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ISLAMIC INCOME FUNDS

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What Are Islamic Income Funds?

Islamic Income Funds are investment vehicles that provide investors with a regular stream of income while adhering to the principles of Shariah (Islamic law). Unlike conventional income funds, which generate returns from interest-bearing instruments such as government bonds or Treasury bills, Islamic Income Funds derive income from real economic activities including trade, leasing, and ownership of tangible assets.

The objective is to offer a stable and predictable income profile comparable to traditional fixed-income products, but within a framework that is both religiously permissible and ethically aligned.

For example, while a conventional fund may invest in a government bond paying 4% interest, an Islamic Income Fund might hold a Sukuk backed by rental payments from infrastructure projects, power plants, or leased aircraft. Although the cash flows resemble bond coupons, they are structured around asset-backed transactions rather than interest payments.

These funds appeal not only to Muslim investors seeking Shariah-compliant investment options, but also to a broader base of investors who value the transparency, ethical standards, and asset-backed nature of Islamic financial products.

How Islamic Income Funds Work

Islamic Income Funds are structured to provide investors with predictable, recurring income streams while strictly adhering to the principles of Shariah (Islamic law). These funds achieve their objectives by pooling contributions from multiple investors and deploying capital across a range of Shariah-compliant financial instruments.

The distinctive feature of Islamic Income Funds lies in their avoidance of interest-based transactions (riba) and their reliance instead on real economic activity, asset-backed contracts, and risk-sharing arrangements. This ensures both compliance with Islamic principles and alignment with broader ethical investing standards.

The Core Mechanisms

Sukuk (Islamic Bonds)

Sukuks are the cornerstone of Islamic income strategies. Unlike conventional bonds, which represent a debt obligation, Sukuks grant investors ownership in an underlying asset or project. Returns are generated from the asset's profits or rental income rather than interest.

For instance, an airline may issue Sukuk backed by its fleet of leased aircraft. The airline pays rent to use the planes, and those payments are passed through to Sukuk holders as investment income.

Key features of Sukuks:

- Asset-backed structure tied to real projects or assets.
- Income derived from rentals or profit-sharing agreements.
- Typically issued by sovereigns, quasi-sovereign entities, and corporates across sectors such as infrastructure, energy, and transportation.

Murabaha (Cost-Plus Financing)

Murabaha transactions are widely used for short-term funding and liquidity management. In this arrangement, the fund purchases a tangible asset such as raw materials, equipment, or commodities and sells it to a counterparty at an agreed markup. The buyer pays the marked-up price on a deferred basis.

The fund's income is realized through the profit margin embedded in the transaction rather than through interest charges.

Practical applications of Murabaha include trade finance, working capital support for corporates, and portfolio cash management. Because of their short maturities and predictable returns, Murabaha placements are often used to maintain liquidity within Islamic Income Funds.

Ijara (Leasing)

Ijara contracts provide another core income stream. In this model, the fund acquires an asset and leases it to a lessee, which could be a private corporation, a government agency, or a state-owned enterprise. The lessee pays rent, and these payments flow through as income to investors.

Examples of Ijara transactions include:

- Leasing commercial properties such as office towers or logistics facilities.
- Leasing infrastructure assets such as ports, toll roads, or power plants.
- Leasing equipment such as shipping containers or aircraft.

Ijara contracts typically offer steady rental payments, making them attractive for investors seeking reliable income. They also ensure a direct link between the investment and productive economic activity.

Commodity-Based Structures (e.g., Tawarruq)

Tawarruq and similar commodity-based transactions are primarily used for liquidity management. In these arrangements, the fund purchases commodities such as metals, palm oil, or other traded goods and then sells them often through a sequence of transactions on a deferred basis.

The series of trades generates cash flow for the fund while remaining Shariah-compliant. Though more technical in structure, these instruments are particularly valuable for balancing portfolios, meeting redemption requirements, and providing flexibility in managing short-term liquidity needs.

How the Structures Work Together

A well-designed Islamic Income Fund blends these instruments to achieve diversification, income stability, and risk control. Sukuks typically form the core allocation, offering medium- to long-term income exposure. Murabaha and Tawarruq provide liquidity and short-term yield enhancement, while Ijara adds steady rental streams backed by tangible assets.

This multi-instrument approach mirrors the objectives of conventional fixed-income funds regular cash flows and capital preservation while embedding the additional safeguards of ethical screening, Shariah compliance, and potential asset-backing.

Investor Perspective

From an investor's standpoint, Islamic Income Funds offer several advantages:

- **Transparency**: Investors know that returns are tied to identifiable assets or economic activities.
- **Ethical Assurance**: Portfolios are screened to exclude prohibited sectors such as gambling, alcohol, or conventional financial services.
- **Stability**: Asset-backing often results in lower volatility compared with unsecured conventional bonds.
- **Flexibility**: Multiple structures allow managers to balance duration, liquidity, and risk according to market conditions.

In practice, this means an investor receives a steady flow of income that closely resembles the performance profile of traditional income funds, but within a structure that is both religiously permissible and ethically defensible.

Islamic Income Funds and conventional income funds serve a similar purpose: to provide investors with steady, recurring income. However, the structural foundations and governance frameworks of these two categories of funds are distinctly different, and these differences have important implications for investors.

Conventional income funds derive their returns largely from interest-bearing debt instruments, such as government or corporate bonds. These funds are typically unconstrained in terms of sector allocation, allowing them to invest across industries without ethical or religious considerations. Risk is primarily tied to the creditworthiness of issuers, while leverage and derivatives are commonly used to enhance returns or hedge exposures.

Islamic Income Funds, by contrast, are built upon the principles of Shariah compliance. This means that income must arise from real economic activity such as trade, leasing, or ownership of productive assets. Instruments such as Sukuk, Murabaha, and Ijara form the backbone of these funds. Investments are screened to exclude prohibited industries, ensuring alignment with Islamic values while also resonating with global trends toward ethical and responsible investing.

The risk profile of Islamic Income Funds is distinctive: returns are tied not only to the creditworthiness of the issuer but also to the performance of the underlying asset. This dual exposure provides transparency and asset-backing, often contributing to greater resilience in volatile markets. Furthermore, every Islamic Income Fund is subject to the oversight of a Shariah Supervisory Board (SSB), which reviews contracts, monitors compliance, and issues certification, adding an additional layer of governance beyond conventional financial regulation.

For investors, the choice between the two fund types is not simply about returns. While both aim to provide regular income, Islamic Income Funds bring unique benefits such as ethical assurance, diversification into non-traditional markets, and asset-backed stability. This makes them attractive not only to Muslim investors but also to the growing cohort of global investors seeking responsible, transparent, and ESG-aligned alternatives.

Aspect	Conventional Income Fund	Islamic Income Fund
Source of Income	Earns from interest on bonds, deposits, and loans.	Earns from asset-backed contracts such as Sukuk, Murabaha, or Ijara.
Underlying Assets	Debt instruments with no direct link to real assets.	Backed by tangible assets or trade-based transactions.
Sectoral Exposure	No restrictions; open to all industries.	Excludes prohibited sectors (alcohol, gambling, tobacco, weapons, conventional finance).
Risk Profile	Primarily credit risk of borrower.	Combination of credit risk and asset performance risk.
Leverage & Derivatives	Freely used for return enhancement and hedging.	Restricted; only permitted if Shariah-compliant and non-speculative.
Governance	Standard financial regulations and audits.	Overseen by Shariah Supervisory Board (SSB) in addition to regulators.
Investor Appeal	Income-driven, sector-agnostic investors.	Shariah-sensitive investors and those seeking ethical, ESG-aligned exposure.

Risks and Considerations in Islamic Income Funds

Islamic Income Funds have grown into a credible alternative to conventional fixed-income strategies, but investors must approach them with a clear understanding of the associated risks and structural constraints. These considerations are essential for evaluating performance, liquidity, and suitability within a broader portfolio.

Market Risk

Like conventional bonds, Sukuk prices fluctuate with global interest rate expectations. When U.S. Treasury yields rise, for example, Sukuk valuations may come under pressure as relative yields become less attractive. Longer-duration Sukuk are especially sensitive to such movements. For investors, this underscores the need for active duration management and awareness of macroeconomic drivers

Liquidity Risk

Secondary trading in Sukuk markets is considerably less developed than in global bond markets. This is particularly evident in the corporate Sukuk segment, where trading volumes are thin and bid-ask spreads wide. Limited liquidity can create challenges when managers seek to rebalance portfolios or meet large redemption requests. In stressed markets, this illiquidity may amplify volatility.

