



ETHICAL INVESTMENT POLICY STATEMENT

This document provides information on our investment screening criteria, Zakah and purification calculation guidelines. If there is anything you do not understand, please ask for more information.

Simply Ethical Financial Services Ltd
First Floor, 690 Great West Road
Osterley Village, Isleworth
Middlesex
TW7 4PU

Telephone: 0208 945 3786

Email: info@simplyethical.com

Website: www.simplyethical.com

*Simply Ethical Financial Services Ltd is
authorised and regulated by the Financial Conduct Authority*

CONTENTS

SECTION 1: OBJECTIVES AND PURPOSE	
1.1 Our Ethical Investment Values	3
1.2 Purpose of Ethical Investment Policy Statement	3
SECTION 2: SCREENING CRITERIA FOR DIRECT EQUITIES	
2.1 Overview	4
2.2 Business Screening	4
2.3 Financial Screening	7
SECTION 3: SCREENING CRITERIA FOR DIRECT INVESTMENT IN SUKUKS	
3.1 Overview	8
3.2 Criteria for Selection	8
SECTION 4: SCREENING CRITERIA FOR FUNDS & ETFS	
4.1 Overview	9
4.2 Certified Sharia Compliant Investments	9
4.3 Uncertified Sharia Compliant Investments	9
SECTION 5: ZAKAH AND PURIFICATION GUIDELINES	
5.1 Overview	10
5.2 Zakah Calculation	10
5.3 Purification Calculation	11
SECTION 6: TRADING AND CLIENT CASH	
6.1 Trading	14
6.2 Uninvested Client Cash	14

SECTION 1: OBJECTIVES AND PURPOSE

1.1 Our Ethical Investment Values

Our ethical investment values stem from Simply Ethical's strategic vision that is to become a leading provider of investment solutions that are interest free, share risk and reward, and follow ESG standards in line with the Islamic principles.

STRATEGIC VISION

Become a
leading
provider of
investment
solutions
that are

1. Interest free

** Actively work towards offering investments that are interest free and debt free.*

** Encourage all stakeholders to move away from debt as a normality.*

2. Share Risk & Reward

** Focus on equity based investments and income-based investments where risks and rewards are shared in line with the Islamic principles.*

** Encourage those seeking finance to share the risks and rewards in line with the Islamic principles i.e. encourage equity based financing as opposed to debt based financing.*

3. Follow ESG standards

** Deliver ESG in line with the Islamic principles. We have a moral obligation to help the society at large and care for our environment.*

** Help relevant clients meet their charitable obligations (Zakah) on investments held with us.*

** Actively seek to engage with all the stakeholders on ESG standards.*

We want our clients to achieve financial success through positive values and good ethics. Our investment screening is designed to help keep our clients' money away from business sectors and activities that have an adverse impact on our society. By doing this, we encourage growth in more sustainable ways of doing business that have a positive impact on our society. We believe such investments will not only appeal to the socially responsible investors but also to people of various faiths. Adherence to these principles means that the investments offered are compatible with the teachings of the Islamic faith, therefore are Sharia compliant.

1.2 Purpose of Ethical Investment Policy Statement

The Ethical Investment Policy Statement (EIPS) sets forth the Sharia criteria for investment screening, Zakah calculation guidelines, purification calculation guidelines and other relevant areas in ensuring that clients' money is managed in compliance with the Sharia.

This document shall apply to the Investment Committee as well as all those relevant, including investment managers appointed to assist with the management of the investment portfolios. Specifically, this Ethical Investment Policy Statement seeks to:

- Defines the investment screening criteria for investments, including direct equities (shares), investing directly in sukuks and collective investments i.e. funds and ETFs.
- Outline guidelines on Zakah (charitable obligation for Muslims) calculation and purification calculation.
- Outline trading and cash management requirements.

SECTION 2: SCREENING CRITERIA FOR DIRECT EQUITIES

2.1 Overview

Our screening of companies involves reviewing both qualitative and quantitative aspects of a company to determine whether it meets our set Ethical and Sharia criteria. It is only after our screening test is passed, that we make the investment available for selection in our investment portfolios.

