



SHARIAH CAPITAL – EXPANDING THE UNIVERSE OF SHARIAH-COMPLIANT STOCKS

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Shariah Capital's Screening Methodology

Stock Screening Results

Company Name	Industry	Test1	Test2	Test3
01 Communique Laboratory		PASS	FAIL	PASS
1-800-Flowers.com, Inc.		PASS	FAIL	PASS
104 Corporation		PASS	FAIL	PASS
139 Holdings Limited		PASS	PASS	PASS
Image Software, Inc.		PASS	FAIL	PASS
First Artist Corporation plc	MAYBE	FAIL	PASS	PASS
First Baking Company, Ltd.	PASS	FAIL	PASS	PASS
First Capital Securities Corp.	FAIL	--	--	--
First Copper Technology Co Ltd.	PASS	PASS	PASS	PASS
1st Dental Laboratories plc	PASS	FAIL	PASS	PASS
First Derivatives plc	PASS	PASS	FAIL	PASS
First Hotel	FAIL	--	--	--
First Pacific Company Limited	PASS	PASS	FAIL	PASS
First Tractor Comp	Industry Segment		Grade	PASS
2 Ergo Group plc	Gold Ores		PASS	PASS
2-Intinity, Inc.	Silver Ores		PASS	PASS
20-20 Technologies	Ferroalloy Ores, Except Vanadium		PASS	PASS
21 Lady Co., Ltd	Medical Laboratories		PASS	PASS
21st Century Holdi	Dental Laboratories		PASS	--
24hPoker Holding	Electric Services		PASS	--
2Entertain AB	Gas Transmission And Distribution		PASS	PASS
	Hogs		FAIL	
	General Livestock, Nec		MAYBE	
	Security Brokers And Dealers		FAIL	
	Commodity Contracts Brokers/Dlrs		FAIL	
	Nonresidential Building Operators		MAYBE	
	Apartment Building Operators		PASS	

Shariah Capital's Tests

- Shariah Capital has refined the screening criteria for equities and built a software engine that streamlines the process for determining Shariah compliance for publicly-listed companies.
- Before a security can be classified "Shariah compliant," it must pass two levels of screening. Each level consists of proprietary formulas and associated tests based on criteria established by prominent Shariah scholars.
- The first test, an **Industry Test**, screens the core businesses of companies for compliance.
- The second test is comprised of a series of three **Financial Tests**. Companies that generate interest income or incur interest expense below certain benchmarks are classified as compliant.
- These tests incorporate and refine the screens introduced by the Dow Jones Islamic Market Index's Shariah Board in 1998 and later by FTSE.
- **Shariah Capital's tests have been approved by all 5 Shariah scholars who currently comprise the Dow Jones Islamic Market Index Shariah Board.**

Shariah Capital's Screening Methodology

- Companies that pass both the Industry Test and Financial Test are included in the Shariah compliant universe provided to clients.
- Companies that do not pass are reviewed again to confirm that, in fact, they do not meet Shariah criteria.
- Sometimes, companies are identified as “ Data Unavailable” or “Maybe.” These companies are reviewed manually. There are several reasons behind this screening classification:
 - Most often, submitted financial data is incomplete. If financial information supplied to our data provider, Thomson Reuters, is inaccurate or missing, a company cannot complete the Financial Test. In these cases, Shariah Capital researches the missing data in order to re-screen the company and determine compliance.
 - Two companies, one of which may not be Shariah compliant, merge into a new company
 - A company experiences a temporary inflow of cash (most likely because of a divestiture) thereby generating unacceptable levels of interest income.

