

Calculation and technicalities

How the Index will be maintained.



Matt Wilson

There are currently some 3,700 companies listed on the UK Stock Exchange each allocated to a distinct sector such as banks, media or real estate. Only a handful of them are professional firms and, in the absence of their own sector, these pioneers have been allocated to numerous other ICB sectors. The number of listed professional firms is expected to grow significantly over the next few years as changes to regulation permit the more widespread involvement of institutional investors in previously restricted sub-sectors, notably legal services.

To qualify as a component of the MPF Professional Services Index compiled by Noble (the 'Index'), firms that satisfy the MPF Professional Services definition (see page 16) must;

- Be UK listed on either the Main Market or AIM
- Have a market capitalisation between c£20mn and £1bn
- Not operate in the Financial Services sector

The Index is calculated using a base-weighted aggregate method-

ology; that means the level of the Index reflects the total market value of all component companies relative to a particular base period.

Total market value of a company is determined by multiplying the price of the stock by the number of common shares outstanding. An indexed number is used to represent the results of this calculation in order to make the value easier to work with and track over time. In practice the calculation of the Index is computed by dividing the total market value of the components by a number called the Index Divisor. By itself, the Divisor is an arbitrary number. However, in the context of the calculation of the Index, it is the only link to the original base period value of the Index. The Divisor keeps the Index comparable over time and is the manipulation point for all Index Maintenance adjustments.

Maintenance of the Index is detail oriented and complex. Index maintenance includes monitoring and completing the adjustments for company additions and deletions, share changes, stock splits, cash dividends, and stock price adjustments due to company restructurings and spinoffs. To prevent the value of the Index from changing due to corporate actions, all corporate actions which affect the market value of the Index require a Divisor adjustment. This helps keep the value of the Index accurate as a barometer of professional service performance and ensures that the movement of the Index does not reflect the corporate actions of the

companies in the Index.

The total-return calculation of the Index will become increasingly important as executive compensation is frequently linked to total return performance calculations and comparison to appropriate market benchmarks. Calculating the total return for any equity is relatively straightforward: simply add dividend income and price appreciation for a given time period. The total return for the Index is calculated similarly; an indexed dividend return (i.e. Divisor-adjusted) is added to the Index price change for a given time period.

With the provision of comparative analysis data from the Index, individual company stocks can be compared against their peers and against the market as a whole. The Index will publish three data metrics to assist analysis;

- Price-to-revenue ratio
- Price-to-earnings ratio
- Dividend yield

After its launch the Index will be published regularly, accompanied by its data metrics and relevant comment. Company additions/deletions will occur on a calendar quarterly basis from June 2009.

Noble look forward to working with the Managing Partners' Forum during the running of the Index, and hope to provide a valuable benchmark for investors and companies alike.

Matt Wilson is an analyst with Noble.