

Dhandho Junoon Index: Methodology

February, 2016

Table of Contents

Dhandho Junoon Index 3

Index Description..... 3

Creation of Master list..... 3

Security Selection..... 4

Wallet Allocation Rules..... 5

Multiple Share Classes..... 6

Reconstitution and Rebalancing Rules..... 6

Appendix I..... 7

Corporate Actions..... 8

Index Policy 10

Disclaimer..... 12

Dhandho Junoon Index

Index Description

The Dhandho Junoon Index tracks the price movements of a portfolio of stocks of approximately 100 U.S. companies and ADRs across 3 buckets: (1) Share Buybacks, (2) Select Guru Picks, and (3) Spin-Offs. The Index base date is July 1st, 2009. The index inception date is March 1st, 2016. The Index is calculated as a total return Index in USD.

Creation of Master List

The “master list” is defined as the list of securities that make up the investable universe of each bucket, after screening for geographic focus, industry focus and security type.

Investable Universe

- The Dhandho Junoon Index is composed of 3 buckets:
 - Share Buyback
 - Spin-off
 - Select Guru Picks
- Share Buyback:
 - Companies that bought back between 1% and 26% of their shares in the trailing twelve months, one quarter prior to the Selection Date (as defined later in the document) are included in the master list.
 - Reverse stock splits are not considered as buyback.
 - The minimum market capitalization is set at \$1 billion.
- Spin-off:
 - Companies that were spun-off 1 - 7 years prior to the Selection Date.
 - The minimum market capitalization is set at \$500 million.
- Select Guru Picks
 - Companies that were the holdings of 22 hedge funds (Appendix I) one quarter prior to Selection Date.
 - The holdings of hedge funds are derived from their regulatory 13-F filings with SEC.
 - The minimum market capitalization is set at \$1 billion.
 - Companies selected from holdings of Berkshire Hathaway have a maximum market capitalization limit of \$50 billion.
 - Companies selected from holdings of Berkshire Hathaway have to be new additions in the portfolio of Berkshire Hathaway since 2004 Q3.

Geographic Focus

- The company should have its primary listing in NYSE, NYSE ARCA or NASDAQ.
- Companies headquartered in the following countries are excluded from the master lists of Share Buyback and Spin-off buckets:
 - Argentina
 - Brazil

- Russia
- Colombia
- Venezuela
- Zimbabwe

Industry Focus

- Companies in the following Sector are excluded from the master lists of Share Buyback and Spin-off buckets:
 - Utilities
- Companies in the following Industry are excluded from the master lists of Share Buyback and Spin-off buckets:
 - Consumer Finance
 - Airlines
 - Oil, gas and Consumable Fuels
 - REITS
- Companies in the following Industry are excluded from the master lists of Select Guru Pick bucket:
 - REITS

Security Type

Common Stock, ADR and MLPs are considered.

Security Selection

- Share Buyback:
 - 33 companies with the largest trailing twelve months share buyback percentages one quarter prior to the Selection date are included in the Share Buyback bucket.
- Spin-off:
 - Securities with negative income in trailing twelve months one quarter prior to the Selection date are excluded from the master list.
 - At least 25 and at most 33 of the most recent spun-off securities from the master list are included in the Spin-off bucket.
- Select Guru Picks:
 - Hedge fund managers are sorted based on their priority listed in Appendix I.
 - The largest holdings of the hedge fund managers from one quarter prior to Selection date are included in the Select Guru Picks bucket.
 - The number of securities selected from the hedge fund managers' portfolios is determined by the pre-set limit listed in Appendix I.
 - Securities that are already present in the bucket are not considered for inclusion again. E.g., If the largest holding of a hedge fund is already present in the Select Guru Picks bucket, the next largest holding of that hedge fund is considered for inclusion and so on.

- If less than 34 companies are eligible for inclusion in the bucket despite including all permissible allocations based on pre-set limits, the hedge funds are iterated over till 34 companies are chosen.

