



Methodology for the Management of the SelfWealth SMSF Leaders Index

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1. INTRODUCTION

1.1. These Guidelines are to be used with respect to the composition, calculation and management of the SelfWealth SMSF Leaders Index.

Market Description

1.2. SMSFs are a distinct and unique class of investors in Australian listed equities.

1.3. Notable differentiating features of SMSFs are:

- a. SMSFs have a statutorily mandated investment objective – the “*sole purpose test*” – requiring the SMSF trustees to only “invest capital of the fund with the sole purpose of providing for the retirement of the SMSF members”;
- b. SMSFs are largely prohibited from borrowing or accessing other forms of leveraged exposures (such as derivatives) as this is viewed as speculation rather than long term investment;
- c. The above restrictions have created a group of investors with a uniquely mandated long-term investment horizon;
- d. Complying SMSFs benefit from generous tax concessions, the presence of which generates unique behavioural biases of SMSFs as a group towards long term/or deferral of capital gains and franked dividends, compared with other forms of investments (particularly bonds) and compared with other types of ASX listed equity investors who typically have much higher portfolio turnover;
- e. SMSFs are subject to stringent regulatory compliance requirements, including an annual independent audit and certification of compliance with applicable investment methodology; and
- f. SMSFs are not permitted to manage third-party funds – all members must personally be a trustee of the fund or on the governing board of the trustee company.

Index Description

1.4. The SelfWealth SMSF Leaders Index was created to serve as a benchmark of the investment performance of successful Australian SMSFs which invest in ASX-listed stocks consistently with the statutorily mandated investment strategy and other requirements for self-managed superannuation funds.

1.5. The index has been designed by and is maintained by SelfWealth Ltd. SelfWealth is the Benchmark Administrator for the Index.

1.6. The index methodology is based on a defined, predetermined set of methodology and objective criteria to select and rebalance constituents to ensure the index meets the above objective.

1.7. The Index is derived from the holdings of SMSF portfolios held on SelfWealth’s fund database, measured by the application of SelfWealth’s proprietary “Performance Score”. A detailed description of the Performance Score methodology and the index construction process is set out in section 3 below.

1.8. The index constituents will be equally weighted at quarterly rebalance dates.

1.9. Information regarding the selected constituents will be available from the SelfWealth website and from the index calculation agent.

1.10. A gross total return version of the Index is calculated and published.

1.11. SelfWealth Ltd has designed the Index to be compliant with the “IOSCO Principles for Financial Benchmarks”, with appropriate governance structures and index determination bodies and procedures in place. SelfWealth’s compliance statement regarding the IOSCO Principles for Financial Benchmarks is available on request, and from etf.selfwealth.com.au.

Licensing

1.12. Licenses to use the index as the underlying value for derivative instruments may be issued to stock exchanges, banks, financial services providers and investment houses by SelfWealth Limited

2. INDEX MANAGEMENT

Summary Table of Roles & Responsibilities

Role	Name	Responsibilities/Functions
Index Administrator	SelfWealth Limited (SWF)	Overall responsibility for the administration and publication of the indices, devolved to the Index Management Committee. Responsible for index reviews.
Index Management Committee	<u>Chairman</u> – SWF Ltd nominee <u>Members</u> – up to three members nominated from SelfWealth Ltd staff and/or professional advisers, in addition to an independent expert in Index administration and governance and one representative of the Calculation Agent in a non-voting capacity	Responsible for the management and implementation of the Index Methodology, its continued fitness for purpose and any periodic amendments thereto; oversight of the Index Calculation Agent.
Calculation Agent	Solactive AG	Calculation and dissemination of the index
Oversight	SelfWealth Audit and Risk Committee	Oversight over SelfWealth’s administration of the index.
Data provider	BGL Limited	Provision of underlying SMSF data.

