

STOXX LIMITED

STOXX[®] EMERGING MARKETS INDICES.

EMERGING MARKETS

RULES-BASED

TRANSPARENT

UNDERSTANDABLE

SIMPLE

MARKET CLASSIFICATION

STOXX

INTRODUCTION.

Many investors are seeking to embrace emerging market investments, because these offer diversification for traditional equity portfolios. And there are many index concepts available that cover the emerging market regions – each applying different criteria for classifying emerging markets.

The new STOXX® Emerging Markets indices not only apply the STOXX rules-based methodology, they are also very transparent and rules-based with regards to the classification of emerging markets.

The new STOXX classification system uses only five criteria for classifying markets into emerging and developed. As a result, it allows market participants to fully understand the system, and enhances overall transparency – both of the system itself as well as of the resulting emerging market indices.

Hence, the new STOXX® Emerging Markets indices and country classification stand out in the array of existing concepts that not only apply a wide range of classification criteria, but are also less transparent in their final decision of how to classify a market.

KEY FACTS.

KEY FACTS ABOUT EMERGING MARKET INDICES

- » Investors can access the emerging regions with the STOXX® Emerging Markets indices or with single country indices.
- » In addition to clear classification into emerging markets, the STOXX methodology used to construct emerging market indices is purely rules-based and thus transparent for all market participants.
- » This, in turn, means that the same rules for calculation, maintenance and selection are applied as for the other markets and regions – without exception or hidden rules. The indices can be combined without methodological inconsistencies.

KEY FACTS ABOUT CLASSIFICATION SYSTEMS

- » The new STOXX country classification system is the first one that classifies markets into emerging and developed markets in a very transparent and rules-based way.
- » The five criteria applied are comprehensive and comprise all important areas investors regard to be important, such as macroeconomic data, market capitalization, market liquidity, free currency convertibility on onshore and offshore markets, and restrictions on capital flows.
- » The data source for the diverse criteria are highly renowned and independent global organizations (i.e. International Monetary Fund, World Bank, and PricewaterhouseCoopers).
- » Emerging markets are reviewed on an annual basis to ensure an accurate reflection of market changes.

OVERVIEW OF CLASSIFICATION SYSTEMS.

In the first step, the developed markets are identified using the selection process outlined below.

UNIVERS

The global universe of the STOXX equity indices comprises 65 countries.

SELECTION STEP 1: IMF COUNTRY CLASSIFICATION

Source: IMF (International Monetary Fund)

Definition: STOXX selects the advanced/developed countries as classified by IMF, which considers a range of quantitative and qualitative factors.

SELECTION STEP 2A: MARKET CAPITALIZATION SCREENING

Source: World Bank

Definition: The remaining countries must have a market capitalization that exceeds USD 15 billion.

SELECTION STEP 2B: LIQUIDITY SCREENING

Source: World Bank

Definition: Furthermore, the total value of shares traded must be higher than USD 15 billion. Buffer: Countries currently classified as emerging or developed markets

need to have at least 10 billion US dollar traded shares to retain their classification.

For the above-mentioned criteria, the average data of the last three consecutive years are used in order to avoid short-term fluctuations, i.e. 2014 decisions are based on average data from 2010 to 2013.

Only those countries that meet the criteria in Selection Steps 2a and 2b are classified as developed markets and are eligible for Selection Step 3.

SELECTION STEP 3A: FREE CURRENCY CONVERTIBILITY ON ONSHORE AND OFFSHORE MARKETS

Source: PwC (PricewaterhouseCoopers)

Definition: The remaining countries must have free currency convertibility and availability of developed onshore and offshore markets. To get into and out of their positions, foreign investors should be able to freely buy and sell the local currency.

SELECTION STEP 3B: NO RESTRICTIONS ON CAPITAL FLOWS

Source: PwC (PricewaterhouseCoopers)

Definition: Additionally, international investors have to be able to move funds freely in and out of the country.

Both criteria in Selection Step 3 must be met in order to classify the respective country as a STOXX developed market.

