



Developments in Islamic Indices & Fund Management

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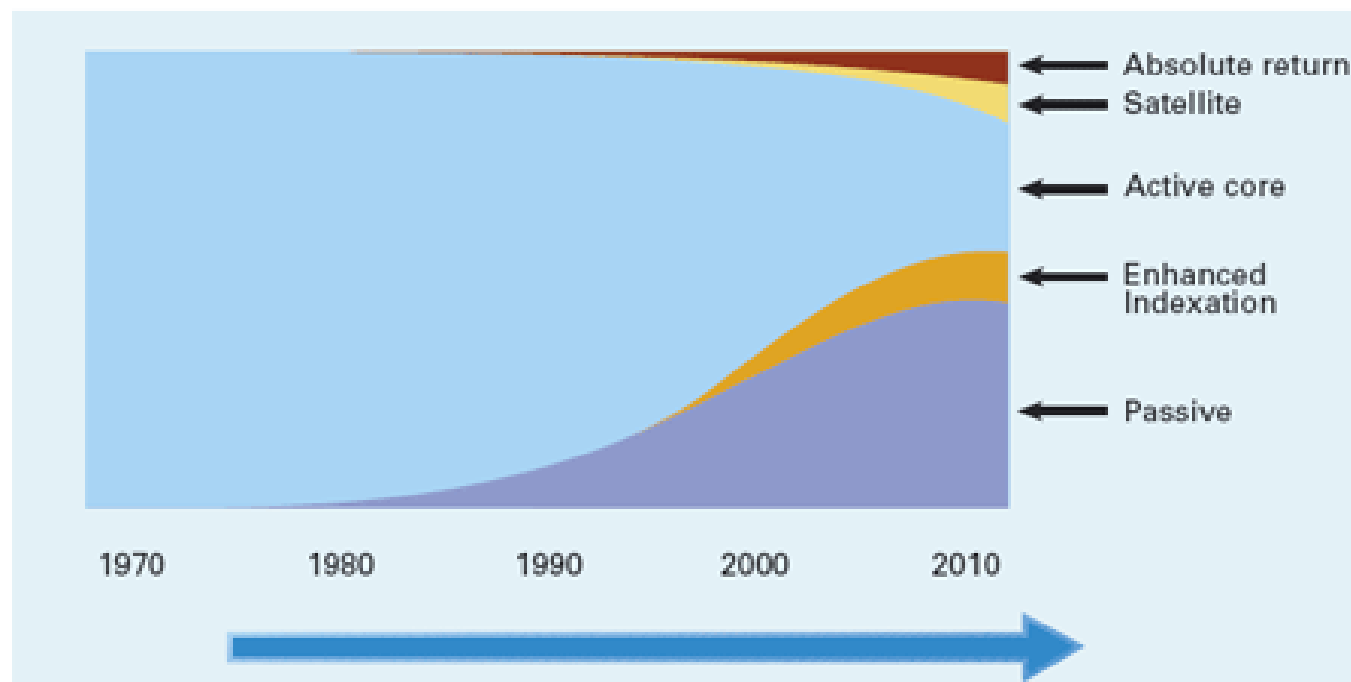
FAILAKA Islamic Awards, Dubai - 24 March 2008

Overview

- Growth & Trends in Asset Management
 - Passive Funds
 - Mutual Funds
 - Exchange Traded Funds
- Indexing:
 - Passive vs Active
 - What are the key attributes of an index?
 - Why MSCI?
- MSCI Global Islamic Indices:
 - Description
 - Performance comparisons

Continued Growth of New Investment styles

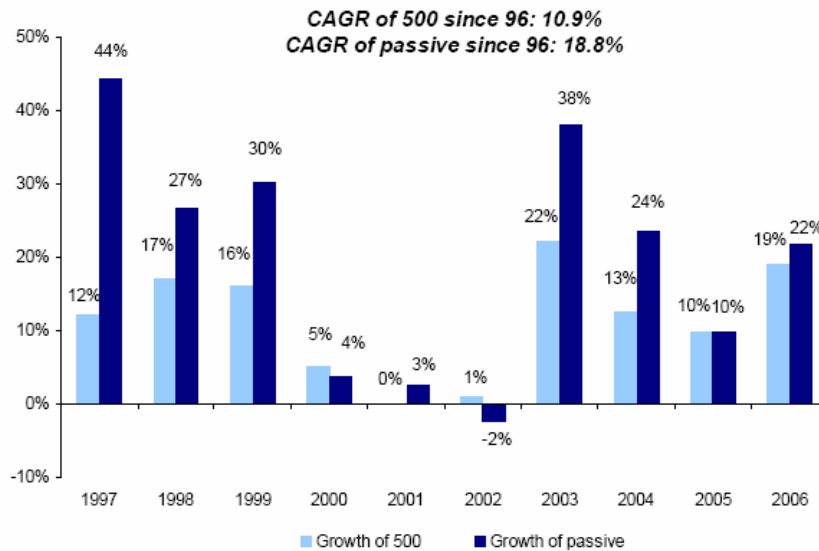
Figure 2: Trends



Source: Watson Wyatt "Global Investment Review", 2005

Continued Growth of Passive Investment

Annual growth of passive management vs. growth of 500



- “Passive assets grew by 22% in 2006, and cumulative growth since 1996 in passive assets is 19% pa, much faster than the 11% pa cumulative growth in total assets.”

- Over time, the cost advantages of indexing compound and cost becomes a primary determinant of relative performance for equity funds.

