

STOXX

VOL 4/ISSUE 2 – SPRING 2015

PULSE

THE ETF SECTOR

SHARPE RATIO

VOLATILITY

ASEAN SELECT DIVIDEND

WELCOME TO THE NEW EDITION OF STOXX PULSE

MEET STOXX AT A CONFERENCE

» Apr. 26-29, Frankfurt, Germany

Angelika Eibl, Head of Market Development, speaks about Minimum Variance investing at the **CFA ANNUAL CONFERENCE**

» Apr. 30, New York, USA

Konrad Sippel, Global Head of Business Development, speaks at the **GLOBAL ETF AWARDS DINNER**

» May 11-13, Blue Mountains, Australia

Ruben Feldman, Director, Business Development, speaks at the **FIDUCIARY INVESTOR SYMPOSIUM** hosted by Conexius Financial

» May 13, Miami, Florida, USA

STOXX will attend the **STRUCTURED PRODUCTS AMERICA CONFERENCE**

» May 21, Zurich, Switzerland

Christian Bahr, Head of Product Development, speaks at the **ETPDAY CONFERENCE** hosted by SIX Swiss Exchange

» May 28, Tokyo, Japan

Roy Wong, Director, North Asia, speaks at the **AL-IN INSTITUTIONAL INVESTORS FORUM** hosted by Soken

» Jun. 8-10, Montreux, Switzerland

Angelika Eibl, Head of Market Development, speaks at the **EUROPEAN PENSIONS & INVESTMENT SUMMIT**

» Jun. 9-10, Amsterdam, Netherlands

Hartmut Graf, CEO, speaks at the **INSIDE ETFS EUROPE SUMMIT**

» Jun. 30-Jul. 2, Monaco

Ruben Feldman, Director, Business Development, speaks at the **FUND FORUM INTERNATIONAL CONFERENCE** hosted by ICBI Events

» Jul. 10, Osaka, Japan

Roy Wong, Director, North Asia, speaks at the **AL-IN PENSION FUND SEMINAR** hosted by Soken



HARTMUT GRAF
CEO, STOXX Limited

DEAR READERS

Welcome to a new issue of STOXX Pulse. We start this issue with a focus on the growing ETF sector. In an interview with Deborah Fuhr, partner and co-founder of ETFGI, we bring you her assessment of the sector.

ETFGI is an independent research firm that serves the global ETF industry and investors. Fuhr expects the ETF industry, which is the only democratic investment tool, to cross 3 trillion US dollars in assets under management in 2015 globally.

In February of this year, we launched the STOXX Sharpe Ratio index family, licensing the STOXX Europe Sharpe Ratio 50 Index to J.P. Morgan. Guillaume Flamarion from J.P. Morgan, which created a structured product on the index, talked to the Pulse about the index and the strategy.

Aureliano Gentilini, who heads research at STOXX, tells Pulse in an interview that the time has come for a suitable hedging tool on European stock market exposure for US market participants. While US investors can use VSTOXX, a new instrument that offers them a portfolio hedge against spreads in implied volatility between US and European stock market benchmarks makes sense.

We end this issue with a look at ASEAN. STOXX launched and licensed the STOXX ASEAN Select Dividend 30 Index to Thailand's One Asset Management Ltd. in March of this year. We interviewed Dr. Win Udomratchavanich, CEO of One AM, who told us that he expects equities in Indonesia, Philippines and Thailand rising 7% to 10% per year over the next three to five years.

I hope you enjoy this issue. For comments and/or suggestions, please contact the editor Rajiv Sekhri at rajiv.sekhri@stox.com.

