

Small-Mid Cap Exposure with the Benefit of Rising Dividends

After spending the majority of 2022 in decline, small and mid-cap US equities have struggled to mount a recovery in 2023, unlike the US large cap space which has been driven substantially higher by outperformance in the Nasdaq-100®. With historic performance gaps emerging between the largest companies and the rest of the market, the small-mid cap segments are primed for a snapback and a catch-up in performance, pending continued confirmation of the likelihood of an economic soft landing in the US. In this type of scenario where inflation and interest rates decline, but economic growth remains solid, the combination of an effective dividend strategy with focused exposure to small-mid caps could offer a tactically attractive opportunity. The Nasdaq US Small Mid Cap Rising Dividend Achievers™ Index (NQDVSMR™) is comprised of securities in the small and mid-cap space that are determined by Nasdaq to have increased their dividend value over the previous three year and five-year annual periods, while being best positioned to continue the dividend increases.

Index Eligibility

To be eligible for inclusion in the Nasdaq US Small Mid Cap Rising Dividend Achievers Index, a security must meet the following criteria:

- Be a member of the Nasdaq US Mid Cap™ Index (NQUSM™) or Nasdaq US Small Cap™ Index (NQUSS™);
- A minimum three-month average daily dollar trading volume (ADDTV) of \$2 million;
- A minimum market cap of \$500 million;
- Paid a dividend in the trailing twelve-month period greater than the dividend paid in the trailing twelve-month period three and five years prior;
- Positive earnings per share in the most recent fiscal year greater than the earnings per share three fiscal years prior;
- Cash to debt ratio greater than 25%;
- Trailing twelve-month period payout ratio no greater than 65%; and
- One security per issuer is permitted.

Index Rebalancing

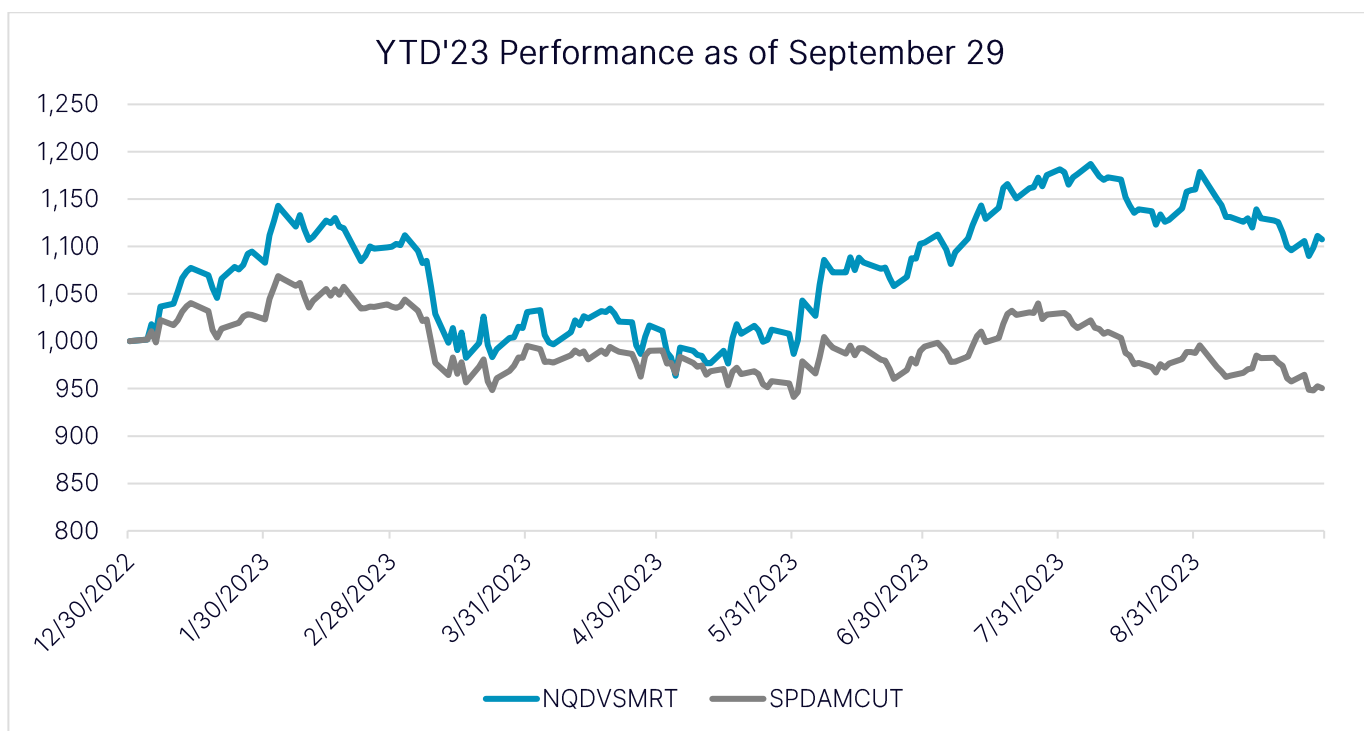
The Nasdaq US Small Mid Cap Rising Dividend Achievers Index employs an equal-dollar weighted methodology. After the top 100 securities are selected, a review is enacted to determine if any ICB Industry has a cumulative weight greater than 30%, and to ensure mid cap (or small cap) exposure does not exceed 75%. If an Industry has a weight greater than 30%, the lowest ranking component within the Industry will be removed and replaced with the next eligible security (e.g. the 101st ranked in the evaluation) from a different Industry. The same process is repeated with mid/small cap if either has a weight greater than 75%. This process is repeated until no Industry has a weight greater than 30% and neither mid/small cap has a weight

