

Introduction

The global credit crunch has led to high levels of equity market volatility. Financial services companies have been affected particularly badly, with some large financial institutions failing and others seeing their market capitalization shrink rapidly.

The MSCI Global Islamic Indices only contain companies from the underlying MSCI Global Standard Indices that meet the criteria in the MSCI Islamic Index Series Methodology with respect to financial leverage and business activity. In general, these indices do not contain constituents from the financial sector, except for certain companies that meet the requirements in the MSCI Islamic Index Series Methodology. Additionally, the companies included in the MSCI Global Islamic Indices are required to have a low level of debt relative to their total assets, as defined in the MSCI Islamic Index Series Methodology.

In this research bulletin we will examine the performance and characteristics of the MSCI Global Islamic Indices during the market turmoil that has unfolded in the last 12 months.

Performance Analysis

Exhibit 1 shows that the MSCI World Islamic Index has outperformed the MSCI World Index over the last year. However, in the shorter time frame of the last 3 months the MSCI World Islamic Index has fallen by more than the MSCI World Index, as shown in Exhibit 2. This is also true for the MSCI Emerging Markets (EM) Islamic Index and the MSCI Gulf Cooperation Council (GCC) Countries Islamic Index, both of which have fallen by more than their MSCI Global Standard Indices counterparts over the last 3 months.

Exhibit 1: Cumulative Performance of MSCI World Islamic Index and relative return of the MSCI World Islamic Index vs. MSCI World Index as of October 10, 2008

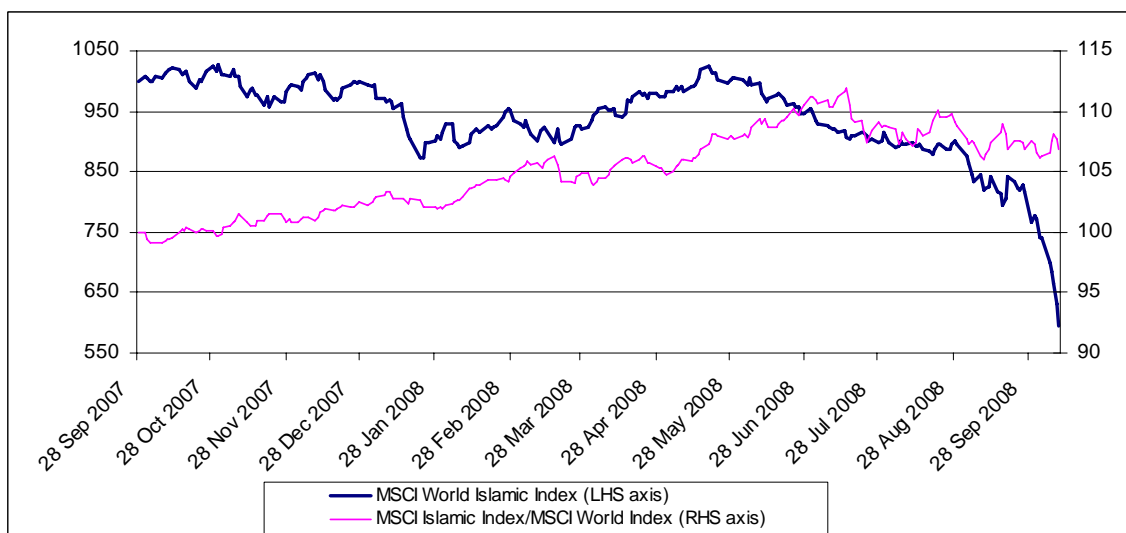


Exhibit 2: Performance Analysis

MSCI Index	MSCI Islamic Index Total Return (\$)				Difference to MSCI Standard Index			
	12 month	YTD	3 month	1 month	12 month	YTD	3 month	1 month
United States	-35.60	-34.07	-30.10	-26.06	5.64	3.75	-1.68	1.00
World	-40.06	-38.91	-35.06	-27.60	3.91	2.42	-2.41	0.22
Emerging Markets	-52.62	-52.90	-45.62	-30.32	-0.37	-1.54	-3.27	0.61
GCC Countries	-23.97	-37.92	-33.06	-21.69	0.79	-0.05	-2.36	-0.17

