

Notification of Methodology Change to Corporate Spin-Off Treatment on 3/3/2020

RAFI Indices would like to announce the following change to the treatment of corporate spin-offs, which will be effective 3/3/2020:

Change and Rationale for Methodology Change

Effective 3/3/2020, a spun-off company will be eligible for inclusion if its security line is traded on an exchange of any country that is currently in the index.

This change differs from the prior rule in that it excludes companies that are not eligible for the index due to country classification, (i.e. a security traded on an exchange in an Emerging Market country will not be able to enter a Developed Market index due to spin-off).

Example:

On 10/11/2018 Old Mutual, (a UK company) spun off Nedbank (a South African company). This spin-off resulted in the addition of Nedbank to the RAFI Fundamental Developed Index.

Company	ISIN	RAFI Fundamental Developed Index Weight	
		10/10/2018	10/11/2018
Old Mutual	ZAE000255360	0.025%	0.018%
Nedbank	ZAE000004875	0.000%	0.007%

Under the new rule, Nedbank would not have been eligible for the RAFI Fundamental Developed Index. Old Mutual's weight would have been adjusted according to the term of the corporate action and the weight of Nedbank would have been redistributed across the index.

Complete Methodology Regarding Spin-Offs

The Methodology for handling corporate spin-offs will be reflected in the respective index rulebooks as follows:

Spin-Off

A spun-off company is eligible for inclusion if its security line is traded on an exchange of any country that is currently in the index, (for example, in a Developed index, a spin-off of a UK company that is traded on a US exchange would be eligible for the index). The spun-off company is added, the market will adjust the price of the

parent company such that the sum of the parent and spun-off company's weight is approximately equal to the weight of the parent prior to spin-off. Based on the transaction terms on the ex-date, the shares of the spun-off company is calculated as follows:

Shares of Spun-off Company = Shares of Parent Company * Transaction Terms

The parent company and spun-off company will remain in the Index with unchanged calculation parameters.

The spun-off company will be added to the index file with a price of zero prior to the ex-date. If the spun-off company does not start to trade on the ex-date, a theoretical price for the spun-off company will be implemented as a fixed price until it commences trading, from which time official prices will be used. The price of the spun-off company is calculated as follows:

Price of Spun-off Company = [(Close Price Parent Company Prior to Ex-Date) – (Open Price Parent Company on Ex-Date)] * Transaction Terms

If the first trading day of the spun-off company is unknown on the ordinary rebalancing date, the spun-off company will be removed from the index with a price of zero.

In case the spun-off company is already an index constituent, the additional shares demerged from the parent company will be added to the spun-off company (share increase of the index member) on the ex-date.

If a spun-off company is not eligible (for example, the spun-off company is traded OTC or on an ineligible country's exchange), that company's shares are not added to the index but instead, the weight of the spun-off company is redistributed as a special cash distribution on the ex-date.

Indices Affected

The change will affect all indices that are part of the following index families:

- RAFI Fundamental Index Series
- RAFI Multi-Factor Index Series (this includes RAFI Dynamic Multi-Factor, RAFI Multi-Factor and RAFI single factor indices)
- RAFI ESG Index Series
- RAFI Diversity & Governance Index Series

For any questions regarding this change please contact info@rafi.com.



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