

# **S&P/TSX Canadian Dividend Aristocrats Index** *Methodology*

February 2016

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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<sup>®</sup> 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<sup>®</sup> Index is designed to measure the performance of constituents of the S&P Canada Broad Market Index (BMI) which have followed a managed-dividends policy of consistently increasing dividends.

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.

## **Partnership**

The S&P/TSX indices are calculated and managed by S&P Dow Jones Indices. The TMX Group Inc. (TMX) is the owner and distributor of all S&P/TSX equity index data.

## **Highlights**

The index is weighted by indicated annual dividend yield. The Dividend Aristocrats constituent universe is reviewed every January.

The index methodology incorporates concentration limits. Modifications are made to stock weights to ensure no stock represents more than 8% of the index weight and to enhance index basket liquidity at the annual rebalancing.

# Eligibility Criteria

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## **Index Eligibility**

To qualify for membership in the S&P/TSX Canadian Dividend Aristocrats Index, S&P Dow Jones Indices 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 Canada BMI.
2. The security has increased ordinary cash dividends every year for five years, but can maintain the same dividend for a maximum of two consecutive years within that five year period.
3. The float-adjusted market capitalization of the security, at the time of the review, must be at least C\$ 300 million.
4. For index additions, the company must have increased dividend in the first year of the prior five years of review for dividend growth. This rule does not apply for current index constituents.

The 12-month period ending December 31 and all dividend ex-dates are used for the dividend analysis, with the data being reviewed every January. New members are added to the S&P/TSX Canadian Dividend Aristocrats Index on the close of the last business day of January based on a review of the dividend payments of all constituents of the S&P Canada BMI.

The S&P/TSX Canadian Dividend Aristocrats Index has a minimum constituent count of 40 companies at the annual rebalancing. If there are not 40 eligible constituents in the review, the highest yielding companies with four years of eligible annual dividend growth patterns are used to supplement the index. If the index still does not have 40 constituents, the S&P/TSX Index Committee has the discretion of determining the remaining constituents.

Only ordinary dividend payments are considered. Evaluations are made on a best-effort basis using the S&P Canada BMI stock level dividend history.

*For information on the S&P Canada BMI, please refer to the S&P Global BMI, S&P/IFCI Methodology available at [www.spdji.com](http://www.spdji.com).*

## Timing of Changes

**Annual Rebalancing.** Index constituent membership is reviewed in full once a year in January. The reference date for such additions and deletions is after the close on the last trading date of December. Index constituent changes occur after the close on the last business day of January, at which date the new constituents are weighted according to their indicated yield as of the last trading date of December.

**Additions.** At each January rebalancing, a company is added to the index if it is a constituent of the S&P Canada BMI and it meets the other eligibility criteria for this index.

No additions are made to the index between rebalancings.

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

- During the January rebalancing:
  - If the company's calendar year dividends decreased from the previous calendar year
  - If the company's year-end dividend payment remains flat for more than one consecutive year
- Between rebalancings:
  - If the stock is removed from the S&P Canada BMI
  - At the discretion of the S&P/TSX Index Committee, a company may be removed after the close on the last business day of April, July and October if S&P Dow Jones Indices determines that the company has reduced its calendar year dividend amount and will no longer qualify for index inclusion at the subsequent annual rebalancing

# Index Construction

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## **Index Calculations**

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

*For more information on the index calculation methodology, please refer to S&P Dow Jones Indices' [Index Mathematics Methodology](http://www.spdji.com) available at [www.spdji.com](http://www.spdji.com).*

## **Multiple Classes of Stock**

Some companies may have more than one share class line in the S&P Canada BMI. In the S&P/TSX Canadian Dividend Aristocrats Index, each company is represented once by the primary listing, which is generally the most liquid share line.

# Index Maintenance

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## **Annual Rebalancing**

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

1. All companies in the qualifying universe are ranked in decreasing order of indicated annual dividend yield.
2. The float-adjusted turnover, as measured by comparing the 12-month volume relative to the current float-adjusted shares, must be at least 0.20.
3. The average daily value traded over the trailing 12-month period must be at least C\$ 2 million for new constituents and C\$ 1 million for existing constituents.
4. Index members are weighted according to their indicated yield.

