

The Santiago Exchange Indices Methodology Consultation

SANTIAGO, APRIL 2, 2018: In August 2016, the Santiago Exchange (the “Exchange”) and S&P Dow Jones Indices (“S&P DJI”) signed an Index Operation and License Agreement. The Exchange’s partnership with S&P DJI, the world’s leading provider of index-based concepts, data and research, includes the adoption of international index methodology standards and the integration of operational processes and business strategies and enhances the visibility, governance, and transparency of the existing indices. The agreement also enables the development, licensing, distribution and management of current and future indices which will be designed to serve as innovative and practical tools for local and global investors. The new and existing Santiago Exchange indices will be co-branded under the “S&P/CLX” name (the “Indices”) that can be used to underlie liquid financial products, expanding the breadth and depth of the Chilean capital market.

As part of this transition, S&P DJI and the Exchange are conducting a consultation with members of the investment community on potential changes to the following Santiago Exchange indices to ensure that they continue to meet their objectives and are aligned with the needs of local and international market participants.

- Indice General de Precios y Acciones (“IGPA”)
- IGPA Large, IGPA Mid, and IGPA Small (collectively “IGPA Size Indices”)
- Indice de Precios Selectivo de Acciones (“IPSA”)

IGPA

The IGPA is designed to serve as a broad country benchmark of the Chilean market. Based on a review of the index’s methodology and existing data, and to ensure that the index continues to satisfy its objective, S&P DJI and the Exchange are proposing to increase the minimum bursatility presence¹ required for index eligibility. The table below summarizes the proposed change.

Bursatility Presence	
Current	All companies listed on the Exchange with a minimum bursatility presence of 5% are eligible and selected for index inclusion.
Proposed	All companies listed on the Exchange with a minimum bursatility presence of 25% would be eligible and selected for index inclusion.

As of the December 29, 2017 index rebalancing, the index included 90 stocks. However, if the proposal above had been implemented, the total number of stocks would have been 68, which is consistent with

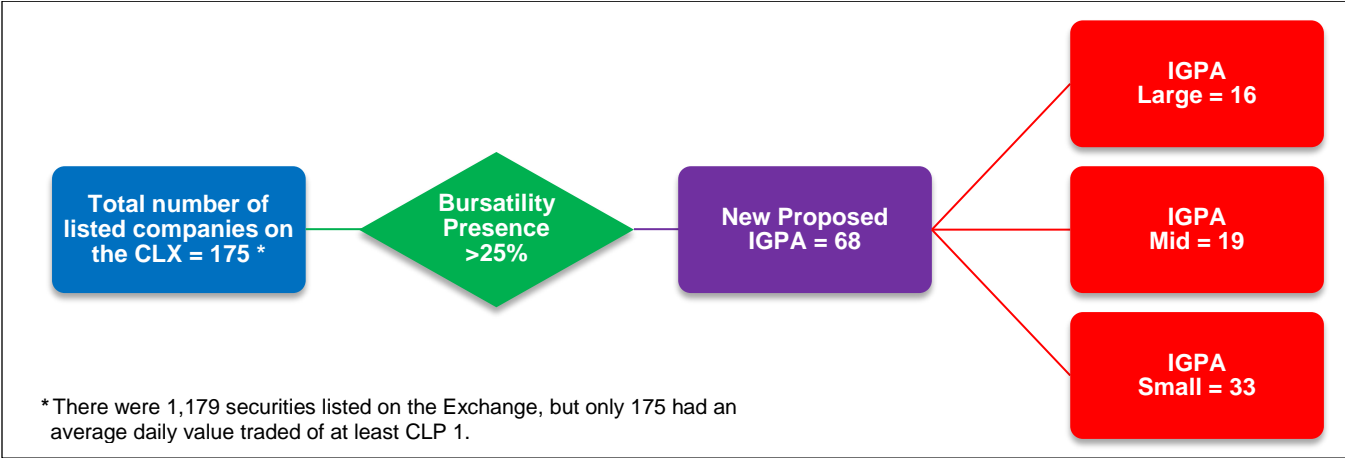
¹ Bursatility is a parameter indicative of liquidity whose value includes a tax benefit. As established in article 4 Bis of Law 18,045, the adjusted presence of a security for a given day shall be calculated by:

- Determining the number of days during the 180 trading days prior to the day of calculation on which the total daily market transactions have reached a minimum equivalent in Chilean pesos to 1,000 Unidades de Fomento (UF), based on the value of the UF on each of those days.
- Dividing that number by 180 and then multiplying the resulting quotient by 100 to give a percentage.

