

INDXX SuperDividend® Emerging Markets Index

Methodology

March 2015

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Index Description

The INDXX SuperDividend® Emerging Markets Index is a 50 stock Index designed to measure the market performance of companies in the Emerging Markets that have a high dividend yield.

Creation of Master list

Market Capitalization

Minimum market capitalization is set at USD 1 Billion.

Liquidity

- Minimum average daily turnover for 6 months is set at USD 2 Million.
- Average daily turnover for each of the preceding 3 months must be greater than USD 1 Million.
- Stock must be trading on at least 90% of the trading days over the last 6 months.

Country of Domicile

Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa, Turkey, United Arab Emirates, China, India, Indonesia, Malaysia, Philippines, Thailand.

Free Float

All constituents must have a minimum free float equivalent to 10% of shares outstanding.

Security Type

Common Stock, Preference Shares, REITs, ADR, GDR, Other Receipts and Royalty Trust.

Weighting

Portfolios for each year are equally weighted.

Portfolio Construction

- All companies satisfying the market cap and liquidity criteria are considered for evaluation
- Dividends must be paid in each of last 2 years
- All companies which have paid dividends consistently for the last 2 years (without any dividend cut) are considered for inclusion in the portfolio.
- The top 50 companies based on highest dividend yield are selected to form the final portfolio
- A country cap and sector cap of 25% is applied

Reconstitution and Rebalancing Rules

- Portfolio would be reconstituted once a year on the last trading day of January (reconstitution day). On the selection day (third last Friday of January each year), a new selection pool will be created.
- On the selection day, only those names are removed from the existing portfolio if, at the time of rebalance, they are not a part of the top 60 in terms of yield.

Corporate Actions

Corporate actions (such as stock splits, dividends, spin-offs and rights offerings) are applied on the ex-date. The impact and adjustment of various corporate actions are discussed below.

Dividends

Meaning

Dividends are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings), or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend.

Dividends must be "declared" (approved) by a company's Board of Directors each time they are paid. For public companies, there are four important dates to remember regarding dividends.

1. **Declaration Date:** Is the day the Board of Directors announces its intention to pay a dividend. On the declaration date, the Board will also announce Date of Record and Payment Date.
2. **In-dividend Date:** Is the last day, which is one trading day before the ex-dividend date, where the stock is said to be cum dividend ('with dividend').
3. **Ex-dividend Date:** Is the day on which all shares bought and sold no longer come attached with the right to be paid the most recently declared dividend. Typically, its 2 trading days before the record date for U.S. securities.
4. **Payment Date:** Is the day when the dividend checks will actually be mailed to the shareholders of a company or credited to brokerage accounts.

Impact on Index

Dividends payments impact the total return index calculation. The price return index calculations as well as the number of shares remain unaffected.

Adjustment in the Index

All dividend payments will be reinvested in the respective stock, by adjusting the number of shares in the total return index on the ex-dividend date.

Stock Split

Meaning

All publicly-traded companies have a set number of shares that are outstanding on the stock market. A stock split is a decision by the company's board of directors to increase the number of shares that are outstanding by issuing more shares to current shareholders. For example, in a 2-for-1 stock split, every shareholder with one stock is given an additional share. So, if a company had 10 million shares outstanding before the split, it will have 20 million shares outstanding after a 2-for-1 split.

A stock's price is also affected by a stock split. After a split, the stock price will be reduced since the number of shares outstanding has increased. In the example of a 2-for-1 split, the share price will be halved. Thus, although the number of outstanding shares and the stock price change, the market capitalization remains constant. A stock split is usually done by companies that have seen their share price increase to levels that are either too high or are beyond the price levels of similar companies in their sector. The primary motive is to make shares seem more affordable to small investors even though the underlying value of the company has not changed.

Impact on Index

Stock splits impact the number of shares in both the total and price return indices. There is no impact on the index divisor.

Adjustment in the Index

Stock splits will be adjusted for in the total and price return indices on the ex- date. The number of shares will increase times the adjustment factor for the split. For example if a company has announced a 2-for-1 stock split, the adjustment factor for the same will be $2/1=2$. The number of shares in this case will be multiplied by 2.

Bonus Issue of Shares

Meaning

A bonus share is a free share of stock given to current/existing shareholders in a company, based upon the number of shares that the shareholder already owns at the time of announcement of the bonus. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant. New shares are issued to shareholders in proportion to their holdings. For example, the company may give one bonus share for every five shares held.

Impact on Index

Bonus issue of shares impacts the number of shares in both the total and price return indices. There is no impact on the index divisor.

Adjustment in the Index

Bonus issue of shares will be adjusted for in the total and price return indices on the ex- date. The number of shares will increase times the adjustment factor for the bonus issue. For example if a company has announced a 100% bonus, the adjustment factor for the same will be 2 i.e. one bonus share for every one share held. The number of shares in this case will be multiplied by 2.

Rights Issue

Meaning

Rights issue is an invitation to existing shareholders to purchase additional new shares in the company. More specifically, this type of issue gives existing shareholders securities called "rights", which, will, give the shareholders the right to purchase new shares at a discount to the market price on a stated future date. The company is giving shareholders a chance to increase their exposure to the stock at a discount price. But until the date at which the new shares can be purchased, shareholders may trade the rights on the market the same way they would trade ordinary shares. The rights issued to a shareholder have a value, thus compensating current shareholders for the future dilution of their existing shares' value.

