ETF Connect: Why China dividend and low-volatility strategies are attracting investors

August 2026

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Key takeaways

- Dividend strategies are emerging as a resilient way to gain China exposure, supported by policy reforms, stronger shareholder returns, and lower interest rates.
- The CSI Dividend Low Volatility 100 Index combines high dividends with low-volatility screening, helping avoid high-yield traps while enhancing downside protection.
- ETF Connect makes access easier for global investors, providing a simple and efficient gateway to China's dividend and low-volatility opportunities.

The search for resilient China exposure
After several years of heightened volatility in China equities, global investors are increasingly re-evaluating how to gain exposure to the world's second-largest capital market. Rather than pursuing high-beta thematic opportunities, many allocators are gravitating toward strategies that offer a more transparent earnings profile, more resilient cash flows, and stronger downside protection.

This shift is not simply a valuation-driven trade. It reflects a broader evolution in how foreign capital approaches China, with an increased focus on quality, shareholder returns, and risk-adjusted outcomes. Dividend-focused A-share strategies have emerged as key beneficiaries of this trend. Recent regulatory developments have strengthened corporate dividend practices in China, while lower domestic interest rates have increased the relative attractiveness of equity income strategies. Together, these factors have created a favorable backdrop for dividend and low-volatility investing in China's onshore market.

Why foreign capital is turning to A-shares dividend strategies
Historically, international investors have faced three key challenges when investing in China: information asymmetry, market complexity, and market volatility. Dividend-oriented companies help address all three concerns by offering a clearer earnings narrative supported by recurring cash generation and tangible shareholder distributions. At the same time, regulatory reforms in China have significantly enhanced the structural attractiveness of dividend investing. China's "New National Nine Measures" have raised expectations around shareholder distributions, encouraged more frequent payouts, and introduced stronger requirements for companies with weak dividend records. These reforms are fostering a more shareholder-friendly corporate culture across the A-share market.

Another important catalyst is China's low-interest-rate environment. As domestic government bond yields have continued to decline, investors have increasingly sought alternative sources of stable income. High-quality dividend equities have consequently become an important destination for both institutional and long-term capital seeking sustainable cash flows.

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Figure 1 - Structural drivers supporting A-share dividend investing

Driver	Implication for Investors
Dividend policy reforms	More consistent cash distributions
Low-interest rate environment	Improved relative attractiveness of equity income
Rising focus on shareholder returns	Better alignment with international investment standards
Increased long-term capital participation	Potential support for valuation stability

The investment case for the CSI Dividend Low Volatility 100 Index
While dividend investing has gained increasing popularity, not all high-yield stocks are created equal. One of the primary risks in traditional dividend portfolios is the "high-yield trap," where a declining share price artificially elevates dividend yield despite deteriorating fundamentals.

The CSI Dividend Low Volatility 100 Index is designed to address this challenge through a dual-factor methodology that combines dividend yield and volatility screening.

The index construction process begins by identifying companies with a consistent record of dividend payments. From this universe, the highest-yielding stocks are selected and subsequently screened for lower volatility. Constituents are then weighted based on dividend yield divided by volatility, rather than dividend yield alone. This approach seeks to emphasize companies capable of delivering sustainable income while mitigating the risks associated with simply pursuing the highest-yielding stocks.

As a result, the index aims to provide investors with a more balanced source of income, combining attractive dividend potential with a focus on stability and downside resilience.

Figure 2 - How the index is constructed

CSI All Share universe
Full onshore equity universe

- **Weighting: yield ÷ volatility**
  Weights rise with both higher dividend yield and lower volatility — not yield alone

Top 300 by dividend yield
3-year average dividend yield

- **Sector cap at 20%**
  No single CSI industry may exceed 20% of index weight, avoiding concentration in a few high-yield sectors

100 lowest-volatility names
Selected from the 300

- **Quarterly rebalancing**
  Reviewed every March, June, September and December to keep the yield/low-vol profile current

Source: CSI

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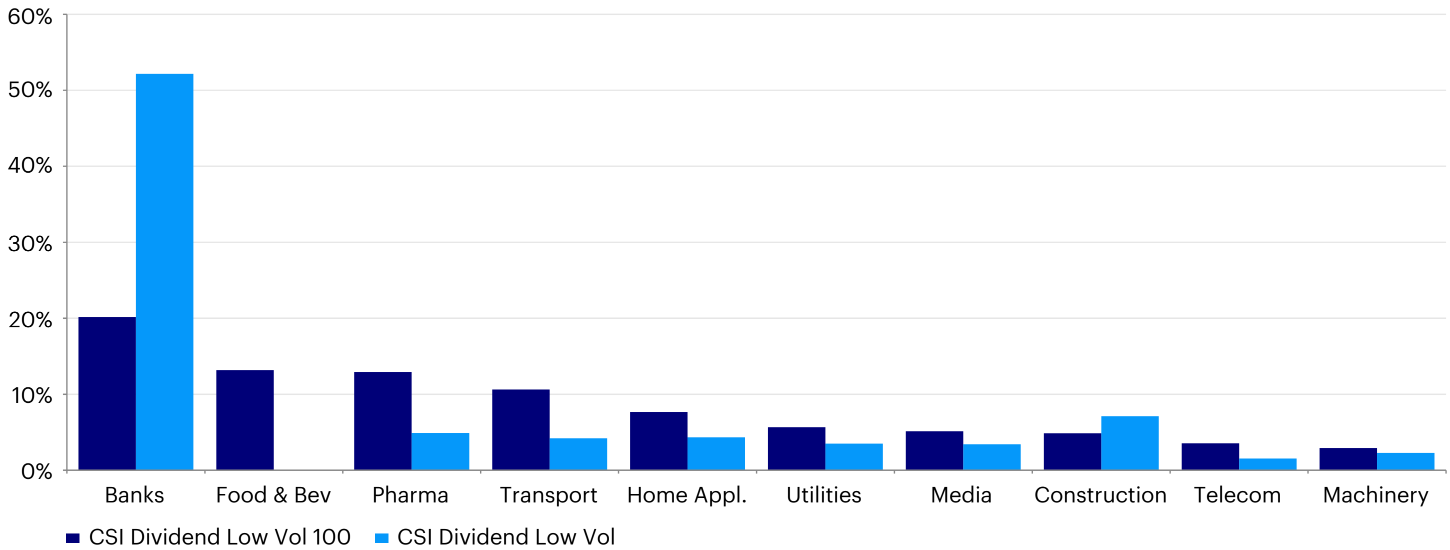
Key Index Features

