



ISLAMIC FUND MANAGEMENT IN TURKEY

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Erkan OZGUC

**Deputy Head - Institutional Investors Department
CAPITAL MARKETS BOARD OF TURKEY (CMB)**

Historical Development of the Fund Management Industry



- ❖ **The Initial Form of the Trust** was the waqf (a pool of assets of which return is used for some religious, charitable or educational purposes).
- ❖ **13th Century:** the concept of waqf was introduced to the Western world via the crusades. The use of trust was confined to religious, charitable or educational purposes.
- ❖ **1774:** A Dutch merchant and broker Abraham van Ketwich established the first trust purely for financial benefits. (Eendragt Maakt Magt). The fund was in close-ended type.
- ❖ **1924:** The first open-ended (continuous issue and redemption of the fund units) fund (Massachusetts Investors Trust) was established in the US.
- ❖ **1963:** The first modern Islamic fund Lembaga Tabung Haji (Hajj Pilgrimage Fund) was established in Malaysia. It was a fund management centre for Muslims intending to perform hajj practices in Makkah. Savings were invested in permissible assets.
- ❖ **2006:** The first Islamic ETF in the world (DJIM Turkey ETF - BMD A.Ş. DJIM Türkiye A Tipi BYF) was launched in Turkey, the units of which were listed and traded on Borsa Istanbul.
- ❖ **2014 (for Turkey):** the first regulation for the Islamic fund, that is labelled as participation fund, was made within the Communiqué for Mutual Funds.

❖ Participation Funds:

- ❖ Participation fund is a mutual fund that may only and permanently invest in;
 - *Sukuk,*
 - *Participation accounts (investment accounts) at participation banks,*
 - *Corporate shares,*
 - *Gold and other precious metals,*
 - *Other non-interest bearing capital market instruments.*

- ❖ Participation funds are important vehicles for the investors who prefer to avoid interest-based transactions and invest in a diversified portfolio.

- ❖ Participation funds are established and managed only by the portfolio management companies that are licensed by the CMB Turkey.

❖ Specific Subcategories of Participation Funds:

1) Sukuk Participation Funds

- Sukuk participation fund is a type of participation fund that permanently invest at least 80% of its total fund value in sukuk.

2) Short-term Sukuk Participation Funds

- The weighted average date-to-maturities of Short-term Sukuk Participation Funds has to be between 25-90 days.

3) Money Market Participation Funds

- May only invest in instruments with maximum 184 days to maturity, and the weighted average maturity of portfolio may not exceed 45 days.
- There are now 16 sukuk participation funds and 6 short-term sukuk participation funds established, yet none money market participation funds.

