

S&P Dow Jones Indices

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TalkingPoints

The S&P/ASX 300 Shareholder Yield Index



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The S&P/ASX 300 Shareholder Yield Index seeks to measure the performance of 40 stocks from the S&P/ASX 300 with the highest shareholder yield, which is a combination of common dividend and common share buybacks. From December 2014 to March 2019, the index had an average trailing 12-month gross dividend yield of 5.0% and an average annual excess return of 1.18% compared with the S&P/ASX 300.

1. What is the rationale behind the construction of the index?

Many income strategies targeting high-yield stocks struggle to address the sustainability of yield. Business risk rises as companies may fail to strike the right balance between distribution and reinvestment for future business. Moreover, the source of high shareholder distribution may come from increasing debt levels, especially in a low-interest environment.

The S&P/ASX 300 Shareholder Yield Index may provide an effective solution. It requires constituents to have free cash flow of no less than the sum of dividends and buybacks, aiming to improve payout sustainability and hence share price return.

The logic behind this is straightforward. Since dividends and buybacks are paid out of cash, a constituent company must be consistently generating more than enough free cash to pay the dividends and finance the buybacks.

Free cash flow appears to be a better indicator of cash generation than earnings (and therefore an earnings-based coverage ratio), without suffering from the pitfalls of accrual-based accounting. For instance, earnings may be boosted by accounts receivable, which is the money owed to the company but that has not been paid, and amortized capital expenditures. Dividends and buybacks cannot be paid out of either of the two.



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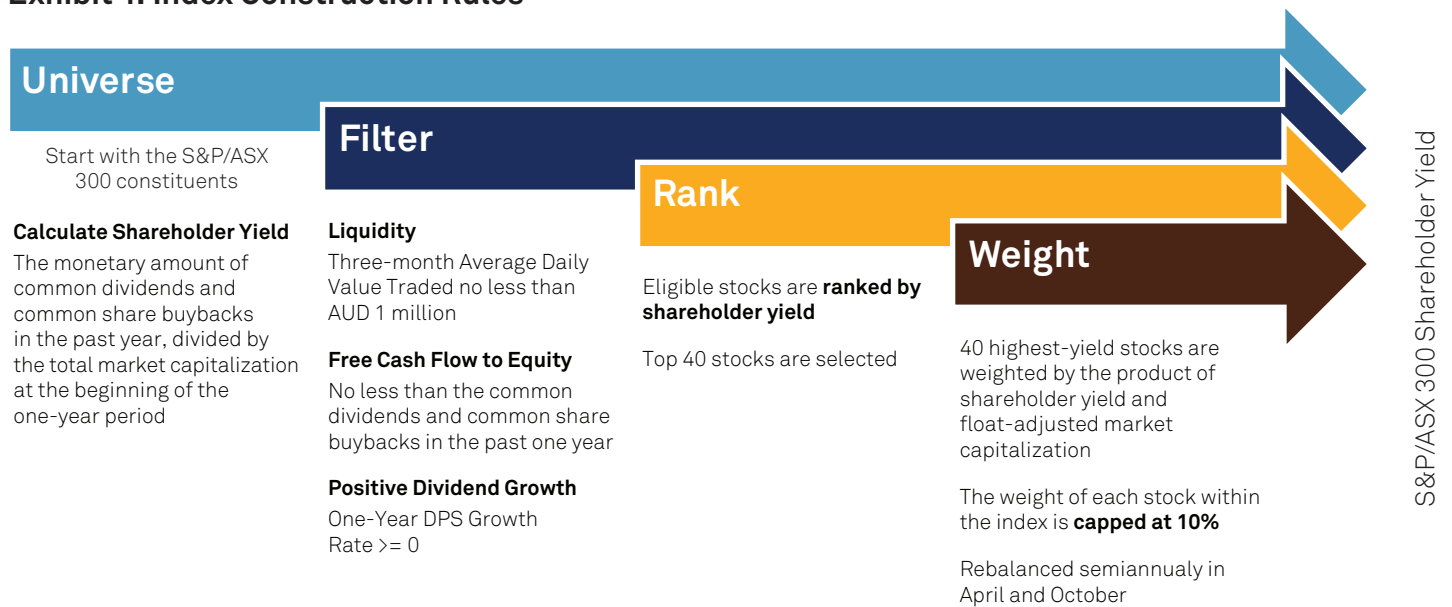
Director
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2. How does the index work?

