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purepofo: A Cutting-Edge Tool for Comprehensive Halal and ESG Screening with Multi-Faceted Stock Performance Assessment

Dr. Hazem Hamoudia[1*], Dr. Firdaus Fanny Putera Perdana[2]

[1* Contact Author] purepofo.com, 81827, Germany

[2] IPMI Institute, Case Center, Jl. Rawajati Timur I No.1, RT.3/RW.2, Rawajati, Kec. Pancoran, Kota Jakarta Selatan, Daerah Khusus Ibukota Jakarta 12750, Indonesia

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Abstract

This article examines the application of the stock screening tool "*purepofo" (www.purepofo.com)*, which integrates Halal and Environmental, Social, and Governance (ESG) criteria with a comprehensive performance assessment based on widely used financial metrics. The article evaluates *Purepofo*'s ability to align Shariah compliance and ESG standards with performance-driven investing, addressing ethical and financial imperatives. The study presents a comparative analysis of the financial performance of stocks screened using a combined screening approach versus non-screened counterparts, while also outlining methodological limitations. Key findings reveal that Halal and ESG-screened stocks outperformed peers in several financial dimensions, including operational efficiency, dividend reliability, and resilience to market volatility. Notably, these stocks demonstrated higher Sharpe Ratios, more substantial gross margins, and consistent revenue growth, challenging the perception of a trade-off between ethical compliance and financial performance. However, limitations, such as the underrepresentation of high-growth stocks and valuation complexities, highlight the need for further methodological refinement. The discussion emphasises the potential of a customised financial metrics model to support investors in achieving competitive returns without compromising ethical integrity. The results suggest that Halal-ESG stocks offer more than symbolic ethical Value; they exhibit measurable financial resilience, governance, and sustainability strength. While alignment with Maqasid al-Shariah principles remains central, the data—rather than ideals alone—positions Islamic finance as a leader in sustainable investing. This article contributes to the growing discourse on Halal-ESG integration by offering actionable insights for Islamic finance portfolio managers, Shariah scholars, and thought leaders. Bridging ethical compliance, sustainability, and financial performance highlights the role of integrated tools in advancing innovation and inclusivity in global finance.

Keywords: Halal Investing, Shariah Compliance, ESG Screening, Stock Performance, Islamic Finance

1 Introduction

Environmental, Social, and Governance (ESG) investing has gained momentum since the early 2000s, bolstered by initiatives such as the United Nations' Principles for Responsible Investment (PRI), which have solidified its role in global finance. Since 2018, assets under management in ESG funds have surged 42% (Pedersen et al., 2019). Importantly, investing with a conscience is proving to be a moral choice and a financially sound strategy. Studies show that companies with strong ESG practices often outperform their peers. Between 2014 and 2019, ESG investments in North America outperformed traditional investments by an average of 2–4% annually (Drei et al., 2019). Similarly, high-ESG portfolios in China demonstrated superior stability during market downturns and outperformed low-ESG counterparts by 3–5% (Broadstock et al., 2020). The resilience of ESG investments was particularly evident during the COVID-19 crisis.

This global shift toward ethical business practices is also evident in Muslim communities, where Halal compliance aligns with sustainability principles. A study of 270 publicly listed companies in Muslim-minority countries found that firms with both Halal and high ESG ratings significantly boosted earnings per share (Kartikasari, 2023). Over five years, ESG index funds outperformed non-ESG counterparts by up to 1.5%, underscoring the synergy between Halal compliance and sustainability as a globally robust investment strategy (Volodina & Trachenko, 2023). As demand for ESG-compliant offerings among Halal investors grows, tools are urgently needed to combine Islamic financial principles with widely adopted sustainability criteria.

Despite this progress, significant gaps remain. The accessibility and quality of detailed data on ethical stocks are still limited. While data-centric tools, such as screening platforms integrating Halal and ESG aspects, have emerged, the landscape remains immature. For example, existing tools like Zoya and Musaffa excel in determining Halal compliance but often underemphasise ESG criteria and lack comprehensive financial performance analysis. Similarly, robo-advisors and custom portfolio builders like ShariahPortfolio and Wahed Invest do not provide stock-by-stock selection capabilities. These limitations highlight the need for a solution integrating Halal compliance, ESG screening, and detailed financial metrics.

Purepofo addresses this gap through an integrated framework that combines Halal and ESG screening criteria with extensive financial performance metrics. This tool formed the basis for our data-driven empirical research.

This paper presents the methodology and findings of an empirical analysis of Halal and ESG-compliant stocks assessed using *purepofo*. In August 2024, the study analysed 644 Nasdaq-listed stocks using publicly available data on fundamentals and ESG metrics. The sample was selected for consistency and completeness. The paper is structured as follows: the introduction sets the stage and identifies the research gap; the literature review explores existing approaches to Halal and ESG screening and stock performance assessment; the methodology section details the analytical approach; the results section presents key findings; the discussion examines implications for portfolio management and Islamic finance; and the conclusion summarises the paper’s contributions and outlines directions for future research.

2 Literature Review

2.1 Halal Investing

2.1.1 Historical Context and Evolution of Halal Investing

Halal investing aligns financial management with Shariah law, emphasising justice and economic equity. Prohibited activities like interest-based lending are avoided, while permissible structures like profit-sharing arrangements (e.g., *mudharabah*) are encouraged. Over time, Halal investing has evolved to include Shariah-compliant financial instruments such as *sukuk* (Islamic bonds), which emphasise asset-backed and profit-sharing mechanisms (Iftikhar, 2022; Suharti, 2021; Yussof & Haron, 2017). While debates about the Shariah compliance of specific *sukuk* structures persist, these instruments have empowered Muslim investors to participate in global markets without compromising their principles.

Islamic finance has extended its ethical framework to emerging fields like renewable energy. For instance, renewable energy initiatives in Indonesia are financed through Shariah-compliant contracts such as *istisna* (manufacturing contracts) and *wakala* (agency contracts) (Iskandar et al., 2021). This adaptability underscores the resilience and relevance of Islamic finance, which continues to innovate while adhering to Shariah principles by offering investment opportunities that are both globally appealing and ethically responsible (Billah, 2019; Hassan, 2020).

The growth of Halal investing has been closely linked to global Islamic finance standards established by organisations such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Since its inception in 1991, AAOIFI has standardised practices across accounting, auditing, governance, and Shariah compliance. These standards have enhanced financial performance and transparency, particularly in regions where they are mandatory, such as Bahrain and Qatar (El-halaby et al., 2020). Research indicates that Islamic banks adhering to AAOIFI standards exhibit higher transparency and reduced earnings management compared to those that do not (Mnif & Tahari, 2023).

Key milestones in Halal finance include the global adoption of AAOIFI standards and strengthening governance and risk management practices. For example, Malaysia's leadership in sukuk issuance has attracted a broad range of investors, reinforcing the global appeal of Islamic financial products. Beyond traditional finance, Halal investments now encompass sectors such as tourism, real estate, and technology. Innovations in smart investment platforms have further enhanced access to Shariah-compliant financial literacy tools and financing options (Gunawan, 2020).

