

STOXX

VOL 4/ISSUE 1 – WINTER 2015

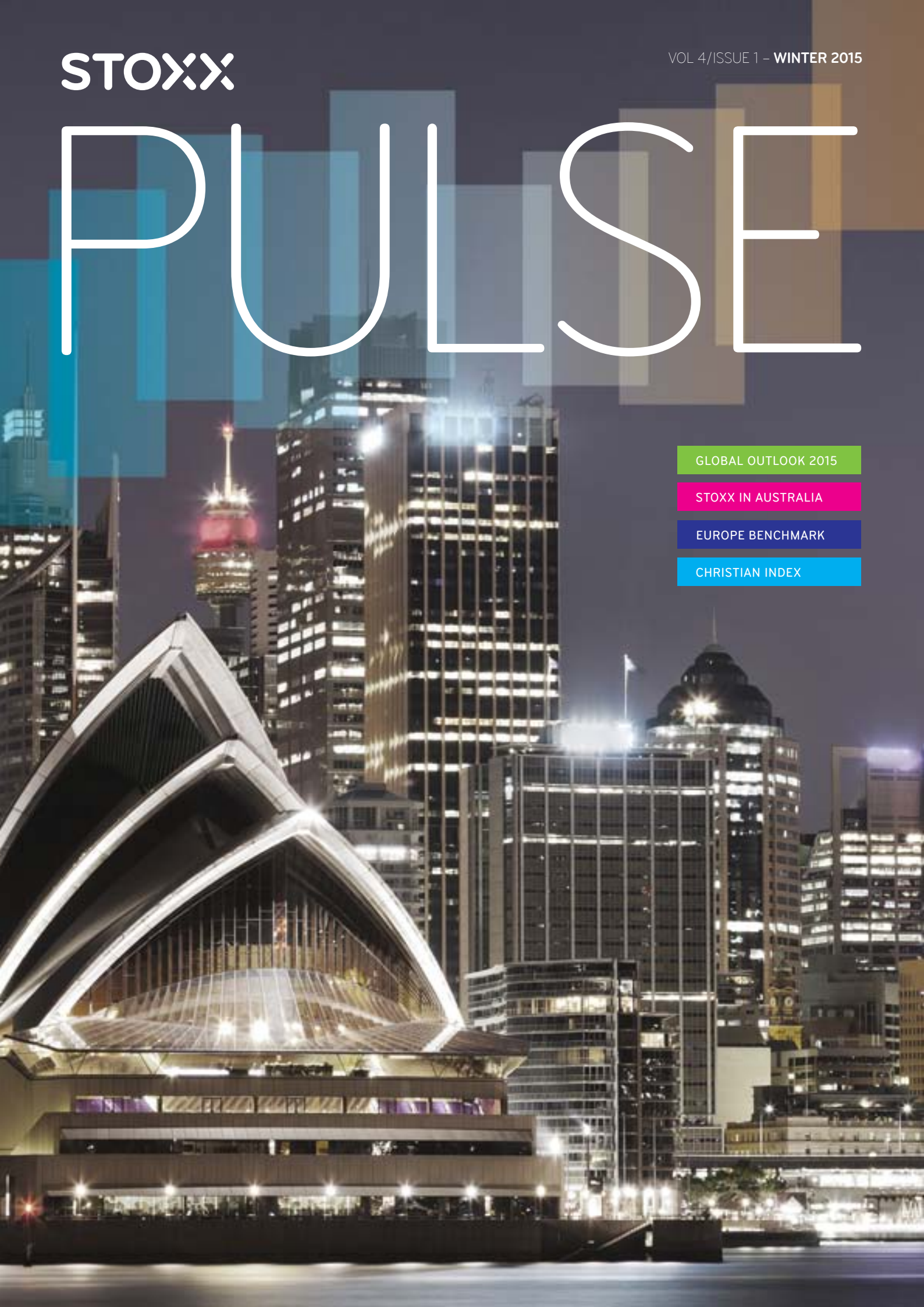
PULSE

GLOBAL OUTLOOK 2015

STOXX IN AUSTRALIA

EUROPE BENCHMARK

CHRISTIAN INDEX



WELCOME TO THE NEW EDITION OF STOXX PULSE

MEET STOXX AT A CONFERENCE

» Jan. 28-29, Luxembourg

STOXX will attend the
GLOBAL SECURITIES FINANCIAL SUMMIT

» Jan. 28-29, Mannheim, Germany

STOXX will attend the
FONDS PROFESSIONELL KONGRESS

» Feb. 4-5, Zurich, Switzerland

Angelika Eibl, CFA, Director, Business
Development, speaks at the
FINANZMESSE ZURICH
STOXX is also sponsoring the
conference.

» Feb. 5-6, London, UK

Konrad Sippel, Global Head of Business
Development, speaks at the
**STRUCTURED RETAIL PRODUCTS
CONFERENCE**

» Feb. 26-27, Venice, Italy

Aureliano Gentilini, Head of
Research, speaks at the
QUANT 2015 CONFERENCE

» Mar. 4-5, Vienna, Austria

Angelika Eibl, CFA, Director, Business
Development, speaks at the
FONDS PROFESSIONELL KONGRESS
STOXX is also sponsoring the
conference.

» Mar. 18-20, Gold Coast, Australia

STOXX is sponsoring the
**CONFERENCE OF MAJOR
SUPERANNUATION FUNDS (CMSF)**



HARTMUT GRAF
CEO, STOXX Limited

DEAR READERS

I wish you all a happy 2015, and we at STOXX look forward to working with all of you in this new year.

We start the first issue of STOXX Pulse this year with a global investment outlook from Aureliano Gentilini, our head of research. He forecasts a year characterized by a threefold macroeconomic scenario: the US leading the global recovery, economic growth stagnating in the Eurozone and a faltering of the historical solid pattern of growth in emerging markets.

STOXX Ltd. set up an office in Sydney, Australia, in November, 2014 as part of its Asia expansion. For our Pulse readers, we interviewed Mark Delaney, deputy chief executive and chief investment officer of AustralianSuper, the country's largest superannuation fund. Mark offers his views on the Australian economy and the state of the country's ETF market.

From Australia we move to the US, where ALPS, an investment management specialist, licensed the STOXX Europe 600 Index in 2014 to form an ETF on this benchmark of the European economy. We interviewed Jeremy Held, director of research at ALPS Funds Services, to get his perspective on US investor interest in European equities.

