

Purification Formula for Saudi Equity Funds

Step 1: Calculate the amount of interest in each company in the portfolio. Let say company A earned during the year 2005, \$500 from interest.

If Company A paid a tax on its income for the year 2005, and then interest earning should be netted. If tax was, say 10% then only \$450 should be considered for purification purpose.

Step 2: Divide this amount on the total number of shares of this company, let's assume company A has 10,000 shares outstanding in the market. The outcome is \$.045 for each share.

Step 3: Multiply this number by the number of company A, shares held in the portfolio. If for example we hold 50 shares, then the amount to be disposed off for this company is \$2.25.

If the share is held in the portfolio for less than one year, then we divide 2.25 over 12. Let us say we held it for only 9 months. Then only \$ 1.69 needs to be disposed off out of our investment in this company.

Step 4: We do the same exercise for all the companies in the portfolio. Suppose we ended up with an amount equal to \$36.5. This would be the amount we need to dispose of to charity from the assets of the fund.

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