Data as of October 10, 2008

Sector Allocation

Part of the performance difference between the MSCI World Islamic Index and the MSCI World Index could be attributed to sectors and sub-sectors that are present in the MSCI World Index but are excluded from the MSCI World Islamic Index. The comparison of the sector weightings between the two index families in Exhibit 3 highlights that the Financials sector has a very low weight in the MSCI World Islamic Index. The same is true when comparing the MSCI EM Islamic Index to the MSCI EM Index.

When examining the performance of the sectors for the last 12 months, it is apparent that the MSCI World Index has been affected by the performance of the worst performing sector, the Financials sector. The MSCI World Islamic Index, on the other hand, has performed relatively better due to the heavier weighting in the index of the Energy and Health Care sectors, which have not lost quite as much ground over this period.

Looking at the last 3 months, we find that the difference in performance between the MSCI World Islamic Index and the MSCI World Index can be explained at least partly by the fall in the Energy sector – a fall of 46.16%, which is greater than the 29.50% drop in the Financials sector over the same time period.

Exhibit 3: Sector Weights

GICS Sectors	World				EM			
	Islamic	Diff. vs. Standard	Standard Sector Performance		Islamic	Diff. vs. Standard	Standard Sector Performance	
			12 month	3 month			12 month	3 month
Energy	20.28	9.83	-43.46	-46.16	27.90	11.80	-51.30	-53.42
Materials	10.87	4.70	-50.54	-48.71	17.93	5.33	-61.48	-56.00
Industrials	9.46	-1.53	-46.68	-33.90	7.82	0.11	-63.83	-43.32
Consumer Discretionary	7.46	-1.75	-46.80	-26.75	3.38	-1.71	-49.57	-34.68
Consumer Staples	10.63	-0.18	-25.22	-19.09	2.92	-2.18	-39.85	-32.96
Health Care	18.43	7.54	-31.32	-24.26	0.75	-1.72	-11.21	-11.33
Financials	1.11	-20.17	-53.67	-29.50	1.61	-21.06	-55.04	-37.78
Information Technology	12.78	1.87	-43.22	-31.18	16.54	4.42	-46.91	-30.45
Telecommunication Services	3.83	-0.66	-42.53	-33.02	17.85	5.08	-42.46	-33.21
Utilities	5.15	0.33	-37.04	-36.51	3.29	-0.07	-46.99	-40.75

Data as of October 10, 2008

Risk Analysis

Exhibit 4 shows a breakdown of the tracking error of the MSCI Global Islamic Indices benchmarked against the corresponding MSCI Global Standard Indices as of September 30, 2008.

The MSCI World Islamic Index shows a tracking error of 3.46% to the MSCI World Index. The tracking error consists of common factor risk and asset selection risk. Common factor risk is

caused by factors found throughout the market. Asset selection risk is due to each security's intrinsic risk.

From Exhibit 4 we see that common factor risk contributes 87.78% to the difference in performance between the MSCI World Islamic Index and the MSCI World Index. Of this, the largest part (59.73%) comes from the Industries common factor. This demonstrates the effect of the different weighting of sectors between the MSCI World Islamic Index and the underlying MSCI World Index.

Looking at more detail at some selected industries, underweighting Banks has contributed 6.86% to the overall tracking error. Overweighting Oil, Gas and Consumable Fuels has contributed 6.05%, while conversely overweighting Pharmaceuticals & Life Sciences has contributed a relatively smaller 1.57% to the tracking error.

After Industries, Risk Indices are the next largest common factor risk, contributing 16% to the difference in tracking error. Risk Index exposures, which are sensitivities to shared attributes such as volatility, are examined in greater detail in Exhibit 6.

