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**6 US: The role of trust**

While the area of Islamic finance has seen a significant amount of growth over the years, in the US it is still relatively small, and players in the field are continually looking for ways to increase their penetration into the market. There are many factors to take into consideration in this regard, but one in particular which is not often discussed — despite its great impact on the potential for business — is that of trust.

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Managing Editor: Vineeta Tan  
vineeta.tan@REDmoneygroup.com

Contributing Editor: Lauren McAughtry  
lauren.mcaughtry@REDmoneygroup.com

Senior Contributions Editor: Sasikala Thiagaraja  
sasikala.thiagaraja@REDmoneygroup.com

Senior Copy Editor: Kenny Ng  
kenny.ng@REDmoneygroup.com

Senior Journalist & Multimedia Editor: Marc Roussot  
marc.roussot@REDmoneygroup.com

News Editor: Nessreen Tamano  
nessreen.tamano@REDmoneygroup.com

Head of Production: Hasnani Aspari  
hasnani.aspari@REDmoneygroup.com

Senior Production Manager: Norzabidi Abdullah  
zabidi.abdullah@REDmoneygroup.com

Senior Graphic Designer: Eumir Shazwan Kamal Bahrin  
eumir.shazwan@REDmoneygroup.com

Head of Finance & Administration: Hamiza Hamzah  
hamiza.hamzah@REDmoneygroup.com

Managing Director: Andrew Tebbutt  
andrew.tebbutt@REDmoneygroup.com

Managing Director & Publisher : Andrew Morgan  
andrew.morgan@REDmoneygroup.com

Published By:   
Suite 22-06, 22<sup>nd</sup> Floor, Menara Tan & Tan,  
207, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Tel: +603 2162 7800  
Fax: +603 2162 7810

# The US: Momentum in Islamic fintech

*Demand for Islamic finance and banking products in the US is increasing, with its growing population of Muslims at an estimated 3.45 million — around 1.1% of the total US population — according to Pew Research's Center, but Shariah compliant financial products and services have yet to go mainstream.*

*NESSREEN TAMANO looks at the highlights of the Islamic finance industry in the US and what drives it.*

## Regulatory landscape

Beyond the Muslim population growth, there is increasing interest from non-Muslims in the US looking for ethical financial products. However, the US still does not have dedicated regulations for Islamic finance; the existing Islamic financial products are offered by conventional banks and are governed by the same federal and state laws and regulations created for conventional instruments.

These laws accommodate certain Shariah compliant structures, and are governed by various financial regulatory bodies in the country, including the Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, state banking authorities, the Internal Revenue Service and the Securities Exchange Commission.

## Banking and finance

Devon Bank and University Islamic Finance (UIF) Bank are among the few that offer Islamic finance, and some conventional financial institutions have established Islamic windows. Most US banks and mortgage brokers offering Shariah compliant products and services remain localized institutions catering to concentrated Muslim communities.

In July 2019, US-based Islamic fintech firm Wahed Invest launched Shariah compliant exchange-traded funds (ETFs), which track the FTSE USA Shariah Index and are designed for both retail and institutional investors who want exposure to passive Shariah or ethical investments.

## Fintech

One area that has seen strong activity in the US since 2017 is the Shariah compliant fintech scene, with the country being among the top five jurisdictions worldwide in terms of the number of start-ups serving the Muslim market. In 2018, there were 12 US companies across 11 verticals listed, with Islamic personal finance management, trading and investment dominating the US Shariah compliant fintech community.

## Real estate

Real estate still forms the majority of Shariah compliant activities in the US. Mortgage financing is in demand among Muslims, and international investors are keen to channel investments into US property.

Leading the market space for Islamic mortgage lenders are housing agencies Freddie Mac and Fannie Mae, which are now the primary investors in Islamic mortgages. Both Star Finance, a social impact start-up that focuses on housing for minorities in Minnesota, and Guidance Residential operate under the Musharakah model. Meanwhile, LaRiba utilizes both Musharakah and Ijarah as home financing options, and both the UIF and Devon Bank provide



residential and commercial real estate financing through Murabahah and Ijarah programs.

