

GLOBAL X  
by Mirae Asset

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## The Global X S&P 500 Covered Call ETF (XYLD)

## Important Information

Investing involves risk, including the possible loss of principal. Concentration in a particular industry or sector will subject XYLD to loss due to adverse occurrences that may affect that industry or sector. Investors in XYLD should be willing to accept a high degree of volatility in the price of the fund's shares and the possibility of significant losses.

XYLD engages in options trading. An option is a contract sold by one party to another that gives the buyer the right, but not the obligation, to buy (call) or sell (put) a stock at an agreed upon price within a certain period or on a specific date. A covered call option involves holding a long position in a particular asset, in this case U.S. common equities, and writing a call option on that same asset with the goal of realizing additional income from the option premium. XYLD writes covered call index options on the S&P 500 Index. By selling covered call options, the fund limits its opportunity to profit from an increase in the price of the underlying index above the exercise price, but continues to bear the risk of a decline in the index. A liquid market may not exist for options held by the fund. While the fund receives premiums for writing the call options, the price it realizes from the exercise of an option could be substantially below the indices current market price.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. Beginning October 15, 2020, market price returns are based on the official closing price of an ETF share or, if the official closing price isn't available, the midpoint between the national best bid and national best offer ("NBBO") as of the time the ETF calculates current NAV per share. Prior to October 15, 2020, market price returns were based on the midpoint between the Bid and Ask price. NAVs are calculated using prices as of 4:00 PM Eastern Time. The returns shown do not represent the returns you would receive if you traded shares at other times. Indices are unmanaged and do not include the effect of fees, expenses or sales charges. One cannot invest directly in an index.

***Carefully consider the Fund's investment objectives, risks, and charges and expenses before investing. This and other information can be found in the Fund's summary or full prospectuses, which may be obtained at [globalxetfs.com](http://globalxetfs.com). Please read the prospectus carefully before investing.***

Global X Management Company LLC serves as an advisor to Global X Funds. The Funds are distributed by SEI Investments Distribution Co. (SIDCO), which is not affiliated with Global X Management Company LLC or Mirae Asset Global Investments. Global X Funds are not sponsored, endorsed, issued, sold or promoted by Nasdaq or Cboe, nor do these entities make any representations regarding the advisability of investing in the Global X Funds. Neither SIDCO, Global X nor Mirae Asset Global Investments are affiliated with these entities.

Bonds and bond funds will decrease in value as interest rates rise. High yield bonds involve greater risks of default or downgrade and are more volatile than investment grade securities, due to the speculative nature of their investments. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Real estate and REIT investments are subject to changes in economic conditions, credit risk and interest rate fluctuations. Preferred stock is subject to many of the risks associated with debt securities, including interest rate risk. Companies may not pay a dividend, an issuer may suspend payment of dividends at any time, and in certain situations an issuer may call or redeem its preferred stock or convert it to common stock. Investments in securities of MLPs involve risk that differ from investments in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP. MLP common units and other equity securities can be affected by macro economic and other factors affecting the stock market in general, expectations of interest rates, investor sentiment towards MLPs or the energy sector, changes in a particular issuer's financial condition, or unfavorable or unanticipated poor performance of a particular issuer (in the case of MLPs, generally measured in terms of distributable cash flow).

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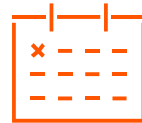
# XYLD: Global X S&P 500 Covered Call ETF

Tracking the Cboe S&P 500 BuyWrite Index, XYLD buys the stocks in the S&P 500 Index and sells “at-the-money” covered calls on the same index



### High Income Potential

XYLD seeks to generate income through covered call writing, which historically produces higher yields in periods of volatility.<sup>1</sup>



### Monthly Distributions

XYLD has made monthly distributions 9 years running.



### Efficient Options Execution

XYLD writes call options on the S&P 500 Index, saving investors the time and potential expense of doing so individually.

Key Facts	Inception Date: 06/21/13 Ticker: XYLD Tracking Index: Cboe S&P 500 BuyWrite Index Bloomberg Index Ticker: BXM	Stats & Fees	Total Expense Ratio: 0.60% 30-Day SEC Yield: 1.18% Distribution Yield: 11.65% <sup>2</sup> Number of Holdings: 505 <sup>3</sup>

