

S&P Dow Jones Indices

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TalkingPoints

Multi-Asset, Shariah-Compliant Indices for the MENA Region



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The S&P Pan Arab Shariah Balanced Indices are a series of multi-asset benchmarks that combine core MENA equity and sukuk components, allowing market participants to choose an allocation framework that best reflects their investment style.

What role do the S&P Pan Arab Shariah Balanced Indices serve in the market?

Use of multi-asset, Shariah-compliant benchmarks has increased significantly in recent years as Islamic market participants have sought tools to manage risk while generating growth and income in a volatile environment. Each index in this series combines a core MENA equity component and a sukuk component in differing predefined allocations in order to target various risk/reward profiles. The indices can serve as performance benchmarks for multi-asset, Shariah-compliant funds or as underlying indices for passive investment vehicles. Because of the high volatility observed in MENA equities in recent years, the demand for multi-asset indices has been particularly prevalent in the region.

How do the indices work?

The S&P Pan Arab Shariah Balanced Indices combine the S&P Pan Arab Composite Shariah¹ and the Dow Jones Sukuk Index² at fixed allocations. The series consists of three indices, with each targeting a different risk profile (see Exhibit 1). It is also possible to incorporate customized weights tailored to meet specific investment requirements.

Exhibit 1: S&P Pan Arab Shariah Balanced Index Series – Target Allocations

Index Name	S&P Pan Arab Composite Shariah (%)	Dow Jones Sukuk Index (%)
S&P Pan Arab Shariah Balanced - Conservative Index	25	75
S&P Pan Arab Shariah Balanced - Moderate Index	60	40
S&P Pan Arab Shariah Balanced - Growth Index	75	25

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

¹ The S&P Pan Arab Composite Shariah is a comprehensive benchmark that is designed to measure large-, mid-, and small-cap stocks from 11 MENA equity markets.

² The Dow Jones Sukuk Index seeks to track the performance of global Islamic fixed income securities, also known as sukuk.

The index weights are reset to the fixed allocations on a quarterly basis, effective after the close of the third Friday in March, June, September, and December—coinciding with the rebalancing schedule for the S&P Pan Arab Composite Shariah.

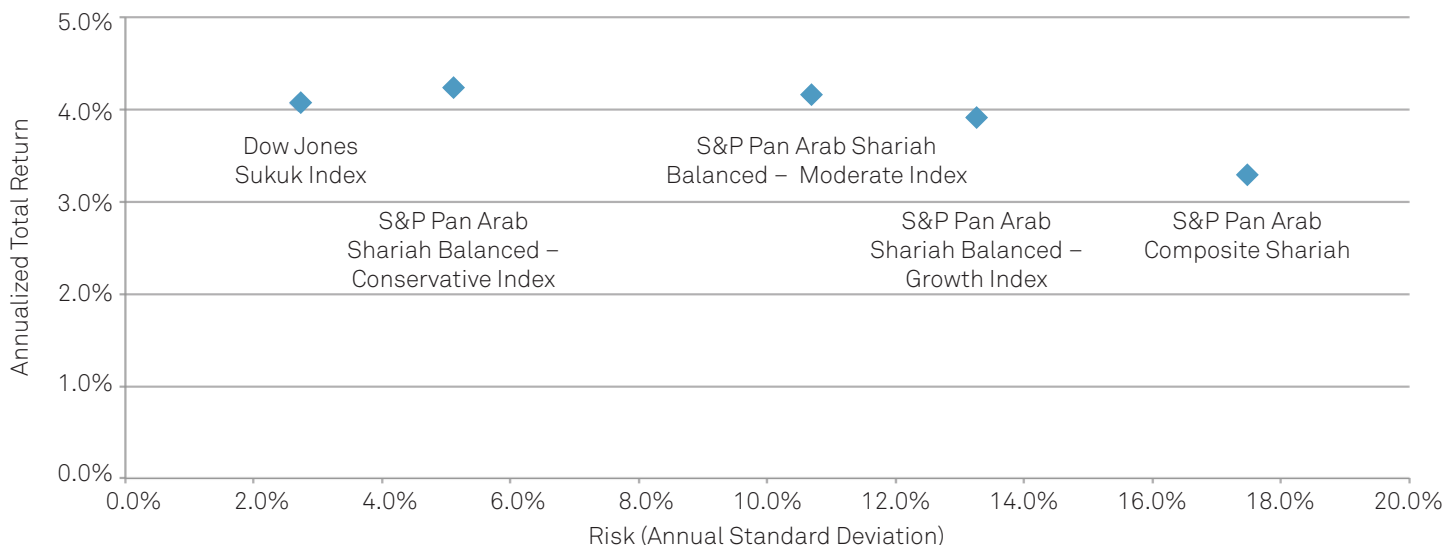
Historically, how has the multi-asset framework helped improve risk/return characteristics?

