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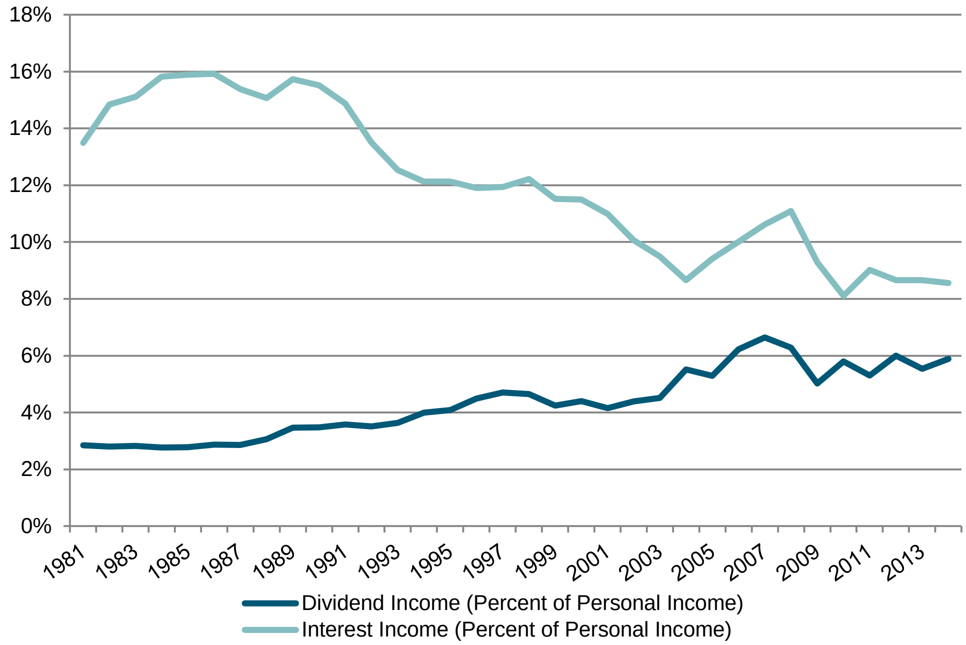
The Importance of Dividends

The percentage of dividends as a part of personal income has steadily increased over time, making dividends an important source of income. Dividend income has climbed from 2.85% in 1981 to 5.89% in 2014, whereas interest income has declined from 13.5% to 8.6% over the same period (see Exhibit 1).

Since 1956, dividends have accounted for approximately one-third of the total equity return of the S&P 500, with capital appreciation making up the other two-thirds.

Exhibit 1: Dividends and Interest as Percent of Personal Income



Source: Bureau of Economic Analysis. National Income Product Accounts. Data as of Dec. 31, 2014. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Since 1956, dividends have accounted for approximately one-third of the total equity return of the S&P 500®, with capital appreciation making up the other two-thirds. Today, most market participants know that both sustainable dividend income and the potential for capital appreciation form total return expectations. Exhibits 2 and 3 illustrate the historical importance of dividends.