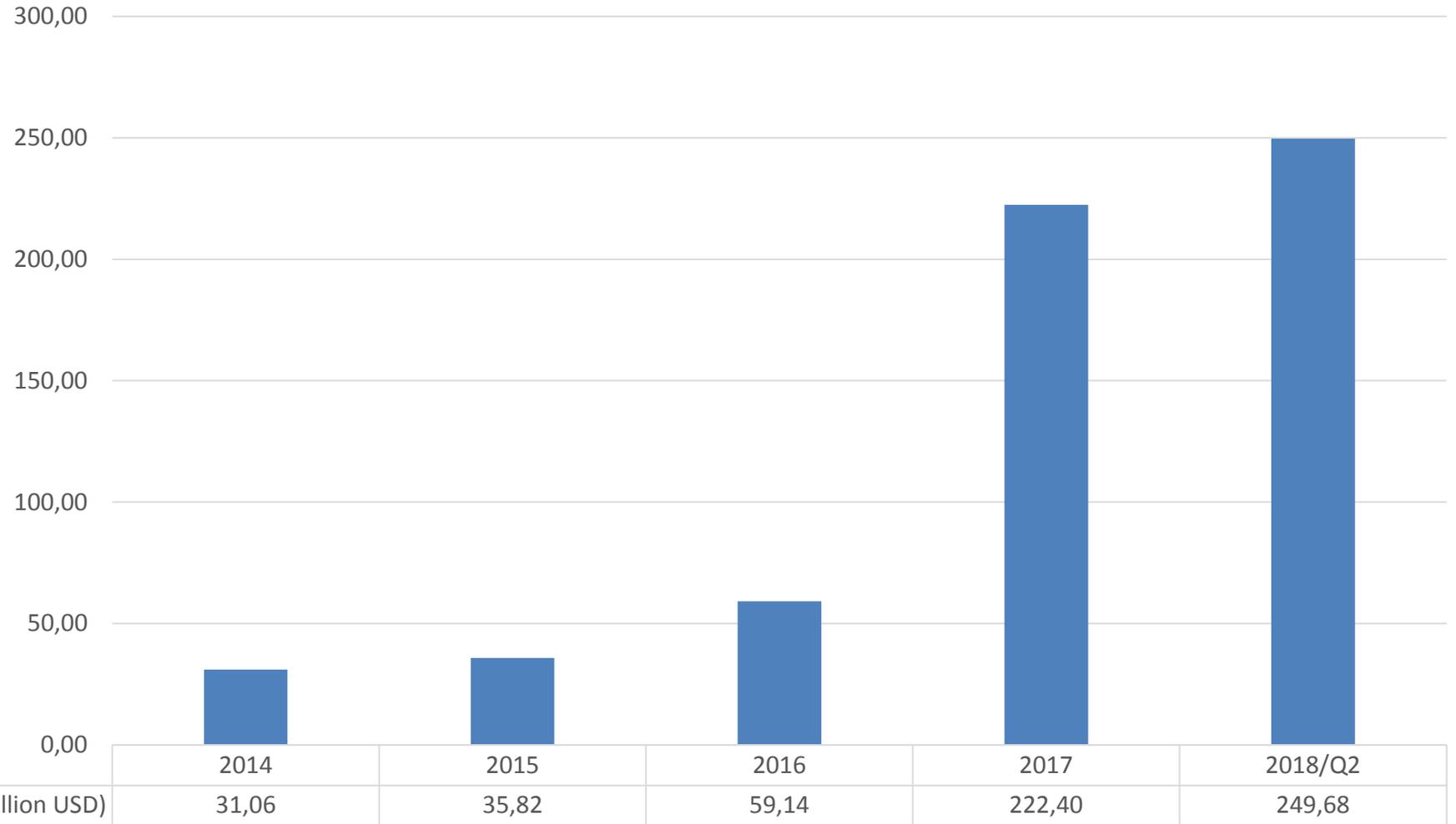
Shariah Requirements for Participation Funds in Turkey

Shariah Requirements for Islamic Funds	Turkish Participation Funds
Shariah Supervisory Board	<p>No written regulatory requirement. However, <u>in practice</u> due to market discipline participation funds have their own Shariah advisors and the funds give the list of their Shariah advisors as an annex to the issue document. On the other hand, if the participation funds prefer to invest in the constituents of an index that already has a Shariah approval (such as the equities in Participation Index 30/50 calculated and declared by Borsa Istanbul), they generally don't have Shariah advisors.</p>
Shariah Screening	<p>No written regulatory requirement. However, <u>in practice</u> due to market discipline participation funds give information (as an annex to the issue document) about the screening methodologies applied by their Shariah advisors. If the participation funds benefit from an index, then, they just pick up the securities from that index. Moreover, it is up to the fund whether to place a Shariah screening report in the annual fund report.</p>
Purification of Impermissible Income Earned	<p>At fund level purification of income through giving donations to charitable organisations is not allowed. However, the <u>purification through distributing dividends</u> (that is equal to impermissible income) to unit holders <u>is allowed</u>. Hence, the responsibility of what to do with the impermissible income falls to the unit holders.</p>
Zakah Calculation	<p>At fund level zakah payment is not allowed. It is <u>the unit holders' responsibility</u> to deduct zakah from their own total assets.</p>