Shariah Variability

While the core principles of Islamic finance are broadly consistent, interpretations can vary across jurisdictions and among scholars. For instance, some Shariah Supervisory Boards may approve commodity-based Tawarruq structures, while others take a more conservative view. These differences can lead to variations in fund structures and may complicate cross-border marketing and comparability.

Currency Risk

Many Sukuks are denominated in U.S. dollars, Malaysian ringgit, or Gulf currencies such as the Saudi riyal or UAE dirham. Non-local investors may face foreign exchange exposure if returns are not hedged back to their base currency. Currency fluctuations can significantly influence overall portfolio returns, particularly for retail investors or institutions with strict liability-matching requirements. This is not the case for the Saudi Riyal or UAE Dirham as they are pegged to the US Dollar. This risk is less relevant for Sukuk denominated in Saudi riyals or UAE dirhams, as both currencies maintain long-standing pegs to the U.S. dollar (USD/SAR at ~3.75 and USD/AED at ~3.67). These fixed exchange rate regimes mean that fluctuations between the riyal/dirham and the U.S. dollar are negligible, effectively eliminating currency risk for investors whose base currency is USD. As a result, Sukuk issued in these currencies behave, from an FX exposure standpoint, almost identically to USD-denominated instruments. However, investors whose base currency is neither USD nor a pegged currency (e.g., EUR, JPY, SGD) would still face conversion risk when translating returns back to their home currency.

Practical Examples of Islamic Income Fund Structures

To better understand the mechanics of Islamic Income Funds, it is useful to examine typical holdings and structures. These examples demonstrate how funds generate income in compliance with Shariah principles while offering exposure to sovereign, corporate, and real-asset-backed instruments.

Sovereign Sukuk

Sovereign Sukuk are among the most widely held instruments in Islamic income portfolios. For example, the Government of Malaysia issues Sukuk backed by infrastructure projects such as highways, utilities, and public facilities. These provide stable cash flows and are considered benchmarks for the broader market. For investors, sovereign Sukuk combine credit strength with regular income distributions.

Corporate Sukuk

Corporate Sukuk offer exposure to private-sector growth stories while maintaining asset-backing. Emirates Airlines, for instance, has issued Sukuk supported by leased aircraft. The rental payments made by the airline flow through to Sukuk investors, creating a predictable income stream while linking returns directly to real, productive assets.

Ijara Fund Placements

Ijara, or lease-based structures, are frequently employed in Islamic funds. An example would be a fund purchasing commercial properties such as office towers or logistics hubs and leasing them out to tenants. The rental payments collected are passed to investors. This mirrors the function of a bond coupon while providing investors with direct exposure to tangible, income-generating assets.

Murabaha Placements

Murabaha structures are often used for liquidity management and short-term income generation. In these transactions, the fund purchases commodities or goods and sells them to a counterparty at an agreed markup, with payment deferred. Profits from this markup form the investor's return. For example, a Murabaha placement may provide working capital financing to a commodity trader, ensuring both liquidity and Shariah compliance.

Portfolio Diversification in Practice

A well-structured Islamic Income Fund typically blends these instruments to achieve balance between yield, liquidity, and risk control. Sukuks, both sovereign and corporate, form the core allocation, providing medium- to long-term income. Ijara placements contribute steady rental streams, while Murabaha contracts ensure flexibility and liquidity for managing short-term obligations.

This diversified approach enables Islamic Income Funds to deliver stable income to investors while preserving capital and maintaining strict adherence to Shariah principles.

International Landscape of Islamic Income Funds

Muslim-majority countries into a mainstream fixed-income category accessible to global investors. This growth has been driven by the steady deepening of sukuk markets, particularly in the GCC and Southeast Asia, coupled with growing investor demand for ethical and asset-backed products.

Today, the market is served by a combination of global asset managers, boutique Shariah-compliant firms, and regional Islamic banks. Their offerings range from conservative money market products to globally diversified sukuk portfolios. Understanding this international landscape is critical for investors seeking to evaluate the opportunities, risks, and positioning of Islamic income funds relative to conventional fixed-income products.

1. Major Global Islamic Income Fund Managers

The global Islamic income fund industry is led by a group of well-established financial institutions with strong distribution platforms. Alongside them are specialist firms rooted in regional markets.

Manager	Region / Domicile	Flagship Product	Key Features	Investor Base
Franklin Templeton	Luxembourg / Ireland	Franklin Global Sukuk Fund	Diversified US$ sukuk across sovereigns, quasi-sovereigns, corporates	Global: Europe, GCC, Asia
HSBC Amanah	Luxembourg	HSBC Global Sukuk Fund	Shariah-compliant fixed-income solutions; liquidity products	Sovereign wealth funds, corporates, HNWIs
Amundi Islamic	Luxembourg	Amundi Islamic Global Sukuk	Cross-border UCITS distribution; strong Middle East links	European and Middle Eastern institutions
SEDCO Capital	Saudi Arabia	SEDCO Islamic Income Fund	GCC-focused sukuk and Murabaha placements	Regional institutions and HNWIs
BNP Paribas Islamic	Luxembourg	BNP Paribas Islamic Sukuk Fund	Global sukuk strategies	Institutions and retail investors
Emirates NBD AM	UAE / Luxembourg / Jersey	Emirates Global Sukuk Fund	GCC-focused, dividend-paying	GCC family offices, institutions
Maybank AM	Malaysia	Maybank Islamic Income Fund	MYR sukuk with global diversification	Malaysian retail and institutions
Principal Islamic	Malaysia / Luxembourg	Principal Global Sukuk Fund	Global sukuk with Shariah governance	Institutions, Islamic banks, retail
Rasmala	UAE	Rasmala Global Sukuk Fund	GCC concentration, higher-yield tilt	Family offices, HNWIs

Professional Insight

Global managers such as Franklin Templeton and HSBC dominate in terms of cross-border funds domiciled in Luxembourg and Ireland. Their global sukuk products provide scale, liquidity, and credibility for institutional allocators. Regional players like Emirates NBD, Maybank, and SEDCO, on the other hand, specialize in local markets and currencies, catering to domestic investors and high-net-worth individuals. Together, these managers create a layered ecosystem serving both global and local investor needs.

2. Fund Strategies and Structures

Islamic income funds are structured to replicate the stability of conventional fixed-income strategies while meeting Shariah requirements. Most funds center around sukuk, but managers diversify using a range of instruments.

- Global Sukuk Funds invest in US$-denominated sovereign, quasi-sovereign, and corporate sukuk, offering geographic and sector diversification.
- Regional Sukuk Funds focus on high-issuance markets such as the GCC and Malaysia, providing investors with local exposure but higher concentration risk.
- Islamic Money Market Funds place capital in short-term Murabaha, commodity Murabaha, or short-dated sukuk, making them popular for liquidity and capital preservation.
- Blended Income Funds mix sukuk with ijara leases and Murabaha deposits, balancing stability with yield.
- ESG and Green Sukuk Funds represent a growing niche, appealing to investors seeking both sustainability and Shariah compliance.

This range of strategies allows Islamic income funds to serve a broad investor spectrum, from global institutions seeking diversification, to banks needing liquidity management tools, to retail investors in Asia and the GCC looking for stable income.

3. Market Size, Yields, and Investor Base

Global assets under management (AUM) for Islamic income funds are estimated in the range of US$100-120 billion. Sukuk remains the backbone of this market, supported by steady issuance pipelines in Malaysia, Saudi Arabia, the UAE, and Indonesia.

- Yields vary by product type:
- Global sukuk funds typically return 3–6%, depending on duration and credit quality.
- Regional sukuk funds may achieve 4–7%, reflecting higher yields but also concentration risk.
- Islamic money market funds generally offer 2–3%, emphasizing safety and liquidity.
- ESG sukuk funds, still a small segment, tend to yield in the 3–5% range.

