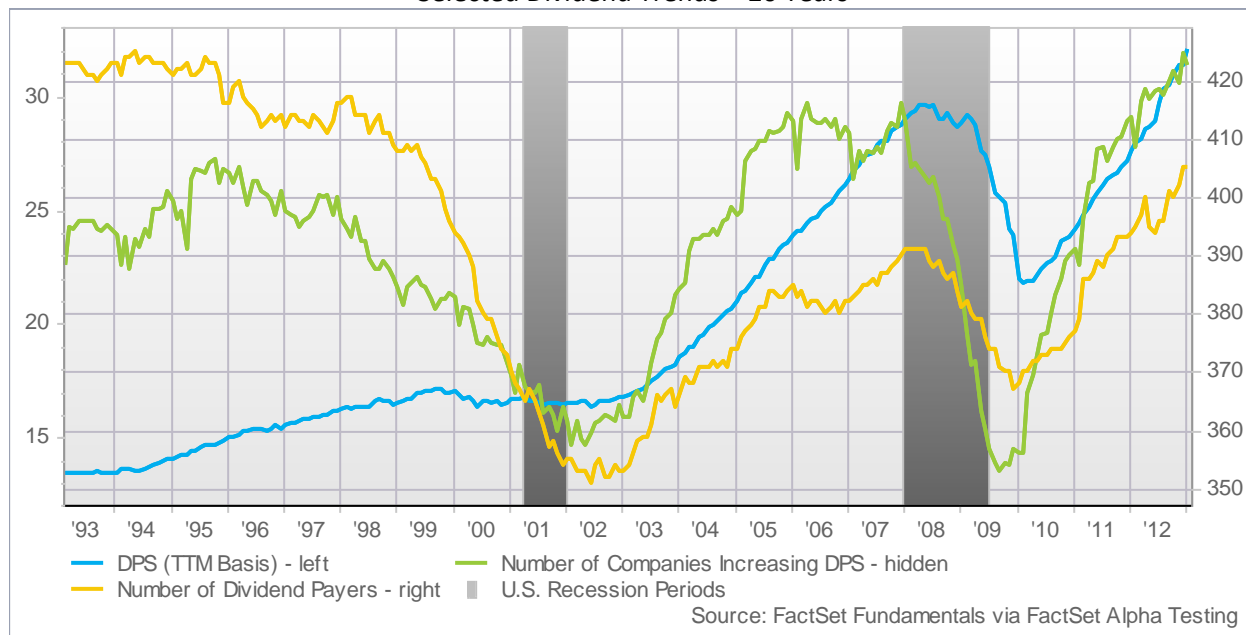


### Key Metrics:

- + **Aggregate Dividends:** Aggregate dividend payments amounted to \$92.0 billion for Q4 2012 (January 2013). Over the year-ended 2012, \$310.5 billion have been paid out in dividends, which is a ten-year high for trailing twelve-month periods. On a per-share basis, the aggregate dividend payment was \$31.40 per share, reflecting year-over-year growth of 15.9%. The Information Technology, Financials, and Consumer Discretionary sectors led all sectors in year-over-year growth on a per-share basis at 46.1%, 25.6%, and 20.6%, respectively.
- + **Aggregate Payout Ratio:** The S&P 500 aggregate payout ratio amounted to 30.0% as of Q4 2012, which compares to 27.6% in Q4 2011. This value is in-line with the ten-year median, and the aggregate payout ratio has grown steadily from a value of 26.3% in Q4 2010. On the sector level, the Telecommunications Services (157.5%) and Utilities (72.3%) sectors maintained the highest payout ratios for the eleventh consecutive quarter. The Telecommunications Services sector's payout ratio was inflated in part by Sprint Nextel Corp.'s \$4.3 billion loss in 2012 and because four out of the five dividend-paying companies in the sector paid more in dividends than they earned in income in 2012. The lone exception was Verizon Communications Inc.
- + **Aggregate Yield:** The S&P 500 aggregate dividend yield currently amounts to 2.1%, which is in-line with the ten-year daily average and with the yield in Q4 2011. The Telecommunications Services and Utilities sectors lead all sectors with dividend yields of 4.4% and 3.9%, but it's interesting to note that the Information Technology sector's yield reached an all-time high of 1.56% on February 28<sup>th</sup>, before dipping down to yesterday's value of 1.52%.

Selected Dividend Trends – 20 Years



Dividend Quarterly is one part of three reports ([Buyback Quarterly](#) and [Cash & Investments Quarterly](#)) analyzing cash and discretionary spending within the S&P 500. The other reports can be found at [http://www.factset.com/insight/through\\_leadership](http://www.factset.com/insight/through_leadership) or within the FactSet Market News application of your FactSet workstation. All data published in this report is available on FactSet. Please contact [media\\_request@factset.com](mailto:media_request@factset.com) or 1-877-FACTSET for more information.

## Accelerated Payments Push DPS to New Highs

Aggregate dividends per share (“DPS”) grew 15.9% year-over-year at the end of Q4, and the number of companies paying a dividend over the trailing twelve-month period (“TTM”) hit a new, thirteen-year high of 405 (81%). In addition, dollar-value trailing twelve-month dividend payments and aggregate payout ratios are both trending well. Back in Q1 2012, TTM cash outflows from dividend payments surpassed the pre-crisis peak of \$267.0 billion and have continued to grow. The Q4 sum of \$310.5 billion is 16.3% above the pre-crisis high and marked year-over-year growth of 21.9%. Also, while the aggregate dividend payout ratio was in-line with the ten-year median, it was also at its highest level (30.0% at the end of Q4) since the recession (when payout ratios were distorted by low aggregate earnings; see chart on page 8). In addition, the aggregate yield of the S&P 500 index has remained above 2% during this period despite the downward pressure of strong stock market performance. The S&P 500 has returned 24.4% over two years, but the TTM DPS of the index has grown by over 30% over the same span.

Compounding this trend will be increased payouts from a number of companies that recently announced greater than 20% increases to their annual payment schedule. These companies included: Ford Motor Co. (100% announced increase), MasterCard Inc. (+100%), Halliburton Co. (+38.9%), Harley-Davidson Inc. (+35.5%), Xerox Corp. (+35.3%), Home Depot Inc. (+34.5%), EnSCO PLC (+33.3%), Coca-Cola Enterprises (+25%), Packaging Corp. of America (+25%), Family Dollar Stores Inc. (+23.8%), and Standard Motor Products (+22.2%). Wal-Mart also made a significant announcement with an 18.2% increase to its quarterly dividend. However, with the exception of Ford, these increases did not take effect in Q4 because the majority of ex-dates take place in February, March, or April. These announcements are partially reflected in the aggregate, forward twelve-month DPS estimate for the S&P 500 though, which reflected the sixth highest monthly premium (+10%) over the actual trailing twelve-month (“TTM”) payout over ten-years (see chart on page 11). On the sector-level, the Information Technology sector is expected to have the highest growth rate in 2013 (+28.7%), while the Telecommunications Services and Utilities sectors are expected to have the lowest rates at -0.6% and +1.2%. The other sectors are expected to have 2013 DPS growth rates between five and eleven percent.

