

S&P UK / Euro High Yield Dividend Aristocrats Consultation on Constituent Weighting and Liquidity Screening

AMSTERDAM, AUGUST 7, 2020: S&P Dow Jones Indices (“S&P DJI”) is conducting a consultation with market participants on potential changes to the S&P UK High Yield Dividend Aristocrats and S&P Euro High Yield Dividend Aristocrats Indices.

Currently, constituent weightings are assigned annually based on indicated annual dividend (“IAD”), subject to an individual company cap of 5% with each Global Industry Classification Standard (“GICS”) sector capped at 30%. Additionally for the S&P Euro High Yield Dividend Aristocrats index, the weight of each country is capped at 30%. In an effort to reduce constituent concentration, ease liquidity limitations, and improve index replication, S&P DJI is considering modifying the indices’ constituent weighting scheme by introducing liquidity weight multiple capping. Under this proposal, a constituent’s weight would be restricted to the lower of a specified percentage or a multiple of its liquidity weight relative to the sum of the liquidity of all index constituents.

S&P DJI is also considering changing the liquidity screen so that it utilizes three-month median daily value traded (“MDVT”) instead of three-month average daily value traded (“ADVT”) for both the constituent selection and weighting steps. This proposal aims to apply a more rigorous liquidity screen and diminish the effect of random spikes and outliers on the liquidity measure, as well as align the methodology with other S&P DJI indices. The table below summarizes the proposed changes.

| Proposed Changes | Methodology | |
|-----------------------|--|---|
| | Current | Proposed |
| Constituent Weighting | <p>At the annual reconstitution in June, constituent weights are determined as follows:</p> <ul style="list-style-type: none"> Index constituents are dividend yield weighted. The weights of individual securities are capped at the lower of 5%. The aggregate weight of constituents within each GICS sector is capped at 30%. In addition, for the S&P Euro High Yield Dividend Aristocrats index, the weight of each country of domicile is capped at 30%. <p>Outside of the annual reconstitution, the indices are re-weighted quarterly by applying the individual securities, GICS sector, and country of domicile capping at the March, September, and December quarterly rebalancings.</p> | <p>At the annual reconstitution in June, constituent weights are determined as follows:</p> <ul style="list-style-type: none"> Index constituents are dividend yield weighted. The weights of individual securities are capped at the lower of 5% or a multiple¹ of the constituent’s liquidity weight. The aggregate weight of constituents within each GICS sector is capped at 30%. In addition, for the S&P Euro High Yield Dividend Aristocrats index, the weight of each country of domicile is capped at 30%. <p>Outside of the annual reconstitution, the indices are re-weighted quarterly by applying the individual securities, GICS sector, and country of domicile capping at the March, September, and December quarterly rebalancings.</p> |
| Liquidity Screen | To qualify for index inclusion, a stock must have an ADVT of at least US\$ 5 million (US\$ 4 million for current constituents) for the three-months prior to the rebalancing reference date. | To qualify for index inclusion, a stock must have a MDVT of at least US\$ 5 million (US\$ 4 million for current constituents) for the three-months prior to the rebalancing reference date. |

¹ Three multiple options are under consideration as detailed in the Impact Analysis section.

Please refer to the [S&P UK / Euro High Yield Dividend Aristocrats Methodology](#) for more information on the indices.

IMPACT ANALYSIS

Using data from the last three annual rebalancings, the table below shows the impact that the previously described proposed weighting scheme and liquidity screen changes would have had if they were implemented at those times, using three different weighting multiple options.

S&P UK High Yield Dividend Aristocrats Index

| Rebalancing | Actual Current | Option 1 | Hypothetical Option 2 | Option 3 |
|--|--|--|---|---|
| | The weights of individual securities based on the IAD are capped at 5%, and the aggregate weight of constituents within each GICS sector is capped at 30%. | Individual security weights are capped at the lower of 5% or three times the constituent's liquidity weight, and the aggregate weight of constituents within each GICS sector is capped at 30%. | Individual security weights are capped at the lower of 5% or four times the constituent's liquidity weight, and the aggregate weight of constituents within each GICS sector is capped at 30%. | Individual security weights are capped at the lower of 5% or five times the constituent's liquidity weight, and the aggregate weight of constituents within each GICS sector is capped at 30%. |
| One-Way Turnover | | | | |
| June 2018 | 51.62% | 47.64% | 47.79% | 47.05% |
| June 2019 | 33.65% | 24.08% | 24.37% | 24.16% |
| June 2020 | 57.02% | 44.11% | 41.46% | 40.24% |
| Post-Rebalancing Yield | | | | |
| June 2018 | 4.58% | 4.63% | 4.65% | 4.68% |
| June 2019 | 5.17% | 5.16% | 5.19% | 5.21% |
| June 2020 | 4.13% | 3.72% | 3.90% | 4.03% |
| Maximum Days to Trade² (based on a hypothetical fund AUM of GBP 5 billion) | | | | |
| June 2018 | 31 | 22 | 26 | 29 |
| June 2019 | 66 | 37 | 46 | 50 |
| June 2020 | 65 | 35 | 46 | 58 |
| Effective Count³ | | | | |
| June 2018 | 37 | 35 | 36 | 37 |
| June 2019 | 37 | 35 | 36 | 36 |
| June 2020 | 29 | 28 | 29 | 28 |
| Preliminary September One-way Turnover (Implementation proposed date) | | | | |
| Sep 2018 | 0.68% | - | - | - |
| Sep 2019 | 3.94% | - | - | - |
| Sep 2020 | 0.21% | 24.77% | 19.12% | 15.24% |
| MDVT Impact (number of stocks replaced after switching to MDVT from ADVT) | | | | |
| June 2018 | - | 1 | 1 | 1 |
| June 2019 | - | 4 | 4 | 4 |
| June 2020 | - | 4 | 4 | 4 |

