

**STANDARD
& POOR'S**

**S&P 500
DIVIDEND ARISTOCRATS**
INDEX METHODOLOGY

August 2008

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Introduction

Since 1926, dividends have contributed nearly a third of total equity return while capital gains have contributed two-thirds. Sustainable dividend income and capital appreciation potential are both important in total return expectations.

The S&P 500 Dividend Aristocrats index is designed to measure the performance of large cap, blue chip companies within the S&P 500 that have followed a managed-dividends policy of consistently increasing dividends every year for at least 25 years.

Highlights

The S&P 500 Dividend Aristocrats index is equal-weighted and constituents are reviewed once a year in December. The portfolio is calculated and maintained in a manner consistent with other S&P equal weight indices.

Drawn from the S&P 500, the index portfolio has both capital growth and dividend income characteristics, as opposed to portfolios that are pure yield or pure capital appreciation oriented.

By equally weighting the index constituents, the S&P 500 Dividend Aristocrats best represents the performance of this group of stocks and treats each constituent as a distinct investment opportunity without regard to its size.

Companies included in the S&P 500 Dividend Aristocrats index come from a broad spectrum of industries. Unlike stocks that focus only on high dividend yields, which are typically from the Financials and Utilities sectors, the “Aristocrats” are well diversified across all sectors.

Eligibility Criteria

Index Eligibility

To qualify for membership in the S&P 500 Dividend Aristocrats index, a stock must satisfy the following criteria:

1. Be a member of the S&P 500 index
2. Have increased dividends every year for at least 25 consecutive years

Calendar years and ex-dates are used for the dividend analysis, with the data being reviewed every December. New members are added on the third Friday of December based on a review of the dividend payments of all S&P 500 constituents.

A dividend initiation or re-initiation does not count as a dividend increase. Both regular and special dividend payments are considered. The initiation calendar year may include payment of all four quarterly dividends, or only one, two or three quarterly payments. Evaluations are made on a best-effort basis using *Standard & Poor's Compustat* and *Standard & Poor's Dividend Record* data.

Timing of Changes

Index constituent weight adjustments occur after the closing of the third Friday of each quarter ending month.

Index constituent membership is reviewed once a year in December. The reference date for such additions and deletions is after the closing of the last trading date of November.

Additions. At each annual rebalancing, a company is added to the index if it is a member of the S&P 500 and has increased dividends every year for at least 25 consecutive years.

No additions are made to the index between annual rebalancings.

Deletions. Index constituents may be deleted from the index for the following reasons:

- During the December rebalancing, if the company's calendar year dividends did not increase from the previous calendar year
- Between rebalancings, if the stock is removed from the S&P 500

Index Construction

Approaches

The index is equal-weighted with constituents re-weighted every quarter.

Due to price changes in index constituents, they will not always have equal weights. This will likely occur between quarterly rebalancing periods. Therefore, any return computation starting from a non-rebalancing date will not match the arithmetic average of returns of S&P 500 constituents between those two dates.

Index Calculations

The index will be calculated by means of the divisor methodology used for Standard & Poor's equal weight indices. The initial divisor is set to have a base index value of 100 on December 29, 1989. The index value is simply the index market value divided by the index divisor:

$$\text{Index Value} = \text{Index Market Value} / \text{Index Divisor} \quad (1)$$

For more information on the index calculation methodology, please refer to the Equal Weighted Indices section of Standard & Poor's Index Mathematics Methodology.

In order to maintain index series continuity, it is also necessary to adjust the divisor.

$$(\text{Index Value})_{\text{before rebalancing}} = (\text{Index Value})_{\text{after rebalancing}} \quad (2)$$

Therefore,

$$(\text{Divisor})_{\text{after rebalancing}} = \frac{(\text{Index Market Value})_{\text{after rebalancing}}}{(\text{Index Value})_{\text{before rebalancing}}} \quad (3)$$

Index Maintenance

Rebalancing

The index is rebalanced to equal weights on the third Friday of each quarter-ending month, which coincides with quadruple witching of index futures, index options, stock futures and stock options.

This date also coincides with the conventional date for quarterly share adjustments of the S&P 500.

Index Adjustments

S&P 500 action	Adjustment made to Aristocrats	Divisor adjustment for Aristocrats
Constituent change	If the constituent being deleted is a member of the Aristocrats, then it is removed from the Aristocrats index.	A divisor adjustment is made to ensure the index level after the deletion is equal to the index level before the deletion.
Share changes between quarterly share adjustments	None.	None.
Quarterly share changes	There is no direct adjustment. However, on the same date the index rebalancing will take place, with each stock's weight adjusted to equal weights.	The rebalancing causes an adjustment.

Corporate Actions

Corporate Action	Adjustment made to Aristocrats	Divisor adjustment for Aristocrats
Spin-Off	The price is adjusted to the Price of the Parent Company minus (Price of Spin-off Company/ Share Exchange Ratio).	None.
Rights Offering	The price is adjusted to the Price of the Parent Company minus (Price of Rights Subscription/Rights Ratio).	None.
Stock Split	Index Shares are multiplied by and price is divided by the split factor.	None.
Share Issuance or Share Repurchase	None.	None.
Special Dividends	The 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 ex-date.	A divisor adjustment is made to ensure the index level after the price adjustment is equal to the index level before the price adjustment.

Base Date

Daily returns are available from December 31, 1989. The base value for both the price return and total return series on that date is 100. The index is calculated on an end-of-day basis.

Index Data

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. On any given date t :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (4)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (5)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Divisor}_t \quad (6)$$

Index Governance

Index Committee

The U.S. Index Committee maintains Standard & Poor's U.S. indices. The members of the Index Committee are full-time professional members of Standard & Poor's staff. The Index Committee meets monthly. 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.

Standard & Poor's considers information about changes to its U.S. indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

Index Policy

Announcements

Announcements of the annual rebalancing for the S&P 500 Dividend Aristocrats index in December are made at 05:15 PM Eastern Time. There are no separate corporate action announcements other than annual rebalancing. For regular corporate action activity on S&P 500 constituent, please refer to S&P 500 announcements.

Holiday Schedule

The S&P 500 Dividend Aristocrats index is calculated when the U.S. equity markets are open.

A complete holiday schedule for the year is available on Standard & Poor's Web site at www.indices.standardandpoors.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, Standard & Poor's 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 stock before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the index. If an exchange fails to open due to unforeseen circumstances, then the index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the index for that day.

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