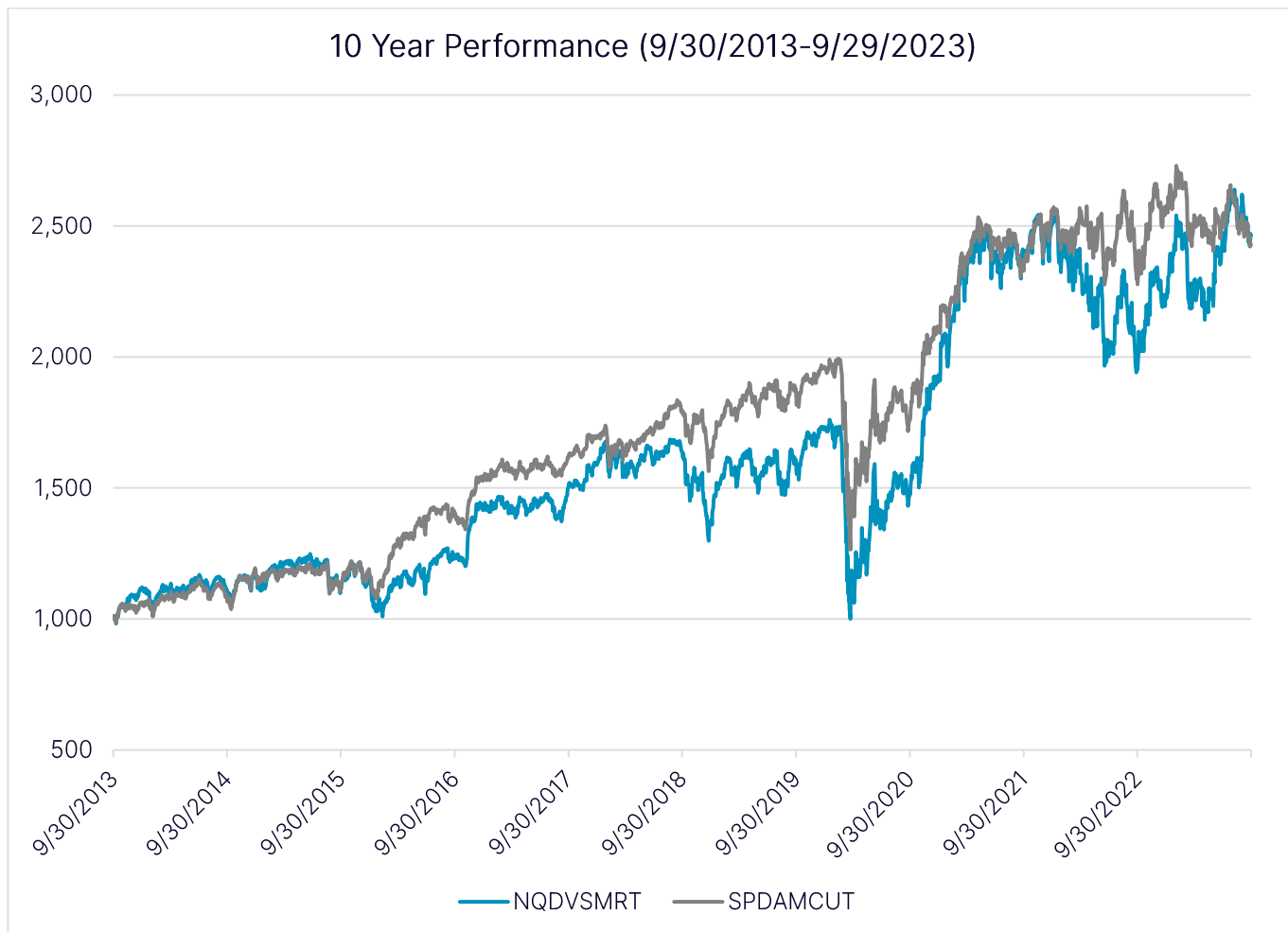
greater than 75%. After the final list of 100 securities (or fewer, if less than 100 are eligible with all criteria and caps are employed) is selected, each security's Index market value is rebalanced quarterly to an equal-dollar value corresponding to an equal percent weight of the Index's aggregate market value. If at any time an Index Security is removed from the Index, it will be replaced at the next Quarterly Rebalance with the next eligible security based on the ranking determined at the previous Evaluation. The security being added to the Index cannot be a member of the ICB Industry which was previously capped unless this security does not push the capped industry to a cumulative weight greater than 30% (e.g., if the removed security was from a capped sector and the next eligible security is from the capped sector, it will get added back in). The same process is repeated with mid/small cap if either has a weight greater than 75%.

