

## SOLUTION OVERVIEW

# FTSE IdealRatings Islamic Index Series

A Shariah solution to your equity investment allocations



### Overview

Access the global equity investment universe in a way that complies with Shariah investment principles.

### The index

The FTSE IdealRatings Islamic Index Series has been designed as a capitalization-weighted and investable global Shariah-compliant index that takes a carefully constructed approach to screening for business activities and financial ratios.

The FTSE IdealRatings Islamic Index Series is designed to provide a family of Shariah-compliant indices for global investors. Screening is undertaken by Shariah screening provider, IdealRatings. The series has been fully certified as Shariah-compliant through the issue of a Fatwa (Islamic legal opinion) by IdealRatings' principals.

The FTSE IdealRatings Islamic Index Series includes a range of indices based on the FTSE Global Equity Index Series, regional indices from the FTSE Global Total Cap Index and the FTSE Frontier Index, as well as indices from the Russell US Index family and the FTSE Global Infrastructure Index Series. The screening approach follows a set of transparent principles that cover both business activity screening and financial screening.

The headline index series includes:

- FTSE IdealRatings All-World Islamic Index
- FTSE IdealRatings Developed Islamic Index
- FTSE IdealRatings Emerging Islamic Index
- FTSE IdealRatings Middle East & Africa Extended Islamic Index
- FTSE IdealRatings Middle East & North Africa Extended Islamic Index
- FTSE IdealRatings GCC Extended Islamic Index
- FTSE IdealRatings Global Core Infrastructure 50/50 Islamic Index
- Russell IdealRatings 1000 Islamic index

There will also be additional regional and country level sub indices available for licence.

### Features

The FTSE IdealRatings Islamic Index Series is designed to provide a family of Shariah-compliant indices for global investors, with screening undertaken by Shariah screening providers, IdealRatings.

### Coverage

The FTSE IdealRatings Islamic Index Series covers all regions across both developed and emerging markets, to create a comprehensive Shariah indexing solution.

### Impartial and Investable

By partnering with IdealRatings, an impartial research provider, FTSE Russell remains neutral and fully up to date with latest practices. IdealRatings' services have been reviewed and approved by several Islamic scholars, advisors and institutions globally. Stocks are selected and weighted to ensure that the index is investable.

### Fatwa certified

The FTSE IdealRatings Islamic Index Series has been fully certified as Shariah-compliant through the issue of a Fatwa (Islamic legal opinion).

### Transparent and Liquid

Index methodologies are freely available on the FTSE Russell website, while stocks are screened to ensure that the index is tradeable.

### Availability

Capital and Total Return Indices are available.



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## Screening criteria

### Business screening activities

Investment is not allowed in companies deriving more than 5% of their total revenue (cumulatively) from any of the following activities:

#### Business screening (prohibitions)

<b>Alcohol:</b> Distillers, vintners and producers of alcoholic beverages, including producers of beer and malt liquors, owners and operators of bars and pubs.	<b>Defence/weapons:</b> Manufacturers of military aerospace and defence equipment, parts or products, including defence electronics and space equipment.
<b>Tobacco:</b> Cigarettes and other tobacco products manufacturers and retailers.	<b>Gambling/casino:</b> Owners and operators of casinos and gaming facilities, including companies providing lottery, online games or betting services.
<b>Pork-related products:</b> Companies involved in the manufacture and retail of pork products.	<b>Music:</b> Producers and distributors of music, owners and operators of radio broadcasting systems.
<b>Conventional financial services:</b> Commercial banks involved in retail banking, corporate lending, investment banking; companies involved in mortgage and mortgage-related services; providers of financial services, including insurance, capital markets and specialized finance; credit agencies; stock exchanges; specialty boutiques; consumer finance services, including personal credit, credit cards, lease financing, travel-related money services and pawn shops; financial institutions primarily engaged in investment management, related custody and securities fee-based services; companies operating mutual funds, closed-end funds and unit investment trusts; financial institutions primarily engaged in investment banking and brokerage services, including equity and debt underwriting, mergers and acquisitions; securities lending and advisory services institutions; and insurance and reinsurance brokerage firms, including companies providing property, casualty, life disability, indemnity or supplemental health insurance.	<b>Cinema:</b> Companies engaged in the production, distribution and screening of movies and television shows, owners and operators of television broadcasting systems and providers of cable or satellite television services.
<b>Advertising services:</b> Television, newspapers and billboards.	<b>Adult entertainment:</b> Owners and operators of adult entertainment products and activities.
<b>Gold &amp; silver hedging:</b> Traders of gold and silver as cash or on deferred basis.	<b>Not slaughtering according to Islamic or Monotheistic principles:</b> Food producers or processing companies not following the Islamic or Monotheistic guidelines in the slaughtering of animals.

