

**Indxx Millennials Thematic Index  
Methodology**

**March, 2016**

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# Table of Contents

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Index Description..... 3

Creation of Master list..... 3

Security Selection..... 4

Weighting..... 5

Buffer Rules..... 5

Reconstitution and Rebalancing Rules..... 6

Periodic Index Review ..... 6

Corporate Actions..... 7

Total Return Indices..... 9

Index Policy ..... 9

Disclaimer..... 10

# Indxx Millennials Thematic Index

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## Index Description

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*The Indxx Millennials Thematic Index measures the performance of U.S. listed companies that provide exposure to the Millennial generation, ("Millennial Companies"). The Millennial generation refers to the demographic cohort in the US with birth years ranging from 1980 to 2000.*

## Creation of Master list

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### **Investable Universe**

- The Index is designed to include the most liquid and investable universe in accordance with the standard market capitalization and liquidity criteria associated with developed markets as defined by Indxx. For more information, please refer to the document 'Country Classification and Investability Requirements', by visiting the 'Index Documents' at [http://www.indxx.com/index\\_doc.php](http://www.indxx.com/index_doc.php).
- The stock must have traded on 90% of the eligible trading days in the last 6 months. In case a security does not have a trading history of 6 months (e.g., IPOs), such a security must have started trading at least 3 months before the start of the Reconstitution/Rebalancing Process, and should have traded on 90% of the eligible trading days for the past 3 months.

### **Free Float**

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

### **Geographical Focus**

The security should have its primary listing in the United States.

### **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 the stock price.

### **Security Type**

- Common Stock, ADR, REITs.
- In case ADR for a security is available, it will be considered for inclusion over other security types.

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

- 1) Identification of key demographic and consumer behavior trends that are characteristic of the millennial population cohort, based on fundamental research. This fundamental research covers topics that include but are not limited to: consumer behavior, technology, demographics and macroeconomics. The following components of the company selection process are derived from this initial research:
  - Key millennial spending categories with a primary focus on consumption and human/financial capital development (“Spending Categories”).
  - Criteria that are used to evaluate companies and identify Millennial Companies (“Evaluation Criteria”).

As of March 11, 2016, Indxx has identified the following eight millennial Spending Categories:

### **Consumption**

- Clothing and Apparel
- Food/Restaurants and Consumer Staples
- Social and Entertainment
- Travel and Mobility

### **Human and Financial Capital Development**

- Education and Employment
  - Financial Services and Investments
  - Housing and Home Goods
  - Health and Fitness
- 2) A universe of U.S listed companies is created using industries and sub-industries in sectors that are expected to provide the most exposure to the Spending Categories identified in Step 1. As of March 11, 2016, these sectors included: Consumer Discretionary, Consumer Staples, Financials, Information Technology, Industrials, Real Estate and Telecommunication Services. These sectors are derived from the Spending Categories identified in Step 1, and as a result are subject to change. Each company belonging to this universe will then be scored based on its exposure to one or more Spending Categories using the following scoring system:
    - Little/ No Exposure: 0
    - Moderate Exposure: 1
    - Significant Exposure: 2
  - 3) Once all the companies in the eligible universe are assessed and scored based on their exposure to the identified Spending Categories, only companies receiving a score of “2” will be further assessed using a composite analysis, to identify those companies that are expected to provide the most exposure to millennials within each Spending Category.

- 4) The established Evaluation Criteria includes both quantitative and qualitative measures. Each company will be evaluated based on the Evaluation Criteria for its specific Spending Category, and will be ranked on the basis of the score obtained, with a high score indicating higher millennials focus and a low score indicating a lower millennials focus.
- 5) A final composite score shall be arrived at, by combining the ranking each company receives based on the quantitative and qualitative Evaluation Criteria. Companies must achieve a score above a minimum threshold in order to be eligible for inclusion in the index. This score may vary by Spending Category.
- 6) Each Spending Category must have a minimum of 5 companies and a maximum of 15 companies that shall form the final portfolio. If there are more than 15 companies that qualify for inclusion in a particular Spending Category, the companies that have the highest composite score shall be considered for inclusion. (There will be an exception to the maximum 15 companies rule at the time of the semi-annual review to accommodate IPOs.)

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## **Weighting**

- The Index is modified market cap-weighted at the time of reconstitution. A single security weight cap of 3% and minimum weight floor of 0.3% is applied.
- Any security which has a weight of 3% or more is allocated 3%, and any security which has a weight of 0.3% or less is allocated 0.3%.
- The balance weight is proportionately distributed among the remaining securities while retaining the 3% and 0.3% weight limits.
- Security-level market capitalization is considered for calculating weights.

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## **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 criteria limit, 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.

### ***Continued representation in the Portfolio***

Assuming similar composite scores, existing constituents will be given preference to new constituents at the time of annual reconstitution.

## Reconstitution and Rebalancing Rules

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- The index follows an annual reconstitution and rebalancing schedule. The new portfolio becomes effective at the close of trading on the third Friday of April 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 sixth trading day prior to the Effective Day. Index Shares are frozen using weights as of this day.

## Periodic Index Review

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**Semi Annual Review:** To effectively capture IPOs, the index constituents will be reviewed on a Semi Annual basis. New additions to the portfolio become effective on the close of trading on the third Friday of October. This day is called the 'Review Effective Day'.

- The cut-off date for consideration of new IPOs shall be the close of the nearest Friday falling at least one month before the review effective day. This day is called the 'Review Selection Day'.
- Weights are calculated at the close of the sixth trading day prior to the Effective Day. Index Shares are frozen using weights as of this day.

In order to be considered for inclusion, the IPO must have been listed at least 3 calendar months prior to the Review Selection Day. Additionally, the security must have traded on 90% of the eligible trading days for the past 3 months from the Review Selection Day.

If an IPO meets the above criteria, as well as market cap and liquidity criteria defined earlier, it will be considered for inclusion in the portfolio.

The IPO will be included in the index if it receives a composite score that is higher than the lowest scoring company in its respective Spending Category.

Inclusion of an IPO shall be the only instance where there are more than 15 names within a particular Spending Category.

**Annual Review:** To aptly capture changing preferences among millennials, the Evaluation Criteria will be reviewed and can be modified at the time of annual reconstitution.

**Three Year Review:** The Spending Categories will be reviewed every three years. At least 6 and at most 8 spending categories shall be identified during each review.

# Corporate Actions

The following corporate actions (such as stock splits, special dividends, spin-offs and rights offerings) are applied to Price Return indices on the ex-date or earlier 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.	Stock splits will be adjusted for on the ex- date. The number of shares will increase times the adjustment factor for the split and the stock price will be reduced since the number of shares outstanding has increased.	No divisor adjustment
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

Corporate Action	Description	Treatment	Adjustment
Acquisition	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: - 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 The treatment below is followed for all the three scenarios.	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	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.	The Target company is removed from the Index.  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.	Divisor Adjustment
Bankruptcy	Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts.	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	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 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	When a company pays a special dividend, the share price of the company declines by the amount of the dividend.	The Divisor is adjusted to reflect a fall in the price of the company paying the special dividend.	Divisor Adjustment
Bonus Issue of Shares	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.	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

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## Total Return Index

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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

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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

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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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