



## Index Guidelines

# AlphaClone Hedge Fund Masters Index

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AlphaClone Inc. (the “Index Owner”) makes no warranties or representations as to the accuracy and/or completeness of the Indices and does not guarantee the results obtained by persons using the Indices in connection with trading funds or securities. The Index Owner makes no representations regarding the advisability of investing in any fund or security.

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The Index Owner has selected Solactive AG as an Index Calculator to calculate the Indices.

The use of these Indices in connection with any financial products or for benchmarking purposes requires a license. Please contact AlphaClone Inc. for more details.

# Introduction

This document is to be used as a guideline with regard to the composition, calculation and management of the AlphaClone Hedge Fund Masters index. Any changes made to the guideline are initiated by the Committee specified in section 1.6. The AlphaClone Hedge Fund Masters index is calculated and published by Solactive AG.

## 1 Index specifications

The AlphaClone Hedge Fund Masters index (“AlphaClone Hedge Fund Masters index”, the “Index”) is an Index of AlphaClone, Inc. and is calculated and distributed by Solactive AG. The index is designed to track the performance of US-exchange traded equity securities selected based on a proprietary hedge fund position replication methodology developed by AlphaClone and specified in section 4. The methodology ranks hedge funds and institutional investors based on the efficacy of replicating their publicly disclosed positions and selects equities from those managers with the highest ranking.

The Index is published in USD.

### 1.1 Short name and ISIN

The AlphaClone Hedge Fund Masters index is distributed under ISIN **DE000SLA42C2**; the WKN is **SLA42C**. The Index is published in Reuters under the code <ALFMIX> and Bloomberg under the code <ALFMIX Index>.

### 1.2 Initial value

The Index is based on 150 as at the close of trading August 25, 2017.

### 1.3 Distribution

The AlphaClone Hedge Fund Masters index is published every 15 seconds via the price marketing services of Boerse Stuttgart AG and is distributed to all affiliated vendors. Each vendor decides on an individual basis as to whether they will distribute/display the AlphaClone Hedge Fund Masters index via their information systems.

### 1.4 Prices and calculation frequency

The price of the AlphaClone Hedge Fund Masters index is calculated on each Business Day based on the prices on the respective Exchanges on which the Index Components are listed. The most recent prices of all Index Components are used. Prices of Index Components not listed in the Index Currency are translated using spot foreign exchange rates quoted by Reuters. Should there be no current price available on Reuters, the most recent price or the Trading Price on Reuters for the preceding Trading Day is used in the calculation.

The AlphaClone Hedge Fund Masters index is calculated every Business Day from 9:00am to 10:30pm, CET. In the event that data cannot be provided to Bloomberg, Reuters or to the pricing services of Boerse Stuttgart AG the Index cannot be distributed.

Any incorrect calculation is adjusted on a retrospective basis.

### 1.5 Weighting

On the Start Date and on each subsequent Ordinary Adjustment Date, every index component is equal weighted. At the time of each index reconstitution, in no event will any single index component weight exceed 5% of the total index weighting. In the event that one or more weight threshold is exceeded by one or more components, the excess weights will be distributed amongst the remaining component(s) in proportion to their pre-adjusted weights. Under no circumstance will the total number of components for the index be less than 30.

## 1.6 Decision-making bodies

A Committee composed of staff from AlphaClone, Inc. is responsible for defining the rules that comprise the index. Index rules may be changed following a vote of the Committee. The Committee will make a decision on an ad hoc basis on any necessary index adjustments if an Extraordinary Event were to occur as defined herein. Each member of the Committee is subject to procedures designed to prevent the use and dissemination of material non-public information regarding the Index

## 1.7 Publication

All specifications and information relevant for calculating the Index are made available on the <http://www.solactive.com> web page and sub-pages.

## 1.8 Historical data

Historical data will be maintained from the launch of the Index on August 25, 2017.

