

## Revisiting Core Principles

The FTSE RAFI Index series utilizes fundamental measures of company size (sales, cash flow, dividends, and book value) as a rebalancing anchor to trade against the constantly shifting expectations of the market.

This approach results in overweights to out-of-favor securities, which are often undervalued, and underweights to popular securities, which are often overvalued.

Over the short term, these exposures can cause relative performance to vary, but this simple, disciplined approach has historically outperformed the cap-weighted benchmark over the long-term.

As a rebalancing strategy that trades against recent winners, the Fundamental Index™ methodology will often face performance headwinds during periods of trending prices, sustained momentum, or extreme value underperformance - and benefit from performance tailwinds during periods of security mean reversion or value outperformance.

The FTSE RAFI US Mid Small 1500 Index is comprised of U.S. listed companies with the largest fundamental scores after the FTSE RAFI US 1000 Index.

## Performance

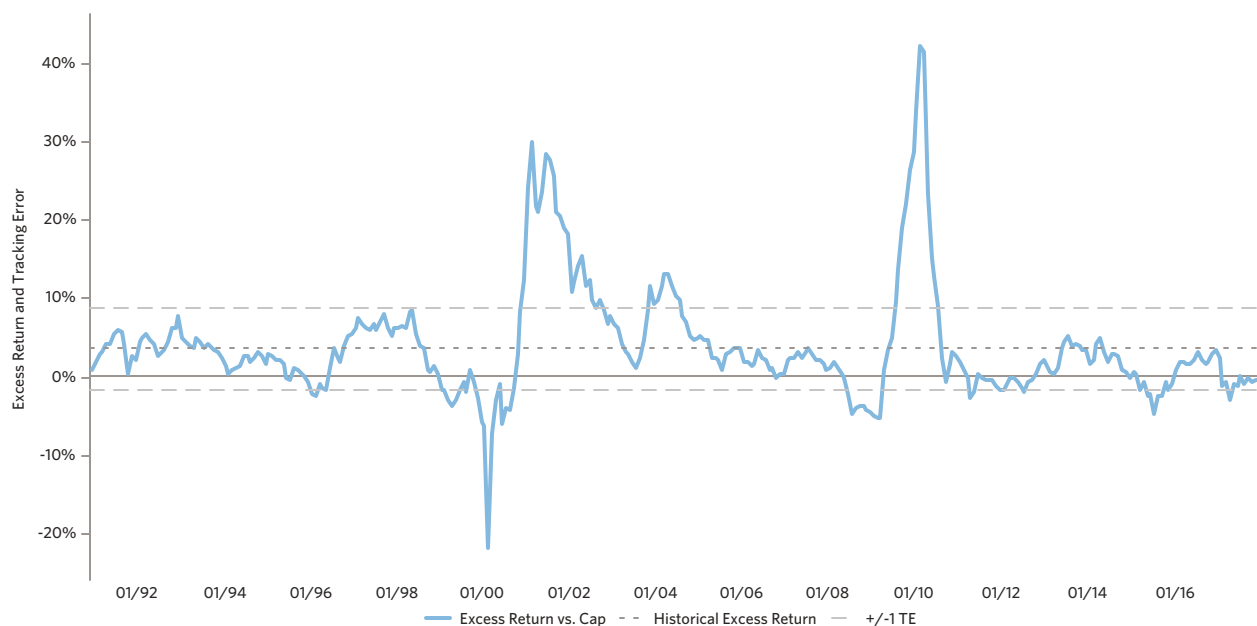
**Exhibit 1:**  
Performance Table

**Exhibit 2:**  
Rolling 1-Year Excess Returns

**Exhibit 1: Performance Table<sup>i</sup>**

	QTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD*
FTSE RAFI™ US Mid/Small 1500 Index	4.2%	14.2%	10.4%	14.9%	10.8%	10.1%
Russell 2000 Index	3.3%	14.6%	10.0%	14.1%	8.7%	8.2%
Value Added	0.9%	-0.5%	0.5%	0.8%	2.0%	1.9%
MSCI US Small Cap	4.0%	15.2%	10.0%	14.4%	9.6%	9.1%
Portfolio Standard Deviation		8.0%	13.4%	13.2%	21.9%	20.7%
Benchmark Standard Deviation		7.8%	14.1%	13.9%	19.9%	18.9%
Tracking Error		1.6%	3.1%	2.9%	5.2%	4.8%

