

# Fundamental Income Net Lease Real Estate Index Methodology

## Index Description

Fundamental Income Net Lease Real Estate Index is a rules-based index that tracks the performance of the U.S. listed net lease real estate sector. The Index identifies real estate companies, including real estate investment trusts (REITs), screens each real estate company for property type and tenant, and assigns only those companies identified as net lease to the index.

## Index Calculation

The Fundamental Income Net Lease Real Estate Index is a modified market cap weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each such security's Last Sale Price<sup>1</sup>, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for reporting purposes. If trading in an Index Security is halted on its primary listing market, the most recent Last Sale Price for that security is used for all index computations until trading on such market resumes. Likewise, the most recent Last Sale Price is used if trading in a security is halted on its primary listing market before the market is open. The Index began on December 28, 2017, with a base value of 1,000.00.

The formula for index value is as follows:

Aggregate Adjusted Market Value/Divisor

The formula for the divisor is as follows:

(Market Value after Adjustments/Market Value before Adjustments) X Divisor before Adjustments

Three versions of the Index are calculated:

- The price return index (Nasdaq: NETLX) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: NETLXT) reinvests cash dividends on the ex-date.
- The net total return index (Nasdaq: NETLXN) reinvests cash dividends on the ex-date based on the securities incorporation withholding rate.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated and disseminated once per second from 9:30:01 to 17:16:00 Eastern Time (ET) in USD. 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.

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<sup>1</sup> For purposes of this document, Last Sale Price refers to the last regular way trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used. For securities where Nasdaq is the Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

## **Eligibility**

Index eligibility is limited to specific security types only. The security types eligible include common stocks, REITs, ADRs, limited partnership interests, shares or units of beneficial interest and shares of limited liability companies.

## **Eligibility Criteria**

To be eligible for inclusion in the Index, a security must meet the following criteria:

- must be classified as a Net Lease Real Estate security as specified by Fundamental Income;
- must be listed on The Nasdaq Stock Market, the New York Stock Exchange, NYSE American or the CBOE Exchange;
- have a minimum worldwide market capitalization of \$200 million;
- have a minimum three-month average daily volume of 10,000 shares;
- have a minimum free float of 20%;
- one security per issuer is permitted<sup>2</sup>;
- may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible; and
- may not be issued by an issuer currently in bankruptcy proceedings.

## **Index Evaluation**

The Index is evaluated quarterly using market data through the end of February, May, August, and November. Securities meeting the criteria are included in the Index. Security additions and deletions are made effective after the close of trading on the third Friday in March, June, September, and December.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, the security is removed from the Index and is not replaced. Ordinarily, a security will be removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

## **Index Maintenance**

Index Share changes are not made during the quarter however changes arising from stock dividends and stock splits are made to the Index on the evening prior to the effective date of such corporate action. In the case of certain spin-offs or rights issuances, the price of the Index Security is adjusted and a corresponding adjustment is made to the Index Shares such that the weight of the Index Security does not change as a result of the action. However, for a spin-off event, if there is a no when-issued trading available for the spin-co

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<sup>2</sup> If an issuer has multiple securities, the security with the highest dollar trading volume will be selected for possible inclusion into the Index.

security, the spin-co security may be added to the index at a zero value. In this case, the spin-co security will be removed from the Index after two full days of trading.

A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. A corresponding adjustment will be made to the Index Shares of the security such that the weight of the Index Security will not change as a result of the action. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

Ordinarily, whenever there is a change in an Index Security or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends as mentioned above, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

### **Index Rebalancing**

The index employs a modified market capitalization-weighting methodology.

At each quarter, the Index is rebalanced such that for all securities classified as non-diversified<sup>3</sup>, the aggregate weight is capped at 12.5% and individual security weights are capped at 3.5%. The excess weight is redistributed proportionally across the remaining Index Securities classified as non-diversified. The process is repeated, if necessary, to derive the final weights. If there are an insufficient number of names to get to an aggregate weight of 12.5% for non-diversified securities, the excess weight is distributed to the remaining names in the index, classified as diversified.

At each quarter, the Index is rebalanced such that the maximum weight of any Index Security classified as diversified does not exceed 8% and no more than five securities are at that cap. The aggregate weight for all securities classified as diversified is 87.5% (or more if there are an insufficient number of names to get an aggregate weight of 12.5% for securities classified as non-diversified). The excess weight of any capped security is distributed proportionally across the remaining Index Securities classified as diversified. If after redistribution, any of the five highest ranked Index Securities are weighted below 8%, these securities are not capped. Next, any remaining Index Securities in excess of 4% are capped at 4% and the excess weight is redistributed proportionally across the remaining Index Securities. The process is repeated, if necessary, to derive the final weights.

The modified market capitalization-weighting methodology is applied to the capitalization of each Index Security, using the Last Sale Price of the security at the close of trading on the last trading day in February, May, August and November and after applying quarterly changes to the total shares outstanding. Index Shares are then calculated multiplying the weight of the security derived above by the new market value of the Index and dividing the modified market capitalization for each Index Security by its corresponding Last Sale Price. The changes are effective after trading on the third Friday in March, June, September and December.

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<sup>3</sup> Fundamental Income defines Non-Diversified securities as securities of companies with more than half of its revenue being generated from one customer, tenant or obligor in the most recent quarter.

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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