Creating a More Investable Approach to Dividend Growth

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Executive Summary

The Nasdaq US Rising Dividend Achievers™ Index (NQDVRIS™) and the Nasdaq US SMID Cap Rising Dividend Achievers™ Index (NQDVSMR℠) (each an "Index" and collectively the "Indexes") have charted a new path forward for investors seeking access to higher-quality, dividend-paying companies that are well positioned to increase their dividends in the future. The robust approach of focusing on dividend-paying companies with growing earnings and dividends, strong balance sheets, and the capacity for further dividend increases, has resulted in strong historical and live performance. An important consideration in any successful investment strategy is capacity, i.e., ensuring that implementing the strategy is feasible for assets at scale. The modifications to the methodology of the Indexes as detailed below are designed to preserve the essence of the successful investment strategy while providing for improved capacity, tradability, and liquidity.

Investment Strategy Overview

The Indexes share a common approach to dividend investing, differing on the market-capitalization segment of the US equity market for which they provide exposure. NQDVRIS is a large-cap focused index, while NQDVSMR focuses on small- and mid-cap securities. Both Indexes utilize a Nasdaq broad-based US benchmark index as the starting universe. Securities that meet minimum market capitalization and average daily value trading thresholds are considered for potential inclusion. Importantly, securities must meet the following criteria:

Increasing dividends:

Securities must have paid a dividend in the last twelve months that exceeds the dividend paid in the twelve-month period three and five years ago. This allows the Indexes to focus on companies that are in the process of increasing their dividends.

Increasing earnings per share:

Securities must also have positive earnings per share in the trailing twelve months that are greater than the earnings per share in the trailing twelve-month period three years prior. This helps ensure that companies are healthy and are growing their earnings to fund future dividends.

Strong cash to debt ratio and low payout ratio:

Securities must meet a minimum cash-to-debt ratio requirement of 50% (large-cap) or 25% (small/mid-cap). They must also have trailing twelve-month payout ratios below 65%. This helps ensure companies have healthy balance sheets with strong cash positions relative to their debt, enabling continued dividend growth in the future. By narrowing in on companies with low payout ratios, the Indexes are looking for companies with the capacity and scope to increase the dividends they can pay.

Securities that meet these criteria are ranked by five-year dollar dividend increases (descending order where higher dollar dividend increases are preferred), current dividend yield (descending order where higher dividend yields are preferred) and payout ratio (ascending order where lower payout ratios are preferred). All three ranks are then summed, and the securities with the top ranks are selected for Index inclusion subject to weighting caps on individual constituents, as well as on sectors. Securities are equal-weighted. The investment strategy has been effective and has not changed in the new methodology. *The changes are focused on the Index reconstitution process.* (For the full list of changes, please visit each respective Index methodology and review the methodology change log in the appendix - NQDVRIS and NQDVSMR).

Methodology Changes Effective March 2025

In the previous process, each Index was reconstituted (meaning potential new securities are evaluated for inclusion) on an annual basis and rebalanced (meaning weights reset to equal) on a quarterly basis. In the new process, each Index will be divided into four sub-portfolios. Each sub-portfolio will be reconstituted and equal-weighted annually on a rolling calendar quarterly cycle (see chart 1). At the March reconstitution each year, the four sub-portfolios will be rebalanced to each have 25% weight. Note that sector weight constraints continue to be enforced and there are additional constraints at the security level (see Table 1). This change will allow for trading to be spread out over four quarterly trading events as opposed to a single annual event, thereby retaining the essence of the investment strategy, while providing for additional liquidity.

Table 1. Index Eligibility and Selection Process is Applied at each Sub-portfolio Reconstitution[1]

Index	NQDVRIS	NQDVSMR
Base Universe	Nasdaq US Benchmark™ Index (NQUSB™)	Nasdaq US Mid Cap™ Index (NQUSM™) and Nasdaq US Small Cap™ Index (NQUSS™)
	Eligibility	
Security Type	Is Common Stock	Is Common Stock
Industry Exclusion	Not Mortgage REIT or REIT	Not Mortgage REIT or REIT
Market Capitalization	Top 750 components of NQUSB by free float market capitalization after removing ineligible security types[2]	Free float market capitalization >= $1B (USD)
Liquidity (Average Daily Value Traded)	>=$5M USD	>=$2M USD
Dividends	Dividend > 0; > 3 years and 5 years ago	Dividend > 0; > 3 years and 5 years ago
EPS	EPS>0 and >3 years ago	EPS>0 and >3 years ago
Cash/Debt	>50%	>25%
Payout Ratio	<=65%	<=65%
Security Weight[3]	New additions must be <3% in total weight across other sub-portfolios	<1.2% in total weight across other sub-portfolios & free float market capitalization < median of all companies in the index
	Selection	
Sum of Ranks by	• Dividend increase from 5 years ago (D) • Current dividend yield (D) • Payout ratio (A)	• Dividend increase from 5 years ago (D) • Current dividend yield (D) • Payout ratio (A)
Maximum # of Securities	50	125[4]
Minimum Count by Market Cap Range	>33 Large Cap[5]	<93 in NQUSM and <93 in NQUSS[6]
Maximum # of Securities per ICB Industry	15	37[7]
Weight	Equal	Equal

