

# TalkingPoints

## Expanding the Equity Opportunity Set in New Zealand



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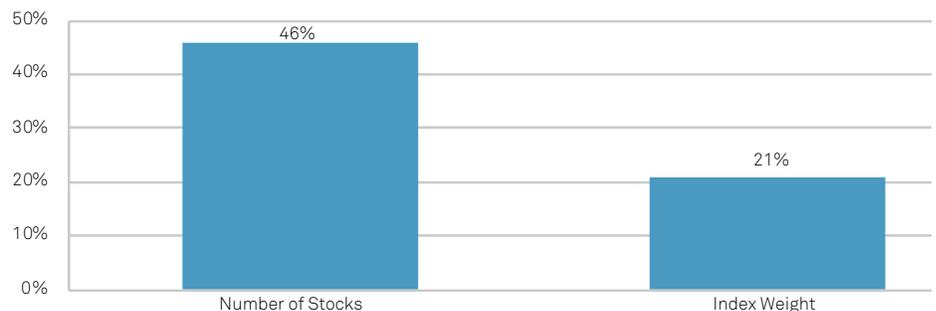
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The S&P/NZX Emerging Opportunities Index reaches beyond the S&P/NZX 50 Index to capture a unique mix of investable small- and mid-sized New Zealand companies.

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

As the principal broad market equity benchmark in New Zealand, the S&P/NZX 50 Index defines the investable opportunity set for New Zealand fund managers. Our latest addition to the S&P/NZX Series, the S&P/NZX Emerging Opportunities Index takes an innovative approach to defining small- and mid-cap companies by including the smaller members of the S&P/NZX MidCap Index and the largest, most liquid members of the S&P/NZX SmallCap Index. In doing so, it reaches beyond the S&P/NZX 50 Index, expanding the opportunity set while still utilizing size and liquidity criteria to support investability.

### Exhibit 1: Average Proportion of the S&P/NZX Emerging Opportunities Index outside of the S&P/NZX 50 Index



Source: S&P Dow Jones Indices LLC. Data from June 2015 to June 2019. Chart is provided for illustrative purposes.

While the S&P/NZX 50 Index remains the primary broad market benchmark in New Zealand, the S&P/NZX Emerging Opportunities Index seeks to provide a fresh tool to measure the performance of small- and mid-sized New Zealand companies.

## 2. How does the index work?

The eligible universe is defined as constituents of the S&P/NZX All Index that are not members of the S&P/NZX 20 Index. Minimum float market cap and median daily value traded thresholds of NZD 100 million and NZD 35,000, respectively, are required for inclusion. In addition, maximum total and float-adjusted market cap thresholds of NZD 1.5 billion and NZD 1 billion, respectively, are employed in order to ensure relatively large companies are excluded. The index is weighted by float-adjusted market cap and is rebalanced quarterly, in line with other S&P/NZX equity indices.

## 3. How can the index be used?

The index is designed to be a complement to the S&P/NZX 20 Index, which comprises 20 of the largest, most liquid New Zealand companies. When used in tandem, the two indices essentially capture the entire investable market in New Zealand. The index is intended for use as a benchmark for small- and mid-cap investment strategies or as an underlying index for passive investment products.

