Adjacent

Event Contract Benchmarking and Indexing

BLUE Index Methodology

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BLUE Index Methodology

Adjacent Markets, Inc.

Version 1.5

Table of Contents

1. Executive Summary

2. Index Overview

3. Universe Definition

4. Data Sources

5. Weighting Methodology

6. Index Calculation

7. Index Maintenance

8. Governance

9. Risk Factors and Limitations

10. Changelog

11. Approvals

12. Legal Notices and Disclaimers

1. Executive Summary

Adjacent's BLUE index is a forward-looking political index comprised of underlying event contracts from Kalshi's prediction market exchange. It provides insight into Democratic power and sentiment projections across five core office categories (i.e., Presidential, Senate, House, Gubernatorial, and Mayoral) using event contract prices from Kalshi, the CFTC-regulated prediction market exchange.

The index is centered at a neutral baseline of 100. When BLUE is above 100, the U.S. is trending more Democratic from a power and sentiment standpoint. Conversely, when below 100, the index conveys that the U.S. is trending more Republican from a power and sentiment standpoint.

The BLUE index is designed as a financial benchmark with multiple use cases (e.g., perpetual swaps, binary options, ETFs and ETPs, etc). BLUE's index value is derived from prices of underlying election event contracts. It is not a poll or survey.

For the BLUE index, Adjacent Markets, Inc. takes on the roles and responsibilities of Index Sponsor, Calculation Agent, and governance authority. BLUE's methodology and all constituent weights are maintained by the Adjacent Index Committee.

It is worth noting that RED and BLUE are independent indices. They are not paired indices that mechanically mirror one another. They are designed to measure Republican and Democratic constituent election market universes independently. They may often move in opposite directions, however the relationship is not guaranteed at all times.

2. Index Overview

2.1 Objective

BLUE measures the extent to which the U.S. is trending Democratic from a power and sentiment perspective using Kalshi's election event contract prices. The composite BLUE index provides a real-time value with insights that can be abstracted at any given moment.

Unlike polling which is backward looking, primitive and ineffectively reflects what people say and think, BLUE is informed by event contract traders who are willing to put their capital at risk. It is a more reliable signal into which way the U.S. is trending politically.

2.2 Design Principles

Price-derived. Every value used to calculate BLUE comes from real money changing hands in CFTC-regulated markets.

Continuous. BLUE updates in near real time. The composite index recalculates every 60 seconds; constituent weights recalculate on the same cadence. Price changes from Kalshi feed into the index with at the absolute most, a maximum 5-minute delay.

Fixed category architecture. The five categories - Presidential (40%), Senate (30%), House (20%), Gubernatorial (8%), Mayoral (2%) - reflect a thoughtful view of relative political significance. These are fixed category weights. If a non-Presidential category does not satisfy the Constituent Threshold described in this methodology, its base category weight is temporarily redistributed across the remaining active categories using normalized weighting.

Transparent. This document is the full specification. It is meant to empower others to replicate the methodology, recalculate values, and ensure BLUE is accurate and reliable.

2.3 Target Users

BLUE is relevant to multiple audiences and introduces different use cases for them:

- **Derivatives traders** - BLUE introduces opportunities for perpetual swap traders who want to trade Democratic electoral narratives (e.g., thematic and narrative-driven traders and speculators) and momentum, in either direction.
- **Institutional investors and hedge funds** - Funds and institutions can use financial instruments benchmarked to BLUE for hedging political risk, diversifying their portfolios, and implementing electoral-driven strategies.
- **Market makers and OTC desks** - BLUE creates opportunities for market makers and OTC desks to more capably price prediction market event contracts, hedge their exposures, and more capably reach delta neutral positions.
- **ETF issuers** - BLUE also enables ETF issuers to benchmark and launch multi-event ETFs centered upon U.S. political trends that are more robust, informative, and tradable than single-event ETFs.
- **International investors** - Financial instruments benchmarked to BLUE enable non-U.S. entities to get exposure to trends in U.S. political power and sentiment projections.

