

# **Indxx Global YieldCo Index**

## **Methodology**

**May 2015**

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# Indxx Global YieldCo Index

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## Index Description

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The Indxx Global YieldCo Index is an adjusted market cap weighted index designed to provide access to globally listed securities which are categorized as YieldCos

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## Selection Pool

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### ***Market Capitalization & Liquidity***

The minimum Market Capitalization is set at US\$ 500 million; the minimum Average Dollar Traded (ADT) in the past 3 months is set at US\$ 1 million

- If there are fewer than 20 securities which satisfy this criteria, the market capitalization criteria is reduced to US\$ 100 million, and the 6 month ADT criteria is reduced to US\$ 100,000, until there are 20 securities in the portfolio
- If there are fewer than 20 securities even after reducing the market capitalization and liquidity criteria to include YieldCos, parent companies are included in the index, in the order of their anticipated spin-off dates, until there are 20 companies within the index. The parent companies must meet the following criteria: Market Capitalization greater than US\$ 500 million, and past 3 month ADT less than US\$ 1 million
- Parent companies of proposed yieldcos will be removed once the proposed yieldco gets listed

### ***Security Type***

Yieldcos are publicly traded companies that are formed to own operating assets that produce defined cash flows. A yieldco is a dividend growth-oriented public company, created by a parent company, which bundles renewable and/or conventional long-term contracted operating assets in order to generate systematic cash flows

### ***Limitations***

- If an index constituent whose holding causes the company holding said constituent to fail to qualify as a Regulated Investment Company, the Index Sponsor reserves the provision to remove such a constituent from the eligible universe

## ***Weighting***

- The top 5 listed yieldcos based on Market Capitalization receive step wise decreasing weights from 11% till 7% (for a total of 45%)
- The weights of all the remaining companies are capped at 4.75%. Non yieldcos will be strictly capped at 4.75%
- The aggregate weight of Partnerships is capped at 25%. Any excess weight is distributed proportionately among the remaining constituents

## ***Reconstitution***

Portfolios will be reconstituted and rebalanced on the third Friday of March, June, September, and December. On the selection days (two weeks prior to the reconstitution days), a new selection pool will be created, and weights will be calculated based on the market capitalization of the selection date. The weights will be frozen 3 business days prior to the reconstitution date.

Once there are at least 20 yieldcos with US\$ 500 million Market Capitalization and an ADT greater than US\$ 1 million included in the index, subsequent rebalances will take place semiannually, on the third Friday of each of March and September

## **Index Creation Process**

- A master list of the securities is initially prepared from the applicable Index Universe by applying the criteria of market capitalization and sector.
- All yieldcos which qualify market capitalization criteria of US\$ 500 million, and liquidity criteria of US\$ 1 million are included.
- If there are fewer than 20 constituents in the index after this stage the Market Cap and Liquidity criteria will be reduced as described earlier, to include more yieldcos until there are 20 index constituents.
- If there are still fewer than 20 index constituents, the parent companies of proposed yieldcos will be included in the index (based on the anticipated listing date of the yieldcos if available, otherwise, this would be based on the date on which these parent companies file the prospectus for spinning off their yieldcos)
- If a parent company is a part of the index, and its corresponding yieldco gets listed, the listed yieldco will replace the parent entity in the subsequent rebalance period
- The constituents are weighted based on the weighting scheme detailed earlier. The top 5 yieldcos ranked by market capitalization get progressively decreasing weights of 11%, 10%, 9%, 8%, and 7%. The remaining securities will be weighted based on their Market Capitalization, and capped at a single security weight of 4.75%
- The aggregate weights of listed partnerships are capped at 25%. Excess weights are proportionately allocated to the remaining index constituents
- As long as there are fewer than 20 yieldcos with a market capitalization less than US\$ 500 million, and an ADT less than US\$ 1 million, the index rebalances quarterly. Once there are more than 20 yieldcos satisfying this criteria, the index switches to a semi-annual rebalance schedule

# Corporate Actions

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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

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### Meaning

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Dividends are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to shareholders. 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 preferred 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

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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

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Dividend payments will be reinvested in the total return index on the ex-dividend date. This means that going forward this additional money will be used to buy additional shares in the future.

## Stock Split

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### Meaning

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All publicly-traded companies have a set number of shares that are outstanding on the stock market. A preferred 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 preferred 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 preferred stock's price is also affected by a stock split. After a split, the preferred 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 preferred 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

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Preferred 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

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Preferred 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**

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### **Meaning**

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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**

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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**

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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**

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### **Meaning**

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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 preferred 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**

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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**

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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 preferred 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

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### 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.

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### Impact on Index

Spin off impacts the divisors in both the total and price return indices.

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### 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:

- 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

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### Meaning

Delisting refers to the practice of removing the preferred 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. This might also occur if a preferred security is called by its issuer for cash or par value.

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### Impact on Index

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

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### Adjustment in the Index

In the event a company is de-listed from the listed exchange, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology.

## Acquisition

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### Meaning

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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

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

### Adjustment in the Index

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In the event a company is acquired, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology.

## Merger

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### Meaning

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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

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Merger impacts the divisors in both the total and price return indices.

### Adjustment in the Index

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In the event a company is merged, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology.

## **Bankruptcy**

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### **Meaning**

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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**

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

### **Adjustment in the Index**

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In the event a company is Bankrupt, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology.

## **Temporary Delisting/Prolonged Trading Suspension**

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### **Meaning**

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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**

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

### **Adjustment in the Index**

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In the event a company is temporary delisted or trading suspension has taken place, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology.

## Call

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### Meaning

Certain preferred securities have an in built call option, wherein the issuer has the right to call the security at a predefined price, after a pre decided date. All terms pertaining to the call provisions, such as call price, callable date, etc., defined in the prospectus of the preferred security

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### Impact on Index

A call on a preferred security impacts the divisors in both the total return and price return indices.

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### Adjustment in the Index

If an issuer calls a constituent, it is removed from the index. However, in case the issuer chooses not to call the security, no change is made to the index.

## Index Data

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### **Total Return Index**

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Ordinary cash dividends are applied on the ex-date for calculating the total return index. “Special dividends” are those dividends that are outside of the normal payment pattern established historically by the issuing corporation. Whether a dividend is funded from operating earnings or from other sources of cash does not affect the determination of whether it is ordinary or special. “Special dividends” are treated as corporate actions with offsetting price and divisor adjustments; the total return index reflects both ordinary and special dividends.

### **Price Return Index**

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No dividends are applied to calculate the price return index.



# Index Policy

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## **Index Committee Policy**

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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**

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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**

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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

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