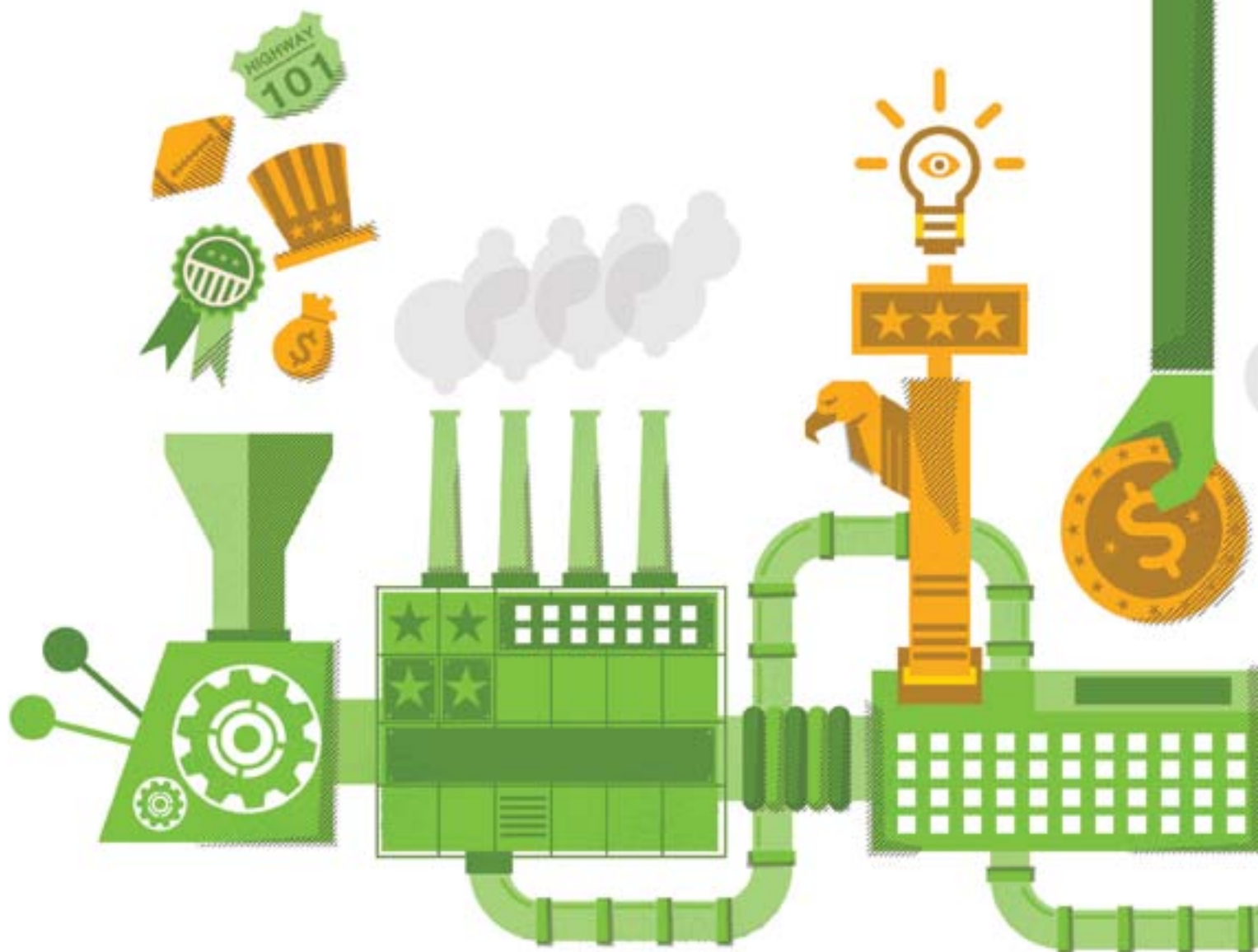
Finally, in this issue, we offer readers an inside look into how the board of the STOXX Europe Christian Index keeps this index – Europe's first Christian index – true to its purpose. We interviewed four board members to ask them about the complexities and intricacies involved in adding and deleting companies in this index.

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

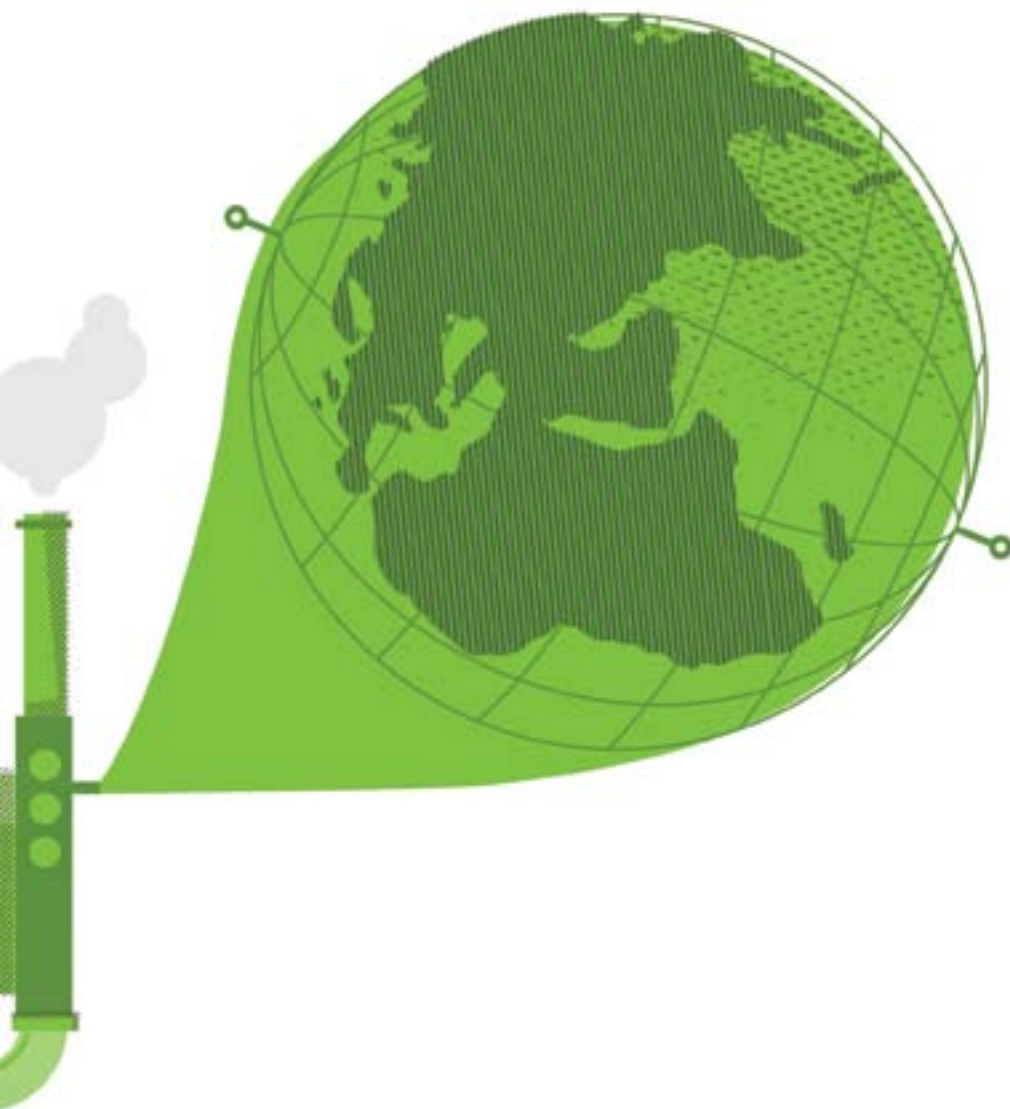
Regards

Hartmut Graf
CEO, STOXX Limited





2015 – THE YEAR OF A THREEFOLD MACROECONOMIC SCENARIO



STOXX PULSE ASKED AURELIANO GENTILINI, HEAD OF RESEARCH AT STOXX LTD., TO WRITE A COMMENTARY FOR THIS ISSUE ON A GLOBAL INVESTMENT OUTLOOK FOR 2015



AURELIANO GENTILINI
STOXX Ltd.

In hindsight, 2014 marked a year where accommodative monetary policies coupled with subdued volatility patterns (last quarter apart) and a hunt for yield created the potential for asset bubbles. Liquidity drivers contributed to tightening of risk premiums to record lows, with asset price dynamics evolving along patterns that were somewhat disconnected from fundamentals.

2015 will be characterized by a threefold macroeconomic scenario, with the US leading the global recovery, economic growth stagnating in the Eurozone and the historical solid pattern of growth faltering in some emerging countries. Economic growth still remains the greatest challenge facing the Eurozone as well as the *fata morgana* of the current decade.

A diverging economic growth pattern between the US and the Eurozone will become more and more evident throughout 2015, with Germany standing as a lighthouse in the Eurozone, as well as the UK in the broader European Union. The UK stock market suffered at the end of 2014 as Britain's recovery appeared to lose steam and the term structure of UK interest rates eased. The Eurozone (ex Germany) and to some extent Japan remain the "sick men" of the world.