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the aggregate number of stocks in the IGPA Size Indices. At the time, these 68 stocks represented over 85% of the market as measured by total market cap.

Increasing the bursatility threshold to 25% will allow for a broad and representative index of the Chilean equity market while meeting an enhanced liquidity measure. This change would also make the bursatility threshold the same as that currently used for the IGPA Size Indices allowing for the roll up of the IGPA Size Indices into the parent index to create a cohesive index family. The diagram below illustrates the workflow and structure of the IGPA index family, based on data from the December 29, 2017 rebalancing.



IGPA SIZE INDICES

In order to provide a better representation of the stocks within each size segment, S&P DJI and the Exchange are proposing to base size segments on the stock level float-adjusted market capitalization. The table below summarizes the proposed change.

Size Segmentation	
Current	The indices are segmented based on total market capitalization using a split of 70/20/10. Companies in the IGPA with a bursatility presence of at least 25% are ranked by total market capitalization, and then total market capitalization at the stock level is accumulated to 70% forming the IGPA Large Index, the next 20% forming the IGPA Mid Index, and the final 10% forming the IGPA Small Index.
Proposed	<p>The indices would be segmented based on float-adjusted market capitalization using a split of 70/20/10. Companies within the IGPA would be ranked by total market capitalization, and then float-adjusted market capitalization at the stock level would be accumulated to 70% forming the IGPA Large Index, the next 20% forming the IGPA Mid Index, and the final 10% forming the IGPA Small Index.</p> <p>Under this proposal, a 3% buffer would be applied to each size index during the rebalancing in order to minimize turnover. This criterion would allow companies currently in the index to retain their current classification if they fall within 3% above or below the 70/20/10 splits.</p>

Impact Analysis. Using data as of the December 29, 2017 index rebalancing, the following table shows the constituent count of each index using the current methodology as well as the constituent count and additional one-way turnover that would have resulted if the proposed methodology had been applied. See **Appendix I** for a sample calculation showing a theoretical index broken out by sizes using the proposed methodology described above.

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Index	Constituent Count		Additional One-Way Turnover
	Current Methodology	Proposed Methodology	
IGPA Large	16	17	3.47%
IGPA Mid	19	18	10.25%
IGPA Small	33	33	0.56%
Total	68	68	

IPSA

The IPSA is the flagship index of the Chilean equity market. The index is designed to be investable and measure the performance of large and liquid Chilean companies. Based on a review of the index's methodology and existing data, and to ensure that the index continues to satisfy its objectives, S&P DJI and the Exchange are proposing the following changes:

Index Universe	
Current	The index universe is defined as all Chilean-domiciled stocks trading on the Exchange, except those considered non-investable by pension funds.
Proposed	In order to provide a more detailed description of the index universe, S&P DJI and the Exchange are proposing to modify the index universe so that it is defined as all constituents of the IGPA Index, except for listed pension funds (AFPs) and companies holding more than 50% of a public pension funds shares.

Market Capitalization	
Current	Stocks must have a total market cap of at least US\$ 200 million to be eligible for the index.
Proposed	In order to eliminate currency conversion fluctuations and reduce turnover, S&P DJI and the Exchange are proposing to use the local currency (CLP) instead of U.S. dollars for market capitalization screening and introduce a buffer for current index constituents. Under this proposal, stocks would need to have a float-adjusted market capitalization of at least CLP 200 billion, equivalent to approximately US\$ 300 million. Current constituents with a float-adjusted market capitalization of at least CLP 160 billion would continue to satisfy the market capitalization requirement.

Bursatility Presence	
Current	--
Proposed	In order to enhance index liquidity, S&P DJI and the Exchange are proposing to introduce a minimum bursatility presence requirement. Under this proposal, stocks would need to have a bursatility presence of at least 90% to be eligible for index inclusion. Current constituents with a bursatility presence of at least 85% would continue to satisfy the bursatility presence requirement.