Exhibit 4: Risk Analysis of Tracking Error of MSCI Global Islamic Indices benchmarked against MSCI Global Standard Indices

Barra Risk Analysis ¹	MSCI Islamic World			MSCI Islamic EM			MSCI Islamic GCC Countries		
	Risk (% Std Dev)	Contribution (% Tracking Error)	Weight vs. Stnd (% Portfolio Value)	Risk (% SD)	Contribution (% TE)	Weight vs. Stnd (%PV)	Risk (% SD)	Contribution (% TE)	Weight vs. Stnd (%PV)
All Common Factor	3.24	87.78		3.70	76.51		2.92	18.86	
- Industries	2.67	59.73		3.46	66.90		1.56	5.41	
Banks	0.90	6.86	-9.10	1.63	14.80	-16.37	1.62	5.82	-16.29
Oil Gas & Consumable Fuels	0.85	6.05	7.74	1.17	7.65	10.66	0.11	0.02	0.96
Pharmaceuticals & Life Sciences	0.43	1.57	5.33	0.11	0.06	-1.32	0.00	0.00	0.00
- Countries	0.48	1.92		0.95	4.98		2.36	12.37	
Japan Mkt	0.25	0.53	-2.08	-	-	-	-	-	-
United States Mkt	0.22	0.40	3.02	-	-	-	-	-	-
- Risk Indices	1.38	16.00		0.36	0.73		0.58	0.74	
- Currencies	0.49	1.32		0.49	1.32		0.13	0.04	
Asset Selection	1.21	12.22		2.05	23.49		6.05	81.14	
Total Risk	13.70			23.22			19.84		
Tracking Error ²	3.46			4.23			6.73		
Hist Total Risk ³	15.77			23.00			28.36		
Hist Tracking Error ³	5.20			5.18			6.86		

Data as of September 30, 2008

¹Analyzed with the Barra GEM2L model

²This is the forecast tracking error of the MSCI Global Islamic indices relative to their respective parent indices

³Historical volatility and tracking error computed using weekly data over period 30/09/07 - 30/09/08

Valuations

Exhibit 5 confirms that the MSCI World Islamic Index has a lower level of financial leverage than the MSCI World Index. In fact, all of the MSCI Global Islamic Indices in Exhibit 5 have a lower level of financial leverage than the corresponding underlying MSCI Global Standard Indices.

Furthermore, the Return on Equity (ROE) of the MSCI World Islamic Index is higher than the ROE of the MSCI World Index, and has remained so over the last year. In particular, whereas the ROE for the MSCI World Index fell sharply during this time, the ROE of the MSCI World Islamic Index has actually increased slightly.

Looking across both the MSCI Global Islamic Indices and the MSCI Global Standard Indices we see that their Dividend Yield (D/P) has increased over the last year, while simultaneously average security prices have been falling. In particular, we observe that the Dividend Yield of the MSCI World Islamic Index has remained lower than the Dividend Yield of the MSCI World Index.

Likewise the Price to Earnings (P/E) ratio for both the MSCI Global Islamic Indices and the MSCI Global Standard Indices has declined in line with price performance over the period of the past year. We can note that the P/E ratio of the MSCI World Islamic Indices is very close to, and slightly lower than, the P/E ratio of the MSCI World Index. The MSCI EM Islamic and the MSCI GCC Countries Islamic Indices also have lower P/E than their underlying MSCI Global Standard Indices.

Exhibit 5: Valuation Ratios

MSCI Indices	Leverage		P/E		D/P		ROE	
	Islamic	Standard	Islamic	Standard	Islamic	Standard	Islamic	Standard
30/09/2008								
World	17.11	23.21	12.16	13.27	2.61	3.21	17.30	13.84
Emerging Markets	17.95	19.62	9.85	10.65	3.12	3.17	17.93	17.01
GCC Countries	16.53	27.79	11.01	12.61	4.61	3.90	20.36	17.43
% Change from 30/09/2007								
World	3.2%	-1.0%	-19.1%	-18.2%	42.3%	46.0%	1.1%	-13.9%
Emerging Markets	-2.6%	-3.6%	-37.9%	-38.2%	53.8%	59.0%	5.3%	4.2%
GCC Countries	-21.5%	23.8%	-29.9%	-12.5%	36.6%	8.4%	-1.9%	-12.9%

Exposures

The low exposure of the MSCI Global Islamic Indices to financial leverage provides a potential explanation for the difference in performance versus the MSCI Global Standard Indices.

