

STANDARD  
& POOR'S

# S&P DIVIDEND OPPORTUNITIES INDICES

INDEX METHODOLOGY

November 2008

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# Introduction

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The S&P Dividend Opportunities Indices represent a family of dividend indices designed to serve as benchmarks for income seeking investors investing globally. The indices seek to provide exposure to high yielding common stocks from around the world while meeting diversification, stability and tradability requirements.

## Highlights

Index constituents must meet minimum size and liquidity requirements to ensure investability and tradability.

Constituents also must meet stability requirements related to profitability and earnings growth.

Turnover is mitigated through buffers implemented at each semi-annual rebalancing.

To ensure diversified exposure, no single country or sector has more than 25% weight in the index at each semi-annual rebalancing, and total emerging market and income trust exposure are limited to a maximum of 10%.

Constituent weights are driven by yield, with no single stock having a weight of more than 3% in the index.

## Index Family

Members of the S&P Dividend Opportunities family of indices include:

**S&P International Dividend Opportunities Index.** The index is comprised of 100 tradable, exchange-listed common stocks from around the world that offer high dividend yields. Common stocks that are domiciled in the United States are excluded.

**S&P Global Dividend Opportunities Index.** The index is comprised of 100 tradable, exchange-listed common stocks from around the world that offer high dividend yields.

# Eligibility Criteria

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## **Universe**

The universe from which the S&P Dividend Opportunities Indices are drawn is all dividend paying common stocks and American Depositary Receipts (ADRs) listed on eligible exchanges around the world. Derivatives, structured products, over-the-counter listings, mutual funds and exchange-traded funds (ETFs) are not eligible.

## **Investability Criteria**

The universe is narrowed down to an investable set of stocks based on the following criteria:

**Market Capitalization.** Stocks must have a total market capitalization above the market cap threshold of US\$ 1.5 billion, as of the rebalancing reference date.

**Value Traded.** Stocks must have three-month average daily value traded above the liquidity threshold of US\$ 5 million, as of the rebalancing reference date.

**Volume.** Stocks must have traded at least 300,000 shares for each of the previous six months preceding the rebalancing reference date.

**Exchange Listing.** The stocks must be listed on the primary exchanges of those countries included in the S&P/Citigroup Broad Market Index that allow free in kind transfer of dividends. These include: Argentina, Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Hong Kong, Hungary, Iceland, Indonesia, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Philippines, Portugal, Singapore, Spain, South Africa, Sweden, Switzerland, Thailand, Turkey, the United Kingdom and, in the case of the Global index, the United States.

Stocks passing these criteria form the Investable Universe.

## Stability Criteria

Stocks in the Investable Universe are then screened for two stability factors:

**Earnings Growth.** Stocks must have a positive, cumulative 5-year earnings growth. It is measured as:

$$((\text{Earnings Per Share}_t / \text{Earnings Per Share}_{t-5})^{1/5} - 1) * 100$$

where  $t$  is the current year

**Profitability.** Stocks must be profitable, as measured by positive earning per share before extraordinary items, over the latest 12-month period, as of the reference date. The figure is calculated by adding the four quarters of earnings reported for common shares and dividing by the 12-month average shares outstanding.

The dividend payout ratio, commonly used as a measurement of stability, is not used for this index family because certain securities included in the opportunity set, such as income trusts, are required to pay out a high percentage of their income as dividends.

Stocks meeting the Stability Criteria form the Selection Universe.

The rebalancing reference dates are the last trading date of December and June. Semi-annual index rebalancings occur after the close of the 10<sup>th</sup> U.S trading day of January and July, respectively. The market cap and liquidity thresholds are subject to change according to market conditions.

# Index Construction

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## **Approaches**

The methodology employs a yield driven-weighting scheme, using the divisor methodology used in most Standard & Poor's equity indices.

There are two steps in the creation of the index. The first is the selection of the 100 companies; the second is the weighting of the index constituents.

## **Constituent Selection**

The selection of index constituents is done as follows:

1. All stocks in the Selection Universe are sorted on basis of annual dividend yield. This is calculated as the total dividends per share, excluding special and extraordinary dividends, declared during the prior four quarters (as measured by the calendar year for U.S. corporations and the fiscal year for non-U.S. corporations), divided by the month-end share price and multiplied by 100.
2. The 100 highest yielding stocks form the index, subject to a 50 stock buffer for index constituents. If a current index constituent is among the top 150 at the rebalancing, it remains in the index. If not, the stock is deleted and the next largest stock, that is not an index constituent, is added.

## **Constituent Weightings**

The weighting scheme of the indices addresses two objectives:

- The indices should attempt to maximize their yield.
- The index should be diversified among individual stock, sectors and countries.

To achieve these two objectives, the weight for each index constituent is set at each rebalancing such that the yield of the index is maximized while the following constraints are met:

1. Every stock has a weight no greater than 3%.
2. The sum of the weights of all emerging market stocks is less than 10%.
3. No single sector, as defined by the Global Industry Classification Standard (GICS<sup>®</sup>), has a weight of greater than 25%.
4. No single country has a weight of greater than 25%.
5. The sum of the weights of all income trusts is less than 10%.

