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Islamic Principles Pave Way to Top for Amana Funds

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Islam and Nicholas Kaiser have guided the \$532 million Amana Income Fund to returns that beat all rivals for the past five years.

Amana Income gained an annual average of 9.7 percent through Thursday, best among funds that focus on large companies considered undervalued based on earnings or other financial measures, according to Morningstar. Stakes in [Nike](#) and [General Mills](#) helped it exceed the average peer's 0.1 percent return.

Amana Income and sister fund Amana Growth are designed for U.S. Muslims who wish to invest according to their beliefs. Islam's prohibition against earning or paying interest puts financial stocks and debt-heavy companies off limits. While the restriction proved beneficial in 2008, the fund's longer-term record is based on more than avoiding those companies hit hardest by the current financial crisis.

"The lack of financials was a big help, but the fund has also always had sound, fundamentally based investing principles," said David Kathman, an analyst at Morningstar in Chicago.

Amana Growth, with an annual average gain of 7.7 percent, ranks second over five years among funds that target companies with better-than-average growth in profits or revenue. The average rival lost 1.5 percent annually. Only Kenneth Heebner's CGM Mutual Fund had a higher return at 8.2 percent.

This year, Amana Income has declined 24 percent and Amana Growth 28 percent, while the Standard & Poor's 500 Index has dropped 34 percent.

Amana Income has a five-year Sharpe ratio of 0.95 through Sept. 30, compared with 0.27 for rivals, according to Morningstar. Amana Growth has a 0.87 five-year Sharpe ratio, compared with a 0.12 for its rivals. A higher Sharpe ratio indicates better risk-adjusted returns. Morningstar gives each fund a five-star rating, its highest.

Amana Income opened in 1986 when a group of Muslim scholars from the North American Islamic Trust, an Indianapolis-based custodian of assets for Islamic institutions, approached Kaiser, then president of Unified Management, to manage a fund for individual investors. Amana Growth Trust, which now has

\$792 million in assets, was added in 1994.

Kaiser, 62, now manages the funds from Saturna Capital, a firm he founded in 1989 in Bellingham, Wash.

Both Amana funds invest according to sharia, the body of Islamic religious law rooted in the Koran, and hadith, the sayings of the prophet Mohammed. The codes bar the funds from investing in industries such as gambling, alcohol, pork production and pornography. A ban on speculative investing discourages high turnover of stocks.

The funds also weed out companies with debt exceeding 30 percent of equity or accounts receivable more than 45 percent of equity.

"We have lots of non-Muslim investors who think those are a pretty good set of rules for investing," Kaiser said. About half of the 70,000 investors who buy the funds through financial advisers aren't Muslim, he said. An additional 17,000 shareholders have bought the funds directly.

If a company in the portfolio violates the restrictions by moving into a banned industry or exceeding the debt ratio, the fund doesn't have to divest immediately. The fund still holds Calgary-based Canadian Pacific Railway, which has fallen 27 percent in Toronto trading this year, after the slump in its share price caused its debt ratio to cross the limit.

"There is no absolute set of rules," Kaiser said.

Kaiser, a graduate of [Yale University](#) and the [University of Chicago](#), is the only non-Muslim on the fund's board. He relies on Monem Salam, vice president of Islamic investing, for sharia screening.

The fund also occasionally turns to the Accounting and Auditing Organization for Islamic Financial Institutions in Bahrain for guidance.

Its largest holding, Nike, has fallen 13 percent this year through Thursday. General Mills, based in Minneapolis, gained 14 percent, and [Abbott Laboratories](#), the Abbot Park, Ill., pharmaceutical company, was 1.4 percent lower.

Saturna manages about \$1.4 billion, including private accounts and \$56 million in the firm's Sextant group of funds. Those six funds don't follow sharia restrictions.

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