Exhibit 6 shows that the MSCI World Islamic Index has significant negative exposure to the Financial Leverage factor. In contrast the MSCI World Index has weak positive exposure to the same factor. Indeed we can observe that the MSCI EM Islamic and the MSCI GCC Countries Islamic Indices also have greater negative exposure to the Financial Leverage factor than their underlying MSCI Global Standard Indices. This difference in exposure is related to the difference in the levels of financial leverage between the MSCI Islamic and the MSCI Global Standard Indices.

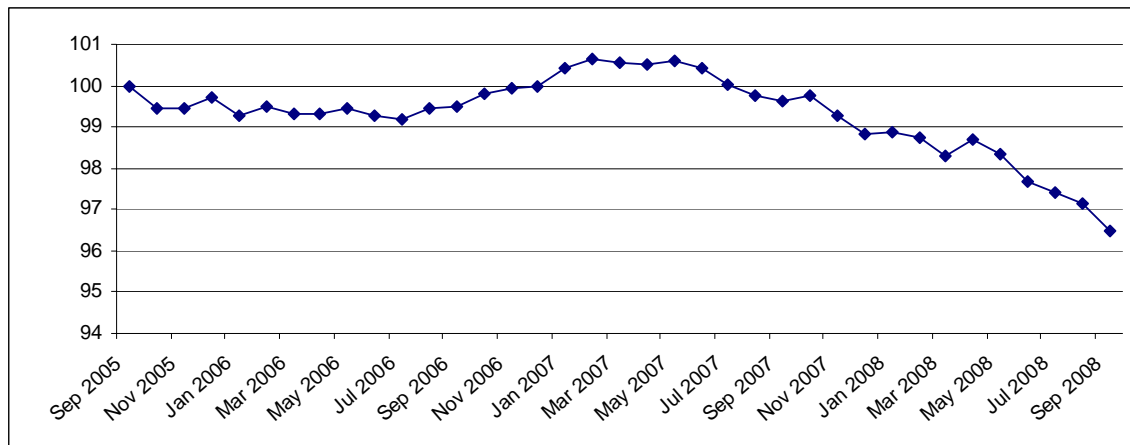
From Exhibit 7 we see that the performance of the Financial Leverage factor has been negative over the last year. All other things being equal, the negative exposure of the MSCI Global Islamic Indices to the Financial Leverage factor has made a positive contribution to their performance relative to the underlying MSCI Global Standard Indices.

Exhibit 6: Risk Index Exposures in Standard Deviation

MSCI Indices	MSCI Standard Index			MSCI Islamic Index Style		
	World	EM	GCC	World	EM	GCC
Momentum	0.02	-0.06	-0.06	0.16	-0.06	-0.18
Volatility	-0.09	0.35	-1.34	-0.29	0.40	-1.39
Value	0.04	-0.04	-0.06	0.03	0.01	0.10
Size	0.29	0.22	0.31	0.35	0.35	0.35
Size Nonlinearity	-0.08	-0.04	-0.08	-0.13	-0.13	-0.10
Growth	-0.03	0.04	0.04	0.02	0.06	0.18
Liquidity	0.02	0.22	0.05	-0.14	0.15	0.13
Financial Leverage	0.01	-0.04	0.01	-0.41	-0.23	-0.32

Data as of September 30, 2008. Indices analyzed with the Barra GEM2L model

Exhibit 7: Cumulative Performance of the Financial Leverage Factor in the Barra Risk Model (GEM2)



Conclusion

The Financial sector was the worst performing sector of the MSCI World Index over the last 12 months. The MSCI World Islamic Index is less exposed to the Financials sector than the MSCI World Index, and may be an explanation for the fact that the MSCI World Islamic Index has outperformed the MSCI World Index over this period.

