Nasdaq U.S. Rising Dividend Achievers Index™

An All-Weather Diversified Exposure Designed to Maintain Dividend Growth

Highlights

- The Nasdaq U.S. Rising Dividend Achievers Index assembles a portfolio of stocks that are positioned to continue increasing dividends. The Index methodology guides this process by including several dividend and balance sheet criteria.
- The Index's dividend criteria are more dynamic than many traditional dividend indexes, which often include a minimum of ten years of dividend history. This allows the Index to include dividend-paying stocks faster than other indexes when such companies may be in the early stages of ramping up their dividend policies.
- The Index accounts for sector bias prevalent in traditional dividend strategies, where industries such as Utilities, Energy and Consumer Staples are heavily weighted due to their high yields. This weighting forgoes the opportunity of holding companies in sectors that have recently increased dividends, such as Consumer Services and Tech.
- The Index selects companies with strong cash balance, low debt and increasing earnings to ensure quality of the components.
- The Index is better able to adapt to a rising rate environment and historically outperforms traditional dividend indexes during periods of higher interest rates.

Background

In the environment of low interest rates and slow, gradual rate increases, dividend-yield investing has been and will continue to be increasingly popular. Investors should, however, be wary of focusing on yield alone and concentrate on names that are best positioned to continue a path of raising dividends. Traditional indexes focus on a company's historical track-record of dividend payments, but a more prudent approach involves analyzing the financial health of the company and its ability to maintain dividend increases. The Nasdaq U.S. Rising Dividend Achievers Index (NQDVRIS™) is designed to do just that: include securities that are best positioned to continue dividend increases in the future.

Index Methodology

The Nasdaq U.S. Rising Dividend Achievers Index is designed to include securities that are positioned to continue dividend increases. In order to be eligible for inclusion, a security needs to have paid higher dividends in the past year than the previous three and five years prior. In addition, the Index methodology assesses the financial health of the securities through several lenses. A security must possess three strong balance sheet characteristics to be considered for inclusion:

1. Positive earnings in the most recent year and greater than three years prior.
2. Have a cash-to-debt ratio greater than 50%.
3. Have a payout ratio of less than or equal to 65%.

Among all the securities that pass these tests, the Index then narrows in on the top 50 securities by dollar dividend increase over the previous five-year period, dividend yield and payout ratio as of the evaluation (subject to a 30% industry cap). The 50 securities are equally weighted, and the Index is reconstituted annually.

The Dollar Value of Dividend Growth

Consider this hypothetical situation: buy a fund linked to the Rising Dividend Achievers Index and never sell. After 10 years or longer, the effective yield on the initial investment will be significant due to the compounding effect of dividend growth over time. To show this as a concrete example, suppose we invested one million dollars in this fund at the end of 2007. Below, we calculated the dollar dividend value for each year from 2008 to September 30, 2023 (2023 figures are annualized). The current yield is the dividend value divided by the investment value on that year, while the effective yield is the dividend value from the current year divided by the initial investment. The effective yield is what means the most to an investor as that is truly the yield that they are experiencing any year based upon the dollars that they invested.

Year	Index Level	Investment Value ($)	Dividend Value ($)	Current Yield	Effective Yield
2007	738	1,000,000	--	--	--
2008	464	628,187	20,502	3.26%	2.05%
2009	601	813,945	15,829	1.94%	1.58%
2010	679	919,878	18,462	2.01%	1.85%
2011	682	923,429	22,164	2.40%	2.22%
2012	766	1,037,807	27,893	2.69%	2.79%
2013	1,099	1,488,446	30,125	2.02%	3.01%
2014	1,187	1,607,648	35,398	2.20%	3.54%
2015	1,130	1,530,572	38,813	2.54%	3.88%
2016	1,350	1,829,179	40,891	2.24%	4.09%
2017	1,629	2,207,632	42,035	1.90%	4.20%
2018	1,448	1,961,259	45,903	2.34%	4.59%
2019	1,958	2,652,196	53,451	2.02%	5.35%
2020	2,178	2,951,446	56,542	1.92%	5.65%
2021	2,618	3,547,121	65,476	1.85%	6.55%
2022	2,396	3,246,077	83,158	2.56%	8.32%
2023	2,506	3,395,242	95,971	2.83%	9.60%

As of September 30, 2023, the initial investment would have more than tripled. This strong performance holds despite the hypothetical poor timing of investing right before the 2008 financial crisis. Additionally, the effective yield would be 9.60%, and the investor would be on track to receive $95,971 dollars from dividend payments in 2023. This analysis reflects the unique value of the Rising Dividend Achievers Index methodology, which includes companies that have consistently increased dividend payments to investors. In the following sections, we will compare the Nasdaq Rising Dividend Achievers Index to other high-yield index products.

