



EXTRAORDINARY INDEX INVESTMENT OPPORTUNITIES

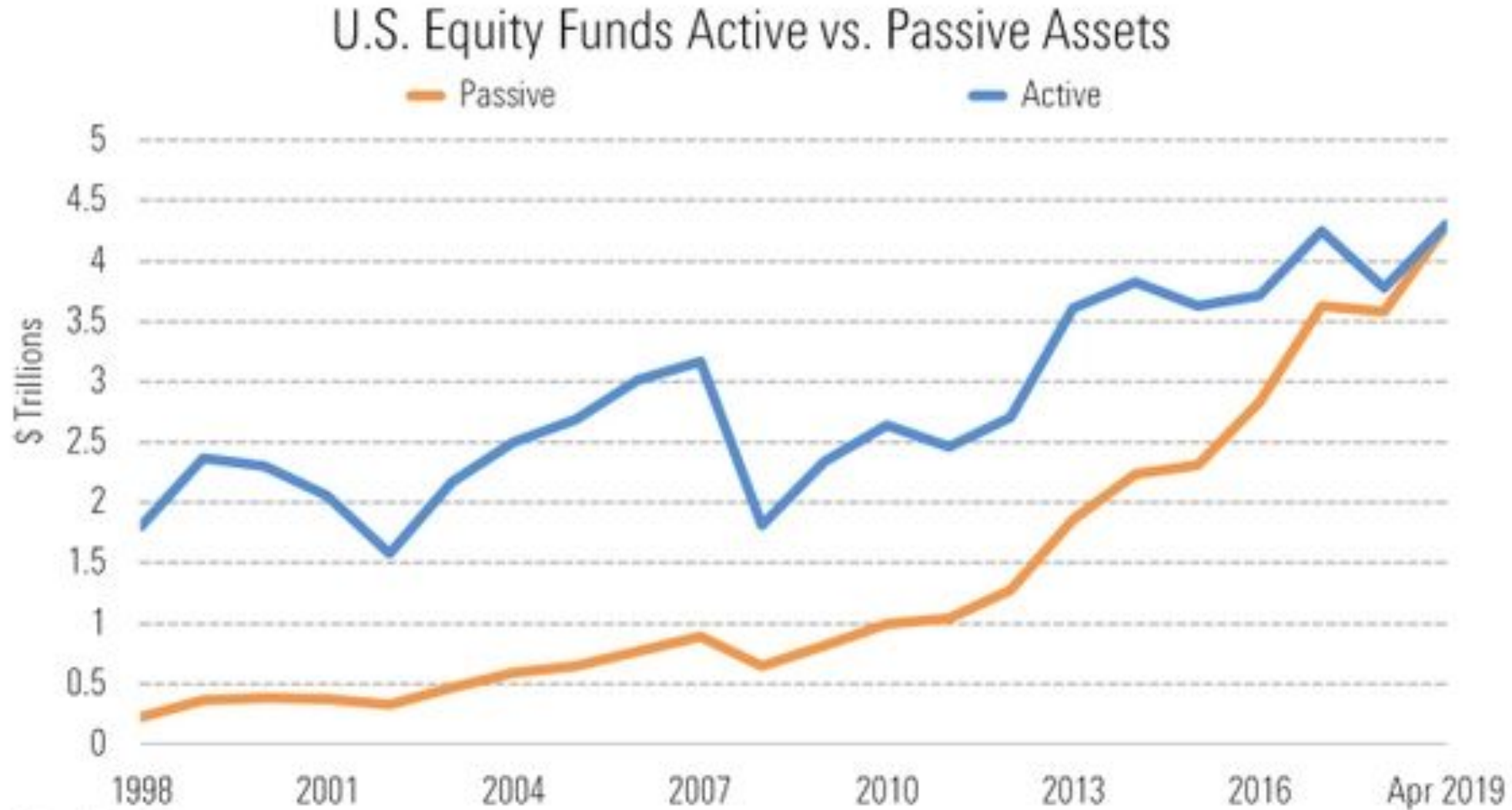
8.668

7.58

Agenda

- What are indexes
- Index trading opportunities
- Are there really more indexes than stocks
- How do smart beta indexes work
- What is direct indexing
- What is custom indexing
- Outlook