Table 2. Asset-weighted expense ratios of active and index mutual funds (as of December 31, 2006)

	Actively managed funds (bps)	Index funds (bps)	Difference (bps)
Large-cap U.S. equity	84	20	64
Mid-cap U.S. equity	100	30	70
Small-cap U.S. equity	112	34	78
U.S. sector funds	96	44	52
U.S. real estate funds	109	25	84
International developed markets	102	32	70
International emerging markets	134	42	92
U.S. fixed income funds	68	22	46

Note: bps, basis points.

Sources: Vanguard calculations using data from Morningstar, Inc.



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Source: Watson Wyatt “The World’s Largest 500 Asset Managers”, 2006 year end report

- World’s Largest 500 in 2007 grew by 18.9% to \$63.7 trillion*

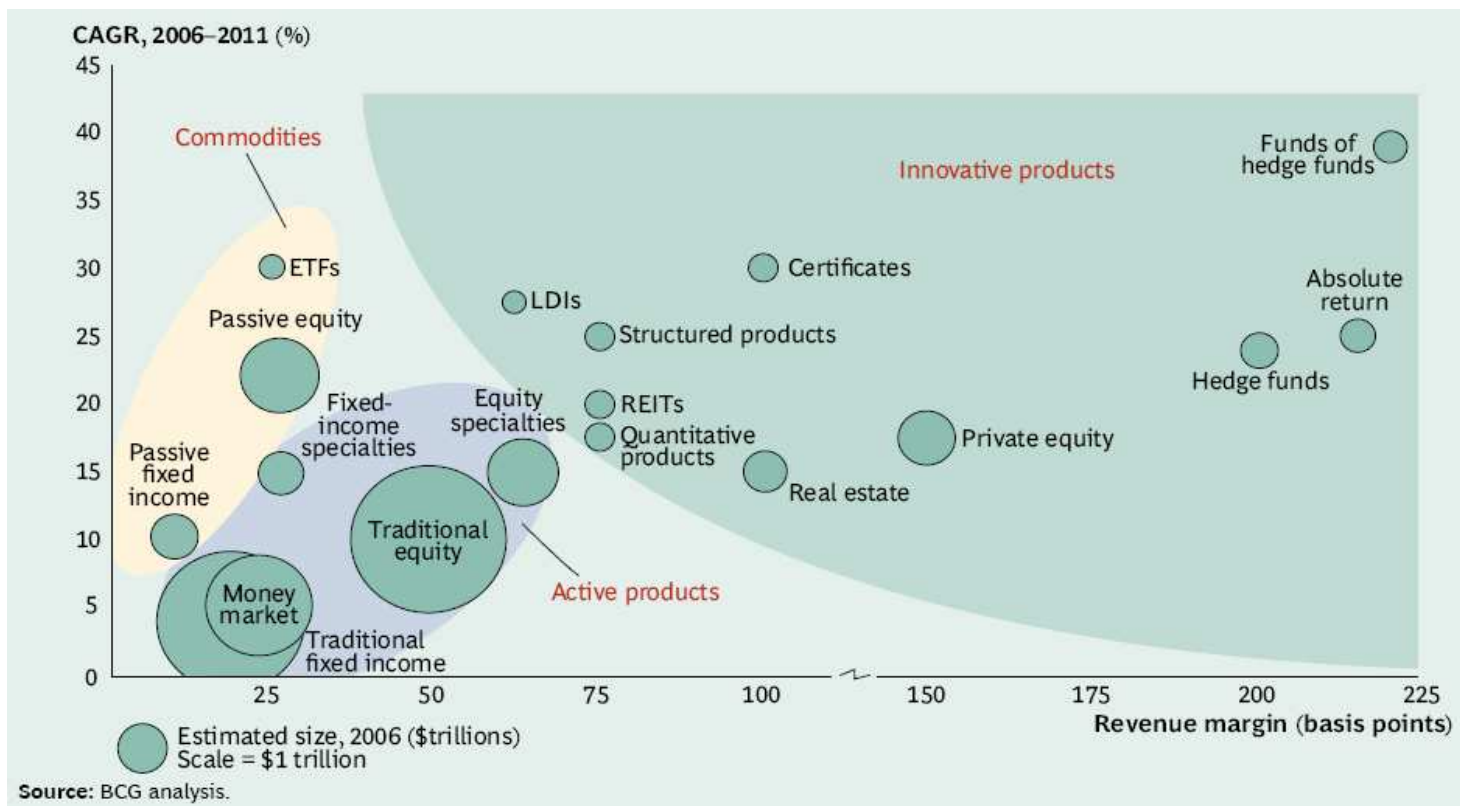
* Source PI/Watson Wyatt “The World’s largest 500 Asset Managers” 31st Dec 2007



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Source: Vanguard “The Case for Indexing”, 2006

New Asset Classes Will Continue to Squeeze the Traditional Core of Actively Managed Funds



Source : BCG analysis November 2007, Projections 2006-2011

Mutual Fund Comparisons

Conventional Mutual Funds

Region	Total AUM (\$B)	Equity AUM (\$B)
Americas	\$13,308	\$7,122
Europe	\$8,871	\$3,323
Asia	\$3,549	\$2,088
MENA	\$94	\$29
Global	\$25,822	\$12,562

Source: Investment Company Institute

Islamic Mutual Funds by Region

Region	Total AUM (\$B)	No. of Funds
Americas	\$1.32	18
Europe	\$0.53	17
Asia	\$18.54	162
MENA	\$12.50	123
Global	\$32.90	320

