

Corporate Actions & Events Guide

Scottfree Markets Equity Indices

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1.0 INDEX ADJUSTMENTS – CORPORATE ACTION AND EVENT CHANGES

1.1 Timing and Treatment of Corporate Actions

To ensure that indices remain representative of the global equity market that is ever changing and interconnected, SF Markets applies corporate actions and events to all its indices as they occur. The application of corporate actions depicts the evolution of a security in an index i.e. its index membership or changes in its index weighting. The following corporate actions are tracked and applied to SF Markets indices:

- ❖ Cash Dividend
- ❖ Special Dividend
- ❖ Capital Repayment
- ❖ Stock Split
- ❖ Reverse Stock Split (Consolidation)
- ❖ Bonus Issue (Stock Dividend)
- ❖ Stock Dividend from another company
- ❖ Rights Offering
- ❖ Share Buy Back
- ❖ Spin-off (Demerger)
- ❖ Mergers & Acquisitions
- ❖ Addition
- ❖ Delisting, Suspension, Bankruptcy & Change of Listing.
- ❖ Share Changes
- ❖ Free Float Changes
- ❖ Complex Corporate Action (Corporate Action combinations of the above)

For detailed descriptions of the above events, please refer to the Corporate Actions & Events section below.

SF Markets uses a host of credible and reliable public sources to determine when a corporate action is effective. These sources include reputable data vendors, company press releases, regulatory filings and exchange notifications. All corporate actions are cross-checked and referenced with multiple independent sources. Please note that as new updates for corporate actions become available, SF Markets may revise the terms and the expected effective date of the corporate action, which will in turn determine how and when the event will be applied to SF Markets indices.

The timing for when corporate actions are applied to an index is very important for benchmarking, tracking and index replication. Once the timing of a corporate action is determined, SF Markets will apply the event and provide advance notification to clients before the effective date via the Corporate Action/Event files and SF Markets Index Updates.

For the purposes of index calculation, SF Markets will generally apply the most recent available market prices to the index for corporate action adjustments.

2.0 CORPORATE ACTIONS & EVENTS

The application of corporate actions listed in this guide typically lead to an adjustment in the closing attributes of a security i.e. price, shares and free float which could also have an impact on the index divisor. All corporate actions are implemented at the effective date (ex-date). Depending on the type of corporate action, the price, shares or free float of the security could change on the ex-date of the event.

Where applicable, a withholding tax rate will be used in the Total Net Return indices for all dividends paid by ordinary securities. If SF Markets becomes aware that a security has a specific tax treatment that differs from the standard treatment, then that exception will be applied in the calculation of the index.

For the corporate actions listed below, the following assumptions apply:

- » Shareholders will receive “B” new shares for every “A” share held.
- » If any new shares applied to an index have a different dividend payment from the old shares i.e. a dividend disadvantage, then the price of the new shares will be adjusted by the gross dividend amount.

2.1 CASH DIVIDEND

Cash dividends are payments or distributions made to its shareholders by a company. Generally, when a company generates income either from current earnings or accumulated profit, that money can typically be used for re-investment in the business or it can be distributed to the shareholders as dividend. The gross dividend amount represents the amount before withholding tax.

Affected Indices: Total return indices

Calculation Formula/Code

Adjusted price (Price Index) = no adjustment

Adjusted price (Gross Return Index) = closing price - dividend announced by the Company

Adjusted price (Net Return Index) = closing price - dividend announced by the Company \times (1 - withholding tax)

Please note that a cash dividend will require a divisor adjustment (decreases) to the Total (Gross & Net) Return Indices only on the ex-date.

Please note that if a cash dividend is announced considerably later than the ex-date i.e. one month but prior to the pay date, the dividend will be implemented on the pay date.