The investor base is diverse:

- Institutional investors (sovereign wealth funds, pension funds, takaful insurers) dominate allocations, particularly in the GCC.
- Retail and high-net-worth investors are active in Malaysia, Indonesia, and increasingly in Europe through Luxembourg UCITS vehicles.
- Islamic banks use short-term funds for liquidity management, often through Murabaha or money market structures.

4. Domiciles and Regulatory Hubs

Fund domicile plays an important role in shaping investor confidence, governance standards, and cross-border access. Three key hubs anchor the market:

Domicile	Strengths	Typical Fund Types	Investor Base
Luxembourg & Ireland	Leading global UCITS hubs; strong regulatory frameworks; cross-border passporting within EU and beyond	Global sukuk funds, ESG-linked Islamic funds	European retail investors, GCC institutional allocators, global asset managers
Malaysia	Deepest sukuk issuance market; Securities Commission Malaysia ensures rigorous Shariah oversight; long history of Islamic finance innovation	MYR-denominated sukuk funds, blended Islamic income funds (sukuk + murabaha/MMFs)	Malaysian retail investors, regional pension funds, Islamic banks
UAE	Regional fund hub with strong DIFC/ADGM regulatory regimes; gateway for cross-border flows into MENA	Sukuk funds, Islamic money market funds, ESG-linked Islamic products	GCC HNWIs, family offices, regional institutional investors
Saudi Arabia	Largest GCC market; deep domestic investor base; strong alignment with sovereign sukuk issuance	Sukuk funds, Murabaha funds, Shariah-compliant MMFs	Saudi pension funds, Islamic banks, family offices, retail investors
Bahrain	Pioneer in Islamic finance regulation; Central Bank of Bahrain (CBB) provides Shariah governance framework	Sukuk funds, Murabaha/MMFs, Shariah-compliant commodity funds	Regional Islamic institutions, local investors, cross-border GCC allocations

Professional Insight

Luxembourg and Ireland dominate as cross-border fund domiciles, offering UCITS-compliant structures attractive to international investors. Malaysia remains the global leader in sukuk issuance and has developed a sophisticated domestic fund ecosystem. Meanwhile, the GCC is positioning itself as a powerful regional hub, with Dubai and Bahrain leading efforts to attract fund domiciliation alongside their sovereign issuance programs.

Performance vs. Conventional Bond Funds

Islamic income funds, primarily sukuk-focused strategies, provide an investment profile broadly comparable to that of conventional emerging market fixed-income funds. However, their unique structural features such as asset-backing, Shariah governance, and limited issuer pools, create distinctions in both return behavior and risk characteristics.

5. Risk-Return Profile

Historically, sukuk funds have demonstrated a **risk-return profile aligned with investment-grade emerging market bonds**, while offering certain defensive benefits. Because sukuk are structured around tangible assets such as infrastructure, aircraft, or real estate, default rates have been comparatively lower than in conventional high-yield credit markets. This asset-backed nature creates a cushion that reduces credit risk and enhances recovery values in the event of stress.

In U.S. dollar terms, performance has generally tracked that of conventional corporate bond indices. For long-term investors, average annualized returns for global sukuk funds fall within the **3–6% range**, broadly consistent with emerging market sovereign and quasi-sovereign benchmarks. Importantly, volatility levels tend to be **slightly lower**, reflecting the relatively stable credit quality of issuers, often sovereign or government-related entities in the GCC and Southeast Asia.

6. Downside Protection

During periods of market dislocation, Islamic income funds have tended to offer **smaller drawdowns** than high-yield corporate bond funds. A key example was the **COVID-19 crisis in 2020**, when sukuk markets demonstrated resilience relative to global high-yield indices. Many sukuk issuers, particularly sovereigns and large quasi-sovereigns in Saudi Arabia, the UAE, and Malaysia, maintained access to liquidity and investor support, limiting default risk.

This defensive quality positions sukuk funds as a credible option for investors seeking **steady income with some downside protection**, especially compared to unsecured high-yield credit markets.

Overall Assessment

From a performance perspective, Islamic income funds present a **compelling alternative to conventional bond funds** for investors seeking ethical and asset-backed income streams. They deliver:

- Returns comparable to investment-grade emerging market bonds.
- Lower volatility due to asset-backing and sovereign-linked issuers.
- Better downside protection in periods of global market stress.

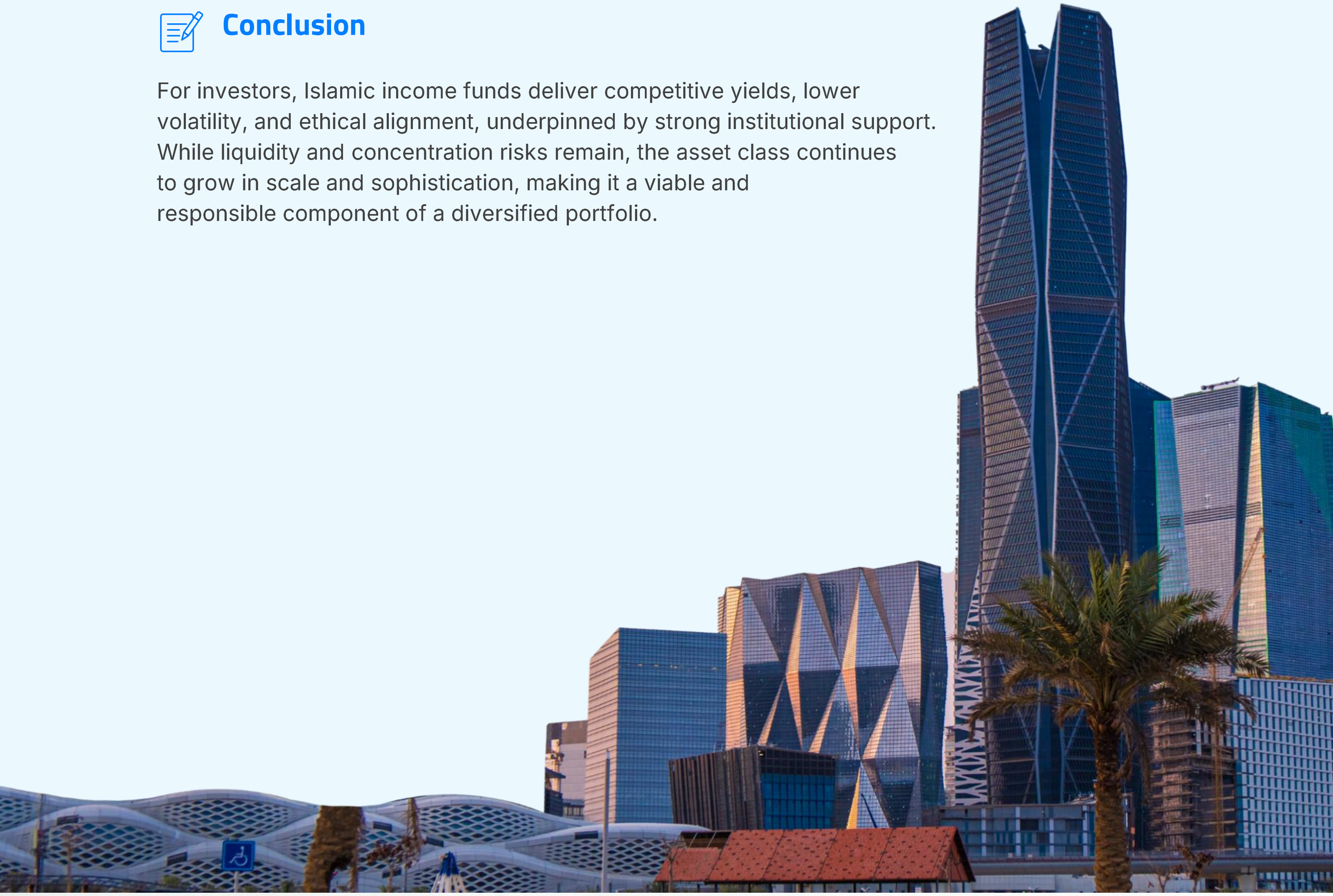
However, investors must balance these advantages against liquidity constraints, narrower issuer pools, and benchmarking limitations. For long-term allocators, the trade-off is often acceptable, as the asset class provides not only stable income but also alignment with **Shariah and ESG principles.**

- Islamic income funds have established themselves as a credible alternative to conventional fixed-income strategies, offering investors a blend of ethical assurance, competitive returns, and growing institutional depth. The following themes are central for allocators evaluating this asset class:
- **Diversification**
  Islamic income funds provide exposure to GCC and Southeast Asian sukuk markets, adding geographical and sectoral diversification beyond developed-market bonds. While the issuer base remains relatively concentrated, these funds give investors access to sovereigns, quasi-sovereigns, and corporates in fast-growing emerging economies. Liquidity, however, is less developed than in conventional bond markets.
- **Competitive Yields**
  Performance has been broadly comparable to global fixed-income funds, with sukuk strategies delivering yields in the 3–6% range. Importantly, volatility has tended to be lower due to asset-backed structures and the sovereign-related nature of many issuers, offering a stable income profile with modest downside protection.

