Basic of Indexing

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S&P Dow Jones Indices
An S&P Global Division

What is an Index?

An index is a group or basket of securities, derivatives, or other financial instruments that represents and measures the performance of a specific market, asset class, market sector, or investment strategy. In other words, an index is a statistically representative sampling of any set of observable securities in a given market segment. For instance, the well-known S&P 500 is a representation of the large-cap segment of the U.S. equity market. As the combined value of the securities in the index moves up or down, the numerical value, or the index level, changes to reflect that movement.

Indices can serve as:

- Economic indicators
- Performance benchmarks
- The basis for index-linked investment products
- Tools for research & analysis

What is an Index?

Common Questions:

- Is the stock market healthy? What's happening in the bond market? Are commodity prices going up?

- The closing level of the Dow Jones Industrial Average® gives you a sense not only of what happens on any given day in the U.S. stock market, but also where the U.S. economy stands at any given moment.

- The changing value of the S&P 500® can determine the interest you earn on your market-linked certificate of deposit (CD) or the capital gains you realize on a U.S. equity exchange traded fund (ETF).

Benchmarks

Indices enable investors to evaluate the performance of securities, actively managed funds, and investment portfolios relative to the market.

Why we need Benchmarks

- Indices are used by financial professionals to benchmark the portfolios they manage against market performance.

Why choosing the right Benchmark matters

- To make a meaningful comparison between an investment portfolio and an index, it is crucial to use the right benchmark

Relationships between indices and products based on indices

AN INDEX

is created by an index provider such as S&P DJI to track the performance of a market, market segment, investment strategy, or asset class. Investors cannot invest directly in an index, but they can invest in an index-linked product.

AN INDEX-LINKED INVESTMENT PRODUCT

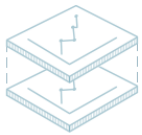
is created by a financial institution such as an investment company, bank, exchange, or other regulated third-party as an investable vehicle that is designed to replicate the performance of the underlying index as closely as possible, before deduction of product management fees.

Before publicly offering index-linked products to investors, the product issuer first enters into a license agreement with the index provider whereby the product issuer states their intention to match the index composition and performance as closely as possible, before fees.

INDEX-LINKED MUTUAL FUNDS AND ETFS

are among the best-known investable index-linked products, but the full range of products is extensive. Other types of products that use indices as the basis for an investment objective, settlement value, or other pricing mechanism include futures contracts, options contracts, annuities, life insurance, CDs, swaps, and structured products.

To be the basis of an investable index product, **all of the constituents in the underlying index must meet liquidity requirements**—in other words, they can be readily bought and sold in the markets where they trade. Otherwise an investable product couldn't buy or sell essential components needed to replicate the index performance.



An investment product may own all or a representative sampling of the securities or other assets in the index in order to track its performance. **Alternatively, an investment product may replicate an index through the purchase of derivative instruments, such as options contracts or swaps, based on that index**. In the case of derivatives, replication is sought by pegging the investment return or strike price to the performance of an index.

Types of Indices

1. **Broad Market indices** track large segments of the market or a major asset class. Some examples are the S&P 500, the S&P Global BMI (Broad Market Index), the S&P ASX 200, the S&P/TSX Composite, or the S&P GSCI for the commodities market.
2. **Sector indices** track industry-based market segments, slicing the broad markets into narrower categories, such as the health-care and technology sectors. These indices can track at an even more specific level, allowing investors to gain exposure, not just to technology but specifically to software companies. Sector variations drill into industry groups, industries, and sub-industries to provide the most granular market views. Similarly, there are indices that segment the global markets into countries and regions, or into capitalization ranges based on stock size (large cap, mid cap and small cap) or even into investment styles (growth and value stocks).
3. **Strategy and thematic indices**, which have gained in popularity over the past decade, are designed to mimic an investment strategy, or capture a specialised segment of the market. Thematic indices often represent market niches or specialised themes such as infrastructure, clean energy or biotech stocks. Strategy indices often apply alternative methodologies or play on fundamentals or other factors such as high dividends or low volatility, for instance.
4. **Fixed income indices** are designed to track various segments of the bond market, which is currently redefining itself as a more transparent and east-to-access asset class on a global scale. The fixed income market and the indices that track it are well-known for their diversification, lower volatility and yield benefits.
5. **Commodity indices** stand out from equity and fixed income indices in that they track real, tangible assets whose prices are driven solely by global supply and demand. These liquidity-seeking indices can range from equal weighting to capture diversification and liquidity benefits to factor-weighted approaches, to modified roll strategies. Commodity indices are considered important benchmarks for measuring the inflation risk management component of many asset allocation decisions.

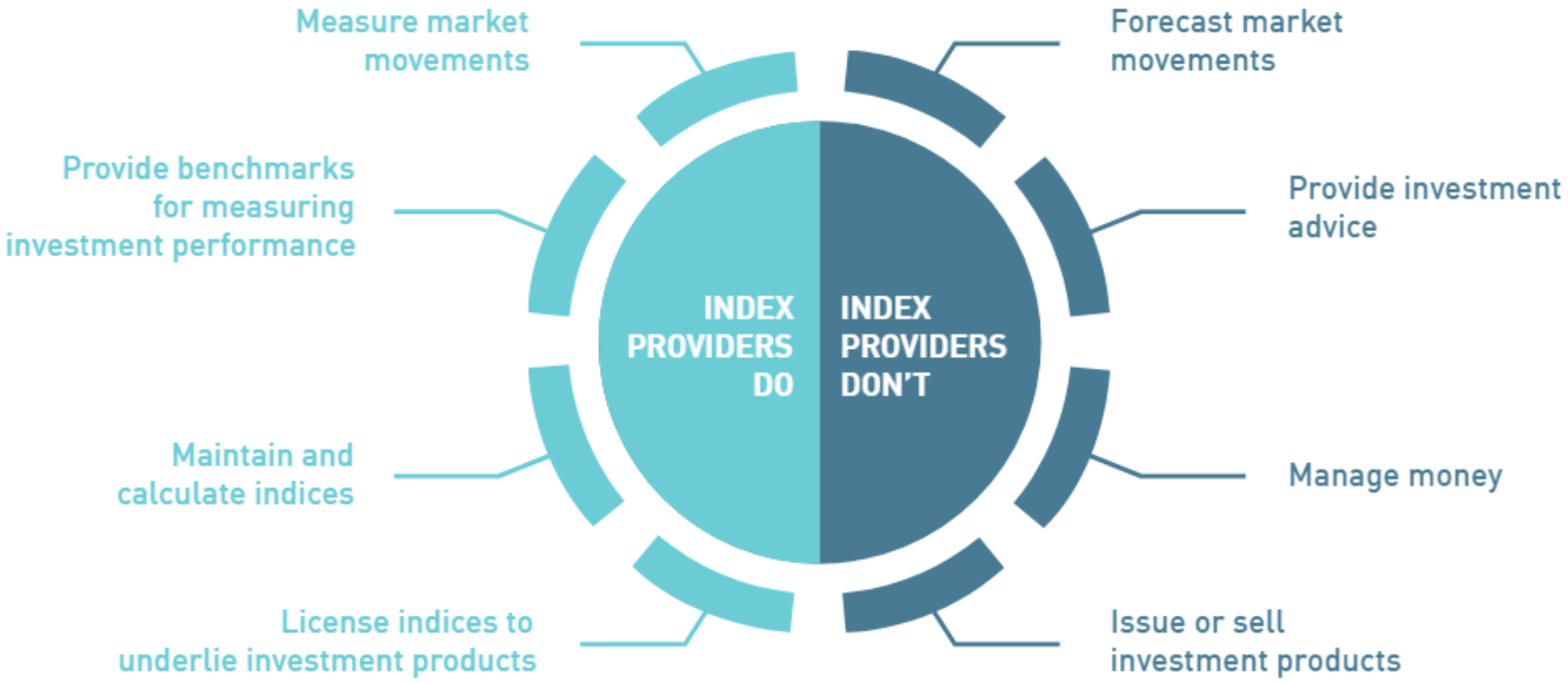
Who's Behind the Index?

