



The Motley Fool Value Index

Methodology

The Motley Fool Value Index (the “Index”) was developed by Motley Fool Investment Analytics, LLC (“MFIA”) to define and track up to 100 companies that have the highest Value rating out of the most liquid U.S. companies that have been recommended by The Motley Fool, LLC’s analysts.

The Motley Fool Value Index is reconstituted quarterly, at which time each company’s share of the Index is set to equal the company’s share of all index companies’ aggregate market value tilted by the Value Composite Score (the “Weighting Date”). The Index is calculated to capture both price appreciation and total return, which assumes dividends are reinvested pro-rata across constituents on an index-weighted basis.

1 Membership Criteria

To be eligible for inclusion in the Index, companies must be liquid firms domiciled in the United States that are either active recommendations of a The Motley Fool, LLC research publication or rank among the 150 highest rated U.S. companies in the Fool analyst opinion database, Fool Intel, subject to universe continuity rules. Liquid firms are those that have traded at least \$1 million worth of shares daily, on average, during the preceding three months.

Common stocks, REITs, tracking stocks and holding companies are eligible for inclusion. ADRs, GDRs, EDRs, preferred stocks, closed-end funds, exchange-traded funds and derivatives are not eligible.

Universe continuity rules are applied to the eligible universe during reconstitution. A buffer sized at 30% of the 150-stock conviction target – or 45 stocks – is applied to the Fool Intel universe sleeve to reduce universe turnover.

Specifically, stocks ranked in the top 105 positions based on Fool Intel conviction (70% of the 150-stock target) are automatically included in the candidate universe. Additionally, companies that were previously eligible based on their Fool Intel ratings will still be included as long as their rank is equal to or better than 195 (130% of the 150-stock target). Stocks are then added based on conviction score rank until the 150-stock target is reached.

Securities that meet the requirements for universe inclusion must also meet the minimum requirements for calculating the Value Composite Score. Specifically, they must have current pricing data.

2 Value Composite Score

The Value Composite Score is the equal weighted average of three separate scores – an Adjusted Book-to-Price score, a Gross Profits-to-Enterprise Value score, and a Total Shareholder Yield score. The construction details for each stand-alone score are provided in the table below.

SCORE	VALUE METRIC	SIGN	MINIMUM CALCULATION REQUIREMENTS
Adjusted Book-to-Price	The sum of book equity, accumulated depreciation and capitalized amounts for TTM R&D expense, advertising expense and half of remaining operating expenses amortized over a straight-line, five-year period, scaled by issuer-level market cap.	+	N/A
Gross Profits-to-Enterprise Value	TTM gross profits scaled by the sum of issuer-level market cap, preferred equity, minority interest and debt net of cash.	+	N/A
Total Shareholder Yield	The sum of dividends, net common and preferred share buybacks and net debt repayments, scaled by issuer-level market cap.	+	N/A

Value variables are calculated for each stock represented in the Index's inclusion universe.

In order for a stock to qualify for inclusion in the Index it must possess positive absolute values for each of the three component metrics.

After initial calculation, raw component metrics are then winsorized at the 5th and 95th percentiles. Next, each winsorized raw metric is transformed into a cross-sectional z-score:

$$Z = \frac{(x - \mu)}{\sigma}$$

Where:

- x is the winsorized raw metric for a given security
- μ is the mean of the winsorized variable in the candidate universe, excluding missing values
- σ is the standard deviation of the winsorized variable in the candidate universe, excluding missing values

The final composite Z score for a stock is an equal-weighted average of its qualifying stand-alone scores. The final Value Composite Score is calculated from the composite Z score as follows:

$$\text{if } Z > 0 \rightarrow \text{Value Composite Score} = 1 + Z$$

$$\text{if } Z \leq 0 \rightarrow \text{Value Composite Score} = (1 - Z)^{-1}$$

To determine final index membership, candidate stocks with three positive raw component score metrics are first ranked based on their composite scores. If fewer than 100 stocks possess three positive raw component score ratios then all qualifying candidate stocks are included. Otherwise, the top 100 stocks are then selected based on the following index continuity rules. A buffer sized at 30% of the 100-stock target – or 30 stocks – is applied to the qualifying inclusion universe to reduce Index turnover.

Specifically, stocks ranked in the top 70 positions based on their Value Composite Scores (70% of the 100-stock target) are automatically included in the candidate universe. Additionally, companies that were previously included in the Index will still be included as long as their Value Composite Score rank is equal to or better than 130 (130% of the 100-stock target). Stocks are then added based on Value Composite Score rank until the 100-stock target is reached.

