

Evaluation of the Performance of Islamic Investment Funds Worldwide: A Case Study of Al Rajhi Saudi Equity Fund

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Abstract

This study aimed to evaluate the performance of Islamic investment funds worldwide, through a case study of the Al Rajhi Saudi Equity Fund. Using a descriptive-analytical approach, the study examined the global landscape of Islamic investment funds, analyzed their performance, and assessed the reality and performance of the Al Rajhi Saudi Equity Fund from 2020 to 2025. The study concluded that the size and assets of Islamic investment funds worldwide are significant and show notable growth. It also found that Saudi Arabia is the leading country in adopting Islamic investment funds, hosting a large number of such funds, most notably the Al Rajhi Saudi Equity Fund, which has shown consistent asset growth over the years. Furthermore, the study concluded that the Al Rajhi Saudi Equity Fund achieved good performance during the study period and recommended that Algeria pay greater attention to Islamic investment funds and benefit from the experience of the Al Rajhi Saudi Equity Fund.

Keywords: Performance; Islamic Investment Funds; Al Rajhi Saudi Equity Fund

JEL Classification Codes: G3 ;G11; G23..

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Introduction

The world of investment and finance has witnessed tremendous economic changes, and the interconnectedness of international financial markets has increased due to advancements in information and communication technology, creating an urgent need for competitive Islamic financial instruments globally. Among the most prominent of these tools are Islamic investment funds, which are relatively recent financial innovations developed by Islamic financial engineering to provide effective solutions to Islamic financing challenges, and to deploy and invest funds in projects that generate income for both individuals and society. These funds operate on the principle of collective investment, where individual savings are pooled and reinvested in a carefully selected and diversified portfolio of securities that comply with the principles and rules of Shariah.

Problem Statement: Based on the above, the following problem can be posed:

What is the actual performance of the Al Rajhi Saudi Equity Fund?

Hypothesis:

To address the proposed problem, the main hypothesis is as follows: The Al Rajhi Saudi Equity Fund has achieved good performance during the study period.

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Significance of the Study:

The importance of this study stems from the significance of Islamic investment funds, which offer individuals and institutions multiple opportunities for financing and investment through investment certificates that comply with the principles of Shariah.

Study Objectives:

- To explore the concepts related to Islamic investment funds.
- To examine the current status of Islamic investment funds worldwide.
- To assess the performance of the Al Rajhi Saudi Equity Fund.

Study Methodology: This study relies on a descriptive and analytical approach to present the concepts related to Islamic investment funds, with a focus on the case study of the Al Rajhi Saudi Equity Fund, evaluating its performance from 2020 to 2024.

Structure of the Study:

The Nature of Islamic Investment Funds

The State of Islamic Investment Funds Worldwide

Case Study: Al Rajhi Islamic Fund

The Nature of Islamic Investment Funds

Emergence of Islamic Investment Funds

The emergence of Islamic investment funds is primarily credited to Islamic banks. After successfully attracting capital and reinvesting it according to Shariah-compliant investment principles, these banks began looking for new financial vehicles capable of mobilizing additional resources and investing them effectively. This led the Jordanian government to issue Shariah-compliant **Muqaradah bonds** in 1981. Following this, numerous seminars were organized under the supervision of the **Dallah Al-Baraka Group**, involving many scholars and researchers. One of the most notable events was the founding seminar held in Tunisia in 1984, which established the framework for creating the **Al-Tawfiq Investment Funds Company** and **Al-Ameen Securities Company**. These two institutions launched the first investment funds in an Islamic format. Since then, the establishment of Islamic investment funds has steadily expanded across numerous countries worldwide.

There is little doubt that the expansion of Islamic investment funds was closely linked to the significant transformations experienced by the banking sector, particularly in the field of Islamic financial services. These developments were reinforced by the role played by Islamic countries in supporting the success of this model, notably through the introduction of regulatory frameworks governing such activities, as well as through the creation of Islamic financial markets that facilitate the trading of units issued by these investment funds.

The Concept of Islamic Investment Funds

Definition of Islamic Investment Funds

Islamic investment funds are defined as one of the Islamic financial institutions that undertake the pooling of investors' funds in the form of units or investment certificates. Their management is entrusted to a specialized and experienced entity, which invests these funds in accordance with appropriate Islamic

investment modes. The net returns are then distributed among investors according to prior agreements. All their transactions are governed by the principles and rules of Islamic Sharia, as well as by applicable laws, governmental decisions and instructions, and internal regulations and bylaws.

