

Wiley Finance Series



Islamic
Finance

Investing In Islamic Funds

A Practitioner's Perspective

NORIPAH KAMSO

WILEY

Contents

[Cover](#)

[Praise](#)

[Series](#)

[Title Page](#)

[Copyright](#)

[Dedication](#)

[List of Tables and Figures](#)

[Foreword](#)

[Preface by Tan Sri Zarinah Anwar](#)

[Preface by Mohammad Faiz Azmi](#)

[Acknowledgments](#)

[Introduction](#)

[WITNESSING THE RISE](#)
[THE PULL OF PETRODOLLARS](#)

THE LONG-TERM OPPORTUNITIES: FINANCIAL CENTERS

FAIR DISTRIBUTION OF WEALTH: THE NEXT GENERATION

MOVING FORWARD: CHANGE IN MIND-SET NOTES

Chapter 1: The Growth of Shariah Investments

INTRODUCTION

THE GLOBAL ISLAMIC FUNDS INDUSTRY: WHERE IS IT NOW?

GLOBAL PRODUCT INNOVATION OF ISLAMIC INVESTMENT PRODUCTS

PROGNOSIS FOR ISLAMIC FINANCIAL MARKETS: WHERE ARE THEY GOING?

CONCLUSION

NOTES

Helpful Hints

Chapter 2: Fund Management within Shariah-Compliant Investment Guidelines

INTRODUCTION

THE APPLICATION OF ISLAMIC ETHICS TO ASSET MANAGEMENT

BENEFITS OF SHARIAH VIS-À-VIS CONVENTIONAL INVESTING

CONCLUSION

NOTES

Helpful Hints

Chapter 3: Uncovering the Driving Principles of Islamic Finance

INTRODUCTION

THE FIVE BASIC PRINCIPLES OF ISLAMIC FINANCE

CONCLUSION

NOTES

Helpful Hints

Chapter 4: Investing Responsibly

INTRODUCTION

SCREENING CRITERIA

SCREENING PROCESS FOR ETHICAL FORM OF INVESTING

SOCIALLY RESPONSIBLE INVESTMENT VERSUS SHARIAH-COMPLIANT INVESTMENT

A SIMILAR APPROACH TO YOUR INVESTMENT?

AVAILABILITY OF CHOICE FOR INVESTORS

BROADER PORTFOLIO DIVERSIFICATION

CONCLUSION

NOTES

Helpful Hints

Appendix

ETHICAL INVESTMENT SCREENING BASED ON NEGATIVE SCREENING

Chapter 5: Broad Choices of Islamic Investment Funds

INTRODUCTION

EQUITY FUNDS

SUKUK FUNDS

EXCHANGE-TRADED FUNDS (ETFs)

MONEY MARKET FUNDS

ALTERNATIVE FUNDS

REAL ESTATE INVESTMENT TRUST FUNDS (REITS)

