

# Introducing the S&P/ASX 200 High Dividend Index

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## Introduction

The [S&P/ASX 200 High Dividend Index](#) seeks to measure the performance of 50 companies with the highest 12-month forecast dividend yield from the [S&P/ASX 200](#). From July 2011 to December 2023, the index had an average trailing 12-month dividend yield of 5.6% and an annual excess return of 2.2% compared with the S&P/ASX 200.

The Australian equity market is well known for its high dividend yield and well-cultivated dividend culture. With over AUD 5 billion AUM in exchange-traded products (ETPs), dividend income has become one of the most popular factor strategies in Australia.

However, strategies chasing the highest-yielding stocks could be vulnerable to “dividend traps.” High dividend yield may come from decreasing stock prices rather than increasing dividend payments. In addition, selecting stocks based on historical dividend payments may not reflect a company’s prospects.

The S&P/ASX 200 High Dividend Index seeks to mitigate common risks faced by high dividend yield strategies using two tactics. First, it applies momentum screens. Excluding stocks with low price momentum could avoid high-yield stocks driven by deteriorating prices, thus may help to eliminate the dividend trap. Second, it uses forecast dividend data. Selecting stocks based on 12-month forecast dividend data that is forward-looking may help to reflect the latest market expectations on a company’s future dividend payments.

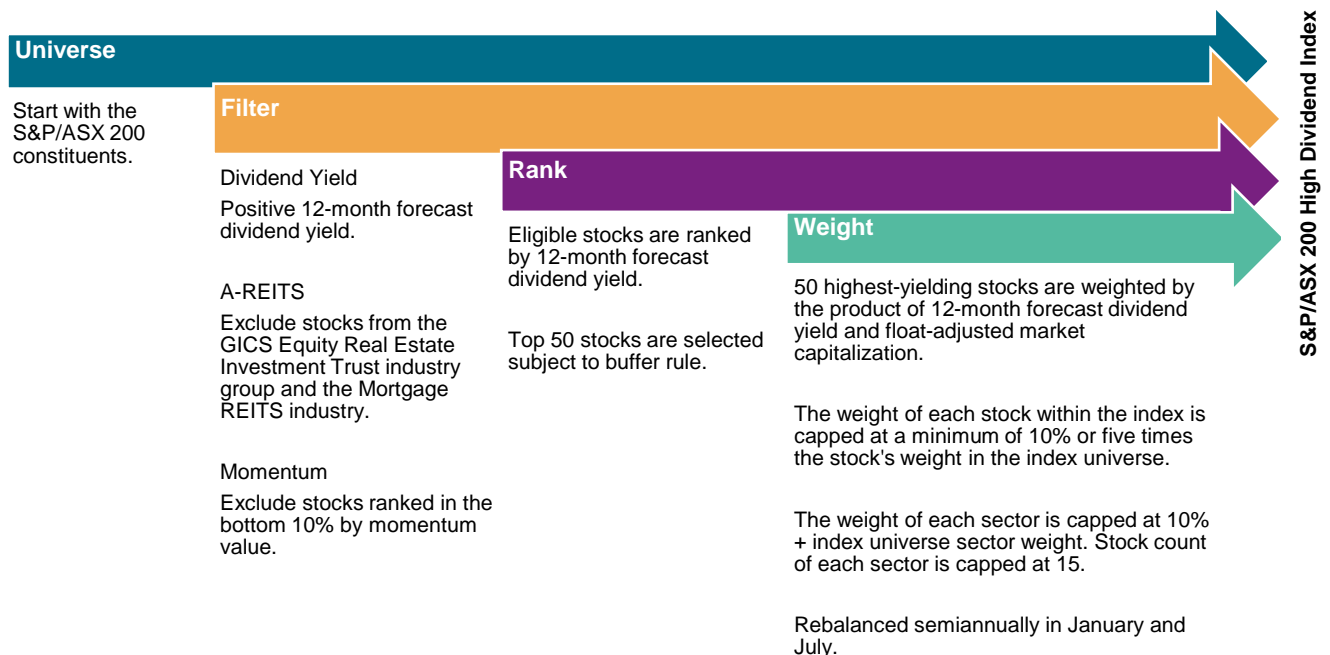
Over the 12-year back-tested period, the S&P/ASX 200 High Dividend Index has shown significant outperformance, with higher dividend yield and cheaper valuation than the broad market benchmark. For market participants seeking high yield and diversification benefits, the S&P/ASX 200 High Dividend Index could help to complement broad market allocation as well.

