Country Classification

Methodology

October 2020
# Table of Contents

S&P Dow Jones Indices Country Classification – Equities 2

Quantitative Criteria Process 2

Initial Criteria for S&P Dow Jones Indices’ Global Equity Index Series Eligibility 2

Additional Requirements for S&P Dow Jones Indices’ Emerging Market Status 3

Further requirements for S&P Dow Jones Indices Developed Market Status 3

Summary of S&P Dow Jones Indices Country Classification Requirements 3

Deviations from Baseline 4

Economic & Political 4

Related Investment Conditions 4

Client Consultation 5

Regulatory Environment 5

Market Structure 5

Trading Environment 5

Market Consensus 5

Data Sources 6

Model Review and Client Consultation Timeline 7

Contact Information 8

Disclaimer 9
S&P Dow Jones Indices Country Classification – Equities

Country classification analysis utilizes both quantitative and qualitative factors. While S&P Dow Jones Indices uses quantitative criteria as a guide to classifying countries for equities, the opinions and experiences of global investors are equally important. Many of the issues in determining if a market is developed, emerging or frontier are not amenable to quantitative decisions. Regulations, rules and procedures for foreign exchange trading, trade settlement, availability of company financial data and other factors vary from market to market. At the same time, the operating costs imposed on investors by these differences will also vary from investor to investor. While both quantitative measures and a substantial majority of investors may agree on the classification of some markets, there are many cases that may be viewed differently by different investors.

Recognizing this, S&P Dow Jones Indices use a two-step process. First, a series of quantitative criteria provide an initial classification. This initial classification will provide S&P Dow Jones with a list of countries to include on the annual Country Classification Consultation, which is the second step in the process. Final decisions on classification are made by the S&P Dow Jones Indices Global Equity Policies Committee based on both the consultation and the quantitative criteria. The quantitative criteria cover a range of factors reflecting macroeconomic conditions, political stability, legal property rights and procedures, and trading and settlement processes. The client consultation seeks to incorporate opinions from a broad group of market participants on a global basis.

Quantitative Criteria Process

Countries must meet certain initial criteria to be considered for S&P Dow Jones Indices’ Global Benchmark Indices. In order to be considered for Developed or Emerging classifications, countries must meet a final measure of country economic status and a certain number of additional criteria. Countries meeting these criteria will then be subjected to an in-depth client consultation assessing operational standards in those countries before reassigning any countries from their current status. Countries that do not qualify for Developed or Emerging status, but still meet minimum requirements as set forth below, will be eligible for inclusion in the Frontier region.

Initial Criteria for S&P Dow Jones Indices’ Global Equity Index Series Eligibility

Countries must meet a minimum of two of the following three criteria to be considered for the S&P Global Benchmark Indices.

- **Full Domestic Market Capitalization Greater Than US$ 2.5 bn.** S&P Dow Jones Indices uses the full market capitalization of all equity securities listed on an exchange’s primary market as its measure, sourced from independent data vendors. Float-adjusted market capitalization is not used, as the availability of float information for smaller markets is not of the required standard for consistency across all markets.

- **Annual Turnover Value Greater Than US$ 1 bn.** The total value traded of all equity securities listed on a country’s domestic exchange should be above this threshold over the previous calendar year to be considered sufficiently liquid.

- **A Market Development Ratio Greater Than 5%**. Many countries have very small equity markets that do not provide a sufficiently robust representation of the domestic market economy. To ensure that only sufficiently developed markets are included, S&P Dow Jones Indices calculates a “market development ratio” by dividing the full domestic market capitalization of the exchange by the country’s nominal GDP.
Additional Requirements for S&P Dow Jones Indices’ Emerging Market Status

Countries must meet all three of the baseline criteria above and must have a total market capitalization of over US$ 15 bn. In addition, countries must meet a minimum of three of the following five criteria to be considered for emerging market status:

- **Settlement Period of T+3 or Better.** The efficient and rapid settlement of trades is important to investors. S&P Dow Jones Indices requires markets to settle trades on a T+3 timescale or sooner. Settlement information is always publicly available.

- **Major Ratings Agencies Rate the Sovereign Debt at Investment Grade.** A company’s ability to operate is directly affected by its home country’s financial situation. Sovereign ratings should be BBB+ or higher by S&P and Fitch, and Baa or higher by Moody’s.

- **Non-occurrence of Hyperinflation.** S&P Dow Jones Indices defines hyperinflation as an annual rate of change in the country’s consumer price index of over 25% at the time of the review.

- **No Significant Foreign Ownership Restrictions.** Foreign ownership restrictions cause issues in achieving the required exposure to stocks in a given market. While S&P Dow Jones Indices recognizes that stocks in certain industries are commonly restricted, markets should be broadly open to foreign investors.

- **The Country’s Currency Should be Freely Traded.** Difficulties buying or selling a domestic currency, or repatriating capital from a market, complicate the process of investing in a given market.

Further requirements for S&P Dow Jones Indices Developed Market Status

To be considered for developed market status, countries must meet all of the initial and additional criteria above, and have a nominal Gross Domestic Product (GDP) per capita, at Purchasing Power Parity (PPP), of greater than US$ 15,000.

