Vanguard

Dividends unpacked

Investment case, index selection and implementation

Designed for portfolio constructors, this publication is part of a series that aims to provide analysis and insights on targeted index and ETF exposures that can be used as building blocks for portfolios.

The enduring investment case for dividends

Dividend investing has endured because it taps into one of the market's most consistent and transparent sources of return: the regular cash distributions companies make to shareholders. Efficiently capturing these recurring dividends can play a vital role in investor portfolios.

While market narratives often shift—whether driven by surging growth stocks, macroeconomic cycles or evolving sentiment—the contribution of dividends to long-term total returns is remarkably stable. This reliability becomes especially valuable at times when price appreciation is more uncertain—for example, in the context of the current AI trade and challenging capex expectations. Based on our research, dividend exposure can provide portfolios with three powerful features, which all tie back to total return and income potential:

1. A performance compounder
2. Recessionary resilience
3. Inflation hedge

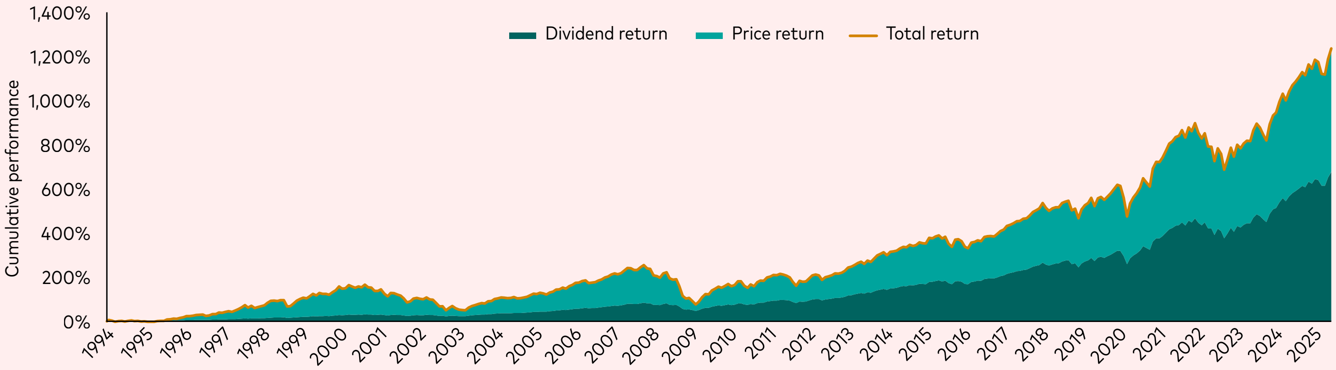
These characteristics are based on historical observations and may not persist in the future.

Harnessing the equity growth engine

Reinvested dividends act as a powerful compounding engine. Over multi-decade time horizons, a substantial share of equity market total returns comes not from rising share prices but from dividends being reinvested and compounded, as the chart below illustrates. This dynamic elevates the role of dividends from income source to core component of long-run wealth creation.

Compounded contribution of dividends and price to total return

Global equity total return contributions (USD net total returns)



Past performance is not a reliable indicator of future returns. It is not possible to invest directly in an index.

Source: FactSet, Vanguard. Data from 31 December 1993 to 31 December 2025. Global equity market = FTSE All-World Index.

