



# Index Methodology Guide

Alerian Energy Infrastructure  
Capital Strength Select Index (AMCS)

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## // Company Background

### **About the Index**

The Alerian Energy Infrastructure Capital Strength Select Index is a composite of North American midstream, refining, and utility companies chosen for their ownership of pipeline transportation assets, leverage profile, and above-market dividend payments. The index is disseminated real-time on a price-return basis (AMCS) and on a total-return basis (AMCST).

### **About Alerian**

Alerian is an independent information services company serving asset managers and investment professionals around the globe through its indexing, research and data capabilities. Built on a foundation of data rigor and specialty research, Alerian pioneered how the master limited partnership (MLP) asset class is measured and created the first real-time MLP index – the Alerian MLP Index – the most widely used benchmark for midstream MLP energy. Today, Alerian continues to innovate, delivering indexes, tools, thought leadership, and actionable insights that equip stakeholders to make informed decisions.

## // Security Data

### Documents

The following documents are used to calculate shares outstanding and investable weight factors.

- Press releases
- Annual reports pursuant to Sections 13 and 15(d) of the Securities Exchange Act of 1934 (10-K, 20-F)
- Annual reports pursuant to Parts 4, 5, and 6 of National Instrument 51-102 (AIF)
- Quarterly reports pursuant to Sections 13 and 15(d) of the Securities Exchange Act of 1934 (10-Q, 6-K)
- Quarterly reports pursuant to Parts 4 and 5 of National Instrument 51-102 (IFS)
- Certain registration statements pursuant to Rules 415 and 462 of the Securities Act of 1933 (S-1, S-3)
- Prospectuses and prospectus supplements pursuant to Rule 424(b)
- Proxy statements pursuant to Section 14(a) of the Securities Exchange Act of 1934 (DEF 14A)
- Current reports pursuant to Sections 13 and 15(d) of the Securities Exchange Act of 1934 (8-K, 6-K)

Schedules pursuant to the Securities Exchange Act of 1934 (13D, 13G), forms pursuant to Section 16(a) of the Securities Exchange Act of 1934 (4), and certain registration statements pursuant to the Securities Act of 1933 (S-8) are not used in the aforementioned calculations.

### Shares Outstanding

Shares included in the calculation of shares outstanding include, but are not limited to, common shares, subordinated shares, special class shares, and paid-in-kind shares. Shares excluded from the calculation of shares outstanding are general partner (“GP”) shares, management incentive shares, and tradable, non-common shares.

This number generally reflects that which is represented by the latest annual or quarterly report, unless otherwise indicated by a press release, Securities and Exchange Commission (“SEC”) document, or Ontario Securities Commission document filed pursuant to a transaction. The following is a non-exhaustive list of qualifying transactions and the point at which they are reflected in a security’s shares outstanding.<sup>1</sup>

Qualifying Transaction	Reflected in Shares Outstanding
Follow-on public equity offerings	Time of pricing
Over-allotment option exercises	Earlier of time of press release or current report
Private investments in public equity (“PIPEs”) <sup>2</sup>	Time of closing
Share repurchases	Earlier of time of press release or current report
At-the-market (“ATM”) equity offerings	As reported in periodic reports, prospectuses, or proxies

### Investable Weight Factors

A security’s investable weight factor (“IWF”) is calculated as follows.

$$\frac{(\text{Shares outstanding} - \text{Non-common shares} - \text{Unregistered common shares} - \text{Insider-owned common shares})}{\text{Shares outstanding}^3}$$

### Indicative Yield

A security’s indicative yield is calculated by multiplying the most recently announced board-approved monthly or quarterly dividend by 12 or 4, respectively, and dividing the product by the security’s closing price on the data analysis date.

## // Constituent Criteria

### Constituent Criteria

- Earn the majority of its cash flow from qualifying midstream activities involving energy commodities, or (a) own at least 50% of the GP of a US publicly traded partnership and (b) earn the majority of its cash flow from (i) petroleum refining or (ii) the retail distribution of electricity and/or natural gas<sup>4</sup>
- For non-GPs, (1) have a credit rating from at least one of Moody's or S&P of at least Ba2 or BB, respectively; and (2) not have a credit rating from either of Moody's or S&P worse than Ba2 or BB, respectively
- Have a cash indicative yield greater than the weighted average of the S&P 500 on the data analysis date
- Not be party to an announced transaction that is expected to lead to a delisting of the security

For the criterion related to credit rating, GPs may qualify on their own merits or via their publicly traded affiliates. A non-constituent will only be added to the index during the quarterly rebalancing process if it meets all criteria. Constituents will only be removed from the index for failing to meet criteria during the quarterly rebalancing process. A non-constituent that has entered into a merger agreement to be acquired is not eligible to be added to the index.

These criteria are reviewed regularly to ensure consistency with industry trends.

## // Index Calculations

### Index Equations

The index is calculated by S&P Dow Jones Indices as follows:

- $[\text{Initial Divisor}] = [\text{Base Date Index Market Capitalization}] / 500$
- $[\text{Index Value}] = [\text{Index Market Capitalization}] / \text{Divisor}$
- $[\text{Post-Rebalance Divisor}] = [\text{Post-Rebalance Index Market Capitalization}] / [\text{Pre-Rebalance Index Value}]$

### Index Rebalancings

Quarterly rebalancings occur on the third Friday of each March, June, September, and December, and are effective at the open of the next trading day. In the event that the major US and Canadian exchanges are closed on the third Friday of March, June, September, or December, the rebalancing will take place after market close on the immediately preceding trading day. Data relating to constituent eligibility, additions, and deletions are analyzed as of 16:00 ET on the last trading day of February, May, August, and November. The index shares of each constituent are then calculated according to the system described below and assigned after market close on the quarterly rebalancing date.

