



# GCC Sukuk: A Primer, 3<sup>rd</sup> Edition Summary

FROM THE

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## About Saturna

Saturna Capital, manager of the Amana, Saturna Sustainable, and Sextant Funds, uses years of investment experience to aid investors in navigating today's volatile markets. Founded in 1989 by professionals with extensive experience, Saturna has helped individuals and institutions build wealth, earn income, and preserve capital.

We are long-term, values-based, and socially responsible investors. We view consideration of environmental, social, and governance (ESG) factors as essential in forming portfolios of high-quality companies that are better positioned to reduce risk and identify opportunities. We believe that companies proactively managing business risks related to ESG issues make better contributions to the global economy and are more resilient.

At Saturna, we believe in making your investment dollars work hard for you and that your interests always come first. Saturna strives to not only offer the best investment opportunities from mutual funds to IRAs, but to match those sound investments with superior customer service.



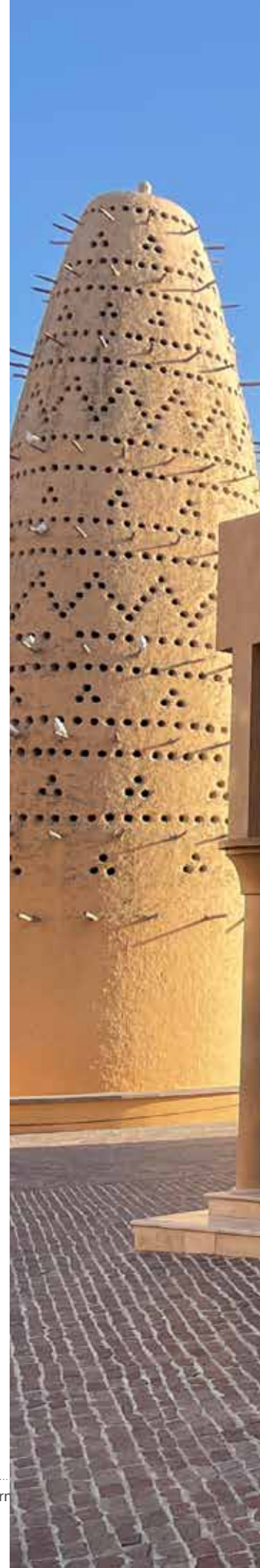
Most people are not familiar with the term *sukuk*, much less know of their similarities to conventional fixed-income bonds. *Sukuk* have coupon rates and stated maturities, and they are typically rated by major credit rating agencies. The *sukuk* market is anticipated to reach \$1 trillion in the anticipated near-term future.<sup>1</sup> Investors that allocate a portion of their investments in global bonds are likely to already hold *sukuk*, as they are widely held by fund managers and mainstream exchange traded funds (ETFs) such as JPMorgan Emerging Markets Bond Index.

