

# Smart beta: 2019 global survey findings from asset owners



**FTSE  
Russell**



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# Introduction

FTSE Russell is proud to present the sixth annual survey of global institutional asset owners' attitudes toward evaluation and adoption of smart beta. Each year we have surveyed decision makers across a broad spectrum of AUM tiers and organizational types at a variety of stages in their evaluation of smart beta. This year, 178 asset owners responded. Respondents are drawn from North America (46%), Europe (29%), Asia Pacific (19%) and other regions (6%) and have an estimated total AUM of over \$5 trillion.

Over the past six years, our survey has documented global institutional asset owners' growing interest in smart beta index-based strategies and allocations to investable products based on smart beta indexes. As of the 2019 survey, 78% of survey respondents have implemented, are currently evaluating, or plan to evaluate smart beta strategies. Clearly, smart beta continues to be an important part of an industry-wide conversation.

Our 2019 survey revealed a noteworthy shift in how asset owners are thinking about smart beta. Across all regions and AUM tiers, asset owners view smart beta allocations as more similar to traditional active strategies, and less aligned with traditional passive strategies. This is perhaps why "concern about taking on additional risk" was one of the few cited barriers to smart beta adoption that increased from 2018 to 2019—an indication that

more asset owners acknowledge the active risk associated with smart beta.

The past few years in our survey documented a strong trend in multi-factor strategy adoption. That headline continued in 2019, where multi-factor combinations accounted for the largest number of adoptions (71%), a level that surpasses its previous peak in 2017. This level significantly outpaced adoptions of low volatility (35%) and value (28%), as well.

Furthermore, 69% of those who have implemented a smart beta strategy for the first time within the last two years use a multi-factor combination. This continues to illustrate a growing awareness of the diversification, downside protection, and return potential of combining factors, a strong trend that has come up with increasing frequency during our many discussions with asset owners.

As in past surveys, risk reduction, return enhancement and improved diversification remain the top three motives for allocations to smart beta. Cost savings has held its spot in fourth place (31%) for the third consecutive year, suggesting that smart beta is increasingly being used in place of more expensive active strategies.

When asked how satisfied asset owners are with their smart beta strategies, 52% said they were satisfied or very satisfied and the percentage of asset owners who are dissatisfied remains below 10%. Given many asset owners only recently implemented smart beta strategies, it is unsurprising that nearly a quarter report that it is too soon to gauge their satisfaction.

With such high levels of satisfaction, the majority of asset owners with an existing smart beta allocation are contemplating further allocations. And

for those without an existing allocation who are currently evaluating smart beta, over half plan to implement a strategy in the near future. These figures support an outlook of sustained growth in smart beta.

Finally, nearly all cited barriers to smart beta adoption declined from 2018 to 2019. This suggests that asset owners are becoming more comfortable with smart beta strategies, as many investors have developed an increased understanding of these products and have more confidence in their longer track records. These were cited as the top two reasons many asset owners are re-evaluating smart beta strategies.

We hope the results of this survey are informative and insightful for a wide audience. Over the past six years we have seen smart beta interest and adoption grow significantly. While investor motivations for adopting

smart beta have remained largely the same, the product choices and educational information available to investors have expanded considerably as the industry continues to innovate.

**Rolf Agather, CFA**  
*Managing Director of Research,  
North America*



# Summary of key themes

## Smart beta evaluation and adoption

Global smart beta adoption rates have reached a record high of 58% in 2019. From a regional perspective, European asset owners maintain the highest rate of smart beta adoption, with 65% of survey respondents in Europe reporting an existing allocation to smart beta. North American asset owners are not far behind, with 60% reporting an existing allocation in 2019.



### Why smart beta?

Our survey results indicate return enhancement, risk reduction and improved diversification as the most commonly reported objectives for using smart beta.

Globally, asset owners have shifted their view of smart beta strategies as more similar to traditional active strategies, while they see less alignment between smart beta and traditional passive strategies.



### Smart beta strategies

Multi-factor index-based strategies continue to be reported as the most commonly evaluated and the most widely adopted smart beta equity strategies, with users of the strategy increasing from 49% in 2018 to 71% in 2019.

This was a trend among both recent adopters and longer-term users of smart beta. Allocating to a single multi-factor product is far more common than allocating to multiple individual factor products. Among single factor strategies, value and low volatility persist as the most widely used and evaluated. Fixed income smart beta adoption and evaluation rates have remained low relative to equity smart beta strategies.



## Smart beta implementation

When evaluating smart beta strategies, 61% of asset owners with a smart beta allocation rely on external managers for smart beta information.

Once they have chosen to implement, the majority continue to report that their smart beta allocations are strategic in nature, with separate accounts as their preferred vehicle.



## Outlook

**We expect sustained growth in smart beta, especially when it comes to multi-factor combination strategies.**

Satisfaction rates among those already using smart beta remain strong, and the majority expect to increase or maintain existing allocations. Furthermore, many of those who have not yet adopted smart beta are still evaluating their options thanks to increased investor education and longer track records for smart beta strategies.

# Survey background

This is the sixth consecutive year that FTSE Russell has conducted this study, the purpose of which is to measure smart beta market trends and offer insight into how and why asset owners around the globe are evaluating and implementing smart beta strategies within their portfolios.

The 2019 survey was conducted in January and February. This year, 178 global asset owners participated in the survey. The majority of participants were located in North America (46%) and Europe (29%), and participation from the Asia Pacific region has improved to 19% after declining somewhat in 2018. Where sample size permits, 2019 analysis of regional trends includes a breakout for Asia Pacific.

A wide mix of organization types are represented, including government organizations (31%), corporations or private businesses (16%), unions or industry-wide pension schemes (15%), and non-profit organizations or universities (14%). The rest is a mix of insurance companies, sovereign wealth funds, health-care organizations and family offices.

Fifty-three percent of the asset owners who responded manage defined benefit plan assets, 36% manage defined contribution plan assets and 14% manage endowment or foundation assets. In some cases, respondents selected more than one of these categories. Participants also include asset owners with insurance general accounts, sovereign wealth funds and other types of institutional entities.

To provide additional insights, respondents are grouped by total AUM tiers; asset owners with under \$1B in total AUM (22%); those with between

\$1B and \$10B in total AUM (27%); and those with \$10B or more in total AUM (51%). Aggregate AUM of the survey participants is estimated to be over \$5 trillion.

The distribution of our asset owner sample has shifted from year-to-year across regions and AUM tiers. This can contribute to year-over-year changes in the results.

For the purposes of this survey, "smart beta" is defined as an investment strategy that applies an index-based investment strategy that is not traditionally market cap-weighted (i.e. fundamentally weighted, equal weighted, factor weighted, optimized, etc.).

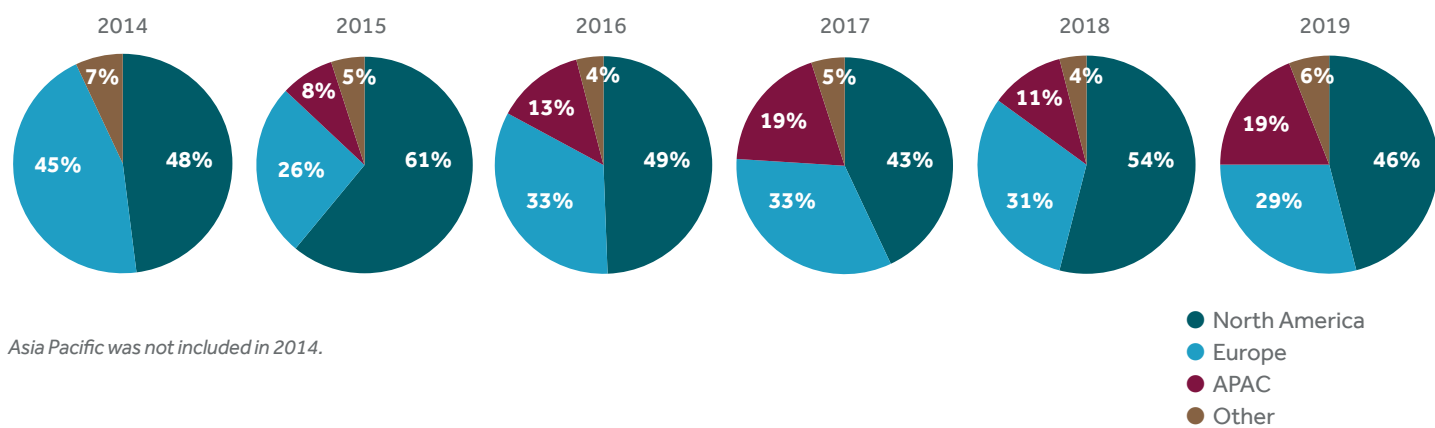
For a sample size of 178, the margin of error is +/- 7% at a 95% confidence margin. Throughout the report, percentages may not total 100 due to rounding and/or because some questions allowed for multiple responses (allowance for multiple responses is noted as "multi-pick" in each exhibit footer).



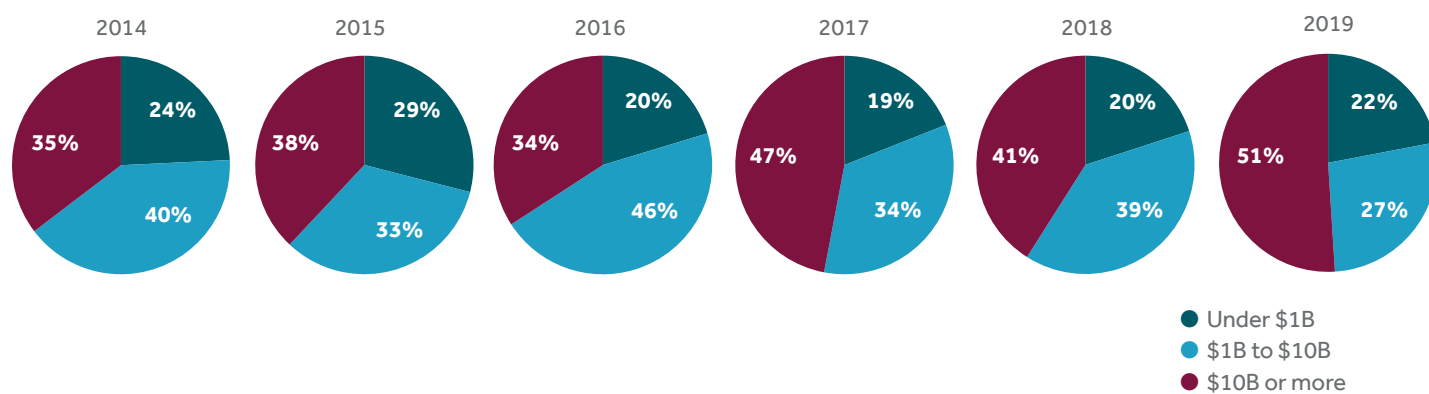
## Sample distribution by year for 2014 – 2019

### Exhibit 1

#### Region distribution



#### AUM tier distribution





# 1

## Smart beta evaluation and adoption

Globally, smart beta adoption rates continue to grow to record levels, and many asset owners who report no existing allocation are either currently evaluating smart beta or planning to do so in the near future.