Wallet Allocation Rules

- Each of the 3 buckets has a wallet associated with it. Each bucket's wallet comprises of:
 - Cash proceeds from sale of stocks that were bought during the quarter (for each bucket) from
 - Proceeds from corporate event.
 - Proceeds from sale of spin-offs.
 - Dividends.
 - Cash proceeds from the sale of securities which are to be replaced from that bucket during the quarterly reconstitution.
- Share Buyback:
 - There is a minimum holding period of 12-months.
 - After 12 months in the portfolio, a company is eligible for removal if its share count has increased in trailing twelve months.
 - After 36 months in the portfolio, a company is not eligible for removal only if its trailing twelve months buyback percentage is above 2% or trailing three months buyback percentage is above 0.3%.
 - The Share Buyback wallet money is invested into three groups with specific proportions:
 - Group A: 35% of wallet money is invested in companies that are more than 3 years old in the Share Buyback bucket.
 - Group B: 35% of wallet money is invested in companies that are 2 years to 3 years old in the Share Buyback bucket.
 - Group C: 30% of wallet money is invested in new companies that enter the Share Buyback bucket during rebalance.
 - Wallet money is allocated equally within each group.
 - If there is wallet money left after allocation in any group, that money is allocated to the next group in the sequence of A, B, C and then the entire Share Buyback bucket.
- Spin-off:
 - Each quarter, 3 companies are removed in the following priority order:
 - Involuntary removal – Acquisition, Delisting, Bankruptcy.
 - After twelve months in portfolio, negative Net Income in trailing twelve months.
 - Companies whose spin-off date is more than 7 years from the rebalance date.
 - If 3 companies are not eligible for exclusion after following the 3 steps above, more securities are removed from the portfolio based on their spin-off dates to reach 3 securities, with the oldest spin-off getting removed first.
 - Only those many securities shall be replaced from the Spin-off bucket as are available and eligible for inclusion.
 - The Spin-off wallet money is invested into two groups with specific proportions:
 - Group A: 50% of wallet money is invested in retained constituents.
 - Group B: 50% of wallet money is invested in new constituents.
 - Wallet money is allocated equally within each group.

- Select Guru Picks:
 - Companies are removed if,
 - They are sold off by the hedge fund manager through which they had originally become a portfolio constituent or,
 - Their ranks have dropped by more than 5 within the fund manager's portfolio from the time of addition in our portfolio.
 - The Select Guru Picks wallet money is invested equally among the new constituents.
 - In the absence of new constituents, the wallet money is equally allocated to the whole bucket.

Holding Constraints

- The index can buy up to a maximum of 3.5% of the market capitalization of a company. If the index's holding of a company reaches 4% of its market capitalization then the position in the company is brought down to 3.5% of its' market capitalization.
 - Whenever the investment in a security causes the index to hold more than 3.5% of the company's market capitalization, no new shares of this company are purchased by the index.
- From the first 50% of the portfolio value, the maximum investment into a single company is capped at 17% of portfolio value.
 - When the investment in the company reaches 20% due to price movements, the investment value is brought down to 17%.
 - Whenever the investment in a security within the first 50% of the portfolio value causes its weight to exceed 17%, no new shares of this security are purchased by the index.
- From the last 50% of the portfolio value, the maximum investment in a single company cannot exceed 3.5% of portfolio value.
 - When the investment in the company reaches 4% due to price movements, the investment value is brought down to 3.5%.
 - Whenever the investment in a security within the last 50% of the portfolio value causes its weight to exceed 3.5%, no new shares of this security are purchased by the index.

Multiple Share Classes

In case multiple share classes are available, the most liquid share class will be considered for inclusion in the index.

Reconstitution and Rebalancing Rules

- The index is periodically reconstituted and rebalanced effective at the open of market on the last business day of every quarter. This date is called the 'Effective' date.
- Target weights are calculated using data as of market close on the 6th business day prior to the Effective date. This date is called the 'Freeze Date'. Based on the calculated weights, index shares for the new portfolio are calculated using the investment value and security prices as of this date. These shares are frozen and shall subsequently become effective on the Effective date.
- Portfolio Constituents are finalized using data as of market close on the 11th business day prior to the 'Freeze Date'. This date is called 'Selection' Date.