What are indexes



Source: Morningstar Direct

What are indexes

GLOBAL

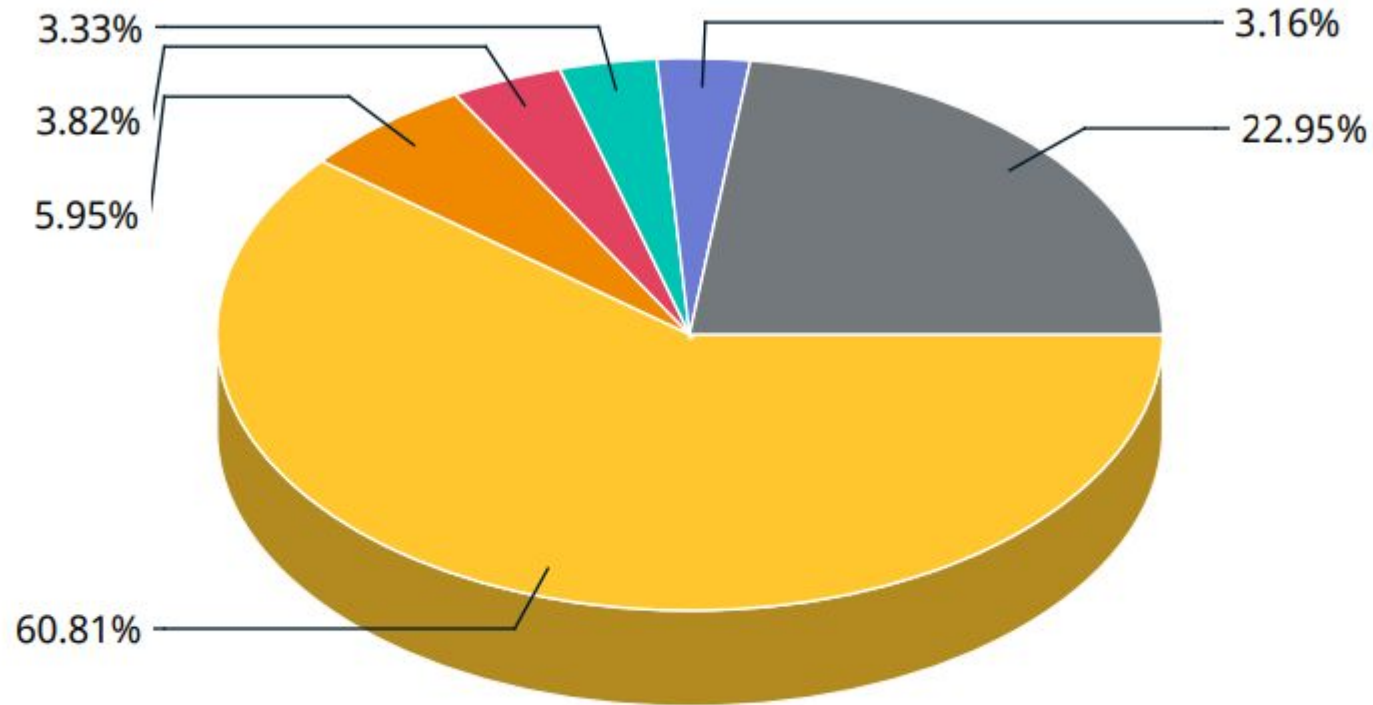
- **Biggest Providers:** MSCI, FTSE, S&P. Lots of overlaps.
- **MSCI World:** ~1,600 stocks □ ASX 60. Developed Countries only.
- **MSCI Emerging Markets:** ~800 stocks
- **MSCI IWI:** ~9,000 stocks □ ASX 220.

