



**Islamic Finance News Forum
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Islamic Indices

1. Construction and methodology highlights, including dividend purification
2. Performance and risk characteristics
3. Benefits

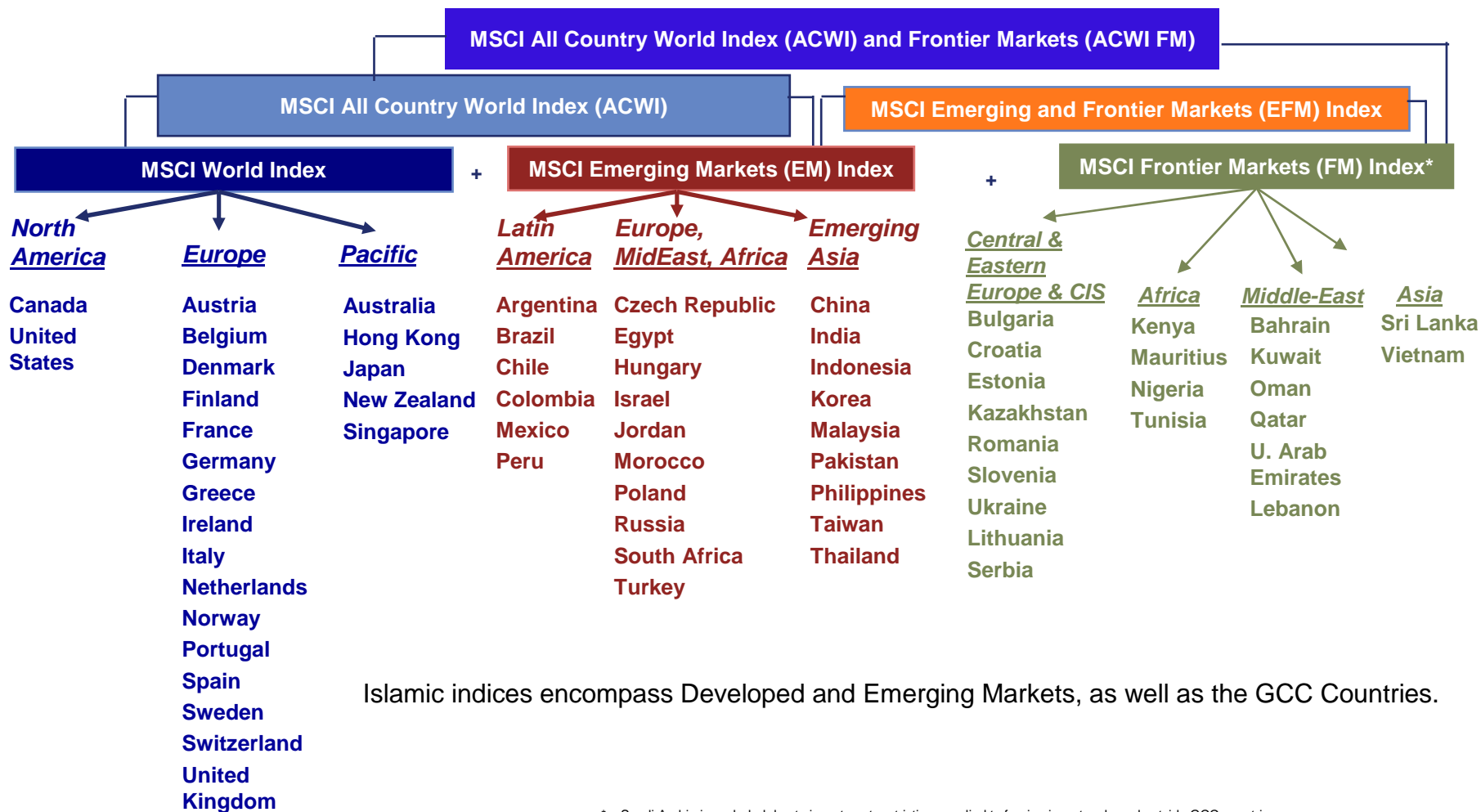
MSCI Islamic Indices

Equity	International	<ul style="list-style-type: none"> ▪ Developed Markets: <ul style="list-style-type: none"> – Core – Value & Growth – All Country Sector – Small Cap ▪ Emerging Markets: <ul style="list-style-type: none"> – Core (including Frontier Markets) – Value & Growth – All Country Sector – Small Cap ▪ Thematic and Strategy Indices ▪ Custom Indices ▪ Real Time Indices ▪ Global Industry Classification Standard (GICS®)
	Domestic	<ul style="list-style-type: none"> ▪ US Equity ▪ US REIT ▪ REIT Preferred ▪ China A ▪ KOKUNAI Japan
	History	<ul style="list-style-type: none"> ▪ Up to 39 years
Altern.	Hedge Fund	<ul style="list-style-type: none"> ▪ Hedge Fund Indices ▪ Hedge Invest Indices

- Over 100,000 indices in total calculated daily for the equity, hedge fund, and REIT markets
 - Over USD 3 trillion estimated to be benchmarked to MSCI indices globally³
 - Used as the performance benchmark for over 90% of all international equity assets under management in the US⁴
- Risk models and analytics for the equity, multi-asset class, and fixed income markets

MSCI Global Islamic Indices
 • launched July 2007

MSCI Indices: Country Coverage



Islamic indices encompass Developed and Emerging Markets, as well as the GCC Countries.

* Saudi Arabia is excluded due to investment restrictions applied to foreign investors based outside GCC countries; Lithuania and Serbia are under consideration for inclusion in the MSCI Frontier Market Index during the November 2008 Semi-Annual Index Review

MSCI Global Islamic Indices