- **Media and political analysts** - In addition to financialization, BLUE provides media and political analysts with an alternative to polling data that is more accurate and effective.
- **Democratic campaigns and political operatives** - Lastly, BLUE allows campaigns and political operatives to more capably track market-driven implications of candidate positions at scale.

3. Universe Definition

3.1 Eligible Markets

BLUE constituents are Kalshi event contracts that:

1. Represent a binary outcome tied to a U.S. election
2. Are listed on the Democratic side of the relevant contest (ticker suffix **-D**)
3. Cover one of the five eligible office categories
4. Have a mid price that is not zero, is not stale and that satisfies the mid price quality screen described in Section 4
5. Have not yet resolved

Office categories:

- U.S. Presidential elections
- U.S. Senate elections (both regular cycle and special elections)
- U.S. House of Representatives elections (both regular cycle and special elections)
- Gubernatorial elections (U.S. states and territories)
- Mayoral elections (major U.S. cities, as determined by the Adjacent Index Committee)

Kalshi ticker convention for BLUE constituents follows the pattern `[OFFICE]-[JURISDICTION]-[YEAR]-D`. Examples:

Ticker	Description
KXPRESPARTY-28-D	2028 U.S. Presidential, Democratic
SENATEMI-26-D	2026 Michigan Senate, Democratic
HOUSEPA-05-26-D	2026 Pennsylvania 5th District, Democratic
GOVTX-26-D	2026 Texas Gubernatorial, Democratic
MAYORNYC-25-D	2025 New York City Mayoral, Democratic

BLUE may use candidate-level contracts instead of party-line contracts for Mayoral elections that are non-partisan where candidates are listed without party labels. In such cases, eligible candidate-level contracts associated with Democratic-affiliated candidates may be aggregated to produce the cumulative Democratic Mayoral probability for that election.

3.2 Inclusion Criteria

A market is eligible for inclusion when:

- It is listed on Kalshi in -D format or it is a non-partisan Mayoral election and listed with abbreviated candidate names (e.g., `-KBAS` for Karen Bass)
- It has a valid mid price described in Section 4 that accounts for both a best bid and best ask as well as a bid/ask spread that does not exceed 50 percentage points
- It has been active for at least 48 hours following initial listing (evaluation period)
- The Adjacent Index Committee has completed a screening review (weekly, on a rolling basis)

The 48-hour evaluation window exists to avoid inclusion of markets that list with wide, illiquid spreads immediately after launch. Most Kalshi markets normalize within the first day or two of listing.

3.3 Exclusion Criteria

A market is excluded if:

- The contract has resolved (winner declared) - removal is immediate upon resolution

- The mid price has been at 0.0% or 100.0% with no bid/ask activity for more than 72 consecutive hours
- The ticker has been suspended or delisted by Kalshi
- The Adjacent Index Committee determines the contract does not reflect a genuine election contest (e.g., uncontested races, markets with known data quality issues)

3.4 Presidential Constituent Swap

The Presidential category is made up of a party-line market regarding which political party will win the U.S. presidency - i.e., the "2028 Presidential Election winner? (Party)" market. This party-line market generally has less volume than the election winner contract, "2028 U.S. Presidential Election winner?".

Therefore, after both Republican and Democrat Presidential nominees have been identified, the AIC performs a constituent swap at the next weekly scheduled screening review. The party-line market contract is then replaced by the individual election winner market contract. The Republican nominee's contract price becomes the RED Presidential category input, while the Democrat nominee's contract price becomes the BLUE Presidential category input.

This swap is only eligible to occur after both Republican and Democrat nominee markets have resolved. I.e., "2028 [Republican/Democratic] presidential nominee". If only one nominee market has resolved, there is no partial swap. The party-line market remains in effect until both Republican and Democrat nominee markets have resolved.

Lastly, this Presidential constituent swap is pre-approved. It is a standing provision and therefore does not require a separate AIC methodology change vote.