Regards

Hartmut Graf
CEO, STOXX Limited





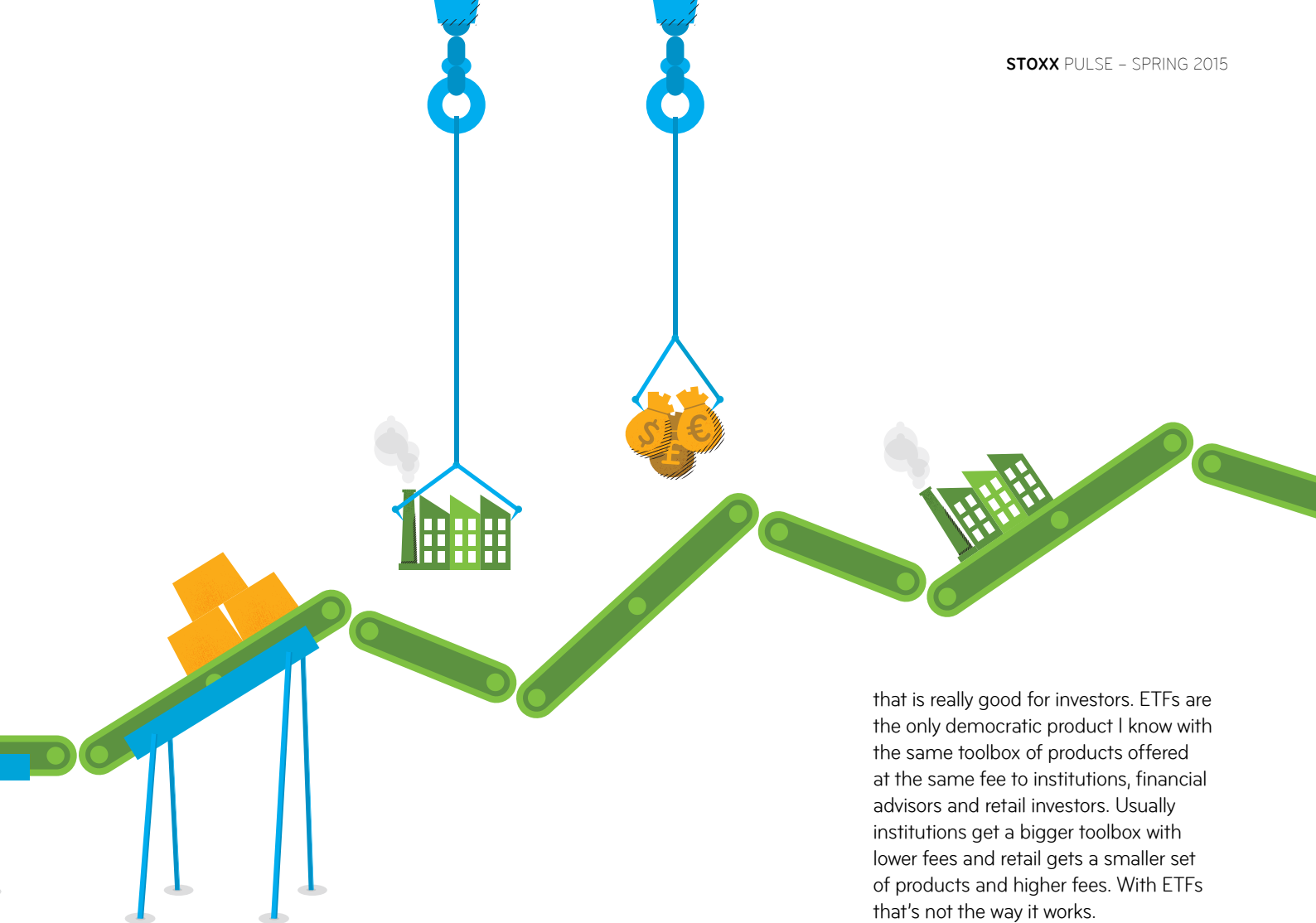
"ETFs ARE THE
ONLY DEMOCRATIC
INVESTMENT TOOL",
SAYS DEBORAH FUHR



THE ETF SECTOR

THE CO-FOUNDER OF
ETFGI TALKS TO STOXX
PULSE ABOUT THE ETF
SECTOR AND ITS FUTURE.

Deborah Fuhr is the managing partner and co-founder of ETFGI, an independent research and consultancy firm launched in 2012 offering paid-for research subscription services on trends in the global ETF and ETP industry. Previously, she served as global head of ETF research and implementation strategy and as a managing director at BlackRock/BGI from 2008 to 2011. Fuhr also worked as a managing director and head of the investment strategy team at Morgan Stanley in London from 1997 to 2008, and as an associate at Greenwich Associates.



that is really good for investors. ETFs are the only democratic product I know with the same toolbox of products offered at the same fee to institutions, financial advisors and retail investors. Usually institutions get a bigger toolbox with lower fees and retail gets a smaller set of products and higher fees. With ETFs that's not the way it works.

Fuhr was the recipient of the 2014 William F. Sharpe Lifetime Achievement Award for outstanding and lasting contributions to the field of index investing. She is one of the founders of Women in ETFs. She holds a BS degree from the University of Connecticut and an MBA from the Kellogg School of Management at Northwestern University.



DEBORAH FUHR
ETFGI

THE ETF INDUSTRY TURNED 25 ON MAR. 9, 2015. WHAT ARE YOUR THOUGHTS ON THE GROWTH AND UNIQUE NATURE OF THIS SECTOR?

The ETF industry has had a very impressive growth record. The first product was listed in Canada on Mar. 9, 1990, not in the US, as many people think.

Another interesting fact is that the ETF industry ended 2014 with 2.7 trillion US dollars of assets under management. And that's just 60 billion US dollars smaller than the hedge fund industry, which has existed for 66 years versus 25 years for the ETF industry.

And if you look at performance, the average hedge fund has actually had lower return than the performance of, say, the S&P 500 or the EURO STOXX 50 during the past couple of years. And when you talk about fees, hedge fund fees are so much higher compared with the 32 basis points average fee for ETFs.

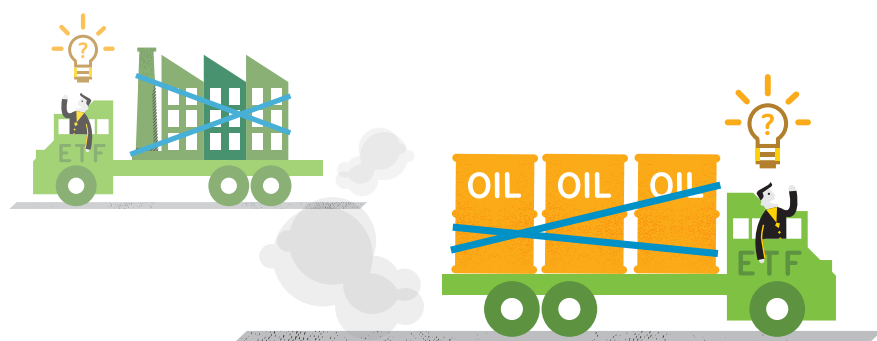
For me, it has been great to be a part of this global and interesting product set

2014 WAS A RECORD YEAR FOR ASSETS UNDER MANAGEMENT IN ETFs/ETPS? HOW IS 2015 SHAPING UP FOR THE INDUSTRY?

Yes, 2014 was huge. It was the best year ever. And the first two months of 2015 have been quite good too. We reported in March that assets invested in ETFs/ETPs globally reached a new record of 2.919 trillion US dollars at the end of February, 2015.

In January, however, it wasn't a great start to the year for the US market. So the flows primarily went into fixed income and into commodities that month. We had the third best ever month for fixed income inflows in January globally and the third best ever month for commodities.

Commodities are pretty interesting here, because in the past two years, they have seen significant outflows. With uncertainty now, caused by the performance of the US, what's happened in Ukraine, what's happened in Greece, is causing investors to look at commodities as a bit of a safe haven.



In terms of Europe, what we have seen is that 2014 was a good year with 62 billion US dollars flowing into ETPs/ETPs listed in Europe, the best number ever.

SMART BETA IS THE NEW BUZZ WORD IN THE INDUSTRY, STRUGGLING FOR A DEFINITION. WHY IS THAT? AND DO YOU THINK BIGGER PLAYERS, SUCH AS THE ISHARES AND THE VANGUARDS, HAVE BEEN SLOWER AT OFFERING SMART-BETA PRODUCTS THAN SMALLER PLAYERS LIKE VANCE?

Yes, one of the big challenges we have found is how do you define smart beta? And there is no widely accepted definition yet. I would call it a marketing and sales term looking for a definition. For me, it really means indices that have been created based on factors that demonstrate risk premium.

So we went to index providers and asked them to classify the indices they license to ETF providers. And we asked them to state whether their indices are market cap, smart beta, beta plus or other. They agreed that there are indices, such as market-cap indices, that are not smart. But there is no unanimity in how they define smart beta.

What we have also found is that smart-beta ETFs have existed for 14 years. The early providers were firms like iShares and State Street and Vanguard – they had products, such as high dividend ETFs, that would be seen by index providers as smart beta. But also what you have is that these three names are the juggernaut of market-cap ETFs as they control 80% of assets globally.