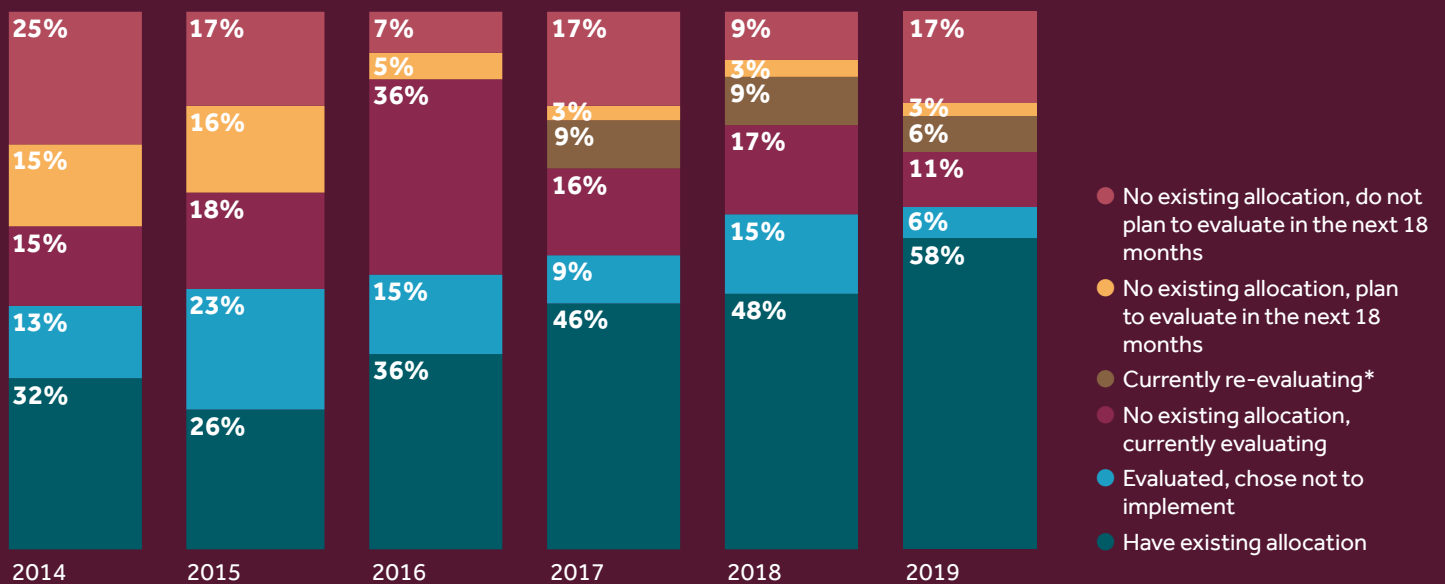
The percentage of asset owners reporting an existing smart beta allocation has increased by 10 percentage points to 58% versus the prior year.

Further, the combined share of asset owners either currently evaluating (11%), re-evaluating (6%), or planning to evaluate

(3%) represents one-fifth of survey respondents. This, combined with the decline in those who evaluated but chose not to implement (from 15% to 6% in the last year), indicates a continued interest in smart beta.

### Exhibit 2

Which best describes your organization's usage of smart beta strategies?



\*Currently re-evaluating not included in 2014-2016.

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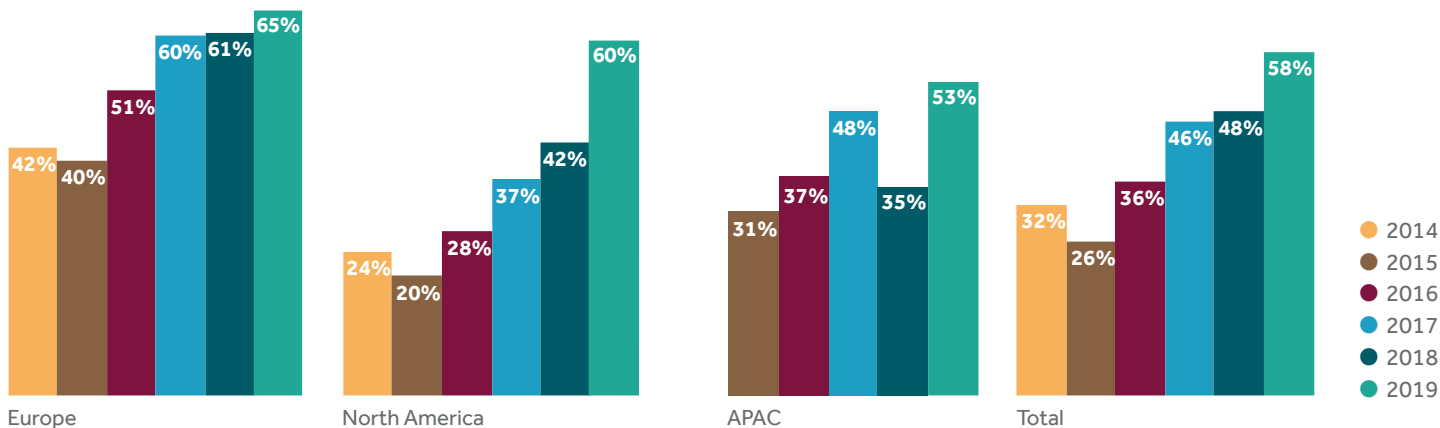
## Europe, North America and APAC each posted growth in smart beta adoption.

European asset owners continue to lead North America and APAC in smart beta adoption. The sizable growth in smart beta adoption in North America from 2018 to 2019 may be explained in part by a tilt toward larger tier asset owners sampled. Fifty-seven percent of North American survey respondents have AUM greater than \$10B, up from 42% in 2018.

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### Exhibit 3

#### Smart beta adoption percentage by region



Asia Pacific was not included in 2014. Sample size for Asia Pacific was 16 in 2015 and 20 in 2018, below the preferred threshold of 30.

Sample size for other regions is too small to break out; other regions are reflected in total.

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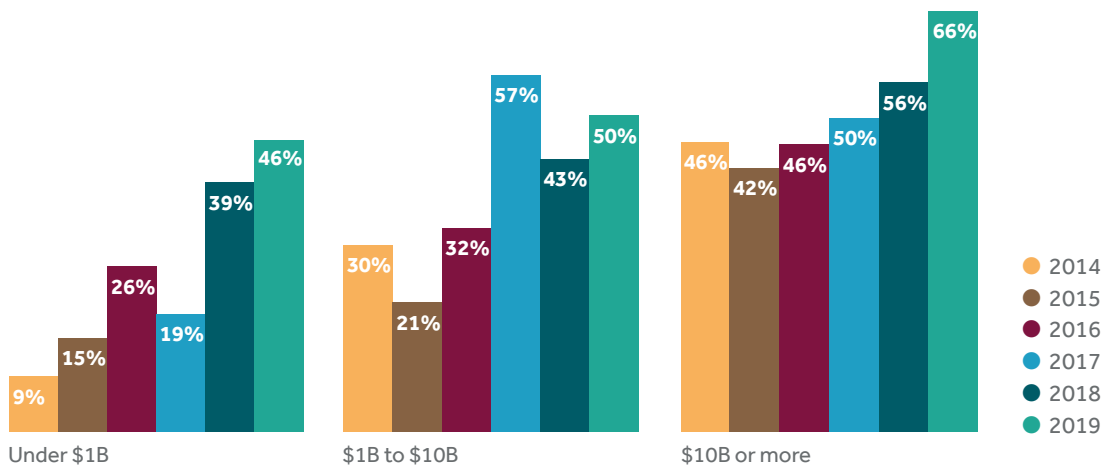
**Growth in smart beta adoption rates is evident across all AUM tiers. Compared to 2014, the gap in adoption rates between the largest asset owners and those with less than \$1B AUM has narrowed.**

While survey respondents vary by region and AUM tier each year, the overall trend continues to show growth across all three tiers since 2014. The greatest change in adoption rates has taken place in the under \$1B AUM tier, increasing from 9% in 2014 to 46% in 2019.

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**Exhibit 4**

**Smart beta adoption percentage by asset size**



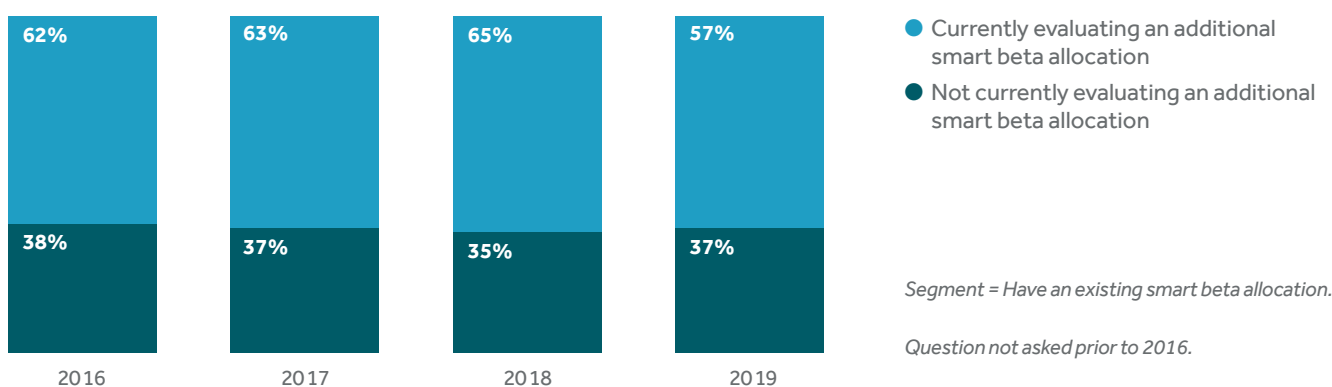


**In line with previous years, over half of asset owners who have already adopted a smart beta strategy are evaluating additional allocations, and nearly half of those who had previously evaluated smart beta and decided not to implement are now reconsidering smart beta.**

Among asset owners with an existing smart beta allocation, 57% are currently evaluating additional allocations in 2019.

