Sharia-compliant investment 12 Jul, 2023

Sentio: South Africa's Shariah-compliant AUM could grow tenfold

The firm aims to reduce the resource bias that has made local Shariah funds particularly volatile in its portfolio.

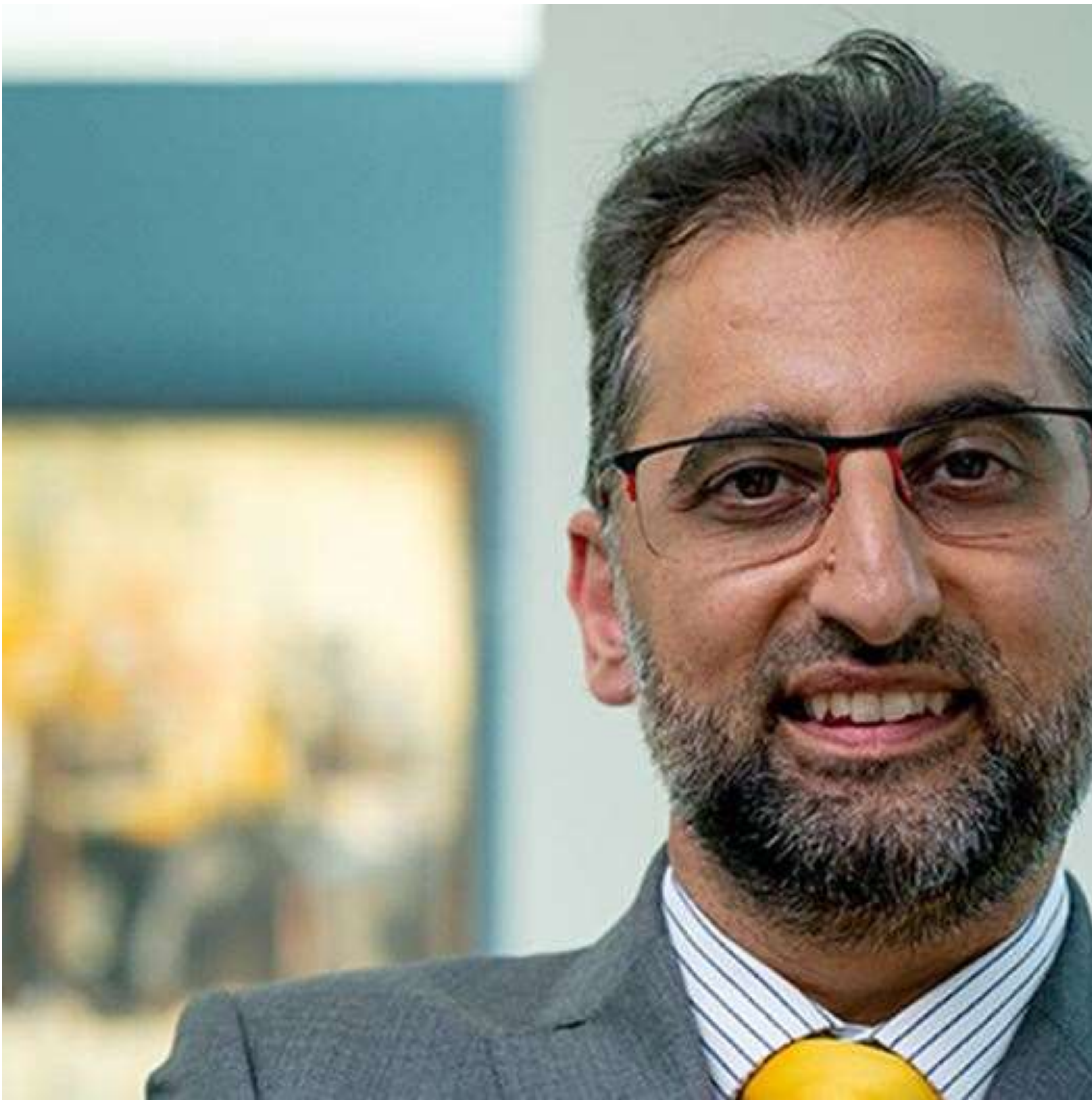
By **Stephen Cranston**

The South African Shariah investment universe, including segregated funds, is estimated at between R20bn and R25bn. However, according to Rayhaan Joosub, Sentio Capital’s chief investment officer (CIO) for multi-asset funds, it has a considerable runway.

