



ETF Classification System (ECS)

Rules & Methodology

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INTRODUCTION

IndexUniverse's ETF Classification System categorizes exchange-traded funds and exchange-traded products using a rules-based system built around seven core classification tiers.

IndexUniverse classifies ETFs based upon the statements made in each product's prospectus, offering document and/or marketing materials. The system relies both on academic finance and investor convention to create the rules governing these classifications. As the literature and convention evolve, IndexUniverse reserves the right to modify this rule set.

This document outlines those rules.

Note: For simplicity's sake, we have chosen to refer to all exchange-traded products that feature an ongoing, daily creation and redemption process as ETFs, following common usage. Please assume that the term ETF includes ETNs and other exchange-traded products, except where explicitly stated.

ASSET CLASS

1. Equity

The prospectus, offering document and/or marketing materials of an ETF assigned to the Equity Asset Class must state that the ETF contains only equity securities, except for select derivatives as defined in additional notes listed below.

- a) IndexUniverse defines equities as an ownership share in a business, with rights to the residual profits of the business and to vote in corporate elections.
- b) Equity security types may include:
 - b.1) Ordinary shares/common stock
 - b.2) Depositary receipts (domicile will be attributed to the country of the issuing firm)
 - b.3) Exchange-traded funds or other pooled vehicles that, by prospectus, can contain only equities as defined in this section
 - b.4) Holding companies, investment trusts and limited partnerships whose sole purpose is to hold equity shares in other businesses, or temporarily hold cash for the purpose of investing in shares of other businesses
 - b.5) Tracking stocks whose values depend directly on the performance of a business unit of a larger firm, if the business unit issues its own financial statements and could be spun off as an independent business
 - b.6) Real estate investment trusts that convey the residual cash flows from property ownership to the holders
 - b.7) Debt instruments used specifically within the ETN structure that link the ETN's returns exclusively to the returns of an equity index, with or without a collateral return included
- c) All equity securities must trade on a public exchange.

2. Fixed Income

The prospectus, offering document and/or marketing materials of an ETF assigned to the Fixed-Income Asset Class must state that the ETF contains only fixed-income securities, except for select derivatives as defined in additional notes listed below.

- a) Fixed income is defined as follows: debt issued with a specified maturity date and par value.
- b) Fixed-income security types may include:
 - b.1) Any debt instrument regardless of features involving:
 - b.1.1) Contractually defined optionality or conditionality in maturity date, coupon, redemption, currency, convertibility to equity, and exchangeability
 - b.1.2) Adjustments to principal prespecified in the prospectus
 - b.1.3) Domicile of issuer (foreign bonds will be attributed to the country of the issuing firm, e.g., Yankee bonds in the U.S. will not be considered U.S. domestic issues)
 - b.1.4) Collateralization

- b.2) Private placements: SEC and other regulatory registration is not required
- b.3) Perpetual securities, such as preferred equities, that do not represent ownership in a business but do pay a coupon on a fixed par amount
- b.4) Equities or fixed-income securities that are issued with fixed coupons but have an equity conversion feature, such as convertible bonds or convertible preferred equities, until such a time as they convert

3. Commodities

The prospectus, offering document and/or marketing materials of an ETF assigned to the Commodities Asset Class must state that the ETF is designed specifically to track the returns available within the commodity sector.

- a) IndexUniverse defines the commodity sector as consisting of exchange-traded physical goods or contracts regarding the physical goods.
- b) Commodity exchange-traded product securities may track the prices of these physical goods using the following instruments:
 - b.1) Physical holdings of the goods
 - b.2) Legal structures that transfer ownership of physical holdings stored by a third party
 - b.3) Commodity derivatives such as futures, forwards and swaps
 - b.4) Debt instruments used in the ETN structure that link ETN returns to the return of a commodity index, with or without a collateral return included

4. Currency

The prospectus, offering document and/or marketing materials of an ETF assigned to the Currency Asset Class must state that the ETF is designed specifically to track the returns available to investments in currencies.

