



Gearing Up for 2Q15 Rebalance: KBW & Nasdaq Announce Minor Methodology Changes

Summary

Today, KBW and Nasdaq announced methodology changes to their family of indexes that will be implemented with the 2Q15 rebalance, effective after the close on Friday, 6/19. All methodology changes are minor and are being made to ensure consistency with Nasdaq rebalance methodologies. Also, as previously announced, all index names will be rebranded effective with the 2Q15 rebalance to include "KBW Nasdaq." The following indexes will be rebranded in the 2Q15 Rebalance to: **KBW Nasdaq Bank Index (BKXSM)**, **KBW Nasdaq Regional Banking Index (KRXSM)**, **KBW Nasdaq Insurance Index (KIXSM)**, **KBW Nasdaq Property & Casualty Index (KPXSM)**, **KBW Nasdaq Capital Markets Index (KSXSM)**, **KBW Nasdaq Mortgage Finance Index (MFXSM)**, **KBW Nasdaq Global Ex-U.S. Financial Sector Index (KGXSM)**, **KBW Nasdaq Financial Sector Dividend Yield Index (KDXSM)**, and **KBW Nasdaq Premium Yield Equity REIT Index (KYXSM)**. We provide an overview of the methodology changes in this note.

- **KBW and Nasdaq will conduct the 2Q15 Rebalance for the entire family of indexes after the close on Friday, 6/19.** This is in line with when KBW historically rebalanced the index family and rebalances will continue to occur after the close on the third Friday in March, June, September and December.
- **KBW and Nasdaq will announce changes resulting from the 2Q15 Rebalance after the market close on Friday, 6/12.** Historically, KBW announced all rebalance changes 48 hours prior to the rebalance effective date.
- **Changes to index weighting methodologies:** The **BKX, KSX, KGX, KIX, MFX** and **KPX** will be modified capitalization weighted (previously float-adjusted modified capitalization weighted). The **KRX** will also be modified capitalization weighted (previously float-adjusted equal capitalization weighted). The **KDX** and **KYX** will be modified dividend-yield weighted (previously dividend-yield weighted).
- **Changes to quarterly rebalance capping methodology:** The **BKX, KSX, KDX, KGX, KIX, MFX, KYX** and **KPX** will follow an 8% / 4% capping scheme. The **KRX** will follow a 4% / 2% capping scheme. *For further details on these new capping schemes, please refer to the table on page 2 of this note.*
- **Higher threshold set for share changes for the BKX, KRX, KIX, KPX and KSX:** If the change in total shares outstanding arising from corporate actions is greater than or equal to 10.0%, the change will be made as soon as practicable. Otherwise, if the change in total shares outstanding is less than 10.0%, then all such changes will be accumulated and made effective at the next quarterly rebalance. *(Historically, index share changes*

were made during the quarter if the change in total shares outstanding was greater than or equal to 5.0%, with all other lesser share changes accumulated and made effective at the next quarterly rebalance.)

- **Intra-quarter share changes will no longer be made for the KDX, KYX, MFX and KGX.** Index share changes will not be made during the quarter although changes arising from stock dividends and splits will be made to the index on the evening prior to the effective date of such a corporate action. *(Historically, index share changes were made during the quarter if the change in total shares outstanding was greater than or equal to 5.0%, with all other lesser share changes accumulated and made effective at the next quarterly rebalance.)*
- **Bottom Line:** *We expect all of these methodology changes to have a minimal impact on KBW Nasdaq indexes. These changes are solely being made to bring existing index methodologies in line with Nasdaq index methodologies.*
- *Please view the tables on pages 2 and 3 for a complete summary of the methodology changes in greater detail.*
- **The indexes continue to be the basis for seven PowerShares Exchange-Traded Funds (ETFs) offering investors access to key financial sub-sectors, including:** KBWB, KBWC, KBWI, KBWR, KBWP, KBWD and KBWY.

Melissa A. Roberts
212-887-3820
mroberts@kbw.com

Kelly Motta
212-887-7717
kmotta@kbw.com

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KBW Nasdaq Family of Indexes: Minor Methodology Changes Effective with 2Q15 Rebalance Effective After the Close on Friday, June 19

