

September 2020



**S-Network  
CEF Bank Loan/Short Duration  
Index  
(CEFBLX)**

**Index Rules and Methodology**

## TABLE OF CONTENTS

<b>I. GENERAL DESCRIPTION .....</b>	<b>3</b>
<b>II. THE INDEX COMMITTEE.....</b>	<b>3</b>
<b>III. INDEX VALUE AT INCEPTION.....</b>	<b>4</b>
<b>IV. ELIGIBILITY CRITERIA .....</b>	<b>4</b>
<b>V. CONSTITUENT WEIGHTINGS .....</b>	<b>5</b>
<b>VI. RULES FOR RECONSTITUTIONS, REBALANCINGS, AND INDEX CHANGES .....</b>	<b>6</b>
<b>VII. ROLES OF PARTIES IN THE SEMI-ANNUAL RECONSTITUTIONS.....</b>	<b>6</b>
<b>VIII. ROLES OF PARTIES IN THE QUARTERLY REBALANCINGS .....</b>	<b>6</b>
<b>IX. CALCULATION OF INDEX VALUES .....</b>	<b>7</b>
<b>X. DISSEMINATION .....</b>	<b>8</b>
<b>XI. ONGOING MAINTENANCE.....</b>	<b>8</b>
<b>XII. CALCULATION AND ADJUSTMENTS .....</b>	<b>10</b>
<b>XIII. DATA CORRECTION POLICY .....</b>	<b>13</b>
<b>XIV. APPENDIX REVIEW SCHEDULE.....</b>	<b>14</b>

# **The S-Network CEF Bank Loan/Short Duration Index (CEFBLX)**

## **Official Rule Book**

### **I. General Description**

The CEFBLX is a mutual fund index designed to serve as a benchmark for closed-end funds listed in the US that are principally engaged in asset management processes designed to produce taxable annual yield through investment in senior bank loans and other short duration instruments. The CEFBLX employs a modified total net assets weighting methodology designed to assure accurate investment exposure across the various business segments that together comprise the bank loan/short duration sector of the closed-end fund market.

The CEFBLX contains closed-end funds selected from a universe of approximately 200 securities domiciled in the United States.

The selection criteria include requirements for sector inclusion, primary exchange listing, minimum market capitalization, minimum average daily trading volume, discount to NAV and total expense ratio.

The CEFBLX employs a weighting methodology based on Total Net Assets, adjusted for each closed-end fund's average discount for the previous 90 days. Capping procedures are applied when needed to assure that the index is in compliance with various US regulatory guidelines governing concentration of holdings.

THE CEFBLX reconstitutes semi-annually on June 30 and December 31. The implementation of additions and deletions to the index related to the semi-annual reconstitutions and changes to the index due to the quarterly rebalancings take place in ten proportional allocations, starting on the day following the reconstitution date.

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

The S-Network CEFBLX Index Committee ("The Committee") will be composed of not less than three members. The Committee Chairman will have extensive experience with and expertise in US closed-end funds and US closed-end fund markets. The other members will have experience in financial markets, indexes and/or financial products.

The Committee will be responsible for maintaining a comprehensive list of closed end funds, divided into sectors, which are determined based on the closed-end fund's stated investment style.

Impartial selection criteria will then be applied to these closed-end funds to determine whether or not they should be included in the index.

The Committee will then review the closed-end funds to be included in the CEFBLX and may reject any fund that it believes does not meet its overall standards for risk and sound business practice.

The Committee meets quarterly, either in person or via teleconference, to discuss index issues and organize the quarterly or special rebalancings.

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

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

The S-Network CEF Bank Loan/Limited Duration Index (Ticker: CEFBLX) had a value at inception of 1000, on its inception date of December 31, 2008. CEFBLX is calculated on both a Price Only and on a Total Return basis.

### **IV. Eligibility Criteria.**

Only closed-end funds that meet the following eligibility criteria are included in the CEFBLX.

- i) The closed-end fund must be organized under the laws of the United States and meet all legal and regulatory criteria pursuant primarily to the relevant sections (Section 4(a)(2) and Section 23) of the Investment Company Act of 1940, and also in compliance with the relevant sections of the Investment Company Acts of 1933 and 1934.
- ii) The closed-end fund must have as its stated objective investment in bank loans and/or investment in short duration fixed income instruments.
- iii) The closed-end fund's shares must trade on a recognized North American stock exchange that provides a "last closing price". (National Stock Exchange, formerly NASDAQ, stocks must be "reported securities" under 11Aa3-1 of the Securities and Exchange Act, i.e., National Market System stocks.)
- iv) The minimum capitalization value for any closed-end fund will be greater than USD 100 million.
- v) Closed-end funds whose shares have traded at average premiums of 20% (plus or minus the average premium/discount for all eligible constituents) or more to their net asset values for the ten business days prior to the second Friday of the rebalancing month ("the record date") shall be excluded from the index.

