

TalkingPoints

S&P 500® Sector-Neutral Dividend Aristocrats® Index: A High Yielding Dividend Growth Strategy without Sector Bias



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While most dividend products tend to have large sector biases versus their underlying benchmark, the S&P 500 Sector-Neutral Dividend Aristocrats Index is designed specifically to match the sector weights of the S&P 500. This index is the latest addition to the S&P Dividend Aristocrats Series, and as such, it requires constituents to have increased or maintained their dividends for at least 15 consecutive years. Additionally, this index only selects companies that exhibit a high annual dividend yield relative to their peers within the same GICS® sector. Hence, it is designed to display an attractive yield versus its underlying benchmark, the S&P 500.

1. How does this index work?

The S&P 500 Sector-Neutral Dividend Aristocrats Index selects the top 20% of companies with the highest indicated annualized dividend (IAD) yield within each GICS sector that have maintained or increased their dividends for at least 15 consecutive years.

If the number of stocks passing the dividend screen is fewer than the sector target, new stocks are added in descending order of IAD yield, starting with those with the longest history of dividend growth, with a minimum dividend growth history of five years.

The index mirrors the sector weights of the S&P 500, but this rule may be relaxed if the number of eligible companies in the sector is below the target. Constituents are weighted by IAD yield within the GICS sectors, subject to a minimum weight of 0.25% and a maximum weight of 5.00%.¹

2. What are some of the standout features of the S&P 500 Sector-Neutral Dividend Aristocrats Index?

There are three standout features of the S&P 500 Sector-Neutral Dividend Aristocrats Index.

- The index is differentiated through its sector neutrality, as most dividend strategies tend to have large sector weight differences from their underlying benchmark.
- The index has a stringent selection metric by seeking companies that have maintained or increased dividends for at least 15 years. This eligibility requirement tends to bias the index toward selecting companies with successful business models and disciplined financial management.
- The index has historically showed a substantially higher yield relative to the S&P 500 by selecting companies with the highest IAD yield within each sector.

¹ For more information, please see the [methodology](#).

3. Why has the eligibility threshold been set at 15 years of stable or growing dividends?

A hallmark of the S&P Dividend Aristocrats methodology is the dividend growth requirement, which typically requires constituents to raise their total dividend per share every year for a minimum number of years. To facilitate sector neutrality in this index, the dividend growth threshold was set at a minimum of 15 consecutive years of stable or growing dividends.

This ensures that enough constituents from each sector can qualify, while also establishing a rigorous threshold for inclusion that has historically delivered many of the desired characteristics of a dividend growth strategy. For instance, constituents of this index have historically tended to be higher quality and exhibited defensive attributes. This makes sense since companies passing this threshold have demonstrated their ability to operate in different business environments, given most business cycles are substantially shorter than 15 years.

4. Why does this index follow a sector-neutral approach?

A key differentiator of this index is that it follows a sector-neutral approach that strives to mirror the sector weights of the S&P 500. This approach contrasts with most dividend indices, which can have large sector biases and often underweight growth sectors like Information Technology. A sector-neutral approach helps ensure the index is diversified across the sectors and may reduce the impact of performance differences relative to the S&P 500 that are caused by high active sector weights.

5. What are the key characteristics of the index?

Risk/Return Statistics

According to back-tested data, the absolute and risk-adjusted performance of the S&P 500 Sector-Neutral Dividend Aristocrats Index has been similar to the S&P 500 since inception (see Exhibit 1).

Exhibit 1: Risk/Return Comparison

Period	S&P 500	S&P 500 Sector-Neutral Dividend Aristocrats Index
Annualized Return (%)		
Full Period	9.64	9.96
YTD	18.73	2.13
1-Year	15.94	5.33
3-Year	10.52	12.06
5-Year	11.12	9.04
10-Year	12.80	11.51
15-Year	10.94	11.04
Annualized Volatility (%)		
Full Period	15.13	15.44
3-Year	17.75	17.98
5-Year	18.79	19.22
10-Year	14.86	15.05
15-Year	16.15	16.39

