Although global equities posted double-digit gains in 2019, investors positioned defensively from the factor flow perspective. Quality witnessed a 96% increase in start-of-year assets in light of the earnings and economic slowdowns. Even though Minimum Volatility underperformed the broad market across all regions in Q4 and 2019, the factor still took in $22 billion for the year, representing 41% of its start-of-year assets. Dividend Yield took in the most yearly net inflows among all smart beta categories, as equity dividends have become more attractive to income seeking investors in a low-rate environment.

In the US, corporate earnings are on track to decline for a fourth straight quarter. Globally, downgrades have outpaced upgrades for 2020 earnings. Therefore, quality firms may remain sought after and continue the performance trends witnessed in 2019. Given stretched valuations and ongoing geopolitical tensions, investors may also want to consider Value and Minimum Volatility as part of their portfolio when staying invested.

### Figure 1: US-Listed Smart Beta Factor ETF Fund Flow Heatmap

<table>
<thead>
<tr>
<th>Factors</th>
<th>Fund Flow ($M)</th>
<th>Flows as % of Start of the Period AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>QTD ($M)</td>
<td>6 Months ($M)</td>
</tr>
<tr>
<td>Dividend</td>
<td>11,602</td>
<td>17,663</td>
</tr>
<tr>
<td>Low Volatility</td>
<td>2,099</td>
<td>10,297</td>
</tr>
<tr>
<td>Momentum</td>
<td>-1,271</td>
<td>-809</td>
</tr>
<tr>
<td>Multi-Factor</td>
<td>715</td>
<td>1,853</td>
</tr>
<tr>
<td>Quality</td>
<td>4,656</td>
<td>6,472</td>
</tr>
<tr>
<td>Size</td>
<td>1,132</td>
<td>691</td>
</tr>
<tr>
<td>Value</td>
<td>1,813</td>
<td>2,322</td>
</tr>
</tbody>
</table>

Source: SPDR Americas Research, Bloomberg Finance L.P., as of 12/31/2019. Green highlights the top two segments, orange the bottom two segments for a given period. Past performance is not a guarantee of future results. Chart is intended to be read vertically.
Quality was the only factor outperforming the broad market across all regions in 2019, while Min. Vol., Value and Size underperformed.

<table>
<thead>
<tr>
<th>Region</th>
<th>Excess Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USA</strong></td>
<td></td>
</tr>
<tr>
<td>Low volatility</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>-9.2%</td>
</tr>
<tr>
<td>Momentum</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Quality</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Size</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Value</td>
<td>-4.0%</td>
</tr>
<tr>
<td><strong>Developed ex US</strong></td>
<td></td>
</tr>
<tr>
<td>Low volatility</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Momentum</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Quality</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Size</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Value</td>
<td>-7.8%</td>
</tr>
<tr>
<td><strong>Emerging Markets</strong></td>
<td></td>
</tr>
<tr>
<td>Low volatility</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Momentum</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Quality</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Size</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Value</td>
<td>-4.4%</td>
</tr>
</tbody>
</table>

Source: FactSet, as of 12/31/2019. MSCI Minimum Volatility, MSCI Enhanced Value, MSCI Quality, MSCI Equal Weighted, MSCI High Dividend Yield and MSCI Momentum indices within each region are used to represent regional factor performance. Excess return is calculated based off MSCI EAFE, MSCI USA and MSCI Emerging Markets Indices respectively. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Past performance is not a guarantee of future results.
Figure 3: MSCI World Factor Quarterly Performance Quilt Chart (%)

Value rebounded in Q4, after underperforming the broad market for six consecutive quarters. Minimum Volatility lagged the broader market by the most since Q3 2016 amid easing US-China trade tensions and diminished Brexit uncertainty.

Source: FactSet as of 12/31/2019. Past performance is not a guarantee of future results.

Figure 4: Sector Over/Underweight vs. MSCI World Index (%)

Quality’s heavy overweight in Tech and Health Care contributed 40% of its outperformance over the broad market in Q4. Momentum reduced its overweight in Tech, while adding defensive sectors during the November rebalancing.

Source: FactSet, as of 12/31/2019. Exposures are as of the date indicated, are subject to change and should not be relied upon as current thereafter. Green highlights the top three overweighted sectors, orange the bottom three underweighted sectors.
Figure 5: MSCI World Factor Q4 Daily Excess Return Correlations

Momentum has become more positively correlated to Low Volatility, while Size and Value moved along with each other.

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Quality</th>
<th>Low Volatility</th>
<th>Dividend Yield</th>
<th>Size</th>
<th>Momentum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.00</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Quality</td>
<td>-0.53</td>
<td>1.00</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Low Volatility</td>
<td>-0.29</td>
<td>-0.22</td>
<td>1.00</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.31</td>
<td>-0.53</td>
<td>0.33</td>
<td>1.00</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Size</td>
<td>0.74</td>
<td>-0.64</td>
<td>0.09</td>
<td>0.32</td>
<td>1.00</td>
<td>—</td>
</tr>
<tr>
<td>Momentum</td>
<td>-0.69</td>
<td>-0.59</td>
<td>-0.30</td>
<td>-0.19</td>
<td>-0.46</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: FactSet, as of 12/31/2019. Minimum Volatility, Value, Quality, Size, Dividend Yield and Momentum are represented by the MSCI World Minimum Volatility Index, MSCI World Enhanced Value Index, MSCI World Quality Index, MSCI World Equal Weighted Index, MSCI World High Dividend Yield Index and MSCI World Momentum Index. Correlation is calculated using daily excess returns of factor indices over the MSCI World Index. Most negative correlations are shaded in orange. Most positive correlations are shared in green.

