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Sharia ETF poised for launch

Proposed ETF from Islamic firm UM Financial and Jovian Capital could be a Canadian first

Islamic financial services company UM Financial Inc. has teamed up with Jovian Capital Corp. JOV-T in a bid to list Canada's first *sharia*-compliant exchange-traded fund (ETF).

On Wednesday, Standard & Poor's launched the S&P/TSX 60 Shariah Index. In compliance with Islamic law, the index avoids firms involved in financial services, alcohol, gambling and pork products.

The proposed product from UM and Jovian would be based on the S&P/TSX 60 Shariah Index so the two firms are in discussions with Standard & Poor's to get a licence for the new index to start the Islamic ETF later this year. Eventually, "the goal is to launch a family of ETFs," UM chief executive officer Omar Kalair said yesterday.

The *sharia* ETF would target Canada's Muslim population (which numbers about one million), as well as foreign investors, Mr. Kalair said in an interview.

Jovian's BetaPro Management unit is a provider of leveraged and other ETFs, while its AphaPro Management unit has actively managed ETFs. "Any product launched would come from BetaPro," Mr. Kalair said.

In recent years, *sharia*-compliant ETFs have popped up in various countries including Britain, India, Singapore, Dubai, Malaysia and South Africa. In March, *asharia* gold ETF was launched in Dubai.

Barclays Canada, which administers the iShares ETFs and is the largest ETF provider in the country, "has no plans to go down this route," said Oliver McMahon, its director of product development. "It's not in our existing product pipeline."

Jasmit Bhandal, a spokeswoman for Standard & Poor's in Canada, said there have been talks with ETF, mutual fund and structured products providers for use of the S&P/TSX 60 Shariah Index, but nothing is final. But a licence with an ETF provider is typically an exclusive one, she said.

A couple of *sharia*-compliant mutual funds are sold in Canada, but both have less than \$2-million in assets.

A Toronto-based investment firm, frontierAlt Management Ltd., launched Canada's first *sharia*-compliant mutual fund, frontierAlt Oasis Canada, in 2007. The firm also later started *sharia*-compliant funds frontierAlt Oasis World and frontierAlt Global Income funds,

but these were closed last fall because it was no longer cost effective to run them, said Taras Hucal, president of frontierAlt Management.

The two Oasis stock funds invested in firms in the Dow Jones Islamic Market Indexes. The income fund invested in *sukuk*, which is similar to conventional bonds, but pays out a share of revenue from a designated pool of assets or services rather than interest. Islamic principles prohibit receiving interest income.

A problem with selling the Oasis funds is the fact they are no-load funds; they do not pay financial advisers a commission, but rather a 1-per-cent annual trailer fee as long as investors hold them, Mr. Hucal said.

"There has also been a lack of awareness" about products in this niche, and the steep market collapse didn't help sales, he said.

The frontierAlt Oasis Canada Fund suffered a 42-per-cent loss for the year ended April 30, and an average annual loss of 23 per cent over two years. Funds need a solid three-year return number to attract inflows of money, Mr. Hucal said.

In March, Global Prosperata Funds Inc. launched the *sharia*-compliant Global Prosperata Iman, a global stock fund that is sold with front- and back-end load commissions. It now has \$1.5-million in assets.

"We are expecting another \$1-million to \$2-million from a number of different investors in the next 30 to 60 days," said Glenn Moore, vice-president of Toronto-based Prosperata Funds. "There is a lot of pent-up demand."