

# THOMSON REUTERS IDEALRATINGS ISLAMIC INDICES

## Index Methodology

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# Introduction

## Thomson Reuters Indices

Thomson Reuters is world's leading source of intelligent information for businesses and professionals. We combine industry expertise with innovative technology to deliver critical information to leading decision makers in the financial, legal, tax and accounting, scientific, healthcare and media markets, powered by the world's most trusted news organization.

Thomson Reuters provides trusted and innovative indices and index-related services to the investment community.

Whether you require indices for benchmarking, or for the development of investment vehicles, Thomson Reuters offers a range of index solutions to satisfy your requirements.

## IdealRatings

IdealRatings has been providing Shariah fund management services for financial institutions since 2006. It is the market leader in helping asset managers in more than 10 countries approach launch and manages Shariah compliant funds with the ability to generate the highest alpha available given the tight compliance and purification process.

IdealRatings' proprietary algorithms and software initially search all public information and news available on potential index constituents for non-compliance. A dedicated research team then analyzes the output for accuracy checks by using over 30 revenue streams of interest for each company.

Shariah compliance screening occurs on a quarterly basis. Explanations of constituent deletions due to non-compliance are provided to clients in addition to index returns and constituent weights.

## Index Family

Thomson Reuters/IdealRatings Islamic indices are characterized by quarterly, research-based Shariah compliance screening performed by IdealRatings that results in a more reliable and accurate index that strives to ensure the most recent Shariah compliance and which is AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) adherent. The indices are designed to serve as liquid, broad-based and comprehensive tools for investment professionals and analysts to benchmark and invest in common stock on a local, regional or global basis of Shariah compliant countries. The historical performance for Shariah Indices is available from 1st April 2009.

The indices currently cover 20 countries and regions and 3 sectors, including countries with as few constituents as approximately 10 and as many as approximately several hundred. Please refer to Appendix I for the market/region covered.

## Index Type

The Thomson Reuters/Ideal Ratings Islamic Indices suite includes float adjusted market capitalization weighted price return and total return Indices. However, this weighting is modified using security- and sector capping rules for Thomson Reuters/IdealRatings Islamic indices (please refer 'Selection Methodology' section).

## Constituent Universe

The constituents' universe is derived from Thomson Reuters Equity Global index. Securities are then screened for Shariah compliance. Securities that qualify in the screening become the constituents for Shariah indices.

## Selection Methodology

### Security Capping

In order to reduce single security risk and volatility in the index suite, securities are capped at each of the quarterly rebalances. Between rebalances, the security weight floats with the share price movement.

Securities are capped at 10% of the total index market capitalization at the rebalance effective date. Since the underlying Thomson Reuters index suite references the free-float adjusted outstanding shares, the share weights are modified using a calibration.

The following constraints hold for the each index after the security capping:

- Each security is reduced to 10.1% or less of the index market capitalization
- If an index has less than 10 securities, it will not be security capped

### Sector Capping

In addition to being potentially security capped, a sector's free-float adjusted market capitalization weight as defined by the TRBC economic level sector is capped at 25%, subject to the index qualifying for sector capping.

An index is sector capped if the following conditions hold:

1. The index must have more than 5 sectors to be sector capped
2. The index must have more than 14 constituent securities
3. If an index previously was not sector capped, but in a rebalance satisfies rules 1) and 2), it is sector capped from this rebalance
4. If an index previously was sector capped but violates rule 1) by having less than 4 sectors, sector capping is suspended
5. If an index previously was not sector capped, but has at least 4 sectors and has more than 14 securities, it will not immediately be sector capped. If the index continues to have more than 14 securities and contains securities from at least 4 sectors for a second consecutive quarter, it will become sector capped effective at the second rebalance
6. An index is equally weighted if the following conditions hold:
  - There are less than 15 constituents
  - There are less than 6 sectors

The Thomson Reuters IdealRatings Islamic Index series provides a reliable and accurate Shariah-compliant benchmark which attempts to ensure the most recent Shariah-compliance status due to the fact that index constituents are screened on a quarterly basis using a research-based approach.

## Thomson Reuters IdealRatings Shariah Mandate

The Thomson Reuters IdealRatings Index series is based on the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) Shariah mandate and is approved by Shariah scholars Dr Mohamed El Gari, Dr M. Daud Bakar and Sheikh Yusuf Talal DeLorenzo.

Index constituents must fulfill the following screening criteria in order to be included in the indices:

## Sector Screens

Companies are only to be considered compliant from a business perspective if the cumulative revenue from non-compliant activities and non-operating interest income does not exceed 5% of their total income (defined as the sum of total revenue or sales and operating and non-operating interest).

Non-compliant income sources include the following: Adult Entertainment, Alcohol, Cinema and Broadcasting, Conventional Insurance, Conventional Financial Services, Defense, Gambling, Hotels, Music, Operating and Non-operating Interest Income, Pork and Tobacco

## Financial Screens

- Interest-bearing debt divided by preceding 12-month average market capitalization should not exceed 30%
- Sum of cash, deposits and interest-bearing investments divided by preceding 12-month average market capitalization should not exceed 30%
- Sum of cash, deposits, and receivables divided by total assets should not exceed 67%

## General Considerations:

- Preferred shares are considered to be non-compliant

## Construction and Calculation Methodology

The starting universe for Thomson Reuters/IdealRatings Islamic indices is derived from Thomson Reuters Global Equity Index. For details on data requirement, construction and calculation methodology of Thomson Reuters Equity Index, please refer Thomson Reuters Global Equity indices Methodology document [here](#).