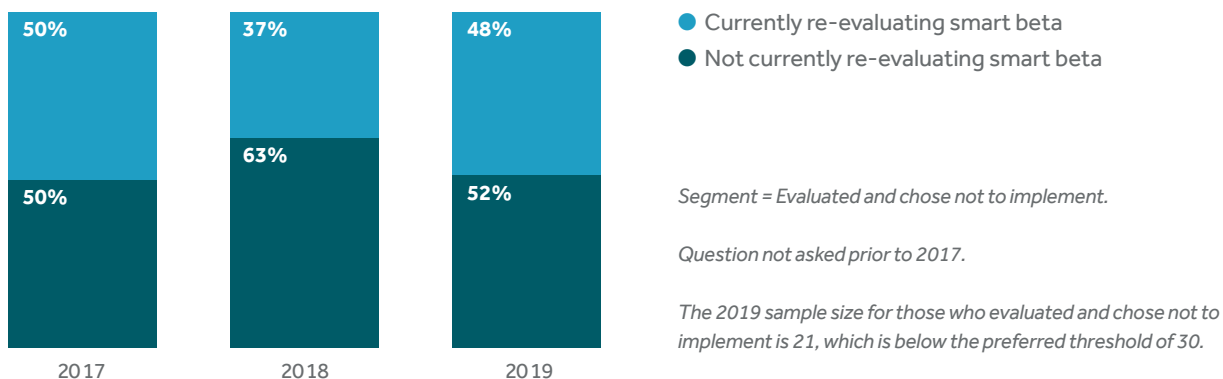
### Exhibit 5

#### Evaluation of smart beta among asset owners with a current smart beta allocation



### Exhibit 6

#### Re-evaluation of smart beta among asset owners who previously evaluated smart beta and decided not to implement



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## The longer track record available for smart beta is encouraging re-evaluation.

In 2019, one of the top reported reasons for re-evaluating smart beta is the longer track record smart beta now holds, as well as increased understanding through new information and education, signaling an increase in confidence in smart beta.

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### Exhibit 7

What are the top reasons you are evaluating smart beta strategies again?

|                  | 2017   | 2018   | 2019  |
|------------------|--|--|---|
| <b>#1 reason</b> | Increased understanding through new information and education        | New types of smart beta strategies (i.e. multi-factor, fixed income) | Increased understanding through new information and education |
| <b>#2 reason</b> | New types of smart beta strategies (i.e. multi-factor, fixed income) | Increased off-the-shelf product availability                         | Longer track record   |

*Multi-pick. Segment = Currently re-evaluating smart beta.*

*The 2019 sample size for currently re-evaluating smart beta is 9, below the preferred threshold of 30.*

# 2

## Why smart beta?

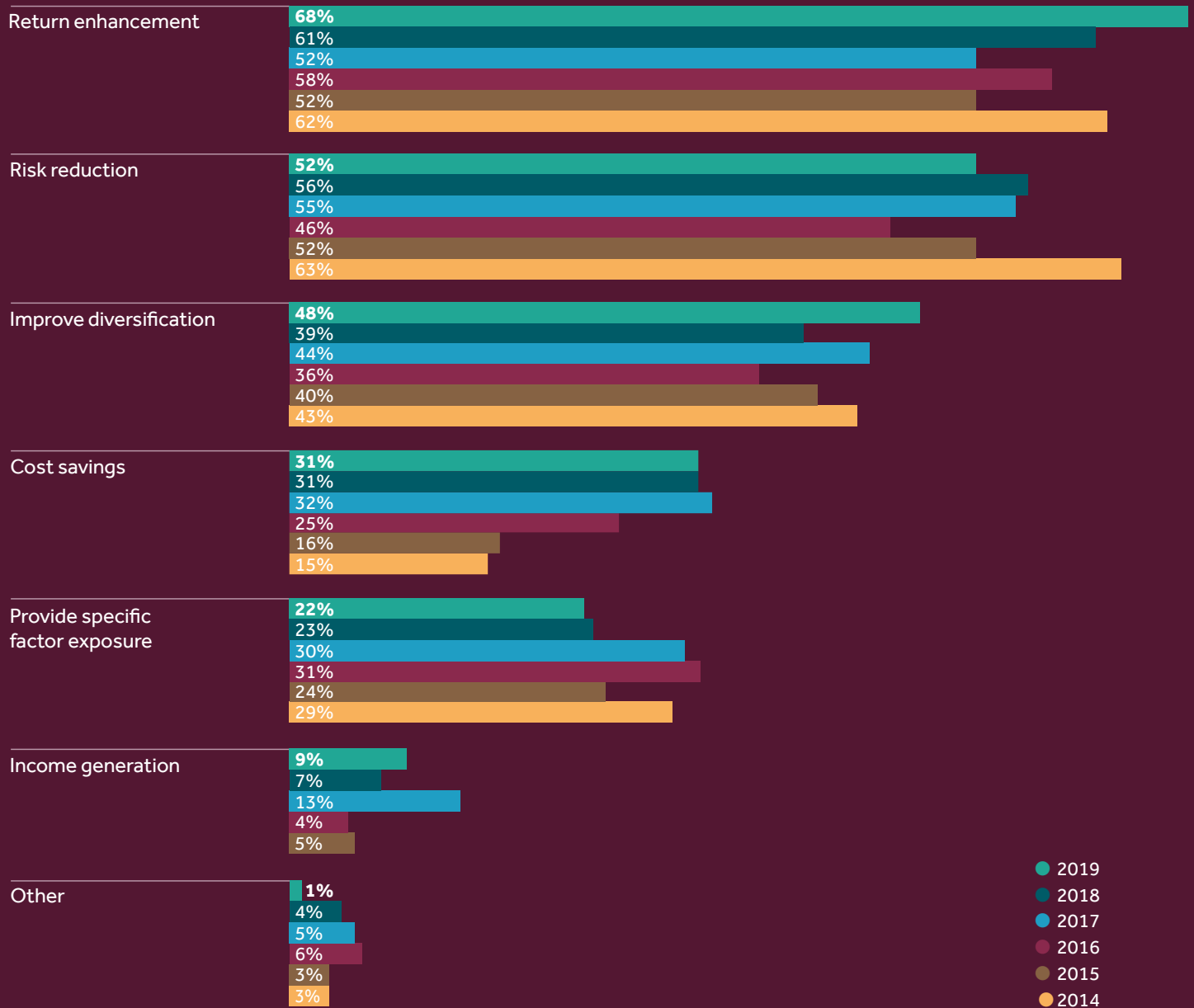
Return enhancement and risk reduction remain the primary objectives of smart beta, and asset owners increasingly view smart beta as more aligned with traditional active than traditional passive strategies.

Return enhancement, risk reduction and diversification have maintained their positions as the top three objectives motivating asset owners to evaluate smart beta. Since we first asked this question six years ago, the percentage of those

reporting cost savings as an investment objective has more than doubled, but it has held steady at around 30% over the past three years.

## Exhibit 8

### What investment objectives initiated your evaluation of smart beta strategies?



Multi-pick. Segment = Have an existing smart beta allocation, evaluated and chose not to implement, or currently evaluating smart beta, AND using/evaluating/evaluated smart beta equity strategies.

"Income generation" was not included in 2014.

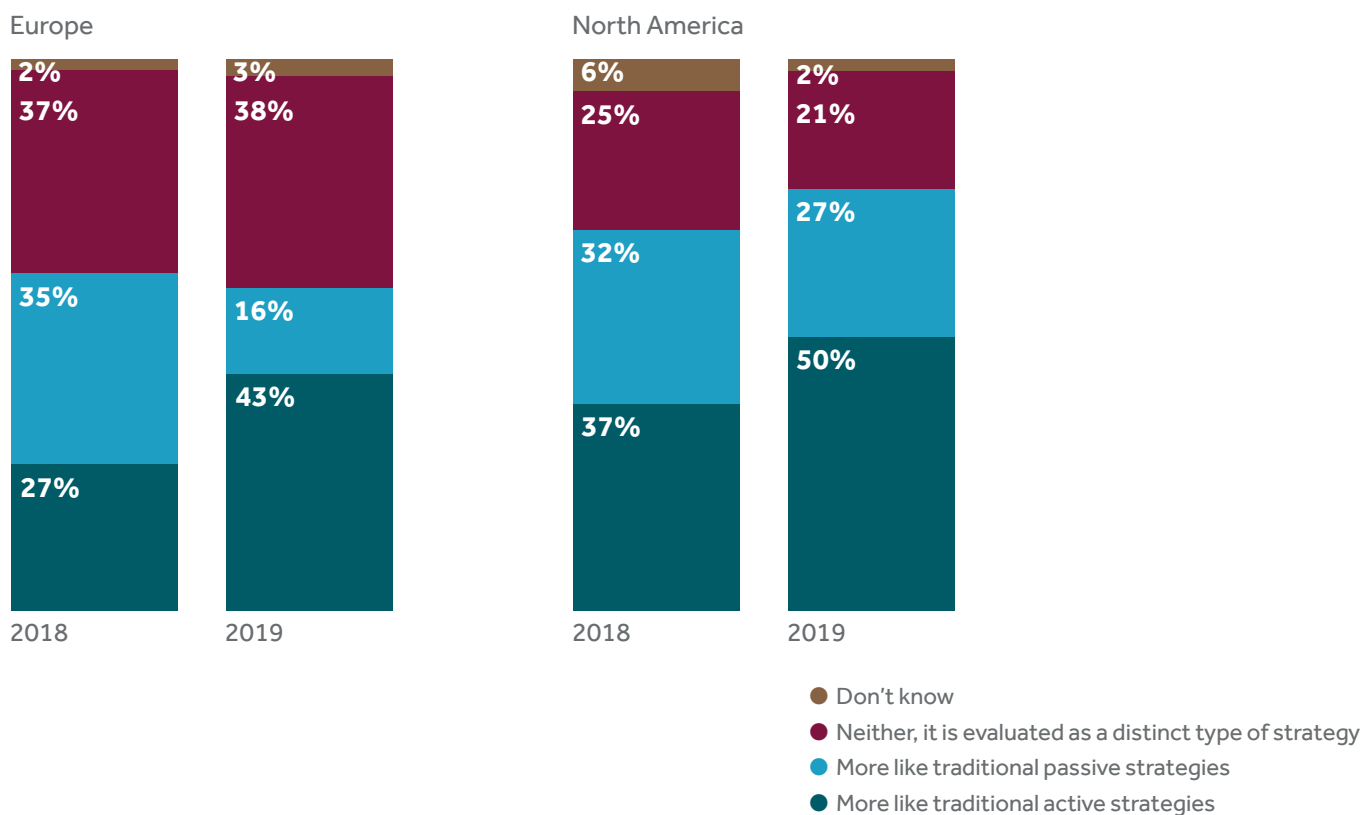
## Globally, asset owners view greater alignment between smart beta and traditional active than between smart beta and traditional passive strategies.