### Sector Trends

The Materials sector ended its four quarter run as having the highest year-over-year DPS growth in Q4. The sector grew DPS by only 4.9%, which was the second lowest growth rate in the index (the Telecommunications Services sector had negative DPS growth for the second consecutive quarter). Previously, over the four quarters ending Q3 2012, the Materials sector had grown DPS by a minimum of 44% year-over-year. But the previous edition of “Dividend Quarterly” noted that the sector might have trouble continuing this trend following steep earnings declines in Q3 and downgrades to forward earnings per share growth estimates. However, this trend is primarily driven by a slowdown in the magnitude of dividend increases, and the majority of companies in the sector are paying a higher TTM payout than was paid at the end of Q3 (see chart on page 5). Also, Cliffs Natural Resources’ announcement of a 76% reduction in its quarterly payout on February 12<sup>th</sup> will have a low impact on the sector because the company’s \$307 million TTM payout has a low weight (2.3%) relative to the payout of the overall sector.

On the other end of the spectrum, the Information Technology, Financials, and Consumer Discretionary sectors all boasted greater than 20% growth in year-over-year dividends per share (46.1%, 25.6%, and 20.6%, respectively), and all three sectors have logged greater than 10% over eight consecutive quarters. In the Information Technology sector, growth over the year has been aided by dividend policy shifts from some big constituents, including Apple’s initiation and Cisco’s (CSCO) August announcement that it was increasing the company’s per share payout by 75%. However, the sector also benefits from widespread high-DPS-growth rates among its dividend-paying constituents. While the sector has the lowest proportion of dividend payers (60%), the average year-over-year increase to DPS of its dividend-

paying constituents led the index at 54.7%, and only eight of thirty-eight dividend-paying companies did not increase their payout by a double-digit growth rate. Giants like Cisco Systems, Microsoft Corp., and Oracle Corp. made the highest impact on the sector growth rates in increasing DPS by 83.3%, 19.4%, and 50.0% on a year-over-year basis. However, smaller constituents also had meaningful impacts, including Fidelity National Information Services with a 300% DPS increase and CA Inc. with a 150% increase.

In the Financials sector, DPS growth continues to be aided by a historically low baseline. It is the only sector in the S&P 500 featuring a dividend yield and dividend payout ratio below its ten-year average. Also, in absolute terms, the Financials sector has the lowest payout ratio in the index (19.6% as of Q4) and its current yield of 1.7% is the third lowest in the index (the Consumer Discretionary and Information Technology sectors are lower at 1.5%). However, on March 14<sup>th</sup>, the Federal Reserve released its response to the capital distribution plans of banks with consolidated assets of \$50 billion or more. While a number of these banks announced intentions to pay multiples of their 2012 dividend or multiple billions of dollars in buybacks, it's important to note that post-recession increases to capital distributions have done little to restore the dollar-value payouts of 2007. In fact, the dollars paid out in dividends and buybacks in 2012 were less than 45% of the dollar-value of distributions in 2007, and only three of the eighteen public banks made more dollar-value distributions in 2012 than 2007: The Bank of New York Mellon, State Street Corporation, and American Express Company. Wells Fargo & Company came in fourth by paying 82% of its 2007 payout in 2012 and is further planning increases to both its dividend and buyback in 2013. On the other end of the spectrum, four companies paid less than 10% of their 2007 distributions in 2012: Citigroup (1.7%), Regions Financial Corporation (4.2%), Capital One Financial Corporation (5.6%), and SunTrust Banks Inc. (6.0%). However, all four banks received approval for their distribution plans, which, with the exception of Citigroup, included at least 100% increases to their previous DPS distribution. Additionally, the tests revealed a wide divergence in opinion over the merits of dividends relative to buybacks among the eighteen public banks. Bank of America and Citigroup paid a dividend in 2012 that was less than 20% of the dollar-value dividend paid in 2007 (17.5% and 1.4%, respectively), yet these two banks requested distributions only in the form of share repurchases. On the other hand, the other two banks below the 20% dividend-payout threshold—SunTrust Banks Inc. and Regions Financial Corporation—requested 100% and 200% increases to their dividend. On the whole though, analysts expect individual banks to have highest DPS growth rates in the forward twelve-months. Note that many analyst reports have not been updated since release of the “stress tests”, so expectations for Citigroup’s and Bank of America’s DPS are still reflecting optimism.

### **Companies with Highest DPS Growth Rates**

Regularly paying extra dividends can be hard to maintain over the long-term, but L Brands Inc. managed to pay several in its history. Its most recent special payout of \$3.00 per share has helped the company secure the top compound annual growth rate (“CAGR”) in the S&P 500 over the three- and ten-year timeframes (at CAGR of 49.4% and 20.9%, respectively) and the second highest growth over the five-year timeframe (27.2%). However, most of the other stocks with the highest compound annual growth rates for DPS in the mid-to-long-term horizon have featured strong and consistent increases to their regular dividend distributions, including the company showing the fastest DPS growth over the 5-year timeframe: Lorillard Inc. Other examples, including Wisconsin Energy Corp., Hasbro Inc., and Public Storage, were present on the top-ten lists for three- and five-year growth, while ONEOK Inc. had one of the highest growth rates over both the five- and ten-year horizon.

### **Performance of Dividend-Payers Has Diverged Sharply by Yield Characteristics**

Since the bursting of the dotcom bubble, dividend-paying stocks have exhibited fairly consistent performance characteristics: the lowest yielding stocks (bottom quartile) have exhibited negative returns, while the highest-yielding stocks have outperformed the S&P 500 Index (see chart on page 13). Since 2001, the monthly average market-cap-weighted return is 0.21% above the S&P 500 for the top dividend yield quartile versus a relative return of negative 0.39% for the bottom quartile. However,