Despite its growth, the sector faces challenges such as differing interpretations of Shariah law and limited awareness in non-Muslim markets. Nevertheless, the emphasis on ethical and sustainable investments continues to strengthen its appeal. Halal investments integrate environmental and social responsibility with financial growth (Meylinda et al., 2023).

2.1.2 Halal Compliance Screening

AAOIFI's framework is instrumental in ensuring that financial products and services avoid Haram activities. These standards uphold the ethical integrity of Islamic finance while enhancing transparency and trustworthiness (Ercanbrack, 2019). AAOIFI's standards influence corporate governance by providing clear directives for Shariah supervisory boards (Brahim & Arab, 2020; Jaffar et al., 2021).

AAOIFI is regarded as the gold standard for Islamic financial practices due to its comprehensive and globally recognised framework. Research shows that banks adhering to AAOIFI standards demonstrate improved transparency, reduced earnings management, and enhanced ethical compliance compared to those following regional or hybrid models (Elhalaby et al., 2023). This consistency strengthens investor confidence and underscores the credibility of Islamic finance.

Halal investing mandates the exclusion of industries such as alcohol, gambling, and interest-based services. Rigorous qualitative and financial screenings, such as debt-to-equity ratio limits, are applied to ensure compliance with Shariah principles. These screenings are integral to indices like the Dow Jones Islamic Index to maintain the ethical standards of investment portfolios (Sukor & Halim, 2022). Shariah compliance standards adopt a two-tiered approach that combines activity-based assessments with financial evaluations to classify stocks (Nor et al., 2019). While methodologies vary across regions, global index providers adhere to core Shariah principles (Bakar et al., 2023).

2.1.3 Challenges in Halal Investing

Halal screening tools face significant challenges, including the lack of standardisation across Islamic finance jurisdictions. This leads to inconsistent criteria and methodologies. For instance, the Dow Jones Islamic Indexes and the FTSE Shariah Global Equity Index Series employ differing screening methods that result in fragmented definitions of Shariah compliance (Bakar et al., 2023). Transparency and traceability in the Halal certification processes add complexity, particularly with emerging technologies such as blockchain, which remain in early stages of scalability and implementation (Tan et al., 2020).

Existing tools often lack the nuance to evaluate complex financial instruments that involve mixed activities. Cryptocurrencies and hybrid financial products pose additional challenges, as clear Shariah guidance remains under development (Al-Khalifa, 2022). Integrating ESG factors into Halal investing adds further complexity, as ESG metrics vary widely among providers (Atta-Darkua et al., 2020).

More sophisticated screening methodologies are needed to address these challenges. These should navigate complexities in modern financial instruments and emerging sectors like fintech while adhering to Islamic law. Enhancing transparency and traceability through technologies such as blockchain will play a critical role in maintaining the ethical integrity of Halal investing in a rapidly evolving financial landscape (Rahim et al., 2020; Wu et al., 2021).

2.2 ESG Investing

2.2.1 Emergence of ESG Investing

The evolution of Environmental, Social, and Governance (ESG) investing reflects a significant shift in the financial industry toward integrating ethical considerations into investment decisions. Rooted in the socially responsible investing (SRI) movements of the 1960s and 1970s, ESG investing initially gained traction through advocacy for civil rights, environmental preservation, and anti-war efforts. Over the decades, this framework became more formalised, particularly with the launch of the United Nations Principles for Responsible Investment (PRI) in 2006. The PRI provided global guidelines for incorporating

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European Journal of Islamic Finance

ESG factors into financial strategies, and by 2020, it had attracted over 2,300 signatories managing more than $80 trillion in assets (S. Kim & Yoon, 2022; Rubanovici, 2020).

In contemporary finance, ESG considerations are now central to investment practices and regulatory frameworks. For instance, mandatory disclosures have been introduced in Europe to promote transparency and sustainability (Vorontsova et al., 2023). ESG-themed investments have demonstrated their alignment with long-term societal benefits and their capacity to deliver competitive financial returns, reinforcing their relevance in modern portfolio management (Naffa & Fain, 2020). Companies with robust ESG practices often attract greater investment due to their resilience, operational efficiencies, and alignment with emerging societal trends (Efimova et al., 2021; Zhan & Santos-Paulino, 2021).

A related but distinct aspect of ethical investing involves screening for controversies associated with certain business activities. These include industries or practices such as producing controversial weapons, animal testing, and the unsustainable use of resources like palm oil. Addressing these controversies alongside ESG metrics enables investors to avoid supporting companies whose operations conflict with broader societal and ethical values.

2.2.2 Key Components of ESG Criteria

The emphasis on ethics and sustainability in investments has elevated ESG criteria to indispensable tools for evaluating corporate practices. These criteria extend beyond traditional financial metrics and align closely with Islamic finance principles. Integrating ESG with Shariah values enables investors to craft portfolios that uphold ethical integrity and compliance.

2.2.2.1 Environmental Criteria

Environmental criteria focus on a company’s impact on the planet. They examine resource use, pollution, and climate change mitigation. In Islamic finance, stewardship (*khilafah*) underscores the duty to protect the environment as trustees of God’s creation. Initiatives like the Islamic Development Bank’s (IsDB) sustainable water management projects exemplify this commitment. Similarly, Islamic microfinance institutions fund environmentally sustainable agricultural practices, promoting resource efficiency and pollution reduction (Kim & Li, 2021).

2.2.2.2 Social Criteria

Social criteria assess how companies manage relationships with employees, suppliers, customers, and communities. These align with Islamic finance’s emphasis on justice (*adl*) and public welfare (*maslahah*). Practices like *Takaful* (mutual support) operationalise these principles through collective insurance models, fostering social solidarity (Park & Oh, 2022). Ethical sourcing practices and equitable workplace arrangements, such as profit-sharing *mudarabah* contracts, further integrate Islamic values into ESG frameworks, ensuring social justice and inclusion (Powaski et al., 2021).

2.2.2.3 Governance Criteria

Governance criteria evaluate accountability, transparency, and ethical behaviour in corporate operations. Islamic finance mandates principles such as *taharah* (purity, cleanliness) and *hisbah* (accountability), exemplified by Shariah supervisory boards that oversee compliance with Islamic law. These boards enhance governance structures by reviewing contracts and auditing financial products. They foster investor trust and mitigate risks associated with opaque practices (Zhong, 2023). Additionally, Islamic governance emphasises participatory decision-making (*shura*) and ensures inclusivity and alignment with communal welfare (do Amaral et al., 2023).

2.2.3 Intersection of ESG and Financial Performance

Empirical evidence consistently highlights the positive correlation between ESG performance and financial returns. For example, a study of Chinese A-share listed companies found that strong ESG performance significantly enhances financial performance, particularly during a company’s growth phase (Gao et al., 2023). ESG-compliant firms also benefit from improved stakeholder relations, operational efficiencies, and alignment with long-term societal trends (Giese et al., 2019).