## Sukuk

A significant portion of Islamic deals in the US are conducted on a private and confidential basis, with few publicly disclosed offerings. In 2018, University Bank privately placed a Sukuk facility, believed to be the country's first Shariah compliant debt transaction to be structured and governed under US laws.

In 2019, Seattle-based Pentavirate hired international law firm K&L Gates to advise on the issuance of a US\$500 million Sukuk facility, which is part of a broader US\$2.5 billion multi-tranche Sukuk and Wakalah program, and backed by US commercial real estate.

## Takaful

Due to a lack of regulations and framework that specifically cater to the Takaful industry, there remain fairly limited options for engaging Takaful in the US. Insurance is regulated by individual states, and licensing requirements vary from region to region.

AIG began offering Takaful products in 2008, and Zayan Takaful offers customized Shariah compliant insurance solutions to customers across the US and provides homeowner policies through a relationship with Lexington Insurance Company.





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## CONTACT:



Thom Polson  
Director of Global Investments  
[thom@pentavirate.com](mailto:thom@pentavirate.com)



Chad Gleason, CCIM  
Managing Director  
[chad@pentavirate.com](mailto:chad@pentavirate.com)



Suria El-Bietar  
Director of Risk Management  
[suria@pentavirate.com](mailto:suria@pentavirate.com)

For information, visit [www.pentavirate.com](http://www.pentavirate.com)





## US: The role of trust

*While the area of Islamic finance has seen a significant amount of growth over the years, in the US it is still relatively small, and players in the field are continually looking for ways to increase their penetration into the market. There are many factors to take into consideration in this regard, but one in particular which is not often discussed — despite its great impact on the potential for business — is that of trust.*

**Muslim investors and consumers, just like any others, look for trust as a key factor when engaging in business. In order for the players in this field to build strong institutions, trust has to be the main foundation from which all else can flourish. According to the 2018 World FinTech Report, fintech firms in part “face challenges in scaling their business due to a lack of trust...”**

The issue of trust may especially be important within the Islamic finance sector due to concerns of fraud within immigrant communities, as well as examples of well-intentioned companies that have previously been unable to survive. Just last month, Canadian Aziz ‘Com’ Mirza was arrested in the UAE for tricking hundreds into investing in “...disguised Ponzi schemes, dodgy real estate projects and a cryptocurrency that is now worthless”, according to Gulf News. Among the victims were individuals like John Barry from the US, who invested US\$500,000. Such stories may resonate with others who fear the same thing happening to them.

On the other hand, firms may also face hardship when looking for investors due to a lack of trust in their ability to survive and thrive. And no wonder — the field of Islamic finance has seen its share of turnover. One example is that of NoRiba Investing, an online brokerage trading platform aiming to enable efficient investing in a Halal manner, which began operations in April 2009 and terminated

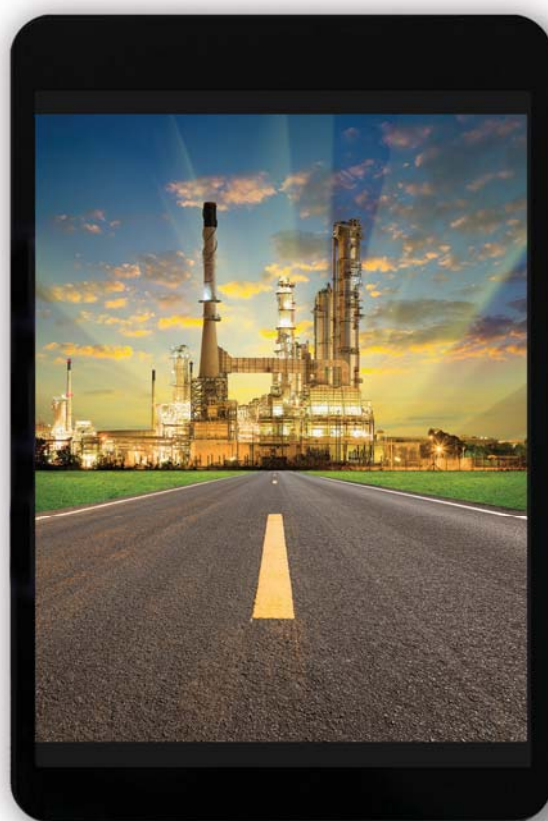
its registration in March 2015. Yet another is that of Falah Capital, which eventually failed due to a lack of sufficient volume/interest in their exchange-traded fund.

