

S&P Select Industry Indices Consultation on Constituent Weightings Calculations

NEW YORK, FEBRUARY 1, 2024: 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’ constituent weightings rules to address ownership considerations while maintaining index tradability during rebalancings and retaining the indices’ modified equal weight characteristics.

The annual specification of a Theoretical Portfolio Value (TPV) is an input in each S&P Select Industry Index, but currently there is no clear relationship between the TPV and the index-linked exchange traded products’ assets under management (AUM). To provide a better TPV measurement, S&P DJI proposes incorporating index-linked AUM in the calculation.

S&P DJI also proposes changes to the calculation of constituents’ index weights to initially equal weight constituents at each quarterly rebalancing and then adjust constituent weights to ensure that, for a given TPV, each constituent’s index weight cannot exceed 4.5% of the float-adjusted market capitalization (FMC), the value that can be traded in three days, and the constraint that no single stock’s weight exceeds 4.5% of the total index weight. If the resulting constituent weights do not sum to 100%, S&P DJI proposes relaxing the constraints iteratively (see below for the specific relaxation hierarchy) until the index achieves a feasible solution.

Finally, S&P DJI proposes adding a secondary reweighting check. If, on the third to last business day of March, June, September, or December, the aggregate weight of companies greater than 4.8% exceeds 50% of the total index weight, then index weights reset to the previously determined weights using the data from that quarter’s reference date.

The table below summarizes the proposed changes.

Proposed Change	Methodology	
	Current	Proposed
Theoretical Portfolio Value (TPV) Calculation: S&P Select Industry Indices	S&P Select Industry Indices. TPVs are reviewed annually. Any updates are made at the discretion of the Index Committee and announced to clients with ample lead time.	S&P Select Industry Indices. TPVs update annually in September, incorporating index-linked exchange traded product assets under management (AUM) using the below process: <ol style="list-style-type: none"> Determine the maximum aggregate AUM tracking each index over the past year, based on index-linked exchange traded product’s AUM from the previous September, December, March, and June, as well as the latest available month-end data point. Round the maximum value up to the nearest billion. Add a 20% buffer to the result and again round up to the nearest billion for the final TPV. <p>In the event that there are no index-linked exchange traded products tracking an index, the TPV for that index is set at US \$2 billion.</p>

Proposed Change	Methodology	
	Current	Proposed
Constituent Weightings	<p>S&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. No stock in the index can have a weight greater than 4.5%.</p> <p><i>Max constituent weight =</i></p> $\min \left\{ 4.5\%, \frac{3M \text{ MDVT}}{TPV} \right\}$ <p>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.</p> <p>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.</p> <p>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%.</p> <p>If necessary, a final adjustment is made to ensure that no stock in the index has a weight greater than 4.5%. 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.</p>	<p>S&P Select Industry Indices. At each quarterly rebalancing, constituents are initially equal weighted, with adjustments made to ensure that, for a given TPV, each constituent's index weight cannot exceed 4.5% of the total FMC and the value that can be traded in three days. No stock in the index can have a weight greater than 4.5%.</p> <p><i>Max constituent weight =</i></p> $\min \left\{ 4.5\%, \frac{3 \times 3M \text{ MDVT}}{TPV}, \frac{4.5\% \times \text{Constituent FMC}}{TPV} \right\}$ <p>If the resulting index weights do not sum to 100%, relax the constraints in the following order:</p> <ol style="list-style-type: none"> Maximum liquidity weight multiplier relaxes in increments of 0.1, Single Stock Cap relaxes in increments of 0.1%, TPV relaxes in increments of -0.1 Billion. <p>The process repeats iteratively until a feasible solution is found. The single stock weight constraint's upper limit for the iterative process is 4.8%.</p> <p>The reference date, FMC, and liquidity metrics remain unchanged.</p>
Secondary Reweighting Check	--	<p>If, on the third to last business day of March, June, September, or December, the aggregate weight of companies with index weights greater than 4.8% exceeds 50%, index weights reset to the previously determined weights using the data from that quarter's reference date.</p> <p>If a secondary reweighting is triggered, and existing constituent(s) were dropped since the prior quarterly rebalancing, the secondary reweighting re-runs the reweighting process using the same data from the latest quarterly rebalancing.</p>

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 changes, please refer to the file available [here](#).

Additional data and analysis may be made available in the Client Resource Center www.spglobal.com/spdji/en/client-services/, which may be updated from time to time throughout the consultation without notice. Additional data and analysis may also be made available upon request.

CONSULTATION

IMPLEMENTATION TIMING

S&P DJI proposes implementing the previously described changes, if adopted, prior to the market open on **Monday, June 24, 2024**. If adopted, these changes will first be visible to clients in the end-of-day corporate action files (*.SDE) beginning on **Friday, June 14, 2024**.

QUESTIONS

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

1. **Do you agree with the proposed changes to the Theoretical Portfolio Values (TPVs) calculation?**
2. **Do you agree with the proposed changes to the constituent weight calculations?**
3. **Do you agree with the proposal to add a secondary rebalancing check (including timing)?**
4. **If the proposed methodology changes are adopted, do you agree with the proposed implementation date?**
5. **Do you have any other comments or feedback on the proposed changes outlined above?**

Your participation in this consultation is important as S&P DJI gathers information from various market participants to properly evaluate the proposals. Please respond to this survey by **Friday, March 1, 2024**. 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](#).

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 nor 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.

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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