

**S&P**  
**INDICES**

# S&P/TSX SMALLCAP

INDEX METHODOLOGY



April 2010

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# Introduction

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The S&P/TSX SmallCap Index provides an investable index for the Canadian small cap market. It includes common stock and income trust units, and is calculated in real-time. The index is also the basis for the S&P/TSX Equity SmallCap Index, which is calculated end-of-day and excludes income trusts.

*For additional information on the S&P/TSX Equity SmallCap Index, please refer to Appendix I.*

## **Partnership**

The S&P/TSX SmallCap Index is calculated and managed by Standard & Poor's. The Toronto Stock Exchange (TSX) is the owner and distributor of all S&P/TSX equity index data.

## **Related Indices**

Standard & Poor's calculates related Canadian indices, listed below, which are covered in separate methodology documents.

- S&P/TSX Composite
- S&P/TSX 60
- S&P/TSX Completion Index
- S&P/TSX Equity Indices
- S&P/TSX Income Trust Indices
- S&P/TSX Capped Sector Indices
- S&P/TSX Canadian Bond Index
- S&P/TSX Venture Composite

# Eligibility Criteria

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Eligibility Criteria are reviewed annually to ensure consistency with market conditions.

*For a list of defined terms used in this document, please refer to Appendix III.*

## **Eligibility Factors**

**Market Capitalization.** To be eligible for inclusion in the S&P/TSX SmallCap, a security must meet the following two criteria:

1. The security must be greater than or equal to C\$ 100 million and less than or equal to C\$ 1.5 billion in both quoted (float-adjusted) market value (QMV) and total market value, based on the volume weighted average price (VWAP) over the last three trading days of the month-end prior to the Annual Review.
2. The security must have a minimum VWAP of C\$ 1 over the last three trading days of the month-end prior to the Annual Review.

*For details regarding float-adjustment methodology, please refer to Appendix II.*

**Liquidity.** A security must meet all of the following criteria to be considered eligible for index inclusion, based on available public information.

1. Dollar value traded of the security must be at least 0.10% of the sum of all Eligible Securities' dollar value traded, for the 12 months immediately preceding its consideration as an index candidate, as determined by trading on the TSX.
2. An index candidate must not have more than 25 non-trading days over the past 12 calendar months. A non-trading day shall be defined as any day where a security does not trade a minimum of one board lot when the TSX is open for trading.
3. The float turnover ratio, as measured by comparing the 12-month trading volume relative to the current float shares, must be at least 0.20. For the purpose of this calculation, the float shares of an issuer that has more than one class of listed common shares are combined. The volume is based on the volume of the eligible class.

*Refer to the Index Construction section for additional information on the treatment of multiple classes of a security.*

**Domicile.** Issuers of Index Securities must be incorporated, established in the case of income trusts, or formed in the case of limited partnerships, under Canadian federal, provincial, or territorial jurisdictions and listed on the TSX.

**Eligible Securities.** Securities issued by mutual fund corporations, preferred shares, exchangeable shares, warrants, installment receipts and other securities deemed inappropriate by the Committee, from time to time, are not eligible for inclusion in the Index. Installment receipts are not eligible for inclusion in the Index, but can be used in lieu of common share trading history. Securities that are “paper-clipped” combinations of equity and debt, and which can be separated by holders, are not eligible. “Stapled” securities, in which a combination of securities trade as one and cannot be broken apart, are eligible for inclusion. (Income Deposit Securities [IDS], Enhanced Income Securities [EIS] and Income participating Securities [IPS] are paper-clipped and, therefore, are ineligible.)

To be included in the Eligible Securities Pool, securities must be listed on the TSX for at least 12 full calendar months as of the month-end prior to the applicable Annual Review.

**Sector Classification.** Stocks are classified by the Global Industry Classification Standard (GICS<sup>®</sup>). The Standard & Poor’s global indices provide geographic and economic balance across the 10 GICS<sup>®</sup> Sectors. These Sectors, consistent across all Standard & Poor’s indices, are Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities.

**Shares Outstanding.** The shares counted for index calculation are issued and outstanding shares of a security (rounded to the nearest thousand). This count is float-adjusted to reflect only shares available to the public.

*For details regarding float methodology, please refer to Appendix II.*

### **Timing of Changes**

**Additions.** Additions to the S&P/TSX SmallCap Index are generally only made as part of the Annual Review.

**Deletions.** A security is removed from the Index at the first practical date following the Committee’s determination that a corporate action has been successful. The target announcement period is two-to-five business days, but exceptions may apply due to unexpected corporate activity.