Shariah Capital's Financial Tests

Financial Test 1 Dow Jones

$\frac{\text{Total Accts Receivable}}{\text{Market Cap}} \leq 45\%$
$\frac{\text{Total Debt}}{\text{Market Cap}} \leq 33\%$
$\frac{\text{Cash \& Equivalents}}{\text{Market Cap}} \leq 33\%$

Financial Test 2 FTSE

$\frac{\text{Total Accts Receivable}}{\text{Total Assets}} \leq 45\%$
$\frac{\text{Total Debt}}{\text{Total Assets}} \leq 33\%$
$\frac{\text{Cash \& Equivalents}}{\text{Total Assets}} \leq 33\%$

Financial Test 3 Shariah Capital

$\frac{\text{Interest Expense \& Interest Income}}{\text{Total Revenue}}$
$\frac{\text{Riba Interest Expense}}{\text{Total Revenue}}$
$\frac{\text{Riba Interest Income}}{\text{Total Revenue}}$

Shariah Capital's Tests

•Dow Jones and FTSE tests for *riba* assume that higher debt levels mean higher interest levels. Shariah Capital's tests for interest are more precise.

•**Aggregate Interest (*Riba*) Expense and Income Test** – By measuring interest activity against total revenue, this test determines which companies depend largely on borrowing or interest income to drive their businesses.

•**Refined Interest Expense to Total Revenue** – The acceptable level of interest expense to total revenue is lower than the previous test and is intended to identify those companies that rely extensively on borrowing to operate their businesses.

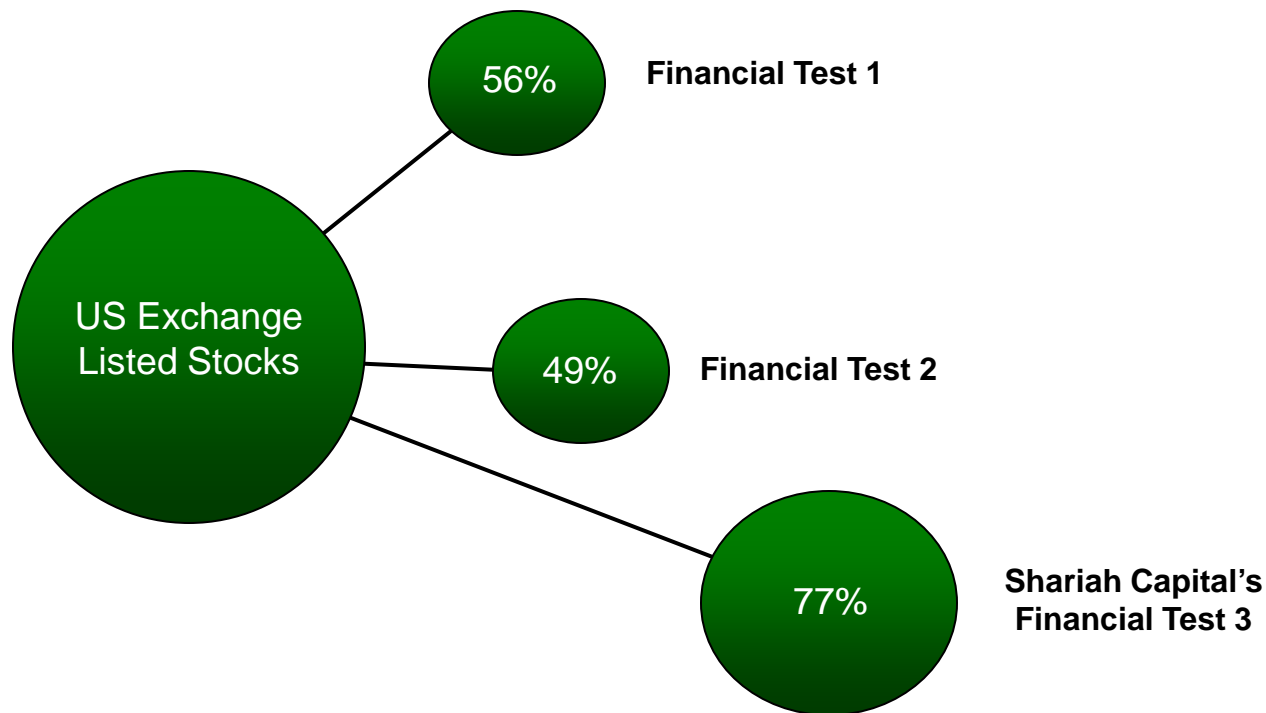
Since Interest Expense may not be reported as a line item in all companies' financial statements, Shariah Capital calculates interest expense by multiplying total debt by a proprietary corporate bond yield formula.

