

S&P GIVI[®] Japan and Major Single Factors Q3 2019 Review

S&P GIVI JAPAN PERFORMANCE

The [S&P GIVI \(Global Intrinsic Value Index\) Japan](#) underperformed its benchmark index, the [S&P Japan BMI](#), by 0.63% in Q3 2019.¹ Since its launch in March 2012, the S&P GIVI Japan has outperformed its benchmark index by 0.30% per year, with a tracking error of 2.50%.

The Japanese equity market, as measured by the S&P Japan BMI, delivered 3.68% in Q3 2019. With a weak start in July and August, the market gained ground and finally reversed in September, thanks to easing global political and economic tensions. The U.S.-China mid-level talks in September seemed to give hope to abatement of the prolonged trade dispute. The U.S. Federal Reserve cut interest rates twice in Q3, amid the worsening global economic outlook and increasing pressure from the White House.

Japanese Prime Minister Shinzō Abe's Liberal Democratic Party claimed victory in the upper house election, which effectively ruled out uncertainty over tax increases for Q4 2019. While higher buyback levels reflected an improved investment sentiment, business sentiment among large Japan manufacturers continued to sink in September, as Bank of Japan's Tankan survey had suggested.

Communication Services lost its lead and became the laggard this quarter, along with Energy and Materials. Meanwhile, Real Estate, Health Care, Consumer Discretionary, and Information Technology were the best-performing sectors.

The underperformance of the S&P GIVI Japan against the benchmark in Q3 2019 was mainly attributed to selection effect rather than allocation effect across sectors, especially in Information Technology and Financials. For the quarter, the low beta and intrinsic value legs underperformed the benchmark by 0.12% and 0.73%, respectively.

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S&P Dow Jones Indices' Market Attributes[®] series provides market commentary highlighting developments across various asset classes.

¹ The S&P GIVI Japan is a strategy index constructed from the S&P Japan BMI, which serves as its benchmark index. The tracking error between the S&P GIVI Japan and its benchmark represents the difference between the strategy returns and the benchmark returns, reflecting the risk associated with the exposure to certain factors. Tracking error is the annualized standard deviations of monthly excess returns. It is not possible to invest directly in an index.

Exhibit 1: S&P GIVI Japan Live Performance and Attributes							
PERFORMANCE AS OF JUNE 30, 2019	GROSS TOTAL RETURN (%)				RETURN IN EXCESS OF THE S&P JAPAN BMI (%)		
	S&P GIVI JAPAN	S&P INTRINSIC VALUE WEIGHTED JAPAN INDEX	S&P LOW BETA JAPAN INDEX	S&P JAPAN BMI	S&P GIVI JAPAN	S&P INTRINSIC VALUE WEIGHTED JAPAN INDEX	S&P LOW BETA JAPAN INDEX
Q3 2019	3.05	2.95	3.56	3.68	-0.63	-0.73	-0.12
Q2 2019	-3.49	-2.77	-3.15	-2.22	-1.27	-0.56	-0.94
YTD	4.79	6.89	6.94	9.29	-4.50	-2.39	-2.35
Since March 2012 (Annualized)	11.40	10.71	11.86	11.09	0.30	-0.38	0.76
PERFORMANCE SINCE LAUNCH (ANNUALIZED AGAINST THE S&P JAPAN BMI)							
Volatility (%)	15.14	16.99	14.69	16.34	-	-	-
Return/Volatility	0.75	0.63	0.81	0.68	-	-	-
Tracking Error (%)	2.50	1.92	2.95	-	-	-	-
Alpha (%)	1.07	-0.64	1.78	-	-	-	-
Beta	0.92	1.03	0.89	-	-	-	-

Source: S&P Dow Jones Indices LLC. Index performance is based on total returns in JPY. Data from March 31, 2012, to Sept. 30, 2019. Past performance is no guarantee of future results. Table 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. Notes: Tracking error is the annualized standard deviations of monthly excess returns, relative to the primary and secondary benchmarks. Alpha and beta are defined by the regression equation $R_{i,t} = \alpha + \beta \cdot RBMI_{i,t} + \epsilon_t$; where $R_{i,t}$ is the index return series and $RBMI_{i,t}$ is the benchmark index return series.

Performance of Single Factors in the Japanese Market

We examined the returns of five common single factors in the Japanese equity market that have demonstrated the ability to earn a persistent premium over long periods of time: low volatility, value, quality, momentum, and buyback. The returns of these factors are represented by the performance of our systematic rules-based indices.

- Low volatility: Represented by the [S&P Japan 500 Low Volatility Index](#).
- Value: Represented by the [S&P Enhanced Value Japan LargeMidCap Index](#).
- Momentum: Represented by the [S&P Momentum Japan LargeMidCap](#).
- Quality: Represented by the [S&P Quality Japan LargeMidCap](#).
- Buyback: Represented by [S&P Japan 500 Buyback Index](#).

Quality continued to lead, as the best performer and only factor that beat the benchmark in Q3 2019 (by 1.57%). Value, low volatility, and buybacks were among the worst and underperformed the benchmark by 3.71%, 0.91%, and 0.48%, respectively.

Year-to-date, quality was also the best performer and beat the benchmark by 4.27%. This suggests that the market has been rewarding companies that focus on profitability and financial quality. Similar to 2018, the record high Japanese equity buybacks had limited impact on the performance of the buyback factor, which underperformed the benchmark by 5.5%.