Figure 6: MSCI USA Factor Index Beta Sensitivities to Macro Indicators

The steepening of the yield curve weighed on Low Volatility and Dividend Yield performance.

<table>
<thead>
<tr>
<th></th>
<th>U.S. 10 Year Yield (36 Mth)</th>
<th>U.S. 10 Year — 2 Year Yield (36 Mth)</th>
<th>10 Year Breakeven Inflation Rate (36 Mth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-0.43</td>
<td>0.37</td>
<td>-0.82</td>
</tr>
<tr>
<td>Quality</td>
<td>-0.22</td>
<td>-0.12</td>
<td>-0.20</td>
</tr>
<tr>
<td>Low Volatility</td>
<td>0.55</td>
<td>-0.56</td>
<td>0.28</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.43</td>
<td>-0.25</td>
<td>-0.10</td>
</tr>
<tr>
<td>Size</td>
<td>0.12</td>
<td>-0.01</td>
<td>-0.06</td>
</tr>
<tr>
<td>Momentum</td>
<td>-0.14</td>
<td>1.78</td>
<td>0.69</td>
</tr>
</tbody>
</table>

Source: FactSet, as of 12/31/2019. Minimum Volatility, Value, Quality, Size, Dividend Yield and Momentum are represented by the MSCI USA Minimum Volatility Index, MSCI USA Enhanced Value Index, MSCI USA Quality Index, MSCI USA Equal Weighted Index, MSCI USA High Dividend Yield Index and MSCI USA Momentum Index. Beta sensitivity is calculated using monthly excess returns over the MSCI USA Index and monthly macro indicator data in 36 months. Characteristics are as of the date indicated, are subject to change and should not be relied upon as current thereafter. The lowest five numbers are shaded in orange. The highest five numbers are shared in green.
the world, excluding the US and Canada.

across 21 developed market countries around
that captures large- and mid-cap representation
MSCI EAFE Index
new-generation strategic indexes.
that are systematically being isolated in
“momentum” one of the six smart beta factors
academic research, which has made
trajectory. This tendency is well documented in

Low Volatility Factor Stocks
a lower risk profile than the overall markets.
However, a portfolio comprised of low volatility
stocks may not produce investment exposure
in such stocks’ price levels.

Momentum Factor
The tendency for a
security to maintain a certain direction of price
trajectory. This tendency is well documented in
academic research, which has made
“momentum” one of the six smart beta factors
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new-generation strategic indexes.

MSCI EAFE Index
An equities benchmark
that captures large- and mid-cap representation
across 21 developed market countries around
the world, excluding the US and Canada.

MSCI Emerging Market Index
The MSCI Emerging Markets Index captures large
and mid-cap representation across 23 emerging
markets countries. With 834 constituents, the
index covers approximately 85% of the free
float-adjusted market capitalization in
each country.

MSCI USA Enhanced Value Index
The MSCI USA Enhanced Value Index captures
large and mid-cap representation across the
US equity markets exhibiting overall value
style characteristics. The index is designed
to represent the performance of securities
that exhibit higher value characteristics
relative to their peers within the corresponding
GICS® sector.

MSCI USA Equal Weighted Index
The MSCI USA Equal Weighted Index includes the
same constituents as the MSCI USA Index but
equally weight them.

MSCI USA High Dividend Yield Index
The MSCI USA High Dividend Yield Index is based
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dividend income and quality characteristics
than average dividend yields
that are both sustainable and persistent. The
index also applies quality screens and reviews
12-month past performance to omit stocks with
potentially deteriorating fundamentals that
could force them to cut or reduce dividends.

MSCI World Minimum Volatility Index
The MSCI World Minimum Volatility (USD) Index aims
to reflect the performance characteristics of a
minimum variance strategy applied to the MSCI
large and mid cap equity universe. The index is
calculated by optimizing the MSCI USA Index,
its parent index, for the lowest absolute risk
(within a given set of constraints). Historically,
the index has shown lower beta and volatility
characteristics relative to the MSCI World Index.

MSCI World Quality Index
The MSCI World Quality Index is based on MSCI USA, its parent
index. The index aims to capture the
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Low Volatility Factor Stocks
seen as having a lower risk profile than the overall markets.
However, a portfolio comprised of low volatility
stocks may not produce investment exposure
that has lower variability to changes in such
stocks’ price levels.

Excess Returns
A security’s return minus
the return from another security in the same
time period.

Dividend Yield Factor
A factor which screens
for companies with a higher than average
dividend yield relative to the broad market, and
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Glossary

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high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

**Quality Factor** One of the six widely recognized, research-based smart beta factors that refers to “quality” equities. Companies whose stocks qualify exhibit consistent profitability, stability of earnings, low financial leverage and other characteristics consistent with long-term reliability such as ethical corporate governance.

**Size Factor** A smart beta factor based on the tendency of small-cap stocks to outperform their large-cap peers over long time periods.

**Standard Deviation** Measures the historical dispersion of a security, fund or index around an average. Investors use standard deviation to measure expected risk or volatility, and a higher standard deviation means the security has tended to show higher volatility or price swings in the past.

**Value Factor** One of the basic elements of “style”-focused investing that focuses on companies that may be priced below intrinsic value. The most commonly used methodology to assess value is by examining price-to-book (P/B) ratios, which compare a company’s total market value with its assessed book value.

* DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US.

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Exp. Date: 04/30/2020

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No Bank Guarantee

May Lose Value