

Nasdaq 7HANDL™ Base Index Methodology

Index Description

The Nasdaq 7HANDL Base Index seeks to create a diversified, multi-asset portfolio of ETFs to serve as a base index for the Nasdaq 7HANDL Index. The Nasdaq 7HANDL Index employs the Nasdaq 7HANDL Base Index methodology to determine its constituents and then assumes leverage in the amount of 23% of the portfolio (net of the estimated cost of employing such leverage). This document outlines the rules employed to determine the composition of the Nasdaq 7HANDL Base Index.

Index Calculation

The Nasdaq 7HANDL Base Index (the “Index”) is a modified 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 securities in the Index (“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 reporting purposes. If trading in an Index Security is halted on its primary listing market, the most recent Last Sale Price for that security is used for all Index computations until trading on such market resumes. Likewise, the most recent Last Sale Price is used if trading in a security is halted on its primary listing market before the market is open. The Index began on October 12, 2017 at a base value of 1000.00.

The formula for index value is as follows:

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

The formula for the divisor is as follows:

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

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.

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, the Nasdaq 7HANDL Base Index (NQ7HANDL), is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index, Nasdaq 7HANDL Base TR Index (NQ7HANDLT), reinvests cash dividends on the ex-date.
- The net total return index, Nasdaq 7HANDL Base NTR Index (NQ7HANDLN), reinvests cash dividends on the ex-date based on the securities incorporation withholding rate.²

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 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 Exchange-Traded Funds (ETFs).

Eligibility Criteria

To be eligible for inclusion in the Nasdaq 7HANDL Base Index, an ETF must first meet the following criteria:

- be an ETF organized under the Investment Company Act of 1940;
- have a three-month average daily trading volume of 20,000 shares (measured annually during the Annual Reconstitution process);
- be open for daily creations and redemptions;
- be listed on a U.S. exchange;
- have traded for a minimum of one year.

The Nasdaq 7HANDL Base Index is comprised of ETFs that are split into two categories, a Core Portfolio and an Explore Portfolio. Nasdaq relies upon an independent, third-party data provider to categorize ETFs in accordance with the methodology set forth below.

- The Core Portfolio consists of U.S. aggregate fixed-income ETFs³ (the Core Fixed Income Component) and U.S. large cap equity ETFs⁴ (the Core Equity Component).
 - The Core Fixed Income Component shall be allocated on an equal weight basis to the three U.S. aggregate fixed-income ETFs that have the lowest expense ratios after waivers.
 - The Core Equity Component shall be determined as follows:
 - Fifty percent of the Core Equity Component shall be allocated on an equal weight basis to the three U.S. large cap equity ETFs that have the lowest expense ratios after waivers.

² The securities incorporation withholding rate is the percentage of dividends that must be withheld for non-resident investors who do not benefit from double taxation treaties with the United States. For securities domiciled in the United States (as all of the Index constituents are), the securities incorporate withholding rate is 30%.

³ U.S. aggregate fixed-income ETFs are defined as those ETFs that provide exposure to the entire U.S. investment grade bond market without limitation of duration or issuer.

⁴ U.S. large cap equity ETFs are defined as those ETFs that provide exposure to a similar market capitalization range as the large capitalization segment of the Nasdaq US Benchmark Index.

