

NASDAQ US Preferred Security IndexSM Methodology

Index Description

The NASDAQ US Preferred Security Index is designed to track the preferred security segment of the United States (US) market.

Index Calculation

The NASDAQ US Preferred Security 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 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 price return and the total return indexes began on June 20, 2012 at a base value of 1000. The net total return index began on October 31, 2016 at a base value of 1000.

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:

- The price return index (NASDAQ: NQPFUDUS) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (NASDAQ: NQPFUDUSX) reinvests cash dividends on the ex-date.
- The net total return index (NASDAQ: NQPFUDUSN) reinvests cash dividends on the ex-date after the deduction of withholding taxes. The net total return index began on October 31, 2016 at a base value of 1000.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated during the trading day and is disseminated once per second from 09:30:01 to 17:16:00 ET. The closing value of the Index may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

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.

Eligibility

Index eligibility is limited to specific security types only. The security type eligible for the Index is preferred stock. Security types not included in the Index are closed-end funds, convertible debentures, exchange traded funds, rights, warrants, units, common stocks, ordinary shares, depositary receipts, shares of beneficial interest or limited partnership interests and tracking stocks and other derivative securities.

Initial Security Eligibility Criteria

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

- be listed on The Nasdaq Stock Market, New York Stock Exchange or New York Amex;
- be classified as preferred stock as determined by Nasdaq;
- not be within 365 days of maturity based on stated maturity or call date;
- have a minimum market capitalization of at least \$100 million;
- have traded a minimum of 200 thousand shares for each of the previous six months leading up to a quarterly review;
- if a security has less than six months of trading, it will be deemed eligible if the average trading volume over the six month period is above 200 thousand shares.
- have a share price between \$10 and \$200; and
- have distributed a dividend in the most recent quarter prior to evaluation review if dividends are issued quarterly (in the most recent six months if issue semi-annual dividends) or have scheduled a dividend in the upcoming quarter or semi-annual period.

Continued Security Eligibility Criteria

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

- be listed on The Nasdaq Stock Market, the New York Stock Exchange, NYSE American, or the CBOE exchange;
- not have suspended its dividend payment or missed a schedule payment based on dividend pay-date;
- have a minimum market capitalization of \$50 million;
- have traded a minimum of 100 thousand shares for each of the previous six months leading up to a quarterly review; and
- securities classified as cumulative will have an extended missed payment schedule such that a cumulative preferred security can miss up to two scheduled payments before being removed.

Index Evaluation

The Index Securities are evaluated quarterly in March, June, September and December. In each evaluation, the above Eligibility Criteria are applied using market data through the January, April, July and October. Securities meeting the criteria are included in the Index. Security additions and deletions are made effective after the close of trading on the third Friday of each quarter in March, June, September, and December.

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 not replaced. 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

Changes in the price and/or Index Shares driven by corporate events such as stock dividends, stock splits and certain spin-offs and rights issuances are adjusted on the ex-date. If the change in total shares outstanding arising from other corporate actions is greater than or equal to 10.0%, the change is made as soon as practicable. Otherwise, if the change in total shares outstanding is less than 10%, then all such changes are accumulated and made effective at one time on a quarterly basis after the close of trading on the third Friday in each of March, June, September and December. The Index Shares are derived from the security's total shares outstanding. The Index Shares are adjusted by the same percentage amount by which the total shares outstanding have changed.

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 unusual, extraordinary, one-time, non-recurring 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-off, 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-weighting methodology where at each quarter; each issuer will be reviewed for concentration. If a single issuer's combined weight from all issued securities is greater than 10%, the collective weights of those securities will be reduced to 10% and the weight will be distributed across all remaining issues on a progressive basis. No more than four (4) issuers may be capped at 10%. If more than four (4) issuers are capped at 10% all other issuers will be capped at 4%.

A final check will be run to ensure that all issuers with combined weights greater than 5% do not aggregate to more than 45%. If this test is broken, a redistribution of weight from these issuers' issues will take place until the rule is met. The process is repeated, if necessary, to derive the final weights.

The modified market capitalization weighting 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, May, August and November and after applying changes to the total shares outstanding. Index Shares are then calculated 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 trading on the third Friday in March, June, September and December.

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

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