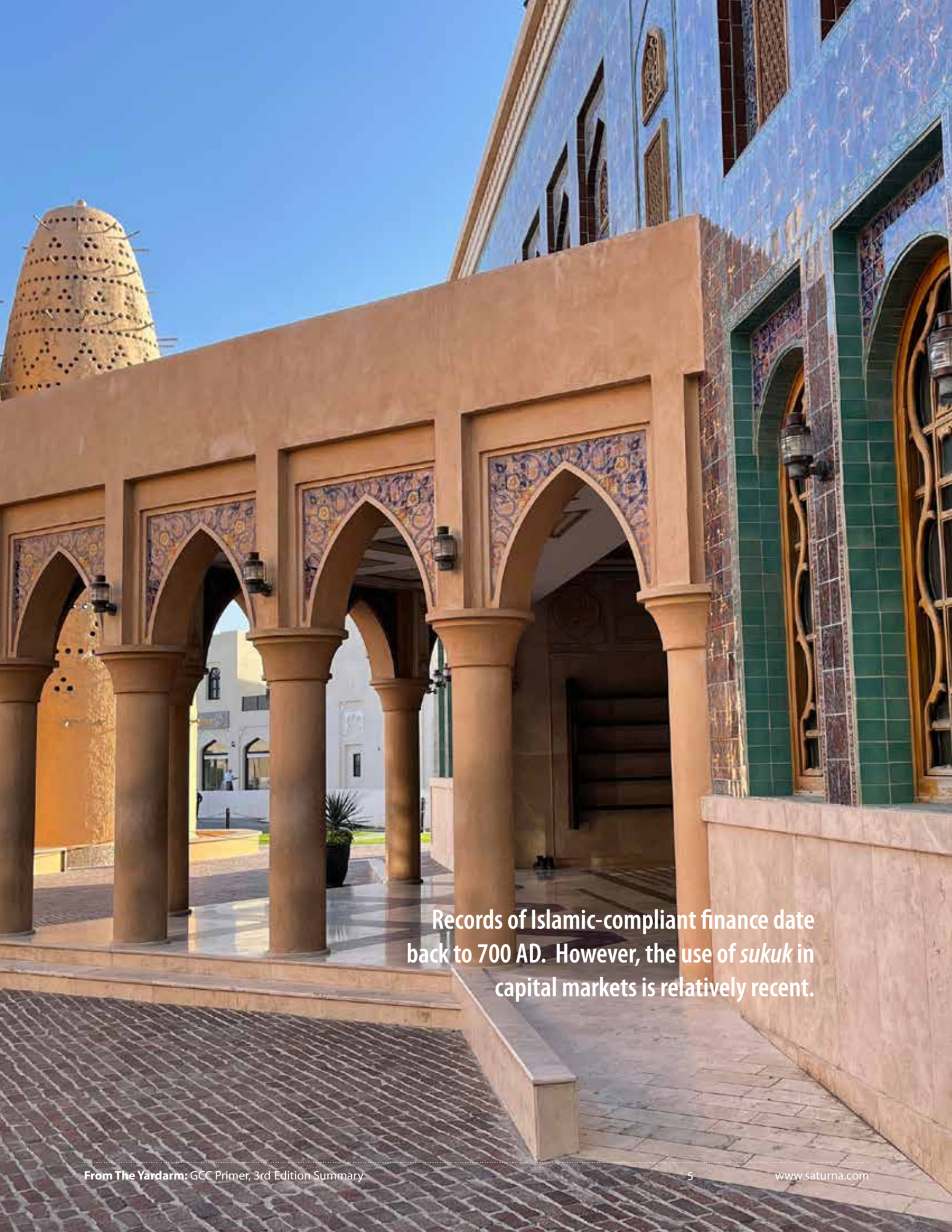
## What Are Sukuk

*Sukuk* are financial certificates that adhere to Islamic law. They perform similarly to traditional bonds but have a different construction and mode of producing returns. Unlike debt instruments, *sukuk* represent an ownership interest in an underlying asset. The underlying assets can be tangible or intangible and must avoid activities prohibited by Islamic principles, such as charging or receiving interest (*riba*). Returns are generated through profit-sharing arrangements based upon the assets linked to the security. *Sukuk* are subject to a *fatwa*, a non-binding religious review, by Islamic scholars who ascertain the instrument's adherence to Islamic law. These qualities set *sukuk* apart from conventional debt-based instruments.

## History & Size

Records of Islamic-compliant finance date back to 700 CE.<sup>2</sup> However, the use of *sukuk* in capital markets is relatively recent. The first *sukuk* was issued in 1990 by Shell MDS Sdn Bhd (the Malaysian subsidiary of the former energy company Shell Corporation) for 125 million Malaysian ringgit.<sup>3</sup> Since then, the *sukuk* market has expanded in size and depth. At year-end 2023, the total volume of outstanding global *sukuk* was over \$850 billion, even larger than the high yield eurodollar bond market, estimated at over \$750 billion.<sup>4</sup> *Sukuk* have been issued in 27 different currencies. The largest share of the *sukuk* market is denominated in Malaysian ringgit, followed by the US dollar.<sup>5</sup> As of 2022, approximately 18% of the \$4.5 trillion in assets that adhere to Islamic principles are represented in the global *sukuk* market.<sup>6</sup> Comparing the global Muslim population—which surpassed 2.0 billion in 2023 – to the quantity of assets that adhere to Islamic principles, Islamic-compliant financial assets are notably underrepresented.<sup>7</sup>





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## What's the Appeal

US dollar-denominated *sukuk* demonstrate some of the highest risk-adjusted returns among developed and emerging market fixed-income benchmarks. This portion of the market is heavily represented by *sukuk* issued in one of the six countries of the Gulf Cooperation Council (GCC.) We often refer to this portion of the *sukuk* market with the tag line “plenty in the bank, plenty in the tank,” in reference to the region’s large capital and hydrocarbon reserves.