An index provider is a specialized firm that is dedicated to creating and calculating market indices and licensing its intellectual capital as the basis of passive products.

The work of an index provider includes four distinct phases:

1. Conceptualization & Creation: Defining the scope of an index and the rules needed to build it
2. Calculation & Dissemination: Generating and distributing index values
3. Maintenance & Rebalancing: Ongoing real-time monitoring and daily maintenance
4. Licensing & Support: Helping to make indices accessible among investment professionals and the general public

What do we do?



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Building an Index

What market, asset class, or strategy is the new index intended to measure?

- For example, an index may cover U.S. mid-cap stocks, European bonds, or gold prices. This underlying market is sometimes described as the index's universe, exposure, or opportunity set
- The universe may be extremely precise

Is the index calculable?

- Publicly—available prices for the types of constituents the index will include.
- The provider must ensure that the securities in an index are sufficiently liquid

Will the index generate interest?

The index should have utility either as a benchmark or as the basis of an index-based product, ensuring that it meets a particular need and is marketable.

Is the index investable?

If the index is intended to be licensed as the basis of index-based products, the index provider must confirm that the securities or instruments to be included in an index are sufficiently liquid

Calculation & Dissemination

When the index constituents have been selected and weighted, the index provider begins calculating the index in accordance with the methodology. Most indices are computed on a daily basis, many of them in real-time.

For example, the Dow Jones Industrial Average® is computed once every two seconds. Index providers distribute these index values in various ways:

- provider's own website,
- through data redistributors such as Bloomberg and Reuters,
- Data files that are transmitted directly to index licensees.

Maintenance & Rebalancing

Once the index has been published, ongoing real-time monitoring and daily maintenance begin so it can run 24 hours a day, 7 days a week.

Rebalancing:

Since market and other conditions constantly affect the securities included in an index, the provider must periodically rebalance the index. Regular rebalancing requires that the provider track every component security to be sure it still meets the criteria for inclusion, determine which stocks should be added or removed based on the rules in the methodology, and establish new weightings.

Maintenance:

Ongoing maintenance also involves tracking corporate actions such as mergers, spin-offs, stock splits, and dividend and interest payments that can impact index components–and applying the changes as they occur.

Licensing

To cultivate demand for its products, an index provider:

- Licenses its indices to asset managers and other financial institutions, who use the indices to create investable financial products, such as ETFs and benchmark portfolios, and to conduct research and analysis.
- Licenses its indices to the media for real-time display on television and financial websites.

- An index provider also supports its clients and seeks to market its indices through the services it provides and builds relationships with financial advisors and other intermediaries who, by promoting index-based products to their clients, help to popularize index investing which, in turn, creates greater demand for its indices.

ETFs and Index Mutual Funds

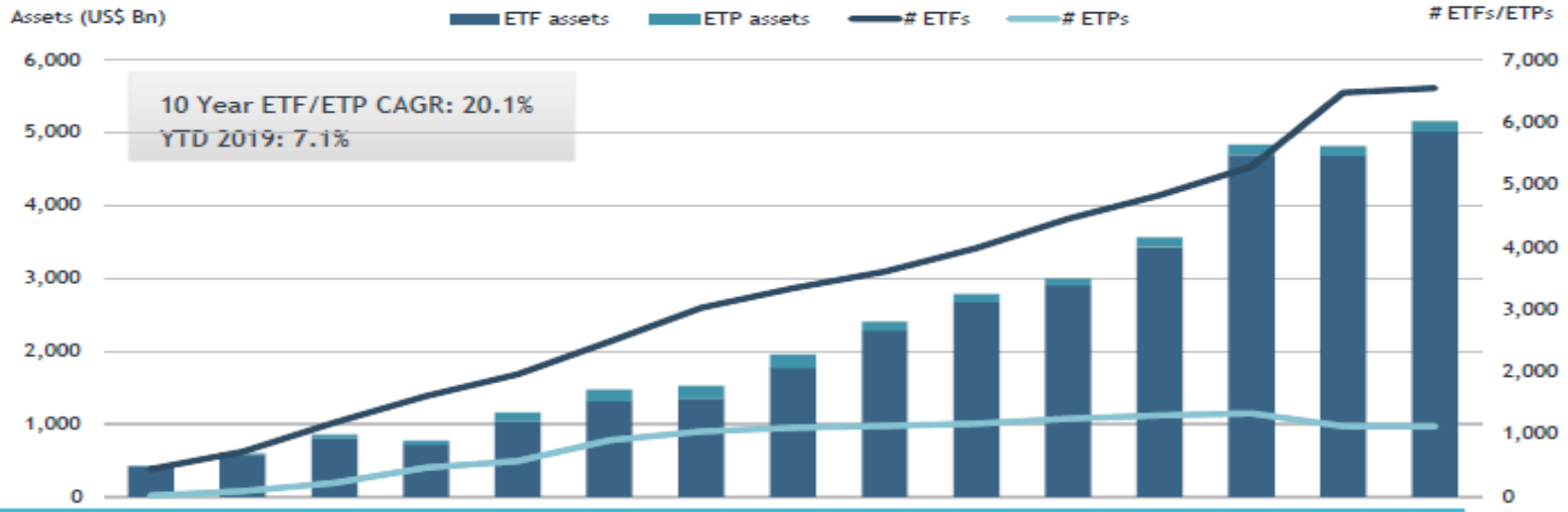
ETFs and index mutual funds are practically synonymous with index investing.

These products are widely available, easy to buy and sell (liquid), and designed to meet a variety of investment goals. The funds' issuers, sometimes referred to as sponsors, are financial services companies. Some of these firms concentrate on either ETFs or mutual funds, while others offer both types of products.