The overall percentage of asset owners viewing smart beta as similar to active strategies increased from 35% in 2018 to 46% in 2019. Conversely, the percentage of respondents viewing smart beta as more similar to traditional passive declined from 32% to 21%.

There also remains a significant portion of asset owners who view smart beta as a type of strategy distinct from traditional active or passive. This is true for 38% of asset owners in Europe, compared to 21% in North America.

### Exhibit 9

Which best describes how you are evaluating or positioning smart beta's role in your investments?



Sample size for APAC and other regions not large enough to break out; respondents from these regions are included in total.

Excludes those who have not yet adopted or evaluated smart beta.



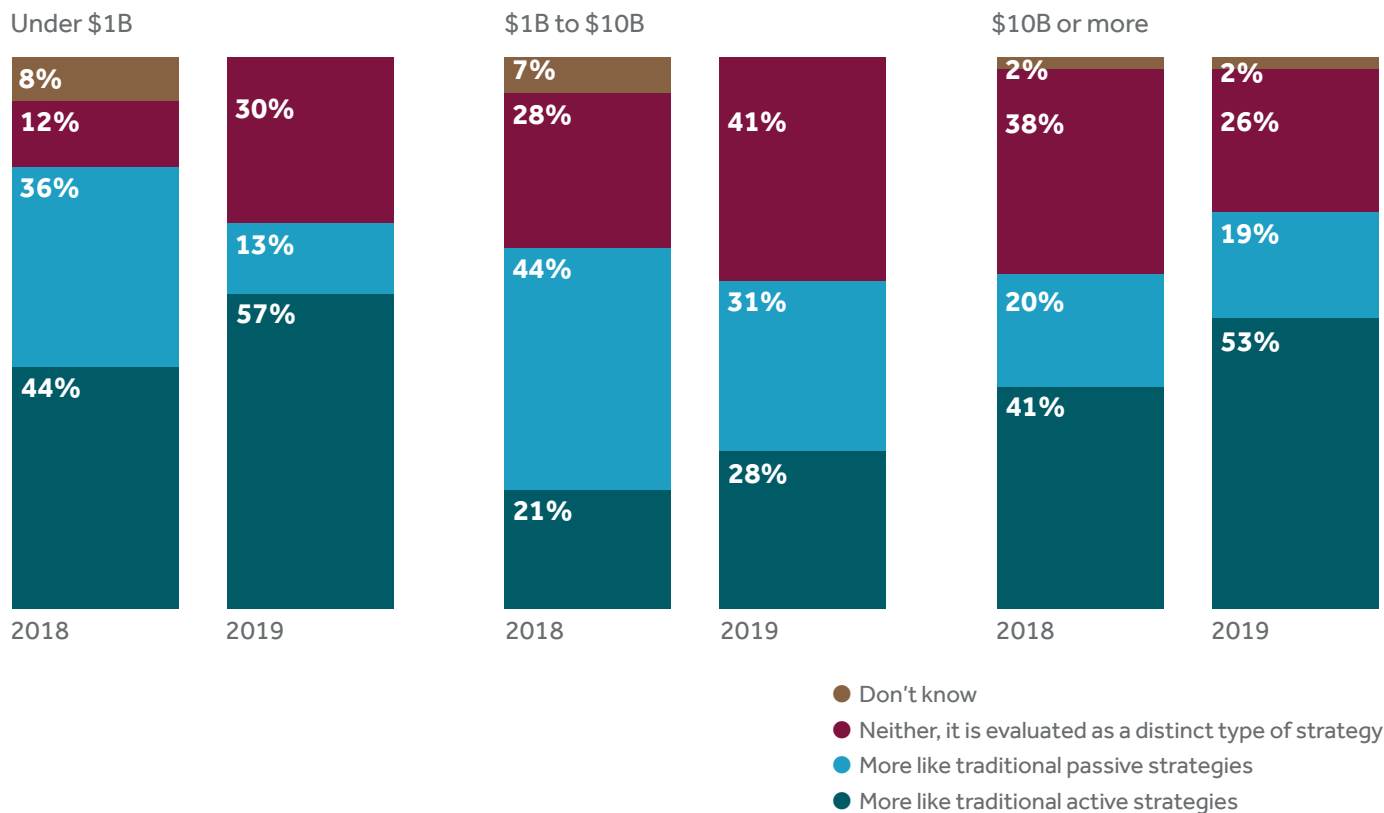
**All AUM bands shifted to view greater alignment between smart beta and traditional active. Views aligning smart beta with traditional passive declined most notably among asset owners with AUM less than \$10B.**

Segmenting the survey respondents by size indicates that those with under \$1B AUM or more than \$10B AUM are the most likely to align smart beta with traditional active

strategies. The mid-size asset owners (those with \$1B-\$10B AUM) are more inclined to view smart beta as a distinct type of strategy.

**Exhibit 10**

**Which best describes how you are evaluating or positioning smart beta's role in your investments?**



The sample size for those with under \$1B AUM was 25 in 2018 and 23 in 2019, below the preferred threshold of 30.

Excludes those who have not yet adopted or evaluated smart beta.

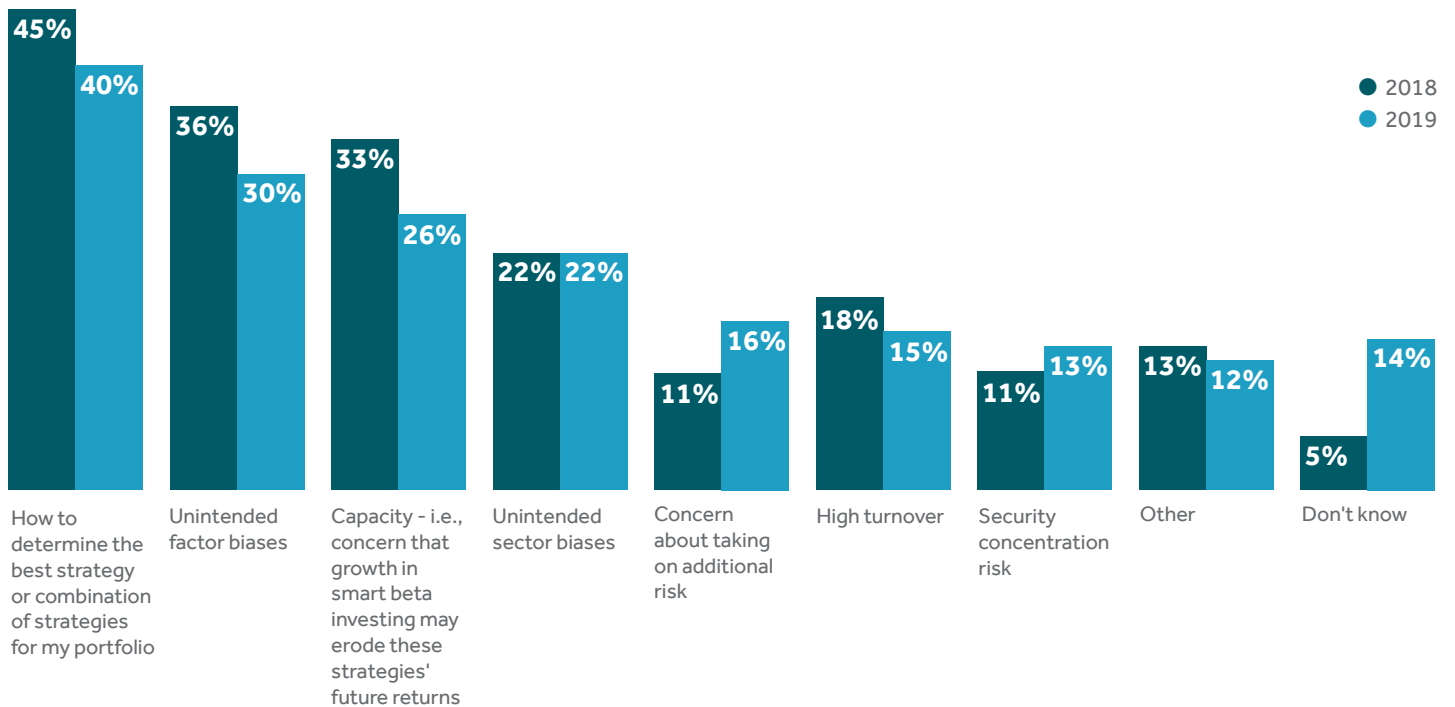
## Choosing which strategy to adopt, managing unintended factor biases and capacity concerns are the top barriers to equity smart beta adoption.

In most cases, fewer asset owners this year view each theme as a barrier to smart beta allocation than did last year. One notable exception was “concern about taking on additional risk,” which is an increasing barrier to adoption this year.

This finding is consistent with more asset owners viewing smart beta as similar to traditional active management, as it is an acknowledgement of more active risk associated with smart beta strategies.

### Exhibit 11

What barriers to equity smart beta allocation and/or implementation do you perceive?



Multi-pick



# 3

## Smart beta strategies

Multi-factor combination strategies remain the most widely used form of smart beta, surpassing its previous peak in 2017. Among those implementing single-factor strategies, low volatility and value remain the most popular.