Index Management Committee

- 2.1. The Index Management Committee is responsible for the management and implementation of the index methodology, for its continuing fitness for purpose, and therefore for any periodic amendments thereto. It is also responsible for overseeing the actions of the Index Calculation Agent, and in the event of the methodology not providing a clear process for the management of any situation, for determining the process to be followed, if appropriate after reference to the Index Calculation Agent.
- 2.2. The committee is composed of a chairman appointed by SelfWealth Ltd. Up to three other members are drawn from SelfWealth Ltd staff and/or professional advisers. Additionally, there is representation from an independent expert in index administration and governance, and one representative of the Index Calculation Agent is invited to attend in a non-voting capacity.
- 2.3. Members may be deemed voting members, non-voting members, or observers.
- 2.4. Members of the Index Management Committee may at any time recommend changes to these Methodology (including the Index review criteria) by submitting any proposed changes for consideration and approval in advance of the next scheduled committee meeting. Except in exceptional circumstances new methodology and methodology adjustments will become effective after the following review, and after being publicly announced as per paragraph 2.5.
- 2.5. Following approval by the Index Management Committee, such changes shall be implemented by way of an update to this methodology, which shall be published on etf.selfwealth.com.au and www.solactive.com
- 2.6. The Index Management Committee convenes on a quarterly basis between the collection date for review determination data and the implementation of each quarterly review.

Calculation Agent

- 2.7. The Calculation Agent is responsible for the real time and end of day calculation of the SelfWealth SMSF Leaders Index, and for the dissemination of index values and constituent data.
- 2.8. Where a corporate event occurs or is occurring, the calculation agent is responsible for implementing the procedures described in Section 5 of this methodology.

- 2.9. Where an index calculation error occurs, the calculation agent is responsible for following the error management processes detailed in section 6, and for the informing the Index Management Committee at the earliest possible opportunity.

Data Provider

- 2.10. SMSF data is provided to SelfWealth by BGL Corporate Solutions.

3. INDEX REVIEWS

Procedures

- 3.1. The Index is reviewed quarterly in April, July, October and January, according to the following schedule:
- 3.2. The database is analysed and SMSF Portfolio performances are calculated as at the Calculation Date which is the last Business Day in every calendar quarter (i.e., the last Business Day of March, June, September and December). These calculations are based on ASX market data as at the close on each Calculation Date.
- 3.3. The index constituent selection universe is set by reference to data as at the close of business on the Calculation Date. This database analysis and index constituent selection will be completed by close of business on the Determination Date which will be the day that is 5 business days before the Rebalance Date.
- 3.4. Results of the review are released to index licensees on the Determination Date.
- 3.5. Any changes in the constituent composition and index weightings resulting from each quarterly review will be implemented on the Rebalance Date, which will be the third Wednesday of April, July, October or January immediately following the associated Calculation Date. In case that day is not a Business Day, the Rebalance Date will be the following Business Day.

Constituent eligibility

- 3.6. The constituents of the Solactive Australia Index, as at close of business on each Calculation Date, comprise the index constituent Selection Universe.
- 3.7. Securities that are not ordinary shares (or CDIs for ordinary shares) are removed from the selection universe.

SelfWealth SMSF Leaders Index Portfolio Selection

- 3.8. The best-performing 10% of the SMSF portfolios from the SelfWealth database by reference to the SelfWealth Performance Score as at each Calculation Date are selected based on their demonstrated persistent out-performance. These portfolios are the "SelfWealth SMSF Leaders".
- 3.9. The SelfWealth Performance Score is calculated by reference to a portfolio's out-performance over the Benchmark Index over the below 5 different time periods. Each time period contributing a specific percentage to the overall SelfWealth Performance Score:

Performance Time Frame	Percentage Contribution to Performance Score
1 Month	10%
3 Month	15%
6 Month	25%
12 Month	30%
Annualised	20%

- a. The Benchmark Index is the S&P/ASX 200 Net Total Return Index.
- b. If a portfolio has insufficient history to calculate out-performance over a Performance Time Frame, then that performance will be set to 0%.
- c. 1-, 3-, 6- and 12-Month out-performances are not annualised.

- d. Annualised out-performance is calculated as the annualised out-performance for a portfolio over the full period of available history in the SelfWealth fund database. Annualised out-performance is calculated as:

$$\text{Annualised} = (1 + OP)^{\frac{365}{n}} - 1$$

where:

OP is the period out-performance of each portfolio over the portfolio history available in the SelfWealth fund database, and

n is the number of days of historical performance available in the SelfWealth fund database,

If a portfolio has less than 3 months out-performance history, the Annualised out-performance will be set to 0%.

- e. Annualised out-performance is capped at 250%.

