

FLOAT ADJUSTMENT

INDEX METHODOLOGY

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Introduction

The majority of Standard & Poor's capitalization-weighted indices are float-adjusted. Under float adjustment, the share counts used in calculating the indices reflect only those shares available to investors rather than all of a company's outstanding shares. Float adjustment excludes shares that are closely held by control groups, other publicly traded companies or government agencies.

With a float-adjusted index, the value of the index reflects the value available in the public markets. Further, reducing the relative investment index investors have in stocks with limited float – stocks that typically are less liquid – should lower the cost of index investing.

Index Family

The float adjustment rules described here apply to the overall S&P and S&P/Citigroup family of indices, including the S&P U.S. indices (S&P 500, S&P MidCap 400 and S&P SmallCap 600), the S&P Global 1200 and related indices, as well as many specialty indices. In a few cases, local indices have yet to be converted to these rules.

Float adjustment does not apply to equal-weighted, attribute-weighted and other specialty indices, which are not capitalization weighted.

Since there may be regional exceptions to the general rules on float-adjustment, please refer to individual index methodologies for information that may not be contained in this document.

Float Adjustment Rules

The goal is to distinguish strategic shareholders, whose holdings depend on concerns such as maintaining control rather than the economic fortunes of the company, from those holders whose investments depend on the stock's price and their evaluation of the company's future prospects. Shareholders concerned with control of a company include board members, founders and owners of large blocks of stock. Likewise, holdings of stock in one corporation by another corporation are normally for control, not investment, purposes. Normally government holdings are not investments made because a stock is expected to appreciate or the government entity is managing its excess funds through equity investments.

Share owners acting as investors will consider changes in the stock's price, earnings or the company's operations as possible reasons to buy or sell the stock. They hold the stock because they expect it to appreciate in value and believe the stock offers better risk and return opportunities than other investments. Further, a sharp rise or fall in the stock's price could be a reason to adjust their positions. Mutual funds, pension plans and other institutional investors are usually in this category. The fact that an institutional investor has held a block of shares for several years is not evidence that the block is being held for control, rather than investment, reasons.

Standard & Poor's defines three groups of shareholders whose the holdings are presumed to be for control and are subject to float adjustment. Within each group, the holdings are totaled. In cases where holdings in a group exceed 10% of the outstanding shares of a company, the holdings of that group will be excluded from the float-adjusted count of shares to be used in index calculations. Please note, in most countries corporate holdings of less than 5% are either not reported or not considered. Calculation accuracy will depend on the underlying data; however, Investable Weight Factors (IWFs) will be published to the nearest one percent of shares outstanding.

The three groups are:

1. Holdings by other publicly traded corporations, venture capital firms, private equity firms or strategic partners or leveraged buy-out groups.
2. Holdings by government entities, including all levels of government in the United States or foreign countries.
3. Holdings by current or former officers and directors of the company, founders of the company, or family trusts of officers, directors or founders. Second, holdings of trusts, foundations, pension funds, employee stock ownership plans or other investment vehicles associated with and controlled by the company.

It is also useful to identify some holders that are considered to be investors and not control holders. Mutual funds, investment advisory firms, pension funds or foundations not associated with the company and investment funds in insurance companies are part of the float. These holders are investors, not strategic holders. At times data will show that these investors hold positions for several years with virtually no change. This is not evidence that the holding is not for investment purposes; rather it merely suggests that the portfolio manager continues to see the stock as a good investment. Further, when the stock is held in an index fund, one would not expect to see substantial changes in the holdings.

It is common for domestic and international fund managers to have exposures in companies which put them in the category of “block owners” by most definitions. However, the nature of the fund management business is to buy and sell shares when there is value in doing so, and not to seek control or remove shares from circulation. Ordinarily these shares are considered part of free float. The following “block owners” will be considered part of float:

1. Holdings by Depositary Banks
2. Pension Funds
3. Mutual funds
4. 401K plans of the company
5. Government Pension Funds
6. Insurance Companies
7. Investment Funds
8. Independent Foundations
9. Savings and Investment Plans
10. Rights/Warrants

A company’s annual report, regulatory filings, proxy or 10-K may include listings of some equity-like securities that are not included in total shares outstanding and need not be considered in calculating available float. These include treasury stock, stock options, equity participation units, warrants, preferred stock, convertible stock and rights.

In a few cases, a company’s ultimate shareholders may be beneficiaries of a trust which holds their stock. (Examples usually include cases where shares were distributed as part of the initial public offering.) If the trust beneficiaries can buy and sell the stock without any difficulty or significant additional expenses beyond typical brokerage fees, the shares in a trust are part of the available float. If the shares in a trust cannot be sold, the shares would not be counted as part of the available float.

When shares are held in a trust to allow investors in countries outside the country of domicile, these shares are normally included in float. Examples include ADRs, CDIs, Canadian exchangeable shares and similar arrangements. If the holdings of ADRs, CDIs and so forth form a control block those shares would be excluded from float.

If a company has more than one class of stock outstanding, shares in an unlisted or non-traded class will be treated as if they were listed or traded if shareholders can convert the unlisted stock to the listed class without undue delay or cost.

