MSCI ISLAMIC INDEX SERIES METHODOLOGY

April 2024

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1 Introduction

The MSCI Islamic Index Series (the "Islamic Indexes") follow Sharia investment principles. An Islamic Index is based on an MSCI Equity Index (or any combination of MSCI Equity Indexes)[1], but excludes all the non-compliant securities in accordance with the MSCI Islamic Index Series Methodology (the "Islamic Index Methodology").

The Islamic Indexes excludes non-Sharia-compliant securities through business activity screening and financial ratio screening. There are two index variations that implement similar business screening criteria while using distinct approaches in terms of financial screening as far as ratio calculation is concerned. The MSCI Islamic Index Series uses Total Assets as the denominator while the MSCI Islamic M-Series Index uses Average Market Capitalization as the denominator[2].

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

[1] MSCI only considers securities belonging to the markets listed in Appendix 1 for MSCI Islamic Index Series.

[2] See section 2.2 Financial Screening for further details.

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 2) 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)[3] 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.
- Cannabis[4]: manufacture and retail of Cannabis or Cannabis related products.
- 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

[3] Calculated as follows: (Revenue from prohibited activities including Interest Income) / (Total Income defined as Total Earnings including Sales and Interest Income). Interest income includes both operating and non-operating income.

[4] Starting from the May 2019 Index Review, manufacture and retail of Cannabis or Cannabis related products except those used for medical purposes are considered as part of the prohibited activities.

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 hotels[5].
- 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.
- Online dating[6]: companies that offer online dating services through the ownership and operation of websites or mobile applications that facilitate profile-based matchmaking, with the goal of developing romantic or sexual relationships

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:

[5] Excluding revenue from hotel premises operating in Saudi Arabia

[6] Starting from the November 2021 Index Review, online dating services are considered as part of the prohibited activities. Matrimonial services are not considered as part of this screen.

Numerator	Denominator	
	Islamic Index Series	Islamic Index M-Series
Total Debt Sum of a company's cash and interest-bearing securities Sum of a company's accounts receivables and cash	Total Assets[7]	Average Issuer Market Capitalization[8]

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, and United Arab Emirates), Bangladesh, Egypt, Indonesia, Malaysia, Pakistan, and Turkey.

None of the financial ratios may exceed the thresholds stipulated in the table below. Securities that are current constituents will be considered non-compliant with respect to financial screening if any of the financial ratios exceeds the respective thresholds below during an Index Review.

Ratio	Islamic Index Series	Islamic Index M-Series
Total Debt	33.33%	33.33%
Sum of a company's cash and interest-bearing securities	33.33%	33.33%
Sum of a company's accounts receivables and cash	33.33%	49.00%

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

[7] Total Assets represent the total assets of a company based on the latest publicly available financial report.

[8] The average market capitalization is calculated as the average of month-end market capitalization of the last 36 months prior to the rebalancing. For example, data from May 2011 to April 2014 will be used to determine average market capitalization for the May 2014 rebalancing. In the cases where there are fewer than 36 months of available data, the calculation includes the months where the data is available.

Ratio	Islamic Index Series	Islamic Index M-Series
Total Debt	30.00%	30.00%
Sum of a company's cash and interest-bearing securities	30.00%	30.00%
Sum of a company's accounts receivables and cash	30.00%	46.00%

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:

- (total earnings – (income from prohibited activities + interest income)) / total earnings

In this formula, total earnings are defined as total revenues (including interest income), and interest income is defined as operating and non-operating interest. The "dividend adjustment factor" is updated quarterly as part of the Business Activity Screening.

3 Islamic Index Maintenance

3.1 Rebalancing

MSCI will fully reassess the composition of the Islamic Indexes by applying the Business Activity Screening in Section 2.1 and 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 Indexes resulting from a Quarterly Index Review may be considered for inclusion to the Islamic Indexes at the following Quarterly Index Review. For example, a security added to the MSCI Equity Indexes as a result of the November Index Review may be considered for inclusion to the Islamic Indexes at the February Index Review. Similarly, a security added to the MSCI Equity Indexes as a result of the February Index Review may be considered for inclusion to the Islamic Indexes at the May Index Review.

3.1.1 Date of Data Used for Index Reviews

Business Activity Screening is reviewed on an ongoing basis generally following fiscal-year reporting cycles, and the latest reviewed annual information as of the following dates is used:

- Data available as of the last business day of December for the February Index Review
- Data available as of the last business day of March for the May Index Review
- Data available as of the last business day of June for the August Index Review
- Data available as of the last business day of September for the November Index Review

MSCI generally uses the most recent available data (i.e., Financial Statements, including annual and interim reports if applicable) for the calculation of the Financial Ratios used in the Financial Screening. as of the following dates:

- Data available as of the last business day of December for the February Index Review
- Data available as of the last business day of March for the May Index Review
- Data available as of the last business day of June for the August Index Review
- Data available as of the last business day of September for the November Index Review

3.1.2 Announcement Policy

The pro forma MSCI Islamic Indexes are announced at least two weeks in advance of their effective implementation dates of each Index Review.

The pro forma MSCI Islamic M-Series Indexes are announced nine business days before the effective date of each Index Review.

3.2 Corporate Events

With the exception of the treatment as described below, the MSCI Islamic Indexes follow the event maintenance of the Parent Index. Details regarding the treatment of corporate events not covered below can be found in the MSCI Corporate Events Methodology Book, available at:

http://www.msci.com/index-methodology

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

Current constituents of the Islamic Indexes 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 3), then that security will be deleted from the Islamic Indexes 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 Indexes). 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.

