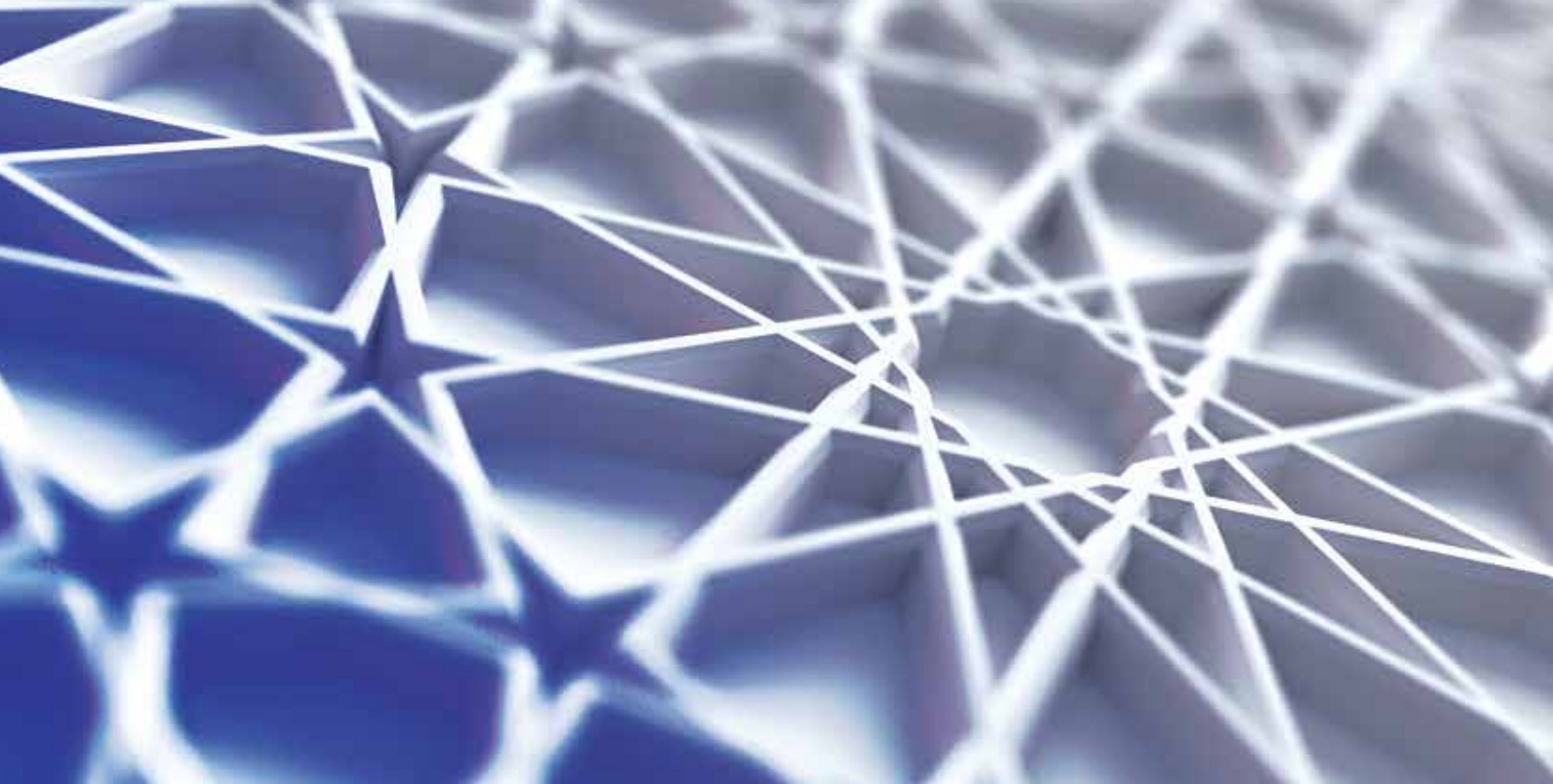




# Smart Investing with Shariah- Compliant Funds

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Did you know that Malaysia is the third-largest market for global Islamic finance products as well as the world's largest sukuk issuer?

This explosive growth has brought about tremendous opportunities for investors who are not only seeking higher returns, but also looking to stay true to their own personal beliefs and values.

