

MarketGrader Growth Leaders Index Series

Rulebook and Methodology Overview

2021



MarketGrader
RESEARCH & INDEXES

Introduction

The MarketGrader Growth Leaders Indexes, created and maintained by MarketGrader, are designed to provide investors with exposure to the most financially sound companies domiciled in some of the world's fastest growing economies and listed across various stock exchanges around the world. MarketGrader selects all index constituents on a semi-annual basis according to criteria described in this document. The Indexes are calculated by Solactive AG.

MarketGrader's Coverage Universe

In order to define the universe from which the MarketGrader Indexes are selected, it is necessary to first define MarketGrader's research coverage universe since the company's security selection is based on its public company ratings. Thus, MarketGrader's research coverage universe is defined as the set of companies traded on public stock exchanges globally that meet the criteria necessary for MarketGrader to perform a comprehensive fundamental analysis according to its proprietary methodology. This methodology is based on 24 indicators, each graded independently, across four fundamental categories: Growth, Value, Profitability and Cash Flow. The sum of all 24 indicator grades is aggregated into a final numerical overall grade in a range between zero and one hundred. MarketGrader therefore requires that a minimum number of fundamental indicators meet its analysis requirements in order to assign them a grade. Furthermore, a minimum number of them must be graded consistently over time for a company to be eligible for coverage by MarketGrader and, subsequently, for inclusion into the MarketGrader Indexes. The following criteria is evaluated by MarketGrader in the maintenance of its research coverage universe according to MarketGrader's primary research coverage regions.

Americas:

Universe Inclusions:

All public issues defined as common shares and ADRs (American Depositary Receipts) that are listed in non-OTC (over the counter) exchanges. This includes Limited Partnerships (LPs) and Real Estate Investment Trusts (REITs). LPs and REITs are ineligible for inclusion to some indexes on a case by case basis, as listed in the individual index rules in this document. All issues eligible for universe inclusion must have at least three active trading days within the last 12 calendar days. Company domicile is defined based on the Entity "ISO Country" code as defined by FactSet.

Asia Pacific:

Universe Inclusions

All public issues defined as common shares where, according to FactSet, entity types are defined as "public" or "holding companies". Also, all entity sub-types defined as "Limited Partnership". All issues eligible for universe inclusion must have at least one active trading day within the last 12 calendar days. Company domicile is defined based on the Entity "ISO Country" code as defined by FactSet.

Europe & Middle East:

All public issues defined as common shares where, according to FactSet, entity types are defined as "public" or "holding companies". Also, all entity sub-types defined as "Limited Partnership". Only primary listing issues in this region are included in its research universe. All issues eligible for universe inclusion must have at least three active trading days within the last 12 calendar days. Company domicile is defined based on the Entity "ISO Country" code as defined by FactSet.

Universe Exclusions (All Regions):

- Companies with zero trailing 12-month revenue and a total market capitalization below USD 500 million.
- Companies with zero annual revenue and a total market capitalization below USD 500 million.
- Companies with zero trailing 12-month revenue and annual sales older than two years prior to the universe evaluation date.
- Companies missing trailing 12-month revenue and annual revenue from most recently reported financial statement.
- Companies with ratings in less than 22 of MarketGrader's 24 fundamental indicators
- Companies whose most recently filed financials statements are over 12 months old from the date of the universe evaluation date.

Review Frequency

The MarketGrader research coverage universe is reviewed on a weekly basis, following the last weekly close of equity markets in the U.S.

MarketGrader's Growth Leaders Indexes' Overall Universe

The index universe is comprised of all common stocks in MarketGrader's research coverage universe that have received a MarketGrader overall grade consistently for at least six months. For companies listed in countries with quarterly financial filing requirements, only companies that have reported their most recent financials within the last six months are eligible to the MarketGrader Indexes. For companies listed in countries with semi-annual financial filing requirements, only companies that have reported their most recent financials within the last 12 months are eligible.

MarketGrader's Growth Leaders Indexes' Investable Universe

Companies must have a minimum total market capitalization of USD 50 million on the index selection date in order to be eligible. Additionally, a company's free float market capitalization as a percentage of total market capitalization must be at least 10% on the index selection date in order to be eligible.

For North American Indexes, all companies must have a minimum total market capitalization of USD 100 million and a minimum three-month average daily trading volume of USD 2 million. Exceptions to these rules are addressed on a case by case basis in each Index's individual rule book within this document.

For Chinese Indexes (companies domiciled in China and listed on the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange or NASDAQ), all companies must have a minimum total market capitalization of USD 200 million; a minimum three-month average daily trading volume of USD 2 million; and a minimum 12-month aggregate trading volume of USD 50 million.

