

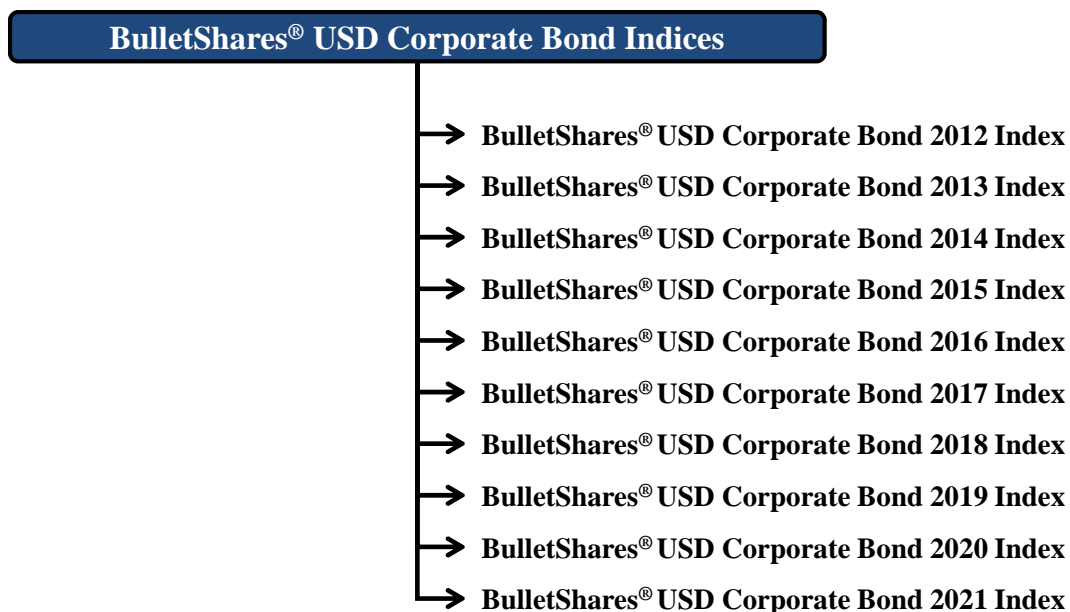


**BulletShares®**  
**USD Corporate Bond Indices Methodology**

## OVERVIEW

BulletShares<sup>®</sup> USD Corporate Bond Indices measure the performance of maturity-targeted segments of the U.S. dollar-denominated investment grade corporate bond market. Set forth below are the criteria for determining the index family’s universe of eligible securities (the “Eligible Universe”) and the methodology for constructing each BulletShares<sup>®</sup> USD Corporate Bond Index. BulletShares<sup>®</sup> USD Corporate Bond Indices are owned by Accretive Asset Management LLC and maintained by Interactive Data Corporation (the “Index Calculation Agent”).

The BulletShares<sup>®</sup> methodology allocates bonds from the Eligible Universe into the BulletShares<sup>®</sup> Indices based on maturity, or in some cases effective maturity date. BulletShares<sup>®</sup> USD Corporate Bond Indices currently consist of the following indices:



## INDEX CONSTRUCTION

### 1. BulletShares<sup>®</sup> USD Corporate Bond Indices Eligibility Criteria

- A. **Issuers.** Only U.S. dollar-denominated bonds issued by companies domiciled in the U.S., Canada, Western Europe<sup>1</sup> or Japan are included in the Eligible Universe.
- B. **Types of Bonds.** Bonds must pay fixed amounts of taxable interest to be included in the Eligible Universe. The following bond types are specifically included:
  - Fixed coupon bonds.
  - Callable bonds.
  - Step-ups, event-driven, rating-driven and registration-driven

<sup>1</sup> AAM defines Western Europe as: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden Switzerland, United Kingdom

bonds.

- Amortizing bonds and sinking funds with fixed sinking schedules.