Index Composition and Metrics

The portfolio has some specific points worth highlighting:

- Dividend yield ranges from 0.6% to 4.4% with an average of 2.4%.
- The average payout ratio is 25.5%.
- Market capitalization ranges from $4.0B to $2,345.9B with an average of $136.3B.

- Dividends per share over the last 12 months ranged from $0.30 to $10.25 with an average of $2.69.
- The average cash on hand for the index is $56.2B and average total debt is $62.2B.

The Index considers a broad range of dividend-paying stocks. As a result, both those that have long-term dividend track records as well as those that have shorter-term dividend track records can be included. Competing dividend indexes often apply minimum dividend requirements that are far longer than horizons inherent in the Rising Dividend Achievers methodology, making them less sensitive to dividend policy improvements and greatly reducing the number of companies – and their improving dividends – from consideration. The Nasdaq U.S. Rising Dividend Achievers Index is a dynamic dividend index that looks beyond just yield and focuses on the health of the underlying companies. When stacked against four competing dividend indexes, the Nasdaq U.S. Rising Dividend Achievers Index exhibits some very compelling characteristics.

	Nasdaq U.S. Rising Dividend Achievers Index (NQDVRIS)	Dow Jones Select Dividend Index (DJDVY)	Morningstar Dividend Yield Focus Index (MDYFT)	S&P High Yield Dividend Aristocrats Index (SPHYDATR)	S&P 500 Dividend Aristocrats Index (SPDAUDT)
Average 1-year Dividend Growth	11.7%	5.0%	-1.1%	6.6%	6.0%
Average Market Cap (Billions)	136.3	40.6	64.0	51.3	82.6
Average 3-year EPS Growth	184.1%	35.4%	128.2%	25.0%	52.0%
Average Payout Ratio	25.5%	45.4%	75.2%	28.2%	34.0%

Components in the Nasdaq U.S. Rising Dividend Achievers Index have exhibited substantially stronger earnings growth over the last three years. Additionally, said growth has opened the door for significant dividend increases over the last year, more so than the other competing indexes. One might have the predisposition to assume that such impressive growth can only be displayed by small-cap companies, but that is not the case. Rather, the average market capitalization of the Nasdaq U.S. Rising Dividend Achievers Index is larger than the other four indexes. With an average payout ratio of only 25.5%, this leaves substantial upside for the constituents to dynamically continue to raise their dividends in the future.