- a) Currency is defined as the government-issued medium of exchange of a sovereign nation.
- b) Currency exchange-traded product securities may track the exchange rates and risk-free interest rates of currencies using the following instruments:
 - b.1) Demand deposit accounts at overseas banks
 - b.2) Currency derivatives such as futures and forwards
 - b.3) Short-term investment-grade debt instruments
 - b.4) Debt instruments used in the ETN structure that link ETN returns to the return of a currency or currency index, with or without a collateral return included

5. Asset Allocations

The prospectus, offering document and/or marketing materials of an ETF assigned to the Asset Allocation Asset Class must state that the ETF is designed to combine assets from at least two of the following IndexUniverse Asset Classes: equity, fixed income, commodities and currency.

6. Alternatives

The prospectus, offering document and/or marketing materials of an ETF assigned to the Alternatives Asset Class must explain the fund's investment strategy. ETFs in the Alternatives Asset Class may hold any type of asset. Alternatives funds must exhibit at least one of the following characteristics:

- a) Targeting a return profile with low or negative correlations to equities, fixed income, commodities or currencies, or any combination thereof, without providing outright inverse exposure
- b) Targeting an absolute returns investment objective
- c) Modifying the exposure of at least one primary asset class to the extent that the returns profile should be dramatically different than that of the primary asset class
- d) Targeting a hedge-fund-type strategy.

Additional Notes

Notwithstanding the above sections 1 and 2, an equity or fixed-income ETF may hold derivative securities that enhance a fund's ability to deliver its prescribed exposure to equities or fixed income, without introducing non-Asset Class risks or returns other than those associated specifically with derivative use.

Notwithstanding sections 4-6, any ETF may hold cash or cash equivalents in small amounts, for the purposes of providing liquidity or for near-term investments, without compromising its Asset Class designation.

Economic Development Level

IndexUniverse follows the International Monetary Fund's designation of developed economies, as delineated in its most recent World Economic Outlook report. We follow the designations of the majority of five major global index providers to distinguish between emerging markets and frontier economies. IndexUniverse assigns all countries not covered by the IMF to the classification designated by the World Bank.

IndexUniverse will assign all single-country funds to an economic development level according to the IMF's classification. Funds that hold positions in two or more countries will be classified based on the description presented in the fund's prospectus, offering document and/or marketing materials, or, if no such description is available, by an analysis of the fund's holdings.

Region

IndexUniverse has divided the globe into regions based on traditional continental descriptions as well as similarities of economies and cultures. The region rules are somewhat flexible because they were designed to accommodate the investment community's consensus of geographical groupings. IndexUniverse's rules about regions are:

- 1) A region must be contiguous. Regions may, however, encompass portions of oceans without compromising their regional integrity (Asia-Pacific includes Australia).
- 2) A region should cover a significant portion of the globe.

- 3) A region must have some major commonality to it, including any of the following:
 - a) Language group
 - b) Continental affiliation
 - c) Culture
 - d) Development status
- 4) No region may overlap with another region. All countries must belong to exactly one region.
- 5) A region need not be defined by its continent. For example, IndexUniverse assigns Mexico to Latin America rather than to the U.S. and Canada group, despite the fact that all three nations are part of North America.
- 6) If a fund covers a group of countries not linked together according to rules 1 and 2, or not covered by any of the criteria of rule 3, IndexUniverse will deem the fund to be region-less, and will carry its economic-development-level categorization to the Region field. An example is BRIC (Brazil, Russia, India and China) funds, which carry the “Emerging Markets” categorization into the Region field.
- 7) If, following the rule in #6 above, a fund would carry the label of “Blended Development” over to the Specific Geography field, then the fund’s region will be designated as Global or Global Ex_____.
- 8) A region may be defined by what it excludes (Global Ex-U.S.).
- 9) A single country will be assigned to a region, not to an economic development level.

Specific Geography

Specific Geography describes the most compact land area whose securities are covered by the fund, according to the fund’s prospectus, offering document and/or marketing materials. The only rule about specific geography is that the area(s) covered must be well recognized and specifiable in advance. Therefore, California is permitted as a specific geography field; “Blue States” and “Failed States” are not.

Funds that focus on development status instead of geography (i.e., emerging markets funds) will carry the economic development label to the Specific Geography tag.

A Note about Country Assignments

IndexUniverse categorizes an ETF according to the claims made about it by its issuer. We evaluate an ETF based on its actual holdings and performance. IndexUniverse’s country assignment methods depend on a security’s asset class.

