

Shari'ah investing

By Imraan Khan, Research and Investment Analyst.

Principle-based and socially responsible

Shari'ah investing, a form of ethical investing, is arguably a scarcely understood discipline within discretionary fund management (DFM), even by seasoned investment professionals. With its Quranic basis and grounded in Islamic trite law (Shari'ah law), there is the belief that Shari'ah investing is exclusively for investors who follow Islam. This is a misconception, says *Imraan Khan, Research and Investment Analyst*.

Principle-based investing

At a high level, Shari'ah law – the law governing the daily lives of Muslims – forbids the following:

- consumption of alcohol;
- consumption of pork or related products;
- participation in or deriving any income from games of chance and gambling;
- participation in or deriving any income from pornography;
- deriving income from *riba* (interest)
- destruction and abuse of nature.

Specific investment objectives

Shari'ah investing helps investors who have an ethical or moral interest in where their money is being invested. Shari'ah-compliant funds avoid stocks and shares in any company or industry whose core business and revenue are derived from non-halaal (forbidden or *haraam*) sources. They also pursue companies focused on sustainable, planet-conscious processes.

Stringent processes

Shari'ah investing presents challenges, says Khan. Of the 164 stocks on the All Share, only 74 are Shari'ah-compliant. The Shari'ah investable universe, therefore, is quite limited. The stocks we focus on are mainly in the resources and property sectors. We focus on transparent companies, that have been around for decades, and have limited debt which would make them financially

stable, says Khan. And of course, they have to meet our due diligence requirements for consideration.

Choosing Shari'ah funds – as with all other funds available on the Glacier platform – is a complex process, says Khan. Transparency, adherence to strict principles and screening of the funds and their managers are critical to our methodology. Due diligence involves key resources from our team of 31 investment professionals at Glacier Invest. We interview, interrogate, prod and probe, until we are satisfied that all criteria are met. One example is that every fund we consider must have a Shari'ah supervisory board made up equally of clerics as well as financial professionals.

Interest-free sukuks

In the main, the banking sector does not feature in our universe, says Khan, because of the income derived from interest and the sector's emphasis on debt. Instead, Shari'ah funds rely heavily on sukuks – Islamic bonds structured in a way to generate returns to investors through loans that do not generate *riba*. In SA, *murabaha* sukuks are used mainly, which means participation of ownership in a company or underlying tangible asset where the cost and profits are disclosed upfront.

Volatility

For a few reasons, Shari'ah funds are more volatile than the All Share Index, says Khan. The resources sector is cyclical and creates volatility in the market. This is increased in that Shari'ah stocks must be backed by tangible assets. To mitigate volatility, we have created Shari'ah wrap funds – blended Shari'ah funds and management styles – for capital protection as well as growth.

Here's a checklist when considering a DFM to provide Shari'ah investing expertise and solutions:

- deep understanding of Shari'ah investment principles;
- insight into your client's objectives and the investable universe that can meet them;
- track record, integrity and longevity;
- investment expertise, number of resources and skills spread;
- technology as an enabler;
- products that cater to multiple risk appetites;
- deep-dive research capability;
- scale to negotiate fees.

Glacier Invest Shari'ah wrap funds

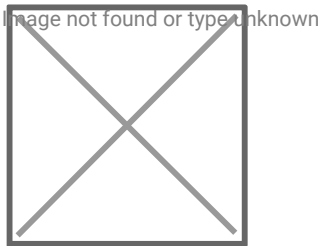
As a result of the limited fund universe in the Shari'ah space, we have three Shari'ah-compliant wrap funds currently covering three risk profiles, says Khan. Whereas before, our Shari'ah wrap funds only catered for moderate-aggressive and aggressive investors. Now, cautious investors

have funds to consider. We are able to cater to clients who need to draw an income – such as those invested in living annuities – and they can do so in a Shari’ah-compliant way.

The Glacier Shari’ah Stable Wrap Fund is a first-of-its kind Shari’ah-compliant wrap fund catering to investors in the post-retirement phase who need some measure of growth with capital protection and to draw an income.

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Imraan Khan

Imraan holds a BCom degree in Finance and Economics and a BCom (Hons) degree in Finance and Investment from the University of the Western Cape. He joined Glacier in 2011 as a client service consultant from a graduate programme at Santam. Imraan joined the Glacier research team in November 2016.

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Glacier Financial Solutions (Pty) Ltd.

A member of the Sanlam Group

Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Reg No 1999/025360/07

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Private Bag X8 | Tyger Valley 7536 | Tel +27 21 950 2600 | Fax +27 21 950 2126 | Web www.smmi.com |*Reg No 2002/030939/07

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