

Why sponsors are in 'a bottleneck' as Shariah-compliant funds expand in DC Plans

'We need to make sure that everyone who is eligible to participate in the plan has the opportunity to do so and can benefit from it,' says Normandin Beaudry's Dimitri Poliak



By [Josh Welsh](#)

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Shariah-compliant investing is moving into the mainstream of Canadian defined contribution (DC) plans, as a growing number of plan sponsors are starting to offer faith-based investment options that align with Islamic principles, primarily to increase access for Muslim plan members.

But as plan sponsors rush to add these options, DC plan and investment experts believe they're also navigating a complicated set of fiduciary, operational, and communication challenges.

As Hash Assad suggests, the main barrier isn't on the product side but at the employer level.

"The employers are being a bottleneck as they decide whether to add such funds to their plan menus," said Assad, executive financial consultant with Assad Wealth Management, noting they often facing lengthy approval processes, limited awareness, or questions about demand. In some cases, only a small portion of eligible Muslim employees request the option, while many others may not even know it exists.

"They're not making these funds available from the menu and it takes a long time for them to go through the process of approving these funds," Assad explained, noting he doesn't see this resistance as intentional but rather just a mix of "processes, systems, approvals and demand" that slows adoption.

Michael Banfield explained that religious restrictions have long kept many Muslim investors from fully participating in group retirement plans, resulting in "very low participation rates" compared to other groups. It wasn't until roughly five years ago, as Canada's Muslim population grew, plan sponsors and advisors began asking what investment options could meet these members' needs.

"Historically, this group has been forced into what I what I consider sub-optimal investments, trying to find investments to fit their religious beliefs," noted Banfield, head of Canada retirement investment product and head of global retirement investment partnerships at Manulife Investment Management. "They would be given a highly concentrated gold fund or a cash account where they're not available and they're not able to participate in the upside of capital markets, so they're put into a very narrow box. And so we've seen a bit of a groundswell among investors, because, like any other investor, Muslim investors like to make money too. They want to participate in capital markets so now we're seeing more solutions available."

Still, Banfield acknowledged the challenges because [Shariah-compliant funds](#) prohibit sectors like alcohol, pork products, adult entertainment, military equipment and weapons. Yet, some solutions still offer meaningful market exposure, Banfield added, noting that Shariah-compliant funds often look more familiar than many assume.

"If you look at any broad-based US equity fund and compare that to a typical Shariah-type index, you will see significant overlap," he said, citing names like Nvidia, Microsoft, Apple, Alphabet, and Tesla as common to both.

The rise of popularity in Shariah-compliant funds has largely been driven by Canada's growing Muslim population, the push to reflect workforce demographics in retirement offerings, and [CAPSA guidelines encouraging investment lineups to meet member needs](#), explained Corinne Ah Choon, principal of investments and DC at Eckler.

Typically, uptake is around 5–10 per cent, which she considers normal, though she expects more sponsors to add these funds [as DEI remains a priority](#). She also noted that some non-Muslim members choose these products, often due to their ESG overlap, especially when no dedicated ESG fund is available.

Arup Datta believes Shariah-compliant investing in DC plans makes intuitive sense because “many Muslims will believe in Shariah compliance. Right away, you see why it should be a good fit in the DC plan,” said Datta, senior vice president, head of team at Mackenzie Global Quantitative Equity.

Datta was quick to highlight Mackenzie launched its Sharia fund partly because the Muslim population in Canada is “growing at a quicker pace than most other religions.”

While assets are still modest, about \$40-50 million USD today versus nothing two years ago, he's pursuing international growth, especially in markets like Malaysia and Indonesia where large DB plans often have both conventional and Shariah-compliant segments.

“Shariah-compliant funds are actually the most frequently added option we've seen in DC plans over the last few years,” noted Ah Choon, adding that all major Canadian record keepers now offer them on their core platforms, making them accessible even to smaller plans.

Communication remains essential

Meanwhile, Dimitri Poliak, principal at Normandin Beaudry, stressed that clear, detailed communication is essential when introducing Shariah-compliant funds into a DC plan. These products, he said, are designed to accommodate a group that otherwise would not have been able to participate in the plan, so sponsors must go beyond the standard fund sheet description.

Generic disclosures stating that a fund complies with Sharia principles, he argued, “don't mean much to the average individual.”

Instead, sponsors should ensure members - Muslim or not - understand how the fund works and the principles behind it, to avoid confusion or negligent misrepresentation and allow members to properly assess the risks before investing.

Poliak sees the primary value of Shariah-compliant funds in DC plans as enabling access.

“We need to make sure that everyone who is eligible to participate in the plan has the opportunity to do so and can benefit from it,” he said, adding whether that's through contributions, lower investment costs, or the ability [to build retirement savings](#).

But he cautioned that these decisions come with operational and governance challenges. Before adding such an option, sponsors must determine if they're strategically ready, ensure they can “continually oversee these funds, both from a provider perspective, but also from an investment perspective,” and assess any additional risks introduced by accommodating specific member needs, especially if those needs affect diversification or require custom solutions.

Ah Choon also stressed that communication about Shariah-compliant funds must be “inclusive and very respectful of that group and their beliefs” while remaining clear and factual. She suggests highlighting that the fund aligns with Islamic principles for those seeking faith-based investing but also making it clear that it's just one choice “of a broader investment menu.”

“Being inclusive and embracing diversity means providing access and getting rid of clear and specific barriers to participation for certain demographics,” she said.

Plan members should understand the fund's ethical screens and inclusions, its faith-specific nature, and its diversification and performance characteristics.

“It all comes down to just being inclusive, being respectful, but also being factual and clear, so that members who are selecting this option really know and understand what they are getting into when they're selecting this option,” she said.