

STANDARD  
& POOR'S

S&P 500  
DIVIDEND ARISTOCRATS  
INDEX METHODOLOGY

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# Introduction

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Since 1926, dividends have contributed nearly a third of total equity return while capital gains have contributed two-thirds. Sustainable dividend income and capital appreciation potential are both important in determining total return expectations.

The S&P 500 Dividend Aristocrats index is designed to measure the performance of large cap, blue chip companies within the S&P 500 that have followed a managed-dividends policy of consistently increasing dividends every year for at least 25 years.

## **Highlights**

The S&P 500 Dividend Aristocrats index is equal-weighted and constituents are reviewed once a year in December. The portfolio is calculated and maintained in a manner consistent with other S&P equal weight indices.

Drawn from the S&P 500, the index portfolio has both capital growth and dividend income characteristics, as opposed to portfolios that are pure yield or pure capital appreciation oriented.

By equally weighting the index constituents, the S&P 500 Dividend Aristocrats best represents the performance of this group of stocks and treats each constituent as a distinct investment opportunity without regard to its size.

Companies included in the S&P 500 Dividend Aristocrats index come from a broad spectrum of industries. Unlike stocks that focus only on high dividend yields, which are typically from the Financials and Utilities sectors, the “Aristocrats” are diversified across all sectors.

# Eligibility Criteria

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## **Index Eligibility**

To qualify for membership in the S&P 500 Dividend Aristocrats index, a stock must satisfy the following criteria:

1. Be a member of the S&P 500 index
2. Have increased dividends every year for at least 25 consecutive years
3. Have a float adjusted market capitalization of at least US\$ 3 billion as of the rebalancing reference date.
4. Have an average daily trading volume of at least US\$ 5 million for the six-months prior to the rebalancing reference date.

Calendar years and ex-dates are used for the dividend analysis, with the data being reviewed every December. New members are added on the third Friday of December based on a review of the dividend payments of all S&P 500 constituents.

A dividend initiation or re-initiation does not count as a dividend increase. Both regular and special dividend payments are considered. The initiation calendar year may include payment of all four quarterly dividends, or only one, two or three quarterly payments. Evaluations are made on a best-effort basis using *Standard & Poor's Compustat* and *Standard & Poor's Dividend Record* data.

**Stock Diversification Criteria** – At each rebalancing, the minimum number of constituent stocks is 40.

If the number of constituent stocks is fewer than 40, then:

- The S&P 500 constituent stocks with history of increased dividends of more than 20 consecutive years, also satisfying the criteria on market capitalization and liquidity above, are added in decreasing order of dividend yield until the Stock Diversification Criteria is satisfied.
- If the Stock Diversification Criteria is still not satisfied, the remaining constituents of the S&P 500 satisfying the criteria on market capitalization and liquidity are added in decreasing order of dividend yield until the Stock Diversification Criteria is satisfied. Dividend yield is calculated as the total dividends paid during the 12 months preceding the reference date, divided by the price on the reference date. Members of the S&P 500 that have reduced dividends in the 12 months preceding the reference date, as determined by Standard & Poor's, are not considered for inclusion.

**Sector Diversification Criteria** – Constituent stocks are classified according to the Global Industry Classification Standard (GICS<sup>®</sup>)<sup>1</sup>. Such classification should not result in constituent stocks in a particular GICS sector accounting for more than a 30% weight in the index.

If the Sector Diversification Criteria is not satisfied following the selection of constituent stocks as detailed above, the following additional steps are taken:

- The S&P 500 constituent stocks with history of increased dividends of more than 20 consecutive years, also satisfying the primary criteria on market capitalization and liquidity above, are added in decreasing order of dividend yield until the Sector Diversification Criteria is satisfied.
- If the Sector Diversification Criteria is still not satisfied, the remaining constituents of the S&P 500 from alternative sectors satisfying the criteria on market capitalization and liquidity are added in decreasing order of dividend yield until the Sector Diversification Criteria is satisfied. Members of the S&P 500 that have reduced dividends in the 12 months preceding the reference date, as determined by Standard & Poor's, are not considered for inclusion.

### **Timing of Changes**

Index constituent weight adjustments occur after the closing of the third Friday of each quarter ending month.