## Index Construction

First, starting from the S&P/ASX 200 universe, all A-REITs and stocks without a positive 12-month forecast dividend yield are excluded. Second, eligible stocks ranked in the bottom 10% by momentum value are screened out. Finally, the 50 constituents with the highest 12-month forecast dividend yield are selected.

To balance between the index yield and index capacity, the 50 selected names are weighted by the product of the 12-month forecast dividend yield and the float market capitalization. To avoid stock concentration risk, the weight of each stock within the index is capped at a minimum of 10% or five times the stock’s weight in the index universe. In terms of sector diversification, each sector can have maximum of 15 stocks, and its weight cannot exceed the sector weight in the index universe plus 10%. The index is rebalanced semiannually in January and July.

### Exhibit 1: Index Construction



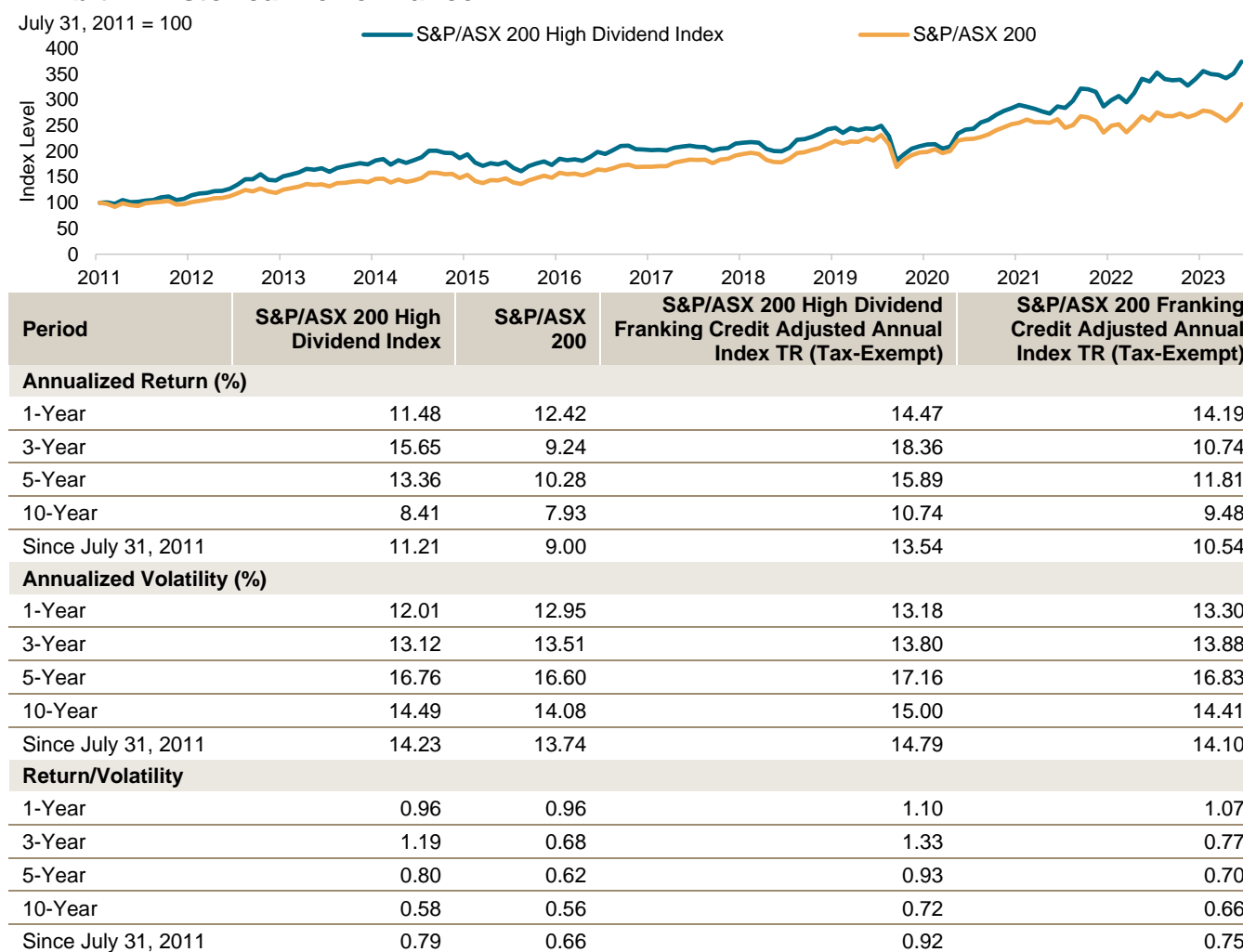
Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

