

Indxx Global Generics & New Pharma Index Methodology

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Indxx Global Generics & New Pharma Index

Index Description

The Indxx Global Generics & New Pharma Index provides exposure to the 40 largest companies involved in manufacturing Generics, SuperGenerics, Biobetters and Biosimilars, and providing API manufacturing, CMO and CRO services to the pharmaceutical industry.

Creation of Master list

Market Capitalization

Minimum company level market capitalization is set at US\$ 1 billion.

Liquidity

- Minimum security level average daily turnover for the last 6 months is set at US\$ 2 million.
- The stock must have traded on 90% of the eligible trading days in the last 3 months.

Free Float

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

Geographical Focus

All securities must either be incorporated or have their Primary Listing in one of the Global countries as defined by Indxx in order to be eligible for inclusion in the index. For more information, please refer to the document 'Country Classification and Investability Requirements', by visiting the 'Index Documents' section on <http://www.indxx.com/announcements.php>

Foreign Institutional Investor (FII) Limit

Available FII Limit of each company domiciled in India (excluding ADRs) should be at least 5%. Stocks which are a part of the Government of India's restrictive list for foreign investors would not be considered for inclusion in the index.

Security Type

Common Stock, American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs).

Share Classes

In case ADR for a security is available, it will be considered for inclusion over other security types. In other cases, the most liquid security type will be considered. Weights to each share class shall be assigned based on their share-class level market capitalization and free-float data.

Security Selection

- The index includes exchange-listed companies, on a global basis, that derive a significant proportion of their revenues (or that have the potential to derive a significant proportion of their revenues) from the generic drugs industry, or that have a primary business focus on the generic drugs industry.
- The generic drugs industry, as defined by Indxx, includes any company involved in the research, development, production, manufacturing or sale of generics and supergenerics.
- Health care equipment companies having a focus on injectable generics, biosimilars and biobetters are eligible for inclusion in the index.
- Companies primarily involved in API manufacturing, and CMO and CRO services are eligible for inclusion in the index.
- Companies focused primarily in manufacturing biotech APIs are eligible for inclusion in the index.

Weighting

The index is a market capitalization weighted index. The maximum weight for any single stock is 8.00%. If a stock exceeds the maximum weight, then the weight will be reduced to the maximum weight and the excess weight shall be re-distributed proportionally across all other index constituents. This process is repeated until no stocks have weights exceeding the respective maximum weight. The company weighting scheme will be applied to the largest stocks and the excess weight after each step shall be re-distributed across all other (uncapped) stocks in the index on a proportional basis:

- If the largest two stocks exceed 8.00%, then both will be capped at 8.00%.
- If the 3rd largest stock exceeds 7.00%, then it will be capped at 7.00%.
- If the 4th largest stock exceeds 6.50%, then it will be capped at 6.50%.
- If the 5th largest stock exceeds 6.00%, then it will be capped at 6.00%.
- If the 6th largest stock exceeds 5.50%, then it will be capped at 5.50%.
- If the 7th largest stock exceeds 5.00%, then it will be capped at 5.00%.
- If any other stock exceeds 4.50%, then it will be capped at 4.50%.

Buffer Rule

Buffer Rule is employed to reduce Portfolio Turnover. The following Buffer Rule is applicable:

Continued Representation in the Portfolio

On the selection day, only those names are removed from the existing portfolio if, at the time of rebalance, they are not a part of the top 50 by market capitalization.

Reconstitution and Rebalancing Rules

- The index follows a semi-annual reconstitution and rebalancing schedule. The new portfolio becomes effective on the close of business on the third Friday of March and September each year. This day is called the 'Effective Day.'
- The security selection and portfolio creation process starts on the close of the last Friday of February and August each year, called the 'Selection Day.' The final portfolio constituents are shortlisted from a selection pool of all eligible securities selected on the Selection Day.
- Constituents are publicly announced five days prior to the Effective Day. This day is called the 'Announcement Day.'
- Weights are calculated at the close of the sixth 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 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

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 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.

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