

Dorsey Wright Sector 4 Index Methodology

Index Description

The Dorsey Wright Sector 4 Index selects up to four exchange-traded funds from the PowerShares DWA Momentum Sector line-up of ETFs. The objective of the Index is to gain exposure to the strongest relative strength sectors in the US equity space on a monthly basis. When equities are not in favor, the portfolio can gain exposure to the Nasdaq US T-Bill Part 2 Index (Nasdaq: NQCASH2) in 25% increments, up to 100%.

Index Calculation

The Dorsey Wright Sector 4 Index is an equal weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each such security's Last Sale Price¹, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for reporting purposes. If trading in an Index Security is halted on its primary listing market, the most recent Last Sale Price for that security is used for all index computations until trading on such market resumes. Likewise, the most recent Last Sale Price is used if trading in a security is halted on its primary listing market before the market is open. The Index began on September 21, 2015 at a base value of 1000.00.

Two versions of the Index will be calculated – a price return index and a total return index.

- The price return Index (Nasdaq: DWASECTOR4) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return Index (Nasdaq: DWASECTOR4T) reinvests cash dividends on the ex-date. Both Indexes reflect extraordinary cash distributions.

The Indexes are calculated and disseminated once per second from 9:30:01 to 17:16:00 Eastern Time (ET) in USD. The closing value of the Indexes may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

Eligibility Criteria

The potential inventory for the Index consists of the PowerShares Dorsey Wright Momentum Sector ETFs that are designed to target a specific sector or industry group, or that have a significant overweight towards a particular sector or industry group (see *appendix A*). The potential inventory's members are chosen at the sole discretion of the Index Provider. The Index is designed to provide targeted exposure to a maximum of four ETFs that the Index Provider believes offer the greatest potential to outperform the other ETFs in the selection

¹ For purposes of this document, Last Sale Price refers to the last regular day trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used. For securities where Nasdaq is Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

universe. In instances where there are fewer than four ETFs with sufficient relative strength, the index can invest in the Nasdaq US T-Bill Part 2 Index in approximately 25% increments (see appendix B for Nasdaq US T-Bill Part 2 Index methodology). The Index Provider believes that the most adaptive tool to achieve the goal of discerning the strongest trends versus that of the weakest is Relative Strength. Relative Strength is a momentum technique that relies on unbiased, unemotional, objective data, rather than biased forecasting and subjective research. Relative Strength is a way of recording historic performance patterns, and Dorsey Wright Associates (DWA) uses Relative Strength signals as an indicator for current momentum trends of a security versus other securities.

Index Evaluation

Point & Figure Charting: Point-and-Figure charting is a logical, organized way of recording supply and demand within a security, focusing on the price movements of that security. Point-and-Figure charts filter out insignificant price movements by ignoring small price fluctuations, trading volume, and time.

Point & Figure Relative Strength Charting: Relative Strength is another technical analysis tool that measures a security's performance relative to other securities, benchmarks, or broad market indices. Relative Strength is a momentum technique that relies on unbiased, unemotional, objective data, rather than biased forecasting and subjective research. Relative Strength is a way of recording historic performance patterns, and Dorsey Wright and Associates (DWA) uses Relative Strength signals as an indicator for current momentum trends of a security versus others.

For the purpose of conducting the Dorsey Wright Sector 4 methodology, DWA establishes an inventory of ETFs to represent each of the nine macro sectors as well as a cash position. The inventory consists of multiple representatives for each macro sector and the cash position.

DWA builds Relative Strength charts to compare each ETF versus each of the others in the inventory using the following process:

- (i) On a daily basis, DWA computes the ratio of the closing price of each ETF representing either one of the nine macros sectors or a cash position to the closing price of each other in the established inventory.

Example:

$$\text{Relative Strength Reading} = (\text{ETF 1 Closing Price} \div \text{ETF 2 Closing Price}) \times 100$$

- (ii) As a result of on-going calculations, a Point-and-Figure Relative Strength chart is created for each relationship within the inventory. A Point-and-Figure Relative Strength chart is a variation of a Point & Figure chart using the input value as computed in the previous step, instead of individual security prices.