# Key Characteristics

## Outperformance against the S&P/ASX 200

As Exhibit 2 shows, the S&P/ASX 200 High Dividend Index has delivered robust performance in the long and short term since July 31, 2011. It outperformed the S&P/ASX 200 over the 3-, 5- and 10-year time horizons in both absolute and risk-adjusted returns. Throughout the full history since July 31, 2011, the index outperformed the market benchmark by 2.2% per year. After being adjusted for franking credits, the S&P/ASX 200 High Dividend Index delivered even better returns compared with the S&P/ASX 200. From July 31, 2011, to Dec. 31, 2023, the franking credits adjusted version outperformed the benchmark by 3% per year.

### Exhibit 2: Historical Performance



The S&P/ASX 200 High Dividend Franking Credit Adjusted Annual Index is a hypothetical portfolio.

Source: S&P Dow Jones Indices LLC. Data from July 31, 2011, to Dec. 31, 2023. Index performance based on monthly total return in AUD.

The S&P/ASX 200 High Dividend Index was launched June 27, 2023. The S&P/ASX 200 Franking Credit Adjusted Annual Index was launched March 2, 2015. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes and reflect 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.

## Upside Participation

During the studied period, the index has shown its ability to outperform during S&P/ASX 200 up months while not lagging during down months. The upside capture ratio for the S&P/ASX 200 High Dividend Index was greater than 1 for all time horizons (see Exhibit 3), indicating better performance than the S&P/ASX 200 during up months. At the same time, it maintained a downside capture ratio of close to 1 since July 2011. The positive upside/downside spread could help to explain the significant outperformance of the S&P/ASX 200 High Dividend Index.

**Exhibit 3: Upside/Downside Capture Ratio against the S&P/ASX 200**

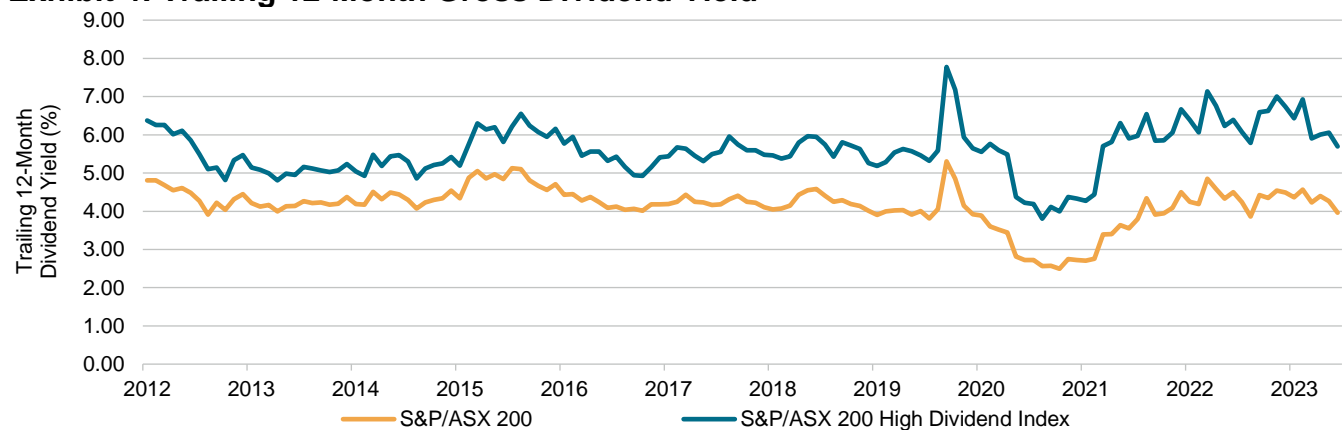
| Period              | Upside | Downside |
|---------------------|--------|----------|
| 3-Year              | 1.15   | 0.82     |
| 5-Year              | 1.09   | 0.94     |
| 10-Year             | 1.06   | 1.00     |
| Since July 31, 2011 | 1.19   | 0.99     |

Source: S&P Dow Jones Indices LLC. Data from July 31, 2011, to Dec. 31, 2023. Index performance based on monthly total return in AUD. The S&P/ASX 200 High Dividend Index was launched June 27, 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.

