

Islamic Finance News Asia Forum 2009

Developing Islamic Markets Through Indexation:

Beyond the Boundaries of Islamic Investors



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August 2009

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Agenda

- Evolution of Indexing
- Indices as a solution to standardisation
- Talking “Shariah-compliance” not “Islamic Investment”
- Summary



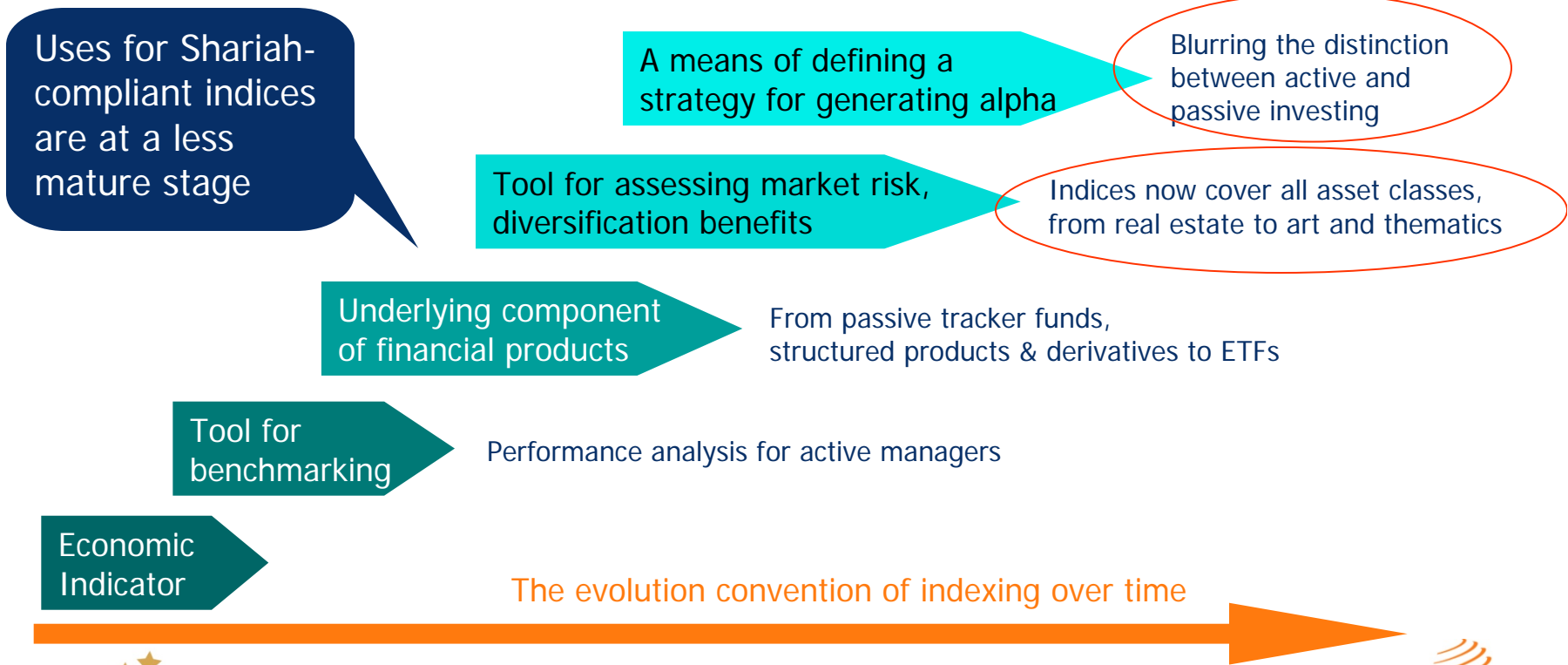
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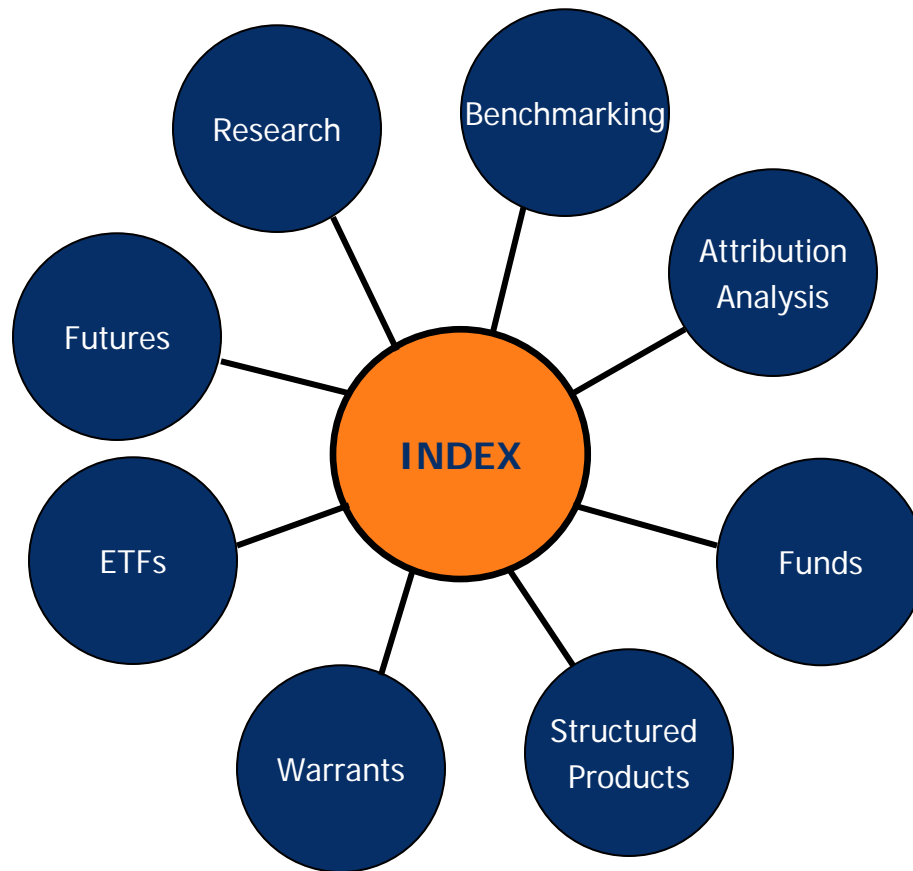
Applications of indices and their role in asset management

