

CONTRIBUTORS

Michael Orzano, CFA
Senior Director
Global Equity Indices
michael.orzano@spglobal.com

John Welling
Associate Director
Equity Indices
john.welling@spglobal.com

While most broad emerging market benchmarks tend to be highly correlated, there are methodological differences that can result in substantive performance differentials over time.

Looking Beyond Traditional Benchmarks to Add Value in Emerging Markets

INTRODUCTION

As emerging markets have grown in size and importance, emerging market equities have become a core part of many portfolio allocations. In addition, the increased diversity and liquidity of emerging equity markets have made strategies commonly used to manage developed market portfolios (such as tactical allocations across regions and size segments) much more accessible to emerging market investors.

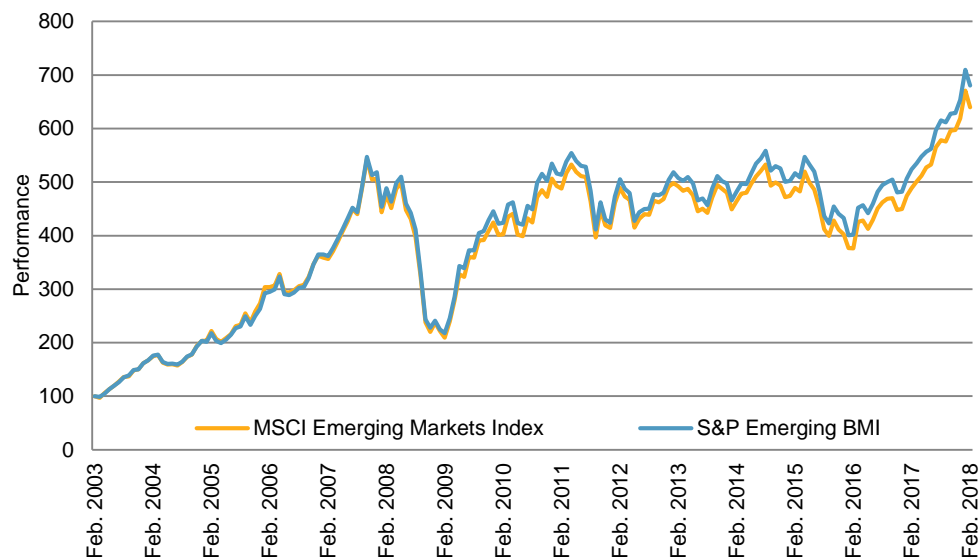
Despite these trends, the use of more complex asset allocation strategies within emerging market equities remains quite limited, as the vast majority of market participants continue to gain exposure to this asset class either via index-linked products that track traditional benchmarks or through active managers with mandates closely tied to those benchmarks. While accessing emerging markets through a single holding linked to a conventional benchmark can be an effective, low-cost way to obtain unbiased exposure to this asset class, evidence indicates that using a more discerning approach to managing emerging market portfolios may potentially add value in the same ways it can in the U.S. and other developed markets.

ALL EMERGING MARKET BENCHMARKS ARE NOT CREATED EQUAL

While most broad emerging market benchmarks tend to be highly correlated, there are methodological differences that can result in substantive performance differentials over time. Therefore, it is important to understand how emerging market benchmarks are constructed. For example, in the trailing 15-year period ending Feb. 28, 2018, the [S&P Emerging BMI](#) gained 580% on a cumulative total return basis, while the MSCI Emerging Markets Index gained a comparatively smaller 540% for the same time period. Analysis shows that the difference in performance was driven by two main factors. First, the MSCI Emerging Markets Index has an approximate weight of 15% in South Korea, while South Korea has been ineligible for the S&P Emerging BMI since 2001, when it was reclassified as a developed market. South Korea has underperformed 11 of the 16 countries that have been classified as emerging markets by S&P

Dow Jones Indices over the 15-year period studied. Second, the S&P Emerging BMI has significantly broader coverage, including large-, mid-, and small-cap stocks, while the MSCI Emerging Markets Index includes only large- and mid-cap stocks. Over this period, the [S&P Emerging SmallCap](#) outperformed the [S&P Emerging LargeMidCap](#) by more than 146%.

