恒生指數
HANG SENG INDEXES

BLOG

July 2020

Hunting Yields in Hong Kong – More info from our Yield-Focused Index Series

One Well-aged Index for Yield-gazers

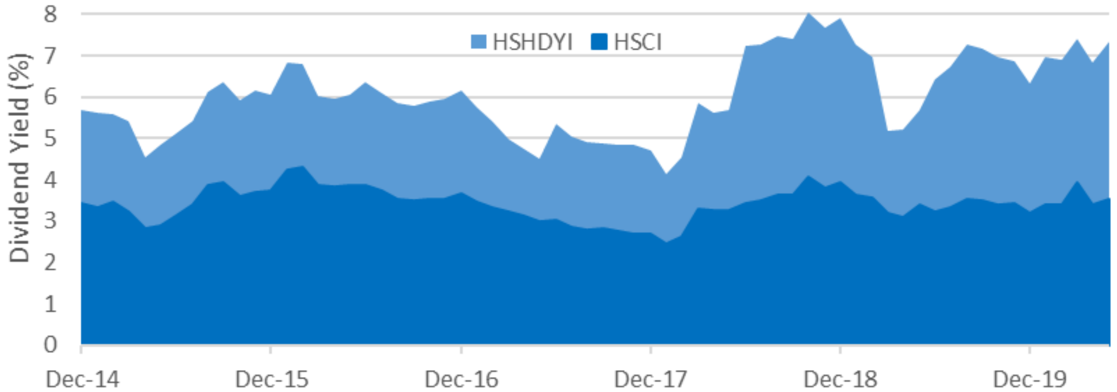
Last month, we published a blog illustrating the landscape of dividend yields in Hong Kong, showing how highly dispersed stock dividends are, and coupled with investors' common behavioral biases, would hamper the effectiveness of their conventional yield strategies. We would, therefore, like to take the opportunity here to showcase how our suite of Yield-focused Indexes is one plausible method, to introduce diversification and discipline to portfolio allocation.

Kicking off the series, let us feature the Hang Seng High Dividend Yield Index ("HSHDYI"), the earliest Yield-focused Index compiled by the Hang Seng Indexes Company. Before all the Smart Beta Indexes began to conquer the investment world, launched in 2012, HSHDYI employs a factor-indexing stock selection process, providing investors a high-yield constituent basket, where the strong dividend yields help cushion the downside even when the broader market, as referenced by the Hang Seng Composite Index ("HSCI"), goes south.

An Investable High-Yield Portfolio

The HSHDYI aims to reflect the overall performance of high-yield securities listed in Hong Kong. Although historical performance and dividend payouts do not guarantee future returns and distributions, they can serve as indicators, judging by how commonly they are adopted by market players, to what investors can expect in normal circumstances. Exhibit 1 below shows the historical dividend yields of HSHDYI and the market benchmark, underpinning how the index objective has been achieved by persistently capturing higher yields than the broader market.

Exhibit 1. Historical Dividend Yields of HSHDYI and HSCI



Source: Hang Seng Indexes Company, as of the End of May 2020

Organic Stream of Dividends: To ensure that the selection process is not affected by the "Dividend Trap", consistency check and special dividend check are imposed, where only stocks with a cash dividend payout record of at least three consecutive fiscal years will be eligible for constituent selection and one-off special dividend payouts will be discounted.

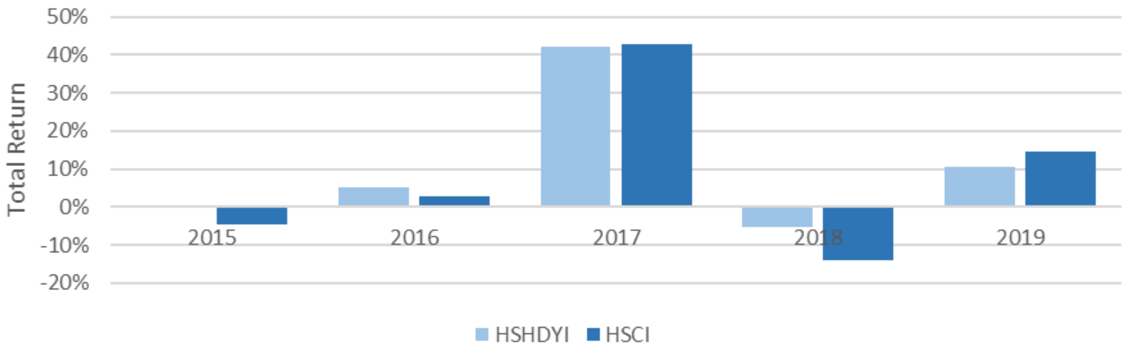
Investability and Volatility Check: Whether it is replicating the index basket passively or adopting our index as the benchmark for performance attribution, investability is key. We therefore include the Large-Cap and Mid-Cap constituents of HSCI in the eligible universe, and further impose a volatility test, where stocks with the 25% highest one-year historical volatility are excluded for constituent selection, and the 50 stocks with the highest one-year historical Net Dividend Yield in this pool are selected as constituents.