•**Refined Interest Income to Total Revenue** – Where interest income is a significant percentage of total revenue, a company likely is engaged in a business activity that supports *riba*. This test disqualifies such companies.

Riba Interest Income is calculated by multiplying total cash and interest-bearing securities by a proprietary formula based on publicly-quoted short-term interest rates.

A more precise calculation of interest allows a more efficient yet more stringent determination of compliance – and a more exact but paradoxically larger Shariah compliant universe.

Shariah Capital Screens: A Significantly Larger Universe of Shariah Compliant Stocks



Over 4,500 companies traded on the major U.S. exchanges are Shariah compliant based on Shariah Capital's recent tests. That number is significantly larger than the approximate 2000 companies that currently comprise Islamic market indexes offering Shariah screening solutions.

More than two-thirds of all publicly traded companies worldwide have been classified as Shariah compliant using Shariah Capital's screening criteria. Shariah Capital offers the largest Shariah compliant universe of any current Shariah screening provider.

Shariah Capital's Screens: Endorsed by *Fatawa*

Fatwa Relating to Financial Screening Software for Shariah Compliance

SHARIAH BOARD OF SHARIAH CAPITAL INC.

6 Jumaada al-awal 1428 A.H., corresponding to May 23, 2007 C.E.

*In the Name of Allah, the Merciful and Benificent;
Blessings and Peace Everlasting be upon the Prophet Mohammad*

1. BACKGROUND REGARDING FINANCIAL RATIO TESTS

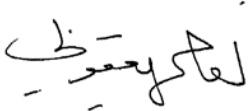
1.1. SHARIAH CAPITAL INC. SHARIAH COMPLIANT FINANCIAL SCREENING SOFTWARE

Shariah Capital Inc. (SCAP), has developed Shariah compliant financial screening software that is structured and operated in accordance with the principles and precepts of Islamic *Shariah* as interpreted by the *Shariah* Board of SCAP (the "*Shariah*"), and which enables the selection of Shariah compliant securities. The *Shariah* Supervisory Board of SCAP (the "*Shariah Board*") has considered, among other things, (a) the structure of proposed Shariah compliant long/short funds, including fund-of-funds structure, (b) the *Shariah* screen to be used by these funds to determine the permissibility of investments in securities¹ under the *Shariah*, (c) the proprietary software developed by SCAP (the "*Software*") to be used by the funds and the *Shariah* Board in connection with investment

Fatawa – Shariah's Intellectual Capital

- *Fatwa* – An Islamic legal opinion
- Shariah Capital has received two *fatawa* in support of its screening processes.
- One, a "*Fatwa Relating to Financial Screening Software for Shariah Compliance*," endorses the methodology behind our Shariah compliance criteria.
- The second, "*Fatwa Relating to Shariah-Compliant Equity Trading Software*," approves the data mining engine developed by Shariah Capital to screen companies faster and more accurately than current methods. It is the first *fatwa* known to be issued for computer software.

Sheik Nizam Yaquby



Dr. Mohammad Daud Bakar



Sheikh Yusuf Talal DeLorenzo



Shariah Capital's Expanded Screening Universe

Corporate Electronic Reporting Breakthroughs

Detailed Corporate Financial Data
Now Available Electronically

+

Publicly-Reported Financial
Information Collected by
Thomson Reuters

+

A Refined Criteria for Shariah
Compliance

=

An Expanded Universe of
Shariah-Compliant Companies

Refining Compliance Criteria

- **Corporate Financial Data:** Publicly-traded U.S., U.K., and Canadian companies, and, increasingly, companies listed on other major international exchanges, now must report corporate financial data electronically.
- **Data Provider:** Under contract with Shariah Capital, Thomson Reuters collects publicly-reported corporate financial information from 242 countries and their markets after which it is analyzed via our Shariah screening tests.
- **Detailed Corporate Information:** With more detailed financial information available for processing, our Shariah scholars were able to refine compliance criteria.
- **Expanded Universe of Companies:** The compliance criteria used by Shariah Capital is more efficient and enhances the accuracy of existing screening criteria. As a result, more companies meet Shariah compliance.