3.5 Special Elections

Special elections, which are infrequent, are eligible to be included under the same criteria and considerations as regularly scheduled elections. Special elections fall under their corresponding office type (i.e., Senate, House, or Gubernatorial) and receive the same category weight treatment.

3.6 Market Lifecycle

Markets undergo a 48-hour evaluation period before they are entered into the index. They then remain in the index until the market resolves (Presidential constituent

swap in section 3.4 aside). Upon resolution, the market is removed from the index calculation right away. The remaining constituents then absorb the weight proportionally in that category.

There may be times when a category has too few eligible constituents to satisfy the Constituent Threshold described in Section 3.7. In those cases, the category may continue to publish a standalone category index value if at least one eligible constituent exists, but it is excluded from the composite index calculation until the threshold is satisfied again.

3.7 Constituent Threshold

The Senate, House, Gubernatorial, and Mayoral category indices must each have at least five eligible constituents to be included in the composite BLUE calculation.

If one of these category indices has fewer than five eligible constituents, that category is excluded from the composite BLUE calculation. Its base category weight is redistributed across the remaining active categories using the normalized weighting process described in Section 5.1.

If a category has at least one eligible constituent but fewer than five eligible constituents, Adjacent may continue publishing the standalone category index value. However, that category index value is not used in the composite BLUE calculation while the category remains below the Constituent Threshold.

If a category has no eligible constituents, publication of that standalone category index value is halted until at least one eligible constituent becomes available.

The Presidential category is not subject to the five-constituent threshold because it is intentionally represented by a single national election market or approved Presidential substitute market.

4. Data Sources

Primary source: All BLUE constituent prices are sourced exclusively from Kalshi, a CFTC-designated contract market.

Price type used: Mid price, calculated as:

```
Mid Price = (Best Bid + Best Ask) / 2
```

For a constituent to be eligible, it must have a two-sided book with both a best bid and a best ask present. The bid/ask spread must not exceed 50 percentage points. If a constituent fails this filter, its last valid mid price will be held for up to 4 hours. After 4 hours it is excluded from the index calculation. While a constituent is excluded, the other eligible constituents in the same category absorb its weight pro rata. The constituent will re-enter the index when it has both a best bid and a best ask and the bid/ask spread is back within 50 percentage points.

Kalshi's binary event contracts, per contract, are priced between 0-100. The price reflects the probability of the event occurring based on the underlying trading activity. E.g., an event contract trading at 58 implies a 58% win probability for the Democratic candidate.

BLUE is only comprised of Kalshi's underlying CFTC-regulated event contracts, which includes a broad collection of U.S. election contracts. For non-partisan Mayoral election markets, candidate party affiliation is sourced from Ballotpedia. Population data is sourced from census.gov. Adding additional platforms is a potential future enhancement, subject to Governance review.

5. Weighting Methodology

5.1 Category Weights

Category indices' weights are fixed. They reflect Adjacent Markets' view of the relative importance of each office category in the greater context of the U.S. political landscape.

Office Category	Weight
Presidential	40%
Senate	30%
House	20%
Gubernatorial	8%
Mayoral	2%
Total	**100%**

Equal weighting would not accurately reflect the political landscape. For instance, a presidential election and a mayoral race in a mid-sized city are not equivalent political events, so the index does not treat them as such.

Weights are not derived from a statistical model. Instead, they represent a judgment about political and economic significance.

The weights above are base category weights. Composite index weights may be temporarily adjusted when one or more non-Presidential categories do not satisfy the Constituent Threshold.

If all categories satisfy the applicable Constituent Threshold, the base category weights are used. If one or more non-Presidential categories fail the Constituent Threshold, those categories are excluded from the composite calculation and their base category weights are redistributed across the remaining active categories using normalized base weights:

```
Adjusted Category Weight_c = Base Category Weight_c / Σ Base Category
Weights of Active Categories
```

“Active Categories” means the Presidential category plus any Senate, House, Gubernatorial, or Mayoral category that satisfies the Constituent Threshold.

