

## Select Sector Indices Consultation Results

**NEW YORK, JANUARY 5, 2018:** S&P Dow Jones Indices (“S&P DJI”) has conducted a consultation with members of the investment community on potential changes to the Select Sector Indices.

Effective prior to the market open on Friday, March 9, 2018, S&P DJI will implement the following methodology changes:

<b>Methodology Change</b>	<b>Description</b>
Capping Frequency	S&P DJI will alter the capping frequency across all Select Sector Indices. The indices will be capped on a quarterly basis using each company’s float-adjusted market capitalization. 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. <sup>1</sup>
Pro-forma Period	S&P DJI will extend the pro-forma period so that constituent pro-forma files will be available for five business days prior to the rebalancing implementation and capping will be implemented using closing prices five business days prior to the rebalancing effective date. Currently, the pro-forma period is one business day.
Rebalancing Schedule	S&P DJI will change the rebalancing schedule to align with the quarterly share updates. Capping will be performed using closing prices from the second Friday of March, June, September, and December. Changes will become effective following the market close on the third Friday of March, June, September, and December. Currently, the indices are rebalanced quarterly after the market close 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 will constrict the allowable buffer detailed in steps 8 and 9 of the index methodology <sup>1</sup> so that the first company causing the 50% limit to be breached will have its weight reduced to 4.5% as opposed to the 4.6% that is currently used.
Excess Weight Distribution	S&P DJI will 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. <sup>1</sup> All excess weight will 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.

<sup>1</sup> Please refer to the current capping methodology on the following page.

## Current Capping Methodology

**Capping.** 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.

For more information about S&P Dow Jones Indices, please visit [www.spdji.com](http://www.spdji.com).

## INDEX ANNOUNCEMENT

## 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<sup>®</sup> and the Dow Jones Industrial Average<sup>®</sup>. 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 become home to over 1,000,000 indices across the spectrum of asset classes that have helped define the way investors measure and trade the markets.

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