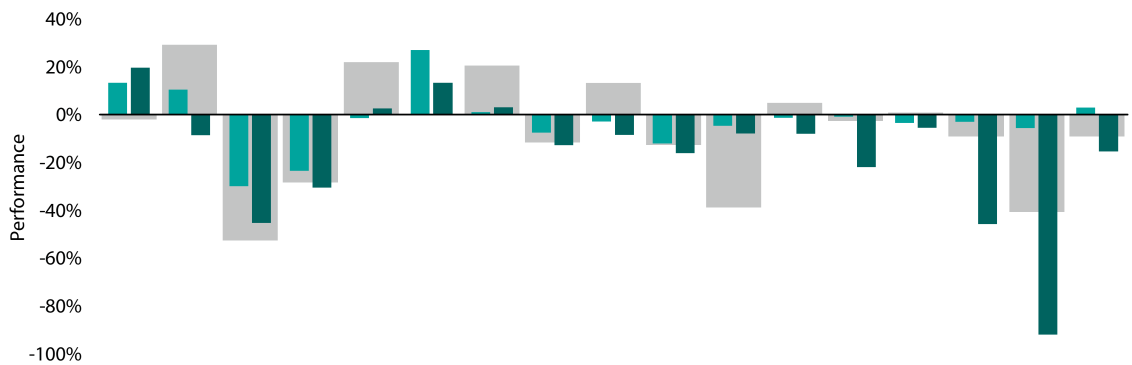
Resilience during recessions

Dividends can also provide a tangible income stream that is far less volatile than company earnings. History shows that dividend payments tend to hold up better than profits during economic downturns. Of course, dividend stability varies across companies and market conditions; historical resilience does not guarantee similar outcomes in the future. But even in deep recessions, many companies strive to maintain dividends, recognising their signalling power and transparency to shareholders.

As the chart below illustrates, US companies have a long history of defending dividends and a reluctance to cutting dividends in stock market downturns accompanying recessions. Dividends don't suffer as much as earnings because they are paid out from retained earnings and will typically be cut if losses are structural (rather than cyclical), leverage becomes too high or liquidity gets too tight. For long-term investors, this stability can cushion portfolios when markets weaken.

A century of recession-dampening dividends

US dividends in recessions



	1923-24	1926-27	Great Depresion of 1929-33	1937-38	End of WWII 1945	1948-49	1935-54	1957-58	1960-61	1969-70	Stagflation of 1973-75	1980	1981-82	1990-91	2001	Global Financial Crisis 2007-9	Covid-19 pandemic of 2020
S&P 500	-2.0%	29.2%	-52.6%	-28.2%	21.9%	0.1%	20.5%	-11.5%	13.3%	-12.6%	-38.6%	4.9%	-2.6%	0.9%	-9.0%	-40.6%	-9.1%
Dividends per share	13.3%	10.4%	-29.9%	-23.4%	-1.4%	27.0%	1.0%	-7.5%	-2.9%	-12.0%	-4.7%	-1.3%	-0.8%	-3.5%	-3.0%	-5.6%	2.9%
Earnings per share	19.7%	-8.6%	-45.3%	-30.5%	2.6%	13.3%	3.1%	-12.8%	-8.4%	-16.1%	-7.9%	-8.0%	-21.9%	-5.4%	-45.8%	-91.9%	-15.4%

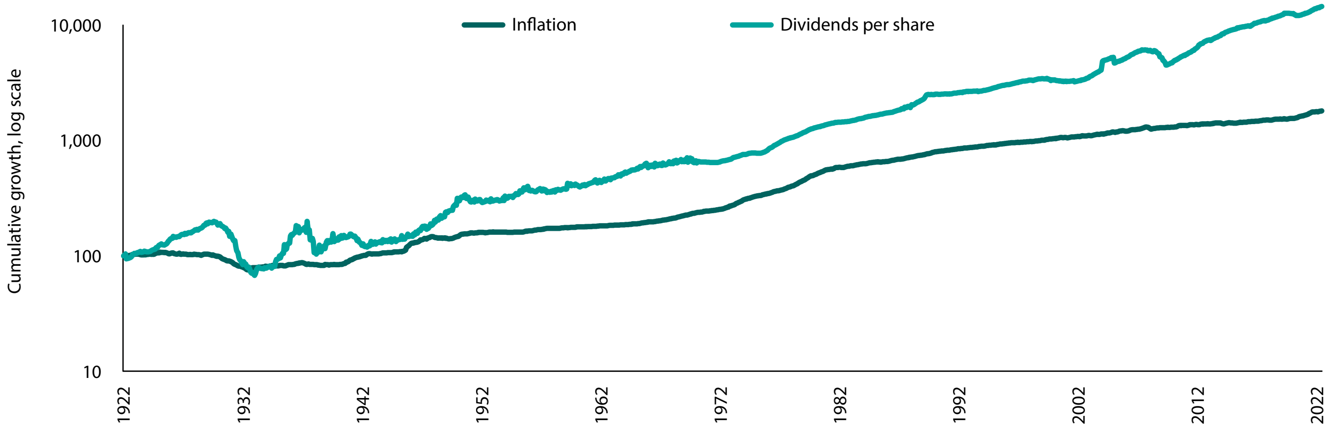
Past performance is not a reliable indicator of future returns.