Source: Bloomberg

Islamic Mutual Funds by Country

Country	AUM (\$B)	Funds
BAHRAIN	\$0.04	5
BRITISH VIRGIN	\$0.19	4
CANADA	\$0.00	2
CAYMAN ISLANDS	\$0.06	5
EGYPT	\$0.00	4
FRANCE	\$0.05	1
INDONESIA	\$0.21	25
IRELAND	\$0.07	5
JERSEY	\$0.20	4
KUWAIT	\$1.50	18
LUXEMBOURG	\$0.21	7
MALAYSIA	\$18.16	128
MOROCCO	\$0.00	1
NETH. ANTILLES	\$0.05	1
PAKISTAN	\$0.06	9
SAUDI ARABIA	\$9.99	83
SINGAPORE	\$0.17	9
SOUTH AFRICA	\$0.27	4
UAE	\$0.63	2
UNITED STATES	\$1.07	3
Grand Total	\$32.95	320

Source: Bloomberg

Exchange Traded Funds Comparison

Total ETF Market					
	Total ETF Market		Islamic ETFs		
Trading Region	AUM (\$B)	No. of Funds	AUM (\$B)	Share	No of Funds
Americas ex US	\$23.16	62	\$0.0	0.00%	
Asia Pacific	\$59.87	91	\$0.3	0.42%	1
EMEA	\$124.68	448	\$0.1	0.10%	4
United States	\$571.14	667	\$0.0	0.00%	
Grand Total	\$778.8	1268	\$0.4	0.05%	5

Source: Bloomberg and MSCI

Islamic ETFs			
Region	Asset Manager	Fund Name	AUM (\$B)
Asia Pacific	i-VCAP Management	MYETF DJ Islamic Titans 25	\$0.252
Europe	EasyETF	EASYETF DJ ISLAMIC Market Titans 100	\$0.046
Europe	Barclays	ISHARES MSCI World Islamic	\$0.032
Europe	Barclays	ISHARES MSCI USA Islamic	\$0.028
Europe	Barclays	ISHARES MSCI Emerging Market Islamic	\$0.013

Source: Bloomberg and MSCI

- The number of ETFs around the world increased by 64% in 2007 YOY.
- Further 547 ETFs plan to launch in 2008
- 41 Exchanges now have ETF listings
- Worldwide ETF AUM increased by 40.8% YTD (31st Jan 2008)
- Top 3 ETFs globally by AUM;
 - SPDR S&P 500 (\$99bln)
 - iShares MSCI EAFE (\$51bln)
 - iShares MSCI Emerging Markets (\$28bln)
- Forecast ETF assets to exceed \$2 trillion in 2011

Source: Morgan Stanley, "Exchange Traded Funds – Year End 2007 Global Industry Review - January 31 2008

- ETFs are an efficient way to achieve beta or market returns
- MSCI indices form the underlying for a large number of ETFs
- BGI iShares on MSCI Emerging Markets Islamic Index, MSCI World Islamic Index & MSCI USA Islamic Index – launched December 2007

What Types of Indices are Available?

- Alternative weighted indices:
 - MCAP or Fundamental weighted
 - Capped, Equal or Shareholder weighted
- Style or strategy:
 - Value/Growth or Large/Mid/Small Cap
 - High Dividend Yield or Infrastructure
 - SRI
 - Islamic
 - Price Return or Total Return

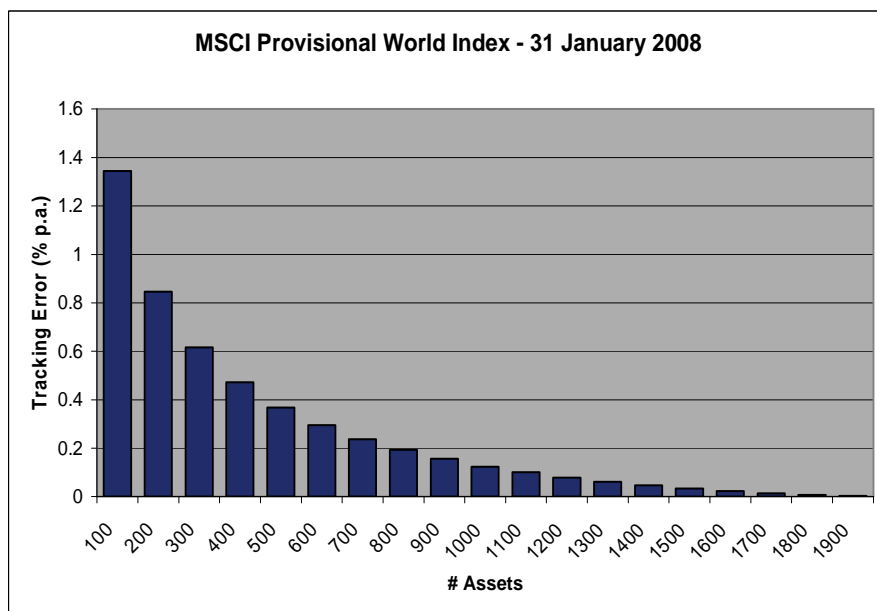
Important Attributes in Index choice

- Depth of Coverage
 - Representation of broad market opportunity set
 - Non-overlapping coverage (large/mid/small)
- Transparent and Consistent Methodology
 - Accessible and clear benchmark creation and governing rules
- Availability and Timeliness of Index Data
 - History, index levels and treatment of corporate actions
- Innovative
 - Delivering new investment themes to clients/markets
- Tradable
 - For creation of Futures, ETFs and other OTC products
- Brand Association

