

STANDARD
& POOR'S

S&P LISTED PRIVATE EQUITY INDEX

INDEX METHODOLOGY

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Introduction

The S&P Listed Private Equity Index is comprised of 30 leading listed private equity companies that meet size, liquidity, exposure and activity requirements. The index is designed to provide tradable exposure to the leading publicly listed companies in the private equity space.

Highlights

The S&P Listed Private Equity Index includes 30 large, liquid private equity stocks from North America, Europe and the Asia Pacific, which are trading on developed market exchanges.

A combination of quantitative and qualitative criteria is used to arrive at index membership. Constituents must meet qualitative criteria related to exposure to the private equity business, frequency of investments, and citations in industry literature to ensure that they are legitimate representatives of the listed private equity market. They also must meet quantitative criteria related to size and liquidity, to ensure investability and tradability.

Constituent weights are driven by liquidity, with no single stock having a weight of more than 7.5% in the index at reconstitution. An evolutionary algorithm driven optimization is used to maximize index basket liquidity at each rebalancing.

Eligibility Criteria

Index Eligibility

The universe, from which index candidates are drawn, is all publicly listed companies in the Standard & Poor's CapitalIQ (CIQ) database with the following terms in their business description:

- Acquisitions
- Business Development Company
- Buyout
- Mezzanine
- Recapitalization
- Principal Investment
- Private Equity
- Venture Capital

Publicly listed investment companies, business development companies, investment trusts, special purpose acquisition vehicles and fund of funds that engage in the private equity business are all eligible for inclusion in the index.

Real estate income trusts and property trusts are excluded from the universe, as are blank check companies and companies whose primary business is in energy exploration and transportation, or mining. These companies have a high degree of idiosyncratic or sector-specific risk that makes them inaccurate representatives of the listed private equity universe.

Standard & Poor's then reviews the business descriptions and publicly available documentation of the remaining companies and assigns an exposure score of 1, 0.5 or 0 as follows:

Exposure Score = 1. Companies whose primary business is private equity investing. This includes mezzanine debt, venture capital investing, buy-outs, seed investing and other forms of principal investing in unlisted entities.

Exposure Score = 0.5. Holding companies that have significant private equity holdings or specialty companies that have a specific private equity niche in areas such as retailing, energy or intellectual property commercialization.

Exposure Score = 0. Companies that have minimal private equity exposure, as measured by assets or investments as a percentage of their overall business.

Eligibility Factors

The universe is, then, narrowed down to an investable set of stocks based on the following criteria:

Market Capitalization. Stocks must have a total market capitalization above a Market Capitalization Threshold as of the reference date of each year. The Market Capitalization Threshold is currently US\$ 150 million.

Liquidity. Stocks must have three-month average daily trading value above a Liquidity Threshold as of the reference date of each year. The Liquidity Threshold is currently US\$ 500,000.

Listing Venues. The stock must be trading on a developed market exchange.

Volume. The stock must trade, on average, at least 10,000 shares a day for the 12-month period preceding the appropriate reference date.

Stocks having an exposure score of 1 or 0.5 that pass the tradability criteria above form the Investable Universe.

Activity Criteria

The stocks in the Investable Universe are, then, evaluated along two qualitative parameters as follows:

Literature Citations. Leading industry trade journals are researched for mentions of the company in the 18-month period preceding the reference date. The journals used are:

- Buyouts
- European Venture Capital Journal
- Journal of Private Equity
- Private Equity Week
- U.K. Venture Capital Journal
- Venture Capital
- Venture Capital Journal

Number of Investments. The number of deals a company has been involved in, for the four quarters preceding the reference date, using sources including the CIQ Database, Bloomberg and the company's news releases for deal information.

Based on the two parameters above, a qualitative judgment is made about the current activity of the company in the private equity space. Companies not considered active are removed from the Universe.

Stocks passing these criteria form the Selection Universe.