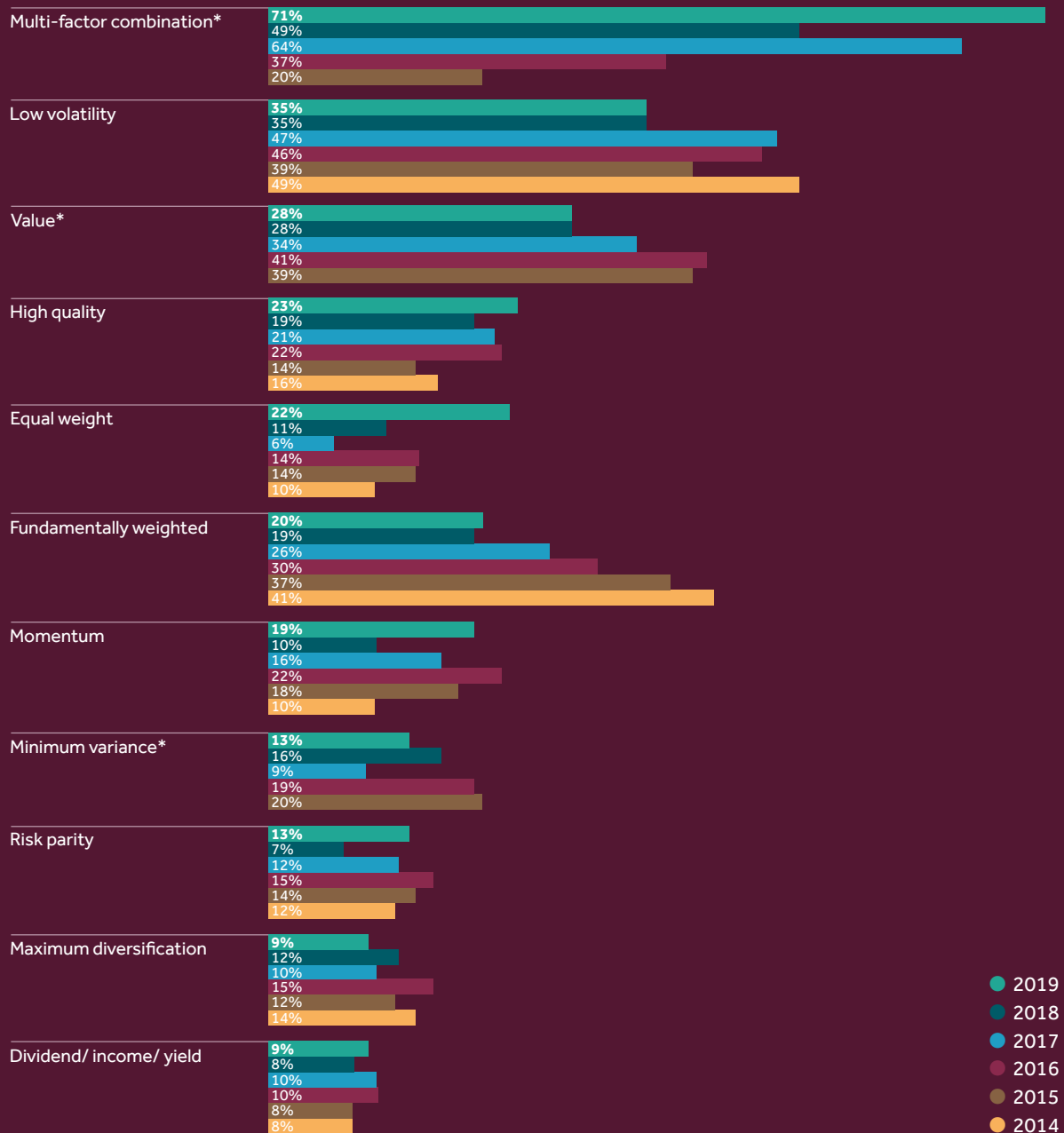
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Multi-factor combination strategies remain the most widely used, and showed a considerable increase in the percentage of users when compared with last year. The percentage of survey respondents who reported using a multi-factor combination strategy surged from 49% in 2018 to 71% in 2019.

Low volatility remains the top single factor strategy, followed by value, with levels steady compared to last year. However, if we look at the years prior to 2018, low volatility, value and fundamentally weighted strategies each are associated with significantly lower usage.

## Exhibit 12

### What type of smart beta strategies are you currently using?



Multi-pick. Segment = Have an existing smart beta allocation.

\*"Multi-factor," "value" and "minimum variance" were not included in 2014.



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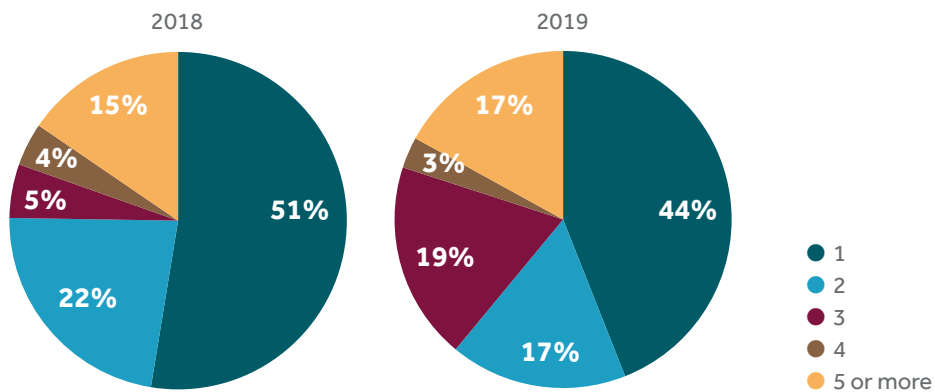
**Among asset owners with an existing smart beta allocation, more are likely to report using three strategies in 2019 vs. 2018.**

Among asset owners who have implemented smart beta strategies, somewhat fewer are using only one strategy. Roughly one-third are now using two or three strategies, and one in five are using more than three strategies.

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**Exhibit 13**

**Number of strategies used**



Segment = Have an existing smart beta allocation.

**Multi-factor combination is the most commonly used strategy among both recent adopters and those with longer term smart beta allocations.**

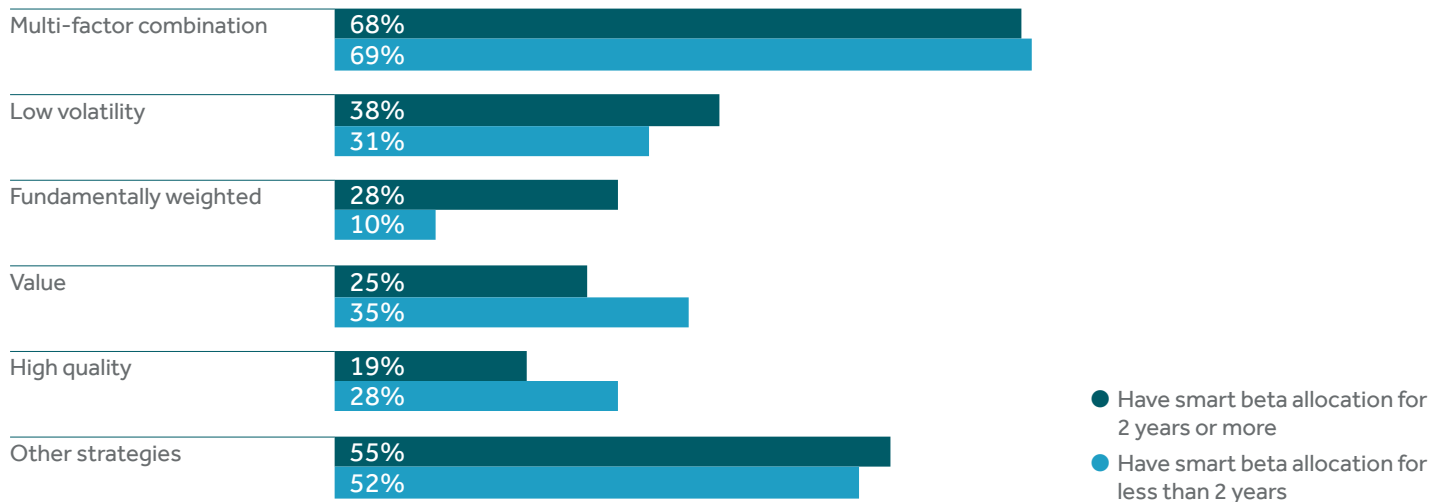
Both asset owners who have had smart beta allocations for more than two years and those who have had them for a shorter time period reported "multi-factor combination" as their most widely used smart beta strategy.

Those asset owners using fundamentally weighted smart

beta strategies tend to have had an allocation for two years or more, suggesting that fundamentally weighted strategies are a mature offering. In contrast, high quality and value strategies have more users who are relatively recent adopters of smart beta.

**Exhibit 14**

**What type of smart beta strategies are you currently using?**



Multi-pick. Segment = Have an existing smart beta allocation.

Sample size for asset owners with smart beta allocation for less than two years is 29, below the preferred threshold of 30.

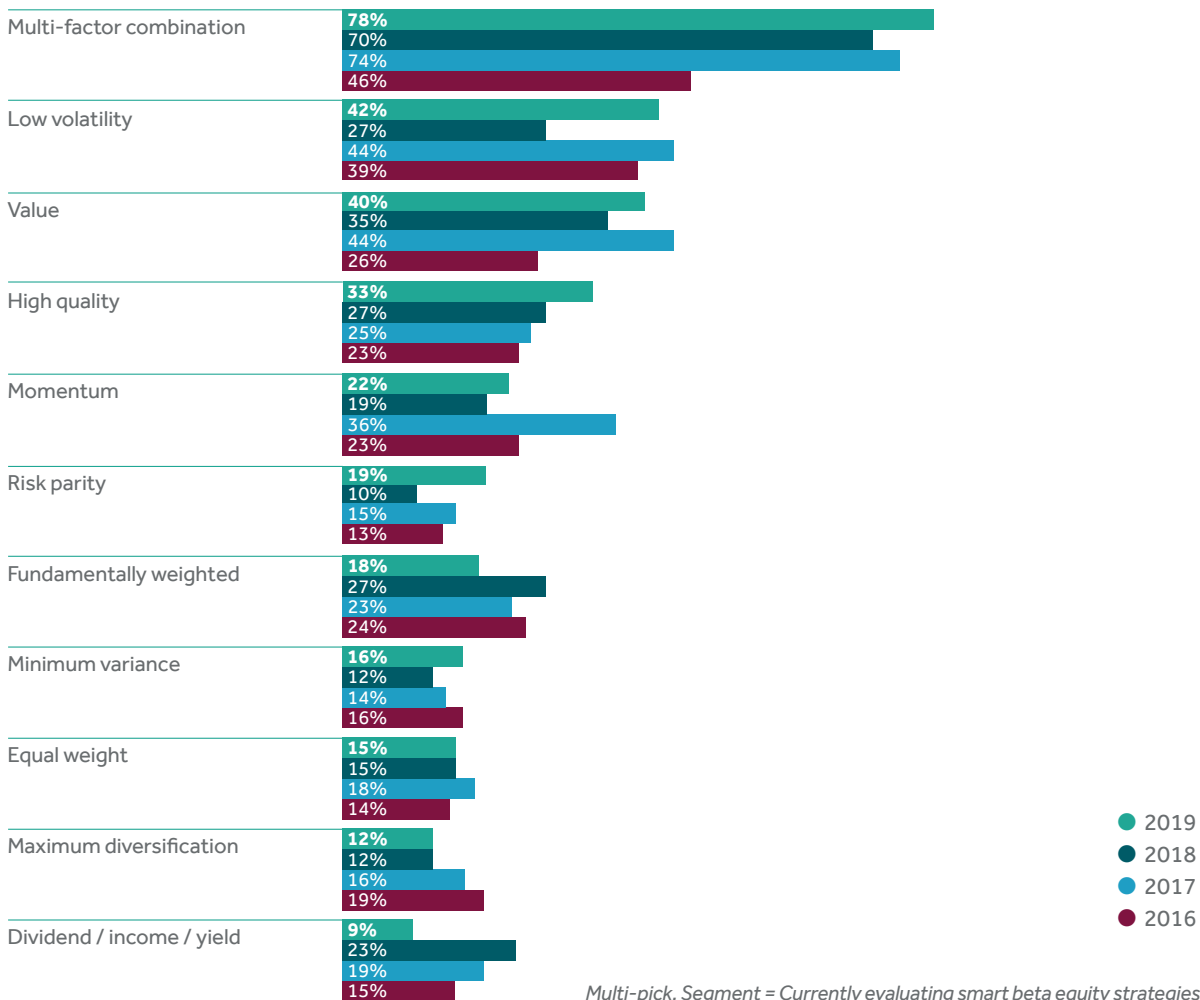
**Multi-factor combination strategies remain the most commonly evaluated smart beta options among those who are currently evaluating.**

