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## Methodology

# Guggenheim RBP<sup>®</sup> Large-Cap Value Index

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## Introduction

The Guggenheim RBP<sup>®</sup> Large-Cap Value Index<sup>SM</sup> is part of the family of indexes offered by Guggenheim Investments using rules-based, published analytics. Components of the indexes are selected in part based on their RBP<sup>®</sup> probabilities.

RBP<sup>®</sup>, which stands for Required Business Performance<sup>®</sup>, is calculated by taking a reverse discounted cash flow approach to determine the future business performance required by a company to support its current stock price. RBP<sup>®</sup> probabilities intend to measure the likelihood that a company can deliver the required business performance identified by applying the methodology over specified time periods.

## Index Universe

The selection universe for the Guggenheim RBP<sup>®</sup> Large-Cap Value Index<sup>SM</sup> includes all securities in the Dow Jones U.S. Large-Cap Value Total Stock Market Index<sup>SM</sup> that have RBP<sup>®</sup> probabilities.

## Eligible Securities

For a stock to be eligible for selection to the Guggenheim RBP<sup>®</sup> Large-Cap Value Index, as of the Reference date it must satisfy the following:

- Be a component of the Universe
- Have an RBP probability
- Have returns data and fundamental data as required by the proprietary risk model used for index construction

Guggenheim Investments calculates the RBP<sup>®</sup> probability for each company and performs all calculations as they pertain to the risk model.

## Index Construction\*

The selection and weighting of the components of the Guggenheim RBP<sup>®</sup> Large-Cap Value Index starts from the set of eligible securities and uses optimization combined with a proprietary risk model that includes eight fundamental style factors as well as custom industries.

The objective is to maximize expected return. Optimization constraints are employed in terms of tracking error to the Universe, turnover, active exposures to fundamental factors and industries, and individual constituents' weights. Active exposures are defined as the difference between the exposures in the Index and in the Universe to factors and industries as defined in the risk model. Estimates of transaction costs are included to account for liquidity considerations.

For illustrative purposes, the optimization problem can be expressed as follows:

$$\max_{\{w_i\}} \sum_{i=1}^N w_i (\hat{r}_i - \hat{r}_C)$$
$$s.t. \hat{TE}_p \leq \overline{TE} \text{ and other constraints}$$

where N is the number of eligible securities and, for each security i,  $w_i$  is the weight,  $\hat{r}_i$  is the expected return and  $\hat{TC}_i$  is an estimate of transaction costs. Each security's expected return is estimated based on its assignment to quintiles of the RBP Probabilities distribution, defined within each industry. Ex-ante tracking error of the portfolio (Index),  $\hat{TE}_p$ , is calculated using estimates of common factor covariances from the risk model and idiosyncratic volatilities.

## Ongoing Maintenance

### Spinoffs

Spun-off companies are added to the Guggenheim RBP® Large-Cap Value Index<sup>SM</sup> at a zero price on the ex-date of the event with no divisor adjustment. Both the parent and the spin-off company remain in the Indexes until the next rebalancing.

### Adjustments for Corporate Actions

All price adjustments due to corporate actions are applied in accordance with the methodology for the Dow Jones U.S. Total Stock Market Index<sup>SM</sup>. The complete description of these adjustments can be found in the rulebook to the Dow Jones U.S. Total Stock Market Indexes<sup>SM</sup>. There is no replacement to the Indexes when a component is deleted due to mergers, takeovers or bankruptcies. Weights of deleted components are generally redistributed pro rata across the entire Index, using closing price on the deletion date. For acquisitions with stock consideration:

- if both the acquirer and the target are Index components, the weight of the acquirer will increase with respect to the stock portion of the acquisition terms
- if the acquirer is not an Index component, the target stock is sold and reinvested pro rata across the entire Index

## Review Frequency

The Guggenheim RBP® Large-Cap Value Index<sup>SM</sup> is rebalanced quarterly after the close of third Friday of March, June, September and December. For each composition review, Guggenheim Investments takes a snapshot of the common stock components of the Dow Jones U.S. Large-Cap Value Index<sup>SM</sup> on the Reference date and calculates Required Business Performance® probabilities for the companies where possible. Components are selected and weighted based on the Index Construction Methodology. In addition, the indexes are reviewed on an ongoing basis to account for corporate actions such as mergers and de-listings.

The key dates are outlined as follows:

- **Reference Date:** Close of second Friday of Rebalance month. Data is captured for Index construction, including the set of eligible securities from the Dow Jones U.S. Large-Cap Value Total Stock Market Index<sup>SM</sup>, RBP probabilities, fundamental data as required by the proprietary risk model, and close prices for component weighting factors.
- **Pro-forma Date:** The pro-forma index information will be available on Tuesday before third Friday of Rebalance month.
- **Effective Date:** Third Friday of Rebalance month. For each Index, selection and weight changes are implemented after the close of trading.

## Dissemination

Both the price-return and total-return versions of the Guggenheim RBP® Large-Cap Value Index<sup>SM</sup> are disseminated via data vendors every 15 seconds during U.S. stock exchange trading hours. Index licensees also may access data on index values and index constituents through end-of-day dissemination via the S&P Dow Jones Indices FTP site.

Index Code	Index Name
DRLVAL	Guggenheim RBP Large-Cap Value Index
DRLVALT	Guggenheim RBP Large-Cap Value Total Return Index

## Launch Date

Calculation of the Guggenheim RBP® Large-Cap Value Index<sup>SM</sup> began on January 13, 2011.

\* Prior to September 2021, a different methodology applied for Index Construction.

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