

**- MSCI WORLD ISLAMIC 50 SELECT  
INDEX**  
**- MSCI WORLD ISLAMIC 50 SELECT  
DECREMENT INDEX**

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## 1 Introduction

The MSCI World Islamic 50 Select Index represents the performance of an index that aims lower risk<sup>1</sup> than the MSCI World Islamic M-series Index.

The MSCI World Islamic 50 Select Decrement Index aims to represent the net performance of the MSCI World Islamic 50 Select Index, while applying a constant markdown ('synthetic dividend') of 5%, on an annual basis, expressed as a percentage of performance.

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<sup>1</sup> An estimated security co-variance matrix based on the relevant Barra multi-factor equity model is used to forecast lowest risk. Details about the Barra multi-factor risk models are available at <https://www.msci.com/portfolio-management>

## 2 Constructing the Index

The MSCI World Islamic 50 Select Index is constructed from MSCI World Islamic M-series Index (the “Parent Index”). The following steps are applied at initial construction of the Index.

- Defining the Parent Index, Eligible Universe, and the base currency for optimization
- Eligible Universe Screening
- Defining the optimization objective and constraints
- Determining the optimized portfolio

In addition to the above steps, the following steps are applied to the MSCI World Islamic 50 Select Index to construct the MSCI World Islamic 50 Select Decrement Index.

- Applying the MSCI Decrement Indexes methodology<sup>2</sup>

### 2.1 DEFINING THE PARENT INDEX, ELIGIBLE UNIVERSE AND THE BASE CURRENCY FOR OPTIMIZATION

Constructing the MSCI World Islamic 50 Select Index (herein, “the Index”) begins with the Parent Index and then applying screens to arrive at the eligible universe to perform total risk minimizing optimization. The optimization is performed from a base currency perspective and does not allow short selling of securities. The optimization base currency is US Dollar.

The optimization relies on factor exposures for all the securities in the Parent Index and the factor co-variance matrix of the relevant Barra Equity Model<sup>3</sup>.

### 2.2 ELIGIBLE UNIVERSE SCREENING

#### 2.2.1 LIQUIDITY CRITERIA

Securities with 3-month ADTV greater than or equal to USD 5 Million are eligible for inclusion in the Index.

ADTV is defined as Average Daily Traded Value and is calculated as:

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<sup>2</sup> Please refer to the MSCI Decrement Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

<sup>3</sup> Please refer to Appendix 1 for the detailed information on model usage

$$ADTV_{3M} = \frac{ATV_{3M}^4}{252}$$

Where  $ATV_{3M}$  is annualized 3-month Average Traded Value of the security.

To avoid multiple securities of the same company in the final index, only the most liquid security for each issuer per its 3-month ADTV, is eligible for inclusion in the Index. For any issuer, should two securities have the same 3-month ADTV, the one with the higher free float-adjusted market capitalization is included.

## 2.3 DEFINING THE OPTIMIZATION OBJECTIVE AND CONSTRAINTS

### 2.3.1 OPTIMIZATION OBJECTIVE

The Optimization objective is to minimize the Utility Function with various other optimization constraints as specified in 2.3.2:

$$U = Total Risk$$

Where,

Total Risk = ex-ante risk of the index calculated using relevant Barra Equity Model and is a combination of common factor risk and stock specific risk.

### 2.3.2 OPTIMIZATION CONSTRAINTS

At each Index Review, the following optimization constraints are employed, which aim to ensure replicability and investability while achieving lower risk<sup>5</sup>.

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<sup>4</sup> MSCI Index Calculation Methodology at

<https://www.msci.com/index-methodology>

MSCI Global Investable Market Indexes Methodology at

<https://www.msci.com/index-methodology>

<sup>5</sup> An estimated security co-variance matrix based on the relevant Barra multi-factor equity model is used to forecast lowest risk. Details about the Barra multi-factor risk models are available at <https://www.msci.com/portfolio-management>

No.	Parameter	Constraint
1	Number of Constituents	50
2	Maximum weight of a single security	5%
3	Minimum weight of a single security	0.50%
4	Maximum Exposure to Large Cap stocks <sup>6</sup>	60%
5	Maximum Exposure to Mid Cap stocks <sup>7</sup>	20%
6	Maximum Exposure to Small Cap stocks <sup>8</sup>	20%
7	Active exposure to Quality, Momentum, Dividend Yield, Growth, Liquidity, Value and Size Barra style factors	(-0.75,0.75)

## 2.4 DETERMINING THE OPTIMIZED INDEX

The weights of the securities are an outcome of the optimization process. The optimization uses the eligible universe as the universe of eligible securities and the above specified optimization objective and constraints to determine the MSCI World Islamic 50 Select Index.

## 2.5 APPLYING THE MSCI DECREMENT INDEX METHODOLOGY

The MSCI Decrement Indexes Methodology<sup>9</sup> is applied on the MSCI World Islamic 50 Select Index to construct the MSCI World Islamic 50 Select Decrement Index. The parameters for the application of the decrement methodology in the above index is noted in Appendix 4.

