

The Case for Technology Dividend Growers

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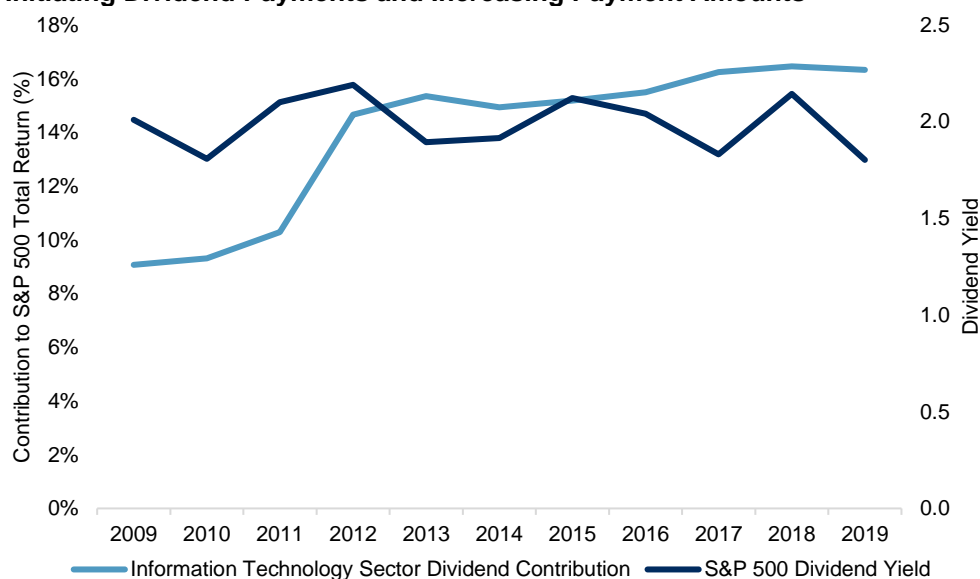
Strategy and Volatility Indices

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It was once thought that companies from the Information Technology sector do not pay dividends. While this may have been the trend a long time ago, it certainly has not been for the last decade. Over the past 10 years, within the Information Technology sector of the [S&P 500®](#), 26 companies initiated dividend payments and 59 companies increased their dividends at various points throughout those years, for a total of 376 dividend increases in the sector.

During the same period, with an increasing number of Information Technology companies paying dividends, the contribution to S&P 500 total return by these companies rose from 9.07% in 2009 to 16.33% in 2019 (see Exhibit 1).

Exhibit 1: More Companies in the Information Technology Sector Are Initiating Dividend Payments and Increasing Payment Amounts



Source: S&P Dow Jones Indices LLC. Data from December 2009 to December 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

This change in the Information Technology sector creates a need to measure the performance of its dividend growers. To do this, S&P Dow Jones Indices recently launched the [S&P Technology Dividend Aristocrats® Index](#), which seeks to track the performance of Tech companies that have a history of consistently increasing dividends.

INDEX CONSTRUCTION

There was a total of 376 dividend increases from companies in the Information Technology sector of the S&P 500 over the past 10 years.

The underlying universe for the S&P Technology Dividend Aristocrats Index is the [S&P Total Market Index \(TMI\)](#). Using the S&P TMI as its universe, the index then selects securities in the Information Technology sector or in the following three sub-industries: Internet & Direct Marketing Retail, Interactive Home Entertainment, and Interactive Media & Services (collectively referred to as Tech companies).

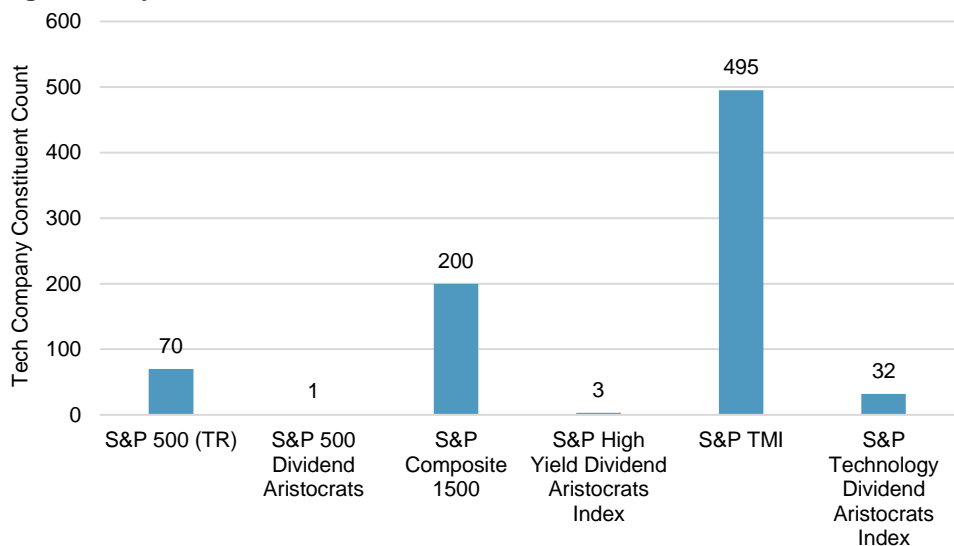
These criteria allow for changes over time, bringing in names from the Consumer Staples and Consumer Discretionary sectors when appropriate. By including firms outside the Information Technology sector, the index can capture the performance of a broader group of technology-focused companies.

