

S&P Dow Jones Indices

A Division of **S&P Global**

TalkingPoints

Introducing the S&P Global SmallCap Select Index Series



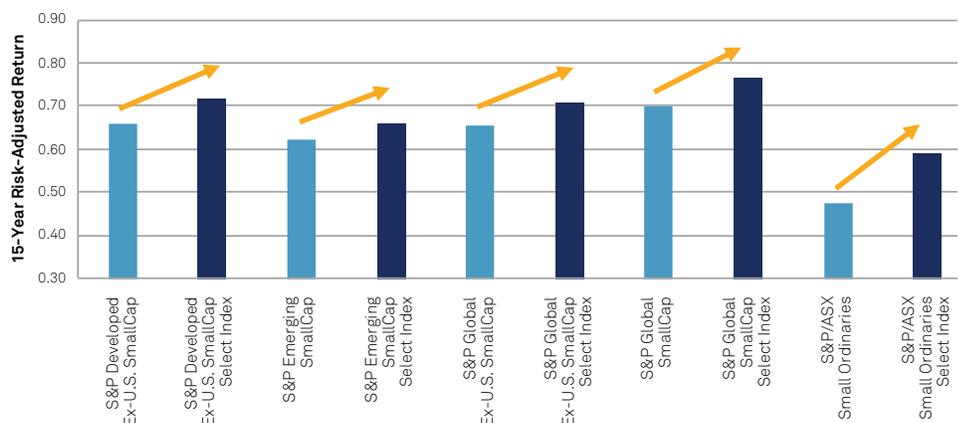
Michael Orzano, CFA
Senior Director
Global Equity Indices
S&P Dow Jones Indices

Improve risk-adjusted returns in global small caps by excluding companies without a track record of positive earnings.

1. Why is the S&P Global SmallCap Select Index Series being introduced now?

Prior research has demonstrated that profitability matters for small-cap companies in the U.S.¹ The S&P SmallCap 600[®]—which includes earnings eligibility criteria—has outperformed the broader Russell 2000 Index by 2% annualized since its inception 24 years ago. Our new S&P Global SmallCap Select Index Series extends our research to global equity markets where we have found that a similar effect exists. By screening out unprofitable small-cap companies from the benchmark, we can improve risk-adjusted returns, while introducing relatively minimal tracking error (see Exhibit 1).

Exhibit 1: S&P Global SmallCap Select Indices Offered Higher Risk-Adjusted Returns over the Past 15 Years



¹ Brzenk, Phillip and Soe, Aye M., "A Tale of Two Benchmarks: Five Years Later," S&P Dow Jones Indices.

Gunzberg, Jodie and Glawe, Garrett, "Big Things Come in Small Packages Year," S&P Dow Jones Indices.

Source: S&P Dow Jones Indices LLC. Data as of March 29, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Register to receive our latest research, education, and commentary at go.spdji.com/SignUp.

2. What are the key benefits of the S&P Global SmallCap Select Index Series?

Improved Long-Term Total Returns: Excluding companies without a track record of generating positive earnings has historically led to improved long-term performance in global small-cap equities. The indices have typically outperformed in down cycles and underperformed slightly in up cycles.

Reduced Risk: The indices have provided a smoother ride in the small-cap space. Volatility, beta, and drawdowns have been lower relative to conventional small-cap benchmarks.

Low Tracking Error: The indices have historically had low tracking error relative to conventional small-cap benchmarks.

Enhanced Liquidity: By eliminating the 20% least liquid and 20% smallest securities in each country, the index liquidity profile is improved, without introducing any significant geographic biases.

3. What indices are included in the S&P Global SmallCap Select Index Series?

We currently offer the regional indices shown in Exhibit 2. However, we are continuing research on additional regional and country indices and can expand this concept to other markets based on client demand.

