

The PB Index Rule Book

Overview

Several studies in finance have proved that idiosyncratic factors affect the behavior of privatized firms. These firms tend on average to over perform benchmarks in the medium and long run, being share issue privatizations often more strongly under-priced than public offerings by private companies. Furthermore, it has been recently documented that ownership and control structures of privatized and private companies do not converge, and that privatizing governments have often transferred ownership rights but retained control. This typically occurs by exerting their rights as large shareholders, by wielding power via additional control devices such as golden shares. Importantly, in strategic sectors such as energy, utilities, telecommunications, aerospace and defense, where the largest and most valuable firms operate, company performance is affected by the outcome of a regulatory game where governments, regulators, politicians, and various stakeholders are involved.

Privatized companies are thus likely to be different animals from private listed companies. For this reason, their financial performance warrants systematic attention.

The PB Index

The PB Index is designed as a benchmark for tracking the performance of privatized companies. It serves primarily as:

1. Benchmark for portfolio managers and investors who invest in privatized companies.
2. Performance yardstick for governments and investment banks floating shares of state-owned companies.
3. Vehicle for attracting attention to privatization in European equity markets.

The PB Index tracks the performance (total return) of shares of privatized companies that are listed for trading in domestic stock markets of the enlarged European Union. It is subject to periodic review by the PB Index Administrator, who ensures the overall consistency with the purposes of the Index.

The PB Index is capitalization weighted, and denominated in Euro.

Index coverage, constituents, and maintenance

The Index is restricted to ordinary shares of privatized companies trading in the stock exchanges of the European Union, including the ten new accession countries.

The constituents of the indexes are the shares of companies privatized from January 1977 to date. A privatization is defined as a transfer of ownership or voting rights from the central or local government, or from bodies of the public administration, to private investors. Eligible securities are also traded shares of equity carve-outs from state-owned enterprises or privatized companies. Transactions involving the transfer of shares to private companies or financial institutions fully owned by public shareholders are not considered privatizations. Privatization transactions are identified from the Global New Issues Database of Securities Data Corporation.

Index maintenance implements the adjustment for company additions and deletions and stock price adjustments due to corporate actions and merger and acquisitions (M&A) activity.

If the privatized company merges or is acquired, its share price is replaced by the one of the resulting company in case of merger, and by the one of the acquirer in case of a tender offer or an acquisition, if these companies are listed in the same stock market where the privatized company was initially traded. If the privatized company is acquired by a foreign company and then de-listed from the domestic stock exchange, it is deleted from the Index.

Adjustments are made on a quarterly basis.

Calculations

The index is capitalization-weighted, and calculated with the Laspeyres formula, which measures price changes against a fixed base quantity weight. The index is calculated on a price only basis excluding the dividend yield, and uses daily data and closing prices of the stocks at the base date and at each date.

The source for price and quantity data is FactSet.

Sub-indexes

In addition to the Composite Index, two regional (one including EU15 and one the ten new accession countries) sub-indexes are constructed, together with five sector sub-indexes for companies (banking, industrial, oil and gas, utilities, and telecom).