While index mutual funds have been on the market almost twice as long as ETFs, there are now almost twice as many ETFs as index funds—with more than half linked to an index from S&P Dow Jones Indices. The rapid expansion of ETFs that began in the U.S. now extends around the world.

GLOBAL ETP ASSET GROWTH JAN'19

At the end of January 2019, the Global ETF industry had 6,548 ETFs, with 13,295 listings, assets of US$5,019 Bn, from 376 providers on 70 exchanges in 56 countries. At the end of January 2019, the Global ETF/ETP industry had 7,680 ETFs/ETPs, with 15,098 listings, assets of US$5,160 Bn, from 408 providers on 71 exchanges in 57 countries.



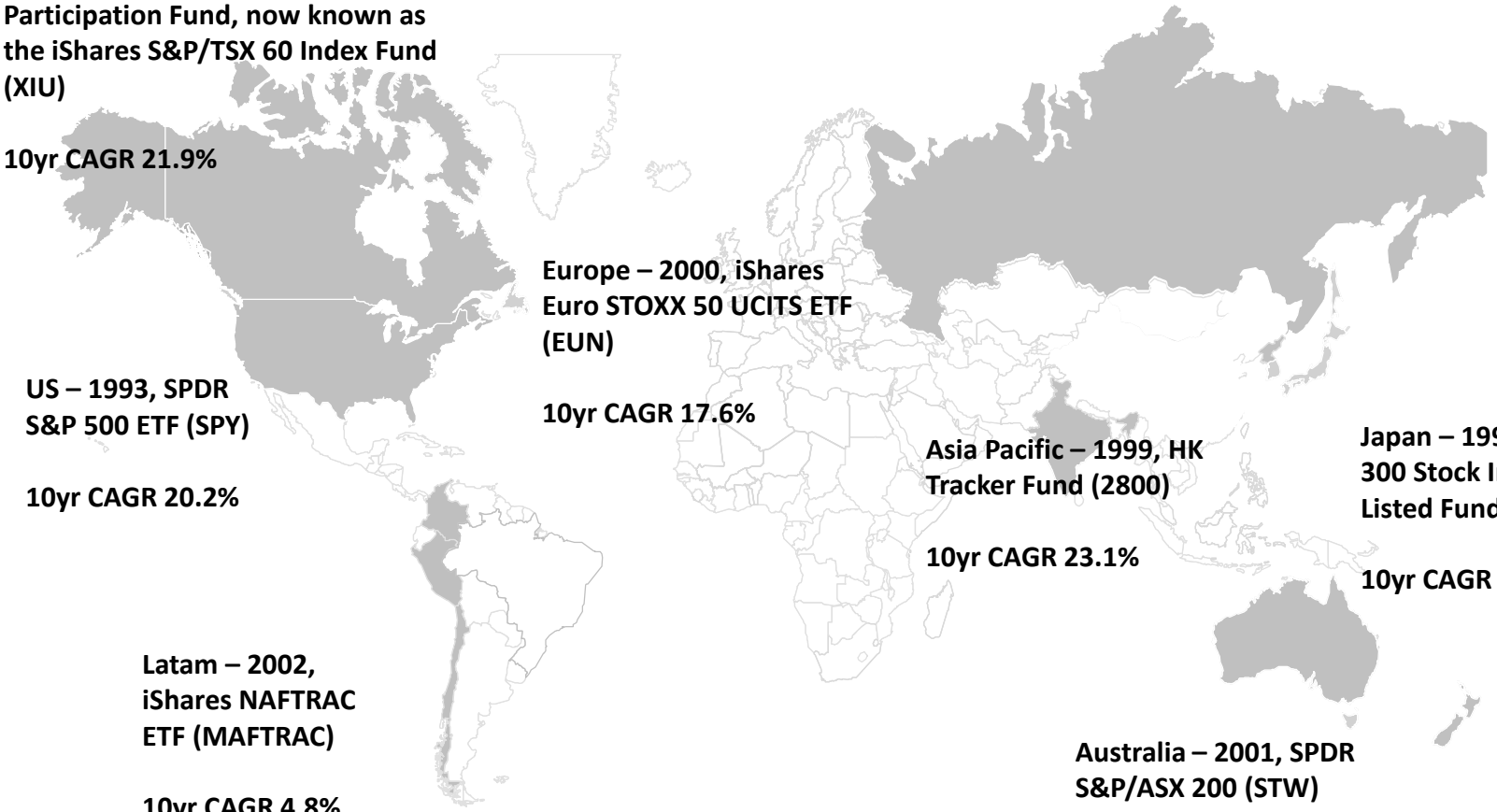
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Jan-19
# ETFs	455	731	1,195	1,622	1,972	2,491	3,033	3,347	3,612	3,989	4,458	4,836	5,292	6,478	6,548
# ETFs/ETPs	485	829	1,423	2,095	2,548	3,400	4,086	4,457	4,751	5,163	5,712	6,143	6,634	7,615	7,680
ETF assets	417	580	807	716	1,041	1,313	1,355	1,772	2,284	2,675	2,899	3,424	4,692	4,685	5,019
ETF/ETP assets	426	603	857	774	1,158	1,478	1,526	1,952	2,403	2,788	2,998	3,553	4,841	4,817	5,160

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.
Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities to ETFs in the way they trade and settle but they do not use a mutual fund structure. The use of other structures including grantor trusts, partnerships, notes and depositary receipts by ETPs can create different tax and regulatory implications for investors when compared to ETFs which are funds.

DIFFERENT RATE OF EVOLUTION – SIMILAR GROWTH RATES

Canada – 1990, Toronto 35 Index Participation Fund, now known as the iShares S&P/TSX 60 Index Fund (XIU)

10yr CAGR 21.9%



US – 1993, SPDR S&P 500 ETF (SPY)

10yr CAGR 20.2%

Europe – 2000, iShares Euro STOXX 50 UCITS ETF (EUN)

10yr CAGR 17.6%

Asia Pacific – 1999, HK Tracker Fund (2800)

10yr CAGR 23.1%

Japan – 1995, Nikkei 300 Stock Index Listed Fund (1319)

10yr CAGR 27.1%

Latam – 2002, iShares NAFTRAC ETF (MAFTRAC)

10yr CAGR 4.8%

Australia – 2001, SPDR S&P/ASX 200 (STW)

10yr CAGR 38.2%

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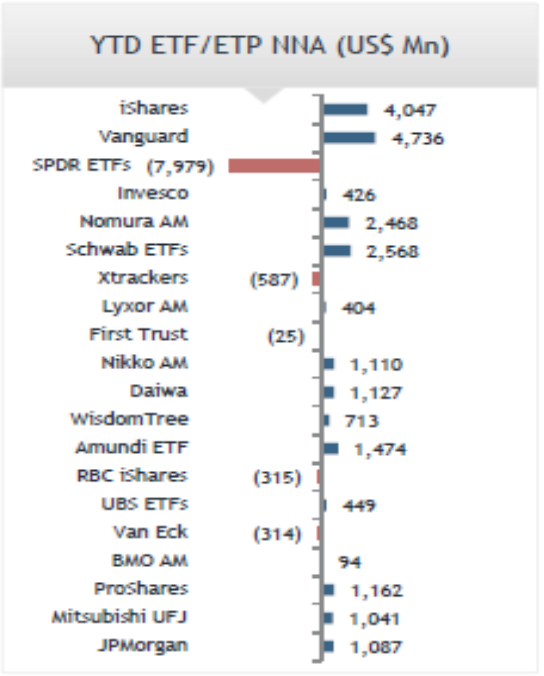
Source: S&P Dow Jones Indices, ETFGI July 2018.

