



Syntax

Syntax[®] Stratified Indices

Syntax Stratified 1000 Index
Methodology

August 21, 2019

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I. Methodology Scope

This methodology covers the following Syntax Indices:

Index Name	Index Ticker	Total Return Index (TR) or Capital Return Index (CR)
Syntax Stratified 1000 Index	SY1KPR	CR
Syntax Stratified 1000 Index (TR)	SY1KTR	TR

II. Index Objectives

Syntax® Stratified Indices™ are a family of U.S. equity indices that weight constituents based on Syntax’s patented methodology to control exposure to related business risks (RBRs). Traditional indices do not control for related business risks and are thus vulnerable to poor performance when economic shocks impact companies that are exposed to the same business risks. Syntax stratification diversifies indices by establishing target weights for RBRs and rebalancing to these targets every quarter. This methodology is designed to mitigate the adverse effects of inadvertent over weightings of related businesses that regularly occur in the market without sacrificing upside potential.

Syntax Stratified 1000 Index

The Syntax Stratified 1000 Index is the stratified-weight version of the widely-used Russell 1000 Index. The index holds the same constituents as the Russell 1000, but the weight of each company in the Syntax Stratified 1000 Index is based on Syntax’s patented methodology to control exposure to related business risks (RBRs).

III. Universe Selection Process

The Syntax Stratified 1000 Index licenses its constituents from the Russell 1000 Index. As such, the Syntax Stratified 1000 Index holds the exact constituents of the Russell 1000 Index.

IV. Index Information

Launch Date: August 21, 2019

First Value Date: August 21, 2019

Base Date: September 30, 1998

Base Value: 100

Currency: USD

Rebalancing: The Syntax Stratified 1000 Index follows the rebalancing schedule of the Russell 1000 Index. It is re-weighted at the close of the third Friday of the month in March, September, and December and at the close of the last Friday of the month of June, unless that falls on the 29th or 30th, in which case rebalance will occur on the preceding Friday. Index share counts are assigned using the closing prices from the rebalance date.

Additions, Deletions, and Replacements: The Syntax Stratified 1000 Index follows the addition and deletion schedule of the Russell 1000 Index. When a constituent enters the Russell 1000 Index, that same constituent enters the Syntax Stratified 1000 Index. When a constituent is deleted from the Russell 1000 Index, that constituent is deleted from the Syntax Stratified 1000 Index.

V. Corporate Action Methodology

Corporate actions and events will be implemented through changes to the Weight Adjustment Factor (WAF), through the Price Adjustment Factor (PAF), and the index divisor, or any combination of the above.

Spin-offs: If a constituent company is split and forms two or more companies by issuing new equity to existing shareholders, then the resulting companies may be eligible to continue as constituents in the Syntax Stratified 1000 index:

1. Existing constituent is split and forms two or more companies by issuing eligible equity to existing shareholders in new entity: on the ex-date the parent's price is adjusted for the capital payment, the parent's WAF is not changed. The spin-off entity is added to the index with the same WAF as the parent. There is no divisor change.
2. Existing constituent is split and forms two or more companies by issuing ineligible equity to existing shareholders: on the ex-date the parent's price is adjusted for the capital payment, the parent's WAF is not changed. The ineligible spin-off entity is added to the index with the same WAF as the parent. T+2 after the ex-date the ineligible entity is deleted and the proceeds are reinvested across the index. This drives a divisor change.
3. Existing constituent distributes shares in another existing constituent: on the ex-date the parent's price is adjusted for the capital payment, the parent's WAF is not changed. The shares in issue and investability weight of the spin-off change. The spin-off entity's WAF does not change. There is no divisor change.
4. Existing constituent distributes shares in another listed non-constituent: on the ex-date the parent's

price is adjusted for the capital payment, the parent's WAF is not changed. The ineligible spin-off proportion is added to the index with the same WAF as the parent. T+2 after the ex-date the ineligible spin-off is deleted from the index and the proceeds are reinvested across the index. This drives a divisor change.

Dividends: The total return index combines capital performance and reinvested income. All income is reinvested on the ex-date. The capital index (CI) level of the day before the ex-date is adjusted for the dividend payment on the ex-date (XD).