PRIVATE EQUITY FUNDS

HEDGE FUNDS

LEASE FUNDS

CONCLUSION

NOTES

Helpful Hints

Chapter 6: Mitigating the Myths

INTRODUCTION

ISLAMIC PRINCIPLES COME WITH BUILT-IN
FINANCIAL ETHICS

THE MYTHS OF SHARIAH INVESTING

BENEFITS OF SHARIAH INVESTING

CONCLUSION

NOTES

Helpful Hints

Chapter 7: Comparative Analysis with Conventional Investing

INTRODUCTION

ISLAMIC INDICES OUTPERFORMED

CONVENTIONAL INDICES

QUALITATIVE COMPARISON OF ISLAMIC INDEX

SCREENING PROCESSES

PERFORMANCE ANALYSIS OF THREE DOW JONES

SHARIAH INDICES AND THEIR COUNTERPARTS

VALUE-ADDED OPTIMIZATION FOR SHARIAH

PERFORMANCE

CONCLUSION

NOTES

Helpful Hints

Chapter 8: Using Performance Characteristics to Build Wealth

INTRODUCTION

THE IMPACT OF BLACK SWAN EVENTS

WHY SHARIAH INVESTING IS RESILIENT

CONCLUSION

NOTES

Helpful Hints

Chapter 9: A Broader Investment Universe for Mainstream Investors

INTRODUCTION

EMERGENCE OF DIFFERENT SUKUK STRUCTURES

EXAMINING SUKUK INVESTMENT RESULTS

CASE STUDY: SUKUK INVESTING AS A

DIVERSIFICATION STRATEGY

CONCLUSION

NOTES

Helpful Hints

Chapter 10: Shariah-Compliant UCITS Funds

INTRODUCTION

SOLUTION AT YOUR DOORSTEP

PROVIDING EASE OF TRANSACTION TO

INTERNATIONAL INVESTORS

BRINGING SHARIAH INVESTMENT TO A GLOBAL

AUDIENCE

NOTES

Helpful Hints

Chapter 11: Legal, Regulatory, Risk, and Operational Framework

INTRODUCTION

THE ISLAMIC FINANCIAL INSTITUTIONS'

REGULATORY FRAMEWORK

[COUNTRY EXAMPLES](#)

[CONCLUSION](#)

[NOTES](#)

[Helpful Hints](#)

[Epilogue](#)

[About the Author](#)

[About the Contributors](#)

[Glossary to the Quotations](#)

[Introduction](#)

[Chapter 1: The Growth of Shariah Investments](#)

[Chapter 2: Fund Management within Shariah-Compliant Investment Guidelines](#)

[Chapter 3: Uncovering the Driving Principles of Islamic Finance](#)

[Chapter 4: Investing Responsibly](#)

[Chapter 5: Broad Choices of Islamic Investment Funds](#)

[Chapter 6: Mitigating the Myths](#)

[Chapter 7: Comparative Analysis with Conventional Investing](#)

[Chapter 8: Using Performance Characteristics to Build Wealth](#)

[Chapter 9: The Sukuk Portfolio](#)

[Chapter 10: Shariah-Compliant UCITS Funds](#)

[Chapter 11: Legal, Regulatory, Risk, and Operational Framework](#)

[Glossary of Islamic Finance](#)

[Global Islamic Finance Education Centers](#)

[PROFESSIONAL CERTIFICATIONS](#)

[UNIVERSITIES/COLLEGES/INSTITUTES](#)

[Global Islamic Finance](#)

[Conferences/Summits/Seminars](#)

[Islamic Investment and Finance Readings](#)

[ISLAMIC FINANCE JOURNALS](#)

[ISLAMIC FINANCE MAGAZINES AND SUPPLEMENTS](#)

[Recommended Reading](#)

[Index](#)

Praise for *Investing in Islamic Funds*

“When you start reading this impressive book you know instantly what Islamic finance is all about: It’s a different approach to banking and finance where profit is important but not overriding. For a westerner like myself it means: Forget about long-nurtured prejudices and be open to new ideas, which perhaps are not even that new because you can find them in both the Qur’an and the Bible (and in the Torah for that matter). It is one of the many virtues of Dr. Kamso’s book to explain to the investor who looks for a real alternative to conventional investments that Islamic Funds are one such alternative.”

—*Dr. Rüdiger Litten LL.M., Rechtsanwalt, Partner, Norton Rose LLP*

“Islamic asset managers have long faced the challenge of delivering a like-for-like return to that achieved by their counterparts in conventional asset management. The lack of adequate availability of all asset classes and *Shariah* restrictions on investment in many classes are cited as reasons for the lackluster performance of Islamic asset managers. Drawing on her remarkable experience of switching from conventional asset management to exclusively Islamic asset management, Noripah Kamso sets out to challenge this received wisdom in the industry. Noripah Kamso and her coauthors show convincingly that for managing the equity class, in particular, there is certainly no *Shariah* penalty. Indeed, recent evidence tends to show consistent outperformance by *Shariah*-screened funds. The authors also show that a similar story is gradually unfolding in the management of other asset classes. I have had the privilege of working closely with Noripah Kamso during her journey towards successful Islamic asset management from being one of Malaysia’s top asset managers. With this book, Noripah Kamso and

