

**CONTRIBUTOR**

**John Welling**  
Associate Director  
Equity Indices  
[john.welling@spglobal.com](mailto:john.welling@spglobal.com)

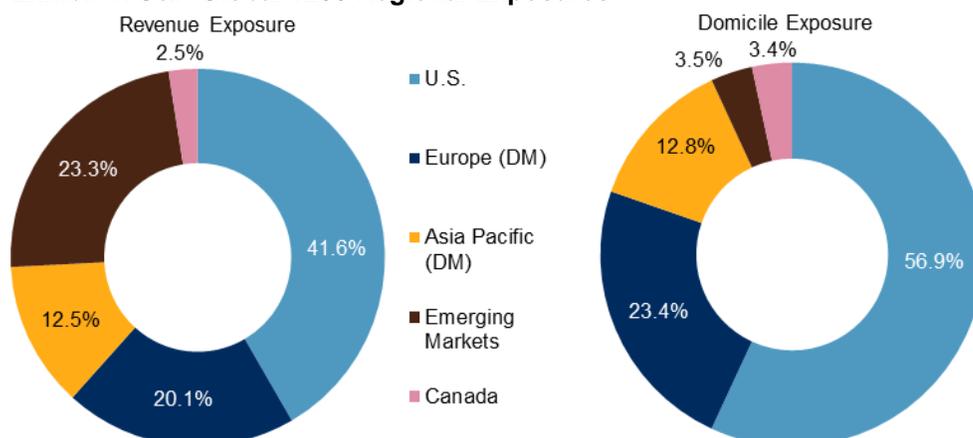
## Why Revenue Exposure Indices Are Relevant in Today’s World

As the world becomes smaller and companies become larger, domicile becomes less important to sources of revenue. The [S&P Geographic Revenue Exposure Indices](#) seek to capture the performance of companies with revenues centered on specific target regions or countries. These indices allow market participants to allocate to specific geographical risks in a thoughtful manner.

### REVENUE GEOGRAPHY VERSUS INDEX DOMICILE

The domicile of a company tells part of its economic exposure story. Revenue exposure indices, however, attempt to more precisely reflect the performance of companies that generate a relatively high portion of their income in any particular target geography. Exhibit 1 illustrates the wide variance in these two exposure measures—particularly when it comes to emerging markets—for the [S&P Global 1200](#).

**Exhibit 1: S&P Global 1200 Regional Exposures**



Source: S&P Dow Jones Indices LLC and FactSet. Data as of July 31, 2017. Charts are provided for illustrative purposes. DM = developed markets.

### HOW DO REVENUE EXPOSURE INDICES WORK?

There are two primary offerings: core revenue exposure and focused revenue exposure. The [S&P 500® U.S. Revenue Exposure Index](#) is an example of our core offerings. This index targets the U.S. economy via companies that have a high proportion of revenue coming from within the U.S. In this index, [S&P 500](#) companies are ranked by the proportion of domestic revenue versus foreign revenue. The top one-half of those

companies whose proportion of domestic revenue is the highest are selected for inclusion; market-cap weighting is then applied to these constituents.

The [S&P 500 Focused U.S. Revenue Exposure Index](#) further narrows the list of eligible companies within the [S&P 500](#) to the top quartile of domestic revenue producers. Additionally, weights are determined by the proportion of U.S. versus non-U.S. revenue for each company compared with the other member constituents. In other words, the focused series is tilted toward the selected target market without regard to company market cap.

## DIVERSE OFFERINGS

In addition to offering the ability to more precisely target domestic exposure within the U.S., our foreign and emerging markets versions allow market participants to gain exposure from various geographies via similarly designed indices. Beyond the S&P 500, we have built revenue exposure indices based upon the S&P United Kingdom LargeMidCap, [S&P/TOPIX 150](#), [S&P/TSX 60](#), [S&P/TSX Composite](#), and [S&P Europe 350](#). Many of the offerings are presented in core and focused versions, while providing a variety of target domestic and foreign exposures (see full list [here](#)).

