S&P Dow Jones Indices

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# TalkingPoints:

## Introducing the Dow Jones U.S. Select Short-Term REIT Index

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The Dow Jones U.S. Select Short-Term REIT Index seeks to track REITs in sectors that typically have short-term lease durations, with the goal of creating a REIT index that is less sensitive to interest rate changes.

### 1. Why is this index being introduced now?

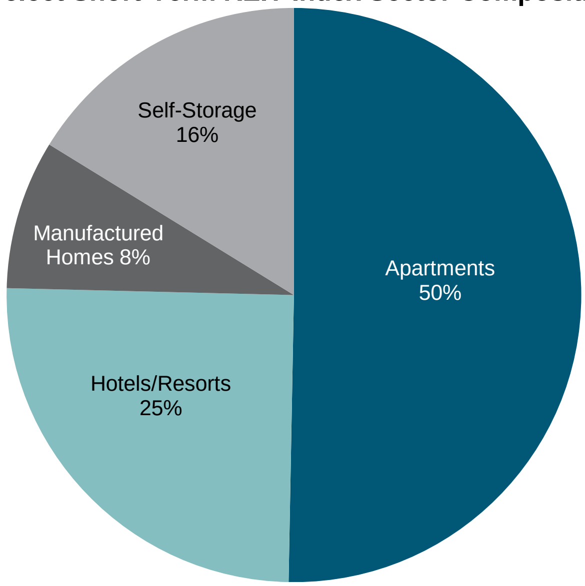
REITs are a popular and efficient way for market participants to access the real estate asset class. The potential for strong long-term total returns combined with other key investment characteristics, such as a tendency for high dividend yields, inflation-hedging properties, and a relatively low correlation with other asset classes, have contributed to the appeal of REITs. However, because they are widely considered to be rate-sensitive assets, there is substantial concern among market participants that REITs will underperform when interest rates increase from their historically low levels. Although there is evidence that REITs have typically fared well over full cycles of rising rates, U.S. REITs have often experienced sharp sell-offs in short-term periods in which interest rates have increased significantly. Given this context, there is considerable interest in a U.S. REIT index that may be less sensitive to interest rate movements.

### 2. How does the index work?

The index is a subset of the [Dow Jones U.S. Select REIT Index] that only includes REITs in property sectors that typically have relatively short-term lease durations. These sectors are apartments, hotels/resorts, manufactured homes, and self-storage. Theoretically, REITs with shorter lease durations should be less sensitive to interest rates, given that they can more quickly reprice their rental agreements. For example, a hotel effectively has overnight leases and can rapidly respond to market changes. Similarly, apartment owners typically engage in one-year leases with tenants, making the average lease duration of apartment REITs under one year. On the other hand, office, health care, and other major REIT sectors generally have much longer-term lease durations—giving them more bond-like cash flow characteristics. The index also employs a 5% cap on stock weights to reduce single-stock concentration.

## 3. What are the characteristics and historical performance attributes of the index?

**Exhibit 1: Dow Jones U.S. Select Short-Term REIT Index Sector Composition**




Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2016. Chart is provided for illustrative purposes.

Over the full length of the back-test from September 2000 to November 2016, the Dow Jones U.S. Select Short-Term REIT Index outperformed the Dow Jones U.S. Select REIT Index 90% of the time during periods in which the 10-year U.S. Treasury Bond yield increased by more than 50 bps within a period of four months or less. For periods in which the 10-year U.S. Treasury Bond yield increased by more than 100 bps in a period of four months or less, the index outperformed nearly 99% of the time. Interestingly, the index did not consistently outperform or underperform the broader REIT market in periods of falling rates.

**Exhibit 2: Frequency of Outperformance of** the **Dow Jones U.S. Select Short-Term REIT Index Versus Dow Jones U.S. Select REIT Index During Periods of Rising and Falling Rates**

| PERIOD | OUTPERFORMANCE (% of time) |
|---|---|
| Rate Up 50 bps | 90 |
| Rate Up 100 bps | 99 |
| Rate Down 50 bps | 44 |
| Rate Down 100 bps | 65 |

Source: S&P Dow Jones Indices LLC. Data from Sept. 15, 2000, to Nov. 30, 2016. Calculations are based on daily gross total return index levels. Measurement is over any period of four months or less. 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.