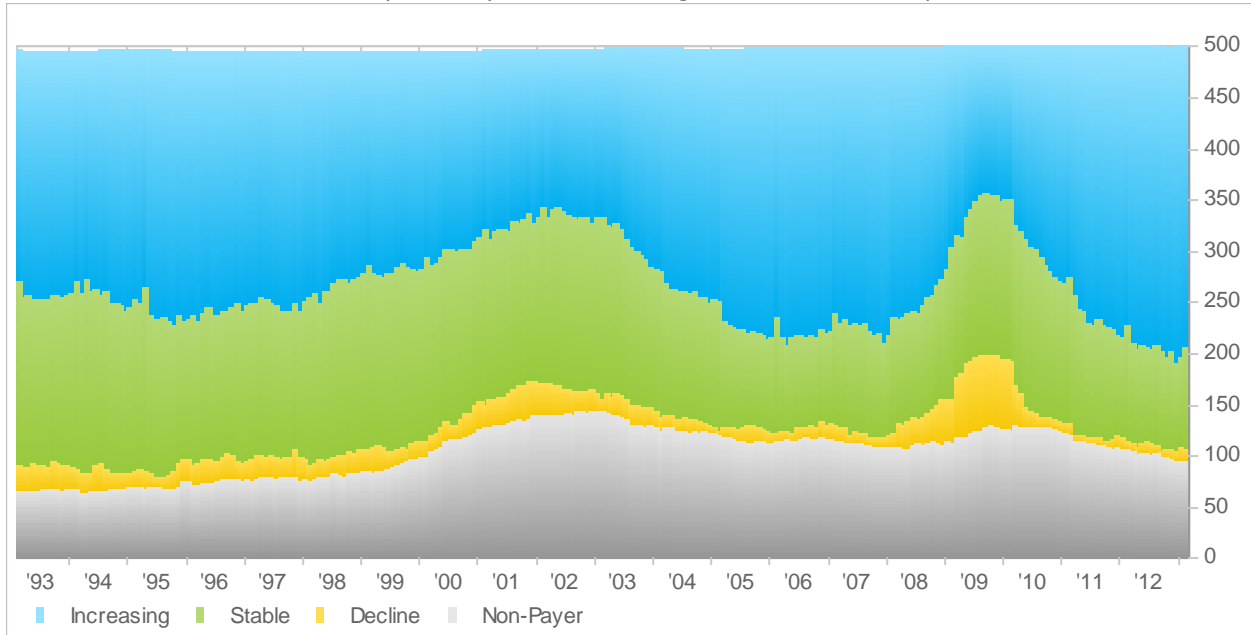
after a reversal in 2007-2008 when the highest yielding stocks tumbled 55.9% on a market-cap-weighted basis, the initial trend magnified. Since 2009, the highest yielding quartile (with an average yield of 6.0%) registered a market-cap weighted monthly average return of 0.23% above the S&P 500 while the lowest yielding quartile (with an average yield of 0.8%) averaged a monthly return 0.56% below the S&P 500 (see charts on page 13). It's also interesting that, even in this period in which yield carries a high value, stocks with the lowest dividend yield have also underperformed stocks that pay no dividends at all. In fact, since 2009, the bottom quartile's underperformance has been so severe that it has dragged the return of dividend-paying companies to a level below that of the S&P 500. Note that this data excludes Apple, which distorts data on a market-cap-weighted basis.

On the security-level, the highest yields again came from Pitney Bowes Inc., Windstream Corp., Frontier Communications Corp., and CenturyLink Inc. (despite its recently reduced dividend). However, only Pitney Bowes was able to register earnings high enough to keep its payout ratio below 100%. Other companies in the high-yield category include L Brands Inc. and Wynn Resorts Ltd, which both benefited from increasingly generous, annually-paid extra dividends.

## Dividend Payout Practices

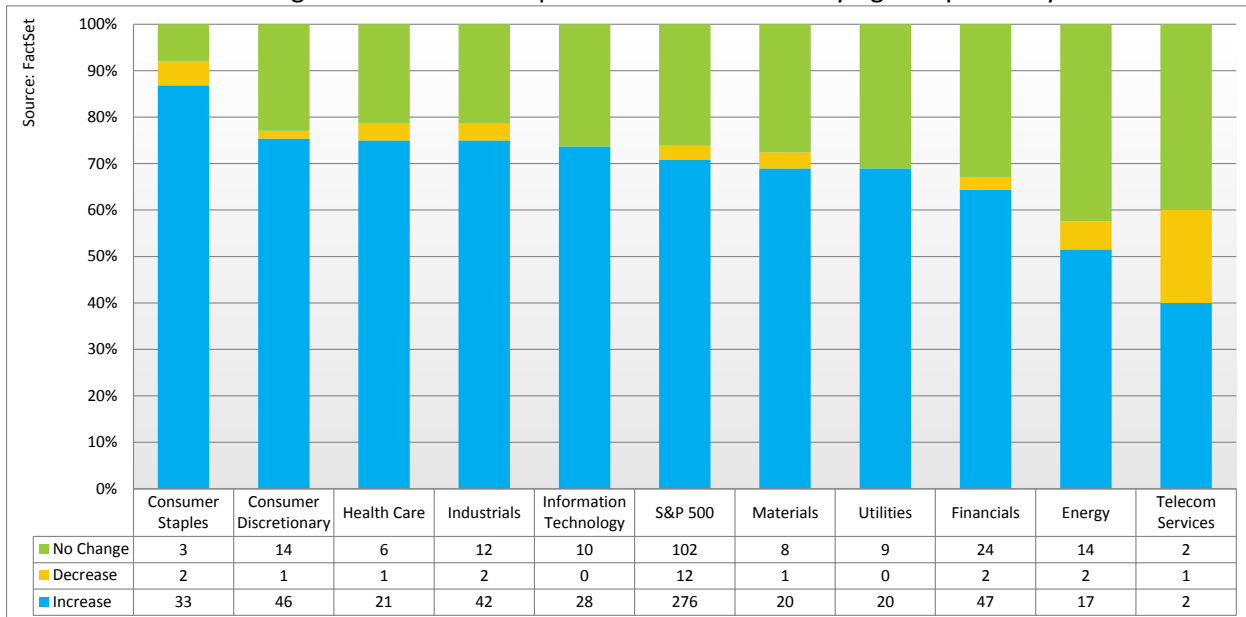
The top chart examines counts a time-series of the number of companies with trailing twelve month dividend payments that are above, below, or in-line with payments from the previous quarter. “Non-payers” are stocks that did not pay dividends in the trailing twelve months or the previous quarter’s trailing twelve months.

Count of Companies by 3-Month Change in TTM Dividends per Share



Increases and decreases in dividends per share are assessed on how the month-end trailing twelve month DPS figure compares to the previous quarter’s value. Dividends per share figures include extra/special dividends.

