ADCB بنك أبوظبي التجاري | ASSET MANAGEMENT LIMITED

09 July 2019

Figure 1: Global Trade growth projections (US$tn)

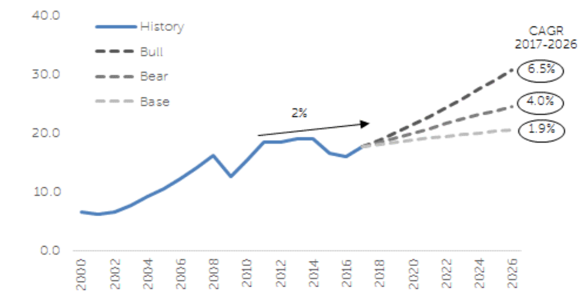


Figure 2: Source of future trade finance gains in next 3-5 years:

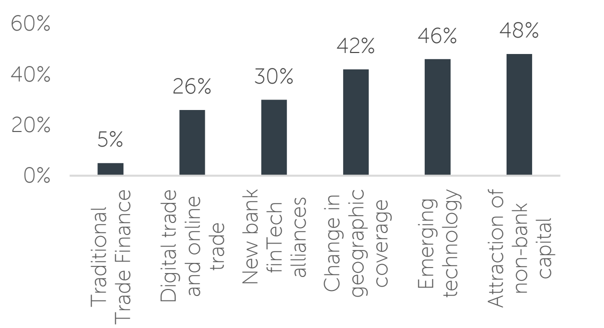
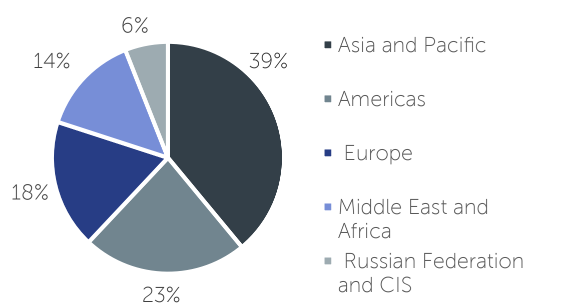


Figure 3: US$1.5tn trade finance funding gap – growth prospect



Source: Figure 1, 2 – 2018 Global Trade – Securing future growth (ICC Global Survey on Trade Finance), Figure 3 – The trillion dollar trade finance opportunity – BNY Mellon (May 2018)

Trade Finance

Trade finance is the process of financing commerce and international trade related activities through instruments such as lending, letters of credit, factoring, export credit facilities and trade insurance. It is an alternative to traditional bank financing and is often used by buyers to seek protection against the trade specific risks such as unfavorable forex movements and political instability. Trade finance is projected to be a US$45bn in value industry by 2021, growing more than the global trade industry which is expected to grow by 4% annually over 2018-26 horizon. Technological advancement remains a major growth driver of trade finance. Besides, global trade market continues to improve fast with recovering oil market and rapid growth in global economy, despite regulatory and political hurdles.

Islamic trade finance: The narrative remains bullish

Shari'a-compliant products have been growing their worldwide presence paving way for Islamic trade finance in the modern finance industry. Global penetration of Islamic finance has climbed from 30% in 2007 to 45% in 2017 and this trend is likely to follow in future across Middle East, Africa, and European markets, according to a Moody's report. Islamic finance is projected to become a whopping US$3.8tn industry by 2022, according to Thomson Reuters. Islamic trade finance has the potential to grow in tandem with the Islamic finance. Indeed, with such massive growth opportunity, trade financiers at the GTR Mena Trade and Export Finance Week (Dubai, 2018) showed that trade finance has the potential to become a key Islamic offering across the globe. Presently, there is a huge gap between Islamic trade financing and conventional trade financing as the latter is carried out through simpler solutions. That being said, the industry has significant demand for well-structured instruments with improved risk controls, which would create additional opportunity for the relevant market players. Major Gulf-based Islamic banks have already started exploring new horizons of trade finance by collaborating with European institutions. In a latest, Dubai Islamic Bank collaborated with Deutsche Bank to facilitate its Shari'a-compliant Letter of Credit for trade with Europe. Similarly, Bank of America Merrill Lynch and Standard Chartered are also active in the GCC region through formation of relevant partnerships.

Growth Opportunity – Is it the right time to invest?

Rapidly evolving industry: A global shortfall of trade finance has become evident with an increase in rejection of trade finance applications due to stricter regulatory requirements. Latest research indicates that US$1.5tn of the trade finance market is subject to a funding gap, which disproportionately affects small- and medium sized enterprises and unrated or non-investment-grade firms in both developed and lesser developed markets. Asia Pacific is estimated to have the largest gap of around 39% of total shortfall in global trade finance. The potential market is huge for alternate financiers as almost 46% of businesses report that a doubling of trade finance availability would fuel an increase in production and exports.

Trade finance expanding into emerging markets: Alternate Financiers are expected to step into emerging markets to yield better return on investments and fill the widening trade finance gap, particularly in developing Asia, Iran, Ukraine and Africa. With the lifting of sanctions in countries as Iran, European banks have been rapidly accessing such resource-rich markets while assisting for growing export levels. Emerging markets are expected to expand with growing middle class population and free trade agreements, while global economic power shifts from West to East. ICC global survey shows that around 42% trade finance gain could come from change in geographic coverage over next 3-5 years.