TOP 20 GLOBAL ETP ISSUERS BY ASSETS JAN'19

iShares is the largest ETF/ETP provider in terms of assets with US$1,826,088 Mn, reflecting 35.4% market share; Vanguard is second with US$982,184 Mn and 19.0% market share, followed by SPDR ETFs with US$652,299 Mn and 12.6% market share. The top three ETF/ETP providers, out of 408, account for 67.1% of global ETF/ETP AUM, while the remaining 405 providers each have less than 5% market share.

Provider	# ETFs	Assets (US$ Mn) Jan-19	% market share	ADV (US$ Mn) Jan-19	NNA (US$ Mn) Jan-19	NNA (US$ Mn) YTD 2019	NNA (US$ Mn) YTD 2018	NNA (US$ Mn) 2018
iShares	734	1,826,088	35.4%	37,057	4,047	4,047	28,342	166,614
Vanguard	174	982,184	19.0%	8,313	4,736	4,736	11,206	92,726
SPDR ETFs	258	652,299	12.6%	41,446	(7,979)	(7,979)	29,961	6,649
Invesco	403	214,155	4.1%	8,791	426	426	3,788	6,823
Nomura AM	84	149,634	2.9%	1,386	2,468	2,468	3,520	33,854
Schwab ETFs	22	126,539	2.5%	938	2,568	2,568	2,611	28,478
Xtrackers	272	101,399	2.0%	678	(587)	(587)	2,903	9,584
Lyxor AM	230	73,662	1.4%	699	404	404	(145)	2,707
First Trust	177	67,085	1.3%	646	(25)	(25)	1,502	10,312
Nikko AM	27	66,043	1.3%	20	1,110	1,110	890	11,890
Daiwa	39	64,244	1.2%	30	1,127	1,127	769	14,698
WisdomTree	539	58,115	1.1%	532	713	713	(954)	(5,200)
Amundi ETF	124	49,012	0.9%	412	1,474	1,474	1,136	4,760
RBC iShares	158	48,826	0.9%	567	(315)	(315)	(103)	2,019
UBS ETFs	124	46,586	0.9%	162	449	449	1,958	(638)
Van Eck	95	40,120	0.8%	2,506	(314)	(314)	909	5,505
BMO AM	114	39,422	0.8%	198	94	94	786	4,077
ProShares	141	29,899	0.6%	4,360	1,162	1,162	2,017	1,641
Mitsubishi UFJ	17	27,694	0.5%	7	1,041	1,041	748	5,428
JPMorgan	50	23,533	0.5%	268	1,087	1,087	372	16,759



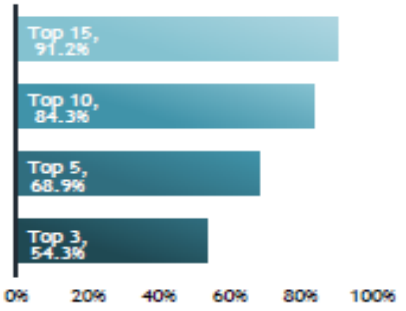
Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional month-end data becomes available. Israel ETP assets and flows are included in the total figures but are not reflected in the provider breakdown.

GLOBAL TOP 20 INDEX PROVIDERS BY ASSETS JAN'19

S&P Dow Jones has the largest amount of ETF/ETP assets tracking its benchmarks with US$1,402 Bn, reflecting 27.2% market share; MSCI is second with US$767 Bn and 14.9% market share, followed by FTSE Russell with US$634 Bn and 12.3% market share.

Provider	# ETFs/ ETPs	Assets (US$ Mn) Jan-19	% market share	ADV (US$ Mn) Jan-19	NNA (US$ Mn) Jan-19	NNA (US$ Mn) YTD 2019	NNA (US$ Mn) YTD 2018	NNA (US$ Mn) 2018
S&P Dow Jones	1,043	1,402,340	27.2%	51,991	(18,394)	(18,394)	41,161	88,103
MSCI	919	767,257	14.9%	15,775	6,851	6,851	26,116	57,838
FTSE Russell	573	634,109	12.3%	11,095	(6,732)	(6,732)	140	53,389
Bloomberg	547	461,129	8.9%	5,633	12,595	12,595	10,411	62,876
CRSP	19	289,867	5.6%	1,559	2,679	2,679	639	30,128
NASDAQ	330	182,172	3.5%	10,255	(167)	(167)	3,573	14,202
TSE	84	178,796	3.5%	73	4,864	4,864	4,600	49,934
ICE	183	162,265	3.1%	4,720	4,102	4,102	449	38,902
Nikkei	75	150,737	2.9%	1,553	1,530	1,530	2,571	21,746
STOXX	365	123,610	2.4%	1,147	(2,158)	(2,158)	4,275	(2,238)
Markit	171	118,948	2.3%	4,080	1,883	1,883	(3,940)	(13,134)
LBMA	56	90,173	1.7%	1,613	2,731	2,731	794	3,307
CSI	177	57,589	1.1%	1,344	(776)	(776)	1,457	20,881
JP Morgan	35	44,587	0.9%	757	4,259	4,259	3,832	7,350
Morningstar	68	44,584	0.9%	295	1,185	1,185	562	14,327
WisdomTree	93	35,205	0.7%	296	(620)	(620)	(839)	(6,815)
Korea Exchange	241	31,025	0.6%	1,129	1,035	1,035	949	9,473
Hang Seng	64	25,688	0.5%	460	(536)	(536)	(712)	(279)
Solactive	163	19,369	0.4%	204	745	745	1,346	4,452
Market Vectors	40	14,001	0.3%	1,530	(256)	(256)	251	518
Other	2,434	326,931	6.3%	3,968	2,532	2,532	8,059	61,071
Total	7,680	5,160,382	100.0%	119,479	17,351	17,351	105,693	516,031

Market share of ETF/ETP assets by index providers



Category	Assets (US$ Mn)	% total
Top 3	2,803,707	54.3%
Top 5	3,554,703	68.9%
Top 10	4,352,283	84.3%
Top 15	4,708,164	91.2%

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available.