Tracking an Index

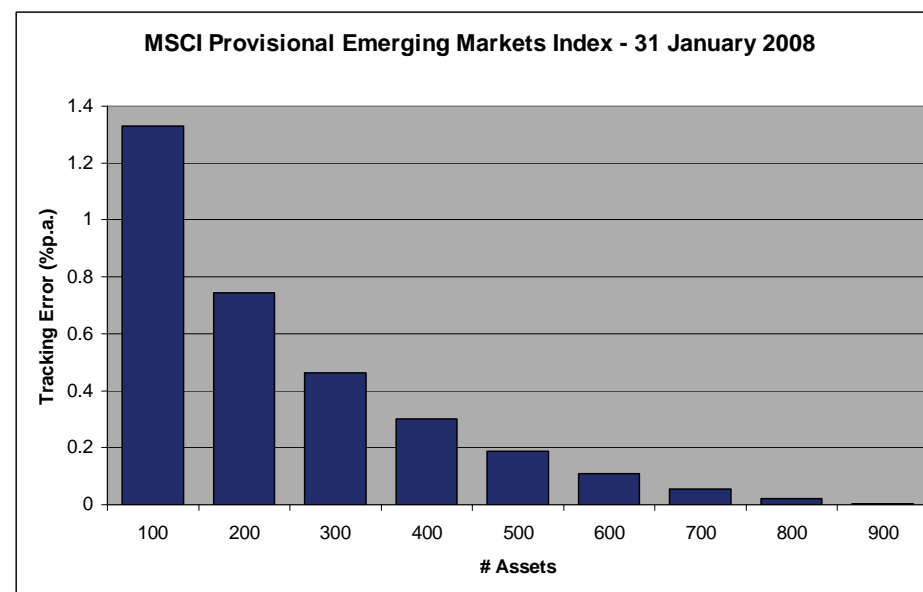
- Full or partial replication?
 - Liquidity constraints
- What techniques are available?
 - Top (n) holdings
 - Stratified sampling
 - Passive optimization
- Other considerations?
 - Tracking error vs. security coverage
 - Security coverage vs. transaction costs

Tracking an Index - International

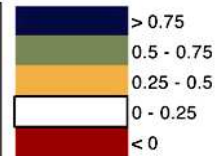
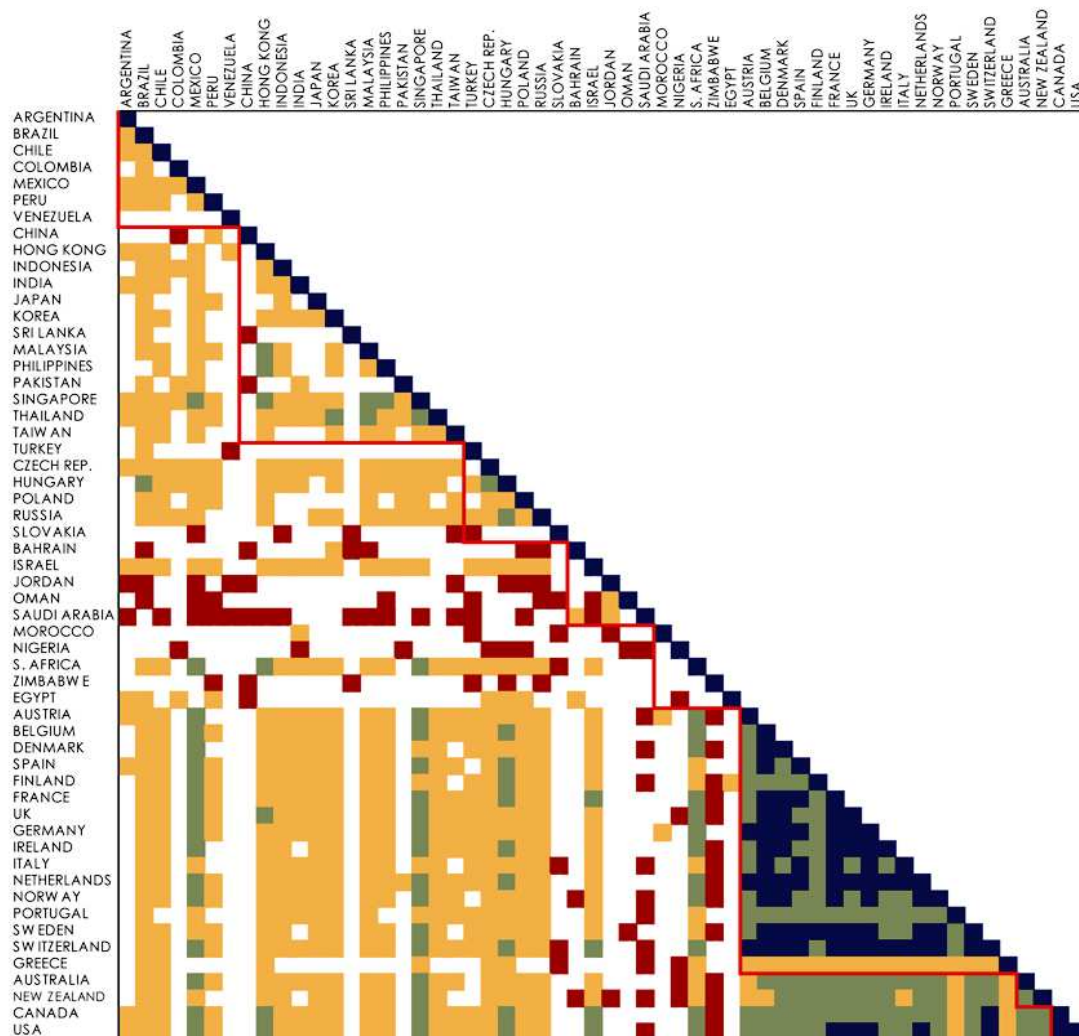


How to reduce T/E?