In Islamic finance, ESG integration complements Maqasid al-Shariah principles, which prioritise ethical behaviour and social welfare. Instruments like green sukuk exemplify this synergy by combining financial innovation with sustainability objectives (Azman & Ali, 2016; Liu, 2023; Muhamad et al., 2022). However, these outcomes are not universal. Variability exists depending on regional market dynamics, regulatory frameworks, and the maturity of ESG initiatives. These highlight the need for tailored strategies in applying ESG within Islamic finance. The COVID-19 pandemic underscored ESG’s resilience, with high-ESG portfolios often outperforming low-rated peers. However, sector-specific factors also played a role, as industries like hospitality faced financial strain despite high ESG ratings (Broadstock et al., 2020).

2.3 Integration of Halal and ESG Criteria

2.3.1 Convergence of Halal and ESG Screening

Halal and ESG investing share a common foundation of ethical integrity, albeit with distinct focuses. Halal investing adheres to Shariah principles, prohibiting interest, excessive uncertainty, and unethical business activities. ESG, on the other hand, emphasises environmental sustainability, social equity, and corporate governance. Despite these differences, both frameworks align in promoting accountability, transparency, and long-term value creation.

This convergence is exemplified by Shariah-compliant ESG indices, which screen for both Islamic and sustainability criteria. For instance, Islamic banks in Southeast Asia are adopting ESG metrics to enhance credit risk assessments and embed ethical practices into financial operations (Chen & Mussalli, 2020). Similarly, green sukuk bonds illustrate the practical application of Halal-compliant financing to support environmentally sustainable projects (Khavarinezhad et al., 2021; Liu, 2023).

2.3.2 Challenges in Integrating Halal and ESG

Despite their synergies, Halal and ESG integration pose unique challenges. Shariah compliance excludes interest-based financial institutions and companies with excessive debt, reducing the pool of eligible investments. This contrasts with ESG frameworks, which evaluate companies on diverse metrics, including debt sustainability. Moreover, regional variations in Shariah standards complicate the development of uniform screening methodologies that pose challenges for global investors (Hassan et al., 2021).

Additionally, some industries that meet ESG standards may still conflict with Islamic prohibitions. For example, alcohol manufacturers with strong environmental initiatives are excluded under Halal principles. Addressing these challenges requires innovative tools, such as AI-driven robo-advisors that customise portfolios to align with both frameworks (Irfany, 2022).

2.3.3 The Role of Extended Screening Methodologies

Integrating ESG and Halal principles represents a transformative approach to ethical finance. By aligning Shariah compliance with global ESG standards, investors can achieve portfolios that balance financial performance with societal and environmental goals. The emergence of innovative tools like ESG robo-advisors and Shariah-compliant ETFs signals progress while underscoring the need for continued innovation and standardisation.

Emerging technologies further facilitate this integration. Machine learning algorithms, for instance, can assess compliance at scale and provide real-time updates on ESG and Shariah adherence. These tools empower investors to construct diversified portfolios without compromising ethical principles or financial performance (Katterbauer & Moschetta, 2022).

2.4 Stock Performance Assessment in Halal and ESG Contexts

2.4.1 Stock Performance Metrics

Traditional stock performance metrics such as Return on Equity (ROE), Price-to-Earnings (P/E) ratio, and dividend yield provide quantitative insights into a company's financial health. ROE, for instance, evaluates how efficiently a company utilises its equity to generate profits (Lucia et al., 2020). While these indicators are valuable for conventional investing, they are insufficient in Halal and ESG investing, where ethical considerations are paramount. For instance, ROE does not address whether profits are generated from permissible (Halal) activities or align with broader ethical values.

Shariah-compliant investments employ financial ratio analysis to address these gaps. They also set thresholds for non-permissible income and debt-to-equity ratios. For example, Islamic finance standards typically cap income from non-Halal sources at 5% of total revenue (Naimy et al., 2021). Similarly, while the P/E ratio helps evaluate a stock's valuation, it fails to account for adherence to Shariah principles. A company with an attractive P/E ratio might still be excluded if it engages in gambling or interest-based finance activities. Likewise, dividend yield metrics do not distinguish whether dividends originate from permissible sources, a critical concern in Islamic finance (Banerjee, 2019).

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Conventional metrics also fall short in ESG investing by overlooking environmental, social, and governance factors. For instance, a high ROE might reflect strong financial performance but could mask environmentally harmful practices or poor labour standards (Garrido-Merchán et al., 2023). Recognising these limitations, dual-layered screening mechanisms have been developed in Islamic finance, combining sector-based exclusions with financial ratio analysis. This ensures compliance with both financial and ethical principles (Khan, 2019).

Emerging Shariah-compliant ESG indices integrate traditional financial metrics with ethical and sustainability screens. These indices provide a holistic assessment by incorporating environmental stewardship, governance quality, and social responsibility alongside Shariah compliance. This dual approach supports the construction of financially robust, ethically aligned portfolios resilient to market shocks (López-Toro et al., 2021).

2.4.2 Stock Assessment Tools

Ethical investing requires frameworks integrating traditional financial metrics with qualitative evaluations of Shariah and ESG compliance (Jabeen & Kausar, 2021). Such frameworks enable investors to identify risks overlooked by conventional metrics, such as ethical misalignments or governance weaknesses. By integrating these assessments, investors can evaluate long-term stability and growth potential while ensuring alignment with financial and ethical objectives (Qoyum et al., 2021).

Recent advancements in stock assessment tools address the dual objectives of financial performance and ethical integrity. Algorithm-driven platforms like robo-advisors deliver personalised investment recommendations (Katterbauer & Moschetta, 2022). Dual-layered indices simplify investment decisions by integrating financial benchmarks with rigorous ethical standards. These tools reduce complexity and maintain competitive financial performance. This appeals to investors who seek simplicity without compromising ethical alignment (Lee & Isa, 2022).

User-centred platforms, often called "Do-It-Yourself" tools, allow investors to tailor portfolios based on specific ethical preferences and performance criteria. Despite these advancements, there remains a need for sophisticated tools that seamlessly integrate financial performance metrics with robust Halal and ESG screening capabilities. Meeting this need is crucial as Halal and ESG investing continue to evolve to accommodate growing investor demands for tools that align financial objectives with broader ethical values.

2.4.3 Case Studies and Empirical Evidence

Research demonstrates the growing integration of Halal and ESG criteria in portfolio management. For instance, studies on the Indonesia Shariah Stock Index (ISSI) reveal that portfolios combining Islamic screening with ESG criteria often outperform conventional portfolios, offering greater flexibility and superior long-term performance (Qoyum et al., 2020). Similarly, Islamic equity funds incorporating ESG screening deliver competitive risk-adjusted returns, challenging the misconception that ethical investing compromises financial performance (Abdullah, 2022).