Summary of S&P Dow Jones Indices Country Classification Requirements

<table>
<thead>
<tr>
<th>S&amp;P Dow Jones Indices’ Country Classification Criteria</th>
<th>Frontier</th>
<th>Emerging</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Initial Eligibility Criteria</strong></td>
<td>A minimum of two ✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Full domestic market capitalization greater than US$ 2.5 bn</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Domestic turnover value greater than US$ 1 bn</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Exchange development ratio greater than 5%</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Additional Criteria</th>
<th>Frontier</th>
<th>Emerging</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full domestic market capitalization greater than US$ 15 bn</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Settlement period of T+3 or better</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Sovereign Debt rating of BBB+ or above</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Non-occurrence of hyperinflation</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>No significant foreign ownership restrictions</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Freely-traded foreign currency</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>GDP Criterion</th>
<th>Frontier</th>
<th>Emerging</th>
<th>Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (PPP) per capita of greater than US$ 15,000</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

✓ - Required criterion
Deviations from Baseline

Where this assessment indicates a possible change of classification, a more in-depth study is undertaken by S&P Dow Jones Indices covering both the primary and additional criteria and, in addition, the following quantitative and qualitative areas:

**Economic & Political**

- Further macroeconomic measures, such as the rate and variability of real GDP growth and the overall size of the economy.
- Political factors including war, civil disruption and disturbance, and the risk of war or civil unrest.
- Restrictions on investments imposed by other governments.

**Related Investment Conditions**

- Settlement procedures.
- Foreign exchange (FX) access and procedures.
- Rules on short sales, availability of futures contracts, etc.
- Availability of alternative means of investment in the country's stocks, such as depository receipts (DRs) or liquid listings on other markets in other countries.
- The number of domestic listings.
Client Consultation

Where the S&P Dow Jones Indices full assessment indicates a possible change of classification a client consultation will be carried out. This consultation will primarily assess operational matters, such as the following:

Regulatory Environment

- **Regulatory Authority.** The existence of a strong regulatory structure which plays an important role in regulating the market.
- **Equitable Treatment of Minority Shareholders.** All shareholders receive equal benefits without bias towards domestic versus foreign investors, or large versus small.
- **Ease of Repatriation of Capital or Income.** Foreign investors can repatriate capital and gains without limitations on holding for specific periods of time, or steep taxes applied on them.
- **Ease of Entry for Foreign Investors.** No excessive regulations for registration as foreign investors.

Market Structure

- **Foreign Exchange Market.** Developed trading facilities exist for currencies (FOREX) and that there are sufficient reserves available for trading.
- **Futures and Options Market.** Suitable size and liquidity in a derivatives market, where it exists.
- **Custodial Market.** The presence of many custodians and reasonable custodial costs.

Trading Environment

- **Broad Market Liquidity.** The ability for investors to trade at will, without restrictive liquidity.
- **Short Sales, Stock Lending and Trading-on-Margin Accounts.** A well-developed market for short sales and stock lending is preferred, and trading-on-margin is permitted.
- **Access to Prices, Trading and Other Market Information.** Transparent and timely information on pricing, corporate actions and other company level news should be equally available to all market participants.
- **Reasonable Transaction Costs.** All costs are reasonable and transparent.
- **Quality of Brokerage Services.** Local brokerage services should be of a suitable quality.
- **Smooth Settlement of Trades.** No or a low percentage of failed trades.
- **Taxes on Capital Gains.** Capital gains taxes should be appropriate, not punitive.

Market Consensus

- **Desire for Change.** There should be a market consensus desiring the change to a country’s market status.
- **The Actions of Other Market Participants.** Market participants attempt to incorporate the wishes of the investor community when assessing markets for country classification and investment purposes. Changes in country classifications are of relevance as they reflect changes in the sentiment of both the provider’s customers and of the broader market.
Data Sources

The following data sources are used during the S&P Dow Jones Indices’ country classification process:

- State Street Global Market Information database
- World Bank website
- IMF website
- Stock exchange websites
- Independent data vendors
Model Review and Client Consultation Timeline

S&P Dow Jones Indices will conduct an annual review following the timeline outlined below for data gathering, client consultation, announcement, and implementation of changes, if any.

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Action Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>First quarter</td>
<td>Data collection, validation, and research and analysis, based on our published Country Classification Methodology.</td>
</tr>
<tr>
<td>Second quarter</td>
<td>A suggested list of countries to change will be presented to clients via a consultation distributed by email and published on the S&amp;P Dow Jones Indices Web site.</td>
</tr>
<tr>
<td>Third quarter</td>
<td>Consultation period.</td>
</tr>
<tr>
<td>Fourth quarter</td>
<td>Consultation results and announcement of changes in classification, if any, is sent.</td>
</tr>
<tr>
<td>September and/or March of the following year (during annual reconstitutions)</td>
<td>Changes in classification and implementation date.</td>
</tr>
</tbody>
</table>

At the discretion of the Index Committee the above timeline could be changed.

For further information, please refer to the S&P Dow Jones Indices Web site at [www.spdji.com](http://www.spdji.com).
Contact Information

For questions regarding country classifications, please contact: index_services@spglobal.com.
Disclaimer

Copyright © 2020 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR’S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDOLOGY are registered trademarks of Standard & Poor’s Financial Services LLC (“S&P”). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC (“Dow Jones”). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, S&P Trucost Limited, SAM (part of S&P Global), Dow Jones or their respective affiliates (collectively “S&P Dow Jones Indices”) do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (“Content”) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively “S&P Dow Jones Indices Parties”) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN “AS IS” BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees,
or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.