

VONTOBEL

**Dividend stocks:
It's all about the
selection**

**Solactive European
High Dividend Low Volatility
Index**

November 2014

Performance creates trust

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Introduction: current market situation

Challenges

- Many investors have for years faced a dearth of options in their search for returns
- Around the globe, central banks are pursuing low interest rate policies
- There is currently no end in sight to these low interest rates
- Companies worldwide are sitting on massive cash reserves

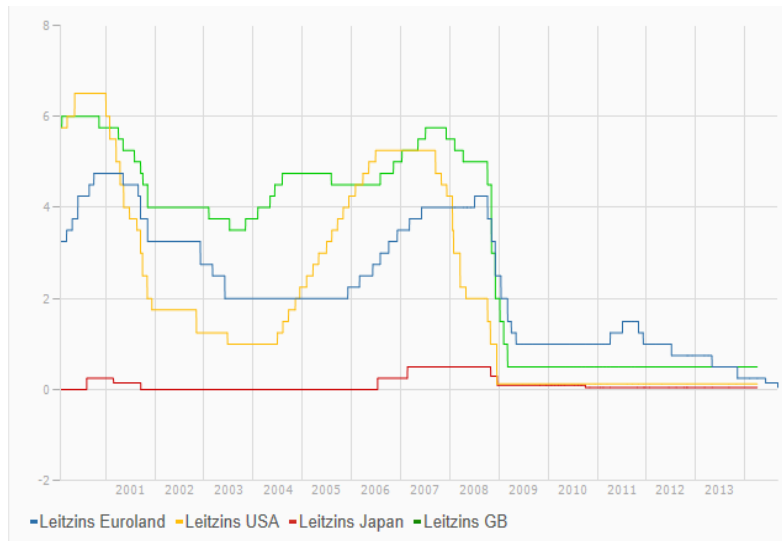


Cash in the market

- Dividends are a substantial source of returns and essential for yield management within a portfolio
- In light of this financial clout, companies are in very generous mood when it comes to dividends
- In Q1 2014, the volume of dividends paid worldwide increased by just under a third
- Much of the annual index performance stems from dividend payments

Global interest rate trend

Development of key interest rates worldwide since 2000



- EU wants to keep interest rates low for the time being
- The central banks are in this way responding to the very low inflation in the eurozone
- Declining unemployment, rising capacity utilization, and falling vacancy rates for rented housing all point to interest rates rising in the US
- Analysts expect the US Federal Reserve to make its first interest rate hike as early as mid-2015

Country/region	Current rate
Europe	0.05%
US	0.25%
Japan	0.10%
UK	0.50%
Switzerland	0.25%
Canada	1.00%
China	6.00%
Brazil	11.25%



Hence: against the backdrop of low interest rate policies, investments in bonds currently seem unattractive. Yields are in the low single digits, in some cases even negative

Share prices in Europe have corrected – dividend yields are rising

The **equity indexes** in many **industrialized nations** **corrected downward** worldwide last month

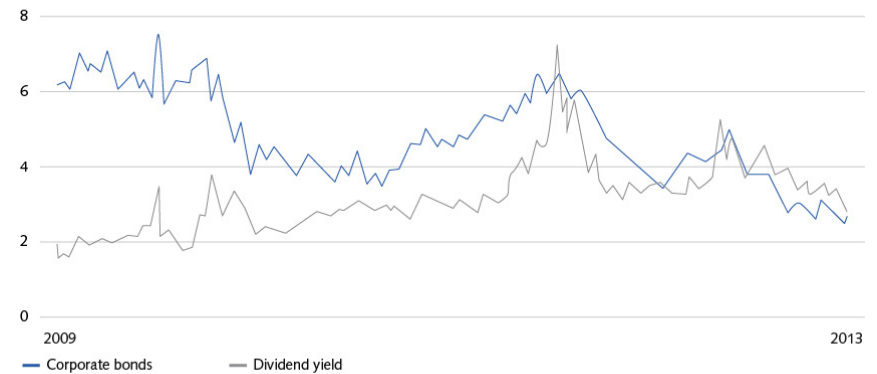
Dividend yields of major **equity indexes** are higher by comparison with long-term corporate and government bonds

This comes on the back of factors such as the market correction at the start of October. **Falling share prices in Europe have seen dividend yields rise**