Examining a few instances in which interest rates increased substantially over relatively short periods illustrates this effect. For example, during the “taper tantrum” of 2013, when the 10-year U.S. Treasury Bond yield jumped 110 bps, the Dow Jones U.S. Select REIT Index fell nearly 15%. Over the same period, the Dow Jones U.S. Select Short-Term REIT Index declined a comparatively small 9%. Likewise, the index exhibited outperformance relative to the broader REIT market from the trough in yields in July 2016 through Nov. 30, 2016.

**Exhibit 3: Outperformance During Rising Rate Episodes**

| TIME PERIOD | CHANGE IN 10-YEAR YIELD (BPS) | TOTAL RETURN (%) | |
|---|---|---|---|
| | | DOW JONES U.S. SELECT SHORT-TERM REIT INDEX | DOW JONES U.S. SELECT REIT INDEX |
| 2016 Minimum Yield to Present | 100 | -6.6 | -9.3 |
| 2013 Taper Tantrum | 110 | -9.2 | -14.6 |

Source: S&P Dow Jones Indices LLC and U.S. Federal Reserve. 2016 minimum yield to present is defined as the date of the lowest 10-year Treasury yield of 2016 (1.37% on July 5, 2016) to the year's peak yield on Nov. 30, 2016. The 2013 Taper Tantrum is defined as the day prior to Ben Bernanke's comments on tapering (May 21, 2013) to the peak yield reached since that date (Dec. 31, 2013). 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 Dow Jones U.S. Select Short-Term REIT Index has also outperformed the broader REIT market over the long run, with modestly lower volatility. This effect seems to be a by-product of the index's less-severe drawdowns during periods of rapidly rising rates.

**Exhibit 4: Comparative Long-Term Performance Metrics**

| PERIOD | Dow Jones U.S. SELECT SHORT-TERM REIT INDEX | DOW JONES U.S. SELECT REIT INDEX |
|---|---|---|
| **RETURN (%)** | | |
| 3-Year | 14.8 | 12.2 |
| 5-Year | 13.6 | 11.8 |
| 10-Year | 6.6 | 3.9 |
| **RISK (%)** | | |
| 3-Year | 14.1 | 15.2 |
| 5-Year | 13.8 | 14.5 |
| 10-Year | 25.9 | 26.5 |

Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2016. Calculations are based on monthly gross total return index levels in USD. Risk is defined as annualized standard deviation of returns. 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 dividend yield of the Dow Jones U.S. Select Short-Term REIT Index was 4.07% as of Nov. 30, 2016—well above the 3.79% yield of the Dow Jones U.S. Select REIT Index. However, the index has provided a dividend yield similar to that of the broader U.S. REIT market over the longer term.

**Exhibit 5: Comparative Dividend Yields**

| PERIOD | DOW JONES U.S. SELECT SHORT-TERM REIT INDEX | DOW JONES U.S. SELECT REIT INDEX |
|---|---|---|
| 3-Year Average (%) | 3.58 | 3.57 |
| Current (%) | 4.07 | 3.79 |

Source: S&P Dow Jones Indices LLC. Data as of Nov. 30, 2016. 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.

## 4. What are the key benefits of the Dow Jones U.S. Select Short-Term REIT Index?

**Lower Sensitivity to Interest Rate Movements:** The index may be less sensitive to interest rate movements compared with the broader U.S. REIT market, potentially providing downside protection in rising rate environments.

**High Income Component:** The index has historically offered a dividend yield in a similar range as the broader U.S. REIT market.

**Limited Concentration:** The 5% stock cap seeks to enhance diversification by limiting single-stock concentration.

# PERFORMANCE DISCLOSURE

The Dow Jones U.S. Select Short-Term REIT Index was launched on August 22, 2016. 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. Complete index methodology details are available at www.spdji.com.

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