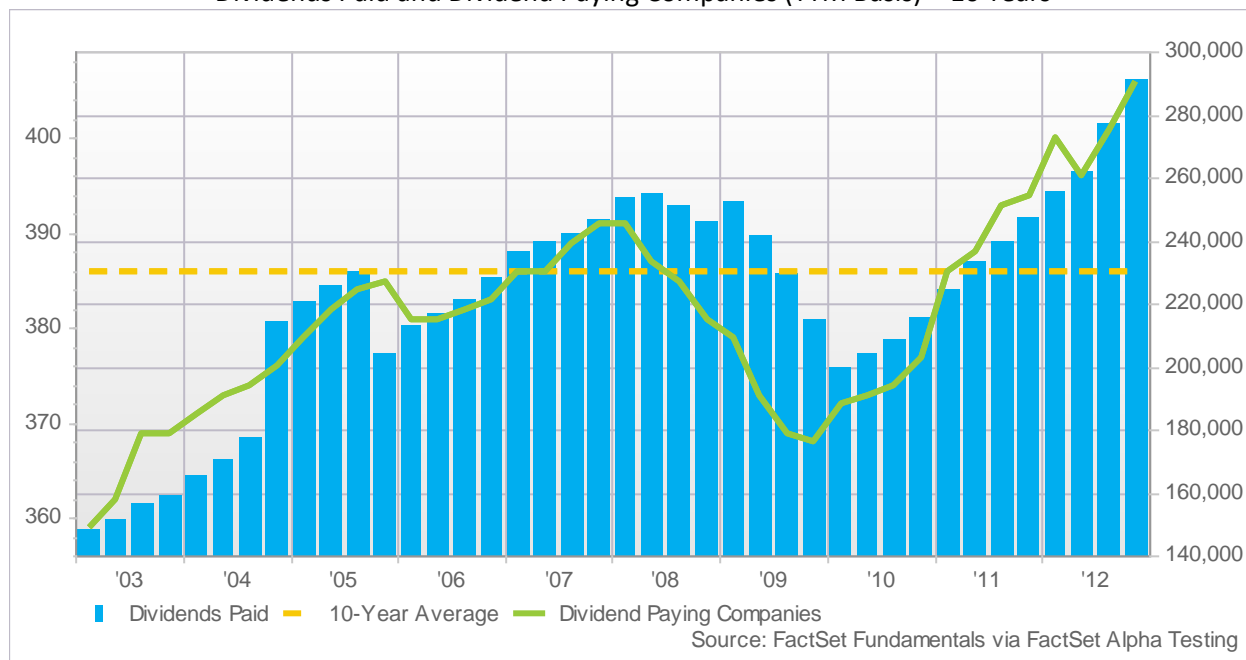
3-Month Change in TTM Dividends per Share of Dividend-Paying Companies by Sector



## Dividends Paid

Aggregate cash dividends paid is sourced directly from the cash flow statement and includes both common and preferred dividends. The information presented below shows cash dividends paid over the trailing twelve months.

Dividends Paid and Dividend Paying Companies (TTM Basis) – 10 Years



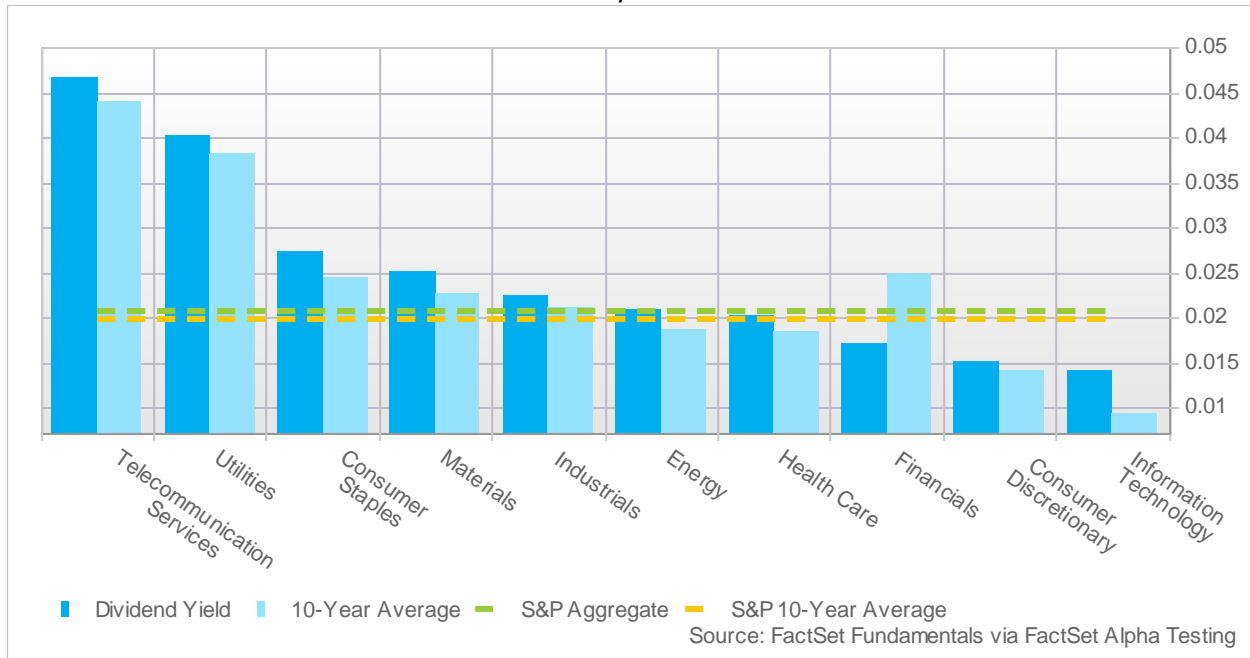
Top 10 Companies by Common and Preferred Dividends Paid (TTM Basis)

Company	Sector	Divs Paid (TTM)	Payout Ratio (ANN)	1 Yr Price Return	1 Yr Total Return
AT&T Inc.	Telecom Services	\$10,241	141.6%	15.7%	21.8%
Exxon Mobil Corp.	Energy	\$10,092	22.5%	4.6%	7.3%
General Electric Co.	Industrials	\$7,189	51.9%	15.3%	19.2%
Microsoft Corp.	Information Technology	\$6,970	38.0%	(12.8%)	(10.1%)
Chevron Corp.	Energy	\$6,844	26.4%	12.3%	16.1%
Johnson & Johnson	Health Care	\$6,614	62.2%	24.3%	28.7%
Pfizer Inc.	Health Care	\$6,534	67.5%	27.3%	32.0%
Procter & Gamble Co.	Consumer Staples	\$6,332	58.4%	14.8%	18.6%
Wells Fargo & Co.	Financials	\$5,457	26.2%	8.8%	11.7%
Philip Morris Int'l Inc.	Consumer Staples	\$5,404	62.7%	5.1%	9.2%
<b>S&amp;P 500</b>	-	<b>\$314,353</b>	<b>31.4%</b>	<b>10.6%</b>	<b>12.9%</b>

## Dividend Yield: Sector-Level

Dividend yield is calculated by dividing the trailing twelve month dividends per share figure by yesterday's closing price. Ten-year average figures compute the average based on the dividend yield at the quarter-end.