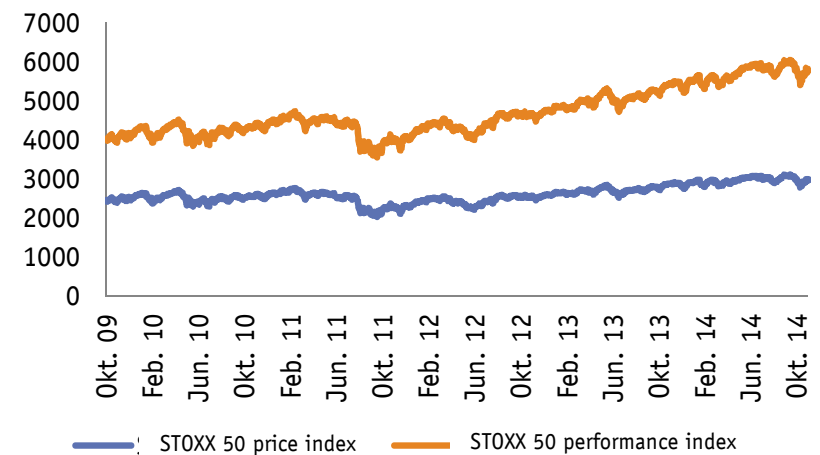
Hence: In Europe, there are currently **good opportunities for high dividend yields**. The key STOXX Europe 50 index currently has a dividend yield of around

Dividends outstripping bond yields



Source: BHF Bank/F.A.Z – Graphic Niebel

Share dividends on the up in Europe



Dividends as a solid source of income

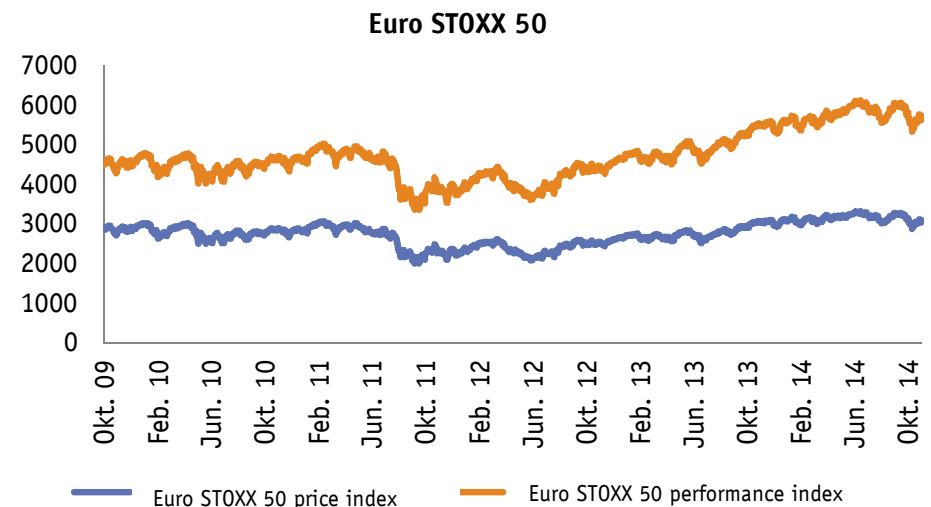
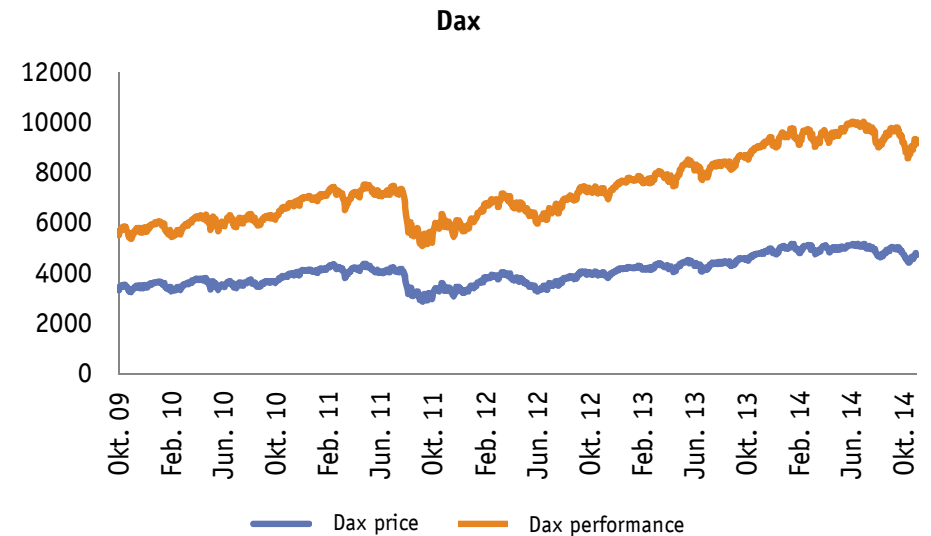
Companies with a **sustainable competitive advantage** can pay **high and steady dividends**

