

## Dow Jones EPAC Select Dividend Index Consultation on Constituent Weighting – Extended

**AMSTERDAM, OCTOBER 30, 2019:** S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with members of the investment community on potential changes to the Dow Jones EPAC Select Dividend Index.

Currently, constituent weightings are assigned annually based on indicated annual dividend (“IAD”), subject to an individual company cap of 10%. In an effort to reduce constituent concentration, ease liquidity limitations, and ensure future diversification, S&P DJI is considering modifying the index’s constituent weighting scheme by introducing market capitalization multiple capping, Global Industry Classification Standard (“GICS”) sector, and country of domicile capping. Under this proposal, a constituent’s weight would be restricted to the lower of a specified percentage or a multiple of its float-adjusted market capitalization (“FMC”) weight relative to the sum of the FMCs of all index constituents. In addition, the weight of each GICS sector and each country of domicile would be capped at 30%. The table below summarizes the proposed changes.

Changes	Methodology	
	Current	Proposed
Constituent Weighting	<p>The constituent weights for the index are determined annually using the following steps:</p> <ul style="list-style-type: none"> <li>• Calculate the Indicated Annual Dividend (“IAD”) weight of each constituent within its respective country by dividing each company’s IAD by the sum of all the IADs within that country.</li> <li>• Calculate the Indicated Annual Dividend Yield weight of each country within the index by dividing the sum of all the yields within each country by the sum of all the yields in the index.</li> <li>• Calculate the final constituent weight by multiplying the IAD weight of each constituent by its respective Yield country weight.</li> <li>• The dividend yield values used to calculate constituent weights are capped at 20%.</li> <li>• The weights of individual securities are capped at <b>10%</b>.</li> </ul>	<p>The constituent weights for the index are determined annually using the following steps:</p> <ul style="list-style-type: none"> <li>• Calculate the Indicated Annual Dividend (“IAD”) weight of each constituent within its respective country by dividing each company’s IAD by the sum of all the IADs within that country.</li> <li>• Calculate the Indicated Annual Dividend Yield weight of each country within the index by dividing the sum of all the yields within each country by the sum of all the yields in the Index.</li> <li>• Calculate the final constituent weight by multiplying the IAD weight of each constituent by its respective Yield country weight.</li> <li>• The dividend yield values used to calculate constituent weights are capped at 20%.</li> <li>• The weights of individual securities are capped at <b>the lower of 10% or a multiple<sup>1</sup> of the constituent’s FMC weight</b>.</li> <li>• <b>The aggregate weight of constituents within each GICS sector and each country of domicile is capped at 30%.</b></li> </ul>

<sup>1</sup> Three multiple options are under consideration as detailed in the Impact Analysis section.

For more information on the Dow Jones EPAC Select Dividend Index, please refer to the Dow Jones Dividend Indices Methodology available [here](#).

## IMPACT ANALYSIS

Using data from the last three annual rebalancings, the table below shows the impact that the previously described proposed weighting scheme changes of market capitalization multiple capping, GICS sector capping, and country of domicile capping would have had if they were implemented at those times.

Rebalancing	Actual Current		Option 1		Hypothetical Option 2		Option 3	
	The weights of individual securities are capped at 10%.		Individual security weights are capped at the lower of 10% or <b>10</b> times the constituent's FMC weight, and the aggregate weight of constituents within each GICS sector and each country of domicile is capped at 30%.		Individual security weights are capped at the lower of 10% or <b>seven</b> times the constituent's FMC weight, and the aggregate weight of constituents within each GICS sector and each country of domicile is capped at 30%.		Individual security weights are capped at the lower of 10% or <b>five</b> times the constituent's FMC weight, and the aggregate weight of constituents within each GICS sector and each country of domicile is capped at 30%.	
<b>One-Way Turnover</b>								
March 2017	26.20%		26.67%		26.54%		26.00%	
March 2018	17.65%		15.32%		14.18%		13.29%	
March 2019	29.38%		27.43%		27.06%		27.21%	
<b>Post-Rebalancing Yield</b>								
March 2017	5.28%		5.26%		5.24%		5.24%	
March 2018	5.79%		5.64%		5.59%		5.55%	
March 2019	6.53%		6.39%		6.34%		6.31%	
<b>Maximum Days to Trade</b> (based on a hypothetical fund AUM of US\$ 1 billion)								
March 2017	7.10		4.81		3.36		2.40	
March 2018	8.73		3.46		2.42		2.30	
March 2019	7.10		4.81		3.36		2.40	
<b>Index Performance<sup>2</sup></b>	PR	TR	PR	TR	PR	TR	PR	TR
3-year Cumulative	9.23%	25.27%	10.84%	26.89%	10.89%	26.90%	10.71%	26.67%
3-year Annualized	2.99%	7.80%	3.49%	8.26%	3.51%	8.26%	3.45%	8.20%

Please note that there would have been no impact from the proposed country of domicile capping rule for each of the three rebalancings analyzed, as the aggregate weight of each eligible country of domicile did not breach the proposed 30% weight limit.

## IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology change, if adopted, prior to the market open on Monday, March 23, 2020, in conjunction with the annual rebalancing.

<sup>2</sup> Index performance shown is by index return type: Price Return ("PR"), and Total Return ("TR").

## CONSULTATION

## QUESTIONS

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

1. **Do you agree with the proposal to modify the weight capping method by introducing market capitalization multiple capping, GICS sector capping, and country of domicile capping?**
  - Yes, change to Option 1.
  - Yes, change to Option 2.
  - Yes, change to Option 3.
  - Yes, change to a different option (please specify in Question 3 below).
  - No, keep the current weight capping method.
2. **If any of the proposed changes are adopted, do you agree with the proposed implementation date?**
3. **Do you have any other comments or feedback regarding the proposed changes 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 externally available upon request.<sup>3</sup> 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 **December 31, 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](mailto: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](http://www.spdji.com).

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<sup>3</sup> Individual and company names as well as contact details will be redacted.

## ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices is the largest global resource for essential index-based concepts, data and research, and home to iconic financial market indicators, such as the S&P 500<sup>®</sup> and the Dow Jones Industrial Average<sup>®</sup>. More assets are invested in products based on our indices than products based on indices from any other provider in the world. Since Charles Dow invented the first index in 1884, S&P DJI has been innovating and developing indices across the spectrum of asset classes helping to define the way investors measure and trade the markets.

S&P Dow Jones Indices is a division of S&P Global (NYSE: SPGI), which provides essential intelligence for individuals, companies and governments to make decisions with confidence. For more information, visit [www.spdji.com](http://www.spdji.com).

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**S&P Dow Jones Indices**  
[index\\_services@spglobal.com](mailto:index_services@spglobal.com)