Index Constituent Selection

- 3.10. To determine the Index Constituents, the Selection Universe is reduced by removing securities that are not held by at least 45 portfolios out of the SelfWealth SMSF Leaders.
- 3.11. Where the remaining number of securities is no fewer than 25 nor greater than 75, those securities comprise the Index Constituents.
- 3.12. Where greater than 75 securities remain, those securities are ranked in order of full market capitalisation and the largest 75 will comprise the Index.
- 3.13. Where fewer than 25 securities remain, steps 3.100 to 3.122 are repeated using securities that are held by at least 25 of the SelfWealth SMSF Leaders.
- 3.14. Where the application of 3.13 still results is fewer than 25 securities, steps 3.10 to 3.12 are again repeated with the number of SelfWealth SMSF Leaders that each security is held by being reduced at the discretion of the Index Management Committee until 25 or more securities are selected.

4. CALCULATION OF THE INDICES

- 4.1. The Calculation Agent is responsible for calculating and publishing the indices.

Index formula

- 4.2. Each index closing level on business day t , $Index_t$, is calculated in accordance with the following formula:

$$Index_t = \sum_{i=1}^n \frac{x_{i,t} * p_{i,t}}{D_t}$$

Where:

$x_{i,t}$	The number of shares of index constituent i on business day t
$p_{i,t}$	Trading price in the Index Currency of index constituent i on business day t
D_t	Divisor on trading day t

- 4.3. The initial divisor on the start date is calculated according to the following formula:

$$D_t = \frac{\sum_{i=1}^n p_{i,t} * x_{i,t}}{\text{Initial Index Value}}$$

- 4.4. After the close of trading on each adjustment day t the new divisor is calculated according to the following formula:

$$D_{t+1} = \frac{\sum_{i=1}^n p_{i,t} * x_{i,t+1}}{Index_t}$$

Accuracy

- 4.5. The value of each index will be rounded to two decimal places.
- 4.6. The number of shares of index constituents will be rounded to six decimal places.
- 4.7. Trading prices will be rounded to four decimal places.

5. ADJUSTMENTS

- 5.1. Systematic price changes will be reflected within the indices once they become effective. This requires either or both the number of shares in issue of the constituent and the index divisor to be calculated on an ex-ante basis.

Dividends and other Distributions

- 5.2. Dividend payments are accounted for within the index, via an adjustment of the divisor. The new divisor is calculated as follows:

$$D_{t+1} = D_t * \frac{\sum_{i=1}^n (p_{i,t} * x_{i,t}) - (y_{i,t} * x_{i,t})}{\sum_{i=1}^n (p_{i,t} * x_{i,t})}$$

Where:

$x_{i,t}$	The number of shares of index constituent i on business day t
$y_{i,t}$	Distribution of index constituent i with ex-date t + 1
$p_{i,t}$	Trading price in the Index Currency of index constituent i on business day t
D_t	Divisor on trading day t

Corporate actions

- 5.3. The management and implementation of index changes resulting from corporate actions is as per the index calculation agent's Corporate Actions Policy. This document is available from SelfWealth and from Solactive AG, on request.

6. INDEX CALCULATION ERRORS

- 6.1. On discovery of an error in the calculation of an index, the calculation agent will follow the arrangements set out in the Solactive AG Correction Policy, subject to the general principle of minimising unnecessary impact on index licensees.
- 6.2. Wherever possible, the calculation agent will discuss its proposed treatment of an error with the Index Management Committee.
- 6.3. In all cases, the calculation agent will provide an incident report to the Index Management Committee.

7. EXCEPTIONS TO THIS METHODOLOGY

- 7.1. The calculation agent shall apply the method described above for the composition and calculation of the indices. However, it cannot be excluded that the market environment, supervisory, legal, financial or tax reasons may require unforeseen changes to be made to this method.
- 7.2. If time allows, any such changes will be made in conjunction with the Index Management Committee. The Index Management Committee will be notified of any exceptions made to this methodology
- 7.3. The Index Management Committee may prescribe changes to the selection criteria and other methodology governing the indices and the method applied to calculate the indices, which it deems to be necessary and desirable in order to prevent material errors or to remedy, correct or supplement the methodology as currently described.

- 7.4. SelfWealth and the calculation agent shall ensure that any amendments to the methodology are updated and published as soon as possible after any changes to the indices are implemented and shall notify all persons who have licensed the use of the indices as far in advance of such implementation as reasonably practicable.
- 7.5. Despite the modifications and changes, the calculation agent will take the appropriate steps to ensure a calculation method is applied that is consistent with the method described above.