her coauthors have left few excuses for Islamic asset managers to offer anything less than comparable returns to their conventional counterparts. They will now be challenged by conventional asset managers emboldened by the findings of this study to enter the *Shariah*-compliant asset management space. Noripah Kamso is to be congratulated for having produced a study which is likely to become a must read for asset managers and Islamic finance professionals.”

—*M. Iqbal Asaria, Associate, Afkar Consulting Ltd; Teaching Fellow in Islamic Finance, Aston Business School*

“Much has been written on the subject of Islamic banking, finance and investment. But *Investing in Islamic Funds: A Practitioner’s Perspective* is the first ever written on Islamic Funds from a practitioner’s point of view. As an Islamic asset management icon and leader, Noripah Kamso has been able to draw on her years of experience and impart her deep knowledge to the readers. She has ably covered a field which is fast growing in importance and relevance in contemporary times. This wonderful new book is relevant for the beginners who wish to have an understanding of Islamic Funds as well as the industry experts who will undoubtedly benefit from an inside view on this field.”

—*Lim Say Cheong, Executive Vice President, Al Hilal Bank, UAE*

“This is a Valuable contribution to Islamic finance literature. Written by one of the most successful practitioners in the field, the book makes accessible to market participants Islamic finance concepts. The hands-on experience of its author combined with the ease with which she demystifies Islamic finance and its investment strategies and portfolio formation recommends this book for students of finance in general and international investors in particular. The book should be of interest also

to the students of capital markets, fund managers, and scholars in that it describes in familiar language a new, stable, and dynamic asset class that no international investor strategist could afford to ignore.”

—*Abbas Mirakhor, Holder of INCEIF Chair in Islamic Finance*

“During the last decade there was hardly any major investment market that was not confronted with the extraordinary charm with which Noripah acted as an ambassador and promoter of her most beloved Islamic funds. Noripah makes it very clear that from her point of view Shariah-compliant investing is growing rapidly as an alternative investment class for all investors, both Muslims and non-Muslims, mainly for its foundation in ethical business practice, social responsibility, and fiscal conservatism. And indeed she presents the Shariah funds not to be seen primarily from an ideological point of view than rather from their technical features. Those features form the new investment class and those features are the appealing factors to potential investors overall and not only Muslim investors. In order to support her case she has a whole chapter on mitigating the myths followed by empirical evidence that Shariah-compliant funds are not by definition second-best solutions. Overall a book providing critical knowledge about Shariah-compliant funds wrapped with a language of female charm combined with high levels of analytical skills and indeed the application experience of a world-class practitioner. A book to be read from the beginning to the end or in selective steps—both ways intellectually stimulating and pure fun.”

—*Dr. Manfred Dirrheimer, Founding Chairman of the board of directors, FWU AG*

“A fulsome guide to Shariah financial services from a practitioner at the heart of the industry.”

—*Rory Tapner, CEO, Coutts*

“Datuk Noripah’s perspectives on Islamic funds provide insights into the opportunity that exists for their growth within the global market. The practical approach that her book describes, alongside the vast experience, is a helpful contribution to understanding a sector that is evolving and developing at a constantly rapid pace. The development of UCITS and other fund platforms is an important step in the globalization process.”

