

**STANDARD
& POOR'S**

S&P SOUTHEAST ASIA 40

INDEX METHODOLOGY

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Introduction

Indonesia, Malaysia, the Philippines and Thailand have been labeled by some as the Southeast Asia Tigers, in contrast to the original Asia Tigers – Hong Kong, Singapore, South Korea and Taiwan. The term ‘Tiger’ has often been used to describe countries that have experienced strong economic growth as well as high levels of exports. These countries of Southeast Asia remain less developed than the original Asia Tigers and are expected to have high levels of growth in the future.

Standard & Poor’s Southeast Asia 40 Index (the S&P Southeast Asia 40) is designed to provide exposure to 40 leading companies from the emerging markets of Indonesia, Malaysia, the Philippines and Thailand through liquid stocks trading on the primary exchange of those countries.

Highlights

Constituent companies are members of the S&P/IFC Investable (S&P/IFCI) index series, which 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 Southeast Asia 40 companies must first be constituents of the S&P/IFCI country indices for Indonesia, Malaysia, the Philippines or Thailand.

Eligibility Factors

Market Capitalization. Stocks must have a float-adjusted market capitalization above US\$ 500 million.

Liquidity. Stocks must have three-month average daily value traded above US\$ 1 million.

Domicile. Companies must be domiciled in Indonesia, Malaysia, the Philippines or Thailand.

Public Float Available to Foreign Investors. If a stock has foreign investment restrictions, it is considered for inclusion only if its foreign investment limit has not been met.

Timing of Changes

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

Additions. No companies are added between rebalancings.

Deletions. Between rebalancings, a company can be deleted from the S&P Southeast Asia 40 due to corporate events such as mergers, acquisitions, delistings or a significant event that affects company size and liquidity. If a company reaches its foreign investment limit between rebalancings, it is removed from the index. The foreign investment limit is monitored based on best available data and index actions may experience a lag between the limit being reached and index changes being effective. This lag is required to ensure that Standard & Poor's can verify information from multiple sources.

Index Construction

Approaches

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

The index uses a modified market capitalization-weighting scheme. At each rebalancing, modifications are made to market cap weights, if required, to reflect available float, reduce single stock concentration and enhance index basket liquidity as follows:

- No stock can have a weight of more than 10% in the Index,
- No country can have a weight more than 40% 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.

There are two steps in the creation of the S&P Southeast Asia 40. The first is the selection of the 40 companies; the second is the weighting of the index constituents.

Constituent Selection

1. All constituents of the S&P/IFCI country indices for Indonesia, Malaysia, the Philippines and Thailand comprise the initial selection universe.
2. The average three-month daily value traded (hereafter referred to as “liquidity”) and the 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\$ 500 million (the “Market Cap Threshold”) and/or liquidity of less than US\$ 1 million (the “Liquidity Threshold”) are removed.
4. If a company has multiple share classes, the share class with the lower liquidity is removed.
5. The remaining stocks are sorted in decreasing order of their float-adjusted market capitalization. The top forty become index members, subject to the constraint that there must be a minimum of four companies from each country.

The Market Cap Threshold and Liquidity Threshold are subject to change based on market conditions. If there are not a minimum of forty eligible companies at the time of the review one or more of the eligibility requirements may be relaxed to ensure forty constituents.

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), Maximum Weight (MW) and Maximum Country Weight (CW) are set to US\$ 200 million, 10% and 40%, respectively.
2. The weight for each stock in the index is calculated as follows:

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

$$W_c = \sum W_i \text{ for all companies within country c.}$$

3. Basket liquidity, S_i , 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. The adjustment factor for the Maximum Country Weight is modified as follows:

If $W_c \geq CW$

Then $AF_i = AF_{i, previous} - 0.05$, for every stock i in country C

Else $AF_i = AF_{i, previous}$

6. If, for every stock, $S_i \geq BL$, $W_i < MW$, and $W_c < CW$ then the process is complete and the weights derived in step 2 are used. If not, steps 2, 3, 4 and 5 are repeated until all stocks meet the weight and liquidity requirements, and each country meets the maximum country weight requirement. (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. The CW parameter is the maximum weight of each country at the rebalancing. Steps 1 through 6 modify the market cap-weighting scheme in a looped manner until the BL and MW constraints are satisfied for all index constituents.

The basket liquidity, maximum weight and maximum country weight constraints are subject to change based on market conditions. If the basket liquidity rule cannot be satisfied for all index constituents after all possible iterations are completed one or more

of these constraints may be changed to ensure that the constraint is satisfied for all 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:

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

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

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 described in 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,

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

Index Maintenance

Rebalancing

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 reference date for the data used in the review is the third Friday of November.

Base Date

The base value of the S&P Southeast Asia 40 is 100 on 12/20/2002. Data history begins and 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 | The price is adjusted to the Price before the rights issuance 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 price is divided by the split factor. | No |
| Share Issuance or Reduction | None | 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 |
| Significant event that effects company size and liquidity | 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 one of the eligible 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

Both a price return and a total return index series are calculated. Cash dividends are applied on the ex-date of the dividend.

Standard & Poor's calculates daily total return series for the S&P Southeast Asia 40 Index using both gross and net cash dividends reinvested. Net reinvested return is reflective of the return to an investor where dividends are reinvested after the deduction of a withholding tax. The tax rate applied is the rate to non-resident institutions that do not benefit from double taxation treaties. The net reinvested return series approximates the returns available to an investor based in Luxembourg, reflecting the minimum possible dividend reinvestment since the highest rates are theoretically applied to Luxembourg-based investors. The rates applied are the current effective rates and are sourced from Ernst & Young's Worldwide Corporate Tax Guide and the Economic Intelligence Unit. These rates are maintained and updated to reflect any ongoing changes.

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 ,

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

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

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

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

Index Governance

Index Committee

The S&P Southeast Asia 40 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 less 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 05:15PM 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 primary market listing.

All calculations to arrive at the membership and weightings are made in U.S. dollars. The index is calculated in U.S. dollars, with real-time spot exchange rates provided by Reuters being used to convert the local market prices to U.S. dollars.

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 Southeast Asia 40 index constituents are listed 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. Bloomberg and Reuters tickers are as follows:

| Index | Bloomberg |
|-----------------------------------|------------------|
| S&P Southeast 40 Total Return USD | SPSEA4DT |
| S&P Southeast 40 Price Return USD | SPSEA4DP |

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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