Nearly 80% of asset owners currently evaluating smart beta strategies are looking at multi-factor combinations. After a dip in 2018, low volatility and value strategies return to evaluation levels seen in 2017. High quality has exhibited steady growth over the years, claiming a spot as the fourth most commonly

cited strategy under evaluation. It is important to note that this survey was conducted in early 2019, when many investors were turning to quality on the heels of a turbulent Q4 2018. This trend could be behind the increase in asset owners evaluating high quality factor smart beta strategies.

**Exhibit 15**

**What smart beta strategies are you currently evaluating?**



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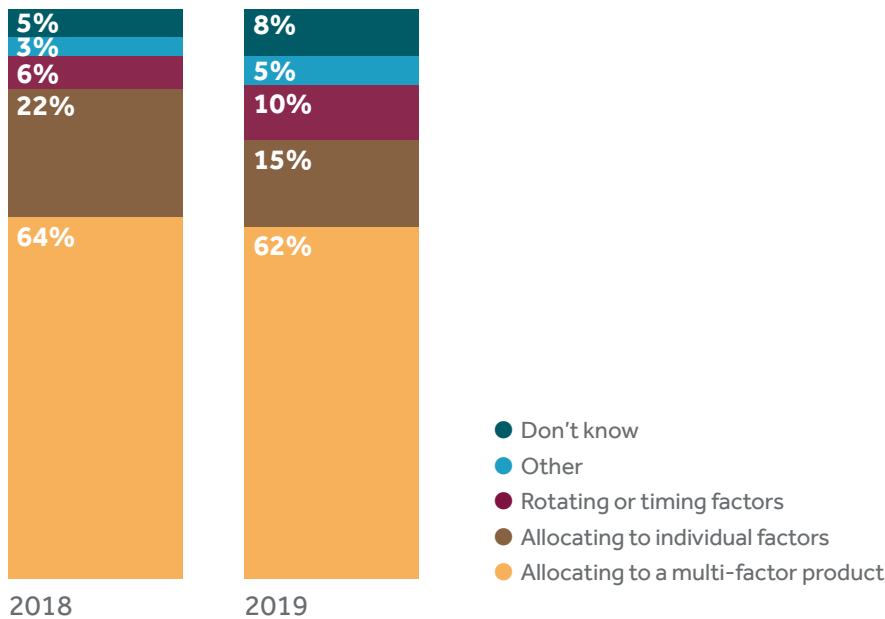
## For asset owners implementing or considering implementing multi-factor strategies, interest in allocating to individual factors has declined.

Allocating to a multi-factor product remains the most common approach, while fewer asset owners are constructing their own multi-factor strategies by allocating to individual factors.

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### Exhibit 16

Which statement best reflects how you are implementing or considering implementing multi-factor strategies?



Segment = Have an existing smart beta allocation, OR no existing allocation but currently evaluating/re-evaluating smart beta. Note: Those who said "I am not using or considering multi-factor strategies" were removed.

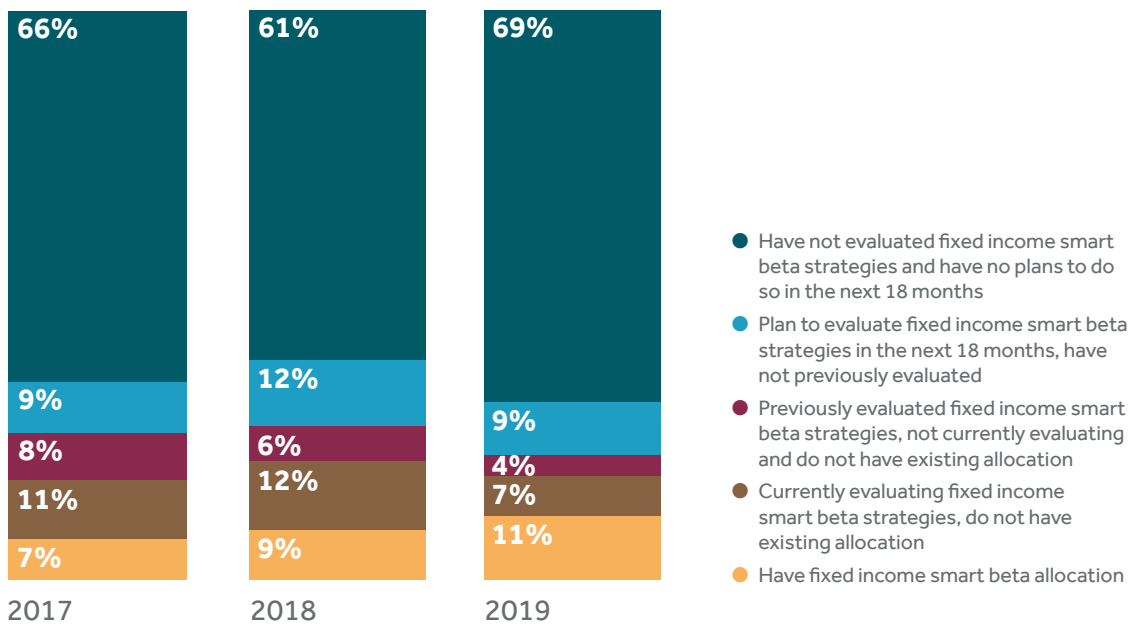
**Fixed income smart beta has remained stable, with relatively low levels of asset owner evaluation and adoption.**

Adoption of fixed income smart beta strategies has occurred among 11% of asset owners surveyed in 2019, roughly stable from the prior year. A smaller proportion, 16%, is currently

evaluating or planning to evaluate fixed income smart beta strategies in the next 18 months—down from 24% last year.

**Exhibit 17**

**What best describes your organization's usage of fixed income smart beta strategies?**





Of those who are not currently evaluating fixed income smart beta strategies, their reasons were somewhat variable in 2019. This year, about a quarter of respondents don't know why they have not evaluated the strategy, which further signals a persistent lack of education and awareness.

## Exhibit 18

### What are the primary reasons you have not yet evaluated fixed income smart beta strategies?

|   | 2017 | 2018 | 2019 |
|---|------|------|------|
| Do not believe they have investment merit           | 13%  | 24%  | 19%  |
| Consultant has not recommended this option          | 15%  | 13%  | 15%  |
| Do not believe in passive allocations               | 17%  | 9%   | 15%  |
| Lack of investment resources to make the evaluation | 23%  | 17%  | 14%  |
| Lack of product choice*                             | —    | 14%  | 12%  |
| AUM is too small for this type of strategy          | 8%   | 7%   | 4%   |
| Other   | 14%  | 24%  | 15%  |
| Don't know  | 21%  | 15%  | 25%  |

*Multi-pick. Segment = Do not have a fixed income smart beta allocation AND have not previously evaluated fixed income smart beta strategies AND are not currently evaluating fixed income smart beta strategies.*

*\*"Lack of product choice" was not included in 2017.*

# 4

## Smart beta implementation

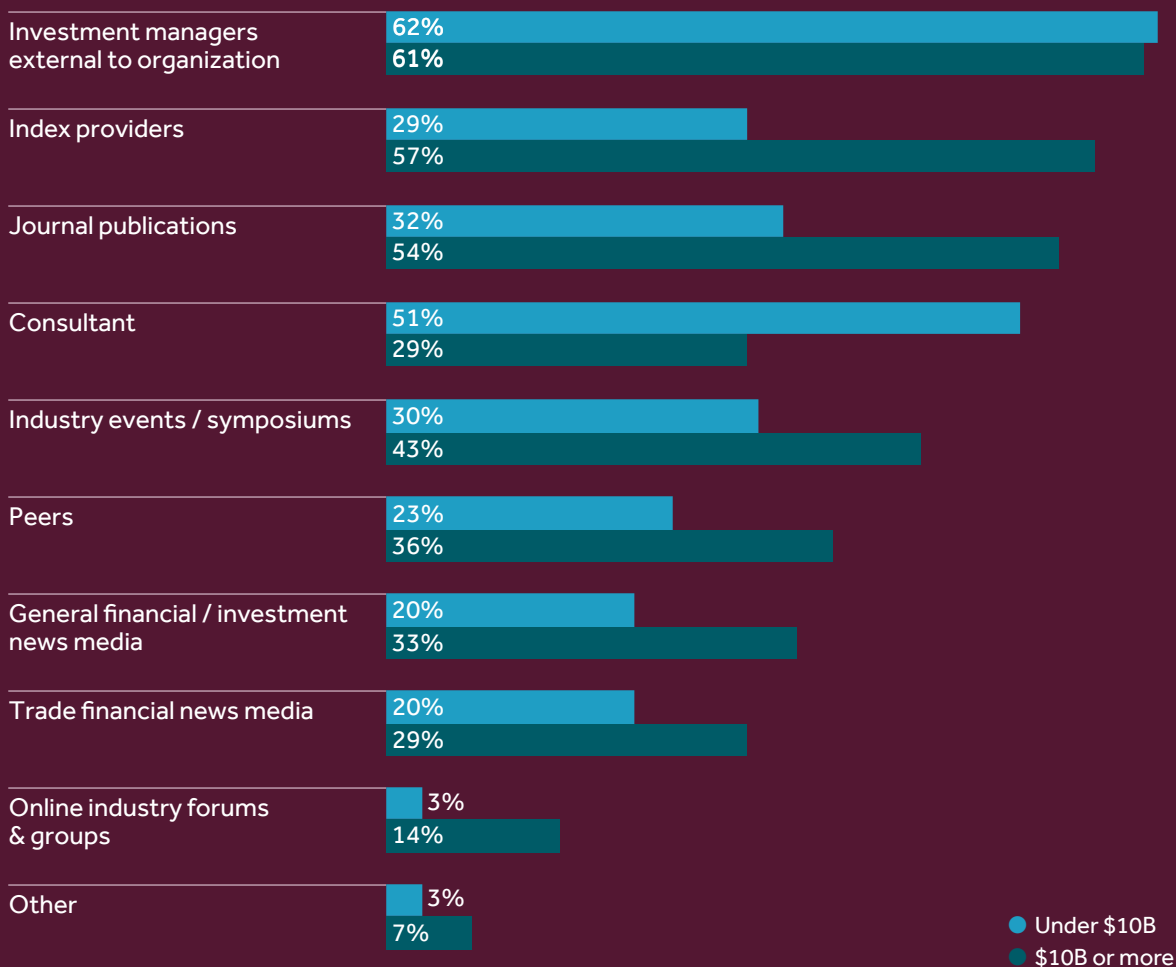
Asset owners continue to rely heavily on external investment managers for information about smart beta strategies. And when it comes to implementation, the majority report strategic-only allocations, with separate accounts as their preferred vehicle.

