

RAFI[®] US Equity Long/Short Index Rulebook

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1. Introduction

The RAFI[®] US Equity Long/Short Index (Index) utilizes the Research Affiliates (RA) Fundamental Index[®] (RAFI[®]) methodology to identify opportunities that are implemented through long and short securities positions for a selection of U.S. domiciled publicly traded companies listed on major exchanges. The Index takes long positions in companies with large RAFI weights relative to weightings in capitalization-weighted indices and short positions in companies with small RAFI weights relative to their weightings in cap-weighted indices.

The Index is reconstituted annually at which time new long and short positions are selected and weighted. Sector neutrality is achieved during this annual reconstitution. The Index is rebalanced monthly such that it has equal dollar investments in both long and short positions. The Index at any time may have significant positive or negative correlations with long-only market capitalization-weighted indices.

2. Universe

Securities are selected from the Research Affiliates Universe of publicly traded securities (RA Universe). The securities in the Index are selected from the 1,000 largest companies by market capitalization and the 1,000 largest companies by RAFI weight (see RAFI Weights below) of publicly traded U.S. companies listed on major U.S. stock exchanges within the RA Universe.

3. RAFI[®] Weights

The RAFI methodology for selecting and weighting securities is based on fundamental measures of company size including sales, cash flow, dividends, and book value. Reported historical accounting data is obtained for each company within the RA Universe. For each company, five-year averages are calculated for sales, cash flow, and dividends, while current book value acts as a fourth variable. Each

company receives a weight equal to the ratio of its sales (or cash flow, dividends, book value) to the aggregate sales (or cash flow, dividends, book value) across all companies in the universe.

A composite RAFI weight is calculated for each company as an equal-weighted average of the four individual fundamental weights. If a company does not pay any dividends, the composite calculation is an equally weighted average of the remaining three metrics. Companies that receive a negative composite weight are removed.

4. Industry Sectors

Research Affiliates constructs 10 industry sectors (Sectors) from the Bloomberg Industry Classification Standard. These 10 Sectors are as follows:

- Basic Materials
- Communications
- Consumer, Discretionary
- Consumer, Non-Discretionary
- Energy
- Financial
- Healthcare
- Industrial
- Technology
- Utilities

5. Portfolio Construction

Long positions are selected from companies with large RAFI weights relative to their cap weights and short positions are selected from companies with small RAFI weights relative to their cap weights. The top quintile of companies as measured by RAFI relative to their cap weights within each Sector is selected to comprise the long portfolio. The bottom quintile of companies as measured by RAFI relative to their cap weights within each Sector is selected to comprise the short portfolio.

Weights are assigned to individual constituent companies in relation to both the absolute and proportional difference between their RAFI and cap weights. Weights are then normalized within each Sector so that the resulting sector weights in both the long and short portfolios match the Sector weights of the 1,000 largest companies by RAFI weight. Both RAFI weights and cap weights are float adjusted.

6. Annual Reconstitution

Index constituent companies and weights are reconstituted annually in March. Share factors for the new constituents are calculated on the second Friday of March using pricing from the Thursday prior to the second Friday. Changes in constituent companies and weights for the Index will be implemented after the close of trading on the third Friday of March.

7. Monthly Rebalance

The Index is rebalanced monthly such that it has equal dollar investments in both long and short positions. On the third Friday of each month, share factors for each sub index are adjusted such that the Index has an equal dollar weight in the long and short portfolios. These share factors are implemented after the close of business on the third Friday of each month and are effective prior to the open on the following trading day. This monthly rebalance does not change the underlying component weights of the Long and Short indices.

8. Corporate Actions

In the event of a corporate action, the Index will be adjusted as follows.

Merger between two components (stock consideration): The target company is deleted from the Index and the shares of the acquiring company are adjusted such that the weight of the acquiring company equals the sum of the two companies prior to the acquisition.

Merger between two components (cash and stock consideration): The target company is deleted from the Index and the shares of the acquiring company are adjusted such that the weight of the acquiring company equals the sum of the two companies prior to the acquisition less the amount of the cash consideration.

Merger between two components (cash consideration): The target company is deleted.

Merger between non-component and component: The target company is deleted.

Extraordinary deletion (bankruptcy, delisting): The target company is deleted.

Spin-off: The child is added and the weight of the parent company is adjusted such that the sum of the parent and child equals the weight of the parent prior to spin-off.

Rights offering: The price is adjusted on the ex-date based on terms of the rights offering on the prior day and the shares are adjusted based on the adjusted price to maintain the same weight for the company in the Index.

Stock split/stock dividend: The shares are adjusted based on ratio of the stock split/stock dividend to maintain the same weight for the company in the Index.

Special cash dividend: The price and shares are adjusted by the amount of the special cash dividend on the ex-date to maintain the same weight for the company in the Index.

9. Index Calculation

The index series includes six sub-indices including price and total return indices for the long portfolio, the short portfolio, and the aggregate long short portfolio.

Sub-Indices

Ticker	Name	Type	Real Time
RAFILS	RAFI US Equity Long/Short Index	Price	Yes
RAFILSTR	RAFI US Equity Long/Short Index TR	Total Return	No
RAFILSL	RAFI US ELS Long Sub Index	Price	Yes
RAFILSLT	RAFI US ELS Long Sub Index TR	Total Return	No
RAFILSS	RAFI US ELS Short Sub Index	Price	Yes
RAFILSST	RAFI US ELS Short Sub Index TR	Total Return	No

As of November 1, 2010, the RAFI US Equity Long/Short Index Series is calculated by Dow Jones Indexes, the marketing name and a licensed trademark of CME Group Index Services, LLC. “Dow Jones Indexes” is a service mark of Dow Jones Trademark Holdings LLC (“Dow Jones”) (herein referred to as “CME Indexes”).

CME Indexes provides on a daily basis via, at CME Indexes’ option, FTP service, email delivery, or facsimile delivery of:

- Closing values of the indexes on a price and total return basis;
- Updated closing divisor of the indexes;
- Closing values of the constituents and their weight in the respective index;
- Share factors with respect to the constituents; and
- Advance notice of upcoming corporate actions with respect to the constituents.

CME Indexes will announce the Annual Reconstitution changes after the close of trading on the second Friday in March. Changes in constituent companies and weights for the Index will be implemented after the close of trading on the third Friday of March.

For documentation of data sources, pricing, divisor calculations, computational precision, and data corrections, see the Guide to the Dow Jones Global Indexes, which can be found at http://www.djindexes.com/mdsidx/downloads/rulebooks/Dow_Jones_Global_Total_Stock_Market_Indexes_Rulebook.pdf. For information with regard to licensing the index, please contact Michael Larsen, Head of Affiliate Relations at Research Affiliates, LLC at larsen@rallc.com or (949) 325-8977.

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Fundamental Index[®], the non-capitalization method for creating and weighting of an index of securities, utilizes one or more patented and patent-pending proprietary intellectual properties of Research Affiliates, LLC (U.S. Patent Nos. 7,620,577; 7,747,502; and 7,792,719; Patent Pending Publ. Nos., US-2007-0055598-A1, US-2008-0288416-A1, US-2010-0191628, US-2010-0262563, WO 2005/076812, WO 2007/078399 A2, WO 2008/118372, EPN 1733352, and HK1099110).

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