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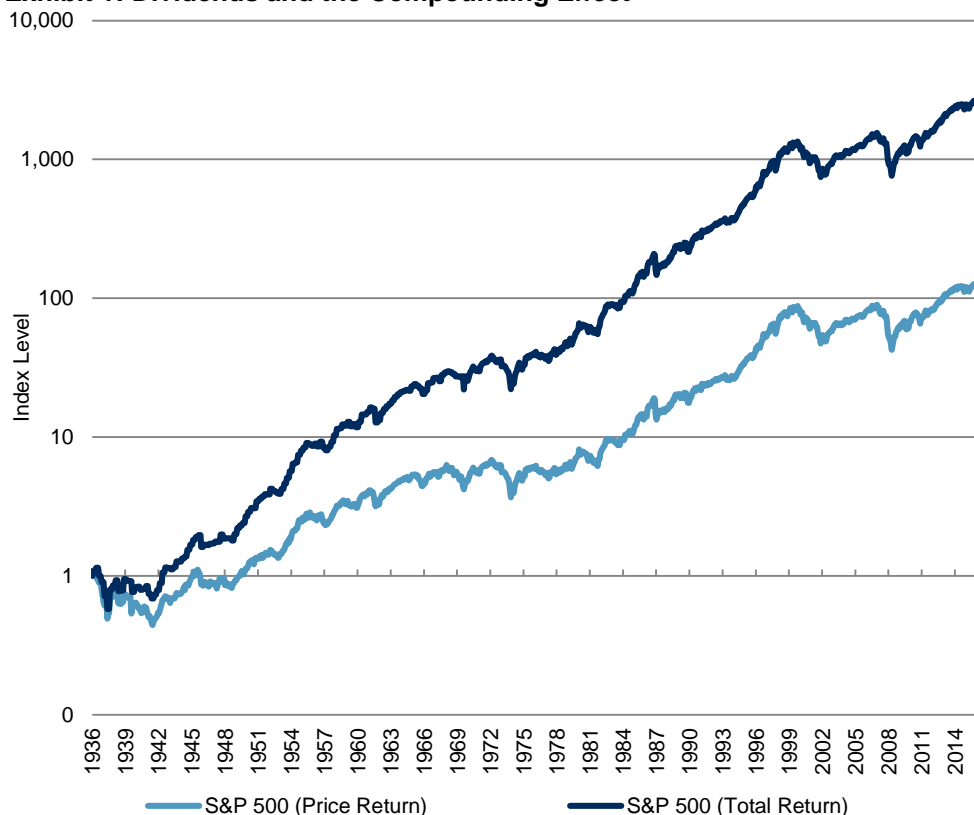
Selecting a Dividend Index? Three Factors Worth Considering

A LOOK BACK AT THE HISTORY OF DIVIDENDS

Dividends were born in the 16th century, when sailing ship captains in Holland and Britain began selling the payoffs of financially motivated voyages to investors. Since 1936, dividends have accounted for approximately one-third of the total equity return of the [S&P 500®](#), with capital appreciation contributing two-thirds. Today, most market participants know that both sustainable dividend income and the potential for capital appreciation form total return expectations. Exhibits 1 and 2 illustrate the historical importance of dividends.