As we progress into the new year, investors should remain wary of interest rate volatility patterns experienced throughout 2014, triggered by changes in central banks' forward guidance, macro information flows, geopolitical disturbances and flight-to-quality. Central banks are expected to maintain short-term interest rates at their historical low levels. Inflation expectations on both sides of the Atlantic remain fragile and well anchored below respective central banks' targets. The breakeven inflation rates, namely the five-year forward rate five years ahead, have dropped to record lows recently.



CETERIS PARIBUS, WE BELIEVE A CASE FOR A SIGNIFICANT AND SWIFT INCREASE IN INTEREST RATES IN THE US WILL MATERIALIZE ONLY IN LATE 2015.

Higher interest rate volatility will also be the result of markets gradually factoring in the end of the long bull markets in bonds. In addition to hedging currency exposure in global portfolios, a cautious management of portfolio exposure to fixed income assets is recommended throughout 2015, rather than drastic changes in duration management or mere liquidation of opening positions and a rotation into riskier asset classes.

We expect that in 2015 the investment pendulum will oscillate between the two broad investment regions of developed and emerging countries, marking a swing back in favor of more advanced countries. Emerging countries' role in driving world economic growth will fade as economies in Asia and Latin America falter and the induced effects on the economy materialize in Russia, following sanctions imposed by the EU and the US and the implications arising from a sliding pattern in oil prices.

As financial market volatility remains anchored to expectations about central banks' forward guidance, portfolio exposure to equity indices showing uncorrelated return patterns and/or a certain degree of protection against downside risk – such as minimum variance portfolios that show an asymmetric response to market movements – are best positioned to outperform market-cap weighted benchmarks over longer-term horizons and whenever market conditions feature higher volatility patterns.

In the equity market, sector allocation – in addition to being driven by factors related to economic cycles, fundamentals and corporate earnings expectations as we enter the reporting season in the new year – will benefit from the silver-lining effect given by the recent sharp decrease in energy prices. Industry sectors that are expected to benefit from lower oil price levels are transportation and industrials, in addition to automotive and consumer goods and services in general via the induced disposable-income effect. Furthermore, the energy sector could experience volatility spikes, since prices might reflect "buy the rumors and sell the news" patterns, mainly driven by bottom-fishing strategies and speculations about M&A potential targets. Finally, health care is expected to continue performing as a bright spot, since sector drivers will continue broadcasting "Gone With The Wind" scenarios.

UNITED STATES

Ceteris paribus, we believe a case for a significant and swift increase in interest rates in the US will materialize only in late 2015. US macroeconomic readings suggest a healthy recovery pattern for the US since the financial crisis. Nonetheless, the potential underutilization of labor market resources might impact in the short run the monetary stance of the Fed and its forward guidance as to when to start raising interest rates.

In the housing market – a barometer of US economic growth – the recent trend in housing starts appears to point to a pattern of recovery. At the same time, as we enter the new year, we might observe fresh activity in the would-be-buyers segment as recent US government policy changes and the introduction of new, low down payment programs sustain positive expectations for 2015.

The multiple investors are willing to pay for corporate earnings will be the variable to monitor to assess future US stock market direction. It is expected in the current macro scenario, healthy GDP growth, solid aggregate demand and an improved labor market will sustain a corporate earnings rise in the US.

EUROZONE

In the current faltering growth context, low inflation expectations stoke risks of sliding into deflation in the Eurozone. Labor market conditions, characterized by high unemployment levels and low wage pressures, along with weak aggregate demand, dampen inflation dynamics. A deflationary pattern might become a self-fulfilling prophecy, despite massive intervention by the ECB. The oil slump, with a view to a nose-diving pattern ahead, adds to the gloomy scenario.





At the same time, the euro may trigger opposite induced effects across Eurozone economies, with a risk of countering the positive effects triggered by a depreciation pattern. In fact, those countries that will not immediately benefit from gains because of a depreciation of the single currency will experience a worsening of the relative terms of trade. That will lead in turn to higher production costs and decreased household purchasing power.

As the ECB unveiled on the D-day for the euro, the details of a US-style quantitative easing, a loss-sharing mechanism turned Mr. Draghi's bazooka into a naked gun. The jury is still out and only time will tell whether the ECB will be successful in fending off a deflationary pattern and reignite a pattern of healthy growth in the Eurozone. Since increased money supply continues to be locked in the financial sector without fully flowing to the real economy, inflation dynamics remain subdued and economic growth falters.

The leftist anti-bailout party Syriza's victory at the general elections in Greece paves the way for an overturn of the budgetary conditions that were imposed on Greece as requirements of the bailout. We believe the above is the most likely scenario, rather than a Grexit argument, which might trigger a contagion effect ahead of a critical election in Spain later this year. Currently Podemos, the new anti-establishment movement, is on top of political party polls in Spain and is expected to capitalize on the results of the political elections in Greece.

JAPAN

Deflationary pressure in Japan appears to be persistent, emphasizing the challenges the central bank faces in meeting its 2% inflation target in the current context of slumping oil prices.

In light of the current business conditions, concerns are mounting about whether the Japanese economy will be able to regain its momentum. As for the investment outlook for Japan, a question arises: will Abenomics 2.0 in general, and the "third arrow" of structural reforms in particular be sufficient to put Japan back on the track of healthy economic growth and address demographic issue, i.e., the long malaise and at the same time the key challenge of Japan nowadays?

The effect of a weakening yen on both the corporate sector and households is mixed. In particular, non-export-oriented small- to mid-sized firms with limited overseas business activity have to cope with surging import costs for raw materials and other items, and are expected to barely benefit from the yen's depreciation. At the same time, concerns are mounting that higher corporate profitability of export-oriented firms will not translate into higher wages for employees.

The anticipated shift in asset allocation policies by the Government Pension Investment Fund (GPIF) is expected to sustain the price of assets in the Japanese stock markets. The move also reflects calls and pressure from the government to channel funds to riskier asset classes and sustain Abenomics, aiming at reviving Japan's economic growth.

ASIA/PACIFIC

Despite some clouds on the horizon in Asia/Pacific, China and India are expected to stand above their peers in emerging portfolios. Before the end of 2014, both China's and India's stock markets were heading for their biggest annual gains in five years.

Dragged down by the recent housing slowdown, softening domestic demand and unstable export levels, China's economic growth is progressively adjusting to a "new normal". In our view, a slower growth should be considered a sign of a move to a more sustainable pattern, recognizing that a slowdown is necessary to meet China's economic reforms and rebalance objectives.

After posing potential systemic risk to China's economy earlier in 2014, the real estate sector is cooling, driven by relenting economic growth and the Chinese government's five-year-long campaign and measures to curb price dynamics in the sector. Inventory destocking might help to level oversupplies in key cities in China. Nonetheless, a potential downturn in the real estate sector still poses one of the largest factors of risk for the Chinese economy in 2015.

Investors are expected to pile up investment flows into India-focused investment vehicles this year, driven by renewed optimism after the election of reformist Prime Minister Narendra Modi in May 2014 and his plan to boost economic growth, develop smart cities and build every citizen a home by 2019. India is expected to gain momentum in 2015. In November 2014, the OECD upwardly revised its growth forecast for India for the fiscal year ending March, 2016 to 6.4%.

In a context where the US dollar continues to appreciate, investment in low-debt emerging countries poses some risk and the low-debt-ratio rationale supporting emerging debt investment is eroding.

As capital flows track expectations of an interest rate rise, retreating from riskier assets and regions, a slump in emerging markets' currencies has followed the US dollar appreciation against developed and emerging currencies throughout 2014. In the recent market turmoil, flight-to-quality drivers have exacerbated the above trend.

