The Alpha and Omega of Abrahamic Finance

Mufti Talha Ahmad Azami and Shahzad Siddiqui

The Alpha and the Omega, the first and the last, the beginning and the end
Description of the Divine in the Bible, Revelations 22:13

6.1 INTRODUCTION

“Abrahamic” finance can be defined as a form of finance which draws its parameters from Judaism, Christianity, and Islam. While the Islamic world has been at the forefront of applying religion to finance, the Judeo-Christian and Socially Responsible Investing (SRI) investment traditions can assist Islamic finance in broadening its parameters and appealing to a larger audience of investors.

This chapter has been divided into two distinct parts. The first part (omega) will introduce financing guidelines for each of the Abrahamic religions. We will briefly describe the negative screening criteria pertaining to the three Abrahamic faiths, and the similarities that each of these faiths have in the realms of financial investments. By way of example each of the Abrahamic faiths finds usury and pornography morally and socially abhorrent.

We advocate, as a strategy, the exclusion of stocks not allowed under other ethical frameworks of investing like Socially Responsible Investing (SRI). This would include companies that employ child labour and companies that pollute the environment. These practices, although religiously frowned upon in all the Abrahamic traditions, have yet to find a place in their investment guidelines.

In addition to highlighting the negative screening criteria of Abrahamic finance and SRI, we would like to emphasize the positive screening attributes that SRI funds seek in companies, including but not limited to: a sound record on conservation of energy and natural resources, protection of the environment, and good customer relations. A negative and a positive bifurcate feature has yet to be incorporated into faith-based investment strategies. For example, the authors are unaware of any fund that both screens out companies that engage in usury while actively looking for companies that are improving the environment. Research in all three Abrahamic traditions suggests that the use of both positive and negative screening will generally be consistent with the teachings of the Quran; the Catholic Church and its commitment to advocate for systemic changes to improve the well-being of individuals and communities; and the strong focus on the ethical conduct of business affairs in the Jewish tradition.
The second part (alpha) of this chapter is where we explore and, hopefully, dispel the perception that constraints in participating outside certain sectors such as gambling and pornography would result in substandard performance of Abrahamic funds, as compared to their conventional counterparts. The hypothesis that we attempt to evaluate is that faith-based funds outperform the conventional indices in bull markets and show robustness in bear markets. Conclusions would then be drawn from the study.

6.2 JEWISH FUNDS

Jewish people, both individually and collectively as a community, have been investing their money according to the strict remit of their faith for thousands of years. The practice is now starting to institutionalize itself in the form of modern-day mutual funds, and we are now witnessing a few examples of Jewish investment funds. A report by the Financial Times, found the existence of at least nine kosher investment funds being managed in Israel.  

In earlier research on such funds, Mark Schwartz, Meir Tamari, and Daniel Schwab found that, while funds based on Christian and Muslim ethics were quite prevalent, “a Jewish-based ethical fund is sorely lacking”. Schwartz, a professor at York University, has written extensively on business codes and ethics. Tamari has served as a Senior Economist at the Bank of Israel, Senior Lecturer on Economics at Bar Ilan University, and has established the Center for Business Ethics in Jerusalem. Schwab is the founder and Managing Director of Kayema Investments Ltd, a South African investment advisory firm that specializes in sustainable development. Schwartz, Tamari, and Schwab revealed the following in their unpublished study on using Judaism’s ancient sources to establish a fund:

Such a fund would maintain a unique perspective on minority shareholders [and] could be categorized under seven headings: abiding by Jewish law; abetting; justice and goodness; abiding by contracts; preserving life; settlement of the world; Sabbath, festivals and kosher food.

The AMIDEX35 Israel Mutual Fund launched in 1999 was the first US-based, open-ended mutual fund investing exclusively in Israeli companies. A second fund, the Blue & White Mutual Fund, has since also been introduced. There is also a closed-end fund: the First Israel Fund. A survey of funds invested in by the Jewish Communal Fund indicated an interest in a wide array of fund managers from SRI fund manager Calvert to Neuberger Berman whose Regency funds earned a return of 48% in year 1 of data collected and then fell to a negative return of 6.3% in year 2, reflecting a tracking of volatility in the overall market.