**Exhibit 2: Rolling 1-Year Excess Returns<sup>ii</sup>**



i. Exhibit 1.  
Performance derived from FactSet. All returns are total returns in USD. All returns greater than one year are annualized. Standard deviation and tracking error require a minimum of 1 year return history.  
\*Inception to Date (ITD) returns are calculated starting the first full month of returns following May 4, 2006.

ii. Exhibit 2.  
Performance derived from FactSet. All returns are total returns in USD. Rolling 1-year excess returns and tracking error are calculated starting January 31, 1990. If applicable, strategy returns prior to inception are simulated. Inception date is May 4, 2006.

## The Value Premium

The strategy invests broadly across the entire economy; however a byproduct of the strategy's rebalancing process is a value tilt.

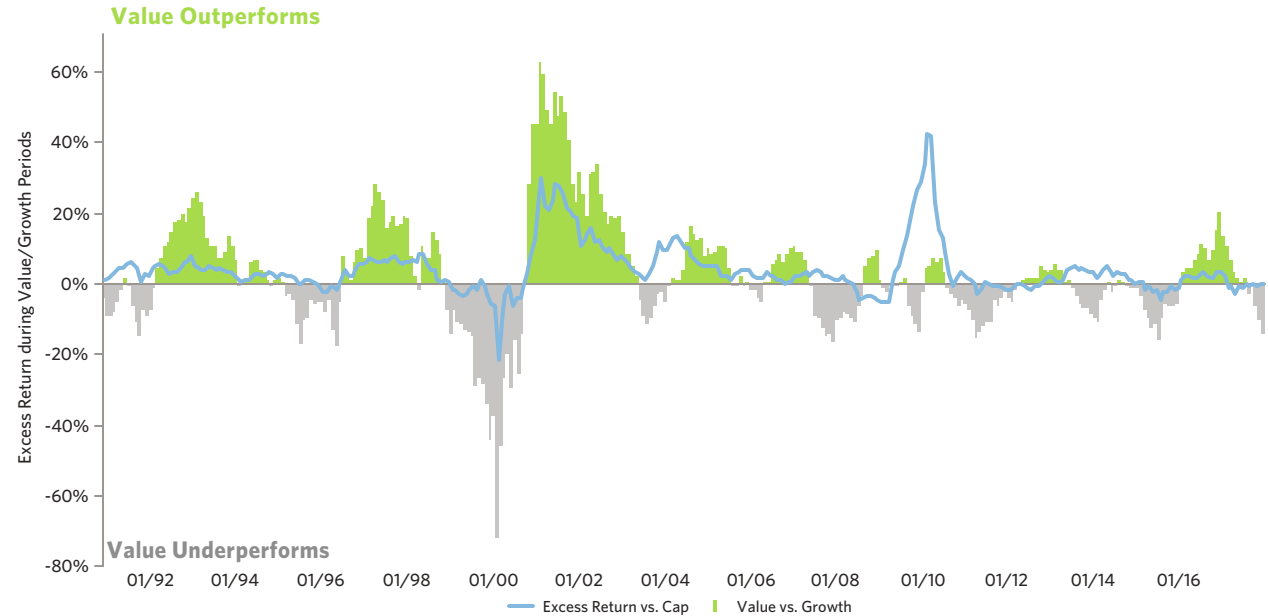
On a one-year rolling basis, the FTSE RAFI™ US Mid/Small 1500 Index outperformed 90% of the time when value won and 57% of the time when growth won.

Generally, excess returns were achieved by taking advantage of mean reversion in stock prices which can sometimes take several years to run its course.

The FTSE RAFI™ US Mid/Small 1500 Index delivered consistent outperformance over full market cycles, with positive excess returns in 75% of rolling 1-year periods, 91% of rolling 3-year periods, and 99% of rolling 5-year periods.

### Exhibit 3: Rolling 1-Year Excess Returns

Exhibit 3: Rolling 1-Year Excess Returns<sup>i</sup>



<sup>i</sup>. Exhibit 3.  
FTSE RAFI™ US Mid/Small 1500 Index rolling 1-year excess returns are measured against Russell 2000 Index. Value / Growth periods measured by rolling 1-year excess returns of Russell 2000 Value Index vs. Russell 2000 Growth. Calculation starts on January 31, 1990. Strategy returns prior to inception are simulated. Strategy inception is May 4, 2006.

