

## A portfolio fit for a prophet

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With close to a trillion dollars of liquidity in the oil-rich Persian Gulf region, it's no wonder that Western hedge funds are looking to the Middle East for capital.

But American fund managers often hit a roadblock in tapping wealthy Muslim investors, who are prohibited by their beliefs from adding most hedge funds to their portfolios.

So New Canaan-based Shariah Capital Inc. has charted a map that lets funds and investors meet on the road to new riches - without violating religious laws - and gone public on the AIM, the London Stock Exchange market for smaller, growing companies.

"We are besieged with interest," said Eric Meyer, Shariah Capital's president and chief executive officer.

The firm spent the past six years working with Islamic scholars, as well as Western financial and legal experts, to develop risk management tools that enable observant Islamic investors to participate in the alternative investment world.

Shariah is Islamic law.

The firm received fatwas, or religious blessings, on Shariah-compliant investment vehicles that provide an alternative to short-selling and options trading.

Islam forbids practices that are the bread and butter of many hedge funds. The Quran doesn't allow a person to sell something he doesn't own, which rules out short-selling, the widely used strategy that enables hedge funds to post high returns even in bear markets. Undue risk and speculation is forbidden, as is paying or receiving interest.

Shariah Capital has also developed a real-time screening process that uses data-mining software to screen thousands of publicly-traded companies for Shariah compliance in seconds in 52 securities markets around the world.

Meyer's firm initially sought the fatwas to launch its own Shariah-compliant fund of funds. Now, the division of Meyer Fund Management LLC has expanded its business strategy. It is making its investment vehicles available to other alternative investment managers who want to create their own Shariah-compliant funds to attract investors in the Middle East and Asia, Meyer said.

Hedge funds will have to rely on third-party intermediaries such as Shariah Capital for their expertise, contacts and credibility, said Kevin Quirk, a partner with Darien-based consulting firm Casey, Quirk & Acito.

"It makes sense that the intermediaries in this part of the world would be natural facilitators of capital coming into the industry," Quirk said.

Credibility is something that Shariah Capital has worked hard to achieve. Last October, the firm hired Sheikh Yusuf Talal DeLorenzo, chairman of the Dow Jones Islamic Index, as its chief Shariah officer. Considered the top Islamic finance scholar in the United States, DeLorenzo will oversee the firm's development of Shariah products for hedge funds, structured products, venture capital and real estate.

Adding DeLorenzo to the staff was a coup for Shariah Capital, as there are only a handful of Islamic financial scholars qualified to grant fatwas, Meyer said.

"It takes 20 to 30 years to really create a leading Islamic scholar in the world of Islamic finance," he said.

There were few hedge funds seriously interested in reaching out to religious investors in the Middle East when Meyer started, he said. That has changed, due in large part to the growing wealth in the Gulf and the increased desire in the Arab world to apply religious beliefs to investment strategies.

Shariah Capital's Managing Director Joseph Gau estimates about \$350 billion to \$400 billion of liquidity in the Gulf stems from investors looking solely for Islamic financial opportunities.

"Right now there is a tremendous amount of liquidity, and there is a lot of petro dollars being recycled," said Carl Ruggiero, chairman of the global investment group specializing in fund formation, at the law firm of Curtis, Mallet-Prevost, Colt & Mosle LLC.

Shariah Capital is usually retained as a sub-advisor by a hedge fund to maintain the efficacy and certification of the Shariah process, Meyer said. In addition, funds must create a separately managed prime broker account using Barclays Bank, which worked alongside Meyer and the scholars to handwrite a Shariah-compliant prime broker document, removing words such as "interest."

"We look at their portfolios and look at equity positions and we will be able to tell them

in fairly short order if their strategy can be Shariah compliant," Gau said. Hedge managers are discovering the value of its services, according to Meyer.

"We've signed nondisclosure agreements with some absolutely world-class hedge funds and fund of funds," Meyer said. "The best of the best have put calls into us."

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