A More Frequent Reconstitution for US and International Dividend Buybacks

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Executive Summary

The Nasdaq US Buyback Achievers™ Index (DRB™)[1] and the Nasdaq International Buyback Achievers™ Index (DRBXUSM) have historically operated as independent indexes and have been combined to form the Nasdaq Global Buyback Achievers™ Index (DRBG™) (each an "Index" and collectively the "Indexes"). To better align their methodologies when being combined into DRBG, DRB and DRBXUS have moved from an annual to a semi-annual reconstitution cycle. This allows the integration of more current data into the process. Additionally, both DRB and DRBXUS will now weight their components by their modified free-float market capitalization and all net share reduction data will now be sourced directly from Nasdaq. Taken as a whole, the modifications to the methodology of the Indexes are designed to preserve the power of the share buyback investment thesis while providing for greater consistency across the different geographic implementations.

Investment Strategy Overview

The Indexes share a common approach to buyback investing, differing primarily on the geographic segment for which they provide exposure. Each Index is providing exposure to companies that are reducing their shares outstanding, thereby potentially increasing earnings per share and boosting their return to shareholders. DRB is a US focused index while DRBXUS is focused on global developed markets excluding the US. The constituents of both Indexes are combined to form DRBG, which includes both US and the rest of the developed international market.

Securities that meet minimum market capitalization and average daily value trading thresholds are considered for potential inclusion. Importantly, securities must meet the following criteria:

Net reduction in shares outstanding:

Companies generate cash through the course of operating their businesses. They can use their cash for different purposes. They can pre-pay outstanding debt. They can fund growth initiatives either organically (through re-investment back into projects with positive expected payoffs) or inorganically (through acquisitions). Or they can return the cash to the shareholders. Returning cash can take the form of either cash dividends or through the repurchase of outstanding shares. While there may be different tax implications, it is important to note that cash dividends and stock buybacks are functionally equivalent in terms of impact on pre-tax shareholder wealth. Including share buybacks is an important component of a portfolio strategy focusing on total shareholder return.

Companies may sometimes increase their shares outstanding via a stock issuance as are part of a longer-term employee compensation system. In this case, evaluating only share repurchase activity may not be sufficient as the purchase could be used to offset the increase in shares from the compensation plan. Thus, it is important to focus on *net* share reduction to capture companies that are truly trying to return capital to shareholders.

To be eligible for inclusion in an Index, each security must have had a *net* reduction in shares outstanding of at least 5% over the previous twelve months (as of each reconstitution reference date).

Methodology Changes Effective February 2025

In the previous process, DRB and DRBXUS were reconstituted (meaning potential new securities are evaluated for inclusion) on an annual basis and rebalanced (meaning weights reset) on a quarterly basis. DRB reconstituted at market open on the first trading day of February and its updated components were then included in DRBG. DRBXUS was reconstituted at market open on the first trading day of August and its updated components were then included in DRBG. In the new process, each Index will be reconstituted semi-annually at market open on the first trading days of February and August and rebalanced quarterly (see chart 1). DRBG will (continue to) be reconstituted semi-annually at market open on the first trading days of February and August, now taking in components from the semi-annual (rather than prior annual) reconstitutions for both DRB and DRBXUS and rebalanced quarterly.

A summary of the reconstitution process for the Indexes is detailed in Table 1.

Table 1. Index Eligibility and Selection Process for each Index[2]

Index	DRB	DRBXUS	DRBG
Geographic Focus	United States or beneficial country	Must be in Nasdaq Global Ex-US™ Index (NQGXUS™)	DRB or DRBXUS
Data Source[3]	Nasdaq	Nasdaq	Nasdaq
Reconstitution[4]	Semi-Annual	Semi-Annual	Semi-Annual
Rebalance	Quarterly	Quarterly	Quarterly
Market capitalization for weighting	Modified free-float[5]	Modified free-float	Modified free-float
Min Market Capitalization	NA	>= $250MM (USD)	If in DRB, >=$0.5B (USD)
Min Liquidity (ADTV over 3 months)	>=$0.5M (USD)	>=$1MM (USD)	If in DRB, >=$2.5M (USD)
Net share reduction	>=5%	>=5%	>=5%
Min # Names	NA	35	NA
Security Weight	<=5%	If in top 8, <=5% Else <=2.5%	If in top 8, <=5% Else <=2.5%
Max country weight	100%	30%	60%

