Beyond the Screen: When Following an Index Is Not Enough



Monem Salam
Executive Vice President & Portfolio Manager

When Following an Index Is Not Enough: The Case for Active Islamic Investing

As the market for faith-based investing continues to expand, Islamic-focused investments remain a fast-growing sector. According to Morningstar, the assets under management and product availability in faith-based investments has grown significantly over recent years, with over 600 Islamic investment strategies active as of March 2026, and hundreds of new launches in the past ten years.[1] As a result, there are more opportunities than ever for the Islamic investor, underscoring the importance of weighing the available options.

Investors who choose Islamic funds expect more than financial exposure. They expect their money to be managed according to principles they take seriously. The recent controversy surrounding HSBC's Islamic Global Equity Index Fund highlights an important question: Is following a Shariah-screened index enough to meet those expectations?

In October 2026, Hyphen reported that HSBC's Islamic Global Equity Index Fund had purchased approximately $38.3 million in Palantir shares during the first half of the year. The investment drew criticism because Palantir had entered a strategic partnership with Israel's Ministry of Defense to provide technology supporting "war-related missions." Following concerns from investors and pension providers, HSBC announced that it would review the matter with independent expert advisers.

[1] Michael Born, Faith-Based Investing: Global Landscape (Morningstar, July 14, 2026). Faith-based_investing_a4_format.pdf

Key Takeaways

1. **Islamic screening is a starting point, not a substitute for company research.** Understanding a company as a prospective holding is about more than standardized financial ratios, business descriptions, and passing Islamic screenings; it requires research, ongoing monitoring, and the ability to act upon findings.
2. **Passive Islamic investing shifts judgement rather than eliminating it.** Index funds often pass key holding decisions to the indices they track, rather than relying on analysis to determine suitability. This was seen recently when concerns were raised after HSBC's Islamic Global Equity Index Fund purchased shares of Palantir, a company with recent ties to Israel's Ministry of Defense.
3. **Faith-aligned investing requires ongoing oversight and clear investment policies.** As companies evolve, managers must reassess their suitability and explain how guidelines apply to difficult cases. Defense-related AI and dual-use technologies are examples of areas of concern. Active management provides tools to guide alignment and oversight. However, it is not a guarantee of a perfect outcome.
4. While passive strategies can provide lower-cost market exposure, **investors should consider a fund's research processes, policies, and ability to respond to changing circumstances.**

For Islamic investors, the controversy is about more than one company. It illustrates the potential gap between simply passing a standardized screen and satisfying the expectations that led someone to choose an Islamic investment in the first place.



A Benchmark Change with Consequences

The controversy followed a consequential benchmark change. On March 23, 2026, HSBC's Islamic Global Equity Index Fund switched from the Dow Jones Islamic Market Titans 100 Index to the S&P Global 1200 Shariah Select Index. Subsequent reporting linked the switch to the fund's purchases of Palantir shares. The episode illustrates how changing an index can change which businesses investors own without changing the fund they selected.

For Islamic investors, this makes benchmark selection more than a technical portfolio decision; it determines which screening judgments the fund will implement. An actively managed strategy such as that used by Saturna's Amana Funds can instead assess each company independently and decline to own a security even when it qualifies for an Islamic index — an important distinction emphasized in Saturna's discussion of active and passive Islamic investing.

Passive Does Not Mean Free of Decisions

Since HSBC's fund is passively managed, its investment approach centers on implementing the holdings of a benchmark screened by third-party providers, rather than independently selecting every company on the investment's merits and suitability. This structure helps explain how a controversial company can enter an Islamic portfolio: once a company qualifies for the benchmark, an index-tracking strategy generally seeks to hold it. The critical judgments about eligibility have already been made within the index methodology.

That does not establish that passive management alone caused the disputed investment. The underlying screening criteria and their application also matter. But it identifies an important structural distinction: the passive portfolio manager's primary task is to follow the index, not to build a separate list of companies through independent selection.

As we explained in our article "Actively Managing Islamic Investments: The Misnomer of 'Passive' Islamic Investing," passive Islamic investing does not eliminate active decisions. It shifts many of them to the index provider. Decisions about permissible business activities, financial thresholds, and portfolio composition still exist; they are simply made elsewhere in the investment process.

The question for investors is not whether judgment is involved. It is where that judgment resides — and how thoroughly it examines the companies they own.

A Company Is More Than Its Classification

Standardized screens provide a useful foundation for Islamic investing. But a business description and a set of financial ratios do not necessarily capture everything investors need to understand about a company.

One recent example is our divestment from Eaton, a multinational power management company. In January of 2026, Eaton completed an acquisition of Ultra Precision Control Systems, a company that specializes in aerospace components such as those that help an aircraft deploy its weapons. This decision to therefore sell Eaton shares demonstrates how a development relevant to Islamic investors might not be readily apparent from a company's principal business

description. The broader point is straightforward: understanding a business requires looking beyond its conventional classification.

The same principle matters when evaluating technology companies. Calling a business a software provider does not, by itself, answer questions about what its products do, who uses them, or whether any particular applications fall outside a fund's investment guidelines.

The Amana Funds' published policies reflect this distinction. They address not only directly lethal products, but also AI technologies specifically designed for, or primarily marketed to, military or defense applications. The policies also separately consider dual-use technologies with broad commercial or consumer applications.