**C. Selection Criteria.** Bonds must meet all of the following selection criteria to be included in the Eligible Universe:

- Credit rating of at least BBB- by Standard and Poors, Baa3 by Moody's Investors Service, Inc. or BBB- by Fitch Inc.
- Outstanding face value of at least \$500 million.

**D. Exclusions.** To ensure adequate investability, the following bond types are specifically excluded:

- Non-SEC registered bonds (including Rule 144A bonds, Reg S bonds, private placements, Eurodollar<sup>2</sup> bonds and EuroMTN bonds).
- Retail bonds.
- Floating rate bonds.
- Zero coupon bonds.
- Convertible bonds.
- Bonds cum or ex-warrant.
- Bonds with one cash flow only.
- New bonds that have already been called.
- Inflation or other index-linked bonds.
- Corporate bonds guaranteed by an agency, national or supranational government (including FDIC or TLGP).
- Perpetual securities (including Trust Preferred).
- Securities for which the Index Calculation Agent is unable to, or is prohibited from providing an evaluated price.

## 2. Index Creation

**A. Annual Maturity Allocation.** At the end of each calendar year, existing bonds in the Eligible Universe are distributed into BulletShares<sup>®</sup> USD Corporate Bond Indices in accordance with their effective maturities. To determine effective maturity, each bond in the Eligible Universe is examined to determine if the bond has an embedded issuer call option.

- If no embedded issuer call option exists, then the bond is allocated to the BulletShares<sup>®</sup> Corporate Bond Index representing its actual year of maturity. For example, a bond with a maturity date in calendar year 2015 that has no embedded issuer call option would be allocated to the BulletShares<sup>®</sup> USD Corporate Bond 2015 Index.
- If a bond in the Eligible Universe contains an embedded issuer call option, the bond is allocated based to a BulletShares<sup>®</sup> USD Corporate Bond Index based on its effective maturity as determined by the process set forth below.

**B. Effective Maturity Process for Callable Bonds.** The effective maturity process for callable bonds allocates callable bonds to BulletShares<sup>®</sup> USD

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<sup>2</sup> Denoted by ISIN codes beginning with country codes other than "US"

Corporate Bond Indices based on the bond's year of effective maturity as determined by the following rules:

- If a callable bond's clean price is equal to or less than 102% of the bond's call price, the bond's actual year of maturity is deemed its year of effective maturity.
- If a callable bond's clean price is greater than 102% of the call price of the bond, the nearest future year (including the current year) in which the bond may be called is deemed its year of effective maturity.

### 3. Target Weights

BulletShares<sup>®</sup> USD Corporate Bond Indices employ a market value weighting methodology to weight individual positions. Once set, target weights are free to float due to market actions. Weights are reviewed and the index rebalanced according to the rules described below.

## REINVESTMENT

### 1. Prior to July 1 of Designated Year of Maturity of Index.

- A. **Coupon Payments.** Market values of coupon payments received by a BulletShares<sup>®</sup> USD Corporate Bond Index are deemed reinvested as of the coupon payment date in 13-week U.S. Treasury Bills until the next rebalancing of the BulletShares<sup>®</sup> USD Corporate Bond Index.
- B. **Called bonds.** If a bond in a BulletShares<sup>®</sup> USD Corporate Bond Index is called before the index's designated year of maturity begins, the proceeds are deemed reinvested in as of the call date in 13-week U.S. Treasury Bills until the next rebalancing of the BulletShares<sup>®</sup> USD Corporate Bond Index.

### 2. Beginning on July 1 of Designated Year of Maturity of Index.

- A. **Coupon Payments.** Market values of coupon payments received by a BulletShares<sup>®</sup> USD Corporate Bond Index are deemed reinvested as of the coupon payment date in 13-week U.S. Treasury Bills until the termination of the Index.
- B. **Matured bonds.** During an index's designated year of maturity, as bonds mature or are called and principal is returned, proceeds are deemed reinvested in 13-week U.S. Treasury until the termination of the index.

