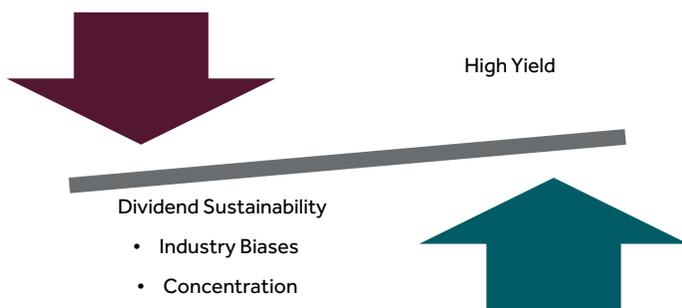


## FTSE Sustainable Yield 150 Capped 10% Indexes

### Introduction

Dividend yield indexes seek to capture securities that exhibit higher than average dividend yields, but not all are created equal. Some yield indexes include constituents without consideration as to whether or not the forecast dividend is likely to persist over time, or can become excessively concentrated in given regions, industry sectors or individual securities. FTSE Russell takes a new approach to address these potential drawbacks.



### Building a superior income oriented index

The FTSE Sustainable Yield 150 Capped 10% Indexes consider the financial and operating strength of prospective constituents to identify those that are most likely to pay high and sustainable yields. In order to achieve this, the index methodology seeks to identify companies with high financial and operating strengths.

### Key Features

- A family of indexes designed to capture constituents delivering relatively high and sustainable dividend yield
- The methodology applies criteria to address potential drawbacks of traditional high yield indexes
- Constituents are ranked by Piotroski scores and the top 150 are selected for inclusion, resulting in an index of high quality equities.
- Constituents are weighted by float adjusted market cap, ensuring liquidity and capacity
- The indexes are reviewed semi-annually in March and September

## Step 1 – Stock Selection Process

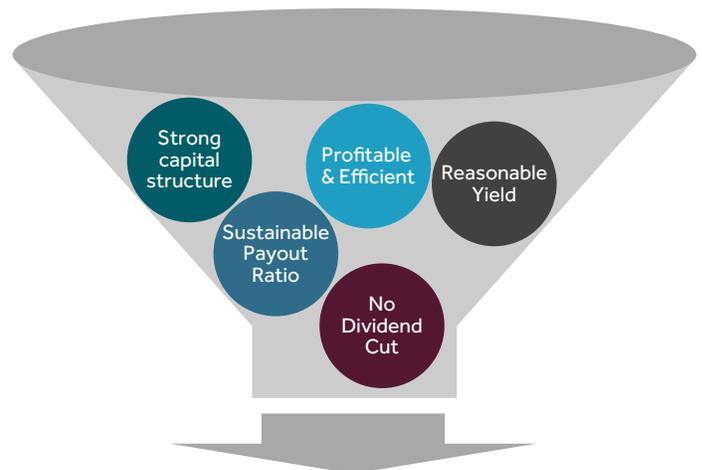
- 1) **Locate Reasonable Yield:** Stocks need to yield more than the relevant parent country index to be eligible for inclusion. However, very high yielding stocks are more likely to experience dividend cuts and therefore stocks are excluded if their 12-month forward dividend yield (in excess of the relevant industry average) is  $\geq 99^{\text{th}}$  percentile.
- 2) **Exclude Dividend Cutters:** Historically, data shows that stocks with a historic dividend cut are more likely to cut their dividends again. Further, a forecast cut is typically realized. Stocks which have, or are forecast to, cut their dividends are excluded.
- 3) **Calculate Sustainable Payout Ratio:** Historically, data shows that very high payout ratios signal an increased likelihood of subsequent dividend cuts. Stocks with payout ratio  $\geq 70\%$  OR  $\geq$  the relevant industry average + 30% are excluded.
- 4) **Measure Financial and Operating Strength:** Stocks are scored based on 9 profitability, capital structure (i.e. leverage) and operating efficiency metrics. For each metric, a stock is assigned a 0/1 score based on "Value Investing: The Use of Historical Financial Statement Analysis to Separate Winners from Losers", Piotroski, *Journal of Accounting Research*, 2000. Companies with a score < 4 are excluded.

## Step 2 – Ranking & Selection

Securities which pass all criteria form the eligible universe. Eligible securities are ranked based on their financial and operational strength scores, and the top 150 securities are selected. In the event of a tie, the stock with the highest 12 month forward dividend yield is selected until the index contains 150 constituents.

## Step 3 – Mitigating Over-Concentration

To avoid excessive concentration in individual securities, the FTSE Sustainable Yield 150 Capped 10% Indexes cap individual constituents at 10% of the total index market capitalization. Additionally, industry-specific financial and operating strength metrics are applied to avoid industry sector biases.



A basket of securities exhibiting relatively high and sustainable dividend yields

## Conclusion

The FTSE Sustainable Yield 150 10% Capped indexes represent an evolution of dividend yield oriented methodologies. The indexes were developed to emphasize inclusion of constituents that are likely to provide a sustainable dividend payment stream, avoiding high-yielding companies whose ability to maintain strong dividend pay outs is volatile or questionable – commonly known as the 'yield trap'. By employing industry specific financial and operating strength scores and applying 10% capping at the constituent level, the methodology seeks to avoid concentration in specific industry sectors or individual constituents, while maintaining an accurate market representation, investibility and ease of replication.

The resulting indexes consist of securities exhibiting both relatively high and sustainable yields.

**For more information about our indexes, please visit [ftserussell.com](http://ftserussell.com).**

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