Unlocking Yield: Harnessing Dividend Opportunities in China A-Shares

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Introduction

In our previous study titled "Exploring China A-Share Dividends and High Yield Strategy Performance," we delved into the Chinese dividend market. We found that historically, portfolios composed of high dividend yield stocks in China A-shares have consistently outperformed hypothetical broad market portfolios and those comprised of low dividend yield stocks. In this paper, we aim to show how indexing methods can be employed to harness opportunities presented by high dividend yield strategies in the China A-shares market.

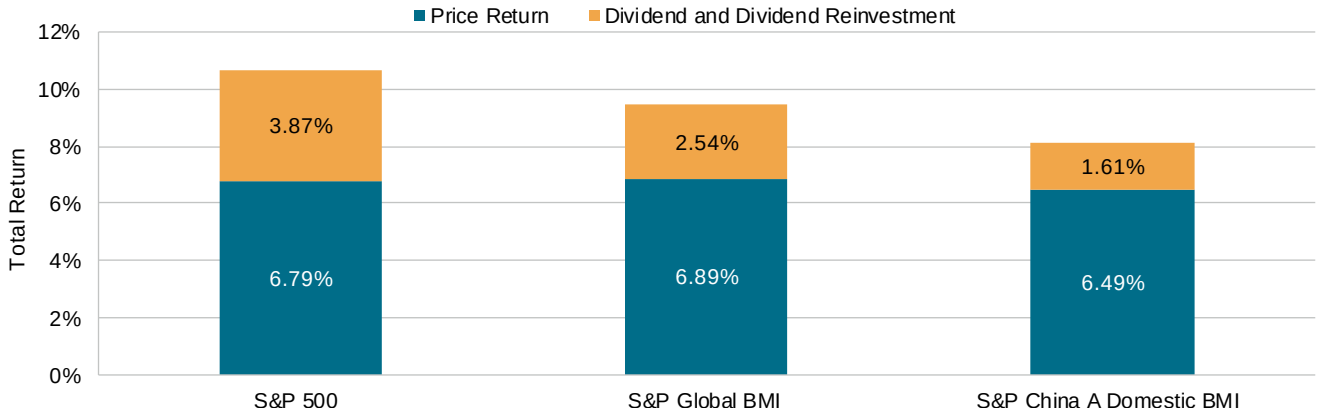
The Importance of Dividends

Dividends play a pivotal role in China A-shares equity investments for three reasons: 1) They constitute a substantial portion of total return in the equity market; 2) Dividend strategies can offer an alternative source of income; 3) Empirical research has shown that dividends as a factor have historically generated excess returns.

Dividend Contribution to Total Returns

While the significance of dividends in contributing to equity total return is widely acknowledged globally, particularly in the U.S. market where dividends and dividend reinvestment have accounted for over one-third of the S&P 500® total return since 1936, the situation in the China A-shares market differs. Here, dividends contribute to almost 20% of the total returns, a notable but comparatively smaller proportion compared to the U.S. stock market. Interestingly, despite similarities in the long-term price return between the China A-shares market, the U.S. and the global market, differences in dividend contributions play a crucial role in the variance of total returns. This suggests significant potential for growth in dividend payments within the China A-shares market (see Exhibit 1).

Exhibit 1: Dividend Contribution to Total Return in the Equity Market



Source: S&P Dow Jones Indices LLC. Data for the S&P 500 from March 31, 1936 to Dec. 31, 2023. Data for the S&P Global BMI and S&P China A Domestic BMI from Dec. 31, 2002 to Dec. 31, 2023. Dividends are calculated before imputation. The S&P 500 represents U.S. market; the S&P Global BMI represents global market; the S&P China A Domestic BMI represents China A-share market. The S&P 500 was launched March 4, 1957. The S&P China A Domestic BMI was launched Nov. 27, 2013. 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.

Alternative Income Strategy

Traditionally, fixed income has been the primary asset class for income-seeking investors. However, from 2008 to 2022, we witnessed a prolonged period of declining interest rates, especially in the U.S., posing challenges for investors aiming to generate income. In response, some market participants have turned to dividend strategies within the equity market to explore yield opportunities. Since 2022, led by the U.S. Federal Reserve, major markets like the U.S. have transitioned into a new phase of rising interest rates, with the federal funds rate exceeding 5% as of February 2024. In contrast, China has experienced a downward trend in interest rates, making dividend strategies more relevant in the China A-shares market. Further insights into the yield comparison will be provided in a following section when we compare the historical yield levels among equity indices and the China treasury yield.

Outperformance of Dividend Strategies

There is a vast body of literature that documents the outperformance of high dividend yield stocks compared to the broader equity market in historical data. Michael O'Higgins and John Downes concluded this to be true for the Dow Jones Industrial Average®.[1] Jeremy Siegel found similar results for stocks in the S&P 500.[2] In our empirical study focused on the China A-shares market between February 1999 and December 2023, we observed that high yield portfolios generally outperformed low yield portfolios and the broad market. For more detailed insights, please refer to our previously mentioned China A-shares paper.

Tracking Dividend Opportunities

Index Construction

Building on empirical research, S&P Dow Jones Indices (S&P DJI) introduced the S&P China A-Share Dividend Opportunities Index in 2008. This index tracks the performance of the top 100 high dividend yielding stocks within the S&P China A Domestic BMI universe. It integrates fundamental criteria including profitability, earnings growth, dividend payout ratio and dividend payment history. Please refer to Exhibit 2 for a concise overview of the index methodology.

Exhibit 2: S&P China A-Share Dividend Opportunities Index Methodology

Category	Metric
Universe	S&P China A Domestic BMI*
Size and Liquidity	Float-adjusted market capitalization >= CNY 1 billion Six-month average daily trading value (ADTV) >= CNY 20 million
Fundamental Screen	Profitability: Positive trailing 12-month EPS Earnings Growth: Positive three-year EPS growth Dividend Payout Ratio: DPS / EPS < 100% Dividend Payment History: Must have paid dividends in each of the previous two years
Selection	Selection of the top 100 stocks based on trailing 12-month dividend yield
Weighting	Weighted by trailing 12-month dividend yield
Constituent Capping	3% capping on single constituent 33% capping on single GICS® sector
Rebalancing	Semiannually, effective date the last business day of January and July
First Value Date	June 18, 2004
Launch Date	Sept. 11, 2008

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2023. *Stocks designated as Special Treatment by the Shanghai and Shenzhen Stock Exchanges are ineligible. Table is provided for illustrative purposes.

