

# **Index Methodology Guide for the FactSet ATMX+ Index™**

Version 2 – October 22, 2022

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# Index Introduction and Objective

## 1.1 Index Overview

The FactSet ATMX+ Index is an equity benchmark designed to track the performance of the biggest greater China companies that are engaged in Technology, e-Commerce, Financial Payment and Software, and Alternative Energy Transportation industries.

The FactSet ATMX+ Index is an equal-weighted index reconstituted and rebalanced semi-annually.

The FactSet ATMX+ Index is calculated and maintained by Solactive AG – the Calculation Agent – based on a methodology developed by FactSet. It is calculated on a price return, total return and net total return basis in Hong Kong Dollars (HKD). The price return, total return, and net total return values of the index are calculated continuously, and on an end-of-day basis, from Monday to Friday 1:00 a.m. to 10:50p.m. CET (Central European Time). Index values are distributed via various data channels and market data vendors, including the price marketing services of Boerse Stuttgart AG. End-of-day price and total return values of the index may also be obtained from FactSet upon request.

Whenever possible, constituent changes to the index are announced five business days before becoming effective.

## 1.2 Inception Date and Base Value

The Index Inception Date was October 23, 2015 with a base value of 100.00. The inception date refers to when the first back-tested index value was calculated. The back test is based on a similar methodology used to calculate the index when it was officially launched on March 10, 2021.

## 1.3 Index Valuation Days

Index Valuation Days are business days, Monday to Friday.

## 1.4 Commencement Date

The index commencement date was March 10, 2021. Commencement date refers to when the index was officially launched with continuous and end-of-day calculations.

## 1.5 Reconstitution and Rebalance Schedule

The index is reconstituted and rebalanced semi-annually after the close of the 4<sup>th</sup> Friday of April and October each year (“Reconstitution Day” and “Rebalance Day”).

If any of the existing or new index components is not trading on Reconstitution Day/Rebalance Day due to an exchange holiday, the reconstitution/rebalance is moved to the next business day.

The data used to reconstitute and rebalance the index is as of the close of 3<sup>rd</sup> Friday of April and October (“Selection Day”). Subsequent adjustment to the index composition may be made to account for corporate actions that occur between the Selection Day and the Reconstitution Day or Rebalance Day.

# Index Construction

## 2.1 Constituent Selection and Weighting Schema

1. The securities are greater China companies primarily listed in the Hong Kong Stock Exchange.
2. The securities are classified to one of the following 32 FactSet Revere Business Industry Classification Systems Focus (“RBICS Focus”) at either Level 1 Economy sector or Level 6 Subindustries:

- Technology (L1)
- Alternative Energy Car Manufacturers (L6)
- Commercial Bank and Credit Union Software (L6)
- Electronic Payment Processing (L6)
- Food Delivery Services (L6)
- Insurance Software (L6)
- Internet Accessories Retail (L6)
- Internet Apparel Retail (L6)
- Internet Automotive Parts Sales (L6)
- Internet Building Materials / Garden Supply Retail (L6)
- Internet Department Stores (L6)
- Internet Discount Stores (L6)
- Internet Electronics Retail (L6)
- Internet Entertainment Retail (L6)
- Internet Footwear Retail (L6)
- Internet Furniture and Home Furnishings Retail (L6)
- Internet Motor Vehicle Sales (L6)
- Internet Office Supplies Retail (L6)
- Internet Off-Price Retail (L6)
- Internet Pet and Pet Supply Retail (L6)
- Internet Pharmacies and Drug Retail (L6)
- Internet Warehouse / Superstore Retail (L6)
- Investment Management/Brokerage Software (L6)
- Mixed Electronic Transaction Processing (L6)
- Other Internet Health and Personal Care Retail (L6)
- Payment Processing Software (L6)
- Retail Industry Software (L6)
- Trading Software (L6)
- Travel Agencies (L6)
- Alt. Energy Autonomous Heavy Duty Truck Makers (L6)
- Grocery Delivery Services (L6)
- Telemedicine (L6)

3. Calculate three-month ADTV (Average Daily Trading Value) for the remaining securities and exclude the bottom 20%. For securities with less than three-month trading history from Selection Day, their ADTV since first trading date will be used instead.
4. Calculate the remaining securities’ 1-year Revenue Growth and R&D Expense-to-Revenue Ratio. Include securities that have either 1-year Revenue Growth > 10% or R&D Expense-to-Revenue Ratio > 5%. Both 1-year Revenue Growth and R&D Expense-to-Revenue Ratio are calculated based on LTM (Last Twelve Month) data and when unavailable, Fiscal Annual data are used.

