

Small-Mid Cap Exposure with the Benefit of Rising Dividends

After spending the majority of 2017 in a tight consolidation, small and mid-cap equities have staged a solid rally since finding a bottom in mid-August. Often looked at as a market leader in terms of “risk-on” sentiment, many market participants were wondering if the small and mid-cap stock indexes would be able to play catch up in terms of performance when compared to other indexes such as the Nasdaq-100, which has been the market leader throughout the majority of the year. [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 mid cap (or small cap) 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.

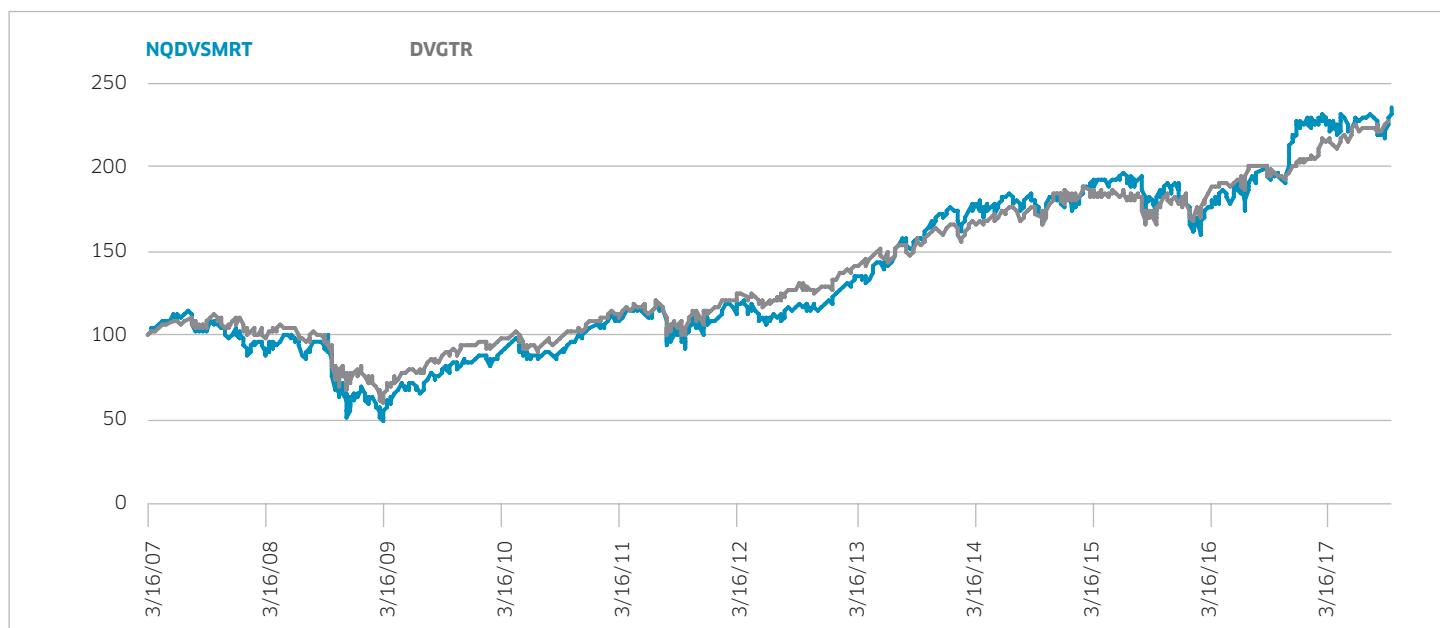
[CHRIS MOYER AND EFRAM SLEN, NASDAQ GLOBAL INFORMATION SERVICES](#)

