MONTHLY INDEX NEWS

August 2015

- **Performance: Top five STOXX Indices – Scenarios favour minimum-variance portfolios**
- **STOXX Europe 600 Index: France at top spot**
- **Five reasons why Minimum-Variance Portfolios outperform by Ruben Feldman, Director Business Development, STOXX Ltd.**
- **Fact of the Month: Burton Malkiel – evangelist of index funds**
- **Index of the Month: EURO STOXX International Exposure Index**

Newsletter Overview

Performance: Top 5 STOXX Indices – Scenarios favour minimum-variance portfolios

1-Mth Performance (Jul. 2015)	
EURO STOXX TMI REAL ESTATE INVESTMENT & SERVICES USD - PRICE INDEX	7.40 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	5.38 %
STOXX EUROPE 600 MINIMUM VARIANCE – TOTAL RETURN INDEX	5.28 %
EURO STOXX 50 – TOTAL RETURN INDEX	5.24 %
STOXX TOTAL MARKET REITs USD – PRICE INDEX	4.92 %

Source: STOXX Limited

1-Yr Performance (YTD Jul. 31, 2015)	
STOXX CHINA A-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	68.46 %
STOXX CHINA B-SHARES TOTAL MARKET USD – TOTAL RETURN INDEX	33.05 %
STOXX EUROPE STRONG BALANCE SHEET – TOTAL RETURN INDEX	30.01 %
STOXX EUROPE 600 MINIMUM VARIANCE– TOTAL RETURN INDEX	25.02 %
STOXX EUROPE 600 MINIMUM VARIANCE UNCONSTRAINED – TOTAL RETURN INDEX	24.55 %

Source: STOXX Limited

(Top 5 STOXX indices, performance as of Jul. 31, 2015; all performance figures are in USD whenever specified in the index name and in Euro in the remaining cases)

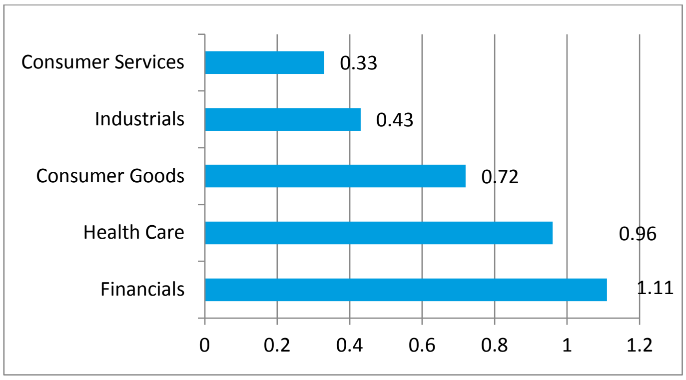
- China's stock market volatility appeared to stabilize in July. Nonetheless, market participants shifted their focus on the potential impact that a declining Chinese market might have on the global economy. The STOXX China A Total Market Index dropped 15.75% in July in US dollar total return terms. Nonetheless, it recorded a solid +68.46% performance for the one-year period ending Jul. 31.
- Both the constrained and the unconstrained versions of the STOXX Europe 600 Minimum Variance Index outperformed the STOXX Europe 600 benchmark by 126 points and 78 points, respectively, in July, posting 5.28% and 4.81% positive returns for the month. Outperformance of the STOXX Europe 600 Minimum Variance Indices against the European benchmark stood at 334 points and 288 points, respectively for the one-year period ending Jul. 31.

Comment by Aureliano Gentilini, Head of Research, STOXX Ltd.