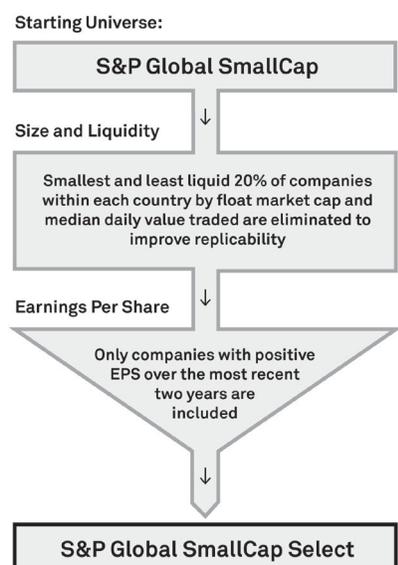
Exhibit 2: Regional Indices in the S&P Global SmallCap Select Index Series

Region	Index
Global	S&P Global SmallCap Select Index
Global Excluding the U.S.	S&P Global Ex-U.S. SmallCap Select Index
Developed Markets Excluding the U.S.	S&P Developed Ex-U.S. SmallCap Select Index
Developed Markets Excluding the U.S. and Canada	S&P EPAC SmallCap Select
Emerging Markets	S&P Emerging SmallCap Select Index
Australia	S&P/ASX Small Ordinaries Select Index
United Kingdom	S&P United Kingdom SmallCap Select

Source: S&P Dow Jones Indices LLC. Data as of March 29, 2019. Table is provided for illustrative purposes.

4. How do the S&P Global SmallCap Select Indices work?

Exhibit 3: S&P Global SmallCap Select Index Series Summary



Each index is a subset of the small-cap segment of the [S&P Global BMI](#). In order to be eligible for inclusion, companies must post two consecutive years of positive earnings per share. Likewise, companies are dropped from the index after posting two consecutive years of negative earnings. In order to improve the replicability of the indices, we also eliminate the 20% smallest and 20% least liquid companies within each country by float market cap and median daily value traded, respectively. The indices are weighted by float market cap and are rebalanced semiannually in June and December.

Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes.

5. How can the S&P Global SmallCap Select Index Series be used?

Contrary to conventional wisdom, active international small-cap managers have generally not fared well relative to their benchmarks. Adapted from the SPIVA® U.S. Year-End 2018 Scorecard, Exhibit 4 illustrates that most international small-cap funds historically underperformed the S&P Developed Ex-U.S. SmallCap. Unsurprisingly, the average active manager has fared even worse relative to the S&P Developed Ex-U.S. SmallCap Select Index.

Exhibit 4: Underperformance among Active Managers Rose When Benchmarks Incorporated Earnings Screens

Index	Percentage Of Active Managers Underperforming				
	1-Year	3-Year	5-Year	10-Year	15-Year
S&P Developed Ex-U.S. SmallCap	65.52	73.42	73.68	64.15	75.86
S&P Developed Ex-U.S. SmallCap Select Index	73.56	75.95	82.46	73.58	86.21

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The indices can be used to support index-linked investment products or serve as better benchmarks for active strategies. The S&P Global SmallCap Select Index Series would provide the following benefits.

- Relative to traditional small-cap indices:
 - Improved risk-adjusted returns
 - Low tracking error
 - Enhanced liquidity
- Relative to active strategies:
 - Lower cost
 - Broader exposure to the asset class, resulting in diversification benefits
 - Increased transparency

Many active managers may screen out unprofitable companies as part of their investment process. This index series serves as an improved benchmark for such strategies.