Example: if the Mayoral category has fewer than five eligible constituents, its 2% base weight is excluded from the composite calculation and redistributed across Presidential, Senate, House, and Gubernatorial categories. The adjusted category weights are:

- Presidential: 40 / 98 = 40.816%
- Senate: 30 / 98 = 30.612%
- House: 20 / 98 = 20.408%
- Gubernatorial: 8 / 98 = 8.163%
- Mayoral: 0%

If Senate, House, Gubernatorial, and Mayoral all fail the Constituent Threshold at the same time, the composite index is calculated using only the Presidential category, provided the Presidential constituent remains eligible. If the Presidential constituent is also unavailable, publication of the composite index value is halted until at least one eligible active category becomes available.

5.2 Weight Rationale

Presidential (40%). The Presidential election has significant implications concerning U.S. political power and sentiment. It also has the highest trading volume activity across U.S. election markets. Consequently, its weight is greater than the other categories.

Senate (30%). The outcomes of Senate elections carry importance as they inform committee chairmanships, judge confirmations, as well as legislative procedures. Competitive Senate races and cycles (e.g., 2026) drive substantial volume. The 30% composition reflects the Senate's importance when it comes to political power and sentiment.

House (20%). House markets represent a wide cross-section across 435 seats with election cycles every two years. In most cases, individual House district markets have lower volume, but as a whole the category drives meaningful insight into political power and sentiment.

Gubernatorial (8%). Gubernatorial election outcomes matter in the context of state policy and congressional redistricting. A weight of 8% conveys that significance without diluting the weight of federal elections that more directly impact the governance of the U.S. at a national level.

Mayoral (2%). Mayoral elections, particularly in larger populated, world-renowned U.S. cities (e.g., New York City, Chicago, Los Angeles, Houston) drive national political importance and facilitate a great deal of media and social commentary. The 2% weight is purposefully modest, however its inclusion is important given the impacts on national political sentiment.

5.3 Individual Market Weights Within Categories

Constituent markets are not equally weighted in each category. There are 3 sensitivity factors that help determine each market's relative weight:

Factor	Default Score	Applies To
Volume Sensitivity	7 / 10	All categories
Time to Expiration Sensitivity	6 / 10	All categories
Population Sensitivity	5 / 10	House, Gubernatorial, Mayoral only

Standard formula (House, Gubernatorial, Mayoral - includes Population Sensitivity):

```
marketWeight = (volumeScore × volumeSensitivity + timeScore ×
timeSensitivity + populationScore × populationSensitivity) / 3
```

Modified formula (Presidential and Senate - no Population Sensitivity):

```
marketWeight = (volumeScore × volumeSensitivity + timeScore ×
timeSensitivity) / 2
```

For the Presidential and Senate categories, population sensitivity is not included. The Presidential election is a single national contest and the Senate is fixed with two seats per state, regardless of population. Population is important to account for the need to clearly differentiate meaningful market distinctions. E.g., a California governor's race versus a Wyoming governor's race will more materially impact political sentiment and power in the United States. In other words, more populous jurisdictions carry more economic weight, media attention, and more electoral votes.

Score construction:

Each factor score is expressed on a **0–1 scale**. Volume and population are proportional to the largest value in the category (the busiest / most-populous constituent scores 1.0); the time score is an absolute function of days to resolution.

- *Volume score*: the constituent's lifetime/cumulative trading volume divided by the largest lifetime volume among constituents in the same category — `volume_i / max(volume)` (busiest constituent = 1.0)
- *Time score*: `max(0, 1 − days_to_resolution / 1460)` — a linear decay over a 1,460-day (4-year) horizon, so a market resolving today scores near 1.0 and one four or more years out scores 0 (closer to resolution = higher score, as the market signal is generally more accurate). A constituent with no resolution date scores 0.5; one already past its resolution date scores 0.1.
- *Population score*: the constituent's jurisdiction population divided by the largest jurisdiction population in the category — `population_i / max(population)` (most-populous constituent = 1.0)

Market weights within a category are normalized to sum to 1.0 after calculation.

