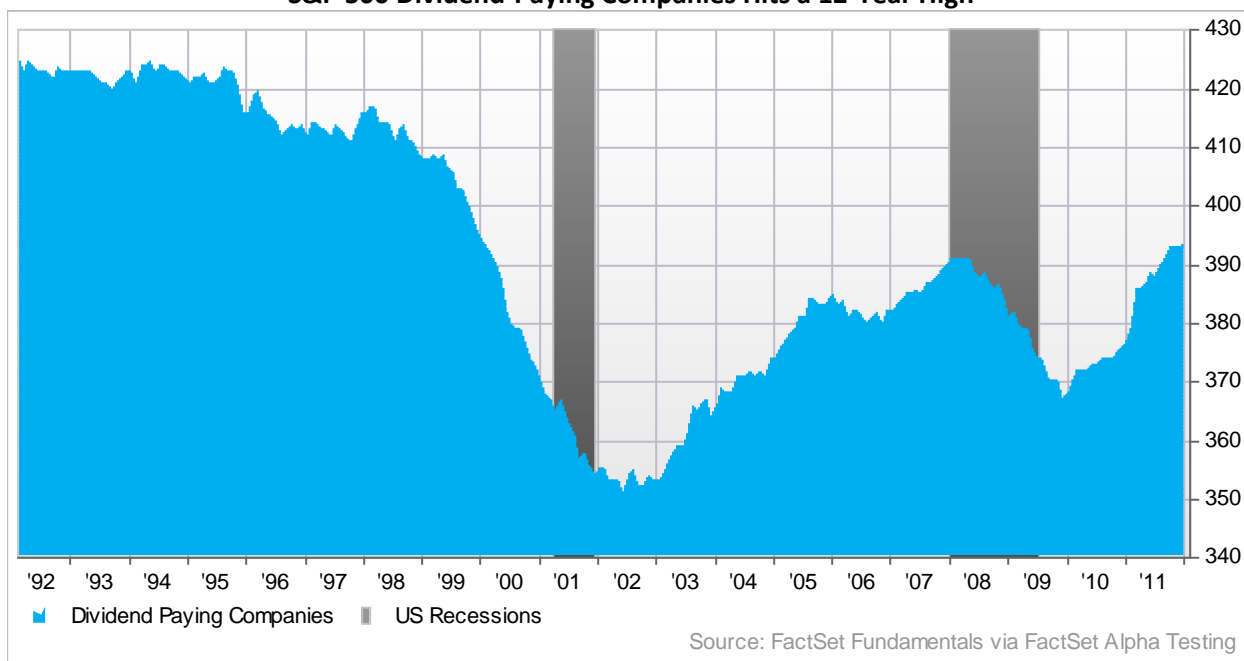


Key Metrics:

- + **Aggregate Dividends:** The number of dividend-paying companies was 393 at the end of Q4 2011 (January 2012), which marks a 12-year high. Aggregate quarterly dividend payments amounted to \$260.8 billion over the trailing twelve months. On a per-share basis, the aggregate figure was \$26.78 per share, reflecting year-over-year growth of 16.1%. The Financials, Materials, and Information Technology sectors led all sectors in year-over-year growth on a per-share basis (40.0%, 28.4%, and 23.5%, respectively).
- + **Aggregate Payout Ratio:** The S&P 500 aggregate payout ratio was to 28.9% for Q4 2011. This percentage is unchanged from last year, and is still 20% below its fifteen-year daily average of 35.8%. The sector with the highest ratio is the Telecommunications Services sector, where losses reported by Verizon Communications Inc. and AT&T Inc. in Q4 have contributed to a payout ratio surpassing 100%.
- + **Aggregate Yield:** The S&P 500 aggregate dividend yield amounted to 2.0% at quarter-end. This yield is unchanged from the ten-year daily average, but has increased 12.9% year-over-year. The Telecommunications Services and Utilities sectors lead all sectors with dividend yields of 5.6% and 4.1%, respectively.
- + **Historical, Forward Performance:** Over the past ten years, stocks with the largest five-year compound annual growth rates in dividends per share have not outperformed peers with lower growth rates. The dividend-paying stocks in the top quartile of dividends per share growth have underperformed the S&P 500 Total Return Index by 7.5% over fifteen years, while the remaining quartiles have outperformed.

S&P 500 Dividend-Paying Companies Hits a 12-Year High



Dividend Quarterly is one part of three reports ([Buyback Quarterly](#) and [Cash & Investments Quarterly](#)) analyzing cash and discretionary spending within the S&P 500. The other reports can be found at www.factset.com/insider/product_insight or within the FactSet Market News application of your FactSet workstation. All data published in this report is available on FactSet. Please contact media_request@factset.com of 1-877-FACTSET for more information.

Dividend-Paying Companies Hits a 12-Year High

The number of dividend-paying companies hit a 12-year high of 393 at the end of Q4 2011. This is the highest number of companies paying dividends since Q4 1999 (394). While the index consistently had greater than 400 dividend-paying companies (or more than 80% of constituents)—during the 1990's, the 80% milestone has not been breached since the turn of the century.

The recent low for the number of trailing twelve month (TTM) dividend-payers was 368 in January 2010. Since that time, dividend-paying companies have grown organically (there has been a net loss of three dividend-paying companies from the thirty-seven constituent changes in the S&P 500 over the two year period). Of the companies that have been constituents of the S&P 500 since January of 2010, thirty-one have initiated dividend payments while only two have stopped paying dividends (Tesoro Corp. and BorgWarner Inc.). Of these thirty-one companies, eight are in the Consumer Discretionary Sector and eight are in the Information Technology sector. Thus, 52% of the increase in dividend-payers came from these two sectors alone.