To be in any S&P Dividend Aristocrats Index, a constituent must have consistently increased or maintained dividends for a set minimum number of years. For the S&P Technology Dividend Aristocrats Index, this requirement is seven years. Exhibit 2 shows that, in the past, there were significantly fewer Tech names in the [S&P 500 Dividend Aristocrats](#) relative to the S&P 500. In addition, many Tech companies in other Dividend Aristocrats base universes were screened out of the respective indices because they did not meet this requirement.

As the Tech industry matures, more companies are consistently paying out dividends. Adjusting the dividend policy to accommodate newer Tech names enables the index to gain more income from these companies.

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Exhibit 2: The S&P Dividend Aristocrats Index Series Selection Criteria Significantly Reduce the Number of Tech Constituents



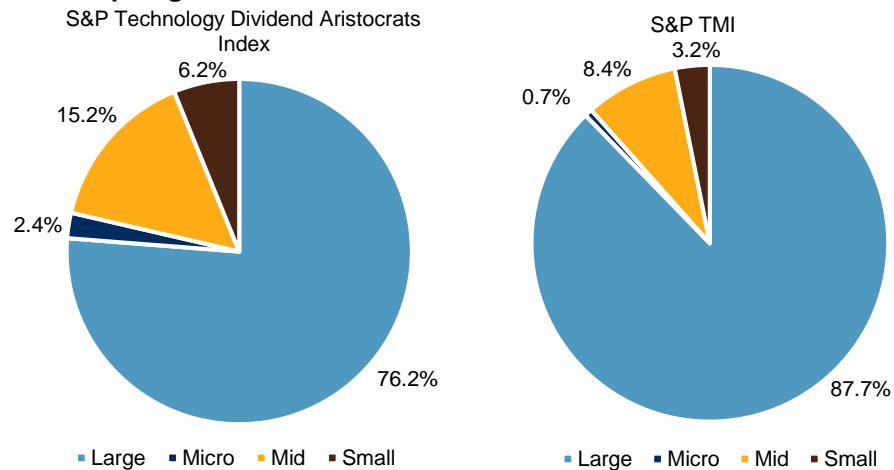
As the Tech industry matures, more companies are consistently paying out dividends.

Source: S&P Dow Jones Indices LLC. Data as of December 2019. 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 Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The S&P Technology Dividend Aristocrats Index uses an equal-weighting methodology.

The S&P Technology Dividend Aristocrats Index uses an equal-weighting methodology. This prevents concentration risk caused by larger market cap names. However, because of its alternative weighting method, the S&P Technology Dividend Aristocrats Index has more size diversity than does its benchmark index. While the S&P TMI has nearly 88% of its weight in large caps, 8.4% in mid caps, and 3.2% in small caps, the S&P Technology Dividend Aristocrats Index has lower weight in large caps (76.2%) and nearly double the exposure to mid caps (15.2%) and to small caps (6.2%; see Exhibit 3).

Exhibit 3: S&P Technology Dividend Aristocrats Index Allocates across Market Cap Segments



The S&P Technology Dividend Aristocrats Index has more size diversity than does its benchmark index.

Source: S&P Dow Jones Indices LLC. Data as of December 2019. Charts are provided for illustrative purposes.

PERFORMANCE STATISTICS

Exhibit 4 shows the potential benefit of focusing on Tech companies. With lower volatility and higher dividend yields, the S&P Technology Dividend Aristocrats Index provided similar risk-adjusted returns to the companies from the S&P TMI that are classified in the Information Technology sector over three- and five-year horizons. The risk/return profile also compared favorably with the widely followed S&P 500 Dividend Aristocrats.

