

TIP Taiwan Value High Dividend Index

I. Introduction

Referring to Buffett's Investment Philosophy, fundamental indicators are used to select companies that can continue to generate cash flow for shareholders with profitability and sustainable growth potential. TIP Taiwan Value High Dividend Index (abbreviated as "TIP Taiwan VHD Index") is based on the top 300 listed companies in Taiwan Stock Exchange (TWSE) and Taipei Exchange (TPEX) to represent the performance of investment portfolios that simultaneously considers high dividends, free cash flow yield, and earnings-to-price ratio. Screened by liquidity and fundamental analysis indicators, the top 50 stocks are selected and weighted based on dividend yield.

II. Calculation and Management

1. The index types of TIP Taiwan Value High Dividend Index include the "Price Index" and the "Total Return Index", which are maintained and managed by Taiwan Index Plus (TIP). TWSE is designated to carry out the real-time calculation and dissemination.
2. TIP conducts periodic reviews of constituents according to the index rules.
3. TIP retains the closing market capitalization records of all constituents.
4. Refer to the "[General Principles for TIP Securities Indices](#)" for the principles of index development, maintenance, and management.

III. Eligibility of Constituents

1. Sampling Universe:

- A. Index Universe: Common stocks listed on the TWSE and the TPEX, excluding managed stocks, emerging stocks, and stocks with altered trading method or suspended from trading; however, those suspended from trading due to corporate actions, including but not limited to, capital reduction, conversion to holding companies, exchange of shares into the shares of newly established companies or change of par value may still be included in the Index Universe.
- B. Sampling Range: The stocks from the Taiwan Innovative Board (TIB) or classified under the "Building Material and Construction" industry according to the industry classification of the Taiwan Stock Exchange (TWSE) and Taipei Exchange (TPEX) are excluded from the index universe. After these

exclusions, the top 300 stocks by market capitalization are selected, applying a 10% buffer zone based on the aforementioned market capitalization rankings.

2. Criteria of Constituent Selection:

A. Liquidity Test¹: Non-constituents must be among the top 70% of stocks ranked by total trading value in the most recent one calendar month and additionally meet at least one of the following conditions.:

- i. The top 20% of stocks ranked by total trading value in the most recent twelve calendar months.
- ii. The turnover ratio reaches 3% for at least 8 months in the last 12 months, or at least 8 months with a daily average trading value of over 100 million New Taiwan Dollars.

B. Index Screening:

Stocks in the sampling universe must meet the following criteria in the screening process:

- i. Stage One:
 - a. Exclude the primary listed foreign companies listed on the TWSE or the TPEx.
 - b. The sum of EPS in the most recent four quarters is positive, and cash dividends² have been distributed in each of the past three years. Annual dividend-paying stocks that have gone ex-dividend before the effective date of the regular review in May are excluded from the periodic review.
 - c. The debt ratio ranks in the top 90% of financial and non-financial industries, respectively.
 - d. The asset return rate and return on equity rank in the top 90% of financial and non-financial industries, respectively.
 - e. The earnings-to-price ratio in the most recent two

¹ Existing constituents automatically pass the liquidity test unconditionally.

² Financial companies are excluded if they have paid out capital surplus together with dividends in the last 5 years.

quarters ranks in the top 80%.

- f. After-tax net profit in the most recent four quarters ranks in the top 90%.
- g. Gross profit margin growth in the most recent four quarters ranks in the top 90%.
- h. The regional investment concentration indicator³ ranks in the bottom 95%.
- i. Long-term growth rate ranks in the top 75% for non-existing constituents.

ii. Stage Two:

- a. If the number of stocks passing the first stage is less than 90, the screening criteria for component stocks will be relaxed until the number of passing stocks exceeds 90.
- b. The inverse of downside risk⁴ in the most recent 252 days ranks in the top 90%.

C. Sorting method: The free cash flow yield⁵, dividend yield, and earnings-to-price ratio indicators are standardized⁶ separately, and a composite score is calculated. The top 50 stocks are selected based on their composite scores.

3. Weighting Method:

- A. Dividend yield weighted.
- B. Constituents weights shall not exceed 8%⁷, and shall not exceed either of the following indicators:

³ The concentration indicator of regional investment considers the amount of investment redirected to China and the proportion of net assets.

⁴ Downside risk = $\sqrt{\frac{\sum_{t=1}^N \min(0, R_t)^2}{N}} \times \sqrt{252}$; R_t represents the daily adjusted stock price return, $0 < N \leq 252$

⁵ Not applicable to financial companies.

⁶ Values are winsorized at the 95% level before standardization.

⁷ If the weight allocation cannot be completed, the multiples constraints on B-i. and B-ii., and the proportion of investment amount for B-iii., may be gradually relaxed, with a limit of 1.5 times the parameter. Subsequently, the upper limit on component stock weights may also be gradually relaxed to 10%. If the weight allocation still cannot be completed, priority will be given to satisfying the relaxed upper limits on component stock weights and B-iii. If the "proposed asset under management" does not reach 25 billion New Taiwan Dollars, then the constituents weights only need to simultaneously satisfy the upper limit of 8%, B-i. and B-ii.

- i. 5 times the proportion of free float market capitalization.
- ii. 5 times the proportion of average trading value over the past 3 months.
- iii. The hypothetical asset under management amount (AUM) is applied for the index weight limit which is calculated by the actual asset under management⁸ that track TIP Taiwan VHD Index, rounded to the nearest higher multiple of 25 billion (TWD). The hypothetical AUM amount invested in proportion to the market capitalization and free float adjusted market capitalization of a single stock shall not exceed 4% and 10%, respectively.

