

S&P UK High Yield Dividend Aristocrats Index Consultation on Constituent Selection – Updated

AMSTERDAM, APRIL 30, 2020: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on a potential change to the S&P UK High Yield Dividend Aristocrat Index.

BACKGROUND

The constituent selection process for the S&P UK High Yield Dividend Aristocrat Index currently consists of four steps as detailed in the table below.

Methodology	Constituent Selection Process
Current	<ol style="list-style-type: none"> 1. At each annual rebalancing, the 40 highest indicated dividend yielding stocks in the S&P UK BMI, which pass all the eligibility criteria, are selected and form the index. 2. If there are less than 40 eligible stocks, then the float-adjusted market capitalization (“FMC”) threshold is lowered from US\$ 1 billion to US\$ 500 million, and those stocks with a FMC of at least US\$ 500 million, that satisfy all other eligibility criteria, are added in decreasing order of dividend yield until 40 stocks are selected. 3. If there are still less than 40 eligible stocks, then stocks with a history of increased or stable dividends for more than six consecutive years, that satisfy all other eligibility criteria, are added in decreasing order of dividend yield until 40 stocks are selected. 4. The six consecutive year condition is reduced year by year to four consecutive years, if required, until 40 stocks are selected.

For more information on the S&P UK High Yield Dividend Aristocrats Index, please refer to the [S&P UK / Euro High Yield Dividend Aristocrats Methodology](#).

PROPOSAL

S&P DJI is proposing to change the constituent selection process in the event that the number of eligible constituent stocks is less than the targeted constituent count of 40. Specifically, S&P DJI is proposing to modify step 4 of the constituent selection process and is considering two proposals. The table below shows a comparison of the current and proposed rules for step 4 of the constituent selection process.

Methodology	Constituent Selection Process
Current	4. The six consecutive year condition is reduced year by year to four consecutive years, if required, until 40 stocks are selected.
Proposal 1	4. The six consecutive year condition is reduced year by year to three consecutive years, if required, until 40 stocks are selected.
Proposal 2	4. The six consecutive year condition is reduced year by year to four consecutive years, if required, until 40 stocks are selected. If there are still less than 40 eligible stocks, then the index will consist of less than 40 stocks and stock replacements will not be made until the count returns to 40.

Please note that S&P DJI is not considering any changes to steps 1-3 of the constituent selection process. Those steps would remain as per the current methodology in the Background section above.

HISTORICAL ANALYSIS

For reference, the table below shows data relating to changes that occurred as part of the previous annual index rebalancings in June 2017, 2018, and 2019.

Metric	Rebalancing		
	June 2017	June 2018 ¹	June 2019
One-Way Turnover	26.07%	52.03%	33.28%
Post-Rebalancing Yield	3.89%	3.93%	5.13%
Number of Adds/Drops	4/4	21/8	9/9
Number of Eligible Constituents (no relaxing of any criteria)	46	76	62

Further, in the simulated historical analysis (based on the current methodology), it was established that in 2009 and 2010, fewer than 40 stocks were eligible and the requirement for stocks to have maintained stable or increased dividends was relaxed to five years (2009) and six years (2010) in order to achieve the target constituent count of 40.

In light of the number of constituents and potential replacement constituents (specifically those that are UK domiciled) that have announced postponements, suspensions or cancellations of dividend payments in recent weeks, S&P DJI has performed a pro-forma analysis of the changes that may occur as part of the upcoming annual rebalancing.

Metric (Preliminary)	June 2020
Estimated One-Way Turnover under Both Proposals	59.83%
Estimated Post-Rebalancing Yield under Both Proposals	4.77%
Estimated Number of Adds/Drops under Both Proposals	22/22
Estimated Number of Eligible Constituents (no relaxing of any criteria)	35
Estimated Average Yield of the 35 Eligible Constituents (no relaxing of any criteria)	3.47%
Estimated Number of Additional Eligible Constituents under Proposal 2	8
Estimated Average Yield of the 8 Additional Eligible Constituents under Proposal 2	4.29%
Estimated Number of Additional Eligible Constituents under Proposal 1	10
Estimated Average Yield of the 10 Additional Eligible Constituents under Proposal 1	3.43%

Global Industry Classification Standard (GICS®) Sector Weights			
GICS Sector	GICS Code	Current ²	June 2020
Materials	15	6.6%	2.2%
Industrials	20	15.5%	16.2%
Consumer Discretionary	25	15.4%	9.2%
Consumer Staples	30	7.2%	10.8%
Health Care	35	6.4%	7.5%
Financials	40	27.1%	30.0%
Information Technology	45	--	3.8%
Communication Services	50	5.4%	1.2%
Utilities	55	15.0%	11.3%
Real Estate	60	1.6%	7.9%

¹ A methodology change, reducing the dividend stability requirement from 10 to seven years and increasing the index count from 30 to 40, was implemented with the June 2018 annual rebalancing.

² Data as of the close of April 24, 2020.

CONSULTATION

Size	Size Weights	
	Current ³	June 2020
SmallCap	52.6%	53.8%
MidCap	20.0%	24.0%
LargeCap	27.4%	22.1%

Please note this analysis is preliminary and indicative. The results of the annual rebalancing will be published in end-of-day corporate event (*SDE) and pro-forma files (*PRO) after the close on Friday, June 12, 2020.

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the proposed methodology change, if adopted, in conjunction with the upcoming annual rebalancing, which takes effect prior to the market open on Monday, June 22, 2020.

QUESTIONS

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

1. Which do you prefer for step 4 of the constituent selection process?

- **Proposal 1**
- **Proposal 2**
- **A different option (please specify)**

2. If a change is 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. Please respond to this survey by **May 15, 2020**. After this date, S&P DJI will no longer accept survey responses. Prior to the Index Committee's final review, S&P DJI may request clarifications from respondents as part of that review.

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 SPDJI_Index_Governance@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.

³ Data as of the close of April 24, 2020.

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[®] and the Dow Jones Industrial Average[®]. 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.

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