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Sukuk Holds Up Better Than Asian Bonds During Crisis – Maybank Asset Managers

 by [Staff Writer](#) — August 31, 2020



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- Sukuk has better risk-return trade-off than Asian conventional bonds
- Sukuk demand high; conventional managers include sukuk in portfolio
- MAMG Global Sukuk Fund to have positive returns
- Muslim retail market for sukuk “huge” in Asia

Singapore (31 August 2020) – Sukuk as an asset class held up better than the Asian conventional bonds in the recent global sell-off in March this year, Maybank Asset Management managers said in a recent interview with Halal Universe.

The resilience of sak (plural for sukuk) was displayed when they fell less sharply than the Asian conventional bonds in the sell-off.

“The truth is demand for sukuk is very high. What we observed is both conventional and sukuk (portfolio) managers buy sukuk. When you sell it off, you can’t get it back at the same price,” said one of its managers Senior Vice President (Sales), Damien Koh.

Maybank Asset Management Singapore is the subsidiary of Maybank Asset Management Group (MAMG). It manages the MAMG Global Sukuk Income (Islamic) Fund, essentially a feeder fund to MAMG Global Sukuk Fund, which MAMG jointly manages with Italian asset management firm, Azimut.

While the fund size of MAMG Global Sukuk Income (Islamic) Fund stands at SGD 26.7 million (as at 30 July 2020), MAMG Global Sukuk Fund size is USD 411 million.

MAMG Global Sukuk Income (Islamic) Fund is a retail fund introduced to investors in Singapore slightly over a year ago and offers the city-state investors exposure to 90 Sukuk issuances from the Middle East and Asia.

While the Global Sukuk Income (Islamic) Fund is MAMG’s first Shariah-compliant fund, it is the second Shariah-compliant fund available to Muslim investors in Singapore that offers exposure to global sukuk. The first is Franklin Global Sukuk Fund by Franklin Templeton Investments launched in 2012.

Sukuk Is Less Volatile, Yet Gives Decent Yield

“Sukuk is kind of unique,” Koh said. “They notably have a strange behavior versus normal fixed income. They tend to have a better risk-return trade-off – they are less volatile but they still give a decent yield.”

Despite the March sell-off, the investment team was able to maintain the Fund's average credit rating of BBB-minus, an average yield of 4.7% per annum and weighted average duration of 3.4 years.

Its YTD performance up to July is minus-0.49% having been earlier wrecked by the COVID-19 pandemic.

Master Fund Performance^ (cumulative) Since Inception 1/12/13



Source: Bloomberg, Azimut Portfolio Management as of 30th July 2020.

^Performance based on MAMG Global Sukuk Fund USD (ISIN LU0942875963).

In addition to the global pandemic, the plunge in the performance of the Fund also had to do with the negative sentiment in the crude oil market in April, when crude oil price fell from USD65 a barrel (bbl) to as low as USD20-USD30/bbl and at one stage threatened to venture into the negative territory, they said.

“That affected some of the Middle Eastern sovereign issuers,” said Ivan Kam, Head of Product & Marketing. There were concerns that the sovereign issuers could default on their payment obligations. “But as the oil price recovered analysts found that even if the oil price were to correct to USD20 a barrel, sovereign issuers in the Middle East are still able to fund their fiscal policy,” added Kam. Oil producers are able to breakeven at USD20-25/bbl. “So with oil price now

hovering at USD40 a barrel we don't foresee any risk of these sovereigns going into default," Kam said.

Almost half of the MAMG Global Sukuk Fund are allocated to issuances from the United Arab Emirates (48.6%), Saudi Arabia (7.5%), Malaysia (6.6%), Indonesia (6.1%) and small allocations to Turkey, Pakistan, Qatar, Bahrain, Kuwait and Oman. Some 10.5% of funds are held in cash in Islamic deposits. Of the allocations, 44% are allocated to financials, while sovereign sukuk issuances made up 22% of the holdings.

The managers are, however, confident that when the year is over, barring worsening economic climate, the Fund would give a positive return or higher than average return. "Sukuk supply is always short," said John Lim, assistant portfolio manager.

Following the March sell-off, the Fund's portfolio of Sukuk comprises of more issuances from AAA-rated issuers. In the first quarter of the year, the Fund had a higher percentage of non-investment grade securities with yields in the mid-teens. They lowered the exposure to such non-investment grade securities because of the uncertain economic outlook.

The Top 10 Sukuk holdings in the portfolio as at end July 2020 were ICD Sukuk Co Ltd., Noor Tier 1 Sukuk Ltd., ESIC Sukuk Ltd., Emaar Sukuk Ltd., Meeras Sukuk Ltd., Aldar Sukuk No. 2 Ltd., Adib Capital Invest Two, Unity 1 Sukuk Ltd., Zahidi Ltd., and Mumtalakat Sukuk Holding.

Nature of Sukuk Dictates Slower Recovery Than Asian Bonds

While Sak (plural of Sukuk) plunged less sharply than the Asian conventional bonds during the March global sell-off, their recovery was slow and muted, they said. The slow recovery was due to the fact that the Sak are shorter-dated, high quality issuances compared with the Asian conventional bonds.

"In a low interest rate environment, most (conventional) investors now go for the long-dated papers," Kam said.

Sak also generate lower returns than the Asian conventional bonds. "They don't have so much of a 10-, 15- or 30-year (maturity) kind of bonds which people are chasing because of the low rate environment. That's why it looks a bit muted," he said.

Investor Base For Sukuk Fund "Huge"

Investors' reception to MAMG's Global Sukuk Fund has been "encouraging" even though they "didn't have high hopes at the start," according to Koh. They had wanted to launch the Fund under a restrictive scheme but decided to launch it as a retail fund to support the community's efforts in growing the Shariah investment space.

They also said that they had thought they would need to tap on Maybank's client base to launch the product. One year after the Fund's launch, their client base has now extended beyond the retail base to non-governmental organisations that are serviced by other banks, Koh said.

Institutions in Singapore with "cross-border type businesses in Malaysia" too favour sukuk-based fund, Koh said.

They are now also looking to Indonesia and China, where the Muslim population is larger than Singapore's. There's a "huge" market for a Sukuk fund, he said, adding that the Fund will be MAMG's anchor fund to help develop the Islamic space. Maybank is also in the process to launch the first Islamic Balanced Fund in Singapore, which will be allocated between the Sukuk Fund and an Asian Islamic Equity Fund.

Singapore investors could subscribe to the MAMG Sukuk Fund using cash from their Supplementary Retirement Scheme.

Fund Facts

- launched 13 August 2019
- subscription mode – cash or SRS (Supplementary Retirement Scheme)
- Master Fund Name – MAMG Global Sukuk Fund
- Sharia Advisor – Amanie Advisors
- Master Fund Size – USD 372 million
- Fund Size (AUM) – SGD 24.9m (as of 30 June 2020)
- Minimum investment – SGD 1000
- Management fee – 1% per annum
- Dealing frequency – Daily
- Target dividend – 4% to 5% per annum
- Dividend distribution – Quarterly
- ISIN Code – SGXZ71204374

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