

TalkingPoints

Finding Resilience amid Uncertainty: A Low Volatility High Dividend Approach for the A-Share Market



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The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index is designed to offer liquid and tradable exposure to dividends and low volatility, two well-known risk factors that have delivered risk premium in the China A-share market in the past.

The two factors are combined through sequential dividend and low volatility screens. Companies exhibiting high dividend yield may fall in a “dividend trap,” since high dividend yield can be caused by decreasing stock prices rather than increasing dividend payments. Overlaying a low volatility screen on a high dividend portfolio may help to eliminate the dividend trap, resulting in improved absolute and risk-adjusted returns.¹

Since inception,² the index has shown robust return, lower risk, reduced drawdown and cheaper valuation than its benchmark. The index may be appealing to those who wish to maintain equity exposure during turbulent market environments or those who are interested in increasing equity exposure but have limited risk appetite.

Uncertainty has been a common theme for the China equity market since 2021, amid worries over economic slowdown. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index may help to provide a defensive and resilient solution for investors to ride through this challenging period.

1. How does the index work?

The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index is designed to have significant large-cap and high dividend exposure while limiting volatility. Index construction starts from the S&P China A Domestic LargeCap, which consists of the top 70% of stocks by float market capitalization in the China A market. As of Dec. 31, 2023, the S&P China A Domestic LargeCap had 610 constituents. First, the top 100 stocks with the highest yields are selected. After that, volatility screening is applied to eliminate the 50 most volatile stocks. To maximize dividend exposure, the remaining 50 names are weighted by dividend yield. The index rebalances semiannually in January and July.

¹ Qu, Xiaoya et al. Blending Low Volatility with Dividend Yield in the China A-Share Market.

² The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019.

Exhibit 1: Construction of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index



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

2. What are the characteristics of this index?

Superior Historical Performance

Over the past three years, the China A stock market went through a depressive downward cycle, and the negative sentiment that emerged with the COVID-19 pandemic outbreak continued in 2023 due to concerns over recession. However, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index posted an impressive return of 9.3%, significantly outperforming the CSI 300 by 20.4% over the three-year period.

In the long run, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was superior to the CSI 300 in terms of better absolute return and lower volatility. From January 2009 to December 2023, it delivered a return of 11.7%, outperforming the CSI 300 by 6.1% per year (see Exhibit 2). Meanwhile, the volatility was lower than the CSI 300 in the 3-year, 5-year, 10-year and full sample periods, resulting in better risk-adjusted returns.

The outperformance came from both price appreciation and dividends. From Jan. 31, 2009, to Dec. 31, 2023, the price return of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was 7.6%, 405 bps higher than the price return of the CSI 300 over the same period. Meanwhile, it posted a 4.1% return from dividends and dividend reinvestment, nearly double that of the CSI 300. Historically, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index offered a good balance between capital appreciation and dividend income generation.

