

Indxx Cannabis Index

Methodology

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Indxx Cannabis Index

Index Description

The Indxx Cannabis Index is designed to track the performance of companies that provide products or services related to the medical or industrial use of cannabis or cannabis derivatives.

Creation of Master list

Investable Universe

- The security should have its primary listing in developed and emerging markets as defined by Indxx.
- Companies must have a minimum market capitalization of \$100 million.
- Each company must have a minimum worldwide monthly trading volume of at least 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last 6 months

Security Type

- Common Stock, ADR, GDR.

Free Float

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

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 would remain in the Index irrespective of their stock price.

Security Selection

The security selection process is based on research performed by Indxx and entails the following steps:

- Indxx uses their proprietary method to identifying companies that operate in industries and business segments most involved in the application of cannabis. Such Companies are then classified under the Indxx categories states below:

Category	Definition
Ancillary	Companies that are involved in activities that support or promote the primary business or operations of cannabis focused companies.
Cultivators	Companies that are involved in production or cultivation of medical cannabis and industrial hemp.
Industrial Hemp	Companies that make usage of hemp; a variety of the Cannabis grown specifically for the industrial uses of its derived products.
Pharmaceuticals	Companies that manufacture medicines with key ingredient as cannabis, with the aim of improving people's health.
Testing and Analytics	Companies that provide analytical tools, research materials or cannaboid based compounds for usage in drug testing, clinical toxicology analysis, drug monitoring or developing new drugs, among other application.

All the companies that are involved in any of the above categories are considered for inclusion in the index.

Weighting

All constituents are equally weighted at the time of reconstitution.

Buffer Rules

Buffer Rules are employed to reduce Portfolio Turnover. The following Buffer Rules are applicable:

Market Capitalization

An existing index constituent shall continue to remain in the index even if its Market Capitalization doesn't meet the previously defined minimum market capitalization criteria but remains within +/- 20% of this limit.

Liquidity

An existing index constituent shall continue to remain in the index even if its Liquidity is below the previously defined Average Daily Traded Value limit but remains within +/- 30% of this limit.

Reconstitution and Rebalancing Rules

- The index follows an annual reconstitution and rebalancing schedule. The new portfolio becomes effective at the close of last trading day of May each year. This day is called the 'Effective Day.'
- The security selection and portfolio creation process starts on the close of the nearest Friday falling at least one month before the effective day, called the 'Selection Day.'
- The final portfolio constituents are shortlisted from a selection pool of all eligible securities selected based on the data as of the Selection Day.
- Weights are calculated at the close of the seventh trading day prior to the Effective Day. Index Shares are frozen using weights as of this day.

Corporate Actions

The following corporate actions (such as stock splits, special dividends, spin-offs and rights offerings) are applied to the Index as decided by the Index Committee.

Corporate Action	Description	Treatment	Adjustment
Company addition and deletion	In case a constituent is added, removed or replaced with another constituent in the Index.	In case of addition and deletion from an index, the divisor is adjusted to reflect the change in market value.	Divisor Adjustment
Stock Split	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. After a split, the stock price will be reduced since the number of shares outstanding has increased.	Stock splits will be adjusted for on the ex- date. The number of shares will increase times the adjustment factor for the split.	No divisor adjustment is required since the share count and price changes are offsetting.
Rights Issue	Rights Issue gives existing shareholders the right to purchase a proportional number of new shares at a discount to the market price on a stated future date. The rights issued to a shareholder have a value, thus compensating current shareholders for the future dilution of their existing shares' value.	Rights Issue impacts the number of shares as well as price thereby impacting the index divisor reflecting an increase in market cap. The Index committee will decide whether to participate in the rights issue or not. If the subscription price is greater than or equal to the stock closing price, Indxx would not participate in the rights issue.	Divisor Adjustment
Spin-Off	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.	The Index Committee will decide on one of the following options based on internal research.	
	Spun-Off company is not added, only the parent company remains in the Index.	Spin-Off will be adjusted for by changing the divisor to account for the change in market value (reflecting market value of the Spun-Off entity).	Divisor Adjustment
	Spun-Off company added to the Index, another company replaced.	The divisor is adjusted to account for the impact of deletion of a company from the Index.	Divisor Adjustment
	Spun-Off company added to the Index, no company removed.		No Divisor Adjustment
Delisting	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.	The security would be removed from the index, and the invested amount in the delisted security will be reinvested into the index.	Divisor Adjustment

Acquisition	<p>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. There could be three different cases:</p> <ul style="list-style-type: none"> - Target Company is a part of the index, acquiring company is not; - Acquiring Company is a part of the index, target company is not; - Target and Acquiring companies are a part of the index <p>The treatment below is followed for all the three scenarios.</p>	The Target company would be removed from the index and the Index Committee will decide on one of the following options based on internal research.	
	All cash takeover	No change to acquirer	Divisor Adjustment
	Partial stock takeover	Share change to acquirer	Divisor Adjustment
	All stock takeover	Share change to acquirer	Divisor Adjustment
Merger	<p>Merger 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.</p>	<p>The Target company is removed from the Index.</p> <p>The Index Committee will decide if the Surviving company should be added to the Index. If added, the divisor will be adjusted to reflect the increase in the number of shares.</p>	Divisor Adjustment
Bankruptcy	<p>Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts.</p>	The security would be removed from the index, and the invested amount in the acquired security will be reinvested into the index.	Divisor Adjustment
Temporary Delisting / Prolonged Trading Suspension	<p>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.</p>	The security would be removed from the index based on the Index Committee's decision and the invested amount in the acquired security will be reinvested into the index.	Divisor Adjustment
Special Dividends	<p>When a company pays a special dividend, the share price of the company declines by the amount of the dividend.</p>	The Divisor is adjusted to reflect a fall in the price of the company paying the special dividend.	Divisor Adjustment
Bonus Issue of Shares	<p>A bonus share is a free share of stock given to current/existing shareholders in a company, based upon the number of shares owned by them.</p>	The issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. The ratio of number of shares held by each shareholder remains constant.	No Adjustment

Total Return Indices

Total Return Index

In addition to all the above mentioned corporate actions, ordinary cash dividends will be applied on the ex-date for calculating TR Indices.

Adjustment in the Index

All dividend payments will be reinvested in the index, by adjusting the divisor in the total return index on the ex-dividend date.

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.

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 all days except Saturday and Sundays. 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.

Disclaimer

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