Special Report

S-Network International Sector Dividend Dogs Index (Ticker: IDOGX)

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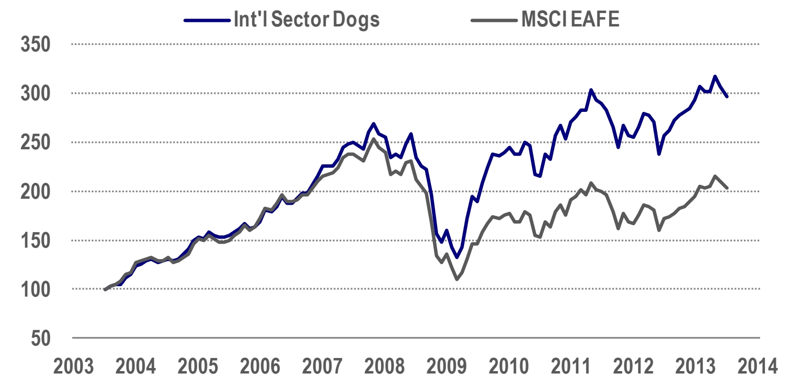
In this report:

- Following on the heels of the domestically-focused **Sector Dividend Dogs ETF (NYSE Arca: SDOG)**, ALPS recently introduced an international companion, the **International Dividend Dogs ETF (NYSE Arca: IDOG)** to their unique dividend investing strategy.
- Simple yield-based dividend indices tend to have risky concentrations that can diminish the original benefits of indexing, while indices based on dividend growth and size may be better diversified but often lack the income producing qualities investors expect.
- The hybrid strategy of the S-Network International Sector Dividend Dogs Index overcomes these drawbacks by adding a sector overlay to yield-based stock selection, which may result in enhanced yield but with less sector and geographic deviation from the benchmark MSCI EAFE Index.
- Both a backward-looking performance review and a forward-looking fundamental analysis of the underlying constituents suggest that, like its domestically-focused counterpart, the International Sector Dividend Dogs Index is worthy of investors' consideration.

Figure 1: Ten Year Performance (rebased)
S-Network Int'l Sector Dividend Dogs Index vs. MSCI EAFE Index



Note: Monthly total returns, 6/30/03-6/30/13, rebased, June 2003 = 100. Figures subtract expenses of the applicable ETF from index data quoted on Bloomberg as follows: Int'l Sector Dogs (50bp); MSCI EAFE (34bp). ***Returns for the Int'l Sector Dogs Index are based on pre-inception performance data as supplied by the index provider.***

Source: Bloomberg and AltaVista Research

Old Dog, New Tricks

In a special report *A New Approach to Dividend Indices,* published in 2012, we examined how a new, hybrid approach to dividend-oriented indexes addressed the shortcomings of traditional approaches to dividend investing. We found that simple yield-based indices often have risky sector concentrations, while more diversified approaches based on dividend growth and size often lack the value and income producing qualities that most dividend investors would expect.

The S-Network Sector Dividend Dogs Index, a twist on the old "Dogs of the Dow" theory, takes a hybrid approach that offers high dividend yields but imposes a sector overlay in order to maintain the diversification that is one of the basic tenets of index investing. A new exchange traded fund (ETF) tracking the "Sector Dogs" index is approaching its second anniversary with peer-leading performance figures (discussed more below).

But in our global economy, investors need exposure to foreign markets as well. Recently, S-Network extended their hybrid approach to dividend indices to include shares of firms in developed foreign markets. We researched whether the hybrid concept travels well, and our findings are laid out in this companion report to the earlier paper.

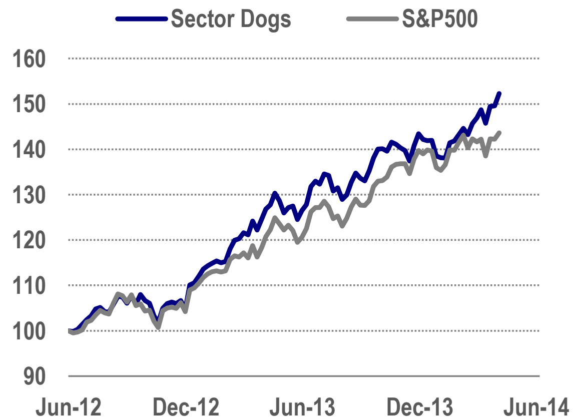
We broadly follow the outlines of the prior report as well: examining the construction methodologies behind each approach and the differences in composition that result; reviewing past performance and what can be learned from it, especially considering how each fared through the Global Financial Crisis of 2008-09; and concluding with a forward-looking assessment of each index's investment potential based on a fundamentally-driven analysis of each underlying index constituent.

Results So Far

Before we start our examination of dividend investing in the international arena, let us take a brief look back at how the Sector Dogs Index (SDOGXTR), tracked by the ALPS Sector Dividend Dogs ETF (**SDOG**), has fared in the real world since its debut. Since the fund's inception on June 29, 2012 through April 30, 2014 the index posted total returns of 52.5%, beating the other dividend indices we examined in the earlier paper, as well as the S&P500 which returned 43.8% (Figure 2).

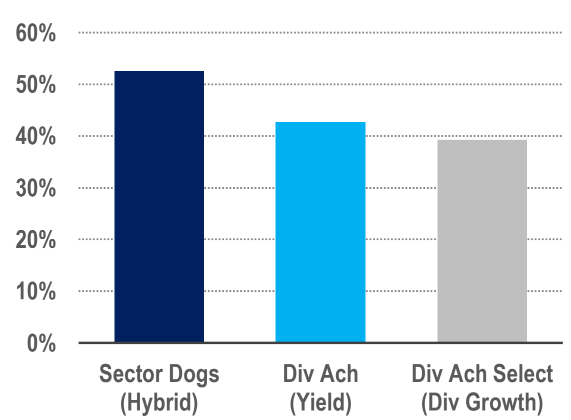
The High Yield Equity Dividend Achievers Index (DAYTR), representing the yield-based strategy in our earlier paper, returned 42.6% for the period, while the Dividend Achievers Select Index (DVGTR), representing the dividend growth strategy, returned 39.2% (Figure 3).

