

# M E N A

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## FUND MANAGER

# GOING FOR GOLD

**EXCLUSIVE**  
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DSAM's Ahmed Bin Sulayem and Eric Meyer reveal their game-changing Islamic hedge fund strategy

### WINNING FORMULA

The results of the Mena FM Performance Awards

### TESTING TIMES

Iran's secretive fund market is full of surprises

### THE NEXT WAVE

Investors are not done with the UAE says FPI

# PROFILE

DSAM



## Going for gold

Following years of groundbreaking work, DSAM has turned its Kauthar Gold Fund into the first ever Shariah-compliant hedge fund available to retail clients. Ahmed Bin Sulayem and Eric Meyer describe the painstaking process of taking it to market

**By Kathryn Gaw**

◆ AHMED BIN SULAYEM executive chairman, DMCC (left) and ERIC MEYER, chairman and CEO, Shariah Capital (right)

The three-time winner of the Mena Fund Manager Outstanding Performance and Innovation Award, has just become even more innovative. Following the completion of a three-year track record, *Mena FM* can reveal that the Dubai Shariah Asset Management (DSAM) run Kauthar Gold Fund is opening up to retail investors for the first time, offering a minimum investment of \$5,000 and weekly liquidity on the region's only Shariah-compliant gold-focused hedge fund.

Niche is hardly the word. And yet the fund is already generating considerable interest among the UAE's IFA community, armed with the backing of the influential Dubai Multi Commodities Centre (DMCC) and an average annual return since inception of 25.93% (as at 31 December 2011). At the time of writing, Skandia International and Mondiale had both agreed to distribute the fund, and a number of similar agreements were pending. DSAM is also targeting private banks and wealth managers in the UAE and beyond, with a view to making the investment vehicle accessible to the man on the street, on as many streets as possible.

"Based on our research, we understand that our Kauthar Gold Fund is the only Shariah-compliant gold equity fund in the world," says Ahmed Bin Sulayem, executive chairman of the DMCC. "To the best of our knowledge it is also the best performing gold equity fund in the Mena region. We have an award winning product managed by one of the world's best equity gold managers, which we felt if offered to retail investors would be unique."

The retail market is frequently overlooked in the Mena region, with most fund managers erring towards the larger ticket investment potential of HNWI and institutions. For a Mena-based hedge fund to be offering this service is rarer still – the legal and religious limitations on shorting is just one barrier to popular uptake of an already "alternative" asset class. DSAM has been finessing its strategy for four years, with an emphasis on strong back-office support, and top-notch Shariah advice. And under the guidance of Shariah scholar Shaykh Nizam Yaquby, the DSAM team have found a solution.

"We had to go to a prime broker because the hallmark of what we do is the ability to hedge risk on a downside to create some kind of short sell vehicle," explains

Eric Meyer, chairman and CEO of Shariah Capital. "Before we came into the picture, no one else had created a Shariah-compliant short sale solution and so we had to change a 'master securities loan' (MSL) agreement to a 'master securities arboon' (MSA) agreement. This MSA agreement had to be handwritten and that cost millions of dollars.

"You can't sell something you don't own in Islamic finance, so we had to collaborate with Barclays so they take the counter party risk," he adds. "They would allocate a stock and they would sell it to us vs the conventional borrow. From a securities point of view, this is very complicated. And can you imagine in today's world asking a bank to take counter party risk? I don't think anybody would do this today."

### Golden opportunity

Meyer established Shariah Capital in February 2006, with the idea of creating a Shariah-compliant hedge fund platform. Shariah Capital then formed a Cayman-based joint venture with the DMCC in 2009, creating DSAM. Meyer has a long track record managing hedge funds in the US, at firms such as Oak Hall Capital Advisors, where he worked alongside John Hathaway, whose firm is now considered to be the world's leading gold fund manager, with approxi-

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## What is DSAM?

Dubai Shariah Asset Management (DSAM) is a joint venture between Dubai Commodity Asset Management (DCAM), a wholly-owned division of the Dubai Multi Commodities Centre (DMCC), which owns 51% of the firm, and the New York-based Shariah Capital, which has a 49% stake. DSAM has a remit to develop and manage Shariah-compliant investments focused on commodities, including its flagship Kauthar Gold Fund, which was established on 31 January 2009 and is managed by John Hathaway of Tocqueville Asset Management. Other funds include the DSAM Kauthar Global Resources & Mining Fund, which is managed by Dan Rice of Blackrock Capital Management, and the DSAM Kauthar Energy Fund, managed by Russell Lucas of Lucas Capital Management.

