

March 2022



**[POLICY ON INDEX
MANAGEMENT: PSE
DIVIDEND YIELD INDEX]**

SECTION 1 - Introduction

1.1. General Policies

- 1.1.1.** This document sets out the policy of the Philippine Stock Exchange, Inc. (PSE or Exchange) for the management of the PSE Dividend Yield (PSE DivY) Index.
- 1.1.2.** The PSE DivY Index, as part of the PSE Index Series, was created to provide investors and market participants a set of benchmarks that measures the performance of Philippine stock market and its specific industry segments.
- 1.1.3.** Any change or revision in the policies contained herein shall be duly announced to the public for the information and guidance of all concerned.

1.2. The PSE DivY Index

The PSE DivY Index is composed of a fixed basket of 20 companies, whose selection is based on a specific set of criteria. The PSE DivY Index calculates the performance of the top companies in terms of three-year average dividend yield. The base level of the PSE DivY Index was set on December 30, 2010 at 1,000.00 points.

1.3. Index Calculation Mode

- 1.3.1.** The PSE DivY Index is calculated and broadcasted through the PSE *trade* XTS.
- 1.3.2.** The index levels calculated are displayed on all the computer terminals linked to the PSE *trade* XTS and are broadcasted to members and data vendors. In addition, the indices may be monitored through radio, television, the PSE website and other websites that provide reports on the performance of the stock market.
- 1.3.3.** The PSE DivY Index is calculated in Philippine Pesos (Php) and is broadcasted on a continuous mode where index levels are broadcasted periodically at a frequency that can be configured for each index. (Please see 5.2. Calculation Frequency for details)

SECTION 2 - Index Construction

2.1. Eligible Securities

2.1.1. Section 2.1 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

2.1.2. REITs listed in the main board of the PSE for at least 6 months during the review period are eligible for inclusion in the PSE DivY Index, subject to complying with the requirements for free float and liquidity.

2.2. Free Float

Section 2.2 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

2.3. Liquidity

Section 2.3 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

2.4. Dividend Yield

2.4.1. To be eligible for the PSE DivY Index, the company should have regularly issued cash dividends for the past three consecutive years. Companies that have been listed for less than three years may be eligible for inclusion if it has an existing dividend policy.

2.4.2. The Exchange may recalculate the dividend yield to cover significant changes on account of the following: a) non-recurring items; b) extraordinary events; or c) other events or corporate actions which may not properly represent its historical dividend performance.

2.5. Final Selection

2.5.1. Companies that pass the public float, liquidity, and dividend yield eligibility requirements are ranked from highest to lowest according to their three-year average dividend yield.

If a company has common stocks that have multiple classes (*e.g.*, Class "A" and Class "B"), the activity of all share classes or types are taken together.

2.5.2. The top 20 companies based on three-year average dividend yield are to be included in the PSE DivY Index.

2.5.3. The PSE may also take into consideration relevant financial criteria to ensure that index constituents are financially sound.

SECTION 3 – Regular Review of Index Constituents

3.1. Review Dates

- 3.1.1.** The Exchange conducts a semi-annual review of the PSE indices and the results become the basis also for a re-composition of the PSE DivY Index.
- 3.1.2.** The three-year average dividend yield data from the end of the previous year will be used for the two review periods conducted each year.
- 3.1.3.** The liquidity data used for the review encompasses a one-year period. The first review or examination, which covers the period January to December for the immediately preceding year, becomes the basis for the PSE DivY Index recomposition every mid-February of the year that follows the period under examination. The second review, which covers the period July of the immediately preceding year up to June of the current year, becomes the basis for the PSE DivY Index recomposition every mid-August.
- 3.1.4.** Announcements regarding the outcome of the review and changes in the composition of the indices will be made, as much as practicable, five trading days prior to their implementation. The notice shall be made by way of press release and the publication of a memorandum in the PSE website.

3.2. Rules for Insertions and Removals

- 3.2.1.** The rules for additions and removals during the semi-annual review are designed to provide stability in the selection of constituents of the PSE DivY Index and at the same time to ensure that the indices are representative of the market by including and/or excluding those companies which have risen or fallen significantly.
- 3.2.2.** A company that passes all the specified criteria shall be inserted in the PSE DivY Index if it rises to the 17th position and above in terms of three-year average dividend yield for the current review period, or if it ranks 20th or above in terms of three-year average dividend yield for four (4) consecutive review periods. It shall replace the company that ranks the lowest in terms of three-year average dividend yield for the current review period.

3.2.3. A company shall be deleted in the PSE DivY Index if it falls to the 23rd position and below in terms of three-year average dividend yield for the review period, or if it ranks 21st and below in terms of three-year average dividend yield for four (4) consecutive review periods. It shall be replaced by the company with the highest three-year average dividend yield from the list of companies that passed the public float and liquidity eligibility requirements for the current review period.

