Exploring Japan's Dividend Market and High Dividend Yield Strategy Performance

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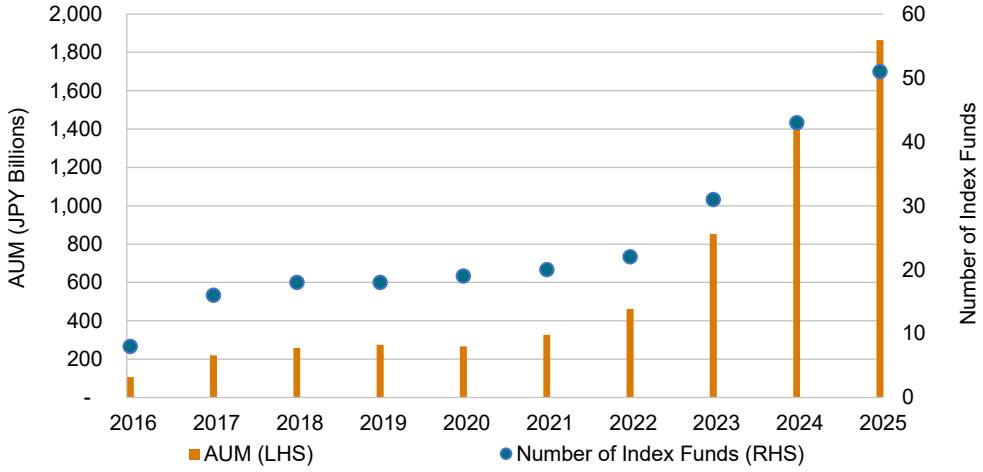
Introduction

Dividend strategies have become increasingly prominent in Japan's equity market. By the end of 2025, assets under management (AUM) in Japan-listed dividend index funds reached approximately JPY 1.9 trillion, nearly 18 times the level recorded in 2016. From 2024 to 2025, dividend index funds witnessed more than JPY 600 billion in net inflows in Japan, surpassing other factor strategy categories. This growth indicates rising demand for stable income and highlights the growing importance of dividends for the Japanese market.

Exhibit 1: AUM and Number of Dividend Index Funds in Japan



Source: S&P Dow Jones Indices LLC, Morningstar. Data from Dec. 31, 2016, to Dec. 31, 2025. Chart is provided for illustrative purposes.

This paper reviews the key policies that have shaped Japan's dividend market, examines how the market has evolved over the past decade and assesses the historical performance of Japanese high dividend yield strategies.

Governance Reform Overview

Japan's dividend market transformation has been supported by a sequence of governance and investor policy reforms. These measures were designed to strengthen investor engagement, encourage companies to improve capital efficiency and promote a shift in household financial assets from savings toward investment products.

Exhibit 2: Timeline of Key Governance and Investor Policy Reforms Affecting Japan's Dividend Market

Period	Reform/Policy	Key Points	Objective
2014-2015	Stewardship Code[1] and Corporate Governance Code[2]	– Institutional investors should disclose stewardship policy and voting policy. – Listed companies should secure shareholder rights and equal treatment. – Listed companies should disclose financial, non-financial, risk, strategy and governance information.	– Increase investor oversight of corporate capital allocation – Improve transparency of governance, strategy and shareholder return decisions
2023-Present	Tokyo Stock Exchange (TSE) Cost-of-Capital Initiative[3]	– Prime and Standard Market companies are requested to analyze cost of capital, capital efficiency, stock-price valuation and price-to-book (P/B) ratios below 1. – Companies are requested to disclose policies, targets, timelines and specific initiatives. – Companies are requested to update progress and use investor dialogue.	– Improve capital efficiency and valuation discipline – Encourage companies to address low P/B valuations through credible value enhancement plans
2024-Present	New Nippon Individual Savings Account (NISA) Expansion[4]	– The system is made permanent; the tax-free holding period is changed from 5 years for General NISA/20 years for Tsumitate NISA to indefinite. – The annual investment limit is increased from JPY 1.2 million under General NISA or JPY 0.4 million under Tsumitate NISA to JPY 3.6 million total: a JPY 1.2 million accumulation quota plus a JPY 2.4 million growth quota. – The lifetime tax-free holding limit is increased from up to JPY 6 million for General NISA or JPY 8 million for Tsumitate NISA to JPY 18 million, including up to JPY 12 million for the growth quota.	– Encourage household participation in long-term investment – Expand the retail investor base for equity income and dividend-oriented products

Source: S&P Dow Jones Indices LLC, Financial Services Agency, Japan Exchange Group, Japan Securities Dealers Association. Data as of September 2026. Table is provided for illustrative purposes.

[1] Financial Services Agency, "The Expert Panel on the Stewardship Code."

[2] Japan Exchange Group, "Corporate Governance Code | Enhancing Corporate Governance."

[3] Japan Exchange Group, "Action on Cost of Capital-Conscious Management and Other Requests."

[4] Japan Securities Dealers Association, "NISA: Japan's Tax Exemption Scheme for Investment by Individuals."

Characteristics of the Japanese Dividend Market

1. Fast-Growing Dividend Pool

Japan's aggregate dividend pool has expanded materially over the past decade. As shown in Exhibit 3, total dividends increased from JPY 10.7 trillion in fiscal year 2016 to JPY 26.1 trillion in fiscal year 2026, more than doubling over the period.