Equity and Fixed Income

The intent of IndexUniverse’s country designation is to assign a security’s issuer to the country that best reflects the firm’s economic center of business. Because many firms have a global footprint, either operationally or in their consumer base, firms may not have a single dominant economic center. Therefore, IndexUniverse uses the primary location of decision-making power as the determining factor for country assignment. We measure this using the location of corporate headquarters, as proxied by country of incorporation.

Because there are instances in which an issuing firm will choose to incorporate in a country for tax or other regulatory advantage, but locate decision-making elsewhere, IndexUniverse relies on the security’s primary exchange location, as measured in currency-adjusted trading volume, as a confirmatory measure for countries incorporated in known tax havens (Bermuda, Channel Islands, etc.).

Currency

Assigning a currency to a country is quite straightforward, except in the case of a regional currency such as the euro. In the case of regional currencies, we will treat regions as we would single-country currency issuers. Although some countries have adopted currencies of other countries as their legal tender (Ecuador uses the U.S. dollar), IndexUniverse will continue to assign the currency to the country that retains monetary policy control for the currency.

Commodities

Most commodities trade globally in U.S. dollars. IndexUniverse considers all commodities to be global.

Asset Allocation

Any security in an asset allocation fund will be governed in its geographic description by the rules pertaining to its primary asset class.

Alternatives

Alternatives funds that hold any of the assets listed above will be governed in geography by the rules of those assets. Derivatives whose value is tied to a security will have their home base rules governed by IndexUniverse's treatment of the underlying asset class. If this is not possible, IndexUniverse will investigate the underlying security and make a country assignment determination based on its economic center.

EXPOSURE SORT

These designations function on an asset-class-specific level. Therefore, this rules document will cover these descriptors by asset class.

Exposure Sort: Equity

Equity has three categories: Sector; Size and Style; and Strategy, each of which treats Focus and Niche disparately. They are presented in sequence below.

Equity Sector – Category

- 1) All sector funds must have the stated purpose of providing exposure to a set of companies, drawn from the broad market, grouped and defined by sources of revenue.
- 2) IndexUniverse will choose a standard third-party classification system to categorize businesses by sector. IndexUniverse’s sector names will agree with this third-party system’s names.
- 3) Many sector funds contain securities selected in accordance with another business classification system (GICS or ICB, for example). IndexUniverse will not disqualify a fund from carrying the sector designation because of conflicts between business classification systems.
- 4) All sector funds must contain securities of firms belonging to a single economic-level (the most general) business classification.
- 5) IndexUniverse recognizes that some funds are designed to capture the economic exposure of an industry that, though generally recognizable, mixes traditional business classifications. “Infrastructure” funds are an example of such a fund. IndexUniverse permits such funds to carry the sector designation. IndexUniverse will resolve this apparent conflict via the focus designation (Focus rule 3).

Equity Sector – Focus

- 1) The focus of a sector fund must match what IndexUniverse’s selected classification system calls an Economic Sector, and must be named accordingly.
- 2) All securities in the sector fund must be in a single Economic Sector. Exceptions to this rule will be permitted for funds whose holdings conform to other standardized top-level classifications, or as outlined in rule 3, below.
- 3) For any sector fund that purports to track an industry and that holds securities from more than one sector, the focus designation will be “Theme.” This designation is intended to capture industry groupings that, while widely recognized, are not accommodated by the selected classification structure. If the fund has no discernible single-industry exposure, it cannot be a sector fund.

Equity Sector – Niche

- 1) A sector fund does not have to have a niche. If the fund tracks a broad economic sector, then the fund's niche will be deemed "Broad-based."
- 2) Any fund that tracks an industry will have that industry's name, as described by the classification system, for its niche. The industry name may come from any level of the classification system's hierarchy, except the top level.
- 3) The editors of IndexUniverse may shorten or simplify the classification system's industry name to improve readability.
- 4) For any "Theme" fund, the niche will be assigned by the editors of IndexUniverse. IndexUniverse will endeavor to reflect market consensus in its assignments of thematic sectors.

