

INTRO TO REITS

Ease of entry

- Since REITs are normally listed, buying & selling units are fairly easy via the brokers
- No special requirements for brokers to sell listed funds as REITs – easy for investors to access brokers for trading
- Detailed information is made known readily & comprehensively via prospectus & periodic reports

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Diversification

- Exposure to property
 - Reduces the risk associated with direct property investment
 - Funds invested into several properties and/or projects thus reduces negative effects of problems with single asset
 - For example, investment in office, retail, industrial, apartment and other income-producing properties
- Individual investment portfolio mix
 - REITs are not directly correlated with investment indices eg. FBM Emas, thus may provide an investment portfolio with the required diversification

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Liquidity

- Comparing against direct investments in real estate, REITs can be sold fairly quickly
- Investors have greater flexibility to move in and out of the asset class on tactical basis due to higher liquidity and lower trading cost

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Affordability

- Provides investors with the ability to invest in real estate without having to incur large capital
- Individuals can make small amounts of investments to purchase the units of REITs

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Yields and capital appreciation

- Investing in REITs essentially means buying a physical asset with a long expected life span with potential income through rental and property appreciation
- Investors can have a stable stream of dividend
- REITs can act as inflation hedge – while cost of living rises, rental income can rise as well

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Professional Management

- Management companies are required to be pre-approved by the SC – criteria set earlier for qualification to become manager of REITs
- Professional asset managers relieve investors of the necessity to assess and manage properties
- Minimizes risk relating to property transaction

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Valuation

- REITs assets need to be re-valued periodically thus heavily dependent on the location, surrounding development and purchasing power of consumers in the area.
- Valuation subject to extraordinary natural disasters like flood, typhoon, tsunami, landslides etc
- Also dependent on the appointed valuers assessment

REGULATORY FRAMEWORK

REITs Guiding Principles in Malaysia

- REITs in Malaysia are governed by:
 - Securities Commission Act 1993
 - Capital Market Services Act 2007
 - Guidelines on Real Estate Investment Trusts 2008
 - Guidelines for Islamic Real Estate Investment Trusts (For Islamic REITs) 2005
- The Guidelines on Real Estate Investment Trusts (formerly known as the Guidelines on Property Trust Funds) was first issued by the SC in 1995
- The latest edition (4th) Guidelines on REITs was issued on 21 Aug 2008 to accelerate the growth, and establish a vibrant and competitive real estate investment trust industry in Malaysia

REGULATORY FRAMEWORK

Types of REITs/Criteria	Conventional REITs	Islamic REITs
Shariah adviser	No Shariah adviser	Appointment of Shariah Adviser is compulsory
Investment instruments	Minimum of 50% of listed fund's total assets must be invested in real estate. The rest of 25% may be invested in other instruments such as bonds, stocks, money market and ABS	The 50% of listed fund's total assets must follow Shariah requirements. The rest of 25% must be invested in investment comply with Shariah principles
Rental restriction	No restrictions on the tenant's nature of business as long as it is legitimate by Malaysian Law	The percentage of rental from non-permissible activities should not exceed 20% benchmark set by SC

REGULATORY FRAMEWORK

Types of REITs/Criteria	Conventional REITs	Islamic REITs
Financing instruments	<p>The total borrowings of the fund must not exceed 50% of the total asset value of the fund</p> <p>Either conventional or Islamic instruments</p>	<p>The basis of 50% is similar to conventional REITs, however fund managers must ensure that financing instruments comply with Shariah principles</p>
Insurance	<p>The REITs must have insurance to protect its assets. Can be Takaful or conventional insurance.</p>	<p>Must use Takaful. However, if Takaful is unable to provide insurance coverage, permitted to use conventional insurance schemes</p>

REGULATORY FRAMEWORK

Types of REITs/Criteria	Conventional REITs/Islamic REITs
Size	<p>Initial size must be at least RM100mil</p> <p>Minimum offer to general public as part of listing scheme</p> <p>i) 5% of approved fund size, for REITs with total asset value \leq RM200mil</p> <p>ii) 2% of approved fund size, or aggregate of 10 mil units, whichever is higher, for REITs with total asset value $>$ RM200mil</p>
Pricing	<p>Listed Units: Minimum issue price of RM0.50 per unit</p> <p>Unlisted Units: Price decided by management company. Post offer period, price is NAV per unit</p>

REGULATORY FRAMEWORK

Types of REITs/Criteria	Conventional REITs/Islamic REITs
Dealing in units	<p>Listed units: To create or cancel, management company instruct trustee to perform the functions. Any dealing in units must adhere to relevant securities laws, guidelines & rules</p> <p>Unlisted units: Management company must agree to issue & redeem upon proper request by the investor</p>
Distribution	Should only be made from realised gains or realised income of the REITs