8. DATA PUBLICATION

8.1. The composition of the index as well as the respective weightings of index constituents will be published on a retrospective basis in respect of each rebalance date on the business day immediately following the next rebalance date, on on_ETF.selfwealth.com.au

Distribution

8.2. The Index will be published via the price marketing services of Boerse Stuttgart and are distributed to all SelfWealth - affiliated vendors. Each vendor determines whether they will distribute/display the index data via their respective information systems.

Prices and calculation frequency

8.3. The Index is calculated on each business day. At any given point during the period in which the Index is calculated, the last traded prices of all index constituents are used. If there is no last traded price for an Index Constituent on a business day, the most recent last traded price received from Refinitiv on the preceding business day is used in the calculation.

8.4. The Index is a real-time index calculated every 15 seconds using trading data from Refinitiv. However, in the event that data is not received by the Calculation Agent, the publication of Index values and any distribution thereof may be delayed.

Index (gross total return index)	Calculation Period
SelfWealth SMSF Leaders Index	10:00am to 4:00pm Eastern (Australian) time plus close value calculated on receipt of closing auction prices. (From open auction price to final close auction price.)

APPENDIX A - DEFINITIONS

A “Business Day” is a day on which the ASX is open for trading.

The “Calculation Agent” is Solactive AG or any other appropriately appointed successor in this function.

The “Calculation Date” is the last Business Day of every calendar quarter (i.e., the last Business Day of March, June, September and December).

The “Determination Date” is 5 Business Days prior to the Rebalance Date.

An Index Constituent is “delisted” if the ASX announces pursuant to its regulations that the listing of, the trading in, or the issuing of public quotes on the Index Constituent at the Exchange has ceased immediately or will cease at a later date, for whatever reason (provided the Delisting is not because of a Merger or a Takeover Bid), and the Index Constituent is not immediately listed, traded or quoted again on an exchange, trading or listing system, acceptable to the Calculation Agent.

In particular, an “Extraordinary Event” is:

- a Merger
- a Takeover Bid
- a Delisting
- the Nationalization of a company
- Insolvency.

The Trading Price for this Index Constituent on the day the event came into effect is the last available market price for this Index Constituent quoted on the Exchange on the day the event came into effect (or, if a market price is not available for the day the event came into effect, the last available market price quoted on the Exchange on a day specified as appropriate by the Calculation Agent) as determined by the Calculation Agent, and this price is used as the Trading Price of the particular Index Constituent until the end of the day on which the composition of the Index is next set.

In the event of the Insolvency of an issuer of an Index Constituent, the Index Constituent shall remain in the Index until the next Adjustment Day. As long as a market price for the affected Index Constituent is available on a Business Day, this shall be applied as the Trading Price for this Index Constituent on the relevant Business Day, as determined in each case by the Calculation Agent. If a market price is not available on a Business Day the Trading Price for this Index Constituent is set to zero. The Committee may also decide to eliminate the respective Index Constituent at an earlier point in time prior to the next Adjustment Day. The procedure in this case is identical to an elimination due to an Extraordinary Event.

An “Index Constituent” is each company whose shares are currently included in the Index.

The “Index Currency” is the Australian dollar (AUD).

A “Market Disruption Event” occurs if

1. one of the following events occurs or exists on a Trading Day prior to the opening quotation time for an Index Constituent:
 - a. trading is suspended or restricted (due to price movements that exceed the limits allowed by the Exchange, or for other reasons):
 - i. across the whole Exchange; or
 - ii. in options or futures contracts on or with regard to an Index Constituent; or
 - iii. on an Exchange or in a trading or quotation system (as determined by the Calculation Agent) in which an Index Constituent is listed or quoted; or
 - b. an event that (in the assessment of the Calculation Agent) generally disrupts and affects the opportunities of market participants to execute on the Exchange transactions in respect of a share included in the Index or to determine market values for a share included in the Index

2. trading on the Exchange is ceased prior to the “Normal Exchange Closing Time”, which is the time at which the Exchange is normally closed on working days without taking into account after-hours trading or other trading activities carried out outside the normal trading hours. An exception to this classification as a Market Disruption Event is where the early cessation of trading is announced by the Exchange on this Trading Day at least one hour before
 - a. the actual closing time for normal trading on the Exchange on the Trading Day in question or, if earlier.
 - b. the closing time (if given) of the Exchange for the execution of orders at the time the quote is given.
3. a general moratorium is imposed on banking transactions in Australia if the above-mentioned events are material in the assessment of the Calculation Agent, whereby the Calculation Agent makes its decision based on those circumstances that it considers reasonable and appropriate.