Example: Gubernatorial category with two-markets

Assume two active markets on a given day, with sensitivity defaults applied (Volume: 7/10, Time: 6/10, Population: 5/10):

Factor	GOVCA-26-D	GOVWY-26-D
Volume score (0–1)	1.0	0.1
Time score (0–1)	0.7	0.7
Population score (0–1)	1.0	0.1

Using the standard formula (Gubernatorial includes Population Sensitivity):

```
GOVCA-26-D weight = (1.0×0.7 + 0.7×0.6 + 1.0×0.5) / 3
 = (0.70 + 0.42 + 0.50) / 3
 = 1.62 / 3 = 0.54

GOVWY-26-D weight = (0.1×0.7 + 0.7×0.6 + 0.1×0.5) / 3
 = (0.07 + 0.42 + 0.05) / 3
 = 0.54 / 3 = 0.18
```

If we are to normalize the above: GOVCA-26-D = 0.54 / (0.54 + 0.18) = 75.00%, GOVWY-26-D = 0.18 / (0.54 + 0.18) = 25.00%.

It's clear California's higher volume and larger population meaningfully impact the value as intended. I.e., the governor race in California should carry more political and economic weight than Wyoming's as it has a more material impact on forward-looking political power and sentiment in the U.S.

6. Index Calculation

6.1 Core Formula

```
BLUE = 100 + (DemocraticProbability − 50)
```

The core formula is represented as a percentage. In other words, the `DemocraticProbability` value is the weighted composite across all five categories

(Presidential, Senate, House, Gubernatorial, Mayoral).

We've centered the index at 100. This value reflects the neutral baseline. E.g., when the Democratic probability is exactly 50%, BLUE's value will = 100. Alternatively, when the Democratic probability is 62%, BLUE will = 112, or if the probability is 41%, BLUE will = 91.

Scale interpretation:

BLUE Value	Meaning
> 100	Democratic advantage - markets pricing Democrats as the favorites
= 100	Neutral - 50/50 across the composite
< 100	Democratic disadvantage - Republicans hold aggregate advantage

Theoretical range: 50 (0% Democratic probability across all categories) to 150 (100% Democratic probability). The practical trading range under normal election cycle conditions is roughly 75-125.

6.2 Probability Extraction

The probability used for each underlying constituent is pulled from the market's mid price:

```
p_i = MidPrice_i / 100
```

A Kalshi event contract priced at 55 cents would therefore infer p = 0.55 or a 55% Democratic win probability.

6.3 Composite Probability Construction

The composite Democratic probability is built in two stages:

Stage 1 - Category probability:

For each category c, the category probability is the weighted average of constituent probabilities:

```
P_c = Σ (w_i × p_i)
```

Where `w_i` is the normalized market weight for constituent `i` within category `c`, and `p_i` is the mid-price-derived Democratic probability for market `i`.

Stage 2 - Index probability:

```
DemocraticProbability = 100 × Σ (AW_c × P_c)
```

Where `AW_c` is the adjusted category weight for category `c` after applying the Constituent Threshold and normalized category-weight redistribution rules in Section 5.1. If all categories satisfy the applicable Constituent Threshold, `AW_c` equals the base category weight. Unit note: `p_i` and `P_c` are decimal probabilities in [0,1]; DemocraticProbability is multiplied by 100 so the published value is expressed in percentage points [0,100].

6.4 Smoothing - 1-Hour Simple Moving Average

The raw BLUE value (recalculated every 60 seconds) is normalized with a 1-hour simple moving average (SMA). The SMA is used to help reduce noise from significant short-term price movements and to produce a more stable and reliable benchmark that is suitable for derivatives settlement.

Both the raw value and the SMA-smoothed value are available to data subscribers.

