

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 Developed ex US Mid Small 1500 Index is comprised of non US-listed developed companies with the largest RAFI fundamental scores after the FTSE RAFI Developed ex US 1000 index.

Performance

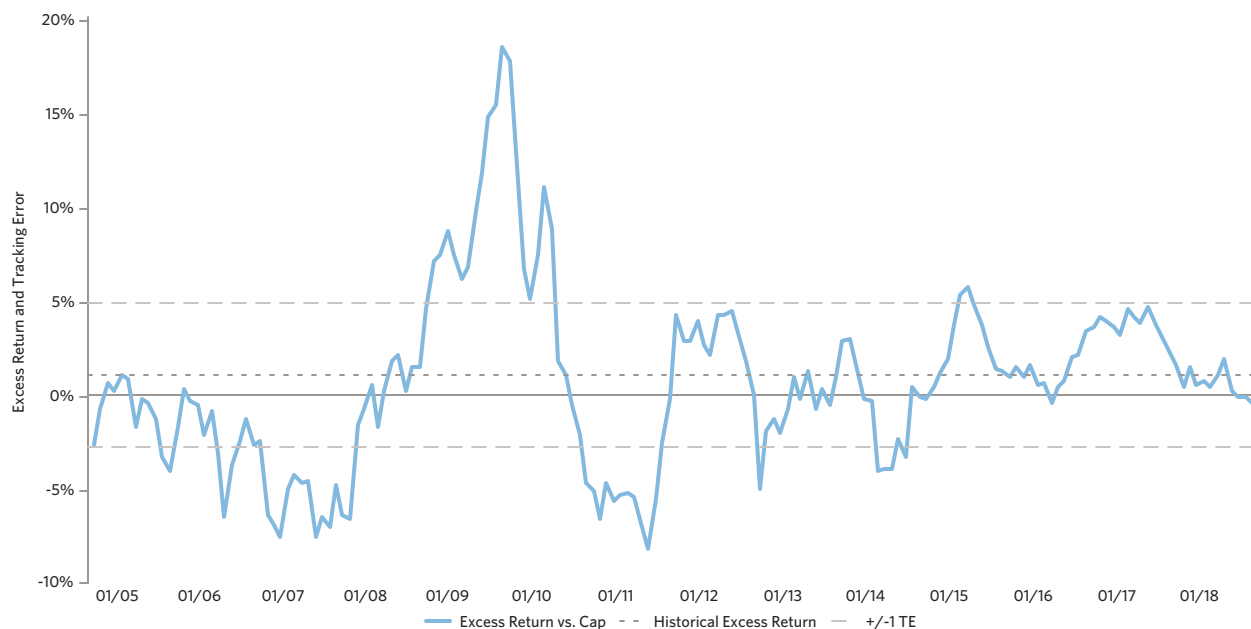
Exhibit 1:
Performance Table

Exhibit 2:
Rolling 1-Year Excess Returns

Exhibit 1: Performance Tableⁱ

	QTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD*
FTSE RAFI™ Dev ex US Mid/Small 1500 Index	-0.9%	3.5%	12.8%	7.3%	10.2%	5.7%
FTSE Global Smallcap Series Developed ex US	-1.0%	2.9%	10.9%	6.1%	8.2%	3.5%
Value Added	0.0%	0.6%	1.9%	1.3%	2.0%	2.3%
MSCI EAFE Small	-0.8%	4.1%	12.8%	8.3%	10.1%	5.0%
Portfolio Standard Deviation		8.4%	10.4%	10.3%	17.7%	18.2%
Benchmark Standard Deviation		8.2%	10.7%	11.0%	18.7%	19.5%
Tracking Error		2.0%	1.9%	2.4%	3.8%	4.0%

Exhibit 2: Rolling 1-Year Excess Returnsⁱⁱ



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 August 6, 2007.

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 October 31, 2003. If applicable, strategy returns prior to inception are simulated. Inception date is August 6, 2007.