Dividend Yield by Sector – Q2 2012



Top 10 Companies by Dividend Yield – TTM Basis

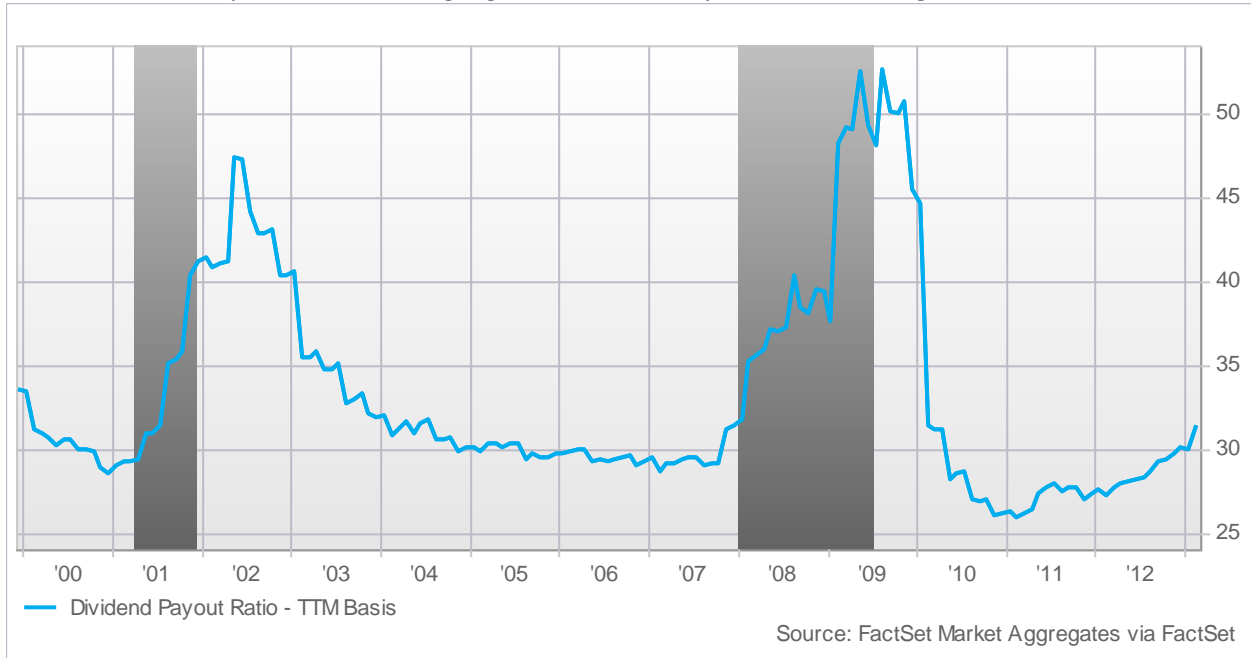
Company	Sector	Yield (TTM)	DPS (TTM)	Payout Ratio (TTM)	1 Yr Total Return
L Brands Inc.	Consumer Discretionary	11.4%	\$5.05	39.5%	(1.4%)
Pitney Bowes Inc.	Industrials	10.0%	\$1.50	67.6%	(7.5%)
Wynn Resorts Ltd.	Consumer Discretionary	8.1%	\$10.00	41.6%	5.2%
Garmin Ltd.	Consumer Discretionary	5.3%	\$1.75	63.2%	(27.8%)
Entergy Corp.	Utilities	5.3%	\$3.32	69.7%	(2.2%)
Lorillard Inc.	Consumer Staples	5.2%	\$2.10	73.6%	(3.1%)
Pepco Holdings Inc.	Utilities	5.1%	\$1.08	98.2%	17.0%
Diamond Offshore Drilling	Energy	5.0%	\$3.50	9.7%	8.5%
Altria Group Inc.	Consumer Staples	4.9%	\$1.70	87.2%	18.4%
Abbott Laboratories	Health Care	4.8%	\$1.67	44.8%	21.3%
<b>S&amp;P 500</b>	-	<b>2.0%</b>	<b>\$32.02</b>	<b>31.4%</b>	<b>12.9%</b>

\*Screen results exclude companies that had a dividend payout ratio greater than 100% for the trailing twelve month period.

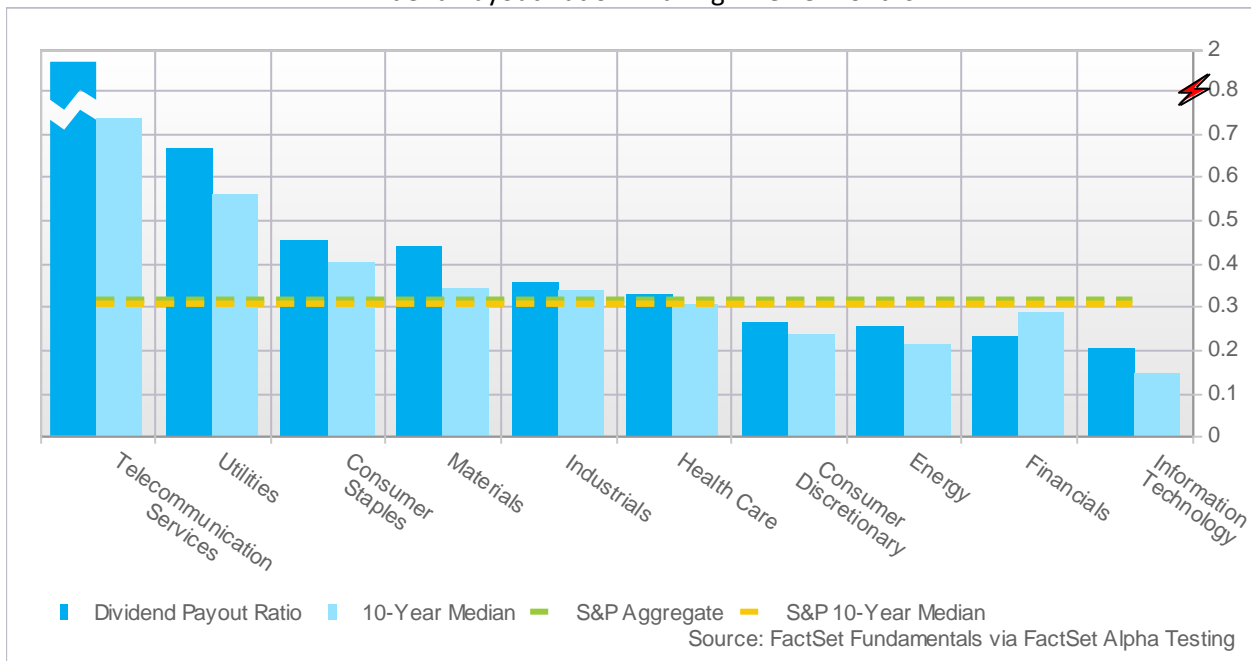
## Dividend Payout Ratio:

In examining dividend payout ratios, there are a number of periods where earnings volatility caused payout ratios to change dramatically. This phenomenon can be seen in certain sectors' ten-year average payout ratios. For this reason, the sector chart examines median payout ratios.

