

## **Index Methodology**



## **AlphaShares China Real Estate Index**

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### Overview

The **AlphaShares China Real Estate Index** (“the Index”) measures and monitors the performance of an investable universe of publicly-traded companies and REITs deriving a majority of their revenues from real estate development, management and/or ownership of property in China. The Index was 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 Real Estate Index is comprised of the public securities of issuers that meet the specific and objective criteria which are listed below.

#### 1. China Real Estate Index Eligibility Criteria

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

- A. **China Real Estate Exposure.** The primary criteria for selecting a company for inclusion in the index is that the company derives a majority of its revenues from real estate development, management and/or ownership of property in mainland China or the Special Administrative Regions of China such as Hong Kong and Macau. These companies can include:
  - a. Hong Kong-based real estate management companies and REITs (S&P BMI Country Code of HK).
  - b. Mainland China-based real estate management companies and REITs (S&P BMI Country Code of CN).
- B. **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.
  - b. China B-Shares are not eligible.
  - c. Hong Kong listed securities including China H-Shares and Red Chips are eligible.
  - d. N-Shares trading in New York and their equivalents trading in other foreign markets are eligible.
- C. **Equity Securities.** Only publicly issued common equity securities including REITs are eligible inclusion in the index. Debt or quasi-debt securities, such as convertible securities, are not eligible for inclusion.

- D. **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.
- E. **Market Capitalization.** The Fund will invest in the equity securities of companies of all capitalizations. To ensure adequate liquidity, constituents must have a market capitalization of USD \$500 Million or greater for initial inclusion in the index. A USD \$250 Million minimum is required for ongoing index inclusion.

## 2. Target Weights

The Index uses a modified float-adjusted market capitalization weighting methodology to weight individual positions.

- A. **Security Weight – Maximum.** The target weight of any one position is limited to 5.0% of the Index. Annually, all individual securities with a market capitalization weighting greater than 5.0% will be rebalanced back to 5%. Excess exceeding 5.0% will be applied equally to all remaining index constituents.

Once set, either initially or at an annual rebalance, 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.

### Deletions

A security will be deleted from the index immediately due to bankruptcy, acquisition or merger of the company by or into another company, spin-offs,

tender offers or other similar corporate actions. In the case of such deletions, no replacement will be made until the annual rebalance. Any proceeds resulting from the deletion will be invested on a pro-rata basis over the remainder of the Index, net of any additions.

### **Index Reconstitution and Annual Rebalance**

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 one exception. Securities that fall below the initial capitalization minimum of USD \$500 Million will be retained unless their capitalization falls below the minimum of USD \$250 Million. Securities falling below the minimum of USD \$250 Million will be deleted. Any proceeds resulting from the deletions will be invested on a pro-rata basis over the remainder of the Index, net of additions.
- 3. Rebalancing.** The Index will be rebalanced to accommodate any additions or deletions to the index as described above and to enforce the target weights as described above under Index Construction.

### **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 Reconstitution**

Index Administrator will review and adjust the Index on an annual basis (“Index Reconstitution”) on the third Friday of December. Changes to an index 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 Real Estate 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 in November to review the methodology. Any changes to the methodology will be publicly disclosed at [www.alphashares.com](http://www.alphashares.com) prior to implementation. At minimum ten (10) trading days prior notice will be given prior to the implementation of any such change by the Index Administrator.