Exhibit 2: Historical Performance

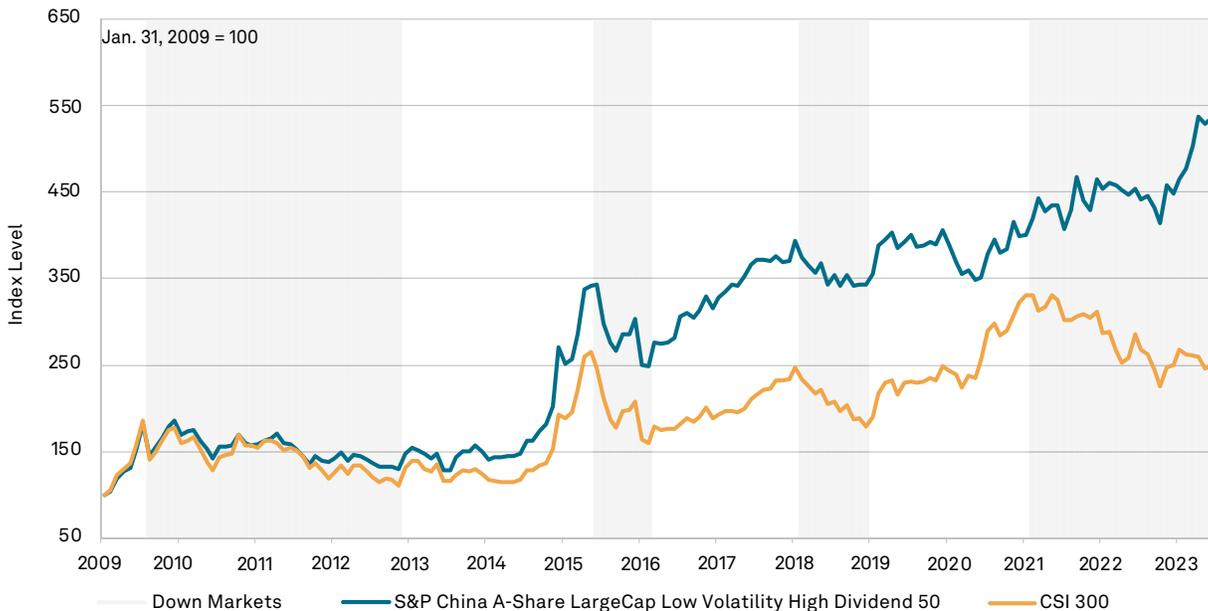
Period	S&P China A-Share LargeCap Low Volatility High Dividend 50 Index	CSI 300
Annualized Total Return (%)		
1-Year	15.97	-9.14
3-Year	9.31	-11.09
5-Year	8.67	4.91
10-Year	13.27	6.22
Since Jan. 31, 2009	11.70	5.64
Annualized Volatility (%)		
1-Year	11.93	13.79
3-Year	14.42	16.32
5-Year	14.27	18.32
10-Year	20.18	21.75
Since Jan. 31, 2009	21.48	23.88
Return/Volatility		
1-Year	1.34	-0.66
3-Year	0.65	-0.68
5-Year	0.61	0.27
10-Year	0.66	0.29
Since Jan. 31, 2009	0.54	0.24
Maximum Drawdown since Jan. 31, 2009		
Maximum Drawdown (%)	31.01	40.07
Return/Maximum Drawdown	0.38	0.14
Dividend Contribution since Jan. 31, 2009		
Annualized Price Return (%)	7.62	3.57
Annualized Total Return (%)	11.70	5.64
Return from Dividend and Dividend Reinvestment (%)	4.07	2.06
% of Total Returns from Dividend and Dividend Reinvestment	34.81	36.63

Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 31, 2009, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch is back-tested hypothetical data. Table is provided for illustrative purposes and reflect 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.

Downside Protection in Volatile Markets

As various financial reforms are ongoing, the Chinese equities market is especially volatile compared with many developed markets. The 2015 Market Crash is a vivid memory for many A-share investors. Thanks to low volatility screening and a large-cap focus, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index could provide some extent of downside protection during market downturns. It reduced drawdowns by 11.2%, 12.3%, 15.3%, and 61.4% in the Post Global Financial Crisis (GFC) Drawdown, 2015 Market Crash, 2018 Bear Market and COVID-19 Sell-Off and Post-Pandemic Recession, respectively (see Exhibit 3).

Exhibit 3: Performance during Down Markets



Index	Post GFC Drawdown (August 2009–November 2012)	2015 Market Crash (June 2015–February 2016)	2018 Bear Market (February 2018–December 2018)	COVID-19 Sell-Off and Post Pandemic Recession (February 2021–December 2023)
S&P China A-Share LargeCap Low Volatility High Dividend 50 Index Return (%)	-28.88	-27.50	-12.73	29.86
CSI 300 Return (%)	-40.07	-39.78	-28.04	-31.57
Excess Return of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index Return (%)	11.18	12.27	15.30	61.43

Source: S&P Dow Jones Indices LLC, FactSet. Data as of Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch is back-tested hypothetical data. Chart and table are 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.

Expanding the investment horizon shows the index’s historical ability to mitigate the cyclicality of performance. Exhibit 4 shows the relative performance of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index in rolling 3-, 5-, and 10-year excess returns.

As indicated by the historical data, the longer the performance measurement period, the higher the probability of outperforming the CSI 300. Over the period from Jan. 31, 2009, to Dec. 31, 2023, 144 observations spanning a three-year performance horizon were identified. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index beat the CSI 300 in 78% of cases with an average monthly excess return of 4.6%. When expanding to 10 years, quite impressively, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index could outperform the CSI 300 in all 60 cases observed, while maintaining an average monthly excess return of 4.7%.