## Portfolio Characteristics

The FTSE RAFI™ US Mid/Small 1500 Index is attractively positioned relative to the cap-weighted benchmark.

**Exhibit 4:**  
Portfolio Characteristics

**Exhibit 5:**  
Historical Portfolio Characteristics

## Exhibit 4: Portfolio Characteristics<sup>i</sup>

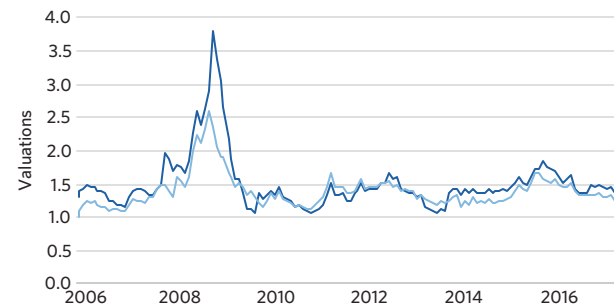
	Number of Holdings	Active Share	Price to Sales	Price to Cash Flow	Price to Book	Div. Yield	Market Cap. (Billions)	Sharpe Ratio*	Info. Ratio*	Tracking Error*
FTSE RAFI™ US Mid/Small 1500 Index	1407	47.5	1.1	9.4	2.0	1.3%	3	0.44	0.38	4.8%
Russell 2000	1983	--	1.3	10.3	2.2	1.2%	2	0.38	--	--