## Dividend Yield

From July 2011 to December 2024, the S&P/ASX 200 High Dividend Index has consistently provided higher dividend yield than the S&P/ASX 200. The average trailing 12-month dividend yield was 5.60% for the index, higher than 4.15% for the S&P/ASX 200. Meanwhile, yield selection could lead to sectoral weights tilting towards high-yielding sectors such as Financials and Materials (see Appendix).

**Exhibit 4: Trailing 12-Month Gross Dividend Yield**

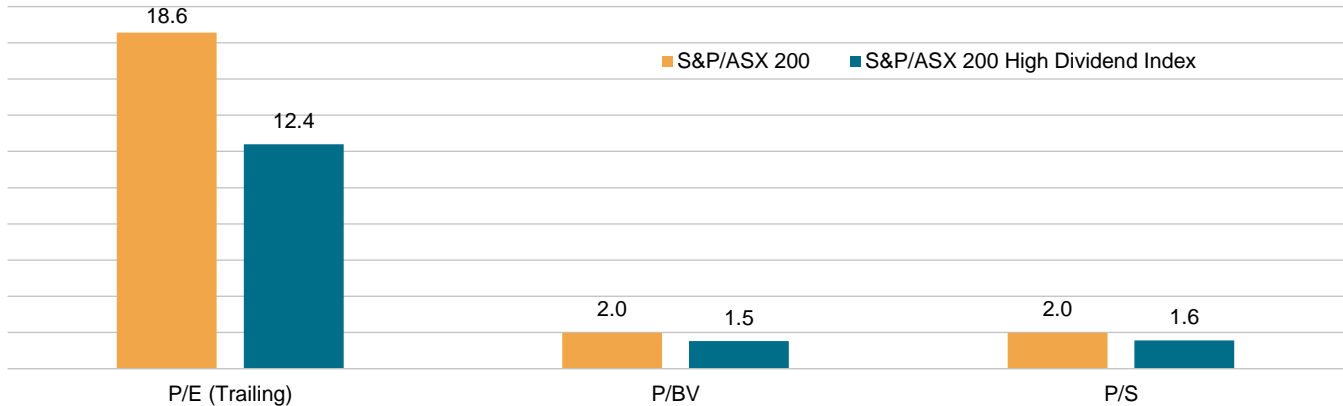


Source: S&P Dow Jones Indices LLC. Data from July 31, 2012, to Dec. 31, 2023. The S&P/ASX 200 High Dividend Index was launched June 27, 2023. All data prior to index launch date is back-tested hypothetical data. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

## Valuation

Since dividend yield is also one of the valuation metrics, selecting companies with high dividend yield would result in a tilt toward the value factor, with a lower valuation for the index. Indeed, the S&P/ASX 200 High Dividend Index tends to be cheaper than the S&P/ASX 200, as measured by their trailing price-to-earnings (P/E), price-to-book value (P/BV) and price-to-sales (P/S) ratios (see Exhibit 5).