[1] Michael O'Higgins and John Downes. "Beating the Dow." HarperCollins. 1991.

[2] Jeremy J. Siegel. "The Future for Investors, Why the Tried and the True Triumph over the Bold and the New." Crown Business. 2005.

Fundamental Screens Enhancing Dividend Strategy

The concept of a "yield trap" poses a common challenge for dividend strategies, wherein a high dividend yield can stem from either an unusually high dividend per share or a declining price effect. Ensuring that dividends originate from profitable and sustainable sources is crucial to avoiding potential pitfalls, like including low-quality companies in the portfolio or encountering unnecessary turnover due to one-off high dividends.

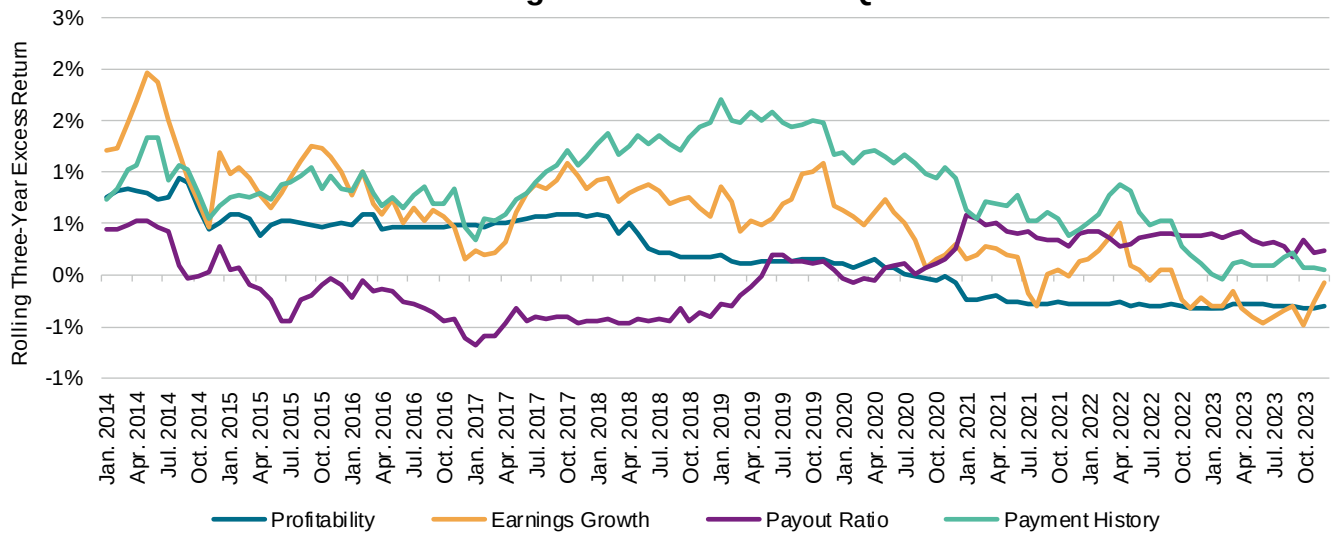
To mitigate these risks, we integrate four fundamental metrics into our screening process. The profitability screen requires positive trailing 12-month EPS, while the earnings growth metric requires positive three-year EPS growth. These criteria ensure that dividend-paying companies not only exhibit profitability over the past year but also demonstrate a history of earnings growth. Additionally, the dividend payment history screen requires that companies have paid dividends in the previous two years, while the dividend payout ratio ensures that dividends do not exceed EPS, reflecting a commitment to sustainable dividends.

While empirical evidence for these metrics is challenging to illustrate directly, we conducted a quintile analysis, as detailed in Exhibit 15 of our previous China A-share paper. This involved filtering companies based on profitability, earnings growth, dividend payout ratio and dividend payment history before sorting them by dividend yield and allocating them to hypothetical portfolios. Comparing the high yield quintile returns with and without these fundamental screens over rolling three-year periods revealed the efficacy of the metrics.

Exhibit 3 presents a comparison of rolling three-year returns over the past decade. Earnings growth and dividend payment history emerged as strong contributors to the float-market-cap-weighted high dividend yield quintile portfolio's performance. While profitability and dividend payout ratio yielded less robust performance enhancements, they still made positive contributions to excess returns.

We acknowledge the challenges of this study, particularly regarding the less pronounced return contribution when switching to an equal weighted approach and the need to distill the combined effect of the four metrics. In the following section, we delve into the return analysis of the S&P China A-Share Dividend Opportunities Index, incorporating these fundamental screens and other index construction considerations.

Exhibit 3: Rolling Three-Year Excess Returns of Highest Dividend Yield Quintile with a Fundamental Screen versus the Highest Dividend Yield Quintile without Screen



Metric	Profitability	Earnings Growth	Payout Ratio	Payment History
Mean Excess Returns (%)	0.18	0.59	0.05	0.84
Median Excess Returns (%)	0.19	0.53	0.01	0.85
Positive Excess Return Count	79	101	63	119
Total Count	120	120	120	120
% of Positive Excess Return	65.83	84.17	52.50	99.17

All portfolios are hypothetical.
Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 31, 1999, to Dec. 31, 2023. Index performance based on total returns in CNY. Past performance is no guarantee of future results. Chart is 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..

Historical Index Levels and Drawdown Analysis

The performance of the S&P China A-Share Dividend Opportunities Index, with a back-tested history dating back to 2004, offers valuable insights spanning nearly twenty years. During the back-tested period from Dec. 31, 2004, to Dec. 31, 2023, the index exhibited a robust outperformance against the CSI 300 Index, with an annual excess return of 6.43% (see Exhibit 4).

Across various time horizons ranging from 1-year to 10-year periods, the S&P China A-Share Dividend Opportunities Index consistently outperformed the CSI 300 Index by a considerable margin, as shown in Exhibit 4. Moreover, the index demonstrated lower return volatility compared to the CSI 300 Index over 1-, 3- and 5-year horizons, though it was slightly higher over the 10-year period and the full sample duration. Consequently, the S&P China A-Share Dividend Opportunities Index boasted a superior risk-adjusted return profile relative to the CSI 300 Index.

Examining the full period since January 2005, the S&P China A-Share Dividend Opportunities Index displayed a notable price return of 12.93%, significantly outperforming the CSI 300 Index's 6.70%. Furthermore, dividends and reinvestments contributed substantially to the index's performance, yielding a return of 4.37% compared to the CSI 300 Index's 1.87%. This demonstrates that the index's superior performance stemmed from both capital appreciation and dividend contributions over the entire duration studied.