While these funds, and the Israeli funds mentioned above, cannot be considered “Jewish” per se, their success can be parlayed into interest in participating in a more holistic Abrahamic fund.

The core principles of an ideal Jewish investment fund are derived from the Talmud; these include the principles of Tzedakah, justice and goodness, Pikuach Nefesh, preservation of life, Yishuv Ha Olam, settlement of the world, Lo tashchit, prohibition against the wanton destruction of nature, and inveighing against lifnei iver, assisting moral misconduct.

With respect to Yishuv Ha Olam, authors Schwartz, Tamari, and Schwab read this principle to include environmental consciousness:

... investments need to be vetted carefully on the effects of the environment, bearing in mind the rights of future generations and other societies whose environment is affected by the investment policies of the firms in which one invests.
Meanwhile, with regard to the issue of lifnei iver, the same authors argue that by investing in companies engaged in activities such as tobacco, arms sales for non-defensive purposes and pornography, investors are creating a demand for a market based on the sale of forbidden goods and encouraging religious and moral transgressions by the investee company. This argument has some merit, in that the “lifeblood” of most companies lies in financing and revenue generation and the interplay between the two. We do know, for example, that divestment campaigns and consumer boycotts had a devastating impact on the economy of South Africa. By supporting South African companies, many consumers outside of South Africa had been complicit in its crimes.

According to www.fintactica.com, Jewish investors have recently taken issue with the records of pharmaceutical corporations regarding the HIV/AIDS epidemic in Africa, high levels of executive compensation, transparency in the political involvement of corporations, (the impact of businesses on) global warming, and equal employment opportunities.

6.3 CATHOLIC FUNDS

The doctrine of the Catholic Church establishes the fundamental framework behind Catholic investment funds. This framework prevents investment in two major categories of companies: those involved in the practice of abortion, and those whose policies are judged to be anti-family. Companies deemed “anti-family” would include distributors of pornographic material and businesses whose policies undermine the Sacrament of Marriage. George Schwartz, President of Schwartz Investment Counsel Inc., the advisor for Ave Maria Mutual Funds defines the Sacrament of Marriage as the following:

Our Catholic Advisory Board believes that marriage between a man and woman is a sacrament institute by God, therefore when a company offers to put a non-marital union on par with marriage, it’s a slap in the face to the Catholic Church and such companies should be screened out.

Ave Maria has seen its assets climb to $600 million. George Schwartz predicts that assets in the funds are expected to exceed $3 billion by 2013. Trinity Fidiciary Partners LLC of Fort Worth, Texas, is another firm involved in Catholic-oriented investments. Its Epiphany Core Equity Fund tracks the Faith and Family Values 100 index, a sector-neutral market-cap weighted index comprising of the 100 largest US-based companies that meet the fund’s moral and ethical standards.

Luther King Capital Management of Fort Worth, currently managing $100 million, and Christian Brothers Investment Services Inc. of New York, managing $4.2 billion in assets, are some of the other players devoted to Catholic investing.

6.4 SOCIALLY RESPONSIBLE INVESTING (SRI) FUNDS

SRI is an investment strategy that seeks to maximize both financial returns and the social good of investors. Its historical roots can be traced as far back as the Religious Society of Friends (Quakers), when in 1758, the Quaker Philadelphia Yearly Meeting prohibited members from participating in the slave trade. Modern-day milestones include the 1971 US Pax World Fund, which was set up with a specific avoidance of any investments related to the Vietnam War. Friends Provident launched their first ethically-screened fund, the Stewardship Fund, in the UK in 1984. Assets under management currently exceed £3 billion.
Table 6.1  A comparison of faith-based screening: Jewish, Christian, Islamic and SRI

