Insights
Dividend Investing

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Dividend Aristocrats
Quality Income for Investors

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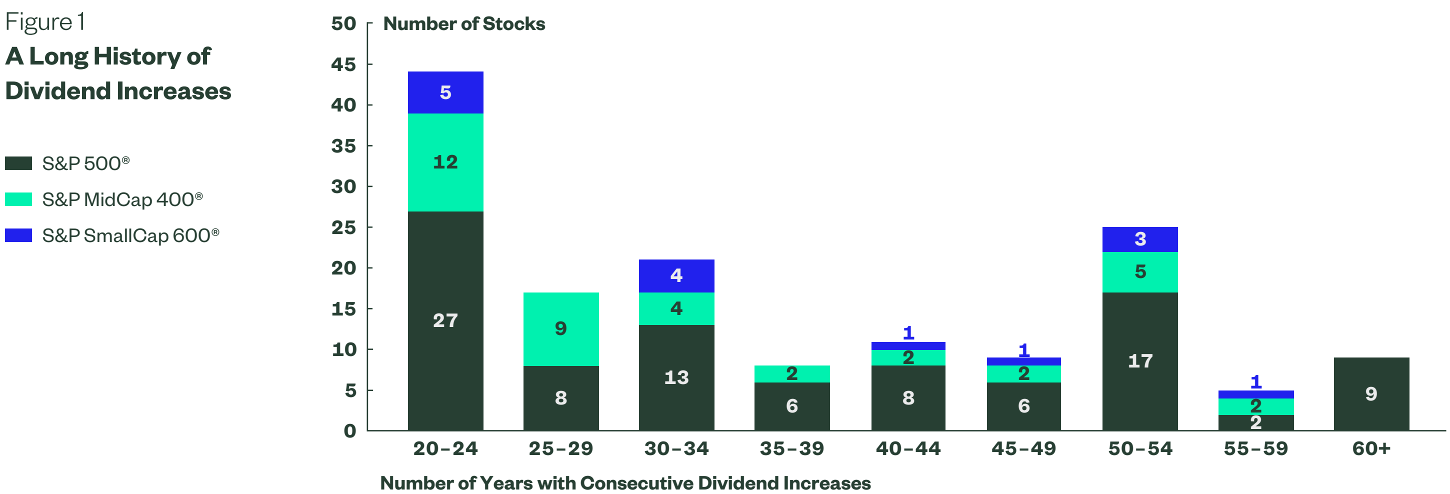
ETFs are used for both strategic and tactical investments. In both circumstances, investors should consider these 3 reasons to allocate to a Dividend Aristocrats® strategy.

1. Quality Income
2. Sector Diversification
3. Defensive Exposure

The most important thing to understand about the SPDR family of dividend exchange traded funds ("ETFs") is what makes a company a "Dividend Aristocrat". Dividend Aristocrats® are companies with a track record of paying regular cash dividends to investors, uninterrupted. Specific track records vary across regions. In US equities, an aristocrat must have increased the total dividend per share amount every year for at least 20 consecutive years. The S&P High Yield Dividend Aristocrats® Index, the US equity index tracked by our SPDR® S&P® U.S. Dividend Aristocrats UCITS ETF, had 149 stocks as of its most recent rebalance reference date. The aristocrats index averages 37 years of uninterrupted dividend increases (Figure 1).[1]

Figure 1
A Long History of Dividend Increases



Source: S&P Dow Jones Indices LLC, as of 3 February 2025. Chart is provided for illustrative purposes.

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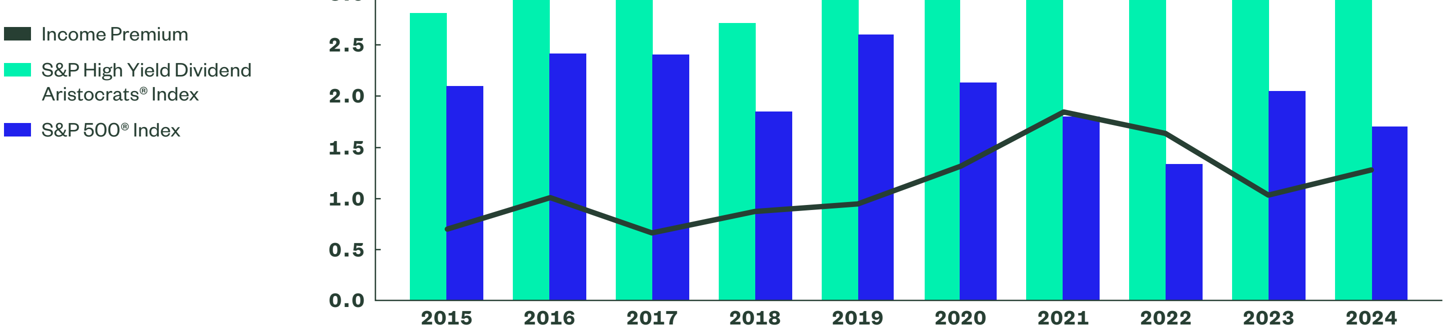
Quality Income