High cash holdings mean companies have more scope for **higher payouts**

Maximum dividend yields from high-dividend stocks → **above-average investment performance** coupled with **low volatility**

A Credit Suisse study* showed there is a **positive correlation** between **high dividend yields** and **long-term performance**, and they lead to **higher returns**

Hence: over the long term, dividends generate at least half of the absolute investment returns



Useful information

- The 1,000 largest companies worldwide outside the financial sector have cash reserves totalling USD 2.8 trillion (source: Deloitte)
- In Q1 2014, dividends paid worldwide rose by $\frac{1}{3}$ or USD 54.6 billion to a new record level of USD 228.4 billion (source: Deloitte)
- Of the annual return of 9.8% posted by the MSCI® Europe between 1970 and 2012, 4.1 percentage points stemmed from dividends of the index members (source: Allianz Global Investors)
- In Q3 2014, the UK's FTSE 100 index had a dividend yield of 3.5% and many UK companies are showing an expected dividend yield of 5% (source: FTSE Group, 30.09.2014)
- The S&P® 500 Dividend Aristocrats Index (TR) has risen by more than 1,300% since 1989, clearly outstripping the S&P 500 (source: Bloomberg)

Long-term studies show a high correlation between dividend yields and outperformance

Kenneth French

- *Professor of Finance, Tuck School of Business*
- Historical outperformance can be empirically proven based on a reference portfolio with reinvested dividends
- For the period from 1927 to 2011, a portfolio of high dividend yielding US stocks achieved an average annual return of 9.67% (versus 5.35% for other use of dividends)
- Similar results can also be shown for other markets

Dimson / Marsh / Staunton

- *"Triumph of the Optimists: 101 Years of Global Investment Returns"*
- In the period covered (1900 to 2000) a portfolio with reinvested dividends would have amassed wealth **85 times larger** than with the dividends being paid out
- One US dollar invested in US equities in 1900, with dividends reinvested every year, would have posted growth of **9.2% per annum** through to 2008

Previous dividend strategy approaches

Benjamin Graham's "Dogs of Dow"

- Choose an index (Dow Jones, DAX,..)
- Select the ten stocks with the highest dividend yields at the start of the year
- Equally weight the ten stocks
- Review the composition at the end of every year

Michael O'Higgins' "Low Five"

- Choose an index (Dow Jones, DAX,..)
- Select the ten stocks with the highest dividend yields at the start of the year
- Of these ten stocks, choose the five with the lowest share price
- Equally weight these five stocks
- Review the composition at the end of every year

Robert Sheard's "Unemotional Value Four"

- Choose an index (Dow Jones, DAX,..)
- Select the ten stocks with the highest dividend yields at the start of the year
- Of these ten stocks, choose the five with the lowest share price
- If the stock with the lowest share price has the highest dividend yield, it is removed (according to Sheard, that is a "stock in trouble")
- Equally weight the four stocks
- Review the composition at the end of every year

- Strategies that involve deliberately investing in companies with high dividend yields
- The stocks are held for at least a year before a review at the end of the year
- Objective: to outperform the index in question, since an attractive dividend can be a reflection of a company of solid substance
- Essentially, these strategies can be applied to all indexes with blue chips

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Composition and selection criteria deliver a novel index concept

Innovative index concept: stability and sustainability are also taken into account so as to achieve lasting benefit from high dividend yields

