

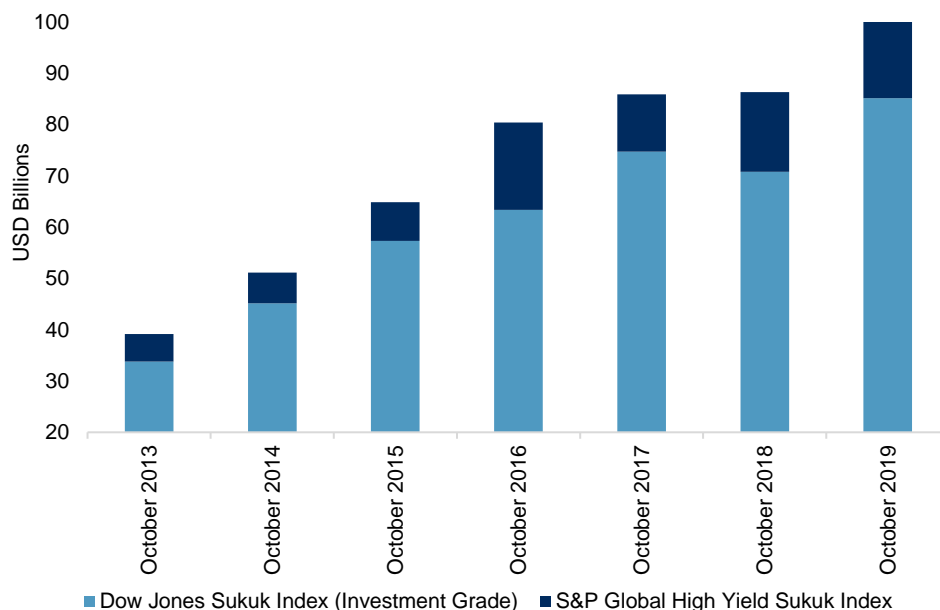
The Development of the Global Sukuk Market from an Indexing Perspective

Contributor

Jason Giordano
 Director
 Fixed Income Product
 Management
jason.giordano@spglobal.com

The global sukuk market has enjoyed tremendous growth since 2013. As measured by the [Dow Jones Sukuk Total Return Index](#) and the [S&P Global High Yield Sukuk Index](#), the U.S. dollar-denominated sukuk market experienced a compound annualized growth rate of nearly 18%, driven by increased issuance from sovereigns and supnationals, as well as strong investor demand for Shariah-compliant securities. Historically, the majority of issuance has come from Saudi Arabia and Malaysia; however, the past three years have witnessed an increasing number of issuers from new markets, as well as a deeper and broader investor base.

Exhibit 1: Growth of the Global Sukuk Market



Source: S&P Dow Jones Indices LLC. Data as of October 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

This article was first published in Islamic Finance news Investors Report 2020.

The global sukuk market has enjoyed tremendous growth since 2013.

The recent growth of the global sukuk market is likely to accelerate, as GCC issuers are poised to refinance in order to fund increasing deficits and as new entrants continue to come to market. Most notably, several African sovereigns will likely enter the market in 2020, and Egypt has set up a Shariah supervisory committee to oversee sukuk issuance. Furthermore, corporate issuers in both Indonesia and Malaysia have begun to shift funding sources away from traditional bonds in favor of sukuk.

The relatively nascent green sukuk initiative could also stimulate issuance, as efforts to combat climate change gain traction, building on the inaugural green sukuk transactions in Malaysia and Indonesia. The most recent green sukuk transaction was a USD 750 million issuance from the government of Indonesia earlier in 2019. The Indonesian government also issued the world's first sovereign green sukuk, a USD 1.25 billion five-year instrument, to finance green projects.