Over 60% of asset owners across all AUM tiers reported they rely on external investment managers for information about smart beta strategies—a number consistent with prior years. When compared to smaller asset owners, larger asset owners

more frequently turn to index providers, journal publications, and industry events for information about smart beta. Smaller asset owners, on the other hand, are more likely to rely on consultants.

## Exhibit 19

What external sources of information do you rely on most for credible information about smart beta strategies?

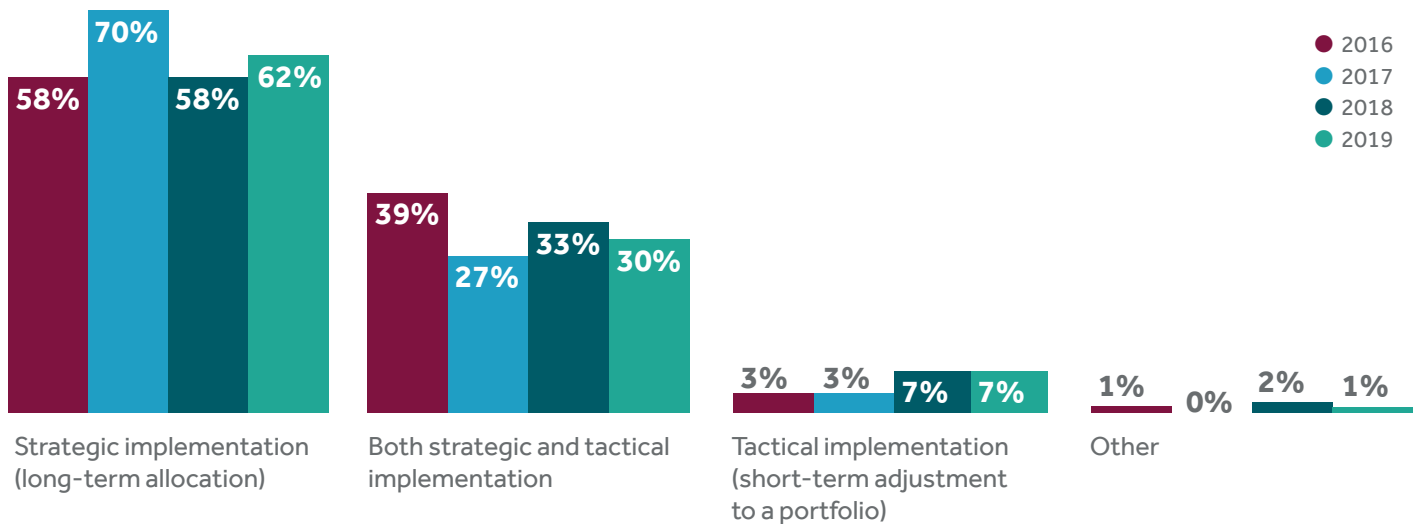


## For which of the following are you using or evaluating use of smart beta strategies?

With 62% of asset owners allocating or evaluating smart beta for strategic (long-term) implementation, this approach continues to be the most common by a significant margin.

### Exhibit 20

#### For which of the following are you using or evaluating use of smart beta strategies?



Segment = Have an existing smart beta allocation, OR no existing allocation but currently evaluating/re-evaluating smart beta.

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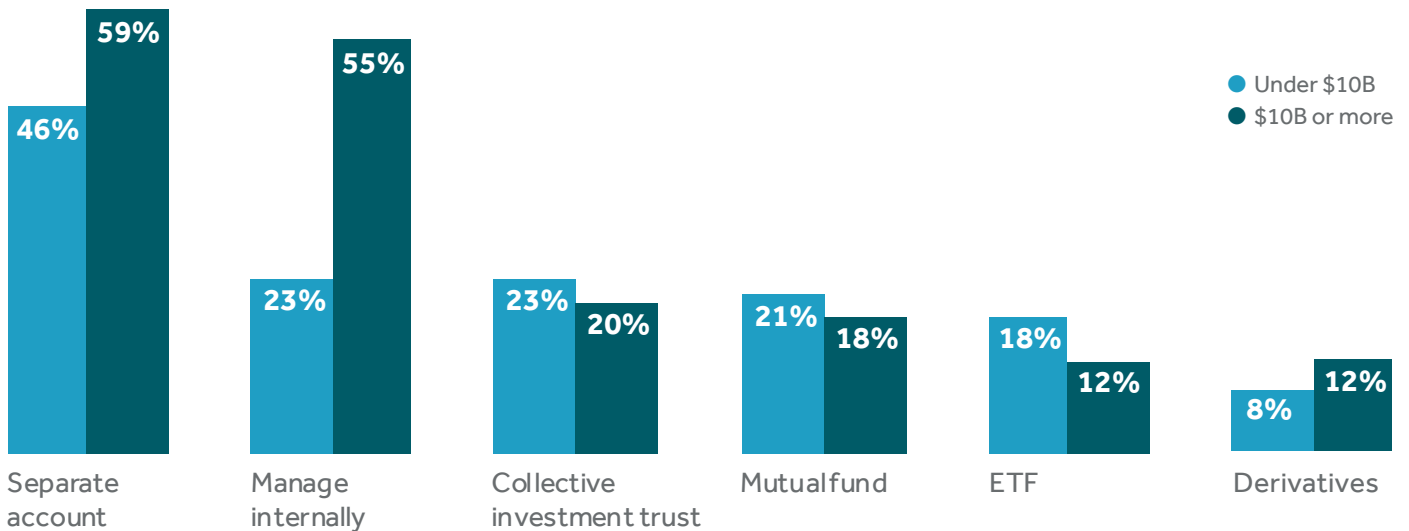
## Separate accounts are the most preferred vehicle for strategic implementation of smart beta across AUM tiers.

For large asset owners with more than \$10B AUM, both separate account and internal management are preferred for strategic implementation of smart beta. For asset owners with AUM under \$10B, separate account implementation is most preferred.

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### Exhibit 21

For strategic uses of smart beta strategies, which vehicle type do you prefer?



*Multi-pick. Segment = Have an existing smart beta allocation, or no existing allocation but currently evaluating/re-evaluating smart beta, AND have or intend to have a strategic implementation.*

# 5

## Outlook

As growth of adoption rates continues to gain momentum on a global scale, the outlook for smart beta remains robust. Satisfaction with existing allocations remains high, and over half of those not currently using smart beta plan to do so in the next 18 months.

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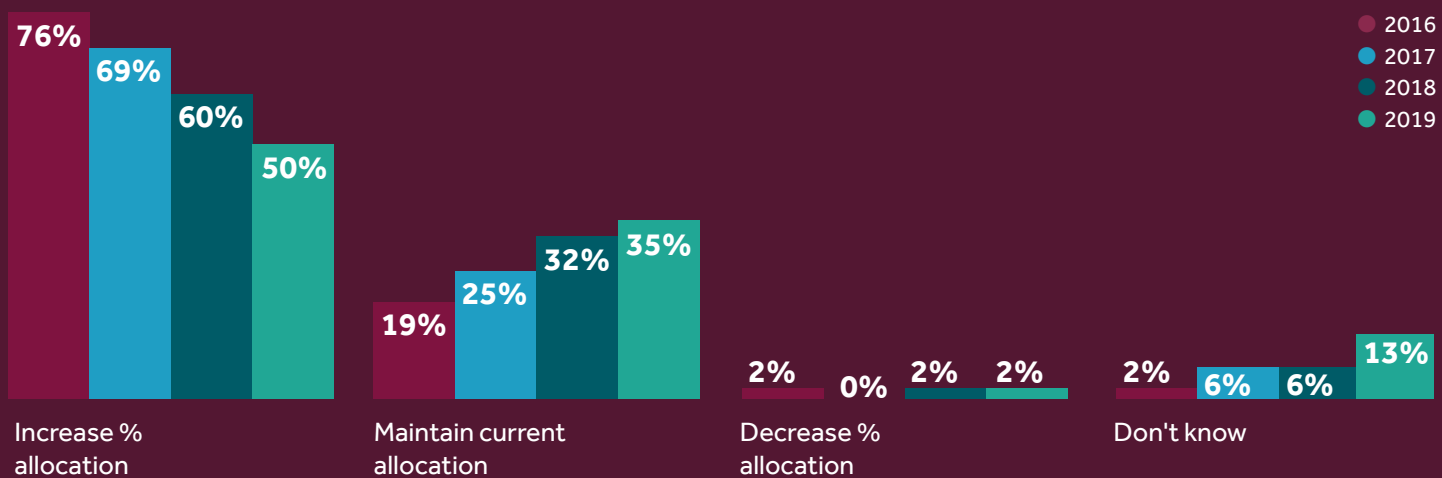
Fifty-eight percent of asset owners have an existing allocation to smart beta. Of these asset owners with an existing allocation, half plan to increase their allocation in the next 18 months and most of the remainder plan to maintain their current allocation. Just 2% of asset owners surveyed are planning to decrease their allocation to smart beta.

Still, among those with an existing smart beta allocation, expectations around growth in allocations have slowed.

Back in 2016, over three quarters of asset owners with an allocation to smart beta expected to increase that allocation. This percentage has since steadily declined, and in 2019 was down to one half of respondents planning to increase their smart beta allocation.

