

# S&P Dow Jones Indices

A Division of **S&P Global**

# S&P 500<sup>®</sup> Factor Rotator Daily RC2 7% Index

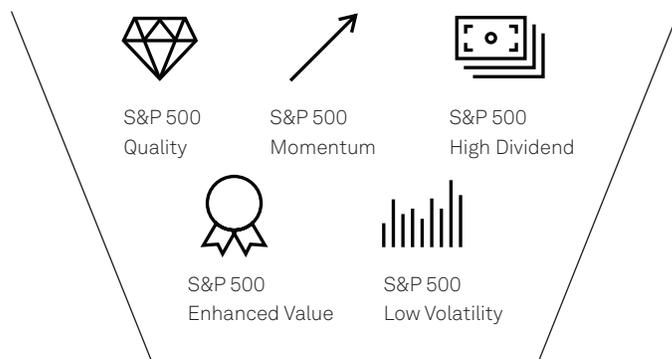
## An Efficient, Risk Controlled Strategy

The S&P 500 Factor Rotator Daily RC2 7% Index is designed to track the S&P 500 Factor Rotator Index plus the S&P 2-Year U.S. Treasury Note Futures Index. The S&P 500 Factor Rotator Index uses risk-adjusted momentum signals to select the top two performing factors out of the five eligible factors: Quality, Value, Momentum, Low Volatility, and Dividends.

Factor investing continues to grow in popularity and has historically shown outperformance potential against broad benchmarks like the S&P 500. While factor risk premia are well-established tools for altering the risk/return characteristics of a portfolio, knowing which factor is best suited for a particular point in time can be challenging. The S&P 500 Factor Rotator Daily RC2 7% Index avoids using a complicated model to determine current market conditions and relies on one of the most basic signals of past price performance/momentum to select the allocations.

## Index Construction

1. Calculate historic risk-adjusted momentum based on short-, medium-, and long-term return horizons for the five eligible factor indices.
2. Select the two factors with the highest composite risk-adjusted momentum scores.
3. Weight the two component indices: 75% for the highest-ranking index, 25% for the next highest ranking index.
4. Apply the Risk Control 2.0 (RC2) framework with a volatility target of 7%.



**Top 2 Factor Indices based on momentum scores**

**75% weighting**

**25%**

**S&P 500 Factor Rotator Index**

**RC2 7% Volatility Overlay**

**S&P 500 Factor Rotator RC2 7% Index**

## Key Benefits

- Targeted allocation to factor indices, which have historically shown higher return premia compared with the S&P 500 over the long term
- Dynamic rebalancing allows for a pivot in the future as factor leadership changes
- Downside protection relative to the S&P 500
- Higher Sharpe ratio historically
- Consistent risk level

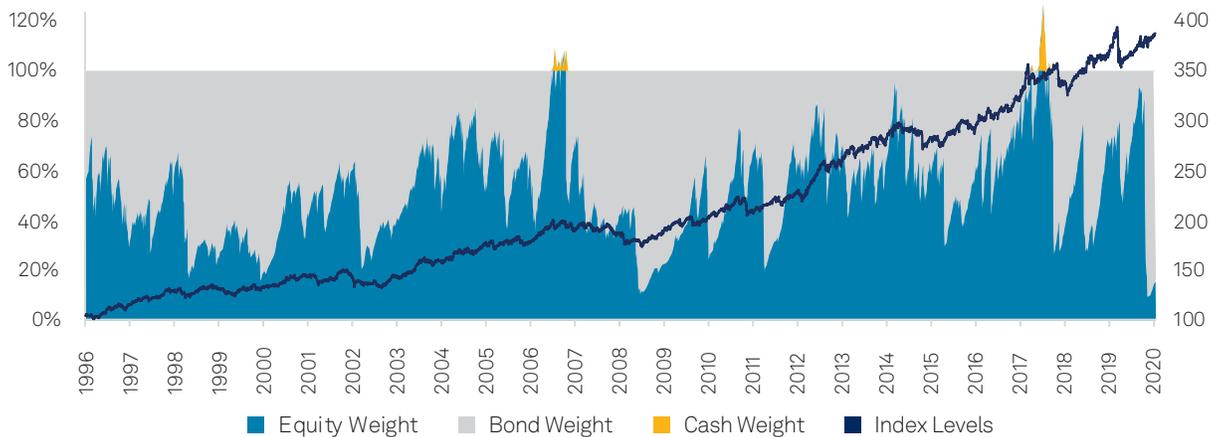
The Excess Return value of the index is calculated by deducting the daily Effective Federal Funds Rate from the daily return of the Total Return index.