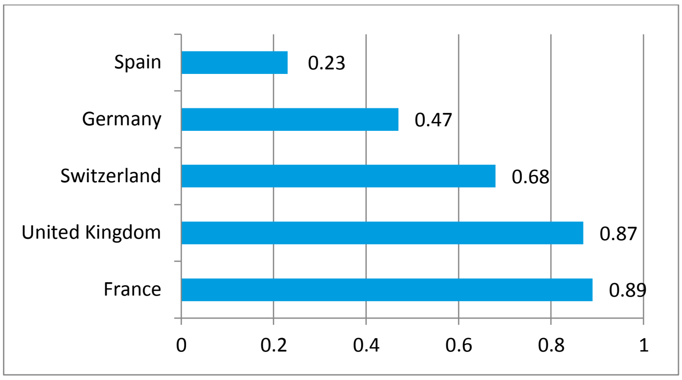
"Monetary policy decisions on the other side of the Atlantic will capture investors' attention in the coming months. At the same time, implications arising from PBOC's devaluation of the yuan will be closely watched and are expected to remain on investors' radar. Risk-on-off drivers and volatility patterns triggered by contagion risks and information flows are expected to weigh on portfolio allocation decisions in the short run. Once again, the current and expected scenarios appear to favour allocations to minimum-variance portfolios, with a view to a longer-term investment horizon."

"More than on Federal Reserve's interest rate tightening decisions, we have the opinion that the yuan devaluation will weigh on Bank of Japan's (BOJ) monetary stance. In particular, given the relatively higher weighting of the yuan in the Japan's trade weighted index, we expect that a larger monetary base expansion will be launched by the BOJ, should the yuan continue featuring a depreciation pattern."

STOXX Europe 600 Index: Domicile Country/Industry Sector Contribution



Source: STOXX Limited



Source: STOXX Limited

(Domicile country and industry sector contribution to STOXX EUROPE 600 index in July; all performance figures in EUR)

- The STOXX Europe 600 Index rose +4.02% in July. At the July 31 market close, the index was 4.27% below the all-time high of 414.06 it reached on Apr. 15.
- In performance attribution terms, positive performance of Financials and Health Care contributed the most to the positive reading of the STOXX Europe 600 Index for July. The Consumer Goods industry was the runner up.
- At country level, France held the top spot in the performance contribution league table of the index, with UK being the runner up.
- Eurozone inflation was stable at +0.2 % in July as a decline of energy prices offset the impact of more expensive industrial goods and services.

5 Reasons why Minimum-Variance Portfolios outperform, by Ruben Feldman, Director Business Development, STOXX Ltd.

1. **Delegated portfolio management (agency pricing)**
   Because of the way the asset management industry is laid out, portfolio managers often have a greater utility from profit than negative utility from loss, for example, through the application of performance fees. Therefore volatile stocks are often sought out in pursuit of greater profits while somewhat neglecting the downside risk. This can lead to an overpricing of volatile assets, which causes underperformance and, ultimately, the outperformance of less volatile assets.

2. **Leverage aversion**
   Many investors are not able to use leverage. This can lead them to take on higher risk securities in order to achieve target returns. This effect also leads to the overpricing of volatile stocks.

3. **Get rich quick**
   Investors looking for quick returns flock to buy the most volatile assets, leading to overpricing – otherwise known as the ‘lottery ticket effect’.

4. **The winner’s curse/jumping on the bandwagon**
   As certain assets achieve exceptional returns, they often get more attention, especially when these returns are quick and therefore volatile. This gain in attention often increases these assets’ volatility even further as more investors trade them. Investors, seeing good performance, sometimes jump on the bandwagon to benefit from a potential upside, often neglecting intrinsic values. This leads to the overpricing of increased volatility stocks.

