

CONTRIBUTORS

Vinit Srivastava
Managing Director
Head of Strategy and
ESG Indices
vinit.srivastava@spglobal.com

Tianyin Cheng
Director
Strategy and ESG Indices
tianyin.cheng@spglobal.com

Emily Ulrich
Senior Product Manager
ESG Indices
emily.ulrich@spglobal.com

Not only does the Dow Jones U.S. Dividend 100 Index seek to track stocks with consistent dividend payouts, but it also applies quality assurance for the sustainability of yields.

Dividend Strategy With Quality Yields – The Dow Jones U.S. Dividend 100 Index

Dividend-paying stocks have been in focus in recent years, as many income seekers have turned away from low-yielding fixed income instruments and are looking to equity markets for an attractive level of income. With the rise of interest rates at the end of 2016, a continuing search for yield is expected. However, this search for yield will probably be guided by a focus on quality, and it likely will be against a backdrop of future rising rates.

Among different kinds of income-focused equity indices in the market, the [Dow Jones U.S. Dividend 100 Index](#) takes a unique approach. Not only does the index seek to track stocks with consistent dividend payouts, but it also applies quality assurance for the sustainability of yields. The index seeks to achieve “quality yields” by requiring stocks to have paid dividends for a minimum of 10 consecutive years, and by ranking stocks by a composite score calculated from the cash-flow-to-total-debt ratio, return on equity (ROE), dividend yield, and five-year dividend growth rate. A focus on dividend growth in an environment where market participants are concerned about rising rates is important. Typically, high-yield equity strategies are biased toward rate-sensitive sectors, which pay out high yields because of the leverage that they can take on (mainly because of mature business models, e.g., utilities). Such entities are exposed when rates rise. Selection based on dividend growth ensures that firms that have the ability to develop their business and increase their payouts are favored in the selection process. Such businesses often tend to be well-managed companies, both from a capital structure and from an operational perspective.

Another characteristic that differentiates the Dow Jones U.S. Dividend 100 Index from other dividend strategies is its strict size and liquidity screens and its weighting method, which is based on a modified market capitalization approach. These attributes aim to increase tradability, reduce the influence of smaller and more-distressed stocks on the portfolio, and to attain a certain degree of diversification by capping sector- and stock-level exposures at 25% and 4.5%, respectively. A weighting method based on modified market capitalization also has the potential to lead to a lower turnover than alternatively weighted income indices that primarily weight based on yield or total dividends.

Exhibit 1 summarizes the construction methodology and the ideas behind the construction of the [Dow Jones U.S. Dividend 100 Index](#). It seeks to balance yield, quality, capacity, and diversification.

Exhibit 1: Construction Methodology for the Dow Jones U.S. Dividend 100 Index	
INDEX METHODOLOGY	TARGETS INTENDED TO ACHIEVE
Screens for dividend payment consistency, size, and liquidity. <ul style="list-style-type: none"> • Minimum 10 consecutive years of dividend payments. • Minimum float-adjusted market capitalization of USD 500 million. • Minimum three-month average daily trading volume of USD 2 million. 	A prerequisite of tradability by screening for a stock's capacity and liquidity. A requirement of consistent dividends by screening for stocks that have paid dividends for a minimum of 10 consecutive years.
Stocks that pass the screens are ranked in descending order by indicated annual dividend yield. The top half is eligible for selection.	A focus on absolute yield by owning the highest-yielding stocks that pass the size, liquidity, and dividend payment consistency screens.
Stocks are then ranked by a composite score of cash-flow-to-total-debt, ROE, dividend yield, and five-year dividend growth rate. The top 100 are selected as constituents.	An emphasis on the quality factor, which is relevant when considering a company's ability to generate free cash flow so that a dividend can be sustained and, potentially, increased.
Stocks are weighted by market capitalization, and they are subject to a 4.5% individual stock weight cap and a 25% sector weight cap.	An attention to representativeness by using a modified market cap weighting so that distressed smaller-cap firms don't dominate its portfolio.
Annual rebalance in March.	A key element for reducing turnover.

