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Saleh Kamel Islamic Economy Database

ISLAMIC INVESTMENT FUNDS

An Industry Insight

Industry Insights Series

June 2026



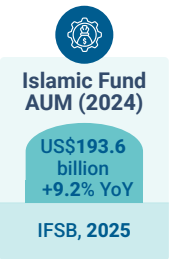
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01 Industry Scale and Historical Milestones

Within the broader Islamic Economy ecosystem, Islamic investment funds constitute a distinct and rapidly maturing segment. They apply Sharia screening and structuring principles to pooled investment vehicles, enabling investors to access diversified exposure to equities, real estate, commodities, and alternative assets within an ethically defined framework. The growth of Islamic funds has tracked, and in some periods outpaced, the broader industry. This expansion is driven by deepening capital markets in Malaysia and the GCC, the emergence of global fund domiciles such as Luxembourg and Ireland as platforms for Sharia-compliant vehicles, and the growing convergence between Islamic finance principles and the Environmental, Social and Governance (ESG) agenda.

As of 2024/25, the global Islamic finance industry has reached an estimated **US\$3.88 trillion** in total assets, a milestone that coincides with the **50th anniversary** of its modern institutional form. Islamic funds specifically recorded assets under management (AUM) of **US\$193.6 billion**, representing a **9.2%** increase driven by equity market performance and renewed institutional inflows into Malaysian and GCC funds.^{[1] [2]} The industry's growth reflects structural demand: a global Muslim population approaching **2 billion**, government-level strategic commitments from Malaysia to Saudi Arabia to Türkiye, and growing recognition among conventional institutional investors that Sharia-compliant instruments offer distinctive portfolio characteristics, particularly their real-economy anchoring and prohibition of speculative excess.



Key milestones in the evolution of Islamic finance and the fund industry

<p>1975 Islamic Development Bank & Dubai Islamic Bank established</p> <p>Significance Multilateral and commercial institutional foundations of modern Islamic finance.</p>	<p>2003 IFSB established, Kuala Lumpur</p> <p>Significance Prudential and supervisory standards body for Islamic financial services, covering banking, capital markets, and insurance.</p>	<p>2008 Global Financial Crisis</p> <p>Significance Islamic banks demonstrate relative resilience; the riba prohibition limits exposure to toxic debt instruments prevalent in conventional markets.</p>
<p>2014 UK becomes first non-Muslim sovereign sukuk issuer</p> <p>Significance GBP200 million HM Treasury sukuk signals Western market integration and mainstream credibility for Islamic capital instruments.</p>	<p>2017 World's first green sukuk issued, Malaysia</p> <p>Significance US\$59 million Tadau Energy green sukuk aligns Islamic finance with the sustainable development agenda for the first time.</p>	<p>2021 UK Sovereign Sukuk II</p> <p>Significance Deepens London's role as a Western Islamic finance hub; London Stock Exchange lists approximately US\$95 billion in sukuk.</p>
<p>2024 Sukuk market exceeds US\$1 trillion outstanding</p> <p>Significance Historic milestone; Saudi Arabia leads annual issuance at US\$75.3 billion; governments account for 58% of total supply.</p>	<p>2024 ESG sukuk surpass US\$50 billion outstanding</p> <p>Significance 14.7% issuance growth; ICMA-IsDB-LSEG guidance issued, bridging Shariah and Green Bond Principles.</p>	<p>2024/25 IFSB: Islamic finance at US\$3.88 trillion</p> <p>Significance 50th anniversary of the industry; Türkiye participation banks reach 8.9% domestic banking market share.</p>

