

S&P Colombia Select Index Consultation on Eligibility Criteria and Index Construction

MEXICO CITY, MAY 20, 2022: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P Colombia Select Index.

To enhance index liquidity and diversification, S&P DJI is considering modifying the index’s eligibility screening and construction rules. The tables below and on the following page summarize the proposed changes.

Market Capitalization	
Current	Stocks must have a float-adjusted market capitalization of at least COP \$600 billion as of the rebalancing reference date (COP \$475 billion for current constituents).
Proposed	Stocks must have a float-adjusted market capitalization of at least COP \$500 billion as of the rebalancing reference date (COP \$400 billion for current constituents).

Initial Public Offerings (“IPOs”) and Spin-offs / Trading History	
Current	<p>To be considered for index inclusion, an IPO or Spin-off must be included in the index universe and satisfy one of the following criteria:</p> <ol style="list-style-type: none"> 1. Have a minimum of 12 months of history. 2. Be among the five largest companies within the index universe based on float-adjusted market capitalization. <p>Eligible IPOs and spin-offs meeting these criteria must also have a three-month average daily value traded (“ADVT”) in the local market of at least COP \$375 million as of the rebalancing reference date to be included in the index.</p> <p>Stocks with more than 10 cumulative non-trading days during the past three months prior to the rebalancing are ineligible for index inclusion.</p>
Proposed	<p>The trading history criteria is as follows:</p> <ul style="list-style-type: none"> • Except for Spin-offs, stocks must have a trading history of at least six months. • Stocks with more than 10 cumulative non-trading days, not caused by a corporate action, during the past three months prior to the rebalancing are ineligible for index inclusion. If a stock’s trading is halted due to a corporate action, the period between the initial suspension and the resumption of trading will be counted as normal trading days. • For stocks with less than 12 months of trading history (e.g., IPOs and spin-offs), the corresponding ADVT for the number of historical trading months is used.¹

¹ For example, if a stock has eight months of trading history, the three-month, six-month, and eight-month ADVT is used.

Constituent Selection	
Current	<p>At each rebalancing, all stocks in the index universe that pass the Eligibility Criteria are selected and form the index. If the number of eligible stocks is less than 14, the index universe is expanded so that all stocks trading on the Colombia Stock Exchange are included in the review.</p> <p>In such a scenario, the next most liquid non-component measured by six-month ADVT with a float-adjusted market capitalization of at least COP \$600 million in the expanded universe is added until the target count of 14 is reached.</p>
Proposed	<p>At each rebalancing, all stocks in the index universe that pass the Eligibility Criteria are selected and form the index. If the number of eligible stocks is less than 14, the index universe is expanded to all stocks trading on the Colombia Stock Exchange that satisfy all of the eligibility factors, until the minimum stock count of 14 is met, giving priority to current constituents.</p> <p>If current constituents do not meet the criteria to fulfill the minimum 14 stock count or there are less than 14 stocks in the Expanded Universe that meet the eligibility criteria, then the most liquid non-component stock measured by the average of their three-month, six-month, and 12-month ADVT is added until the target count of 14 is reached.</p>

Constituent Weightings	
Current	<p>The index is weighted by float-adjusted market capitalization, subject to the following diversification criteria employed at each rebalancing:</p> <ol style="list-style-type: none"> 1. The weight of any company cannot exceed 15% in the index. 2. The weight of any one GICS sector cannot exceed 40% of the index. 3. The minimum initial portfolio size that can be turned over in a single day (based on 12-month ADVT) cannot be lower than COP \$60 billion. For companies with multiple share classes, the index share count is based on the combined float-adjusted shares outstanding and the combined 12-month ADVT is utilized to calculate basket liquidity.
Proposed	<p>The index is weighted by float-adjusted market capitalization, subject to the following diversification criteria employed at each rebalancing:</p> <ol style="list-style-type: none"> 1. The weight of any company cannot exceed 15% in the index. 2. The weight of any one GICS sector cannot exceed 40% of the index. 3. The weight cannot exceed three times the stock's liquidity weight. Liquidity weight is calculated based on the company's 12-month ADVT.²