The Value Premium

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

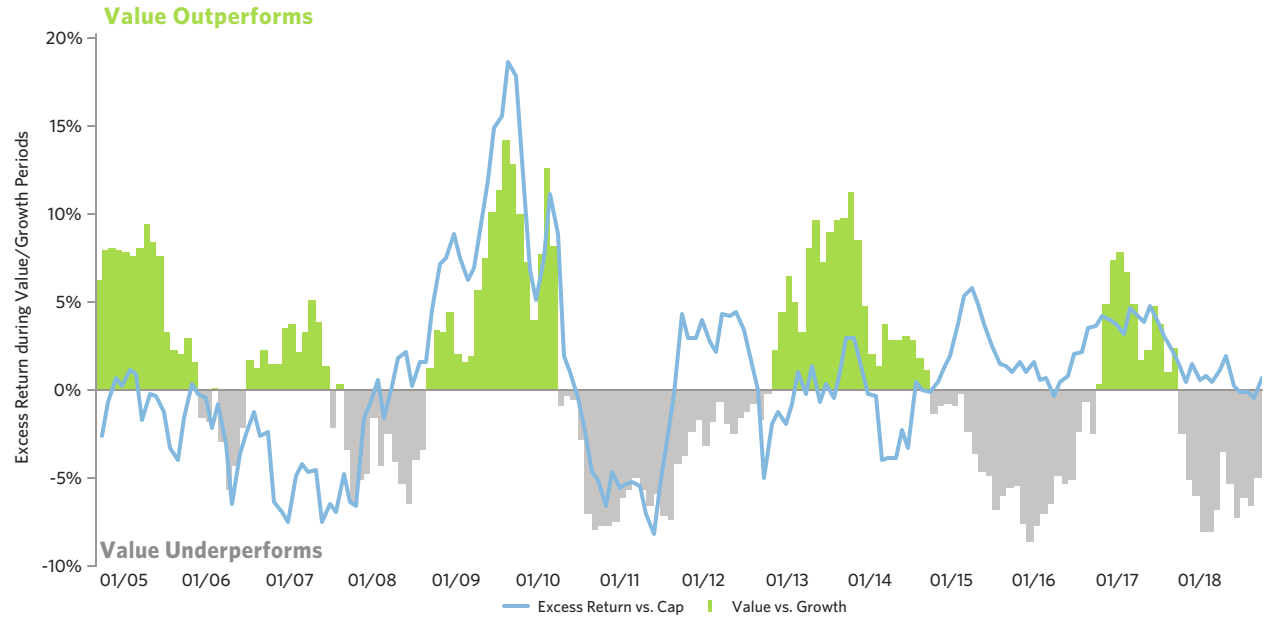
On a one-year rolling basis, the FTSE RAFI™ Dev ex US Mid/Small 1500 Index outperformed 53% of the time when value won and 60% of the time when growth won.

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™ Dev ex US Mid/Small 1500 Index delivered consistent outperformance over full market cycles, with positive excess returns in 57% of rolling 1-year periods, 73% of rolling 3-year periods, and 93% of rolling 5-year periods.

Exhibit 3: Rolling 1-Year Excess Returns

Exhibit 3: Rolling 1-Year Excess Returnsⁱ



ⁱ Exhibit 3.
FTSE RAFI™ Dev ex US Mid/Small 1500 Index rolling 1-year excess returns are measured against FTSE Global Smallcap Series Developed ex US. Value / Growth periods measured by rolling 1-year excess returns of MSCI World ex USA Small Cap Value vs. MSCI World ex USA Small Cap Growth. Calculation starts on October 31, 2003. Strategy returns prior to inception are simulated. Strategy inception is August 6, 2007.

Portfolio Characteristics

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

Exhibit 4:
Portfolio Characteristics

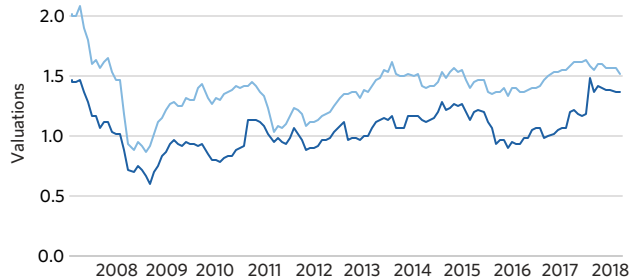
Exhibit 5:
Historical Portfolio Characteristics

Exhibit 4: Portfolio Characteristicsⁱ

	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™ Dev ex US Mid/Small 1500 Index	1498	55.3	0.8	8.7	1.4	2.6%	3	0.28	0.57	4.0%
FTSE Small Cap Developed x US	2340	--	0.9	9.3	1.5	2.5%	2	0.15	--	--