6.5 Stale Contract Treatment

Individual constituent probabilities that have been at 0.0% or 100.0% for more than 72 consecutive hours are flagged as stale. Stale contracts are excluded from the calculation pending review. This exclusion overrides the standard 4 hour hold described in Section 4.

The goal is to eliminate the likelihood of a market that has stopped trading and hasn't resolved from heavily influencing a category index's probability at an extreme level. There's more information in Section 9 concerning stale market prices.

6.6 Outlier Quotes

Outlier quotes refer to situations where individual constituents have mid prices that are more than 25 points away from their last trade prices and there is no trading volume reported by the exchange and no executed trade in Adjacent's collected trade record in the preceding 24 hours. In the event a constituent has an Outlier

Quote, its last valid mid price is held for up to 4 hours. After 4 hours, the constituent is excluded from the index calculation until its mid price returns to within 25 points of the exchange-reported last trade price or trading activity resumes on either signal.

7. Index Maintenance

7.1 Update Schedule

Component	Frequency
Constituent prices	Continuous; max 5-minute delay from Kalshi
1-hour SMA	Rolling, updated every 60 seconds
Constituent weights	Recalculated every 60 seconds
Composite BLUE value	Recalculated every 60 seconds
Category weights	Fixed; changed only via Governance process
New market screening	Weekly review
New market inclusion	48-hour evaluation after listing before inclusion
Resolved market removal	Immediate upon resolution
Constituent Threshold evaluation	Evaluated whenever constituent eligibility changes and at least every 60 seconds during regular index calculation

7.2 New Market Addition

On a weekly cadence new Kalshi markets are reviewed to determine if they satisfy inclusion criteria and should be included in the index. This follows a 48-hour evaluation period. At this time, Adjacent Markets does not have formal, advance notice of Kalshi's upcoming listing schedule. Consequently, new and eligible election markets may be listed by Kalshi without prior notification, which means the index for a brief period of time will not include them. The goal of the weekly screening process is to identify newly listed and eligible markets that should be added to the BLUE composite index.

7.3 Market Resolution

Underlying constituent markets are removed from BLUE after they've resolved. After markets are removed, the remaining underlying constituent markets will absorb the weight proportionally. There is no smoothing delay.

7.4 Market Disruptions

The most recent valid mid price is held constant for up to 4 hours specifically when a constituent's exchange reports a full exchange outage or an individual market reports a halted/closed status before its scheduled end date (i.e., trading has stopped without an official resolution). This halt treatment is distinct from (but uses the same 4 hour price hold and exclusion window as) the mid-price quality screen in Section 4 and the Outlier Quotes treatment in Section 6.6. If the halt exceeds the 4 hour threshold, the AIC will determine whether to hold the last valid mid price, remove the constituent, or suspend publishing values of the affected index until trading of the affected underlying constituent is restored.

7.5 Non-Partisan Mayoral Elections

Some Mayoral elections are non-partisan or use jungle-primary structures where multiple candidates from the same party may advance to a final election. In these cases, party-line exposure may not be accurately reflected.

For non-partisan Mayoral elections, BLUE may aggregate all eligible candidate-level Kalshi event contracts associated with Democratic-affiliated candidates sourced from Ballotpedia, subject to AIC review where affiliation is unavailable, incomplete, or ambiguous.

The Democratic Mayoral probability for a non-partisan Mayoral election is then calculated as the sum of probabilities across eligible Democratic-affiliated candidates in that election:

```
Democratic Mayoral Probability = min(100, Σ eligible Democratic-affiliated candidate probabilities)
```

The aggregate sum of Mayoral probabilities across party candidates is capped at a maximum value of 100 before going through the Mayoral category index calculation. No normalization is applied because doing so can inflate probabilities. If pricing is

materially unreliable (e.g., stale, illiquid, inconsistent, anomalous, etc.), the AIC may exclude a non-partisan Mayoral election or apply other documented treatment.