They are also defined as financial institutions established in the form of joint-stock companies, responsible for mobilizing savings from the public through equal-value investment certificates or documents. These funds are entrusted to another entity for management and investment, primarily in securities and other investment fields, on behalf of savers, with the aim of achieving the highest possible return at the lowest level of risk, in accordance with agreed-upon conditions.

Accordingly, Islamic investment funds can be defined as financial vehicles designed to pool savings from investors who wish to invest their funds in accordance with the rules and principles of Islamic Sharia. The entity establishing the fund undertakes the investment of these funds, while granting subscribers investment instruments that represent proportional and undivided shares in the fund's capital. Returns are distributed to subscribers in proportion to each investor's share in cases where profits are realized, in accordance with the fund's management prospectus and the terms agreed upon by the savers.

Characteristics of Islamic Investment Funds:

There are a number of characteristics that distinguish Islamic investment funds from conventional investment funds, which can be outlined as follows:

- They possess a legal personality independent of both the holders of investment units and the entity entrusted with their management. Accordingly, they constitute institutions with legal status, an organizational structure, and an independent financial and accounting framework. This characteristic is permissible under Islamic Sharia.
- They are based on the concept of collective mudarabah undertaken by capital providers (investment unit holders), whereby funds are pooled from more than one individual or entity. From the perspective of the mudarabah contract, all contributors represent the capital providers (rab al-mal), while the fund, as a legal entity, represents the entrepreneur or manager of the investment. This characteristic is governed by the jurisprudence of the mudarabah contract.
- The fund is committed, in all its transactions and activities, to the rules and principles of Islamic Sharia, as well as to the fatwas, resolutions, and recommendations issued by fiqh academies and Sharia boards concerning contemporary issues related to the fund's operations. This necessitates effective Sharia supervision.
- The fund is also required to comply with the laws, decisions, and instructions issued by the governmental authorities supervising investment funds, insofar as they do not contradict the rules and principles of Islamic Sharia. In the event of any conflict, it must be resolved within the framework of harmonization, which necessitates oversight by central banks.
- The management of the fund is entrusted to a specialized entity, whose relationship with the fund is governed by an agency contract, an employment contract, or other newly developed contracts. This entity operates within the framework of the fund's objectives, policies, strategic plans, and Sharia, legal, and investment references, which requires oversight of administrative decisions by the board of directors and the fund manager.
- Funds are invested in accordance with a set of Islamic rules and standards, whether through direct or indirect investment, based on Islamic modes of investment. These include investments in financial securities, mudarabah, musharakah, murabaha, salam, istisna', and ijarah, as well as any newly developed instruments that do not conflict with the rules and principles of Islamic Sharia.

Types of Islamic Investment Funds:

Islamic investment funds can be classified according to two main criteria: the composition of the investment portfolio formed by the fund, and the fund's ability to redeem its units and increase its capital.

Classification According to Certificate Redemption and the Fund's Life Span:

From the perspective of certificate redemption and the duration of the fund's life, Islamic investment funds are divided into two main types: open-ended Islamic investment funds and closed-ended Islamic investment funds

Open-Ended Investment Funds

Also known as mutual investment funds, these are funds established by an investment company, a bank, or an insurance company. They issue a variable number of units that are traded in the securities market. The strategy of this type of fund is based on issuing new shares whenever an investor injects additional funds into the fund, whereby shares equivalent to the invested value are issued. These shares can be resold to the issuing investment fund at their net asset value at the time of sale. The units of these funds are valued on a daily basis according to the net asset value of the fund's assets. The mutual investment fund also provides a share certificate to its contributors, either directly or through an intermediary in the securities market.

Closed-Ended Investment Funds

These are funds established by joint-stock companies and are described as closed-ended because they issue a fixed number of units that are traded in the financial market. They are considered the earliest form of investment funds and are usually limited to a specific category of investors, with a defined objective and a predetermined time horizon. At the end of this period, the fund is liquidated and the realized returns are distributed among the participants. Any investor in a closed-ended fund may sell the assets he or she holds in the fund through brokers in the securities market.

Classification According to Portfolio Composition:

There are several types of Islamic investment funds based on the composition of their portfolios, the most important of which are as follows:

Murabaha Funds

Murabaha funds are based on financing through the murabaha mode, particularly in international commodity markets. In most cases, the transaction period is short and usually does not exceed six months.

Salam Funds

Salam is a sale contract in which the delivery of the goods is deferred while the payment of the price is made in advance. Islamic investment funds can generate profits by entering into salam contracts involving commodities such as wheat, barley, oils, and similar products.

