

S&P/JPX Dividend Aristocrats Index Consultation on Constituent Selection – Updated

TOKYO, APRIL 8, 2019: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on a potential change to the constituent selection process of the S&P/JPX Dividend Aristocrats Index.

Currently, stocks in the Selection Universe are ranked based on their 12-month trailing dividend yields as of the rebalancing reference date and the 50 stocks with the highest 12-month trailing dividend yields are selected for index inclusion. S&P DJI is proposing to introduce a buffer to the constituent selection process in order to reduce index turnover while maintaining a high index dividend yield. The table below details the two options that are being considered.

Proposed Change	Description
<p>Option 1: Implement a 10-Stock Constituent Selection Buffer</p>	<p>Stocks in the Selection Universe are ranked based on their 12-month trailing dividend yields as of the rebalancing reference date. The 50 stocks with the highest 12-month trailing dividend yields are selected for index inclusion, subject to a 10-stock buffer as follows:</p> <ol style="list-style-type: none"> 1. Stocks in the Selection Universe are ranked in descending order by trailing dividend yield.¹ All stocks ranked among the top 40 are added to the index automatically. 2. All current constituents that are among the top 60 stocks are included in rank order until the target stock count has been reached. 3. If, following Step 2, the target stock count has not been reached; non-constituent stocks not already selected are added to the index in rank order until the target stock count has been reached.
<p>Option 2: Implement a 20-Stock Constituent Selection Buffer</p>	<p>Stocks in the Selection Universe are ranked based on their 12-month trailing dividend yields as of the rebalancing reference date. The 50 stocks with the highest 12-month trailing dividend yields are selected for index inclusion, subject to a 20-stock buffer as follows:</p> <ol style="list-style-type: none"> 1. Stocks in the Selection Universe are ranked in descending order by trailing dividend yield.¹ All stocks ranked among the top 30 are added to the index automatically. 2. All current constituents that are among the top 70 stocks are included in rank order until the target stock count has been reached. 3. If, following Step 2, the target stock count has not been reached; non-constituent stocks not already selected are added to the index in rank order until the target stock count has been reached.

For more information on the index, please refer to the S&P/JPX Dividend Aristocrats Methodology available [here](#).

¹ Trailing dividend yield is defined as a stock’s total dividends with ex-dates during the 12-month period preceding the rebalancing reference date divided by its price as of the rebalancing reference date.

IMPACT ANALYSIS

The table below shows the actual one-way turnover and index dividend yield over the past three annual reconstitutions, as well as the hypothetical one-way turnover and index dividend yield that would have resulted had the proposed constituent selection buffer been applied.

Annual Reconstitution	Actual		Option 1 (10-Stock Buffer)		Option 2 (20-Stock Buffer)	
	Index Yield	Turnover	Index Yield	Turnover	Index Yield	Turnover
July 2016	2.9886%	42.8369%	2.9869%	40.0651%	2.9826%	37.2330%
July 2017	2.3993%	41.7761%	2.3973%	38.9348%	2.3929%	35.9556%
July 2018	2.8990%	45.9556%	2.8932%	40.0839%	2.8649%	32.5561%

The tables below show the actual index performance for the S&P/JPX Dividend Aristocrats Index (JPY) and S&P/JPX Dividend Aristocrats Index USD Hedged NTR over a period of 2.5 years (August 1, 2016 through January 31, 2019), as well as the hypothetical index performance that would have resulted had the proposed constituent selection buffer been applied.