² The DTT of a single stock is calculated as: (Portfolio Size * Stock Weight) / (Daily Participation * Daily Liquidity)

where: Portfolio Size = 5 billion, Daily Participation = 25%, and Daily Liquidity = Three-month MDVT

Note: Portfolio DTT is calculated with a liquidation scenario of 90%.

³ Effective Count is the effective number of positions ($N_{eff} = 1 / H$) held in a portfolio where $H = (\text{weight}^2)$ and is computed as the sum of the squares of the proportion of market value invested in each security.

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S&P EURO High Yield Dividend Aristocrats Index

| Rebalancing | Actual Current | Option 1 | Hypothetical Option 2 | Option 3 |
|--|---|---|--|--|
| | The weights of individual securities based on the IAD are capped at 5%, 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 5% or three times the constituent's liquidity 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 5% or four times the constituent's liquidity 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 5% or five times the constituent's liquidity weight, and the aggregate weight of constituents within each GICS sector and each country of domicile is capped at 30%. |
| One-Way Turnover | | | | |
| June 2018 | 23.85% | 19.1% | 16.1% | 15.5% |
| June 2019 | 32.39% | 36.4% | 36.4% | 36.3% |
| June 2020 | 49.12% | 35.8% | 33.4% | 34.8% |
| Post-Rebalancing Yield | | | | |
| June 2018 | 3.81% | 3.72% ⁴ | 3.72% | 3.78% |
| June 2019 | 4.61% | 4.52% ⁴ | 4.52% | 4.53% |
| June 2020 | 4.33% | 4.13% | 4.24% | 4.31% |
| Maximum Days to Trade⁵ (based on a hypothetical fund AUM of EUR 5 billion) | | | | |
| June 2018 | 41 | 22 ⁴ | 22 | 25 |
| June 2019 | 43 | 22 ⁴ | 22 | 26 |
| June 2020 | 29 | 13 | 19 | 22 |
| Effective Count⁶ | | | | |
| June 2018 | 33.0 | 31.0 ⁴ | 31.0 | 31.8 |
| June 2019 | 34.6 | 31.3 ⁴ | 31.3 | 32.5 |
| June 2020 | 33.1 | 29.3 | 30.7 | 31.5 |
| Preliminary September One-way Turnover (proposed implementation date) | | | | |
| Sep 2018 | 1.25% | - | - | - |
| Sep 2019 | 0.93% | - | - | - |
| Sep 2020 | 0% | 21.97% | 15.25% | 9.75% |
| MDVT Impact (number of stocks replaced after switching to MDVT from ADVT) | | | | |
| June 2018 | - | 1 | 1 | 1 |
| June 2019 | - | 2 | 2 | 2 |
| June 2020 | - | 0 | 0 | 0 |

IMPLEMENTATION TIMING

S&P DJI is proposing to implement the previously described methodology changes, if adopted, in conjunction with the upcoming rebalancing, which takes effect prior to the market open on Monday, September 21, 2020.

⁴ In both the June 2018 and June 2019 testing, where the capping algorithm fails for option 1, the liquidity weight cap is relaxed to four (4) times the liquidity weights.

⁵ The DTT of a single stock is calculated as: (Portfolio Size * Stock Weight) / (Daily Participation * Daily Liquidity)

where: Portfolio Size = 5 billion, Daily Participation = 25%, and Daily Liquidity = Three-month MDVT

Note: Portfolio DTT is calculated with a liquidation scenario of 90%.

⁶ Effective Count is the effective number of positions ($N_{eff} = 1 / H$) held in a portfolio where $H = (\text{weight}^2)$ and is computed as the sum of the squares of the proportion of market value invested in each security.

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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 liquidity multiple 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 4 below).
 - No, keep the current weight capping method.
2. **Do you agree with the proposal to modify the liquidity screen to utilize three-month median daily value traded (“MDVT”) instead of three-month average daily value traded (“ADVT”).**
3. **If any of the proposed changes are adopted, do you agree with the proposed implementation date?**
4. **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. Please respond to this survey by **August 31, 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.

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FOR MORE INFORMATION:

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