REGULATORY FRAMEWORK

Types of REITs/Criteria	Conventional REITs/Islamic REITs
REITs Management Companies	Foreign shareholdings allowed up to 70% (previously 49%)
Investment in Foreign Real Estates/Market	Allowed but with strict conditions – to consider barrier entry, operational environment, accounting & taxation issues, economic & political, exit strategies & risk mitigation
Disposals	If disposal of assets under REITs in value exceeds 50% of the fund's total asset value, it must be sanctioned by the unitholders – unless for the purpose of winding up

CONCLUDING REMARKS

- Enhance standards of corporate governance
 - REITs offer higher standards of corporate governance due to the involvement of REIT managers and trustees in the scheme
- Enhance liquidity of property market and improve price transparency
 - Revitalise the property sector as REITs managers are given the incentives to acquire and grow
 - Market participants could also infer capital values of physical commercial space by referring to current yields offered by listed REITs

CONCLUDING REMARKS

- Contribute towards diversification of Islamic financial products in the Islamic capital market
- I-REITs is an investment vehicle that serves as an alternative for Islamic funds
- Provide an investment opportunity for a wider group of funds/investors
- In Malaysia, interest rates have been stable and some REITs have continuously acquired properties as part of their portfolio
- Introduction of Islamic REITs provide investors with an alternative Shariah compliant investment

CONCLUDING REMARKS

- There are four key drivers of capital appreciation of a REIT:
 - Interest rate – falling interest rates makes REITs comparatively more attractive than other type of investment
 - Acquisition trail – acquisition of properties that will generate profit growth thereby driving a REITs own capital appreciation
 - Regulations – Regulators have been proactive in the development of the industry
 - Quality of properties invested – well maintained and continuous refurbishment

ISSB Framework & Islamic ETF

iSSB - SALIENT FEATURES

The iSSB model:

- Main purpose is to support Permitted Short Selling (PSS) activities for the Islamic ETF creation & redemption process, and later to support Regulated Short Selling (RSS) & other instruments which use short selling as strategy
- Shares many similar features of conventional SBL
- Designed to deliver as close or the same economic result with SBL
- Main difference with SBL – involves buying & selling of securities as opposed to borrowing & lending
- Designed based on SBL CLA Model; moving forward, OTC/NT Model

iSSB - SALIENT FEATURES

The iSSB model:

- Defined contract period of 12 months unless terminated earlier
- Designed to accommodate “Lending Pool Concept” ; where securities offered for sale by AS will be lined up in a pool maintained by the system & waiting to be matched with orders by AU
- and also “Direct Matching Concept” where AS can deal direct with the AU & the pre-arranged transaction is executed via the iSSB platform

PARTIES TO iSSB

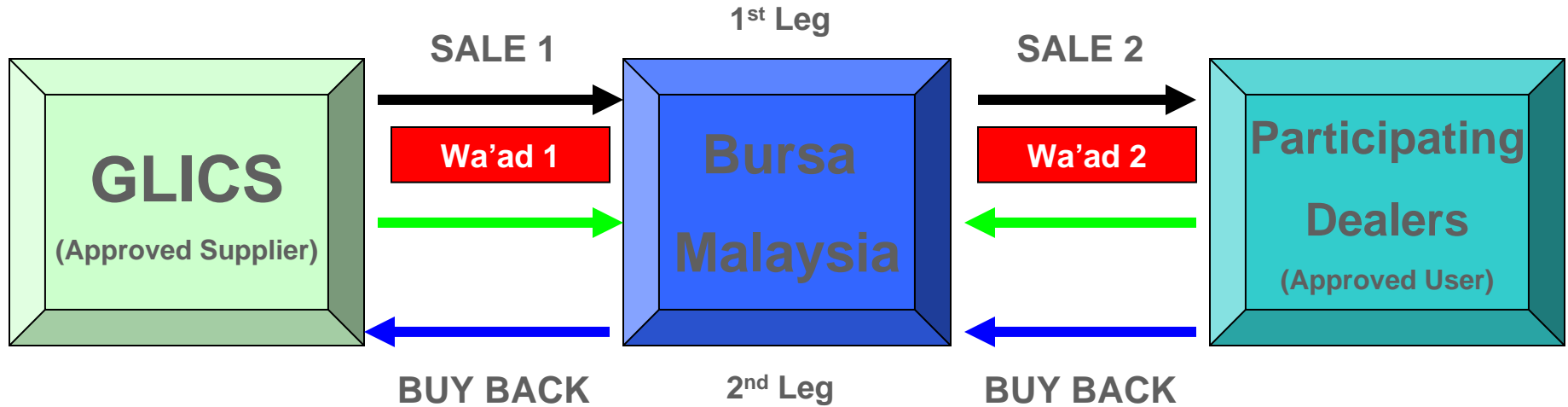
Acronym	Details
CFA	Central Facilitation Agency – Bursa Malaysia
AS	Approved Supplier – mainly GLICS
SR	Supplier Representative - POs
AU	Approved User - PDs