Since clouds of another overflow effect may materialize on the horizon, emerging countries such as Brazil, Turkey, Indonesia, South Africa, Thailand and India might be forced to hike interest rates to defend inflation targets or to protect foreign currency liabilities. That's especially in view of the contagion effect that might propagate from the ruble crisis. Central banks in Asia are now better placed compared to 1998 to weather the effects of a currency crisis in the region. Nonetheless, risks of contagion remain. <<

STOXX IN AUSTRALIA



MARK DELANEY
AustralianSuper

STOXX LTD. OPENED AN OFFICE IN SYDNEY, AUSTRALIA, IN NOVEMBER, 2014 AS PART OF ITS ASIA EXPANSION. STOXX PULSE INTERVIEWED MARK DELANEY, DEPUTY CHIEF EXECUTIVE AND CHIEF INVESTMENT OFFICER OF AUSTRALIANSUPER, THE COUNTRY'S LARGEST SUPERANNUATION FUND.

In his role, Mark acts as an adviser to the board, developing and implementing investment strategies and managing the work of AustralianSuper's investment advisers. Mark was the chief executive of the Superannuation Trust of Australia (STA) for three years prior to the merger with ARF to form AustralianSuper.

Prior to AustralianSuper, Mark worked for 14 years at National Mutual/AXA, moving his way through the company from economist to senior manager of Investment Services. He also spent four years working as an economist in the Federal Department of Treasury.

Mark commenced the role of deputy chief executive and chief investment officer of AustralianSuper on Jul. 1, 2006.

STOXX AUSTRALIA INDICES SHOW DOUBLE-DIGIT GROWTH

Key figures	STOXX Australia 50	STOXX Australia 150
Performance (annualized)	13.5%	14.1%
Volatility (annualized)	23.7%	24.6%
Maximum drawdown	63.2%	64.1%
Sharpe ratio	0.59	0.59

Source: STOXX data from Dec. 27, 2001 to Dec. 12, 2014 for USD GR version. USD Libor used as riskless asset to calculate Sharpe ratio

CAN YOU TALK A LITTLE ABOUT AUSTRALIANSUPER AND HOW IT MIGHT DIFFER FROM OTHER PENSION FUNDS AROUND THE WORLD?

One of the key differences is that AustralianSuper is growing rapidly. In the past three years, AustralianSuper has grown from 43 billion Australian dollars to 80 billion Australian dollars in funds under management. This is due to a

combination of factors: the markets have gone up, there have been mergers with some smaller funds, and AustralianSuper receives cash inflows at the rate of approximately 5 billion Australian dollars per annum. Also, AustralianSuper is an accumulation fund rather than a pension fund. Our purpose is to build as much money as possible, subject to risk controls, for our members when they reach retirement age.

AUSTRALIANSUPER'S ALLOCATION TO INTERNATIONAL ASSETS IS AT ABOUT 30% AND GROWING. WHICH REGIONS, SECTORS, AND STRATEGIES INTERNATIONALLY ARE YOU FOCUSING ON AND WHAT ARE THE REASONS BEHIND THAT FOCUS?

Currently AustralianSuper tends to favor developed markets, particularly the US, which is the biggest market, representing 57% of global equity markets as measured by the MSCI World Index. The efforts of the US in overcoming its problems after the global financial crisis, such as quantitative easing, and aggressive restructuring, have been largely successful. Corporates in the US are still producing solid earnings growth and the market is not over-valued.

Like everyone else, we remain concerned about Europe.

We have also been concerned for some time about emerging markets, as global trade, which many of these markets depend upon, has not really recovered yet. AustralianSuper is building a greater internal capability for investment management. We have already built a skilled Domestic Equities team, and we are doing likewise now for Global Equities, both developed and emerging, over the course of the next couple of years. This is a major step toward lowering our costs, improving our returns and delivering better outcomes for our members.

In equities, we tend to focus on broad regions. Typically, our global equity managers use a benchmark of the MSCI-ACWI Index which provides a very broad opportunity set. They pick stocks and sectors. We monitor their exposures at an individual manager level and at the overall portfolio level. Typically we take views on broad regions – Australian equities, international equities, emerging and developed, and down to the sub-regional level, for US equities or European equities.

HOW IMPORTANT ARE CONSULTANTS TO SUPER FUNDS IN AUSTRALIA, AND DO YOU SEE THEIR ROLE GROWING IN THE FUTURE?

Consultants fulfill an important function by providing an independent view, to both the Investment Committees and Boards, and to the internal investment staff. Their role is changing as funds develop more internal capability. The consultants naturally will adapt, and that process is already underway.

IS SMART BETA A NEW TREND AMONG SUPER FUNDS IN AUSTRALIA? HOW MUCH OF YOUR ALLOCATION IS TOWARD SMART-BETA STRATEGIES AND HOW IMPORTANT DO YOU SEE THESE STRATEGIES FOR AUSTRALIANSUPER?

AustralianSuper is examining smart-beta strategies. There are some areas where it may apply. In global equities, smart beta resembles value-added compared to typical passive management. These include fundamental indexing, equal weighting, and so on. With regard to global equities, smart beta breaks the link between market cap and the weighting of the stock. That may provide better performance in the long run, although the period required to achieve that result isn't clear.

In domestic equities, there may be some limited potential applications for smart beta. But because the big four banks, the mining companies, Telstra, Wesfarmers, and Woolworths account for over half the market, a smart-beta approach will result in a huge loss of liquidity because of its inherent bias away from the largest stocks, where large sums of money can be invested, toward much smaller companies. This would have marked consequences for Australian equity weightings.

Australia Economic Snapshot

GDP (purchasing power parity) (2013 est.)	USD998.3 bn
GDP growth (2013 est.)	2.5%
GDP per capita (2013 est.)	USD43,000
Unemployment (2013 est.)	5.7%
Inflation (2013 est.)	2.4%

Source: CIA World Factbook





SMSFS ARE CHANGING THE AUSTRALIAN INVESTMENT LANDSCAPE IN TERMS OF PREFERRED CHANNELS, PRODUCTS AND SERVICES, INVESTING STYLE AND ASSET ALLOCATION. CAN YOU GIVE US SOME COLOR ON THIS GROWING TREND AND WHAT ITS IMPACT WILL BE ON ACTIVE MANAGEMENT?

SMSFs are a very fast-growing part of the superannuation landscape in Australia, with many people naturally interested in exerting more control over their investments. Within AustralianSuper, we have acknowledged this by providing the Member Direct option, which has some similarities to a self-managed super fund. The Member Direct platform offers members a substantial degree of control over how and where their funds are invested. Members have access to extensive market information and use their own cash transaction account to conduct realtime trading. The costs are typically much lower than a traditional SMSF and AustralianSuper manages all the administration, compliance and reporting requirements.

WHAT IS YOUR FORECAST FOR AUSTRALIAN GDP GROWTH FOR 2015 AND WHAT ARE THE REASONS BEHIND YOUR FORECAST?

AustralianSuper believes Australia will grow by a little over 3.0% next year, from about 2.5% currently. This would be a relatively good result in a global context. Although the US might record higher growth, we believe few other economies will. This is due to a combination of factors, including the end of the mining boom, and a terms of trade shock* which has coincided with a fall in iron ore prices, coal prices and commodities prices. Also, it's as yet unclear what will compensate for the reduction in capital expenditure from the end of the mining boom. While the falling Australian dollar is helpful to exporters, unemployment is still rising, and many consumers are concentrating on the housing sector where prices are increasing. The strong housing sector is lifting construction activity both in housing and in commercial, but it is doubtful whether this alone will be sufficient to stimulate rapid growth within the Australian economy. Companies are still inclined to cut costs, which is contributing to unemployment, and to pay shareholder dividends rather than make capital investments. Therefore, our view on the Australian economic outlook is reasonably positive without being bullish. There is reason for caution.