However, integrating ESG and Halal criteria is not without challenges. In China, ESG screening limits portfolio diversification, reducing performance compared to non-screened funds (Wang et al., 2021). Emerging markets face similar issues; strict ESG filters increase transaction costs and lower returns, particularly for Islamic equity funds with already restricted investment options (Jin, 2020). The MENA region's Islamic banks often score lower on ESG metrics due to underdeveloped sustainability practices and a narrow focus on Shariah compliance (Jawad & Abdulla, 2022). In Europe, aggressive ESG screening excludes high-performing stocks that eventually constrain diversification and returns (Kuzmina et al., 2023). Globally, concentrated ESG screenings in markets with limited ESG-compliant assets result in higher volatility and reduced returns (Plagge & Grim, 2020).

Despite these limitations, studies underscore the resilience of ESG and Islamic funds. For instance, Islamic stocks have consistently outperformed conventional stocks during financial crises (Al-Yahyaee et al., 2020). Bayesian optimisation techniques in ESG portfolio construction further demonstrate that integrating ESG criteria can enhance performance without compromising ethical standards (Garrido-Merchán et al., 2023). Moreover, European portfolios with high ESG scores perform on par with traditional portfolios, proving ethical investing does not necessitate lower returns (Zehir & Aybars, 2020).

Investor demand for ESG and Islamic funds continues to rise as these funds align with sustainability goals while offering competitive returns. For example, ESG-themed funds were preferred during the COVID-19 pandemic due to their perceived resilience (Ferriani & Natoli, 2020). In India, ESG funds have shown strong diversification potential and attract investors aiming to mitigate risks while supporting sustainable objectives (Dutta & Paul, 2023). Globally, ESG investments are increasingly regarded as viable vehicles for delivering societal impact alongside financial returns (Naffa & Fain, 2020).

Islamic banks are also integrating ESG principles into their operations. The Value-Based Intermediation (VBI) initiative in Malaysia has supported renewable energy projects and community development, showcasing how ESG integration enhances resilience and sustainability (Ahmad Yani et al., 2020). Similarly, Jordanian Islamic banks adopting ESG strategies report improved governance, social responsibility, and environmental awareness, leading to strategic success (Khalaf Alafi, 2023).

3 Methodology

The methodology employed in this study integrates multiple dimensions of stock evaluation, emphasising financial performance while integrating Halal compliance and ESG alignment. This approach highlights the intersection of ethical investing and strong financial performance.

3.1 Data Sources

The study utilised publicly available and standardised sources for data collection on company fundamentals, ESG scores, and controversies. Financial metrics were calculated using widely recognised methods to ensure comparability and reliability. The stock universe was defined based on the availability of data across the following dimensions:

- Fundamentals: Including market capitalisation, revenues, earnings, and dividend payments.
- ESG scores: Obtained from established ESG rating agencies, encompassing environmental responsibility, social impact, and governance practices.
- Controversy data: Focused on involvement in controversial activities, such as controversial weapons, animal testing, and pesticide usage.
- Halal Compliance: Determined as part of *Purepofo's* screening process, based on AAOIFI Shariah standards.

3.2 Data Preparation and Screening

The empirical process focused on screening and categorising stocks to ensure ethical compliance and strong financial metrics. Key steps included:

- Screening stocks for Halal compliance, according to AAOIFI Shariah standards.
- Filtering for non-controversial status and ESG alignment using *Purepofo's* proprietary methodology.
- Calculation of financial performance indicators, including revenue growth, profitability ratios, and dividend quality metrics.
- Data will be compiled into performance quality dimensions, including performance quality, dividend quality, and growth quality.

3.3 Analysis and Visualisation

The analysis leveraged Python-based tools to process Purepofo's screening results and conduct subgroup comparisons. Key steps included:

- Classifying stocks into subgroups based on Halal compliance, ESG alignment, and non-controversial status.
- Evaluating the financial performance of these subgroups using *Purepofo's* performance metrics.
- Comparison of results across subgroups to identify trends and generate actionable insights.
- Visualising findings through line and bar charts to improve interpretability and clarity.

By focusing on empirical validation, the study aligns ethical compliance with financial effectiveness, ensuring that screened stocks comply with Shariah principles while delivering strong returns and growth potential. This dual focus underscores the

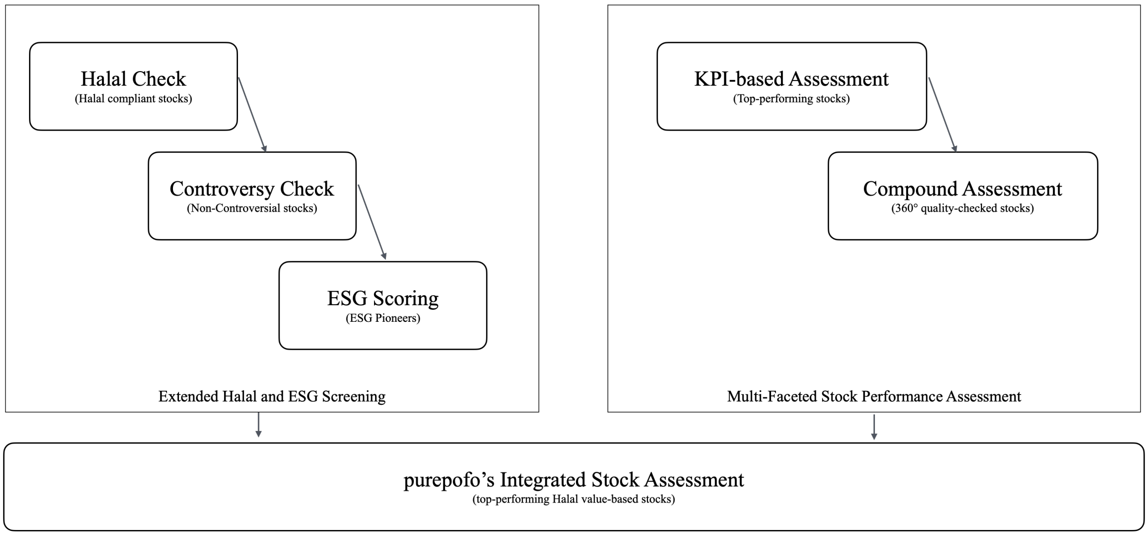
EJIF
European Journal of Islamic Finance

sustainable competitiveness of ethically aligned stocks, contributing to the broader discourse on integrating Halal and ESG principles into mainstream finance.

4 Results: Analysis of the Impact of Halal and ESG Compliance on Stock Performance

This section presents the findings derived from applying *Purepofo's* methodology to a diverse portfolio of stocks. The results illustrate how the approach identifies top-performing stocks within the expanded Halal investment universe, bridging the gap between ethical integrity and financial performance. Furthermore, the methodology provides empirical evidence that ethically aligned stocks, screened for Halal compliance and ESG criteria, consistently outperform their peers across key financial metrics.