## SOURCE OF THE GEOGRAPHIC REVENUE DATA

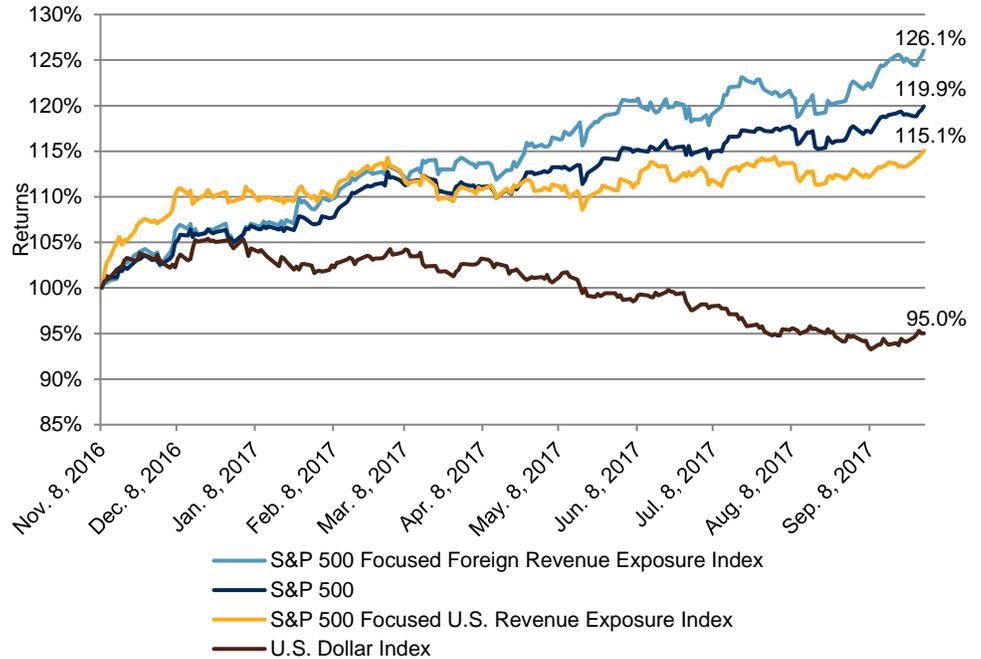
Company-level data is taken from primary sources: company 10-Ks, 10-Qs, official press releases, and relevant footnotes. FactSet is our data supplier, which gathers all of this information via its GeoRev database. When a company lists regional but not country-level data, a GDP-based formula is applied to estimate revenues from any of 247 countries. FactSet GeoRev is the most comprehensive database for company-level geographic revenue data and has history going back to 2003.

## CURRENT MARKET THEMES AND THE IMPORTANCE OF REVENUE EXPOSURE

Market activity of the S&P 500 since the U.S. election provides a good case study for revenue exposure indices. Upon receiving results of the Nov. 8, 2016, election, domestic-focused companies rallied almost immediately due to increased economic optimism and a stronger U.S. dollar. As the U.S. dollar began losing value in the beginning of 2017, however, this market action began to reverse, as companies with high foreign exposure came into favor. The weakening trend of the U.S. dollar bolstered exporters who earn revenues in foreign currencies. Exhibit 2 illustrates this theme via two of our S&P 500 Revenue Exposure Indices. Exhibit 3 shows how similar themes have emerged in the UK following the Brexit vote.

In addition to offering the ability to more precisely target domestic exposure within the U.S., our foreign and emerging markets versions allow market participants to gain exposure from various geographies via similarly designed indices.

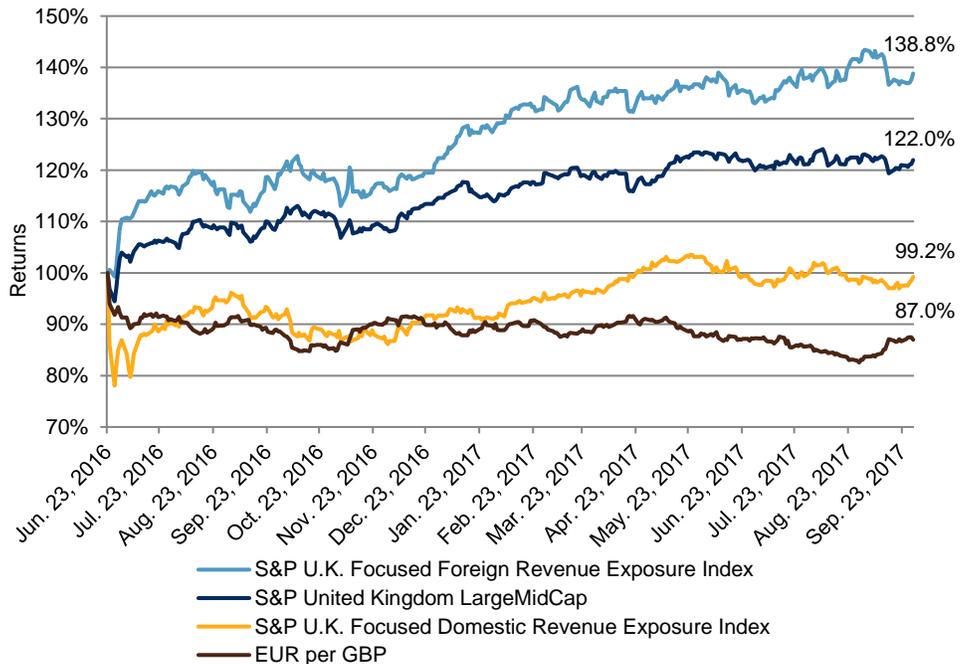
**Exhibit 2: U.S. Domestic Versus Foreign Revenue Exposure Indices Performance Following the U.S. Election**



Market activity of the S&P 500 since the U.S. election provides a good case study for revenue exposure indices.

Source: S&P Dow Jones Indices LLC and FactSet. Data as of Sept. 29, 2017, and was rebased at 100% on Nov. 8, 2016. 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.

**Exhibit 3: U.K. Domestic Versus Foreign Revenue Exposure Performance Following Brexit Vote on June 24, 2016**



Source: S&P Dow Jones Indices LLC and FactSet. Data as of Sept. 29, 2017, and was rebased at 100% on June 23, 2016. 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.

## PERFORMANCE DISCLOSURE

The S&P 500 Focused Foreign Revenue Exposure Index, S&P 500 Focused U.S. Revenue Exposure Index, S&P U.K. Focused Domestic Revenue Exposure Index, and S&P U.K. Focused Foreign Revenue Exposure Index were launched on August 31, 2017. 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](http://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](http://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 © 2017 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.