How ETFs and Index Mutual Funds work

Each ETF and index mutual fund has a specific investment objective. To achieve that objective, the fund typically builds its index-based portfolio in one of three ways:

Holding all of the securities in the index it has licensed

- Most ETFs and index mutual funds use this approach. Typically these investment products are also weighted in a manner that is consistent with the index weighting.

Holding a representative sampling of the securities

- This might be for strategic reasons or because it's not feasible to purchase all of the components in the index. For example, indices that track thousands of securities, or those that hold some less liquid components may be difficult to replicate. Whatever the reason, the performance of a fund that uses the sampling method may differ from the index performance more than it would with full replication.

Entering into a swap agreement with one or more counterparties

- While this approach provides the same return as the index, it exposes fund holders to the risk that the counterparty may default on its obligation. Clearing the SWAP through a clearing house tends to mitigate the counterparty risk.

ETFs and Index Mutual Funds

ETFs and index mutual funds resemble each other in some basic ways:

- Investors in both ETFs and index mutual funds own shares in a fund, not the individual securities in the fund's portfolio.
- ETFs and index mutual funds typically pass through income from their underlying investments, after expenses and any capital gains from updating their portfolios, to fund shareholders on a proportional basis.
- The intent of each ETF or index mutual fund is typically to replicate the performance of the index it tracks. For example, if the annual return on an underlying index is 10%, the objective of an ETF or mutual fund following the index is, with a few exceptions, to match that 10% return as closely as possible. Of course, if the index loses value, the ETF or index fund's return reflects that loss directly as well.

With an ETF, differences in return, or what is known as tracking error, can result from its fees and from the way the product is structured. Among the most important structural factors that may affect return are:

- Whether dividends are reinvested
- Whether there's a brokerage commission for reinvesting dividends
- Whether the ETF uses derivatives, leverage, or other strategies to enhance return or hedge against losses

Structured Products

A structured product combines two asset classes, such as a short-term note and an index, to create a hybrid that links the interest the note earns to the return of the index.

Interest is paid only at maturity, subject to the terms of the specific product—and the terms typically vary substantially from product to product. Commercial and investment banks issue a variety of index-linked structured products.

Despite their link to an equity index, structured products are typically unsecured debt obligations of the issuer, and therefore subject to credit risk. One exception is an index-linked CD, which, as a bank deposit, can be FDIC-insured. Structured products are not always listed on an exchange, and if they are, they may be thinly traded, so typically there's no readily available secondary market or an accurate way to determine their value.

Structured products may be fairly conservative as well as highly speculative and extremely complex. At one end of the scale, there are structured products that offer principal protection and income generation, though limited return. At the other end, some of the products offer the potential for greater return but at the risk of being exposed to significant leverage.

This variety makes structured products potential diversification tools for high-net-worth investors and asset managers. Structured products are also seen as tools for enhancing returns.

Passive Investing

The index to which an index product is linked determines that product's portfolio.

For example, an ETF linked to the Dow Jones Industrial Average®holds the 30 stocks in that index and seeks to match its performance. That's the fundamental difference between index-based investing and active management. Using an active approach, managers subjectively select securities in an attempt to beat their benchmark indices.

Passive investing has two chief advantages over active management:

- Cost: It's typically expensive to compensate active managers and to pay for the frequent trading costs of their buy and sell decisions.
- Results: Most active managers fail to outperform the market over the long term.

Transparency

An ETF or index-linked mutual fund seeks to replicate the performance of the market its underlying index tracks, by owning either all the securities in that index or a representative sample.

Risk that the ETF or fund will stray far from its stated objective is limited. That can happen, however, with an actively managed fund if the fund buys stocks that aren't consistent with its investment approach, but are selected to bolster its return. The result of this approach, described as style drift, may expose an investor to more risk than they're comfortable taking or to less risk than they're willing to assume to meet investment goals.

Transparency means knowing not only what the ETF or index fund owns but also in what proportion. With index investments, this information is typically publicly available every day.

Transparency means knowing not only what a fund owns but also in what proportion. With index investments, this information is typically publicly available every day. Actively managed funds, on the other hand, are required to report their holdings just four times a year. Between quarterly filings, these funds can hold any securities and in any proportion, so it's entirely possible for funds with very different objectives to own a number of the same securities, especially current strong performers, without ever making that information public. For an investor, this can result in duplicative holdings and loss of diversification, which increases investment risk.

Methodologies

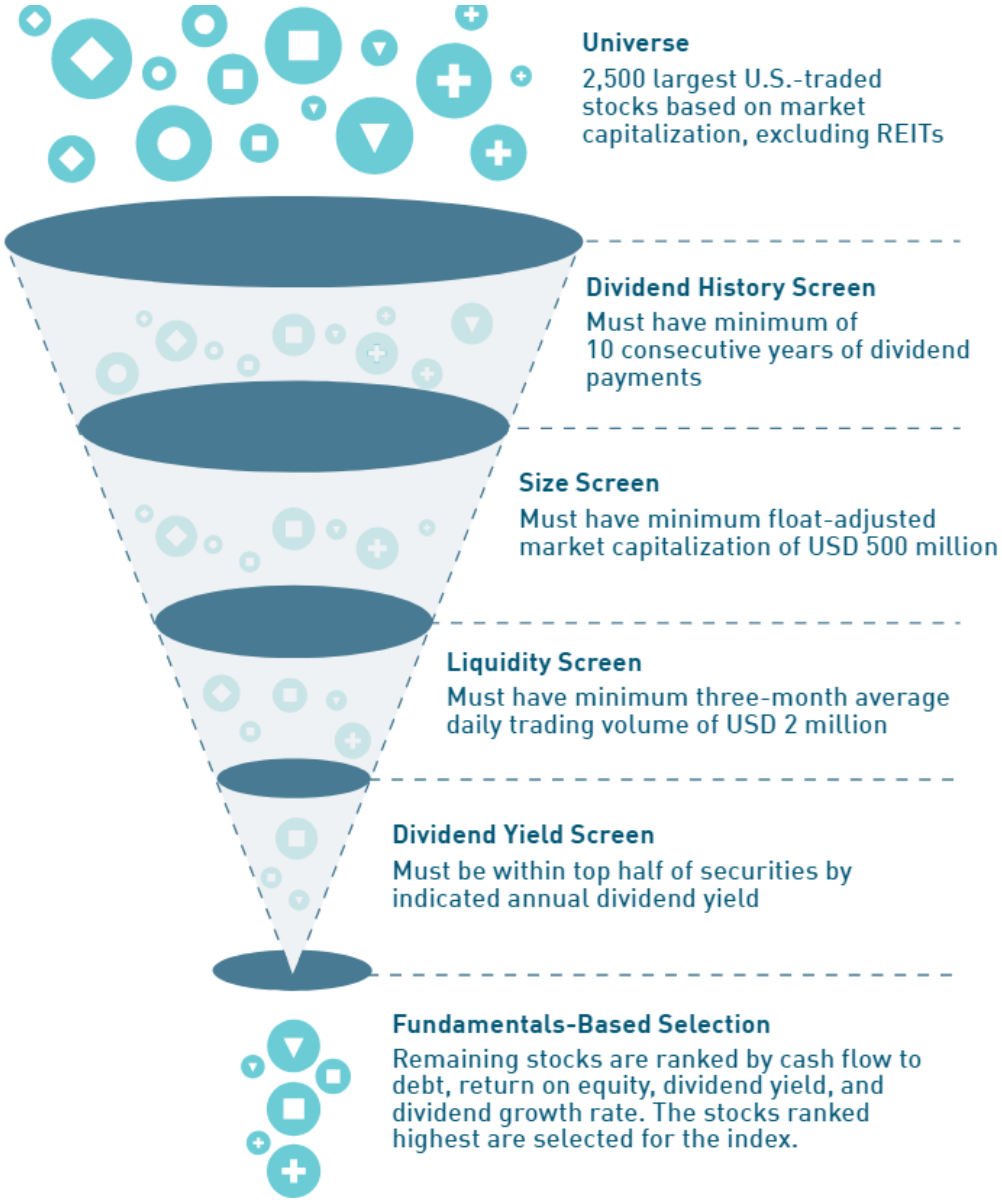
Index methodologies contain the rules that dictate how an index functions and ultimately help to determine how it performs.