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Faith-consistent Investment Exclusionary Screens</th>
</tr>
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<tbody>
<tr>
<td>Jewish</td>
<td>Tobacco, alcohol, gambling, homosexuality, abortion, pornography, <em>ribit</em> (charging interest), and <em>kashrut</em> (sales of non-Kosher food)</td>
</tr>
<tr>
<td>Christian</td>
<td>Abortion, contraception, tobacco, alcohol, pornography, weapons, interest dealings, child labour, and protecting the environment</td>
</tr>
<tr>
<td>Islamic</td>
<td>Conventional financial services, alcohol industry, pork products, gambling industry, and adult entertainment</td>
</tr>
<tr>
<td>SRI Stewardship</td>
<td>Exclusionary screens include: tobacco production, alcohol production, gambling, pornography or violent material, manufacture and sales of weapons, animal exploitation, nuclear power generation, poor environmental practices, human rights abuses, and poor relations with employees, customers or suppliers</td>
</tr>
</tbody>
</table>

SRI investment is attracting the attention of key individuals at large institutional investors, especially at retirement funds in the northeastern United States and California. For example, New York State Comptroller, Thomas DiNapoli, pushed the New York State Common Retirement Fund (NYSCR) into indices that “screen for green”. In a report by *Institutional Investor*, DiNapoli expressed his motivations for investing in the indices: “We have to act now. There’s too much at risk for our planet.”

Meanwhile, Denise Nappier, state treasurer and sole fiduciary of the $26 billion Connecticut Retirement Plans and Trust Fund (CRPT), has worked on issues such as environmental compliance and corporate governance. She successfully compelled American Electric Power to report its plans to reduce the company’s greenhouse gas emissions. Nappier also had a role in the decision by the Walt Disney Co. to split the role of its Board Chairman and Chief Executive Officer. Furthermore, retirement funds have been active in the development of SRI principles. When the United Nations unveiled its Principles for Responsible Investment in 2006, among the 250 signatories were NYSCR, CRPT, and CalPERS.

6.5  ISLAMIC FUNDS REDUX

Investors in Islamic funds have much the same objective as any other faith or non-faith driven investor, in that they seek profits from capital gains or dividends paid out by the underlying companies in their portfolio. Avoiding certain companies that are involved in *haram* activities and observance of Islamic prohibitions pertaining to debt and interest, which exists in other traditions but is generally not implemented, are what set Islamic funds apart from other fund varieties.

The evolution of Islamic funds dates back to 1968, when the first Islamic fund Dana Al-Aiman was launched in Malaysia, and it is still active to this day. As of October 2009, the fund size was RM 66.93 million. After that, the first Islamic equity fund launched in Malaysia was by Arab-Malaysia Unit Trust Berhad Malaysia in 1993. The growing awareness and rising popularity of fund products in majority Muslim countries have supported their expansion. This reflects in the 19.7% compound annual growth rate (CAGR) in terms of asset under management (AUM) witnessed by the global Islamic funds industry during the period 2003–07, compared with 17.0% CAGR for the conventional global asset management industry during the same period. Despite the global recession that engulfed the capital markets, AUM of Islamic mutual funds reported a steady 4.9% year-on-year growth in 2008 to US$43bn. This increased to US$44bn in Q1, 2009.
Indicative of the overall interest and growth in the Islamic fund management industry is the augmentation of products and services which support the management of Shariah-compliant portfolios, which include the establishment of Islamic indices. The first Islamic equity index was launched in Malaysia by RHB/Unit Trust Management Berhad in May 1996. This was followed by the launch of Dow Jones Islamic Market Index (DJIM) by Dow Jones & Company in Bahrain in February 1999, and the launch of the Kuala Lumpur Shari’a Index (KSLI), now the Bursa Malaysia in April 1999. More recently, Russell Investments and Jadwa Investment announced the launch of the Russell-Jadwa Shariah Index family for their institutional investor client base. In Toronto, on 27 May 2009, the S&P launched its S&P/TSX Shariah Index.

Shariah screens are increasingly well known; Shariah-sensitive investors cannot invest in the above-mentioned industrial sectors, namely, conventional financial services, alcohol industry, pork products, the gambling industry, and adult entertainment. These investors also refrain from investing in companies that have inordinate amounts of debt (usually a 33% debt-to-equity ratio), high levels of accounts receivable (usually 45%) and unacceptable levels of impure income from, inter alia, the above-mentioned sectors (usually more than 5% of corporate earnings).

