

A Differentiated Approach for US Investors to Access International Dividend Achievers

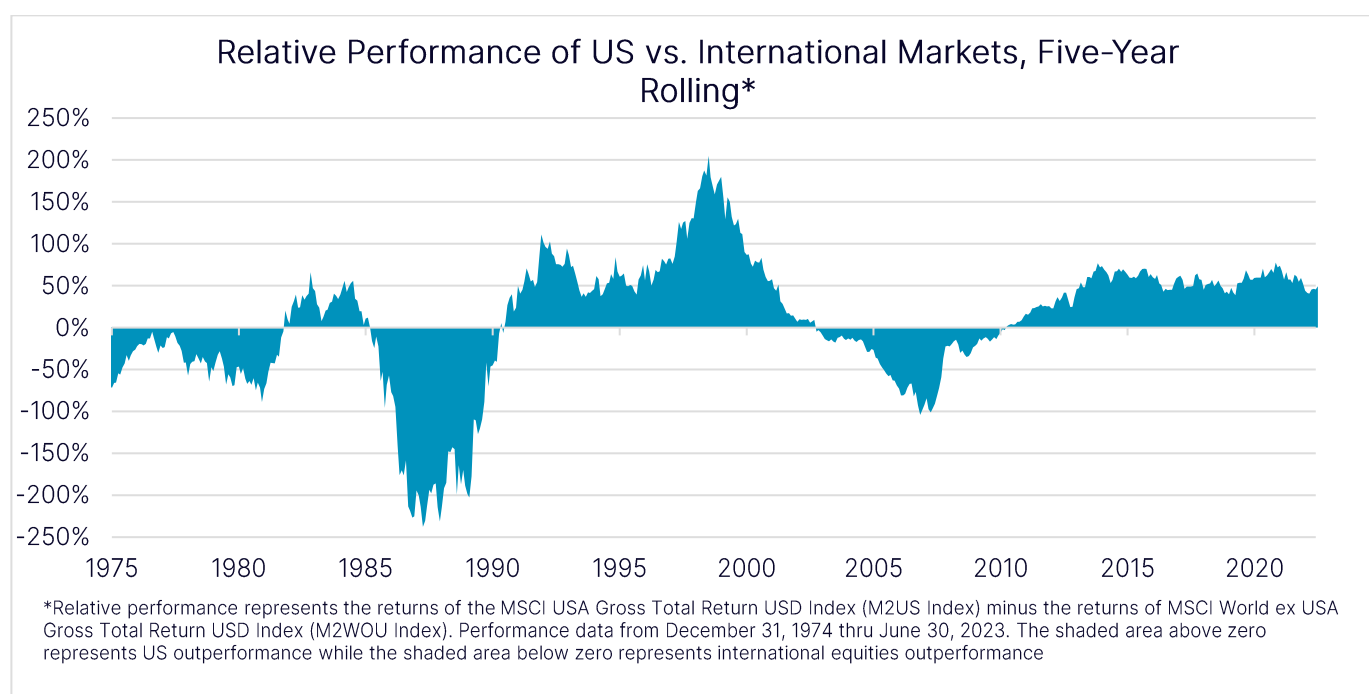
August 2023

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The Nasdaq International Dividend Achievers™ Index (DAT™) is comprised of US-listed securities of non-US incorporated companies with at least five consecutive years of increasing annual regular dividends. This is in contrast with its domestically-focused counterpart, the Nasdaq US Broad Dividend Achievers™ Index (DAA™), which is designed to track US-based companies only, with at least 10 consecutive years of increasing annual regular dividend payments.

The tide appears to be turning in favor of international equities after an extended period of underperformance versus domestic equities. History attests to the benefits of having exposure to international equities as they have outperformed during approximately half of the time if we look back at data over 50 years. As per our own analysis and another similar analysis by RBC Wealth Management¹, US and international markets have tended to move in multiyear cycles. Since 1975, US and international equities have recorded three dominant periods of outperformance each, all with varying magnitudes and durations.

The chart below shows the 5-year rolling returns of two indexes that track US and international markets, namely the MSCI USA Gross Total Return USD Index (M2US Index) and the MSCI World ex USA Gross Total Return USD Index (M2WOU Index). The results suggest that international markets have outperformed as often as domestic markets, with the current cycle of US outperformance likely at or near its end.



¹ <https://www.rbcwealthmanagement.com/en-us/insights/u-s-vs-international-equities-time-for-a-portfolio-tune-up>

Investors encouraged by historical data might additionally weigh the current state of the markets which have been on an upswing since the beginning of the year. While there has been renewed optimism among investors this year, critics are likely to point out that US equity market outperformance will not last forever and that there are risks to portfolios with a home country bias.

Additionally, while it should not be a deciding factor, there is certainly merit in factoring currency movements in final investment decisions. For example, in times when the dollar weakens relative to other major currencies, the net returns from investing in international equities are enhanced in dollar terms. While the future of the dollar is difficult to predict, there have been some signs of the dollar weakening since late 2022 and into 2023. This weakening came after a decade-long bull-run of the US dollar, which was historic.