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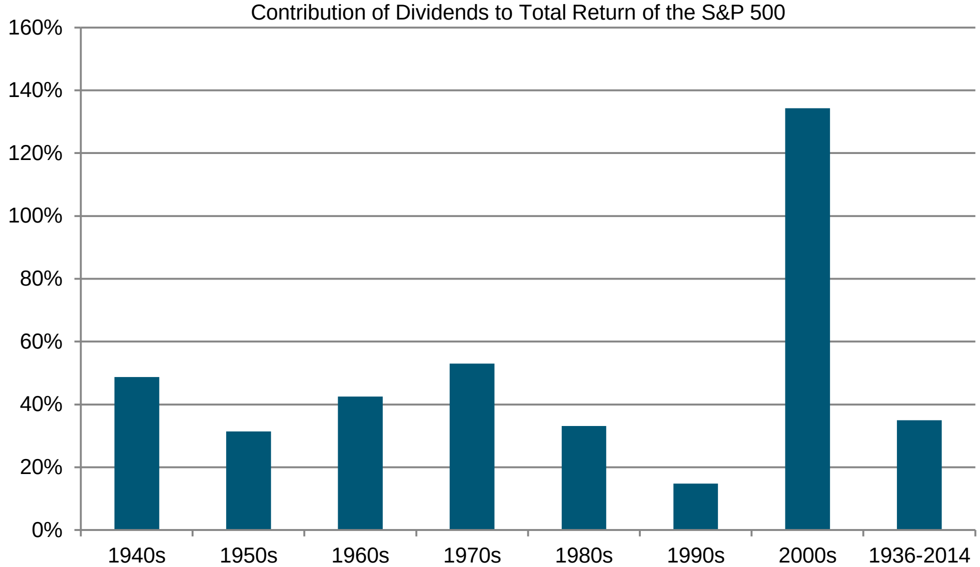
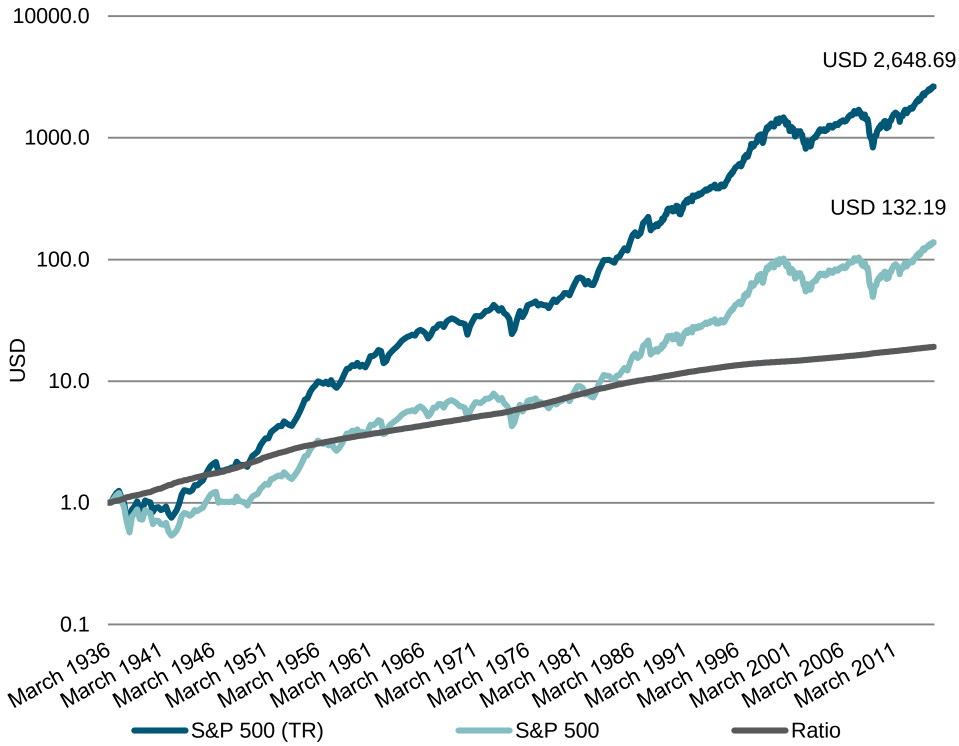
Exhibit 2: Percentage of Annualized Total Returns of the S&P 500 From Dividends



Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 3: Dividends and the Compounding Effect



Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

INDEX DESIGN AND CONSTRUCTION

The S&P 500 High Dividend Index aims to provide exposure to the highest quintile of dividend-paying stocks in the S&P 500.

The constituents of S&P 500 High Dividend Index must be members of the S&P 500 and have an indicated dividend yield as of the rebalancing reference date. The index ranks in descending order the indicated dividend yield and selects the top 80 equally weighted by 1/(n=80). The index is rebalanced semiannually in January and July.

In the large-cap U.S. equity space, we find that over the past 24 years, firms that have paid high dividends relative to their peers have outperformed the broader market.