Exhibit 4: Performance of the S&P China A-Share Dividend Opportunities Index versus the CSI 300 Index and S&P China A Domestic BMI

Period	CSI 300 Index	S&P China A Domestic BMI	S&P China A-Share Dividend Opportunities Index
Annualized Compound Return (%)			
Full Period	8.57	9.71	17.31
1-Year	-9.14	-5.04	14.21
3-Year	-11.09	-5.94	10.68
5-Year	4.91	6.38	11.82
10-Year	6.22	5.89	12.65
Annualized Standard Deviation (%)			
Full Period	27.91	27.71	28.57
1-Year	13.79	11.44	11.77
3-Year	16.32	15.49	15.08
5-Year	18.32	17.52	16.91
10-Year	21.75	21.48	22.28
Risk-Adjusted Return			
Full Period	0.31	0.35	0.61
1-Year	-0.66	-0.44	1.21
3-Year	-0.68	-0.38	0.71
5-Year	0.27	0.36	0.70
10-Year	0.29	0.27	0.57
Annualized Compound Price Return (%)			
Full Period	6.70	8.04	12.93
Return from Dividend and Reinvestments (%)			
Full Period	1.87	1.67	4.37
% of Total Returns from Dividend and Reinvestments			
Full Period	21.80	17.24	25.26

Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2004, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. The S&P China A Domestic BMI was launched Nov. 27, 2013. All data prior to index launch date is back-tested hypothetical data. 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.

Performance across Market Environments

Between January 2005 and December 2023, the S&P China A-Share Dividend Opportunities Index exhibited a compelling track record, outperforming the CSI 300 Index in various market conditions. Notably, it surpassed the CSI 300 Index 53.85% of the time in up months and an even more impressive 66.33% of the time in down months.

During up months, the S&P China A-Share Dividend Opportunities Index achieved an average excess return of 0.09%, highlighting its ability to deliver positive performance even amid favorable market conditions. However, the index truly showcased its resilience during down months, where it secured an average excess return of 0.57%. This indicates that the majority of the index's overall excess returns stemmed from its outperformance during periods of market downturns, as shown in Exhibit 5.

Exhibit 5: Performance of the S&P China A-Shares Dividend Opportunities Index versus CSI 300 Index in Different Market Conditions

Period	Hit Rate (%)	Monthly Excess Return (%)
All Months	59.21	0.66
Up Months	53.85	0.09
Down Months	66.33	0.57

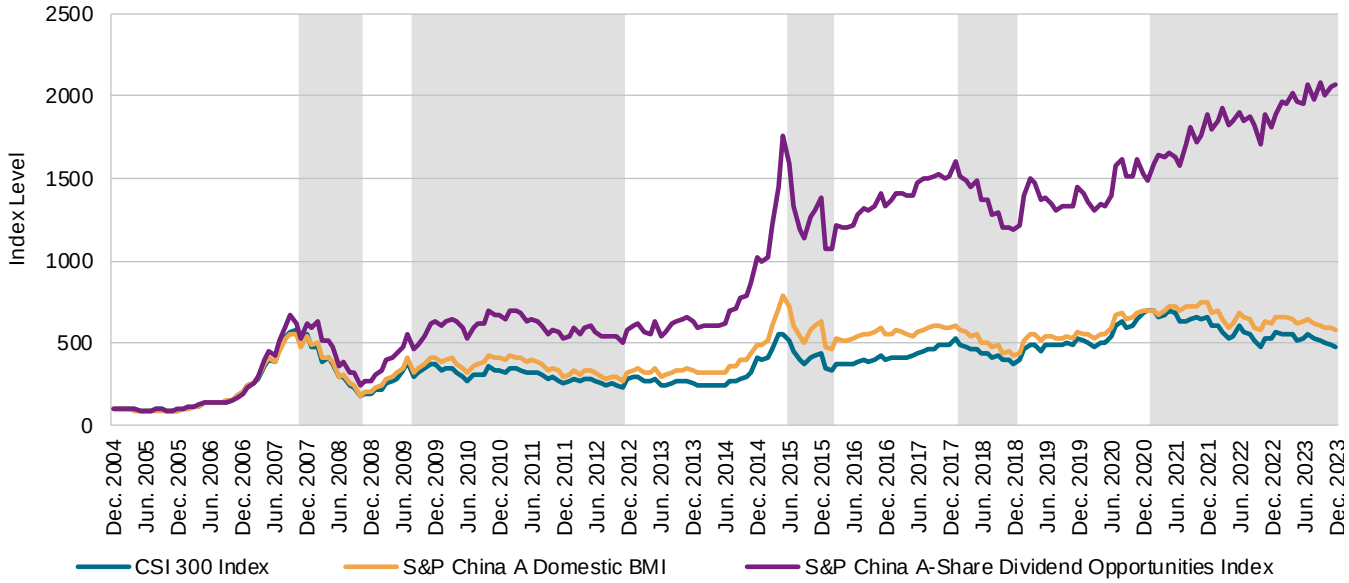
Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2004, to Dec. 31, 2023. Index performance based on total return in CNY. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. All data prior to index launch date is back-tested hypothetical data. Past performance 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.

Exhibit 6 provides a visual representation of the historical index levels for both the CSI 300 Index and the S&P China A-Share Dividend Opportunities Index. The shaded gray areas correspond to the five major drawdown events experienced in the China A-shares market.

These drawdown events delineate the full history into 10 distinct performance subperiods. Remarkably, the S&P China A-Share Dividend Opportunities Index exhibited robust performance across the majority of these subperiods. Specifically, it outperformed the CSI 300 Index in 8 out of the 10 periods analyzed.

During the period from Feb. 29, 2016, to Jan. 31, 2018, and from Dec. 31, 2018, to Jan. 31, 2021, the S&P China A-Share Dividend Opportunities Index experienced relative underperformance, with excess returns of -4.75% and -60.39%, respectively. However, in the remaining eight periods, the index showcased its resilience and strength, outperforming the CSI 300 Index. Notably, the index achieved its largest outperformance (excess return of 107.87%) during the period from Nov. 30, 2012, to May 31, 2015, followed by a significant excess return of 71.12% during the period from Jan. 31, 2021, to Dec. 31, 2023.

