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\$5m entry level for first-ever Islamic hedge fund

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Banks across the Gulf States are beginning to warm to the first-ever Islamic hedge fund of funds being marketed by Dubai Shariah Asset Management but there is a fairly high initial entry minimum investment of \$5 million.

DSAM walked away with the top prizes at the Dubai Hedge Funds World conference this year, and is 51 per cent owned by the state-owned Dubai Multi Commodities Center and 49 per cent by Shariah Capital, a Connecticut-based firm founded by Eric Meyer, a former technology hedge fund manager who sold out before the dot-com crash.

Tenacious business model

ArabianMoney has tracked Mr Meyer's considerable efforts to create and launch his Islamic hedge funds over the past few years. Working with respected Islamic scholars his company has developed software to screen stocks for compliance with Shariah law, and created a contract equivalent to short selling.

He has also secured a highly impressive line-up of portfolio managers for his funds: BlackRock, Tocqueville Asset Management, Lucas Capital Management and Zweig-DiMenna International Managers. The DMCC put \$200 million in seed capital into the four funds which has now grown to \$260 million and are collectively known as the DSAM Kauthar Commodity Fund.

The fund launched at the beginning of 2009, and has outperformed comparable indexes to present a 41 per cent return. This eye-watering return in such a terrible year for investors has clearly caught the attention of local banks, now looking to offer their customers better returns and Islamic compliance.

Islamic investments

The DSAM Kauthar fund avoids investments in companies involved in selling alcohol or gambling. The fund also avoids companies with large debt burdens or receiving excessive income from interest revenue. It does not directly short sell either.

Arguably this is not a bad investment strategy in present times. The real burden of debt is likely to rise as bond markets force up interest rates to raise money for indebted governments around the world. In short, conservatively run and well capitalized companies tend to perform best in bad times.

But still the question to ask is who is investing your money, albeit in a Shariah compliant fashion. Mr. Meyer's real coup surely is to have Wall Street's blue-chip fund managers working for him. This also keeps third party investment risk down to a minimum.

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