ARIX© Composite – Financial Index Methodology

1. General Information

The Absolute Return Investable Index Composite ("ARIX© Composite") is an index of hedge funds that is constructed according to a rules-based methodology. It is published and maintained by its index sponsor, FERI Trust GmbH, Bad Homburg, Germany ("Feri"), a company belonging to MLP SE, Wiesloch, Germany.

The ARIX© Composite is a performance index reflecting the total return generated by its underlying index components. The ARIX© index family has been calculated and published since January 2002. The performance not only contains value changes but also any payouts, deductions, or similar variables from the index components. The ARIX© Composite is composed of several index components that can be categorized into the four major hedge fund styles.

This document explains the construction methodology of the ARIX© Composite.

2. Four basic Investment Styles

The ARIX© Composite index includes funds that can be categorized into the four main hedge fund styles: Event Driven ("ED"), Equity Hedge ("EH"), Relative Value ("RV") and Tactical Trading ("TT").

Event Driven: Investment strategies within the event driven style concentrate on companies that are (or may be) subject to extraordinary corporate events such as restructurings, takeovers, mergers, liquidations, bankruptcies, or other special situations. Strategies include mergers and acquisitions arbitrage (including friendly and unfriendly takeovers), distressed securities (including debt or other obligations of distressed or bankrupt companies), shareholder activism and special situations strategies, such as spin-offs, litigations, liquidations, index arbitrage and closed-end fund arbitrage.

Equity Hedge: Investment strategies within the equity hedge style involve buying and/or selling stocks or equity-related financial instruments believed to be significantly under- or overvalued by the market. Derivatives may be used in some cases, especially to reduce the anticipated market risk. Equity hedge managers typically use fundamental analysis to evaluate the underlying determinants affecting securities prices. Factors within such an analysis include microeconomic and macroeconomic variables that can influence the stock price of a single company. Technical analysis uses historical price and trading volume data to assess future price behaviour. According to how much the strategy depends on overall market direction, one can subdivide the equity hedge discipline into long bias (high positive dependence), no bias (low dependence), and short bias (high negative dependence). The degree of dependence mainly results from the relationship of the long positions to the short positions, and from the use of derivatives.

Relative Value: Investment strategies within the relative value style seek to profit from price discrepancies of related financial instruments. This discipline uses quantitative and qualitative analyses to identify securities or spreads between securities that deviate from their theoretical fair value and/or historical norms. Investment strategies within the relative value discipline include model-based strategies such as convertible bond and structured

products arbitrage, statistically related strategies such as equity market neutral (statistical arbitrage), and fundamental spread strategies such as fixed income arbitrage.

Tactical Trading: Investment strategies within the tactical trading style try to exploit market movements through directional positions in various instruments. In contrast to arbitrage strategies, market risk is taken mostly without any hedging by offsetting positions. Trading decisions are usually based on an opportunistic and/or systematic approach. In the opportunistic approach, positions are based on top-down macroeconomic analysis and forecasting, and are taken across many asset classes and markets. This strategy is often referred to as global macro. The systematic approach – also referred to as the Managed Futures or the Commodity Trading Advisors (CTA) strategy – aims to predict price movements of specific instruments and markets based on a quantitative analysis of past information about relevant prices, trading volume, and similar indicators.

3. Hedge Funds Rating

The index sponsor applies a rating methodology (from A to E, while A is the best and E the worst possible) which incorporates quantitative and qualitative data. Due to this process, the ARIX Composite includes all hedge funds that have been rated by the index sponsor with a minimum rating of B and meet the index selection criteria into the index. This systematic process is done within an internal database of the index sponsor which has 400 information fields per index component from which 60 are rating relevant. The rating process is done based upon a scoring model with precise guidelines for the evaluation of the index components. The Hedge Fund Rating can be classified into the following segments (weighting of the segment in the consolidated rating in brackets): Risk (30%), Strategy (20%), Institutional Aspects (20%), Management (20%) and Economics (10%). On top of this, the index sponsor performs qualified interviews with the managers of the index components and may even conduct external background checks on these.

4. Index Diversification

The ARIX© Composite Index consists of four main hedge fund styles and each of these four styles is represented by a minimum number n of index components ("ic"); i.e.

$n(ED) \geq 8$

$n(EH) \geq 8$

$n(RV) \geq 8$

$n(TT) \geq 8$

where $n(style)$ denotes the number of index components in the particular investment style.

As each index component can only be classified within one investment style, the minimum number of components included in the ARIX© Composite Index is:

$n = n(ED) + n(EH) + n(RV) + n(TT) \geq 32$

The maximum weightings of the index components w_{ic} depend on the number of components within the ARIX© Composite Index. Generally, the ARIX© Composite is equally weighted with regards to the investment styles represented within the index.

