

## SOLUTION OVERVIEW

# FTSE ADX Dividend Stars Index

Capture higher dividend yielding companies on the Abu Dhabi Securities Exchange



### Overview

The FTSE ADX Dividend Stars Index is designed to represent the performance of highly liquid and higher dividend yield companies listed on the Abu Dhabi Securities Exchange with their weights adjusted to enhance diversification.

This includes a dividend yield ranking process, a liquidity assessment and the application of FTSE's Target Diversification™ methodology.

The index comprises stocks that are characterised by higher-than-average dividend yield from the underlying FTSE ADX General Index.

### Index Information

|             |                          |
|-------------|--------------------------|
| Universe    | FTSE ADX General Index   |
| Review      | Annually every September |
| Currency    | AED                      |
| Base Date   | 7 January 2022           |
| Base Value  | 10,000                   |
| Calculation | EOD and real-time        |
| History     | From 7 January 2022      |
| Calendar    | ADX trading calendar     |

### Key characteristics

Combining a dividend yield and liquidity ranking process with a Target Diversification approach to the underlying Free Float market cap weighted index can offer several benefits.



Providing higher income stream from more liquid companies



A diversified index portfolio that balances market coverage, liquidity and high-income potential



The ability to target a preferred level of diversification



An intuitive, and transparent approach to index construction that is easy to replicate and best suited for the creation of tradable index products

## Construction Methodology

In constructing the index, we exclude non-dividend paying stocks, as well as stocks with a lower relative dividend yield (the bottom 20%). To ensure the index remains investible, we also exclude the stocks with an average traded value that is below the median.

This selection process results in an index of stocks with higher dividend yields and better liquidity than the broader universe. To minimise turnover during index rebalances, we apply buffers that prevent any stocks already in the index from being excluded.

The resulting number of stocks in the index at this stage is smaller and reflects a straightforward market capitalisation weighting, this leads to a more highly concentrated index that is lower in diversification.

To address this, we apply our FTSE Target Diversification™ methodology, which works in a similar way to a flexible dynamic capping approach, adjusting stock weights depending on both the current number of stocks in the index and their market capitalisation concentration.

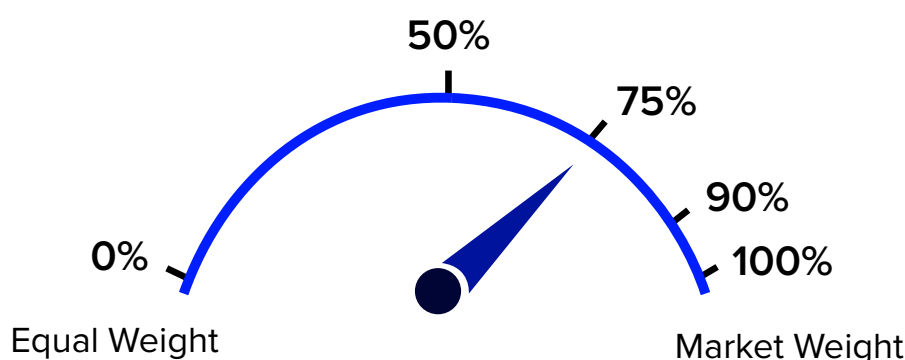
The FTSE Target Diversification™ methodology introduces two critical innovations that fundamentally transform index construction:

Firstly, the FTSE Target Diversification™ factor expresses the concentration of a stock index in terms of the equivalent number of equally weighted stocks. In other words, the FTSE Target Diversification factor answers the question: “How many stocks would there need to be in an equally weighted index for that equally weighted index to be as diversified as this index?”.

Second, the FTSE Target Diversification Algorithm achieves the desired level of index concentration. The algorithm rescales an index’s weights until it reaches the desired FTSE Target Diversification factor. The algorithm minimises distortions to industry exposures and style characteristics

In effect, an index designer using the Target Diversification approach can “dial up” or “dial down” the index concentration of a starting index (like the FTSE ADX Dividend Stars Index), as preferred.

### FTSE Target Diversification enables an index’s concentration to be dialled up or down



When applied, the FTSE Target Diversification™ methodology has several benefits:

- It measures stock-level index concentration in a way that’s **simple, intuitive, consistent** and **explainable**.
- It measures index weight distribution and concentration **via a single factor**.
- It represents **a shift from reactive approaches** based on pre-specified index weight thresholds to a proactive approach that directly addresses potential market vulnerabilities and risks.
- It’s designed to be **proportionate** and **comparable** (the diversification factors of different indices with different numbers of stocks can be compared directly)

For the first time, investors can precisely target their desired level of diversification with an intuitive metric, achieving the optimal balance between representation and risk reduction in increasingly concentrated markets.

**For more details, please read the Ground Rules for the index, which can be found below:**

[FTSE ADX Index Series: Ground Rules](#)

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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

## Contact us

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