

## Seeking Stable Income: The S&P 500<sup>®</sup> Quality High Dividend Index

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Amid 2019's volatile market environment characterized by escalated trade disputes and fears of economic recession, many market participants started the year worrying about rising rates—only to see them decline. In turbulent times, a focus on quality stocks with high dividend yields may present a compelling investment solution for market participants seeking stable income.

The [S&P 500 Quality High Dividend Index](#) seeks to provide just such a solution—it selects stocks that rank within the top 200 of the [S&P 500](#) by quality score and dividend yield (see Exhibit 1). This order-indifferent approach ensures extensive and balanced exposure to both quality and dividend yield. Constituents are equally weighted and rebalanced semiannually.<sup>1</sup>

### Exhibit 1: Select Quality High Dividend Stocks from the S&P 500



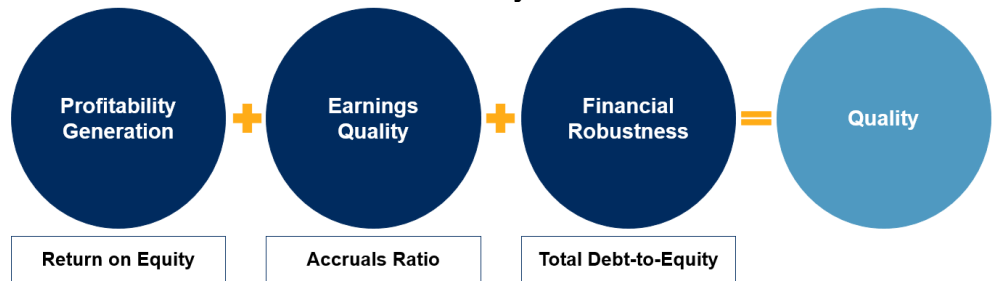
Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

### WHAT IS QUALITY?

S&P Dow Jones Indices defines quality as a combination of profit generation, earnings quality, and financial robustness (see Exhibit 2). Together, these traits generally shield companies from the volatility of the economic cycle, making them slightly more immune to downturns.

<sup>1</sup> For a detailed methodology, please visit <https://spdji.com/documents/methodologies/methodology-sp-500-quality-high-dividend-index.pdf>.

**Exhibit 2: S&P DJI Framework for Quality**

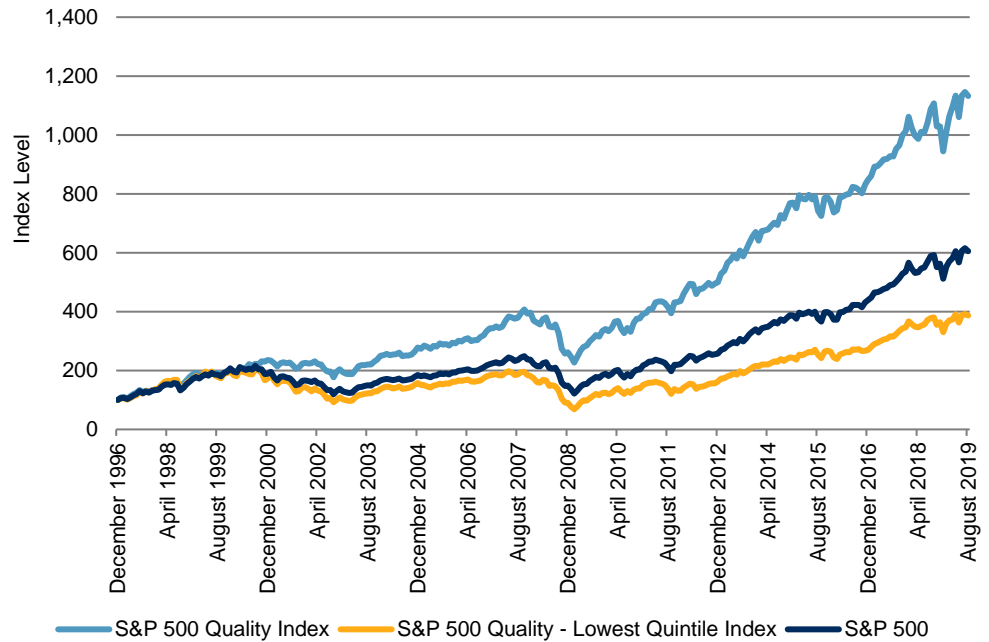


The S&P 500 Quality High Dividend Index's order-indifferent approach...

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

Historically, high-quality stocks have delivered outperformance in the long run and provided downside protection during down markets (see Exhibits 3 and 4).