Sector Breakdown & Interest Rate Sensitivity

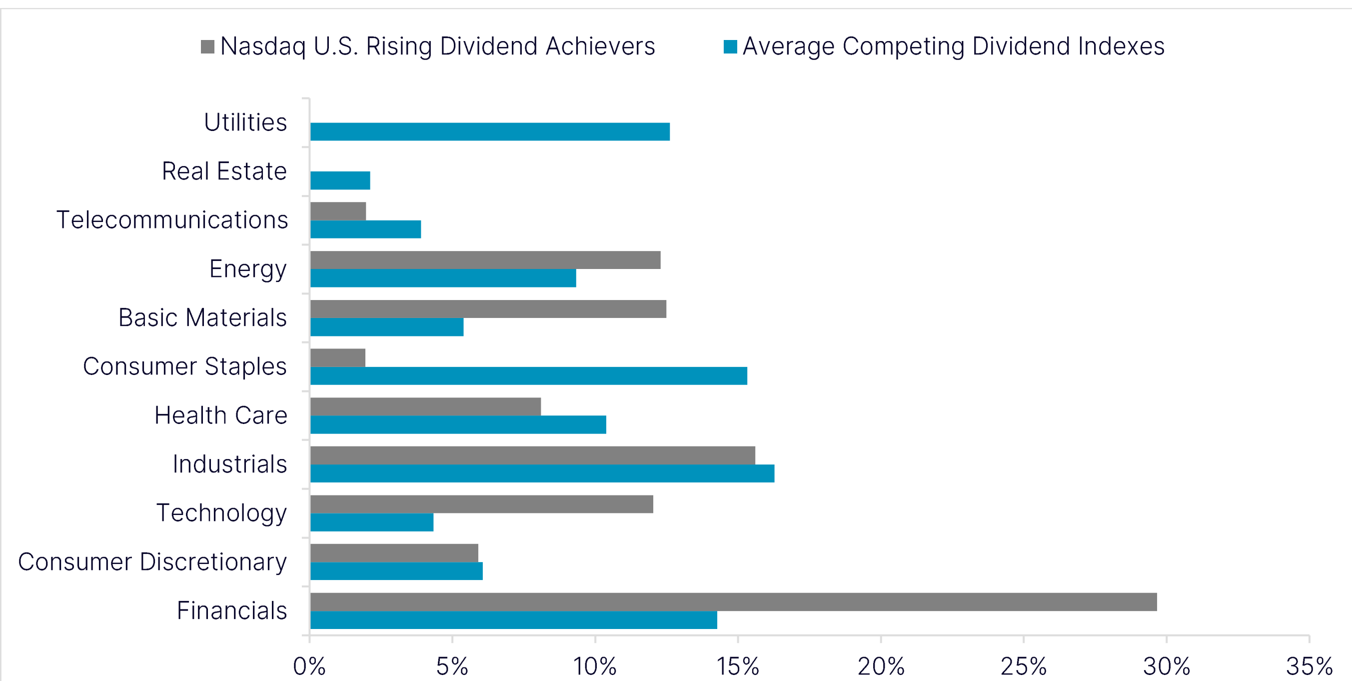
Traditional dividend indexes are prone to industry sector biases when the index construction is based on dividend yield alone while dividend growth is neglected. This results in large allocation to sectors with a history of attractive dividend payments like Utilities, Energy, and Consumer Staples, while underweighting sectors with high dividend growth over recent years like Financials, Consumer Discretionary and Tech. Historically, Utilities names tend to exhibit underperformance during a rising interest rate environment, while the Financials sector tends to outperform the benchmark. While high dividend yield strategies have been attractive during the near-zero interest rate environment of the past decade, holding this stellar performance will become more challenging when interest rates increase as higher bond yields compete with equity plays. Dividend growth strategies that also select financially healthy securities are an attractive alternative to consider in a period of rising rates. The methodology results in an index that is not only diversified, but also positioned to weather a mixture of interest rate environments. Two major industry aspects differentiate the Nasdaq U.S. Rising Dividend Achievers Index from other dividend indexes:

- The Index prevents excessive allocation to high-yield sectors such as Utilities, Telecommunications and Consumer Staples, since providing exposure to these sectors comes at the expense of those with relatively lower dividend yield, but with more rapid dividend growth. More companies in the Consumer Discretionary and Technology space have recently increased their dividend policies, which is why the Index is more tilted towards those industries.

- The Index underweights the Utilities sector furthermore since the industry has historically underperformed in a rising rate environment. Instead, the Index provides the greatest exposure to the Financials sector for two reasons: recent Federal Reserve stress tests have eased dividend restrictions for financial companies and thus opened the door for financial names to ramp up their dividend policies, and Financials stocks historically outperform during periods of rising rates.