Over the long term, defensive factors remained strong. In terms of absolute return, quality and low volatility were the best-performing factors over the 5- and 10-year horizons. The low volatility factor provided the best risk-adjusted return over the 3-, 5-, and 10-year horizons. Momentum and buyback underperformed mainly because cyclical stocks have been widely sold over the past few years.

Exhibit 2: Performance of the Five Factors in Japan						
PERIOD	S&P JAPAN 500 LOW VOLATILITY INDEX	S&P ENHANCED VALUE JAPAN LARGEMIDCAP INDEX	S&P QUALITY JAPAN LARGEMIDCAP	S&P MOMENTUM JAPAN LARGEMIDCAP	S&P JAPAN 500 BUYBACK INDEX	S&P JAPAN BMI
CUMULATIVE RETURN (%)						
1-Month	5.95	8.42	6.05	4.08	6.22	6.07
2-Month	3.40	1.01	2.45	1.65	2.62	2.57
3-Month	2.77	-0.03	5.25	3.65	3.19	3.68
YTD	3.40	0.99	13.56	7.99	3.78	9.29
ANNUAL RETURN (%)						
1-Year	-6.88	-17.16	-7.31	-13.60	-16.09	-9.56
3-Year	8.95	9.85	11.21	4.34	5.72	8.92
5-Year	8.39	4.43	8.20	2.22	4.53	6.04
10-Year	9.63	8.33	10.25	6.67	7.63	8.15
ANNUAL VOLATILITY (%)						
3-Year	10.45	16.99	13.63	13.08	13.84	13.19
5-Year	12.03	20.49	15.61	14.90	16.18	15.32
10-Year	12.74	20.26	16.16	17.61	16.41	16.74
ANNUAL RETURN/ANNUAL VOLATILITY						
3-Year	0.86	0.58	0.82	0.33	0.41	0.68
5-Year	0.70	0.22	0.53	0.15	0.28	0.39
10-Year	0.76	0.41	0.63	0.38	0.46	0.49
12-MONTH MAXIMUM DRAWDOWN (%)						
10-Year	-12.94	-33.22	-19.22	-22.96	-22.06	-22.70

Source: S&P Dow Jones Indices LLC. Index performance based on total returns in JPY. Data from Sept. 30, 2009, to Sept. 30, 2019. Past performance is no guarantee of future results. Table 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.

APPENDIX

Exhibit 3: Performance of Smart Beta Indices and Benchmarks in Japan										
PERIOD	SMART BETA INDICES IN JAPAN				BENCHMARKS IN JAPAN					
	S&P GIVI JAPAN	FTSE RAFI JAPAN INDEX	MSCI JAPAN VALUE WEIGHTED INDEX	MSCI JAPAN MINIMUM VOLATILITY INDEX	JPX-NIKKEI INDEX 400	MSCI JAPAN INDEX	NIKKEI 225	TOPIX	MSCI JAPAN IMI	S&P JAPAN BMI
CUMULATIVE RETURNS (%)										
1-Month	6.01	6.74	6.83	5.31	6.24	6.09	5.85	6.04	6.01	6.07
2-Month	2.68	2.18	2.41	4.55	3.01	2.67	1.91	2.46	2.60	2.57
3-Month	3.05	2.42	2.66	4.99	3.75	3.61	3.09	3.39	3.75	3.68
YTD	4.79	5.79	6.60	6.54	9.67	9.86	10.82	8.78	9.72	9.29
ANNUAL RETURN (%)										
1-Year	-10.70	-12.57	-11.41	-4.45	-9.49	-8.96	-7.77	-10.37	-9.21	-9.56
3-Year	7.50	8.50	8.57	8.15	8.68	8.93	11.97	8.70	8.90	8.92
5-Year	6.06	5.46	5.02	7.75	5.62	5.65	8.17	5.94	6.05	6.04
10-Year	8.60	7.79	7.97	8.69	8.13	7.79	10.01	8.00	8.13	8.15
ANNUAL VOLATILITY (%)										
3-Year	11.91	14.30	14.36	9.62	13.27	13.14	14.37	13.29	13.10	13.19
5-Year	13.98	17.12	17.37	11.66	15.51	15.75	16.19	15.55	15.35	15.32
10-Year	15.32	18.37	18.26	13.06	16.46	17.18	17.85	16.87	16.80	16.74
ANNUAL RETURN/ANNUAL VOLATILITY										
3-Year	0.63	0.59	0.60	0.85	0.65	0.68	0.83	0.65	0.68	0.68
5-Year	0.43	0.32	0.29	0.66	0.36	0.36	0.50	0.38	0.39	0.39
10-Year	0.56	0.42	0.44	0.67	0.49	0.45	0.56	0.47	0.48	0.49
12-MONTH MAXIMUM DRAWDOWN (%)										
10-Year	-21.01	-27.84	-29.06	-14.40	-23.22	-24.71	-22.90	-23.34	-22.96	-22.70

Source: S&P Dow Jones Indices LLC, MSCI, FTSE, TSE. Performance based on total return in JPY. Data from Sept. 30, 2009, to Sept. 30, 2019. Past performance is no guarantee of future results. Table 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.

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The S&P GIVI Japan was launched March 19, 2012. The S&P Intrinsic Value Weighted Japan Index and S&P Low Beta Japan Index were launched May 8, 2014. The S&P Japan 500 Low Volatility Index was launched June 8, 2015. The S&P Enhanced Value Japan LargeMidCap Index was launched April 27, 2015. The S&P Quality Japan LargeMidCap was launched June 8, 2014. The S&P Momentum Japan LargeMidCap was launched November 18, 2014. The S&P Japan 500 Buyback Index was launched October 17, 2014. 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. 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.

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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.

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