EGAI Indices

EGAI Developed Markets Blue Chip EM Access Index

INDEX METHODOLOGY

SEPTEMBER 28, 2015

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Index Description

The EGAI℠ Developed Markets Blue Chip EM Access index is an equal-weighted 30-stock index designed to measure the market performance of well-established, widely recognized developed market companies that have quality, meaningful and growing revenue from emerging markets. The index consists of common stocks listed on the primary exchanges of developed markets, as well as ADRs & GDRs listed on U.S. & European exchanges

Index Eligibility Criteria

Universe

The universe is defined as all publicly traded companies domiciled in the EGAI Developed Markets Mid and Large-cap Universe larger than US $2 Billion as of the Selection Date.

EGAI Developed Markets Universe

Companies domiciled in the following countries are included: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Israel, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom and the United States. A company domiciled in a particular country, for index purposes, should have the following characteristics:

- Incorporation in its respective country
- Corporate governance structure consistent with its countries' practice
- Security listed on the primary stock exchange of its country
- Generally be considered as domiciled in its respective country by analysts and investors

Selection Date

The Selection Date is the day index eligibility criteria are assessed. All company data and calculations used in the screens are as of the Selection Date.

Market Capitalization

Minimum free float market capitalization should be greater than US $4 Billion as of the Selection Date.

Liquidity

Minimum average daily turnover for 6 months greater than US $5 Million for each security as of the Selection Date.

Percentage Blue Chip Company Emerging Market Revenue vs. Total Company Revenue

Percentage of emerging markets (EM) revenue (measured by the last reported full fiscal year as provided by the company's annual report) of each constituent as a percentage of its total reported trailing 1-year revenue greater than 22%.

Blue Chip Company Emerging Market Revenue Growth

Companies must exhibit positive growth in their EM revenues. Companies with 3 years of measurable data must have increased their EM revenues over the last 2 year and 3 years; those with only 2 years of measurable data must have increased their EM revenues over the last 2 years, only.

Return on Equity (ROE)

Trailing 1-year ROE of each constituent greater than 10%.

Index Creation Process

The Selection List

A Selection List is initially prepared from the Universe by applying the minimum criteria for market capitalization, liquidity, percentage of company EM revenue, EM revenue growth and ROE.

Therefore, all companies with (i) market capitalization below US $4 Billion, (ii) average daily turnover of less than US $5 Million, (iii) company EM revenues of less than 22%, (iv) negative company EM revenue growth for the last 2 years (or last 2 years and 3 years if available) or (v) ROE of less than 10%, as of the Selection Date, are removed. The remaining companies comprise the index Selection List.

Ranking

The Selection List is ranked by percentage of emerging markets revenue. Subject to the Capping restriction described below, the Selection List's top 30 ranked names are selected as final index components.

Capping

All sectors, except Consumer Goods and Consumer Services ("Consumer Sectors"), as determined by EGAI using the EGAI Sector Classification Methodology can hold no more than six companies (nor have weight greater than 20%) at the time of rebalance. In the event the top 30 ranked names result in an overpopulation of the non-Consumer Sectors, the index will then draw from the Selection List's next highest ranked components until such time as 30 names are identified.

Weighting

The final index components will be equally-weighted (single companies shall have maximum weight of 3.33%) at rebalance.

Index Exception Rules

If 30 component companies cannot be identified using the index methodology described above, three actions may be taken:

Exception Rule (1): If an insufficient number of companies meet all index screens after the index rules are implemented, the percentage of company EM revenue threshold may be relaxed. The next available name that has the highest percentage of EM revenue below the percentage of EM revenue threshold <u>and</u> meets all other index screens may be selected. This process may be repeated up to twenty times to achieve the 30 name target for the index.

Exception Rule (2): If an insufficient number of companies meet all index screens after exception rule 1 is implemented, the company return on equity threshold may be relaxed. The next available name that has the highest ROE below the ROE threshold <u>and</u> meets all other index screens may be selected. This process may be repeated up to ten times to achieve the 30 name target for the index.

Exception Rule (3): If an insufficient number of companies meet all index screens after Exception Rule (1) and (2) are implemented, the index will contain less the 30 names.

Index Rebalancing and Reconstitution

- Annual Review for index reconstitution occurs on the first business day of March.
- Quarterly Review for index rebalance occurs on the first business day of March, June, September and December.
- Rebalancing is complete on the second to last Friday of each quarter.
- If the scheduled day for a rebalancing falls on a market holiday, rebalancing occurs on the prior business day.
- Announcement of the new index constituents will be published one week prior to the rebalance.

Corporate Actions

Corporate actions (such as stock splits, dividends, spin-offs and rights offerings) are applied on the ex-date. The impact and adjustment of various corporate actions are discussed below.