Exhibit 6: Index Levels of the S&P China A-Shares Dividend Opportunities Index versus CSI 300 Index and S&P China A Domestic BMI



Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2004, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. The S&P China A Domestic BMI was launched Nov. 27, 2013. 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.

An effective strategy to mitigate the cyclicality of performance over time involves extending the investment horizon, thereby holding a portfolio for longer durations. Exhibit 7 illustrates the variation in rolling 3-, 5- and 10-year excess returns of the S&P China A-Share Dividend Opportunities Index compared to the CSI 300 Index.

Notably, a longer performance measurement period correlated with a heightened probability of outperforming the underlying benchmark, as evidenced by historical data. Over the period from January 2005 to December 2023, observations spanning a three-year performance horizon totaled 193 instances. Impressively, during this timeframe, the S&P China A-Share Dividend Opportunities Index surpassed the CSI 300 Index in 78% of cases, yielding an average excess return of 8.25% per year.

Expanding the performance horizon to 10 years reveals even more compelling results. In every observed instance over this extended period, totaling 100% of observations, the S&P China A-Share Dividend Opportunities Index outperformed the CSI 300 Index. The corresponding average excess return amounted to 7.93% per year, further underscoring the efficacy of adopting longer investment horizons for strong performance outcomes.

Exhibit 7: Rolling Performance Observations of the S&P China A-Share Dividend Opportunities Index versus the CSI 300 Index

Period	Number of Observations	Number of Outperformance Observations	Percent of Outperformance Observations	Average Excess Return (%)
3-Year	193	151	78.2	8.25
5-Year	169	143	84.6	7.68
10-Year	109	109	100	7.93

Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2004, to Dec. 31, 2023. Index performance based on total return in CNY. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. All data prior to index launch date is back-tested hypothetical data. Past performance is no guarantee of future results. All data prior to index launch date is back-tested hypothetical data. Table is 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.

Decomposing Returns: Factor Regression Analysis

To gain deeper insights into the performance drivers of the S&P China A-Share Dividend Opportunities Index, we conducted a comprehensive six-factor regression analysis for the entire sample return period spanning from January 2005 to December 2023. This analysis aimed to show the underlying factors contributing to returns and assess the index's exposure to common equity factors.

The six factors considered in the regression analysis encompassed market beta, size, value, profitability, investment and momentum. Monthly returns data for the six factors were sourced from BetaPlus,[3] a specialized entity focused on analyzing factor returns within the China A-shares market. Notably, the construction of the five factors followed the Fama French five-factor model framework, while the momentum factor was derived based on the Carhart four-factor model framework.

Exhibit 8 provides a detailed overview of the factor regression output. Notably, compared to the CSI 300 Index, the S&P China A-Share Dividend Opportunities Index exhibited similar market beta exposure. Furthermore, it demonstrated strong exposure to the small-cap, value, high profitability and investment factors, while showing negligible momentum loading.

The 3.49% annualized alpha post the six-factor regression with a confidence interval exceeding 90% and a T-statistic of 1.76 is worth an extra highlight. This indicates that the index generated excess returns not attributable to the six common equity factors, underscoring its potential for alpha generation and superior performance outcomes.

[3] https://www.factorwar.com/data/factor-models/

Exhibit 8: Six-Factor Regression of the CSI 300 Index, S&P China A Domestic BMI and S&P China A-Share Dividend Opportunities Index

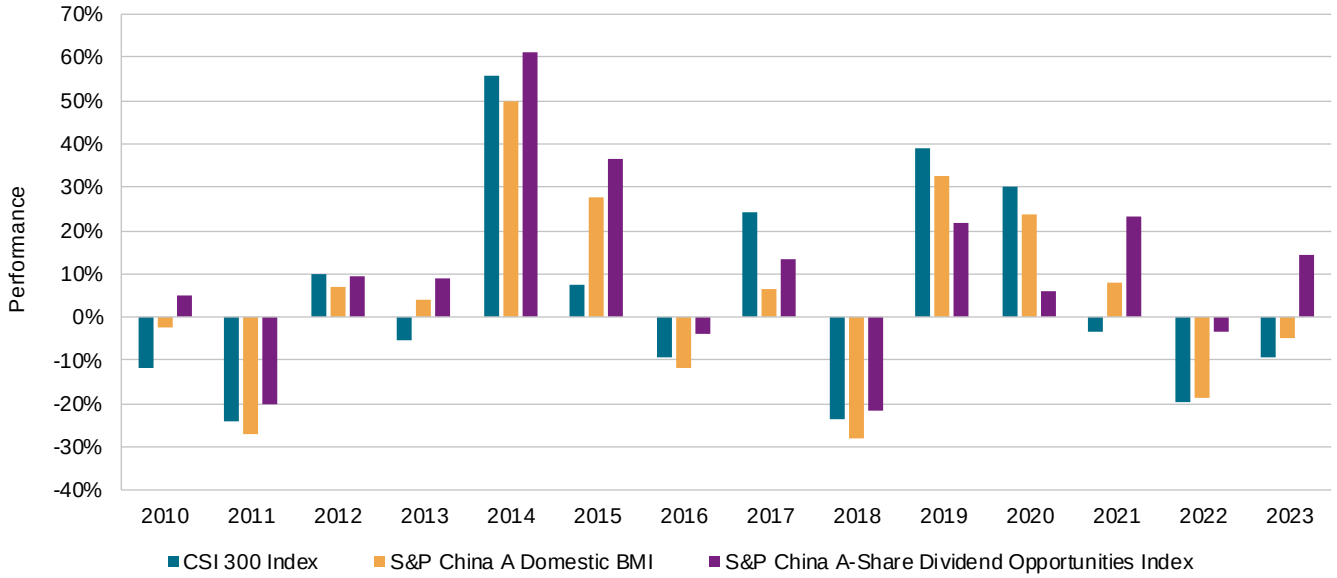
Factor	CSI 300 Index	S&P China A Domestic BMI	S&P China A-Share Dividend Opportunities Index
Annualized Alpha (%)	0.80	-0.24	3.49
T-Statistic	0.81	-0.31	1.76
Market Beta	1.06	1.04	1.05
T-Statistic	92.58	116.28	45.32
Size	-0.24	0.08	0.38
T-Statistic	-9.52	3.99	7.29
Value	-0.05	-0.11	0.21
T-Statistic	-1.63	-4.69	3.33
Profitability	0.02	-0.02	0.39
T-Statistic	0.51	-0.54	4.42
Investment	-0.06	0.00	0.28
T-Statistic	-1.00	0.00	2.44
Momentum	-0.10	0.01	-0.04
T-Statistic	-4.79	0.40	-0.84
R-Square	0.98	0.99	0.92

Source: S&P Dow Jones Indices LLC, FactSet, BetaPlus. Data from Dec. 31, 2004, to Dec. 31, 2023. Index performance based on total return in CNY. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. The S&P China A Domestic BMI was launched Nov. 27, 2013. 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.