Exhibit 4: Rolling Performance Observations of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index versus the CSI 300

Category	3-Year	5-Year	10-Year
Number of Observations	144	120	60
Number of Outperformance Observations	112	95	60
Percent of Outperformance Observations (%)	77.8	79.2	100.0
Average Excess Return (%)	4.6	4.8	4.7

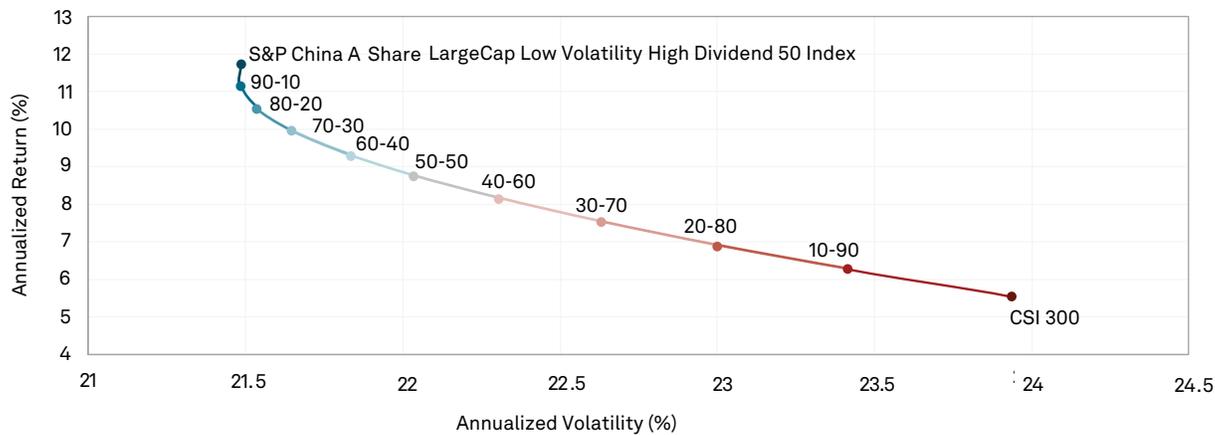
Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 31, 2009, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch 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.

Complementing Core Holding

Many investors start equity investment with a broad market holding, sometimes a long-term investment that forms the basis of one’s portfolio. Like a healthy meal cannot comprise only staple foods, a portfolio needs “nutrition” from “side dishes” as well. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index is significantly different from the broad-based equity benchmarks in A-share market. Measured by active share,³ 81% of stock holdings were different from the CSI 300 as of January 2024. Thus, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index could potentially complement a core holding in a portfolio and supply the right “nutrition.”

Illustrated in Exhibit 4, when the allocation moved from CSI 300 to the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index by increments of 10%, the risk/return point moved toward the top left of the CSI 300 portfolio, which means higher return and lower risk. For example, at a 50-50 allocation, the total return increased by 315 bps to 8.79% per year and volatility decreased to 22.1%.

Exhibit 5: Historical Risk/Return Profile When Blending CSI 300 with the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index



Source: S&P Dow Jones Indices LLC, FactSet. Data from Jan. 31, 2009, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch 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.

³ Active share = $1/2 \sum_{i=1}^n |weight_{portfolio,i} - weight^{benchmark,i}|$, where the benchmark is the CSI 300.

Favorable Valuation and Dividend Yield

Due to dividend yield screening, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index tends to be less expensive than its benchmark, the S&P China A Domestic LargeCap. During the past seven years, the price/earnings and price-to-book ratios of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index were consistently lower than those of the S&P China A Domestic LargeCap (see Exhibits 6 and 7).

Exhibit 6: Price/Earnings (Trailing)



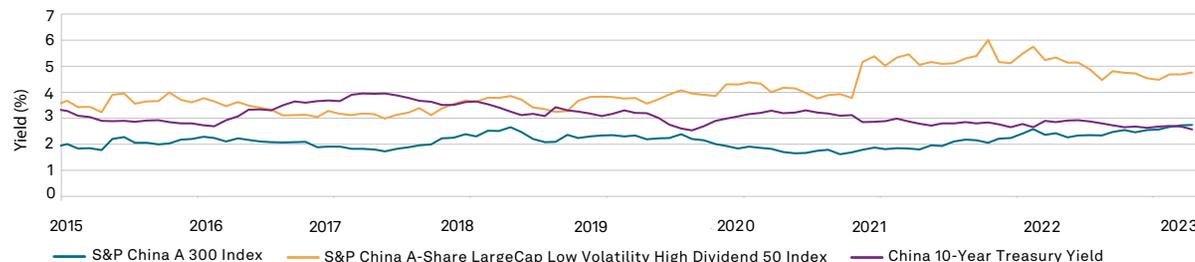
Exhibit 7: Price-to-Book Ratio (LTM)



Source: S&P Dow Jones Indices LLC. Data from Sept. 30, 2015, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch 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.

