

Behind the Scenes:

A Closer Look at the Amana Participation Fund Investment Process (3rd Edition)



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In this report we address the following questions:

1. What is the Islamic compliance process around *sukuk*?
2. Why is there performance disparity between the Amana Participation Fund and the FTSE IdealRatings Sukuk Index?
3. What does it mean if an issuer is non-rated? How prevalent is this rating among *sukuk* issuers? What unique credit rating characteristics does the GCC region exhibit? How should investors interpret these nuances?
4. Can the Fund invest in *sukuk* that is not denominated in the US dollar? What is your philosophy on investing in these securities?
5. Why does the Fund have a large geographic exposure to Middle Eastern issuers? How large is the *sukuk* market?
6. What are the most common types of *sukuk*? Does the type of *sukuk* structure affect its credit rating?
7. In what ways are *sukuk* similar to municipal appropriation bonds?
8. What is your investment process?
9. What criteria would cause you to sell *sukuk*?
10. How does your team mitigate risk?
11. Defaults: What is the default history of US dollar *sukuk*? What factors aid in the low default characteristics? What are the legal or regulatory frameworks that influence the US dollar *sukuk* market?

Key Takeaways

- 1 The Amana Participation Fund is **designed first for capital preservation and current income**, using a conservative, research driven process that blends top down macro views with bottom up credit work and relative value analysis in a specialized *sukuk* universe.
- 2 **The Fund differs meaningfully from *sukuk* benchmarks and broad bond indices because of its shorter, tightly managed duration, stricter Islamic and regulatory constraints, and deliberate diversification choices**, which can lead to performance differences but aim to deliver stronger risk adjusted returns per unit of duration.
- 3 The US dollar *sukuk* market has historically low default rates and is anchored by well capitalized GCC and supranational issuers, yet it is complex and unevenly rated, making specialized expertise, disciplined risk management, and careful attention to structures, legal frameworks, and liquidity essential for navigating it effectively.

12. Geopolitical Implications on GCC financial markets. How does geopolitical instability and regional conflicts affect the stability of the GCC capital markets?
13. Comparative Landscape. What are the comparative characteristics and difference of the US dollar *sukuk* market when compared to broadly recognized conventional benchmarks?

1. What is the Islamic compliance process around *sukuk*?

The Amana Participation Fund's primary investment objectives are capital preservation and current income, consistent with Islamic principles. Issuers of Islamic investment certificates, or *sukuk*, publish a prospectus for each security. We examine each issuer's prospectus to ascertain the security's Islamic compliance. If the security is Islamic-compliant, we then examine the investment's merits for potential inclusion in the portfolio. If there is no affirming language regarding the security's Islamic compliance, we do not proceed.

Here are three examples of the language that issuers use to demonstrate their Islamic compliance.

Saudi Arabian Food Company—Almarai (2019): Almarai, a Saudi Arabian food company, issued *sukuk* in 2019. Their offering document states: *Each of the Shariah Supervisory Board of First Abu Dhabi Bank PJSC, the Executive Shariah Committee of HSBC Saudi Arabia, the Shariah Supervisory Committee of Standard Chartered Bank and the Global Shariah Supervisory Board of Gulf International Bank has confirmed that the Transaction Documents are, in their view, Shari'a compliant.*¹

Emirate of Dubai (September 2020): The emirate of Dubai issued a 10-year *sukuk* in September of 2020. Page 11 of their offering document states: *The Internal Shariah Supervision Committee of HSBC Bank Middle East Limited and the Sharia Advisory Board of Dubai Islamic Bank PJSC, Dar Al Sharia, have each confirmed that the Transaction Documents are, in their view, compliant with the principles of Sharia, as applicable to, and interpreted by, them.*²

Air Lease (March 2023): In March of 2023, Air Lease, a US-domiciled airplane leasing company, issued a \$600 million five-year *sukuk* with a profit rate (coupon) of 5.85%. Their offering document states: *The transaction structure relating to the Certificates have been approved by the Shari'a Supervisory Board of Arab Banking Corporation (B.S.C.), the Shari'a Supervisory Board of Citi Islamic Bank E.C., the Khalij Islamic, Sharia Advisor to Deutsche Bank AG, the Internal Sharia Supervisory Committee of Dubai Islamic Bank PJSC, the Internal Sharia Supervisory Board of KFH Capital Investment Company K.S.C.C.*³

Investment Evaluation Process

Once we have confirmed a *sukuk*'s Islamic compliance, we evaluate whether the security meets our investment objectives of capital preservation and current income. This evaluation incorporates a rigorous credit review process and analysis of the security's relative value and how it will complement the overall portfolio's construction.

Ongoing Monitoring

Amanie Advisers, a leading independent consultant specializing in Islamic finance, reviews the holdings of each Amana Fund, including the Participation Fund, on a quarterly basis to ascertain the Funds' adherence to Islamic principles. We publish their quarterly certifications on each fund's individual page and on our Halal Investing page.

2. Why is there performance disparity between the Amana Participation Fund and the FTSE IdealRatings Sukuk Index?

There are two primary reasons for the performance disparity between the Amana Participation Fund and its benchmark. The first is structural, and likely to have a long lasting influence. The second includes dynamic attributes and reflects temporary differences in the composition of the benchmark relative to the Fund.

The FTSE IdealRatings Sukuk Index and Bloomberg Global Aggregate US Dollar Sukuk Unhedged Index are both commonly used as benchmarks for *sukuk* portfolios. The Amana Participation Fund no longer uses the FTSE IdealRatings Sukuk Index to communicate relative performance in its marketing materials. Instead, a change implemented in 2025 introduced distinct primary and secondary benchmarks. These changes were made in response to regulatory requirements and to adopt a benchmark that more accurately reflect the Fund's constraints and characteristics.

The Amana Participation Fund's primary benchmark is now the Bloomberg Global Aggregate Bond Index (LEGATRUU Index) and its secondary benchmark is the Bloomberg Custom USD 0+ Sukuk Dual Capped Index (I39559US Index). A key difference between the new *sukuk* benchmark and the FTSE IdealRatings Sukuk Index is that the custom benchmark permits the inclusion of securities with maturities of less than one year and issuers that are not investment grade—features that were not available in the FTSE IdealRatings Sukuk Index.

Structural Attributes

Investment performance disparity can largely be attributed to the differing objectives of the Amana Participation Fund compared to the indices. The Fund's investment objectives are capital preservation and current income consistent with Islamic principles. The objective of the benchmarks is to measure the performance of the entire global US dollar denominated *sukuk* market.

Three structural attributes differentiate the Amana Participation Fund from the indices. First, the Fund is required to maintain a dollar weighted average maturity of two to five years to mitigate duration risk, which helps reduce portfolio

volatility. This allows the Fund to meet its primary objective of capital preservation. In comparison, the indices require their constituents to have maturities of one year at a minimum, and neither have limitations on maximum maturities.

Second, an index represents a hypothetical allocation, or a "paper trade," designed to simulate the underlying attributes of its holdings. Neither of the two benchmarks trade or own the underlying securities that constituent their respective portfolios, and therefore have no trading expenses. They also do not incur expenses related to communicating with shareowners (as they don't have any), expenses for distribution, or any other aspects of running a mutual fund. In contrast, the Amana Participation Fund must acquire securities for its portfolios, communicate with its shareholders, pay mutual fund platforms for distribution, and pay other administrative fees. Saturna Capital's investment team develops ongoing relationships with global and local broker-dealers. We prefer to work with local broker dealers—particularly local firms in markets such as Dubai—for liquidity, market intelligence, and execution quality.

Third, the Amana Participation Fund is limited by the US Securities Act of 1933 in purchasing newly issued securities that are "exempt from registration," commonly known as Regulation S (REG S) securities. The Fund must wait a minimum of 40 days before acquiring a REG S security in the secondary market. The benchmarks have no such limitation, as they assign hypothetical allocations but don't acquire any securities.

Dynamic Attributes

Dynamic attributes reflect shorter term differences over a given period, unlike structural attributes, which have longer term effects. Dynamic attributes include differences between the benchmarks and the Amana Participation Fund in areas such as geographic exposure, issuer type (such as sovereign or corporate), sector weightings, duration, and other factors.

Concentration is one dynamic attribute that distinguishes the indices from the Amana Participation Fund. At year end 2025, both the FTSE IdealRatings Sukuk Index and the Bloomberg Global Aggregate US Dollar Sukuk Unhedged

Index retained concentrated positions while the Fund maintained less concentration to promote diversification and help reduce risk. The Fund's exposure to the government of Saudi Arabia, including government sponsored entities which include Aramco, Public Investment Fund (PIF) and Saudi Electric, was 4.7%, compared with 38.8%, 34.7%, and 22.8% for the FTSE IdealRatings Sukuk Index, Bloomberg Global Aggregate US Dollar Sukuk Unhedged Index, and the Bloomberg Custom USD 0+ Sukuk Dual Capped Index, respectively. The Fund had a 2.2% exposure to Indonesian sovereign *sukuk*, versus 13.8% for the FTSE IdealRatings Sukuk Index and 13.5% for the Bloomberg Global Aggregate US Dollar Sukuk Unhedged Index, and 10.0% for the Bloomberg Custom USD 0+ Sukuk Dual Capped Index. We believe diversification is an important factor in serving our clients goals of achieving capital preservation and current

income consistent with Islamic principles.

Dynamic attributes can also help the Amana Participation Fund achieve its capital preservation objective by mitigating risk. At the onset of the pandemic, the portfolio team took proactive steps to increase the Fund's exposure to industries and sectors that were more likely to be insulated from the financial impact of COVID 19, including telecommunications firms, utility operators, and sovereign issuers. At the same time, the investment team eliminated exposures to sectors expected to experience heightened financial stress and volatility, such as air travel, real estate developers, the hospitality industry, and related tourism.

Geographic Concentration as of year-end 2025

Region	Amana Participation Fund	FTSE IdealRatings Sukuk Index	Bloomberg Global Aggregate US dollar Sukuk Unhedged Index	Bloomberg Custom USD 0+ Sukuk Dual Capped Unh USD
Saudi Arabia (Sovereign)	0.4%	19.7%	17.7%	10.0%
Saudi Arabian GSEs (Aramco, Public Investment Fund, and Saudi Electric Utility & Aramco)	4.2%	19.1%	17.1%	12.8%
Saudi Arabian (Comprehensive)	4.7%	38.8%	34.7%	22.8%
Indonesian Sovereign	2.2%	13.8%	13.5%	10.0%
Combined Concentration	6.9%	52.6%	48.2%	32.7%

3. What does it mean if an issuer is non-rated? How prevalent is this rating among sukuk issuers? What unique credit rating characteristics does the GCC region exhibit? How should investors interpret these nuances?

Typically, issuers hire the major credit rating agencies (CRAs), including Moody's Investors Service, S&P Global Ratings, and Fitch Ratings, to provide credit ratings for their securities. It is important to note that the application of credit ratings by the CRAs for GCC *sukuk* issuers is nuanced and requires an understanding that is often missed by most investors that do not specialize in this market. There are four notable differences that we will expand upon in greater detail in this

section: (1) how cultural nuances affect ratings, (2) CRA rating criteria, (3) CRA coverage, and (4) applications of structured finance. We emphasize that our examination of several credit rating differences is not exhaustive but rather aims to raise awareness.

We will begin by introducing the similarities. As with conventional fixed income issuers the CRAs apply similar credit rating criteria for GCC *sukuk*. Bonds and *sukuk* broadly fall into three credit rating categories: investment-grade (IG), high-yield (HY) and non-rated (NR).

Investment-grade issuers obtain a credit rating that falls within a range of AAA to BBB (AAA, AA+/-, A+/-, BBB+/-) where AAA represents the highest rating and BBB the lowest. The plus or minus denotes if the issuer is on the higher or lower range of its tranche. Securities that obtain investment-grade ratings typically demonstrate financial strength, sufficient free cash flow from operations to provide ongoing liquidity, and the capacity to meet their financial obligations to *sukuk* holders or bondholders. A higher investment grade doesn't necessarily mean that an issuer won't default, but it does mean that the credit rating agency believes default is less likely.

A high-yield issuer will obtain a credit rating that falls within a range of BB to D (BB+/-, B+/-, CCC+/-, CC+/-, C+/-, D) where BB is the highest rating and D is the lowest, meaning that the issuer is in default. These issuers tend to exhibit less robust financial strength, resilience, and cash flow generation when compared to investment-grade issuers.

If an issuer is non-rated, it simply means the issuer has not obtained a credit rating from a well-recognized agency. Typically, investors require non-rated issuers to offer debt or *sukuk* with a higher yield, or profit rate, to compensate for the perceived higher risk. Other factors that can affect an issuer's bond yields and the profit rate for *sukuk* include offering size, perceived liquidity, management's reputation, the issuer's industry and sector, existing debt or leverage, the issuer's history of operation, and the operating entity's capacity to generate cash flow. The list of factors is extensive and continuously evolving. Attention to an issuer's financial standing, along with its trajectory, is a vital part of our ongoing due diligence process.

Each issuer determines whether they obtain a credit rating. It is worth noting that sometimes cultural characteristics can influence whether an issuer wants to obtain a credit rating and can be common among emerging market issuers. For example, the Emirate of Dubai and many of its related government entities have opted to not obtain a credit rating even though it is likely they would be graded favorably.