5. Select top 10 ranked securities based on their float-adjusted market capitalization.

Existing top 7 weighted constituents may remain in the index if:

- they are in the top 20 by float-adjusted market capitalization on Selection Day and
  - they have either 1-year Revenue Growth > 10% or R&D Expense-to-Revenue ratio > 5% in the past two years
6. Select securities remaining after Step 4 which were newly listed in Hong Kong Stock Exchange starting from three months before the most recent selection date up to the current selection date. Add these securities to the remaining securities after Step 5 and rank, on descending order, based on float adjusted market capitalization. Select the top 10 ranked securities.
  7. Equal-weight the securities that remain after Steps 1 to 6.

In addition to the above selection schema, FactSet may at its discretion and in consultation with index licensee, modify one or more selection criterion to ensure relevant and timely capture of the theme. Whenever possible, any modifications shall be announced 60 days prior to annual Reconstitution Day.

## 2.2 Index Return Formulas

The price, total and net total returns levels of the index are calculated using the following formulas.

$$I_{(t)} = \frac{\sum_{i=1}^n S_{i(t)} \times P_{i(t)}}{D_{(t)}}$$

where:

- $I_{(t)}$  = Index value on Index Valuation Day (t)
- $D_{(t)}$  = Divisor on Index Valuation Day (t)
- $n$  = Number of stocks in the index
- $P_{i(t)}$  = Closing price of stock (i) on Index Valuation Day (t)
- $S_{i(t)}$  = Number of allocated shares of stock (i) on Index Valuation Day (t)

and on Inception Date, where (t) = 0, the initial divisor is calculated as follows:

$$D_{(0)} = \frac{\sum_{i=1}^n S_{i(0)} \times P_{i(0)}}{I_{(0)}}$$

where:

- $I_{(0)}$  = Price Returns Index value on Index Inception Date
- $D_{(0)}$  = Divisor on Index Inception Date
- $n$  = Number of stocks in the index on Index Inception Date
- $P_{i(0)}$  = Price of stock (i) on Index Inception Date
- $S_{i(0)}$  = Number of allocated shares of stock (i) on Index Inception Date

Allocated shares (“S”) are the number of shares required for each constituent such that all constituents are weighted equally. Allocated shares (“S”) would be adjusted accordingly to account for Corporate Actions.

Net total return is calculated to account for the effect of tax withholding on dividends by adjusting dividend taken out due to tax payment.

## 2.3 Index Divisor Adjustments

From time to time, the index divisor is adjusted to account for corporate actions that could distort index value and continuity using the following formula:

$$D_{(t+1)} = D_{(t)} \times \frac{\sum_{i=1}^n AS_{i(t+1)} \times AP_{i(t+1)}}{\sum_{i=1}^n S_{i(t)} \times P_{i(t)}}$$

where:

- $D_{(t+1)}$  = Divisor for Index Valuation Day (t+1) after CA and rebal adjustment
- $D_{(t)}$  = Divisor for Index Valuation Day (t)
- $AP_{i(t+1)}$  = Adjusted price of stock (i) calculated for open on Index Valuation Day (t+1) after CA adjustment
- $P_{i(t)}$  = Closing price of stock (i) on Index Valuation Day (t)
- $S_{i(t)}$  = Number of allocated shares of stock (i) on Index Valuation Day (t)
- $AS_{i(t+1)}$  = Adjusted number of allocated shares of stock (i) for open on Index Valuation Day (t+1) after CA adjustment.

