

SYm|mETRY Islamic Fund - striking the best balance between strict Shari'ah compliance and returns

When it comes to Islamic investing, SYm|mETRY Multi-Manager's approach offers Muslim investors "the best of both worlds" - solid, risk-adjusted investment returns that both beat the benchmark and comply in every way with Shari'ah Law. In this way, they ensure that investors of the Islamic faith achieve their investment goals and build financial security without compromising their religious beliefs.

SYm|mETRY and the Muslim community.

The Muslim community and Islam as a religion and way of life are an integral part of the heritage and people of South Africa. SYm|mETRY Multi-Manager, a member of Old Mutual Investment Group (SA) (OMIGSA), recognises the diverse cultures and religions of our rainbow nation and strives to develop investment products that take into account their unique requirements.

Who is SYm|mETRY?

SYm|mETRY Multi-Manager is a specialist investment business wholly owned by Old Mutual. It operates as a separate, independent entity – with all the nimbleness, flexibility and performance focus that this autonomy brings. Yet it is supported by Old Mutual's governance and financial controls which, in turn, provide investors with all the solidity, stability and reassurance that an investor needs.

Islamic law compliance

The SYm|mETRY Islamic Fund has been designed with the Muslim community in mind, making sure that it complies with all the requirements of the Islamic religion. The fund is suitable for both institutional (pension and provident funds) and retail (individual) investors.

At SYm|mETRY, we understand that Islam is more than just a religion – it's a way of life which includes the finances of a Muslim investor. For example, Muslims have unique investment and insurance requirements because Islamic Law strictly prohibits them from receiving interest income and income from a range of non-permissible sources. But SYm|mETRY has successfully worked around this challenge through the use of Islamic Law-compliant investment instruments.

Regulation 28 of the South African Pension Funds Act, for example, stipulates that at least 25% of a pension fund must be invested in cash or interest-bearing investments. So in the case of the Islamic Fund, 25% is invested in an alternative and non-interest-bearing asset class,

called synthetic cash or Sukuk, to provide a similar risk-return profile to fixed interest assets.

In order to ensure strict compliance with Islamic Law, SYm|mETRY and Frater Asset Management, which manages the fund, have employed the services of an expert, independent body not affiliated to OMIGSA to monitor and certify the fund as Islamic Law compliant. The Board comprises three senior and highly respected Muftis from around South Africa, who play a supervisory role similar to that of an external auditor.

A balanced fund

The Islamic Fund invests across different asset classes to achieve a lower risk profile than an equity-only fund. In fact, the fund is comparable to a typical balanced fund with a moderate risk profile, with up to 75% of assets invested in equities (as allowed by legislation) and the balance in fixed income instruments. However, to comply with Shari'ah Law, these must be non-interest-bearing asset classes (synthetic cash) to provide a similar risk-return profile to fixed income assets, without earning interest.

The equity portion of the portfolio, also managed by Frater Asset Management, is guided strictly by Shari'ah Law. This means that the manager avoids investing in companies associated with gambling, alcohol, pork and finance (because these are non-permissible businesses). Given these guidelines, the fund's equity investments tend to be concentrated more in resources than those of a typical balanced fund.

The strict stock selection and screening process includes analysis of a company's level of gearing, dividend policy and sources of income.

What is "synthetic cash" (Sukuk)?

Fixed income securities are important components in any investor's portfolio, helping to lower overall risk and providing steady returns in times of equity market turbulence. To achieve this, the Islamic Fund invests a portion of its funds in synthetic cash, taking the form of a Sukuk. Sukuk, an Arabic word meaning "certificate", is a Shari'ah-compliant alternative to fixed income securities used widely around the world. SYm|mETRY was the first to offer this unique instrument in South Africa.

In the case of the Islamic Fund, Sukuks are created to produce a return profile

similar to that of cash. A Sukuk structure is where a tangible asset or a permissible trading commodity is bought, and then sold at a specified value with a specified settlement date in the future. Sukuk holders are entitled to share in the revenues generated by the proceeds of sale of the underlying assets.

Un-compromising performance

Frater Asset Management, a well-known Islamic fund manager, manages the fund to ensure that no more than 75% is invested in equities, with the balance in synthetic cash. This split is managed actively over time. As of the end of March 2009, the fund comprised 34% synthetic cash and 66% equity, with some of the largest shares including Telkom, AECI, Tongaat-Hullett and AngloGold Ashanti.

The Islamic Fund's performance history demonstrates that investors do not need to sacrifice returns in order to adhere to their religious beliefs. Since its inception in September 2005 to 31 March 2009, it has returned 13.87% a year (gross of fees), substantially outperforming its composite benchmark's return by 4.28% a year. SYm|mETRY attributes this outperformance to active management and excellent stock selection.

Such strong risk-adjusted performance demonstrates how SYm|mETRY is able to provide Islamic investors with the returns they need to achieve their financial goals while also adhering to their beliefs.

Old Mutual Shari'ah Supervisory Board (SSB) screening criteria

A brief synopsis of some of the screening and auditing processes adhered to by the SSB, appointed by Old Mutual Ltd.

In order to fulfil the requirements of Islamic or Shari'ah Law, the screening of compliant stocks is conducted by the Shari'ah Supervisory Board (SSB), an independent body not affiliated to Old Mutual and comprised of recognised authorities on Islam. The SSB issues a list of permissible stocks twice a year. The screening criteria for these stocks are both activity- and income-based. Debt and liquidity checks are performed as well. For stock-screening purposes, the SSB examines income statements, balance sheets and notes to the financial statements of the companies, among other corporate information.

The screening criteria are:

Core Activities

The core activities of the company should be Shari'ah-compliant – meaning companies that engage in the following as their core business activities are excluded:

- Financial services that earn interest such as conventional banks, insurance companies; etc.
- Casinos and gambling houses;
- Manufacturing or sale of non-halal products or related products;
- Entertainment activities that are non-permissible according to Shari'ah Law such as the music and film industries, night clubs, pornography and others;
- Manufacturing or sale of tobacco-based products or related products;
- Stock broking or share trading in non-Shari'ah approved securities, and other activities deemed non-permissible;
- Alcohol and other intoxicants.

The SSB's end-to-end process

The SSB also performs other audit functions, such as the purchase and sale of stocks in accordance with Shari'ah Law, ensuring that scrip lending or short sales are avoided, and that the entire investment process is Shari'ah compliant.

The best of both worlds - superb Shari'ah-compliant investment and peace of mind with the backing of Old Mutual. Access the SYm|mETRY Islamic Fund through your Old Mutual financial adviser, your broker, call 0860 300 000 or visit www.symmetry.co.za

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