

# **S&P/MX International Cannabis Index** *Methodology*

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# Introduction

## Index Objective and Highlights

The S&P/MX International Cannabis Index measures the performance of cannabis companies trading on the Toronto Stock Exchange (TSX), TSX Venture Exchange (TSX-V), New York Stock Exchange (NYSE), or Nasdaq<sup>1</sup> that are significantly involved in the cannabis market. Index constituents are capped market capitalization weighted, subject to the weighting process defined in *Index Construction*.

## Partnership

The S&P/MX indices are calculated and managed by S&P Dow Jones Indices. The TMX Group Inc. (TMX) is the owner and distributor of all S&P/MX equity index data.

## Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

Supporting Document	URL
S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology	<a href="#">Equity Indices Policies &amp; Practices</a>
S&P Dow Jones Indices' Index Mathematics Methodology	<a href="#">Index Mathematics Methodology</a>
S&P Dow Jones Indices' Float Adjustment Methodology	<a href="#">Float Adjustment Methodology</a>

This methodology was created by S&P Dow Jones Indices, in agreement with TMX, to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices and TMX so that the index continues to achieve its objective.

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<sup>1</sup> Please note this is a current list of eligible exchanges, but the list is subject to change as new exchanges may be added in the future.

# Eligibility Criteria

## Eligible Universe

The eligible universe is formed from companies listed on the TSX, TSX-V, NYSE, or Nasdaq. The TMX's Market Intelligence Group is responsible for the creation and maintenance of the eligible universe.<sup>2</sup>

For more information on the eligible universe, please refer to the universe construction document [here](#).

## Index Eligibility Screens

The following index eligibility screens are applied to the eligible universe.

**Trading History.** Each stock must have been issued and trading for the three months prior to the rebalancing reference date.<sup>3</sup>

**Market Capitalization.** Companies must have a float-adjusted market capitalization (FMC) of greater than or equal to USD\$ 120 million (current constituents greater than or equal to USD\$ 60 million)<sup>4</sup> as of the rebalancing reference date.

**Liquidity.** Stocks must meet each of the following liquidity requirements:

- a. Each stock must have an Average Daily Value Traded (ADVT), based over the past six months preceding the rebalancing reference date, of equal to or greater than USD\$ 400,000. Available trading history is used for securities with less than six months of data.
- b. Each stock must have a Median Daily Value Traded (MDVT), based over the past six months preceding the rebalancing reference date, of equal to or greater than USD\$ 400,000. Available trading history is used for securities with less than six months of data.

## Multiple Share Classes

All publicly listed multiple share class lines are eligible for index inclusion, subject to meeting the eligibility criteria. For more information regarding the treatment of multiple share classes, please refer to Approach A within the Multiple Share Classes section of S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

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<sup>2</sup> Any changes or modifications to the eligible universe are under the sole control of the TMX. The S&P/MX International Cannabis Index is calculated and managed by S&P Dow Jones Indices. The TMX Group Inc. (TMX) is the owner and distributor of all S&P/TSX equity index data.

<sup>3</sup> For more information on listing please refer to *Appendix B*.

<sup>4</sup> For more information on FMC, please refer to *Appendix A*.

# Index Construction

## Constituent Selection

At each rebalancing all stocks in the eligible universe that satisfy the Index Eligibility Screens are selected and form the index.

## Constituent Weighting

At each quarterly rebalancing the index is capped according to the procedures outlined below. If necessary, the index is capped on a daily basis when either the largest index weight exceeds 30% or the sum of the weight of the five largest companies exceeds 57%<sup>5</sup>. The reference date for quarterly capping is the Wednesday prior to the second Friday of March, June, September, and December with changes effective after the close of the following Friday. When daily capping is necessary, the changes are announced after the close of the business day on which the daily weight caps are exceeded, with the reference date after the close of that same business day, and changes are effective after the close of the next trading day. While capping is reviewed daily, the index may be capped on a less frequent basis. Both the quarterly and daily capping process are performed according to the following procedures:

1. With prices reflected on the rebalancing reference date, and membership, shares outstanding, and IWFs as of the rebalancing effective date, each company is weighted by float-adjusted market capitalization (FMC). Modifications are made as defined below.
2. If the company with the largest weight exceeds 10%, the company is capped at 10%.
3. All excess weight is proportionally redistributed to all remaining uncapped companies.
4. After this redistribution, steps 2 through 3 are repeated iteratively until the weight of the largest company does not exceed 10%.
5. **Six-month ADVT Requirement:** If the eligible constituent count is at least 15, the sum of the six-month ADVT of the bottom 25%, by weight, must exceed USD \$30 million. If there are fewer than 15 eligible constituents the sum of the six-month ADVT of the bottom 25%, by weight, must exceed USD \$50 million.
6. Should the six-month ADVT Requirement not be met, then the constituent in the bottom 25%, by weight, with the lowest six-month ADVT is dropped, and the weighting process returns to step 1.