Source: Robert J. Shiller, with stock market data used in "Irrational Exuberance" Princeton University Press, 2000, 2005, 2015, Bloomberg. Data from 30 September 1922 to 31 March 2023. DPS = dividends per share, EPS = earnings per share and are for the S&P 500 index. Performance is the rate of change adjusted for inflation.

In addition, US dividends have historically outpaced inflation. While consumer prices have steadily risen over the past century, dividend payments have grown faster. The upward trajectory of dividends, shown on a log scale, reflects companies' ability to grow earnings and strike a balance between distribution and reinvestment. The result: long-term investors benefitting from dividend growth have seen their real income rise, demonstrating why dividends are a powerful tool for preserving and increasing purchasing power over time.

Historical comparison of inflation and dividends

US dividends vs. inflation during past century



Past performance is not a reliable indicator of future returns.

Source: Robert J. Shiller, with stock market data used in "Irrational Exuberance" Princeton University Press, 2000, 2005, 2015, Bloomberg. Data from 30 September 1922 to 31 March 2023. Inflation = US Urban Consumer Index (CPI). Dividends per share are in US dollars. Dividend growth may not outpace inflation in the future.

Dividend strategies also offer structural advantages when thoughtfully constructed. High-dividend indices, for example, not only provide exposure to value-oriented stocks but can also tilt towards companies with strong profitability and robust balance sheets—if weighted by market cap. This helps investors avoid "value traps"—stocks that look cheap due to weak fundamentals—and instead focus on businesses capable of sustaining payouts over time. Further, a global dividend exposure can reduce region-specific risks and smooth seasonal variations in payout patterns.

In an environment where equity valuations and macro risks are elevated, dividends remain a reliable driver of returns. Their resilience—and compounding power—explains why the appeal of dividend-focused strategies endures, through cycles and across markets.

Index selection: Methodology matters

Understanding the FTSE All-World High Dividend Yield Index

While the long-term investment case for dividends is compelling, index methodology ultimately determines the quality and reliability of the income investors receive.

High-dividend strategies can behave very differently depending on whether they rely on backward-looking histories, chase high yields or draw from narrow universes with structural biases. This makes the index methodology's core elements—universe, screening, selection, weighting and rebalancing—the crucial drivers of performance, both absolute and risk-adjusted.

We believe an effective high-dividend approach needs to achieve the following:

1. Capture the market effectively
2. Provide robust diversification
3. Capture value without value traps
4. Offer sustained dividends

For investors seeking a clear, consistent and globally diversified approach, the FTSE All-World High Dividend Yield Index stands apart based on these criteria.

Capturing the market: A pure, rules-based methodology

Index methodologies vary, and suitability depends on investor objectives. At its core, the FTSE All-World High Dividend Yield Index focuses on a pure, rules-based screen for forecast dividend yield, without layering on quality, value or dividend growth requirements. The index comprises companies that are forecast to pay high dividends, based on 12-month projections from the Refinitiv Institutional Brokers' Estimate System[1]. Stocks qualify for inclusion if they are among the top 50% of the highest dividend yielders by market cap.

The resulting universe does not have a predefined number of constituents and is weighted based on market capitalisation, not yield.