Methodology

- Constructed from all applicable MSCI country and composite indices (covers 53 countries, emerging, developed and GCC)
- The MSCI Islamic Index Methodology has been approved by an independent Board of Sharia scholars, the board of Dar al Istithmar, who issued a Fatwa
- Securities screened according to MSCI Islamic Index Methodology
 1. Prohibited activities
 2. Financial ratios in order to identify interest, excessive leverage or cash
 - Debt/total assets
 - (Cash + interest bearing securities) / total assets
 - Accounts receivables / total assets

The first two financial ratios may not exceed 33.33%, the third ratio may not exceed 70%

Please refer to www.msциbarra.com/products/indices/islamic/methodology.html; consultation ongoing

MSCI Global Islamic Indices

Methodology

- Total return indices incorporate purified dividend
 - If a company derives part of its total income from interest income, Sharia investment principles state that this proportion must be deducted from the dividend paid out to shareholders and given to charity
 - MSCI Barra will apply a “dividend adjustment factor” to all reinvested dividends. The “dividend adjustment factor” is defined as:

$$(total\ earnings - interest\ income) / total\ earnings$$

- MSCI Barra will review the “dividend adjustment factor” on an annual basis, however that factor is sent on a daily basis to clients in order for them to adjust dividends as and when they are paid
- MSCI uses the “purified” dividends to construct DTR Islamic indices (gross and net)

MSCI Global Islamic Indices

Example

- Total return indices incorporate purified dividend
 - As per the example below, if Company A pays a gross dividend of 0.23, and MSCI's Dividend Adjustment Factor is 0.9823, the gross purified re-invested amount will be 0.2259