Dividends allow shareholders to realise a portion of company earnings over time. As a strategic allocation, distributions help deliver a relatively consistent return (Figure 2), provided they can be relied upon to deliver a stable income premium. One criticism of dividends is that they take away capital which could otherwise be used to reinvest into the business. In committing to regular distributions, management teams are in a sense holding themselves accountable to shareholders. To establish a sustained track record of paying regular cash dividends, a company needs to; generate top line earnings, effectively manage existing operations and invest prudently in future growth. Failure in any one of these areas can threaten a company's ability to distribute cash to investors. This is fundamentally why the Dividend Aristocrats® approach focuses on a long term track record of paying regular cash dividends. **Quality income is a long history of sustained income premium.**

Figure 2
Dividend Income Impact



Source: Bloomberg Finance L.P., as of 31 January 2025. **Past performance is not a reliable indicator of future performance.** It is not possible to invest directly into an index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

There are many approaches to dividend investing. Some strategies focus exclusively, or with factor overlays, on the highest yielding stocks. Others will take the approach of targeting stocks which have been able to grow dividends in the near term. The final approach is a sector neutral dividend strategy. There are merits and risks to any specific strategy. Dividend Aristocrats® is exceptional in its unique approach to stock selection.

Figure 3
Dividend Index Methodologies Matrix
(US Equities)

US Equities	Dividend Aristocrats®	High Dividend Yield	Sector Neutral Dividend	Select Dividend	Dividend Growth
Stock Selection	Select stocks which have increased dividend every year for at least 20 consecutive years	Select stocks with at least a 30% higher dividend yield and pass dividend sustainability screens	Screen stocks for below average quality, rank stocks by size-adjusted high dividend score and optimise for sector-neutrality	Select stocks with dividend above the 5-year average	Select top 300 stocks by a combined three factor growth ranking
Weighting Scheme	Dividend yield weighted (4% stock cap)	Market-capitalisation weighted (5% stock cap)	Equal-active weight factor within sector (sector neutral with momentum screen)	Dividend yield weighted (10% stock cap, 30% sector cap, turnover consideration)	Dividend yield weighted (5% stock cap, 20% sector cap, factor consideration)
Holdings Concentration	Floating	Floating	Target 125	Target 100	Target 300
Rebalance Frequency	Annual (quarterly review and conditional monthly reviews[2])	Semi-Annual	Annual (conditional monthly review)	Annual (quarterly review)	Annual

Source: S&P Dow Jones Indices, MSCI, Fidelity, as of 31 January 2025. The information contained above is for illustrative purposes only.

The ethos behind dividend aristocrats' quality income approach, is the focus on track record in stock selection. Additional components of the methodology (e.g., weighting scheme and holdings concentration) will help influence the specific exposure, in each geographic region. Within the US equity universe, the methodology historically results in an exposure with strong sector diversification and a defensive bias. These characteristics help promote Dividend Aristocrats® as an ideal allocation in a broader investor portfolio.

Sector Diversification

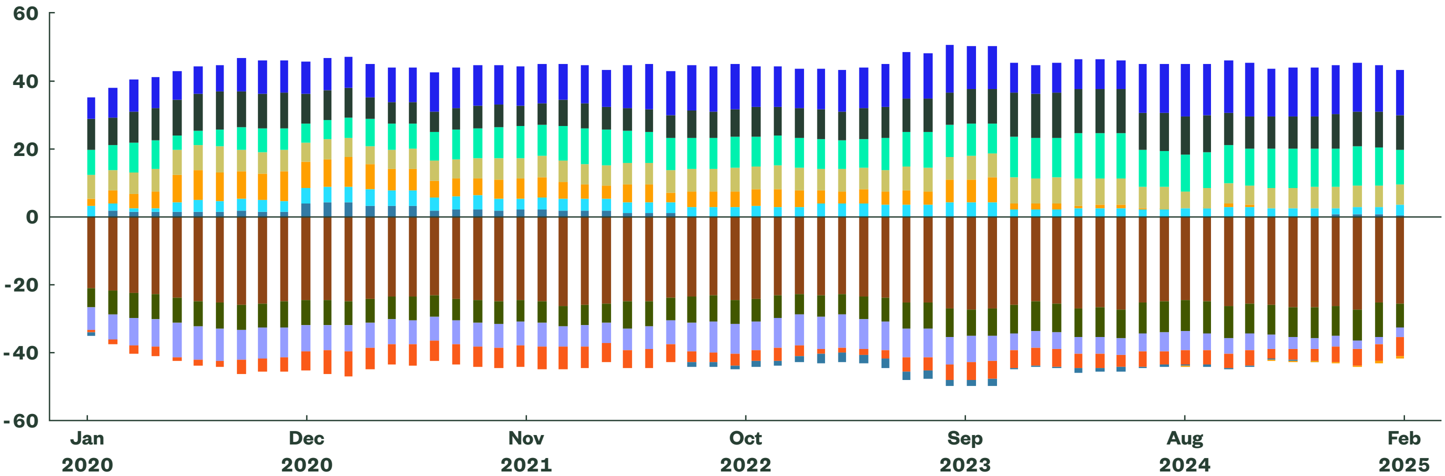
Investors often use ETFs to introduce a specific exposure into their portfolio, since they are both efficient and transparent. ETFs give investors the ability access a broad exposure in a single trade. ETF liquidity is available at intraday pricing, in both primary and secondary exchange channels. The index methodology and specific holdings of an ETF are usually publicly available for investors.[3] The combination of efficient access and transparent exposure elevate the ETF as an effective trading tool in portfolio management. With this in mind, investors should take caution to ensure that the index methodology behind any ETF delivers their desired exposure.

