

S&P Dow Jones Indices

A Division of **S&P Global**

TalkingPoints

Introducing the S&P Global SmallCap Select Index Series



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Get a smoother ride 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 For example, the S&P SmallCap 600[®]—which includes earnings eligibility criteria—has outperformed the broader Russell 2000 Index (with lower volatility) for more than 20 years. Our new S&P Global SmallCap Select Index Series extends this phenomenon to global equity markets where we have found that a similar effect exists. Simply put, small-cap companies without a track record of generating earnings have performed poorly relative to their profitable peers and have thus been a drag on broad small-cap indices.

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

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 smallest and least liquid 20% of companies within each country by float market cap and median daily value traded. The indices are weighted by float market cap and are rebalanced semiannually in June and December.

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.

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

We currently offer the regional indices shown in Exhibit 1. However, additional regional and country indices can be created as needed.

Exhibit 1: Regional Indices in the S&P Global SmallCap Select Index Series

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
S&P/ASX Small Ordinaries Select Index

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

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

The indices are suitable for use as performance benchmarks for actively managed small-cap funds or as the basis for index-linked investment products. We expect these indices to be used as alternatives to core global small-cap indices, given their simple and intuitive framework. Because the indices typically exclude a relatively small portion of the small-cap universe and are float-market-cap weighted, they tend to have a low tracking error compared with broad small-cap benchmarks.

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

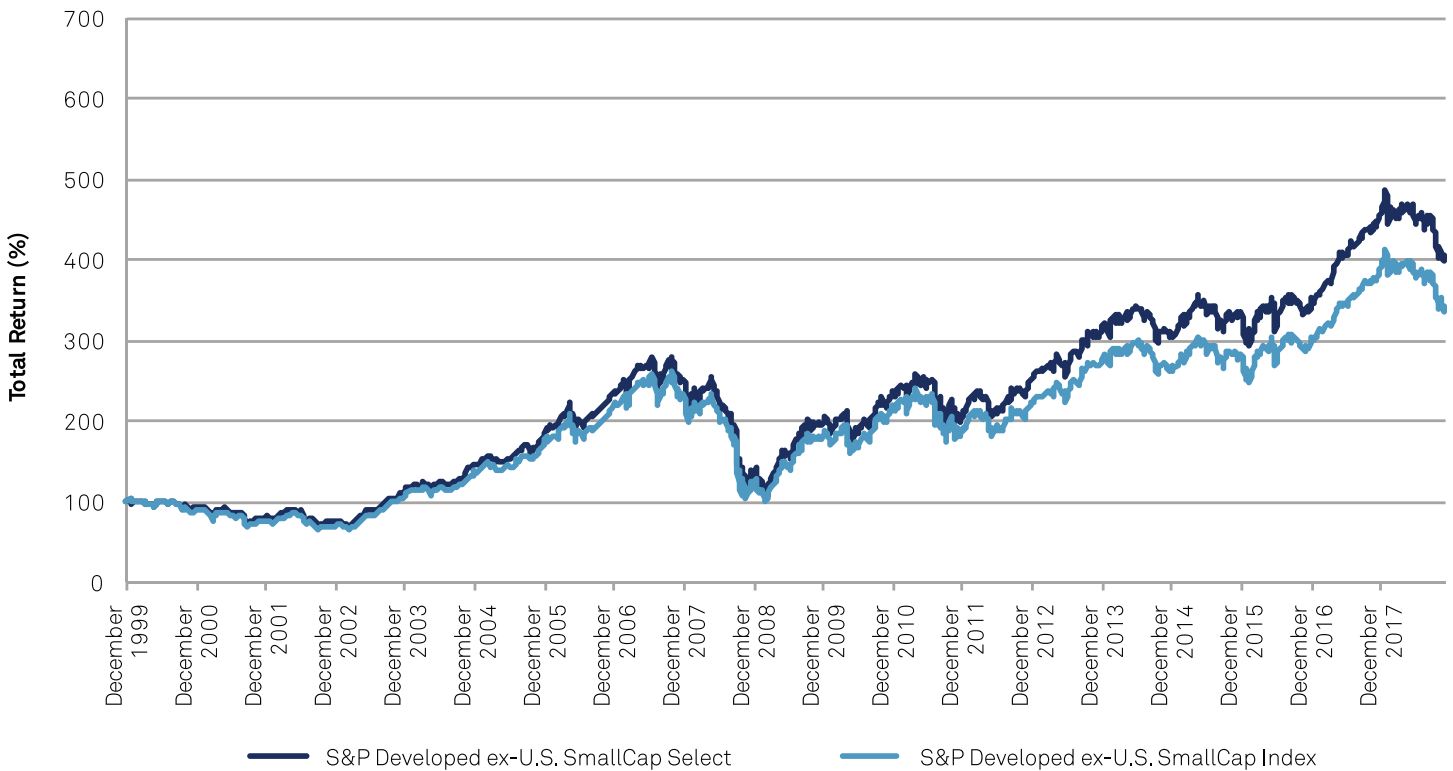
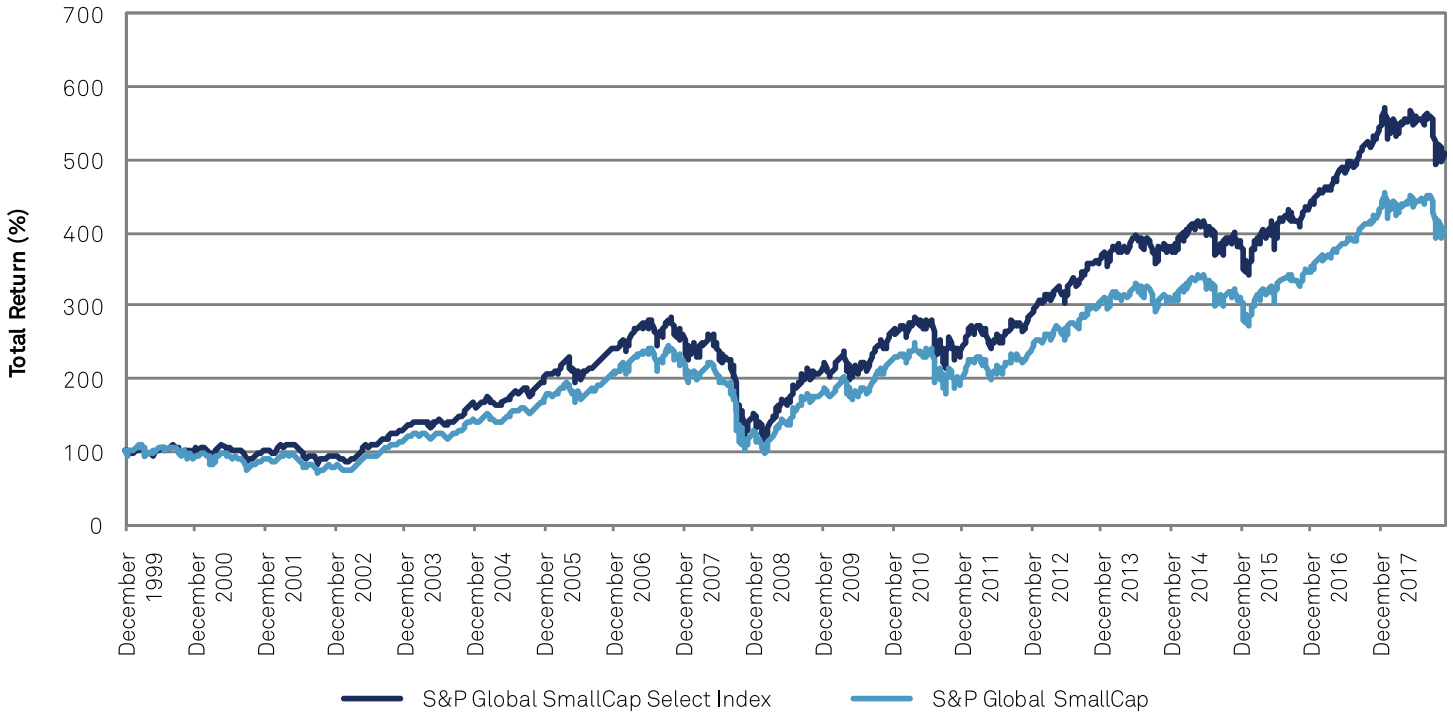
Exhibits 2-4 demonstrate the performance and volatility advantages of the S&P Global SmallCap Select Index and the S&P Developed Ex-U.S. SmallCap Select Index. These characteristics have proven consistent across all indices in our regional S&P Global SmallCap Select Index Series.