So, when we look at who the providers are in the smart-beta space, what we do find is this: there are other firms that show up as significant players in that space because they are focused on it. So, someone like Wisdom Tree would describe all of their indices as being in the smart-beta camp. Although they do have some active products which we would put in active and not smart beta.

There are new entrants coming into this space. In Europe, Ossiam would be an example of someone focused on these alternatively weighted indices. Also I think PowerShares would be another one that has focused on what they would define as alternatively weighted indices for a long time. I think the challenge when you are a small player is that your marketing spend compared to other people isn't always the same.

To give you a sense of the market, most smart-beta products are in the equity space. If we look at how much AuM at the end of 2014 were in market cap, it was about 1.7 trillion US dollars in equity assets. The smart-beta number was around 336 billion US dollars, active equities was about 5 billion US dollars and other equity products was about 120 billion US dollars. If you look at the growth rate over the past five years, the fastest growth rate was for smart beta. It has been growing at about 38% CAGR over the past five years. And that's faster than market-cap products and the general industry.

WHAT DO YOU THINK IS THE REASON FOR THIS SHARP GROWTH IN SMART-BETA EQUITY PRODUCTS?

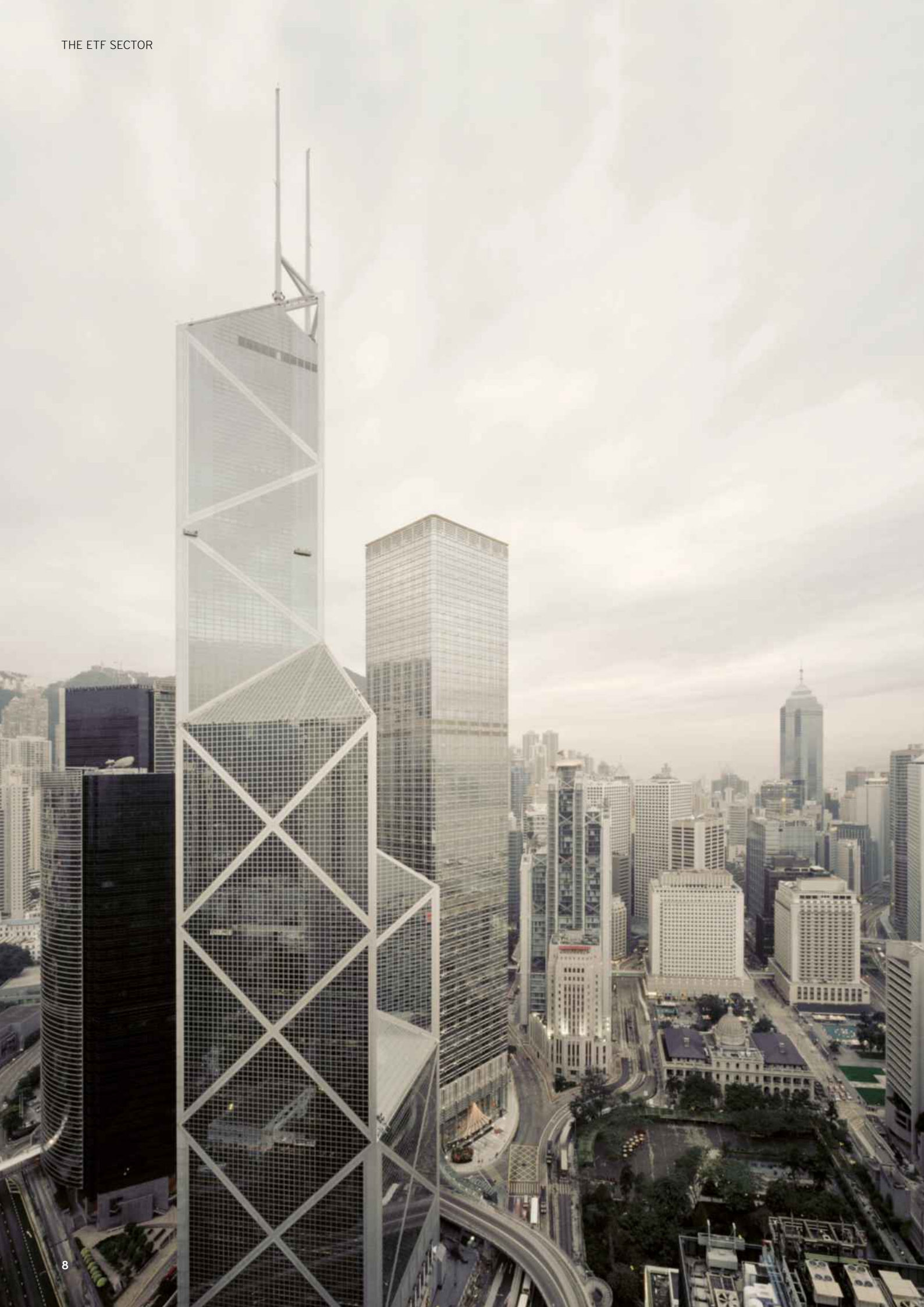
I think many investors are expanding where they look to invest. When I started in 1997, if I went to Germany, most investors were matching assets and liabilities and only investing in German equities and fixed income. With the advent of the euro, people wanted to invest in a euro benchmark. And then people started to look at the world, emerging markets, frontier markets. And then they also started to look at multi-asset class.

Starting in 2006, multi-asset class investing became interesting and a trend that we saw within Europe. And so what that meant was that investors' teams within asset managers didn't get bigger to cover all those markets. So people rationalized: where can I deliver alpha, because I have the skill and expertise? And where I can, I am going to look at low cost smart-beta products and ETFs.

So, I think people have gone from looking at ETFs as the enemy. Many people in the early days would say to me: 'are you going to pay me a rebate?' And I would say no.



STOXX Limited, a leading provider of innovative, tradable and global index concepts, celebrates the 15th anniversary of European exchange traded-funds (ETFs). The two first ETFs launched in Europe were based on the EURO STOXX 50 and STOXX Europe 50 indices and were listed on Deutsche Börse's Xetra platform on Apr. 11, 2000.



They would say: 'you know, I am an active manager. I can't use that, I am supposed to be active.'

But over the years, people have moved away from that view and see ETFs as a tool to help them to do their job. So, whether it's because they don't yet have a foreign investor status to invest in Korea, Taiwan, India or China, or whether it's because they don't have the ability to hold gold bars like central banks do, ETFs have provided an easy form of access to many asset classes and many markets.

And I think investors have discovered that it is hard to find active managers who consistently deliver alpha. If you look at the US market, compared to the S&P 500, you see that about 80% of the active large-cap managers in the US did not beat the index in the last few years.