- The remaining 50% of the Core Equity Component shall be allocated to the largest ETF (by AUM) that tracks the Nasdaq-100 Index.
 - The Core Portfolio consists of a 70% allocation to the Core Fixed Income Component and a 30% allocation to the Core Equity Component.
- The Explore Portfolio consists of a momentum-tilted, optimized allocation to non-levered ETFs in various U.S. asset categories that historically have provided high levels of income (Explore Categories).
 - The Explore Categories include the following 12 ETF categories:
 - Dividend Equity – ETFs that provide exposure to domestic dividend-paying stocks;
 - Covered Call – ETFs that provide exposure to indexed covered call portfolios based on either the S&P 500 Index or Nasdaq-100 Index;
 - High-Yield Bonds – ETFs that provide exposure to domestic high-yield corporate bonds (also known as “junk bonds”) of any duration or maturity;
 - Investment Grade Bonds – ETFs that provide exposure to domestic investment grade corporate bonds [of any duration or maturity];
 - MLPs – ETFs that provide exposure to master limited partnerships;
 - MBS – ETFs that provide exposure to mortgage-backed securities;
 - Active Fixed Income – ETFs that provide broad exposure to actively managed fixed income ETFs that invest in securities of any duration or maturity;
 - Preferred Securities – ETFs that provide exposure to domestic preferred securities;
 - REITs – ETFs that provide exposure to domestic real estate investment trusts;
 - Growth & Income – ETFs that provide exposure to multiple asset portfolios of stocks and bonds or ETFs of stocks and bonds; including fund-of-fund ETFs;
 - Utilities – ETFs that provide exposure to domestic utility securities; and
 - Build America Bonds – ETFs that provide exposure to Build America Bonds. Build America Bonds are taxable municipal bonds that include tax credits and/or federal subsidies for bondholders and state and local bond issuers. These bonds may be of any maturity or duration.
 - Each Explore Category shall be represented in the Index by a single ETF based on the following criteria:
 - The default rule (subject to the exception described below) shall be that each Explore Category shall be represented by the largest ETF (by AUM) in the Explore Category.
 - Notwithstanding the default rule, if an ETF that is not the largest ETF (by AUM) in its Explore Category, it shall represent its Explore Category if it has an expense ratio after waivers at least 20% lower than the largest ETF (by AUM) in the Explore Category.
 - If multiple ETFs have an expense ratio after waivers at least 20% lower than the largest ETF (by AUM) in the Explore Category, the ETF with the lowest expense ratio after waivers shall represent the Explore Category.
 - The Explore Category allocation uses a proprietary methodology developed by Nasdaq Dorsey Wright (\DWA). The 12 ETFs comprising the Explore Category are weighted based on the DWA Managed Momentum Score which is

comprised of an ETF's Relative Strength Weighting and Yield to Risk Weighting:

- Relative Strength Weighting is constructed as follows:
 - Each ETF is assigned a Relative Strength Score based on the average of their 12, 9, 6, 3, and 1-month returns;
 - If the Relative Strength Score is positive, the ETF is assigned a Raw Momentum Weight of 16.67%; otherwise, the ETF receives a Raw Momentum Weight of 4.17%;
 - The Raw Momentum Weight is then rebased proportionally to 100% in order to calculate a Relative Strength Weight.
 - Yield to Risk Weighting is constructed as follows:
 - Each ETF is assigned a Composite Yield Score based on the average of their 12, 9, 6, 3, and 1-month dividend yield;
 - Each ETF is assigned a Composite Volatility Score based on the average of their 12, 9, 6, 3, and 1-month annualized volatility;
 - The Yield to Risk Weight is then calculated as Composite Yield Score divided by Composite Volatility Score
 - The DWA Managed Momentum Score is calculated as Relative Strength Weighting multiplied by Yield to Risk Weighting.
 - The DWA Managed Momentum Score is then rebased proportionally to 100% in order to calculate the Index Weight.
- If the DWA Managed Momentum Score results in one or more ETFs exceeding an Index Weight of 16.67%, the Index Weights of those ETFs will be capped at 16.67% with the excess weight redistributed proportionally across all uncapped ETFs.

Index Evaluation

The Index is evaluated annually in December. The above Eligibility Criteria are applied using available market data as of the last trading day of the month. Security additions and deletions are made effective at the market open on the 9th business day in January.

Additionally, if at any time during the year other than the Evaluation, an Index Security is determined to have become ineligible for continued inclusion in the Index due to delisting, suspension, or a definitive agreement that would likely result in the security no longer being Index eligible, the security is removed from the Index and is replaced by the next eligible ETF from the investment category in question. Ordinarily, a security will be 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 outside of the evaluation; however, changes arising from ETF dividends and ETF 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 of an Index Security prior to market open on the ex-date for the special amount distributed. A corresponding adjustment will be made to the Index Shares of the security 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.

Ordinarily, whenever there is a change in Index Shares, 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.

Index Rebalancing

The index employs a modified equal weighting methodology and is rebalanced on a monthly basis. Following the close of the last trading day of each month, the Index is rebalanced to an equal weighting between the Core and Explore Portfolios. Within each portfolio, the ETFs are weighted in accordance with the Eligibility Criteria. Changes in weighting are made at market open on the 9th trading day of each month.

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

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