



# Investment Funds



# Challenges

- What are the common types of investment funds?
- Is the underlying asset permissible?
- Does the manager incorporate a shariah-compliant investment process?



# Managed Products

- Encompass a range of strategies
- “Passive” or “active”
  - Indicates the amount of manager discretion
- “Pooled” or “Non-Pooled”
  - Comingled funds vs. separate accounts



# Mutual Funds

- Generally active
- Pooled
- Can invest in a variety of asset classes and strategies
- Offered on a net asset value basis (NAV)







# Exchange Traded Funds

- Generally passive
- Pooled
- Can invest in a variety of asset classes and strategies
- Trade on exchanges, like stocks

# Close-end Funds

- Can be active or passive
- Pooled
- Raises capital through an initial public offering (IPO), then trades on an exchange
- Trades at a discount or premium to net asset value (NAV)





# Private Funds

- Active
- Pooled
- Non-listed, specific investor requirements
- Sold through private placement, no public solicitations
- Examples: venture capital, private equity, hedged equity



# Managed Accounts

- Can be active or passive
- Non-pooled
- Greater transparency
- High degree of customization







# Modern Islamic Finance

- 1991: AAOIFI established
- 1992: OIC issues fatwa on stocks
- 1995: MWL issues fatwa on stocks
- 2004: AAOIFI releases shariah standards
- 2009: AAOIFI establishes guidelines on investment advisory



# Determining Permissibility



- Origin of returns (e.g. capital gains, interest, dividend income)
- Contractual terms (e.g. spot, forwards, futures, options)
- Company specifics (e.g. level of impermissible income, debt)



# Investment Screening

- AAOIFI, and others, publish standards
- Filters out impermissible securities from an otherwise permissible asset class (e.g. shares in an alcohol beverage company)

# Criteria

- Debt levels
- Cash and interest bearing securities
- Account receivables
- Interest income
- Revenue from non-compliant activities







# Shariah-Compliant Options

- Pooled:
  - Amana Funds (Saturna Capital)
  - Azzad Funds
  - Iman Fund
- Non-Pooled:
  - Shariah Portfolio
  - Wahed Invest
  - Wahdy Capital



# Conclusion



- Investment funds can be active or passive, pooled or non-pooled
- Shariah compliance involves evaluating permissibility of the origin of returns, contractual terms, and company specifics
- There are firms that offer shariah-compliant solutions