

S&P/ASX Emerging Companies Index Consultation on Eligibility & Weighting

SYDNEY, MAY 15, 2024: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P/ASX Emerging Companies Index to better capture the emerging companies, or ‘microcap’, segment, as well as align with the wider S&P/ASX Indices.

S&P DJI proposes lifting the eligibility thresholds for minimum size and liquidity, as well as align the calculation to that of the broader S&P/ASX Index Series, using float-adjusted market capitalization (FMC) and median daily value traded (MDVT) liquidity metrics.

The proposal also includes eliminating overlap with the S&P/ASX 300 (which includes the S&P/ASX Small Ordinaries) to create a distinct, modular microcap segment.

The table below summarizes the proposed changes:

Proposed Changes	Current Methodology	Proposed
<p>Eligibility Factors: Market Capitalization</p>	<p>Market Capitalization. Securities that comprise the index are defined by a market capitalization range which is set by ranking the total market capitalization for each eligible constituent.</p> <p>Stocks are included in the index if they meet minimum and maximum size requirements. Stocks are included if they fit within the following ranking parameters based upon a six-month average total market capitalization at the rebalancing date: • < 350th and > 600th</p> <p>For example, all else being equal, a stock ranked at 450, based on a six-month average total market capitalization, is eligible for inclusion.</p> <p>Stocks are excluded from the index when they fall outside the following ranking parameters based on six-month total market capitalization at the rebalancing date: • > 300th and < 650th</p> <p>For example, all else being equal, a stock ranked either 280th or 700th, based on a six-month average total market capitalization, will not be eligible for the index at the rebalancing.</p> <p>The process above employs a buffer that meets the objective of limiting the extent of portfolio turnover at each rebalancing.</p>	<p>As of the rebalancing reference date, for the Emerging Companies Index, securities must rank within the top 500 companies (current constituents 525) by six-month float-adjusted market capitalization (FMC).</p> <p>In addition, stocks must not be a constituent of the S&P/ASX 300 or have a total market capitalization (TMC) representative of the stock's global equity capital larger than A\$ 1,000,000,000 (current constituents A\$1,200,000,000).</p>

Proposed Changes	Methodology	
	Current	Proposed
Eligibility Factors:	Liquidity. Stocks are eligible for the index if they meet a minimum six-month daily trading average of A\$ 200,000. At the rebalancing, stocks are excluded if the six-month daily average trade minimum is less than A\$ 75,000.	Liquidity. Stocks must have a minimum six-month daily trading median of A\$ 300,000 (current constituents A\$ 125,000) . If there are fewer than 50 constituents, relax the liquidity criteria for new constituents by 20% until the minimum count of 50 is reached. In such circumstances, stocks must only meet a minimum six-month daily trading median of A\$ 240,000 (current constituents A\$ 80,000) .
Liquidity		

The S&P/ASX Emerging Companies Index will continue to use an FMC-weighted approach.

IMPACT ANALYSIS

The hypothetical impact analysis below applies the proposed changes using data as of the March 2024 semi-annual rebalance. Please refer to the file [here](#) for a detailed hypothetical impact analysis.

Constituent Count

If the proposed changes are implemented, the stock count would be reduced from 158 to 78. Companies removed from the index either fail to meet the proposed minimum size and liquidity thresholds or are part of the S&P/ASX 300. The index would have a 76.06% overlap by constituent weight with the existing S&P/ASX Emerging Companies Index.

Segment Composition

The below table outlines the sector difference of the S&P/ASX Emerging Companies Index following a hypothetical implementation of the proposed changes as of the March 2024 rebalance.

Sector	S&P/ASX Emerging Companies Index	Sector Weights After Proposed Changes	Difference
Communication Services	4.46%	6.00%	1.54%
Consumer Discretionary	10.87%	7.73%	-3.14%
Consumer Staples	0.30%	0.00%	-0.30%
Energy	8.54%	4.14%	-4.40%
Financials	6.15%	11.49%	5.34%
Health Care	13.96%	13.97%	0.02%
Industrials	9.25%	15.16%	5.91%
Information Technology	10.40%	11.16%	0.76%
Materials	29.41%	26.23%	-3.18%
Real Estate	5.36%	4.11%	-1.25%
Utilities	1.31%	0.00%	-1.31%

Overlap with S&P/ASX 300

The eligibility criteria for the S&P/ASX Emerging Companies Index results in some overlap where it is possible for constituents to also be eligible for the S&P/ASX 300 (and thus S&P/ASX Small Ordinaries Index). The proposed changes will exclude companies which are included in the S&P/ASX 300. At the March 2024 rebalance there were 17 constituents of the S&P/ASX Emerging Companies index which are also in the S&P/ASX 300, at a combined index weight of 19.86%.

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Liquidity

The proposed changes will broadly improve index liquidity, although given S&P/ASX 300 companies are excluded, the liquidity improvements are minimal.

Number of days to breach 95% traded of A\$100m capital (at 20% of six-month MDVT)

	S&P/ASX Emerging Companies Index	Index After Proposed Changes
March 2022	15	11
September 2022	17	16
March 2023	29	>30
September 2023	30	29
March 2024	29	>30

For more information on the S&P/ASX Indices, please refer to the S&P/ASX Australian Indices Methodology available [here](#).

Additional data and analysis may be made available in the Client Resource Center www.spglobal.com/spdji/en/client-services/, which may be updated from time to time throughout the consultation without notice. Additional data and analysis may also be made available upon request.

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, prior to the market open on **Monday, September 23, 2024**, in conjunction with the September semi-annual rebalancing.

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers:

1. Do you agree with the proposed changes to the size eligibility factors (FMC ranked with a TMC cut-off)?
2. Do you agree with the proposed changes to the liquidity eligibility factors?
3. Do you agree with excluding constituents of the S&P/ASX 300 Index?
4. If any of the proposed changes are adopted, do you agree with the proposed implementation date?
5. Do you have any other comments or feedback regarding the proposed changes outlined above?

Participation in this consultation is important as S&P DJI gathers information from various market participants to properly evaluate market participants' views and preferences. Please respond to this survey by **June 12, 2024**, as S&P DJI does not accept responses post the survey closure date. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

To participate in this consultation, please visit the online survey available [here](#).

Please be advised that S&P DJI reviews and considers all feedback before a final decision is made. However, S&P DJI makes no guarantees nor is under any obligation to comply with any of the responses. The consultation may result in no changes or outcome of any kind. If S&P DJI decides to

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change the index methodology, the change(s) will be announced to clients and posted to the S&P DJI website with prior notice ahead of the effective date.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spglobal.com/spdji.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average®. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

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