

March 2022



**[POLICY ON INDEX  
MANAGEMENT: PSE  
MIDCAP INDEX]**

## SECTION 1 - Introduction

### 1.1. General Policies

- 1.1.1. This document sets out the policy of the Philippine Stock Exchange, Inc. (PSE or Exchange) for the management of the PSE MidCap Index.
- 1.1.2. The PSE MidCap Index, which is a part of the PSE Index Series, was created to provide investors and market participants a set of benchmarks that measures the performance of Philippine stock market and its specific industry segments.
- 1.1.3. Any change or revision in the policies contained herein shall be duly announced to the public for the information and guidance of all concerned.

### 1.2. The PSE MidCap Index

The PSE MidCap Index represents the mid-cap segment of the Philippine market. It is composed of a fixed basket of 20 companies with the largest market capitalization after constituents of the PSEi and passed the criteria set out in this Policy. The base value of the PSE MidCap was set on December 30, 2010, at 1,000.00 points.

### 1.3. Index Calculation Mode

- 1.3.1. The PSE MidCap Index is calculated and broadcasted through the PSE *trade* XTS.
- 1.3.2. The index levels calculated are displayed on all the computer terminals linked to the PSE *trade* XTS and are broadcasted to members and data vendors. In addition, the indices may be monitored through radio, television, the PSE website and other websites that provide reports on the performance of the stock market.
- 1.3.3. The PSE MidCap Index is calculated in Philippine Pesos (Php) and is broadcasted on a continuous mode where index levels are broadcasted periodically at a frequency that can be configured for each index. (Please see 5.2. Calculation Frequency for details)

## SECTION 2 - Index Construction

### 2.1. Eligible Securities

Section 2.1 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

### 2.2. Free Float

Section 2.2 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

### 2.3. Liquidity

**2.3.1** Each company will be tested for liquidity by computing its median daily trading value for each month of the twelve-month period in review. The median is computed by ranking each daily trading value in the regular board of a company's stock and selecting the middle value. Daily totals with zero trades are included in the ranking.

**2.3.2** To be eligible for the PSE MidCap Index, the stocks of the company must rank among the top 35% in terms of median daily trade per month in nine out of the twelve month period in review.

If market conditions cause that less than 20 companies qualify in the PSE MidCap Index, the PSE Management Committee may increase the threshold in increments of 5%, *i.e.* 40%, 45%, and so on, in order to avoid a large number of constituents being removed from the PSE MidCap Index.

### 2.4. Market Capitalization

**2.4.1** Eligible securities defined in Section 2.1 are ranked from highest to lowest according to their full market capitalization. The full market capitalization is computed using the volume-weighted average price (VWAP) of the company's stock price during the 12-month period in review.

- 2.4.2** If a company has common stocks that are classified (e.g., Class "A" and Class "B") or has an underlying PDR issue, the activity of all share classes or types are taken together.
- 2.4.3** To be eligible for the PSE MidCap Index, a company must be ranked within the top 95% of the cumulative full market capitalization of eligible companies defined in Section 2.1.

## **2.5. Final Selection**

- 2.5.1** Companies that pass the public float, liquidity and market capitalization eligibility requirements are ranked from highest to lowest according to their full market capitalization. The 20 largest companies based on full market capitalization, excluding constituents of PSEi, are to be included in the PSE MidCap Index.
- 2.5.2** The PSE may also take into consideration relevant financial criteria to ensure that index constituents are fundamentally sound. These financial criteria will be applied to new entrants to the PSE MidCap Index.

## SECTION 3 – Regular Review of Index Constituents

### 3.1. Review Dates

Section 3.1 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

### 3.2. Rules for Insertions and Removals

**3.2.1.** The rules for additions and removals during the semi-annual review are designed to provide stability in the selection of constituents of the PSE indices and at the same time to ensure that the indices are representative of the market by including and/or excluding those companies which have risen or fallen significantly.