Screening Prospective Portfolios for Shariah Compliance

The Process

Shariah Screens Software

← Thomson Reuters collects the latest company financial data for Shariah compliance screening

Investment Managers

← Investment managers submit a trading universe of prospective companies for preliminary assessment of their investment strategies

Shariah Capital

← Monitors all trades and all positions

Shariah Supervisory Board

← Ongoing reviews for compliance and annual certification

Shariah Capital's Screening Process for Client Portfolios

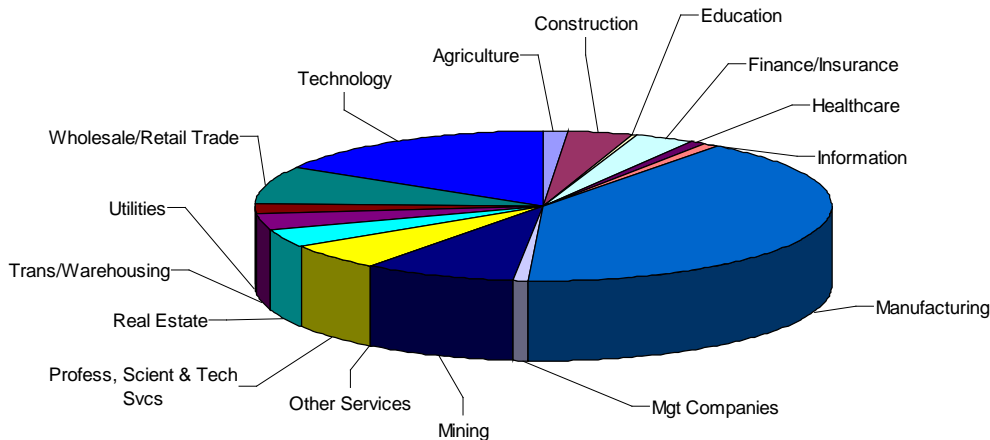
Screen: Review investment strategy or project for initial compliance. Pre-screen projected portfolio holdings using Shariah Capital's proprietary screening criteria and software. Define pivotal Shariah issues and develop practical solutions for compliance.

•**Certify:** Engage appropriately-qualified Shariah scholars. In collaboration with the client's legal counsel, amend relevant fund or project documentation for compliance. Certify initial compliance in the form of a *fatwa*.

•**Supervise:** Monitor trades and investment positions in a portfolio. Continually screen and update a universe of approved companies eligible for investment consideration. Establish a remedial process for non-compliant trades and determine purification, if necessary. Re-certify compliance annually.

