



# SUKUK MODEL PORTFOLIO



# TABLE OF CONTENT

Overview of SUKUK Model Portfolio	3
<hr/>	
Product Details	
Investment objectives	4
Sectors and asset allocation	5
<hr/>	
Product Benefits and Risks	6
<hr/>	
Model Portfolio	7
<hr/>	
Due Diligence Process for Fund Selection	8
<hr/>	
Risk Management	9
<hr/>	
Investment Team	10
<hr/>	



## COMPANY OVERVIEW

Enigma Strategy (“Enigma” or “the firm”) is a leading investment management firm, authorised and regulated by the Financial Conduct Authority (the “FCA”), and entered on the FCA register with registration number 926961. The firm specialises in innovative and compliant financial products, with a focus on ethical investments. Enigma Strategy aims to provide clients with opportunities that align with their values while maximising returns. Our expertise lies in curating diversified portfolios that cater to various risk appetites and investment horizons. We are committed to transparency, integrity, and excellence in all our endeavours.

## Key Terms and Actors

### **Sukuk:**

Islamic financial certificates, similar to bonds, that comply with Sharia law. Sukuk represent ownership in a tangible asset, usufruct of an asset, service, or a combination of these.

### **Investment Horizon:**

The total length of time an investor expects to hold an investment before taking the money out.

### **Sharia Compliance:**

Adherence to Islamic law, which prohibits interest (Riba) and ensures investments are ethical and socially responsible.

### **Asset Allocation:**

The process of distributing investments across various asset classes and geographical regions to optimise returns and manage risk.

### **Liquidity:**

The ease with which an asset can be converted into cash without affecting its market price.

### **Financial Institutions:**

Banks, insurance companies, and other entities that provide financial services and products, including the Sukuk included in this portfolio.

## Identified Problem

Professional investors seeking Sharia-compliant investment options are often faced with limited choices in relation to products that offer both growth potential and daily liquidity. Traditional interest-free cash accounts provide safety but lack the growth potential required for wealth accumulation over the medium to long term. Additionally, ensuring compliance with Sharia principles while achieving diversification and optimal returns can be challenging.

## Existing Measures

Currently, there are various Sukuk investments available in the market, offered by leading financial institutions. These investments provide a Sharia-compliant alternative to conventional bonds, allowing for income generation without interest. However, many of these options lack sufficient liquidity and diversification, limiting their appeal to professional investors seeking a balanced portfolio with growth potential.

## Conclusion

Enigma Strategy’s Sukuk investment portfolio provides an excellent option for professional investors looking for Sharia-compliant, growth-focused investments. Utilising our expertise in asset allocation and ethical investment practices, we deliver a diversified portfolio that aligns with our clients’ financial objectives and values. This innovative solution fills market gaps, presenting a strong alternative to traditional interest-free cash accounts and less diversified Sukuk options.



## INVESTMENT OBJECTIVE

The investments are all with recognised institutions while providing liquidity. We believe this is a very attractive alternative to a simple Sukuk bank account generating zero interest.

The primary objective of this investment is growth, with an investment horizon of 3 to 5 years. Enigma Strategy has meticulously curated a portfolio of Sukuk investments from some of the world's leading financial institutions. These Sukuk investments offer clients daily liquidity and a balanced potential for growth and income, serving as an alternative to an interest-free cash account.

The underlying investments are fully Sharia-compliant, as certified by the large institutions whose investments are included in the portfolio. Our asset allocation strategy ensures diversification across various asset classes and geographical regions, optimizing potential returns while adhering to Sharia principles.

### Sharia Principles

  
**Prohibition of Riba**  
 Interest or cost of capital is not allowed

  
**Avoidance of Haram**  
 Investments must not involve prohibited activities

  
**Socially Responsible Investments**  
 Investments should benefit society

  
**Transparency and Fairness**  
 Clear and equitable transactions are required

### Sukuk Overview

Sukuk is a dynamic and ethical financial instrument offering a unique avenue for financial growth and support for Sharia-compliant ventures. Unlike conventional bonds, Sukuk adheres to Sharia principles, ensuring ethical and interest-free investment opportunities. Sukuk represents ownership in an underlying asset, project, or business activity that generates returns based on the asset's performance. The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) defines Sukuk as “certificates of equal value representing undivided shares in ownership of tangible assets, usufruct, and services or (in the ownership of) the assets of particular projects or special investment activity.”