SECTION 4 – Changes to Constituent Companies

4.1. Removal and Replacement

Section 4.1 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

4.2. Eligibility for Early Inclusion

4.2.1. REITs that have been listed for at least six (6) months may be eligible for early inclusion in the PSE DivY Index, provided that it ranks at least in the 17th position in terms of three-year average dividend yield, and subject to compliance with the free float and liquidity criteria as specified in this section.

4.2.2. The REIT company must comply with the free float requirements stipulated in Section 2.2.

4.2.3. To be eligible for the PSE DivY Index, the stocks of the REIT company must be among the top 25% in terms of median daily trade per month for at least six months (6) or 75% of the total number of months it has been listed, whichever is higher.

4.3. Takeovers, Mergers and Acquisitions

Section 4.3 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

4.4. Suspension

Section 4.4 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

4.5. Rebalancing or Changes to Constituent Weightings

Section 4.5 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

SECTION 5 – Index Calculation

5.1. Prices

Section 5.1 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

5.2. Calculation Frequency

Section 5.2 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

5.3. Index Calculation

5.3.1. All index levels broadcasted will be displayed up to two decimal places.

5.3.2. For any trading day, the index is computed by deriving the change in the index components' current total dividend yield-adjusted free float market capitalization from the base total dividend yield-adjusted free float market capitalization, and multiplying this change with the previous day's closing index level. The base total dividend yield-adjusted free float market capitalization is the sum of all the products of the index stocks' previous day's last traded price, their current dividend yield-adjusted free float shares, and the capping factor. Below is the formula for computing the index:

$$\text{PSE DivY}_t = \frac{\sum_{i=1}^n (P_{i,t} \times S_{i,t} \times F_i \times \text{DY}_i \times C_i)}{b} \times \text{PSE DivY}_{t-1}$$

$$i = 1, 2, 3, \dots, n$$

where:

n	=	Number of constituents of the index
$P_{i,t}$	=	Last traded price of company i at day t
$S_{i,t}$	=	Number of outstanding shares of company i at day t
F_i	=	Free float factor of company i to be applied to each security, expressed as a number between zero to 1, where 1 represents 100% free float
DY_i	=	Dividend yield of company i, expressed as a number between zero and 1

- C_i = Capping factor of company i , expressed as a number between zero to 1
- b = Base free float-adjusted market capitalization

5.3.3. Weights are capped to reduce concentration risk from large-cap companies that may significantly affect index movements. At the start of each recomposition, the constituent weight is capped so the highest weight in the index is no more than 10%. A capping factor is applied in the index calculation to correctly weigh the company in the index.

5.3.4. Adjustments are applied to the base dividend yield-adjusted free float market capitalization when there are stock dividend declarations, stock rights offerings, stock splits, reverse stock splits, or other corporate actions. Such corporate actions result in adjustments in a company's previous day's last traded price and/or free float factor.

5.4. Total Return - Index Calculation

5.4.1. All index levels broadcasted will be displayed up to two decimal places.

5.4.2. For any trading day, the index is computed by deriving the change in the index components' current total dividend yield-adjusted free float market capitalization plus the total cash dividends of the constituent companies for the day from the base total dividend yield-adjusted free float market capitalization, and multiplying this change with the previous day's closing index level. The base total dividend yield-adjusted free float market capitalization is the sum of all the products of the index stocks' previous day's last traded price, their current dividend yield-adjusted free float shares, and the capping factor. Below is the formula for computing the index:

$$\text{PSE DivY TRI}_t = \frac{\sum_{i=1}^n (P_{i,t} \times S_{i,t} \times F_i \times \text{DY}_i \times C_i) + \sum (D_{i,t} \times S_{i,t} \times F_i)}{b} \times \text{PSE DivY TRI}_{t-1}$$

$$i = 1, 2, 3, \dots, n$$

where:

- n = Number of constituents of the index
- $P_{i,t}$ = Last traded price of company i at day t
- $S_{i,t}$ = Number of outstanding shares of company i at day t

F_i	=	Free float factor of company i to be applied to each security, expressed as a number between zero to 1, where 1 represents 100% free float
DY_i	=	Dividend yield of company i , expressed as a number between zero and 1
C_i	=	Capping factor of company i , expressed as a number between zero to 1
b	=	Base free float-adjusted market capitalization
Di_t	=	Total regular and special cash dividends of company i on ex-date t

5.4.3. Weights are capped to reduce concentration risk from large-cap companies that may significantly affect index movements. At the start of each recomposition, the constituent weight is capped so the highest weight in the index is no more than 10%. A capping factor is applied in the index calculation to correctly weigh the company in the index.

5.4.4. Adjustments are applied to the base dividend yield-adjusted free float market capitalization when there are stock dividend declarations, stock rights offerings, stock splits, reverse stock splits, or other corporate actions. Such corporate actions result in adjustments in a company's previous day's last traded price and/or free float factor.

5.5 Index Correction

Section 5.4 of the PSE Policy on Index Management as of June 2021 will apply to the PSE DivY Index.

Disclaimer

This policy was created by the PSE for the sole purpose of providing guidance on the calculation of the PSE DivY Index. The PSE thus reserves the right to change or amend the contents of this document as appropriate to enable the index to achieve its objective.

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