MENA equities have experienced significant volatility in recent years, as oil, which drives much of the regional economy, has seen steep drops and volatile price movements. For example, the annualized standard deviation of the S&P Pan Arab Composite Shariah was nearly 21% over the three-year period ending Feb. 28, 2017. MENA equity markets have experienced large drawdowns, with the maximum drawdown at nearly 50% over the same period. Unsurprisingly, the global sukuk market has experienced much more stable performance. Exhibits 2 and 3 illustrate the risk-reduction benefits of adding increasingly larger allocations of the Dow Jones Sukuk Index to equity exposure via the more conservative balanced indices. Further enhancing the risk-reduction benefit of the balanced indices is the diversification benefit driven by the relatively low correlation between the S&P Pan Arab Composite Shariah and Dow Jones Sukuk Index (see Exhibit 4).

Exhibit 2: Comparative Risk/Return Characteristics

Period	S&P Pan Arab Shariah Balanced – Conservative Index	S&P Pan Arab Shariah Balanced – Moderate Index	S&P Pan Arab Shariah Balanced – Growth Index	S&P Pan Arab Composite Shariah	Dow Jones Sukuk Index
Returns (%)					
1 Year	8.4	13.5	15.7	19.5	4.9
3 Year	2.2	-0.6	-1.9	-4.5	3.7
5 Year	4.2	4.2	3.9	3.3	4.1
7 Year	5.1	4.9	4.7	4.1	5.0
Annualized Risk (%)					
3 Year	5.8	12.6	15.7	20.8	2.5
5 Year	5.1	10.7	13.2	17.5	2.7
7 Year	5.0	10.2	12.6	16.5	2.8
Risk Adjusted Return					
3 Year	0.38	-0.04	-0.12	-0.22	1.47
5 Year	0.83	0.39	0.30	0.19	1.51
7 Year	1.02	0.48	0.38	0.25	1.82
Maximum Drawdown (%)					
3 Year	-13.1	-30.6	-37.5	-48.0	-2.7
5 Year	-13.1	-30.6	-37.5	-48.0	-3.8
7 Year	-13.1	-30.6	-37.5	-48.0	-3.8

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2017. Calculations are based on monthly gross total return index levels in USD except for maximum drawdown, which is calculated using daily returns. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 3: 5-Year Risk-Return Scatter Plot

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2017. Calculations are based on monthly gross total return index levels in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 4: Comparative Correlations

3-Year Correlation	S&P Pan Arab Composite Shariah	S&P Global 1200 Shariah	Dow Jones Sukuk Index
S&P Pan Arab Composite Shariah	1	-	-
S&P Global 1200 Shariah	0.34	1	-
Dow Jones Sukuk Index	0.16	0.39	1

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2017. Calculations are based on monthly gross total return index levels in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

What are the key benefits of the S&P Pan Arab Shariah Balanced Indices?

Lower Risk: Adding less volatile sukuk to a MENA equity index led to a reduction in total portfolio volatility and lower drawdowns for the indices over the period studied.

Diversification: The relatively low correlations between MENA equities and sukuk may lead to further risk/return enhancements due to the benefits of diversification.

Flexibility: Three indices are available with allocations appropriate for various risk profiles. It is also possible to customize the allocations to meet specific needs.

Shariah Compliance: The S&P Pan Arab Composite Shariah and Dow Jones Sukuk Index are fully Shariah compliant and use two of the most widely used equity and sukuk indices available in the market.

Performance Disclosure

The S&P Pan Arab Shariah Balanced - Growth Index, S&P Pan Arab Shariah Balanced - Conservative Index, S&P Pan Arab Shariah Balanced - Moderate Index were launched on June 2, 2015. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. Complete index methodology details are available at www.spdji.com.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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