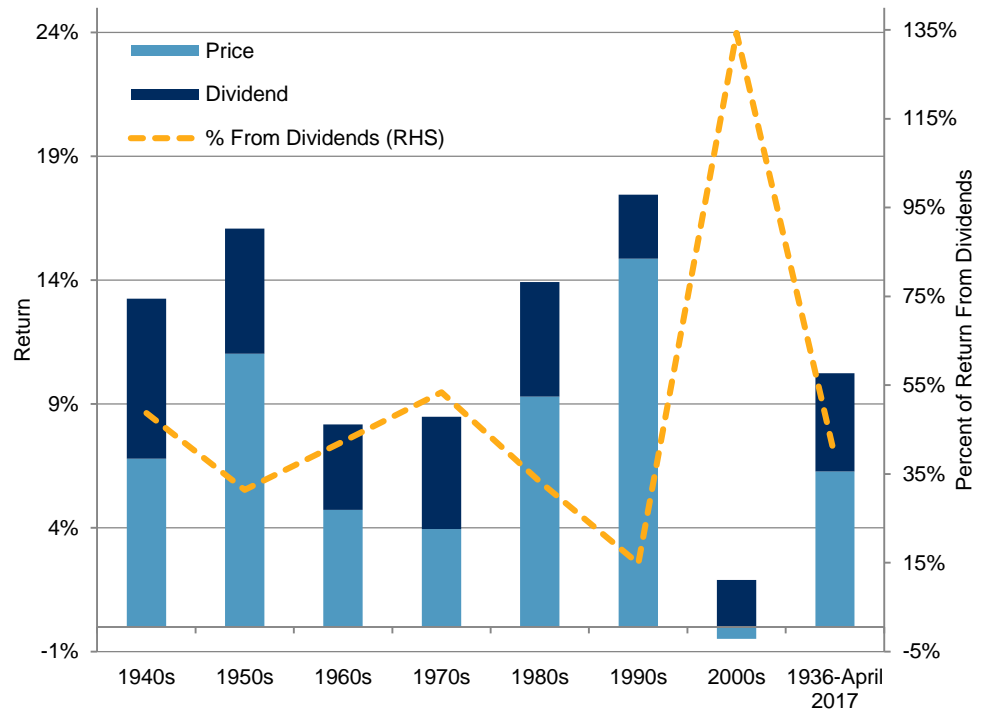
Since 1936, dividends have accounted for approximately one-third of the total returns of the S&P 500.

Exhibit 1: Dividends and the Compounding Effect



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1936, to April 28, 2017. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Exhibit 2: Percentage of Annualized Total Returns of the S&P 500 From Dividends



In choosing a dividend index, it's important to consider performance, risk/return, and sector characteristics.

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1940, to April 28, 2017. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

COMPARING FOUR DIVIDEND EXPOSURES

The [S&P High Yield Dividend Aristocrats®](#), the [Dow Jones U.S. Select Dividend Index](#), the [S&P 500 Low Volatility High Dividend Index](#), and the [S&P 500 High Dividend Index](#) are designed to measure the performance of dividend-paying companies traded in the U.S. Due to their unique constructions, their performance, risk/return, and sector characteristics can differ. In choosing a dividend index, it's important to consider these three factors.

Exhibit 3: Review of Key Index Mechanics

MECHANIC ELEMENT	S&P HIGH YIELD DIVIDEND ARISTOCRATS	DOW JONES U.S. SELECT DIVIDEND INDEX	S&P 500 LOW VOLATILITY HIGH DIVIDEND INDEX	S&P 500 HIGH DIVIDEND INDEX
Universe Coverage	S&P Composite 1500	Dow Jones U.S. Index	S&P 500	S&P 500
Quality Screen	Consistently increase dividends every year for at least 20 years	5-year positive dividend per share growth and payout ratio <= 60%	Least 50 volatile constituents from the 75 highest-yielding securities in the S&P 500	80 stocks with the highest 12-month indicative dividend yield
Number of Constituents	Floating – 81	Fixed – 100	Fixed – 50	Fixed – 80
Weighting Scheme	Indicated annual dividend yield	Indicated annual dividend yield	Historical annual dividend yield	Equally weighted
Rebalancing Frequency	Annual review in January	Annual review in March (2015 onwards)	Semiannual review in January and July	Semiannual review in January and July

