

STANDARD  
& POOR'S

# S&P/TSX CANADIAN DIVIDEND ARISTOCRATS

INDEX METHODOLOGY



October 2007

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# Introduction

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Since 1956, dividends have contributed 30% of the total equity return of the S&P/TSX Composite index, while capital gains have contributed 70%. Sustainable dividend income and capital appreciation potential are both important to total return expectations.

The S&P/TSX Canadian Dividend Aristocrats index is designed to measure the performance of S&P/Citigroup Broad Market Index (BMI) Canada constituents which have followed a managed-dividends policy of consistently increasing dividends every year for at least seven years.

## Highlights

The Index is weighted by indicated annual dividend yield, with constituents being re-weighted every quarter. The Dividend Aristocrats constituent universe is reviewed every December.

The index methodology incorporates concentration limits to prevent any stock from being more than 8% of the Index weight at each quarterly rebalancing.

## Related Indices

- **S&P/TSX Composite.** The S&P/TSX Composite is the headline index and the principal broad market measure for the Canadian equity markets. It includes common stock and income trust units.
- **S&P/TSX 60.** Within the S&P/TSX Composite, the S&P/TSX 60 covers large cap securities, with a view to matching the sector balance of the S&P/TSX Composite. The S&P/TSX Completion represents the remaining securities of the S&P/TSX Composite.
- **S&P/TSX SmallCap.** The S&P/TSX SmallCap Index provides an investable index for the Canadian small cap market. It includes common stock and income trust units, and is calculated in real-time. The index is also the basis for the S&P/TSX Equity SmallCap Index, which is calculated end-of-day and excludes income trusts.
- **S&P/TSX Global Gold Index.** The S&P/TSX Global Gold Index is designed to provide an investable index of global gold securities. Eligible Securities are classified under the Global Industry Classification Standard (GICS®) Code 15104030 which includes producers of gold and related products, including companies that mine or process gold and the South African finance houses which primarily invest in, but do not operate, gold mines.

- **S&P/TSX Global Mining Index.** The S&P/TSX Global Mining Index is designed to provide an investable index of global mining securities. Eligible Securities are classified under five Global Industry Classification Standard (GICS<sup>®</sup>) Codes – Aluminum, Diversified Metals & Mining, Gold, Precious Metals & Minerals and Coal & Consumable Fuels
- **S&P/TSX Equity Indices.** The S&P/TSX Equity, the S&P/TSX Equity 60 and the S&P/TSX Equity Completion indices are derived from their parent indices, which include both income trusts and equities. The S&P/TSX Equity is the S&P/TSX Composite excluding income trusts. Similarly, the S&P/TSX Equity 60 and the S&P/TSX Equity Completion are the S&P/TSX 60 and S&P/TSX Completion, respectively, excluding income trusts.
- **S&P/TSX Income Trust Indices.** The S&P/TSX Income Trust is a modular component of the S&P/TSX Composite. The index contains all of the income trust constituents from its parent index, the S&P/TSX Composite Index. Constituents of this index are not capped. The S&P/TSX Income Trust Index, in turn, is the parent index for the S&P/TSX Capped Energy Trust Index and the S&P/TSX Capped REIT Index. The relative weight of any single index constituent is capped at 25% for both indices.
- **S&P/TSX Capped Sector Indices.** Thirteen real-time capped indices covering sectors or industries are calculated from the securities in the S&P/TSX Composite. These indices are defined using GICS<sup>®</sup>. To be a constituent of a particular sector index, a stock must be a constituent of the S&P/TSX Composite and will be classified in the relevant GICS<sup>®</sup> category. The relative weight of any single index constituent is capped at 25%.
- **S&P/TSX Venture Composite.** The S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

# Eligibility Criteria

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## **Index Eligibility**

To qualify for membership in the S&P/TSX Canadian Dividend Aristocrats Index, Standard & Poor's must first consider the company a "Dividend Aristocrat" by satisfying the following criteria:

1. The company's security is a common stock or income trust listed on the Toronto Stock Exchange and a constituent of the S&P/Citigroup Broad Market Index (BMI) Canada.
2. The security has increased ordinary cash dividends every year for at least seven consecutive years

The 12-month period ending November 30 and all dividend ex-dates are used for the dividend analysis, with the data being reviewed every December. New members are added to the S&P/TSX Canadian Dividend Aristocrats Index on the close of the 3<sup>rd</sup> Friday of December based on a review of the dividend payments of all constituents of the S&P/Citigroup Canada Broad Market Index.

