

Index Methodology



AlphaShares China Technology Index

November, 2013

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Overview

The **AlphaShares China Technology Index** (“the Index”) measures and monitors the performance of an investable universe of publicly-traded Chinese companies as defined by the criteria below. The Index is created and is owned by AlphaShares, LLC. The index is maintained by Standard and Poor’s Corporation (the “Index Administrator”).

Index Construction

The AlphaShares China Technology Index is comprised of the public securities of issuers that meet the specific and objective criteria listed below:

1. AlphaShares China Technology Index Eligibility Criteria

To be considered for inclusion in the Index, the following criteria must be met:

- A. **China Information Technology Exposure.** The primary criteria for selecting a company for inclusion in the index are:
 - a. Mainland China-based companies with a GICS classification code of 45 (Information Technology).
 - b. Hong Kong/Macau-based Information Technology companies with a GICS classification code of 45 (Information Technology).
 - i. Hong Kong/Macau-based Information Technology companies must derive a majority of their revenue from mainland China or the Special Administrative Regions of China such as Hong Kong and Macau. If geographic revenue data is not available for these companies or inconclusive, they can not be included in the index. .
- B. **Market Capitalization.** A float-adjusted capitalization minimum of USD \$200 Million are used for initial portfolio construction and eligibility. A float-adjusted capitalization greater than USD \$150 Million are required for ongoing inclusion in the Index. See more details under Index Maintenance.
- C. **Investability.** To ensure adequate investability, only shares open to foreign ownership meeting the criteria below are eligible for inclusion in the index.
 - a. China A-Shares are not eligible for inclusion in the index.
 - b. China B-Shares are not eligible for inclusion in the index.
 - c. Hong Kong-listed securities including China H-Shares and Red Chips are eligible for inclusion in the index.
 - d. N-Shares trading in New York and their equivalents trading in other foreign markets are eligible for inclusion in the index.

- D. **Equity Securities.** Only publicly issued common equity securities trading on a major exchange are eligible for inclusion in the index. Debt or quasi-debt securities, such as convertible securities, are not eligible for inclusion.
- E. **ADRs.** American Depository Receipts (ADR's), American Depository Shares (ADSs), Global Depository Receipts (GDR's), and International Depository Receipts (IDR's) are eligible for inclusion in the index.

2. Target Weights

The Index uses a modified float-adjusted market capitalization weighting methodology to weight individual positions. To help insure diversification and control risk the following diversification rules are used for the Index.

A. Security Weight

- a. **Security Weight – Maximums.** The Index employs a two-tier weighting system with the target weight of any one position limited to a maximum of either 10.0% or 4.0% of the Index. To determine the target weights, annually, or whenever the index is rebalanced, all positions whose float-cap adjusted weights are over 5% are added together. If the total is greater than 40%, then the highest weighted position is capped at 10%. The excess weight is then applied on a pro-rata basis to all the remaining index constituents and the process is then repeated, if necessary, with the next largest stock being capped at 9% (8% and so on) until the 40% is reached. The 4.0% maximum target weight is then applied to all the remaining stocks.

Once set, target weights are free to float due to market actions. Weights are reviewed and the index rebalanced according to the rules under Index Maintenance below.

Index Maintenance

Index Maintenance is the responsibility of the Index Administrator, Standard and Poor's. Index maintenance includes monitoring and implementing any adjustments, additions and deletions to the index as per this index methodology and any adjustments, additions and deletions due to corporate actions.

Additions

Most additions to the index will be at the annual rebalance. IPOs that meet all the eligibility criteria and fall within the top twenty stocks by capitalization of the index, will be added at the end of each calendar quarter, on the third Friday of the

final month of the quarter. Any addition will be funded on a pro-rata basis from the remainder of the Index, net of any deletions. IPO additions are subject to the Target Weight rules detailed above.

Deletions

A security will be deleted from the index immediately due to bankruptcy, acquisition, delisting or merger of the company by or into another company, spin-offs, tender offers or other similar corporate actions. At each quarter end, any security which has been continuously suspended or halted since the prior quarter will be deleted from the index at zero value. In the case of such deletions, including any relisting of suspended securities, no replacements will be made until the annual rebalance. Any proceeds resulting from the deletions will be invested on a pro-rata basis over the remainder of the Index, net of any additions.

Annual Index Reconstitution

Index Reconstitution is the responsibility of the Index Administrator and is performed annually in December based on data as of the last business day in November. Index Reconstitution includes:

- 1. Additions to the Index.** New securities will be added to the index if they meet the eligibility requirements as defined above under Eligibility Criteria. Any additions will be funded on a pro-rata basis from the remainder of the Index, net of deletions.
- 2. Deletions from the Index.** Securities will be deleted from the index if they no longer meet the eligibility requirements as defined above under Eligibility Criteria with the exceptions detailed below under Rebalancing. Any proceeds resulting from deletions will be invested on a pro-rata basis over the remainder of the Index, net of additions.
 - i. Capitalization Buffer Zone** – A buffer zone is used to control turnover during reconstitution:
 - b. Minimum.** Companies whose capitalization has fallen below USD \$150 Million will be deleted from the Index. Companies whose capitalization lies between the USD \$200 Million cutoff and the lower bound of USD \$150 Million will remain in the Index.

Semi-Annual Index Rebalance

Index rebalancing is the responsibility of the Index Administrator and is performed semi-annually on the third Friday of June and December based on data as of the close of market that Friday. Index Rebalancing includes:

- 1. Rebalancing.** The Index will be rebalanced to enforce the target weights as described above under Index Construction and to accommodate any additions or deletions to the index as described above.

Index Administration

Standard and Poor's serves as the Index Administrator. These responsibilities include monitoring and implementing adjustments, additions and deletions to the indices due to eligibility rules described above and corporate actions.

Index Calculation

Standard and Poor's serves as the Calculation Agent for the indices. The Calculation Agent is responsible for compiling, calculating, maintaining, and disseminating the value of the indices.

Index Review

Index Administrator will review and adjust the Index on an annual basis ("Index Reconstitution") on the third Friday of December. Changes resulting from the Index Reconstitution are implemented before the market open on the first trading day following the reconstitution.

AlphaShares Index Committee

The AlphaShares Index Committee solely maintains the AlphaShares China Technology Index Methodology and is not involved in any way in the day to day maintenance or administration of the index.

The Index Committee will meet once annually to review this methodology. Any changes to the methodology will be publicly disclosed at www.alphashares.com prior to implementation. A minimum ten (10) trading days prior notice will be given prior to the implementation of any such change by the Index Administrator.