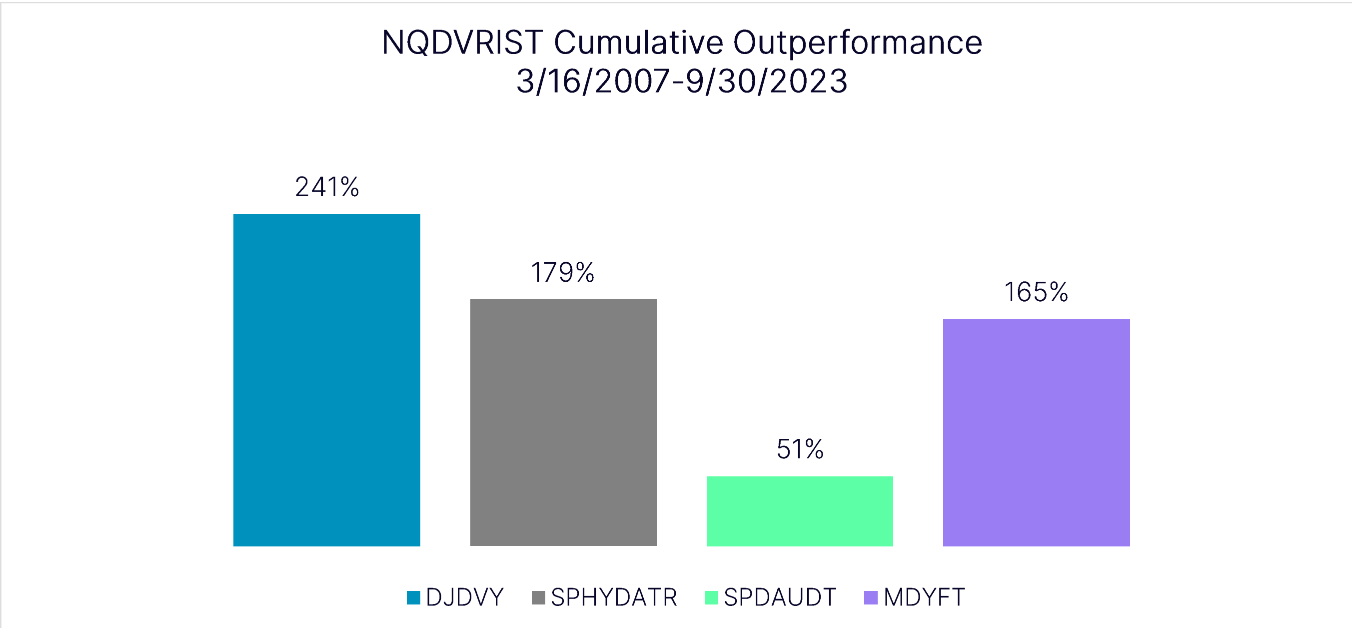
Financials currently hold the largest sector weight in the Nasdaq U.S. Rising Dividend Achievers Index with a 29.66% allocation, followed by Industrials and Basic Materials. See below for the sector differences between the Nasdaq U.S. Rising Dividend Achievers Index, and the other aforementioned indexes as of September 30, 2023:

ICB Industry (%)	Nasdaq U.S. Rising Dividend Achievers Index	Dow Jones Select Dividend Index	Morningstar Dividend Yield Focus Index	S&P High Yield Dividend Aristocrats Index	S&P 500 Dividend Aristocrats Index
Financials	29.66%	24.31%	9.43%	12.36%	10.98%
Consumer Discretionary	5.90%	9.50%	0.60%	6.68%	7.46%
Technology	12.03%	4.55%	5.66%	3.86%	3.28%
Industrials	15.60%	7.56%	4.07%	25.62%	27.86%
Health Care	8.10%	3.22%	19.30%	8.33%	10.69%
Consumer Staples	1.95%	9.27%	14.42%	17.27%	20.34%
Basic Materials	12.49%	5.54%	1.92%	6.59%	7.51%
Energy	12.29%	6.53%	22.87%	4.37%	3.56%
Telecommunications	1.97%	3.60%	12.02%	0.00%	0.00%
Real Estate	0.00%	0.00%	0.00%	4.30%	4.19%
Utilities	0.00%	25.93%	9.70%	10.68%	4.13%

