

# Transparency & Accountability: Dow Jones Islamic Market Index

## The International Islamic Finance Forum

Dusit Hotel, Dubai, UAE  
March 17-19, 2002

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# Presentation Overview

- Islamic Investing
  - Religious Sentiment & Prods/Perform?
- Transparency & Accountability
- Standardization
- DJIM vs. FTSE Islamic
- Licensees & Their Demands
- DJIMs vs. Conventional Counterparts

# Transparency & Accountability

## Pre-DJIM Launch (Feb. 9, 1999):

- About 44 Islamic Funds globally (over 100 today)
  - [www.Failaka.com](http://www.Failaka.com)
  - 50% from Middle East & 50% SE Asia
- TII Euro Small Cap Index (TII & HSBC) launched in 1998
- MSCI (World) ex. Financial
  - Sin Industries & Highly leveraged companies included
- Internal Islamic Equity Benchmarks
  - WMC, Citi, UBS, etc.
    - Appearance of Impropriety & conventional investors accept?

# Transparency & Accountability

- **Islamic (Shariah Compliant) Index**
- **The DJIM index was the first Islamic equity benchmark index created by an independent index provider.**
- **DJIM is a 'low debt, non-financial, social-ethical index' in the broad sense.**
- **Measure relative performance to a benchmark**
  - **Commonplace amongst conventional investors**
- **Market's way of Rewarding and Punishing fund managers**
  - **Monitoring flow of asset accumulation & redemption**
- **Advertising campaign for fund sponsors**
- **Marketing: Proud to be in the DJIM**

# Transparency & Accountability

- **Need for Peer Review:**
  - In US, we have Morningstar's 5 Star System
  - Name & Shame
- **36/100 Islamic funds are global equity**
- **Make it easy for Islamic investors to rely on rating**
  - May not read or understand Islamic fund prospectus
- **Morningstar's Rating system (1-5 stars) results in flow of assets into 5 Star (rated) funds.**
- **[www.Failaka.com](http://www.Failaka.com) (coverage not rating/ranking)**
- **Reuter's Lipper units covers 16 Malaysian Funds**
  - Ranking methodology
  - interest should expand into Gulf, Europe, or US/Canada

# Islamic Funds (Courtesy of Failaka.com)

## ■ Largest Islamic Funds

- Al-Ahli Global Trading (NCB) \$503M
- Alfamar/SEDCO (Permal) \$171M
- Al-Ahli Small Cap (NCB) \$171M

## ■ Largest Islamic Managers

- Wellington Mgmt (Boston) \$727M
- Permal (New York) \$336M
- Deutsche Asset Mgmt (EU) \$134M

## ■ Largest Islamic Sponsors

- NCB (Saudi Arabia) \$935M
- SEDCO (Saudi Arabia) \$336M
- Keppel Insurance (Singapore) \$98M

# Islamic Funds (Courtesy of Failaka.com)

<u>Year</u>	<u>No.of Funds</u>	<u>Assets (\$M)</u>
■ 1996	29	\$800
■ 2000e	98	\$5,000
■ 2002	100+	\$3,300

- 34% decline in asset under management from 2000 to 2002!
- What Happened?

# Islamic Funds (Courtesy of Failaka.com)

## Times Are Changing:

<u>Year</u>	<u>No. of Funds</u>	<u>Type of Funds</u>
■ 2000	23	8 GE & 5CP/B
■ 2002	11	1 GE & 5CP/B

- What Does This Mean?



# Islamic Funds (Courtesy of Failaka.com)

## 15 Largest Funds

- 1 has \$25,000 min.
- 3 with up-front load
  - 1 has >2% Load
- 1 has >2% fees
- \$108 M ave size

## 15 Smallest Funds

- 3 have \$25,000 min.
- 9 with up-front load
  - 6 have >5%
- 6 have >2% Fees
- \$4.4 M ave size

