

# From the Gulf to Asia and Africa New Development Horizons

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# Topics

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**1**

**Drivers for Islamic Finance**

**2**

**Islamic Funds Ride out Negative Market Movement**

**3**

**The Risk/rewards of Shariah as an Alternative Proxy to Conventional Indices**

**4**

**Products and Future Trends**

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# Convergence & Drivers of Shariah-Compliant Investing

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- **Islamic investors share similar objectives with conventional investors:**
  - **Appetite for investment tools serving a sound and clearly stated purpose**
  - **Focus on the world's deepest and most liquid capital markets**
  - **The search for positive risk-adjusted returns**
  - **Diversity of available instruments and techniques such as capital protection, listed products, hedging or lease agreements**
- **Drivers for Shariah innovation and convergence are multiple:**
  - **The advent of wealth management in Southeast Asia**
  - **A growing pool of petrodollars in the Middle East**
  - **Financial sophistication among Muslim investors and a greater desire to invest in compliance with religious norms**
  - **Recognition by large financial institutions that an untapped market exists for Shariah-compliant products**

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## **Current Global Economic Crisis – Impact on Stock markets**

- **In the first 9 months of the year global markets have lost US\$ 10.4 trillion, which is slightly more than the current value of the S&P 500 index.**
- **The major concerns have been U.S. liquidity and the bailout program, but concerns over a global recession and corporate earnings specifically have shared the spotlight.**
- **The US contagion has spread around the world, with dismal market sentiment and severe liquidity crunch in many countries.**

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## **Impact on Shariah Equity Indices**

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- **While Shariah investors have not been spared from the pain, yet some measure of protection has been offered through lack of exposure to financials**
- **The Global BMI Shariah indices lost \$5.65 trillion in market capitalization as opposed to the more than \$10 trillion in the conventional index**
- **At a global level Shariah performance year to date has been slightly better. However, the more severe losses have come in the last quarter where even the Shariah investors have not been much protected**
- **Indices where pools are narrower have suffered much larger volatility**

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# Performance of Various Regions

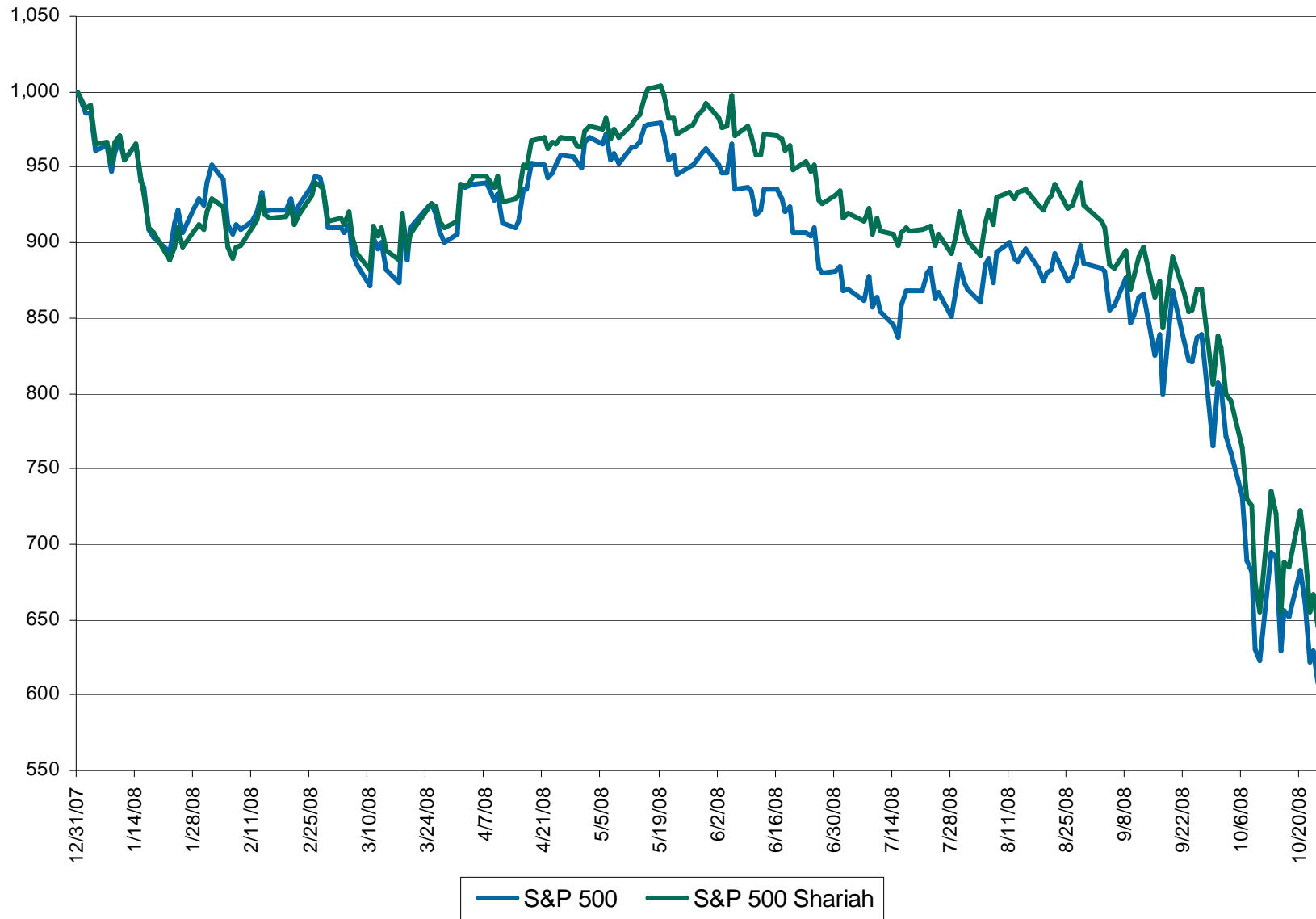
Cumulative Returns	3 Months	YTD
S&P Global BMI	-16.61%	-25.29%
S&P Global BMI Shariah	-19.13%	-23.44%
S&P 500	-8.37%	-19.29%
S&P 500 Shariah	-9.92%	-16.17%
S&P Europe 350	-19.82%	-30.40%
S&P Europe 350 Shariah	-22.36%	-26.48%
S&P France BMI	-17.27%	-28.08%
S&P France BMI Shariah	-23.81%	-26.55%
S&P Europe BMI	-21.02%	-30.44%
S&P Europe BMI Shariah	-23.57%	-26.83%
S&P Pan Asia BMI	-21.21%	-31.03%
S&P Pan Asia BMI Shariah	-23.30%	-36.68%
S&P Global Property	-12.59%	-26.98%
S&P Global Property Shariah	-20.21%	-38.54%
S&P Pan Arab	-20.74%	-40.77%
S&P Pan Arab Shariah	-21.16%	-62.29%