Performance Analysis

The below performance table compares the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return Index (NQDVSMRT) against the S&P MidCap 400 Dividend Aristocrats Total Return Index (SPDAMCUT) from March 16, 2007 – September 29, 2023. On a cumulative basis, NQDVSMRT displays slightly better performance than SPDAMCUT with only slightly higher annualized volatility. More recently, NQDVSMRT has had a significantly stronger YTD'23 as Technology & Energy (overweights vs. SPDAMCUT) performed strongly and Utilities (underweight vs. SPDAMCUT) lagged, driving outperformance of more than 15 percentage points vs. SPDAMCUT.

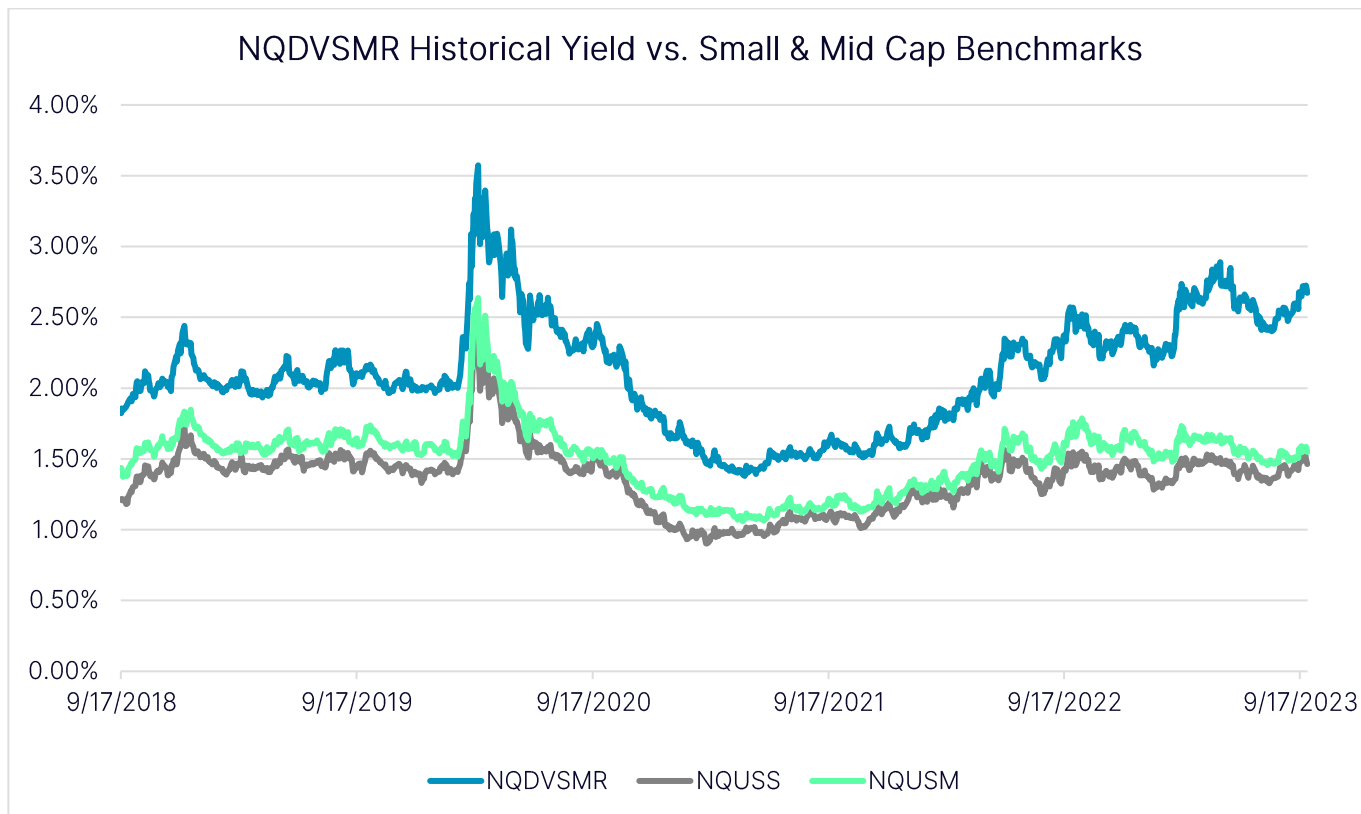
	NQDVSMRT	SPDAMCUT
Cumulative Return (From 3/16/2007)	286%	277%
Annualized Return (From 3/16/2007)	8.5%	8.3%
Annualized Volatility (From 3/16/2007)	27.9%	27.5%
YTD'23 Return	10.7%	-5.0%
10 Year Annualized Return	9.4%	9.3%