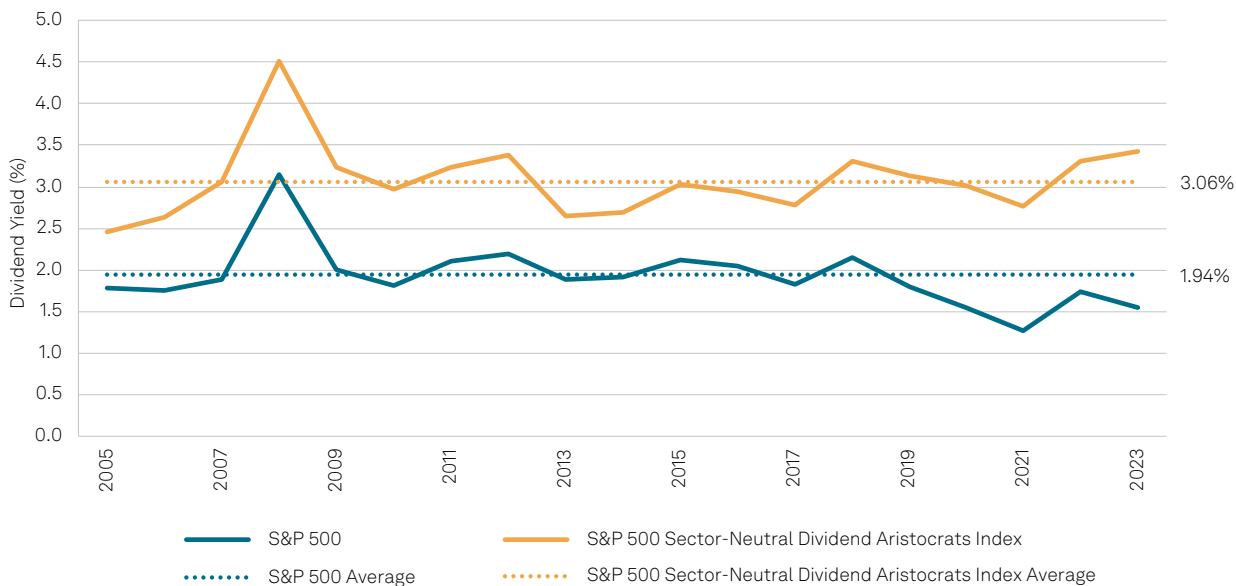
Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to Aug. 31, 2023. Index performance based on monthly total return in USD. The S&P 500 Sector-Neutral Dividend Aristocrats Index was launched June 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Period	S&P 500	S&P 500 Sector-Neutral Dividend Aristocrats Index
Risk-Adjusted Return		
Full Period	0.64	0.65
3-Year	0.59	0.67
5-Year	0.59	0.47
10-Year	0.86	0.76
15-Year	0.68	0.67
Drawdown (%)		
Full Period	-50.95	-49.61

Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to Aug. 31, 2023. Index performance based on monthly total return in USD. The S&P 500 Sector-Neutral Dividend Aristocrats Index was launched June 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Since 2005, the S&P 500 Sector-Neutral Dividend Aristocrats Index has had a significantly higher average dividend yield than the S&P 500.

Exhibit 2: Superior Dividend Yield



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2005, to Aug. 31, 2023. The S&P 500 Sector-Neutral Dividend Aristocrats Index was launched June 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Sector Neutrality

Exhibit 3 highlights the considerable similarity in sector weights due to the methodology implementing a sector-neutral approach.

Exhibit 3: Sector Weight Comparison Relative to the S&P 500

Sector	Average Sector Weights Since Inception (%)			Current Sector Weights (%)		
	S&P 500	S&P 500 Sector-Neutral Dividend Aristocrats Index	Difference	S&P 500	S&P 500 Sector-Neutral Dividend Aristocrats Index	Difference
Communication Services	4.8	4.6	-0.2	8.8	8.9	0.1
Consumer Discretionary	11.0	11.0	0.0	10.6	10.8	0.2
Consumer Staples	9.3	9.4	0.1	6.6	6.4	-0.1
Energy	8.4	8.3	0.0	4.4	4.3	-0.2
Financials	15.2	14.7	-0.5	12.5	12.3	-0.1
Health Care	13.3	13.5	0.2	13.2	13.0	-0.1
Industrials	10.1	10.2	0.1	8.4	8.6	0.2
Information Technology	20.6	20.4	-0.2	28.2	28.2	0.0
Materials	3.1	3.1	0.1	2.5	2.5	0.0
Real Estate	1.0	1.5	0.5	2.4	2.5	0.0
Utilities	3.3	3.3	0.0	2.4	2.5	0.0

Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to Aug. 31, 2023. Table is provided for illustrative purposes.

Fundamental Characteristics

As Exhibit 4 shows, the S&P 500 Sector-Neutral Dividend Aristocrats Index traded at a significant discount to the S&P 500 across all four major valuation metrics as of Aug. 31, 2023. Across these four metrics, it traded at an average discount of 47% relative to the benchmark.