COUNTRY

- **US:** S&P 500, Russell 2000
- **UK:** FTSE 100
- **Europe:** Stoxx 600, Dax, CAC
- **Dow (US) Nikkei 225 (Japan)** are price weighted, different, arbitrary

What are indexes

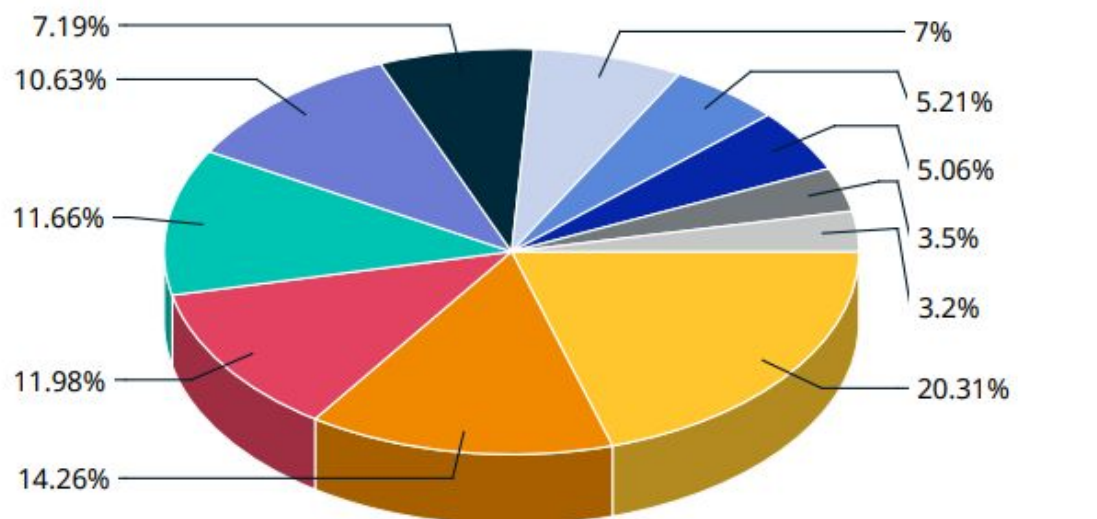
COUNTRY WEIGHTS



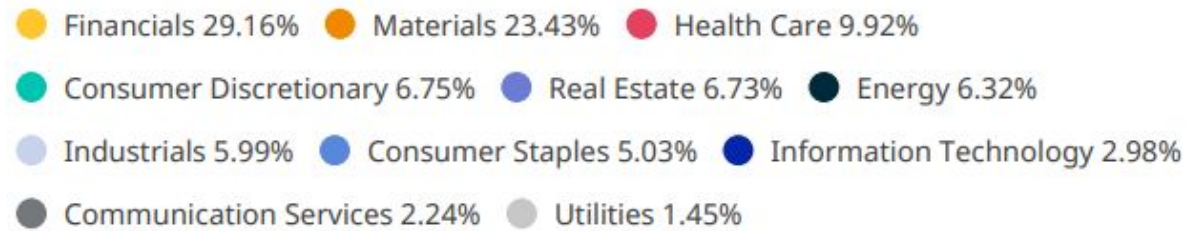
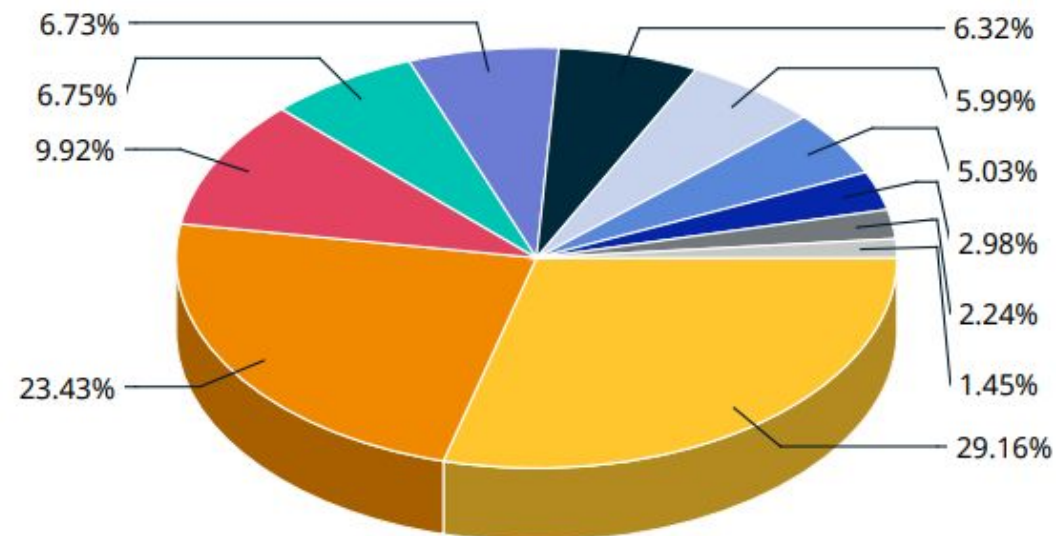
- United States 60.81%
- Japan 5.95%
- United Kingdom 3.82%
- China 3.33%
- Canada 3.16%
- Other 22.95%

