

# بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

## Shariah Compliance Report EDGE AL-AMIN SHARIAH CONSUMER FUND

*For the year ended June 30, 2023*

EDGE Al-Amin Shariah Consumer Fund (EDGEALAMIN) is an open-ended mutual fund that is professionally managed by EDGE AMC Limited with guidance from the Shariah Advisory Committee (SAC) which comprises the following members:

1. Professor Dr. Md. Sadiqul Islam
2. Mufti Abdullah Al Masum (CSAA)
3. Mufti Zubair Abdullah (CSAA)

The primary objective of the fund is to maximize risk-adjusted return for unitholders by investing in a portfolio of Shariah-compliant securities issued by the governments, consumer-oriented corporate entities, and NGOs based in Bangladesh. The fund will invest in Shariah-compliant common equities, initial public offerings (IPO), quasi-equity securities, Shariah-compliant money market instruments, deposits, bonds, and sukuks, as per guidelines set by the Shariah Advisory Committee.

The SAC has already prepared a [Shariah Charter](#) for EDGE Al-Amin Shariah Consumer Fund (available on the website of EDGE AMC Ltd at [www.edgeamc.com](http://www.edgeamc.com)) which sets forward the guidelines for investment in both the capital market and money market of Bangladesh. The compliance report is prepared regarding the investment and financial activities of the fund and presented to the unitholders of the fund.

### Investment in Capital Market

The fund has a total investment of BDT 110.8 million (in market value) in listed securities as of June 30, 2023. All the investments are made as per the guidelines already set in the [Shariah Charter](#) which screens the investment broadly in two criteria:

Sl. No.	Compliance Criteria	Guideline for the compliance	Status
	<b>Business Activities-Based Screening</b>	<p>The basic business of the investee company should be consistent with the Shariah Law. Although no universal consensus exists among contemporary Shariah scholars on the prohibition of companies, most Shariah Boards have advised against investment in companies involved in the activities of:</p> <ul style="list-style-type: none"><li>▪ Advertising and Media</li><li>▪ Alcohol</li><li>▪ Embryonic or stem cell research and cloning</li><li>▪ Financials (Conventional Banks, Insurance and Leasing/Finance Companies)</li><li>▪ Gambling</li><li>▪ Pork</li><li>▪ Pornography</li><li>▪ Tobacco</li><li>▪ Trading of gold and silver as cash on a deferred-basis</li></ul>	<b>Complied</b>

Sl. No.	Compliance Criteria	Guideline for the compliance	Status
02.	<b>Accounting - Based Screening</b>	<p>After removing companies with non-compliant business activities, the rest of the companies are examined for compliance in financial ratios, as certain ratios may violate compliance measurements. Three areas of focus are leverage, cash, and the share of revenues derived from non-compliant activities. All of these are subject to evaluation on an ongoing basis. Currently below mentioned standards are used for screening:</p> <ul style="list-style-type: none"> <li>• Leverage Compliance: Interest-bearing debt to total MCAP** (Avg of 36 Months &lt;25%)</li> <li>• Cash Compliance: - i. Accounts Receivables/MCAP (Avg of 36 Months &lt;49%) ii. (Accounts Receivables + Cash)/MCAP (Avg of 36 Months &lt;49%)</li> <li>• Share from non-compliant activities: i. (Cash + interest-bearing securities)/MCAP (Avg of 36 Months &lt;30%) ii. (Non – Permissible income including interest income)/Revenue &lt;5%</li> <li>▪ (Non – Permissible income including interest income)/Total assets &lt;15%</li> </ul>	<b>Complied</b> (Investment made as per SAC approved Shariah Charter)

**\*\* MCAP = Market capitalization**

## Investment in IPO

The fund started operation in September 2022 and till the end of June 2023, eight companies raised subscriptions for IPO. As per the guidelines of the Shariah Charter and based on the nature of the fund, the fund only applied to two companies – Asiatic Laboratories Limited and Al-Madina Pharmaceuticals Ltd, out of which only the latter got subscription.

Sl.	Name	Size (BDT Mn)	Board	Subscription Period	Investment
01	Chartered Life Insurance Company	150.0	Main	Sep 2022	No
02	Asiatic Laboratories (Book Building)	950.0	Main	Oct 2022	No*
03	Global Islami Bank Ltd	4,250.0	Main	Oct 2022	No
04	Islami Commercial Insurance Company Ltd	202.6	Main	Nov 2022	No
05	Midland Bank Ltd	700.0	Main	Feb 2023	No
06	Trust Islami Life Insurance Ltd	160.0	Main	Apr 2023	No
07	Al-Madina Pharmaceuticals Ltd	50.0	SME	May 2023	Yes
08	MF Footwear PLC	100.0	SME	Jun 2023	No

\* The bidding price for the IPO subscription was below the cut-off price (book-building method) and hence the subscription was not carried out

## Investment in cash/money market instrument

The fund has banking operations with the following banks to carry out day-to-day activities and raise new subscriptions from investors: (i) Midland Bank - Salam Islamic Window, (ii) Shahjalal Islami Bank, and (iii) Mutual Trust Bank - Yaqeen Islamic Window. The fund keeps a balance with Mudaraba Special Notice Deposits (MSND) accounts as well as current accounts in those banks. In addition, the fund also invested in Mudaraba Term Deposit (MTD) of DBH Finance – Shariah Finance Wing after getting approval from the SAC.