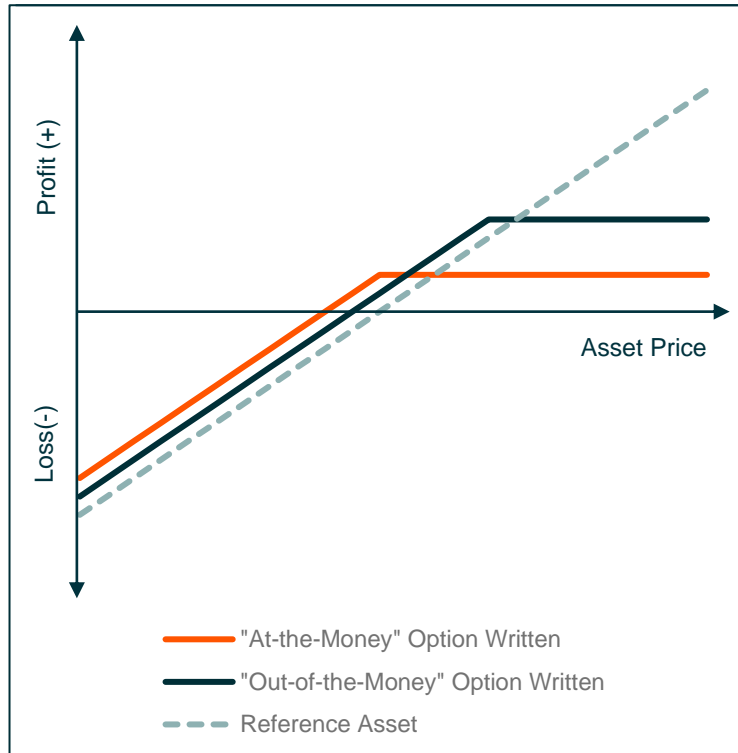
Key Characteristics	<h3>SECTOR BREAKDOWN<sup>2</sup></h3> <ul style="list-style-type: none"> <li>Information Technology</li> <li>Health Care</li> <li>Financials</li> <li>Consumer Discretionary</li> <li>Industrials</li> <li>Communication Services</li> <li>Consumer Staples</li> <li>Energy</li> <li>Utilities</li> <li>Basic Materials</li> <li>Real Estate</li> </ul>	<h3>Performance<sup>3</sup></h3> <table border="1"> <thead> <tr> <th></th> <th></th> <th>1-Month</th> <th>3-Months</th> <th>1-Year</th> <th>3-Years</th> <th>5-Years</th> <th>Annualized Since Inception</th> </tr> </thead> <tbody> <tr> <td rowspan="2">XYLD</td> <td>NAV</td> <td>-1.33%</td> <td>6.55%</td> <td>-12.07%</td> <td>1.49%</td> <td>3.59%</td> <td>6.57%</td> </tr> <tr> <td>Market Price</td> <td>-1.58%</td> <td>6.44%</td> <td>-12.07%</td> <td>1.55%</td> <td>3.56%</td> <td>6.62%</td> </tr> <tr> <td>S&amp;P 500</td> <td></td> <td>-5.76%</td> <td>7.56%</td> <td>-18.11%</td> <td>7.65%</td> <td>9.42%</td> <td>11.82%</td> </tr> </tbody> </table> <p>Performance represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. Performance current to the most recent month-end available at <a href="http://globalxetfs.com">globalxetfs.com</a>.</p> <p>The Fund's investment objective and investment strategies changed effective December 15, 2017 and again on August 21, 2020. The Fund was also re-organized effective December 24, 2018. Fund returns (NAV &amp; Market Price) presented above reflect the performance of the predecessor Fund through December 21, 2018.</p>			1-Month	3-Months	1-Year	3-Years	5-Years	Annualized Since Inception	XYLD	NAV	-1.33%	6.55%	-12.07%	1.49%	3.59%	6.57%	Market Price	-1.58%	6.44%	-12.07%	1.55%	3.56%	6.62%	S&P 500		-5.76%	7.56%	-18.11%	7.65%	9.42%	11.82%
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<sup>1</sup>Covered call writing can limit the upside potential of the underlying security. <sup>2</sup>Source: Bloomberg, as of 12/31/2022. <sup>3</sup>Global X ETFs, as of 12/31/2022.

## Covered Call Strategy Summary

A covered call is an option strategy in which an investor writes (sells) a call option on an asset he/she already owns.

**Covered Call Strategy Payoff**

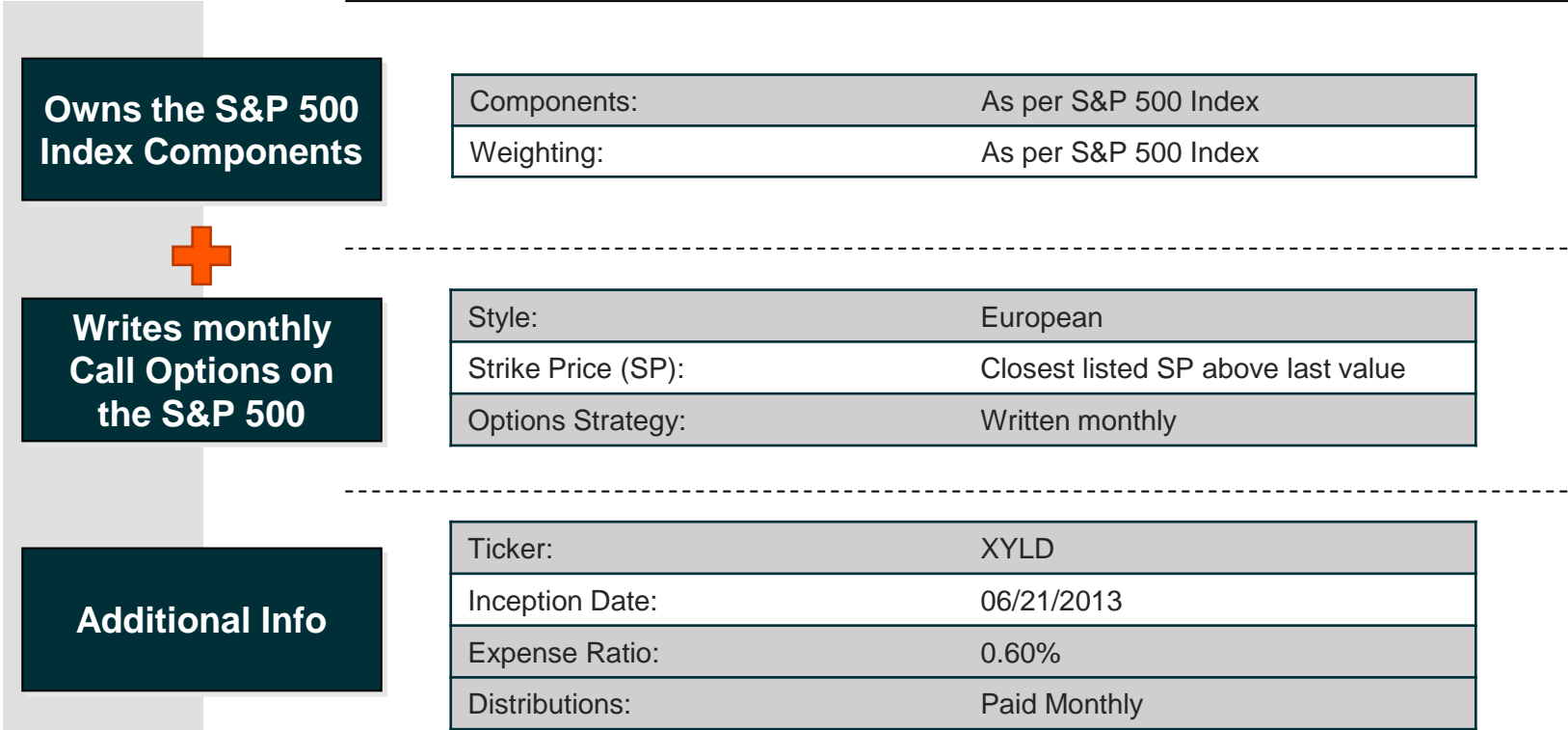


### Covered Call Features

- Generates higher income versus the underlying security itself due to the premiums received from selling call options.
- Upside potential is capped in the event that the stock appreciates beyond the strike price.
- Option premiums tend to increase during volatile markets, offering a potential risk management component.
- No additional downside protection beyond the premiums received.