Shariah screens can serve as early warning signals. For example, a year before its collapse, Worldcom was taken off the Dow Jones Islamic Market Index (DJIMI), due to high levels of corporate debt. The DJIMI similarly screened out Enron, due to its sharply increasing debt load, shortly before its scandal-plagued collapse. However, it must be noted that in a globalized world, Islamic finance and conventional finance “breathe the same air and swim in the same water”. The current financial crisis has exposed how interconnected both systems of finance actually are. As global real estate and private equity values plunged, so did the values of many Islamic financial institutions (IFIs). Most Islamic financial transactions are still benchmarked to the London Interbank Offered Rate (LIBOR), exposing them to movements in interest rates. However, as argued in this chapter, mutual funds with Shariah screens remained largely robust.

Shariah screens have the potential to be highly adaptable and to incorporate non-traditional considerations that arise with the new challenges each generation faces. For example, even
though Shariah screens do not usually include environmental concerns, Muslims are reminded in their scripture that they are meant to be caretakers of the earth.\textsuperscript{33}

Alberto Brugnoni, founder of ASSAIF,\textsuperscript{34} asserts the following:

Islamic environment funds and Shariah-compliant financing mechanisms need to seriously consider supporting projects that are involved in carbon trading, bio-fuel ventures, solar and hydrogen power plants, waste incineration and recycling projects. Such investments are the need of the hour and represent a serious alternative to the unchecked free market approach. Growth in Islamic banking should equal the swift increase in awareness on climate change and its impending consequences and develop into a more environmentally friendly path.

A focus on environmental considerations is also practical, in that companies who are environmentally sensitive and otherwise ethical will also likely adhere to good corporate governance and business practice. Screens could also accommodate issues such as sweatshop labour, since Muslims are told repeatedly in the Holy Quran that they should be kind to orphans and the poor.\textsuperscript{35}

The very objective of Shariah – literally, “beaten path to the watering hole” – is to promote the welfare of the people, which encompasses the safeguarding of five crucial matters, as stated by Imam al-Ghazali Chapra, 1992):\textsuperscript{36} Faith (\textit{Din}), Life (\textit{Nafs}), Posterity (\textit{Nasl}), Property (\textit{Mal}), and Reason (\textit{Aql}). Similarly, Ibn al-Qayyim al Jawziyyah states that the basis of the Shariah is wisdom and welfare of the people in this world and the hereafter.\textsuperscript{37}

Imam al-Shatibi too contends that the Shariah aims at the welfare of the people in this life and in the life hereafter by protecting its objectives or \textit{maqasid}, which can be classified as follows: \textit{Daruriyyah} (necessities); \textit{Hajiyyah} (requisites); and \textit{Tahsiniyyah} (beautification).

\textit{Daruriyyah}, as explained by Ahamed Myrdin, “are objectives which are a must and basic for the establishment of people’s welfare in this world and the hereafter; the ignoring of which can cause fasad [corruption] to prevail”.\textsuperscript{38}

The protection of people’s welfare and the prevention of corruption are also Christian virtues. Indeed, issues like the environment and sweatshop labour are drawn from Catholic and secular socially responsible screens and continue to inform mutual funds run by Mother Earth Inc. and more traditional fund managers like Calvert. In a comment on Catholic screens, Hari Bhambra of Praesidium LLP states:

Akin to the concept of vicegerency in Islam, Catholic investments are also reiterating the concept of “Human Stewardship” and the role of mankind as a manager not an owner of resources and therefore the implicit moral responsibility associated with such a function is similar to principles in Islam . . . Catholic investment vehicles have grown in the US such as the Eva Maria Funds\textsuperscript{[sic]} which invest in accordance with moral principles and values avoiding investments in certain industries such as those which promote or facilitate abortion. Catholic funds are a form of socially responsible investments or morally responsible investments.\textsuperscript{39}

These sorts of comprehensive screens formed the basis of the world’s first Shariah SRI fund, launched by BMB Islamic in 2009. As stated by Mufti Talha in an earlier work, written as a representative of BMB Islamic:

