BEHIND THE SCENES

A Closer Look at the Amana Participation Fund Investment Process

November 2021

About Saturna Capital

Saturna Capital, manager of the Amana, Saturna Sustainable, Sextant, and Idaho Tax-Exempt Funds, uses years of investment experience to aid investors in navigating today's volatile markets. Founded in 1989 by professionals with extensive experience, Saturna has helped individuals and institutions build wealth, earn income, and preserve capital.

We are long-term, values-based, and socially responsible investors. We view consideration of environmental, social, and governance (ESG) factors as essential in forming portfolios of high-quality companies that are better positioned to reduce risk and identify opportunities. We believe that companies proactively managing business risks related to ESG issues make better contributions to the global economy and are more resilient.

At Saturna, we believe in making your investment dollars work hard for you and that your interests always come first. Saturna strives to not only offer the best investment opportunities from mutual funds to IRAs, but to match those sound investments with superior customer service.

About Amana Mutual Funds Trust

At Saturna Capital and the Amana Mutual Funds Trust, we endeavor to align our investments with our principles.

Our Funds favor companies with low price-to-earnings multiples, strong balance sheets, and proven businesses. They follow a value-oriented approach consistent with Islamic finance principles. Generally, these principles require that investors avoid interest and investments in businesses such as liquor, pornography, gambling, and banks. The Funds avoid bonds and other conventional fixed-income securities.

Saturna Capital selects investments in companies that to its knowledge do not violate the requirements of the Islamic faith at the time of investment. To ensure that investments continue to meet the requirements of the Islamic faith, Saturna Capital engages Amanie Advisors Sdn Bhd, a leading consultant specializing in Islamic finance.

The Amana Participation Fund is the first non-equity, halal income fund offered in the US. It seeks to earn current income and preserve capital with a portfolio of securities designed to be less volatile than equities.

The name, Participation, describes the characteristics of *sukuk* – investment certificates structured so that investors share in their economic profits and losses. *Sukuk* have characteristics similar to conventional bonds, such as a maturity and a coupon; however, unlike conventional bonds, they typically reflect an undivided beneficial ownership interest in an underlying asset, similar to an equity.

Please consider an investment's objectives, risks, charges, and expenses carefully before investing. To obtain this and other important information about the Amana Funds in a current prospectus or summary prospectus, please visit www.amanafunds.com or call toll free 1-800-728-8762. Please read the prospectus or summary prospectus carefully before investing.

The Amana Funds are distributed by Saturna Brokerage Services, member FINRA / SIPC. Saturna Brokerage Services is a wholly-owned subsidiary of Saturna Capital Corporation, investment adviser to the Amana Funds.

In this informational brochure, we answer some commonly asked questions about the Amana Participation Fund's investment process.

We address the following questions:

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

2. **Why is there performance disparity between the Fund and its benchmark, the FTSE IdealRatings Sukuk Index?**

3. **What does it mean if an issuer is not rated by the credit rating agencies? How prevalent is this rating among sukuk issuers?**

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

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

6. **What is your investment process?**

7. **What criteria would cause you to sell sukuk?**

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, often called *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 of the security's Islamic compliance, we do not proceed.

Below are two examples of the language commonly used to identify an issuer's Islamic compliance.

Saudi Arabian food company Almarai issued *sukuk* in March of 2019. Page 19 of 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.*

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.*

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.

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 as well as on our Halal Investing page (www.saturna.com/halal).

2: Why is there performance disparity between the Fund and its benchmark, the FTSE IdealRatings Sukuk Index?

There are two main reasons for the performance disparity between the Fund and its benchmark index. The first is structural and likely to have a long-lasting influence. The second is dynamic and reflects temporal differences in the composition of the benchmark relative to the Fund.

Structural Attributes

The different objectives of the Fund compared to the Index contribute to the performance disparity. The Fund's investment objectives are capital preservation and current income consistent with Islamic principles, while the objective of the benchmark is to measure the performance of the entire global US dollar-denominated *sukuk* market.

Additionally, three structural attributes differentiate the Fund from the Index.

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. The Index has a requirement for its constituents to have a maturity of at least one year, without limitation on the maximum maturity.

Second, the Index represents a hypothetical allocation, or a "paper trade," designed to simulate the underlying attributes of its holdings. Essentially, the benchmark does not actually trade or own the underlying securities that constitute its makeup and therefore has no trading expenses. It also does not incur expenses related to communicating to shareowners (as it doesn't have any) nor expenses for distribution and other aspects of running a mutual fund. In contrast, the Amana Participation Fund must acquire securities for its portfolio, communicate to its shareowners, pay mutual fund platforms for distribution, and pay other administrative fees. Our investment team develops ongoing relationships with global and local broker-dealers. We prefer to work with local broker-dealers, some based in Dubai, as they offer valuable on-the-ground insight regarding market characteristics and details on a given issuer. These relationships are essential to providing liquidity and favorable execution on securities. Furthermore, securities are subject to the fluctuations of supply and demand and to the issuer's underlying creditworthiness, the size of the offering, its availability, and capital market flows.