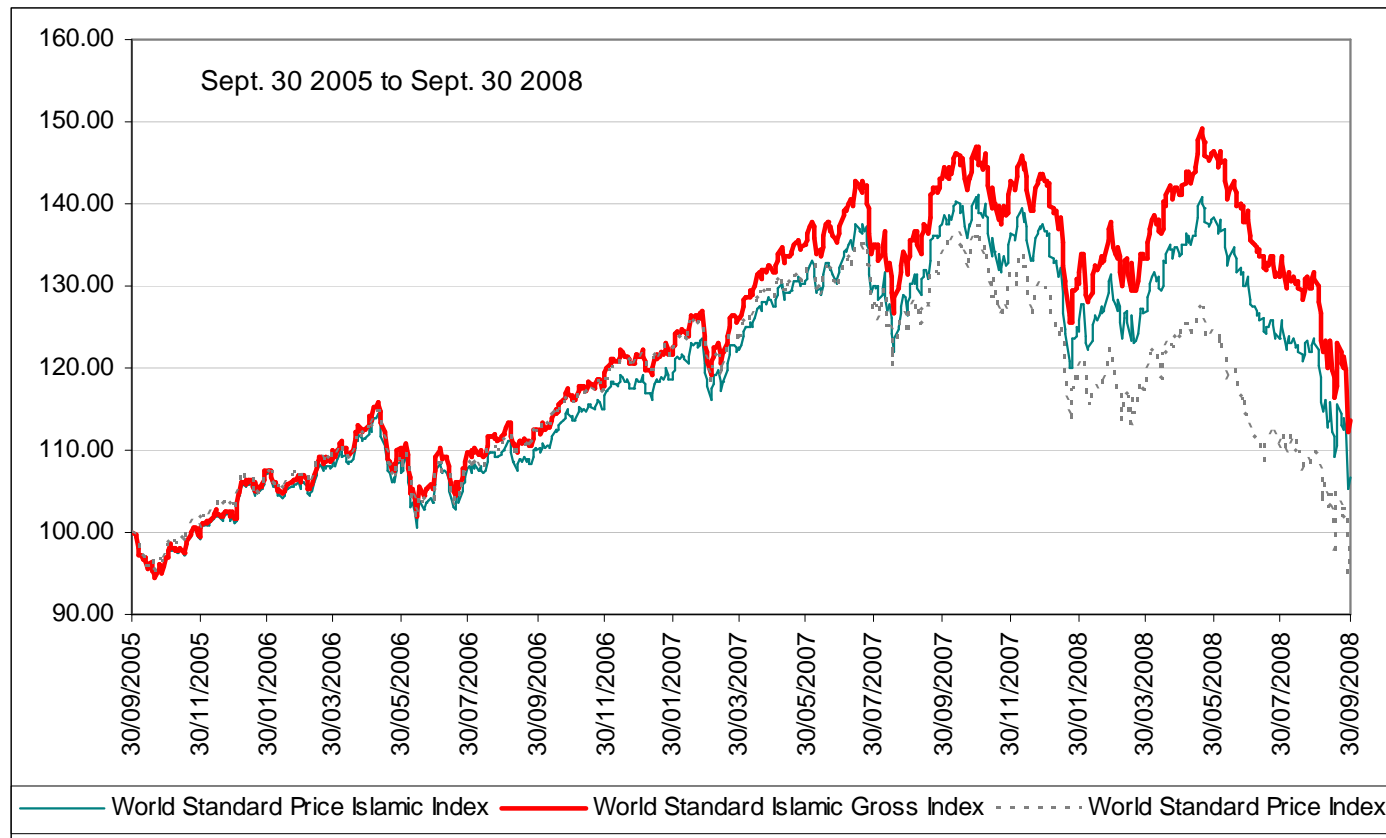
Dividend Adjustment Factor: $(total\ earnings - interest\ income) / total\ earnings$

Declared dividend amount	MSCI net dividend amount	Purified dividend adjustment factor	MSCI purified gross div.	MSCI purified net div.
0.23	0.161	0.9823	0.2259	0.1582
	70.0%		0.9823	0.9823

Illustration

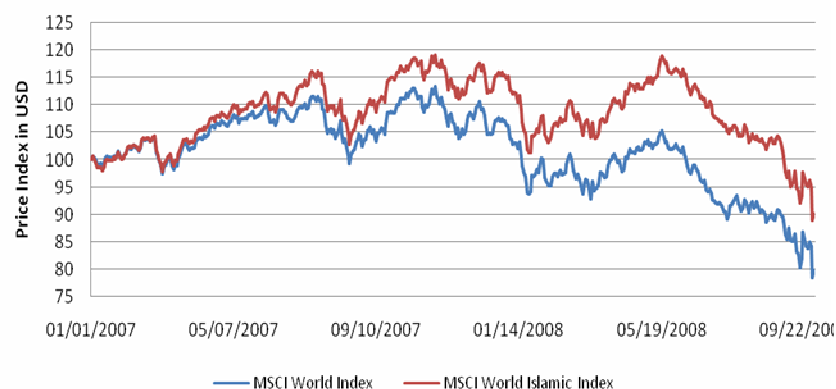
MSCI World Islamic (Price, Gross) vs MSCI World