The index excludes REITs[2] and companies forecast to pay zero dividends, sharpening the focus on reliable, recurring dividend payers. Certain competing dividend indices—such as the STOXX Global Select Dividend 100—include REITs, whose payout structures and tax treatments can inflate headline yields and distort comparisons across sectors. By excluding REITs, the FTSE All-World High Dividend Yield Index maintains cleaner yield integrity and helps avoid sector-driven distortions.

Methodology in a nutshell

Screening

Parent index:

FTSE All-World Index

4,220 securites

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Exclude:

REITs

100 securites

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Exclude:

Non-dividend payers (next 12 months)

1,744 securites

=

Selection and weighting

FTSE All-World High Dividend Yield Index

2,376 securites

1. **Selection:** the highest 12-month forward dividend-yielding stocks capturing 50% of free-float market cap
2. **Weighting:** free-float market cap
3. **Rebalancing:** bi-annually in March and September

Source: FTSE Russell. Data as at 30 September 2025 (the most recent index rebalancing).

1 Refinitiv's Institutional Brokers' Estimate System (I/B/E/S) is a global database that collects analysts' forward-looking company forecasts—such as earnings, dividends and revenue—from contributing brokerages. It provides a widely used, consensus-based view of expected corporate fundamentals that underpins many index-screening methodologies.

2 REITs (real estate investment trusts) are companies that own or operate income-producing real estate and are required to distribute most of their earnings as dividends. Because their payouts are driven by sector-specific rules and tax structures, they can distort yield comparisons in high-dividend indices.

Retaining market-capitalisation weighting is an advantage. Although equal-weighted or dividend-weighted indices may seem appealing, such approaches often increase turnover, raise trading costs and introduce unintended factor tilts. Market-cap weighting keeps the FTSE All-World High Dividend Yield Index cost efficient, easy to implement and aligned with global benchmark structures investors already use in portfolios.

This approach contrasts sharply with indices based on historical dividends, such as the S&P Global Dividend Aristocrats Quality Income Index, which only includes companies that have raised dividends for 10 consecutive years. While that approach can deliver stability, it prioritises consistency over yield, meaning Dividend Aristocrats often overweight slow growth, mature companies, and capture trends in a delayed manner. The FTSE All-World High Dividend Yield Index ensures investors gain exposure to companies with attractive income potential today and over the coming 12 months, not just long histories of incremental increases.

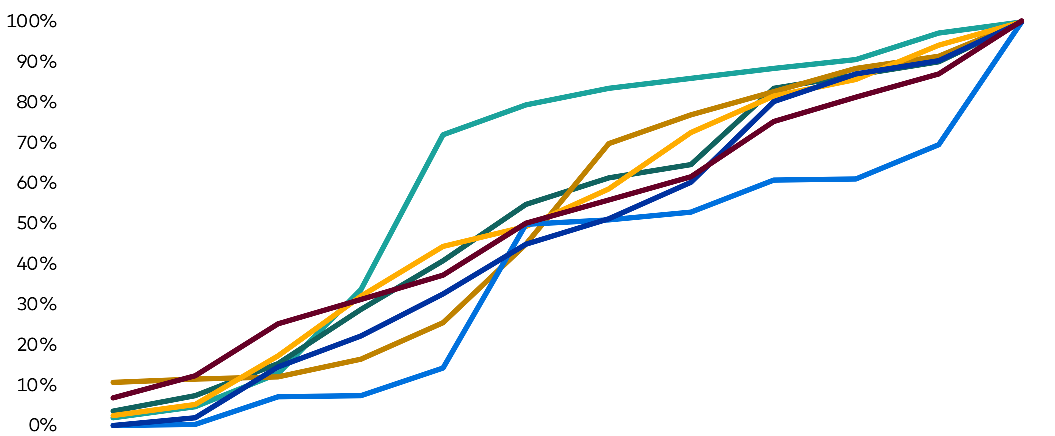
Diversification: A buffer against seasonality and sector biases

When comparing index exposures, it's instructive to look at diversification at various levels, including geographic, sector, market cap and security count.