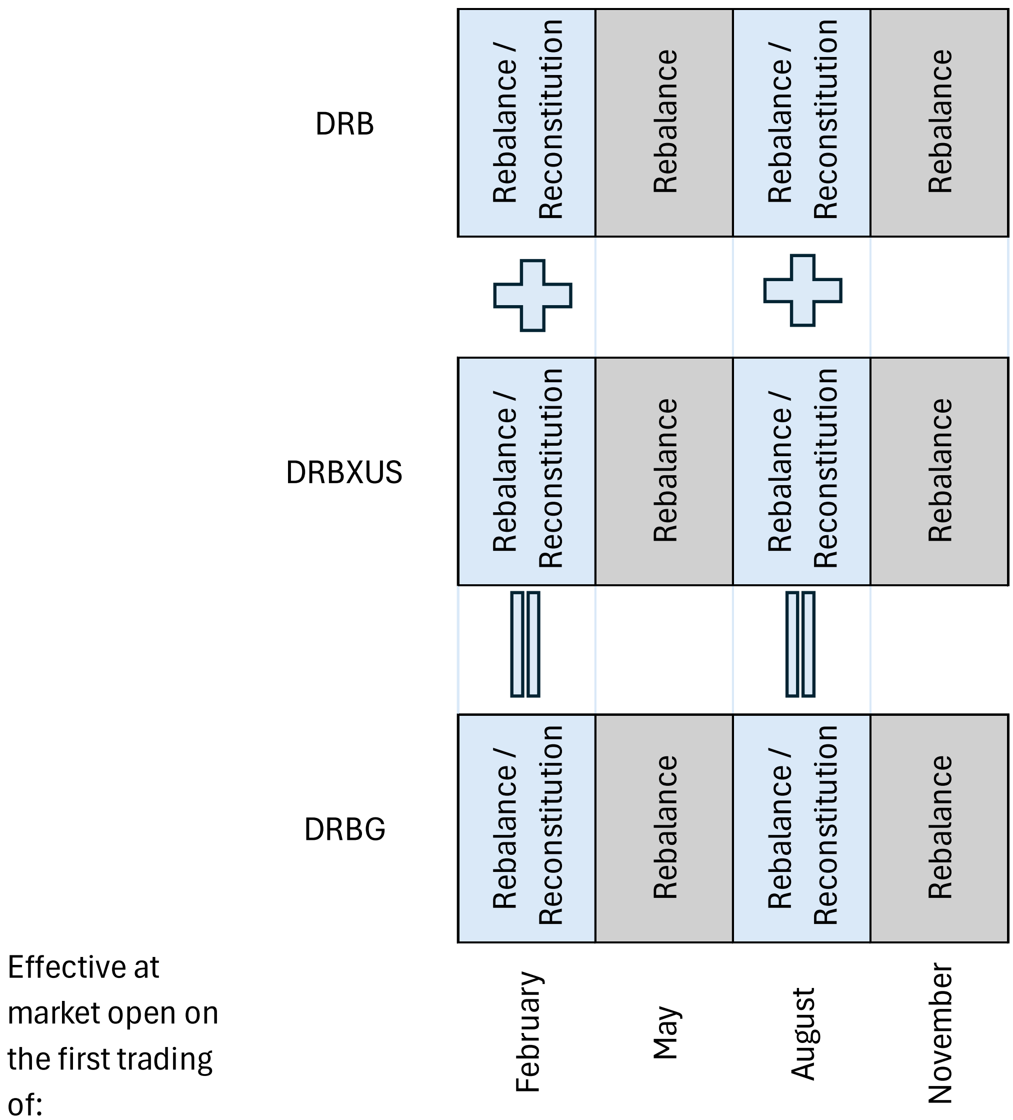
For a complete description of the Index processes, please refer to the methodology documents for DRB, DRBXUS and DRBG.

Index Rebalance Process

The Indexes are reconstituted and rebalanced according to the following schedule:

o Reconstitution: February and August
o Rebalance: February, May, August, and November

Chart 1. Each Index is rebalanced every calendar quarter (February, May, August, November) and also reconstituted in February and August.



Conclusion

The changes to the Indexes' reconstitution and rebalance processes are primarily focused on aligning the the reconstitution schedules of DRB and DRBXUS with DRBG and are designed to leave the strong fundamental investment thesis intact. By moving both DRB and DRBXUS to a semi-annual reconstitution schedule, they can both have their constituent changes reflected in DRBG at the same time. This allows for greater consistency across the Indexes. Moving to a semi-annual reconstitution schedule can expand the capacity of the Indexes with greater liquidity and tradability. Further, it can be argued that selecting securities at one point-in-time each year may create time horizon risk. By selecting securities at two different times of the year with the new process rather than the annual cycle prior to the changes, the Indexes are also diversifying their time horizon risk.

[1] The index ticker is DRBX in Bloomberg.
[2] Please review each index methodology for the full details. Methodology links provided in the document and again here: DRB, DRBXUS and DRBG.
[3] The data source for all security eligibility criteria other than those related to definitive agreements and bankruptcy proceedings changed from Ford Equity Research to Nasdaq.
[4] The previous methodologies for DRB and DRBXUS had annual reconstitutions in February and August, respectively.
[5] The previous methodology for DRB used modified market-capitalization.