While the effects of distrust can and do affect any company, they are especially important to consider given that the US field of Islamic finance is still in its infancy. Investors and consumers who are looking for more stable options to place their money may turn away from smaller companies, preferring the larger, more conventional names for reasons of safety — even if those companies do not provide Halal options.

While investors can get some peace of mind knowing that firms in the US operate in a highly regulated environment, it is also helpful to consider a company’s track record and how long it has been in business when deciding to work with it. On the other hand, companies should understand the importance of gaining trust within their potential markets by ensuring they protect their clients’ information, communicate clearly and are transparent with regards to what they do or do not do — especially when it comes to fees.

*Aliredha Walji is the vice-president of ShariaPortfolio. He can be contacted at [aliredha@shariaportfolio.com](mailto:aliredha@shariaportfolio.com).*

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## Saudi boutique investment firm structures new Islamic portfolio tapping into US silver economy

*Shariah compliant Arbah Capital has signed a joint-venture agreement with a real estate developer and a senior care operator to build a new portfolio tapping into the growing US silver economy as older adults are projected to outnumber kids for the first time in US history by 2034. MARC ROUSSOT writes.*

**A US\$35 million Class A senior living community with 136 units/144 beds of assisted living and memory care, located 12 miles to the east of downtown Tampa in Brandon, Florida, is the first asset to be developed as part of the new deal.**

Madison Marquette, the development manager, and Meridian Senior Living, the operator, will co-invest in the portfolio of which the size has not been disclosed.

“The investment strategy is to exploit the opportunity to develop and provide the best community experience and facility in an undersupplied submarket at rates comparable to existing ‘older’ facilities,” according to a press release citing a market study conducted by Integra Realty Resources, which concluded that the submarket is currently underserved by over 600 units. With a rising number of retired baby boomers — people born between 1945 and 1964 — the silver economy, particularly the senior care facilities sector, offers new avenues for alpha.

“Starting in 2030, when all boomers will be older than 65, older Americans will make up 21% of the population, up from 15% today.

By 2060, nearly one in four Americans will be 65 years and older, the number of 85-plus will triple and the country will add a half million centenarians,” according to the US Census Bureau.

Arbah Capital has already identified a few opportunities and more investments should be made in 2020.

Headquartered in Damman, Arbah Capital’s main strategy focuses on the acquisition of distinctive assets within excellent locations in defensive sectors like social infrastructure, said Mahmood Alkooheji, CEO of Arbah Capital which is an 11-year old boutique investment firm with a paid-up capital of SAR220 million (US\$58.58 million).





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## Mission

ITFC is a catalyst for trade development among OIC Member Countries and beyond

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Commenced operations in January 2008, ITFC has provided around US\$50 billion of trade financing to OIC Member Countries, making the Corporation the leading provider of trade solutions for OIC Member Countries' needs. With a mission of being a catalyst for trade development among OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance to support their critical sectors; and provides integrated programs: capacity building and trade development, which would enable them to successfully compete in the global market.

## Fund Focus: Wahed FTSE USA Shariah ETF

*US-based digital investing platform Wahed Invest has achieved a new milestone in its development with the launch of its maiden Shariah compliant exchange traded fund (ETF) in July. MARC ROUSSOT delves deeper.*

Believing that there is a void in Shariah compliant passive investment solutions, Wahed Invest in July rolled out the Wahed FTSE USA Shariah ETF.