- **Shariah and ESG Alignment**
  By excluding sectors such as alcohol, gambling, tobacco, and conventional banking, Islamic income funds meet many ESG screening standards. Their requirement for real, asset-backed economic activity enhances their appeal to both Shariah-sensitive investors and those seeking responsible investment solutions.
- **Domicile Considerations**
  The choice of domicile has direct implications for distribution, tax efficiency, and regulatory oversight. Luxembourg and Ireland dominate cross-border UCITS distribution, while **Malaysia** and the **GCC** provide deep local sukuk ecosystems and onshore investor access. Investors should align domicile choice with their distribution objectives and risk preferences.
- **Institutional Participation**
  Sovereign wealth funds, takaful insurers, pension funds, and Islamic banks are key participants, providing a stable anchor of demand. Their long-term allocations support market depth and reduce volatility, reinforcing sukuk's credibility as a mainstream asset class.

Conclusion

For investors, Islamic income funds deliver competitive yields, lower volatility, and ethical alignment, underpinned by strong institutional support. While liquidity and concentration risks remain, the asset class continues to grow in scale and sophistication, making it a viable and responsible component of a diversified portfolio.



Comparative Table: Selected Global Islamic Income Funds

Fund / Manager	Domicile	Strategy	Approx. AUM (US$)	Recent Yield Range	Key Benchmark Comparison
Franklin Global Sukuk Fund (Franklin Templeton)	Luxembourg / Ireland	Diversified global sukuk (US$-denominated)	$1.5 - 2.0 bn	3.5 – 5.0%	JPMorgan EMBI Global Diversified Index (similar volatility, slightly lower correlation)
HSBC Global Sukuk Fund (HSBC Amanah)	Luxembourg	Global sukuk, sovereign + quasi-sovereign	$500 - 800 mn	3.0 – 4.5%	Comparable to global EM bond funds; lower drawdown in stress periods
Amundi Islamic Global Sukuk Fund	Luxembourg	Global sukuk, diversified by region and sector	$700 - 900 mn	3.5 – 4.5%	Tracks close to global sukuk indices; lower volatility than EM bonds
SEDCO Capital Islamic Income Fund	Saudi Arabia	Sukuk + Murabaha placements, US$ focus	$400 – 600 mn	4.0 – 5.5%	Regional GCC bonds, but with Shariah compliance filter
BNP Paribas Islamic Sukuk Fund	Luxembourg	Global sukuk, GCC-heavy allocation	$300 – 500 mn	3.5 – 4.5%	Broadly aligned with sukuk indices; limited diversification
Emirates Islamic Money Market Fund (ENBD AM)	UAE	Short-term Murabaha & commodity placements	$200 – 400 mn	2.0 – 3.0%	Alternative to Islamic bank deposits; highly liquid
Maybank Islamic Income Fund	Malaysia	MYR sukuk + global exposure	$150 – 300 mn	4.0 – 6.0%	Slightly higher yields vs. conventional MYR bond funds
Principal Islamic Global Sukuk Fund	Malaysia / Luxembourg	Global sukuk, sovereign and corporate	$200 – 350 mn	3.5 – 4.5%	Similar to EM bond ETFs, but Shariah-compliant
Rasmala Global Sukuk Fund	UAE	GCC-focused sukuk	$100 – 200 mn	4.0 – 6.0%	Outperforms peers in GCC-focused benchmarks; higher concentration risk
Amana Participation Fund (Saturna Capital, US)	US (Islamic mutual fund)	Sukuk + Islamic notes, US$ exposure	$200 – 250 mn	3.0 – 4.5%	Benchmarked vs. US aggregate bond index; lower volatility

Investor Insights from the Table

- **AUM Leaders**
  Franklin Templeton and HSBC dominate, offering liquidity and institutional comfort.
- **Yield Tiers**
  Money market funds (2–3%) are best for liquidity, while regional sukuk funds (4–6%) offer higher income but more concentration risk.
- **Diversification**
  Luxembourg and Ireland funds allow cross-border access; GCC and Malaysia funds provide local exposure with stronger pipelines of sukuk issuance.
- **Risk Profile**
  Sukuk funds generally exhibit lower volatility and drawdowns compared to high-yield EM bond funds, though diversification is limited compared to global corporate bond funds.

C. GCC Landscape: Islamic Income Funds

1. Key Managers By Market (Licensed Locally)

Saudi Arabia (CMA-licensed)

- **Jadwa Investment**
  Broad Shariah platform; local fixed-income exposure via sukuk/money-market mandates.
- **Al Rajhi Capital**
- Flagship Al-Rajhi Sukuk Fund; regular disclosures appear on the Saudi Exchange mutual fund pages, reflecting CMA oversight, (Saudi Exchange+1).
- **NCB Capital (SNB Capital)**
  Range of sukuk/liquidity funds for institutions/retail.
- **Alinma Investment**
  Sukuk and murabaha income strategies.
- **Riyad Capital**
  Sukuk and money-market funds (daily NAVs published), (Riyad Capital).

What it means for investors: deep local sukuk pipeline (sovereign/quasi-sovereign/corporate), CMA governance, frequent reporting via Saudi Exchange fund pages, (Saudi Exchange).

United Arab Emirates (DFSA, ADGM FSRA, SCA)

- **SHUAA Capital**
  SHUAA Global Sukuk Fund (factsheets show global US$ sukuk focus; SHUAA is SCA-regulated and also uses ADGM fund umbrellas), (shuaa.com+2ADGM+2).
- **Emirates NBD Asset Management**
  Emirates Global Sukuk Fund (Lux/Jersey platforms; consistent 4–5% dividend policy per fund page), (Emirates NBD)
- **NBD Asset Management**
  ADCB Global Sukuk Fund appears on the UAE SCA local-funds register (public), (sca.gov.ae).
- **Waha Capital**
  Regional fixed-income capabilities with GCC exposure.

What it means for investors: managers often combine UAE onshore licenses (SCA) with free-zone structures: DFSA (DIFC) and ADGM FSRA public registers let you verify fund/firm status and fund type (Public/Qualified Investor/Exempt), (DFSA+2ADGM+2).

Bahrain (CBB)

- **Al Baraka, Ithmaar, Gulf International Bank (GIB)**
  Sponsor/advise sukuk, murabaha, and liquidity funds under CBB Volume 7 – Collective Investment Undertakings (CIU). Public rulebook and CIU module outline authorization and reporting, (cbben.thomsonreuters.com+2cbb.gov.bh+2).

What it means for investors: Bahrain has long-standing Islamic fund rules (CIU), often used for regional income/money-market strategies under CBB supervision, (cbben.thomsonreuters.com).

Kuwait & Qatar

- **Kuwait**
  KFH Capital runs sukuk and Islamic money-market funds (recent factsheets available; CBK instructions govern investment companies and Islamic banks' investments), (kfhcapital.com.kw+2kfhcapital.com.kw+2).
- **Qatar**
  QInvest (e.g., QInvest Sukuk Sharia'a / EFH Global Sukuk Plus) targets returns over US$ 3-m LIBOR + spread; the QFMA and QFC Regulatory Authority provide the rulebooks for funds established/listed in Qatar/QFC. QNB also offers a Global Sukuk Fund (2025 factsheet), (QNB+5QInvest+5QInvest+5).

What it means for investors: Kuwait's CBK and Qatar's QFMA/QFCRA regimes support sukuk and MMF products primarily aimed at domestic institutions/HNWIs, with growing cross-border options via UCITS or regional passport, (Qatar Financial Markets Authority+1).