Corporate Action Treatment	
Current	The index follows S&P DJI's Non-Market Capitalization Indices corporate action treatment. Intra-rebalance changes to a constituent's shares outstanding or IWF have no effect on index weights and do not cause a divisor adjustment. ³
Proposed	The index follows S&P DJI's Market Capitalization Indices corporate action treatment. Intra-rebalance changes to a constituent's shares outstanding or IWF will impact the total index market capitalization and cause a divisor adjustment. ³

Rebalancing Schedule	
Current	The index rebalances twice a year in March and September, effective after the close of the third Friday of the respective rebalancing month. The reference dates for the data used in the rebalancings are the third Friday of February and August, respectively. Constituents' index shares are calculated using closing prices on the Wednesday prior to the second Friday of the rebalancing month as the reference price. Index share amounts are calculated and assigned to each stock to arrive at the weights determined on the reference date.
Proposed	<p>The index composition is reconstituted semi-annually, effective after the close of the third Friday of March and September. The reference dates for the data used in the reconstitutions are the third Friday of February and August, respectively.</p> <p>Index constituents are reweighted quarterly, effective after the close of the third Friday of March, June, September, and December. Constituents' index shares are calculated using closing prices on the Wednesday prior to the second Friday of the reweighting month as the reference price. Index share amounts are calculated and assigned to each stock to arrive at the weights determined on the reference date.</p>

² Please refer to Appendix I of this document for an example of liquidity weight capping.

³ For more information on corporate action treatment, please refer to the Summary of Corporate Action Treatment by Index Weighting Type in [S&P DJI's Equity Indices Policies & Practices Methodology](#).

IMPACT ANALYSIS

Using data from the last five semi-annual rebalancings, the table below shows the actual number of stocks in the expanded universe that comply with all eligibility rules and one-way turnover under the current methodology, as well as the theoretical results that would have occurred had the proposed methodology changes been applied at those times.

Rebalancing	Compliant Stocks in the Expanded Universe		Turnover	
	Actual	Theoretical	Actual	Theoretical
March 2020	14	14	7.28%	9.21%
September 2020	13	14	10.35%	11.42%
March 2021	13	14	6.31%	7.38%
September 2021	15	17	3.95%	1.94%
March 2022	14	15	3.94%	6.90%

Please refer to Appendix II of this document for the actual March 2022 rebalancing composition and constituent weights as well as a hypothetical snapshot had the proposed changes been in effect.

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, in conjunction with the upcoming semi-annual rebalancing, which takes effect prior to the market open on **Monday, June 20, 2022**. If adopted, the changes will first be visible to clients in pro-forma files beginning on **Friday, June 10, 2022**.

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 Market Capitalization eligibility screen?**
 - Yes, change to the proposed thresholds.
 - Yes, change to different thresholds (please specify in Question 8 below).
 - No, keep the current thresholds.
- 2. Do you agree with the proposal to modify the Initial Public Offerings and Spin-offs / Trading History eligibility screens?**
 - Yes, change to the proposed rules.
 - Yes, change to a different set of rules (please specify in Question 8 below).
 - No, keep the current rules.
- 3. Do you agree with the proposal to modify the Constituent Selection rules?**
 - Yes, change to the proposed rules.
 - Yes, change to a different set of rules (please specify in Question 8 below).
 - No, keep the current rules.
- 4. Do you agree with the proposal to modify the Constituent Weightings rules?**
 - Yes, change to the proposed rules.
 - Yes, change to a different set of rules (please specify in Question 8 below).
 - No, keep the current rules.

CONSULTATION

5. Do you agree with the proposal to modify the Corporate Action Treatment?
 - Yes, change to Market Capitalization Indices corporate action treatment.
 - Yes, change to a different corporate action treatment (please specify in Question 8 below).
 - No, keep the current Non-Market Capitalization Indices corporate action treatment.
6. Do you agree with the proposal to modify the Rebalancing Schedule?
 - Yes, change to the proposed rebalancing schedule.
 - Yes, change to a different rebalancing schedule (please specify in Question 8 below).
 - No, keep the current rebalancing schedule.
7. Should any of the proposed methodology changes be adopted, do you agree with the proposed implementation date?
8. 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 to properly evaluate your views and preferences. Please respond to this survey by **June 3, 2022**. 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.spglobal.com/spdji.

APPENDIX I

The following table shows a hypothetical index of companies which have been weighted by their float-adjusted market cap (FMC) and by their FMC with a liquidity cap limited to **three times their liquidity weight**. This scheme allows for a weight that is based on the stock's size while also considering its liquidity, making the index more replicable.