## 1.9 Licensing

Licences to use the Index as the underlying value for derivative instruments are issued to stock exchanges, banks, financial services providers and investment houses by AlphaClone, Inc.

## 2 Composition of the Index

### 2.1 Selection of the Index Components

The initial composition of the AlphaClone Hedge Fund Masters index is based on the following rules:

AlphaClone maintains a database of hedge fund and institutional investor public holdings disclosures. The database is comprised of approximately 550 hedge funds and institutional investors who are required to file form 13F-HR with the SEC. The universe of securities eligible for inclusion in the index includes all equity securities disclosed by AlphaClone's universe of managers for the most recent quarter and traded on a US national securities exchange.

On the Selection Day, AlphaClone selects up to 50 constituents derived from the eligible universe of securities. Constituents are selected from the public disclosures of managers that have the highest "Clone Score", a proprietary measure developed by AlphaClone that measures the efficacy over time of investment or "clone" strategies that follow a specific manager's holdings. Clone Scores are based on the monthly returns in excess of a broad market index and a fixed hurdle rate exhibited by the manager's "clone" strategies over time. Clone Scores are recalculated bi-annually.

### 2.2 Ordinary adjustment

The composition of the AlphaClone Hedge Fund Masters index is ordinarily reviewed quarterly based on data at the close of business, five Business Days after the 45 day SEC disclosure filing window closes ("Selection Day"). The index is adjusted four Business Days after Selection Day ("Adjustment Day"). Other than for Extraordinary Events, the index is not managed or adjusted on an intra-quarter basis, rather the index is reconstituted every 90 days.

Solactive AG shall publish to all licensees of the index any changes made to the Index composition one Business Day after the Selection Day and consequently with sufficient notice before the Adjustment Day.

### 2.3 Extraordinary adjustment

If a company included in the AlphaClone Hedge Fund Masters index is removed from the Index between two Adjustment Days due to an Extraordinary Event, based on the Index rules, no successor will be assigned and the index will exclude the company from the date of exclusion until the next Adjustment Day when the index is reconstituted.

## 3 Calculation of the Index

### 3.1 Index formula

The AlphaClone Hedge Fund Masters index is an index whose value on a Business Day is equivalent to the sum of the product of (a) the Number of Shares of the Index Component and (b) the price of the Index Component at the respective Exchange, for each Index Component

As a formula:

$$Index_t = \sum_{i=1}^n x_{i,t} * p_{i,t}$$

with:

$x_{i,t}$  = Number of Shares of the Index Component i on Trading Day t

$p_{i,t}$  = Price of Index Component i on Trading Day t

### 3.2 Accuracy

The value of the Index will be rounded to two decimal places.

The Number of Shares of the Index Components will be rounded to six decimal places.

Trading Prices will be rounded to four decimal places.

### 3.3 Adjustments

Indices need to be adjusted for systematic changes in prices once these become effective. This requires the new Number of Shares of the affected Index Component to be calculated on an ex-ante basis.

Following the Committee's decision, the AlphaClone Hedge Fund Masters index is adjusted for distributions, capital increases, rights issues, splits, par value conversions and capital reductions.

This procedure ensures that the first ex quote can be properly reflected in the calculation of the Index. This ex-ante procedure assumes the general acceptance of the Index calculation formula as well as open access to the parameter values used. The calculation parameters are provided by Solactive AG.

Any delay in calculating the new Number of Shares of an Index Component would create problems. Therefore the procedure described above is the most appropriate.

### 3.4 Dividends and other distributions

Dividend payments and other distributions are included in the Index. They cause an adjustment of the Number of Shares of the corresponding Index Component. The new Number of Shares is calculated as follows:

$$x_{i,t} = x_{i,t-1} * \frac{P_{i,t-1}}{P_{i,t-1} - D_{i,t}}$$

with

$x_{i,t}$  = Number of Shares of the Index Component i on Trading Day t

$D_{i,t}$  = Payment on Trading Day t multiplied by the Dividend Correction Factor of the respective country

### 3.5 Corporate actions

#### 3.5.1 Principles

Following the announcement by a company included in the Index of the terms and conditions of a corporate action the Index Calculator determines whether such corporate action has a dilution, concentration or other effect on the price of the Index Component.