2. Typical Fund Types In The GCC

1) Sukuk Funds (Core Income)

- **Focus**: Sovereign, Quasi-sovereign, Corporate sukuk (US$-denominated dominant).
- **Examples**: Al Rajhi Sukuk (KSA), Emirates Global Sukuk (UAE), KFH Sukuk funds (Kuwait), QInvest/QNB global sukuk (Qatar), (QNB+4Saudi Exchange+4Emirates NBD+4).

2) Murabaha / Money Market Funds (Liquidity)

- **Focus**: Short-dated murabaha/tawarruq and very short-term sukuk.
- **Examples**: KFH Capital Money Market Funds; ADCB Money Market feeder; SHUAA money-market products, (kfhcapital.com.kw+2sca.gov.ae+2).

3) Diversified Islamic Income Funds

- Blend sukuk + short-term Islamic placements; active duration/credit/liquidity management.
- **Examples**: SHUAA Global Sukuk (uses global US$ sukuk with active tilts); SEDCO-style diversified mandates (regional), (shuaa.com).

3. Licensing Authorities And What Each Register Tells You

Country/Center	Licensing / Rulebook	Purpose of Licensing
Saudi Arabia	**CMA**; manager/fund disclosures via **Saudi Exchange** fund pages	Confirm fund authorization, notices, periodic statements (e.g., Al-Rajhi Sukuk quarterly), Saudi Exchange
UAE – DIFC	**DFSA** Public Register	Verify fund class (Public/Qualified/Exempt), manager status, approved documents, DFSA+1
UAE – ADGM	**FSRA** Public Register; Islamic Finance Rulebook (IFR)	Check fund umbrella/ICCs, and IFR 6.2 requirements for Shariah Supervisory Boards, ADGM+2ADGM+2
UAE – Onshore	**SCA** local funds & passporting lists	Confirm local public funds (e.g., ADCB Global Sukuk) and ADGM/DIFC passported funds (e.g., SHUAA), sca.gov.ae+1
Bahrain	**CBB** CIU Module / register	Rules for authorisation, reporting, and governance of Islamic CIUs, cbb.gov.bh+1
Kuwait	**CBK** instructions + Boursa Kuwait listing rules	Framework for investment companies/Islamic banks and listing/approval touches, Central Bank of Kuwait+1
Qatar	**QFMA** Rulebook; **QFC RA** funds rules	Rules for public/private fund listings and QFC-established funds (Part 17: Investment Funds), Qatar Financial Markets Authority+1

4. Shariah Governance: How Boards Are Structured & What To Look For

- **Board Requirement & Role**
  GCC fund regimes expect an independent Shariah Supervisory Board (SSB) to review/approve the fund's documents, monitor ongoing compliance, and issue an annual Shariah report. In ADGM's IFR, IFR 6.2 explicitly frames SSB arrangements for Islamic funds. Bahrain's CIU rules and the UAE frameworks (DFSA/SCA) similarly embed Islamic fund governance (via rulebooks and authorization conditions), Abu Dhabi Global Market+1.

- **Composition**
  Reputable funds disclose scholar names, independence, meeting cadence, and fatwa references in factsheets/prospectuses (see SHUAA Global Sukuk fund docs), shuaa.com.

- **Operational Oversight**
  Expect screens (business/activity/financial), contract-level reviews (sukuk, murabaha, ijara), purification policies, and audit trails. Public registers (DFSA/ADGM/SCA/CBB) let you verify the regulatory side, while factsheets cover Shariah side, DFSA+2ADGM+2.

5. How GCC Funds Are Actually Positioned (Income, Yields, Investor Base)

Income/ Yields

GCC global sukuk funds generally target US$ income (often distributing quarterly/semi-annually). Manager pages (e.g., Emirates Global Sukuk Fund) cite sustained dividend ranges (4–5% historically), while KFH MMFs publish weekly annualized returns; always confirm latest factsheets. (Emirates NBD+1).

Investor Base

Islamic banks/takafuls use murabaha/MMF funds for liquidity; HNWIs and family offices use sukuk funds for US$ income; regional treasuries and endowments often blend both. UAE SCA's public lists and ADGM passporting entries illustrate active cross-border distribution (e.g., SHUAA and ADCB funds), sca.gov.ae+1.

6. Quick Comparison Snapshot

Manager / Fund	Domicile (license)	Type	Notes for investors
Al Rajhi Sukuk Fund	KSA (CMA)	Sukuk (US$/local)	Regular disclosures via Saudi Exchange; large local client base, Saudi Exchange
Emirates Global Sukuk	UAE (SCA) / Lux/Jersey platforms	Global US$ sukuk	Fund page cites 4–5% dividend policy and long-term outperformance versus benchmark (check latest), Emirates NBD
SHUAA Global Sukuk OEIC IC	ADGM umbrella; SCA-regulated group	Global US$ sukuk	Uses ADGM ICC structure; appears on SCA passporting lists, ADGM+1
ADCB Global Sukuk Fund	UAE (SCA)	Global sukuk	Listed as a **Public** local fund on SCA open-data portal, sca.gov.ae
KFH Capital MMF	Kuwait (CBK)	Murabaha/MMF	Weekly annualized return and NAV disclosed on factsheets (KWD/US$ classes), kfhcapital.com.kw
QInvest Sukuk Sharia'a	Qatar (QFMA/QFC structures)	Sukuk	Target return historically framed as 3M US$ Libor + spread; check current benchmark language post-LIBOR, QInvest

D. Market Size & Trends

Islamic income funds have transitioned from being a niche segment within the Islamic finance industry to a significant component of the global asset management universe. Supported by strong sukuk issuance pipelines, growing demand from institutional and retail investors, and the alignment with ESG principles, the market for Islamic income strategies now commands well over **US$ 100 billion in assets under management (AUM)**. This section examines the current market size, investor demand drivers, and structural growth trends shaping the future trajectory of the industry.

1. Estimated AUM: Global and GCC

Global Perspective

The Islamic funds industry as a whole reached an estimated US$ 193.6 billion in AUM in 2024, marking a 9.2% year-on-year increase**.** The asset-class composition reflects the diversity of Shariah-compliant investment strategies:

- **Equities:** 37.5%
- **Commodities:** 22.8%
- **Money Market:** 21.1%
- **Fixed Income (Sukuk funds):** 10.3%
- **Other (mixed, real estate, alternatives):** Balance

By grouping fixed income, money market, and commodities together, given their role in generating regular, predictable cash flows, the size of the **global Islamic income funds segment** is implied at **US$100 – 110 billion in 2024**, representing approximately **54.3% of total Islamic fund assets.**

Domicile Distribution

The global market is not evenly distributed, but rather concentrated in three principal domiciles:

- **Europe (Luxembourg and Ireland): 34.7%**
  These UCITS-compliant jurisdictions serve as gateways for cross-border distribution, particularly to institutional investors in the Middle East, Asia, and Europe.

- **East Asia and Pacific (Malaysia, Indonesia): 29.0%**
  Malaysia remains the world's largest sukuk market, and its domestic funds industry has grown around this issuance depth.

- **GCC (Saudi Arabia, UAE, Bahrain, Qatar, Kuwait): 20.2%**
  This represents a **sharp increase from 11.3% in 2023**, highlighting the rapid localization of funds as regulators strengthen their domestic markets and investors increasingly prefer onshore vehicles.

GCC Perspective

The GCC's total Islamic fund AUM stood at approximately **US$ 39 billion in 2024**, across all strategies. Applying the global asset-class mix as a proxy suggests that **US$ 20- 22 billion** of this amount is held in Islamic income funds. While this estimate is directional, it aligns with evidence from regional fund registers and factsheets that show significant sukuk and murabaha allocations within GCC portfolios.

Takeaway: Islamic income funds are now a **US$ 100+ billion global segment**, with Luxembourg/Ireland and Malaysia remaining dominant domiciles, while the GCC emerges as the fastest-growing hub, reflecting deeper onshore sukuk pipelines and supportive regulatory reforms.

2. Investor Demand Drivers

The growth of Islamic income funds is not merely a product of issuance pipelines; it is anchored in **structural demand** from multiple investor groups.

Institutional Investors (Pension Funds, Sovereign Wealth Funds, Insurers/Takaful)

For large institutions, sukuk and ijara-based funds provide **balance-sheet friendly exposure** to predictable, asset-backed US$ cash flows. These characteristics are particularly well-suited to **asset-liability management (ALM)** frameworks.