The S&P/ASX 300 Shareholder Yield Index selects 40 stocks from the S&P/ASX 300 with the highest shareholder yield, which is a combination of common dividends and common shares repurchased. In order to achieve sustainable performance, the eligible stocks are screened for liquidity, free cash flow, and dividend growth.

To balance between index yield and index capacity, the 40 selected names are weighted by the product of shareholder yield and float-adjusted market capitalization. The weight of each stock within the index is capped at 10% to achieve diversification. The index is rebalanced semiannually in April and October.

Exhibit 1: Index Construction Rules



Source: S&P Dow Jones Indices LLC. Data as of March 31, 2019. Chart is provided for illustrative purposes.

3. What are the key characteristics of the index?

Strong Performance

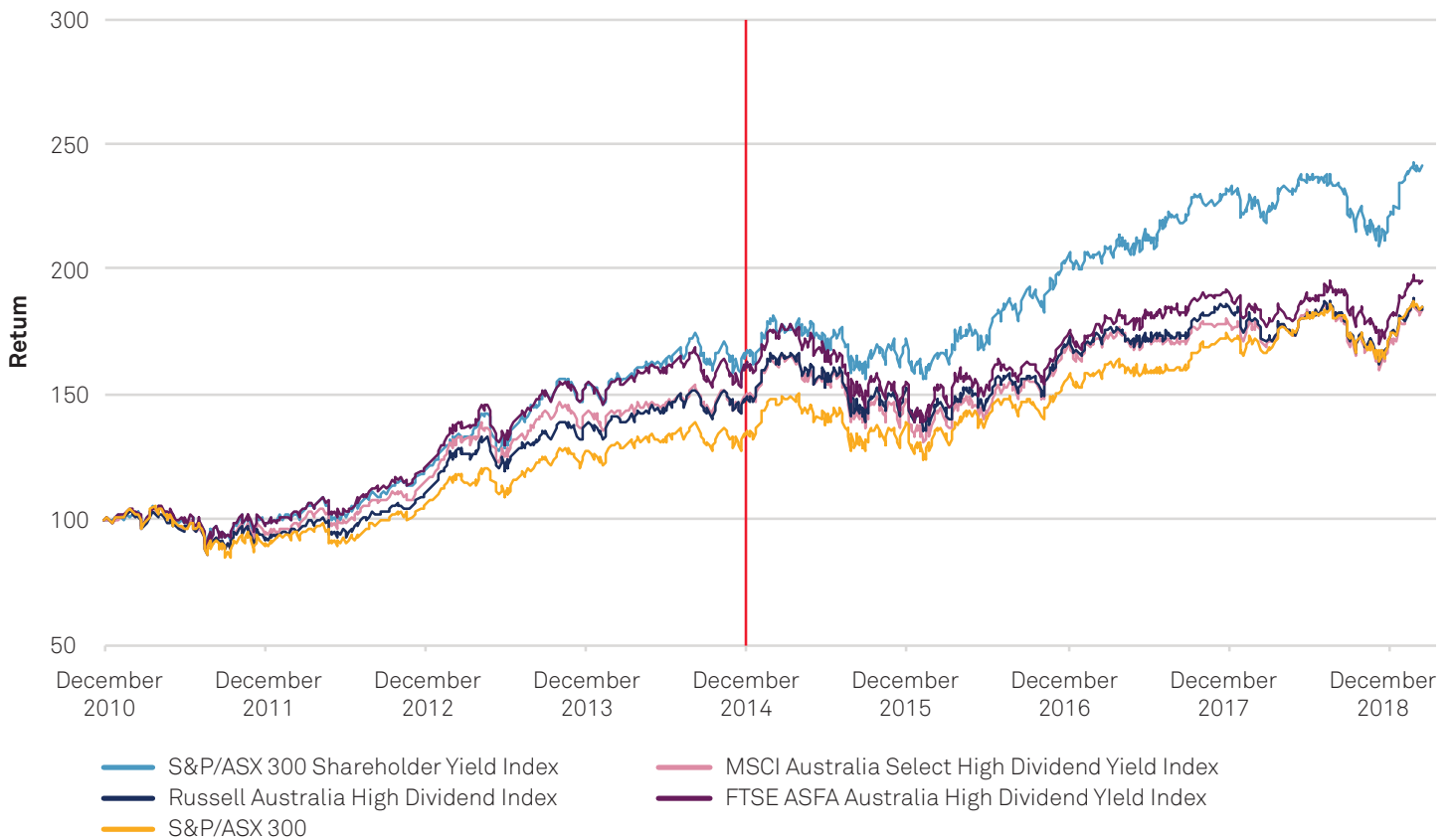
Since its inception in December 2014, the S&P/ASX 300 Shareholder Yield Index posted an impressive 4.25-year performance against the benchmark, S&P/ASX 300, and other Australian equity income indices, as shown below.