Our screening criteria are divided into two steps as follows:

1. Business screening
2. Financial screening

Both the business screening and financial screening criteria must be satisfied to be deemed Ethical and Sharia compliant investment. Failure to meet any single criteria would render the investment non-compliant.

2.2 Business Screening

We exclude investment in a number of industries, sectors and activities deemed unethical and non-Sharia compliant. They are as follows:

- × **Alcohol** - exclude companies involved in alcohol production, bottling, distribution, promotion, sales or retailing and companies deriving revenue from alcohol industry. This exclusion covers brewery, wineries, pubs, bars, clubs, restaurants, sports clubs, entertainment venues serving alcohol, supermarkets and departments stores selling alcohol in its food courts/stalls, companies producing specialised equipment to produce alcohol, capital goods manufacturers making brewing machines, bottle manufacturing companies making specifically designed bottles used for alcohol, sugar manufacturers dedicated to producing alcohol as by-product, specialised crop producers growing and selling crops exclusively for alcohol production, property companies leasing or renting to restaurants, pubs, supermarkets and those businesses actively involved in alcohol industry.
- × **Adult entertainment and pornography** – exclude any activity associated with adult entertainment including escort services, brothels and movies with explicit sexual content. Exclude companies involved in the production of adult entertainment and/or owns/operates adult entertainment establishments, including adult entertainment movies and television programs, magazines, and adult websites. Providers of adult entertainment services, its distributors, its promoter, its supporters, its publishers (TV channels, magazines and newspapers that publish sexual content), media and marketing firms, production houses, cable TV operators, bookstores and gaming companies are excluded.
- × **Armaments: controversial weapons** - controversial weapons consist of anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium ammunition, nuclear weapons, and white phosphorus weapons. Exclude companies involved in manufacturing, distributing, promoting and selling core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.

- × **Armaments: military contracting** - military contracting includes companies involved in contracts related to military weapons, weapon systems, secondary components of weapons, or weapon related services. Exclude companies manufacturing, distributing, promoting and selling military weapon systems and/or integral, tailor-made components of these weapons and companies providing tailor-made products and/or services that support military weapons.
- × **Armaments: small arms** – exclude companies manufacturing and selling small arms to civilian customers. Manufacturers and sellers of key components of small arms and companies involved retail and/or distribution of small arms and/or key components are also excluded.
- × **Banks and financial institutions** - exclude banks and other financial institutions involved in interest bearing borrowing or lending. The exclusion covers commercial banks, investment banks, mortgage providers, mortgage lenders, mortgage advisers/brokers, mortgage comparison websites, insurance companies, insurance advisers/brokers, insurance agencies, underwriters, pawnshops/agencies, loan companies, loan service providers, financial brokerage agencies, stockbrokers, stock exchanges, investment providers, investment management firms, financial advice firms, financial services comparison sites and other interest-based financial services.
- × **Entertainment and media** - most of the entertainment industry has negative impact on society and promotes many negative things such as violence, drugs, nudity and other negatives. Therefore, we exclude investments or companies involved (offering, production, distribution, promotion or sale) in adult entertainment, cinema, broadcasting, gambling, music, video games and art. Broadcasting news and publishing organisations mainly engaged in deliberate misinformation, inciting religious or race hatred, creating division between societies and preventing social cohesion would also be excluded.
- × **Fossil fuel: oil and gas** – exclude companies involved in extracting or generating revenue from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. All types of conventional oil and gas production including Arctic onshore/offshore, deep water, shallow water and other onshore/offshore are also excluded.
- × **Fossil fuel: thermal coal** – exclude companies that are involved in exploring, mining or extracting, producing thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. Companies generating electricity from thermal coal, including utilities that own or operate coal-fired power plants are also excluded.
- × **Gambling** - exclude companies that are involved in gambling, including its provision, servicing, supporting, promotion and marketing. Exclude companies that own and/or operate a gambling establishment, such as a casino, bingo hall, racetrack or racing venues, betting shops, amusement arcades, online betting or internet sites and lottery providers. Companies that manufacture specialised equipment used exclusively for gambling, including slot machines, roulette wheels, and lottery terminals are excluded. Companies providing supporting products/services to gambling operations, such as gambling technology, gambling software developers or credit lines to gambling companies are also excluded.