Majority of Information Technology Companies Paying Dividends

The upward trend in the Information Technology sector is especially interesting. Ten years ago (July 2002), just 17.9% of Information Technology companies in the S&P 500 paid a dividend in the trailing twelve months. However, Q3 2011 marked the first quarter in the S&P 500 in which there were more dividend-paying stocks in the Information Technology sector than non-dividend-paying ones. And, at the end of Q4 2011, dividend-paying stocks in the sector held the strongest majority in over twenty years—53.5% of S&P 500 Information Technology stocks paid a dividend over the trailing twelve months. In the context of this trend, Apple's recent dividend announcement seems to support the general maturation that has been occurring within companies in the Information Technology sector.

This uptick in dividend-paying companies has also supported the Information Technology sector's strong growth in dividends per share (DPS). The Q4 2011 value of \$4.55 is 23.5% greater than the Q4 2010 value, and this growth represents the third highest sector-based increase in DPS in the S&P 500 (the highest growth came from the Financials sector, which is discussed below). But, despite the sector's growth in DPS, it still has the lowest payout ratio (15.1%) and yield (1.0%) in the S&P 500.

So, if dividend-paying Information Technology stocks have been increasing in numbers, what has kept the aggregate number of dividend-payers in the S&P 500 so low relative to the 1990's? It appears that adjustments to the number of constituents in each sector are partially to blame. Compared to December 1999, there are forty-three less constituents in the Materials (-19), Industrials (-11), Utilities (-7), and Telecommunications Services sectors (-6). These sectors have consistently contained more dividend-paying stocks than non-payers (some sectors with substantially more). On the other hand, there are twenty-four more constituents in the Information Technology (+9) and Health Care (+15) sectors, among other constituent changes. While the number of dividend-paying companies in the Information Technology sector has increased in recent years, the number of dividend-paying companies in the Health Care sector has actually decreased since the mid-1990's. The proportion of dividend-paying constituents in the Health Care sector has fallen from 85.3% in Q4 1994 to 67.6% in Q4 1999 to just 53.8% at Q4 2011.

Please note the number of constituents in the Financials (+11) and Energy (+18) sectors have also increased, but this has not contributed to the overall increase in dividend-paying stocks.

Telecommunications Services Companies Lagging in Dividends per Share Increases

The Health Care, Consumer Discretionary, and Consumer Staples sectors had the highest percentage of dividend-paying companies making increases to trailing twelve month dividends per share. On the other hand, the Telecommunications Services sector had the lowest percentage of dividend-paying companies (only AT&T and Verizon) making increases. This general reluctance of companies in the Telecom

Services sector to increase dividends could be a product of weak earnings. Four of the seven constituents in the Telecom Services sector reported losses for Q4 2011. Overall, the sector reported a loss of -\$9.7 billion in the quarter and a profit of only \$4.8 billion over the trailing twelve months. This trailing twelve month earnings figure is just over a fourth of the value of trailing twelve month earnings at the end of Q3 2011 (\$17.7 billion). As a result, the sector's dividend payout ratio ballooned to over 105% at the end of Q4 2011 and 163% at the end of February.

Financials Sector Still Lagging in Dividend Payments

The Financials sector is the only sector in the S&P 500 that has paid less in gross TTM dividends than it averaged over the past ten years. In fact, the sector's TTM cash outflows from dividends are 30% below its own ten year average. This is in contrast to the other nine sectors where the average TTM dividend cash outflows are 36.8% above the ten year average. The reduced dividend payout in the Financials sector is partly attributable to poor performance and stricter capital requirements in the sector. As a result, some of the largest pre-crisis dividend-payers are distributing just a fraction of their 2008 payout in 2011. In 2011, Bank of America paid only 15.1% of the pre-crisis \$11.5 billion payout from 2008, Citigroup only 1.4% of its \$7.5 billion, and SunTrust Banks only 12.6% of its \$1.0 billion. SunTrust Banks and Citigroup were among four financial institutions that did meet minimum regulatory capital ratios at some point over the Federal Reserve's most recent stress test.

But due in part to a low year-ago comparison, the Financials sector led all sectors in year-over-year DPS growth at 40.0%. At the constituent level, five of the top six stocks by percentage growth in trailing twelve month dividends per share were in the Financials sector, including State Street Corp., Fifth Third Bancorp, JPMorgan Chase, PNC Financial Services Group, and Huntington Bancshares. Additionally, four of the top ten stocks by gross DPS growth were also in the Financials sector—BlackRock, CME Group Inc. (Class A), PNC Financial Services Group, and JPMorgan Chase.

On the other hand, stocks with the highest long-term DPS growth rates were primarily within the Consumer Discretionary sector. Five of the top ten stocks by ten-year compound annual growth in dividends per share included Darden Restaurants, Limited Brands, Mattel, McDonald's, and Hasbro. Of those stocks, Limited Brands was also on the top ten lists for five-year and three-year compound annual growth in DPS.

Dividend Growth Rates Show Weak Relationship with Forward Returns

A back test utilizing FactSet's Alpha Testing application shows that stocks with the highest five-year compound annual growth rates in earnings per share have outperformed stocks with lower growth rates over fifteen years. However, the results for dividend per share (DPS) growth rates show a different relationship. Dividend paying stocks in the top quartile by DPS growth have underperformed the S&P 500 Total Return Index, while the lower three quartiles outperformed.