For Indian Indexes (companies listed on the National Stock Exchange, Bombay Stock Exchange or on U.S. National Exchanges), all companies must have a minimum total market capitalization of USD 150 million and a minimum three-month average daily trading volume of USD 2 million.

For Indexes comprised of companies in Emerging Economies, as defined by the International Monetary Fund's World Economic Outlook Database, companies must have a minimum three-month daily trading volume of USD 1 million or USD 500,000, as defined on a case by case basis in each Index's rule book within this document.

Please refer to individual Index rule books for specific eligibility and inclusion requirements.

The MarketGrader China All-Cap Growth Leaders Index

1. Introduction

The MarketGrader China All-Cap Growth Leaders Index consists of 200 fundamentally sound companies domiciled in China and traded publicly in the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange or on U.S. National Exchanges. The index constituents are selected on the basis of the strength of their fundamentals as measured by the MarketGrader Score (0 to 100).

2. Index Name and Index Codes

Price Return Series

- Index Name: MarketGrader China All-Cap Growth Leaders Index – Price Return
- Short Name: MG China Growth Leaders
- Bloomberg and Reuters Code: MGCNGROW

Net Total Return Series

- Index Name: MarketGrader China All-Cap Growth Leaders Index – Net Total Return
- Short Name: MG China Growth Leaders NTR
- Bloomberg and Reuters Code: MGCNGRNR

Total Return Series

- Index Name: MarketGrader China All-Cap Growth Leaders Index – Total Return
- Short Name: MG China Growth Leaders TR
- Bloomberg and Reuters Code: MGCNGRTR

3. Base Date and Base Index Level

The Index's base date is December 31, 2007. Its base level is 100.

4. Index Eligibility

4.1 Investable Universe

All China-domiciled companies in MarketGrader's Investable Universe are eligible for index selection, provided they meet the following criteria:

- The stock cannot be classified as a "ST" (special treatment) stock by the China Securities Regulatory Commission (CSRC).
- The stock's listing cannot be suspended from daily trading.
- The stock's Foreign Ownership on the selection date cannot exceed 26% of its free-float adjusted market capitalization¹.

4.2 Selection of Index Constituents

¹ Foreign Ownership Limit Thresholds are based on figures published daily by the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

MarketGrader calculates daily 24 fundamental indicators for every company in its Coverage Universe across four categories: Growth, Value, Profitability and Cash Flow. These 24 indicators are aggregated into a final MarketGrader Score that ranges from zero (0) to one hundred (100). On the Index's rebalance selection date, MarketGrader selects the companies in the underlying Investable Universe with the 200 highest MarketGrader Scores provided that the following criteria are also met:

- No more than 40 companies may belong to the same sector, as classified according to MarketGrader Global Classification System.
- If a company is an existing Index constituent and it retains a MarketGrader Score of 60 or higher, regardless of its ranking in the Investable Universe, the company will remain in the Index (the "Buffer" rule #1).
- If a company is an existing Index constituent and its MarketGrader Score falls below 60, if it remains ranked in the top 260 stocks in the Investable Universe by MarketGrader Score, the company will remain in the Index (the "Buffer" rule #2).
- If an index constituent is dual-listed in more than one of the exchanges in the underlying Investable Universe and the non-constituent issue has a higher MarketGrader Score than the Index constituent, the Index constituent will remain in the Index and not be replaced by the other issue even if the latter has a higher MarketGrader Score.
- If two issues of the same company with a dual-listing are eligible for selection to the Index based on their MarketGrader Score (provided that one is not already an Index constituent), MarketGrader will select the issue with the higher three-month average daily trading volume (in USD) for inclusion in the Index.

5. Foreign Ownership Limit Rules

If at any time the free-float adjusted market capitalization of an Index constituent reaches a foreign ownership percentage of 26%, the stock will be put on a Foreign Ownership Limit (FOL) watch list for possible deletion at the 27% threshold. If the stock reaches the 27% threshold, it will be deleted from the Index on the third trading day following the first day it reached such threshold. The stock will then be deleted from the Index with a presumed market value per unit of stock equal to the closing price on its last trading day and a cash component will be introduced into the Index, with a value equal to the cash value, and remain in the Index until the next rebalance effective date.

6. Index Selection, Reconstitution and Rebalance Dates

The Index is reconstituted and rebalanced after the close of trading on U.S. exchanges on the third Friday of March and September. The Index constituents are selected on the Tuesday of the previous week, or ten (10) calendar days prior to the reconstitution and rebalance date.