Geographic: Dividend payouts don't follow the same cadence across countries and regions. For this reason, a globally diversified approach allows investors to smooth out the seasonality of dividends (see chart) that can arise when focusing on a specific geography. In this context, the FTSE All-World High Dividend Yield Index compares favourably against the Global Dividend Aristocrats approach, for example by allocating around 10% less weight to the US and higher weightings to the UK and Japan. Investors should keep in mind, though, that diversification does not ensure a profit or protect against loss.

Seasonality of global dividend distributions

Cumulative dividend distributions by region



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
		Q1			Q2			Q3			Q4	
	2025											
Europe ex-UK	2%	5%	13%	34%	72%	80%	84%	86%	89%	91%	97%	100%
United Kingdom	4%	7%	16%	29%	41%	55%	62%	65%	84%	87%	90%	100%
China	11%	12%	12%	17%	26%	45%	70%	77%	83%	88%	92%	100%
Emerging Markets ex-China	3%	5%	17%	32%	44%	49%	59%	73%	82%	86%	94%	100%
Japan	0%	0%	7%	8%	14%	50%	51%	53%	61%	61%	70%	100%
Pacific ex-Japan	0%	2%	15%	22%	33%	45%	51%	60%	80%	87%	90%	100%
North America	7%	12%	25%	31%	37%	50%	56%	62%	75%	81%	87%	100%

Past performance is not a reliable indicator of future returns.

Source: FactSet, Vanguard. Data as at 31 December 2025 and based on FTSE All-World Index constituents.

Sector: Compared against the Global Dividend Aristocrats index, the most notable differences are in financials, where the FTSE exposure has a 4% higher weighting; utilities, a 15% lower weighting; and real estate, an 11% lower weighting, given the exclusion of REITS[3].

Market capitalisation: Since it is weighted by market cap, the FTSE index retains a predominantly large-cap profile, keeping it closely aligned with the parent index and avoiding the small-cap distortions common in alternative weighting approaches.

Security count: The FTSE All-World High Dividend Yield Index has nearly 2,400 constituents, making it far more diversified than comparable indices – some of which have hundreds of names or fewer. This means that competing indices tend to have much higher concentration in the largest holdings.

Balancing factor exposures

The FTSE All-World High Dividend Yield Index provides a balanced, multi-factor profile that extends well beyond pure income. Its forward-looking 12-month dividend screen, combined with market-cap weighting, naturally tilts the index towards companies with durable cash-flow strength and larger-cap balance sheet resilience. This construction leads to higher exposure to quality relative to many high-dividend competitors, while still maintaining a clear value tilt. Moreover, the FTSE exposure tends to exhibit lower volatility and a less extreme value tilt than competitor exposures[4].

The FTSE index offers global breadth and consistent representation across healthcare, staples, industrials, technology and financials, while avoiding the narrow, high-yield clustering and small-cap tilts that can distort factor expression. Compared with narrower competitor methodologies, FTSE's index construction results in a more diversified, higher quality, lower beta factor mix – giving investors a well-balanced exposure without sacrificing global reach. Investors should note that factor characteristics are based on historical observations and may not persist.

Generating high dividend yields – while avoiding value traps

The FTSE All-World High Dividend Yield Index is particularly effective because it delivers a high-dividend yield exposure that avoids classic value traps. Rather than selecting stocks based on backward-looking dividend histories or mechanically chasing the highest yields, the index applies a forward-looking dividend methodology, excludes REITs and distressed yield names, and weights constituents by market capitalisation. This market-cap-weighted approach ensures that the index mitigates the risk of value traps by underweighting companies that could lack the ability to pay the expected dividend – and overweights companies with more durable payout capacity.