Dividend Aristocrats® take a relatively unconstrained approach to yield factor investing. While some sensible diversification constraints are applied, the aristocrats strategies are given the flexibility to *'go where they need'* in seeking quality income. This can potentially mean strong sector bias, as has been the case historically (Figure 4). Aristocrats strategies do not target specific sectors in stock selection, but the criteria can result in structural sector bias inherent within each geographic region. We view this as a critical feature of the index methodology.

Figure 4

Active Sector Allocation

(Last 5 Years)



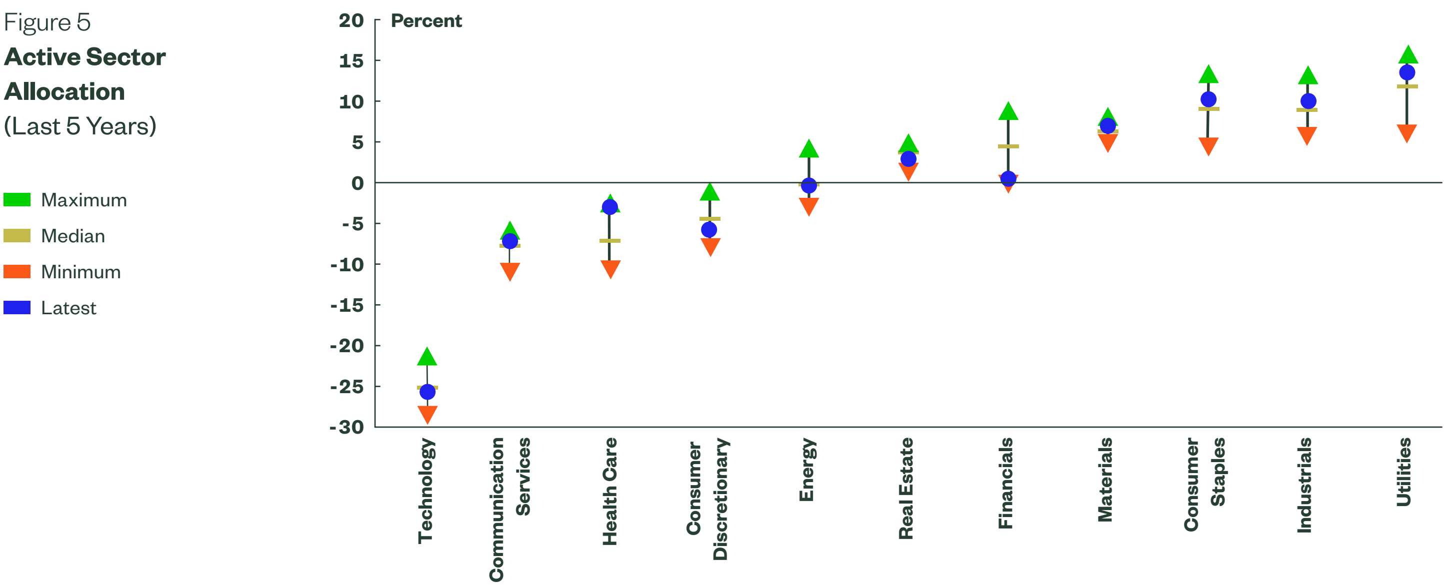
Source: FactSet, as of 3 February 2025. This information should not be considered a recommendation to invest in a particular sector, country or to buy or sell any security shown. It is not known whether the sectors, countries or securities shown will be profitable in the future. Holdings and Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Diversification does not ensure a profit or guarantee against loss.