# Index Construction

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## **Approaches**

The S&P/TSX SmallCap Index is designed to be both representative of the Canadian small cap equity market, and liquid to support investment products such as index mutual funds, exchange traded funds, index portfolios, and index futures and options.

## **Index Calculations**

On any given day, the Index value is the quotient of the total float-adjusted market capitalization of the Index's constituents and its divisor. Continuity in index values is maintained by adjusting the divisor for all changes in the constituents' share capital after the base date. This includes additions and deletions to the Index, rights issues, share buybacks and issuances, and spin-offs. The divisor's time series is, in effect, a chronological summary of all changes affecting the base capital of the Index. The divisor is adjusted such that the Index value at an instant just prior to a change in base capital equals the Index value at an instant immediately following that change.

## **Multiple Classes of Stock**

In the event that a company has more than one class of common shares listed on the TSX, the float shares of each class are combined for the purpose of determining index inclusion. For index calculation, Standard & Poor's uses the price of the largest class, as determined by QMV, and the total number of float-adjusted shares of all listed classes (rounded to the nearest thousand).

In the case of securities that have constrained shares (foreign ownership constraints on a particular class of shares), the calculation of float shares is based on the total issued and outstanding shares of all classes, not on each class separately.

# Index Maintenance

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## Rebalancing

The index is reviewed annually, to be effective on the third Friday in September, and all Index Securities that, in the opinion of the Committee, do not meet the Eligibility Criteria are removed. Securities to be added, if any, are also selected using the Eligibility Criteria.

1. Securities under consideration for addition to or deletion from the Index are assessed by the Committee on the basis of the 12-month data ending August of each year, with respect to trading on the TSX. Publicly available information which pertains to shares outstanding (rounded to the nearest thousand) and Investable Weight Factor's (IWF), up to and including the last business day of August is considered in the Annual Review.

*For details regarding Investable Weight Factors (IWF), please refer to Float Adjustment in Appendix II.*

2. Securities that the Committee determines meet the Eligibility Criteria are added to the Index at the Annual Review. Securities removed from the Index as a result of the Annual Review are not eligible for re-inclusion until the following Annual Review. The Committee may, nevertheless, add a security at an earlier date if, in the opinion of the Committee, the issuer's business has been substantially restructured.
3. Index Securities that the Committee determines fail to meet Eligibility Criteria are removed from the Index at the Annual Review. A press release is issued to the market within the first 10 business days of September, announcing the additions and deletions as well as the new float shares for index calculation.

**Frequency.** Rebalancings occur annually in September. Intra-year changes are made on an as needed basis. Changes occur in response to corporate actions and market developments. The target announcement period is two-to-five business days, but exceptions may apply due to unexpected corporate activity.

**Share Updates.** At the Quarterly Share Update, there are complete share updates for the Index constituents (in March, June, September, and December). This update includes all cumulative changes to shares outstanding of all Index Securities. Changes to control block positions only take place at the annual rebalancing, unless one of the following situations occurs:

1. There is a control block change in an S&P/TSX Composite constituent which is also a constituent of the S&P/TSX SmallCap Index, in which case the change flows through to the S&P/TSX SmallCap Index constituent immediately.

2. For those S&P/TSX SmallCap constituents who are not members of the S&P/TSX Composite, when a change in the control block position is over 5 basis points of the capitalizations of the S&P/TSX SmallCap Index, the change takes place at the following quarterly review.

If a company is added to the S&P/TSX Composite or the S&P/TSX Global Mining Index, its IWF and shares outstanding are subject to review at the time of the addition to the more senior index. Such changes may flow through to the S&P/TSX SmallCap Index.

S&P/TSX Indices implement a share freeze the week of the rebalancing effective date, the third Friday of the last month of each quarter. During this frozen period, shares are not changed except for certain corporate actions events (merger activity, stock splits, rights offerings and certain share dividend payable events). All S&P/TSX SmallCap constituents that announce traditional secondary public offerings, tender offers and Dutch auctions that are scheduled to be effective during the frozen period are announced immediately and implemented on the first Wednesday immediately after the rebalancing effective date.

*For details regarding Investable Weight Factors (IWF), please refer to Float Adjustment in Appendix II.*

### **Corporate Actions**

Changes to the Index caused by a change in one of the Index Securities are implemented on that security's ex-date, or the effective date of the stock adjustment.

