

TAM Sharia: Where we've been and where we're going

Performance Review

2023 has drawn to a close and investors are beginning to open the bonnet of their portfolios to check which areas need tweaking. Predicting market outcomes was certainly a challenge last year. Investors have yearned for some form of catharsis, as a gauge of market direction has continued to elude participants. A game of scenario table tennis is the term I use to describe 2023, as speculators debated between a hard or soft-landing scenario, or attempted to forecast when interest rate cuts will take place. In fact, the divergence between predictions from strategists and investors with 'skin in the game' has never been so wide. Take the beginning of 2023 as an example. You would have stumbled on headlines such as "2023 rate cut expectations", "buy China", "ditch tech stocks." As you know by now, these headlines have proved to be works of fiction.

Within the TAM Sharia portfolios we have been meticulous in how we sift through the noise. Preventing the overly pessimistic 'bears,' from drowning more positive sentiment, whilst sidestepping traps laid out

by the 'bulls' drunk on optimism. This has translated into strong performance figures relative to the benchmark year-to-date.

The TAM Sharia portfolios participated well in the 2023 tech-led rally, as we grew more optimistic around artificial intelligence (AI) and it's utility to transform businesses. Of course, it's euphoria may have stretched valuations too far and hence we took precautionary steps to trim exposure and cash in profits. In the long-run, we remain believers but limit exposure only to funds we believe hold the winners of AI. The resilience of the US consumer, declining inflation, and strong GDP figures led us to maintain a slight overweight position in US equities, which also helped support portfolio performance this year.

Market behaviour has proven to be dynamic where an inflation upward surprise is enough to whipsaw anyone's performance depending on your portfolio's exposure. Introducing an Islamic multi-asset fund to the portfolio and maintaining our exposure to other alternative assets has allowed us to diversify away from some of the contagion effects seen within more traditional assets. Principal's Multi-Asset fund and the HANetf Royal Mint Responsible Physical Gold ETC position have done a good job in providing downside protection, outperforming the fixed income portion of the benchmark year-to-date.

Trends & Outlook

The investment universe is growing for Islamic funds and we're now witnessing more fund providers enter the space and existing players expand their product range. This not only helps drive fees lower as competition increases, but also leads to more sophisticated strategies. Passive instruments, funds with exposure to specific regions or styles are some of the strategies coming to market. Within the Sharia portfolios we're taking advantage of such trends to replicate a portfolio that has similar levels of breadth and diversification to a traditional MPS.

As we move forward into 2024, we intend to keep our ears on the ground, leveraging our relationships with fund houses to sniff out early opportunities and introduce them to the portfolio if they present an attractive investment case. As such, we remain confident that TAM's Sharia-compliant MPS can compete with a traditional one as it did in 2023.

Market insight written by Francis Banzon, Portfolio Manager at our investment management partner TAM Asset Management.

If you would like to speak with us about anything in this note, or to discuss our discretionary investment management services in general, please get in touch with our Head of Investment Phillip Hadley.

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