

Dow Jones U.S. Select Sector Specialty Indices Consultation on Capping Methodology

NEW YORK, JANUARY 4, 2019: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on potential changes to the Dow Jones U.S. Select Sector Specialty Indices.

Currently the indices utilize the capping method as described in Method 2 within the Different Capping Methods section of S&P DJI’s Index Mathematics Methodology. In an effort to enhance index diversification, S&P DJI is proposing to switch the capping method utilized by the indices to the capping method as described in Method 1 within the Different Capping Methods section of S&P DJI’s Index Mathematics Methodology and modify the capping thresholds used in weighting index constituents.

The table below outlines the proposed changes.

Changes	Methodology	
	Current (Capping Method 2)	Proposed (Capping Method 1 and Modified Thresholds)
Capping Method and Thresholds	<p>Each index is weighted by float-adjusted market capitalization, subject to the following:</p> <ul style="list-style-type: none"> The weight of any individual company is capped at 25%. The aggregate weight of individual companies with weights of 5% or more is capped at 45%. The aggregate weight of the five largest companies in the index is capped at 65%. <p>If either of the defined single company or concentration index weight limits are breached, the float-adjusted market capitalization of all components are raised to a power such that:</p> $\text{Index Market Cap}_t = W_t^{1-0.01n}$ <p>where:</p> <p>W_t = Float-adjusted market capitalization of component t.</p> <p>n = Number of capping iterations.</p> <p>This process is repeated iteratively until the first iteration where the capping constraints are satisfied.</p> <p>In addition, for the Dow Jones U.S. Select Home Construction Index, companies classified as Building Materials & Fixtures, Furnishings, and Home Improvement Retailers are, in aggregate, capped at 35% of the index.</p>	<p>Each index is weighted by float-adjusted market capitalization, subject to the following:</p> <ul style="list-style-type: none"> The weight of any individual company is capped at 22.5%. If any company’s weight exceeds 22.5%, that company’s weight is capped at 22.5% and all excess weight is proportionally redistributed to all uncapped companies within the index. If after this redistribution, any company breaches the 22.5% weight cap, the process is repeated iteratively until no company breaches the 22.5% weight cap. Then, the aggregate weight of the companies in the index with a weight greater than 4.5% is capped at 45%. <p>These caps are set to allow for a buffer below the 25%, 5%, and 50% limits, respectively.</p> <p>In addition, for the Dow Jones U.S. Select Home Construction Index, companies classified as Building Materials & Fixtures, Furnishings, and Home Improvement Retailers are, in aggregate, capped at 35% of the index.</p>

For further information on the current and proposed capping methods, please refer to the Different Capping Methods section within S&P Dow Jones Indices' Index Mathematics Methodology available [here](#).

For information on the Dow Jones U.S. Select Sector Specialty Indices, please refer to the Dow Jones U.S. Select Sector Specialty Indices methodology available [here](#).

IMPACT ANALYSIS

Based on index composition as of September 28, 2018, the table below shows the hypothetical one-way turnover of the proposed changes on the Dow Jones U.S. Select Sector Specialty Indices.

Index	Hypothetical One-way Turnover
Dow Jones U.S. Select Aerospace & Defense Index	22.36%
Dow Jones U.S. Select Health Care Providers Index	22.80%
Dow Jones U.S. Select Home Construction Index	9.30%
Dow Jones U.S. Select Insurance Index	5.46%
Dow Jones U.S. Select Investment Services Index	20.22%
Dow Jones U.S. Select Medical Equipment Index	16.25%
Dow Jones U.S. Select Oil Exploration & Production Index	2.56%
Dow Jones U.S. Select Oil Equipment & Service Index	23.04%
Dow Jones U.S. Select Pharmaceuticals Index	30.37%
Dow Jones U.S. Select Regional Banks Index	4.53%
Dow Jones U.S. Select Telecommunications Index	21.17%

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology change, if adopted, prior to the market open on Monday, March 18, 2019, in conjunction with the quarterly rebalancing.

QUESTIONS

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

- 1. Do you agree with the proposal to change the capping method and thresholds utilized by the indices?**
- 2. Should the proposed changes be adopted, do you agree with the proposed implementation date?**
- 3. 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 will make responses to consultations freely available upon request.¹ 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 **February 4, 2019**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI 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.

¹ Individual and company names as well as contact details will be redacted.

CONSULTATION

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.

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

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

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 been innovating and developing indices across the spectrum of asset classes helping to 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.

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