The difference in performance may also be partially attributed to the fact that the MSCI World Islamic Index has a lower level of financial leverage than the MSCI World Index. This translates into the MSCI World Islamic Index having a strong negative exposure to the Financial Leverage factor, where in contrast the MSCI World Index has a slight positive exposure to the same factor. Since the Financial Leverage factor yielded a negative performance over the last year, the MSCI World Islamic Index's performance may have benefited from an uplift which would not have been present in the MSCI World Index.

Contact Information

clientservice@mscibarra.com

Americas

Americas	1.888.588.4567 (toll free)
Atlanta	+ 1.404.949.4529
Boston	+ 1.617.856.8716
Chicago	+ 1.312.706.4999
Montreal	+ 1.514.847.7506
New York	+ 1.212.804.3901
San Francisco	+ 1.415.576.2323
Sao Paulo	+ 55.11.3706.1340
Toronto	+ 1.416.943.8390

Europe, Middle East & Africa

Amsterdam	+ 31.20.462.1382
Cape Town	+ 27.21.683.3245
Frankfurt	+ 49.69.2166.5325
Geneva	+ 41.22.817.9800
London	+ 44.20.7618.2222
Madrid	+ 34.91.700.7275
Milan	+ 39.025.849.0415
Paris	0800.91.59.17 (toll free)
Zurich	+ 41.44.220.9300

Asia Pacific

China Netcom	10800.852.1032 (toll free)
China Telecom	10800.152.1032 (toll free)
Hong Kong	+ 852.2844.7333
Singapore	+ 65.6834.6777
Sydney	+ 61.2.9033.9333
Tokyo	+ 81.3.5226.8222

www.mscibarra.com

Notice and Disclaimer

- This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc., Barra, Inc. ("Barra"), or their affiliates (including without limitation Financial Engineering Associates, Inc.) (alone or with one or more of them, "MSCI Barra"), or their direct or indirect suppliers or any third party involved in the making or compiling of the Information (collectively, the "MSCI Barra Parties"), as applicable, and is provided for informational purposes only. The Information may not be reproduced or disseminated in whole or in part without prior written permission from MSCI or Barra, as applicable.
- The Information may not be used to verify or correct other data, to create indices, risk models or analytics, or in connection with issuing, offering, sponsoring, managing or marketing any securities, portfolios, financial products or other investment vehicles based on, linked to, tracking or otherwise derived from any MSCI or Barra product or data.
- **Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction.**
- **None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and none of the MSCI Barra Parties endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies. None of the Information, MSCI Barra indices, models or other products or services is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.**
- The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.
- NONE OF THE MSCI BARRA PARTIES MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY LAW, MSCI AND BARRA, EACH ON THEIR BEHALF AND ON THE BEHALF OF EACH MSCI BARRA PARTY, HEREBY EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.
- **Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall any of the MSCI Barra Parties have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or wilful default of itself, its servants, agents or sub-contractors.**
- Any use of or access to products, services or information of MSCI or Barra or their subsidiaries requires a license from MSCI or Barra, or their subsidiaries, as applicable. MSCI, Barra, MSCI Barra, EAFE, Aegis, Cosmos, BarraOne, and all other MSCI and Barra product names are the trademarks, registered trademarks, or service marks of MSCI, Barra or their affiliates, in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

© 2008 MSCI Barra. All rights reserved.

About MSCI Barra

MSCI Barra is a leading provider of investment decision support tools to investment institutions worldwide. MSCI Barra products include indices and portfolio risk and performance analytics for use in managing equity, fixed income and multi-asset class portfolios.

The company's flagship products are the MSCI International Equity Indices, which are estimated to have over USD 3 trillion benchmarked to them, and the Barra risk models and portfolio risk and performance analytics, which cover 56 equity and 46 fixed income markets. MSCI Barra is headquartered in New York, with research and commercial offices around the world. Morgan Stanley, a global financial services firm, is the controlling shareholder of MSCI Barra.