Exhibit 1: The S&P Emerging BMI Has Outperformed the MSCI Emerging Markets Index Over Time



Source: S&P Dow Jones Indices LLC, MSCI. Data from Feb. 28, 2003, through Feb. 28, 2018. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Emerging market small-cap stocks have distinct investment characteristics from their large- and mid-cap counterparts.

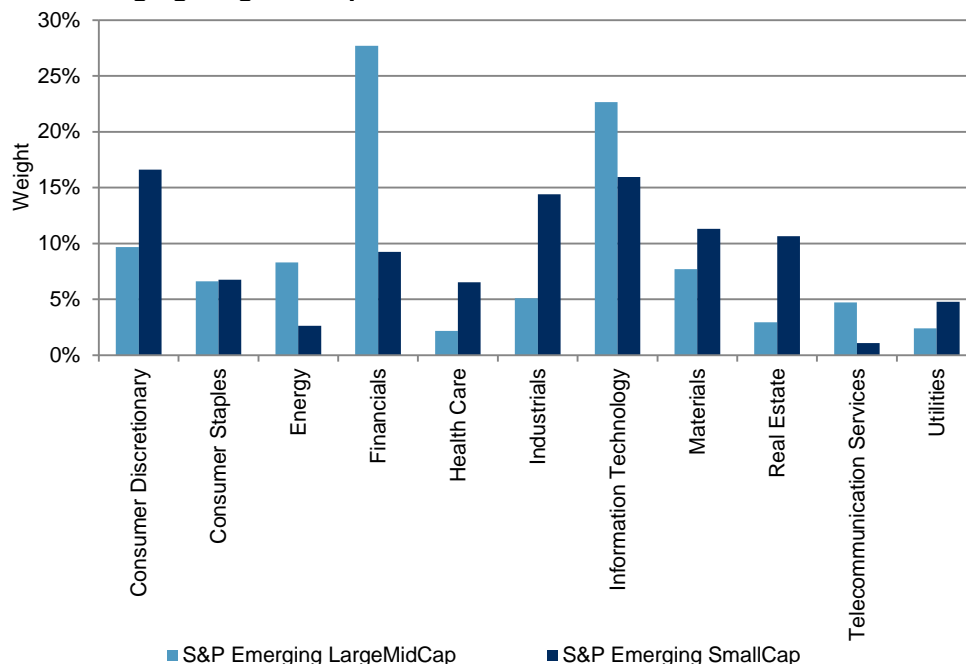
ARE EMERGING MARKET SMALL CAPS OVERLOOKED?

The exclusion of small caps from the MSCI Emerging Markets Index raises an important issue.¹ Since many market participants access emerging markets via an index-linked product tracking this index or through active managers whose mandates are closely tied to this benchmark, they, perhaps inadvertently, may not have exposure to emerging market small caps. Emerging market small-cap stocks have distinct investment characteristics from their large- and mid-cap counterparts (apart from their smaller size).

As illustrated in Exhibit 2, large- and mid-cap stocks are more concentrated in financials, information technology, and export-oriented sectors such as energy, which tends to be largely driven by global market forces. On the other hand, emerging market small caps have higher weights in consumer discretionary, health care, real estate, and utilities, which are generally more closely associated with domestic economic activity.

¹ It is important to note that some widely used indices, such as the MSCI Emerging Markets Investable Market Index, do include small caps.

Exhibit 2: Comparative Sector Weights for the S&P Emerging SmallCap and S&P Emerging LargeMidCap

