



# **Index Methodology Guide**

## Alerian MLP Index (AMZ)

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## // Company Background

### **About the Index**

The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

### **About Alerian**

Alerian equips investors to make informed decisions about Master Limited Partnerships (MLPs) and energy infrastructure. Its benchmarks, including the flagship Alerian MLP Index (AMZ), are widely used by industry executives, investment professionals, research analysts, and national media to analyze relative performance. As of August 31, 2017, over \$16 billion is directly tied to the Alerian Index Series through exchange-traded funds and notes, separately managed accounts, and structured products. For more information, including index values and constituents, research content, and announcements regarding rebalancings, please visit [alerman.com](http://alerman.com).

## // Security Data

### Documents

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

- Press releases
- Annual reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (10-K, 20-F)
- Quarterly reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (10-Q, 6-K)
- 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 Section 13 or 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.

### Units Outstanding

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

This number generally reflects that which is represented by the latest annual or quarterly report, unless otherwise indicated by a press release or Securities and Exchange Commission (“SEC”) 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 units outstanding.<sup>1</sup>

Qualifying Transaction	Reflected in Units 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
Unit 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.

$$(\text{Units outstanding} - \text{Non-common units} - \text{Unregistered common units} - \text{Insider-owned common units}) / \text{Units outstanding}^3$$

## // Constituent Criteria

### Constituent Criteria

- Be a publicly traded partnership or limited liability company (“LLC”)
- Earn the majority of its cash flow from qualifying activities involving energy commodities<sup>4</sup>
- Represent the primary limited partner interests of a partnership or LLC that is an operating company<sup>5</sup>
- Declared a distribution for the trailing two quarters
- Have a median daily trading volume of at least \$2.5 million for the six-month period preceding the data analysis date<sup>6</sup>
- Have a float-adjusted market capitalization (“AMC”) in the top 95% of total energy MLP AMC

A non-constituent will only be added to the index during the (a) quarterly rebalancing process if it meets all criteria, or (b) special rebalancing process if it (i) is acquiring the constituent that is being removed, and (ii) meets all criteria. A constituent will remain in the index if it (a) continues to meet the first four criteria, (b) has a median daily trading volume of at least \$2.0 million for the six-month period preceding the data analysis date, and (c) has an AMC greater than or equal to 80% of the AMC of the smallest company in the top 95% of total energy MLP AMC on the data analysis date. 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:

- [Initial Divisor] = [Base Date Index Market Capitalization] / 100
- [Index Value] = [Index Market Capitalization] / Divisor
- [Post-Rebalance Divisor] = [Post-Rebalance Index Market Capitalization] / [Pre-Rebalance Index Value]

### Index Rebalancings

Index rebalancings fall into two groups: quarterly rebalancings and special 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 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 capping system described below, and assigned after market close on the quarterly rebalancing date. Since index shares are assigned based on prices on the last trading day of February, May, August, and November, the weight of each constituent on the quarterly rebalancing date may differ from its target weight due to market movements.

After market close on the last trading day of February, May, August, and November, the post-rebalancing constituents are weighted and ranked by AMC. If the weight of the largest constituent exceeds 10%, it is assigned a weight of 10% and its excess weight is proportionately distributed to the remaining constituents. After this distribution, if the weight of the next largest constituent exceeds 10%, it is assigned a weight of 10% and its excess weight is proportionately distributed to the remaining constituents. This process is repeated until none of the remaining constituents has a weight that exceeds 10%.

Special rebalancings are triggered by corporate actions and will be implemented as practically as possible on a case-by-case basis. Generally, in a merger between two or more index constituents, the special rebalancing will take place one trading day after the constituent's issuance of a press release indicating all needed merger votes have passed. If the stock is delisted before market open on the first trading day after all needed merger votes have passed, the delisted security will trade at the conversion price, including any cash consideration. Only the units outstanding and IWFs of the surviving constituents in a merger will be updated to reflect the latest information available. Data are analyzed as of 16:00 ET two trading days prior to the last required merger vote. Index shares are then calculated to the weighting scheme above and assigned after market close on the rebalancing date.

### Treatment of Distributions

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

### Base Date

The base date for the index is 29 December 1995, with a base value of 100. 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 Governance**

An independent advisory board of MLP and energy infrastructure executives, legal partners, and senior financial professionals reviews all methodology modifications and constituent changes to ensure that they are made objectively and without bias. The board is composed of a minimum of five members, all of whom must be independent.

The Chief Executive Officer of Alerian presents to the board on a quarterly basis, on the Thursday prior to the second Friday of each March, June, September, and December. A board book is distributed in advance of each meeting so that board members have the ability to review proposed index changes, if any, and the supporting data and index methodology prior to the meeting.

Information regarding methodology modifications and constituent changes is considered to be material and can have an impact on the market. Consequently, all board discussions are confidential. Alerian believes that this process leads to unmatched independence and attention to detail in MLP and energy infrastructure indexing.

### **Holiday Schedule**

The index is calculated when US 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. Constituent changes related to special rebalancings resulting from mergers will be announced at 08:30 ET on the last trading day prior to the last required merger vote. Constituent changes related to special rebalancings resulting from other types of delistings will be handled on a case-by-case basis. Index methodology changes, if any, will be announced after market close on the last trading day of the month. Announcements can be found at [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**

972.957.7700

[index@alerman.com](mailto:index@alerman.com)

## // End Notes

1. The word “reflected” here means for index share calculation and constituent selection purposes only. Changes to units 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 units 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 units 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 units 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. All Energy MLP Classification Standard (EMCS(SM)) activities are considered qualifying, and can be found at [alerman.com](http://alerman.com). 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. Cash flow from a partnership’s GP interest or incentive distribution rights in another publicly traded partnership or LLC is zeroed for the purposes of this determination.
5. This definition is meant to exclude, among others, the following types of securities: GPs, i-units, preferred units, exchange-traded products, open-end funds, closed-end funds, and royalty trusts.
6. As an example, for the March quarterly rebalancing, this criterion requires that the median of a company’s daily trading volume during the September-February period be at least \$2.5 million. If the data analysis date for a special rebalancing falls on the last trading day of the month, then that month is the sixth month in the six-month period. Otherwise, the preceding month is the sixth month in the six-month period.



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