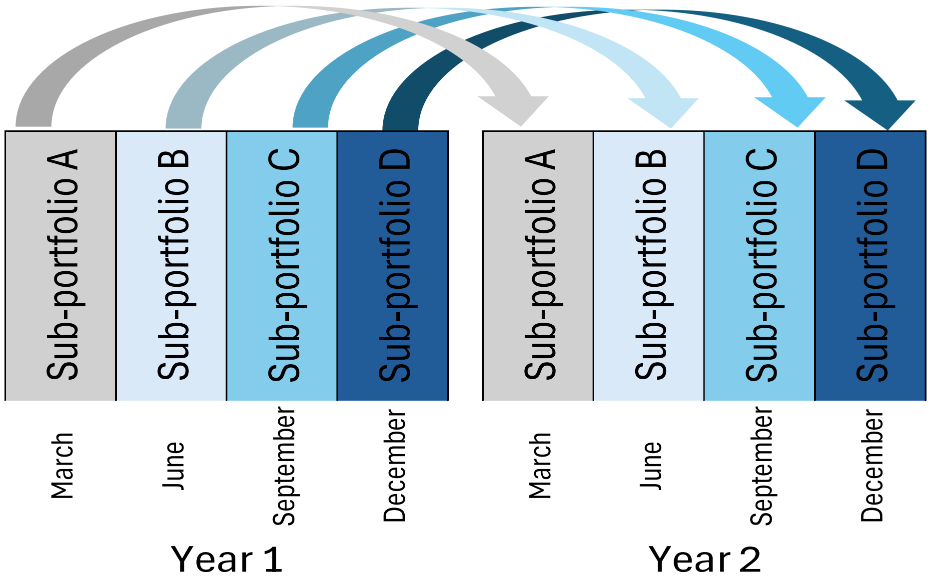
The weights of the reconstituted and rebalanced sub-portfolio securities are combined with the securities of the non-rebalanced sub-portfolios each quarter.
For a complete description of the Index processes, please refer to the methodology documents for NQDVRIS and NQDVSMR.

Index Rebalance Process

The sub-portfolios are reconstituted and rebalanced according to the following schedule:

o Sub-Portfolio A: March
o Sub-Portfolio B: June
o Sub-Portfolio C: September
o Sub-Portfolio D: December

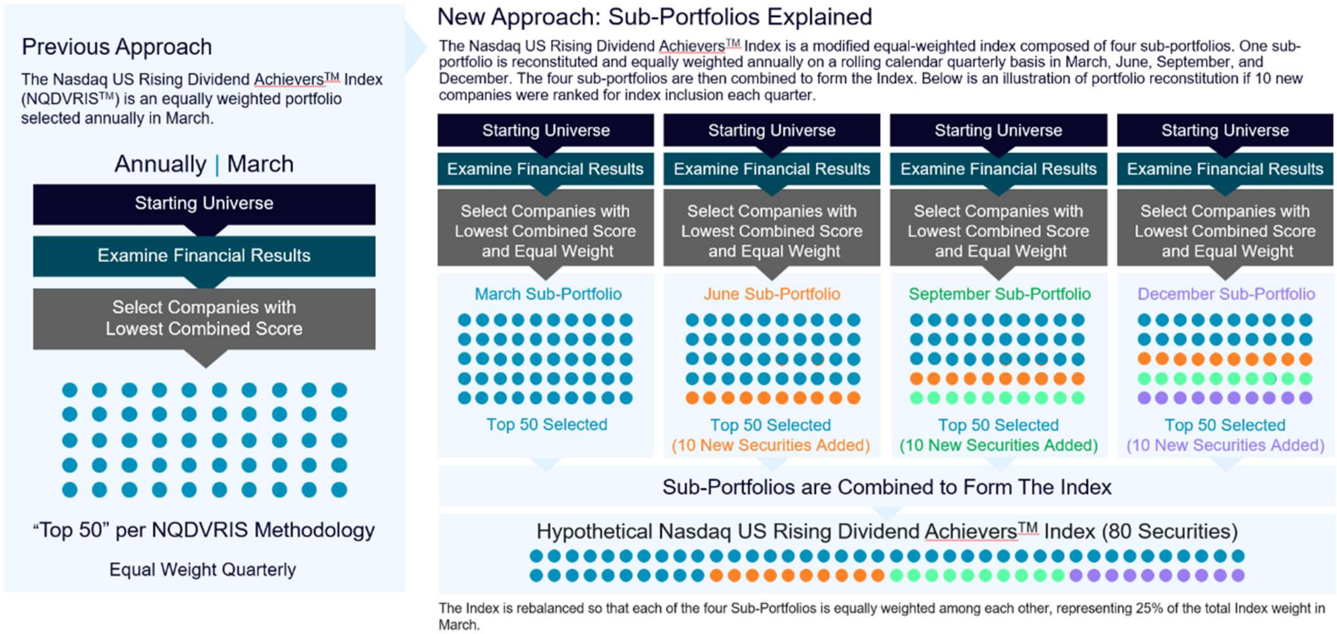
Chart 1. One of the sub-portfolios will be reconstituted and equal-weighted every calendar quarter (March, June, September, December)