—Neil Ryan, *Assistant Secretary General, Department of Finance, Ireland*

“As an academician as well as a practitioner, I find this book significantly different from other similar books in the market. *Investing in Islamic Funds* offers a useful guide on understanding the salient features of Islamic investment imbued with practical insights and analysis. The author has demonstrated her excellent degree of knowledge in this young but promising industry. The book also reflects her practical experience in various forms of Islamic investment which cut across many Islamic investment assets and their inherent issues from a fund manager perspective. The book is ideal for those who are keen to have a comprehensive and working knowledge on Islamic investment but having little time to read relevant literature. The journey of the book is both cohesive and coherent offering both industry and academic-driven knowledge. Both aspects of the knowledge have been presented in an interwoven manner which makes this book easy reading. Undoubtedly, the book is a new contribution in the field of Islamic investment which has been long overdue. For all intents and purposes, the author has succeeded to articulate many different aspects of Islamic investment industry, namely Shariah principles, investment methodologies and strategies, investment asset classes, and contemporary issues of Islamic

investment, in a simple language to benefit the wider audience and readers.”

*—Dr. Mohd Daud Bakar, Shariah Scholar/Group Chairman,
Amanie Advisors*

“A brilliant piece of work. The book is all-in-one learning package for anyone interested in Islamic Investment. Topics rarely attempted are included such as myths of Sharia investing, comparative analyses with conventional investing, and Sharia-compliant UCITS. Finally, if Islamic investing has always baffled you, this book is the key to unlock its mysteries.”

*—Naseeruddin Ahmad Khan, CEO, Rusd Investment Bank
Inc.*

Founded in 1807, John Wiley & Sons is the oldest independent publishing company in the United States. With offices in North America, Europe, Australia, and Asia, Wiley is globally committed to developing and marketing print and electronic products and services for our customers' professional and personal knowledge and understanding.

The Wiley Finance series contains books written specifically for finance and investment professionals as well as sophisticated individual investors and their financial advisors. Book topics range from portfolio management to e-commerce, risk management, financial engineering, valuation and financial instrument analysis, as well as much more.

For a list of available titles, visit our website at www.WileyFinance.com.

Investing in Islamic Funds

A Practitioner's Perspective

NORIPAH KAMSO

with
TSU MAE NG

WILEY

Cover image: © Pavel Khorenyan/iStockphoto.com

Cover design: Leiva-Sposato

Copyright © 2013 by John Wiley & Sons Singapore Pte. Ltd.

Published by John Wiley & Sons Singapore Pte. Ltd.

1 Fusionopolis Walk, #07-01, Solaris South Tower, Singapore
138628

All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as expressly permitted by law, without either the prior written permission of the Publisher, or authorization through payment of the appropriate photocopy fee to the Copyright Clearance Center. Requests for permission should be addressed to the Publisher, John Wiley & Sons Singapore Pte. Ltd., 1 Fusionopolis Walk, #07-01, Solaris South Tower, Singapore 138628, tel: 65-6643-8000, fax: 65-6643-8008, e-mail: enquiry@wiley.com.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor the author shall be liable for any damages arising herefrom.

Other Wiley Editorial Offices

John Wiley & Sons, 111 River Street, Hoboken, NJ 07030,
USA

John Wiley & Sons, The Atrium, Southern Gate, Chichester,
West Sussex, P019 8SQ, United Kingdom

John Wiley & Sons (Canada) Ltd., 5353 Dundas Street West,
Suite 400, Toronto, Ontario, M9B 6HB, Canada

John Wiley & Sons Australia Ltd., 42 McDougall Street,
Milton, Queensland 4064, Australia

Wiley-VCH, Boschstrasse 12, D-69469 Weinheim, Germany

ISBN 978-1-118-63892-7 (Cloth)

ISBN 978-1-118-63891-0 (ePDF)

ISBN 978-1-118-63887-3 (Mobi)

ISBN 978-1-118-63888-0 (ePub)

*To all my international investors, Malaysians included.
You have shown deep enthusiasm. You also shared a
common foresight enabling Islamic investing to set a
foothold in your investment portfolios.
This book is about my pioneering endeavors as much as
your unrelenting support and involvement.*

List of Tables and Figures

Chapter 1: The Growth of Shariah Investments

[Table 1.1](#): Islamic Funds by Country (2011)

