

## The Path to Positive Screens

Shari'ah (or Islamic) compliant equity screening can be said to have come into global prominence in 1999, when the Dow Jones Islamic Market Index<sup>SM</sup> (DJIM) was launched in Bahrain. Fast forward nearly a decade, and there are a variety of funds (index and actively managed), ETFs, certificates, structured products, etc., totaling nearly \$20 billion (Source: [www.failaka.com](http://www.failaka.com)), that apply Islamic screening principles.

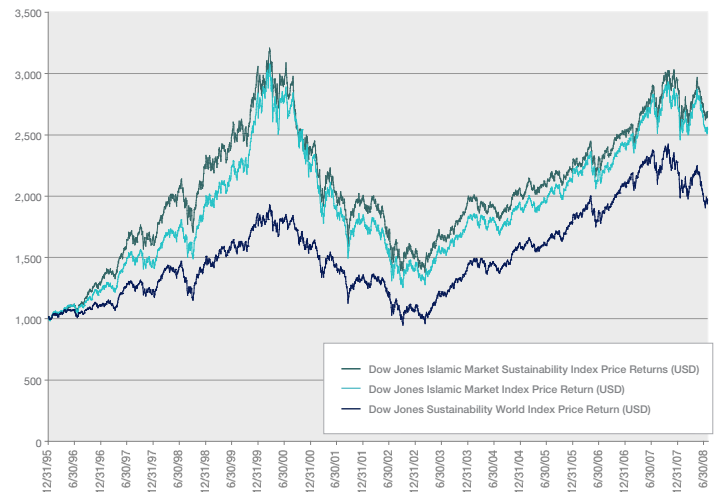
Islamic equity investing has common shared values with social-ethical investing, where the emphasis is on negative screening, i.e., exclusion of the proverbial sin sectors. However, social-ethical screening has generally migrated to sustainable investing, where the emphasis is on the positive screening. Now, Islamic equity investing needs to look at its sustainable brethren.

Launched in 1999, the Dow Jones Sustainability World Index<sup>SM</sup> (DJSI World) is provided through the cooperation of Dow Jones & Company, Inc. and SAM Group, a Zurich-based research firm that conducts detailed sustainability analyses of thousands of global market-cap leaders each year. The index comprises more than 300 companies that represent the top 10% of the leading sustainability companies out of the biggest companies in the Dow Jones World Index<sup>SM</sup> in terms of long-term economic, environmental and social criteria.

Then, in 2006, the Dow Jones Islamic Market Sustainability Index<sup>SM</sup> was launched, representing companies that are compatible with Islamic investment guidelines, while at the same time determined to be corporate sustainability leaders. To be included in the Dow Jones Islamic Market Sustainability Index, companies must be components of both the Dow Jones Islamic Market Index and the Dow Jones Sustainability World Index. Currently, 113 companies with a free float market capitalization value of \$4.34 trillion are included in the Dow Jones Islamic Market Sustainability Index and are thus compatible with stringent Islamic screens, as well as best-in-class sustainability criteria.

For Islamic investors, Islamic sustainability represents adherence to the spiritual (Shari'ah screening) compliance plus important secular corporate movements involving governance, environment, etc. For non-Islamic investors, Islamic sustainability represents an asset class diversification strategy without compromising performance.

The following graph demonstrates that, in the given market cycle period, the Dow Jones Islamic Market Sustainability Index has outperformed the Dow Jones Islamic Market Index, which has outperformed its conventional counterpart index.



The conclusion is that the Dow Jones Islamic Market Sustainability Index represents a pioneering approach to combine both negative and positive screens in one index. It showcases the beginning of Islamic CSR (corporate social responsibility) and governance. It showcases the interest in monitoring the performance of companies compatible with Islamic principles and builds bridges to the sustainable communities that share common goals and objectives. It shows the maturing and migration of the approach to monitoring the performance of companies compatible with Islamic principles beyond mere static and technical screening.

Islamic investing is for all investors. The Dow Jones Islamic Market Sustainability Index represents an opportunity to access a unique style of market performance measurement: low-debt, non-financial socially sustainable companies; to access a performance monitoring strategy that resembles an exotic Beta or Alpha; to impose a review discipline (companies are reviewed quarterly for continued compliance); and to monitor companies that are less sensitive to interest rate movements (gearing screen).