

## **NBC Canadian Family Index Rules Book**

*(Last modified on: 2020-07-20)*

### **1. Selection rules (applied at rebalance)**

The Index Calculator (SPDJI) will provide the Index Designer (National Bank of Canada) with the “Index Universe” that satisfies the following screening based on data as of the last business day of May:

1. *Listed on the Toronto Stock Exchange*
2. *For the 180 trading days preceding the “last business day of May”:*
  - a. *average daily trading volume\*  $\geq$  C\$500,000 AND at least 90 trading days with  $\geq$  \$500,000 trading volume per day  
(In the case of multiple classes, the calculation of trading volume is based the combined Canadian-listed share classes’ volume)*
3. *Size filter:*
  - a. *Float-adjusted market capitalization as of the “last business day of May”  $\geq$  C\$1.0 billion  
(In the case of multiple classes, the float shares of each class are combined for the purpose of determining a company’s float-adjusted market cap)*
4. *Listed for at least 12 months as of the “last business day of May”*
5. *Only one share class will be included for each company. The share class to be included should be the one with higher float-adjusted shares*

*\*Trading volume includes trading volume at the Toronto Stock Exchange through June 16, 2017, and includes TSX and any Canadian trading venue, which provides the data in a timely manner, thereafter.*

Out of this Index Universe, the Index Designer (National Bank of Canada) will provide the Index Calculator (SPDJI) with the securities that qualify as family owned. Securities are assessed by the Index Designer (National Bank of Canada) and not the Index Calculator (SPDJI) on the basis of public company filings available on the last business day of May. The Index is reviewed annually and all index constituents will be updated on the June rebalancing (the Annual Review Month), being the close of markets on the third Friday of June of each year (the Annual Review Day).

One month prior to the Annual Review Month, the Index Calculator (SPDJI) will provide a “Preliminary Index Universe”, to the Index Designer (National Bank of Canada) in order for the Index Designer (National Bank of Canada) to prepare for the process. The Index Calculator (SPDJI) will provide the Index Designer (National Bank of Canada) with the “Preliminary Index Universe” that satisfies the following screening based on data as of the last business day of April:

1. *Listed on the Toronto Stock Exchange*
2. *For the 180 trading days preceding the “last business day of April”:*

- a. *average daily trading volume  $\geq$  C\$500,000 AND at least 90 trading days with  $\geq$  \$500,000 trading volume per day  
(In the case of multiple classes, the calculation of trading volume is based the combined Canadian-listed share classes' volume)*
3. *Size filter:*
  - a. *Float-adjusted market capitalization as of the "last business day of April"  $\geq$  C\$950 M  
(In the case of multiple classes, the float shares of each class are combined for the purpose of determining a company's float-adjusted market cap)*
4. *Listed for at least 12 months as of the "last business day of May"*
5. *Only one share class will be included for each company. The share class to be included should be the one with higher float-adjusted shares*

The Index Calculator (SPDJI) should provide both the "Preliminary Index Universe" and the "Index Universe" companies within 3 business days after the respective month-ends of April and May.

The Index Calculator (SPDJI) will determine the weights at the quarterly rebalancing dates according to the weighting rules as specified in Section 5.

Finally, for back testing purposes, and as a one-time request, the Index Calculator (SPDJI) will provide to the Index Designer (National Bank of Canada) the "Index Universe" that satisfies the following criteria:

1. *Listed on the Toronto Stock Exchange*
2. *For the 180 trading days preceding the "last business day of May":*
  - a. *average daily trading volume  $\geq$  C\$500,000 AND at least 90 trading days with  $\geq$  \$500,000 trading volume per day  
(In the case of multiple classes, the calculation of trading volume is based the combined Canadian-listed share classes' volume)*
3. *Size filter:*
  - a. *Float-adjusted market capitalization as of the "last business day of May"  $\geq$  C\$1.0 billion  
(In the case of multiple classes, the float shares of each class are combined for the purpose of determining a company's float-adjusted market cap)*
4. *Listed for at least 12 months as of the "last business day of May"*
5. *Only one share class will be included for each company. The share class to be included should be the one with higher float-adjusted shares*

The back testing file should comprise the latter data computed at each last business day of May for each year going back to June 2005.

