Examining the new Halal ETFs

THE US

By Aliredha Walji

Last year brought the launch of three new products to the Islamic financing market in the US: HLAL, SPUS and SPSK. All three are exchange-traded funds (ETFs) which hold assets — like a mutual fund — but can be traded like stocks, making them more liquid. How are these new players performing in the market and how do they compare with other options and benchmarks?

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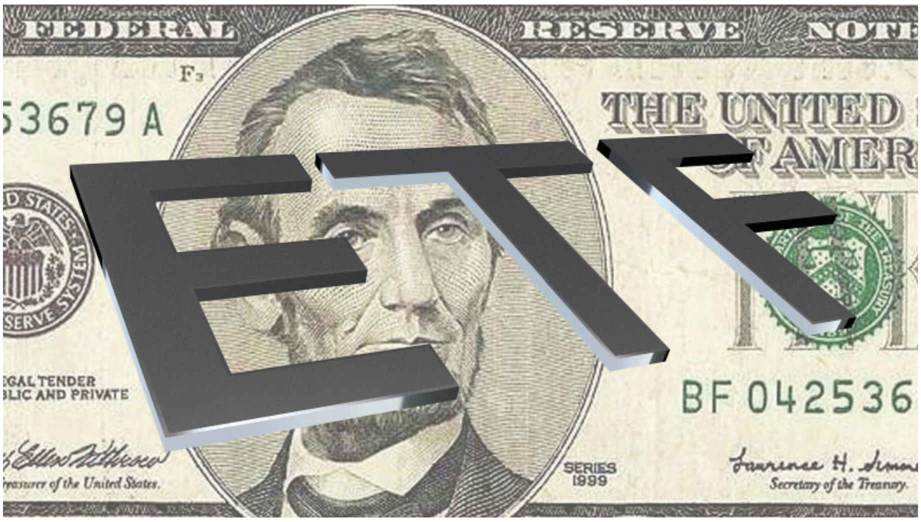

SPSK, the only one of the three which invests in Sukuk, provides an option for investors looking to gain Shariah compliant fixed-income exposure for a fraction of the cost of traditional individual Sukuk certificates, and for a lower fee than the traditional Sukuk mutual funds.

The fund has gained a return of 0.45% year-to-date (YTD), compared to the mutual funds Amana Participation and Azzad Wise Capital, which are at 1.09% and 0.61% YTD respectively. Unlike the mutual funds however, SPSK can be tracked in real time and requires no lock-in period or minimum amount to invest.

On the other hand, HLAL and SPUS both invest in Shariah compliant equities. HLAL tracks the FTSE Shariah USA Index and has gained a return of 3.48% YTD. SPUS tracks the S&P 500 Shariah Industry Exclusions Index and has gained a return of 5.74% YTD. This figure is even higher than the S&P 500 Index, which over the same period produced a return of 4.62%.

It is interesting to note that while equity investors have long touted the S&P 500 Index as the benchmark to beat, the five-year performance of the S&P 500 Shariah Industry Exclusions Index (established to adhere to AAOIFI scholarly guidelines) has actually been better than the S&P 500 itself. This may come as a surprise to those who doubt the ability of Shariah compliant investments to deliver returns comparable to the broader market.

However, it is not an anomaly. Some restrictive Christian funds (ex BIBL and CATH) have similarly been performing better than the S&P 500, which may say something regarding the usefulness of extra caution and restrictions in investment models.

All three of these new Islamic ETFs open the playing field by providing options to those looking to invest within the Islamic space. Investors will no doubt be watching their performance over the coming years to see how they continue to grow and compare to each other and the benchmarks as time progresses.

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Web Exclusive

Shariah Pronouncement: Riba

It is not right to consider as a profit what the central bank gives on the funds deposited with it for the purpose of complying with the mandatory reserve requirement. On the contrary, it is interest (Riba) and it is not permissible to take interest or a portion of it as an administrative cost.

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