If this should be the case the Index Calculator shall make the necessary adjustments to the affected Index Component and/or the formula for calculating the Index and/or to other terms and conditions of this document that he deems appropriate in order to take into account the dilution, concentration or other effect and shall determine the date on which this adjustment shall come into effect.

Amongst other things the Index Calculator can take into account the adjustment made by an Affiliated Exchange as a result of the corporate action with regard to option and futures contracts on the respective share traded on this Affiliated Exchange.

#### 3.5.2 Capital increases

In the case of capital increases (from the company's own resources or through cash contributions) the new Numbers of Shares are calculated as follows:

$$x_{i,t} = x_{i,t-1} * \frac{P_{i,t-1}}{P_{i,t-1} - rB_{i,t-1}} \quad rB_{i,t-1} = \frac{P_{i,t-1} - B - N}{BV + 1}$$

with:

$x_{i,t}$  = Number of Shares of Index Component i on the day of the distribution

$x_{i,t-1}$  = Number of Shares of Index Component i on the day prior to the distribution

$p_{i,t-1}$  = Closing price on the day prior to ex date

$rB_{i,t-1}$  = Calculated value of rights issue

B = Price of rights issue

N = Dividend disadvantage

BV = Subscription ratio

B=0 if capital is increased from the company's own resources.

The last dividend paid or the announced dividend proposal is applied as the dividend disadvantage.

### 3.5.3 Capital reductions

$$x_{i,t} = x_{i,t-1} * \frac{1}{H_{i,t}}$$

In the case of capital reductions the new Number of Shares is determined as follows:

- $H_{i,t}$  = Reduction ratio of the company on day t
- $x_{i,t}$  = Number of Shares of the affected Index Component on the day of the distribution
- $x_{i,t-1}$  = Number of Shares of the affected Index Component on the day prior to the distribution

### 3.5.4 Share splits and par value conversions

In the case of share splits and par value conversions it is assumed that the prices change in ratio to the number of shares or to the par values. The new Number of Shares is calculated as follows:

$$x_{i,t} = x_{i,t-1} * \frac{N_{i,t-1}}{N_{i,t}}$$

- $N_{i,t-1}$  = Former par value of security class i (or new number of shares)
- $N_{i,t}$  = New par value of security class i (or former number of shares)
- $x_{i,t}$  = Number of Shares of the affected Index Component on the day of the distribution
- $x_{i,t-1}$  = Number of Shares of the affected Index Component on the day prior to the distribution

### 3.6 Calculation of the Index in the event of a Market Disruption Event

An Index is not calculated in the event of a Market Disruption Event. If the Market Disruption Event continues over a period of eight Trading Days, the Index Calculator calculates the Index value, taking into account the market conditions prevailing at this point in time, the last quoted Trading Price for each of the Index Components as well as any other conditions that it deems relevant for calculating the Index value.

If the index has entered its "hedged" posture and trading in the hedge instrument utilized by the index is halted temporarily due to circuit breakers or similar event, the index will continue to hold its position in the halted instrument until such time as trading in the instrument resumes. If trading in the hedge instrument is halted for more than five Business Days or if the instrument is de-listed or liquidated then the index will utilize an alternate inverse unleveraged exchange-traded fund based on a similarly broad US market index to implement its hedge.

#### 4. Definitions

“AlphaClone’s Fund Universe” is hedge funds and/or institutional investors for whom AlphaClone tracks public disclosures.