Figure 1. *Purepofo's* Integrated Stock Assessment



Source: Created by the authors of this paper, August 2024

4.1 Methodology for Stock Assessment

Before diving into the findings, this section briefly outlines the screening and performance assessment approach employed by *Purepofo*. The approach is built on a two-layer model, combining a comprehensive Extended Halal and ESG Screening with a Multi-Faceted Stock Performance Assessment. This concept is illustrated in Figure 1.

4.1.1 Extended Halal Screening

- Halal Check: This stage ensures that stocks align with AAOIFI standards, filtering out companies involved in non-compliant activities and ensuring that financial ratios fall within acceptable Islamic limits.
- Integration of Controversy Check: A controversy check is performed based on business activities flagged for controversies, such as Animal Testing.
- Integration of ESG Scoring: ESG scoring is seamlessly integrated with the Halal compliance check, evaluating companies based on their environmental stewardship, social responsibility, and governance practices.

4.1.2 Multi-Faceted Stock Performance Assessment

4.1.2.1 KPI-based Assessment

The KPI-based Assessment evaluates stock performance based on established key performance indicators for assessing stocks. *Purepofo* compiles metrics based on the following categories:

- Dividends Analysis: Evaluates the consistency, long-term reliability, and growth of dividend payments over time. This is crucial for income-focused investors and reflects the company's financial health and shareholder commitment.

- Financials Overview: Analyses critical financial ratios such as return on equity (ROE), debt-to-equity ratio, and interest coverage. These indicators provide insights into a company’s profitability, financial stability, and risk profile.
- Past Performance Metrics: Focuses on short-term metrics, including revenue growth, profit margins, and operational efficiency. These metrics help assess a company’s immediate performance and competitive position.
- Future Trend Analysis: Examines forward-looking indicators like earnings projections, market trends, and strategic initiatives. This analysis predicts the company’s growth potential and long-term viability.
- Stock Price Evaluation: Considers the stock’s market performance, including price-to-earnings (P/E) ratio, cumulated price returns, and volatility. This helps determine the stock’s valuation and investment risk.

4.1.2.2 Compound Assessment

Purepofo uses this cross-category assessment that validates basic performance metrics using a 360° perspective. The concept lies in the inherent interdependence of stocks and a company’s performance. A company may demonstrate, for instance, strong dividend payments at a given point in time. However, a reliable dividend payment in the future may not be ensured if this company does not generate strong cash flows and has weak financials to cover dividend payments in the future. With this, *purepofo* adds a layer assessing the quality of metrics. It distinguishes the following aspects:

- Performance Quality: This core metric assesses a critical combination of financial and performance ratios that ensure growth and stability, profitability and returns, and price trends and volatility. These indicators provide insights into a company’s operational quality and stability.
- Dividends Quality: Focuses on the ability of the company to generate or keep strong dividend payments over time. It assesses the continuity of dividend payments and dividend returns, taking into account the company’s operational quality.
- Growth Quality: Evaluates the context of forward-looking indicators to determine growth potential and reliability. This metric analyses the company’s business trend, performance trend, and financial robustness to cope with business growth.

This multi-layered screening and assessment form the foundation for identifying stocks that are both ethically sound and capable of delivering strong financial performance. Stocks that went through this assessment process built the basis for the empirical analysis presented in this paper.

4.2 Quantitative Results

4.2.1 Extended Halal and ESG Screening

4.2.1.1 Sample Selection

A diverse set of 644 stocks across various industries was subjected to the integrated Halal and ESG screening and the subsequent empirical analysis. The sample represents companies that consistently disclosed ESG data. It includes companies traditionally known for strong financial performance and others with emerging potential in ethical investing.

4.2.2 Screening Steps

Halal screening was performed according to the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) standards. Applying those standards with its two-layered approach, business and financial screening revealed that 58% of the sampled stocks failed to meet Halal criteria.

Among the companies that passed the Halal criteria, 20% failed to meet the Controversy criteria, such as involvement in controversial weapons or animal testing. A subset of stocks, representing 34% of the initial pool, successfully passed the Halal and Controversy screens.

Further ESG assessment evaluated companies based on their ESG ratings sourced from Sustainalytics, a leading ESG research and analytics firm. This assessment identified 9% of the Halal-compliant and non-controversial stocks as outperforming their industry peers across all three ESG categories (“ESG Pioneers”).

4.2.3 Multi-Faceted Stock Performance Assessment

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EJIF
European Journal of Islamic Finance

The "Multi-Faceted Stock Performance Assessment" methodology outlined in the previous chapter is applied here to evaluate the financial and operational strengths of the stocks identified through *Purepofo's* screening process.

4.2.3.1 Sample Selection

The same sample of 644 stocks initially selected in the integrated Halal screening was subjected to the multi-faceted performance assessment. The following section outlines the assessment results.

4.2.3.2 Screening Results Overview

Purepofo's screening underscores ethically compliant stocks' financial health and resilience across five KPI categories. Dividends Analysis Results revealed that over half of the selected stocks demonstrated consistent dividend payouts, with a balanced approach to reinvesting in the business and providing shareholder value. While a smaller portion achieved high dividend yields, these stocks indicated strong operational performance. Financials Overview Results showed robust financial stability among the screened stocks, with nearly half maintaining favourable liquidity ratios and outperforming industry peers in profitability metrics such as a 15.6% average Return on Equity (ROE). These findings emphasise the financial prudence and operational efficiency of Halal-compliant companies.

Past Performance Analysis Results underscored consistent growth, with average revenue growth rates of 6.8% and a significant portion of stocks achieving above-industry-average free cash flow yields and profit margins. These metrics demonstrate both operational strength and market competitiveness. In the Future Trend Analysis Results, 43% of the companies received strong buy recommendations from analysts, and 13% showed forward-looking revenue and cash flow growth potential, highlighting promising long-term investment opportunities. Lastly, the Stock Price Evaluation Results revealed that over 60% of the stocks had cumulative price returns equal to or exceeding industry medians, supported by reasonable valuation metrics (e.g., P/E and PEG ratios) and low volatility, positioning them as attractive options for risk-averse investors.

Purepofo's Compound Assessment Results further validated the KPI-based findings, offering a holistic view of stock quality. The Performance Quality metric identified a distinguished 4% of stocks as top performers, with the majority achieving intermediate scores indicative of strong but varied performance. The Dividend Quality assessment revealed similar trends, identifying reliable dividend payers with consistent returns.

Growth Quality, which assesses a stock's potential for sustainable growth, indicated room for improvement, with only 1% of stocks achieving top scores. This outcome may be attributed to several factors, including many Halal-compliant companies' naturally conservative financial strategies, which often prioritise steady operations over aggressive expansion. Additionally, growth metrics in this category may reflect sectoral constraints, as some industries with higher ethical compliance overlap (e.g., consumer goods or utilities) tend to have slower growth trajectories compared to high-growth but less ethically aligned sectors, such as technology or biotech.