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# S&P 500 Indices

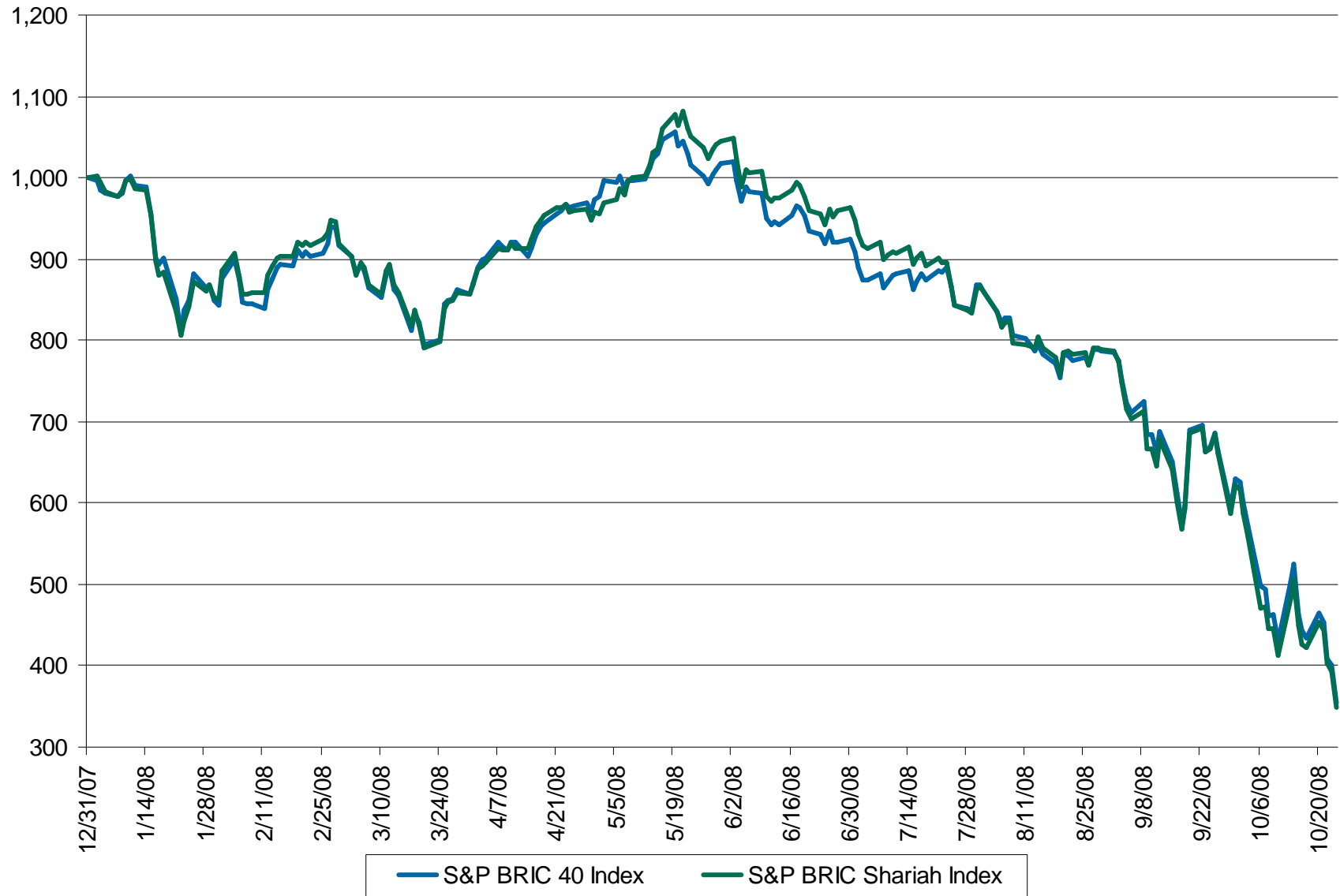


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# S&P BRIC Indices

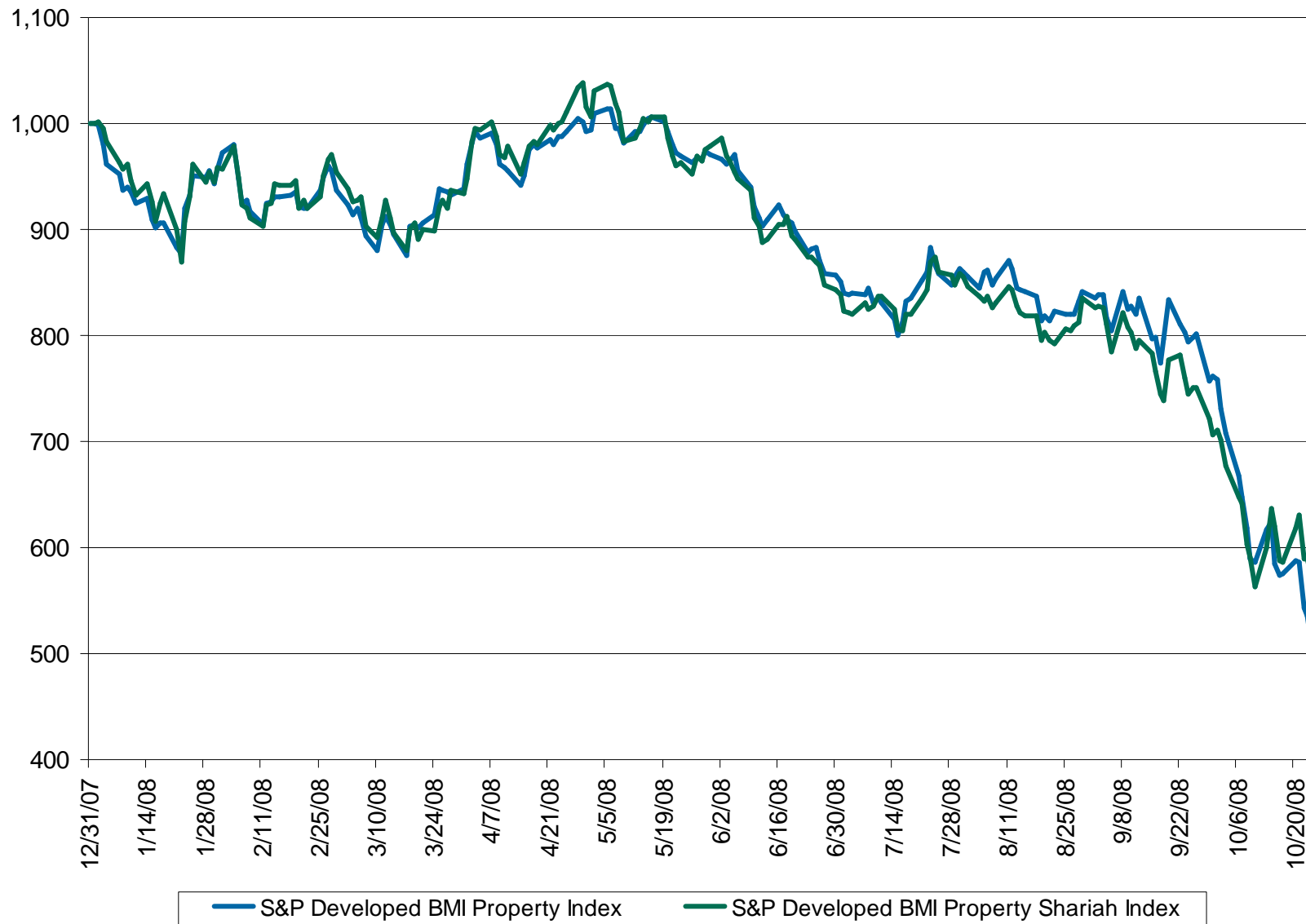


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# S&P Developed Property Indices