At the inclusion into the index, new index components are generally allocated with the average allocation size of the index components within the different investment styles in

order to achieve a general equal-weighting of the index components within each investment style representing the index.

The weighting of one index component within a subindex may change over time due to fluctuations in its value, but for each quarter end t it must be remain within the following limits:

$$200\% / n_t \geq w_{ic,t} \geq 25\% / n_t$$

for all index components ic, where n_t equals the number of all index components at time t, and $w_{ic,t}$ is the weighting of the index component ic at time t. For example, if at any given time, the index contains fifty components, each component's weighting must be kept within a range of 0.50% to 4%.[1] In case an average allocation of one index component as determined by the formula above at its inclusion into the index is not possible, the initial allocation has to meet the minimum allocation size as defined in the formula above.

On the inception date of the ARIX© Composite the weightings w of the four investment styles within the ARIX© Composite were:

$w(ED) = w(EH) = w(RV) = w(TT) = 100\% / 4 = 25\%$

The weightings can change because of market movements, different long term performances of the investment styles included in the ARIX© Composite or because of other factors and influences. The maximum weighting of each investment style is limited to 40% within the ARIX© Composite.

Due to this structure the index is sufficiently diversified. A performance movement of one index component is not supposed to overly influence the performance of the whole index.

5. Valuation of Index Components

It is required that each index component provides performance data on a monthly basis. Moreover, it is expected that estimated performance data is provided on a weekly basis. Monthly prices (NAVs per share) are provided by the components themselves and generally also by the components' administrators.

If prices are not provided, prices will be estimated by the independent index sponsor using reasonable discretion and available (market) information. In case of material anomalies regarding accurate and timely calculation and publication of the index, these will be explicitly reported and commented together with the publication of the month`s end index valuation. Defunct components are valued at zero.

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[1] In exceptional cases, the index sponsor can decide to deviate from this weighting scheme. Examples include (but are not limited to) cases related to specific liquidity terms of the funds in the index in order to maintain representativity. To further enhance the representativity, index components that have limits on investable amounts (i.e., a cap on subscriptions, being investable only for existing investors, or even being fully closed) may have a weighting below the stated range; this is especially likely if this situation has arisen after becoming an index component (and provided it continues to be economically rational to keep the index component). Another example is when only a partial replacement of a particular index component is possible at a given time, which may result in remainders of a certain index component remaining in the index. (These are usually related to certain share classes, side-pockets, etc.).

Once the final index value of a specific month has been finalized, it will not be changed anymore.

6. Index Computation

All Index calculations are based on valuations in USD. The monthly performance is calculated gross. All changes of weightings within the ARIX© Composite have to be considered as if occurred at the beginning of a month.

Starting value at $t=0$ of the ARIX© Composite was at its inception on December 31, 2001:

$$Index_t^{ARIX\,Comp} = 1000$$

The ARIX© Composite is calculated as of the end of each month t applying the performance of month t on the index value as of the end of the previous month t-1.

$$Index_t^{ARIX\,Comp} = \left(1 + Perf_t^{ARIX\,Comp}\right) * Index_{t-1}^{ARIX\,Comp}$$

The monthly performance $Perf_t^{ARIX\,Comp}$ is calculated based on the monthly valuation changes of each index component, according to the synthetic numbers of shares s of the index components held within the different investment styles ED, EH, RV and TT during month t:

$$Perf_t^{ARIX\,Comp} =$$

$$= \frac{\left(\sum_{ic(ED)=1}^{n(ED)} s_{ic(ED),t-1} * NAV_{ic(ED),t} + \sum_{ic(EH)=1}^{n(EH)} s_{ic(EH),t-1} * NAV_{ic(EH),t} + \sum_{ic(RV)=1}^{n(RV)} s_{ic(RV),t-1} * NAV_{ic(RV),t} + \sum_{ic(TT)=1}^{n(TT)} s_{ic(TT),t-1} * NAV_{ic(TT),t}\right)}{\left(\sum_{ic(ED)=1}^{n(ED)} s_{ic(ED),t-1} * NAV_{ic(ED),t-1} + \sum_{ic(EH)=1}^{n(EH)} s_{ic(EH),t-1} * NAV_{ic(EH),t-1} + \sum_{ic(RV)=1}^{n(RV)} s_{ic(RV),t-1} * NAV_{ic(RV),t-1} + \sum_{ic(TT)=1}^{n(TT)} s_{ic(TT),t-1} * NAV_{ic(TT),t-1}\right)} - 1 + c_{cs,t}$$