trading on the same date. 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

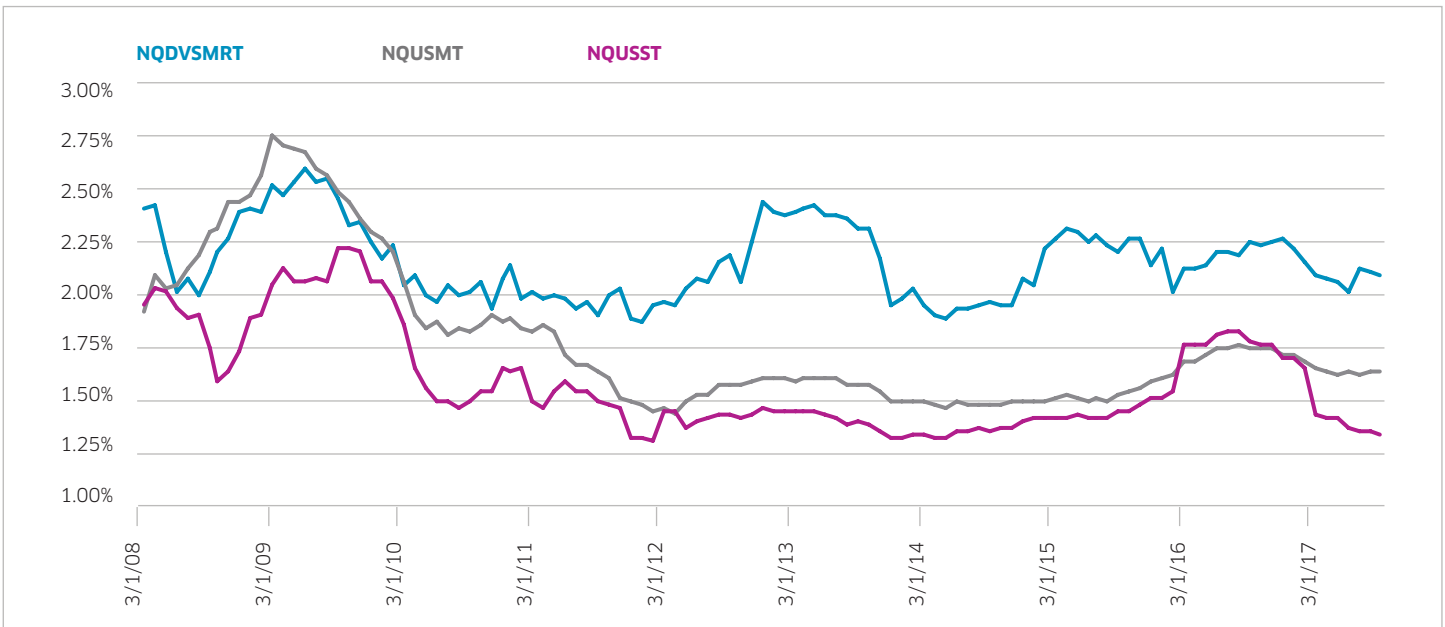
The below performance table compares the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return Index (NQDVSMRT) against the Nasdaq US Dividend Achievers Select Total Return Index (DVGTR) from March 16, 2007 – September 29, 2017. On a cumulative basis NQDVSMRT displays slightly better performance than DVGTR on just slightly higher annualized volatility.

	NQDVSMRT	DVGTR
Cumulative Return	134.86%	128.75%
Annualized Return	8.43%	8.16%
Annualized Volatility	23.03%	17.96%