**Exhibit 3: The Outperformance of High-Quality Stocks versus Low-Quality Stocks – Wealth Curve**

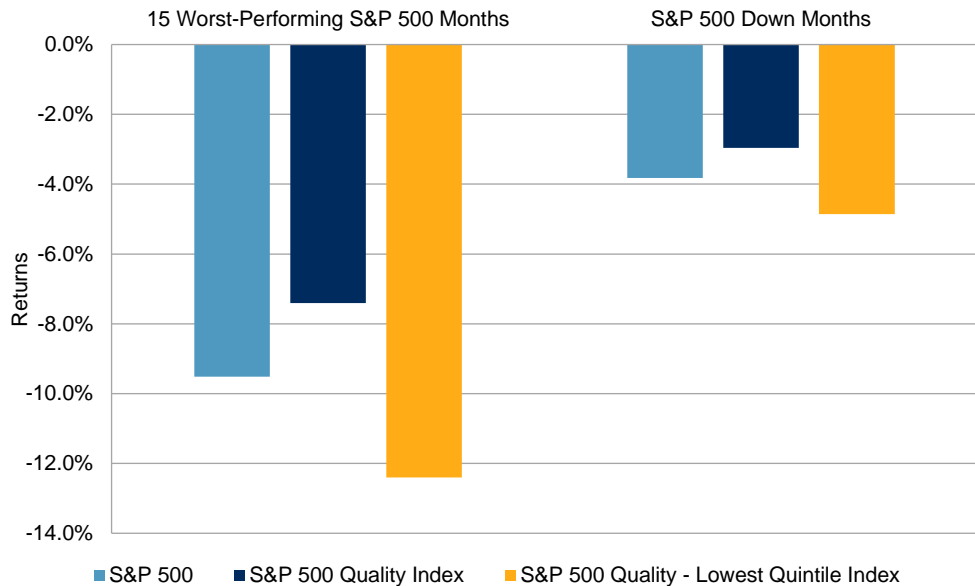


... ensures extensive and balanced exposure to both quality and dividend yield.

S&P DJI defines quality as a combination of profit generation, earnings quality, and financial robustness.

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1996, to Aug. 30, 2019. Index performance based on total returns in USD. 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.

**Exhibit 4: High-Quality Stocks Offer Downside Protection – Average Monthly Returns**



*The combination of quality with dividend yield can improve the stability of dividends and capital appreciation potential.*

*Selecting stocks that rank high within the S&P 500 for both dividend yield and quality...*

Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2019. Index performance based on total returns in USD. 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.

**WHY IMPLEMENT A QUALITY + DIVIDEND APPROACH?**

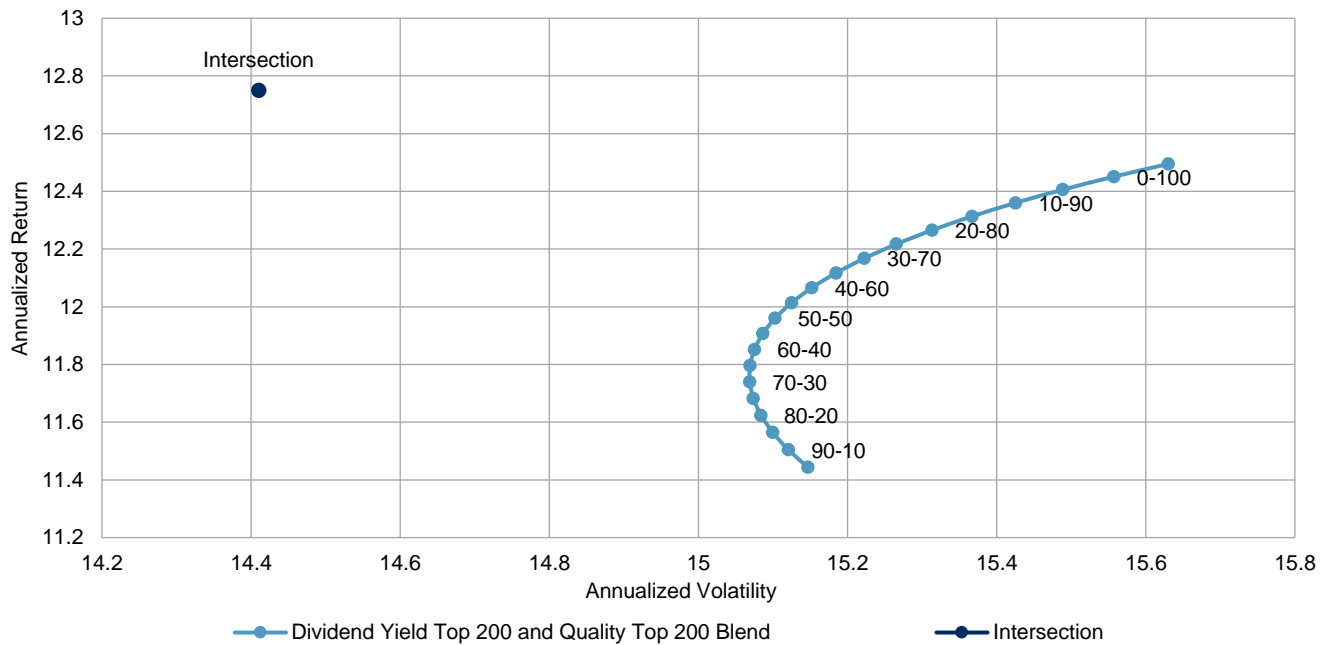
There are times when a stock may have a high yield because a business could be in trouble or in a correction, and its stock price continues to drop, therefore pushing the yield higher. Combining quality with dividend yield may help to avoid such stocks, thus improving the stability of dividends and capital appreciation potential. Furthermore, quality exposure can potentially improve returns and reduce drawdowns.

