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A Trading Platform for Muslims

Shariah Capital to Launch Islamic-Compliant System To Cash In on Hedge Funds

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A Connecticut-based company has paved the way for observant Muslims to cash in on hedge funds by launching a trading platform that complies with Islamic law, or *shariah*.

The announcement, planned today by Shariah Capital Inc., an advisory and consulting firm, is part of a race by investment companies to reach wealthy investors and institutions from the Middle East and elsewhere. The market for Islamic banking and finance exceeds \$700 billion, according to KPMG, and it has been growing at about 15% a year.

A NEW APPROACH

- **The news:** Western investment companies are launching hedge-fund trading platforms that comply with Islamic law.
- **The challenge:** Getting around short-selling: In Islamic finance, investors aren't allowed to sell what they don't own.
- **What to expect:** Debate will continue, but more Islamic hedge funds are likely to follow amid demand.

For Shariah Capital, the launch culminates a six-year process. The company developed its platform with Barclays Capital, the investment-banking arm of **Barclays PLC**, which is acting as the prime broker to clear and finance trades.

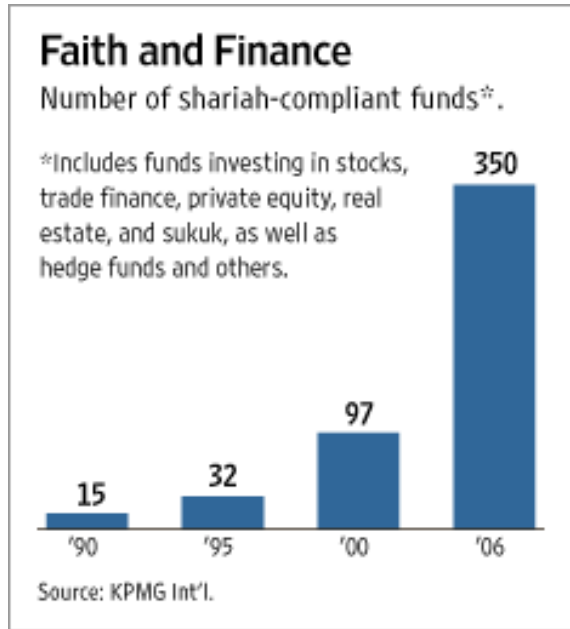
The launch demonstrates that "Western investment managers can accommodate the criteria of Islamic investors who have long sought the higher returns and lower volatility" of hedge-fund strategies, said Eric Meyer, chief

executive of Shariah Capital.

Fimat International Banque, an arm of Société Générale, has also developed a shariah-compliant platform. Three hedge funds working with Fimat began marketing themselves in February and a fourth will begin shortly, said Philippe Teilhard de Chardin, a managing director at Fimat in London. Each manages about \$20 million, he says.

Marrying the strictures of Islamic law -- which, among other things, prohibits the payment of interest as well as investments in companies that, for example, sell alcohol or carry high levels of debt -- with hedge-fund tactics has proved daunting. Hedge funds use a variety of strategies to achieve returns, including short

selling -- betting on a stock's decline by selling borrowed shares. In Islamic finance, investors may not sell what they don't own.



Shariah Capital's solution screens out unacceptable companies and also allows managers to replicate short sales by using an "arboon" structure, which operates much like a down payment.

In a short sale, investors borrow shares and sell them, hoping to buy an equal number of shares later at a lower price and return them to the lender, pocketing the price difference as profit. With an arboon structure, there is no borrowing: Ownership is transferred to the investor.

With the launch, GRT Capital Partners, an alternative-investment manager in Boston, has formed a new account that uses Shariah Capital's platform. GRT trades the account using one of its existing investing strategies.

Shariah Capital declined to reveal the amount being managed. "This is just to prove that it works," says Mr. Meyer.

Fimat International Banque's product uses a different method to mimic a short sale -- a "salam" transaction, traditionally a way for farmers to finance a crop by receiving some payment in advance.

The different approaches to the short-selling dilemma highlight how areas of Islamic finance are still subject to debate. Shariah Capital says it chose arboon because the Accounting and Auditing Organization for Islamic Financial Institutions, an industry-standards organization based in Bahrain, hasn't yet approved a salam transaction in stocks.

"We began with the notion that this product would comply right across the board with all the standards presently in existence," said Sheik Yusuf Talal DeLorenzo, an Islamic scholar working with the company.

Mushtaq Shah, CEO of Ratings Intelligence, a shariah advisory firm that helped develop Fimat's platform, said he expects their solution to be approved by the standards board.