These design choices give FTSE's approach a more balanced loading to value than competitors indexed to high-yield screens that over emphasise low-growth, low-profitability companies. By emphasising dividend visibility and diversification—including emerging markets—the index achieves a premium dividend yield over

3 Source: FTSE Russell, S&P Dow Jones Indices, as at 31 January 2026.

4 Since inception, the FTSE All-World High Dividend Yield Index has had annualised volatility of 12.8%, versus 13.9% for the STOXX Global Select Dividend 100 Index and 14.0% for the S&P Global Dividend Aristocrats Quality Income Index. Source: Bloomberg. Data from 22 May 2013 to 31 December 2025. Inception date is based on the oldest available data for the Vanguard FTSE All-World High Dividend Yield UCITS ETF.

the broad market (historically in the 3.6%–3.9% range[5]) without concentrating in structurally weaker segments. This differentiated construction methodology has translated into strong long-term performance versus major competitor indices[6], demonstrating that investors can access high dividends without taking on the risks of deep-value companies. Past outperformance does not guarantee repeated outcomes.

When selecting a high-dividend index, we believe investors should opt for one that is grounded in transparent, rules-driven governance, with a clear construction methodology. Such a foundation can translate into a consistent and disciplined approach, instilling confidence that the strategy will remain true to its objective.

For those seeking reliable high dividends, broad diversification and a methodology that avoids the common shortcomings of other income strategies, the FTSE All-World High Dividend Yield Index offers a transparent and rules-based framework for tapping the enduring investment case for dividends.

Implementation: Access high-dividend yield exposure with Vanguard

Vanguard FTSE All-World High Dividend Yield UCITS ETF

Share class	TER/OCF	Inception date	ISIN	Currency	Ticker	Listing exchange
Distributing	0.29%	23-May-2013	IE00B8GKDB10	USD	VHYD (primary)	London Stock Exchange
				GBP	VHYL	
				EUR	VHYL	Borsa Italiana
					VGWD	Deutsche Boerse
					VHYL	NYSE Euronext
				CHF	VHYL	SIX Swiss
Accumulating	0.29%	24-Sep-2019	IE00BK5BR626	USD	VHYA (primary)	London Stock Exchange
				GBP	VHYG	
				EUR	VHYA	Borsa Italiana
					VGWE	Deutsche Boerse
					VGWE	NYSE Euronext
				CHF	VHYA	SIX Swiss

Source: Vanguard, as at 31 January 2026. The ongoing charges figure (OCF) or total expense ratio (TER) is the sum of investment management fees (the fees paid to the portfolio manager to invest your money and manage the fund) and administrative and other expenses (which cover all costs and expenses connected with the operation of the fund, which includes administrative fees, shareholder's registration and transfer agency fees, custody fees and all other operating expenses).

5 The index has an average dividend yield of 3.6% over one year, 3.8% over three years and 3.9% since inception. Source: Bloomberg. Data from 22 May 2013 to 31 December 2025. Data based on oldest available data for the Vanguard FTSE All-World High Dividend Yield UCITS ETF.

6 The index has an annualised return of 7.4% since inception versus 7.3% for the STOXX Global Select Dividend 100 Index and 6.0% for the S&P Global Dividend Aristocrats Quality Income Index. **Past performance is not a reliable indicator of future results.** Source: Bloomberg. Data from 22 May 2013 to 31 December 2025, total returns in USD. Inception date based on oldest available data for the Vanguard FTSE All-World High Dividend Yield UCITS ETF.

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The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Past performance is not a reliable indicator of future results. The performance data does not take account of the commissions and costs incurred in the issue and redemption of shares.

Performance figures shown may be calculated in a currency that differs from the currency of the share class that you are invested in. As a result, returns may decrease or increase due to currency fluctuations.

Investments in smaller companies may be more volatile than investments in well-established blue chip companies.

ETF shares can be bought or sold only through a broker. Investing in ETFs entails stockbroker commission and a bid-offer spread which should be considered fully before investing.

The Funds may use derivatives in order to reduce risk or cost and/or generate extra income or growth. The use of derivatives could increase or reduce exposure to underlying assets and result in greater fluctuations of the Fund's net asset value. A derivative is a financial contract whose value is based on the value of a financial asset (such as a share, bond, or currency) or a market index.

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For further information on risks please see the "Risk Factors" section of the prospectus on our website.

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