*... is superior to blending two separate high-quality and high-dividend-yield portfolios.*

Looking at portfolios that use a combination of quality and high-yield, it can be seen that the intersection of quality and dividend at a stock level matters over the long term. Exhibits 5 and 6 show that selecting stocks that rank high within the S&P 500 for both dividend yield and quality is superior to blending two separate high-quality and high-dividend-yield portfolios. Compared with 11 hypothetical portfolios that allocate capital to the top 200 dividend-yielding stocks<sup>2</sup> and top 200 quality stocks,<sup>3</sup> the intersection<sup>4</sup> offers the potential for higher absolute return with reduced volatility and less maximum drawdown.

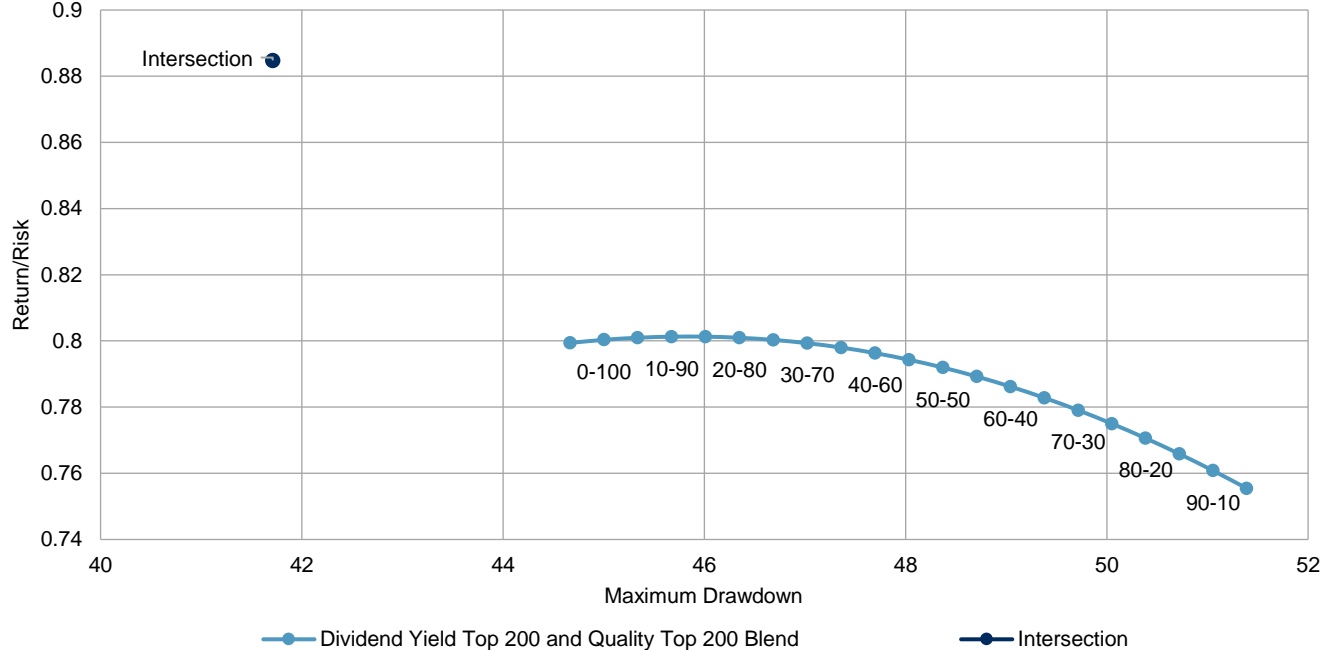
<sup>2</sup> Dividend Yield Top 200 represents a hypothetical portfolio constructed from the S&P 500 by selecting the top 200 names with the highest 12-month trailing dividend yield; the portfolio is equally weighted and rebalanced semiannually.  
<sup>3</sup> Quality Top 200 represents a hypothetical portfolio constructed from the S&P 500 by selecting the top 200 names with highest quality score; the portfolio is equally weighted and rebalanced semiannually.  
<sup>4</sup> Intersection of Dividend Yield Top 200 and Quality Top 200 represents a hypothetical portfolio consisting of stocks that rank within the top 200 of S&P 500 by both quality and dividend yield; the portfolio is equally weighted and rebalanced semiannually.