Digital innovation in trade finance: Digital innovation in trade finance is now finally leaping ahead after years of shallow hype and excitement. Digitization will improve the operational efficiency for better service at lower cost. This, in turn, is likely to spur demand for trade finance products, especially from the currently underserved SME segment.

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Fund Details

ISIN	KYG7387K1067
Domicile	Cayman Islands
Currency	USD
Asset Type	Alternative
Priced/Subscriptions	Monthly
Minimum/Additional Investment	USD 100,000/10,000
Targeted Return	3 Month USD LIBOR+5.00%
Management Fee	1.00% per annum
AUM, as of May 2019 (USD, mn)	277

Figure 4: Fund's Current Geographical Breakdown, May 2019

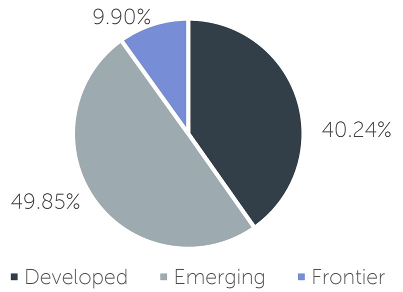
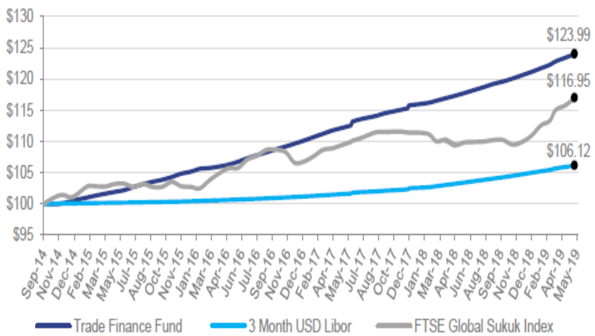


Figure 5: Fund Performance



Source: Figure 4, 5 – Rasmala Trade Finance Fund Factsheet (May 2019)

BCG estimated that an integrated digital solution would save global trade banks between US$2.5bn-US$6.0bn on a cost base of US$12bn-US$16bn, with a potential to increase revenue by 20%. Moreover, emerging technologies will likely contribute around 46% of trade finance gains in next 3-5 years.

The Fund

Rasmala Trade Finance Fund specializes in providing short-term, structured, and private financing to companies trading real assets in the real economy within the trade finance sector. It invests in a diversified portfolio of short-term, asset backed and/or credit insured Shari'a compliant structured trade finance opportunities, primarily in emerging markets which may benefit from unique collateral arrangements. For investors, it provides a regulated Shari'a compliant investment vehicle to enhance and diversify their international asset allocation, through an asset class that has limited correlation to the underlying volatility in traditional asset classes such as equities and fixed income markets. The Fund targets a stable return of 3 month USD LIBOR + 5.00% (net of fees and expenses) with a focus on capital preservation. It endeavors to distribute cash dividends to investors on record as of end of June and December (paid to investors around July and January).

Key investment highlights:

- Uncorrelated returns with traditional asset classes such as equities and fixed income
- Consistent annuity like returns in different market conditions with low volatility
- Impressively low duration of 0.27, leads to a positive Interest Rate Correlation (hedge against raising interest rates)
- Shari'a compliant, 100% asset backed and/or credit insured
- No currency risk as all transactions are financed in USD
- Typical security/structural enhancements include:
  1. Legal ownership and retention over commodities until payment is received
  2. Over-collateralization; facility typically secured against more than 100% (e.g. 120%) of cost of collateral
  3. Pre-sold: Commodity is pre-sold
  4. Self-Liquidating: All purchases are repaid by proceeds from the sale of Commodities to the ultimate Buyer(s)

Key risks:

- Underlying asset price impacted by commodity price volatility
- Transaction security and asset selection, risk associated with liquidating assets

Key investment-related fund details are highlighted below:

- No more than 15% of the targeted Fund size may be invested in assets which either individually or collectively originate from any single investment grade rated counterparty
- No more than 10% of the targeted Fund size may be invested in assets which either individually or collectively originate from any single unrated or sub-investment grade related counterparty
- The Fund may, from time to time, purchase Shari'a compliant assets for liquidity or cash management purposes
- The Fund may borrow up to 25% of the Fund NAV without interest provided the terms of any such borrowings are approved by a simple majority of the Directors, are Shari'a compliant and approved by the Shari'a Advisor

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Sources: 1. Rasmala Trade Finance Brochure 2017, 2. Rasmala Trade Finance Fund Factsheet (May 2019), 3. 2018 Global Trade – Securing future growth (ICC Global Survey on Trade Finance), The trillion dollar trade finance opportunity – BNY Mellon (May 2018), 4. Sarona – Trade Finance in frontier & Emerging Market (May, 2018), 5. BCG: Digital Innovation in Trade Finance, 6. 2018 – Trade Finance Trends (Trade Finance Global), 7. MIFC: Insights Islamic Trade Finance, 8. Global Trade Finance Market 2018 Size, Trends, Industry Analysis, Leading Players & Future Forecast by 2025 – MarketWatch, 9. UAE bankers see "huge demand" for Islamic trade finance, expect significant growth | Global Trade Review (GTR).