2.2 SPECIAL DIVIDEND

These are very similar to cash dividends but are instead non-recurring payments or distributions made by a company to its shareholders. They typically fall outside the pattern of routine distributions exhibited by a company in the past. A special dividend is also referred to as an “extra dividend”.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price (Price and Net Return Index) = closing price - dividend announced by the Company \times (1 - withholding tax)

Adjusted price (Gross Return Index) = closing price - dividend announced by the Company

Please note that a special dividend will require a divisor adjustment (decreases) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.3 CAPITAL REPAYMENT

These are payments that are typically drawn from a company’s paid-in-capital as opposed to the company’s earnings. They will typically be treated as a special dividend.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price (Price and Net Return Index) = closing price - payment announced by the Company \times (1 - withholding tax)

Adjusted price (Gross Return Index) = closing price - payment announced by the Company

Please note that a capital repayment will require a divisor adjustment (decreases) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.4 STOCK SPLIT

This is when the current shares of a company are split into a larger number of shares with an equivalent reduction in the price of each share. A stock split will increase the number of shares in issue for a company. Pre and post this event, there will not be a change in the market capitalization of the company.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price = closing price x A / B

Adjusted shares = old shares x B / A

Please note that a stock split will not require a divisor adjustment (unchanged) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.5 REVERSE STOCK SPLIT/CONSOLIDATION

This is when the current shares of a company are split into a reduced number of shares with an equivalent increase in the price of each share. A reverse stock split will reduce the number of shares in issue for a company. Pre and post this event, there will not be a change in the market capitalization of the company.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price = closing price x A / B

Adjusted shares = old shares x B / A

Please note that a reverse stock split will not require a divisor adjustment (unchanged) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.6 BONUS ISSUE/STOCK DIVIDEND

Also known as a stock dividend, a bonus issue is used by a company as a means to distribute shares to its shareholders. It is often seen as an alternative to a cash dividend payment. In some cases, a shareholder can choose either a cash dividend payment or a stock dividend whereby the shares are issued for the value of the cash dividend. In situations where the amount of stock is declared for distribution, the number of shares will increase on the ex-date.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price = closing price x A / (A + B)

Adjusted shares = old shares x (A + B) / A

Please note that a bonus issue will not require a divisor adjustment (unchanged) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.7 STOCK DIVIDEND FROM ANOTHER COMPANY

A stock dividend from another company is when a company distributes shares that it owns in another company to its shareholders as an alternative to a cash dividend payment.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price = (closing price x A – closing price of other company x B) / A

Please note that for a stock dividend from another company, an adjustment is made to the close price only and not the close shares of the security. The event will require a divisor adjustment (decreases) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.8 RIGHTS ISSUE

A rights issue is a corporate event whereby existing shareholders are offered the right to buy new shares in proportion to their holding at a pre-determined subscription price that is typically set at a discount to the current trading price. A company will typically use a rights issue to raise money when specifically needed i.e. to pay down debt, fund M&As etc.

Typically, rights issues are renounceable or non-renounceable and are not taken up/subscribed to if they are out of the money (subscription price is greater than current trading price, so deemed unattractive) at the close before the *ex-date*. If this occurs, then the shares of the security in the index will be adjusted whenever the rights shares are listed. Rights issues in the money (subscription price is less than current trading price so deemed attractive) are adjusted on the ex-date.

Please note that a dividend disadvantage can sometimes be used in the calculation of a rights issue i.e. if a company is having a rights issue effective on a certain date and it is discovered that the new shares issued as a result of the rights are not entitled to a subsequent dividend payment.

For highly dilutive rights issues whereby a company's market capitalization is significantly impacted, a differing treatment could be applied by SF Markets. If this situation occurs, SF Markets will make an announcement and notify clients in advance.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price (Price & Gross/Net Return Indices) = (closing price x A + subscription price x B) / (A + B)

Adjusted price with dividend disadvantage (Price Index) = (closing price x A + (subscription price + dividend x (1 – Tax rate)) x B) / (A + B)

Adjusted price with dividend disadvantage (Net Return Index) = (closing price x A + (subscription price + dividend x (1 – Tax rate)) x B) / (A + B)

Adjusted price with dividend disadvantage (Gross Return Index) = (closing price x A + (subscription price + dividend) x B) / (A + B)

Adjusted shares (Price & Gross/Net Return Indices) = closing shares x (A + B) / A

Please note that a rights issue will require a divisor adjustment (increases) to the Price and Total (Gross & Net) Return Indices on the ex-date.

2.9 SHARE BUY-BACK

This is when a company buys back its own shares (typically at a pre-determined price), in order to reduce the number of shares it has in circulation. A company could buy back shares for a host of reasons including: improving its financial ratios, reducing the amount of shares in circulation, returning excess cash to shareholders etc. As a buy-back event will result in a change to the shares of a security in an index, this will usually also be accompanied by a change to the free float of the security.