A shared assumption among the investment community is that Dubai's reluctance to obtain a credit rating is to avoid comparison with neighboring Abu Dhabi, which as of writing retains a credit rating of AA. Dubai's implied credit rating in the eyes of the investment community is assumed to be somewhere in the 'A' or 'BBB+' range – a considerable step below that of Abu Dhabi. This implied difference is something that the government of Dubai may prefer to keep undefined rather than formalize. Note that this is not an official rationale but rather an assumption shared among the investment community.

If we compare the historical yield comparison of the Emirate of Dubai relative to some of its regional issuers, we gain valuable insight into how investors assess Dubai's implied credit status. To illustrate this, we have provided a comparison of the Emirate of Dubai's (DUGB) *sukuk* to several other sovereigns and a supranational bank, the Islamic Development Bank (IsDB) which retains a AAA credit rating. As observed, the Dubai's *sukuk* trades at a lower yield (profit rate) relative to those with substantially higher credit ratings such as Indonesia and Saudi Arabia. As of July 31, 2025, DUGB offers investors a yield of 4.15%, which is 9-basis-points (bps) and 17bps below the yields offered by Indonesia and Saudi Arabia at 4.24% and 4.32%, respectively. The Islamic Development Bank only trades slightly lower than the DUGB's non-rated *sukuk* by 22bps in yield.

Examining Yield Difference Among NR Sovereign Issuers

Issuers	Classification	Security	Maturity	Composite Credit Rating	YTW	Yield Difference
Kingdom of Saudi Arabia	Sovereign	KSA 4.303 01/19/29	1/19/29	Aa3 / A+	4.32	-0.17
Indonesia	Sovereign	INDOIS 4.45 02/20/29	2/20/29	Baa2 / BBB	4.24	-0.09
Emirate of Dubai	Sovereign	DUGB 4.8 05/21/29	5/21/29	NR	4.15	
Islamic Development Bank	Supranational	ISDB 4.246 06/25/30	6/25/30	Aaa/AAA	3.93	0.22

Source: Bloomberg July 31, 2025

The yield differential of the selected *sukuk* relative to Dubai is not static. The yield differential fluctuates due to a variety of factors that can be categorized into three groups: macro-drivers, issuer credit factors, and market technicals, which tend to reflect short to intermediate time horizons. Understanding these drivers, combined with our specialization and attentive focus on this market, is what we believe distinguishes us from our peers.

Credit Rating Limitations and Ceilings

DUGB's non-rated status introduces the second nuanced observation of the CRA behaviors that can influence an issuer's rating characterized as the rating ceiling. It's common practice among the CRAs to not permit entities such as banks, corporates, or other operating organizations to obtain a credit rating with a rating higher than the sovereign rating of their country of domicile. There are exceptions to issuers obtaining a credit rating higher than their sovereign. However, these exceptions usually reflect extraordinary factors.

As a result, Dubai's decision to not obtain a credit rating has unintended implications whereby its government-sponsored entities (GSEs) or government-linked entities (GLEs) have their credit rating influenced by this rating decision. Yet interestingly, it is common practice among Dubai-based corporations and banks to obtain an investment-grade credit rating. Usually, these CRAs identify that other factors can and do limit the given issuer's credit rating upside due to regional concentration and/or rating limitations, which implies rating ceiling.

Inconsistent Credit Rating Coverage

Our third observation is that credit coverage among the CRAs is inconsistent across the GCC region. This can lead to investors misunderstanding or incorrectly assuming the rating landscape is well distributed. However, this is not the case, as there are large coverage gaps and a tendency for those that are rated to obtain an upward rating bias.

In an internal study of the universe of outstanding US dollar *sukuk* for the period ending in the third quarter of 2025, we found that size of the market fell just under \$300 billion USD and comprised of over 525 separate issues. The *Credit Rating Status (As of 3Q 2025)* table provides readers an understanding of the distribution of rating coverage by the CRAs. This evaluation was based upon the market value of the US dollar *sukuk* market rather than on issuer count.

Credit Rating Status (As of 3Q 2025)

	Moody's	S&P	Fitch
Investment Grade (IG)	54.4%	27.0%	56.9%
Rated 'A' and higher	33.2%	9.7%	37.9%
High Yield (HY) and Non-Rated (NR)	12.7%	6.7%	15.6%
No credit rating was assessed by CRA	32.5%	66.3%	27.5%

Universe Rated by CRA

of Universe tracked, % IG	81.1%	80.2%	78.5%
of Universe tracked, % HY & NR	18.9%	19.8%	21.5%

Source: Bloomberg

The table provides the following takeaways: firstly, the CRAs coverage of US dollar *sukuk* market is inconsistent. While the majority of the CRA-covered universe of *sukuk* retains an investment grade (IG) status a significant portion of the market does not obtain a credit rating. Among the more notable observations is that nearly two-thirds of the *sukuk* market does not obtain a credit rating by credit rating agency S&P Ratings. The remaining CRAs, Moody's and Fitch, still retain large credit rating gaps the fall around the 30% mark.

Second, of the universe of *sukuk* outstanding that obtains rating coverage by the CRAs, there is a strong upward rating bias toward investment-grade ratings. This can be observed in the Universe Rated by CRA section, with all major CRAs' rated universes falling into the investment-grade category. For example, of the rated universe, 81% of Moody's ratings are in IG, S&P comes in at 80%, and Fitch at 79%. This makes sense, in part, because a large amount of outstanding issuance originates from sovereign and GSE or GLE entities. This is due in part to GCC sovereigns typically retaining low debt and deficit metrics that justify favorable investment-grade ratings.⁴ While many sovereigns retain credit ratings comparable to those typically found in the developed world, there is a heavy upward rating bias among CRAs, as most GSE or GLE entities are expected to obtain financial support or a "backstop" from their respective governments. This can create an illusion that many rated issues have strong standalone credit ratings when in fact they may not.

Saudi Arabia: A Case Study

Saudi Arabia retains a solid investment-grade credit rating of A+ from all major credit rating agencies, following an upgrade announced by S&P Ratings in March 2025.⁵ This upgrade, along with affirmations from all major CRAs of Saudi Arabia's A+ status, conveys confidence in the sovereign's credit quality and outlook. However, there are underlying risks that are not fully appreciated by most investors, which may challenge its credit strengths. Key risks include heavy reliance on volatile oil revenues, rising sovereign debt and *sukuk* issuance, pressure to support diversification efforts, limited transparency around contingent liabilities, and ambitious capital spending plans amid widening deficits.

Revenue Concentration Risk

GCC economies have diversified, but government revenues still depend heavily on hydrocarbons. For example, at year-end 2024, the government of Saudi Arabia reported that 61.6% of the Kingdom's revenues were sourced from the hydrocarbon sector, slightly below its three-year average (2022–2024) of 63.9%.⁶ Other countries are even more concentrated, with Qatar and Kuwait reporting 81.0%⁷ and 91.0%⁸ of government revenues from hydrocarbons for the 2024 fiscal period, respectively.

Issuance Scale and Pace

By the first half of 2025, Saudi Arabia accounted for nearly 19% of approximately \$250 billion in US dollar debt issuance in emerging markets excluding China and represented 52% of total debt activity across the GCC.⁹ While these figures are substantial, they are even more notable given that mid-year 2025 issuance volumes were nearly 20% lower than in the same period a year earlier.^{10,11}

It is not only the size but also the pace of issuance that is noteworthy. The *% of Outstanding Debt & Sukuk Issued over Trailing Periods* table shows 46.3% and 36.7% of Saudi's outstanding US dollar-denominated sovereign debt and *sukuk*, respectively, were issued over the trailing five-year and three-year periods.

Government-Related Entities and Implicit Support

Investors should also consider the role of Saudi's GSEs and government-linked enterprises. While not all of these entities have explicit guarantees on their outstanding securities, many credit rating agencies and investors assume that support from the government of Saudi Arabia is very strong.

For example, in Fitch Ratings' June 20, 2025, report on Saudi Electricity Company (SEC), the agency states that "SEC's ratings are equalized with Saudi Arabia's (A+/Stable), driven by 'Virtually Certain' support from the state, based on GRE criteria definitions," and further notes that decision-making and oversight, precedents of support, and preservation of government policy role are assessed as "Very Strong," with contagion risk rated "Strong." This support assessment results in a support score of 50 out of a maximum of 60 and leads to SEC's ratings being equalized with Saudi Arabia's sovereign rating. Fitch identifies SEC's standalone credit profile at BBB, but with anticipated sovereign backing, the utility is assigned an A+ rating in line with the Kingdom.¹²

In the same report, Fitch highlights the systemic implications of any potential stress at SEC: "A SEC default could affect the cost of funding for the sovereign or other domestic GREs, given its large size and activity on capital markets. SEC's outstanding debt at the end of the first quarter of 2025 was around \$43 billion USD, including *sukuk* and international syndicated loan."¹³

Saudi Arabia: Issuance of U.S. dollar denominated debt and sukuk (\$ millions)

Year	Corporate	Gov't Agency	Sovereigns
2010	1,700	1,000	-
2011	-	-	-
2012	750	1,750	-
2013	750	3,000	-
2014	400	2,500	-
2015	-	-	-
2016	50	-	17,500
2017	1,314	-	21,500
2018	635	4,000	13,000
2019	2,600	13,575	10,000
2020	3,150	10,300	12,000
2021	2,880	6,000	8,250
2022	7,064	3,000	5,000
2023	19,369	3,261	16,000
2024	27,043	22,700	17,000
2025	57,124	24,000	17,500
Total	124,828	95,086	137,750

% of Outstanding Debt & Sukuk Issued over Trailing Periods

Trailing 5-yrs.	90.9%	62.0%	46.3%
Trailing 3-yrs.	82.9%	52.5%	36.7%

Many of Saudi Arabia's largest GLEs are majority state-owned and central to Vision 2030's push to reduce reliance on hydrocarbons. As a result, these GLEs have expanded operations, partly funded by issuing debt and *sukuk*, driving the sharp rise in issuance in recent years.

The % of *Outstanding Debt & Sukuk Issued over Trailing Periods* table shows 62.0% and 52.5% of the Kingdom's outstanding US dollar-denominated sovereign debt and *sukuk*, respectively, were issued just over the trailing five-year and three-year periods making it difficult to gauge the extent of the government's contingent liabilities.

Banking Sector Support Assumptions

Saudi Arabia is also seen as strongly backing its banking sector, including smaller banks, which further increases the sovereign's potential contingent liabilities.

For example, Alinma Bank is a smaller bank in the Kingdom with modest market share estimated at approximately 7.7% of deposits and 6.5% of assets at year-end 2024.¹⁴ The bank retains a strong investment-grade rating of A+ from Fitch, in part because of its likelihood of obtaining backing if it were to face challenges. According to Fitch's April 24, 2025 report, "the Saudi authorities have a strong ability and willingness to support domestic banks irrespective of size, franchise, funding structure and level of government ownership. High contagion risk among domestic banks is an added incentive for the state to provide support to any Saudi bank if needed, to maintain market confidence and stability."¹⁵

This view of strong government support extends to the banking sector broadly. As of March 31, 2025, the Saudi Central Bank (SAMA) reported that total bank deposits reached SAR 2,875.7 billion (approximately \$766 billion US dollar).¹⁶ Estimating the Kingdom's true stock of contingent and explicit obligations is therefore complex and not straightforward.

Risks from Spending and Contingent Liabilities

Strong issuance typically warrants caution, but the Kingdom's relatively low debt and deficit levels still provide a buffer against external shocks. However, the Kingdom has ambitious spending plans under Vision 2030. As of the third quarter of 2025, the GCC's pipeline of pre-execution construction projects totaled approximately \$1.78 trillion, with Saudi Arabia accounting for roughly \$887 billion, or nearly 50% of upcoming pre-execution projects.¹⁷ All of this spending is aimed at supporting economic diversification,

but it also increases the state's direct and indirect exposure through explicit guarantees and implicit support expectations, which could strain its capacity to provide financial assistance under severe stress scenarios.

Adding up the explicit and implied obligations

To quantify Saudi's explicit and implied obligations, a back of the envelope calculation is used to estimate the scope and scale of the government's potential liabilities. First, the outstanding US dollar denominated conventional debt and *sukuk* of the sovereign and government related entities are tallied. Next, estimated implied obligations related to total banking deposits and pre execution construction projects are added.

On a standalone basis, the Kingdom's outstanding US dollar denominated conventional debt and *sukuk*, as a percentage of its anticipated 2025 nominal GDP of \$1.256 trillion (IMF estimate),¹⁸ results in a debt to GDP ratio of 9.4%. However, including Saudi's effective "backstopping" of government related entities raises this combined (explicit and implied) debt to GDP measure to 15.8%. Adding banking deposits increases the ratio from 15.8% to 61.0% and incorporating pre execution construction projects takes the total potential obligations to nearly 150% of GDP.

These concerns do not center on Saudi Arabia's willingness or ability to pay, but on the extent of its growing explicit and implicit guarantees in a market facing structural liquidity constraints. A large, strong balance sheet cannot guard against a sudden and acute liquidity crisis.

