S&P Dow Jones Indices

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TalkingPoints

What's Beyond the S&P/CLX IPSA? Getting to Know the S&P/CLX Indices

Jaime Merino
Director
Fixed Income Indices
S&P Dow Jones Indices

Silvia Kitchener
Director
Global Equity Indices
Latin America
S&P Dow Jones Indices

To see the original interview watch: What's Beyond the S&P/CLX IPSA? Getting to Know the S&P/CLX Indices at http://spindices.com/multimedia-center/.

The S&P/CLX IPSA is a renowned benchmark for Chilean equities, including nearly 90% of Chile's equity market, and serves as the parent index for a wide-range of S&P/CLX Indices. Explore how S&P Dow Jones Indices and Bolsa de Santiago's partnership is providing a diverse set of tools for investors looking to access Chile's evolving markets.

1. What's included in the S&P/CLX Fixed Income Indices that seek to track bonds in the Chilean market?

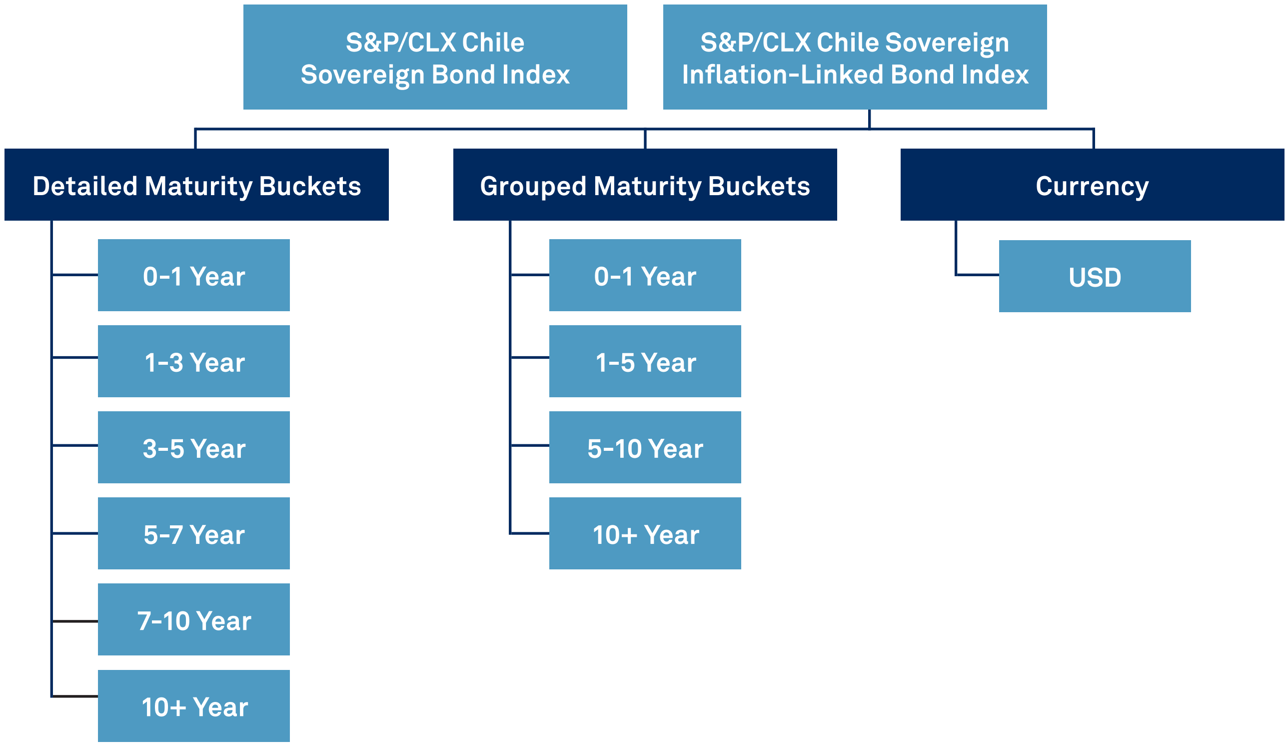
Jaime: The S&P/CLX Fixed Income Indices have two large series of sovereign indices, nominal rate, and real rate indices, known as the S&P Inflation-Linked Indices. As you can see in Exhibit 1, these indices are divided into long maturities and short maturities. The detailed maturity "buckets" or partitions, are 0-1, 1-3, 3-5, 5-7, 7-10, and 10+ years, while the grouped maturity "buckets" are 0-1, 1-5, 5-10, and 10+ years. Both sets of indices and the benchmark indices, which cover the entire nominal and real curve, are calculated in U.S. dollars.

