

Akros Option Index Methodology

Last Update: February 2026
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1 Introduction

Akros Technologies (“Akros”) is dedicated to maintaining the highest standards of integrity through a transparent and replicable index design and calculation methodology. Driven by deep expertise in indexing, portfolio analytics, and data management, Akros seeks to bring an innovative and insightful perspective to the financial market. This dedication is reflected in the meticulous processes and standards that Akros adheres to in the creation and management of its indices.

Akros Option Index, leverages the strategic use of call and put options to create a versatile platform for achieving diverse investment objectives, including targeted income generation and defined outcome goals. This approach allows investors to systematically access and implement option-based strategies across various markets and asset classes. Akros provides an extensive range of index products and custom index development services, thus facilitating access to systematic investment strategies. The comprehensive suite of services provided by Akros, including index administration and calculation agent services, caters to a wide client base that includes asset managers, index administrators, advisors, and investors. These services are designed to meet the unique needs of each client while maintaining the highest standards of accuracy and transparency.

Individual Index Methodology documents outline the specific details of each index, encompassing an introduction and the objectives of the index, the construction criteria for its constituents, the frequency of rebalancing, and additional relevant information. These documents are critical to maintaining the highest standards of integrity and precision in index management. The Individual Index Methodology often refers to the Akros Option IndexMethodology, which serves as a comprehensive and holistic guideline for the development and maintenance of Akros indices.

2 Adherence to the IOSCO Principles

Akros Technologies remains steadfast in its mission to uphold the highest standards of integrity and professionalism. This commitment is reflected in every aspect of its operations, from the development and calculation of indices to their ongoing management and administration.

Akros adheres to the IOSCO Principles regarding the quality and integrity of indices and their methodologies by providing all relevant stakeholders with detailed information regarding the calculation and maintenance of the indices that that Akros provides. This commitment to transparency is a cornerstone of Akros’s approach, ensuring that each index is managed according to the highest standards. Stakeholders have access to comprehensive details about index components, their selection criteria, and the overall methodology used in index calculation and maintenance. This level of professional detail ensures that users clearly understand how indices are constructed and maintained, fostering trust and confidence in the indices provided by Akros.

In light of the EU Benchmarks Regulation (Regulation (EU) 2016/1011), the Akros Option Index Methodology provides a comprehensive framework that aligns with all relevant regulatory standards. The regulation sets out stringent requirements for benchmark administrators, emphasizing the need for accuracy, reliability, and transparency.

By transparently disclosing index maintenance rules and general calculation methods, the Akros Option Index Methodology enables investors to effectively evaluate and utilize the indices developed by Akros. Detailed documentation and regular updates regarding the index methodologies ensure that users remain well-informed about any changes to index calculations. This transparency allows stakeholders to make informed decisions based on accurate and up-to-date information, enhancing their ability to use Akros indices for various investment and analytical purposes. Akros’s commitment to clear and comprehensive communication ensures that all relevant parties fully understand and benefit from its index products.

For further information, please refer to the Akros’s Statement of Adherence to IOSCO Principles.

3 Index Construction

Akros Option Index consists of a combination of long and short positions on index constituents, call options and put options.

3.1 Index Constituent Selection

The index objective varies according to the type of the index. As such, the process of selecting the individual constituents of the index varies according to the type of the index. The summary of different types of Akros Equity Index are outlined below, and details are further elaborated on the methodology of each index type.

3.1.1 Broad-Based Index

A broad-based index is a type of equity index that includes a wide range of companies from different sectors and industries to represent the overall performance of the market. These indices are designed to provide a comprehensive snapshot of the market's health and direction.

Please refer to the “Akros Broad-Based Index Methodology” for further information.

3.1.2 Fundamental-Based Index

A fundamental-based index is a type of stock market index that selects its constituent companies based on specific fundamental metrics. These indices aim to provide a different perspective on market performance by focusing on the intrinsic value and financial health of companies.

