

RAFI Indices Methodology Change Announcement

Following a recent market consultation, RAFI Indices would like to announce the following methodology changes, effective 2/10/2021. Should you have any questions regarding this announcement, please contact indexsupport@rafi.com.

Changes to Index Methodology

Incorporation of Intangibles into Book Value and Cash Flow Fundamental Measures

From:

2.4 Fundamental Weights

Fundamental weights are calculated using four accounting measures from company financial statements:

1. Adjusted sales are calculated as company sales averaged over the past five years multiplied by the ratio of average equity to average assets.
2. Cash flow is the company operating cash flow averaged over the past five years.
3. Dividend plus buybacks are calculated using the average dividends paid and share buybacks over the past five years.
4. Book value is the most recent company book value.

To:

2.4 Fundamental Weights

Fundamental weights are calculated using four accounting measures from company financial statements:

1. Adjusted sales is calculated as company sales multiplied by company equity to assets ratio averaged over the past five years.
2. Cash flow is calculated as company operating cash flow averaged over the past five years plus company R&D expenses averaged over the past five years.
3. Dividend plus buybacks are calculated using the average dividends paid and share buybacks over the past five years.
4. Book value plus intangibles is calculated as the most recent company book value plus research capital, with research capital defined as the accumulation of depreciated R&D expenses over the past 6 years.

Rationale for Methodology Change:

The increase in intangible assets over the past 30 years has prompted RAFI Indices to include intangible assets in the calculation of the book value and operating cash flow fundamental measures.

For the market in general, book value misses roughly half of the average company's capital today. Including intangible assets will provide a better picture of a company's overall fundamental size.

Change of Rebalance Date

From:

Last business day of March, June, September and third Friday of December.

To:

Third Friday of March, June, September and December.

Change of Selection Date

From:

"Selection Day" is the last business day of February, May, August, and the third Friday of November where the Index Sponsor provides the new constituents and weights of the Index.

To:

"Selection Day" is the second Friday of February, May, August and November where the Index Sponsor provides the new constituents and weights of the Index.

Rationale for Methodology Change:

Moving the rebalancing from the last business day of every 3rd Month of each quarter to the 3rd Friday of every 3rd Month of each quarter would provide greater liquidity during the rebalancing process. The 3rd Friday of every 3rd Month of each quarter, referred to as "triple witching day", generally has much higher volume/liquidity than month ends due to the simultaneous expiration of Stock Options, Stock Index Futures, Stock Index Options. The selection day will also move from last business day of February, May, August, and November to 2nd Friday of February, May, August, and November as a result.

RAFI Indices Starting Universe Size Classification:

From:

1. Aggregate companies into 6 regions (Japan, UK, US, Developed Europe ex-UK, Other Developed and Emerging Markets) based on country classification.
2. Large/Mid Company Classification: Top 86% of companies by cumulative fundamental weight **within each region**.
3. Small Company Classification: Companies ranked between 86% - 98% by cumulative fundamental weight **within each region**.

To:

1. Large/Mid Company Classification: Top 86% of companies by cumulative fundamental weight **within each country**.



2. Small Company Classification: Companies ranked between 86% - 98% by cumulative fundamental weight **within each country**.
3. Aggregate companies into 6 regions (Japan, UK, US, Developed Europe ex-UK, Other Developed and Emerging Markets) based on country classification.

Rationale for Methodology Change:

Selecting companies within country instead of within region for the purposes of size classification will reduce size bias within region and create a broader starting universe.

Affected Indices:

| RAFI Fundamental Index Series | Total Return | Price Return | Net Return |
|--|--------------|--------------|------------|
| RAFI Fundamental Global Index | RAFIGLBT | RAFIGLBP | RAFIGLBN |
| RAFI Fundamental Developed Index | RAFIDEVT | RAFIDEVP | RAFIDEVN |
| RAFI Fundamental Developed Index (EUR) | NA | RAFIDVEP | RAFIDVEN |
| RAFI Fundamental Developed Small Company Index | RAFIDVST | RAFIDVSP | RAFIDVSN |
| RAFI Fundamental Developed ex US Index | RAFIDXUT | RAFIDXUP | RAFIDXUN |
| RAFI Fundamental Developed Asia Pacific Index | RAFIDAPT | RAFIDAPP | RAFIDAPN |
| RAFI Fundamental Europe Index | RAFIEURT | RAFIEURP | RAFIEURN |
| RAFI Fundamental Europe Index (USD) | NA | NA | RAFIEUNU |
| RAFI Fundamental Emerging Markets Index | RAFIEMT | RAFIEMP | RAFIEMN |
| RAFI Fundamental US Index | RAFIUST | RAFIUSP | RAFIUSN |
| RAFI Fundamental US Small Company Index | RAFIUSST | RAFIUSSP | RAFIUSSN |
| RAFI Fundamental UK All Company Index | RAFIUKAT | RAFIUKAP | RAFIUKAN |
| RAFI Fundamental Australia 200 Index | RAFIAULT | RAFIAULP | RAFIAULN |
| RAFI Fundamental Australia Small Company Index | RAFIAUST | RAFIAUSP | RAFIAUSN |
| RAFI ESG Index Series | Total Return | Price Return | Net Return |
| RAFI ESG Developed Index | RAESGDVT | RAESGDVP | RAESGDVN |
| RAFI ESG Developed Index (EUR) | N/A | RAESGDPE | RAESGDNE |
| RAFI ESG Developed Index NTR EUR Hedged | N/A | N/A | RAESGDVH |
| RAFI ESG Europe Index | RAESGEUT | RAESGEUP | RAESGEUN |
| RAFI ESG US Index | RAESGUST | RAESGUSP | RAESGUSN |
| RAFI Diversity & Governance Index Series | Total Return | Price Return | Net Return |
| RAFI Diversity & Governance Developed Index | RADGDEVT | RADGDEVP | RADGDEVN |
| RAFI Diversity & Governance Europe Index | RADGEURT | RADGEURP | RADGEURN |
| RAFI Diversity & Governance US Index | RADGUST | RADGUSP | RADGUSN |
| RAFI Multi-Factor Climate Transition Index Series | Total Return | Price Return | Net Return |
| RAFI Multi-Factor Climate Transition Developed Index | RAMFCTDT | RAMFCTDP | RAMFCTDN |
| RAFI Multi-Factor Index Series | Total Return | Price Return | Net Return |
| RAFI Dynamic Multi-Factor Global Index | RADMFGLT | RADMFGLP | RADMFGLN |
| RAFI Multi-Factor Global Index | RAQMFGLT | RAQMFGLP | RAQMFGLN |
| RAFI Multi-Factor Global Index (AUD) | N/A | N/A | RAMGNAUD |
| RAFI Multi-Factor Global Index NTR AUD Hedged | N/A | N/A | RAMGADHN |
| RAFI Multi-Factor Global ex Switzerland Index | RAMFGXST | RAMFGXSP | RAMFGXSN |
| RAFI Dynamic Multi-Factor Developed Index | RADMFDLT | RADMFDLP | RADMFDLN |
| RAFI Dynamic Multi-Factor Developed Index (GBP) | N/A | N/A | RADMFDNG |
| RAFI Dynamic Multi-Factor Developed Index (EUR) | N/A | N/A | RADMFDNE |