He said this sector could grow to at least R200bn, which is a little over 5% of the AUM held by South African collective investment schemes.

In an interview with Citywire South Africa, Joosub said the fund manager aimed to roll out its low and medium equity strategies as unit trusts aimed at the retail market. So far, these portfolios have only been available to institutional clients.

‘We have seen more interest from DFMs and independent financial advisers for Shariah products, and not just for their Muslim clients,’ Joosub (pictured below) said.



Joosub added that Shariah-compliant funds are attractive to everyone who wants to manage their funds ethically.

Shariah regulations prohibit these funds from investing in businesses involved in socially harmful activities such as gambling, alcohol, pornography, and the manufacturing of weapons.

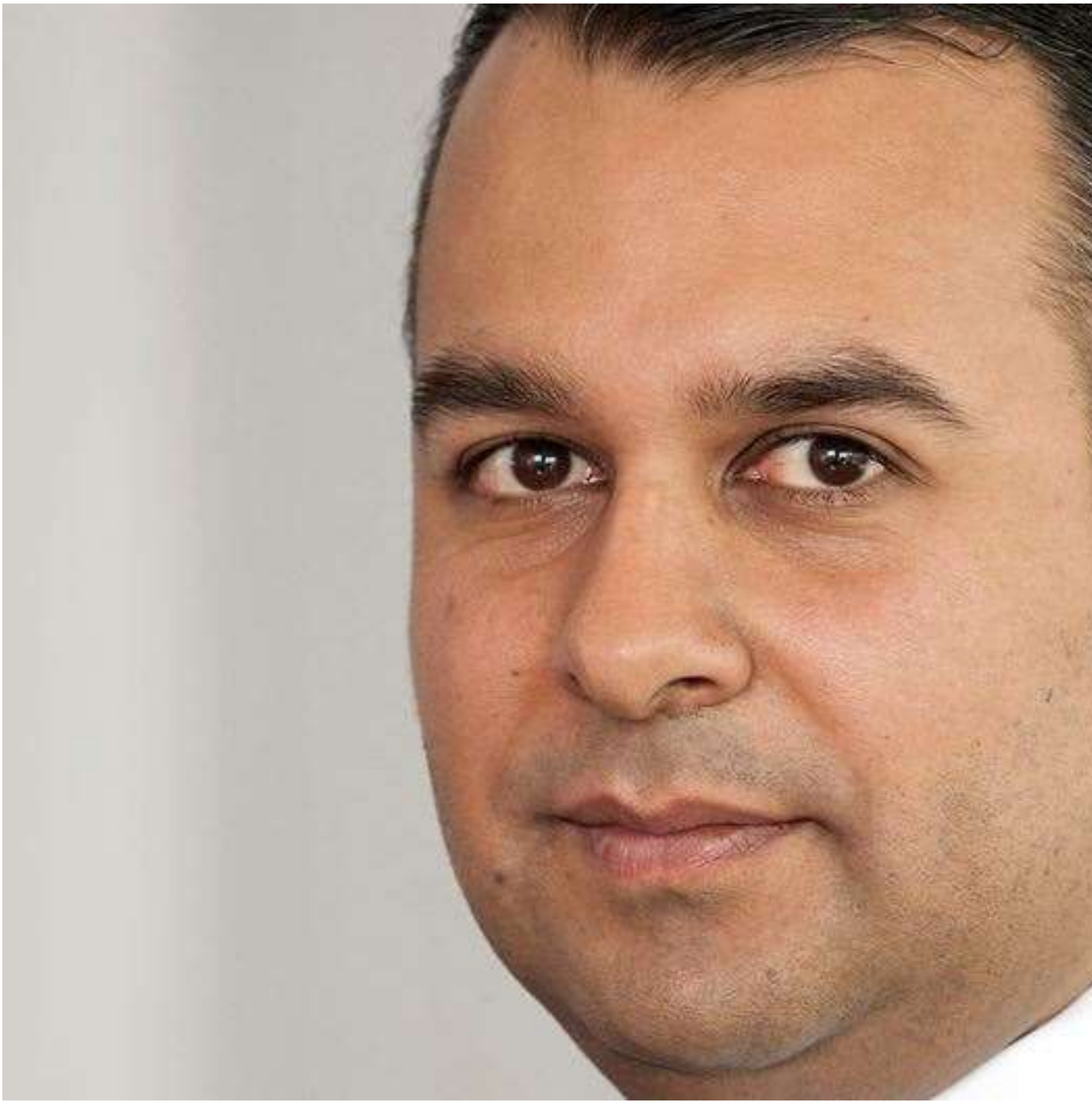
They also avoid companies that charge interest, have excessive debt or that deal in interest-bearing instruments.