6. How have the S&P Global SmallCap Select Indices performed?

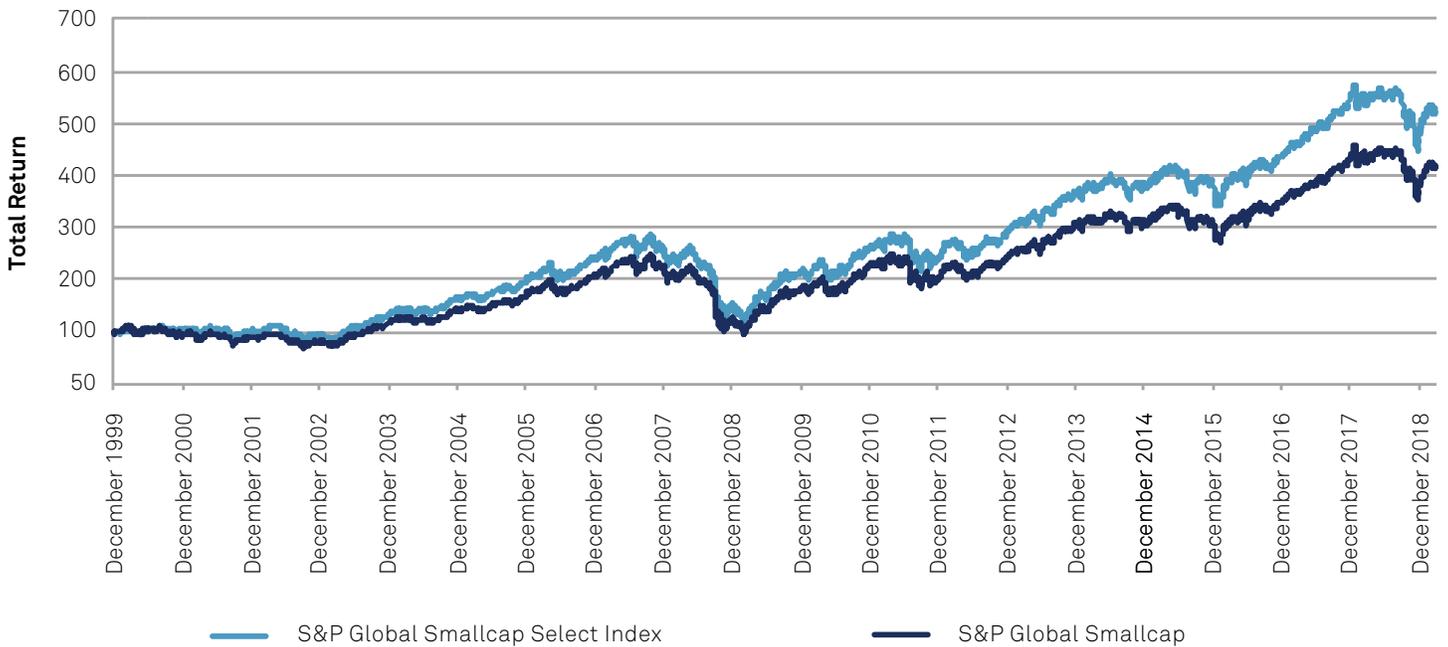
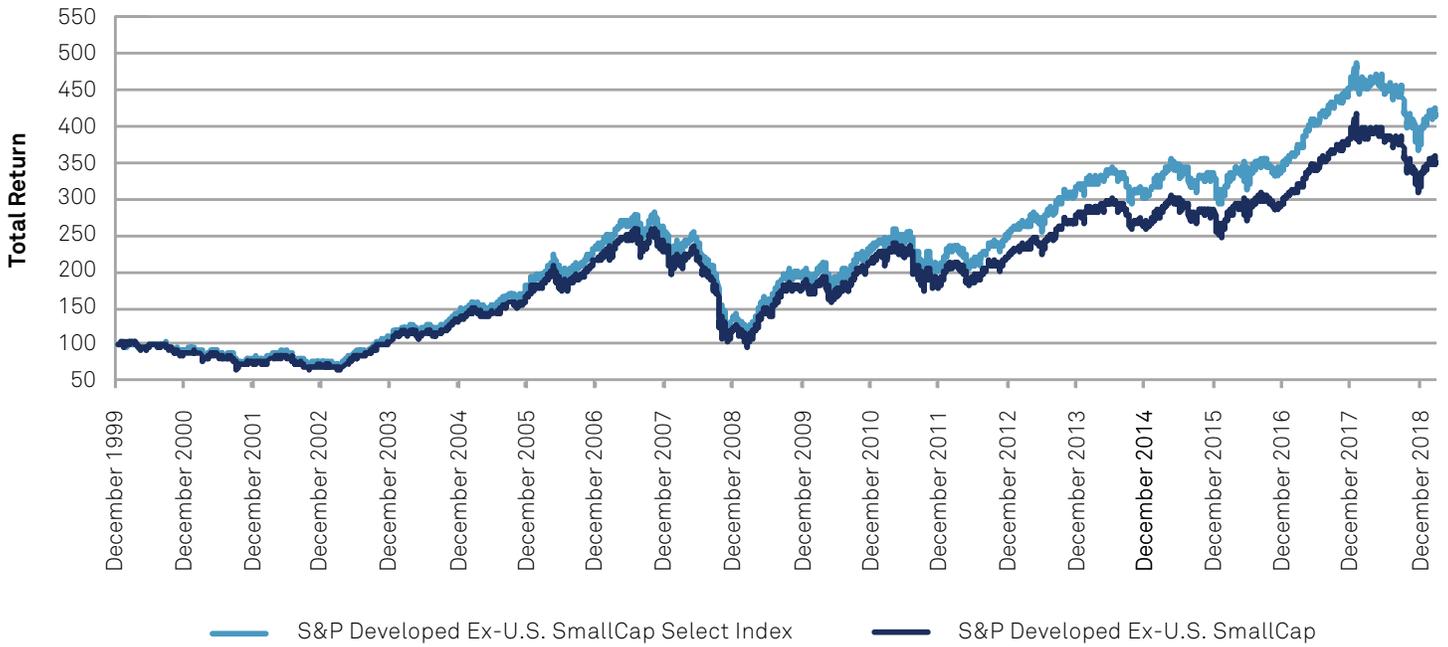
Exhibits 5-7 demonstrate the performance and volatility advantages of the [S&P Global SmallCap Select Index](#) and the S&P Developed Ex-U.S. SmallCap Select Index. These characteristics have proven consistent across all indices in our regional S&P Global SmallCap Select Index Series.