On my first job, I worked for Charles Ellis, the founder of Greenwich Associates. He is a CFA and wrote an article that became a book called "Winning the Loser's Game". And his central finding was that it's hard for active managers to beat benchmarks. He looked at the performance of active large-cap managers in the US against the S&P 500 and found way back in the 1970s that only a very small number of them were beating the index.

NOT A DAY GOES BY WHEN YOU READ OR HEAR THAT ACTIVE MANAGEMENT IS ON ITS WAY OUT. WHAT DO YOU THINK IS GOING TO HAPPEN?

I think it's both psychology and structural issues. By that I mean that most people don't want to be average, and if you are buying an index, you are kind of average, right? So when they hear pitches from portfolio managers, they look at prior track records and think the manager did it before and should be able to do it again. But that is not the case.

Also, many financial advisors are paid to sell products and ETFs don't pay you to sell them. Across Europe, there are still many places where retail investors are being sold products that financial advisors are paid to sell them. And ETFs are not in that bucket.

Consultants tend to promote active funds to the active industry globally. Even if you look at how much money is in index-linked investments versus active, the majority of money today is still in active strategies because people believe that they can do better than an index.

SO EARLIER YOU SAID THERE WAS MORE THAN 2.9 TRILLION US DOLLARS IN ETPS/ETFs GLOBALLY (MOST OF IT IN EQUITIES) AT THE END OF 2014. HOW MUCH AUM IS THERE IN ACTIVE EQUITY STRATEGIES?

It is really small. Part of it is down to regulation. In the US, all ETFs have to provide daily transparency. So, if I am a good active manager, and I am delivering alpha, I don't want to tell the world every day what I own. So, most of the ETFs in the US that are active are fixed income as it is harder to replicate a broad fixed income basket and that's why we have seen success of fixed income ETFs gaining assets. To put it in perspective, the assets globally in active ETFs is less than 1% of that 2.9 trillion US dollars we are talking about.

So it's about 25 billion US dollars, and (active) equity out of that is 5 billion US dollars.

You also have to remember the requirement for transparency in the US. When you look at active, people want to see a track record – they want three years and they want a fund to be at least 100 million US dollars.

Investors have embraced ETFs because they like the low cost beta. I think the challenge is that many active asset managers have seen how ETFs are being embraced now very significantly by financial advisors in the US, by retail and by other investors. And so they are seeing ETFs as a new wrapper. And so they want to be able to offer products through this new wrapper and new distribution channel.

DO YOU THINK INDEX PROVIDERS ARE SERVING THE NEEDS OF ETF ISSUERS?

Investors know at least some of the main equity indices, but I think there's less understanding of fixed income indices because they are not discussed as much in the media. I think there's probably a lot that can be done around fixed income where there hasn't been as much focus. I also think that there's good interest in multi-asset class investing currently and there are not many indices for that.

There are a lot of opportunities for index providers to help create new indices. Clearly, with China opening up, we'll have broader indices over time.

AND WHERE DO YOU SEE THE GROWTH OF THE ETP/ETF INDUSTRY HEADED IN 2015?

I think that this year it will get bigger than the hedge fund industry globally. I think we're likely to see that the ETF industry in Europe gets through the 300 billion US dollar mark. I think we'll see the global ETF industry cross the 3 trillion US dollar mark. We will continue to see growth in currency hedged ETFs, especially in the US because the strength of the US dollar has increased significantly since July, 2014. <<

STOXX SHARPE RATIO INDEX FAMILY



GUILLAUME FLAMARION
JP Morgan

STOXX LTD. IN FEBRUARY EXPANDED ITS SMART-BETA OFFERING WITH A NEW ADDITION: THE STOXX SHARPE RATIO INDEX FAMILY. THIS FIRST-OF-ITS-KIND INDEX FAMILY INCLUDES STOCKS FROM RESPECTIVE BENCHMARKS THAT HAVE THE HIGHEST SHARPE RATIOS, WHILE EXCLUDING THOSE WITH LOW DIVIDEND YIELDS AND LOW LIQUIDITY.

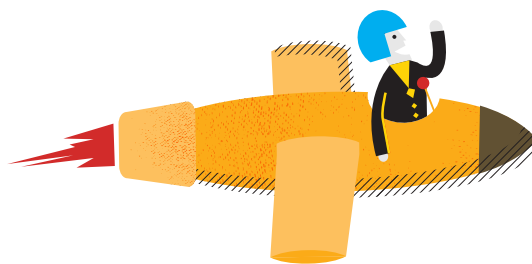
JP MORGAN LICENSED THE STOXX EUROPE SHARPE RATIO 50 INDEX FOR A STRUCTURED PRODUCT.



STOXX Pulse caught up with Guillaume Flamarion, equity derivatives structure and executive director at JP Morgan, to talk about the index and strategy. Flamarion joined JP Morgan in October, 2011. He has more than eight years' experience in equity solutions structuring. He graduated from the Ecole des Mines de Paris in 2006.

THE SHARPE RATIO WAS DEVELOPED IN 1966; HOWEVER THERE ARE HARDLY ANY INDICES BASED ON THIS RATIO, WHICH IS ONE OF THE MOST REFERENCED RISK-RETURN MEASURES IN THE FINANCE INDUSTRY. WHY DO YOU THINK THAT IS?

The Sharpe ratio is indeed one of the most commonly used measures by investors to evaluate the risk-return profile of an investment.



The recent development of “smart-beta” indices as an alternative to more classical market-cap weighted indices has naturally led to the combination of the two concepts of how an investor can reconstruct his or her equity exposure, no longer based on the stocks that have the highest market cap but on the stocks that have the highest Sharpe ratio.

WHAT ARE THE PROS AND CONS OF OFFERING AN INDEX BASED ON SELECTING COMPANIES THAT HAVE THE HIGHEST SHARPE RATIOS?

Investing in the stocks that have had the highest Sharpe ratio over a recent period of time offers exposure resulting in two effects. Firstly, exposure to market trends (or momentum) as the index will be exposed to stocks that have been performing well over the recent period and secondly, exposure to low volatility stocks.

Momentum is based on the fact that prices are more likely to keep moving in the same direction. Investing in low volatility stocks is based on the concept that usually those stocks can be undervalued as investors tend to hold high volatility/high beta stocks in their portfolio. Moreover, low volatility stocks improve the risk profile of an equity portfolio. The main pitfall of investing in high Sharpe ratio companies is that this is a historical measure (historical performance and historical volatility) and past performance is obviously not an indicator of future performance.