## How This Works: Covered Call Strategy In Practice (XYLD)

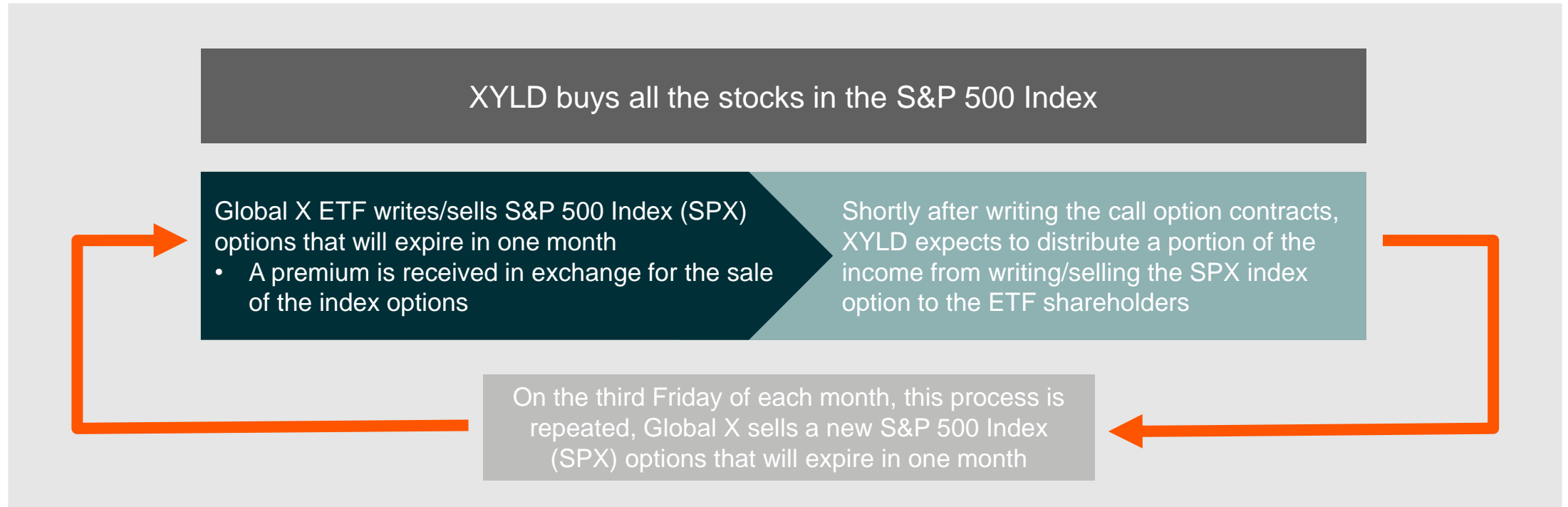
**XYLD is an ETF that implements a covered call strategy on the S&P 500.**



XYLD seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of the Cboe S&P 500 BuyWrite Index.

## Covered Call Process Explained

As an example of how an ETF can implement a covered call strategy, the Global X S&P 500 Covered Call ETF (XYLD) maintains exposure to the stocks in the S&P 500, while writing call options on the index each month.



### Index Options Details:

- Cannot be called/exercised early
- Settlement is in Cash

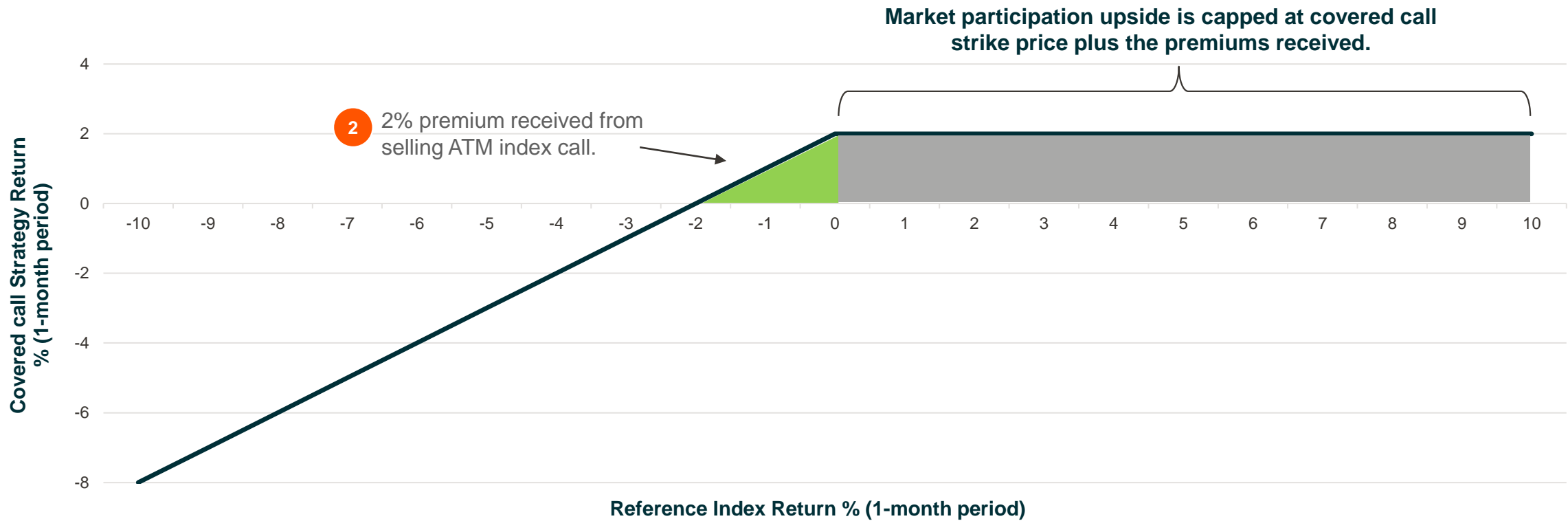
For Illustration Purposes Only



## Global X Covered Call ETFs: How it Works (with premiums)

Assuming a 2% premium is received, we can visualize how Global X's Covered Call ETFs are expected to perform.