Exhibit 5: Historical Portfolio Characteristicsⁱⁱ

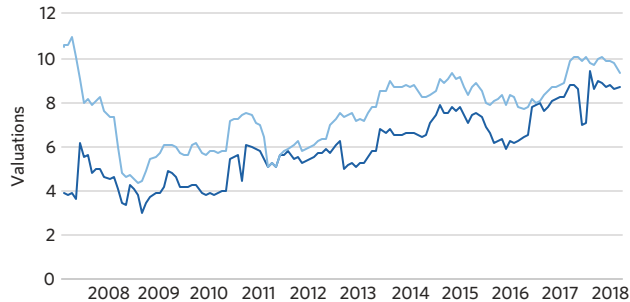
Price to Book



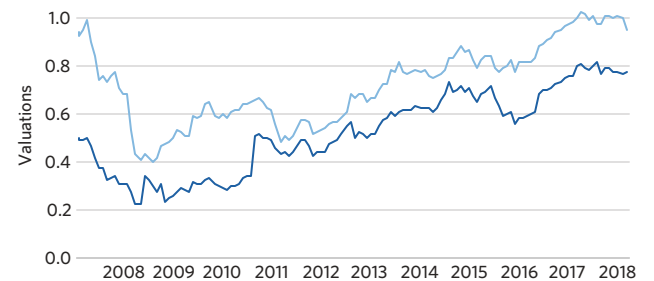
Dividend Yield (%)



Price to Cash Flow



Price to Sales



— FTSE RAFI™ Dev ex US Mid/Small 1500 Index (Left) — FTSE Small Cap Developed x US (Left)

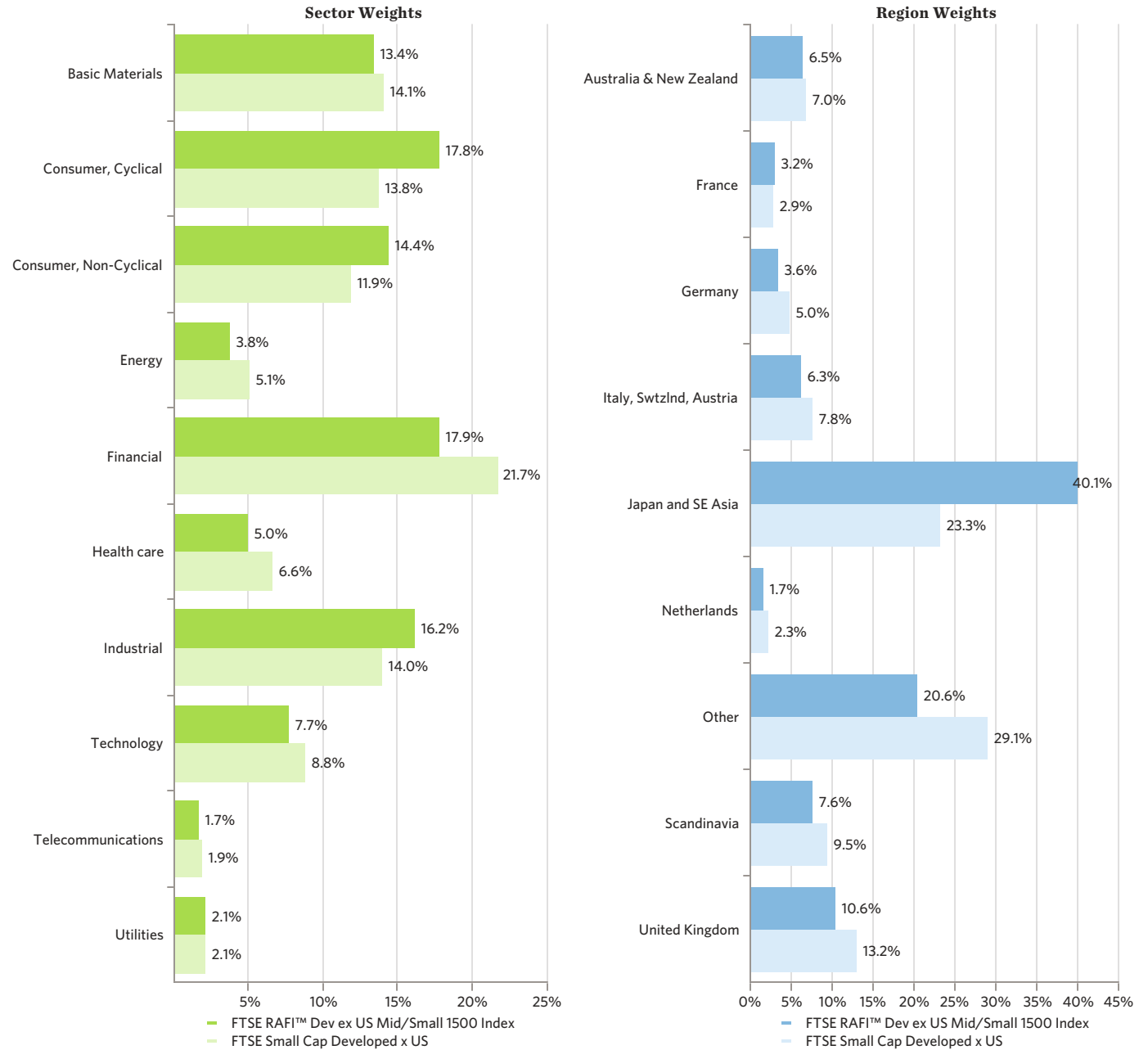
i. Exhibit 4.
Portfolio characteristics data derived from FactSet.
*Sharpe Ratio, Information Ratio, and Tracking Error are calculated starting the first full month of returns following August 6, 2007. Minimum 1-year return history. The 3-mo US Treasury Bill return is used as a proxy for risk-free rate. If applicable, strategy returns prior to inception are simulated. Inception date is August 6, 2007.