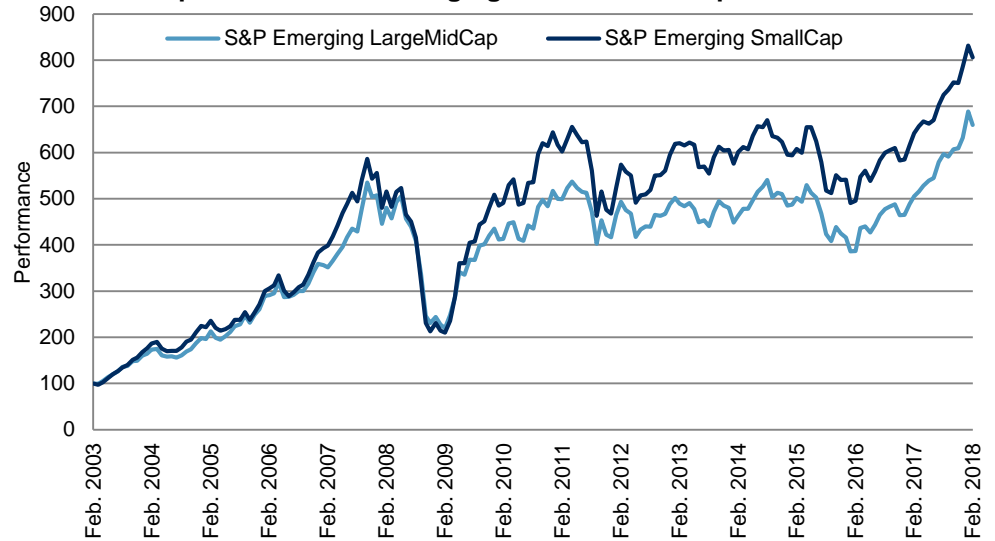


Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Chart is provided for illustrative purposes.

Emerging market small caps have performed well over the long term, and while highly correlated to them, have exhibited significant performance differentiation from large and mid caps.

Emerging market small caps have performed well over the long term, and while highly correlated to them, have exhibited significant performance differentiation from large and mid caps. Over the past 15 years, the [S&P Emerging SmallCap](#) returned an annualized 14.9%, outpacing the 13.4% compound annual growth rate of the [S&P Emerging LargeMidCap](#), at a modestly higher level of volatility (15-year annualized standard deviation of 22.8% versus 21.0%). Performance since the end of the financial crisis has been particularly distinct. In fact, since the beginning of March 2009, the S&P Emerging SmallCap had a cumulative return of 284%, outpacing the 200% cumulative total return of the S&P Emerging LargeMidCap. This has been at least partially reflective of the sector differences across the size ranges, as consumer discretionary led, while energy lagged.

Exhibit 3: Outperformance of Emerging Market Small Caps

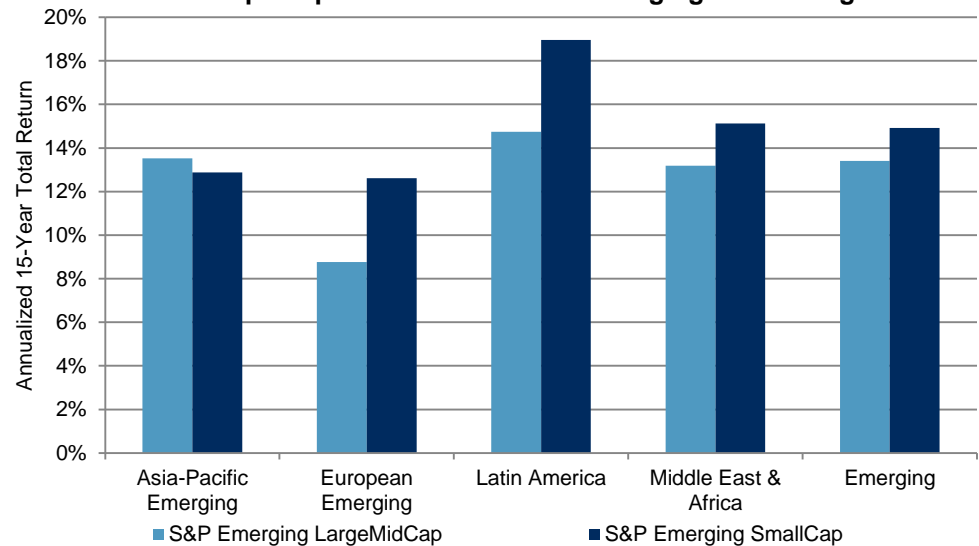


Source: S&P Dow Jones Indices LLC. Data from Feb. 28, 2002, to Feb. 28, 2018. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Although performance differentials between size ranges are, to some extent, driven by differences in sector and geographic allocations, there is compelling evidence of a small-cap premium in emerging markets. Over the past 15 years, small caps have outperformed large and mid caps across 3 of 4 major regions (with only slight underperformance in Asia-Pacific) and across 6 of 10 sectors, as depicted in Exhibits 4 and 5.