Note that the number of securities in the Index can exceed the maximum number in each sub-portfolio due to the likelihood of non-perfect overlap in the securities in the sub-portfolios. Using NQDVRIS as an example, if there are 50 securities in sub-portfolio A and 10 new securities each in sub-portfolios B, C & D that are not represented in sub-portfolio A, there could be 80 securities in the Index (50 from sub-portfolio A, 10 from sub-portfolio B, 10 from sub-portfolio C and 10 from sub-portfolio D). The theoretical maximum number of securities in NQDVRIS is 200 (50 securities per sub portfolio X 4 sub-portfolios) and 500 (125 securities per sub portfolio X 4 sub-portfolios) in NQDVSMR, assuming fundamental metrics change drastically enough over the course of four consecutive quarters to reset the security rankings entirely (extremely unlikely). Conversely, the theoretical minimum for both Indexes is 50/125, respectively, assuming no changes at all in the fundamental metrics and in their rankings over the course of four consecutive quarters (also highly unlikely).

Below is a summarized visual example of the previous vs new approach for NQDVRIS.

NASDAQ US RISING DIVIDEND ACHIEVERS™ INDEX



For this hypothetical scenario for NQDVRIS (assuming each sub-portfolio is set at 25% and there are no price movements throughout the year to change the weights), the weights in the Index would be calculated as follows. The weight for each security is 2% at the sub-portfolio level (equal weight given to 50 securities in each sub-portfolio) and 0.50% at the index level (dividing 2% by four to account for the number of sub-portfolios).

- If the security is selected in all four sub-portfolios, its weight in the Index will be 2% (4*0.50%).
- If the security is selected in three sub-portfolios, its weight in the Index will be 1.50% (3*0.50%).
- If the security is selected in two sub-portfolios, its weight in the Index will be 1.00% (2*0.50%).
- If the security is selected in one sub-portfolio, its weight in the Index will be 0.50% (1*0.50%).

Conclusion

While the changes to the index reconstitution and rebalance process are meaningful, they are designed to leave the strong fundamental investment thesis intact. By employing the same process at the sub-portfolio level that had previously been employed at the Index level, there is continuity in the investment process while at the same time expanding the capacity of the index with greater liquidity and tradability. It can be argued that selecting securities at one point-in-time each year may create time horizon risk. By selecting securities at four different times of the year with the new sub-portfolio process, rather than the one time of year prior to the changes, the index is diversifying its time horizon risk.

Disclaimer:

[1] Please review each index methodology for the full details. Methodology links provided in the document and again here: NQDVRIS and NQDVSMR.
[2] The previous methodology took the top 1000 NQUSB components by market capitalization.
[3] The previous methodology was equal weight at the index level, so no maximum weight constraint was applied at each reconstitution.
[4] The previous methodology had a maximum number of securities set to 100.
[5] The previous methodology did not have a minimum size segment constraint.
[6] The previous methodology had a maximum number of securities in each size segment set to 75.
[7] The previous methodology had a maximum number of securities in each sector set to 30; however, since the maximum number of securities in each sub-portfolio increased from 100 to 125, the maximum sector weight is unchanged.