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Press release: German Entrepreneurial Index (GEX[®]) – A joint project between Deutsche Börse AG and CEFS

In January 2005 Deutsche Börse Group is going to add a new index called German Entrepreneurial Index (GEX[®]) to its index family. It consists of German owner managed companies whose ordinary shares may not be listed for longer than 10 years in the Prime Standard of Frankfurter Wertpapierbörse (FWB[®]). For the GEX[®], a company is considered to be owner managed if active and former members of the management board and the supervisory board jointly hold more than 25% of a company's voting shares. However, companies in which this group holds more than 75% are excluded from GEX[®]. Currently, about 120 companies meet these criteria and enter into the GEX[®] calculation.

The index was developed jointly by the Center for Entrepreneurial and Financial Studies and the Deutsche Börse Group. The CEFS was founded jointly by the KfW Chair in Entrepreneurial Finance and the Department of Financial Management and Capital Markets at the Technische Universität München. The initial funding for the center was provided by Bayerischen Sparkassenstiftung and Sparkassenverband Bayern. Prof. Dr. Dr. Ann-Kristin Achleitner and Prof. Dr. Christoph Kaserer, who hold the founding chairs, are CEFS' scientific directors.

The theoretical groundwork for the GEX[®] design was laid at CEFS. Research in this field was triggered by the consideration, that growth potential in mid-sized – thus owner dominated – companies can only be realized, if these companies sufficiently use the stock market as a source of risk capital. GEX[®] deliberately draws public attention on this particular group of companies, as it represents the performance of owner dominated companies in a period, in which growth financing is crucial. Earlier studies conducted by CEFS show that companies increase their capital funds by

120% on average within 10 years following their IPO. For the subsequent 5 years a growth in equity capital of only 20% on average was observed. Therefore, firms are included in the index only over this first 10-year growth period. Over this period the transition from a fully owner dominated company to an established public company usually takes place.

Due to its focus on owner dominated companies GEX[®] can be regarded as a style index. As it was designed as a free-float weighted performance index, it illustrates the performance of an investment strategy, which tends to invest exclusively in owner dominated companies that are listed for up to 10 years. The particularity of this set of companies is that management participates strongly in the entrepreneurial risk. As a result, issues of management control, which are important in larger public companies, are supposed to be of little importance here. As a matter of fact, several empirical findings indicate that companies, in which management holds a substantial equity stake, perform better than companies with atomistic ownership. A comprehensive research project on this topic has been initiated at CEFS.

Due to its style characteristics GEX[®] exhibits throughout its two-year performance history a correlation coefficient with the return on DAX, MDAX, TecDAX and SDAX between 0.6 and 0.8. At present, volatility is about 17%, comparable to MDAX. Since end of June 2002 the average annual return adds up to 10.9%; the comparable return figures for DAX, MDAX, TecDAX and SDAX are 5.9, 14, -2.1 and 10.4% respectively.

In addition to its informative function GEX[®] was designed to promote three additional aspects. Firstly, it must serve as a benchmark for owner dominated companies, in particular as they experience a period of exceptional growth. This applies particularly to young and innovative companies, though they may not have reached a state of development that allows them to go public. Hence, the GEX[®] may be of interest for private equity investors. Secondly, the index offers an investment vehicle for investors who attribute a prominent role to mid-sized and young, innovative companies within the scope of their asset allocation. In this context the GEX[®] may provide valuable assistance to tactical asset allocation of institutional investors. Thirdly, GEX[®] can be used as a basis for index certificates.

German Entrepreneurial Index (GEX[®])

-Technical outline -

With the introduction of the German Entrepreneurial Index (GEX[®]) Deutsche Börse AG offers a new All-Share-Index, which represents the segment of the so-called Entrepreneurial Firms at FWB[®], Frankfurt stock exchange. Entrepreneurial Firms are mid-sized or young, innovative companies. This kind of firm contributes exceptionally to economic growth. In order to foster this segment GEX[®] was developed in cooperation with the Center for Entrepreneurial and Financial Studies (CEFS) at Technischen Universität München (TUM). CEFS is responsible for the scientific support of the index. In the following GEX[®] key data are summarized:

- GEX[®] comprises all companies, which are considered to be German Entrepreneurial Firms and whose ordinary shares are listed in the Prime Standard at FWB[®] (Sectors: Tech & Classic). Resorting to the definition of Entrepreneurial Firms used in the design of GEX[®] Entrepreneurial Firms distinguish themselves through two criteria that both must be met:
 - **Owner dominance:** Members of the management and supervisory board hold a substantial equity stake in the company. For GEX[®] titles this group must have at least 25% of the voting shares but no more than 75%. Former board members and family members are included in the assessment.
 - **Permanence of listing:** The companies find themselves in the transition to a public company. For GEX[®] titles ordinary shares may not be listed for more than 10 years.
- The GEX[®] composition is updated on a quarterly basis following the chaining date for FWB[®] indices. The chaining date is the third Friday of the last month in each quarter. Throughout the update process it is verified, which GEX[®] titles do no longer fulfill GEX[®] criteria, in particular owner dominance and permanence of listing. At the same time new GEX[®] entries are determined. The cutoff date for this assessment is seven weeks prior to the chaining date.
- Currently, 124 companies, representing roughly one third of the companies that form the Prime Standard, are included in GEX[®] (as of November 2004). The weighting of GEX[®] titles is based on market capitalization, restricted to the free float. The maximum weight of a single company is capped to 10%.
- Starting January 3rd, GEX[®] is going to be part of the FWB[®] index family. It is introduced to the public on November 23rd, 2004 at the Deutsche Eigenkapitalforum for the first time. For GEX[®] a historic time series going back to June 24th, 2002 has been calculated. Its base value was set to 1000 and refers to the July 30th, 2004.

More detailed information about GEX[®] can be found in „Leitfaden zum German Entrepreneurial Index (GEX[®])“, available for download at the website of Deutschen Börse (www.deutsche-boerse.com).