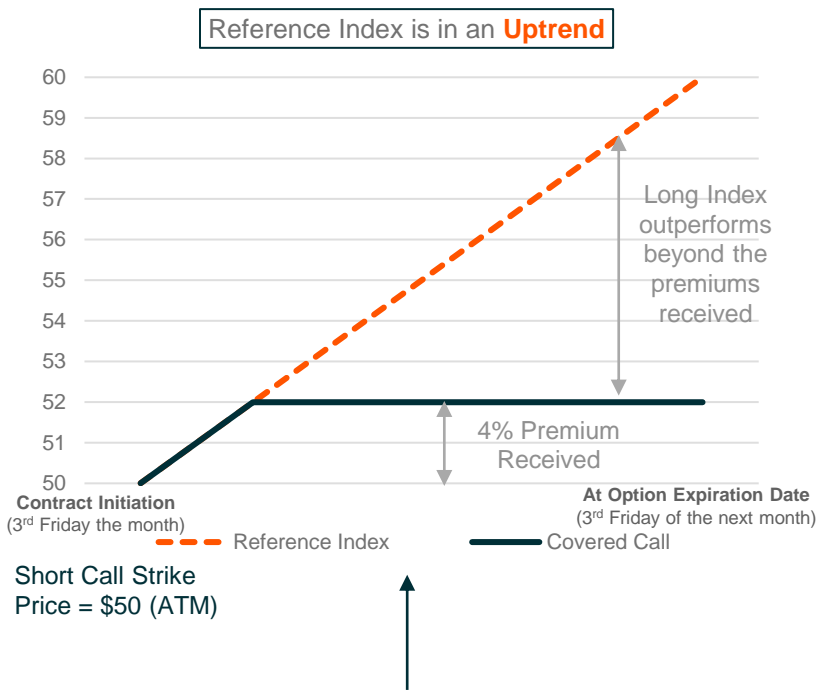
- 1 Purchase the underlying index securities
- 2 Sell an "at-the-money" index covered call option on 100% of its stock portfolio.
- 3 Not Pictured: Distribute half of the premiums received up to 1% of NAV to shareholders.



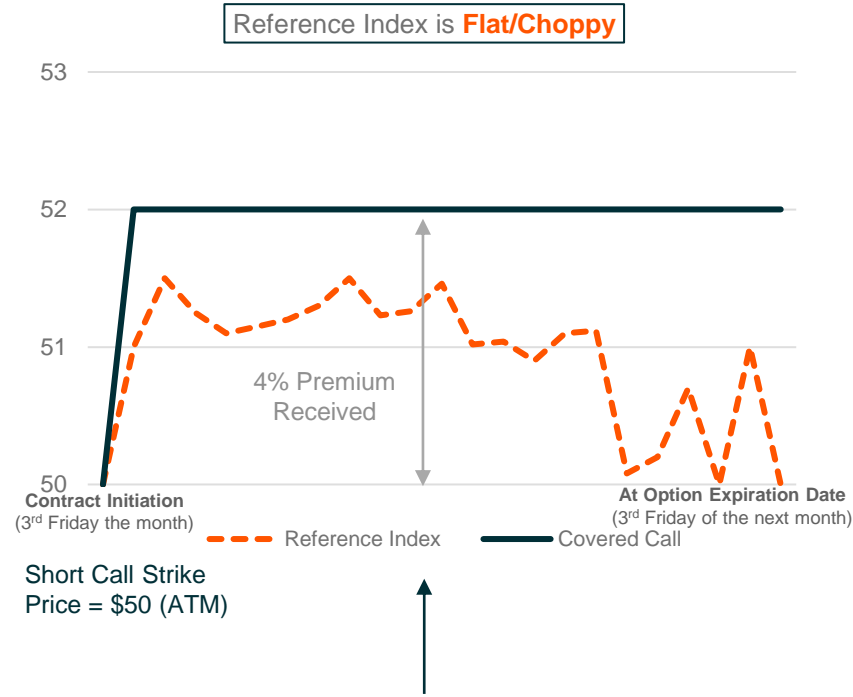
For Illustrative Purposes Only to demonstrate mathematical principal. This is not a guarantee of future results. Covered call Strategy does not reflect fund fees, which would further reduce returns. Fund market price returns may vary from NAV total returns.



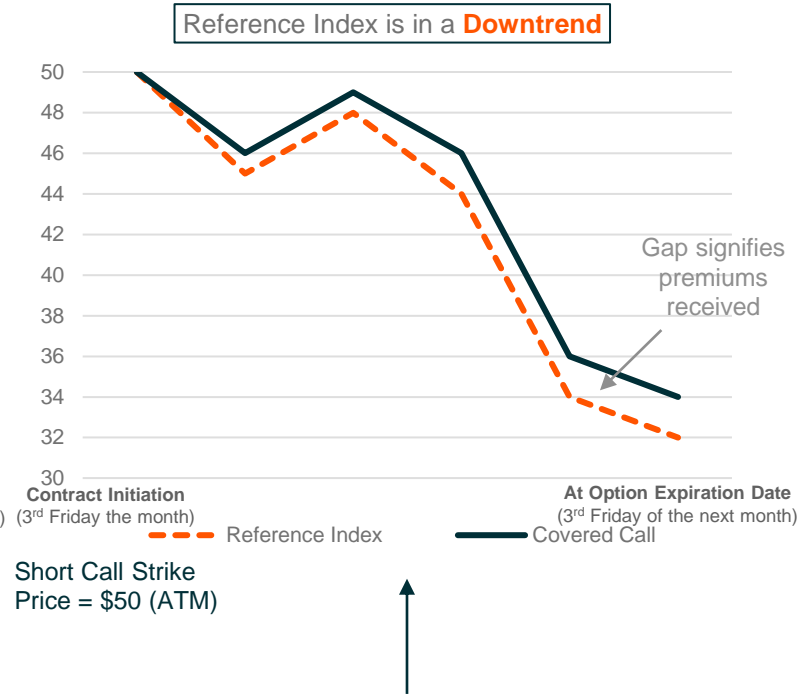
# Covered Call Performance Scenarios



Covered call would be expected to **underperform** since its potential gain will be limited to the premiums received.



Covered call would be expected to **outperform** if the reference index price at contract initiation ends at the same price upon contract expiration since its performance will be supported by the premium income collected from selling monthly index calls.



Covered call would be expected to **outperform** if the reference index falls throughout the life of the options contract due to the covered calls potentially offsetting some losses.

For illustrative purposes only. Flat/Choppy market assumes no fluctuations below the strike price.

