

STANDARD
& POOR'S

S&P MLP INDEX

INDEX METHODOLOGY

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Introduction

Master Limited Partnerships (MLPs) are limited partnerships that are publicly traded on a securities exchange. MLPs are characterized by favorable tax treatment due to their partnership structure and by high, steady distribution payments. Both the interest in MLPs and the number of listed MLPs has greatly increased in recent years.

The S&P MLP Index is designed to provide exposure to leading partnerships that trade on major U.S. exchanges. The index includes both master limited partnerships and publicly traded limited liability companies (LLCs), which have a similar legal structure to MLPs and share the same tax benefits. As the vast majority of traded partnerships have operations in the oil and gas industries, the S&P MLP Index focuses on companies in the GICS¹ Energy Sector and the GICS Gas Utilities Industry.

Highlights

Constituent companies are publicly traded partnerships 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.

¹ The Global Industry Classification Standard (GICS[®]) was developed by and is the exclusive property and trademark of Standard & Poor's and MSCI Barra.

Eligibility Criteria

Index Eligibility

To be eligible for the S&P MLP Index, companies must be publicly traded partnerships with either a master limited partnership or a limited liability company structure.

Eligibility Factors

Market Capitalization. Stocks must have a float-adjusted market capitalization above US\$ 300 million.

Liquidity. Stocks must have three-month average daily value traded above US\$ 2 million.

Domicile. Companies that are listed on the NYSE, NYSE Arca, NASDAQ or AMEX.

GICS Classification. Companies must belong to the Global Industry Classification Standard's (GICS) Energy Sector (GICS Code 10) or Gas Utilities Industry (GICS Code 551020).

Timing of Changes

The index is rebalanced once a year in July. The annual rebalancing of the index is effective after the market close of the third Friday of July. The reference date for the data used in the review is the third Friday in June. New constituents and index shares will be made available to clients with a two-week notice.

Additions. No companies are added to the Index between rebalancings.

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

Index Construction

Approaches

The S&P MLP Index methodology employs a modified market capitalization-weighting scheme, using the divisor methodology used in most Standard & Poor's equity indices.

The methodology stipulates that, at rebalancing, no stock can have a weight of more than 15% 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\$ 200 million.

In order to uphold these parameters, the Index uses a modified market capitalization-weighting scheme. Modifications are made to market capitalization weights, if required, to reflect available float, reduce single stock concentration and enhance index basket liquidity.

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

Constituent Selection

1. All publicly traded partnerships with listings on the NYSE, NASDAQ or AMEX.
2. For each stock, the average three-month daily value traded (hereafter referred to as "liquidity") and float-adjusted market capitalization (hereafter referred to as "market cap"), as of the reference date, are measured.
3. All stocks with a market cap of less than US\$ 300 million (the "Market Cap Threshold") and/or liquidity of less than US\$ 2 million (the "Liquidity Threshold") are removed. The remaining stocks 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\$ 200 million and 15%, 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 $AF_i = AF_{i, previous} - 0.05$

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 $AF = 0.05$).

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:

$$\text{Index Shares}_i = (1,000,000 * W_i) / \text{Price}_{\text{rebalancing day close, } i} \quad (3)$$

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,

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

Index Maintenance

Rebalancing

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

Base Date

The base value of the S&P MLP Index is 1000 on July 20, 2001. Data history begins on July 20, 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 (the Price of the 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	The price is adjusted to the Price of Parent Company minus (the 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 Reduction	None	No
Special Dividends	The 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 ex-date.	Yes
Delisting	The stock is removed. No replacement is made.	Yes
Merger or acquisition	If the surviving company is already an index member, it is retained in the index. An announcement will be made in other cases.	Yes, if there is a removal.

Index Data

Total Return Indices

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

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

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

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

Index Dividend Points are zero on those dates in which no basket constituents are going ex-dividends, while on other dates it is a positive number. Therefore, returns calculated from Total Return Index Value will always be greater than or equal to the Index Value.

Index Governance

Index Committee

The S&P MLP 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.

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 the 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.

Holiday Schedule

The index is calculated daily, throughout the calendar year. The index is not calculated on days when U.S. exchanges are officially closed.

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:

Index	Bloomberg	Reuters
S&P MLP Index	SPMLP	.SPMLP

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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