Index constituents that meet the eligibility requirements (as specified in Annex 1) will be sent by the Index Designer (National Bank of Canada) to the Index Calculator (SPDJI) on the Wednesday before the second Friday of the Annual Review Month.

## **2. Rebalance schedule**

Rebalancing of the constituents' weights will occur 4 times a year in **March, June, September, and December**. The revisions are implemented at the closing price of the second Friday of each relevant month. The rebalance will become effective after the close of the third Friday, prior to the open of the Monday following, of a relevant month.

Intra-quarter changes are made on an as needed basis. Changes in weights may occur in response to corporate actions and market developments. The target announcement period is two-to-five business days prior to the effective date of the change, but exceptions may apply due to unexpected corporate activity.

- a. Pro-forma schedule: 5 days of pro-forma files required starting from the 2<sup>nd</sup> Friday of the rebalance month.
- b. Reference day for locking in index shares: 2<sup>nd</sup> Friday of the rebalance month

## **3. Fundamental data capture date (if applicable)**

As specified in Section 1, after having received the "Index Universe" from the Index Calculator (SPDJI), the Index Designer (National Bank of Canada) will provide the Index Calculator (SPDJI) a file indicating whether each name in the "Index Universe" is family-owned. The Index Calculator (SPDJI) will calculate the weights at the quarterly rebalancing dates using the publicly available information required to compute an equal weight index. The "Index Universe" from which the names will be selected from is restricted to companies listed on the Toronto Stock Exchange.

## **4. Estimated (or actual) number of stocks**

As at June 2016, there were 41 eligible stocks for the Index.

### **a. Exchange listing of stocks (i.e. US NYSE/NASDAQ listed securities)**

As at June 2016, all eligible stocks are listed on the Toronto Stock Exchange (TSX)

- i. Being listed on the Toronto Stock Exchange is a prerequisite to be part of the index.
- ii. Some constituents may be listed on other exchanges, but for the purpose of the index only the Toronto Stock Exchange is considered

## **5. Weighting rules (applied at rebalance)**

Rebalancing is calculated by the Index Calculator (SPDJI). The Index uses an equal weight methodology. The weight of each constituent is brought back to its % share of the total number of constituents in the Index at each quarterly effective rebalance date according to equal weight methodology.

### 6. Intra-rebalance weighting rules

When a security is removed from the index due to a corporate action event, the Index Calculator (SPDJI) will adjust the Index Divisor to the allocated number of shares and not perform an intra-quarter rebalancing.

### 7. Corporate action rules

Intra-quarter changes are made on an as needed basis. Changes occur in response to corporate actions and market developments. A security is removed from the index at the first practical date deemed possible by the Index Calculator (SPDJI). When a security is removed from the index due to a corporate action event, the Index Calculator (SPDJI) will adjust the Index as mentioned in Section 6. Replacements would only occur at regularly scheduled rebalances. Furthermore, the following corporate actions are also treated and made effective, as instructed in the following table, by the Index Calculator (SPDJI) in an as soon as possible time frame:

Rights offering (standard treatment): If the rights are in the money, the spot price of the underlying security will be adjusted on exDate-1 and the shares outstanding will be increased with respect to rights offering ratio.

Spin-Off Treatment: The spun-off company should be included into the index along with the parent. If at the next annual review date individually the spun off company and/or its parent do not respect the Index quantitative filters, they shall be dropped from the index at that moment.

STOCK EVENT TYPE	Standard SPDJI Treatment	Divisor Change
Stock Forward/Reverse Split	Market cap neutral event. Shares change offset by price adjustment in the morning.	No
IWF Change	IWF increase/decrease has no impact on index shares as the AWF will adjust to offset the IWF change.	No
Share Issuance	Shares outstanding increase/decrease has no impact on index shares as the AWF will adjust to offset the shares outstanding change.	No
Rights Offering	If the rights are in the money, the spot price of the underlying security will be adjusted on exDate-1 and the index shares of the underlying security will adjust to offset the price adjustment thus making the event a market cap neutral event.	No

