



INDEX METHODOLOGY

## THE SMID CAPITAL STRENGTH INDEX

### NQCAPSTSM

#### INDEX DESCRIPTION

The SMID Capital Strength Index seeks to provide exposure to well-capitalized small and mid-sized companies with strong market positions. The companies are screened for strong balance sheets, a high degree of liquidity, the ability to generate earnings growth and a record of financial strength and profit growth. The Index is composed of 100 securities selected objectively based on cash on hand, debt ratios and volatility.

#### SECURITY ELIGIBILITY CRITERIA

##### Security universe

A security must be included in either the Nasdaq US Small Cap Index (NQUSS) or the Nasdaq US Mid Cap Index (NQUSM) as of the Index Reconstitution Rebalance Date. Please refer to the NQUSS & NQUSM methodology for further information on its constituent selection.

##### Eligible security types

A security must be classified as a security type that is eligible for the Nasdaq US Small Cap Index (NQUSS) or the Nasdaq US Mid Cap Index (NQUSM). Please refer to those methodologies for more information.

##### Multiple classes of securities

One security per issuer is permitted. If an issuer has multiple otherwise eligible securities, only the security with the highest three-month average daily traded value may be eligible.

##### Market capitalization eligibility

A security must have a free float market capitalization of at least \$500 million (USD).

## **Liquidity eligibility**

A security must have a three-month average daily traded value of at least \$5 million (USD).

## **Other eligibility criteria**

A security must have at least \$100 million (USD) in cash or short term investments, after removing restricted cash.

A security must have a long term debt to market cap ratio less than 30%.

A security must have positive shareholder equity.

A security must have a return on equity greater than 15%.

If, at reconstitution, Nasdaq becomes aware that an issuer or security will soon undergo a fundamental change that makes it ineligible, Nasdaq will remove the security from consideration. This includes entering into a definitive merger or acquisition agreement or other pending arrangement that would make it ineligible for Index inclusion, or a filing of bankruptcy or similar protection from creditors.

## **INDEX CALENDAR**

### **Reconstitution schedule**

The Index is reconstituted quarterly in January, April, July and October by applying the constituent selection process.

### **Reconstitution reference dates**

Unless otherwise specified, the Security Eligibility Criteria and Constituent Selection Process are applied using market data as of the prior month-end (December, March, June and September).

### **Reconstitution announcement dates**

Index Reconstitutions are generally announced in early January, April, July and October.

### **Reconstitution effective dates**

Index Reconstitutions become effective at market open on the trading day following the third Friday in January, April, July and October.

### **Rebalance schedule**

The Index is rebalanced quarterly in January, April, July and October by applying the constituent weighting process.

## **Rebalance reference dates**

The constituent weighting process is applied using the Last Sale Price of all Index Securities as of the third Friday in January, April, July and October.

## **Rebalance announcement dates**

Index Rebalance changes are generally announced in early January, April, July and October.

## **Rebalance effective dates**

Index Rebalance changes become effective at market open on the trading day following the third Friday in January, April, July and October.

## **Holiday schedules**

The Index is calculated Monday through Friday, except on days when the Nasdaq US exchange is closed.

## **Index calculation and dissemination schedule**

The index is calculated during the trading day and is disseminated once per second from 09:00:01 to 17:16:00 ET. The closing value of the indexes may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

# **CONSTITUENT SELECTION**

## **Constituent selection process**

Securities that meet the applicable Security Eligibility Criteria are considered for inclusion in the Index according to the following steps:

- Securities in the selection universe receive two ranks, with ranks of 1 representing the lowest values:
  - By three-month annualized realized volatility and
  - By twelve-month realized volatility.
- The two ranks are summed to obtain a single Combined Rank.
- Securities ranked outside the lowest 30 by Combined Rank within each Industry, as determined by the Industry Classification Benchmark (ICB), a product of FTSE International Limited that is used under license, are excluded.
- Securities ranked outside the lowest 50 (for NQUSS constituents) and the lowest 75 (for NQUSM constituents) by Combined Rank are excluded.
- The 100 securities with the lowest Combined Ranks are selected.
  - In the case of ties in Combined Ranks, the security with highest free float market capitalization is selected.

## Contingent selection process

In the event that the final universe contains fewer than 100 securities, the 15% return on equity criterion is removed and constituent selection process is restarted.