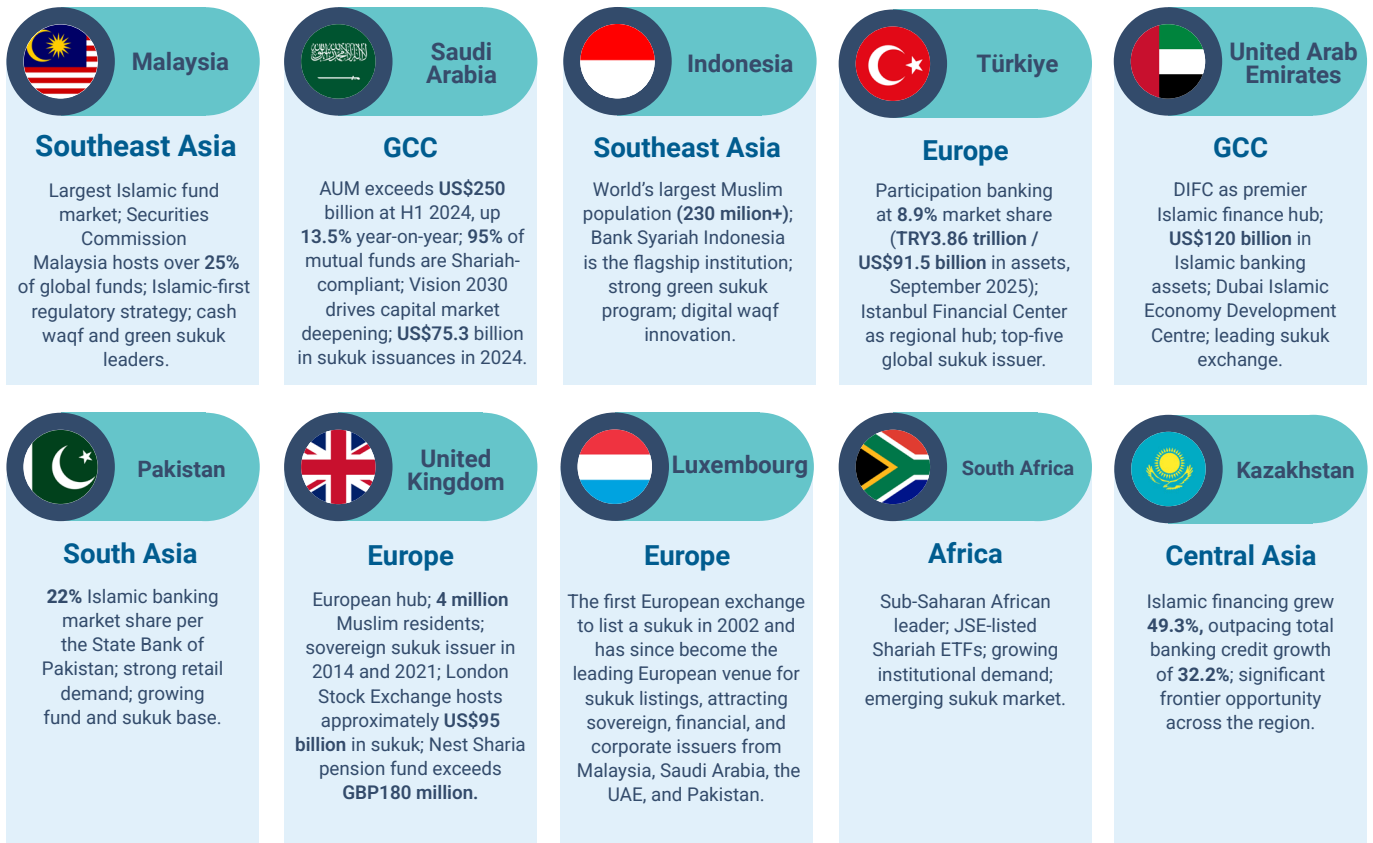
Sources: IFSB (2025), TKBB (2025), ICD-LSEG (2025), ICMA (2024).

02 Geographic Distribution and Key Markets

The Islamic fund and finance industry spans more than **80 countries**, but the concentration of institutional capacity remains high. **GCC markets** collectively represent around **50% of total industry assets** and Southeast Asia constitutes the **second-largest regional bloc**.^[3] while Saudi Arabia, and Malaysia, are the top markets in terms of global Islamic finance assets.^[1]

The industry's geographic expansion is one of its defining structural themes. **The launch of new exchange Traded Funds (ETF)** across South Africa, Kazakhstan, Hong Kong, and Saudi Arabia, alongside the licensing of new digital Islamic banks in Türkiye and the establishment of Uganda's **first** Islamic bank in **2024** highlight this trend. Furthermore, the Philippines' dedicated Islamic finance roadmap all signal a widening geographic footprint extending well beyond the traditional GCC and Southeast Asia axis.^[2]

Key markets in the global Islamic finance landscape



Sources: IFSB (2025), IFDI (2025), TKBB (2025), Fitch Ratings (2024), Coalition Greenwich (2024).

