

S&P U.S. IPO and Spin-Off and S&P U.S. Spin-Off Indices Consultation on Constituent Weightings

NEW YORK, SEPTEMBER 23, 2020: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on a potential change to the S&P U.S. IPO and Spin-Off and S&P U.S. Spin-Off Indices.

With the aim of satisfying regulatory and product listing requirements, S&P DJI is considering modifying the indices’ constituent weight capping rules. The current methodology, as well as the two options being considered are summarized below.

Current Methodology

Constituents are float-adjusted market capitalization (“FMC”) weighted, subject to a single company cap of 7.5%. At each monthly rebalancing, if a company’s weight in the index exceeds 7.5%, its weight is reduced to 7.5% and the weights of the remaining stocks are increased proportionally to their FMC weightings. This process proceeds iteratively until no stock breaches the 7.5% cap.

Companies with multiple share class lines in the index have all share class weights combined and analyzed together as one entity. If the combined weight exceeds 7.5%, the weight of each share class line is reduced proportionally so that the combined weight is reduced to 7.5%.

If the company count is less than 14 at a monthly rebalancing, the 7.5% weight cap cannot be satisfied. In such cases, all companies will be equally weighted at the monthly rebalancing.

Please note the following related to constituent deletions under the current methodology:

- **S&P U.S. IPO and Spin-Off Index.** If the deletion of a constituent at the monthly rebalancing will result in a company count of less than 15, the deletion is delayed until the next rebalancing period in which the resulting company count will be at least 15.
- **S&P U.S. Spin-Off Index.** If a deletion of a constituent at the monthly rebalancing will result in a company count of less than 20, the deletion is delayed until the next rebalancing period in which the resulting company count will be at least 20, even if this requires a constituent remain in the index past the 48 month limit.

Proposed Methodology – Option 1

For a given rebalancing date, all companies eligible for inclusion are FMC weighted. This is done using an optimization procedure that chooses final weights in such a way as to minimize the sum of the squared differences of capped weight and uncapped weight, divided by uncapped weight for each stock, subject to the following constraints: The maximum weight of each company is 7.5%, and the aggregate weight of companies with weights greater than 4.5% cannot exceed 45%.

Companies with multiple share class lines in the index have all share class weights combined and analyzed together as one entity.

At times, an index's company count may require the capping rules to be relaxed. Please refer to the table below for an overview of the process followed, when necessary. Each subsequent row is a relaxation of the previous row's weight caps.

Number of Companies	Single Company Weight Cap	Threshold for Aggregate Company Weight Capping	Aggregate Company Weight Cap
17-18	7.50%	5.00%	45.00%
15-16	10.00%	5.00%	50.00%
13-14	12.50%	5.00%	60.00%
12	12.50%	6.00%	60.00%
11	12.50%	7.00%	60.00%
10	12.50%	8.00%	60.00%
9	12.50%	10.00%	60.00%
8	15.00%	10.00%	60.00%
7	15.00%	12.50%	75.00%
6	17.50%	15.00%	75.00%
5	22.50%	17.50%	75.00%
4	30.00%	22.50%	75.00%
3	37.50%	25.00%	75.00%

Proposed Methodology – Option 2

For a given rebalancing date, all companies eligible for inclusion are FMC weighted. This is done using an optimization procedure that chooses final weights in such a way as to minimize the sum of the squared differences of capped weight and uncapped weight, divided by uncapped weight for each stock, subject to the following constraints: The maximum weight of each company is 22.5%, and the aggregate weight of companies with weights greater than 4.5% cannot exceed 45%.

Companies with multiple share class lines in the index have all share class weights combined and analyzed together as one entity.

At times, an index's company count may require the capping rules to be relaxed. Please refer to the table below for an overview of the process followed, when necessary. Each subsequent row is a relaxation of the previous row's weight caps.

Number of Companies	Single Company Weight Cap	Threshold for Aggregate Company Weight Capping	Aggregate Company Weight Cap
12-14	25.00%	5.00%	50.00%
11	27.50%	5.50%	55.00%
9-10	30.00%	6.00%	60.00%
8	32.50%	6.50%	65.00%
7	35.00%	7.00%	70.00%
6	37.50%	7.50%	75.00%
5	40.00%	8.00%	80.00%
4	42.50%	8.50%	85.00%
3	50.00%	9.50%	95.00%

Please refer to the [S&P U.S. IPO and Spin-Off Index Methodology](#) and [S&P U.S. Spin-Off Index Methodology](#) for further information on the indices.