Figure 2: Relative Performance*
Sector Dogs vs. S&P500, 6/29/12-4/30/14



*Source: Bloomberg. *Note: Y-axis is represented by an index values with a base of 100. Past performance does not guarantee future results*

Figure 3: Total returns
by Index, 6/29/12-4/30/14



Past performance does not guarantee future results
Source: Bloomberg

Recap: Index Construction Methodologies

Because an index is based on a set of rules that determine its makeup, understanding these rules is key for investors in selecting the funds most suitable to their needs. Seemingly minor differences in universe, selection criteria and weighting can significantly alter the composition of an index and therefore its overall investment potential.

Before proceeding we define these key terms. Universe means the entire population of stocks eligible for inclusion in an index. It can be as wide as all the stocks in the world, but typically is a smaller set such as "U.S. stocks" or "Emerging Markets" or even "U.S. large caps." Selection criteria determine which stocks from the broad universe are to be included in the index, and weighting determines the importance of each component in the overall index.

Although the methodologies surrounding the available dividend-oriented indices have many nuances, for the sake of simplicity we can divide them into three basic categories:

- Yield-driven strategies
- Dividend growth strategies
- Hybrid strategy

By examining the construction methodologies of a representative index in each category we can shed some light on its investment characteristics. In this report we are focusing on shares in developed foreign markets, and will use widely followed indices from Standard & Poor's and NASDAQ to represent the first two strategies, respectively, and the new S-Network International Sector Dividend Dogs index to represent the hybrid strategy.

Large ETFs tracking both the Standard & Poor's and NASDAQ indices are available to investors, while the "International Sector Dogs" index now has a small new ETF available, hoping to follow the success of the domestic "Sector Dogs" ETF listed in 2012.

Yield-Driven Strategies: S&P International Dividend Opportunities Index

The main objective of a yield-driven strategy is, obviously, to offer a significantly higher dividend yield than is available with a market-based index such as the MSCI EAFE Index, which tracks stocks in foreign developed markets. The S&P International Dividend Opportunities Index is a good representation of the yield-driven strategy.

The index consists of the 100 highest-yielding non-U.S. common stocks (including ADRs) from the S&P Broad Market Index. The constituents are weighted by yield subject to some basic diversification requirements, such that no single stock may exceed 3.0% of the index (at time of rebalancing) and no single country may have a weight greater than 25%.

Purely as a strategy to maximize current index yield, this works beautifully. We calculate that based on 2013 consensus dividend per share figures for index constituents, the S&P International Dividend Opportunities Index trades at a trailing yield of 6.1%, more than double the 3.0% figure for the MSCI EAFE Index (Figure 4). We will examine the dividends themselves in more detail later.

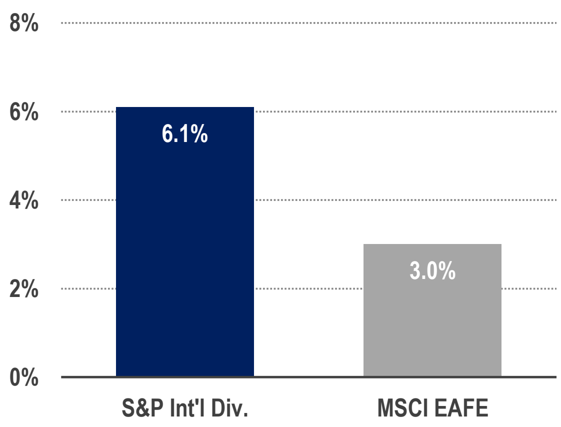
However, this comes at a cost of fairly high sector and geographic concentrations. Although not as dramatic as the sector imbalances for the yield-driven strategy in our earlier U.S.-based research, the S&P International Dividend Opportunities Index nonetheless has outsized exposure to the typically high-yielding Telecom and Utilities sectors, which together account for about 31% of the index (Figure 4), compared with 8% for the MSCI EAFE Index.

In terms of geography, Australia tops the list of countries at about 22%. Dividends enjoy favorable tax treatment in Australia, and as a result Australian firms pay some of the highest dividends in the world. Naturally, this means they are heavily represented in a yield-based global index, and as a result the volatile Australian dollar has almost triple the impact compared with the MSCI EAFE Index, where it accounts for about 8% of exposure.

At the opposite end of the spectrum, Japanese firms generally pay out lower dividends, and as a result our yield-driven index offers no exposure to them, compared with 18% for the MSCI EAFE Index. A list of the top ten country allocations in each of the three representative dividends indices we examine in this paper, as well as the MSCI EAFE Index, is presented in Table 1.

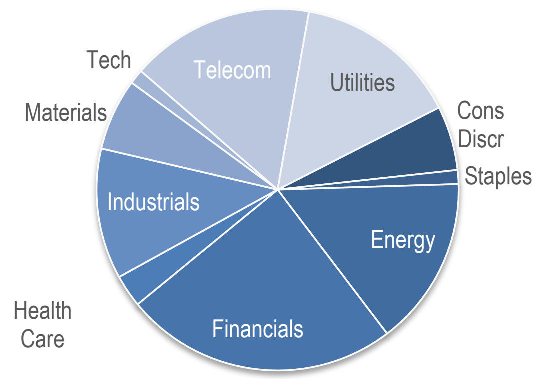
It should be stated that the objective of the S&P International Dividend Opportunities Index is not to mimic the exposures of the EAFE index. One key difference is that S&P includes some emerging market exposure, currently at about 14% and limited by rules to a maximum of 15%. Our highlighting the differences in makeup between the two indices isn't criticism of either, but rather to illustrate the impact that a yield-driven construction methodology has on overall index exposures. As always, investors who purchase ETFs tracking any of these indices need to be cognizant of what they own.