Composition

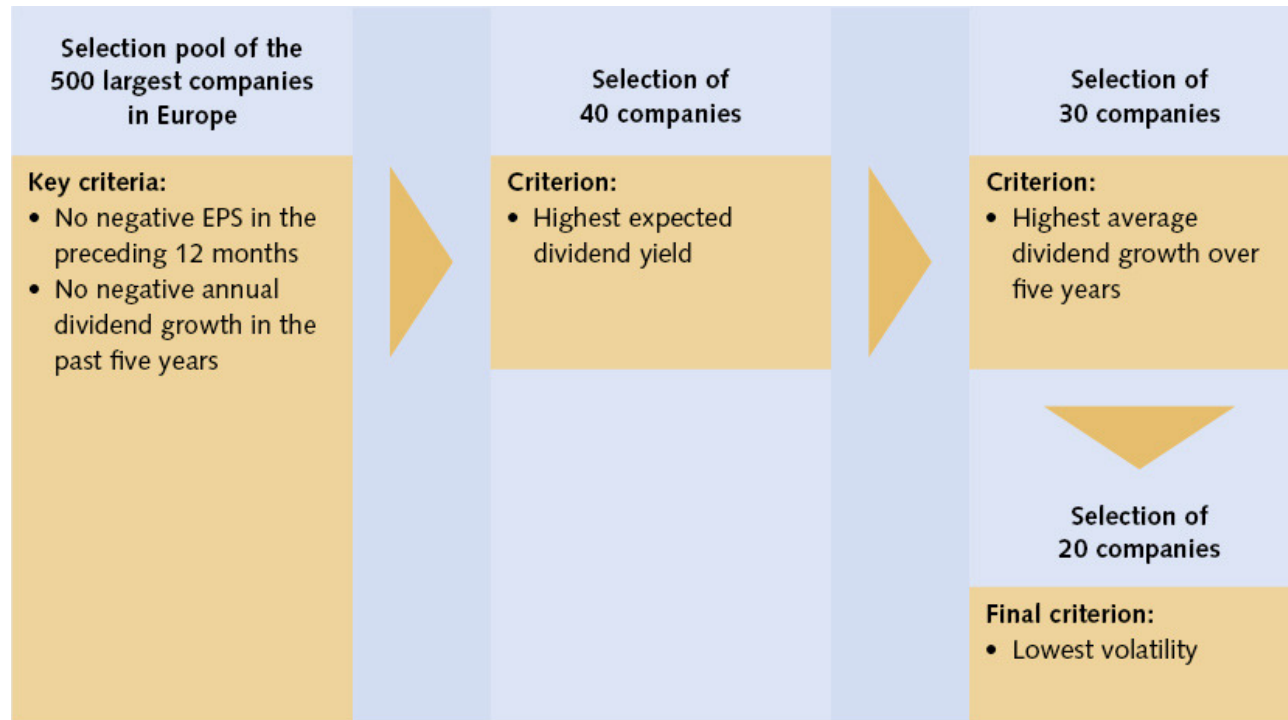
- The **Solactive European High Dividend Low Vola Index** comprises the largest companies in Europe in terms of their average and sustained dividend growth with the lowest volatility
- **Dividends paid out by** the index members are **reinvested**
- At launch, the index comprises **20 members**, which are equally weighted on the adjustment dates
- The index is adjusted **once a year** on the second Friday in August

Selection criteria

- The **selection pool** contains the 500 largest equities in Europe that have posted **no negative earnings per share (EPS)** in the past 12 months and **no negative annual dividend growth** in the past 5 years
- Selection of the **40 equities** with the **largest** expected **dividend yield**
- Selection of the **30 equities** with the **highest average dividend growth** in the past five years
- Final selection of the **20 equities** with the **lowest volatility**

Painstaking process of member selection

Objective: to select companies that essentially pay dividends primarily from income and not from their reserves



Dividend growth over five years as a possible indicator of the quality and sustainability of a company

Source: Vontobel

Index constituents at initial fixing

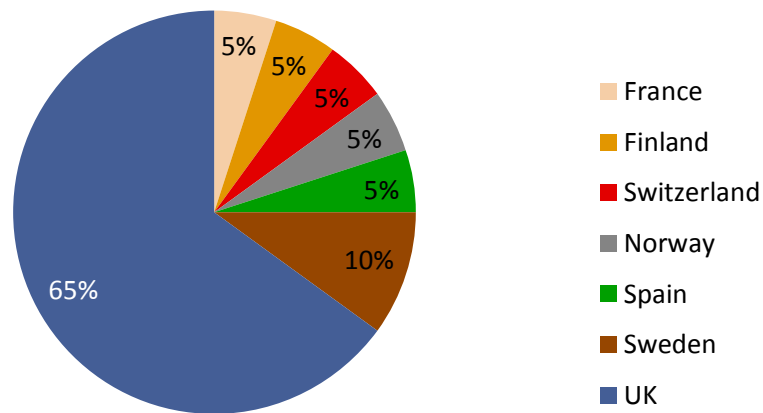
«Solactive European High Dividend Low Volatility Index» constituents at initial fixing