Ijarab Funds

These are Islamic funds that utilize subscribed capital to purchase assets and lease them to creditworthy clients for relatively long periods, thereby generating stable income for investors. Ownership of these assets remains with the fund, while rental payments—constituting the fund's source of income—are collected from asset users and distributed proportionally among subscribers. Each subscriber receives a certificate that specifies and guarantees his or her ownership share in the fund.

Mudarabah Funds

These are Islamic funds that organize an investment portfolio designed to meet the needs of clients who wish to invest their funds through a mudarabah contract. The contractual Sharia basis lies in this agreement, whereby the investor acts as the capital provider (rab al-mal), while the management or services entity of the Islamic fund acts as the mudarib. A single investor may provide multiple capital contributions that are employed in separate mudarabah arrangements.

Mixed Funds

These are funds that pool capital and invest it across all the aforementioned types of Islamic investment funds.

Importance of Islamic Investment Funds

Islamic investment funds are of considerable importance due to the numerous benefits and advantages they offer, which can be summarized as follows

- They represent an effective instrument for developing the public sector and facilitating its transformation into the private sector through public offerings and the expansion of ownership bases by offering portions of company and bank shares for public subscription.
- Investment funds contribute to revitalizing the securities market by attracting investors—particularly small investors—to invest in financial securities through a practical approach that does not require extensive financial expertise.
- Investment funds have opened the door for small savers to enter securities markets, which were previously dominated by large investors, thereby contributing to the overall stimulation of economic activity.
- They help mobilize hoarded funds whose owners refrain from investing due to fear, lack of confidence, or limited experience. Funds established by Islamic banks provide confidence in their professional management, encouraging the investment of these idle funds.
- In addition, Islamic investment funds offer other advantages, including:
 - Protecting national savings and preventing capital outflows by providing attractive investment channels with rewarding returns, while also contributing to the attraction of foreign capital, thereby supporting economic development.
 - Providing the necessary liquidity to banks and companies through subscriptions to investment certificates issued by these institutions.
 - Offering high liquidity to banks at relatively low costs, as Islamic banks subscribing to Islamic investment funds can easily buy and sell investment certificates with minimal transaction costs.
 - Achieving the principle of effective diversification—both qualitatively and quantitatively—within the fund's portfolio structure, which helps reduce risks faced by subscribing banks or other investors, while requiring relatively small amounts of invested capital.
 - Contributing to raising both national and individual income levels, thereby supporting economic and social development, increasing productivity, and protecting savings from erosion due to inflation through the added value generated by these funds.

The State of Islamic Investment Funds Worldwide

The total assets under management of Islamic investment funds reached USD 193.6 billion in 2024. Islamic investment fund assets generally experienced a gradual increase from 2008 to 2024, reflecting investors' shift, following the 2008 global financial crisis, toward Islamic assets perceived as lower risk. Despite this overall improvement during the period, 2016 witnessed a sharp decline in Islamic investment fund assets, which fell by 21.3% to USD 56.1 billion—the lowest level recorded during the 2008–2024 period. This decline was mainly attributed to the drop in oil prices starting in 2014, in addition to the 2016 U.S. elections, which created a state of uncertainty and instability. As illustrated in Figure (1), Islamic investment fund assets began to recover and record a gradual upward trend starting in 2017. This growth continued even during the COVID-19 pandemic in 2020. However, 2023 saw a slight decline in Islamic investment fund assets due to volatile global political conditions, particularly following the Ukrainian war, as well as fluctuations in global energy markets. According to the Islamic Financial Services Board (IFSB), Islamic investment funds recorded, overall, a higher growth rate compared to conventional investment funds over a five-year period, achieving a nominal growth rate of 84% annually, compared to a nominal annual growth rate of 68% for conventional funds over the same period.

Saudi Arabia has remained the primary domicile of Islamic investment funds without significant change, despite a slight contraction in the overall share of core markets, indicating the growing size of other markets. Offshore markets such as Jersey and Luxembourg are also expanding, with the presence of numerous exchange-traded commodity funds listed on stock exchanges. In general, growth prospects for Islamic investment funds remain strong in several countries, including the United Arab Emirates, the Cayman Islands, Ireland, Jersey, and Luxembourg, amid a continued rise in global demand for Islamic investment funds.