Saudi Arabia: Outstanding Conventional & Sukuk Obligations as of FY 2025 (US dollar only)

Explicit Obligations	Outstanding Obligations	% of GDP (FY2025)	Incremental Increase in %
Sovereign Obligations	\$117.5 billion	9.4%	9.4%
Implied Obligations	Est. Value of Obligations	% of GDP (FY2025)	Cumulative
Gov't Sponsored Entities	\$80.5 billion	6.4%	15.8%
Saudi Banking Liabilities (Deposits) 2Q 2025	\$766.0 billion	61.0%	76.8%
Est. Capex for Vision 2030 (3Q 2025)	\$887.0 billion	70.6%	147.4%
Total	\$1.851 trillion	147.4%	

Sources: Bloomberg, IMF (Article IV 2025), Est Capex for Vision 2030 (MEED 3Q 2025), SAMA: Banking Liabilities (2Q 2025)

Gov't GSEs include: PIF, SRC, SABIC, SECO, Aramco, and Ma'aden

The broader takeaway is that credit rating dynamics can imply that some non-rated sovereign issuers—such as Dubai—may possess strong underlying credit characteristics yet trade at spreads below those of certain investment-grade issuers, while some IG-rated sovereigns may appear weaker once contingent liabilities and implicit guarantees are fully considered.

Sukuk Structures:

Our fourth observation is the difference in CRA's rating practice of perpetual *sukuk* when compared to conventional notes.

The structure of a *sukuk* can influence the issuer's credit rating. This is particularly relevant for perpetual securities issued by banks or other entities. Often, credit rating agencies classify perpetual *sukuk* issued by Islamic banks as non-rated securities, while providing a credit rating for similar securities issued by conventional banks—even when both are issued by an investment-grade rated institutions.

Bank-issued perpetual *sukuk* and conventional perpetual bonds serve as identical regulatory capital instruments under Basel III, both qualifying as additional Tier 1 (AT1) or Tier 2 (AT2) capital that enhances banks' capital adequacy ratios without diluting existing shareholders. These instruments feature comparable call provisions, typically exercisable after five years, subject to regulatory approval and replacement capital requirements, allowing banks to manage their cost of capital over time. These securities trade in secondary markets with yields (profit rates) reflecting their subordinated status and regulatory capital treatment, and they are typically priced at to compensate investors for higher risk exposure compared to senior unsecured securities. Despite their different legal foundations—asset-based certificates for

sukuk versus debt obligations for bonds—both instruments serve the same economic function by providing banks with permanent, loss-absorbing capital that meets stringent regulatory requirements while offering investors attractive yields corresponding to their subordinated risk profile.

The *Comparing Sukuk Structures of Selected Issuers* table is a matrix comparing senior unsecured *sukuk* with perpetual securities issued by selected bank and non-bank issuers, showing their respective credit ratings and yield to worst (YTW).

As can be observed in the table, the two Islamic bank-issued perpetual *sukuk* exhibit different rating outcomes, with Saudi based Al Rajhi Bank obtaining an investment grade rating whereas Dubai Islamic Bank does not obtain a rating. The inconsistencies in *sukuk* structures make it difficult for rating agencies to develop consistent analytical frameworks that are applicable across different markets and issuers. The perpetual nature of these instruments, combined with their subordinated status and loss-absorption mechanisms, creates rating challenges because they do not fit neatly into traditional debt rating categories. MARC Ratings, a Malaysian-based credit rating agency, for example, assigns perpetual subordinated *sukuk* ratings that are typically two notches below the issuer's senior unsecured debt rating, with only 50% equity credit recognition.¹⁹

Credit rating agencies will typically classify perpetual *sukuk* issued by Islamic banks as non-rated securities, while providing a credit rating for similar securities issued by conventional banks—even when both are issued by investment grade-rated institutions. This offers another example where detailed attention and specialization in this niche market is required to effectively navigate unique credit rating disparities.

Comparing Sukuk Structures of Selected Issuers: Senior Unsecured vs. Perpetual

Issuers	Classification	Status	Security	Composite Credit Rating	YTW
Dubai Islamic Bank	Bank	Sr. Unsecured	DIBUH 5.493 11/30/27	A3 / A	4.60
Dubai Islamic Bank	Bank	Perpetual	DIBUH 5 1/4 PERP	NR	5.55
DP World	Logistics/Transport	Sr. Unsecured	DPWDU 4.848 09/26/28	BBB	4.81
DP World	Logistics/Transport	Perpetual	DPWDU 6 PERP	BBB-	6.15
Al Rajhi Bank	Bank	Sr. Unsecured	RJHIAB 5.047 03/12/29	Aa3/A+	4.74
Al Rajhi Bank	Bank	Perpetual	RJHIAB 6 1/4 PERP	Baa3/BBB-	6.13

Source: Bloomberg July 31, 2025

4. Can the Fund invest in non-US dollar-denominated Sukuk? What is your philosophy on investing in these securities?

Yes, however, the Amana Participation Fund restricts its investments so that at least 50% are denominated in the US dollar as measured by the Fund's assets under management, with no more than 10% in any other single currency.

While the Amana Participation Fund is permitted to invest in non-US dollar-denominated securities, the portfolio management team's current inclination is to maintain a US dollar focus. Incorporating non-US dollar-denominated securities into the portfolio may introduce an additional layer of risk that could detract from the Fund's investment objectives. Furthermore, the Fund's investor base is US-domiciled, and the portfolio management team is currently disposed to maintain a currency bias consistent with the base currency of its clients.

The investment team has explored owning currencies pegged to the US dollar, including the Saudi riyal (SAR) and the United Arab Emirates dirham (AED). Owning currencies pegged to the US dollar has the potential benefit of substantially reducing currency risk—the exchange of value

of one currency (domestic) into another (foreign) and then back again into the currency of the investors' domicile.

Non-US dollar-denominated *sukuk* can sometimes offer higher profit rates in their local currency markets, which can be appealing. However, several factors warrant consideration. While rare, currency pegs can break, meaning the related currency is no longer fixed at the original exchange rate but instead becomes free-floating or adjusts—typically downward—to investors' disadvantage. Other considerations include foreign investor taxes, custody of local currency securities, and liquidity. Once these factors have been evaluated, the initially attractive profit rate differential may be significantly diminished.

The Amana Participation Fund's investment team routinely reviews market conditions to assess whether an allocation to a non-US dollar security offers an attractive risk-return profile. While we do not rule out the possibility of such an allocation in the future, we remain disciplined in balancing potential risks against expected returns.

5. Why does the Fund have a large geographic exposure to Middle Eastern issuers? How large is the sukuk market?

Given the Amana Participation Fund's stated investment objective, as outlined in its prospectus, and its focus on US dollar denominated, income producing, Sharia compliant instruments, the Fund is naturally predisposed toward such issuers. As a result, the Middle East region known as the Gulf Cooperation Council (GCC)—a political and economic alliance on the Arabian Peninsula—serves as the predominant source of these securities. Its members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). The GCC was established in 1981 to promote security and stability for its members.²⁰

According to the International Monetary Fund (IMF), the population of the GCC for the year ending 2025 is projected to reach 61 million, representing just 0.8% of the global population. For the same projected period, the GCC countries generate approximately 2.0% of global gross domestic product (GDP). While the region's population and contribution to global GDP are modest, the region's vast capital buffers and hydrocarbon reserves distinguish it on the world stage. With sovereign wealth funds collectively managing nearly \$6.0 trillion in assets²¹ and controlling nearly one-third of the world's proven oil reserves, the GCC exerts significant influence globally

As of this writing, *sukuk* have been issued in 32 different currencies worldwide.²² By year-end 2025, the total volume of outstanding global *sukuk* exceeded \$1.07 trillion, surpassing the size of the Eurodollar high-yield market by nearly \$400 billion (with the latter valued at more than \$600 billion).

According to the International Islamic Financial Market's (IIFM) Sukuk Report, 14th edition, total *sukuk* issuance across all currencies from 2001 through 2024 exceeded \$2.2 trillion.²³ Over this period, 59.1% of worldwide *sukuk* issuance originated from Asian countries, while the GCC and the broader Middle East accounted for 26.8% of total issuance. Malaysia, Saudi Arabia, and Indonesia were the largest issuers, with market shares of 45.7%, 14.3%, and 9.5%, respectively.²⁴

GCC issuers have dominated US dollar-denominated *sukuk* issuance since 2017. At year-end 2025, 60.4% of total US dollar *sukuk* issuance originated from GCC issuers, up from 53.9% in the prior year, followed by Islamic supranationals such as the Islamic Development Bank (IsDB) and the International Islamic Liquidity Management Corporation (IILM), which accounted for 23.6%, up from 22.2% in 2024. Their combined contribution at year-end 2025 was 84.1%, an increase from 76.1% in the prior year.

While Malaysia remained the largest *sukuk* issuer in 2025, with more than \$49 billions of issuance across multiple currencies and issuer types—including sovereign, government-related entities, and corporates—its share of US dollar-denominated *sukuk* was only 1.4%, at just over \$1.6 billion, down from 5.2% in 2024 when issuance totaled \$3.9 billion.

Outside the universe of GCC issuers, Indonesia retained its top-ranking position as the largest issuer of US dollar *sukuk*, representing 6.6% of total issuance (more than \$7.6 billion), down from the prior year when it represented 10.3% of total issuance at slightly above \$7.7 billion.

US dollar Sukuk Issuance Trends (2015 - 2025)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Islamic Issuance (\$ bn)	21,093	32,435	38,783	33,846	38,724	45,291	49,439	37,349	59,694	75,564	116,141
Change in %	-26.1%	53.8%	19.6%	-12.7%	14.4%	17.0%	9.2%	-24.5%	59.8%	26.6%	53.7%

Regional Trends of US dollar Denominated Sukuk

GCC	28.5%	35.1%	49.5%	50.2%	52.8%	48.8%	42.9%	28.3%	55.4%	53.9%	60.4%
Supranational	38.4%	35.3%	33.7%	33.2%	32.4%	36.9%	38.2%	44.8%	26.3%	22.2%	23.6%
Asia (Includes Pakistan, India, & Maldives)	31.4%	23.5%	13.2%	12.3%	6.7%	6.6%	12.1%	12.1%	8.1%	15.5%	8.1%
MENA excluding GCC members	1.2%	5.7%	3.5%	1.5%	5.8%	5.5%	6.2%	14.7%	8.3%	4.9%	6.1%
Europe	0.0%	0.3%	0.0%	0.0%	0.2%	0.2%	0.0%	0.1%	0.5%	0.4%	0.4%
Other	0.5%	0.0%	0.0%	1.2%	0.0%	0.1%	0.0%	0.1%	1.3%	2.4%	1.4%
	100.0%	100.0%	100.0%	98.4%	97.8%	98.0%	99.5%	100.0%	100.0%	99.3%	100.0%
GCC & Supranational (only)	66.9%	70.4%	83.3%	83.4%	85.1%	85.7%	81.1%	73.1%	81.8%	76.1%	84.1%

6. What are the most common types of sukuk? Does the type of sukuk structure affect its credit rating?

The market has come a long way since the first corporate *sukuk* issuance in 1990 by Shell MDS Sdn Bhd, the Malaysian subsidiary of Shell Corporation, for 125 million Malaysian ringgit.²⁵ It would be another 11 years before the Bahrain Monetary Authority (now the Central Bank of Bahrain) issued the first government *sukuk*.²⁶ As of year-end 2025, the total volume of outstanding global *sukuk* across all markets and currencies exceeded \$1.07 trillion.

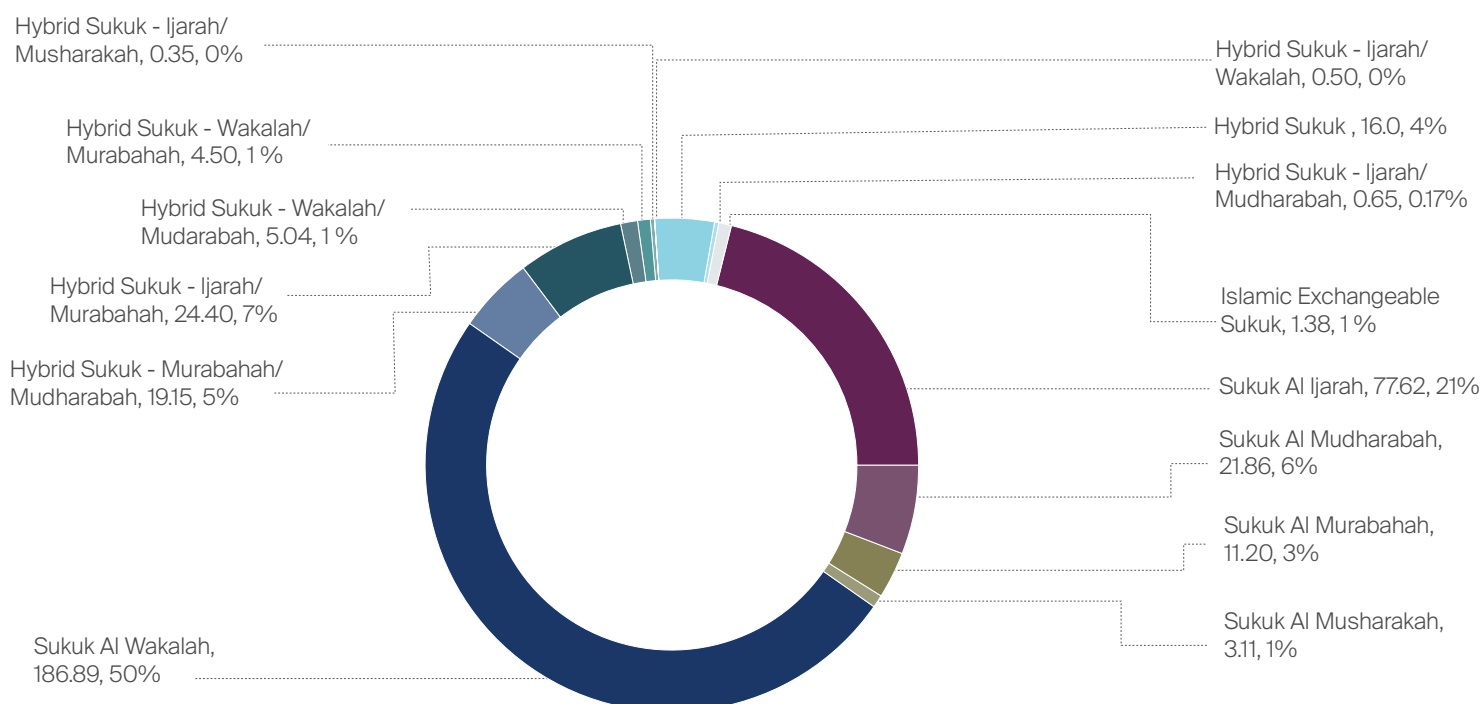
The International Islamic Financial Market (IIFM), a global standard-setting body for the Islamic Financial Services Industry (IFSI), tracks the evolution of *sukuk* markets and the preferences of issuers and investors. The IIFM's 2025 annual report identified 14 types of *sukuk* structures. For the period from January 2010 through December 2022, four *sukuk* structures accounted for over 80% of total issuance. *Sukuk al wakalah* represented 50% of issuance, *sukuk al ijarah* represented 21%, and *sukuk ijarah/murabahah* represented 7% of market share, followed by *sukuk murabaha/mudarabah* representing 5%.²⁷ Popularity of hybrid *sukuk* structures has increased, as they promote flexibility and substitutability of the assets assigned to the certificates

when needed and can help issuers ensure that certificates meet eligibility parameters for certain benchmarks, such as the J.P. Morgan Emerging Market Bond Index.