4.3 Comparative Analysis of Stock Performance

The findings from *Purepofo's* integrated screening and performance assessment establish a robust foundation for comparative analysis, refining our understanding of stock quality and financial performance. This analysis shows that stocks selected through *purepofo* adhere to ethical and sustainability standards and demonstrate varying levels of financial performance across multiple dimensions.

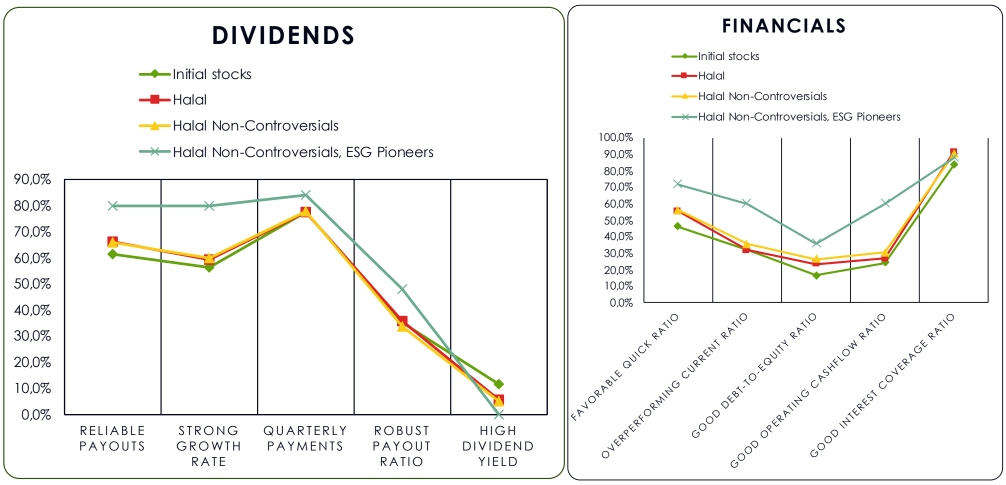
4.3.1 Performance per Metrics Category

The same subset of 644 stocks analysed in Section 4.1.2 was evaluated using Purepofo's Integrated Stock Assessment for the comparative analysis. Stocks were categorised into four groups:

- Initial stocks – The complete set of stocks before any ethical screening.
- Halal-compliant stocks – Stocks that meet Shariah compliance criteria.
- Halal-compliant Non-Controversial stocks – A subset of Halal-compliant stocks that additionally avoid exposure to controversial activities such as controversial weapons, animal testing, or pesticide use.
- Halal-compliant Non-Controversial ESG Pioneers – A refined subset of Halal-compliant Non-Controversial stocks that excel in environmental, social, and governance (ESG) practices.

Scores were analysed across five basic performance categories (Dividends, Financials, Past Performance, Future Trends, and Stock Price) and three compound categories (Performance Quality, Dividends Quality, and Growth Quality). The following sections interpret key trends from the resulting scores derived from the charts included within each comparison metric category. These charts illustrate the analysis results, enabling independent verification of the trends and observations discussed.

Figure 2: Percentage of stocks that succeeded "Dividends" and "Financials" checks



Source: Figures based on purepofo.com data from August 2024

4.3.2 Dividends

The results in the "Dividends" category (Figure 2, left side) reveal a progressive improvement in specific metrics as screening criteria intensify. Halal Non-Controversial ESG Pioneers showed substantial advantages in Reliable Payouts and Strong Growth Rate (80.0%), outperforming the initial subset. However, High Dividend Yield was lower across Halal-compliant subsets, with no ESG Pioneers achieving a high yield. This may reflect a preference for reinvesting profits over distributing them among ethically compliant companies.

4.3.3 Financials

The "Financials" category (Figure 2, right side) highlights a consistent trend of improved financial resilience in the Halal Non-Controversial ESG Pioneer group. Metrics such as Favourable Quick Ratio (72.0%) and Good Operating Cash Flow Ratio (60.0%) peaked in this group, indicating stronger liquidity and operational performance. The Good Debt-Equity Ratio improved progressively across categories, suggesting a shift toward more financially stable stocks.

4.3.4 Past Performance

The analysis of past performance (Figure 3, left side) shows that ethical screening does not come at the expense of operational efficiency. Metrics such as Competitive Return Indicators (Returns on Equity, Assets, and Capital Employed at 76.0%) and Competitive Revenue Growth (44.0%) were notably higher in the ESG Pioneer group than in the initial subset. However, Competitive Net Income (24.0%) declined slightly at the ESG Pioneer stage, possibly due to sector-specific constraints or reinvestment priorities.

4.3.5 Future Trend

In the "Future Trend" category (Figure 3, centre), Revenue Trend (28.0%) and Competitive Free Cash Flow Growth Trend (48.0%) were most pronounced among Halal Non-Controversial ESG Pioneers, suggesting forward-looking potential for sustainable growth. Net Income Trend and Net Margins Trend remained negligible across all groups, likely reflecting sector-specific dynamics or conservative financial strategies.

4.3.6 Stock Price

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The “Stock Price” category (Figure 3, right side) highlights the strong performance of Halal Non-Controversial ESG Pioneers. Metrics such as Strong Price Returns (84.0%) and Competitive P/E Ratio (56.0%) demonstrate this group’s ability to deliver Value and growth. However, favourable intrinsic Value was rare across all groups, peaking at just 1.5% in the Halal group, indicating challenges in traditional valuation metrics for ethical stocks.

Figure 3: Percentage of stocks that succeeded “Past Performance”, “Future Trend” and “Stock Price” checks

Source: Figures based on purepofo.com data from August 2024

4.3.7 Compound Assessment

Figure 4: Percentage of stocks per quality score in the categories “Performance Quality”, “Dividends Quality” and “Growth Quality”

Source: Figures based on purepofo.com data from August 2024

Performance Quality

Performance Quality (Figure 4, left side) shows a rising trend in Strong and Excellent Performance Quality scores. Stocks scoring 5 (Excellent Quality) rose from 5.5% in the Halal group to 16.0% in the ESG Pioneers. Likewise, Strong Quality scores (4) increased from 22.1% to 40.0%. Meanwhile, lower-quality scores (3 and below) declined, suggesting that extended ethical and ESG screening correlates with stronger performance.

4.3.8 Dividends Quality

In the "Dividends Quality" category (Figure 4, middle), stocks achieving Strong Dividends Quality rose to 36.0% among Halal Non-Controversial ESG Pioneers, demonstrating an upward trend. However, excellent dividend quality remained limited across all subsets, suggesting that while ethical screening enhances stability, achieving exceptional dividend quality may require more refined stock selection criteria.

4.3.9 Growth Quality

The "Growth Quality" analysis (Figure 4, right side) indicates room for improvement. Strong Growth Quality scores were only 0.9% in the Halal Non-Controversial group and 0.0% in ESG Pioneers. This suggests that while ethical stocks offer stability and resilience, strong growth trajectories remain challenging, possibly due to conservative business models or sector-specific limitations.

