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# When It Really Starts Raining You Need More Than An ARKK

Scott Klimo CFA®, Vice President & Chief Investment Officer, Saturna Capital

Tuesday, 19 July 2022



## A Word From Today's Chairman

**Professor Michael Mainelli**  
Executive Chairman  
Z/Yen Group





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# Today's Agenda

- 16:00 – 16:05 Chairman's Introduction
- 16:05 – 16:25 Keynote Presentation – Scott Klimo
- 16:25 – 16:45 Question & Answer



## Today's Speaker

**Scott Klimo CFA®**  
Vice President & Chief  
Investment Officer  
Saturna Capital





# When it Really Starts Raining You Need More Than an ARKK

Islamic Compliant Portfolio Construction



**Scott F. Klimo, CFA**  
Chief Investment Officer & Portfolio Manager  
Saturna Capital

19 July 2022



# Isn't Islamic Investing Just Negative Screening?

## 1. Qualitative

- **Business Sectors:**

- No conventional financial services (**riba - usury**)
- No alcohol, tobacco, or pork (**haram - prohibited products**)
- No gambling or pornography (**haram - prohibited activities**)

## 2. Quantitative

- **Financial:**

- Require less than 33% Total Debt to Market Cap
- Require less than 45% Accounts Receivable to Total Assets
- Require less than 5% revenues from unacceptable sources

# **We Consider It Positive Screening**

**Screening out debt or seeking financial strength?**

**We believe financially solid companies are:**

- Less vulnerable to financial disruption
- Less likely to engage in malfeasance
- More able to exploit investment opportunities
- More likely to treat minority shareholders fairly

# Islamic Investing Seeks a Variety of Positive Characteristics

- Strong cash generation
- Low debt
- Stable and capable management
- Activities that contribute to human well-being
- Good corporate governance
- Employee welfare
- Long-term sustainability of the business

# Now for a Word on Speculation

We are not these guys!



**FAST MONEY**

**TRADER LINEUP**

S&P 500	4,384.65
CHANGE	+95.95
% CHANGE	+2.24%

# Islamic Investing discourages Speculation

- Gharar - That whose consequences are hidden
- Applies to:
  - derivatives
  - unprofitable companies
  - trading on the quarterly results, etc.
- All things we do not do

# We Are Investors, Not Speculators

- Morningstar average turnover ratio for managed domestic stock funds - **63%**
- Potentially means fewer than half the stocks in your portfolio at the start of the year will be there at the end
- **Islamic Compliant Growth Equity** turnover ratio for the latest financial year - roughly 5% vs. 60% for the Morningstar Large Growth category
- **Islamic Multi-Cap Equity Income** turnover ratio for the latest financial year - roughly 5% vs. 88% for the Morningstar Large Blend category
- Both imply a 20-year holding period...but it can be much longer!

# How Good Are You at Market Timing?

Selected comparative strategies 30 JUN 2019 to 30 JUN 2022



# Average Annual Total Returns

<i>As of June 30, 2022</i>	YTD	1 Year	3 Year	5 Year	10 Year	Since Composite Strategy Inception <sup>1</sup>
Islamic Compliant Growth Equity	-23.47%	-11.72%	13.69%	15.76%	14.12%	11.13%
Islamic Multi-Cap Equity Income	-13.88%	-4.41%	10.33%	9.99%	11.13%	9.66%
ARK Innovation ETF	-57.74%	-69.18%	-5.02%	8.29%	N/a	10.82%
S&P 500 TR	-19.96%	-10.62%	10.60%	11.31%	12.96%	9.14%

**Performance data quoted herein represents past performance and does not guarantee future results.**  
*The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than performance*

*data quoted.*

<sup>1</sup> Index performance since composite strategy inception is shown since 31/DEC/2005 for Islamic Multi-Cap Equity Income and Islamic Compliant Growth Equity; and since 31/OCT/2014 for ARK Innovation ETF.

