



**Zacks**

**INDEX  
SERVICES**

---

**A DIVISION OF ZACKS  
INVESTMENT MANAGEMENT**

**SUMMIT ZACKS GLOBAL WATER  
INDEX  
(ZAXWTRX)**

# **Table of Contents**

- 1. About Zacks**
- 2. Index Summary**
- 3. Index Methodology**
  - 3.1. Overview**
  - 3.2. Investable Universe**
  - 3.3. Selection & Weighting**
  - 3.4. Rebalance Frequency**
  - 3.5. Corporate Actions**
- 4. Index Calculation & Dissemination**
- 5. Disclaimer**

## **1. Who is ZACKS**

### **Zacks Investment Research**

Zacks Investment Research was formed in 1978 to compile and analyze brokerage research for both institutional and individual investors. The guiding principle behind the work is the belief that there must be good reason for brokerage firms to spend over a billion dollars a year to research stocks to recommend to their clients. Obviously, these investment experts know something special that may be indicative of the future direction of stock prices. Zacks was determined to unlock that secret knowledge and make it available to clients to help them improve their investment results.

This massive undertaking requires Zacks to continually process reports issued by approximately 3,000 analysts from 150 brokerage firms. At any given point in time, Zacks is monitoring well over 200,000 earnings estimates and brokerage recommendation data points, looking for any change - whether it be an upgrade from a "hold" to a "buy" or a revision in an analyst's forecast for a specific quarter or fiscal year. Zacks constantly compiles and updates this information, distributing it to institutional investors and many financial web sites. Zacks ability to gather, analyze, and distribute information on a timely basis makes Zacks' research amongst the most widely used in the industry.

### **Zacks Investment Management**

Zacks Investment Management (ZIM), a wealth management boutique, is an expert on earnings and using earnings estimates in the investment process. The firm is a wholly owned subsidiary of Zacks Investment Research. ZIM employs quantitative models that are made available to both retail and institutional clients through separately managed accounts and mutual funds. Zacks Index Services (ZIS), a division of ZIM, creates and maintains proprietary, quantitative portfolio strategies that are licensed to product sponsors and serve as the basis of investment products such as ETFs, UITs, and CEFs.

## 2. INDEX SUMMARY

<b>Full Name</b>	Summit Zacks Global Water Index
<b>Index Types</b>	Total Return Index (Ticker: ZAXWTRX)
<b>Eligible Stocks</b>	All Common Stocks of Companies in Water Related Business that are Listed in U.S. and Global Exchanges
<b>Number of Constituents</b>	No less than 30 constituents No more than 50 constituents
<b>Weighting Scheme</b>	Modified Dividend Yield Weighting
<b>Rebalancing &amp; Reconstitution Frequency</b>	Effective Quarterly in January, April, July and October
<b>Calculation Frequency</b>	Price Return: 15 seconds between 00:30 & 18:00 ET Gross Total Return: 15 seconds between 00:30 & 18:00 ET
<b>Base date</b>	2005/12/31
<b>Base level</b>	1000.00
<b>Historical Returns available since</b>	2005/12/31
<b>Derivatives and Linked Products</b>	Summit Water Infrastructure Multifactor ETF (Ticker: WTRX)

### 3. INDEX METHODOLOGY

#### 3.1 Overview

The Summit Zacks Global Water Index is comprised of approximately 30 to 50 equities selected from a stringently defined universe of U.S. and international companies with a significant portion of their business activities dedicated to the global water industry. The Index is comprised of two segments, Water Utilities and Water Industrials, and individual positions are selected using a “smart” methodology designed to identify those companies that offer the greatest potential from a yield and risk/return perspective while maintaining global diversification. The strategy utilizes a proprietary three-factor model that ranks the data points that have been determined through rigorous testing to be the most relevant to company valuation and profitability in the global water industry. A weighting scheme based on dividend yield rather than market capitalization is further applied to enhance the overall yield of the Index. The Index was created in collaboration with Summit Global Management, which has been designing investment strategies in the global water industry for more than 25 years. For more information please visit [www.zacksindexservices.com](http://www.zacksindexservices.com).

#### 3.2 Investable Universe

Stocks that meet the following criteria are included in the investable universe:

- Stocks traded on an eligible global exchange. Stocks listed on local exchanges in certain non-U.S. markets that have difficult trading requirements or regulatory regimes are ineligible. Stocks traded over-the-counter are also ineligible.
- Stocks that primarily derive revenue from the water related business. Water related business is described as the following table. Companies in other sectors/industries that primarily derive revenue from water related business are also included after in-depth analysis of segment revenue. Stocks are classified as being in one of the two clusters: Water Utilities (include stocks in Utility or Energy sector) or Water Industrials (All other stocks not in Utility or Energy Sector).