Exhibit 4: S&P 500 High Dividend Index Characteristics

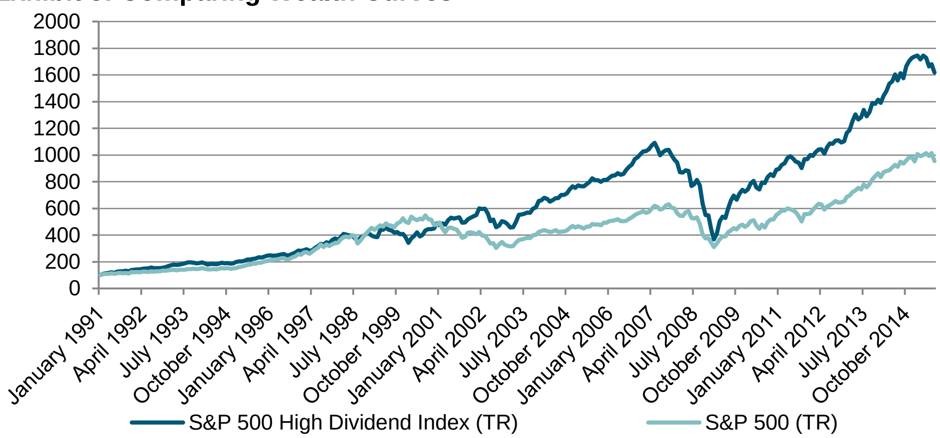
Number of Constituents	80
Weight Largest Constituents (%)	1.7
Weight Top 10 Constituents (%)	14.2
CONSTITUENT MARKET CAP (USD MILLION)	
Mean Total Market Cap	37,284.9
Largest Total Market Cap	254,631.9
Smallest Total Market Cap	4,008.1
Median Total Market Cap	17,434.0

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. Table is provided for illustrative purposes.

INDEX CHARACTERISTICS

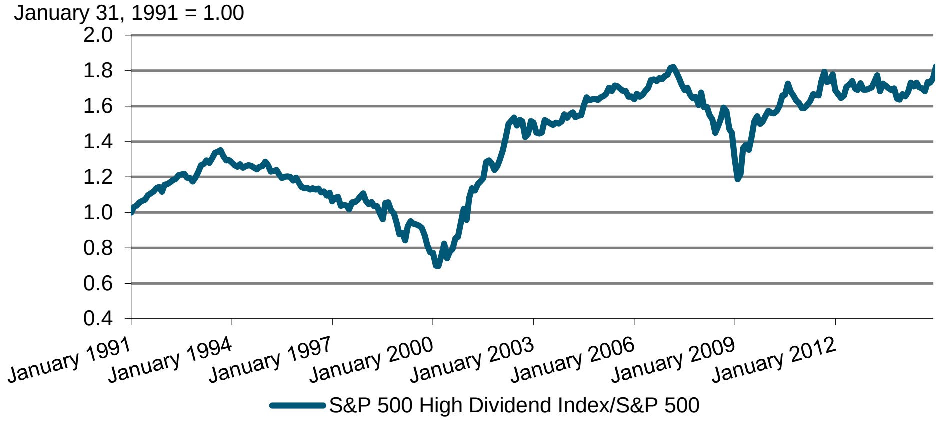
In the large-cap U.S. equity space, we find that over the past 24 years, firms that have paid high dividends relative to their peers have outperformed the broader market (see Exhibits 5 and 6). Such outperformance comes at a slightly higher volatility over the total time period and higher drawdowns. This can be expected, as there is no filter on the quality of the dividend payments, but only on the magnitude of the payments relative to the price (dividend yield).

Exhibit 5: Comparing Wealth Curves



Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. 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 Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 6: Comparing Wealth Curves



Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. 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 Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

As could be expected, the yield of the S&P 500 High Dividend Index is on average 200-300 bps higher than the S&P 500 (see Exhibit 7).

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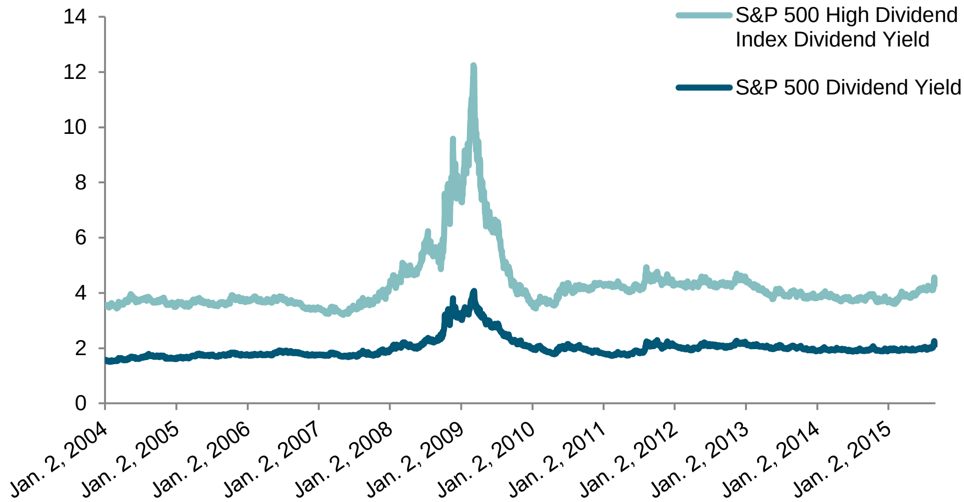
Exhibit 7: Risk/Return Profiles