2. Why were the indices split in this fashion, and why are they issued in a non-local currency?

Jaime: First, it is important to have indices in different currencies (in this case U.S. dollars), so that they can be used locally and by international investors. The indices are split by maturities because the curve does not move the same way in the short term as it does in the long term, so there are detailed references that can be used as benchmarks for those asset managers who have short-, medium-, or long-term bond strategies. We wanted to develop a set of tools that could provide data to inform investors across geographies and that could be applied across a range of strategies.

The indices can also serve as the basis for investment products, such as ETFs or index funds, because they are easy to replicate. This would lead to a more transparent and liquid way to tailor allocations to meet investment goals.

Exhibit 1: S&P/CLX Fixed Income Indices



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

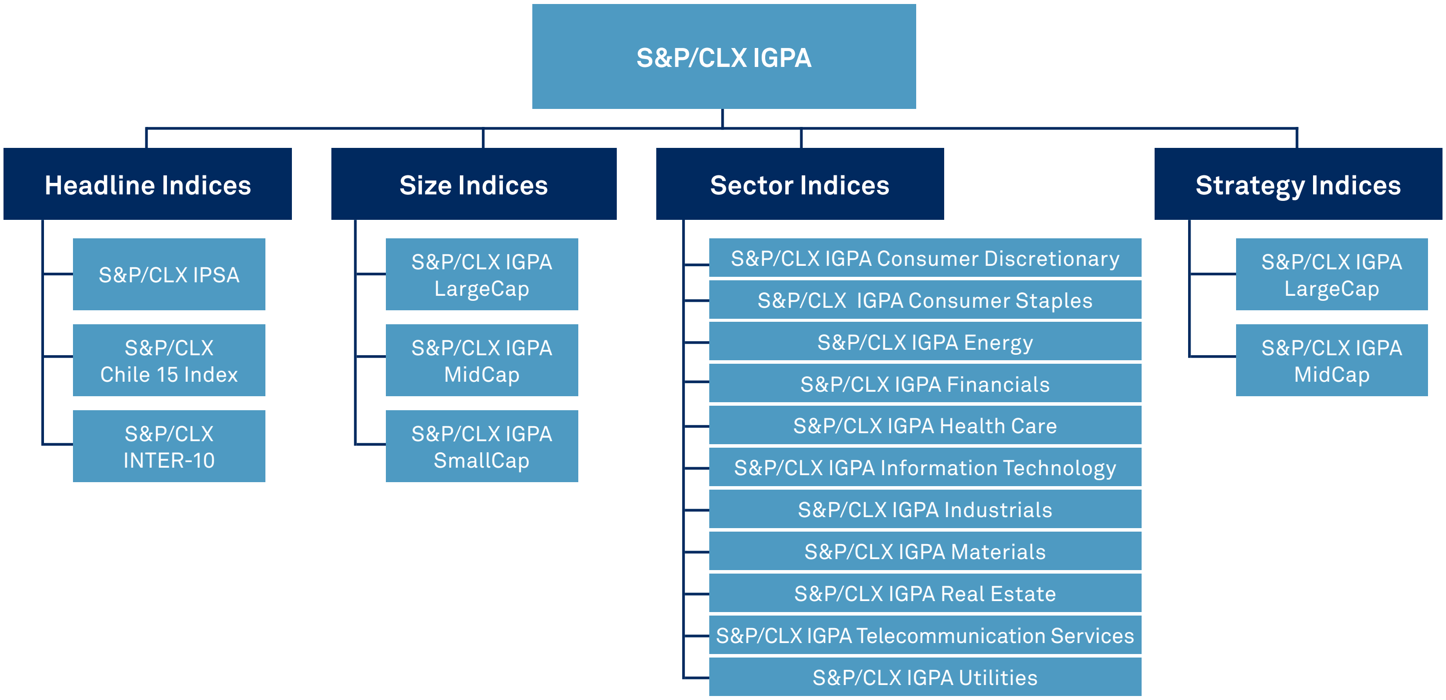
3. Is there any specific aspect of the methodology that is important to highlight?