The total return index level (TRI) calculation can be written as:
$$TRI_t = TRI_{t-1} \times CI_t / (CI_{t-1} - XD_t)$$

Special Dividends: The price of the stock making the special dividend is reduced by the per share value of the capital payment. There is no WAF change. This drives a divisor change.

Rights Offering: For a rights issue that is in the money, the price and shares are adjusted on the ex-date. The WAF is adjusted to preserve the notional market capitalization of the security across the event.

In the event that the new shares are not eligible for the next dividend a call dummy line and nil paid line will be added to the index with the same new WAF as the ordinary line. After the dividend ex-date the two lines will be deleted and the shares in the ordinary line increased. The WAF will stay the same.

Where the rights issue is highly dilutive (i.e. 10 for 1 or more) a nil paid line and call dummy line will be added to the index on the ex-rights date. They will be deleted and the shares in the ordinary line increased at the end of the subscription period. The parent WAF will be changed on the ex-rights

date to preserve the notional market capitalization across the event.

Share Changes: Changes in the number of shares in issue or investability weights are treated as notional market capitalization neutral events through an adjustment to the Weight Adjustment Factor that off-sets the change in notional market capitalization.

Bankruptcy: Syntax removes bankrupt securities from its indices at the same time the security is removed from FTSE Russell Indices.

If a constituent is declared bankrupt without any indication of compensation to shareholders, the last traded price will be adjusted down to zero value and it will subsequently be removed from the index with appropriate notice (typically T+2).

Bonus Issues, Stock Splits, and Reverse Stock Splits: For stock splits, reverse stock splits, and bonus issues of the same stock a price adjusted factor (PAF) equal to the ratio given in the corporate action. The WAF of the security and the index divisor will not change.

For bonus issues of another index constituent the price of the bonus paying stock is adjusted by the PAF. The WAF of the bonus paying stock is unchanged. The index shares and investability weight of the other index constituent are updated for the bonus issue. The WAF is adjusted to keep the notional market capitalization the same.

For bonus issues in a non-constituent, the non-constituent payment is temporarily added to the index on the ex-date with same WAF as the bonus paying stock. The price of the bonus paying stock is adjusted by the PAF. On the settlement/listing date the temporary line is removed from the index. The index divisor is adjusted. The deletion will occur at the earliest of the close of the settlement date, with appropriate notice.

Mergers, and
Acquisitions:

Mergers and takeovers between index constituents:

- All stock financed acquisitions: the resulting company will remain in the index at the combined weight of the previous companies.
- All cash financed acquisitions: the cash is allocated across the index.
- Cash and stock financed acquisitions: the acquiring company's weight will be increased per the stock terms, the cash component will be allocated across the index.

Mergers and takeovers between an index constituent and non-constituents:

- If an index constituent is acquired by a non-constituent, the index constituent will be deleted from the index and the acquirer will not be added to the index.
- If an index constituent acquires a non-constituent the acquirer's WAF will be recalculated to ensure no change to the notional market capitalization from changes to shares in issue or changes to investability weight.

VI. Weight Generation and Rebalance

All Syntax Indices diversify constituents across groups of related business risks as defined by the patented FIS classification system. Syntax Indices use stratification, a common technique used in statistics, to control exposure to related business risks.

Each Syntax Index has a Syntax Stratification Architecture that outlines a hierarchy of related business risk groups that form the basis for each constituent's weight. Related business risk groups at each level of the Stratification Architecture are defined by a sequence of FIS tags, and every constituent is allocated to exactly one related business risk group at each level of the Syntax Stratification Architecture. This allocation takes place by matching the FIS tags applied to the company against the sequence of FIS tags that define the related business risk group.

At least two weeks prior to each quarterly rebalance, Syntax conducts a quality control review of each index's Stratification Architecture to verify that it continues to be representative of the relevant related business risks present in the set of constituents. Syntax also implements a quarterly review on constituents in the index that underwent a merger, acquisition, or spin-off to determine if these corporate actions necessitate a change to the function of the business and in turn, changed the constituent's FIS tags. Annually, Syntax conducts a review of the FIS tags.

VII. Index Dissemination

The Syntax Stratified 1000 Index is calculated by FTSE Russell. Daily levels can be found via Bloomberg and other major data providers.

VIII. Disclaimers

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