

1. Definition

The MSCI Islamic Index Series (the “Islamic Indices”) follow Sharia investment principles. An Islamic Index is based on an MSCI Equity Index (or any combination of MSCI Equity Indices), but excludes all the non-compliant securities in accordance with the MSCI Islamic Index Series Methodology (the “Islamic Index Methodology”).

The Islamic Index Methodology has been approved by MSCI’s Sharia advisors’ committee of Sharia scholars, as Sharia compliant.

2. Islamic Index Screens

Following Sharia investment principles, MSCI excludes securities using two types of criteria: business activity and financial ratios. Securities for which sufficient financial information is not available to determine the business activity information and financial ratios described in the following sections are considered non-compliant with the Islamic Index Methodology.

Islamic Financial Institutions (as defined in Appendix 1) will not be subject to the Financial Screening in Section 2.2 below. The revenue that Islamic Financial Institutions derive from Financial Services (as defined in Section 2.1 below) will not be considered revenue from a prohibited activity for the purposes of the Islamic Index Methodology.

2.1. Business Activity Screening

Sharia investment principles do not allow investment in companies which are directly active in, or derive more than 5% of their revenue (cumulatively) from, the following activities (“prohibited activities”):

- Alcohol: distillers, vintners and producers of alcoholic beverages, including producers of beer and malt liquors, owners and operators of bars and pubs.
- Tobacco: cigarettes and other tobacco products manufacturers and retailers.
- Pork related products: companies involved in the manufacture and retail of pork products.
- Conventional Financial Services: 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.

- Defense / Weapons: manufacturers of military aerospace and defense equipment, parts or products, including defense electronics and space equipment.
- Gambling / Casino: owners and operators of casinos and gaming facilities, including companies providing lottery and betting services.
- Music: producers and distributors of music, owners and operators of radio broadcasting systems.
- Hotels: owners and operators of hotels¹.
- Cinema: 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.
- Adult Entertainment: owners and operators of adult entertainment products and activities.

2.2. Financial Screening

Sharia investment principles do not allow investment in companies deriving significant income from interest or companies that have excessive leverage. MSCI uses the following three financial ratios to screen for these companies:

- Total debt over total assets²
- Sum of a company's cash and interest-bearing securities over total assets²
- Sum of a company's accounts receivables and cash over total assets

None of the financial ratios may exceed 33.33%. Securities will be considered non-compliant with respect to financial screening if any of the financial ratios exceeds 33.33%.

In order to reduce index turnover resulting from financial screening, a lower threshold of 30% will be used in determining new inclusions to the Islamic Indices. A security that is currently not a constituent of the MSCI Islamic Indices will be considered compliant with respect to financial screening only if all three financial ratios do not exceed 30%.

¹ Excluding revenue from hotel premises operating in Saudi Arabia

² Sharia compliant debt and Sharia compliant instruments will be excluded from total debt when calculating the ratio of total debt over total assets and from the numerator when calculating the ratio of cash and interest-bearing securities over total assets, respectively. This will be applied to the following countries: Gulf Cooperation Council (GCC) Countries ex Saudi Arabia (Bahrain, Kuwait, Oman, Qatar, United Arab Emirates), Bangladesh, Egypt, Indonesia, Malaysia, Pakistan, and Turkey.

2.3. Dividend Purification

If a company derives part of its total income from interest income and/or from prohibited activities, Sharia investment principles state that this proportion must be deducted from the dividend paid out to shareholders and given to charity.

MSCI will apply a “dividend adjustment factor” to all reinvested dividends. The “dividend adjustment factor” is defined as:

$$\text{(total earnings – (income from prohibited activities + interest income)) / total earnings}$$

In this formula, total earnings are defined as gross income, and interest income is defined as operating and non-operating interest. MSCI will review the “dividend adjustment factor” on an annual basis at the May Semi-Annual Index Review.

3. Islamic Index maintenance

3.1. Rebalancing

MSCI will fully reassess the composition of the Islamic Indices by applying the Business Activity Screening in Section 2.1 and the Financial Screening in Section 2.2 on an annual basis at the May Semi-Annual Index Review. MSCI will also reassess the composition of the Islamic Indices by applying the Financial Screening in Section 2.2 to all the applicable securities on a quarterly basis at the Quarterly Index Review. New additions to the MSCI Equity Indices resulting from a Quarterly Index Review may be considered for inclusion to the Islamic Indices at the following Quarterly Index Review. For example, a security added to the MSCI Equity Indices as a result of the November Semi-Annual Index Review may be considered for inclusion to the Islamic Indices at the February Quarterly Index Review. Similarly, a security added to the MSCI Equity Indices as a result of the February Quarterly Index Review may be considered for inclusion to the Islamic Indices at the May Semi-Annual Index Review.