The reference dates for the eligibility screens above are the last trading date of June and December of each year. The Market Capitalization Threshold and Liquidity Threshold are subject to change at each rebalancing period according to market conditions.

Index Construction

Approaches

The methodology employs a liquidity driven-weighting scheme, using the divisor methodology used in most Standard & Poor's equity indices.

There are two steps in the creation of the index. The first is the selection of the 30 companies; the second is the weighting of the index constituents. The selection of index constituents is done as follows:

1. All stocks in the Selection Universe with a score of 1 are chosen.
2. The 30 most liquid stocks will, then, form the index.

In the event of fewer than 30 qualifying stocks with a score of 1, the most liquid stocks with a score of 0.5 are added, until the count reaches 30.

Constituent Weightings

The weighting scheme of the index addresses two (often conflicting) objectives:

- The need of product issuers for high basket liquidity in a section of the market that has very few highly liquid securities.
- Regulatory restrictions on concentration, such as UCITS in Europe, and the IRS and exchange listing requirements in the U.S.

To achieve these two objectives, the weight for each index constituent is set at each rebalancing using an optimization algorithm that has the following constraints and goals:

Constraints

1. Every stock has a weight no greater than 7.5% at the rebalancing.
2. The sum of the weights of all stocks with weights of more than 4.0% is less than 36%.
3. If the index contains stocks with an exposure score of 0.5, the sum of those stocks' weights does not exceed 15%.

Goals

1. Maximize the daily basket trading limit.
2. This limit is based on historical value traded and represents the maximum size of the basket that can be traded if 100% of the market volume is demanded for the smallest volume stock in the index.

Given the non-smooth nature of the optimization problem, the optimization is done using a non-deterministic evolutionary algorithm that switches over to traditional methods on an as-needed basis. Standard & Poor's uses publicly available commercial software (Premium Solver Platform™ Version 6.5 from Frontline Systems).

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:

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

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

For more information on index calculations, please refer to the Modified Market Cap Weighting section of Standard & Poor's Index Mathematics Methodology.

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

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}} \quad (3)$$

Therefore,

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

Index Maintenance

Rebalancing

Frequency. Index rebalancings occur after the closing on the last business day of July and January of each year. The universe is sampled and constituents are selected and weighted at each of these rebalancings.

Corporate Actions

Corporate Action	Adjustment made to index	Divisor adjustment?
Spin-off	No weight change. The price is adjusted to Price of the Parent Company minus (Price of the Spun-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	The price is adjusted to the Price before the rights issuance minus (Price of the 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 the price is divided by the split factor.	No
Share Issuance or Share Repurchase	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 the dividend ex-date.	Yes
Delisting, acquisition or any other corporate action resulting in the deletion of the stock from the index.	Stock is dropped from the Index. No replacements are made until the next semi-annual rebalancing.	Yes

Base Date

The index base date is November 21, 2003. The base value, for both the price return and total return series, is 1000. Daily returns are available from November 21, 2003.

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 :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (5)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (6)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (7)$$

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

An Index Committee maintains the S&P Listed Private Equity Index. The Index Committee meets regularly. 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, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

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

Announcements of additions and deletions are made at 05:15PM U.S. Eastern Time via the Web site at www.indices.standardandpoors.com.

Holiday Schedule

The S&P Listed Private Equity Index is calculated daily on all business days of the year with no exceptions.

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 primary exchange for each stock 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

Complete data for index replication (including share counts, tickers and data on index levels and returns) are available through Standard & Poor's index data group for subscription via FTP.

Tickers

	Bloomberg	Reuters
S&P Listed Private Equity Index - Price Return (U.S. dollars)	SPLPEQPR	.SPLPEQPR
S&P Listed Private Equity Index - Total Return (U.S. dollars)	SPLPEQTR	.SPLPEQTR
S&P Listed Private Equity Index - Price Return (Euros)	SPLPEQTE	.SPLPEQTE
S&P Listed Private Equity Index - Total Return (Euros)	SPLPETRE	.SPLPETRE

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

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