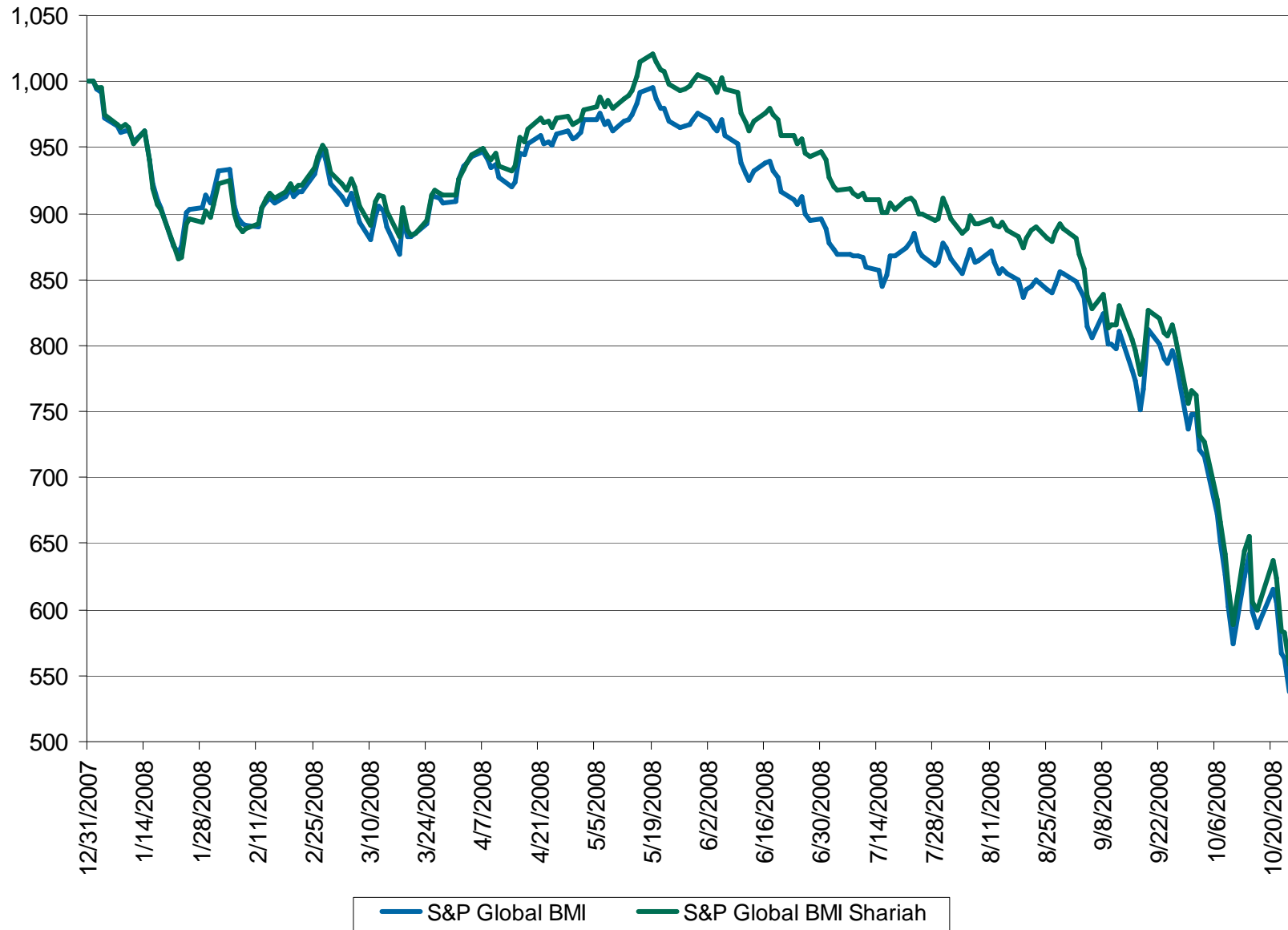


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# S&P Global BMI

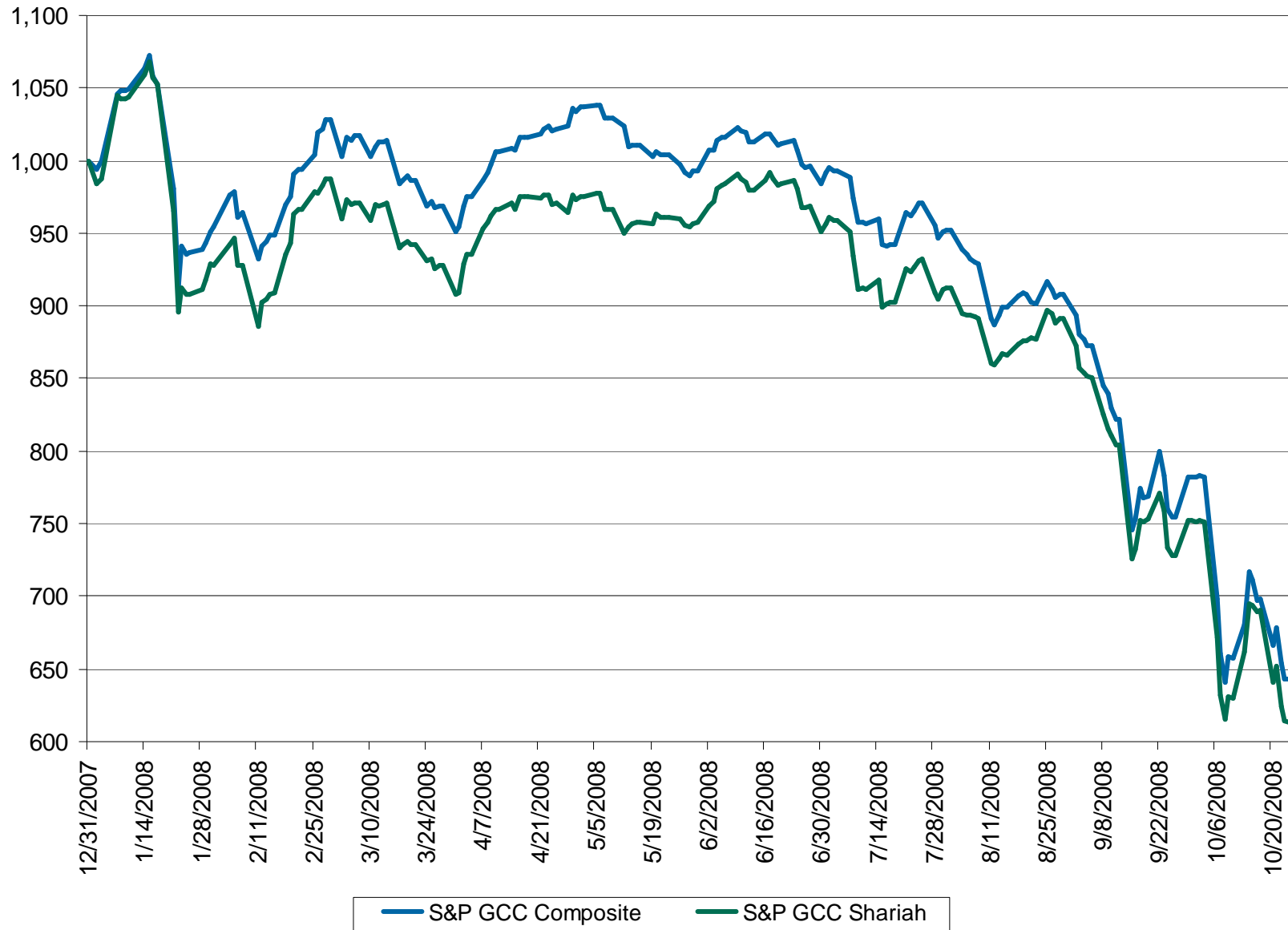


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# S&P GCC Indices



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# S&P Indices are Resources for the Structural Development of Islamic Equity Investing

- S&P brings a unique product for Islamic investors.
- S&P is a leader in building tradable, investable, liquid indices
- S&P launched the S&P 500 Shariah, a leading bellwether of the US stock market in December 2006
  - Followed by launch of S&P Shariah versions of the S&P Europe 350, the Japan 500, the GCC indices, the Pan Asia index and the Global Property index
- The S&P Shariah family structure has been built around
  - LargeCap country and regional tradable indices
  - Emerging market country and regional indices
  - Strategy and sector indices
  - Global benchmarks for LargeCap, SmallCap and emerging market indices

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# S&P Shariah from Asset Allocation to Product Creation

S&P Shariah Indices		
S&P Global Benchmark Shariah Index Series	S&P Global Investable Shariah Index Series	S&P Sector & Strategy Shariah Index Series
S&P World LargeCap Shariah	S&P 500 Shariah	S&P/Citigroup Global Property Shariah
S&P World SmallCap Shariah	S&P Europe 350 Shariah	S&P/Citigroup World Property Shariah
