



Interview with Zaigham H Shah, Executive Vice-President of frontierAlt Investment Management Corporation

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Zaigham Shah has been executive vice-president of frontierAlt Investment Management Corporation since December 2006. Prior to June 2006, he was advisor to Oman National Investment Corporation Holding SAOG, and before that he was vice-president, asset management division of The Financial Corporation (FINCORP). Zaigham Shah is also currently chief executive officer and chief investment officer of MAK, Allen & Day Capital Partners Inc, which is the advisor to the frontierAlt funds.

- 1. You manage a variety of Shariah-compliant funds, namely the FrontierAlt Oasis Canada Fund, the FrontierAlt Oasis World Fund and the recently launched FrontierAlt Oasis Global Income fund. What prompted you to develop these specific mandates and what is the overall proposition for investors?***

Currently, over 250 institutions are actively involved in the business and according to estimates, the total global Islamic finance industry is estimated to be worth US\$350 billion. Although these numbers are small when compared to the conventional mutual fund industry, the potential market for such funds is significant and offers attractive growth opportunities for financial services providers. Basically, the demand for such funds is set to outstrip supply for the foreseeable future.

There were a few important factors which compelled frontierAlt Funds Management to launch these funds. We recognised there was a great deal of interest in socially responsible investment funds in Canada. In addition, we found that there is a decent investor base in the Gulf region that is keen to take advantage from the equity markets of North America, specifically Canada, and they are looking for only Shariah-compliant products. Most importantly, the growth in the number of takafuls (Islamic insurance companies) globally will further create the demand of funds like ours.

- 2. Several other conventional funds are managed by FrontierAlt (including hedge fund products). What are the differences between managing conventional versus Shariah-compliant offerings? How do you see these differences evolving over time?***

For years due to the lack of system and products, investors who strictly follow their religious beliefs were deprived of participation in the global economic growth by way of the financial markets. Shariah-compliant funds and other Islamic products have provided the opportunity for those investors to keep their faith intact and also participate in the financial markets. Islamic funds also provide a vehicle to all classes of investors to diversify their portfolio – an effective tool to mitigate the inherent risk in investment portfolios.

We believe that once the concept of Shariah-compliant funds is well received both at the institutional and retail level, the efficiency in the Shariah funds industry will improve and thus result in further growth in the industry. The major difference in conventional and Shariah-compliant fund management is that unlike conventional funds, Shariah-compliant funds cannot invest in certain industries directly or indirectly, such as weapons manufacturers, alcohol, tobacco, 'sin' stocks and financial institutions. Therefore, as a fund manager we have a slightly smaller universe of stocks which limits the choices for the fund manager and can be challenging. These differences will always exist but the evolution we are seeing is that Shariah-compliant funds are not only for Muslims or socially responsible investments; the concept is open to all classes and categories of investors.

- 3. For the FrontierAlt Oasis Canada Fund, the Canadian market contains a variety of idiosyncratic features, such as commodity bias and (despite proximity to the US market) different levels of liquidity and capacity. What are your thoughts on these and other qualities specific to the Canadian market?***



We strongly believe that Canada is a growth story and it offers both local and international investors a great variety of diversification in terms of sectors, asset classes, economies and geographies. It also offers investors an opportunity to directly benefit from the commodities, and oil & gas sector boom. The commodity bias can be mitigated by way of controlled diversification through investments in other sectors. Another great advantage of investing in the Canadian market is its well regulated structure. In addition, most of our other funds have a mandate to invest globally and we are looking at the Gulf and Indian subcontinent markets with great interest.

4. *With regards to the FrontierAlt Oasis World Fund, it relies on the screened universe of the Dow Jones Islamic Market Index. Is this comprehensive enough for the portfolio? Do you complement this with additional research?*

As I mentioned, with the growth of the global Islamic finance industry, the options and opportunities are also growing. In addition to the Dow Jones Islamic Index, there are other indices that have recently been established which will enhance our scope of investment, for example, Malaysia has recently launched another Islamic index. Therefore, many developments are taking place, and being the first one in Canada to go along with this new international trend gives us an opportunity to learn and grow with it. We are very conscious of the importance of research in managing the portfolios as we are currently not only doing our in-house research but also benefiting from outsourcing it to a few of the best in the industry.

5. *The Global Income Fund is focused on the burgeoning market for sukuk. What are the key drivers of this market and how does the fund take advantage of these to the benefit of investors?*

Actually, our Global Income Fund is what is referred to in the West as a “balanced” fund that contains large-cap stock holdings, which pay dividends and a fixed income portion. To be Shariah compliant we will be investing in credit quality sukuk, which are the Islamic alternative to traditional bonds. There are many examples of infrastructure development projects in the GCC funded by sukuks, which are usually subscribed by institutions. This fund allows the retail investor exposure to such sukuks without the high minimum investments. The Global Income Fund will cater to those investors who are risk adverse and at the same time desire to achieve a decent return on their investments. By investing in quality income stocks and sukuk, we will provide them an opportunity to benefit from both the asset classes in a structured and efficient manner.

6. *For the various funds, how many individual positions do you run on average? How often do you trade or turn over the portfolios?*

Well, it depends upon the very nature of a particular fund and its objective. We are very focused on the discipline of our investments; generally we are medium-term investors and we believe in controlled diversification.

7. *How do you benchmark the fund's performance? Is this done from a perspective of absolute returns or risk-adjusted returns?*

We try to focus on absolute returns by keeping a dynamic style of management. However, the secondary benchmark will remain the relative indices which the fund will follow, though we do not wish to tie our self to any index for our performance.



8. How are the funds structured to comply with Shariah principles? How often is this reviewed?

The fund strictly follows the guidelines outlined in the prospectus which stipulates that we invest in securities already screened by Dow Jones Islamic Indexes. In addition, there is a designated advisor to each fund who ensures that the fund is in strict compliance to the Shariah guidelines. The policies are reviewed on a yearly basis.

9. Would you contend that funds such as yours are a better proposition than conventional funds targeting similar opportunities? Why? What factors do you think would go into the investment decision?

Shariah funds has its own dynamics, therefore, it will not be fair to compare it with traditional funds. Our funds provide a unique opportunity for those investors to invest in this new emerging investment products in a structured and well regulated manner. One of the quantitative filters we abide by ensures that we are investing in companies that have minimal debt levels or maintain certain ratios. As an example, I hear stories of Shariah-compliant fund managers who sold Enron once the debt to equity ratio reached a level for removal from the portfolio. In this example the fund manager was able to exit Enron many months prior to the meltdown of Enron.

10. Compared to conventional funds, was there any major difference in terms of start-up costs, complexity in developing the internal structure or the time-to-market of these products?

As this is a new concept in Canada, the first hurdle therefore is to create awareness amongst the investors that there exists an opportunity now for them to invest according to their belief. It could have been perceived as a challenge for many but we at FrontierAlt took it as an opportunity to introduce this product both from a regulatory and operational perspective, tying up with the concerned regulatory authorities and identifying the suitable markets and products to invest was a time-consuming process. We are sure that our efforts will benefit our investors in the long term.

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