| RAFI Multi-Factor Index Series (cont.) | Total Return | Price Return | Net Return |
|---|--------------|--------------|------------|
| RAFI Multi-Factor Developed Index | RAQMFDLT | RAQMFDLP | RAQMFDLN |
| RAFI Multi-Factor Developed Index (GBP) | N/A | N/A | RAMDNGBP |
| RAFI Multi-Factor Developed GBP Hedged Index NTR | N/A | N/A | RAMDGBPH |
| RAFI Multi-Factor Developed Index (EUR) | N/A | RAMDPEUR | RAMDNEUR |
| RAFI Multi-Factor ex Low Volatility Developed Index | N/A | N/A | RAMDXLVN |
| RAFI Multi-Factor Value Focus ex Quality Developed Index (GBP) | RMFVXQDT | RMFVXQDP | RMFVXQDN |
| RAFI Low Volatility Factor Developed Index | RADMFLDT | RADMFDLV | RADMFLDN |
| RAFI Size Factor Developed Index | RADMFDST | RADMFDSD | RADMFDSDN |
| RAFI Dynamic Multi-Factor Developed ex US Index | RADMFXUT | RADMFXUP | RADMFXNT |
| RAFI Dynamic Multi-Factor Developed ex US Americas Index | RADMXXAT | N/A | N/A |
| RAFI Dynamic Multi-Factor Developed ex US Europe and Israel Index | RADMXEIT | N/A | N/A |
| RAFI Dynamic Multi-Factor Developed ex US APAC Index | RADMXXAPT | N/A | N/A |
| RAFI Multi-Factor Developed ex US Index | RAQMFXT | RAQMFXTUP | RAQMFXTNT |
| RAFI Value Factor Developed ex US Index | RADMFXVT | RADMFXUV | RADMFXUN |
| RAFI Dynamic Multi Factor Europe Index | RADMFEUT | RADMFEUP | RADMFEUN |
| RAFI Dynamic Multi Factor Europe Index (USD) | N/A | N/A | RADMEUNU |
| RAFI Value Factor Developed Eurozone Fossil Fuels Capped Index | N/A | N/A | N/A |
| RAFI Dynamic Multi-Factor US Index | RADMFUST | RADMFUSP | RADMFUNT |
| RAFI Dynamic Multi-Factor US Index (GBP) | N/A | N/A | RADMFUNG |
| RAFI Dynamic Multi-Factor US Index (EUR) | N/A | N/A | RADMFUNE |
| RAFI Multi-Factor US Index | RAQMFUST | RAQMFUSP | RAQMFUNT |
| RAFI Value Factor US Index | RADMFUVT | RADMFUUV | RADMFUUN |
| RAFI Low Volatility Factor US Index | RADMFULT | RADMFULV | RADMFULN |
| RAFI Dynamic Multi-Factor Emerging Markets Index | RADMFEUT | RADMFEUP | RADMFEUN |
| RAFI Dynamic Multi-Factor Emerging Markets Americas Index | RADMELAT | N/A | N/A |
| RAFI Dynamic Multi-Factor Emerging Markets EMEA Index | RADMEEMT | N/A | N/A |
| RAFI Dynamic Multi-Factor Emerging Markets APAC Index | RADMEAPT | N/A | N/A |
| RAFI Dynamic Multi-Factor Emerging Markets Index (GBP) | N/A | N/A | RADMFEENG |
| RAFI Dynamic Multi-Factor Emerging Markets Index (EUR) | N/A | N/A | RADMFEENE |
| RAFI Multi-Factor Emerging Markets Index | RAQMFEMT | RAQMFEMP | RAQMFENT |
| RAFI Multi-Factor ex Momentum Emerging Markets Index | RAMFEXMT | RAMFEXMP | RAMFEXMN |

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