

Wahed Shariah Transparency Process



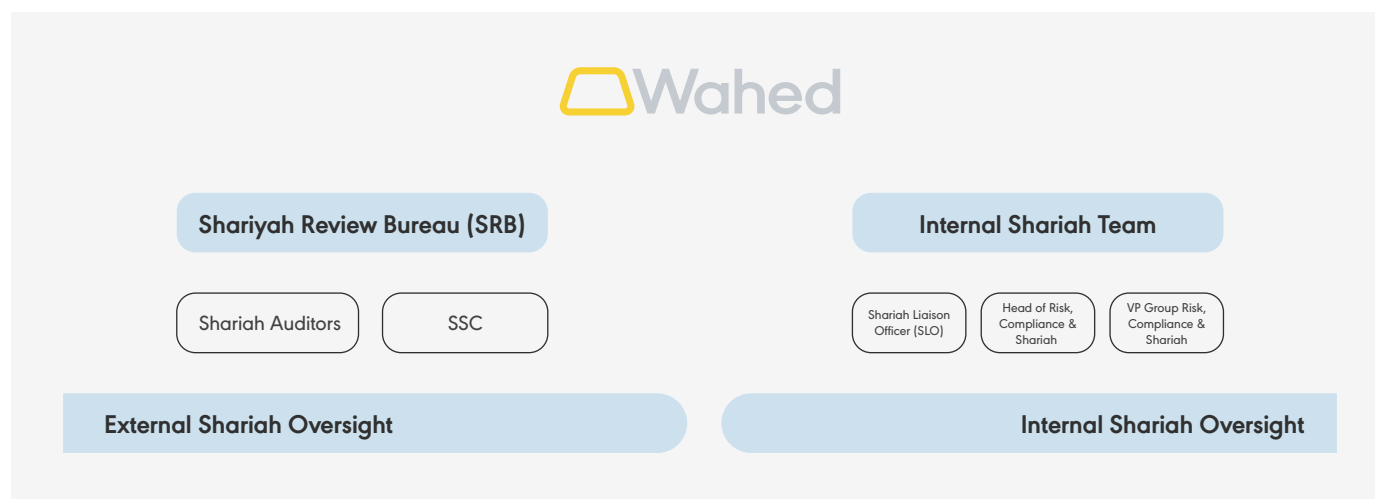
The Transparent Shariah Process

Wahed conducts its business activities in-line with Shariah principles, complying with the Shariah standards issued by the Accounting, Auditing and Governance Standards for Islamic Financial Institutions ("AAOIFI"), the leading standards setting body in Islamic finance, based on the guidelines and pronouncements issued by the independent Shariah Supervisory Committee ("SSC") in relation to its products, services and operations.

Adhering to the Shariah governance practices and guidelines facilitated by the Shariyah Review Bureau (SRB), Wahed has established a robust Shariah Governance Framework (SGF) which is designed to combat and mitigate any threat to Shariah non-compliance.

The SGF involves various stakeholders and multiple review processes which helps in making this process robust and ever evolving.

A. The Key Stakeholders:



i. Shariyah Review Bureau (SRB)

Wahed has engaged with SRB, a Middle East-based Shariah advisory firm, which aids Wahed in adhering to best practices and guidelines on Shariah governance. In this capacity, SRB facilitates Shariah-related discussions, product research, and Shariah reporting, collaborating with relevant stakeholders to reinforce Shariah principles across the organisation. SRB provides and ensures the independence and autonomy of the SSC members, fostering effective decision-making and Shariah assurance practices.

SRB is licensed and regulated by the Central Bank of Bahrain, boasting an international scholarly platform of over 37+ scholars across four major schools of jurisprudence and spreading across 16 countries including Saudi Arabia, Bahrain, UAE, Malaysia, Pakistan, UK, Germany and Russia. With nearly two decades of experience, SRB is committed to empowering Shariah compliance for businesses globally.

Specific responsibilities managed by SRB include:

- Establishing a robust Shariah governance mechanism, managing the SSC, and ensuring accreditation of products and services in line with SSC rulings.
- Assisting in establishing an independent SSC function.
- Coordinating with various departments on Shariah issues, providing support during audits and assessments.
- Contributing to product development and enhancement, gathering stakeholder feedback.
- Supervising Shariah audits to verify compliance with standards.
- Disclosing relevant information to management regarding the Shariah governance framework, Committee rulings, and product risks.

ii. Wahed's Internal Shariah team:

Wahed's Internal Shariah team (IST) acts as a vital intermediary between Wahed's management and the SRB, ensuring seamless coordination and adherence to Shariah principles across all operations. The IST handles internal Shariah compliance, manages Shariah-related client queries and supports the development of Shariah guidelines and quality assurance programs. By promoting awareness and implementing effective control measures, the IST plays a crucial role in mitigating Shariah risks and supporting the company's growth and expansion.