### Concepts of Sukuk

<b>1</b>	<b>Asset-Backed Securities</b>	Sukuk are based on tangible assets, projects, or business activities. Investors hold a share in the underlying asset, rather than a debt obligation.
<b>2</b>	<b>Compliance with Sharia</b>	<ul style="list-style-type: none"> <li>• <b>Prohibition of Riba (Interest):</b> Sukuk must not involve interest payments. Instead, returns are generated from the asset's performance.</li> <li>• <b>Avoidance of Haram:</b> Investments must not be involved in prohibited activities like alcohol, gambling, and pork production.</li> <li>• <b>Social Responsibility:</b> Investments should promote social and ethical responsibility.</li> </ul>
<b>3</b>	<b>Risk Sharing</b>	Investors and issuers share the risk of the underlying asset. If the asset performs well, investors receive higher returns, but if it underperforms, returns decrease accordingly.
<b>4</b>	<b>Types of Sukuk</b>	<ol style="list-style-type: none"> <li>1. <b>Ijara Sukuk:</b> Based on leasing, where investors own the asset and lease it to a user, earning rental income.</li> <li>2. <b>Mudaraba Sukuk:</b> Based on a profit-sharing agreement where one party provides capital and the other provides expertise.</li> <li>3. <b>Musharaka Sukuk:</b> Based on a partnership where all partners contribute capital and share profits and losses.</li> <li>4. <b>Murabaha Sukuk:</b> Based on a sale agreement where the issuer sells an asset to investors at a profit margin.</li> </ol>
<b>5</b>	<b>Transparency and Fairness</b>	Sukuk structures emphasize clear, transparent, and fair transactions, ensuring that all parties have a clear understanding of the terms and conditions.
<b>6</b>	<b>Regulatory Standards</b>	Sukuk must adhere to standards set by organizations like the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), which ensures compliance with Sharia principles and provides guidelines for issuance and operation.
<b>7</b>	<b>Economic Contribution</b>	Sukuk funds are often used for infrastructure projects, real estate developments, and other ventures that contribute to economic development and provide societal benefits.

By adhering to these concepts, Sukuk provides an ethical, Sharia-compliant alternative to conventional bonds, allowing investors to participate in profitable ventures while adhering to Islamic principles.

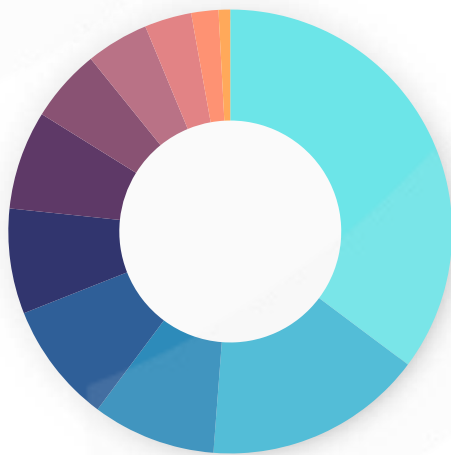


## PORTFOLIO

Enigma strategy has carefully identified and created a portfolio of Sukuk investments from some of the leading financial institutions globally. These investments provide clients with daily liquidity and an element of growth and income which provides an alternative to an interest free cash account. The underlying investments are fully Sharia compliant (The Sharia Compliance is provided by the large institutions whose investments we are investing in), and the asset allocation provides diversification across various asset classes and geographical locations. There are no entry costs or exit costs in relation to the portfolio. The portfolio provides investors with the ability to participate in the growth of the Islamic Finance & Sukuk sector and caters to the ever evolving ethical demands of investor. The Sukuk market continues to flourish with new Green and Socially responsible issuances allowing for a diverse range of Investment projects.

