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INDXX HEDGED DIVIDEND INCOME INDEX METHODOLOGY

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1. INDXX HEDGED DIVIDEND INCOME INDEX

1.1 INDEX DESCRIPTION

The Indxx Hedged Dividend Income Index is a sector neutral index which is designed to track the performance of a strategy utilizing long positions on high dividend paying companies, short positions on no or low dividend paying companies and long positions on Indxx Cash Index.

The index has a base date of February 28, 2003 with an initial value of 1,000.

The index is currently available in the following versions:

- Total Return (Bloomberg Ticker: IDIVALS)

1.2 CREATION OF MASTER LIST

1.2.1 Initial Universe

To be eligible for inclusion in the Initial Universe, securities must have:

- Their listing on US Stock Exchanges as well as domiciled and incorporated in the US.
- A minimum total market capitalization of \$1 billion.
- A 6-month average daily turnover greater than or equal to \$5 million.
- Traded for at least 90% of the total trading days over the last 6 months on their respective stock exchanges.

1.2.2 Free Float

All securities must have a minimum free float equivalent to 40% of shares outstanding.

1.2.3 Maximum Price

Securities trading at a price of \$10,000 or above are ineligible for inclusion in the index. This rule is not applicable for existing constituents. Existing constituents shall remain in the initial universe irrespective of their stock price.

1.2.4 Security Type

The following security types are eligible for inclusion:

- Common Stock
- MLP
- REIT

1.2.5 Share Classes

- The existing share class/listing in the portfolio is retained if it satisfies all the eligibility criteria of the index
- In all other cases, the most liquid share class is considered for inclusion in the portfolio.

1.2.6 Sectors

Consumer Discretionary	Consumer Staples	Energy
Financials	Healthcare	Industrials
Information Technology	Materials	Telecommunication Services
Utilities		

1.3 SECURITY SELECTION PROCESS

After applying the above criteria, the top 1000 stocks by market cap are shortlisted for creation of long and short portfolio.

Long Portfolio

- Among eligible companies, the top 95% companies by trailing 12-month total return are considered to form the long portfolio.
- All companies which have paid dividends consistently for the last 3 years, without any drop in the amount of dividends paid, are eligible for inclusion in the long portfolio.

Short Portfolio

- Companies which have paid no, or low dividends are eligible for inclusion in the short portfolio.
- Biotechnology companies will not be considered for inclusion in the short portfolio.

1.4 FINAL COMPOSITION

Long Portfolio

- Among eligible companies, the top 100 companies by dividend yield are considered to form the 100-stock long portfolio.

Short Portfolio

- Among eligible companies, the companies with the same sector representation as the long portfolio are considered to form the 200 stocks short portfolio.
- In the case of same dividend yield, companies with higher market cap are given priority.
- There can be no overlap of constituents in the long and short portfolios.

Cash Portfolio

- US 3-month Treasury Bills are considered as the cash component.

1.5 WEIGHTING

Long Portfolio

- The long portfolio is equal weighted and 100% long exposure relative to the index.
- A generic sector cap of 25% is applied to the long portfolio.
- REITs & MLPs should not constitute more than 15% of the long portfolio.

Short Portfolio

- To achieve sector neutrality, the sector weights of the short portfolio are set to 50% of the overall sectoral weight of the long portfolio.
- If there are not enough constituents of a short portfolio sector to match the long portfolio sector exposure at 50%, the weights of the eligible constituents in that short sector are increased so that the short sector is 50% of the long sector.
- The eligible constituents within each sector in the short portfolio are equal-weighted.

Cash Portfolio

- The cash portfolio is 50% long relative to the index value.

At the start of each period, long, short & cash positions are reset to the end of the quarter index value, where 100% is allocated to the long position, and 50% each is allocated to the short and cash positions.

1.6 RECONSTITUTION AND REBALANCING RULES

- The index follows a quarterly reconstitution and rebalancing schedule. The new portfolio becomes effective at the close of last trading day of March, June, September and December each year. This day is called the 'Effective Day.'
- The security selection and portfolio creation process start on the close of the nearest Friday falling at least one month before the effective day, called the 'Selection Day.' The selection list is created based on the data as of the Selection Day.
- Weights are effective on the last business day of the quarter.

1.7 CORPORATE ACTIONS

The corporate action guidebook is present in the Announcements section of our website, under 'Index Documents'.

2. DISCLAIMER

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