What are indexes

GLOBAL



AUSTRALIA



Index trading / investment opportunities

MAJOR INDEX ENTRANTS/EXITS

- Market cap changes (forcing in vs dropping out)
- Liquidity
- Major Shareholding
- Time
- Timing / announcements

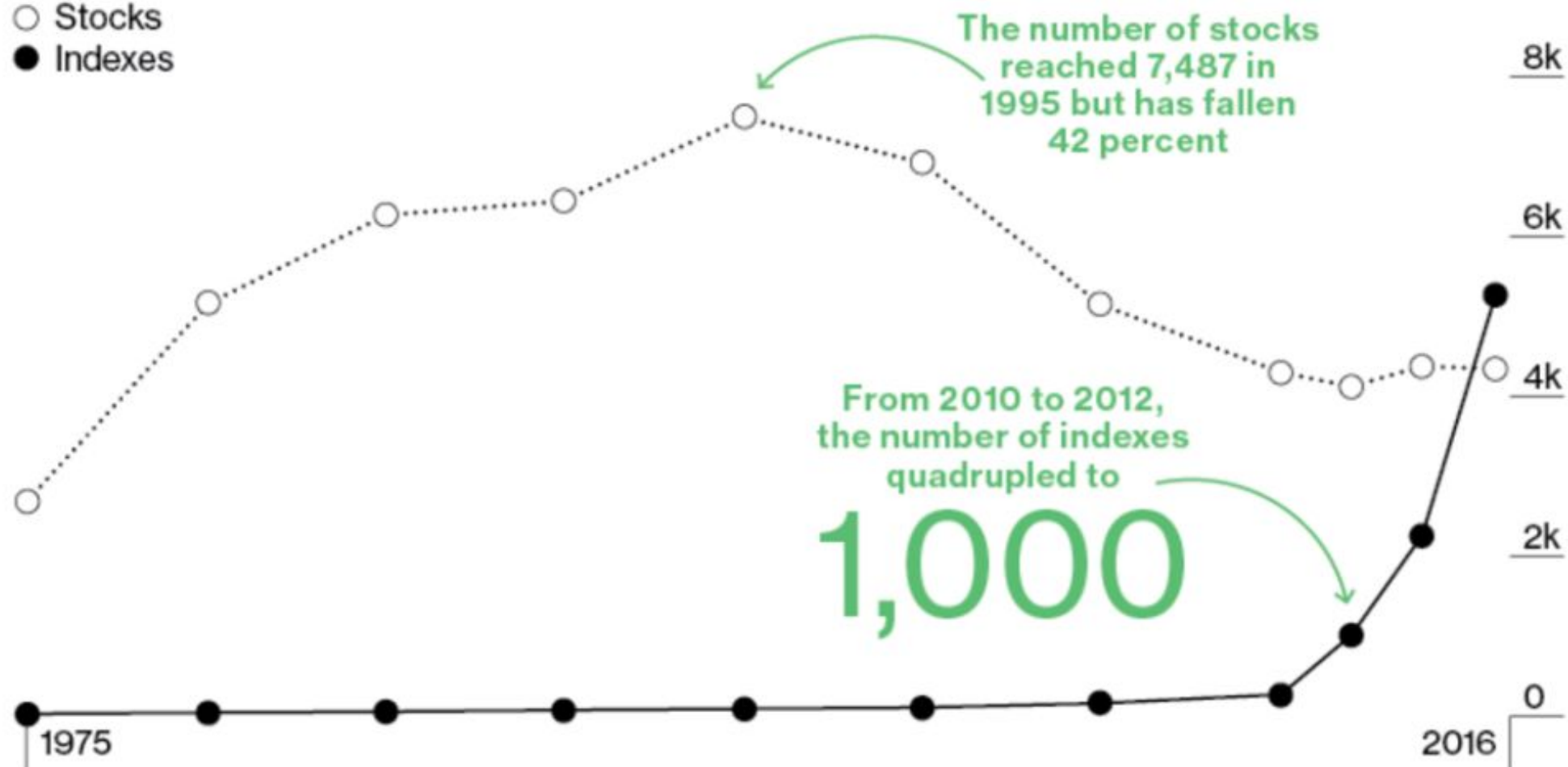
ETF opportunities

- Volatility in Smart beta strategies (min vol, dividend, ROE)
- Concentration in ETFs