- Risk model
- Optimiser
- Alpha/Return Model



So where to next ? Choice for the product provider



- Countries within regions still have much higher correlations than their non-regional counterparts particularly the EU
- Negative correlations are highlighted in red and are concentrated in a handful of emerging markets

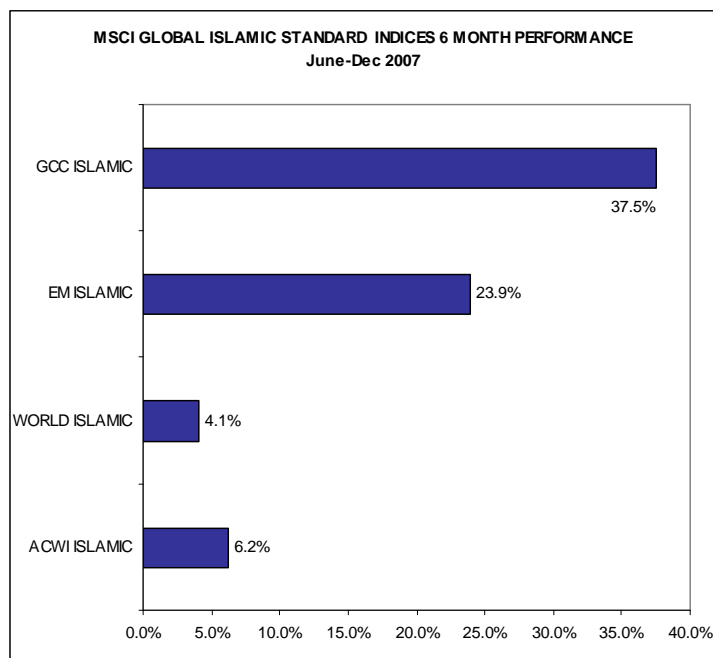
MSCI Global Islamic Indices

Performance of the MSCI Global Islamic Indices (in USD)

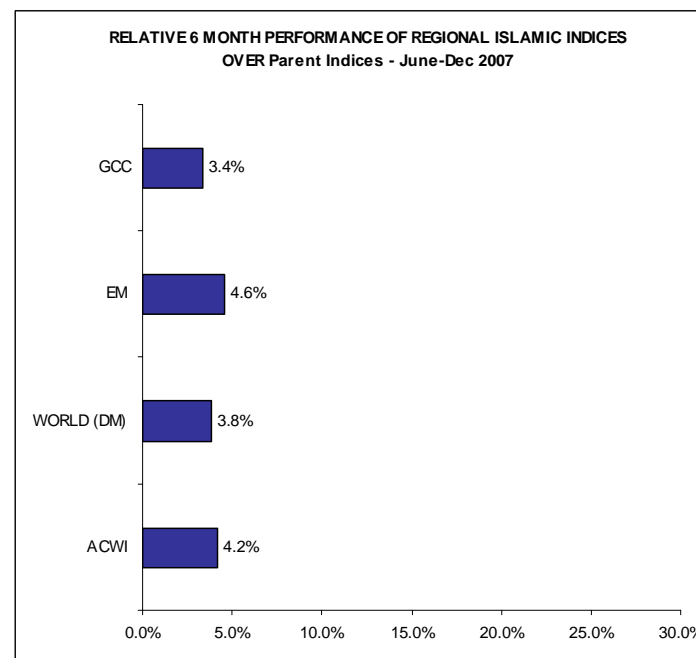
The Islamic Indices outperformed their parent indices during the six months ended in December 2007.

	Islamic Indices	Parent Standard Indices	Excess Return
ACWI	6.2%	2.0%	4.2%
WORLD (DM)	4.1%	0.3%	3.8%
EM	23.9%	19.3%	4.6%
GCC	37.5%	34.1%	3.4%

Absolute Performance (in USD)



Relative Performance (in USD)



Index returns – an important consideration

- **Dividend Purification**

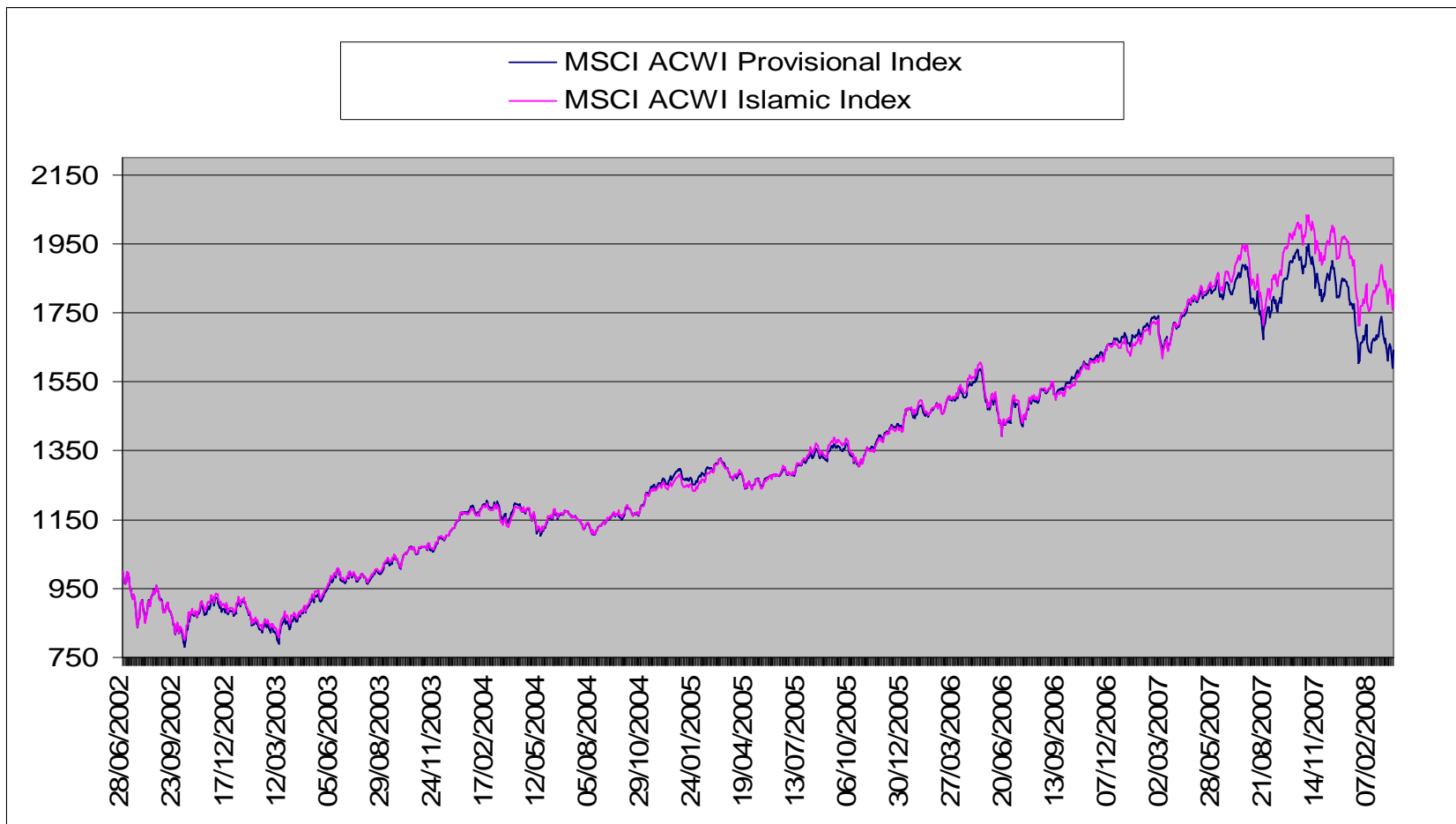
- If a company derives part of its total income from interest income, Sharia investment principles state that this proportion must be deducted from the dividend paid out to shareholders and given to charity
- MSCI Barra will apply a “dividend adjustment factor” to all reinvested dividends. The “dividend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