1. When the issuer of an Index Security undergoes a reorganization as a result of an asset spin-off, plan of arrangement or the like ("Reorganization"), and where the Committee determines that the resulting entity is the successor of such issuer, the security remains in the Index subject to it continuing to meet the Eligibility Criteria. For the purpose of this exercise, liquidity is measured according to the previous entity's trading statistics. However, the Committee may, nevertheless, evaluate the new entity to ensure that previous trading statistics are representative and adjust these statistics, as it deems appropriate.
2. If a security issued in a distribution resulting from reorganization meets the Eligibility Criteria, it is added to the Index at the first practical date (for the purpose of this exercise, the liquidity requirements in the Eligibility Criteria may be waived), otherwise such security is included in the Eligible Securities Pool.
3. An adjustment is made to the Index for stock dividends paid in kind, stock dividends paid with the securities of an issuer other than the issuer declaring such dividend, rights distributions and cash distributions greater than or equal to 4% of the underlying stock price based on the last traded board lot. The adjustment is made by calculating a value for the distribution and adjusting the last traded board lot price of the affected security by that amount. This change causes the divisor to be adjusted so that the Index value is not impacted by the price change.
4. When an Index Security splits into two new classes or issues, the Committee may determine that one of the new classes or issues remains in the Index, and for this

purpose minimum liquidity requirements may be suspended. The float shares of such security are combined to reflect the float shares of both issues on the date the reclassification becomes effective.

5. In the event that the issuer of an Index Security merges or amalgamates with another entity or entities, the Committee may determine that the security of the resulting entity remains in the Index, subject to meeting the Eligibility Criteria.
6. In the event that the issuer of an Index Security is declared bankrupt, the security is removed from the Index. If the security does not open for trading on the removal date, the Committee shall have complete and sole discretion to set the removal price.
7. A security is removed from the Index at the first practical date following the Committee's determination that a takeover bid for the issuer of such security has been successful.

### **Currency of Calculation**

The S&P/TSX SmallCap Index is calculated in Canadian dollars. Calculation in other currencies and hedged calculations are available from Standard & Poor's on a custom basis.

### **Base Date**

The base date for the S&P/TSX SmallCap Index is November 13, 2001 and the base level is 418.154.

### **Other Adjustments**

1. If Standard & Poor's determines that a control block of at least 10% exists and shares representing the control block are initially removed from the total shares, then issued and outstanding, for the purpose of computing the float-adjusted market capitalization of the security, and (1) the holder(s) of such stock subsequently sell stock from their position to reduce the amount of such stock holding(s) below 10%, then the holding(s) is(are) added back to the float at the next Quarterly Share Update; (2) if the control block(s) subsequently falls below 10% as a result of an increase or increases in the total of such share capital issued and outstanding, then such block(s) are not added back to the float until such time as the holding(s) falls or is reduced to 9% or less, subject to the next Quarterly Share Update. These shares are added back to the float if the control block is still below 10% after six months, subject to the next Quarterly Share Update. The Committee reserves the right to reinterpret public information available and to make changes to the Index based on a new interpretation of that information at its sole and absolute discretion.
2. If the GICS<sup>®</sup> code of an Index Security changes, the Committee shall move it to an appropriate sector and/or industry at the first practical date following the change in the GICS<sup>®</sup> classification.
3. An Index Security that is halted or suspended from trading for five consecutive trading days is subject to review by the Committee.

4. A security is removed from the Index at the first practical date following the Committee's determination that such security has been delisted, become defunct or failed to meet the Eligibility Criteria regarding Domicile and Eligible Securities.

# Index Data

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## **Total Return Indices**

A total return index series is calculated for the S&P/TSX SmallCap Index as well as the price return series.

The total return calculation includes stock dividends paid in kind, stock dividends paid with the securities of an issuer other than the issuer declaring such dividend, rights distributions, and cash distributions less than 4% of the underlying stock price based on the last traded board lot.

A dollar value is calculated for the distribution to be used in the total return index calculation.

# Index Governance

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## **Index Committee**

The S&P/TSX SmallCap Index is maintained by the S&P/TSX Canadian Index Committee (the “Committee”). The Committee is comprised of four members representing Standard & Poor’s and three members representing the Toronto Stock Exchange (“TSX”). The Committee is chaired by a member designated by Standard & Poor’s. Meetings are held monthly, and from time to time, as needed.

The Committee is responsible for setting rules and policies for the S&P/TSX SmallCap Index, determining the composition of the Indices and administering the methodology. In fulfilling its responsibilities, the Committee has full and complete discretion to amend, apply or exempt the application of the methodology and other index policies as circumstances may require, and add, remove or by-pass any security in determining the composition of any of the Indices.

