

## Select Sector Indices Consultation on Constituent Weightings Calculations – Updated

**NEW YORK, AUGUST 8, 2024:** S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the Select Sector Indices’ constituent weightings rules to adjust the quarterly capping process that aligns constituent weights with the regulatory diversification rules applicable to investment products tracking these indices.<sup>1</sup>

The table below summarizes the proposed change.

Change	Methodology	
	Current	Proposed
Constituent Weightings	<p>Each index is capped market capitalization weighted. For capping purposes, the indices are rebalanced quarterly after the close of business on the third Friday of March, June, September, and December using the following procedures:</p> <ol style="list-style-type: none"> <li>1. The rebalancing reference date is the second Friday of March, June, September, and December.</li> <li>2. With prices reflected on the rebalancing reference date, adjusted for any applicable corporate actions, and membership, shares outstanding and IWFs as of the rebalancing effective date, each company is weighted by FMC. Modifications are made as defined below.</li> <li>3. If any company has an FMC weight greater than 24%, the company’s weight is capped at 23%, which allows for a 2% buffer. This buffer is meant to mitigate against any company exceeding 25% as of the quarter-end diversification requirement date.</li> <li>4. All excess weight is proportionally redistributed to all uncapped companies within the relevant index.</li> <li>5. After this redistribution, if the FMC weight of any other company breaches 23%, the process is repeated iteratively until no company breaches the 23% weight cap.</li> <li>6. The sum of the companies with weights greater than 4.8% cannot exceed 50% of the total index weight. These caps are set to allow for a buffer below the 5% limit.</li> <li>7. If the rule in step 6 is breached, rank all companies in descending order by FMC weight, and reduce the weight of the smallest company whose weight is greater than 4.8% that causes the step 6 breach to 4.5%. This process continues iteratively until step 6 is satisfied.</li> </ol> <p>Index share amounts are assigned to each constituent to arrive at the weights calculated above. Since index shares are assigned based on prices one week prior to rebalancing, the actual weight of each constituent at the rebalancing differs somewhat from these weights due to market movements.</p> <p><i>For more information on the index calculation methodology, please refer to the Capped Market Capitalization Weighted Indices section of <a href="#">S&amp;P Dow Jones Indices’ Index Mathematics Methodology</a>.</i></p> <p>At times, companies may be represented in the Select Sector Indices by multiple share class lines. Maximum weight capping is based on company FMC, with the weight of multiple class</p>	<p>Each index is capped market capitalization weighted. For capping purposes, the indices rebalance quarterly after the close of business on the third Friday of March, June, September, and December using the following procedures:</p> <ol style="list-style-type: none"> <li>1. The rebalancing reference date is the second Friday of March, June, September, and December.</li> <li>2. With prices reflected on the rebalancing reference date, adjusted for any applicable corporate actions, and membership, shares outstanding, and IWFs as of the rebalancing effective date, each company is FMC weighted.</li> <li>3. If any company has an FMC weight greater than 24%, cap all companies’ weights at 23%, which allows for a 2% buffer.</li> <li>4. The sum of the companies with weights greater than 4.8% cannot exceed 50% of the total index weight. These caps are set to allow for a buffer below the 5% limit.</li> <li>5. If the rule in Step 4 is breached, <b>set the weight of companies &gt; 4.8% equal to</b> <math display="block">W_i^{Capped} = \max \left( \frac{45\% \times W_i}{\sum_i^N W_i}, 4.5\% \right)</math> <p>where:</p> <ul style="list-style-type: none"> <li>• <b>N</b> is the total number of companies with index weight over 4.8%, after checking the single company cap.</li> <li>• <b>W<sub>i</sub></b> is the index weight of the <b>N</b> companies with individual company weight over 4.8%, after checking the single company cap.</li> <li>• <b>Set 4.5% and 45% caps to allow for a buffer below the 5% limit.</b></li> </ul> </li> <li>6. <b>Proportionally redistribute the excess weight from Steps 3 to 5 to companies with an initial weight &lt; 4.8%, setting a 4.5% upper bound on the companies’ index weight.</b></li> <li>7. Assign index share amounts to each constituent to arrive at the weights calculated above. Since index shares are assigned based on prices one week prior to rebalancing, the actual weight of each constituent at the rebalancing differs somewhat from these weights due to market movements.</li> </ol>

<sup>1</sup> For more information on the United States Internal Revenue Code (the “Code”) and the Investment Company Act of 1940 (the “40 Act”), please refer to the Regulatory Capping Requirements section of the [S&P Dow Jones Indices’ Equity Indices Policies & Practices Methodology](#).