[Table 1.2](#): Funds by Asset Class

[Table 1.3](#): Range of Global Islamic Investment Products

[Figure 1.1](#): Funds by investment geography (2011)

[Figure 1.2](#): Malaysian financial system

[Figure 1.3](#): Global Islamic banking assets growth trends

Chapter 2: Fund Management within Shariah-Compliant Investment Guidelines

[Table 2.1](#): Dow Jones Global versus Dow Jones Islamic World

[Table 2.2](#): Eighteen Months Bear Market

[Figure 2.1](#): Dow Jones Global versus Dow Jones Islamic World

[Figure 2.2](#): Performance during the bear market period

Chapter 4: Investing Responsibly

[Table 4.1](#): Total Return of Dow Jones Global versus SRI Index

[Table 4.2](#): Top 10 Constituents for Shariah-Compliant and Ethical Investment Index under Dow Jones

[Table 4.3](#): International Specialist in Ethical and SRI

Chapter 6: Mitigating the Myths

[Table 6.1](#): Index Performance

Chapter 7: Comparative Analysis with Conventional Investing

[Table 7.1](#): Five-Year Cumulative Performance of Global Indices

[Table 7.2](#): Five-Year Cumulative Performance for Global Index

[Table 7.3](#): Dow Jones Sector Allocation for Global Market Index

[Table 7.4](#): Top 10 Constituents for Global Market Index

[Table 7.5](#): Five-Year Cumulative Performance for Asia Pacific Market

[Table 7.6](#): Dow Jones Sector Allocation for Asia Pacific Index

[Table 7.7](#): Top 10 Constituents for Asia Pacific Index

[Table 7.8](#): Five-Year Cumulative Performance for Emerging Markets

[Table 7.9](#): Dow Jones Sector Allocation for Emerging Markets Index

[Table 7.10](#): Top 10 Constituents for Emerging Markets Index

Chapter 8: Using Performance Characteristics to Build Wealth

[Table 8.1](#): Five-Year Cumulative Performance for Global Indices

[Table 8.2](#): Five-Year Cumulative Performance for Europe Indices

[Table 8.3](#): Five-Year Cumulative Performance for Japan Indices

[Figure 8.1](#): Cumulative indices price return—global market

[Figure 8.2](#): Cumulative indices price return—Europe market

[Figure 8.3](#): Cumulative indices price return—Japan market

[Figure 8.4](#): Cumulative price returns during Japan earthquake Crisis

Chapter 9: The Sukuk Portfolio

[Table 9.1](#): List of Malaysia's Significant Issuances

[Table 9.2](#): Annualized Returns of DJSI and WBIG

[Table 9.3](#): Returns Volatility of DJSI and WBIG

[Table 9.4](#): Sharpe Ratios of DJSI and WBIG

[Table 9.5](#): Percentage of Sovereign Debt in Dow Jones Sukuk Index

[Table 9.6](#): WBIG and DJSI Sector Weightings

[Table 9.7](#): Two-Year Returns and Sharpe Ratios Improved with 20% Sukuk Allocation

[Figure 9.1](#): September 2005 to September 2012 (7-DJSI vs WBIG)

Chapter 10: Shariah-Compliant UCITS Funds

[Table 10.1](#): Funds in Luxembourg and Ireland

Chapter 11: Legal, Regulatory, Risk, and Operational Framework

[Table 11.1](#): IFSB Standards

Foreword

Larry Zimpleman

It has been my pleasure to know and work with Noripah Kamso for about 10 years now. I was pleased to hear that Noripah was writing a book on Islamic asset management and felt very honored when she asked if I might write a foreword for her book. Noripah always dives completely into her subject with a genuine enthusiasm. And this book reflects the good work that she has done the past few years in helping to pioneer the growing field of Islamic asset management.