Third, the Amana Participation Fund is limited by the US Securities Act of 1933 in purchasing newly issued securities that are designated as being 'exempt from registration,' often referred as 'Reg S' securities. The Participation Fund is required to wait a minimum of 40-days before acquiring a Reg S security in the secondary market. The benchmark has no limitation in that it doesn't actually acquire securities but merely assigns hypothetical allocations.

Dynamic Attributes

Unlike structural attributes, which have longer-term affects, dynamic attributes reflect temporal differences over a given period. This includes differences between the benchmark and the Fund when it comes to geographic exposures, issuer type (such as sovereign versus corporate), sector weightings, and others.

Concentration is one dynamic feature that distinguishes the Index from the Amana Participation Fund. The Index tends to build concentrated positions that are not employed in the construction of the Fund. The Fund's rationale for less concentrated positions is to promote diversification, which can help reduce risk and align the Fund with its investment objective of capital preservation. For example, as of September 30, 2021, the Index retained a combined market weighting 42.33% to Indonesian sovereign *sukuk*, Saudi Arabian sovereign *sukuk*, and Saudi Electric Company (SECO). In contrast, the Amana Participation Fund held securities from the same three issuers with a combined weighting of 14.34%.

Dynamic attributes can also help the Fund attain its investment objective of capital preservation 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: telecommunication firms, utility operators, and sovereign issuers. At the same time, the investment team eliminated exposures to sectors and industries that were expected to experience heightened financial duress and volatility: the airline sector, real estate developers, the hospitality industry, and related tourism.

3: What does it mean if an issuer is non-rated? How prevalent is this rating among *sukuk* issuers?

Typically, issuers hire the major credit rating agencies, including Moody's Investors Service, S&P Global Ratings, and Fitch Ratings, to provide credit ratings for their securities. Bonds and *sukuk* broadly fall into three credit rating categories: investment grade (IG), high-yield (HY) and non-rated (NR).

Investment grade issuers will 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 is 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 rating is the lowest and means 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-rated 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 as it relates for *sukuk*, 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, and its history of operation. The list of factors is extensive and is 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 want to obtain a credit rating. It is worth noting that sometimes cultural characteristics can influence whether an issuer wants to obtain a credit rating. This is 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 hesitance to obtain a credit rating is to avoid comparison with their neighbor, 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 BBB range – a considerable step below that of Abu Dhabi.

This implied difference is something that the government of Dubai may not want to formalize, preferring to keep its rating undefined. Note that this is not an official rationale, but rather an assumption shared among the investment community.

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

In short, yes. However, the Participation Fund restricts its investments so that at least 50% are denominated in US dollars as measured by the Fund's assets under management, with no more than 10% in any other single currency.

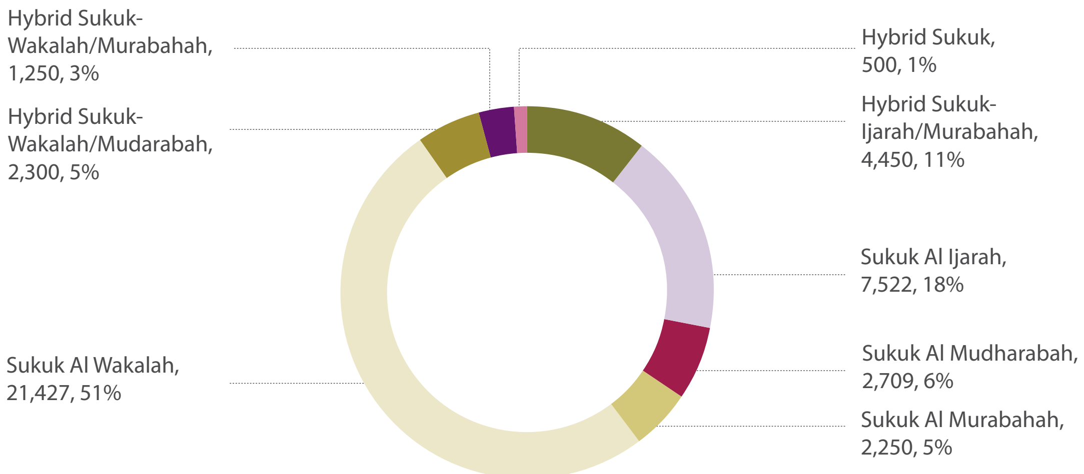
While the Fund is permitted to invest in non-US dollar-denominated securities, the portfolio management team's current bias is to retain a US dollar focus. The incorporation of non-US dollar-denominated securities into the portfolio may introduce an additional layer of risk that could detract from the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

The investment team has explored owning currencies pegged to the US dollar. Among these are the Saudi riyal (SAR) and the United Arab Emirates dirham (AED). The potential benefit of owning currencies pegged to the US dollar is that it greatly reduces currency risk – the exchange of value of one currency (domestic) into another (foreign) and then back again into the currency of the country of the investors' domicile.