3.2. Corporate Events

A new addition to the MSCI Equity Indices due to a corporate event will not be added simultaneously to the Islamic Indices. It may however be considered for inclusion at the following Quarterly Index Review. For example, an immediate inclusion to the MSCI Equity Indices following an IPO in September would only be considered for inclusion to the Islamic Indices at the following November Semi-Annual Index Review.

Current constituents of the Islamic Indices impacted by corporate events will also be reviewed on a quarterly basis for compliance with the Islamic Index Methodology. Any resulting deletion will be implemented at the following regular Quarterly Index Review. For instance, if an Islamic Index constituent merges with a security that is not compliant with Islamic Index Methodology, and if the new merged entity derives more than 5% of its revenue from a prohibited activity as described in Section 2.1, the new entity may only be considered for deletion at the following Quarterly Index Review.

3.3. GICS® Changes

Regular monthly and annual GICS changes may trigger non-compliance of an Islamic Index constituent.

If a security's existing GICS code changes to a GICS code that is not compliant with the Islamic Index Methodology (as defined in Appendix 2), then that security will be deleted from the Islamic Indices at the effective date of the GICS code change (as of the close of the last business day of the given month).

For all other GICS code changes the security will be screened for compliance with the Islamic Index Methodology at the following Quarterly Index Review. If the security is not in compliance at the following Quarterly Index Review it will be excluded from any Islamic Index until its compliance with the Islamic Index Screens in Section 2 above can be positively determined.

3.4 Periodic Certification

On a quarterly basis, MSCI's Sharia advisors will compare the list of constituent stocks forming the MSCI Islamic Index Series (the "Constituent Stocks") with the MSCI Screening Reports (produced by MSCI as a consequence of applying the Islamic Index Methodology to the MSCI Equity Indices). Provided that the Constituent Stocks forming the MSCI Islamic Index Series can be completely reconciled with the MSCI Screening Reports covering the period under review, confirming that all inclusions and deletions to the MSCI Islamic Index Series have been made as required, MSCI's Sharia advisors will issue a periodic certification covering that period of review based only on their review of the MSCI Screening Reports against the Constituent Stocks.

Appendix 1: Definition of Islamic Financial Institution

A company will be considered an “Islamic Financial Institution” for the purposes of the Islamic Index Methodology, if it meets all the following criteria:

- a. The company has a GICS code of 4010 (Banks), or 4020 (Diversified Financials), or 4030 (Insurance).
- b. The company is a separate legal entity that is established only to deal in transactions that are Sharia-compliant; and
- c. The company has an appointed Sharia supervisory board that provides oversight and sign-off on all of its activities, provides on-going guidance on all Sharia related matters and issues pronouncements/Fatwas with respect to the foregoing, where such pronouncements/Fatwas are legally binding on the company; and
- d. The above is documented in the company’s formation documents and in the company’s audited financial statements.

Appendix 2: Non-Compliant GICS Codes

GICS codes that are not compliant with Islamic Index Methodology are the following as of August 29, 2008³:

Sub-Industries

- 20101010 – Aerospace & Defense
- 25301010 – Casinos & Gaming
- 25301020 – Hotels, Resorts & Cruise Lines
- 25301040 – Restaurants
- 25401020 – Broadcasting
- 25401025 – Cable & Satellite
- 25401030 – Movies & Entertainment
- 30201010 – Brewers
- 30201020 – Distillers & Vintners
- 30203010 – Tobacco

All Sub-Industries of the following Industry Groups:

- 4010 – Banks
- 4020 – Diversified Financials
- 4030 – Insurance

³ Exceptions to the general rule are Islamic Financial Institutions from the following Industries: Banks, Diversified Financials, Insurance.

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The company's flagship product offerings are: the MSCI indices which include over 120,000 daily indices covering more than 70 countries; Barra portfolio risk and performance analytics covering global equity and fixed income markets; RiskMetrics market and credit risk analytics; ISS governance research and outsourced proxy voting and reporting services; FEA valuation models and risk management software for the energy and commodities markets; and CFRA forensic accounting risk research, legal/regulatory risk assessment, and due-diligence. MSCI is headquartered in New York, with research and commercial offices around the world.