

# **S&P 500 Low Volatility High Dividend Index *Methodology***

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# Introduction

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The S&P 500 Low Volatility High Dividend Index serves as benchmark for income seeking equity investors. The index is designed to provide exposure to 50 high yielding companies within the S&P 500, while meeting diversification, volatility and tradability requirements.

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 index methodology aims to achieve a balance between dividend yield and volatility. The index is weighted by trailing 12-month dividend yield, with constituents being re-weighted semi-annually.

The S&P 500 Low Volatility High Dividend Index constituent universe is reviewed twice a year in January and July. At each rebalancing, modifications are made to stock weights to ensure diversification across individual stocks and sectors. The weight for each index constituent is constrained between 0.05% and 3.0%, and the weight of each GICS Sector is capped at 25%.

# Eligibility Criteria

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## **Index Eligibility**

To qualify for membership in the S&P 500 Low Volatility High Dividend Index, a stock must satisfy the following criteria:

1. be a member of the S&P 500.
2. must have traded on all 252 trading days in the 12 months leading up to the rebalancing reference date.

For information on stock eligibility criteria and index management rules of the S&P 500, please refer to the *S&P U.S. Indices Methodology* at [www.spdji.com](http://www.spdji.com).

## **Timing of Changes**

The S&P 500 Low Volatility High Dividend Index is fully rebalanced twice a year, effective after the close of the last business day in January and July. The rebalancing reference date for the data used in the review is the last business date of the prior December and June, respectively. New index constituents and index weights are typically made available to clients five business days prior to the rebalancing date.

**Additions.** Additions are made to the index only during the semi-annual rebalancing.

**Deletions.** Constituents removed from the S&P 500, are removed from the S&P 500 Low Volatility High Dividend Index simultaneously. Other deletions may occur during the rebalancing review.

# Index Construction

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## **Approaches**

The methodology employs a yield driven-weighting scheme, using the divisor methodology used in most S&P Dow Jones Indices' equity dividend indices.

There are two steps in the creation of the index. The first is the selection of the index constituents; the second is the weighting of the constituents within the index. S&P Dow Jones Indices believes turnover in index membership should be avoided when possible. At times a company may appear to temporarily violate one or more of the addition criteria. However, the addition criteria are for addition to an index, not for continued membership. As a result, an index constituent that appears to violate criteria for addition to that index is not deleted unless ongoing conditions warrant an index change.

## **Constituent Selection**

The selection of index constituents is done as follows:

1. All stocks in the selection universe are ranked in descending order by their 12-month trailing dividend yield, calculated as their dividends per share for the prior 12 months divided by the stock price as of rebalancing reference date.
2. The top 75 stocks with the highest dividend yield are selected, with the number of stocks from each GICS sector capped at 10. If the number of stocks from a sector reaches 10, the remaining highest yielding stocks from other sectors are selected until the number of selected stock reaches 75.
3. Using available price return data for the trailing 252 trading days leading up to each index rebalancing reference date, the realized volatilities of the 75 selected highest yielding stocks are calculated. Realized volatility is defined as the standard deviation of the security's daily price returns over the prior 252 trading days.
4. The 75 selected highest yielding stocks are, then, ranked in ascending order by realized volatility. The top 50 securities with the lowest realized volatility form the index.

## **Multiple Share Classes**

Some companies may have more than one share class line in the S&P 500. In the S&P 500 Low Volatility High Dividend Index, each company is represented once by the primary listing, which is generally the most liquid share line.

### **Constituent Weightings**

In order to achieve a relatively high index dividend yield, the index constituents are weighted by dividend yield. At each rebalancing, modifications are made to stock weights to ensure diversification across individual stocks and sectors. The weight for each index constituent is constrained between 0.05% and 3.0%, and the weight of each GICS Sector is capped at 25%.

### **Index Calculations**

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

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

# Index Maintenance

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## Rebalancing Frequency

The index rebalances semi-annually effective after the close of the last business day of January and July. The rebalancing reference date is the last business day of December and June, respectively.

## Base Date

Daily returns are available from January 31, 1990. The base value for both the price return and total return series starting on that date is 1000. The index is calculated on a real time basis.

## Index Adjustments

Corporate Action	Adjustment Made to Index	Divisor Adjustment?
Spin-off	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 Dividend, Stock Split, Reverse Stock Split	Index shares are multiplied by and price is divided by the split factor.	No
Share Issuance, Share Repurchase, Equity Offering or Warrant Conversion	None.	No
Special Dividends	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
Constituent Change	There are no intra-rebalancing additions.	-
	Deletions due to delistings, acquisition or any other corporate event resulting in the deletion of the stock from the index causes the weights of the rest of the stocks in the index to change. Relative weights stay the same.	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](http://www.spdji.com).

# Index Data

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## **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](http://www.spdji.com).*

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

# Index Governance

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## **Index Committee**

S&P Dow Jones Indices' Strategy Index Committee maintains the S&P 500 Low Volatility High Dividend 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](http://www.spdji.com).*

# Index Policy

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## **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 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.spdji.com](http://www.spdji.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](http://www.spdji.com).*

## **Pro-forma files**

In addition to the corporate actions file (.SPA), S&P Dow Jones Indices provides constituent pro-forma files each time the index rebalances. The pro-forma file is typically provided daily five business days in advance of the rebalancing date and 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](http://www.spdji.com) for a complete schedule of rebalancing timelines and pro-forma delivery times.*

## **Holiday Schedule**

The S&P 500 Low Volatility High Dividend Index is calculated on all business days of the year when the U.S. equity market is open.

*A complete holiday schedule for the year is available at [www.spdji.com](http://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](http://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](http://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](http://www.spdji.com).*

# Index Dissemination

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Index levels are available through S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com), major quote vendors (see codes below), numerous investment-oriented Web sites, and various print and electronic media.

## **Tickers**

<b>Index</b>	<b>Return Type</b>	<b>Bloomberg</b>
S&P 500 Low Volatility High Dividend Index	Price Return	SP5LVHD
	Total Return	SP5LVHDT
	Net Total Return	SP5LVHDN

## **FTP**

Daily stock level and index data are available via FTP subscription.

*For product information, please contact S&P Dow Jones Indices, [www.spdji.com/contact-us](http://www.spdji.com/contact-us).*

## **Web site**

*For further information, please refer to S&P Dow Jones Indices' Web site at [www.spdji.com](http://www.spdji.com).*

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