Figure 4: Trailing Yield on 2013 DPS*
S&P Int'l Div. Opportunities vs. MSCI EAFE



*Source: AltaVista Research. *Note: based on 2013 DPS figures for index constituents as of closing prices on 4/30/14. May differ from yield on distributions made by funds tracking each index.*

Figure 5: Sector breakdown
S&P Int'l Dividend Opportunities Index



Source: AltaVista Research as of 4/30/14

Sector allocations are subject to change.

Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be higher or lower than actual data quoted. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Table 1: Top 10 Country Allocations by Index

S&P Int'l Dividend		NASDAQ Int'l Div		Int'l Sector Dogs		MSCI EAFE	
AUSTRALIA	22.2%	CANADA	19.3%	JAPAN	15.3%	JAPAN	17.6%
CANADA	9.7%	BERMUDA	19.2%	BRITAIN	12.4%	BRITAIN	17.4%
BRITAIN	6.7%	BRITAIN	16.5%	AUSTRALIA	12.1%	FRANCE	9.7%
GERMANY	6.2%	SWITZERLAND	5.9%	FINLAND	9.9%	SWITZERLAND	9.6%
FINLAND	5.6%	RUSSIA	4.4%	NEW ZEALAND	6.2%	GERMANY	9.0%
SPAIN	5.0%	GREECE	4.3%	NORWAY	6.2%	AUSTRALIA	7.8%
SWEDEN	3.9%	JAPAN	3.2%	FRANCE	6.1%	NETHERLANDS	4.6%
ITALY	3.9%	UNITED STATES	2.7%	SWEDEN	5.6%	SPAIN	3.3%
ISRAEL	3.3%	NORWAY	2.5%	ITALY	4.1%	SWEDEN	3.1%
SINGAPORE	3.2%	NETHERLANDS	2.4%	ISRAEL	4.0%	HONG KONG	2.6%

Source: AltaVista Research as of April 30, 2014. Country allocations are subject to change.

Dividend Growth Strategies: NASDAQ International Dividend Achievers Index

Dividend growth strategies by contrast include the broader spectrum of dividend paying stocks without the emphasis on yield. Here we've chosen the NASDAQ International Dividend Achievers Index to represent this strategy, just as the domestically focused Dividend Achievers Select Index represented this strategy in our prior U.S.-focused study.

Stocks in this index are drawn from a universe of non-U.S. firms that have American Depository Receipts (or Global Depository Receipts) or other shares listed in the U.S. that meet certain liquidity screens. When the index was first created in 1979 this requirement made sense, as shares listed on foreign exchanges were more expensive to trade, and reliable information harder to come by. However in 2014 this requirement seems oddly limiting of the opportunity set.

In any case, to be included in the International Dividend Achievers index securities must have a record of at least five years of consecutive increases in regular dividends. The number of constituents in the index therefore varies from year to year, but qualifying securities are weighted by yield.

Despite the weighting by yield, the stocks in this index are not particularly high *yielding*—as we will discuss below. Since the primary selection criteria is dividend *growth,* the index tends to include stocks with commensurate earnings growth to support those dividends, and which the market tends to assign higher valuations. And by definition it excludes any company that has cut dividends or simply maintains a steady dividend payment, meaning defensive stocks and turnaround situations likely to have higher yields number few if any in the index.

The International Dividend Achievers Index might reasonably be described as "growth stocks that pay dividends." A good illustration of this is that aggregate Return on Equity for firms in the index is consistently higher than it is for their counterparts in the MSCI EAFE Index—as are net margins—and as a result firms in the Dividend Achievers have grown sales, dividends per share (DPS) and book value at faster rates over the past five years than those in EAFE. Firms in EAFE do win that horse race on earnings per share (EPS), but the base year of 2008 was a really bad year for many firms, and profitability was more depressed for firms in EAFE making comparisons easier (Figure 7).

In any case, the use of dividend growth as a selection criteria in the International Dividend Achievers Index diminishes the importance of yield and avoids the pitfall of concentration in a few relatively high yielding sectors and countries. While there are certainly differences in sector exposures between the International Dividend Achievers and MSCI EAFE indices—the largest of which are Energy (+15%) and Financials (-13%)—the dividend index nonetheless appears reasonably well balanced, and not especially concentrated in typically high-yielding sectors (Figure 6).

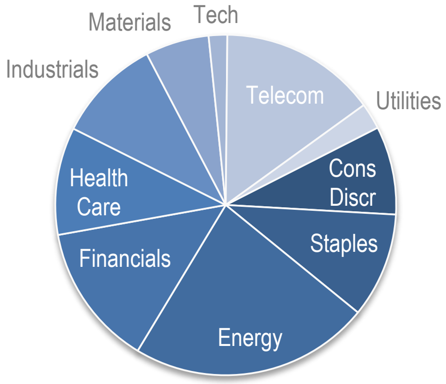
Like the high-yielding index, the International Dividend Achievers has some exposure to emerging markets, at 13%; and to Canada as well (19%), whereas EAFE has none. But otherwise it appears fairly well diversified by country and region, without the outsized exposure to the volatile Australian dollar.

The net effect of a construction methodology focused on dividend growth is that the index lacks the income producing qualities that dividend-oriented investors might expect. Based on consensus figures for 2013 dividends per share for individual index constituents, the International Dividend Achievers Index has a trailing yield of 3.4%, only slightly better than the 3.0% figure for the MSCI EAFE Index.

Other valuation metrics suggest that stocks in the International Dividend Achievers Index are more expensive than their counterparts in either of the other two dividend indices examined in this paper. They are also more expensive than stocks in EAFE on most valuation metrics, a more detailed examination of which is taken up later.

That doesn't necessarily mean stocks in this index are inordinately expensive. Instead it suggests that investors simply assign higher valuations reflecting these stocks' higher growth potential. But, dividend-oriented investors should still be aware that it may not have the income and value characteristics they might expect.

