Nasdaq US Small Mid Cap Select Leaders Core Index[SM] Methodology

Index Description

The Nasdaq US Small Mid Cap Select Leaders Core Index[SM] is designed to provide exposure to companies within the Nasdaq US Small Cap Index and the Nasdaq US Mid Cap Index that exhibit high degrees of sustainable shareholder yield, pricing power, and strong momentum.

Index Calculation

The Nasdaq US Small Mid Cap Select Leaders Core Index[SM] is a modified liquidity 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[1], 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. The Index began on July 12, 2019, 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: NQUSSMSLC) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: NQUSSMSLCT) reinvests cash dividends on the ex-date.
- The net total return index (Nasdaq: NQUSSMSLCN) reinvests cash dividends on the ex-date based on 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 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.

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[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 types eligible for the index include common stocks, ordinary shares, depositary receipts, shares of beneficial interest and REITs.

Eligibility Criteria

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

- be a component of the Nasdaq US Small Cap Index (NQUSS) or the Nasdaq US Mid Cap Index (NQUSM);
- be in the top 90th percentile of NQUSS and NQUSM in terms of three month average daily dollar trading volume;
- be in the top 20th percentile of the Final Rank (process described below) in the current evaluation, or, be in the top 50th percentile of the Final Rank, if and only if the security was in the index in the prior period;
- minimum three month trading history
- one security per issuer is permitted[2];
- 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; and
- additional proprietary eligibility criteria are applied.

Ranking Review

All securities in NQUSS and NQUSM are ranked according to their individual Shareholder Yield, Price Setters, and Momentum ranks. These three individual ranks determine the degree in which a security in NQUSS and NQUSM exhibits high degrees of sustainable shareholder yield (value factor), pricing power (quality growth factor), and momentum, respectively. These three individual ranks are then normalized by industry so that each security has a Shareholder Yield, Price Setters, and Momentum rank that is based on that security's Industry Classification Benchmark (ICB) industry classification. This allows for the three individual ranks to be industry-neutral.

Then, these three individual normalized ranks are averaged to determine a preliminary Score for each security. If the security does not have a Shareholder Yield rank (i.e. it did not pay a dividend), then the Price Setters and Momentum ranks are averaged to determine the preliminary Score for each security.

A Final Rank is calculated by ranking the preliminary Score for each security within each industry, where the higher three month average daily dollar trading volume breaks any ties in the preliminary Score. This Final Rank is used in the Eligibility screen, as described above, to determine the final basket of securities in the Index.

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[2] 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.

Index Evaluation

The Index is evaluated semi-annually in April and October. The above Eligibility Criteria are applied using market data through the end of March and September. Securities meeting the criteria are included in the Index. Security additions and deletions are made effective after the close of trading at the end of April and October.

If at any time during the year other than the Index Evaluation, an Index Security undergoes a fundamental alteration such as, but not limited to, its issuer files for bankruptcy, switching its listing to an ineligible Index Exchange, or if it undergoes major corporate event such as merger & acquisition (M&A) activity that would make the Index Security ineligible for inclusion in the Index, the Index Security is removed as soon as applicable 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

Index Share changes are 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. However, for a spin-off event, if there is a no when-issued trading available for the spin-co security, the spin-co security may be added to the index at a zero value. In this case, the spin-co security will be removed from the Index after two full days of trading.

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 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 Weighting

The Index employs a modified liquidity weighting methodology. At the rebalancing, the Index is rebalanced based on the results from the Ranking Review section above for each Index security.

The 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 March and September.

The modified liquidity weighting is derived by first calculating a liquidity score adjusted for volatility ("liquidity-volatility score"). This process is done multiplying the three month average daily dollar volume of an Index security by the average three month volatility of the NQUSS and NQUSM universe and dividing that by the three month volatility of the corresponding Index Security. Next, the liquidity-volatility score is then used to determine the preliminary weight of each security. The preliminary weight is derived by dividing the liquidity-volatility score for each security by the sum of the liquidity-volatility scores for all securities within each industry and multiplying that by the NQUSS and NQUSM benchmark industry weight for that security.

The final weight modifies the preliminary weight by capping each security weight at 0.5% and redistributing the excess weight proportionally across all securities within the same industry. Index Shares are then calculated multiplying the final weight of each security derived above by the new market value of the Index and dividing that by its corresponding Last Sale Price as of the end of March and September. The changes are effective after the close of trading on the last trading day in April and October, respectively.

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

October 2019