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

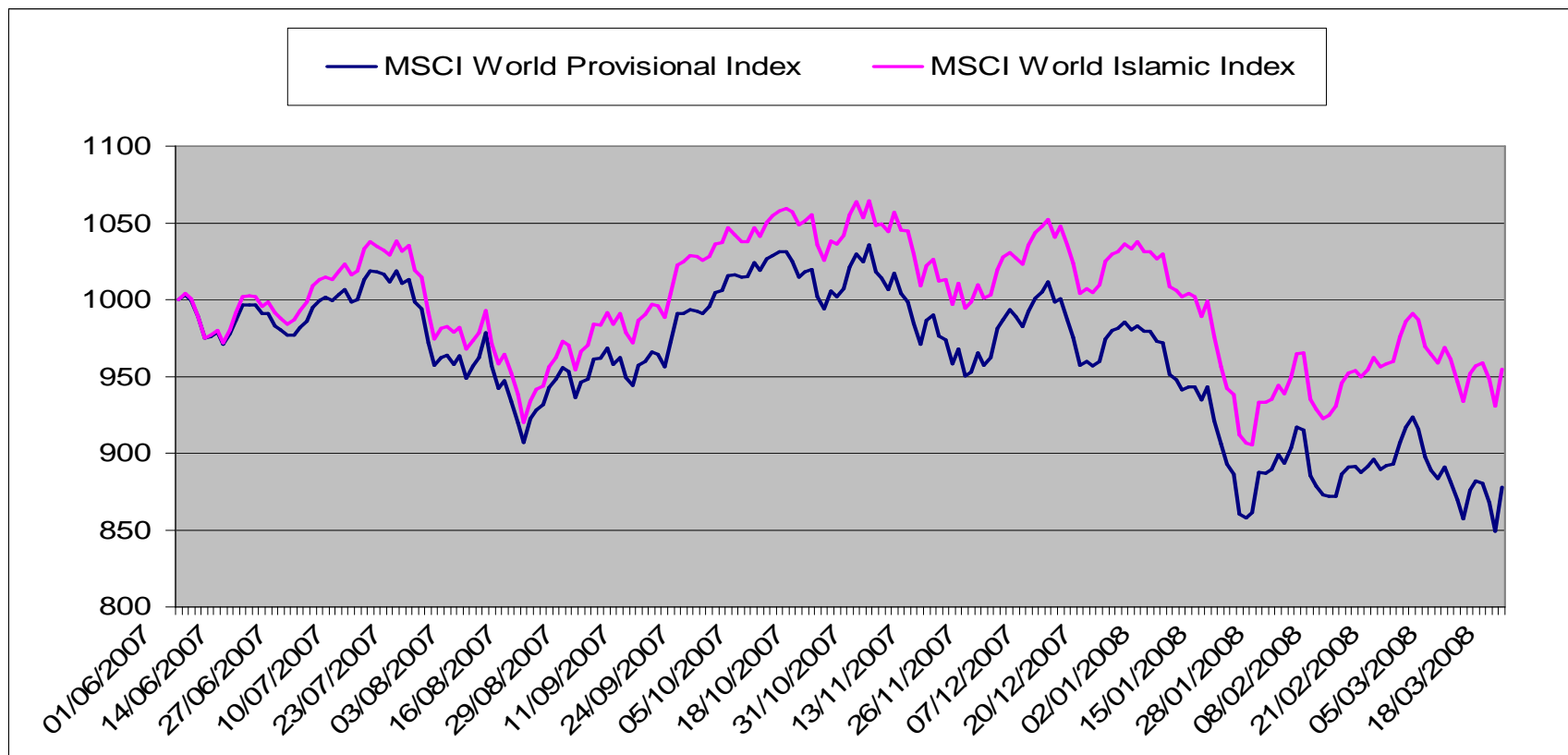
- MSCI will use these “dividend adjustment factors” to construct DTR Islamic indices
- Therefore the choice of index should also include the return type, price or total return

