STANDARD & POOR'S

S&P U.S. STARS INDEX

INDEX METHODOLOGY

March 2008

Table of Contents

Introduction

STARS (STock Appreciation Ranking System) is Standard & Poor's proprietary stock recommendation system. The S&P U.S. STARS Index is designed to measure the performance of stocks within the S&P Composite 1500 universe currently ranked 4 or 5 STARS by Standard & Poor's Global Equity Research Group.

Highlights

U.S. equities ranked 4 ("buy") or 5 ("strong buy") STARS by Standard & Poor's equity research analysts are expected to outperform the S&P 500. The S&P U.S. STARS Index is designed to reflect the performance of these recommendations within the S&P Composite 1500 universe. It is comprised primarily of 5 STARS stocks but may also include 4 STARS stocks when certain conditions, explained in detail below, warrant. The index offers a passive means of tracking active security selection value generated by S&P's analysts. The index is equal-weighted, with constituents being reviewed and re-weighted every month.

Index Family

The S&P U.S. STARS Index belongs to the S&P STARS Index family. A separate index for European equities, the S&P Europe STARS Index, is also a member of this index family.

Eligibility Criteria

Index Eligibility

The universe of eligible securities is common stocks with a STARS ranking that are also members of the S&P Composite 1500.

STARS has existed since 1987 for U.S. equities. It is an analyst-derived, subjective evaluation of future appreciation potential of a specific common stock relative to the S&P 500 over a 12-month time horizon. The overarching investment philosophy driving the methodology is “Growth at a Reasonable Price.” Rankings range from 5 to 1 and are defined below.

- 5 STARS (Strong Buy): Total return is expected to out-perform the total return of the appropriate S&P benchmark by a wide margin over the next 12 months, with the shares rising in price on an absolute basis.
- 4 STARS (Buy): Total return is expected to out-perform the total return of the appropriate S&P benchmark over the next 12 months, with the shares rising in price on an absolute basis.
- 3 STARS (Hold): Total return is expected to closely approximate that of the total return of the appropriate S&P benchmark over the next 12 months, with the shares generally rising in price on an absolute basis.
- 2 STARS (Sell): Total return is expected to under-perform the total return of the appropriate S&P benchmark over the next 12 months, and the share price is not anticipated to show a gain.
- 1 STARS (Strong Sell): Total return is expected to under-perform the total return of the appropriate S&P benchmark over the next 12 months by a wide margin, with the shares falling in price on an absolute basis.

The determination of each STARS ranking is principally based on intrinsic value estimation, which generally relies on discounted cash flow (DCF) analysis and other methods, such as relative valuation and sum-of-the-parts analysis. Each approach offers certain advantages and disadvantages, and each may be used in conjunction with one another or separately. Other factors that may play a role in an analyst’s determination of his or her recommendation include technical analysis and top down forecasts provided by S&P’s senior economic and investment strategists.

Eligibility Factors

Index Membership. Index constituents must be members of the S&P Composite 1500 as of the Reference Date.

"Reference Date" means the last trading day of each month. "Rebalancing Date" is five trading days after each Reference Date. (For example, if the Reference Date is December 31, Friday, the Rebalancing Date is January 7, Friday.)

STARS Rank. The index is comprised purely of 5 STARS stocks unless there is an insufficient quantity as of the Reference Date, in which case the index will include current 4 and 5 STARS stocks.

For any given month, if the number of eligible 5 STARS stocks is greater than or equal to 25, as of the Reference Date, then any current index constituents whose ranking has dropped below 5 will be removed from the index as of the Rebalancing Date. If the number of eligible 5 STARS stocks is less than 25 as of the Reference Date, then any current constituents whose ranking has dropped to 4 will remain in the index and any current constituents whose ranking has dropped below 4 will be removed from the index as of the Rebalancing Date. If this process yields fewer than 25 constituents for the upcoming month, then eligible 4 STARS stocks will be added in sufficient quantity to increase the number of constituents to 25 for the upcoming month. In this process 4 STARS stocks will be ranked and added in descending order of total market capitalization.

Index Construction

Approaches

The index is calculated using the divisor method commonly used for S&P equal-weighted indices.

Constituent Weightings

Index constituents are re-weighted to equal weights on a monthly basis.