Affected Indices: Price and Total return indices

Calculation Formula/Code

Adjusted price = ((closing price x closing shares) – (buy-back price x buy-back shares)) / (close shares – buy-back shares)

Adjusted shares = closing shares – buy-back shares

Please note that a share buy-back will require a divisor adjustment (decreases) to the Price and Total (Gross & Net) Return Indices on the ex-date.

Please note that the “Adjustment Price Formula” used above is only applicable for buy-back events that are extraordinary i.e. a compulsory buy-back. A standard buy-back (shares bought on the open market) will only be adjusted for shares in line with section 2.15 (Share Changes)

2.10 SPIN-OFF/DEMERGER

This is when a company breaks up so that its functions and operations are executed by two or more separate companies. Typically, a spin-off is carried out to enhance the value of a company, especially in cases where one or more parts of the company’s value can be better showcased by having a separate legal entity.

A spin-off is a type of divestiture that leads to a distribution of shares in the new resulting company/companies from the split, to the parent company’s existing shareholders.

Depending on the methodology of the index, each spin-off security will be temporarily added to all affected indices, including the fixed component indices, for at least two trading days based on an estimated price.

As a prerequisite, freely available information for the determination of qualification must be available i.e. pricing/reference data and the security should be listed on an eligible exchange.

If the spin-off company does not qualify for index inclusion based on specific index methodology (please refer to index specific spin-off criteria detailed under Index Maintenance in the index guides published on www.scottfreemarkets.com), it will be deleted after the close of the second trading day i.e. the open of the third trading day.

The announcement for a spin-off event will occur at least two trading days before the effective date/listing date of the spun-off company, with ranking for qualification carried out on the close of business on the listing date of the spun-off company. Any subsequent changes will be effective after the close of the second trading day i.e. if the spun-off company does not qualify for inclusion and has to be removed.

Affected Indices: Price and Total return indices

Calculation Formula/Code

$$\text{Adjusted price} = P_{t+1} = P_t - \sum_i^n (P_s * B_s / A_s)$$

Where: -

- P_{t+1} Adjusted price of Spin-off Company
- P_t Close price of Spin-off Company
- A,B OldShare (A), NewShare (B)
Shareholders will receive "B" new shares in spun-off company for every "A" share held in spin-off company
- P_s Initial Price of Spun-off Company
- n Number of spun-off companies

Please note that:

- *There should not be a divisor adjustment (unchanged) to an index due to a spin-off event. This rule is dependent on the spun-off company having the same value as the value being removed from the spin-off company. The spun-off company (child) has to be added to the index on the same effective date the value in the spin-off company (parent) drops.*

- *Market capitalization of the spin-off company will be reduced but the market cap of the index should remain unchanged if the spun-off company/ies (child) are included.*
- *A company might spin-off more than one component.*

2.11 MERGERS & ACQUISITIONS

This is where two or more companies combine (amicable or hostile) and one or more of the companies involved is absorbed. If it is a pure acquisition, then one company will purchase another without a new entity being formed. An acquisition can occur in stages until 100% of the stock is acquired, with the target company still active in the index until then.

The methods through which an M&A could happen include a cash offer, an exchange of shares or a combination of both.

SF Markets will deem an M&A successful, if it has been declared wholly unconditional and has received the necessary regulatory approvals or at least 95% of the shares of the target company have been tendered. This could lead to one or more securities of an index being delisted. Please note that the rules for an M&A will only apply if at least one of the companies involved in the event i.e. the acquirer or target is a constituent of one of SF Markets Equity indices.

The following scenarios are applicable:

- If a component is taken over by another component within a fixed component index, the surviving company will remain a component and a vacancy will be created and filled by selecting the highest ranked reserve security by full market capitalization. If it is a non-fixed component index, then the vacancy will not be filled.
- If a component of a fixed component index is taken over by a component of another index, the surviving company will remain a component of the appropriate index and a vacancy will be created. The vacancy will be filled by selecting the highest ranked reserve security by full market capitalization. If it is a non-fixed component index, then the vacancy will not be filled.
- If a component of a fixed component index is taken over by a non-component, the original component will be removed and replaced by the highest ranked reserve security by full market capitalization. If it is a non-fixed component index, then the vacancy will not be filled.
- For all vacancies to be filled for a fixed component index, the highest ranked reserve security by full market capitalization will be selected at least two trading days prior to the deletion and related indices adjusted accordingly. All changes will be announced on the same day the ranking exercise is carried out.