He said there were still too few Shariah-compliant cash products available, but banks such as FNB introduced more competitive products aimed at the Shariah market.

‘Such deposits were treated as lazy deposits and so were of little interest to Shariah balanced funds. They were offering distributions of 3% at best, but rates for some new products look much better than this.’

Imtiaz Suliman, portfolio manager of the R596m Sentio SCI Hikma Shariah General Equity fund, said that the Shariah universe on the JSE is narrow, as Shariah regulations excluded all banks and insurance companies alongside heavyweights such as Naspers, Prosus and Richemont.

‘In our fund, we aim to have a low exposure to resources than there is in the Shariah index, and we also diversify through our international exposure,’ Suliman (pictured below) said.



There are three resource shares in the fund's top ten holdings: Anglo American, BHP and Impala Platinum. But these are more than offset by the holdings in MTN – the largest share in the fund, making up 4.3% of AUM – Aspen, Bidvest and Clicks, as well as international stocks Alphabet and Deutsche Post (owner of DHL).

'We also hold Dubai Islamic Bank, as we can own banks that operate entirely on Shariah principles,' Suliman said.

Global equities comprise 31% of the fund, and foreign property shares comprise 1% of the AUM. Property shares qualify so long as the loan-to-value remains below 30%.

In the R359m Sentio SCI Hikma Shariah Balanced fund, Resilient Reit – which currently qualifies as Shariah-compliant – is the fourth-largest holding, making up 2.9% of AUM.

Suliman co-manages the balanced fund with Sanveer Hariparsad.

Joosub said the universe of Shariah-compliant bonds, known as Sukuks, remains limited in South Africa, so it is too early to talk about a yield curve.

Term deposits

The income investments in the balanced fund are primarily Islamic term deposits, which comprise 28% of the fund. The portfolio also holds 31% in South African equity, 25% in foreign equity and relatively low holdings in Shariah-compliant bond-like investments – 3% in local 'bonds' and 6% in foreign bonds.

Over five years to 30 June 2023, the Sentio Shariah equity fund is above average in the Asisa general equity sector, according to Morningstar.

It has provided an annualised return of 7.9%, placing it 80th out of 174 funds in the category. In terms of its direct competitors, it is ahead of the Old Mutual Albaraka Equity fund (7.1% and 105th) and the Oasis Crescent Equity fund (7.2% and 102nd) as well as the 27four Shariah Active Equity Prescient fund (7.3% and 99th).

However, two funds have provided a better performance: the Element Islamic Equity SCI fund (9.9% and 25th) and the Camissa Islamic Equity fund (8.8% and 54th).

The Sentio SCI Hikma Shariah Balanced fund has been in the third quartile of the Asisa domestic high equity category over five years, with an annualised 7.1% placing it 133rd out of 191 funds.

Over the period, it's behind all its competitors – the Camissa Islamic Balanced fund was 39th with an annualised return of 8.8%, the Element Islamic Balanced fund is next, with an 8.0% annualised return, placing it above average at 80th out of 191 funds.

Next is the 27four Shariah Balanced fund of funds in 97th place, with a 7.8% return per year over five years, and the Oasis Crescent Balanced High Equity fund with 7.3% in 123rd place.