### Financial screening activities

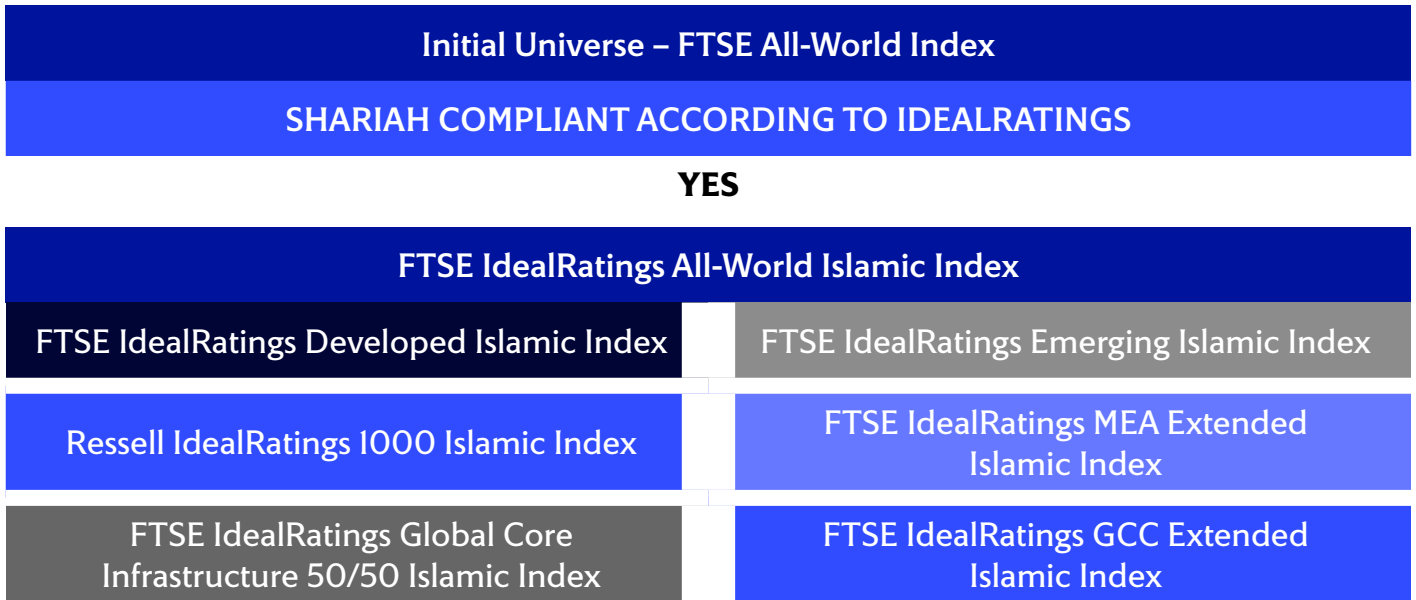
Investment is not allowed in companies with financial ratios violating the following criteria:

#### Financial screening (no investment allowed in companies where):

Total conventional debt over average daily market capitalisation for the prior 24 months exceeds 33%. If the average market capitalization of the company falls below the total asset value, total assets are then used in calculating the percentage above.	The revenue that Islamic Financial Institutions derive from Financial Services will not be considered revenue from a prohibited activity. Islamic Financial Institutions will not be subject to the business or financial screening criteria above.
Sum of a company's cash and short term interest bearing securities over average daily market capitalization for the prior 24 months exceeds 33%. If the average market capitalization of the company falls below the total asset value, total assets are then used in calculating the percentage above.	No investment in trust units is allowed.
The total non-permissible income generated from conventional interest income and any non-compliant activities should not exceed 5% of the total income generated by the company.	No investment in fixed income preferred shares is allowed.

## Index methodology

IdealRatings has developed a research methodology to accurately analyze companies' business activities and revenue breakdown. It helps identify more than 40 unique categories of Shariah guidelines in addition to the financial ratios of Shariah non-compliant activities.



## Nuances of Index construction

Although the approaches of different Islamic equity index providers are broadly similar in terms of the business activity and financial screens, there are nuances in the way indices are constructed. FTSE Russell uses both market capitalization based and asset based financial screening approaches in its Islamic equity index range: in our FTSE Global Equity Shariah Index Series we screen on a financial basis using companies' total assets, while in our FTSE IdealRatings Islamic Index Series, we screen using companies' market capitalization (averaged over the previous 24 months).

## Measuring Shariah compliance

Screening for Shariah-compliance across FTSE Russell's Islamic equity indices is undertaken by specialist Shariah consultants: Yasaar Limited in the case of the FTSE Global Equity Shariah index series and IdealRatings in the case of the FTSE IdealRatings Islamic index series. These consultants certify the indices as Shariah compliant through the issue of a Fatwa (Islamic legal opinion) by specialist Shariah scholars.

## About IdealRatings

IdealRatings is a leading provider of Responsible Investment research where it has been involved in the Shariah screening market since 2006 with clients across more than 30 countries globally and a large footprint in the Middle East and South East Asia. They have been a trusted partner of FTSE Russell since 2017 via the jointly managed FTSE EPRA NAREIT IdealRatings Islamic Index Series and the FTSE IdealRatings Sukuk Index Series.

## Index construction process

Taking the FTSE All-World Index as a starting point, FTSE Russell's Islamic equity indexes are built with the main precepts of Islamic finance in mind and follow a two-stage process.

Step 1

### Business screening

At the first stage, companies involved in specified areas of business activity are excluded from the starting set of securities for the equity index. The threshold for index inclusion is typically that the total sum of non-permissible income should not exceed 5% of a company's total revenue and interest income. A comprehensive list of exclusions can be found in the screening criteria section of this document.

Step 1 > Step 2

### Financial screening

At the second stage, the remaining companies are screened on a financial basis and have to meet certain financial ratios to be considered Shariah-compliant. Typically, these ratios are set as follows:

- Total conventional debt over average daily market capitalization for the prior 24 months exceeds 33%. If the average market capitalization of the company falls below its total asset value, the total assets are used to calculate the percentage.
- The total sum of a company's cash and short term interest bearing securities over average daily market capitalization for the prior 24 months exceeds 33%. If the average market capitalization of the company falls below its total asset value, total assets are used to calculate the percentage.
- Total non-permissible income generated from conventional interest income and any non-compliant activities should not exceed 5% of a company's total income.
- The revenue that Islamic Financial Institutions derive from Financial Services will not be considered revenue from a prohibited activity.
- No investment is allowed in either unit trusts or fixed income preferred shares.

Step 1 > Step 2 > Step 3

### Dividend purification

Best practice suggests that an appropriate purification level of dividends should be 5%. This ratio calculates the recommended purification amount to be paid by the investor.

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## About FTSE Russell

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Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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