<sup>6</sup> Please refer Appendix 3

<sup>7</sup> Please refer Appendix 3

<sup>8</sup> Please refer Appendix 3

<sup>9</sup> Please refer to the MSCI Decrement Indexes methodology at [www.msci.com/index-methodology](http://www.msci.com/index-methodology)

### **3 Maintaining the Index**

#### **3.1 QUARTERLY INDEX REVIEWS**

The MSCI World Islamic 50 Select Index is reviewed on a quarterly basis as per the steps described in Section 3, coinciding with the May and November Semi-Annual Index Reviews and the February and August Quarterly Index Reviews of the Parent Index.

For each rebalance, the Barra Equity Model data as of the end of the month preceding the Index Review are used. This approach aims to capture timely updates to the risk characteristics of the companies and coincide with the rebalancing frequency of the relevant Parent Index.

The pro forma index is in general announced nine business days before the effective date.

#### **3.2 DAILY DECREMENT CALCULATION**

The performance of the MSCI World Islamic 50 Select Decrement Index is computed by reducing the net performance of the MSCI World Islamic 50 Select Index, by a fixed percentage, on a daily basis using parameters detailed in Appendix 4.

#### **3.3 ONGOING EVENT-RELATED CHANGES**

The following section briefly describes the treatment of common corporate events within the MSCI World Islamic 50 Select Index. Changes in index market capitalization that occur because of corporate event implementation will be offset by a corresponding change in the Variable Weighting Factor (VWF) of the constituent.

No new securities will be added (except where noted below) to the Index between Index Reviews. For cases where additions are noted below, securities will be added to the index only if added to the parent index. Parent Index deletions will be reflected simultaneously.

##### **EVENT TYPE**

##### **EVENT DETAILS**

##### **New additions to the Parent Index**

A new security added to the parent index (such as IPO and other early inclusions) will not be added to the index.

##### **Spin-Offs**

All securities created as a result of the spin-off of an existing Index constituent will not be added to the

**Merger/Acquisition**

Index at the time of event implementation. Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

For Mergers and Acquisitions, the acquirer's post event weight will account for the proportionate amount of shares involved in deal consideration, while cash proceeds will be invested across the Index.

If an existing Index constituent is acquired by a non-Index constituent, the existing constituent will be deleted from the Index and the acquiring non-constituent will not be added to the Index.

**Changes in Security Characteristics**

A security will continue to be an Index constituent if there are changes in characteristics (country, sector, size segment, etc.) Reevaluation for continued inclusion in the Index will occur at the subsequent Index Review.

Further detail and illustration regarding specific treatment of corporate events relevant to this Index can be found in the MSCI Corporate Events Methodology book under the sections detailing the treatment of events in Capped Weighted and Non-Market Capitalization Weighted indexes.

The MSCI Corporate Events methodology book is available at:  
<https://www.msci.com/index-methodology>

## **Appendix 1: New release of Barra® Equity Model or Barra® Optimizer**

The methodology presently uses MSCI Barra Global Equity Model for Long-Term Investors (“GEMTL”) for the optimization. A new release of the relevant Barra Equity Model or Barra Optimizer may replace the former version within a suitable timeframe.

## Appendix 2: Handling Infeasible Optimizations

During the quarterly Index review, in the event that there is no optimal solution that satisfies all the optimization constraints defined in Section 2.3, the number of stocks, minimum weight of a single security, Large Cap, Mid Cap and small cap constraints are relaxed automatically by setting these as a Soft Constraint in the Barra Optimizer, to find an optimal solution.

In the event that there is no optimal solution after the above constraints have been relaxed, the MSCI Global Diversified Megatrends Index will not be rebalanced for that Index review.

### **Appendix 3: Definition of Small, Mid and Large cap**

At each quarterly rebalance, constituents are categorized into Small, Mid and Large cap stocks based on following full market capitalization parameters:

<b>No.</b>	<b>Category</b>	<b>Free float Market Capitalization</b>
1	Large Cap	Greater than USD 10 Billion
2	Mid Cap	Greater than or Equal to USD 3 Billion and Less than or Equal to USD 10 Billion
3	Small Cap	Less than USD 3 Billion

## Appendix 4: Parameters used for the MSCI World Islamic 50 Select Decrement Index

The following parameters are used for the calculation of MSCI World Islamic 50 Select Decrement Index

	<b>MSCI Decrement Indexes Methodology Parameters</b>	<b>Parameters</b>
1	Currency of Calculation	USD
2	Return Variant of MSCI World Islamic 50 Select Index	Daily Net Total Return
3	Decrement Type	Fixed Percentage
4	Decrement Application	Geometric
5	Decrement Value	5%
6	Day-count Convention	Actual / 360
7	Index Floor	0
8	Decrement Frequency	Daily

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\* = toll free

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