	MSCI WORLD ISLAMIC INDEX	MSCI WORLD ISLAMIC INDEX	MSCI EMERGING MARKETS ISLAMIC	MSCI EMERGING MARKETS ISLAMIC
	Price Index	Purified Total Return Index	Price Index	Purified Total Return Index
Performance Since June 05	35.77%	43.40%	111.09%	127.00%
1 Year Performance	5.66%	7.90%	27.47%	30.57%

Performance differentials – conventional & Islamic

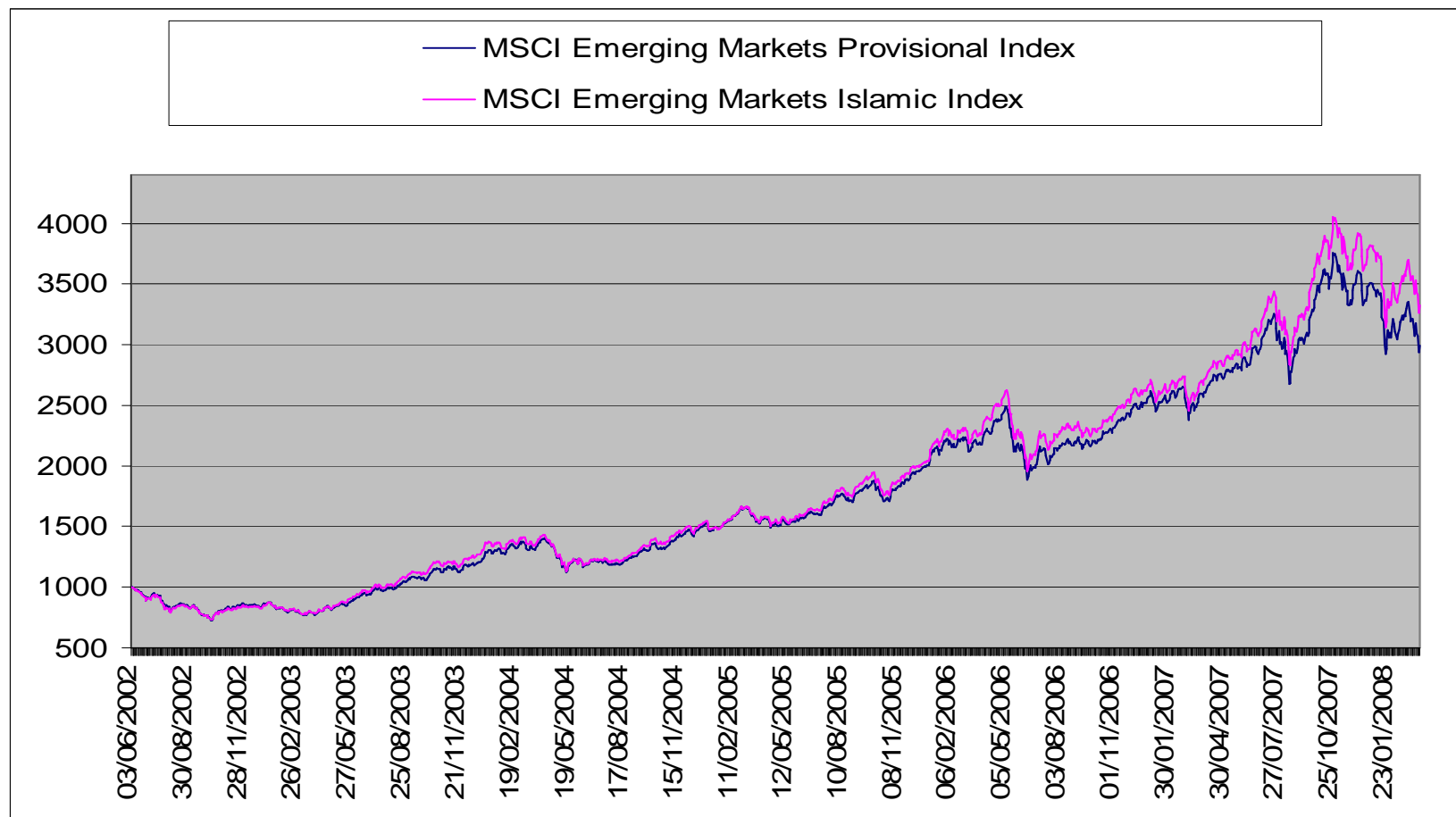


MSCI World Islamic Index – performance

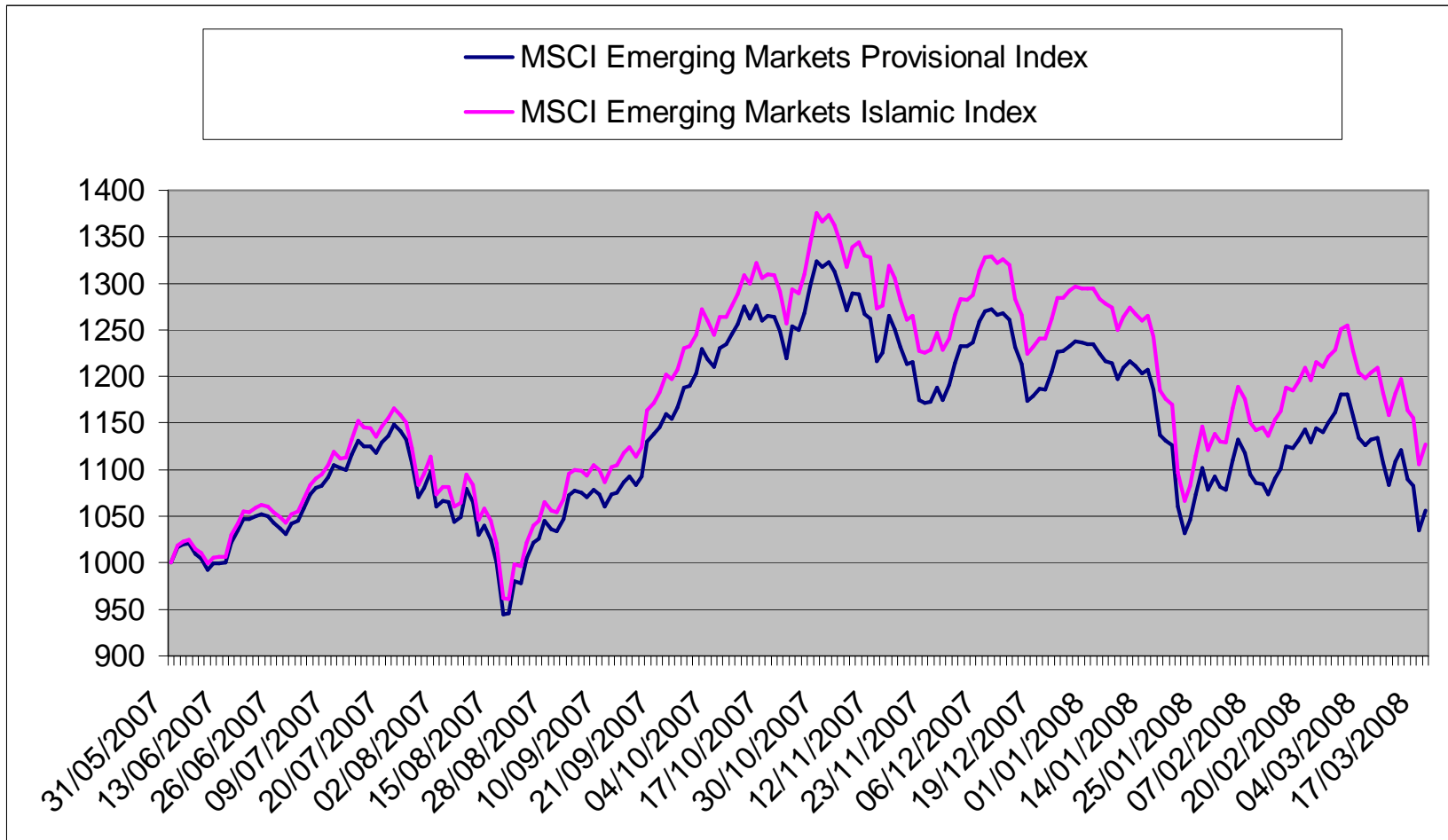


- Islamic index out-performance is recent. Why?
- Shariah compliant investing could be seen as thematic in the conventional world providing an interesting strategy when Financials are expected to under-perform.

MSCI Emerging Market Islamic Indices – 6 years



MSCI Emerging Market Islamic Indices – last 9 months



MSCI Global Islamic Indices

INDEX	SECTOR	WEIGHT	MSCI WORLD INDEX WEIGHT	DIFFERENTIAL
MSCI World Islamic Index	Energy	22.4%	11.4%	11.0%
	Materials	13.9%	7.8%	6.1%
	Industrials	10.1%	11.6%	-1.5%
	Consumer Discretionary	7.9%	9.6%	-1.8%
	Consumer Staples	9.4%	9.3%	0.1%
	Health Care	14.8%	9.0%	5.8%
	Financials	1.2%	21.2%	-20.0%
	Information Technology	10.8%	10.5%	0.3%
	Telecommunication Services	4.0%	4.6%	-0.6%
	Utilities	5.4%	4.9%	0.6%

INDEX	SECTOR	WEIGHT	MSCI EMERGING MARKETS INDEX WEIGHT	DIFFERENTIAL
MSCI Emerging Markets Islamic Index	Energy	31.4%	17.9%	13.5%