Change	Methodology	
	Current	Proposed
	<p>companies allocated proportionally to each share class line based on its FMC as of the rebalancing reference date. If no capping is required, both share classes remain in the index at their natural FMC weight.</p> <p><i>For more information on the capping thresholds, please refer to the Regulatory Capping Requirements section of <a href="#">S&amp;P Dow Jones Indices' Equity Indices Policies &amp; Practices Methodology</a>.</i></p>	<p><i>For more information on the index calculation, please refer to the Capped Market Capitalization Weighted Indices section of <a href="#">S&amp;P Dow Jones Indices' Index Mathematics Methodology</a>.</i></p> <p>At times, companies may be represented in the Select Sector Indices by multiple share class lines. Maximum weight capping is based on company FMC, with the weight of multiple class companies allocated proportionally to each share class line based on FMC as of the rebalancing reference date. If no capping is required, both share classes remain in the index at their natural FMC weight.</p> <p><i>For more information on capping thresholds, please refer to the Regulatory Capping Requirements section of <a href="#">S&amp;P Dow Jones Indices' Equity Indices Policies &amp; Practices Methodology</a>.</i></p>

In addition, if the preference is to keep the current capped market capitalization weighting scheme at the quarterly rebalance, S&P DJI proposes changes to the secondary rebalance mechanism to help mitigate potential turnover.

Change	Methodology	
	Current	Proposed
Secondary Reweighting Check	<p>If, on the second to last business day of March, June, September, or December a company has a weight greater than 24% or the sum of the companies with weights greater than 4.8% exceeds 50%, a secondary rebalancing will be triggered with the rebalancing effective date being after the close of the last business day of the month. This secondary rebalancing will use the closing prices as of the second to last business day of March, June, September, or December, and membership, shares outstanding, and IWFs as of the rebalancing effective date.</p>	<p>If, on the second to last business day of March, June, September, or December, a company has a weight greater than 24% or the sum of the companies with weights greater than 4.8% exceeds 50%, a secondary rebalancing is triggered, with a rebalancing effective date as of after the close of the last business day of the month. This secondary rebalancing uses <b>capped index weights</b> as of the second to last business day of March, June, September, or December, and membership, shares outstanding, and IWFs as of the rebalancing effective date.</p>

For additional information about the indices, please refer to the [S&P U.S. Indices Methodology](#).

## IMPACT ANALYSIS

For additional information on the historical impact of the proposed changes, please refer to the file available [here](#).

Additional data and analysis may be made available in the Client Resource Center [www.spglobal.com/spdji/en/client-services/](http://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.

## IMPACTED INDICES

Index Name	Index Code
Communication Services Select Sector Index	IXC
Consumer Discretionary Select Sector Index	IXY
Consumer Staples Select Sector Index	IXR
Energy Select Sector Index	IXE
Financial Select Sector Index	IXM
Health Care Select Sector Index	IXV
Industrials Select Sector Index	IXI
Materials Select Sector Index	IXB
Real Estate Select Sector Index	IXRE
Technology Select Sector Index	IXT
Utilities Select Sector Index	IXU

## CONSULTATION

## IMPLEMENTATION TIMING

S&P DJI proposes implementing the previously described changes, if adopted, prior to the market open on **Monday, September 23, 2024**. If adopted, these changes will first be visible to clients in proforma files beginning on **Friday, September 13, 2024**.

## QUESTIONS

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

1. **Do you agree with the proposal to change the capped market capitalization weighting scheme?**
  - **No, keep the current mechanism.**
  - **Change to proposal.**
  - **Change to a different rule (please specify in Question 4 below).**
2. **Do you agree with the proposal to change the secondary reweighting check if the current capped market capitalization weighting scheme is kept?**
  - **No, keep the current secondary reweighting mechanism.**
  - **Change to proposal.**
  - **Change to a different rule (please specify in Question 4 below).**
3. **If the proposed methodology changes are adopted, do you agree with the proposed implementation date?**
4. **Do you have any other comments or feedback on the proposed changes outlined above?**

Participation in this consultation is important as S&P DJI gathers information from various market participants to properly evaluate the market participants' view and preferences. Please respond to this survey by **Friday, August 23, 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 take part in this consultation, please visit the online survey available [here](#).

*Please be advised that all comments from this consultation will be reviewed and considered 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 survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.*

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](http://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

## CONSULTATION

DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit [www.spglobal.com/spdji](http://www.spglobal.com/spdji).

**FOR MORE INFORMATION:**

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