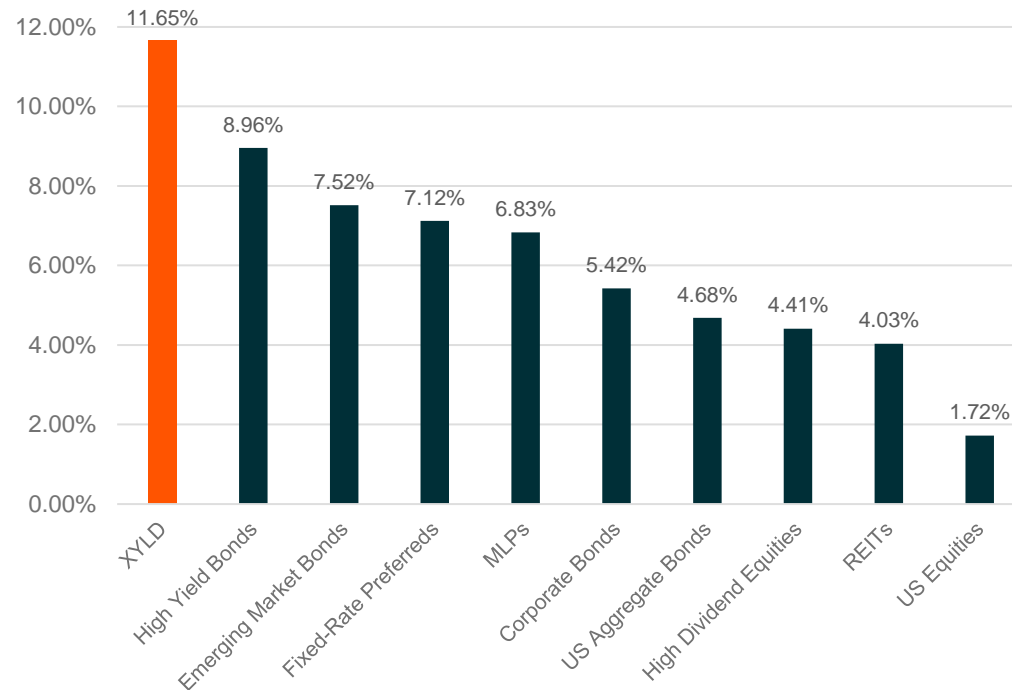
## Investment Case for XYLD

### What can an income-oriented investor potentially do to increase their portfolio's yield?

- A** Take more duration or credit risk in the bond markets, like high yield and Emerging Market bonds
- B** Look for alternative sources of income, such as high dividend stocks, MLP, Real Estate Investment Trusts (REITs) or preferreds.
- C** Consider an options-based, income-generating strategy, such as **the Global X S&P 500 Covered Call ETF (XYLD)**

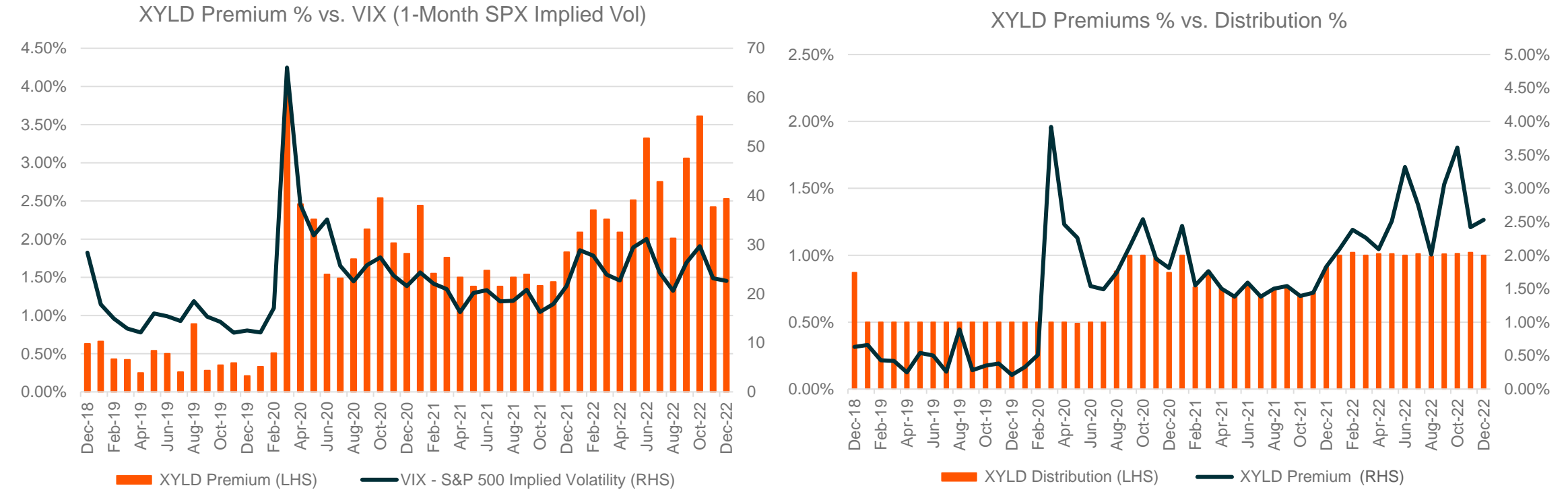
The Global X S&P 500 Covered Call ETF follows a “covered call” or “buy-write” strategy, in which the Fund buys the stocks in the S&P 500 Index and “writes” or “sells” corresponding call options on the same index.

### Yields by Asset Class vs. XYLD Distribution Yield<sup>1</sup> (%)



Source: Global X ETFs & Bloomberg as of 12/31/2022. Asset class representations are as follows, MLPs, S&P MLP Index; High Yield Bonds, Bloomberg US Corporate High Yield Total Return Index; Fixed-Rate Preferreds, ICE BofA Fixed Rate Preferred Securities Index; Emerging Market (EM) Bonds, Bloomberg EM USD Aggregate Total Return Index; Corporate Bonds, Bloomberg US Corporate Total Return Index; High Dividend Equities, S&P 500 High Dividend Index; REITs, FTSE NAREIT All Equity REITs Index; U.S. Equities, S&P 500 Index; US Aggregate Bonds, Bloomberg US Aggregate Bond Index. <sup>1</sup>XYLD's yield is indicated by its distribution yield. XYLD typically earns income dividends from stocks and options premiums. These amounts, net of expenses, are typically passed along to XYLD shareholders as dividends from net investment income. The Fund realizes capital gains from writing options and capital gains or losses whenever it sells securities. Any net realized long-term capital gains are distributed to shareholders as “capital gain distributions.” XYLD collect dividends from the S&P 500 Index companies and monthly options premium from selling S&P 500 (SPX) Index options in which portions have been passed to shareholders as monthly distributions. A portion of the distribution may include a return of capital. These do not imply rates for any future distributions.