Equity Size and Style – Category

- 1) Size and Style funds must purport to replicate a broad segment of an equities market.
- 2) Size and Style funds may include "Total Market" funds, which claim to track the returns of an entire stock market or set of stock markets.
- 3) If a Size and Style fund is not a total market fund, it must determine its initial selection universe based either on the securities' market capitalizations (float adjustments accepted) or a widely accepted company size measurement such as book value, revenues or earnings or on their growth/value assignment (see Size and Style – Niche).
- 4) "Total Market" may include funds that apply selection criteria (such as dividend payments or principles-based filters) that do not significantly alter the overall size, style or country and sector composition of the relevant market.
- 5) A fund that has an initial selection methodology that uses some set of criteria other than those stated in rule 4, but which then applies a secondary selection method or set of weighting rules in order to create exposures similar to those of a naive total market portfolio will be included in Size and Style.

Equity Size and Style – Focus

- 1) Focus for Size and Style funds is intended to describe the size of the market capitalization range of the component equities in the fund.
- 2) IndexUniverse follows academic research in assigning upper and lower limits to each size designation. The editors reserve the right to update the size thresholds from time to time, as new research becomes available.
- 3) Size designations and their definitions are:
 - a) Total Market – at least 90% of the investable market
 - b) Large-Cap – the top 70% of a market by cumulative capitalization
 - c) Midcap – between 70% and 90% of a market by cumulative capitalization
 - d) Small-Cap – between 90% and 98% of a market by cumulative capitalization
 - e) Micro-Cap – between 98% and 100% of cumulative market capitalization
 - f) Extended Market – between 70% and 100% of a market by cumulative capitalization
- 4) These designations apply within any market. Therefore, a large-cap fund that covers a small economy may hold large-cap securities that would be small- or micro-caps in the global marketplace.

- 5) We recognize that this across-the-board reliance on percentage of market cap foils the rolling up of indexes from a variety of markets into a broader, regional or economic-development-level cap-based index or fund, and creates inconsistencies in size descriptions from country to country.
- 6) Currently, academic research has not found a conclusive statistical breakpoint that separates midcaps from small-caps. IndexUniverse, therefore, will accept a wide range of breakpoints between mid- and small-caps. We define the boundary between large-caps and small-caps to be 70% of cumulative market capitalization, and the lower limit of small-caps to be 98% of cumulative market capitalization.
- 7) Because we recognize that these market-cap bands are, by their nature, imperfect distinctions, we have placed tolerance bands around them. We are willing to accept up to a 5% deviation from IndexUniverse's defined market-cap boundaries.
- 8) We require each security to be assigned to only one size designation. We do not accept overlap in size designations. However, when a fund tracks an index that has buffer zones, IndexUniverse will accept a temporary size miscategorization.

Equity Size and Style - Niche

- 1) Niche serves to carry the style designation for a Size and Style fund.
- 2) If a fund has no style designation, IndexUniverse will show the Niche label as "Broad-Based."
- 3) Style designations are:
 - a) Value
 - b) Growth
 - c) Broad-Based
- 4) IndexUniverse does not recognize "Core" as a style designation. Funds that claim to be "Core" funds are categorized as "Broad-Based."
- 5) IndexUniverse recognizes that there is no academic or industry consensus on metrics or methods for separating value and growth stocks.
- 6) We accept any of the following indicators to measure growth:
 - a) Momentum
 - b) Price/earnings ratio
 - c) Current internal growth rate
 - d) Projected EPS growth rates
 - e) Projected sales growth
 - f) Price/FCFE
 - g) Price/sales
 - h) Change in FCFE/price
 - i) Payout ratio
 - j) Return on equity
 - k) Long-term earnings growth mean forecast

7) We accept any of the following indicators to measure value:

- a) Price/book ratio
- b) Price/earnings ratio
- c) Price/sales ratio
- d) Price/FCFE
- e) Degree of analyst coverage
- f) Dividend yield

Equity Strategy - Category

- 1) Strategy funds are those with security selection procedures that differ from either Sector or Size and Style rules.
- 2) Strategy funds' portfolios should not closely resemble a naive total market portfolio, and should provide exposure to a pattern of returns that is distinct from that of the total market.

Equity Strategy - Focus

- 1) Focus for Equity Strategy funds serves to define the goal of the fund's investment strategy.
- 2) Funds designated as "High Dividend Yield" must have a portfolio construction methodology that aims to create a relatively high and stable income stream. These funds differ from Size and Style funds that select or weight by dividends in that "High Dividend Yield" funds need not be representative of a particular size or style basket, or of the total market.
- 3) Funds designated as "Alpha Seeking" must have a selection strategy that suggests the potential to outperform the total market over a period of time.