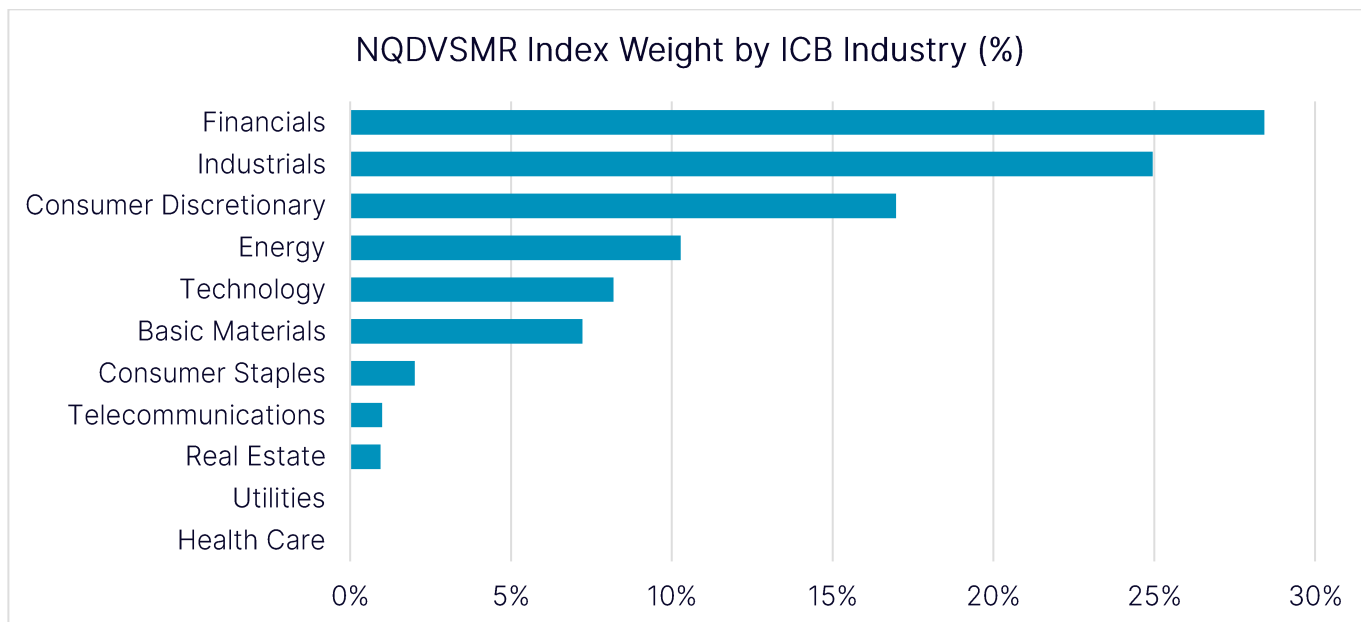
Historical Yield Comparison

During our time frame studied beginning one year after index launch (September 18, 2018 – September 29, 2023), the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return Index has seen a 12-month rolling dividend yield of 2.10% on average, within a range of 1.38% to 3.57%. The peak yield during our study came during March 2020 - not surprisingly, as this happened right at the start of the Covid-19 pandemic. The chart below compares the yield of the Nasdaq US Small Mid Cap Rising Dividend Achievers Index (NQDVSMR) with both the Nasdaq US Mid Cap Index (NQUSM) and Nasdaq US Small Cap Index (NQUSS). Both benchmark yields are consistently lower than NQDVSMR. Over the same time period NQUSS has an average 12-month rolling dividend of 1.37%, while NQUSM averaged a yield of 1.50%. This demonstrates exactly what the index methodology is designed to achieve: stronger and more consistent dividend yield than the broader benchmarks that provide the starting universe.