After market close on the Thursday prior to the second Friday of each March, June, September, and December, any non-GP is removed for redundancy if its GP remains among the eligible securities. The mean indicative yield of the remaining securities is then calculated, as well as the standard deviation of the data set. Any security whose indicative yield is greater than the mean plus two standard deviations is deemed to have an outlier yield and removed. For each GP that is removed for having an outlier yield, its LP is added back to the group of eligible securities if (1) it was removed solely for redundancy and (2) it does not have an outlier yield. The constituents are then assigned to either the Pass-Through or Corporate group based on their tax election. The Pass-Through group is assigned an index weight of 20%, and the Corporate group is assigned an index weight of 80%. The mean indicative yield is calculated for each group. Each security is assigned a factor value by subtracting the absolute value of the difference between its indicative yield and the mean indicative yield for its group from the mean indicative yield. Each security is assigned an index weight by dividing its factor value by the sum of all factor values for the group and multiplying by the group's total index weight. Since index shares are assigned based on prices after market close on the Thursday prior to the second Friday of each March, June, September, and December, the weight of each constituent on the quarterly rebalancing date may differ from its target weight due to market movements.

### Ongoing Maintenance and Handling of Corporate Actions

In addition to the scheduled quarterly rebalancings, the index is reviewed on an ongoing basis. Changes in index composition and related weight adjustments are necessary whenever there are extraordinary events. Corporate actions will be implemented as practically as possible on a case-by-case basis. Whenever possible, the changes in the index's components will be announced at least two business days prior to their implementation day.

#### Mergers

If two index constituents merge, the surviving stock will remain in the index while the departing stock will be removed, and the departing stock's weight will be redistributed to all the remaining constituents on a proportional basis. If an index constituent is taken over by a non-constituent stock, it will be removed from the index and its weight will be redistributed to all the remaining constituents on a proportional basis. Generally, the implementation will take place one trading day after the constituent's merger vote date. If the stock is delisted before market open on the first trading day after the vote, the delisted security will trade at its last traded price.

#### Delistings

If an index component is delisted, it will be removed from the index and its weight will be redistributed to all the remaining constituents on a proportional basis.

### Treatment of Distributions

The price-return index does not account for cash dividends and distributions. The total-return index accounts for cash dividends and distributions by reinvesting them across the index after market close on the ex-dividend date.

### Base Date

The base date for the index is 15 September 2017, with a base value of 500. Data prior to the live launch was back-tested by rigorously applying then-current index methodology to each historical rebalancing date to select and weight constituents. A back-filled or back-casted methodology can result in the exclusion of acquired, merged, or delisted companies and distort historical performance.

## // Supporting Information

### **Index Committee**

The Alerian Index Series is managed by an Index Committee that reviews all methodology modifications to ensure that they are made objectively and without bias. The committee is composed of full-time professional members of Alerian's staff and board, convenes on a quarterly basis, and is responsible for overseeing the development and applications of the methodology. If the index methodology does not provide a clear process for the management of any situation, the committee will determine the process to be followed. Information regarding methodology modifications and constituent changes is considered to be material and can have an impact on the market. Consequently, all committee discussions are confidential.

### **FX Rate**

Real-time spot Forex rates, as supplied by Reuters, are used for ongoing index calculation of real-time indices. WM/Reuters foreign exchange rates are taken daily at 16:00 ET and used in the end-of-day calculation of the indices.

### **Holiday Schedule**

The index is calculated when US and/or Canadian equity markets are open.

### **Announcements**

Constituent changes related to quarterly rebalancings will be announced at 08:30 ET on the second Friday of March, June, September, and December. Index methodology changes, if any, will be announced after market close. Announcements can be found on [alerman.com](http://alerman.com).

### **Data Integrity**

Alerian uses various quality assurance tools to monitor and maintain the accuracy of its data. While every reasonable effort is made to ensure data integrity, there is no guarantee against error. Adjustments to incorrect data will be handled on a case-by-case basis depending on the significance of the error and the feasibility of a correction. Incorrect intraday ticks of the index resulting from data errors will not be corrected.

### **Contact Information**

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## // End Notes

1. The word “reflected” here means for index share calculation and constituent selection purposes only. Changes to shares outstanding and IWFs, as it relates to calculating the index, only occur after market close on rebalancing dates, stock dividends and splits excepted.
2. Unless a lock-up period has been specified, common shares issued in a PIPE transaction are considered to be freely tradable upon the earlier of (a) the effectiveness date of the accompanying SEC registration statement or (b) 180 days after the transaction close, pursuant to SEC Rule 144.
3. For the purposes of this calculation, insider-owned common shares are those which are included in “Security Ownership of Certain Beneficial Owners and Management” of a company’s latest annual report or proxy. This number is frequently expressed as, or is similar to, “All directors and named executive officers as a group”, plus common shares owned by GPs and/or persons or entities with board representation. Though insiders file Forms (4) and Schedules (13) to indicate changes to their ownership position between annual reports and proxies, they are not factored into the calculation. Other documents (such as press releases, 8-Ks, and prospectus supplements) indicating changes to ownership by a GP are factored into the calculation immediately.
4. The following Energy MLP Classification Standard (EMCS(SM)) activities are considered qualifying: Gathering & Processing, Liquefaction, Pipeline Transportation, Rail Terminaling, and Storage. Majority of cash flow is calculated on a trailing-four-quarter basis using a company’s reported business segments. Exceptions may be made on a case-by-case basis to accelerate the eligibility or ineligibility of companies that have been transformed by a recent acquisition.



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