US: Halal investing, gaining currency

By Joshua Brockwell

Islamic finance in the US is growing organically, albeit slowly. From its early history in the 1980s responding to immigrant Muslim demand for religiously acceptable investments and mortgages to today’s interaction with the socially responsible investor class, Islamic finance has shown itself capable of adapting to meet changing needs.

To date, however, development has been uneven. The Islamic banking sector is constrained by asset ownership restrictions on banks and imperfect alternatives to interaction with the US Federal Reserve, a central bank organized according to the Islamically frowned-upon principles of fractional reserve banking and interest-based lending. Other sectors, like Halal mutual funds, enjoy popularity among a subset of investors.

Overall, the US still lags behind East Asia, GCC nations, and much of Europe in terms of its relationship with Islamic finance. It is, at its core, is a market still waiting to be fully tapped.

2013: A review

If Islamic finance is a vast ocean, then 2013 was the year that the US began to wade into deeper waters. From strength in the Shariah compliant mortgage finance industry to the methodical growth of Islamic mutual funds, the year’s achievements created what many hope will be enduring momentum.

Certainly, the Islamic mortgage industry continued to enjoy relative success in 2013, maintaining its upward trajectory in the wake of the Great Recession.

The second-largest provider of home-loan financing, Freddie Mac, maintained its support of Islamic home financing products for Muslim borrowers, despite calls to dismantle the government-sponsored enterprise by those who accuse it of precipitating the sub-prime mortgage crisis of 2007-08. Thanks to a combination of new and old players, Shariah compliant mortgage companies stayed the course in 2013.

The Islamic asset management space hit several important milestones during the year. One notable highlight: The Azzad Wise Capital Fund, US’s first Islamic fixed-income mutual fund investing in Sukuk and Islamic bank deposits, marked its three-year anniversary in April.

Azzad Asset Management, investment advisor to the Azzad Wise Capital Fund as well as its equity counterpart, the Azzad Ethical Fund, pushed the mainstream acceptance of Islamic finance further in 2013 by adding institutional money manager Kayne Anderson Rudnick to its wealth management platform, the Azzad Ethical Wrap Program.

With its wrap fee program, Azzad has pioneered a unique, collaborative effort with conventional investment firms like Kayne, combining Islamic and ethical screens with the strategy-specific expertise of participating portfolio managers.

These conventional managers risk their own track records by implementing Azzad’s Halal screens. Attesting to the positive contribution that Islamic investing can bring to traditional finance, participants in the Azzad Ethical Wrap Program have discovered that they can, at times, enhance their track records during certain market conditions using Islamic criteria.

The year 2013 culminated in the inaugural Islamic Finance Conference held in November in Washington, DC. The conference, whose agenda included sessions exploring everything from how to source Islamic capital in the US to the relationship between socially responsible investing and Islam, was organized by the Malaysia-US Chamber of Commerce and sponsored by Islamic Finance news. It was intended to serve as a meeting place for interested parties to come together and advance the cause of Islamic finance in the US. In many respects, the conference did just that, in addition to showing the resilience of Islamic finance in a post-9/11 America.

2014: A preview

The coming year 2014 could be witness to several noteworthy advances. Seeds planted at the Islamic Finance Conference could bear fruit as US-based Islamic financial firms look to facilitate access to Malaysian financial products and services. In addition, the increasing popularity of socially responsible investing (SRI) and the SRI community’s recognition of Islamic finance as a new and untapped source of social good bode well for the ethical investing space — both Islamic and otherwise.

The 25th annual SRI Conference in October 2014 could be the moment when Islamic finance takes center stage as special events aimed at promoting Islamic finance and Halal investing are planned in conjunction with this event.

Conclusion

As awareness of the specific advantages of Islamic finance spreads in the coming years, it is reasonable to assume a greater adoption of Islamic financial products and services in the US. In the asset management space, this presumes that the products and services in question remain faithful to the notion of Halal investing, a concept that is gaining currency in the US market.

Indeed, if one were to identify the single most important determinant of the success of Islamic finance in the US, it would most likely be an acceptance of the “why” of Islamic finance — why it should matter to a values-conscious investor, why it serves as an ethical alternative, and why it is unique. The internalization and connection to this simple idea matters perhaps more than anything else.

The development of the Islamic investor demographic into one that appreciates the proposition of Halal investing and proactively selects the Islamic alternative in a marketplace of seemingly endless choices is not a pipe dream. In some quarters it has already happened.

This, combined with seven million American Muslims representing an estimated US$200 billion in spending power and a trajectory aimed at deeper market penetration, should give investors grounds for cautious optimism about the prospects for Islamic finance in the US.

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