“Selection Pool” in respect to Selection Day are those holdings that fulfill the following conditions:

- a) Listing on a regulated stock exchange in the United States
- b) Disclosed by AlphaClone’s Fund Universe
- b) Free Float Market Capitalization of at least \$100 million USD
- c) Average daily trading volume in the last three months of at least 500,000 USD
- d) Average monthly trading volume of at least 75,000 shares in each of the last three months (“Liquidity Criterion”)
- e) A long holding is not an exchange traded product or a fund
- f) Selected based on AlphaClone’s proprietary methodology.

“Index Component” is each share currently included in the Index.

“Clone Score” calculates the degree and persistence of Excess Returns historically for investment strategies that follow or “clone” each disclosing entity. Clone Scores are recalculated every six months to account for new performance metrics since the last time scores were calculated as well as any new entities added to AlphaClone’s Fund Universe.

“Number of Shares” is in respect of an Index Component and any given Business Day the number or fraction of shares included in the Index. It is calculated for any Index Component as the ratio of (A) the Percentage Weight of an Index Component multiplied by the Index value and (B) its Trading Price.

“Percentage Weight” of an Index Component is the ratio of its Trading Price multiplied by its Number of Shares divided by the Index value.

“Dividend Correction Factor” is calculated as 1 minus the applicable withholding tax rate and/or other applicable tax rate currently prevalent in the respective country.

In particular, an “Extraordinary Event” is

- a Merger
- a Takeover bid
- a delisting
- the Nationalisation of a company
- Insolvency.

The Trading Price for this Index Component on the day the event came into effect is the last available market price for this Index Component quoted on the Exchange on the day the event came into effect (or, if a market price is not available for the day the event came into effect, the last available market price quoted on the Exchange on a day specified as appropriate by the Index Calculator), as determined by the Index Calculator, and this price is used as the Trading Price of the particular Index Component until the end of the day on which the composition of the Index is next set.

In the event of the Insolvency of an issuer of an Index Component the Index Component shall remain in the Index until the next Adjustment Day. As long as a market price for the affected Index Component is available on a Business Day, this shall be applied as the Trading Price for this Index Component on the relevant Business Day, as determined in each case by the Index Calculator. If a market price is not available on a Business Day the Trading Price for this Index Component is set to zero. The Committee may also decide to eliminate the respective Index Component at an earlier point in time prior to the next Adjustment Day. The procedure in this case is identical to an elimination due to and Extraordinary Event.

An Index Component is “delisted” if the Exchange announces pursuant to the Exchange regulations that the listing of, the trading in or the issuing of public quotes on the Index Component at the Exchange has ceased immediately or will cease at a later date, for whatever reason (provided delisting is not because of a Merger or a Takeover bid), and the Index Component is not immediately listed, traded or quoted again on an exchange, trading or listing system, acceptable to the Index Calculator,

“Insolvency” occurs with regard to an Index Component if (A) all shares of the respective issuer must be transferred to a trustee, liquidator, insolvency administrator or a similar public officer as result of a voluntary or compulsory liquidation, insolvency or winding-up proceedings or comparable proceedings affecting the issuer of the Index Components or (B) the holders of the shares of this issuer are legally enjoined from transferring the shares.

A “Takeover bid” is a bid to acquire, an exchange offer or any other offer or act of a legal person that results in the related legal person acquiring as part of an exchange or otherwise more than 10% and less than 100% of the voting shares in circulation from the issuer of the Index Component or the right to acquire these shares, as determined by the Index Calculator based on notices submitted to public or self-regulatory authorities or other information considered by the Index Calculator to be relevant.