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

Index Construction and Its Impact on Sector Exposure Over Time

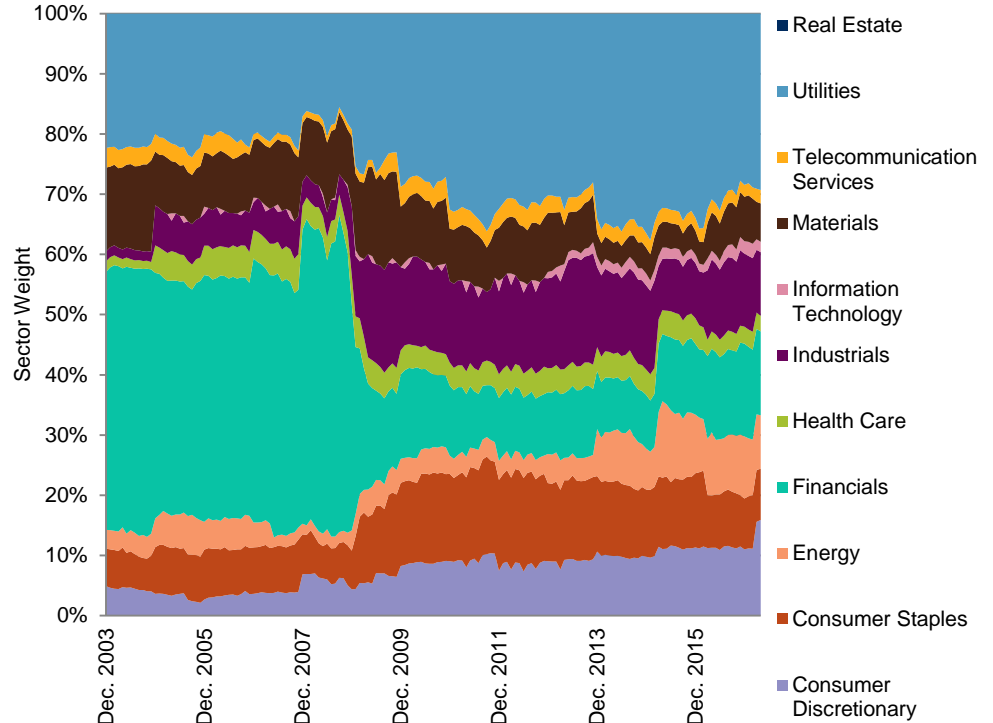
Exhibits 4, 5, 6, and 7 show the sector history for the four indices over the past 13 years, leading into and out of the financial crisis of 2008. As shown, the differences in the methodologies have a clear impact on the sector allocations. Since our last update, the S&P High Yield Dividend Aristocrats continued to have a more uniform distribution across sectors than the other three strategies—this is derived from the fact that the index uses a dividend growth screen as opposed to a selection that is, in part or whole, based on dividend yields.

A few interesting trends and snapshots are worth noting from Exhibits 4-8.

- With the exception of the S&P 500 High Dividend Index, all the dividend indices mentioned reduced their allocations to the financials sector at the onset of the 2008 financial crisis, gradually increasing their exposure as the crisis waned. The reasons this happened also draw from their design. As Exhibit 8 shows, within the financials sector, the S&P High Yield Dividend Aristocrats dropped banks almost completely, from 29% at the end of 2007 to less than 5% in 2015. The Dow Jones U.S. Select Dividend Index, which had a more significant exposure to banks prior to 2007 (41%), pared the exposure down to 4.3% in 2015. Constituents that cut dividends in 2008 wouldn't come back into the S&P High Yield Dividend Aristocrats for some time because of its dividend growth criteria. The S&P 500 Low Volatility High Dividend Index dropped the entire financials sector throughout the crisis period studied, as financials were much more volatile than other sectors (see Exhibits 6 and 8). This index is the only one to have a financial sector weight which has recovered to pre-financial crisis levels. The S&P 500 High Dividend Index didn't materially reduce its exposure to financials during the 2008 financial crisis because it uses indicated annual dividend and indicated annual dividend yield to define and select from the universe and equal weighting to allocate to the selected constituents. As indicated, dividends for banks and diversified financials started to drop in 2009 and 2010; the selection of banks and diversified financials shifted away and has continued to be at historical lows.
- For all these indices, most of their exposure to the financials sector currently comes from the real estate (REITs) or insurance industries.
- As of April 2017, the utilities sector had the highest varying degrees of exposure across the four strategies—the highest exposure was within the Dow Jones U.S. Select Dividend Index (29%), followed by the S&P 500 Low Volatility High Dividend Index (22%), the S&P 500 High Dividend Index (19%) and the S&P High Yield Dividend Aristocrats (12%).