Minimum Annualized Six-Month Median Value Traded Ratio (MVTR)²	
Current	--
Proposed	<p>In order to enhance index liquidity, S&P DJI and the Exchange are proposing to introduce a MVTR requirement. Under this proposal, stocks would need to have a MVTR of at least 10% to be eligible for index inclusion. The monthly median value traded ratio would be calculated for each of the prior six months, by taking the monthly median daily value traded, multiplying by the number of days the stock traded during the month, and then dividing by its respective end-of-month float-adjusted market capitalization. The average of the monthly median value traded ratios would then be calculated and multiplied by 12.</p> <p>Current constituents with a MVTR of at least 7% would continue to satisfy the MVTR requirement.</p>

Stock Count	
Current	The index has a fixed constituent count of 40 stocks.
Proposed	<p>S&P DJI and the Exchange are proposing to reduce the index's fixed number of constituent stocks to 25. Based on analysis of the entire universe of listed companies on the Santiago Exchange, S&P DJI and the Exchange have determined that an index of 40 stocks may be too broad as many of the smaller stocks currently included in the index lack sufficient liquidity to support index replicability.</p> <p>S&P DJI and the Exchange have determined the following based on the proposed IPSA methodology changes detailed above:³</p> <ul style="list-style-type: none"> • 20 stocks would fail the proposed minimum float-adjusted market cap requirement of CLP 200 billion • 12 companies would fail the application of new proposed liquidity criteria • one company would fail with regard to the proposed index universe change <p>As such, the proposed investible universe would be reduced to 35 stocks from which the 25 largest and most liquid companies would be selected for index inclusion.</p>

Index Construction Ranking Measure	
Current	Stocks are ranked and selected based on average daily value traded (Monto Transado Promedio Diario or MTPD in Spanish).
Proposed	In order to use a better measure of liquidity for smaller, less liquid markets, S&P DJI and the Exchange are proposing to switch from an MTPD ranking to a six-month median daily value traded (MDVT) ranking for purposes of index construction.

² Note: If the proposed change to the IPSA stock count (see below) is not adopted, then the proposed MVTR requirement would also not be adopted by default.

³ Using data from the December 2017 rebalancing and assuming that the previously described IGPA bursatility presence proposal was adopted and the IGPA was made up of 68 stocks.

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Index Construction Process⁴	
Current	The top 40 stocks ranked by average daily value traded (ADVT), subject to the following: <ol style="list-style-type: none"> 1. All index constituents within the top 45 rankings are selected. 2. If there are less than 40 selected stocks, then non-constituents are selected from the top ranking spots by ADVT.
Proposed	The top 25 stocks ranked by six-month median daily value traded (MDVT), subject to the following: <ol style="list-style-type: none"> 1. All eligible stocks within the top 20 rankings would be selected. 2. The remaining five spots would be filled with constituents ranked among the top 30. 3. If there are less selected stocks, than the target number required, then non-constituents are selected from the top ranking spots by MDVT.

Impact Analysis. By applying the proposed rules detailed above so that the IPSA would have 25 constituent stocks, the index would generate one-way turnover as of February 12, 2018 of 12.3%.⁵ The composition and weights of the index if the above new proposed criteria were applied are detailed in **Appendix II**.

In addition to the proposed changes detailed previously, the following additional changes to the IPSA are also under consideration:

Weighting Scheme⁶	
Current	Index constituents are weighted by float-adjusted market capitalization and are uncapped.
Proposed	In conjunction with the proposed stock count change detailed above, S&P DJI and the Exchange are proposing to initiate a 15% stock cap at each quarterly rebalancing in order to reduce stock concentration. Under this proposal, the excess weight of stocks weighing more than 15% would be redistributed proportionally among the other stocks at rebalancing. Stock capping would be applied quarterly and take effect at the open of the Monday following the third Friday of March, June, September and December.

Rebalancing Effective Dates⁷	
Current	Currently, the IPSA Index is rebalanced annually, effective at the close of business on the first Friday of February.
Proposed	In order to ensure that the index maintains its objective on a more frequent basis, S&P DJI and the Exchange are proposing to rebalance the IPSA semi-annually. Under this proposal, semi-annual index rebalancings would be effective at the open on the Monday following the third Friday of March and September. The rebalancing reference dates would be the third Friday of February and August, respectively. Updates to shares, float and weights would occur quarterly and take effect at the open on the Monday following the third Friday of March, June, September and December.

⁴ Note: If the proposed change to the IPSA stock count (see above) is not adopted, then the proposed index construction process would also not be adopted by default.

⁵ The hypothetical turnover is the cumulative difference in absolute values between the weight before and after a rebalancing per index component divided by two. This value is expressed in percentage terms to account for the changes in the weights of the whole composition of the index, including adds and drops.

⁶ Note: If the proposed change to the IPSA stock count is not adopted, then the proposed change to the weighting scheme would also not be adopted by default and the index would remain uncapped.