- × **Gaming or video games** – exclude gaming companies involved in designing and producing gaming formats wherein the characters may use abusive language or may have sexual themes. Video game providers and creators are excluded as games may adversely impact children behaviour and excessive gaming may also affect health, along with wasting time that can be used in productive uses like education, personal fitness or community initiatives amongst other positive things.
- × **Hotels and resorts** – exclude hotels and resorts where alcohol and non-halal foods are served. Companies offering entertainment services that are non-Islamic shall also be excluded.
- × **Known companies supporting oppressive regimes, corruption and terrorism** - Investments or companies directly involved in or supporting and promoting oppressive regimes, corruption and terrorism will be excluded. Moreover, companies operating in oppressive regimes are reviewed on a case-by-case basis.
- × **Marketing, branding, PR and communication agencies** *(unless source of revenue can be consistently quantified and mainly generated from Sharia compliant activities)*. Marketing agencies and advertisers of alcohol, conventional financial services, gambling, pork, tobacco and all other non-Islamic activities are excluded. Marketing companies and other entities involved in unethical and inappropriate marketing methods, for example, using nudity to promote goods or services, using inappropriate language and misrepresenting facts of goods or services are excluded.
- × **Nuclear** – exclude companies that produce nuclear power, including utilities that own or operate nuclear power generators and companies mainly providing products/services that support the nuclear power industry, such as designing and constructing nuclear power plants, manufacturing specialised parts for use in nuclear power plants, or companies involved in uranium mining exploration. Companies distributing electricity generated from nuclear power are also excluded.
- × **Pork and non-halal food** – exclude producers, distributors, promoters or sellers of prohibited foods according to Islam and non-compliant food production covering everything that is not prepared in a halal way and covers, among others, meat which is not slaughtered in an acceptable fashion.
- × **Tobacco** - exclude companies involved in tobacco production, distribution, promotion, sales or retailing. This exclusion covers companies manufacturing tobacco products, including cigarettes, cigars, tobacco for pipes and snuff, and smokeless tobacco products. Companies supplying tobacco-related products/services, such as pipes or rolling papers and companies deriving its revenues from the distribution and/or retail sales of tobacco products/services are excluded.

2.3 Financial Screening

After conducting business screening that excludes a number of industries, sectors and activities as stated above, we apply financial screening on companies that have passed the business screening criteria. A company must meet all of the following criteria to be deemed compliant:

Financial ratios	Initial screening criteria	Maximum tolerance level after initial screening
Debt to total assets Short term & long-term debt to total asset ratio	≤5%	≤10%
Cash to market capitalisation Cash, deposits, interest-bearing securities to total market capitalisation ratio	≤30%	≤33%
Non-compliant income Cumulative income from non-compliant activities and interest income as percent of total income (defined as total revenue or sales)	≤5%	Dealt on a case-by-case basis.
Net borrowing to total assets <i>Net borrowing (total borrowing minus cash & equivalents) as percent of total assets. Total borrowing includes both short-term (<12 months) and long-term (>1 year) borrowing.</i>	≤0%	≤5%

Whilst calculating the above percentages or ratios, the following must be followed:

- For the determination of the above percentages, the most recent verified annual financial position should be considered.
- All investments will be monitored for non-compliance on an ongoing basis by the investment team.
- For a new company to be deemed compliant, the initial screening criteria above must be met prior to investment. Thereafter, once money has been invested in such company(s) and it later breaches the initial screening criteria, then the maximum tolerance level stated above shall apply. Nevertheless, the investment team shall endeavour to seek an alternative investment option as soon as possible and aim to hold investments based on initial screening criteria at most times.
- In the event that the above financial criteria are breached, the investment team will endeavour to liquidate or terminate (i.e., sell) such investment(s) as soon as possible, subject to client interests, personal situation and regulations.

