

Frequently Asked Questions about Shariah funds

Q: What is a Shariah-compliant (“Shariah”) fund?

A: A Shariah fund invests the assets in accordance with the Islamic principles.

Some of the Islamic principles that a Shariah fund adopts are:

- *Prohibition of investment in certain industries, products and services that are harmful to society and the environment (haram), such as alcohol, tobacco, pornography, weapons.*
- *Prohibition of interest since interest may negatively affect society and lead to inequality. As wealth and assets are required to generate interest, the rich are more likely to earn interest and accumulate wealth, while the poor can’t do so. In addition, interest may reduce the incentive to perform charitable deeds, as interest earners may be more motivated by wealth creation and less motivated to build a society that benefits all people. Prohibited activities include lending money for interest such as in mortgages, credit cards, or car loans.*
- *Shared risk and reward among all parties. This principle prohibits activities where one party benefits at the expense of others, including:*
 - *Prohibition of excessive uncertainty, such as conventional insurance where insurance buyers pay premium in exchange for uncertain or no payoff with uncertain timing.*
 - *Prohibition of transactions where one party’s gain comes solely at the expense of other parties, such as gambling.*

Q: What does it take for a fund to be considered Shariah-compliant?

A: For a fund to become Shariah-compliant, a Shariah panel that consists of experts in Shariah laws needs to certify the fund.

Q: Are Shariah funds considered as a socially responsible investment?

A: Yes, Shariah funds share similar objectives as socially responsible investment such as:

- *Social justice*
- *Equality and inclusion*
- *Being a good steward of society and environment*

Q: Can someone who is not a Muslim invest in a Shariah fund?

A: Yes, anyone can invest in a Shariah fund. The ideas associated with Shariah investing are not exclusive to Muslims. Other religions as well as traditional (non-Islamic) finance, such as responsible investment, share the same ideas.

Q: Why does Sun Life offer a Shariah fund?

*A: Canada is home to an estimated 1.5 million people following the Islamic faith (4% of the population). Islam is the second largest and the fastest-growing religion in the country.**

Sun Life Group Retirement Services (GRS) have received many queries from plan sponsors and Muslim members about Shariah fund in recent years. The addition of a Shariah fund supports Sun Life's sustainable investment strategy and focus to offer plan sponsors and their members investment options that consider community wellness and promote diversity, equality and inclusion.

Q: If a plan offers a Shariah fund, does it mean the plan sponsor endorses Islamic faith/religion?

A: No, a Shariah fund is an investment option that adopts Islamic financing principles. It does not adopt the religious aspects of the Islamic faith. The Shariah fund is another investment option on our investment platform that can be added to your plan(s), among others.

Q: What are the benefits of offering a Shariah fund in my plan?

A: Offering a Shariah fund that invests in equity in your plan will provide Muslim members with an option to save for their retirement while keeping their religious beliefs. It also promotes diversity and inclusion in your plan since Muslim members can invest according to their needs and/or participate in the plan, if they have not due to lack of appropriate investment options.

Q: What kind of Shariah fund does Sun Life offer?

A: We offer BlackRock MSCI ACWI Islamic Equity Index segregated fund ("BlackRock Shariah Fund"). The BlackRock Shariah Fund invests in units of the BlackRock CDN MSCI ACWI Islamic Equity Index pooled fund ("underlying pooled fund"), which BlackRock has created for institutional investors, including group savings plans. Shariah funds currently available to Canadian institutional investors are generally structured as Exchange Traded Funds (ETFs), which have some operational challenges in group plans and usually higher operating expenses.

The underlying pooled fund's investment objective is to replicate the return of the MSCI ACWI Islamic Equity Index ("Index").

The Index reflects Shariah investment principles and provides diversified exposures to global equity markets. The Index applies screens to exclude securities based on business activities and financial ratios derived from total assets. The Index does not allow investment in:

- Companies that are directly or derive more than 5% of their revenues from alcohol, tobacco, pork-related products, conventional financial services, defense/weapons, gambling or adult entertainment.
- Companies deriving significant income from interest or companies with excessive leverage.

As of February 28, 2022, the Index consists of 642 companies in large and mid capitalization segments across 23 developed markets and 25 emerging markets (EM).

At the time of the launch, the underlying BlackRock pooled fund will invest in two ETFs:

- iShares MSCI World Islamic UCITS ETF (developed markets)
- iShares MSCI EM Islamic UCITS ETF (emerging markets)

The allocations to the ETFs will reflect the allocations to the developed markets and EM within the Index, respectively.

