

# S&P Long Only Merger Arbitrage Index

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## About the Index

The S&P Long Only Merger Arbitrage Index seeks to model a risk arbitrage strategy that exploits commonly observed price changes associated with mergers. The index is comprised of a maximum of 40 large and liquid stocks that are active targets in pending merger deals.

The index is part of the S&P Arbitrage Index Family. Other indices in the family are the S&P 500 Volatility Arbitrage Index, the S&P Currency Arbitrage Index, and the S&P Forward Interest Rate Arbitrage Indices.

### Highlights

When a merger is announced the shares of the company being acquired do not immediately begin trading at the terms of the merger since there is a risk that the merger will be cancelled. The difference between the current price of the stock and the terms of the merger agreement represents the potential benefit of a merger arbitrage trade.

A target company is considered for inclusion if at least 25% of the compensation to be paid for the target's shares is in cash. Deals are screened on the basis of size, liquidity, premium, and exchange listing to ensure that the underlying positions are tradable and offer upside potential if the deal does close.

### Index Construction

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

All positions are added to the index at a weight of 2.5% of capital as represented by the index market value, which includes the cash component. The cash component of the index earns the overnight U.S. Dollar LIBOR rate. The value of the cash position changes over time as constituents are added to or deleted from the index and as interest accrues daily.

### CRITERIA FOR INDEX ADDITIONS

- *Domicile.* The company must be domiciled and listed in a developed market country as defined by the S&P Global

Equity Index Series.

- *Deal Size.* The deal size, based on the terms of the merger as of the date of the merger announcement, must be greater than the deal size threshold which is currently US\$ 500 million.
- *Liquidity.* Three-month average daily trading value above a liquidity threshold which is currently US\$ 2 million.
- *Premium.* At the time of the merger announcement, the deal must have a premium above the premium threshold which is currently 5%.
- *Deal Terms.* The compensation offered to shareholders of the target company must be either cash or a combination of cash and stock.

### CRITERIA FOR INDEX REMOVALS

- *Withdrawal of Merger.* If the acquiring company withdraws a merger, the target company is removed from the index two business days following the withdrawal announcement. However, if the stock is a target of two or more potential acquirers, it will remain in the index as long as any of the offers is still active.
- *Completion of Merger.* If a pending merger is completed the company is removed from the index.
- *Replacement.* At any given time, the index contains a maximum of 40 long positions. If a new merger announcement is made and the target is eligible for inclusion at the time the index has 40 long positions, the position with the lowest return is removed.
- *Maximum Inclusion Time.* One year.

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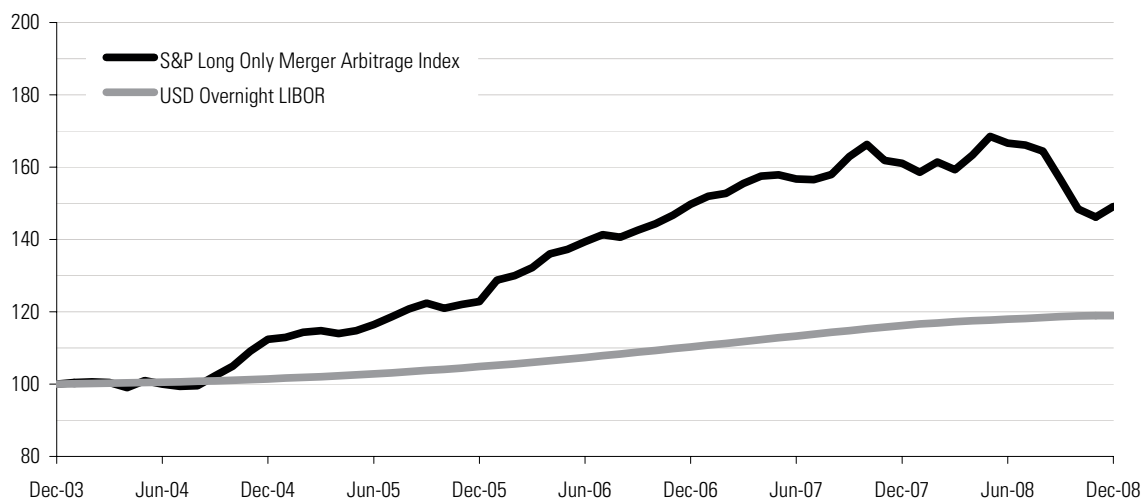
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Seeks to model a risk arbitrage strategy that exploits commonly observed price changes associated with mergers.

## S&P Global Indices

| S&P Strategy Indices                        |                              |                                      |
|---|------------------------------|--------------------------------------|
| S&P Arbitrage Index Family                  |                              |                                      |
| S&P 500 Volatility Arbitrage Index          | S&P Currency Arbitrage Index | S&P Long Only Merger Arbitrage Index |
| S&P Forward Interest Rate Arbitrage Indices |                              |                                      |

## 5 Year Historical Performance



## Correlations to Returns

| 5 Years                              | S&P Long Only Merger | Lehman Aggregate |            |
|--------------------------------------|----------------------|------------------|------------|
|                                      | Arbitrage Index      | S&P 500          | Bond Index |
| S&P Long Only Merger Arbitrage Index | 1.0000               | 0.7499           | -0.1344    |
| S&P 500                              |                      | 1.0000           | -0.0985    |
| Lehman Aggregate Bond Index          |                      |                  | 1.0000     |

## Tickers

|                                      |         |
|--------------------------------------|---------|
| S&P Long Only Merger Arbitrage Index |         |
| BLOOMBERG <sup>SM</sup>              | SPARBM  |
| Reuters                              | .SPARBM |

## Index Performance

|                     |                 |        |
|---------------------|-----------------|--------|
| <b>Annualized</b>   | 1 Year          | -7.41% |
| <b>Returns</b>      | 3 Years         | 6.68%  |
| <b>Annualized</b>   | 3 Years Std Dev | 7.23%  |
| <b>Risk</b>         | 5 Years Std Dev | 6.36%  |
| <b>Sharpe Ratio</b> | 3 Years         | 0.4412 |
|                     | 5 Years         | 0.8232 |

## Index Portfolio Characteristics

|   |        |
|---|--------|
| Number of Companies                               | 13     |
| Number of Countries                               | 7      |
| Adjusted Market Cap (\$ Billion)                  | 77.49  |
| Company Size By Market Cap (Adjusted \$ Billion): |        |
| Average   | 5.96   |
| Largest   | 38.38  |
| Smallest  | 0.29   |
| Median  | 1.04   |
| % Weight Largest Company                          | 2.87%  |
| Top 10 Holdings (% Index Weight)                  | 25.43% |