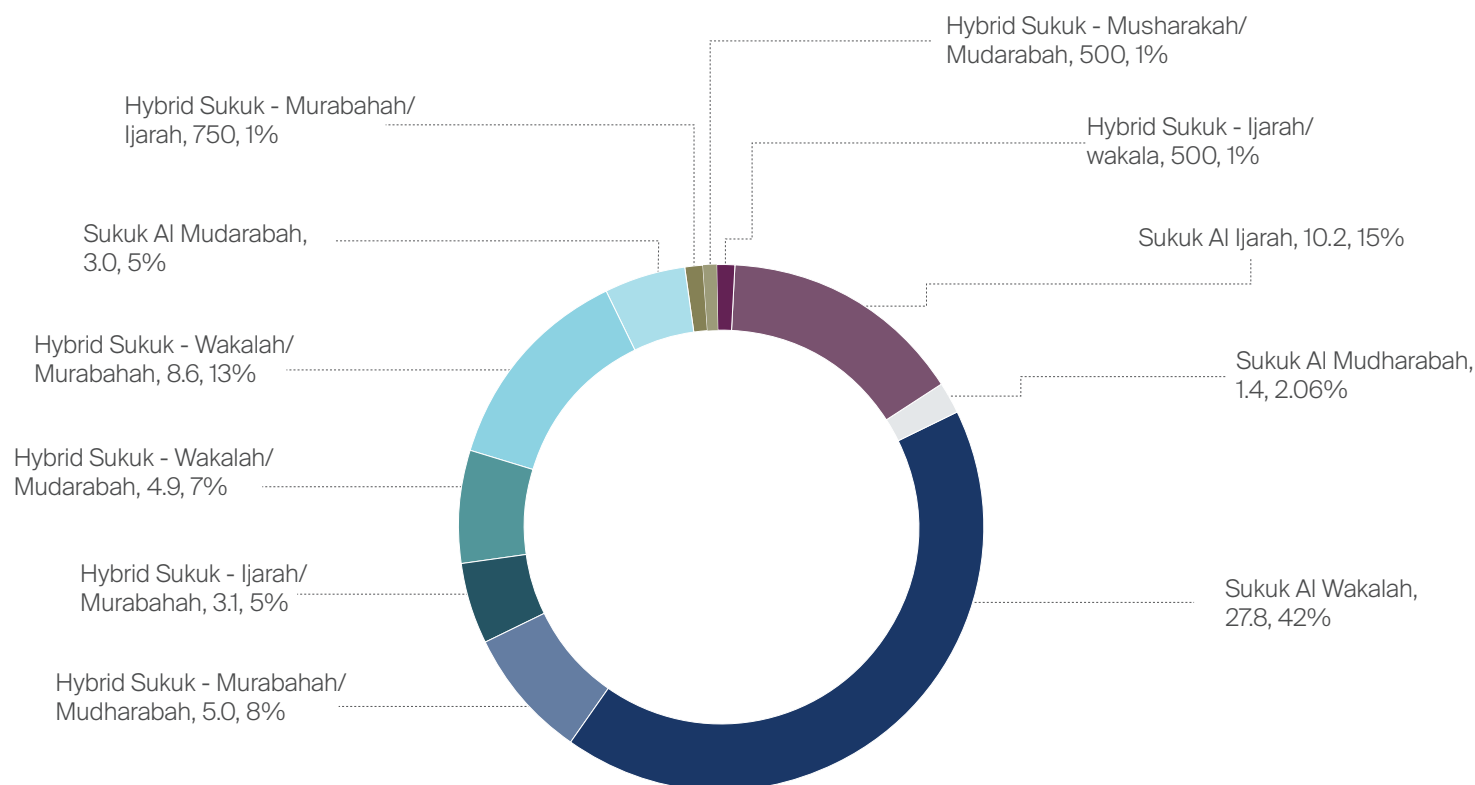
There has also been a shift in the preference and popularity of structure types. The move from *ijarah* to *wakalah* structures began in 2015 and has continued. Structurally, *sukuk al wakalah* are generally issued using a combination of *ijarah* and *murabahah* contracts, making them similar to hybrid structures. *Sukuk al wakalah* provide flexibility in structuring and help address the shortage of eligible underlying assets.²⁸ By year-end 2024, *sukuk al wakalah* represented 42.0% of annual issuance, followed by *sukuk al ijarah* at 15.0% and *sukuk wakalah/murabahah* at 13.0%. Collectively, these three structures accounted for 70% of *sukuk* issued that year.²⁹

The universe of *sukuk* structures is far more extensive than what is typically issued in international markets. However, just a few types of *sukuk* have become the most frequently issued, reflecting both issuer and investor preferences regarding documentation and flexibility of the structure.

International Sukuk Issuances Jan 2010 - Dec 2022



Source: IIFM Sukuk database



Source: IIFM Sukuk database

The Accounting and Auditing Organization 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.”³⁰ *Sukuk* can be divided into four types based on the structure: asset-backed, asset – based, hybrid, and exchangeable.

An **asset-backed** *sukuk* is an Islamic certificate backed by underlying assets financed by investors to obtain Islamic-compliant income. The issuance of an asset-backed *sukuk* can either be on or off the issuer’s balance sheet.³¹ From a structural standpoint, the underlying assets are typically transferred to a special purpose vehicle (SPV) and the issuer transfers full legal ownership of the assets to the investors. The SPV then issues a certificate to the investors, which represents an undivided ownership in the underlying assets. This *sukuk* type is *al-ijarah*, which exhibit the characteristics of a sale-leaseback structure. The *sukuk*’s credit rating can be influenced by the characteristics of the underlying assets, which may include real estate and other tangible assets. However, credit ratings are generally more dependent upon the issuer’s creditworthiness rather than the underlying assets because the issuer typically repurchases the certificate from the investors upon maturity.

For an **asset-based** *sukuk*, investors have a beneficial ownership interest rather than a real ownership interest, usually retained on the issuer’s balance sheet.³² This beneficial ownership interest is attained through the assets held in an SPV. It is common for asset-based *sukuk* to include intangible assets. The list of asset types is extensive, but they must all be Islamic-compliant. Islamic banks commonly issue asset-based *sukuk*. Given this type of structuring, asset-based *sukuk* are often viewed as unsecured and it is common for the *sukuk* to retain a pari-passu (equal treatment) ranking in the issuer’s capital structure. Because of the unsecured status and the issuer’s obligation to repurchase the certificate upon its maturity, the credit rating of an asset-based *sukuk* is typically dependent upon the creditworthiness of the issuer.

The rationale for a credit rating being assigned to an issuer, rather than the underlying assets, reflects the obligation of the issuer upon the certificate’s maturity. When *sukuk* reach maturity, the issuer buys them back through a purchase undertaking agreement (PUA). The terms of the PUA can vary based upon the issuer’s prospectus. The issuer is obligated to return the investors’ principal along with any undistributed profit. The issuer must produce the funds needed to repurchase the certificate. Typically, the issuer will employ similar approaches that conventional debt issuers might use

for financing. Issuers may use funds from cash held on their balance sheet or raise additional funds in the capital markets prior to the maturity of the *sukuk*. Credit rating assignments based upon a *sukuk* structure may have some influence; however, the issuer's creditworthiness and their capacity to meet the terms of the PUA have a larger impact.

Issuers began selling hybrid *sukuk* to address investor preferences and to provide some flexibility to *sukuk* structures. With this structure, a prospectus will include a substitution clause, permitting the issuer to exchange the underlying assets used to generate the *sukuk*'s income. This allows the issuer to change the composition of the underlying assets tethered to the certificate if they are not performing as expected. There can be many reasons an issuer may change the composition of the underlying assets. The inclusion of substitution language in a prospectus is common among most issues. Ultimately, this helps promote the creditworthiness of the *sukuk*.

Hybrid *sukuk* can be sized to accommodate investor preferences. Investors typically prefer issuance in round sizes, such as \$500 million or \$1.0 billion tranches. Issuance of *sukuk* in these sizes typically meet benchmark eligibility requirements that can improve investor demand and subsequent liquidity. This can help the issuer with the

substitution process as it allows greater flexibility in the types of assets (e.g., both tangible and intangible). In 2015, Emirate Airlines issued a 10-year *sukuk*, guaranteed by the UK's export-finance agency, to fund the acquisition of four Airbus A380-800s for \$913 million.³³ In the event Emirates Airlines needed to substitute one or more of the airplanes used to back the *sukuk*, the company may be hard-pressed to find a substitute airplane with a valuation that would fit within a \$913 million certificate size. A hybrid *sukuk* structure would allow a combination of asset types, up to a predetermined percentage of the asset base.

As of writing, two different hybrid *sukuk* types are the most popular in the market – *al ijarah/murabahah* and *murabahah/mudarabah*.

Lastly, an **exchangeable** *sukuk* has an embedded option that gives the holder the right to convert their ownership interest into an asset without obligation. Such *sukuk* have a schedule that predetermines the conversion at some future date. In most circumstances this type of *sukuk* permits the holder to convert ownership into stock or some other predetermined asset. This type of *sukuk* is rare.

7. In what ways are *sukuk* like municipal appropriation bonds?

The cash flow structure for *sukuk al ijarah* shares similarities with that of a municipal bond. Typically, both types of securities utilize a lease financing structure, and the underlying assets are placed in a trust. For *sukuk*, assets are placed in a special purpose vehicle (SPV). For municipal securities, assets are placed with a third-party lessor such as a trust or local financing authority. In both cases, the ultimate obligor submits payments to the trust holding the assets in amounts equal to the debt service obligations, and these payments ultimately flow to investors.

Municipal certificate of participation

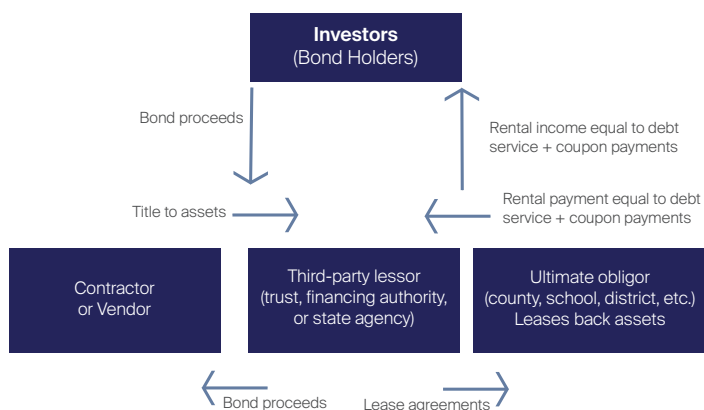
For municipalities, lease financing is typically used when a local government wants to finance the construction of a new building. The title to the assets is transferred to a third-party lessor, usually a trust, a financing authority, or a state agency. When investors buy the bonds, the proceeds go to the third-party lessor and are used to finance the construction of a building. The ultimate obligor then leases back the assets and sends payments to a third party equal to the debt service, which flow onward to the bondholders.

Sukuk Structure

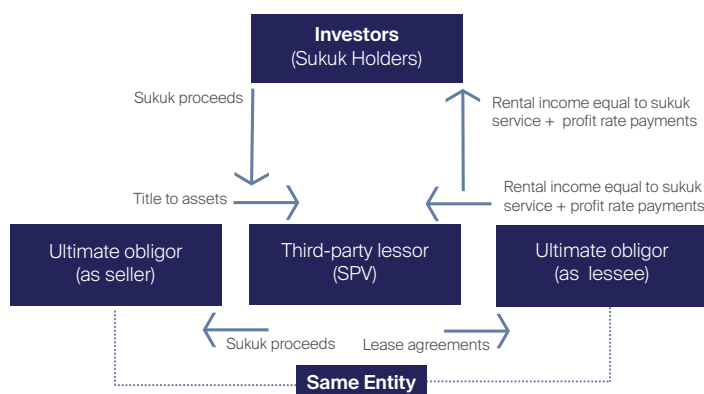
Sukuk al Ijarah are structured as finance leases. Title of the assets is transferred to a third-party lessor, the SPV. The ultimate obligor pays rent to service the obligations through profit distributions, which then flow to *sukuk* certificate holders. The main difference is that the ultimate obligor is both the seller and the lessee.

