



IFN Indonesia Forum 2015

Global Sukuk in a Changing Investment Environment

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Source for data and information provided by Franklin Templeton Investments, as of the date of this presentation, unless otherwise noted. Benchmark related data provided by FactSet, as of the date of this presentation, unless otherwise noted.

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Who is Franklin Templeton Investments?



An Investment Management Organisation

- Focusing on research and investment management with over 600 investment professionals¹ covering all major asset classes
- Serving the needs of investors worldwide with a dedicated team of investment professionals
- Providing the resources, expertise, experience and commitment to ensure outstanding service to our clients
- Has a broad range of investment strategies and vehicles

Shariah-Compliant Investment Management

- Managing over US\$1.2 billion in Shariah-compliant assets¹
- Has Shariah-compliant strategies across a wide range of asset classes, including global, regional and local equities, and fixed income (sukuk)



Investment professionals include portfolio managers, analysts and traders.

1. Source: Franklin Templeton Investments, as of 31 December 2014.

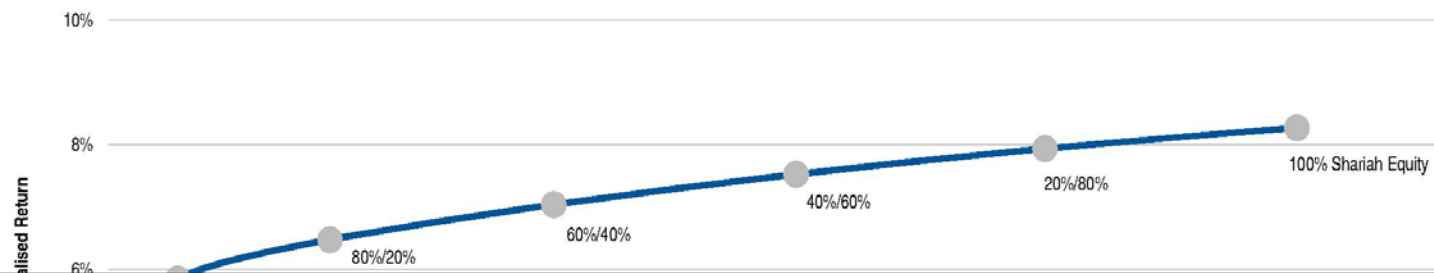
Basic Building Block of a Shariah-Compliant Asset Allocation



Global Sukuk Can Provide Diversification Benefits

- A 40% allocation to global sukuk could potentially reduce risk by 57%, while still achieving 91% of the return of the all-equity Shariah portfolio

5-Year Period Ended 31 December 2014



Global Sukuk Are a Great Complement for Shariah and Conventional Portfolios



Low Correlation of Global Sukuk to Major Asset Classes

As of 31 December 2014

	Three-Year Correlation
Global Sukuk	1.00
Global Bonds	0.60
Global Equity	0.51
Global Shariah Equity	0.46
Oil	0.00

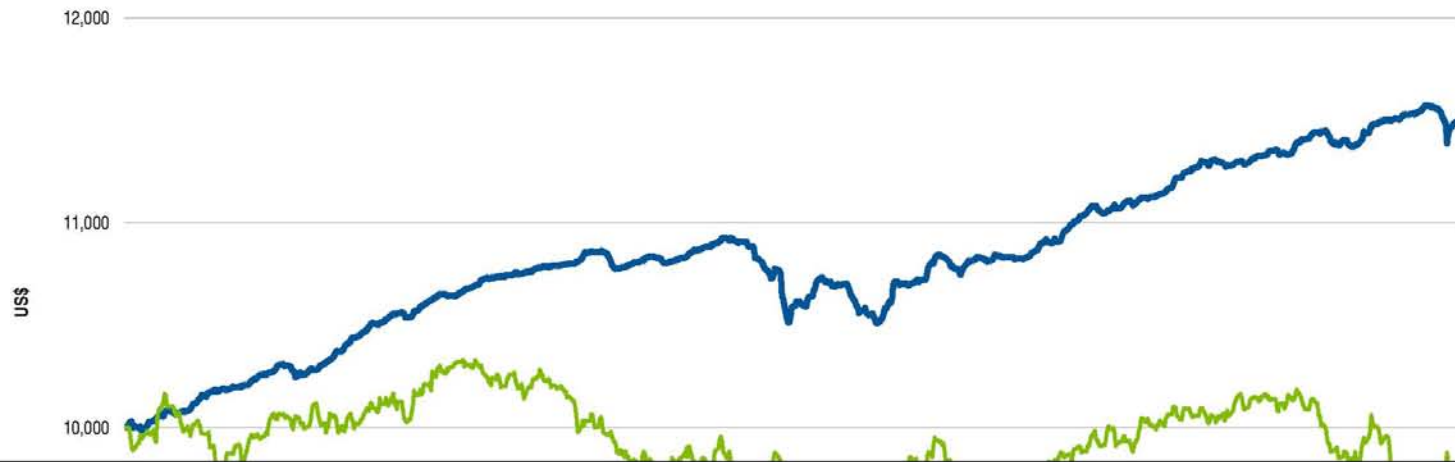
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Strong Outperformance of Global Sukuk with Less Volatility than Conventional Bonds