Non-US dollar-denominated *sukuk* can sometimes offer higher profit rates in their local currency markets, which can be appealing, but several factors need to be taken into consideration. While rare, currency pegs can and do break. A broken currency peg means that the related currency exchange is no longer fixed at the original exchange rate, but becomes free-floating or adjusted, usually downward, to the disadvantage of investors. Other factors include taxes incurred on foreign investors, custody of local currency securities, and liquidity. Once these factors have been taken into consideration, the perceived higher profit rate offered in the local currency may diminish.

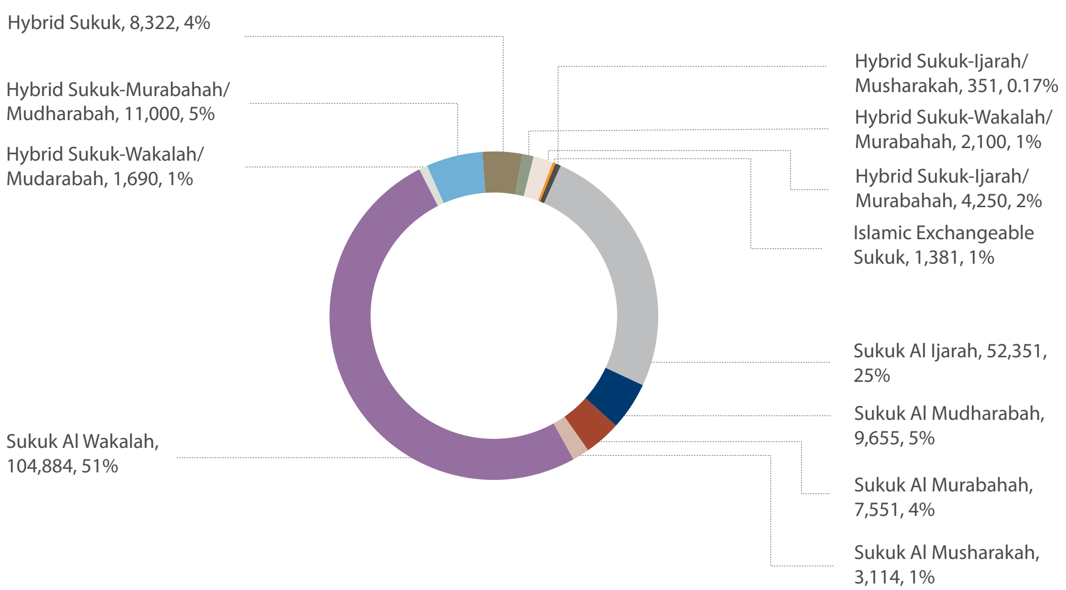
The Amana Participation Fund's investment team routinely reviews market conditions to determine whether an allocation to a non-US dollar security makes sense from a risk-return perspective. We don't want to rule out the possibility that such an endeavor will not occur; however, we are mindful to balance the risk with the potential return.

International Sukuk Issuances for the Year 2020



Source: IIFM Sukuk database

International Sukuk Issuances Jan 2010- Dec 2018



Source: IIFM Sukuk database

5: What are the most common types of *sukuk*? Does the type of *sukuk* structure impact its credit rating?

The *sukuk* market has come a long way since the first *sukuk* issuance in 1990. It would be another 11 years before the Bahrain Monetary Authority (now the Central Bank of Bahrain) would offer the first government-backed *sukuk*.[1] Since then, the *sukuk* market has evolved both in size and depth of issuance. For 2020, *sukuk* issuances from Malaysia, Indonesia, Turkey, and Pakistan with maturities of at least 18 months declined by -1.9% year-over-year to USD $41.3 billion.[2] The total size of the global *sukuk* market reached USD $715.2 billion at the end of the first quarter in 2021, according to Fitch.[3]

The International Islamic Financial Market, a global standard-setting body of the Islamic Financial Services Industry (IFSI) located in Manama, Bahrain, tracks the evolution of *sukuk* markets and the preferences of issuers and investors. A graphic from their 10th edition annual report titled "International Sukuk Issuances for the Year 2020" identifies eight types of *sukuk* structures. Three *sukuk* types represented 80% of total issuance, with *sukuk al wakalah* embodying 51% of issuance, followed by *al ijarah* at 18% and a hybrid *sukuk* structure (*ijarah/murabahah*) at 11%. [4]

The graphic "International Sukuk Issuances Jan 2010-Dec 2018" shows how the *sukuk* market has evolved over time. During this period, issuance was concentrated among 12 different types of *sukuk* structures. Four *sukuk* structures comprised 86% of total issuance, with *sukuk al wakalah* continuing to represent the largest segment.

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.

