

S&P 500 Dividend Index

Frequently Asked Questions

1. What is the purpose of the S&P 500 Dividend Index?

The S&P 500 Dividend Index is designed to track the total dividend points of the S&P 500. The index is a barometer for the realized dividends of the S&P 500 index constituents and, therefore, acts as a benchmark against the implied dividends on S&P 500 index derivatives.

2. How does an S&P 500 Dividend Index benefit investors?

The S&P 500 is the leading US equity benchmark and the underlying equity index for many derivative products, such as futures and options. The S&P 500 Dividend Index segregates the dividend cash flow of the S&P 500 and provides investors with the ability to hedge against the dividend risk that it is implicit in the value of S&P 500 futures and options products.

3. What is dividend risk and how does it affect investors?

Investors in equity index derivatives are affected by the cumulative dividend payments of index constituents, which have a fundamental impact on the value of the index. In addition, the uncertainty of the realized dividend payments of the S&P 500 may exacerbate its disparity with the implied dividend value that is priced into the equity index derivative.

4. How can we trade dividends to hedge dividend risk?

Dividend trading has predominately taken place in the over-the-counter (OTC) market through index dividend swaps, where the implicit dividend value in equity index derivatives (fixed amount) is traded against the realized dividend value (floating amount) paid by the index.

5. How has the market for dividend trading evolved?

The growing popularity of dividend trading in the OTC market has resulted in a shift toward trading in an exchange environment, where the benefits of standardization, liquidity, clearing and settlement are prevalent. In some markets, moving dividend trading to an exchange environment has also resulted in the introduction of standardized derivative contracts on dividend indices.

6. How is the S&P 500 Dividend Index different than dividend strategy indices?

The S&P 500 Dividend Index is a passive representation of quarterly index dividend points; it is not an active index of stocks representing a quantitative dividend based investment strategy.

7. Will the S&P 500 Dividend Index track stock or special dividends?

No. The index tracks only ordinary cash dividends that enter the S&P 500 total return index. No separate determination of dividend eligibility is made for the S&P 500 Dividend Index. Standard & Poor's announces these dividends on a daily basis via S&P Index Alert.

8. Does the S&P 500 Dividend Index rebalance?

Yes. The S&P 500 Dividend Index resets to zero every quarter. The Index resets to zero after the close on the third Friday of the last month of the calendar quarter to coincide with futures and options expiration. The index measures the total ordinary dividends paid in the underlying index since the previous rebalancing date.

9. Why is the S&P 500 Dividend Index rebalanced quarterly, while dividend indices in some other markets are rebalanced annually?

The S&P 500 Dividend Index is synchronized with the payment pattern of U.S corporate dividends, which typically have a set quarterly payment. Quarterly rebalancing also coincides with S&P 500 futures and options expiry, and provides the added flexibility of using contracts to set up customized tenors of two-to-six quarters, as opposed to fixed 12-month windows. S&P understands

that the dividend swap market uses an annual convention, and will consider accommodating the market should the need arise for an annually rebalanced version of the S&P 500 Dividend Index that cannot be efficiently met using the quarterly index.

10. How is the S&P 500 Dividend Index calculated?

Index dividend points of S&P 500 are dividends paid by index constituents expressed in terms of the level of S&P 500. The index dividend points of the S&P 500 is calculated on any given day as the total daily dividend value for all of the S&P 500 constituents of the index divided by the index divisor. The total daily dividend value is calculated as the sum of the dividends per share multiplied by the index shares for all constituents of the index which have a dividend going ex on that date.

The S&P 500 Dividend Index is simply a running total of dividend points of the S&P 500. The index is reset to zero after the close on the third Friday of the last month of every calendar quarter, to coincide with futures and options expirations. Thus the index measures the total dividend points of the S&P 500 since the previous reset date.

11. Where can I see values and performance for the S&P 500 Dividend Index?

Bloomberg and Reuters are tracking the value and performance of the S&P 500 Dividend Index

Tickers:

Bloomberg: SPXDIV

Reuters: .SPXDIV

12. Where can I learn more about the dividend index?

An index factsheet as well as a document outlining the Dividend Index Mathematics can be found on the Standard & Poor's Web site at : www.standardandpoors.com/500dividend .

There is also a white paper on dividend trading that can be found on the Standard & Poor's Web site: www.indexresearch.standardandpoors.com

13. Who can I contact at Standard & Poor's if I have questions about this index?

Questions about the indices can be addressed to:

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14. Who do I contact at Standard & Poor's to license my use of this index?

Questions regarding licensing the S&P 500 Dividend Index can be addressed to:

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