Appendix I

Priority Number	Hedge Fund	Pre-Set Limit
1	ValueAct Capital	2
2	Berkshire Hathaway Inc.	3
3	Arlington Value Capital, LLC	2
4	Greenlight Capital	2
5	Appaloosa Management	2
6	FPA Capital Fund, Inc.	2
7	SQ Advisors, LLC	2
8	Invesco Private Capital	2
9	Dalal Street LLC/ Pabrai Investment Funds	2
10	Sequoia Fund, Inc.	2
11	Pershing Square Holdings Ltd.	2
12	Third Point LLC	2
13	Fairholme Capital Management, LLC	1
14	Icahn Capital Management LP	2
15	Markel Insurance	1
16	Blue Ridge Capital, LLC	2
17	Tweedy, Browne Company LLC	1
18	Leucadia National Corp.	1
19	Baupost Group LLC	1
20	Abrams Capital Management LP	1
21	Lone Pine Capital LLC	1
22	Maverick Capital, Ltd.	1

Corporate Actions

Unless explicitly mentioned, the following corporate actions (such as stock splits, special dividends, spin-offs and rights offerings) are applied to index on their ex-dates.

Corporate Action	Description	Treatment	Adjustment
Company addition and deletion	In case a constituent is added, removed or replaced with another constituent in the Index.	New additions to the portfolio shall never happen except on quarterly rebalance date.	No 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.	The company remains in the Index at same weight it had before the right offering. The price is adjusted to the Price of the Parent Company minus (the Price of Rights Offering/Rights Ratio).	No 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.	Proceeds from spin-off are reinvested into the parent entity.	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 invested into Berkshire Hathaway Class B share.	No Divisor 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.	The Target company would be removed from the index on the acquisition announcement date, and the amount invested in this security will be reinvested into Berkshire Hathaway Class B shares.	No Divisor Adjustment

Corporate Action	Description	Treatment	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 would be removed from the index on the announcement date and the amount invested in the target will be reinvested into Berkshire Hathaway Class B share.	No 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 invested into Berkshire Hathaway Class B share.	No 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 invested into Berkshire Hathaway Class B share.	No Divisor Adjustment
Regular/ Special Dividends	When a company pays a cash dividend (regular or special), the share price is assumed to drop by the amount of the dividend.	The dividend amount is reinvested into the security which pays the dividend	No 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

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.

The Hedge Fund Selection Committee (which is separate from the Index Committee) will be responsible for updating the list of hedge funds to be used for the creation of the Select Guru Picks bucket. The following lists the rules for the composition and activities of the Hedge Fund Selection Committee:-

- The first time that the Committee ever meets will be when the number of hedge funds on the list of hedge funds falls below 15; until that happens, the list of hedge funds will not change.
- Following its first meeting, the Committee then meets once a year to:
 - Top-off list to 22, in case the list of hedge fund falls below 22.
 - In addition to above, the Committee can replace up to 2 hedge funds per year.
- For a new hedge fund to be chosen and added to the portfolio it needs to meet the following conditions:
 - Needs to have at least 5 years of 13-F filings and manage over \$500 million in assets.
 - The assets under management of the hedge fund (rounded up to the next million) must have risen with CPI in the past 12 months.
- The Committee will consist of three individuals who are independent of Dhandho Funds LLC and Indxx LLC.
 - The first 3 individuals will be selected by Mohnish Pabrai.
- The Committee members will meet once a year and get paid \$10,000/year each, plus reimbursement of travel and meeting expenses. Annual pay rises by the amount CPI rises, rounded up to the next \$1,000.
- If a Committee member leaves/resigns or is otherwise incapacitated, the other two members will pick a replacement by unanimous vote.
- The Committee decisions are by majority; decisions do not need to be unanimous.

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 .