Adjustment in the Index

Any corporate action that necessitates an adjustment to the index will occur according to the following formula:

New Index Divisor = Previous Index Divisor – [(Total Dividends /Exchange Rate)/Previous Index Value]
Where:

- Previous Index Divisor: Index divisor prior to the ex-dividend date
- Total Dividends: Sum of all dividends for all the stocks
- Previous Index Value: Dollar market value of the Index prior to the ex-dividend date/Previous Index Divisor

Dividends

Meaning

Dividends are payments made by a corporation to its shareholder members. It is the portion of corporate profits paid out to stockholders. When a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business (called retained earnings) or it can be paid to the shareholders as a dividend. Many corporations retain a portion of their earnings and pay the remainder as a dividend. Dividends must be "declared" (approved) by a company's Board of Directors each time they are paid. For public companies, there are four important dates to remember regarding dividends:

- Declaration Date: The day the Board of Directors announces its intention to pay a dividend. On the declaration date, the Board will also announce Date of Record and Payment Date.
- In-dividend Date: The last day, which is one trading day before the ex-dividend date, where the stock is said to be cum dividend ("with dividend").
- Ex-dividend Date: The day on which all shares bought and sold no longer include the right to be paid the most recently declared dividend. Typically, the ex-dividend date is two trading days before the record date for U.S. securities.
- Payment Date: The day when the dividend checks will actually be mailed to the shareholders of a company or credited to brokerage accounts.

Impact on Index

Dividends payments impact the total return index calculation. The price return index calculations as well as the number of shares remain unaffected.

Adjustment in the Index

Dividend payments will be reinvested in the total return index on the ex-dividend date. This means that going forward this additional money will be used to buy additional shares in the future. This adjustment of reinvesting dividends will in turn affect the calculation of the index divisor post dividend adjustment.

Stock Split

Meaning

All publicly-traded companies have a set number of shares that are outstanding on the stock market. A stock split is a decision by the company's board of directors to increase the number of shares that are outstanding by issuing more shares to current shareholders. For example, in a 2-for-1 stock split, every shareholder with one stock is given an additional share. So if a company had 10 million shares outstanding before the split, it will have 20 million shares outstanding after a 2-for-1 split.
A stock's price is also affected by a stock split. After a split, the stock price will be reduced since the number of shares outstanding has increased. In the example of a 2-for-1 split, the share price will be halved. Thus, although the number of outstanding shares and the stock price change, the market capitalization remains constant. A stock split is usually done by companies that have seen their share price increase to levels that are either too high or are beyond the price levels of similar companies in their sector. The primary motive is to make shares seem more affordable to small investors even though the underlying value of the company has not changed.

Impact on Index

Stock splits impact the number of shares in both the total and price return indices. There is no impact on the index divisor.

Adjustment in the Index

Stock splits will be adjusted for in the total and price return indices on the ex- date. The number of shares will increase times the adjustment factor for the split. For example if a company has announced a 2-for-1 stock split, the adjustment factor for the same will be 2/1= 2. Alternatively, this adjustment factor can be seen from Bloomberg as well. The number of shares in this case will be multiplied by 2.

Bonus Issue of Shares

Meaning

A bonus share is a free share of stock given to current/existing shareholders in a company, based upon the number of shares that the shareholder already owns at the time of announcement of the bonus. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant. New shares are issued to shareholders in proportion to their holdings. For example, the company may give one bonus share for every five shares held.

Impact on Index
Bonus issue of shares impacts the number of shares in both the total and price return indices. There is no impact on the index divisor.

Adjustment in the Index
Bonus issue of shares will be adjusted for in the total and price return indices on the ex-date. The number of shares will increase times the adjustment factor for the bonus issue. For example, if a company has announced a 100% bonus, the adjustment factor for the same will be 2 (i.e., one bonus share for every one share held). This adjustment factor can be seen from Bloomberg as well. The number of shares in this case will be multiplied by 2.

Rights Issue

Meaning
Rights issue is an invitation to existing shareholders to purchase additional new shares in the company. More specifically, this type of issue gives existing shareholders securities called "rights", which will give the shareholders the right to purchase new shares at a discount to the market price on a stated future date. The company is giving shareholders a chance to increase their exposure to the stock at a discount price. Until the date at which the new shares can be purchased, shareholders may trade the rights on the market the same way they would trade ordinary shares. The rights issued to a shareholder have a value, thus compensating current shareholders for the future dilution of their existing shares' value.

Impact on Index
Rights issue impacts the number of shares in both the total and price return indices. There will be an impact on the divisors in both the total and price return indices.

Adjustment in the Index
Rights issue will be adjusted in the total and price return indices on the ex-date. However the adjustment for rights issue will take place only when the subscription price is less than the stock price on ex-date. The subscription price is the price at which the company gives its existing shareholders the right to purchase new shares.

Spin-Off

Meaning
A spin-off is the creation of an independent company through the sale or distribution of new shares of an existing business/division of a parent company. A spin-off is a type of divestiture. Businesses wishing to 'streamline' their operations often sell less productive or unrelated subsidiary businesses as spin-offs. The spun-off companies are expected to be worth more as independent entities than as parts of a larger

business. In most cases, the parent company or organization offers support doing one or more of the following:

- Investing equity in the new firm,
- Being the first customer of the spin-out (helps to create cash flow),
- Providing incubation space (desk, chairs, phones, internet access, etc.) or
- Providing services such as legal, finance, technology, etc.

Impact on Index
Spin-offs impact the divisors in both the total and price return indices.

