

High Yield and Growing Dividends without Sector Bias

The S&P Sector-Neutral High Yield Dividend Aristocrats

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The desire for yield and equity participation has led to a substantial increase in demand for passively managed dividend strategies over the past decade. Common strategies include dividend indices that tend to have large sector weights versus their underlying benchmark—but few, if any, are designed to be sector neutral. With this in mind, S&P DJI launched the [S&P Sector-Neutral High Yield Dividend Aristocrats \(HYDA\)](#) in September 2022. This index attempts to strike a balance between dividend growth and higher relative yield, while seeking to mirror the sector weights of the [S&P Composite 1500®](#). In this paper, we review the index's historical performance characteristics and the following aspects from the index methodology.

- **Incorporating dividend growth:** To be eligible for selection, constituents of the S&P Sector-Neutral HYDA must have maintained or increased total dividend per share amounts every year for at least seven consecutive years. Companies that can do this may be higher quality and exhibit features such as financial discipline or a robust business model that can weather difficult economic environments. The superior quality metrics versus the benchmark support this notion (see Exhibit 6).
- **A focus on yield:** The index selects companies whose indicated annual dividend (IAD) yield is greater than the sector median IAD yield. This feature of the methodology enhances the overall dividend yield versus the benchmark. The average dividend yield of the S&P Sector-Neutral HYDA since 2005 is 3.02% versus 1.86% for the S&P Composite 1500 (see Exhibit 2).

A focus on high dividend yield may also explain the value exposure of the index versus the benchmark (see Exhibit 7).

- **Sector neutrality:** Sector neutrality in the dividend space is a key differentiator, as most dividend strategies tend to have large sector biases and underweight secular growth sectors like Information Technology, Communication Services and Health Care. Sector neutrality is achieved by adjusting the sector weights to mirror the sector weights of the S&P Composite 1500. This approach ensures the index is diversified across sectors and helps reduce the overall tracking error versus the benchmark.

Methodology

Exhibit 1 summarizes the construction methodology of the S&P Sector-Neutral HYDA, which combines three core features: dividend growth, attractive yield and sector neutrality.

Exhibit 1: The S&P Sector-Neutral HYDA Methodology

Category	S&P Sector-Neutral HYDA
Universe	S&P Composite 1500
Eligibility Screening	<ul style="list-style-type: none"> – Minimum float-adjusted market capitalization of USD 2 billion (USD 1.5 billion for current constituents) – Minimum three-month average daily trading volume of USD 5 million (USD 4 million for current constituents) – Stocks must have maintained or increased dividends for at least seven consecutive years
Selection	<ul style="list-style-type: none"> – For all eligible stocks, select all whose IAD yield is greater than the GICS® sector median IAD yield
Weighting	<ul style="list-style-type: none"> – The sector weights mirror the sector weights of the underlying index – Constituents are FMC-weighted within each sector
Monthly Dividend Review	Monthly dividend review to remove stocks that have canceled, suspended or reduced their dividends
Rebalance Frequency	<ul style="list-style-type: none"> – Annual reconstitution (last business day of January) – Quarterly reweighting (last business day of January, April, July and October)

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

Higher Risk-Adjusted Returns

For the period between Jan. 31, 2005, and July 31, 2023, the index's absolute return versus the benchmark was almost identical (see Exhibit 2). Importantly however, the S&P Sector-Neutral HYDA exhibited lower full-period volatility relative to the benchmark, leading to superior risk-adjusted returns. Additionally, the maximum drawdown over that period was reduced by approximately 5%.