The Evolution of Indexing – Creating New Investment Opportunities

As the design and application of indices evolve, the introduction of new indexation concepts creates new investment opportunities and choice



Applications of Indices



Shariah-indices are currently not being utilised to their full extent

Indices as a solution to standardisation

Index Providers Offer Choice

2 – 3 years ago, no indices available for investors and product issuers. Now there many choices:

- Dow Jones Indexes
- FTSE Group
- Standard and Poor's
- MSCI
- Fund managers/banks (run in-house)



How do you choose?



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Conservative Principles

Islamic investors require conservative principles for wider acceptance globally

Principle	Description
Conservative	<ul style="list-style-type: none">• Non-compliant until proven otherwise• Asset-based financial screening rather than market cap screening
Consistent	<ul style="list-style-type: none">• Strict, rules-based approach• Objective & consistent across regions• Comprehensive global database
Auditable	<ul style="list-style-type: none">• Yasaar's Shariah Board monitors, reviews and audits at regular basis• Constituents are updated daily, and audit trails provided



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Clear, Concise & Transparent Methodology

FTSE Global
Equity Index
Series



Filter



Investable
Universe

All
Companies

By Market
Cap
By Shariah
compliance

Free Float
Screened

Liquidity
Tested

- Shariah-compliant indices require the same rules based driven approach and robust methodology as conventional indices