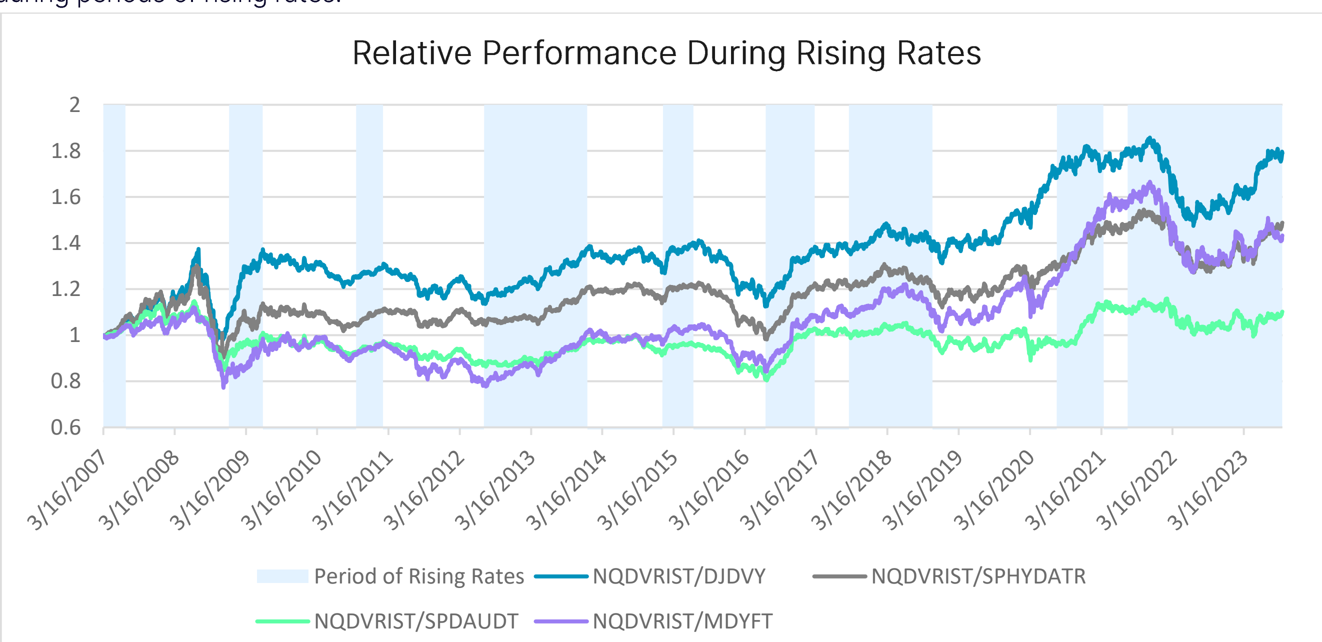


Performance

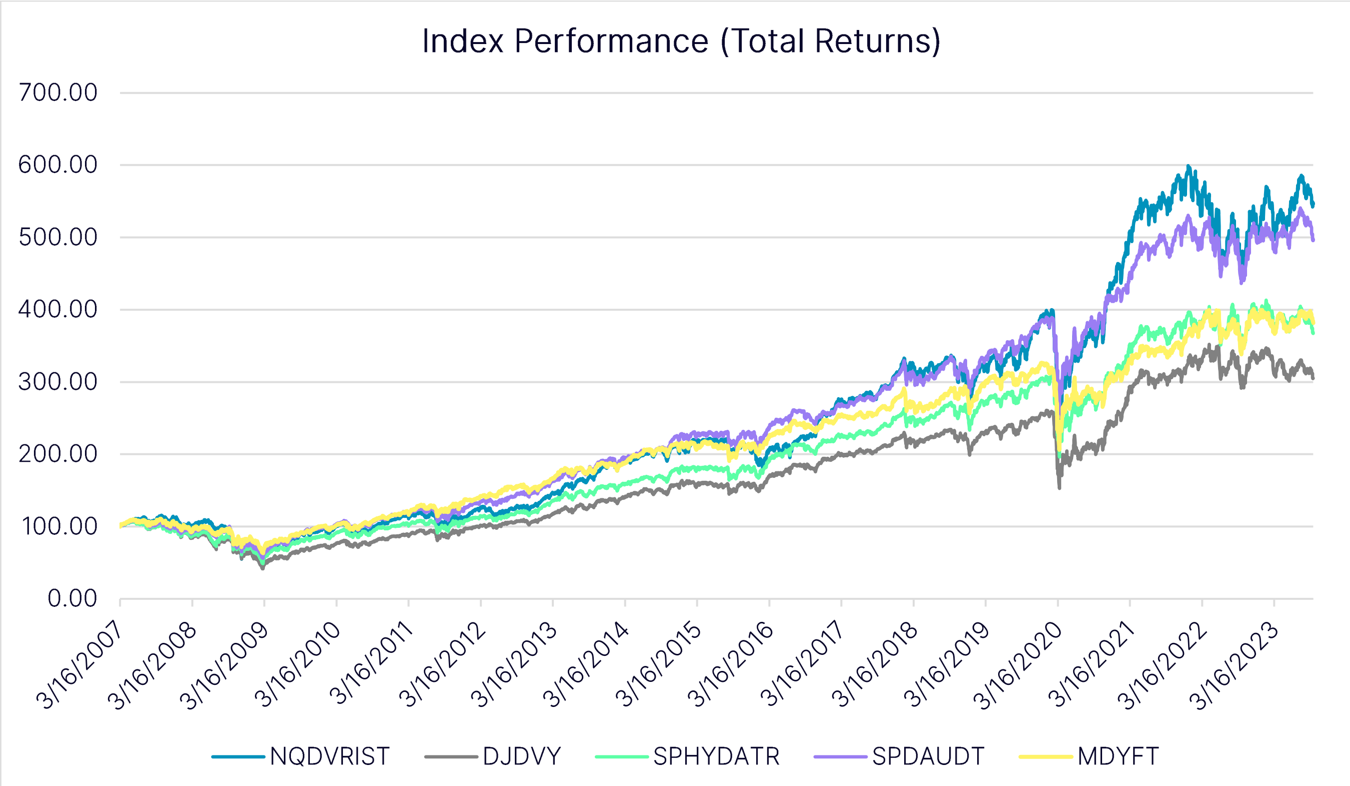
Since the beginning of the back-test on March 16, 2007, to September 30, 2023, the Nasdaq U.S. Rising Dividend Achievers TR™ Index (NQDVRIST™) has outperformed other dividend indexes by a meaningful margin. The only exception is against the S&P 500 Dividend Aristocrats Index. The strong distinction of the Nasdaq Index compared to other dividend indexes like the S&P 500 Dividend Aristocrats Index, which is designed to include companies that have a 25-year consecutive history of raising dividends, is a financial health screen applied to the underling constituents, which are much better positioned to continue raising dividends in the future.



A strong characteristic of the Nasdaq U.S. Rising Dividend Achievers Index is its ability to better adapt to periods of rising interest rates. The chart below highlights periods of higher interest rates along with relative performance of the Nasdaq U.S. Rising Dividend Achievers Index versus the aforementioned dividend indexes. Although the Nasdaq Index generally outperforms regardless of interest rate direction, it really sets itself ahead of the pack during periods of rising rates.



The Nasdaq U.S. Rising Dividend Achievers Index provides an all-weather dividend solution that historically performs well regardless of the direction of interest rates.