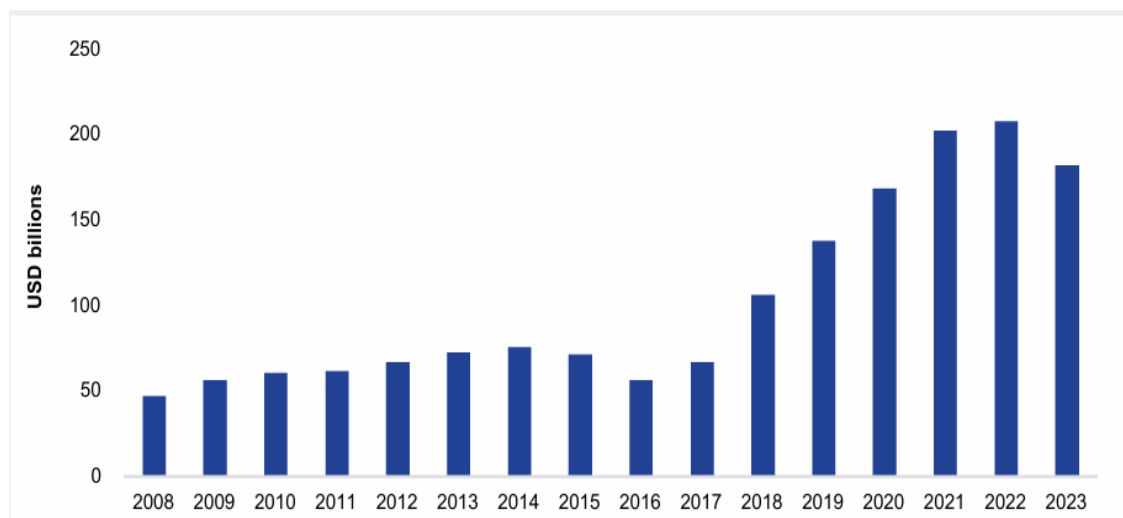


Figure 1: Evolution of the Value of Islamic Investment Fund Assets during the Period 2008–2023

Source: Prepared by the researchers based on the Islamic Financial Services Board Report 2024, p. 45, retrieved from the website : https://www.ifsb.org/ar_sec03.php

Distribution of Islamic Investment Fund Assets by Region and Country

The distribution of Islamic fund assets in 2024 indicates increasing geographic diversification, while still remaining concentrated in certain regions. As shown in Figure 2, Europe and Central Asia held the largest share of global Islamic fund assets at 34.7%, highlighting the continued importance of established financial centers in hosting Islamic investment funds. This is followed by East Asia and the Pacific with 29%, reflecting the strong presence of Islamic finance markets in Malaysia and Indonesia. The Gulf Cooperation Council (GCC) countries accounted for 20.2%, marking an 11.3% increase from 2023. This growth reflects

regulatory improvements, the preference of Muslim-majority societies for Sharia-compliant investments over conventional funds, enhanced financial infrastructure, market development, and rising investor demand within the GCC.

North America held 7.7%, while other regions such as South Asia (4.8%), Sub-Saharan Africa (2.9%), and the Middle East and North Africa (excluding the GCC) (0.07%) had marginal shares. The spread of Islamic fund assets into new regions indicates the increasing internationalization of Islamic funds and growing interest from investors worldwide. However, distribution remains very limited in some areas, such as parts of Africa and Sub-Saharan regions, due to the weak development of Islamic finance industries in these areas.

According to the 2023 annual report of the Islamic Financial Services Board (IFSB), Malaysia is the primary hub for Islamic investment funds globally, holding the largest share of assets under management at USD 52.04 billion, or 38.1%. Saudi Arabia ranks second with 27.5%, equivalent to USD 51.01 billion, while Indonesia holds the third position with 3.3%, equivalent to USD 6.12 billion. Together, these three countries account for 62% of global Islamic investment fund assets, reflecting their favorable legal and Sharia frameworks, large and diverse economies, and predominantly Muslim populations, all of which encourage investment and provide broad opportunities for Islamic funds.

Following these countries, Jersey, Luxembourg, and the United States hold 13.4%, 5.9%, and 5.2% of assets, respectively, reflecting growing demand for Islamic investment funds due to large Muslim communities, supportive legislation, and the development of Islamic financial markets. Meanwhile, South Africa, the United Arab Emirates, Ireland, Kuwait, and Pakistan have combined Islamic fund assets ranging from 0.5% to 3%, representing emerging markets with expanding opportunities, supported by increasing national interest in Islamic investment funds.