Exhibit 2: Risk/Return Profile

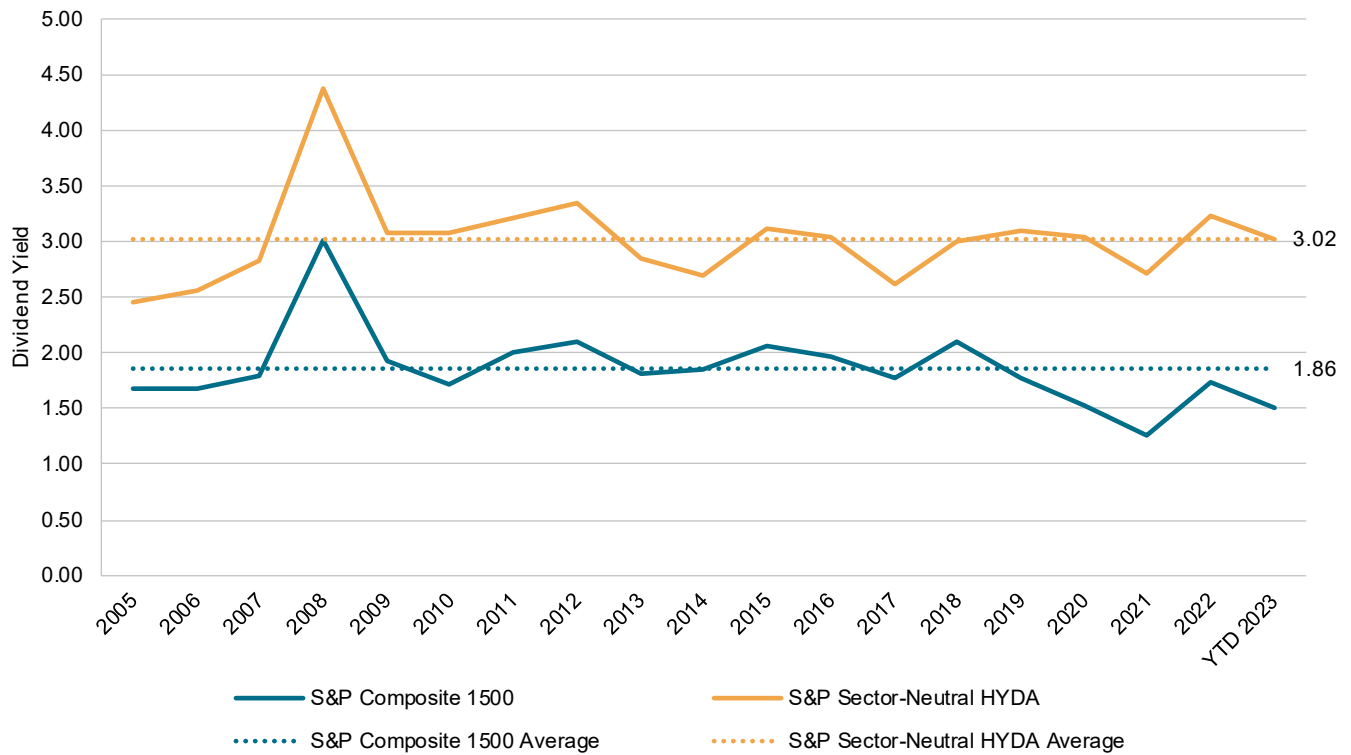
Period	S&P Composite 1500	S&P Sector-Neutral HYDA
Annualized Return (%)		
Full-Period	9.79	9.74
YTD	20.01	8.77
1-Year	12.61	8.36
3-Year	13.86	13.95
5-Year	11.77	8.51
10-Year	12.40	10.96
15 Year	11.10	10.79
Annualized Volatility (%)		
Full-Period	15.37	14.21
3-Year	18.07	16.34
5-Year	19.02	17.92
7-Year	16.49	15.67
10-Year	15.04	14.22
15 Year	16.38	15.12
Risk-Adjusted Return		
Full-Period	0.64	0.69
3-Year	0.77	0.85
5-Year	0.62	0.47
10-Year	0.82	0.77
15-Year	0.68	0.71
Drawdown (%)		
Full-Period	-50.84	-45.78
Average Dividend Yield (%)		
Full-Period	1.86	3.02

Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to July 31, 2023. Past performance is no guarantee of future results. The S&P Sector-Neutral High Yield Dividend Aristocrats was launched Sept. 19, 2022. 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.

Attractive Dividend Yield

As Exhibit 3 shows, by focusing on companies whose IAD yield is greater than the sector median IAD yield, the index’s dividend yield has been significantly higher than the S&P Composite 1500 every year going back to 2005. In fact, the current dividend yield for the S&P Sector-Neutral HYDA is almost double that of its benchmark (3.02 versus 1.51).

