Product Guide

Nasdaq-100 Index®

Benchmark of the 21st Century

What is the Nasdaq-100 Index?

The Nasdaq-100® is a globally recognized index of 100 of the most innovative large cap companies listed on the Nasdaq Stock Market®. Its prolonged record of outperformance, grounded in sound fundamentals, over other large cap indexes has earned the Nasdaq-100 the right to be considered the benchmark of the 21st century. Today, the index is tracked by thousands of investment vehicles including exchange-traded funds, mutual funds, separately managed accounts, and insurance products. The Nasdaq-100 is a compelling solution for investors seeking a differentiated large cap growth or large cap core investment solution.

How is the Nasdaq-100 Index built?

For companies to be included, they must meet certain trading requirements. Each company in the Nasdaq-100 must:

- Have its primary US listing exclusively on the Nasdaq Stock Market
  - If the company has recently moved their listing to Nasdaq, they must have traded on another major exchange[1] for at least three consecutive months
- Have an average daily traded value of at least $5 million over the preceding three months. This metric is called "trading volume" and determines a company's **liquidity.**
- Have a free float of at least 10%, meaning at least 10% of the company's shares are publicly tradeable

Additionally there are certain types of companies that are fully ineligible for inclusion in the index:

- All companies classified as Financials[2] are ineligible
- Within the Real Estate sector, any companies classified as REITs are ineligible
- All SPACs are ineligible

Liquidity refers to the ease and speed with which an asset can be bought or sold in a market without affecting the asset's price. High liquidity is crucial because it facilitates efficient trading, helps maintain price stability, and lowers overall market risk. A liquid asset typically attracts many buyers and sellers, resulting in an active and appealing market environment for investors. In essence, a company's liquidity represents how easily and efficiently it can be traded.

1. The security must have traded for at least three full calendar months, not including the month of initial listing, on an eligible exchange, which includes Nasdaq (Nasdaq Global Select Market, Nasdaq Global Market, or Nasdaq Capital Market), NYSE, NYSE American or CBOE BZX. Eligibility is determined as of the constituent selection reference date, and includes that month. A security that was added to the index as the result of a spin-off event will be exempt from the seasoning requirement
2. According to the Industry Classification Benchmark (ICB), a product of FTSE International Limited that is used under license.

How are eligible companies selected for inclusion in the Nasdaq-100 Index?

The eligible companies are ranked based on their **market capitalization**, and then 100 of the largest are included in the Nasdaq-100 (subject to some buffer rules to prevent excess turnover).

Market Capitalization, also known as market value, is the total value of all outstanding shares of a publicly traded company's stock. It is calculated by multiplying the company's current share price by its total number of outstanding shares. Market value is often used by investors to determine a company's size and growth potential; it represents the company's net worth at a particular point in time.

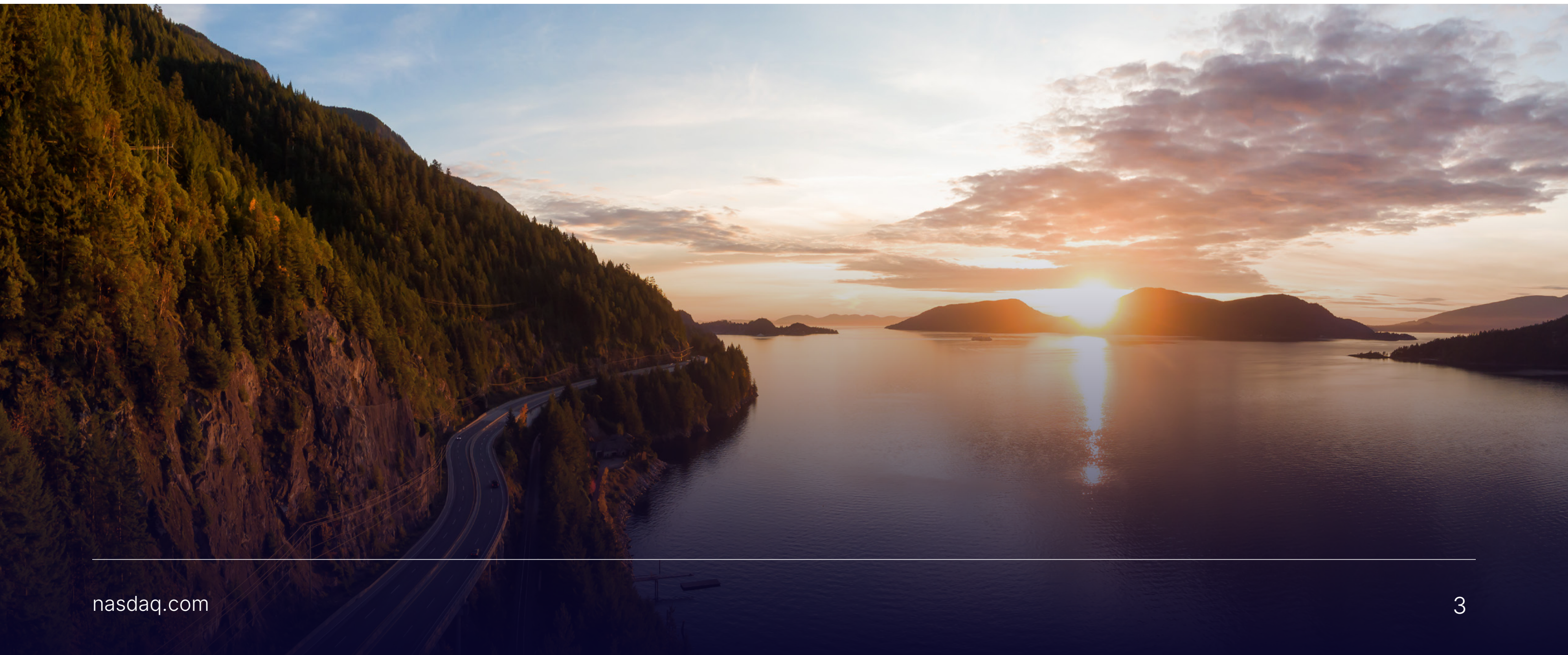
What happens when a company joins the Nasdaq-100?