# DJIM vs. FTSE Global Islamic Index

## Interim Tolerance Parameters

- DJIM- 2/9/99
- DJI's Shariah Board (5)
- Shks. Usmani, Abu-Ghuddah, Yaquby, Elgari, DeLorenzo
  - D/MC <33%
  - C + IBS/MC <33%
  - AR/Assets <45%
- DJI Calculates/Maintains
- 1640 stocks, 34 countries, \$9 Trillion
- Quarterly review
- 30 Islamic Indexes
- Nearly 30 licensees
- FTSE 11/99
- TII Shariah Board (4)
- Shks. Al-Yaseen, Faidhulla, Al-Madhkur, Al-Sharif
  - D/A <33.33%
  - Purify all impermissible income
- FTSE Calculates/Maintains
- 944 stocks
- Semi-annual review
- 5 Islamic Indexes

# Need For Standardization

- RHB Malaysia (24 companies in DJIM)
- RHB Indonesia (4 companies in DJIM)
- Confidence in the market (GAAP compliance)
- Grow the market
- AAOFI (Bahrain) and Malaysian counterpart
- Will Standards result in eliminating need Shariah Boards/Advisors?
  - Purification methodology
  - Fund/Portfolio management (documentation)
  - Use of Derivative Instruments

# Top 10 DJIM Holdings

<u>April 2001</u>	<u>August 2001</u>	<u>January 2002</u>
■ Cisco System	Microsoft	Microsoft
■ Intel	Exxon Mobil	Exxon Mobil
■ Exxon Mobil	Pfizer	Pfizer
■ Pfizer	Intel	Intel
■ IBM	BP Amoco	IBM
■ BP Amoco	Glaxo SmithKline	Johnson&Johnson
■ Vodafone Group	Johnson & Johnson	BP PLC
■ Glaxo SmithKline	Merck	Vodafone
■ Merck	SBC Communication	Glaxo SmithKline
■ Microsoft	Cisco Systems	Cisco Systems

# Sample DJIM Licensees

- Permal Asset Management (SEDCO)
- Abu Dhabi Islamic Bank
- Brown Brothers Harriman
- Rockefeller Group
- Samba Capital Management International
- UBS Asset Management
- HSBC Investment Bank (UK)
- Al-Tawfeek Co. for Investments
- iHilal.com
- Bank Al-Jazira
- Al Bank Al Saudi Al Fransi
- Schroders
- Allied Irish Bank

# Reasons Licensees Terminate Contract

- Never got the seed money
- Did not raise enough assets
- Had poor performance
- High Net-worth or Institution pulled out
- Distribution problems
- Wanted to do their own screening

# **Demands of Fund Managers**

- **DJIM universe in Format**
- **Performance Monthly Files:**
  - **Country breakdown**
  - **Global sector breakdown**
  - **Regional/Country sector breakdown:**
    - **Americas**
    - **N. America**
    - **Europe**
    - **UK**
    - **Japan**

# DJIMs & Counter-Part Indexes

<b>DJIM -18</b>	<b>US -16</b>	<b>Tech -33</b>	<b>Can -8.7</b>	<b>A/P -23</b>
<b>MSCI -17</b>	<b>S&amp;P -13</b>	<b>QQQ -32</b>	<b>TSE -13</b>	<b>D A/P -21</b>
<b>JAP -30</b>	<b>ENE -9</b>	<b>TLS -18</b>	<b>HCR -14</b>	<b>DW x US -26</b>
<b>N 225 -23</b>	<b>D ENE -4</b>	<b>D TLS -30</b>	<b>D HCR -24</b>	<b>EAFE -22</b>
<b>UK -15</b>	<b>EM +5</b>	<b>US</b>	<b>EU</b>	<b>Euro</b>
<b>FT 100 -16</b>		<b>L,M,S</b>	<b>L,M,S</b>	<b>L,M,S</b>



# Products off of Islamic Index

- Sector Based Investing (28 DJIMs)
- Islamic ETF
- Islamic Index Linked CD
- On-line investing
- Folios
- ECN for DJIM companies

The logo features the word "DOWJONES" in a bold, blue, sans-serif font. A thick, blue, curved line arches over the word, starting from the left and ending to the right. Below this line, the word "Indexes" is written in a bold, blue, italicized serif font.

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***Indexes***

**The markets' measure.**