<b>Breakdown of Total Income</b>	<b>Percentage of Income</b>	<b>BDT</b>
Profit Earned on Deposits	63.8%	4,015,262
Capital loss on sale of marketable securities	-2.8%	(177,299)
Dividend income	32.4%	2,035,116
Unrealized (loss)/gain on securities	6.6%	412,537
<b>Total Income</b>		<b>6,285,616</b>

The table above shows the breakdown of the total income of the fund for FY 2023. BDT 4.0 million was earned as profit from investment in money market instruments, which is more than 60% of total income. BDT 3.8 million was earned from MSND and the current account of banks while BDT 0.2 million was from MTD. Details are given below:

<b>Profit on Mudaraba Special Notice Deposits (MSND)</b>	<b>BDT</b>
Midland Bank - Salam Express Corporate Account	3,691,168
Mutual Trust Bank – Al Wadee’Ah Current Account	131,305
Shahjalal Islami Bank Limited - Mudaraba Special Notice Deposit	5,068
<b>Total profit on MSND</b>	<b>3,827,542</b>

<b>Profit on Mudaraba Term Deposit (MTD)</b>	<b>BDT</b>
DBH Finance PLC -01, MTD No: 27100105	62,573
DBH Finance PLC -02, MTD No: 27100106	62,573
DBH Finance PLC -03, MTD No: 27100107	62,573
<b>Total profit on MTD</b>	<b>187,720</b>

<b>Total Profit Earned on Deposits</b>	<b>4,015,262</b>
--	------------------

## Thoughts on the “Investment Income/ Profit Earned on Deposits”

The above-mentioned deposits were kept in the most compliant banks or Islami banking window of conventional banks and NBFIs of the country. Even with such rigorous supervision, the SAC observes that 100% compliance to Shariah Law by a specific depository organization has dependencies on how financial market and economic system of the country is organized which is beyond control of any single entity. And, hence sometimes even the most compliant Shariah-based bank/ Islami-banking window/ NBFIs may not fully adhere to all the Shariah rules, all the time. Unitholders with more precautionary perspective should seek Shariah advice from competent Shariah-scholar (Mufti) on their own based on the data presented above.

## Dividend Income & Purification

Purification is the cleansing process that removes any impure returns that is not permissible under Shariah Law and disposes of the non-permissible portion through a donation to charitable organization. Dividend income totaled BDT 2.0 million during the year, out of which BDT 1.9 million was received. As per the guidance of the SAC, the purification process will take place while receiving the dividends and the purified amount will be set aside in a separate bank account while donation will be carried out on a semi-annual basis. The Shariah Board will provide guidance on where it will be spent.

For the year ended June 30, 2023, BDT 40,665 has been set aside based on the dividend amount received. The dividend purification ratio (Total Non-Permissible Revenue/Total Revenue) is calculated internally on an annual basis (after the publication of audited financial statements) and approved by the Shariah Advisory Committee of the fund.

Name of the Stock	Type of Income	Income Earned	Purification ratio	Required Purification Amount
IBN SINA Pharmaceutical Industry Ltd.	Cash Dividend	235,854	0.02%	39
Square Pharmaceuticals Limited	Cash Dividend	900,000	3.89%	35,003
Renata Limited	Cash Dividend	176,008	0.98%	1,723
Grameenphone Limited	Cash Dividend	238,754	0.10%	249
Olympic Industries Ltd.	Cash Dividend	364,500	1.00%	3,650
		<b>1,915,116</b>		<b>40,665</b>

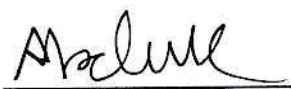
## AAOIFI-recommended Purification

In addition to the purification already provided for, the SAC also suggested to disclose the purification amount using the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) recommended methodology. Instead of focusing on the dividend amount that is disbursed by the investee companies at the end of the fiscal year, AAOIFI recommends the purification of all non-permissible income regardless of whether the company pays dividends or not. Based on the AAOIFI recommended methodology, the dividend purification amount would be BDT 469,099 based on investment in equities during the full year of FY 2023. As per outstanding units of the fund as of June 30, 2023, this purification amount would be BDT 0.02 per unit for investors holding units for the full year. Investors who invested/ redeemed in different periods can calculate the pro-rata amounts if they want to follow the AAOIFI method, the most conservative Shariah methodology for dividend purification.




Dr. Md. Sadiqul Islam

Member



Abdullah Al Masum

Member



Zubair Abdullah

Member