

How Index Innovation Is Propelling Further Growth of Islamic Markets

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THE RANGE OF SHARIAH-COMPLIANT INDICES HAS GROWN TO MEET THE EVOLVING NEEDS OF THE ISLAMIC FINANCE INDUSTRY

Since the introduction of the [Dow Jones Islamic Market \(DJIM\) World Index](#) nearly 20 years ago, there has been a tremendous amount of index innovation as the Islamic investment community has demanded increasingly granular and sophisticated investment solutions while adhering to the tenets of Islamic law. Today, S&P Dow Jones Indices publishes more than 10,000 Shariah-compliant indices each day. In the early years, we brought to market broad benchmarks covering various regions, as well as large-cap indices focused on prominent blue-chip companies. Soon thereafter, Shariah-compliant versions of popular benchmarks such as the [S&P 500[®] Shariah](#) were introduced. In the past few years, Shariah-compliant index development has expanded to include smart beta and multi-asset class strategies.

DIVIDEND STRATEGIES

Dividend indices have long been popular with conventional investors due to their income properties and indication of long-term value. The [S&P High Yield Dividend Aristocrats[®]](#) was launched for conventional investors in 2005, and its success has led to the subsequent launch of its Shariah counterpart—the [S&P High Yield Dividend Aristocrats Shariah Index](#). The index is formed by screening companies within the [S&P Composite 1500[®]](#) for Shariah compliance, followed by the further selection of companies that have consistently increased their dividends over the past 20 consecutive years. The result is a modern dividend capture index available for use by Shariah-conscious market participants. Exhibit 1 highlights the favorable risk and return characteristics of the S&P High Yield Dividend Aristocrats Shariah Index compared with the conventional S&P High Yield Dividend Aristocrats and the [S&P 500](#) over the past 10 years.

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In recent years, Shariah-compliant index development has expanded...

...and now includes smart beta and multi-asset class strategies.

Examples include the S&P High Dividend Aristocrats Shariah, focusing on capturing dividends...

...and the S&P GIVI Shariah Series, which highlights multi-factor solutions available to Shariah investors.

Exhibit 1: Return Comparison of the S&P 500 Versus the S&P High Yield Dividend Aristocrats and S&P High Yield Dividend Aristocrats Shariah Index

PERIOD	S&P 500	S&P HIGH YIELD DIVIDEND ARISTOCRATS	S&P HIGH YIELD DIVIDEND ARISTOCRATS SHARIAH INDEX
TOTAL RETURN (% ANNUALIZED)			
3-Year	16.1	15.9	16.5
5-Year	14.5	13.5	14.5
7-Year	15.6	14.7	15.6
10-Year	10.9	12.1	13.8
STANDARD DEVIATION (%)			
3-Year	9.4	9.1	10.2
5-Year	9.6	9.2	10.3
7-Year	10.6	9.8	10.3
10-Year	14.7	14.1	13.5
RISK-ADJUSTED RETURN			
3-Year	1.7	1.8	1.6
5-Year	1.5	1.5	1.4
7-Year	1.5	1.5	1.5
10-Year	0.7	0.9	1.0

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2018. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

For investors focused on regions outside the U.S., additional Shariah-compliant dividend indices include the [S&P Pan Arab Composite Shariah Dividend](#) and [S&P GCC Composite Shariah Dividend Index](#). These offerings each include 30 stocks from within the relevant regions that have increased or maintained dividends for a minimum of three consecutive years.

MULTI-FACTOR INDICES

The S&P GIVI® Shariah is a rules-based series designed to deliver lower volatility and improved performance by weighting component companies by intrinsic stock value rather than by traditional market capitalization. This multi-factor approach considers a company's book value and discounted projected earnings in order to capture two essential contributors to portfolio performance—low volatility and value. Demand for this investing approach within conventional portfolios has found its place within Shariah indices and has been made available in the form of global, developed, emerging, and various regional Shariah indices. The S&P GIVI Shariah Indices highlight multi-factor index solutions available to Shariah investors.

MULTI-ASSET BENCHMARKS

Most recently, the DJIM Target Risk Indices were introduced.

Demand for multi-asset indices has increased in recent years, as investors seek to maximize growth and minimize risk. The S&P Pan Arab Shariah Balanced Indices combine Pan Arab Shariah-compliant equities and sukuk in several predefined allocations in order to target various risk profiles. Varied equity-to-sukuk allocations are available, including 75% equity, 60% equity, and 25% equity offerings.

Each index has a predefined allocation to Shariah-compliant equities, sukuk, and a cash component and targets a defined risk profile.

Most recently, the DJIM Target Risk Indices were introduced to the market. Each available index has a predefined allocation to Shariah-compliant equities, sukuk, and a cash component in order to target defined risk profiles. For example, the [DJIM Target Risk Moderate Index](#) reflects a 60% allocation to global equities, 36% to sukuk, and 4% to a cash component. The assigned risk level depends on the allocation to equities, and indices are available under five separate risk profiles as displayed in Exhibit 2. Market participants also have the choice of capturing global equity exposure or U.S.-only equity exposure from the various offerings. Such developments allow for a wider variety of choices available in terms of asset classes and allocation options across various investment landscapes.

Exhibit 2: DJIM Target Risk Indices – Target Allocations

INDEX RISK PROFILE	EQUITY (%)	FIXED INCOME (%)	CASH* (%)
Conservative	20	72	8
Moderately Conservative	40	54	6
Moderate	60	36	4
Moderately Aggressive	80	18	2
Aggressive	100	0	0

* Cash represents 10% of the non-equity allocation of each risk profile.

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2018. Table is provided for illustrative purposes.

CONCLUSION

Shariah-compliant index innovation has largely mirrored that of the conventional space to encompass a range of asset classes, themes, and strategies

Islamic indices provide market participants with a comprehensive set of benchmarks covering equities and Sukuk, as well as a wide variety of investment themes and strategies. Although Islamic equity indices are necessarily limited in coverage, particularly in certain sectors such as Financials, Shariah-compliant index innovation has largely mirrored that of the conventional space. Today, Shariah-compliant index solutions encompass a range of asset classes, themes, and strategies in order to meet the diverse benchmarking needs of the Islamic investment community.

PERFORMANCE DISCLOSURE

The S&P High Yield Dividend Aristocrats Shariah Index was launched June 1, 2017. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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