

## Upbeat on Shariah Capital's Hedge Funds

By Islamic Finance news

Despite the global economic downturn, many financial institutions and asset management companies have been launching mutual funds in the hope of attracting the ever vigilant investor. One such institution is US-based company Shariah Capital which formed a joint venture with the Dubai Multi Commodities Centre (DMCC) to launch four Shariah compliant hedge funds early this year.

The DMCC, a Dubai Government agency, invested US\$50 million into each of the four funds dubbed the Dubai Shariah Asset Management (DSAM), making the launch worth a total of US\$200 million. The DSAM Kauthar funds invest exclusively in corresponding strategies or what is known as "subtrust" on the Al Safi Trust platform. The Al Safi Trust is a comprehensive Shariah compliant platform comprising alternative investment managers with a single strategy. Shariah Capital serves as the Shariah advisor and Barclays Capital is the prime broker, custodian and structured products distributor.

### Performance estimates through the 8<sup>th</sup> May 2009

|   | 1 <sup>st</sup> - 8 <sup>th</sup> May | 2009 Year-to-date |
|---|---------------------------------------|-------------------|
| DSAM Kauthar Gold Fund                      | +10.65%                               | +21.50%           |
| DSAM Kauthar Energy Fund                    | +13.23%                               | +16.90%           |
| DSAM Kauthar Natural Resources Fund         | +1.62%                                | +0.80%            |
| DSAM Kauthar Global Resources & Mining Fund | +13.64%                               | +24.99%           |
| DSAM Kauthar Commodity Fund                 | +9.78%                                | +14.79%           |

Data provided by Shariah Capital

Shariah Capital chairman and CEO, Eric Meyer, told *Islamic Finance news* that the company's hedge funds have significantly outperformed most conventional hedge funds this year. He attributes this to two factors; firstly, the managers investing the funds and secondly, the Shariah screens which aid the stock selection.

"Our primary objective is to provide high-quality institutional alternative investment managers to Islamic investors. This year's results prove we have achieved our objective. Of course, the upturn in commodity prices has also helped. But investors in our DSAM Kauthar funds today are witnessing some of the best returns in the market because we have attracted among the best managers in the industry to manage the funds within Shariah guidelines," he said.

Meyer said DSAM Kauthar funds are proof that Shariah guidelines do not restrict the universe of stocks available to managers. "Our managers are very comfortable with the guidelines we've given them for Shariah compliance. In fact, looking at our numbers this year, one could almost suggest that Shariah principles have helped our performance," he said.

On comparison with other hedge funds or long/short equity funds, Meyer said the DSAM Kauthar funds were some of the best performing in the industry as compared to the conventional hedge funds such as Eurekahedge Fund Index, which was up about 4%. He said the year-to-date numbers on the top 10 long/short equity managers on

hedgefund.net were up by about 13%. "Three of our managers and our fund-of-funds are well above both of these levels," he added.

Asked about the type of investors who were attracted to the DSAM Kauthar funds, Meyer stopped short of naming his clients due to reasons of confidentiality. However, he stressed that Shariah Capital's seed investor was the DMCC. He said that clients, both existing and potential, were looking to manage risks through diversification into commodities, and protecting their capital through the tools only available to hedge funds.

Meyer said the funds appealed to several types of institutions, including the private banking units of Islamic banks in the Gulf that had current investment funds focused on long only Middle East North Africa equities.

The private banking units of global financial institutions, where their platforms consist of a Middle East real estate fund and a capital-protected product linked to an index of individual shares, also found the funds appealing.

"It has even attracted asset management groups with Islamic portfolios of funds currently over-weighted in the Murabahah and long only regional equities, as well as the proprietary capital desks of Gulf financial institutions looking to diversify their overall hedge fund exposure to include commodities," he said.

On the expectations of these investors for the DSAM Kauthar funds, Meyer said all of Shariah Capital's institutional clients were knowledgeable hedge fund investors and that they understood the inherent volatility in the company's funds, particularly in commodities. "However, as longer-term investors, they recognize that any movement in the global economy will involve an increased demand for commodities. Our funds provide that exposure within an absolute return strategy," he said.

Meyer added that there was interest even outside of the Gulf region, mainly from Europe. "There is considerable money being managed in Europe for Islamic investors. These firms, mainly private banks and discretionary managers, who are already familiar with our DSAM managers on the conventional side, are enthusiastic about a Shariah compliant equivalent product.

"We are working with these groups to include the DSAM Kauthar funds as one of the choices available on their platforms for the private bankers and asset allocators who construct client investment portfolios," he said, adding that Shariah Capital encourages the idea of private labelling of its funds.

Meyer said that the severity of the market last year caused a number of institutions to put new investment allocations on hold. However, he is confident that this is about to change. "Banks and financial institutions cannot sit on cash forever. They simply are waiting for the right environment to return to the market. When they do, I believe we can make a strong argument that they should consider our funds for their first allocation," he concluded. (F)