Equity Strategy - Niche

- 1) All "High Dividend Yield" funds carry the "Broad-Based" niche designation.
- 2) "Alpha-Seeking" funds are sorted by investment strategy at the niche level.

Exposure Sort: Fixed Income

Fixed Income - Category

- 1) Fixed Income categories must describe the issuers of the debt securities. Preferred stocks are included within Fixed Income for the purposes of ECS. (See Asset Class rules for Fixed Income.)
- 2) Fixed Income Sectors and their constituent securities include:
 - a) Broad Market - any combination of sectors listed below (b-e)
 - b) Corporates - debt securities issued by a business
 - c) Municipals - any debt issued by a U.S. governmental body that is outside of the federal government
 - d) Sovereign - debt issued by globally recognized governments outside of the U.S.
 - e) U.S. Government - debt issued by the United States federal government

Fixed Income – Focus

- 1) The function of Focus within Fixed income is to modify Category. A focus description must differentiate the types of securities issued within each Category, focusing on credit quality, legal or tax structure, economic sensitivities, currency or subissuer.
- 2) Any fund with no modifications to category will carry the focus designation “Broad Market.”
- 3) The Focus designation for Corporates will describe either the credit quality or the contractual terms of the portfolio securities. Corporates have the following Focus choices:
 - a) Investment Grade or High Yield. We consider all securities rated BBB-/Baa3 and above to be investment grade and those below to be high yield.
 - b) Convertibles – hybrid securities with properties of both fixed income and equities. Convertibles must include in their prospectuses a description of conditions under which they will convert to equity. IndexUniverse accepts convertible preferred equities within this category.
 - c) Preferred Stock – nonvoting shares issued by a business with protected dividend flow. Subordinated in bankruptcy protection. May or may not have a maturity date.
 - d) Loans – debt between a financial firm and a corporate borrower, resold in the secondary market.
 - e) Asset-Backed – debt issued by corporations (usually banks), backed by a pool of assets, including mortgage-backed securities (MBS).
- 4) Municipals have the following focus descriptors and definitions:
 - a) Build America Bonds – issued under Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act
 - b) High Yield – all municipal securities with a credit rating of BB+/Ba1 or lower
 - c) VRDO – redeemable municipal securities with interest-rate reset periods no longer than one month
- 5) Sovereigns have the following focus descriptors and definitions:
 - a) Inflation-Protected – must be indexed to a widely accepted gauge of local price inflation
 - b) Investment Grade – countries whose debt are specifically rated above investment grade; we consider BBB-/Baa3 and above to be investment grade.
- 6) U.S. government securities have the following focus descriptors and definitions:
 - a) Agencies – bullet maturity bonds issued by U.S. federal agencies
 - b) Agency MBS – mortgage-backed securities aggregating loans guaranteed by U.S. mortgage purchasing agencies
 - c) TIPS – Securities issued by the U.S. Treasury indexed to the Bureau of Labor Statistics’ Consumer Price Index
 - d) Treasury – securities issued directly by the U.S. Treasury

Fixed Income - Niche

- 1) Niche for Fixed Income serves to describe the funds' maturity time horizons. Any fund with a nonspecific maturity target will carry the "Broad Maturities" Niche descriptor.
- 2) We recognize that there is no industry consensus that defines the boundaries of intermediate-term bonds. IndexUniverse bases its distinctions on the SEC's requirements for investment companies.
- 3) The following are the descriptors and definitions of IndexUniverse's maturity designations:
 - a) Ultra-Short Term - no maturity greater than 13 months; weighted average maturity no greater than 60 days
 - b) Short Term - dollar-weighted average maturity of three years from now or less
 - c) Intermediate - dollar-weighted average maturity between three and 10 years from now
 - d) Long Term - dollar-weighted average maturity more than 10 years from now
 - e) Fixed Maturity - maturities bounded by a window of time, up to one calendar year
 - f) Floating Rate - interest rate resets periodically, no maturity range required

Exposure Sort: Commodities

Commodities - Category

- 1) Commodity Categories must describe a well-recognized sector of the exchange-traded commodities market. We describe sectors by their use.
- 2) If a commodity fund does not focus on a specific sector, its category descriptor will be "Broad Market."
- 3) The following are the category descriptors and their definitions for commodities:
 - a) Agriculture - plants or animals, or parts thereof, used primarily for producing food or fabrics
 - b) Energy - products or byproducts that relate to the generation of power
 - c) Industrial Metals - metals whose primary function is in industrial use
 - d) Precious Metals - gold, silver and platinum group metals

