

Islamic Finance 101

Islamic Association of Saskatchewan - Regina
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- Investment Advisor & Portfolio Manager
- 20 years of industry experience
- MBA from the University of Toronto
- Chartered Financial Analyst (CFA)
- Bay Street experience
- Initial involvement with Islamic Investments was in 1998

- Islam and “Riba”
- Credit
- Investments
- Resources

- Islam – whole hearted self giving
- All aspects of life
 - Faith
 - Diet
 - Etiquette
 - Business
 - etc.

- Financial Contracts:
 - Credit agreements must be free from:
 - Interest: Riba
 - Deceptive uncertainty: Gharar
 - Investments must adhere to Islamic principles
 - Ethical impact: interest
 - Social impact: addictive products and services
- Principle:
 - All is ok except that which is not

- Riba:
 - Unequal exchange of unlike qualities
 - Unequal exchange of like quantities
- Components of Riba
 - Inflation
 - Risk
 - Time value of money
- Interest = Riba
 - Portion of profits
 - Fixed vs. variable

Islamic Finance - Credit

- Not a lot of options exist on a compliant basis,
YET
- Halal meat vs. halal borrowing
- What can I do?

Home Financing Options:

1. Cash
2. Housing Co-ops (Ijara Mutanaqisa)
3. Vendor Take-Back (Murabaha)
4. European Council of Fatwa and Research

Islamic Finance – Investments

Unique restrictions include:

1. Interest

2. Addictive Products & Services

- Alcohol
- Tobacco
- Gambling

3. Other Restrictions

- Pork
- Cloning

- Investment Options (Liquid):
 1. Cash
 2. Self Directed
 3. Off the Shelf Products
 4. Personalized Advice

- Cash
 - Interest
 - Inflation
 - Zakat
- Self Directed
 - Risk
- Of the Shelf Products
 - Mutual Funds
 - Exchange Traded Funds (ETFs)
 - Bullion Funds

\$1 in 1970

In 1980

\$0.44

In 1990

\$0.26

In 2000

\$0.21

Today

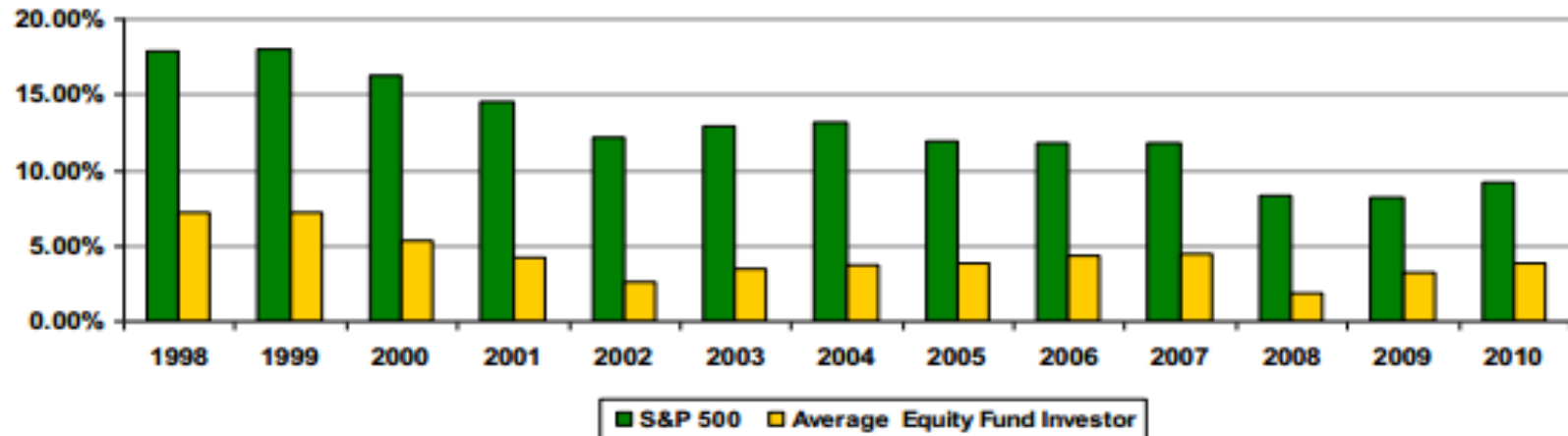
\$0.16

- Cash
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Long-Term Returns (annualized, in percent)

