



Shariah investing: Generating Personalised and Optimal Portfolios consistent with Islamic Principles

Executive summary

Shariah investing offers the 1.8 billion Muslims globally investment solutions based on Islamic principles. There are three challenges unique to implementing Shariah investing.

Firstly, there is a lack of a single globally recognised Shariah investing standard, which means that some stocks are Shariah compliant based on one standard but non-compliant based on another. This confusion arises because of alternative interpretation by the Shariah scholars. Whilst all scholars agree on large matters, the inconsistency occurs in the use of specific measurement variables. The problem is further compounded by data availability across countries as financial reporting based on GAAP is not configured to disclose based on Shariah principles.

As our portfolio optimiser is agnostics to the exact variable definition, we leverage on other Shariah's scholars' interpretation. Nonetheless, we highlight the difference in the alternative standards set by the major players such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI); Dow Jones; MSCI; IdealRatings etc. and explain the implications thereon.

Secondly, unless a firm's business operations and financial structure are completely Shariah compliant, certain portion of the dividends received is not Shariah compliant. As such, the investor needs to purify the dividends received. Again, complication arises because of alternative interpretation by the Shariah scholars and the challenges caused by data availability. We discuss and explain how we compute purification.

Thirdly, access to Shariah compliant investment products might be limited as Shariah investing lacks scale and is not commercial viability in certain countries. Consequently, our digital platform increases accessibility and offers the same opportunity to personalise as like our non-Shariah investing service.

To understand how Shariah investing is implemented, this paper should be read together with our thematic factor based portfolio construction, risk management, transaction costs minimisation and wealth management papers; and our sustainability and SDG investing papers.

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