Applying those distinctions requires company-level investigation. A screening result is a starting point, not a substitute for understanding the business.

What Analyst-Led Research Adds

At Saturna, we believe that understanding the companies we own is central to responsible portfolio management. Our approach combines investment guidelines with research, ongoing monitoring, and the ability to act on what we learn.

Our published policies describe reviewing company activities before investing, monitoring company disclosures and public reports, and maintaining direct communication with management when questions arise. These processes allow us to examine whether a company's activities remain consistent with our guidelines as its business evolves.

The distinction is practical. An active manager can determine that an otherwise eligible company does not belong in the portfolio. Inclusion in an Islamic index does not create an obligation to own it, and being considered halal does not automatically make it suitable for an Islamic investor.

Analyst-led research also creates an opportunity to connect information that may not fit neatly into a screening category: a new acquisition, a change in product strategy, or a growing defense-related business. The value lies not simply in collecting those facts, but in assessing what they mean for the company's continuing suitability.

This discretion is an additional safeguard. It does not make active managers infallible, but it gives them tools to identify concerns and respond without waiting for a benchmark to change.



Compliance Is an Ongoing Responsibility

Companies change. Their suitability for an Islamic portfolio can change with them.

Saturna's published policies identify Oracle as an example of a previously held company that was sold amid increasing leverage, reduced financial flexibility, and support for Israeli military operations. These types of decisions demonstrate why an eligibility determination cannot be the end of the investment process.

Our policies similarly state that companies moving toward significant defense-related AI activities will be subject to review and potential divestment. Guidelines also describe continued monitoring of portfolio companies' business activities as part of standard investment oversight.

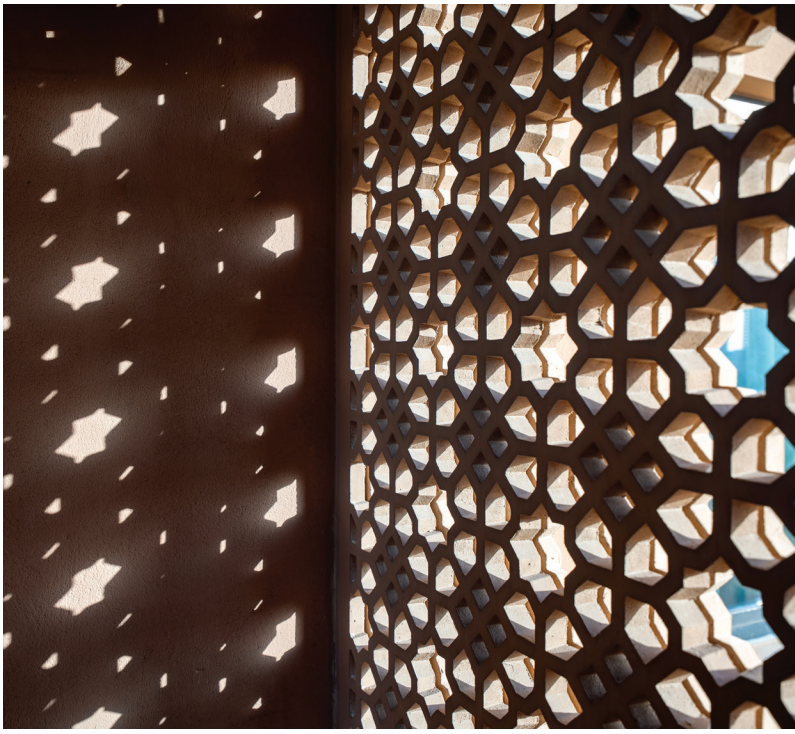
For an active manager, the relevant question is not merely, "Did this company qualify when we bought it?" It is, "Does this company still belong in the portfolio?"

Precision Matters Alongside Principle

Investors also deserve clarity about the boundaries of a fund's policies.

The Amana Funds' guidelines do not impose a blanket exclusion on every company with business in Israel or every company whose products have a possible military application. Our published policies distinguish weapons production from dual-use components and technologies with legitimate commercial applications. For qualifying dual-use AI businesses, the policy permits investment when defense-related sales constitute less than 5% of total revenue.

Those distinctions require explanation, particularly when investors hold different views about acceptable exposure. Active management does not remove the need for clear policies. It makes the application of those policies a continuing responsibility of the investment team.



The Value of Independent Judgment

HSBC has acknowledged the importance of investor expectations. In announcing its review, the bank said it understood that funds of this kind should reflect the values of those who invest in them. That is an important acknowledgment — and a reminder that formal eligibility and investor confidence are not always the same thing.

Passive strategies can provide lower-cost market exposure, an advantage we recognized in our earlier article. But investors seeking to express religious and ethical commitments through their portfolios should look beyond expenses and the presence of an Islamic label. They should also examine the research process, the policies governing difficult cases, and the manager's ability to respond when circumstances change.

At Saturna, we believe the case for active management rests on that combination: clear guidelines, detailed company research, ongoing scrutiny, and independent judgment.

Following an index can determine what enters a portfolio. Understanding a business helps determine whether it belongs there.

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SATURNA CAPITAL

1300 N. State Street
Bellingham, WA
98225-4730

info@saturna.com
www.saturna.com

1-800-728-8762

For automated assistance, including mutual fund prices:
1-888-732-6262