This product is likely to resonate well with the values and needs of all investors – both Muslims and non-Muslims alike. Such a product has the potential to be commercially successful in line with similar products in the market. For example, if we were to analyse the performance of SRI assets from 2005–2007 alone, we find that they have increased more than 18%, while non-SRI funds in general have increased less than 3% during the same period.\textsuperscript{40}
Many observers, Muslims and non-Muslims alike, have commented on the correlations between Shariah and SRI. For example, asset manager John Sandwick has stated:

Religion is relevant to ensure that security selection for clients who wish to invest according to Shari’a principles remains in compliance with the specific requirements. In many ways it is analogous to the discipline of ethical investing. In this respect, Islamic asset management remains in line with the universally accepted principles of asset management.41

Here, Brugnoni chimes with a prescription:

Islamic finance should move away from being concerned with just the way in which activities are being financed to start focusing on what kind of activities are funded and on their impact on the environment. The negative screening provided by the halal/haram divide that excludes investments that fail to meet religious standards should be complemented by a positive screening based on meeting standards and takes into account all environmental and social issues.42

With regard to the long-standing issue of interest, commentators in the Islamic finance arena have castigated compromises made by their Christian counterparts and the way those compromises have affected the nascent field of Islamic finance. For example, in comparing the medieval contractum trinius, sanctioned by the Catholic church, with its modern “Islamic” equivalents, Tarek El Diwany states:

An interest-free loan is halal, a gift is halal, and a promise is halal; individually these are permissible contracts, but when they are put together this equates to an Interest Bearing Loan. This is because a fixed rate of return is predetermined by banks. If I lend you a 100 on the condition that you return 150, this is clearly haram, and these banks are doing just what the Christians did.43

In light of remarks like these, and the uncomfortable truth behind them, it is instructive for Islamic finance institutions to rethink their long-term strategies and contemplate a return to core principles. The first of these principles would be condemnation of usury, which Islam shares with early Judaism and Christianity. On a purely religious level, then, the Islamic world can play a part in influencing its Judeo-Christian brethren to invest in portfolios that do not include interest-based financial institutions. The Islamic world can point to the devastation caused by the global credit crisis, which had its roots in a toxic mixture of interest, uncertainty, and gambling. It can also direct its Christian counterparts to the compelling words of the Vatican newspaper, L’Osservatore Romano, which stated in the midst of the crisis:

The ethical principles on which Islamic finance is based may bring banks closer to their customers and to the true spirit which should mark every financial service.44

In a dynamic counter-play, the Judeo-Christian tradition can convince the Islamic finance world to widen investment screening criteria to include caretaker considerations like the environment and sweatshop labour. Hitherto, these two important screens have been absent from Islamic funds but may find traction in the future, especially as fund managers realize that a wellspring of consumer consciousness underlies environmental and labour screening and that such screening is in complete consonance with the Shariah.

Ultimately, all three traditions are focused on the proper use of tangible wealth and the fruitful generation of intangible wealth. Intangible wealth can be said to include emotional, mental, and community well-being and is treasured by all of the Abrahamic and world traditions.

Following the launch of BMB’s Shariah SRI Fund, the time is ripe for the next phase of religious-ethical investing: the creation of Abrahamic funds. By combining SRI stewardship
principles with Catholic considerations like child labour, existing Islamic funds can become Abrahamic ones, appealing to socially conscious Jewish, Christian, and Muslim investors worldwide. Ultimately, the proposed Abrahamic ethical fund concept represents a convergence of pluralistic ethical thought with increasingly global finance.

### 6.6 ALPHA: QUANTITATIVE RESULTS OF ABRAHAMIC FUNDS

There is compelling evidence showing that faith-based funds outperform the overall stock market in bull markets and remain robust during bear markets (or at least more robust than their conventional counterparts). In a report for *Business Islamica*, Jahangir Aka of SEI found that outperformance in volatile markets and meritorious performance across a full market cycle both augured well for Shariah-compliant investing. Meanwhile, a meta-analysis of broader...
Abrahamic screens by Lightstone Capital shows an “outperformance in up and robustness in down” market pattern. Detailed research by John Lightstone and Gregory Woods shows that both Islamic strategies outperform conventional benchmarks in 21 years of backtesting and that indices containing more recent Abrahamic considerations outperform their conventional benchmarks in eight years of backtesting.48

Some funds are actively searching for these outperformance/robustness results. For example, the Mizan Fund has seven sub-portfolios with different investment strategies. The objective of the Small Cap Growth sub-fund is to “outperform the Russell 2000 Growth Index in up markets, while showing smaller declines than the Benchmark in down markets”.49 Meanwhile, the Small Cap Growth at a Reasonable Price sub-portfolio is “expected to outperform Russell 2000 Growth Index in both up and down markets”. The most ambitious objective, however, belongs to the Small Cap Value sub-fund: “expected to outperform the Russell 2000 Value Index over various market cycles”.