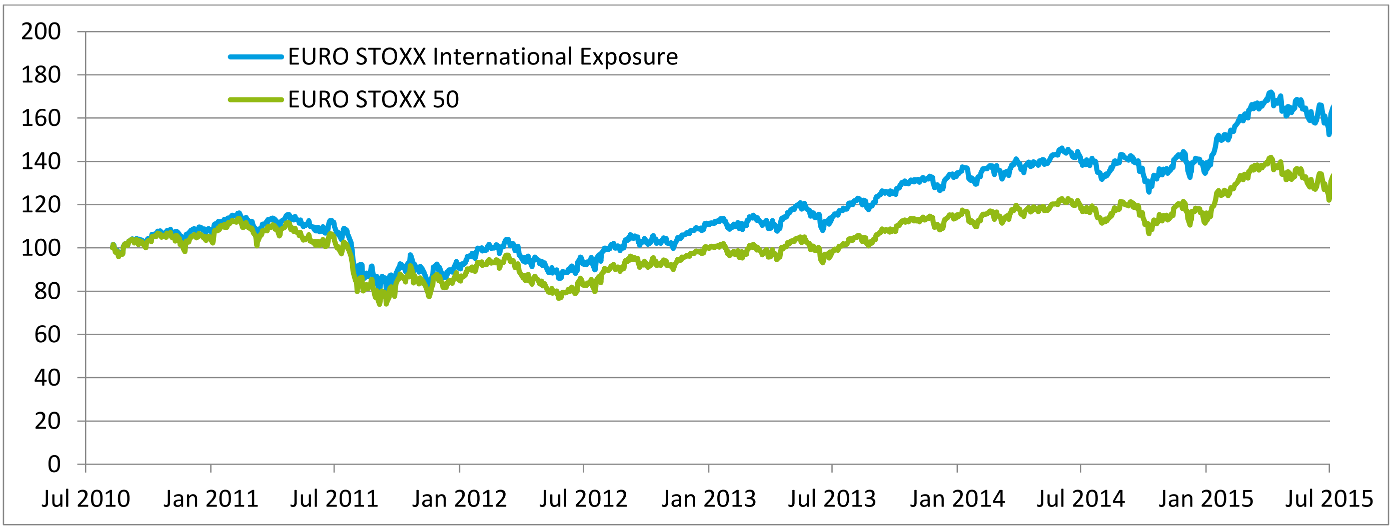
5. **Expectations and its risk implications**
   Companies with higher expectations will most likely have higher volatility, as investor response to results will be more severe. The higher the expectations, the higher the chance of investor disappointment.

Fact of the Month:

Burton Malkiel - Evangelist of index funds

On Aug. 28, 2015, Burton Malkiel will celebrate his 83rd birthday. The American economist and writer is famous for his book "A Random Walk Down Wall Street", in which he shows that individual price movements in financial markets are hardly predictable. First published in 1973, it preceded the creation of the first index fund by a few years, bringing efficient market hypothesis within the grasp of the average investor. Malkiel was dean of the Yale School of Management and economic advisor to US Presidents. Today he teaches at Princeton.

Index of the Month – EURO STOXX International Exposure Index



Source: STOXX Limited

(5-year performance of EURO STOXX International Exposure and EURO STOXX 50 as of Aug. 17, 2015; all performance figures are indexed and in USD)

- The STOXX International Exposure indices provide investors' exposure to companies that generate a substantial portion of their revenue outside their respective home region. Revenue exposures are derived based on regional revenue breakdowns reported by companies as well as against an estimator developed by STOXX.
- Companies based in the Eurozone that generate at least 50% of revenue outside this region are selected for the EURO STOXX International Exposure Index.
- This approach has two effects: The index is less dependent on the Eurozone. In times of local crises, companies with a high foreign revenue exposure are geographically more diversified and consequently less prone to local market conditions. As a consequence of this observation, the index can provide an implicit hedge against a depreciation of the Euro.
- The EURO STOXX International Exposure Index outperformed the EURO STOXX 50 by 203 bps year-to-date and 1,880 bps over five years. The index is also showing a lower year-to-date volatility with 18.6% compared to 20.8% of the EURO STOXX 50.

Further information: https://www.stoxx.com/research

Meet us

- STOXX Lunch Roundtable, Sydney, Australia, Aug. 26
- Smart Beta: the 360° overview, Munich, Germany, Sept. 23-24
- Morningstar ETF Conference, Chicago, USA, Sept. 29-Oct. 1

P: +41 58 399 5300
stoxx@stoxx.com