Exhibit 3: Evolution of the Japanese Dividend Market

Fiscal Year	Size of Dividend Pool (JPY Billions)	Earnings (JPY Billions)	Payout Ratio (%)	Trailing 12-Month Dividend Yield (%)	Number of Companies That Paid Dividends
2016	10,689	30,035	35.6	2.2	1,466
2017	11,834	33,640	35.2	2.0	1,536
2018	13,288	43,784	30.3	2.1	1,568
2019	14,449	40,603	35.6	2.5	1,563
2020	14,341	30,062	47.7	2.9	1,627
2021	14,273	34,291	41.6	1.9	1,505
2022	16,815	47,648	35.3	2.4	1,544
2023	18,486	49,176	37.6	2.7	1,632
2024	20,111	57,100	35.2	2.1	1,583
2025	23,323	61,860	37.7	2.6	1,587
2026	26,133	66,856	39.1	2.2	1,579

Source: S&P Dow Jones Indices LLC, FactSet. Data as of March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

This expansion was supported by two reinforcing factors: earnings growth and a gradual increase in payout ratios. Aggregate earnings also more than doubled, from JPY 30.0 trillion in fiscal year 2016 to JYP 66.9 trillion in fiscal year 2026, while the payout ratio rose from 35.6% to 39.1%. These figures suggest that higher distributions were not driven solely by a temporary increase in payout ratios; rather, they may have been supported by a larger profit base and a stronger corporate willingness to return cash to shareholders.

2. Improved Dividend Sustainability

Following the TSE's cost-of-capital initiative, more Japanese companies have adopted explicit and predictable shareholder return policies. Many companies, such as Honda Motors[5] and Mitsubishi Electric,[6] adopted dividend-on-equity policies to avoid sharp fluctuations of

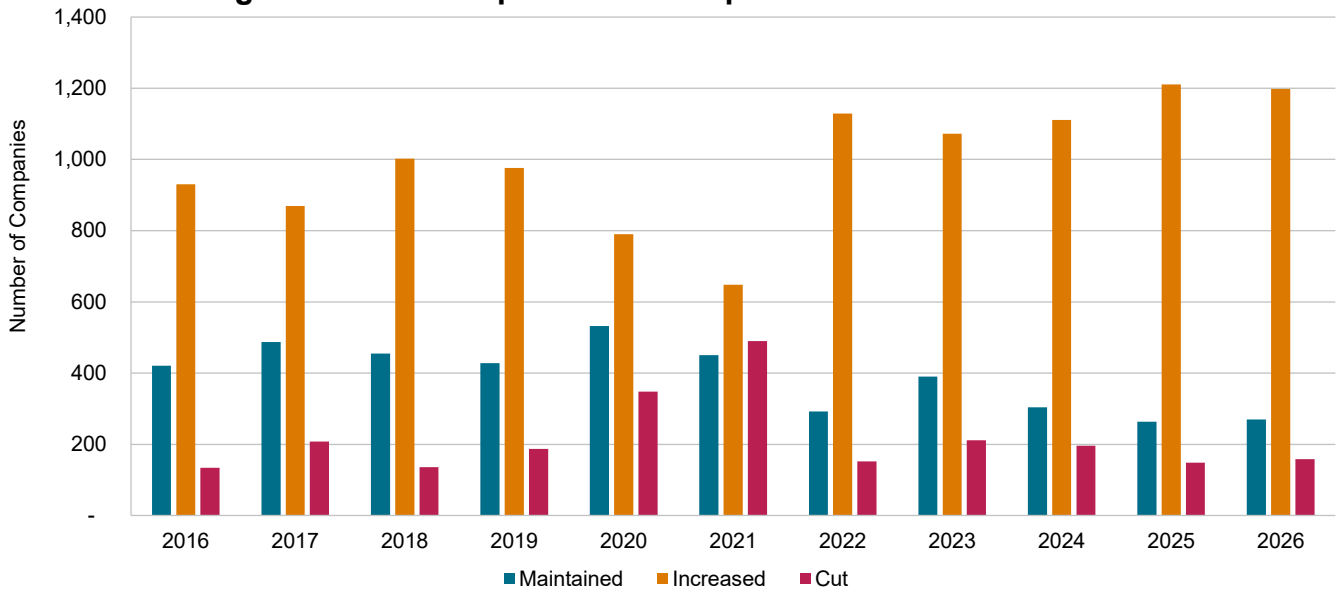
[5] Honda Motor Co, "Summary of 2026 Honda Business Briefing," May 14, 2026.

[6] Mitsubishi Electric Corporation, "New Medium-term Corporate Strategy," May 29, 2026.

dividends when profits declined, while others such as Sumitomo Corp.[7] committed to progressive dividend frameworks.

Since fiscal year 2016, the number of companies increasing dividends compared with the previous year has generally trended upward, except during the COVID-19 pandemic period (see Exhibit 4). This pattern suggests a strong commitment to maintaining and growing cash distributions at the market level.

Exhibit 4: Changes in Dividends per Share Compared with Previous Year



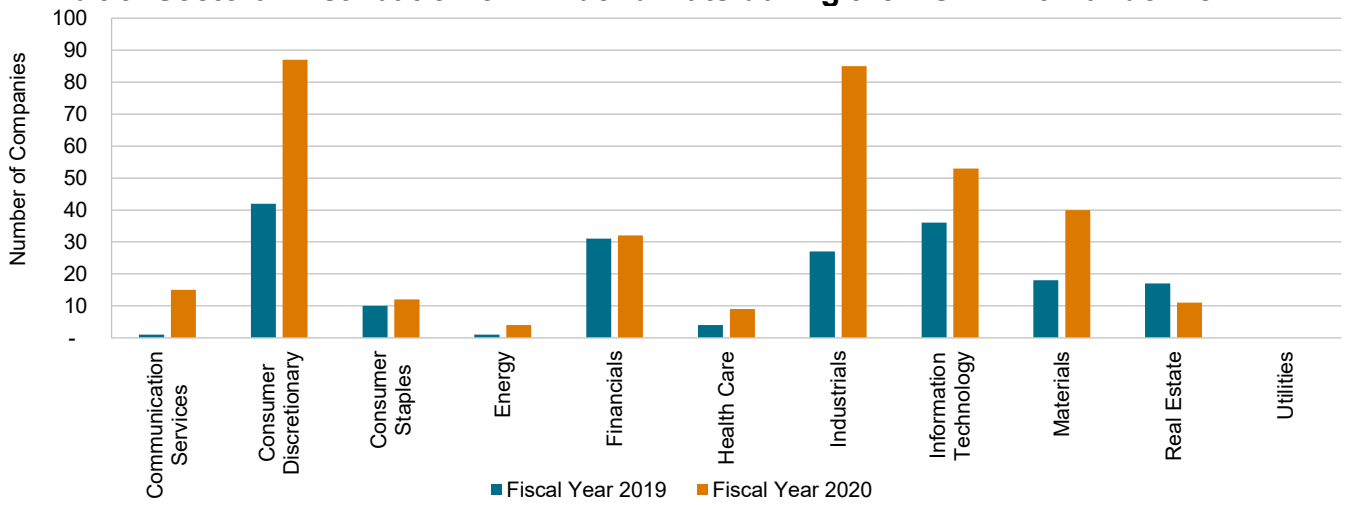
Source: S&P Dow Jones Indices LLC, FactSet. Data as of March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