***“ We have seen that Shariah indices have outperformed their conventional counterparts year-to-date and for the last few years, partly due to the strength in technology stock which have higher weighting in Shariah funds, and the weakness of financial stocks, which are excluded from these funds ”***

With around US\$14 million in assets under management, the new vehicle is designed for both retail and institutional investors who

want exposure to Shariah or ethical investments, as well as investors who have high exposure to active strategies and want to increase exposure to passive investment to complement their portfolios. The fund tracks the FTSE USA Shariah Index, which comprises 222 stocks from the oil and gas, chemical, basic resources and healthcare sectors, among others. Over the past 12 months, it returned 3.4%, and 32% since 2016.

“While the current market conditions are volatile and sensitive to topical news on trade deals and interest rate expectations, Wahed ETF’s strategy of tracking the index means that investors should not perform worse than the broader market. In addition, we have seen that Shariah indices have outperformed their conventional counterparts year-to-date and for the last few years, partly due to the strength in technology stock which have higher weighting in Shariah funds, and the weakness of financial stocks, which are excluded from these funds as they are Shariah non-compliant,” shares Syakir Hashim, Wahed Invest’s country head for Malaysia. The Wahed FTSE USA Shariah ETF comes on the back of two passive Islamic index funds, namely the Wahed S&P Shariah Fund and the Wahed S&P Dividend Growth Fund released in 2018.

“The passive index funds launched in the past were mostly exclusive to our platform’s clients. By launching this ETF, investors — whether our existing clients or general market participants — can have exposure to Shariah compliant US stocks,” Syakir says.

*The opinions and viewpoints expressed in the Fund Focus do not constitute as a recommendation for any funds highlighted. The information presented is not investment advice and should not be treated as such.*

Table 1: Key features of the fund

Name of the fund	Wahed FTSE USA Shariah ETF
Fund manager	Wahed Invest
Launch date	10 <sup>th</sup> July 2019
Fund category	Equity ETF
Asset allocation	The fund tracks the FTSE USA Shariah Index, which comprises 222 stocks from the oil and gas, chemical, basic resources and healthcare sectors, among others.
Geographical exposure	The US
Investor profile	The fund is designed for investors who seek passive index exposure to US Shariah compliant companies at a low cost.
Domicile	The US
Currency	US dollar
Benchmark	FTSE Global Equity Shariah Index Series
Yield	Over the past 12 months, the benchmark returned 3.4%, and 32% since 2016.





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## Global Trends and Developments in Islamic Finance and Investment

Islamic finance is a global phenomenon, tied to the health of international economies as well as developments in local markets. This session will examine the issues surrounding the deployment of Shariah compliant capital throughout the world.

- Notable recent developments in global Islamic finance and investment, including industry developments affecting investment patterns and possibilities
- Opportunities available for Shariah compliant investors, and investments sought by such investors
- Global investment flows and the sources and uses of Shariah compliant capital
- International developments and transactions that may signal future US investment trends
- Sector and geographic areas for potential future growth and investment, and
- The effect of sociopolitical events on current and future Islamic finance and investment.



**JAWAD ALI**

*Managing Partner –  
ME Offices, King &  
Spalding*



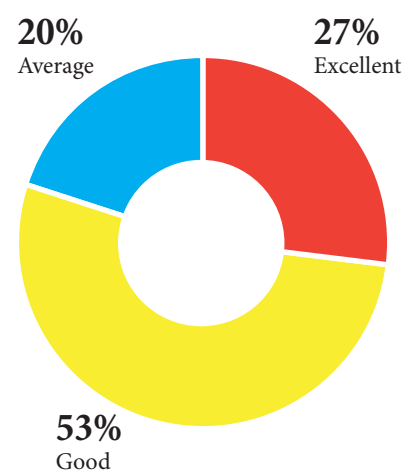
**ABDULKADER  
THOMAS**

*CEO, SHAPE  
Knowledge Services*



**ARTHUR ROGERS**

*Managing Director  
– General Counsel,  
Arcapita*



**CHRISTOPHER  
COMBS**

*Managing Director,  
Falconvest*



**DR UMAR OSENI**

*Acting CEO and  
Executive Director,  
International  
Islamic Liquidity  
Management  
Corporation*



