

S&P 500 Dividend Aristocrats *Methodology*

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Table of Contents

Introduction	2
Highlights	2
Eligibility Criteria	3
Index Eligibility	3
Timing of Changes	4
Index Construction	6
Approaches	6
Index Calculations	6
Index Maintenance	7
Rebalancing Frequency	7
Base Date	7
Index Adjustments	8
Index Data	9
Total Return Index	9
Index Governance	10
Index Committee	10
Index Policy	11
Announcements	11
Holiday Schedule	11
Unscheduled Market Closures	11
Recalculation Policy	12
S&P Dow Jones Indices' Contact Information	13
Index Management	13
Media Relations	13
Client Services	13
Disclaimer	14

Introduction

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 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.

This methodology was created by S&P Dow Jones Indices to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices so that the index continues to achieve its objective.

Highlights

The S&P 500 Dividend Aristocrats is equal-weighted, with constituents being re-weighted every quarter. The qualifying universe is reviewed once a year in January.

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 index come from a broad spectrum of industries. Unlike indices that focus only on high dividend yields, which are typically from the Financials and Utilities sectors, the “Dividend Aristocrats” are well diversified across all sectors.

Eligibility Criteria

Index Eligibility

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

1. Be a member of the S&P 500
2. Have increased dividends every year for at least 25 consecutive years
3. Meet minimum float-adjusted market capitalization and liquidity requirements defined in the index inclusion and index exclusion rules below.

Calendar years and ex-dates are used for the dividend analysis, with the data being reviewed every January. In situations where a dividend payment, or payments, deviates from the company's standard dividend payment cycle, S&P Dow Jones Indices will, at its discretion, allocate payments to the appropriate year in order to take a full cycle into account.

A dividend initiation or re-initiation does not count as a dividend increase. Only regular 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 *S&P Capital IQ's Compustat* and *S&P's Dividend Record* data.

For spin-offs occurring after January 1st, 2013, the yearly dividend increase history of the parent company is assigned to both the parent and spun-off company on the spin-off effective date. To determine annual dividend payments, the dividends of the parent and spun-off companies are combined until a full annual cycle of dividend payments is available for both post-spin-off companies. Subsequent dividend comparisons are based on the annual dividend amounts of each respective company.

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 S&P Dow Jones Indices, are not considered for inclusion.

Sector Diversification Criteria – Constituent stocks are classified according to the Global Industry Classification Standard (GICS®)¹. 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 S&P Dow Jones Indices, are not considered for inclusion.

Timing of Changes

Index constituent membership is reviewed once a year at the January rebalancing. The reference date for such additions and deletions is after the closing of the last trading date of December. Index constituent changes occur after the closing of third Friday of January.

Index constituent weight adjustments occur after the closing of third Friday of January, April, July and October.

Index Inclusion Criteria. At each annual rebalancing, a company in the qualifying universe is added to the index if it meets the following requirements:

- Float-adjusted market capitalization of at least US\$ 3 billion as of the rebalancing reference date.
- Average daily value traded of at least US\$ 5 million for the three-months prior to the rebalancing reference date.

¹ The Global Industry Classification Standard (GICS®) was developed by and is the exclusive property and a trademark of S&P Capital IQ, a division of McGraw Hill Financial, Inc. and MSCI.

No additions are made to the index between rebalancings.

Index Exclusion Criteria. Index constituents may be deleted from the index for the following reasons:

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

At the discretion of S&P Dow Jones Indices, a company may be removed at a quarterly rebalancing if S&P Dow Jones Indices determines the company has reduced its calendar year dividend amount and will no longer qualify for the index at the subsequent annual rebalancing.

Index Construction

Approaches

The index is calculated based on an equal-weighted market capitalization weighting scheme, using the divisor methodology used in S&P Dow Jones Indices' equity indices.

The index is rebalanced after the market close on the third Friday of the rebalancing month with weights set to $1/N$ for each company in the index, where N equals the number of index constituents at the rebalancing. Stocks are equally-weighted and assigned index shares using the closing prices as of the second Friday of the rebalancing month as the reference price. Since index shares are assigned based on prices one week prior to the rebalancing, the actual weight of each stock at the rebalancing will differ from the target equal weights due to market movements.

As the stock prices move, the weightings in the index change; but a more frequent rebalancing results in higher index turnover; and less frequent results in significant deviations from the equal weights.

Index Calculations

The index is calculated by means of the divisor methodology used for all S&P Dow Jones Indices' equity indices.

For more information on the Index calculation methodology, please refer to S&P Dow Jones Indices' Index Mathematics Methodology.

Index Maintenance

Rebalancing Frequency

The index is rebalanced on the third Friday of January, April, July and October.