The COVID-19 pandemic period provided an important stress test for the Japanese dividend market. In fiscal year 2020, aggregate earnings declined sharply, yet total dividend payments were broadly maintained and the payout ratio rose to 47.7% (see Exhibit 3). Importantly, the number of companies cutting dividends remained below the number increasing dividends (see Exhibit 4), indicating that the market's dividend base was relatively resilient. This suggests that many companies absorbed the earnings shock rather than immediately reducing shareholder distributions.

Sector composition helped support this resilience. Financials, Consumer Staples and Utilities played an important stabilizing role. In fiscal year 2020, while many cyclical sectors experienced more dividend cuts, Utilities recorded no cuts, and Financials and Consumer Staples maintained dividend cut counts broadly in line with the prior year (see Exhibit 5). This defensive contribution helped limit the contraction in the aggregate dividend pool.

[7] Sumitomo Corporation, "Shareholder Return Information."

Exhibit 5: Sectoral Distribution of Dividend Cuts during the COVID-19 Pandemic

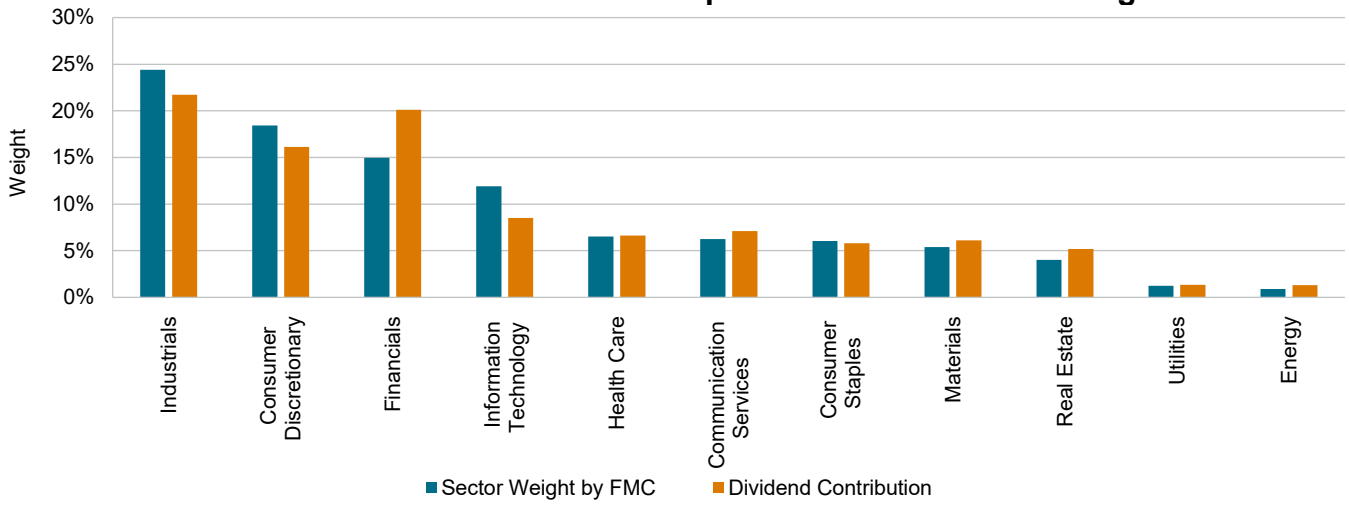


Source: S&P Dow Jones Indices LLC, FactSet. Data from April 1, 2018, to March 31, 2020. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

3. Diversified Contribution across Sectors

Japan's dividend market is not dependent on a single sector. Dividend contribution is broadly aligned with each sector's float-adjusted market cap (FMC) weight, supporting diversification at the market level (see Exhibit 6). In fiscal year 2026, Industrials had the largest sector weight and contributed more than one-fifth of total market dividends. Financials contributed a proportionally larger share of dividends than its FMC weight, reflecting the sector's relatively high payout intensity during that period. Consumer Discretionary was also among the top three contributors, showing that dividend income was generated across both cyclical and financial segments.