With regard to an Index Constituent, a “Merger” is

- (i) a change in the security class or a conversion of this share class that results in a transfer or an ultimate definite obligation to transfer all the shares in circulation to another legal person,
- (ii) a merger (either by acquisition or through forming a new structure) or a binding obligation on the part of the issuer to exchange shares with another legal person (except in a merger or share exchange under which the issuer of this Index Constituent is the acquiring or remaining company and which does not involve a change in security class or a conversion of all the shares in circulation),
- (iii) a takeover offer, exchange offer, other offer or another act of a legal person for the purposes of acquiring or otherwise obtaining from the issuer 100% of the shares issued that entails a transfer or the irrevocable obligation to transfer all shares (with the exception of shares that are held and controlled by the legal person), or
- (iv) a merger (either by acquisition or through forming a new structure) or a binding obligation on the part of the issuer of the share or its subsidiaries to exchange shares with another legal person, whereby the issuer of the share is the acquiring or remaining company and it does not involve a change in the class or a conversion of the all shares issued, but the shares in circulation directly prior to such an event (except for shares held and controlled by the legal person) represent in total less than 50% of the shares in circulation directly subsequent to such an event.

The “Number of Shares” are in respect of an Index Constituent and on any given Business Day the number or fraction of shares included in the Index. It is calculated for any Index Constituent as the ratio of (A) the Percentage Weight of an Index Constituent multiplied by the Index value and the Divisor and (B) its Trading Price (converted into AUD according to the principles laid out in Section 1.4 of this document).

The “Percentage Weight” of an Index Constituent is the ratio of its Trading Price multiplied by its Number of Shares divided by the Index value and the Divisor.

The “Rebalance Date” is the close of the third Wednesday in April, July, October and January that is also a Business Day according to the definition in this document. In case that day is not a Business Day the Rebalance Date will be the following Business Day.

A “Trading Day” is in relation to the Index or an Index Constituent Trading Day on the Australian Securities Exchange (or a day that would have been such a day if a Market Disruption Event had not occurred), excluding days on which trading may be ceased prior to the normal Exchange closing time. The Calculation Agent is ultimately responsible as to whether a certain day is a Trading Day with regard to the Index or an Index Constituent or in any other connection relating to this document.

With regard to an Index Constituent (subject to the provisions given above under “Extraordinary Events”) the “Trading Price” in respect of a Business Day is the closing price on this Business Day determined in accordance with ASX regulations.

APPENDIX B - CONTACT DETAILS

For further information regarding the Index composition and calculation, please contact:

SelfWealth Ltd

indexcommittee@selfwealth.com.au

or

Solactive AG

Bettinastrasse 30

60325 Frankfurt am Main

Tel.: +49 69 9760 955 00 Fax: +49 69 9760 955 25 indexing@solactive.com

APPENDIX C - LEGAL

The names “SelfWealth”, “SMSF Leaders Index” and “Solactive” are trademarked.

This document contains the methodology regarding the structure and calculation of the SelfWealth SMSF Leaders Index. Solactive AG is currently the Calculation Agent.

Solactive AG shall make every effort to implement such methodology. [Solactive AG] does not offer any explicit or tacit guarantee or assurance, neither pertaining to the results from the use of the Index nor the Index value at any point in time nor in any other respect. The Index is calculated and published by [Solactive AG] without warranty, and [Solactive AG] shall strive to the best of its ability to ensure the correctness of the calculation. There is no obligation for [Solactive AG] to notify third parties directly, including investors and/or financial intermediaries, of any errors in the Index. In case of any errors in the Index, the [Solactive AG] will announce such errors on its website. The publication of the Index by [Solactive AG] is not a recommendation for capital investment and does not indicate any assurance or opinion of [Solactive AG] regarding a possible investment in a financial instrument based on the Index.