## Exhibit 5: Historical Portfolio Characteristics<sup>ii</sup>

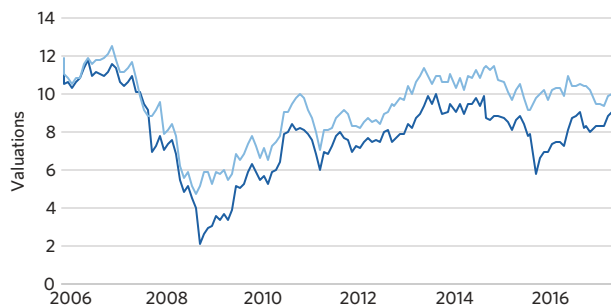
**Price to Book**



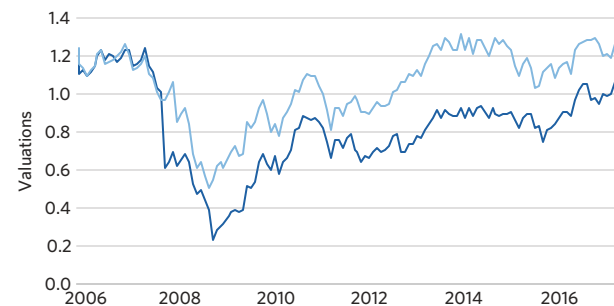
**Dividend Yield (%)**



**Price to Cash Flow**



**Price to Sales**



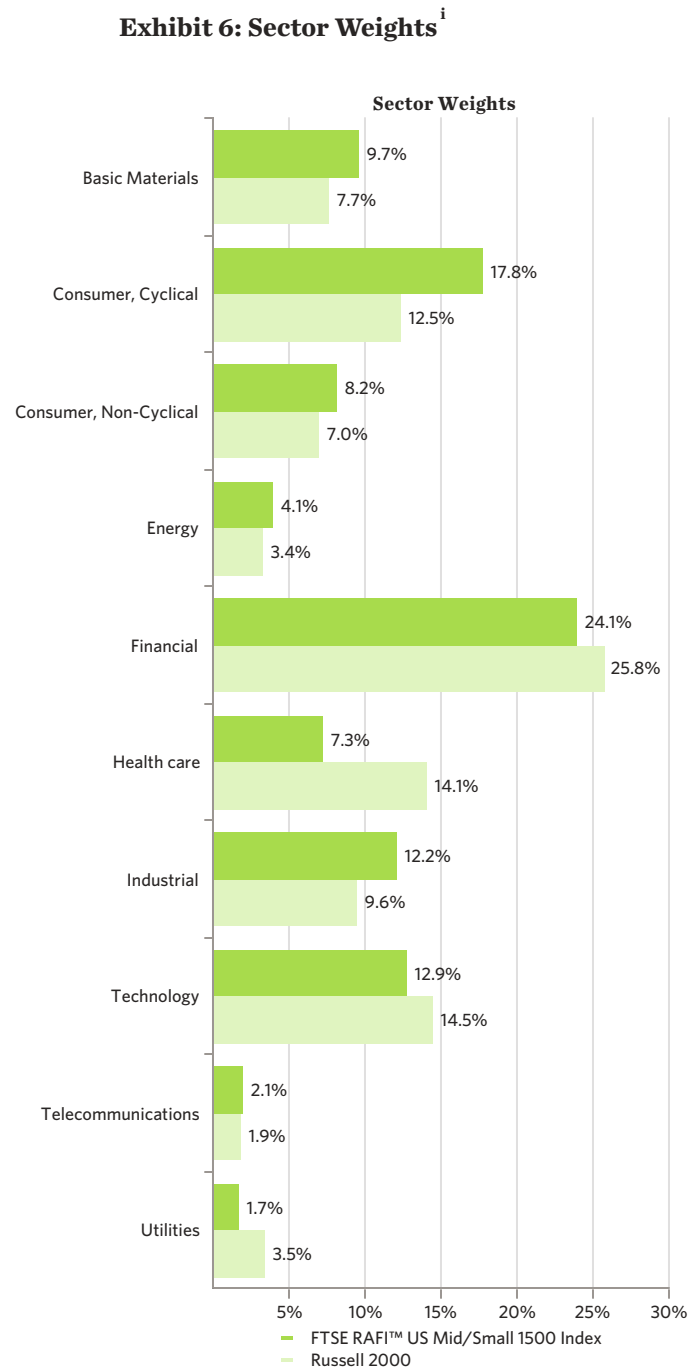
— FTSE RAFI™ US Mid/Small 1500 Index (Left) — Russell 2000 (Left)

i. Exhibit 4.  
Portfolio characteristics data derived from FactSet.  
\*Sharpe Ratio, Information Ratio, and Tracking Error are calculated starting the first full month of returns following May 4, 2006. Minimum 1-year return history. The 3-mo US Treasury Bill return is used as a proxy for risk-free rate. If applicable, strategy returns prior to inception are simulated. Inception date is May 4, 2006.

ii. Exhibit 5.  
Portfolio characteristics derived from FactSet. Data prior to strategy inception is simulated. Strategy inception is May 4, 2006.

## Current Position

### Exhibit 6: Sector Weights



<sup>i</sup>. Exhibit 6.  
Portfolio characteristics data derived from FactSet.



## Current Position

Exhibit 7:  
Top 10 Holdings

Exhibit 8:  
Top Over/Underweights

### Exhibit 7: Top 10 Holdings<sup>i</sup>

FTSE RAFI™ US Mid/Small 1500 Index vs. Russell 2000 Index					
Index	Weights	1-Yr Perf.	Benchmark	Weights	1-Yr Perf.
Kratos Defense & Security Solutions, Inc.	0.6%	39.7%	Nektar Therapeutics	0.4%	389.5%
Stone Energy Corporation	0.3%	-19.3%	bluebird bio, Inc.	0.4%	186.8%
RH	0.3%	184.1%	SAGE Therapeutics, Inc.	0.3%	230.9%
Westlake Chemical	0.3%	90.7%	Exact Sciences Corporation	0.3%	288.3%
KB Home	0.3%	100.1%	GrubHub, Inc.	0.3%	91.0%
TopBuild Corp.	0.3%	110.7%	Catalent Inc	0.3%	53.8%
SEI Investments Company	0.3%	46.9%	Curtiss-Wright Corporation	0.3%	23.8%
Take-Two Interactive	0.3%	121.4%	Knight-Swift Transportation	0.3%	32.0%
Beacon Roofing	0.2%	37.0%	EPAM Systems, Inc.	0.3%	67.1%
Boyd Gaming Corporation	0.2%	73.8%	MGIC Investment	0.3%	37.1%

