



## MARKET-LINKED PRODUCTS

# MOTIF CAPITAL NATIONAL DEFENSE 7 ER INDEX

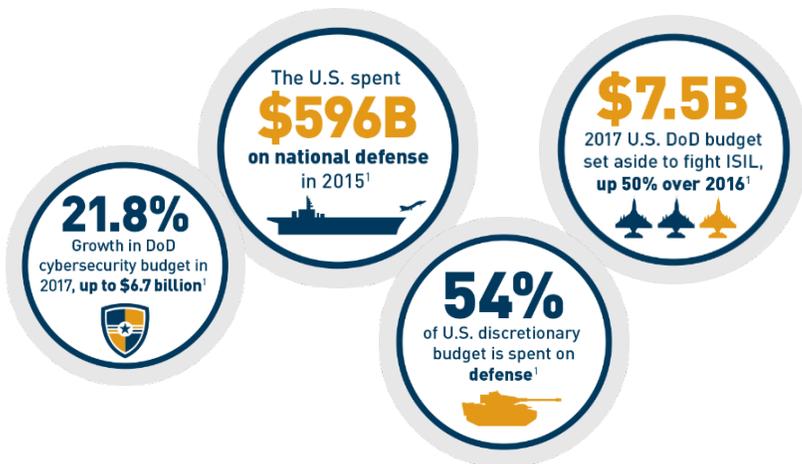
### Strategy Overview

The Motif Capital National Defense 7 ER Index (the "Index") employs a theme-based investment strategy that, as an underlier in a market-linked product, provides exposure to the national security theme. The Index:

- Provides exposure to large-cap stocks of certain companies that may benefit from increased defense-related spending by the United States (U.S.) and foreign governments
- Employs a disciplined, rules-based investing approach that annually selects and weights stocks of companies traded on U.S. exchanges (including American Depository Receipts) that meet certain financial criteria
- Aims to control risk daily by calculating the realized volatility of the base index of stocks over the prior 20 business days and if that exceeds 7%, a portion of the base index is rebalanced into a money market position sufficient to reduce the realized volatility for such period to the 7% target
- Is calculated on an excess return basis of the total return by measuring the extent to which the stocks and any money market position outperform a 3-month USD LIBOR plus 0.75% per annum servicing fee, accrued daily

### Why National Defense Now?

Rising security risk is prompting an increase in defense spending. The national defense theme invests in companies that produce goods and services associated with enabling the U.S. and its allies to protect interests at home and abroad.



### Index Details

Ticker:	MCDER Index
Ticker/RIC:	.MCDER
Index Sponsor:	Motif Capital Management, Inc.
Calculation Agent:	Solactive AG
Index Type:	Excess Return
Currency:	USD
Index Components:	46
Volatility Target:	7.00%
Index Base Date:	June 20, 2006
Launch Date:	June 1, 2016

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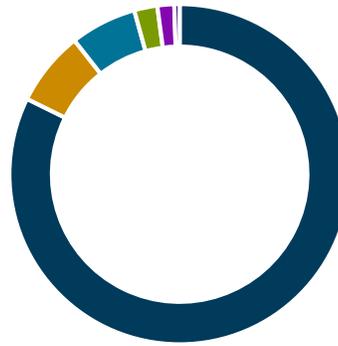
### For More Information

Call 888.849.5732 or email [AdvisorSupport@incapital.com](mailto:AdvisorSupport@incapital.com)

## Top 10 Index Components

TICKER	COMPANY
BA	Boeing Co/The
LMT	Lockheed Martin Corp.
GD	General Dynamics
RTN	Raytheon B
NOC	Northrop Grumman Corp.
UTX	United Technologies Corp.
LLL	L3 Technologies Inc.
HRS	Harris Corp.
HII	Huntington Ingalls Industries
TDG	Transdigm Group Inc
	Money Market

## Composition of Stocks by Sub-Industry\*



- Aerospace & Defense 85.1%
- IT Consulting & Other Services 6.9%
- Electronic Equipment & Instrum 3.7%
- Construction & Engineering 2.7%
- Communications Equipment 1.0%
- Construction Machinery & Heavy 0.5%

\*As of February 4, 2019. Sub-industry percentages relate only to the stocks that comprise the Index. The percentages above sum to 100% regardless of whether a portion of the Index has been allocated to the money market position. Historically, a very significant portion of the Index (up to approximately 92%) consistently has been allocated to the money market position.

## Building the Index – Using a Disciplined, Rules-Based Investment Process



### Constructing the Index

1. The initial universe stems from U.S. exchange-listed common equities (including American Depositary Receipts).
2. Each year, a list is compiled based on a U.S. Department of Defense (DoD) budget report used to identify keywords related to *Mission Area Categories* and *Key Initiatives* in national defense.
3. Then, an annual keyword search applied on certain SEC filings criteria to find theme-relevant companies.
4. To further narrow down the companies, the Global Industry Classification Standard (GICS) industry classification is used to identify companies related to:
  - Aerospace & Defense
  - Construction & Engineering
  - Construction Machinery & Heavy Trucks
5. From this list, stock screens are run to remove any companies with certain financial parameter for the following:
  - **Average Daily Dollar Volume** over most recent 30-day period < \$1mm
  - **Market capitalization** < \$500mm
  - **Closing stock price** < \$1 at any point over last 30 days
  - **Total revenue** < \$25mm over previous year
  - Has < 60 days **historical return data**

### Determining the Index Weightings

6. Theme exposure is calculated by taking the Total Theme Revenue (sum of revenue from theme-relevant revenue streams) divided by Total Revenue. Any stock with < 10% theme exposure is removed.
7. The theme exposure is then multiplied by that company's market capitalization to determine the index base weighting. Each underlying stock must have a target weight that falls in the range of 0.1% to 10%.

## Why Thematic Investing?

The concept of thematic investing can offer investors exposure to macroeconomic themes and trends through carefully constructed portfolios – or Motifs. A Motif is a basket of stocks that is weighted to reflect an investment theme, market expectation, or innovative trend.

*“After years of budget cuts, there seems to be increased pressure for a larger defense budget amid growing regional strife across the world, new forms of warfare and technological advancement.”<sup>1</sup>*

- Motif Capital

<sup>1</sup> Motif Capital Management. Ghosh, Tuhin, Andes, Peter, Mok, Raymond, Ryan, Shannan, “Investing in National Defense.”

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