At the inception date $t=0$ of the ARIX© Composite the valuation of the synthetic numbers of shares was 100% in aggregate and 25% in each investment style represented by the ARIX© Composite:

$$\sum_{ic(ED)=1}^{n(ED)} s_{ic(ED),t=0} * NAV_{ic(ED),t=0} / Index_{t=0}^{ARIX\,Comp} = 25\%$$

$$\sum_{ic(EH)=1}^{n(EH)} s_{ic(EH),t=0} * NAV_{ic(EH),t=0} / Index_{t=0}^{ARIX\,Comp} = 25\%$$

$$\sum_{ic(RV)=1}^{n(RV)} s_{ic(RV),t=0} * NAV_{ic(RV),t=0} / Index_{t=0}^{ARIX\,Comp} = 25\%$$

$$\sum_{ic(TT)=1}^{n(TT)} s_{ic(TT),t=0} * NAV_{ic(TT),t=0} / Index_{t=0}^{ARIX\,Comp} = 25\%$$

The synthetic number of shares of the index components as of the end of each month t is $s_{ic,t}$, being determined by the weighting $w_{ic,t}$ of the index component within the index at end of month t.

$$s_{ic,t} = w_{ic,t} * Index_t^{ARIX\,Comp} / NAV_{ic,t}$$

The term $c_{cs,t}$ is to be included in the performance monthly as a correction position. This is to represent any minor positive or negative index changes resulting from effects such as index component equalizations, index component transaction fees or interest or any other performance effects which are not directly covered by the index components' NAVs. In most cases it is not possible to integrate these performance effects directly in the calculation of the index components NAVs.

In addition to this, each index can include a synthetic cash position temporarily arising from changes of component weightings according to the terms and conditions of subscriptions and redemptions of the index components. This synthetic cash position can also arise if the index sponsor decides to replace an index component temporarily by cash or comparable liquid assets to prepare for the future acquisition of index components. If the redemption terms of an index component include long-term settlement periods, the interest effect can become negative.

The position $c_{cs,t}$ is calculated as if these effects would have been included in the NAVs of the respective underlying positions.

The index is calculated monthly until no later than 45 calendar days after month-end under normal market conditions. Should any material amendments become necessary, these must not incur changes of any previous index valuations and must be communicated and explained by the index sponsor in good time to the parties involved. The index is final after its monthly publication. Retrospective changes of previously published index values are not permitted.

7. Index Rebalancing

The ARIX© Composite index is generally rebalanced quarterly. New index components being added to the portfolio and existing index components being increased in weight at the end of a month t have to be calculated additionally as of the beginning of month $t+1$. Index components which are removed partially of totally from the index at the end of a month t are calculated also as of the beginning of month $t+1$. Such changes are therefore not yet included in the calculation of the ARIX© Composite Index as of the end of a month t.

There are two different levels of rebalancing, firstly in relation to the four investment styles and secondly in relation to the single index components.

If the weightings of one of the four investment styles representing the ARIX Composite Index become widely unbalanced because of different individual monthly performances of the index components in one investment style, the weightings should be reduced or increased until the investment styles represent approximately equal weightings of 25%.

It has to be ensured that none of the four investment styles exceed a maximum weighting of 40% within the ARIX© Composite. In case that one of the four investment styles representing the ARIX© Composite exceeds this limit at the end of a month t, the ARIX© Composite must be rebalanced, even if the rebalancing then would have to happen before the next official quarter end index rebalancing date. After the rebalancing the following conditions regarding the synthetic number of shares as of the end of month $t+1$ have to be met:

$$\sum_{ic(ED)=1}^{n(ED)} s_{ic(ED),t+1} * NAV_{ic(ED),t+1} / Index_{t+1}^{ARIX\,Comp} \leq 40\%$$

$$\sum_{ic(EH)=1}^{n(EH)} s_{ic(EH),t+1} * NAV_{ic(EH),t+1} / Index_{t+1}^{ARIX\,Comp} \leq 40\%$$

$$\sum_{ic(RV)=1}^{n(RV)} s_{ic(RV),t+1} * NAV_{ic(RV),t+1} / Index_{t+1}^{ARIX\,Comp} \leq 40\%$$

$$\sum_{ic(TT)=1}^{n(TT)} s_{ic(TT),t+1} * NAV_{ic(TT),t+1} / Index_{t+1}^{ARIX\,Comp} \leq 40\%$$

Secondly, there are several rules according to which the weightings of the single index components have to be rebalanced within the ARIX© Composite index:

- The hedge fund universe is screened by the index sponsor at least quarterly for new investment opportunities using market leading databases, so new components have to be included in the ARIX© Composite index to improve its diversification and to better reflect the respective investment style.

- New components can also be included to replace existing components if the new components better reflect the selection criteria than the existing components.

- Components which do not meet the selection criteria anymore or which have changed their investment strategies should be taken out of the index.