## Risk Control 2.0 7% Overlay

The RC2 framework applies dynamic exposure to the underlying index in an attempt to control the level of volatility—in this case, up to 7% volatility—by allocating between equity, U.S. Treasuries, and cash. The risk control framework is applied to the underlying index and helps reduce portfolio volatility toward the 7% target by adjusting the portfolio allocation between the underlying index and a liquid bond index.<sup>1</sup>

- When volatility ↑ S&P 500 Factor Rotator Index weight ↓ & S&P 2-Year U.S. Treasury Note Futures Index weight ↑
- When volatility ↓ S&P 500 Factor Rotator Index weight ↑ & S&P 2-Year U.S. Treasury Note Futures Index weight ↓

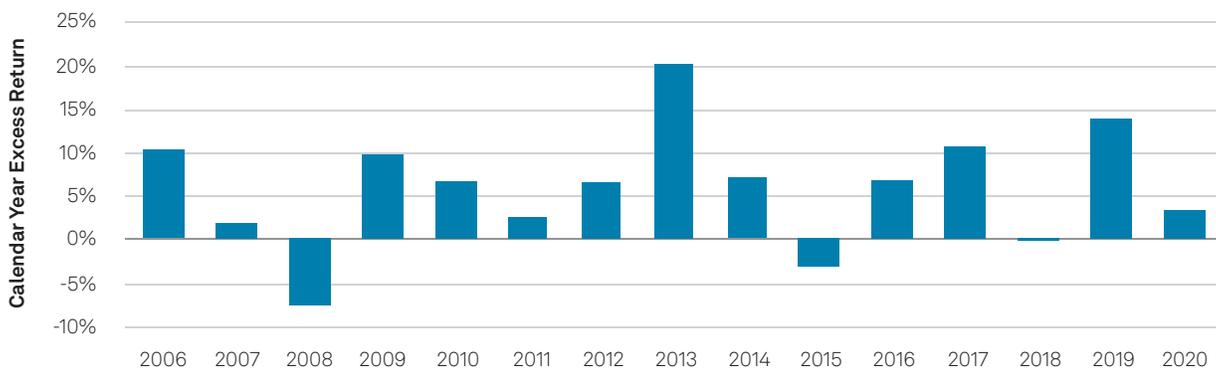
## Historical Allocation of Components



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2020. Chart is provided for illustrative purposes.

## S&P 500 Factor Rotator Risk Control 7% Index (ER) Performance

The index has historically had limited downside risk without compromising gains



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2020. Chart 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.

<sup>1</sup> If the bond index yield falls below 0%, the strategy switches to cash rate. If the equity index weight exceeds 100%, cash takes an opposite position.

## Performance Disclosure

The S&P 500 Factor Rotator Daily RC2 7% Total Return Index was launched March 25, 2020. 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](http://www.spdji.com). Past performance of the Index is not an indication of future results.

Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index 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. Back-tested performance is for use with institutions only; not for use with retail investors.

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 to a fixed value for calculation purposes. The Launch Date designates the date when 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 data feed 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.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices maintains the index and calculates the index levels and performance shown or discussed but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the Index or investment funds that are intended to track the performance of the Index. The imposition of these fees and charges would cause actual and back-tested performance of the securities/fund to be lower than the Index performance shown. As a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period (or US \$10,000) and an actual asset-based fee of 1.5% was imposed at the end of the period on the investment plus accrued interest (or US \$1,650), the net return would be 8.35% (or US \$8,350) for the year. Over a three-year period, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US \$5,375, and a cumulative net return of 27.2% (or US \$27,200).

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