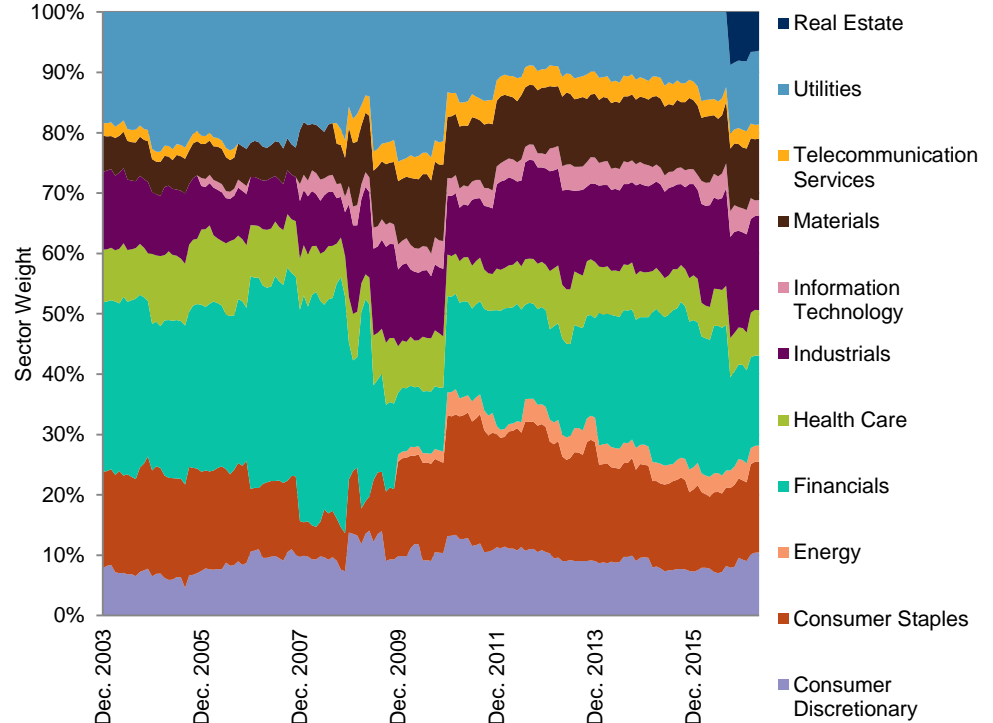
The S&P High Yield Dividend Aristocrats continued to have a more uniform distribution across sectors than the other three strategies—this is derived from the fact that the index uses a dividend growth screen as opposed to a selection that is, in part or whole, based on dividend yields.

Exhibit 4: Sector History for the Dow Jones U.S. Select Dividend Index



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2003, to April 28, 2017. Chart is provided for illustrative purposes.

