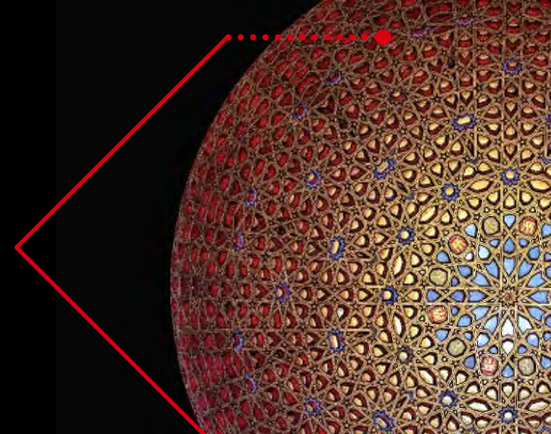


Introducing Islamic Investment Principles

August 2025



Introduction

- ◆ Islamic Finance represents one of many forms of ethical investing where the ultimate objective is to contribute positively to society.
- ◆ As an asset manager we have a fiduciary responsibility to ensure we do our best to help clients achieve their investment objectives, but we also have a moral responsibility to help communities, of all types, thrive.
- ◆ At its core, Islamic Finance is about the application of key principles to help money achieve a better outcome for society as a whole.

3 Key Principles



Principle of Equity: minimise uncertainty, ensure the needy are not left behind, and discourage the accumulation of money for the sake of it without there being a societal benefit.



Principle of Participation: ensures that all parties involved in a financial transaction do so with a tangible objective in mind.



Principle of Ownership: ensures that all parties to a financial transaction respect the property rights of the others in a nuanced contractual manner

3 Important Tenets

- ◆ Money should be used in such a way to discourage the concentration of wealth in a few hands, so as to prevent greater inequality in society
- ◆ Money is viewed not as an end in itself, but as a means of exchange, where the end goal is to maximise welfare for the maximum number of people
- ◆ Risk sharing ensures a more equitable risk and profit-sharing arrangement between the capital provider and entrepreneur

The views expressed above were held at the time of preparation and are subject to change without notice. Any forecast, projection or target where provided is indicative only and not guaranteed in any way.

Islamic Financial Products & Services

Profit & Loss Sharing Schemes

Mudarabah, a profit-sharing and loss-bearing contract where one-party supplies funding and the other provides effort and management expertise – such as an entrepreneur - with a view to generating a profit with a pre-defined profit and loss sharing arrangement.

Non-Profit & Loss Sharing Schemes

Financial arrangements that are consistent with the spirit and requirements of Islamic Finance. Murabahah financing offers an example of this. Here a client may ask a third party, such as a bank, to purchase an item at a pre-defined mark-up on their behalf. A contract is set between the bank and the client which ensures the cost, and profit, is agreed ahead of time. Repayment can then take place in instalments resulting in a fixed fee rather than paying interest which is a prohibited within Islamic Finance.



Principles in Practice

When thinking about how to create investment portfolios, such as portfolios of equities, investors should consider the ethical angle. Questions should be asked such as:

- ◆ Does a company have significant involvement in controversial industries or practices?
- ◆ How reliant is a company on charging interest or on borrowing through debt markets for its day to day working capital needs?
- ◆ Is the company well governed and does it treat its employees well?

Shariah compliant funds are structured in such a way to filter out companies which have unacceptable exposure in these areas.

Faith-based Ethical Investing & Sustainable Investing

What we observe in practice is that there is significant overlap between faith based ethical investing and Sustainable or ESG focused investing.

In both instances companies are screened, often in a similar way, to identify those companies which are less beneficial or in some instances more harmful to society through some part of their commercial activity.

However, Shariah compliant screening processes such as that described above cannot completely eliminate exposure, through their direct investments, to companies that may have some residual exposure to the above mentioned practices. Some companies may be accepted into the fund which have minimal exposure to prohibited controversial industries, sectors and practices. This is the challenge for Shariah screening and indeed all ethical investment screening processes.

In practice, investors that then benefit from these investments should strive to give back to society through charitable donation. We call this practice purification – a best efforts attempt to offset some of the negatives through charitable giving.

Innovation

Increasingly, we are seeing many pension schemes across the UK looking to provide investment options that meet the needs of all of their members. This has led to a growth in ESG strategies as well as faith-based strategies. This innovation should lead to increased pension savings across all segments of society, benefitting many communities across the UK.

As a sign of our commitment to helping faith-based investors build portfolios relevant to their ideals, we plan to continue to innovate in the ethical investment space and build upon our Shariah compliant investment suite.

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