Sukuk are structured with similar cash flows to municipal certificates of participation.

Muni Lease Bonds Simplified Cash Flows



Sukuk Al Ijara Simplified Cash Flows



	Muni Lease Bonds	Sukuk
Structure	Ultimate obligor pays lease payments to a third party equal to debt service, which then flows to investors covering coupon and debt service	Ultimate obligor pays lease payments to a third party that satisfies the rental obligations, which then flows to investors as part of the profit rate (coupon) and sukuk service
Issuing Entity / Third Party	Can be a state agency, public financing authority, or trust	Generally an SPV
Coupon / Maturity	Has a stated maturity and coupon payments	Has a stated maturity and coupon payments, referred to as "profit rates" or "return"
Use of Funds	Usually finances the construction of a facility	Can include more general financing needs
Substitution of Underlying Assets	Yes, in some cases — especially in California	Generally yes
At Maturity	Ultimate obligor typically acquires assets upon maturity	Ultimate obligor acquires assets upon maturity, funding a principal return, typically a "purchase undertaking"
Additional Security	Can include a pledge of collateral	Can include a negative pledge

8. What is your investment process?

Our investment process combines a top-down macroeconomic outlook with a bottom-up investment approach, integrating deep credit analysis within a relative value framework.

We begin our investment process by assessing the macroeconomic environment and evaluating how the market is pricing expectations for economic growth, inflation, and interest rates. This analysis informs our portfolio construction and positioning. While we maintain a long-term strategic view, we recognize that tactical adjustments are occasionally necessary in response to shifting interest rate outlooks and other key economic drivers.

While Islamic-compliant securities, such as *sukuk* and *murabaha*, are not interest-bearing instruments, their valuations remain sensitive to movements in conventional fixed-income markets. Consequently, we analyze both Islamic and conventional sectors when positioning portfolios.

To illustrate our approach, we present a case study of how our group navigated the market during the second half of 2020. While this example is historical, it effectively demonstrates the investment framework we consistently apply across market cycles. For updated analysis or current market views, please contact our team directly regarding a formal engagement.

Portfolio Positioning

In July 2020, we utilized the forward interest rate market to project economic growth over the subsequent 18 months. Exhibit 1 details the forward yield curve –representing investor expectations for future yield changes—from July 2020 through December 2021.

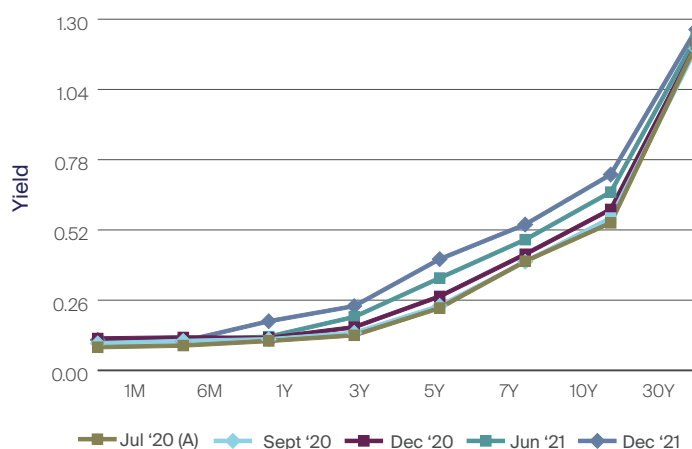
While these projections represent estimated ranges, they convey vital information regarding how market participants are adjusting to revised forecasts for inflation, economic growth, and sentiment across the yield curve. At the time, these forecasts reflected underlying contract activity indicating that participants were deploying significant capital to hedge risk, lock in funding costs, and execute key allocation decisions.

Exhibit 2 illustrates the projected change in interest rates relative to spot rates as of July 31, 2020. On that date, forward rates suggested a decline across the entire curve, with the exception of the June 2021 and December 2021

maturities. These implied movements likely reflected expectations for an extended period of anemic economic growth and a correspondingly lower interest rate environment. We also anticipated mild volatility among long-term maturities.

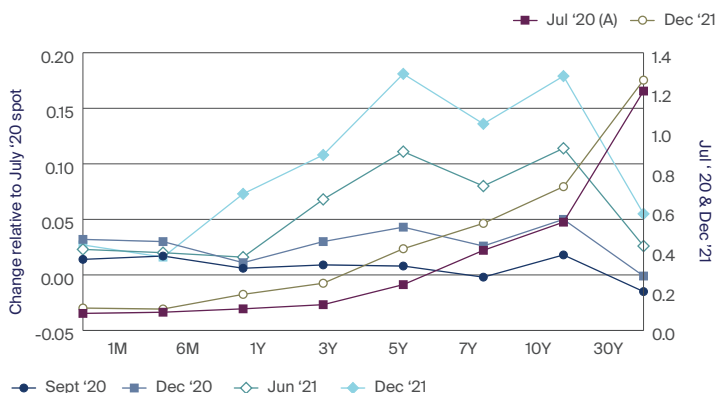
Given these projections, we believed the Federal Reserve's emphasis on “lower for longer” would anchor short-term rates, effectively flattening the yield curve out to the five-year maturity. This view aligned with market observations at the time; notably, the yield on the five-year US Treasury fell to a historic low below 20-basis-points (bps) during the first week of August 2020.

Exhibit 1 - July 2020 (Actual) & Historic Projected US Treasury Yield Curves



Source: Bloomberg

Exhibit 2 - Change in Historic Projected US Treasury Rates Relative to July 2020 Rates (Actual)



Source: Bloomberg

Yield Curve Analysis

To determine positioning and relative value, we used the shape of the US dollar *sukuk* yield curve. Exhibit 3 illustrates that US dollar investment-grade *sukuk* offered a favorable spread over US Treasuries across the entire curve. The exhibit displays *sukuk* yields for year-end 2019 and August 10, 2020, highlighting how the curve shifted over this period.

The orange line represents the yield/or profit rate enhancement that investment-grade *sukuk* provided over comparable US Treasuries. On average, *sukuk* with a duration of less than one year offered a pickup of approximately 75bps. This advantage widened to over 150bps for maturities between three and five years and exceeded 200bps for maturities of seven years or longer.

Holding US dollar investment-grade *sukuk* continues to offer considerable return enhancement over Treasuries. We see particular value in the one-to-seven-year maturities, which offer attractive spreads even assuming mild volatility.

Strategic Implementation

Based on this analysis and our interest rate outlook, we adopted a barbell strategy for deploying new capital. This approach concentrates allocations in short – and long-term maturities while underweighting intermediate terms.

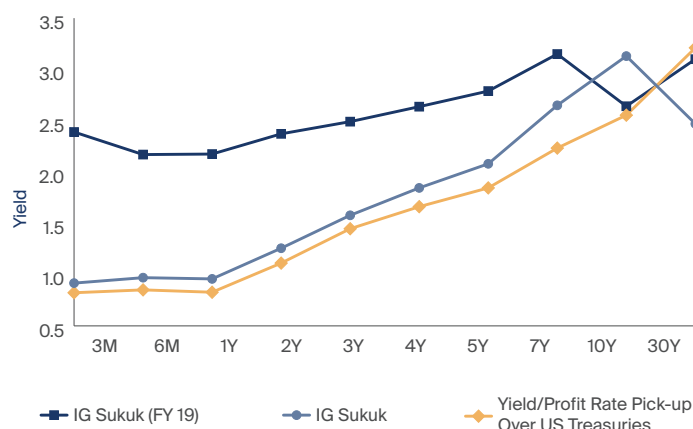
The barbell strategy helps mitigate the impact of small parallel shifts in the yield curve (equal upward or downward movements). However, it intentionally exposes the portfolio to segments we expect to outperform—specifically, the longer-term maturities. This structure balances optimal performance potential with risk mitigation, while retaining sufficient short-term instruments to ensure liquidity and flexibility.

Bottom-Up Process

Our bottom-up approach is driven by Saturna's relative value framework, which systematically tracks spreads across the *sukuk* universe in conjunction with fundamental credit research. Our portfolio management team leverages on-the-ground experience to provide deep industry and regional coverage, synthesizing insights from team members assigned to specific sectors and sovereign issuers.

Emerging market economies often exhibit idiosyncratic characteristics and inefficiencies that distinguish them from developed markets. We seek competitive returns relative to our benchmark and peers through a multi-pronged approach. This strategy combines our direct regional

Exhibit 3 - US Dollar Investment-Grade Sukuk Yield/ Profit Rate Curve



Source: Bloomberg, Saturna Capital (August 10, 2020)

experience, established relationships with issuers and local brokers, and a nuanced understanding of local cultures. We complement this qualitative insight with rigorous tracking of macroeconomic drivers and deep credit analysis within a relative value framework.

To generate competitive returns, we conservatively position the portfolio in issuers with robust balance sheets, strong credit ratings, and resilient cash flows, backed by experienced and prudent management teams. This focus on quality is a core pillar of Saturna Capital's investment philosophy and aligns with the tenets of Islamic-compliant investment principles.

We do not believe it is possible to consistently create a competitive advantage solely by anticipating yield curve changes through duration-based allocations. Instead, we position the Amana Participation Fund to compete across all market conditions. We believe competitive income and risk-adjusted returns are best achieved by holding high-quality issuers capable of enduring business cycles and unexpected external shocks, such as geopolitical conflicts or pandemics. Consequently, our prudent, active management process prioritizes quality and conservatism. Our aim is to serve as stewards of our clients' capital, focusing on preservation and current income.

Relative Value

Saturna leverages extensive experience to identify investment opportunities through a relative value process. By comparing issuers against their peer groups, we uncover favorable return potential that supports our dual objectives of capital preservation and the generation of Islamic-compliant income.

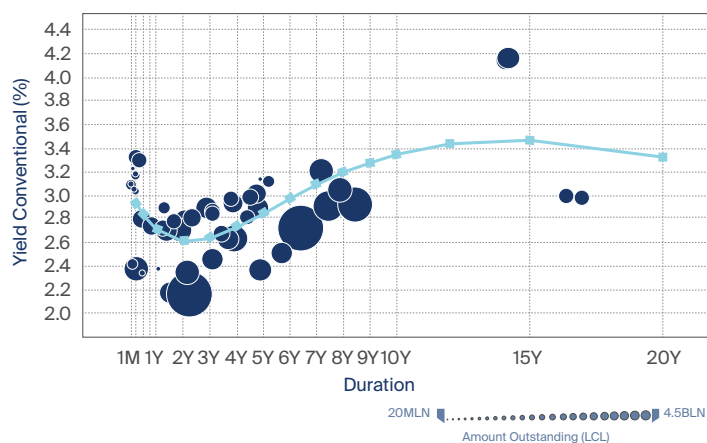
This framework is designed to identify investment candidates trading at a discount to their historical averages. Securities may trade at wider spreads relative to peers due to deteriorating credit metrics, operational challenges, or shifting investor sentiment. In other instances, pricing anomalies may result from technical factors, such as rebalancing by large institutional firms or other external market drivers.

Our relative value framework—integrated with deep fundamental credit analysis and insights from our network of issuers and local broker-dealers—provides the necessary context to evaluate these movements. This allows us to distinguish between a temporary pricing dislocation (an opportunity) and fundamental credit deterioration (a risk). Ultimately, this credit-driven process aims to optimize capital allocation by directing funds toward issuers trading at attractive valuations.

Proxy Yield Curve Analysis

Exhibit 4 depicts a Proxy Yield Curve (PYC) for US dollar-denominated *sukuk* with A+/- credit ratings, illustrating how we identify relative value. The PYC highlights potential pricing inefficiencies: securities positioned *below* the curve may be overpriced (offering lower yields than the trend), while issues positioned *above* the curve may be trading at a discount (offering higher yields) relative to historical norms. We apply this analytical process across various dimensions, including credit rating, duration, and industry sector.

Exhibit 4 - Proxy Yield Curve (PYC) for US Dollar-Denominated Sukuk



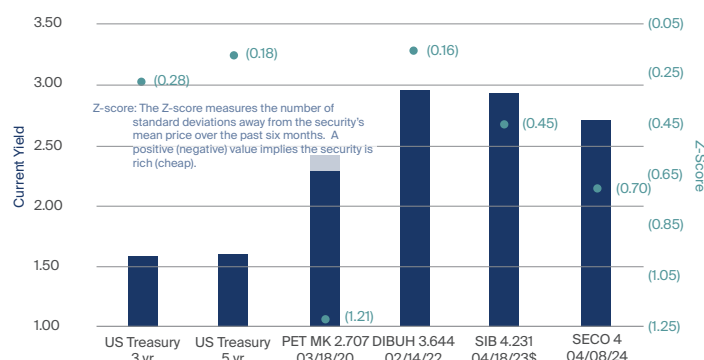
Source: Bloomberg

Security-Level Assessment

Our relative value assessment then drills down to the individual security level. Here, we compare securities against their historical performance using a z-score—a statistical measure indicating the number of standard deviations a security's valuation sits above or below its average over a specific period.