**3.2.2.** A company that passes all the specified criteria shall be inserted in the PSE MidCap Index if it rises to the 17<sup>th</sup> position and above by full market capitalization<sup>1</sup> for the current review period, or if it rises to the 20<sup>th</sup> position and above by full market capitalization for four (4) consecutive review periods. It shall replace the company that ranks the lowest in terms of full market capitalization for the current review period.

**3.2.3.** A company shall be deleted from the PSE MidCap Index if it falls to the 23<sup>rd</sup> position and below by full market capitalization<sup>2</sup> for the current review period, or falls below the 20<sup>th</sup> position by full market capitalization for four (4) consecutive review periods. It shall be replaced by the company with the highest market capitalization from the list of companies that passed the public float, liquidity, and market capitalization eligibility requirements for the current period.

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<sup>1</sup> Among companies that passed all the specified criteria, as defined in Section 2 of this Index Policy, excluding constituents of the PSEi.

<sup>2</sup> Among companies that passed all the specified criteria, as defined in Section 2 of this Index Policy, excluding constituents of the PSEi.

## **SECTION 4 – Changes to Constituent Companies**

### **4.1. Removal and Replacement**

**4.1.1.** A company shall be removed from the list of constituents if any of the following events occur:

- a) the constituent is delisted;
- b) a corporate action causes a significant change in the constituent's ability to satisfy the requirements stated in this policy;
- c) the constituent ceases to have a reliable price or in the opinion of the PSE Management Committee has ceased to be a viable index constituent;
- d) the constituent becomes a part of the PSEi

**4.1.2.** The vacancy created following the removal of the company from the PSE MidCap Index shall be replaced by the company which eligibility is determined using the same methodology for PSE MidCap Index inclusion stated in this policy. The Exchange shall base its computation on the latest available data during the 12-month period preceding the removal.

**4.1.3.** The removal and replacement are effected simultaneously, no later than five (5) trading days from the announcement.

### **4.2. Takeovers, Mergers and Acquisitions**

Section 4.3 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

### **4.3. Suspension**

Section 4.4 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

### **4.4. Rebalancing or Changes to Constituent Weightings**

Section 4.5 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

## SECTION 5 – Index Calculation

**5.1.** Section 5 of the PSE Policy on Index Management as of June 2021 will apply to the PSE MidCap Index.

### 5.2. Total Return Index Calculation

**5.2.1.** All index levels broadcasted will be displayed up to two decimal places.

**5.2.2.** For any trading day, the index is computed by deriving the change in the index components' current total free float-adjusted market capitalization plus the total cash dividends of the constituent companies for the day from the base total free float-adjusted market capitalization, and multiplying this change with the previous day's closing index level. The base total free float-adjusted market capitalization is the sum of all the products of the index stocks' previous day's last traded price and their current free float shares. Below is the formula for computing the index:

$$\text{PSE MidCap TRI}_t = \frac{\sum_{i=1}^n (P_{it} \times S_{it} \times F_i) + \sum (D_{it} \times S_{it} \times F_{it})}{b} \times \text{PSE MidCap TRI}_{t-1}$$

$i = 1, 2, 3, \dots, n$

where:

n	=	Number of constituents of the index
$P_{it}$	=	Last traded price of company i at day t
$S_{it}$	=	Number of outstanding shares of company i at day t
$F_i$	=	Free float factor of company i to be applied to each security, expressed as a number between zero to 1, where 1 represents 100% free float
b	=	Base free float-adjusted market capitalization
$D_{it}$	=	Total regular and special cash dividends of company i on ex-date t

**5.2.3.** Adjustments are applied to the base free float-adjusted market capitalization when there are stock dividend declarations, stock rights offerings, stock splits, reverse stock splits, or other corporate actions. Such corporate actions result in adjustments in a company's previous day's last traded price and/or free float factor.

## **Disclaimer**

This policy was created by the PSE for the sole purpose of providing guidance on the calculation of the PSE MidCap Index. The PSE thus reserves the right to change or amend the contents of this document as appropriate to enable the index to achieve its objective.

This document is for information purposes only and shall not serve as a basis for investment advice or legal opinion. The PSE shall not be held liable for any losses or damages resulting from the use or reliance upon any part or all of the information contained herein.

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