	Materials	23.5%	16.4%	7.2%
	Industrials	7.6%	9.0%	-1.4%
	Consumer Discretionary	2.6%	4.8%	-2.2%
	Consumer Staples	2.8%	4.4%	-1.6%
	Health Care	0.6%	1.7%	-1.1%
	Financials	2.0%	20.4%	-18.4%
	Information Technology	14.7%	10.6%	4.1%
	Telecommunication Services	11.0%	11.3%	-0.4%
	Utilities	3.8%	3.4%	0.4%

INDEX	SECTOR	WEIGHT	MSCI ARABIAN MARKETS INDEX WEIGHT	DIFFERENTIAL
MSCI Arabian Markets Islamic Index	Energy	0.7%	1.7%	-1.0%
	Materials	39.2%	22.9%	16.3%
	Industrials	13.0%	10.3%	2.7%
	Consumer Discretionary	0.1%	1.6%	-1.5%
	Consumer Staples	2.4%	1.7%	0.7%
	Health Care	0.5%	0.3%	0.2%
	Financials	22.8%	48.7%	-25.9%
	Telecommunication Services	19.2%	11.6%	7.6%
	Utilities	2.0%	1.2%	0.8%

MSCI Barra 24 Hour Global Client Service

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Boston	+1.617.856.8716
Chicago	+1.312.706.4999
Montreal	+1.514.847.7506
New York	+1.212.762.5790
San Francisco	+1.415.576.2323
São Paulo	+55.11.3048.6080
Toronto	+1.416.943.8390

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Frankfurt	+49.69.2166.5325
Geneva	+41.22.817.9800
London	+44.20.7618.2222
Madrid	+34.91.700.7275
Milan	+39.027.633.5429
Paris	0800.91.59.17 (toll free)
Zurich	+41.44.220.9300

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China South	10800.152.1032 (toll free)
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