Exhibit 5 displays the z-scores for four 'A-rated' *sukuk*, with durations ranging from three months to 4.25 years, over a trailing six-month period. Notably, US dollar global *sukuk* have been trading at richer valuations relative to the prior two years. This trend is driven in part by the asset class's inclusion in the J.P. Morgan Emerging Market Index and the robust credit ratings of the GCC region, which continue to offer favorable yield enhancement over US Treasuries.

Exhibit 5 - Employing a Quantitative Approach to Identify Relative Value Opportunities



Source: Bloomberg

Process Benefits

In summary, this process delivers three key benefits to our portfolio management approach. First, it enables us to determine whether a given security is overpriced or undervalued relative to its historical norms. Second, the framework highlights new candidates for credit review, allowing us to populate our watch list and await opportunistic entry points. Third, it provides the necessary context to position the portfolio effectively across the business cycle, as issuers within the same sector often exhibit correlated price behaviors, oscillating between undervaluation and overvaluation.

Stress Testing

Complementing our top-down macroeconomic assessment and bottom-up relative value analysis, we incorporate rigorous portfolio stress testing. This allows us to quantify how the portfolio might respond to hypothetical interest rate shifts or external shocks, thereby revealing potential vulnerabilities.

9. What criteria would cause you to sell sukuk?

The bias is to hold a security and closely track its financial performance through the business cycle. However, certain conditions may motivate a sale. If fraud is identified, or if there is a substantive change in management's strategy that is expected to impair the issuer's financial resilience over time or weaken its ability to protect *sukuk* holders' interests, the position would be sold.

There are also less severe circumstances in which a *sukuk* may be sold, such as the opportunity to execute a swap. A swap refers to selling one *sukuk* and using the proceeds to

acquire another *sukuk* from the same issuer. The rationale is that the issuer may come to market with a new *sukuk* that has a longer maturity or other characteristics that better align with the portfolio attributes being sought. In some cases, the security sold may be overvalued, while the new *sukuk* is attractively priced relative to its peers.

This process is undertaken infrequently, and such actions are taken with the goal of enhancing the portfolio's return profile while maintaining a careful focus on risk.

10. How does your team mitigate risk and address liquidity?

Saturna strives to mitigate risk while serving as a steward of clients' investment capital. There are a variety of internal processes and policies employed to reduce risk and address liquidity.

The Amana Participation Fund's prospectus states that the Fund is non-diversified and may invest a larger percentage of assets in fewer issuers. Nonetheless, the team actively seeks to mitigate risk by diversifying among geographies, sectors, and industries when appropriate. However, the Fund will likely retain a significant concentration in GCC issuers. The Islamic community tends to retain a regional concentration in Southeast Asia and the Middle East, and *sukuk* are typically issued by Muslim-majority entities for investors seeking Islamic-compliant investments. This market is evolving and occasionally attracts issuers from Europe, the US, and other non-Muslim countries. Due to issuer geographic concentration, the Fund does not have limits on industry or sector weightings.

It is also important to address the liquidity profile of the US dollar-denominated *sukuk* market and the Amana Participation Fund. The investment team conducts regular liquidity assessments of portfolio securities. Before outlining these procedures, it is useful to frame the regulatory environment with a brief overview.

The Securities and Exchange Commission (SEC) has several rules and regulations addressing liquidity for mutual funds registered under the Investment Company Act of 1940 (the "40 Act"). These rules aim to ensure that funds maintain sufficient liquid assets to meet investor redemption requests without significantly affecting the fund's net asset value. Liquidity is governed, in part, by Rule 22e 4: Liquidity Risk Management Programs,³⁴ which requires that:

- Each fund adopt and implement a written liquidity risk management program.

- The program assess and manage the fund's liquidity risk, including:
 - Classification of portfolio investments by liquidity (e.g., highly liquid, moderately liquid, less liquid, illiquid).
 - Determining and periodically reviewing a minimum percentage of net assets that must be invested in highly liquid investments.
 - Limiting investments in illiquid assets.
 - Implementing policies and procedures for managing redemption requests.

For clarity, “highly liquid” and “moderately liquid” are defined as follows. A security is deemed highly liquid if the fund manager reasonably expects that, in current market conditions, it can be converted to cash within three business days without significantly affecting its market value. A moderately liquid security is expected to take more than

three but fewer than seven business days to be converted into cash without significantly affecting its market value. While the liquidity profile of individual securities can change over time, the Fund's securities have historically been classified as highly liquid.

As a regulated investment pool, an open end '40 Act fund must adhere to this regulatory framework, including liquidity requirements. The Amana Participation Fund offers daily liquidity to all investors without limitations on redemption size.

Regarding potential risks, the Amana Participation Fund is unleveraged, which is consistent with Islamic principles. The Fund does not short securities, trade on margin, or lend portfolio securities. Although the Fund is permitted to invest in non US dollar denominated securities, the investment team has elected not to do so at this time.

11. Defaults: What is the default history of US dollar sukuk? What factors aid in the low default characteristics? What are the legal or regulatory frameworks that influence the US dollar sukuk market?

Investors frequently inquire about the default characteristics of *sukuk*. However, comprehensive data on this topic is scarce, primarily because defaults in the asset class remain historically rare. According to Fitch Ratings, the global *sukuk* default rate stood at just 0.19% of all issuances as of year-end 2024.³⁵

Our research summarizes historical defaults within the US dollar *sukuk* market in the *USD Sukuk Default Summary* table. Of the ten recorded defaults, half were driven by fraud or abusive governance practices. Some of these cases, such as Malaysia's 1MDB scandal, have garnered significant attention in documentaries and international media. The remaining defaults largely cluster around the 2008–2009 Global Financial Crisis, when the severe economic downturn adversely impacted issuers. During this period, the GCC real estate sector—most notably in Dubai—experienced a sharp

contraction due to oversupply, requiring several years for the market to stabilize.

Several factors explain these extraordinarily low default characteristics. The first is the structural difference between *sukuk* and conventional bonds. We provided extensive details on these structural distinctions in Question 6 of this white paper (“*What are the most common types of sukuk? Does the type of sukuk structure affect its credit rating?*”).

The second factor centers on the philosophical and operational differences between Islamic and conventional finance. This core concept is foundational to the Islamic faith but often remains elusive—or at least underappreciated—for many conventional investors. To frame these differences, we look to Datuk Syed Othman Alhabshi, former Deputy President at the International Centre for Education in Islamic

USD Sukuk Default Summary

Default Year	Issuer	Country	Amount	Summary Details
2008	East Cameron Partners (ECP)	United States	\$165.7 million	Default: Hurricane
2009	Investment Dar	Kuwait	\$100 million	Default: Liquidity
2009	Saad Group (Golden Belt)	Saudi Arabia	\$650 million	Fraud / Legal Dispute
2009	International Investment Group (IIG)	Kuwait	\$200 million	Default: Missed Pymt
2016	1MDB (1Malaysia Development Berhad)	Malaysia	\$3.6 billion	Fraud
2017	Dana Gas	UAE	\$700 million	Fraud / Legal Dispute
2020	NMC Healthcare	UAE	\$400 million	Fraud / Missed Pymt (Feb 2020)
2021	Garuda Indonesia	Indonesia	\$500 million	Default: Missed Pymt
2021	Serba Dinamik (via SD International Sukuk Ltd)	Malaysia	\$300 million	Fraud / Audit Dispute
2023	The First Group (via TFG Sukuk I Limited)	UAE/Dubai	\$135 million	Restructure / Selective Default

Finance (INCEIF).⁴⁷ In his widely cited work, Alhabshi notes: *"It is not the expansion of credit as such that leads to an economic bust but the expansion of credit out of thin air, since it is through un-backed credit that real savings are diverted from productive activities to non-productive activities, which in turn weakens the process of real wealth expansion."*³⁶

Consequently, Islamic financial contracts cannot facilitate the kind of unconstrained, leverage-driven credit growth often associated with conventional interest-based finance. Instead, every extension of credit in Islamic banking must be tied directly to tangible assets or genuine commercial activity. This requirement acts as a safeguard against speculative bubbles and instability arising from excessive, unbacked credit expansion.

Hossein Askari perfectly captures this mechanism in his paper *Islamic Finance, Risk-Sharing, and International Financial Stability*. He states: *"Therefore, in Islamic finance, there is a one-to-one relationship between the growth of the real sector and the financial sector: credit cannot expand or contract independently of the real economy, unlike the conventional financial system that encourages uncontrolled credit creation and leveraging."*³⁷

This aligns with significant research in the Islamic finance community suggesting that every major economic crisis has been preceded by credit expansion (e.g., Fisher, 1933). Askari et al. (2012: 3) argue that the conventional system is inherently unstable—often shaken by periodic crises requiring massive bailouts—for two primary reasons: (i) it is a debt – and interest-based system; and (ii) it creates excessive debt and leverage through the credit multiplier (see also Hasan, 2008) while relying on government guarantees to mitigate liquidity

crises.³⁸ Further studies support the view that the asset-backed nature of Islamic banking offers greater stability by reducing the adverse selection and moral hazard problems inherent in interest-based lending.³⁹

Beyond these factors, it is critical to outline the legal framework of *sukuk*, which is notably complex. Generally, US dollar *sukuk* operate under a tripartite legal structure: English law, Shariah principles, and the sovereign laws of the issuer's domicile. While exceptions exist, the security itself and its related documentation are typically governed by English law. This provides a standardized legal ground for issuers and investors to resolve disputes through arbitration.

Because the certificate is structured to adhere to Islamic tenets, it is also subject to Shariah principles. This creates some ambiguity, as there is no single legal body that codifies Shariah law. Instead, various associations establish best practice frameworks for interpretation. Prominent organizations providing such guidance include the Auditing and Accounting Organization for Islamic Financial Institutions (AAOIFI), headquartered in Manama, Bahrain, and the Islamic Financial Services Board (IFSB) in Kuala Lumpur, Malaysia. While these organizations formalize standards, their application can differ due to varying interpretations of Shariah law across different communities. Although cultural nuances influence application, the primary tenets remain broadly shared.

The third framework encompasses the sovereign laws of the issuer's domicile. Since the majority of *sukuk* issuers originate from Muslim countries, the line between sovereign law and Shariah law is often deeply entwined. However, it should be noted that many GCC countries have recently modernized their judicial frameworks. These reforms

support respective “Vision” programs aimed at diversifying economies away from hydrocarbon dependence. These programs embody not just an economic strategy, but a transformative social and policy framework requiring substantial legal updates. This modernization is essential for attracting the Foreign Direct Investment (FDI) needed to diversify economies, deepen capital markets, and enhance liquidity.

Typically, sovereign law applies to the assets underlying the certificate. This introduces complexity with sovereign issuers and Government-Related Entities (GREs), as it is highly unlikely—and unrealistic to assume—that such issuers would permit foreign investors to encumber (seize) state assets. While corporate issuers theoretically enjoy fewer protections than sovereigns regarding asset encumbrance during a default, legal precedence in this area remains largely untested. In most corporate cases, issuers have negotiated restructuring agreements rather than facing asset seizure.

At the time of this writing, we are not aware of any investor successfully encumbering the underlying assets of a GCC issuer. The US-domiciled issuer, East Cameron, remains the only case where investors successfully encumbered issuer assets through bankruptcy court.

This reality underscores the importance of specialized investment management and dedicated credit research to proactively ascertain the creditworthiness of issuers. The complexity and perils of default in Islamic securities must not be taken lightly, as liquidity often evaporates well before a bankruptcy event. Exacerbating this risk is the absence of “distressed debt” investors in Islamic finance—a common feature in conventional markets. In conventional finance, distressed-focused firms—equipped with specialized legal and credit teams—provide liquidity to motivated sellers. No such market exists in Islamic finance due to the lack of legal precedence, disparate jurisdictions, and the complexity of pursuing legal action across emerging markets.

12. Geopolitical Implications on GCC financial markets. How does geopolitical instability and regional conflicts affect the stability of the GCC capital markets?

Assessing Market’s Response to Geopolitical Events:

Middle East markets, such as those in the Gulf Cooperative Council (GCC),⁴⁰ are often perceived by developed world investors as being fraught with risk and unpredictability due to long-standing regionalized conflicts. Such inquiries are understandable, as investors perceive that these conflicts are likely to influence the region’s stability and market performance.

However, the reality is that investors usually conflate what the market is pricing in with their own perception of what they believe the market is pricing in. This nuanced distinction is important to consider. Often, investors appear to overestimate market volatility surrounding geopolitical events related to regional conflicts, while underestimating volatility stemming from political events, such as an election, that can influence a sovereign government’s trajectory with respect to debt sustainability. What surprises most investors is that

empirical evidence of the market’s response regarding geopolitical risks are centered and attuned to sovereign fiscal and debt stability than it is with regional conflicts.

To help understand this conclusion an analysis of market’s reactions following geopolitical events, investors can gain valuable insights into what markets may be pricing in. The exercise below illustrates this approach by measuring changes in key financial indices seven business days after major geopolitical events. The use of seven days is arbitrary and seeks to strike a balance where enough time after the event passes to permit key facts and information surrounding the episode are known and can be assessed but not too long where other market factors is likely to influence investors’ positioning after an event. It also offers sufficient time where heightened emotions can settle as the period includes a period where the financial markets are closed for a weekend. Also, the 7-day business day period incorporates a sufficient period that reflects investors’ ‘re-pricing’ of financial assets after the event.