With regard to an Index Component a “Merger” is

- i. a change in the security class or a conversion of this share class that results in a transfer or an ultimate definite obligation to transfer all the shares in circulation to another legal person,
- ii. a merger (either by acquisition or through forming a new structure) or a binding obligation on the part of the issuer to exchange shares with another legal person (except in a merger or share exchange under which the issuer of this Index Component is the acquiring or remaining company and which does not involve a change in security class or a conversion of all the shares in circulation),
- iii. a takeover offer, exchange offer, other offer or another act of a legal person for the purposes of acquiring or otherwise obtaining from the issuer 100% of the shares issued that entails a transfer or the irrevocable obligation to transfer all shares (with the exception of shares which are held and controlled by the legal person), or
- iv. a merger (either by acquisition or through forming a new structure) or a binding obligation on the part of the issuer of the share or its subsidiaries to exchange shares with another legal person, whereby the issuer of the share is the acquiring or remaining company and it does not involve a change in the class or a conversion of the all shares issued, but the shares in circulation directly prior to such an event (except for shares held and controlled by the legal person) represent in total less than 50% of the shares in circulation directly subsequent to such an event.

The “Merger Date” is the date on which a Merger is concluded or the date specified by the Index Calculator if such a date cannot be determined under the law applicable to the Merger.

“Nationalisation” is a process whereby all shares or the majority of the assets of the issuer of the shares are nationalised or are expropriated or otherwise must be transferred to public bodies, authorities or institutions.

“Exchange” is, in respect of the Selection Pool and every Index Component, the respective primary exchange where the Index Component has its primary listing. The Committee may decide to declare a different stock exchange the “Exchange” for trading reasons, even if the company is only listed there via a Stock Substitute.

“Stock Substitute” includes in particular American Depositary Receipts (ADR) and Global Depositary Receipts (GDR).

With regard to an Index component (subject to the provisions given above under “Extraordinary Events”) the “Trading Price” in respect of a Trading Day is the closing price on this Trading Day determined in accordance with the Exchange regulations. If the Exchange has no closing price for an Index Component, the Index Calculator shall determine the Trading Price and the time of the quote for the share in question in a manner that appears reasonable to him.

A “Trading Day” is in relation to the Index or an Index Component a Trading Day on the Exchange (or a day that would have been such a day if a market disruption had not occurred), excluding days on which trading may be ceased prior to the normal Exchange closing time. The Index Calculator is ultimately responsible as to whether a certain day is a Trading Day with regard to the Index or an Index Component or in any other connection relating to this document.

A “Business Day” is a day on which either the New York Stock Exchange OR the Stuttgart Stock Exchange is open for trading.

The “Index Calculator” is Solactive AG or any other appropriately appointed successor in this function.

The “Index Currency” is USD.

“Market Capitalization” is the Market Capitalization published by Reuters (or a successor) for each of the shares in the Selection Pool on a Selection Day or Adjustment Day.

As at the date of this document Market Capitalization is defined by Reuters as the value of a company calculated by multiplying the number of shares outstanding of the company by its share price. “Free Float Market Capitalization” is with regard to each of the shares in the Selection Pool or in the Index on a Selection Day or Adjustment Day the Market Capitalization for this day multiplied by the ratio of (A) the number of shares in circulation and (B) the number of shares outstanding of the respective company.

If Reuters (or a successor):

(i) does not publish for a Selection Day a Market Capitalization for a share or  
(ii) adopts another method for calculating the Market Capitalization for all shares or only with regard to the share in question or uses different assumptions in calculating the Market Capitalization for all shares or only with regard to the share in question, and in the reasonable assessment of the Index Calculator involves material changes (the Index Calculator makes the decision as to whether such changes are to be deemed “material” by applying factors that in his reasonable assessment appear appropriate to him), the Index Calculator will determine the Market Capitalization in respect of the shares or of a share included in the Selection Pool and the respective Selection Day either from another publicly accessible source specified at his sole discretion or from other sources that in his assessment are reasonable and appropriate in the event that no other publicly quoted suitable prices are available.

“Adjustment Day” is quarterly 9 Business Days after the disclosure filing window closes for that period (45 days after each quarter end). If this happens to not be a Business Day, the Adjustment Day is the next Business Day.

“Selection Day” is 4 Business Days before the Adjustment Day.

An “Affiliated Exchange” is with regard to an Index Component an exchange, a trading or quotation system on which options and futures contracts on the Index Component in question are traded, as specified by the Index Calculator.

