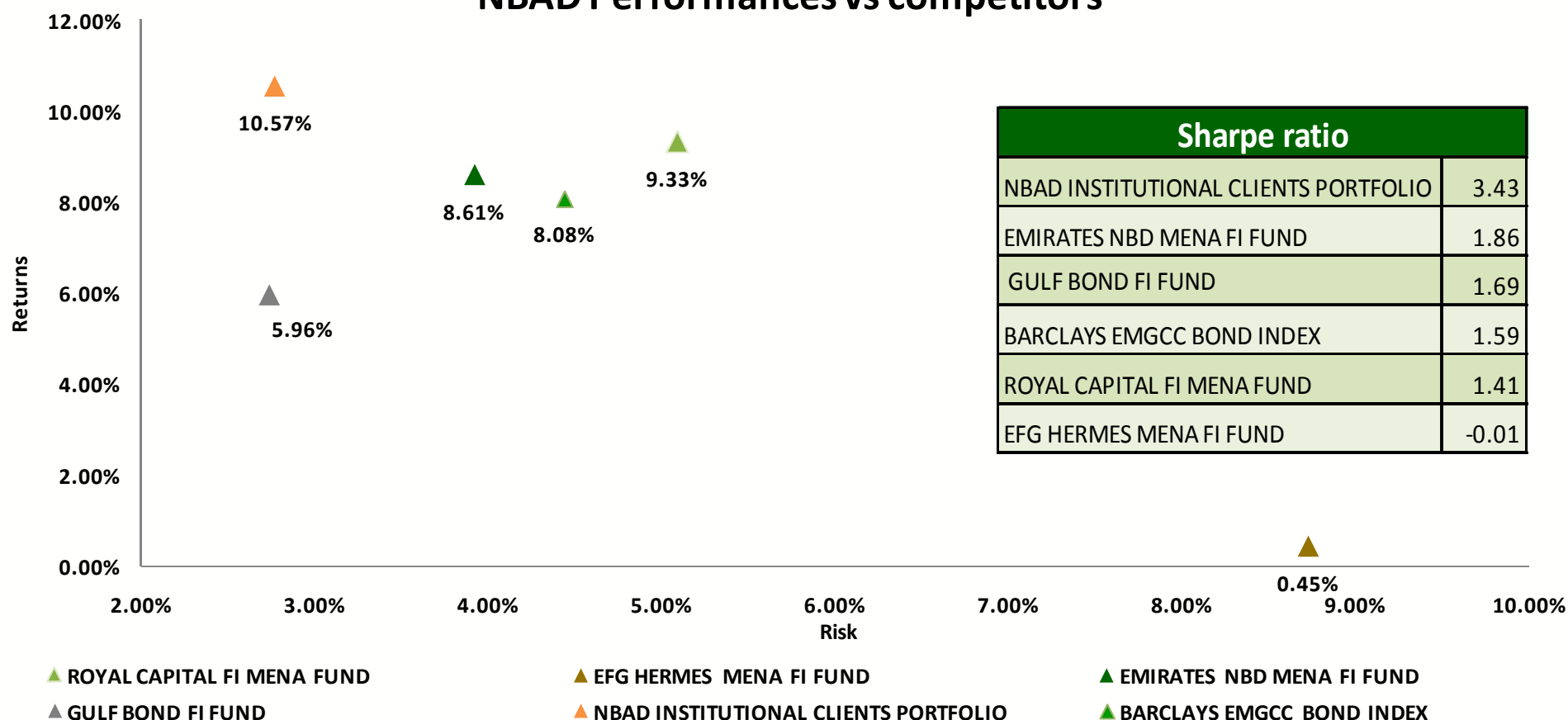
Source: NBAD/Bloomberg, weekly data 26<sup>th</sup> July 2011 to 31<sup>st</sup> May 2012, all performances are calculated net of fees, return is unannualized, risk is annualised, NBAD Islamic Institutional Portfolio (Takaful): NBAD Islamic Institutional Portfolio (Takaful) since inception, EFH Sukuk Fund: EFH Goba Sukuk plus fund, Mashreq FI Islamic Fund: Mashreq Al Islami Fixed Income Fund, HSBC Amanah Fund: Amanah Defensive Portfolio, BLME Sharia Fund: BLME Fixed Income Sharia fund, Emirates NBD Global Sukuk Fund :Emirates Global Sukuk Institutional, Jadwa Global Sukuk Fund: Jadwa Global Sukuk Fixed Income Fund, HSBC Sukuk Index: HSBC/NASDAQ Dubai US Dollar Sukuk Index, Sharpe Ratio Risk Free Rate is calculated as the average 3 Month EIBOR (1.52%)

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A longer history demonstrates active management



## NBAD Performances vs competitors



Source: NBAD/Bloomberg, weekly data 31<sup>st</sup> December 2010 to 31<sup>st</sup> May 2012, all performances are calculated net of fees, return is annualized

NBAD Institutional Clients Portfolio: Unconstrained NBAD Portfolio for institutional investors since inception, EFH Hermes FI Fund: EFG Hermes Fixed Income MENA fund, Royal Capital MENA FI Fund: Royal Capital MENA Fixed Income plus, Emirates NBD MENA FI Fund: Emirates MENA Fixed Income AA, Gulf Bond FI fund: Gulf Bond MENA Fixed Income Fund, Barclays EMGCC Bond Index: Barclays Emerging Market GCC Credit, Sharpe Ratio Risk Free Rate is calculated as the average 3 Month EIBOR (1.52%)



- The less developed the market, the greater the opportunity to add value from rigorous research
- The MENA market in general is under researched and under owned internationally, providing opportunities for those with a good process to create alpha
- Governance and transparency levels in the region mean that it is vital to have a dedicated and on the spot team to conduct management interviews and site visits to get a good picture of the institution
- Choose an asset management team that has been analysing local companies for many years and have developed and extremely strong contacts and unrivalled access to senior management

**Experience, location and access to management help uncover value**

- The market is young but evolving rapidly
- Managers now exist that can remove the worry of investing from a Takaful operator
- Not all managers are created equal. Choose a manager that:
  - Has on the ground representation
  - Can clearly prove a well resourced team
  - Has a track record of providing good risk adjusted returns with a focus on downside protection

**Experience, location and access to management help uncover value**

## Thank You

### Contact:

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