



# **RoD Canada Index Methodology**

## **July 2012**

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## Introduction

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Fifth Quadrant Analytics' Return on Disability® (RoD) indices are designed to capture the shareholder value creation indicated by publically traded firms acting in the global market of disability. Companies in the RoD Indices are considered by Fifth Quadrant to be the top ranked firms in disability with respect to creation of shareholder value. The RoD Canada 50 is an equal weighted equity index. It identifies the top 50 publicly traded large-cap companies in Canada with respect to disability as it relates to creation of shareholder value. Index constituents are classified according to the Global Industry Classification Standard (GICS®).

The indices should be fair, meaning that an investor who buys all the stocks in an index with correct index weights can achieve the same performance that RoD Indices calculates.

# Eligibility Criteria

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## Additions – RoD Canada 50

**Return on Disability® Ranking.** As defined by a proprietary model by Fifth Quadrant Analytics, all firms in the universe (as below) are given a rating reflecting said firm's action in the disability market with respect to creation of shareholder value. These firms are then ranked, from highest to lowest, with the top 50 scores meeting substantially all of the below criteria making up the constituents of the index.

**Market Capitalization.** Unadjusted market capitalization of C\$ 0.5 billion or more. The market cap of a potential addition to an index is looked at in the context of its short- and medium-term historical trends, as well as those of its industry. These ranges are reviewed from time to time to assure consistency with market conditions.

**Liquidity.** Adequate liquidity and reasonable price – the ratio of annual dollar value traded to float adjusted market capitalization should be 0.50 or greater, and the company should trade a minimum of 50,000 shares in each of the six months leading up to the evaluation date.

**Domicile.** Canadian companies. For index purposes, a Canadian company has the following characteristics:

1. Incorporated, established, in the case of income trusts, or formed, in the case of limited partnerships, under Canadian federal, provincial, or territorial jurisdictions.
2. Listed on the TSX.

The final determination of domicile eligibility is made by the Index Committee.

**Financial Viability.** Usually measured as four consecutive quarters of positive as-reported earnings. As-reported earnings are Generally Accepted Accounting Principles (GAAP) net income excluding discontinued operations and extraordinary items.

**Treatment of IPOs.** Initial public offerings are immediately eligible for index inclusion.

**Eligible Securities.** Eligible securities include all U.S. common equities listed on the TSX, excluding securities issued by mutual fund corporations, preferred shares, exchangeable shares, warrants, installment receipts and other securities deemed inappropriate by the Index Committee. Installment receipts are not eligible for inclusion, but can be used in lieu of common share trading history. Securities that are “paper-clipped” combinations of equity and debt, and which can be separated by holders, are not eligible. “Stapled” securities, in which multiple securities trade as one and cannot be broken apart, will be eligible.

### **Deletions – RoD Canada 50**

- Companies that no longer rank in the top 50 firms as designated by their respective Return on Disability® Rating.

Companies that are currently constituents of the RoD Canada 50 whose Return on Disability® Rating falls below the top 50 rank will be removed at the next semi-annual reconstitution.

- Companies that are involved in mergers, acquisitions, or significant restructuring such that they no longer meet inclusion criteria

Companies delisted as a result of merger, acquisition or other corporate action are removed as announced by Fifth Quadrant Analytics, normally at the close of the last day of trading or expiration of a tender offer. Constituents that are halted from trading may be kept in the index until trading resumes, at the discretion of Fifth Quadrant Analytics. If a company is moved to the Venture Exchange, the stock will be removed. Changes stemming from corporate actions are announced with one to five days’ advance notice on the Fifth Quadrant Analytics website.

- Companies that substantially violate one or more of the addition criteria

Fifth Quadrant Analytics believes turnover in index membership should be avoided when possible, for reason unrelated to disability. At times a company may appear to temporarily violate one or more of the addition criteria. However, the addition criteria are for addition to an index, not for continued membership. As a result, an index constituent that appears to violate criteria for addition to that index will not be deleted unless ongoing conditions warrant an index change. When a company is removed from an index, Fifth Quadrant Analytics will explain the basis for the removal.

## **Timing of Changes**

Changes to the Canadian indices occur according to the following schedule:

### **Last trading day – First Quarter – Share Rebalance**

The RoD Canada 50 shall rebalance after the market close on the last trading day of the quarter-ending month with weights set to  $1/N$  for each company in the index where N equals the number of components in the index at rebalance. The index shall rebalance to equal weight based on the official closing price quoted on the TSX.

