

STANDARD
&POOR'S

S&P BRIC 40

INDEX METHODOLOGY

May 2009

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Introduction

BRIC has become the well-known acronym for Brazil, Russia, India and China. Economists have determined that these countries could rank among the world's dominant economies by mid century based on gross domestic product.

Standard & Poor's BRIC 40 index (S&P BRIC 40) is designed to provide exposure to 40 leading companies from the emerging markets of Brazil, Russia, India and China through liquid stocks trading on developed market exchanges – specifically the Hong Kong Stock Exchange, the London Stock Exchange, NASDAQ and the NYSE Euronext

Highlights

Constituent companies are members of the S&P/IFC Investable (S&P/IFCI) index series that meet minimum market capitalization and liquidity requirements. The index uses a modified market capitalization-weighting scheme. Modifications are made to market cap weights, if required, to reflect available float, reduce single stock concentration and enhance index basket liquidity

Eligibility Criteria

Index Eligibility

To be eligible for the S&P BRIC 40, companies must first be constituents of the S&P/IFCI country indices for Brazil, Russia, India and China.

Eligibility Factors

Market Capitalization. Stocks must have a float-adjusted market capitalization above US\$ 1 billion.

Liquidity. Stocks must have three-month average daily value traded above US\$ 5 million.

Domicile. Brazilian, Russian, Indian and Chinese companies that are listed on the Hong Kong Stock Exchange, the London Stock Exchange, NASDAQ and/or the NYSE.

Timing of Changes

The index is rebalanced once a year in December. The annual rebalancing is effective after the market close of the third Friday of December. The cut-off date for the data used in the review is the third Friday of November. New constituents and index shares are made available to clients two-to-five business days prior the rebalancing date.

In addition to the annual rebalancing, there is a mid-year review. A semi-annual rebalancing occurs only if three of the 30 largest stocks from the eligible universe are not in the index at the mid-year review. There will not be a semi-annual rebalancing in years when this condition is not satisfied. The cut-off date for the data used in the mid-year review is the third Friday of-May, with a mid-year rebalancing being made, if necessary, after the market close on the third Friday of June. If a mid-year rebalancing is required, new constituents and index shares are made available to clients two-to-five business days prior the rebalancing date.

Additions. No companies are added between rebalancings.

Deletions. Between rebalancings, a company can be deleted from the S&P BRIC 40 due to corporate events such as mergers, acquisitions, takeovers or delistings.

Index Construction

Approaches

The S&P BRIC 40 index methodology employs a modified market capitalization-weighting scheme, using the divisor methodology used in all Standard & Poor's equity indices.

The methodology stipulates that, at rebalancing, no stock can have a weight of more than 10% in the index and the minimum initial portfolio size that can be turned over in a single day (based on recent trading volumes) cannot be lower than US\$ 600 million. In order to uphold these parameters, the index uses a modified market capitalization-weighting scheme. Modifications are made to market cap weights, if required, to reflect available float, reduce single stock concentration and enhance index basket liquidity.

There are two steps in the creation of the S&P BRIC 40. The first is the selection of the 40 companies; the second is the weighting of the index constituents as follows:

Constituent Selection

1. All constituents of the S&P/IFCI country indices for Brazil, Russia, India and China comprise the initial selection universe.
2. All companies that do not have a developed market listing, as detailed on the prior page, are removed from the list.
3. Three-month average daily value traded (hereafter referred to as "liquidity") and float-adjusted market capitalization (hereafter referred to as "market cap") are measured, as of the reference date.
4. All stocks with a market cap of less than US\$ 1 billion (the "Market Cap Threshold") and/or liquidity of less than US\$ 5 million (the "Liquidity Threshold") are removed.
5. If a company has multiple share classes, the share class with the lower liquidity is removed.
6. The remaining stocks are sorted in decreasing order of their float-adjusted market capitalization. The top forty become index members.

Constituent Weightings

At each rebalancing, the weight for each index constituent is set in the following manner:

1. Every stock is given an initial Adjustment Factor (AF) of 1. Basket Liquidity (BL) and Maximum Weight (MW) are set to US\$ 600 million and 10%, respectively.
2. The weight for each stock in the index is calculated as follows:

$$W_i = \frac{AF_i * Market\ Cap_i}{\sum_{i=1}^{40} (Market\ Cap)_i * (AF)_i}$$

3. Trade size, S , is calculated for each stock as follows:

$$S_i = L_i / W_i$$

where L_i is the liquidity of the i^{th} stock, as defined by the three-month average daily value traded.

4. The adjustment factor for each stock is modified as follows:

If $S_i < BL$ and/or $W_i \geq MW$

Then $AF_i = AF_{i, previous} - 0.2$

Else $AF_i = AF_{i, previous}$

5. If, for every stock, $S_i \geq BL$ and $W_i < MW$, then the process is complete and the weights derived in step 2 are used. If not, steps 2, 3 and 4 are repeated until all stocks meet the market cap and liquidity requirements. (Note: No further adjustments are made for stocks which have $AF=0.2$).

The basket liquidity (BL) parameter essentially sets a limit of the minimum portfolio size that must be turned over in a single day, based on the historical average value-traded pattern. The MW parameter is the maximum weight of each stock at the rebalancing. These parameters can be changed depending upon market circumstances. Steps 1 through 5 modify the market cap-weighting scheme in a looped manner until the BL and MW constraints are satisfied for all index constituents.

