

S&P
INDICES

S&P/TSX PREFERRED SHARE INDEX

INDEX METHODOLOGY



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Introduction

The S&P/TSX Preferred Share Index is designed to serve the investment community's need for an investable benchmark representing the Canadian preferred stock market.

Highlights

The index is comprised of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating, and exchange listing.

The index is based on a market capitalization weighted scheme and calculated by the divisor methodology used in Standard & Poor's equity indices.

The index is rebalanced on a quarterly basis; changes are effective after the close of trading on the third Friday of January, April, July and October. Corporate actions such as maturity, conversion, calls and delistings are treated according to a set of rules further defined in this document.

The data reference date for additions to and deletions from the index is the last trading date of the month immediately preceding the rebalancing month.

Eligibility Criteria

Index Eligibility

The index is comprised of preferred stocks trading on the Toronto Stock Exchange that meet criteria relating to size, liquidity, and issuer rating.

Eligibility Factors

Exchange Listing. Preferred stocks trading in Canadian dollars on the Toronto Stock Exchange are eligible for inclusion.

Type of Issuance. Preferred stocks issued by a company to meet its capital or financing requirements are eligible. These include floating and fixed rate preferreds, cumulative and non-cumulative preferreds, preferred stocks with a callable or conversion feature, and trust preferreds. Split preferreds, which are packaged securities linked to baskets of stocks, are not included.

Inclusion Criteria

Maturity or Conversion Schedule. Preferred stocks that do not have a mandatory conversion or scheduled maturity within the next 12 months are eligible.

Market Capitalization. The preferred stocks must have total market capitalization of more than C\$ 100 million as of the rebalancing reference date.

Volume. The preferred stocks must have a minimum trailing three-month average daily value traded of C\$ 200,000 as of the rebalancing reference date

Rating. Preferred stocks must have a minimum rating of P-3 or its equivalent by Standard & Poor's, Dominion Bank Ratings Service or Moody's Investor Service.¹ If more than one of the ratings agencies has issued a rating on the stock, the lowest rating is used to determine eligibility.

Indicated Yield. Preferred stocks for which Standard & Poor's cannot determine an indicated annual dividend yield are not eligible.

Different Lines of the Same Issuer. There is no limit to the number of lines of a single company's preferred stock allowed in the index; however, a maximum weight of 10% is

¹ The index was launched in April 2007. Prior to that time, the index was back tested using Standard & Poor's ratings only.

set per issuer. All eligible lines for an issuer are included in the index and capped on a pro rata basis to a maximum of 10% by issuer of the index market capitalization.

Exclusion Criteria

Market Capitalization. Preferred stocks with total market capitalization of less than US\$ 100 million as of the rebalancing reference date are excluded from the index.

Volume. The preferred stocks with a minimum trailing three-month average daily value traded of less than C\$100,000, as of the rebalancing reference date, are excluded from the index.

Rating. Preferred stocks that do not have a minimum rating of P-3 or its equivalent by Standard & Poor's, Dominion Bank Ratings Service or Moody's Investor Service are excluded from the index.² If more than one of the ratings agencies has issued a rating on the stock, the lowest rating is used to determine eligibility.

Indicated Yield. Preferred stocks for which Standard & Poor's cannot determine an indicated dividend yield as of the rebalancing reference date are excluded from the index.

Note: While the inclusion criteria explicitly excludes issues that have a mandatory conversion or scheduled maturity within 12 months of the rebalancing effective date, no such rule exists for continued membership.

Timing of Changes

Index rebalancing occurs quarterly after the close of the third Friday in January, April, July and October. The reference date for additions to and deletions from the index is the last trading date of the month immediately preceding the rebalancing month.

Additions. Additions occur only at the quarterly rebalancings. There are no intra-period additions.

Deletions. A constituent is deleted intra-period if it is called or undergoes mandatory conversion or redemption. Index constituents are also deleted if the constituents no longer meet eligibility requirements at the quarterly rebalancing.