The Committee may rely on any information or documentation submitted to or gathered by it that the Committee believes to be accurate. Where a public document used by the Committee is available in both official languages, the Committee may assume that the contents of both versions are identical. The Committee reserves the right to reinterpret publicly available information and to make changes to the Index based on a new interpretation of that information at its sole and absolute discretion.

In using trading data to determine any matter relating to the S&P/TSX SmallCap Index, including index composition and calculations, the Committee relies solely on data resulting from trading on the TSX.

Index corrections and changes to index composition are implemented at such time and in such manner, as the Committee deems appropriate. The timing of any index change made in response to a correction shall be at the sole and absolute discretion of the Committee.

Standard & Poor’s considers information about changes to its Canadian indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

### **Advisory Panel**

Standard & Poor's maintains an Index Advisory Panel to provide advice to the Index Committee, to Standard & Poor's and to the TSX on index related matters. The Panel meets at the request of the Index Committee to discuss matters related to the use of equity indices in Canada; typically the Panel meets annually. The Index Committee designates members of the Advisory Panel to provide representation of major financial market entities including leading institutional investors, investment banks, brokerage firms and others with an interest in the development of the equity markets in Canada. Meetings of the Advisory Panel are not open to the public or the press; however, the proceedings are not confidential and members are free to discuss them publicly.

# Index Policy

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## **Announcements**

Announcements of additions to and deletions from the S&P/TSX SmallCap Index are generally made at 05:15 PM U.S. Eastern Time. Press releases are posted on the Web site, [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com), and are released to major news services.

In addition, TSX Datalinx offers a fee-based subscription to Index Notices. The Index Notices provide the most detailed and comprehensive coverage of index changes. Complete data for index replication (including share counts, tickers and data on index levels and returns) are also available through TSX Datalinx. In order to subscribe, contact TSX Datalinx at 416-947-4452 or [marketdata@tsxdatalinx.com](mailto:marketdata@tsxdatalinx.com).

## **Holiday Schedule**

The S&P/TSX SmallCap Index is calculated when the Canadian equity market is open.

*A complete holiday schedule for the year is available on the TSX Web site at [www.tsx.com](http://www.tsx.com).*

## **Unscheduled Market Closures**

In situations where the TSX is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's calculates 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 security before the exchange closed. If the exchange fails to open due to unforeseen circumstances, the Index uses the prior day's closing prices or Standard & Poor's may determine not to publish the Index for that day.

# Index Dissemination

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The Toronto Stock Exchange (TSX) serves as the distributor of both real-time and historical index data. In addition, index levels are available on Standard & Poor's Web site at [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com), through major quote vendors (see codes below), through numerous investment oriented Web sites and various print and electronic media.

## **Tickers**

	<b>Bloomberg</b>	<b>Reuters</b>
S&P/TSX SmallCap	SPTSXS	.SPTSES
S&P/TSX Equity SmallCap*	TXES	.GSPTXES

\*The S&P/TSX Equity SmallCap is calculated at end-of-day

# Appendix I

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## **S&P/TSX Equity SmallCap Index Methodology**

The S&P/TSX Equity SmallCap Index is a subset of the S&P/TSX SmallCap Index. The index includes the equity constituents of the S&P/TSX SmallCap. Both are designed to measure the performance of Canadian small cap securities but the S&P/TSX Equity SmallCap excludes income trusts. In addition, the S&P/TSX SmallCap is calculated real-time, while the S&P/TSX Equity SmallCap is only available end-of-day.

Any additions to or deletions from the S&P/TSX SmallCap are also made to the S&P/TSX Equity SmallCap, as applicable.

## Appendix II

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### **Float Adjustment**

**Goals.** Under float adjustment, the share counts used in calculating the indices reflect only those shares that are available to investors, rather than all of a company's outstanding shares. Float adjustment excludes shares closely held by control groups, other publicly traded companies or government agencies.

With a float-adjusted index, the value of the Index reflects the value available in the public markets. Further, reducing the relative investment index investors have in stocks with limited float – stocks that typically are less liquid – should lower the cost of index investing.

**Rules.** The goal is to distinguish strategic shareholders (whose holdings depend on concerns such as maintaining control rather than the economic fortunes of the company) from those holders whose investments depend on the stock's price and their evaluation of the company's future prospects. Shareholders concerned with control of a company include board members, founders and owners of large blocks of stock. Likewise, holdings of stock in one corporation by another corporation are normally for control, not investment, purposes. While government holdings are unusual, normally government holdings are not investments made because a stock is expected to appreciate or the government entity is managing its excess funds through equity investments.