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

The constituents of the Dow Jones U.S. Dividend 100 Index have delivered both better yields and better capital gains over the long term when compared with its benchmark, the Dow Jones U.S. Broad Stock Market Index.

The two things that market participants tend to care most about when using any income strategy are yield and capital gain. The constituents of the Dow Jones U.S. Dividend 100 Index have delivered both better yields and better capital gains over the long term when compared with the constituents of its benchmark, the [Dow Jones U.S. Broad Stock Market Index](#). For the period between Dec. 31, 1999, and Dec. 29, 2017, the price return of the Dow Jones U.S. Dividend 100 Index was 7.04% per year, with a 4.76% outperformance over its benchmark; the total return of the index, which assumes theoretical reinvestment of dividends, was 10.73% per year, outperforming the benchmark by 6.66% (see Exhibit 2).¹

The difference between the total return and the price return is represented by the dividend paid out, although the effect is a bit magnified due to capital appreciation of the theoretical reinvested dividend portion. For the Dow Jones U.S. Dividend 100 Index and the Dow Jones U.S. Broad Stock Market Index, the difference is 3.69% and 1.90%, respectively. The Dow Jones U.S. Dividend 100 Index has had a better yield over time, indicating that the strategy has identified and weighted the companies that maintained or increased their dividend payouts. Besides that, the strategy has held on to its constituents long enough so the yields have been hypothetically received, rather than only seen on paper.

¹ Note that the Dow Jones U.S. Dividend 100 Index was launched on Aug. 31, 2011. The foregoing information is based on back-tested data.

Exhibit 2: Risk/Return Profiles				
ANNUAL RETURN (%)	DOW JONES U.S. DIVIDEND 100 INDEX		DOW JONES U.S. BROAD STOCK MARKET INDEX	
	TOTAL RETURN	PRICE RETURN	TOTAL RETURN	PRICE RETURN
3-Year	12.05	8.52	11.10	8.92
5-Year	15.92	12.35	15.54	13.29
7-Year	14.64	11.10	13.48	11.25
10-Year	10.65	7.01	8.67	6.50
15-Year	12.20	8.53	10.41	8.31
Dec. 31, 1998-Dec. 29, 2017	10.73	7.04	6.66	4.76
ANNUAL VOLATILITY (%)				
3-Year	9.58	9.53	10.22	10.19
5-Year	9.28	9.24	9.75	9.72
7-Year	9.39	9.40	11.08	11.07
10-Year	14.08	14.10	15.51	15.51
15-Year	12.39	12.40	13.67	13.67
Dec. 31, 1998-Dec. 29, 2017	13.38	13.37	14.83	14.82
RISK ADJUSTED RETURN				
3-Year	1.26	0.89	1.09	0.88
5-Year	1.72	1.34	1.59	1.37
7-Year	1.56	1.18	1.22	1.02
10-Year	0.76	0.50	0.56	0.42
15-Year	0.98	0.69	0.76	0.61
Dec. 31, 1998-Dec. 29, 2017	0.80	0.53	0.45	0.32
MAXIMUM DRAWDOWN (%)				
Dec. 31, 1998-Dec. 30, 2017	-44.47	-47.44	-50.84	-52.34

Source: S&P Dow Jones Indices LLC. Data as of Dec. 29, 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.

The Dow Jones U.S. Dividend 100 Index shows reduced risk, as measured by volatility and drawdown.

The back-tested data in Exhibit 2 show that the [Dow Jones U.S. Dividend 100 Index](#)'s total returns outperformed the benchmark over the past 3, 7, 10, 15, and 18 years. For the five-year period, however, it was not able to outperform the benchmark. The Dow Jones U.S. Dividend 100 Index showed reduced risk, as measured by volatility and drawdown. As a result, the historical outperformance may be considered higher in terms of risk-adjusted return. For the period between Dec. 31, 1998, and Dec. 29 2017, the risk-adjusted return (the ratio of annual return to annual volatility) of the index was 0.80, which was almost double that of the benchmark. We believe this effect may come from the defensive nature of the income strategy and the quality tilt that are uniquely carried by the Dow Jones U.S. Dividend 100 Index.