SHARIAH PARAMETERS

The iSSB model was approved by the Shariah Advisory Council of the Securities Commission on 28 April 2008. iSSB employs the following Shariah contracts:

- **Bay' (Sale) – of securities between contracting parties**
- **Wakalah (Agency) – for the Supplier Rep when appointed by the Supplier to perform certain duties**
- **Wa'ad (Unilateral Promise) – 2 Wa'ad involved i.e. between Approved Supplier & CFA as well as between Approved User & CFA**
- **Muqasah (Set-off) – Involved in setting off the payments between two contracting parties i.e. Approved Supplier & CFA, Approved User & CFA**

iSSB – BASIC MODEL



- iSSB involves outright sale of securities in the 1st leg and buy back of securities in the 2nd leg
- Wa'ad is made from one party to another to secure the 2nd leg transaction
- Rights of GLICS and PDs are embedded in regulations – i.e. for CFA to buy from PDs and sell to GLICS

iSSB Management MODEL

❑ Given the default contractual iSSB tenure of 12 months, there are some possibilities that can terminate the contract earlier.

❑ Possible Eventualities that lead to termination:

1. AS requests to repurchase securities from CFA before contract expiry
2. AU resell securities to CFA before contract expiry
3. Total monthly installment reached selling price before contract expiry
4. Corporate action; rights issue
5. Reclassification of Shariah status of securities

❑ Possible Eventuality that does not lead to termination:

1. Corporate action; bonus issues, share splits & consolidation

COMPARISON

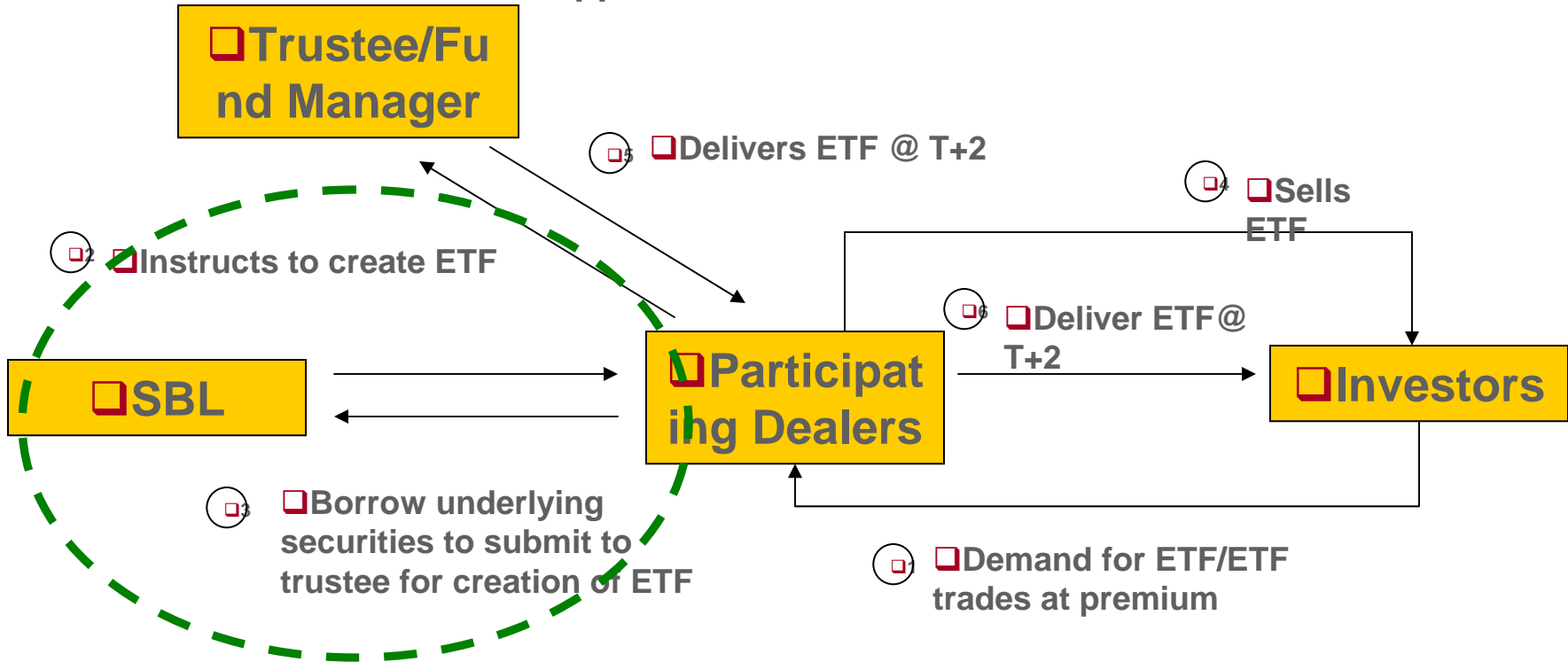
#	Subject	i-SSB	SBL
1	Underlying Principle	Islamic •The facility is called “Sale with the condition of promise to buy”	Conventional
2	Mechanism	Selling & Buying (Bay’) contracts with Purchase Undertaking (Wa’ad) •Transactions involve real transfer of ownerships between contracting parties	Lending & Borrowing
3	Potential Users	Islamic & conventional investors	Conventional investors
4	Stakeholders	SC (Regulator), Bursa (CFA), Approved Suppliers, Approved Users, Supplier’s Rep (POs),	SC (Regulator), Bursa (CLA), Approved Lenders, Approved Borrowers, Lending Rep (POs), Borrowing Rep (PDs)

