

EMIRATES

# Business247

## Aggressive strategy with strong balance sheet is way forward



By Shashank Shekhar on Sunday, May 17, 2009

Conflicting views are emerging about whether the global financial downturn is deepening or easing, but Eric Meyer, CEO of Shariah Capital, says the crisis – even at its worst – will help him attract talent.

The US-based company has formed a joint venture with the Dubai Multi Commodities Centre Authority (DMCC) and launched four hedge funds that comply with Shariah principles early this year.

The DMCC, a Dubai Government agency, seeded \$50 million (Dh184m) into each of the four funds, making the launch worth a total of \$200 million.

The products are DSAM Kauthar Gold Fund, DSAM Kauthar Energy Fund, DSAM Global Resources and Mining Fund and DSAM Kauthar Natural Resources

**Fund.**

**The gold fund has shown exceptional resilience and has in the four months since its launch offered returns that match the best financial products in the world. And it may perform even better in days to come, says Meyer.**

**How is Shariah Capital faring in the crisis? What's your strategy for survival?**

We at Shariah Capital have an advantage over other Shariah-compliant organisations in that we have a very strong balance sheet and a very strong and improving cash flow. We have millions in the bank and are not burdened by debt. Most firms are now playing defence and letting people go. Most firms are now cautious. We are the opposite. Now is the time to be hiring the best and the brightest. Based on the present environment we can now hire world-class talent that hitherto might have been beyond our pocket. Moreover, most large institutions looking to build suites of Shariah-compliant products are now insisting on working only with organisations with strong balance sheets. We seem to fit that bill. As a result we are busier than ever with interesting new product offerings that should help us keep innovating with marquee organisations for years.

**Are you satisfied with the performance of the four funds that you launched in Dubai this year?**

We encountered some scepticism when we launched our funds during one of the most difficult investment periods since the 1930s depression. As it turns out, our managers' well-timed investments into the market lows earned two of our funds, as well as our fund-of-funds, absolute or near-top performance against competing Shariah-compliant and conventional fund managers. For example, the DSAM Kauthar Gold Fund is up over 15 per cent since the beginning of the year through end-March. I'm sure this performance puts it in the top decile of hedge fund managers this year. And the Natural Resources and Global Resources and Mining funds are both above their benchmarks. Together – as components of our fund-of-funds, the DSAM Kauthar Commodity Fund – the DSAM funds are net positive year-to-date. I am excited that we've come out of the box with strong performance.

**What made you choose Dubai to launch your funds when you had the option of other financial centres? Why did you not choose Riyadh or Qatar where Shariah compliance could have attracted more capital?**

The DMCC and its Executive Chairman, Ahmed bin Sulayem, shared my vision. They more than anyone else had the foresight and fortitude during these turbulent markets to build an asset management company with Shariah Capital that is committed to developing Shariah-compliant alternative investments for Islamic investors.

Our driving force has always been innovation – and through this to establish ourselves as a leader in Islamic finance. We looked to establish our Middle East presence in an environment that encourages positive change.

**The board of Shariah Capital consists of scholars from across the world. Do you see conflicts of opinions?**

Shariah scholars are dedicated to their roles of upholding Shariah. But they also are practical men. I have seen them work together through difficult issues to devise practical solutions that bridge the differences between Shariah and non-Shariah legal and financial systems. As much as possible they want to give Islamic investors a level-playing field with conventional investors. They genuinely collaborate among themselves to resolve differences. And when they don't we accept their reservations about an investment strategy or a particular investment instrument and move on.

**What's a level-playing field?**

Early on our Shariah scholars impressed upon me the need for Islamic investors to enjoy access to the same investment opportunities as conventional investors. They insisted we built products with the capability of achieving the same returns as conventional investment products – without compromising Shariah and with the same fees as conventional products. In other words, bring Islamic investors competitively-priced products without charging the sort of premium that characterises so many Shariah-compliant funds in the past. I have achieved my objective and established a level-playing field.