The long term focus of Dividend Aristocrats® produces a strategy which can be relatively low turnover. Turnover is driven by the strength of the dividend threshold and concentration of the index. In US equities, companies *'do not establish a 20 year track record overnight'* and the index concentration is floating. This means there is no target constituent count and all stocks which meet the selection criterion will be included in the index. While the strategies do exhibit structural sector bias, the specific active weights have varied over time, with some range bands spanning between over- and underweight (Figure 5).

Figure 5

Active Sector Allocation

(Last 5 Years)



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With many approaches to dividend investing (Figure 3), investors should consider how each strategy would impact their overall portfolio exposure. Evaluating how each dividend index methodology correlates and covaries with other allocations in the portfolio is critical. The exceptionality of the Dividend Aristocrats® approach can result in introducing a more complementary exposure, as is evidenced by the higher active share. Within the US equity universe, alternatives tend to produce an exposure with higher market beta. The high yield and sector neutral approaches make this an explicit outcome of the weighting scheme. The two largest stocks in the S&P 500® Index are also the largest holdings in many of the alternative index approaches to dividend investing (Figure 6).

Figure 6
Dividend Index Concentration

Top 5 Stocks
(by Index Weight)

Dividend Aristocrats®		High Dividend Yield*		Sector Neutral Dividend		Dividend Growth		Select Dividend		S&P 500® (Market Benchmark)	
VZ	2.82%	NVDA	4.74%	AAPL	6.98%	MSFT	7.73%	MO	3.15%	AAPL	6.79%
O	2.45%	AAPL	4.70%	NVDA	6.40%	AAPL	4.91%	T	2.34%	MSFT	6.02%
CVX	1.78%	MSFT	3.69%	MSFT	6.38%	XOM	3.89%	PM	2.10%	NVDA	5.64%
ABBV	1.70%	IBM	3.01%	AVGO	2.57%	GOOGL	3.59%	IP	2.09%	AMZN	4.38%
ED	1.62%	HD	2.84%	V	1.82%	NVDA	3.17%	CFG	2.01%	GOOGL	4.22%
Total Active Share (Stocks)		**Total Active Share (Stocks)**		**Total Active Share (Stocks)**		**Total Active Share (Stocks)**		**Total Active Share (Stocks)**			
84.8% (149)		**74.2% (97)**		**60.5% (99)**		**54.1% (304)**		**91.5% (98)**		**503 Stocks**	

Source: Bloomberg Finance L.P., as of 3 February 2025. Holdings and Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Referenced stocks are Verizon Communications (VZ), Realty Income Corp (O), Chevron Corp (CVX), AbbVie Inc (ABBV), Consolidated Edison Inc (ED), NVIDIA Corp (NVDA), Apple Inc (AAPL), Microsoft Corp (MSFT), IBM Corp (IBM), Home Depot (HD), Broadcom Inc (AVGO), Visa Inc (V), Exxon Mobil (XOM), Alphabet Inc (GOOGL), Altria Group (MO), AT&T Inc (T), Philip Morris International (PM), International Paper (IP), Citizens Financial Group (CFG), and Amazon.com Inc (AMZN).
*Advanced Select Index

The relatively unconstrained approach to Dividend Aristocrats® aims to give investors a truly complementary exposure of quality income in the portfolio. The sector biases which result from selecting for a strong dividend track record, is often the key consideration for clients seeking diversification from their market capitalisation ("market cap") weighted benchmark. A similar condition applies to factor tilts for investors seeking to add a defensive exposure to the portfolio.

Defensive Exposure

The past 10 years have been a particularly strong environment for growth stocks. Growth stocks typically command a higher price to earnings multiple. Meaning they are expected to benefit from lower interest rates, since rates are used as the discounting mechanism in stock valuations. Conversely, an increase in interest rates and decrease in market sentiment will put pressure on the earnings' multiples of stocks. The central bank heterodoxy of modern monetary theory, aided by a process referred to as quantitative easing, have led to an environment of structurally low interest rates. Within US equities, the market cap benchmarks have benefitted from becoming more concentrated in growth stocks. While dividend (and value[4]) strategies have broadly lagged in this environment, Dividend Aristocrats® have been able to maintain relative outperformance in down markets (Figure 7).