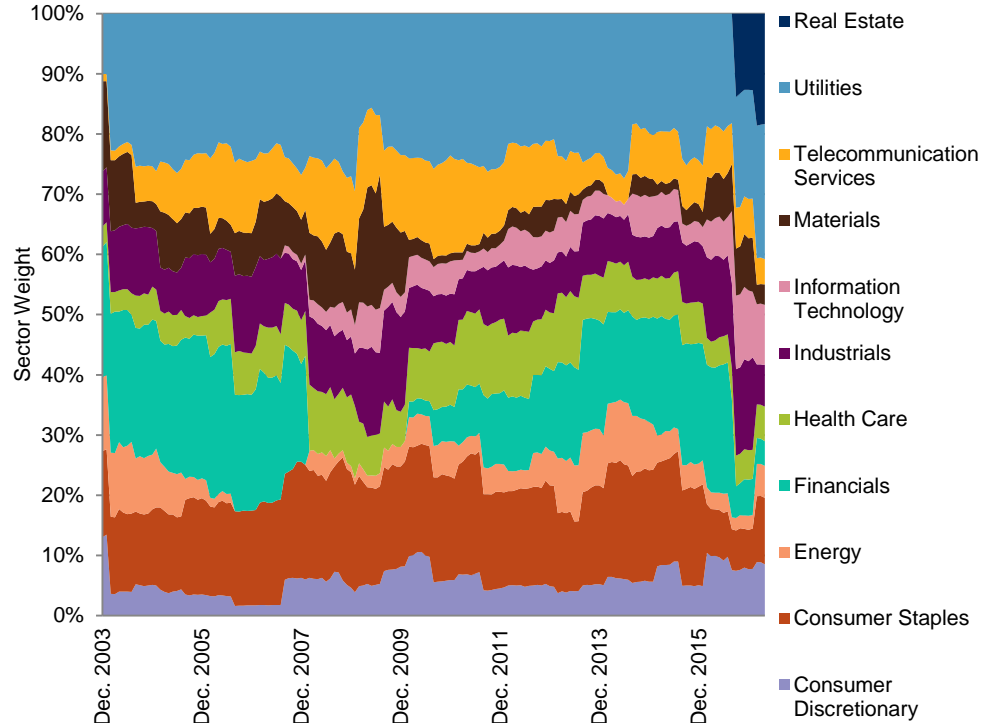
Exhibit 5: Sector History for the S&P High Yield Dividend Aristocrats



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2003, to April 28, 2017. Chart is provided for illustrative purposes. Through the end of 2012, the S&P High Yield Dividend Aristocrats reconstituted at the end of December. Note that the S&P High Yield Dividend Aristocrats switched to a January reconstitution in 2013.

As of April 2017, the utilities sector had the highest varying degrees of exposure across the four strategies

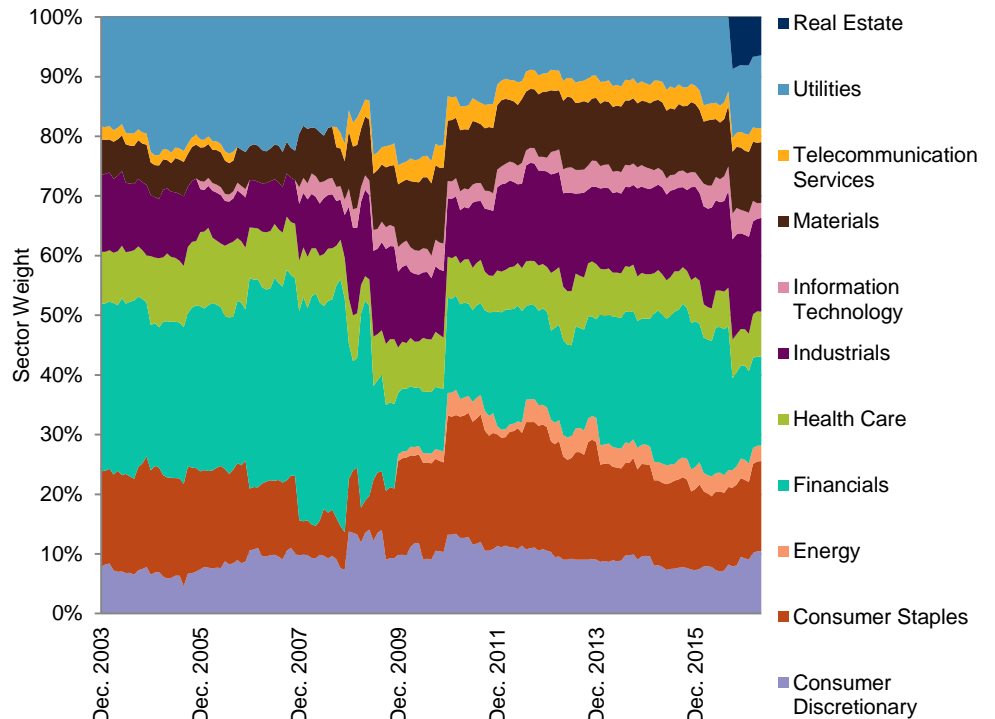
Exhibit 6: Sector History for the S&P 500 Low Volatility High Dividend Index