**Does the good performance of the DSAM Kauthar Gold Fund have more to do with it being a gold fund, or is it because it is Shariah-compliant?**

Shariah compliance, when done correctly by using the methodologies we deploy on our Al Safi Trust platform, does not impair manager performance. Al Safi enables a manager to direct his portfolio with the same investment strategy he follows for his conventional portfolio. Except for following guidelines issued by his Shariah board, a manager's strategy is the same for Islamic investors as for conventional investors. As a result, the performance of both is very similar. Our funds allow Islamic investors access to the same investments available to conventional investors at the same level of fees. So it's not why the gold fund is outperforming. It's the fact that it is performing in line with, if not above, its conventional counterpart, that's significant for Islamic investors.

**What steps do you adopt to ensure that your funds actually comply with Shariah principles?**

We screen the manager's strategy and investment focus and the trading universe of companies before admitting him to the Al Safi Trust platform. Then each month we issue him with an updated list of companies approved by the Shariah board. Finally, along with Barclays, we check every trade every day, along with every settled position in the portfolio, to insure all the names are approved. The scholars on the Al Safi Shariah board also are able to spot-check the portfolio at any time.

Several hedge funds have closed down recently. Do you see that happening to any of your funds? In particular, your energy and mining resources funds have had negative

returns in their initial months.

We had two individual funds up and two funds down through end-March 2009, with our fund-of-funds delivering a positive net return year-to-date through the first quarter of 2009. Given that it's difficult to project which strategies will do better than others, a typical investor may find our fund-of-funds solution the best way to invest – unless he's a specialist who specifically wants equity exposure to gold or oil. The Energy Fund likewise recovered in March, a trend we hope continues as the upturn in the global economy moves oil prices higher. The volatility of these funds is an opportunity for investors to come in at attractive levels – not an excuse to close them.

**How do you expect your funds to perform during the rest of this year?**

Solidly positive all around. Once again, for investors unsure of which of the four to choose, the DSAM Kauthar Commodity Fund, the equally-weighted fund comprising all four strategies, is ideal.

**How do you rate the performance of Islamic products during the crisis? Do you think they have exhibited higher levels of resilience than their conventional counterparts?**

I can't speak for all Islamic products but those invested in equities generally have not suffered as much as conventional funds because they were not invested in banks and insurance companies, the two sectors that were the most volatile during this period.

**We keep reading that Barclays continues to increase its Middle East presence? Do you see this benefiting the Al Safi Trust platform?**

I see Barclays continuing to have a wonderful strategic relationship with Shariah Capital in support of the Islamic solutions they've created with us. From my perspective, Barclays has always had very strong sales teams in its Emea sales and Barclays wealth divisions. With recent appointments, they have only grown stronger. Both groups are now actively engaged in supporting Al Safi's present and future offerings. A client can just as easily access the Al Safi-DSAM Kauthar Funds through the Emea sales team or Barclays wealth as it can through Dubai Shariah Asset Management's distribution channel, DCAM.

**All your funds invest in commodities. How do you see the commodities markets performing?**

Commodity stocks historically have outperformed the market every time central banks have grossly overburdened their balance sheets and deflated their currencies. And commodity stocks historically have outperformed the market coming out of a recession. I've heard some people call today's global stimulus packages "the mother of overburdened balance sheets" and the current recession "the worst since the 1920s". If history is any guide, what they're really telling me is that commodity stocks are poised for a significant rebound as the world moves beyond these two "perfect storms".

## **Where are your funds investing?**

The managers we have hired are tasked with finding cheap stocks to buy and the most expensive stocks to sell. Their mandate has no bounds by country or continent. So our portfolios are full of commodity stocks from all over the world. We may own a copper stock in Australia, a gold exploration company in Egypt, or a fertiliser company in Norway. Equally the portfolios may counterbalance with an arboon (a tool for hedging and managing risk) sale of a stock in a company that supplies oil drilling rigs worldwide, or natural gas in America.

## **PROFILE: Eric Meyer CEO of Shariah Capital**

Eric Meyer has developed faster and more efficient computer software for the hedge fund industry to determine whether specific securities are Shariah-compliant.

In addition he developed a web-based software engine that provides real-time portfolio monitoring. Meyer initially established himself in both hedge fund management and early stage private equity as well as venture capital.

He is a member of the International Business Practices Advisory Panel (IBPAP) of the National Intelligence Council (NIC), an agency of the US Government's Department of Defence.