**Exhibit 5: Efficient Frontier**



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1996, to Aug. 30, 2019. Index performance based on total return in USD. 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.

**Exhibit 6: Maximum Drawdown versus Return/Risk**



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1996, to Aug. 30, 2019. Index performance based on total returns in USD. 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.

## KEY CHARACTERISTICS OF THE S&P 500 QUALITY HIGH DIVIDEND INDEX

1. Stable and attractive dividend
2. Buffer against volatility
3. Favorable fundamentals
4. Diversified sector allocation

*Quality enhanced, the S&P 500 Quality High Dividend Index consists of stocks with higher dividend stability than a pure high-yield strategy has.*

### Stable and Attractive Dividend

Higher-quality stocks are more likely to sustain their dividends with financial discipline. Quality enhanced, the S&P 500 Quality High Dividend Index consists of stocks with higher dividend stability than a pure high-yield strategy has. Compared with the S&P 500 High Dividend Index<sup>5</sup> and the S&P 500, the S&P 500 Quality High Dividend Index has a significantly larger portion of constituents that have increased dividends per share (DPS) for 3, 5, and 10 consecutive years (see Exhibit 7).

*Seeking the balance between quality and dividend yield...*

**Exhibit 7: Dividend Stability**

INDEX	TOTAL NUMBER OF CONSTITUENTS	% OF STOCKS WITH CONSECUTIVE DPS GROWTH		
		3-YEAR	5-YEAR	10-YEAR
S&P 500 Quality High Dividend Index	69	72	64	30
S&P 500 High Dividend Index	80	63	50	24
S&P 500	505	54	47	19

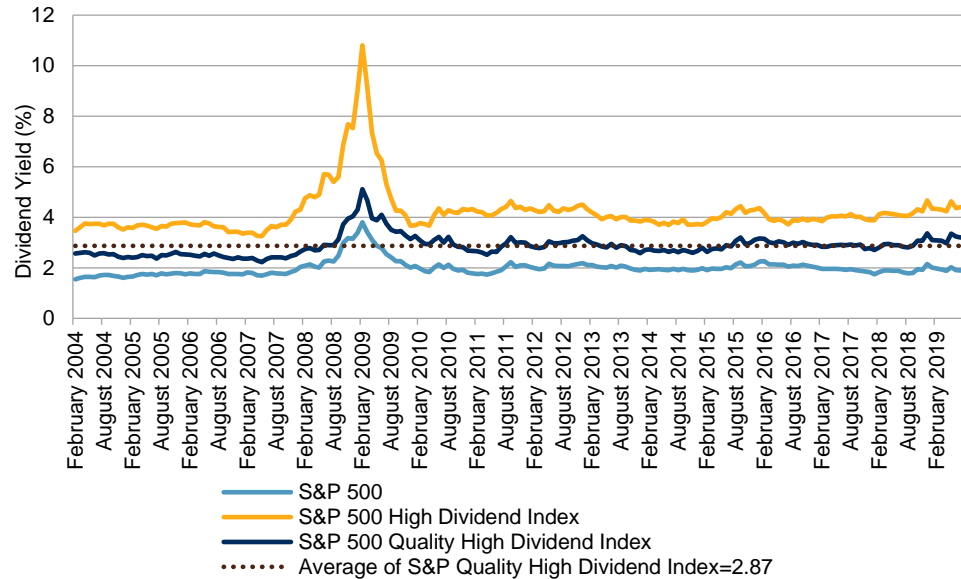
Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2019. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

*... the S&P 500 Quality High Dividend Index has historically been able to constantly deliver a higher-than-market dividend yield of close to 3% on average.*

Seeking the balance between quality and dividend yield, the S&P 500 Quality High Dividend Index has historically been able to constantly deliver a higher-than-market dividend yield of close to 3% on average.

<sup>5</sup> The [S&P 500 High Dividend Index](https://spdj.com/indices/strategy/sp-500-high-dividend-index) seeks to track the performance of the top 80 high-yield companies within the S&P 500, with each company assigned a fixed equal weight. For a detailed methodology, please visit <https://spdj.com/indices/strategy/sp-500-high-dividend-index>.

**Exhibit 8: Trailing 12-Month Dividend Yield**



*In volatile times, quality stocks may provide protection.*

*During the months when VIX averaged above 40...*

*... the S&P 500 Quality High Dividend Index outperformed the S&P 500 High Dividend Index by 4.4% per month on average.*

*When VIX was less than 20...*

*S&P 500 Quality High Dividend Index tended to equal the benchmark.*

Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2019. Index performance based on total return in USD. 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.

