

# **Lyrical U.S. Value Index (LUSVI)**

## **Rules and Methodology**

**August 2021**

## Table of Contents

I.	GENERAL DESCRIPTION.....	3
II.	THE INDEX COMMITTEE .....	3
III.	INDEX VALUE AT INCEPTION.....	3
IV.	SELECTION AND WEIGHTING METHODOLOGIES .....	3
V.	ROLES OF PARTIES IN THE QUARTERLY RECONSTITUTIONS AND REBALANCINGS.....	4
VI.	ONGOING MAINTENANCE.....	5
VII.	CALCULATION AND ADJUSTMENTS.....	6
VIII.	CALCULATION OF INTRADAY INDEX VALUES .....	8
IX.	DISSEMINATION.....	9
X.	DATA CORRECTION POLICY .....	9
XI.	REVIEW SCHEDULE.....	10

## **The Lyrical U.S. Value Index (LUSVI) Rule Book**

### ***I. General Description***

The Lyrical U.S. Value Index (Ticker: LUSVI), the “Index”, is a portfolio of deep value investments which uses propriety investment screens to identify 200 stocks (i.e., the cheapest one-fifth) from a universe of potential investment candidates comprising the top 1,000 US NYSE- or NASDAQ-listed stocks by market capitalization, based on one-year-forward median analyst-projected price-to-earnings ratios, per FactSet.

“Cheapest” is defined as the lowest projected forward price-to-earnings ratio for the next 12 months (“NTM P/E”). The NTM P/E is determined using the greater of the GAAP and, where reported, non-GAAP median consensus estimate next-12-months price-to-earnings ratio available as of each quarter-end. Each stock in the Index is then equally weighted. Because the top 1,000 US stocks per FactSet (“FST1000”) serve as the universe for the Index, it is anticipated that the Index will be comprised of large- and mid-capitalization US companies.

### ***II. The Index Committee***

The LUSVI Index Committee (the “Committee”) will be composed of no fewer than three members. The Committee Chairperson will have extensive experience with and expertise in US equity markets. The other members will have experience in financial markets, indexes and/or financial products.

The Committee will be responsible for overseeing the activities of the Calculation Agent, and approving all changes to the Index related to its quarterly reconstitutions and rebalancings. The Committee will be responsible for approving any changes in the official index rules, as defined herein.

The Committee will meet at least quarterly, either in person or via teleconference, to discuss Index issues and organize the quarterly or special reconstitutions and rebalancings.

The composition of the Committee may from time to time be changed to reflect changes in market conditions.

All members of the Committee and their advisors shall comply with the Alerian and S-Network Global Indexes Code of Conduct with respect to the disclosure and use of material non-public information.

### ***III. Index Value at Inception***

The Lyrical U.S. Value Index variants have values of 1000 on their inception date of January 16, 1998. The Index is calculated on both a Price-only and a Total Return basis.

### ***IV. Selection and Weighting Methodologies***

LUSVI’s constituents are derived from the constituents of the FST1000 as of the close of trading on the Index’s quarterly reconstitution and rebalancing “Snapshot Date”, which is the last US market trading day of each calendar quarter. The new constituent selections for LUSVI go into effect at the close of trading on the third Friday of the first month of each calendar quarter (January, April, July and October).

The FST1000 universe comprises the 1,000 highest-market-capitalization stocks listed on the New York Stock Exchange (NYSE) and/or the Nasdaq Stock Market (NASDAQ) whose principal place of business is the United States, as determined by FactSet.

To be eligible for inclusion in LUSVI, a stock must meet all of the following criteria:

- The minimum free float factor shall be 20%.
- The minimum average daily trading value for the previous three months shall be 1 million USD.
- The minimum length of trading history shall be one month.

From among the stocks in the universe that meet the above requirements, the top 200 stocks as ranked in ascending order by projected forward price-to-earnings ratio for the next 12 months (“NTM P/E”) are selected for inclusion in LUSVI.

