

The Unit Trust Industry

An Islamic Perspective

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Sri Lanka's Islamic Banking and Finance (IBF) industry has gradually gained momentum over the years with the demand for IBF products and services growing unabated. Some estimates put the market potential at USD 2.5 billion, and there are indications that this could reach much higher proportions keeping in line with recent economic developments in Sri Lanka. The number of licensed players offering Islamic products and services has now reached double digits. However, the product range in offer has been mainly restricted to basic deposit products (Mudaraba), Leasing (Ijara) and Financing

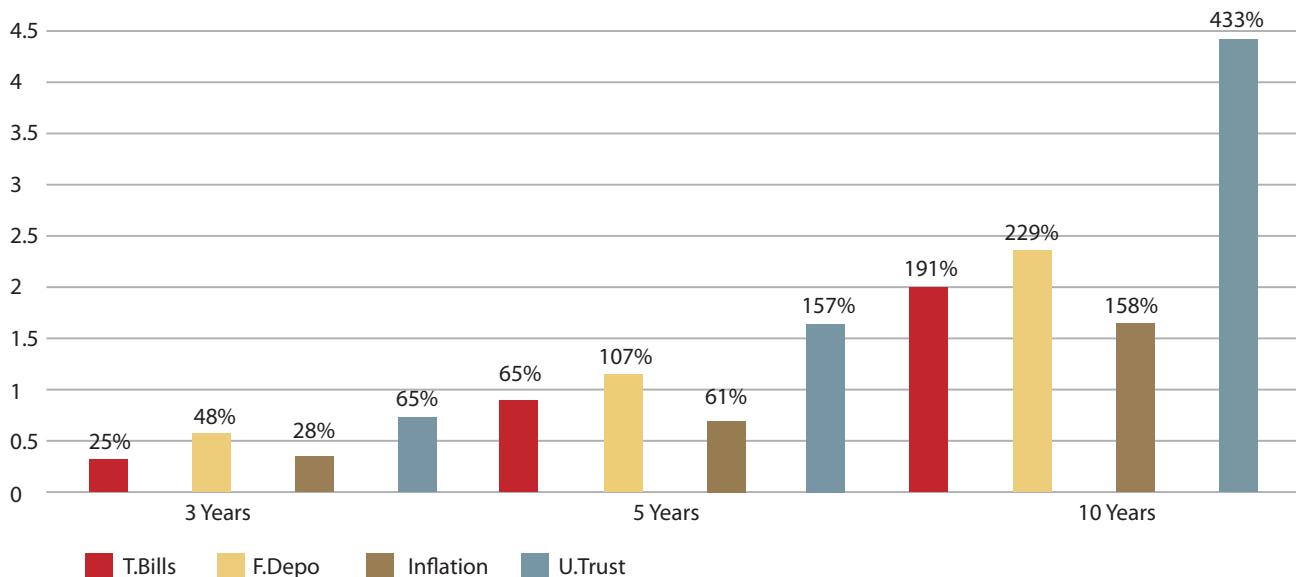
Products (Murabaha and Wakala). Therefore, there is an evident dearth of products and services that cater to alternative investment needs of shariah-conscious investors in the country. This has influenced many asset management companies in the country to size up the opportunity and offer shariah-compliant investment avenues through developing shariah compliant Unit Trusts.

In its efforts to popularise the concept of Unit Trusts, the Government of Sri Lanka has also taken many initiatives to promote the industry and offers many benefits to

unit holders. This has positively contributed to the industry as the past decade has witnessed the number of Unit Trust Funds increasing from thirteen to forty, four of which being Shariah-compliant funds.

The historical performance of Unit Trusts suggests it provides impressive growth in relation to treasury bills and bank deposits over a medium to long term investment horizon. The graph below depicts the comparative performance of treasury bills, fixed deposits, inflation and Unit Trusts over a 10 year period.