If S&P Dow Jones Indices determines that the company has reduced its calendar year dividend amount and will no longer qualify for index inclusion at the subsequent annual rebalancing, then at the discretion of the S&P/TSX Index Committee, a company may be removed after the close on the last business day of April, July and October.

## **Constituent Weightings**

At the annual rebalancing, stocks are weighted based on indicated annual dividend yield and modifications are made to stock weights, if required, to reduce single stock concentration and enhance index basket liquidity as follows:

- No stock can have a weight of more than 8% in the index.
- The minimum initial portfolio size that can be turned over in a single day (based on recent trading volumes) cannot be lower than C\$ 100 million.

Basket liquidity capping sets a minimum portfolio size of C\$ 100 million that must be turned over in a single day, based on the historical average value-traded pattern. The maximum weight parameter is the maximum weight of each stock at the rebalancing. These parameters may be changed depending upon market circumstances.

1. With data as of the rebalancing reference date, each company is weighted by indicated annual dividend yield.
2. If any company has a weight greater than 8% (where 8% is the maximum weight allowed in the index), that company has its weight capped at 8%.
3. All excess weight is proportionally redistributed to all uncapped stocks within the index.



4. After this redistribution, if the weight of any other stock(s), then, breaches 8%, the process is iterated until there are no stocks breaching the 8% weight limit.
5. A basket liquidity maximum weight (BL) for each company is, then, determined by dividing the C\$ three-month average daily value traded by the basket liquidity amount (C\$ 100 million). This weight is the maximum weight allowed for each stock in the index.
6. If any company has a weight greater than its BL maximum weight, that company will have its weight reduced to its BL maximum weight.
7. All excess weight is proportionally redistributed to all uncapped stocks within the index.
8. If, after this redistribution, the weight of any other stock(s) in the index exceeds its BL maximum weight, the process is iterated until no stock breaches its BL maximum weight.

The basket liquidity and maximum weight constraints are subject to change based on market conditions. If the basket liquidity rule cannot be satisfied for all index constituents after all possible iterations are completed, one or more of these constraints may be changed to ensure that the constraint is satisfied for all constituents.

### 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 S&P Dow Jones Indices on a custom basis.

### Index Adjustments

Security action	Adjustment made to Aristocrats	Divisor adjustment for Aristocrats
Deletion from the S&P Canada BMI	If the constituent being deleted from the S&P Canada BMI is a member of the Aristocrats, then it is removed from the Aristocrats index as well.	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.	None.

## **Corporate Actions**

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 total return calculation includes stock dividends paid in kind, stock dividends paid with the securities of an issuer other than the issuer declaring such dividend, rights distributions, and cash distributions less than 4% of the underlying stock price based on the last traded board lot.

A dollar value is calculated for the distribution to be used in the total return index calculation.

*For details on total return calculations, please refer to S&P Dow Jones Indices' Index Mathematics Methodology available at [www.spdji.com](http://www.spdji.com).*

# 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 S&P Dow Jones Indices and three members representing the Toronto Stock Exchange (“TSX”). The Index Committee is chaired by a member designated by S&P Dow Jones Indices. 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.

Index corrections and changes to index composition are 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.

Stock prices, VWAPs, and prices used to calculate QMV are prices determined by trading on the TSX. Trading volume is determined by trading on the TSX, Aequis (Lit and Neo), Alpha, Chi-X, CSE (Pure Trading), CX2, Lynx, TMX Select (Excluded after September 2016 review) and Omega.

S&P Dow Jones Indices 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.

### **Advisory Panel**

S&P Dow Jones Indices maintains an Index Advisory Panel to provide advice to the Index Committee, to S&P Dow Jones Indices and to the TSX on index related matters. The Advisory Panel meets at the request of the Index Committee to discuss matters related to the use of equity indices in Canada; typically the Advisory Panel meets annually. The Index Committee designates members of the Advisory Panel to provide representation of major financial market entities including leading institutional investors, investment banks, brokerage firms and others with an interest in the development of the equity markets in Canada. Meetings of the Advisory Panel are not open to the public or the press; however, the proceedings are not confidential and members are free to discuss them publicly.