Relative Strength Matrix: DWA has implemented a systematic way of analyzing many Point-and-Figure Relative Strength charts by aggregating Buy Signals and Sell Signals within a "Matrix" format. When a column of X's exceeds a previous column of X's, the chart indicates a "Buy Signal" (also referred to as positive Relative Strength). Conversely, "Sell

Signals" are given when a column of O's exceeds a previous column of O's (also referred to as negative Relative Strength).

DWA created the Relative Strength Matrix (the "Matrix") to analyze large numbers of charts and to easily display an equally large data set of signals. Each box of the Matrix represents a Relative Strength comparison between one ETF and another, where the numerator is the ETF running down the left-hand side of the matrix and the denominator is the ETF from the top of the Matrix. For each ETF in the defined inventory, the total number of Relative Strength charts that are on a Buy Signal is noted in the column "Buys" of the Matrix. The Matrix is ranked such that the ETF with the highest number of Buy Signals is ranked #1, and appears at the top of the Matrix. The ETF with the lowest number of Buy Signals is ranked last and appears at the bottom of the Matrix.

Matrix Tally Concept: After conducting Relative Strength analysis among all representative securities from the inventory within the Matrix, DWA then ranks the nine macro sectors & cash from strongest to weakest based on their respective "Tally" rankings. The Tally reading is simply the sum of the Buy Signals for each ETF representing a given macro sector or cash. The number of Buy Signals for each of the ETFs included in the Matrix contributes equally to the Tally reading of the macro sector they represent or cash.

On a monthly basis the Tally rankings are used to set the macro sector rankings and generate an allocation. The Index is comprised of the four PowerShares Dorsey Wright Momentum Sector ETFs and represents the top four ranked macro sectors. These securities are allocated in accordance with the index construction procedure described herein. In the event that cash ranks within the top four spots of the Tally rankings, the Index will own a Nasdaq US T-Bill Part 2 Index in approximately 25% increments determined by its position as outlined below:

If Cash is 4th in the tally rankings, the Index will invest approximately 25% in the Nasdaq US T-Bill Part 2 Index.

If Cash is 3rd in the tally rankings, the Index will invest approximately 50% in the Nasdaq US T-Bill Part 2 Index.

If Cash is 2nd in the tally rankings, the Index will invest approximately 75% in the Nasdaq US T-Bill Part 2 Index.

If Cash is 1st in the tally rankings, the Index will invest 100% in the Nasdaq US T-Bill Part 2 Index.

In the event that two Macro Sectors rank within the top four based upon Tally rankings, and are tied in the monthly ranking, precedence will go to the Macro Sector that ranked higher at the close of trading on the first Monday of the previous month. If neither Macro Sector was ranked within the top four at the close of trading on the first Monday of the previous month, a tie-breaking process is employed based on 6-month trailing performance.

An ETF is only a member of the Index if its respective Macro Sector ranks within the top four and remains above cash based on the monthly Tally rankings. Index changes are transacted at the close of trading on the Wednesday following the first Monday of the Month. Any changes will be transacted on a replacement method. On each replacement, the weightings of the positions are examined. If any one sector position is more than 32%, or less than 18%, the portfolio change is made and all positions are rebalanced back to 25% each (or its target weight, in the Nasdaq US T-Bill Part 2 Index).

The Index employs a replacement methodology in such that each time there is a change to the holdings of the Index, its weighting in the index is now represented by the new holding and the existing holdings will maintain their weighting. The one exception to this is if at any replacement change to the Index, any position in the index has a weighting of more than 32%, or less than 18%, the portfolio change is made and all positions are rebalanced back to 25% each (or its target weight, in the Nasdaq US T-Bill Part 2 Index).