The Dow Jones U.S. Dividend 100 Index's focus on quality of dividend payers and dividend growth has resulted in a fairly uniform distribution of

names across sectors over time. As noted before, this may be considered a desirable characteristic in the backdrop of rising rates.

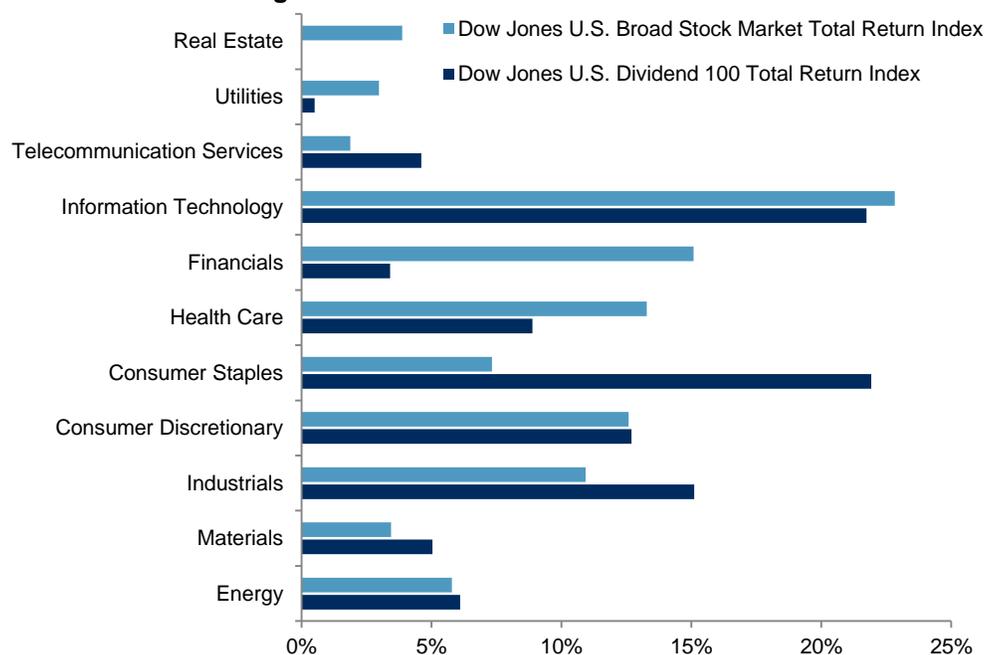
As noted earlier, the turnover for the [Dow Jones U.S. Dividend 100 Index](#) over the 10-year period was 25% annually on average, which is a fairly moderate rate (see Exhibit 3).

Exhibit 3: Index Characteristics		
INDEX FUNDAMENTALS	DOW JONES U.S. DIVIDEND 100 INDEX	DOW JONES U.S. BROAD STOCK MARKET INDEX
Dividend Yield (%)	2.85	1.80
ROE Trailing	0.25	0.11
Number of Constituents	97	2507
CONSTITUENT MARKET CAP (USD MILLIONS)		
Mean Total Market Cap	55,727.66	11,731.37
Largest Total Market Cap	659,906.03	868,879.62
Smallest Total Market Cap	370.55	64.06
Median Total Market Cap	13,244.47	2,392.61
COMPONENT WEIGHT (%)		
Weight Largest Constituents (%)	4.69	3.15
Weight Top 10 Constituents (%)	44.58	16.43
TURNOVER RATE (%)		
Turnover Rate at March 2016 Rebalancing	18.53	-
Turnover Rate at March 2017 Rebalancing	8.32	-

Source: S&P Dow Jones Indices LLC. Data as of Dec. 29, 2017. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

The Dow Jones U.S. Dividend 100 Index’s focus on quality of dividend payers and dividend growth has resulted in a fairly uniform distribution of names across sectors over time.