Exhibit 3: Higher Dividend Yield Offered by the S&P Sector-Neutral HYDA versus the S&P Composite 1500

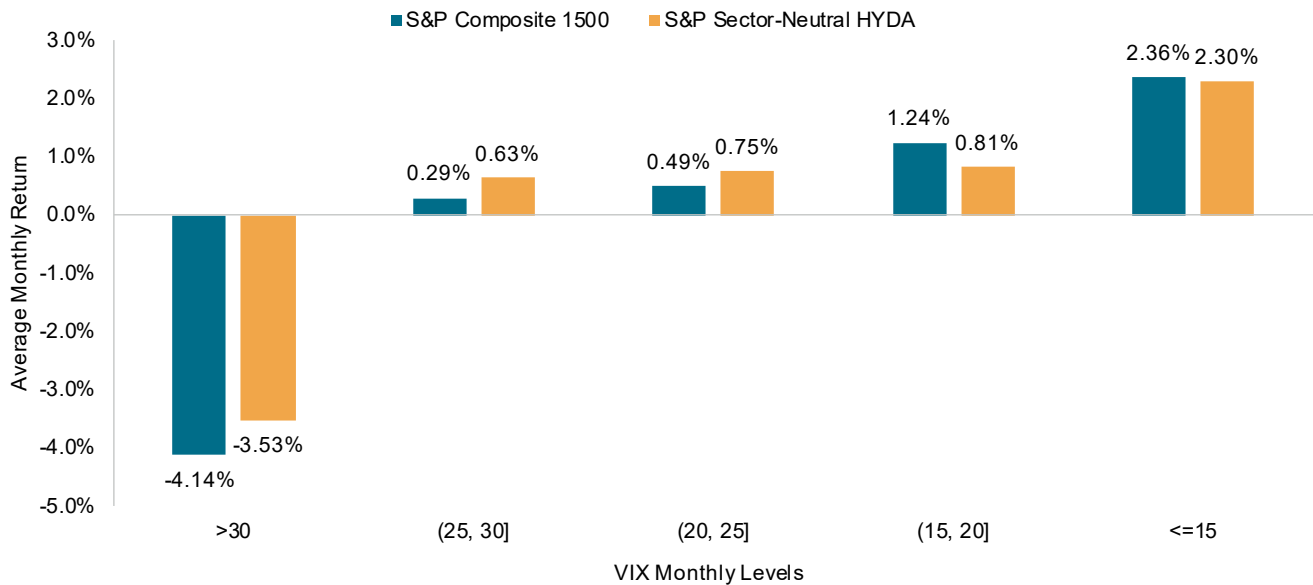


Source: S&P Dow Jones Indices LLC. Data from Dec. 30, 2005, to July 31, 2023. Past performance is no guarantee of future results. The S&P Sector-Neutral High Yield Dividend Aristocrats was launched Sept. 19, 2022. All data prior to index launch date is back-tested hypothetical data. Chart is provided 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.

Defensive Qualities

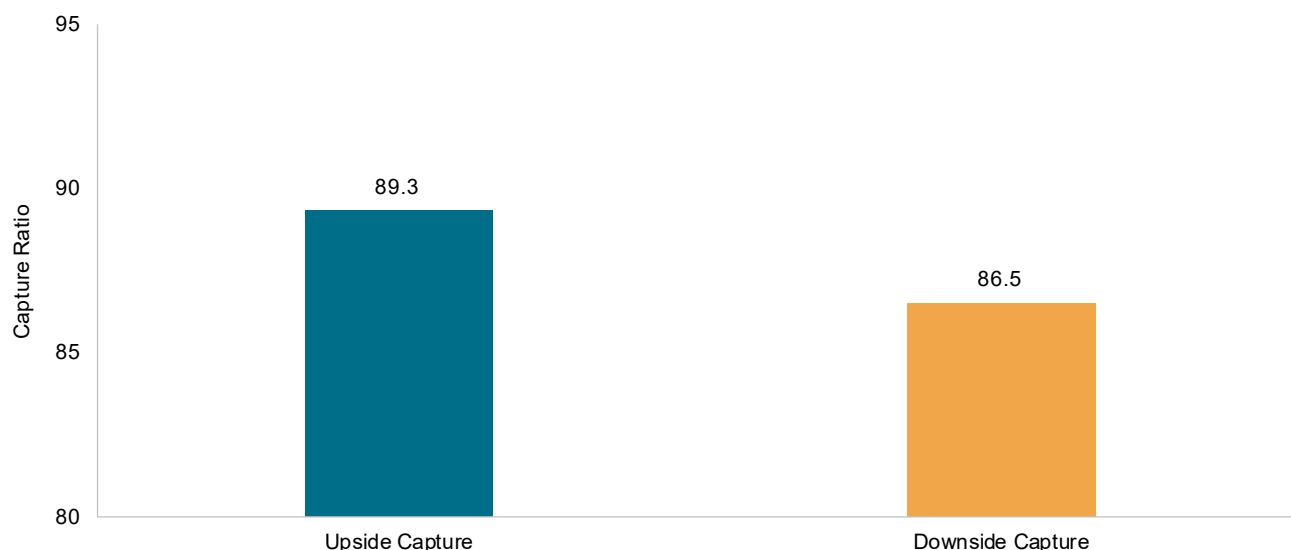
Historically, the S&P Sector-Neutral HYDA has provided a buffer against volatility. As Exhibit 4 details, on average, the index outperformed the benchmark when the VIX® level was above 20, with the greatest outperformance occurring when the VIX level was above 30.