Please refer to the “Akros Fundamental-Based Index Methodology” for further information.

3.1.3 Factor-Based Index

A factor-based index is a type of index that selects its constituent based on specific quantitative factors. These indices aim to provide exposure to strategic beta deemed to drive excess returns relative to the market.

Please refer to the “Akros Factor-Based Index Methodology” for further information.

3.1.4 Thematic Index

A thematic index is a type of index that selects its constituent based on specific themes. These indices aim to provide exposure to themes that are identified by the Akros Industry Classification System as well as those that are not currently not well captured by the industry classification due to the novelty of the theme.

Please refer to the “Akros Thematic Index Methodology” for further information.

3.1.5 Inverse / Leveraged Index

An inverse index is a type of index designed to move in the opposite direction relative to a benchmark index. A leveraged index is a type of index that aims to provide a multiple of the daily performance of a benchmark index.

Please refer to the “Akros Inverse and Leveraged Index Methodology” for further information.

3.1.6 Enhanced Index

An enhanced index is a type of index that selects its constituent based on novel sets of quantitative factors that have been identified by Akros. These indices aim to provide exposure to companies that score highly amongst these quantitative factors and are probabilistically more likely to lead to excess returns.

Please refer to the “Akros Enhanced Index Methodology” for further information.

Naturally, each of the index type has different procedures with which the index constituents are selected from the Initial Investable Universe. These procedures are transparently disclosed in each of the methodology outlined above which elaborates the general methodology for each index type as well as in the Individual Index Methodology.

3.2 Option Selection

3.2.1 Eligible Exchanges

Appendix A shows the list of eligible exchanges for each of the defined geographical region. The eligibility of an exchange is reviewed by the Akros Index Committee on the annual basis.

3.2.2 Option Exercise

Option exercise refers to the act of invoking the rights granted by an options contract. Options give the holder the right to buy or sell the underlying asset at the strike price, before or at the expiration date of the option depending on the type.

| Option Type | Description |
|-------------|--------------------------------------------------------------------------------|
| American | American options can be exercised at any time before or on the expiration date |
| European | European options can only be exercised at the expiration date |

Table 1: Option Exercise

3.2.3 Expiry Date

The expiration date in options trading is the last day on which the option can be exercised.

| Option Type | Description |
|-------------|-------------------------------------------------------------------------------|
| Daily | Expire at the end of every trading day. |
| Weekly | Expire at the end of the trading week typically on Friday. |
| Monthly | Expire at the end of the trading month typically on the third Friday. |
| Quarterly | Expire at the end of the trading quarter typically on the last trading day. |
| LEAPS | Expiration date that can be up to three years in the future. |
| FLEX | Expiration date that could be from a few days to several years in the future. |

Table 2: Expiry Date

3.2.4 Strike Price

The strike price is the fixed price at which the holder of an option can exercise the right buy (in the case of a call option) or sell (in the case of a put option) the underlying asset.

| Option Type | Description |
|------------------------|----------------------------------------------------------|
| At-the-Money (ATM) | Strike price is approximately equal to the market price. |
| - Call Option | Strike Price \approx Market Price |
| - Put Option | Strike Price \approx Market Price |
| In-the-Money (ITM) | Strike price is favorable compared to the market price. |
| - Call Option | Strike Price $<$ Market Price |
| - Put Option | Strike Price $>$ Market Price |
| Out-of-the-Money (OTM) | Strike price is unfavorable compared to market price. |
| - Call Option | Strike Price $>$ Market Price |
| - Put Option | Strike Price $<$ Market Price |

Table 3: Strike Price

3.2.5 Option Price

Option price refers to the different ways in which the value of an option can be represented in the market

| Option Type | Description |
|-------------|-------------------------------------------------------------------------------------|
| Ask | The lowest price that a seller is willing to accept for an option. |
| Bid | The highest price that a buyer is willing to pay for an option. |
| Mid | The mid price between the bid and ask prices. |
| Theoretical | The theoretical price calculated using pricing models like the Black-Scholes model. |
| Settlement | Expiration date that can be up to three years in the future. |