S&P Emerging Markets Shariah	S&P UK Shariah	S&P Global Healthcare Shariah
S&P/IFCI Large-MidCap Shariah	S&P Japan 500 Shariah	S&P Global Infrastructure Shariah
S&P Pakistan Shariah	S&P/TOPIX 150 Shariah	S&P BRIC Shariah
S&P GCC Shariah	S&P Pan Asia Shariah	
S&P Pan Arab Shariah	S&P CNX Nifty Shariah	
S&P CNX 500 Shariah		

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# Index Methodology

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- **Index constituents of a parent index like the S&P 500, are screened for Shariah compliance**
- **Stocks which are found to be compliant will remain in the Shariah compliant index**
- **The indices are then calculated with only the compliant stocks**
- **Screening is done for both sector compliance and accounting compliance**
- **Ongoing maintenance is two tiered:**
  - **Additions and deletions are done based on the underlying methodology**
  - **Further screening for Shariah compliance**
- **The resulting index performance is highly correlated to the underlying index performance**

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# Shariah Screens – Sector-based Criteria Screening

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- **Sector-based screens exclude the following activities:**
  - Pork
  - Alcohol
  - Gambling
  - Financials
  - Advertising and Media (newspapers are allowed, sub-industries are analysed individually)
  - Pornography
  - Tobacco
  - Trading of gold and silver as cash on deferred basis