**VOLKAN CELEN**

*Counsel, Legal  
and Claims Group,  
Multilateral  
Investment Guarantee  
Agency, World Bank  
Group*

### Key Takeaways:

The global infrastructure need is massive. In this context, Islamic finance, as a unique source of financing, can play a very important role in financing infrastructure projects in emerging markets.

The asset-based structure of Islamic finance makes it a very suitable financing method for infrastructure projects. What is important here is what can be done to ensure the more widespread use of Islamic finance instruments in infrastructure projects.

To do this, it is necessary to increase the familiarity of the practitioners involved in infrastructure projects with Islamic financing methods.

Credit enhancement instruments can also facilitate the more frequent use of Islamic finance methods in infrastructure projects. Ensuring the transfer of project risks to third parties, especially in developing economies, would improve the financial viability of the projects and create a favorable environment for easier implementation of Islamic finance.

Please note that these are my personal views and opinions and do not necessarily reflect the official policy or position of any agency of the World Bank Group.

*Volkan Celen  
Counsel, Legal and Claims Group, Multilateral Investment  
Guarantee Agency, World Bank Group.*

## The U.S. Market: Real Estate, Private Equity and Other Investment Opportunities

Shariah compliant investment from the Middle East to the US market is a well-trodden path. This session examined the latest trends and opportunities. Among the areas covered will be:

- Current investment types and asset classes
- The latest opportunities and demands for Shariah compliant direct investment into US real estate market
- Potential targets for private equity investment in the US market
- Other potential areas for investment of Shariah compliant capital in the US, and
- The structures used to facilitate Shariah compliant finance in the US and other structures that could be employed.



**ANDREW  
METCALF**

*Partner, King &  
Spalding*



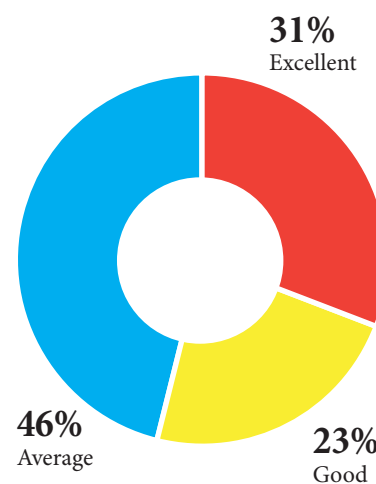
**AAMIR REHMAN**

*Board Member, Fajr  
Capital Advisors*



**BRIAN HEBB**

*Managing Director,  
Head of US Real  
Estate, Arcapita  
Investment  
Management*



**DAMIAN TAYLOR**

*Senior Vice-President,  
Arch Street Capital  
Advisors*



**THOM POLSON**

*Director of Global  
Investments,  
Pentavirate*

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SPEAKERS' LIST

Name	Company Name
AAMIR REHMAN	Fajr Capital Advisors
ABDULKADER THOMAS	SHAPE Knowledge Services
ANDREW METCALF	King & Spalding
ARTHUR ROGERS	Arcapita
BRIAN HEBB	Arcapita Investment Management
CHRISTOPHER COMBS	Falconvest
DAMIAN TAYLOR	Arch Street Capital Advisors
DR UMAR OSENI	International Islamic Liquidity Management Corporation
JAWAD ALI	King & Spalding
THOM POLSON	Pentavirate
VOLKAN CELEN	World Bank Group