03 Asset Class Composition

3.1 Islamic Investment Funds and Asset Class Landscape








Global Islamic fund AUM of **US\$193.6 billion** spans a diverse range of asset classes, all structured to comply with Shariah principles. Equity strategies currently dominate the landscape, supported by the **DJIM** and **MSCI** Islamic Index families. Sukuk funds represent approximately **9%** of total Islamic fund AUM at **US\$15.3 billion** but grew **37%** in **2024**, the fastest-growing sub-category.^{[1][2]}

3.2 Islamic Capital Markets and Sukuk

Sukuk, Islamic bonds structured around asset-backed or asset-based financing, have become the defining long-tenor capital mobilization instrument of the Islamic economy. In **2024**, global sukuk outstanding crossed **US\$1 trillion** for the first time, with total annual issuance rising **11%** to **US\$254.3 billion**. Saudi Arabia led sovereign issuance with **US\$75.3 billion**, and governments accounted for **58%** of total supply.^[2]

Sukuk serve as the primary instrument for infrastructure financing across the GCC and Southeast Asia, funding airports, highways, hospitals, and energy transition projects. Indonesia's government has issued **US\$3.3 billion** in green sukuk for climate-aligned investments. A significant regulatory development is AAOIFI Draft Shariah Standard No. 62, which proposes stricter asset ownership transfer requirements for sukuk. Implementation has been delayed to 2026 following industry consultation, but when finalised, the standard is expected to shift the market toward genuinely asset-backed structures, deepening Shariah integrity while increasing structural complexity.^[2]

Islamic fund asset class landscape

Asset Class	Characteristics and Market Context	Growth Outlook
 Equity Funds	Largest category; DJIM and MSCI Islamic indices provide Shariah screening benchmarks; dominant in Malaysia and GCC markets.	Stable; ETF-led expansion ongoing.
 Sukuk and Fixed Income	Global outstanding surpassed US\$1 trillion in 2024 for the first time; Saudi Arabia led issuance at US\$72.7 billion .	Strong; sovereign and ESG issuance rising.
 Mixed Assets	Blended mandates offering diversification; growing demand from pension funds and high-net-worth investors.	Growing; institutional demand.
 Money Market	Wakalah, Murabaha and Commodity Murabaha structures; essential for institutional liquidity management.	Stable; institutionally driven.
 Real Estate	Shariah-compliant REITs and direct property funds; underdeveloped relative to the natural alignment with Islamic finance principles.	High potential; currently underserved.
 ESG and Green Funds	ESG sukuk surpassed US\$50 billion outstanding in 2024 ; ICMA-IsDB-LSEG guidance bridges Shariah and Green Bond Principles.	High growth; convergence with ESG investor base.
 Commodities and Alternatives	Gold-backed, commodity Murabaha, and infrastructure sukuk; nascent but growing niche across GCC and Southeast Asia .	Emerging; sovereign wealth fund interest.

Sources: IFSB (2025), ICD-LSEG (2025), Fitch Ratings (2024), ICMA (2024).

04 FinTech and Digitalization in the Islamic Fund Industry

The Islamic fund industry is undergoing rapid digital transformation that is reshaping the entire fund lifecycle: from marketing and distributing units to retail investors, through automated portfolio management and digital Shariah screening, to regulatory reporting and compliance. Global Islamic FinTech transaction volumes are estimated at **US\$198 billion** in 2024/25 and projected to grow at 11.5% annually through 2029, with Islamic funds forming a central pillar of this expanding digital ecosystem.^[8]

Shariah-compliant robo-advisory platforms have been particularly transformative in democratizing access to Islamic funds, reaching segments of investors who were previously excluded by high minimum investment thresholds or the absence of local distribution channels. Wahed Invest stands as the leading example of this model, offering automated Islamic fund portfolios to investors across more than **130 countries** at low minimum entry points, replacing the traditional human-advisory model with automated Shariah-screening algorithms.