Index Ticker	ETF Ticker	INDEX NAMES		WEIGHTING METHODOLOGY		NEW REBALANCING METHODOLOGY CAPPING SCHEMES
		NEW NAME	Existing Name	NEW METHODOLOGY	Existing Methodology	
BKX	KBWB	KBW Nasdaq Bank Index	KBW Bank Index	Modified capitalization weighted	Float-adjusted modified capitalization-weighted	<p>The Index is rebalanced quarterly such that the maximum weight of any Index Security does not exceed 8% and no more than 5 securities are at that cap. The excess weight of any capped security is distributed proportionally across the remaining Index Securities.</p> <p>If after redistribution, any of the 5 highest ranked Index Securities are weighted below 4%, these securities are not capped.</p> <p>Next, any remaining Index Securities in excess of 4% are capped at 4% and the excess weight will be redistributed proportionally across the remaining Index Securities.</p> <p>The process is repeated, if necessary, to derive the final weights.</p>
KSX	KBWC	KBW Nasdaq Capital Markets Index	KBW Capital Markets Index			
KGX		KBW Nasdaq Global Ex-U.S. Financials Index	KBW Global Ex-U.S. Financials Index			
KIX	KBWI	KBW Nasdaq Insurance Index	KBW Insurance Index			
MFX		KBW Nasdaq Mortgage Finance Index	KBW Mortgage Finance Index			
KPX	KBWP	KBW Nasdaq Property & Casualty Insurance Index	KBW Property & Casualty Insurance Index			
KRX	KBWR	KBW Nasdaq Regional Banking Index	KBW Regional Banking Index	Modified capitalization weighted	Float-adjusted equal capitalization-weighted	<p>The Index is rebalanced quarterly such that the maximum weight of any Index Security does not exceed 4% and no more than 5 securities are at that cap. The excess weight of any capped security is distributed proportionally across the remaining Index Securities.</p> <p>If after redistribution, any of the 5 highest ranked Index Securities are weighted below 4%, these securities are not capped.</p> <p>Next, any remaining Index Securities in excess of 2% are capped at 2% and the excess weight will be redistributed proportionally across the remaining Index Securities.</p> <p>The process is repeated, if necessary, to derive the final weights.</p>
KDX	KBWD	KBW Nasdaq Financial Sector Dividend Yield Index	KBW Financial Sector Dividend Yield Index	Modified dividend yield weighted	Dividend yield weighted	<p>The Index is rebalanced quarterly based on the indicated dividend yield of each security as compared to the dividend yield of all Index Securities as of the last trading day in February, May, August and November.</p> <p>At each quarter, the Index is rebalanced such that the maximum weight of any Index Security does not exceed 8% and no more than 5 securities are at that cap. The excess weight of any capped security is distributed proportionally across the remaining Index Securities.</p>
KYX	KBWY	KBW Nasdaq Premium Yield Equity REIT Index	KBW Premium Yield Equity REIT Index	Modified dividend yield weighted	Dividend yield weighted	<p>If after redistribution, any of the 5 highest ranked Index Securities are weighted below 8%, these securities are not capped.</p> <p>Next, any remaining Index Securities in excess of 4% are capped at 4% and the excess weight will be redistributed proportionally across the remaining Index Securities.</p> <p>The process is repeated, if necessary, to derive the final weights.</p>

Source: KBW Research, Nasdaq

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KBW Nasdaq Family of Indexes: Minor Methodology Changes Effective with 2Q15 Rebalance Effective After the Close on Friday, June 19					
Index Ticker	ETF Ticker	INDEX NAMES		SHARE CHANGE METHODOLOGY	
		NEW NAME	Existing Name	NEW METHODOLOGY	Existing Methodology
BKX	KBWB	KBW Nasdaq Bank Index	KBW Bank Index	<p>If the change in total shares outstanding arising from corporate actions is greater than or equal to 10.0%, the change is made as soon as practicable.</p> <p>Otherwise, if the change in total shares outstanding is less than 10.0%, then all such changes are accumulated and made effective at the next quarterly rebalance.</p>	<p>Index Share changes are made during the quarter if the change in total shares outstanding is greater than 5.0%.</p>
KRX	KBWR	KBW Nasdaq Regional Banking Index	KBW Regional Banking Index		
KIX	KBWI	KBW Nasdaq Insurance Index	KBW Insurance Index		
KPX	KBWP	KBW Nasdaq Property & Casualty Insurance Index	KBW Property & Casualty Insurance Index		
KSX	KBWC	KBW Nasdaq Capital Markets Index	KBW Capital Markets Index		
KDX	KBWD	KBW Nasdaq Financial Sector Dividend Yield Index	KBW Financial Sector Dividend Yield Index	<p>Index Share changes are not made during the quarter; however, changes arising from stock dividends and splits are made to the Index on the evening prior to the effective date of such corporate action.</p>	<p>Otherwise, if the change in total shares outstanding is less than 5.0%, then all such changes are accumulated and made effective at the next quarterly rebalance.</p>
KYX	KBWY	KBW Nasdaq Premium Yield Equity REIT Index	KBW Premium Yield Equity REIT Index		
MFJ		KBW Nasdaq Mortgage Finance Index	KBW Mortgage Finance Index	<p>Index Share changes are not made during the quarter; however, changes arising from stock dividends and splits are made to the Index on the evening prior to the effective date of such corporate action.</p>	
KGX		KBW Nasdaq Global Ex-U.S. Financials Index	KBW Global Ex-U.S. Financials Index		

Source: KBW Research, Nasdaq

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			Count	Percent
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