Jaime: With the maturities, it is important to note that there are no missing gaps between them. For example, if a bond in the 7-10-year bucket no longer meets the requirements, the methodology is constructed so that it would enter automatically into the next group of maturities. This is different from having indices using single-year maturity references like 5 or 10 years. Another point worth emphasizing is that the prices, metrics, and characteristics used to calculate the indices are from Thomson Reuters. We know indices using local prices are needed to construct market-to-market portfolios, so we are working to provide tools that aid in portfolio construction.

4. Can you give an overview of the S&P/CLX Equity Indices that seek to track the Chilean equity market?

Silvia: Looking at the current S&P/CLX Equity Indices, we can see the basic series is now properly defined, with the S&P/CLX IGPA playing the most important role as the benchmark (see Exhibit 2). The subindices include the headline investable indices, as well as those tracking markets by size, sector, and strategy.

Exhibit 2: S&P/CLX Equity Indices



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

5. Why do we need so many indices? How are they different?

Silvia: Each index has a specific objective, which is to measure a particular segment of the market. For example, the headline indices and the strategy indices tend to be investable indices, designed to underlie financial products like mutual funds or ETFs. The S&P/CLX IGPA is the barometer of the Chilean equity market, with a broad coverage of about 60 to 70 stocks, and covering nearly 90% of the equity market. While the S&P/CLX IGPA is representative of the market, it is not investable, which means that it cannot be replicated by an investor. Why? Because it has a number of stocks that don't have much liquidity, meaning they don't trade often in the market. This is a problem if an investor wants to buy or sell the stock, because they can't find shares to trade in a timely manner.

6. There's a new index series designed to track the Chilean market, the S&P/CLX Strategy Indices. Can you tell us a little more about this series and what it's designed to do?

Silvia: Strategy indices are interesting and exciting indices, as they tend to track specific investment objectives. As you can see Exhibit 2, currently we manage two of these indices in Chile, the Dow Jones Sustainability Chile Index™, the first ESG index launched in Chile, and the S&P/CLX Chile Dividend Index. These indices seek to measure the performance of companies that meet specific criteria, such as the most sustainable companies in Chile as identified by RobecoSAM, or the companies that consistently pay dividends. In the latter case, the S&P/CLX Chile Dividend Index was created as a tool for income-seeking investors.

7. Where do you see potential avenues of growth for the S&P/CLX Equity Indices?

Silvia: I think that future growth is most likely to come from the strategy indices. These are not entirely new concepts, they include things like factor or smart beta indices that track different risk premia. We've applied these concepts in markets around the globe, and in the past few years we've seen tremendous growth in our strategy index line-up, as well as in the number of assets under management in the products tracking them. We are talking to the market to determine which indices make the most sense for the objectives of the Chilean market. We think that low volatility is one potential concept that could be a good fit. Additionally, we are looking at single-factor indices, including high quality, momentum, and enhanced value, and even combinations of these factors.

The possibilities are endless, but we have to be cautious to not just create indices that have no purpose in the market. That's why we work closely with the local investment community to develop indices that meet the needs of the market, while drawing on our experience innovating strategies in other markets. Our local partnership and global expertise will help us to continue to provide a diverse set of tools for investors looking to access Chile's evolving markets.

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