## Implied Volatility, A Key Determinant of Option Premiums



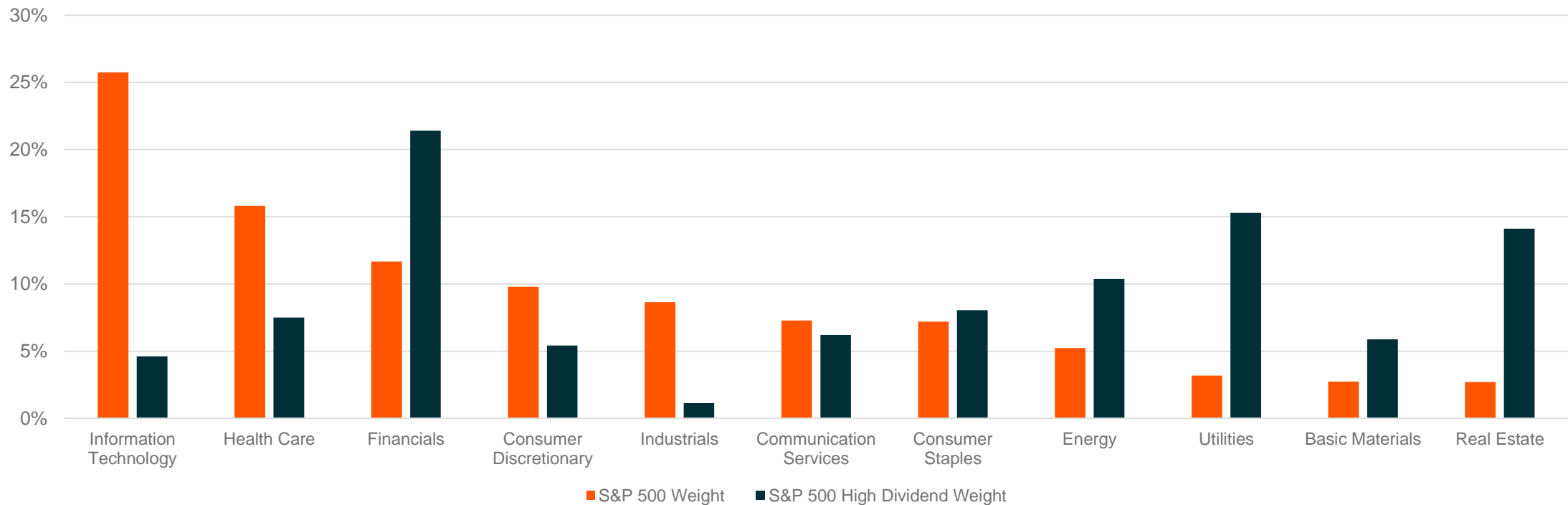
- The monthly distribution of XYLD is capped at the lower of: a) half the premiums received, and b) 1% of the net asset value (NAV). The excess of options premiums received, if applicable, is reinvested into the fund.
- On August 20, 2020, XYLD changed its tracking index from the Cboe S&P 500 2% OTM BuyWrite Index to the Cboe S&P 500 BuyWrite Index.

Source: Global X, Bloomberg. Left-Hand chart data is from 12/24/18 to 12/16/22. Right-Hand chart is from 12/24/18 to 12/29/22. December 2018 premium represents first month of premiums the XYLD ETF received since Global X took over as manager. Implied Volatility is being measured by VIX, Cboe Volatility Index<sup>SM</sup>.

## Potentially Achieve Equity Sector Diversification within an Income Portfolio

Investors exposed to High Dividend strategies tend to be overweight defensive and cyclical sectors such as Consumer Staples, Utilities, Financials, and Real Estate. A covered call strategy on the S&P 500 can help investors potentially diversify into other sectors such as Information Technology, Industrials, and Health Care.

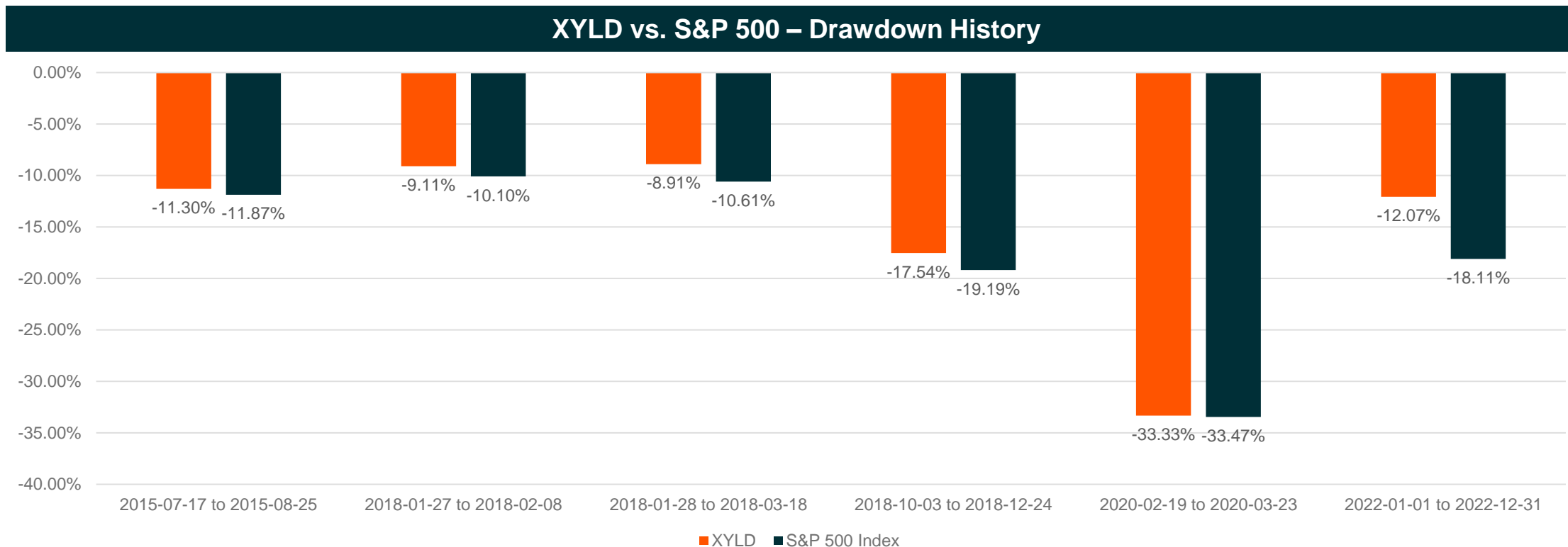
### Sector Breakdowns – S&P 500 vs. S&P 500 High Dividend Index



