



INDEX METHODOLOGY

## DORSEY WRIGHT DYNAMIC FOCUS FIVE INDEX

### DWANQDFF

#### INDEX DESCRIPTION

The Dorsey Wright Dynamic Focus Five Index is designed to measure the performance of five exchange traded funds from the First Trust Portfolios product line that demonstrate powerful Relative Strength characteristics.

#### SECURITY ELIGIBILITY CRITERIA

##### Eligibility criteria

Eligible ETFs include First Trust 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. The eligible ETFs are chosen at the sole discretion of the Index Provider. The Index is designed to provide targeted exposure to the five ETFs that the Index Provider believes offer the greatest potential to outperform the other ETFs in the selection universe. In instances where Relative Strength diminishes across equity sectors, the Index can gain varying amounts of exposure to the First Trust Enhanced Short Maturity ETF (Nasdaq: FTSM). 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 and 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 a trend indicator for current momentum trends of a security versus another security.

#### INDEX CALENDAR

##### Reconstitution schedule

The Index Reconstitution is conducted on a bi-monthly basis in the second and fourth weeks ("Evaluation Week") of the month containing a Friday with the exception of the month of December,

wherein the Index holdings are evaluated once, on the second week of the month which contains a Friday.

### **Reconstitution reference dates**

The Security Eligibility Criteria are applied using market data as of the close of trading on Tuesday of the Evaluation Week.

### **Reconstitution announcement dates**

Index Reconstitutions changes are announced on Wednesday of the Evaluation Week.

### **Reconstitution effective dates**

Index reconstitutions become effective at market open the next trading day after the Friday of the Evaluation Week.

### **Rebalance schedule**

The Index is rebalanced bi-monthly in conjunction with the Index Reconstitution.

### **Rebalance reference dates**

The Index Rebalance uses market data as of the close of trading on Tuesday of the Evaluation Week.

### **Rebalance announcement dates**

Index Rebalance changes are announced on Wednesday of the Evaluation Week.

### **Rebalance effective dates**

Index Rebalance changes become effective at market open the next trading day after the Evaluation Week. In instances where the market may be closed on the effective date, the changes will become effective on the next trading day.

## **CONSTITUENT SELECTION**

### **Constituent selection process**

#### **Point & Figure Charting**

Dorsey Wright uses Point & Figure charting to record supply and demand within a security, focusing on the price movements of that security. Point-and-Figure charts filter out non-significant price movements by ignoring small price fluctuations, trading volume, and time.

## Point & Relative Strength Charting

Relative Strength is another technical analysis tool that measures a security's performance relative to other securities, benchmarks, or broad market indexes. 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 Dorsey Wright Focus Five Index methodology, DWA has selected the Index's potential inventory, which is composed of sector-based First Trust ETFs. The price data of these selected First Trust Portfolios ETFs is used to perform relative strength analysis.

DWA builds relative strength charts for each First Trust Portfolios ETF using the following process:

- (i) On a daily basis, DWA computes the ratio of the closing price of each First Trust Portfolios ETF to the closing price of each other First Trust Portfolios ETF.

Example: 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 & Figure Relative Strength chart is created for each relationship within the inventory. A Point & Figure Relative Strength chart is a variation of a Point & Figure chart but its input value is computed in the previous step, instead of individual security prices.

## Relative Strength Matrix

DWA has implemented a systematic way of analyzing many Point & 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 contest between one First Trust Portfolios 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 First Trust Portfolios ETF in the defined inventory, the total number of Relative Strength charts that are on a Buy Signal are 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 First Trust with the lowest number is ranked last and appears on the bottom of the "Matrix".

The Index is composed of five First Trust Portfolio ETFs in the inventory. An ETF held within the Index is only sold when it falls sufficiently out of favor versus the other members of the inventory on a Relative Strength basis. Only once an ETF in the Index is sold can a new addition be made. The Index will add the highest ranked ETF in the Matrix that is not already held in the Index. When an addition or deletion is made, the Index is rebalanced so that each position is equally weighted.

## CONSTITUENT WEIGHTING

### Constituent weighting scheme

The Index is a modified equal-weighted index.

### Constituent weighting process

The Index employs a modified equal weighting scheme for the ETF segment. When an addition or deletion is made, the Index is rebalanced so that each position is equally weighted.

In instances when the Relative Strength begins to diminish among more than approximately one-third of the potential inventory relative to the cash proxy, the Index invests in the First Trust Enhanced Short Maturity ETF (Nasdaq:: FTSM). The target allocation to FTSM is equal to the percentile rank of the short term fixed income proxy within the Index's Matrix rankings.

The percentile rank for the short term fixed income proxy is calculated as follows:

$$1 - (\text{The Matrix Rank of the short term fixed income proxy} / \text{The Total Number of Matrix Rankings}) \times 100$$

In accordance with the index construction procedure described herein, the Index invests in FTSM and does not exceed moves of more than 33% in a given rebalance period. In the event that the percentile rank for the short term fixed income proxy mandates an increase in the target allocation for FTSM in excess of 33% during a bi-monthly review, the remaining shares are allocated following the next evaluation period for the Index.

For additional information about index weighting, see **Nasdaq Standard Index Weight Adjustment Guidelines**.

