

# SmartX NASDAQ Quality Dividend Index™ Methodology

## Index Description

The SmartX NASDAQ Quality Dividend Index seeks to provide exposure to global, dividend paying companies which meet certain financial metrics and liquidity constraints. The universe of companies is screened for consistently high returns on invested capital, historically increasing dividends, low payout ratio, and low debt to equity ratio. The Index is comprised of up to 75 highest yielding securities that meet all screens and are equally weighted.

## Index Calculation

The SmartX NASDAQ Quality Dividend 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<sup>1</sup>, 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 February 10, 2014 at a base value of 1000.00.

The formula for index value is as follows:

Aggregate Adjusted Market Value/Divisor

The formula for the divisor is as follows:

(Market Value after Adjustments/Market Value before Adjustments) X Divisor before Adjustments

Three versions of the Index are calculated – a price return index, a total return index, and a net total return index.

- The price return index in USD (Nasdaq: NQSXY) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index in USD (Nasdaq: NQSXYT) reinvests cash dividends on the ex-date.
- The net total return Index in USD (Nasdaq: NQSXYN) reinvests cash dividends on the ex-date and adjusts for an Index security's country of incorporation withholding rate.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated during the trading day and are disseminated once per second. The Indexes are calculated five (5) days a week, Monday through Friday starting by the earliest time zone Asia/Tokyo and close by the latest time zone America/New York.

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<sup>1</sup> 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 Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

## **Eligibility**

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

## **Eligibility Criteria**

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

- be a member of the Nasdaq Global Index (NQGI);
- not be classified as Chile, Columbia, Czech Republic, Egypt, Hungary, India, Israel, Peru, Philippines, Poland, Russia, or Turkey by Nasdaq;
- not be classified as a 'B' Share if a security is classified as China by Nasdaq;
- not be classified as Mortgage Real Estate Investment Trusts or Real Estate Investment Trusts at the Sector level, as defined by the Industry Classification Benchmark (ICB);
- have a minimum market capitalization of \$1 billion;
- have a minimum three-month average daily dollar trading volume of \$2.5 million;
- have had at least 10 consecutive years of a return on invested capital greater than 10%;
- have a positive trailing twelve month payout ratio less than 80%;
- have positive 1 year and 3 year dividend growth;
- have a debt-to-equity ratio less than 100%;
- one security per issuer is permitted. If an issuer has multiple securities, the security with the highest three-month average daily dollar trading volume will be selected for possible inclusion into the Index; and
- may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible.

## **Index Evaluation**

The Index Securities are evaluated annually in March. The above Eligibility Criteria are applied using market data through the end of December. Securities eligible for inclusion will be ranked in descending by trailing twelve month yield as of end of December. Up to 75 eligible securities with the highest yield are selected for Index inclusion. In the event there are multiple securities with the same combined ranking in the 75th position, the security with the highest yield will be selected for Index inclusion. Security additions and deletions are made effective after the close of the third Friday in March.

## **Index Maintenance**

Index Share changes are generally not made during the quarter. However, changes arising from stock dividends and stock 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.

Whenever there is a change in an Index Security as noted 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.

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 continued inclusion in the Index, the security is removed from the Index and is replaced at the next Quarterly Rebalance with the next eligible security based on the ranking determined at the previous Evaluation. The security being added to the Index cannot be a member of the ICB Industry which was previously capped unless this security does not push the capped industry to a cumulative weight greater than 25% (e.g., if the removed security was from a capped sector and the next eligible security is from the capped sector, it will get added back in). In the event there are insufficient eligible securities, a security from the previously capped industry may be included. If there are no eligible replacements from the previous Evaluation, then there will be no replacements until after the next Evaluation.

Additionally, at each month-end, if an Index Security suspends its dividend payments based on the prior ex-date of the last dividend distributed, then the Index Security will be removed from the Index after the close of trading on the third Friday of the following month. 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 Rebalancing**

The Index employs an equal-dollar weighted methodology.

After the top 75 securities are selected, a review is enacted to determine if any ICB Industry has a cumulative weight greater than 25%. If an Industry has a weight greater than 25% the lowest ranking component within the Industry will be removed and replaced with the next eligible security (e.g. the 76th ranked in the evaluation) from a different Industry. This process is repeated until no Industry has a weight greater than 25%.

After the final list of 75 securities is selected, each security's Index market value is rebalanced, on a quarterly basis, to an equal-dollar value corresponding to an equal percent weight of the Index's aggregate market value. Index Shares are calculated by dividing this equal-dollar value for each Index Security by the corresponding last sale price of the security at the close of trading on the third Friday in March, June, September and December. The changes are made effective after the close of trading on the same date.

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

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