Source: Morningstar Direct. As of 12/31/2022

## XYLD During Drawdowns<sup>1</sup>

A covered call ETF offers the potential to outperform their equity indices during steep and gentle market declines. This is due to the short call component providing a level of downside risk mitigation.



Source: Bloomberg. As of 12/31/2022. Data presented represents past performance. XYLD returns signified by market price. Past performance does not guarantee future results. Performance data quoted represents past performance. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. <sup>1</sup>Market downturn of -10% or more for the equity index.

## Glossary - Option Terminology

Term	Description	Term	Description
Call Option	An option that gives the holder the right to buy an underlying asset from another party at a fixed price over a specific period of time.	Delta	The sensitivity of the price of an option to changes in the price of the underlying. Delta is a good approximation of how the option price will change for a small change in the value of the underlying.
Put Option	An option that gives the holder the right to sell an underlying asset to another party at a fixed price over a specific period of time.	Gamma	A numerical measure of how sensitive an option's delta (the sensitivity of the option's price) is to a change in the value of the underlying.
Long Call	A position in a call option contract in which one has the exercisable right under the contract. This position reflects bullish attitude.	Time (Theta)	The change in price of an option associated with a one-day reduction in its time to expiration; the rate at which an option's time value decays.
Short Call	A position in a call option contract one has in which the right under the contract can be exercised against oneself. This reflects bearish attitude.	Volatility (Vega)	A measure of the sensitivity of an option's price to changes in the underlying's volatility.
Long Put	A position in a put option contract in which one has the exercisable right under the contract. This reflects bearish attitude.	Premium	The amount of money a buyer pays and seller receives to engage in an option transaction.
Short Put	A position in a put option contract one has in which the right under the contract can be exercised against oneself. This reflects bullish attitude.	Covered Call	An option strategy involving the holding of an asset and sale of a call option on the same asset.
Market/Spot Price	The current price of the underlying asset of the option contract, such as a stock.	At-the-money	An option in which the underlying's price equals the strike price.
Strike Price	The fixed price at which an option holder can buy or sell the underlying asset. Also called exercise price.	In-the-money	Options that, if exercised, would result in the value received being worth more than the payment required to exercise.
Risk Free Rate	The theoretical rate of return on an investment with zero risk. Government bond yields are the most commonly used risk-free rates.	Out-of-the-money	Options that, if exercised, would require the payment of more money than the value received and therefore would not be currently exercised.

## Glossary

Term	Description
Distribution Yield	The annual yield an investor would receive if the most recent fund distribution remained the same going forward. The yield represents a single distribution from the fund and does not represent total return of the fund. The distribution yield is calculated by annualizing the most recent distribution and dividing by the most recent fund NAV.
Volatility	The annualized standard deviation of the daily returns of the security and index using the closing levels of the index during the 22 index-day period preceding that day.
Standard Deviation	A statistical measurement of dispersion about an average, which, for a mutual fund, depicts how widely the returns varied over a certain period of time.
S&P 500 Index	S&P 500 Index tracks the performance of 500 leading U.S. stocks and captures approximately 80% coverage of available U.S. market capitalization. It is widely regarded as the best single gauge of large-cap U.S. equities.
Cboe Volatility Index	The Chicago Board Options Exchange Volatility Index commonly referred to as VIX, reflects a market estimate of future volatility of the S&P 500 index options, based on the weighted average of the implied volatilities.
Cboe S&P 500 BuyWrite Index	The Cboe S&P 500 BuyWrite Index <sup>SM</sup> (BXM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500 Index.
ICE BofA Fixed Rate Preferred Securities Index	This index tracks the performance of fixed rate, U.S. dollar denominated, investment-grade exchange-traded preferred securities (\$25 par) with outstanding market values of at least \$100 million issued in the U.S. domestic market.
S&P MLP Index	The index tracks the price movements in shares of the largest entities that are structured as Master Limited Partnerships (MLP) or Limited Liability Companies (LLCs) and that are engaged in the transportation, storage, processing, refining, marketing, exploration, production, or mining of natural resources.
FTSA NAREIT All Equity REITs Total Return Index	A free-float adjusted, market capitalization-weighted index of U.S. Equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.
Bloomberg EM USD Aggregate Bond Index	The Bloomberg EM USD Aggregate Bond Index is a flagship hard currency Emerging Markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

## Glossary (Continued)

Term	Description
Bloomberg U.S. Aggregate Bond Index	The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-through), ABS and SMBS (agency and non-agency).
Bloomberg U.S. Corporate Investment Grade Index	The Bloomberg U.S. Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.
Bloomberg U.S. Corporate High Yield Index	The Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.
S&P 500 High Dividend Index	Serves as a benchmark for income seeking equity investors. The index is designed to measure the performance of 80 high yield companies within the S&P 500 and is equally weighted to best represent the performance of this group, regardless of constituent size.



# Thank You!

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## [RYLD: A Covered Call Strategy for Rising Rates](#)

**GLOBAL X ETFs RESEARCH**

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### RYLD: A Covered Call Strategy for Rising Rates

The Russell 2000 Index (RTY) is facing turbulent market conditions in 2022 relative to prior years as financing needs increase, credit spreads widen, and expectations for US economic growth begin subsiding. With inflationary pressures continuing to persist, the Federal Reserve is now well underway in its rate hiking regime, creating headwinds for equity valuations, including small cap companies like those in the Russell 2000. Few strategies thrive in volatile markets like the one witnessed in the first half of 2022, but covered call strategies on the Russell 2000 have proven to be resilient and well-positioned. Expectations for elevated volatility could potentially keep premiums at higher levels received from writing covered calls, relative to historical averages. In this piece, we address how covered call strategies focused on the Russell 2000 could help investors navigate a challenging market environment.

