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QS Low Volatility High Dividend Index

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I. Introduction

This document describes the methodology for the QS Low Volatility High Dividend Index (the “LVHD Index”, or “Index”). The LVHD Index is designed to provide more stable income through investment in stocks of profitable U.S. companies with relatively high dividend yields and lower price and earnings volatility. The Index is composed of stocks of U.S. companies across a wide range of market capitalizations and the index is reconstituted once a year and rebalanced quarterly. Stocks whose yields are not supported by earnings are excluded from consideration. The methodology calculates a composite “stable yield” score, with the yield of stocks with relatively high price and earnings volatility adjusted downward and the yield of stocks with relatively low price and earnings volatility adjusted upward. Index weights are calculated to maximize its stable yield score subject to concentration limits, liquidity requirements and turnover restraints. The QS Low Volatility High Dividend Index was created, is sponsored by and is the exclusive property of Franklin Advisers, Inc. (“Franklin Advisers”, and the “Index Sponsor”), who also owns its parameters (i.e., weightings, capping factors, and other similar data) and the respective methodology for construction, compilation, and calculation. Any changes to or deviations from the methodology are made in the sole judgement and discretion of the Index Sponsor so that the Index continues to achieve its objective.

II. Index Construction Methodology

A. Eligible Securities

The eligible constituents for the QS Low Volatility High Dividend Index are stocks included in the Solactive US Broad Market Index. Further information about Solactive Indexes is available from <http://www.solactive.com>.

Securities affiliated with the Index Sponsor may not be included in the index.

B. Index Construction

The QS Low Volatility High Dividend Index is composed of stocks of U.S. companies across a wide range of market capitalizations, including the largest 3,000 U.S. stocks as determined by the Solactive US Broad Market Index.

The LVHD Index methodology first filters for stocks with a relatively high dividend yield. Stocks in the LVHD Index must have demonstrated profitability over the last four fiscal quarters as a whole, as well as projected to remain profitable over the next four quarters in the consensus analysts’ earnings forecast. Stocks whose yields are not supported by past and predicted earnings are excluded from the LVHD Index as their dividend payments might not be sustainable.

The methodology then calculates a composite “stable yield” score, with the yield of stocks with relatively high price and earnings volatility adjusted downward and the yield of stocks with relatively low price and earnings volatility adjusted upward. In this calculation, price volatility is measured over the past 12 months based on daily returns. Earnings volatility is based on the past 3 years of realized earnings and the upcoming 2 years of projected earnings. Index weights are then calculated to maximize its stable yield score subject to concentration limits, liquidity requirements and turnover restraints.

III. Index Rebalancing

A. Rebalancing Schedule

The QS Low Volatility High Dividend Index is rebalanced quarterly in February, May, August, and November. The index review date is the first Wednesday of a rebalance month, or the first subsequent business day if that falls on a US holiday. Index selection dates are fixed as 10 business days ahead of each scheduled index review date. The index selection date is when the above weighting methodology is evaluated to determine new index weights. Market movements following the index selection dates may cause the actual composition of the index to exceed its concentration limits on the index review dates.

For the annual LVHD index reconstitution in May, no individual component of the Index may exceed 2.5% of the Index, no individual sector (as defined by the index owner) may exceed 25% of the Index, and real estate investment trust (“REITs”) components as a whole may not exceed 15% of the Index. Holdings of stocks with relatively low recent trading volumes are further limited so as to enhance liquidity and reduce trading costs of funds tracking the index. To reduce index turnover, an existing index component that continues to meet its eligibility requirements is only eliminated if this results in a sufficiently large improvement of yield or stability, exceeding a pre-determined threshold score.

During the August, November, and February index rebalances the liquidity requirements are “grandfathered” for existing index holdings so as to reduce turnover. The concentration limits on individual stock positions and sector weights are similarly grandfathered during those three rebalances, up to the point specified in the table below. Market movements may cause the actual composition of the index to exceed its concentration limits on and between index review dates.