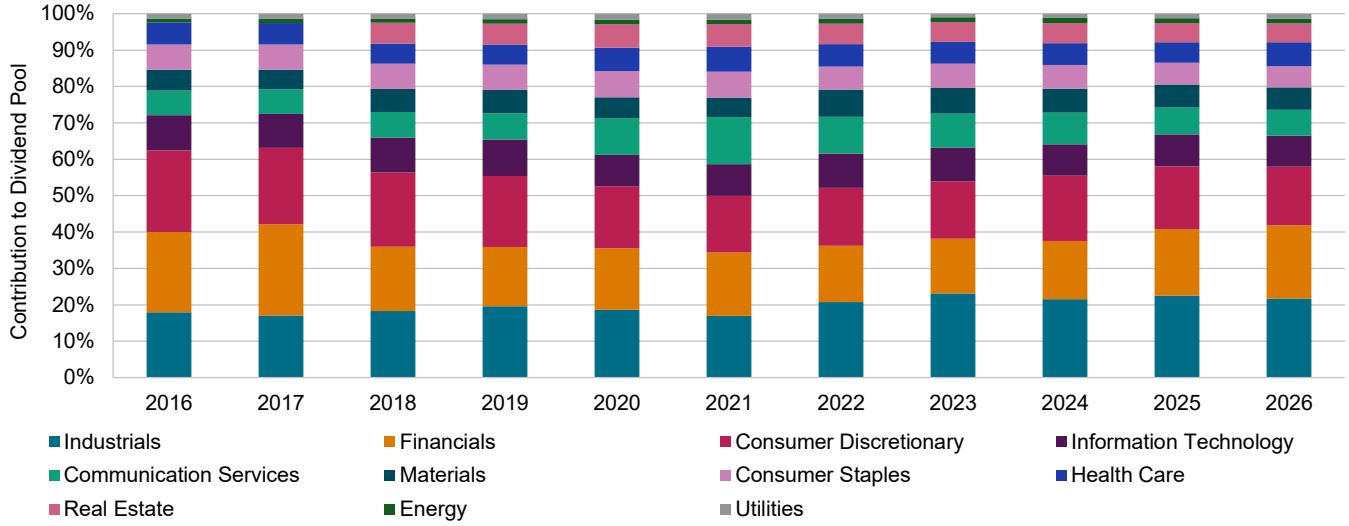
Exhibit 6: Sectoral Dividend Contribution Compared with Sector FMC Weight



Source: S&P Dow Jones Indices LLC, FactSet. Data as of March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 7 shows that sectoral dividend contribution has remained relatively stable over the past decade, with the leading sectors consistently accounting for the majority of aggregate dividends. The top three contributing sectors together represented 50%-60% of Japan's market dividends. This historical pattern suggests that Japan's dividend pool has combined breadth with continuity: broad sector participation supported diversification, and a stable group of large contributors provided recurring support to aggregate dividend growth.

Exhibit 7: Sectoral Dividend Contribution over the Past 10 Years



Source: S&P Dow Jones Indices LLC, FactSet. Data from March 31, 2016, to March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

4. Improved Dividend Distribution from Keiretsu Companies

Keiretsu-linked companies have historically played a central role in Japan's corporate structure. Emerging after World War II as an evolution of the prewar Zaibatsu conglomerates, Keiretsu is a Japanese group of interconnected companies that have significant cross-shareholding relationships.[8] Their long-standing business relationships, cross shareholdings and stable shareholder bases contributed to financial stability, but they also reinforced conservative capital allocation and reduced pressure to return excess cash to outside shareholders.

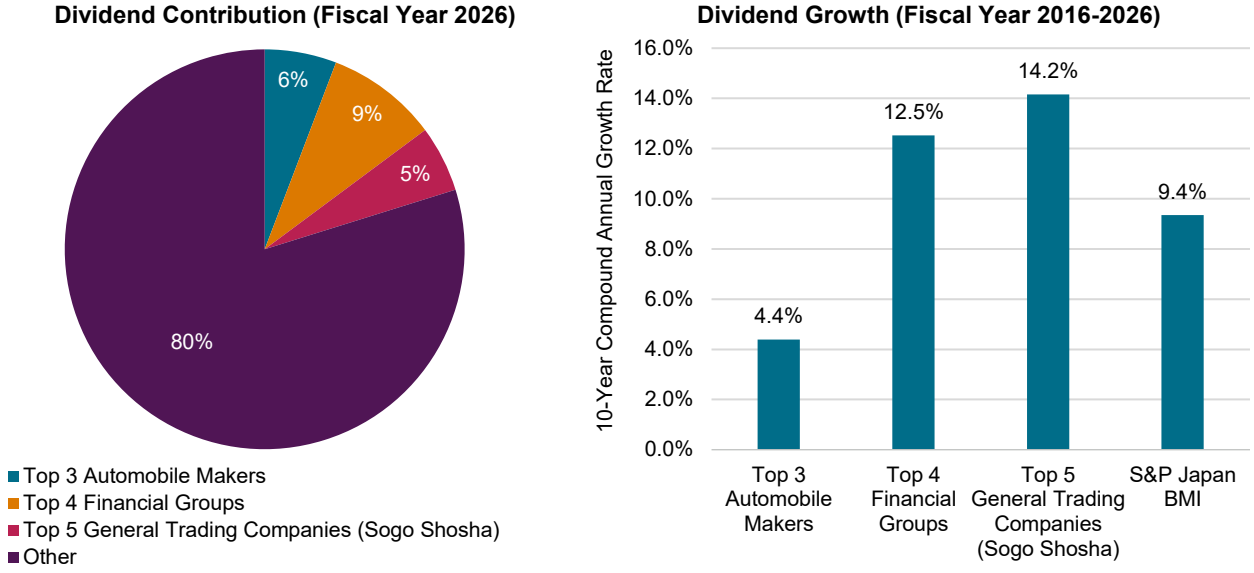
The TSE's cost-of-capital initiative is particularly relevant for large Keiretsu-linked companies. Firms with low P/B ratios, excess cash or large cross shareholdings face stronger pressure to disclose capital allocation policies, improve profitability and consider shareholder returns as part of broader value enhancement plans.