Candidate probabilities are sourced directly from eligible Kalshi candidate-level contracts, subject to the exclusion, stale-price, and market-disruption rules described elsewhere in this methodology.

8. Governance

8.1 Index Sponsor and Calculation Agent

Adjacent Markets, Inc. takes on Index Sponsor and Calculation Agent roles and responsibilities for BLUE. Outcomes and decisions around calculations, screening, maintenance, and operations are performed by Adjacent.

8.2 Adjacent Index Committee

The AIC is responsible for overseeing this methodology, how it is interpreted, how it is maintained, necessary corrections, and other governance considerations. The AIC is governed by the AIC Charter.

Routine implementation of this methodology does not require separate methodology change approvals.

8.3 Meeting Schedule

The AIC meets at least quarterly. Further, the AIC has additional meetings and written consents on an as needed basis when it comes to methodology-related considerations.

AIC reviews may be initiated for the following:

- Material methodology changes
- Market classification issues or questions
- Data quality issues
- Corrections or restatements
- Market disruptions
- Complaints
- Major election events
- Other circumstances that may affect index integrity

8.4 Methodology Changes

Any methodology changes are governed by the Adjacent Index Methodology Change Policy. Material changes generally require the following:

- Written proposal
- Impact analysis
- AIC approval
- Appropriate stakeholder consultation
- Advance notice where required
- Publication of updated methodology documentation.

Non-material clarifications or administrative updates may be approved and reported to the AIC as the next regularly scheduled meeting.

8.5 Conflicts of Interest

The AIC is responsible for ensuring that methodology decisions are made on the grounds of index integrity. Decisions should never, under any circumstances, be based on the economic interests of Adjacent Markets or products that reference BLUE.

9. Risk Factors and Limitations

Known issues with the current version of the index:

9.1 Mayoral Market Structure and Aggregation Risk

Mayoral elections may use non-partisan, jungle-primary markets. With these markets, multiple candidates may be affiliated with the same political party who may remain viable in the same election.

The rule noted in Section 7.5 pertaining to the aggregate sum of Mayoral probabilities is designed to capture party-line exposure in markets comprised of only candidates. In doing so, it is possible for multiple candidates from the same party to remain viable in the same election. This is why the aggregate sum is capped at 100 before it can enter the Mayoral category index calculation.

9.2 Backtesting Limitations

Meaningful backtesting of BLUE across multiple election cycles is currently very limited. Users should not rely on short-window backtests as evidence of predictive validity.

9.3 Kalshi Listing Dependency

BLUE's underlying constituent markets are a consequence of the election event contracts Kalshi determines to list. If Kalshi does not list a given Democratic market for a particular election category, the election will be missing from BLUE as Adjacent has no contractual agreement with Kalshi concerning listing schedules. E.g., a competitive Senate race that Kalshi is slow to list may be absent from the index during part of the cycle.

9.4 Constituent Threshold and Category Exclusion Risk

Senate, House, Gubernatorial, and Mayoral category indices may temporarily have fewer than five eligible constituents due to market resolutions, delayed Kalshi listings, stale markets, market disruptions, or other eligibility issues. When this occurs, the affected category is excluded from the composite calculation and its base category weight is redistributed across the remaining active categories.

This treatment is intended to reduce concentration risk and avoid allowing thin category indices to disproportionately influence the composite BLUE value. However, it may also temporarily increase the influence of the remaining active categories, particularly the Presidential category.

9.5 Prediction Market Liquidity Risk

Given market liquidity is varied across constituent markets, there may be some instances of wide bid/ask spreads, making mid-prices noisy and less reliable. Volume sensitivity in weighting is used to help mitigate this by reducing the weights of low-volume constituent markets. It does not however entirely eliminate this risk factor.

9.6 Regulatory Risk

If there are changes to the regulatory framework governing event contracts, including restrictions on political event contracts, this could hamper Kalshi's ability to list contracts. This in turn would of course affect BLUE's collection of underlying

constituents. That said, this is a risk to the entire industry, not specific to Adjacent and BLUE.