The Market Size of the Participation Funds in Turkey



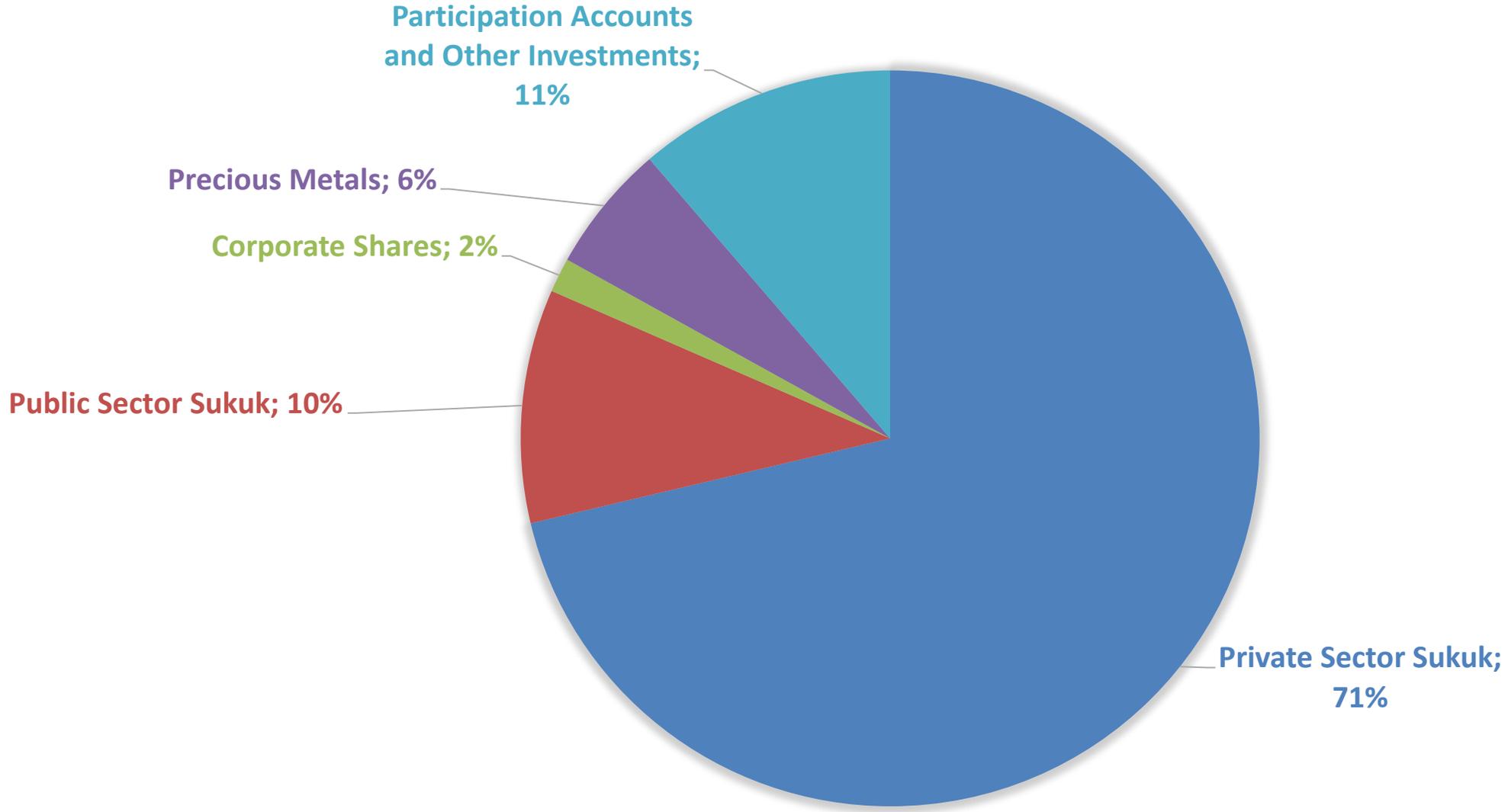
Total Value of Participation Funds (million USD)



■ Total Value of Participation Funds (million USD)

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Asset Allocation of Participation Funds (as of 25.09.2018)