Japan/Korea

Japan and Korea are special cases where the existence of *Kairetsus* or *Chaebols* or closely inter related companies makes the task of segregating strategic holdings especially complex. For Japan all strategic holders, as reported by the company, will be adjusted to present the most available and liquid float for the company. For Japanese banks, where data is not easily available, Standard & Poor's takes an average float of 50% unless the actual numbers of strategic holders are available. For Korea, strategic holders less than 5% will be included provided they are clearly deemed to be related as holdings by subsidiary companies.

Calculation of Investable Weight Factors

For each stock an Investable Weight Factor (IWF) is calculated:

$$IWF = (\text{available float shares})/(\text{total shares outstanding}) \quad (1)$$

where available float shares is defined as total shares outstanding less shares held in one or more of the three groups listed above, where the group holdings exceed 10% of the outstanding shares.

The float-adjusted index is calculated:

$$Index = \frac{\sum_j (P_j S_j IWF_j)}{Divisor} \quad (2)$$

where P_j is the price of stock j , S_j is the total shares outstanding of stock j and IWF_j is the investable weight factor. The divisor is the index divisor.

Shares Outstanding

The precise definition of shares outstanding or the share count depends on the specific market and the laws and accounting principles that apply.

Multiple Classes of Stock

The treatment of multiple classes of stock varies across S&P indices depending on local market custom and conditions. In those indices which include multiple classes of stock – a company may have more than one class included in the index – each class is float-adjusted individually.

In other S&P indices, including the U.S. indices, multiple classes are combined into one class with an adjusted share count. In these cases, the stock price is based on one class, usually the most liquid class, and the share count is based on the total shares outstanding. To determine the available float for companies with multiple classes of stock, Standard & Poor's will calculate the weighted average IWF for the stock using the proportion of total company market capitalization of each share class as the weights. The result will be reviewed to assure that when the weighted average IWF is applied to the class included in the index, the shares to be purchased are not significantly larger than the available float for the included class.

Foreign Investment Limits

Additionally, statutory limits on foreign ownership are recognized and applied where necessary. Case by case research is needed to assess the impact of large foreign holdings within a foreign ownership restriction. The final IWF is one minus the larger of the sum of all strategic holdings or the statutory foreign ownership limit.

Foreign investment limits are not applied to indices where the major users are domestic (e.g. the S&P 500, S&P/TSX 60); they are applied to regional or global indices where a significant portion of the index users are outside of the countries covered by the index (e.g., the S&P EMD, S&P/Citigroup and the S&P Europe 350).

Example of IWF calculations

Company XYZ from France has the following holders:

1. Government of France: 12%
2. Family Members: 3%, 5%, and 6% (total is 14%)
3. Company ABC: 5%
4. Company MNO: 3%

In this case, the government holdings and the private holdings will be removed from float while the corporate holdings are not removed.

$$\text{IWF} = 100\% - 12\% - 14\% = 74\%$$

The corporate holdings will not be removed from float because their sum is less than 10%. In most countries (see below) holdings of less than 5% are either not reported or not considered.

The family members' holdings total more than 10% and are, therefore, removed.

Company ABC from Indonesia has the following shareholders:

1. Government of Indonesia: 4%
2. Board of Directors: 10%
3. Company XYZ: 20%
4. Company MNO: 4%
5. Foreign investment limit: 40%

$$\text{Sum of strategic holdings to be excluded} = 20\% + 10\% = 30\%$$

$$\text{Foreign Investment Limit} = 40\%$$

$$\text{Final IWF} = 100\% - 30\% = 70\% \text{ and } 70\% > 40\%; \text{ therefore Final IWF} = 40\%$$

The government of Indonesia and Company MNO's stakes will be ignored as they are below 5%. The foreign investment limit is more limiting in this case than the 30% holdings and will become the determining factor.

Investable Weight Factor Maintenance

Rebalancing Frequency

Investable Weight Factors (IWF) are reviewed annually based on the most recently available data filed with various regulators and exchanges. For the S&P indices, revised IWFs are applied either on the third Friday of September or a date that will be more appropriate for a particular index family. For example, the S&P Global BMI constituents' new IWFs are applied at the annual reconstitution after the third Friday of September; for the S&P Frontier BMI index constituents, revised IWFs are applied at the annual reconstitution after the third Friday of December.

Please refer to individual index methodologies for specifics on IWF rebalancings.

Updates. Changes in IWFs resulting from corporate actions which exceed 5 percentage points will be implemented as soon as possible; changes of less than 5 percentage points are implemented at the next annual review.

Index Data

Data Distribution

Investable Weight Factors (IWF) are provided with other index data as part of regular Standard & Poor's index data distribution. Supporting documentation such as government or regulatory filings is not normally distributed.

Index Governance

Index Committee

Questions of interpretation or possible exceptions to float adjustment rules are considered by the Index Committee responsible for the indices in question. There is no separate committee for float adjustment.

Index Policy

To the maximum extent possible, Standard & Poor's seeks to float adjust all market capitalization indices and to apply consistent and uniform rules across all its indices.

Index Precision

Investable Weight Factors (IWF) are reported to the nearest one percentage point.

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