*Disclaimer: The liquidity of the model depends on the underlying funds' policies, which may not always offer daily liquidity. Redemption requests may face delays or restrictions due to market conditions or the underlying funds' terms. No guarantee of immediate liquidity is provided.*

### SECTOR ALLOCATION



Financials	35.28%
Technology	16.00%
Cash and equivalents	9.00%
Energy	8.81%
Consumer Discretionary	7.67%
Real Estate	7.21%
Healthcare	5.33%
Materials	4.57%
Utilities	3.43%
Consumer Staples	1.98%
Communication Services	0.85%

### ASSET ALLOCATION



Constituent	Currency	Fund Investment Type	Weighting
Cash			9.00%
Azimut	USD	Distributing	20.00%
Emirates NBD	USD	Accumulation	15.00%
Franklin Templeton	USD	Accumulation	12.00%
Franklin Templeton	USD	Accumulation	8.00%
Sedco Capital	USD	Accumulation	10.00%
BlackRock	USD	Distributing	6.00%
BlackRock	USD	Distributing	6.00%
HSBC	USD	Accumulation	4.00%
HSBC	USD	Accumulation	4.00%
Invesco	USD	Accumulation	6.00%

*As of September 1, 2024. This is presented for illustrative purposes only and is subject to change. The source of the data is Morningstar external fund provider.*



## RISK AND BENEFITS

### Benefits

Implementing these strategies provides a comprehensive approach to building a robust and resilient Sukuk model portfolio. The key benefits include:

#### **Lowered Risk Exposure:**

Diversification and counterparty risk management significantly reduce the likelihood of substantial losses.

#### **Increased Investor Trust:**

Transparency, compliance, and adherence to ethical investing principles build and maintain investor confidence.

**Stable and Predictable Returns:** Sharia compliance and effective liquidity management contribute to more stable performance.

#### **Operational Efficiency:**

Efficient trading systems and good liquidity management enhance the overall operational effectiveness of the portfolio.

In conclusion, these risk reduction strategies not only safeguard the Sukuk model portfolio against various risks but also align it with ethical principles, regulatory requirements, and investor expectations, thereby designed to ensure its long-term success and sustainability.

### Risk

All investments inherently carry various types of risks that must be understood and managed to protect and grow a Sukuk model portfolio effectively. While investing in a Sukuk model portfolio offers opportunities for stable and Sharia-compliant returns, it is crucial to recognise and mitigate the inherent risks involved. Diversification can help manage exposure, but it does not eliminate all risks. Understanding the underlying fund performance and maintaining transparency can lead to more informed investment decisions

#### **Liquidity Risk:**

Risk that certain investments may be difficult to sell at desired prices or within a timely manner, potentially affecting portfolio liquidity.

#### **Currency Risk:**

Exposure to fluctuations in exchange rates for investments denominated in foreign currencies, which could affect returns when converted back to the portfolio's base currency.

#### **Redemption Risks:**

Potential risks related to liquidity and redemption terms depending on the nature of the underlying funds, which may impact the ability to withdraw investments in certain market conditions.

#### **Interest Rate Risk:**

Exposure to changes in interest rates that could affect the value of fixed-income securities and other interest-sensitive investments held within the portfolio.

#### **Credit Risk:**

Risk that issuers of fixed-income securities or counterparties may default on payments, leading to potential losses.

#### **Underlying Fund Performance:**

Risk that individual funds within the portfolio may underperform relative to expectations or benchmarks, affecting overall portfolio performance.

#### **Market Risk:**

General risk associated with fluctuations in financial markets, affecting the value of investments across various asset classes.

In conclusion, Interest rate, market, credit, and liquidity risks are some critical factors that need continuous monitoring and strategic management. Moreover, adhering to regulatory and legal requirements ensures compliance and mitigates potential legal pitfalls. Currency risk management is essential for portfolios with international Sukuk exposure to protect against unfavourable exchange rate movements



## MODEL PORTFOLIO

The construction of a Sukuk model portfolio involves careful consideration of several factors, including:



### SHARIAH COMPLIANCE

All Sukuk included in the portfolio must comply with Islamic principles, ensuring that the investment activities are halal (permissible) according to Shariah law.

### DIVERSIFICATION



Just like conventional investment portfolios, Sukuk model portfolios aim to achieve diversification across different issuers, industries, and geographic regions to mitigate risk.