⁷ Note: S&P DJI and the Exchange are currently consulting on proposed changes to the rebalancing effective dates and rebalancing announcement schedule for the other Santiago Exchange indices. For details, please refer to *The Santiago Exchange Indices Maintenance Consultation* available [here](#).

Rebalancing Announcement Schedule⁸	
Current	Rebalancing announcements are sent one month prior to the rebalancing effective date.
Proposed	S&P DJI and the Exchange are proposing to revise the rebalancing announcement schedule so that rebalancing announcements would be sent one week prior to the rebalancing effective date. Under this proposal, constituent pro-forma files would be provided each time the indices rebalance. The pro-forma file would be provided daily in advance of the rebalancing date and would contain all constituents and their corresponding weights and index shares effective for the upcoming rebalancing. Index shares would be calculated using closing prices seven business days prior to the rebalancing date.

Stock Replacement Policy	
Current	Replacements are made on an as needed basis in order to maintain a fixed count of 40 stocks.
Proposed	In order to limit turnover, S&P DJI and the Exchange are proposing to replace stocks only at the time of rebalancing.

IMPLEMENTATION TIMING

Once closed, S&P DJI and the Exchange will review the results of the consultation and determine which changes, if any, will be adopted. At that time, S&P DJI and the Exchange will provide the details of the changes and provide sufficient lead time prior to implementation. Changes impacting constituent selection and/or weighting would be made on a scheduled rebalancing date.

QUESTIONS

Please answer the following questions and provide S&P DJI and the Exchange with the reasoning behind your answers:

1. **Do you agree with the proposed change to increase the minimum bursatility presence threshold to 25% for the IGPA?**
2. **Do you agree with the proposed change to use float-adjusted market cap to calculate the cumulative weights used to determine the size splits for the IGPA Size Indices?**
3. **Do you agree with the proposed change to the index universe for the IPSA Index?**
4. **Do you agree with the proposed change to the market capitalization requirement for the IPSA Index?**
5. **Do you agree with the proposed introduction of a minimum bursatility presence for the IPSA Index?**
6. **Do you agree with the proposed introduction of a minimum annualized six-month median value traded ratio (MVTR) for the IPSA Index?**
7. **Do you agree with the proposed change to the fixed stock count for the IPSA Index?**
8. **Do you agree with the proposed change to the index construction ranking measure for the IPSA Index?**

⁸ Note: S&P DJI and the Exchange are currently consulting on proposed changes to the rebalancing effective dates and rebalancing announcement schedule for the other Santiago Exchange indices. For details, please refer to *The Santiago Exchange Indices Maintenance Consultation* available [here](#).

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9. If the proposed stock count change is adopted, do you agree with the proposed change to the index construction process for the IPSA Index?
10. If the proposed stock count change is adopted, do you agree with the proposed change to the weighting scheme of the IPSA Index?
11. Do you agree with the proposed change to the rebalancing announcement schedule for the IPSA Index?
12. Do you agree with the proposed change to the rebalancing effective dates for the IPSA Index?
13. Do you agree with the proposed change to the stock replacement policy for the IPSA Index?
14. Do you have any other comments or feedback regarding the proposed changes outlined above?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. S&P DJI and the Exchange will make responses to this consultation available upon request.⁹ If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **May 4, 2018**. After this date, S&P DJI and the Exchange will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI and the Exchange will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at index_services@spglobal.com or the Santiago Exchange at indices@bolsadesantiago.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI and the Exchange make no guarantees and are under no obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI and the Exchange decide to change the index methodology, an announcement will be posted on our websites.

Thank you for taking the time to complete this survey.

⁹ Individual and company names as well as contact details will be redacted.

APPENDIX I – IGPA SIZE INDICES SAMPLE CALCULATION

The sample below shows a theoretical index broken out by sizes using the proposed methodology described above. The sample shows companies ranked by total market capitalization, and the weights calculated using float-adjusted market capitalization. The size designations are based on the float-adjusted market cap using the existing criteria of 70% for large cap, the next 20% for mid cap and the bottom 10% for small cap.