- Re-invested dividends in the Islamic Index (Gross vs Price) added 7% return (13.7% vs 6.7%)
- In the same period, the MSCI World Index lost 3.5%



MSCI Global Islamic Indices Performance and Weights

Performance of MSCI World vs MSCI World Islamic Index:
January 1, 2007 to September 30, 2008



Sector weights for MSCI World and MSCI World Islamic indices

Sector	MSCI World Index	MSCI World Islamic Index	Difference
Energy	11.59%	22.17%	10.58%
Materials	6.43%	11.21%	4.78%
Industrials	10.80%	9.44%	-1.35%
Consumer Discretionary	9.12%	7.20%	-1.92%
Consumer Staples	10.28%	10.05%	-0.22%
Health Care	10.46%	17.46%	7.00%
Financials	21.59%	1.09%	-20.50%
Information Technology	10.57%	12.48%	1.91%
Telecommunication Services	4.31%	3.56%	-0.75%
Utilities	4.85%	5.35%	0.49%

Performance of MSCI EM Index vs MSCI EM Islamic Index:
January 1, 2007 to September 30, 2008



Sector weights for MSCI EM and MSCI EM Islamic indices

Sector	MSCI EM Index	MSCI EM Islamic Index	Difference
Energy	17.92%	30.45%	12.53%
Materials	13.74%	19.01%	5.26%
Industrials	7.75%	7.60%	-0.15%
Consumer Discretionary	4.98%	3.36%	-1.62%
Consumer Staples	4.91%	2.54%	-2.37%
Health Care	2.02%	0.65%	-1.37%
Financials	22.61%	1.45%	-21.16%
Information Technology	10.67%	13.88%	3.21%
Telecommunication Services	11.96%	17.69%	5.74%
Utilities	3.44%	3.37%	-0.07%