By far, the most compelling reason for gaining exposure to international equities is to avail of the time-tested virtues of portfolio diversification. International equities provide investors exposure to sectors that are underrepresented in US-centric portfolios which tend to be tilted heavily towards Technology, Consumer and Healthcare, and from a style/factor perspective, more Growth-oriented. To offset the risk of drawdowns from these areas, it might be beneficial to increase exposure to more Value-oriented international equities.

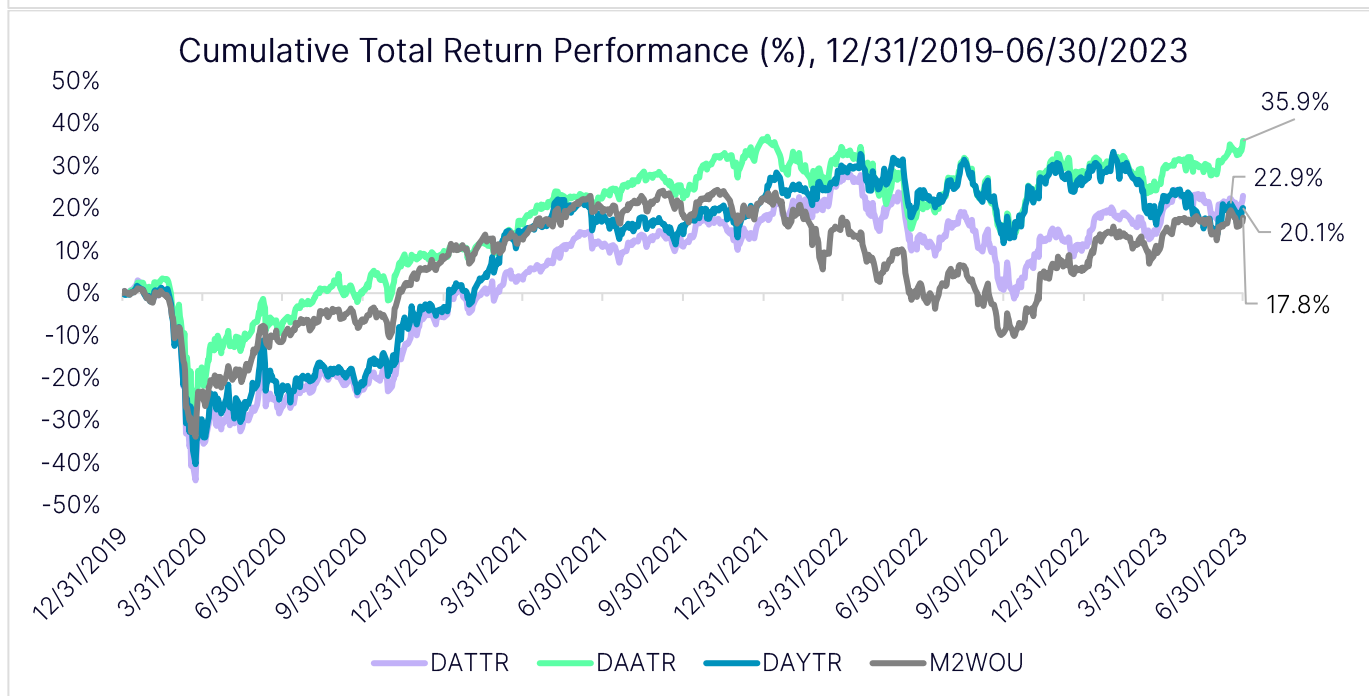
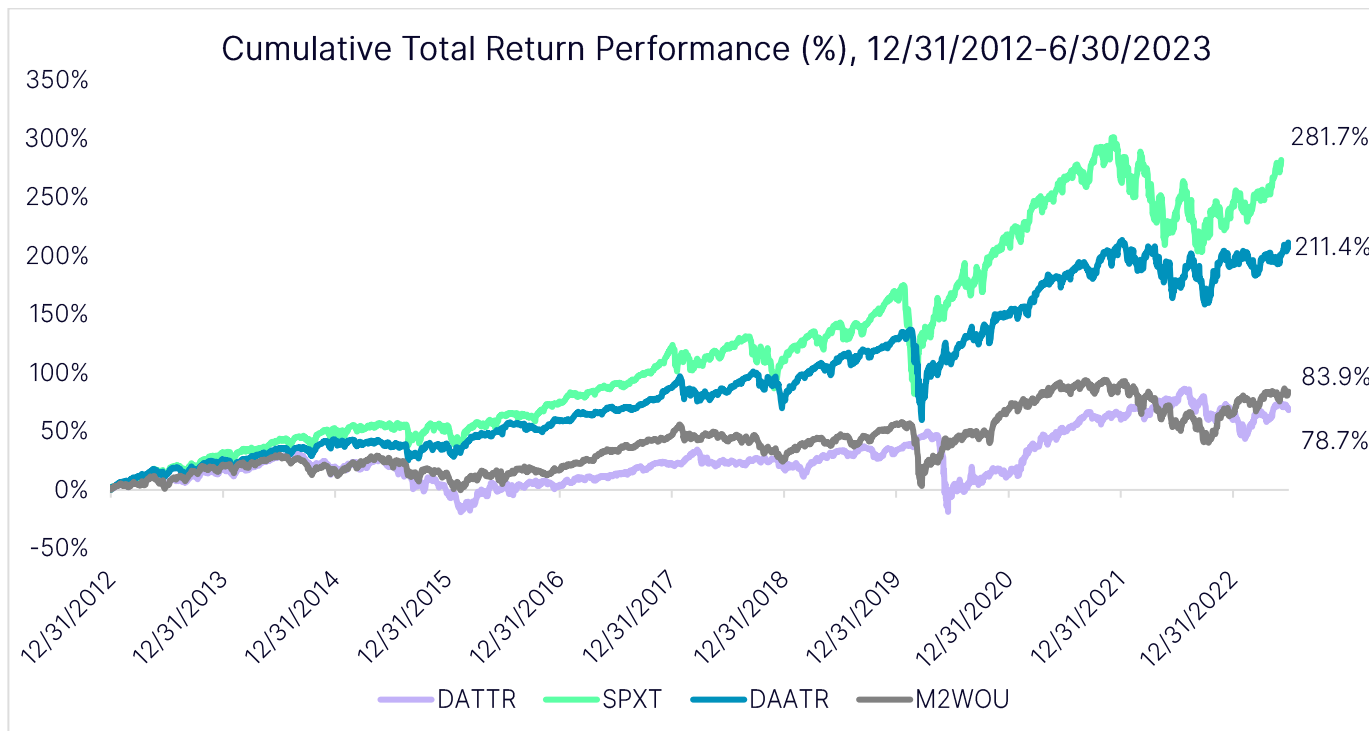
Lastly, while a recession in the remainder of 2023 is less likely than before, dividend-paying international equities such as those tracked by DAT are likely to offer refuge should there be a mild one. As highlighted in our recent research, [Building a Better Dividend Strategy](#)², dividends are important during a recession as they give investors a cushion even when stock prices fall. While stock prices can be volatile during downturns, dividends are less volatile.