As the Nasdaq-100 is a modified **market capitalization-weighted index**, companies are assigned different weights based on their market value or size. Bigger companies carry more weight and thus have a bigger impact on the overall performance of the index.

Market capitalization-weighting is a way to measure the value of a group of stocks where bigger companies hold more weight. In a **market capitalization-weighted index**, changes in the price of larger companies have a greater impact on the overall index value.

For example, let's say we have two companies in the Nasdaq-100: Company A and Company B. If Company A has a market value of $10 billion and Company B is at $1 billion, Company A will have a larger weight because it's a bigger company.

When you hear the term "overweighted exposure" about a specific company, it means that the company has more influence within an index compared to others. This usually happens when a company's market value increases, making it more valuable overall. Conversely, when you come across the term "underweight exposure" in the context of a particular company, it signifies that the company has less influence within an index compared to others. This typically occurs when a company's market value decreases, making it less valuable overall.



How is the Nasdaq-100 Index maintained?

The Nasdaq-100 is updated through routine adjustments to the weightings of its constituent companies. These “rebalances”, performed quarterly, enable the index to regulate its concentration with respect to its largest constituents. Additionally, an annual **reconstitution** takes place every December, which includes a distinct series of weighting adjustments, and is also when most index additions and deletions will occur each year.

To ensure fairness and accuracy, the Nasdaq-100 adheres to a predefined methodology during each quarterly rebalance and annual reconstitution. These transparent, systematic rules provide an unbiased representation of the largest non-financial Nasdaq-listed companies. Factors like company size and industry classification are carefully considered to make objective decisions.

By following this methodology, Nasdaq maintains the integrity of the Nasdaq-100 as a true reflection of ongoing innovation in the market.

An index **reconstitution** is like a yearly check-up for an index. It’s when the list of companies in the index is reviewed and updated. If a company no longer meets the criteria to be on the list, it’s removed. Similarly, new companies that meet the criteria are added. This ensures the index accurately represents the market or sector it’s designed to track.

How is the Index used?

One of the key advantages of the Nasdaq-100 is its diversity of investment applications, given its attractive growth profile and historical outperformance versus other large cap benchmarks. While you can’t invest directly in the Index, there are numerous **Exchange-Traded Funds (ETFs)** that closely replicate its performance by holding the stock of Nasdaq-100 companies in portfolios that mimic the weightings of the Index. In addition to ETFs, investors can access the Nasdaq-100 via a broad range of investment vehicles globally – from mutual funds and annuities, to futures, options, and other structured products.

In addition to serving as the foundation for hundreds of investible products, the Nasdaq-100 is also a widely followed large cap benchmark. By tracking many of the world’s most influential companies including global leaders in technology and other major innovation-driven industries, the index provides a clear view of how the 21st century economy is performing. Investors worldwide use the Nasdaq-100 as a reference point to evaluate market trends and inform investment decisions.

An Exchange-Traded Fund (ETF) is like a basket of various stocks or bonds that you can buy and sell on a stock exchange, similar to how you would trade an individual share. It’s designed to follow the performance of a particular group of assets or an index.