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# Shariah Screens – Accounting-based Criteria Screening

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- **Leverage Compliance.** This compliance is measured as:
  - $\text{Debt} / \text{Market Value of Equity (12 Month average)} < 33 \%$
  
- **Cash Compliance.** There are compliances in reference to cash holdings.
  - $\text{Accounts Receivables} / \text{Market value of Equity (12 Month average)} < 49 \%$
  - $(\text{Cash} + \text{Interest Bearing Securities}) / \text{Market value of Equity (12 Month average)} < 33\%$

**Revenue Share from Non-Compliant Activities.** In certain cases, revenues from non-compliant activities are permissible, if they comply with the following threshold:

  - $(\text{Non Permissible Income other than Interest Income}) / \text{Revenue} < 5\%$
  
- **Dividend Purification Ratio.** This ratio is provided to investors for purification purposes, it is calculated as:
  - $\text{Dividend} * (\text{Non Permissible Revenue} / \text{Total Revenue})$

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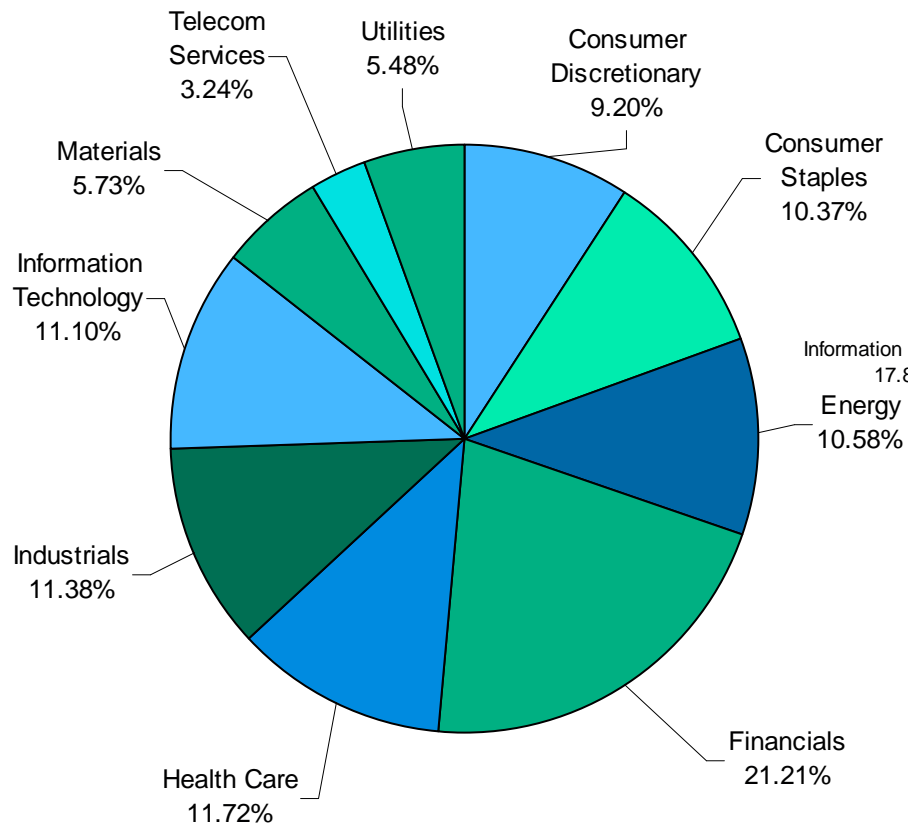
# Resultant S&P Shariah Indices

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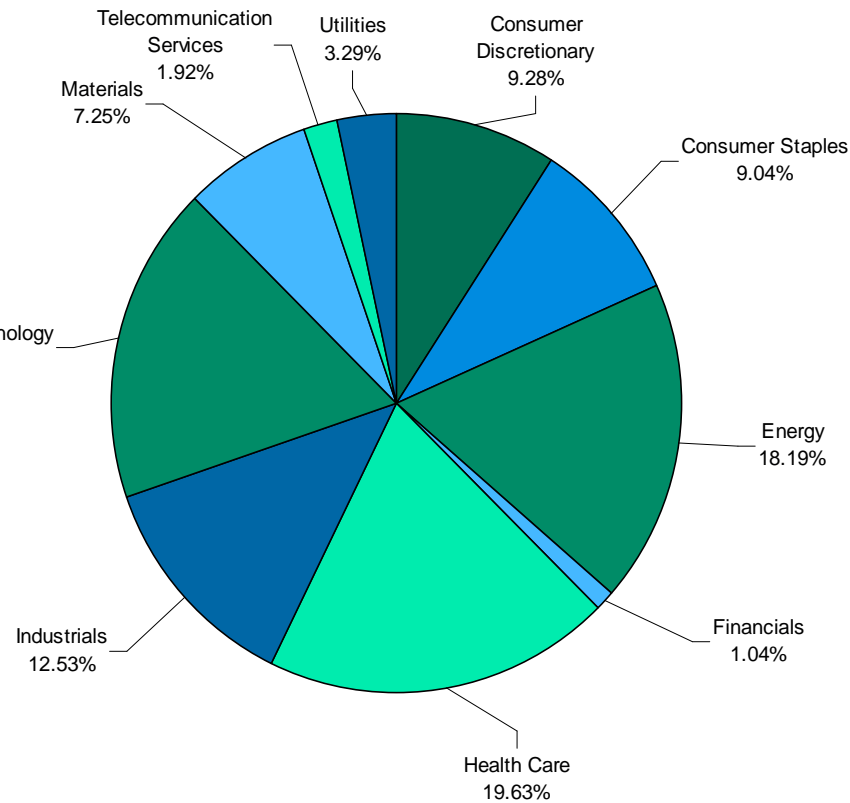
- **All indices are market capitalization weighted and free float adjusted**
  - Shariah compliance as per the strictest norms set by Middle Eastern scholars
  - Maintained for compliance on a daily basis
- **Each and every S&P Shariah index retains the essential properties of its parent index**
  - Research and strategy models remain valid and applicable because the indices are based on the same constituent universe and data points
  - Sector analysis and investment management is consistent based on GICS
  - Comparable securities services are available from financial intermediaries such as best execution brokerage and OTC/private placement options
  - Coherency across global portfolios as well as across Islamic and conventional holdings, favouring cost-base efficiency
  - Transparency of index management and branding benefits are shared with all Standard & Poor's flagship indices
- **S&P Shariah Indices afford substantially the same risk/return characteristics of their parent indices: investability, liquidity, sector breakdown and familiarity with product issuers and underwriters**