Standard & Poor's uses an optimization algorithm to meet these requirements. Given the non-smooth nature of the optimization problem, it is done using a non-deterministic evolutionary algorithm that switches over to traditional methods on an as-needed basis. Standard & Poor's uses publicly available commercial software (Premium Solver Platform™ Version 6.5 from Frontline Systems).

### Index Calculations

The index is calculated by means of the divisor methodology used in all Standard & Poor's equity indices. The index value is simply the index market value divided by the index divisor:

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

$$\text{Index Market Value} = \sum_{i=1}^N (\text{Index Shares})_i * (\text{Price})_i \quad (2)$$

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

In order to maintain basket series continuity, it is also necessary to adjust the divisor at the rebalancing.

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

Therefore,

$$\frac{(\text{Divisor})_{\text{after rebalancing}}}{(\text{Index Market Value})_{\text{after rebalancing}}} = \frac{(\text{Index Market Value})_{\text{after rebalancing}}}{(\text{Index Value})_{\text{before rebalancing}}} \quad (4)$$

# Index Maintenance

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## Rebalancing

**Frequency.** The indices are rebalanced semi-annually. Index rebalancings occur after the closing on the 10<sup>th</sup> U.S trading day of January and July.

## Corporate Actions

Corporate Action	Adjustment made to index	Divisor adjustment?
Spin-off	No weight change. 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	No weight change. The price is adjusted to the Price of 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 Split	Index Shares are multiplied by and the price is divided by the split factor.	No
Share Issuance or Share Repurchase	None. Actual shares outstanding of the company play no role in the daily index calculation.	No
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 the dividend ex-date.	Yes
Delisting, acquisition or any other corporate action resulting in the deletion of the stock	The stock is dropped from the Index. No intra-year replacements are made.	Yes

## Base Date

The indices base dates are January 15, 1997. Daily returns are available from that date. The base value, for both the price return and total return series, is 1000.

# Index Data

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## Total Return and Net Return Indices

The indices have a total return counterpart, which assumes dividends are reinvested in the index after the close on the ex-date. On any given date  $t$ ,

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (5)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (6)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Index Divisor}_t \quad (7)$$

Index Dividend Points are zero on those dates in which no index constituents are going ex-dividends, while on other dates it is a positive number. Therefore, returns calculated from Total Return Index Value will always be greater than or equal to the Index Value.

Standard and Poor's 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. The net return reinvested series approximates the returns available to an investor based in Luxembourg, reflecting the minimum possible dividend reinvestment since the highest rates are theoretically applied to Luxembourg-based investors. The rates applied are the current effective rates and are sourced from Ernst and Young's Worldwide Corporate Tax Guide and the Economic Intelligence Unit. These rates are maintained and updated to reflect any ongoing changes.

*Please refer to the Index Mathematics Methodology document for more information on total return calculations.*

# Index Governance

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## **Index Committee**

The S&P Global Index Committee maintains the S&P Dividend Opportunities indices. 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 indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

# Index Policy

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## **Announcements**

Announcements of index additions and deletions are made at 05:15PM U.S. ET.

## **Holiday Schedule**

The S&P Dividend Opportunities indices are calculated daily on all business days of the year with no exceptions.

*A complete holiday schedule for the year is available on Standard & Poor's Web site at [www.indices.standardandpoors.com](http://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, 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.

# Index Dissemination

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## Index Data

Complete data for index replication (including share counts, tickers and data on index levels and returns) are available through Standard & Poor's index data group for subscription via FTP.

## Tickers

<b>Index</b>	<b>Bloomberg</b>	<b>Reuters</b>
S&P International Dividend Opportunities Price Return (US\$)	SPGTD0U	.SPGTD0U
S&P International Dividend Opportunities Total Return (US\$)	SPGTD0T	.SPGTD0U

<b>Index</b>	<b>Bloomberg</b>	<b>Reuters</b>
S&P Global Dividend Opportunities Price Return (US\$)	SPGTGDO	.SPGTGDO
S&P Global Dividend Opportunities Total Return (US\$)	SPGTGDOT	.SPGTGDOT

*For further information, please refer to Standard & Poor's Web site at [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com).*

# S&P Contact Information

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## **Index Management**

David M. Blitzer, Ph.D. – Managing Director & Chairman of the Index Committee	
david_blitzer@standardandpoors.com	+1.212.438.3907
Michael Kaye – Director, Index Analysis and Management	
michael_kaye@standardandpoors.com	+1.212.438.3941

## **Media Relations**

David Guarino – Communications	
dave_guarino@standardandpoors.com	+1.212.438.1471

## **Index Operations & Business Development**

### **North America**

#### New York

David Kao	+1.212.438.3354
-----------	-----------------

#### Toronto

Jasmit Bhandal	+1.416.507.3203
----------------	-----------------

### **Europe**

#### London

Susan Fagg	+44.20.7176.8888
------------	------------------

### **Asia**

#### Tokyo

Seiichiro Uchi	+813.4550.8568
----------------	----------------

#### Beijing

Andrew Webb	+86.10.6569.2919
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#### Sydney

Guy Maguire	+61.2.9255.9822
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