



# The de-risking mindset

**✔ Adam Cadle speaks to Carey Pensions UK CEO Christine Hallett and IBB head of Sharia compliance Samir Alamad about the mechanics behind the Islamic Pension Trust**

**▶ How many employers are currently using the scheme and how many employees have been enrolled to date?**

The Islamic Pension Trust has only recently been launched by the sponsor of the scheme, Islamic Bank of Britain, using the specialist skills of pensions administrator and trustees, Carey Pensions UK and Carey Pension Trustees UK Ltd. The master trust currently has three companies participating in it and 186 members.

The pipeline of companies about to hit their staging date is continually increasing as the marketing activity and the message about its features are rolled out across the UK and to companies who

want to offer a fully Sharia-compliant scheme to their workforce. It is important all workers have the opportunity to take advantage of the pension savings via auto-enrolment and none are excluded. We are seeing more and more interest as soon as we mention this proposition.

**▶ Is the scheme aimed at all workers or specifically low to median earning workers?**

The scheme is aimed at all workers. The default strategy is used for automatically enrolling members, however, the flexibility provides opportunity for advisers to provide individual advice when needed

and charge for that individual advice. So it fits all and accepts all no matter the size of the contributions coming in. We are already starting to discuss transfers from existing arrangements.

**▶ How is the scheme administered?**

The scheme is administered by Carey Pensions UK, a specialist pensions administration company, using the Islamic Bank of Britain bank accounts as the scheme accounts. New schemes are implemented through our specialist implementation team and a dedicated service team looks after the day-to-day receipt of contributions, reconciliations, investments and reporting. All members can see their pension scheme details online.

**▶ What types of investment does the Islamic Pension Trust permit and not permit?**

The Islamic Pension Trust has very rigorous guidelines to ensure that the scheme remains Sharia compliant. Investments in interest bearing certificates or accounts are not permitted along with deposits at non-Islamic banks, products from non-Islamic insurance companies and investments that contain business lines dealing in alcohol, pork-related substances, tobacco companies, arms, gambling, pornography manufacturers retailers and distributors. Interest (riba) is also forbidden.

Since investments must be free from interest, Islamic investments typically consist of fixed income funds (sukuk), physical commodities, equity funds, and real estate funds.

However, the investment strategy alone does not ensure Sharia compliance. The following rules must also be adhered to: the arrangements and contracts within and to the scheme must be Sharia compliant, payments and cash transactions must be processed using Islamic bank accounts ensuring that any profits derived are free of interest and the scheme can only contain pre-approved Sharia-compliant assets authorised by the Sharia Supervisory Committee (SSC) and Sharia Compliance Officer (SCO) of the



Islamic Bank of Britain (IBB). The SSC is comprised of Islamic scholars and experts in the interpretation of Islamic law and its application within modern day Islamic financial institutions. The SCO is also trained to the highest standards, set down by The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The combined works of the SCO and the SSC ensure that the investment activities of the IPT comply with Islamic rules at all times.

There is no option to purchase non-Sharia compliant retirement options i.e. annuity. Only drawdown and/or income generating or cash based assets are permissible.

**➤ How regular are the trustee board meetings for the scheme and how regular is their contact with the Islamic Bank of Britain about Sharia supervision?**

The trustees meet twice a year normally, which is when Sharia audit and supervision is also undertaken. Ongoing contact takes place throughout the year as required.

**➤ How does the scheme ensure that Sharia compliance is constantly being met?**

The Islamic Pension Trust provides investors access to the same series of discretionary portfolio service (DPS) investment portfolios using the SMARTfund Administration portfolios offered by Praemium UK and managed by Criteria Management & Research.

The Sharia Supervisory Committee and the Sharia compliance officer at the Islamic Bank of Britain have approved the portfolios in the DPS and also act as the Sharia authority for the investment

manager to ensure that the DPS remains Sharia compliant.

All of the investments in the DPS are Sharia compliant. The portfolio is audited by the SSC and SCO to ensure that no income or investment growth is obtained through the payment of interest. The portfolio is also audited to ensure that the investments do not derive income from prohibited activities, such as those already mentioned. These rigorous measures ensure that the scheme always remains Sharia compliant.

**➤ The Islamic Pension Trust has also implemented a lower volatility strategy post accumulation and de-risking phases. What are the mechanics behind this?**

The investment process consists of four distinct stages. First the available Sharia compliant universe is quantitatively assessed for active funds with categories such as risk adjusted returns and information ratios to assess management skill.

Secondly, a qualitative assessment is carried out, which involves performing due diligence on managers and their investment process, ongoing monitoring of investment strategy, investment process and changes, communication between managers to check anomalies, ethics of underlying investment manager where appropriate, negotiation on fees, and reviewing costs and investment process for passive funds. Furthermore, the domicile of the fund is assessed along with any tax considerations, and a review by the Sharia board is conducted to confirm it is recognised and acceptable in order for DPS service fatwa to be maintained.

The investment process also consists of portfolio management and asset allocation.

Strategic benchmarks have been created to guide the volatility profile and expected rate of return for each of the five strategies offered. A mean variance optimisation is used to create the best diversification of all available asset classes and to provide portfolio structures that would behave in differing manners.

On a monthly basis, the optimisation

of benchmarks is re-calculated to see whether still appropriate for those strategies. Forecasts of risk and return are considered as inputs.

**➤ Can you explain the scheme's lifestyle strategy and de-risking agenda?**

The available models for the Islamic Pension Trust, via SMARTfund Administration (SAL) are as follows: aggressive growth portfolio, growth portfolio, balanced portfolio, cautious portfolio and defensive portfolio.

Members of the Islamic Pension Trust with more than 10 years until the default retirement age of 65 years are placed into the growth portfolio, which is the default fund for the scheme. This aims to generate a high level of return by investing a substantial part of the portfolio in higher risk assets, such as equities.

A lower volatility strategy will also soon be available for scheme members to use to provide their retirement income post the accumulation and de-risking phases. The trust also has the SMARTfund's Sharia-compliant cash management service if required. Scheme members will be able to choose themselves or have recommended by their advisers any single strategy or blend of strategies that may be required.

When members reach the age of 55 years the lifestyle strategy applies for de-risking purposes.

**Islamic Pension Trust's lifestyle strategy**

10 years to retirement	Growth
7 Years to retirement	25% Balanced/75% Growth
6 Years to retirement	66% Balanced/35% Growth
6 years to retirement	Balanced
4 Years to retirement	55% Cautious/45% Balanced
3 Years to retirement	Cautious
2 Years to retirement	Defensive
0 Years to retirement	Income strategy and/or cash accounts with Islamic Banks

**➤ Written by Adam Cadle**