Performance

The results from the two charts below suggest that the period of underperformance of DAT versus other broad-based benchmarks is likely nearing its end. As seen in the first chart, the Nasdaq International Dividend Achievers Total Return™ Index (DATTR™) has produced a cumulative return of 78.7% for the period Dec 31, 2012 – June 30, 2023. While the returns are impressive, it has materially underperformed US benchmarks including the S&P 500 Total Return Index (SPXT) and the Nasdaq US Broad Dividend Achievers Total Return™ Index (DAATR™), while nearly matching the MSCI World ex USA Gross Total Return USD Index (M2WOU), all of which have generated returns of 281.7%, 211.4%, and 83.9%, respectively.

Over the last decade-plus, US equities have outperformed their international peers, largely due to a more favorable macroeconomic environment, faster earnings growth, and expanding valuations in the US relative to international. Looking at the track record since the end of 2019 tells a slightly different story, however. DATTR has been narrowing the performance gap with DAATR, and has outright outperformed another US dividend index, the Nasdaq US Dividend Achievers 50™ (DAYTR™) by nearly three percentage points, including by more than 15 percentage points in the first half of 2023. This suggests that the period of US outperformance has likely ended or is nearing its end.

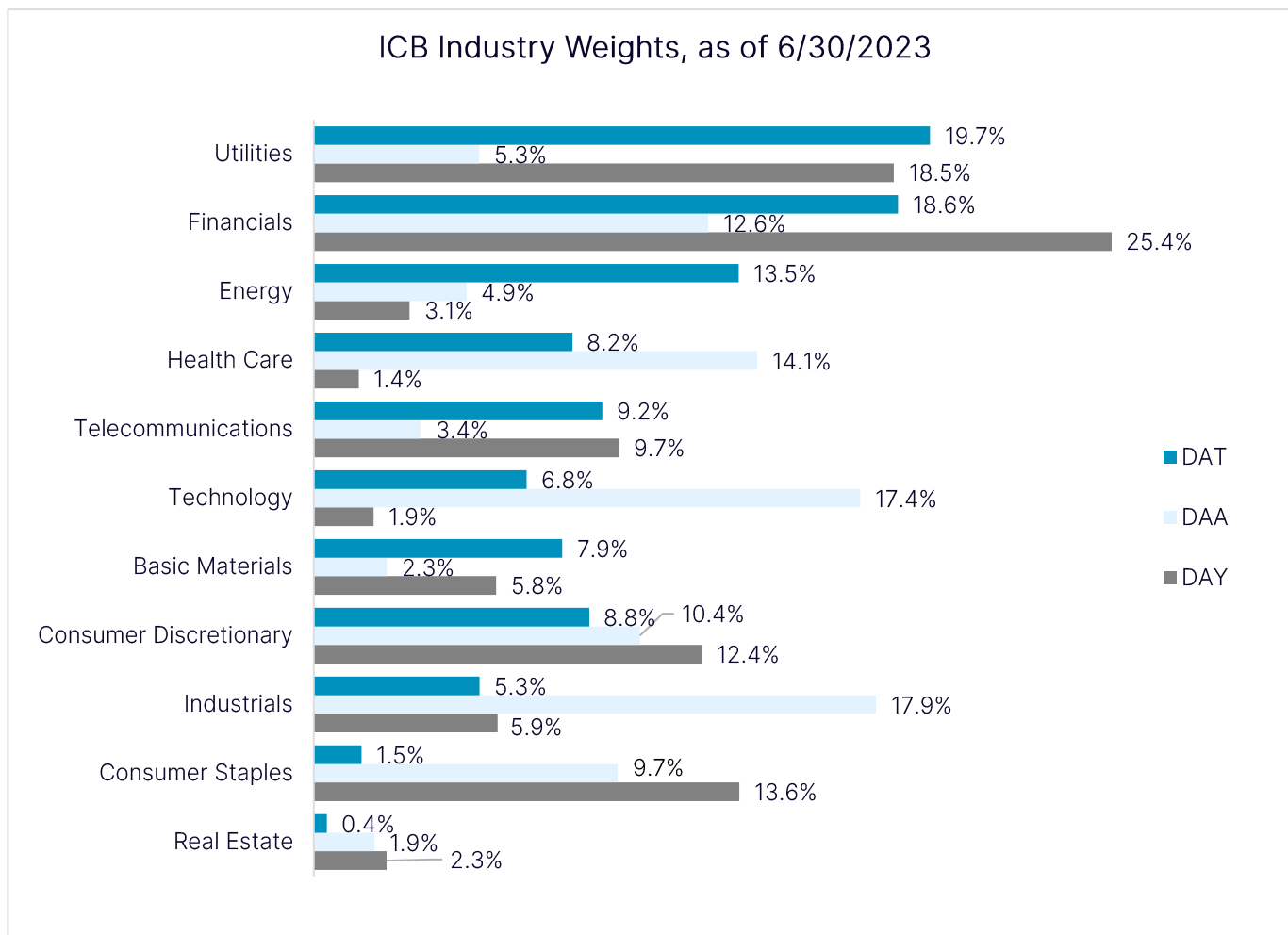
² <https://indexes.nasdaqomx.com/docs/DAY%20Research%20January%202023.pdf>