### **Last trading day – Second Quarter – Semi-Annual Reconstitution**

Based on updated rankings of the Return on Disability® Ratings, the top 50 ranked firms that meet all of the addition criteria constitute the members of the new RoD Canada 50 Index. These Ratings are updated by Fifth Quadrant Analytics in line with the RoD Indices reconstitution schedule. The additions and deletions shall be announced on Fifth Quadrant Analytics website ten (10) trading days prior to the reconstitution. The index shall rebalance to equal weight based on the official closing price quoted on the TSX.

### **Last trading day – Third Quarter – Share Rebalance**

### **Last trading day – Fourth Quarter – Semi-Annual Reconstitution**

Deletions triggered by corporate action shall occur on an as-needed basis.

# Index Construction

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## **Approaches**

Fifth Quadrant Analytics' Indices are designed to be liquid, so as to support investment products such as index mutual funds, exchange traded funds and index portfolios.

## **Index Calculations**

On any given day, the index value is the quotient of the equally weighted stock position of index's constituents and its divisor. Continuity in index values is maintained by adjusting the divisor for all changes in the constituents' share capital after the base date. The divisor's time series is, in effect, a chronological summary of all changes affecting the equal weight of the index. The divisor is adjusted such that the index value at an instant just prior to a change in base capital equals the index value at an instant immediately following that change.

## **Sufficient Liquidity**

Stocks must have sufficient liquidity on the TSX to assure reliable price discovery through trading on the TSX. The Index Committee may exclude securities if, in the opinion of the Committee, liquidity is not sufficient.

## **Multiple Classes of Stock**

Some companies have more than one class of common stock outstanding. In Fifth Quadrant Analytics' Canadian indices, each company is represented only once. The stock price is based on one class, usually the most liquid class.

# Index Maintenance

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## **Rebalancing**

The RoD Canada 50 is rebalanced quarterly to maintain equal weighting and is reconstituted semi-annually to account for new corporate activity in disability within the universe of largecap Canadian public companies. The semi-annual reconstitution coincides with the six month research cycle of the Return on Disability® Ratings. The reconstituted index reflects research performed during the prior six months by Fifth Quadrant Analytics.

Constituent changes are typically announced 10 days before they are scheduled to be implemented. Announcements are available to the public via the Web site, [www.returnondisability.com](http://www.returnondisability.com), before or at the same time they are available to clients or the affected companies.

## **Corporate Actions**

Corporate actions (such as stock splits, stock dividends, spin-offs and rights offerings) are applied after the close of trading on the day prior to the ex-date. Share changes resulting from exchange offers are made on the ex-date.

## **Currency of Calculation**

The RoD Canada 50 is calculated in Canadian dollars.

## **Other Adjustments**

In cases where there is no achievable market price for a stock being deleted, it can be removed at a zero or minimal price at the Index Committee's discretion, in recognition of the constraints faced by investors in trading bankrupt or suspended stocks.

In the event that a constituent is deleted prior to a semi-annual reconstitution, its replacement will not be added until the next reconstitution. For clarity sake, this means that, at any given time, the index may have less than 50 constituents.

# Index Governance

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## **Index Committee**

The RoD Canadian Indices maintained by the Fifth Quadrant Analytics Index Committee. Members of the committee are full-time professional members of Fifth Quadrant Analytics' staff and external experts in investment matters. The committee meets monthly. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends or other matters.

Fifth Quadrant Analytics considers information about changes to its Canadian indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

# Index Policy

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## **Announcements**

Announcements of additions and deletions for the RoD Canada 50 are made at 5:15 PM Eastern Time. Press releases are posted on the Web site, [www.returnondisability.com](http://www.returnondisability.com).

Index methodology is constantly under review for best practices, and any changes are announced with sufficient time for market adjustment via the Web site.

## **Holiday Schedule**

The RoD Canadian indices are calculated when the Canadian equity markets are open.

## **Unscheduled Market Closures**

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, RoD Indices will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices. If all exchanges fail to open, RoD Indices may determine not to publish the index for that day.

# Index Dissemination

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## **Calculation Agent**

Bloomberg LP is the exclusive calculation agent of the RoD Canada 50 index.

## **Ticker**

The Bloomberg ticker for the RoD Canada 50 index is:

FQARODCA Index DES<go>

## **Constituent Lists and Announcements**

Fifth Quadrant Analytics' Web site provides a current list of constituents and an archive of recent index announcements and press releases, as well as a quarterly update giving total returns for RoD indices.

## Contact Information

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