Table 4: Option Price

4 Index Weighting Methodology

Akros Option Index can have underlying equity index constituents that are determined using the Akros Equity Index Methodology. Once the individual constituents of the index have been identified, the weighting methodology is applied to the constituents to determine the weight of each equity constituent in the overall index. There are conventional weighting methodologies such as market capitalization weighting, equal weighting and mixed weighting, the details of which are outlined in the Akros Equity Index Methodology. In addition to conventional methodologies, Akros Equity Indices also adopts the score-based weighting where the score for each individual constituent is calculated and evaluated according to the Individual Index Methodology.

4.1 Market Capitalization Weighting

In a market capitalization-weighted index, each index constituent company i is weighted according to its market capitalization $MC_{i,t}$ at time t , or its free-float adjusted equivalent. Market capitalization is calculated by multiplying the company's current share price by the total number of its outstanding shares and its variant is calculated by multiplying the free float adjustment factor with the market capitalization.

$$\mathbf{w}_t = \left\{ \frac{MC_{1,t}}{\sum_{i=1}^n MC_{i,t}}, \frac{MC_{2,t}}{\sum_{i=1}^n MC_{i,t}}, \frac{MC_{3,t}}{\sum_{i=1}^n MC_{i,t}}, \dots, \frac{MC_{n,t}}{\sum_{i=1}^n MC_{i,t}} \right\} \quad (1)$$

4.2 Equal Weighting

Equal weighting is a method where each index constituent i is assigned the same weight $1/n$ where n is the total number of index constituents. When compared to the market capitalization weighting method, the equal weighting method provides greater exposure to equities with comparatively smaller market capitalization.

$$\mathbf{w}_t = \left\{ \frac{1}{n}, \frac{1}{n}, \dots, \frac{1}{n} \right\} \quad (2)$$

4.3 Mixed Weighting

Mixed weighting is the average of the market capitalization weighting and the equal weighting. The expression on the left hand side of the numerator represents the market capitalization-weighted component and the expression on the right hand side of the numerator represents the equal-weighted component. The aim is to provide greater exposure to equities with comparatively smaller market capitalization whilst maintaining greater constituent weight to those with comparatively larger market capitalization.

$$\mathbf{w}_t = \left\{ \frac{nMC_{1,t} + \sum_{i=1}^n MC_{i,t}}{2n \sum_{i=1}^n MC_{i,t}}, \frac{nMC_{2,t} + \sum_{i=1}^n MC_{i,t}}{2n \sum_{i=1}^n MC_{i,t}}, \dots, \frac{nMC_{n,t} + \sum_{i=1}^n MC_{i,t}}{2n \sum_{i=1}^n MC_{i,t}} \right\} \quad (3)$$

4.4 Score-Based Weighting

Score-Based weighting is a method where each index constituent i is weighted according to its score $s_{i,t}$ at time t , which is defined in the Individual Index Methodology. The Score-Based weight provides an alternative weighting scheme to the conventional methods and thereby accommodates for a different exposure to equities. The procedure with which the scores are determined for each constituent is fully disclosed in each of the Individual Index Methodology.

$$\mathbf{w}_t = \left\{ \frac{s_{1,t}}{\sum_{i=1}^n s_{i,t}}, \frac{s_{2,t}}{\sum_{i=1}^n s_{i,t}}, \dots, \frac{s_{n,t}}{\sum_{i=1}^n s_{i,t}} \right\} \quad (4)$$

5 Option Weighting Methodology

Option weighting methodology is a structured approach to determining the allocation of call and put options in both long and short positions within a portfolio. The methodology plays a critical role in managing risk, optimizing returns, and ensuring a consistent exposure to the underlying asset. Akros Option Index uses different weighting techniques depending on their objectives, whether it be achieving a fixed level of coverage, targeting a specific premium, or dynamically adjusting exposure based on market conditions.