THE STOXX SHARPE RATIO INDEX FAMILY SELECTS LIQUID AND DIVIDEND PAYING COMPANIES THAT HAVE THE HIGHEST SHARPE RATIOS. IN YOUR OPINION, WHAT ADVANTAGE DO THESE TWO SCREENS – LIQUIDITY AND DIVIDENDS – OFFER TO INVESTORS?

Liquidity screening is always a key factor when it comes to index construction as it allows for larger size companies to be invested in, and it limits the potential (negative) market impact of such an investment and gives confidence to investors in the liquidity of their exposure when they need to re-adjust their exposure.

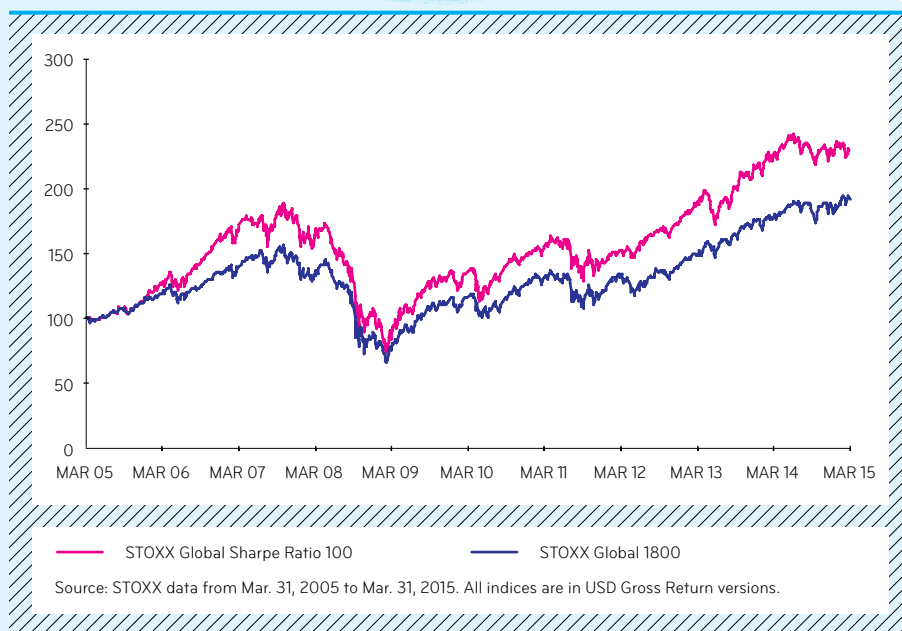
Companies that pay high dividends are generally seen as stable, generating consistent earnings and returns in the long term. A high dividend yield can indicate undervaluation of the stock because the stock's dividend is high relative to its price. Moreover, in a low

interest rate environment, high dividend stocks can provide consistent income to investors. These two screenings allow for a first quality selection within the universe before the Sharpe ratio ranking. Moreover, the STOXX Sharpe Ratio index family, through the combination of liquidity/dividend screening and the Sharpe ratio selection, allows for cost efficient structured products.

IN YOUR OPINION, IS IT ADVANTAGEOUS TO OFFER A SHARPE RATIO INDEX WHICH WEIGHTS COMPANIES BASED ON THE INVERSE OF THEIR VOLATILITY RATHER THAN THEIR MARKET CAP?

The weighting mechanism within a Sharpe ratio index is based on the inverse of the realized volatility, thus giving more weight to stocks that exhibit a low volatility historically. There are two reasons for that weighting mechanism. It offers investors an alternative to market cap weighting and therefore exposure to stocks less present in investors' portfolios. And it also allows a further reduction of the volatility/risk of the index. <<

STOXX GLOBAL SHARPE RATIO INDEX SHOWS HIGHER PERFORMANCE THAN BENCHMARK



AN INTERVIEW WITH AURELIANO GENTILINI, HEAD OF RESEARCH, AT STOXX LTD.



AURELIANO GENTILINI
STOXX Ltd.

WHEN YOU TALK ABOUT VOLATILITY AS AN ASSET CLASS, WHAT DO YOU MEAN?

Implied volatility in particular is more than a mere gauge of market fears, used to assess market expectations on future levels of realized volatility. Viewed as an asset class per se, volatility is a trading instrument and is investable as part of a portfolio allocation strategy. Volatility has its own dynamics, its own risk-return profile and is virtually uncorrelated with market returns and direction. Examples of

trading strategies are dispersion trading (bet on difference in volatility between index and components), volatility spread trading (bet on difference in implied volatility of two indices) and trading on mean reverting properties of volatility.

At the same time, volatility is a hedging tool that investors generally use to delta-hedge their equity exposure or to offset an increased tracking error in more volatile markets and volatility clustering phenomena.

AND HOW WOULD ONE INVEST IN VOLATILITY?

You do not directly invest in indices such as implied volatility indices, but you can invest in volatility derivatives, which mean either options or futures, or other type of certificates, structured products and other over-the-counter instruments that are pegged in a certain way to volatility indices.

VOLATILI



WITH THE EXPECTATION OF EUROPE OUTPERFORMING THE US, A NEW VOLATILITY INSTRUMENT IS NEEDED.

IN YOUR OPINION, WHERE IS THE BEST PLACE CURRENTLY TO INVEST IN VOLATILITY?

Certainly what is important is to have an instrument that is liquid, giving you real exposure to dynamics in the underlying stock market. The best liquid instruments to get exposure to volatility are derivatives. In the US through derivative instruments pegged to the VIX Index, such as options and futures listed on CBOE (Chicago Board Options Exchange). Or, in Europe, such as VSTOXX mini-futures and VSTOXX options traded on the Eurex

Exchange. Other than the two implied volatility indices above, both derivative instruments availability and liquidity might be issues in getting exposure to other volatility indices.

ARE THERE OTHER INSTRUMENTS AVAILABLE, BESIDES VIX AND VSTOXX, IF YOU WANT TO INVEST IN VOLATILITY AS AN ASSET CLASS?

In the German market, there are also volatility indices pegged to the DAX called the VDAX and the VDAX-NEW. Similarly, in other countries there are indices that provide exposure to implied volatility for given underlying stock market benchmarks.

