

## Frequently Asked Questions

### **What factors are used to select securities for the MSCI Australia Select High Dividend Yield Index (“MSCI AU Select HDY Index”)?**

The MSCI AU Select HDY Index deliberately targets the high dividend yield opportunity set within the broader market as represented by the MSCI Australia Investible Market Index (“MSCI Australia IMI” or the “Parent Index”). Dividend income and capital growth are not necessarily mutually exclusive. In historic back tests from May 2000 to May 2010, the MSCI AU Select HDY Index not only achieved a higher yield than its Parent Index but was also able to participate in capital growth, slightly outperforming the Parent Index in total performance terms.<sup>1</sup> However pursuit of higher than market capital growth is not an objective of the MSCI AU Select HDY Index. The index remains focused on dividends.

### **Are franking credits taken into consideration in selecting securities for the MSCI AU Select HDY Index?**

The objective of the MSCI AU Select HDY Index is to achieve a higher dividend yield than the average of its Parent Index. Higher sustainable and persistent dividends are usually paid by mature and stable companies with a good track record of dividend payments. They also tend to be paid from profits that have already been taxed and so usually come with franking credits attached. While franking credits are not an explicit consideration in the selection of securities for the MSCI AU Select HDY Index, it is no surprise that the expected franking of the index as at 30 September 2010 was 80% compared to 74% by the Parent Index<sup>2</sup>.

### **Why Real Estate Investment Trusts (REITs) are excluded?**

The exclusion of REITs is a standard feature of MSCI’s methodology for high dividend yield indices. In commenting on their global index, MSCI noted, “REITs are structured to have very high dividend yields and, if included, would represent a very significant proportion of the MSCI High Dividend Yield Index.”<sup>3</sup> REITs often operate differently to other listed companies, being commonly structured as trusts or staple securities and designed to access tax benefits associated with rental income and depreciation (capital) allowances.

Furthermore, Australian investors frequently maintain separate allocations to property (whether listed or unlisted, domestic or global) to Australian equities. Investors can select their own exposure to REITs via SSgA’s REIT Exchange Traded Fund (“ETF”), the SPDR® S&P/ASX 200 Listed Property Fund (ASX Code: SLF).

### **Why not use active weighting (e.g. up weight higher yield stocks) to gain more exposure to higher yield stocks?**

Diversification, relative low cost and transparency are key design features for the SPDR MSCI Australia Select High Dividend Yield Fund (ASX Code: SYI). Securities in the MSCI AU Select HDY Index are included at their free float adjusted market capitalisations subject to the MSCI 10/40 Index methodology and a minimal weight of 0.25% to ensure a degree of diversification. Active tilts in any portfolio can add or subtract value and/or yield. SYI is based on the MSCI AU Select HDY Index that uses a passive rule-based process rather than an active management or an optimisation process to select security weights.

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<sup>1</sup> Source: SSgA Research, MSCI

<sup>2</sup> Source: SSgA

<sup>3</sup> MSCI Methodology Guide, MSCI High Dividend Yield Indices, September 2006



# MSCI Australia Select High Dividend Yield Index Methodology

## How does MSCI deal with securities that pay extremely high dividends?

The MSCI Dividend Sustainability Screen is designed to screen out securities which pay extremely high dividends. Securities where dividend payout is extremely high and therefore where future dividend payments might be in jeopardy are not considered for inclusion. Please refer to index methodology document for further details using the weblink below:

[http://www.msci.com/products/indices/custom/MSCI\\_Australia\\_Select\\_High\\_Dividend\\_Yield\\_Index\\_Methodology\\_Jul2010.pdf](http://www.msci.com/products/indices/custom/MSCI_Australia_Select_High_Dividend_Yield_Index_Methodology_Jul2010.pdf)

## How does the MSCI AU Select HDY Index methodology deal with good quality yield securities that experience a temporary decline in dividend?

The index methodology includes buffer rules for yield, persistence screening and sustainability screening. This helps mitigate turnover in relation to securities that suffer only a temporary decline in dividend. Please refer to index methodology document above for further details.

## Why does the MSCI AU Select HDY Index methodology use historical numbers with no emphasis on forward or future dividends?

The MSCI AU Select HDY Index selects its member securities using both sustainability and persistency criteria in addition to yield criterion. The sustainability and persistency criteria are intended to ensure that only high dividend paying companies that can sustain their dividends in the future are considered. Effectively, the underlying economic fundamentals that drive a company's future dividends are, to an extent, embedded in the methodology. The MSCI "Dividend Yield" is based on dividends paid over the preceding year. As a rules-based objective index, no speculative forecasts of future dividends are used in selecting stocks for the index. It is expected that companies with highly volatile or unsustainable dividends will be excluded by the sustainability and persistency screens.

## About SPDR<sup>®</sup> ETFs

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<sup>4</sup> As at 30 September 2010



# MSCI Australia Select High Dividend Yield Index Methodology

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No company in the State Street group of companies, including State Street Global Advisors, Australia Services Limited ("SSgA, ASL"), State Street Bank and Trust Company and State Street Global Advisors, Australia, Limited ("SSgA") guarantees the performance of SPDR or the repayment of capital or any particular rate of return.

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This information sheet is not intended to amount to advice or a recommendation to invest in SPDR. It does not take into account your investment objectives, financial situation or particular needs. You should seek professional advice addressing your particular investment needs, objectives and financial circumstances before making an investment decision.

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Except where indicated, all information is as at date noted and the source of data is SSgA research.

For more information, please visit [www.spdrs.com.au](http://www.spdrs.com.au)

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