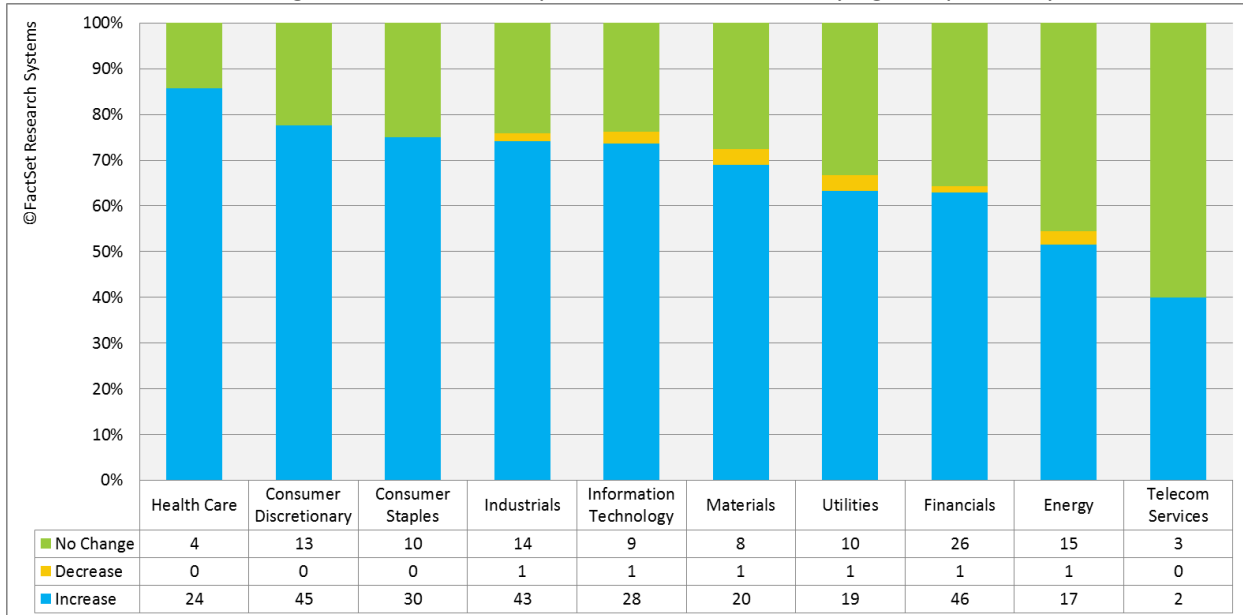
A closer examination of this data shows that the top quartile for DPS growth was actually outperforming the index from 1997 until 2004 but then reversed course. Specifically, from 2004 through 2007, the top quartile underperformed the S&P 500 by 28.9%, while the third and fourth quartiles outperformed by 35.7% and 21.2%, respectively. Also, two sectors—Health Care and Financials—appear to show an inverse relationship between dividend growth and forward returns. Within those sectors, the lowest DPS growth quartile has averaged a return of averaged 1.05% per month, while the top quartile has averaged only 0.29% per month over the fifteen year period. Excluding these two sectors, the top quartile by five-year DPS growth outperformed by 103% over fifteen years and the lowest quartile underperformed.

Please note that back tests now use FactSet Fundamentals for dividend calculations and FactSet Fundamentals as the source for calculating returns. For all back tests, securities are market cap weighted to ensure that the effects of differences in security weighting between the model and the benchmark have a limited impact on historic, forward returns.

Dividend Payout Practices

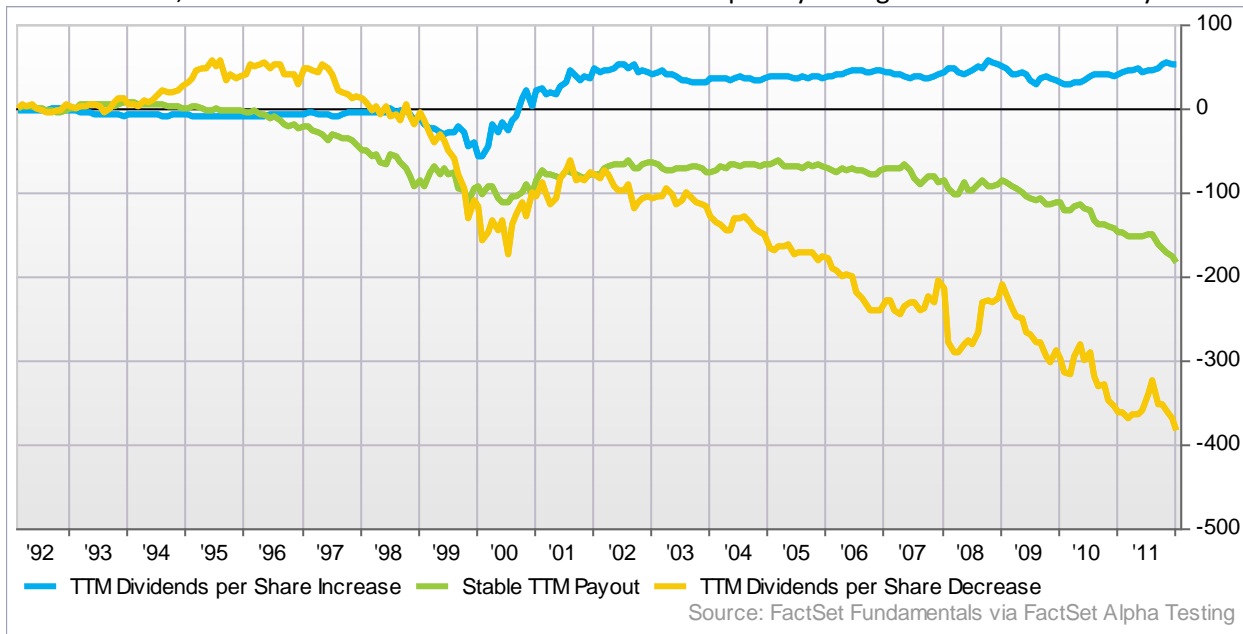
Increases and decreases in dividends per share are assessed on how the month-end trailing twelve month DPS figure compares to the previous quarter's value. Dividends per share figures include extra/special dividends.

3-Month Change in TTM Dividends per Share of Dividend-Paying Companies by Sector



For this back test, S&P 500 companies were broken into groups by change in their TTM DPS relative to the previous quarter. The previous version of this test included non-dividend-paying companies in the "stable payout" group and based changes in year-over-year dividends per share on quarterly payouts, rather than payouts over the trailing twelve months.