AS A PENSION FUND HOW MUCH DO YOU INVEST IN ETFs? ARE THERE ANY PLANS TO GROW YOUR ALLOCATION TO ETFs IN 2015 AND BEYOND?

AustralianSuper tends not to invest in ETFs. At times the fund has considered them in order to implement particular strategies, but we prefer to invest in securities directly, via managers, or through a number of financial instruments. ETFs will remain an option for some harder-to-reach asset classes, but they are less attractive because of the costs involved. AustralianSuper's experience is that we can easily use futures or swaps to change our exposures without recourse to ETFs.

WHAT ARE YOUR FAVORITE THREE INVESTMENT PICKS OR LONG-TERM MEGA INVESTMENT TRENDS AND WHY?

There is considerable discussion currently, internally and at other funds and funds management businesses around the world, over the valuation of assets. Our view is that over the medium- to long-term, government bonds will not offer a compelling return. We see equities as likely to do reasonably well, but with only single-digit returns over the medium- to long-term. So, AustralianSuper is underweight bonds, particularly government bonds; over the next one to two years, we are likely to reduce our exposure to credit; for equities, the prospects are good although even a minor slip from the Federal Reserve or Europe could result in increased volatility. We are actively seeking additional opportunities in the mid-risk area; typically, infrastructure and property. These offer reasonably solid returns, they are relatively low-risk, and they have an important role to play in a balanced portfolio. In the event of a decline in equities, infrastructure assets will help support the portfolio, while removing a degree of risk. AustralianSuper is pursuing opportunities to invest in quality real estate assets both domestically and internationally. <<

* Terms of trade is the difference in relative prices between imports and exports. Currently Australia is experiencing its sharpest decline in our terms of trade since 1959.



STOXX EUROPE 600



JEREMY HELD

ALPS Funds Services

US-BASED ALPS FORMS ETF ON BROAD, YET LIQUID INDEX FOR EUROPEAN EQUITIES

ALPS, a US-based investment management specialist, licensed the STOXX Europe 600 Index in 2014 to form an ETF on this benchmark of the European economy. The ETF started trading under the symbol STXX* on NYSE Arca on Oct. 31, 2014.

STOXX Pulse interviewed Jeremy Held, director of research at ALPS Funds Services, to get his perspective on US investor interest in European equities. Jeremy started his career at ALPS in 1996 and has more than 17 years of experience in the ETF industry. He is responsible for research, product development and consulting services on behalf of the ALPS ETF, Mutual Fund, and Closed-End Fund business segments.

He has been a featured speaker at many investment conferences and has been published in various publications, including the Journal of Indexes, Research Magazine and Institutional Investor. Jeremy is a CFA and Certified Financial Planner.

YOU HAVE LAUNCHED THE FIRST ETF FOR STOXX EUROPE 600 FOR US INVESTORS. WHY NOW?

Investors are increasingly using ETFs to provide liquid, low-cost exposure to global markets. The proliferation of ETFs across different asset classes, sectors and geographical segments of the market has allowed investors to make both tactical and strategic investment decisions with ease and precision. We were thrilled

*An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus which contain this and other information call 866.675.2639 or visit www.alpsfunds.com. Read the prospectus carefully before investing. ALPS STOXX Europe 600 ETF Shares are not individually redeemable. Investors buy and sell shares of the ALPS STOXX Europe 600 ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares. ALPS Portfolio Solutions Distributor, Inc. is the distributor for the ALPS STOXX Europe 600 ETF.

to partner on an ETF with STOXX. The STOXX Europe 600 provides the most liquid, comprehensive and representative access to Europe. With the ALPS STOXX Europe 600 ETF (STXX), investors now have access to the standard benchmark for European equity exposure.

THE STOXX EUROPE 600 REPRESENTS LARGE, MID AND SMALL CAPS. DO YOU THINK US INVESTORS ARE MORE INTERESTED IN AN INCLUSIVE APPROACH TO EUROPEAN EQUITIES THAN SAY ONLY JUST BLUE CHIPS OR SMALL CAPS?

Many US investor portfolios are still dominated by a home country bias that is skewed toward US equities. As a result, US investors may be more likely to tactically invest in just large caps or small caps domestically than in overseas markets, where allocations tend be smaller or information less readily available. In our view, a comprehensive approach is preferable to a targeted strategy that leaves investors underexposed to certain segments of the equity market. As a result, we believe the multi-cap, inclusive nature of the STOXX Europe 600 Index may be extremely suitable for US investors who are seeking exposure to Europe.

WHAT ARE YOUR PREDICTIONS FOR EUROPEAN (INCLUDING EUROZONE) ECONOMIC GROWTH FOR 2015 AND WHY?

The combination of weak economic growth, falling currencies and ineffective monetary policy have failed to jump-start the weak recovery that began in 2013. Investors have abandoned European stocks for US markets, where economic growth has been stronger. However, we believe there are several positive signs that may lead investors back to Europe in 2015. First, an increasingly dovish monetary policy across the region should start to bear fruit in 2015 as a slow labor market improves gradually. Furthermore, lower oil prices and a weaker euro should support better household spending growth and exports.

CAN YOU TALK ABOUT THE CHANGING ATTITUDE TOWARD EUROPEAN EQUITIES AMONG US INVESTORS, WHO HAVE TRADITIONALLY DEFINED THE WORLD AS US AND NON-US? DO YOU THINK US INVESTORS ARE BECOMING INCREASINGLY INTERESTED IN EUROPEAN EQUITIES?

Just as US investors have increased the precision of their domestic portfolios over time to differentiate between distinct size and style categories, the same is occurring with their overseas investments.

Rather than viewing the markets as simply developed or emerging, investors are demanding more precise investment vehicles that can capture the divergence in return between different geographical regions of a broad-based benchmark. Of particular significance is the divergence in return between Asia and Japan.

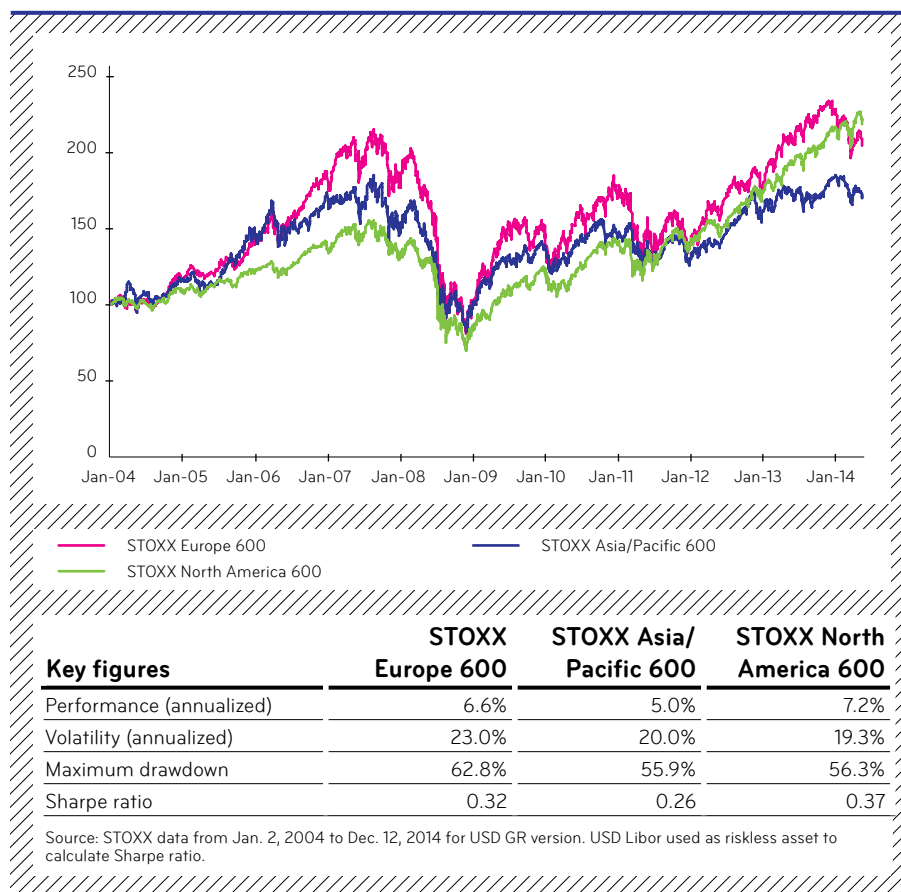
As investors better understand the geopolitical and economic underpinnings of these major economies, they are more comfortable with a targeted geographic approach.