- Free float

Are there more indexes than stocks

The Rise of the Benchmark

- Stocks
- Indexes



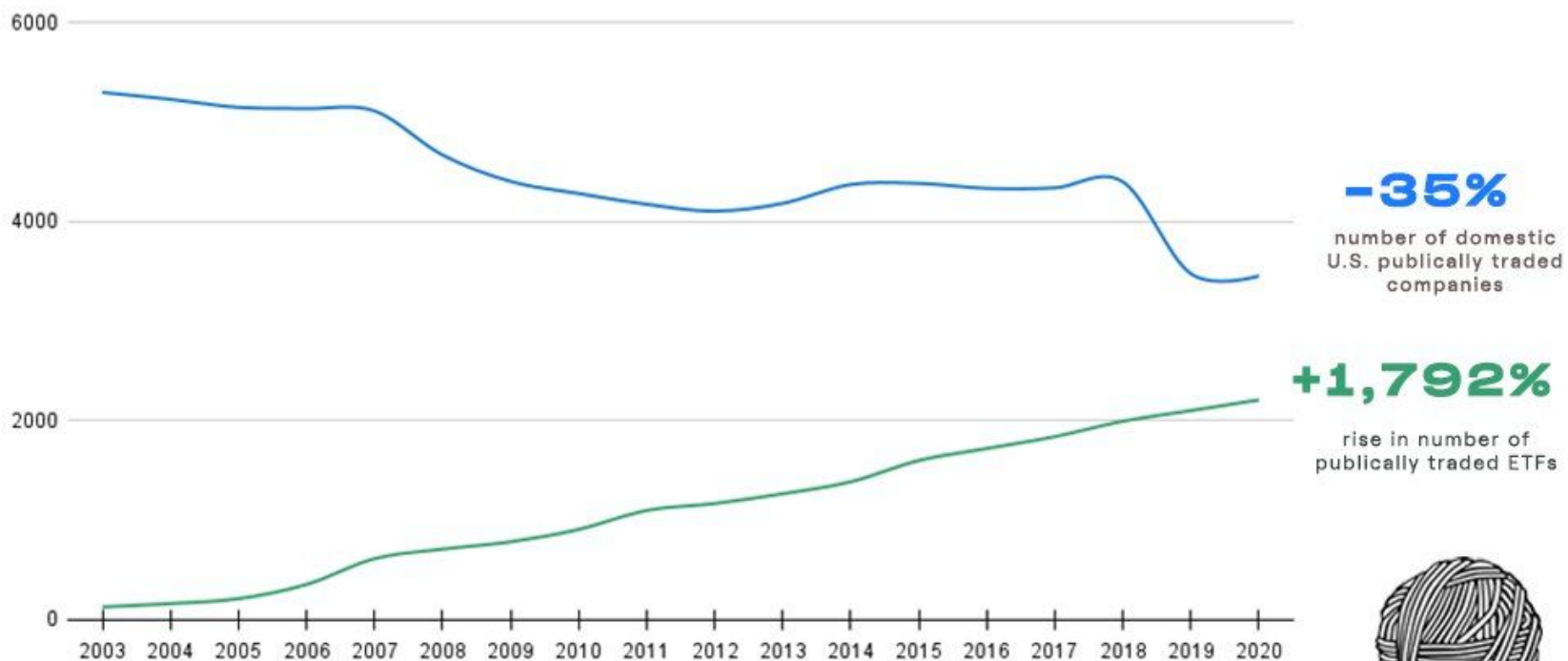
*BLOOMBERG LP (WHICH OWNS BLOOMBERG BUSINESSWEEK) AND ITS AFFILIATES PROVIDE INDEXES TRACKING VARIOUS ASSET CLASSES. DATA: BLOOMBERG INTELLIGENCE, SANFORD C. BERNSTEIN, WORLD BANK. CASH FLOWS AS OF MARCH 31; GRAPHIC BY BLOOMBERG BUSINESSWEEK