- vi) A constituent of the index whose market capitalization falls below USD 50 million on the record date shall be deleted from the index before the open of trade on the effective date of the next rebalancing.
- vii) To meet eligibility requirements, a closed-end fund must maintain a total expense ratio below certain threshold. The threshold will vary depending upon prevailing interest rates. The reference threshold is 3% and is based on the 30-day LIBOR rate of .25%. The threshold will increase or decrease from this level by a factor of 30% of the difference between the reference LIBOR rate of .25% and the LIBOR rate on the record date.
- viii) Closed-end funds must have an average daily turnover (shares traded X share price) of more than USD .5 million per day for the three months prior to the record date to be eligible for inclusion in the index.  
  
A fund must have been trading for more than three calendar months (“Recent IPO”) prior to a rebalancing date to be included in the index.
- ix) A current constituent of the CEFBLX must trade at least 250,000 USD daily to remain in the index.
- x) Once included in the index, a closed-end fund may exceed the eligibility threshold as defined in Section IV (vii) by up to 10% of the eligibility threshold. Any current index constituent that exceeds the eligibility threshold by more than 10% will be deleted from the index.

## V. Constituent Weightings

- i) Closed-end funds are weighted based on their adjusted net assets. Net assets are adjusted based on the following formula: a) Net assets are multiplied by a factor of 1.3 for closed-end funds trading at a discount greater than 6% or more of the average premium/discount of all included funds; b) Net assets are multiplied by a factor of 1.2 for closed-end funds trading at a discount of greater than 3% but less than 6% of the average premium/discount of all included funds; c) Net assets are multiplied by a factor of 1.1 for closed-end funds trading at a discount greater than 0% but less than 3% of the average premium/discount of all included funds; d) Net assets are multiplied by a factor of .7 for closed-end funds trading at a premium greater than 6% of the average premium/discount of all included funds; b) Net assets are multiplied by a factor of .8 for closed-end funds trading at a premium greater than 3% but less than 6% of the average premium/discount of all included funds; c) Net assets are multiplied by a factor of .9 for closed-end funds trading at a discount greater than 0% but less than 3% of the average premium/discount of all included funds.
- ii) Any stock with a weight greater than 8% of the CEFBLX will be capped at 8% and the remaining weight shall be redistributed on a proportional basis to the remaining funds in the index.

- iii) The total weight of all the funds contained in the index with weights greater than 5%, following the capping described in Section VI(ii) shall be capped at 45%. The weights of the funds with weights over 5% shall be reduced on a proportional basis and added to the weights of the funds with weights under 5% on a proportional basis. Certain smoothing procedures may be applied to assure weighting consistency.

## **VI. Rules for Reconstitutions, Rebalances, and Index Changes**

The CEFBLX is calculated by S-Network Global Indexes. (The Calculation Agent). The Calculation Agent is also responsible for index maintenance and price dissemination. The calculation, maintenance and dissemination rules are as follows:

**Index Changes.** Index changes take place on the semi-annual reconstitution date, except in the event of certain corporate actions, such as mergers, acquisitions, and delistings. In such cases, the change is applied on the effective date of the action, unless otherwise determined by the Index Committee. Share increases and decreases are reflected on the rebalancing date. Whenever possible, changes will be announced at least two business days prior to their implementation.

**Index Reconstitutions.** The Index is reconstituted semi-annually on June 30 and December 31; during which the Index Committee submits to the Compilation Agent a list of funds that are eligible for inclusion in CEFBLX. All candidates and current constituents are screened against the CEFBLX 'Eligibility Criteria' and additions and deletions to the index are determined.

**Index Rebalancings.** The Index is rebalanced quarterly on the last day of each calendar quarter. Weights are applied based on the weighting methodology described in Section V. Index changes related to the quarterly rebalancings are made in ten proportional allocations starting on the close of trading on the quarterly rebalancing date.

**Additions and Deletions.** Additions and Deletions to the Indexes are made in ten proportional allocations starting on the close of trading on the semi-annual reconstitution date (last business day of the calendar year) and 2) in the event of the deletion of a constituent stock due to a corporate action. When a stock is deleted, no replacement stock is added.