## Maintenance

### Daily Index Maintenance

Thomson Reuters Indices including Thomson Reuters/IdealRatings Islamic Indices are maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the Thomson Reuters Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delisting, and symbol changes and ensure these changes are implemented into the applicable index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. The corporate actions methodology used by Thomson Reuters Equity Indices is available on our website and can be accessed [here](#)

### Index Rebalance

The indices are rebalanced on a quarterly basis, effective on the first Monday of February, May, August and November. If first Monday happens to be a non-trading day for all member countries, the next

trading day will be the rebalance effective day. This rebalance is the major source of additions and deletions to Islamic Indices.

The rebalancing process starts with the screening process performed by Ideal Rating, followed by a quality check by Thomson Reuters team and applying security and sector capping wherever applicable. The stocks that pass the screening done by Ideal Reuters are included in the index. Their weight in the index is decided by the capping rules.

## Governance

### Index Action Committee

There is an internal index action committee (IAC) at Thomson Reuters Indices. The IAC reviews country and region indices and rebalances including Thomson Reuters/Ideal Ratings Islamic Indices suite. It is composed of the Thomson Reuters Equity Indices Index Manager, Head of Index Administration, Head of Product Management, Head of Commercials, Head of Data Operations and the Head of Technology.

The main activity of this Index Action Committee is to insure that the attributes the index claims to possess – the necessary liquidity, capitalization assignment (large, mid or small-cap) or style considerations – are indeed present. These reviews take place at each rebalance and at each quarterly review. The Index Action Committee also deals with unusual corporate actions which are not handled by the pricing methodology or by the internal data management team that makes hand-adjustments to the index for items such as mergers and delisting. These reviews take place on a monthly or more frequent basis. Finally, as each index needs a minimum number of constituents in order for its price to be computed, the Index Committee decides if an index should be discontinued or possibly resurrected. This decision will normally be made during the rebalance period but could happen more often.

## Appendix I

Serial No.	Name of the Index	RIC (Price Return)	RIC (Total Return)
1	Thomson Reuters IdealRatings Islamic ASEAN 6 Index: Singapore, Indonesia, Philippines, Vietnam, Thailand, and Malaysia	.TRA6PUI	.TRA6TUI
2	Thomson Reuters IdealRatings Islamic Asia Pacific ex Japan Index	.TRAJPUI	.TRAJTUI
3	Thomson Reuters IdealRatings Islamic BRIC Index	.TRBIPUI	.TRBITUI
4	Thomson Reuters IdealRatings Islamic GCC Index	.TRGCPUI	.TRGCTUI
5	Thomson Reuters IdealRatings Islamic Global Emerging Markets Index	.TRGEPUI	.TRGETUI
6	Thomson Reuters IdealRatings Islamic Global Index	.TRGLPUI	.TRGLTUI
7	Thomson Reuters IdealRatings Islamic Global Ex Australia Index	.TRGXAUPUI	.TRGXAUTUI
8	Thomson Reuters IdealRatings Islamic AMI Index: Turkey, Malaysia, Indonesia	.TRIIPUI	.TRIITUI
9	Thomson Reuters IdealRatings Islamic MENA Index	.TRMEPUI	.TRMETUI
10	Thomson Reuters IdealRatings Islamic MENASA Index : Kuwait, Bahrain, United Arab Emirates, Qatar, Oman, Egypt, Morocco, India, Pakistan,	.TRMSPUI	.TRMSTUI
11	Thomson Reuters IdealRatings Islamic UAE Index	.TRAEPUI	.TRAETUI
12	Thomson Reuters IdealRatings Islamic Australia Index	.TRAUPI	.TRAUTUI
13	Thomson Reuters IdealRatings Islamic Bahrain Index	.TRBHPI	.TRBHUI
14	Thomson Reuters / IdealRatings Egypt Islamic Index	.TREGPI	.TREGUI
15	Thomson Reuters IdealRatings Islamic Indonesia Index	.TRIDPI	.TRIDUI
16	Thomson Reuters IdealRatings Islamic Kuwait Index	.TRKWPI	.TRKWUI
17	Thomson Reuters IdealRatings Islamic Malaysia Index	.TRMYPI	.TRMYUI
18	Thomson Reuters IdealRatings Islamic Oman Index	.TROMPI	.TROMUI
19	Thomson Reuters IdealRatings Islamic Qatar Index	.TRQAPI	.TRQATUI
20	Thomson Reuters IdealRatings Islamic Turkey Index	.TRTRPI	.TRTRUI
21	Thomson Reuters IdealRatings Islamic Global Energy Index	.TRGLPUENEI	.TRGLTUENEI
22	Thomson Reuters IdealRatings Islamic Global Healthcare Index	.TRGLPUHLCI	.TRGLTUHLCI
23	Thomson Reuters IdealRatings Islamic Global Technology Index	.TRGLPUTECI	.TRGLTUTECI





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