

Islamic asset management on the rise in Canada

A recent report from Pew Research Center called 'The Future of The Global Muslim Population' estimates that, by 2030, there will be about 2.7 million Muslims living in Canada, and they will make up approximately 6.6% of the population. Currently, Muslims make up about 2.8% of the country's population and is the fastest-growing component of the population. Moreover, the study shows that relative to the total population, the number of Muslim consumers is growing faster in Canada than in the US. MOHAMAD M SAWWAF writes.



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Islamic finance and more broadly, the Islamic economy, are markets whose consumers and needs should be addressed particularly in Canada. A strong business case other than its strategic location to the US, Asia, Europe, and the MENA region can be made for Canada, relative to its western counterparts, to play a vital role in creating the first North American Islamic finance hub. This includes and is not limited to Canada's competitiveness with the country currently ranked 14th out of 137 countries, according to the Global Competitiveness Report published by the World Economic Forum. Canada is also 18th among 190 world economies for ease of doing business, according to the World Bank's annual ratings, and lastly, when it comes to macroeconomic fundamentals, Canada is one of only two countries in the G-7 to enjoy a 'AAA' credit rating from Moody's Investors Service, Fitch Ratings and S&P Global Ratings.

Primary opportunities for Islamic asset management are global and many of Canada's asset managers have looked abroad for these opportunities even though domestic demand is quite strong. According to Thomson Reuters Lipper and fund reports, as at the end of 2014, the total Islamic fund assets under management (AuM) in Canada stood at US\$240 million, represented by US\$18 million in equity funds and the remainder in bullion (commodity) funds. There is clearly an opportunity for the creation of funds that represent asset classes outside of commodities and resources.

Furthermore, if we look to Canada's neighbors south of the border, where most of the Islamic finance assets reside, US\$3.63 billion is in equity funds where only 2.2% is invested in non-equity-based funds. A lack of fixed income-type products such as Sukuk funds, money market funds, Islamic mortgage funds as well as real property (non-REIT) funds emphasizes the ongoing and ever-growing demand for such asset classes not only to balance out risk and volatility but to provide diversification within a client's portfolio.

According to data collected by Manzil Capital, a private Islamic investment firm, the average Canadian Muslim household income is US\$124,571 with average investible assets of approximately US\$160,851. Knowing this, it could be projected that there is over CA\$10 billion (US\$7.51 billion) in asset management opportunities from this demographic alone.

Saturna Capital, a US-based fund manager that manages the Amana Funds which are deemed to be Shariah compliant and socially responsible, has approximately US\$4 billion in AuM. It has been estimated that between 60-70% of the funds they manage come from non-Muslim investors driven primarily by the fund's performance and the fact that there is a focus on socially responsible investment strategies.

To this, we turn our attention to a recent 2016 report published by the Global Sustainable Investment Alliance which stated that since 2014, assets being professionally managed under responsible investment strategies have hit US\$22.89 trillion, an increase of 25%. In relative terms, this represents 26% of all professionally managed assets globally. The report continued to state that the largest three regions, in terms of assets, were Europe, the US and Canada respectively.



Specifically, there was a 49% year-on-year increase with a 22% compound annual growth rate to US\$1.09 trillion in assets managed in Canada using one or more of the responsible investment strategies. In relative terms, these assets represent 37.8% of the total managed assets.

A specific sustainable sector that is quite the attraction can be found in agriculture. Canada is the fifth-largest agricultural exporter in the world, and the agriculture and agri-food industry employs 2.3 million Canadians or one in eight jobs, and contributes over US\$110 billion annually to Canada's GDP, more than the national GDP of two-thirds of the world's countries. Canada produces about 75% of the world's maple syrup and is the world's largest producer and exporter of flaxseed, canola, pulses, oats and durum wheat.

Canada is ripe for the opportunity to present itself as a vanguard for Islamic finance in North America. Its population, strategic location, sound banking system, macro and microeconomic factors along with its ambitious infrastructure development agenda, provide an environment rich in investment opportunities for Shariah compliant investors given the asset-backed or asset-based requirements of Islamic finance. Moreover, its financial regulatory regime has been proven to be compatible with many Islamic finance activities. ☺