Deletions are made at any time, in the event a fund is liquidated, de-listed, files for bankruptcy, is acquired or merges with another fund. Upon deletion, the weight of the removed fund is reallocated proportionately to the remaining constituents. Additions are made only upon the effective date of the semi-annual reconstitution.

## **VII. Roles of Parties in the Semi-Annual Reconstitutions.**

- i) The Committee, or its designee, will submit to the Calculation Agent (S-Network Global Indexes, Inc.) a list of closed end funds for possible inclusion in CEFBLX at the close of US markets on the first Friday of the reconstitution month.

- ii) The Calculation Agent will use the remaining criteria in Section IV to statistically screen the list of index constituents to confirm their eligibility for the index based on closing prices and values as of the close of trading on the second Friday of the last month of the calendar quarter.
- iii) On the Wednesday prior to the third Friday of the reconstitution month, the Calculation Agent shall provide the Committee, or its designee, with a list of constituents for the CEFBLX.
- iv) The Committee shall approve or reject the changes and notify the calculation agent of its decisions not later than the third Friday of the rebalancing month.
- v) Not later than the Monday following the third Friday of the rebalancing month, the Index Committee or its designee will issue a press release announcing additions and deletions to CEFBLX. The press release will be posted on the CEFBLX web site.

#### **VIII. Roles of the Parties in the Quarterly Rebalancings.**

- i) The Calculation Agent will provide final share weights to the Committee or its designee on the Tuesday following the third Friday of the rebalancing month. Weights will be based on prices as of the close of trading on the preceding business day.
- ii) The CEFBLX Index Committee or its designee will approve the final share weights prior to the close of US markets on the same business day and will distribute this information to the Calculation Agent and all CEFBLX licensees.
- iii) The effective date of the rebalancing will be on the close of business on the last business day of the rebalancing month and will be implemented in ten proportional allocations over ten consecutive business days. The Calculation Agent will post all final rebalancing data and information on its FTP server prior to the open on the next business day following the rebalancing date.
- iv) CEFBLX will post all rebalancing data on its website prior to the open on the next business day following the rebalancing date.

#### **IX. Calculation of Index Values**

- i) The Calculation Agent will calculate price-only and total return index values daily between the hours of 5PM EST and 7PM EST.
- ii) The Calculation Agent will distribute index values to vendors prior to 7PM EST and post index files and values on its FTP server prior to 7PM daily.
- iii) The Indexes will be calculated and disseminated in USD.

## X. Dissemination

Index values are disseminated in US dollars via the New York Stock Exchange using the following tickers:

Total Return Index	CEFBLXTR
Price Index	CEFBLX

## XI. Ongoing Maintenance

- i) In addition to the scheduled reviews, CEFBLX is reviewed on an ongoing basis. Changes in index composition and related weight adjustments are necessary whenever there are extraordinary events such as liquidations, conversions, delistings, bankruptcies, mergers or takeovers involving index components. In these cases, each event will be taken into account on its effective date. **A rebalance of the index affected by these events will be at the discretion of the Index Committee in the event a significant component is affected.** Whenever possible, the changes in the index's components will be announced at least two business days prior to their implementation date.
- ii) Changes of Eligible Securities. In the event that a component no longer meets the eligibility requirements described in Section V herein, it will be removed from the index on the effective date of the next rebalancing.
- iii) Changes of Sector Classification. Funds are eligible for inclusion in the CEFBLX based on their inclusion in an applicable sector. Mergers, takeovers, and spin-offs, as well as changes in a fund's investment approach, may cause a fund to lose its eligibility. In such a circumstance, the fund will be deleted from the index on the effective date of the next rebalancing. A fund's classification may also require an immediate change as the result of a special event such as a merger, takeover or spin-off.
- iv) Mergers. If two index constituents merge, their component positions will be replaced by the surviving fund immediately. If an index constituent merges with a non-component fund, its component position will be replaced by the new fund, if the new fund meets all eligibility criteria described in Section IV herein. In the event of mergers of equals, the combined trading history of the predecessor funds shall be used for evaluation. If the combined fund fails to meet all eligibility criteria described in Section IV herein, it will be deleted from the index unless otherwise determined by the Index Committee. If deleted, the weight of the merged index constituent shall be redistributed proportionately to the remaining constituents in the index.
- v) Takeovers. If an index component is taken over by another component fund, the former will be removed from the index immediately upon completion of the takeover. If an index component is taken over by a non-component fund, it will be replaced by the acquiring fund immediately, if the acquiring fund meets all the eligibility criteria described in Section IV herein. If the acquiring fund does not meet eligibility criteria described in Section IV herein, the



weight of the removed fund will be reallocated proportionately to the remaining constituents in the index.