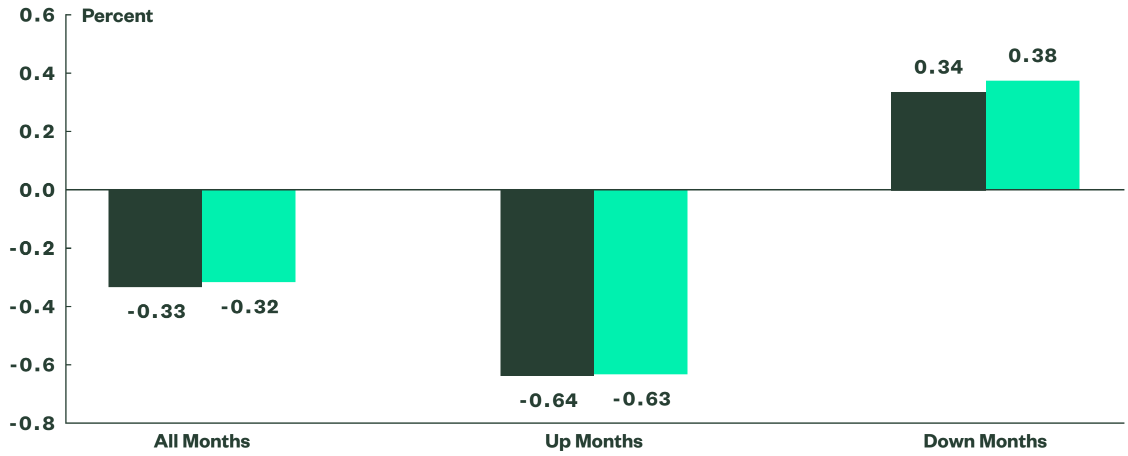
Figure 7

Average Historical Excess Returns

(Last 10 Years)

S&P High Yield Dividend Aristocrats® Index

Screened Index*



Source: Bloomberg Finance L.P., as of 31 January 2025. **Past performance is not a reliable indicator of future performance.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. *The S&P High Yield Dividend Aristocrats Screened Index was incepted on 1 March 2021. Results prior to this date were calculated by using available data at the time in accordance with the current index methodology.

Companies with sustained dividend growth over time can often be considered to be defensive investments. A growing dividend can indicate that the company is benefitting from earnings growth, in excess of new capital expenditure opportunities, or that the company's management team has built an economic moat, which is able to protect shareholders from fluctuations in the business cycle. As with sector exposure, the exceptionality of Dividend Aristocrats® criteria can result in factor tilts which vary across each geographic region. Within the US equity universe, aristocrats historically exhibit a significantly lower market risk against the market cap weighted benchmark (Figure 8).[5]

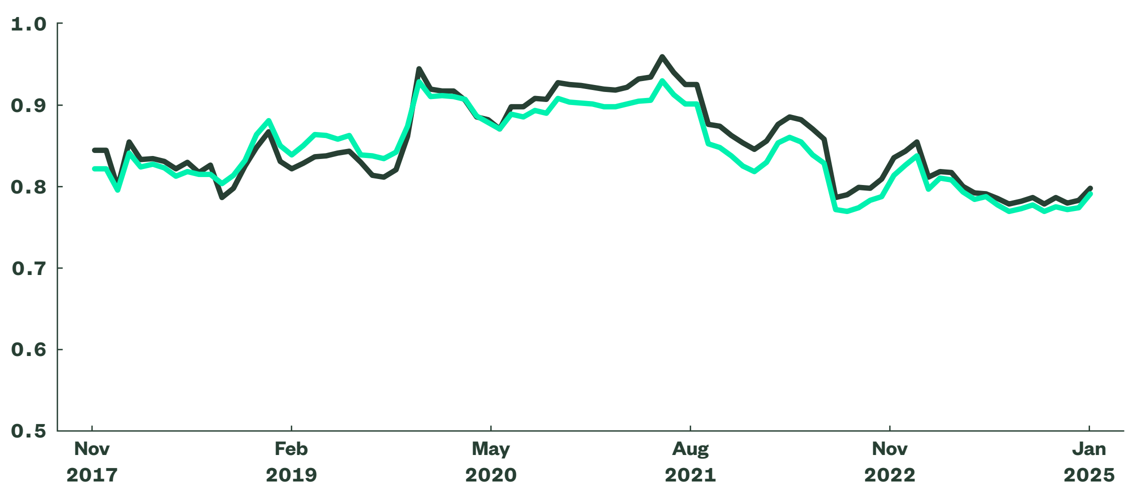
Figure 8

3-Year Rolling Market Risk

(Last 10 Years)

S&P High Yield Dividend Aristocrats® Index

Screened Index*



Source: Bloomberg Finance L.P., as of 31 January 2025. The lookback period used for Market Risk exposure was 36 months. Market Risk represents the slope of the linear regression between selected index and S&P 500 Index. **Past performance is not a reliable indicator of future performance.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable. *The S&P High Yield Dividend Aristocrats Screened Index was incepted on 1 March 2021. Results prior to this date were calculated by using available data at the time in accordance with the current index methodology.