Commodities - Focus

- 1) The function of Focus within Commodities is to modify Category. A focus description must differentiate products within the Commodity Market Sectors.
- 2) Any fund with no modifications to Category will carry the Focus designation "Broad Market."
- 3) A Focus-level descriptor should be only as specific as is needed to describe the commodity exactly. Therefore, a fund that tracks only corn prices will have the Focus descriptor of "Corn" and not "Grains," whereas a fund that tracks corn, wheat and soybeans will carry the Focus descriptor of "Grains," not "Corn."

Commodities - Niche

- 1) The function of Niche within Commodities is to describe the investment strategy the fund uses to gain exposure to the commodity it tracks.

2) The following are the Commodity Niche descriptors and their definitions:

- a) Physically Held – the fund owns, by contract or outright, the commodity itself. Fund managers can access the fund’s physical holdings at will.
- b) Front Month – the fund takes a long position in the soonest-to-expire futures contracts whose settlement price depends on the closing spot price of the commodity tracked. This designation includes funds that will take a long position in the next-soonest-to-expire futures contracts as part of its rolling process, in order to avoid taking delivery of the underlying commodity.
- c) Laddered – the fund takes a long position in a series of futures contracts across many or most of the available tenors.
- d) Optimized – the fund utilizes a rules-based process to select futures contracts in order to achieve a stated goal.
- e) Trend-Following – the fund varies its exposure to the underlying commodities according to a set of rules.

Exposure Sort: Currency

Currency – Category and Focus

- 1) Category and Focus for Currencies usually (see rule 3b) carry the same descriptor, which is the full name of the currency (e.g., Brazilian real).
- 2) The Category/Focus descriptor in Currencies is directly linked to the fund’s specific geography. The descriptor changes the country’s name from a noun to an adjective where needed and adds the currency’s name (Japan becomes Japanese Yen).
- 3) The previous rule (#2) is adjusted in the following circumstances:
 - a) The currency’s name does not match the country name (U.K. becomes Pound Sterling, the Eurozone becomes the Euro)
 - b) The specific geography is not a single-currency area. In this case, the Currency’s Category will read “Basket” and will also refer to the fund’s Region, and its Focus will describe the basket’s currencies’ common characteristic economic exposure.

Currency – Niche

- 1) The function of Niche within Currencies is to describe the investment strategy the fund uses to gain exposure to the currency it tracks.
- 2) The following are the Commodity Niche descriptors and their definitions:
 - a) Derivative – the fund uses futures, forwards or swaps to gain exposure to its underlying currency.
 - b) In Specie – the fund uses demand deposit accounts in local currencies.
 - c) Short-Term Debt – the fund invests in local currency debt instruments with maturities of one year or less.

Exposure Sort: Asset Allocation

Asset Allocation - Category

The Category descriptor for all Asset Allocation funds is "Asset Allocation."

Asset Allocation - Focus

- 1) The purpose of Focus for Asset Allocation is to specify the type of strategy the fund is using.
- 2) The Focus designators and their definitions for Asset Allocation are:
 - a) Target Date - a fund must specify a year for which it is targeting a particular risk level and asset allocation strategy that it deems suitable for a newly retired investor.
 - b) Target Risk - a fund must either specify a qualitatively defined risk level, which serves to set the risk boundaries of an asset allocation strategy, or engage in multi-asset class investment strategies with risk ranges that correspond to those that specify a qualitatively defined risk level.
 - c) Target Outcome - a fund must specify a desired outcome, such as income generation or price stability.

Asset Allocation - Niche

- 1) The purpose of Niche for Asset Allocation is to specify the targets for the strategies outlined in Focus.
- 2) The Niche for Target-Date funds should be the retirement year specified in the fund's literature. If the fund's target date has arrived, or if the fund declares itself as serving current retirees, the fund's Niche Descriptor will be "Current."
- 3) The Niche for Target-Risk Funds may be "Aggressive," "Moderate" or "Conservative." The editors of IndexUniverse expect that, for any fund provider that issues a series of target-risk funds, the funds' risk targets will be highest for the aggressive funds, less so for the moderate funds and lowest for the conservative funds.
- 4) The Niche for Target Outcome may be income, capital appreciation, a combination of the two, or constant weight. The niche will consist of the specific theme or outcome that the multi-asset-class portfolio is expected to target.