Feature	CSI Dividend Low Volatility 100 Index
Number of constituents	100
Selection universe	CSI All Share
Dividend screen	Top 300 dividend-yield stocks
Risk filter	Lowest volatility stocks
Weighting method	Dividend Yield ÷ Volatility
Industry cap	20% per industry
Rebalancing frequency	Quarterly

The methodology also provides a more diversified sector allocation. Unlike traditional dividend benchmarks, which can become heavily concentrated in sectors such as financials and energy, the CSI Dividend Low Volatility 100 Index maintains broader exposure across a range of industries, including healthcare, consumer staples, transportation, utilities, communication services, and industrials.

Figure 3 - Diversified sector exposure



Source: Wind, Data as of July 31, 2026, in RMB

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This diversification has historically translated into attractive risk-adjusted performance. Since 2013 to July 31, 2026, the index achieved[1]:

- **400.5% cumulative return**
- **13.0% annualized return**
- **19.1% annualized volatility**
- **85.1% rolling 12-month positive return probability**
- **Lower maximum drawdown than major A-share dividend benchmarks**

Figure 4 - Historical risk-adjusted performance

85.1% Rolling 12-month positive-return probability since 2013						
Metric	**Low Vol 100**	**Low Vol**	**CSI Dividend**	**Dividend Idx**	**SZ Dividend**	**CSI 300**
Cumulative return	**400.5%**	387.7%	291.9%	222.2%	220.2%	149.0%
Annualized return	**13.0%**	12.8%	10.[9]%	9.3%	9.2%	7.2%
Annualized volatility	**19.1%**	19.8%	20.7%	20.5%	23.8%	21.4%
Return / risk ratio	**0.68**	0.64	0.53	0.45	0.39	0.34
Max drawdown	**-38.7%**	-42.5%	-45.7%	-46.5%	-49.9%	-46.1%
Rolling 12M win rate	**85.1%**	**83.6v%**	**81.5%**	**77.4%**	**64.9%**	**59.9%**

Source: Wind; Data as of July 31, 2026, in RMB, total return. An investor cannot invest directly in an index. **Past performance does not predict future results.**

The underlying fundamentals also remain compelling. More than 2,900 A-share listed companies have maintained at least three consecutive years of dividend payments, creating a broad and expanding opportunity set for dividend-focused investing.

1. Source: Wind; Data as of July 31, 2026, in RMB. An investor cannot invest directly in an index. Past performance does not predict future results.

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ETF Connect: Making the opportunity accessible
Accessibility has historically been a barrier for overseas investors seeking direct exposure to A-shares. The ETF Connect program has significantly reduced those frictions by providing a convenient and efficient channel for Hong Kong and international investors to access eligible mainland-listed ETFs through a familiar trading infrastructure.

For investors seeking exposure to the CSI Dividend Low Volatility 100 Index, ETF Connect provides:

- Direct market access without the need for QFII or RQFII quotas
- A familiar and streamlined operational framework Improved trading efficiency
- Enhanced transparency
- Exposure to a diversified basket of high-dividend, low-volatility A-share companies

As a result, ETF Connect provides a more accessible pathway for global investors to participate in China's evolving dividend opportunity set while maintaining operational simplicity.

Investment implications[2]
For institutional allocators and wealth managers, the conversation around China is increasingly shifting from tactical market timing toward strategic portfolio construction.

The CSI Dividend Low Volatility 100 Index can offer an investment exposure that aligns closely with the needs of today's investors: quality cash-generating businesses, disciplined risk management, diversified sector exposure, and relatively attractive risk-adjusted returns.

Combined with enhanced market accessibility through ETF Connect and a macro backdrop characterized by supportive policy, relatively attractive valuations, and growing shareholder-return discipline, China's dividend and low-volatility opportunity set may represent one of the most compelling avenues for global investors seeking to rebuild strategic exposure to A-shares.

2. Source: Wind, CSI, Great Wall Securities Research. Data referenced in source materials as of 2024-2026. Past performance is not indicative of future results.

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Investment risks

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