

pi SHARIAH-COMPLIANT INVESTING

roundtable



BlackRock

MSCI 

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ATTENDEES

(from left to right)

Martyn James, Investment Director, NOW: Pensions

Lydia Fearn, Partner, DC Team, Lane Clark & Peacock

Michael Allen, Investment Director, SEI Master Trust

Daniel Colbourne, Director, Product Strategist, BlackRock

Alan Pickering, President, BESTrustees

Saurabh Katiyar, Head of Equity Solutions Research, EMEA, MSCI Inc



ATTENDEES

(from left to right)

Tom Burnham, Director, Institutional Client Business, BlackRock

Callum Stewart, Head of Investment Strategy and Proposition, Standard Life

Mark Guirey, Head of UK and Ireland Asset Owner and Consultant Coverage, MSCI inc

Joanna Sharples, CIO, DC Solutions, An

Georgia Smith, Senior Investment Manager, Fund Proposition, Nest

Ben Lewis, Head of Investment Proposition, Mercer DC Solutions

Shakeel Adli, Advisory Board Member, UK Islamic Finance Council

Chair: **Andrew Holt**, Editor, *portfolio institutional* (not in the picture)

SHARIAH-COMPLIANT INVESTING: EVOLVING BENCHMARKS AND MARKET DEMAND

Shariah-compliant investing is growing, with challenges and opportunities aplenty on the road ahead, finds *Andrew Holt* at a revealing roundtable discussion.

There can be no doubt that Shariah-compliant investing is a growing area. It is therefore a topic that is becoming more and more discussed within institutional investment, especially within the defined contribution (DC) landscape. But where is the market at present? And what are the trends we are seeing within this sphere?

To address this question, Tom Burnham, director of institutional client business at BlackRock set the scene for the roundtable. “In the UK, DC Shariah-compliant investing is something that has really accelerated over the last couple of years. It is DC schemes that are looking to add sophistication, and beyond what were previously self-select options only,” he said.

Exploring this further, he noted that Shariah-compliant investing is dominated by active funds and distributed internationally. “You have a small cohort of index and ETFs which are accessible from a UK perspective. So when we looked at this [market] 18 months ago, where the market was, felt like it was relatively underserved. There wasn’t much choice,” Burnham noted.

This also resulted in stark numbers and an evident challenge: with over one million Muslim employees in the UK

having no workplace pension. “That is a missed opportunity from a financial security perspective,” Burnham said.

Daniel Colbourne, product strategist director at BlackRock, also noted that as a result of this the market is immature. “The market has a limited number of options. But there has been a lot of work in product development,” he said.

Diversifying exposures

On product development within UK DC, Colborne noted BlackRock has been working on two areas: the product themselves and how they operate, and on the index construction side, where there are a “variety of offerings to diversify the exposures.”

Similarly, Shakeel Adli, advisory board member at the UK Islamic Finance Council, also noted how equity is an increasingly popular asset class within Shariah-compliant investing. He also made an interesting point about the nature of Shariah-compliant investing. “There is a belief that it is always a binary choice when it comes to Shariah investing – permissible or not permissible – and actually for most Muslims it is not a binary choice,” he said. Adli’s point being that within the Muslim world there are differing views about

what constitutes Shariah, with strict and more relaxed interpretations.

Although he did add that barriers to Shariah investments often come from end users questioning whether the investment product is in fact Shariah compliant. As part of this, Adli noted that the UK Islamic Finance Council is pushing for the concept of “halal” to be enhanced with “Tayyib” meaning pure, wholesome and impactful including by focusing on active sustainable/ESG investing. More generally: “There needs to be an appreciation that Shariah compliant products can be utilised equally by Muslims and non-Muslims alike and overlaps exist with ethical finance,” he said.

Broad market

Moving to the assets owners, Martyn James, investment director at NOW: Pensions, highlighted how the master trust introduced a Shariah Equity Fund in October 2022. “This was based on a request from a very large new client which had a higher than average Muslim employee base, so we needed a Shariah-compliant option,” he said. “Up to that point the trustees didn’t really believe in offering investment choice, which has changed now,” he said.

NOW: Pensions now provides two Shariah-compliant investment options: a structured lifestyle Shariah Plan which moves members from Shariah equity to Sukuk as they get closer to retirement and a standalone Shariah Equity Fund. “Our default strategy benchmarks global equity against the MSCI. We have decided that is the preferred main index for



our default,” added James. “What we want to do is get Shariah-compliant investments to mirror our default approach to investing as much as possible, so for equity it is to get a broad market exposure.”

Offering his insight into how Mercer approached the challenges of Shariah investing, Ben Lewis, head of investment proposition at Mercer DC Solutions, said: “When we looked at Shariah options we got views from our experts working with clients in the Middle East, and we found the range of funds that were DC appropriate were pretty limited,” he said. “It does feel therefore like a market ripe for new entrants.”

But, for now, Lewis finds some aspect of Shariah investment a challenge. “Diversifiers are not readily available. It is a challenge providers will have to work thorough,” he noted. Joanna Sharples, CIO of DC Solutions at Aon noted how the group has had a Shariah Equity Fund since 2014, so early players in the market. She also made an interesting point about the fund: “We see a lot of members using it for other purposes than faith-based investing.”