Year	S&P 500	Average Equity Fund Investor	Difference
1998	17.90	7.25	-10.65
1999	18.01	7.23	-10.78
2000	16.29	5.32	-10.97
2001	14.51	4.17	-10.34
2002	12.22	2.57	-9.65
2003	12.98	3.51	-9.47
2004	13.20	3.70	-9.50
2005	11.90	3.90	-8.00
2006	11.80	4.30	-7.50
2007	11.81	4.48	-7.33
2008	8.35	1.87	-6.48
2009	8.20	3.17	-5.03
2010	9.14	3.83	-5.31

S&P 500 vs. Average Equity Fund Investor



- Cash
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- Mutual Funds
 - Investment vehicle
 - Pool of funds
 - Professionally managed
- Pros/Cons
 - Diversification
 - Low capital required
 - Active management
 - Cost
 - Lack of control
 - Not generally compliant

- Exchange Traded Funds
 - Exchange traded
 - Track an index
 - Not professionally managed
- Pros/Cons
 - Cost effective
 - Market return
 - Low capital required
 - Lack of control
 - Market volatility
 - Not generally compliant

- Shariah compliant options
 - Mutual Fund
 - ETF

Investment Management:

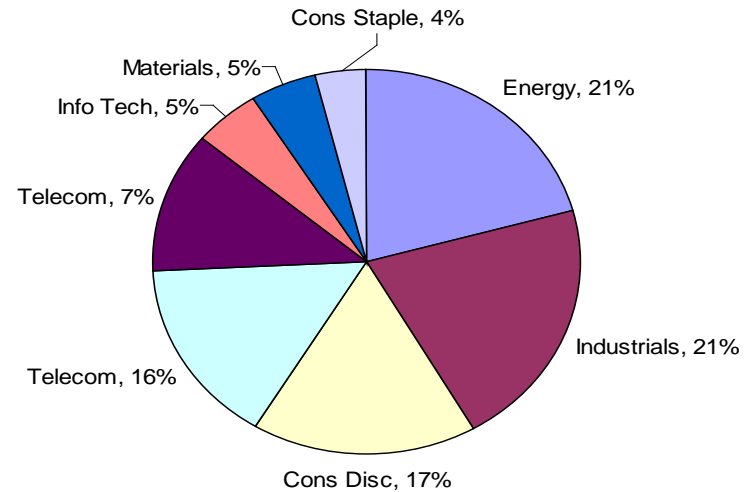
- Understanding You
 - Risk/return objectives
 - Liquidity/time horizon/tax constraints

- **Asset Allocation**

- Across Countries
- Across Sectors

- **Security Selection**

- **Shariah Compliant Screens**



- Dow Jones Islamic Market Indexes
 - Benchmarks tracking Shariah compliant securities
- Shariah Board - Scholars from around the world
 - Dr. Abdul Sattar Abu Ghuddah, Syria
 - Dr. Nizam Yaquby, Bahrain
 - Dr. Mohamed A. Elgari, Saudi Arabia
 - Dr. Mohd Daud Bakar, Malaysia
 - Yusuf Talal DeLorenzo, United States
 - <http://www.djindexes.com/islamicmarket/>

Screens:

- Industry Screens:
 - Alcohol
 - Pork-related products
 - Conventional financial services
 - Entertainment
 - Tobacco
 - Weapons and defense
- Financial Ratio Screens:
 - Debt / Avg. Market Cap
 - Cash + interest bearing securities / Avg. Market Cap
 - Account receivables / Avg. Market Cap

1. Mufti Taqi Usmani:

<http://www.muftitaqiusmani.com/>

2. Monzer Kahf: <http://monzer.kahf.com/>

3. Islamic Finance Advisory Board:

<http://www.islamicfinanceboard.com/>

- Islam dictates a set of values
- Shariah compliant financing facilities are not yet plentiful
- Shariah compliant investment options are available and growing
- The more you learn about this, the better prepared you'll be