Shariah Capital's Screening Universe Segmentation

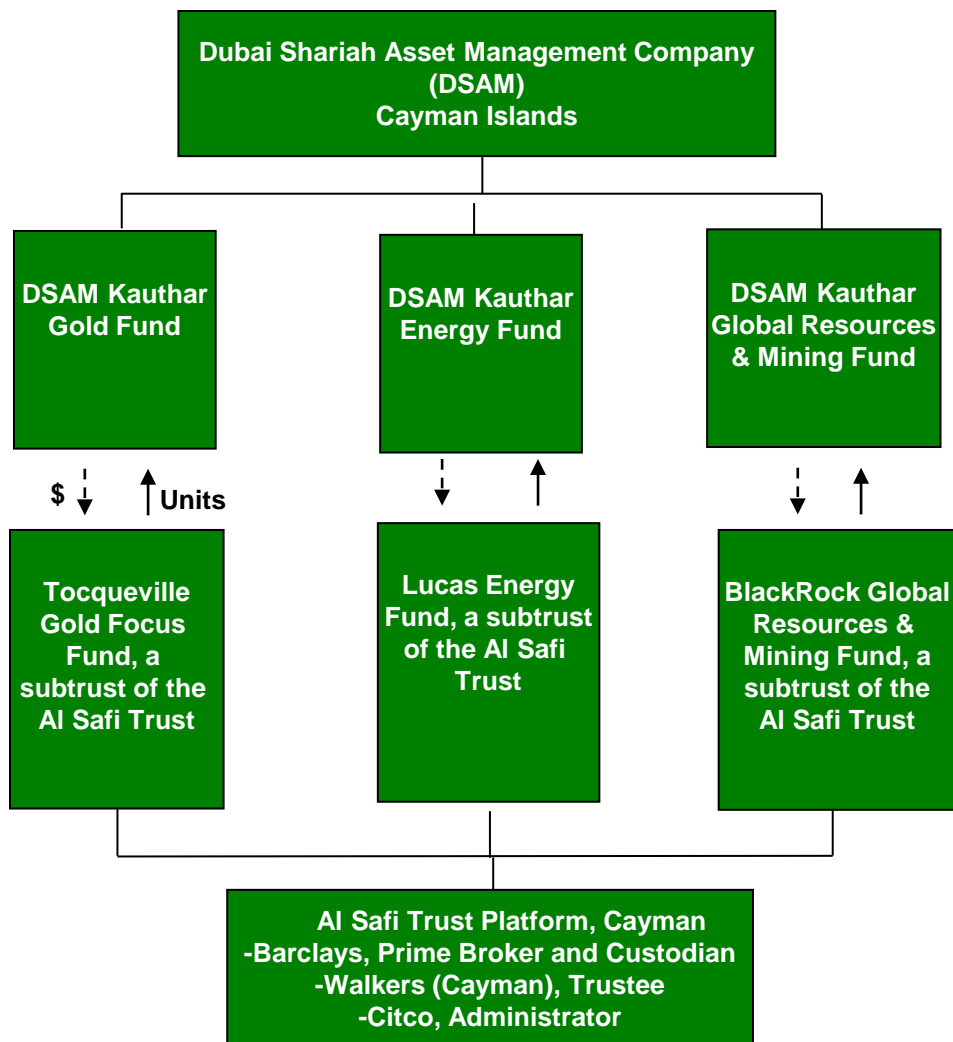
Global Stock Universe by Industry Segment



By the Numbers

- Shariah Capital's screening software provides screening results for over 40,000 stocks on a worldwide basis.
- Our screening software can accommodate a range of screening criteria and the demands of multiple fund strategies in a variety of global markets, the same as conventional "socially responsible" funds.
- Note that non-compliant industries, like Finance/Insurance, represent only a small portion of the overall screening universe. A wide range of large industry segments, like manufacturing, mining, and technology remain acceptable under Shariah.

Screening Leading Hedge Funds in the Industry



- The AI Safi Trust is a comprehensive Shariah compliant platform comprised of single strategy alternative investment managers that provides Shariah screening and arboon-sale solutions along with prime brokerage, administration and trustee oversight – all within a pre-established Cayman trust framework.
- Shariah Capital, Shariah Advisor to AI Safi, utilizes its Shariah screening methodology to generate a regularly-updated universe of Shariah compliant stocks. Managers select from this universe, then manage a separate account at Barclays Prime Brokerage -- the same as they would a conventional portfolio.
- Initial AI Safi Trust managers seeded by the Dubai Multi Commodities Centre Authority (DMCCA) include the prominent hedge fund firms Tocqueville, Lucas, and BlackRock. These firms currently use a Shariah Capital screened universe to manage actual fund portfolios.
- Dubai Commodities Asset Management (DCAM), a wholly-owned subsidiary of DMCCA, and Shariah Capital have formed a joint venture company, Dubai Shariah Asset Management (DSAM), to develop Shariah compliant, commodity-linked investment products and distribute them under the “DSAM Kauthar” label.