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Exhibit 4: The S&P Technology Dividend Aristocrats Index Offered a Similar Risk/Return Profile and Higher Dividend Yield than the Information Technology Sector			
PERIOD	S&P TECHNOLOGY DIVIDEND ARISTOCRATS INDEX	S&P TMI INFORMATION TECHNOLOGY	S&P 500 DIVIDEND ARISTOCRATS
ANNUALIZED RETURN (%)			
1-Year	33.52	48.82	27.97
3-Year	17.84	27.00	14.86
5-Year	17.01	19.62	11.33
Cumulative	17.23	20.04	13.13
ANNUALIZED RISK (%)			
3-Year	15.06	15.88	11.15
5-Year	14.59	15.93	11.01
Cumulative	13.94	14.98	10.60
RISK-ADJUSTED RETURN			
3-Year	1.18	1.70	1.33
5-Year	1.17	1.23	1.03
Cumulative	1.24	1.34	1.24
DIVIDEND YIELD (%)			
Indicated	2.00	1.26	2.40

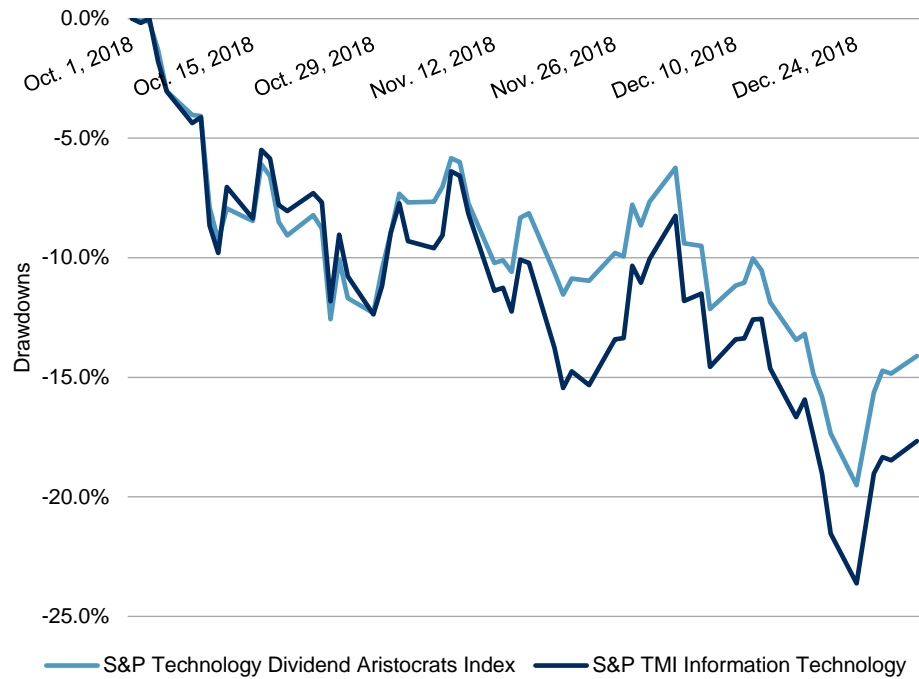
Source: S&P Dow Jones Indices LLC. Data from January 2014 to December 2019. Index performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Its risk/return profile also compared favorably with the widely followed S&P 500 Dividend Aristocrats Index.

Given the results in Exhibit 4, it is perhaps unsurprising that the S&P Technology Dividend Aristocrats Index experienced lower volatility and lower drawdowns during a recent period of market turbulence. For example, the maximum drawdown for the S&P Technology Dividend Aristocrats Index (-19.5%) during Q4 2018 was less than that for the S&P TMI Information Technology (-23.6%). Exhibit 5 provides us with a more detailed view of the daily drawdown for this period.

Exhibit 5: The S&P Technology Dividend Aristocrats Index Was Relatively Insulated during Q4 2018

The S&P Technology Dividend Aristocrats Index experienced lower volatility and lower drawdowns during a recent period of market turbulence.



The S&P Technology Dividend Aristocrats Index can be complementary to the S&P 500 Dividend Aristocrats...

Source: S&P Dow Jones Indices LLC. Data from October 2018 to December 2018. 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 Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

INCORPORATING TECH INTO A PORTFOLIO

The S&P Technology Dividend Aristocrats Index can be complementary to the S&P 500 Dividend Aristocrats, as the latter tends to be underweight in the Information Technology sector relative to the S&P 500—as of Dec. 31, 2019, the S&P 500 Dividend Aristocrats was 20% underweight in Information Technology (see Exhibit 6). Given the growing importance of Tech companies in driving S&P 500 returns, the S&P Technology Dividend Aristocrats Index ensures relevant allocation to the broader sector.

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There is a growing importance of Tech companies in driving S&P 500 returns.

The S&P Technology Dividend Aristocrats Index ensures relevant allocation to the Tech sector.

