

Factor focus:

Yield

In the realm of investing, a factor is any characteristic that helps explain the long-term risk and return performance of an asset. MSCI Factor Indexes are designed to capture the return of factors which have historically demonstrated excess market returns over the long run.

MSCI Factor Indexes are rules-based, transparent indexes targeting stocks with favorable factor characteristics – as backed by robust academic findings and empirical results – and are designed for simple implementation, replicability, and use for both traditional indexed and active mandates.

Defining Yield

A yield (or high dividend yield) investment strategy gains exposure to companies that appear undervalued and have demonstrated stable and increasing dividends. However, a naïve high-yielding equity strategy can be exposed to various “yield traps,” such

as those stemming from temporarily high earnings, high payouts or falling stock prices.

The MSCI High Dividend Yield Indexes focus on high dividend yield companies, but exclude companies that do not demonstrate dividend sustainability, dividend persistence and quality. Securities that have passed these screens are considered for inclusion in the MSCI High Dividend Yield Index. Only those with a dividend yield at least 30% higher than the parent market-cap index are included.

The yield factor is categorized as a “defensive” factor, meaning it has tended to benefit

during periods of economic contraction (see “Performance and Implementation”).

The MSCI High Dividend Yield Index employs the following:

- Dividend sustainability screens to exclude both securities whose dividend payout is extremely high or negative, and therefore, where future dividend payments might be in jeopardy, as well as securities with high dividend yield resulting from a plunging stock price without fundamental support

- Dividend persistence screens to exclude securities without a good historical track record of consistent dividend payment
- Quality screens to exclude firms with low valuation and weak balance sheets that could fall into a “value trap”

Why investors have used yield strategies

Investors may focus on the equity dividend income that is associated with the yield factor for a variety of purposes. Institutional investors seeking income outside of the fixed-income world have used the

strategy. For instance, an insurance company that needs a regular income stream to pay out claims could tilt its portfolio to the yield factor to meet this objective. High dividends have also historically accounted for a large portion of long-term total portfolio returns.¹

Dividend investing is as old as stocks themselves, playing a central role in the evolution of corporations over the centuries. Groundbreaking economists Benjamin Graham and David Dodd famously called dividend payouts “the prime purpose of a business corporation ... A successful company is one that can pay dividends regularly and

presumably increase the rate as time goes on.”

Several theories seek to explain the superior performance of high-dividend stocks. One notes that yield investors have preferred dividend payouts in the present to uncertain capital gains in the future.²

They have also tended to view dividend increases as a sign of future profitability. A number of studies show that dividend yields have been strong indicators of earnings growth.³

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Performance & --- implementation

MSCI World Factor Indexes

Over time, individual factors have delivered outperformance relative to the market.



The MSCI World High Dividend Yield Index has historically generated excess returns over the long run with a 0.15% annual return over the MSCI World Index since 1999 as represented above.

Long-term performance: May 1999 – December 2020



Although factor strategies have exhibited long-term outperformance, in the short-term, factor performance has been cyclical and has generated periods of underperformance.

MSCI analysis shows that high-dividend stocks outperformed both the market and lower-yielding stocks over the ⁸⁸-year period through September 2016.

How factors have performed:

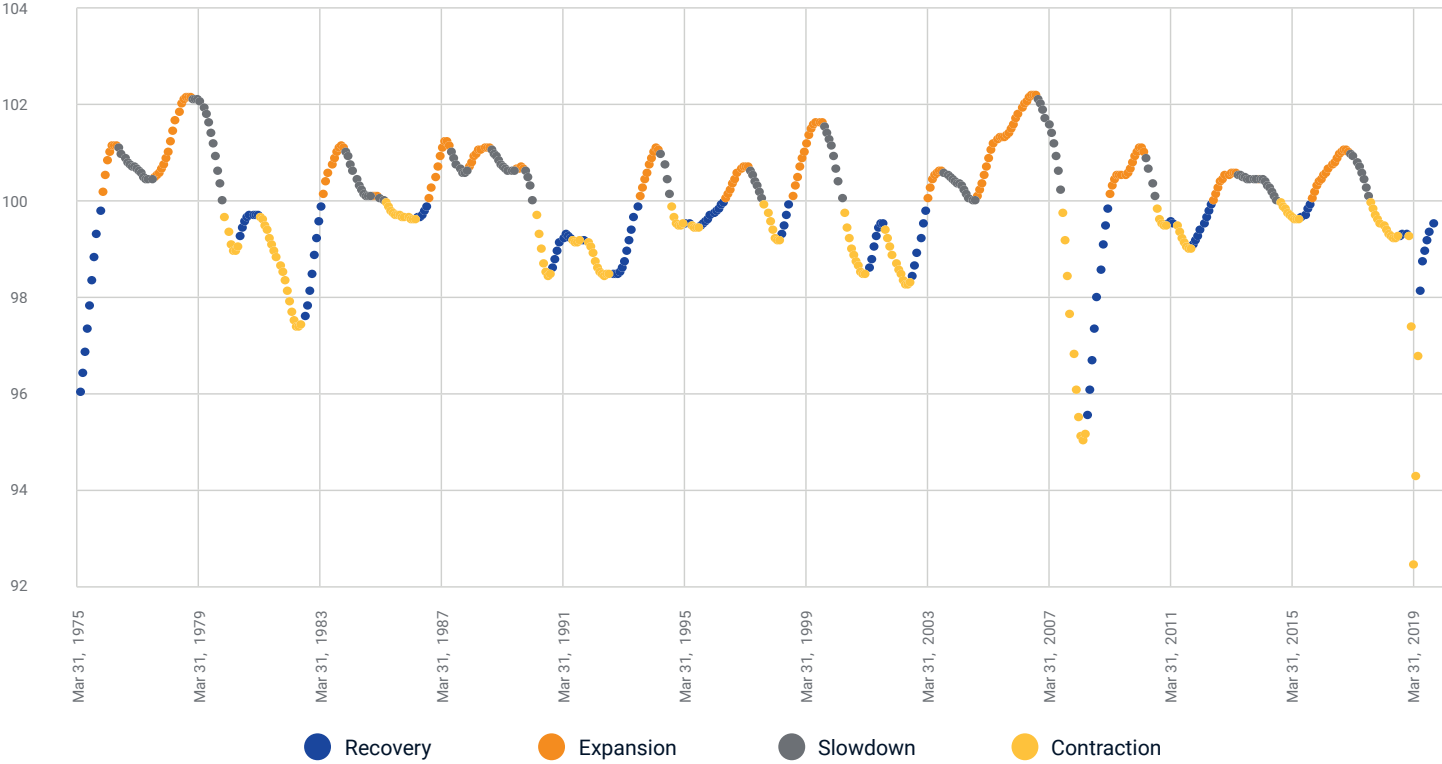
Yield

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1.5%	-4.5%	-9.6%	56.7%	28.6%	28.4%	31.0%	19.9%	-29.2%	42.0%	18.2%	8.0%	16.7%	32.7%	12.1%	5.8%	10.3%	32.6%	-1.4%	36.7%	28.7%
1.2%	-8.0%	-9.8%	50.4%	24.1%	17.2%	28.9%	16.8%	-33.5%	41.9%	9.1%	4.8%	16.5%	30.7%	9.0%	4.5%	9.4%	26.6%	-2.4%	28.4%	22.7%
0.3%	-10.0%	-13.6%	40.1%	21.3%	15.2%	22.1%	11.4%	-37.8%	33.8%	7.2%	4.8%	15.0%	30.3%	7.0%	4.2%	8.9%	26.6%	-5.1%	28.3%	18.1%
-2.1%	-11.5%	-14.4%	33.8%	20.8%	12.5%	21.8%	10.3%	-39.9%	33.5%	11.4%	4.4%	14.8%	27.7%	5.5%	1.2%	8.9%	23.9%	-6.7%	27.4%	16.5%
-10.2%	-12.1%	-15.1%	30.5%	20.0%	10.0%	21.2%	9.6%	-40.3%	31.9%	9.3%	-5.0%	14.7%	27.4%	4.6%	-0.3%	8.2%	23.1%	-8.2%	24.5%	10.1%
-12.5%	-16.5%	-16.5%	26.0%	19.3%	8.5%	20.7%	7.3%	-41.9%	30.8%	12.3%	-5.4%	13.7%	26.5%	4.6%	-1.0%	8.2%	22.9%	-8.5%	24.3%	3.3%
-12.9%	-19.4%	-19.4%	25.9%	15.2%	8.3%	19.1%	6.4%	-42.4%	17.2%	12.8%	-9.3%	13.3%	22.9%	3.4%	-2.4%	5.1%	19.2%	-11.8%	24.0%	1.0%
-18.9%	-20.5%	-19.5%	22.0%	12.7%	6.0%	16.8%	6.1%	-42.6%	14.8%	16.5%	-11.0%	8.9%	19.4%	3.3%	-2.7%	4.7%	18.0%	-13.4%	19.8%	-3.3%

- World
- World Enhanced Value
- World Quality
- World Equal Weighted
- World Minimum Volatility (USD)
- World Momentum
- World Growth Target
- World High Dividend Yield

The analysis and observations in this report are limited solely to the period of the relevant historical data, backtest or simulation. Past performance – whether actual, back tested or simulated – is no indication or guarantee of future performance. None of the information or analysis herein is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision or asset allocation and should not be relied on as such. The time periods covered in the charts in this paper were dictated by the data available when we conducted the simulations which produced them. There are frequently material differences between backtested or simulated performance results and actual results subsequently achieved by any investment strategy.

Macro effects on factor performance



In general, factor performance has been cyclical in nature. Individual factors have been shown to outperform during different macroeconomic environments.

Conclusion _____

High-yield equity factor investing involves screening for sustainably high dividends. It has provided yield income with equity market participation. The MSCI High Dividend Yield Indexes aim to represent the performance of companies that have historically demonstrated stable and increasing dividends, while mitigating risks against value traps. For yield seekers outside fixed income, the equity yield factor index has offered many attractive properties such as defensive income, a long-term positive risk premium and diversification to other factors.

Footnotes _____

- 1 Wei Z., C. Chia and S. Katiyar. (2015). "Harvesting Equity Yield: Understanding Factor Investing." MSCI Research Insight.
- 2 Lintner, J. (1956). "Distribution of Incomes of Corporations Among Dividends, Retained Earnings, and Taxes." American Economic Review, Vol.46, pp. 97-113.
- 3 Arnott, R.D and C.S. Asness. (2003). "Surprise! Higher Dividends = Higher Earnings Growth." Financial Analysts Journal, Vol.59, No.1, pp. 70-87.



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