IMPACT ANALYSIS

Using data from December 2019 to August 2020, the tables below and on the following page show the hypothetical results that would have resulted under each of the two proposed options.¹

S&P U.S. IPO and Spin-Off Index

Rebalancing	Single Company Weight Cap	Aggregate Company Weight Capping	One-way Turnover	Company Count
<i>Current Methodology</i>	7.5%	--		
Dec-19	Yes	--	2.68%	69
Jan-20	Yes	--	0.75%	68
Feb-20	Yes	--	1.47%	69
Apr-20	Yes	--	9.14%	66
May-20	Yes	--	1.67%	65
Jun-20	Yes	--	2.25%	65
Jul-20	Yes	--	6.61%	61
Aug-20	Yes	--	7.35%	61
<i>Proposed Option 1:</i>	7.5%	4.5 / 45%		
Dec-19	Yes	No	2.68%	69
Jan-20	Yes	No	0.75%	68
Feb-20	Yes	No	1.47%	69
Apr-20	Yes	No	9.14%	66
May-20	Yes	No	1.67%	65
Jun-20	Yes	No	2.25%	65
Jul-20	Yes	No	6.61%	61
Aug-20	Yes	No	7.35%	61
<i>Proposed Option 2:</i>	22.5%	4.5 / 45%		
Dec-19	Yes	No	15.59%	69
Jan-20	Yes	No	5.62%	68
Feb-20	Yes	No	1.80%	69
Apr-20	Yes	No	8.71%	66
May-20	Yes	No	7.14%	65
Jun-20	Yes	No	2.03%	65
Jul-20	Yes	Yes	5.91%	61
Aug-20	No	No	23.55%	61

¹ Please note that the proposed capping rules were first applied to the December 2019 rebalancing. A hypothetical monthly turnover was then calculated for each subsequent monthly rebalancing to capture the hypothetical impact.

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S&P U.S. Spin-Off Index

Rebalancing	Single Company Weight Cap	Aggregate Company Weight Capping	One-way Turnover	Company Count
<i>Current Methodology</i>	7.5%	--		
Dec-19	Yes	--	7.98%	35
Jan-20	Yes	--	0.95%	34
Feb-20	Yes	--	1.64%	33
Apr-20	Yes	--	14.79%	34
May-20	Yes	--	4.34%	35
Jun-20	Yes	--	3.71%	33
Jul-20	Yes	--	9.32%	32
Aug-20	Yes	--	1.87%	32
<i>Proposed Option 1:</i>	7.5%	4.5 / 45%		
Dec-19	Yes	Yes	4.28%	35
Jan-20	Yes	Yes	4.10%	34
Feb-20	Yes	Yes	2.40%	33
Apr-20	Yes	Yes	15.51% ²	34
May-20	Yes	Yes	6.32%	35
Jun-20	Yes	Yes	4.14%	33
Jul-20	Yes	Yes	9.45%	32
Aug-20	Yes	Yes	3.71%	32
<i>Proposed Option 2:</i>	22.5%	4.5 / 45%		
Dec-19	Yes	Yes	17.58%	35
Jan-20	Yes	Yes	3.59%	34
Feb-20	Yes	Yes	1.31%	33
Apr-20	Yes	Yes	15.75%	34
May-20	Yes	Yes	5.53%	35
Jun-20	Yes	Yes	3.38%	33
Jul-20	Yes	Yes	8.81%	32
Aug-20	No	Yes	2.55%	32

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, in conjunction with the November 2020 monthly rebalancing, which takes effect prior to the market open on Monday, November 23, 2020.

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 modify the constituent weighting rules of the S&P U.S. IPO and Spin-off Index?**
 - Yes, change to Proposal 1
 - Yes, change to Proposal 2
 - Yes, change to a different option (please specify in question 4 below)
 - No, keep the current constituent weighting rules

² The turnover increase is largely due to the addition of Otis Worldwide Corp and Carrier Global Group, and the fact that the index did not rebalance in March 2020.

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2. **Do you agree with the proposal to modify the constituent weighting rules of the S&P U.S. Spin-off Index?**
 - Yes, change to Proposal 1
 - Yes, change to Proposal 2
 - Yes, change to a different option (please specify in question 4 below)
 - No, keep the current constituent weighting rules
3. **If any changes are adopted, do you agree with the proposed implementation date?**
4. **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. Please respond to this survey by **October 23, 2020**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

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 SPDJI_Index_Governance@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.

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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.

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