# Advantages Of Our Approach

- We focus on operational rather than market trends
- Long-term investing minimizes trading expense
- Avoid the pitfalls of behavioralism
- Avoid noise - active trading increases likelihood of error
- Lower annualized standard deviation of returns
- Equals superior risk adjusted returns



# Comments, Questions & Answers





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# Thank You For Listening

## Forthcoming Events

- Thu, 21 Jul (08:30-09:15) Infrastructure Investment Opportunities In Busan
- Thu, 21 Jul (10:00-10:45) Liability Driven Investment: Creating Liabilities
- Mon, 25 Jul (17:00-18:30) A City Of London Event On Entrepreneurship & Green Finance
- Wed, 27 Jul (11:00-11:45) Porridge Or Freedom Fries – An Essential Guide To Sanctions Compliance

Visit <https://fsclub.zyen.com/events/forthcoming-events/>

Watch past webinars <https://www.youtube.com/zyengroup>

### Islamic Multi-Cap Equity Income Notes:

1. Saturna Capital Corporation was founded in 1989 and is a registered investment adviser under the Investment Advisers Act of 1940. Registration does not imply a certain level of skill or training. Saturna Capital Corporation is the manager of the Saturna Investment Trust and the Amana Mutual Funds Trust, as well as a number of privately managed accounts (both institutional and individual). The company has four wholly-owned subsidiaries:
  - Saturna Brokerage Services, which provides mutual fund distribution services and acts as a discount broker-dealer. Certain accounts held at Saturna Brokerage Services receive professional discretionary advisory services from Saturna Capital Corporation;
  - Saturna Trust Company, which provides retirement plan administration, plus wealth retention and transfer services. Client assets administered by Saturna Trust Company may be managed by Saturna Capital Corporation, though clients may choose external managers to invest their capital;
  - Saturna Sendirian Berhad, a Malaysia-based investment adviser, which Saturna Capital Corporation acquired on March 31, 2010. Saturna Sendirian Berhad manages institutional and individual Malaysian accounts; and
  - Saturna Environmental Corporation, which runs Camp Saturna, a 133-acre environmental education camp on Silver Lake in Whatcom County.

For the purposes of the GIPS standards, the definition of “the firm” is deemed to include all assets managed by Saturna Capital Corporation and Saturna Sendirian Berhad. Saturna Trust Company, Saturna Brokerage Services, and Saturna Environmental Corporation do not engage in the discretionary management of client assets.

2. The Islamic Compliant Growth Equity Composite includes discretionary, fee-paying accounts with a mandate to invest in a diversified portfolio of high quality, medium to large capitalization companies that create current income and that, Saturna analysts believe, can grow their dividends faster than the average of the companies in the S&P 500 Index.

The firm’s list of composite descriptions and a list of broad pooled funds are available upon request. Policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

Performance results presented for the Islamic Multi-Cap Equity Income Composite represent past performance and should not be used as an indication of future performance.

3. The benchmark is the S&P 500 Index, a capitalization-weighted index of 500 US stocks designed to measure performance of the broad domestic economy. The returns of the benchmark are provided to represent the investment environment existing during the time period shown. For comparison purposes, the Index includes the reinvestment of income and other earnings but does not i
4. Valuations and performance are calculated and reported in US dollars and reflect the reinvestments of dividends and other earnings. Returns are shown net of actual foreign withholding taxes.

Gross returns are presented before all management, operating, and custodial fees are deducted. Net returns are net of model investment advisory fees in effect for the respective time period and are derived using the maximum fixed fee rate (0.75% annually) assuming an initial investment of \$1,000,000 and are calculated by subtracting one-twelfth of the maximum annual fee rate on a monthly basis from the gross of fee composite return. Therefore, actual performance of all portfolios in the composite on a net of fee basis may be different than the model net of fee performance. The management fee schedule currently in effect is as follows: an annual advisory fee of \$2,500 plus 0.5% of the first \$5 million and 0.4% on amounts over \$5 million; with a minimum quarterly fee of \$1,250 (minimum \$5,000 annually).

5. Saturna Capital Corporation’s investment advisory fees are described in Part 2A of its Form ADV and are available upon request. Returns for each client will be reduced by such fees and expenses as described in their individual agreement. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size.
6. The composite was created in October of 2011 and inception as of January 1, 2006.
7. Internal dispersion is calculated using the equal weighted standard deviation of annual gross returns of those accounts that were included in any composite for the entire year. Dispersion for periods with five or fewer accounts is not statistically representative and is not presented.
8. The three-year annualized standard deviation measures the variability of the composite (using gross returns) and the benchmark returns over the preceding 36-month period.