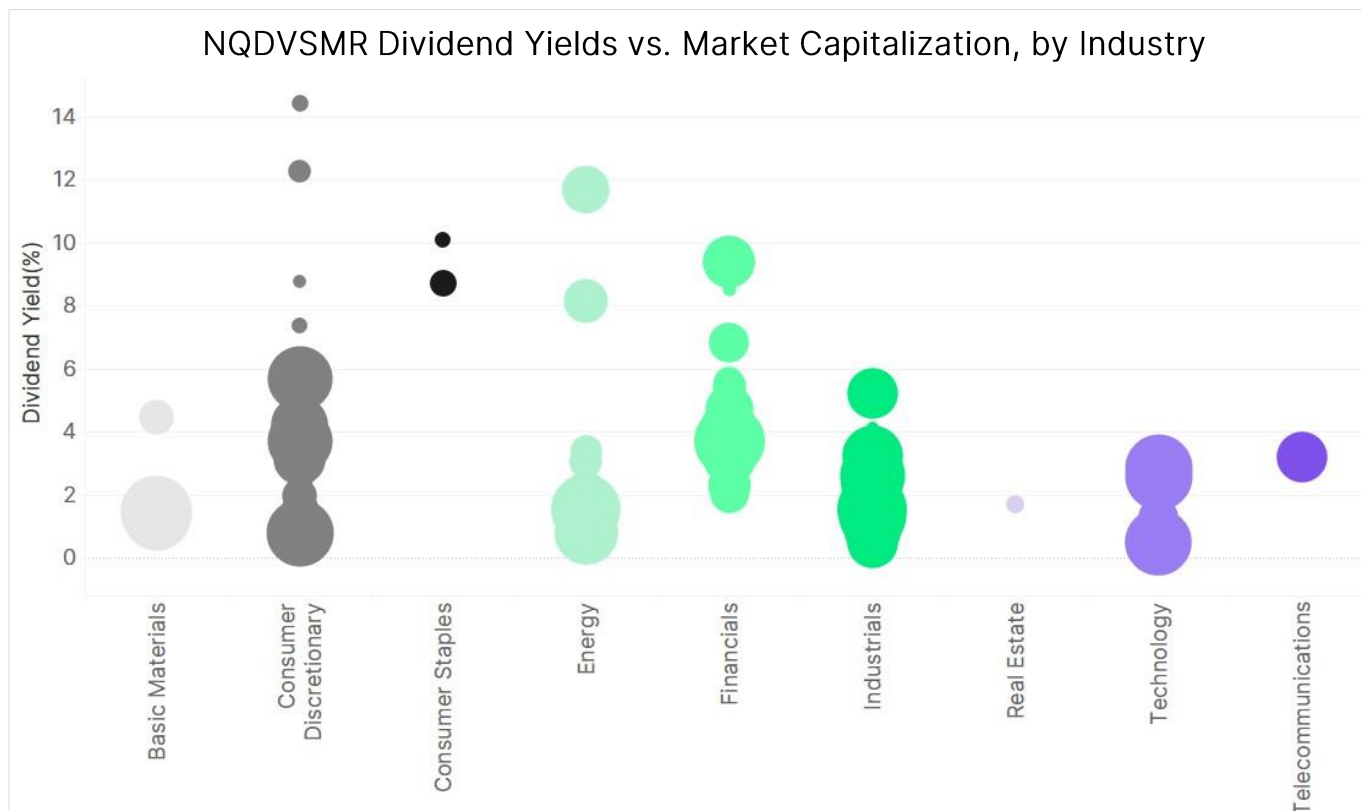
Industry Exposure

To get an idea for how the index is allocated in terms of ICB Industry weights, we've listed the below allocations for the Nasdaq US SMID Cap Rising Dividend Achievers Index as of 9/29/23. The largest industry allocations remain geared towards Financials (28.42%), Industrials (24.96%) and Consumer Discretionary (16.97%). This to be expected in a Small and Mid-Cap Index as regional banks tend to pay high, reliable dividends. The smallest industry allocations remain in Real Estate (0.95%) and Telecommunications (1.00%), with no allocations whatsoever to Health Care or Utilities.