As mentioned before, a sustained track record of paying regular cash dividends can suggest a company is balancing existing business and growth on behalf of shareholders. Companies which can maintain distributions from earnings through fluctuations in the business cycle, may command a premium in the market, over time.

Conclusion

In summary, Dividend Aristocrats® aim to offer investors an exceptional opportunity to add income to their portfolio which is quality, complementary and defensive. The aristocrats approach is quality because it has a unique focus on companies with a long term track record of paying regular cash dividends in its stock selection. This has produced a significant and stable income premium historically. The strategy is complementary because its allows for strong sector bias, produces the strongest active share and is not concentrated in the market benchmarks' largest positions. Finally, Dividend Aristocrats® has an established track record in defensiveness. The strategy historically outperforms in down markets and maintains a low overall market risk.

SPDR® ETFs offer an complete suite of UCITS ETFs tracking the S&P family of Dividend Aristocrats® indices. This includes regionally focused, screened and currency hedged exposures.

Appendix
Additional Considerations for Dividend Aristocrats®

Dividend Aristocrats® Target Dividend Stability

The primary stock selection component of the Dividend Aristocrats® family of strategies is long-term track record (5–20 consecutive years) of maintaining (or raising) the regular cash dividend delivered to shareholders.

In addition to this high standard of dividend stability for stock selection, the methodology also includes a process called *Monthly Dividend Review*, as part of the index maintenance rules. This process is designed to remove companies at month-end that meet either of the following conditions, on the applicable reference date:

- The constituent stock publicly announces a suspension or cancellation of its dividend program.
- The constituent stock lowers but does not eliminate its dividend, and its new yield is significantly lower than the lowest yielding constituent.

In the event a stock is removed as a result of the conditional monthly review, the stock is replaced at month-end (in the case of the Euro and UK strategies) or during the next annual reconstitution (US, Global, Pan Asia and Emerging Markets). The decision to remove any index constituent is with the S&P Dow Jones Indices ("S&P DJI") Index Committee.

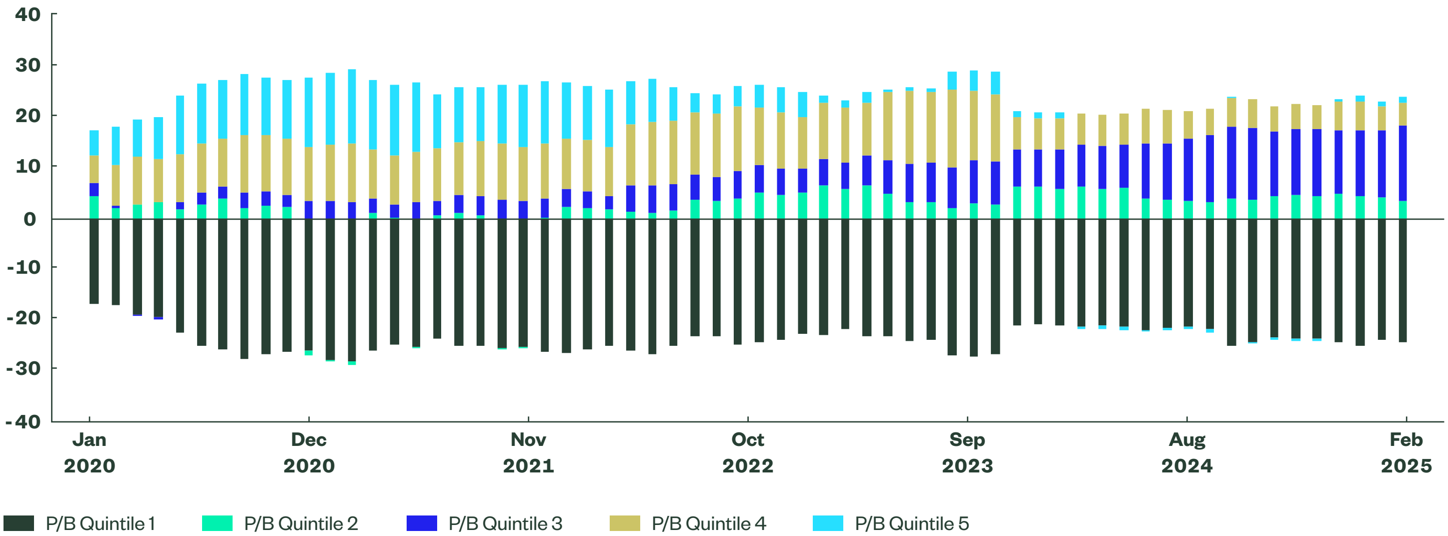
Relationship between Dividends and Value

Dividend Aristocrats® strategies are not explicitly multifactor. They are not designed to be value proxies. They may or may not exhibit strong value factor exposure based on the characteristics inherent within each, market cap weighted, selection universe. As with sector exposure, relative value can be expected to vary structurally across geographic regions and also cyclically through time (Figure 9). This unconstrained approach to value factor exposure enables the methodology flexibility to maximise yield factor exposure within an exceptional subset of dividend paying stocks.