The investment in the ETFs is an interim structure. Investing through ETFs is a cost-efficient way to keep the pooled fund's return close to the Index's return while the fund's assets are small. Once the underlying pooled fund reaches a larger scale, the fund will invest directly in securities and continue to replicate the Index.

Q: Is the BlackRock Shariah Fund fully Shariah compliant?

The Fund is a passive investment option that replicates the MSCI ACWI Islamic Index. The Index reflects Shariah investment principles and applies criteria to exclude securities based on:

- business activities
- financial ratios derived from total assets

The index provider, MSCI, has a Shariah panel who verify that the Index is in compliance with the Shariah criteria.

Full Shariah compliance requires periodic reviews and certifications at both the Index level and the underlying pooled fund level. BlackRock has a Shariah panel to verify the Shariah compliance for the underlying pooled fund. This review is in addition to MSCI's Shariah review on the Index.

The Fund will have full Shariah compliance once it achieves a scale for which the costs of full Shariah compliance are spread out across a larger asset base to keep the total fund management fees reasonable. We expect this to happen when the underlying BlackRock pooled fund reaches CA\$30 million in assets.

The pooled fund holdings may change once BlackRock receive guidance from its Shariah panel to establish the process and guidelines.

Q: Will there be any changes in operating expenses when the underlying pooled fund's structure changes?

A: The underlying pooled fund's operating expenses will change over time. We anticipate the operating expenses will change as follows:

- Step 1: When the underlying pooled fund invests in the ETFs, the operating expenses will decline as the fund's assets grow, as they are distributed across a larger asset base.*
- Step 2: When the underlying pooled fund starts investing in securities (instead of ETFs) and/or BlackRock implements Shariah compliance review, the operating expenses will increase due to higher custody costs and Shariah review fees.*

We expect the pooled fund's operating expenses will decline after BlackRock completes step 2 and assets continue to grow.

Q: Why is the BlackRock Shariah Fund only available for Registered plans now?

A: The trading activities to switch from ETFs to securities in the underlying pooled fund when the underlying pooled fund is larger, may result in capital gains or losses. These gains or losses are distributed to the segregated fund. In turn, the gains or losses allocated to members who sell the segregated fund units (if any). The remaining are allocated to members who hold the segregated fund units as of December 31 in the year the switch happens. The gains or losses from the switch may have a tax impact for Non-Registered (taxable) members.

As such, we offer the BlackRock Shariah Fund only for Registered plans temporarily until the switch to securities in the underlying pooled fund is complete. The objective is to prevent a tax impact from the switch for Non-Registered (taxable) members.

We will inform you when the BlackRock Shariah Fund is available for Non-Registered plans.

Q: What are the differences between Zero Interest Account that Sun Life has offered on Core platform and BlackRock Shariah Fund?

A: The Zero Interest Account's investment objective is capital preservation and it isn't designed to provide any return. It's best suited for investors seeking preservation of capital while maintaining liquidity. The Zero Interest Account meets only one of many Shariah principles

(prohibition of interest). It does not meet the requirement as a Shariah fund because it is not subject to annual Shariah audit by a Shariah board.

The Blackrock Shariah Fund invests in a diversified portfolio of global equity stocks. The Index that the Fund is tracking reflects Shariah investment principles. The index provider, MSCI, has a Shariah panel who verify that the Index is in compliance with the Shariah criteria. The BlackRock Shariah Fund will be fully compliant after BlackRock's Shariah panel verify the Shariah compliance for the underlying pooled fund when the fund reaches a larger scale.

Q: My plan offers Zero Interest Account. Do we have to add a Shariah fund?

A: The Zero Interest Account doesn't provide any return. Thus, members may not keep up with inflation and have enough retirement savings. However, since it provides capital protection, members won't lose their savings.

The Blackrock Shariah Fund invests in a diversified portfolio of global equity stocks, so the expected returns over the long-term are higher than the Zero Interest Account. However, the Fund will also have significantly higher volatility than the Zero Interest Account that has no volatility.

Given their different return and risk profiles, you may offer either or both based on your members' needs. The BlackRock Shariah Fund is an appropriate option for members who can bear the volatility of equity markets. The Zero Interest Account is an appropriate option for members who can't bear the equity market volatility and whose focus is capital preservation.

Q: Can my plan offer the BlackRock Shariah Fund or the Zero Interest Account only to members who want to invest in them and not to all members?

A: Plan sponsors need to be transparent and equal in their communications to members. This includes providing all members with full disclosure of all the investment options available to them.

* Source: Gulf Times "Islamic Finance Making Strides in Canada" Feb 11, 2020.