8. Calculation of the ARIX© Composite USD net

The reference currency of the ARIX© Composite Index is USD. The ARIX Composite Index $\left(Index_t^{ARIXComp}\right)$ serves as Reference Index for the ARIX© Composite USD net Index $\left(Index_t^{ARIXCompUSDnet}\right)$.

The index transformation from ARIX© Composite to ARIX© Composite USD net is calculated for each month end t according to the following scheme:

$$Index_t^{ARIXCompUSDnet} = Index_{t-1}^{ARIXCompUSDnet} * \left\{ \left(Index_t^{ARIXComp} / Index_{t-1}^{ARIXComp} \right) - Fee_t \right\}$$

whereas:

Fee_t =   The following Fees will be applied to the Index on a monthly basis: A monthly fixed fee calculated as

$$Fee_t^{fix} = (0.65\% / 12) * Index_t^{ARIXComp}$$

In addition to this, a performance fee of 10% of the net profits above a hurdle of 3-months USD-LIBOR plus 0.35% p.a. will be calculated for each calendar quarter, subject to a high watermark, to be accrued for monthly.

The index sponsor will stop calculating index values if 30% of the market value of index components are gating or suspending redemptions or if 10% of the market value of index components have suspended NAV calculation.

9. Selection Criteria

Index components must fulfil the following criteria to become part of the ARIX© Composite Index:

- Domicile: Any hedge fund outside the U.S. ("Offshore Funds") is a potential index component.

- Currency of components: predominantly U.S. Dollars.

- Reporting: The index component must provide monthly NAV-reporting. The estimated net asset value on the last business day of each month must be announced no later than the 20th business day of the following month under normal market conditions.

- Administration: To ensure good quality of calculation and valuation procedures, index components must have its monthly NAV calculations conducted by an administrator which is well-established in the business of fund administration.

- Auditing: The component must provide independently audited financial statements.

- Liquidity: Eligible index components for the ARIX© indices must provide the possibility of at least quarterly purchases. It also should be possible to sell index components at least quarterly, with a maximum redemption notice period of ninety calendar days. Index components with hard lock-up periods of more than ninety calendar days may be included in the index, but may in total not constitute more than a 25% weight of the index. No index component should have a lock-up period of more than two years. Additionally, eligible index components must not allocate more than 35% of their assets to illiquid investments under normal market conditions if they are part of "side pockets."

- Minimum Size: Each eligible index component must have a minimum of U.S. $50 million of (net) assets under management, or must be expected to reach this threshold in the near future.

- Track Record: At least half of the index components managers within the Index must be able to prove their investment performance with monthly data for a minimum of 36 months. For index components with over U.S.$ 100 million in assets this limit is reduced to 12 months. For index components over U.S.$ 500 million in assets this limit is reduced to 3 months, provided that the responsible key persons of the component managers can historically prove at least a 36 month track record of responsible and successful management of an index component having pursued a

comparable investment approach. For index components with track records of less than 36 months the timeline can be shortened to the time frame available.

- Minimum Feri Hedge Fund Rating: B.

10. Representativeness of Underlyings

The ARIX Composite follows a rules-based methodology and the above stated procedures of index calculation, rebalancing and the regular application of index selection criteria ensure that the index components form a representative group of their respective markets and investment styles. Hence the ARIX© Composite is representative of the aggregation of these four main hedge fund styles and hence the global hedge fund universe.

In order to confirm that the ARIX Composite is an adequate Benchmark, we performed a correlation analysis of the ARIX Composite Index versus the Dow Jones Credit Suisse Hedge Fund Index. The latter is regarded to be the most often used Benchmark when it comes to hedge funds performance. Over the whole observation period of the ARIX Composite Index (from January 2002 to April 2015) the correlation of these two indices is 0.91.

11. Independence of the Index Sponsor

Feri is the independent index sponsor of the ARIX© Composite.

Neither investors in investment structures and products based on the index nor the management and the management companies of any such structures are currently or will be entitled to influence the index sponsor in its decisions to select and deselect components of the index.

The index sponsor does not accept payments from potential index components for the purpose of being included in the index.

12. Index Publication

The ARIX© indices are published monthly at www.feri.de. Upon request, Feri provides the monthly final index value via e-mail. Every interested person can register for the distribution list. Additionally, Feri provides weekly estimated index values via e-mail, based on the latest NAV estimates provided by the index components. Index values are published to two decimal places, but internal precision of the Index calculation is maintained. The index sponsor discloses on a wide and timely basis any operational difficulties in providing timely or accurate information at the level of the ARIX Composite and its constituents.

Details of the underlying index components are available on request for investors and for the managers of investment structures which are based on the index.

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