Exposure Sort: Alternatives

Alternatives - Category

- 1) The purpose of Category within Alternatives is to identify the types of patterns of returns that a fund purports to deliver. The two Category Descriptors for Alternatives are Absolute Returns and Tactical Tools.
- 2) Absolute Returns funds must satisfy one of the following conditions:
 - a) The fund's stated investment objective must be to deliver a sustainable positive real return to investors.
 - b) The fund must be designed to generate a series of returns that shows a low correlation to any of the primary asset classes.
 - c) The fund must explicitly state a goal of replicating hedge fund performance or following a common hedge fund strategy.

3) Tactical Tools must satisfy one of the following conditions:

- a) The fund must invest in an asset type that has a distinctly different economic exposure than that of any of the primary asset classes.
- b) The fund must provide exposure to the relative differences between or within asset classes or broad representatives thereof.

Alternatives - Focus

1) Within Alternatives, the purpose of Focus is to specify the broad investment strategy the fund is designed to track or employ.

2) The Focus designators and their definitions for Absolute Return are:

- a) Global Macro - the fund's strategy pursues a positive return or a low correlation to the broad market by investing in any asset class or sub-asset class. The fund must not have a mandate that requires it to maintain any degree of exposure to a particular broad market at any given time.
- b) Long/Short - the fund has a mandate to hold both long and short positions within an asset class, with the purpose of either eliminating or reducing systematic risk.

3) The Focus designators and their definitions for Tactical Tools are:

- a) Volatility - the fund must hold volatility-linked derivatives exposure structured to give positive returns when volatility increases. The fund may hold other assets in addition, provided the assets are of the same asset class whose volatility serves as the underlying asset of the derivatives position.
- b) Spreads - the fund must hold positions that are structured to respond to changes in the relative performance between asset classes or sub-asset classes.

Alternatives - Niche

1) The function of Niche within Alternatives is to explain the fund's specific investment strategy.

2) For Global Macro, the Niche descriptor must explain how the fund makes investment decisions, or what pattern of returns the fund aims to deliver.

3) For Long/Short, the Niche descriptor must name the asset class from which the fund selects both long and short positions.

4) For Volatility, the Niche must describe the tenor of the exposure and the underlying securities whose volatility is being tracked.

5) For Spreads, the Niche must describe the long and short positions, in order to explain the fund's economic exposures.

METADATA

Inverse

The Inverse flag highlights funds that have negative or inverse exposure to an asset class. The Inverse flag will read “Inverse” if a fund has negative exposure, levered or unlevered, and will be left blank if the fund does not have negative exposure.

Leverage

The Leverage flag will mark funds that have positive levered exposure to an underlying asset. It will not mark any inverse fund, even if that fund does employ leverage. This flag will mark funds with integer-based leverage factors or returns targets. It will not flag funds with a target beta of 1 to its underlying asset class.

Leverage Factor

The leverage factor combines the functions of the Inverse and Leverage flags, and adds more detail. It is a mathematical expression of the daily expected return of the fund relative to its reference index. This flag shows the leverage in an inverse fund.

ETN

This field marks any fund with an ETN structure. The editors of IndexUniverse may alter this column to contain a wide range of entries that describe, in general terms, each fund’s legal structure. If this happens, then the heading for this field will change to “Legal Structure.”

Derivatives

This field will be marked “Yes” if the fund uses over-the-counter derivatives. IndexUniverse differentiates between temporary use of such securities for intraday hedging and tracking purposes, and strategic use of derivatives to gain long-term exposure to an asset class. We will flag the latter. We will display the number of counterparties, and whether the swaps are marked to market daily, subject to data availability.

Selection Criteria

This field will describe the fund’s method for selecting the securities that it may hold. This column will contain information that modifies the entries in the exposure sort.

Tax Exposure

This field shows the fund’s maximum long-term and short-term capital gains tax rates, and whether or not a K-1 will be distributed, based on the fund’s asset class and legal structure.