### Exhibit 5: Valuation Metrics

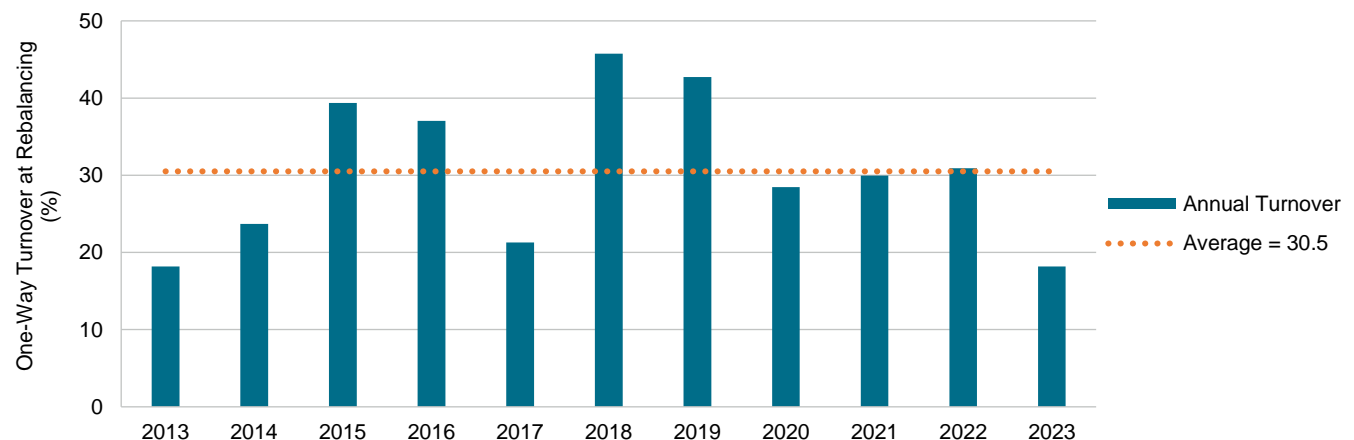


Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

## Moderate Turnover

The S&P/ASX 200 High Dividend Index has historically shown moderate turnover despite of its semiannual rebalancing schedule. Over the past 11 years, the average one-way turnover at rebalancing was 30.5% per year (see Exhibit 6).

### Exhibit 6: One-Way Turnover at Rebalancing



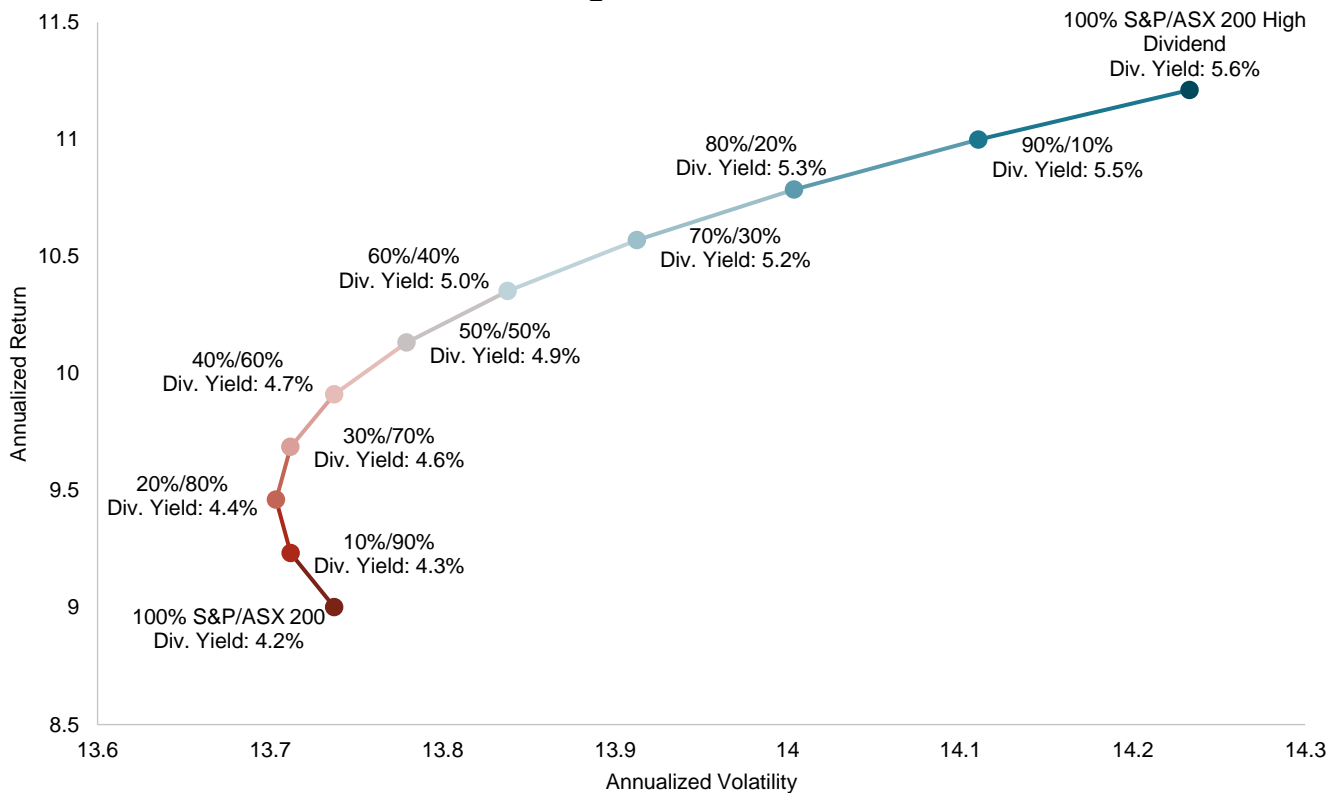
Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2013, to Dec. 31, 2023. The S&P/ASX 200 High Dividend Index was launched June 27, 2023. All data prior to index launch date is back-tested hypothetical data. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

## Complementing Core Holding

For market participants who have the broad market index in their portfolios, what are the benefits of incorporating the S&P/ASX 200 High Dividend Index? We can compare the risk/return profiles of hypothetical portfolios that combine the two indices.