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# S&P Developed BMI and Developed BMI Shariah Sector Breakdown



S&P Developed BMI



S&P Developed BMI Shariah

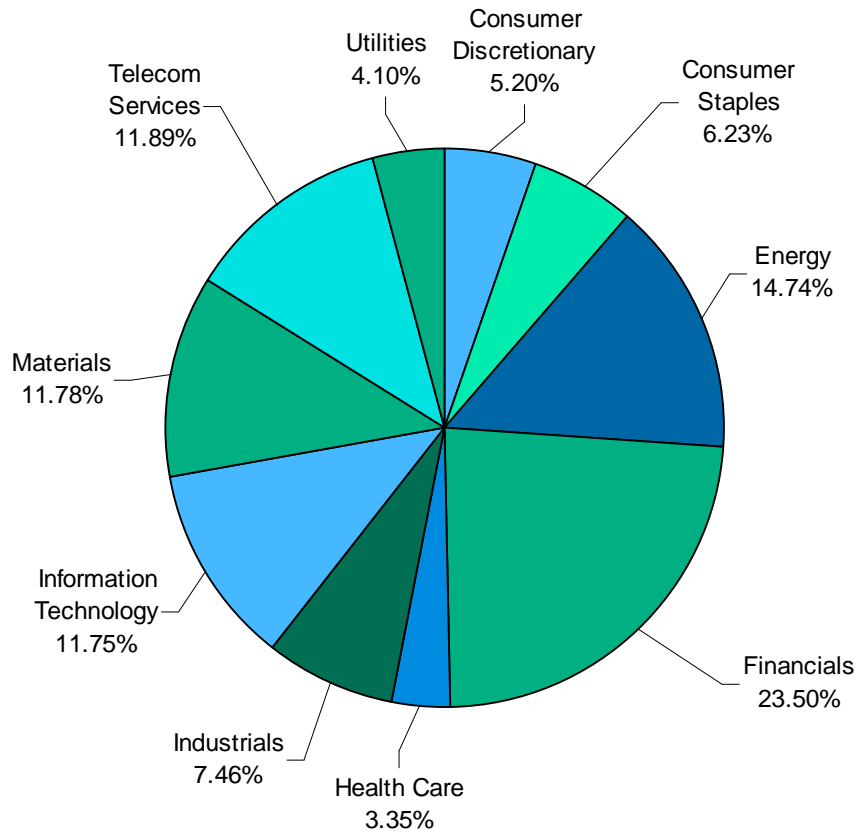
Data as of October 24, 2008.

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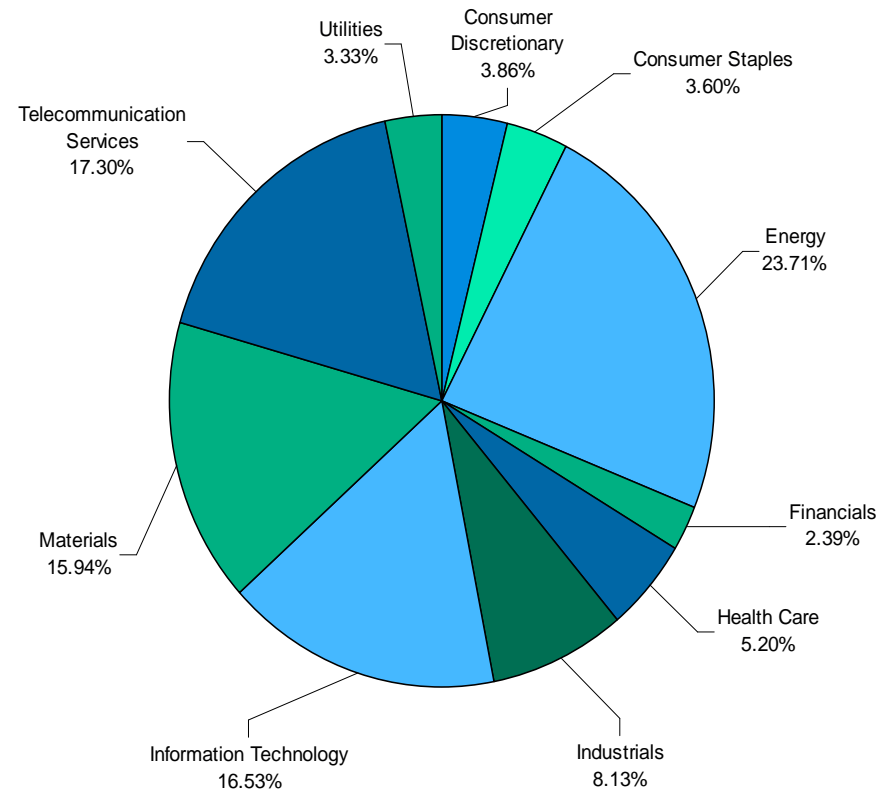
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# S&P Emerging BMI and Emerging BMI Shariah Sector Breakdown



