



## Alternative investments: Growth opportunities?

**The market in the UAE has of late seen some activity in the areas of alternative investments, while structural particularities associated with Shariah compliant investments have also resulted in innovative deal structures and several cross-border transactions in the Islamic finance market. AMANJIT K FAGURA surveys the alternative investments space.**

Investors are increasingly seeking investment diversification and the Islamic finance alternative investments market in the UAE is adapting, albeit slowly, to meet such demands. With this in mind, and while technically speaking alternative investments include, among other things, venture capital, private equity, hedge funds, real estate, commodities and certain real assets, some unique debt capital markets and structured transactions can also be included in the definition, and the transactions covered in this article reflect this.

### Review of 2015

The past 12 months have seen a variety of transactions in the UAE market ranging from private equity and crowdfunding to Sukuk although a focus on banking and finance continued with some

fixed income instruments. A few of the notable transactions are highlighted as follows.

#### **The world's first export credit agency-guaranteed Sukuk**

On the 25th March 2015, Emirates Airline completed the world's first export credit agency (ECA)-guaranteed Sukuk worth US\$913.02 million. The Sukuk was guaranteed by the Export Credit Guarantee Department of the UK (ECGD). The transaction involved four aircraft being delivered post-issuance and the Sukuk was tradable from the issuance date. The transaction was the largest ECA-wrapped and ECGD-guaranteed debt capital markets transaction in the aviation industry and the finance market as a whole.

#### **Ras Al-Khaimah's largest public issuance**

The government of Ras Al-Khaimah completed the largest public

issuance of a US\$1 billion Sukuk on the 24th March 2015. The Sukuk was structured in accordance to Ijarah principles. The issuance highlighted geographic and investor diversification and was taken up by banks, funds and pension and insurance agencies across the globe.

### **FWU's Sukuk Wakalah program**

A number of innovative structures were also implemented in the region in the past 12-18 months, including the issuance of a US\$100 million Sukuk Wakalah program by a European-based multinational insurance group, FWU Group (FWU). The transaction represented the first Islamic bond structure to be deployed over a block of life insurance contracts. The Sukuk was fully Shariah compliant, with a set of re-Takaful (re-insurance) transactions for one of FWU's five main subsidiaries, ATLANTICLUX Lebensversicherung. Additionally, the Sukuk was asset-backed, representing a true ring-fencing of assets. The program was named 2013 Europe Deal of the Year by Islamic Finance news.

### **Al Rayan Bank's fixed term deposit account**

In an attempt to target an alternative group of customers, Al Rayan Bank launched a 36-month fixed term deposit (FTD) account on the 19th June 2015. Using a Wakalah contract, the bank invested in asset-backed, Shariah compliant activities such as property and metals to generate a profit. The FTD is intended to provide a flexible means of investment through a competitive product attracting Muslim and non-Muslim customers.

### **Beehive peer-to-peer lender – Shariah certification**

The first peer-to-peer lending platform in the UAE, Beehive, received approval by the Shariyah Review Bureau in September 2015. Beehive illustrates the continuing innovation in Islamic finance products generating AED15 million (US\$4.08 million) in loans since November 2014. Beehive is a successful example of crowdfunding, where individual investors can invest from as little as AED100 (US\$27.23) into each business listed on the platform receiving monthly repayments in return.

Private equity portfolio company financing needs also indirectly benefited the industry in the past 12 months particularly where investors were considering mezzanine structures for growth capital purposes. Such mezzanine structures typically afford investors greater returns while exposing them to greater risks and often include convertible Wakalah and Murabahah financings.

We have also seen investments by Takaful companies in Shariah compliant capital-protected notes arranged by international banking institutions. Some of those utilized the Wa'ad (promise or a commitment to undertake an action) structure. Again, FWU has been at the forefront of a number of transactions in such areas which utilize lump sum Takaful and investment products and Shariah compliant payment undertakings from international banking counterparties which are documented through Murabahah and Musawwamah instruments.

In addition, the structuring of Shariah compliant feeder funds and vehicles that seek to invest in conventional master funds appear to be gathering pace through the utilization of highly structured vehicles and negotiation of opt-out clauses (from non-Shariah compliant activities) with the general partner of the master fund.

Finally, and due to geopolitical risks and low oil prices, we have seen a significant increase in private placement transactions aimed at channeling investments by Middle Eastern high-net-worth and institutional investors into income-yielding assets in markets like the US and Europe. These vehicles are structured Islamically and conventionally, with the UAE, or, in some instances, Bahrain-based merchant banks acting as arrangers as well as placement and structuring agents. In parallel, there are increasing signs of growth in the Islamic private placement sphere with Islamic investors seeking alternative types of investments. These include venturing into

non-Islamic markets through Sukuk backed by either commercial or residential real estate assets in the US, Europe and Asia. The majority of these instruments typically utilize Wakalah structures where the underlying asset is Shariah compliant. Ijarah structures also continue to be utilized to create Shariah compliant funding at the asset level.

### **Preview of 2016**

In order for the Islamic industry to develop further, investors and businesses alike need to show more willingness to take calculated risks – looking to horizons beyond their shores and testing new waters. Only then can the UAE market truly become the hub of Islamic finance and an innovator in its own right. The foundations have been set but growth can only be achieved by sophisticated investors and businesses that have grown in this region continuing to explore alternative avenues of income. 2016 should see an increase in venture capital funds which promote entrepreneurs and a rise of crowdfunding. Mezzanine and structured finance transactions and private placements should continue to grow with a larger focus on Sukuk backed by commercial or residential real estate assets in international jurisdictions.

### **Conclusion**

The scope for growth in the UAE is promising, however, the market is still relatively young and risk-averse – although this is slowly changing. The availability of Islamic structures to facilitate development in this area is not the hindrance – the reluctance of the market players is the real roadblock. Nonetheless, the market is slowly beginning to spread its wings and explore new opportunities both locally and internationally and this, it can be said, is the only way in which the most innovative and unique deals can be done and the opportunities in alternative investments truly explored. ☺

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