

# **WISDOMTREE RULES-BASED METHODOLOGY**

WisdomTree Canada Quality Dividend Growth Index

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## WISDOMTREE RULES-BASED METHODOLOGY

### 1. Overview and Description of Methodology Guide for Canada Quality Dividend Growth Index

WisdomTree Investments, Inc. (“WTI”) created the WisdomTree Canada Quality Dividend Growth Index [referred to as “the Index”].

- The Canada Quality Dividend Growth Index measures the performance of dividend-paying Canadian companies with growth characteristics.

The Index is reconstituted quarterly (following the close of trading on the second Friday in March, June, September and December), at which time each component’s weight is adjusted to reflect its weighting in the Index. The Index is calculated to capture price appreciation and total return, which assumes dividends are reinvested into the Index. The Index is calculated using primary market prices.

### 2. Key Features

#### 2.1. Membership Criteria

To be eligible for inclusion in the Canada Quality Dividend Growth Index, component companies must be under coverage by the market management team of the third party independent index calculation agent, must be incorporated and have their shares listed on a major stock exchange in Canada, have paid at least US\$5 million in gross cash dividends on shares of their common stock in the annual cycle prior to the “Screening Date”, which takes place after the close of trading on the last trading day in February, May, August and November, and a dividend coverage ratio greater than 1. Companies need to have a market capitalization of at least US\$ 200 million by the Screening Date and shares of such companies need to have had an average daily dollar volume of at least US\$ 200,000 for three months preceding the Screening Date. Shares of such component securities need to have traded at least 250,000 shares per month for each of the three months preceding the Screening Date.

Common stocks, REITs, tracking stocks, and holding companies are eligible for inclusion. ADRs, GDRs and EDRs are excluded, as are limited partnerships, limited liability companies, royalty trusts, Business Development Companies (BDCs), and companies that are not incorporated in Canada. Preferred stocks, closed-end funds, exchange-traded funds, and derivative securities such as warrants and rights are not eligible.<sup>1</sup>

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<sup>1</sup> Mortgage REITs are not eligible for inclusion in the Index.

## 2.2. Base Date and Base Value

The WisdomTree Canada Quality Dividend Growth Index will be set with a base value of 200 on August 18, 2017.

## 2.3. Calculation and Dissemination

The following formula is used to calculate the index levels for the Canada Index:

$$\frac{\sum i \{S_i P_i\}}{D}$$

$S_i$  = Number of shares in the index for security  $i$ .

$P_i$  = Price of security  $i$

$D$  = Divisor

Quantitative screens are applied in USD for the purpose of determining the index constituents and then the value of each index constituent is converted to CAD based on market exchange rates determined by the Index calculation agent.

The Index is calculated whenever the Canada stock exchanges are open for trading. If trading is suspended while the exchange is still open, the last traded price for that stock is used for all subsequent Index computations until trading resumes. If trading is suspended before the opening, the stock's adjusted closing price from the previous day is used to calculate the Index. Until a particular stock opens, its adjusted closing price from the previous day is used in the Index computation. Index values are calculated on both a price and total-return basis, in Canadian dollars and disseminated on an end-of-day basis.

## 2.4 Weighting

Companies that pass the initial eligibility criteria, are then ranked and selected based on the below criteria in the following order:

- Market Capitalization – top 100 companies by share class market capitalization are selected for inclusion. Only one share class will be selected for inclusion.
- Growth and Quality Rank – the remaining companies are ranked based on the below three factors
  - Estimated Earnings Growth Rank (50%)
  - 3-Year Return on Equity (25%)
  - 3-Year Return on Assets (25%)

- Select 50 companies with the highest combined growth and quality rank

The remaining 50 companies are weighted by their cash dividend factor. The cash dividend factor is determined by multiplying the US dollar value of the company's annual gross dividend per share by the number of common shares outstanding for that company. The Cash Dividend Factor is calculated for every component in the Index and then summed. Each component's weight, at the Weighting Date, is equal to its Cash Dividend Factor divided by the sum of all Cash Dividend Factors for all the components in that Index. The dividend stream will be adjusted for constituents with dividend yields greater than 12% at the screening date. The dividend stream of these capped securities will be their market cap multiplied by 12%. The Weighting Date is when component weights are set and it occurs on Monday following the first Friday of the rebalance month. New components and component weights take effect before the opening of trading on Monday following the second Friday of March, June, September and December the "Reconstitution Date."

Should any company achieve a weighting equal to or greater than 24.0% of the Index, its weighting will be reduced to 20.0% at the close of the current calendar quarter, and the weights of all other components in the Index will be rebalanced proportionally. Moreover, should the "collective weight" of Index component securities whose individual current weights equal or exceed 5.0% of the Index, when added together, equal or exceed 50.0% of the Index, the weightings in those component securities will be reduced so that their collective weight equals 40.0% of the Index at the close of the current calendar quarter, and other components in the Index will be rebalanced proportionally to reflect their relative weights before the adjustment. Further iterations of these adjustments may occur until no company or group of companies violates these rules.

The following capping rules are applied in this order:

- The maximum weight of any individual security is capped at 5% on the quarterly rebalance prior to the introduction of sector caps and the weights of all other components will be adjusted proportionally.
- Should any sector achieve a weight equal to or greater than 33.3% of the Index, weight of companies will be proportionally reduced to 33.3% as of the quarterly Screening Date.

The weights may fluctuate above the specified caps during the year, but will be reset at each rebalance date.

Note: all sector cappings are conducted based on the old GICS sector classifications, i.e. real estate and financials are aggregated into one sector.