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 Adjustments

Corporate Action	Adjustment made to the index	Divisor adjustment?
Spin-Off	If the spin-off is added to the parent index (S&P 500), both the parent company and spin-off companies remains in the index until the next index rebalancing, provided that each gives an indication it will continue and/or initiate a consistent dividend paying policy. When there is no market-determined price available for the spin, the spin is added to the index at zero price at the close of the day before the ex-date. If the spin-off is not added to the parent index (S&P 500), the weight of the parent company will not change. The price is adjusted to the Price of the Parent Company minus (the Price of the Spun-off Company/Share Exchange Ratio). Index shares change so that the company's weight remains the same as its weight before the spin-off.	No
Rights Offering	The price is adjusted to the Price of the Parent Company minus (the Price of the Rights Offering/Rights Ratio). Index shares change so that the company's weight remains the same as its weight before the rights offering.	No
Stock Split	Index Shares are multiplied by and price is divided by the split factor.	No
Share Issuance or Share Repurchase	None. Actual shares outstanding of the company play no role in the daily index calculation.	No
Special Dividends	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 the dividend ex-date.	Yes
Delisting, acquisition or any other corporate action resulting in the deletion of the stock from the underlying index.	The stock is dropped from the Index. This causes the weights of the rest of the stocks in the index to change proportionately. Additions are made to the index only at the time of the quarterly rebalancing	Yes

For more information, please refer to *S&P Dow Jones Indices' Equity Indices Policies & Practices* document located on our Web site, www.spdji.com.

Index Data

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.

S&P Dow Jones Indices calculates daily return series using both gross and net cash dividends reinvested. Net return reinvested is reflective of the return to an investor where dividends are reinvested after the deduction of withholding tax. The tax rate applied is the rate to non-resident institutions that do not benefit from double taxation treaties.

For more information on the tax rates used in the calculation of net return indices, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document located on our Web site, www.spdji.com.

Please refer to the S&P Dow Jones Indices' Index Mathematics Methodology for more information on total return calculations.

Index Governance

Index Committee

The Americas Thematic and Strategy Index Committee maintains the index. 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.

S&P Dow Jones Indices considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

*For information on *Quality Assurance and Internal Reviews of Methodology*, please refer to *S&P Dow Jones Indices' Equity Indices Policies & Practices* document located on our Web site, www.spdji.com.*

Index Policy

Announcements

All index constituents are evaluated daily for data needed to calculate index levels and returns. All events affecting the daily index calculation are typically pre-announced five days in advance via the Index Corporate Action report (.SPA), delivered daily via ftp to all clients. Any unusual treatment of a corporate action or short notice of an event may be communicated via email to clients.

All methodology changes are posted to the S&P Dow Jones Indices' Web site and announced via email to all clients. The latest available version is posted on the Web site at www.spindices.com.

For more information on S&P Dow Jones Indices' announcements, please refer to the Announcement Policy located on our Web site, www.spdji.com.

Pro-forma Files

In addition to the corporate actions file (.SPA), S&P Dow Jones Indices provides constituent pro-forma files for each index each time the indices rebalance. The pro-forma file is typically provided daily five business days in advance of the rebalancing date and it contains all constituents and their corresponding weights and index shares effective for the upcoming rebalancing. Since index shares are assigned based on prices one week prior to the rebalancing, the actual weight of each stock at the rebalancing differs from these weights due to market movements.

Please visit www.spdji.com for a complete schedule of rebalancing timelines and pro-forma delivery times.

Holiday Schedule

The index is calculated all business days of the year when the US equity market is open.

A complete holiday schedule for the year is available at www.spdji.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, S&P Dow Jones Indices 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 security before the exchange closed. If an exchange fails to open due to unforeseen circumstances, S&P Dow Jones Indices treats this closure as a standard

market holiday. The index will use the prior day's closing prices and shifts any corporate actions to the following business day. If all exchanges fail to open or in other extreme circumstances, S&P Dow Jones Indices may determine not to publish the index for that day.

For further information on Unexpected Exchange Closures, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document located on our Web site, www.spdji.com.

Recalculation Policy

S&P Dow Jones Indices reserves the right to recalculate an index under certain limited circumstances. S&P Dow Jones Indices may choose to recalculate and republish an index if it is found to be incorrect or inconsistent within two trading days of the publication of the index level in question for one of the following reasons:

1. Incorrect or revised closing price
2. Missed corporate event
3. Late announcement of a corporate event
4. Incorrect application of corporate action or index methodology

Any other restatement or recalculation of an index is only done under extraordinary circumstances to reduce or avoid possible market impact or disruption as solely determined by the Index Committee.

For more information on the recalculation policy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document located on our Web site, www.spdji.com.

For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document located on our Web site, www.spdji.com.

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