Only ordinary dividend payments are considered. Evaluations are made on a best-effort basis using the S&P/Citigroup Canada Broad Market Index stock level dividend history and Bloomberg.

## **Timing of Changes**

**Minor Rebalancing.** Index constituent weight adjustments occur after the closing of the 3<sup>rd</sup> Friday of March, June and September. At these minor rebalancings, constituents are adjusted so their weights are based on their most recent month-end indicated yields.

**Major Rebalancing.** Index constituent membership is reviewed in full once a year in December. The reference date for such additions and deletions is after the closing of the last trading date of November. Index constituent changes occur after the closing of the 3<sup>rd</sup> Friday of December, at which date the new constituents are weighted according to their indicated yield as of the last trading date of November.

**Additions.** At each December rebalancing, a company is added to the index if it is a constituent of the S&P/Citigroup Canada Broad Market Index and has increased dividends every year for at least seven consecutive years. In the event that a company has more than one class of common shares listed on the TSX, the more liquid class will be used for index inclusion.

No additions are made to the index between 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/Citigroup Canada Broad Market Index.

# Index Construction

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## Index Calculations

The index is calculated by means of the divisor method used for all Standard & Poor's equity indices. The initial divisor is set to have a base index value of 1000 on December 21, 2001. The index value is simply the index market value divided by the index divisor:

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

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

$$\text{Index Share}_i = \text{IWF}_i * 1,000,000 \quad (3)$$

At each quarterly rebalancing, investable weight factors (IWFs) are set so that each constituent has a weight proportional to the indicated yield on the Reference Date, which is the previous month-end. IWFs for all constituents are calculated using Equation 4, below.

$$(\text{IWF})_{i, \text{ after rebalancing}} = (\text{Yield})_{i, \text{ Reference Date}} / (\text{Price})_{i, \text{ Rebalancing Date}} \quad (4)$$

**"Index Shares" and "Index Market Value" are artificial constructs.** Index Shares shown in the equations here are artificial constructs bearing no relation to a stock's actual shares outstanding. These might include fractions, and might be less than 1. Therefore, the Index Market Value is also an artificial construct bearing no relation to the market capitalization of the stocks in the index.

At each rebalancing, constituents will be assigned Index Shares as given in Equation 3. In order to maintain index series continuity, it is also necessary to adjust the divisor.

$$(\text{Index Value})_{\text{ before rebalancing}} = (\text{Index Value})_{\text{ after rebalancing}} \quad (5)$$

Therefore,

$$(\text{Divisor})_{\text{ after rebalancing}} = (\text{Index Market Value})_{\text{ after rebalancing}} / (\text{Index Value})_{\text{ before rebalancing}} \quad (6)$$

# Index Maintenance

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## Major Rebalancing

The index undergoes a major rebalancing once a year in December. The following steps are taken during the December rebalancing:

1. All companies in the qualifying universe are ranked in decreasing order of indicated annual dividend yield.
2. The float turnover, as measured by comparing the 12-month volume relative to the current float shares, must be at least 0.20. The value turnover, as measured by comparing the 12-month value traded relative to the float quoted market value, must be at least 0.20.
3. Index members are weighted according to their indicated yield as shown in Equation 4.

## Minor Rebalancing

The index undergoes minor rebalancings in March, June and September. The following steps are taken for the minor rebalancings:

1. All companies in the index are ranked in decreasing order of the indicated annual dividend yield.
2. Index members are re-weighted according to their indicated yield

The rebalancing effective date is after the closing of the 3<sup>rd</sup> Friday of the rebalancing month. (March, June or September). The reference date for the indicated yield and average monthly volume is the close of the month prior to the rebalancing month, February, May or August, respectively.