## INDEX MAINTENANCE

### Deletion policy

If, at any time during the year other than the Index Reconstitution(s), an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, it is removed from the Index. This includes circumstances where an ETF is determined to be ineligible for continued inclusion in the Index due to a pending liquidation, delisting, or definitive agreement to merge with another fund.

### Replacement policy

Index securities deleted at any time during the year other than the Index Reconstitution(s) are not replaced.

## Corporate actions

In the interim periods between scheduled index reconstitution events, individual Index securities may be the subject to a variety of corporate actions and events that require maintenance and adjustments to the Index. Specific treatment of each type of corporate action or event is described in **Nasdaq Corporate Actions and Events Manual – Equities**, which is incorporated herein by reference.

In certain cases, corporate actions and events are handled according to the weighting scheme or other index construction techniques employed. Wherever alternate methods are described, the Index will follow the “Non-Market Cap Corporate Action Method.”

### Exception(s):

- Spin-offs – If an ETF that is an Index Security conducts a spin-off of another security, no price or Index Share adjustment will be made to the Index Security, and the spinco will not be added to the Index.

## Index share adjustments

Other than as a direct result of corporate actions, the index does not normally experience share adjustments between scheduled index rebalance and reconstitution events”

## ADDITIONAL INFORMATION

### Announcements

Nasdaq announces Index-related information via the Nasdaq Global Index Watch (GIW) website at <http://indexes.nasdaqomx.com>.

For more information on the general Index Announcement procedures, please refer to the **Nasdaq Index Methodology Guide**.

### Holiday schedules

The Index is calculated Monday through Friday, except on days when the Nasdaq exchange is closed.

### Unexpected market closures

For information on Unexpected Market Closures, please refer to the **Nasdaq Index Methodology Guide**.

### Calculation types

For information on the Index calculation types as well as the mathematical approach used to calculate the Index(es), please refer to the **Calculation Manual – Equities & Commodities**.

## **Recalculation and restatement policy**

For information on the Recalculation and Restatement Policy, please refer to the **Nasdaq Index Recalculation Policy**.

## **Data sources**

For information on data sources and the classification of dividends and associated tax rates, please refer to the **Nasdaq Index Methodology Guide**.

## **Contact information**

For any questions regarding an Index, please contact the Nasdaq Index Client Services team at [indexservices@nasdaq.com](mailto:indexservices@nasdaq.com).

## **Index dissemination**

Index values and weightings information are available through Nasdaq Global Index Watch (GIW) website at <https://indexes.nasdaqomx.com/> as well as the Nasdaq Global Index FlexFile Delivery Service (GIFFD) and Global Index Dissemination Services (GIDS). Similar to the GIDS offerings, Genium Consolidated Feed (GCF) provides real-time Index values and weightings for the Nordic Indexes.

For more detailed information regarding Index Dissemination, see the **Nasdaq Index Methodology Guide**.

## **Index calculation and dissemination schedule**

The Indexes are calculated during the trading day based on the Last Sale Price and are disseminated once per second from 09:30:01 to 17:16:00 ET. 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.

## **Website**

For further information, please refer to Nasdaq GIW website at <https://indexes.nasdaqomx.com/>.

## **FTP and dissemination service**

Index values and weightings are available via FTP on the Nasdaq Global Indexes FlexFile Delivery Service (GIFFD). Index values are available via Nasdaq's Global Index Dissemination Services (GIDS).

## GOVERNANCE

### Index governance

All Nasdaq Indexes follow the same governance structure. For a detailed list of this information, please see the **Nasdaq Index Methodology Guide**.

### Nasdaq Index Management Committee

The Nasdaq Index Management Committee approves all new Index Methodologies. This committee is comprised of full-time professional members of Nasdaq. The committee meets regularly, and reviews items including, but not limited to, pending corporate actions that may affect Index constituents, statistics comparing the composition of the indexes to the market, companies that are being considered as candidates for addition to an Index, and any significant market events.

For a detailed overview of the Index Management Committee, please see the **Nasdaq Index Methodology Guide**.

### Internal reviews of methodology

For a detailed description on internal reviews of the Methodology, please see the **Nasdaq Index Methodology Guide**.

### Communication with stakeholders and consultations

For a detailed description on Consultations and Communications with Stakeholders, please see the **Nasdaq Index Methodology Guide**.

### Index cessation

Nasdaq has a documented procedure that is followed for Index Cessation that includes termination/retirement of an Index or Index Family.

For more information, please refer to the **Nasdaq Index Cessation Policy**.

### Discretionary adjustment

This Index Methodology was created by Nasdaq to achieve the aforementioned objective of measuring the underlying purpose of each Index governed by this methodology document. Any deviations from this methodology are made in the sole judgment and discretion of Nasdaq so that the Index continues to achieve its objective.

For more information on potential adjustments including Calculation and Pricing Disruptions, Expert Judgment, and Unexpected Reconstitution/Rebalances, please refer to the **Nasdaq Index Methodology Guide**.

## GLOSSARY OF TERMS AS USED IN THIS DOCUMENT

For the glossary of key terms, please refer to the **Nasdaq Index Methodology Guide**.

### DISCLAIMER

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity, including but not limited to, quantitative inclusion criteria. Nasdaq may also, due to special circumstances, if deemed essential, apply discretionary adjustments to ensure and maintain the high quality of the index construction and calculation. Nasdaq does not guarantee that any Index accurately reflects future market performance.

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