Figure 9

Active Valuation Allocation

(Last 5 Years)



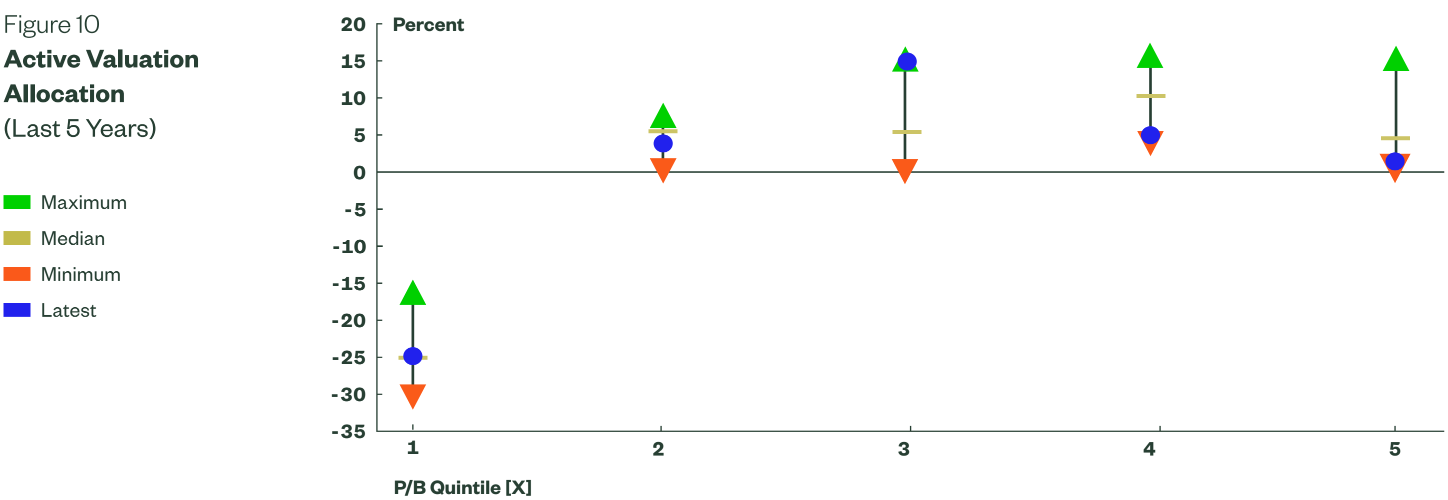
Source: FactSet, as of 3 February 2025. Active valuation is based on Price-to-Book (P/B) Quintile thresholds; Q1 (6.6–648.7x), Q2 (3.9–6.6x), Q3 (2.5–3.9x), Q4 (1.6–2.5x) and Q5 (0.3–1.6x). Holdings and Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Diversification does not ensure a profit or guarantee against loss.

Any potential premium assigned to companies maintaining dividend distributions through fluctuations in the business cycle, may themselves be cyclical in nature. We can always evaluate the magnitude of factor tilts at a given point in time against the historical context (Figure 10).

Figure 10

Active Valuation Allocation

(Last 5 Years)