**S&P Emerging BMI**



**S&P Emerging BMI Shariah**

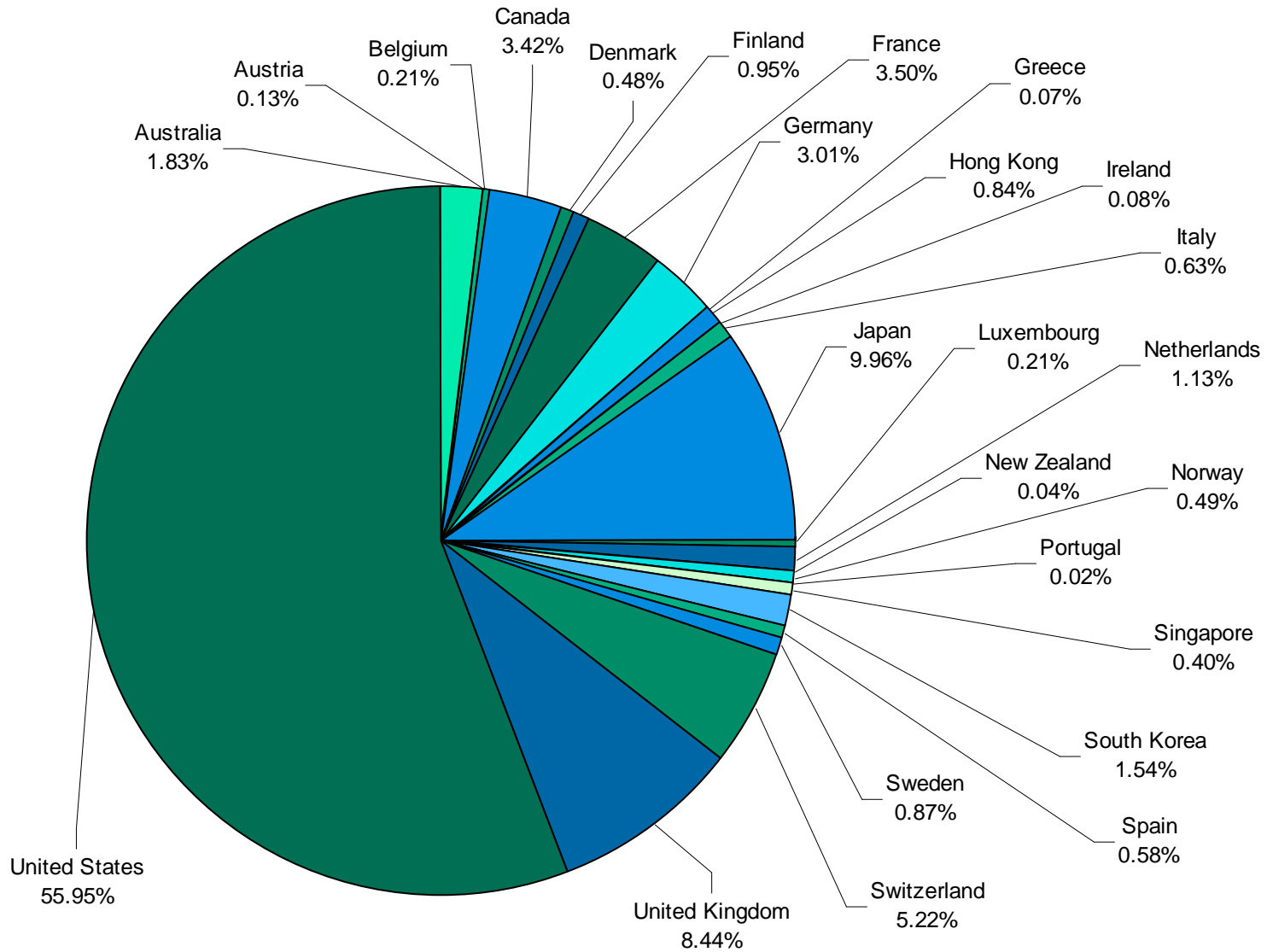
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# S&P Developed BMI Shariah Country Breakdown



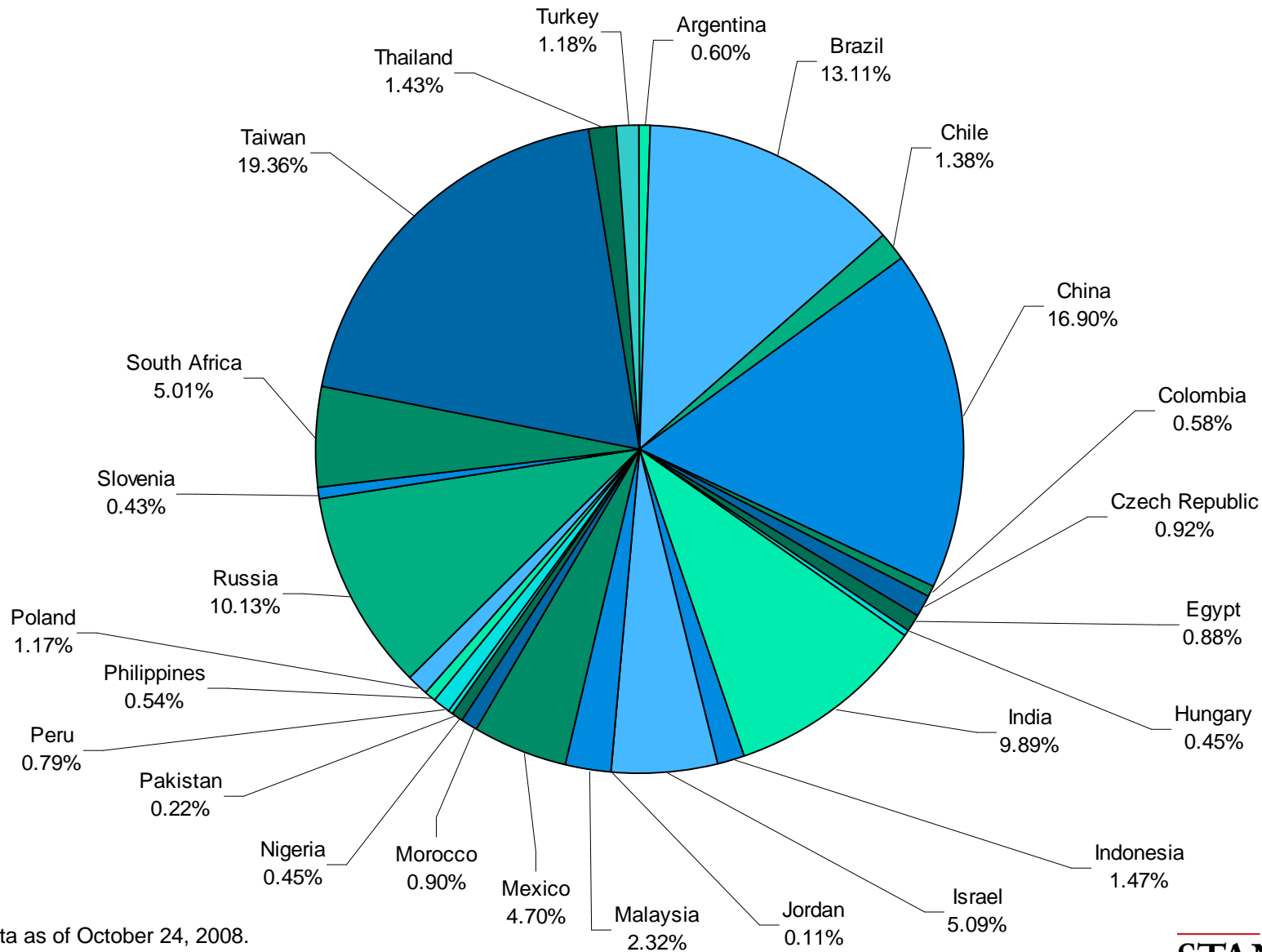
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# S&P Emerging BMI Shariah Country Breakdown