Noripah makes a compelling analytical case for why Islamic investing is something that all investors should consider; it offers equity returns that have outperformed conventional equity returns in recent years and with less volatility. In the case of *Sukuk* (fixed income), it offers an interesting alternative to traditional fixed income. So, the case for Islamic investing encompasses much more than simply wanting to reflect a faith-based or a socially responsible method for investing.

Given my role as a CEO of a U.S. financial services company (Principal Financial Group), I'll leave it to the readers to judge the credibility of Noripah's analytical arguments for why Islamic investing makes sense (although the data seems hard to ignore). My comments offer some observations on the overall development of Islamic finance, how Islamic asset management fits into that development, and thus why any investor (retail or institutional) will want to consider this as an additional option for investing alongside traditional asset management investing.

Islamic finance has been around for about 30 years and has shown impressive growth in that period of time. If you research the history of finance or watch the development of finance within a certain market or geographic area, you see that banking always develops first, because banking is the fundamental building block that allows for economic growth. And I think it's fair to say that Islamic banking has had such successful growth over the past 30 years that there can be little doubt that is now becoming an established and accepted part of our world financial system.

As that part of the financial industry developed, we then saw corollary businesses develop—Noripah touches on the development of the *Takaful* (insurance) industry. The Sukuk (fixed income) industry began to develop as well over the past 20 years, and it is now an important part of Islamic finance as the capital markets begin to develop more robustly in the Islamic world.

Asset management is really the last piece in the Islamic financial puzzle—and given the success and growth of the earlier chapters of Islamic finance, the growth of Islamic asset management seems virtually assured.

It is also worth mentioning the significant changes in the asset management infrastructure that have enabled the Islamic asset management industry to have a platform on which to grow going forward. First, we've seen the appropriate screening mechanisms develop within the equity side of the business. We have a critical mass of Shariah scholars with sufficient expertise to make decisions on which companies are appropriate for Islamic equity investing. Then we have the capital markets within important countries (Malaysia, Singapore, the United Kingdom, etc.) create the necessary regulatory structures to allow local investors to gain access to Islamic products. A very important development for the growth of the Islamic asset management industry has been the ability to access

Islamic asset management products through a Undertakings for Collective Investment in Transferable Securities (UCITS) structure. This allows a substantially wider set of investors to access these products in a cost-effective manner and with much greater choice of currencies.

So, the approach necessary to gain Shariah approval of the investment products is in place, and the regulatory environment for approving and overseeing Islamic products is well developed in the markets that are important for larger institutional investors. If all of that is not enough to convince you that Islamic asset management is a growth business and a growth opportunity, Noripah notes that many large well-established asset management firms are moving into the Islamic asset management space, along with many smaller but more focused Islamic asset managers. It will be interesting to see how large pools of money such as endowments, which often have socially responsible mandates, view Islamic asset management versus traditional asset management with an Socially Responsible Investing (SRI) overlay. If the outperformance that Noripah demonstrates continues at or near the same level into the future, I believe that they will be forced to take a much more serious look at Islamic asset management products. It is also my personal experience that the younger generations (such as Gen X and Gen Y) place a much higher priority on socially responsible principles in all of their decisions—likely including their investment decisions as they move into the workplace and begin the process of accumulating assets for their own retirement.

I want to close by congratulating Noripah and her colleagues at CIMB-Principal Islamic Asset Management for their work in being one of the pioneers in the Islamic asset management field. I am personally quite convinced of the future growth of Islamic asset management products—but that growth will not come without hard work and dedication

from those in the field. As a final comment, I hope that we will see the development of a much wider community of asset management professionals trained in Islamic asset management coming out of the leading colleges and universities in the years ahead. As someone who spends part of his time working on higher education issues (in my role as Chair of the Board of Trustees at Drake University), I would like to encourage colleges and universities all over the world to consider the future of Islamic asset management and the need to train a future generation of asset management professionals in this new discipline.

Congratulations, Noripah, for your work and dedication to this new industry, and thanks for taking the time to educate all of us through this groundbreaking book.