Index constituent membership is reviewed once a year in December. The reference date for such additions and deletions is after the closing of the last trading day of November.

**Additions.** At each annual reconstitution, a company is added to the index as determined by the eligibility criteria listed above.

No additions are made to the index between annual reconstitutions.

**Deletions.** Index constituents may be deleted from the index for the following reasons:

- During the December rebalancing, if the company no longer meets the eligibility criteria listed above.
- Between rebalancings, if the stock is removed from the S&P 500.

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<sup>1</sup> The Global Industry Classification Standard (GICS<sup>®</sup>) was developed by and is the exclusive property and a trademark of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. and MSCI Barra.

# Index Construction

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## **Approaches**

The index is equal-weighted with constituents re-weighted every quarter.

Due to price changes in index constituents, they will not always have equal weights. This will likely occur between quarterly rebalancing periods. Therefore, any return computation starting from a non-rebalancing date will not match the arithmetic average of returns of S&P 500 constituents between those two dates.

## **Index Calculations**

The index will be calculated by means of the divisor method used for S&P equal weight indices. The initial divisor is set to have a base index value of 100 on December 29, 1989.

*For more information on the index calculation methodology, please refer to the Equal Weighted Indices section of Standard & Poor's Index Mathematics Methodology.*

# Index Maintenance

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## Rebalancing

The index is rebalanced to equal weights on the third Friday of each quarter-ending month.

This date also coincides with the date for quarterly share adjustments of the S&P 500.

## Index Adjustments

<b>S&amp;P 500 action</b>	<b>Adjustment made to Aristocrats</b>	<b>Divisor adjustment for Aristocrats</b>
Constituent change	If the constituent being deleted is a member of the Aristocrats, then it is removed from the Aristocrats index.	A divisor adjustment is made to ensure the index level after the deletion is equal to the index level before the deletion.
Share changes between quarterly share adjustments	None.	None.
Quarterly share changes	There is no direct adjustment. However, on the same date the index rebalancing will take place, with each stock's weight is adjusted to equal weights.	The rebalancing causes an adjustment.

## Corporate Actions

<b>Corporate Action</b>	<b>Adjustment made to Aristocrats</b>	<b>Divisor adjustment for Aristocrats</b>
Spin-Off	No weight change. The price is adjusted to Price of Parent Company minus (Price of Spin-Off Company/Share Exchange Ratio).	None
Rights Offering	No weight change. The price is adjusted to Price of Parent Company minus (Price of Rights Subscription/Rights Ratio).	None
Stock Split	Index Shares are multiplied by and price is divided by the split factor.	None.
Share Issuance or Share Repurchase	None.	None.
Special Dividends	Will follow procedures for S&P 500. The price of the stock making the special dividend payment is reduced by the per-share special dividend amount after the close of trading on the day before ex-date.	A divisor adjustment is made to ensure the index level after the price adjustment is equal to the index level before the price adjustment.

## Base Date

Daily returns are available from December 31, 1989. The base value for both the price return and total return series on that date is 100. The index is calculated on an end-of-day basis.



# Index Data

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## **Total Return Index**

The index has a total return counterpart, which assumes dividends are reinvested in the index after the close on the ex-date. On any given date  $t$ :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (1)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (2)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (3)$$

# Index Governance

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## **Index Committee**

The U.S. Index Committee maintains Standard & Poor's U.S. indices. The members of the Index Committee are full-time professional members of Standard & Poor's staff. The Index Committee meets monthly. At each meeting, the Index Committee reviews pending corporate actions that may affect index constituents, statistics comparing the composition of the indices to the market, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

Standard & Poor's considers information about changes to its U.S. indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

# Index Policy

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## **Announcements**

Announcements of the annual rebalancing for the S&P 500 Dividend Aristocrats index in December are made at 05:15 PM Eastern Time. There are no separate corporate action announcements other than the annual rebalancing. For regular corporate action activity on S&P 500 constituent, please refer to S&P 500 announcements.

## **Holiday Schedule**

The S&P 500 Dividend Aristocrats index is calculated when the U.S. equity markets are open.

*A complete holiday schedule for the year is available on Standard & Poor's Web site at [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com).*

## **Unscheduled Market Closures**

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, Standard & Poor's will calculate the closing price of the indices based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, then the index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the index for that day.

# S&P Contact Information

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