Company	Total Market Cap (\$) ¹⁰	Float-Adjusted Market Cap (\$) ¹¹	Float-Adjusted Market Cap Weight	Cumulative Weight	Size Designation
ABC1	411,999.41	104,277.05	11.42%	11.42%	Large
ABC2	438,135.91	171,661.65	18.81%	30.23%	Large
ABC3	164,447.45	52,557.40	5.76%	35.99%	Large
ABC4	181,775.13	59,658.60	6.54%	42.53%	Large
ABC5	114,558.88	67,049.67	7.35%	49.87%	Large
ABC6	115,348.56	46,935.33	5.14%	55.01%	Large
ABC7	95,244.60	68,661.83	7.52%	62.54%	Large
ABC8	92,709.82	41,126.08	4.51%	67.04%	Large
ABC9	90,580.38	42,255.75	4.63%	71.67%	Large
ABC10	84,446.64	21,947.68	2.40%	74.08%	Mid
ABC11	80,696.48	32,294.73	3.54%	77.62%	Mid
ABC12	78,526.63	53,398.11	5.85%	83.47%	Mid
ABC13	63,835.12	11,847.80	1.30%	84.76%	Mid
ABC14	63,320.91	24,935.77	2.73%	87.50%	Mid
ABC15	61,268.04	25,585.53	2.80%	90.30%	Mid
ABC16	61,033.96	24,413.58	2.67%	92.97%	Small
ABC17	79,423.05	4,066.37	0.45%	93.42%	Small
ABC18	44,350.85	22,193.16	2.43%	95.85%	Small
ABC19	42,115.44	21,015.61	2.30%	98.15%	Small
ABC20	37,335.25	16,853.13	1.85%	100.00%	Small

¹⁰ Total market cap refers to the aggregated market capitalization of all the shares a company may have listed on the exchange.

¹¹ Float-adjusted market cap refers to the available market capitalization of a single primary class of stock where the share counts used in calculating the indices reflect only those shares available to investors rather than all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

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APPENDIX II – IPSA INDEX IMPACT OF PROPOSALS

IPSA Composition and Weights Applying New Proposed Criteria¹²			
Rank¹³	Company	IPSA Weights¹⁴	Top 25 – Weights¹⁴
1	FALABELLA	6.72%	7.67%
2	SQM-B	4.94%	5.64%
3	CENCOSUD	4.42%	5.04%
4	ENELAM	6.75%	7.70%
5	BSANTANDER	5.42%	6.19%
6	COPEC	9.12%	10.41%
7	LTM	7.49%	8.55%
8	CHILE	5.84%	6.66%
9	ENELGXCH	3.30%	3.77%
10	CMPC	4.29%	4.89%
11	CAP	1.53%	1.75%
12	ENELCHILE	2.59%	2.95%
13	VAPORES	0.86%	0.98%
14	BCI	4.10%	4.68%
15	ITAUCORP	2.76%	3.15%
16	CCU	2.27%	2.59%
17	PARAUCO	2.24%	2.55%
18	AGUAS-A	2.06%	2.35%
19	ENTEL	1.71%	1.95%
20	ANDINA-B	1.28%	1.46%
21	COLBUN	2.29%	2.62%
22	ECL	1.21%	1.38%
23	SM-CHILE B	2.73%	3.12%
24	SALFACORP	0.58%	0.66%
25	SONDA	1.14%	1.30%
26	RIPLEY	1.11%	
27	ORO BLANCO	0.38%	
28	AESGENER	0.95%	
29	BESALCO	0.30%	
30	CONCHATORO	1.07%	
31	FORUS	0.43%	--
32	IAM	0.89%	
33	SECURITY	1.92%	
34	EMBONOR-B	0.43%	
35	SMSAAM	0.55%	
	SK	0.63%	
	MASISA	0.22%	
	NUEVAPOLAR	0.18%	
	ILC	0.71%	
	ANTARCHILE	2.58%	
	BANMEDICA		Acquired February 2, 2018
Total		100%	100%

¹² Source: S&P DJI and the Exchange. This information is provided for illustrative purposes only. All analysis is based on historical data. Past performance does not guarantee future results.

¹³ Stocks are sorted in descending order based on their six-month daily value traded ending December 29, 2017.

¹⁴ Weights are based on float-adjusted market capitalization as of February 12, 2018.

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ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500[®] and the Dow Jones Industrial Average[®]. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has become home to over 1,000,000 indices across the spectrum of asset classes that have helped define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit www.spdji.com.

ABOUT THE SANTIAGO EXCHANGE

The Santiago Exchange manages a multi-asset class exchange, and currently trades over USD 1.5 billion a day in equities, fixed income securities, exchange-traded financial derivatives, money market instruments, investment funds and foreign securities. During the last decade, the Santiago Exchange has expanded and evolved into a player of interest for global investors and a strategic partner for regional exchanges. It has led the offering of new instruments, such as ETFs and derivatives, and the development of best practices in the market, such as the release of recommendations of extended transparency for listed companies. For more information, visit www.bolsadesantiago.com.

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