Global Sukuk vs. Global Bonds
Three-Year Period Ended 31 December 2014



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Past performance is not an indicator or guarantee of future performance.

Source: S&P and J.P. Morgan as of 31 December 2014. Global Sukuk are represented by the Dow Jones Sukuk Index. Global Bonds are represented by the J.P. Morgan GBI Broad Index. Returns are in USD. See Important Disclosures slide for additional information.

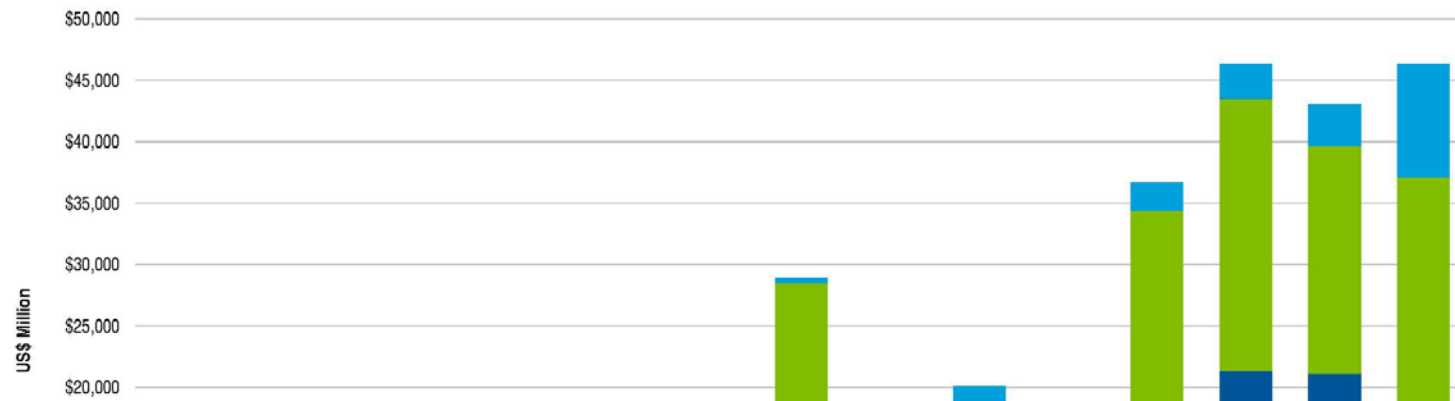
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Growth in Annual Global Sukuk Issuance

Over US\$250 Billion to Date

Annual Global Sukuk Issuance

As of 31 December 2014



The Global Sukuk Market Has Grown in Size and Diversity



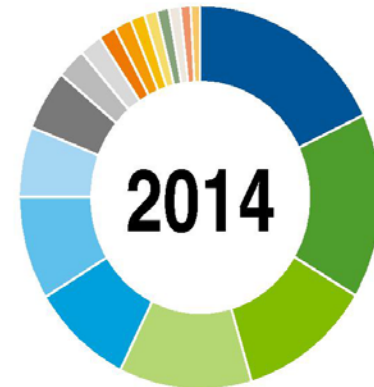
- Environmental Control
- Commercial Services
- Water
- Electric
- Sovereign
- Transportation



- Electric
- Commercial Services
- Diversified Financial Services
- Multi-National
- Engineering & Construction
- Sovereign
- Leisure Time
- Water
- Banks
- Telecommunications



- Diversified Financial Services
- Banks
- Electric
- Sovereign
- Engineering & Construction
- Telecommunications
- Water
- Real Estate



- Sovereign
- Banks
- Diversified Financial Services
- Electric
- Real Estate
- Multi-National
- Investment Companies
- Building Materials
- Engineering & Construction
- Private Equity

