



Media Contact:

Brad Livingstone-Foggo
Head of Marketing
bfoggo@vaneck.com
+61 2 8038 3321
+61 422 794 035

Smart beta demonstrates its worth in small-caps: VanEck white paper

Sydney, 31 May 2017 – A new white paper reveals that an index strategy in liquid Australian small companies which pay regular dividends is likely to experience greater returns and lower downside over the long term compared to small companies that don't pay regular dividends.

The white paper, *Mastering Small Companies with Smart Beta*, reveals that the smart beta index, the MVIS Australia Small-Cap Dividend Payers Index (MVS Index) has benefitted from strong returns and lower downside risk over the long term compared to the benchmark market capitalisation index, the S&P/ASX Small Ordinaries Index.

The paper concludes that the outperformance is the result of its dividend filter which produces a portfolio that has a quality tilt and provides exposure to stocks with low volatility.

"Dividend screening is the first point of difference between the MVS Index and the standard market capitalisation index, the S&P/ASX Small Ordinaries Index," said **Arian Neiron, Managing Director, VanEck Australia**.

"Many of the companies excluded from the MVS Index have a negative return on equity (ROE). In other words, they are making a loss rather than making a profit. Loss-making companies typically cannot pay dividends so the dividend filter is directly excluding these companies," said Mr Neiron.

"Excluding non-dividend paying companies excludes lower quality companies. The MVS Index outperforms because it has a quality tilt," the white paper reveals.

Another distinguishing feature is MVS Index's exposure to low volatility stocks. "The dividend filter is excluding many higher volatility stocks. A tilt to low volatility stocks is a separate characteristic to the quality tilt. Numerous studies have concluded that a portfolio of low volatility stocks produces higher risk-adjusted returns than a portfolio of high volatility stocks," Mr Neiron said.

The paper also observed that a portfolio made up only of small companies that pay dividends results in better risk adjusted returns and has more value than growth stocks.

"VanEck Vectors Small Companies Masters ETF (ASX code: MVS) tracks the MVS Index and is the only smart beta Australian small companies ETF on ASX," Neiron said.

"To date, it has been difficult to add value using well known smart beta approaches in Australian small companies and in the past active managers have been able to outperform the Small Ords while charging a hefty management fee but many high pedigree managers are capacity constrained.

"Our paper shows a smart beta approach also has the potential to provide the strong returns investors associate with small companies at an attractive risk profile for a third of the cost of an average actively managed small-cap fund," Mr Neiron said.

“Since listing on ASX two years ago, MVS has attracted \$55 million in assets. It is generating significant interest from institutions, financial advisers and SMSFs who are seeking the low cost, transparency, liquidity and tradability of ETFs but with a demonstrable track record compared to the S&P/ASX Small Ordinaries Index.”

MVS Index performance

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
MVIS Australia Small-Cap Dividend Payers Index	0.07	6.99	7.34	13.05	7.12	8.90
S&P/ASX Small Ordinaries Index	-0.25	3.75	3.62	10.04	6.80	2.42
Outperformance	+0.32%	+3.24%	+3.72%	+3.01%	+0.32%	+6.48%

ENDS

General information only

IMPORTANT NOTICE: This information is issued by VanEck Investments Limited ABN 22 146 596 116 AFSL 416755 ('VanEck') as responsible entity and issuer of the VanEck Vectors Small Companies Masters ETF ('Fund'). Nothing in this content is a solicitation to buy or an offer to sell shares of any investment in any jurisdiction including where the offer or solicitation would be unlawful under the securities laws of such jurisdiction. This is general information only and not financial advice. It does not take into account any person's individual objectives, financial situation or needs. Before making an investment decision in relation to the Fund, you should read the PDS and with the assistance of a financial adviser consider if it is appropriate for your circumstances. The PDS is available at www.vaneck.com.au or by calling 1300 68 38 37. The Fund is subject to investment risk, including possible loss of capital invested. Past performance is not a reliable indicator of future performance. No member of the VanEck group of companies gives any guarantee or assurance as to the repayment of capital, the payment of income, the performance, or any particular rate of return from the Fund.

MVIS Australia Small-Cap Dividend Payers Index ('MVS Index') is the exclusive property of MV Index Solutions GmbH based in Frankfurt, Germany ('MVIS'). MVIS makes no representation regarding the advisability of investing in the Fund. MVIS has contracted with Solactive AG to maintain and calculate the MVS Index. Solactive uses its best efforts to ensure that the MVS Index is calculated correctly. Irrespective of its obligations towards MVIS, Solactive has no obligation to point out errors in the MVS Index to third parties.