Call and put options can be incorporated into a portfolio in various ways. A long position in a call option allows the holder to benefit from an increase in the underlying asset's price, whereas a short call position involves selling the option, typically to collect premium income while assuming potential downside risk. Conversely, a long put position provides downside protection or speculative exposure to a declining asset price, while a short put position generates income but carries the obligation to buy the asset at the strike price if exercised.

To systematically manage exposure, three primary weighting methodologies are employed:

5.1 Fixed Cover Ratio Weighting

Fixed Cover Ratio Weighting applies a predetermined cover ratio to the portfolio, typically measured in terms of notional value. This method ensures that the portfolio maintains a consistent level of exposure relative to the underlying asset. By using a fixed ratio, investors can control leverage and hedge exposure while maintaining a predictable structure.

5.2 Target Premium Weighting

Target Premium Weighting adjusts the allocation of options to achieve a specific premium level. Rather than maintaining a static ratio, this approach varies the number of contracts held to generate a desired premium outcome. This methodology is particularly useful for strategies focused on premium collection, such as income generation through option selling or volatility targeting.

5.3 Dynamic Cover Ratio Weighting

Dynamic Cover Ratio Weighting systematically adjusts the weight of options based on predefined criteria. Unlike a fixed ratio approach, this method modifies exposure dynamically in response to market conditions. The adjustments are often determined by a structured methodology, such as the Individual Index Methodology, which may incorporate macroeconomic indicators or market signals. This approach provides greater flexibility, allowing for adaptive risk management and responsiveness to changing market environments.

By employing these weighting methodologies, investors can tailor their options exposure to align with their risk tolerance, return objectives, and market outlook. The choice of weighting strategy depends on the desired balance between stability, adaptability, and premium generation, ensuring that the portfolio remains well-positioned under varying market conditions.

A List of Eligible Option Exchanges

The following table shows the list of eligible and regulated option exchanges that comply with specific regulations and standards set by financial authorities. The Individual Index Methodology specifies the exchanges and the listed options from these exchanges which are utilized in the initial investable universe.

| Country | Name of Exchanges | Country | Name of Exchanges |
|-----------|-----------------------------------|--------------|------------------------------------------|
| Argentina | Bolsa de Comerico de Buenos Aires | Mexico | Mexican Derivatives Exchange |
| | MATba Rofex | Netherlands | Euronext Amsterdam |
| Australia | Australian Securities Exchange | Norway | Euronext Oslo |
| Austria | Eurex Austria | Poland | Warsaw Stock Exchange Derivatives Market |
| Belgium | Euronext Brussels | Portugal | Euronext Lisbon |
| Canada | Montreal Exchange | Russia | Moscow Exchange |
| Denmark | Euronext Copenhagen | Singapore | Singapore Exchange |
| Finland | Euronext Helsinki | South Africa | Johannesburg Stock Exchange |
| France | Euronext Paris | South Korea | Korea Exchange |
| Germany | Eurex | Spain | MEFF |
| Greece | Athens Exchange DM | Sweden | OMX Stockholm |
| Hong Kong | Hong Kong Exchanges and Clearing | Taiwan | Taiwan Futures Exchange |
| Hungary | Budapest Stock Exchange DM | Thailand | Thailand Futures Exchange |
| India | BSE India | UK | London Stock Exchange |
| | National Stock Exchange of India | | ICE Futures Europe |
| Israel | Tel Aviv Stock Exchange DM | | Eurex |
| Italy | Borsa Italiana IDEM Market | US | Chicago Board Options Exchange |
| Japan | Osaka Exchange (JPX) | | NASDAQ Options Exchange |
| | Tokyo Financial Exchange | | NYSE Options Market |
| Malaysia | Bursa Malaysia | Vietnam | Ho Chi Minh Stock Exchange |