Index Shares are calculated by dividing this replacement value for each Index Security by the corresponding last sale price of the security at the close of trading on the Friday prior to the first Monday month; if Friday is a holiday the prior day trading day will be used. The changes are made periodically, in conjunction with the Index Evaluation, and will become effective after the close of trading on the Wednesday following the first Monday of the month.

Index Maintenance

Index Share changes are not made outside of the evaluation; however, changes arising from ETF dividends and ETF splits are made to the Index on the evening prior to the effective date of such corporate action. In the case of certain spin-offs or rights issuances, the price of the Index Security is adjusted and a corresponding adjustment is made to the Index Shares such that the weight of the Index Security does not change as a result of the action. A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price for the special amount distributed and a corresponding adjustment to the Index Shares of an Index Security prior to market open on the ex-date such that the weight of the Index Security will not change as a result of the action. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

Ordinarily, whenever there is a change in an Index Security or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends as mentioned above, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

Appendix A

The Index Securities are limited to the following list or similar alternatives:

| Macro Sector | ETF | Symbol |
|------------------------|---|---------------|
| Basic Materials | PowerShares DWA Basic Materials Momentum Portfolio | PYZ |
| Consumer Discretionary | PowerShares DWA Consumer Discretionary Momentum Portfolio | PEZ |
| Consumer Staples | PowerShares DWA Consumer Staples Momentum Portfolio | PSL |
| Energy | PowerShares DWA Energy Momentum Portfolio | PXI |
| Healthcare | PowerShares DWA Healthcare Momentum Portfolio | PTH |
| Industrials | PowerShares DWA Industrials Momentum Portfolio | PRN |
| Technology | PowerShares DWA Technology Momentum Portfolio | PTF |
| Utilities | PowerShares DWA Utilities Momentum Portfolio | PUI |
| Financial | PowerShares DWA Financial Momentum Portfolio | PFI |
| Cash Position | Nasdaq US T-Bill Part 2 Index | NQCASH2 |

Appendix B

Nasdaq US T-Bill V2 Index Methodology

Index Description

The Nasdaq US T-Bill V2 Index is designed to act as a US dollar-denominated cash position through the use of twenty-five US Treasury-Bills (T-Bills) ranging from 0 to 180 days in duration.

Index Calculation

The Nasdaq US T-Bill V2 Index is an equal weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each security's Last Sale Price, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for Index reporting purposes. The Index began on September 21, 2015 at a base value of 100.00.

One versions of the Index is calculated –a total return index.

- The total return index (Nasdaq: NQCASH2) reinvests cash proceeds.

The Indexes are calculated and disseminated once per day in USD. The closing value of the Indexes may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

Eligibility Criteria

Index eligibility is limited to active United States Treasury Bills with duration less than or equal to 180 days.

Index Evaluation

The Index Securities are evaluated on a weekly basis, except as outlined below under the Holiday Exceptions section.

- 1) Up to twenty-five T-Bills with maturities between 0 days and less than or equal to 180 days remaining will be selected for Index inclusion at the launch.
- 2) Each Thursday, at the close of trading, the Index will be reviewed to determine the Index Security with the last amount of maturity remaining. This Index Security will be removed from the Index and will be replaced with a new Index Security that has up to 180 days of maturity remaining. The new Security will be replaced at the same weight as the removed Index Security. In specific cases, a T-Bill may have 181 days left to maturity and will still be considered as an index component to maintain a count of 25 components in the Index.
- 3) The Index change will become effective prior to market open on the following Friday.

Holiday Exceptions

- 1) In the event Thursday is a US trading holiday, the evaluation review will be conducted on the next US trading day and the evaluation will be effective on the subsequent US trading day.
- 2) In the event Friday is a US trading holiday, the evaluation will be effective on the next US trading day.

Index Rebalance

The Index employs an equal-weighted methodology and will be set to equal weighted at the Index launch. At each weekly Evaluation, the removed Index Security will be replaced at the same weight as the new Index Security.

If the weight of any individual security deviates by more than 20% from a target equal weight percentage, the Index will undergo a rebalance back to equal weight at the next Weekly Evaluation.

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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