Industry Allocation

As of June 30, 2023, the industries with the highest weights in DAT include Utilities (19.7%), Financials (18.6%) and Energy (13.5%). The industries with the smallest weights include Industrials (5.3%), Consumer Staples (1.5%) and Real Estate (0.4%).

There are notable differences in allocations among DAT, DAA and DAY. Consumer Staples has a much smaller representation in DAT with an index weight of 1.5% versus 13.6% in DAY, while Energy has a much larger representation in DAT with an index weight of 13.5% versus 3.1% in DAY. When compared to DAA, Technology and Industrials have a much smaller representation in DAT with index weights of 6.8% and 5.3% respectively, versus 17.4% and 17.9% in DAA.



Country Allocation

On a domicile country basis, the largest allocations include Canada with a total index weight of 60.6% and United Kingdom with an index weight of 14.0%. The countries with the smallest allocations include Guernsey (Europe) with an index weight of 1.3% and Denmark with an index weight of 0.8%.

During the COVID-19 pandemic, companies across the world cut dividends to preserve cash, which shrunk the pool of non-US incorporated companies with at least five consecutive years of increasing dividends. While the index now offers exposure to fewer countries than it did in 2017, economic conditions are changing, which are likely to enable the re-inclusion of dividend-paying companies across a more diversified pool of countries, many of which were forced to cut dividends during the pandemic.

The heavy tilt towards Canada and the United Kingdom stands out as potentially beneficial. The Nasdaq Canada™ Index (NQCA™) and the Nasdaq United Kingdom™ Index (NQGB™) offer average trailing 12-month yields of 2.9% and 3.8%, which compare favorably to the average yields of 2.9% and 2.3% offered by the Nasdaq Global ex United States™ Index (NQGXUS™) and Nasdaq Global™ Index (NQGI™) for the period 12/31/2013-6/30/2023.