9.7 Index Concentration Risk

It's important for BLUE data consumers and those trading ETPs benchmarked to BLUE to recognize that the Presidential category carries significant weight at 40%. During presidential year election cycles, the Presidential category has the potential to drive increased index volatility. It's important to understand this when interpreting BLUE movements.

10. Changelog

Version	Date	Changes
1.5	July 14th, 2026	Material methodology change. Updated Section 6.6 Outlier Quotes so the outlier hold applies only when the exchange reports no trading volume in the preceding 24 hours AND no executed trade for the market appears in Adjacent's collected trade record in the preceding 24 hours. The 25-point distance continues to be measured against the exchange-reported last trade price. A market can re-enter when trading activity resumes on either signal.
1.4 (no version change)	July 6th, 2026	Non-substantive documentation correction. Corrected the Section 5.3 Score construction descriptions and worked example to match the production calculation: factor scores are on a 0–1 scale (Volume and Population each proportional to the category maximum, not a 1–10 relative ranking) and the Time score is a linear decay over a 1,460-day (4-year) horizon (`max(0, 1 – days_to_resolution / 1460)`; 0.5 when a market has no resolution date, 0.1 once past resolution), not an inverse-of-days figure. No calculation methodology or historical values changed.
1.4 (no version change)	July 4th, 2026	Non-substantive documentation correction. Clarified Volume score uses lifetime/cumulative trading volume; no calculation methodology or historical values changed.
1.4	July 2nd, 2026	Material methodology change package. Removed the Impact Sensitivity factor from constituent weighting (Section 5.3): Presidential/Senate weights are now a 2-factor blend of Volume and Time-to-Expiration; House/Gubernatorial/Mayoral weights are a 3-factor blend adding Population (divisors go from 3 to 2 and 4 to 3). Reconciled mid price eligibility treatment across Sections 4, 6.5, 6.6 (new), and 7.4: quality screen failures and the new Outlier Quotes clause are held up to 4 hours before exclusion, consistent with existing halt treatment; the Stale Contract Treatment explicitly overrides the 4 hour hold. AIC approved these changes on July 2nd, 2026.
1.3	June 24, 2026	Material methodology change package. Added a mid price quality screen requiring two-sided quotes and a bid/ask spread of no more than 50 percent for constituent mid price eligibility; added a non-partisan, candidate-level Mayoral election party aggregate sum cap

Version	Date	Changes
		at 100 before the Mayoral category index calculation; added related AIC discretion language and risk disclosure updates. AIC approved these changes on June 22, 2026.
1.2	June 11, 2026	Non-material clarification and documentation correction package. Corrected the constituent-weighting example to apply the Gubernatorial Impact score on the same 1–10 scale as the other factor scores; clarified Stage 2 decimal-versus-percentage units by multiplying the composite party probability by 100 for published percentage-point expression; clarified that RED and BLUE are independent indices, not mechanically mirrored paired indices.
1.1	June 2026	Added Mayoral candidate-level party aggregation rules for non-partisan and jungle-primary election structures; added Ballotpedia as the party-affiliation source for Mayoral candidate markets; clarified that Mayoral party probabilities are calculated by summing eligible candidate probabilities by party without normalization; updated Mayoral market-structure risk disclosure. Added Constituent Threshold requiring Senate, House, Gubernatorial, and Mayoral category indices to have at least five eligible constituents for inclusion in the composite calculation; added normalized category-weight redistribution when a category fails the threshold; clarified standalone category index publication when a category has one to four eligible constituents; clarified halt of standalone category publication when no eligible constituents exist; updated composite probability formula, maintenance schedule, and risk factors.
1.0	May 2026	Initial publication. Methodology established for BLUE Index as standalone Democratic-side prediction market composite index. Sister product to the RED Index.

11. Approvals

Role	Name	Signature	Date
Chief Executive Officer			
Chief Operating Officer			

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