The earnings per share (EPS) used in the calculation of NTM P/E shall be the greater of the GAAP and, if reported, non-GAAP next-12-months analyst median estimated earnings per FactSet.

Stocks selected for inclusion in LUSVI are equal-weighted as of the trade date prior to the second Friday of the first month of each calendar quarter (the “Weight Date”) and these share weights are implemented at the close of trading on the third Friday of the first month of each calendar quarter.

#### **V. *Roles of Parties in the Quarterly Reconstitutions and Rebalancings***

Three parties participate in the quarterly reconstitutions: the EOD Calculation Agent (Alerian and S-Network Global Indexes), which is responsible for applying the relevant index rules to the Index; the Index Publisher (Alerian and S-Network Global Indexes), which is responsible for overseeing the activities of the EOD and Intraday Calculation Agents; and the LUSVI Index Committee, which is responsible for reviewing and approving the changes to the Index that are recommended by the EOD Calculation Agent and the Index Publisher.

The quarterly reconstitutions and rebalancings shall follow the below procedure:

- i) The EOD Calculation Agent shall determine a proposed update to the list of Index constituents using the Index rules together with data available as of the market close on the last trading date of the third month of the calendar quarter (the “Snapshot Date”). The EOD Calculation Agent shall provide the Index Committee with a list of the differences between this new list and the current Index constituents.
- ii) The Index Committee shall approve or reject the changes in accordance with this Methodology and notify the EOD Calculation Agent of its decisions no later than the Thursday following the first Friday of the rebalancing month.
- iii) No later than the Thursday following the first Friday of the rebalancing month, the Index Committee or its designee shall issue a press release announcing additions to and/or deletions from the Lyrical U.S. Value Index. The press release shall be posted on the Lyrical U.S. Value Index website.
- iv) The EOD Calculation Agent shall provide new Index Shares to the Committee or its designee based on prices as of the close of trading on the Thursday prior to the second Friday of the rebalancing month (the “Weight Date”).
- v) The EOD Calculation Agent shall distribute the new Index Shares to the Index Publisher and all other approved parties via email and/or FTP after the Weight Date.

- vi) The reconstitution or rebalancing will be effective at the close of trading on the third Friday of the rebalancing month. The EOD Calculation Agent will post all final rebalancing data and information on its FTP server on or by the third Friday of the rebalancing month.

## **VI. Ongoing Maintenance**

- i) In addition to the scheduled quarterly reviews, the Lyrical U.S. Value Index is reviewed on an ongoing basis. Changes in index composition and related weight adjustments are necessary whenever there are extraordinary events such as delistings, bankruptcies, mergers or takeovers involving index components. In these cases, each event will be taken into account as soon as it is effective. Whenever possible, the changes in the Index's components will be announced at least two business days prior to their implementation date. Changes in shares outstanding are reflected at each rebalancing, as well as between rebalancings for certain corporate actions such as stock splits or consolidations.
- ii) Additions to the Index. Additions may be made to the Lyrical U.S. Value Index only at the quarterly reconstitutions and rebalancings.
- iii) Deletions from the Index. Deletions may be made to remove companies that fail to meet the inclusion criteria as of the Snapshot Date for a reconstitution or rebalancing, or in the event a constituent is de-listed, files for bankruptcy, is acquired or merges with another company.
- iv) Changes of Eligible Securities. In the event that a component no longer meets the eligibility requirements described herein, it may be removed from the Index.
- v) Splits and Spin-offs. If an index constituent splits or spins off a portion of its business to form one or more new companies, the spun-off company's stock will be sold on the effective date of the spin-off and the proceeds will be reinvested directly back into the parent organization.
- vi) Mergers. If two Index constituents merge, their component positions will be replaced by the surviving company immediately, and the weight of the removed stock will be redistributed to all the remaining constituents on a proportional basis. If an Index constituent merges with a non-component company, it will be removed from the Index and its weight will be redistributed to all the remaining constituents on a proportional basis.
- vii) Takeovers. If an Index component is taken over by another component company, the former will be removed from the Index immediately upon completion of the takeover and the weight of the removed stock will be reallocated proportionately to the remaining constituents in the Index. If an Index component is taken over by a non-component company, it will be removed from the Index and its weight will be redistributed to all the remaining constituents on a proportional basis.
- viii) Share Offerings, Tenders and Purchases. If a Rights Offering is in the money, the rights are exercised and the newly acquired shares are applied to the company issuing the rights. A divisor change is made to reduce the holdings of the remaining constituents in order to settle the acquisition of the rights. If the rights offering is out of the money, it expires worthless. Tender offers are not accepted, and no adjustments are made for self tenders or stock buybacks.
- ix) Removal of Companies Due to Delisting, Bankruptcy or Extreme Financial Distress. If an index constituent is de-listed by its primary market, or is in bankruptcy proceedings, it will be removed from the Index.

