LifeSci Biotechnology Index Methodology

LifeSci Biotechnology Products Index
LifeSci Biotechnology Clinical Trials Index

Revised December 2021

Index Descriptions

The LifeSci Biotechnology Products Index (LSCIBP) is designed to track the performance of U.S. listed biotechnology stocks with at least one drug therapy approved by the U.S. Food and Drug Administration for marketing.

The LifeSci Biotechnology Clinical Trials Index (LSCIBC) is designed to track the performance of U.S. listed biotechnology stocks with a lead drug in the clinical trial stage of development, typically a Phase 1, Phase 2 or Phase 3 trial, but prior to receiving marketing approval.

Eligibility Criteria

An initial universe of actively traded stocks is created with the following eligibility criteria:

- Industry Classification Benchmark (ICB) sector: Pharmaceuticals & Biotechnology (4570)
- Primary exchange listing: United States
- Minimum market capitalization: $500 million for new additions for both LSCIBC and LSCIBP, $250 million to remain at reconstitution for LSCIBC and $500 million to remain at reconstitution for LSCIBP
- Minimum 1-month average daily turnover: $1 million
- Minimum 6-month average daily turnover: $2 million
- Seasoning period for IPOs and New Issues: 3 months

The resulting companies are then further divided into the following sub-categories: (1) Pure Biotechnology, (2) Animal Health, (3) Diversified Healthcare, (4) Investment Management, (5) Healthcare Services, (6) Large Pharmaceutical, (7) Medical Devices, (8) Neutraceuticals, (9) OTC Healthcare, (10) Specialty Pharmaceutical, (11) Tools, (12) Vaccines, and (13) Non-Healthcare.

Only the resulting group of Pure Biotechnology companies are included in the indexes, and are further sub-classified as either Products companies or as Clinical Trials companies. Companies with lead drugs that have received marketing approval by the U.S. Food and Drug Administration are included in the LifeSci Biotechnology Products Index. Companies with a lead drug in Phase 1, Phase 2 or Phase 3 stage of clinical trial testing are included in the LifeSci Biotechnology Clinical Trials Index. Companies with a lead drug candidate still in preclinical testing or research stage, prior to entering into human clinical trials, are excluded from these two indexes.

Various public data sources are utilized to determine these inclusions, exclusions and classifications including but not limited to: Bloomberg, company press releases, SEC EDGAR filings and official corporate websites.

Index Construction and Maintenance

The indexes are reconstituted semi-annually upon the open of the first trading days after June 15th and December 15th of each year, with eligible components being weighted equally. Any changes to the index, including additions and deletions to components, will be announced 1 week before the semi-annual reconstitution dates, and the weightings will be determined as of the closing price 1 trading day prior to the rebalance date (i.e. closing prices on June 14th and December 14th). There are no other rebalancing or reconstitution dates other than these two days each year.

Changes for corporate events such as mergers, spin-offs, split offs, dividends and stock splits are adjusted on the ex-date. (See "Corporate Actions" below for additional information.)

An index component may be removed from such index prior to a scheduled reconstitution if, for any consecutive 60-day period, the security's market capitalization falls below $50 million and the security's minimum 6-month average daily trading volume falls below $500,000, or if the security's issuer has entered into a definitive merger or acquisition agreement, or has filed for bankruptcy.

The Index Committee meets regularly to evaluate and determine any changes to the indexes which may be necessary to ensure integrity of the indexes, and any changes are publicly announced via a press release on the index provider's website (www.lifesciindex.com).

Corporate Actions

Dividend

Total Return Index: Cash dividends are reinvested in their respective stocks on the ex-date to increase the number of shares held by the index to reflect the reinvested dividends. There is no impact on the index divisor.

Price Return Index: No impact.

Stock Split

Total Return Index and Price Return Index: As of the ex-date, the number of shares will increase times the adjustment factor for the split. For example if a company has announced a 2-for-1 stock split, the adjustment factor for the same will be 2/1=2. The number of shares in this case will be multiplied by 2.

Spin Off

Total Return Index and Price Return Index: Both the parent company and the spun off entity will remain in the index until the next pre-determined semi-annual reconstitution, at which point each entity's continued inclusion will be determined based on the standard index inclusion and exclusion criteria.

Acquisition

Total Return Index and Price Return Index: The weight of the acquired company stake is reinvested in the balance of the index (excluding the acquired company) at the end of the first trading day after the acquisition closing.

Index Calculation

The indexes were created with a base value of 1,000 as of June 30, 2004. Index values between June 30, 2004 and October 31, 2014 were created using a backtesting methodology and by applying substantially the same criteria described above (except that within the backtest period, the reconstitution dates were on June 30 and December 31 of each year). However the backtest benefits from the benefit of hindsight and has other certain limitations (please see “Backtest Disclaimer” below). The official inception date of the indexes is November 3, 2014.

The index calculation agent for the indexes is Indxx, LLC (www.indxx.com).

Backtest Disclaimer

The performance information presented in certain charts or tables represent backtested performance based on combined simulated index data from June 30, 2004 to the period ending date shown. LifeSci Index Partners, LLC did not offer the indexes until November 3, 2014. Any information presented prior to the index inception date is backtested. The backtested calculations are based on substantially the same methodology that was in effect when the index was officially launched (except that within the backtest period, the reconstitution dates were on June 30 and December 31 of each year).

Backtested performance is hypothetical (it does not reflect trading in actual accounts) and is provided for informational purposes only to indicate historical performance had the indexes been available over the relevant time period. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Returns for actual investors may differ from and be materially lower than what is shown because of differences in timing, the amount invested and fees and expenses.

Backtested performance results have inherent limitations as to their relevance and use. For example, they ignore certain factors such as the trade timing, security liquidity and the fact that economic and market conditions in the future may differ significantly from those of the past. Furthermore, model performance data does not include transaction costs or custodial charges that can materially affect actual performance. Any and all of these factors mean that no representation is being made that any model or model mix will achieve performance similar to that shown, and in any case, past performance is no guarantee of future performance. Such results do not represent the impact that material economic and market factors might have on an investment adviser's decision-making process if the adviser were actually managing client money.

Backtested performance also differs from actual performance because it is achieved through the retroactive application of model portfolios designed with the benefit of hindsight. As a result, the models theoretically may be changed from time to time and the effect on performance results could be either favorable or unfavorable. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.