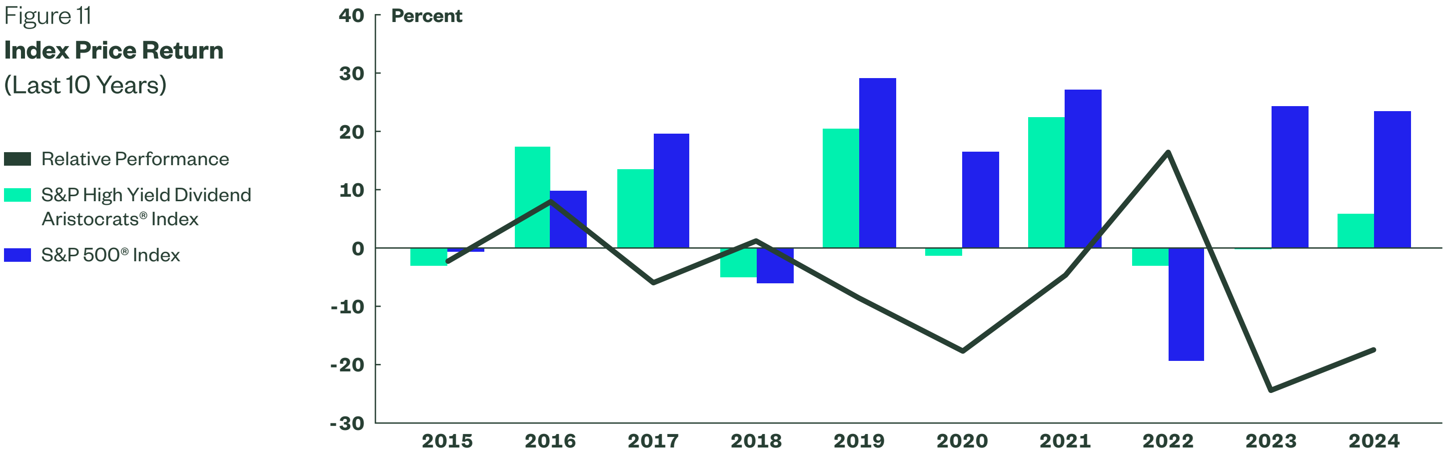


Source: FactSet, as of 3 February 2025. Active valuation is based on Price-to-Book (P/B) Quintile thresholds; Q1 (6.6–648.7x), Q2 (3.9–6.6x), Q3 (2.5–3.9x), Q4 (1.6–2.5x) and Q5 (0.3–1.6x). Holdings and Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Diversification does not ensure a profit or guarantee against loss.

Annual Index Price Return

Dividend Aristocrats® strategies carry a significant active share against their market cap weighted selection universes and market benchmark. This means that returns are heavily influenced by the macro factors influencing markets over time. Evaluating how each dividend index methodology correlates and covaries with other allocations in the portfolio is a critical. The Dividend Aristocrats® approach tends to be favoured by investors who are not seeking a market beta strategy.

Figure 11
Index Price Return
(Last 10 Years)



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 31 January 2025. **Past performance is not a reliable indicator of future performance.** It is not possible to invest directly into an index. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Endnotes

1 Rebalance reference dates are after the close of the last business day of December (for the Global, US, Pan Asia and Emerging Markets indices) and after the close of the business day of May (for the Euro and UK indices).

2 *See Dividend Aristocrats Target Dividend Stability* in the appendix for a full explanation of the conditional monthly dividend review.

3 Index providers typically publish their index methodology documents with regular cadence or when an update to an index occurs. The daily holdings of an ETF is usually made available via the fund provider's website or a third party data management service.

4 *See Relationship between Dividends and Value* in the appendix for a short evaluation of value in the context of Dividend Aristocrats® strategies.

5 Risk in this context is also often referred to as Market "*Beta*". Market Risk represents the slope of the linear regression between selected index and a market benchmark.

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The returns on a portfolio of securities which exclude companies that do not meet the portfolio's sustainable strategy criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's sustainable strategy criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.

ETFs trade like stocks, are subject to investment risk and will fluctuate in market value. The investment return and principal value of an investment will fluctuate in value, so that when shares are sold or redeemed, they may be worth more or less than when they were purchased. Although shares may be bought or sold on an exchange through any brokerage account, shares are not individually redeemable from the fund. Investors may acquire shares and tender them for redemption through the fund in large aggregations known as "creation units." Please see the fund's prospectus for more details.

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Investing involves risk including the risk of loss of principal.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Investing in foreign domiciled securities may involve risk of capital loss from unfavourable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Concentrated investments in a particular sector or industry tend to be more volatile than the overall market and increases risk that events negatively affecting such sectors or industries could reduce returns, potentially causing the value of the Fund's shares to decrease.

A Smart Beta strategy does not seek to replicate the performance of a specified cap-weighted index and as such may underperform such an index. The factors to which a Smart Beta strategy seeks to deliver exposure may themselves undergo cyclical performance. As such, a Smart Beta strategy may underperform the market or other Smart Beta strategies exposed to similar or other targeted factors. In fact, we believe that factor premia accrue over the long term (5–10 years), and investors must keep that long time horizon in mind when investing.

The value style of investing that emphasises undervalued companies with characteristics for improved valuations, which may never improve and may actually have lower returns than other styles of investing or the overall stock market.

Low volatility funds can exhibit relative low volatility and excess returns compared to the Index over the long term; both portfolio investments and returns may differ from those of the Index. The fund may not experience lower volatility or provide returns in excess of the Index and may provide lower returns in periods of a rapidly rising market. Active stock selection may lead to added risk in exchange for the potential outperformance relative to the Index.

Companies with large market capitalisations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalisations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalisations. Investments in small/mid-sized companies may involve greater risks than in those of larger, better known companies.

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Note that the Management Company may decide to terminate the arrangements made for marketing and proceed with de-notification in compliance with Article 93a of Directive 2009/65/EC.

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