LARRY ZIMPLEMAN
Chairman, President, and Chief Executive Officer
(Principal Financial Group, USA)

Preface

Tan Sri Zarinah Anwar

Islamic finance has gained a firm foothold in the international financial landscape and is projected to move along a growth trajectory in the coming decades. But for Islamic finance to sustain its long-term growth, it is vital that it is able to offer a distinctive value proposition that encompasses all the needs of its customers for Shariah-compliant products. This will at the same time present an opportunity to attract socially responsible investors who seek opportunities to widen the scope of their ethical investments, given the similarities in terms of universal values.

In the same vein, the Islamic asset management industry can expect significant growth potential, especially with the need to intermedicate excess savings particularly in the emerging countries in the Gulf and Asia. But various challenges remain to be addressed before this potential can be realized, not least of which is the need for industry to build credible investment track records and to expand the range of Shariah-compliant investment products. Immense benefits for both institutional and retail investors can be derived by industries devoting greater resources into more extensive research on product development.

While the structuring of Shariah-compliant products through the adaptation of their conventional equivalents has contributed much to the growth of Islamic finance, there is a pressing need to reach out to a larger customer base by expanding the industry's offerings to encompass products that are inherently structured in accordance with the

fundamental values and objectives of Shariah. In this regard, it is imperative that due consideration be given to the *Maqasid* Shariah or the Objective of Shariah, which Imam Al Ghazali described as the promotion of the wellbeing of all mankind. This is reflected in the five basic needs of human existence: faith (*din*), life (*nafs*), intellect (*aql*), procreation (*nasb*), and property (*mal*), which every society must strive to protect and preserve.

Thus the general legal principles in Islam reflect the requirement for the highest standards of moral conduct, the attainment of which will lead to improvements and the achievement of what is desired. For example, Shariah facilitates the lawful acquisition of property and defends rights of ownership. But these must be underlined by the pursuit of justice, fairness, and the alleviation of hardship as exemplified by the prohibition of *riba*, which is intended to ensure that all Islamic transactions promote real wealth creation and avoid unjustified gains and exploitation of someone who must borrow to meet their basic needs.

Shariah also prescribes equitable risk sharing, which facilitates the integration of risk management with value creation and promotes entrepreneurship. The subprime crisis demonstrated the fragility of a system that perpetuates inequitable risk sharing through reliance on debt-based structures that, in this case, effectively transferred the entire risks of the securitized bundled subprime mortgages to the investors.

In the aftermath of the global financial crisis there have been louder calls for an ethical dimension to be introduced to the financial services industry, but the fundamental requirements of Shariah mean that ethics and the protection of the public good are inherent elements of Islamic finance. Profits that are derived on the basis of ethical objectives will not only deliver economic benefits, but will comply with

universal values and standards that assure long-term sustainability.

A challenge that continues to occupy regulators and industry alike is the Islamic asset management industry's ability to attract international fund flows. Most Islamic funds are denominated in local currencies, while differing legal and regulatory requirements make cross-border distribution a challenge. But regulators have been hard at work both on a bilateral and multilateral level, working together with industry, to address these constraints to ensure a robust investor protection regime, strong compliance and governance systems, and forums for effective dispute resolution. One effective way of attracting international fund flows is to offer Shariah-compliant UCITS funds as explained in Chapter 10 of the book.

I congratulate Noripah for writing this highly pragmatic book. It offers invaluable hands-on knowledge of Islamic asset management and the fundamental principles of Shariah that underlie Islamic investing. She has argued most eloquently the need to shift from a free market to a fair market that is underscored by the fair distribution of wealth and promotion of built-in ethics in offering investment solutions. Interspersed by personal anecdotes derived from her years of international engagements, Noripah has injected a human touch that makes this book reader friendly.

TAN SRI ZARINAH ANWAR
Former Chairman,
Securities Commission Malaysia