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Aib Capital	Millennium Information Solution
Andalus Capital	National Bank of Afghanistan
Aptixis	New Finance Invest
AR Consultancy	Oasis Financial
Asean Legal Alliance	Pacific General Capital
Asil Capital Inc	QQH
Azzad Asset Management	Raqaba
Banking & Finance Africa Consulting	Raymond James Financial Inc
Blackwater Construction Group	Sap Ariba
CEIF, Iba Karachi	Seyad Shariat Finance
Cleary Gottlieb Steen & Hamilt	Six Sigma
Dart Aleghwan	Soho Properties
FAB Capital	SPCU
Halal Consultant	Takaful Outsource
ICD Arm of the ISDB Group	Unipak Trading Inc
International Islamic Liquidity	University of Alabama
Interserve	Wafra Inc
KDA	World Business Leaders
Kogod School of Business	Yielders
Latham & Watkins	Zoya Financial
Merrill Lynch	



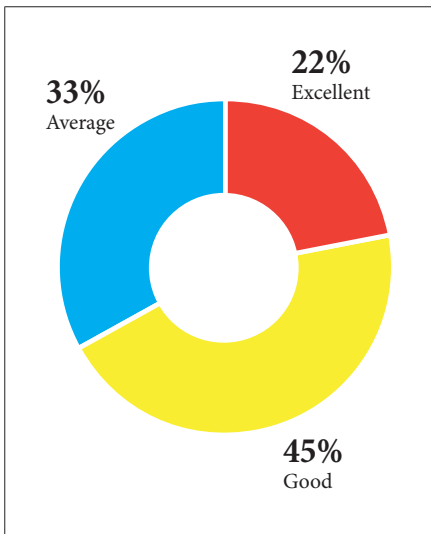
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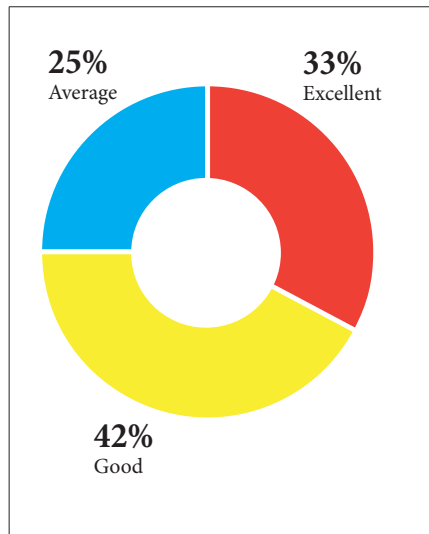
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## OVERALL EVALUATION