The four main components of index methodologies

- Construction: How securities are selected to achieve the index's intended exposure
- Weighting: How index components are weighted relative to one another
- Calculation: How index values and returns are generated
- Review: How the index is maintained on an ongoing basis

Constructing an Index

Making the cut



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Weighting

Once the index components are selected, each asset is assigned a weight that determines the relative influence that security will have on index performance.

To understand how weighting works, consider the Dow Jones Industrial Average®, which uses a very simple weighting method: price weighting. If GE, a constituent of The Dow®, had a share price of USD 35, and the sum of the share prices of all DJIA component stocks was USD 1,500, then the weight of GE in The Dow would be USD 35/USD 1,500 = 2.3%. If Nike, another DJIA component, had a share price of USD 70, it would have a weight of USD 70/USD 1,500 = 4.6%. Because the weight of Nike is twice that of GE, a 10% change in the share price of Nike would have twice the impact on the performance of The Dow that a 10% change in the share price of GE would.

While price weighting is the simplest type of weighting method, it is not commonly used. The more typical weighting methodologies account for factors other than stock prices.

Weighting

MARKET-CAPITALIZATION WEIGHTING

In market-capitalization (market-cap) weighting, component securities are weighted based on their size. The securities with the highest market cap, which is calculated by multiplying the number of shares outstanding by the current market price, have the greatest weight or impact on the value

The security with the smallest market cap has the least weight. The percentage weight each security has in the index can be calculated by dividing the market cap of the individual security by the total market cap of the index.

FLOAT-ADJUSTED MARKET-CAP WEIGHTING

The most typical way of weighting indices is a variation of market-cap weighting known as float-adjusted market-cap weighting. This approach aims to more fairly represent the size of each security based on the number of shares that are readily available for public trading.

In calculating float-adjusted market-cap weightings, any large blocks of non-trading shares are excluded. These non-trading shares typically are held by a company's founders, executives, other controlling interests such as Employee Stock Ownership Plans (ESOPs), company foundations, or government agencies.

EQUAL WEIGHTING

In an equal-weighted index, each security has the same weight, regardless of its market cap. The benefit of an equal-weighted index, when used as the basis of an investment product, is that it will outperform a market-cap weighted index during periods when smaller-cap stocks outperform larger-cap stocks.

FUNDAMENTAL WEIGHTING

In a fundamental weighting system, component securities are weighted using one or more fundamental factors, such as sales or earnings growth, dividend yield, earnings per share, return on equity, or other multiples. Those securities having the highest rating for the relevant factor or factors have the most weight.

FACTOR WEIGHTING

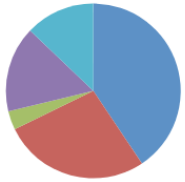
In factor-weighted indices, such as the S&P Pure Style indices, components of a parent index are screened to select securities that can be categorized by a particular attribute. The securities that qualify for inclusion are weighted in proportion to how closely they reflect the desired attribute.

How Does Weighting Impact an Index?

WEIGHTED EQUALLY

If an index is equal-weighted, all component stocks have the same impact on index performance.

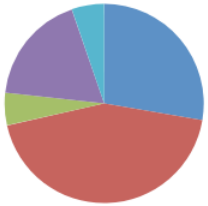
Company
A
B
C
D
E



WEIGHTED BY PRICE

If the index was price-weighted, Company A would have the greatest influence on index performance, because it has the highest stock price.

Company	Stock Price
A	159.08
B	106.48
C	13.61
D	62.22
E	50.37



WEIGHTED BY MARKET CAP

If the index was market-cap weighted, Company B would impact the index performance the most, since it has the largest market capitalization.

Company	Stock Price		Shares Outstanding		Market Capitalization
A	159.08	X	206,240,000	=	$32,808,659,200
B	106.48	X	517,521,740	=	$55,105,714,875
C	13.61	X	439,280,860	=	$5,978,612,505
D	62.22	X	386,234,640	=	$24,031,519,301
E	50.37	X	98,118,740	=	$4,942,240,934

Calculation

Knowing how an index is calculated can help investors understand how it measures market performance.

Index values are calculated and disseminated as frequently as once every second throughout the trading day. Behind each of these index "ticks" is a set of standardized approaches, formulas, and calculations.

Step 1

Each stock's market capitalisation is calculated by multiplying its current price by its number of shares outstanding.

Step 2

The index market capitalisation is calculated by summing the market caps of the constituents.

Step 3

The index value is calculated by dividing the index market capitalization by the index divisor.

Company	Stock Price		Shares Outstanding		Market Capitalization
A	159.08	X	206,240,000.00	=	$32,808,659,200
B	106.48	X	517,521,740.00	=	$55,105,714,875
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D	62.22	X	386,234,640.00	=	$24,031,519,301
E	50.37	X	98,118,740.00	=	$4,942,240,934

Index Market Capitalization		$122,866,746,814
Index Divisor	÷	34,938,376
Index Value	=	3,517

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Types of Return

Equity and fixed income indices are most typically calculated as either price or total return indices. Many indices, including the S&P 500, are calculated both ways.