3 Performance Calculations

$$P_{Index} = \frac{1}{D} \sum_i S_i P_i$$

S_i = number of shares of stock i

P_i = price of stock i

D = index divisor

INDEX PRICE LEVEL CALCULATION

The Motley Fool Value Index is calculated every weekday. If trading is suspended while one of the three major exchanges is still open, the last traded price for that stock is used for all subsequent index computations until trading resumes. If trading is suspended before opening, the stock's adjusted closing price from the previous day is used to calculate the Index. Until a particular stock opens, its adjusted closing price from the previous day is used in the Index computation. Index values are calculated both on a price and total-return basis, in U.S. dollars. Index values are calculated and disseminated on an end-of-day basis.

4 Weighting

Each component's initial weight on the Weighting Date reflects the component's proportion of total market-capitalization multiplied by Value Composite Score.

Initial Index Weight = Value Composite Score × Firm Market Capitalization

The above weights are normalized to 100%. A maximum initial position limit of 4.8% is enforced, subject to the following logic:

1. Identify stocks with weights that exceed the maximum position limit
2. Set these weights to the maximum position limit
3. Reallocate the excess weight across the remaining names in a pro-rata fashion
4. Repeat steps 1-3 until no offending positions remain

Initial weights further undergo adjustments to maintain index integrity and diversification, based on the following “24/48” rules:

- If any single issuer’s initial weight exceeds 24% of the total index, that weight is adjusted down to 22%.
- Subsequently, if the aggregate weight of issuers with “concentrated positions” (above 4.8%) exceeds 48% of the total index, that aggregate weight is adjusted down to 44% and the balance is pro-rated among the remaining constituents while preserving the order of initial weights.

The Weighting Date is the second to last Monday of each Calendar Quarter. These weights take effect on the Weighting Date and are price-drifted to the Reconstitution Date.

The Index is tested regularly to ensure adherence to the prescribed weighting constraints above. A Special Rebalance may be announced at any moment when such action is deemed necessary for upholding the Index’s structural integrity.

5 Dividend Reinvestment

Normal dividend payments are not taken into account in the price index, whereas they are reinvested pro-rata across the Index based on prevailing constituent weights for the total return index. Special dividends require index divisor adjustments to prevent the distribution from distorting the price index.

6 Multiple Share Classes

In the event a component company issues multiple classes of common stock, the specific shares recommended by The Motley Fool, LLC will be used. If both share classes have been recommended, or if neither is specified over the other, the most liquid share class will be used.

7 Index Maintenance

Index maintenance includes monitoring and implementing the adjustments for company deletions, stock splits, stock dividends, spin-offs, or other corporate actions. Some corporate actions, such as stock splits, stock dividends, spin-offs and rights offerings require changes in the Index shares and the stock prices of the component companies.

8 Component Changes

8.1 Additions

Additions to the Index are made at the quarterly reconstitution, according to the inclusion criteria defined above. No additions are made between reconstitutions, except in the case of certain spinoffs and acquisitions, as defined below.

8.2 Delistings

If a component company is delisted, it is deleted from the Index and weights of remaining components are adjusted proportionately.

8.3 Mergers & Acquisitions

If one component company is acquired by another, treatment varies depending on the terms of the deal. If stock is used, the acquiring/surviving company's share of the Index will be increased, to reflect the terms of the deal and the value of the acquired company. Securities removed due to M&A activity after trading has ceased will be removed at the acquisition price for cash transactions and a derived acquisition price for stock or cash and stock transactions. Otherwise, the security will be removed at the last traded price as of market close the day prior to removal.

If cash is used, the value of the target company, based on its last close price, will be distributed pro-rata across the remaining index constituents. If a combination of cash and stock are used, the cash portion of the deal will be distributed, pro-rata, across the remaining constituents, and the acquiring company's share will be adjusted based on the stock portion of the deal.

If a component company is acquired by a non-component company, the value of the target company will be distributed, pro-rata, to the remaining constituents based on its last close price.

8.4 Spin Offs

If a company is spun-off from an existing component company, it is allowed to stay in the Index until the next quarterly reconstitution.

9 Index Divisor Adjustments

Changes in the Index's aggregate market capitalization, due to changes in composition, weighting or corporate actions will result in changes to the Index's divisor. Corporate actions that require divisor adjustment will be implemented prior to the opening of trading on the effective date. In certain instances, where information is incomplete or if the action is announced too close to the ex-date, the adjustment will be implemented at the close of the following day, or as soon as practical thereafter. For corporate actions not described herein, or combinations of different types of corporate events and other exceptional cases, MFIA reserves the right to determine the appropriate implementation method.

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