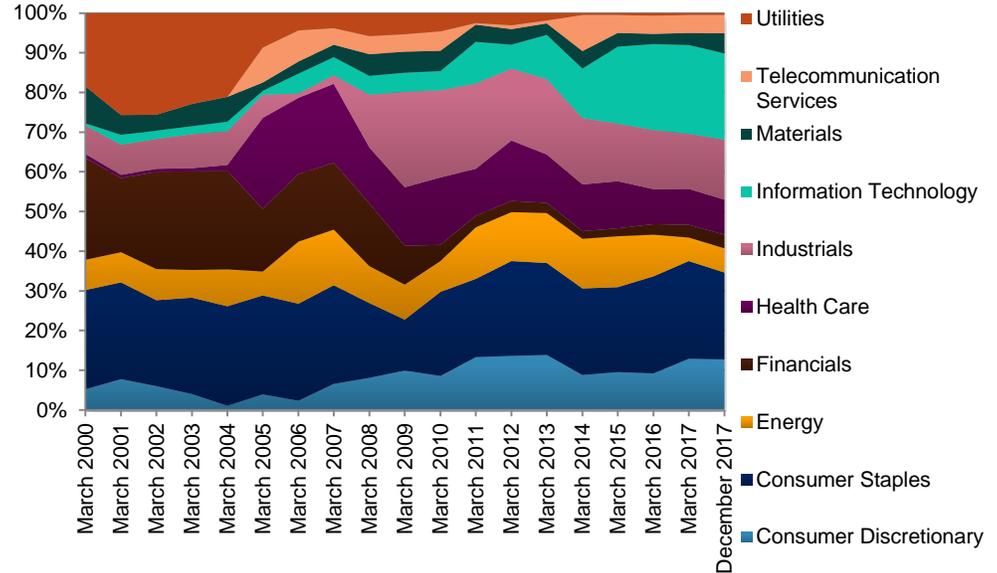
Exhibit 4: Sector Weights



Source: S&P Dow Jones Indices LLC. Data as of Dec. 29, 2017. Chart is provided for illustrative purposes.

Exhibit 5: Historical Sector Weights of the Dow Jones U.S. Dividend 100 Index

The Dow Jones U.S. Dividend 100 Index is designed to measure dividend payers in the U.S. market by focusing on quality and dividend growth.



Source: S&P Dow Jones Indices LLC. Data from March 31, 2000, to Dec. 29, 2017. Chart is provided for illustrative purposes.

Exhibit 6: Historical Annual Turnover of the Dow Jones U.S. Dividend 100 Index

YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Turnover (%)	44.5	26.7	27.0	31.0	20.9	15.7	25.0	15.8	23.3	15.4

Source: S&P Dow Jones Indices LLC. Data as of Dec. 29, 2017. Table is provided for illustrative purposes.

The [Dow Jones U.S. Dividend 100 Index](#) is designed to measure dividend payers in the U.S. market by focusing on quality and dividend growth. These characteristics are important in an environment where interest rates are on the move and are expected to continue upward. The modified market capitalization weighting approach used by the index also provides the index with a higher capacity and reduced turnover rate when compared with other alternatively weighted strategies.

PERFORMANCE DISCLOSURE

The Dow Jones U.S. Dividend 100 Index was launched on August 31, 2011. 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).

GENERAL DISCLAIMER

Copyright © 2018 by S&P Dow Jones Indices LLC, a part of S&P Global. All rights reserved. Standard & Poor's®, S&P 500® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global. Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Trademarks have been licensed to S&P Dow Jones Indices LLC. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. All information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Dow Jones Indices keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Dow Jones Indices may have information that is not available to other business units. S&P Dow Jones Indices has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.