

Indxx SuperDividend Alternative Index

Methodology

July 2015

Indxx SuperDividend Alternative Index

Index Description

The Indxx SuperDividend Alternative Index seeks to provide exposure to different Alternative asset classes, with an objective of providing a diversified portfolio of assets with a low volatility and high dividend yield. The index seeks exposure to the following four asset classes:

- Infrastructure
- Institutional Managers
- Fixed Income
- Global X SuperDividend REIT ETF

Creation of Master list

Market Capitalization and Liquidity

| | | Market Capitalization | 6 month Average Daily Turnover |
|--------------------------------|--------------------------|--------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Infrastructure | Infrastructure Companies | \$1 billion For securities which are a part of the existing portfolio - \$500 million | \$2 million For securities which are a part of the existing portfolio - \$1 million |
| | MLP | \$1 billion For securities which are a part of the existing portfolio - \$500 million | \$2 million For securities which are a part of the existing portfolio - \$1 million |
| Institutional Managers | Private Equity | \$300 million For securities which are a part of the existing portfolio - \$150 million | \$ 2million For securities which are a part of the existing portfolio - \$1 million |
| | BDCs | \$300 million For securities which are a part of the existing portfolio - \$150 million | \$2 million For securities which are a part of the existing portfolio - \$1 million |
| Fixed Income | | \$100 million For securities which are a part of the existing portfolio - \$75 million | \$1 million For securities which are a part of the existing portfolio - \$0.5 million |
| GlobalX SuperDividend REIT ETF | | NA | NA |

Security Type

Common Stock, REITs, Closed Ended Funds, MLPs

(Exclusion: All entities that are taxed as partnerships, other than Qualified Publicly Traded Partnerships (QPTP) MLPs, are excluded from the index.)

Country of Domicile

USA

Weighting

For weighting the Indxx SuperDividend Alternative Index, the trailing 12 month volatilities and correlations are considered for each of the asset classes, and a risk parity weighting scheme is employed, to ensure every asset class has an equal risk weight. A cap of 40% weight is applied to each asset class after the risk parity weighting.

Within each Asset class, the constituents are equal weighted.

Security Selection

Infrastructure:

- All US Infrastructure companies satisfying the market capitalization and liquidity criteria form the Infrastructure Companies master list. The top 16 securities based on highest trailing 12 month dividend yield are selected for further screening. Out of these 16 securities, the top 8 by lowest volatility over the last 1 year are selected to form the interim list for Infrastructure Companies.
- All US companies which are structured as Master Limited Partnerships (MLPs) and satisfy the market capitalization and liquidity criteria are included to form the MLP master list. From this list, the top 16 securities based on highest trailing 12 month dividend yield are selected for further screening. Out of these 16 securities, the top 8 by lowest volatility over the last 1 year are selected to form the interim list for MLPs.
- Both these interim lists are combined and the 16 constituents are equal weighted to form the index.

Buffer Rules:

From the master list, the top 20 dividend yielding companies are selected and then the top 10 companies by lowest volatility form buffer lists for both MLPs and Infrastructure Companies. A security that is a part of the existing portfolio would automatically qualify for inclusion in the new portfolio, if it is a part of the buffer list.

Institutional Managers:

- US companies which qualify as BDCs and Private Equity Companies that meet the market capitalization and liquidity requirements have been included in the master list for Institutional Managers.
- The top 30 securities based on highest trailing 12 month dividend yield are selected for further screening. Out of these 30 securities, the top 15 by lowest volatility over the last 1 year are selected to form the final portfolio. These are equal weighted to form the index.

Buffer Rules:

From the master list, the top 36 dividend yielding companies are selected and then the top 18 companies by lowest volatility form the buffer list. A security that is a part of the existing portfolio would automatically qualify for inclusion in the new portfolio, if it is a part of the buffer list.

Fixed Income:

- Closed Ended Funds (CEFs) with exposure to option writing strategies (Buy-Write CEFs): The top 10 CEFs identified by dividend yield that satisfy the market capitalization and liquidity criteria, and the top 5 among these, by lowest volatility are selected to form the final portfolio for Buy-Write CEFs.
- Closed Ended Funds (CEFs) with exposure to Currency Carry and Emerging Market Debt Strategies (Currency Income CEFs): The top 10 CEFs identified by dividend yield that satisfy the market capitalization and liquidity criteria, and the top 5 among these, by lowest volatility are selected to form the final portfolio for Currency Income CEFs.
- Closed Ended Funds (CEFs) with exposure to Mortgage and Asset Backed Securities (MBS CEFs). The top 10 CEFs identified by dividend yield that satisfy the market capitalization and liquidity criteria, and the top 5 among these, by lowest volatility are selected to form the final portfolio for MBS CEFs.

These are equal weighted to form the index.

Buffer Rules:

From the master list, the top 12 dividend yielding CEFs are selected and then the top 6 CEFs by lowest volatility form the buffer list. A security that is a part of the existing portfolio would automatically qualify for inclusion in the new portfolio, if it is a part of the buffer list.

For a CEF to be removed, the replacement must have a dividend yield 1% higher than the CEF being removed.

Global X SuperDividend REIT ETF:

- The current constituents of the Global X SuperDividend REIT ETF.

Reconstruction and Rebalancing Rules

A 3 day rolling rebalance schedule is employed.

- Every individual asset class is reconstituted and rebalanced on the last three trading days of September (reconstitution day). A new selection pool will be created on the selection day (third last Friday of September each year). Target weights are also calculated on the selection day based on the risk parity weighting scheme.
- The Indxx SuperDividend Alternative Index is rebalanced at the end of each quarter (five business days before the last trading day in March, June, September and December) if the weight of any one of the baskets has deviated from the target weight by more than 3%.

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 the 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

Ordinary cash dividends are applied on the ex-date for calculating the total 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.

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.

Disclaimer

This methodology document and all information contained herein including, without limitation, all text, data, graphs, charts, visuals and theory (collectively, the “information”), were created by and is the sole property of Indxx, LLC. Redistribution, reproduction and/or photocopying of this document in whole or part is prohibited without written permission from Indxx. All information in this document provided by Indxx is impersonal and not tailored to the needs of any person, entity or group. None of the information constitutes an attempt at an offer to sell (or an attempt of an offer to buy), or a promotion or recommendation of, any security, product, investment vehicle or any trading strategy, and Indxx does not endorse, approve or otherwise express any opinion regarding any issuer, security, financial product, instrument, or trading strategy. None of the information, Indxx indices, models, other products or services contained herein is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and should not be relied on as such. A decision to invest in any investment fund or other vehicle should not be made based solely on information or statements contained in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks, fees and expenses associated with investing, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Historical data, analysis and performance of Indxx indices should not be taken as an indication or guarantee of any future performance. Indxx does not guarantee the accuracy and/or completeness of any Indxx index, any data included herein, or any data from which it is based, and Indxx shall have no liability for any errors, omissions, or interruptions therein. All information in these materials is provided “as is” and the content may change without notice.

For more information on the index, please email info@indxx.com.
Learn more at www.indxx.com.