The analysis examines if market participants deemed the unexpected event as either a 'risk off' – meaning an unwelcomed response that led investors to sell risky assets, such as equities, and reallocate capital through the purchasing of safe assets, such as government bonds. The alternative outcome to a risk off event is that nothing materially happened to the financial markets.

In this exercise we will look at four key financial metrics to ascertain if a risk off event occurred. These financial metrics include: (1) changes in country's the stock market (2) changes in the 2 and 10-year government bonds. (3) change in the country's currency (4) changes in country's credit default swap (CDS) – a CDS is a financial derivative contract between two parties where the buyer makes periodic payments to the seller in exchange for protection against default of the issuer.

In essence, it acts like an insurance policy against an issuer's failure to meet their debt obligations.

The *Geopolitical Risk and Market* table captures selected geopolitical events, the country, the event date, and changes in the key financial metrics. The table is also organized chronologically with the most recent geopolitical event at the top. A brief synopsis of a few selected geopolitical events is provided in an appendix at the end of this document to offer context of developments that led to market's response.

In concluding, empirical evidence reveals a fundamental disconnect between investor perceptions and actual market behavior, demonstrating that fiscal sustainability crises generate significantly more severe and persistent market volatility than geopolitical conflicts, despite the profound human suffering associated with regional warfare.

Geopolitical Event			Change in Financial Markets 7-Business Days after Event					
Country	Event	Event Date	Market Response	Stock Market	2-yr Yield	10-yr Yield	FX v USD	CDS
Israel	Operation Rising Lion. Iran retaliates	6/13/25	Risk off	6.77%	-4.15%	7.39%	-4.21%	13.06%
Saudi Arabia	Operation Rising Lion. Iran retaliates	6/13/25	No Impact	1.14%	1.21%	-1.28%	0.00%	-2.19%
United States	Liberation Day	4/2/25	Risk off	-4.79%	2.06%	7.72%	-3.99%	34.25%
Germany	Incoming Chancellor Friedrich Merz announces intention to lift Germany's 'debt brake' for defense spending	3/14/25	No Impact	2.40%	-2.02%	-2.00%	-0.56%	1.41%
United States	Presidential Election	11/5/24	Risk off	4.75%	4.32%	3.34%	2.06%	-23.85%
France	French Elections	6/9/24	Risk off	-6.23%	-3.46%	0.87%	-0.91%	69.32%
Germany	French Elections	6/9/24	Risk off	-2.99%	-10.5%	-9.89%	-0.91%	42.89%
Israel	Hamas led surprise attack on Israel	10/7/23	Risk off	-7.55%	-9.34%	-3.16%	-3.93%	182.17%
Saudi Arabia	Hamas led surprise attack on Israel	10/7/23	No Impact	-1.33%	1.04%	1.05%	0.00%	21.11%
United Kingdom	Liz Truss unveiled 'Mini-Budget'	9/23/22	Risk off	-1.78%	6.79%	6.92%	-8.90%	31.62%

Source: Bloomberg

13. Comparative Landscape. What are the comparative characteristics and difference of the US dollar sukuk market when compared to broadly recognized conventional benchmarks?

Unlike equity markets, where price performance provides a straightforward measure of risk and return, fixed income markets are often opaque. We aim to provide a transparent framework that enables investors to evaluate fixed income allocations holistically.

Evaluating fixed income requires looking beyond headline yield and composite credit ratings. Investors must consider a multitude of factors, including duration, the yield-to-duration ratio, and volatility. The scope of this section is to benchmark US dollar *sukuk* against widely recognized global fixed income indices.

Selected Fixed Income Exposures (Yearend of 2025)

	YTW	Duration	Ratio: YTW/Duration	Credit Ratings	90 Volatility*
Global Fixed Income Exposures					
J.P. Morgan Emerging Market Global Core Index (EMBI)	5.9%	6.9	0.9	BBB-/BB+	5.9
Bloomberg Global Aggregate Index (GLOBE)	3.5%	6.3	0.6	AA+/AA	5.9
US Fixed Income Exposures					
Bloomberg US Aggregate Total Return Index (USAGG)	4.4%	5.9	0.7	AA/AA-	6.0
Bloomberg US Treasury Index (TREAS)	3.9%	5.8	0.7	AA+	5.7
US Dollar Sukuk Exposures					
FTSE IdealRatings Sukuk Index (SUKUK)	4.6%	4.8	1.0	A / A-	2.5
Amana Participation Fund Investor Shares (AMAPX)	5.1%	3.2	1.6	BBB+ / BBB	1.9

To facilitate this analysis, we have developed a comparative framework. For each benchmark and the Fund, we examine five key investment characteristics, listed below.

- **Weighted average duration:** Use of option adjusted duration (OAD) is used, otherwise referred as effective duration.
- **Weighted average yield to worst (YTW):** YTW measures the yield (profit rate for Islamic compliant income producing instruments) provided by securities that may incorporate optionality such as a callable *sukuk*. Yield to maturity (YTM) assumes the security does not have a call feature. As such, YTW is a better measure of projected yield as it informs investors what can be expected to be realized under a worst case scenario.
- **YTW-Duration Ratio:** This ratio measures the amount yield provided by the benchmark or Fund given its duration. This ratio measures risk and can be thought of what the return is, expressed as yield, for one unit of duration. Formula: YTW divided by duration.
- **Weighted average credit rating:** The benchmarks and the Fund's credit rating profile is obtained from Bloomberg's composite credit rating toolset.
- **3-year average 90 volatility:** We find that investors frequently just consider yield or returns when choosing an investment instrument, failing to consider the risk involved. Analyzing returns alone can be deceptive because it fails to account for risk. To measure volatility, we have used Bloomberg's 90-volatility function. Bloomberg defines this metric as the measure of the risk of price movements for a security

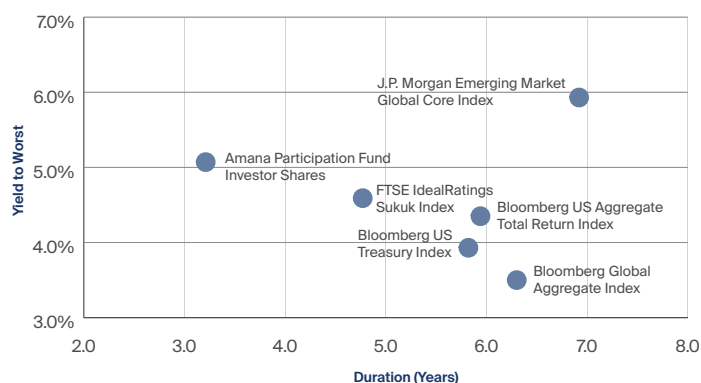
calculated from the standard deviation of day to day logarithmic historical price changes. The 90-day price volatility equals the annualized standard deviation of the relative price change for the 90 most recent trading days closing price, expressed as a percentage.

A summary of the investment characteristics of the benchmarks and the Amana Participation Fund (AMIPX) as of yearend of 2025 are provided in the *Selected Fixed Income Exposures (Yearend of 2025)* table.

We believe context is essential in forming an informed decision. The *Duration & Yield to Worst (YTW) Matrix* graph illustrates the yield-to-worst and duration profile of the benchmarks relative to the Fund.

The graph illustrates the dispersion of yield and duration profiles across the selected universe of fixed income benchmarks relative to the Fund. The EMBI occupies the upper-right (northeast) quadrant, capturing a higher yield profile driven by its heavy emerging market exposure.

Duration & Yield to Worst (YTW) Matrix: Selected Fixed Income Exposures



However, it also carries the longest duration of the group at 6.9 years. The index's lower credit rating justifies its higher yield of 5.9%.

Conversely, the GLOBE index resides in the lower-right (southeast) quadrant, representing a universe of developed and emerging market issuers across various currencies. Its significant exposure to sovereign and government-related entities (67.3%) explains its lower yield and longer duration profile. While the benchmark's high-grade credit profile may suggest safety, its extended duration exposes investors to significant interest rate risk.

The *Sukuk* benchmark sits centrally in the graph, offering a favorable balance of yield (profit rate) relative to duration. Movement toward the upper-left (northwest) quadrant signifies optimization: attaining higher yield with lower duration. As of year-end 2025, the Fund positioned itself here, achieving a yield enhancement of approximately 50 bps with a duration 1.6 years shorter than the *Sukuk* benchmark. This demonstrates alpha generation through active management.

We can further quantify this relationship using the yield-to-duration ratio. This metric measures the return generated for every unit of duration risk (price sensitivity to interest rate changes). Referring to the first table, we observe that the EMBI and *Sukuk* benchmarks maintain an approximate 1:1 yield-to-duration ratio. In contrast, the Fund demonstrates superior efficiency with a ratio of 1.6:1—effectively generating over 50% more yield per unit of duration than its benchmark.

Finally, we examine how these benchmarks respond during 'risk-off' periods, which are typically characterized by rising market volatility. Over the past 10 years, the EMBI experienced the greatest volatility, notably spiking during the pandemic. This outsized movement is consistent with its dedicated exposure to emerging markets. Interestingly, despite its high-grade 'AA+/AA' composite rating, the GLOBE index did not provide the safe-haven stability one might expect, also exhibiting significant volatility.

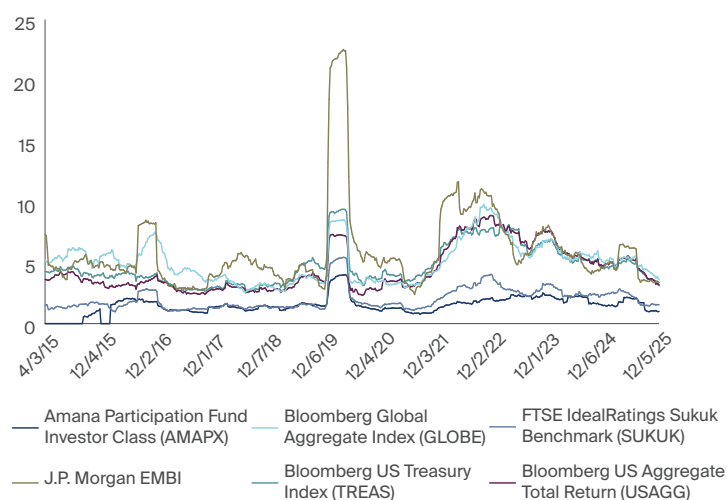
Plotting the Yield-to-Worst (YTW)-Duration ratio against the benchmark's 3-year average 90-day volatility provides the context needed for a holistic understanding of fixed income behavior. Investors are frequently drawn to fixed income for its potential to preserve capital while generating current income. However, all assets—even the US Treasury market—are subject to price fluctuations. The *90-Day Volatility* graph illustrates the historically stable characteristics of the US dollar *sukuk* market.

The US dollar *sukuk* asset class demonstrates significantly lower volatility compared to the broader complex of benchmarks. Notably, the *Sukuk* benchmark exhibits a 55% reduction in volatility relative to the US Treasury Benchmark (TREAS), as measured by the trailing three-year average (4Q 2022 – 4Q 2025) of the 90-Day Volatility metric. This finding often surprises investors.

In closing, examining fixed income instruments requires a comprehensive framework that extends beyond headline yield and credit ratings. Investors must weigh broader considerations—such as duration, the YTW-Duration ratio, and volatility—to make informed decisions aligned with their objectives. We believe this framework illuminates the appeal of US dollar *sukuk*, highlighting their ability to deliver favorable risk-adjusted returns with historically low volatility.

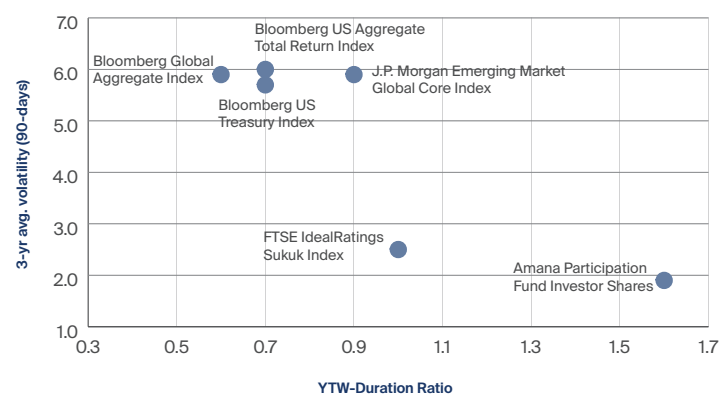
90-Day Volatility

(Weekly: April 2015 – December 2025)



YTW-Duration Ratio &

3-year Average Volatility (90 days) Matrix



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Patrick T. Drum, Fixed Income Lead and Portfolio Manager, joined Saturna Capital in October 2014. He is a former adjunct professor of finance for the Sustainable MBA Program at the Bainbridge Graduate Institute (BGI) currently known as Presidio Graduate School. Mr. Drum holds a BA in economics from Western Washington University and an MBA from Seattle University Albers School of Business. He is a Chartered Financial Analyst (CFA) charterholder and a Certified Financial Planner™. Prior to joining Saturna Capital, Mr. Drum led environmental, social, and governance (ESG) research and was director of fixed income portfolio management since 2007 with a private account group at UBS Institutional Consulting Services specializing in investment management for global conservation and national wildlife park endowments as well as sustainable-social screened client portfolios. He is a former Chair of the United Nation's Principles for Investment (UNPRI) Fixed Income Outreach Subcommittee and a current member of the UNPRI's Bondholder Engagement Working Group (BEWG), an advisory committee working to elevate important ESG considerations and best practices among issuers and investors. Mr. Drum's past experience also includes business valuation at Moss Adams and portfolio management at Washington Mutual Bank. He lives in Bellingham and is a proud father of two. He enjoys sea kayaking, hiking, and being part of the Pacific Northwest community. Mr. Drum is a member of the board of trustees to the Museum of Glass in Tacoma and a member of Rotary.