# Important Disclaimers & Disclosures

*Investing involves risk, including the risk that you could lose money.*

***Performance data quoted herein represents past performance and is no guarantee of future results.***  
*Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be significantly higher or lower than data quoted herein.*

*The Islamic strategies presented limit the securities they purchase to those consistent with Islamic and/or sustainable principles, which limits opportunities and may affect performance.*

*The S&P 500 is an index comprised of 500 widely held common stocks considered to be representative of the US stock market in general. Investors cannot invest directly in the indices.*

*ARK Innovation ETF is an actively managed Exchange Traded Fund (ETF) that seeks long-term growth of capital by investing under normal circumstances primarily (at least 65% of its assets) in domestic and foreign equity securities of companies that are relevant to the Fund's investment theme of disruptive innovation.*

*Saturna Capital is not affiliated with either Z/Yen or Ark Invest.*

# Islamic Compliant Growth Equity

Year	Gross Returns (%)	Net Returns (%)	S&P 500 Index (%)	Composite 3-Year St Dev (%)	S&P 500 3-Year St Dev (%)	Number of Accounts	Composite Assets (\$ 000)	Firm Assets (\$ 000)
2012	12.46	11.63	16.00	14.01	15.09	≤ 5	2,156,363	3,825,263
2013	24.14	23.23	32.38	13.77	11.94	≤ 5	2,007,117	4,102,266
2014	15.27	14.42	13.69	9.23	8.97	≤ 5	2,070,424	4,054,007
2015	0.65	-0.10	1.38	10.74	10.47	≤ 5	1,791,369	3,463,197
2016	8.78	7.98	11.96	11.11	10.59	≤ 5	1,493,516	3,192,763
2017	30.31	29.36	21.83	10.27	9.92	≤ 5	1,669,142	3,667,819
2018	3.52	2.74	-4.38	11.04	10.80	≤ 5	1,711,316	3,420,391
2019	34.33	33.35	31.49	12.07	11.93	≤ 5	2,221,181	4,258,813
2020	34.22	33.24	18.40	17.25	18.61	≤ 5	2,774,204	5,131,606
2021 <sup>A</sup>	32.70	31.73	28.71	16.16	17.05	≤ 5	3,869,592	6,731,694

**Saturna Capital Corporation claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Saturna Capital Corporation has been independently verified for the periods January 1, 2006, through December 31, 2021. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. In 2015, the composite name was changed to more accurately depict the nomenclature commonly used in the Islamic community. The word "Shariah" was removed, and was replaced with the word "Islamic".**

**GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.**

<sup>A</sup> **Saturna has not been independently verified for the 2021 calendar year. Changes to the presentation may occur during the verification process.**

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2. The Islamic Compliant Growth Equity Composite includes discretionary, fee-paying accounts with a mandate to invest in a diversified portfolio of Islamic-compliant, high quality, medium to large capitalization, growth equity issues. The security universe is determined using Saturna Capital Corporation’s proprietary Islamic grading system which screens equities for Islamic compliance.

Excluded are companies that represent the following lines of business: alcohol, tobacco, pork-related products, financial services, pornography, and defense/weapons. In addition, stocks are also subjected to a series of financial ratio screens to remove companies based on debt and interest income levels.

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4. Valuations and performance are calculated and reported in US dollars and reflect the reinvestments of dividends and other earnings. Returns are shown net of actual foreign withholding taxes.

Gross returns are presented before all management, operating, and custodial fees are deducted. Net returns are net of model investment advisory fees in effect for the respective time period and are derived using the maximum fixed fee rate (0.75% annually) assuming an initial investment of \$1,000,000 and are calculated by subtracting one-twelfth of the maximum annual fee rate on a monthly basis from the gross of fee composite return. Therefore, actual performance of all portfolios in the composite on a net of fee basis may be different than the model net of fee performance. The management fee schedule currently in effect is as follows: an annual advisory fee of \$2,500 plus 0.5% of the first \$5 million and 0.4% on amounts over \$5 million; with a minimum quarterly fee of \$1,250 (minimum \$5,000 annually).

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2013	31.18	30.22	32.38	10.51	11.94	≤ 5	1,622,475	4,102,271
2014	10.36	9.55	13.69	8.62	8.97	≤ 5	1,623,655	4,054,007
2015	-1.76	-2.49	1.38	10.66	10.47	≤ 5	1,288,427	3,463,197
2016	10.56	9.74	11.96	10.65	10.59	≤ 5	1,281,998	3,192,763
2017	22.99	22.09	21.83	9.71	9.92	≤ 5	1,426,233	3,667,819
2018	-4.21	-4.93	-4.38	11.25	10.80	≤ 5	1,231,618	3,420,391
2019	26.51	25.58	31.49	11.90	11.93	≤ 5	1,397,749	4,258,813
2020	15.19	14.34	18.40	16.80	18.61	≤ 5	1,423,190	5,131,606
2021 <sup>A</sup>	23.75	22.84	28.71	15.36	17.05	≤ 5	1,695,744	6,731,694

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