The GCC is a political and economic alliance that was established in 1981 to promote stability and security. The council includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). As of 2022, over 56 million people live in the GCC region, representing 0.7% of the global population. While the region generates just 2.2% of global gross domestic product (GDP), it satiates 32.8% the world’s oil demand, which gives the GCC significant influence on the world stage. However, about half of the population of the GCC are expatriates. This reduces the GCC’s “natural population” to about 27.6 million people.<sup>8,9</sup> In no other region of the world is there so much wealth concentrated among such a small population. The combination of these factors (large capital buffers, extensive hydrocarbon reserves, and *sukuk* structuring) partially explains the favorable investment attributes of this emerging asset class.

		5-year Trailing Return (12/30/18 - 12/29/23)		3-year Trailing Return (12/31/20 - 12/29/23)		1-year Return (12/30/22 - 12/29/23)
		Total Return	Annualized	Total Return	Annualized	Annualized
Bloomberg GCC Credit Total Return Index Value Unhedged USD	BGCITRUU Index	15.26%	2.88%	-7.90%	-2.71%	5.36%
Bloomberg EM Asia USD Total Return Index Value Unhedged	BEUCTRUU Index	9.01%	1.74%	-8.48%	-2.92%	7.07%
Bloomberg EM Hard Currency Agg. TR Index Value Unhedged USD	LG2OTRUU Index	6.99%	1.36%	-10.92%	-3.79%	9.66%
JPMorgan EMBI Global Core	JPEICORE Index	8.79%	1.70%	-11.41%	-3.96%	10.84%
FTSE Sukuk	SBKU Index	18.15%	3.39%	-1.98%	-0.67%	5.63%
Bloomberg US Treasury Index measures	LUATTRUU Index	2.68%	0.53%	-11.03%	-3.83%	4.06%
Bloomberg Global Agg Treasuries Total Return Index	LGTRTRUU Index	-7.16%	-1.48%	-19.70%	-7.07%	4.19%
Bloomberg US Agg Total Return	LBUSTRUU Index	5.64%	1.10%	-9.62%	-3.32%	5.54%
S&P 500	SPX Index	107.04%	15.68%	33.02%	10.00%	26.34%
MSCI Emerging Markets Index	MXEF Index	21.76%	4.02%	-13.74%	-4.82%	10.15%
Crude (Oil)	CL1 Comdty	95.31%	14.33%	100.23%	26.09%	-11.88%

Source: Bloomberg



While returns are an important part of an investor's equation, risk should also be considered. Standard deviation measures the amount of variation, or dispersion, of a set of observed values and is commonly used to measure investment risk. In this case, the set of values comprises investment returns over time. The higher the standard deviation, the greater the dispersion of returns — both positive and negative. Greater return dispersion implies greater risk, while lower dispersion signals lower risk. Standard deviation is best used in a relative framework to compare returns to other asset classes and gain a sense of return variability. We examined the five-year and three-year standard deviations among a broad range of benchmarks to help us better estimate risk. The FTSE IdealRatings Sukuk Index demonstrated the lowest volatility when compared to the other selected benchmarks.

		5-year Standard Deviation (12/30/18 - 12/29/23)	3-year Trailing Return (12/31/20 - 12/29/23)
		Standard Deviation	Standard Deviation
Bloomberg GCC Credit Total Return Index Value Unhedged USD	BGCITRUU Index	2.3%	2.0%
Bloomberg EM Asia USD Total Return Index Value Unhedged	BEUCTRUU Index	1.8%	2.0%
Bloomberg EM Hard Currency Agg. TR Index Value Unhedged USD	LG20TRUU Index	2.5%	2.4%
JPMorgan EMBI Global Core	JPEICORE Index	3.9%	3.4%
FTSE Sukuk	SBKU Index	1.2%	1.2%
Bloomberg US Treasury Index measures	LUATTRUU Index	2.7%	2.8%
Bloomberg Global Agg Treasuries Total Return Index	LGTRTRUU Index	2.8%	3.1%
Bloomberg US Agg Total Return	LBUSTRUU Index	2.6%	2.9%
S&P 500	SPX Index	9.7%	8.0%
MSCI Emerging Markets Index	MXEF Index	7.8%	7.4%
Crude (Oil)	CL1 Comdty	24.8%	17.9%

Source: Bloomberg

## Conclusion

On balance, US dollar-denominated *sukuk* issued in the GCC region can provide investors a valuable means of diversification with a distinct asset class that possesses favorable risk and return characteristics. The large capital buffers, vast hydrocarbon reserves, and strong credit ratings are appealing attributes for investors. We invite you to read our white paper, the *GCC Sukuk Primer, 3rd Edition*, for a more detailed look into this region, its community, and the unique Islamic-compliant fixed-income market.