ANNUAL RETURN (%)	S&P 500 HIGH DIVIDEND INDEX (TR)	S&P 500 (TR)
Past 1 Year	0.25	0.48
Past 3 Years	14.30	14.31
Past 5 Years	15.46	15.87
Past 7 Years	10.34	8.69
Past 10 Years	21.84	17.71
ANNUAL VOLATILITY (%)		
Past 1 Year	5.11	5.80
Past 3 Years	9.75	9.56
Past 5 Years	10.01	11.91
Past 7 Years	20.53	16.53
Past 10 Years	16.74	15.25
ANNUALIZED RISK-ADJUSTED RETURN		
Past 1 Year	0.05	0.08
Past 3 Years	1.47	1.50
Past 5 Years	1.54	1.33
Past 7 Years	0.50	0.53
Past 10 Years	1.30	1.16
MAXIMUM DRAWDOWN (%)		
Past 3 Years	-7.31	-6.03
Past 5 Years	-8.94	-16.26
Past 7 Years	-52.38	-36.13
Past 10 Years	-0.66	-0.51

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. Index performance based on total return in USD. Past performance is no guarantee of future results. It is not possible to invest directly in an index, and index returns do not reflect expenses an investor would pay. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 8: S&P 500 and S&P 500 High Dividend Index Historical Yield



Source: S&P Dow Jones Indices LLC. Monthly dividend yield data from Jan. 2, 2004, to Aug. 31, 2015. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

In times when interest rates are low, investors tend to seek places where they can receive a higher yield for their investment. Exhibit 8 shows that as of Aug. 31, 2015, the S&P 500 High Dividend Index delivered the highest yield, at 4.33%. The current low interest rate environment has made dividend investing a compelling strategy. Currently, the yield on the six-month U.S. Treasury Bill is the lowest among the instruments observed. Recently, equity- and dividend-based strategies have been offering higher yields compared with many traditional fixed income options that are available to income-seeking investors. Exhibit 9 compares the current yields on the short-term fixed income instruments with equities and a portfolio of high-dividend-paying securities.

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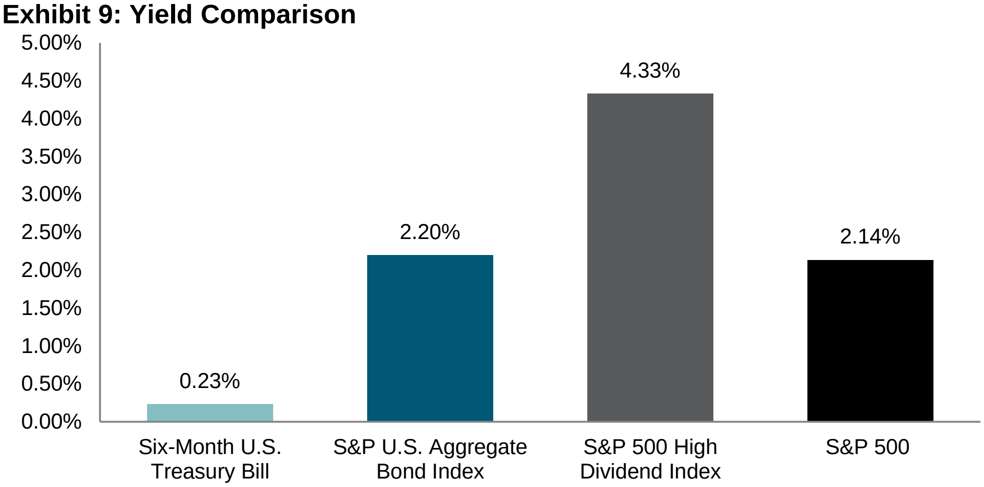
Exhibit 9: Yield Comparison



Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

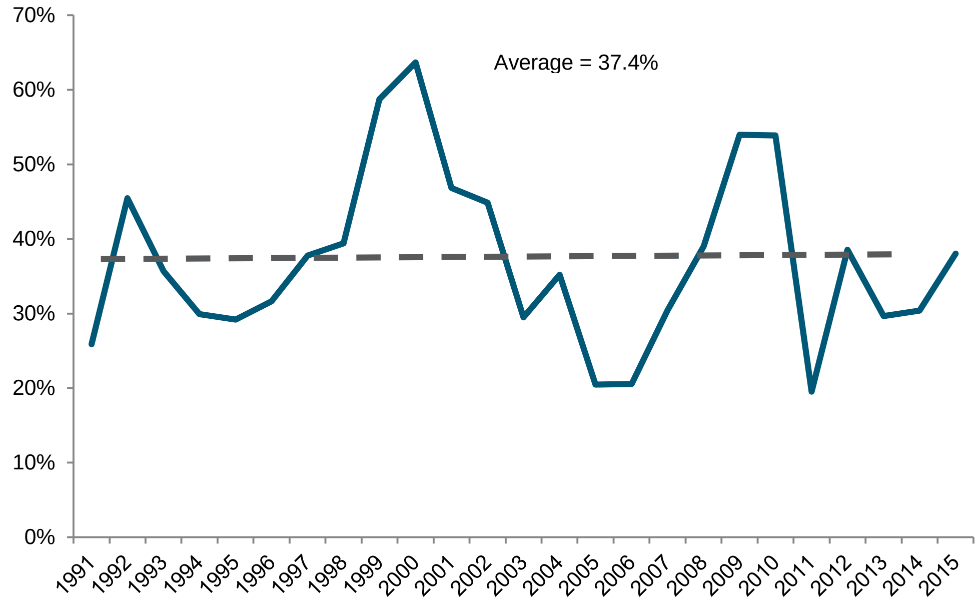
TURNOVER

To reduce turnover, there is a 20% buffer rule based on the indicated dividend yield at each rebalancing.

Exhibit 10 illustrates a one-way turnover, with an average turnover rate of about 37.4%. The highest turnover rates occurred during recessions, including from 1998 to 2001 and again from 2008 to 2011. The highest turnovers occurred during January and July, as these are the rebalancing dates.

Since the index is based on dividend yield, it is highly concentrated in the utilities and financials sectors.