Performance Attribution

Over the previous decade, the S&P China A-Share Dividend Opportunities Index exhibited robust performance, characterized by notable cycles of strength, despite a downturn observed between 2017 and 2020. Remarkably, the index rebounded strongly after 2020, showcasing resilience amid a challenging market environment across the broader China A-share performance (see Exhibit 9).

Exhibit 9: Calendar Year Performance



Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2009, to Dec. 31, 2023. Index performance based on total return in CNY. The S&P China A-Share Dividend Opportunities Index was launched Oct. 17, 2022. The S&P China A Domestic BMI was launched Nov. 27, 2013. 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.

A closer investigation into the outperformance observed between 2021 and 2023 reveals intriguing insights, as shown in Exhibit 10. The index's performance during this period can be attributed in part to an overweight position in the Energy sector, which exhibited robust performance throughout the period under review. However, the primary driver of the outperformance stemmed not from the sector allocation effect but rather from the stock selection effect within specific sectors. For example, the selection effect within the Industrials and Information Technology sectors contributed significantly to the observed outperformance, aligning with our findings in the previous China A-shares paper, wherein historical outperformance of high dividend yield strategies cannot be fully attributed to the sector allocation effect.

Exhibit 10: Three-Factor Brinson Performance Attribution

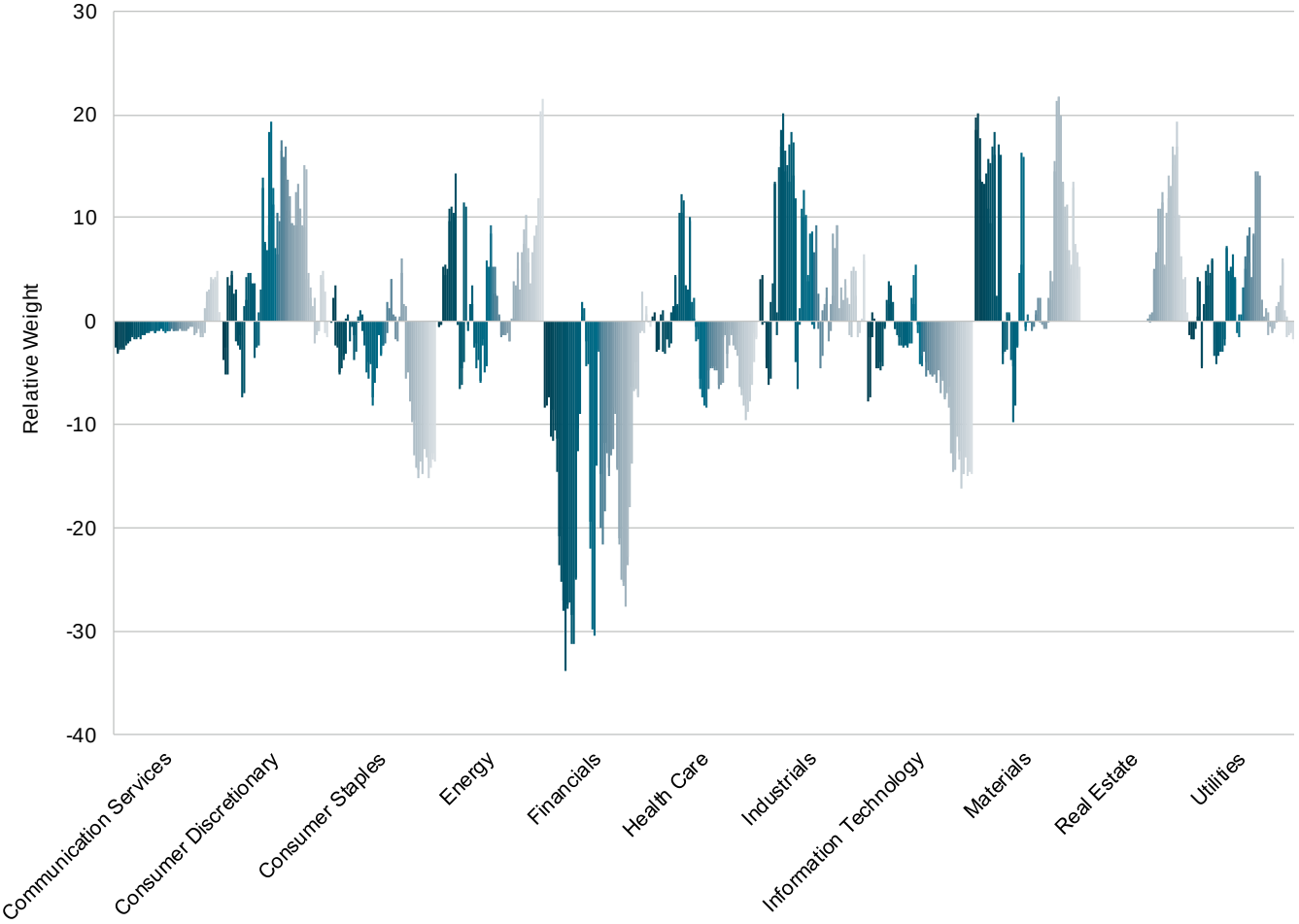
Sector	S&P China A-Share Dividend Opportunities Index (%)		S&P China A 300 Index (%)		Attribution Analysis (%)			
	Average Weight	Total Return	Average Weight	Total Return	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
Energy	11.15	196.66	1.98	97.68	9.54	0.67	3.77	13.99
Industrials	16.68	63.12	14.45	-24.66	-0.02	11.67	1.44	13.09
Materials	17.43	20.27	9.32	-30.79	0.12	5.88	2.95	8.96
Consumer Discretionary	9.43	44.30	8.49	-38.78	-0.29	7.12	0.70	7.53
Financials	17.63	16.18	19.81	-21.14	-0.48	8.19	-0.65	7.06
Real Estate	12.13	6.96	2.16	-42.37	2.18	1.34	2.68	6.20
Communication Services	4.27	70.67	1.43	-38.70	0.29	1.53	1.91	3.72
Information Technology	1.02	3.39	14.80	-34.25	1.43	13.18	-11.59	3.03
Consumer Staples	2.89	-1.64	15.47	-30.81	0.26	6.06	-5.11	1.21
Health Care	3.63	-41.47	9.35	-44.75	1.80	0.81	-1.45	1.15
Utilities	3.74	53.56	2.73	42.39	1.14	0.25	-0.34	1.05
Total	100.00	37.73	100.00	-29.25	15.97	56.70	-5.69	66.98

Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 29, 2021, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Sector Relative Weights

Exhibit 11 presents a detailed examination of historical sector weights, highlighting the relative overweight and underweight positions of GICS sectors within the S&P China A-Share Dividend Opportunities Index compared to the S&P China A 300 Index. Under each of the GICS sector sections, it shows a time series with the relative weight of the sector in the S&P China A-Share Dividend Opportunities Index against the S&P China A 300 Index. Analysis indicates consistent overweight allocations in sectors such as Consumer Discretionary, Materials, Industrials, Real Estate and Utilities, while sectors like Financials, Information Technology, Health Care and Consumer Staples demonstrate consistent underweight positions. Fluctuations in relative weights are observed in Communication Services and Energy sectors, with Energy and Industrials emerging as the two most overweighted sectors within the index as of Dec. 31, 2023. For comprehensive historical charts on the time-series of GICS sector weights, please refer to the Appendix.

Exhibit 11: Relative GICS Sector Weights of the S&P China A-Share Dividend Opportunities Index against the S&P China A 300 Index

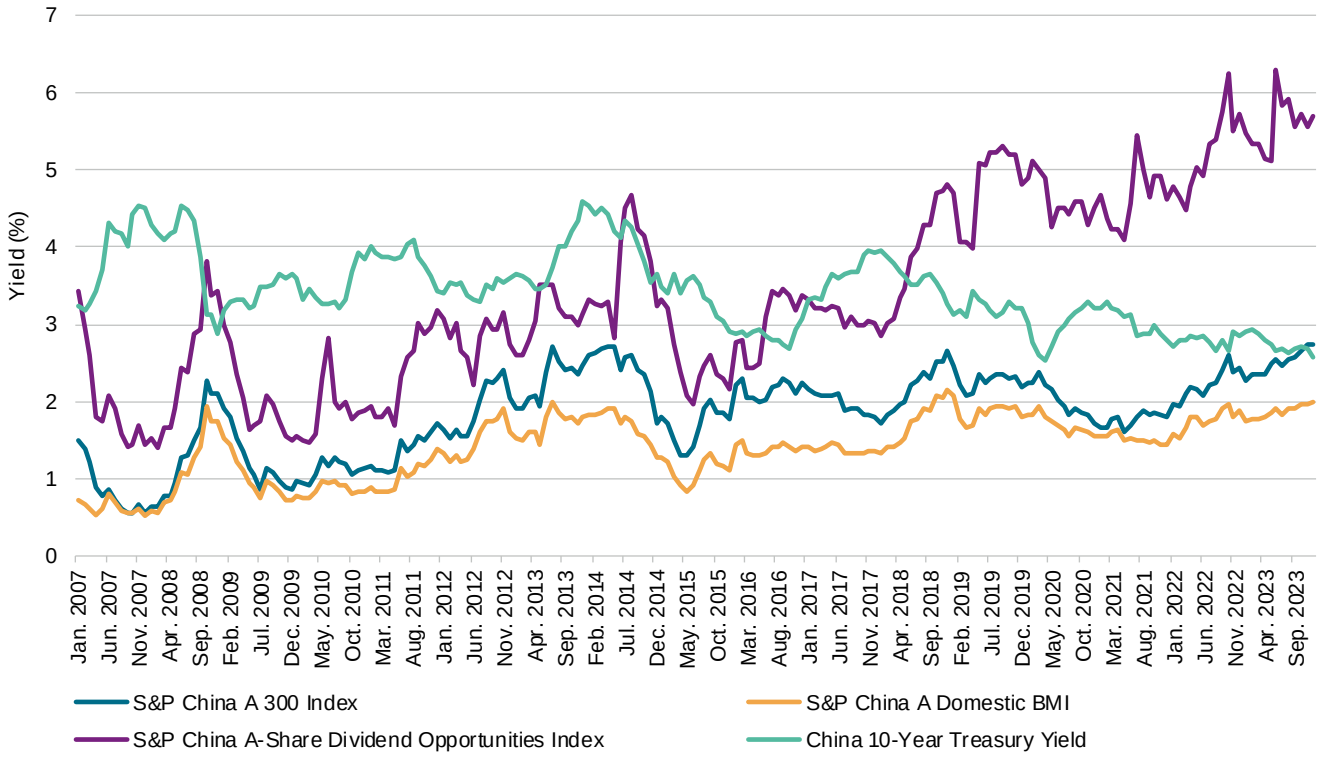


Source: S&P Dow Jones Indices LLC. Data from June 30, 2004, to Dec. 31, 2023. The S&P China A 300 Index was launched March 1, 2004. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. All data prior to index launch date is back-tested hypothetical data. Chart is provided for 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.

Dividend Yield and Valuations

The S&P China A-Share Dividend Opportunities Index, as a dividend-focused benchmark, has consistently boasted higher dividend yields compared to both the S&P China A 300 Index and the China 10-year treasury yield. As shown in Exhibit 12, the trailing 12-month dividend yield for the S&P China A-Share Dividend Opportunities Index has demonstrated an upward trend since 2015. In contrast, the 10-year treasury yield has exhibited a downward trajectory over the same period, while the broad market yield has remained relatively stable. This trend underscores the attractiveness of the dividend yield index as an alternative income solution, particularly amidst a backdrop of declining interest rates where yield-seeking investors may encounter challenges in sourcing sufficient income from the bond market.

Exhibit 12: Index Yields



Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 31, 2007, to Dec. 31, 2023. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. The S&P China A Domestic BMI was launched Nov. 27, 2013. 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 13 highlights three prominent characteristics of the S&P China A-Share Dividend Opportunities Index. Primarily, the index demonstrates a tilt toward lower market capitalization, indicating a small-cap bias, alongside a comparably lower valuation when compared with the S&P China A 300 Index. Moreover, the return on equity (ROE) of the S&P China A-Share Dividend Opportunities Index surpassed that of the S&P China A 300 Index as of Dec. 31, 2023. However, upon examining the historical trends of ROE for both indices, it becomes evident that the S&P China A-Share Dividend Opportunities Index ROE levels fluctuate over time with higher volatility compared to the ROE levels of the S&P China A 300 Index. This analysis sheds light on the dynamic nature of the index's fundamental characteristics.