Yield-driven Weightings: Unlike other standard market capitalisation-weighted indexes, HSHDYI is weighted by the constituent stocks' net dividend yields, and those with the highest historical yields will be overweighted and have a higher presence in the portfolio basket.

A Shelter When Bears Roam

Exhibit 2 charts the performance of the total returns of HSHDYI and HSCI, where dividend payouts are assumed to be reinvested back into the portfolio. In reality, dividend payouts might not feasibly be reinvested into the same portfolio, or investors might use the dividend income for other purposes. Hence, we should cross reference with Exhibit 1 to see the merits of HSHDYI as an income-oriented yield-focused portfolio.

Exhibit 2. Yearly Total Return Performance of HSHDYI and HSCI from 2015 to 2019



Source: Hang Seng Indexes Company, as of the End of 2019

To better understand its sources of active returns, a performance attribution analysis for HSHDYI is conducted and shown in Exhibit 3. Thanks to its persistently higher yields that cushion the downside, HSHDYI outperformed the market benchmark during all the bad years, when the broader market tumbled or remained stagnant. Though it lagged behind HSCI slightly, by just several points, in 2017 when the broader market soared by a whopping 43%, where, as mentioned, the total returns are calculated under the assumption that all dividends are reinvested right away, without any cost drag or market impact issue. Meanwhile, it is often in midst of rallies when investors either go overconfident, not adhering to disciplined trading, or take profits too early.

Exhibit 3. Performance Attribution Analysis for HSHDYI (Total Return)

Year	HSHDYI (A)	Benchmark-HSCI (B)	Provisional Index (C)	Industry Allocation Effect (C - B)	Stock Selection Effect (A – C)	Total Active Return (A – B)
2015	0.4%	-4.6%	-4.1%	0.5%	4.4%	4.9%
2016	5.1%	2.8%	1.9%	-0.9%	3.2%	2.3%
2017	42.2%	43.0%	43.2%	0.2%	-0.9%	-0.7%
2018	-5.4%	-13.9%	-10.0%	4.0%	4.6%	8.6%
2019	10.4%	14.7%	12.6%	-2.1%	-2.2%	-4.3%

Source: Hang Seng Indexes Company, as of the End of 2019
Industry Allocation Effect: Return of Provisional Index – Return of HSCI
Stock Selection Effect: Return of HSHDYI – Return of Provisional Index
Provisional Index: An Index comprising constituents of HSCI with industry weightings equal to those of HSHDYI

In the analysis, the industry allocation effect shows the incremental return by adopting different industry weightings than those of the market benchmark, which is equal to the difference between the provisional index portfolio, with industry weightings the same as HSHDYI's, and the market benchmark. Meanwhile, the stock selection effect shows the performance originating from holding securities deviating from the industry portfolio (Industry Sub-Indexes of HSCI in this case) and adopting a different weighting method, which is deduced by subtracting the return of the HSHDYI and that of the aforementioned provisional portfolio, so as to isolate the impact from stock picking and yield-weighting treatment.