From July 2011 to December 2023, a hypothetical 100% S&P/ASX 200 portfolio could generate 9.0% total return with 13.7% annualized volatility. Exhibit 7 shows a visual illustration of improvement in risk-adjusted returns and average trailing 12-month dividend yield when the S&P/ASX 200 High Dividend Index was introduced at an increment of 10%. A hypothetical portfolio allocating 20% to the S&P/ASX 200 High Dividend Index and 80% to S&P/ASX 200, could gain an extra 45 bps per year than a hypothetical 100% S&P/ASX 200 portfolio, while maintaining a similar level of volatility. Further increasing the portion of the S&P/ASX 200 High Dividend Index continued to increase the risk-adjusted return and dividend yield. The hypothetical 100% S&P/ASX 200 High Dividend Index portfolio had the highest risk-adjusted return and dividend yield.

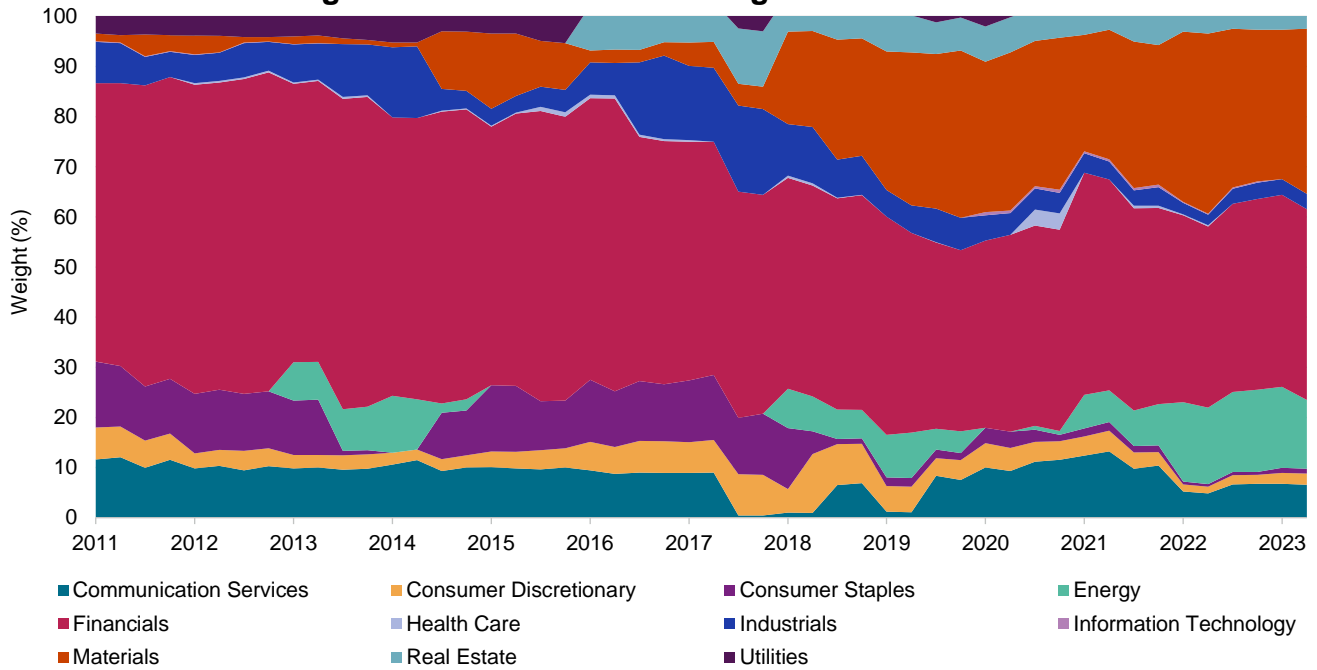
**Exhibit 7: Historical Risk/Return Profile of Hypothetical Portfolios That Blend the S&P/ASX 200 with the S&P/ASX 200 High Dividend Index**



All portfolios are hypothetical.  
 Source: S&P Dow Jones Indices LLC. Data from July 30, 2011, to Dec. 31, 2023. Index performance based on monthly total return in AUD. The S&P/ASX 200 High Dividend Index was launched June 27, 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.