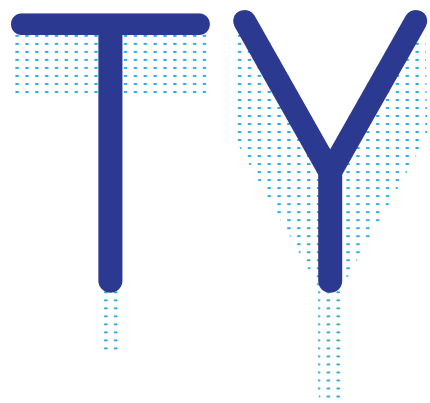
WHAT MAKES VOLATILITY A GOOD INVESTMENT? THERE ARE UNCORRELATED RETURNS TO THE MARKET. WHAT ELSE?

The benefits are exactly attributable to the effect of diversification of a portfolio strategy as well as of hedging equity and credit portfolios. In a market downtrend, we might expect that implied volatility increases.

And the opposite will be in a market uptrend, where implied volatility usually decreases. The benefit of implied volatility exposure is to hedge your portfolio against volatility clustering and tail risk in general. At the same time, implied volatility exposure may generate returns from volatility trading strategies.

WE HAVE AN INVESTABLE VOLATILITY ASSET CLASS FOR EUROPE AND THE US. WHY DOES SOMETHING SUCH AS THIS NOT EXIST FOR ASIA?

Implied volatility indices exist for some Asian stock markets, such as the Nikkei Stock Average Volatility Index and the HSI Volatility Index. But the question that arises is: which stock market represents Asia as a whole?



Secondly, let's assume you pick one reference market in the region, but the question again is: will that be a true representation of Asia? And will that market be liquid enough in the derivatives segment to give you exposure to an implied volatility index that is truly diversifying your portfolio strategy and hedging your equity and credit portfolio exposure?

So there are representation issues as well as potential liquidity issues.

FOR THE US, YOU HAVE THE S&P 500, WHICH IS AN EXPANDED VERSION OF A BLUE-CHIP INDEX. BUT FOR EUROPE, THE VSTOXX IS BASED ON THE EURO STOXX 50, WHICH IS A BLUE CHIP. WHY NOT THE STOXX EUROPE 600 FOR EUROPE?

The S&P 500 does not really account for the full story because it is an expanded version of a blue-chip index. The S&P 500 Index includes a significant portion of the total value of the market.

Contrary to common belief, the S&P 500 is not a mere list of the largest 500 companies by market cap.

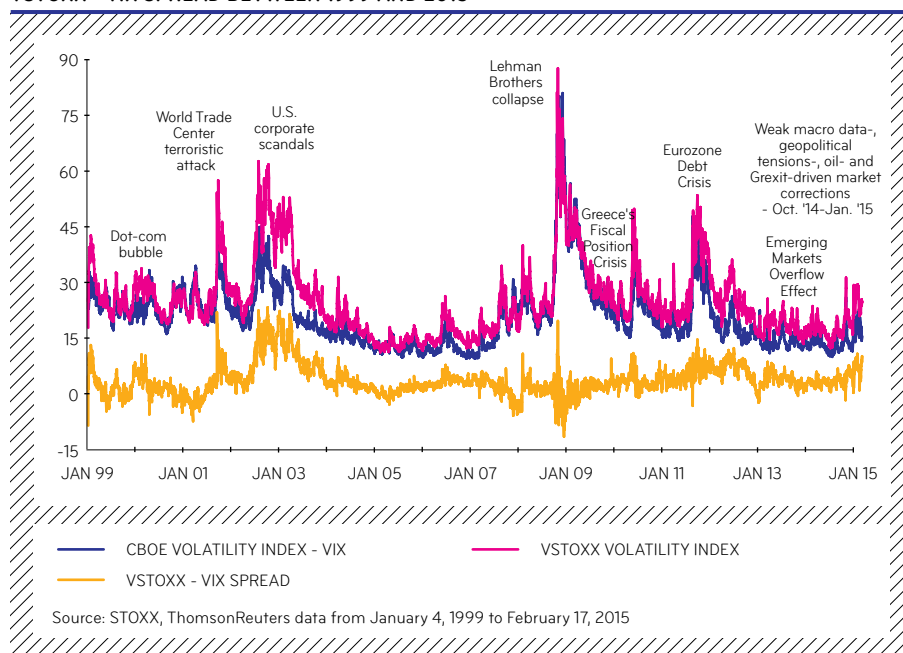
Rather, it includes 500 companies of the most widely held common stocks that represent the US equity markets in market size, liquidity and sector representation. "Leading companies in leading industries" is the guiding principle for inclusion in the S&P 500 Index.

Now let's make the comparison with the STOXX Europe 600. In order to calculate an implied volatility index with a similar calculation methodology, a key element would be to get access to a liquid market where you have listed options with various maturities on the STOXX Europe 600, i.e. the index taken into account for your implied volatility exposure. A question arises here: is there an institutional demand for STOXX Europe 600 options?

WITH EUROPEAN EQUITIES FORECAST TO GROW THIS YEAR, DO YOU THINK THERE IS GROWING INTEREST IN THE VSTOXX?

Foreign market participants are willing to get more exposure to expectations on future levels of realized volatility for the European market. And they have potentially started to hedge their portfolios without getting access in their own country to an implied volatility investable tool that can hedge their portfolio exposure.

VSTOXX - VIX SPREAD BETWEEN 1999 AND 2015





Given market participants' expectations about the European market to outperform the US market this year, it makes sense for US market participants to access a suitable hedging tool on European stock market exposure. There is an opportunity to create a new tradable instrument, a tradable index that can offer US investors a portfolio hedge against spreads in implied volatility between US and European stock market benchmarks.

BUT CAN'T US INVESTORS USE THE VSTOXX FOR THAT?

The VSTOXX, to a certain extent, could be used, although it is accessible only in the European markets through derivatives listed on the Eurex Exchange.

Also, the VSTOXX is an implied volatility index that is pegged to a blue-chip European benchmark, i.e. the EURO STOXX 50 Index. It is not an implied volatility index that is factoring in expectations about the spread between the two stock market benchmarks.

The idea behind creating a new index concept would be to create one that is not only tradable in the US, but can also be hedged against the currency effect and can better incorporate expectations on the implied volatility spreads between the two markets.

One of the ways to approach this concept would be to analyze the expectations of outperformance/underperformance of one stock market versus the other and various implied volatility dynamics across both markets. When you look at the spread between the VSTOXX and VIX, there are narrowing as well as widening patterns, taking into account that VSTOXX historically tends to trade at a premium to the VIX.