Countries that have been excluded in one of the three selection steps are automatically assigned to the emerging market region. These countries are then screened according to Selection Step 2 (i.e. market capitalization and liquidity criteria). Those countries that pass the screening are classified as a STOXX emerging market.

OVERVIEW OF DEVELOPED MARKETS.

Initially, the developed markets are identified based on a universe of 65 STOXX countries:

Argentina	France	Malaysia	Slovak Republic
Australia	Germany	Malta	Slovenia
Austria	Greece	Mexico	South Africa
Belgium	Hong Kong	Morocco	Spain
Brazil	Hungary	Netherlands	Sweden
Bulgaria	Iceland	New Zealand	Switzerland
Canada	India	Nigeria	Taiwan
Chile	Indonesia	Norway	Thailand
China	Ireland	Pakistan	Tunisia
Colombia	Israel	Peru	Turkey
Croatia	Italy	Philippines	U.K.
Cyprus	Japan	Poland	Ukraine
Czech Republic	Korea	Portugal	U.S.A.
Denmark	Latvia	Romania	Vietnam
Egypt	Lithuania	Russia	
Estonia	Luxembourg	Serbia	
Finland	Macedonia	Singapore	

SELECTION STEP 1: IMF COUNTRY CLASSIFICATION

Those countries listed in blue are excluded. Thus, after Selection Step 1, the following remaining countries are classified as developed markets:

Australia	France	Korea	Slovenia
Austria	Germany	Luxembourg	Spain
Belgium	Greece	Malta	Sweden
Canada	Hong Kong	Netherlands	Switzerland
Cyprus	Iceland	New Zealand	Taiwan
Czech Republic	Ireland	Norway	U.K.
Denmark	Israel	Portugal	U.S.A.
Estonia	Italy	Singapore	
Finland	Japan	Slovak Republic	

SELECTION STEPS 2A AND 2B: MARKET CAPITALIZATION AND LIQUIDITY SCREENING

Those countries listed in pink are excluded, because they do not meet the market capitalization and liquidity criteria.

SELECTION STEPS 3A AND 3B: FREE CURRENCY CONVERTIBILITY ON ONSHORE AND OFFSHORE MARKETS AND NO RESTRICTIONS ON CAPITAL FLOWS

Those countries listed in blue are excluded, because they do not meet the respective criteria.

Thus, the final list comprises the following countries:

STOXX developed markets – final list

Australia	France	Japan	Spain
Austria	Germany	Luxembourg	Sweden
Belgium	Greece	Netherlands	Switzerland
Canada	Hong Kong	New Zealand	U.K.
Czech Republic	Ireland	Norway	U.S.A.
Denmark	Israel	Portugal	
Finland	Italy	Singapore	

CLASSIFICATION OF EMERGING MARKETS.

After the developed markets have been identified, the classification of emerging markets follows. First, all those countries that were excluded in Selection Steps 1 to 3 (see previous pages) are automatically classified into emerging market regions:

Argentina	Hungary	Mexico	Slovak Republic
Brazil	Iceland	Morocco	Slovenia
Bulgaria	India	Nigeria	South Africa
Chile	Indonesia	Pakistan	Thailand
China	Korea	Peru	Taiwan
Colombia	Latvia	Philippines	Tunisia
Croatia	Lithuania	Poland	Turkey
Cyprus	Macedonia	Romania	Ukraine
Estonia	Malaysia	Russia	Vietnam
Egypt	Malta	Serbia	

SELECTION STEPS 2A AND 2B: MARKET CAPITALIZATION AND LIQUIDITY SCREENING

Those countries listed in blue are excluded, because they do not meet the market capitalization and liquidity criteria.

STOXX emerging markets – final list

Brazil	Hungary	Mexico	Russia
Chile	India	Morocco	South Africa
China	Indonesia	Pakistan	Thailand
Colombia	Korea	Philippines	Taiwan
Egypt	Malaysia	Poland	Turkey

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