7. Constituent Weighting Methodology

The Index is re-weighted at each Rebalance date according to the Index weights that were determined on the Selection date. The Index weights are based on each constituent's Free Float Market Capitalization on the Selection date, with the total Index weight per constituent capped at 5%. In other words, no Index constituent will carry a weight that exceeds 5% of the total Index value on the Rebalance date.

8. Index Calculation Agent

The Index will be calculated by Solactive AG.

9. Index Calculation and Corporate Actions

The Index will be calculated according to the 'Divisor Index' Solactive AG calculation formulas, as referenced in the *Solactive Equity Index Methodology* manual (enclosure). Corporate actions will therefore be handled according to the Solactive methodology.

The MarketGrader India All-Cap Growth Leaders Index

1. Introduction

The MarketGrader India All-Cap Growth Leaders Index consists of 80 fundamentally sound companies domiciled in India and traded publicly in the National Stock Exchange (NSE), the Bombay Stock Exchange (BSE), or on U.S. National Exchanges as 'American Depositary Receipts' (ADR) or 'American Depositary Shares' (ADS). The index constituents are selected on the basis of the strength of their fundamentals as measured by the MarketGrader Score (0 to 100).

2. Index Name and Index Codes

Price Return Series

- Index Name: MarketGrader India All-Cap Growth Leaders Index – Price Return
- Short Name: MG India Growth Leaders
- Bloomberg and Reuters Code: MGINGROW

Net Total Return Series

- Index Name: MarketGrader India All-Cap Growth Leaders Index – Net Total Return
- Short Name: MG India Growth Leaders NTR
- Bloomberg and Reuters Code: MGINGRNR

Total Return Series

- Index Name: MarketGrader India All-Cap Growth Leaders Index – Total Return
- Short Name: MG India Growth Leaders TR
- Bloomberg and Reuters Code: MGINGRTR

3. Base Date and Base Index Level

The Index's base date is December 31, 2007. Its base level is 100.

4. Index Eligibility

4.1 Investable Universe

All India-domiciled companies in MarketGrader's Investable Universe are eligible for index selection, provided they meet the following criteria:

- The stock cannot be included in the ‘Red Flag List’ maintained and published by the National Securities Depository Limited (NDSL) of India, which governs foreign ownership limits of Indian securities. A ‘red flag’ is activated for listed Indian companies whenever the foreign investment is within 3% of the aggregate ‘Foreign Portfolio Investors’ (FPI) limits.

4.2 Selection of Index Constituents

MarketGrader calculates daily 24 fundamental indicators for every company in its Coverage Universe across four categories: Growth, Value, Profitability and Cash Flow. These 24 indicators are aggregated into a final MarketGrader Score that ranges from zero (0) to one hundred (100). On the Index’s rebalance selection date, MarketGrader selects the companies in the underlying Investable Universe with the 80 highest MarketGrader Scores provided that the following criteria are also met:

- If a company is an existing Index constituent and it retains a MarketGrader Score of 60 or higher, regardless of its ranking in the Investable Universe, the company will remain in the Index (the “Buffer” rule #1).
- If a company is an existing Index constituent and its MarketGrader Score falls below 60, if it remains ranked in the top 96 stocks in the Investable Universe by MarketGrader Score, the company will remain in the Index (the “Buffer” rule #2).
- If an index constituent is dual-listed in more than one of the exchanges in the underlying Investable Universe and the non-constituent issue has a higher MarketGrader Score than the Index constituent, the Index constituent will remain in the Index and not be replaced by the other issue even if the latter has a higher MarketGrader Score.
- If two issues of the same company with a dual-listing are eligible for selection to the Index based on their MarketGrader Score (provided that one is not already an Index constituent), MarketGrader will select the issue with the higher three-month average daily trading volume (in USD) for inclusion in the Index.

5. Index Selection, Reconstitution and Rebalance Dates

The Index is reconstituted and rebalanced after the close of trading on U.S. exchanges on the third Friday of March and September. The Index constituents are selected on the Tuesday of the previous week, or ten (10) calendar days prior to the reconstitution and rebalance date.

6. Constituent Weighting Methodology

The Index is re-weighted at each Rebalance date according to the Index weights that were determined on the Selection date. The Index weights are based on each constituent’s Free Float Market Capitalization on the Selection date, with the total Index weight per constituent capped at 5%. In other words, no Index constituent will carry a weight that exceeds 5% of the total Index value on the Rebalance date.

7. Index Calculation Agent

The Index will be calculated by Solactive AG.

8. Index Calculation and Corporate Actions

The Index will be calculated according to the ‘Divisor Index’ Solactive AG calculation formulas, as referenced in the *Solactive Equity Index Methodology* manual (enclosure). Corporate actions will therefore be handled according to the Solactive methodology.