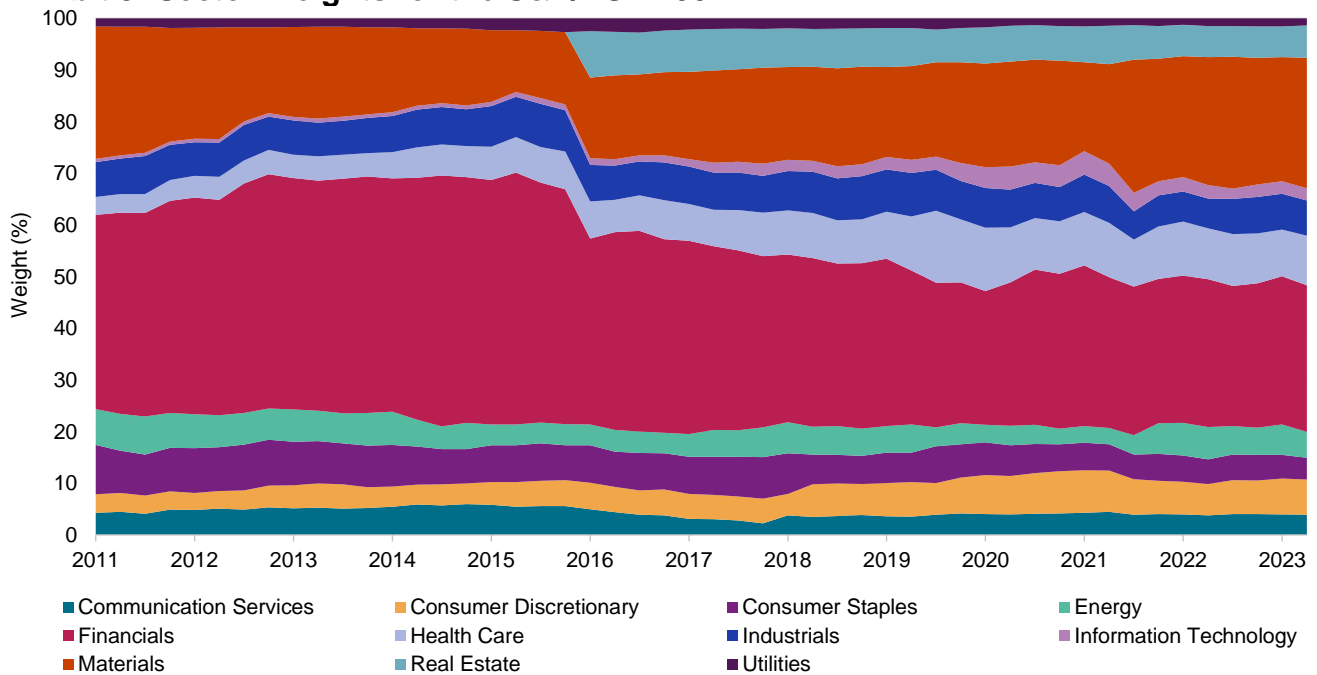
# Appendix

**Exhibit 8: Sector Weights for the S&P/ASX 200 High Dividend Index**



Source: S&P Dow Jones Indices LLC. Data from Sept. 30, 2011, to Dec. 31, 2023. The S&P/ASX 200 High Dividend Index was launched June 27, 2023. All data prior to index launch date is back-tested hypothetical data. 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.

**Exhibit 9: Sector Weights for the S&P/ASX 200**



Source: S&P Dow Jones Indices LLC. Data from Sept. 30, 2011, to Dec. 31, 2023. Chart is provided for illustrative purposes.

**Index Education**

For use with institutions only, not for use with retail investors.

## Performance Disclosure/Back-Tested Data

The S&P/ASX 200 High Dividend Index was launched June 27, 2023. The S&P/ASX 200 Franking Credit Adjusted Annual Index was launched March 2, 2015. All data prior to index launch date is back-tested hypothetical data. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was 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. Complete index methodology details are available at [www.spglobal.com/spdji](http://www.spglobal.com/spdji). Past performance of the Index is not an indication of future results. 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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