Exhibit 10: S&P 500 High Dividend Index Total Turnover

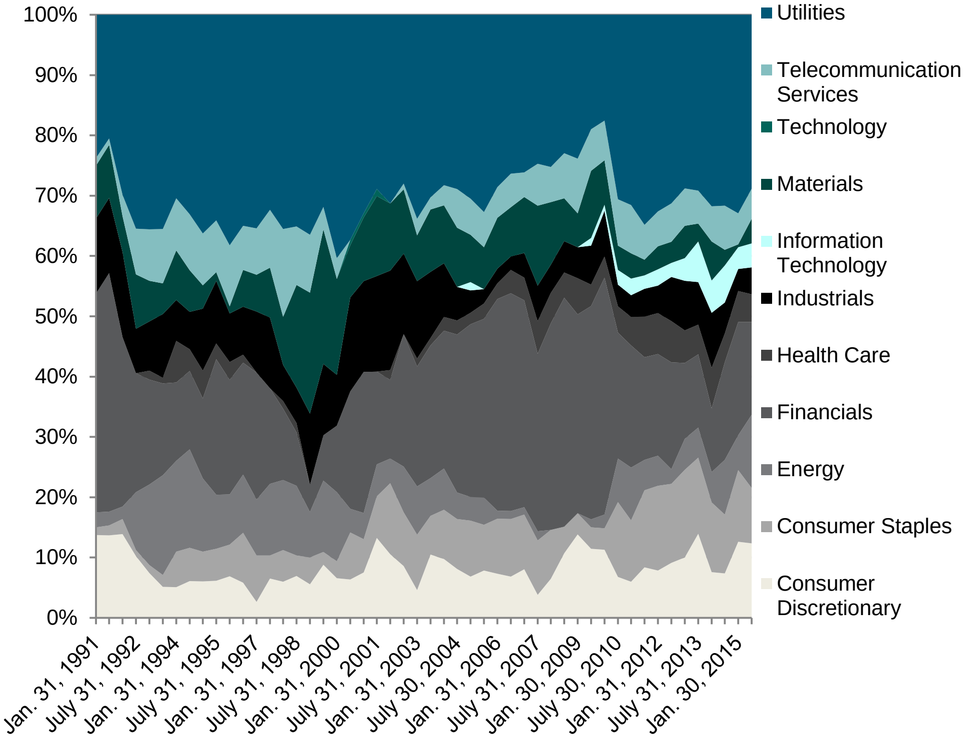


Source: S&P Dow Jones Indices LLC. Annual turnover data from Feb. 1, 1991, to Aug. 31, 2015. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Since the index is based on dividend yield, it is highly concentrated in the utilities and financials sectors, which can be expected (see Exhibit 11). Despite the recession from 2008-2009, exposure to financials remained high during this period, as the sector had transitioned from diversified banks in the early 1990s to regional banks and specialized REITs. Sector exposure may affect the index when interest rates rise. Typically, when interest rates rise, defensive sectors such as utilities tend to be more heavily affected.

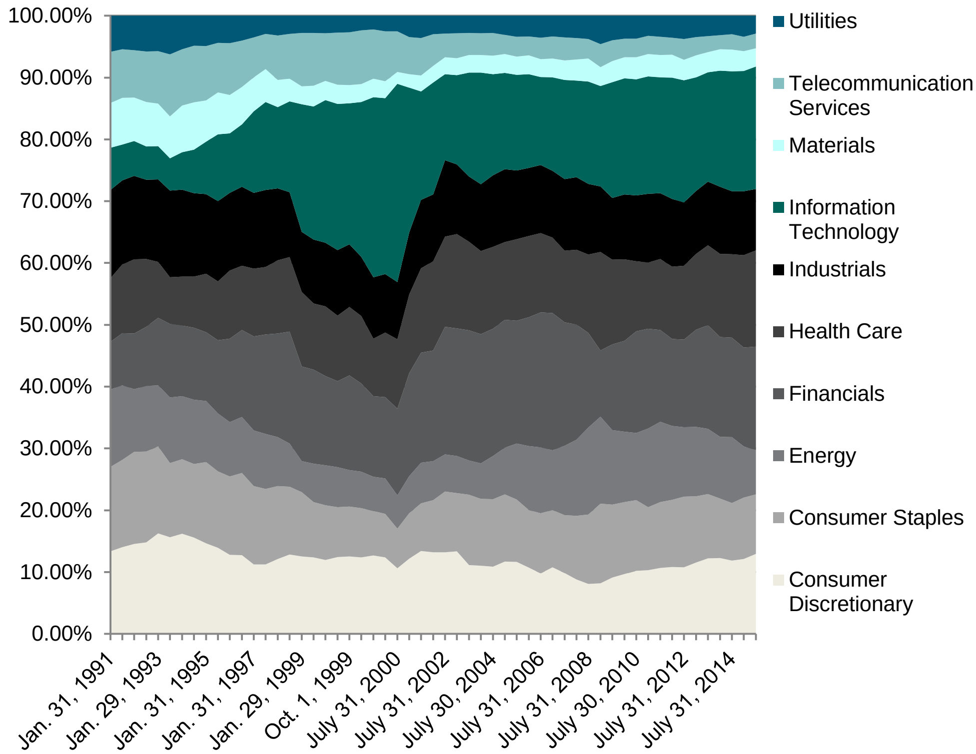
As we go from the S&P 500 Dividend Aristocrats (which employs a stringent dividend growth screen) to the S&P 500 High Dividend Index, which doesn't employ a quality screen, yields and volatility get higher, as would be expected.

Exhibit 11: Sector Allocation of the S&P 500 High Dividend Index



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 1991, to Aug. 31, 2015. Chart is provided for illustrative purposes.

Exhibit 12: Sector Allocation of the S&P 500



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 1991, to Aug. 31, 2015. Chart is provided for illustrative purposes.

