

Select Sector Indices Consultation

NEW YORK, SEPTEMBER 22, 2017: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on potential changes to the Select Sector Indices. The proposed changes are summarized below:

Potential Change	Description
Capping Frequency	S&P DJI is proposing to alter the capping frequency across all Select Sector Indices. Under the proposal, the indices would be capped on a regularly scheduled basis (e.g. quarterly, semi-annually, or annually) using each company’s float-adjusted market capitalization. In cases where the capping frequency is not quarterly, capping would be performed only if an index were to breach the maximum allowable limits. Currently capping is only performed when a company’s modified market capitalization weight breaches the maximum allowable limits defined in steps 4 and 7 of the capping section of the index methodology.
Weighting Scheme	S&P DJI is proposing to change the weighting scheme employed by the Select Sector Indices. Under the proposal, the indices would become modified market capitalization weighted. Between index rebalancings, corporate actions generally have no effect on index weights. For more information regarding the modified market cap weighted index methodology, please see page 13 of S&P DJI’s Index Mathematics Methodology. Currently the indices employ a capped market capitalization weighting scheme.
Pro-forma Period	S&P DJI is proposing to extend the pro-forma period. Under the proposal, constituent pro-forma files would be available for five business days prior to the implementation of the rebalancing and capping would be implemented using closing prices five business days prior to rebalancing effective date. Currently the pro-forma period is one business day.
Rebalancing Schedule	S&P DJI is proposing to change the rebalancing schedule to align with the quarterly share updates. Under the proposal, capping would be implemented using the closing prices as of the second Friday of March, June, September, and December with the changes becoming effective following the close of business on the third Friday of March, June, September, and December. Currently the indices are rebalanced quarterly after the close of business on the second to last business day of March, June, September and December.
Capping Buffer	In conjunction with the rebalancing schedule change detailed above, S&P DJI is proposing to constrict the allowable buffer detailed in steps 8 and 9 of the index methodology so that the first company causing the 50% limit to be breached would have its weight reduced to 4.5% as opposed to the 4.6% that is currently used. The excess weight would be equally redistributed to all companies with weights below 4.5% until step 7 of the index methodology is satisfied.
Excess Weight Distribution	S&P DJI is proposing to alter the excess weight distribution in cases where an index breaches the maximum allowable limits defined in steps 4 and 7 of the index methodology. Under the proposal, all excess weight would be proportionally redistributed to all uncapped companies within the relevant Select Sector Index. Currently, all excess weight is equally redistributed to all uncapped companies within the relevant index.

Turnover

The following table shows each index's theoretical turnover if the indices were capped using each company's float-adjusted market capitalization, per the proposed change to capping frequency described on the prior page, as of the close of September 18, 2017.

Index Code	Index Name	Turnover
IXB	Materials Select Sector Index	2.7%
IXE	Energy Select Sector Index	3.0%
IXI	Industrial Select Sector Index	4.2%
IXM	Financial Select Sector Index	0.0%
IXR	Consumer Staples Select Sector Index	5.0%
IXRE	Real Estate Select Sector Index	0.0%
IXT	Technology Select Sector Index	0.8%
IXU	Utilities Select Sector Index	0.7%
IXV	Health Care Select Sector Index	0.7%
IXY	Consumer Discretionary Select Sector Index	0.0%

The following table shows each index's theoretical turnover if the indices were capped on a quarterly basis using each company's float-adjusted market capitalization, per the proposed change to capping frequency described on the prior page, starting at the December 2015 rebalancing.

