

# KBW Nasdaq Financial Technology Index Methodology

## Index Description

The KBW Nasdaq Financial Technology Index is designed to track the performance of financial technology companies that are publicly traded in the U.S. Since financial technology companies are not easily categorized into a single industry group, Index eligibility is not limited to securities within a particular industry classification. Securities eligible for index inclusion leverage technology to deliver financial products and services. Their distribution is nearly exclusively electronic, with limited to no “bricks and mortar,” and their revenue mix is predominantly fee-based.

## Index Calculation

The KBW Nasdaq Financial Technology 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 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 July 18, 2016, at a base value of 1000.

The formula for index value is as follows:

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

The formula for the divisor is as follows:

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

Four versions of the Index are calculated:

- The price return index (Nasdaq: KFTX) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: KFTXT) reinvests cash dividends on the ex-date.
- The notional net total return (70% version) index (Nasdaq: KFTXNNR70) is designed to reflect a net total return index reinvesting 70% of cash dividends, and factors in a deduction based on an indicative 30% tax rate. The notional net total return (70% version) index began on February 6, 2017 at a base value of 1000.
- The second notional net total return (85% version) index (Nasdaq: KFTXNNR85) is designed to reflect a net total return index reinvesting 85% of cash dividends, and factors in a deduction based on an indicative 15% tax rate. The notional net total return (85% version) index began on February 6, 2017 at a base value of 1000.

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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 the Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

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.

### **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 Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange or NYSE MKT;
- be classified as a company that leverages technology to deliver financial products and services. Distribution should be nearly exclusively electronic, with limited to no “bricks and mortar”, and the revenue mix must be predominantly fee-based;
- have a market capitalization greater than or equal \$500 million;
- have a minimum monthly average daily trading volume of 150 thousand shares;
- have a minimum average trailing-30-day stock closing price of \$2.00;
- 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 and September.

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

- be listed on The Nasdaq Stock Market® (Nasdaq®), the New York Stock Exchange or NYSE MKT;
- be classified as a company that leverages technology to deliver financial products and services. Distribution should be nearly exclusively electronic, with limited to no “bricks and mortar”, and the revenue mix must be predominantly fee-based; and
- have a minimum trailing-three month average stock closing price of \$2.00.

### **Evaluation**

The criteria for initial eligibility are applied annually using market data through the 15<sup>th</sup> day of November preceding the calendar quarter month of December (in cases where the 15<sup>th</sup> of the month is a holiday or weekend, the prior day trading day is used instead). Security additions and deletions are made effective after the close of trading on the third Friday of December.

The criteria for continued eligibility are applied quarterly using market data through the 15<sup>th</sup> day of each calendar quarter month of February, May, August and November (in cases where the 15<sup>th</sup> of the month is a holiday or weekend, the prior day trading day is used instead). Security additions and deletions are made effective after the close of trading on the third Friday of March, June, September and December.

In the event of an extraordinary change in the nature of any component stock (e.g. delisting, merger, acquisition, change of principal business, etc.) in the Index that will alter the overall market character of the Index, the Index Committee will take appropriate actions to remove the stock or replace it at the next quarterly rebalance with another stock which would best represent the intended market character of the Index.

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 Quarterly Rebalance, which occurs after the close of trading on the third Friday in each of March, June, September and 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 an equal dollar weighted methodology such that each company's Index market value is rebalanced quarterly 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. The Index Committee, may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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