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The secret sauce of index investing in Australian small companies

Sydney, 5 March 2019 – A new white paper, *Mastering Small Companies with Smart Beta*, reveals that a smart beta approach to Australian small company investing offers long-term outperformance and improved downside relative to the S&P/ASX Small Ordinaries Index (Small Ords). This was reinforced in 2018 when market volatility rose. The smart beta approach involves screening for liquid small companies which did not omit their most recent dividend.

Arian Neiron, VanEck Managing Director and Head of Asia Pacific, said: “There are compelling reasons for using the payment of dividends as a stock filter. In simple terms, dividends are an objective measure of a company’s financial position and paying dividends indicates that the company enjoys good financial health and is profitable. The MVIS Australia Small-Cap Dividend Payers Index (MVS Index) exemplifies this approach.

“Companies that pay dividends typically have robust balance sheets with strong cash flows that provides downside protection when markets are volatile. Dividends too have been shown to be empirically linked to determining stock values and future earnings potential, which helps to explain why the MVS Index outperforms,” said Neiron.

Since its inception in 2009, the MVS Index has outperformed the Small Ords to the 28th February 2019.

“This outperformance was evident during the share market volatility of 2018, when the MVS Index fell 5.19%, compared to a much greater fall of 8.67% for the Small Ords. Over the longer term, this outperformance persists,” said Neiron.

The VanEck Vectors Small Companies Masters ETF (ASX: MVS) tracks the MVS Index. “MVS exhibits the same quality, low volatility and other characteristics of the MVS Index and compared to actively managed funds, its performance is above Morningstar’s median manager over most trailing periods – a remarkable outcome for a passive strategy in an asset class traditionally dominated by active managers,” said Neiron.

“MVS is therefore a smart beta alternative to actively managed small companies funds.”

The white paper reveals that many of the companies excluded from the MVS Index have a negative return on equity (ROE) and are losing money. Loss-making companies typically cannot pay dividends so the dividend filter excludes these companies.

Another distinguishing feature is MVS Index’s exposure to low volatility stocks. “The dividend filter is excluding many higher volatility stocks, which results in MVS Index’s outperformance in risk adjusted returns, as well as in absolute returns,” said Neiron.



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“MVS has attracted in excess of \$60 million in assets to 28 February 2019. Institutions, financial advisers and SMSFs are using this ETF to gain targeted invested exposure to profitable small caps, with proven outperformance over active managers, but without the volatility of the Small Ords. The low cost, transparency and liquidity of MVS adds to its appeal.”

MVS is available on ASX.

MVS Index performance vs Small Ords to 28 February 2019

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	7 Years (% p.a.)	Since MVS Index Base date (% p.a.)
MVIS Australia Small-Cap Dividend Payers Index	7.14	9.31	-1.54	5.88	13.01	7.79	9.27	7.59
S&P/ASX Small Ordinaries	6.78	8.01	-3.06	3.48	13.45	7.74	4.55	3.68
Outperformance	+0.36	+1.30	+1.52	+2.40	-0.44	+0.05	+4.72	+3.91

Source: Morningstar. Results are calculated daily and assumes immediate reinvestment of all dividends. You cannot invest in an index. MVS Index base date is 31 December 2009. MVS Index performance prior to its launch on 23 March 2015 is simulated based on the current index methodology. Results do not include fees and costs of investing in MVS. Past performance of the MVS Index is not a reliable indicator of future performance of MVS.

ENDS

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With offices in key financial centres and regions including New York, Sydney, Shanghai, Frankfurt, Madrid and Zurich, VanEck offers investors broad investment reach with deep experience.

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