STANDARD &POOR'S

S&P WORLD DYNAMIC STRATEGY INDEX

INDEX METHODOLOGY

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Introduction

Highlights

- Standard & Poor's World Dynamic Strategy Index reflects the performance of an investment strategy that attempts to predict the relative performance of the U.S., European & Japanese equity markets for the forthcoming quarter.

- It is a quantitative, rules-based model that uses leading macroeconomic indicators, stock market momentum, and fundamental valuation metrics.

- The S&P 500, the S&P Europe 350, and the S&P/TOPIX 150 are used as proxies for the three regional markets. They satisfy liquidity and market representation requirements, and are well known, widely published indices.

- At any given time, the index holds positions in all three stock markets, but the relative allocations among the three geographical regions are adjusted according to their relative future predicted performances according to the model.

- Through a multi-stage process, the model ranks the three regions as 1^{st}, 2^{nd}, and 3^{rd}, regardless of any short-term systemic correlations between them. No ties are allowed.

Methodology

General Concept

The model ranks the United States, European, and Japanese stock markets as 1st, 2nd and 3rd, based on their predicted performance in the forthcoming calendar quarter, using a scoring formula. The scores take into account the trailing stock market performance and the macroeconomic outlook of each individual region. Higher total scores represent the anticipation of better stock market performance relative to peers in the near term. That region is, therefore, given an overweight allocation. The formulae are crafted in such a manner that equivalent rankings are highly improbable.

A price/earnings evaluation then applies an adjustment factor to the allocations to determine the final weights.

General Concept:

Rank = *f*(Macroeconomic Momentum, Return Momentum)

Weight = *f*(Rank, PE ratio)

Index Construction

Leading Economic Indicator Score

Leading Economic Indicators are used as a barometer of a region's economic activity in the next three-to-nine months. Measured and maintained by official economic statistical agencies in the U.S., Europe and Japan, for their respective areas, these indicators track particular measures of the health of the economy, such as manufacturer orders, jobless claims, manufacturing hours, vendor deliveries, etc. These individual measures are combined into a composite index called the Leading Economic Indicator published for each region.

The model uses data as reported on Bloomberg:

For the United States
Name: The Conference Board Index of Leading Economic Indicators
Ticker Symbol: LEI TOTL Index
Source: The Conference Board
Series Begins: 1/31/1959
Frequency: Monthly

For the Eurozone
Name: OECD Composite of Leading Indicators, 12 Countries, Eurozone
Ticker Symbol: OLEDEU12 Index
Source: O.E.C.D. Organization for Economic Co-operation and Development
Series Begins: 1/31/1962
Frequency: Monthly

For Japan
Name: Japan New Composite Index of Leading Business Cycle Indicators
Ticker Symbol: JNCICLEI Index
Source: Economic and Social Research Unit
Series Begins: 4/30/1973
Frequency: Monthly

A strengthening economy is, in general, a boon to stock market performance. The model looks for momentum trends in the Total Leading Indicators ("LEI") series of each economy. It compares the current LEI with its 3-month and 6-month moving averages ("MA") to see if the economy is strengthening or weakening.

Specifically, if the 6-month MA, the 3-month MA and current LEI are in ascending order, then that region is scored "Bullish". Conversely, a descending order of the same

parameters merits the region "Bearish". Mixed patterns are considered "Neutral". An arithmetic formula determines the final LEI score for a region based on the direction and magnitude of its LEI index.

Stock Market Returns Score

Standard & Poor's indices are used as proxies for each regional equity market: the S&P 500 for the U.S., the S&P Europe 350 for Europe, and the S&P/TOPIX 150 for Japan. They are highly liquid indices, widely accepted in the investment community, and offer excellent representation of their respective investable stock universe.

To control for currency effects, a common currency is used when comparing the returns of the indices. The Euro-denominated Price Return versions of all three indices were used in the back test.

The model looks for stock market momentum and puts a high score on price acceleration. A region where the 9-month, 6-month, and 3-month trailing returns are in increasing order is marked "Bullish" and is given a high preliminary score. Conversely, a decelerating stock market, where the 9-month, 6-month, and 3-month trailing returns are in decreasing order, is deemed unattractive or "Bearish", and is ranked with a low score. Mixed orders are given a "Neutral" rank and score.

