

Indxx U.S. Infrastructure Development Index:

Methodology

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Indxx U.S. Infrastructure Development Index

Index Description

*The Indxx U.S. Infrastructure Development Index is designed to measure the performance of companies that provide exposure to infrastructure development in the United States. This includes companies involved in the construction and engineering of infrastructure projects; the production of infrastructure raw materials, composites and products; producers/distributors of heavy construction equipment; and companies engaged in the transportation of infrastructure materials (**collectively, “U.S. Infrastructure Development Companies”**), as defined by Indxx.*

Creation of Master list

Investable Universe

- Companies must have a minimum full market capitalization of \$300 million and a minimum average daily turnover for the last 6 months greater than or equal to \$1 million.
- 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 must 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 their stock price.

Security Type

Common Stocks are eligible for inclusion in the Index, while Master Limited Partnerships, REITs and BDCs will not be considered for inclusion in the Index.

Security Selection

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

- An extensive research is undertaken with a focus on identifying the industries and business segments that are expected to provide the most exposure to increased investment in U.S. infrastructure. The industries identified through this research-based approach are subject to change at every annual reconstitution.
- As of December, 2016, Indxx has identified the following four U.S. infrastructure development themes:
 - **Construction & Engineering Services:** Companies that provide engineering, design, maintenance and construction services for large-scale infrastructure projects such as energy generation/distribution, water/wastewater, telecommunications, transportation (roads, bridges, tunnels, rail), airports and seaports.
 - **Raw Materials and Composites:** Companies that produce and supply raw and composite materials (steel, copper, nickel, tin, aluminum, concrete, asphalt, cement and specialty chemicals) that are utilized in the construction and development of infrastructure projects.
 - **Products and Equipment:** Companies that sell or rent heavy construction equipment, cranes, electric and fiber optic cables, pipes, pumps, smart meters and other products or equipment utilized in large-scale infrastructure projects.
 - **Industrial Transportation:** Companies that transport infrastructure raw materials and equipment.
- Only those companies that derive a significant portion of their revenues from the above industries or have stated their primary business to be in products and services focused on the above industries are eligible for inclusion in the index. Additionally, only companies that generate greater than 50% of revenues from the U.S. as of the Selection Day are eligible for inclusion in the index.
- The top 100 infrastructure development companies by market capitalization will form the final index. If fewer than 100 companies qualify inclusion in the index, all of the qualifying companies will comprise the index.

Weighting

- The Index applies a modified market cap-weighting approach 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 full market capitalization is considered for calculating weights.

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 does not meet the previously defined minimum market capitalization criteria, but remains within 20% of this limit.

U.S. Revenue Exposure

An existing index constituent shall continue to remain in the index if it generates greater than 40% of its revenue from the U.S. as of the Selection Day.

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

Additionally, an existing index constituent shall continue to remain in the index if it is part of the top 120 companies by market cap, even if it is not a part of the top 100 constituents.

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 January each year. This day is called the 'Effective Day.'
- The security selection and index 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 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. 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 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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