Index Calculations

The Price Return Index Value is simply the index market value divided by the index divisor:

$$\text{Price Return Index Value} = \text{Index Market Value} / \text{Index Divisor} \quad (1)$$

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

$$\text{Index Shares}_i = \text{IWF}_i * 1{,}000{,}000 \quad (3)$$

The index is rebalanced after the close of trading on the last business date of each month. At each rebalancing, investable weight factors (IWFs) are set so that each constituent has an equal weight. IWFs for all constituents are calculated using Equation 4.

$$(\text{IWF})_{i,\ after\ rebalancing} = 1/(\text{Price})_{i,\ Rebalancing\ Date} \quad (4)$$

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

$$(\text{Price Return Index Value})_{before\ rebalancing} = (\text{Price Return Index Value})_{after\ rebalancing} \quad (5)$$

Therefore,

$$(\text{Divisor})_{after\ rebalancing} = (\textit{Index Market Value})_{after\ rebalancing} / (\textit{Index Value})_{before\ rebalancing} \quad (6)$$

Index Maintenance

Rebalancing

Because STARS rankings reflect S&P's current investment opinion with respect to particular equity securities, they are changed on an "as-needed" basis and do not follow any calendar schedule. The index seeks to balance the aspiration of tracking the investment performance of S&P's buy recommendations with a concern for mitigating turnover and expenses. While daily rebalancing would result in closely tracking 5 STARS performance, it would generate high turnover and expenses. On the other hand, annual or semi-annual reconstitution might not sufficiently reflect 5 STARS performance. Therefore, S&P has settled on a monthly schedule for updating changes in rankings and re-establishing the constituents to equal weights.

Given the history of U.S. 5 STARS stocks, it is expected that the index will have approximately 60 to 120 constituent stocks at any given time with annual turnover in the range of 75% to 150%.

Corporate Actions

Corporate Action	Adjustment made to the index	Divisor adjustment
Spin-Off	The price is adjusted to Price of the Parent Company minus (Price of Spin-off company/Share Exchange Ratio). The IWF changes so that the weight of the company is the same as before the spin-off.	None.
Rights Offering	The price is adjusted to the Price of Parent Company minus (Price of the Rights Offering/Rights Ratio). The IWF changes so that the weight of the company is the same as before the rights offering.	None.
Stock Split	Index Shares are multiplied by and the price is divided by the split factor.	None.
Share Issuance or Share Repurchase	None. Actual shares outstanding of the company play no role in the daily index calculation.	None.
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.	A divisor adjustment is made to ensure the index level after the price adjustment is equal to the index level before the price adjustment.

Index Actions

S&P Composite 1500 action	Adjustment made to the index	Divisor adjustment
Constituent change	If the constituent being dropped is a member of the index, it is removed from the index. There is no addition to the index between rebalancings.	A divisor adjustment is made to ensure the index level remains the same.
Share changes	None.	None.
Quarterly share changes	None	None

Source: Standard & Poor's.

Base Date

The initial divisor is set to have a base index value of 100 as of June 30, 2000.

Index Data

Total Return Indices

Daily returns are available starting from June 30, 2000. The index is calculated on a real-time basis. The index has a total return counterpart, which assumes dividends are reinvested in the index after close on the ex-date. The Total Return Index Value on any given date *t* shall be calculated as follows:

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \qquad (7)$$

$$\text{Total Return Basket Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \qquad (8)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^{N} (\text{Index Shares})_{i,t} \times (Ex - dividends)_{i,t} \Big/ Divisor_t \qquad (9)$$

Index Governance

Index Committee

An Index Committee maintains the S&P STARS Index Series. The Committee meets regularly. At each meeting, the 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 5:15 p.m. U.S. Eastern Time via www.indices.standardandpoors.com.

Holiday Schedule

The S&P U.S. STARS Index is calculated daily on all business days that the S&P Composite 1500 is calculated, 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 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 U.S. STARS Index (US$)	SPSRUS	.SPSRUS
S&P U.S. STARS Index (Euro)	SPSRUSEU	.SPSRUSEU
S&P Europe STARS Index (US$)	SPSREU	.SPSREU
S&P Europe STARS Index (Euro)	SPSREUEU	.SPSREUEU

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