Divisor adjustments are generally implemented on the date the corporate action becomes effective, such that for example, the ex-dividend date rather than the payment date is used to time the divisor adjustment.

Find below a detailed calculation for AP, AS, and S in case of corporate actions and rebalancing.

$AP_{i(t)}$  = Adjusted price of stock (i) is determined for the open on Index Valuation Day (t) shall mean:

- If index constituent opens ex-date in respect of the corporate action, then  $AP_{i(t)}$  is determined as per Corporate Action Adjustment Section.
- Otherwise

$$AP_{i(t)} = P_{i(t-1)}$$

$S_{i(t)}$  = Number of allocated shares of stock (i) on Index Valuation date (t) is determined as

$$S_{i(t)} = AS_{i(t)}$$

$AS_{i(t)}$  = Adjusted number of allocated shares of stock (i) for open on Index Valuation Day (t) after CA adjustment is determined as:

- If such day opens immediately following the Rebalancing Day (t-1) and if:

- index constituent opens ex-date in respect to corporate action, then  $AS_{i(t)}$  is determined as per Corporate Action Adjustment Section with  $S_{i(t-1)}$  replace with:

$$S_{i(t-1)} = \frac{I_{(t-1)} \times Weight_{i(t-1)}}{P_{i(t-1)}}$$

- index constituent does not opens ex-date in respect to corporate action, then  $AS_{i(t)}$  is determined as:

$$AS_{i(t)} = \frac{I_{(t-1)} \times Weight_{i(t-1)}}{P_{i(t-1)}}$$

- On any other day:

- index constituent opens ex-date in respect to corporate action, then  $AS_{i(t)}$  is determined as per Corporate Action Adjustment Section
- Otherwise:

$$AS_{i(t)} = S_{i(t-1)}$$

where  $Weight_{i(t-1)}$  is determined as per Section 2.1.

## 2.4 Corporate Action Adjustments

### Special Cash Dividend:

$$AP_{i,t} = P_{i,t-1} - D_{i,t}$$

Where

$t$  = Index Valuation Date (t) is ex-date for corporate action.

$D_{i,t}$  = Dividend amount corresponding to stock (i) with ex-date (t).

### Spin-off Adjustment

If an index constituent (i.e. the parent company) distributes part of its business into a spun-off company, the spun-off company will be added to the Index according to the transaction terms on the ex-date.

The parent company will remain in the Index with unchanged calculation parameters. The spun-off company will remain in the Index until the next ordinary rebalancing.

The spun-off company will be added to the Index with an open price of zero on ex-date.

If the spun-off company does not start to trade on the effective date (i.e. ex-date), a theoretical price for the spun-off company will be implemented (**see the equation below**) as a fixed price until it commences trading, from which time official prices will be used.

$$P_{f(t)} = [P_{i(t-1)} - AP_{i(t)}] \times \text{Share Ratio}_{i(t)}$$

Where

$P_{i(t-1)}$  = Closing price of Parent Company on Index Valuation Date (t-1).

$AP_{i(t)}$  = Open price of Parent Company on Index Valuation Date (t).

$P_{f(t)}$  = Price of Spun-off Company on Index Valuation Date (t).

### Rights Issue Adjustment

$$AP_{j,t} = \frac{P_{j,t-1} + C_{j,t} \times \text{Share Ratio}_{j,t}}{1 + \text{Share Ratio}_{j,t}}$$

$$AS_{j,t} = S_{j,t-1} \times (1 + \text{Share Ratio}_{j,t})$$

Where

$C_{j,t}$  = Official tender price.

### Stock Splits Adjustment

$$AP_{j,t} = \frac{P_{j,t-1}}{\text{Share Ratio}_{j,t}}$$

$$AS_{j,t} = S_{j,t-1} \times \text{Share Ratio}_{j,t}$$

### Stock distribution

$$AP_{j,t} = P_{j,t-1} \times \frac{1}{1 + \text{Share Ratio}_{j,t}}$$

$$AS_{j,t} = S_{j,t-1} \times (1 + \text{Share Ratio}_{j,t})$$



## Index Maintenance

Constituent changes may occur between review periods due to corporate events that disqualify their eligibility for index inclusion. Adjustments to corporate events are described below:

### 3.1 Corporate Actions – Delisting and Fast Entry

A constituent is removed immediately after being delisted from its primary markets. A new backup constituent will be added to the index immediately to bring the number of index constituents back to 10. This backup constituent is selected based on its float-adjusted market capitalization ranking (i.e. the 11<sup>th</sup> rank) from Step 5 in Section 2.1.