\* If an Index component is de-listed by its primary market due to failure to meet financial or regulatory requirements, it will be removed from the Index.

\* If an Index component enters bankruptcy proceedings, it will be removed from the Index and will remain ineligible for re-inclusion until it has emerged from bankruptcy.

\* The Committee may remove a company that is in extreme financial distress from the Lyrical U.S. Value Index to protect the integrity of the Index and the interests of investors in products linked to that Index.

x) Pricing of Stocks in Extreme Financial Distress for Index Maintenance.

\* When a stock is suspended from trading due to financial distress and subsequently delisted by its primary market prior to resumption of trading, the Calculation Agent will use the best-available alternate pricing source to determine the value at which the company should be removed from the Index.

\* If the stock's primary market price is no longer available due to its suspension or delisting, a current price from another exchange, such as a regional or electronic marketplace, may be used. In the absence of those prices in the case of U.S. securities, OTC Bulletin Board, OTC Equity (non-OTCBB stocks), and Pink Sheet traded prices shall be applied in that order.

\* If the security has become worthless or is likely to remain too illiquid to be traded, it will be removed from the Index at a share price of \$0.01.

## VII. Calculation and Adjustments

i) Calculation Agents

The Lyrical U.S. Value Index is calculated on an end-of-day basis by Alerian and S-Network Global Indexes (the "EOD Calculation Agent") and on an intraday basis by Refinitiv (the "Intraday Calculation Agent"). The EOD Calculation Agent is also responsible for Index maintenance.

ii) Input Data Sources

\* Real-time stock prices are provided by Refinitiv.

\* The number of shares is determined separately for each class of stock. This information is obtained from regulatory filings and a variety of data vendors. The data also may be sourced from the companies themselves.

\* Corporate actions are sourced from public news services, regulatory filings and data vendors. The companies themselves may be used as an additional source.

\* Float data are obtained from a variety of sources including data vendors, exchanges, regulators and the companies themselves.

iii) Index Formula. The Index is calculated using a Laspeyres formula. This formula is used for the calculation of the return index and the price index. The only difference is that the divisor  $D_t$  is different for the two Index variants (return index and price index).

The Index is computed as follows:

$$\text{Index}_t = \frac{\sum_{i=1}^n (p_{it} \times q_{it})}{C_t \times \sum_{i=1}^n (p_{i0} \times q_{i0})} \times \text{Base Index Value} = \frac{M_t}{B_t} \times \text{Base Index Value}$$

The above mentioned formula can be simplified as:  $\text{Index}_t = \frac{M_t}{D_t}$

Where:

$$D_t = \frac{B_t}{\text{base index value}} = \text{divisor at time (t)}$$

n	=	the number of stocks in the Index
$p_{i0}$	=	the closing price of stock i at the base date
$q_{i0}$	=	the number of shares of company i at the base date
$p_{it}$	=	the price of stock i at time (t)
$q_{it}$	=	the number of shares of company i at time (t)
$C_t$	=	the adjustment factor for the base date market capitalization
t	=	the time the Index is computed
$M_t$	=	market capitalization of the Index at time (t)
$B_t$	=	adjusted base date market capitalization of the Index at time (t)

Dividend payments are not taken into account in the price variant(s), whereas dividend payments are reinvested in the index samples of the total return variant(s).