Exhibit 5: Risk/Return Comparison – Global and Developed Ex-U.S. Regional SmallCap Select Indices Versus Their Benchmarks

Period	S&P Developed Ex-U.S. SmallCap Select Index	S&P Developed Ex-U.S. SmallCap	S&P Global SmallCap Select Index	S&P Global SmallCap
Annualized Total Return (%)				
1-Year	-8.33	-9.16	-2.45	-2.59
3-Year	7.65	7.16	10.25	10.14
5-Year	4.88	4.06	6.76	5.78
10-Year	13.20	12.35	14.82	14.22
15-Year	8.44	7.57	9.09	8.32
Since Dec. 31, 1999	7.71	6.76	9.03	7.73
Annualized Volatility (%)				
3-Year	11.90	12.06	11.46	12.00
5-Year	12.01	12.31	11.83	12.49
10-Year	15.81	16.29	15.04	15.82
15-Year	17.33	17.81	16.53	17.26
Since Dec. 31, 1999	17.04	17.56	16.36	17.43
Return/Risk				
3-Year	0.64	0.59	0.89	0.85
5-Year	0.41	0.33	0.57	0.46
10-Year	0.84	0.76	0.99	0.90
15-Year	0.49	0.43	0.55	0.48
Since Dec. 31, 1999	0.45	0.38	0.55	0.44
Risk Statistics (Since Dec. 31, 1999)				
Maximum Drawdown (%)	-0.59	-0.60	-0.57	-0.58
Beta With Benchmark	0.97	-	0.93	-
Correlation With Benchmark	1.00	-	0.99	-
Monthly Tracking Error	1.26%	-	2.21%	-
Sharpe Ratio	0.36	0.29	0.45	0.35

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to March 29, 2019. Past performance is no guarantee of future results. Table is provided for illustrate purposes and reflects hypothetical historical performance. Annualized volatility calculated as the standard deviation of monthly total returns. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 6: Cumulative Return Comparison – S&P Global SmallCap and S&P Developed Ex-U.S. SmallCap



Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to March 29, 2019. Indices were rebased to 100 in December 1999. Past performance is no guarantee of future results. Charts are provided for illustrate purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 7: Up and Down Market Comparison – S&P Global SmallCap Select Index and S&P Developed Ex-U.S. SmallCap Select Index

Period	S&P Developed Ex-U.S. SmallCap Select Index	S&P Global SmallCap Select Index
Hit Rate: % of Months the Index Outperformed the Benchmark		
All Months	58.01	54.11
Up Months	45.52	35.21
Down Months	75.26	84.27
Average Monthly Excess Return Versus Benchmark (%)		
All Months	0.07	0.09
Up Months	0.21	0.27
Down Months	0.36	0.57
Market Capture Ratios (%)		
Up Months	99.02	96.62
Down Months	94.37	89.49

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to March 29, 2019. Past performance is no guarantee of future results. Table is provided for illustrate purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Performance Disclosure

The S&P Global SmallCap Select Index, S&P Global Ex-U.S. SmallCap Select Index, S&P Developed Ex-U.S. SmallCap Select Index, S&P Emerging SmallCap Select Index, and S&P/ASX Small Ordinaries Select Index were launched December 21, 2018. The S&P Global SmallCap was launched October 1, 2008. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

The Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices LLC maintains the Index and calculates the Index levels and performance shown or discussed, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

General Disclaimer

Copyright © 2019 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR'S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

ASX, ALL ORDINARIES are trademarks of ASX Operations Pty Ltd. and have been licensed for use by S&P Dow Jones Indices.