Participation Pension Funds in Turkey



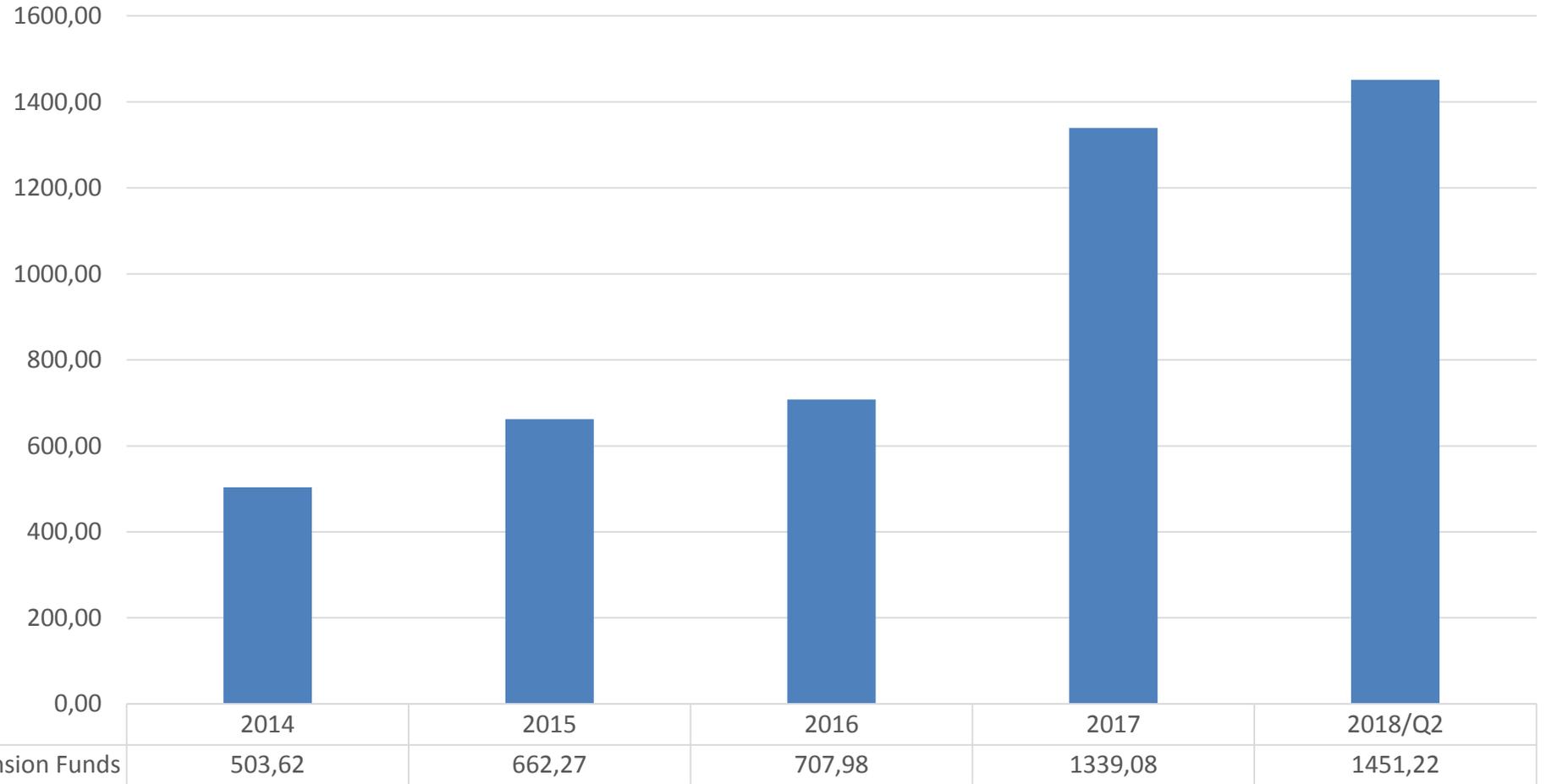
- ❖ Participation Pension Funds are established only by pension companies (licensed by the Treasury) and managed only by portfolio management companies.

- ❖ Similar to the participation funds, Participation Pension Funds may only and permanently invest in;
 - *Sukuk,*
 - *Participation accounts (investment accounts) at participation banks,*
 - *Corporate shares*
 - *Gold and other precious metals*
 - *Other non-interest bearing capital market instruments.*