- **Sovereign Wealth Funds (SWFs):** Allocate capital into sukuk funds as part of broader fixed-income diversification strategies.
- **Pensions and Takaful Insurers:** Benefit from the long-dated, stable nature of sukuk, which align with liability profiles.
- **Policy Support:** GCC governments and quasi-sovereigns are regular issuers, creating a reliable supply pipeline. Malaysia continues to anchor issuance in Asia.

The **Islamic Financial Services Board (IFSB)** noted double-digit growth across Islamic financial services in 2024, with the GCC accounting for **53.1% of global IFSI assets**, underlining the strength of institutional participation.

Bank Treasuries and Islamic Banks

Islamic banks and bank treasuries represent a distinct source of demand, primarily for **short-term liquidity management**.

- **Money Market and Murabaha Funds:** Enable Islamic banks to park liquidity in Shariah-compliant instruments.
- **Commodity Murabaha:** Widely used as a deposit placement and liquidity management tool, given its standardization and acceptance across jurisdictions.

This segment ensures continuous demand for short-dated sukuk and murabaha structures, supporting both fund size and stability.

Retail and High-Net-Worth Investors

Retail and private wealth demand is driven by two primary factors:

- **Shariah compliance** for faith-sensitive investors.
- **Income orientation**, particularly in the GCC and Malaysia, where sukuk funds are marketed as alternatives to conventional income funds.

Cross-border access is increasingly available through **Luxembourg- and Ireland-domiciled UCITS funds**, giving global Muslim and non-Muslim investors entry points into sukuk markets.

ESG and Thematic Allocators

A significant tailwind for Islamic income funds is their **natural alignment with ESG investing**.

- **Exclusionary Screens:** Islamic funds avoid sectors such as alcohol, gambling, and tobacco, overlapping with ESG standards.

- **Green Sukuk:** Growing issuance has created a new avenue for sustainable fixed-income investing. S&P Global estimates sustainable sukuk issuance will reach **US$ 10–12 billion in 2025**.

This alignment opens Islamic funds to a broader investor base, including **thematic and ESG-driven allocators** who are not necessarily faith-based but value ethical, asset-backed structures.

3. Growth Trends to Watch

Several structural and cyclical trends will shape the evolution of Islamic income funds

a) Rising Sukuk Issuance (Depth and Breadth)

The sukuk market has entered a phase of **consistent expansion**.

- **2024 Performance:** Issuance rose **25.6% year-on-year**, reaching approximately **US$ 230 billion**, with total outstanding sukuk surpassing **US$ 900 billion**.

- **2025 Outlook:** S&P Global projects issuance of **US$ 190–200 billion**, including US$ 70–80 billion of foreign currency sukuk.

- **Market Leaders:** Malaysia, Saudi Arabia, Indonesia, and the UAE continue to dominate issuance volumes.

This deepens the **investable universe for funds**, broadening duration, sectoral, and currency exposures.

b) Liquidity Management Demand

Money market and murabaha strategies remain central to Islamic banks and corporates. In 2024, these funds represented approximately **21% of total Islamic fund AUM**, underscoring their role as the "cash management backbone" of the industry.

c) Onshore Build-Out in the GCC

The share of Islamic funds domiciled in the GCC rose from 11.3% in 2023 to **20.2% in 2024**. This reflects a growing investor preference for **onshore fund vehicles**, licensed by regulators such as:

- **Saudi CMA**
- **UAE SCA, DFSA, and ADGM FSRA**
- **Bahrain CBB**
- **Qatar QFMA/QFCRA**

This trend is expected to continue, as sovereigns and regional banks anchor new sukuk issuance, and investors seek local products with transparent reporting.

d) Institutionalization and Scale

Despite steady growth, the industry remains **highly fragmented**. Many funds are **below US$ 25 million in AUM**, limiting efficiency and secondary liquidity. Consolidation is anticipated, with larger managers developing **flagship sukuk and money-market strategies** that benefit from economies of scale, tighter spreads, and enhanced investor confidence.

Conclusion

Islamic income funds now form a **core US$ 100+ billion segment** of the global Islamic finance ecosystem. Their strength lies in:

- **Institutional depth**: supported by sovereign issuance and strong participation from SWFs, insurers, and banks.
- **Structural resilience**: anchored in asset-backed sukuk and consistent demand for liquidity instruments.
- **Ethical alignment**: benefiting from overlap with ESG investing and the expansion of green sukuk markets.

The **key risks** remain market concentration, limited secondary liquidity, and fragmented fund sizes. However, as issuance grows, onshore markets expand, and institutional frameworks deepen, Islamic income funds are positioned for **sustained growth and increased global relevance**.

Bottom Line: With a rising GCC footprint, expanding sukuk inventory, and growing ESG adoption, Islamic income funds are set to become a **mainstream asset class** within global fixed income, offering investors stable income streams that are both ethical and asset-backed.

4. GCC vs. Malaysia vs. Global hubs

Hub	What it leads in	What it means for income funds
GCC	Largest share of **overall IFSI assets (53.1%)**; heavy sovereign/quasi-sovereign pipeline; increasing **fund domiciles (20.2% of fund AUM)**.	Growing onshore vehicles (CMA/DFSA/ADGM/SCA/CBB), strong US$ sukuk supply, rising retail/HNW channels. IFSB+1
Malaysia (EAP bloc)	Deepest **sukuk ecosystem** and long track record; **EAP funds domicile share 29%**.	Breadth across **MYR sukuk** plus global; robust distribution and competitive expense structures. IFSB
Luxembourg/Ireland (ECA)	**Largest domicile share (34.7%)** for Islamic funds; cross-border UCITS wrappers.	Scale for global distribution; easy access for institutions/IFAs; multi-manager platforms for **global sukuk** strategies. IFSB

5. Outlook (what investors should plan for)

- **AUM tailwinds:** IFDI 2024 projects the **Islamic finance industry** to **~US$ 7.5tn by 2028** (from **US$ 4.9tn in 2023**); while this covers all sectors, expanding **sukuk outstanding** is the key feedstock for income funds. LSEG+1
- **Issuance pipeline:** S&P expects **continued strength in 2025**; new corporate/sovereign names (e.g., GCC SOEs) broaden sector mix and duration ladder. S&P Global
- **Product mix:** Expect **more short-duration and liquidity funds** (to serve treasury needs) and **ESG/green sukuk sleeves** inside global strategies. S&P Global
- **Main risk to watch: Fragmentation and smaller average fund size** (per IFSB) can magnify redemption/liquidity risk in stress; manager selection, dealing terms (swing pricing/gates), and on-the-run sukuk exposure matter. IFSB

Comparative Performance Table

Fund / Index	Currency / Share Class	Recent Returns*	Yield / Distribution	Risk / Volatility & Other Metrics	Notes / Benchmark Comparators
Franklin Global Sukuk Fund A (acc) US$	UCITS, accumulating US$ class	• 1-Yr: **+4.20%** • 3-Yr annualised: **≈ +1.27%** • 5-Yr annualised: **≈ +1.27%** (5-Yr shown as "Average Annual" ~1.27%) Franklin Templeton	Yield to maturity / distribution yield: for distributing class (~Endowus Qdis US$) = **≈ 5.99%**; this accumulation class does not distribute. Endowus+1	5-Yr volatility (~std dev): ~ **4.65%**; Max drawdown in recent 5-Yr: **–9.08%** Endowus	Benchmark: Dow Jones Sukuk Index (US$ IG), peer group average. Fund tends to trail the benchmark slightly over most periods but with lower volatility. Franklin Templeton+2Franklin Templeton+2
Emirates Global Sukuk Fund I (US$ share class, bid-to-bid, net income reinvested)	US$ / Inc. share class	• Year-to-Date (as of ~Aug 2025): **+4.90%** • 2023: **+5.45%** • 2022: **–7.69%** • 2021: **–0.75%** Emirates NBD	Sustained dividend payments of **4–5% annually**; since inception annual return approx **6%** (per manager disclosures) Emirates NBD	Duration (from earlier factsheet data): ~ **4.23 years**; Average credit rating around **BBB-** (older sheet) adib.com	Outperformed its local benchmarks per manager; strong income focus; holds global sukuk + MENA bonds + emerging market corporate exposure. Emirates NBD