The improvement is visible in the dividend growth of major financial groups and general trading companies. Top financial groups and general trading companies (Sogo Shosha) have

[8] McGuire, J., and Dow, S., "Japanese keiretsu: Past, present, future," Asia Pacific Journal of Management, 26(2), 2009.

delivered dividend growth above the broader market rate over the past decade (see Exhibit 8). By fiscal year 2026, leading Keiretsu-linked companies contributed approximately 20% of Japan's total dividends, broadly in line with their 17.4% FMC weight.

Exhibit 8: 10-Year Dividend Growth from Large Keiretsu Companies and Current Dividend Contribution

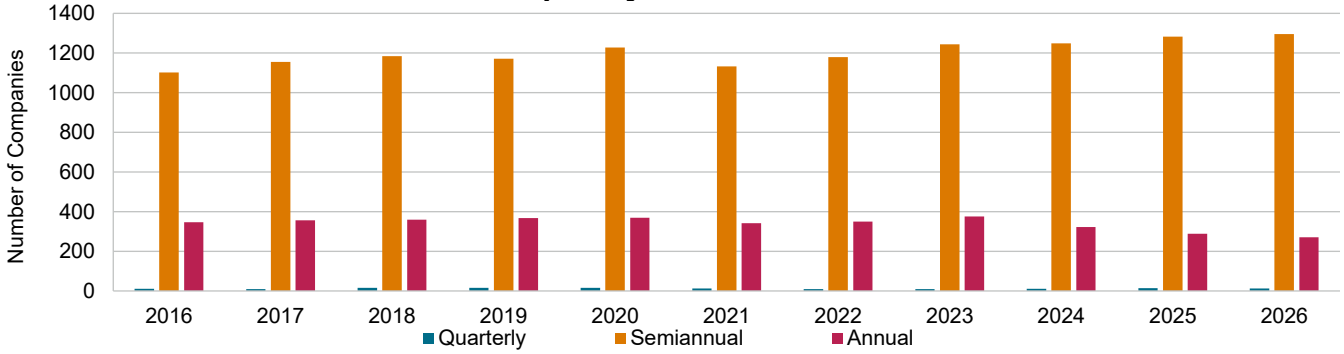


Source: S&P Dow Jones Indices LLC, FactSet. Data as of March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

5. Semiannual Distribution Pattern

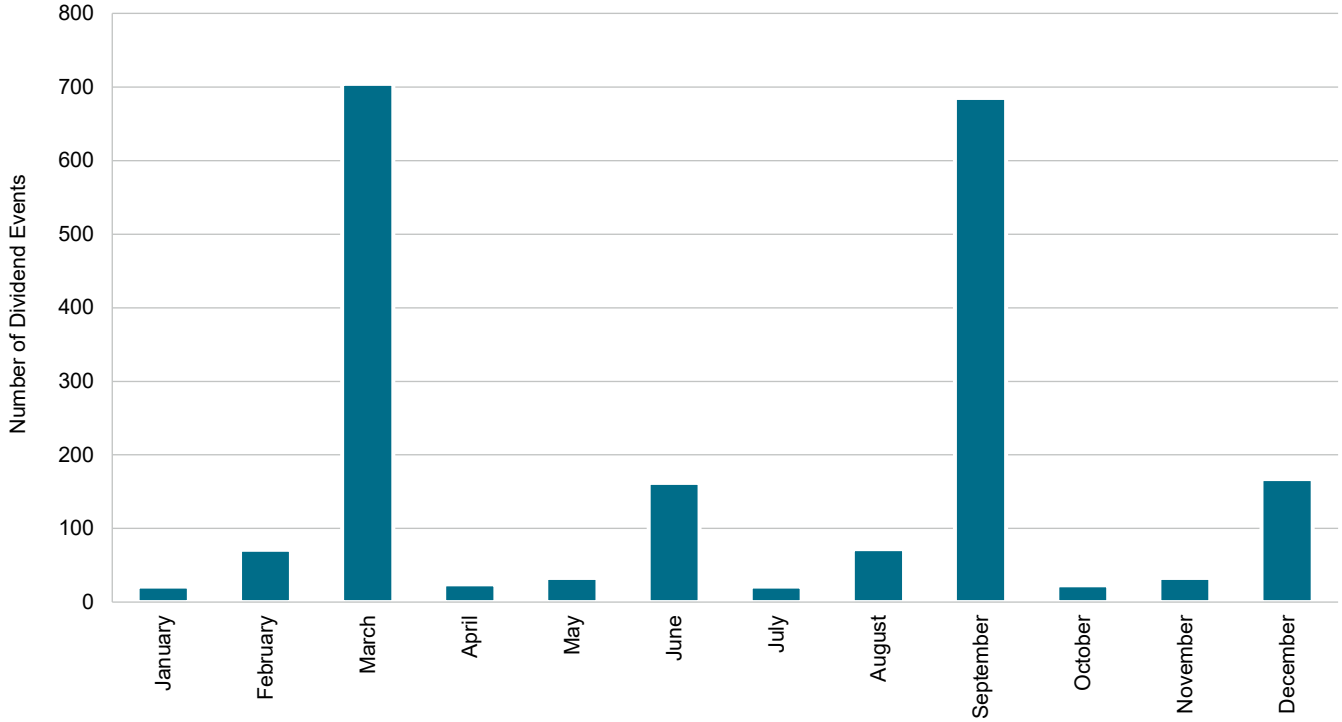
Japan's dividend calendar is characterized by a semiannual distribution pattern (see Exhibit 9). Most companies pay dividends twice a year, typically through interim and year-end distributions. The March-September cycle is the dominant schedule, reflecting the end of the fiscal year in March, followed by the June-December and February-August cycles (see Exhibit 10). This structure creates recurring dividend events throughout the year.