WHAT ARE SOME DEVELOPMENTS THAT COULD HELP BOOST US INTEREST IN EUROPEAN EQUITIES?

As stated earlier, we believe there are positive signs for European equities going forward despite the current headwinds. In addition to a gradually improving labor market, we believe the weak euro will start to boost exports and improve the investment climate in the major European economies of Great Britain, Germany and France.

While tensions in Russia and Ukraine continue to pose geopolitical risks and increase the probability of heightened volatility, we believe much of the risk to be priced into European equities, making them attractive particularly on a relative basis to their US counterparts. <<

STOXX EUROPE 600 OUTPERFORMS STOXX ASIA/PACIFIC 600





THE STOXX EUROPE CHRISTIAN INDEX BOARD

AN INSIDE LOOK INTO THE COMMITTEE THAT DECIDES HOW EUROPE'S FIRST CHRISTIAN INDEX REMAINS TRUE TO ITS MISSION

STOXX Ltd. launched the STOXX Europe Christian index in 2010 to provide investors with a tool to invest according to their religious beliefs. The index, derived from the STOXX Europe 600, selects companies that comply with the values and teachings of Christianity. Several

screens exist: for example, a company must not garner more than 33% of its revenue from selling or distributing tobacco or from gambling. If a company derives more than 3% of its revenue from producing or distributing pornography or weapons, it is not eligible.

The ethical complexity involved in this undertaking falls in the hands of an independent seven-member board, which is led by scholars, bankers and other leaders. The board makes its decisions based on the personal opinion of the members and its opinion does not represent the companies or institutions its members work for. An initial screening is conducted by EIRIS, a UK-headquartered, between firm, which provides ESG screening and research. Based on recommendations from EIRIS and other parties, the board decides how to proceed.

At a meeting on Nov. 10, 2014 in Rome, STOXX Pulse caught up with four board members to get a glimpse into their deliberations. Eight companies that were under discussion for inclusion in the index were deemed unacceptable based on the following issues – contraception manufacturing, embryonic stem cell research, gambling, arms production or distribution.

For example, Beiersdorf AG, a German maker of personal and household goods, was not included because a subsidiary of the Hamburg-based firm manufactures contraceptives. IG Group Holding, a British financial services company, was also not included because it garners more than 33% of its revenue from gambling.

As of Dec. 22, 2014, the STOXX Europe Christian Index had 535 components.

Three of the board members – Francis Coleman, Alessandro Lombardi and Louis DeThomasis – work for Christian Brothers Investment Services. CBIS, Inc. is a global investment management firm that is the leader in Catholic socially responsible investing, with more than 5 billion US dollars of AuM.

Francis G. Coleman is executive vice president at CBIS, Inc. in New York. He oversees socially responsible investing, strategy and information technology and is also a member of the management team and has been with CBIS for 26 years.

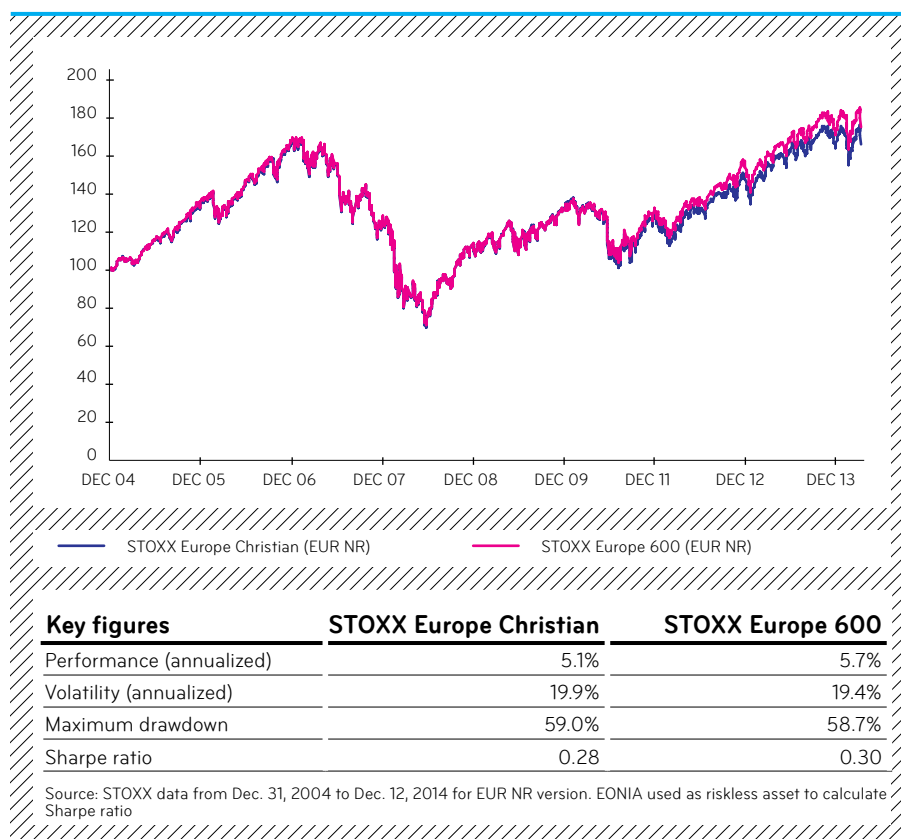
Alessandro Lombardi is president of CBIS Global, the European arm of CBIS Inc. and is based in Rome. Lombardi also spent seven years as vice general manager at the Istituto per le Opere di Religione (also known as the Vatican

Bank) in Vatican City and has been general manager at KLB Fumagalli Soldan Bank in Milan. He has taught courses in ethics and finance at several universities in Italy.

Dr. Louis DeThomasis is the chairman of CBIS Global and previously served as its first president from 2008 to 2013. In 1981, he co-founded CBIS, Inc. and served as its chairman until 1987. Dr. DeThomasis was knighted in 1989 to the Knights of the Holy Sepulchre of Jerusalem and was awarded the Pro Ecclesia et Pontifice medal. In 1986, he completed his post-doctoral studies as a Bush Fellow at the Institute for Educational Management, Harvard University, and earned a PhD in Financial Management from the Union Institute in Ohio.

Another board member – Edward Kirwan – is head of investment management (Charities) at Barclays in London and is responsible for nearly 3 billion pounds of AuM. He joined Barclays in May 2012, after working for 12 years at Coutts & Co. where he managed Coutts' charity investment team. <<

STOXX EUROPE CHRISTIAN INDEX PERFORMANCE NEARLY SIMILAR TO BENCHMARK





FRANCIS COLEMAN

CBIS, Inc.