During the period of the financial crisis, financials were much more volatile than other sectors.

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2003, to April 28, 2017. Chart is provided for illustrative purposes. The S&P Low Volatility High Dividend Index reconstitutes in January.

Exhibit 7: Sector History for the S&P 500 High Dividend Index



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 2003, to April 28, 2017. Chart is provided for illustrative purposes.

Exhibit 8: Exposure to GICS® Industry Groups Within the Financials Sector

SECTOR OR SUBSECTOR	ALLOCATION TO SECTOR OR SUBSECTOR (%)														
	DEC. 2003	DEC. 2004	DEC. 2005	DEC. 2006	DEC. 2007	DEC. 2008	DEC. 2009	DEC. 2010	DEC. 2011	DEC. 2012	JAN. 2014	JAN. 2015	JAN. 2016	JAN. 2017	APRIL 2017
DOW JONES U.S. SELECT DIVIDEND INDEX															
Financials	42.9	40.8	41.0	43.9	48.8	37.6	14.0	11.6	10.4	10.3	9.3	8.5	11.3	15.2	13.9
Banks	38.1	33.6	35.0	38.3	41.1	29.7	7.9	7.5	6.3	5.5	5.0	4.3	4.8	6.5	4.7
Diversified Financials	-	2.1	0.4	0.5	-	-	-	-	-	1.0	0.6	0.7	2.7	4.7	5.7
Insurance	4.8	5.2	5.6	5.1	7.7	7.9	6.2	4.1	4.1	3.8	3.7	3.5	3.8	4.1	3.6
Real Estate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
S&P HIGH YIELD DIVIDEND ARISTOCRATS															
Financials	28.1	24.3	27.7	35.3	35.0	22.7	10.2	15.9	19.2	16.1	21.9	21.4	23.3	23.6	21.3
Banks	24.8	20.9	25.7	29.2	28.7	16.2	1.3	2.5	2.2	0.8	3.9	3.2	4.1	5.1	4.4
Diversified Financials	-	-	-	4.1	3.0	4.2	1.2	1.4	2.9	3.7	3.7	4.1	3.7	4.3	4.1
Insurance	3.2	3.4	1.9	1.9	3.3	2.3	7.7	6.6	9.4	6.2	6.4	6.4	5.4	6.0	6.4
Real Estate	-	-	-	-	-	-	-	5.4	4.7	5.3	8.0	7.6	10.1	8.1	6.4
SECTOR OR SUBSECTOR	ALLOCATION TO SECTOR OR SUBSECTOR (%)														
	JAN. 2004	JAN. 2005	JAN. 2006	JAN. 2007	JAN. 2008	JAN. 2009	JAN. 2010	JAN. 2011	JAN. 2012	JAN. 2013	JAN. 2014	JAN. 2015	JAN. 2016	JAN. 2017	APRIL 2017
S&P 500 LOW VOLATILITY HIGH DIVIDEND INDEX															
Financials	22.1	21.2	24.0	20.0	18.1	-	-	5.8	12.3	13.4	18.4	17.9	19.3	18.7	22.5
Banks	8.0	4.4	10.5	12.9	12.9	-	-	3.2	2.0	2.6	2.0	2.1	1.7	2.8	1.7
Diversified Financials	-	-	-	-	2.8	-	-	-	-	-	2.1	-	1.9	3.2	2.5
Insurance	-	-	-	-	-	-	-	2.6	5.8	2.1	1.8	1.9	-	-	-
Real Estate	14.0	16.8	13.5	7.1	2.5	-	-	-	4.5	8.7	12.6	13.9	15.7	12.7	18.4
S&P 500 HIGH DIVIDEND INDEX															
Financials	22.9	28.6	35.1	34.3	34.3	33.0	39.3	20.3	16.9	12.6	10.5	18.8	19.7	21.9	1.2
Banks	13.3	17.1	21.6	17.7	16.4	15.6	13.6	3.2	3.4	3.0	1.2	1.1	1.1	1.5	3.9
Diversified Financials	1.2	2.5	2.8	3.7	3.6	2.7	3.4	2.7	2.0	1.7	-	1.3	0.8	4.0	-
Insurance	2.5	1.2	2.8	1.2	1.3	3.7	6.3	2.7	1.5	1.4	1.2	1.3	1.3	4.8	21.8
Real Estate	5.8	7.8	7.8	11.5	12.9	10.9	16.0	11.7	10.1	6.5	8.1	15.1	16.4	11.6	1.2