## Exhibit 22

What is your outlook for future usage of smart beta in your portfolio in the next 18 months?



Segment = Have an existing smart beta allocation, currently evaluating additional allocation.

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## Of those who do not have a current allocation to smart beta, over half are currently evaluating smart beta with plans to make an allocation in the near term.

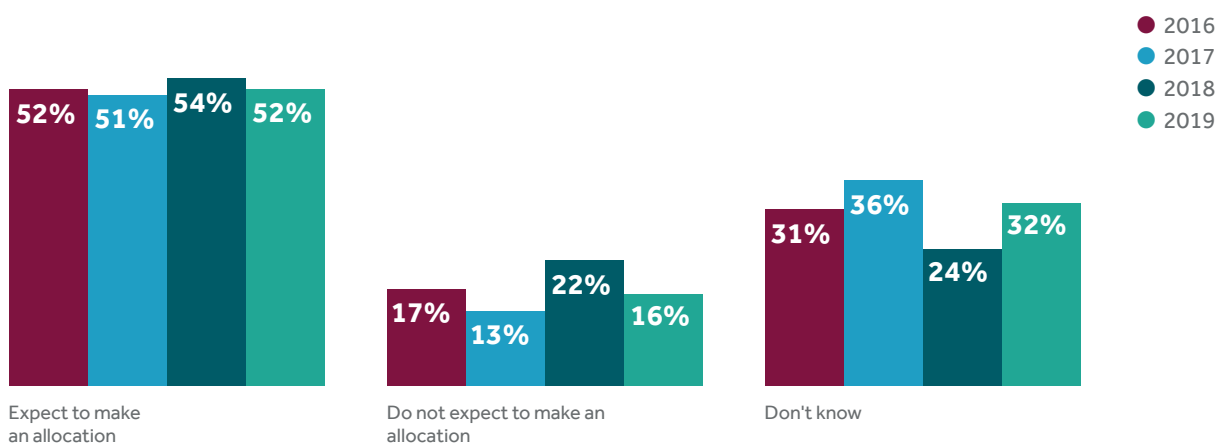
The outlook for those asset owners who have not yet allocated to smart beta remains strong, with the percentage expecting to make an allocation holding steady at just north of

50% over the past several years. Only 16% of those evaluating their first allocation to smart beta do not expect to make an allocation.

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### Exhibit 23

What is your outlook for future usage of smart beta in your portfolio in the next 18 months?



Segment = Do not have smart beta allocation AND currently evaluating/re-evaluating smart beta.



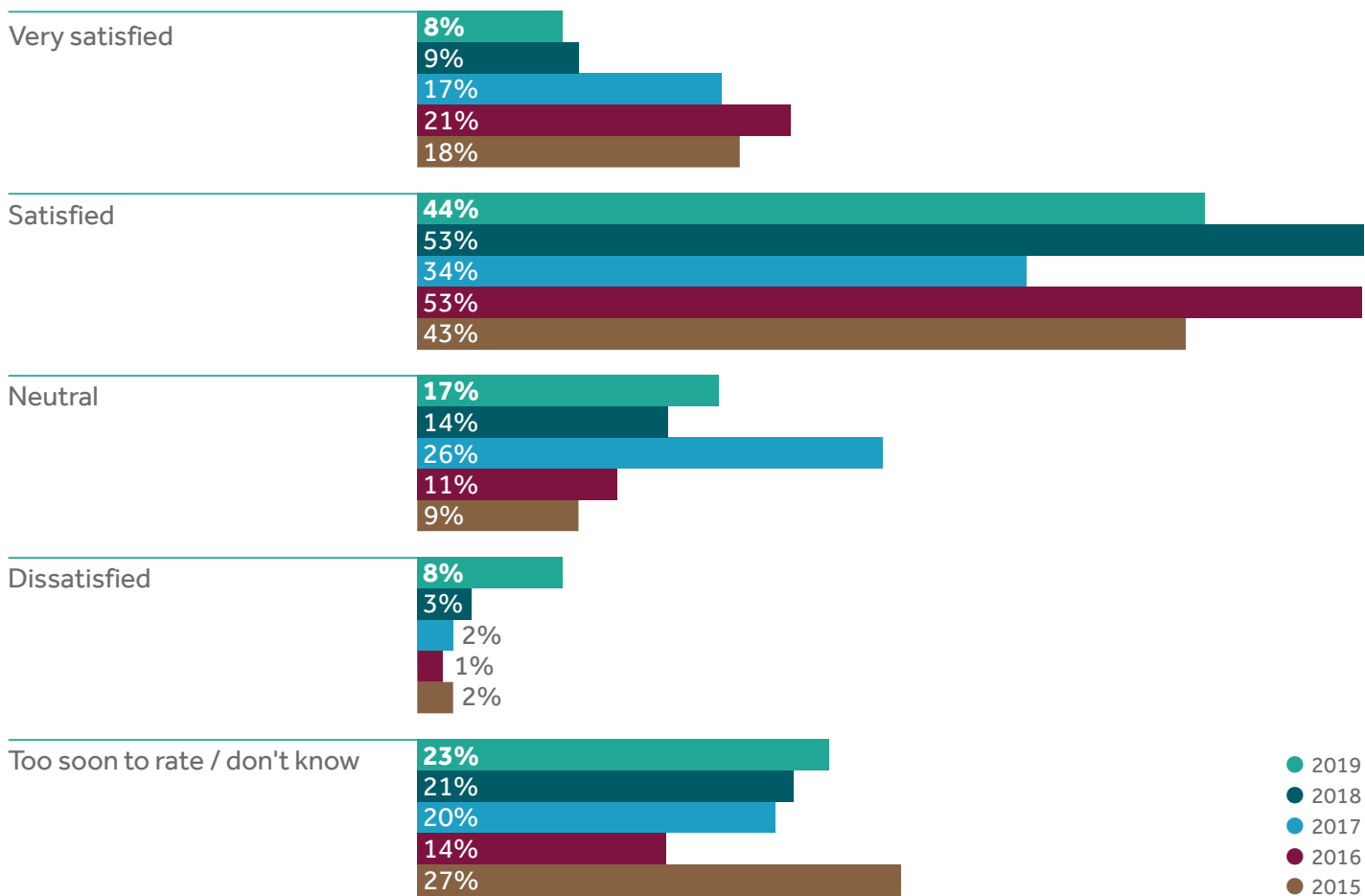
## Over half of asset owners remain “satisfied” or “very satisfied” with their smart beta strategies’ ability to deliver on intended outcomes.

In 2019 we did see a slight uptick in the percentage of asset owners who are dissatisfied with their smart beta allocations—but they are still a small fraction of smart beta users at 8%. Given

many asset owners only recently implemented smart beta strategies, it is unsurprising that nearly a quarter continue to report that it is too soon to rate their level of satisfaction.

### Exhibit 24

How satisfied are you with your smart beta strategies’ ability to deliver on your intended investment outcome?



Segment = Have an existing smart beta allocation.

# Conclusion

Our annual survey continues to demonstrate an increase in smart beta adoption rates among asset owners globally, and we expect this growth to sustain. Among those with an existing smart beta allocation, 57% are currently evaluating additional allocations. And for those without an existing allocation who are currently evaluating smart beta, over half plan to implement a strategy in the near future thanks to increased understanding of smart beta and more confidence in these strategies as they establish longer track records.

Multi-factor strategies continue to be reported as the most widely implemented smart beta strategies, particularly among asset owners who have adopted smart beta in the last two years. They are also the most commonly evaluated type of smart beta strategy, so we expect to see continued growth in multi-factor strategy adoption rates.

We hope that our analysis of the results continues to prove helpful to investors of all types.









# Appendix

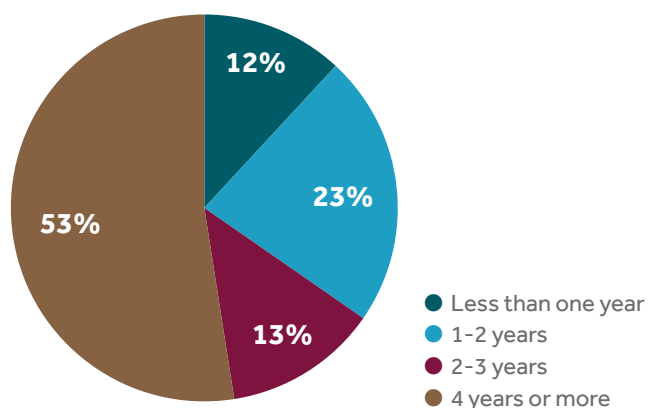
## Organization type

|                                       | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---------------------------------------|------|------|------|------|------|------|
| Corporation or private business       | 46%  | 23%  | 23%  | 26%  | 20%  | 16%  |
| Government                            | 25%  | 22%  | 24%  | 23%  | 36%  | 31%  |
| Non-profit, university                | 26%  | 14%  | 14%  | 13%  | 15%  | 14%  |
| Union or industry-wide pension scheme | 0%   | 13%  | 18%  | 11%  | 10%  | 15%  |
| Other                                 | 3%   | 28%  | 21%  | 27%  | 20%  | 24%  |

## Plan type

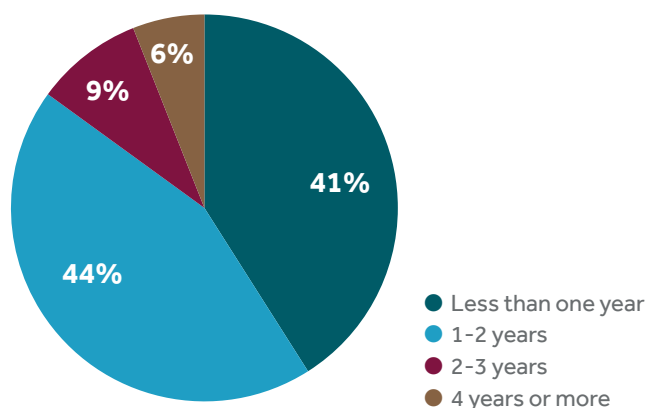
|     | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----|------|------|------|------|------|------|
| DB  | 75%  | 65%  | 63%  | 55%  | 67%  | 53%  |
| DC  | 43%  | 38%  | 45%  | 36%  | 36%  | 36%  |
| E/F | 19%  | 17%  | 14%  | 18%  | 15%  | 14%  |

## How long have you had a smart beta strategy allocation?



Segment = Have an existing smart beta allocation.

## How long did the evaluation process of smart beta take?



Segment = Have an existing smart beta allocation.

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