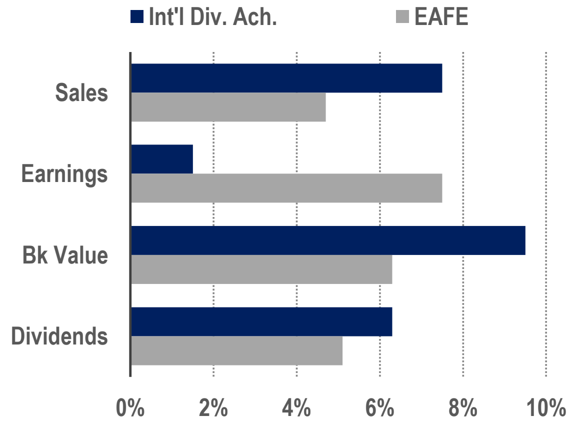
Figure 6: Sector breakdown
NASDAQ Int'l Dividend Achievers Index



Source: AltaVista Research as of 4/30/14

Sector allocations are subject to change.

Figure 7: Compound growth rates*
NASDAQ Int'l D.A. vs. MSCI EAFE, 2008-13



*Source: AltaVista Research. *Note: based on consensus figures for constituents as of 4/30/14.*

Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be higher or lower than actual data quoted. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

Hybrid Dividend Strategy: International Sector Dogs Index

Just as we saw in our study of U.S. dividend investing strategies, an index based on yield can be concentrated in a few sectors thus reducing the diversified market exposure that is the foundation of index investing. An index built on dividend growth provides diversified exposure but loses much of the value and income benefits of dividends.

The S-Network Sector Dividend Dogs in the U.S. takes a hybrid approach, selecting constituents for yield but imposing a sector overlay that guarantees diversification. Now, the new S-Network International Sector Dividend Dogs translates that approach to investing in foreign developed markets.

As noted in the prior paper, the "Dogs" in the name is a nod to index's "Dogs of the Dow" heritage, in which yield is the primary selection criteria for constituents. However the similarities largely end there. While the U.S. Sector Dogs are drawn from the "pre-screened" universe of S&P500 firms, the International Sector Dogs come from the specially-created S-Network Developed Markets Index (ex-Americas).

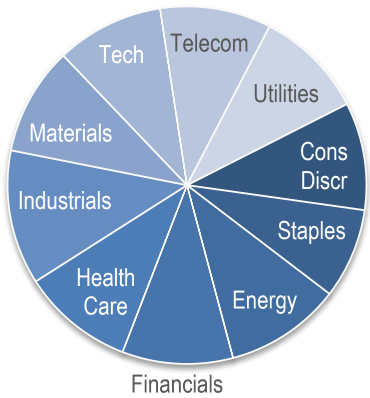
Although similar to the well-known MSCI EAFE Index, the S-Net DMI is based on the World Bank High Income Countries. Some additional liquidity screens weed out thinly traded issues, so that the S-Net DMI consists of over 400 generally well-followed "blue-chip" dividend-paying companies across 22 developed markets representing about 70% of available market cap.

Rather than simply take the highest yielding stocks in the universe, the International Sector Dividend Dogs Index imposes a sector overly that selects the five highest yielding stocks in each of the ten major sectors (according to Global Industry Classification System, or "GICS") and weights them equally. The result is that each sector also has an equal weight in the International Dogs index.

Geographically, the International Dog's largest allocation is to Japan, at about 15%, followed by 12% each in Australia and Britain, and 10% in Finland. In terms of both sector and country allocation, the International Sector Dogs has less "skew" versus EAFE than either the high-yield or dividend growth strategies (Figure 9). It bears repeating that none of these indexes has an objective to mirror the EAFE index so this isn't a criticism, but with so many investors likely benchmarking to EAFE, they'll want to know how allocations differ.

The number likely of most importance to income-oriented investors is yield. Despite its similarities to EAFE in sector and country allocation, stocks in the International Sector Dogs Index are trading at a trailing yield of 5.0% based on consensus 2013 dividend per share figures for index constituents. That is less than for the high-yield strategy, but still 2.0 percentage points above that for the MSCI EAFE index.

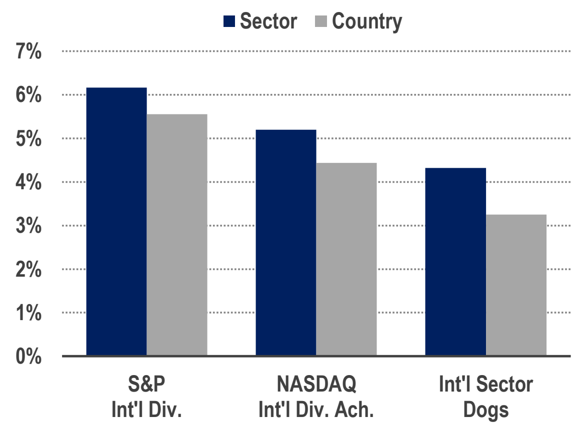
Figure 8: Sector breakdown
S-Network Sector Dividend Dogs



Source: AltaVista Research as of 4/30/2014

Sector allocations are subject to change.

Figure 9: Sector & country skew
Average difference vs. MSCI EAFE



Source: AltaVista Research
Note: As of 4/30/2014 – Sector and country skews are subject to change.