### 3.2 Corporate Actions – Merger/Acquisition and Fast Entry

If a merger or acquisition results in one constituent acquiring another, the acquiring company remains a constituent, and the acquired company is removed. If a constituent acquires a non-constituent, the acquiring constituent remains a constituent. If a non-constituent acquires a constituent, the acquired constituent is removed, but a new backup constituent will be added to the index immediately to bring the number of index constituents back to 10. This backup constituent is selected based on its float-adjusted market capitalization ranking (i.e. the 11<sup>th</sup> rank) from Step 5 in Section 2.1.

### 3.3 Corporate Actions – Spin-off

If a constituent spins or splits off a portion of its business, both the spun-off company and the parent company (the entity representing the existing constituent) will be kept in the index, and be considered for removal from the index at the next Reconstitution or Rebalance Day should they fail to meet the eligibility criteria in Section 2.1.

### 3.4 Corporate Actions – Bankruptcy and Fast Entry

If a constituent is delisted after bankruptcy, it will be removed immediately with a price of 0 from the index. A new backup constituent will be added to the index immediately to bring the number of index constituents back to 10. This backup constituent is selected based on its float-adjusted market capitalization ranking (i.e. the 11<sup>th</sup> rank) from Step 5 in Section 2.1.

## Index Calculation and Data Correction

### 4.1 Index Calculation

Price, Total Return, and Net Total Return values for the FactSet ATMX+ Index are calculated by Solactive AG. The price, total and net total return values are calculated on a continuous and end-of-day basis by using the trading price for each component in the index from relevant exchanges and markets. Index values are rounded to 2 decimal places and divisors are rounded to 6 decimal places.

If trading in a stock is suspended prior to the market opening, the stock's adjusted closing price from the previous day will be used in the index calculation until trading commences. If trading in a stock is suspended while the relevant market is open, the official closing price published by relevant exchange for that stock will be used for all subsequent index calculations until trading resumes.

In case of exceptional market conditions disrupting normal closing auction, or causing official closing prices not being available, Solactive and FactSet reserve the right to utilize other prices in the calculation of the official closing level.

## 4.2 Data Correction

Incorrect index constituent data, corporate action data, or index divisors will be corrected upon detection. If such errors are discovered within five days of occurrence, they will be corrected retroactively on the day of discovery. If discovered after five days, corrective actions will be decided based on the errors' significance and feasibility of a correction.

## 4.3 Decision Making in Undocumented Events

A FactSet Index Committee consisting of select employees of FactSet Research Systems Inc. is responsible for amending rules as documented in the Index Methodology Guide due to undocumented or extraordinary events.

# Additional Information

## 5.1 Sanctions Affecting Index Inclusion

Sanctions policies may affect investors' ability to transact or hold securities of certain issuers. FactSet monitors and reviews these sanctions' impact on its indices and amends the index rules as appropriate.

The following exclusionary rule is currently in effect:

- Russian Federation: All companies sanctioned by the United States (OFAC)<sup>1</sup> do not qualify for inclusion in FactSet equity indices. In addition, all companies with a Russian Federation country of risk as defined by FactSet, do not qualify for inclusion in FactSet equity indices.

<sup>1</sup> <https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/ukraine-russia-related-sanctions>  
<https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/russian-harmful-foreign-activities-sanctions>  
<https://home.treasury.gov/policy-issues/financial-sanctions/sanctions-programs-and-country-information/belarus-sanctions>

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<b>Version</b>	<b>Release Date</b>	<b>Notes</b>
Version 1.0	March 10, 2021	
Version 1.1	October 3, 2022	
Version 2	October 22, 2022	