Segment	Sub Industry
Water Industrials	Water Utility Line Construction
	Implement & Irrigation Equip
	Water Purification Equipment
	Water Treatment Chemicals
Water Utilities	Water Networks

- Stocks with 3 month average daily trading value greater than \$400,000 USD

- Stocks with market value greater than \$200 million USD

### 3.3 Selection & Weighting

#### Water Utilities

1. Rank investable stocks in the water utility segment by Enterprise Value/EBITDA in descending order, by P/E ratio in descending order, and by Return of Equity (ROE) in ascending order.
2. Equally weight the ranks of EV/EBITDA, P/E and ROE to create a 3-factor model score.
3. Select 50% of stocks in the water utility segment based on the 3-factor model score.
4. Rank each of the remaining securities by dividend yield in ascending order. Add together each of the securities' dividend ranks to determine the aggregate dividend rank. Weight the securities based on their individual contribution to the aggregate dividend rank. For example, if there are 14 securities in total, the aggregate dividend rank is 105; a stock with a dividend rank of 14 will have a weighting equal to 13.33%.

$$w_i = \frac{14}{\sum_{i=1}^{14} i} = 13.33\%$$

5. Assign a 35% weight to stocks in the water utilities segment based on their weighting calculated in step 4. Final weight will be  $35\% \times w_i$

#### Water Industrials

1. Rank investable stocks in the water industrial segment by P/E ratio in descending order, by Gross Margin in ascending order, and by Return of Investment Capital (ROIC) in ascending order.
2. Equally weight the ranks of P/E, Gross Margin, and ROE to create a 3-factor model score.
3. Select 50% of stocks in the water industrials based on the 3-factor model score.
4. Rank each of the remaining securities by dividend yield in ascending order. Add together each of the securities' dividend ranks to determine the aggregate dividend rank. Weight the securities based on their individual contribution to the aggregate dividend rank. For example, if there are 14 securities in total, the

aggregate dividend rank is 105; a stock with a dividend rank of 14 will have a weighting equal to 13.33%.

5. Assign a 65% weight to stocks in the water industrials segment based on their weighting calculated in step 4. Final weight is  $65\% \times W_i$ .

### **3.4 Rebalancing Frequency**

The index is to be reconstituted and rebalanced once a quarter

### **3.5. Corporate Actions**

The Index may be adjusted for intra-rebalance corporate actions in order to maintain the continuity of the index level and composition. These adjustments take place in reaction to events that occur on the company/constituent level and are designed to mitigate or eliminate the effect of those events on the index performance. This ensures that the index continues to only reflect the performance of the underlying portfolio as accurately as possible.

Any stock that is not available for trading due to a merger, acquisition, delisting or bankruptcy is deleted from the Index on the effective date of the corporate event. There will normally be no replacement for the company being removed. If a company is removed from the index, the index divisor will be adjusted to maintain the index level.

If there is a merger or acquisition between two members of the Index, then the acquired company will be deleted and the shares of the acquirer will be increased as per the terms of the merger consideration paid in shares. If there is an acquisition of a member of the Index by a non-member, then the acquired company will be deleted from the index. If there is an acquisition of a non-member by a member of the index, then there will be no changes made.

If a company files for bankruptcy, then the company will be deleted from the index effective for the next trading day. The price of the deletion will be set to its closing price on the OTC markets, if it is available for trading that day. If the stock does not trade on the OTC markets, and a price is not readily available, the Index Committee reserves the right to set a price at which it will be deleted. This price could be equal to \$0, if there is no available indication of its current value.

In the situation that trading in shares is suspended or halted, the last known price established during regular trading on the primary exchange will be utilized. In extraordinary situations, a company could be valued at a price of \$0 by the Index Committee if there is some sort of financial distress or bankruptcy situation present.

In the event of a spin-off by a constituent of the index, the price of the parent company will be adjusted by the value of the spun-off entity. The shares of the parent company will be increased to maintain the existing constituent weighting within the index.

Regular cash dividends will be accounted for in the total return version of the index. Dividends that are deemed to be special cash dividends will be adjusted for via a price adjustment and corresponding share increase to maintain the constituent's existing weighting within the index. Dividends will be judged to be special by the Index Committee taking into account the size of the dividend as well as more commonly the identification of the dividend relative to the timing of its normal dividend reporting schedule.

In the case of a rights issue being offered by an index constituent, the price of that constituent will be adjusted for by the value of the right effective for the ex-date. The shares of the constituent will be increased to maintain the constituent's existing weighting within the index. The rights issue will only be adjusted for if the rights represent a positive value, or are in-the-money. Alternatively, the rights issue will also be adjusted for if the rights can be converted into a tangible cash value.

For bonus issues, stock splits and reverse stock splits, the number of shares included in the index will be adjusted in accordance with the ratio given in the corporate action. Since the event won't change the value of the company included in the index, the divisor will not be changed because of this.

Changes in the number of shares outstanding, typically due to share repurchases, tenders, or offerings, will not be reflected in the index.

#### **4. Index Calculation & Dissemination**

NYSE Arca, Inc., a wholly-owned subsidiary of NYSE Group, Inc. ("the Agent", hereafter), has been selected as an index calculation agent acting on behalf of ZIS. The Agent calculates the index values for both the Price and Total Return indexes, and handles index maintenance work such as the application of corporate actions and implementation of rebalances, all according to the specifications provided by ZIS. The Agent also updates and disseminates the index values, notably, through Bloomberg and Reuters through its NYSE Global Index Feed (GIF).



## **5. DISCLAIMER**

### **Cases uncovered by the rules provided in this document**

Should ZIS encounter cases that are not covered by the rules provided in this document, ZIS reserves the right to apply an adjustment to the rules that are believed to be along the lines of the purpose of the index.

### **Index Rule Changes**

ZIS reserves the right to amend or withdraw the index rules in whole or in part at any time. ZIS and its affiliates (Zacks Investment Management and Zacks Investment Research) are not liable for any losses resulting from the index rule changes.

### **Liability**

Although ZIS will do its best to ensure the accuracy of all the data and the calculations involved in the periodic index updates, it is not liable for any unforeseen outcomes caused by any inaccuracy in data or human errors.

### **Ownership**

ZIS is the owner of all intellectual and other property rights to the index, including the name, the composition and the calculation of the index.