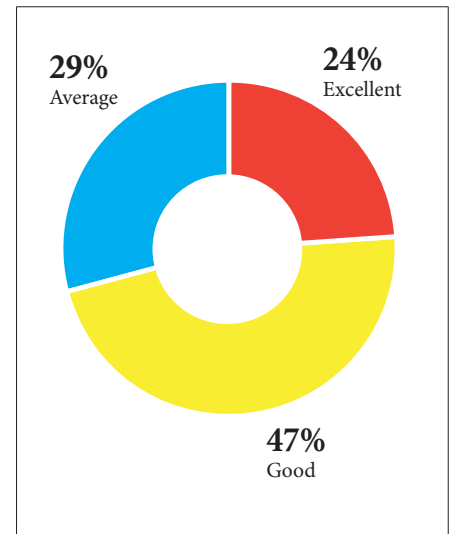
**Pre-event Contact**



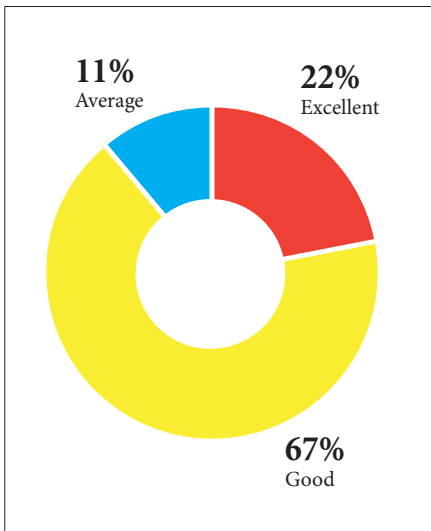
**Venue & Facilities**



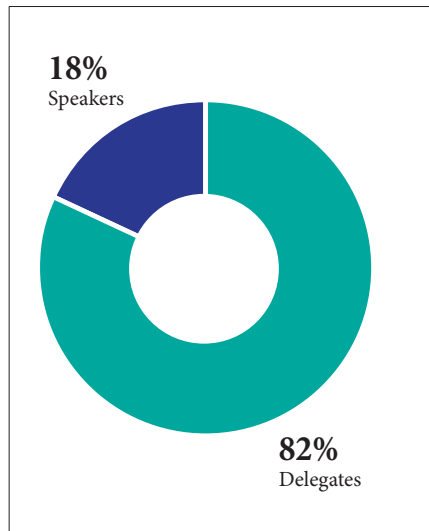
**Overall Evaluation of the Event**



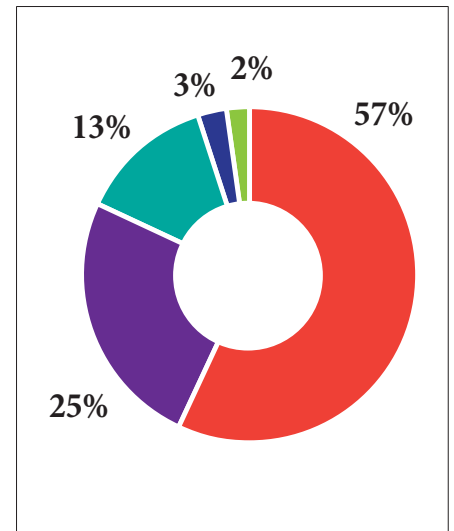
**Overall Evaluation of the Speakers**



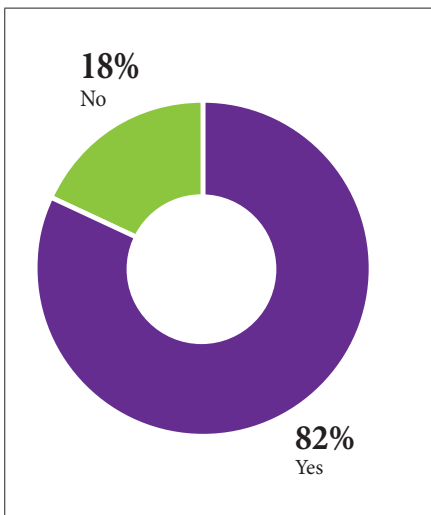
**Delegate Breakdown**



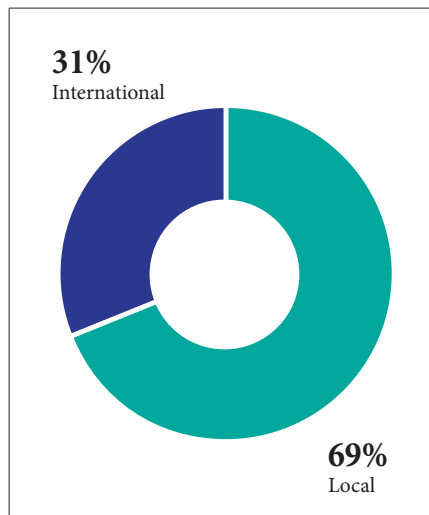
**Delegate Job Title Breakdown**



**Delegates Who Would Like to Attend IFN Americas Dialogues 2020**



**Delegate Breakdown (International & Local)**



Delegate Job Title	No
Board Level Management	34
Senior Management	15
Management	8
Executive	2
Others	1
<b>Total</b>	<b>60</b>

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