

UNVEILING THE TRUTH

Shariah-compliant investing's competitive edge

By: Imtiaz Suliman, Head of Shariah



Are you leaving potential returns on the table by overlooking Shariah-compliant investing? Despite widespread belief, these funds can achieve comparable returns to traditional counterparts, offering a unique blend of financial growth and ethical alignment. For independent financial advisors, understanding this overlooked potential can enhance your clients' portfolios while reinforcing their values.

Numerous studies have challenged the misconception surrounding Shariah-compliant investing's performance. For example, a comprehensive analysis by Morningstar reveals that Shariah-compliant mutual funds and ETFs have performed well in recent years, with many beating their non-Islamic counterparts. For example, the Dow Jones Islamic World Total Return Index, which measures the performance of Shariah-compliant companies, gained 12.98% annualised over the last 10 years through March 31, 2023, while the broader MSCI All-Country World Index rose 11.63%^[i]. This finding defies the assumption that aligning investments with Islamic principles inherently leads to inferior returns.

Additionally, Sentio^[ii] research suggests that Shariah-compliant funds exhibit resilience during market downturns, attributed to their focus on sectors with stable fundamentals and ethical business practices.

^[i] <https://www.morningstar.ca/ca/news/234222/shariah-compliant-funds-gain-in-popularity-and-outperform.aspx>
^[ii] Sentio, Bloomberg

This was evident during the Global Financial Crisis in 2008/9. Stocks that did not qualify Shariah-compliant investment criteria, such as highly leveraged and financial stocks, underperformed the market significantly, while Shariah-compliant funds outperformed it. By diversifying into Shariah-compliant investments, advisors can mitigate risk and potentially enhance overall portfolio performance.

Shariah-compliant investing operates within the framework of Islamic principles, prohibiting investments in sectors deemed to be socially harmful, such as alcohol, tobacco and gambling, as well as interest-bearing financial instruments. Instead, these funds prioritise sectors such as technology, healthcare, and consumer goods, fostering a focus on ethical and sustainable businesses.

Key principles of Shariah-compliant investing include:

- **Prohibition of interest (riba);**
- **Avoidance of uncertainty (gharar);**
- **Prohibition of gambling (maysir); and**
- **Avoidance of investment in certain sectors deemed non-compliant (e.g., alcohol, tobacco).**

If you are planning to add these funds to your client's investment portfolios to take advantage of the potential benefits of Shariah-compliant investing, it is critical to conduct a thorough due diligence process to select trustworthy fund managers who have a proven track record of delivering competitive returns while adhering to Shariah principles. Make sure to educate your clients about the advantages of this approach, highlighting its alignment with their ethical values and the potential for long-term financial growth.

Sentio has been setting itself apart from its competition in the investment industry for the past 16 years through our unique hybrid-intelligent approach that combines human expertise and experience with cutting-edge technology. Unlike many other players in the industry who are just beginning to adopt artificial intelligence and machine learning into their investment process, Sentio has been utilising these technologies since our inception in 2007. As a result, our investment team are equipped to make high-conviction investment decisions that deliver superior risk-adjusted returns for our clients over the long term.



Sentio Capital has been managing Shariah-compliant investment solutions since 2013, now offering a full suite of Shariah-compliant products across the risk spectrum. With a deep understanding of Islamic finance principles and a commitment to delivering superior performance, Sentio empowers advisors to access the benefits of Shariah-compliant investing while staying true to their clients' values.

By partnering with Sentio, advisors can leverage best-in-class expertise and tailored solutions to optimise portfolio performance and align investments with ethical principles. Explore Sentio's range of Shariah-compliant products today and unlock the potential of ethical investing for your clients. It's time to embrace this paradigm shift and unlock the hidden potential of Shariah-compliant investments.



Explore Sentio's Shariah solutions.



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Imtiaz is an Executive Director and Portfolio Manager at Sentio Capital Management and has over two decades of valuable investment experience. At Sentio, he holds the crucial role of overseeing the management of Sharia'h Unit Trusts, showcasing his expertise in navigating both local and global stock markets.

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