- iv) Divisor Adjustments. Corporate actions affect the share capital of component stocks and therefore trigger increases or decreases in the Index. To avoid distortion, the divisor of the Index is adjusted accordingly.

\* Formulae for Divisor Adjustment. The following formulae will be used for divisor adjustments. (Note: No divisor adjustments are necessary for stock splits, since market capitalization does not change and the share number and share price are adjusted prior to the opening of trading on the split's ex-date.)

$$D_{t+1} = D_t \times \frac{\sum (p_{it} \times q_{it}) \pm \Delta MC_{t+1}}{\sum (p_{it} \times q_{it})}$$

Where:

$D_t$	=	divisor at time (t)
$D_{t+1}$	=	divisor at time (t+1)
$p_{it}$	=	stock price of company i at time (t)
$q_{it}$	=	number of shares of company i at time (t)
$\Delta MC_{t+1}$	=	add new components' market capitalization and adjusted market capitalization (calculated with adjusted closing prices and shares effective at time t+1 and/or minus market capitalization of companies to be deleted (calculated with closing prices and shares at time t)

Note: If the current trading price of an issue is unavailable, the previous trading session's closing price is used. However, if the issue is affected by any corporate action that requires an adjustment, then the adjusted price is used.

\* Adjustments for Corporate Actions. An index divisor may decrease (▼) or increase (▲) or keep constant (■) when corporate actions occur for a component stock. Assuming shareholders receive "B" new shares and "A" shares are originally held for the following corporate actions:

▼ A) CASH DIVIDEND (applied for return index only)  
adjusted price = closing price - dividend announced by the stock

■ B) SPECIAL CASH DIVIDEND  
adjusted price per share = closing price – special dividend amount  
adjusted shares = closing index market capitalization / adjusted price per share

■ C) SPIN-OFF

adjusted price per share = closing price per share – spinoff value

adjusted shares = closing index market capitalization / adjusted price per share

■ D) SPLIT AND REVERSE SPLIT

adjusted price = closing price \* A / B

new number of shares = old number of shares \* B / A

■ E) RIGHTS OFFERING

adjusted price = (closing price \* A + subscription price \* B) / (A + B)

new number of shares = old number of shares \* closing price / adjusted price

■ F) STOCK DIVIDEND

adjusted price = closing price \* A / (A + B)

new number of shares = old number of shares \* (A + B) / A

▼ G) STOCK DIVIDEND OF A DIFFERENT STOCK SECURITY

adjusted price = (closing price \* A - price of the different stock security \* B)/A

▲ H) COMBINATION STOCK DISTRIBUTION (DIVIDEND OR SPLIT) AND RIGHTS OFFERING

Shareholders receive B new shares from the distribution and C new shares from the rights offering for every A shares held:

\* If rights are applicable after stock distribution (one action applicable to other).

adjusted price = [closing price \* A + subscription price \* C \* (1 + B / A)] / [(A + B) \* (1 + C / A)]

new number of shares = old number of shares \* [(A + B) \* (1 + C / A)] / A

\* If stock distribution is applicable after rights (one action applicable to other).

adjusted price = [closing price \* A + subscription price \* C] / [(A + C) \* (1 + B / A)]

new number of shares = old number of shares \* [(A + C) \* (1 + B / A)]

▲ I) STOCK DISTRIBUTION AND RIGHTS (NEITHER ACTION IS APPLICABLE TO THE OTHER)

adjusted price = [closing price \* A + subscription price \* C] / [A + B + C]

new number of shares = old number of shares \* [A + B + C]

- v) Computational Precision. Values used in Index calculation are stored using up to 15 significant digits. Published Index levels are precise through six decimal places.