Stock	Market Capitalizations		ADVT	% Based on Total ADVT		Stock Weights	
	Total Market Cap	FMC	12-Month ADVT	Liquidity Weight	3X Liquidity Weight	FMC Weight	Final Weight
1	22,785,323	14,178,546	17,906,771	22.11%	66.34%	17.23%	15.00%
2	3,507,613	3,507,613	3,835,007	4.74%	14.21%	4.26%	4.22%
3	7,443,487	7,443,487	938,631	1.16%	3.48%	9.05%	3.11%
4	2,147,329	2,147,329	872,738	1.08%	3.23%	2.61%	2.74%
5	3,677,043	2,815,147	2,673,216	3.30%	9.90%	3.42%	4.69%
6	2,929,242	2,611,099	2,079,887	2.57%	7.70%	3.17%	3.52%
7	12,512,633	12,512,633	22,201,480	27.42%	82.25%	15.21%	15.00%
8	7,188,862	7,188,862	3,998,557	4.94%	14.81%	8.74%	9.17%
9	5,546,961	3,725,249	2,272,815	2.81%	8.42%	4.53%	7.07%
10	4,893,255	4,560,369	7,323,075	9.04%	27.13%	5.54%	5.88%
11	5,795,249	5,795,249	3,192,931	3.94%	11.83%	7.04%	7.39%
12	6,880,417	4,847,497	5,583,575	6.89%	20.68%	5.89%	8.27%
13	10,390,020	10,390,020	7,577,504	9.36%	28.07%	12.63%	13.25%
14	543,341	543,341	526,369	0.65%	1.95%	0.66%	0.69%
	96,240,773	82,266,439	80,982,556	100.00%	300.00%	100.00%	100.00%

The example above shows the impact of the weighting schemes, particularly in stocks such as Stock 3. If the stock is weighted by FMC alone, its index weight would be 9.05%. However, when looking at its ADVT of approximately 938 million, which represents 1.16% of the total liquidity traded for the index, it is apparent that this is not a very liquid stock. Under the proposed methodology change, the stock's maximum weight would be three times 1.16%, making its index weight capped at maximum of 3.48%.

APPENDIX II

The following table shows the index's actual composition and constituent weights from the March 2022 semi-annual rebalancing under the current methodology, as well as the hypothetical results that would have occurred had the proposed methodology changes been in effect at that time. Please note that the weights calculated are based on data as of February 18, 2022, the rebalancing reference date.

S&P Colombia Select	March 2022 Rebalancing Weights		
	Actual	Hypothetical	Difference
BanColombia SA Pref	15.00%	15.00%	0.00%
Ecopetrol SA	15.00%	15.00%	0.00%
Grupo Nutresa S.A. ⁴	13.60%	14.00%	0.40%
Grupo de Inversiones Suramericana SA ⁴	13.10%	13.48%	0.39%
Interconexion Electrica SA ESP	12.48%	11.13%	-1.34%
Grupo Argos S.A.	6.58%	6.79%	0.21%
Empresa de Energia de Bogota S.A. E.S.P.	6.57%	6.99%	0.43%
Grupo Aval Acciones y Valores Pref	3.76%	4.09%	0.34%
Cementos Argos SA	4.40%	3.92%	-0.47%
Banco Davivienda SA Pref	2.80%	3.05%	0.25%
Corporacion Financiera Colombiana	2.23%	2.42%	0.20%
Banco de Bogota SA	1.64%	1.95%	0.31%
Celsia S.A. E.S.P.	1.38%	1.65%	0.26%
GRUPO BOLIVAR S.A. ⁵	1.48%	0.00%	-1.48%
Mineros S.A. ⁶	0.00%	0.52%	0.52%
	100%	100%	6.60%

⁴ The weights calculated for Grupo Nutresa S.A. and Grupo Inversiones Suramericana SA take into account an index shares freeze due to the trading suspension status of both companies during the March 2022 rebalancing.

⁵ Current index constituent that would have been dropped at the March 2022 rebalancing had the proposed changes been in effect.

⁶ Non-constituent that would have been added to the index at the March 2022 rebalancing had the proposed changes been in effect.

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.spglobal.com/spdji.

FOR MORE INFORMATION:

S&P Dow Jones Indices
index_services@spglobal.com