Adjustment in the Index
The adjustment for a spin-off is done on a case-by-case basis. The Index Committee will decide on one of the following options based on internal research:

- The parent company remains in the index and the spun off entity is deemed ineligible for inclusion
- The parent company is deemed ineligible to remain in the index however, the spun off entity is deemed eligible for inclusion
- Neither the parent company nor the spun off entity are eligible to be in the index. In this case the Index Committee will decide whether to liquidate the parent company in the index or replace it with the next best constituent according to the index methodology

Case 1: Post the spin off, the company's business is considered relevant according to the underlined index criteria- In this case; the company is not removed from the index

Case 2: Post the spin off, the company's business is considered irrelevant according to the underlined index criteria- In this case; the company is removed from the index. For the same, we use the following formula to calculate the new index divisor:

Delisting

Meaning
Delisting refers to the practice of removing the stock of a company from a stock exchange so that investors can no longer trade shares of the stock on that exchange. This typically occurs when a company goes out of business, declares bankruptcy, no longer satisfies the listing rules of stock exchange, or has become a private company after a merger or acquisition, or wants to reduce regulatory reporting complexities and overhead, or if the stock volumes on the exchange from which it wishes to delist are not significant.

Impact on Index
Delisting of a security impacts the divisors in both the total and price return indices.

Adjustment in the Index

In the event a company is delisted from the listed exchange, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology. Removal of the stock from the index will in turn affect the calculation of the index divisor post dividend adjustment.

Acquisition

Meaning

A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own. Acquisitions are often paid in cash, the acquiring company's stock or a combination of both. Acquisitions can be either friendly or hostile.

Impact on Index

Acquisition of a security impacts the divisors in both the total and price return indices.

Adjustment in the Index

In the event a company is acquired, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology. Removal of the stock from the index will in turn affect the calculation of the index divisor post dividend adjustment.

Merger

Meaning

Merger is when two companies combine together to form a new company altogether. In other words, it is the combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.

Impact on Index

Merger impacts the divisors in both the total and price return indices.

Adjustment in the Index

In the event a company is merged, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology. Removal of the stock from the index will in turn affect the calculation of the index divisor post dividend adjustment.

Bankruptcy

Meaning
Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts. The bankruptcy process begins with a petition filed by the debtor (most common) or on behalf of creditors (less common). All of the debtor's assets are measured and evaluated, whereupon the assets are used to repay a portion of outstanding debt. Upon the successful completion of bankruptcy proceedings, the debtor is relieved of the debt obligations incurred prior to filing for bankruptcy.

Impact on Index
Bankruptcy of a security impacts the divisors in both the total and price return indices.

Adjustment in the Index
In the event a company is bankrupt, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology. Removal of the stock from the index will in turn affect the calculation of the index divisor post dividend adjustment.

Temporary Delisting/Prolonged Trading Suspension

Meaning
A temporary delisting/trading suspension occurs when a security stops trading on the stock exchange for a certain time period. This usually occurs when a publicly-traded company is going to release significant news about itself. The suspension in trading for the affected security gives investors time to review the news and assess its impact.

Impact on Index
A temporary delisting/trading suspension of a security impacts the divisors in both the total and price return indices.

Adjustment in the Index
In the event a company is temporary delisted or trading suspension has taken place, it will be removed from the index. The Index Committee will decide whether to liquidate the stock in the index or to replace it with the next best constituent according to the index methodology. Removal of the stock from the index will in turn affect the calculation of the index divisor post dividend adjustment.

Index Data

Total Return Index

Ordinary cash dividends are applied on the ex-date for calculating the total return index. “Special dividends” are those dividends that are outside of the normal payment pattern established historically by the issuing corporation. These may be described by the corporation as “special", "extra", "year-end", or “return of capital". Whether a dividend is funded from operating earnings or from other sources of cash does not affect the determination of whether it is ordinary or special. “Special dividends” are treated as corporate actions with offsetting price and divisor adjustments; the total return index reflects both ordinary and special dividends.

Price Return Index

No dividends are applied to calculate the price return index.

Index Policy

Index Committee Policy

The Index Committee is responsible for setting policy, determining index composition, and administering the indices in accordance with the EGAI index methodology. The Index Committee reserves the right to use qualitative judgment to include, exclude, adjust, or postpone the inclusion of a stock. Continued index membership of a constituent is not necessarily subject to the guidelines provided in each of the EGAI index methodology. A stock may be considered for exclusion by the Index Committee on the basis of corporate governance, accounting policies, lack of transparency and lack of representation, despite meeting all the criteria provided in each of the EGAI index methodology.

Announcements

Announcements of additions and deletions of constituents, due to various corporate actions mentioned above, in the middle of the year will be decided by the Index Committee. This will be communicated to the client well ahead of time via email. Also important news items as well as corporate actions with respect to all the constituents of the index will be informed to the client on a weekly basis.

Holiday Schedule

The index is calculated when the U.S. equity markets are open. In situations where an exchange is forced to close early due to unforeseen events, the index will be calculated based on the closing prices published by the exchange, or if no closing price is available, the last regular trade reported for each stock before the exchange closed.

Disclosures

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