**VIII. Calculation of Intraday Index Values**

- i) The Intraday Calculation Agent will calculate Index values using price data on each reported trade it receives on each component security.
- ii) The Intraday Calculation Agent will distribute index values to vendors at set 15-second intervals, provided the Index value has changed from the previously distributed value.
- iii) The Index calculations will start at 9:30 (ET - US). At that time, the Index will begin changing as new prices or exchange rates are processed.
- iv) Index calculation will cease each trading day at 17:00 (ET-US) and official summaries will be disseminated between 17:00 (ET-US) and 19:00 (ET-US) (closing price).
- v) Each week, the Index variants will be calculated starting Monday morning at 9:30 ET and extending through Friday night at 17:00 ET.



- vi) If, during periods when the Index is calculated, one or more markets are closed, the Index calculation will continue using the last closing price for those stocks that trade on the closed exchange(s).
- vii) Stocks denominated in foreign currencies will be converted to USD with each reported price using exchange rates sourced from Refinitiv. Official closing prices for the Index will be calculated using the Refinitiv snapshot rates as of 4:00 PM GMT.
- viii) The Index will be calculated and disseminated in USD.
- ix) The Index will also be calculated and disseminated in USD using the constituents' respective countries' dividend tax rates to calculate Net Total Return.

**IX. Dissemination**

The EOD Calculation Agent will post the following files to its FTP server prior to 7:00PM ET each US market trading day:

Closing Index File (CLS.SNC) – Index constituents, closing prices, weights, share weights and related data as of the day's close.

Adjusted Closing Index File (ADJ.SNC) – Index constituents, closing prices, weights, share weights and related data as of the next trading day's open.

Corporate Action File (SNA) – Data related to upcoming corporate actions for the Index's constituent stocks.

Index Values File (SNL) – Closing values for the price and total return variants, including divisors.

Index values will be disseminated in US dollars via the NYSE Global Index Feed (GIF) using the following tickers:

<u>Index Name</u>	<u>Index Ticker</u>
Lyrical U.S. Value Index	LUSVI
Lyrical U.S. Value Total Return Index	LUSVIT

**X. Data Correction Policy**

To maintain a high standard of data integrity, a series of procedures have been implemented to ensure accuracy, timeliness and consistency. Input prices are monitored using a variety of computerized range-check warning systems for both ticker-plant and real-time index systems. Fault tolerant methods are employed in the collection of market and corporate action data. Various verification and audit tasks are performed to ensure the quality of the real-time data feeds and related market data. While every effort is taken to ensure the accuracy of the information used for the Index calculation, an index error may occur due to incorrect or missing data, including trading prices, exchange rates, shares outstanding and corporate actions, due to operational errors or other reasons.

- i) Intraday Corrections. Reasonable efforts are employed to prevent erroneous data from affecting the Index. Corrections will be made for bad prices and incorrect or missing corporate actions as soon as possible after detection.
- ii) Since the Index is calculated on a real-time basis, an incorrect index value tick will not be fixed retroactively. Incorrect daily high/low index values will be corrected as soon as practicable.

- iii) Index-Related Data and Divisor Corrections. Incorrect pricing and corporate action data for individual issues in the database will be corrected upon detection. In addition, an incorrect divisor of an index, if discovered within five days of its occurrence, will always be fixed on the day it is discovered to prevent an error from being carried forward.
- iv) If a divisor error is discovered more than five days after occurrence, the adjustment will depend upon how significant the error is, how far back the error occurred and the feasibility of performing the adjustment.

## ***XI. Review Schedule***

### Share Updates

Frequency: Quarterly

Effective date: The close of trading on the third Friday of the first month of each calendar quarter

Advance notice: At least two business days

### Reconstitutions

Frequency: Quarterly

Effective date: The close of trading on the third Friday of the first month of each calendar quarter

Advance notice: At least five business days

### News Notification\*

Frequency: As needed

Effective date: As announced

Advance notice: At least two business days whenever possible

\* Includes events such as de-listings, mergers, bankruptcies and other extraordinary events.

\* Based on available news.