**Buffer against Volatility**

In volatile times, quality stocks may provide protection. During the months when VIX<sup>®6</sup> averaged above 40, the S&P 500 Quality High Dividend Index outperformed the S&P 500 High Dividend Index by 4.4% per month on average. When VIX was less than 20, the S&P 500 Quality High Dividend Index tended to equal the benchmark.

**Exhibit 9: Performance of S&P 500 Quality High Yield Index in Volatile Markets**

VIX MONTHLY AVERAGE LEVEL	AVERAGE MONTHLY OUT/UNDERPERFORMANCE (%)	
	VERSUS S&P 500	VERSUS S&P 500 HIGH DIVIDEND
>40	0.52	4.35
20-40	0.52	-0.03
0-20	0.10	0.08

Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2019. Index performance based on total return in USD. 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.

Historically, downside protection has played an important role for the S&P 500 Quality High Dividend Index in every extreme market event since December 1996. During the 2000 Dot-com Bubble (September 2000 to August 2002), the S&P 500 Quality High Dividend Index outperformed the S&P 500 by 55% cumulatively and reduced realized annualized volatility by

<sup>6</sup> CBOE Volatility Index

3%. During the 2008 Global Financial Crisis, the S&P 500 Quality High Dividend Index outperformed the S&P 500 by 7%, while the S&P 500 High Dividend Index underperformed by 14%.

*Downside protection has played an important role for the S&P 500 Quality High Dividend Index in every extreme market event.*

*During the 2008 Global Financial Crisis, the S&P 500 Quality High Dividend Index outperformed the S&P 500 by 7%...*

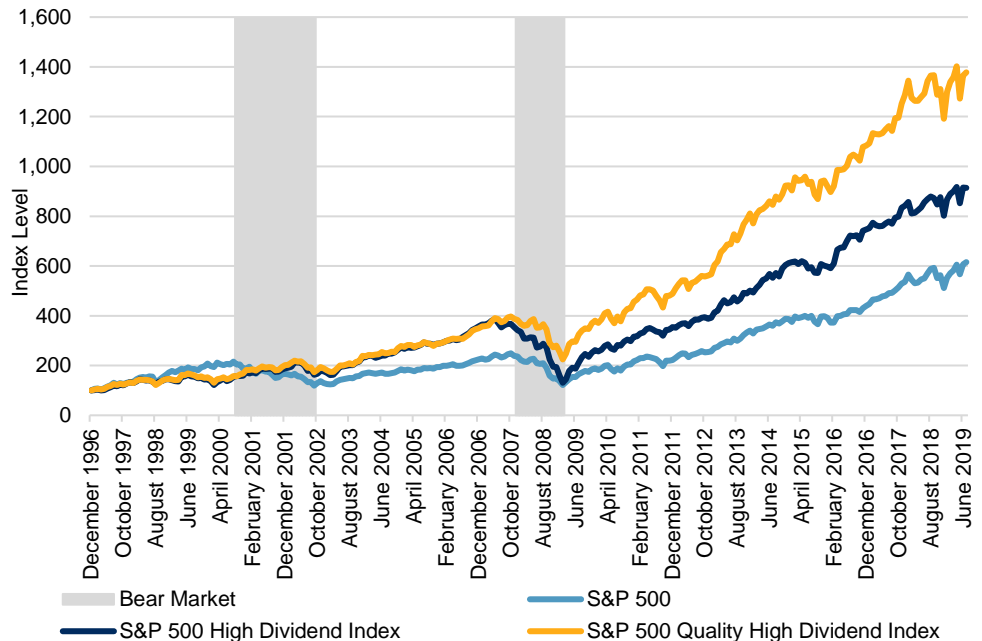
*... while the S&P 500 High Dividend Index underperformed by 14%.*

**Exhibit 10a: Performance in Bear and Bull Markets**

INDEX	DECEMBER 1996- AUGUST 2000	DOT-COM BUBBLE	SEPTEMBER 2002-OCTOBER 2007	GLOBAL FINANCIAL CRISIS	FEBRUARY 2009- AUGUST 2019
<b>CUMULATIVE RETURN (%)</b>					
S&P 500 Quality High Dividend Index	58.01	9.98	128.43	-43.52	486.81
S&P 500 High Dividend Index	54.28	5.43	126.19	-64.59	566.04
S&P 500	116.08	-44.73	108.39	-50.95	396.13
<b>EXCESS RETURN (VERSUS S&amp;P 500, %)</b>					
S&P 500 Quality High Dividend Index	-58.07	54.72	20.04	7.43	90.67
S&P 500 High Dividend Index	-61.80	50.17	17.80	-13.64	169.91
<b>ANNUALIZED VOLATILITY (%)</b>					
S&P 500 Quality High Dividend Index	16.58	15.06	9.60	20.25	13.99
S&P 500 High Dividend Index	17.53	17.49	9.94	26.64	14.18
S&P 500	16.84	17.69	9.62	19.62	12.99

Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical 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 10b: Performance in Bear and Bull Markets**



Source: S&P Dow Jones Indices LLC. Data as of Aug. 30, 2019. Index performance based on total return in USD. 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.