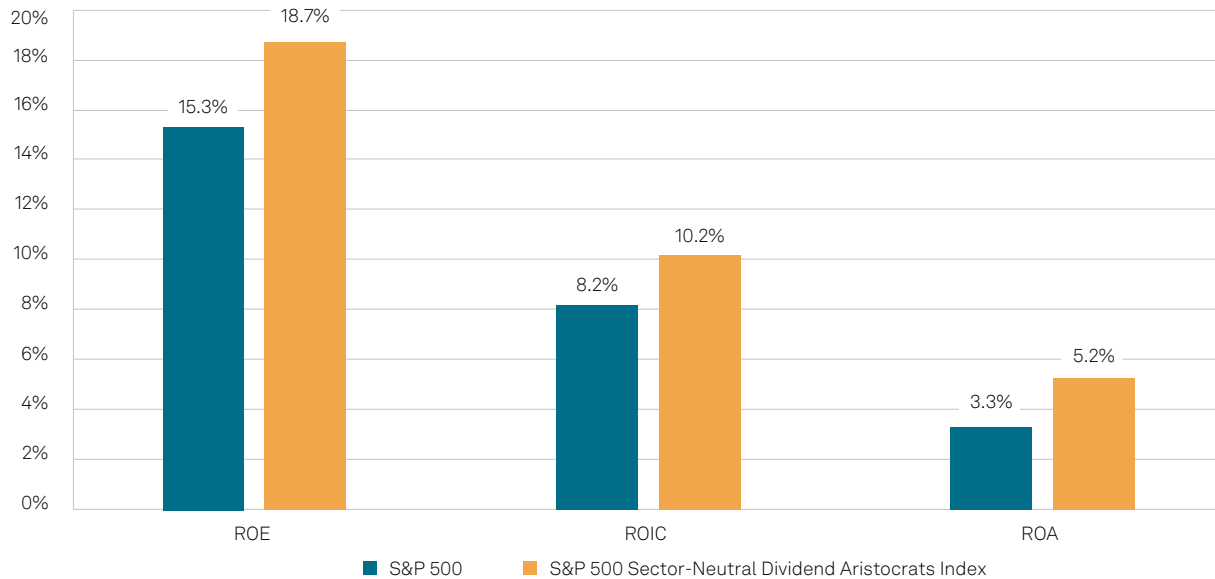
Exhibit 4: Current Valuation across Various Price Multiples

Metric	S&P 500	S&P 500 Sector-Neutral Dividend Aristocrats Index	Discount (%)
Forward Price-to-Earnings Ratio	18.0	12.9	29
Price-to-Cash Flow Ratio	26.7	9.3	65
Price-to-Book-Value Ratio	4.3	2.7	36
Price-to-Sales Ratio	2.4	1.1	57

Source: S&P Dow Jones Indices LLC, FactSet. Data as of Aug. 31, 2023. Index performance based on monthly total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

As of Aug. 31, 2023, the S&P 500 Sector-Neutral Dividend Aristocrats Index had a materially higher return on equity (ROE), return on invested capital (ROIC), and return on assets (ROA) than the S&P 500 (see Exhibit 5). These profitability measures can be a strong indicator of higher quality since they measure how efficiently a company utilizes capital to generate a return for shareholders.