Quarter	Liquidity Requirements	Concentration Limits
May	Based on recent Average Daily Volume	2.5% for individual stocks 25% for each sector, as defined by Franklin Advisers 15% for Real Estate Investment Trusts
February, August, November	Based on recent Average Daily Volume, but fully grandfathered for existing index holdings	2.5% for individual stocks, grandfathering existing positions of less than 2.75% 25% for each sector, grandfathering existing exposures of less than 27.5% 15% for Real Estate Investment Trusts, grandfathering existing exposure of less than 17.5%

IV. Index Calculation and On-going Maintenance

A. Daily Calculation & Index Description

The Index is calculated by Solactive AG (the “Calculation Agent”). The Calculation Agent is responsible for calculating index levels based on weights and stocks as quarterly determined using the steps described in Section II (Index Construction) and Section III (Index Rebalancing).

The Calculation Agent applies corporate action adjustments and calculates the Index as described in the Solactive Index Calculation Guideline (Version 1.1, dated July 8th, 2013) using the Laspeyres Formula:

<http://www.solactive.com/downloads/Index-Calculation-Guideline-Solactive.pdf>

In case an Index component is subject to merger or acquisition, the acquired entity will be removed from the Index on the effective date as announced by Solactive.

The Index is subject to further adjustments in accordance with the following cases:

- **CASH TERMS:** The weight of the target company will be distributed pro rata across the remaining Index constituents.
- **STOCK TERMS:** The shares of the acquiring / surviving company will be increased according to the stock terms. If the acquiring company is not an Index constituent, the acquiring / surviving company will be added to the Index according to the stock terms.
- **CASH AND STOCK TERMS:** The cash portion will be reinvested pro rata across the remaining Index constituents. The shares of the acquiring / surviving company will be increased according to the stock terms. If the acquiring company is not an Index constituent, the acquiring / surviving company will be added to the Index according to the stock terms.

In case of a spin-off (demerger) by an Index component, the spun-off company will be added to the Index according to the terms on effective date.

The QS Low Volatility High Dividend Index is available in a price return (PR), a net total return (NTR) and a gross total return (GTR) version. Total return indexes assume reinvestment of cash dividends across the full index at the open on the ex-date. The QS Low Volatility High Dividend GTR Index is calculated using gross dividends, while the QS Low Volatility High Dividend NTR Index is based on dividends net of applicable foreign withholding rates as determined by Solactive.

The levels of the QS Low Volatility High Dividend Index are available on the Solactive website (<http://www.solactive.com>) on a daily basis.

The QS Low Volatility High Dividend Index is also distributed on Bloomberg and Reuters under the following identifiers:

Index Version	Bloomberg ID	Reuters ID
Gross	LVHDGR	.LVHDGR
Net	LVHDNR	.LVHDNR
Price	LVHD	.LVHD

B. Base Date & Value

The inception date of the QS Low Volatility High Dividend Index is November 30, 2015. Index levels prior to that date were backtested, with a base value of 1000 on November 3, 2004.

C. Calculation of the Index During Conditions of Market Stress

Market stress (“Market Stress”), any situation in which the trading of one or more securities is interrupted for a period of time, can arise due to a variety of reasons and result in inaccurate or delayed prices for one or more Index constituents. The Calculation Agent of the Index maintains a Disruption Policy that applies strict rules on the handling of securities subject to Market Stress resulting from 1) suspension or trading halts of individual securities, 2) unplanned market closures, or 3) extraordinary and unforeseeable events. The Calculation Agent’s full Disruption Policy is available at: <http://www.solactive.com/news/documents/>

D. Correction of Errors in the Index Calculation Process

Errors in the index calculation process may occur despite the Calculation Agent’s efforts to ensure the accuracy of the indices it administers at all times. The Calculation Agent endeavors to correct all errors identified within a reasonable period of time, generally within two business days. The Calculation Agent maintains a Correction Policy outlining its procedures for identification, escalation, and treatment of errors. The Calculation Agent’s full Corrections Policy is available at: <http://www.solactive.com/news/documents/>

V. Index Governance

The Index Committee, comprised of Franklin Advisers employees, is responsible for approving changes to the methodology for this Index. The Index Committee may consult with the Calculation Agent and Index subscribers on changes to the methodology.

VI. Disclosures

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