Impact on Index

Rights issue impacts the number of shares in both the total and price return indices. There will be an impact on the divisors in both the total and price return indices.

Adjustment in the Index

Rights issue will be adjusted for in the total and price return indices on the ex- date. However the adjustment for rights issue will take place only when the subscription price is less than the stock price on ex-date. The subscription price is the price at which the company gives its existing shareholders the right to purchase new shares.

Spin Off

Meaning

Spin off is the creation of an independent company through the sale or distribution of new shares of an existing business/division of a parent company. A spinoff is a type of divestiture. Businesses wishing to 'streamline' their operations often sell less productive or unrelated subsidiary businesses as spinoffs. The spun-off companies are expected to be worth more as independent entities than as parts of a larger business.

In most cases, the parent company or organization offers support doing one or more of the following:

- Investing equity in the new firm,
- Being the first customer of the spin-out (helps to create cash flow),
- Providing incubation space (desk, chairs, phones, internet access, etc.) or
- Providing services such as legal, finance, technology, etc.

Impact on Index

Spin off impacts both the total and price return indices.

Adjustment in the Index

The adjustment for spin off is done on a case to case basis. The Index Committee will decide on one of the following options based on internal research:

- Only parent company remains in the index
- The parent company remains in the index and the spun off entity is deemed ineligible for inclusion
- The parent company is deemed ineligible to remain in the index however, the spun off entity is deemed eligible for inclusion
- Neither the parent company nor the spun off entity are eligible to be in the index. In this case the Index Committee will decide whether to liquidate the parent company in the index or replace it with the next best constituent according to the index methodology

Delisting

Meaning

Delisting refers to the practice of removing the stock of a company from a stock exchange so that investors can no longer trade shares of the stock on that exchange. This typically occurs when a company goes out of business, declares bankruptcy, no longer satisfies the listing rules of stock exchange, or has become a private company after a merger or acquisition, or wants to reduce regulatory reporting complexities and overhead, or if the stock volumes on the exchange from which it wishes to delist are not significant.

Impact on Index

Delisting of a security impacts both the total and price return indices.

Adjustment in the Index

In the event a company is de-listed from the listed exchange, security would be replaced by next eligible security in master list created on last reconstitution date.

Acquisition

Meaning

A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. Acquisitions can be either friendly or hostile.

Impact on Index

Acquisition of a security impacts the divisors in both the total and price return indices.

Adjustment in the Index

In the event a company is acquired, security would be replaced by next eligible security in master list created on last reconstitution date.

Merger

Meaning

Merger is when two companies combine together to form a new company altogether. In other words, it is the combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

Impact on Index

Merger impacts both the total and price return indices.

Adjustment in the Index

In the event a company is merged, investment amount in the stock would be liquidated and invested in the index.

Bankruptcy

Meaning

Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts. The bankruptcy process begins with a petition filed by the debtor (most common) or on behalf of creditors (less common). All of the debtor's assets are measured and evaluated, whereupon the assets are used to repay a portion of outstanding debt. Upon the successful completion of bankruptcy proceedings, the debtor is relieved of the debt obligations incurred prior to filing for bankruptcy.

Impact on Index

Bankruptcy of a security impacts both the total and price return indices.

Adjustment in the Index

In the event a company has undergone bankruptcy, security would be replaced by next eligible security in master list created on last reconstitution date.

Temporary Delisting/Prolonged Trading Suspension

Meaning

A temporary delisting/trading suspension occurs when a security stops trading on the stock exchange for a certain time period. This usually occurs when a publicly-traded company is going to release significant news about itself. The suspension in trading for the affected security gives investors time to review the news and assess its impact.

Impact on Index

A temporary delisting/trading suspension of a security impacts both the total and price return indices.

Adjustment in the Index

In the event a company is undergone trading suspension or temporary delisting, security would be replaced by next eligible security in master list created on last reconstitution date.

Index Data

Total Return Index

This is a net total return index. Ordinary cash dividends are applied on the ex-date for calculating the total return index.

Price Return Index

No dividends are applied to calculate the price return index.

Index Policy

Index Committee Policy

The Index Committee is responsible for setting policy, determining index composition, and administering the indices in accordance with the Indxx index methodology. The Index Committee reserves the right to use qualitative judgment to include, exclude, adjust, or postpone the inclusion of a stock. Continued index membership of a constituent is not necessarily subject to the guidelines provided in each of the Indxx index methodology. A stock may be considered for exclusion by the Index Committee on the basis of corporate governance, accounting policies, lack of transparency and lack of representation, despite meeting all the criteria provided in each of the Indxx index methodology. If an investor is prohibited from holding an index constituent, then the index committee has the option of replacing the security by next eligible security in master list created on last reconstitution date.

Announcements

Announcements of additions and deletions of constituents, due to various corporate actions mentioned above, in the middle of the year will be decided by the Index Committee. This will be communicated to the client well ahead of time. Also important news items as well as corporate actions with respect to all the constituents of the index will be informed to the client on a weekly basis.

Holiday Schedule

The index is calculated when the U.S. equity markets are open. In situations where an exchange is forced to close early due to unforeseen events, the index will be calculated based on the closing prices published by the exchange, or if no closing price is available, the last regular trade reported for each stock before the exchange closed.

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