

NSE Lotus Islamic Index

NSE LIII

**THE Nigerian
STOCK EXCHANGE**



Lotus Capital
HALAL INVESTMENTS

The NSE

The Nigerian Stock Exchange (NSE) was established in 1960 and today, services the second largest financial centre in sub-Saharan Africa. The NSE is licensed under the Investments and Securities Act (ISA) and is regulated by the Securities and Exchange Commission (SEC). The Exchange is a full member and executive committee member of the African Securities Exchanges Association (ASEA) and an affiliate member of the World Federation of Exchanges (WFE).

The Nigerian Stock Exchange is an automated exchange and provides listing and trading services, as well as electronic Clearing, Settlement and Delivery (CSD) services through Central Securities Clearing System (CSCS) Ltd., an associate company to The NSE, which also offers custodian services. Along with securities listing and trading services, The Exchange offers market data dissemination services, market indices and much more.

The NSE continues to evolve to meet the needs of its valued customers, and to achieve the highest level of competitiveness. With about 200 companies and 258 Securities listed, The Exchange operates fair, orderly and transparent markets that bring together the best of African enterprises and the local and global investor communities. The Nigerian Stock Exchange is poised to champion the acceleration of Africa's economic development and to become "the Gateway to African Markets"

Lotus Capital

Lotus Capital is a full-service, ethical investment management boutique specializing in Shari'ah compliant financial services. Lotus Capital was founded in June 2004 with the specific objective of meeting the investment needs of ethical individuals, businesses, and organizations across West Africa. Lotus Capital is duly registered with the Securities & Exchange Commission (SEC) as a Capital Market Operator.

Lotus Capital is a Nigerian pioneer in this emerging financial niche with a unique equitable interest-free solution. Interest-free financial services primarily known as "Islamic Finance" is the world's fastest growing financial sector with over US\$1.3 trillion in assets worldwide growing at 15-20% per annum.

NSE Lotus Islamic Index (NSE LII)

What is the NSE Lotus Islamic Index?

The NSE Lotus Islamic Index (NSE LII) was created to track the performance of Shari'ah compliant equities trading on the floor of the Nigerian Stock Exchange. It comprises 15 stocks which have met the eligibility requirements of a renowned Shari'ah Advisory Board. The component stocks are rigorously screened and reviewed bi-annually to ensure their continuous compliance for inclusion.

Key Benefits

Diversification tool for local and foreign investors in the stock market.

Reduces the research cost and time required by an investor to independently create a Shari'ah compliant equity portfolio.

Provides a reliable benchmark for Islamic and other ethical investments.

Serves as a basis for the development of other financial instruments such as Exchange Traded Funds, Index-funds and mirror funds.

May serve as a general benchmark for "Ethical funds".



NSE Lotus Islamic Index (NSE LII)

Screening Methodology

Each stock in the NSE LII undergoes a 2-stage screening process. Qualitative screening eliminates any listed company that deals in prohibited sectors of the economy such as:

Alcoholic Beverages

Tobacco

Conventional Financial Services

Such as Banks and Insurance Companies

Gambling

Adult Entertainment

Companies which pass the initial filter are then evaluated on the basis of Islamic financial (quantitative) screens to eliminate those with unacceptable levels of debt, cash and interest income. Only companies that pass the second stage are considered for further analysis. Other important criteria such as liquidity and market capitalization of the equities are also taken into account.

Islamic Ethical Qualitative Screening



Islamic Financial / Quantitative Screening

Other Rules Guiding Equities Selection

- Constituent stocks are ranked based on the highest market capitalization and average daily volume traded over a six-month period with a minimum average volume of 100,000 units
- Each sector weight is capped at 40%
- Each component stock is capped at 30%
- The index is rescreened, rebalanced & reviewed bi-annually, on the first business day in January & July of every year
- Companies owned by a group should not control more than 40% of the total Index Market Capitalization in order to manage key man and concentration risks.

Index Methodology

The Index is computed using the Modified Market Capitalization Weighted method. Each component stock and sector has a capped weight of 30% and 40% respectively. The excess weight for the sector is equally distributed among the remaining index sectors with weights less than 40%, while for component stocks with weights greater than 30%, the excess weights are distributed to companies with less than capped weight. This process is repeated until all sectors and component stocks are within the acceptable weights.

The formula used to calculate the index is:

$$\text{Index Level} = \frac{\text{Modified Current Value} \times 1,000}{\text{Base Value}}$$

This also represents

$$\frac{\sum_c P_c * Q_c}{\sum_b P_b * Q_b}$$

- Where P_c represents current market price of a component stock

NSE Lotus Islamic Index (NSE LII)

Index Methodology (cont'd)

- Where Q_t represents current number of listed ordinary shares of a component stock.
- P_b represents market price of each component stock as at the base date.
- Q_b represents number of listed shares of each component stock as at the base date.
- In cases of new listings, increase in share capital, delisting, mergers, acquisitions amongst others, adjustments are made to the index to reflect such changes.

Index Performance

- Since inception in 2009, the Lotus Capital Islamic Index (now NSE LII) has reported impressive performance, outperforming the NSE All Share Index in the face of the recent financial meltdown.

Year	NSE LII	NSE ASI
2009	22.53%	-33.78%
2010	41.98%	18.93%
2011	-13.69%	-16.31%

- The selection guidelines applied ensure that companies included in the index are in sectors with strong and consistent consumer demand and returns - such as Food and Beverages and Building Materials amongst others.



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Shari'ah Advisers

The NSE Lotus Islamic Index is certified by an internationally recognized Shari'ah Advisory Board comprised of renowned Islamic scholars.

- Professor Dr. Monzer Kahf** has over 30 years experience in Islamic finance, banking and economics. He is currently Professor of Islamic finance at the MSc program in the Qatar Faculty of Islamic Studies. He has been a private Consultant, Professional Trainer and Lecturer in Islamic banking, finance and economics in practice based in California, USA. He also has over 14 years experience as an Economist, Senior Economist and finally Head of the Research Division of the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB), Jeddah, Saudi Arabia between 1985 and 1999.
- Professor Muhammad Bashar** is the Head of the Department of Economics, Usman Dan Fodio University, Sokoto. He is a well-published and prolific writer. He has a B.A. (Hons.) Economics, from Jamia Millia Islamia, New Delhi, an M.A. (Economics) from Jawaharlal Nehru University, New Delhi, a Ph.D. (Economics) from Usman Dan Fodio University, Sokoto, a Certificate in Arabic and Islamic Studies from University of Medina and a Certificate in Arabic from Usman Dan Fodio University, Sokoto.



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