SECTION 3: SCREENING CRITERIA FOR DIRECT INVESTMENT IN SUKUKS

3.1 Overview

Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity.

Our screening of sukuk involves reviewing both financial screening and sukuk structure screening to determine whether it meets our set criteria for investment. It is only after our screening test is passed, that we make the investment available for selection in our investment portfolios.

Our screening criteria are divided into two steps as follows:

1. Business screening
2. Sukuk structure screening

Both the business screening and sukuk structure screening criteria must be satisfied prior to investment. Failure to meet any single criteria would render the investment non-compliant.

3.2 Criteria for Selection

In selecting sukuk, the business screen (see section 2.2) is initially applied to exclude sukuk that invest in a number of industries, sectors and activities deemed unethical and non-Sharia compliant.

Thereafter, we shall exclude the following:

- Sukuk structures based on commodity Murabaha or have an element of commodity Murabaha including hybrid sukuk.
- Sukuk issuance by banks and financial institutions.
- Sukuk structures that lack transparency in how investor funds are used.

In general, Simply Ethical will have preference for the following:

- Sukuk that are asset-backed.
- Sukuk where risk and return are linked to the performance of the asset(s) or project(s). Moreover, the risk and return are fairly shared between the issuer and the investors.
- Sukuk al Musharaka and Sukuk al Mudaraba

SECTION 4: SCREENING CRITERIA FOR FUNDS & ETFS

4.1 Overview

All funds and ETFs will be reviewed for Ethical and Sharia compliance. With such investment vehicles, individual investments in a fund need not necessarily be assessed in most cases, rather the focus is on assessing funds Sharia screening criteria, Ethical policy and ongoing monitoring system. For the purposes of assessment, we have categorised investments as follows:

- Certified Sharia compliant investments
- Uncertified Sharia compliant investments

4.2 Certified Sharia Compliant Investments

Certified Sharia compliant investments are defined as investments that have been certified and approved by a reputable Sharia Scholar(s). The following will be considered prior to inclusion of investment:

- Sharia certificate must be reviewed to ensure it is certified by a reputable scholar(s) with relevant experience.
- The Sharia policy and screening criteria applied will be reviewed. In general, as a minimum we would prefer investments that adhere to standards set by Accounting and Auditing Organization for Islamic financial Institutions (AAOIFI).
- Ongoing Sharia compliance and monitoring system must be reviewed.

The investment team shall conduct the necessary due diligence on such investments. Upon satisfying the above criteria, the investment team may consider the investment for inclusion in investment portfolios. The investment team must inform the Ethical Committee on any new investments reviewed. In reviewing any investment, where there are any doubts or its unclear whether the investment satisfies the criteria set within the policy, the investment team is required to consult the Ethical Committee or the appointed Sharia Scholar(s) and seek their approval prior to investment.

4.3 Uncertified Sharia Compliant Investments

There are a number of general investments that are by nature Sharia compliant but are not intentionally designed to be Sharia compliant, when in essence they qualify as Sharia compliant investments. For example, a property investment fund that invests in residential property (clearly a permissible activity), borrows no money for investing and pays investors a return reflective of rental yields and capital appreciation of properties. For such investments, we will use the screening criteria set above (section 2) to assess whether the investment falls within acceptable threshold limits and will continuously monitor for Ethical and Sharia compliance.

The investment team is responsible for conducting necessary due diligence on such investments. Thereafter, the findings should be presented to the Ethical Committee or the appointed Sharia Scholar(s) for their consideration. The Committee or the appointed Sharia Scholar(s) is required to approve such investments prior to investment.

SECTION 5: ZAKAH AND PURIFICATION GUIDELINES

5.1 Overview

Simply Ethical will calculate the Zakah percentages and the non-compliant income to be purified for all the relevant clients on an annual basis. Our methodology for Zakah calculation and purification calculation is explained below.

5.2 Zakat Calculation

Zakah is a financial obligation that every Muslim must pay on certain assets that are at or above a certain minimum amount (Nisab) and have completed a holding period of 12 lunar months (Hawl).