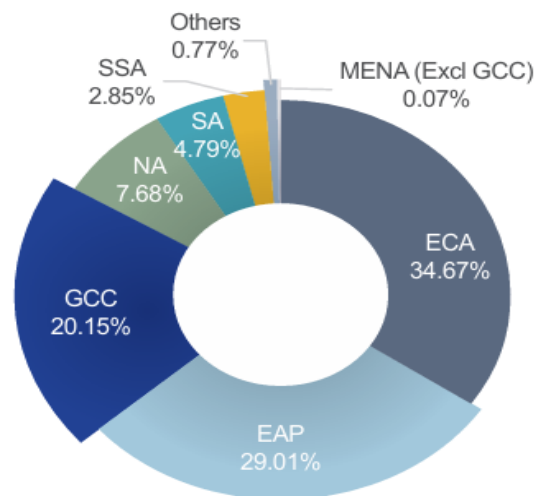


Figure 2: Islamic Investment Fund Assets by Region (Domicile)

Source: Prepared by the researchers based on the Islamic Financial Services Board Report 2024, retrieved from : https://www.ifsb.org/ar_sec03.php

2. Islamic Investment Fund Assets by Asset Class

Islamic investment fund assets are primarily concentrated in capital markets at 39.5%, followed by equity holdings in other institutions at 28.6%, and commodity markets at a lower share of 14.4%. The remaining portion is distributed among real estate, fixed income, mixed allocations, and other assets.

It is noteworthy that Islamic funds with a sustainable investment focus continued to grow in 2024, highlighting their increasing importance in driving the expansion of the Islamic fund sector and aligning

with global sustainability goals. Assets of these funds rose by approximately 21%, reaching USD 9.7 billion, surpassing the overall growth of the Islamic fund sector, which was around 9%. This reflects broader global trends, although sustainable-focused Islamic funds remain relatively small compared to conventional ESG-compliant investment funds, indicating untapped potential in Islamic finance.

The growth of these funds has been supported by increased issuance of sustainable sukuk, enhancing positive interaction between the sukuk and fund markets. Despite this, sustainable Islamic funds still account for only about 5% of total Islamic fund assets and remain in early stages of development, with portfolios heavily concentrated in equities and real estate.

These trends underline both the growing importance of environmental, social, and governance (ESG) principles in Islamic finance and the need to strengthen market infrastructure, regulatory clarity, and diversification to support long-term sustainable growth. Regionally, North America leads the market for sustainability-focused Islamic funds, followed by East Asia and the Pacific, particularly Malaysia.

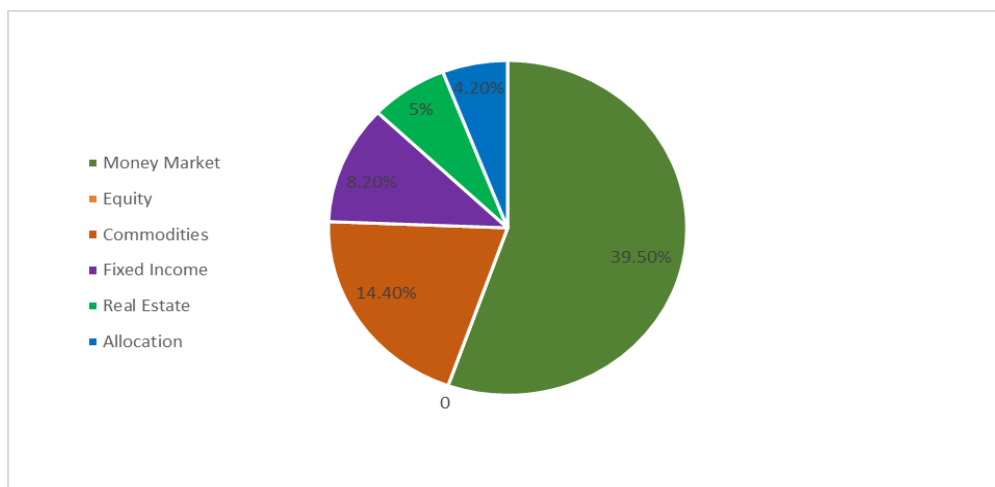


Figure 3: Islamic Investment Fund Assets by Asset Class

Source: Prepared by the researchers based on the Islamic Financial Services Board (IFSB) Report 2023, retrieved from the website: https://www.ifsb.org/ar_sec03.php

Case Study: Al Rajhi Islamic Fund

Al Rajhi Financial Company

Al Rajhi Financial Company is a leading financial services firm that provides its clients with a wide range of innovative, award-winning financial products and services, all fully compliant with Islamic Sharia principles. The company is headquartered in Riyadh, Saudi Arabia, and is a closed joint-stock company (Commercial Registration No. 1010241681) with a paid-up capital of SAR 500,000,000. It operates under the license of the Capital Market Authority of Saudi Arabia (License No. 37-07068, issued on 25/06/2007) and began its activities on 18/03/2008.