Special Dividend	The spot price of the underlying security will be adjusted on exDate-1.	Yes
Delisting (due to bankruptcy or cancellation of listing)	The delisted security will be deleted from the company (at either the last traded price of a zero price).	Yes
Spin-off	<p>Our standard practice is that we follow a zero price spin off treatment effective October 1st, 2015. No price adjustment is applied to the parent and instead, the spunoff company is added to the index at a price of zero with respect to the terms of the spinoff so it is Market Cap neutral on the Ex-Date (No Divisor Change).</p> <p>In the event that SPDJI applies the event as a non-ZPSO event, the spun-off company is added to the index with respect to spinoff ratio. The spot price of the underlying security is adjusted after market close of the day prior to the ex-Date by the closing spot price of the spun-off company multiply by the spinoff ratio, thus making it a market cap neutral event. The divisor will not be adjusted.</p> <p>Index keeps all spinoffs until next annual review in June.</p>	No
Stock distribution of a different share class (stock dividend/spin-off)	A different share class of the same company is distributed to share holders. The new share class will remain in the index until the next regularly scheduled index review.	No
M&A (Cash acquisition)	The acquired company is deleted from the index. The index divisor will be adjusted.	Yes
M&A (Stock acquisition, cash and/or stock acquisition)	The acquired company is deleted from the index. The index shares of the acquirer will not change. The index divisor will be adjusted.	Yes

Note: Should a family or entity cease to exercise control on an Index constituent company according to the definition provided in Annex 1, the latter company will remain in the Index until the next Annual Rebalance Day and will then be removed should the company no longer be family-controlled at that moment.

## 8. Report Types

Reports	Description	Required
Levels*	Daily Index Level	Y

Constituents	Daily Index composition and next day open composition	Y
Corporate Actions	Forward looking corporate actions on the index components	Y
* Always generated		
** Generally only needed when clients require index composition in advance of rebalance date, typically for ETFs.  If needed this means the rebalance is essentially run "earlier" with pro-forma composition sent until the rebalance effective date. Consult with custom PM for more details		

**9. Length of history to be calculated by SPDJI**

10 Years

**10. Base Value**

\$1,000.00 CAD (as at the closing price on June 17, 2005)

**11. Currency versions, calculation frequency, desired ticker, name and description.**

a. Price Return

- i. Index Name = **"NBC Canadian Family Index"**
- ii. EOD or Real-time? Real-time (in CAD currency)
  - If real-time trading hours = 9:30 a.m. to 4:00 p.m. ET
- iii. Desired Ticker (8 character max) = **"NBCFAM"**
- iv. Index Description (for BBG it can only be 300 characters including spaces) =
- v. **"The Index comprises Canadian family-controlled public companies having either a founder OR an Individual that controls, respectively, at least 10% and 33.3% of the company's voting rights. To qualify, a constituent must have a float capitalization of \$1B or more and be listed for at least 12 months."**

b. Total Return

- i. Index Name = **"NBC Canadian Family Total Return Index"**
- ii. EOD or Real-time? Real-time (in CAD currency)

- If real-time trading hours = 9:30 a.m. to 4:00 p.m. ET
- iii. Desired Ticker (8 character max) = “NBCFAMTR”
- iv. Index Description (for BBG it can only be 300 characters including spaces) =  
“The Index comprises Canadian family-controlled public companies having either a founder OR an Individual that controls, respectively, at least 10% and 33.3% of the company’s voting rights. To qualify, a constituent must have a float capitalization of \$1B or more and be listed for at least 12 months.”

c. Net Total Return

- i. Index Name = n/a
- ii. EOD or Real-time?
  - If real-time trading hours = n/a
- iii. Desired Ticker (8 character max) = n/a
- iv. Index Description (for BBG it can only be 300 characters including spaces) = n/a

**12. Index Holiday schedule**

The Index shall be calculated when the Canadian equity markets are open as per:  
<https://www.tsx.com/trading/calendars-and-trading-hours/calendar-and-events>

**13. Vendor Distribution (optional)**

- a. S&P Dow Jones Custom Hosted Website
- b. BBG

**14. BBG Index Descriptions (optional)**

Price Return BBG description (max 300 characters including spaces) = See Section 11

Total Return BBG description (max 300 characters including spaces) = See Section 11