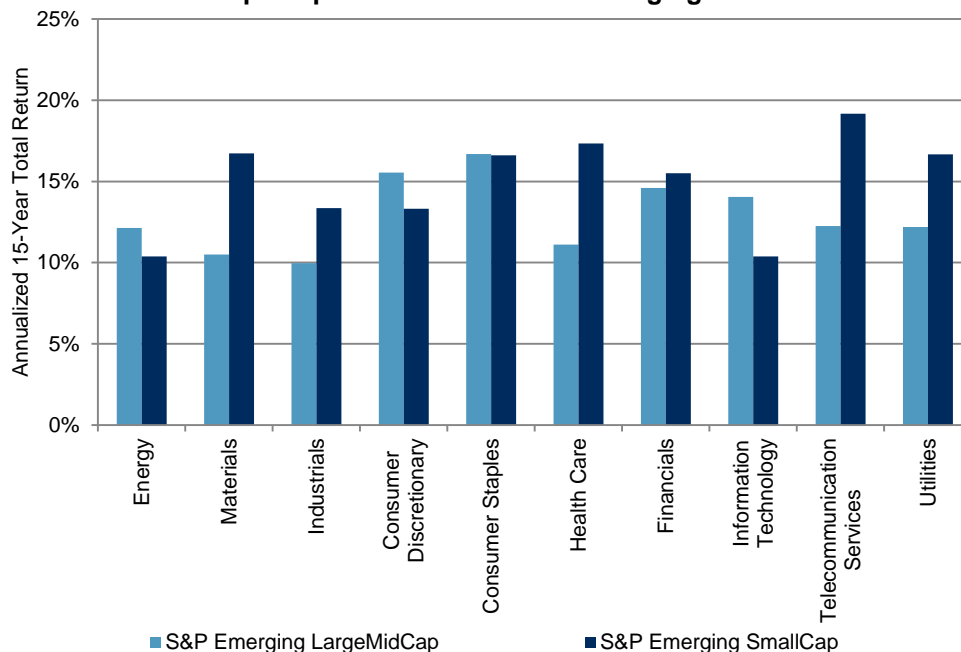
Although performance differentials between size ranges are, to some extent, driven by differences in sector and geographic allocations, there is compelling evidence of a small-cap premium in emerging markets.

Exhibit 4: Small Cap Outperformance Across Emerging Market Regions



Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Exhibit 5: Small Cap Outperformance Across Emerging Market Sectors



Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

EMERGING MARKETS ARE NOT HOMOGENOUS

Although emerging markets tend to be viewed as a single asset class, there are significant differences across countries and regions within the group. Emerging markets vary greatly in their level of economic development, their level of political risk, the types of companies that drive their economies, and many other important factors.

One way of taking a more tactical approach to emerging market investing is to view emerging markets by regional groupings.

One way of taking a more tactical approach to emerging market investing is to view emerging markets by regional groupings. As illustrated in Exhibit 6, sector weights vary widely across emerging market regions. For example, the Asia-Pacific region has significant exposure to information technology, a sector that has virtually no representation in other emerging market regions. On the other hand, Latin America and Emerging Europe have relatively higher weightings to energy and materials, as these regions are home to natural resource-rich countries such as Russia and Brazil.

SECTOR	ASIA-PACIFIC	LATIN AMERICA	EUROPE	MIDDLE EAST AND AFRICA
Consumer Discretionary	9.64	8.23	4.29	27.95
Consumer Staples	5.02	14.63	4.68	8.57
Energy	5.46	9.08	29.36	0.91
Financials	22.78	29.24	31.62	29.46
Health Care	3.27	1.17	0.70	3.65
Industrials	6.57	7.30	5.47	5.20
Information Technology	30.66	1.36	3.89	0.41
Materials	6.16	16.25	10.83	9.37
Real Estate	4.41	2.51	0.96	6.72
Telecommunication Services	3.69	4.16	4.71	7.53
Utilities	2.34	6.08	3.50	0.23

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Table is provided for illustrative purposes.