## Index Calculations

The index is calculated by means of the divisor methodology used in all S&P Dow Jones Indices' equity indices.

*For more information on index calculations, please refer to the Capped Market Capitalization Weighting section of S&P Dow Jones Indices' Index Mathematics Methodology.*

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<sup>5</sup> The 57% threshold is to ensure that the largest five stocks never exceed 60% of the total index weight.

# Index Maintenance

## Rebalancing

The index is rebalanced quarterly after the close on the third Friday of March, June, September and December. The rebalancing reference date is the last business day of February, May, August and November, respectively. Weights calculated as a result of the reference date data are implemented in the index effective on the rebalancing effective date. Since index shares are assigned based on prices on the reference date, the actual weight of each stock at the rebalancing differs from these weights due to market movements.

## Additions and Deletions

The majority of additions and deletions occur as part of the index rebalancings.

After each index trading date, the six-month ADVT Requirement (See *Constituent Weighting* section) is reviewed. If the six-month ADVT Requirement is not met, then the constituent in the bottom 25%, by weight, with the lowest six-month ADVT is dropped, and the reweighting process is initiated.

**Spin-Offs.** Spin-off companies are added to the index at a zero price after the market close of the day before the ex-date (with no divisor adjustment). The spun-off companies will remain in the index until the next index rebalancing, at which time each will be evaluated for continued membership.

*For further information on corporate actions, share updates, and spin-offs, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.*

## Other Adjustments

In cases where there is no achievable market price for a stock being deleted, it can be removed at a zero or minimal price at the Index Committee's discretion, in recognition of the constraints faced by investors in trading bankrupt or suspended stocks.

## Currency of Calculation and Additional Index Return Series

The index is calculated in Canadian dollars.

Real-time spot Forex rates, as supplied by Reuters, are used for ongoing real-time index calculation.

WM/Reuters foreign exchange rates are taken daily at 04:00 PM London time and used in the calculation of the index. These mid-market fixings are calculated by the WM Company based on Reuters' data and appear on Reuters pages WMRA.

In addition to the indices detailed in this methodology, additional return series versions of the indices may be available, including, but not limited to: currency, currency hedged, decrement, fair value, inverse, leveraged, and risk control versions. For a list of available indices, please refer to [S&P DJI's All Indices by Methodology Report](#).

*For information on the index calculation, please refer to S&P Dow Jones Indices' Index Mathematics Methodology.*

### Base Dates and History Availability

Index history availability, base date, and base value are shown in the table below.

Index	Launch Date	First Value Date	Base Date	Base Value
S&P/MX International Cannabis Index	11/18/2019	09/21/2018	11/15/2019	200

# Index Data

## Calculation Return Types

S&P Dow Jones Indices calculates multiple return types which vary based on the treatment of regular cash dividends. The classification of regular cash dividends is determined by S&P Dow Jones Indices.

- Price Return (PR) versions are calculated without adjustments for regular cash dividends.
- Gross Total Return (TR) versions reinvest regular cash dividends at the close on the ex-date without consideration for withholding taxes.
- Net Total Return (NTR) versions, if available, reinvest regular cash dividends at the close on the ex-date after the deduction of applicable withholding taxes.

In the event there are no regular cash dividends on the ex-date, the daily performance of all three indices will be identical.

For a complete list of indices available, please refer to the daily index levels file (“.SDL”).

*For more information on the classification of regular versus special cash dividends as well as the tax rates used in the calculation of net return, please refer to S&P Dow Jones Indices’ Equity Indices Policies & Practices Methodology.*

*For more information on the calculation of return types, please refer to S&P Dow Jones Indices’ Index Mathematics Methodology.*

# Index Governance

## Index Committee

The S&P/MX International Cannabis Index is maintained by the S&P/TSX Canadian Index Committee. The Index Committee is comprised of four members representing S&P Dow Jones Indices and three members representing the Toronto Stock Exchange (“TSX”). The Index Committee is chaired by a member designated by S&P Dow Jones Indices. Meetings are held regularly.

The Index Committee is responsible for setting rules and policies for the index, determining the composition of the index, and administering the methodology. In fulfilling its responsibilities, the Index Committee has full and complete discretion to amend, apply, or exempt the application of the methodology and other index policies as circumstances may require, and add, remove, or by-pass any security in determining the composition of the index.