Al Rajhi Financial Company offers asset management, brokerage, and investment banking services, acting in various capacities including principal, agent, underwriter, and fund manager. Its services include managing investment funds and client portfolios, structuring and advisory services, as well as custody.

The company is a subsidiary of Al Rajhi Bank, one of the largest banks globally, with total assets amounting to SAR 762 billion. By leveraging its strong resources and regional presence, combined with expert investment advisory and financial research, Al Rajhi Financial Company delivers comprehensive, effective, and simplified financial and investment solutions. It also benefits from the global experience and expertise

of its investment teams, establishing itself as a market leader in providing customized solutions that meet the evolving needs of both individual and institutional investors. Sharia Governance Since its inception, Al Rajhi Financial Company has been committed to fully implementing Sharia principles and adhering to the objectives of Islamic legislation in all its transactions. To ensure this, the company established an independent Sharia Board, appointed and regulated by the Shareholders' Assembly. This board is independent of all company management and oversees, monitors, and approves all company transactions. This commitment represents one of the most important quality standards that the company maintains across its products and services offered to clients.

Sharia Compliance and Governance at Al Rajhi Financial Company

- **Binding Decisions:** The decisions of the Sharia Board are binding on all company departments and management units.
- **Responsibility for Implementation:** Executives at all levels are responsible for implementing the Sharia Board's decisions.
- **Approval Requirement:** No product or service may be offered without prior approval from the Sharia Board.
- **Strict Prohibition of Violations:** Any action contrary to the decisions of the Sharia Board is strictly prohibited.
- **Penalties for Non-Compliance:** Violating any Sharia Board decision, ignoring a Sharia-compliant procedure, or offering a product/service without board approval is considered a breach and is subject to disciplinary action.
- **Monitoring and Oversight:** The Sharia Board monitors all company operations from a Sharia perspective and ensures the execution of its decisions through the **Sharia Supervision Department**, which reports directly to the Board.
- **Development of Contracts:** The company works on developing contracts and financial instruments in line with Sharia principles and objectives, covering both local and international transactions.
- **Islamic Awareness and Training:** The company actively promotes Islamic awareness in banking and investment practices and continuously provides Sharia training to its staff, ensuring proper understanding of Islamic financial transactions.

Al Rajhi Financial Company considers itself a partner to its clients, offering a model of commitment to quality and excellence. The company possesses extensive expertise, deep knowledge, and a strong presence in the financial market. It empowers companies and the economy by facilitating innovation financing, risk management, and job creation.

Vision: Al Rajhi Financial Company aims to be the leading destination in Saudi Arabia for investment and advisory services, a hub for exceptional talent, and a provider of optimal customer satisfaction. It offers a comprehensive, professionally managed investment portfolio, including high-quality, award-winning, and fully Sharia-compliant investment funds.

Al Rajhi Financial Company provides its clients with a diverse range of investment portfolios, allowing them to select from local, regional, and global equity and commodity funds according to varying risk levels and individual investment needs.

Additionally, the company's funds include efficiently managed fund-of-funds, each with its own unique approach to asset allocation and investment strategy. The offerings cover closed-ended funds, protected funds, and income-generating private real estate funds. These investment funds are professionally managed

by experienced fund managers and are made available through a wide network of investment centers and company specialists across Saudi Arabia.

Al Rajhi Financial Company manages numerous Islamic investment funds, the most notable of which is the Al Rajhi Saudi Equity Fund, recognized as one of the largest Islamic investment funds offered by the company

Basic Information on Al Rajhi Saudi Equity Fund

Table 1: Key Information on Al Rajhi Saudi Equity Fund

Fund Type	Open-Ended Equity Fund
Fund Headquarters	Kingdom of Saudi Arabia
Risk Level	High
Establishment Date	1992
Initial Unit Price	SAR 100 per unit
Fund Currency	Saudi Riyal (SAR)

Source: Prepared by the researchers based on Al Rajhi Capital – Al Rajhi Saudi Equity Fund information from the official website: <https://www.alrajhi-capital.com/asset-management/al-rajhi-saudi-equity-fund>

Investment Concentration Policy of the Fund

The **Al Rajhi Saudi Equity Fund** achieves its investment objectives primarily by investing in **shares of companies listed on the Saudi stock markets**, which may include initial public offerings (IPOs) or equity holdings, ranging from 50% up to 100% of the fund's assets.

Secondary allocations include:

- Cash and money market instruments: up to 50%.
- Islamic investment funds: 0% to 30%.
- Real estate funds: up to 15%.

