EARNINGS POWER INDEXING

Directly trade and hedge income statement metrics

http://www.blxglobal.com

Earnings Power Indexing

BLX Global Indexes provide pure exposure to the aggregate financial statement performance of select industries and sectors. Our patent pending methodology turns bottom line financial metrics into an investable asset, creating new opportunities for speculation and hedging.

The basic concepts are similar to traditional stock indexes: a list of companies and a normalized number to describe the aggregate performance. However, the methodology behind our indexes is different than traditional stock indexes. The calculation methods for our indexes are based on the aggregate trailing 12-month financial performance of components rather than the stock prices. We have indexes tracking revenue, operating income, EBITDA, and earnings. BLX Global Indexes are the only way to isolate investment exposure to the underlying fundamentals of a given theme or sector.

Index Calculation Methods

Investors should understand the important nuances to the calculation method behind earnings power indexing. Earnings power indexing ensures that changes in index value always reflect the aggregate changes in the financial metric for all index components.

The general formula to calculate the index level is as follows:

$$\boldsymbol{Level(t)} = \sum_{\boldsymbol{i=1}}^{\boldsymbol{n}} (\boldsymbol{Weight\ i\ (t = Base)} * \%\ \boldsymbol{Change\ i\ (t)}) * \boldsymbol{Level\ (t = 0)} + \boldsymbol{Level\ (t = Base)}$$

i = individual company
n= list of companies in index
Level (t) = Index level at time t
Level (t=0) = Index level at inception = 100
Level (t=Base) = Index level at most recent composition change (or date of inception if no components have been changed)

BLX Global Indexes are calculated using a TTM Fundamental–Weighted Indexing approach: Individual companies are weighted according to their TTM fundamentals (earnings, revenue, operating income, EBITDA) at the index inception and rebalancing dates. We then calculate the current change in the TTM fundamentals for each index component from the inception date or the latest composition change date (if the index composition changed). The current aggregate change in the financial metric for all the index components is mathematically equivalent to the sum of the product of each component's current percentage change and its weight at the inception or latest index composition change date.

Example for a Revenue Index:

At date *t*, we calculate the weight and the percentage change for each index components *i* as follows:

- The weight at the most recent composition change date (or date of inception if no components have been changed).

$$Weight\ i\ (t = Base) = Revenue\ i\ (t = Base)\ \div \sum_{i=1}^{n}(Revenue\ i\ (t = Base))$$

We calculate the percentage change of revenues between date *t* and the most recent composition change date (or date of inception if no components have been changed).

$$\%\ Change\ i\ (t) = Revenue\ i\ (t)\ - Revenue\ i\ (t = Base) \div Revenue\ i\ (t = Base)$$

The level at the base date (inception date or composition change date) plays a crucial role in earnings power indexing. Index composition changes alter the individual component weights and their impact on the index. To ensure coherence and consistency at the index level, we rebalance the index each time the composition is changed. The level at the base serves as a milestone to maintain consistency in the index level between periods of different composition.

Level (t = Base) is equal to the Level (t=0) or 100 until the first composition change.

$$Level\ (t = Base)\ = \left[\sum_{i=1}^{n}(Revenue\ i(t = Base))\ - \sum_{j=1}^{n}(Revenue\ i(t = Base))\ - \sum_{i=1}^{n}(Revenue\ i(t = Previous\ Base))\right] \div \left|\sum_{i=1}^{n}(Revenue\ i(t = Previous\ Base)\right| * Level(t = 0) + Level(t = Previous\ Base)$$

$\sum_{i=1}^{n}(Revenue\ i\ (t))$ = Amount of aggregate trailing 12-month revenue measured in US Dollars for index components at time t.

$\sum_{j=1}^{m}(Revenue\ i\ (t))$ = Amount of aggregate trailing 12-month revenue measured in US Dollars for index components added (negative if dropped) at time t.

i = individual company

n= list of companies in index

j = individual company

m= list of companies added/dropped in index

Detailed methodologies for each index are disclosed in detail on our website.

Available Indexes

BLX Global has a variety of thematic and sector indexes available for use in earnings derivatives, exchange traded notes, and other structured products.