4.3.10 Summary of the Results and Implications

Stocks that pass Purepofo's integrated screening tend to outperform peers, particularly in financial resilience, past performance, and dividend stability. However, particular areas, such as Growth Quality and intrinsic valuation, reveal opportunities for refinement. This suggests that while ethically compliant stocks excel in stability and sustainability, proactive strategies are needed to better capture high-growth stocks without compromising ethical compliance.

The results also indicate opportunities for refinement in certain assessment criteria. As an emerging tool, *purepofo* prioritises transparency and recognises that continuous improvement is integral to its methodology. Future iterations of the assessment framework will incorporate nuanced adjustments based on observed trends and user feedback to support informed, long-term investment decisions.

4.4 Comparative Analysis of Returns Metrics

This analysis evaluated five distinct stock groups derived from a comprehensive dataset of 644 stocks ("Full Sample"). The performance metrics assessed include Gross Margins, Return on Equity (ROE), and the Sharpe Ratio, representing profitability, financial efficiency, and risk-adjusted returns.

4.4.1 Stock Group Definitions

- "Full Sample": All 644 stocks, including Halal-compliant, non-compliant, controversial, and non-controversial stocks, and those passing or failing ESG criteria.
- "purepofo Best Rated": Stocks from the Full Sample assessed as best-performing based on purepofo's financial performance criteria.
- "purepofo Halal Best Rated": The subset of Halal-compliant stocks assessed as best-performing according to purepofo's financial performance criteria.
- "Halal Non Controversials Best Rated": The subset of Halal-compliant stocks that also passed controversy screening, further assessed as best-performing based on purepofo's financial metrics.
- "purepofo Halal Non Controversials ESG Pioneers Best Rated": The subset of Halal-compliant and controversy-screened stocks that achieved superior ESG scores and were subsequently assessed as best-performing based on purepofo's financial metrics.

4.4.2 Analysis Results

Figure 5: The impact of Halal and ESG screening on critical performance metrics

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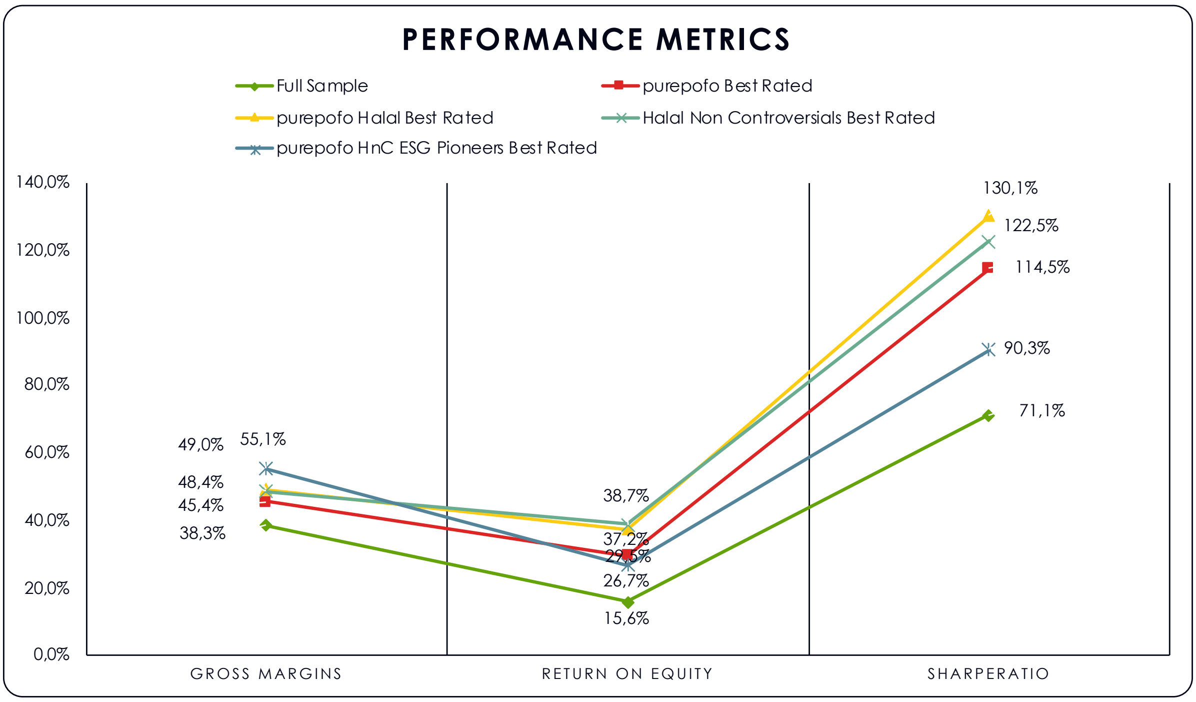

Source: Figures based on purepofo.com data from August 2024

Figure 5 illustrates Gross Margins, ROE, and the Sharpe Ratio for all five stock groups. It clearly depicts these performance trends, offering insights into the financial and ethical trade-offs associated with various screening criteria.

4.5 Key Findings

4.5.1 Gross Margins

Gross margins progressively increased from the Full Sample to more selective and ethically refined groups. While the Full Sample exhibited gross margins of 38.3%, purepofo Halal Non Controversials ESG Pioneers Best Rated stocks achieved the highest gross margins of 55.1%. This suggests that integrating ethical, controversial, and ESG screening criteria aligns with operational efficiency and cost-effectiveness.

4.5.2 Return on Equity (ROE)

The ROE results exhibit a nuanced pattern. The Full Sample's ROE was 15.6%, significantly increasing across all filtered groups. Notably, the Halal Non Controversials Best Rated stocks achieved the highest ROE of 38.7%, suggesting that stocks aligned with Halal and controversy criteria deliver superior financial performance efficiency. Notably, purepofo Halal Non Controversials ESG Pioneers Best Rated stocks showed a comparatively lower ROE of 26.7%, indicating a potential trade-off between ESG compliance and equity returns.

4.5.3 Sharpe Ratio

Risk-adjusted returns, represented by the Sharpe Ratio, showed consistent improvement across refined groups with some exceptions. The scaled percentage of the full sample Sharpe Ratio was 71.1%, whereas purepofo Halal Best Rated stocks achieved the highest Value of 130.1%. However, the scaled percentage of the Sharpe Ratio for purepofo Halal Non Controversials ESG Pioneers Best Rated stocks was 90.3%, reflecting a balance between risk mitigation and returns within this group.

4.5.4 Synthesis and Interpretation

The empirical analysis reveals a general trend: refined screening of stocks using ethical, Halal, controversy, and ESG criteria often correlates with higher gross margins and Sharpe Ratios, indicating operational efficiency and enhanced risk-adjusted returns. The slightly lower ROE and Sharpe Ratio observed in the most ethically refined group may reflect a trade-off between ESG leadership and maximum financial returns.