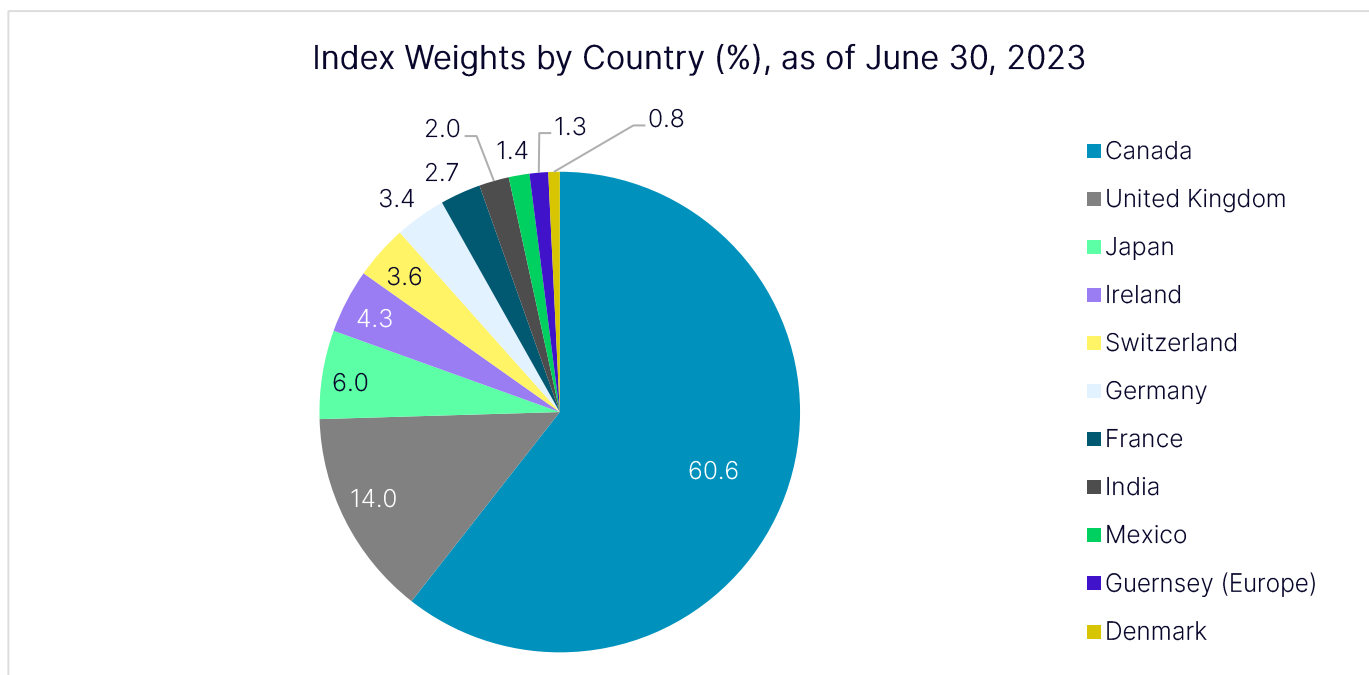
The tilt towards Canada deserves further consideration. Investors might be encouraged by recent data points which suggest that the Canadian economy has held up stronger than expected in 2022 and thus far in 2023, growing at an annualized rate of 3.1% in the first quarter of 2023, according to Statistics Canada³. It

³ <https://www.reuters.com/markets/canadas-q1-gdp-outperforms-with-31-growth-april-seen-up-02-2023-05-31/>

has the second highest projected real GDP growth in 2023 and 2024 among G7 countries after the US.⁴ While there remains a possibility of a slowdown for the remainder of 2023, companies in Canada appear to be well-positioned to weather the slowdown. These factors are likely to mitigate any potential concerns about the index's large exposure to a single country.

Moreover, it makes intuitive sense for why an index of dividend-paying companies based outside of the US, but with listings inside the US, would be overly weighted towards Canada. Beyond its geographic proximity which encourages strong cross-border economic links, Canada shares much in common with the US in terms of its highly developed financial sector and specifically, capital markets; its similar legal system; its overall business environment; and broadly similar cultural and social norms. Below is an overview of Canada's rankings in a number of economic areas along with their sources.⁵

Rank	Criteria	Source	Year
4 th (among G20)	Economic Freedom	Heritage Foundation	2023
5 th / 3 rd (among G20)	Justice / Equal Opportunity	IMD World Competitiveness Yearbook	2022
4 th (among G20)	Financial System Soundness	IMD World Competitiveness Center	2022
2 nd (among G7)	R&D Spending as % of GDP	OECD Main Science & Tech Indicators	2023
2 nd (among G20)	Foreign Direct Investment	UN Conference on Trade & Development	2021
2 nd (1 st among G7)	Global Business Environment	Economist Intelligence Unit	2023



Top Ten Allocation & Yields

We have listed the top 10 securities with the highest index weights as well as the corresponding dividend yields as of June 30, 2023. The securities with the highest dividend yields within the top 10 include Atlantica Sustainable with an index weight of 3.7% and dividend yield of 7.8%, and Enbridge with an index weight of 4.0% and dividend yield of 7.2%. DAT constituents are weighted based on their trailing 12 month yields relative to each other, and are capped at a maximum weight of 4% each.