ii. Exhibit 5.
Portfolio characteristics derived from FactSet. Data prior to strategy inception is simulated. Strategy inception is August 6, 2007.

Current Position

Exhibit 6:
Sector and Region Weights

Exhibit 6: Sector and Region Weightsⁱ



i. Exhibit 6.
Portfolio characteristics data derived from FactSet.



Current Position

Exhibit 7:
Top 10 Holdings

Exhibit 8:
Top Over/Underweights

Exhibit 7: Top 10 Holdingsⁱ

FTSE RAFI™ Dev ex US Mid/Small 1500 Index vs. FTSE Global Smallcap Series Developed ex US					
Index	Weights	1-Yr Perf.	Benchmark	Weights	1-Yr Perf.
TGS	0.3%	73.7%	Open Text Corporation	0.5%	21.7%
GS Engineering & Construction Corp.	0.2%	106.7%	Canopy Growth Corporation	0.4%	465.0%
MEG Energy Corp.	0.2%	38.5%	First Quantum Minerals Ltd.	0.4%	0.9%
TFI International Inc.	0.2%	47.0%	Bombardier Inc. Class B	0.4%	100.7%
IT Holdings	0.2%	72.2%	Aurora Cannabis Inc.	0.4%	338.5%
Taisho Pharmaceutical Holdings Co., Ltd.	0.2%	63.3%	CCL Industries Inc. Class B	0.3%	-6.2%
Amer Sports	0.2%	56.3%	Gildan Activewear Inc.	0.3%	-0.7%
Nippon Suisan Kaisha, Ltd.	0.2%	18.5%	Methanex Corporation	0.3%	57.4%
Shimadzu Corporation	0.2%	59.0%	Onex Corporation	0.3%	-11.4%
Tullow Oil plc	0.2%	35.3%	WSP Global Inc.	0.3%	33.5%

Exhibit 8: Top Over/Underweightsⁱ

FTSE RAFI™ Dev ex US Mid/Small 1500 Index vs. FTSE Global Smallcap Series Developed ex US					
Top Overweights	Active Weights	1-Yr Total Effect	Top Underweights	Active Weights	1-Yr Total Effect
GS Engineering & Construction Corp.	0.2%	0.1%	Open Text Corporation	-0.5%	-0.1%
IT Holdings	0.2%	0.1%	Canopy Growth Corporation	-0.4%	-0.2%
Taisho Pharmaceutical Holdings Co., Ltd.	0.2%	0.1%	First Quantum Minerals Ltd.	-0.4%	0.0%
Shimadzu Corporation	0.2%	0.1%	Bombardier Inc. Class B	-0.4%	-0.2%
GVC Holdings PLC	0.2%	0.0%	Aurora Cannabis Inc.	-0.4%	-0.1%
Hikma Pharmaceuticals Plc	0.2%	0.1%	Gildan Activewear Inc.	-0.3%	0.0%
Israel Discount Bank Limited Class A	0.2%	0.0%	Methanex Corporation	-0.3%	-0.1%
Nissan Chemical Industries	0.2%	0.1%	Onex Corporation	-0.3%	0.1%
Evraz PLC	0.2%	0.1%	WSP Global Inc.	-0.3%	-0.1%
LG Household & Health Care Ltd	0.2%	0.1%	Keyera Corp.	-0.3%	0.0%

