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# INDXX US AEROSPACE & DEFENSE INDEX METHODOLOGY

## CONTENTS

1.	INDXX US AEROSPACE & DEFENSE INDEX .....	2
1.1	INDEX DESCRIPTION.....	2
1.2	CREATION OF MASTER LIST .....	2
1.2.1	Initial Universe .....	2
1.2.2	Free Float.....	2
1.2.3	Maximum Price.....	2
1.2.4	Security Type.....	2
1.2.5	Share Classes .....	3
1.3	SECURITY SELECTION PROCESS.....	3
1.4	FINAL COMPOSITION .....	3
1.5	WEIGHTING .....	3
1.6	BUFFER RULES.....	3
1.6.1	Market Capitalization .....	3
1.6.2	Liquidity .....	4
1.7	RECONSTITUTION AND REBALANCING RULES.....	4
1.8	CORPORATE ACTIONS .....	4
2.	DISCLAIMER.....	6

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# 1. INDXX US AEROSPACE & DEFENSE INDEX

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## 1.1 INDEX DESCRIPTION

The Indxx US Aerospace & Defense Index is designed to measure the performance of companies involved in the Aerospace & Defense sector, as defined by Indxx.

The index has a base date of April 21, 2017, with an initial value of 1,000.

The index is currently available in the following version:

- Total Return
- Price Return
- Net Total Return

## 1.2 CREATION OF MASTER LIST

### 1.2.1 Initial Universe

To be eligible for inclusion in the Initial Universe, securities must have:

- Their listing in United States.
- Their country of domicile is the United States.
- A minimum total market capitalization of \$500 million.
- A 6-month average daily turnover greater than or equal to \$2 million.
- Traded for at least 90% of the total trading days for the last 6 months in its respective stock exchange. In case a security does not have a trading history of 6 months (only IPOs), such a security must have started trading at least 3 months before the start of the Reconstitution/Rebalancing Process and should have traded on 90% of the eligible trading days for the past 3 months.
- IPOs derived from SPACs will be eligible for inclusion if they have been listed at least 10 calendar days prior to the 'Reconstitution Selection Day'. IPOs derived from SPACs are eligible for inclusion in the portfolio and can be considered "Pure-Play" if the business description of the company is related to any of the sub-themes, irrespective of the revenue generated by it.

### 1.2.2 Free Float

All securities must have a minimum free float equivalent to 10% of shares outstanding.

### 1.2.3 Maximum Price

Securities trading at a price of \$10,000 or above are ineligible for inclusion in the index. This rule is not applicable to existing constituents. Existing constituents shall remain in the initial universe irrespective of their stock price.

### 1.2.4 Security Type

The following security types are eligible for inclusion:

- Common Stock

### 1.2.5 Share Classes

If multiple share classes exist for a company, the following preference order is followed:

- The existing share class/listing in the portfolio is retained if it satisfies all the eligibility criteria of the index.
- The most liquid share class/ listing is considered for inclusion.

## 1.3 SECURITY SELECTION PROCESS

All the companies from the initial universe which belong to the Aerospace & Defense Industry as defined by Indxx below are included in the Selection List.

Based on extensive research, Indxx has defined Indxx US Aerospace & Defense into the following sub-themes:

Sub-Theme	Description
<b>Advanced Aerospace and Defense</b>	<p>This includes companies working in the following areas:</p> <p><b>Hypersonic</b> It includes companies that are involved in developing hypersonic warfare weapons technology for defense-related applications.</p> <p><b>Directed Energy</b> It includes companies that are involved in developing weapons like high-power microwaves, laser technology products and electromagnetic weapons, for defense-related applications.</p> <p><b>Space Technologies</b> It includes companies that are involved in developing rockets, satellites, and launch vehicles.</p> <p><b>Unmanned Aerial Vehicle/ Advance Air Mobility</b> It includes companies that develop military aircraft that are guided by remote control or programmed autonomously. Further, it includes companies involved in developing an air transportation system that moves cargo and people for defense-related applications.</p> <p><b>Autonomous, Cybersecurity, and C5ISR Systems</b> It includes companies that are involved in providing autonomous, cybersecurity, and C5ISR solutions to improve national security, enhance public safety, and design better combat results.</p> <p>The sub-theme also includes the commercial (non-government/defense) applications of such activities.</p>
<b>Traditional Aerospace and Defense</b>	<p>It includes companies that manufacture construction material, electronics and telecommunications equipment used in the manufacture of aircraft for both defense and commercial aviation. Avionics, power and control system, interiors, manufacturing of airframe rotables, landing gear and other accessories are examples of common applications in both defense and commercial aviation.</p> <p>The sub-theme also includes the commercial (non-government/defense) applications of such activities.</p>

**Table-1: Description of sub-themes**

Companies involved in business activities associated with these sub-themes will be eligible for inclusion. These eligible companies are further classified into the below categories:

**Pure-Play:** Companies from the Master List that derive at least 50% of revenue from aerospace and defense activities in one or more of the sub-themes identified above will be considered 'pure-play' companies. These companies have their principal business strategies and/or growth prospects inextricably linked to aerospace and defense.

The sub-themes identified through this research-based approach are subject to change at the time of the reconstitution.

## 1.4 FINAL COMPOSITION

From the Selection List:

- Companies belonging to only the 'Pure-Play' classification, are taken into consideration.
- The top 50 'Pure-Play' companies by market capitalization will form the final index.
- All 'Pure-Play' companies shall be part of the final composition in the event of less than 50 'Pure-Play' companies.

## 1.5 WEIGHTING

- The securities are assigned weights based on their market capitalization.
- A single security cap of 8% is applied to securities and the extra weight is re-distributed amongst the uncapped securities.
- The aggregate weight of securities with weights greater than or equal to 5% must not exceed 45%. In case the aggregate weight exceeds 45%, a secondary cap of 4% is applied.

## 1.6 BUFFER RULES

Buffer rules are employed to reduce portfolio turnover. The following buffer rules apply:

### 1.6.1 Market Capitalization

A constituent shall continue to be included in the Initial Universe if its market capitalization is greater than or equal to 80% of the previously defined market capitalization limit. To illustrate, if an existing index member qualifies all other selection criteria but doesn't qualify the market capitalization criterion to the extent of a 20% deviation, then it will be retained in the investible universe.

### 1.6.2 Liquidity

A constituent shall continue to be included in the Initial Universe if its 6-month ADTV is greater than or equal to 70% of the previously defined liquidity limit. To illustrate, if an existing index member qualifies all other selection criteria but doesn't qualify liquidity criteria to the extent of a 30% deviation, then it will be retained in the investible universe.

## 1.7 RECONSTITUTION AND REBALANCING RULES

- The index follows a semi-annual reconstitution and quarterly rebalancing schedule. The new portfolio becomes effective at the close of the third Friday in April and October each year. This day is called the 'Reconstitution Effective Day.' The rebalanced portfolio becomes effective at the close of the third Friday of January, April, July, and October each year. This day is called the 'Rebalance Effective Day'.
- The security selection and portfolio creation process start on the close of seventeen trading days before the Reconstitution effective day, called the 'Selection Day'. The selection list is created based on the data as of the Selection Day.
- Weights are calculated at the close of the sixth trading day prior (five trading days prior) to the Reconstitution Effective Day. Index Shares are frozen using weights as of this day.

## 1.8 CORPORATE ACTIONS

The corporate action guidebook is present in the Announcements section of our website, under 'Index Documents'.

## 2. DISCLAIMER

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