Affected Indices: Price and Total return indices

Please note that a Merger & Acquisition will require a divisor adjustment to the Price/Gross/Net Return Indices on the effective date.

2.12 ADDITION

Additions to an index can occur due to a number of reasons i.e. an IPO, Spin-off or Merger & Acquisition. For fixed component indices, if a stock is deleted then it will typically be replaced by another stock from the draft list on the same date.

Affected Indices: Price and Total return indices

Please note that depending on the event associated with the addition, there could be a change or adjustment to the divisor of the index.

2.13 DELISTING, SUSPENSION, BANKRUPTCY & CHANGE OF LISTING

A security can be removed from an index due to the following reasons:

- Official delisting
- Suspended from trading for 30 consecutive days or more with no forthcoming news or indication of a trading resumption date
- Filed for bankruptcy
- Changes listing to an ineligible exchange

In the cases of a suspension or bankruptcy, SF Markets can remove the security at a price of 0.000001 if the security is expected not to recommence trading or is deemed worthless.

For securities that change listing from an existing exchange to another eligible exchange, there will be no removal.

Affected Indices: Price and Total return indices

2.14 SECTOR CHANGES

Each security is assigned a sector based on a custom classification methodology system that classifies sectors based on revenue & areas of business. Any adjustment due to a change in the classification of a company will be implemented at the same time any relevant corporate actions/events are implemented in the index. All other sector changes will be agreed, announced and applied by SF Markets at the next quarterly rebalance.

Affected Indices: Price and Total return indices

2.15 SHARE CHANGES

To avoid a large number of unnecessary changes both at the index and security level, the number of shares in issue for each security will be adjusted when the total shares in issue held within the index changes by more than 10% on a cumulative basis or when the total market capitalization of a security changes by \$200mln or more. Please note that this threshold does not apply to share changes that arise from a standard corporate action i.e. a bonus issue, stock split etc. which are adjusted on the effective date, regardless of the share change size. Changes are announced immediately and are effective five trading days later on the close i.e. the open of the sixth day.

If the share change is not as a result of a standard corporate action i.e. a bonus issue, stock split etc. and is typically less than 10%, then the change will be implemented after the close of trading on the third Friday of March, June, September and December. All shares in issue for securities in an index are also reviewed quarterly, based on publicly available data.

Affected Indices: Price and Total return indices

2.16 FREE FLOAT CHANGES

To avoid a large number of unnecessary changes both at the index and security level, the free float for each security will be adjusted when it changes by more than 5% on a cumulative basis or when the free float market capitalization of a security changes by \$200mln or more. Changes are announced immediately and effective five trading days later on the close i.e. the open of the sixth day.

If the free float change is not accompanied by a corporate action/event i.e. a share change and is typically less than 5%, then the change will be implemented after the close of trading on the third Friday of March, June, September and December. All free float factors for securities in an index are also reviewed periodically, based on publicly available data.

Affected Indices: Price and Total return indices

3. COUNTRY SPECIFIC TREATMENTS

3.1 NIGERIA

3.1.1 WITHHOLDING TAX

A withholding tax of 10% will be used in the Total Net Return indices for all dividends paid by ordinary securities listed on the NSE.

3.1.2 RIGHTS ISSUES

Due to the current treatment of rights issues by the Nigerian equity market whereby prices and shares are not adjusted on the ex-date, SF Markets will adjust the shares of the security in the index whenever the rights shares are listed.

3.1.3 SUSPENSION

For the SFNG Equity Index Series, a security which relists within 3 months of its suspension will be automatically added back to the SFNG Total Share Index and reassessed for inclusion into all fixed component indices via the next index review or fast entry. For specific buffer criteria please refer to the review section of the appropriate index. A company will be reinstated into the SFNG Total Share Index at the price which it was removed. If reinstated into a fixed component index, then the lowest ranking security in the index by full market capitalization will be removed and all respective indices will be changed accordingly.

4.0 CONTACTS

For all corporate action and event related queries, please contact:

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