The following liquidity adjustment factors will be applied to the Index after top holding and sector caps have been applied:

A further volume screen requires that a calculated volume factor (the average daily dollar volume for three months preceding the Screening Date / weight of security in each index) shall be greater than US\$ 200 million to be eligible for each index. If a security's volume factor falls below US\$ 200 million at the screening, but is currently in the Index, it will remain in the Index. The securities' weight will be adjusted downwards by an adjustment factor equal to its volume factor divided by US\$ 400 million.

In the event a security has a calculated volume factor (average daily volume traded over the preceding three months / weight in the index) that is less than US\$ 400 million, its weight will be reduced such that weight after volume adjustment = weight before adjustment x calculated volume factor / US\$ 400 million. The implementation of the volume factor may cause an increase in the holding, sector and country weights above the specified caps.

## 2.5 Dividend Treatment

Normal dividend payments are not taken into account in the price Index, whereas they are reinvested and accounted for in the total return Index. However, special dividends that are not reinvested in the total return index require index divisor adjustments to prevent the distribution from distorting the price index.

## 2.6 Multiple Share Classes

In the event a component company issues multiple classes of shares of common stock, the share class with higher liquidity will be selected for inclusion. Conversion of a share class into another share class results in the deletion of the share class being phased out and an increase in shares of the surviving share class, provided that the surviving share class is in the Index.

## 3. Index Maintenance

Index Maintenance includes monitoring and implementing the adjustments for company deletions, stock splits, stock dividends, spins-offs, or other corporate actions. Some corporate actions, such as stock splits, stock dividends, and rights offerings require changes in the index shares and the stock prices of the component companies in the Index. Some corporate actions, such as stock issuances, stock buybacks, warrant issuances,

increases or decreases in dividend per share between reconstitutions, do not require changes in the index shares or the stock prices of the component companies in the Index. Other corporate actions may require Index divisor adjustments. Any corporate action, whether it requires divisor adjustments or not, will be implemented after the close of trading on the day prior to the ex-date of such corporate action. Whenever possible, changes to the Index's components, such as deletions as a result of corporate actions, will be announced at least two business days prior to their implementation date.

### 3.1. Component Changes

- Additions

Additions to the Canada Quality Dividend Growth Index are made at the reconstitution according to the inclusion criteria defined above. Changes are implemented before the opening of trading on the first Monday following the close of trading on the second Friday in March, June, September and December. No additions are made to the Index between reconstitutions.

- Deletions

Shares of companies that are de-listed or acquired by a company outside of the Index are deleted from the Index and the weights of the remaining components are adjusted proportionately to reflect the change in composition of the Index. A component company that cancels its dividend payment is deleted from the Index and the weights of the remaining components are adjusted proportionately to reflect the change in the composition of the Index. A component company that files for bankruptcy is deleted from the Index and the weights of the remaining components are adjusted proportionately to reflect the change in the composition of the Index. If a component company is acquired by another company in the Index for stock, the acquiring company's shares and weight in the Index are adjusted to reflect the transaction after the close of trading on the day prior to the execution date.<sup>2</sup> A component company that re-incorporates outside of Canada is deleted from the Index and the weights of the remaining components are adjusted proportionately to reflect the change in the composition of the Index. Component companies that reclassify their shares (i.e. that convert multiple share classes into a single share class) remain in the Index, although index shares are adjusted to reflect the reclassification.

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<sup>2</sup> Companies being acquired will be deleted from the Index immediately before the effective date of the acquisition or upon notice of a suspension of trading in the stock of the company that is being acquired. In cases where an effective date is not publicly announced in advance, or where a notice of suspension of trading in connection with an acquisition is not announced in advance, WisdomTree reserves the right to delete the company being acquired based on best available market information.

### 3.2. Spin-Offs and IPOs

Should a company be spun-off from an existing component company and pay a regular cash dividend, it is not allowed into the Index until the next reconstitution, provided it meets all other Index inclusion requirements. Spin-off shares of publicly traded companies that are included in the same indexes as their parent company are increased to reflect the spin-off and the weights of the remaining components are adjusted proportionately to reflect the change in the composition of the Index. Companies that go public in an Initial Public Offering (IPO) and that pay a regular cash dividend and that meet all other inclusion requirements must wait until the next reconstitution to be included in the Index.

### 4. Index Divisor Adjustments

Changes in the Index's market capitalization due to changes in composition, weighting or corporate actions result in a divisor change to maintain the Index's continuity. By adjusting the divisor, the Index value retains its continuity before and after the event. Corporate actions that require divisor adjustments will be implemented prior to the opening of trading on the effective date. In certain instances where information is incomplete, or the completion of an event is announced too late to be implemented prior to the ex-date, the implementation will occur as of the close of the following day or as soon as practicable thereafter. For corporate actions not described herein, or combinations of different types of corporate events and other exceptional cases, WisdomTree reserves the right to determine the appropriate implementation method.

Companies that are acquired, de-listed, file for bankruptcy, re-incorporate outside of a defined domicile or that cancel their dividends in the intervening weeks between the Screening Date and the reconstitution date are not included in the Index, and the weights of the remaining components are adjusted accordingly.

### 5. Selection Parameters

5.1. Selection parameters for the **WisdomTree Canada Quality Dividend Growth Index** are defined in 2.1. Companies that pass this selection criteria as of the Screening Date are included in the Index. The component companies are assigned weights in the Index as defined in section 2.4. and quarterly reconstitution of the Index takes effect as defined in section 3.1.