The Accounting and Auditing Organisation for Islamic Financial Institutions, or 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."[5] *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.[6] From a structural standpoint, the underlying assets are typically transferred to a special purpose vehicle (SPV) whereupon 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. These types of *sukuk* are known as *al-ijarah*, which exhibit the characteristics of a sale-lease back structure. The credit rating of the *sukuk* can be influenced by the characteristics of the underlying assets, which may include real estate and other tangible assets, such as docks, airplanes, and so forth. However, the credit ratings are generally more dependent upon the creditworthiness of the issuers of the *sukuk* rather than the underlying assets because the issuer typically repurchases the certificate from the investors upon maturity.

An asset-based *sukuk* is where the investors attain a beneficial ownership interest rather than a real ownership interest and is usually retained on the balance sheet of the issuer.[7] This beneficial ownership interest is attained through the assets being held in an SPV. It is common for asset-based *sukuk* to include intangible assets, such as airtime vouchers for telecommunication firms and Islamic-compliant auto financing and residential mortgage loans commonly used in consumer finance.[8] 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. 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. Upon maturity, the issuer repurchases the *sukuk* certificate 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 (for a conventional bond it would be accrued interest) due upon the maturity of the *sukuk*. The issuer must produce the funds needed to repurchase the certificate.

Typically, the issuer will employ similar tactics observed among conventional debt issuers to finance the maturing *sukuk*. Issuers may use funds from cash held on their balance sheet or may 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 its 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 if they are not performing as expected. This helps promote the creditworthiness of the *sukuk*.

Hybrid *sukuk* can aid the issuer by bringing a new issue to the market that is sized to accommodate investor preferences. Investors typically prefer issuance in round sizes – often $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 with the types of assets that can be used (e.g., both tangible and intangible assets). 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.[9] In the event Emirates Airlines needed to substitute one or more of the airplanes used to back the *sukuk*, the company may become hard-pressed to find a substitute airplane with a valuation that would fit within a $913 million certificate size. Using a hybrid *sukuk* structure would allow a combination of asset types, up to predetermined percentage of the asset base.

Over time, the market has coalesced around two types of hybrids *sukuk* combinations - *al ijarah/murabahah* and *murabahah/mudarabah* structures.

Lastly, an exchangeable *sukuk* is a certificate that has an embedded option permitting the holder the right to convert or exchange their ownership interest into an asset, without obligation. Such a *sukuk* has a schedule that predetermines the conversion at some future date. In most circumstances this type of *sukuk* permits the *sukuk* holder to convert ownership into stock or some other predetermined asset.[10] This type of *sukuk* is rare.

6: What is your investment process?

Our investment process includes both a top-down macroeconomic outlook and a bottom-up investment approach, integrating a deep, credit-driven review with a relative value framework.

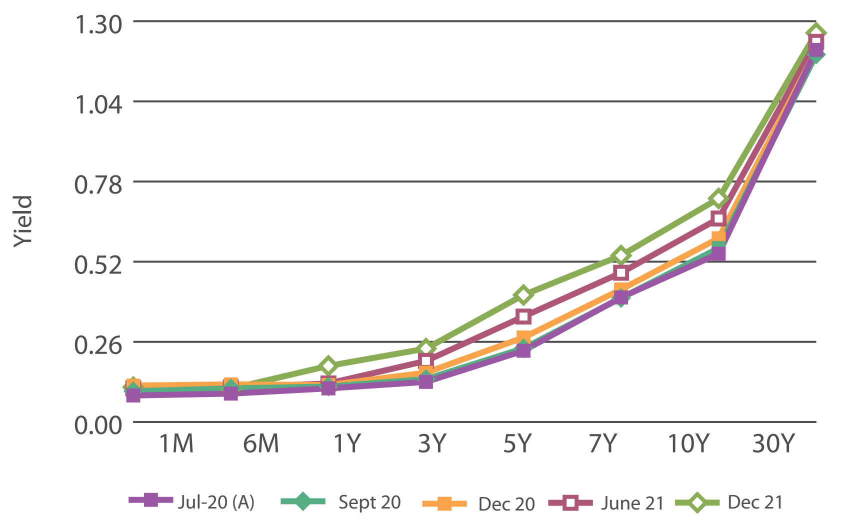
We begin by assessing the macroeconomic environment and how the market priced in expectations about economic growth, inflation, and interest rates. This helps us to construct and position a portfolio. Our group takes a long-term strategic view while recognizing that, at times, tactical adjustments may be needed regarding the outlook on interest rates and other important economic factors.

While Islamic-compliant securities, such as *sukuk* and *murabaha*, are not interest-bearing instruments, they are sensitive to changes in conventional, interest-bearing securities. We look to both Islamic-compliant and conventional fixed-income markets when positioning portfolios.