4.1 Tokenization and Digital Islamic ETFs

The tokenization of Islamic funds via blockchain technology is opening new pathways to broaden access to Islamic investment products. Tokenized fund units break down shares in high-minimum funds into smaller tradable portions, broadening the investor base and enhancing secondary market liquidity. Regulatory frameworks for tokenized Islamic finance instruments are advancing across leading markets. In the UAE, the Dubai Financial Services Authority's Tokenization Sandbox is being used to test digital sukuk structures, while Malaysia's Bank Negara launched a three-year asset tokenization roadmap in 2025, with live Islamic finance pilots planned for 2026 and 2027.

In parallel, Islamic ETFs are experiencing notable growth as an inherently digital distribution vehicle: they enable instant purchase and sale through electronic trading platforms at low cost with full transparency in tracking Shariah-compliant indices. Shariah ETFs listed on the Johannesburg Stock Exchange in South Africa and the Saudi Exchange represent some of the most visible examples of Islamic ETF expansion into markets outside the traditional fund centers.



4.2 Artificial Intelligence and Automated Shariah Screening

Artificial intelligence is fundamentally transforming Shariah screening methodology in Islamic fund management. Where traditional manual screening required weeks of work and was limited to samples of portfolio holdings, AI systems are now capable of reviewing thousands of securities on a continuous daily basis, flagging any potential Shariah violations the moment they arise, including breaches of permitted debt ratios or the appearance of non-compliant revenues.

Yet the integration of AI into Islamic fund management raises substantive Shariah governance questions that still await clear regulatory answers. Among these: do fully automated investment decisions satisfy the conditions of the agency (wakalah) mandate recognized in Shariah? How can the algorithm be held accountable when a Shariah violation occurs? These questions require proactive engagement from Shariah scholars and regulators before market practices become entrenched.

4.3 Governance Challenges in Digital Fund Distribution

The digital transformation of Islamic fund distribution introduced a distinct regulatory challenge. Cross-border digital platforms face a fundamental challenge in meeting diverse jurisdictional licensing rules while targeting a global investor audience. Low levels of financial and digital literacy in many markets constrain the benefits of these platforms, even where technical access is available. The protection of investor data and the security of digital transactions constitute a growing area of concern that requires specialized regulatory frameworks sensitive to the particular characteristics of the Islamic fund industry.

05 Waqf Investment Funds

Waqf, as an institution of permanent charitable endowment in Islamic jurisprudence, represents a vast pool of financing potential that the Islamic fund industry has yet to harness proportionate to its full scale. Global waqf assets are estimated in the hundreds of billions to trillions of dollars, though standardized methodologies for measuring them comprehensively remain scarce. The key strategic insight is that Islamic investment funds can serve as the investment arm for these assets, transforming waqf from a frequently dormant holding into an active portfolio that generates renewable returns for public benefit.^[6]

Saudi Arabia's waqf investment funds grew their total assets to **SAR 1.089 billion** by 2024, relying in their essential structure on Islamic funds as the vehicle for generating and distributing returns across social and economic programs. This model illustrates the practical linkages between waqf and the Islamic fund management industry.^[6]



5.1 Waqf Fund Models and Innovations

Three principal models for deploying waqf assets through Islamic investment funds have emerged across OIC markets:

- **Cash Waqf Funds:** Pool monetary contributions from waqf benefactors and invest them in diversified Islamic portfolios covering equities, sukuk, and real estate. Returns are distributed to designated charitable purposes while the principal is preserved. Malaysia's Wakaf Selangor platform is among the most developed applications of this model, channeling hundreds of millions of ringgit into licensed Islamic funds.
- **Waqf-Linked Sukuk:** Hybrid instruments that combine the perpetual nature of waqf with sukuk's capital market reach, whereby the waqf issues sukuk to finance development projects with returns flowing back to the waqf fund. Indonesia's Cash Waqf Linked Sukuk program, structured in conjunction with government retail sukuk, is the globally leading example of this model.
- **Institutional Waqf Funds:** Attract allocations from corporate entities and institutional bodies that are invested through Islamic fund managers under investment mandates that comply with Shariah constraints and pursue defined social objectives. The UAE and Malaysia have both seen significant growth in this category of fund in recent years.