Name	Sector	Currency	Exchange	Dividend yield (e)	Avg. hist. dividend growth (5 years)	Volatility 260 days
Swiss Re	Finance	CHF	Zurich	6.7 %	107.5 %	17.4
Centrica	Utilities	GBP	London	5.8 %	8.2 %	17.3
GlaxoSmithKline	Healthcare	GBP	London	5.3 %	6.5 %	15.7
Imperial Tobacco	Consumer goods	GBP	London	5.2 %	11.9 %	18.1
Sampo	Finance	EUR	Helsinki	5.0 %	15.6 %	17.0
Next	Consumer services	GBP	London	5.0 %	18.6 %	19.7
BAE Systems	Industry	GBP	London	5.0 %	6.7 %	21.1
Rubis	Utilities	EUR	Paris	4.9 %	9.1 %	15.9
Standard Life	Finance	GBP	London	4.8 %	6.1 %	21.9
Pennon Group	Utilities	GBP	London	4.7 %	7.6 %	14.4
Svenska Handelsbanken	Finance	SEK	Stockholm	4.7 %	10.4 %	16.8
Pearson	Consumer services	GBP	London	4.7 %	7.3 %	21.5
Red Electrica	Utilities	EUR	Madrid	4.5 %	14.7 %	18.1
IG Group	Finance	GBP	London	4.5 %	13.4 %	19.3
British American Tobacco	Consumer goods	GBP	London	4.3 %	11.2 %	14.8
Ericsson	Technology	SEK	Stockholm	4.2 %	10.2 %	21.8
Infoma	Consumer services	GBP	London	4.1 %	13.6 %	18.5
Amec	Oil & gas	GBP	London	4.1 %	22.2 %	20.3
Statoil	Oil & gas	NOK	Oslo	4.0 %	9.7 %	17.4
British Sky Broadcasting	Consumer services	GBP	London	3.9 %	12.7 %	23.1

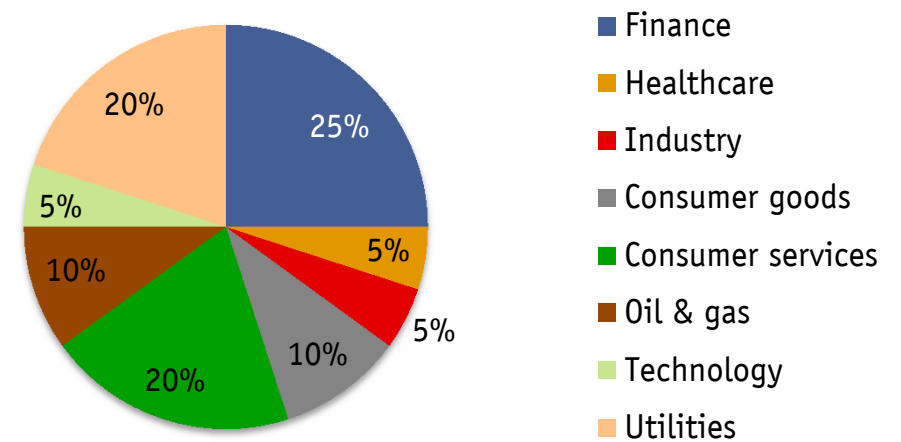
Sources: Bloomberg, Reuters; (e) = expected; as at 28.10.2014