Exhibit 5: Enhanced Profitability Metrics

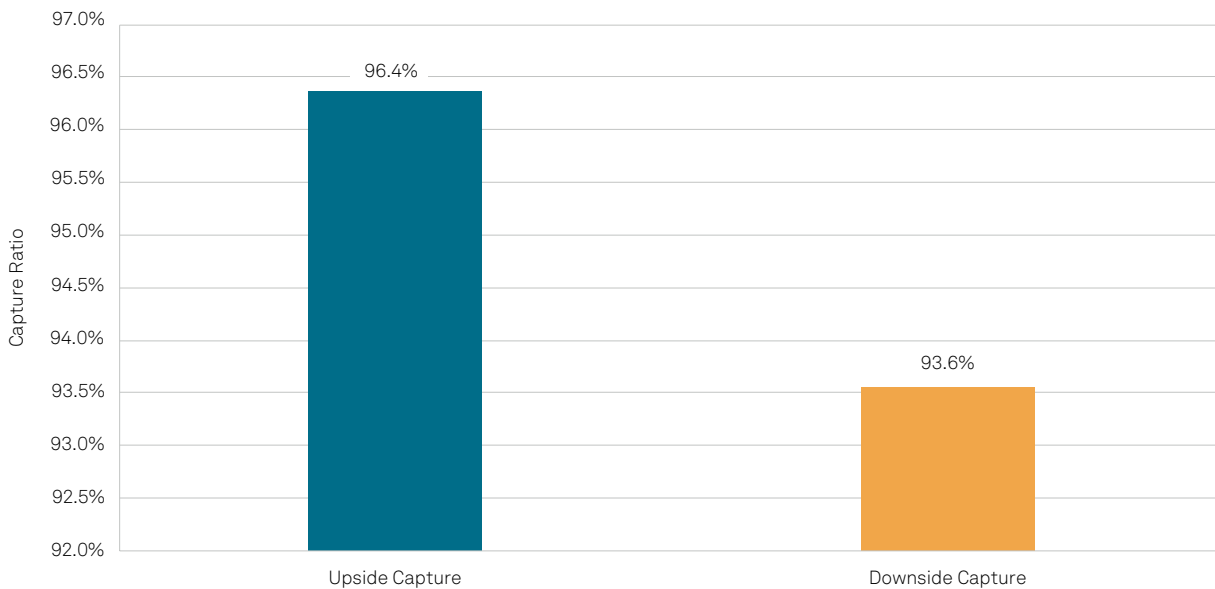


Source: S&P Dow Jones Indices LLC, FactSet. Data as of Aug. 31, 2023. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Defensive Qualities

A downside capture ratio of less than 100 indicates that a strategy has lost less than its benchmark during months when the benchmark return was negative. Since inception, the S&P 500 Sector-Neutral Dividend Aristocrats Index has had a downside capture ratio of 93.6, indicating moderate defensive characteristics.

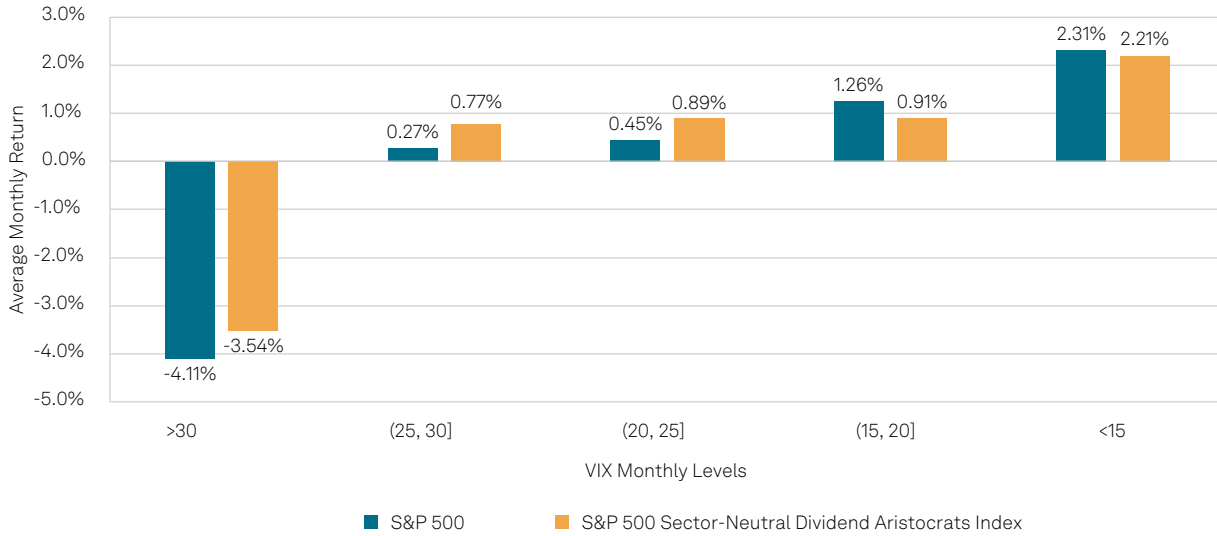
Exhibit 6: Lower Capture Ratio versus the Benchmark



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to Aug. 31, 2023. The S&P 500 Sector-Neutral Dividend Aristocrats Index was launched June 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Historically, the S&P 500 Sector-Neutral Aristocrats Index has provided a buffer against volatility. As Exhibit 7 shows, on average, the index outperformed the benchmark when the VIX level was above 20, with an average outperformance of 57 bps when the VIX level was above 30.

Exhibit 7: Average Monthly Return in Relation to VIX Level



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to Aug. 31, 2023. Index performance based on total return in USD. The S&P 500 Sector-Neutral Dividend Aristocrats Index was launched June 5, 2023. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Performance Disclosure/Back-Tested Data

The S&P 500 Sector-Neutral Dividend Aristocrats Index was launched June 5, 2023. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology in effect on the index launch date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Complete index methodology details are available at www.spglobal.com/spdji. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results.

Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

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