### RISK MANAGEMENT

While Sukuk are generally considered less risky than conventional bonds due to their asset-backed nature, risk management remains a critical aspect. Portfolio managers may employ various strategies to manage credit risk, interest rate risk, and liquidity risk within the Sukuk portfolio.

### YIELD AND RETURN OBJECTIVES



Sukuk model portfolios are designed with specific yield and return objectives in mind, which may vary depending on the investor's risk tolerance, investment horizon, and financial goals.



### MARKET ANALYSIS

Continuous monitoring of the Sukuk market and economic conditions is essential for optimizing portfolio performance and making timely adjustments to asset allocation and investment strategies.

### INVESTOR PREFERENCES

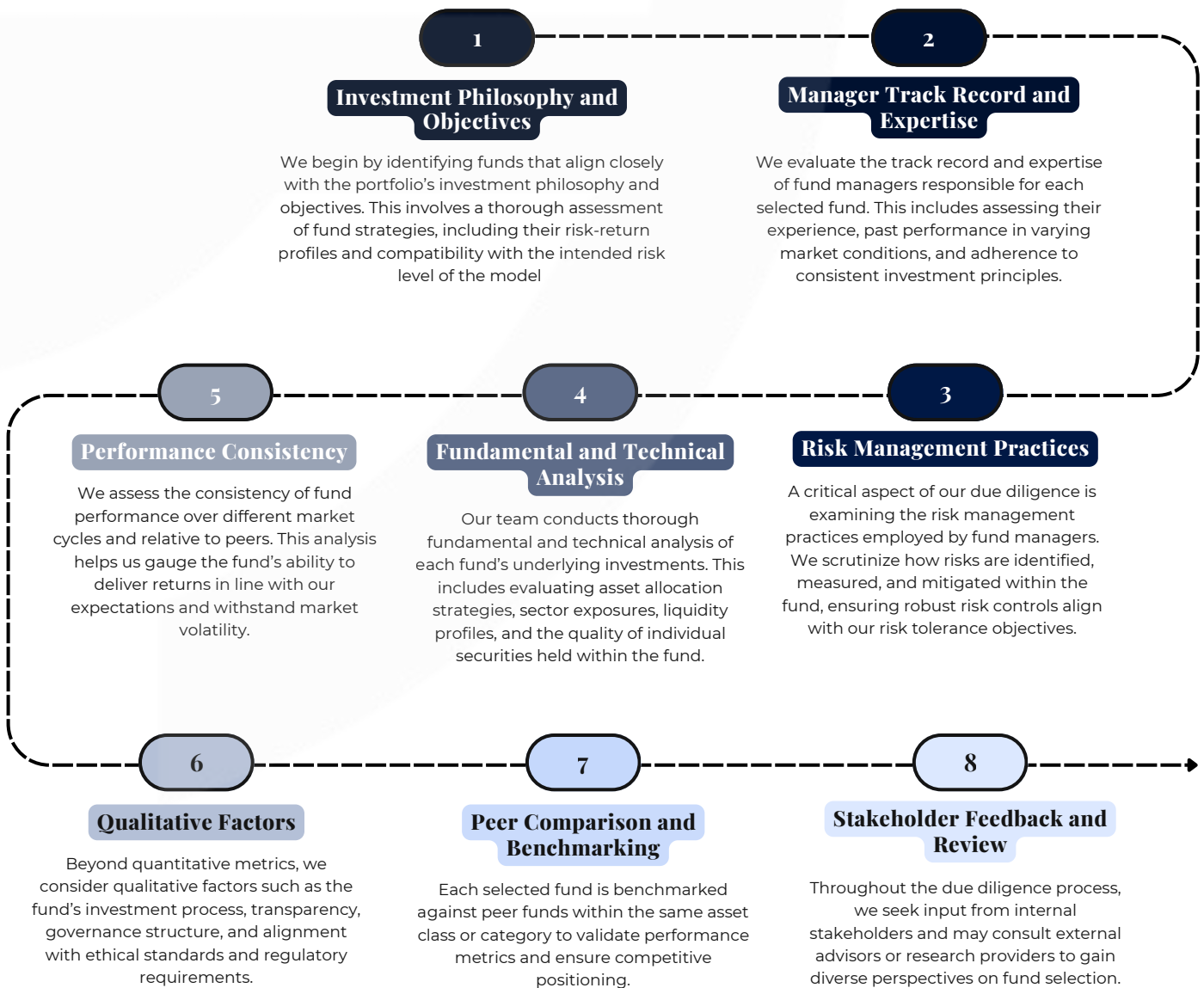
Sukuk model portfolios can be customized to align with investors' preferences, such as ethical considerations or specific sector exposures.