Exhibit 9: Dividend Distribution Frequency



Source: S&P Dow Jones Indices LLC, FactSet. Data as of March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Exhibit 10: Number of Dividend Events throughout Fiscal Year 2026



Source: S&P Dow Jones Indices LLC, FactSet. Data from March 31, 2025, to March 31, 2026. Data based on fiscal years ending in March. Only includes companies in the S&P Japan BMI that paid dividends. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

High Dividend Yield Strategy Performance

A substantial body of research has documented the historical outperformance of high dividend yield strategies relative to the broader market and to lower-yielding equity portfolios. Fama and French[9] found that dividend yield had increasing predictive power for long-term stock returns as the forecast horizon extended from months to years.

One well-known example is the "Dogs of the Dow," a strategy that includes the 10 highest-yielding constituents of the Dow Jones Industrial Average® (DJIA) and rebalances annually. In Michael O'Higgins' 26-year study,[10] this high dividend yield strategy showed an annualized performance of 17.9%, compared with 13.0% for the DJIA.

[9] Fama, Eugene F., and K. R. French, "Dividend Yields and Expected Stock Returns," Journal of Financial Economics, Vol. 22, Issue 1, pp. 3-25, October 1988.

[10] O'Higgins, Michael, and John Downes, "Beating the Dow," HarperCollins, 1991.

Jeremy Siegel's[11] analysis reached a similar conclusion. By ranking S&P 500® constituents by dividend yield, grouping them into five annually rebalanced quintile compositions and examining performance from 1957 to 2002, Siegel found that the highest-yielding quintile had a 14.27% annualized performance, exceeding the S&P 500's 11.18%. Robert Arnott's[12] analysis of 200 years of U.S. equity returns, from 1802 to 2002, further underscored the role of dividends in long-term wealth creation. Decomposing total returns into dividends, real dividend growth, inflation and valuation expansion, Arnott concluded that dividends were the primary source of real equity returns, contributing 5 percentage points to the total annualized return of 7.9% over the period.

Building on this literature, the next section examines whether high dividend yield strategies have displayed similar performance characteristics in the Japanese equity market.

Empirical Study

In line with previous research on dividends, we conducted an analysis of hypothetical compositions based on trailing 12-month dividend yield. Our study encompassed all stocks from the S&P Japan 500, which includes leading companies from the Japanese equity market. Since most Japanese companies pay dividends on a semiannual basis, we constructed compositions twice a year, at the end of each June and December.

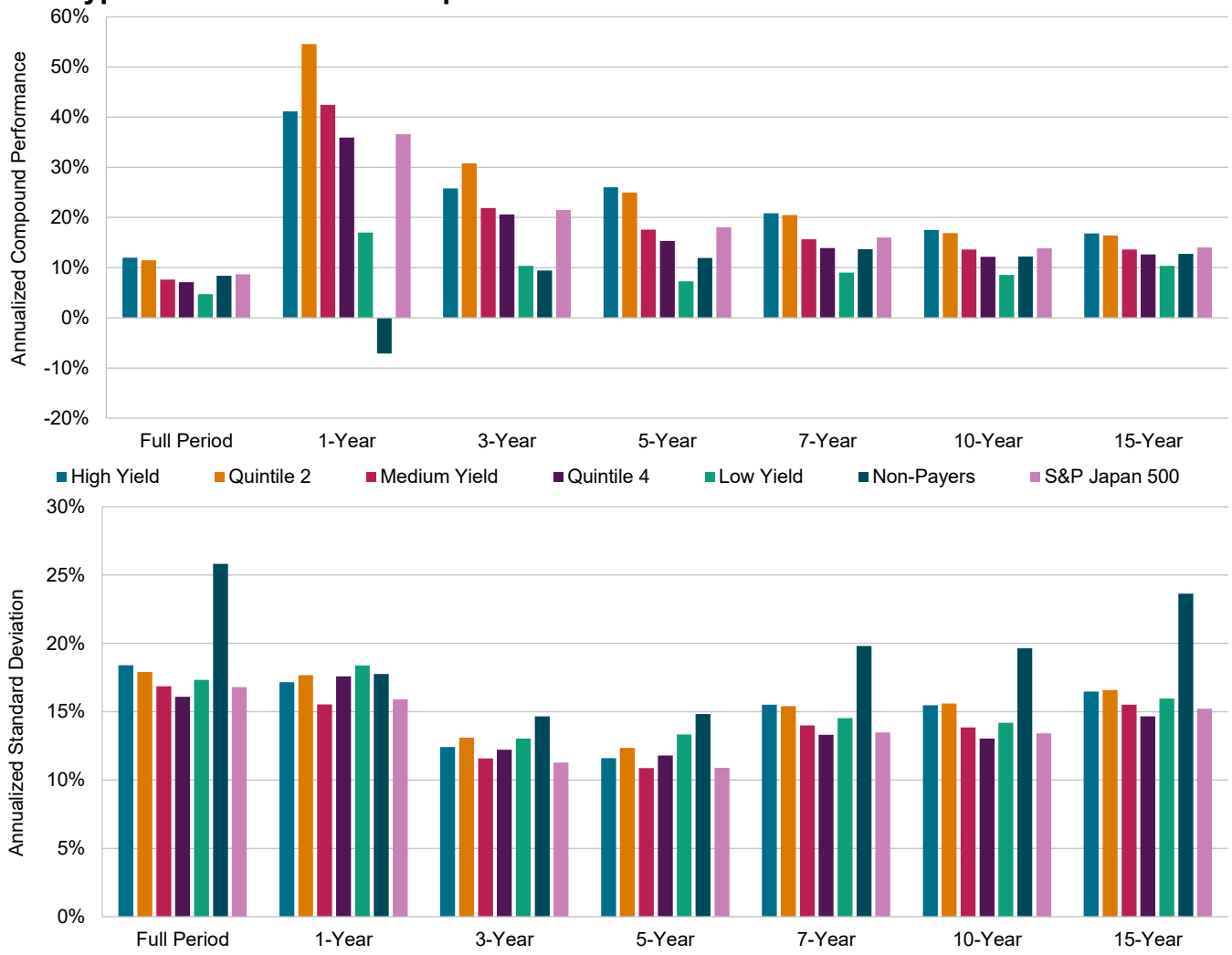
We sorted dividend-paying stocks according to their trailing 12-month dividend yield and assigned them to five hypothetical compositions based on yield, ranging from the highest to the lowest dividend yield, with companies that did not pay dividends assigned to a sixth separate composition.