YOU ARE PART OF CBIS IN THE US? CAN YOU GIVE US SOME COLOR ON THE DIFFERENCES THAT EXIST BETWEEN THE DIFFERENT MEMBERS OF THE BOARD?

What we do as a committee is look at the research we get from EIRIS, counterbalance that with what CBIS in the US knows of the companies, and see if there are any differences. Sometimes, there are differences as a result of terminology, definitional differences, differences in the way the research firm defines the issue, differences in methodology.

For example, in the US, the Church runs bingo. It is prevalent throughout parishes in the US. There is not a moral or theological basis for gambling. In Europe, there is a different perspective on the issue. What the committee is trying to do is get the right mix that is proper for investors in Europe who will be using the index. And that might differ for investors in other jurisdictions who might be doing the same thing.

IN YOUR 26 YEARS, WHAT SHIFTS HAVE YOU SEEN IN TERMS OF CHURCH DOCTRINE AND HOW THAT HAS FLOWED INTO INVESTING?

I'm going to reference my answer to my experience, which is mostly a US experience. Church doctrine does not change that much. I think the Church has been very consistent in terms of what it feels are the areas around which there is moral culpability.

How we implement that has changed significantly. Our ability to do so, the granularity of the data that we get now as compared to 26 years ago helps us tremendously. For example, cross-ownership issues were more difficult to raise 26 years ago because of the data that was available back then.

I don't think Church doctrine has changed much but our ability to dig deeper to understand the relationships between companies has gotten a lot better. It appears that the screens have gotten a lot stronger.

CAN YOU TALK ABOUT HOW THE COMMITTEE ARRIVES AT THE NUMBERS FOR SCREENING – FOR EXAMPLE, NO MORE THAN 3% OF REVENUE FROM PORNOGRAPHY?

The numbers are really meant to suggest a level of participation above which there is a significant concern and below which we do not think there is a material concern.

I do not know whether 3% is an exact science but it is clearly a level we can all agree on. There was some disagreement around 4% and 5%, but around 3% there was none. So it was a judgment that was made that 3% represents a consensus view of the line we should draw in terms of level of participation.

**LOUIS DETHOMASIS**

CBIS Global

THE DECISION PROCESS WITHIN THE COMMITTEE SEEMS HARMONIOUS. YOU HAVE EIRIS, THEN YOU HAVE CBIS, WHICH HAS A EUROPEAN PART TO IT AND A US PART. AND THEN ALL OF YOU HAVE TO COMPLY WITH CHURCH DOCTRINE. HOW DOES IT ALL COME TOGETHER?

What is important to understand is that we, not only I, all of us bring in different dimensions of what goes into making a decision. However, each individual committee member must make his or her own decision that reflects his or her opinion. Why things work so harmoniously even with differing opinions is that we listen to each other.

Another factor to take into account is that we have members with both a US and a European affiliation and that brings in many differences. European religious and church congregations think quite differently about investments than their US counterparts.

The European approach is a little more conservative whereas in the USA it might not be considered that conservative.

Then there is also the whole interesting aspect of the approach to Christianity and Christian values. And that is where there is need for a lot of discussion. Because of the different cultures, Christianity is not immune from cultural biases and differences. Look at what is going on in the Church today. There are tremendous currents of disagreements but overall there is a profound understanding of the Christian core values. And that is what really overcomes all the differences, even when it is difficult to reach a decision.

Lastly I would say that in all of this, we are not performing a mathematical feat in the committee. What we are doing is using prudential judgment and there are, of course, not always going to be one right answer. But you try to do a prudential judgment of what best reflects Christian values.

TAKING THE EXAMPLE OF BEIERSDORF, IT WAS REMOVED FROM THE INDEX. HOW DO YOU RECONCILE YOUR OWN AND OTHER CHRISTIANS' THOUGHTS AND OPINIONS ON ISSUES SUCH AS CONTRACEPTION WITH THOSE OF CHURCH DOCTRINE?

Beiersdorf is a great example to show that there is no dubiousness that the official church teachings in the Catholic Church prohibit the use of artificial contraception. That is clear. It is a value. It is a fact from objective

studies that most Catholic families of child-bearing age do not agree with that, and the Church knows this.

So you ask how we make a decision – do we do what the people think or do we do what the Church thinks? Our job is clear, no matter what we think personally we are called in to reflect on what the official church position is. And therefore we do not accept artificial birth control. That is very clear.

YOU HAVE BEEN A PART OF FAITH-BASED INVESTING SINCE THE EARLY 1980S AND HAVE STUDIED CATHOLIC DOCTRINE FOR DECADES. HOW HAVE CHRISTIAN VALUES CHANGED?

Not to be funny, but some people think they have not changed at all. The core fundamental principles of doctrine seem not to have changed. The practice, the way people think indeed has changed. And that is a significant cause of tension within the Catholic Church today.

When you look at the 2,000-year history of the Church, there has always been disagreement. We as the STOXX Christian Board have to make a prudential judgment.

You might say I am a Christian capitalist. I believe in the free market system not because it does not have any faults. But so far as of today, it is one of the best systems that could help people. But it needs a lot of corrections, it needs active participation of people who care. We are one of those committees. We care about the dignity of the individual.



ALESSANDRO LOMBARDI

CBIS Global

THERE WAS A LOT OF TALK IN YOUR BOARD MEETING ABOUT WHAT YOU DO IS PRUDENTIAL JUDGMENT. CAN YOU BE MORE SPECIFIC?

Our decision-making turns gray when there is evidence lacking regarding companies. Companies in Europe are very transparent. There may be some that might do something illicit but the vast majority are very transparent.

What is hard to decide is qualitative issues. It is hard to present evidence of corruption until the company is condemned by a judge. For example, we had the issue of France Telecom a few years ago, when many suicides took place at France Telecom. People in France were saying it was because France Telecom overworks its employees, because of work conditions. We thought, should we screen out France Telecom? But we did not have evidence to show people committed suicide because of France Telecom. It was not easy.

DO YOU ALL VOTE UNANIMOUSLY TO DECIDE WHICH FIRMS TO REMOVE AND WHICH TO INCLUDE AT EACH REVIEW OF THE INDEX?

We've always had at least a large majority or unanimous voting to decide whether we remove or include companies in the index. Opinions do differ sometimes but we always reach a harmonious outcome.

For example, in this meeting, there was a good example. CBIS in the US does not consider gambling an issue. In Europe we consider gambling as a negative – those slot machines in bars have destroyed families. So we screen out companies that deal mainly with gambling. In the United States, it is not an issue.

Let me give you another example. If we were in the US, probably tobacco would have a zero tolerance limit. In Europe tobacco has a tolerance limit.

SO WHEN CBIS EUROPE AND CBIS US DISAGREE, HOW DO YOU REACH A CONSENSUS?

I've never really had an argument with our people across the Atlantic. They focus their attention more on certain issues and we focus more on others. There is a different sensibility, but we never have been of a totally different opinion on important issues. Never ever. For example, if you talk about pornography in Brazil, they – the Catholics – will laugh at you. They will say that this is not pornography – what is wrong with a naked body?

So, there are different sensibilities. Again, it is not easy to distinguish clearly. In the end, however, the index needs a list of names. The index does not care about discussion. Even if sometimes it is not white or black, we have to present it as white or black.

**EDWARD KIRWAN**

Barclays

YOU MANAGE MONEY FOR BARCLAYS' CHARITIES ARM? WHAT DO YOU THINK OF THE STOXX EUROPE CHRISTIAN INDEX AS AN INVESTMENT INSTRUMENT?

Certainly in my mind, this index is sustainable as a product and of interest. People like investing according to their conscience, especially younger people. The bigger question is how do you solve the issue of the slight underperformance compared to the benchmark in the short term in the mind of an investor?