Portfolio Positioning

Exhibit 1

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



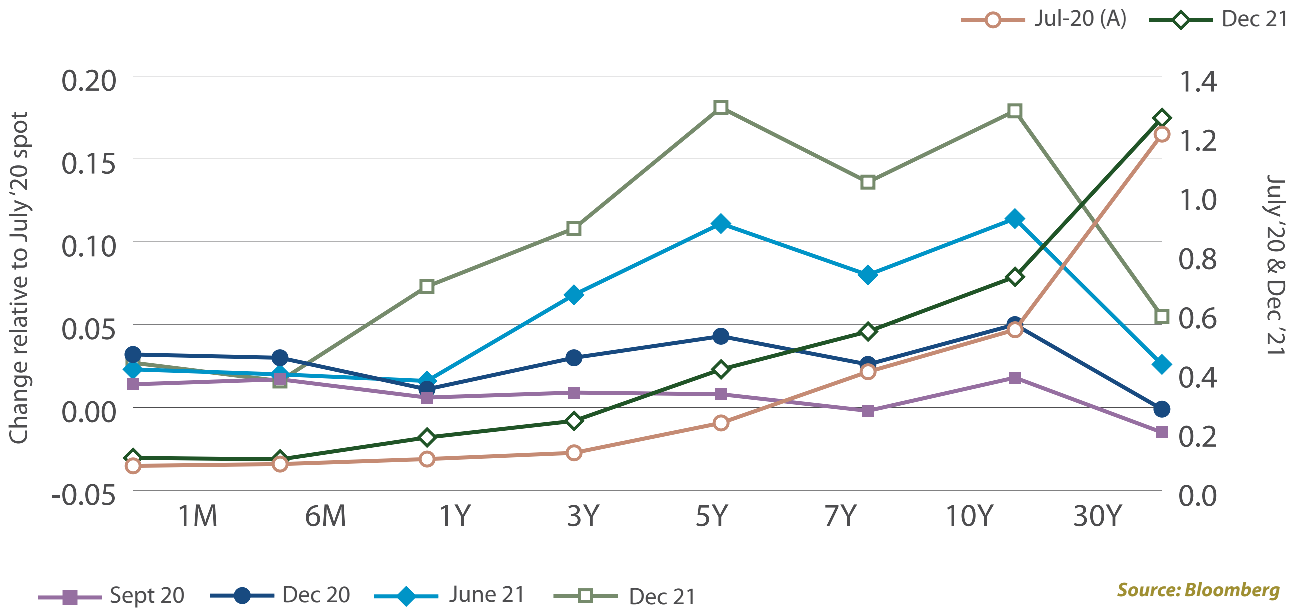
Source: Bloomberg

In July of 2020, we used the forward interest rates markets to make economic growth projections over the upcoming 18 months. *Exhibit 1* details the forward yield curve, or investors' expectations in the changes of future yields, from July 2020 through December 2021.

While these may be just ranges of projections, they relay vital information on how different market participants adjust to revised information regarding inflation, economic outlooks, and market sentiment along varying parts of the yield curve. At the time, these forecasts reflected underlying contracts indicating market participants were deploying large sums of capital in attempt to offset risk, lock-in funding obligations, and make other important capital markets decisions.

Exhibit 2

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



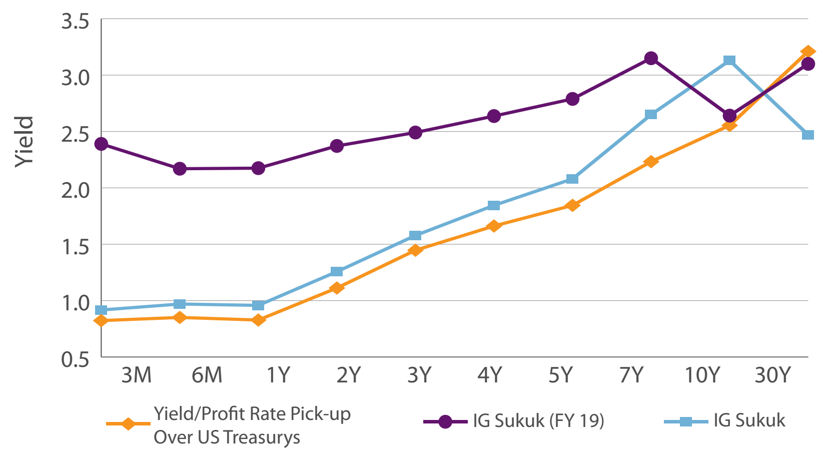
Source: Bloomberg

Exhibit 2 details the expected change in interest rates when compared to the spot rate as of July 31, 2020. On that date, rates were projected to decline across the entire yield curve except in June 2021 and December 2021. These interest rate movements along the yield curve likely reflected two influencing factors – the Federal Reserve potentially formalizing yield curve control and an extended period of anemic economic growth. We also inferred mild interest rate volatility among long-term maturities. Given these projections, we believed that the Fed's emphasis on "lower for longer" would result in lower short-term interest rates that would most likely flatten out the short end of the yield curve up to the five-year maturity. This prediction ended up being consistent with current market observations; the yield of the five-year US Treasury fell to a historical low of less than 20-bps during the first week of August 2020.