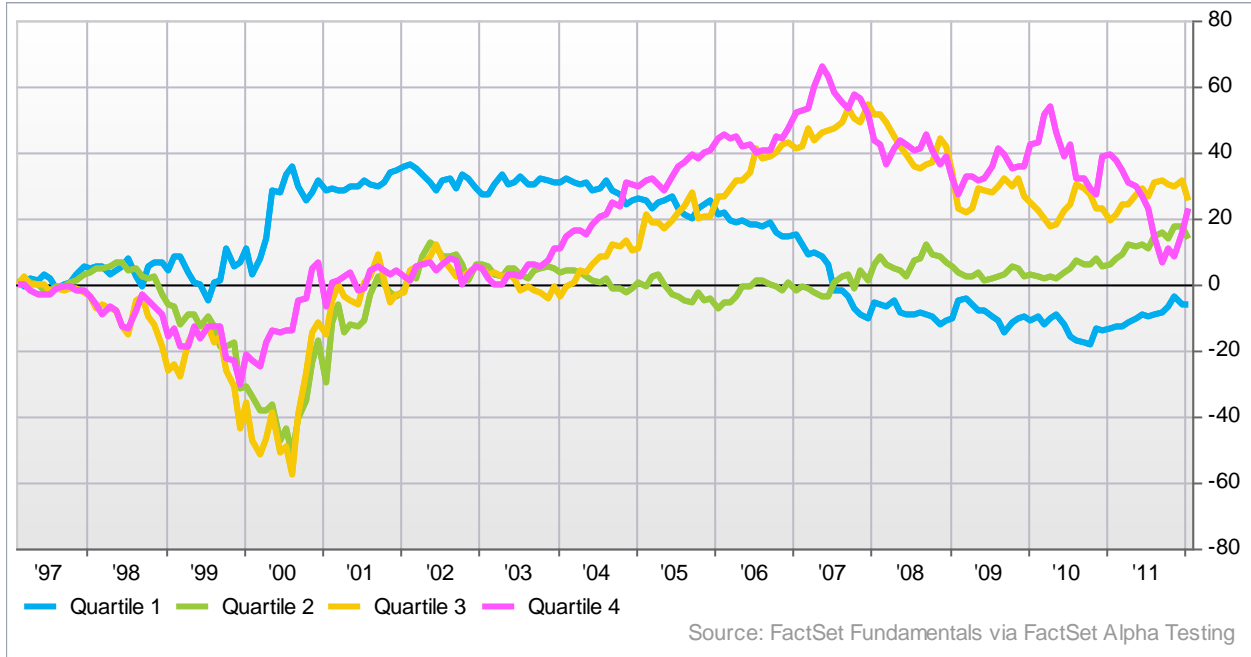
Historical, Forward Returns - Relative to S&P 500 - Grouped by Change in TTM Dividend Payout



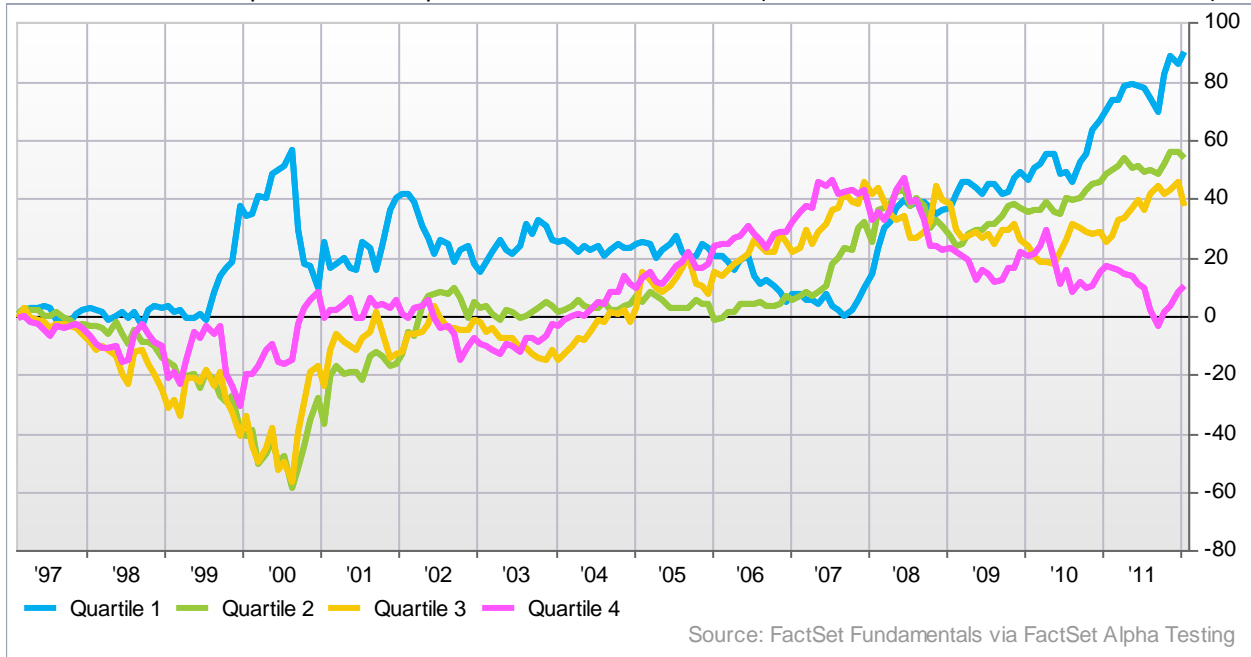
15-Year Forward Performance: DPS Growth

For this Alpha Testing back test, S&P 500 companies were broken into quartiles by five-year compound annual growth rates in dividends per share.