**Key Takeaways**

- The Russell 2000 has not disappointed this past decade, due to the benefits of a strong domestic economy, low interest rates, and conducive financing conditions.
- The Russell 2000 is sensitive to cyclical, and higher inflation can cause the RTY to come under pressure when interest rates rise.
- Covered call strategies on the Russell 2000 can help investors generate potential income and monetize volatility in turbulent markets.

**The Russell 2000's Value-Oriented Profile**

The Russell 2000 Index has performed well over the last decade due to the benefits of domestic revenue exposure, a strong dollar, US economic growth, and cheap financing conditions. The index, comprised of 2000 small-cap stocks in the US, has outperformed high growth indices such as the Nasdaq (NDX) year-to-date as of August 15, 2022 by over 650 basis points (bps).<sup>1</sup>

The outperformance of the Russell 2000 can be attributed to the index's strong overweight towards value-oriented constituents, helping to alleviate some of the pain felt by sectors with high price multiples such as Information Technology and Communication Services. From start of the year of 2022 to August 4, 2022, the Russell 2000 returned -15.09%, while the Nasdaq returned -18.44%.<sup>2</sup>

## [Using Options Strategies in a Rising Rate Environment](#)

**GLOBAL X ETFs RESEARCH**

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### Using Options Strategies in a Rising Rate Environment

The current investment landscape presents no shortage of challenges for investors, and we expect current levels of market volatility to linger. Following over a decade of low inflation, the U.S. Consumer Price Index (CPI) is now at its highest levels in four decades, and the Federal Reserve (Fed) is aggressively tightening its monetary policy. Despite the angst in the markets, we believe investors have opportunities, outside of traditional defensive approaches. In this piece, we discuss how options-based strategies can help generate income, manage risk, or both, depending on the objective.

**Key Takeaways**

- In this challenging macroeconomic environment, options-based strategies may provide investors with degrees of insulation. Protective puts used in option strategies can mitigate equity drawdowns by capping the loss of the asset(s) underlying the options, creating alpha compared to just owning the asset(s).
- In a rising rate environment, options-based strategies like covered calls may provide income for investors through higher options premiums due to greater levels of implied volatility priced into the market.
- For investors looking to diversify, hedge, or generate income, options strategies that use either covered calls and/or protective puts can be useful strategies in anticipation of rates staying elevated for longer.

**Investing in a Flattening Yield Curve & Rising-Rate Environment**

Investors face a challenging backdrop with multiple factors driving elevated market volatility. Equity and fixed income markets are under pressure due to rising rates and the reversal of longstanding dovish monetary policies amid surging inflation. Currently, markets are pricing the federal funds rate to be 3.50–3.75% by the end of 2022, through a combination of 25 bp, 50 bp and 75 bp hikes and potentially even 100 bps.<sup>1</sup>

Rate hikes pressured equities through the first half of the year as the Fed, and central banks around the world, tried to rein in inflation with increasingly hawkish stances. However, most of the market decline came from declining price-to-earnings ratios rather than deteriorating fundamentals. Rising volatility stemming from increasing rates is a challenge for equity and high yield fixed income investors because these assets have negative correlation to volatility.

While the forward 12-month S&P earnings growth was up 6.7%, the forward price-to-earnings ratio dropped from 21.4 at the beginning of the year to 17.5.<sup>2</sup>

While low following the Global Financial Crisis (GFC), inflation now appears set to be persistently higher for longer. Inflation prints remain elevated, with June's Consumer Price Index (CPI) numbers coming in at 9.1% year-over-year (YoY), its highest reading since December 1981. For investors looking to counter this, a more nuanced approach to this market may be needed.<sup>3</sup>

## [QDIV: A Quality Dividend Strategy for a Late Cycle Environment](#)

**GLOBAL X ETFs RESEARCH**

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### QDIV: A Quality Dividend Strategy for a Late Cycle Environment

An increasingly popular approach to investing in asset classes is via passive portfolios with rules to tilt toward particular characteristics, known as factor investing. Factors like quality and dividend yield can be useful in explaining portfolio risk and return, and when used as a portfolio strategy can potentially provide for superior risk adjusted returns than the market (e.g., the S&P 500) at a lower annual expense than actively managed funds tend to charge based on a research from 2013.<sup>1</sup> In this report, we explore the investment thesis of quality high dividends that focuses on companies exhibiting a blend of both quality and high dividend yield factors.

There are some signals indicating the global economy is in the latter stages of the cycle, and in our view, quality dividend stocks could be a useful allocation for investors to re-position portfolios towards sectors and equities that may hold up better in this type of market environment. Given this backdrop, we believe an investment product like the Global X S&P 500 Quality Dividend ETF (QDIV) may be appropriate for certain income and total return-oriented investors.

**Key Takeaways**

- Individual factors can provide different portfolio characteristics for investors than broad equities (such as historically high dividend yield). However, these may perform cyclically so using a combination of factors like quality and high dividend can potentially smooth a portfolio's performance.
- QDIV tracks the S&P 500 Quality High Dividend Index, which is designed to measure the performance of S&P 500 members that exhibit both high quality and high dividend yield characteristics. This results in different sector weights to the S&P 500 and more value characteristics.

**How QDIV Invests**

Quality can encompass a wide range of measures, and dividend yield as a factor can refer to high-yielding or dividend growth, so it is important to understand the attributes of a quality dividend strategy. Here, we seek to describe the construction behind the Global X S&P 500 Quality Dividend ETF (QDIV).

As the product name implies, QDIV invests in companies from the S&P 500 which consists of the largest (by market capitalization) U.S. listed companies. The S&P 500 Quality High Dividend Index, which QDIV is designed to track, identifies the top 200 companies from the S&P 500 by indicated annual dividend yield and the top 200 companies based on a quality score. The quality score is derived from:

- Return on equity:** measured by company's net income divided by its shareholder's equity
- Accruals ratio:** measured by changes in net operating assets over time
- Financial leverage:** measured by debt to equity

The index comprises companies that fall into the top 200 of both factors (subject to a minimum of 50 stocks), and currently comprises 87 stocks.<sup>2</sup> To reduce sector or company-specific concentrations, constituents are equal-weighted, subject to a single sector maximum weighting of 25%.