SP Funds Dow Jones Global Sukuk ETF (Ticker: SPSK)	US$ ETF tracking Dow Jones Sukuk TR ex-Reinvestment	• 1-Yr Return: **+4.02%** • 3-Yr annualised: ≈ **+3.78%** • 5-Yr annualised: ≈ **+0.79%** Bloomberg.com+2Yahoo Finance+2	Dividend yield ~ **3.24% forward** (past 12-mo payouts) DivvyDiary	Risk metrics: historical volatility tends slightly higher in down years; liquidity and tracking errors possible in less liquid sukuk components.	Useful benchmark for a passive sukuk exposure; good comparison for fund vs ETF returns.
Dow Jones Sukuk Investment Grade Index	US$ IG Index	• 3-Yr annualised: ~ **+4.47%** • 5-Yr: **~ +4.05%** • 10-Yr: **~ +3.96%** S&P Global	(As index, yields reflect underlying IG sukuk yields; specific yield data varies by provider but often in the **4-6%** range for IG sovereigns and high-quality corporate issuers)	Volatility moderate; tends to outperform many sukuk funds in up-years but also fall similarly in down years; good comparison for fund managers' alpha/manager skill.	Standard benchmark for many sukuk funds; good for assessing whether active funds are adding value versus IG sukuk universe.
Franklin Global Sukuk Fund Distributing Class (Qdis US$, Endowus listing)	US$ / Distributing class	• 1-Yr: **+2.21%** • 3-Yr annualised: **+0.99%** • 5-Yr annualised: **+0.07%** • 10-Yr annualised: **+14.09%** cumulative since inception (~12+ years) Endowus	Distribution / yield ≈ **5.99%** (1-yr payout) Endowus	Volatility 5-Yr: ~ **4.65%**; Max drawdown ≈ –9.08% Endowus	Good "income vs capital" trade-off; distributing class tends to underperform accumulation class in strong price-appreciation years (since distributing payouts reduce NAV) but pays out regularly.

Opportunities & Challenges for Islamic Income Funds

Opportunities

1. Expanding GCC Sovereign Sukuk Issuance Pipeline

- **Strong supply outlook:** GCC governments are regular issuers of sukuk to fund fiscal programs, infrastructure, and diversification plans (e.g., Vision 2030 in Saudi Arabia, UAE infrastructure build-outs).
- **US$-denominated sovereign sukuk:** Particularly attractive to global investors who want hard-currency exposure but still need Shariah compliance.
- **Pipeline depth:** S&P and IFSB both note sustained annual issuance in the range of **US$ 190–200bn** globally, with the GCC contributing a growing share. This ensures funds have fresh inventory and liquid benchmarks.

2. Diversification for Islamic and Ethical Investors

- **Portfolio complement:** Sukuk offer risk/return profiles comparable to investment-grade emerging market bonds but with different sector/country mixes (GCC, Malaysia, Indonesia).
- **Low correlation:** Sukuk markets tend to be less correlated with developed-market Treasuries and corporate bonds, giving portfolio diversification benefits.
- **Ethical / ESG alignment:** Sukuk's asset-backed nature and exclusion of non-permissible sectors overlap with ESG themes, broadening their appeal beyond faith-based investors.

3. Increasing Sovereign Wealth Fund (SWF) Allocations

- **Mandated Shariah compliance:** Many GCC SWFs (e.g., PIF, ADIA's Shariah sleeves) are channeling more capital into Islamic income strategies.
- **Institutionalisation effect:** Large allocations help anchor sukuk liquidity, set benchmarks for new issuance, and reduce volatility by creating a stable investor base.
- **Positive signalling:** SWF allocations raise confidence among global institutions, attracting more cross-border investors into Shariah-compliant fixed income.

Challenges

1. Liquidity and Secondary Market Depth

- **Thin trading:** While issuance is growing, sukuk secondary market activity is still limited compared to conventional bonds.
- **Price discovery issues:** Wider bid-ask spreads and lower trading volumes can hurt fund performance during stress periods.
- **Implication for funds:** Active managers may face difficulties rebalancing portfolios, and redemption pressures can amplify volatility.

2. Regulatory Differences Across Jurisdictions

- **Fragmentation:** Each market, Saudi CMA, UAE DFSA/ADGM/SCA, Bahrain CBB, Malaysia SC, has its own fund rules, disclosure requirements, and tax regimes.

- **Investor uncertainty:** Cross-border funds must navigate different licensing, marketing, and reporting frameworks, raising costs and complexity.
- **Global domiciles vs local hubs:** Luxembourg/Ireland UCITS remain dominant for global investors, but onshore GCC funds are gaining traction, leading to overlapping rules.

3. Standardization of Shariah Interpretations

- **AAOIFI standards vs local Sha riah boards:**
  - AAOIFI provides global benchmarks for sukuk and Islamic funds.
  - Local Shariah Supervisory Boards may interpret permissibility differently (e.g., on structures like tawarruq or hybrid sukuk).
- **Investor impact:** This lack of uniformity can create uncertainty for cross-border allocations and limit fund passporting.
- **Efforts under way:** IFSB, IMF, and industry bodies are encouraging convergence, but full standardisation remains a long-term challenge.

Case Study 1: Franklin Templeton Global Sukuk Fund (Luxembourg)

Feature	Details
Fund & Domicile	Franklin Global Sukuk Fund, a sub-fund of *Franklin Templeton Shariah Funds*, domiciled in **Luxembourg**, FT Markets+3adib.com+3Bibd+3
Structure & Strategy	Open-ended UCITS-style fund. It invests globally in Shariah-compliant sukuk: sovereign, quasi-sovereign, corporate. The objective is to maximize total investment return via a combination of profit income and capital appreciation. Currency and duration exposure are managed. There is an accumulating share class (A (acc) US$) and distributing classes, FT Markets+3adib.com+3Bibd+3
AUM / Size	As of February 2023, the *Jadwa Global Sukuk Fund* (GCC fund) was ~US$ 68.75 mn, but for Franklin Templeton, the AUM is higher (though a precise up-to-date public figure was not found in the sources I checked). However, for one share class (A (acc) US$) the fund is large enough that performance is widely reported and benchmarked, Bibd+2adib.com+2
Recent Performance	• For the A (acc) US$ class: **+4.20%** over the 1-year period to ~Aug-Sep 2025; **+6.02%** over one earlier year; −0.12% 1-year in another, depending on the period, adib.com+3Franklin Templeton+3Franklin Templeton+3 • The fact sheets show returns are net of management fees and include reinvested dividends where applicable, adib.com+1
Risk / Duration / Yield	• Weighted average duration is in the ~4-5 year range in similar global sukuk funds; for Jadwa Global Sukuk (for comparison) it's ~3.87 years. Franklin's fund's performance volatility is moderate (5-yr stdev in mid-single digits in earlier fact sheets).

	• Tracking error and information ratio are reported in older fact sheets (for example, a 5-yr tracking error, info ratio in a 2020 fact sheet), showing how the fund compares to its benchmark, adib.com+1
Shariah Compliance Model	• Uses a Shariah Supervisory Board (as part of Franklin Templeton's Shariah Funds umbrella) to approve sukuk issuances/instruments. • Only invests in instruments approved by the board; screens out prohibited sectors. • Documentation (prospectus, risk disclosures) includes Shariah risk, sukuk risk etc., adib.com+2Franklin Templeton+2
Investor Base	Institutional investors, wealth management clients, and retail investors (through platforms/UK/EU/Asia) seeking Shariah-compliant fixed income exposure. Given the Luxembourg UCITS domicile, it's accessible cross-border. Also used by investors seeking income in US$ or in their base currency, depending on share class.