5-Year Dividends per Share Compound Annual Growth Rate – Grouped by Quartile



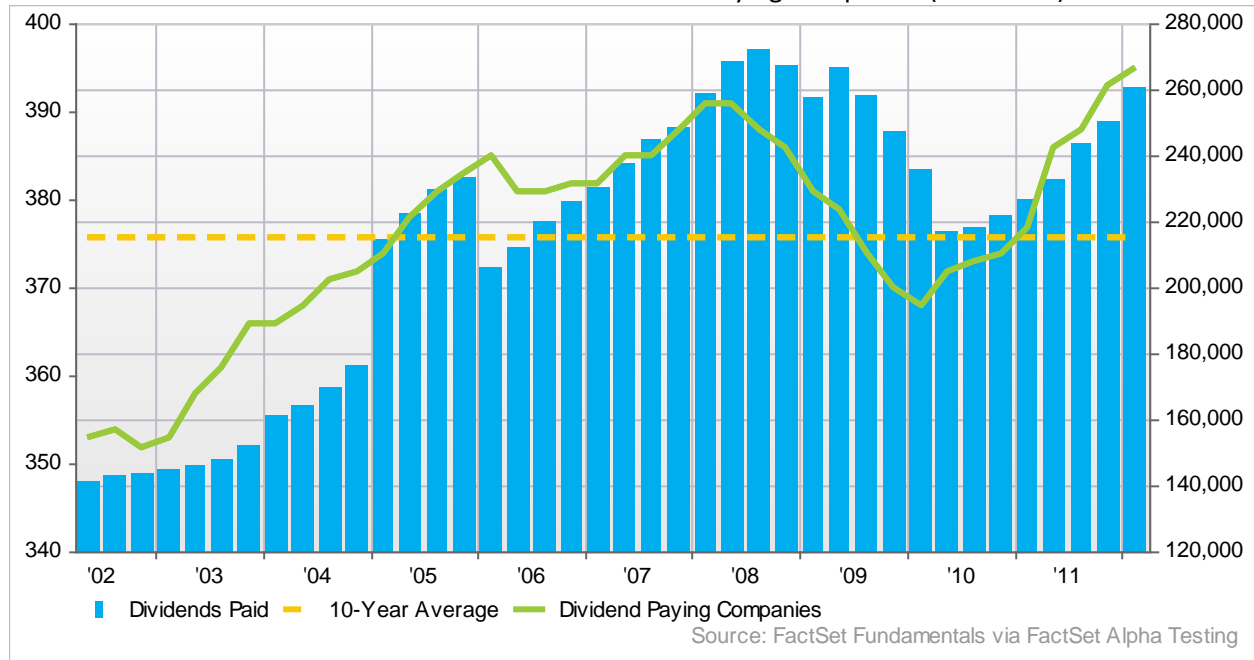
5-Year Dividends per Share Compound Annual Growth Rate (Ex-Financials and Health Care sectors)



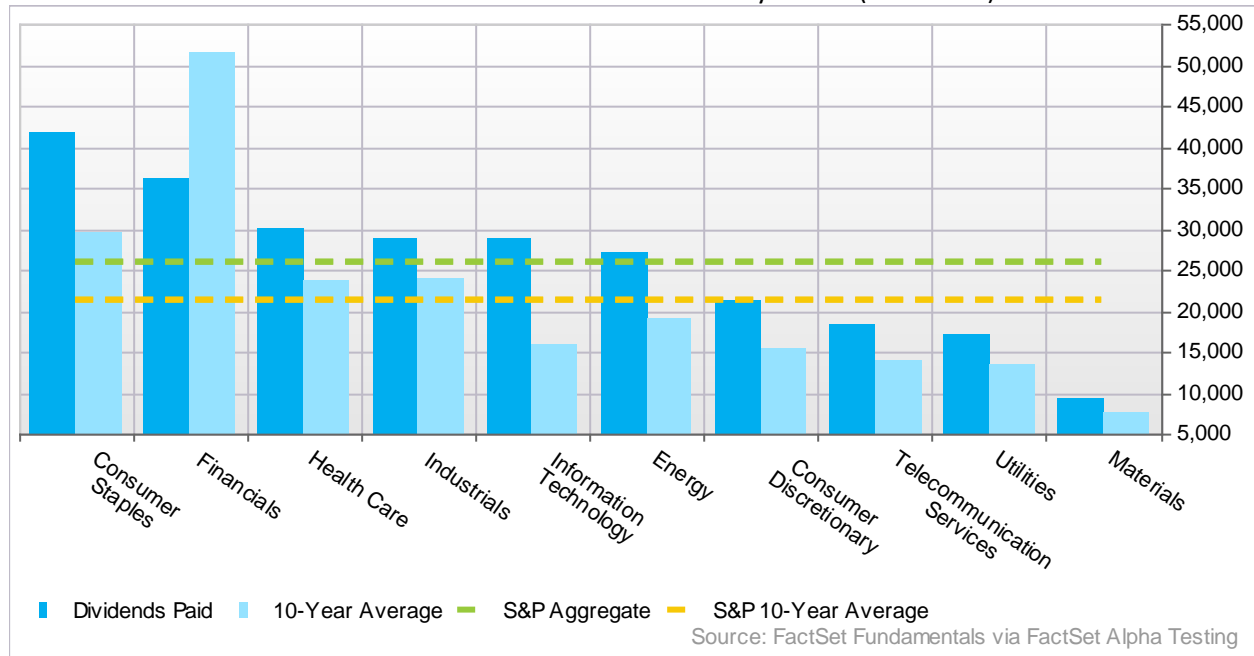
Dividends Paid

Aggregate cash dividends paid is sourced directly from the cash flow statement and includes both common and preferred dividends. The information presented below shows cash dividends paid over the trailing twelve months.