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Appendix:

Selected Geopolitical Events

United Kingdom: September 2022:

On Friday September 23, 2022, England's markets experienced a material 'risk-off' episode when former Prime Minister Liz Truss unveiled a "mini-budget" which included £45 billion (\$48 billion) in unfunded tax cuts,⁴¹ raising the government's estimated costs to roughly £161 billion (\$175 billion) over the next five years.⁴² The abrupt reaction in the markets necessitated intervention by the Bank of England, which pledged to buy up to £65 billion (\$70 billion) worth of government bonds in order to stop the market's collapse.⁴³ The table shows that seven working days following the debacle the value of the pound declined by 8.90% versus the US dollar, the credit default swaps (CDS);ⁱ otherwise, the premium – or cost – for an insurance contract in the unlikely event the issuer goes bankrupt increased by 31.62%, and the 2-year and 10-year bonds issued by the UK increased by 6.79% and 6.92%, respectively.

France: June 2024

Another example of a risk-off event occurred in Europe in early June 2024, when French President Emmanuel Macron of the Renaissance Party unexpectedly declared a snap election in France. Markets saw considerable volatility as a result of Macron's unexpected decision to call a snap election, despite the widespread prediction of success for the NR party. This volatility was partly driven by investor concerns about the sustainability of France's debt, reflecting divergent fiscal policies such as the possibility of undoing Macron's pension reforms – an action that could cost the government €9 billion (\$9.65 billion).⁴⁴

Seven business days after June 9th, France's stock market was down 6.23% with French CDS rising as 69.32%. Markets in Germany moved in sympathy as the stock market fell 2.99% and CDS contracts rose 42.89%. More significantly, the yields on 2-and 10-year German bonds dropped in yield by 10.48% and 9.89%, respectively. The response in German markets reflected investors seeking

the safety offered by Germany's 'AAA' credit rating status, as affirmed by S&P Global on March 22, 2024,⁴⁵ by aggressively buying German bonds – bidding up prices and causing yields to fall dramatically.

Israel & Saudi Arabia: October 2023 and June 2025

In late October of 2023 Israel's markets were severely affected by Hamas' surprise strike, as seen by the country's CDS rising 182.17%, the stock market plummeting 7.55%, and the yields on government 2-year and 10-year bonds dropping by 9.34% and 3.16%, respectively. Other Middle Eastern countries, like Saudi Arabia, on the other hand, did not see any appreciable instability. As can be observed, Saudi Arabia's stayed relatively stable despite the country's CDS increasing by 21.11%. Many investors are often taken aback by this, as they assume that volatility will be comparable across all of the countries in the region. It implies that investors are more concerned with the national debt's sustainability than with war. The key takeaway is that countries that comprise the Gulf Cooperation Council (GCC) did not experience a 'risk off' response.

Years after Hamas' surprise attack the conflict has unfortunately continued. The Hamas-Israel conflict gained notable world-wide attention that latter drew the United States participation. On Friday, June 13, 2025, Israel launched a surprised air campaign against Iran, often viewed by some as a proxy supporter of Hamas, known as Operation Rising Lion.⁴⁶ Iran immediately responded by launching retaliatory missile and drone strikes at Israel. This, in part, motivated the United States to participate with its own air strikes against Iran.⁴⁷ The engagement reached a climax on June 21, 2025, with US launching a major strike with B-2 bombers known as 'Operation Midnight Hammer' against three of Iran's nuclear facilities: Fordow, Natanz, and Isfahan.⁴⁸

i. A credit default swap (CDS) is a financial derivative contract in which one party pays another for protection against the risk of default on a borrower's debt. In the event of a credit default, the CDS seller compensates the buyer, allowing investors to transfer or hedge credit.

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A Few Words About Risk

The Amana Funds limit the securities they purchase to those consistent with Islamic and sustainable principles. The Saturna Sustainable Funds limit the securities they purchase to those consistent with sustainable principles. This limits opportunities and may affect performance. Fund share prices, yields, and total returns will change with market fluctuations as well as the fortunes of the countries, industries, and companies in which it invests. Foreign investing involves risks not normally associated with investing solely in US securities. These include fluctuations in currency exchange rates, less public information about securities, less governmental market supervision, and the lack of uniform financial, social, and political standards. Foreign investing heightens the risk of confiscatory taxation, seizure or nationalization of assets, establishment of currency controls, or adverse political or social developments that affect investments.

While diversification does not guarantee against a loss in a declining market, it can help minimize the risk of the decline of a single market

Principal Risks of Investing in the Fund

Market risk: *The value of the Fund's shares rises and falls as the market value of the securities in which the Fund invests goes up and down. Consider investing in the Fund only if you are willing to accept the risk that you may lose money. Fund share prices, yields, and total returns will change with the fluctuations in the securities markets as well as the fortunes of the industries and companies in which the Fund invests.*

Diversification and concentration risks: The Fund is nondiversified and may invest a larger percentage of its assets in fewer issuers, which may cause the Fund to experience more volatility than diversified funds. In addition, the Fund may concentrate its investments within the financial services industry and real estate sector.

Investment strategy risk: The Fund's restricted ability to invest in certain market sectors, such as non-Islamic financial companies and conventional fixed-income securities, limits opportunities and may adversely affect the Fund's performance. Because Islamic principles preclude the use of interest-paying instruments, cash reserves do not earn interest income but, to the extent that they are invested in murabaha or wakala, cash reserves will share in the distribution of profits (as opposed to the payment of interest) related to any murabaha or wakala investments.

Liquidity risk: Liquidity risk exists when particular investments are difficult to sell and may be more difficult to value. If the Fund is forced to sell these investments during unfavorable conditions to meet redemptions or for other cash needs, the Fund may lose money on its investments. As a result, the Fund may be unable to achieve its objective.

The Fund invests substantially in sukuk certificates that are traded outside of the US or within the US subject to certain trading restrictions which may increase the liquidity risks associated with the Fund's investments.

Foreign investing risk: The Fund involves risks not typically associated with investing in US securities. Investments in the securities of foreign issuers may involve risks in addition to those normally associated with investments in the securities of US issuers. All foreign investments are subject to risks of: (1) foreign political and economic instability; (2) adverse movements in foreign exchange rates; (3) currency devaluation; (4) the imposition or tightening of exchange controls or other limitations on repatriation of foreign capital; (5) changes in foreign governmental attitudes toward private investment, including potential nationalization, increased taxation, or confiscation of assets; and (6) differing reporting, accounting, and auditing standards of foreign countries. In developing markets, these risks are magnified by less mature political systems and weaker corporate governance standards than typically found in the developed world.

Sukuk risk: Sukuk are specifically structured to adhere to Islamic investment principles, but also must be engineered to be economically feasible in order to attract investment. Sukuk structures may be significantly more complicated

than conventional bonds and often include a series of entities created specifically to support the sukuk structure. In addition, sukuk are largely created in or otherwise subject to the risks of developing economies, many of which have weak or inconsistent accounting, legal, and financial infrastructure. The structural complexity of sukuk, along with the weak infrastructure of the sukuk market, increases risks of investing in sukuk, including operational, legal, and investment risks. In addition, adherence to Islamic investment principles increases the risk of loss in the event of a default. As compared to rights of conventional bondholders, holders of sukuk may have limited ability to pursue legal recourse to enforce the terms of the sukuk or to restructure the sukuk in order to seek recovery of principal. Sukuk are also subject to the risk that issuers or Islamic scholars may deem certain sukuk as not meeting Islamic investment principles subsequent to the sukuk being issued and therefore classify the investments as noncompliant with Islamic principles.

Murabaha risk: A murabaha transaction involves a purchase and deferred-payment resale of an asset. The asset is typically purchased by an Islamic bank as agent for the Fund. The bank, acting as the Fund's agent, immediately resells the asset to a previously identified third party who agrees to repay the Fund's cost for the asset plus a profit. Murabaha investments are subject to market risk (fluctuating prices and exchange rates), credit risk, and operational risk (errors in processes).

Wakala: When the Fund invests in wakala, it will be subject to the credit risk of the bank acting as agent, and the risk that the bank will not manage the investment in a profitable manner.

Interest rate risk: The Fund does not invest in interest bearing investments. However, since murabaha and wakala are Islamic fixed-income investments, the financial and economic data associated with interest bearing investments similarly affect the yields and returns on murabaha and wakala. Changes in interest rates impact prices of fixed-income and related investments. When interest rates rise, the value of fixed-income investments (paying a lower rate of interest) generally will fall. Investments with shorter terms may have less interest rate risk, but generally have lower returns and, because of the more frequent maturity dates, may involve higher re-investment costs.

Credit risk: Corporate and sovereign issuers of the notes and certificates in which the Fund invests may not be able or willing to make payments when due, which may lead to default or restructuring of the investment. In addition, if the market perceives deterioration in the creditworthiness of an issuer, the value and liquidity of the issuer's securities may decline.

High-yield risk: Securities that are rated below investment grade may have greater price fluctuations and have a higher risk of default than investment-grade securities. Below-investment grade securities may be difficult to sell at an acceptable price, especially during periods of increased market volatility or significant market decline.

Subsidiary Investment risk: By investing in the Subsidiary, the Fund is subject to the risks associated with the Subsidiary's investments. Those investments are similar to the investments that are permitted to be held by the Fund and are subject to the same risks that would apply to similar investments if held directly by the Fund. The Subsidiary is organized under the laws of the Cayman Islands and is not registered with the SEC under the Investment Company Act of 1940, as amended. Accordingly, the Fund will not receive all of the protections offered to shareowners of registered investment companies. Changes in the laws of the United States and/or the Cayman Islands could result in the inability of the Fund and/or the Subsidiary to operate as intended, which may negatively affect the Fund and its shareowners.

Tax risk: To qualify as a regulated investment company ("RIC"), the Fund must meet certain requirements concerning the source of its income. The Fund's investment in the Subsidiary is intended to provide exposure to murabaha and wakala in a manner that is consistent with the "qualifying income" requirement applicable to RICs. Failure to qualify as a RIC could subject the Fund to adverse tax consequences, including a federal income tax on its net income at regular corporate rates, as well as a tax to shareowners on such income when distributed as an ordinary dividend.

The tax treatment of the Fund's investment in the Subsidiary may be adversely affected by future legislation, court decisions, Treasury Regulations, and/or guidance issued by the Internal Revenue Service that could affect the character, timing, and/or amount of the Fund's taxable income or any gains or distributions made by the Fund.

Index Definitions

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the Index because their inclusion would result in double-counting.

The Bloomberg Global Aggregate Index is a flagship measure of global investment-grade debt from 24 local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers. This includes the Bloomberg Global Aggregate – United Kingdom Total Return Index Unhedged USD and the Bloomberg Global Credit – United Kingdom Total Return Index Unhedged USD.

The Bloomberg US Aggregate Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

The FTSE IdealRatings Sukuk measures the performance of global Islamic fixed-income securities, also known as sukuk. Investors cannot invest directly in the Index.

The J.P. Morgan Emerging Market Global Core Index is composed of US dollar-denominated government bonds issued by emerging market countries. The Index is a broad, diverse US dollar-denominated emerging markets debt benchmark that tracks the total return of actively traded external debt instruments in emerging market countries. This includes the Bloomberg Global Credit – United Kingdom Total Return Index Unhedged USD.

The J.P. Morgan Emerging Markets Bond Index is a benchmark tracking sovereign and quasi-sovereign debt in emerging markets.

The Custom USD 0+ Sukuk Dual Capped Index measures the performance of global, US Dollar-denominated Islamic income-producing investment certificates (sukuk). It covers both investment-grade and high-yield sukuk, covering all maturities including those shorter than one year. The index caps issuer concentration at 10%, and total high yield exposure at 35%.

Performance data quoted herein represents past performance, which is no guarantee of future results.

Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted herein. Performance current to the most recent month-end can be obtained by visiting www.amanafunds.com or calling toll-free 1-800-728-8762. Please consider an investment's objectives, risks, charges, and expenses carefully before investing. For this and other important information about the Amana Participation Fund, please obtain and carefully read a free prospectus or summary prospectus from your financial adviser, at www.amanafunds.com, or by calling toll-free 1-800-728-8762.

Average Annual Total Returns	Since Inception ^a	1 Year	3 Year	5 Year	10 Year	Expense Ratio ^b
Investor Shares (AMAPX)	2.20%	3.60%	3.97%	1.48%	2.15%	0.82%
Institutional Shares (AMIPX)	2.44%	3.85%	4.25%	1.73%	2.39%	0.59%
Bloomberg Custom Sukuk	n/a	0.62%	3.41%	-1.55%	0.38%	n/a
Bloomberg Global Aggregate Bond	1.06%	4.58%	n/a	n/a	n/a	n/a
FTSE IdealRatings Sukuk Index	3.44%	4.20%	5.05%	1.77%	3.28%	n/a

(as of June 30, 2026, Net of Fees)

a. September 28, 2015.

b. Expense ratio shown is as stated in the Fund's most recent Prospectus, dated September 29, 2025.