### TOP FIVE HOLDINGS OF DSAM KAUTHAR GOLD FUND (at end December 2011)

- Newmount Mining Corp
- Allied Nevada Gold Corp
- Gold Resource Corp
- Randgold Resources
- Barrick Gold Corp

## “The regulatory environment has been my Waterloo”

- Eric Meyer

mately \$10.9bn AUM. It is no surprise that he was DSAM's first choice to manage the Kauthar Gold Fund.

Assembling a strong team was important to Meyer, who specifically targeted the best Shariah scholar (Yaquby), the most versatile prime broker (Barclays), the top performing gold hedge fund manager (Hathaway) and leading Cayman-based auditor (PwC), administrator (Citco) and law firms (Walkers and K&L Gates). “I had this crazy dream,” he says. “If I could do it with all the biggest and the best, I could build this unbelievable platform between east and west. So I approached the DMCC with this concept, and that’s when Ahmed Bin Sulayem heard me out on my vision and agreed to seed our DSAM funds.”

As the seed investor, the DMCC has done very well out of the DSAM partnership. From an initial investment of \$50m, the fund has generated consistently good returns and despite a number of redemptions over the past three years, and a 2011 YTD performance of -16.84%, it is still worth approximately \$40m today.

“Based on the interactions we have with our member companies, customers and other partners, we saw a growing demand for access to commodity-centric Shariah-compliant funds,” says Bin Sulayem. “In partnership with DSAM, we knew that we could build a world-class Shariah-compliant fund business that would deliver returns that would either match or succeed conventional fund performance.”

In fact, Meyer believes that the Kauthar Gold Fund will be attractive to both Muslim and non-Muslim customers at a retail level. “I don’t think there’s another long/short gold fund in the world that offers weekly liquidity here,” he says, adding that he hopes to target the UAE’s local and ex-pat community through the IFA agreements.

“It will only be distributed in the UAE initially,” he adds. “Then we’re going to focus on the idea of finding another distribution partner, whether it’s in Qatar, Kuwait, Bahrain, Saudi Arabia, Malaysia or Indonesia.”

### Long route to market

But getting to this stage has been a long and frustrating process. As a result of the DMCC partnership, the DSAM team were keen to obtain a UAE distribution licence, but this required a wait of more than a year, while the application was processed at the central bank. Once they had obtained the UAE licence, the team had to wait another three years to build up the minimum track record required by the Cayman regulators. “The regulatory environment has been my Waterloo,” says Meyer. “The multi-jurisdictional regulatory requirements have made this project almost impossible to complete.”

Given the amount of time, work and, of course, money, involved, it is no surprise that other fund managers haven’t pursued a similar strategy, and Meyer does not believe that others will be in a hurry to follow suit. “You could piggyback off what we have done, but in today’s age if you can’t show a return in a quarter or two, you’d be fired if you brought this up to somebody right now,” he says. “Timelines are a definite. We have to work with multi-jurisdictional regulators. We have to retain lawyers on an *à la carte* basis here. I can’t even begin to say what the cost would be or what timelines. Who in today’s world would let you do that?”

So now that the fund has gone to market, what is the next big challenge for DSAM? Meyer is still set on rolling out his Shariah-compliant hedge fund platform, Al Safi, across the region. “I am determined that we will expand our Shariah-compliant platform that allows not just our funds but other funds,” he says. “It would be Shariah-compliant best of breed, because right now a Shariah-compliant investor doesn’t have all the breadth of funds to select from. I’d love to have 20 funds on the platform.”

With the backing of the DMCC, and a strong track record behind them, there is every reason to believe that Mena will see its first Shariah-compliant hedge fund platform before long. Adds Bin Sulayem: “We believe that there are more growth opportunities and can see us very much at the forefront of leading this growth.”

DSAM KAUTHAR GOLD FUND PERFORMANCE *Source: DSAM*

