



**ExponentialETFs**

# REVERSE CAP WEIGHTED U.S. LARGE CAP INDEX METHODOLOGY

VERSION 1.0

2017

## I. Overview

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The Reverse Cap Weighted U.S. Large Cap Index is a rules-based, reverse capitalization weighted index comprised of the 500 largest U.S.-listed companies as measured by their free-float market capitalization contained within the S&P 500 universe. The Index seeks to provide exposure to the U.S. large-cap market but with greater emphasis on the smaller-end of the large-cap spectrum, unlike many traditional market capitalization weighted indexes that place a greater emphasis on the largest companies in the large-cap market.

## II. Weighting Methodology

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At the time of each Index rebalance, the Index components are weighted by the inverse of their free-float market capitalization divided by the total of the inverse free-float market capitalizations of all of the Index components such that the smallest company in the Index will have the largest weight and the largest company in the Index will have the smallest weight.

$$1/MV \text{ Scheme: } W_i = \frac{1/Mcap_i}{\sum_i(1/Mcap_i)}$$

## III. Index Maintenance

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### Rebalancing and Reconstitution

- The Index is rebalanced as of the close of trading on the third Friday in each March, June, September, and December (or the following business day if such third Friday is not a business day) based on data as of the second Friday of such rebalance month.
- The index is rebalanced quarterly to coincide with the quarterly share adjustments of the S&P 500.
- When a company is added to the S&P 500 index universe in the middle of the quarter, the index will be adjusted to incorporate the new security. Conversely, if a company is removed from the S&P 500 index universe, the index will be adjusted to eliminate that security.
  - If additions and deletions are one-to-one, then the successor assumes the dropped stock's weight in full. If additions and deletions are two-to-two, three-to-three, etc., the unaccounted-for weight is split X number of ways among the X new additions.

## Corporate Actions

The index follows the same corporate action protocol as that of S&P's present methodology.

### Spinoff

The Index derives its membership from the S&P 500. All spin-off companies are added to the index at a zero price on the ex-date of the event with no divisor adjustment.

If the spin-off will not remain in the parent S&P 500 index: The spin-off will be dropped from the index on the trading date following the ex-date of the event and its weight will be redistributed to the parent company.

If the spin-off is replacing a dropped company in the parent S&P 500 index: On the effective date of the replacement, the weight of the spin-off is redistributed to the parent company. After that redistribution, the weight of the dropped company is redistributed to the spin-off.

If the spin-off is replacing the parent company in the parent S&P 500 index: On the effective date of the replacement, the weight of the parent is redistributed to the spin-off.

### Rights Offering

The price is adjusted to Price of Parent Company minus (Price of Rights Offering/Rights Ratio). Index Shares change so that the company's weight remains the same as its weight before the spin-off.

### Stock Split

Index Shares are multiplied by and price is divided by the split factor.

### Dividends

The index is calculated with total return in mind. Ordinary cash dividends are applied prior to the ex-date in calculating the total return. "Special dividends" are those dividends that are outside of the normal payment pattern established historically by the issuing corporation. These may be described by the corporation as "special," "extra," "year-end," or "return of capital." Whether a dividend is funded from operating earnings or from other sources of cash does not affect the determination of whether it is ordinary or special. "Special dividends" are treated as corporate actions with offsetting price and divisor adjustments; the total return index series reflect both ordinary and special dividends.

## Holiday Schedule

The Index is calculated when the U.S. equity markets are open.

## Unscheduled Market Closures

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, S&P Dow Jones Indices will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each security before the exchange closed. If the exchange fails to open due to unforeseen circumstances, S&P Dow Jones Indices treats this closure as a standard market holiday. The index will use the prior day's closing prices and shifts any corporate actions to the following business day.

## IV. Dissemination

### Frequency of Dissemination

The Index will be calculated in real-time.

### Dissemination Identifiers

- Bloomberg Ticker:
  - Total Return: REVERSE
  - Net Total Return: REVERSEN
  - Price Return: REVERSEP