

The vast majority of equity market indices are capitalization weighted, meaning that companies with larger market values have a disproportionate impact on the performance of the index. S&P Dow Jones reports their widely used S&P 500 Index on both a capitalization-weighted and an equal-weighted (where each stock has the same weight) basis, and the longer term evidence suggests that the equally weighted index has a long-term performance advantage vs. its cap-weighted version (see chart below).

There has been a reversal of this long-term trend over the past several years, as the cap-weighted S&P 500 outperformed its equal-weighted version by 2.9% in 2017 and 3.3% in 2018. The strong performance of the FANG-type stocks (FANG refers to Facebook, Apple, Netflix and Google) accounted for much of the performance advantage during this time period due to their high weighting in the Index.

## GROWTH OF A DOLLAR<sup>(1)</sup> S&P 500 Equal Weighted vs S&P 500 Cap Weighted



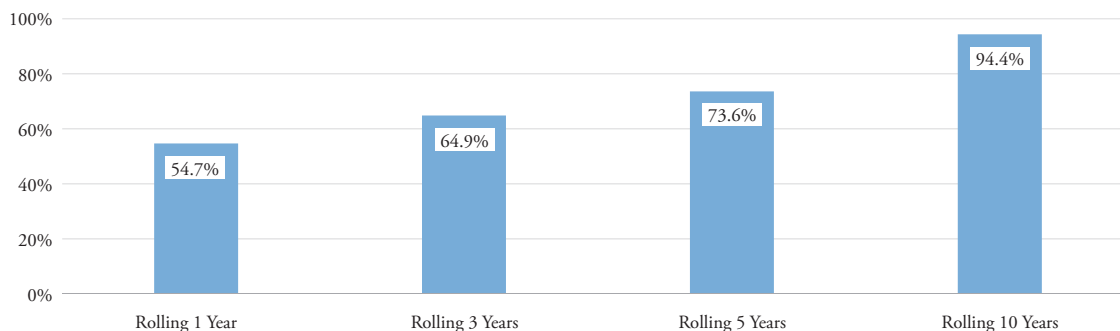
Data from 12/31/89–3/31/19

<sup>(1)</sup> Past performance is not indicative of future results. All returns are shown in U.S. dollars.

Sources: FactSet, Bloomberg, S&P Dow Jones

Over the first quarter of this year, however, the longer-term trend has reappeared, as the equal-weighted S&P 500 gained 14.9% compared to 13.6% for the cap-weighted version. This trend may or may not continue over the course of this year, but the historical evidence suggests that over longer time horizons an equal-weighted strategy tends to outperform (see chart below).

## PROBABILITY OF S&P 500 EQUAL WEIGHTED OUTPERFORMING CAP WEIGHTED<sup>(1)</sup>



Data from 12/31/89–3/31/19

<sup>(1)</sup> Past performance is not indicative of future results.

Sources: FactSet, Bloomberg, S&P Dow Jones

Investors with significant allocations to passive strategies (which are usually capitalization weighted) may have to reconsider how much the weighting decision can impact their long-term returns. We believe that active strategies, where portfolio weightings reflect perceived investment opportunity rather than company size, will make more sense for many investors.

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## DISCLOSURES

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The opinions stated in this presentation are those of the authors as of the date listed on this presentation and are subject to change at any time due to changes in market or economic conditions.

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## REFERENCED INDICES

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**S&P 500 Index**—The S&P 500 Stock Index is a market capitalization weighted index and consists of 500 stocks chosen for market size, liquidity and industry group representation.