Country and sector allocation at initial fixing

Country allocation



Sector allocation



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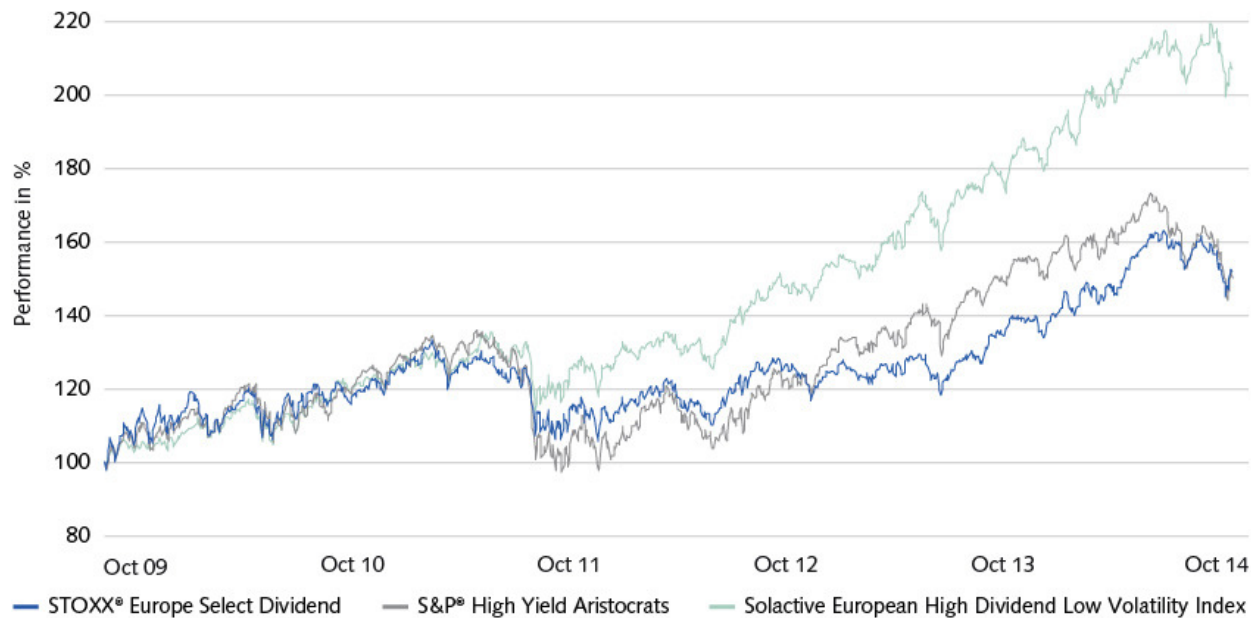
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Historical performance comparison – retroactive index calculation using historical data in EUR



Sources: Solactive, Bloomberg

Sources: Solactive, Bloomberg; as at 28.10.2014. This is a simulation of the historical performance of the Solactive European High Dividend Low Volatility Index. Past performance and simulations are not a reliable indicator of future performance.

S&P® Aristocrats High Yield Dividends

This equity index focuses exclusively on stocks that should generate high yields over the long term. It comprises 60 equities, all of which feature in the S&P® Composite 1500 Index. The stocks with the highest dividend yields and that have increased their dividends over the last 20 consecutive years are included in the index.

Source: <http://us.spindices.com/indices/strategy/sp-high-yield-dividend-aristocrats-index> or simply <http://us.spindices.com>

STOXX® Europe Select Dividends

The STOXX® Europe Select Dividend 30 comprises equities that generate higher-than-average dividend yields. It measures the performance of the 30 equities from the STOXX® Europe 600 Index with the highest dividend yields. The index constituents currently come from 18 different European countries (including Switzerland, the UK and Scandinavia).

Source:

http://www.stoxx.com/indices/index_information.html?symbol=SD3P

Overview of technical index data (1/2)*

Key data		Start date	End date	STOXX Europe Select Dividend	S&P High Yield Aristocrats	Solactive European HDLV Index
Absolute performance	1 year	14.08.2009	13.08.2010	18.17%	15.31%	16.84%
	2 years	13.08.2010	12.08.2011	-4.02%	-7.03%	2.20%
	3 years	12.08.2011	13.08.2012	9.82%	9.74%	19.64%
	4 years	13.08.2012	12.08.2013	3.59%	24.80%	22.18%
	5 years	12.08.2013	11.08.2014	19.18%	5.78%	17.30%
	since launch	14.08.2009	17.10.2014	47.74%	48.35%	103.08%
Annualized performance	1 year	14.08.2009	13.08.2010	18.22%	15.35%	16.89%
	2 years	13.08.2010	12.08.2011	-4.03%	-7.05%	2.21%
	3 years	12.08.2011	13.08.2012	9.76%	9.68%	19.53%
	4 years	13.08.2012	12.08.2013	3.60%	24.87%	22.25%
	5 years	12.08.2013	11.08.2014	19.23%	5.79%	17.35%
	since launch	14.08.2009	17.10.2014	7.83%	7.91%	14.66%
Annualized volatility	1 year	14.08.2009	13.08.2010	19.89%	19.00%	13.82%
	2 years	13.08.2010	12.08.2011	13.76%	15.75%	12.09%
	3 years	12.08.2011	13.08.2012	18.62%	24.21%	15.50%
	4 years	13.08.2012	12.08.2013	10.88%	13.39%	10.71%
	5 years	12.08.2013	11.08.2014	10.12%	11.13%	9.96%
	since launch	14.08.2009	16.10.2014	15.13%	17.26%	12.64%

*Input data: 14.08.2009 – 27.10.2014; Source: Bloomberg, as at 05.11.2014.