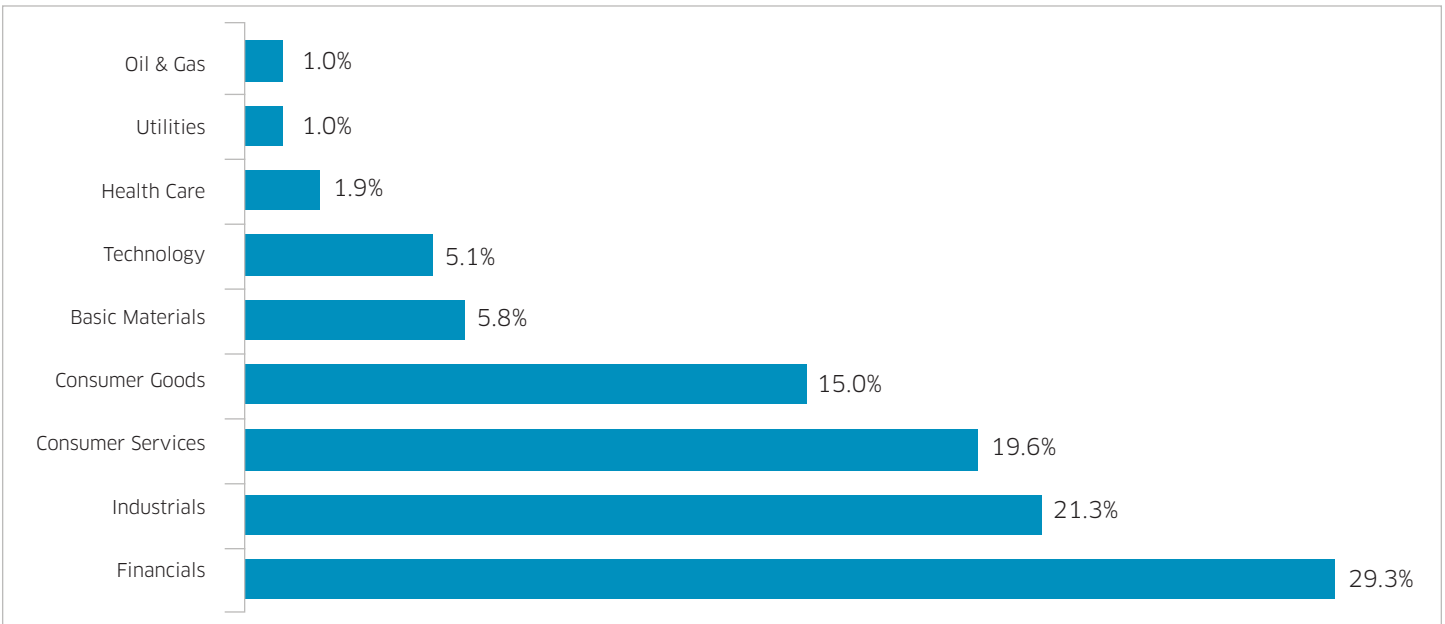
Historical Yield Comparison

During our time frame studied (December 1, 2007 – September 29, 2017) the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return Index has historically seen a 12 month rolling dividend yield which has held between the 2.0% and 2.6% range. The peak yield during our study came during June 2009 at 2.6% not surprisingly as this came right after the market bottom from the financial crisis. The chart below compares the yield of the Nasdaq US Small Mid Cap Rising Dividend Achievers Total Return Index (NQDVSMRT) with both the Nasdaq US Mid Cap Total Return Index (NQUSMT) and Nasdaq US Small Cap Total Return Index (NQUSST). Both benchmark yields are consistently lower than the Rising Dividend Index during the majority of our time frame studied. This demonstrates exactly what the Rising Dividend Index is designed to achieve: stronger and more consistent dividend yield than the broad benchmarks.



Industry Weights

To get an idea for how the index is allocated in terms of ICB weights, we've listed the below allocations for the Nasdaq US SMID Cap Rising Dividend Achievers Index as of 9/29/17. The largest industry allocations remain geared towards Financials (29.3%), Industrials (21.3%) and Consumer Staples (19.6%). The smallest industry allocations remain in Health Care (1.9%), Utilities (1.0%), and Oil & Gas (1.0%).



Top 10 Allocations & Dividend Yields

Below is a table of the top 10 largest allocations along with the respective Dividend Yields for each security. As we might suspect, due to the fact there is 100 components within the Nasdaq US SMID Cap Rising Dividend Achievers Index (and its equal weighted upon each re-balance), the majority of allocations are roughly around the 1% mark. There happen to be a number of Financials within these top 10 weighted holdings, but remember that the cap of 30% per Industry was employed so the index is not tilted to any given industry.

SYMBOL	COMPANY NAME	INDEX WEIGHT	DIV YIELD
GWB	GREAT WESTERN BANCOR	1.09	1.9
KELYA	KELLY SVCS CL A	1.09	1.2
GBX	GREENBRIER CO INC	1.08	1.8
FDS	FACTSET RESEARCH SYS	1.06	1.2
AGX	ARGAN INC	1.06	1.5
UFPI	UNIVERSAL FOREST PRD	1.06	0.9
OZRK	BANK OF THE OZARK	1.06	1.5
CATY	CATHAY GENL BNCP	1.05	2.1
LPLA	LPL FINANCIAL HLD CM	1.05	1.9
SCS	STEELCASE INC	1.05	3.3

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. We also provided a list of the top 10 holdings in terms of Index Weight along with the corresponding dividend yield for each security. 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. With the added benefit of this index being built around sustainably increasing dividends, the index 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 (during the index history).

Market participants looking to gain exposure to the Index can do so through the ETF that tracks the index, the First Trust SMID Cap Rising Dividend Achievers ETF (Nasdaq: SDVY).

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More Information

For more information on the Nasdaq US Small Mid Cap Rising Dividend Achievers Index, please visit business.nasdaq.com/indexes.