## 4. What are some unique characteristics of the index?

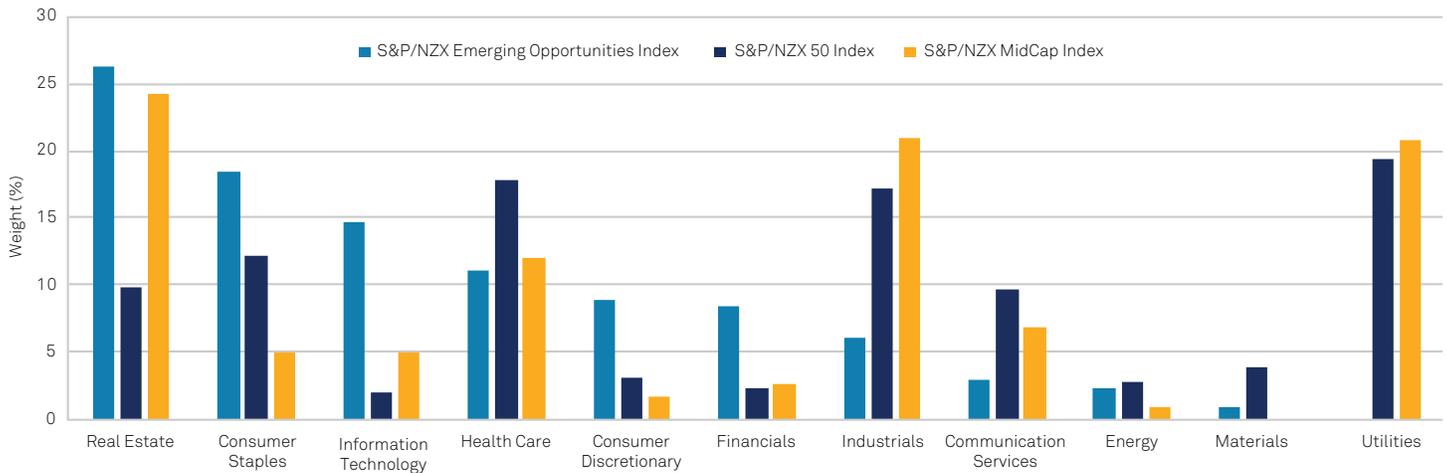
The S&P/NZX Emerging Opportunities Index has a meaningfully different size profile compared with the existing S&P/NZX size indices and the S&P/NZX 50 Index. As depicted in Exhibit 2, the weighted average total market cap of the index is less than one-third that of the S&P/NZX MidCap Index and more than double that of the S&P/NZX SmallCap Index. Unsurprisingly, it is far smaller than the S&P/NZX 50 Index or S&P/NZX 20 Index, which are heavily weighted to the largest New Zealand companies.

### Exhibit 2: Index Characteristics

Characteristics	S&P/NZX Emerging Opportunities Index	S&P/NZX MidCap Index	S&P/NZX SmallCap Index	S&P/NZX 20 Index	S&P/NZX 50 Index
Number of Constituents	37	38	66	20	50
<b>Constituent Total Market Cap (NZD Millions)</b>					
Maximum Market Cap	1,648.85	6,334.70	1,188.28	12,174.25	12,174.25
Minimum Market Cap	70.44	307.53	1.48	2,292.51	307.53
Average Market Cap	616.16	1,684.32	158.91	5,298.89	2,746.30
Weighted Average Market Cap	796.13	2,531.67	334.63	7,080.86	5,945.68
Median Market Cap	572.26	1,086.60	87.35	4,118.59	1,284.41
Largest Constituent Weight (%)	7.08	7.96	6.39	12.56	10.10
Top 10 Constituents Weight (%)	52.45	55.48	45.61	73.88	59.41

Source: S&P Dow Jones Indices. Data as of June 28, 2019. Table is provided for illustrative purposes.

The index also has a distinct sector composition compared with the S&P/NZX 20 Index and S&P/NZX MidCap Index, as illustrated in Exhibit 3. In addition to its higher weight in Real Estate, the S&P/NZX Emerging Opportunities Index has had uniquely high exposure to Information Technology, Consumer Staples, and Consumer Discretionary.

**Exhibit 3: Comparative Sector Weights**

Source: S&P Dow Jones Indices. Data as of June 28, 2019. Chart is provided for illustrative purposes.

**5. What are the key benefits of the index?****Broad Opportunity Set**

The S&P/NZX Emerging Opportunities Index reaches outside of the S&P/NZX 50 Index—generally considered the investable opportunity set for New Zealand equities—allowing for exposure to a wider range of companies.

**Precision**

The index targets a unique segment of the New Zealand equity market, including a mix of small- and mid-sized New Zealand companies that are not measured by existing indexes.

**Diversification**

The index has distinct investment characteristics compared with large-cap and broad market New Zealand benchmarks and has historically had a relatively low correlation to the broader New Zealand equity market.

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