Table 2: Investment Concentration Policy of Al Rajhi Saudi Equity Fund

Investment Type	Maximum Allocation	Minimum Allocation
Equities, Initial Public Offerings (IPOs), and equity rights	100%	50%
Cash, money market instruments, and money market funds	50%	0%
Other publicly offered investment funds with similar objectives and strategies, including exchange-traded funds (ETFs)	30%	0%
Publicly offered securities, including exchange-traded real estate funds	15%	0%

Source: Prepared by the researchers based on the 2024 Report of Al Rajhi Saudi Equity Fund from the official Al Rajhi Capital website: <https://www.alrajhi-capital.com/asset-management/al-rajhi-saudi-equity-fund>

Performance of Al Rajhi Saudi Equity Fund

As shown in the table, the net asset value (NAV) of the Al Rajhi Saudi Equity Fund has consistently increased from 2020 to 2024. This growth is mainly due to the rising number of units issued each year, reaching 2,240,126,879 units in 2024. The fund also recorded a steady increase in NAV per unit over the last five years. Regarding fund profits, distributions are not made to investors; instead, profits and dividends are reinvested into the fund, increasing the value of each unit. The expense ratio of the fund has remained relatively stable, not exceeding 3% from 2020 to 2024, reflecting the fund's philosophy of efficient management aimed at minimizing costs and expenses while maximizing returns for investors.

Table 3: Performance of Al Rajhi Saudi Equity Fund over the Last Three Years

Indicator	2020	2021	2022	2023	2024
net asset value (nav) at year-end, sar	318,863,445	498,250,969	609,539,760	962,840,193.73	2,240,126,879
nav per unit at year-end, sar	587.3733	872.9282	897.0241	1,181.7897	1,475.1017
highest nav per unit, sar	590.9697	915.6006	1,137.3218	1,179.2267	1,493.1403
lowest nav per unit, sar	365.6867	581.6438	860.1981	901.5613	1,178.6449
units issued at year-end	542,863	570,781.16	679,513.26	814,730.60	1,518,625
expense ratio (%)	2.40	2.33	2.25	2.08	2.10
dividend policy	Reinvested; no distributions				

Source: Prepared by the researchers based on the 2024 reports of Al Rajhi Saudi Equity Fund from the official website: <https://alrajhi-capital.sa/asset-management/al-rajhi-saudi-equity-fund>

Annual Returns of Al Rajhi Saudi Equity Fund

The annual returns of the Al Rajhi Saudi Equity Fund were generally positive over the past decade (2013–2022), with the exception of 2015, which recorded a negative return due to the aftermath of the 2014 oil crisis. This crisis led to a decrease in investment volume and fund profits, particularly affecting shares of companies operating in the petroleum and related sectors.

Overall, annual returns were relatively high, although some years showed fluctuations, notably 2014, 2017, and 2022. Despite the global market disruptions in 2020 and 2021, the fund achieved significant returns, reaching the highest annual return of 48.62% in 2022. This peak was driven by the gradual recovery from the COVID-19 pandemic, diversification of investments across multiple sectors, the fund's adoption of financial technology for investor services, and a dynamic investment strategy capable of adapting to external market changes.

Table 4: Annual Total Returns of Al Rajhi Saudi Equity Fund (2013–2022)

Indicator / year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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Fund annual return (%)	30.48	1.61	-12.78	8.21	2.75	11.44	10.46	19.41	48.62	2.76	31.75	24.88
Benchmark index (%)	28.76	-4.83	-14.98	10.56	3.98	11.37	12.35	11.93	37.33	-7.04	20.25	4.11

Source: Prepared by the researchers based on the 2024 report of the Al Rajhi Saudi Equity Fund from the official website: <https://alrajhi-capital.sa/asset-management/al-rajhi-saudi-equity-fund>

Shariah Guidelines for Investment in the Fund

The fund is governed by investment and trading rules issued by its Shariah Board. Before discussing these guidelines, it is necessary to clarify the types of joint-stock companies in which the fund may invest. These companies are classified according to their purpose, activity, and the rules governing dealings with them into three types

- **Type 1:** Companies with lawful (permissible) purposes and activities. Investment and trading in their shares is allowed in accordance with the conditions and rules of sale.
- **Type 2:** Companies with prohibited purposes and activities. Investment and trading in their shares is strictly forbidden.
- **Type 3:** Companies whose purposes and activities are generally permissible but may involve some prohibited elements, such as dealing with interest in lending or deposits. The Shariah Board has set the following rules for this type:

First: Investment and trading in shares of this type must observe the following controls:

- Dealing with this type of company is only permissible if necessary. If there are other permissible companies that meet the investment needs, they should be preferred, and this type should be avoided.
- Total interest-bearing debt (long-term or short-term loans) must not exceed 30% of the company's total market value, based on the quarterly average for each quarter of the year.
- Revenue derived from prohibited elements must not exceed 5% of the company's total revenue, whether from interest-based investments, prohibited activities, or ownership of prohibited assets.