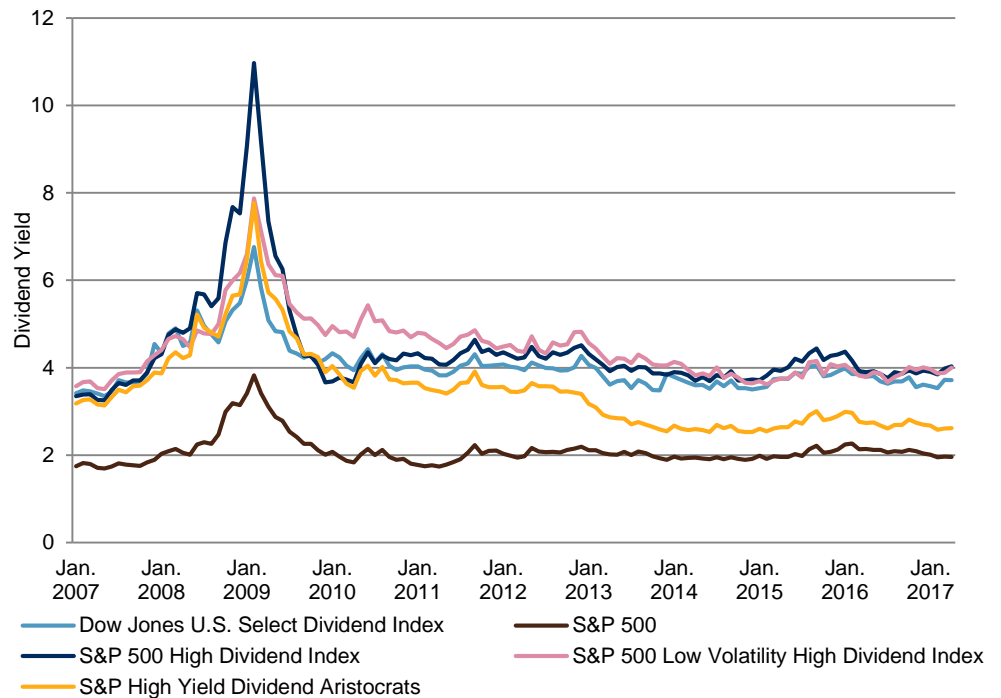
Source: S&P Dow Jones Indices LLC. Data from December 2007 to April 2017. Table is provided for illustrative purposes. The S&P Low Volatility High Dividend Index reconstitutes in January. Through the end of 2012, the S&P High Yield Dividend Aristocrats reconstituted at the end of December. Note that the S&P High Yield Dividend Aristocrats switched to a January reconstitution in 2013.