Exhibit 2: Risk/Return Comparison –Global and Developed Ex-U.S. Regional SmallCap Select Indices Versus Their Benchmarks

Period	S&P Global SmallCap Select Index	S&P Global SmallCap	S&P Developed Ex-U.S. SmallCap Select Index	S&P Developed Ex-U.S. SmallCap
Annualized Total Return (%)				
1-Year	-4.58	-4.56	-9.62	-10.11
3-Year	8.93	8.27	6.73	6.28
5-Year	7.12	6.14	5.42	4.66
10-Year	13.88	13.35	12.30	11.56
15-Year	9.68	8.92	9.23	8.42
Since Dec. 31, 1999	9.02	7.68	7.66	6.71
Annualized Volatility (%)				
3-Year	10.81	11.49	12.07	12.28
5-Year	10.60	11.19	11.41	11.65
10-Year	15.45	16.16	16.29	16.73
15-Year	16.22	16.94	17.20	17.68
Since Dec. 31, 1999	16.23	17.33	17.04	17.57
Return/Risk				
3-Year	0.83	0.72	0.56	0.51
5-Year	0.67	0.55	0.47	0.40
10-Year	0.90	0.83	0.75	0.69
15-Year	0.60	0.53	0.54	0.48
Since Dec. 31, 1999	0.56	0.44	0.45	0.38
Risk Statistics (Since Dec. 31, 1999)				
Maximum Drawdown (%)	-56.91	-58.44	-59.35	-60.31
Beta With Benchmark	0.93	-	0.97	-
Correlation With Benchmark	0.99	-	1.00	-
Monthly Tracking Error	0.65	-	0.38	-
Sharpe Ratio	0.45	0.34	0.35	0.29

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to Nov. 30, 2018. Past performance is no guarantee of future results. Table is provided for illustrative 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 3: 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 Nov. 30, 2018. Past performance is no guarantee of future results. Charts are provided for illustrative 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 4: Up and Down Market Comparison – S&P Global SmallCap Select Index and S&P Developed Ex-U.S. SmallCap Select Index

Period	S&P Global SmallCap Select Index	S&P Developed Ex-U.S. SmallCap Select Index
Hit Rate: % of Months the Index Outperformed the Benchmark		
All Months	53.74	58.15
Up Months	35.00	46.21
Down Months	83.91	74.74
Average Monthly Excess Return Versus Benchmark (%)		
All Months	0.09	0.07
Up Months	-0.12	-0.04
Down Months	0.43	0.21
Market Capture Ratios (%)		
Up Months	96.41	98.93
Down Months	89.36	94.43

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, to Nov. 30, 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.

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

Improved long-term risk-adjusted performance: Excluding companies without a track record of generating positive earnings has historically reduced risk and 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.

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

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

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, and S&P Emerging SmallCap 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.

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