Risk Characteristics

MSCI Islamic Indices vs Conventional

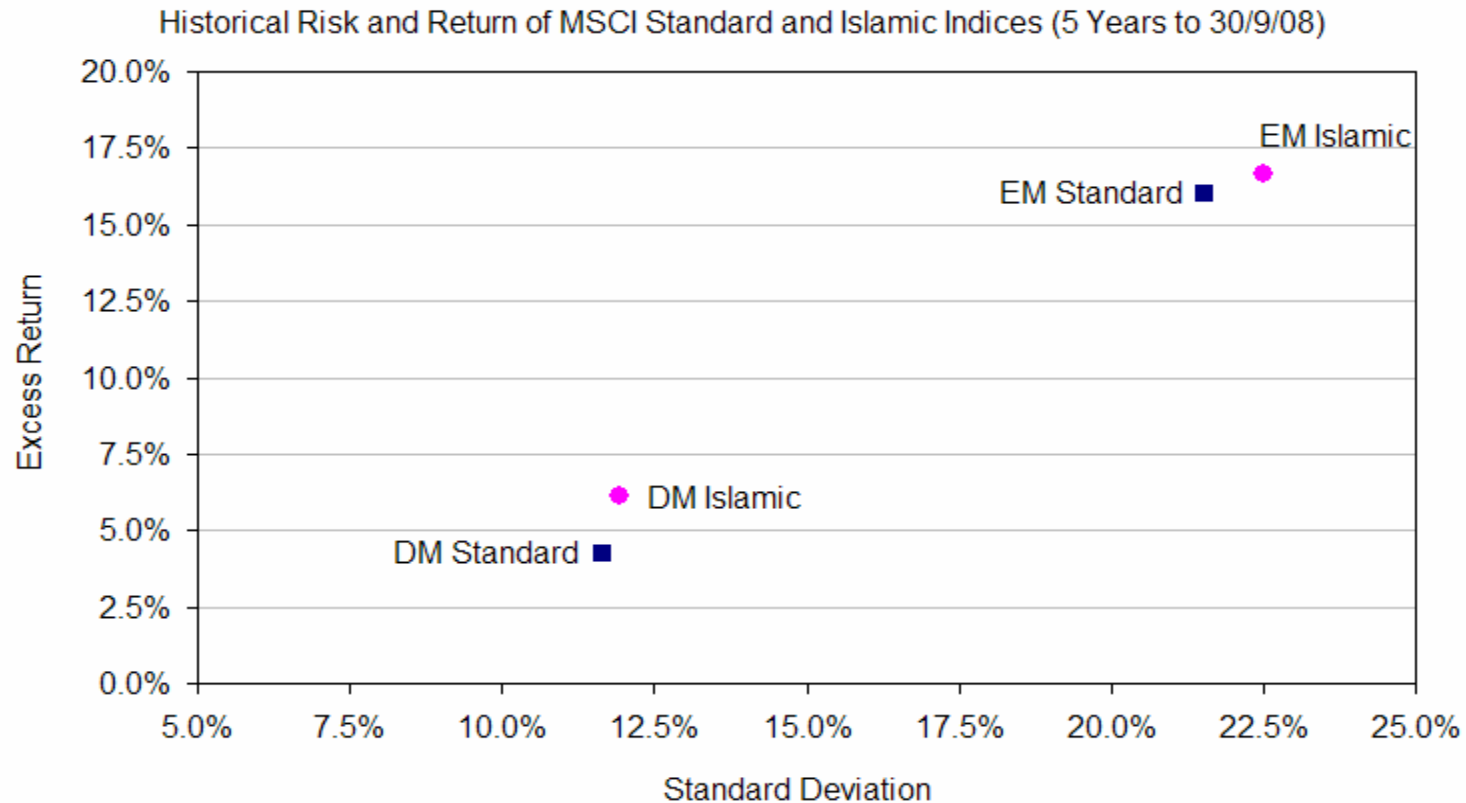
MSCI Indices	MSCI Standard Index Style Exposures				MSCI Islamic Index Style Exposures			
	US	World	EM	GCC	US	World	EM	GCC
Momentum	-0.04	0.02	-0.06	-0.06	0.06	0.16	-0.06	-0.18
Volatility	-0.07	-0.09	0.35	-1.34	-0.30	-0.29	0.40	-1.39
Value	0.02	0.04	-0.04	-0.06	-0.13	0.03	0.01	0.10
Size	0.31	0.29	0.22	0.31	0.45	0.35	0.35	0.35
Size Nonlinearity	0.12	-0.08	-0.04	-0.08	0.13	-0.13	-0.13	-0.10
Growth	-0.04	-0.03	0.04	0.04	0.03	0.02	0.06	0.18
Liquidity	0.04	0.02	0.22	0.05	-0.10	-0.14	0.15	0.13
Financial Leverage	-0.10	0.01	-0.04	0.01	-0.42	-0.41	-0.23	-0.32
Earnings Variation	-0.08	-	-	-	-0.04	-	-	-
Earnings Yield	-0.17	-	-	-	0.06	-	-	-
Yield	-0.02	-	-	-	0.06	-	-	-
Non-Est Universe	0.02	-	-	-	0.01	-	-	-
Currency Senisitivity	0.02	-	-	-	0.01	-	-	-

Data as of September 30, 2008. US indices analysed with the Barra USE3L model, other indices analysed with the Barra GEM2L model

- Significant negative exposure to the Financial Leverage factor for the MSCI World Islamic Index vs. MSCI World Index
- That negative exposure to the Financial Leverage factor has made a positive contribution to the performance of the Islamic indices vs. the conventional

Risk and Performance Characteristics

MSCI Islamic Indices vs Conventional



MSCI Global Islamic Indices

Benefits

- 1) Fatwa issued on the methodology by prominent scholars (Dr. Elgari, Dr Hassan, Dr Ali Qaradaghi, Dr Abu Ghuddah, Dr Daud Bakar)
- 2) Breadth and Depth
 - Covers 53 countries including the GCC countries
 - Islamic methodology can be applied to any MSCI Index (country, regional, thematic)
- 3) Innovative
 - MSCI Barra the only index provider to incorporate dividend purification in the total return calculation; use of total assets (vs market cap)
- 4) MSCI Data Quality
 - Market-leading brand with over 35 years expertise, consistent methodology across countries
- 5) Product Creation
 - BGI launched in December 2007 their first range of Islamic ETFs which are benchmarked to the MSCI Global Islamic Indices

MSCI Barra 24 Hour Global Client Service

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Milan	+39.027.633.5429
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