

KBW Nasdaq Financial Sector Dividend Yield Index Methodology

Index Description

The KBW Nasdaq Financial Sector Dividend Yield Index is designed to track the performance of financial companies that are publicly-traded in the U.S with competitive dividend yields. The Index includes companies principally engaged in the business of providing financial services and products.

Index Calculation

The KBW Nasdaq Financial Sector Dividend Yield Index is a modified dividend yield 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 Index reporting purposes. The Index began on December 1, 2006 at a base value of 100, as adjusted.

The formula for index value is as follows:

$$\text{Aggregate Adjusted Market Value/Divisor}$$

The formula for the divisor is as follows:

$$(\text{Market Value after Adjustments/Market Value before Adjustments}) \times \text{Divisor before Adjustments}$$

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

- The price return index (Nasdaq: KDX) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: KDXTR) reinvests cash dividends on the ex-date.

All 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

Index eligibility is limited to specific security types only. The security types eligible for the Index include common stocks, limited partnership interests, shares or units of beneficial interest and shares of limited liability companies.

¹ For purposes of this document, Last Sale Price refers to the last regular way 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 the Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

Index Committee

KBW Nasdaq Indexes are maintained by a 5-member Index Committee consisting of 4 full-time KBW employees and one full-time Nasdaq employee. The objective of the Index Committee is to develop and maintain indexes that seek to replicate certain market, industry, and geographic segments. The Index Committee meets at minimum quarterly and reviews any pending corporate actions impacting current index components as well as evaluates companies being considered for index inclusion and any relevant market news and events. The Index Committee also reviews the suitability of current index components on a quarterly basis using both quantitative and qualitative measures. The Index Committee reserves the right to alter index methodology and matters pertaining to index maintenance as necessary. All Index Committee discussions and meeting minutes are confidential.

Initial Eligibility Criteria

To be eligible for inclusion in the Index a security must meet the following criteria:

- be listed on the CBOE Exchange, The Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange or NYSE American;
- be classified, as reasonably principally engaged in the business of providing financial services and products, as determined by the Index Committee;
- pay a regular dividend;
- have a minimum stock closing price of \$5.00;
- have a minimum monthly average daily trading volume of 100 thousand shares;
- have a minimum free float of 20%;
- one security per issuer is permitted. If an issuer has multiple securities, the security with the highest monthly average daily trading volume will be selected for possible inclusion into the Index;
- have listed options on a recognized options market in the U.S. or be eligible for listed-options trading on a recognized options market in the U.S.;
- the issuer of the security may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible;
- may not be issued by an issuer currently in bankruptcy proceedings;
- the issuer of the security may not have annual financial statements with an audit opinion that is currently withdrawn; and
- the security must have “seasoned” on a recognized market for at least 3 months.

Continued Eligibility Criteria

The Index Committee attempts to keep turnover at a minimum. Index changes are avoided and except under extraordinary circumstances that may result in an interim evaluation, the Index Securities are evaluated by the Index Committee on a quarterly basis in March, June, September and December.

To be eligible for continued inclusion in the Index, an Index Security must meet the following continued eligibility criteria:

- be listed on the CBOE Exchange, The Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange or NYSE MKT;
- be classified, as reasonably principally engaged in the business of providing financial services and products, as determined by the Index Committee; and
- pay a regular dividend.

Evaluation

The criteria for continued eligibility are applied quarterly using market data through the 15th day of each of February, May and August preceding the calendar quarter month of March, June, and September (in cases where the 15th of the month is a holiday or weekend, the prior day trading day is used instead).

The criteria for initial eligibility are applied annually using market data through the 15th day of November preceding the calendar quarter month of December (in cases where the 15th of the month is a holiday or weekend, the prior day trading day is used instead). Eligible securities are ranked by their dividend yield as of the 15th day of November and this ranking is used by the Index Committee to determine index composition. The Index Committee also reviews the distribution of eligible securities by financial sub-industry classification (ex: Mortgage REITs, BDCs, banking institutions, etc.) and ensures a representative distribution in the index. Security additions and deletions are made effective after the close of trading on the third Friday of December.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, the security is removed from the Index and is replaced at the next December Evaluation, which occurs after the close of trading on the third Friday of December. In all cases, a security is removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

Index Maintenance

Index Share changes are not made during the quarter however changes arising from stock dividends and splits are made to the Index on the evening prior to the effective date of such corporate action.

A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. 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.

Index Rebalancing

The Index employs a modified dividend yield weighted methodology. At each quarter, the Index is rebalanced based on the indicated dividend yield of each security as compared to the dividend yield of all Index Securities as of the last trading day in February, May, August and November. At each quarter, the Index is rebalanced such that the maximum weight of any Index Security does not exceed 8% and no more than 5 securities are at that cap. The excess weight of any capped security is distributed proportionally across the remaining Index Securities. If after redistribution, any of the 5 highest ranked Index Securities are weighted below 8%, these securities are not capped. Next, any remaining Index Securities in excess of 4% are capped at 4% and the excess weight will be redistributed proportionally across the remaining Index Securities. The process is repeated, if necessary, to derive the final weights. The changes are effective after trading on the third Friday in March, June, September and December.

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

September 2018