

Barclays Focus50 Index™

A volatility-control index based on a combination of low-volatility US stocks and US Treasury Indices

The Barclays Focus50 Index seeks growth opportunities while limiting volatility through exposure to a dynamic combination of U.S. stocks and U.S. Treasury Indices. Low Volatility U.S. stocks are used because, historically, they have tended to outperform other, higher volatility stocks, on a risk-adjusted basis. The addition of Treasuries adds a diversification benefit and a potential reduction in risk. To further control risk, the index aims to limit its annual volatility to a 5% target using a process called volatility control.

The Case for Low Volatility Stocks

The common perception is that higher risk results in higher return. While highly volatile stocks may deliver bursts of exceptional performance, low volatility stocks have historically achieved higher risk-adjusted returns over time. This anomaly exists for several reasons, including:

- Investors pushing up prices of riskier stocks, resulting in underpriced lower-risk stocks.
- Leverage strategies available to larger/institutional investors cause smaller investors to seek riskier stocks to compensate for borrowing restrictions.
- Institutional investors' disincentive to take advantage of lower-risk stock pricing differentials ("arbitrage") due to competitive pressures to achieve higher returns with riskier stocks.

Stock Selection

Each month the Index follows a systematic process to select up to 50 stocks as its new constituents.



Equally weighted basket of 50 stocks with the lowest realized volatility measure Monthly rebalancing

The broad universe consists of all stocks listed on the New York Stock Exchange and NASDAQ issued by companies headquartered in the United States.

The Index then filters out stocks that do not meet defined size and liquidity thresholds. Specifically, in order to be included in the Index, the stock must meet these parameters:

- Minimum market capitalization of \$5 billion.
- Minimum average daily value traded over the past three months of \$50 million.
- Minimum average daily number of shares traded over the past three months of 5,000 shares.

The remaining eligible stocks are then ranked based on 1-year historical volatility, and the process selects the 50 stocks with the lowest volatility, subject to the requirement of including no more than 10 stocks from any single industry sector. This limitation is designed to prevent over-concentration in any given industry sector.

Upon the completion of the next Index rebalancing, the 50 newly selected stocks, weighted equally, will represent the Index constituents for the following month. The entire process is repeated each month to construct a dynamic stock portfolio that is reconstituted and rebalanced on a monthly basis.

Varying Exposure: Stocks and Bonds

Exposure to bonds is represented by an equally weighted basket of four indices which track US Treasury 2, 5, 10, and 30-year futures. The allocation between the 50 stocks and bond indices is determined by recent risk and return components of each, as well as their correlation to each other, to formulate a percentage allocation that will provide the greatest return potential for the specified risk level.

The portion allocated to bonds may be further refined to minimize the impact of rising interest rates. If trends indicate rising rates, half of the bond allocation is directed to the two best-performing of the four Treasury indices, while the other half is allocated to cash.

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Exposure Management for Controlled Risk

The stock and bond mix described previously represents the "index portfolio." As an additional level of volatility control, the Focus50 Index manages the exposure weightings of the index portfolio with the objective of a constant annualized volatility of 5%. If the index portfolio volatility exceeds 5%, the Index will allocate less than 100% to the index portfolio, leaving the residual portion in cash. Conversely, if the index portfolio volatility is below 5%, the exposure to the index portfolio may exceed 100%, up to a maximum exposure of 150%. The exposure to the index portfolio within the Focus50 Index may be adjusted as often as daily. The objective of adjusting exposure to the index portfolio is to maintain a steady level of risk as market environments change.

Managing Performance Expectations

No single index or crediting strategy can consistently achieve above average performance in all market conditions. During periods of market declines, index credits may be zero — but will never result in a loss of credits already added to your contract.

Additional Information

For current index allocations and historical performance, visit Indices.Barclays/Focus50, ticker: BXIIF50E. For more information about the offerings from EquiTrust, contact your agent, or refer to the product brochure and your contract.



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