Overall, a Sukuk model portfolio provides investors with an opportunity to access the growing market for Islamic finance while adhering to their religious and ethical beliefs. By offering diversification, risk management, and potential for competitive returns, Sukuk model portfolios serve as a valuable tool for investors seeking Shariah-compliant investment opportunities.



## DUE DILIGENCE PROCESS FOR FUND SELECTION

The selection of funds for this model portfolio undergoes a meticulous due diligence process to ensure alignment with our rigorous standards of risk management and investment quality. The process includes the following key steps:



## Conclusion

Our rigorous due diligence process ensures that only funds meeting our stringent criteria are selected for inclusion in the model portfolio. By adhering to these thorough standards, we aim to mitigate risks and optimize potential returns for our investors, maintaining a commitment to transparency, prudence, and performance consistency.

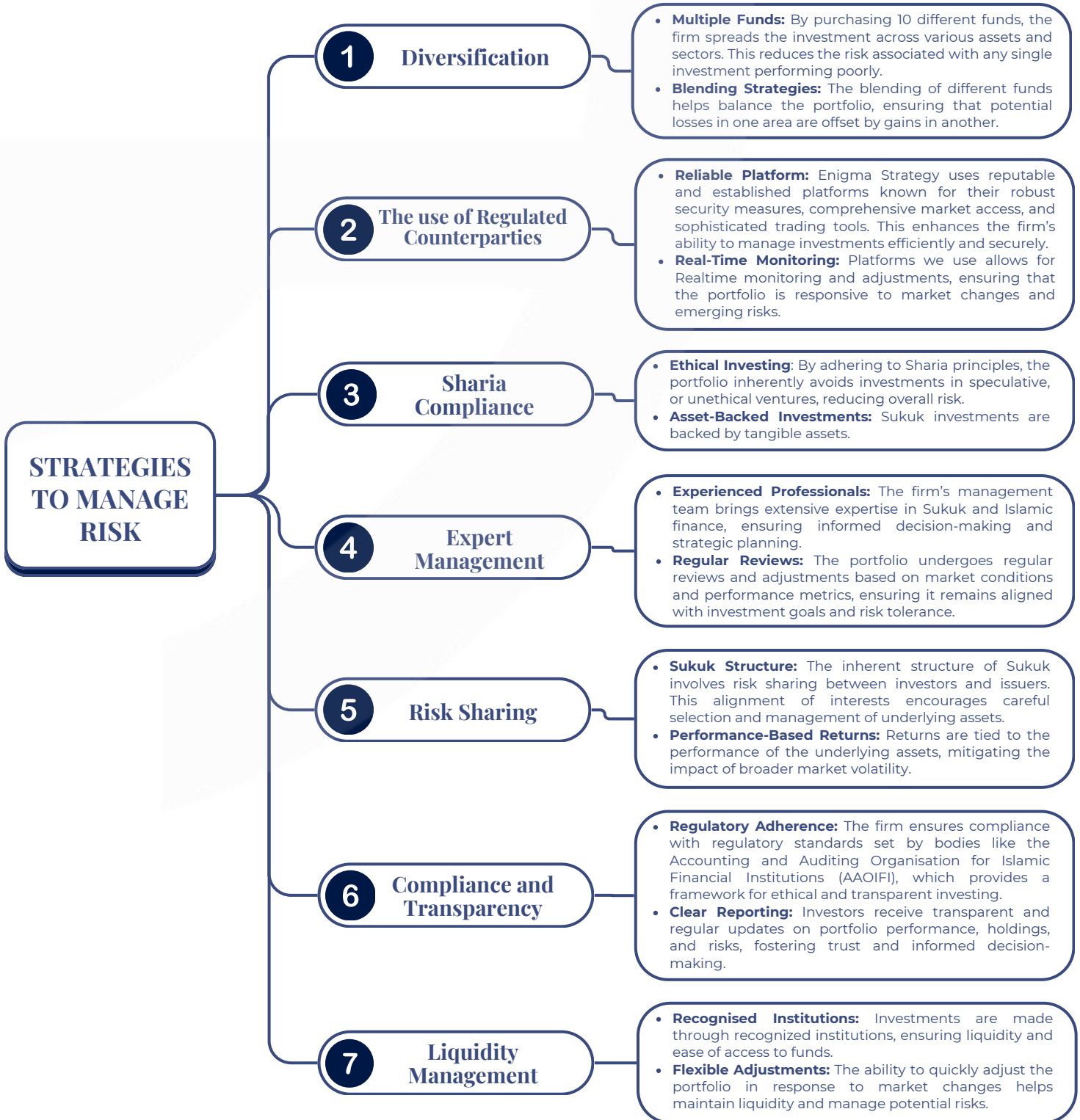
This piece highlights the comprehensive approach taken to select funds, providing transparency and assurance to stakeholders regarding the robustness of the investment selection process.