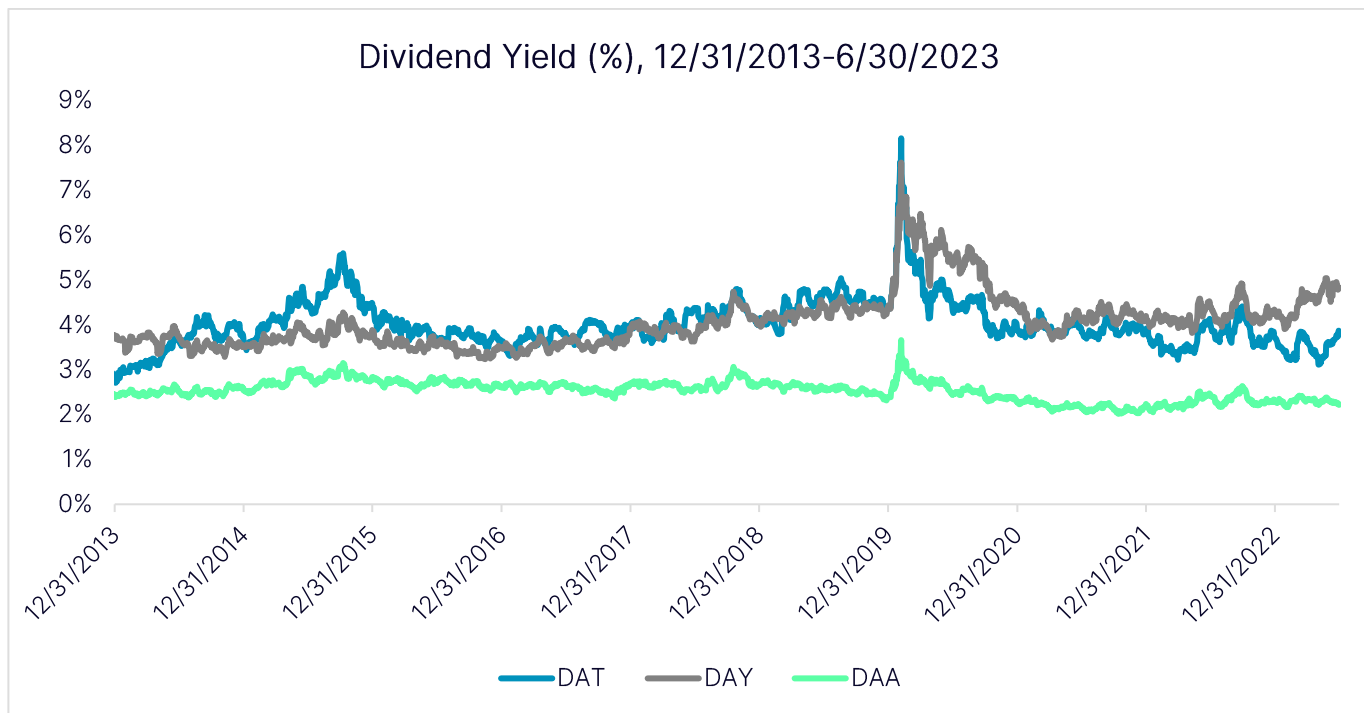
⁴ <https://www.cicnews.com/2023/04/canada-has-g7s-2nd-highest-projected-real-gdp-growth-in-2023-and-2024-0434567.html#gs.2brhke>

⁵ https://www.international.gc.ca/trade-commerce/economist-economiste/analysis-analyse/key_facts-faits_saillants.aspx?lang=eng

COMPANY NAME	SYMBOL	INDEX WEIGHTS (%)	DIVIDEND YIELD (%)
Rio Tinto	AQN	4.1%	7.1%
Enbridge	BEP	4.0%	7.2%
TC Energy	BCE	4.0%	7.2%
Canadian Imperial Bank	NGG	4.0%	6.3%
Telus	TRP	3.9%	5.6%
BCE	ENB	3.9%	6.5%
Algonquin Power & Utilities	CM	3.8%	5.5%
Atlantica Sustainable	AY	3.7%	7.8%
Toronto-Dominion Bank	BIP	3.7%	4.8%
Canadian Natural	CNQ	3.3%	4.9%

Index Yield History

DAT has maintained an average dividend yield of 4.0% for the period 12/31/2013-6/30/2023, substantially above the average for DAA at 2.5%. The average yield of DAY, which selects the highest-yielding constituents within DAA, was 4.1%. In other words, DAT’s yield not only outperforms that of a broad index of consistent US dividend-payers, but produces a yield in-line with the highest-yielding subset of the US dividend-payer universe.