And that is also dependent on the various dynamics in the correlation pattern and relation of causality between the two implied volatility indices, as well as information flows in the two markets and other country- or market-specific drivers. Historically, VSTOXX-VIX widening spreads may be observed when the correlation between the two implied volatility indices decreases. However, that might also reflect a decoupling in the underlying economic cycle of the two economies on both sides of the Atlantic.

For instance, the expected outperformance of the European stock market versus the US factors in positive developments on the Greek debt standoff, the effect of the massive asset purchase program by the ECB, as well as positive expectations about PE multiples on European stocks.

Among others, these are the drivers of the spread between the two volatility indices. So, there might be profitable opportunities to arbitrage on widening versus narrowing spreads between the two implied volatility indices. Bidding on narrowing versus widening spreads might be a winning strategy that takes into account the mean-reverting statistical properties of the two implied volatility indices. <<



STOXX ASEAN SELECT DIVIDEND 30 INDEX



DR. WIN UDOMRACHTAVANICH
One AM

**EQUITIES IN INDONESIA,
PHILIPPINES AND
THAILAND PREDICTED TO
RISE 7% TO 10% PER YEAR
IN THE NEXT THREE TO
FIVE YEARS.**

STOXX licenses the STOXX ASEAN Select Dividend 30 Index to Thailand's One AM.

Economic growth in ASEAN is seen improving to 5.1% in 2015, higher than the 3.5% projection for global growth, ASEAN economics ministers said in March at the end of a meeting. "We based this on the stronger demand in advanced economies, energized by the robust US recovery and several policy stimulus measures in the Eurozone and Japan," the ministers said in a joint statement.

As one of the fastest growing regions in the world, ASEAN is often referred to as the third pillar of Asian growth, after China and India. In March of this year, STOXX licensed the STOXX ASEAN Select Dividend 30 Index to One Asset Management Ltd., a Thai asset manager.

STOXX Pulse interviewed Dr. Win Udomrachtavanich, Chief Executive Officer of One AM to get his views on the region. One AM, a leading asset management company in Thailand, has 3.3 billion US dollars of assets under management. Started in 1992, the firm is owned by KGI Securities (Thailand) Plc.



Udomrachtavanich has been CEO at One Asset Management since 2012. Prior to joining One Asset, he was director of investments, Credit Suisse, in Hong Kong. He was also the Chief Investment Officer at Asset Plus Fund. He has a doctorate in economics from the University of Missouri, Columbia and holds the CFA, FRM and CAIA charters.

DO YOU SEE GROWING DEMAND FOR INVESTMENT PRODUCTS THAT FOCUS ON ASEAN, ITS GROWING ECONOMY AND FAVORABLE DEMOGRAPHICS?

Yes, we absolutely do. Given that ASEAN's economy is growing and the launch of the ASEAN Economic Community (AEC) later this year will further strengthen the region's growth prospect, we will definitely see more demand in ASEAN investment asset classes, particularly equities.

CAN YOU TALK ABOUT HOW ASEAN IS MOVING FROM A GROWTH PLAY TO A YIELD PLAY AND THE PROS AND CONS OF AN INVESTMENT STRATEGY BASED ON DIVIDENDS FOR THE REGION?

Both the economic and capital markets landscape in the region has developed and transformed from a small and fragmented playing field to a more mature one. This has led to a change in the character of listed companies, especially large caps.

They have changed from solely growth and capital investment companies to more established ones (but they still have attractive growth prospects) with lots of cash flow from operations that can be distributed back to shareholders. And this provides a very good dividend investment for investors.

The benefit is that most companies in the region have strong operating performance and cash on hand. This means that ASEAN companies offer a very attractive dividend yield. The average ASEAN large cap can pay dividend yields of around 4% to 5% in each calendar year.

And paying this high level of dividend does not mean that the opportunities to expand business for these companies are low. We have also witnessed an average growth of almost 10% to 20% per year in the past five years among most large caps in ASEAN, which has been one of the best increases in equities the world.

DO YOU THINK THERE ARE ENOUGH ETF/ETP PRODUCTS AVAILABLE FOR THE ASEAN REGION? OR DO YOU THINK INDEX AND ETF PROVIDERS CAN FILL ANY GAPS THAT EXIST?

ETF/ETP or investment products that capture the ASEAN region are very limited. Some index providers, such as STOXX, FTSE and Dow have participated in the growth in this region and offer indices for this region. But we do think there is plenty of room for both index providers and ETF/ETP providers or index fund providers to help fill the gaps that exist.

STOXX ASEAN SELECT 30 DIVIDEND INDEX SHOWS HIGHER PERFORMANCE THAN ASIA TMI



WHAT ARE YOUR FORECASTS FOR ASEAN GDP GROWTH FOR THE NEXT FEW YEARS AND WHY?

For the next three to five years, we think that average GDP growth for the region should be around 4% to 5% a year, with Indonesia, Philippines and Vietnam probably being the top three growth providers in the region. The ASEAN economy should benefit from improving domestic demand, with each country experiencing further growth in middle class income. Rising exports will also provide support.

In addition, stability in government and policies could also help further boost the economy of the region as governments spend more to improve infrastructure.

THE STOXX ASEAN SELECT DIVIDEND 30 INDEX WEIGHTS COMPONENTS EQUALLY. DO YOU THINK THAT IS A MORE STRATEGIC WAY OF TAPPING INTO THE INVESTMENT POTENTIAL OF THE REGION RATHER THAN A BASIC MARKET-CAP WEIGHTED STRATEGY?

In our view, equally weighting components offers investors to fully tap into the investment potential of companies in the region relative to a market-cap weighted index, which always gives more weight to bigger firms that may be too saturated.

WHAT ARE YOUR TOP THREE INVESTMENT PICKS FOR THE ASEAN REGION FOR THIS YEAR AND WHY?