Dividend Payout Ratio with Highlighted Recessionary Periods – Trailing Twelve Month Basis



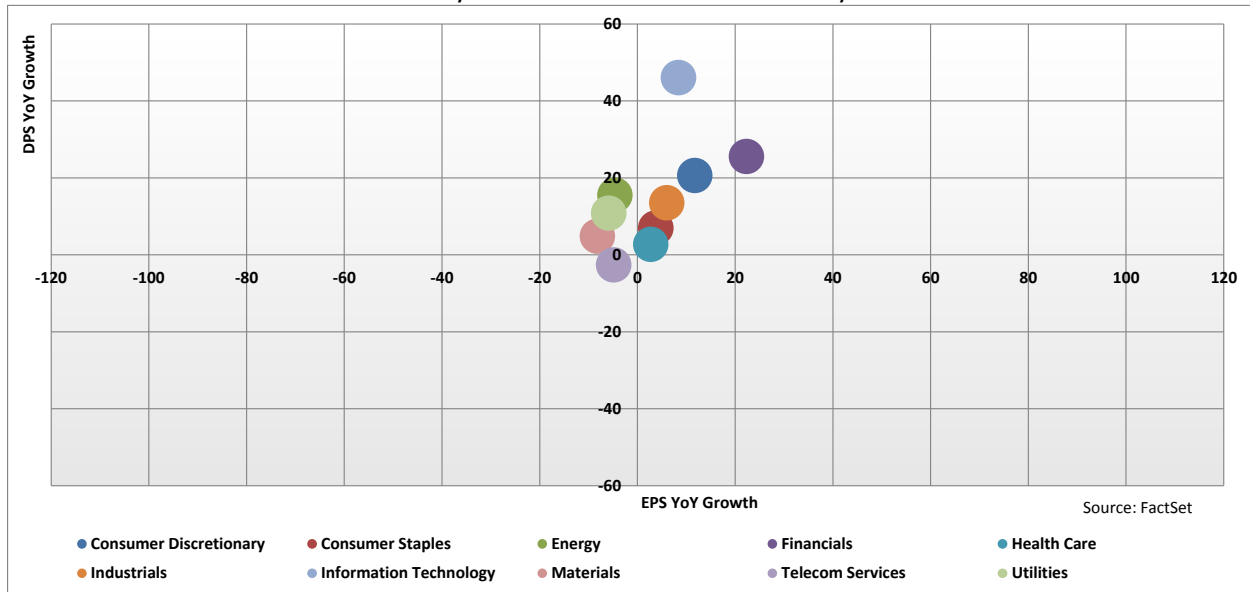
Dividend Payout Ratio – Trailing Twelve Months





## Dividend Growth: One-Year

Year-over-year % Growth in DPS and EPS by Sector



Top 10 Companies by Growth in TTM Dividends per Share – 1 Year

Company	Sector	1Yr DPS Growth	1Yr EPS Growth	1 Yr Total Return	Yield (TTM)
Seagate Technology Inc.	Information Technology	60.8%	264.7%	39.9%	4.1%
BB&T Corp.	Financials	58.5%	47.5%	4.0%	3.3%
Williams Companies Inc	Energy	54.4%	117.5%	24.2%	3.2%
Apartment Inv't & Mgmt Co.	Financials	51.9%	N/A	21.1%	2.7%
Wynn Resorts Ltd.	Consumer Discretionary	42.9%	(1.2%)	5.2%	8.1%
Franklin Resources Inc.	Financials	35.8%	6.9%	23.3%	2.7%
Dow Chemical Co.	Materials	34.4%	(65.9%)	(5.1%)	3.8%
Kinder Morgan Inc.	Energy	33.3%	75.3%	3.8%	3.6%
Harris Corp.	Information Technology	32.1%	N/A	4.6%	3.1%
L Brands Inc.	Consumer Discretionary	32.1%	N/A	4.6%	3.1%
<b>S&amp;P 500</b>	-	<b>18.3%</b>	<b>(1.8%)</b>	<b>10.6%</b>	<b>2.0%</b>

\*This screen excludes companies with current dividend yield of less than 2%. The growth rate methodology is based on trailing twelve month DPS compared to the value one year ago.

## Compound Annual Dividend Growth: 3, 5, and 10-Year Rates

### Highest Growth in Annual Dividends per Share – 3 Year

Company	Sector	3Yr Ann DPS Growth	3Yr Ann EPS Growth	3Yr Annualized Return	Yield (TTM)
L Brands Inc.	Consumer Discretionary	49.4%	22.8%	34.9%	11.4%
Darden Restaurants Inc.	Consumer Discretionary	27.4%	10.4%	8.1%	3.8%
Public Storage	Financials	26.0%	3.4%	21.7%	2.9%
CMS Energy Corp.	Utilities	24.3%	16.0%	26.0%	3.6%
Hasbro Inc.	Consumer Discretionary	21.6%	0.9%	7.7%	3.3%
Wisconsin Energy Corp.	Utilities	21.1%	13.2%	23.1%	3.0%
Lockheed Martin Corp.	Industrials	21.0%	2.4%	8.5%	4.6%
ACE Ltd.	Financials	18.0%	1.5%	21.8%	2.2%
Lorillard Inc.	Consumer Staples	17.3%	13.5%	23.1%	5.2%
Raytheon Co.	Industrials	17.3%	4.9%	4.2%	3.4%
<b>S&amp;P 500</b>	-	<b>12.1%</b>	<b>20.0%</b>	<b>10.2%</b>	<b>2.0%</b>

### Highest Growth in Annual Dividends per Share – 5 Year

Company	Sector	5Yr Ann DPS Growth	5Yr Ann EPS Growth	5Yr Annualized Return	Yield (TTM)
Lorillard Inc.	Consumer Staples	27.8%	10.3%	16.4%	5.2%
L Brands Inc.	Consumer Discretionary	27.2%	N/A	32.2%	11.4%
Darden Restaurants Inc.	Consumer Discretionary	25.8%	21.5%	12.9%	3.8%
Wisconsin Energy Corp.	Utilities	19.1%	10.6%	17.4%	3.0%
Hasbro Inc.	Consumer Discretionary	17.6%	5.3%	12.4%	3.3%
Public Storage	Financials	17.1%	26.8%	15.1%	2.9%
Sempra Energy	Utilities	14.1%	(4.0%)	12.1%	3.0%
Intel Corp.	Information Technology	14.1%	12.5%	4.0%	4.1%
Xilinx Inc.	Information Technology	13.6%	13.8%	12.8%	2.3%
ONEOK Inc.	Utilities	12.7%	3.4%	20.1%	2.9%
<b>S&amp;P 500</b>	-	<b>2.0%</b>	<b>4.4%</b>	<b>3.3%</b>	<b>2.0%</b>

### Highest Growth in Annual Dividends per Share – 10 Year

Company	Sector	10Yr Ann DPS Growth	10Yr Ann EPS Growth	10Yr Annualized Return	Yield (TTM)
L Brands Inc.	Consumer Discretionary	20.9%	10.3%	20.0%	11.4%
Diamond Offshore Drilling	Energy	18.6%	27.1%	18.7%	5.0%
Occidental Petroleum	Energy	15.8%	14.0%	20.4%	2.8%
ONEOK Inc.	Utilities	15.1%	9.0%	21.9%	2.9%
Deere & Co.	Industrials	15.1%	27.6%	18.2%	2.1%
ConocoPhillips	Energy	13.6%	24.8%	15.2%	4.4%
Eaton Corporation PLC	Industrials	13.2%	13.4%	15.9%	2.5%
General Dynamics Corp.	Industrials	13.0%	N/A	11.8%	2.9%
Paccar Inc.	Industrials	12.9%	12.6%	16.1%	3.2%
Archer Daniels Midland	Consumer Staples	12.3%	9.0%	13.5%	2.2%
<b>S&amp;P 500</b>	-	<b>5.7%</b>	<b>8.7%</b>	<b>6.0%</b>	<b>2.0%</b>

\* These screens exclude companies with a starting or current dividend yield of less than 2%. The growth rate methodology is that of compound annual growth rates based on annual dividends per share.