5.2 Challenges in Integrating Waqf into the Islamic Fund Ecosystem

Despite the considerable potential, structural obstacles continue to limit the optimal deployment of waqf through Islamic investment funds. Among the most significant is the legal tension between waqf asset classification and the requirements of securities-regulated funds: the waqf supervisory principles of permanent custody and inalienability can conflict with the liquidity and redemption requirements of investment fund structures.^[7]

The waqf sector also suffers from the absence of standardized asset valuation methodologies and social impact measurement frameworks, making it difficult for fund managers to construct clear performance indicators (KPIs) that would persuade institutional investors to participate. Weak transparency in the governance of many waqf institutions and the uneven quality of waqf governance across different jurisdictions compound these challenges.^[7]

5.3 Waqf, Islamic Funds, and the Sustainable Development Goals

The convergence of waqf and Islamic investment funds offers a distinctive instrument for financing the Sustainable Development Goals (SDGs) in OIC member countries. Islamic waqf funds directed toward the healthcare, education, and affordable housing sectors directly align with SDGs 3, 4, and 11. Waqf funds investing in renewable energy and sustainable infrastructure projects serve SDGs 7 and 13 on climate. **The World Bank** and **OECD** have both classified these integrated instruments as essential complementary tools in sustainable development finance.^[4]

06 ESG Integration and Sustainable Islamic Finance

The convergence between Environmental, Social, and Governance (ESG) investing and Islamic finance principles represents one of the most significant structural opportunities in global capital markets. Both frameworks share negative screening of harmful industries, positive impact orientation, and a stakeholder welfare perspective rooted in long-term thinking rather than short-term return maximization.

Sustainable finance in OIC markets expanded from **US\$17.8 billion** in 2017 to **US\$82.3 billion** in 2024, a compound annual growth rate of **24.4%**. Islamic instruments represent **16%** of total sustainable finance raised across this period, with sustainable sukuk accounting for **35%** of total sustainable bond and sukuk issuances.^[4] However, only **8.2%** of sustainable syndicated loans raised between 2017 and 2024 were Shariah-compliant, underscoring the gap between potential alignment and current reality.

6.1 Green Sukuk: The Defining Instrument

Green sukuk have emerged as the primary vehicle for channeling Islamic capital toward sustainable development. Global ESG sukuk issuance grew **14.7%** in 2024 to **US\$15.4 billion**, with the market surpassing **US\$50 billion** in outstanding value, a milestone reached just seven years after Malaysia issued the world's first green sukuk of **US\$59 million** in 2017.^[5]

GCC institutions led the **2024 ESG sukuk** surge, accounting for **52%** of total issuance. Key issuers included Dubai Islamic Bank, Al Rajhi Bank, Aldar Investment Properties, and Malaysia Rail Link. A landmark standardization step came in **April 2024**, when ICMA, the Islamic Development Bank (IsDB), and LSEG jointly published guidance bridging ICMA Green Bond Principles with Shariah criteria, providing the unified framework the market has long required.^[5]

6.2 Implications for Islamic Funds

Islamic equity and mixed-asset funds are increasingly incorporating ESG overlays into their investment processes. The UK's Nest Sharia pension fund attracted over **GBP180 million** by 2024, demonstrating that ESG-aligned Islamic products can appeal to both faith-motivated and performance-seeking investors simultaneously. Malaysia's Bank Islam exceeded its **2025** green financing target of **MYR 4 billion**, achieving **MYR 4.8 billion**, with ambitions to grow its sustainable finance portfolio to **MYR 28 billion**, evidence that Islamic finance institutions can serve as significant climate finance intermediaries.^[5]

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