### Exhibit 8: Top Over/Underweights<sup>i</sup>

FTSE RAFI™ US Mid/Small 1500 Index vs. Russell 2000 Index					
Top Overweights	Active Weights	1-Yr Total Effect	Top Underweights	Active Weights	1-Yr Total Effect
Kratos Defense & Security Solutions, Inc.	0.6%	0.1%	Nektar Therapeutics	-0.4%	-0.3%
Stone Energy Corporation	0.3%	0.1%	bluebird bio, Inc.	-0.3%	-0.2%
Westlake Chemical	0.3%	0.1%	SAGE Therapeutics, Inc.	-0.3%	-0.2%
RH	0.3%	0.1%	Catalent Inc	-0.3%	-0.1%
SEI Investments Company	0.3%	0.1%	Curtiss-Wright Corporation	-0.3%	0.0%
Take-Two Interactive	0.3%	0.0%	MGIC Investment	-0.3%	0.0%
Carter's, Inc.	0.2%	0.0%	Exact Sciences Corporation	-0.2%	-0.2%
Cboe Global Markets Inc	0.2%	0.1%	EMCOR Group, Inc.	-0.2%	0.0%
Copart, Inc.	0.2%	0.1%	Healthsouth Corp.	-0.2%	0.0%
Skechers U.S.A., Inc. Class A	0.2%	0.1%	Dana Incorporated	-0.2%	-0.1%

i. Exhibit 7, Exhibit 8.  
Portfolio characteristics and securities data derived from FactSet. 1-Yr Total Effect is calculated using a holdings based attribution, and measures the impact that a security had on relative performance. It is a function of the active weight of a company as well as that company's performance versus the overall benchmark.

## Attribution

### Exhibit 9: Sector Attribution

### Exhibit 9: Sector Attribution<sup>i</sup>

1-Quarter Ending 12/31/2017

1-Year Ending 12/31/2017

Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect	Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect	
Basic Materials	9.69%	7.68%	2.45%	0.04%	0.02%	0.07%	Basic Materials	9.69%	7.68%	6.22%	0.04%	-3.72%	-3.68%	
Consumer, Cyclical	17.84%	12.48%	4.90%	0.21%	0.13%	0.34%	Consumer, Cyclical	17.84%	12.48%	3.52%	0.04%	-4.15%	-4.11%	
Consumer, Non-Cyclical	8.18%	7.03%	2.26%	0.02%	0.02%	0.04%	Consumer, Non-Cyclical	8.18%	7.03%	-3.29%	-0.06%	-0.70%	-0.76%	
Energy	4.05%	3.36%	5.53%	0.04%	0.03%	0.07%	Energy	4.05%	3.36%	-29.68%	-0.60%	4.52%	3.91%	
Financial	24.06%	25.81%	-1.33%	0.04%	0.17%	0.22%	Financial	24.06%	25.81%	-5.93%	0.14%	-3.73%	-3.58%	
Health care	7.32%	14.11%	-2.47%	0.00%	-0.18%	-0.18%	Health care	7.32%	14.11%	19.02%	-1.34%	15.59%	14.24%	
Industrial	12.19%	9.60%	0.72%	0.04%	-0.11%	-0.07%	Industrial	12.19%	9.60%	1.07%	0.02%	-0.35%	-0.32%	
Technology	12.87%	14.49%	-0.32%	0.04%	0.28%	0.32%	Technology	12.87%	14.49%	10.39%	-0.07%	-6.66%	-6.74%	
Telecommunications	2.08%	1.90%	-4.31%	-0.01%	0.02%	0.01%	Telecommunications	2.08%	1.90%	-11.78%	-0.03%	0.09%	0.07%	
Utilities	1.73%	3.54%	-2.18%	0.04%	0.00%	0.04%	Utilities	1.73%	3.54%	-2.91%	0.00%	0.51%	0.51%	
						Excess Return							Excess Return	-0.45%

i. Exhibit 9  
Portfolio characteristics and securities data derived from FactSet. The attributions have been normalized to match the return of the strategy, as presented in the performance table on page 2. Data prior to strategy inception is simulated. Strategy inception is May 4, 2006.

## Disclosures

Source: FactSet based on data from FTSE Russell.

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Prior to 11/1/2016, the 1-yr performance values reported in the Top 10 Holdings exhibit and the Top Over/Underweights exhibit were incorrect. The calculation has been modified to report the appropriate values moving forward.

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