To determine positioning and relative value, we used the shape of the US dollar *sukuk* yield curve. In *Exhibit 3*, the US dollar investment grade *sukuk* retained a favorable pick-up over US Treasurys throughout the entire yield curve. US Treasury yields are not included in *Exhibit 3* but rather investment grade *sukuk* for year-end of 2019 and August 10, 2020. The orange line shows the yield/

Exhibit 3

US Dollar Investment Grade Sukuk Yield/Profit Rate Curve



Source: Bloomberg, Saturna Capital (August 10, 2020) profit rate enhancement that investment grade *sukuk* earn above US Treasurys throughout the yield curve. Investment grade US-dollar global *sukuk*, on average, retain approximately a 75-basis point yield/profit rate pick-up over US Treasurys with a duration of less than one year. For maturities between three and five years, the yield/profit rate pick-up is over 150 basis points. For maturities of seven years or more, the yield/profit rate pick-up is well over 200 basis points. *Exhibit 3* includes the yield/profit rate of the US dollar investment grade *sukuk* at year-end of 2019 to show how the curve has changed.

Holding US dollar-denominated investment grade *sukuk* retains considerable return enhancement over US Treasurys. Positioning in the one-to-seven-year buckets can offer value even if they experience mild volatility.

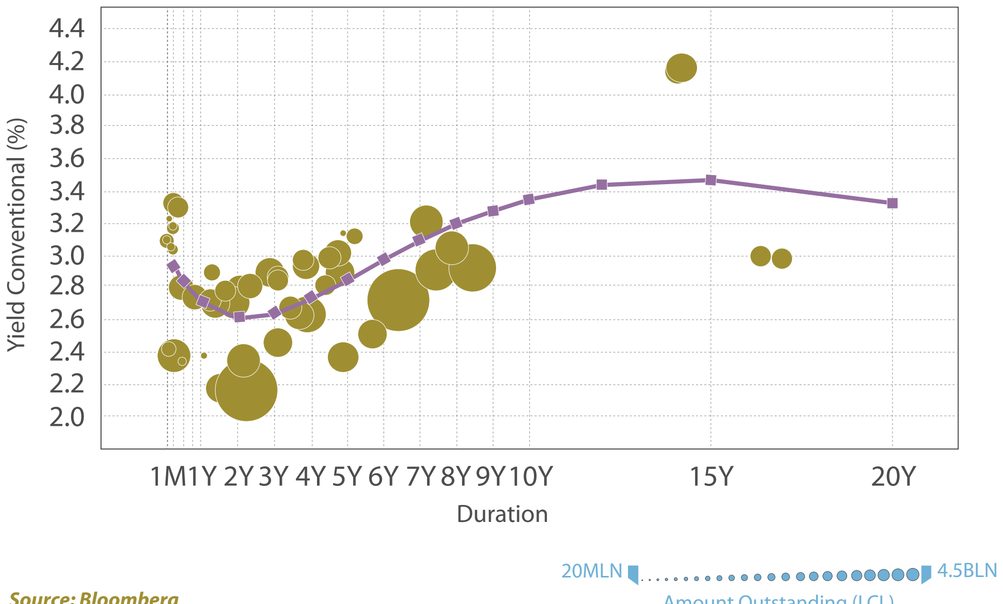
Based upon our analysis, experience, and outlook on the interest rate environment, we used a yield curve positioning strategy that incorporates a barbell approach for the deployment of new investments. A barbell strategy focuses on allocating capital among issuers with either short or long-term maturities while avoiding intermediate maturities. The barbell strategy neutralizes the portfolio against small parallel shifts (equal upward or downward interest rate movements) of the yield curve, yet intentionally exposes the portfolio to portions of the curve that are anticipated to outperform, such as the long-term maturities. This strategy positions the portfolio where we anticipate optimal performance, but still has exposure across the curve to mitigate risk while retaining sufficient short-term instruments to provide flexibility.

Relative Value:

Saturna Capital has extensive experience in identifying issuers through a relative value process that selects favorable investment return opportunities compared to its peer group. This helps us to achieve our investment objectives of capital preservation and providing Islamic-compliant income. We find the relative value process helps identify potential investment candidates that trade cheaply based upon their history. Securities can trade at wider spreads relative to their peer group due