Exhibit 6: Sector Composition Shows Opportunity to Achieve Higher Tech Exposure

SECTOR	S&P TECHNOLOGY DIVIDEND ARISTOCRATS INDEX (%)	S&P TMI (%)	S&P 500 DIVIDEND ARISTOCRATS (%)	S&P 500 (%)
Communication Services	3.0	9.5	1.8%	10.4
Consumer Discretionary	2.4	10.0	10.9%	9.8
Consumer Staples	-	6.5	22.6%	7.2
Energy	-	4.0	3.4%	4.3
Financials	-	13.7	11.8%	13.0
Health Care	-	14.1	10.9%	14.2
Industrials	-	9.8	23.1%	9.1
Information Technology	94.6	22.3	1.7%	23.2
Materials	-	2.9	10.7%	2.7
Real Estate	-	4.0	1.5%	2.9
Utilities	-	3.2	1.6%	3.3

Source: S&P Dow Jones Indices LLC. Data as of December 2019. 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 Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Incorporating the S&P Technology Dividend Aristocrats Index in a portfolio with an existing allocation to the S&P 500 Dividend Aristocrats could provide greater diversification benefits. Exhibit 7 shows the back-tested returns of a hypothetical portfolio that allocates 80% to the S&P 500 Dividend Aristocrats and 20% to the S&P Technology Dividend Aristocrats Index. These weights were chosen to ensure a 20% weight in Tech companies for the portfolio, so that when combined with the S&P 500 Dividend Aristocrats, the weight of Tech companies is equivalent to that of the broad market. We can see that combining the two Dividend Aristocrats strategies in a single hypothetical index resulted in a better risk/return profile than either individual index in the long term.

Combining the two Dividend Aristocrats strategies in a single index resulted in a better risk/return profile than either individual index in the long term.

Exhibit 7: Performance Comparison			
PERIOD	S&P TECHNOLOGY DIVIDEND ARISTOCRATS INDEX	S&P 500 DIVIDEND ARISTOCRATS	80% S&P 500 DIVIDEND ARISTOCRATS/ 20% S&P TECHNOLOGY DIVIDEND ARISTOCRATS INDEX
ANNUALIZED RETURN (%)			
1-Year	33.52	27.97	32.43
3-Year	17.84	14.86	17.27
5-Year	17.01	11.33	15.90
Cumulative	17.23	13.13	16.45
ANNUALIZED RISK (%)			
3-Year	15.06	11.15	13.96
5-Year	14.59	11.01	13.55
Cumulative	13.94	10.60	12.95
RISK-ADJUSTED RETURN			
3-Year	1.18	1.33	1.24
5-Year	1.17	1.03	1.17
Cumulative	1.24	1.24	1.27

The 80% S&P 500 Dividend Aristocrats/20% S&P Technology Dividend Aristocrats Index is a hypothetical portfolio. This hypothetical performance rebalances quarterly. Source: S&P Dow Jones Indices LLC. Data from January 2014 to December 2019. 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 Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

FACTOR EXPOSURES

Because the S&P Dividend Aristocrats Indices require constituents to have increasing dividend payments over the long term, they tend to have strong quality bias and stable yield. Exhibit 8 shows the average active exposures of the S&P Technology Dividend Aristocrats Index, S&P 500 Dividend Aristocrats, and the S&P TMI Information Technology compared with the S&P TMI. As proxies for quality, we use profitability and leverage, two of the three metrics that determine an overall quality score.

The S&P Technology Dividend Aristocrats Index and the S&P TMI Information Technology showed similar profitability and leverage exposures, but the difference between their dividend yield exposures was significant. While the dividend yield exposure for the S&P Technology Dividend Aristocrats Index was positive (0.17), it was negative for the S&P TMI Information Technology (-0.22), indicating that there could be an income advantage in selecting the dividend-paying Tech names from the S&P TMI. Meanwhile, the S&P 500 Dividend Aristocrats showed a higher tilt toward all three factors relative to the S&P TMI.

The S&P Dividend Aristocrats Indices tend to have strong quality bias and stable yield.

Exhibit 8: Average Factor Exposures of the S&P Technology Dividend Aristocrats Index Show Quality and Income Characteristics

METRIC	S&P TECHNOLOGY DIVIDEND ARISTOCRATS INDEX	S&P 500 DIVIDEND ARISTOCRATS	S&P TMI INFORMATION TECHNOLOGY
Profitability	0.12	0.12	0.16
Leverage	-0.29	0.09	-0.27
Dividend Yield	0.17	0.34	-0.22

Source: S&P Dow Jones Indices LLC. Data from January 2014 to December 2019. 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 Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The S&P Technology Dividend Aristocrats Index enables dividend-focused investors to allocate to the Tech sector while maintaining growth and value characteristics.

CONCLUSION

The S&P Technology Dividend Aristocrats Index is designed to measure the performance of Tech companies that have a history of rising dividends. The performance of the index shows that it has historically had lower volatility and higher dividend yields than the broader sector, along with a similar risk/return profile. The index enables dividend-focused market participants to allocate to Tech companies while maintaining growth and value characteristics.

PERFORMANCE DISCLOSURE

The S&P Technology Dividend Aristocrats Index was launched October 7, 2019. 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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