Common and Preferred Dividends Paid and Dividend Paying Companies (TTM Basis) – 10 Years



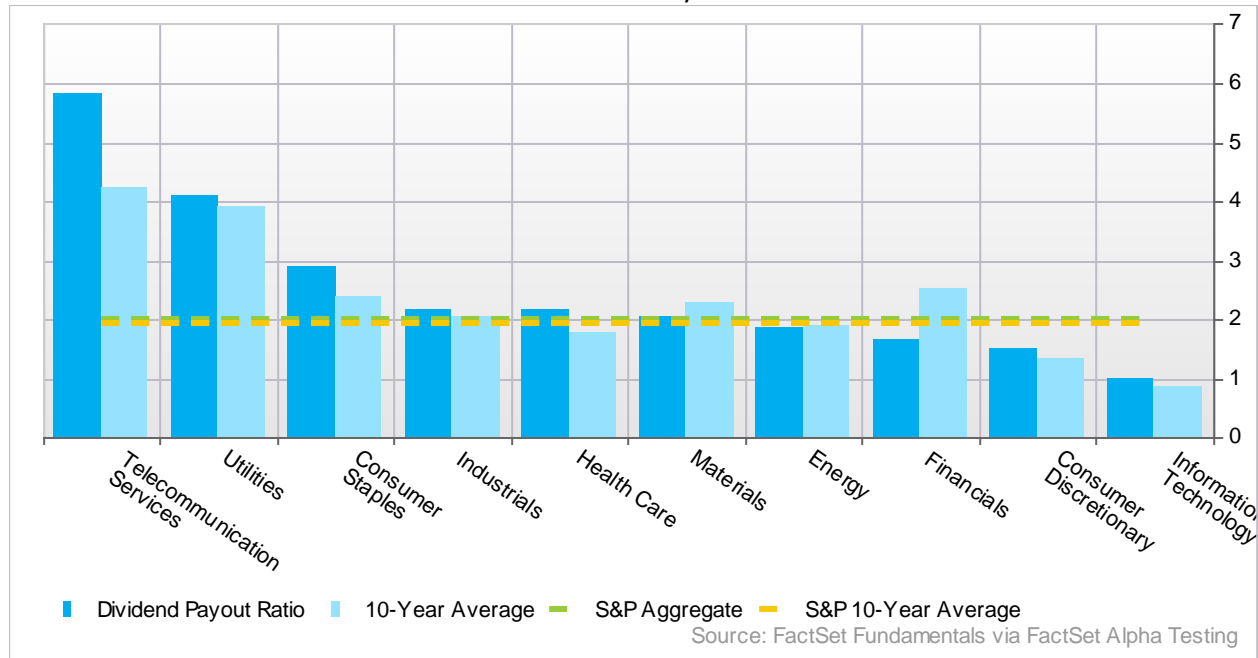
Common and Preferred Dividends Paid by Sector (TTM Basis)



Dividend Yield: Sector-Level

Dividend yield is calculated by dividing the trailing twelve month dividends per share figure by yesterday's closing price. Ten-year average figures compute the average based on the dividend yield at the quarter-end.

Dividend Yield by Sector



Top 10 Companies by Current Dividend Yield

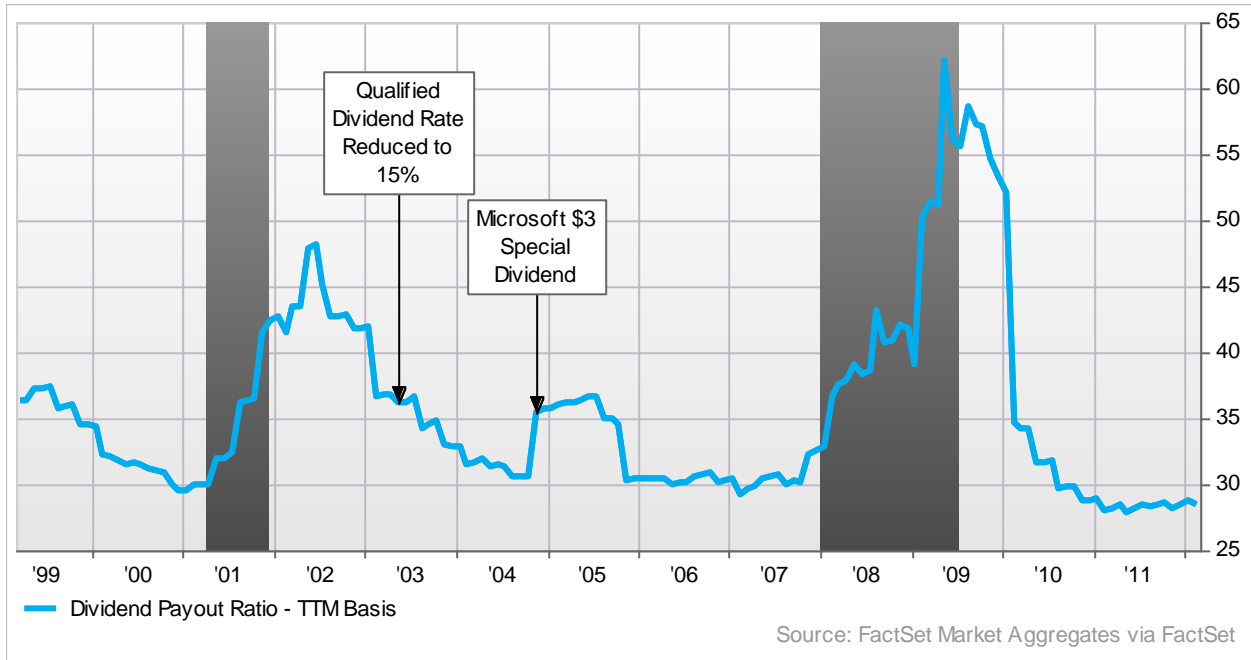
Company	Sector	Yield	DPS (TTM)	Payout Ratio (TTM)	1 Yr Total Return
Pitney Bowes, Inc.	Industrials	8.2%	\$1.49	48.7%	(20.0%)
Pepco Holdings, Inc.	Utilities	5.7%	\$1.08	95.6%	8.9%
Exelon Corp.	Utilities	5.4%	\$2.10	56.0%	0.8%
Altria Group, Inc.	Consumer Staples	5.4%	\$1.58	96.3%	26.9%
Reynolds American, Inc.	Consumer Staples	5.4%	\$2.15	89.6%	28.9%
Gannett Co., Inc.	Consumer Discretionary	5.2%	\$0.24	12.8%	3.1%
Integrus Energy Group, Inc.	Utilities	5.1%	\$2.72	94.4%	11.9%
TECO Energy, Inc.	Utilities	5.0%	\$0.87	66.9%	1.7%
Entergy Corp.	Utilities	5.0%	\$3.32	44.1%	7.0%
Avon Products, Inc.	Consumer Staples	4.9%	\$0.92	77.3%	(28.3%)
S&P 500	-	1.9%	\$27.23	28.7%	8.0%

*Screen results exclude companies that had a dividend payout ratio greater than 100% for the trailing twelve month period.