■ Real Estate

■ Water
■ Banks
■ Private Equity

■ Commercial Services
■ Real Estate

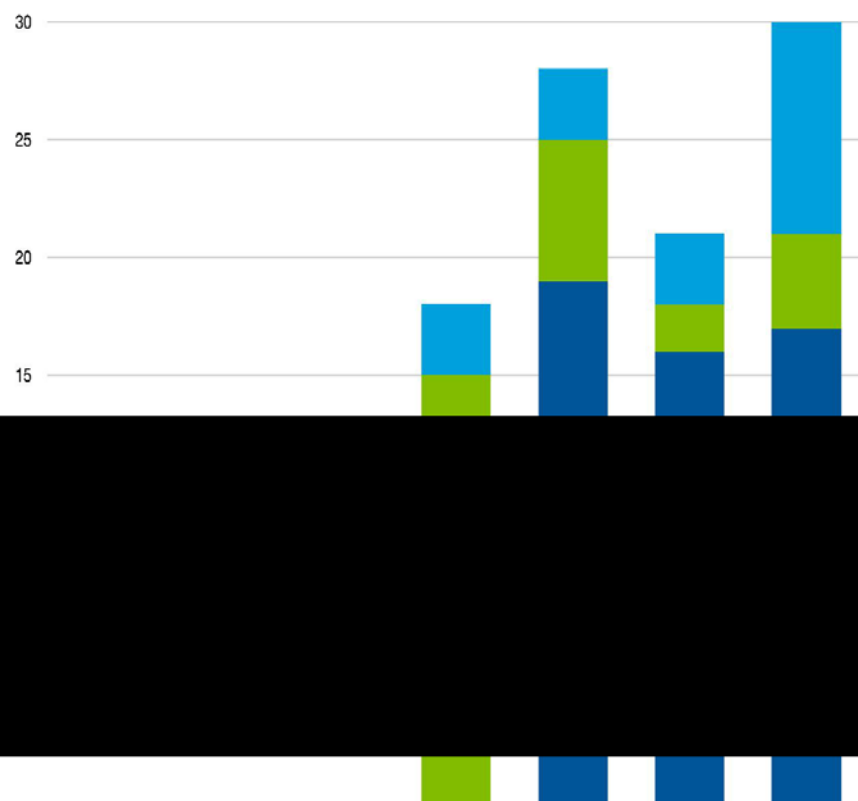
■ Investment Companies
■ Building Materials
■ Engineering & Construction