The members of the internal Shariah team include:

Umer Suleman - Chief Risk Officer



Umer Suleman, as the Chief Risk Officer, plays a pivotal role within the IST as the Global Head of Shariah. He drives key initiatives and innovations, setting industry benchmarks for Shariah compliance. His leadership ensures that Wahed's operations align with Shariah principles, contributing significantly to the overall risk and Shariah framework. Umer also is an avid speaker at various Shariah forums.

Umer started his career as an auditor at EY before holding senior positions at HSBC and Daiwa Investment Management. At all the organisations he's worked at, Umer led the Muslim Networks.

Umer sits on the board of the UKIFC, is an advisor for the finance arm of the Islamic Council (Islamic Finance Advisory) and is Co-founder of the National Waqf. Umer has also been an advisor for a number of other Islamic Fintechs.

Umer plays a key role as part of Wahed's Internal Shariah team by driving key initiatives and innovations which sets the benchmark for Shariah in the industry.

Umer was recognised for his work in 2016 as "one to watch" in the city of London by Brummel magazine for not only his work in Islamic Finance but also his role as a member of the Steerco for the Cube Network, an umbrella organisation for professional corporate Muslim Networks.

Umer read Economics and Management at the Royal Holloway University of London, and has subsequent post-graduate qualifications from Manchester Business School and Harvard University.

Mushir Killedar - VP Group Risk, Shariah & Compliance



Mushir Killedar, the VP Group Risk, Shariah & Compliance, provides essential guidance to the Shariah Liaison Officer (SLO) and supports the integration of Shariah principles into Wahed's risk management and operational strategies. His expertise ensures that Shariah compliance is deeply embedded in the company's risk management and operational processes. He provides the guidance to SLO and helps integrate the same in the overall Risk & Shariah framework of Wahed.

Mushir started his career with Bombay Stock Exchange and post that moved to consulting firm ANB which specialised in financial service industries risk and compliance vertical.

Mushir is a veteran in the financial service and risk domain and in his 15+ year career has served large financial service players on risk and compliance side like Nomura, JP Morgan, Morgan Stanley, Barclays Securities and many more.

He is currently Country Director for Wahed's India office and also holds a key role in the group as VP – Risk, Shariah & Compliance, thereby ensuring that key elements of business, technology, compliance and Shariah risks all come under him.

Mushir has a post-graduation in Finance and Commerce from Mumbai University and has also studied Securities Law and is a student of Shariah.

