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# Funds Guided by Sharia First, Earnings Second



Religious Investments Still Need Scrutiny

By Tim Paradis
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NEW YORK -- Moazzam Ahmed tried for years to square his investment goals with the tenets of Islam.

"There was a lot of research that I had to do on my own," he said, referring to the time he spent poring over potential investments to weed out objectionable businesses. "I probably still made mistakes."

Then, several years ago, he discovered a mutual fund company that complied with sharia, or Islamic law, and he soon rolled over his 401(k). The funds prohibit investments in companies whose business focuses on alcohol, tobacco, gambling, pornography or insurance.

Ahmed hadn't just found a family of funds that aligned with his religious principles, he'd discovered funds that produced strong returns and managed to sidestep the implosion of Enron and WorldCom, as well as the more recent mortgage debacle.

While Wall Street puts much of its faith in money, there are funds guided by religious principles that can keep up with or even outperform many funds with fewer restrictions on how they invest.

Ahmed, a software developer in Kirkland, Wash., said his investment in the Amana funds, which are run by Saturna Capital, meant he didn't have to give up financial returns to follow his religion.

The Amana funds bar investments in companies that have large debts or that draw a sizable portion of their profit from earning interest. Not being able to invest in banks might seem like an onerous requirement given that financial services companies make up about a quarter of the benchmark Standard & Poor's 500-stock index. But that's been a welcome prohibition lately because so many financial companies are struggling with souring mortgage debt.

Monem Salam, director of Islamic investing and deputy portfolio manager for Saturna, said the funds' conservatism has benefited investors.

"We don't buy any companies that are doing something that would be against the tenets of Islam," he said. "We've come up with some financial criteria to limit a company's exposure to any form of riba, or interest."

The funds rely on a group of Islamic scholars to help determine what types of investments are acceptable.

"I think we have a good system of how we manage money. We also have one step more than any other ethical fund, which is that we also avoid the financial companies, which in this environment has really worked out," Salam said.

The Amana Trust Income Fund, for example, is up more than 1 percent for the year while the broader market is down. Amana's growth fund is down more than 1 percent for the year but is still ahead of the major market indexes. Both funds have average annual total returns of more than 19 percent over five years.

"We have to look at what the debt of the company is and that's saved us more than a few times in the past," he said, pointing to names like Enron and WorldCom.

"Even though they were putting all their debt off-balance-sheet, it was something that they were able to report in the notes and we caught it and so we sold."

The performance of the funds has drawn attention. In the past two to three years, about 60 to 70 percent of investors have been non-Muslims and assets have ballooned from about $40 million in 2003 to more than $1 billion.

Other funds have proven popular with religious investors. The Ave Maria Mutual Funds are structured according to Roman Catholic principles and prohibit investments in companies whose businesses profit from pornography or abortion. They also don't invest in companies that extend benefits to unmarried couples.

David Kathman, mutual fund analyst at Morningstar, said investors should evaluate a religious fund with the same scrutiny they would bring to any other investment.

"The quality of the fund is something people should pay most attention to," he said, noting that some funds that are called socially responsible carry higher fees.

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