² The index was launched in April 2007. Prior to that time, the index was back tested using Standard & Poor's ratings only.

Index Construction

Approaches

The index is based on a market capitalization weighted scheme and calculated by the divisor methodology used in Standard & Poor's equity indices.

Index Calculations

The initial divisor is set to have a base index value of 975.14 on July 19, 2002. For an N stock index, the index value is simply the index market value divided by the index divisor.

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

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

The index does not have a fixed number of stocks, so N varies from time to time. At each rebalancing, index shares are set to equal each constituent's outstanding shares as of the reference date multiplied by an adjustment factor (AF).

$$(\text{Index Shares})_{i, \text{ after rebalancing}} = \text{Modified Outstanding Shares}_i \quad (3)$$

Modified Outstanding Shares are the outstanding shares for the stock, except for certain large issuers where the combined weight of all issues by issuer are reduced so that their combined initial weight in the index falls to 10%. All other issuer weights are increased proportionately.

At each rebalancing, in order to maintain index series continuity, it is necessary to adjust the divisor.

$$(\text{Index Value})_{\text{ before rebalancing}} = (\text{Index Value})_{\text{ after rebalancing}} \quad (4)$$

Therefore,

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

Please refer to the S&P Index Mathematics document for more details. This index closely resembles market capitalization weighted indices discussed in that document.

Index Maintenance

Rebalancing

Index membership is reviewed quarterly. Rebalancing occurs after the close on the third Friday of January, April, July and October. The reference date for additions to and deletions from the index is after the last trading date of the month immediately preceding the rebalancing month.

Base Date

The indices base dates are July 19, 2002. The base value, for the price return and total return series, on that date is 975.14 and 975.01, respectively.

Historical daily returns are available beginning on July 19, 2002.

Corporate Actions

Corporate Action	Adjustment Made to Index	Divisor Adjustment?
Shares called for cash or par value	If the issuer calls a constituent, it is removed from index after the close of the call date, or the first trading date of the call period, at the closing price. Note that the issuer may choose not to call, in which case no change is necessary.	Yes
Shares called for conversion or automatically converted	The constituent is removed from the index after the close of the conversion date, or the first trading date of the conversion period, at the closing price. If the issuer chooses not to invoke the right to convert and conversion is not automatic, no change is necessary.	Yes
Delisting from the Toronto Stock Exchange	The constituent is removed at the closing price of the delisting date. (If required, a constituent may be removed at zero price.)	Yes
Special cash distribution	The price of the stock making the special payment is reduced by the per share special payment amount after the close of trading on the day before the ex-date.	Yes
Rights offering on the preferred share class (Rare occurrence)	The price is adjusted to the Price of Parent shares minus (Price of Rights shares/Rights Ratio).	Yes

Corporate Actions (continued)

Corporate Action	Adjustment Made to Index	Divisor Adjustment?
Preferred Stock Split (Rare occurrence)	Index Shares are multiplied by and the price is divided by the split factor.	No
Issuance of additional shares for the preferred share class in the index (Rare occurrence)	None. Shares are revised at the rebalancing.	No

Index Data

Total Return Index

The index has a total return counterpart, which assumes dividends are reinvested in the index after the close on the ex-date. On any given date t :

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

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

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

Index Governance

Index Committee

The S&P/TSX Index Committee maintains the S&P/TSX Preferred Share Index. 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 05:15 PM Eastern Time.

Holiday Schedule

The index is calculated when the Canadian equity markets are open.

A complete holiday schedule for the year is available on TSX Web site at www.tsx.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 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 stock before the exchange closed. In all cases, the prices are from the primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, the index uses 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	Bloomberg	Reuters
S&P/TSX Preferred Share Index	TXPR	.GSPTXPR

FTP

Daily stock level and index data is available from the Toronto Stock Exchange on subscription. Please contact Market Data at 416-947-4452 or, by email, at marketdata@tsxdatalinx.com.

For further information, please refer to the TSX Web site at www.tsx.com

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