These differences tend to translate into large variances in stock market performance across regions, particularly over the short and medium term. As illustrated in Exhibit 7, performance has varied widely across emerging market regions. In the trailing one-year period through Feb. 28, 2018, the [S&P Asia Pacific Emerging BMI](#) has gained 32.2%, far outpacing the 21.9% return of the [S&P Latin America BMI](#).

REGION	1-YEAR	3-YEAR	5-YEAR	10-YEAR	15-YEAR
EMERGING MARKETS (%)					
Asia-Pacific	32.18	10.47	9.90	5.79	13.32
Europe	30.48	12.05	0.37	-2.76	9.58
Latin America	21.87	8.33	-1.63	-0.29	15.52
Middle East and Africa	24.54	4.05	4.93	4.18	13.59
Difference Between Best and Worst Performer	10.32	7.99	11.53	8.55	5.94
DEVELOPED MARKETS (%)					
Asia-Pacific	22.09	9.83	8.44	4.81	9.59
Europe	22.40	5.85	8.16	3.50	9.97
North America	15.68	10.09	13.48	9.17	10.73
Difference Between Best and Worst Performer	6.72	4.24	5.32	5.67	1.14

Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2017. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Although it is difficult to predict in advance which regions will outperform, the high variation in performance across countries provides compelling evidence that significant alpha generation is possible by implementing a tactical asset allocation strategy based on geography within the emerging markets. In fact, as illustrated in Exhibit 7, performance differentials

The performance differentials between the best- and worst-performing regions have been significantly larger in emerging markets than in developed markets over most periods.

between the best- and worst-performing regions have been significantly larger in emerging markets than in developed markets over most periods.

TAPPING INTO THE GROWTH OF THE EMERGING MARKET CONSUMER THEME

The emerging market consumer theme has been highlighted by consultants, investment strategists, and other market participants as a long-term strategy for targeting the organic growth of emerging market economies. Consumption generally represents a relatively small share of economic output in developing economies. However, as these economies achieve greater wealth, consumption typically overtakes investment as the primary driver of economic growth. Large and fast-growing populations, increasing incomes, and lifestyle changes all drive consumption growth in emerging markets as these countries transition to a more mature stage of economic development. Because of this, many believe that consumer companies represent a key opportunity to access growth in emerging markets.

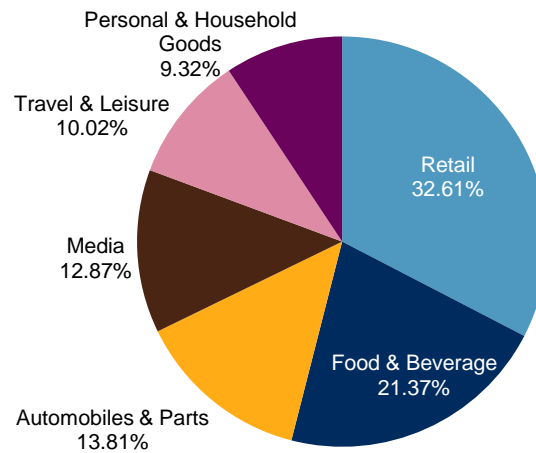
Additionally, accessing emerging market consumption growth is challenging via conventional index solutions, because broad, market-cap-weighted, emerging market benchmarks are dominated by banks and other financial companies, as well as export-oriented sectors such as energy and materials. Given these factors, market participants have demonstrated interest in dedicated exposure to emerging market consumer companies.

The Dow Jones Emerging Markets Consumer Titans 30 Index seeks to measure the performance of 30 leading emerging market companies (excluding those domiciled in Taiwan) that are classified in the consumer goods and consumer services industries, according to the Dow Jones Industry Classification System.

The [Dow Jones Emerging Markets Consumer Titans 30 Index](#) seeks to measure the performance of 30 leading emerging market companies (excluding those domiciled in Taiwan) that are classified in the consumer goods and consumer services industries, according to the Dow Jones Industry Classification System.

The index tracks a diverse range of companies operating in consumer-oriented industries, from retailers and food & beverage distributors to media companies and automakers. Retail represents the largest portion of the index, at just over one-third of the index weight, followed by food & beverage at around 21.37%, and automobiles & parts at 13.81% (see Exhibit 8).