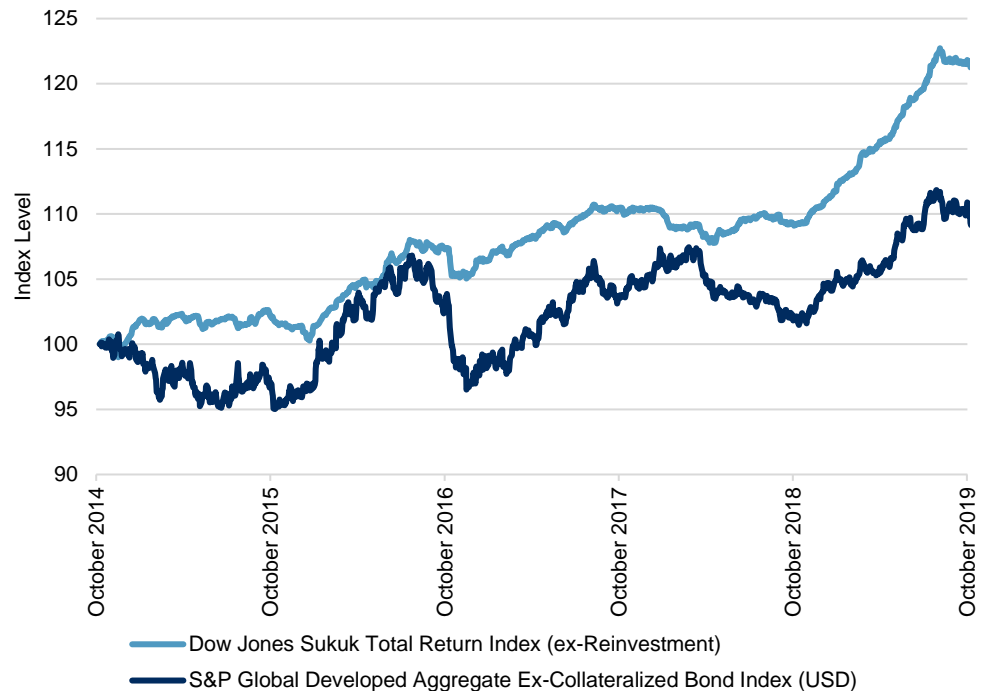
The recent growth of the global sukuk market is likely to accelerate.

From an investor perspective, sukuk garnered some of the best performance of all global fixed income asset classes over the past five years. As of Oct. 31, 2019, the Dow Jones Sukuk Total Return Index had a YTD performance of 10.14%, while the S&P Global High Yield Sukuk Index returned 11.75%. Compared to the [S&P Global Developed Aggregate Ex-Collateralized Bond Index](#), the Dow Jones Sukuk Investment Grade Total Return Index outperformed by over 300 bps over the same period. Taking volatility into account, the Dow Jones Sukuk Total Return Index had a five-year risk-adjusted return that was more than triple that of the S&P Global Developed Aggregate Ex-Collateralized Bond Index.

Many sukuk issuers are sovereign nations, supranationals, and other government-related entities.

The strong risk-adjusted performance could be attributed to a number of factors inherent to sukuk, including the quality of most sukuk issuers and the characteristics of the sukuk securitization process. Many sukuk issuers are sovereign nations, supranationals, and other government-related entities. The high-quality nature of issuers supports the strong credit fundamentals of the underlying sukuk structure. Some market participants also point to the Shariah prohibition of *riba* (interest) and *gharar* (uncertainty). In lieu of interest, the return to an investor must be linked to profits and derived from a shared risk assumed by both the issuer and investor, unlike traditional bonds, in which the degradation of an issuer's credit fundamentals materially affects the probability of repayment of interest or principal.

Exhibit 2: Performance Comparison



The sukuk market could grow significantly in the near term.

Sovereign issuers could tap the sukuk market for funding needs.

It is expected that sukuk will attract the attention of some of the world's largest and most significant institutional investors.

Source: S&P Dow Jones Indices LLC. Data as of October 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Looking ahead, the sukuk market could grow significantly in the near term, as key Islamic capital markets continue to enhance the issuance standards and structures and strengthen regulatory requirements. With global yields nearing all-time lows and increasing concerns over slowing global growth, sovereign issuers could tap the sukuk market for funding needs—especially if oil prices stay moderate or turn lower.

While the sukuk market's support will continue to come primarily from investors based in the Muslim world, it is expected that sukuk will attract the attention of some of the world's largest and most significant institutional investors in the U.S., Europe, and Asia, as many may view sukuk as an effective way to invest in some of the fastest-growing regions of the world.

PERFORMANCE DISCLOSURE

The S&P Global High Yield Sukuk Index was launched March 22, 2018. The S&P Global Developed Aggregate Ex-Collateralized Bond Index (USD) was launched July 5, 2016. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

The Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices LLC maintains the Index and calculates the Index levels and performance shown or discussed, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

GENERAL DISCLAIMER

Copyright © 2020 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR'S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.