A “Market Disruption Event” occurs if

1. one of the following events occurs or exists on a Trading Day prior to the opening quotation time for an Index Component:
  - A) trading is suspended or restricted (due to price movements that exceed the limits allowed by the Exchange or an Affiliated Exchange, or for other reasons):
    - 1.1. across the whole Exchange; or
    - 1.2. in options or futures contracts on or with regard to an Index Component or an Index Component that is quoted on an Affiliated Exchange; or
    - 1.3. on an Exchange or in a trading or quotation system (as determined by the Index Calculator) in which an Index Component is listed or quoted; or
  - B) an event that (in the assessment of the Index Calculator) generally disrupts and affects the opportunities of market participants to execute on the Exchange transactions in respect of a share included in the Index or to determine market values for a share included in the Index or to execute on an Affiliated Exchange transaction with regard to options and futures contracts on these shares or to determine market values for such options or futures contracts; or
2. trading on the Exchange or an Affiliated Exchange is ceased prior to the usual closing time (as defined below), unless the early cessation of trading is announced by the Exchange or Affiliated Exchange on this Trading Day at least one hour before
  - (aa) the actual closing time for normal trading on the Exchange or Affiliated Exchange on the Trading Day in question or, if earlier.
  - (bb) the closing time (if given) of the Exchange or Affiliated Exchange for the execution of orders at the time the quote is given.“Normal exchange closing time” is the time at which the Exchange or an Affiliated Exchange is normally closed on working days without taking into account after-hours trading or other trading activities carried out outside the normal trading hours; or
3. a general moratorium is imposed on banking transactions in the country in which the Exchange is resident if the above-mentioned events are material in the assessment of the Index Calculator, whereby the Index Calculator makes his decision based on those circumstances that he considers reasonable and appropriate.

## 5 Appendix

### 5.1 Contact data

Information regarding the AlphaClone Hedge Fund Masters index concept

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### 5.2 Calculation of the Index – change in calculation method

The application by the Index Calculator of the method described in this document is final and binding. The Index Calculator shall apply the method described above for the composition and calculation of the Index. However it cannot be excluded that the market environment, supervisory, legal, financial or tax reasons may require changes to be made to this method. The Index Calculator may also make changes to the terms and conditions of the Index and the method applied to calculate the Index, which he deems to be necessary and desirable in order to prevent obvious or demonstrable error or to remedy, correct or supplement incorrect terms and conditions. The Index Calculator is not obliged to provide information on any such modifications or changes. Despite the modifications and changes the Index Calculator will take the appropriate steps to ensure a calculation method is applied that is consistent with the method described above.

### 5.3 Calculation and Presentation of Hypothetical Returns and Pre-Inception Index Performance.

Performance of the Index is hypothetical and does not reflect the deduction of any advisory fees or transaction costs. You cannot invest directly in the Index. Performance of the Index for periods beginning on or after \_\_\_\_\_, the Index inception date, reflects daily calculations of the Index based on the Index guidelines in place on each day in the period. Please contact the Index Owner for information regarding previous versions of these guidelines that are reflected in such post-inception performance.

Performance for periods prior to \_\_\_\_\_ constitutes pre-inception index performance (“PIP”) data that was calculated using the current Index guidelines appearing above and data provided by the Index Owner. The Index Owner receives compensation from products, such as exchange-traded funds, that license or track the performance of the Index (“Index Products”) and has an incentive to create the PIP data in connection with such Index Products. **PERFORMANCE OF THE INDEX IS NOT THE PERFORMANCE OF ANY INDEX PRODUCTS AND DOES NOT GUARANTEE THE FUTURE PERFORMANCE OF THE INDEX OR ANY INDEX PRODUCTS.** The PIP data is based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively or negatively affected performance, and cannot account for all financial risk that may affect the actual performance of Index Products. Actual performance of Index Products may vary significantly from the PIP data.