## Dividends per Share – Trailing Actuals and Forward Estimates

Dividends per Share (DPS) – Trailing 12-Month Payments vs. Forward 12-Month Estimates



Top 5 and Bottom 5 Companies by Difference in Trailing and 1-Year Mean Consensus DPS

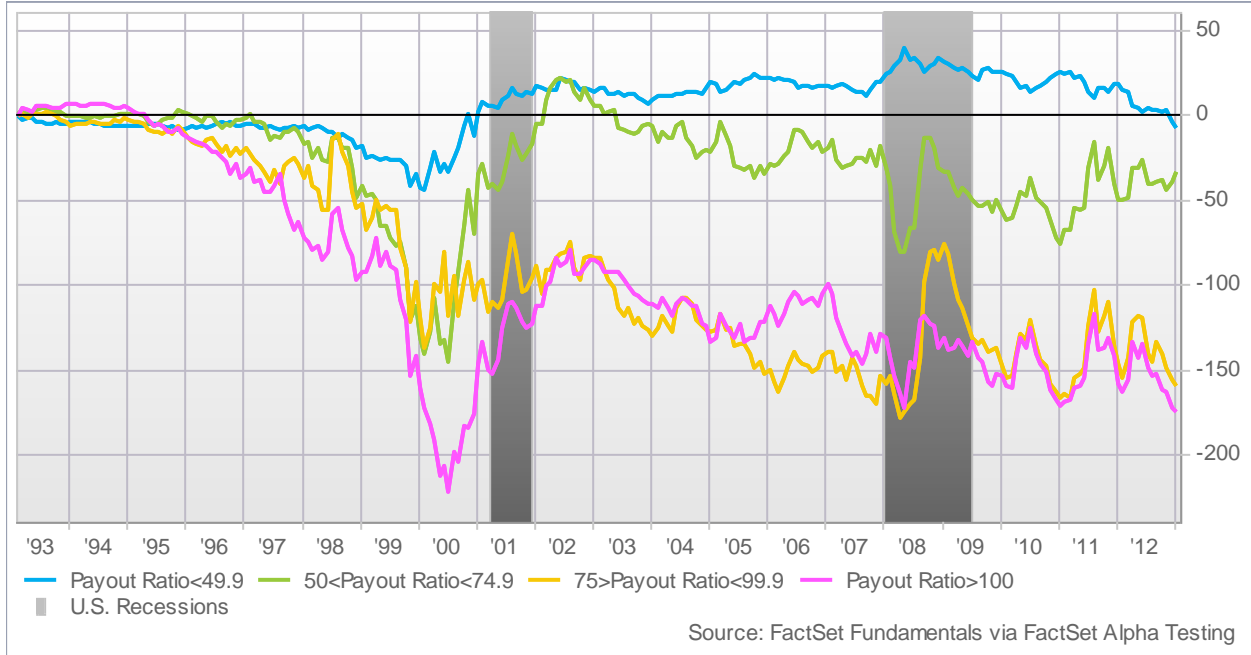
Company	Sector	DPS (TTM)	DPS Est. (NTM)	Proj'd Growth (%)	1 Yr Total Return
Citigroup Inc.	Financials	\$0.04	\$0.18	340.4%	21.0%
Capital One Financial	Financials	\$0.20	\$0.81	303.2%	(3.3%)
Zions Bancorporation	Financials	\$0.04	\$0.12	211.8%	15.6%
Regions Financial Corp.	Financials	\$0.04	\$0.12	211.6%	25.6%
Bank of America Corp.	Financials	\$0.04	\$0.09	131.7%	28.0%
EQT Corp.	Energy	\$0.69	\$0.12	(82.6%)	39.7%
Franklin Resources Inc.	Financials	\$4.10	\$1.18	(71.2%)	23.3%
Cliffs Natural Resources	Materials	\$2.03	\$0.60	(70.4%)	(72.3%)
Avon Products Inc.	Consumer Staples	\$0.58	\$0.24	(58.6%)	9.5%
Abbott Laboratores	Health Care	\$1.67	\$0.93	(44.3%)	2130.0%
<b>S&amp;P 500</b>	-	<b>\$32.02</b>	<b>\$35.00</b>	<b>9.3%</b>	<b>12.9%</b>

## 20-Year Forward Performance: Dividend Practices

The following charts show cumulative, forward one-month returns based on previous month characteristics, or factors, from a rolling universe of S&P 500 constituents. For all back tests, securities are regrouped dynamically and shown market-cap weighted to ensure that the effects of differences in security weighting between the model and the benchmark have a limited impact on return comparisons.

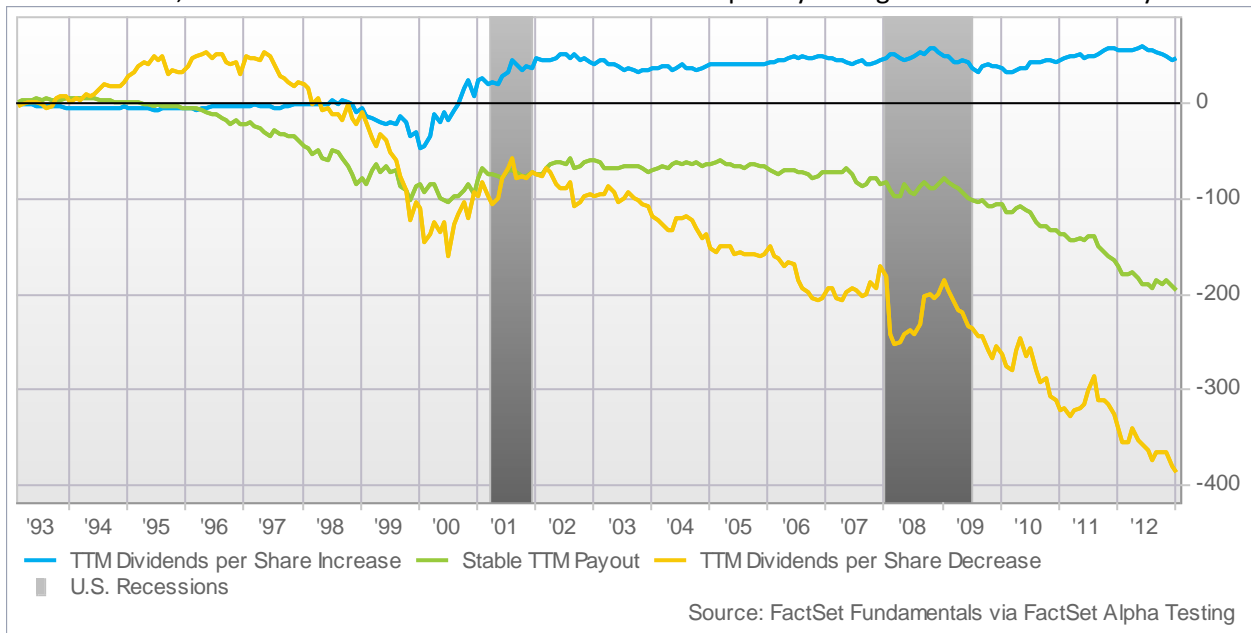
For this back test, S&P 500 companies were broken into groups by dividend payout ratio (TTM basis). The groups were formed after removing non-dividend paying companies from the universe.