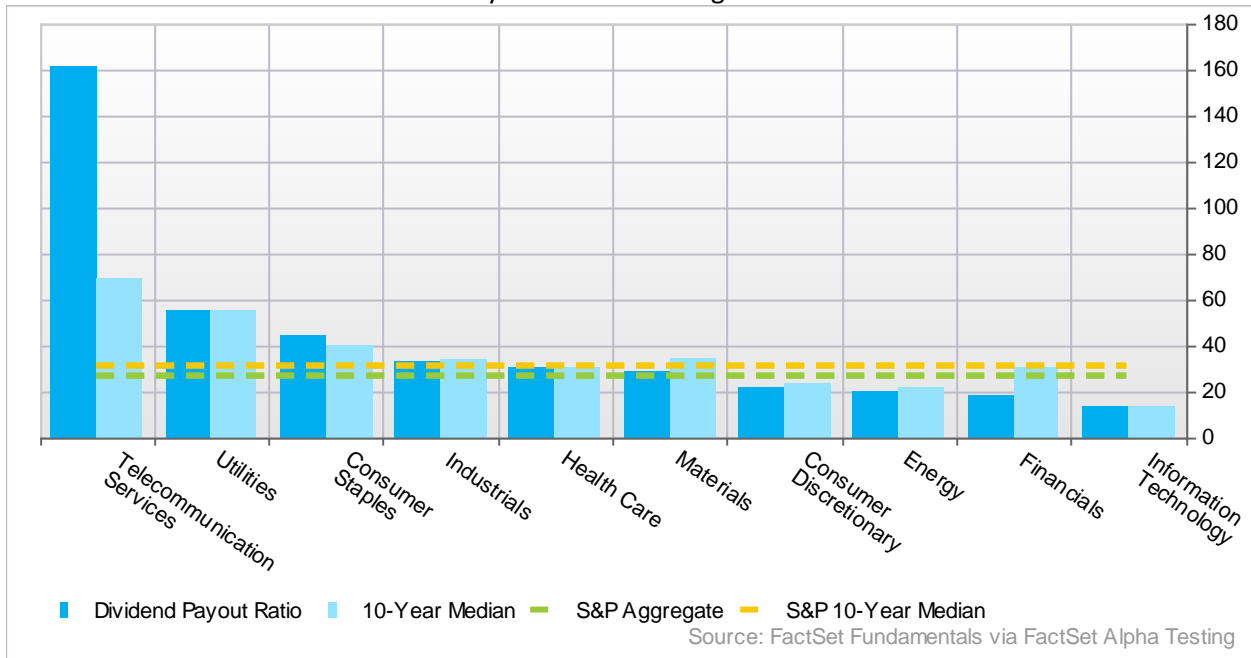
Dividend Payout Ratio

In examining dividend payout ratios, there are a number of periods where earnings volatility caused payout ratios to change dramatically. This phenomenon can be seen in certain sectors' ten-year average payout ratios. For this reason, the sector chart examines median payout ratios.

Dividend Payout Ratio with Highlighted Recessionary Periods – Trailing Twelve Month Basis

