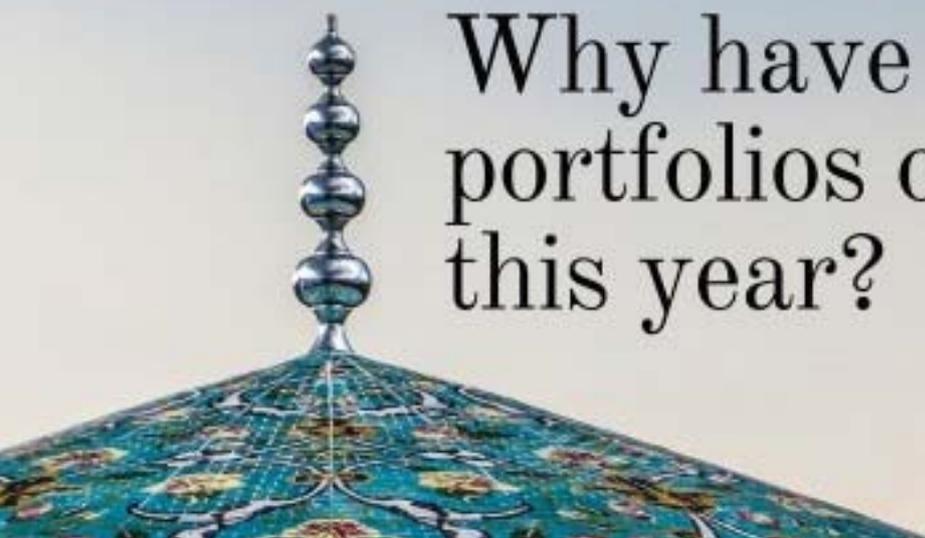


## TAM INTERNATIONAL INVESTMENT NOTE

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# Why have Sharia portfolios outperformed this year?

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Sharia investing has by no means been immune from this year's volatility, but the high-quality nature of the sector has helped to deliver good levels of protection for investors. Moreover, the defensive characteristics shown this year has cemented Sharia investing as a small but growing part of the market which continues to be as dependable in a bear market as it does in a bull market.

Why? Sharia investing over the bull market of the last few years has kept pace with, and often exceeded, the performance of many of the world's best non-Sharia "growth" funds which we know was the market leading sector. Predominantly what makes a good Sharia compliant investment has focused on good companies with well-run balance sheets, diverse boards, robust earnings margins, and importantly, very attractive future growth projections.

It's no surprise then that many of the stocks which have made their way into Sharia funds have also found their way into high-quality ESG and mainstream growth funds, which has been one of the best places to be invested over the last 5 years. From a purist angle, this outperformance in up markets demonstrates Sharia Law guiding Muslim investors into the right companies, and the market has agreed with and rewarded them for this dedication to religious rules-based investing.

Fast forward to 2022 and most investors will know that the hallmark of this bear market has been investors selling those same growth companies on fears that raising interest rates and a recession would obliterate the attractive future growth prospects, and in the main this has been exactly what has happened. Take the iShares MSCI EAFE Growth ETF as a proxy for this sector, which is down over 23% this year alone against iShares World Islamic ETF which is down a modest 8% in dollar terms.

From a professional investor's perspective, Sharia investing delivering 15% outperformance in just 10 months is a significant point to note. Considering this outperformance is against popular and widely held sectors just shows how effective the Sharia market has become in outperforming its mainstream growth competitors in down markets. These relative outperformance numbers become more extreme when one takes another high-profile growth fund, the ARC Innovation ETF (a celebrated fund with deep ties to religious based investing), falling 60% in 2022. Again, Sharia markets are, on average, down less than half of that.

Broadly speaking, the same observation holds true when looking at the whole market, with the iShares MSCI World Islamic Index outperforming the FTSE All World Index by nearly 40% this year. Again, one can look to Sharia Law guiding investors to owning high quality companies which hold up well under pressure.

Individual fund selection remains risky, however, with different Sharia funds providing different offensive and defensive capabilities which need to be blended to give an enhanced level of protection. This is where Sharia Managed Portfolio Service (MPS) solutions, such as TAM's, have come into their own in this downturn.

Mainstream industry benchmarks such as the IA Mixed Investment sector and ARC Private Client indexes are down 12% and 13% respectively this year, whereas Sharia MPS portfolios are down just 4% over the same period. TAM's Sharia model portfolio was up 40% in the five years to the end of 2021, when those same industry benchmarks were only up 26% and 27% respectively.

Right now, the only industry to boast outperformance in both up and down markets largely remains the hedge fund industry (which is struggling this year), and for those hedge funds which are not, clients can expect to pay 2% annual fees and typically a 20% performance fee, which makes their strategies unaffordable, unsuitable, and unattainable for many average investors, not to mention the absence of any Sharia based investment rules.

The Sharia market remains underdeveloped and underfunded, and the challenge remains to widen the range of funds available for Sharia investors. However, its status as a true safe haven for investors could very well be the silver lining of this market, a defining point in the history of this fascinating sector, and something to get excited about when this market gets back into rally mode.

If you would like to speak with us about our approach to Sharia investing and TAM Sharia portfolio performance, or to discuss our discretionary investment management services in general, please get in touch today.

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