Exhibit 8: Dow Jones Emerging Markets Consumer Titans 30 Index – Supersector Weights

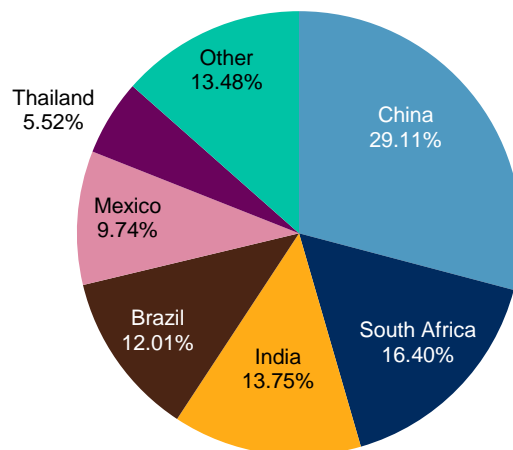


Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Chart is provided for illustrative purposes.

As depicted in Exhibit 9, China, South Africa, and India represent the largest country weights in the index. Of note, South Korean and Taiwanese companies are not eligible for inclusion in the index, as the large global consumer companies based in these markets tend to generate a substantial portion of their sales from developed market countries.

South Korean and Taiwanese companies are not eligible for inclusion in the index.

Exhibit 9: Dow Jones Emerging Market Consumer Titans 30 Index – Country Weights

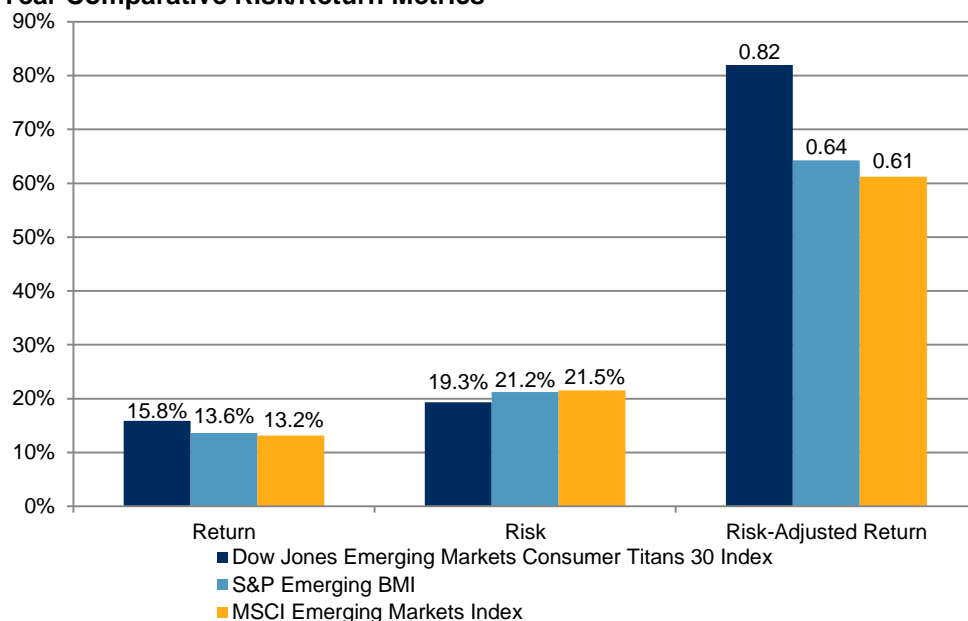


Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Chart is provided for illustrative purposes.

Over the long term, the index has demonstrated attractive risk/return characteristics when compared with traditional broad emerging market benchmarks. As illustrated in Exhibit 10, the index significantly outperformed the S&P Emerging BMI and MSCI Emerging Markets Index with lower volatility over the 15-year period ending Feb. 28, 2018, which includes back-tested data prior to the index launch in January 2010.

Exhibit 10: Dow Jones Emerging Markets Consumer Titans 30 Index – 15-Year Comparative Risk/Return Metrics

The significant growth and development of emerging markets has expanded the opportunity set available to market participants.



Source: S&P Dow Jones Indices LLC. Data as of Feb. 28, 2018. Past performance is no guarantee of future results. 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.