As the low-rate environment persists in A-share market, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index could be a compelling alternative for income-seeking investors. It has been consistently delivering higher dividend yields compared with the market benchmark CSI 300 (see Exhibit 8). From 2017 to 2023, the China 10-Year Treasury Yield decreased from 4.0% to 2.6%. In contrast, the dividend yield of the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index increased from 3.0% to 4.8% during the same period.

Exhibit 8: Index Yields



Source: S&P Dow Jones Indices LLC. Data from Sept. 30, 2015, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch 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.

Selection-Driven Outperformance

Since January 2009, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index has delivered impressive outperformance compared with CSI 300 (see Exhibit 2). To understand the performance drivers, we conducted an attribution analysis and factor regression.

From Feb. 2021, to Dec. 31, 2023, the S&P China A-Share LargeCap Low Volatility High Dividend 50 Index outperformed the S&P China A 300 Index by 60% in terms of cumulative compound return. Exhibit 9 shows that the selection effect was a larger contributor than the allocation effect. The outperformance during this period could be partly attributed to overweight in Energy and Utilities, and more importantly to the selection effect in Industrials, Financials and Information Technology.

Exhibit 9: Three-Factor Brinson Performance Attribution

Sector	S&P China A-Share LargeCap Low Volatility High Dividend 50 Index		S&P China A 300		Attribution Analysis			
	Average Weight (%)	Total Return	Average Weight (%)	Total Return	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
Industrials	20.46	41.69	14.45	-25.13	0.15	10.14	3.53	13.82
Financials	29.59	9.03	19.81	-22.46	1.54	6.94	3.22	11.70
Energy	8.57	123.83	1.98	98.36	5.93	0.32	1.60	7.85
Utilities	10.87	46.65	2.73	43.64	6.16	0.05	-0.04	6.16
Information Technology	3.81	4.31	14.80	-35.04	0.94	7.11	-2.19	5.86
Real Estate	10.86	4.27	2.16	-42.92	0.80	1.30	2.44	4.54
Materials	5.42	6.82	9.32	-33.26	0.32	4.81	-2.58	2.55
Health Care	0.47	-0.73	9.35	-46.02	1.90	0.60	-0.54	1.95
Consumer Discretionary	6.44	-23.09	8.49	-39.54	0.59	0.79	0.35	1.74
Consumer Staples	2.38	0.95	15.47	-30.80	-0.35	3.92	-1.91	1.66
Communication Services	1.13	79.78	1.43	-40.40	0.90	0.47	0.12	1.49
Total	100.00	29.11	100.00	-30.20	18.86	36.44	4.00	59.31

Source: S&P Dow Jones Indices LLC, FactSet. Data from Feb. 1, 2021, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch is back-tested hypothetical data. Table is provided for illustrative purposes and reflect 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 10 shows the result of the factor regression. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index exhibited strong exposure to value and quality factors. After controlling for six common equity factors, the index demonstrated a 4.69% annualized alpha with statistical significance.

