ETHICAL ISSUES IN ISLAMIC WEALTH MANAGEMENT

by

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Sime Darby Convention Centre
19th December 2013
AGENDA

• What is Ethical Investing
• Compatibility Issues between Ethical & Islamic Investing
• The Bottom Line: Can you make money?
• Final Thoughts
Ethical Investing Defined
What is Ethical Investing?

ESG
Green Investing
Faith-Based Investing
SRI
Environmental, Social, Governance
Activist Investing
Impact Investing
Socially Responsible Investing
Shareholder Advocacy
Corporate Social Responsibility
Community Investing
Sustainable Investing
Sustainable Investing
ESG (Cross Sectoral)
- RI Screened (best-in-class, engagement)
- RI extended (filters)

ESG (Environment)
- Climate change and renewable energy funds
- Environmental and ecological funds
- Carbon funds
- Sustainable forestry funds

ESG (Social)
- Microfinance funds
- Social entrepreneurs -hip and solidarity funds
- Social impact -single impact area
- Social impact -multiple impact area
- Venture philanthropy

ESG (Governance)
- Engagement

Ethics (Cross Sectoral)
- Faith-based funds
- Shariah-compliant funds

As illustrated, Shariah-compliant funds are categorized under responsible investment. By incorporating SRI principles and Shariah principles, Islamic funds can be marketed to offshore markets.
THREE ETHICAL INVESTING ALLIANCES

• Sustainable Asset Management

• The Forum for Sustainable and Responsible Investing

• The United Nations Principles for Responsible Investing
PRINCIPLES FOR RESPONSIBLE INVESTMENT

A United Nations partnership promoting responsible investment

6 Principles guide ESG integration

Voluntary and aspirational

Shared learning, implementation support and engagement

A forum for discussion and action on long-term risk issues and value drivers
Growth of the PRI Initiative

Almost 1200 signatories with USD $32 trillion AUM

Source: UNPRI.org
Principles for Responsible Investment

• **Principle 1:** Incorporate ESG issues into investment analysis and decision-making processes.

• **Principle 2:** Incorporate ESG issues into our ownership policies and practices.

• **Principle 3:** Seek disclosure on ESG issues by the entities in which we invest.

• **Principle 4:** Promote the Principles within the investment industry.

• **Principle 5:** Work to enhance our effectiveness in implementing the Principles.

• **Principle 6:** Report on our activities and progress towards implementing the Principles.

Source: UNPRI.org
Compatibility of Ethical and Islamic Investing
Forbidding the Evil & Enjoining the Good
Allah in Qur’an states:
“You are the best people raised for the good of mankind; you enjoin good and forbid evil and believe in ALLAH. And if the People of the Book had believed, it would have, surely, been better for them. Some of them are believers, but most of them are transgressors”
S. 3:110
Points to be Taken from Sura Aali Imran, V. 110

- Muslims Enjoin Good
- Muslims Forbid Evil
- If They believe, its better
- But Most are Transgressors
Negative Ethical & Islamic Screening Avoids
Forbidding the Evil

- Alcohol
- Tobacco
- Weapons
- Gambling
- Pork related
Positive Ethical Screening Seeks
Enjoining in the Good

- Good corporate governance (ESG)
- Sustainability
- Social benefits
- Workplace equality
DIFFERENCES BETWEEN ETHICAL & ISLAMIC

- Fundamental Differences
  - Financial Companies
  - Contraception/Birth Control
  - Homosexual Issues

- Financial Ratios (Issue of Debt)

- Are they Irreconcilable?
FINANCIAL RATIOS (RECONCILABLE)

- Debt to Total Market Cap or Assets
- % of Forbidden Revenues
- Accounts Receivable/ Total Assets
S&P 500 Debt-to-Market Cap

Total return of companies with various debt to market capitalization levels.
Final Points: Sura Aali Imran, V. 110

• We must define “Ethical” as we did “Islamic”
  • As the Best Community, it is our Responsibility

• If They believe, the world will be a better place

• But Most are Transgressors
  • maybe this will never become standard, but does it have to be?
The Bottom Line: Can Make Money
WHAT DO INVESTORS WANT?

• Do investors want to make money?
• Do investors want to do good?
• Can they do both?

$ + 伊斯兰标志 = ?
Effects of Social Screening: Do Sin Stocks Outperform?

This chart illustrates the performance of a hypothetical $10,000 invested at the beginning of the period and redeemed at the end of the period, and assumes reinvestment of all dividends and capital gains. The ending amounts do not reflect the potential deduction of taxes a shareowner might pay on fund distributions. **Past performance is no guarantee of future results.**
Effects of Social Screening: Another Look

10 year annualized performance difference versus S&P 500

Number of years of beating S&P 500

- Vice Fund: 8/10
- DJ US Islamic Market: 3/10
- Domini Social Equity: 1/10

Performance vs S&P 500:
- -2% -1% 0% 1% 2% 3% 4%
Effects of Social Screening: Another Look

Total Returns

Fund Assets

Million

$2,000

$1,000

$0


SPTR $22,678

DSEFX $19,861

BNP Paribas & INCEIF Centre for Islamic Wealth Management
Managing Issues and Challenges in the Islamic Wealth Management Industry
Effects of Social Screening: When It Does Outperform...

This chart illustrates the performance of a hypothetical $10,000 invested at the beginning of the period and redeemed at the end of the period, and assumes reinvestment of all dividends and capital gains. The ending amounts do not reflect the potential deduction of taxes a shareowner might pay on fund distributions. Past performance is no guarantee of future results.
Final Thoughts:
Ethical Screens or Completely Ethical
Complete Ethical Behavior: Doing Good By Shareholder

• Excessive Trading: Is it Against Islam
  • Increases Costs
  • Akin To Gambling
• Full Disclosure

• Reducing Fees
  • Sales Charge: Ethical Behavior of Sales Team
    • Banned in UK & Switzerland; revised in Australia
  • Management Fee

• Fee Reduction = Outperformance = More AUM = More Fees
Thank you

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