

S&P Risk Control Indices

Frequently Asked Questions

1. What is the purpose of the S&P Risk Control Index Series?

The S&P Risk Control Indices aim to control the level of risk (volatility) of returns by varying exposure to an underlying equity index.

When the risk (volatility) of the underlying index is determined to be high, the exposure of the S&P Risk Control Index to the underlying index will decrease. If the risk measure comes back to lower levels, the exposure to the underlying index will increase.

2. How does a S&P Risk Control Index benefit investors?

Traditional investments tend to provide investors with constant exposure to an underlying index, regardless of the prevailing financial markets. Instead of offering fixed exposure, the S&P Risk Control Indices provide dynamic exposure to an underlying index and target a constant level of risk.

Although no guarantees can be made, this approach may present investors with superior risk / return profiles. Furthermore, through structured products, investors may find that S&P Risk Control Indices provide more efficient upside, as the risk control features may reduce the often high premium paid on typical options because the price is significantly influenced by expectations about volatility.

3. How will risk be measured and what is volatility?

Volatility is a measure often used to quantify risk. It is a statistical measure of the variability of returns of an asset over a given period. High volatility means that the asset tends to have a high variability of returns, i.e. it exhibits larger

moves than a low volatility asset. As an example, emerging markets tend to have higher volatility than developed markets. The S&P Risk Control Indices measure the current level of volatility of the underlying index based on the volatility of historic returns and using this vary exposure in order to control the level of risk.

4. What is the Target Volatility?

The Target Volatility represents the level of volatility of returns that the Risk Control Index aims to deliver. The S&P Risk Control Index aims to achieve this Target Volatility by varying the Leverage Factor through time.

When volatility is high, the exposure to the index will be decreased (lower Leverage Factor). When volatility is reduced to lower levels, the exposure to the underlying index will increase (higher Leverage Factor).

5. What is the Leverage Factor and how is it determined?

The Leverage Factor is a measure of how much exposure the S&P Risk Control Index currently has to the underlying index. The Leverage Factor is calculated by dividing the Target Volatility by the current volatility of the underlying index. The Leverage Factor is calculated daily and is subject to a maximum level (as defined for each index).

If the current volatility of the underlying index is lower than the Target Volatility, the Leverage Factor can be greater than 100%. In such situations, the S&P Risk Control Index will reflect a cost of financing for the extra investment in the underlying index, and an interest cost will be deducted from the S&P Risk Control Index.

6. What is the difference between the total return versions and the excess return versions of the indices?

A total return index will reinvest any dividends by the underlying stocks. If the underlying is a net return index, it would also reinvest any dividends by the

underlying stocks, but would also do so net of tax.

The S&P Risk Control Total Return Index tracks returns of varying allocation between the underlying index and an accumulating cash position according to the Target Volatility. For example, if the exposure to the underlying index is 80%, the remaining 20% will track returns of a cash investment, accumulating interest which is included in the S&P Risk Control Index. If the Leverage Factor is greater than 100%, the exposure above 100% will be charged interest which is deducted from the S&P Risk Control Index.

The S&P Risk Control Excess Return Index tracks the return of a S&P Risk Control Total Return Index or S&P Risk Control Net Total Return Index over and above a short-term money market investment. For investors familiar with price return indices, an excess return index can be thought of as being similar to a price return index but where the deducted dividends are equal to cash yields. An excess return index represents an unfunded position in an index whereas a total return index represents a funded position in an index.

7. What Risk Control Index is Standard & Poor's capable of introducing?

Standard & Poor's Risk Control methodology can be applied to any of its indices.

8. Where can I find out more about parameters used for the S&P Risk Control Indices?

Parameters used for the S&P Risk Control Indices can be found on the Standard & Poor's Web site, www.standardandpoors.com under each S&P Risk Control Index.

9. Where can I learn more about the indices methodology?

The complete methodology can be found on the Standard & Poor's Web site:

www.indices.standardandpoors.com

10. Who can I contact at Standard & Poor's if I have questions about these indices or their constituents?

Questions about the indices can be addressed to:

Steven Goldin Vice President, Strategy & Custom Indices
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11. Who do I contact at Standard & Poor's to license my use of these indices?

Questions regarding licensing the S&P Risk Control Indices can be addressed to:

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