Index Calculations

The index is calculated by means of the divisor methodology used in all Standard & Poor's equity indices. The index value is simply the index market value divided by the index divisor:

$$Index\ Value = \frac{Index\ Market\ Value}{Index\ Divisor} \quad (1)$$

$$Index\ Market\ Value = \sum_{i=1}^N (Index\ Shares)_i * (Price)_i \quad (2)$$

Index Shares are set at the time of rebalancing in the following manner such that for the i^{th} constituent:

$$\text{Index Shares}_i = (1000000 * W_i) / \text{Price}_{\text{rebalancing day close, } i} \quad (3)$$

where W_i is the weight for the i^{th} constituent at the rebalancing as derived from the previous section, and $\text{Price}_{\text{rebalancing day close, } i}$ is its price at the close of the rebalancing date.

In order to maintain basket series continuity, it is also necessary to adjust the divisor at the rebalancing.

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}} \quad (4)$$

Therefore,

$$(\text{Divisor})_{\text{after rebalancing}} = \frac{(\text{Index Market Value})_{\text{after rebalancing}}}{(\text{Index Value})_{\text{before rebalancing}}} \quad (5)$$

Index Maintenance

Rebalancing

The index is rebalanced once a year in December. The annual rebalancing of the index is effective after the market close of the third Friday of December. The reference date for the data used in the review is the third Friday of November.

In addition to the annual rebalancing, there is a mid-year review. A semi-annual rebalancing occurs only if three of the 30 largest stocks from the eligible universe are not in the index at the mid-year review. There will not be a semi-annual rebalancing in years when this condition is not satisfied. The cut-off date for the data used in the mid-year review is the third Friday of May.

Base Date

The base value of the S&P BRIC 40 is 874.48 on February 2, 2004. Data history begins on February 2, 2001. Daily returns are available starting from that date.

Index Actions

Corporate Action	Adjustment Made to Index	Divisor Adjustment
Spin-Off	No weight change. The price is adjusted to the Price of the Parent Company minus (Price of Spin-off company/Share Exchange Ratio). Index Shares change so that the company's weight remains the same as its weight before the spin-off..	No
Rights Offering	No weight change. The price is adjusted to Price of Parent Company minus (Price of Rights Offering/Rights Ratio). Index Shares change so that the company's weight remains the same as its weight before the rights offering.	No
Stock Split	Index Shares are multiplied by and price is divided by the split factor.	No
Share Issuance or Reduction	None. Actual shares outstanding of the company play no role in the daily index calculation.	No
Special Dividends	Price of the stock making the special dividend payment is reduced by the per-share special dividend amount after the close of trading on the day before ex-date.	Yes
Delisting	The stock is removed. No replacements are made.	Yes
Merger or acquisition	If the surviving company is already an index member, it is retained in the index. If the surviving company does not belong to BRIC countries or does not maintain the exchange listing included in the index, it is removed. An announcement will be made in other cases.	Yes, if there is a removal.

Index Data

Total Return and Net Return Indices

The index has a total return counterpart, which assumes dividends are reinvested in the index after the close on the ex-date. On any given date t :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (6)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (7)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex-dividends})_{i,t} / \text{Divisor}_t \quad (8)$$

There is also a net return index series, which adds dividends after adjustments for withholding taxes based on a Luxembourg domicile. Effectively, the net return index adds index dividend points, as in Equation 8, except that the Ex-dividends term is multiplied by (100% - withholding tax rate).

Index Governance

Index Committee

The S&P Global Equity Index Committee maintains the index. The Index Committee members are all full-time professional members of Standard & Poor's staff. The Index Committee meets as needed. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the indices to the market, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, share counts, the Liquidity Threshold, the Market Cap Threshold, Basket Liquidity and Maximum Weight, or other matters. In the rare event that fewer than 40 stocks qualify for inclusion at the rebalancing, Standard & Poor's may modify the criteria to include multiple share classes or reduce the market cap limit, in that order.

Standard & Poor's considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

Index rebalancing announcements are made at 05:15 PM Eastern Time three to ten business days before the effective date on Standard & Poor's Web site at www.indices.standardandpoors.com. No separate announcements are made for routine corporate actions whose index implications are discussed in this document. If required, special or unusual events may warrant a posting on the aforementioned Web site.

Pricing

The pricing of index members is taken from the stocks included in the index – specifically their developed market listing. If a single stock is trading in multiple developed markets, only the listing from the market with most liquidity is considered.

All calculations to arrive at the membership and weightings are made in U.S. dollars. The index is calculated in U.S. dollars, with the Reuters/WM London closing fix being used to convert the local market prices to U.S. dollars. The index is also calculated in Euros.

Holiday Schedule

The index is calculated daily, throughout the calendar year. The only days the index is not calculated are on days when all exchanges where the S&P BRIC 40 constituents are listed (NYSE Euronext, NASDAQ, HKSE, and LSE) are officially closed or if WM Reuters' exchange rates services are not published.

A complete holiday schedule for the year is available on Standard & Poor's Web site at www.indices.standardandpoors.com.

Unscheduled Market Closures

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the exchange listing included in the index. If an exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the index for that day.

Index Dissemination

Tickers

Index returns are available on most vendor platforms. Reuters and Bloomberg tickers are as follows:

U.S. dollar version	Bloomberg	Reuters
S&P BRIC 40 (Price Return)	SBR	.SPBRIC
S&P BRIC 40 (Total Return)	SPTRBRIC	.SPBRICNTR
Euro version		
S&P BRIC 40 (Price Return)	SBE	.SPBRICE
S&P BRIC 40 (Total Return)	SPTRBRIE	.SPBRICENTR

FTP

Daily stock level, index data and corporate action files are available via FTP on subscription.

For further information, please refer to Standard & Poor's Web site at www.indices.standardandpoors.com or contact a Standard & Poor's account manager.

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