Sheikh Zainul Mishkath Murshid - Shariah Liaison Officer

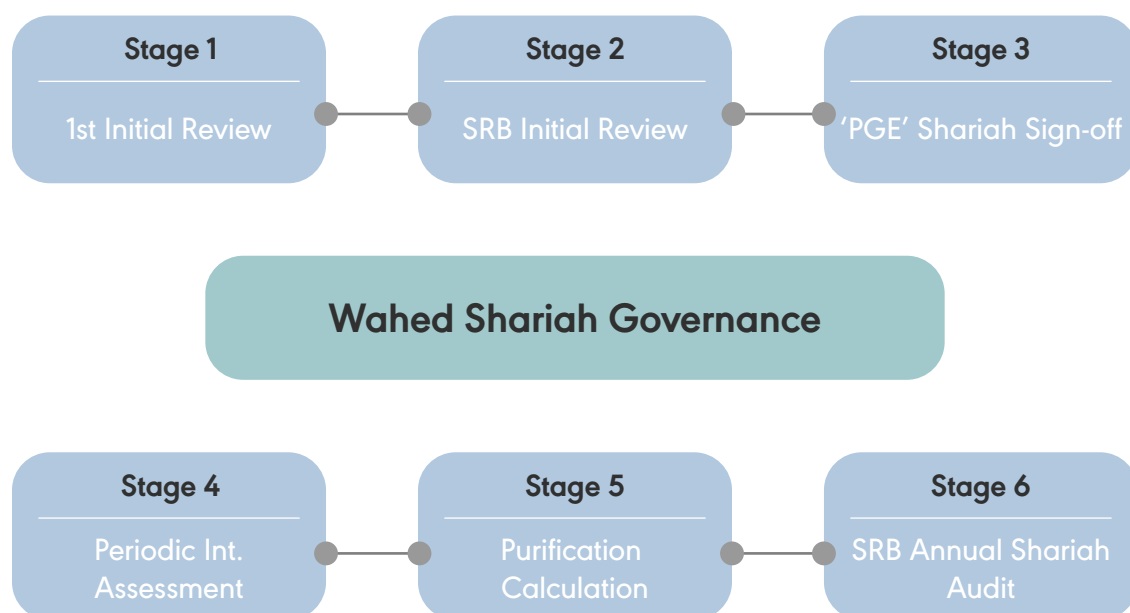


The Shariah Liaison Officer (SLO) serves as the main point of contact between the SRB and the IST, facilitating seamless communication and collaboration, ensuring that all Shariah governance related matters are addressed promptly and effectively. The SLO contributes to developing guidelines and quality assurance programs to ensure adherence to Shariah requirements. Additionally, the SLO assesses Shariah risks, promotes awareness through internal staff training and public awareness campaigns, and establishes effective control measures to support the company's growth and expansion. The SLO also manages Shariah-related client queries, ensuring a uniform and seamless Shariah-related customer support process.

With a strong foundation in traditional Islamic scholarship and certification as an AAOIFI Certified Shariah Auditor and Advisor (CSAA), Sheikh Zainul is adept at navigating the intricacies of Shariah compliance in the Islamic finance industry. He holds a Global MBA degree from Solent University, Southampton, which complements his academic background with practical insights.

Sheikh Zainul has nearly a decade of experience in various facets of Shariah compliance. He is dedicated to ensuring adherence to Shariah principles within the company and providing valuable guidance on Shariah-related matters. His proficiency spans Shariah Advisory, Auditing, Research, and Innovation, reflecting his commitment to continuous growth and excellence in his field.

B. Shariah Governance Oversight



1. Background:

There are several considerations our investment team has to take into account when constructing Shariah-compliant portfolios. Firstly, we have to ensure that any securities or financial instruments are permissible; for example, we cannot use any derivatives or options contracts in any of our portfolios. When we narrow down the permissible securities, we arrive at equities ("stocks"), Sukuks, and physical assets such as commodities or real estate.

Secondly, we must ensure that the vehicles through which we access these potential investments are Shariah-compliant. We can buy stocks individually outright or instead invest in a mutual fund or exchange-traded fund ("ETF") that hold equities collectively. As an overlay, any financial instruments or vehicles we opt to use in portfolios must be approved by our shariah board prior to their inclusion in our portfolios. These Shariah investment policies are foundational guidelines with respect to portfolio composition and have been in effect since our first client.

As an additional measure of compliance, virtually all of the securities in our portfolios are already Shariah-compliant or taken from Shariah-compliant indices. For example, the Wahed FTSE Shariah USA ETF is a passive ETF that replicates the FTSE USA Shariah Index, an index that is already certified as Shariah-compliant by FTSE Russell's Shariah advisors. Other funds we incorporate into portfolios, such as iShares World Islamic ETF or the HSBC Global Islamic Fund, for example, are certified Shariah-compliant by the related fund managers' Shariah advisor and then submitted again to Wahed's Shariah board for approval for use in our client's portfolios.

Suffice to say that ensuring the permissibility of both the types of securities we include in portfolios, as well as the actual funds, is the key consideration for Wahed globally. In fact,

It is our mission to provide our clients with peace of mind in knowing we are thorough and diligent in this regard to the point of redundancy.

All funds used in Wahed's portfolios, either proprietary or third-party, are Shariah-compliant in structure and underlying holdings. Below, we have shared the certificates for Wahed's proprietary funds, detailing their Shariah-compliance:

HLAL
UMMA

Other key considerations for Shariah compliant portfolio offerings:

No lending securities

As mentioned previously, the use of any security or fund in our portfolios. Many brokers, banks, and custodians have the ability to lend the securities in an investor's investment accounts for a fee or a client's cash deposits for interest income. We ensure that we never engage in securities lending or interest-based lending on client assets or deposits. Additionally, none of our partner brokers are permitted to lend our clients assets.

All securities are physical (no synthetic) and genuine ownership is established

Another conventional investment method is, rather than purchasing the underlying stock, Sukuks, or physical asset, to mimic exposure through the use of derivatives such as swap contracts. Wahed always buys the physical securities and does not deal in any derivatives or impermissible securities.

As a prudent measure Wahed follows a six stage process of Shariah Governance, which is as under:

Stage 1

Initial Review [Responsibility: Wahed Internal Shariah Team]

- The fund is reviewed for Shariah compliance by The Internal Shariah Team, by analysing the Shariah reputation of the fund and respective Shariah boards or committees associated with each investment.
- The Shariah boards or committees associated with each investment type are identified by The Internal Shariah Team.
- The members of these Shariah boards and any available public information/reference regarding their Shariah review and screening process, such as 'The Shariah Certification' and the latest 'Annual Shariah Audit Report' are gathered and recorded.