Exhibit 13: Historical Index Characteristics

Characteristic	S&P China A-Share Dividend Opportunities Index	S&P China A 300 Index
As of Dec. 31, 2023		
Market Cap (CNY Millions)	124,749.92	391,264.51
Dividend Yield (%)	8.20	2.74
Price/Earnings	6.77	12.42
Price/Cash Flow	2.86	5.26
Price/Book	0.96	1.45
Price/Sales	0.42	1.11
ROE (%)	25.10	17.44
Quarterly Average		
Market Cap (CNY Millions)	99,054.32	239,906.77
Dividend Yield	4.49	1.86
Price/Earnings	12.96	16.38
Price/Cash Flow	7.37	7.78
Price/Book	1.80	2.21
Price/Sales	1.20	1.40
ROE	16.45	16.56

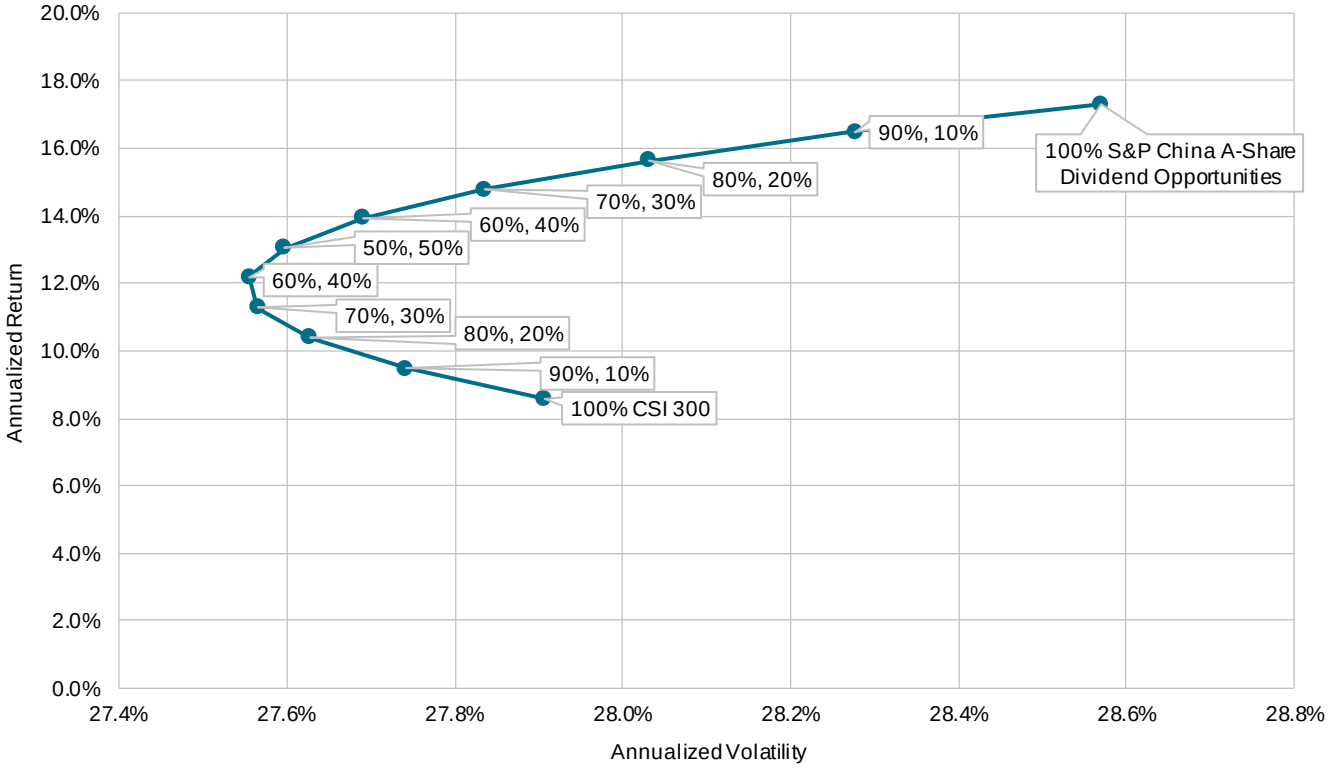
Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2004, to Dec. 31, 2023. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Portfolio Combination with CSI 300 Index

Incorporating a dividend strategy into a broad market portfolio has the potential to yield several potential benefits. To illustrate, we examine the hypothetical outcomes of combining the S&P China A-Share Dividend Opportunities Index with the CSI 300 Index. Over the period from January 2005 to December 2023, a hypothetical 100% CSI 300 Index portfolio generated an annual total return of 8.57%, with an annualized volatility of 27.91%.

Exhibit 14 provides an example of the enhancement in risk-adjusted returns resulting from the introduction of hypothetical allocations to the S&P China A-Share Dividend Opportunities Index in increments of 10% to the CSI 300 Index. We can see that the back-tested performance data indicates a 60/40 allocation improved the total return by 360 bps per year, while simultaneously reducing volatility by 35 bps. With further increments in allocation to the S&P China A-Share Dividend Opportunities Index, the risk-adjusted return increased. Ultimately, the hypothetical portfolio with a 100% allocation to the S&P China A-Share Dividend Opportunities Index demonstrated the highest level of risk-adjusted return.