## RECONSTITUTION AND REBALANCING

### 1. Prior to July 1 of Designated Year of Maturity of Index.

- A. **Reconstitution.** On an annual basis, each BulletShares<sup>®</sup> USD Corporate Bond Index is reconstituted to reflect changes in the Eligible Universe as well as changes in the deemed effective maturities of callable bonds as determined by the processes set forth above.
- B. **Rebalancing.** On a monthly basis, each BulletShares<sup>®</sup> USD Corporate Bond Index is rebalanced to reflect the relative market values of its constituents and to incorporate any new bonds in the Eligible Universe that qualify for inclusion in such BulletShares<sup>®</sup> USD Corporate Bond

Index. In connection with the monthly rebalancing process, the effective maturity for each new bond in the Eligible Universe is determined in accordance with the effective maturity process described above.

2. **Beginning on July 1 of Designated Year of Maturity of Index.**
  - A. **Reconstitution.** The portfolio of bonds established in connection with the last monthly rebalancing of an index prior to July 1 of its designated year of maturity will be fixed for the remainder of the life of the index.
  - B. **Rebalancing.** Following July 1 of a BulletShares<sup>®</sup> USD Corporate Bond Index's designated year of maturity, the index's constituents are set to float due to market value changes and are no longer rebalanced on a monthly basis.
3. **Termination of Index.** Any bonds or 13-week U.S. Treasury Bills in a BulletShares<sup>®</sup> USD Corporate Bond Index as of the end of the index's year of maturity are deemed sold and the index is terminated as of the close of business on December 31 of the index's designated year of maturity.
4. **Rebalancing Timeline.** On the 20<sup>th</sup> calendar day of the month, or the first business day after the 20<sup>th</sup> day, the securities which comprise the Eligible Universe for the next period are compiled based on the criteria set forth herein and reviewed by Accretive Asset Management LLC. Any changes in the universe after the index cutoff date will be incorporated as of the next rebalancing.
5. **Other Intra-month Changes.** Securities that are fully or partially redeemed during the month (for example, called bonds or amortizing bonds with fixed schedules) will see their market value adjusted as of the effective date of the redemption and the redemption amount treated as cash until the next rebalance.
6. **Final Index Membership.** Upcoming changes to the index constituent list will be made publicly available at the close of business three days prior to the month end in which these changes become effective.

## INDEX MAINTENANCE

Index construction, securities pricing, and index calculation and dissemination are the responsibility of the Index Calculation Agent. The following services are provided by the Index Calculation Agent to maintain the indices in accordance with the index methodology set forth herein.

1. **Index Construction.** The Index Calculation Agent is responsible for gathering securities information for the Eligible Universe and applying the BulletShares<sup>®</sup> USD Corporate Bond Index methodology to create individual indices.
2. **Securities Pricing.** The Index Calculation Agent is responsible for determining an evaluated price for each security in the BulletShares<sup>®</sup> USD Corporate Bond Indices.
3. **Index Calculation and Dissemination.** The Index Calculation Agent is responsible for compiling, calculating, maintaining, and disseminating the values of BulletShares<sup>®</sup> USD Corporate Bond Indices.
4. **BulletShares<sup>®</sup> Index Committee.**
  - A. **Role of Committee.** The BulletShares<sup>®</sup> Index Committee solely maintains the BulletShares<sup>®</sup> USD Corporate Bond Index methodology and is not involved in any way in the day-to-day maintenance or

administration of the index.

- B. **Changes to Methodology.** The BulletShares<sup>®</sup> Index Committee meets at least once annually to review the BulleShares<sup>®</sup> USD Corporate Bond Index methodology. Any changes to the methodology will be publicly disclosed at [www.accretiveasset.com](http://www.accretiveasset.com) at least ten (10) trading days prior to implementation by the Index Calculation Agent.