COMPARISON

#	Subject	i-SSB	SBL
5	Processing Fee	RM100 processing fee for every successful cycle	RM100 processing fee for every successful cycle
6	Collaterals	105% of value in terms of stock or cash held at CFA	105% of value in terms of stock held at CLA
7	Charges	2.0% on AS 2.2% on AU •Have the same end result with the present SBL	2.0% on Lender 2.2% on Borrower
8	Contractual Tenure	1 year •Prefixed period is to comply with the Shariah	NIL •Open ended
9	Pool of stocks	<u>Permitted</u> Shariah-compliant stocks only •Pool of stocks must only comprise Shariah-compliant securities as designated by SAC SC	<u>Permitted</u> stocks universe •Stocks as per allowed by the regulators

ETF & SBL

Illustration on how SBL supports ETF:



- For Islamic ETF, the use of iSSB is crucial to having an end-to-end Shariah-compliant mechanism to assist Permitted Short Selling (PSS) activities

Exchange Traded Fund Basics

- What is an Exchange Traded Fund (ETF)?
 - ❑ An ETF is a unit trust fund that is listed and traded on a stock exchange
 - ❑ It invests in underlying securities of a benchmark index with the objective of tracking the performance of that index

Exchange Traded Fund Basics

- **How and where to invest in ETFs**
 - **Stock Exchange (Secondary Market)**
 - ✓ Similar to trading in stocks/shares
 - ✓ Investor only needs a *Central Depository System (CDS) Account* and a *Trading Account* with a broker
 - ✓ Market price changes throughout the day
 - **Participating Dealers (Primary Market)**
 - ✓ Investors may participate via the creation of new units through the appointed participating dealers at NAV (in multiples of 1 mil units)

Exchange Traded Fund Basics

➤ **Benefits of ETFs**

❑ **Shares & Unit Trust Features**

- ✓ ETF invests in a portfolio of stocks like a Unit Trust but ETF units are bought and sold on the exchange like shares

❑ **Diversification**

- ✓ ETF investors conveniently and effectively gain a diversified investment exposure to a particular market/sector represented by the benchmark index

❑ **Tradability**

- ✓ Investors are able to buy and sell ETFs at market prices any time during trading hours on the exchange
- ✓ Unit trusts can only be bought or sold at their daily closing net asset values (NAV)

Exchange Traded Fund Basics

➤ **Benefits of ETFs (cont.)**

❑ **Low Costs**

- ✓ Transaction charges of less than 1% are similar to stocks
- ✓ Lower charges compared to unit trusts which charge 5%-6% front-end fees or sales charge
- ✓ ETFs' annual management fees are generally much less than 1%, compared to 1% - 2% usually charged for actively managed unit trusts

❑ **Transparency**

- ✓ Investors have readily available access to the information on the portfolio
- ✓ Unit trusts usually disclose their portfolio holdings only on annual, semi-annual or quarterly basis