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 10: Region Attribution

Exhibit 9: Sector Attributionⁱ

1-Quarter Ending 09/30/2018

Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Basic Materials	13.39%	14.06%	-1.58%	0.01%	0.11%	0.12%
Consumer, Cyclical	17.77%	13.75%	-1.51%	-0.09%	0.16%	0.07%
Consumer, Non-Cyclical	14.42%	11.86%	-0.95%	0.00%	-0.10%	-0.10%
Energy	3.81%	5.09%	0.54%	0.00%	0.01%	0.01%
Financial	17.87%	21.72%	0.97%	-0.03%	0.04%	0.01%
Health care	4.99%	6.64%	1.55%	-0.10%	-0.14%	-0.24%
Industrial	16.18%	14.00%	2.71%	0.04%	0.14%	0.18%
Technology	7.73%	8.84%	-2.22%	0.02%	-0.06%	-0.04%
Telecommunications	1.73%	1.90%	6.12%	0.00%	0.08%	0.08%
Utilities	2.13%	2.13%	2.42%	0.00%	-0.04%	-0.04%
Excess Return						0.05%

1-Year Ending 09/30/2018

Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Basic Materials	13.39%	14.06%	-3.61%	0.02%	-0.05%	-0.03%
Consumer, Cyclical	17.77%	13.75%	-3.59%	-0.12%	-0.13%	-0.25%
Consumer, Non-Cyclical	14.42%	11.86%	2.70%	0.01%	0.53%	0.55%
Energy	3.81%	5.09%	16.01%	-0.02%	0.71%	0.70%
Financial	17.87%	21.72%	-1.52%	0.04%	-0.06%	-0.02%
Health care	4.99%	6.64%	9.39%	-0.34%	-0.78%	-1.12%
Industrial	16.18%	14.00%	0.45%	-0.01%	0.29%	0.28%
Technology	7.73%	8.84%	4.79%	-0.01%	0.43%	0.41%
Telecommunications	1.73%	1.90%	-4.89%	0.01%	-0.08%	-0.07%
Utilities	2.13%	2.13%	7.17%	0.00%	0.14%	0.15%
Excess Return						0.59%

Exhibit 10: Region Attributionⁱ

1-Quarter Ending 09/30/2018

Region	Portfolio Weight	Bench. Weight	Country Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Australia & New Zealand	6.54%	6.96%	-0.45%	0.00%	-0.09%	-0.10%
France	3.19%	2.86%	-3.05%	-0.04%	0.13%	0.08%
Germany	3.57%	4.99%	1.25%	0.02%	0.09%	0.11%
Italy, SwtZlnd, Austria	6.26%	7.79%	0.08%	-0.01%	-0.05%	-0.05%
Japan and SE Asia	40.05%	23.33%	0.13%	0.02%	-0.01%	0.02%
Netherlands	1.67%	2.27%	-2.84%	0.00%	-0.04%	-0.03%
Other	20.55%	29.12%	-0.28%	-0.04%	-0.23%	-0.27%
Scandinavia	7.60%	9.52%	5.49%	-0.15%	0.02%	-0.12%
United Kingdom	10.57%	13.15%	-1.92%	0.15%	0.26%	0.41%
Excess Return						0.05%

1-Year Ending 09/30/2018

Region	Portfolio Weight	Bench. Weight	Country Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect
Australia & New Zealand	6.54%	6.96%	3.49%	-0.04%	-0.47%	-0.52%
France	3.19%	2.86%	-7.65%	-0.13%	0.46%	0.34%
Germany	3.57%	4.99%	-3.29%	0.09%	0.12%	0.21%
Italy, SwtZlnd, Austria	6.26%	7.79%	-3.68%	0.05%	0.07%	0.13%
Japan and SE Asia	40.05%	23.33%	2.39%	0.21%	0.65%	0.87%
Netherlands	1.67%	2.27%	-6.01%	0.03%	0.01%	0.04%
Other	20.55%	29.12%	-0.40%	-0.04%	-0.27%	-0.32%
Scandinavia	7.60%	9.52%	5.69%	-0.14%	0.04%	-0.09%
United Kingdom	10.57%	13.15%	-2.65%	0.06%	-0.14%	-0.07%
Excess Return						0.59%

i. Exhibit 9, Exhibit 10. 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 August 6, 2007.

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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