Historical, Forward Returns - Relative to S&P 500 - Dividend-Paying Stocks Grouped by Payout Ratio



For this back test, S&P 500 companies were broken into groups by change in their TTM DPS relative to last year. The groups were formed after removing non-dividend paying companies from the universe.

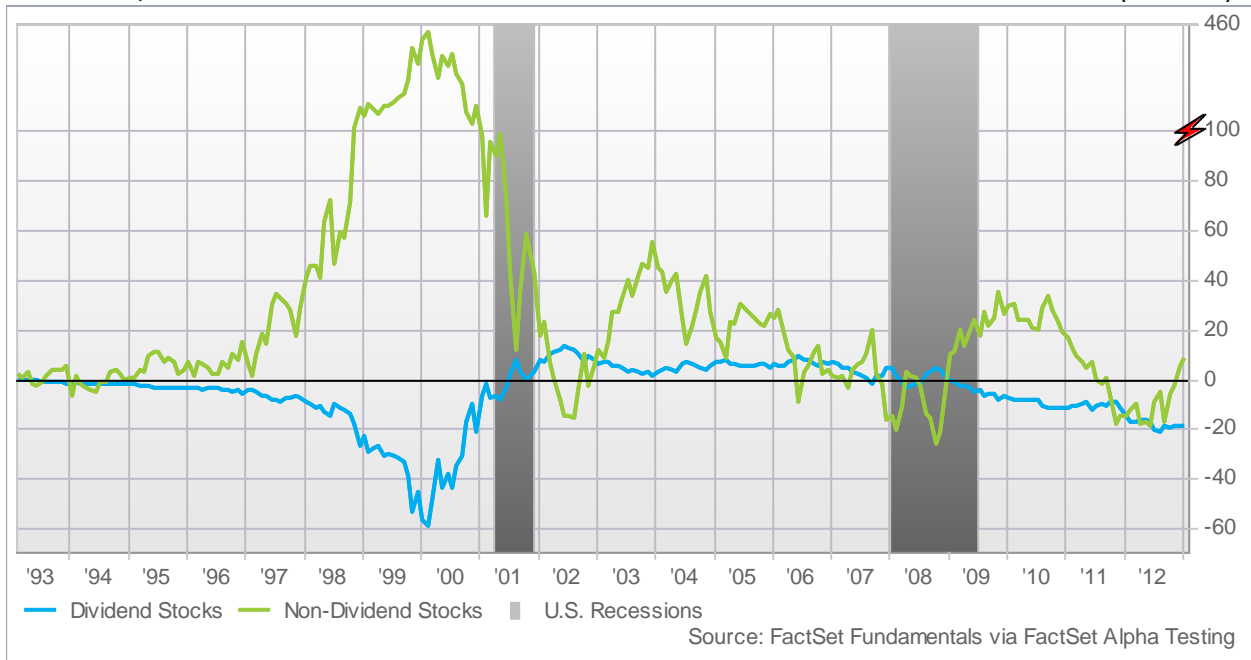
Historical, Forward Returns - Relative to S&P 500 - Grouped by Change in TTM Dividend Payout



## 20-Year Forward Performance: Dividend Practices, Ctd.

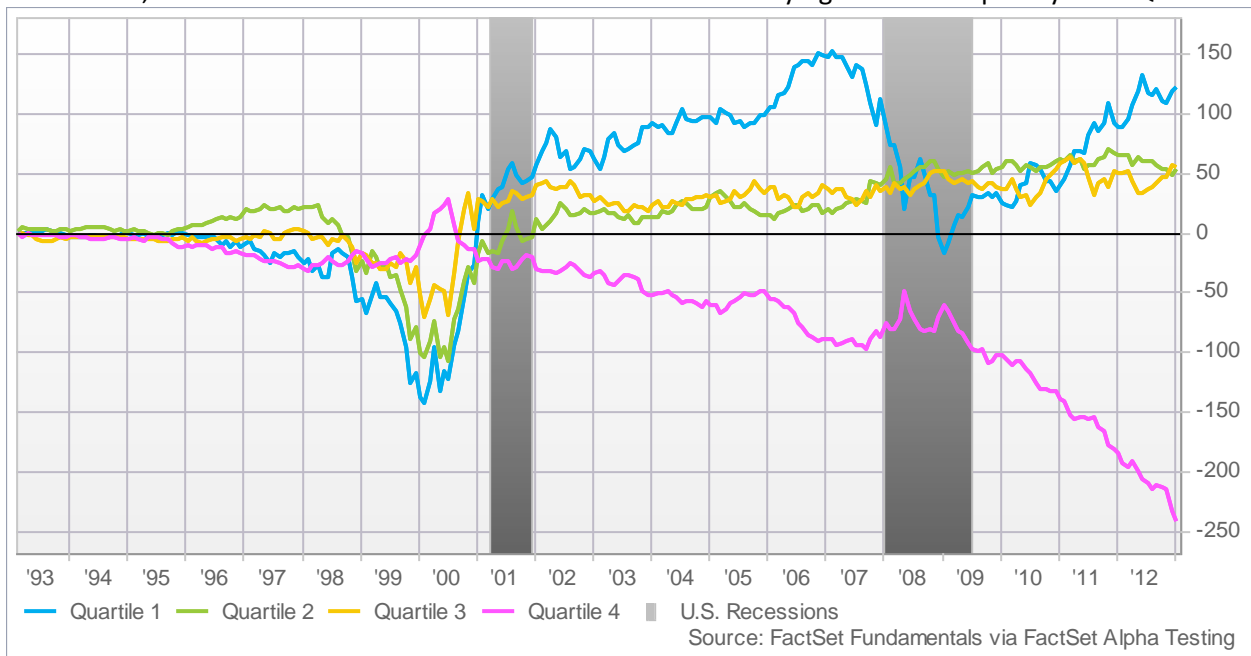
For this back test, S&P 500 companies were broken into two groups: those with positive TTM dividends per share those with no TTM dividends per share. This back test also showed that the group of dividend stocks underperformed the S&P 500 Total Return index in nearly 65% of months when the index had positive returns, and outperformed in over 73% of the months when the index was “down”. Apple has been excluded because its significant weight and volatile performance in 2011 and 2012 has distorted the trends.

Historical, Forward Returns - Relative to S&P 500 - Dividend Stocks vs. Non-Dividend Stocks (ex-AAPL)



For this Alpha Testing back test, S&P 500 companies were broken into quartiles by dividend yield. The quartiles were formed after removing non-dividend paying companies from the universe. Quartile 1 includes the group of companies with the highest yields.

Historical, Forward Returns - Relative to S&P 500 – Dividend-Paying Stocks Grouped by Yield Quartile



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