This is a simulation of the historical performance of the Solactive European High Dividend Low Volatility Index. Past performance and simulations are not a reliable indicator of future performance.

Overview of technical index data (2/2)*

Correlations	STOXX Europe Select Dividend	S&P High Yield Aristocrats	Solactive European HDLV Index
STOXX Europe Select Dividend	1.00	-	-
S&P High Yield Aristocrats	0.95	1.00	-
Solactive European HDLV Index	0.93	0.93	1.00
Sharpe Ratio	0.52	0.46	1.16

High correlation with the STOXX Europe Select Dividend and S&P High Yield Aristocrats Index, since the same high dividend segment is covered, but the **Solactive European High Dividend Low Volatility Index** would have been able to achieve a **better risk/return profile** thanks to a **much higher Sharpe ratio**.

*Input data: 14.08.2009 – 27.10.2014; source: Bloomberg; as at 05.11.2014.

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Solactive European High Dividend Low Volatility Index – product details

**In subscription until
5 December 2014**

Investors who want to **harness** the potential of **companies with high dividend yields and low volatility** across Europe have a simple and transparent means of **participating in the performance of the Solactive European High Dividend Low Volatility Index.**

Key product data*	VONCERT Open End on the «Solactive European High Dividend Low Volatility Index»	
Underlying	«Solactive European High Dividend Low Volatility Index»	
Valor number / symbol	2417 3007 / VZHDC	2417 3008 / VZHDE
Index provider or place of determination	Solactive AG	Solactive AG
Issue price	CHF 101.50 (CHF 1.50 front-load fee included)	EUR 101.50 (EUR 1.50 front-load fee included)
Reference price	CHF 100.00	EUR 100.00
Initial fixing / payment date	05.12.2014 / 12.12.2014	05.12.2014 / 12.12.2014
Maturity	Open End	Open End
Management fee	1.2 % p. a.	1.2 % p. a.
Subscription deadline	12 noon CET on 5.12.2014	12 noon CET on 5.12.2014

*Issuer/guarantor: Vontobel Financial Products Ltd., DIFC Dubai/Vontobel Holding AG, Zurich (S&P A-; Moody's A3). SSPA: tracker certificate (1300). Listing: will be applied for on SIX Swiss Exchange. **NB:** Please see slide 19 for information on product risks. All information is indicative and subject to change.

**For further information, please
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Summary

- The Solactive European High Dividend Low Volatility Index represents a **rules-based and thus transparent benchmark** for European companies with high dividend yields, a stable dividend track record and low volatility
- With its innovative and systematic approach, the index certificate makes it possible to **tap into the potential of high dividends geared towards sustainability**
- The index provides **access to a source of returns that is both traditional and currently important**
- The Solactive European High Dividend Low Volatility Index is **adjusted annually** and has **20 members**
- **No term restriction**
- Management fee: **1.2% p.a.**

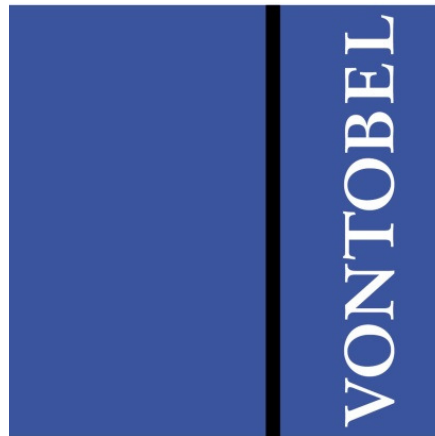
Risk factors

- **Economic crises** and **changes** could have a detrimental impact on the shares underlying the participation certificate
- **Political and regulatory risks that influence dividend payout policy could have a negative impact on performance**
- **New competitors** could engage the established firms in the index in a fight for market share, thus jeopardizing their sustainable dividend policy
- **Issuer risk**
- **Currency risk**
- **No capital protection**

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Investment Banking
Asset Management**

Performance creates trust