Global Sukuk Issues Are Increasingly Larger, Listed and Liquid

Annual Global Sukuk Issuance

Number of Issues over US\$500 Million

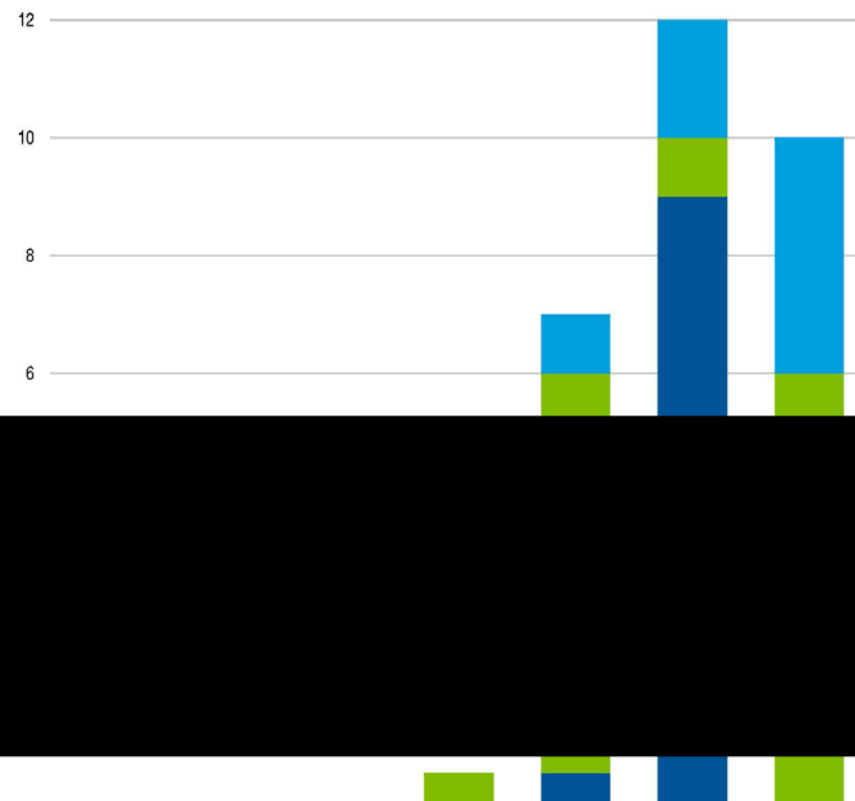
As of 31 December 2014



Annual Global Sukuk Issuance

Number of Issues over US\$1 Billion

As of 31 December 2014



Sukuk Issuing Sovereigns Can Sustain Low Oil Prices

A Sovereign's Debt Burden Assessment

Scale from 1 to 6, strongest to weakest, by Standard & Poor's

		Debt Level				
		Net general government debt as a % of GDP				
General government interest expenditure as a % of government revenues		Below 30%	30%–60%	61%–80%	81%–100%	Above 100%
Cost of Debt	Below 5%	1 (GCC ex BH)	2	3	4	5
	5%–10%	2 (BH) (ID)	3 (TU)	4	5	6
	11%–15%	3	4 (MY)	5	6	6
	Above 15%	4	5	6	6	6

Government Debt

Should oil prices remain depressed longer, Sukuk-issuing sovereigns have multiple policy options in relation to their net importer/exporter status:

1. GCC sovereigns can use accumulated reserves to continue to support non-oil growth without incurring debt at the sovereign level or can incur debt without jeopardizing their strong credit ratings
2. A more moderate growth path, with revised budgets and subsidy reforms could also be pursued, such as recalibrating spending or cutting into subsidies and non-recurring expenditures (the IIF estimates oil exporters spend 10% of GDP on various fuel subsidies)
3. On the other side, Indonesia and Turkey could use a favorable oil/inflation environment to push their respective reform agendas towards structural change and increase their competitiveness

US\$60 ————— 100%

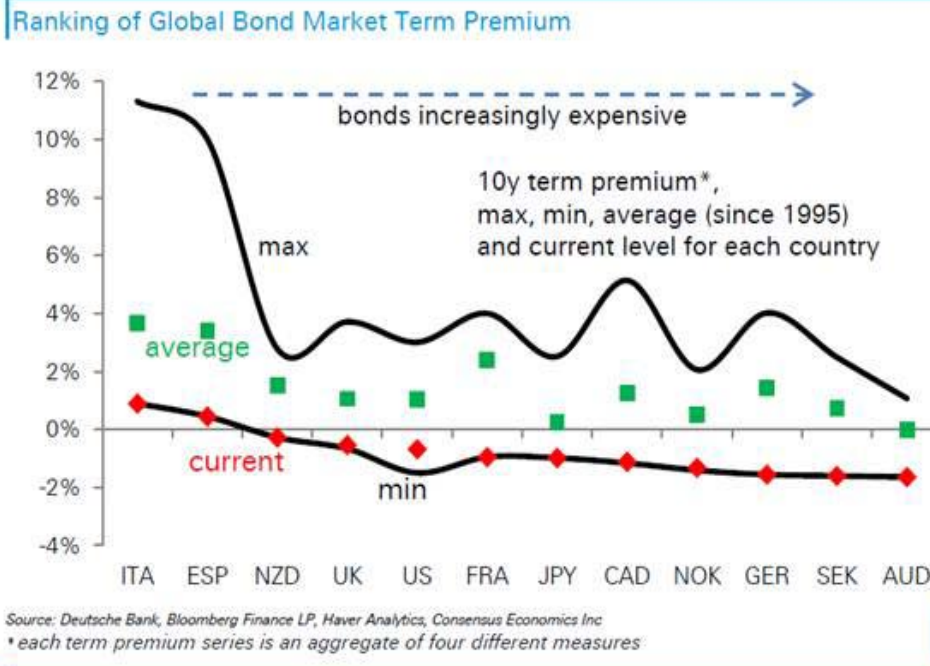
Source: IMF, World Economic Database, October 2014. Standard & Poor's Sovereign Rating Methodology and S&P 2015f country mapping. There is no assurance that any projection, estimate or forecast will be realised.

