

# Islamic fund of funds, A Rare Breed

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Within the wide range of Shariah compliant products, the multi-manager or fund of funds concept has taken some time to establish itself. Diversification and access to quality mandates are often-quoted advantages of multi-manager providers (although it is increasingly clear that providing due diligence scrutiny is at the top of client’s requirements as well). This aspect is exacerbated due to the limited availability of track records, which makes manager scrutiny even more vital. Nonetheless, both of the core Islamic finance markets (GCC and Southeast Asia) provide evidence that the classic fund of funds programme has yet to arrive in full swing.

Take for instance Saudi Arabia, where multi-managers have been a hallmark of product offerings, yet it is quite telling that they are predominantly referred to as portfolios rather than anything else. The use of this term (as opposed to a straight fund of funds) reflects product shortage and/or lack of product awareness. The head of mutual funds for one of the largest Islamic banks in the Kingdom once referred to this challenge as the “constrained universe.” Indeed, fund sponsors have seen their multi-manager platforms migrate towards the realm of single-managers (i.e. incorporating direct/active allocation of a portion of their assets). As a direct consequence of this flexibility, investments often include illiquid allocations (i.e. real estate) or direct trading in specific instruments (i.e. sukuk). Thus to successfully manage these portfolios a rather wide skill set is required – something that is very rare to find and difficult to harmonize.

The wholesale market in Malaysia proves to hold idiosyncrasies of its own. While wholesale products (across the various providers) avoid pockets of direct allocation, they more often than not package their in-house single-managers into their multi-manager offerings. This “bad habit” is borne out of a marketing-oriented rationale, yet it can introduce a moral hazard which ultimately fails to deliver value to the end consumer. It would be difficult to substantiate how the entire range of single manager products from a specific institution can all be considered as the best choices for inclusion into a multi-manager fund. The need for independent and un-biased asset allocation decisions is evident, yet elusive. A natural counterargument would be that these single-manager products are being bundled together for easy digestion by investors, although the secondary layer of fees being introduced is hardly justifiable (as opposed to well-documented benefits that arrive from a pure third-party fund of fund manager).

The fund of fund as a pure-play is thus rare but not impossible to find. A sample of these is included in the adjacent table, and while these are few and far in between they prove the concept is taking root across the marketplace. It seems the constrained universe is being finally tamed.

## Sample Fund of Islamic Funds

Fund Manager	Domicile	Launch Date	Mgmt Fee	Perf Fee
Al Dar Asset Management	Kuwait	June 2005	1%	NA
Global Investment House	Bahrain	July 2007	1%	20%
Rasmala Investments	Cayman Islands	January 2007	1% - 1.5%	NA