WEATHERSTORM FORENSIC ACCOUNTING LONG-SHORT INDEX™

External Index Methodology Document

WeatherStorm Capital

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1 INDEX OVERVIEW

The WeatherStorm Forensic Accounting Long-Short Index™ is a rules-based, systematic strategy index of large-cap equity securities of issuers domiciled and traded in the United States. The index seeks to enhance investors' U.S. large cap exposures by offering a long/short portfolio with full participation in the U.S. market beta while providing additional alpha potential through the careful and systematic selection and shorting of stocks based on forensic accounting analysis.

Forensic accounting critically dissects companies' financial statements with the goal of identifying the "red flags" of aggressive accounting and revenue recognition practices. While Generally Accepted Accounting Principles (GAAP) are standardized, managers have wide latitude in interpretation. Some managers, highly incentivized to produce stock performance, will use the accounting levers at their disposal to boost short-term results at the cost of future performance. The WeatherStorm Forensic Accounting Long-Short Index™ construction process aims to identify and allocate capital to higher quality stocks with more sustainable revenues, cash flows and earnings, while at attractive valuations. On the other side, it also attempts to detect lower quality stocks where aggressive accounting practices may have been employed and revenues, cash flows and earnings may be less persistent in the future.

The WeatherStorm Forensic Accounting Long-Short Index™ combines six distinct forensic accounting and valuation factors for scoring and ranking stocks. These factors cover: cash flow quality, revenue recognition, earnings quality, shareholder yield, earnings surprise and valuation. The combined score provides a metric to assess the relative attractiveness/unattractiveness for long/short index exposures.

The WeatherStorm Forensic Accounting Long-Short Index™ construction process seeks to maximize the index's exposure to highly scored stocks while also taking advantage of shorting opportunities among the lowest scored stocks. The index methodology employs various allocation and liquidity constraints to ensure a liquid, tradable, risk managed index. The index is constructed with a 100% net equity exposure (130% long, 30% short), offering investors a full core strategic beta allocation with enhanced risk adjusted returns potential.

2 INDEX CONSTRUCTION METHODOLOGY

2.1 INDEX CONSTITUTION

The WeatherStorm Forensic Accounting Long-Short Index™ is constituted and rebalanced quarterly. Historical back tested index history was rebalanced on a quarter-end schedule (March, June, September, December). Going forward, the live index continues to be rebalanced quarterly on the final business day of March, June, September, and December.

2.2 UNIVERSE DEFINITION

There are two sets of rules which govern eligibility for inclusion into the WeatherStorm Forensic Accounting Long-Short Index. One set of rules applies to stocks currently outside the index. Another slightly relaxed set of criteria apply to stocks already in the index. The purpose of the two sets of rules is to reduce index turnover in the case where stocks in the index may fall just outstand the standard inclusion criteria. As an example, a case could arise where a stock is in the top 500 at one rebalance date but at the next rebalance has fallen in rank to stock 510. The relaxed rule would allow the stock to remain in the index universe.

2.2.1 Stocks Currently Outside the Index

Stocks currently outside the index must meet each of the following criteria:

1. **The country of domicile is the UNITED STATES**.
2. **The primary exchange of the stock is in the UNITED STATES**.
3. **A 1% allocation to the stock can be traded at less than 20% of past 6 months' median daily dollar volume.** This calculation requires a portfolio size to be assumed. The Investment Policy Committee (IPC) will determine the appropriate portfolio size for index construction purposes. The IPC will generally aim to use a portfolio size considerably larger than the current total assets managed to the index.
4. **A 1% allocation to the stock can be traded at less than 20% of past 20 days' median daily dollar volume.** Similar to the rule above, a portfolio size assumption is also required. Similar logic and methodology will be applied as above.
5. **The stock is in the top 500 stocks as ranked by total market value.**
6. **The stock traded in at least 80% of the last 20 trading days.**
7. **The stock traded in at least 50% of days in the last 6 months.**

Stocks explicitly excluded from the eligible universe are all stocks meeting any one of the following criteria:

1. **The stock's primary exchange is over the counter**.
2. **The stock is a Master Limited Partnership (MLP)**.

2.2.2 Stocks Currently In the Index

As noted above, stocks currently in the index face slightly relaxed criteria for inclusion in the index. This is designed to reduce excessive turnover due to the definition of the universe.

Stocks currently in the index will remain in the eligible universe as long as the following conditions are met:

1. **The stock remains in the top 550 stocks as ranked by market value.**
2. **A 1% allocation to the stock can be traded at less than 24% of past 6 months' median daily dollar volume.** (A 20% relaxation of the criteria)
3. **A 1% allocation to the stock can be traded at less than 24% of past 20 days' median daily dollar volume.** (A 20% relaxation of the criteria)
4. **The stock traded in at least 80% of the last 20 trading days.**
5. **The stock traded in at least 50% of days in the last 6 months.**

2.2.3 The Total Universe

Stocks already in the index are given priority for inclusion in the universe over stocks not yet in the index. As such, current index members meeting the above criteria will be eligible for the universe first and stocks outside the current index will be considered for inclusion according to their rank by market value until a total universe size of 500 stocks is achieved.

2.3 FACTOR CALCULATIONS

The Forensic Accounting Long/Short Index employs a proprietary multi-factor model for scoring and ranking stocks. The factor model combines six distinct factor composites, each seeking to score different stock attributes. These six factor composites cover the following areas of analysis:

- Cash Flows
- Revenue
- Earnings Quality
- Shareholder Yield
- Adjusted Earnings Surprise
- Valuation

Each of the six factor composites are comprised a proprietary set of factors, each equally weighted to create the composite score.

After the six composite scores are calculated, they are then weighted and combined to create a single FLAG composite score. The weightings are as follows:

10% * Cash Flow Composite Factor

10% * Revenue Composite Factor

15% * Earnings Quality Composite Factor

15% * Adjusted Earnings Surprise Factor

15% * Shareholder Yield Composite Factor

35% * Valuation Composite Factor

= FLAG Composite Factor

2.4 STOCK SELECTION & PORTFOLIO CONSTRUCTION

The WeatherStorm Forensic Accounting Long-Short Index employs an optimization process for stock selection and portfolio construction. The methodology generally leads to stocks with the highest FLAG Composite Factor score being selected for long positions in the index while the lowest scored stocks become short positions in the index.

The following constraints materially guide the index creation process. These constraints include:

1. Gross exposure = 160%
2. Net exposure = 100%
3. Maximum long position size = 1%
4. Maximum short position size = 0.75%
5. Active index sector weights must be within +/-2% of the market capitalization weighted universe sector weights

2.5 CORPORATE ACTIONS

Please refer to document entitled *FLAG Solactive Calculation Guidelines Version 1.0* dated June 18, 2015.

2.6 INDEX POLICY COMMITTEE

The primary functions of the Index Policy Committee are to:

1. Approve the final index constituents and weights at each rebalance period.
2. Determine the index treatment of extraordinary corporate action events not covered in the standard corporate action methodology document.