Impediments to Creations

This field shows if there are currently any impediments to the fund's creation process, and whether it's full (meaning closed for creations), partial, or has the potential for impediments.

Active Per SEC

This field shows whether or not the fund is classified as an active ETF, per the Securities and Exchange Commission.

Corporate Action Policy

This field shows whether or not there is currently a corporate action pending on the ETF, such as a merger, purchase, or liquidation.

Securities Lending

This field shows whether or not securities lending is permitted in the fund, whether such a policy is currently active or not, and the issuer's revenue-sharing policy with the fund.

The descriptors and definitions of IndexUniverse's selection criteria are:

DESCRIPTOR	DEFINITION
Beta	The fund selects securities using their systematic risk in relation to a benchmark.
Depository Receipts	The fund holds only depository receipts.
Distributions	The fund selects limited partnerships based on distribution yield.
Dividends	Selects based on the dividends paid by a firm, measured either in dollars or by percentage of its share price.
Dollar Peg	The fund selects securities from countries that have pegged the value of their currency to the U.S. dollar.
Earnings	Selects securities based on the level of the firm's earnings.
Exchange (NYSE, NASDAQ, TSX)-listed	Selects securities that are listed on a specific exchange.
Fixed	The fund's set of securities is set, with no provision for review for more than a year's time.
Fundamental	Selects based on information from a firm's financial statements.
Futures Liquidity	Selects by ranking liquidity of commodity futures (open interest, average daily volume).
Interest Rates	The fund selects currencies based on the prevailing level of interest rates in the issuing country.
Market Cap	Selects based on market capitalization, including float/liquidity and capping adjustments.
Market Value	Selects based on the market value of outstanding debt securities.
Maturity	Selects securities according to maturity date.
Momentum	Selects based on a history of recent price changes.
Multifactor	Selects by combining a set of fundamental and technical factors.
Principles-Based	Selects by applying a set of ethical principles that do not pertain to maximizing returns.
Proprietary	Selects based on decisions made by an individual or committee.
Relative Strength	Selects by comparing a stock's price to its market's average.
Share Buybacks	Selects securities of firms that are buying back their own shares.
Single Asset	The fund holds only one security or underlying commodity.
Technical	The fund selects securities based on historical price movements.

DESCRIPTOR	DEFINITION
Time Since Listing	The fund uses the IPO date for selection.
Volatility	The fund uses variance in a security's price for selection.
Z-Spread	Selects bonds by their static yield over Treasurys.
Credit Downgrade	Selects corporate bonds that were rated investment grade at issuance but have since been downgraded to high yield.
Credit Rating	Selects corporate bonds from a specific ratings range from the larger credit rating spectrum, other than simply investment grade or high yield.
Developed-Market Currencies	Selects bonds that are denominated in currencies from developed markets.
Financials	Selects bonds issued by the financial sector.
Industrials	Selects bonds issued by the industrials sector.
U.S. Dollar Denominated	Selects bonds that are denominated in U.S. dollars.
Utilities	Selects bonds issued by the utilities sector.

Weighting Scheme

This column contains descriptions of how the fund's issuer weights the securities it has selected for the portfolio.

The descriptors and definitions of IndexUniverse's weighting scheme are:

DESCRIPTOR	DEFINITION
Beta	The fund weights securities using their systematic risk in relation to a benchmark.
Dividend	Weighted by reported dividends or yield.
Duration	Bonds are weighted by their duration.
Earnings	Securities are weighted by corporate earnings.
Equal	Equal on a percentage-of-holdings basis.
Fixed	Uses set proportions.
Fundamental	Weighted based on multiple financial statement measurements.
Liquidity	Weighted by liquidity.
Market Cap	Market capitalization, including float/liquidity and capping adjustments.
Market Value	Weighted by value of outstanding securities (bonds).
Momentum	Weighted on the basis of recent security price movements.
Multifactor	Weighted based on more than one factor, not exclusive to financial statements.
Price	Weighted based on securities prices.
Production	Weighted based on the dollar value of global production of a commodity.
Proprietary	Weighted based on at least one decision made by an individual or committee.
Revenue	Weighted based on reported revenues.
Single Asset	Targeting the pattern of returns of a single asset.
Target Tenor	Futures contracts are weighted by maturity date.
Tiered	Weighted first by groupings, then by other factors.
Volatility	The fund uses variance in a security's price for selection.