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Interest Rate Risk

Caution on US rates

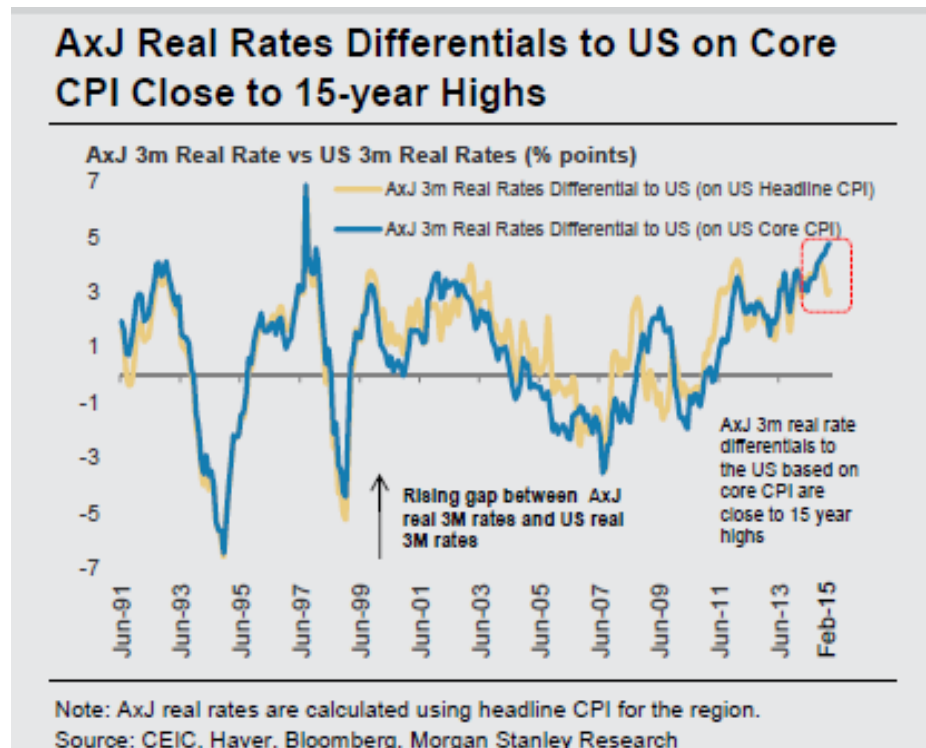
- A simple measure of government bond 'riskiness' is the term premium; which is in negative territory across developed markets and signals a meaningfully overvalued asset class
- However, given US term premium levels remain off the lows (of 2013) and moderately higher than other developed markets; the risk of a further decline in term premium, particularly as consensus expectations of continued good growth might be negatively surprised, leaves us neutral on US duration rate risk



Interest Rate Risk

Positive on Asian rates

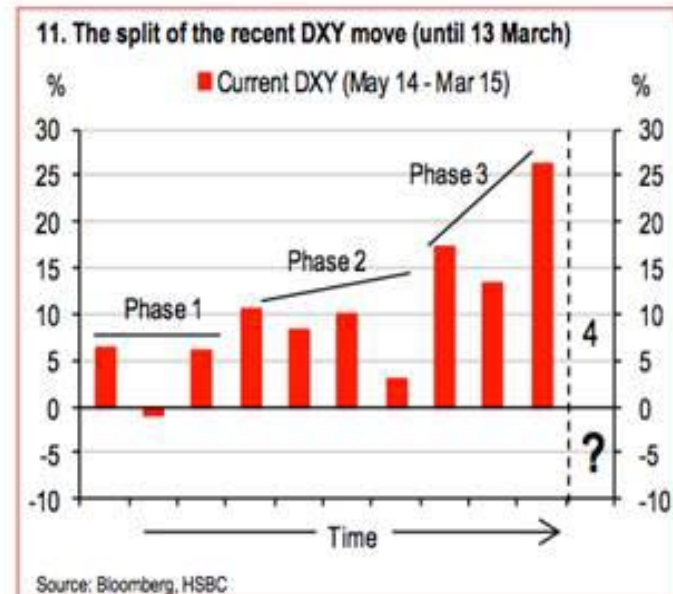
- We are however overweight Asia duration as real rates have risen rapidly among persistently higher yields, declining inflation and loose monetary policy



US Dollar

A potentially excessive rally

- The current USD rally is one of the larger ones by historical standards. Using the DXY index, since 1970 only the two 'mega rallies' of the 1980s and late 1990s have been bigger. It is also important to note that during the latter of those period many countries in Asia had some form of peg to the US Dollar and imported low real rates; something that is not the case currently



- Relatively low beta characteristics and a modest correlation of Sukuk in general to fixed-income markets means any possible increase in global bond volatility could be contained in the Sukuk space.
- The GCC component of the Sukuk market continues to benefit from some of the strongest fundamentals and market technicals that have outperformed emerging government bonds in a first quarter characterized by volatile treasury yield movements, geopolitical concerns and weak oil prices
- Outside the GCC, the Sukuk market provides investment opportunities from an expanding universe that may mitigate some key risks:
 - Through the ability to diversify away from negative term premiums in developed markets
 - By accessing high real rates on offer in many Asean economies
 - By taking advantage of any information asymmetry and the exciting development story underpinning the market
- Global Sukuk markets are relatively well positioned in the context of a global fixed income market where growth is moderate, with multiple sources of risk and abundant liquidity
- The asset class is not just a basic building block for Shariah compliant portfolios but also an effective complement to global and emerging market fixed income portfolios

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