# RISK MANAGEMENT

Risk Management in Sukuk Portfolio is Managed by the Investment Firm

The investment firm Enigma Strategy managing this Sukuk portfolio employs several strategies to ensure effective risk management. Here's how we do it:



By implementing these risk management strategies, the investment firm ensures the Sukuk portfolio is well-balanced, ethically sound, and resilient against market uncertainties, designed to provide investors with a secure and profitable investment option.

Note this investment strategy is a uniform yield and return ensuring all investors adhere to a fixed, non-customisable portfolio approach. This helps streamline management and ensure consistency in performance and risk management.

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## INVESTMENT TEAM

### Investment Managers



#### JAMES LAWRENCE

Executive Director, Enigma Strategy

- A seasoned Executive Director at Enigma Strategy, with over 15 years of experience in the finance industry.
- Embarked on his financial journey at ODL Securities (now FXCM) in 2008, gaining profound insights into the intricate landscape of Financial Markets.
- In April 2021, he successfully completed an MBA at Bayes Business School (formerly CASS), specialising in business, management, and finance. Adding to his expertise, he holds Investment Advice Diplomas (Securities & Derivatives) and an Operations certificate from the CISI.
- Additionally, James possesses certificates from the CFA in Investment Management and ESG Investing, underlining his commitment to excellence in the financial sector.



#### RODERIC OWEN-THOMAS

Co-Founder, Enigma Strategy

- Co-founder of Enigma Strategy Limited and has over 20 years' experience in the finance industry.
- Has vast experience in both the Institutional and HNW/UHNW environment having worked at Tier 1 firms such as Citi, UBS and Barclays.
- Has extensive knowledge in the investment and sales space of the financial sector. Since founding Enigma Strategy, Roderic has driven the firm's exponential growth in AUM whilst remaining dedicated to prioritising client satisfaction.
- Roderic is Level 6 qualified with the Chartered Institute for Securities and Investment.

### Investment Advisors



#### AJMAL SHARAFUDDIN

Executive Director, MBS Global Investments

- Two decades of experience with UAE's Royal Family offices
- Building connections within the High Net Worth Individuals (HNWIs)
- Co-founder of Clutchi Capital & affiliated with Aster Healthcare



#### HABIB AKUDI

Family Office Advisor

- An Economics graduate from London, he has had an impressive career in stockbroking, including a seat on the Indian stock exchange. He specialises in Shariah-compliant products and Islamic banking, and in the early 2000s, launched the first UK-regulated Global Islamic Equity Investment Fund
- With a global client base and strong relationships with leading Islamic banking scholars, he brings a wealth of experience to the financial industry



#### NADEEM HUSSAIN

Group CEO, MBS Global Investments

- Qualified lawyer with over 20 years of advisory and consultancy experience
- Due diligence expert and Seasoned structuring professional
- Co-founder of Hashmove

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