

# Index methodology of the KelliYield 3000 index suite

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## Overview

The KelliYield 3000 Income Index is a broadly diversified multi-sector index that seeks to track fixed and variable income securities across debt and alternative markets with a secondary objective of capital preservation by embedding a bias towards high credit quality. The index consists of c. 3000 securities of US investment-grade and high-yield corporate bonds, US municipal bonds, emerging market bonds, REITs and alternative lending securities. The index follows a proprietary multi-factors weighting scheme for the sub-classes based on yield, duration, credit quality, distributions and low correlation.

This KelliYield 3000 index does not incorporate Environmental, Social, or Governance (ESG) criteria. The sub-indices of KelliYield 3000 incorporate ESG criteria.

**The inception date of the Index is January 1, 2019. The index does not include back-tested results since the start of calculation at inception date by the calculation agent.**

## 1. Index suite and series

The index series consists of the flagship **KelliYield 3000 index** and its sub-indices:

### **KelliYield Corporate Gender Equality Income Index**

KelliYield Corporate Gender Equality Income Index excludes all corporations with a proportion of Women executive officers of less than 20%, except for corporations with a woman CEO. Data source: SEC 10k corporate filings

### **KelliYield low Greenhouse Gas Income Index**

KelliYield low Greenhouse Gas Income Index excludes all corporations present as parent company in the EPA large emitter required Greenhouse Gas Reporting Program (GHGRP). Data source: EPA

### **KelliYield Developed Markets Income Index**

KelliYield developed markets Income Index excludes all income/debt instruments by issuers present outside developed markets.

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## 2. Index construction

### 2.1 Index universe

The Index Universe includes US dollar-denominated fixed income securities and equity securities. The securities classified in the following asset class / sub-asset class are considered eligible for inclusion in the index:

- Equity
  - Publicly traded Business Development Companies (“CBD companies”)
  - Dividend Focused Common Stock
- Fixed Income
  - U.S. semi Government / Agency
  - International US-denominated Sovereign and Quasi-sovereign Bonds
  - Corporate Bonds and notes
- Alternative
  - Real Estate Investment Trusts
  - Asset-Backed Loans
  - Pure-Play Fixed Income Funds
  - Preferred Stock
  - High Yield

To ensure adequate investability, the following security types are specifically excluded from Index consideration: corporate emerging market bonds; inflation-linked bonds; floating rate bonds; zero coupon bonds; pay-in-kind (PIK) bonds; Contingent capital securities (“cocos”); Synthetic convertibles; and securities for which the Index Calculation Agent is unable to or is prohibited from providing an evaluated price.

### 2.2 Multi-factor Asset Allocation Weighting

The weights of asset classes present in the index follow a multi-factor weighting scheme in accordance with the following factors: Overall Yield; Duration; Quality; regular Distributions; low Correlation and forward-looking assumptions on the healthiness of the different debt structures within the corporate environment.

#### 2.2.1 Role of optimization equation

The index committee assesses on annual reviews a Mean Variance Optimization equation (“optimization equation”) developed by KelliYield of sub-asset classes on the basis of 36 months of historical data. The equation creates an optimal portfolio based on the return, standard deviation, correlation, and yield of the eligible sub-asset classes. The historical Mean Variance Optimization equation represents a general

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guidance tool of the Multi-factor weighting scheme.

## 2.2.2 Role of Tactical Asset Allocation

The index committee takes the portfolio optimization equation as a starting point to setting up the sub-asset class weights and maintains the flexibility to use tactical shifts by +/- 5% for each sub-asset class. Such bandwidth of weight ranges is based on forward-looking assumptions relating to the healthiness of credit exposures of the different debt and security structures within the corporate environment.

## 2.2.3 Index weight ranges by asset class and sub-asset class

The Index will maintain minimum and maximum weight allocations by asset class at each rebalance of:

- Fixed Income: 45% - 55%
- Alternative: 40% - 50%
- Equity: 2.5% - 5.0%

The Index will maintain minimum and maximum weight allocations by sub-asset class at each rebalance of:

- Asset backed loans: 10%-15%
- Semi government and Sovereign Bonds: 15%-25%
- Corporate bonds and notes: 25%-35%
- High Yield: 10%-20%
- Preferred stocks: 5%-15%
- Real Estate Investment Trusts: 5%-15%
- CBD companies and Dividend Focused Common Stock: 2.5%-5%

## 2.2.4 Index caps

The index applies the following caps: 1.0% single issue cap / 2.0% issuer cap / 15.0% index funds cap

The index is sector agnostic and does not follow caps by sector due to its broad diversification and conservative issuer cap.

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## 2.3 Selection Screen

### 2.3.1 Fixed Income

Asset class: Fixed Income	
Instrument type	<p><b>Includes</b> corporate bonds and notes; U.S. semi-government (municipal and agency) bonds; International USD-denominated Sovereign and Quasi-sovereign Bonds.</p> <p><b>Excludes</b> corporate emerging market bonds; inflation-linked bonds; floating rate bonds; zero coupon bonds; pay-in-kind (PIK) bonds; convertibles.</p>
Issuer type	USD-denominated fixed-coupon senior unsecured bonds/notes issued by publicly listed companies; USD-denominated pure-play exchange-traded bond funds
Liquidity rule per instrument	<p><b>Only</b> issues with a current face amount outstanding of \$300 million or more are considered for inclusion</p> <p><b>Only</b> exchange-traded bond index funds with an aggregate market value of underlying issues exceeding USD 20 billion</p>
Corporate Issuer requirements	<b>Only</b> Corporate debt issues by issuers with a market capitalization exceeding USD 15 billion
Exchange-traded Bond fund requirements	<b>Inclusion rule:</b> At least 100 constituents; at least 1 year trading history; 30 Day Median Bid/Ask Spread not exceeding 0.20% at time of construction / review
Remaining Maturity	<p><b>Entry:</b> Below 48 months at the time of construction / review</p> <p><b>Exit:</b> At each semi-annual review, instruments that fall below 6 months to maturity are excluded from the index</p>
Single instrument cap	1.0%
Single issuer cap	2.0%
exchange-traded index fund cap	15.0%
Review dates	Semi-annual
Rebalance dates	Quarterly