Exhibit 11 illustrates the equal-weighted historical performance of S&P Japan 500 stocks sorted into hypothetical dividend compositions. Our analysis indicates that, over the back-tested period from Dec. 31, 2006, to July 31, 2026, compositions with higher dividend yield generally delivered stronger historical performance than those with lower dividend yield. The relationship between dividend yield and historical performance exhibited a clear monotonic trend over the 5-, 7-, 10- and 15-year periods, as well as the full period, with performance improving as we moved from the low yield quintile to the high yield quintile. The risk, as measured by the annualized standard deviation of monthly performance, was highest for the hypothetical non-dividend-payer composition. Among the dividend payers, High Yield and Quintile 2 had the highest risk.

[11] Siegel, Jeremy J., "The Future for Investors: Why the Tried and the True Triumph over the Bold and the New," Crown Business, 2005.

[12] Arnott, Robert D., "Dividends and the Three Dwarfs," Financial Analysts Journal, Vol. 59, Issue 2, pp. 4-6, 2003.

Exhibit 11: Back-Tested Equal-Weighted Performance of S&P Japan 500 Stocks Sorted into Hypothetical Dividend Compositions

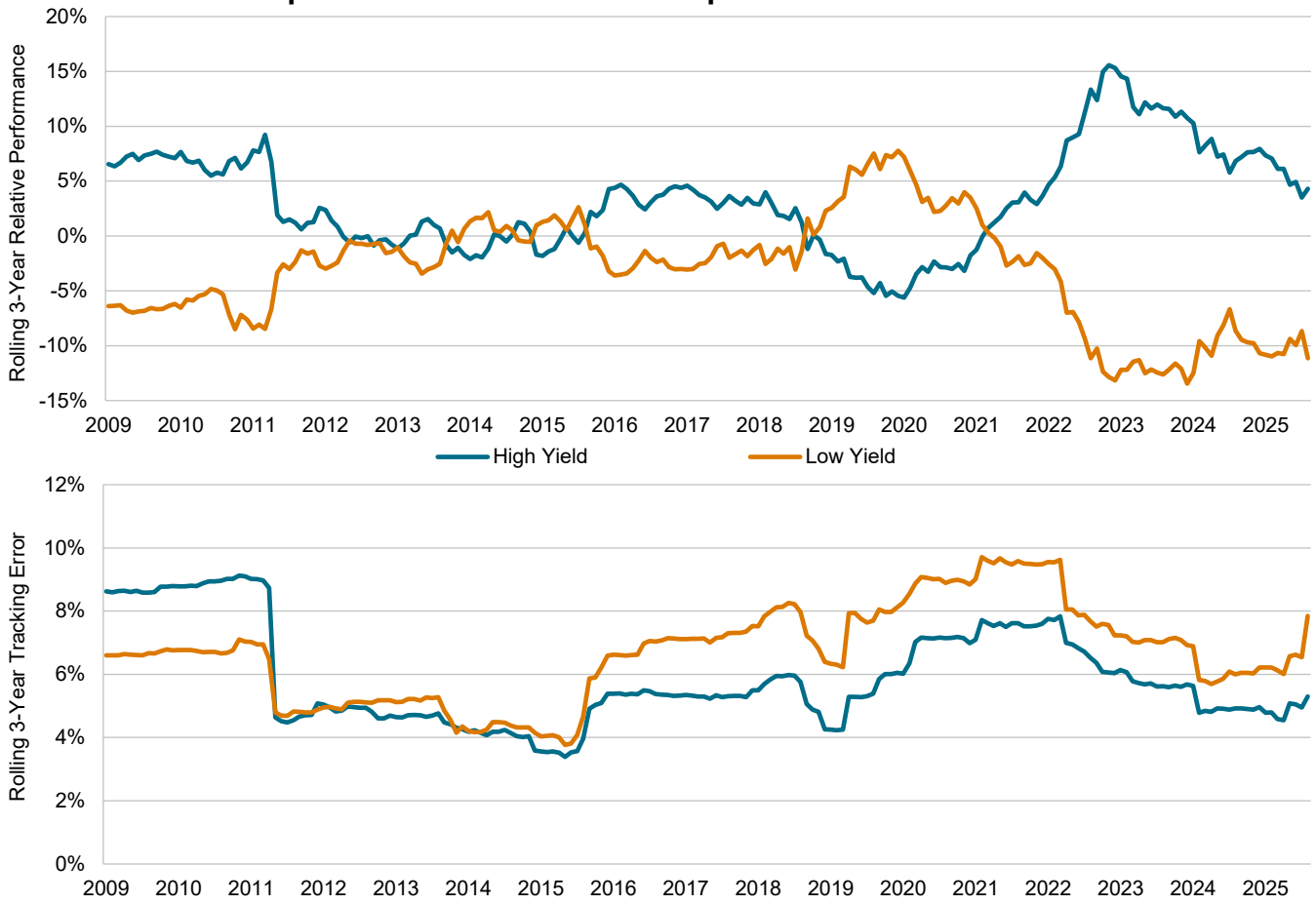


All compositions are hypothetical compositions.
Source: S&P Dow Jones Indices LLC, FactSet. Data from Dec. 31, 2006, to July 31, 2026. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

We further assessed the performance of the hypothetical market cap-weighted compositions and observed similar performance patterns (see Exhibit 13 in the Appendix). The performance of High Yield was the best over the 5-, 7-, 10- and 15-year and full period horizons. In contrast, the volatility of the High Yield composition was the lowest across most time horizons.

