S&P Dow Jones Indices Consultation on Constituent Weighting – Updated

NEW YORK, FEBRUARY 27, 2023: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P Select Industry Indices family.

A major input in the S&P Select Industry Indices Methodology is the specification of a Theoretical Portfolio Value (TPV) for each index in the methodology. There is currently no clear relationship between the TPV and the market of coverage. Also, the stated TPVs are frequently relaxed during rebalances in order to find a feasible solution. For example, the TPVs were relaxed 7 times in the past four rebalances. This brings the efficacy and usefulness of the stated TPVs into question.

As a result, SPDJI is proposing to remove the use of TPVs in the S&P Select Industry methodology. The table below summarizes the proposed changes.

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<tr>
<th>Proposed Change</th>
<th>Current</th>
<th>Methodology</th>
<th>Proposed</th>
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<tbody>
<tr>
<td>S&amp;P Select Industry Indices. At each quarterly rebalancing, constituents are initially equal weighted, with adjustments made to ensure that no individual constituent’s index weight exceeds the value that can be traded in a single day for a given theoretical portfolio value as detailed below. Theoretical portfolio values are reviewed annually. Any updates are made at the discretion of the Index Committee and announced to clients with ample lead time.</td>
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**S&P Select Industry Indexes.** At each quarterly rebalancing, constituents in the Index are ranked into independent Liquidity (l) and Float-Adjusted Market Capitalization (f) quintiles, such that 1 <= l <= 5 and 1 <= f <= 5. The liquidity and float market cap ranks, respectively, of stock i are

\[
\text{Adjusted stock weight } = \frac{\min(l, f) - 1}{5}
\]

where n is the number of constituents.

The above process is iterated until the Index weight sums up to 100%.

The Adjustment Factor determines the weight of a stock in the index based on its liquidity and float market cap characteristics, thereby eliminating the need to specify a TPV. Stocks with similar liquidity and float market cap characteristics have the same weights in the index after each rebalance.

The Reference Date, Float-Adjusted Market Capitalization and Liquidity metrics for the index remain unchanged.

S&P Dow Jones Indices calculates a maximum basket liquidity weight for each index constituent using the ratio of the constituent’s three-month median daily value traded to the theoretical portfolio value as of the last business day of February, May, August, and November for the rebalancing effective after the closing on the third Fridays of March, June, September and December, respectively.

Each constituent’s initial equal weight is compared to the calculated maximum basket liquidity weight, and the constituent’s weight is set to the lesser of the maximum basket liquidity weight or the initial equal weight.

If the resulting weights fail to sum to 100%, the weight of the constituent with the lowest maximum basket liquidity weight from the remaining equal weighted constituents is increased to the maximum basket liquidity weight. The index then equal weights the remaining constituents again. This process repeats iteratively until no equal weight stock exceeds the assigned maximum basket liquidity weight and the resulting weights sum to 100%.

If necessary, a final adjustment is made to ensure that no stock in the index has a weight greater than 5%. This step of the iterative weighting process may force the weight of those stocks limited to their maximum basket liquidity weight to exceed that weight. In such cases, S&P Dow Jones Indices will make no further adjustments. If any of the S&P Select Industry Indices contain exactly 22 stocks as of the rebalancing effective date, the index is equally weighted without basket liquidity constraints.
For additional information about the indices, please refer to the S&P Select Industry Indices Methodology.

IMPACT ANALYSIS

For an analysis of the impact of the proposed change based on constituent level information for S&P Select Industry indices between March 31, 2017, and December 31, 2022, please refer to the file available here.

In addition, please see the analysis addendum found here, which shows the cumulative and individual stock weight by FMC and Liquidity rank for the S&P Select Industry Indices as of the December 2022 rebalancing.

Several S&P Select Industry indices are set to be impacted by the 2023 GICS changes, due to go into effect after the close on March 17, 2023. Several S&P Select Indices are also set to be impacted by the results of a recent S&P Select Industry consultation.

The impacts of both these updates are incorporated in the latest snapshots for the relevant indices.

Additional analysis based on historical information may be made available upon request.

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described change, if adopted, prior to the market open on Monday, June 19, 2023. If adopted, this change will first be visible to clients in the end-of-day corporate action files (*.SDE) beginning on Friday, June 16, 2023.

QUESTIONS

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

1. Do you agree with the proposed change to the Constituent Weightings section?
   - Change to proposed rule.
   - Change to a different rule (please specify in Question 3 below).
   - Keep the current rule.

2. If the proposed methodology change is adopted, do you agree with the proposed implementation date?

3. Do you have any other comments or feedback on the proposed change 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 March 31, 2023. 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 take part 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.

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

CONSULTATION
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.

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.

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