S&P/JPX Dividend Aristocrats Index (JPY) Performance							
Scenario	Return Type ²	12 Months		6 Months		Cumulative	
		8/1/2016 - 7/31/2017	8/1/2017 - 7/31/2018	8/1/2018 - 1/31/2019	8/1/2016 - 1/31/2019	Annualized	
Current	PR	24.19%	9.22%	-12.01%	19.34%	7.33%	
	TR	27.62%	11.94%	-10.85%	27.36%	10.16%	
	NTR 1	26.91%	11.38%	-11.09%	25.69%	9.58%	
	NTR 2	27.09%	11.53%	-11.03%	26.11%	9.72%	
Option 1	PR	25.41%	8.94%	-11.91%	20.35%	7.69%	
	TR	28.65%	11.73%	-10.74%	28.30%	10.48%	
	NTR 1	27.98%	11.16%	-10.98%	26.64%	9.91%	
	NTR 2	28.15%	11.30%	-10.92%	27.06%	10.05%	
Option 2	PR	25.08%	9.25%	-11.26%	21.27%	8.02%	
	TR	28.32%	12.07%	-10.10%	29.28%	10.82%	
	NTR 1	27.65%	11.49%	-10.33%	27.61%	10.25%	
	NTR 2	27.82%	11.64%	-10.28%	28.03%	10.39%	

S&P/JPX Dividend Aristocrats Index USD Hedged NTR ³ Performance						
Scenario	12 Months		6 Months		Cumulative	
	8/1/2016 - 7/31/2017	8/1/2017 - 7/31/2018	8/1/2018 - 1/31/2019	8/1/2016 - 1/31/2019	Annualized	
Current	28.30%	13.52%	-10.08%	30.96%	11.39%	
Option 1	28.83%	13.31%	-9.98%	31.40%	11.54%	
Option 2	28.50%	13.64%	-9.30%	32.44%	11.90%	

For more information on the calculation return types, please refer to S&P Dow Jones Indices' Index Mathematics Methodology available [here](#).

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the constituent selection buffer, if adopted, prior to the market open on Thursday August 1, 2019, in conjunction with the annual reconstitution.

² Return types shown are Price Return ("PR"), Total Return ("TR"), Net Total Return using a 20.42% withholding tax rate and reinvesting the regular cash dividends ("NTR 1"), and Net Total Return calculated using a 15.315% withholding tax rate and reinvesting the regular cash dividends ("NTR 2").

³ S&P/JPX Dividend Aristocrats Index USD Hedged NTR is a U.S. dollar hedged version of the NTR 2.

CONSULTATION

QUESTIONS

Please answer the following questions and provide S&P DJI with the reasoning behind your answers.

1. **Should S&P DJI implement a constituent selection buffer?**
 - **Yes, implement option 1**
 - **Yes, implement option 2**
 - **Yes, implement a different selection buffer (please specify)**
 - **No, a selection buffer should not be implemented**
2. **Should a constituent selection buffer be adopted, do you agree with the proposed implementation date?**
3. **Do you have any other comments or feedback regarding the proposed change outlined above?**

Your participation in this consultation is important as we gather information from various market participants in order to properly evaluate your views and preferences. S&P DJI will make responses to consultations freely available upon request.⁴ If you do not want your response to be made available, you must clearly state that in your response. Please respond to this survey by **May 13, 2019**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI will consider the issues and may request clarifications from respondents as part of that review. Alternative options to the proposed questions after the deadline require that the consultation be re-opened to the public.

To participate in this consultation, please visit the online survey available [here](#).

For further information about this consultation, please contact S&P Dow Jones Indices at index_services@spglobal.com.

Please be advised that all comments from this consultation will be reviewed and considered before a final decision is made; however, S&P DJI makes no guarantees or is under any obligation to comply with any of the responses. The survey may result in no changes or outcome of any kind. If S&P DJI decides to change the index methodology, an announcement will be posted on our website.

Thank you for taking the time to complete this survey.

For more information about S&P Dow Jones Indices, please visit www.spdji.com.

⁴ Individual and company names as well as contact details will be redacted.

DISCLAIMER

The back-tested performance under the two proposed options is hypothetical and not actual performance. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns. Back-tested index returns do not represent results of actual trading of investable assets/securities and do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or investment funds that are intended to track the performance of the index. Past performance is not an indication or guarantee of future results.

ABOUT S&P DOW JONES INDICES

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