Performance of Unit Trust Vs Treasury Bills and Bank Deposits



Compound Annual Growth rates of the Treasury Bills, Fixed Deposits, Inflation and Unit Trusts

	Treasury Bills	Fixed Deposits	Inflation	Unit Trusts
3 Years	8.73%	14.06%	8.58%	18.18%
5 Years	12.93%	15.66%	9.97%	20.73%
10 Years	11.26%	12.64%	9.96%	18.22%

(Source : Unit Trust Association of Sri Lanka)

What is a Unit Trust?

A unit trust is a collective investment scheme where investors pool their monies together to establish a Fund. The Securities and Exchange Commission (SEC) of Sri Lanka grants the license for an asset management company to operate a unit trust. The asset management company will manage the investments of the fund, and a trustee, who is an

independent financial institution, will have the custody of all investments of the Fund.

The main difference of a sharia-compliant unit trust lies in the need to adhere to sharia principles within the legal and regulatory framework set for unit trusts. A Sharia-compliant unit trust will appoint a

Sharia Board to provide guidance and to ensure the structure of the fund and its investments are sharia-compliant. The Fund will make investment in sharia-compliant investments and the returns from these investments will be distributed to the unit holders.

Benefits of Investing in Shariah-Compliant Unit Trusts

- *Capital gains realised and dividends received by the investor are exempted from Tax.*
- *Minimal risk given the diversification of investments*
- *Regulated by the Securities and Exchange Commission (SEC)*
- *Approved by a Shariah Board*
- *The comfort of an independent trustee, usually a bank of repute*
- *Professional expertise of fund managers*
- *Ease of encashment (liquidity)*

Shariah Compliant Unit Trusts in Sri Lanka

Crescent i Fund is Sri Lanka's first ever open-ended shariah compliant equity fund. It was launched in 2011 as a joint initiative by Adl Capital, which is a market intermediary registered with the SEC, and ComTrust Asset Management, a licensed unit trust/mutual fund management company.

The Crescent *i* Fund provides an ideal opportunity to invest in shariah-compliant stocks listed in the Colombo Stock Exchange and fills a void in which shariah-conscious investors have previously been deprived due to the lack of shariah compliant investment avenues to benefit from the Sri Lankan stock exchange.

ComTrust-Adl Mudarabah Fund was launched in January 2013 as the very first money market fund based on shariah principles in Sri Lanka. The fund aims to provide short term returns on a regular basis by investing in a range of shariah-compliant money market

instruments. Being a relatively low risk product, ComTrust-Adl Mudarabah fund will appeal to local and foreign investors, across a wide market segment ranging from institutions, charities, corporates and retail investors.

During the first quarter of operations, the fund has been able to outperform the comparable returns from savings accounts of Islamic financial institutions in Sri Lanka. For the month of May, the ComTrust-Adl Mudarabah fund delivered an annual effective rate of return (AER) of c.11.42%.

Amana-Heraymila Shariah Fund is a Balanced Fund, which was jointly launched by Heraymila Capital (Pvt) Ltd and Amana Capital Ltd. The fund primarily invests in shariah-compliant listed equity and income securities. Investment objective of this fund is to achieve a balance between capital appreciation and income over the medium to long term.

The latest shariah compliant fund to be launched was '**Namal Shariah Fund**'. It was launched by National Asset Management Limited in a joint collaboration with Dar Al Shariah Legal and Financial Consultancy LLC of the UAE. It is a growth fund that primarily invests in shariah compliant equities listed in the CSE.

It is pertinent to mention that the **NAMAL Amana Growth Fund** was launched several years ago and, as a closed-ended Fund with a fixed maturity of 5 years, completed its envisaged life cycle and re-distributed the profits and capital to the investors in the Fund on maturity.

As Sri Lanka's capital markets are poised for growth in the medium to long term, Unit Trusts, with its added benefits including tax exemptions, are particularly enticing for investors. Shariah compliant Unit Trusts provide an ideal opportunity for investors to benefit from the growth of Sri Lanka's capital markets.