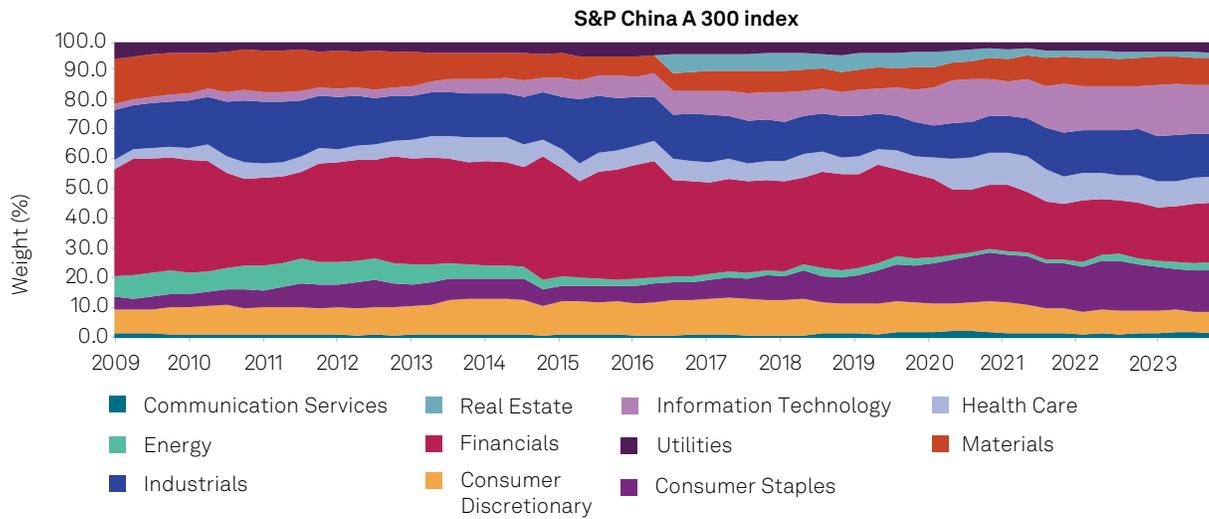
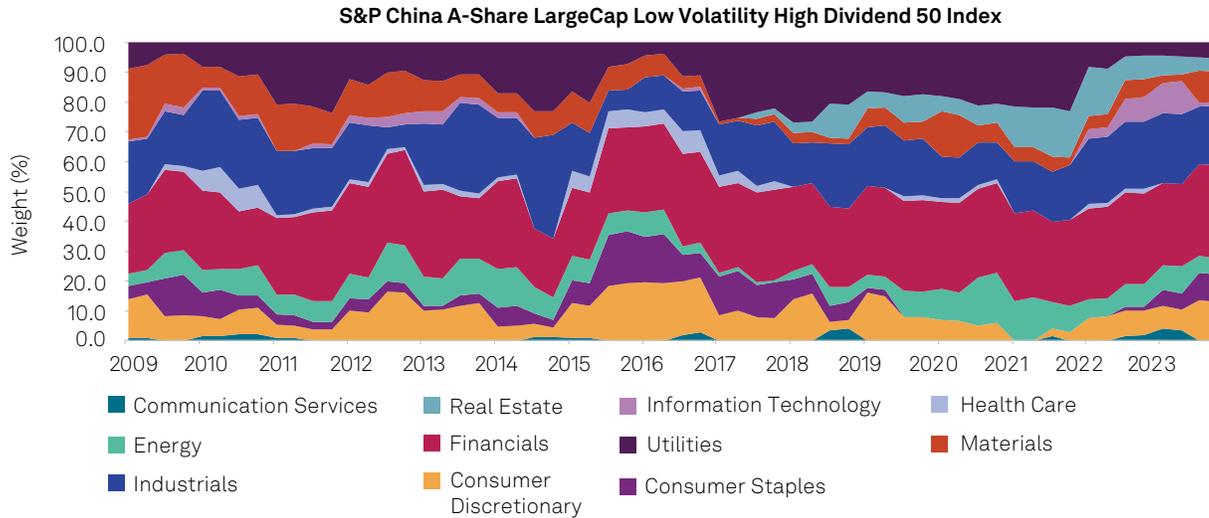
Exhibit 10: Six-Factor Regression of the S&P China A 300 Index and S&P China A-Share Dividend Opportunities Index

Category	S&P China A-Share LargeCap Low Volatility High Dividend 50 Index	CSI 300
Annualized Alpha	4.69%	1.21%
T-stats	2.73	1.40
Market Beta	0.91	1.11
T-stats	36.80	89.42
Size	0.02	-0.27
T-stats	0.39	-11.57
Value	0.38	-0.11
T-stats	6.30	-3.73
Profitability	0.28	0.15
T-stats	3.37	3.64
Investment	0.23	0.07
T-stats	2.18	1.35
Momentum	-0.20	-0.09
T-stats	-5.20	-4.54
R-Square	0.92	0.98

Source: S&P Dow Jones Indices LLC, FactSet, BetaPlus, Data from Jan. 31, 2009, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch is back-tested hypothetical data. Table is provided for illustrative purposes and reflect 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.

Appendix

Exhibit 11: The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index and S&P China A 300 Index Historical Sector Weight



Source: S&P Dow Jones Indices LLC. Data from Jan. 31, 2009, to Dec. 31, 2023. Index performance based on total return in CNY. Past performance is no guarantee of future results. The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All data prior to index launch is back-tested hypothetical data. Charts are provided for illustrative purposes and reflect 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 Disclosure/Back-Tested Data

The S&P China A-Share LargeCap Low Volatility High Dividend 50 Index was launched April 1, 2019. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance, and is based on the index methodology 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. In addition, forks have not been factored into the back-test data with respect to the S&P Cryptocurrency Indices. For the S&P Cryptocurrency Top 5 & 10 Equal Weight Indices, the custody element of the methodology was not considered; the back-test history is based on the index constituents that meet the custody element as of the Launch Date. Complete index methodology details are available at spglobal.com/spdji. 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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