The overall objective of the Mizan Fund is to save American Muslims with an eye on retirement nesteggs from an “untenable position: having to choose between participating in their employer’s 401(k) plan (and their desire to build retirement assets for the future), or
investing in ways that are consistent with their faith”.

The fund accomplishes this because it is available to most retirement service providers through trading platforms like Charles Schwab, Merrill Lynch, Wachovia Bank/Wystar, and Fidelity.

If the Mizan fund is able to meet its Shariah and economic metrics, it will be a boon to the American Islamic investment industry and an excellent template for potential Abrahamic funds. Mizan would also follow the outstanding track record set by the Amana Mutual Funds Trust (which includes the Amana Growth and Amana Income funds), managed by Saturna Capital Corporation. From November 1997 to November 2007, Amana grew in assets from $25 million to over a $1 billion.

As a value investor, Amana keeps stock turnover low and has adopted a buy and hold strategy with largely blue-chip companies including Apple, Qualcomm, and Adobe. Both Amana funds have won Lipper Awards for demonstrating consistently strong risk-adjusted returns compared to peer funds. The Amana Growth fund was placed first for Best Multi-Cap Growth Fund in both the three- and five-year periods at the 2009 Lipper Fund Awards, chosen from 392 funds in its category over three years through December 2008, and from 326 funds in the five-year period. The Amana Income Fund was placed first for the second consecutive year for Best Equity Income over three years at the 2008 Lipper Fund Awards. The Fund was chosen from 198 funds in its category and rated the best fund over three years through 31 December 2007. While the Amana Income fund outperformed the markets during the bull years, it also stayed more resilient during the critical bear year: in 2008, the fund lost 25.8% of its value compared with a US mutual fund average loss of 44%.

In this respect, Amana overtook other faith-based funds like the Timothy Plan, which had started the 2008 bear year ahead of Amana. As noted by Deborah Brewster of the Financial Times:

The Timothy Plan, a mutual fund group that invests according to “pro-family, biblically based” Christian values was the top performing faith-based fund in the US last year. Timothy’s returns were higher than those of most hedge funds and beat 35 other faith-based funds, including the Amana Trust funds, which invest according to Islamic principles.
6.7 AMANA AND THE BENCHMARKS

Research by Jarmo Kotilaine of NCB Capital vindicates the fact that Islamic funds weathered the global financial crisis relatively better than conventional funds. This can be attributed to the inherent security mechanism in the Islamic financial services sector, provided by the prohibition on non-Shariah-compliant activities. Kotilaine’s research shows that GCC-based Shariah funds fell 21.7% during the past year, compared with the 26.4% decline in conventional funds. The S&P Sharia Index fell by 28% between 1 January 2008 and 19 June 2009 compared with the 37% decline in the S&P Index during the same period. Dr Kotilaine’s reflection on this period is noted in the following:

Though the indices for both Islamic finance and conventional systems recorded negative returns during 4Q-08 and early 2009, the quantum of losses recorded by Islamic indices or products was lower.

Other faith-based funds had similar success. For example, the Ave Maria Mutual Funds were also divided into several sub-portfolios. The Ave Maria Growth Fund was awarded the 2009 Lipper Fund Award, after ranking first out of 653 funds in its category for the three years preceding 31 December 2008. Meanwhile, the Ave Maria Opportunity Fund posted returns of 34.31% for the period starting 1 January to 30 September 2009. The largest part of the portfolio was held in cash, while the next highest sector weightings were as follows: energy and mining, technology, financial, and then healthcare. As with other Ave Maria sub-funds, the fund advisor (Schwartz Investment Counsel) agreed to cap its fees to 1.25% of the sub-funds’ average daily net assets until at least 1 May 2010. Ave Maria Mutual Funds are also available through trading platforms like Charles Schwab, Merrill Lynch, and Fidelity, along with Canadian-owned TD Ameritrade.