Net Total Return BBG description (max 300 characters including spaces) = n/a

**15. Index Purpose: product or benchmark?**

Benchmark

**Annex 1: Additional Specifications**

**Eligibility Requirements**

To be eligible in the Index, a company must satisfy the following conditions:

1. Listed on the Toronto Stock Exchange
2. For the 180 trading days preceding the “last business day of May”:
  - a. average daily trading volume  $\geq$  C\$500,000 AND at least 90 trading days with  $\geq$  \$500,000 trading volume per day  
(In the case of multiple classes, the calculation of trading volume is based the combined Canadian-listed share classes’ volume)
3. Size filter:
  - a. Float-adjusted market capitalization as of the “last business day of May”  $\geq$  C\$1.0 billion  
(In the case of multiple classes, the float shares of each class are combined for the purpose of determining a company’s float-adjusted market cap)
4. Listed for at least 12 months as of the “last business day of May”
5. Only one share class will be included for each company. The share class to be included should be the one with higher float-adjusted shares
6. Be considered a Family Business, defined as:

#### **Family Business definition**

1. *Founding family or founder(s) controls, directly or indirectly, 10% or more of the voting rights, OR;*
2. *Individual and/or related entities, with ownership that directly or indirectly control 33.33% or more of the voting rights.*

This process is determined by the Index Designer (National Bank of Canada) and not the Index Calculator (SPDJI) on an annual basis every June rebalancing.

- *Must be Common Shares (for more clarity, the following securities shall not be eligible for inclusion in the index: securities issued by mutual fund corporations, preferred shares, exchangeable shares, warrants, installments receipts, shares of real estate income trusts and other securities deemed inappropriate by the Index Designer (National Bank of Canada) and not the Index Calculator (SPDJI), from time to time).*
- *Ineligible Securities: securities issued by mutual fund corporations, preferred shares, exchangeable shares, warrants, installment receipts, exchange trades funds, real estate investment trusts and other securities deemed inappropriate by the Index Designer (National Bank of Canada) and not the Index Calculator (SPDJI), from time to time, are not eligible for inclusion in the index. Installment receipts are not eligible for inclusion in the index, but can be used in lieu of common share trading history. Securities that are “paper-clipped” combinations of equity and debt, and which can be separated by holders, are not eligible. “Stapled” securities, in which a combination of securities trade as one and cannot be broken apart, are eligible for inclusion. (Income Deposit Securities [IDS], Enhanced Income Securities [EIS] and Income participating Securities [IPS] are paper-clipped and, therefore, are ineligible.)*
- *To be included in the Eligible Securities Pool, securities must be listed on the Toronto Stock Exchange for at least twelve full calendar months as of the month-end prior to the applicable Annual Review.*



Listed for a minimum of 12 full calendar months as of the month-end prior to the applicable rebalancing date.

### **Liquidity**

From the “Index Universe” of family owned companies, only the companies whose stocks have an average trading value of at least C\$500,000 Canadian dollars a day over the last 180 days AND have a total trading volume of C\$500,000 per day over 90 of the last 180 days will be eligible for inclusion in the Index. This will be determined by the Index Calculator (SPDJI) in order to account for liquidity.

In the case of multiple classes, the calculation of trading volume is based the combined Canadian-listed share classes’ volume. The Canadian-listed share class with the highest individual liquidity (highest average 180-day trading volume as of the month-end prior to the applicable Annual Review) will be included in the Index.

### **Listing**

For Index purposes, the constituents should be listed on the Toronto Stock Exchange.

### **Index Committee**

The Index Committee is composed of members from the Index Designer (National Bank of Canada) and of one member of an external counsel law firm.

The Index Committee is responsible for setting rules and policies, and administering the methodology for the National Bank Canadian Family Index.

The Index Committee members shall reunite yearly through a conference call to be held before or on the “Wednesday prior to the second Friday of June”. The Index Committee can also hold an *ad hoc* conference call to address any aspect of the Index. All Index Committee discussions are confidential.

Finally, should a methodology change be implemented and be approved by a majority of Index Committee members, the Index Committee shall issue a public notice (which shall also be sent to the Index Calculator) no later than the third Friday of January stating the nature and consequences of the adopted change of methodology. This event occurs 6 months (notice period) before the effective implementation of the methodology changes on Annual Review Day (third Friday of June).