Price return

In a price-only calculation, the changing value of the index reflects the changing prices of its component securities, or unrealized capital gains and losses. In a total return index, on the other hand, the changing value is determined by a combination of the price changes and reinvested income from dividends or other cash payouts. This means the total return on an equity index in which any of the components pay dividends will always be higher than the price return.

Total return

Calculating the total return of an index differs from calculating the total return of an index-based product, such as a mutual fund, where dividend income is reinvested to buy additional shares. In an index, the dividends become an additional factor in calculating the changing level of the index.

Commodity indices may be calculated as total return or excess return, or as spot indices. For an example of how these return types are calculated, see the S&P GSCI methodology

Types of Indices

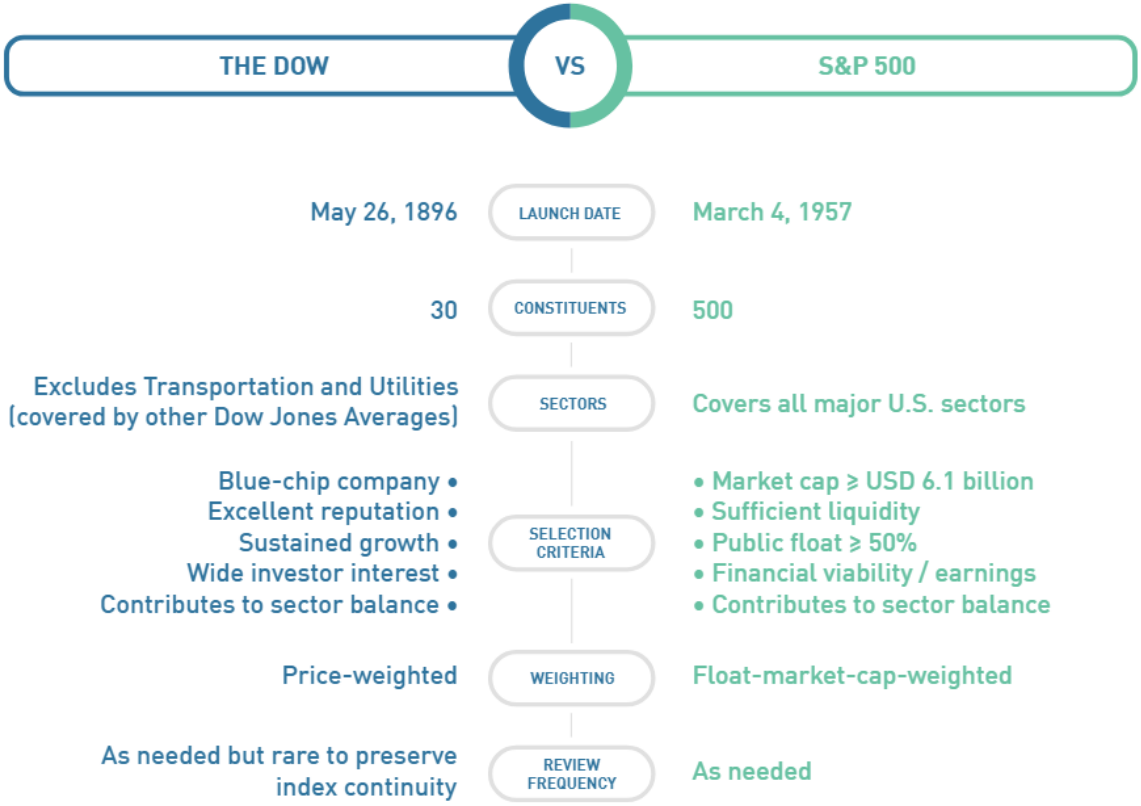
- Equity indices
- Fixed income indices
- Commodity indices
- Strategy indices
- Economic indices

The S&P 500 and The Dow

The Dow Jones industrial average (The Dow) and the S&P 500 are quintessential market benchmarks. Both underlie a number of investment products, are published by S&P Dow Jones Indices, and track the stocks of large U.S. Companies.

Despite these similarities, the two benchmarks are markedly different in a few key ways:

- Stock Selection
- Review Process
- Weighting
- Calculation
- Performance



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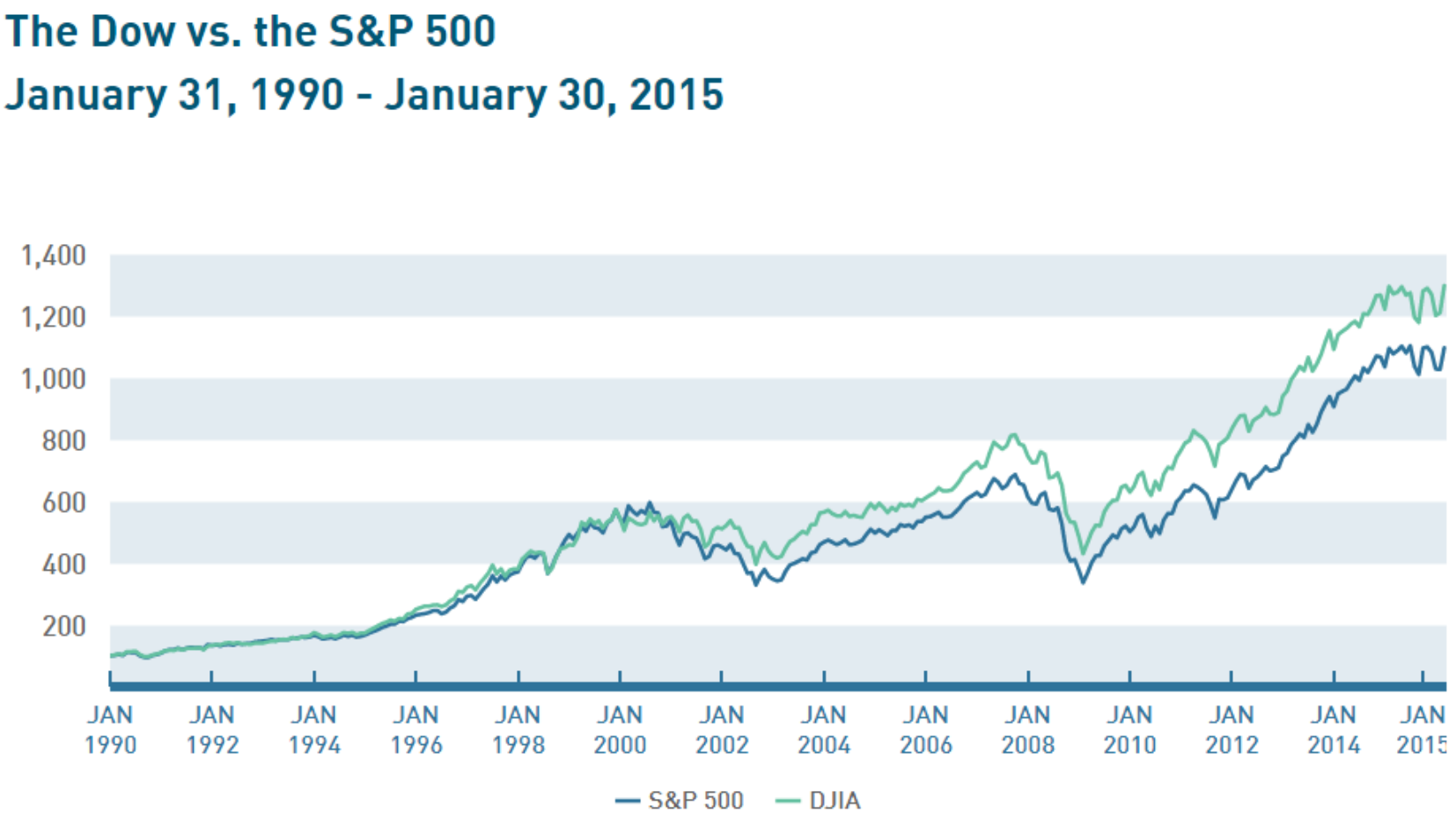
The S&P 500 and The Dow