The following guidelines are followed when calculating Zakah:

- Simply Ethical calculates Zakah every year on all accounts including General Investment Account, ISA, Junior ISA, Pensions/SIPPs and Junior SIPPs held by clients.
- It is assumed that all clients have wealth above the Nisab (Zakatable wealth stratum) that they have owned for at least a year, be it with us or outside of Simply Ethical.
- We calculate Zakah on all accounts, regardless of the age or beneficiary of the account holder. We recognise there may be differences of opinion amongst Sharia Scholars on whether Zakah is payable by a child or not. The clients can seek guidance from a Sharia Scholar and act as they deem appropriate to fulfil this religious obligation.
- For the purpose of calculating Zakah, the value of investments held in client portfolio(s) as at 1st Ramadan is used to determine the Zakat amount. Zakah is calculated every lunar year (354 days).
- Investments in the client accounts are assumed to be held for the entire year, regardless of when the original investment was made, whether initial or ongoing regular amounts.
- The amount of Zakah payable depends on the investments held in clients' portfolio(s). The treatment of Zakah varies depending on the assets (cash, physical precious metals, equities or various sukuk types) held in a portfolio, and their respective proportions and investment values as at Zakah calculation date i.e., 1st Ramadan.
- As collective investments (funds and ETFs) consist of a large number of individual investments, therefore, it is not practical to calculate Zakah on each individual investment held within collective investments. Simply Ethical shall seek guidance from Sharia Scholar(s) to determine an appropriate Zakah rate for each collective investment.
- When calculating Zakah for investment funds and ETFs in particular, Simply Ethical is reliant on data shared by the investment providers in calculating Zakah. In the event that we are not able to collate specific investment data i.e., breakdown of underlying investments within funds as at 1st Ramadan, we will then use investment

information closer to that date. We shall take guidance from Sharia Scholar(s) in such cases.

- When calculating Zakah on direct equities, we are reliant on data provided by companies and our data providers. For the determining Zakah for each company, the most recent verified annual financial position shall be considered.
- Zakah on direct equities is calculated based on our application of the relevant AAOIFI Shari'ah Standards and after consultation with Sharia Scholar(s).
- In the event where we are not able to get clarity on a given investment, particularly due to limited data disclosures by investment providers, we shall seek guidance from Sharia Scholars(s) to determine the Zakah rate.
- The methodology for calculations is reviewed and approved by the appointed Sharia Scholar(s).
- Simply Ethical endeavours to share the Zakah calculations with the clients within the first 10 days for Ramadan.
- For Simplified Advice Online clients, we share a Zakah percentage for each investment portfolio managed by us. Thereafter, the clients are advised to apply that percentage to the value of their investment portfolio on 1st Ramadan or their Zakat date to determine their Zakah amount for a given year.
- For Personal Advice clients, we will share the exact Zakah amount for a given year.
- Simply Ethical does not pay Zakah on behalf of clients. The clients are responsible for the paying the correct amount to charitable organisation(s) of their choice.
- Zakah can be paid in kind from any money clients have in their current account or saving accounts. Zakah does not have to be paid from the exact account(s) on which Zakah is assessed.

5.3 Purification Calculation

Purification is the cleansing process which requires that any investment income that might have been generated from unlawful activities (see section 2.2) according to Sharia based investing principles be given to a charity. Sharia based investing allows some tolerance in non-compliant income. Based on AAOIFI Shari'ah standards, provided a company meets other Sharia standards (limitation on debt and cash) and has less than 5% of its income generated from prohibited activities, for example, interest received on company cash. The company may be deemed as Sharia compliant, provided that any income from non-compliant activities is given to a charity as a way of purification.

The following guidelines are followed when calculating purification amounts:

- Simply Ethical calculates purification amounts every year on all accounts including General Investment Account, ISA, Junior ISA, Pensions/SIPPs and Junior SIPPs held by clients.
- Purification amounts are usually accrued for the 12 months and cover the period from 2nd Ramadan to 1st Ramadan.