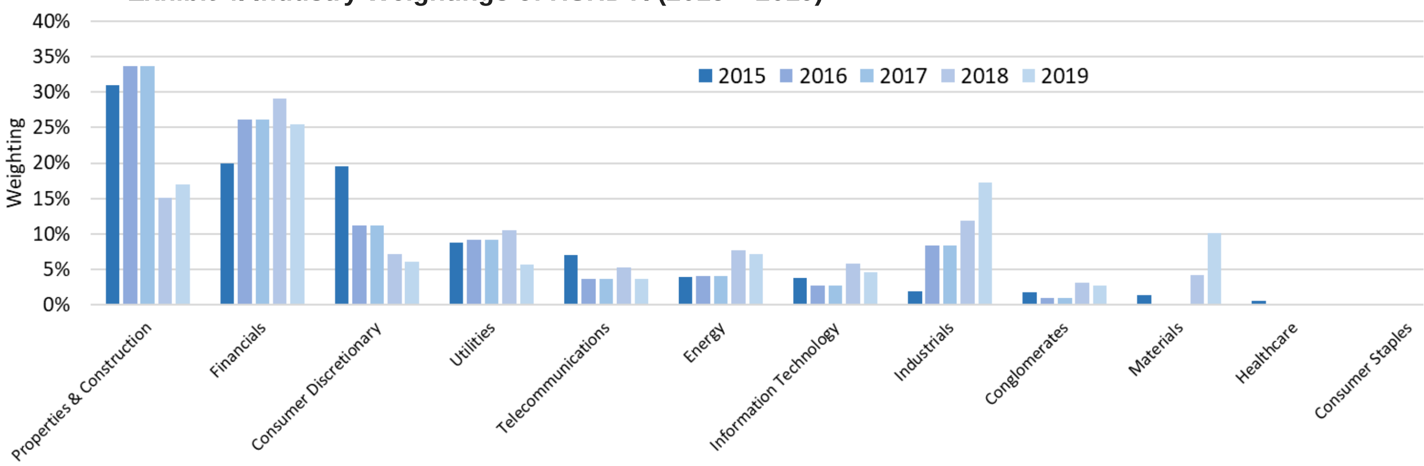
We notice that when the market was under pressure or stayed adrift, HSHDYI's stock selection effect was the most prominent, which either helped bring the annual return back into the black or significantly alleviated the losses. This highlights how the systematically selected and yield-driven weighted index portfolio meets its objective well, where the steady stream of high dividend yields enhances the overall investment return.

Changing Basket Reveals the Morphing Hong Kong Market

In our previous blogs, we discussed how the landscape of high yield stocks might not be the same as what general investors perceived, Exhibit 4 below might provide further evidence to that, in a different dimension.

The chart shows the industry weightings of HSHDYI, of which the portfolio only includes the investable high yield stocks. We can see the weighting of the Properties & Construction stocks has dropped by close to half from the end of 2015 to the end of 2019, while the most drastic decline was observed for Consumer Discretionary, from 20% in 2015 to just 6% in 2019.

Exhibit 4. Industry Weightings of HSHDYI (2015 – 2019)



Source: Hang Seng Indexes Company, as of the End of 2019

Allocation to Financial stocks grew mildly from 20% to 25%, and the industry that saw the biggest increase in terms of weighting is Industrials. In 2015, the index portfolio only held around 2% of Industrial stocks, which accounted for more than 1/7 of the basket before the dawn of 2020.

Such material changes in industry allocation showed how dynamically the high yield stock landscape has changed in merely five years, introducing more uncertainties to investors' cherry picking beside the high yield dispersion. Investors should therefore regularly evaluate their investment strategies in a timely manner to survive in this rapidly-changing market. So rather than anchoring to just a handful of perceived high-yield stocks, it would be wise to replicate the Hang Seng High Dividend Yield Index that offers a time-tested high-yield Hong Kong market exposure. Further information about the available products linked to the index can be found on our website.

About Hang Seng High Dividend Yield Index

The index includes 50 stocks and/or real estate investment trusts ("REITs") listed on the Stock Exchange of Hong Kong with the highest net dividend yield.The constituents' weightings within the index are determined by their net dividend yield that enhances the yield of the index. 10% capping is applied to avoid single constituent domination.

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Recently Launched New Indexes

22 June 2020	Hang Seng Stock Connect China 500 Index Hang Seng Stock Connect China A 300 Index Hang Seng Stock Connect China New Infrastructure Index Hang Seng Defensive Industries Index Hang Seng China A Defensive Industries Index	Link

To be announced

14 August 2020	The results of the 2020 Q2 review of the Hang Seng Family of Indexes

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