## About the Author



**Patrick Drum** MBA, CFA®, CFP®  
Senior Investment Analyst and Portfolio Manager

Patrick T. Drum, Senior Investment Analyst and Saturna Sustainable Bond and Amana Participation Funds Portfolio Manager, joined Saturna Capital in October 2014. He is a former adjunct professor of finance for the Sustainable MBA Program at the Bainbridge Graduate Institute (BGI) currently known as Presidio Graduate School. Mr. Drum holds a BA in economics from Western Washington University and an MBA from Seattle University Albers School of Business. He is a Chartered Financial Analyst (CFA) charterholder and a Certified Financial Planner™.

Prior to joining Saturna Capital, Mr. Drum led environmental, social, and governance (ESG) research and was director of fixed income portfolio management since 2007 with a private account group at UBS Institutional Consulting Services specializing in investment management for global conservation and national wildlife park endowments as well as sustainable-social screened client portfolios. He is a former Chair of the United Nation's Principles for Investment (UNPRI) Fixed Income Outreach Subcommittee and a current member of the UNPRI's Bondholder Engagement Working Group (BEWG), an advisory committee working to elevate important ESG considerations and best practices among issuers and investors.

Mr. Drum's past experience also includes business valuation at Moss Adams and portfolio management at Washington Mutual Bank. He lives in Bellingham and is a proud father of two. He enjoys sea kayaking, hiking, and being part of the Pacific Northwest community. Mr. Drum is a member of the board of trustees to the Museum of Glass in Tacoma and a member of Rotary.

## More by Patrick Drum

**GCC Sukuk: A Primer - Investment Characteristics of US Dollar-Denominated Sukuk Originating from the Gulf Cooperation Council, 3rd Edition.**



We are delighted to release the third edition of our GCC Sukuk Primer. This white paper examines the investment landscape and characteristics of *sukuk*, or Islamic-compliant investment certificates.

## Footnotes

- <sup>1</sup> "Gulf nations witness 178% surge in US Dollar sukuk issuance: Fitch Ratings." Arab News, January 14, 2024.  
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- <sup>4</sup> Ibid. Arab News.
- <sup>5</sup> <https://www.iifm.net/frontend/general-documents/f0a12d4a6880f8e3bc23a23a03baa8e61693983390.pdf> (page 85)
- <sup>6</sup> 'ICD-LSEG Islamic Development Report 2023, Navigating Uncertainty.'  
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<https://www.pwc.com/m1/en/publications/middle-east-economy-watch/population-trends.html>
- <sup>9</sup> Al Flaiti, Ali Sulaiman. "The Role of the Expatriate Population (Non-GCC Citizens) in the Overall Population Growth and Structure." ISI World Statistics Congress, July 17, 2023. Page 3.  
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## Index Definitions

*The JPMorgan EMBI Global Core Index is composed of US dollar-denominated government bonds issued by emerging market countries. The Index is a broad, diverse US dollar-denominated emerging markets debt benchmark that tracks the total return of actively traded external debt instruments in emerging market countries. This includes the Bloomberg Global Credit - United Kingdom Total Return Index Unhedged USD.*

*The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency emerging markets debt benchmark that includes USD, EUR, and GBP-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. This includes the EM Hard Currency Aggregate: Corporate, and the EM Hard Currency Aggregate: Other Government Related.*

*The Bloomberg Emerging Markets Hard Currency Aggregate Index is a flagship hard currency emerging markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers. This includes the Bloomberg Emerging Markets Hard Currency Aggregate Index. This index includes the Bloomberg GCC USD Credit Total Return Index.*

*The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the Index because their inclusion would result in double-counting.*

*The Bloomberg Global Aggregate ex USD Index is a measure of investment-grade debt from 24 local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in USD are excluded. This includes the Bloomberg Global Aggregate ex USD Index.*

*The FTSE IdealRatings Sukuk measures the performance of global Islamic fixed-income securities, also known as sukuk. Investors cannot invest directly in the Index.*

*The S&P 500 is an index comprised of 500 widely held common stocks considered to be representative of the US stock market in general.*

*The MSCI Emerging Markets Index, produced by Morgan Stanley Capital International, measures equity market performance in over 20 emerging market countries.*



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