FTSE Shariah Screening Process

BUSINESS ACTIVITY SCREENING

Initially, companies involved in any of the following activities will be filtered out as non Shariah-compliant:

- Conventional Finance (non-Islamic Banking, Finance and Insurance, etc.)
- Alcohol
- Pork related products and non-halal food production, packaging and processing or any other activity related to pork and non-halal food
- Entertainment (Casinos, Gambling, Cinema, Music, Pornography and Hotels)
- Tobacco
- Weapons, arms and defence manufacturing

FINANCIAL RATIOS SCREENING

The remaining companies are then further screened on a financial basis. The following financial ratios must be met for companies to be considered Shariah-compliant:

- Debt is less than 33% of total assets
- Cash and Interest bearing items are less than 33% of total assets
- Accounts receivable and cash are less than 50% of total assets
- Total interest and non compliant activities income should not exceed 5% of total revenue



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The Investment Story - Options

Comparing Sectors of Conventional and Shariah-Compliant Indices

ICB Code	ICB Industry	FTSE Shariah All-World Index Wt (%)	FTSE All-World Index Wt (%)	Relative Wt (%)
0001	Oil & Gas	20.56	11.39	9.17
1000	Basic Materials	10.86	6.80	4.06
2000	Industrials	12.35	11.56	0.79
3000	Consumer Goods	10.81	11.77	-0.96
4000	Health Care	14.02	8.88	5.14
5000	Consumer Services	6.24	9.11	-2.87
6000	Telecommunications	5.70	5.51	0.19
7000	Utilities	4.27	4.87	-0.60
8000	Financials	1.42	20.01	-18.59
9000	Technology	13.77	10.10	3.67
TOTAL		100.00	100.00	