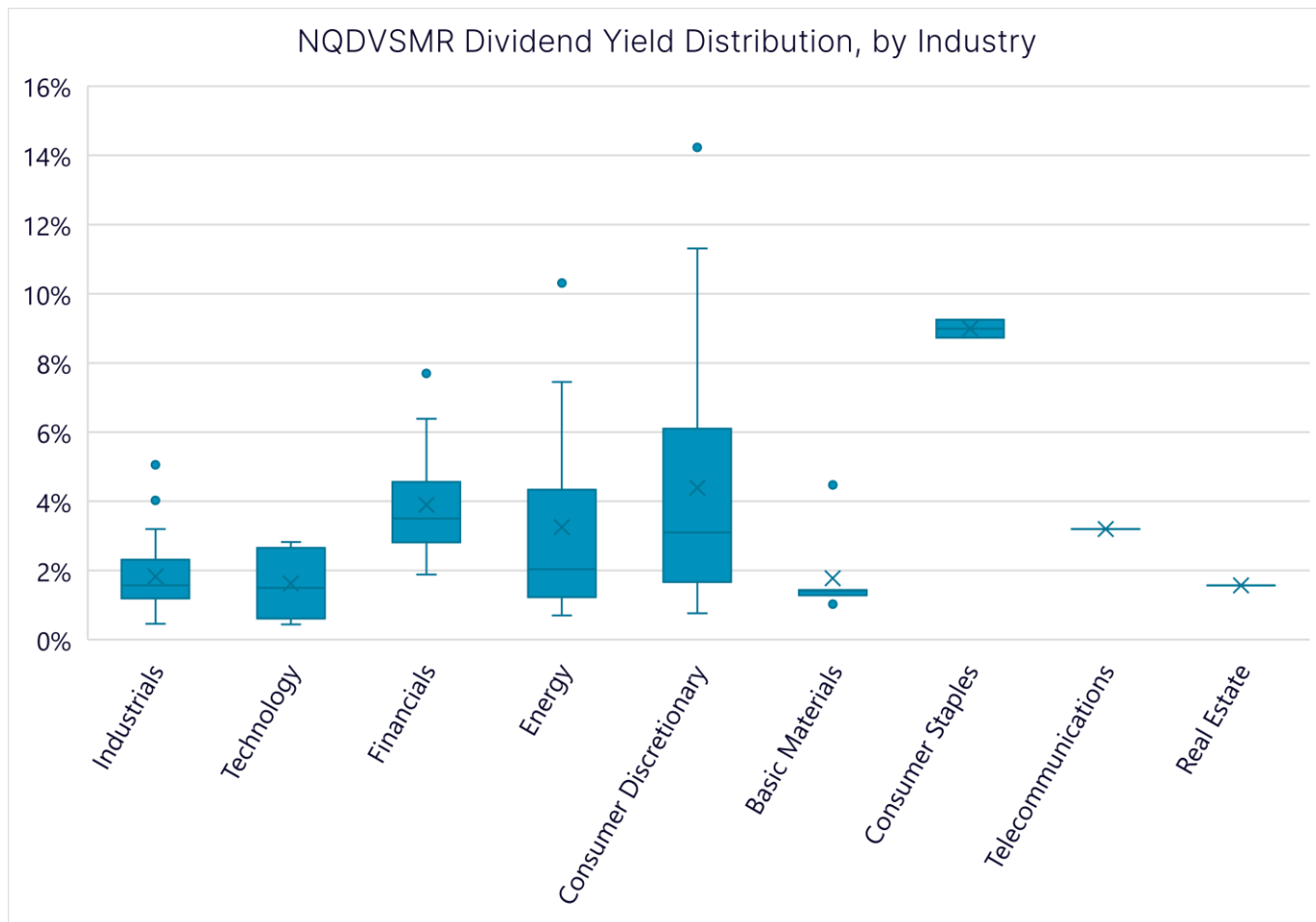


Yield Analysis by Industry

Below is a scatter plot of the index holdings with trailing 12-month dividend yields on the y-axis and the dots sized by their relative market caps, as of 9/29/23. Interestingly the highest yielding firms are all on the smaller side in terms of market cap – which speaks to the importance of equal weighting in a small-mid cap dividend index.



In this next chart, we have again split the yields by ICB Industry, showcasing the yield distribution in a box and whisker plot. It is important to recognize that with only 100 holdings across the index, several of these industries have limited data. The average dividend yield for NQDVSMR is 3.30%, slightly higher than the S&P MidCap 400 Dividend Aristocrats Index which has an average yield of 3.25%. Consumer Discretionary has by far the largest spread and the highest average dividend of 4.39%, even with other industries containing more members. Industrials also had two outliers – Agco Corporation, an agricultural equipment manufacturer and distributor with a 5.05% yield, and Resources Connection, an operational consulting firm with a 4.03% yield.



Conclusion

This research piece gives an in-depth background on the Nasdaq US Small Mid Cap Rising Dividend Achievers Index, including methodology, eligibility requirements, performance, and dividend yield history, along with current industry allocations. Many market participants view small and mid-cap equities as a leading barometer of risk appetite due to their tendency to outperform over the long run, albeit at a slightly higher annualized volatility vs. large caps. With the added benefit of this index being built around sustainably increasing dividends, NQDVSMR is meant to yield a smoother path to capital appreciation with a higher and more consistent yield than the broad US mid and small cap index benchmarks. Market participants looking to gain exposure to the Index can do so through the ETF that tracks it, the First Trust SMID Cap Rising Dividend Achievers ETF (Nasdaq: SDVY).

Sources: Nasdaq Global Index Watch, Bloomberg, Factset

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