Case Study 2: Jadwa Global Sukuk Fund & Al Rajhi Murabaha Fund (Saudi Arabia)

2A. Jadwa Global Sukuk Fund

Feature	Details
Fund & Domicile	Managed by **Jadwa Investment**, Saudi Arabia. Licensed by Saudi CMA. Base currency US$, jadwa.com+2jadwa.com+2
Structure & Strategy	Diversified global sukuk fund. It invests in sovereign, quasi-sovereign, corporate, and convertible sukuk. Excess cash (if any) is invested in short-term murabaha deposits. It is not using leverage except possibly short-term to meet redemptions, jadwa.com+1
AUM / Size	As of **February 2023**, net asset value was **US$ 68.75 million,** jadwa.com
Performance	• From its February 2023 fact sheet: yields lie in mid-single digits for many strategies; the average yield to maturity and current yield data for this fund were **3.43% (current yield)** and **2.54% (yield to maturity)**, with average duration ~3.87 years and average maturity ~4.45 years, jadwa.com
Shariah Compliance Model	• Operates under Saudi CMA regulations. Shariah board approves sukuk, screens. Benchmarks vs **Jadwa IdealRatings Global Sukuk Index (TR)**. Open-ended with multiple unit classes, jadwa.com
Investor Base	• Likely regional / GCC institutional and HNWIs, as well as international investors able to access through cross-border channels. Because it's US$-denominated, it appeals to those wanting exposure outside just SAR-denominated issues.

2B. Jadwa Global Sukuk Fund

Feature	Details
Fund & Domicile	Saudi Arabia, Jadwa Investment, CMA licensed. Base currency SAR, jadwa.com+1
Structure & Strategy	Money market / liquidity / low volatility strategy. Invests in short-term murabaha trade transactions, with average duration < 1 year. Aim is capital preservation and liquidity. Uses murabaha equivalents with high credit counterparties. Benchmark is usually the one-month SIBID net of fees, jadwa.com+1
AUM / Size	As of August 2022, net asset value was ~ **SAR 1,229.42 million** (≈ US$ ~ 330 million) for that class/fund, Argaam Plus
Performance	• Class B (for example) had **1-Year return ~1.80%** for 2022; since inception (where applicable) ~1.37% annualized. It slightly underperformed its benchmark in some years, jadwa.com
Shariah Compliance Model	• CMA licensing; use of acceptable Shariah contracts (murabaha). High quality counterparties. The fund manager discloses Shariah board oversight. Benchmark in terms of interbank rate (SIBID) for short-term liquidity; the fund has frequent NAV updates and transparency, jadwa.com
Investor Base	• Likely local/institutional investors (Islamic banks, corporates), and local retail investors seeking low-risk Shariah-compliant liquidity. Because it's in SAR and focused on cash/murabaha, its appeal is more local/regional rather than global.

Comparative Insights & Lessons

- Trade-off between risk & return: Global sukuk funds like Franklin and Jadwa Global Sukuk tend to offer higher return potential over medium term (via exposure to sovereign & corporate sukuk, longer maturities) but with more volatility. Murabaha / money-market style funds (like the Jadwa Saudi Riyal Murabaha Fund) deliver lower returns but much more stable capital, liquidity, and less downside risk.
- mportance of duration/yield detail: Jadwa Global Sukuk shows average duration ~3.9 years and yield to maturity ~2.54% (at that snapshot), which helps set expectations for income vs. sensitivity to interest-rate / spread moves. Franklin's recent 1-year returns ~+4-5% give a sense of possible yield + capital gain mix in favorable periods.
- hariah governance/domicile matter: Both funds have strong local regulatory oversight (CMA in Saudi Arabia, Luxembourg UCITS for Franklin), good transparency and Shariah board involvement. This helps in investor confidence for both local/regional investors and cross-border investors.
- Expense / fees: Jadwa Global Sukuk has management fees in the 0.50-0.75% range depending on class. These drag on performance somewhat especially in flat or adverse market periods. Franklin's fund also has different fees by class; accumulation vs distributing classes and currency classes can affect net returns. jadwa.com+1

Table 1: Global & GCC Islamic income funds (snapshot)

Fund (Share class)	Domicile	Inception (share class)	Latest AUM (approx.)	Manager	Regulator / Register	Shariah Board	Strategy	Recent performance (net)
Franklin Templeton **Global Sukuk Fund** A (acc) US$ (LU0792756115)	Luxembourg (UCITS)	29-Dec-2005	Not shown on page (fund is large; multi-class)	Franklin Templeton	CSSF (Lux); public KIID/factsheet	Disclosed in prospectus/factsheet	Global US$ sukuk (IG bias; sovereign/quasi-sovereign & corporates)	1-yr **+4.20%** (to 31-Aug-2025); 3-yr **~+1.27%** p.a.; 5-yr **~+1.27%** p.a. Franklin Templeton+1
Emirates Global Sukuk Fund I US$	Jersey/Lux umbrella (ENBD AM SICAV)	Class dates vary (see factsheet)	Not shown on page	Emirates NBD Asset Management	Jersey/Lux regulators; UAE distribution	Disclosed in fund docs	Global US$ sukuk; MENA tilt; income focus	YTD **+4.90%** (to early-Sep-2025); 2023 **+5.45%**; 2022 **-7.69%**; sustained dividends **4–5%** p.a. (policy) Emirates NBD+1
SP Funds Dow Jones Global Sukuk ETF (SPSK)	USA ('40-Act ETF)	18-Dec-2019	ETF AUM varies intraday	ShariaPortfolio / SP Funds	SEC (US)	Tracks Dow Jones Sukuk Shariah methodology	Passive: tracks **Dow Jones Sukuk (IG) TR**	1-yr **+4.02%**; 3-yr **~+3.78%** p.a.; 5-yr **~+0.79%** p.a. (to Sep-2025) Franklin Templeton
Jadwa Global Sukuk Fund (US$)	Saudi Arabia	Fund established earlier; monthly factsheets ongoing	**US$ 91.33 m** (NAV, 30-Apr-2025)	Jadwa Investment (CMA-licensed)	CMA (KSA)	Disclosed in fund docs	Global US$ sukuk; benchmark: **Jadwa IdealRatings Global Sukuk TR**	2023 **+4.75%** (Class B); duration ~3.9y (historical); YTM/Current yield per factsheets jadwa.com+1

Al Rajhi Commodities Mudaraba Fund (US$)	Saudi Arabia	Legacy strategy (see financial statements)	(Large) invests mainly in murabaha placements	Al Rajhi Capital (CMA-licensed)	CMA (KSA)	Disclosed (ARC Shariah group)	**Murabaha / money-market** (liquidity)	Return profile aligned to short-term rates; details in financials (US$ & SAR classes) alrajhi-capital.com+1
ADCB Global Sukuk Fund	UAE (Onshore Public Fund)	See KIID/fact sheet	Factsheet page lists distributions	ADCB Asset Management	**UAE SCA** local funds register	Disclosed in KIID/fact sheet	Global US$ sukuk (income focus; monthly/semi-annual paying share classes)	2025 monthly/semi-annual **distributions posted** (see SCA/ADCB links) ADCB

Notes

- Franklin (Lux) also shows portfolio stats such as effective duration ~4.8–4.9 years and YTM ~6% on certain classes; check the exact class sheet you're quoting. Franklin Templeton
- Emirates Global Sukuk lists a 4–5% dividend policy and publishes calendar-year performance on its fund page. Emirates NBD
- Jadwa's April-2025 factsheet shows the latest NAV (US$ 91.33m) and benchmark; the Annual 2023 report lists 2023 performance. jadwa.com+1
- Al Rajhi murabaha funds (US$/SAR) are liquidity vehicles; see audited financials for positioning and risk notes. alrajhi-capital.com+1
- ADCB Global Sukuk: SCA/ADCB pages publish dividend distributions by month/half-year (handy for income comps). ADCB

Table 2: Benchmarks & indices (for performance references)

Index	Provider	Coverage	Useful stats / usage
Dow Jones Sukuk (Investment Grade) TR	S&P DJI	Global **IG** US$ Sukuk, Shariah-screened	3-yr **~+4.47%** p.a.; 5-yr **~+4.05%** p.a.; 10-yr **~+3.96%** p.a. (to 2025). Common benchmark in factsheets. alrajhi-capital.com
S&P MENA Sukuk Index	S&P DJI	US$ IG sukuk issued in **MENA/Africa**	Regional lens for GCC allocations in fund decks. Emirates NBD
Bloomberg US$ Sukuk Index	Bloomberg Indices	US$ sukuk across sovereign/gov-related/corp; Global Agg rules + Islamic screens	Good cross-asset comparator vs **Bloomberg Global Aggregate US$**; live since **Jan-2019**. Franklin Templeton

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