However, irrespective of religious beliefs, all investors can benefit from greater diversification in their portfolios through Shariah-compliant funds. But if you're not familiar with these types of funds and what they invest into, here's a primer for you:-

## What are Shariah-Compliant Funds?

Shariah-compliant funds are a type of unit trust fund that complies with Islamic principles, where the investments need to be free from *riba* (interest), *gharar* (speculation), *maysir* (gambling), and other non-halal elements.

Shariah-compliant funds may employ different strategies to achieve its stated objective such as investing in growth stocks for long-term capital appreciation or an income strategy by investing in dividend stocks or sukuk papers to produce consistent income.

## What do Shariah-Compliant Funds Invest In?

Whilst a conventional fund has almost no restrictions in what it can invest into, a Shariah-compliant fund undergoes a rigorous screening process to filter out sectors that are not Shariah-compliant. These include industries that are not deemed ethical such as alcohol, gambling and tobacco.

Besides that, the screening process would also take into account financial factors such as gearing levels. For example, a company which has more than 33% of its liabilities in interest-bearing debt compared to its total assets would not be considered Shariah-compliant. As such, companies with high debt ratios are excluded.

## What are its Advantages?

Due to this screening process, the nature of the underlying assets of Shariah-compliant investments tend to be more defensive in nature by focusing on companies with stronger balance sheets and excluding those with high levels of debt.

By also avoiding companies that are operating in unethical industries that are not well positioned for the future, a Shariah investment strategy places added emphasis on sustainability factors which have now become performance drivers.

In the past years, we have seen an increasing overlap between Shariah and environmental, social and governance (ESG) principles that have created greater awareness of such modern concerns afflicting the planet and society.

This convergence of principles has also blurred the line between sustainability and Shariah investing, by commanding greater appeal to investors of all faiths.

However, these advantages does not impede the return potential of Shariah investing despite a smaller investment universe. A Shariah-compliant fund can also be skewed towards a growth-oriented strategy such as through exposure in the technology sector. Not many are aware that well-known global technology companies like Microsoft, Tencent and Nintendo are Shariah-compliant stocks.

Table 1: Comparison between Conventional and Shariah-Compliant Funds

	Conventional	Shariah-Compliant Funds
Investment Universe	Wider investment universe as it is not bound by any restrictions.	Must adhere to Islamic principles and avoid sectors that are not Shariah-compliant.
Risk/Return	Can potentially generate higher returns, but is also more vulnerable during volatile conditions.	More stable during periods of market stress because of its defensive holdings and screening process.
Impact Investing	May not necessarily be aligned to ESG principles, depending on the Fund's mandate and objective.	Aligned with ESG principles by avoiding unethical industries to drive social and financial outcomes.

## Which is Better?

Long-term analysis has shown that both conventional and Shariah-compliant funds have generated returns that are on-par over the years. Depending on different market conditions and stock picks, one may outperform over the other.

However, investors don't have to limit themselves to just conventional or a Shariah strategy. By blending a portfolio of both spanning different strategies and asset classes, investors can better manage risk and achieve optimal diversification.

This is due to the low correlation between Shariah and conventional asset classes where its performance do not always move in tandem. This can improve overall risk-adjusted returns by smoothing out portfolio volatility, so that investors can stay on track to achieve their long-term goals.

## The Smart Way to Invest

Looking to gain exposure into a diversified portfolio of Shariah investments?

Introducing the **Aiiman Smart Invest Portfolio – Growth** which is a Shariah-compliant mixed asset fund-of-funds.

By combining the best-in-class ideas and strategies across different asset classes and managers, investors can tap into global opportunities in a seamless and efficient manner.

**Q:** What is a Fund-of-Funds?

**A:** A pooled investment fund that invests in other types of funds. It provides optimum diversification to investors by leveraging on the best ideas across the globe to minimise concentration risk.



### Fund Facts:-

#### ■ All-in-one

Transforming a basket of shariah funds into a broadly diversified portfolio

#### ■ Multiple Strategies

Sourcing best-in-class strategies managed by AIIMAN Asset Management and global managers

#### ■ Shariah Screening

Shariah principles are ingrained into the investment management process

To learn more, visit the link here:-

<https://aiiman.com/list-of-funds/aiiman-smart-invest-portfolio-growth>

Or scan the QR code beside:-

Scan here:



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