Source: FTSE Group, total return data in USD as of 30 April 2009

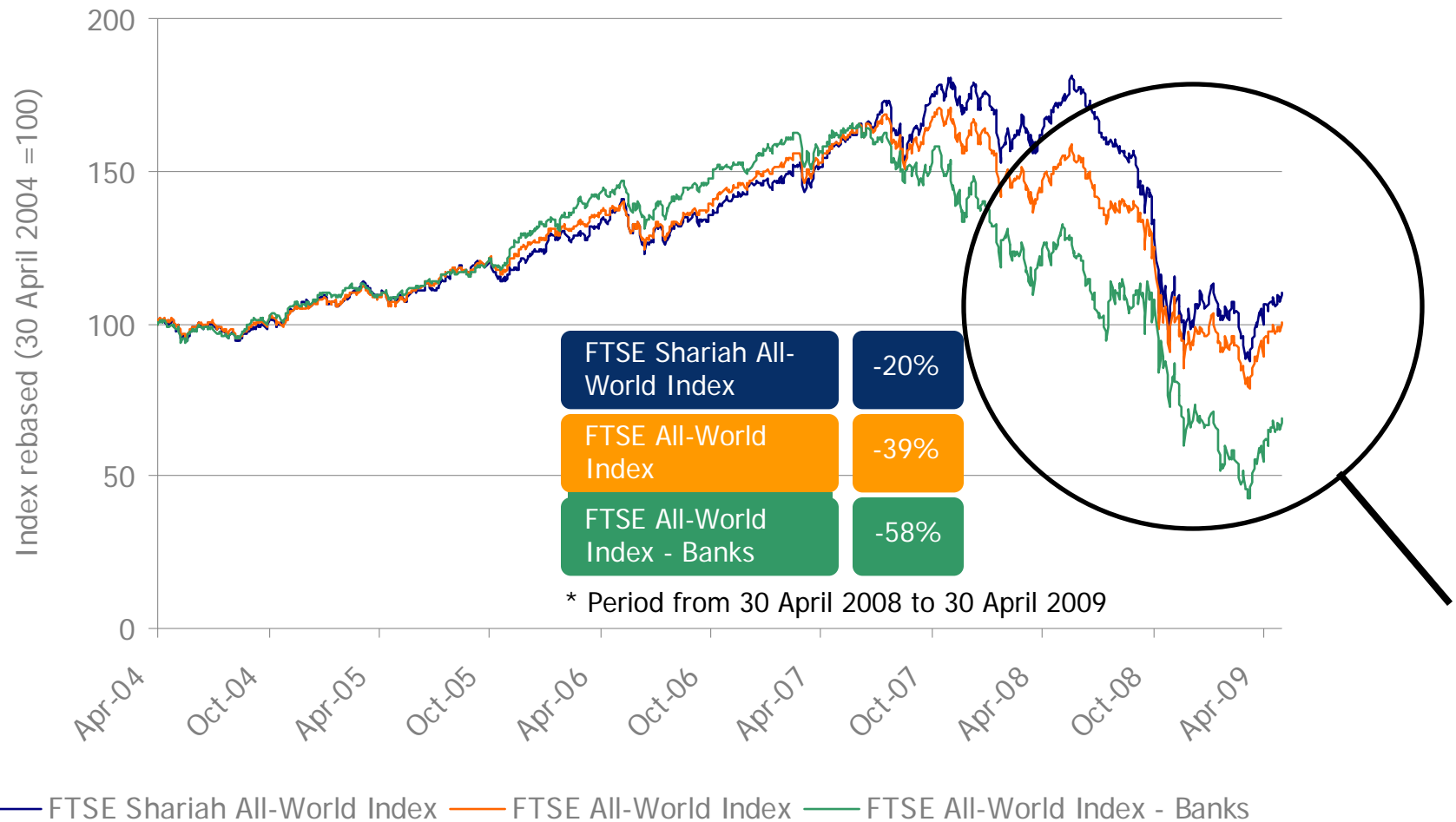


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5-Year Global Market Performance



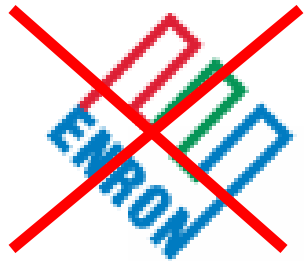
Source: FTSE Group, total return data in USD as of 30 April 2009



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Health Check on Future Financial Performance



“Enhances due diligence, discourages speculation and promotes more committed buy-and-hold investing”

Nicholas Kaiser, President

Saturna Capital, Advisor to Amana Income Fund



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Islamic Finance' vs 'Ethical Investing'

Investors are using Shariah-indices as a starting point for their own versions of "ethical" benchmarks

Shariah-Compliance	Ethical Investment
<ul style="list-style-type: none">• Faith based• Constraints based on Justice, Ethics, Morals, Equity and Fairness (based on Qur'an)	Beliefs and values based
<ul style="list-style-type: none">• Prohibits certain business activities• Exclude gambling, alcohol, weapons manufacturing, pornography and pork products	<ul style="list-style-type: none">• Prohibits certain business activities• Exclude gambling, alcohol, weapons manufacturing, pornography, <u>but not pork</u> products
<ul style="list-style-type: none">• Financial screenings limit or prohibit some business practices e.g. interest or 'riba', is not permitted• Wealth generation through legitimate trade and investment into real assets	<ul style="list-style-type: none">• Financial screening are not taken into account• Growing interest in screening companies for financial "health"
No environmental screening	Strong environmental focus



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The logo for FTSE, The Index Company. It features the letters "FTSE" in a large, bold, blue font, with "THE INDEX COMPANY" in a smaller, blue font below it. To the right of the text is a stylized orange and blue graphic element.

Concluding Comments

- Islamic investors cannot invest into conventional financial instruments however conventional investors can invest into Shariah instruments
- This makes the potential universe as big as there are as many investors of any kind in the world
- Product issuers need to find an investment story for Shariah-compliant finance to develop “packaging” applicable to Islamic and non-Islamic investors
- Talk “Shariah-compliance” not “Islamic investment”



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