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## 2.3.2 Alternatives

Asset class: Alternatives	
Instrument type	<p><b>Includes</b> fixed and floating rate, cumulative and non-cumulative Preferred Stock; Real Estate Investment Trusts; Liquid Asset-Backed Loans; High Yield bonds &amp; notes.</p> <p><b>Excludes</b> over-the-counter, bulletin board and unregistered single securities; Contingent capital securities (“cocos”); Synthetic convertibles. Allows 144A rule issues within diversified pure-play bond funds.</p>
Issuer type	Single issues / securities listed on US exchanges; USD-denominated pure-play exchange-traded funds
Liquidity rule per instrument	<p><b>Only</b> issues / securities with a current face amount outstanding of \$200 million or more are considered for inclusion</p> <p><b>Only</b> exchange-traded index funds with an aggregate market value of underlying issues exceeding USD 15 billion</p>
Corporate Issuer requirements	<b>Only</b> corporate issues / securities by issuers with a market capitalization exceeding USD 2 billion
Exchange-traded Bond fund requirements	<b>Inclusion rule:</b> At least 100 constituents; at least 1 year trading history; 30 Day Median Bid/Ask Spread not exceeding 0.40% at time of construction / review
Single instrument cap	1.0%
Single issuer cap	2.0%
exchange-traded index fund cap	15.0%
Review dates	Semi-annual
Rebalance dates	Quarterly

## 2.3.2 Equity

Asset class: Equity	
Instrument type	<p><b>Includes</b> publicly traded Business Development Companies (“BDC companies”); Dividend Focused Common Stock in the real estate, telecom and utilities sectors.</p> <p><b>Excludes</b> traditional common stocks and dividend paying common stocks outside the real estate, telecom and utilities sectors; Over-the-counter and bulletin board securities.</p>

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Issuer type	Listed on US exchanges
Size requirements	Full market capitalization of at least \$500 million
Distribution frequency requirements	At least Twice per the previous fiscal year at the time of construction / review
Single instrument cap	1.0%
Single issuer cap	2.0%
Review dates	Semi-annual
Rebalance dates	Quarterly

## 3. Index maintenance

The index rebalancing is quarterly and is implemented after the close of business on the 2nd Friday of April, July, October and January and is effective the following business day.

The index reconstitution review is semi-annually and is implemented after the close of business on the 2nd Friday of July and January and is effective the following business day.

## 4. Methodology Review and Index Cessation Policy

KelliYield Inc's index committee periodically, at least annually, reviews each Index in the index series and its accompanying methodology, in an effort to ensure the robustness of the index' exposures and delivery outcomes. These reviews take into account corporate action treatment, selection, and maintenance procedures. Subscribers to the index will be notified before any methodology changes are made. Subscribers will be promptly notified of circumstances that might arise that require a material change to the index, or a possible cessation of the index. Notification of index cessation is shared with subscribers at least 3 months prior to the next semi-annual review.

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## 5. Index Calculation and Role of the Calculation Agent

### 5.1 Role of the Calculation Agent

The calculation agent for the Index (“the calculation agent”) is INDXX LLC. The calculation agent evaluates the closing value of the Index, updates the Index at Reconstitution and Rebalance Months based on constituent selections and weightings determined by KelliYield Inc, taking into account corporate events, and disseminates the values of the Index to KelliYield Inc and to Bloomberg terminal.

### 5.2 Index calculation

The Index Calculation guideline is shared on the webpage of the index under the section documents. File: Index calculation guidelines by index calculation agent (INDXX LLC)

## 6. Return types and tickers

The calculation agent computes the total return and price for the Index on a daily basis.

Index type	Calculation agent	Calculation interval	Bloomberg ticker	CUSIP
Total return (GTR) - KelliYield 3000 total return index	INDXX LLC	Daily	KY3000	48778A106
Price return (PR) - KelliYield 3000 price return index	INDXX LLC	Daily	KY3000PR	48778A205

## 7. Data dissemination

### Index information

Daily Index levels are available at:

- the webpage of the index calculation agent:  
<https://www.indxx.com/indices/other/kellyield-3000-index-tr>
- The webpage of the index:  
<https://kellyield3000.com/>
- Bloomberg terminal under the ticker symbol KY3000

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## FTP

Daily constituent data and Index level data are available via FTP or email for Index subscribers.

## 8. About KelliYield 3000 Inc

KelliYield 3000 Inc is a specialized advisory company and provider of credit and alternative income indexes and solutions. The KelliYield index committee is composed of members who possess a wide array of knowledge in relation to credit products and index construction. The index Committee is responsible for the governance of the KelliYield index series.



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