IV. Index Calculation

1. Index Calculation Frequency:

- A. Starting February 26, 2024, the real-time TIP Taiwan Value High Dividend Index is calculated and disseminated every five seconds during the trading hours of the TWSE and the TPEx, based on the latest trading prices of the constituent stocks. The end-of-day (EOD) index is calculated once a day after the market closes.
- B. TIP also compiles TIP Taiwan Value High Dividend Total Return Index, which adjusts the TIP Taiwan Value High Dividend Index after considering the cash dividend factor, in order to reflect the cash dividend-included return. The index is calculated and disseminated once every day after the market closes.

2. Calculation Formula:

- A. TIP Taiwan Value High Dividend Index is a “Price Index”:

$$\text{Index} = \frac{\text{Total Index Market Values}}{\text{Index Divisor}} \times \text{base value}$$

$$\text{Index}_t = \frac{\sum_{i=1}^n \text{cp}_{i,t} \times s_{i,t} \times p_{i,t}}{\text{Divisor}_t} \times 5000$$

$\text{cp}_{i,t} \times s_{i,t} \times p_{i,t}$ = “index market value” of constituent i on day t

n = number of index constituents

⁸ Using closing data on the data cut-off date.

Reference only, the Chinese version shall prevail.

$p_{i,t}$ = trading price of constituent i on day t

$s_{i,t}$ = number of issued shares of constituent i on day t

$cp_{i,t}$ = the adjustment coefficient of constituent i on day t is decided in accordance with the “SmartBeta Investment Index Category” described in the [“TIP Corporate Actions and Events Methodology”](#).

Divisor = index divisor of the Price Index; after the market closes, the index divisor is adjusted in accordance with the “SmartBeta Investment Index Category” described in the [“TIP Corporate Actions and Events Methodology”](#), to maintain the index continuity. The adjustment method is as follows:

$$\text{Index divisor} = \text{index divisor on the previous day} \times \left(\frac{\text{total index market values at the previous day's close} \pm \text{total index market values changes}}{\text{total index market values at the previous day's close}} \right)$$

Note1 : The base date is December 15, 2023, and the base value is set at 5000 points.

Note 2 : The index divisor on the base date is the total index market values at that time.

$$\sum_{i=1}^n cp_{i,launch} \times s_{i,launch} \times p_{i,launch}, \text{ launch} = \text{base value}$$

B. TIP Taiwan Value High Dividend Total Return Index is a “Total Return Index”:

$$\text{Index} = \frac{\text{Total Index Market Values}}{\text{Index Divisor}} \times \text{base value}$$

$$\text{Index}_t = \frac{\sum_{i=1}^n cp_{i,t} \times s_{i,t} \times p_{i,t}}{\text{DivisorTR}_t} \times 5000$$

DivisorTR = index divisor of the Total Return Index ; after the market closes, the index divisor is adjusted in accordance with the “SmartBeta Investment Index Category” described in the [“TIP Corporate Actions and Events Methodology”](#) to maintain the index continuity. The adjustment method is as follows:

$$\text{Index divisor} = \text{index divisor on the previous day} \times \left(\frac{\text{total index market values at the previous day's close} \pm \text{total index market values changes}}{\text{total index market values at the previous day's close}} \right)$$

V. Constituent Adjustment and Index Maintenance

1. Periodic Review and Adjustment of Constituents:

- A. The constituents are reviewed twice a year, with the 7th trading day of May and November as the review dates; the data cut-off date is the last trading day of April and October. After each periodic review, the number of constituents is fixed at 50⁹.
- B. Buffer Zone¹⁰: Stocks ranked within the top 35 are included as index constituents, while existing constituents ranked below 65 are removed from the index. After adjustments, stocks ranked between 36 and 65 are considered as candidate constituents, with priority given to existing constituents and selected according to their rankings, subject to a maximum of 10 replacements¹¹.
- C. The results of the constituent periodic review will become effective following a five-trading-day interval after the review date(not included). The index is rebalanced over 5 consecutive trading days starting from the review effective date (the rebalancing period). A transitional weight is allocated to each security in the index during the rebalancing period.
- D. For the index divisor maintenance, the closing data of each previous trading day during the rebalancing period is adopted to calculate the difference, which is used as the total index market value changes between the total index market value of the new portfolio and the original one.
- E. If the review data of holding companies or newly established companies is insufficient, and the representative companies of the converted stocks meet the Sampling Universe qualification, the data of the representative companies or their stocks may be used in the review.

2. TIP Taiwan Value High Dividend Index belongs to the SmartBeta Investment Index Category. The related maintenance such as the non-periodic adjustment of constituents, the adjustment coefficient, the number of issued shares, and

⁹ Based on the number of constituents determined in the previous review as the set number, however, if the proportion of stocks reaching the upper weight limit exceeds 70%, constituents are added in increments of 5 stocks each time, and the maximum number of component stocks is set at 60.

¹⁰ The buffer zone is adjusted proportionally to accommodate the latest number of constituent stocks.

¹¹ When the number of replacements still exceeds 10 stocks after adjustment within the buffer zone, among the stocks passing the indicator screening, they are selected in descending order of comprehensive scores. Up to 40 existing constituent stocks are prioritized, and non-existing constituent stocks are added to reach a total of 50 stocks. This condition is also adjusted proportionally based on the latest number of constituent stocks.

Reference only, the Chinese version shall prevail.

the index divisor is handled in accordance with the “[TIP Corporate Actions and Events Methodology](#)”. If a constituent is removed as a result of the above reasons, the vacancy created will not be filled.

3. Principles for implementation of the Free Float Coefficient:

- A. If the free float coefficient is lower than 10%, it will not be included in the Sampling Universe.
- B. The update for the free float coefficient shall be in conjunction with the effective date of constituents periodic review.
- C. The free float coefficient are updated base on the latest data generated from TIP’s “[TIP Free Float Coefficient Calculation Guide](#)”.