CONCLUSION

The significant growth and development of emerging markets has expanded the opportunity set available to market participants. Although index innovation and associated product development have encouraged some members of the investment community to look deeper at opportunities within the emerging markets, the vast majority of assets remain linked directly to index-based products tracking traditional benchmarks. Evidence indicates that taking a more discerning approach to emerging markets investing has the potential to add value.

APPENDIX**Exhibit 11: Investment Products Linked to S&P Emerging Equity Indices**

UNDERLYING INDEX	PRODUCT NAME	TICKER
Dow Jones Emerging Markets Consumer Titans 30 Index	Columbia Emerging Markets Consumer ETF	ECON
S&P Emerging BMI	SPDR S&P Emerging Markets ETF	GMM
S&P Asia Pacific Emerging BMI	SPDR S&P Emerging Asia Pacific ETF	GMF
S&P China BMI	SPDR S&P China ETF	GXC
S&P Emerging Under USD 2 Billion	SPDR S&P Emerging Markets Small Cap ETF	EWX
S&P China 500	CBCCS WisdomTree S&P China 500 UCITS ETF	CHIN
S&P New China Sectors Index	CSOP S&P New China Sectors ETF	3167
Dow Jones Russia GDR Index	Direxion Daily Russia Bull 3x Shares ETF	RUSL
S&P Emerging Asia Consumer Index	Horizons S&P Emerging Asia Consumer ETF	3054
S&P BSE MidCap Select	ICICI Prudential Midcap Select iWIN ETF	539980
S&P BSE SENSEX	ICICI Prudential Sensex iWIN ETF	555555
S&P BSE SENSEX	IDFC Sensex ETF	540154
Dow Jones China Offshore 50 Index	iShares Dow Jones China Offshore 50 UCITS ETF (DE)	EXXU
S&P Emerging Markets Infrastructure Index	iShares EM Infrastructure UCITS ETF	DEIN
Dow Jones Emerging Market Select Dividend Index	iShares Emerging Markets Dividend	DVYE
S&P Emerging Markets Infrastructure Index	iShares Emerging Markets Infrastructure ETF	EMIF
Dow Jones Russia GDR Index	Lyxor PEA Russia (Dow Jones Russia GDR) UCITS ETF	PRUS
Dow Jones Turkey Titans 20 Index	Lyxor PEA Turkey (DJ Turkey Titans 20) UCITS ETF	ETUR
Dow Jones Russia GDR Index	Lyxor Russia (Dow Jones Russia GDR) UCITS ETF	RUS
Dow Jones Russia GDR Index	Lyxor Russia (Dow Jones Russia GDR) UCITS ETF	JC7
Dow Jones Turkey Titans 20 Index	Lyxor Turkey (DJ Turkey Titans 20) UCITS ETF	TUR
S&P BMI Emerging Markets Low Volatility Index	PowerShares S&P Emerging Markets Low Volatility Portfolio ETF	EELV
S&P Momentum Emerging Plus LargeMidCap Index	PowerShares S&P Emerging Markets Momentum Portfolio ETF	EEMO
S&P Emerging Markets Dividend Opportunities Index	SPDR® S&P Emerging Markets Dividend ETF	EDIV
Dow Jones Turkey Large-Cap Banks Index	Turkey Large-Cap Banks ETF	BNKTR

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes. S&P Dow Jones Indices does not sponsor, promote, or endorse any investment product linked to any of our indices. The above is a complete list of all products that were linked to the indices discussed in this report as of Feb. 28, 2018.

PERFORMANCE DISCLOSURE

The Dow Jones Emerging Markets Consumer Titans 30 Index was launched on January 8, 2010. 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. Complete index methodology details are available at www.spdji.com.

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.

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. 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.

The Index returns shown do not represent the results of actual trading of investable assets/securities. S&P Dow Jones Indices LLC 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).

GENERAL DISCLAIMER

Copyright © 2018 by S&P Dow Jones Indices LLC, a part of S&P Global. All rights reserved. Standard & Poor's®, S&P 500® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of S&P Global. Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Trademarks have been licensed to S&P Dow Jones Indices LLC. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. All information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Dow Jones Indices keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Dow Jones Indices may have information that is not available to other business units. S&P Dow Jones Indices has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.