Exhibit 12 also reveals the cyclicality of performance. We analyzed the rolling three-year performance and tracking error of the hypothetical High Yield and Low Yield equal-weighted compositions against the S&P Japan 500. The analysis illustrates a contrasting performance cycle between the two—while Low Yield experienced three main underperformance periods, High Yield outperformed the S&P Japan 500 for the majority of the observed period.

Exhibit 12: Back-Tested Rolling Three-Year Equal-Weighted Performance of High Yield and Low Yield Compositions versus the S&P Japan 500



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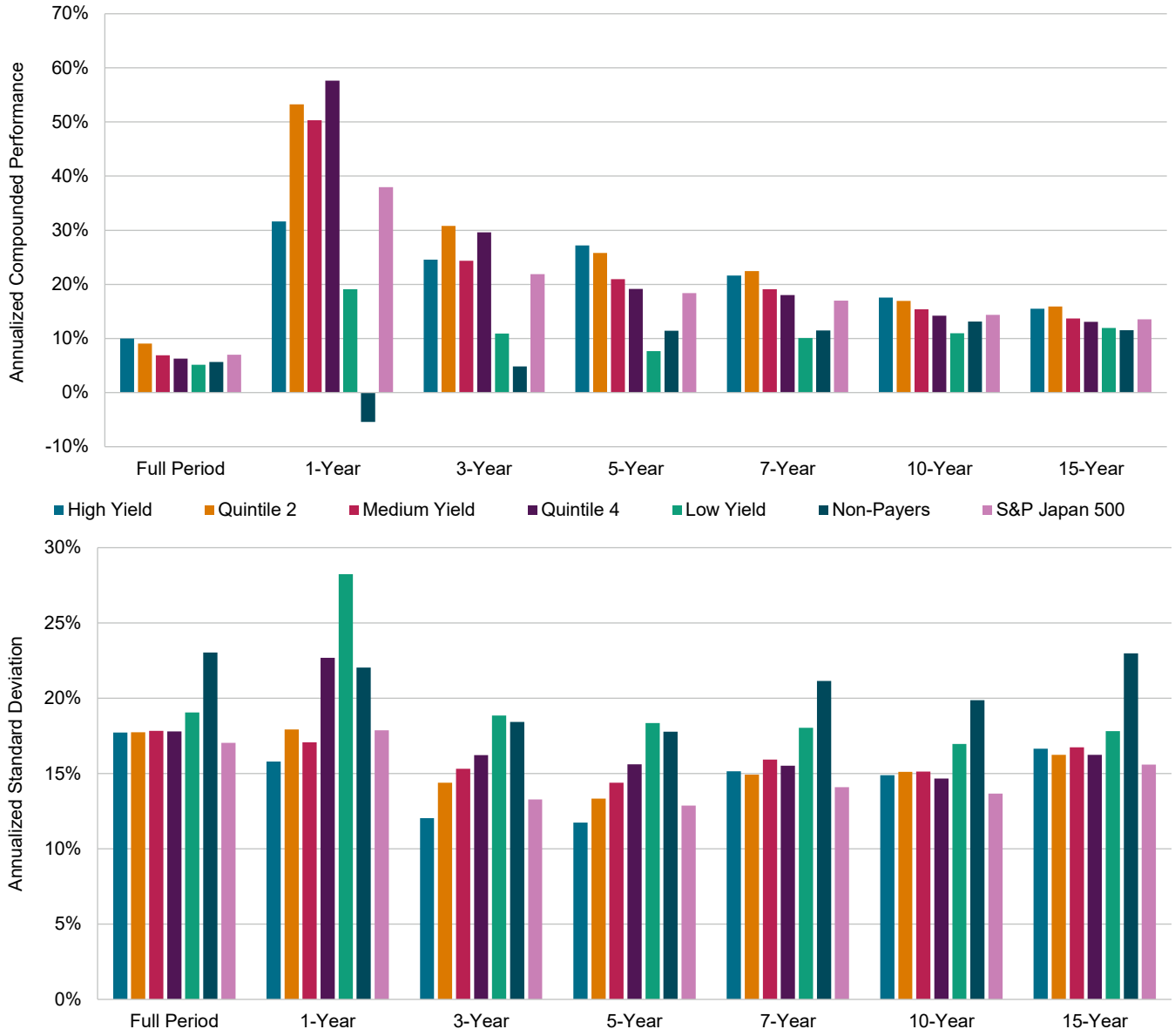
Conclusion

Over the past decade, Japan's dividend market has developed significantly, supported by stronger corporate earnings, governance reforms and rising investor demand for income-oriented strategies. Regulatory initiatives, including the TSE's cost-of-capital campaign and the expansion of NISA, have helped encourage companies to improve capital efficiency and adopt more transparent shareholder return policies. In this paper, we reviewed the development of Japan's dividend market and examined the historical performance of high dividend yield strategies. Our hypothetical back-tested analysis of S&P Japan 500 stocks from Dec. 31, 2006, to July 31, 2026, indicates that higher-yielding compositions generally outperformed lower-yielding ones across multiple time horizons. Overall, the evidence suggests that high dividend yield strategies have historically experienced improved performance in Japan's equity market.

Appendix

Exhibit 13: Back-Tested Market Cap-Weighted Performance of S&P Japan 500 Stocks Sorted into Hypothetical Dividend Compositions



All compositions are hypothetical compositions.
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Performance Disclosure/Back-Tested Data

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. Also, the treatment of corporate actions in back-tested performance may differ from treatment for live indices due to limitations in replicating index management decisions. Complete index methodology details are available at www.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.

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 to a fixed value for calculation purposes. The Launch Date designates the date when 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 data feed 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.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices 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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