5 Discussion

5.1 Implications for Investors and Portfolio Managers

The findings from *Purepofo's* empirical analysis provide valuable insights for investors and portfolio managers seeking to align financial performance with ethical and ESG compliance. The results underscore that ethically compliant stocks, particularly those passing stringent Halal and ESG screening criteria, exhibit robust financial health, operational efficiency, and dividend reliability. Specifically, over half of the selected stocks demonstrated consistent dividend payouts, and approximately 15.6% achieved a high Return on Equity (ROE), outperforming industry averages. These results suggest that Halal and ESG-aligned portfolios are viable and potentially superior options for investors prioritising financial stability.

The consistent revenue growth rate of 6.8% and above-industry-average free cash flow yields highlight the screened stocks' market competitiveness and operational strength. The finding further corroborates that over 60% of stocks achieved cumulative price returns equal to or exceeding industry medians. Portfolio managers can leverage this evidence to advocate for ethically aligned investments, demonstrating that they do not compromise on financial returns but enhance resilience and sustainability.

However, the analysis also reveals areas requiring strategic consideration. For example, the limited presence of high-growth stocks (with only 1% achieving top scores in Growth Quality) reflects a sectoral constraint in industries commonly associated with ethical compliance, such as consumer goods and utilities. Portfolio managers should adopt a nuanced approach that balances growth-oriented investments with stable, ethically aligned stocks. Additionally, the findings on valuation challenges - evidenced by the low occurrence of favourable intrinsic values - highlight the need for improved valuation models tailored to ethical portfolios.

The implications for risk-averse investors are particularly significant. With low volatility and strong Sharpe Ratios (e.g., 90.3% for Halal Non-Controversial ESG Pioneers Best Rated stocks), these portfolios offer compelling options for investors seeking steady returns with minimised risks. This evidence bolsters the case for integrating ethical screening criteria without sacrificing financial resilience, enabling portfolio managers to cater to diverse investor profiles.

5.2 Implications for Research on Halal and ESG Stock Investing

The findings contribute to the growing literature on ethical investing by providing empirical evidence that robust Halal and ESG screening enhances financial performance across key metrics. The analysis reveals a progressive improvement in gross margins and Sharpe Ratios, demonstrating the alignment between ethical compliance and operational efficiency. For instance, gross margins increased from 38.3% in the full sample to 55.1% in the Halal Non-Controversial ESG Pioneers Best Rated group, highlighting the financial advantages of stringent screening.

These results challenge the traditional perception of a trade-off between ethical compliance and financial returns. While the slightly lower ROE and Sharpe Ratio observed in the most refined group (e.g., 26.7% ROE for Halal Non-Controversial ESG Pioneers Best Rated stocks) suggest a potential trade-off, this may reflect conservative financial strategies and sector-specific characteristics, rather than limitations of ethical screening itself. Future research should explore the causal mechanisms underlying this trend, such as the impact of reinvestment priorities or sectoral dynamics on financial performance.

Furthermore, the study identifies opportunities for refining assessment frameworks. Metrics like Growth Quality and Net Income Trend showed limited improvement across all groups, indicating the need for targeted improvements in stock selection criteria. Researchers could build on this foundation by investigating methods to enhance the identification of high-growth opportunities within ethically compliant portfolios. Additionally, integrating advanced valuation models and machine learning techniques could address the challenges associated with intrinsic valuation metrics.

This research advances the discourse on Halal and ESG stock investing by bridging the gap between financial performance and ethical compliance. It highlights the importance of multi-faceted performance assessments that account for financial resilience, market competitiveness, and long-term growth potential. Future studies should also consider the broader socio-economic impact of ethical investments, particularly in fostering sustainable development and promoting financial inclusion.

5.3 Broader Impact on Islamic Finance

The findings have significant implications for the broader field of Islamic finance, reinforcing its potential to integrate ethical principles with financial performance. The analysis shows that Halal ESG stocks deliver practical outcomes in economic stability, social welfare, and sustainability. While their alignment with Maqasid al-Shariah principles strengthens their ethical foundation, their tangible performance across key metrics makes them exemplary within Islamic finance. For instance, the strong liquidity ratios and favourable debt-equity ratios observed in the screened stocks reflect prudent financial management and robust ESG integration, reinforcing the synergy between ethical compliance and sound financial practices.

The upward trend in dividend quality and performance quality among Halal Non-Controversial ESG Pioneers highlights the alignment between Islamic finance and ESG principles. This intersection allows Islamic financial institutions to position themselves as leaders in sustainable investing, leveraging their expertise in ethical compliance to address the growing demand for ESG-aligned products.

However, the findings also reveal areas for growth within Islamic finance. The limited representation of high-growth stocks and the challenges in achieving favourable intrinsic values underscore the need for innovation in product development and investment strategies. Islamic finance institutions could address these gaps by fostering collaboration with technology-driven sectors and adopting innovative financial instruments that balance growth potential and ethical compliance.

Moreover, the study highlights the importance of transparency and continuous improvement in assessment methodologies. By incorporating user feedback and adapting to emerging trends, tools like *purepofo* can enhance Islamic finance's credibility and effectiveness in meeting modern investors' needs. This supports the broader goal of positioning Islamic finance as a dynamic, inclusive system capable of addressing global challenges such as economic inequality and environmental sustainability.

6 Conclusion

The empirical findings of this study underscore the potential of ethically compliant investments to deliver competitive financial performance while adhering to stringent Halal and ESG criteria. Stocks selected through Purepofo's integrated screening demonstrated robust financial health, operational efficiency, and dividend reliability, with key metrics such as ROE, revenue growth, and Sharpe Ratios outperforming industry averages. These results challenge the conventional perception of a trade-off between ethical compliance and financial returns, demonstrating the viability of Halal and ESG-aligned portfolios as both sustainable and financially attractive options.

However, the analysis also identifies areas for improvement, such as the limited representation of high-growth stocks and challenges in intrinsic valuation metrics. These findings suggest that while ethical portfolios excel in stability and resilience, targeted efforts are required to unlock their full growth potential. Future iterations of *Purepofo's* assessment framework should incorporate refined criteria and advanced analytical tools to address these gaps, ensuring more actionable insights for investors and portfolio managers.

The broader implications for Islamic finance are equally significant. By aligning with ESG principles and emphasising transparency, tools like *purepofo* can position Islamic finance as a leader in sustainable investing. This study highlights that integrating ethical principles with measurable financial performance builds a financial system that is resilient and inclusive. While values aligned with Maqasid al-Shariah remain an essential compass, the delivery of tangible outcomes positions Halal ESG strategies to meet the expectations of modern investors.

In conclusion, embedding ethical screening into a comprehensive performance assessment framework adopted by *Purepofo* represents a pioneering step toward comprehensive Halal and ESG stock screening, offering a more holistic basis for investment decisions. Bridging the gap between ethical compliance and financial performance paves the way for a more sustainable and equitable future in Islamic finance. Further research and innovation will be essential in advancing this vision, ensuring that ethical investing continues to evolve and meet the demands of a rapidly changing economy.

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