

NASDAQ Select Canadian Preferred Share™ Index Methodology

Index Description

The NASDAQ Select Canadian Preferred Share Index is designed to track the performance of the preferred security segment of the Toronto Stock Exchange.

Index Calculation

The NASDAQ Select Canadian Preferred Share Index is a modified market capitalization 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 January 19, 2010 at a base value of 11907.3355224388.

The formula for index value is as follows:

Aggregate Adjusted Market Value/Divisor

The formula for the divisor is as follows:

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

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

- The Index (NASDAQ: NQCAPFD) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return Index (NASDAQ: NQCAPFDT) 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 CAD. The closing value of the Index(es) 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 preferred securities.

Initial Eligibility Criteria

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 OMX 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.

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

- classified as a preferred security, excluding securities classified as a split-share security;
- be listed on the Toronto Stock Exchange;
- the issuer of the security must be incorporated in Canada;
- rank in the top 150 securities by three-month average daily dollar trading value;
- have an investment grade rating of P-3 or higher from DBRS, or, where a preferred share issue is not rated, the issuer has an investment grade rating of BBB or higher from DBRS;
- the security must be "seasoned" (generally, a security is considered to be seasoned if it has been listed on a market for at least three full months (excluding the first month of initial listing)); and
- must actively pay dividends.

Continued Eligibility Criteria

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

- have an investment grade rating of P-3 or higher from DBRS, or, where a preferred share issue is not rated, the issuer has an investment grade rating of BBB or higher from DBRS; and
- must actively pay dividends.

The Continued Eligibility Criteria are reviewed on a monthly basis, with the exception of the March Evaluation. A security failing to meet these criteria will be replaced with the next eligible security after the close of trading on the third Friday of the month in which the screening was applied.

Index Evaluation

The Index Securities are evaluated annually in March. The above Initial Eligibility Criteria are applied using market data through the end of December. Each eligible security will be scored by dividend yield and 90-day realized volatility with the highest yielding security ranking first and least volatile security ranking first. The ranks are then added together and the top 100 securities with the highest combined rank will be selected. Existing Index Securities whose rank is in the top 150 eligible securities (based on three-month average daily dollar trading value) are retained in the Index. If two securities are tied in rank, the security with the higher yield will be selected, unless the security ranked with a lower yield is an existing Index Security, then this security will be selected.

Lastly, a review of index securities is conducted based on security issuer. Index Securities which are in the Index prior to the Index Evaluation are retained in the Index, provided there is an issue of the same issuer ranked in the top 100 eligible securities, based on the highest combined rank as described above. The security which existed in the Index prior to the Index Evaluation is retained in the Index and the corresponding security of the same issuer in the top 100 securities, by highest combined rank as described above, is removed. Index securities of an issuer not meeting such criteria are removed from the Index. Security additions and deletions are made effective after the close of trading on the third Friday in March.

Additionally, if at any time during the year other than the Evaluation, an Index Security is determined to have become ineligible for inclusion in the Index due to a full call, de-listing from the eligible exchange, or other related event, the security is removed from the Index and is replaced with the highest ranked security not currently in the Index and meeting the Initial Eligibility criteria listed above.

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 OMX'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, stock splits and rights offerings that are in the money are made to the Index on the evening prior to the effective date of such corporate action. In the case of certain spin-offs, the price of the Index Security is adjusted.

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 market capitalization weighted methodology where at each Evaluation; each issuer will be reviewed for concentration. If a single issuer's combined weight from all issued securities is greater than 8%, the collective weights of those securities will be reduced to 8% and the weight will be distributed across all remaining issues on a progressive basis. No more than five (5) issuers may be capped at 8%. If more than five (5) issuers are capped at 8% all other issuers will be capped at 4%.

The modified market capitalization weighted methodology is applied to the capitalization of each Index Security, using the Last Sale Price of the security at the close of trading on the last trading day in February. Index Shares are then calculated by multiplying the weight of the security derived above by the new market value of the Index and dividing the modified market capitalization for each Index Security by its corresponding Last Sale Price. The changes are effective after the close of trading on the third Friday in March.

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

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