Index Construction and Its Impact on Yield

Yield is a distinguishing feature among these four indices. While the S&P High Yield Dividend Aristocrats has the most stringent quality screen, the S&P 500 High Dividend Index is the least stringent in this regard. As the quality screens become less stringent, yield tends to increase. Historically, the S&P 500 Low Volatility High Dividend Index and S&P 500 High Dividend Index have competed to be the highest-yielding index across the four strategies.

Exhibit 9: Dividend Yields Over Time

All indices have delivered consistently higher yields than the benchmark over the past few years.



All four dividend indices have outperformed the broad market on a short-, medium-, and long-term basis.

Source: S&P Dow Jones Indices LLC. Monthly dividend yield data from January 2007 to April 2017. 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.

Performance and Risk/Return Characteristics

As Exhibit 10 shows, all four dividend indices have outperformed the broad market (as represented by the S&P 500) on a short-, medium-, and long-term basis. Comparing the Dow Jones U.S. Select Dividend Index and the S&P High Yield Dividend Aristocrats, the latter’s stringent focus on quality helps it outperform over the long term. The S&P 500 High Dividend Index is the second-highest performer when looking at returns; however, its returns over time have the highest volatility of any of the dividend strategies. The index with the highest annual returns over the past 15 years—the S&P 500 Low Volatility High Dividend Index—also captures some of the benefits of a low volatility strategy, which gave it higher risk-adjusted returns compared with the other dividend indices.

Exhibit 10: Return Performance and Volatility

YEAR(S)	DOW JONES U.S. SELECT DIVIDEND INDEX (TR)	S&P 500 HIGH DIVIDEND INDEX (TR)	S&P 500 LOW VOLATILITY HIGH DIVIDEND INDEX (TR)	S&P HIGH YIELD DIVIDEND ARISTOCRATS (TR)	S&P 500 (TR)
ANNUAL RETURNS					
1	15.60	12.67	12.31	14.02	17.92
3	10.91	11.77	13.85	11.48	10.47
5	14.19	15.47	14.88	14.61	13.68
7	14.08	15.00	15.40	13.30	12.85
10	6.63	7.16	11.11	8.03	7.15
15	8.20	8.91	11.44	8.73	7.61
ANNUAL VOLATILITY					
1	6.30	7.66	8.33	7.78	6.17
3	9.13	9.94	9.61	10.25	10.41
5	9.10	9.86	9.58	9.93	10.17
7	10.28	10.49	10.01	11.19	12.44
10	15.37	18.71	14.02	15.39	15.25
15	14.18	16.89	13.07	13.65	14.23
RISK/RETURN					
1	2.47	1.65	1.48	1.80	2.91
3	1.19	1.18	1.44	1.12	1.01
5	1.56	1.57	1.55	1.47	1.34
7	1.37	1.43	1.54	1.19	1.03
10	0.43	0.38	0.79	0.52	0.47
15	0.58	0.53	0.87	0.64	0.54

Dividends may continue to play an important role in the future.

Source: S&P Dow Jones Indices LLC. Data from April 30, 2002, to April 28, 2017. 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

In summary, dividend indices have historically offered attractive yields and total returns, allowing market participants to participate in up markets while potentially achieving protection in down markets. Dividend-paying stocks uniquely provide both capital gains and income. In a low interest rate environment, stock valuations are generally seen as inexpensive when compared with speculative-grade corporate bonds. Given their historical tendency to increase in value during economic growth periods, dividends may continue to play an important role in the future.

PERFORMANCE DISCLOSURE

The S&P High Yield Dividend Aristocrats Index was launched on November 9, 2005. The S&P 500 High Dividend Index was launched on September 21, 2015. The Dow Jones U.S. Select Dividend Index was launched on November 3, 2003. The S&P 500 Low Volatility High Dividend Index was launched on September 17, 2012. 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. Complete index methodology details are available at www.spdji.com.

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.

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. 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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