Exhibit 4: A Buffer against Volatility



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to July 31, 2023. Index performance based on total return in USD. Past performance is no guarantee of future results. The S&P Sector-Neutral High Yield Dividend Aristocrats was launched Sept. 19, 2022. 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.

The defensive qualities of this index are further evidenced by examining the capture ratios in Exhibit 5. 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. Historically, the index has had a downside capture ratio of 86.5.

Exhibit 5: S&P Sector-Neutral HYDA Capture Ratios versus S&P Composite 1500

Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to July 31, 2023. The S&P Sector-Neutral High Yield Dividend Aristocrats was launched Sept. 19, 2022. 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 linked at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The quality tilt of the S&P Sector-Neutral HYDA has proven beneficial during difficult economic environments dating back to the index's inception. As Exhibit 6 shows, the S&P Sector-Neutral HYDA outperformed its benchmark in all major equity drawdowns except for the two-month 2020 COVID-19 drawdown. In the most recent drawdown from December 2021 through October 2022, the index outperformed by approximately 7.4%.

Exhibit 6: Performance during Major Historical Drawdowns

Period	S&P Composite 1500 (%)	S&P Sector-Neutral HYDA (%)
Global Financial Crisis (October 2007-February 2009)	-50.8	-45.8
Europe/Greece Debt Crisis (March-June 2010)	-11.2	-8.0
Q4 2018 (September-December 2018)	-14.0	-9.9
2020 COVID-19 Sell-Off (January-March 2020)	-20.3	-23.0
2022 Monetary Tightening (December 2021-October 2022)	-17.4	-10.0

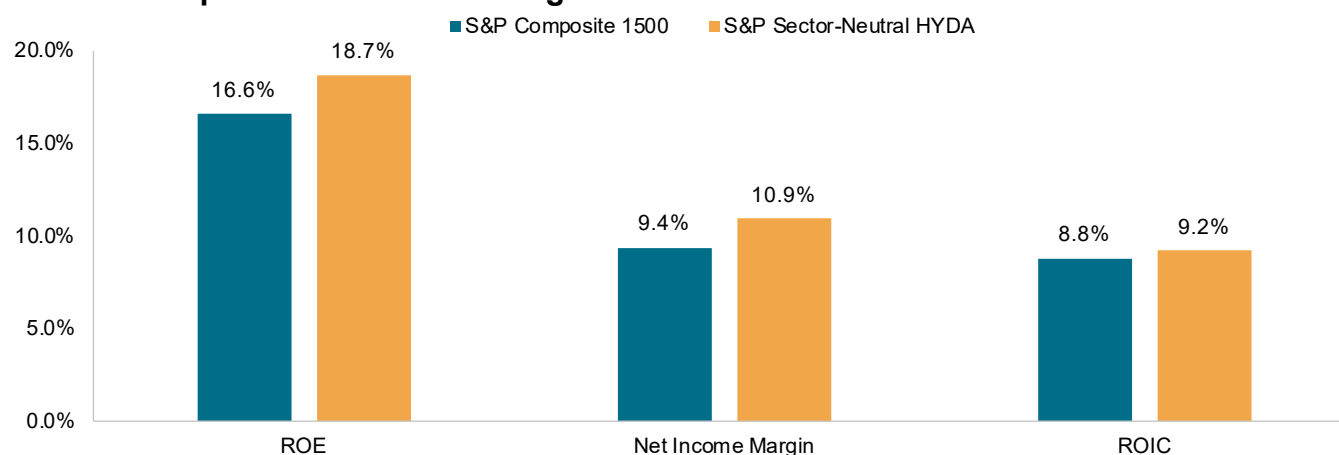
Source: S&P Dow Jones Indices LLC. Data from Sept. 30, 2007, to Oct. 31, 2022. Past performance is no guarantee of future results. The S&P Sector-Neutral High Yield Dividend Aristocrats was launched Sept. 19, 2022. All data prior to index launch date is back-tested hypothetical data. Table is provided 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.