Are there more indexes than stocks



More ETFs, Fewer companies

As the pool of stock market participants shrinks, more companies are finding their performance increasingly tied to that of others thanks to a drastic rise in ETF groupings.



-35%

number of domestic
U.S. publically traded
companies

+1,792%

rise in number of
publically traded ETFs

Sources: Word Bank, Statista, Morningstar



Custom Indexing

- Specific index combinations provided by index specialists
- Good for measurement of unique strategies
- Bad for the potential to “index shop”

Smart Beta Recap

- Mathematical models to help generate performance
- They don't always work, but they usually do
- This is an implicit assumption about non-reversion

Smart Beta No. 1 Question

Are you selling insurance to the rest of the market?

Smart Beta Recap

- **Momentum:** no mean reversion
- **Low Vol:** no mean reversion
- **Growth:** no mean reversion
- **Quality:** no mean reversion
- **Value:** mean reversion

Smart Beta Factors: This year has been volatile

S&P 500 Cap weighted return spreads

Frequency:

Annually ▼

YEARLY Q1-Q5 RETURN SPREAD %

Style	Factor	YTD ▼	2021	2020	2019	2018	2017	2016	2015
Val	Valuation	12.28	3.34	(26.50)	2.49	(8.01)	(2.98)	11.11	(17.42)
Sz	Size	5.30	0.30	(5.73)	0.35	(3.80)	(5.45)	3.25	(4.69)
PM	Price Momentum	5.20	(0.07)	(0.88)	(0.47)	9.77	13.83	0.94	23.02
CE	Capital Efficiency	(5.27)	12.64	7.10	(2.83)	4.74	9.01	(2.48)	0.28
HG	Historical Growth	(6.68)	13.53	8.92	(0.61)	(1.84)	3.53	(8.02)	(0.79)
EQ	Earnings Quality	(9.69)	9.39	11.62	4.71	13.12	0.81	(2.49)	1.08
AE	Analyst Expectations	(9.80)	9.42	11.21	1.69	7.72	13.49	(8.09)	16.98
Vol	Volatility	(17.93)	18.10	7.43	12.98	(5.59)	(2.68)	10.37	(9.09)

Source: Capital IQ

Direct Indexing

Assets under Management (AUM) in Direct Indexing, US Billions



Source: MorningStar via *Financial Times*, FactorResearch

Direct Indexing Acquisitions



First Trust -> Veriti

Fidelity in house

Hightower -> Altium

Direct Indexing

The Four Types Of Direct Indexing

	Tax-Focused	Personalized	Rules-Based Strategies	Customized Portfolios
Uses	Tax Loss Harvesting	Environmental, Social, Governance (ESG)/ Socially Responsible Investing (SRI)	Factor-Based and Other Custom Advisor-Driven Investment Strategies	Investing Around Concentrated Stock Positions
	Capital Gain Harvesting			Compensating for Company- or Industry-Based Human Capital Risk
	Charitable Giving	Other Personal Client Investment Criteria		
Client Types	Planning to Bequeath Taxable Investments at Death	Seeking to Adjust Investments Based on Client's Own Values or Personal Preferences	Using Advisor-Driven Smart-Beta-Style Investment Strategies	Holding Large, Highly Appreciated Stock Positions
	Years With Low Income			
	Planning to Donate Appreciated Investments			Human Capital and Wealth Concentrated in a Single Company or Industry

Direct Indexing

- directindexing.com.au
- Fractional shares
- Personalisation / customisation
- Tax efficiency
- Active or passive
- Fees

Viewer question of the week:

Which investment strategy is your preferred for 2nd half 2022?

Drop your answers in the comments

Investment outlook

- Index trading opportunities
- Quality vs Value vs Growth
- Active or passive
- Large vs small
- Direct indexing

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