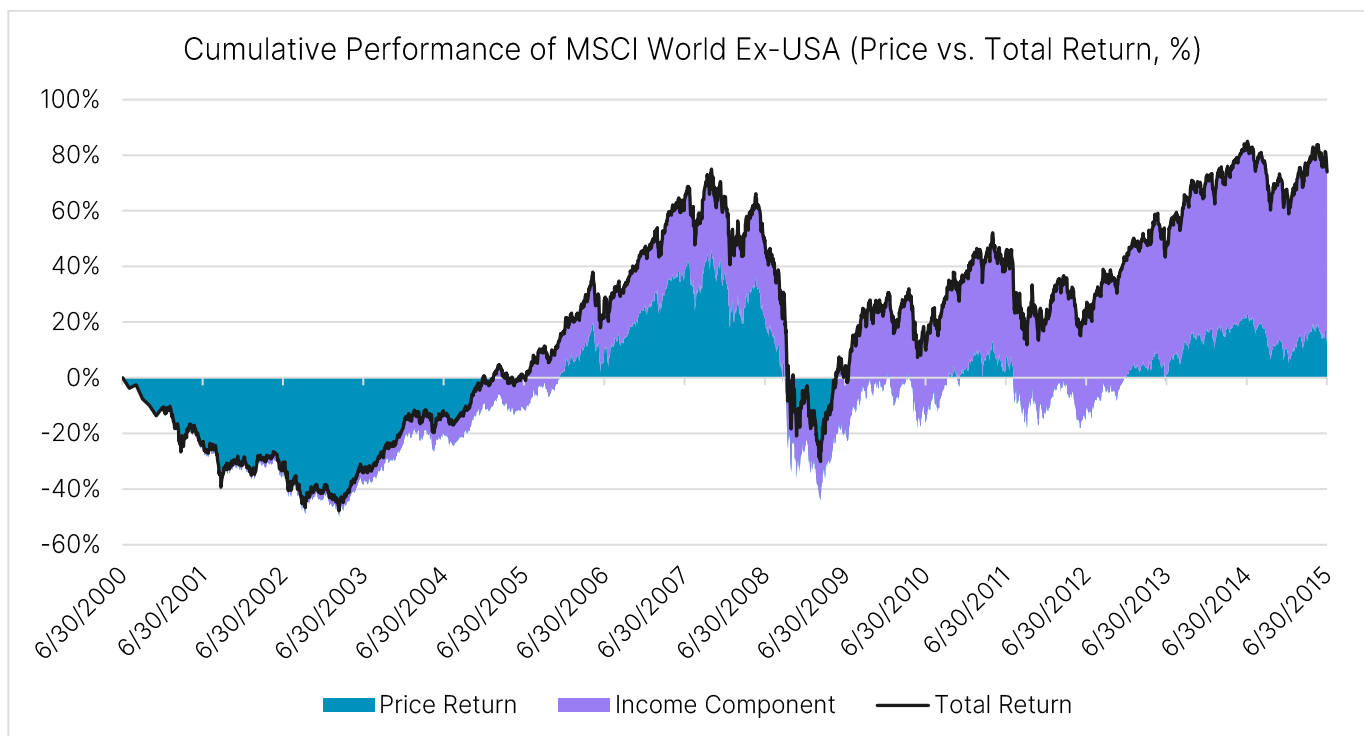
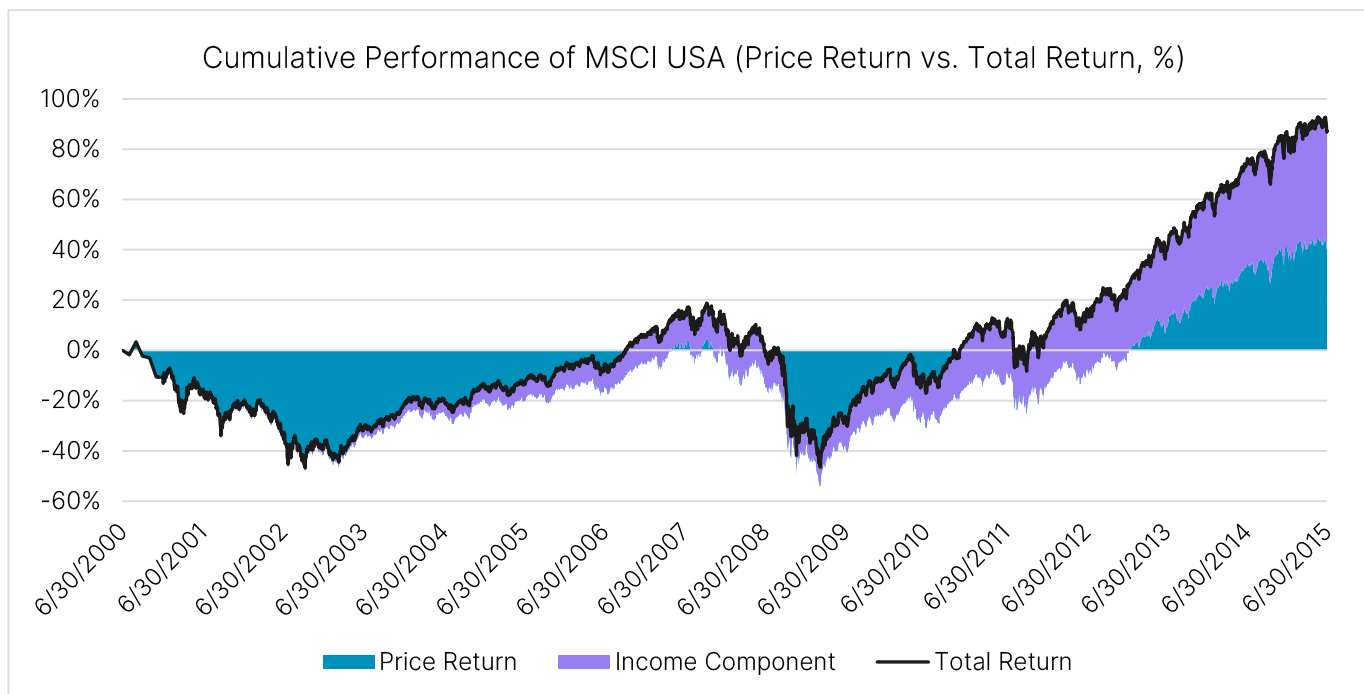


Income Contributes Higher Share of International Total Returns

A compelling reason for allocating to dividend-paying international equities is to avail of the benefits of higher income generation from investing in an international index. Our own analysis of the performance of two indexes, the MXUS Index (the MSCI USA Price Return USD Index) and MXWOU Index (the MSCI World Excluding United States Index) suggests that the income component of returns from an international index is higher than that of a US-based index.

For the period 6/30/2000-6/30/2015 (chosen for the closeness of its US vs. International total returns), the MXUS Index generated 40.4% on a price-return basis and 87.6% on a total return basis while the MXWOU Index generated 12.6% on a price-return basis and 76.3% on a total return basis. In other words, over the

course of a long time horizon of similar total returns, dividends contributed a little more than half of the total for the benchmark US portfolio, while contributing more than 80% of the total returns for international equities.