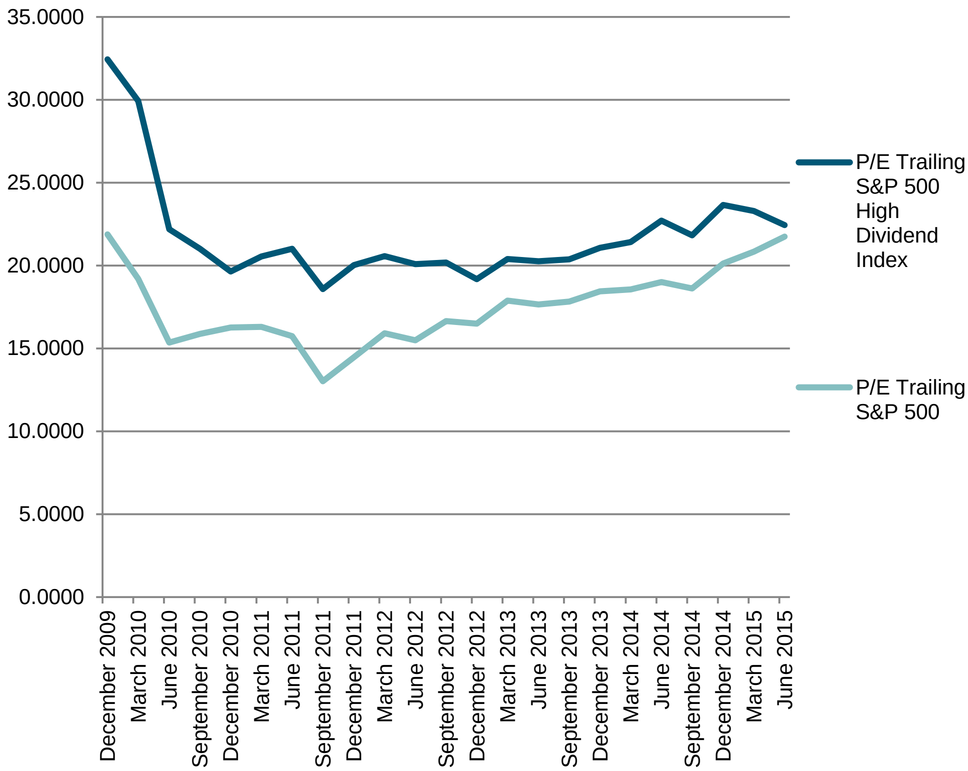
Since Jan. 31, 1991, sector exposures for the S&P 500 have remained relatively stable over time and through various economic cycles (see Exhibit 12). The index has consistently shown large concentrations in financials and information technology. This is in contrast with the S&P 500 High Dividend Index, for which sector exposures have changed more dynamically and have been heavily concentrated in financials and utilities. Since the S&P 500 does not have a dividend yield requirement, there is broader sector representation in comparison to the S&P 500 High Dividend Index.

FUNDAMENTAL DATA COMPARISON

Since 2009, the P/E of the S&P 500 High Dividend Index has been on average 1.2 times higher than that of S&P 500.

The performance of high-yielding stocks in the S&P 500 High Dividend Index is further illustrated in Exhibits 13 and 14 in the breakdown of fundamentals. The biggest gap is evident in the price-to-cash-flow ratio, marking a difference of approximately 14% between the two indices. Large, high-yielding U.S. stocks also have stronger earnings, as illustrated by the higher price-to-earnings ratios (P/E; trailing and forward) in comparison with its benchmark (see Exhibit 13). Since 2009, the P/E of the S&P 500 High Dividend Index has been on average 1.2 times higher than that of S&P 500. Furthermore, the constituents of the S&P 500 High Dividend Index tend to have higher cash flow, enabling them to pay out higher in comparison to the S&P 500 (see Exhibit 14).