Stage 2

SSB review [Responsibility: SRB]

- The External Shariah Governance Facilitator, SRB is communicated by Wahed's SLO, forwarding the available Shariah related information on the fund, requesting their review and approval.
- The SRB verifies that the investment products adhere to Shariah principles following the duly initial Shariah Review.
- The SRB responds to the SLO of the status of the approval and/or provides any guidelines necessary.

Stage 3

Product Governance Evaluation [Responsibility: SLO]

- The obtained initial SRB Shariah approval details/references are recorded by the SLO, in the '(Internal) Archive of Shariah approvals etc.
- Basis of the obtained approval, the Shariah Related checkboxes of the 'Internal Product Governance Evaluation' of the relevant fund are signed off by the SLO.

Stage 4

Periodic Internal Assessment of the Funds [Responsibility: Internal Shariah Team]

- Formal Due Diligence Questionnaire (DDQ) responses are requested from sub-managers (Finance, Portfolio management and Legal) by the Internal Shariah Team on a quarterly basis, covering topics such as interest/impermissible income, portfolio Shariah status, violation of Shariah screens, agreements reviewed by SRB, and purification of income.
- Compliance oversight procedures of Shariah compliance operations includes spot testing and unannounced Shariah reviews of processes, analysis, documentation, and escalation of results by the Internal Shariah Team.

Stage 5

Purification Calculations Funds [Responsibility: Multiple stakeholders]

- Purification is conducted annually for each client, considering the equity dividend income received during the calendar year to estimate the portion derived from impermissible sources. The calculation considers dividend ratios specified by indices or advisors and aims to process the purification within a quarter after year-end, although delayed dividend details may affect the timing of calculation and reporting to clients.
- The calculation is processed within a quarter after year-end, considering the dividend details provided by funds. The purification report is generated for all clients with equity holdings during the calendar year.
- The purification calculation results are verified by the Group Risk Team/Shariah Liaison Officer and communicated to each user. Clients receive a standardized purification report template, approved by the SRB and local compliance, through the tool used for client communications.

Stage 6

Annual Shariah Audit [Responsibility: SRB]

- The external Annual Shariah audit, conducted by the SRB, ensures compliance with Shariah guidelines and rulings.
- The audit includes planning and executing audit procedures, assessing management's adherence to Shariah rulings, and documenting the findings in a final report.
- The objectives of Shariah auditing are to assess compliance with Shariah, AAOIFI, and relevant standards, following ethical codes and conducting audits with due care and professional competence. The annual report from the SRB confirms compliance, identifies violations, and may include donation of non-compliant earnings to charitable causes.

2. Doing Business the Shariah-compliant Way:

Shariah-compliance goes beyond the portfolios we construct for clients. We also ensure that Wahed Invest as a company operates in a Shariah-compliant manner.

The Capital Structure

While the common stock is often issued to founders and employees 'preferred stock is a different class of equity ownership with terms (features) that provide advantages to investors. These features are typically designed to help them in instances where the targeted company does not work out as planned. Those terms normally include a liquidation preference, anti-dilution restrictions, as well as dividends, and voting controls. For example, preference gives investors a choice at the time of an exit to either get their money back or convert it into the percent of common stock equity in the company that they own. Almost universally, investors typically buy the preferred stock when they invest in a company.

A little-known fact is that not all preferred stock provisions are Shariah-compliant. Wahed has navigated the startup world successfully raising capital funding, revising and removing these provisions, to make a Shariah-compliant ecosystem possible. This is not an easy task, to say the least, but is a part of Wahed's dedication to the highest standards of overall Shariah-compliance.

Operational functioning of organisation

In our organisational operations, we prioritize Shariah compliance across all documentation, both internal and client-facing. Led by the Shariah Liaison Officer (SLO), overseen by our Internal Shariah Team, we ensure that our documents uphold Shariah standards. Internal stakeholders are required to share various types of documents for review, including client-facing materials, internal policies, and agreements. This commitment extends to regular reviews and amendments, with consideration given to the guidance provided by the Sharia Supervisory Board (SSB). Additionally, our team offers guidance to stakeholders on reviewing contracts and agreements to ensure alignment with Shariah principles, underscoring our dedication to upholding Shariah compliance throughout our organisation.

To further strengthen our internal Shariah compliance efforts, all stakeholders receive periodic training on Shariah related policies. Additionally, relevant departments receive tailored training sessions to enhance their understanding of Shariah principles as they relate to their specific roles and responsibilities within the organisation.