- vi) Conversions: If an index component is converted to a non-eligible financial security, it will be deleted from the index 5 business days following the effective date of the conversion and the weight of the removed fund will be reallocated proportionately to the remaining constituents in the index, unless otherwise determined by the Index Committee.
- vii) Share Offerings, Tenders and Purchases. All Share Offerings, Tenders and Purchases that result in an increase or decrease of shares will be implemented at the quarterly review.
- viii) Removal of Funds 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 and its weight will be reallocated to the remaining constituents in 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. However, the Committee may, following a review of the bankrupt fund and the issues involved in the filing, decide to keep the fund in the index.

\* The Committee may, at its discretion, remove a fund it has determined to be in extreme financial distress from the CEFBLX, if the Committee deems the removal necessary to protect the integrity of the index and the interests of investors in products linked to the index.

- ix) Pricing of Funds in Extreme Financial Distress.

\* When a fund is suspended from trading due to financial distress and subsequently de-listed 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 fund should be removed from the index.

\* If the fund's primary market price is no longer available due to its suspension or de-listing, 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 could be applied in that order.

\* If neither a traded price nor a bid/asked range is available, the Committee will evaluate the status of the suspended stock. The Committee may consult with managers of portfolios linked to indexes in which the stock is a constituent in determining the value of the stock. If the Committee concludes that the security has become worthless or is likely to remain too illiquid to be traded, it will be removed from the index at .01 local currency of the stock.

## XII. Calculation and Adjustments

### i) Input Data Sources

\* Closing stock prices are provided by Reuters. The official closing price is used for index calculation.

\* 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 funds themselves.

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

### ii) 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 indexes (return index and price index).

The index is computed as follows:

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

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 fund  $i$  at the base date

$r_{i0}$  = 1

$f_{i0}$  = 1

$p_{it}$  = the price of stock  $i$  at time (t)

$q_{it}$  = the number of shares of fund  $i$  at time (t)

$r_{it}$  = 1

$f_{it}$  = 1

$C_t$  = 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 indexes, whereas dividend payments are reinvested in the index constituents of the total return index on a proportional basis.

- iii) 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.)

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

Where:

$D_t$  = divisor at time (t)

$D_{t+1}$  = divisor at time (t+1)

$p_{it}$  = stock price of fund i at time (t)

$q_{it}$  = number of shares of fund i at time (t)

$r_{it} = 1$

$f_{it} = 1$

$\Delta MC_{t+1}$  = 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 funds 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 for every "A" share held for the following corporate actions:

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

▼ B) SPECIAL CASH DIVIDEND (applied for price and return index)  
adjusted price = closing price - dividend announced by the fund

■ C) SPLIT AND REVERSE SPLIT

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

■ D) RIGHTS OFFERING

adjusted price = (closing price \* A + subscription price \* B) / (A + B) new number of shares = old number of shares \* (A + B) / A

■ E) STOCK DIVIDEND

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

▼F) STOCK DIVIDEND OF A DIFFERENT FUND SECURITY

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

▼G) RETURN OF CAPITAL AND SHARE CONSOLIDATION

adjusted price = (closing price - dividend announced by fund) \* A / B new number of shares = old number of shares \* B / A

▼H) REPURCHASE SHARES-SELF TENDER

adjusted price = [(price before tender \* old number of shares) - (tender price \* number of tendered shares)] / (old number of shares - number of tendered shares)

new number of shares = old number of shares - number of tendered shares

▲ I) 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)]

▲ J) 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]

- iv) Computational Precision. Index values are rounded to two decimal places and divisors are rounded to integers. Any values derived by the index calculation engine from a corporate action used for the divisor adjustments and index computations are rounded to seven decimal places.

### **XIII. 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 indexes. Corrections will be made for bad prices and incorrect or missing corporate actions as soon as possible after detection.
- ii) Since the indexes are 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.

### **XIV. APPENDIX REVIEW SCHEDULE**

#### Constituent Changes

Frequency: Semi-annually in June and December

Effective date: The Wednesday prior to the 3rd Friday of that month

Advance notice: Approximately 2 weeks

#### Rebalancings

Frequency: Quarterly in March, June, September and December

Effective date: The first business day of each calendar quarter

Advance notice: At least two 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.