- **MSCI Australia Select High Dividend Yield Index** – A capitalization-weighted index targeting stocks with higher-than-average dividend yield with quality screens such as payout ratio, dividend growth, quality score, and price performance.
- **Russell Australia High Dividend Index** – A dividend-tilted, capitalization-weighted index targeting stocks with a high composite score that considers dividend yield and growth on both a historical and future basis.
- **FTSE Australia High Dividend Yield Index** – A capitalization-weighted index targeting stocks with high dividend yield forecasts.

There has been significant and consistent outperformance against all the competitors' indices in the full period studied (from December 2010 to March 2019), before and after the index went live. When compared with the benchmark S&P/ASX 300, the S&P/ASX 300 Shareholder Yield Index was the only income index that beat the benchmark in the three- and five-year periods.

Exhibit 2: Performance Comparison of Australian Income Indices

Annual Return (%)	S&P/ASX 300 Shareholder Yield Index	MSCI Australia Select High Dividend Yield Index	Russell Australia High Dividend Index	FTSE ASFA Australia High Dividend Yield Index	S&P/ASX 300
Past 1 Year	9.87	8.26	7.82	9.78	11.74
Past 3 Years	12.90	9.31	8.71	9.45	11.39
Past 5 Years	8.86	5.02	5.77	4.59	7.39
From December 2014 to March 2019	9.11	4.98	5.46	4.65	7.93