Share owners acting as investors consider changes in the stock's price, earnings or the company's operations as possible reasons to buy or sell the stock. They hold the stock because they expect it to appreciate in value and believe the stock offers better risk and return opportunities than other investments. Further, a sharp rise or fall in the stock's price could be a reason to adjust their positions. Mutual funds, pension plans and other institutional investors are usually in this category. The fact that an institutional investor has held a block of shares for several years is not evidence that the block is being held for control, rather than investment, reasons.

Standard & Poor's defines three groups of shareholders whose holdings are presumed to be for control and which are, therefore, subject to float adjustment. Within each group, the holdings are totaled. In cases where holdings in a group exceed 10% of the outstanding shares of a company, the holdings of that group are excluded from the float-adjusted count of shares used in index calculations.

The three groups are:

1. Holdings by other publicly traded corporations, venture capital firms, private equity firms, strategic partners or leveraged buy-out groups.
2. Holdings by government entities, including all levels of government in Canada or foreign countries.
3. Holdings by current or former officers and directors of the company, founders of the company, or family trusts of officers, directors or founders. Second, holdings of trusts, foundations, pension funds, employee stock ownership plans or other investment vehicles associated with and controlled by the company.

It is also useful to identify holders that are considered to be investors and not strategic holders. Mutual funds, investment advisory firms, pension funds or foundations not associated with the company and investment funds in insurance companies are part of float. At times data shows that these investors hold positions for several years with virtually no change. This is not evidence that the holding is not for investment purposes; rather it merely suggests that the portfolio manager continues to see the stock as a good investment. Further, when the stock is held in an index fund, one would not expect to see substantial changes in the holdings.

A company's annual report or proxy may include listings of some equity-like securities that are not included in total shares outstanding and need not be considered in calculating available float. These include treasury stock, stock options, restricted shares, equity participation units, warrants, preferred stock, convertible stock and rights.

In a few cases, a company's ultimate shareholders may be beneficiaries of a trust which holds their stock. (Examples usually include cases in which shares were distributed as part of the initial public offering.) If the trust beneficiaries can buy and sell the stock without any difficulty or significant additional expenses beyond typical brokerage fees, the shares in a trust are part of the available float. If the shares in a trust cannot be sold, the shares would not be counted as part of the available float.

### **Investable Weight Factors (IWF)**

For each stock an IWF is calculated:

$$IWF = (\text{available float shares})/(\text{total shares outstanding}) \quad (1)$$

where available float shares is defined as total shares outstanding less shares held in one or more of the three groups listed above, where the group holdings exceed 10% of the outstanding shares.

The float-adjusted index is calculated:

$$Index = \frac{\sum_j (P_j S_j IWF_j)}{Divisor} \quad (2)$$

Where  $P_j$  is the price of stock  $j$ ,  $S_j$  is the total shares outstanding of stock  $j$  and  $IWF_j$  is the investable weight factor. The divisor is the Index divisor.

# Appendix III

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## Defined Terms

1. “Annual Review” refers to an annual rebalancing of the Index, which occurs in the month of September. Additions to and deletions from the Index are made at this time. In addition, outstanding shares and investable weight factors are adjusted as per the Quarterly Share Update. These updates are announced at the same time as the Quarterly Review adds and deletes. All additions, deletions and share changes are effective after the close of trading on the third Friday of September.
2. “Eligible Securities” are securities that pass the Eligibility Criteria.
3. “Eligible Securities Pool” means those securities that are eligible for inclusion in the S&P/TSX SmallCap Index.
4. “Global Industry Classification Standard (GICS<sup>®</sup>)” is a set of global sector and industry definitions that is jointly managed by Standard & Poor’s and MSCI Barra.
5. “Index Securities” means those securities comprising the Index.
6. “Relative Weight” of an index constituent is that constituent’s percentage of the total index QMV;  $\text{Relative Weight} = 100 \times (\text{Constituent QMV} / \text{Index QMV})$ .
7. “QMV” means quoted market value, being the value determined by multiplying the number of float shares of a security by the price for one such float share.
8. “Quarterly Share Update” refers to a quarterly share update of the Index, which occurs in the months of March, June, September and December. This update includes all cumulative changes to shares outstanding and investable weight factors during the quarter. Publicly available information up to and including the effective date of the Quarterly Share Update is included. All share changes are effective after the close of trading on the third Friday of the Quarterly Share Update month. Outstanding shares are rounded to the nearest thousand.

# S&P Contact Information

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provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

Analytic services and products provided by Standard & Poor's are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process.