Table 2: Construction methodologies comparison

Strategy	Yield-based	Diversified dividend	Hybrid
Representative index	S&P Int'l Dividend Opportunities	NASDAQ Int'l Dividend Achievers Select	S-Network Int'l Sector Dividend Dogs
Universe	S&P Broad Market Index	Non-U.S. firms with ADRs or GDRs	S-Net Developed Markets (ex-US) Index
Selection criteria	• 100 potential highest yielding • Min. liquidity standards	• Min. 5 yr. history of dividend increases • Min. liquidity standards	• Five highest yielding stocks in each sector
Weighting	Yield	Dividend size	Equal
Constituents	100	varies	50
Consequences	Potential high yield but concentrated in a few sectors and countries	Well diversified but lacking income and value characteristics	Diversified and potential high yield

Source: AltaVista Research

Looking back: performance analysis

We examined ten years of pre-inception (i.e., "back test") data for the International Sector Dogs Index, obtained from the index provider, from June 2003 through June 2013, against the performance of the MSCI EAFE and International Dividend Achievers indices. The S&P International Dividend Opportunities index quotation begins in January 2008, which we rebased to the MSCI EAFE index's level as of that date. We also subtracted the expense ratios of the ETF tracking each index in order to provide a more accurate representation of results a real investor might have achieved. Figure 10 graphs the results of this analysis.

Immediately what stands out is that in the first half of the decade examined the International Sector Dogs, International Dividend Achievers and EAFE indices all closely track one another, although the International Sector Dogs opened up a slight lead in the run-up to the Global Financial crisis, as its relatively limited exposure to the Financial sector mitigated the fallout.

While all indices suffered devastating losses in the peak-to-trough period October 2007 – February 2009 (based on monthly observations), the International Sector Dogs index had the best performance, losing "only" 50.7%, and bottoming at levels that still preserved approximately 33% of the gains since the start of our analysis period, compared with a decline of 56.9% for the EAFE Index, which ended just 9% higher than at the start of our analysis in June 2003.

Somewhat surprisingly, the growth-oriented NASDAQ International Dividend Achievers index lost nearly 62% of its value during the crisis, the worst of the three. That is because the index had a different composition than it does today. Prior to the GFC, most financial firms had excellent records of dividend growth, and the sector was much more heavily represented than it is today, at roughly 35% of the index back in April 2008. The inclusion criteria of five consecutive years of dividend increases simply wasn't a good predictor of *future* dividend actions in the wake of the crisis. In contrast, the Financial sector is limited to 10% of the International Sector Dogs index as a matter of policy, so that the damage from that sector was mitigated.

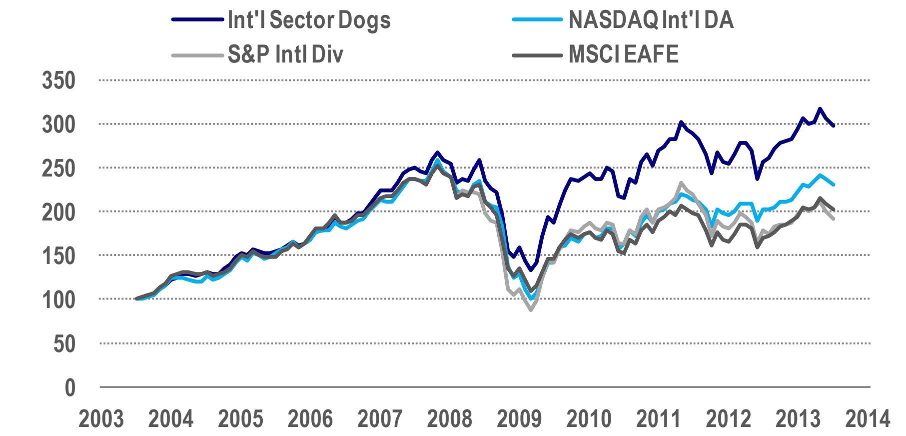
Since the end of the GFC, the International Sector Dogs and Dividend Achievers indices have essentially returned to their pre-crisis performance pattern. That is, they performed largely in line with each other, with the International Sector Dogs returning 125% and the Dividend Achievers returning 131% since the low in February 2009. Of course, not having declined as far during the financial crisis, the Sector Dogs started the recovery from a higher base. Meanwhile the EAFE Index rebounded only 86% from its GFC lows.

Like other dividend plays, the S&P International Dividend Opportunities Index bounced back vigorously after the March 2009 bottom, but since 2011 has lagged owing to its concentrated exposure to the Financial sector, some members of which have been suffering the effects of the sovereign debt crisis in Europe. Many Financials had high yields prior to the crisis because the market correctly anticipated that dividends would eventually be cut.

The hybrid strategy of the International Sector Dogs provided downside protection when needed, but has kept up with growth-oriented strategies during bull markets. It is the only index to have surpassed its pre-crisis high. An investor who had the misfortune to buy into any of the other indices in October 2007 would still be sitting on losses at the end of June 2013.

The International Sector Dogs Index was also the most highly correlated to the MSCI EAFE (technically, it had the highest coefficient of determination, or "r-squared") in the one, three, five and ten-year periods ending June 2013, a function of the relatively low sector and geographic "skew" we identified earlier. While high correlation is not inherently advantageous—and in fact would be considered disadvantageous by hedge fund managers—we recognize this has a practical benefit for many Financial Advisors, who may not wish to deviate too much in any one period from the benchmark against which their performance may be measured.

Figure 10: Ten Year Performance Returns (rebased)



Note: Monthly total returns, rebased, June 30, 2003 = 100, except the S&P Int'l Div which starts 1/31/08 and is rebased to 217.0, the MSCI EAFE index figure for that date. Figures subtract expenses of applicable ETF from index data quoted on Bloomberg as follows: Int'l Sector Dogs (50bp); NASDAQ Int'l Div. Achievers (56bp); S&P Int'l Div (45bp) and EAFE (34bp). ***Returns for the Int'l Sector Dogs Index are based on pre-inception performance data as supplied by the index provider.***

Source: Bloomberg and AltaVista Research

One surprising finding from this analysis was that the high-yielding S&P International Dividend Opportunities Index was actually more volatile (as measured by annualized standard deviation of returns) than either of the other two dividend indices or the MSCI EAFE index in every period examined (Table 3). Generally, higher-yielding stocks are less volatile than peers with lower or no dividend yields. But that doesn't always hold true for a *portfolio* of high-yielding stocks, or in our case, an index. There are two likely reasons for this:

- Relative concentration in 2-3 high yielding sectors diminishes the risk-reducing benefit of broadly diversified index strategies
- Exceptionally high yields are often a sign of distress, not dependable income. As we'll show in the following section, this is true of stocks in the S&P index, as well as the International Sector Dogs to a lesser extent. Naturally, securities of firms in financial distress or "turnaround situations" tend to be more volatile than those of firms with prospects that are less in doubt.