## Concentration Limits

Limits are also placed on constituents in terms of stock concentration. At each rebalancing no single stock has a weight in the Index of more than 8%. This prevents the index weight from being concentrated in a few names. If the weight is greater than 8%, the stock's weight is reduced by decreasing the investable weight factor (IWF) until the weight criteria is satisfied.

## Base Date

Daily returns are available from December 21, 2001. 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.

## Currency of Calculation

The S&P/TSX Canadian indices are calculated in Canadian dollars. Calculation in other currencies and hedged calculations are available from Standard & Poor's on a custom basis.

## Index Adjustments

Security 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 IWF assigned as per Equation 4.	The rebalancing causes an adjustment as calculated in Equation 6.

## 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 (the Price of the Spin-off Company/Share Exchange Ratio). There is a complementary change in Index Shares so that the weight of the constituent does not change.	None.
Rights Offering	The price is adjusted to the Price of the Parent Company minus (the Price of the Rights Subscription/Rights Ratio). There is a complementary change in Index Shares so that the weight of the constituent does not change.	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.

# 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. On any given date  $t$ :

$$\text{Total Return Multiplier}_t = \frac{[\text{Index Value}_t + \text{Index Dividend Points}_t]}{\text{Index Value}_{t-1}} \quad (7)$$

$$\text{Total Return Index Value}_t = (\text{Total Return Index Value}_{t-1}) * (\text{Total Return Multiplier}_t) \quad (8)$$

$$\text{Index Dividend Points}_t = \sum_{i=1}^N (\text{Index Shares})_{i,t} * (\text{Ex - dividends})_{i,t} / \text{Index Divisor}_t \quad (9)$$

Index Dividend Points are zero on those dates in which no basket 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

# Index Governance

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## **Index Committee**

The S&P/TSX Canadian indices are maintained by the S&P/TSX Canadian Index Committee. The Index Committee is comprised of four members representing Standard & Poor's and three members representing the Toronto Stock Exchange ("TSX"). The Index Committee is chaired by a member designated by Standard & Poor's. Meetings are held monthly, and from time to time, as needed.

The Index Committee is responsible for setting rules and policies for the S&P/TSX Canadian Indices, determining the composition of the Indices and administering the methodology. In fulfilling its responsibilities, the Index Committee has full and complete discretion to amend, apply or exempt the application of the methodology and other index policies as circumstances may require, and add, remove or by-pass any security in determining the composition of any of the indices.

The Index Committee may rely on any information or documentation submitted to or gathered by it that the Index Committee believes to be accurate. Where a public document used by the Index Committee is available in both official languages, the Index Committee may assume that the contents of both versions are identical. The Index Committee reserves the right to reinterpret publicly available information and to make changes to the index based on a new interpretation of that information at its sole and absolute discretion.

In using trading data to determine any matter relating to the S&P/TSX Composite Index, including index composition and calculations, the Index Committee will rely solely on data resulting from trading on the TSX.

Index corrections and changes to index composition will be implemented at such time and in such manner, as the Index Committee deems appropriate. The timing of any index change made in response to a correction shall be at the sole and absolute discretion of the Index Committee.

Standard & Poor's considers information about changes to its Canadian 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 additions and deletions for the S&P/TSX Canadian indices are generally made at 05:15 PM, Eastern Time. Press releases are posted on the Web site, [www.indices.standardandpoors.com](http://www.indices.standardandpoors.com) and are released to major new services.

In addition, TSX Datalinx offers a fee-based subscription to Index Notices. The Index Notices provide the most detailed and comprehensive coverage of index changes. Complete data for index replication (including share counts, tickers and data on index levels and returns) are also available through TSX Datalinx. In order to subscribe, contact TSX Datalinx by phone at (416) 947-4452 or by email at [marketdata@tsxdatalinx.com](mailto:marketdata@tsxdatalinx.com).

## **Holiday Schedule**

The S&P/TSX Canadian indices are calculated when the Canadian equity market is open.

*A complete holiday schedule for the year is available on the TSX Web site at [www.tsx.com](http://www.tsx.com).*

## **Unscheduled Market Closures**

In situations where the TSX 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 security before the exchange closed. If the exchange fails to open due to unforeseen circumstances, the index will use the prior day's closing prices or Standard & Poor's may determine not to publish the index for that day.

# S&P Contact Information

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