- For the purpose of calculating purification amount, the number of share or units in each investment held in client portfolio(s) as at 1st Ramadan is used to determine the purification amount.
- Investments in the client accounts are assumed to be held for the entire year, regardless of when the original investment was made, whether initial or ongoing regular amounts.
- For some collective investments (funds and ETFs), the purification amount is calculated and paid within the collective investment structure. In such cases, the clients do not need to pay anything to charity.
- Where collective investments (funds and ETFs) do not purify non-compliant income within the collective investment structure, the clients must pay the correct amount to charity. In such cases, Simply Ethical shall collate non-compliant income data from the investment provider(s) and accordingly calculate the purification amount to be shared with clients.
- For direct equities, Simply Ethical shall quantify the non-compliant income for any given company held in clients' portfolio(s). The clients shall be informed of the overall purification amount for the investment portfolio(s) managed by Simply Ethical.
- The amount of non-compliant income varies from company to company and portfolio to portfolio (depending on the composition of the portfolio).
- When calculating purification amounts, we are reliant on data provided by investment providers (funds and ETFs), companies (direct equities) and our data providers.
- Purification amounts are calculated based on our application of the relevant AAOIFI Shari'ah Standards and after consultation with Sharia Scholar(s).
- Purification amount for a company is arrived at by dividing the total prohibited income of the corporation whose shares are traded by the number of shares of the corporation, thus, the figure specific to each share is obtained. Thereafter, the result is multiplied by the number of shares owned by the investor i.e., client – and the result is what is to be eliminated (purified) as an obligation. The calculation is in accordance with AAOIFI Shari'ah Standard No. (21): Financial Paper (Shares and Bonds), 3/4/6/4.
- The non-compliant income earned/received by a company must be purified, whether or not the profits have been distributed and whether or not the corporation has declared a profit or suffered a loss. This is in accordance with [AAOIFI Shari'ah Standard No. (21): Financial Paper (Shares and Bonds), 3/4/6/2.
- The methodology for calculations is reviewed and approved by the appointed Sharia Scholar(s).
- Simply Ethical endeavours to share the purification calculations with the clients within the first 10 days for Ramadan.
- For Simplified Advice Online clients, we share purification amount per share for each relevant investment held in the investment portfolio managed by us. Thereafter, the clients are advised to apply the purification amount per share for any relevant

investment to the number of shares held by the client on 1st Ramadan to determine their purification amount for a given year.

- Simply Ethical provides only the calculation figures for purification. It is the responsibility of the clients to pay the correct amount to charitable organisation(s) of their choice.
- When paying the purification amount to a charity, clients should inform the charity that such amount may compose of interest income.
- Purification can be paid out from any money clients possess. Purification is not required to be paid from the exact account(s) on which the purification calculation is assessed.

SECTION 6: TRADING AND CLIENT CASH

6.1 Trading

The following guidelines are followed when trading investments:

- The client account must have sufficient cash available prior to investment(s) purchase.
- Once an investment(s) has been purchased, the investment team shall wait for settlement of trade prior to selling the investment.

Simply Ethical is prohibited from:

- Purchasing securities on margin or executing short sales.
- Purchasing or selling derivative securities for speculation or leverage.
- Purchasing and selling speculative instruments such as CFDs, spread betting and similar instruments.

6.2 Uninvested Client Cash

Simply Ethical does not hold client money. We hold client money and investments using carefully selected, regulated financial institutions and we ensure that they meet the relevant criteria to keep client money safe at all times.

Simply Ethical shall follow these steps for uninvested cash in client portfolios:

- In the first instance, Simply Ethical shall endeavour to ensure that any uninvested client cash is held in a Sharia compliant bank account by the appointed investment platform provider on behalf of clients.
- Where client money cannot be held in a Sharia compliant bank account by the appointed investment platform, then a non-interest bearing account may be used by the appointed investment platform provider on behalf of clients.
- Where we cannot achieve the above two options, Simply Ethical shall seek to waive the right to receive any interest on client cash.
- In the event that none of the above options can be achieved and the client account(s) receive interest, we shall then inform clients annually on the amount to be purified.

In general, Simply Ethical shall seek to minimise cash held so as to avoid interest income.