Table 3: Pre-inception Performance Analysis:

Index	S-Network Sector Div. Dogs	NASDAQ Int'l Div. Achievers	S&P Int'l Dividend Opportunity	MSCI EAFE Index
Strategy	Hybrid	Divers. div. growth	Yield-based	Benchmark
Index ticker	IDOGXTR	DATTR	SPGTDOUT	NDDUEAFE
1 YEAR				
Total return	15.5%	14.3%	6.9%	18.2%
Ann. volatility	10.3%	7.4%	12.2%	9.5%
r-squared (r^2)	90.5%	78.0%	79.3%	100.0%
Information ratio	-3.03	-2.95	-6.84	
3 YEARS				
Total return	11.4%	12.2%	5.7%	9.7%
Ann. volatility	17.8%	15.3%	20.7%	18.3%
r-squared (r^2)	96.1%	92.0%	91.7%	100.0%
Information ratio	1.61	1.55	-2.25	
5 YEARS				
Total return	4.8%	1.9%	-0.6%	-1.0%
Ann. volatility	23.9%	23.9%	29.5%	23.0%
r-squared (r^2)	95.1%	90.2%	92.2%	100.0%
Information ratio	3.81	1.33	0.14	
10 YEARS				
Total return	24.4%	18.3%		15.2%
Ann. volatility	18.7%	18.9%		18.2%
r-squared (r^2)	94.6%	89.2%		100.0%
Information ratio	7.41	1.72		
Financial Crisis Period (Oct. 2007 – Feb. 2009)				
Total return	-50.7%	-61.5%		-56.9%
Ann. volatility	7.2%	7.7%		7.0%
r-squared (r^2)	96.8%	87.6%		100.0%
Information ratio	4.75	-1.68		

Note: *All measurements are based on monthly observations for the period ending June 30, 2013. Three, five and ten year return figures annualized; financial crisis period returns are simple returns for the peak-to-trough period specified. Return figures subtract annual expense ratios of the applicable fund from the index data quoted on Bloomberg as follows: Int'l Sector Dogs (50bp); NASDAQ Int'l Div. Achievers (56bp); S&P Int'l Div (45bp) and EAFE (34bp).* ***Returns for the Int'l Sector Dogs Index are based on pre-inception performance data as supplied by the index provider.*** *"R-squared" (r^2) is a statistical measure of the strength of the relationship between the index being measured and the MSCI EAFE Index. Information ratio is a measure of the risk-adjusted performance of the index being measured versus that of the MSCI EAFE Index.*
Source: *Bloomberg and AltaVista Research*

Past performance does not guarantee future results

The Road Ahead: Fundamental Analysis

As investors are well aware, past performance is no guarantee of future results. Likewise, our analysis of construction methodologies and historical results only give investors a partial picture of an index or fund's investment potential.

Fortunately, one of the often overlooked and most important advantages of index investments is that they are transparent—their holdings are public information. As a result, it is possible to conduct a study using the traditional tools of security analysis. The advantage of this approach is that it is forward-looking.

We begin with the focus of all income-oriented investors: yield. High yields typically occur for a reason. Usually, the firm in question has fallen on hard times, profits are down and dividends may have to be cut or eliminated. Stock prices have likely declined substantially, thereby elevating yield on whatever dividends remain. In a word, they are "dogs."

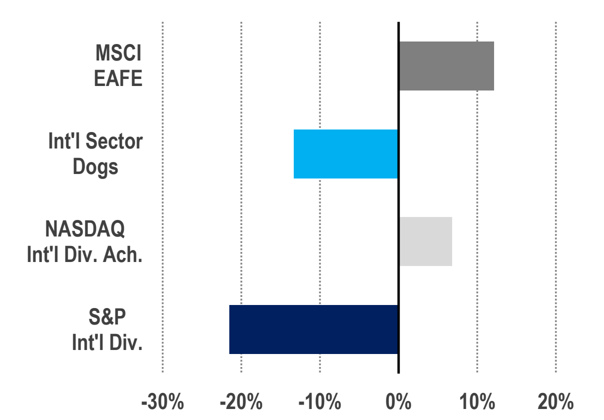
This is exactly the situation that many firms in both the high-yielding S&P International Dividend Opportunities and International Sector Dogs indices find themselves in. Based on consensus EPS figures for constituents in each index, profits of firms in the S&P International Dividend Opportunities index were about 22% lower in 2013 than they were back in 2010, while profits were off by about 13% for firms in the International Sector Dogs index. In contrast, earnings for stocks in the broader MSCI EAFE index grew about 12% over the same period, while earnings for those in the growth-oriented Dividend Achievers index were up about 7% (Figure 11).

For turnaround situations, larger market cap may confer somewhat of an advantage, given these firms' easier access to capital markets. We classify 64% of exposure in the International Sector Dogs as large cap (with market capitalization exceeding US$10 billion) and 36% as mid cap ($2-10 billion). This more closely mirrors the allocation of the MSCI EAFE index as compared with the S&P index, which has a more pronounced bias towards mid-caps. That segment accounts for 56% of exposure, followed by large caps at 38%, and small caps (less than $2 billion) at 6% (Figure 13).

Not just earnings have fallen. Based again on consensus figures for individual index constituents, overall dividends declined by 7% in 2013 versus 2012 for stocks in the S&P International Dividends index, and by about 4% for those in the International Sector Dogs index.