Tel Aviv-traded stocks outperformed the S&P and the Dow Jones Industrial average for a period between 1999 and 2004. Since January 1999 to April 2004, the TA-25 was up 60%.

More recently in 2009, The American Israeli Shared Values Fund was returning 21.32%, according to a report by Dow Jones Newswires.

On the other hand, some researchers have found more or less the same performance between Islamic and conventional funds. For example, Noripah Kamso, chief executive of CIMB-Principal Islamic Asset Management, did a comparison of 10-year performance ending March 2009 between the Dow Jones Islamic Market Index and the Dow Jones World Stock Index. Looking at performance using three measures (monthly, cumulative, and rolling three-year

<table>
<thead>
<tr>
<th>Table 6.2</th>
<th>Amana average annual total returns (quarter ended 30 September 2009)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1 Year</td>
</tr>
<tr>
<td>Amana Income</td>
<td>1.53%</td>
</tr>
<tr>
<td>Amana Growth</td>
<td>−0.14%</td>
</tr>
<tr>
<td>Benchmark comparisons</td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500 index</td>
<td>−6.91%</td>
</tr>
<tr>
<td>Russell 2000 index</td>
<td>−9.55%</td>
</tr>
<tr>
<td>Dow Jones Islamic Index US</td>
<td>−5.11%</td>
</tr>
</tbody>
</table>

Source: www.amanares.com
performance), she came to a simple conclusion: similar performance. However, she also commented that:

Shariah-compliant companies may tend to be more resilient should an economic downturn suddenly occur compared to their conventional counterparts whose financial position may be more precarious because of their more leveraged financial position.  

Other researchers have found comparable results. In one report calling for further research, business school professors from the University of St Andrews and University of South Australia stated:

[W]e find some evidence that Islamic equity funds exhibit a hedging function in case of a losing global equity market. This is intuitive; since they are restricted to invest in assets with a low debt to equity ratio . . .

6.8 CONCLUSION

Those interested in the Abrahamic Ethical Fund concept would do well to heed the call for more research into Islamic equity’s downside risk exposure and upside potential. Even if we consider the low intensity research so far, Islamic equity funds (led by the Amana mutual fund family) would appear to bear out the hypothesis in this chapter: that Islamic funds generally outperform their conventional counterparts in upmarkets and suffer less of a fall in downmarkets.

For the devout, such a fund constitutes a strong worldly proposition: the investor may follow the dictates of the Divine in financial decisions while simultaneously making a greater investment return. In following these dictates, the devout investor can also contribute to community well-being, which is the true source of wealth in any society.
During the global crisis, thousands of devout Jews, Christians, and Muslims who had invested in conventional mutual funds saw unprecedented devastation to their portfolios, due to the heedlessness of a minority in the financial industry. As Omar Clark Fisher put it:

The magnitude of the financial catastrophe and consequential hardships hardly seems a just or fair price for societies to pay for the greed, corruption and moral failure of a relatively few financiers. No doubt, this global economic meltdown has left the entire world poorer.66

Had the monotheistic investors shown more faith in religiously inspired screens (be they Jewish, Christian, or Islamic), they might have seen their mutual fund portfolios outperform the conventional market while remaining more robust during the unremitting devastation of the crisis.

Post-crisis, faith-based screens remain an attractive alternative for believing and non-believing investors alike and will likely inspire greater research and, we hope, an actual Abrahamic Ethical Fund.

APPENDIX: THE ABRAHAMIC FAMILY TREE

From an Islamic perspective, Muslims believe that the three monotheistic traditions, namely Judaism, Christianity, and Islam share the same lineage/bloodline that can be traced back all the way to Prophet Abraham.

The final prophet of the Jews, Prophet Moses was a descendant of Prophet Isaac who was the second son of Prophet Abraham. Similarly, Mary the mother of Christ, the apostle of Christianity had Jewish ancestral roots that can similarly be traced back to Prophet Isaac. The final Prophet of Islam, Prophet Muhammad was a direct descendant of Prophet Ishmael, the first son of Prophet Abraham (peace be upon all of them).