Second: If the company's status changes such that the above rules no longer apply, its shares must be sold within **90 days** of becoming aware of the change.

Third: Determining the company's activities and permissible investment ratios should rely on the most recent financial statements issued for the stated purpose.

Fourth: It is prohibited to participate in establishing companies whose bylaws specify prohibited dealings in their activities or purposes.

Fifth: The above rules apply to investment and trading in shares whether conducted directly by the company, through intermediaries in trading, or in managing other people's funds, as in investment funds (Ijara or Mudarabah), or through agency and portfolio management.

The fund manager is responsible for **excluding prohibited elements** from shares and other securities in accordance with the Shariah Board's guidelines

Fund Termination

This fund is an open-ended fund, and there is no specific date set for its liquidation. However, the fund manager has the right to fully liquidate the fund if it becomes clear that the fund's asset size no longer justifies its practical, efficient, and economically viable management, or due to changes in the regulations governing the fund's management, or if the fund's size falls below the minimum limit required for its continuation as set by the Capital Market Authority, or for any other emergency reason. In the event of a decision to liquidate the fund, the manager shall take the following steps

- Send a written notice of the liquidation to the Capital Market Authority and to unit holders at least **21 days** prior to the liquidation date.
- Settle all obligations due from the fund's assets and distribute any remaining amounts (if available) to unit holders registered on the liquidation date, on a **proportional basis** according to the number of units owned by each holder.
- The fund manager must announce the fund's termination and the liquidation period on both the fund's official website and the market's official website

Conclusion

Islamic investment funds represent a modern mechanism for attracting investments from small savers and deploying them through investment units that contribute to the development of financial markets. These funds come in various types, ranging from closed-end to open-end funds, as well as other types that comply with the requirements of Islamic financial transactions. This study has shown that the Al Rajhi Saudi Equity Fund achieved good performance during the study period, which confirms the validity of the proposed hypothesis.

Results: The study reached the following conclusions

- Islamic investment funds are considered an attractive and appealing option for a wide range of economic participants, especially small investors who prefer to deal with interest-free funds.
- There is no risk of "mixing" that many fear, as Islamic investment funds have completely independent accounts from the establishing entity.
- Islamic funds operate on the principle of profit and loss sharing, which reassures small investors about investing in these funds.
- Islamic investment funds have achieved wide geographical spread in many countries that have quickly adopted them.
- Islamic investment funds have recorded a higher nominal annual growth rate compared to conventional investment funds over the last five years.
- Saudi Arabia is the country with the largest number of Islamic investment funds in the world.
- Saudi Arabia, Malaysia, and Indonesia together hold more than half of the global assets of Islamic investment funds.
- Open-ended Islamic investment funds constitute the vast majority of all Islamic investment funds globally, with their assets primarily concentrated in capital markets and equity in other institutions.

- The Al Rajhi Saudi Equity Fund is an open-ended fund, with most of its investments concentrated in equities, initial public offerings (IPOs), and equity stakes.
- The net assets of the Al Rajhi Saudi Equity Fund have continuously increased from year to year, generating high profits during the study period.
- The fund does not distribute profits; instead, they are added to the unit value, while expenses remain almost constant throughout the study period.
- The annual returns of the Al Rajhi Saudi Equity Fund fluctuate from year to year.
- Observing the Shariah guidelines of the Al Rajhi Saudi Equity Fund, we note that interest-bearing loans are limited to 30% of the total market value, and revenue from prohibited elements must not exceed 5% of total company revenue. This raises questions about the legitimacy of these limits, as any form of riba (interest) is prohibited in the Qur'an, regardless of its proportion, which could risk investor confidence in these funds.
- The fund manager has the right to liquidate the fund if its size falls below the minimum threshold required for its continuation, as determined by the Capital Market Authority.

Recommendations:

- Promote the creation of diverse Islamic investment funds, whether through banks or by encouraging individuals to establish such funds, given their essential role in driving economic development and growth.
- Saudi Arabia and Malaysia should continue to support and expand Islamic investment funds in order to retain their leading position in the global Islamic investment fund sector.
- Arab countries, including Algeria, should provide comprehensive legal and regulatory support for the operation of Islamic investment funds, as these funds serve as a vital financial resource for financing infrastructure projects, stimulating financial markets, and attracting capital that seeks interest-free investment opportunities.

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