

ETFS US Quality ETF (BEST)

Benchmark

Solactive United States Quality Cash Flow Index

Benchmark Provider

Solactive

Benchmark Description

Construction of the Index starts with the companies in the Solactive GBS United States 500 Index. Only companies that have generated positive free cash flow (FCF) in the past 10 consecutive years are eligible for inclusion.

Companies are scored on two quality characteristics:

(i) FCF margin = Free cash flow / Sales

(ii) FCF return on invested capital (FCF ROIC) = Free cash flow / (Total debt + Total shareholder equity).

Each score is calculated using values for the past five years.

To prevent extreme one-off values from distorting scores, companies' scores are winsorised at 3%. This means scores above the 97th percentile are adjusted down to the 97th percentile, and those below the 3rd percentile are adjusted up to the 3rd percentile.

Then, to make comparison easier, the scores of each company are standardised using z-scores. Z-scores measure how far a value is from the average and provide an easy way to compare peers. Z-scores are capped between -3, for those with the worst quality scores and +3, for those with the best scores.

To smooth fluctuations, the 5-year average z-score is calculated for both FCF margin and FCF ROIC.

These two scores are then adjusted:

- If the score is positive: Final score = 1 + score
- If the score is negative: Final score = 1 / (1 - score)

The final quality score is the average of these two adjusted 5-year scores. Every company's score will fall between 0.25 and 4.

The top 100 companies with the highest scores are selected for Index inclusion.

How companies are weighted within the Index

Company's weights are determined by multiplying their free-float market capitalisation by their final quality score.

At each rebalance, a 10% cap is applied to prevent excessive concentration in any single company.

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