NOTES

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17. *Ibid*.

18. *Ibid*.


30. The acceptable debt ratio of 33% is based on a Prophetic hadith that “a third is a lot”. However, that Prophetic guideline related to the size of charitable donations that testators could bequeath through their estate. Therefore, the arguably “more compliant” measure for an Islamic equity fund, public or private, may be zero long-term debt in the portfolio companies and, further, that any short-term debt meets the accepted parameters of 33%.


32. *Ibid*.

33. For example, in *sura Baqarah* (The Cow) of the Holy Quran, verse 30, it states:

   (Remember) when your Lord said to the angels, I am going to create a deputy on the earth a khalif (vicegerent; caretaker), they said: What! wilt Thou create there one who will spread disorder and cause bloodshed, while we proclaim Your purity, along with your praise, and sanctify Your name? He said, “Certainly, I know what you know not.”

   See also *sura Fatir* (The Originator), verse 39, where God says, “He it is Who made you khalifa (vicegerents) in the land.” Muhammad Asad has translated khalifa as inheritors implying the grant to mankind the ability to discern between right and wrong as well as between truth and falsehood.

34. ASSAIF is a financial engineering think tank at the forefront of designing Shariah-compliant financial instruments in the investment and retail banking, wealth management, takaful, and microfinance sectors. This quotation is from A. Brugnoni, “Smoke signals” *Islamic Banking & Finance*, vol. 7, 2(22), p. 16.

35. For example, in *sura Duha* (Earning Morning Light) of the Holy Quran, it states: “As for the orphan, do not oppress him, and as for the begger, scold him not; and as for thy Lord’s blessing, declare it” [93:9–11]. See www.altafsir.com/ViewTranslations.asp?Display=yes&SoraNo=93&Ayah=0&Language=2&LanguageID=2&TranslationBook=5 (accessed 6 December 2009).

   Also in *sura Al-Ma‘un* (Small Kindnesses) of the Holy Quran where it states: “Have you seen him who denies the Requital? So, he is the one who pushes away the orphan, and does not persuade (others) to feed the needy” [107:1]. See www.altafsir.com/ViewTranslations.asp?Display=yes&SoraNo=107&Ayah=0&Language=2&LanguageID=2&TranslationBook=9 (accessed 6 December 2009).
Also the Prophetic hadith “The people who are compassionate draw the compassion of the Divine (Most Compassionate); So be compassionate to those on the earth, and the One in the skies will be compassionate upon you. [Tirmidhi: Chapter on Dutifulness and Maintaining Ties of Kinship]


37. Ibid.


* Ave Maria Funds, discussed further below, is America’s largest family of Catholic Mutual Funds. It has a distinguished Catholic Advisory Board, guided by the Magesterium of the Church, which sets the criteria for screening out companies on religious principles. Equal emphasis is placed on investment performance and moral criteria. That means shareholders do not have to sacrifice financial performance potential because of their pro-life and pro-family beliefs: see www.avemariafund.com/home.htm (accessed 4 December 2009).


Also reproduced as “Crossing the chasm into Sharia based products” Al Watan Daily, 11 October 2009, p. 11.


42. A. Brugnoni, “Smoke signals” Islamic Banking & Finance, 7(2) 22, pp. 15–16.


* In its wider meaning, the term kalimah (“word”) denotes any conceptual statement or proposition. Thus, a “good word” circumscribes any proposition (or idea) that is intrinsically true and – because it implies a call to what is good in the moral sense – is ultimately beneficent and enduring; and since a call to moral righteousness is the innermost purport
of every one of God’s messages, the term “good word” applies to them as well. Similarly, the “corrupt word” mentioned in verse 26 applies to the opposite of what a divine message aims at: namely, to every idea that is intrinsically false or morally evil and, therefore, spiritually harmful.


57. The prohibition of *riba* (interest), *gharar* (excessive uncertainty), *maisir* (gambling), and *haram* (forbidden) activities.


61. *Ibid*.


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