

# NASDAQ US Multi-Asset Diversified Income Index<sup>SM</sup> Methodology

## Index Description

The NASDAQ US Multi-Asset Diversified Income Index is designed to provide exposure to multiple asset segments, each selected to result in a consistent and high yield for the index. The Index is comprised of securities classified as US equities, US Real-Estate Investment Trusts (REITs), US preferred securities, US master-limited partnerships (MLPs) and a high-yield corporate debt Exchange-Traded Fund (ETF).

## Index Calculation

The NASDAQ US Multi-Asset Diversified Income 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 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 reporting purposes. The Index began on June 20, 2012 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:

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

Two versions of the Index are calculated – a price return index and a total return index.

- The price return index (NASDAQ: NQMAUS) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (NASDAQ: NQMAUSX) reinvests cash dividends on the ex-date.

Both 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.

## Eligibility

Index eligibility is limited to specific security types only. The security types eligible for the Index are preferred stocks, exchange traded funds, rights, warrants, units, common stocks, ordinary shares, depositary receipts, shares of beneficial interest or limited partnership

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<sup>1</sup> For purposes of this document, Last Sale Price refers to the following:

For a security listed on NASDAQ, it is the last sale price on NASDAQ, which normally would be the NASDAQ Official Closing Price (NOCP) when NASDAQ is closed. For any NYSE-listed or NYSE Amex-listed security, it is the last regular way trade reported on such security's primary U.S. listing market. If a security does not trade on its primary listing market on a given day, the most recent last sale price from the primary listing market (adjusted for corporate actions, if any) is used.

interests, tracking stocks and other derivative securities. The security types which are ineligible for the Index are closed-end funds and convertible debentures.

## **Eligibility Criteria**

Each Index segment has separate and distinct eligibility rules as described below:

### **US Equity**

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

- be a member of the NASDAQ US Benchmark Index (NQUSB);
- not be classified as Real Estate Investment Trust (ICB: 8670) by the Industry Classification Benchmark (ICB);
- have a minimum market capitalization of \$1 billion;
- have a minimum three month average daily dollar trading value of \$5 million;
- have paid a regular dividend for each of the last three consecutive years;
- have positive total earnings over the trailing twelve month period;
- have a dividend payout ratio less than or equal to 80%; and
- have one year realized volatility less than the NQUSB one year realized volatility + 15%.

### **US REIT**

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

- be a member of the NASDAQ US Benchmark Index (NQUSB);
- must be classified as Real Estate Investment Trust (ICB: 8670) by the Industry Classification Benchmark (ICB);
- have a minimum market capitalization of \$1 billion;
- have a minimum three month average daily dollar trading value of \$5 million;
- have paid a regular dividend for each of the last three consecutive years;
- have positive total earnings over the trailing twelve month period;
- have a dividend payout ratio less than or equal to 150%;
- have one year realized volatility less than the NQUSB867 one year realized volatility + 15%.

### **US Preferred**

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

- be a member of the NASDAQ US Preferred Security Index (NQSPFDUS);
- have a minimum market capitalization of \$250 million;
- have a minimum three month average daily dollar trading value of \$250 thousand; and
- have one year realized volatility less than the NQUSPFD one year realized volatility + 15%.

## **US MLP**

To be eligible for inclusion in the US MLP segment of the index, a security must meet the following criteria:

- be classified as a limited partnership;
- be classified as Oil & Gas (0001) or Basic Materials (2000) by the Industry Classification Benchmark (ICB);
- have a minimum market capitalization of \$500 million;
- have a minimum three month average daily dollar trading value of \$500 thousand; and
- have a one year realized volatility less than the SIG MLP Index one year realized volatility + 15%.

## **US High Yield Corporate Bond ETF**

To be eligible for inclusion in the US High Yield Corporate Bond segment of the index, a security must meet the following criteria:

- be a US-Listed ETF tracking a High Yield Corporate Bond Index; and
- have a minimum assets under management of \$1 billion.

## **Index Maintenance**

Index Share changes generally are not made during the quarter however, changes arising from corporate actions such as secondary offerings, redemptions, conversions, and increases of offering size will be made as soon as practical.

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.

All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

## **Index Evaluation**

The Index is evaluated quarterly March, June, September and December. In each evaluation, the above Eligibility Criteria are applied using market data through end of January, April, July and October. Security additions and deletions will be made effective at the close of business on the third Friday in 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 Rebalancing**

The Index employs a modified market capitalization weighting methodology. At each quarter<sup>2</sup>, the Index is rebalanced such that each segment of the Index will be capped at its predetermined weight. The predetermined segments weights are:

US Equity: 25%  
US REIT: 20%  
US Preferred: 20%  
US MLP: 20%  
US High Yield Corporate Bond: 15%

Before the capping occurs each segment undergoes its own weighting procedure as outlined below.

### **US Equity**

- Of the eligible companies, 50 securities will be selected and weighted by yield.
- If less than 50 securities remain after the screens, securities will be added back based on the volatility screen such that the securities which were next eligible based on that screen will be added. If 50 securities are still not eligible, the process will be repeated with each of the previous eligibility criterion until 50 securities are achieved.
- Within the US Equity segment, no single security can have a weight greater than 8%.

### **US REIT**

- Of the eligible companies, 25 securities will be selected and weighted by yield.
- If less than 25 securities remain after the screens, securities will be added back based on the volatility screen such that the securities which were next eligible based on that screen will be added. If 25 securities are still not eligible, the process will be repeated with each of the previous eligibility criterion until 25 securities are achieved.
- Within the US REIT segment, no single security can have a weight greater than 8%.

### **US Preferred**

- All components of the NQPFUS classified as equity will be selected. If less than 25 names exist, the remaining debt components will be selected based on the following criteria.
- Each eligible component will be scored by yield and realized volatility with the highest yielding security scoring 1 and least volatile security a 1.
- The scores are added and the names with the lowest score are selected.
- If two securities are tied in score, the security with the higher yield will be selected.
- The 25 remaining US Preferred securities are then weighted by yield.
- No more than 40% of the US Preferred segment can be in securities classified as debt based on the yield weighting. If the securities classified as debt are greater than 50%, the weight will be capped at 40% and excess weight will be redistributed to the remaining equity securities.

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<sup>2</sup> The US Preferred segment of NQMAUS is reviewed on an annual basis in June of each year.

#### **US MLP**

- Each eligible component will be scored by yield and realized volatility with the highest yielding security scoring 1 and least volatile security a 1.
- The scores are added and the 25 names with the lowest score are selected.
- If two securities are tied in score, the security with the higher yield will be selected.
- If less than 25 securities remain after the screens, securities will be added back based on the volatility screen such that the securities which were next eligible based on that screen will be added. If 25 securities are still not eligible, the process will be repeated with each of the previous eligibility criterion until 25 securities are achieved.
- The 25 remaining US MLP securities are then weighted by yield.

#### **US High Yield Corporate Bond**

- Each eligible ETF will be ranked by average dollar trading volume.
- The ETF with the highest average daily dollar trading value will be selected.

After the above weighting procedure is performed, the segments are then combined at the above caps to form the final Index weight for each security. 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 quarterly 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 OMX may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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