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# S&P BMI Indices Weights by Country

		Developed Weight				Emerging Weight	
Developed		Conventional	Shariah	Emerging		Conventional	Shariah
North America	Canada	4.00%	3.42%	European	Czech Republic	0.73%	0.92%
	United States	49.79%	55.95%	Emerging	Hungary	0.56%	0.45%
		53.79%	59.37%		Poland	1.81%	1.17%
Europe	Austria	0.19%	0.13%		Russia	6.89%	10.13%
	Belgium	0.40%	0.21%		Slovenia	0.32%	0.43%
	Denmark	0.42%	0.48%		Turkey	1.57%	1.18%
	Finland	0.67%	0.95%			11.88%	14.28%
	France	4.56%	3.50%	Asia Pacific	China	16.82%	16.90%
	Germany	3.51%	3.01%	Emerging	India	8.24%	9.89%
	Greece	0.24%	0.07%		Indonesia	1.64%	1.47%
	Iceland	0.02%	-		Malaysia	3.49%	2.32%
	Ireland	0.20%	0.08%		Pakistan	0.39%	0.22%
	Italy	1.69%	0.63%		Philippines	0.78%	0.54%
	Luxembourg	0.15%	0.21%		Taiwan	16.01%	19.36%
	Netherlands	1.16%	1.13%		Thailand	1.62%	1.43%
	Norway	0.36%	0.49%			48.99%	52.12%
	Portugal	0.18%	0.02%	Latin America	Argentina	0.50%	0.60%
	Spain	1.94%	0.58%		Brazil	13.43%	13.11%
	Sweden	0.95%	0.87%		Chile	2.37%	1.38%
Switzerland	3.86%	5.22%		Colombia	0.78%	0.58%	
United Kingdom	8.77%	8.44%		Mexico	5.25%	4.70%	
		29.30%	26.03%		Peru	0.70%	0.79%
Asia Pacific	Australia	2.59%	1.83%			23.03%	21.16%
	Hong Kong	1.02%	0.84%	Mid-East	Egypt	0.99%	0.88%
	Japan	11.40%	9.96%	Africa	Israel	4.06%	5.09%
	New Zealand	0.07%	0.04%		Jordan	0.78%	0.11%
	Singapore	0.53%	0.40%		Morocco	1.30%	0.90%
	South Korea	1.32%	1.54%		Nigeria	2.43%	0.45%
		16.92%	14.60%		South Africa	6.55%	5.01%
						16.10%	12.44%
Total		100.00%	100.00%	Total		100.00%	100.00%

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# S&P BMI Indices Number of Issues by Country

Developed		Number of Issues		Emerging		Number of Issues	
		Conventional	Shariah			Conventional	Shariah
North America	Canada	534	281	European	Czech Republic	9	4
	United States	3079	1381	Emerging	Hungary	10	4
		3613	1662		Poland	83	41
Europe	Austria	50	18		Russia	72	39
	Belgium	63	23		Slovenia	9	5
	Denmark	70	28		Turkey	78	35
	Finland	72	33			261	128
	France	233	69	Asia Pacific	China	445	246
	Germany	220	95	Emerging	India	223	131
	Greece	79	20		Indonesia	51	27
	Iceland	9	-		Malaysia	122	42
	Ireland	31	8		Pakistan	34	8
	Italy	185	29		Philippines	36	11
	Luxembourg	8	3		Taiwan	572	357
	Netherlands	83	35		Thailand	77	26
	Norway	107	38			1560	848
	Portugal	31	2	Latin America	Argentina	14	4
	Spain	105	32		Brazil	184	91
	Sweden	160	64		Chile	53	13
	Switzerland	154	73		Colombia	16	5
United Kingdom	475	183		Mexico	60	28	
		2135	753		Peru	27	18
						354	159
Asia Pacific	Australia	387	162	Mid-East	Egypt	36	22
	Hong Kong	241	86	Africa	Israel	87	30
	Japan	1450	534		Jordan	20	7
	New Zealand	32	12		Morocco	24	10
	Singapore	154	69		Nigeria	35	10
	South Korea	405	179		South Africa	139	59
		2669	1042			341	138
						2516	1273
Total		8417	3457	Total			

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# Shariah Fundamentals

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	Index P/E	P/BV	Div Yld
S&P Global Property Shariah	24.62	1.88	2.29
S&P Global Property	20.77	1.60	3.57
S&P Emerging Shariah	18.59	3.56	1.65
S&P Emerging BMI	19.25	3.12	1.72
S&P Developed Small Cap Shariah	21.99	2.62	1.31
S&P Developed Small Cap	18.88	2.20	1.79
S&P Developed Large Cap Shariah	17.99	3.23	1.87
S&P Developed Large Cap	15.33	9.19	2.43
Data as of 12/31/2007			

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## Most Common Uses of Shariah Indices

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- **Structured products most frequently in the form of certificates, including principal protected**
- **Cash clients, most frequently from Middle Eastern and Malaysian cash accounts / institutional investors looking to invest into Asia**
  - program trading of cash baskets where weighting is equivalent to the index
- **Retail mutual funds**
- **And S&P Shariah-linked ETFs in Europe under the Deutsche Bank DB x-trackers brand**

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# Future Trends

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- **Growth of Islamic instruments will continue to gain traction from structured products and ETFs**
- **A large percentage of the demand is coming from high net worth clients who prefer structured products to regular funds**
- **For Shariah to get firmly entrenched as mode of investing, the retail side has to be as robust as the high net worth clients**

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# Contact

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