Exhibit 4

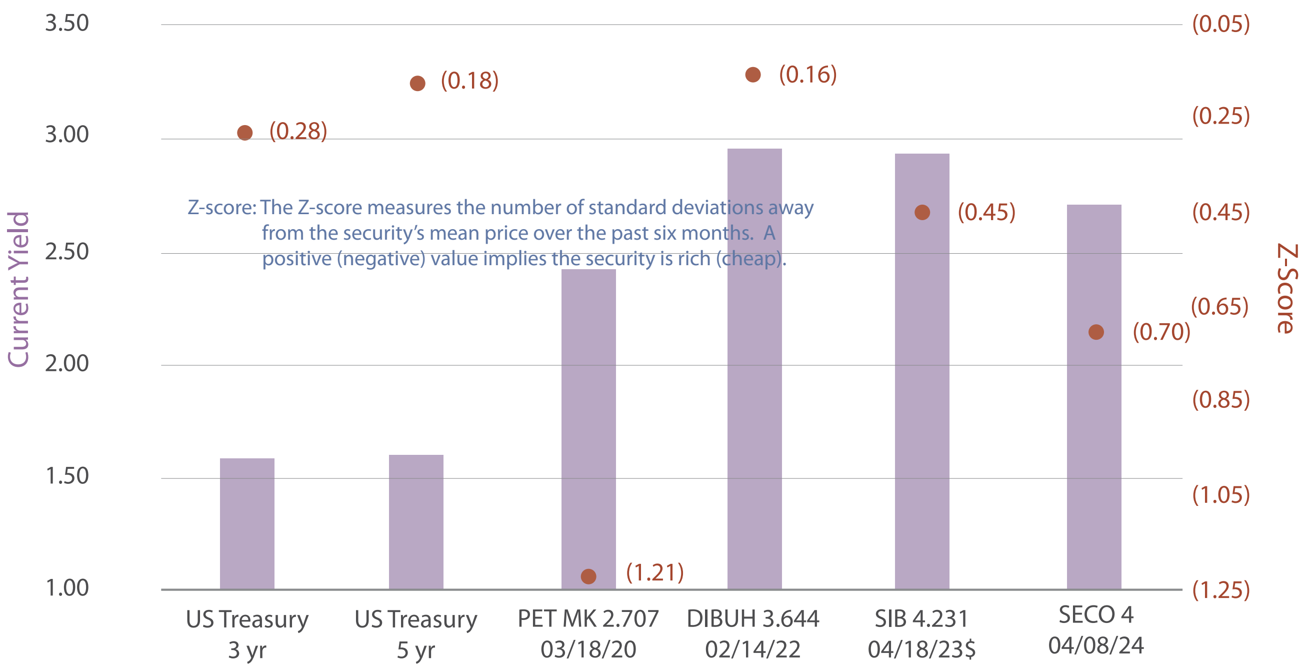
Proxy Yield Curve (PYC) for US Dollar-Denominated Sukuk



Source: Bloomberg

Exhibit 5

Employing a Quantitive Approach to Identify Relative Value Opportunities



Source: Bloomberg

to deteriorating credit metrics or other issues that may relate to the issuer's business activities. Sometimes these pricing anomalies are due to changes in investor sentiment or rebalancing led by large institutional firms. Ultimately, there can be a host of other external factors that may cause a change in pricing. Our relative value framework, in conjunction with our extensive credit analysis and relationships with issuers and local broker-dealers, provides valuable context to determine whether a change in pricing signals an opportunity or potential risks. As a result, the relative value framework is a credit-driven process that aims to optimize the portfolio's capital allocation among issuers that are trading at cheaper valuations.

Exhibit 4 depicts a proxy yield curve (PYC) for US dollar-denominated *sukuk* with an A+/- credit rating to identify a relative value framework.[11] The PYC identifies securities that may be overpriced, which are positioned below the PYC, or it may indicate that an issue is trading cheaply on a historical basis, which is positioned above the PYC. This process can be extended further into credit rating, duration, or industry.

Our relative value assessment then extends to the level of an individual security. Here, securities are compared with their historical performance to identify potential value using a z-score, which measures how many standard deviations above or below a security's average price is during an observed period. *Exhibit 5* shows an example of the z-scores of four A credit-rated *sukuk*, with durations from three months to 4.25 years, over a trailing six-month period. US dollar-denominated global *sukuk* have been trading at richer valuations relative to the prior two years, in part due to their inclusion in the JP Morgan EMBI Index and the GCC region's strong credit ratings which offer a favorable yield enhancement over US Treasurys.

To sum up, our process offers a threefold benefit for the management of the portfolio. First, it helps us identify when a desired security is overpriced or cheap based on its previous trading history. Second, the framework helps us identify new investment candidates for credit review that can be placed on our watch list for potential inclusion in the portfolio as we wait for opportunistic pricing. Third, the process offers context to help us position the portfolio throughout a business cycle. Issuers in a collective industry tend to exhibit similar price behaviors, trending from cheap to overpriced, and then trending back to cheap.

In addition to top-down macroeconomic assessment and a bottom-up process of determining relative value, we also incorporate stress testing on the portfolio. The purpose of stress testing is to help us understand how the portfolio may move under hypothetical changes in interest rates or potential external shocks so that we can evaluate any potential weaknesses.