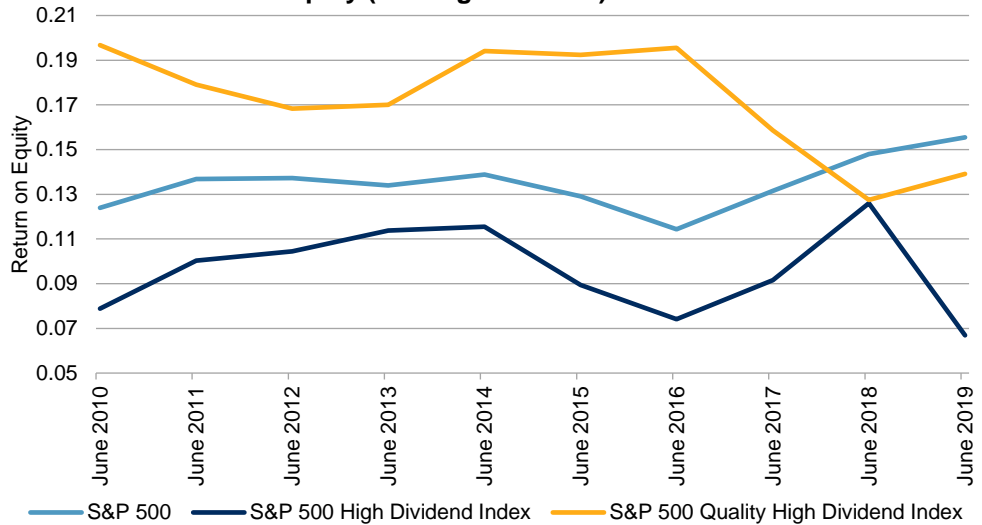
### Favorable Fundamentals

The S&P 500 Quality High Dividend Index has historically tended to be of higher quality than the S&P 500 High Dividend Index and the broad market in terms of profitability and financial leverage over the past 10 years (see Exhibits 11 and 12). However, higher quality does not necessarily come with a price premium. While it is more financially robust and competitive in terms of earnings quality, the S&P 500 Quality High Dividend Index appears to have been less expensive than the S&P 500 during the past five years.

*Over the past 10 years, the S&P 500 Quality High Dividend Index has tended to be of higher quality than the broad market...*

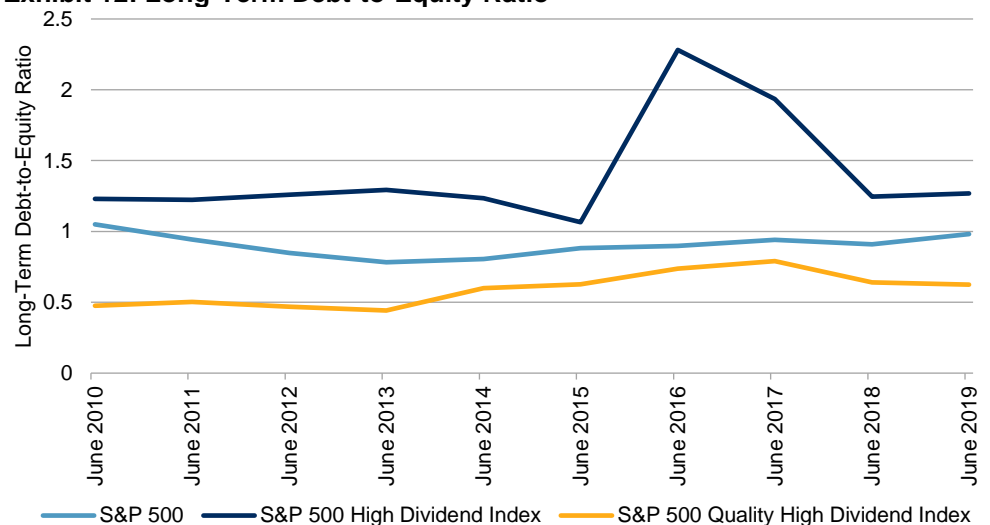
*... in terms of profitability and financial leverage.*

**Exhibit 11: Return on Equity (Trailing 12-Month)**



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2019. 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.

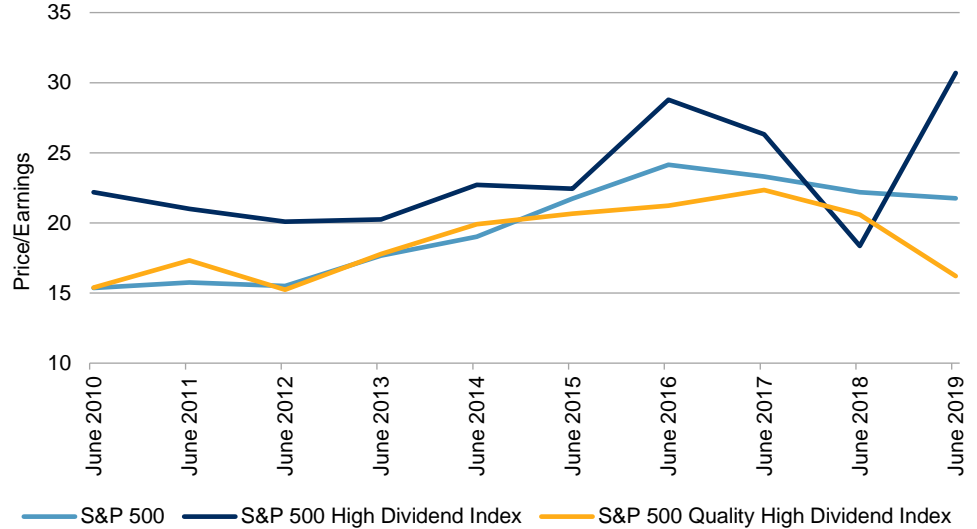
**Exhibit 12: Long-Term Debt-to-Equity Ratio**



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2019. 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.



**Exhibit 13: Price/Earnings (Trailing 12 Month)**



The S&P 500 Quality High Yield Index appears to be more diversified and balanced across sectors because of its quality exposure.

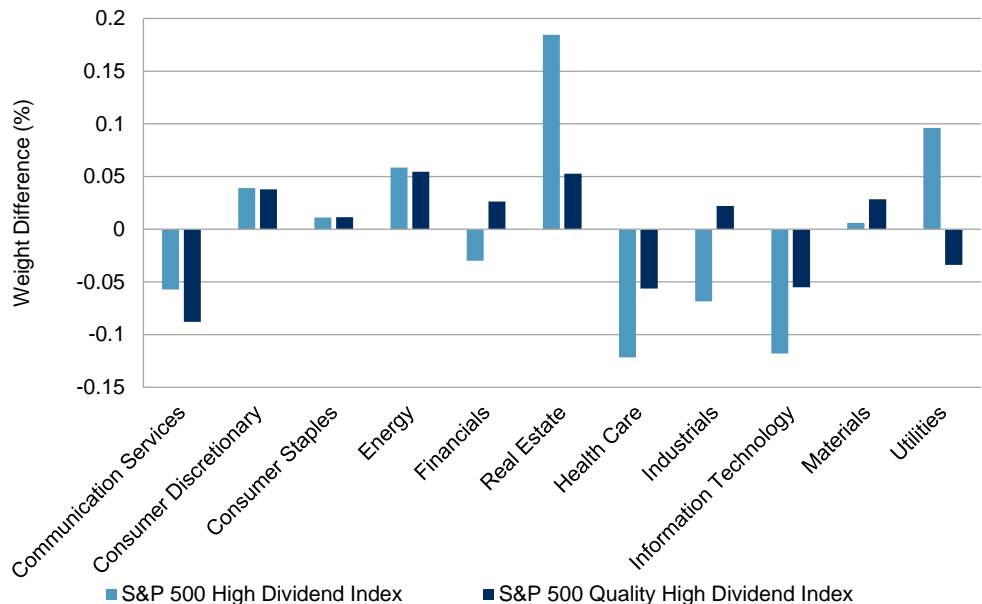
Source: S&P Dow Jones Indices LLC. Data as of June 30, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

**Diversified Sector Allocation**

Sector diversification is potentially beneficial...

A pure high-yield strategy tends to concentrate in sectors like Utilities and Real Estate. In contrast, the S&P 500 Quality High Yield Index appears to be more diversified and balanced across sectors because of its quality exposure (see Exhibit 14). Sector diversification is potentially beneficial if there are large moves in performance across particular sectors when an overall market rotates through different phases.

**Exhibit 14: Sector Composition (versus the S&P 500)**



... if there are large moves in performance across particular sectors when an overall market rotates through different phases.

Source: S&P Dow Jones Indices LLC. Data as of June 24, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

## **CONCLUSION**

The S&P 500 Quality High Dividend Index effectively combines quality and high dividend by selecting the intersection of top ranked quality stocks and high-yield stocks from S&P 500. It has shown greater resilience in volatile markets with greater diversification in terms of sector exposure, but lower evaluation than a pure dividend yield strategy does. For income-focused investors that are concerned about volatility, the S&P 500 Quality High Dividend Index could be a useful instrument.