Some of the available indexes include:

- FAANG Revenue (.BLXGLFAANGR)
- FAANG Earnings (.BLXFLFAANGE)
- Select Bank Revenue (.BLXSBR)
- Select Bank Earnings (.BLXSBE)
- Domestic Airlines Revenue (.BLXDAR)
- SAAS Revenue
- SAAS Earnings
- Asset Manager Revenue
- Cable/Satellite EBITDA
- Clean Energy Revenue
- Semiconductor Revenue

Thomson Reuters Eikon (Refinitiv) users can access historical data and charting tools for select indexes using the tickers indicated above. We are in the process of adding our indexes to several other data providers as well. BLX Global's Github page also contains historical data, along with analytical tools that can be used to research trading strategies.

Advantages of Earnings Power Indexing

Unlike typical stock indexes, earnings power indexing does not facilitate the creation of ETFS. However, fund sponsors can create ETNs, FLEX Options, one-off structured notes, and other derivatives using them as a reference asset. This methodology creates unique opportunities and offers many advantages to investors.

Growth without Dilution

Many industries are notorious for diluting equity investors as they grow. Technology companies and natural resource companies, for example, typically issue large quantities of stock to employees. Consequently, even if the industry grows rapidly in aggregate, on a per share basis, early outside investors don't capture a proportional share of the benefits. Earning power indexing and earnings derivatives are a better way to get exposure to high growth industries. Since earnings power indexing uses aggregate metrics, earnings derivatives based on our indexes allow investors to participate in the growth of industries while sidestepping dilution.

Exposure to Earnings Growth of Companies with High Insider Ownership

Most stock indexes are market cap weighted and float adjusted because this is the only way to encourage the development of large, liquid ETFs. Float adjustment excludes most companies with high insider ownership. In fact, often companies get added to indexes after insiders sell most of their shares. Market cap weighting and float adjustment both ensure that it is possible to follow an index without excessive transaction costs that would come with buying less liquid low-market-cap and/or low-float companies. Market cap weighting creates a self-reinforcing bias towards the largest, most established companies. Yet this limitation makes many of the best opportunities uninvestable for many equity funds.

Fortunately, earnings power indexing offers a solution. ETNS and earnings derivatives referencing BLX Global Indexes provide direct exposure to the business performance of companies that would not normally be included in stock indexes.

New Hedging Opportunities

For the first time in market history, decoupling of fundamentals and sentiment can now be hedged from a macro level with one instrument. Sometimes a sector will deliver solid financial performance but fall out of favor with investors. Or a sector will get hyped up in spite of weak financial prospects. By trading an option on one of BLX Global's indexes, an investor can express a top-down view and isolate exposure to business fundamentals.

Long-Term Investing

BLX Global builds investment products with long term investors in mind. Although it is possible to speculate on short-term earnings (noise traders are an essential component of liquidity), earnings power indexing also makes it possible to hedge short-term earnings dips, and to make leveraged investments in long-term earnings growth. With earnings derivatives it is a lot easier to support companies through turnarounds, and to back executives that make long-term investments in the growth of the U.S. economy.

If an investor believes a company is going to perform well in the long term, but experience short-term earnings dips, they can use a put option on near-term company earnings to hedge a stock position. An investor could also sell call options on earnings to lower the cost of holding stock, without forgoing the upside of potential equity multiple expansion. Investors can also buy long-term call options on company earnings. This is a pure, leveraged long-term bet on business fundamentals.

No Distortion of Equity Prices

Since earnings power indexing uses fundamental data rather than equity prices, no one will ever buy a stock just because it is added to one of our indices. ETNs and derivatives referencing one of our indices do not lead to direct equity purchase distorting valuations. In contrast, flows from stock index tracking ETFs frequently drive large shifts in equity valuations.

Pricing Data

Unlike typical stock indexes, BLX Global Indexes are not dependent on pricing data purchased from exchanges. Instead the level of each index is based on company fundamental data reported to the SEC and made available for free to the public. Derivatives based on BLX Global Indices (and earnings derivatives in general) do not need to reference market data in order to settle. It is a small simplification and cost savings that allows BLX Global to pass more value on to investors.

About BLX Global

BLX Global Markets develops and licenses innovative financial products. Our offerings are centered around Earnings Derivatives®, which allow investors to make direct investments in company earnings streams, and express granular views on individual value drivers. The ability to turn bottom line financial metrics into tradeable and hedgeable assets makes our patent pending system unique. We provide a full spectrum of index and derivative products for exchanges, investment banks, and asset managers around the world.

Our methodology and indexes can be used for the following:

- Structured Products
- Exchange Traded Notes (ETNs)
- Futures and Options
- Swaps
- Annuities and Insurance Contracts

Parties interested in licensing agreements or the creation of custom products should contact: jacob@blxglobal.com