My top three investment picks for ASEAN, country-wise, are Indonesia, Philippines and Thailand. I see equity markets in these three countries probably moving up 7% to 10% per year for the next three to five years along with high possibility of strong dividend payout of around 4% to 5% in each country. I see the following shares/sectors doing well in each of these three countries: in Thailand, the information and communications technology shows strong prospects for high dividend yield and growth. In Indonesia and Philippines, I see potential for sectors that will be impacted by domestic demand, property urbanization and an expansion of the middle income population in the next decade. «



FEATURED INDICES

STOXX Global 1800	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
STOXX Global 1800	2.6%	6.6%	43.8%
STOXX Global 1800 Minimum Variance	3.4%	12.8%	49.5%
STOXX Global 1800 Minimum Variance Unconstrained	2.1%	11.7%	41.8%
STOXX Global Select Dividend 100*	-1.4%	0.8%	30.4%
STOXX Global Maximum Dividend 40*	1.2%	-6.4%	29.8%
STOXX Global Strong Quality 50	0.2%	14.6%	50.8%
STOXX Global Strong Balance Sheet	3.6%	14.2%	53.6%
STOXX Global Strong Balance Sheet Equal Weight	5.4%	10.0%	47.2%
STOXX Global Sharpe Ratio 100	-0.3%	0.5%	49.9%

STOXX Europe 600	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
STOXX Europe 600	3.7%	-4.3%	35.2%
STOXX Europe 600 Minimum Variance	2.8%	-1.8%	36.9%
STOXX Europe 600 Minimum Variance Unconstrained	3.1%	-3.2%	35.8%
STOXX Europe Select Dividend 30*	0.5%	-4.1%	22.6%
STOXX Global Maximum Dividend 40*	1.2%	-6.4%	29.8%
STOXX Europe 600 Equal Weight	3.8%	-6.0%	38.8%
STOXX Europe Low Risk Weighted 100	3.1%	1.0%	43.8%
STOXX Europe Strong Quality 30	6.3%	-7.0%	28.5%
STOXX Europe Strong Balance Sheet	4.6%	3.3%	48.0%
STOXX Europe Strong Balance Sheet Equal Weight	2.7%	-2.6%	39.5%
STOXX Europe Sharpe Ratio 50	1.5%	-1.0%	66.9%

EURO STOXX	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
EURO STOXX 50	4.7%	-5.6%	36.3%
EURO STOXX Minimum Variance	4.3%	-4.3%	32.8%
EURO STOXX Minimum Variance Unconstrained	3.9%	-2.1%	39.9%
EURO STOXX Select Dividend 30	0.7%	-7.0%	29.4%
EURO STOXX 50 Equal Weight	4.3%	-5.5%	38.4%
EURO STOXX 50 Low Risk Weighted	4.2%	-4.8%	37.8%
EURO STOXX Small	5.1%	-13.6%	28.4%

STOXX Asia/Pacific 600	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
STOXX Asia/Pacific 600	7.9%	8.0%	28.2%
STOXX Asia/Pacific 600 Minimum Variance	10.1%	12.4%	32.2%
STOXX Asia/Pacific 600 Minimum Variance Unconstrained	6.7%	14.0%	32.6%
STOXX Asia/Pacific Select Dividend 30*	0.3%	3.5%	35.6%
STOXX Asia/Pacific Maximum Dividend 40*	5.3%	1.1%	40.5%
STOXX ASEAN-Five Select Dividend 50	-0.6%	2.1%	16.7%
STOXX Asia/Pacific Strong Quality 30	6.5%	11.6%	20.2%
STOXX Asia/Pacific Sharpe Ratio 50	2.2%	5.3%	34.5%

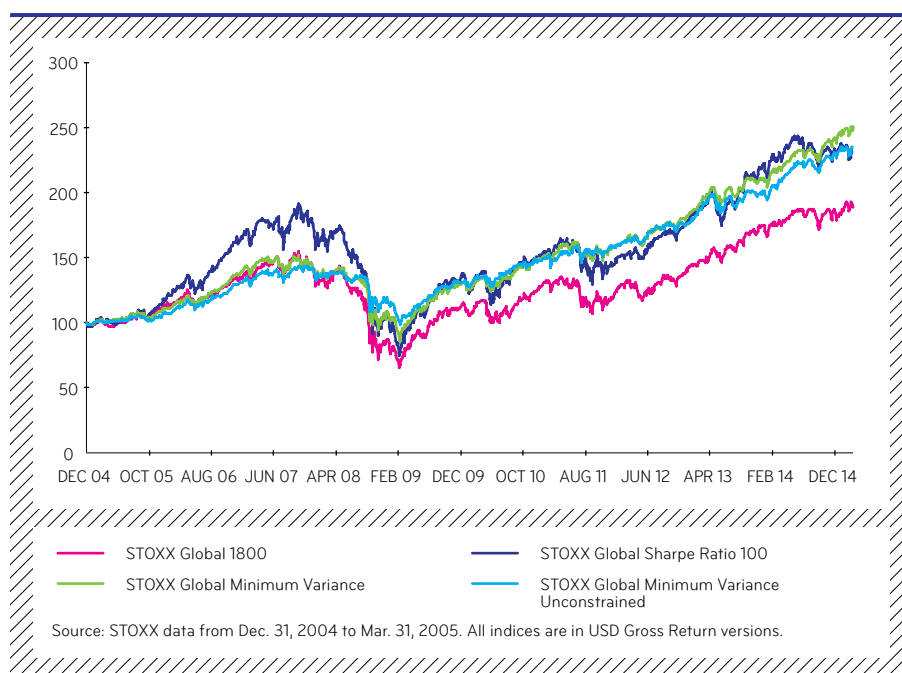
STOXX China A 50	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
STOXX China A 50	3.9%	84.0%	73.4%
STOXX China A 50 Equal Weight	8.5%	79.7%	61.5%

STOXX North America 600	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
STOXX North America 600	0.8%	11.9%	52.8%
STOXX North America 600 Minimum Variance	3.0%	16.3%	60.6%
STOXX North America 600 Minimum Variance Unconstrained	1.8%	15.8%	56.8%
STOXX North America Maximum Dividend 40*	-3.7%	4.4%	36.5%
STOXX North America Select Dividend 40*	-4.8%	3.6%	29.6%
STOXX North America Sharpe Ratio 50	-1.6%	10.6%	47.4%

STOXX USA 900	YTD PERFORMANCE	52-WEEK PERFORMANCE	3-YEAR PERFORMANCE
STOXX USA 900	1.6%	12.8%	57.1%
STOXX USA 900 Minimum Variance	2.2%	14.5%	57.6%
STOXX USA 900 Minimum Variance Unconstrained	3.1%	18.4%	63.4%
STOXX USA Strong Quality 50	1.2%	15.5%	61.6%
STOXX USA Strong Balance Sheet	2.4%	18.5%	60.5%
STOXX USA Strong Balance Sheet Equal Weight	3.5%	17.9%	66.5%

All indices are in USD Gross Return versions, except the ones marked with *, which are in USD Net Return versions.
Source: STOXX data as of Mar. 31, 2015

STOXX SHARPE RATIO, MINIMUM VARIANCE CONSTRAINED AND UNCONSTRAINED INDICES OUTPERFORM BENCHMARK



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