Exhibit 14: Index Combination Risk/Return Profile



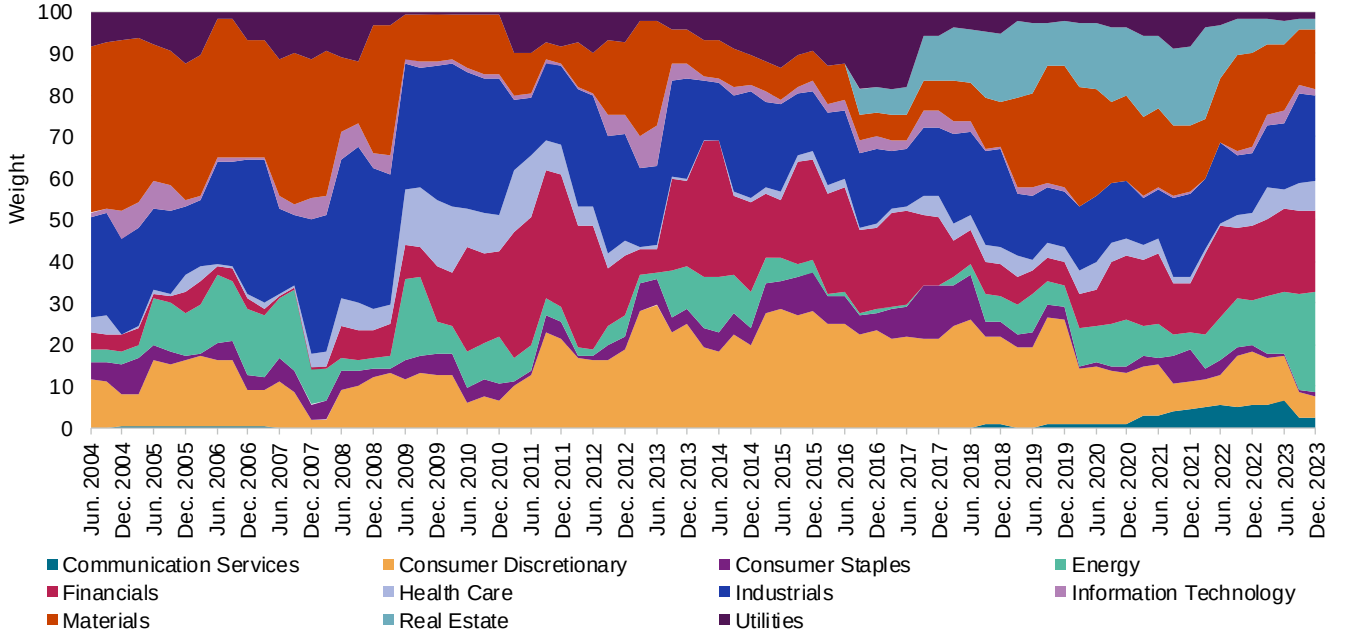
All portfolios are hypothetical portfolios.
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2004, to Dec. 31, 2023. Index performance is based on total return in CNY. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. All data prior to index launch date is back-tested 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.

Conclusion

In this paper, we underscored the significance of dividends in the China A-shares equity market. We highlighted that dividends are an important component of total returns, can be an alternative income source and have historically generated strong performance. We demonstrated how indexing methods can effectively harness high dividend yield opportunities in China A-shares, focusing on the S&P China A-Share Dividend Opportunities Index. Our data showed the index's robust performance against the CSI 300 Index across various back-tested time horizons and market conditions. Additionally, we conducted a factor regression analysis to understand the drivers of returns, revealing the index's exposure to common equity factors and its potential for alpha generation. We further investigated the index's performance attribution, sector allocation and fundamental characteristics, providing a comprehensive review for those who may seek to leverage an index approach to pursue dividend opportunities in China A-shares.

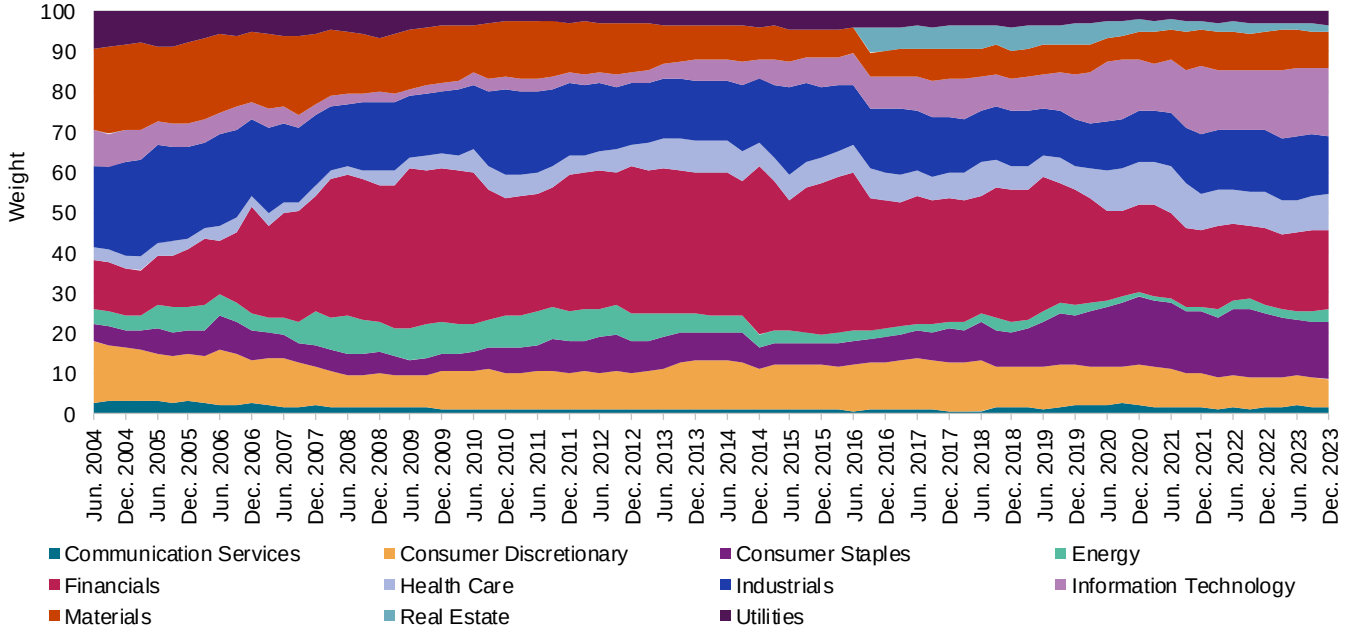
Appendix

Exhibit 15: GICS Sector Weights of the S&P China A-Share Dividend Opportunities Index



Source: S&P Dow Jones Indices LLC. Data as from June 30, 2004, to Dec. 31, 2023. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. 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 16: GICS Sector Weights of the S&P China A 300 Index



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2004, to Dec. 31, 2023. Chart is provided for illustrative purposes. Chart is provided for illustrative purposes.

Performance Disclosure/Back-Tested Data

The S&P China A 300 Index was launched March 1, 2004. The S&P China A-Share Dividend Opportunities Index was launched Sept. 11, 2008. The S&P China A Domestic BMI was launched Nov. 27, 2013. The S&P 500 was launched March 4, 1957. 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. 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.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US $100,000 investment for a 12-month period (or US $10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US $1,650), the net return would be 8.35% (or US $8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US $5,375, and a cumulative net return of 27.2% (or US $27,200).

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