

Indxx India Small Cap Index: Methodology

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Indxx India Small Cap Index

Index Description

The India Small Cap Index is a maximum 75 stock free-float adjusted market capitalization weighted index designed to measure the market performance of companies in the small cap segment in India.

Creation of Master list

Investable Universe

- Minimum free-float market capitalization is set at \$100 Million and the maximum free float market capitalization is set at \$2 Billion.
- Minimum average daily turnover for 6 months is set at \$2 Million.
- The stock must have traded on 90% of the eligible trading days in the last 6 months. In case a security does not have a trading history of 6 months (e.g., IPOs), such a security must have started trading at least 3 months before the start of the Reconstitution/Rebalancing Process, and should have traded on 90% of the eligible trading days for the past 3 months.

Free Float

Public float or free float should be at least 10% of the total shares outstanding of each member.

Geographical Focus

The security should be incorporated in India. For those securities where the company is incorporated in other countries to avail benefits (such as tax or legal benefits etc.), the country of primary listing will be considered. The final decision of assigning a country will be taken by Index Review Committee.

Foreign Institutional Investor (FII) Limit

Available FII Limit of each company should be at least 5%. Stocks, which are part of Government of India restrictive list for foreign investors would not be considered for inclusion in the index.

Maximum Price

Securities trading at a price of \$10,000 or above are ineligible for inclusion in the index. This rule is not applicable for existing constituents. Existing constituents would remain in the Index irrespective of the stock price.

Security Type

Common Stock, ADR, GDR

Security Selection

- All the securities shortlisted on the basis of all the criteria defined above forms the 'Selection List'.
- The Selection List is ranked by market capitalization and a maximum of 75 companies with lowest ranks are selected to form final portfolio.

Weighting

Index is free-float market cap weighted at the time reconstitution and single member shall have maximum weight of 4.90%. If the weight of a constituent(s) exceeds 4.90%, the excess weight is proportionately allocated to the remaining constituents.

Buffer Rules

Buffer Rules are employed to reduce Portfolio Turnover. The following Buffer Rules are applicable:

Free float-adjusted Market Capitalization

An existing index constituent shall continue to remain in the index even if its Free Float – Adjusted Market Capitalization doesn't meet the previously defined criteria limit, but remains within +/- 30% of this limit.

Liquidity

An existing index constituent shall continue to remain in the index even if its Liquidity is below the previously defined Average Daily Traded Value limit, but remains within +/- 30% of this limit.

Multiple Share Classes

In the event of existence of multiple share classes, the following criteria must be met in order to be eligible for inclusion in the index:

1. The company-level market capitalization must be greater than the defined cut-off level.
2. ADT/Tradability/float/other criteria must be fulfilled at the share-class level.

In case multiple share classes qualify for inclusion in the index, all the share classes will be considered for inclusion in the index and weights to that share class will be assigned based on its share-class level market capitalization and free-float data.

Reconstitution and Rebalancing Rules

The index follows annual reconstitution and rebalancing.

- The index follows an annual reconstitution. New portfolio becomes effective at the close of US trading day on second last Friday of March each year. This day is called the "Effective Day". If there are seven or less trading days after the rebalance date up to and including the last trading day of the quarter, new portfolio becomes effective at the close of US trading day on third last Friday of March each year.
- The security selection and portfolio creation process starts on Friday exactly a month before the 'Effective Date', called the "Selection Date". The final portfolio constituents are shortlisted from a selection pool of all eligible securities selected on the Selection Date.
- Weights are calculated five trading days prior to the Effective Day. Index Shares are frozen using weights as of this day.

Index Review Process

At the end of every calendar quarter, each of the index constituents will be reviewed for any corporate news or event which has significantly impacted the liquidity or raised concerns on the corporate governance. The constituents will also be checked for any trading limits. The review findings will be approved by index committee. Any changes to the index constituents, resulting from the process will be communicated to the index users subsequently.

Corporate Actions

The following corporate actions (such as stock splits, special dividends, spin-offs and rights offerings) are applied to Price Return indices on the ex-date or earlier as decided by the Index Committee.