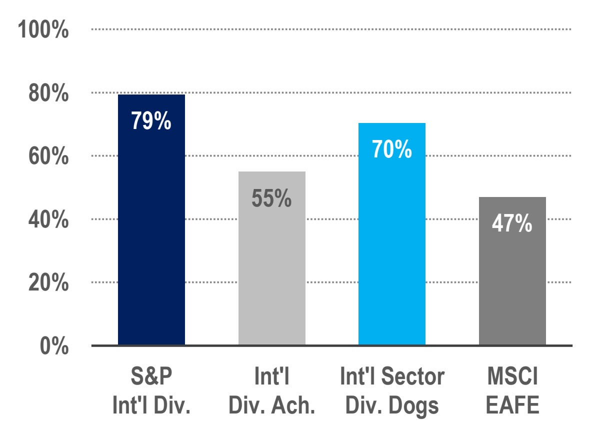
It is possible that dividends will need to be cut further from current levels. The payout ratios for both the S&P and International Sector Dogs indices are elevated, at 79% and 70%, respectively, compared with 47% for stocks in the Dividend Achievers index (Figure 12).

Figure 11: Historical Earnings Growth
*2013 vs. 2010**



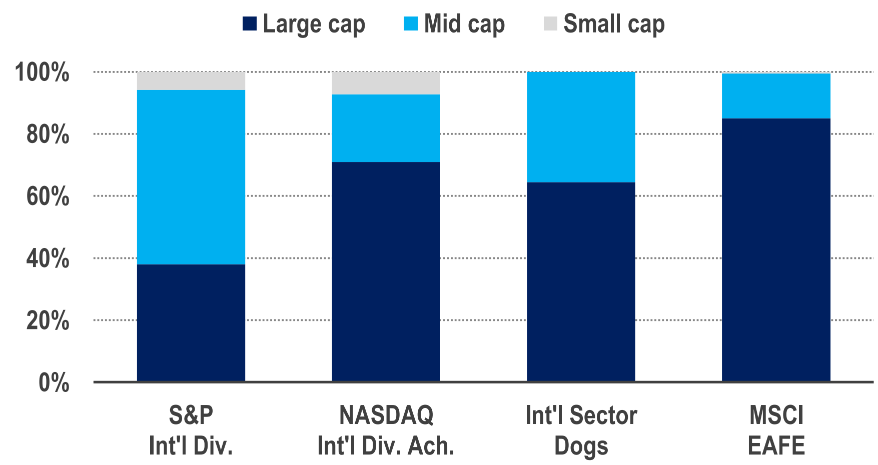
*Source: AltaVista Research *Note: based on consensus figures for current index constituents as of 4/30/14.*

Figure 12: Payout Ratio
*2013 DPS ÷ EPS**



*Source: AltaVista Research *Note: based on 2013 consensus figures for current index constituents as of 4/30/14.*

Figure 13: Market cap allocation



Source: AltaVista Research. Market cap allocations are as of 4/30/14 and are subject to change.

How high is too high? There's no sure answer to this question, although as a rule of thumb payouts below 50% are generally considered safe. Payouts can remain above that level for years without being cut, but clearly dividend growth cannot outpace EPS growth forever so a turnaround here is key. This, of course, is the reversion to the mean that lies at the heart of the original Dogs of the Dow Theory.

Valuations

Of course, even companies with the best fundamentals can be a bad investment if valuations are too rich, just as firms with poor fundamentals can be great investments at the right valuations. Given that dividends are one of the key criteria in stock selection for value investors, one would expect dividend-oriented indices to exhibit some value characteristics. But as we've already seen with respect to yield, that largely depends on the construction methodology. Table 4 has common valuation metrics for each of our three international dividend indices plus the MSCI EAFE Index.

For the most part, the S&P International Dividend Opportunities and International Sector Dogs indices both enjoy valuation multiples on par the benchmark EAFE Index, give or take a few percent. The exception is the price-to-sales ratio for the S&P International Dividend Opportunities index at 1.2x consensus figures for 2014, compared with 0.9x for those in EAFE, and 1.0x for firms in the International Sector Dogs index. This is primarily attributable to differences in exposure to the Financial sector, where price-to-sales multiples—which tend to be high—are not terribly meaningful.

Meanwhile, the International Dividend Achievers presents a mixed bag, with significantly higher price-to-sales, price-to-earnings and price-to-book value multiples versus those of stocks in the EAFE index, but a modestly cheaper price-to-cash flow multiple. And as mentioned earlier the International Dividend Achievers' trailing yield is only slightly higher than that of EAFE. This is perhaps justifiable given our characterization of the index as "growth stocks that pay dividends," but again may not be consistent with many dividend investors' desire for income.

Table 4: Valuation metrics*

Index	S-Network Int'l Sector Dividend Dogs	NASDAQ Int'l Dividend Achievers	S&P Int'l Dividend Opportunity	MSCI EAFE Index
Strategy	Hybrid	Divers. div. growth	Yield-based	Benchmark
Price-to-sales (x)	1.0	1.5	1.2	0.9
Price-to-earnings (x)	14.4	15.2	13.9	14.3
Price-to-cash flow (x)	7.6	8.5	7.5	8.7
Price-to-book value (x)	1.6	1.8	1.5	1.5

*Source: AltaVista Research *Note: Based on consensus 2014 per-share figures for individual constituents of each index and closing share prices as of April 30, 2014.*

Parting Thoughts

There is nothing sacred about traditional, market cap-weighted benchmark indices, and alternative strategies can hold plenty of appeal for investors. One of the great advantages of any index fund is the transparency with respect to underlying holdings, which makes it possible for investors to examine and decide for themselves which index best suits their individual objectives.

We examined how differences in construction methodology affect composition, performance and investment fundamentals of several international dividend-oriented indices, as well as how each of these factors differ from the MSCI EAFE index, the traditional benchmark for these markets. As with any investment, trade-offs are involved. But what we found in this study largely mirrors our earlier study on domestically-focused dividend indices.