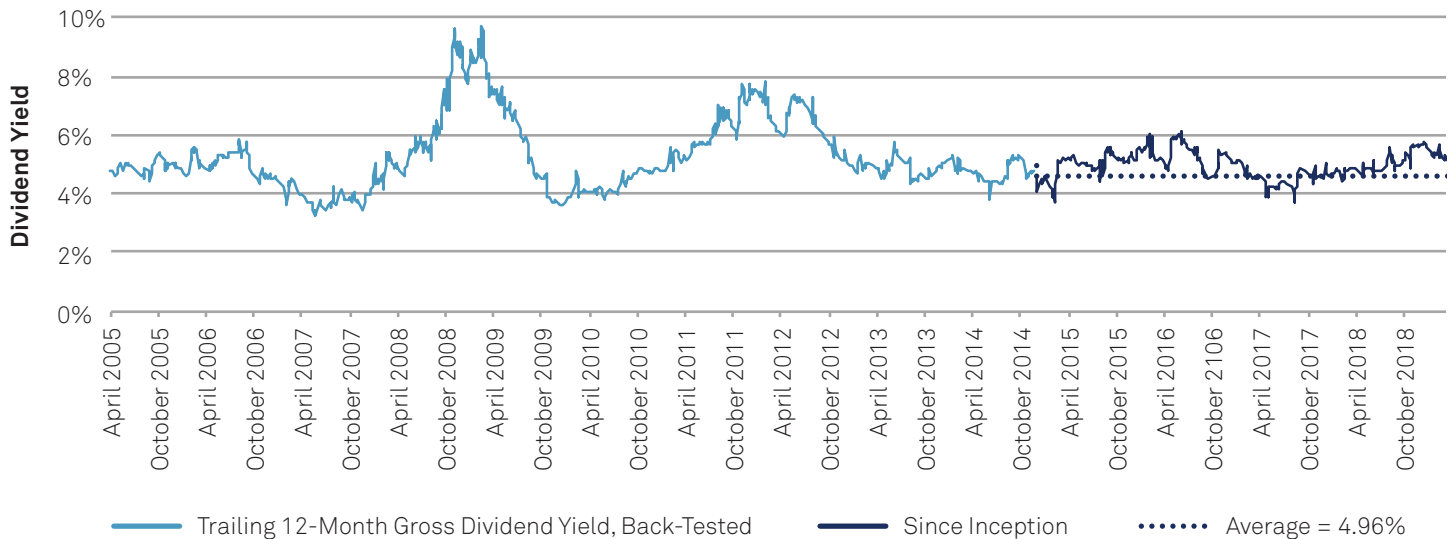


Source: S&P Dow Jones Indices LLC, MSCI, and FTSE. Data from Dec. 31, 2010, to March 29, 2019. The earliest data available for FTSE ASFA Australia High Dividend Yield Index was dated back to December 2010. Index performance based on monthly total return in AUD. Past performance is no guarantee of future results. Chart and table 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.

Attractive Dividend Yield

The S&P/ASX 300 Shareholder Yield Index has provided attractive dividend yield historically. The trailing 12-month gross dividend yield ranged from 3% to 10% from April 2005 to March 2019. During the index's live period, its dividend yield has been stable at about 5%.

Exhibit 3: Attractive Realized Index Dividend Yield



Source: S&P Dow Jones Indices LLC. Data from April 16, 2005, to March 29, 2019. Index performance based on monthly total return in AUD. 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.

Value and Quality-Driven Performance

During the live period, loading on value was the biggest contributor to the outperformance of the S&P/ASX 300 Shareholder Yield Index against the S&P/ASX 300, followed by negative active exposure to banks and positive active exposure to profitability. While dividend yield portfolios are usually biased toward value, exposure to profitability could be a result of free cash flow and positive dividend growth screenings.

Note that the index had the highest active exposure to dividend yield as expected, but the dividend yield factor contributed negatively to the index performance, due to negative factor return during the index live period. In contrast, a strong profitability factor rewarded the high shareholder yield strategy with excess returns, despite its low active exposure.