Corporate Action	Description	Treatment	Adjustment
Company addition and deletion	In case a constituent is added, removed or replaced with another constituent in the Index.	In case of addition and deletion from an index, the divisor is adjusted to reflect the change in market value.	Divisor Adjustment
Stock Split	A stock split is a decision by the company's board of directors to increase the number of shares that are outstanding by issuing more shares to current shareholders.	Stock splits will be adjusted for on the ex- date. The number of shares will increase times the adjustment factor for the split and the stock price will be reduced since the number of shares outstanding has increased.	No divisor adjustment
Rights Issue	Rights Issue gives existing shareholders the right to purchase a proportional number of new shares at a discount to the market price on a stated future date. The rights issued to a shareholder have a value, thus compensating current shareholders for the future dilution of their existing shares' value.	Rights Issue impacts the number of shares as well as price thereby impacting the index divisor reflecting an increase in market cap. The Index committee will decide whether to participate in the rights issue or not. If the subscription price is greater than or equal to the stock closing price, Indxx would not participate in the rights issue.	Divisor Adjustment
Spin-Off	Spin off is the creation of an independent company through the sale or distribution of new shares of an existing business/division of a parent company.	The Index Committee will decide on one of the following options based on internal research.	
	Spun-Off company is not added, only the parent company remains in the Index.	Spin-Off will be adjusted for by changing the divisor to account for the change in market value (reflecting market value of the Spun-Off entity).	Divisor Adjustment
	Spun-Off company added to the Index, another company replaced.	The divisor is adjusted to account for the impact of deletion of a company from the Index.	Divisor Adjustment
	Spun-Off company added to the Index, no company removed.		No Divisor Adjustment
Delisting	Delisting refers to the practice of removing the stock of a company from a stock exchange so that investors can no longer trade shares of the stock on that exchange.	The security would be removed from the index, and the invested amount in the delisted security will be reinvested into the index.	Divisor Adjustment

Corporate Action	Description	Treatment	Adjustment
Acquisition	A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. There could be three different cases: - Target Company is a part of the index, acquiring company is not; - Acquiring Company is a part of the index, target company is not; - Target and Acquiring companies are a part of the index The treatment below is followed for all the three scenarios.	The Target company would be removed from the index and the Index Committee will decide on one of the following options based on internal research.	
	All cash takeover	No change to acquirer	Divisor Adjustment
	Partial stock takeover	Share change to acquirer	Divisor Adjustment
	All stock takeover	Share change to acquirer	Divisor Adjustment
Merger	Merger is the combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock.	The Target company is removed from the Index. The Index Committee will decide if the Surviving company should be added to the Index. If added, the divisor will be adjusted to reflect the increase in the number of shares.	Divisor Adjustment
Bankruptcy	Bankruptcy is a legal proceeding involving a person or business that is unable to repay outstanding debts.	The security would be removed from the index, and the invested amount in the acquired security will be reinvested into the index.	Divisor Adjustment
Temporary Delisting / Prolonged Trading Suspension	A temporary delisting/trading suspension occurs when a security stops trading on the stock exchange for a certain time period. This usually occurs when a publicly-traded company is going to release significant news about itself.	The security would be removed from the index based on the Index Committee's decision and the invested amount in the acquired security will be reinvested into the index.	Divisor Adjustment
Special Dividends	When a company pays a special dividend, the share price of the company declines by the amount of the dividend.	The Divisor is adjusted to reflect a fall in the price of the company paying the special dividend.	Divisor Adjustment
Bonus Issue of Shares	A bonus share is a free share of stock given to current/existing shareholders in a company, based upon the number of shares owned by them.	The issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. The ratio of number of shares held by each shareholder remains constant.	No Divisor Adjustment

Total Return Indices

Total Return Index

In addition to all the above mentioned corporate actions, ordinary cash dividends will be applied on the ex-date for calculating TR Indices.

Adjustment in the Index

All dividend payments will be reinvested in the index, by adjusting the divisor in the total return index on the ex-dividend date.

Index Policy

Index Committee Policy

The Index Committee is responsible for setting policy, determining index composition, and administering the indices in accordance with the Indxx index methodology. The Index Committee reserves the right to use qualitative judgment to include, exclude, adjust, or postpone the inclusion of a stock. Continued index membership of a constituent is not necessarily subject to the guidelines provided in each of the Indxx index methodology. A stock may be considered for exclusion by the Index Committee on the basis of corporate governance, accounting policies, lack of transparency and lack of representation, despite meeting all the criteria provided in each of the Indxx index methodology.

Announcements

Announcements of additions and deletions of constituents, due to various corporate actions mentioned above, in the middle of the year will be decided by the Index Committee. This will be communicated to the client well ahead of time. Also important news items as well as corporate actions with respect to all the constituents of the index will be informed to the client on a weekly basis.

Holiday Schedule

The index is calculated when the U.S. equity markets are open. In situations where an exchange is forced to close early due to unforeseen events, the index will be calculated based on the closing prices published by the exchange, or if no closing price is available, the last regular trade reported for each stock before the exchange closed.

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