7: What criteria would cause you to sell a *sukuk*?

Our bias is to hold on to a security and closely track its financial performance through a business cycle. However, there are certain conditions that would motivate a sale. If we identify fraud or a substantive change in management's strategy that we believe could impair its financial resilience down the road or weaken its ability to protect *sukuk* holders' interests, we would choose to sell.

There are also less dire conditions in which we may choose to sell a *sukuk*; for instance, for the availability of a swap. A swap refers to the selling of one *sukuk*, then using the proceeds to acquire another *sukuk* from the same issuer. The rationale is that the issuer may come to the market to issue a new *sukuk* with a longer maturity that better matches the desired portfolio attributes that we seek. Sometimes the security sold is overvalued, whereas the new *sukuk* is cheaper than its peers. We have engaged in this process before, but on an infrequent basis. Such actions are taken with the goal of enhancing the portfolio's return profile while keeping a keen eye on risk.

Footnotes

[1] *Latham & Watkins LLP. The Sukuk Handbook: A Guide to Structuring Sukuk. Second Edition. 2017. https://www.lw.com/thoughtLeadership/guide-to-structurings-sukuk*

[2] *2020 Sukuk Supply Resilient with Momentum to Continue into 2021. FitchRatings. Jan 12, 2021. https://www.fitchratings.com/research/islamic-finance/2020-sukuk-supply-resilient-with-momentum-to-continue-into-2021-12-01-2021*

[3] *Global Sukuk Market Dashboard: 1Q21. FitchRatings. Apr 21, 2021. https://www.fitchratings.com/research/islamic-finance/global-sukuk-market-dashboard-1q21-21-04-2021*

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[11] *Please note, all the presented relative value information is prior to year-end 2019. Current relative value information is proprietary.*

About The Author

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Portfolio Manager, Amana Participation Fund and Saturna Sustainable Bond Fund

Patrick T. Drum, Senior Investment Analyst 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.

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Diversification does not assure a profit or protect against a loss in a declining market.

A Few Words About Risk

Investing involves risk, including possible loss of principal. Generally, an investment that offers a higher potential return will have a higher risk of loss. Stock prices fluctuate, sometimes quickly and significantly, for a broad range of reasons that may affect individual companies, industries, or sectors. When interest rates rise, bond prices fall. When interest rates fall, bond prices go up. A bond fund's price will typically follow the same pattern. Investments in high-yield securities can be speculative in nature. High-yield bonds may have low or no ratings, and may be considered "junk bonds."

In addition to the fixed-income market risks above, the Amana Participation Fund entails risks specific to investing in sukuk. 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.

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.

The Amana Funds limit the securities they purchase to those consistent with Islamic and ESG principles. This limits opportunities and may affect performance.

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.

Index Definitions

The FTSE IdealRatings Broad US Dollar Sukuk Index Series provides a broad measure of the performance of US Dollar denominated Sukuk issued in the global markets with at least one year to maturity. Screening of the Shariah compliance of global Sukuk is based on the methodology of IdealRatings. The series comprises the FTSE IdealRatings Broad US Dollar Sukuk Index and the FTSE IdealRatings Sukuk Index.

The FTSE IdealRatings Broad US Dollar Sukuk Index is a broad measure of US Dollar denominated sukuk issued in the global markets, including investment-grade, high-yield and non-rated Sukuk.

The FTSE IdealRatings Sukuk Index is a measure of the investment-grade sukuk in the FTSE IdealRatings Broad US Dollar Sukuk Index.

The JPMorgan Emerging Market Bond Index (EMBI) are a set of three bond indices to track bonds in emerging markets operated by JPMorgan. The indices are the Emerging Markets Bond Index Plus, the Emerging Markets Bond Index Global and the Emerging Markets Bond Global Diversified Index.

The Emerging Markets Bond Index Plus (EMBI+) tracks liquid, US dollar emerging market fixed and floating-rate debt instruments issued by sovereign entities only. The index uses a rules-based filtering to capture liquid instruments.

The Emerging Markets Bond Index Global (EMBI Global) tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the JPMorgan EMBI+. The EMBI Global includes U.S.dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least $500 million.

The EMBI Global Diversified limits the weights of those index countries with larger debt stocks by only including a specified portion of these countries eligible current face amounts of debt outstanding.

Top Ten Holdings of Amana Participation Fund

As of September 30, 2021	**% of Net Assets**
ICD Sukuk	5.06%
Equate Sukuk Spc	4.71%
Almarai Sukuk	4.49%
TNB Global Ventures Cap	4.19%
DIFC Sukuk	4.14%
Saudi Telecom Sukuk	3.99%
Tabreed Sukuk	3.95%
KSA Sukuk	3.93%
Oman Sovereign Sukuk	3.76%
DIB Sukuk	3.57%
Total	**41.79%**

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Amana Mutual Funds Trust

FOLLOWING PRINCIPLES OF ISLAMIC FINANCE