Index Code	Index Name	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
IXB	Materials Select Sector Index	1.8%	2.8%	1.1%	0.9%	0.5%	0.6%	0.7%
IXE	Energy Select Sector Index	8.6%	1.2%	0.4%	1.9%	1.0%	0.2%	2.2%
IXI	Industrial Select Sector Index	5.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IXM	Financial Select Sector Index	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IXR	Consumer Staples Select Sector Index	4.7%	1.9%	0.5%	0.2%	0.7%	0.1%	0.3%
IXRE	Real Estate Select Sector Index	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IXT	Technology Select Sector Index	1.0%	0.6%	0.7%	0.4%	0.0%	0.0%	0.0%
IXU	Utilities Select Sector Index	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IXV	Health Care Select Sector Index	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
IXY	Consumer Discretionary Select Sector Index	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Current Capping Methodology

For capping purposes, the Select Sector Indices are rebalanced quarterly after the close of business on the second to last business day of March, June, September and December using the following procedures:

1. The rebalancing reference date is two business days prior to the last business day of March, June, September and December.
2. Using adjusted prices as of the rebalancing reference date, and membership, shares outstanding, IWFs and AWFs (capping factor) as of the rebalancing effective date, each company is weighted using the modified market capitalization methodology. Modifications are made as defined below.
3. The Select Sector Indices are first evaluated based on each company's modified market capitalization weight to ensure none of the indices breach the maximum allowable limits defined in rules 4 and 7 below. If a Select Sector Index does breach any of the allowable limits, the companies are reweighted based on their float-adjusted market capitalization weights calculated using adjusted prices as of the rebalancing reference date and membership, shares outstanding and IWFs as of the rebalancing effective date.
4. If any company has a weight greater than 24%, the company's float-adjusted market capitalization weight is capped at 23%, which allows for a 2% buffer. This buffer is meant to ensure that no company exceeds 25% as of the quarter-end diversification requirement date.
5. All excess weight is equally redistributed to all uncapped companies within the relevant index.
6. After this redistribution, if the float-adjusted market capitalization weight of any other company then breaches 23%, the process is repeated iteratively until no company breaches the 23% weight cap.
7. The sum of the companies with weights greater than 4.8% cannot exceed 50% of the total index weight. These caps are set to allow for a buffer below the 5% limit.
8. If the rule in step 7 is breached, all companies are ranked in descending order of their float-adjusted market capitalization weights. The first company that causes the 50% limit to be breached has its weight reduced to 4.6%.
9. This excess weight is equally redistributed to all companies with weights below 4.6%. This is repeated iteratively until step 7 is satisfied.
10. Index share amounts are assigned to each constituent to arrive at the weights calculated above. Since index shares are assigned based on prices one business day prior to rebalancing, the actual weight of each constituent at the rebalancing differs somewhat from these weights due to market movements.
11. If necessary, the reweighting process may take place more than once prior to the close on the last business day of March, June, September or December to ensure the Select Sector Indices conform to all diversification requirements.

At times, companies may be represented in the Select Sector Indices by multiple share class lines. Maximum weight capping is based on company float-adjusted market capitalization, with the weight of multiple class companies allocated proportionally to each share class line based on its float-adjusted market capitalization as of the rebalancing reference date. If no capping is required, both share classes remain in the index at their natural float-adjusted market capitalization.

Questions:

1. Do you agree with the proposal to perform capping on a regularly scheduled basis, regardless of whether or not the index breaches the weight constraints? If so, should capping be done on a quarterly, semi-annual, or annual basis?
2. Do you agree with the proposal for the indices to change to a modified market capitalization weighting scheme?
3. Do you agree with the proposal to extend the pro-forma period to five business days?
4. Do you agree with the proposal to modify the rebalancing schedule so that rebalancings become effective after the close of business on the third Friday of March, June, September, and December?
5. In conjunction with the proposal to modify the rebalancing schedule, do you agree with the proposal to modify the capping buffer to 4.5% from 4.6%?
6. Do you agree with the proposal to alter the excess weight distribution process so that all excess weight is proportionally redistributed to all uncapped companies within the relevant Select Sector Index?

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. Your responses will be kept confidential. Please respond to this survey by **October 31, 2017**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please respond to S&P DJI at index_services@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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