Indexes	Price Return	Total Return	Income Component
MXUS Index	40.4%	87.6%	47.2%
MXWOU Index	12.6%	76.3%	63.7%

International Companies with US Listings: Above-Average Quality

The fundamentals of the DAT Index present evidence for an interesting hypothesis: that international companies with US listings tend to exhibit higher quality characteristics than average. Tables 1 and 2 summarize the median and average of all fundamental metrics of the DAT Index versus two other indexes, the Nasdaq Global Ex United States™ Index (NQGXS™) and a quality factor index, the Nasdaq US Price Setters™ Index (NQPRCE™). The results suggest that the fundamentals of the DAT Index align more closely with the NQPRCE Index which points to the high-quality exposure of the index. Six out of nine median fundamental metrics of DAT align closely with NQPRCE, as evinced by results from Table 1, while five out of nine average fundamental metrics of DAT align closely with NQPRCE, as evinced by results from Table 2.

The NQPRCE Index screens companies based on 11 quality factors. In addition to the quality factors outlined in the tables below, it also screens companies based on the coefficient of variation (CV) of 7Y EPS, earnings quality, standard deviation of 7Y operating margin, and the coefficient of variation of 2nd fiscal year EPS estimates. It is certainly encouraging that the fundamentals of the DAT Index align more closely with the NQPRCE Index vs. a generic global ex-US benchmark, when similar screens for quality factors are applied.

The DAT Index demonstrates relative strength versus at least one benchmark on all but one fundamental metric as of June 30, 2023, as seen in results from Table 1. It has performed better than the NQGXS Index but worse than the NQPRCE Index in terms of historical EPS growth (1-year and 3-year), current operating margin, estimated operating margin (1-year) and ROE. It has performed better than the NQPRCE Index but worse than the NQGXS Index, in terms of estimated EPS growth (3-year) and historical sales growth (3-year). Its 1-year return volatility is identical to that of NQPRCE, and the only metric where it compares unfavorably with the other two indexes is on its estimated 1-year EPS growth. Table 2 summarizes the average fundamental metrics across index constituents (excluding some outliers), wherein DAT demonstrates a similar pattern of relative strength versus at least one benchmark. The average DAT constituent is ranked first or second-best across all 11 metrics, and the calculated values appear very similar to NQPRCE across five of the metrics.


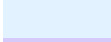

Table 1: Median of fundamental metrics of DAT, NQGXS and NQPRCE Index

Index	EPS Growth: 1-Year Historical (%)	EPS Growth: 3-Year Historical (%)	EPS Growth: 1-Year Estimate (%)	EPS Growth: 3-Year Estimate (%)	Operating Margin: Current (%)	Operating Margin: 1-Year Estimate (%)	1-Year Return Volatility (%)	Sales Growth: 3-Year Historical (%)	ROE (%)
DAT	-6.4	29.4	4.4	10.1	19.6	21.5	26.8	5.2	13.4
NQPRCE	18.4	57.9	5.1	9.7	23.1	22.0	26.8	3.8	28.2
NQGXS	-15.2	22.4	26.6	18.1	8.8	9.5	35.7	11.5	11.8

Table 2: Average of fundamental metrics of DAT, NQGXS and NQPRCE Index

Index	EPS Growth: 1-Year Historical (%)	EPS Growth: 3-Year Historical (%)	EPS Growth: 1-Year Estimate (%)	EPS Growth: 3-Year Estimate (%)	Operating Margin: Current (%)	Operating Margin: 1-Year Estimate (%)	1-Year Return Volatility (%)	Sales Growth: 3-Year Historical (%)	ROE (%)
DAT	-8.8	60.7	13.5	9.6	21.5	23.1	27.9	6.8	17.1
NQPRCE	72.6	120.2	2.2	9.2	25.8	23.7	28.1	6.0	47.9
NQGXS	-15.2	22.4	26.6	18.1	8.8	9.5	35.7	11.5	11.8

Legend

Color	Result
	Ranks highest/best among all indexes
	Ranks second highest/best among all indexes
	Ranks third highest/worst among all indexes

Conclusion

The Nasdaq International Dividend Achievers Index (DAT) has already generated impressive double-digit returns during the first half of 2023, up 10.8% on a total-return basis. Investors who have been underweight international equities over the last decade-plus are likely to be encouraged by historical data that point to the long-running cycles of strength of international equities. As the cycle of US outperformance is likely at or near its end, this might be an opportune time for income-oriented investors to increase exposure to international equities. DAT offers a strong return profile, high dividend yield and fundamental metrics that signal above-average quality, which make it attractive for investors seeking to gain exposure to international equities. By selecting only those constituents that are based outside of the US – but choose to offer listings inside the US, too – DAT produces a differentiated portfolio of above-average dividend-paying stocks that disproportionately hail from countries such as Canada, the UK and Japan – all of which share similarities with the US in terms of the maturity and depth of their capital markets, as well as the sophistication of their corporate issuers.

ETFs currently tracking DAT include the Invesco International Dividend Achievers ETF (Nasdaq: PID).

Sources: Nasdaq Global Indexes, FactSet, Bloomberg, RBC Wealth Management

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