Quality

Exhibit 7 shows the improved quality metrics of the S&P Sector-Neutral HYDA versus the S&P Composite 1500. Return on equity (ROE) and return on invested capital (ROIC) are measures of how efficiently a company employs capital to generate a return for shareholders.

As of July 31, 2023, the S&P Sector-Neutral HYDA (18.7%) had a higher ROE than its underlying index (16.6%), as well as a higher ROIC (9.2% versus 8.8%, respectively). Its net income margin was also superior to the benchmark, at 10.9% versus 9.4%.

Exhibit 7: Improved Financial Strength



Source: S&P Dow Jones Indices LLC. Data as of July 31, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Fundamental Analysis

As Exhibit 8 displays, the S&P Sector-Neutral HYDA was cheaper on every valuation metric shown versus the S&P Composite 1500. Importantly, across the four metrics shown, the S&P Sector-Neutral HYDA traded at an average valuation discount of 25% versus the S&P Composite 1500. The valuation improvement is especially notable when considered along with the quality improvements shown in Exhibit 5.

Exhibit 8: Valuation Comparison

Valuation	S&P Composite 1500	S&P Sector-Neutral HYDA	Discount (%)
P/E Ratio	24.7	17.0	31
P/S Ratio	2.3	1.9	20
P/CF Ratio	14.7	10.8	26
P/B Ratio	4.1	3.2	23
Average Discount			25

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Sector Neutrality

Most dividend indices have notable underweights to sectors such as Information Technology and overweights to sectors like Utilities. However, the S&P Sector-Neutral HYDA avoids these

sector biases by mirroring the sector weights of the S&P Composite 1500. Therefore, the index reduces the impact of sector-driven performance differences versus its benchmark and has historically benefited from having more stable weights over time. Unique for a dividend-based strategy, Information Technology has been the most heavily weighted sector on average since inception, at 20.1%, as shown in Exhibit 9.

Exhibit 9: Sector Allocation over the Long Term

Sector	Average Sector Weights since Inception (%)			Current Sector Weights (%)		
	S&P Composite 1500	S&P Sector-Neutral HYDA	Difference	S&P Composite 1500	S&P Sector-Neutral HYDA	Difference
Communication Services	4.4	4.3	-0.1	8.2	7.2	0.9
Consumer Discretionary	11.4	11.3	-0.1	10.9	10.4	0.5
Consumer Staples	8.7	8.7	0.0	6.4	6.4	0.0
Energy	8.0	8.0	0.0	4.3	4.1	0.2
Financials	15.5	15.3	-0.2	12.8	13.3	-0.5
Health Care	13.1	13.2	0.1	12.8	13.1	-0.2
Industrials	10.7	11.0	0.2	9.5	10.0	-0.5
Information Technology	20.1	20.1	0.0	26.7	27.3	-0.6
Materials	3.4	3.4	0.0	2.9	2.9	0.0
Real Estate	1.2	1.3	0.1	2.9	2.7	0.2
Utilities	3.5	3.5	0.0	2.6	2.6	0.0

Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2005, to July 31, 2023. The S&P Sector-Neutral High Yield Dividend Aristocrats was launched Sept. 19, 2022. 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.

Conclusion

Historically, the S&P Sector-Neutral High Yield Dividend Aristocrats has demonstrated superior long-term risk-adjusted returns, dividend yields and downside protection relative to its benchmark. The index has also provided more quality, value and low volatility factor exposure than its benchmark. Moreover, sector neutrality is a key differentiator in the dividend space. This core feature may mean that the S&P Sector-Neutral HYDA is more likely to exhibit risk and return characteristics that are closer to its benchmark than most other dividend strategies.

Performance Disclosure/Back-Tested Data

The S&P Sector-Neutral High Yield Dividend Aristocrats was launched September 19, 2022. 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.

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