## APPENDIX

<b>Exhibit 15: Historical Performance</b>					
<b>INDEX</b>	<b>DECEMBER 1996- AUGUST 2000</b>	<b>DOT-COM CRISIS</b>	<b>SEPTEMBER 2002- OCTOBER 2007</b>	<b>GLOBAL FINANCIAL CRISIS</b>	<b>FEBRUARY 2009-AUGUST 2019</b>
<b>CUMULATIVE RETURN (%)</b>					
S&P 500 Quality High Dividend Index	58.01	9.98	128.43	-43.52	486.81
Northern Trust Quality Dividend Index	-	-	118.42	-50.23	412.12
Value Line® Dividend Index	-	-	-	-42.65	423.34
FTSE USA Qual/Vol/Yield Factor 5% Capped Index	-	-	111.25	-36.92	349.87
Morningstar® Dividend Leaders Index	-	4.52	108.07	-58.42	424.96
S&P 500	116.08	-44.73	108.39	-50.95	396.13
<b>EXCESS RETURN (%)</b>					
S&P 500 Quality High Dividend Index	-58.07	54.72	20.04	7.43	90.67
Northern Trust Quality Dividend Index	-	-	10.03	0.72	15.99
Value Line Dividend Index	-	-	-	8.30	27.20
FTSE USA Qual/Vol/Yield Factor 5% Capped Index	-	-	2.86	14.03	-46.26
Morningstar Dividend Leaders Index	-	49.25	-0.32	-7.48	28.83
<b>ANNUALIZED VOLATILITY (%)</b>					
S&P 500 Quality High Dividend Index	16.58	15.06	9.60	20.25	13.99
Northern Trust Quality Dividend Index	-	-	10.08	20.80	13.14
Value Line Dividend Index	-	-	-	19.05	10.75
FTSE USA Qual/Vol/Yield Factor 5% Capped Index	-	-	8.66	15.26	10.48
Morningstar Dividend Leaders Index	-	17.53	10.69	27.63	11.72
S&P 500	16.84	17.69	9.62	19.62	12.99

Source: S&P Dow Jones Indices LLC, Bloomberg. Data as of Aug. 30, 2019. Data is available from Dec. 31, 1996, June 30, 1997, Sept. 30, 2000, Nov. 30, 2000, Sept. 30, 2006, and April 30, 2013, for S&P 500 Quality High Dividend Index, Morningstar Dividend Leaders Index, FTSE USA Qual/Vol/Yield Factor 5% Capped Index, Northern Trust Quality Dividend Index, and Value Line Dividend Index, respectively. WisdomTree U.S. Quality Dividend Growth Index is not included due to short data history. Index performance based on total return in USD. 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.

<b>Exhibit 16: Key Characteristics</b>				
<b>INDEX STATISTICS</b>	<b>S&amp;P 500 QUALITY HIGH YIELD INDEX</b>	<b>S&amp;P 500</b>	<b>WISDOMTREE U.S. QUALITY DIVIDEND GROWTH INDEX</b>	<b>FTSE USA QUAL/VOL/DIVIDEND 5% FACTOR CAPPED</b>
Trailing 12-Month Dividend Yield	3.37	1.94	2.64	3.13
Price/Earnings	16.62	21.09	16.58	21.99
Price/Book	2.45	3.33	4.16	5.1
Price/Sales	1.32	2.08	1.72	2.79

Source: S&P Dow Jones Indices LLC, Wisdom Tree, FTSE, Bloomberg. For the S&P 500 Quality High Yield Index and S&P 500 Index, Price/Earnings, Price/Book, Price/Sales are as of March 29, 2019 and the trailing 12-month dividend yield is as of Aug. 30, 2019. Data as of Aug. 30, 2019 for FTSE USA Qual/Vol/Dividend 5% Factor Capped (Price/Earnings as of Sept. 12, 2019), and Sept. 4, 2019, for WisdomTree U.S. Quality Dividend Growth Index. Data is not available for Northern Trust Quality Dividend Index, Value Line Dividend Index, and Morningstar Dividend Leaders Index. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

## PERFORMANCE DISCLOSURE

The S&P 500 Quality High Dividend Index was launched April 23, 2018. The S&P 500 Quality Index was launched July 8, 2014. The S&P 500 Quality – Lowest Quintile Index was launched February 10, 2017. The S&P 500 High Dividend Index was launched September 21, 2015. 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.spdji.com](http://www.spdji.com). Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

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 at a fixed value for calculation purposes. The Launch Date designates the date upon which 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 datafeed 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.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at [www.spdji.com](http://www.spdji.com) 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.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

The Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices LLC 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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