*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**

Whenever possible, announcements of additions or deletions of stocks or other index adjustments are made five trading days before the adjustments are implemented. In those cases when it is not possible to trade a stock five days after an announcement, the announcement period may be shortened. However, the implementation of an index adjustment is never earlier than the market close of the day following the announcement.

Announcements of additions and deletions for the S&P/TSX Canadian indices are generally made at 05:15 PM Eastern Time. Press releases are released to major news services.

In addition, TMX 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 TMX Datalinx. In order to subscribe, contact TMX Datalinx by phone at +1.416.947.4778 or by email at [marketdata@tmx.com](mailto:marketdata@tmx.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 TMX Web site at [www.tmx.com](http://www.tmx.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).*

## **Treatment of Corporate Actions in the Event of Unscheduled Market Closures**

Full-day closure occurs on the corporate action effective date: All market driven actions (splits, bonuses, rights, cash dividends, spinoffs, etc.) are moved to the next trading date. This involves the reposting of all affected files of each index to which each stock belongs. However, we follow the exchange's lead in such situations. If the exchange moves the corporate action ex-date, S&P Dow Jones Indices does the same. Adds and drops to the index and share/IWF updates remain unchanged, as trading was completed at the close before the effective date.

Partial closure occurs on the corporate action effective date: All market driven actions (splits, bonuses, rights, cash dividends, spin-offs, etc.) take place at the opening of the ex-date. Adds and drops to the index and share/IWF updates remain unchanged, as trading was completed at the close of the day before the effective date.

Full-day or partial closure occurs on the day before the corporate action effective date: Adds and drops to the index, share/IWF updates and quarterly rebalancing would be moved to the close of the next trading date and use the closing prices of that day. All market driven actions scheduled for the opening of the next day are unaffected by an exchange closure on the day before the ex-date.

## **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).*

## **Real-Time Calculation**

Real-time, intra-day, index calculations are executed for certain indices whenever any of their primary exchanges are open. Real-time indices are not restated.

*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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The TMX Group Inc. (TMX) serves as the distributor of both real-time and historical index data. In addition, index levels are available on S&P Dow Jones Indices Web site at [www.spdji.com](http://www.spdji.com), through major quote vendors (see codes below), through numerous investment oriented Web sites and various print and electronic media.

## **Tickers**

<b>Index</b>	<b>Bloomberg</b>	<b>Reuters</b>
S&P/TSX Canadian Dividend Aristocrats Index	SPTXDV	.GSPTXDV
S&P/TSX Canadian Dividend Aristocrats Index (TR)	SPTXDVT	.TRGSPTXDV

## **FTP**

Daily stock level and index data is available from the Toronto Stock Exchange on subscription. Please contact Market Data at 416-947-4778 or, by email, at [marketdata@tmx.com](mailto:marketdata@tmx.com).

*For further information, please refer to the TMX Web site at [www.tmx.com](http://www.tmx.com).*



# Appendix

## Methodology Changes

Methodology changes since January 1, 2015 are as follows:

Change	Effective Date (After Close)	Methodology	
		Previous	Updated
Multiple Share Class Lines	20-Aug-15	Companies that have more than one class of common stock outstanding were represented only once in the index. The stock price was based on one class, and the share count was based on the total shares outstanding of all classes.	Each company is represented once by the primary listing, which is generally the most liquid share line.
Trading Volume Marketplaces	20-Aug-15	TSX and other Canadian trading venues which make the data available in a timely fashion.	TSX, Aequitas (Lit and Neo), Alpha, Chi-X, CSE (Pure Trading), CX2, Lynx, TMX Select (Excluded after September 2016 review) and Omega.
Rebalancing Frequency	22-Jun-15	Major rebalancing in January and minor rebalancings (reweighting) in April, July and October.	Annual rebalancing in January. No minor rebalancings (reweighting).
Constituent Weight Capping	22-Jun-15	Stocks are capped at 8% of the index weight.	In addition to the single stock weight capping of 8%, index basket liquidity capping is introduced.

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