In index construction, an exclusive focus on maximizing yield, as with the S&P International Dividend Opportunities index we examined, can result in sector and geographic concentrations that diminish the diversification benefit that index investing is intended to deliver. Alternatively, another common approach to dividend investing that weights constituents by dividend growth or size offers some benefits over traditional cap-weighted indices—including benchmark-beating past performance for the NASDAQ International Dividend Achievers index we looked at—but it can lack the very income producing qualities that such investors would expect.

The hybrid strategy followed by the International Sector Dividend Dogs index overcomes the drawbacks of these other two strategies by combining yield-based security selection with an equal sector weight overlay. The result is a well-diversified index with potentially enhanced yield and value characteristics. Such diversification is critical with income-oriented investments since high yields can be a sign of distress, the consequences of which proved devastating during the financial crisis of 2008-09.

Only time will tell which approach ultimately delivers the best returns to investors over the long term. But for income-oriented investors not wanting to assume the extra risk entailed by a purely yield-driven approach to indexing, the International Sector Dogs index could be at least a faithful companion, and might even prove to be an investor's best friend.

Table 5: Quarterly Performance as of 3/31/2014
ALPS International Sector Dividend Dogs

Total Returns	Cumulative				Annualized	
Fund	**1 Mo.**	**3 Mo.**	**YTD**	**SI[1]**	**1 Yr.**	**SI[1]**
ALPS International Sector Dividend Dogs ETF (Net Asset Value)	1.71%	4.48%	4.48%	23.11%	-	-
ALPS International Sector Dividend Dogs ETF (Market Price)[2]	1.85%	3.93%	3.93%	23.48%	-	-
S-Net International Sector Dividend Dogs TR Index (Benchmark)[3]	1.91%	4.76%	4.76%	24.41%	-	-
S-Net International Sector Dividend Dogs Net TR Index (Benchmark)[3]	1.72%	4.57%	4.57%	23.57%	-	-

NOTE: Performance data quoted represent past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 866.675.2639 for current month end performance.

1 Inception date of June 27, 2013
2 Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.
3 S-Network International Sector Dividend Dogs Index is a portfolio of fifty stocks derived from the S-Net International Developed Markets Index (ex-Americas) Index. An investor cannot invest directly in an index.

Table 6: Quarterly Performance as of 3/31/2014
ALPS Sector Dividend Dogs

Total Returns	Cumulative				Annualized	
Fund	**1 Mo.**	**3 Mo.**	**YTD**	**SI[1]**	**1 Yr.**	**SI[1]**
ALPS Sector Dividend Dogs ETF (Net Asset Value)	3.40%	2.98%	2.98%	49.86%	21.19%	25.95%
ALPS Sector Dividend Dogs ETF (Market Price)[2]	3.37%	2.95%	2.95%	49.90%	21.26%	25.97%
S-Net Sector Dividend Dogs TR Index (Benchmark)[3]	3.47%	3.12%	3.12%	51.16%	21.83%	26.57%

NOTE: Performance data quoted represent past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 866.675.2639 for current month end performance.

1 Inception date of June 29, 2012
2 Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.
3 S-Network Sector Dividend Dogs Index is a portfolio of fifty stocks derived from the S&P500 Index. An investor cannot invest directly in an index.

Additional Disclosures:

The S-Network International Sector Dividend Dogs Index (Ticker: IDOGX) is designed to serve as a fair, impartial and transparent measure of the performance of international large cap equities with above average dividend yields.

The S-Net Developed Markets Index (ex-Americas): The World Bank's methodology for identifying High Income Countries is based on the country's gross national income (GNI) per capita. The selection criteria for the universe also includes requirements for sector inclusion, primary exchange listing, minimum market capitalization, share price, average daily trading volume and other factors.

Dogs of the Dow Theory: an investment strategy which proposes that an investor annually select for investment the ten Dow Jones Industrial Average stocks whose dividend is the highest fraction of their price.

There are risks involved with investing in ETFs including the loss of money. Additional information regarding the risks of this investment is available in the prospectus. The ALPS International Sector Dividend Dogs ETF is a new product with a limited operating history. In addition, any performance prior to the date of index inception is hypothetical.

Pre-Inception performance (PIP) results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance, and cannot account for all financial risk that may affect the actual performance of the ETF. The actual performance of the ETF may vary significantly from the back-tested data. In addition, PIP does not account for factors such as transaction costs, liquidity and other market factors. Had these factors been accounted for, actual performance would have been lower.

ALPS International Sector Dividend Dogs ETF Shares are not individually redeemable. Investors buy and sell shares of the ALPS International Sector Dividend Dogs ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.

The Fund is subject to the additional risks associated with concentrating its investments in companies in the market sector. Diversification does not eliminate the risk of experiencing investment losses.

The Fund's investments in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers, including, among others, greater market volatility than U.S. securities and less complete financial information than for U.S. issuers. In addition, adverse political, economic or social developments could undermine the value of the Fund's investments or prevent the Fund from realizing the full value of its investments. Financial reporting standards for companies based in foreign markets differ from those in the United States. Finally, the value of the currency of the country in which the Fund has invested could decline relative to the value of the U.S. dollar, which may affect the value of the investment to U.S. investors.

An investor cannot invest directly in an index.

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To obtain the Index Methodology of the Pre-inception Performance data, please visit http://sdogx.snetglobalindexes.com/pdf/idogx-RuleBook.pdf.

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The Fund Sponsor, ALPS Advisors, did pay S-Net and S&P for production of the index. All data for the index was maintained independently and we only assisted in the development of the methodology.

No material differences would exist given the transparent, rules-based methodology (i.e. no assumptions necessary). Major cost of creating portfolio is in the management fee which is included in the performance numbers. Other costs to manage are very immaterial and difficult to almost impossible to calculate

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