Valuation

Given the surge of the Nasdaq U.S. Rising Dividend Achievers Index, especially in recent periods, it may seem that the companies underlying the Index could be overvalued. Yet, the price to earnings ratio and the price to book ratio below reflect an attractive valuation when compared to the competing indexes as of September 30, 2023:

	NQDVRIS	DJDVY	MDYFT	SPHYDATR	SPDAUDT
Price / Earnings	9.65	16.12	14.12	23.59	22.24
Price / Book	1.80	1.70	2.82	2.83	3.42

Although future performance is not predictable, these valuation ratios are a good proxy for sustainable growth, leaving potential upside for the Nasdaq U.S. Rising Dividend Achievers Index to continue its rally.

Conclusion

This research discussed the benefits of the Rising Dividend Achievers framework in market environments of low interest rates and economic uncertainty. The Nasdaq US Rising Dividend Achievers Index offers exposure to high-yield companies with strong financials that are increasing dividend payments to investors consistently and sustainably, providing an all-weather equity income strategy.

The Nasdaq U.S. Rising Dividend Achievers Index is part of the leading Nasdaq Dividend Achievers index family. Products tracking the index include the First Trust Nasdaq Rising Dividend Achievers ETF (Nasdaq: RDVY).

Sources: Nasdaq Global Indexes, Bloomberg, FactSet

Disclaimer: