

S&P High Yield Dividend Aristocrats[®]: A Practitioner's Guide

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INTRODUCTION

In a market environment with low yields and potential interest rate cuts, as seen in the U.S. in 2019, yield-seeking investors may become more interested in equity dividend yield strategies. Dividend strategies could satisfy investors' needs in several ways, including higher dividend income, favorable risk-adjusted returns, lower volatility, and more downside protection in bearish market environments. In this paper, we look at the [S&P High Yield Dividend Aristocrats](#) and its characteristics, risk/return profile, and performance attribution.

Two common strategies for dividend investing are high dividend yield and dividend growth. To capture the premium of a dividend growth strategy, S&P Dow Jones Indices launched the S&P High Yield Dividend Aristocrats in November 2005. The index is designed to track a basket of stocks from the [S&P Composite 1500[®]](#) that consistently increased their total dividends per share every year for at least 20 consecutive years.¹ The index universe covers large-, mid-, and small-cap stocks in the U.S. equities market.

The outperformance of the S&P High Yield Dividend Aristocrats has historically been attributed to stock selection rather than sector allocation. Moreover, the index constituents tend to have the high-quality characteristics of higher operating profitability and more conservative investment growth than the overall market. From business operations and financial perspectives, high-quality fundamentals form the foundation for sustainable dividend increases.

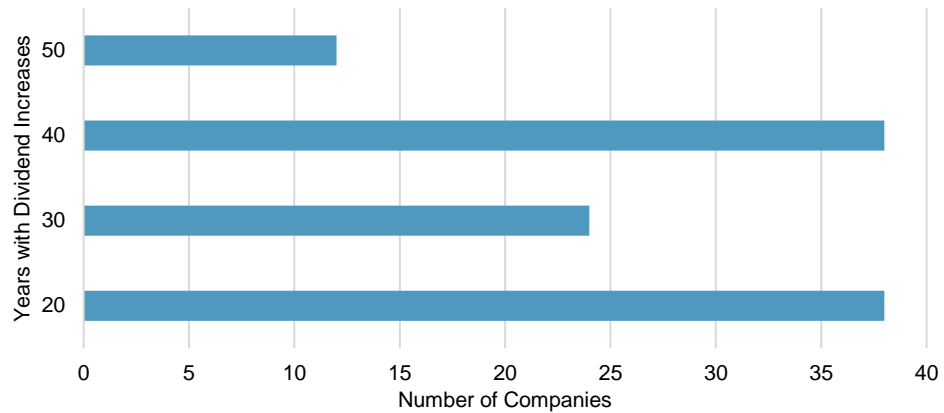
LONG HISTORY OF DIVIDEND INCREASES

The constituents in the S&P High Yield Dividend Aristocrats have long histories of increasing their dividends. All constituents are required to have a minimum of 20 years of dividend increases, and some have a dividend increase history of 50 years or more (see Exhibit 1).

¹ For further information about the index, please see the [S&P High Yield Dividend Aristocrats Methodology](#).

Exhibit 1: Dividend Increase History of the S&P High Yield Dividend Aristocrats

The constituents in the S&P High Yield Dividend Aristocrats have long histories of increasing their dividends.



All constituents are required to have a minimum of 20 years of dividend increases...

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to Dec. 31, 2018. 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.

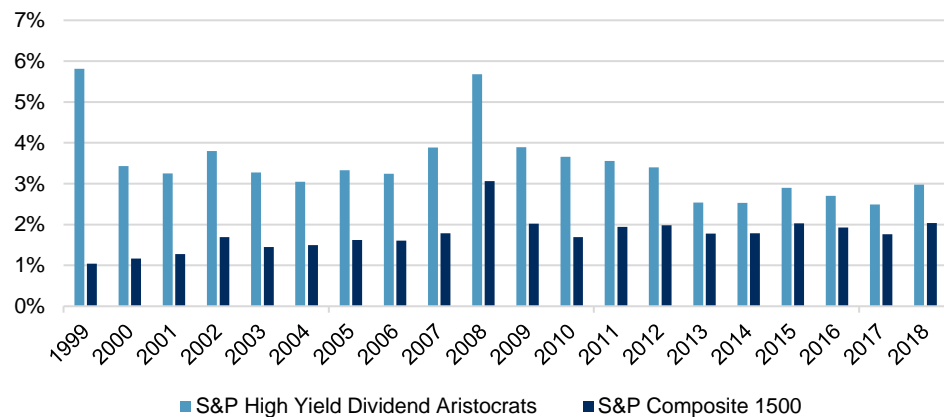
YIELD CHARACTERISTICS

...and some have a dividend increase history of 50 years or more.

From Dec. 31, 1999, to Dec. 31, 2018, the S&P High Yield Dividend Aristocrats consistently had higher yields than its benchmark (see Exhibit 2). The average yield of the index was 3.5%, ranging from 2.5% to 5.8% over the period studied. In contrast, the average yield of the S&P Composite 1500 was 1.8%, with a range of 1.5% to 2.8%. On average, the dividend yield gap between these two indices was 1.7%. The dividend yield profile was similar to that of the [S&P 500® Dividend Aristocrats](#)² and [S&P 500 Low Volatility High Dividend Index](#).³

Exhibit 2: Historical Yields of the S&P High Yield Dividend Aristocrats versus the S&P Composite 1500

The S&P High Yield Dividend Aristocrats consistently had higher yields than its benchmark.



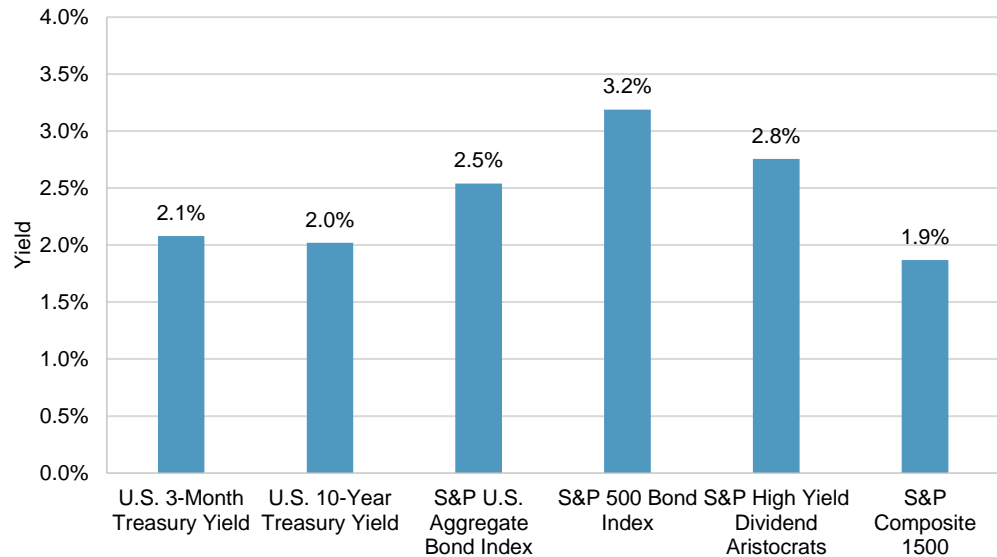
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² Chirputkar, S. and Soe, A. “[A Fundamental Look at S&P 500 Dividend Aristocrats](#).” S&P Dow Jones Indices, 2019.

³ Luk, P. and Qu, X. “[The Beauty of Simplicity: The S&P 500 Low Volatility High Dividend Index](#).” S&P Dow Jones Indices, 2019.

For comparison purposes, Exhibit 3 lists the recent yields of selected securities and indices. As of July 31, 2019, the S&P High Yield Dividend Aristocrats had a dividend yield of 2.8%, which was higher than the yields of the other securities and indices shown, with the exception of the [S&P 500 Bond Index](#).

Exhibit 3: Current Yield Comparison



Dividend income and capital appreciation are the two components of total return.

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

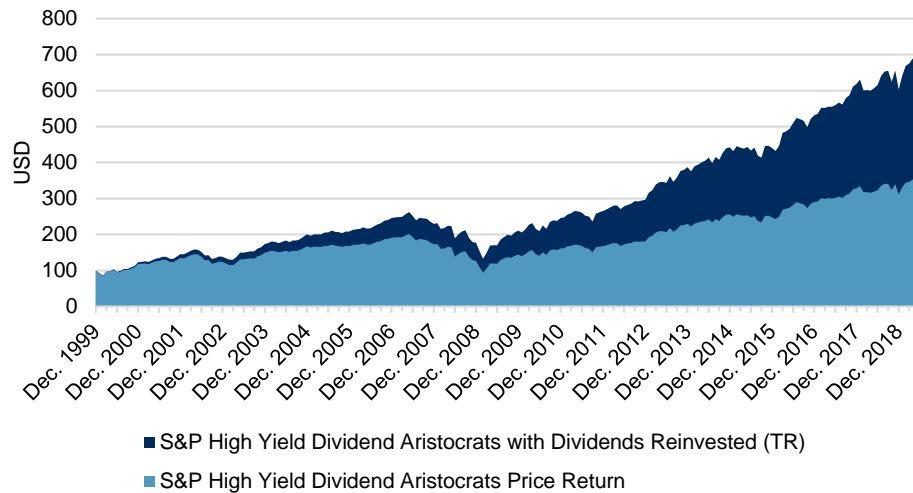
IMPORTANCE OF DIVIDENDS AND THE COMPOUNDING EFFECT

Dividend income and capital appreciation are the two components of total return. From Dec. 31, 1999, to June 30, 2019, the S&P Composite 1500 generated a total return of 215.2%. About 45% was from dividend income, while 55% came from price appreciation. During the same period, the S&P High Yield Dividend Aristocrats generated a total return of 590.3%, with about 57% from dividend income and 43% from price appreciation.

The benefits of a dividend growth strategy include compounding the growth of dividends per share, compounding reinvested dividends, and share price appreciation.

Excluding dividends, an investment of USD 100 made in the S&P High Yield Dividend Aristocrats at the end of 1999 would have grown to USD 352 by the end of June 2019. During the same period, an investment of USD 100 with dividends reinvested would have yielded USD 690 (see Exhibit 4).

Exhibit 4: Cumulative Performance of the S&P High Yield Dividend Aristocrats Price Return versus Total Return



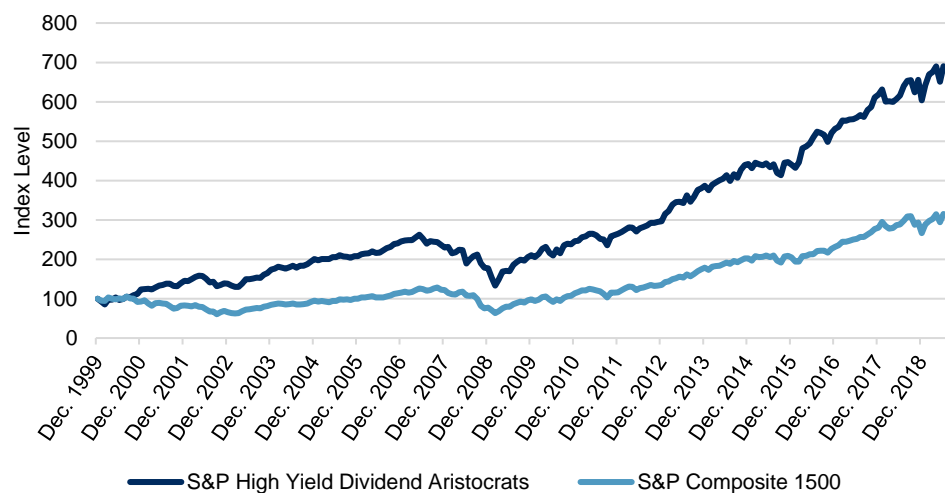
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 30, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The S&P High Yield Dividend Aristocrats delivered significant outperformance against its benchmark over the long-term horizon.

FAVORABLE RISK-ADJUSTED RETURN PROFILE

The S&P High Yield Dividend Aristocrats delivered significant outperformance against its benchmark, the S&P Composite 1500, over the long-term horizon. Rebasing both indices to 100 on Dec. 31, 1999, the S&P High Yield Dividend Aristocrats reached 690.30 on June 30, 2019, whereas the S&P Composite 1500 reached 315.15 over the same period (see Exhibit 5).

Exhibit 5: Cumulative Performance of the S&P High Yield Dividend Aristocrats versus the S&P Composite 1500



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 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 shows the detailed risk/return profile of the S&P High Yield Dividend Aristocrats versus the S&P Composite 1500. Over the period studied, the S&P High Yield Dividend Aristocrats outperformed the S&P Composite 1500 by 4.3% on an annualized return basis. The reduced volatility helped the strategy deliver a much better risk-adjusted return (0.75) than the S&P Composite 1500 (0.41). Furthermore, the S&P High Yield Dividend Aristocrats also had superior risk-adjusted returns over the 5-, 10-, and 15-year periods.

The S&P High Yield Dividend Aristocrats outperformed its benchmark on risk-adjusted return basis as well.

Exhibit 6: Risk/Return Characteristics		
PERIOD	S&P HIGH YIELD DIVIDEND ARISTOCRATS	S&P COMPOSITE 1500
ANNUAL RETURN (%)		
1-Year	12.1	9.3
3-Year	10.6	13.9
5-Year	10.8	10.5
10-Year	15.1	14.7
15-Year	9.2	8.9
Since Year-End 1999	10.4	6.1
ANNUAL VOLATILITY (%)		
3-Year	11.1	12.4
5-Year	11.2	12.2
10-Year	11.5	12.9
15-Year	13.6	14.1
Since Year-End 1999	13.8	14.8
RISK-ADJUSTED RETURN		
3-Year	0.96	1.12
5-Year	0.97	0.86
10-Year	1.30	1.14
15-Year	0.68	0.63
Since Year-End 1999	0.75	0.41

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 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.

The S&P High Yield Dividend Aristocrats also demonstrated defensive features during down markets.

DEFENSIVE CHARACTERISTICS

The S&P High Yield Dividend Aristocrats demonstrated defensive features during the down markets of the studied period, with the strategy having a smaller maximum drawdown, less loss, and a lower beta than the S&P Composite 1500 (see Exhibit 7).

Exhibit 7: Risk Statistics Since Year-End 1999

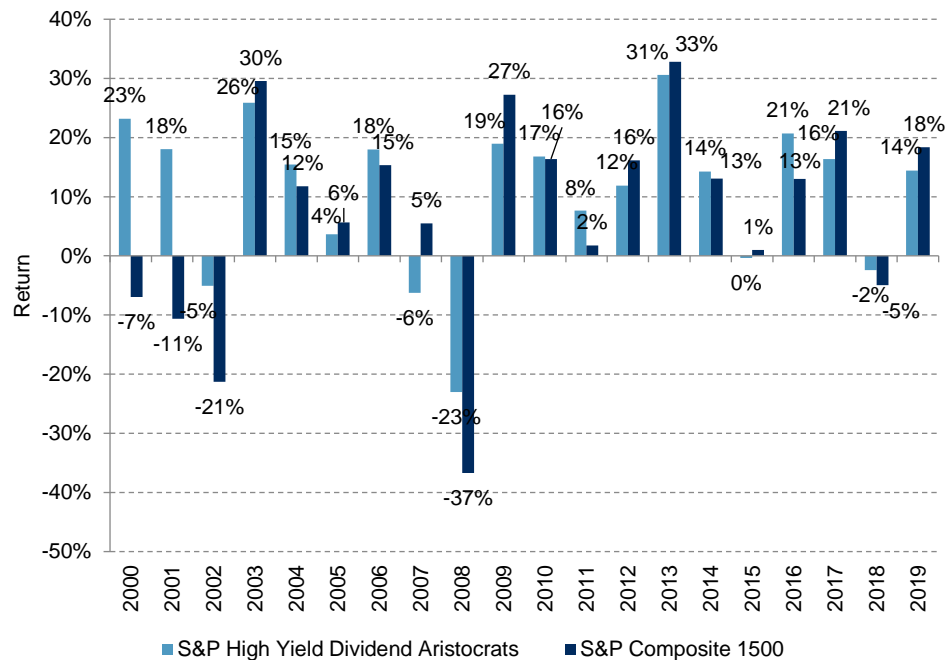
STATISTICS	S&P HIGH YIELD DIVIDEND ARISTOCRATS	S&P COMPOSITE 1500
Maximum Drawdown	-49.3	-50.8
Worst Monthly Return (%)	-15.3	-17.3
Minimum Rolling 12-Month Return (%)	-38.2	-43.2
Beta with Benchmark	0.7	1.0

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 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 resilience of the S&P High Yield Dividend Aristocrats can be observed in the calendar-year returns.

The resilience of the S&P High Yield Dividend Aristocrats can be observed in the calendar-year returns (see Exhibit 8). During each down-market year, as indicated by negative returns of the S&P Composite 1500, the S&P High Yield Dividend Aristocrats outperformed by a significant margin. The outperformance was most striking in 2000 and 2001, when the S&P High Yield Dividend Aristocrats had positive returns of 23% and 18%, while the S&P Composite 1500 had negative returns of -7% and -11%, respectively.

Exhibit 8: Historical Annual Performance by Calendar Year



During each down-market year, the S&P High Yield Dividend Aristocrats outperformed by a significant margin.

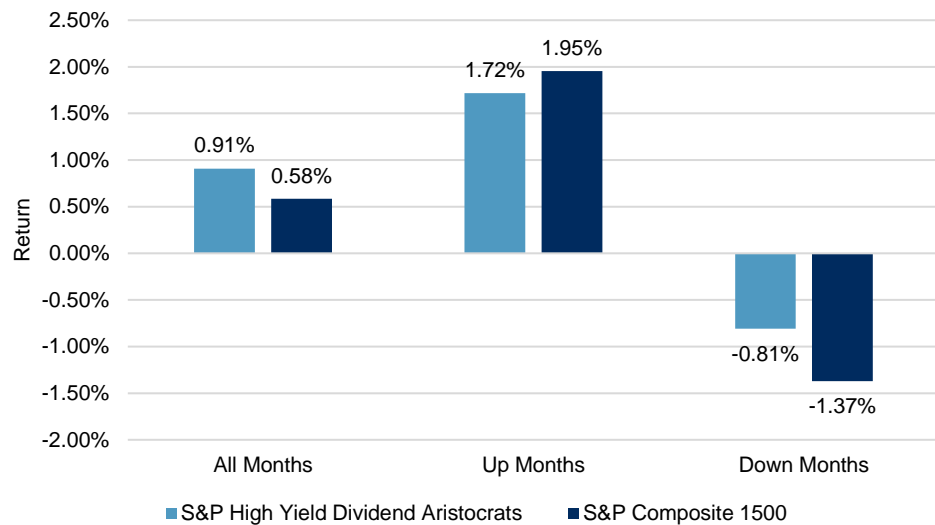
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 30, 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

UPSIDE PARTICIPATION AND DOWNSIDE PROTECTION

Another defensive feature of the S&P High Yield Dividend Aristocrats was that it participated in the upside when the market⁴ was rising and provided downside protection when the market was declining. The index participated in 88.2% of market returns during the up months on average (see Exhibit 9), and it experienced only 59% of market drops during the down months. Overall, the strategy tended to outperform, with a persistent hit ratio⁵ of 75.9% in down markets and 37.8% in up markets.

The S&P High Yield Dividend Aristocrats participated in the upside when the market was rising.

Exhibit 9: Average Monthly Returns in Different Market Environments



The index also provided downside protection when the market was declining.

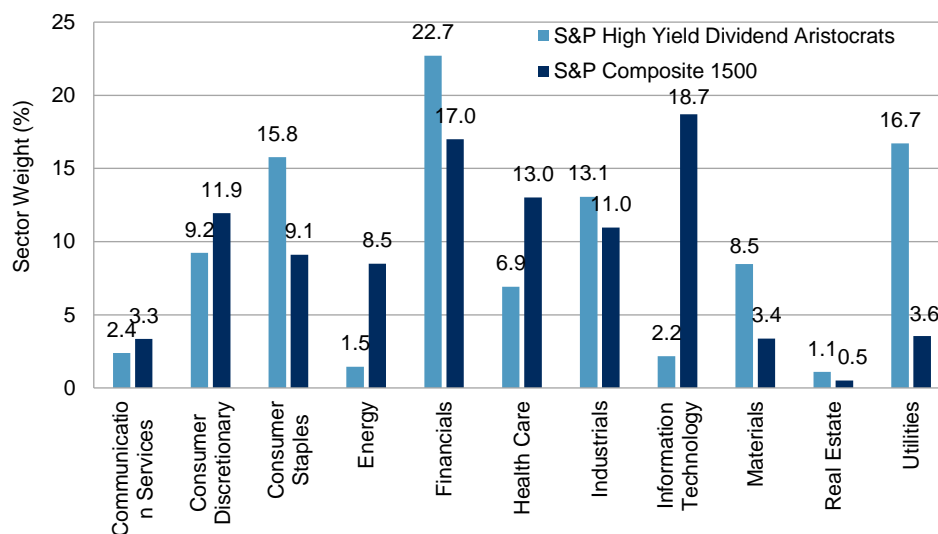
Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 30, 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

SECTOR COMPOSITION

Historically, the S&P High Yield Dividend Aristocrats had higher exposure to the Financials, Utilities, Consumer Staples, Industrials, and Materials sectors in terms of absolute weight and weights relative to the S&P Composite 1500. It had much lower exposures to the Energy, Information Technology, and Health Care sectors.

⁴ The market is defined as the monthly performance of the S&P Composite 1500 from Dec. 31, 1999, to June 30, 2019.

⁵ The persistent hit ratio is defined as the total number of periods during which the strategy outperforms the benchmark and is expressed as a percentage.

Exhibit 10: Sector Weights of the S&P High Yield Dividend Aristocrats versus the S&P Composite 1500

The S&P High Yield Dividend Aristocrats' outperformance mainly came from stock selection rather than sector allocation.

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 30, 2019. Chart is provided for illustrative purposes.

DECOMPOSITION OF EXCESS RETURN

We analyzed the sources of the historical excess returns of the S&P High Yield Dividend Aristocrats versus the S&P Composite 1500. Grouping by sectors, we looked at the sector allocation⁶ and individual stock-selection effects (see Exhibit 11).

Exhibit 11: S&P High Yield Dividend Aristocrats Performance Attribution

SECTOR	ALLOCATION EFFECT (%)	SELECTION EFFECT (%)	TOTAL EFFECT (%)
Communication Services	0.18	0.05	0.23
Consumer Discretionary	0.06	0.38	0.44
Consumer Staples	0.22	0.55	0.78
Energy	-0.16	0.05	-0.11
Financials	-0.06	0.54	0.48
Health Care	-0.10	-0.01	-0.11
Industrials	0.09	0.38	0.47
Information Technology	0.32	0.07	0.39
Materials	0.08	0.40	0.48
Real Estate	-0.04	-0.06	-0.10
Utilities	0.33	0.36	0.70
Total	0.93	2.73	3.66

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 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.

⁶ The sector allocation effect is the portion of portfolio excess return attributed to taking on sector bets in comparison with the benchmark. Individual stock-selection effect is the portion of portfolio excess return attributable to individual stock selection when the sector weight is the same as that of the benchmark.

Performance attribution reveals that individual stock selection contributed to 75% of monthly active returns, while sector allocation contributed to 25%. Thus, the outperformance of the S&P High Yield Dividend Aristocrats mainly came from stock selection rather than sector allocation.

FACTOR EXPOSURES

Profitability and investment growth are considered to be quality factors.

We used the Fama-French Five-Factor Model⁷ to dissect the historical returns of the S&P High Yield Dividend Aristocrats (see Exhibit 12). From the factor loading estimates and associated t-statistics, we can see that the index constituents had positive exposures to lower beta, better value, higher operating profitability, and more conservative investment growth. Profitability and investment growth are considered to be quality factors.

The empirical results show that the constituents had better valuation and quality characteristics than the overall market. High-quality fundamentals form the foundation for consistent dividend increases.

Exhibit 12: Factor Exposures of the S&P High Yield Dividend Aristocrats

FACTORS	FACTOR LOADING ESTIMATES	T-STATISTICS
Market Risk	0.85	27.59
Size	0.01	0.16
Value	0.30	5.88
Profitability	0.39	6.99
Investment	0.29	4.01

The index constituents had better valuation and quality characteristics than the overall market.

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to June 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.

CONCLUSION

With its unique design, the S&P High Yield Dividend Aristocrats has consistently had dividend growth for more than 20 consecutive years and higher yields than its benchmark.

Such solid fundamentals have driven its long-term favorable risk-adjusted returns and defensive characteristics.

Dividend growth investing combines the benefits of compounding the growth of dividends per share, compounding reinvested dividends, and share price appreciation. These could drive the outperformance and defensive characteristics of the S&P High Yield Dividend Aristocrats.

The strategy's outperformance has historically been attributed to stock selection. The index's constituents have had good value and quality characteristics. Such solid fundamentals have driven its long-term favorable risk-adjusted returns and defensive characteristics.

⁷ Fama and French, 2016.

APPENDIX

Exhibit 13: S&P High Yield Dividend Aristocrats			
NUMBER	COMPANY	TICKER	SECTOR
1	3M Co	MMM	Industrials
2	A.O. Smith Corp	AOS	Industrials
3	Abbott Laboratories	ABT	Health Care
4	AbbVie Inc.	ABBV	Health Care
5	ABM Industries Inc	ABM	Industrials
6	AFLAC Inc	AFL	Financials
7	Air Products & Chemicals Inc	APD	Materials
8	Albemarle Corp	ALB	Materials
9	Amcor plc	AMCR	Materials
10	American States Water Co	AWR	Utilities
11	AptarGroup Inc	ATR	Materials
12	Aqua America Inc	WTR	Utilities
13	Archer-Daniels-Midland Co	ADM	Consumer Staples
14	AT&T Inc	T	Communications
15	Atmos Energy Corp	ATO	Utilities
16	Automatic Data Processing	ADP	Information Technology
17	BANK OZK	OZK	Financials
18	Becton Dickinson & Co	BDX	Health Care
19	Black Hills Corp	BKH	Utilities
20	Brady Corporation A	BRC	Industrials
21	Brown & Brown Inc	BRO	Financials
22	Brown-Forman Corp B	BF.B	Consumer Staples
23	California Water Services Group	CWT	Utilities
24	Cardinal Health Inc	CAH	Health Care
25	Carlisle Cos	CSL	Industrials
26	Caterpillar Inc	CAT	Industrials
27	CDK Global Inc	CDK	Information Technology
28	CH Robinson Worldwide Inc	CHRW	Industrials
29	Chevron Corp	CVX	Energy
30	Chubb Limited	CB	Financials
31	Church & Dwight Co	CHD	Consumer Staples
32	Cincinnati Financial Corp	CINF	Financials
33	Cintas Corp	CTAS	Industrials
34	Clorox Co	CLX	Consumer Staples
35	Coca-Cola Co	KO	Consumer Staples
36	Colgate-Palmolive Co	CL	Consumer Staples
37	Commerce Bancshares Inc (MO)	CBSH	Financials
38	Community Bank System	CBU	Financials

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2019. Table is provided for illustrative purposes.