The Index Committee may rely on any information or documentation submitted to or gathered by it that the Index Committee believes to be accurate. Where a public document used by the Index Committee is available in both official languages, the Index Committee shall assume that the contents of both versions are identical. The Index Committee reserves the right to reinterpret publicly available information and to make changes to the index based on a new interpretation of that information at its sole and absolute discretion.

Index corrections and changes to index composition are implemented at such time and in such manner, as the Index Committee deems appropriate. The timing of any index change made in response to a correction shall be at the sole and absolute discretion of the Index Committee.

Canadian and U.S. trading volume is determined using the composite volume. Canadian trading volume includes trading on the TSX, Aequitas (Lit and Neo), Alpha, CSE (Pure Trading), Instinet Canada, Liquidnet Canada, Lynx, Nasdaq CXC, Nasdaq CXD, Nasdaq CX2, Omega and TriAct Match Now.

S&P Dow Jones Indices considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

S&P Dow Jones Indices’ Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

*For information on Quality Assurance and Internal Reviews of Methodology, please refer to S&P Dow Jones Indices’ Equity Indices Policies & Practices Methodology.*

# Index Policy

## **Announcements**

Whenever possible, announcements of additions or deletions of stocks or other index adjustments are made five trading days before the adjustments are implemented. In those cases when it is not possible to trade a stock five days after an announcement, the announcement period may be shortened. However, the implementation of an index adjustment is never earlier than the market close of the day following the announcement.

In addition, TMX Datalinx offers a fee-based subscription to Index Notices. The Index Notices provide the most detailed and comprehensive coverage of index changes. Complete data for index replication (including share counts, tickers and data on index levels and returns) are also available through TMX Datalinx. In order to subscribe, contact TMX Datalinx by phone at +1.416.947.4778 or by email at [marketdata@tmx.com](mailto:marketdata@tmx.com).

## **Holiday Schedule**

The S&P/MX International Cannabis Index is calculated only when the Canadian equity market is open.

*A complete holiday schedule for the year is available on the TMX Web site at [www.tmx.com](http://www.tmx.com).*

## **Rebalancing**

The Index Committee may change the date of a given rebalancing for reasons including market holidays occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

## **Unexpected Exchange Closures**

For information on Unexpected Exchange Closures, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

## **Recalculation Policy**

For information on the recalculation policy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

## **Real-Time Calculation**

Real-time, intra-day, index calculations are executed for certain indices whenever any of their primary exchanges are open. Real-time indices are not restated.

*For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.*

## **Contact Information**

For any questions regarding an index, please contact: [index\\_services@spglobal.com](mailto:index_services@spglobal.com).

# Index Dissemination

The TMX serves as the distributor of both real-time and historical index data. In addition, index levels are available on S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com), through major quote vendors (see codes below), through numerous investment oriented Web sites and various print and electronic media.

## Tickers

The table below lists headline indices covered by this document. All versions of the below indices that may exist are also covered by this document. Please refer to [S&P DJI's All Indices by Methodology Report](#) for a complete list of indices covered by this document.

Index (Currency)	Return Type	Bloomberg	RIC
S&P/MX International Cannabis Index (CAD)	Price Return	SPTMCAN	.GSPMCAN
	Total Return	SPTMCANR	.TRGSPMCANN
	Net Total Return	SPTMCANN	.NTRGSPMCANR

## Index Data

Daily constituent and index level data is available from the Toronto Stock Exchange on subscription. Please contact Market Data at 416-947-4778 or, by email, at [marketdata@tmx.com](mailto:marketdata@tmx.com).

*For further information, please refer to the TMX Web site at [www.tmx.com](http://www.tmx.com).*

## Web Site

*For further information, please refer to S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com).*

# Appendix A – Float Market Cap

## Sources

Using the Cannabis company eligible universe provided by TSX, S&P DJI determines the appropriate FMC for each company according to the following process:

- a. Check if Canadian-listed stock data is available from the S&P/TSX Composite, S&P/TSX Venture Composite, or S&P Total Market Index (TMI)
- b. If free-float market cap data is not found in (a), check S&P stock coverage
- c. If no data is found in (b), research free-float market-cap data and add to S&P stock coverage.

# Appendix B – Listing Date

## **Determination of Listing Date:**

The TSX provides three dates for each stock, namely Listing Date, QT date, and RTO date, used to determine the listing date to satisfy the Trading History Requirement according to the following process:

1. If all three dates are blank, the stock passes the three months trade date requirement.
2. Otherwise, calculate the maximum date based on the available dates.
3. The maximum date should be less than or equal to three months prior to the rebalancing reference date.

# Disclaimer

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