The Market Size of the Participation Pension Funds in Turkey

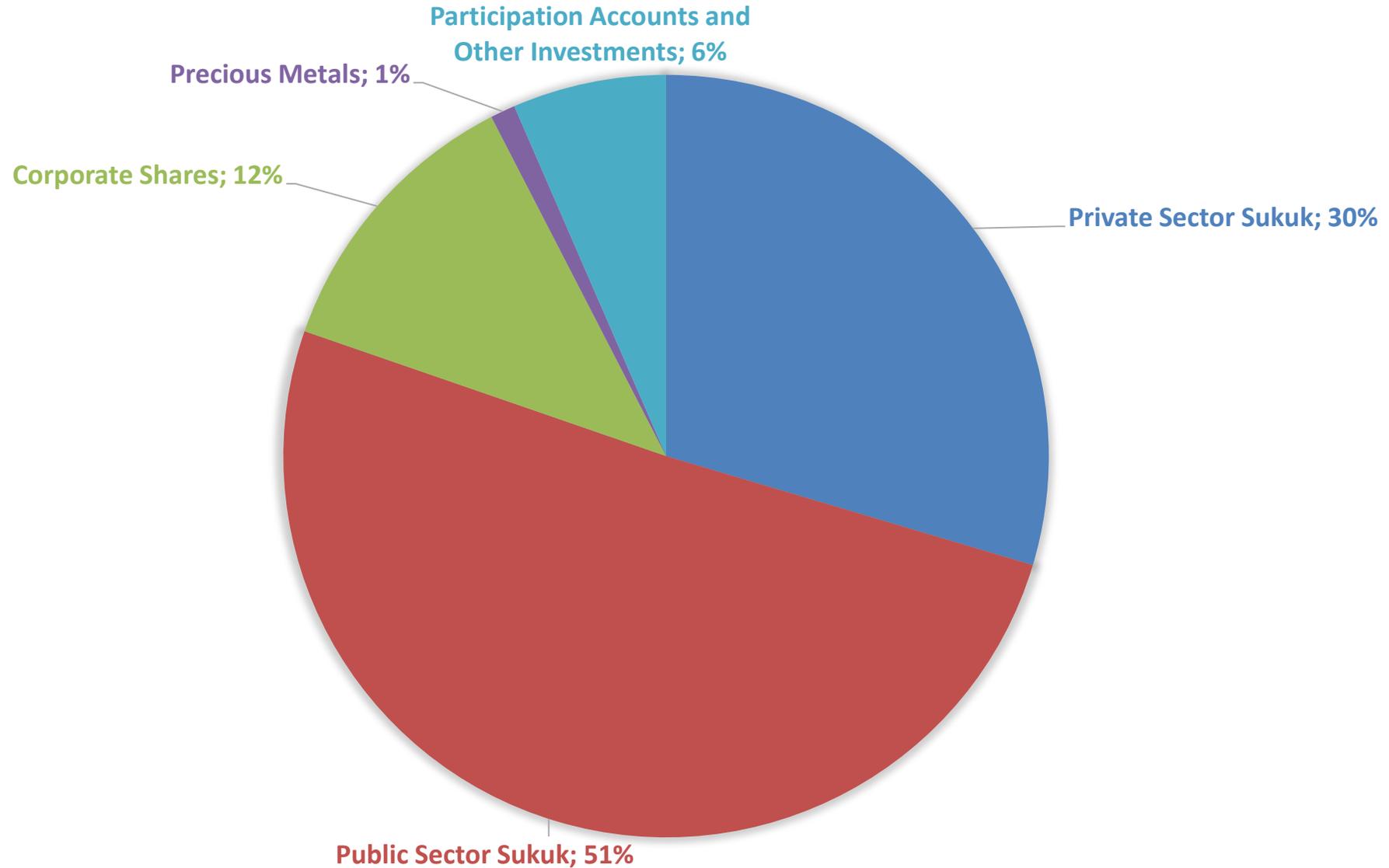


Total Value of Participation Pension Funds (million USD)



Total Value of Participation Pension Funds

Asset Allocation of Participation Pension Funds (as of 25.09.2018)



The Aggregate Size of Participation & Pension Participation Funds



Fund Type	Number of Funds	Total Value of Funds (as of 2018 /Q2 in million USD)
Participation Funds	38	250
Participation Pension Funds	114	1451
TOTAL	152	1701

(*) The total size of whole mutual and pension funds in Turkey is about USD 31 billion as of Q2/2018. The participation and pension participation funds constitute 5.5% of the total fund sector.

Alternative Collective Investment Schemes



- Real Estate Investment Funds (REIFs) and Private Equity/Venture Capital Investment Funds (PE/VC Funds) may also be designed in practice as Shariah-compliant.
- There are now 20 REIFs and 10 PE/VC Funds established that adopted interest-free investment strategy.

Fund Type	Number of Funds (*)	Total Value of Funds (as of 2018 /Q2 in million USD)
REIFs	20	419
PE/VC Funds	10	12
TOTAL	30	431

(*) The total size of all REIFs and PE/VC Funds in Turkey is about USD 752 million as of Q2/2018. The participation REIFs and PE/VC Funds constitute 57% of the whole REIFs and PE/VC Funds.

The Main Challenges Facing IFM in Turkey



- ❖ **Unregulated Shariah governance framework:** the lack of comprehensive regulatory framework on Islamic finance (Studies goes on adopting a regulated Shariah governance system.)
- ❖ **Inadequate personnel with skills comprising a blend of Shariah and financial knowledge:** More capacity building programmes on Islamic finance should be prepared and implemented.
- ❖ **The lack of public awareness and understanding on Islamic financial instruments:** capacity building and financial education programmes may serve to meet the need.
- ❖ **Low level of savings:** Not only a problem for interest-free financial sector but also for the conventional counterpart. As Turkey, we need to increase the personal savings to feed the growth of both the Islamic and conventional capital markets.

End



Thank you...

Erkan OZGUC

Deputy Head

Institutional Investors Department – CMB

erkan.ozguc@spk.gov.tr