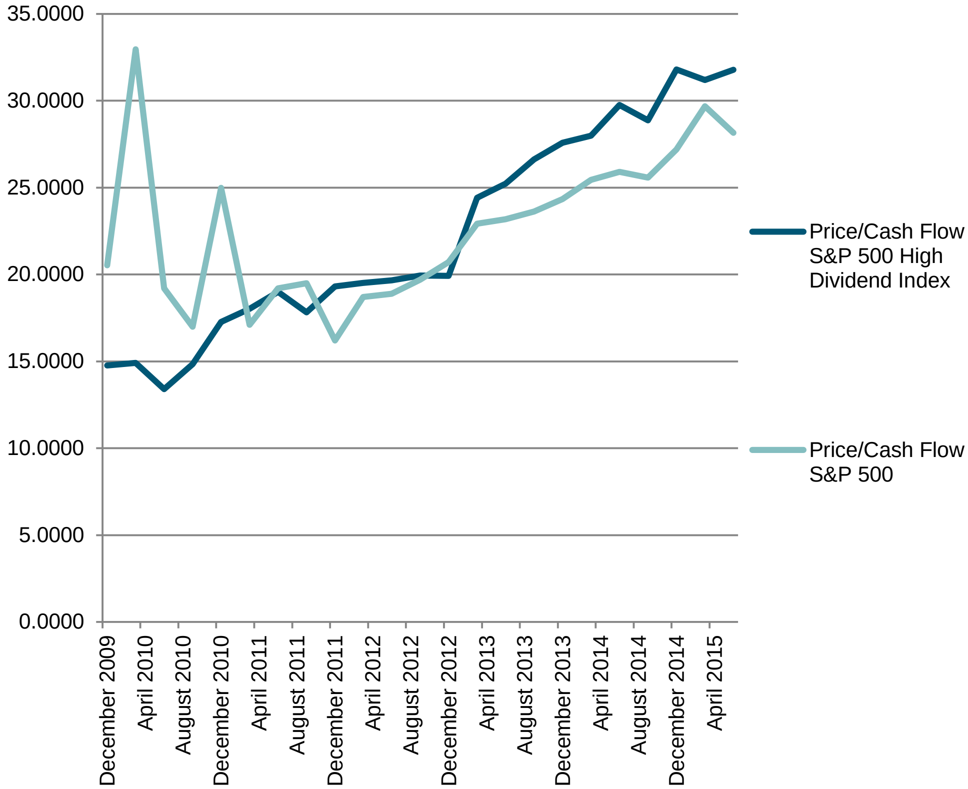
Exhibit 13: P/E Ratios



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

The constituents of the S&P 500 High Dividend Index tend to have higher cash flow, enabling them to pay out higher in comparison to the S&P 500.

Exhibit 14: Price/Cash Flow Ratios



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

COMPARISON OF S&P 500 HIGH DIVIDEND INDEX VERSUS OTHER S&P 500 DIVIDEND INDICES

Exhibit 15 reflects the differences in the index construction of three different S&P 500-based dividend strategies: the S&P 500 Dividend Aristocrats®, the S&P 500 Low Volatility High Dividend Index, and the S&P 500 High Dividend Index. As we go from the S&P 500 Dividend Aristocrats (which employs a stringent dividend growth screen) to the S&P 500 High Dividend Index (which doesn't employ a quality screen), yields and volatility get higher, as would be expected.

The S&P 500 High Dividend Index is more of a pure-yield-pursuit strategy, catered toward investors who are seeking current income.

Exhibit 15: S&P 500 Dividend Indices Comparison

CATEGORY	S&P 500 HIGH DIVIDEND INDEX	S&P 500 DIVIDEND ARISTOCRATS®	S&P 500 LOW VOLATILITY HIGH DIVIDEND INDEX
Index Universe	S&P 500	S&P 500	S&P 500
Constituent Selection	Top 80% of highest-yielding securities from the S&P 500	Securities with increased dividends every year for at least 25 years while meeting minimum float-adjusted market cap and liquidity requirements selected from the S&P 500	50 least-volatile names from the top 75 highest-yielding securities from the S&P 500
Current Constituent Number	Floating–80	Floating–52 (minimum 40)	Fixed–50
Weighting	Equally weighted	Equally weighted	Historical annual dividend yield
Sector Weight Cap (%)	30	30	25
Review Frequency	Semiannual (January and July)	Reconstituted annually in January; reweighted quarterly (April, July, October)	Semiannual (January and July)
10-Year Annualized Return (%)	21.84	10.17	10.91
10-Year Annualized Risk (%)	16.74	13.76	13.58
Current Yield (%)	4.33	2.47	4.12
Base Date	Jan. 18, 1991	Dec. 31, 1989	Jan. 31, 1990

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2015. 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 Disclosures at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

CONCLUSION

The S&P 500 High Dividend Index is more of a pure-yield-pursuit strategy, catered toward investors who are seeking current income. As we have seen, the index does exhibit slightly higher volatility than the benchmark S&P 500, but it has a current yield that is an average of 200-300 bps higher than that of the S&P 500. Income-seeking investors could employ this strategy in conjunction with other quintile-based S&P 500 factor strategies, based on their investment objective.

PERFORMANCE DISCLOSURE

The S&P 500 High Dividend Index was launched on September 21, 2015. The S&P 500 was launched on 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. 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.

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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