A formula is, then, used to combine both the direction and magnitude of the trailing 9-month, 6-month and 3-month returns to assess a region's stock market performance relative to its peers.

Final Score and Rank

The Stock Market Returns and Leading Economic Indicator Scores are combined into a single number called the Final Score. The LEI Score carries a heavier weight than the Stock Market Return Score in the calculation of the Final Score. The regions are arranged in descending order of Final Score and are given the Final Rank of 3, 2 and 1, respectively, with 3 representing "Best Choice" and 1 as "Worst Choice."

Preliminary Allocation Weights

The Final Ranks determine the preliminary investment weights to be allocated toward each region's proxy. There are 6 possible ranking arrangements:

Europe	Japan	U.S.
3	2	1
3	1	2
2	1	3
2	3	1
1	3	2
1	2	3

The preliminary weights are loosely based on a Markowitz mean-variance optimized portfolio determined using historical returns:

U.S. – 50%

Europe – 30%

Japan – 20%

The model then adds 10% to a region that it considers the "Best Choice", and subtracts the same from the region deemed the "Worst". The region assessed as "Neutral" maintains its Markowitz-derived weight. Thus the six possible Final Ranks cited in the table above translate to the following percent allocation schedule ("Preliminary Allocation Weights"):

Europe	Japan	U.S.	Total
40	20	40	100
40	10	50	100
30	10	60	100
30	30	40	100
20	30	50	100
20	20	60	100

Price/Earnings Adjustment Factor

An adjustment factor is applied to the Preliminary Allocation Weights according to how "overvalued" or "undervalued" the index appears, as measured by its Price/Earnings ratio. Specifically, the ratio of the current P/E multiple of the index to its 6-month moving average is calculated to see if the index appears "Cheap", "Par" or "Expensive".

An appropriate multiplier is, then, selected and applied to the Preliminary Allocation Weights to increase the weight to the region if it appears "Cheap", or to decrease the weight if the region appears "Expensive". The adjustment factors vary between regions, may be positive or negative, and range from 5-15%. The adjusted weight of any region is subject to a 10% minimum and a 70% maximum, to ensure a minimum level of diversification.

Earnings numbers for each region are derived from the S&P/Citigroup Global Equity Indices.

Final Allocation Weights

In applying the P/E adjustment factor, each region is assessed independently of the rest, and it is possible to have the same P/E valuation assessments between regions. All three, for example, can be deemed "Cheap" by the algorithm, and all their Preliminary Allocation Weights increased according to their respective Adjustment Factors. Since the portfolio does not assume leverage, the resultant weights are scaled back to sum to 100% while keeping the relative proportions of the post-adjustment-factor positions intact.

Performance

The performance of the S&P World Dynamic Strategy Index is the Weighted Price Returns of the underlying proxy indices subject to the rebalancing procedures dictated by the model.

The Euro-denominated Price Return versions of the S&P 500, the S&P Europe 350 and the S&P/TOPIX 150 indices are used in the performance calculations of the Strategy Index. Therefore, no dividend reinvestment is assumed in calculating the individual returns of the proxy indices. Because the Euro-denominated indices are used, no currency conversion is applied at the security level.

Base Dates

The S&P World Dynamic Strategy Index is set at a base value of 100 on December 31, 1990.

Index Maintenance

Rebalancing

The Index rebalancing occurs quarterly. On the Reference Date, the new allocation weights for the proxy indices used in the S&P World Dynamic Strategy Index are determined using the criteria described in the prior section.

The Reference Dates are the last business days in March, June, September and December. The new allocation weights take effect on the Rebalancing Date, which is five business days immediately following the relevant Reference Date.

Index Dissemination

The S&P World Dynamic Strategy Index is reported on a daily basis. S&P World Dynamic Strategy Index Values are disseminated on Standard & Poor's Web site at www.indices.standardandpoors.com and through third-party data vendors.

Tickers

Index	**Bloomberg**
S&P World Dynamic Strategy Index USD TR	SPWDGDT
S&P World Dynamic Strategy Index USD PR	SPWDGDP
S&P World Dynamic Strategy Index EURO TR	SPWDGET
S&P World Dynamic Strategy Index EURO PR	SPWDGEP

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