Exhibit 4: Risk Attribution

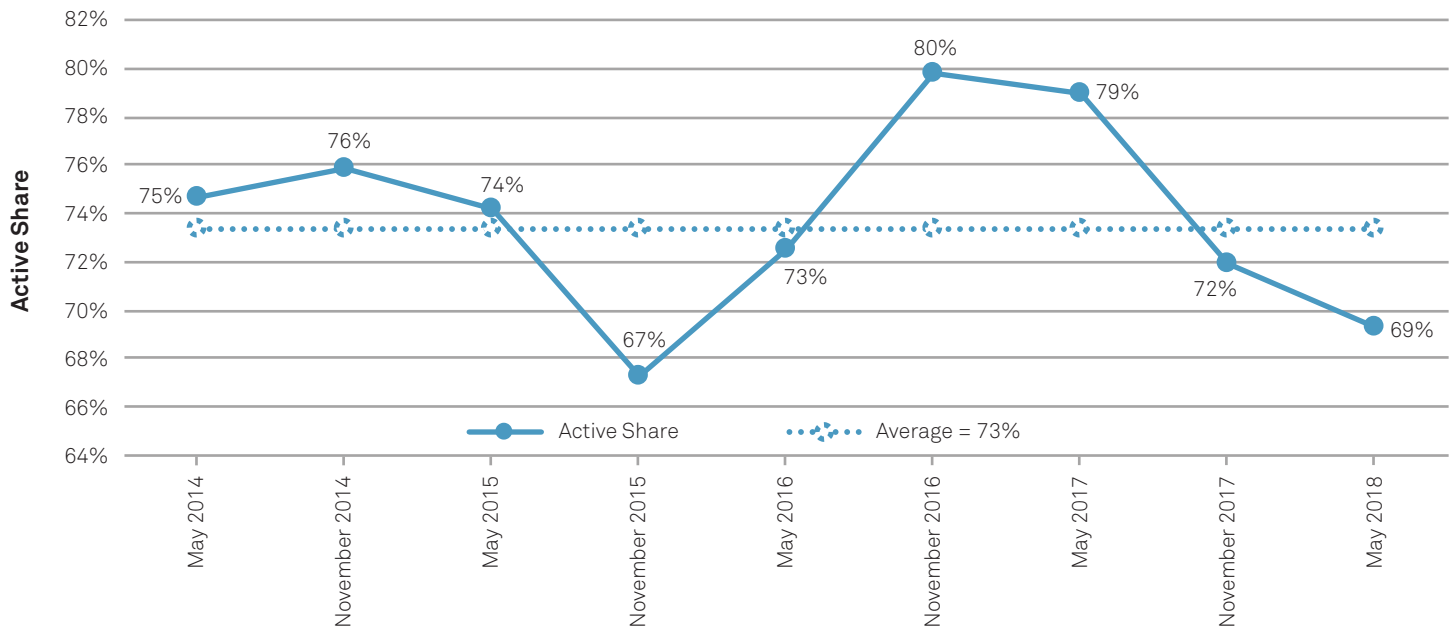
Top 3 Contributors to Active Risk	Average Active Exposure	Compounded Factor Return (%)	Compounded Factor Impact (%)
Dividend Yield	0.37	-3.89	-0.76
Value	0.24	16.33	8.06
Liquidity	0.12	-5.97	-1.42
Top 3 Contributors to Excess Return	Average Active Exposure	Compounded Factor Return (%)	Compounded Factor Impact (%)
Value	0.24	16.33	8.06
Banks	-0.10	-24.99	3.73
Profitability	0.09	20.23	2.92

Source: S&P Dow Jones Indices LLC, FactSet, and Axioma Australia Fundamental Equity MH 4. Data from Dec. 31, 2014, to March 29, 2019. The S&P/ASX 300 is used as the benchmark. Index performance based on monthly total return in AUD. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

High Active Share

The S&P/ASX 300 Shareholder Yield Index could be said to be more “active” than many active funds. Active share,¹ which measures the percentage of stock holdings in a portfolio that differs from its benchmark, is widely used for assessing active manager’s process in the industry. Since it went live, the S&P/ASX 300 Shareholder Yield Index’s active share has ranged from 67% to 79% compared with the benchmark S&P/ASX 300 (see Exhibit 4). This means that the S&P/ASX 300 Shareholder Yield Index could compliment a core index holding in an investors’ portfolio.

Exhibit 4: High Active Share



Source: S&P Dow Jones Indices LLC. Data from April 30, 2014, to March 31, 2019. Past performance is no guarantee of future results.

Active share = $1/2 \sum_{i=1}^n |weight_{portfolio,i} - weight_{benchmark,i}|$, where benchmark is the S&P/ASX 300. Chart is provided for illustrative purposes.

Appendix I: Tickers

Return Type	Bloomberg Ticker
PR	SPA3SYAP
TR	SPA3SYAT
NTR	SPA3SYAN

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

Appendix II: Fundamentals

Indicated Dividend Yield (%)	P/E (Trailing)	P/E (Projected)	P/B
5.3	12.38	15.26	1.16

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2019. Table is provided for illustrative purposes.

Appendix III: Related Products

Fund Name	Ticker
ETFS S&P/ASX 300 High Yield Plus ETF	ZYAU

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

¹ Cremers, K.J. Martijn, and Antti Petajisto, “How Active Is Your Fund Manager? A New Measure That Predicts Performance.” *Review of Financial Studies*, Yale School of Management. March 2009.

Performance Disclosure

The S&P/ASX 300 Shareholder Yield Index was launched December 19, 2014. 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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