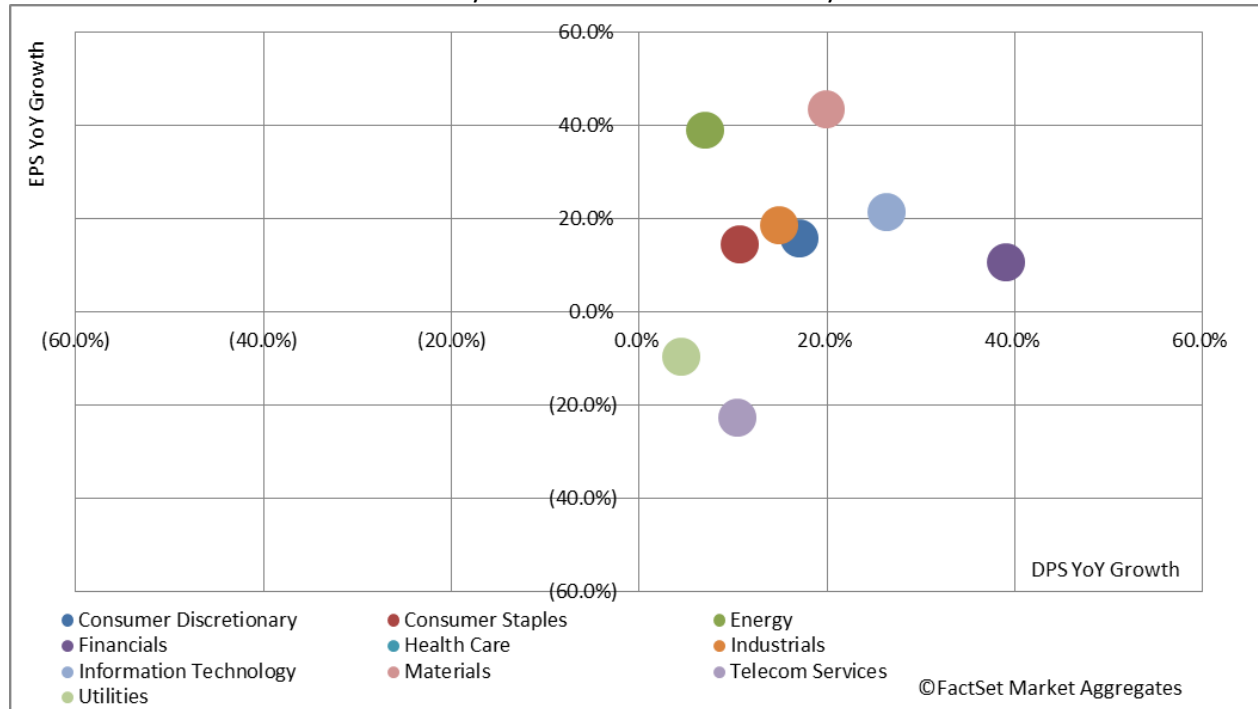


Dividend Payout Ratio – Trailing Twelve Months



Dividend Growth: One-Year

Year-over-year Growth in DPS and EPS by Sector



Top 10 Companies by Growth in TTM Dividends per Share – 1 Year

Company	Sector	1Yr DPS Growth	1Yr EPS Growth	1 Yr Total Return	Yield
State Street Corp.	Financials	1700.0%	22.7%	5.5%	2.1%
Fifth Third Bancorp	Financials	600.0%	87.3%	4.0%	2.2%
JPMorgan Chase & Co.	Financials	400.0%	13.1%	1.6%	2.7%
The PNC Financial Services Group CA, Inc.	Financials	250.0%	12.4%	4.4%	2.2%
Huntington Bancshares, Inc.	Information Technology	150.0%	25.9%	18.1%	3.7%
Iron Mountain, Inc.	Financials	150.0%	210.5%	(1.3%)	2.5%
U.S. Bancorp	Industrials	150.0%	(466.7%)	5.0%	3.4%
Newmont Mining Corp.	Financials	150.0%	42.2%	20.9%	2.5%
Valero Energy Corp.	Materials	100.0%	(84.0%)	4.9%	2.6%
Valero Energy Corp.	Energy	100.0%	543.9%	(2.5%)	2.2%
S&P 500	-	15.4%	13.4%	8.0%	1.9%

**This screen excludes companies with current dividend yield of less than 2%. The previous edition of this report featured quarterly least squares growth rates. In the interest of simplicity, the methodology has since been changed to year-over-over, trailing twelve month dividend per share growth rates.*

Compound Annual Dividend Growth: 3, 5, and 10-Year Rates

Highest Growth in Annual Dividends per Share – 3 Year

Company	Sector	3Yr Ann DPS Growth	3Yr Ann EPS Growth	3Yr Annualized Return	Yield
The Western Union Co.	Information Technology	97.9%	14.1%	15.1%	2.3%
Limited Brands, Inc.	Consumer Discretionary	85.0%	60.7%	99.6%	2.1%
Wyndham Worldwide Corp.	Consumer Discretionary	55.4%	N/A	127.3%	2.0%
Cablevision Systems Corp.	Consumer Discretionary	42.2%	N/A	29.4%	4.1%
Newmont Mining Corp.	Materials	35.7%	(26.9%)	7.7%	2.6%
Cliffs Natural Resources	Materials	33.9%	34.1%	73.1%	3.5%
CMS Energy Corp.	Utilities	32.6%	8.7%	27.8%	4.4%
Accenture Plc	Information Technology	31.0%	5.0%	30.7%	2.1%
KLA-Tencor Corp.	Information Technology	29.4%	33.7%	42.7%	2.7%
Darden Restaurants, Inc.	Consumer Discretionary	25.4%	9.2%	19.1%	3.3%
S&P 500	-	(8.8%)	22.7%	22.2%	1.9%

Highest Growth in Annual Dividends per Share – 5 Year

Company	Sector	5Yr Ann DPS Growth	5Yr Ann EPS Growth	5Yr Annualized Return	Yield
The Western Union Co.	Information Technology	98.7%	9.1%	(3.4%)	2.3%
CenturyLink, Inc.	Telecommunication Services	63.3%	(19.0%)	4.4%	7.3%
Limited Brands, Inc.	Consumer Discretionary	44.7%	10.0%	21.3%	2.1%
Texas Instruments	Information Technology	33.9%	2.2%	3.0%	2.0%
CSX Corp.	Industrials	32.3%	12.2%	12.4%	2.2%
Cliffs Natural Resources	Materials	28.7%	34.6%	18.8%	3.5%
BlackRock, Inc.	Financials	26.8%	26.2%	7.3%	3.0%
Union Pacific Corp.	Industrials	26.3%	17.9%	19.4%	2.1%
Accenture Plc	Information Technology	26.3%	14.1%	13.6%	2.1%
Harris Corp.	Information Technology	24.1%	23.2%	0.5%	3.0%
S&P 500	-	0.8%	1.4%	(0.5%)	1.9%

Highest Growth in Annual Dividends per Share – 10 Year

Company	Sector	10Yr Ann DPS Growth	10Yr Ann EPS Growth	10Yr Annualized Return	Yield
Waste Management, Inc.	Industrials	63.4%	9.8%	5.3%	4.1%
Darden Restaurants, Inc.	Consumer Discretionary	39.6%	12.3%	9.3%	3.3%
Mattel, Inc.	Consumer Discretionary	33.8%	11.9%	8.2%	3.7%
Cliffs Natural Resources	Materials	32.6%	N/A	39.9%	3.5%
CenturyLink, Inc.	Telecommunication Services	30.7%	(7.8%)	5.5%	7.3%
Limited Brands, Inc.	Consumer Discretionary	28.9%	8.5%	16.4%	2.1%
C.H. Robinson Worldwide	Industrials	27.6%	18.3%	16.9%	2.0%
McDonald's Corp.	Consumer Discretionary	27.4%	15.5%	15.8%	2.9%
Harris Corp.	Information Technology	27.3%	40.7%	12.1%	3.0%
Hasbro, Inc.	Consumer Discretionary	25.9%	23.2%	10.7%	4.0%
S&P 500	-	4.2%	9.0%	2.0%	1.9%

* These screens exclude companies with current dividend yield of less than 2%. The previous edition of this report featured quarterly least squares growth rates. In the interest of simplicity, the methodology has since been changed to compound annual growth rates.

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About FactSet Alpha Testing

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