3.5 Constituent Weighting and Capping Methodology

Securities are included in the MSCI Islamic Indexes at their free float-adjusted market capitalization weight; however, an issuer level cap of 5% is applied independently on each MSCI Islamic M-Series Index.

The constituents of the MSCI Islamic M-Series Indexes are first weighted based on their free float market capitalization, and are then capped at the issuer level in order to mitigate concentration risk. The excess weight of such issuers is distributed among the remaining constituents in proportion to their free float market capitalization.

The issuer level capping is applied at each Index Review:

- Issuers in the MSCI Islamic M-Series Indexes based on Broad Parent MSCI Indexes will be capped at 5%

- Issuers in the MSCI Islamic M-Series Indexes based on Narrow Parent MSCI Indexes will be capped at the maximum weight in the Parent Index.

MSCI defines Parent Indexes as the non-Islamic version of these Indexes (e.g., MSCI ACWI Index for the MSCI ACWI Islamic M-Series Index). Broad Parent Indexes are those Parent Indexes where the largest capitalization weight in the index is less than or equal to 10%; while Narrow Parent Indexes are those Parent Indexes where the largest capitalization weight in the index is more than 10%.

Note that the capping of the issuer weight is done for the pro forma index as of the effective date, based on the closing prices as of the Index Review announcement date. In cases where an issuer weight breaches the cap as a result of market price movements or corporate events between the announcement date and the effective date, the capping is not applied again. Similarly, even if any issuer weight breaches the cap as a result of market price movements or corporate events between two Index Reviews, no capping is applied.

Appendix 1: List of Eligible Markets

MSCI only considers securities belonging to the following list of markets for inclusion the MSCI Islamic Indexes:

Developed Markets

Australia	Hong Kong	Singapore
Austria	Ireland	Spain
Belgium	Italy	Sweden
Canada	Japan	Switzerland
Denmark	Netherlands	United Kingdom
Finland	New Zealand	USA
France	Norway	
Germany	Portugal	

Emerging Markets

Brazil	India	Poland
Chile	Indonesia	Qatar
China	Korea	Saudi Arabia
Colombia	Kuwait	South Africa
Czech Republic	Malaysia	Taiwan
Egypt	Mexico	Thailand
Greece	Peru	Turkey
Hungary	Philippines	United Arab Emirates

Frontier Markets

Bahrain	Kazakhstan	Romania
Bangladesh	Kenya	Senegal
Benin	Latvia	Serbia
Burkina Faso	Lithuania	Slovenia
Croatia	Mali	Sri Lanka
Estonia	Mauritius	Togo
Guinea-Bissau	Morocco	Tunisia
Iceland	Niger	Vietnam
Ivory Coast	Oman	
Jordan	Pakistan	

Appendix 2: 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:

- The company has a GICS code of 4010 (Banks), or 4020 (Diversified Financials), or 4030 (Insurance).
- The company is a separate legal entity that is established only to deal in transactions that are Sharia-compliant; and
- 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
- The above is documented in the company’s formation documents and in the company’s audited financial statements.

Appendix 3: Non-Compliant GICS Codes

GICS codes[9] that are not compliant with Islamic Index Methodology are the following[10]:

Sub-Industries

- 20101010 – Aerospace & Defense
- 25301010 – Casinos & Gaming
- 25301020 – Hotels, Resorts & Cruise Lines
- 25301040 – Restaurants
- 50201020 – Broadcasting
- 50201030 – Cable & Satellite
- 50202010 – Movies & Entertainment
- 30201010 – Brewers
- 30201020 – Distillers & Vintners
- 30203010 – Tobacco

All Sub-Industries of the following Industry Groups:

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

[9] GICS codes are based on the latest GICS structure and sub-industry definitions published on the MSCI website at https://www.msci.com/gics .

[10] Exceptions to the general rule are Islamic Financial Institutions from the following Industries: Banks, Diversified Financials and Insurance.

List of Methodology Changes

The following sections have been modified since May 2011:

2.1 Business Activity Screening

- Included a footnote clarifying the calculation of the percentage of revenues from prohibited activities.

2.3 Dividend Purification

- Replaced “gross income” with “total revenues (including interest income)”

The following sections have been modified since April 2015:

1 Definition

- Mentions the addition of the Islamic M-Series

2.2 Financial Screening

- Includes the relevant ratios and thresholds as part of the creation of the Islamic M-Series

3.5 Regional Indexes & Constituent Weighting

- New section added

The following sections have been modified since September 2015:

Added section 3.1.1 for clarification of data dates used for Financial Screening

The following sections have been modified since August 2016:

3.5 Constituent Weighting and Capping Methodology

- Clarification on constituent weighting and capping

The following sections have been modified since August 2017:

3.1.2 Announcement Policy

- New section to clarify the announcement policies of the MSCI Islamic Indexes

3.2 Corporate Events

- Added clarification

The following sections have been modified since November 2018:

Appendix 3: Non-compliant GICS Codes

- Updated GICS codes

The following sections have been modified since April 2019:

2.1 Business Activity Screening

- Updated to include Cannabis

The following sections have been modified since October 2021:

2.1 Business Activity Screening

- Updated to include Online Dating Services

The following sections have been modified since February 2023:

2.3 Dividend Purification

- Updated to reflect quarterly review of business activity screening

3.1 Rebalancing

- Updated to reflect quarterly review of business activity screening

3.1.1 Date of Data Used for Index Reviews

- Clarification of date of data used for business activity screening

The following section has been modified since April 2024:

Appendix 1: List of Markets

- Clarification of applicable markets

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