Exhibit 13: S&P High Yield Dividend Aristocrats (cont.)			
NUMBER	COMPANY	TICKER	SECTOR
39	Consolidated Edison Inc	ED	Utilities
40	Cullen Frost Bankers (TX)	CFR	Financials
41	Donaldson Co	DCI	Industrials
42	Dover Corp	DOV	Industrials
43	Eaton Vance Corp	EV	Financials
44	Ecolab Inc	ECL	Materials
45	Emerson Electric Co	EMR	Industrials
46	Essex Property Trust	ESS	Real Estate
47	Expeditors Intl of WA Inc	EXPD	Industrials
48	Exxon Mobil Corp	XOM	Energy
49	Fastenal Co	FAST	Industrials
50	Federal Realty Invt Trust	FRT	Real Estate
51	Franklin Resources Inc	BEN	Financials
52	Fuller H.B. Co	FUL	Materials
53	General Dynamics	GD	Industrials
54	Genuine Parts Co	GPC	Consumer Discretionary
55	Hormel Foods Corp	HRL	Consumer Staples
56	Illinois Tool Works Inc	ITW	Industrials
57	Intl Business Machines Corp	IBM	Information Technology
58	J.M. Smucker Co	SJM	Consumer Staples
59	John Wiley & Sons Inc. A	JW.A	Communications
60	Johnson & Johnson	JNJ	Health Care
61	Kimberly-Clark	KMB	Consumer Staples
62	Kontoor Brands Inc.	KTB	Consumer Discretionary
63	Lancaster Colony Corp	LANC	Consumer Staples
64	Leggett & Platt	LEG	Consumer Discretionary
65	Lincoln Electric Hldgs	LECO	Industrials
66	Linde plc	LIN	Materials
67	Lowe's Cos Inc	LOW	Consumer Discretionary
68	McCormick & Co	MKC	Consumer Staples
69	McDonald's Corp	MCD	Consumer Discretionary
70	MDU Resources Group Inc	MDU	Utilities
71	Medtronic plc	MDT	Health Care
72	Meredith Corp	MDP	Communications
73	MSA Safety Inc	MSA	Industrials
74	National Fuel Gas	NFG	Utilities
75	National Retail Properties Inc	NNN	Real Estate
76	New Jersey Resources Corp	NJR	Utilities

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2019. Table is provided for illustrative purpose.

Exhibit 13: S&P High Yield Dividend Aristocrats (cont.)			
NUMBER	COMPANY	TICKER	SECTOR
77	NextEra Energy Inc	NEE	Utilities
78	Nordson Corp	NDSN	Industrials
79	Nucor Corp	NUE	Materials
80	nVent Electric plc	NVT	Industrials
81	Old Republic Intl Corp	ORI	Financials
82	Pentair PLC	PNR	Industrials
83	People's United Financial Inc	PBCT	Financials
84	PepsiCo Inc	PEP	Consumer Staples
85	Polaris Inds Inc	PII	Consumer Discretionary
86	PPG Industries Inc	PPG	Materials
87	Procter & Gamble	PG	Consumer Staples
88	Realty Income Corp	O	Real Estate
89	RenaissanceRe Hldgs	RNR	Financials
90	RLI Corp	RLI	Financials
91	Roper Technologies, Inc	ROP	Industrials
92	Ross Stores Inc	ROST	Consumer Discretionary
93	RPM International Inc.	RPM	Materials
94	S&P Global Inc	SPGI	Financials
95	SEI Investments Corp	SEIC	Financials
96	Sherwin-Williams Co	SHW	Materials
97	Sonoco Products Co	SON	Materials
98	Stanley Black & Decker	SWK	Industrials
99	Sysco Corp	SYU	Consumer Staples
100	T Rowe Price Group Inc	TROW	Financials
101	Tanger Factory Outlet Centers	SKT	Real Estate
102	Target Corp	TGT	Consumer Discretionary
103	Telephone & Data Systems Inc	TDS	Communications
104	TJX Cos Inc	TJX	Consumer Discretionary
105	UGI Corp	UGI	Utilities
106	United Bankshares Inc (WV)	UBSI	Financials
107	United Technologies Corp	UTX	Industrials
108	VF Corp	VFC	Consumer Discretionary
109	W.W. Grainger Inc	GWW	Industrials
110	Walgreens Boots Alliance Inc	WBA	Consumer Staples
111	Walmart Inc.	WMT	Consumer Staples
112	West Pharmaceutical Services Inc	WST	Health Care

Source: S&P Dow Jones Indices LLC. Data as of June 30, 2019. Table is provided for illustrative purpose.

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PERFORMANCE DISCLOSURE

The S&P High Yield Dividend Aristocrats was launched Nov. 9, 2005. 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. 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 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.

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