An iterative process is applied to the eligible universe based on the following steps:

- Securities passing on all other original Security Eligibility Criteria are sorted based on their return on equity in descending order.
- All securities with return on equity greater than 15% are considered for inclusion.
- The security with the next largest return on equity below 15% is also included.
- All securities in the selection universe are re-ranked based on the selection process detailed in the original Constituent Selection Process.

The steps above are repeated until 100 securities are selected for inclusion in the final index.

## CONSTITUENT WEIGHTING

### Constituent weighting scheme

The Index is an equal-weighted index.

### Constituent weighting process

The Index employs an equal weighting scheme: all Index Securities have equal index market value.

For additional information about index weighting, see **Nasdaq Index Weight Calculations**.

## INDEX MAINTENANCE

### Deletion policy

If, at any time during the year other than the Index Reconstitution(s), an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, it is removed from the Index. This includes circumstances where an Index Security is determined to be ineligible for continued inclusion in the Index due to bankruptcy, delisting, or a definitive agreement that would likely result in the security no longer being Index eligible. Please refer to **Nasdaq's Corporate Actions and Events Manual – Equities** for detailed handling of the aforementioned event types.

### Replacement policy

Index securities deleted at any time during the year other than the Index Reconstitution(s) are not replaced.

### Corporate actions

In the interim periods between scheduled index reconstitution events, individual Index securities may be the subject to a variety of corporate actions and events that require maintenance and adjustments to

the Index. Specific treatment of each type of corporate action or event is described in **Nasdaq Corporate Actions and Events Manual – Equities**, which is incorporated herein by reference.

In certain cases, corporate actions and events are handled according to the weighting scheme or other index construction techniques employed. Wherever alternate methods are described, the Index will follow the “Non-Market Cap Corporate Action Method.”

### **Index share adjustments**

Other than as a direct result of corporate actions, the index does not normally experience share adjustments between scheduled index rebalance and reconstitution events.

## **ADDITIONAL INFORMATION**

### **Announcements**

Nasdaq announces Index-related information via the Nasdaq Global Index Watch (GIW) website at <http://indexes.nasdaqomx.com>.

For more information on the general Index Announcement procedures, please refer to the **Nasdaq Index Methodology Guide**.

### **Unexpected market closures**

For information on Unexpected Market Closures, please refer to the **Nasdaq Index Methodology Guide**.

### **Calculation types**

For information on the Index calculation types as well as the mathematical approach used to calculate the Index(es), please refer to the **Calculation Manual – Equities & Commodities**.

### **Recalculation and restatement policy**

For information on the Recalculation and Restatement Policy, please refer to the **Nasdaq Index Recalculation Policy**.

### **Data sources**

For information on data sources, please refer to the **Nasdaq Index Methodology Guide**.

### **Contact information**

For any questions regarding an Index, please contact the Nasdaq Index Client Services team at [indexservices@nasdaq.com](mailto:indexservices@nasdaq.com).

### **Index dissemination**

Index values and weightings information are available through Nasdaq Global Index Watch (GIW) website at <https://indexes.nasdaqomx.com/> as well as the Nasdaq Global Index FlexFile Delivery Service (GIFFD) and Global Index Dissemination Services (GIDS). Similar to the GIDS offerings, Genium Consolidated Feed (GCF) provides real-time Index values and weightings for the Nordic Indexes.

For more detailed information regarding Index Dissemination, see the **Nasdaq Index Methodology Guide**.

## Website

For further information, please refer to Nasdaq GIW website at <https://indexes.nasdaqomx.com/>.

## FTP and dissemination service

Index values and weightings are available via FTP on the Nasdaq Global Indexes FlexFile Delivery Service (GIFFD). Index values are available via Nasdaq's Global Index Dissemination Services (GIDS).

## GOVERNANCE

All Nasdaq Indexes are managed by the governance committee structure and have transparent governance, oversight, and accountability procedures for the index determination process. For further details on the Index Methodology and Governance overlay, refer to the **Nasdaq Index Methodology Guide**.

## GLOSSARY OF TERMS AS USED IN THIS DOCUMENT

For the glossary of key terms, refer to the **Nasdaq Index Methodology Guide**.

## DISCLAIMER

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity, including but not limited to, quantitative inclusion criteria. Nasdaq may also, due to special circumstances, if deemed essential, apply discretionary adjustments to ensure and maintain the high quality of the index construction and calculation. Nasdaq does not guarantee that any Index accurately reflects future market performance.

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