On his approach, Michael Allen, investment director at SEI Master Trust, said: “We are early in our Shariah journey. We have a Shariah equity option that members are using more broadly.” He noted a wider tranche of products would be helpful within Shariah investing, as he would like to move into less risky assets. “Our membership is ageing, we don’t want them floating in equities,” Allen noted.





Lack of demand

Georgia Smith, senior investment manager of the fund proposition at Nest, highlighted that Nest has done a great deal of research on fund choice they offer ever since 2011. The demand for Shariah in those early days was “not there,” she said. The demand then came from employers who were mindful of meeting their automatic enrolment duties, she noted.

“We were quite nervous, because it was difficult to find a Shariah Equity Fund that was affordable and suitable. But we did, and have sought to diversify in line with Nest’s investment beliefs,” Smith said. The fund now has 35,000 members in it, and now includes an allocation to Sukuk, the Islamic equivalent of bonds.

On the point of a lack of products, a key point for Lydia Fearn, partner within the DC Team at Lane Clark & Peacock, she said: “It is important to broaden the range of opportunities.” Then she added: “How do you convince the end member? What is there to meet their needs? What do you give them as a reason to get into these funds?”

Also on the lack of products, Saurabh Katiyar, EMEA head of equity solutions research at MSCI, noted: “Products are now expanding into deeper segments.” And he added: that these are “using broader universes as building blocks to factor into wider strategies,” but admitted currently: “We do not, of course, have the choices other investors have.”

Adding to this, Mark Guirey, head of UK and Ireland asset owner and consultant coverage at MSCI, noted: “One of the things we, as an index provider, aim to do is provide optionality through index design and customisation. Customisation is something we do a lot of, working across the markets with asset owners, investors and asset managers. It is also

thinking about multi-asset classes, not just in equities. But thinking about fixed income, private markets and others and offering solutions in these. Although this needs to be driven by demand.”

Delivering bottom up

Burnham is convinced that the industry can deliver on the hopes and expectations in regards to Shariah-compliant investing. “The industry should be able to deliver bottom up Shariah compliant strategies that incorporate global markets. We are doing our best,” he said.

Expanding on this important point, Burnham also noted: “I don’t think the answer is static multi-asset funds. The answer is to offer a building block of ingredients to allow investors to construct their own proposition.”

Stewart said Standard Life thought about its Shariah Equity Fund from the bottom up. “The starting point was we wanted to build trust and provide good retirement outcomes to as many people as possible.” This, he said, has proved a success, given the number opting into the Shariah Equity Fund. Stewart also identified ways the industry can improve. “What we found missing as an industry is trust in the overall product. So we have appointed an independent scholar to assess and validate the overall product.”

Colborne also expanded on the specifics of the Shariah investment approach, which, he noted is based on two elements. First, a business activity screening element, whereby companies are removed based on Shariah-compliant investment principles, such as arms manufacturers and the like, and second, removing companies that derive revenue from interest or are highly leveraged. “How that screening is achieved can vary quite a lot, based on the method of screening:



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Ben Lewis, Mercer DC Solutions





whether it is revenue based, sector based or due to the overall data used,” said Colborne. “So looking at how an index is constructed is key, as it drives material differences.” Therefore this raises an issue of data quality when it comes to index construction. “Who’s providing that data?” Colborne asked. “Where is it coming from? And how up-to-date is that data?”

Cost issue

This then took the discussion on to cost. “One of the big issues is cost when going to the Shariah compliant investing solution,” said James. “So far it has cost much more for such a fund compared to a comparable broader fund in our default: we ideally would want members making Shariah investments to not pay significantly more. So why is that?”

Burnham said BlackRock has thought about the cost issue. “We have tried to do everything in our power to make this fit from a cost perspective. It just is more work than a normal index fund,” he confessed, so can incur more cost.

Fearn made the point that it could be the type of investment world where DC has been the norm that could be an issue. “We have been in a world where it has been passive-based investing,” she said, with the low costs associated with that. “With more diversification coming through quality and design are really important.” Sharples made a similar point. “Costs in investments have come down a lot, so we are starting from a very low base,” she said.

There is inevitably another side to this as well. “Not having great competition [within Shariah investing]: I don’t think that is a good reason for higher costs as our primary aim is to deliver value” said Stewart. “Our principle is to treat all people fairly, with costs passed on to individuals supporting better value or access.”

The big takeaway theme though was for Shariah compliant investing to grow. “We would love to evolve our Shariah strategy in similar ways to how we are evolving our default strategy,” said James. “This would be in private markets for example.” Although he added: “I am not sure how realistic that is.” He cited the lack of scale being one issue holding this back.

Burnham said BlackRock aims to play its part in this evolution. “I would love to launch 10 Shariah-compliant investment funds tomorrow. But it all depends on demand and what people want.”

Three takeaways from the roundtable

1. Demand is real, but delivery must be flexible and outcome-led

Shariah-compliant investing in UK DC is no longer niche, but the right solution is not static or one-size-fits-all. The focus should be on building-block approaches that allow schemes to construct propositions aligned to member needs, greater diversification and governance constraints.

2. Benchmarks must evolve through optionality and customisation

The evolution of Shariah-compliant investing hinges on index innovation, particularly customisation and optionality, rather than reliance on narrow, equity-only universes.

3. Trust, education and certification are critical to unlocking scale

Beyond product design and benchmarks, a key constraint on the growth of Shariah-compliant investing is trust and understanding among employers, trustees and members, around what constitutes Shariah compliance and how it is validated.

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