Performance Comparison



There's no question that The Dow and the S&P 500 differ in some ways. But what they share is infinitely more important: integrity and reliability, plus a history of serving as informative gauges of stock market performance.

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Kuwait Overview

- Kuwait continues to be an important economy in the Middle East region
- Currently classified as a Frontier Market in S&P DJI's Global Benchmark Indices, but has recently taken steps to warrant consideration for a change in classification to Emerging Market status.

Weight in S&P DJI's Global Benchmark Indices

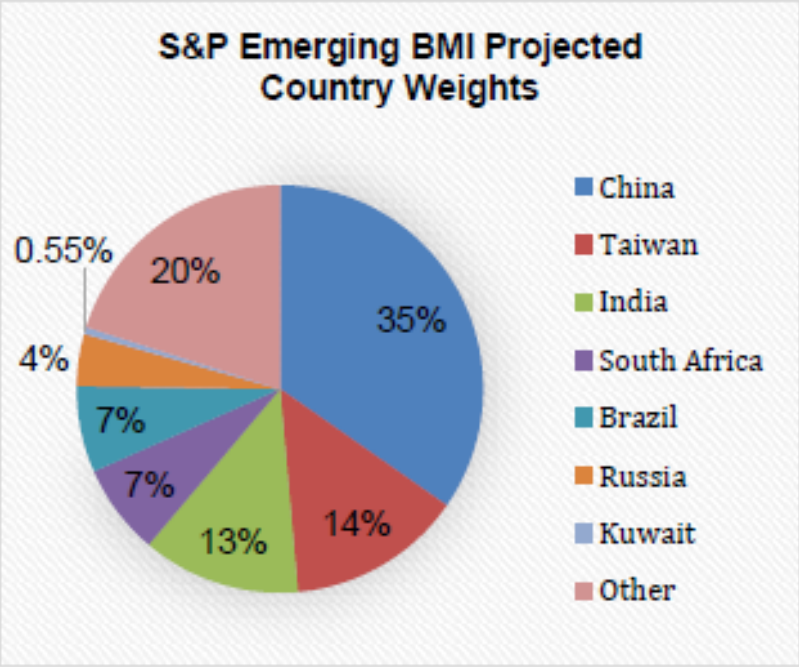
Benchmark Index	Current Weight	Projected Weight
S&P Frontier BMI	13.94%	
S&P Emerging BMI		0.56%

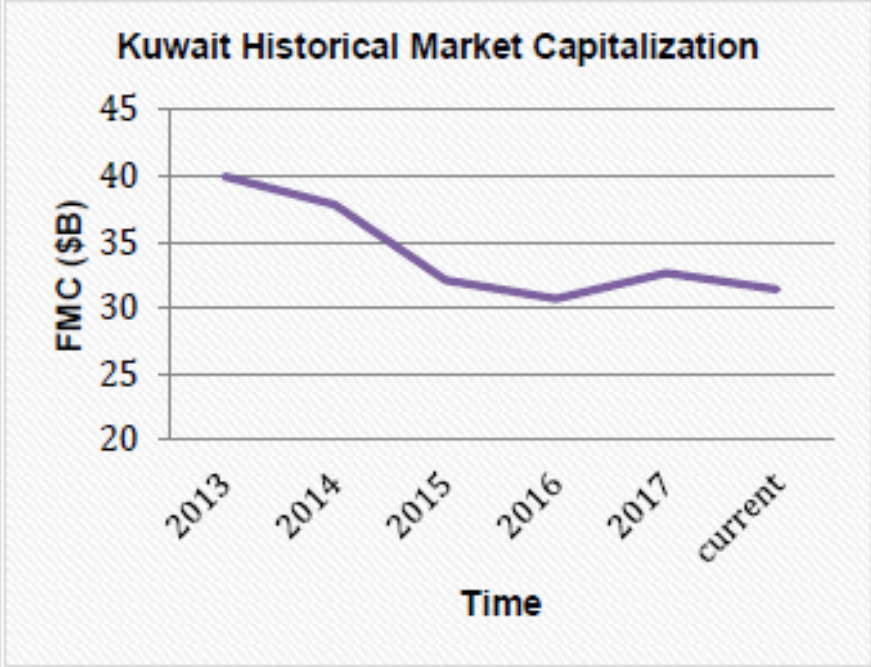
Initial Eligibility Criteria for S&P DJI's Global Equity Indices

Countries must meet a minimum of two of the following three criteria to be considered for inclusion in S&P DJI's Country Indices:

- **Full domestic market capitalization over US$ 2.5 billion.** Market size is important. S&P DJI uses the full market capitalization of an exchange's primary market as its measure. Float-adjusted capitalization is not used, as the availability of float information for smaller markets is not of the required standard. Thus, we do not have consistency of float information across all markets.
- **Annual turnover value over US$ 1 billion.** An exchange must have significant turnover so that trading is unlikely to be characterized by a particular difficulty in trading. S&P DJI ascertains the total value of trading in a market's domestic companies over the calendar year prior to the review.
- **A market development ratio over 5%.** Many countries have very small markets that do not provide a sufficiently robust representation of the domestic market economy. To ensure only markets that have developed sufficiently are used, S&P DJI calculates a "market development ratio" by dividing the full domestic market capitalization of the exchange by the country's GDP at purchasing power parity, sourced from the IMF. To be considered for S&P DJI's Country Indices, this figure must be over 5%.

Kuwait Overview





Five Largest Kuwaiti Stocks by Float-Adjusted Market Capitalization (FMC)	
Company	**FMC ($)**
National Bank of Kuwait	7,301,626,527
Kuwait Finance House	4,555,816,123
Mobile Telecommunications Company	2,882,797,495
Agility	2,182,335,030
Commercial Bank of Kuwait	1,426,602,524

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