We use attribution analysis to examine what the underperformance has been. Principally it is down to two things. One is overexposure to banks – which have suffered – in the Christian Index. Secondly, it is underexposure to healthcare, a sector that has done well.

But I do think that this will reverse over time. Recently I read a study of studies, which showed that in the long-term, investing responsibly as we know does not have a detrimental impact.

CAN YOU TALK A LITTLE MORE ABOUT THE IMPACT OF EXCLUDING HEALTHCARE COMPANIES IN THE INDEX BECAUSE OF THE NEED TO FOLLOW CHURCH DOCTRINE?

Healthcare has done quite well this year; there has been a lot of merger activity. Many healthcare companies, particularly the more established players such as GlaxoSmithKline and Astra, have a

very good and conservatively managed stream of business and are good payers of dividends. These companies are quite attractive to charities. In the UK, as a charity, you cannot accumulate income forever. The idea is that charities spend their money on their charitable objective. You generate return on your investment and you spend it.

CAN YOU GIVE US MORE COLOR ON THE EXCLUSION OF IG GROUP AND THE DEBATE ABOUT WHETHER SPREAD BETTING IS GAMBLING?

It all boils down to tax interpretation and accounting interpretation. In both instances, it goes to very defined tax laws. A commodity might be classified as something else from a tax perspective.

In the UK, for example, we have a biscuit that is called a Jaffa Cake. Cakes have a lower level of VAT than biscuits. But it is the same shape as a biscuit and looks like a biscuit. However, the maker of this biscuit, to push its case with the taxman, says it is a cake, not a biscuit. As a result, it gets a lower tax rate.

In the board meeting today, the discussion centered around whether spread betting is gambling, speculation, investment. In the UK, charities would very much consider it speculation. Personally, I do not consider it investing. However, the regulator in the UK does not say what investing is and what it is not. It gives you examples of both categories. So, for example, what investing isn't in the UK is buying art, gold bullion, wine. That is considered speculation and charities cannot do that.

Now, what charities could do is buy a gold ETF. You might think it is the same thing but it is structured quite differently. It is very nuanced often.

When we have discussions such as we had today, I have got to accept that there are different opinions, legal interpretations, tax interpretations and, most difficult of all, ethical interpretations.





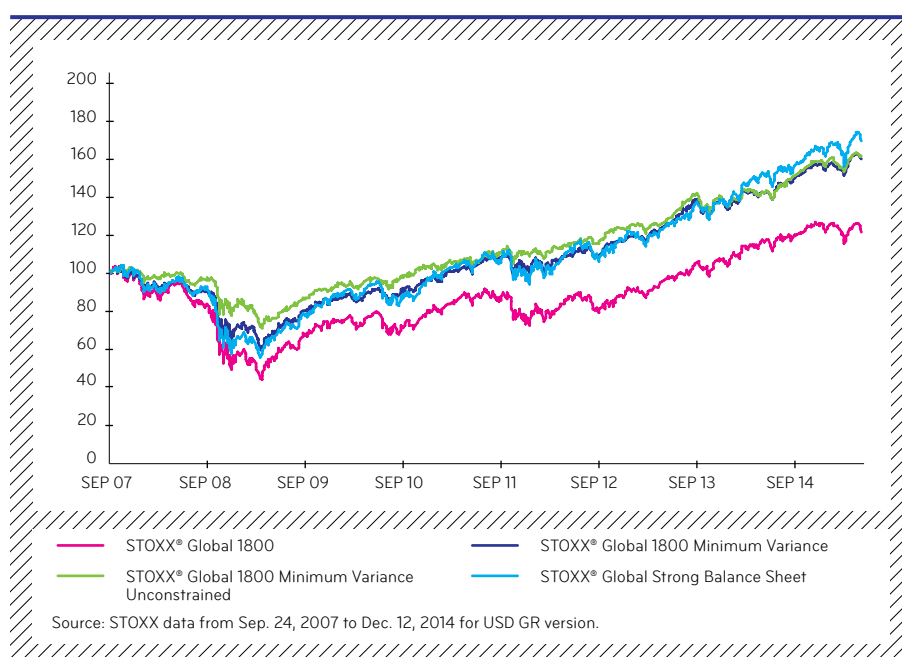


FEATURED INDICES

STOXX Global 1800	YTD PERFORMANCE	3-YEAR PERFORMANCE
STOXX Global 1800	3.3%	55.5%
STOXX Global 1800 Minimum Variance	11.9%	54.4%
STOXX Global 1800 Minimum Variance Unconstrained	12.5%	46.1%
STOXX Global Select Dividend 100*	5.3%	39.0%
STOXX Global Maximum Dividend 40*	-3.5%	37.2%
STOXX Global Strong Quality 50	13.9%	63.0%
STOXX Global Strong Balance Sheet	10.2%	66.2%
STOXX Global Strong Balance Sheet Equal Weight	4.4%	56.3%
STOXX Europe 600		
STOXX Europe 600	-6.0%	46.9%
STOXX Europe 600 Minimum Variance	-1.6%	48.9%
STOXX Europe 600 Minimum Variance Unconstrained	-0.4%	46.2%
STOXX Europe Select Dividend 30*	-1.1%	29.8%
STOXX Global Maximum Dividend 40*	-3.8%	45.0%
STOXX Europe 600 Equal Weight	-6.6%	56.5%
STOXX Europe Low Risk Weighted 100	0.9%	54.3%
STOXX Europe Strong Quality 30	-8.6%	34.9%
STOXX Europe Strong Balance Sheet	1.9%	60.1%
STOXX Europe Strong Balance Sheet Equal Weight	-4.6%	57.8%
EURO STOXX		
EURO STOXX 50	-7.6%	44.5%
EURO STOXX Minimum Variance	-3.5%	47.8%
EURO STOXX Minimum Variance Unconstrained	-1.9%	54.9%
EURO STOXX Select Dividend 30	-0.5%	37.2%
EURO STOXX 50 Equal Weight	-6.4%	47.6%
EURO STOXX 50 Low Risk Weighted	-6.3%	46.1%
EURO STOXX Small	-10.7%	42.4%
STOXX Asia/Pacific 600		
STOXX Asia/Pacific 600	-2.5%	29.7%
STOXX Asia/Pacific 600 Minimum Variance	3.5%	29.0%
STOXX Asia/Pacific 600 Minimum Variance Unconstrained	9.8%	32.3%
STOXX Asia/Pacific Select Dividend 30*	6.9%	43.9%
STOXX Asia/Pacific Maximum Dividend 40*	3.4%	46.6%
STOXX ASEAN-Five Select Dividend 50	3.5%	30.8%
STOXX Asia/Pacific Strong Quality 30	3.6%	19.6%

STOXX China A 50	YTD PERFORMANCE	3-YEAR PERFORMANCE
STOXX China A 50	35.5%	44.5%
STOXX China A 50 Equal Weight	30.1%	31.9%
STOXX North America 600		
STOXX North America 600	9.7%	68.0%
STOXX North America 600 Minimum Variance	14.6%	63.3%
STOXX North America 600 Minimum Variance Unconstrained	14.4%	58.6%
STOXX North America Maximum Dividend 40*	10.7%	56.1%
STOXX North America Select Dividend 40*	10.4%	40.5%
STOXX USA 900		
STOXX USA 900	10.0%	74.0%
STOXX USA 900 Minimum Variance	10.7%	66.3%
STOXX USA 900 Minimum Variance Unconstrained	16.3%	64.9%
STOXX USA Strong Quality 50	13.4%	79.8%
STOXX USA Strong Balance Sheet	14.3%	77.1%
STOXX USA Strong Balance Sheet Equal Weight	12.9%	78.6%

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 Dec. 12, 2014



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