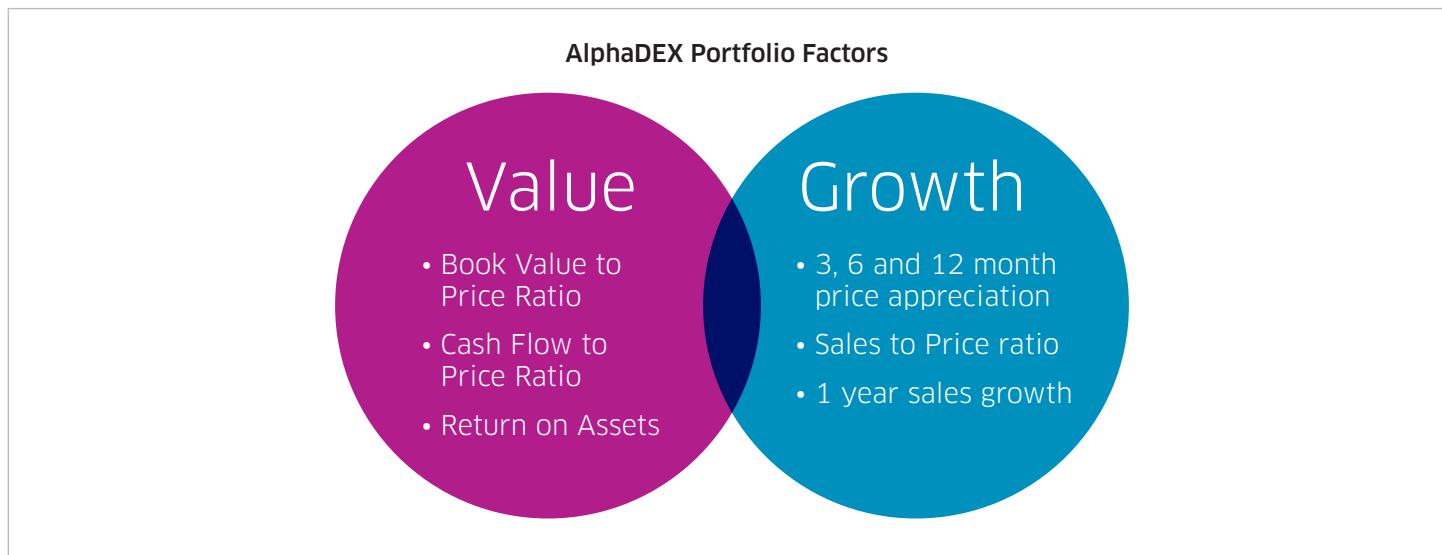# Nasdaq AlphaDEX Indexes

A Look at Smart Beta in the Emerging Markets

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Indexing has become increasingly popular over the past decade as investors look to diversify away from high cost funds that have historically underperformed a broad benchmark. Each of the available indexes uses a different methodology to select and weight securities that are a broad representation of the countries or the specific areas of the global markets. While on the other side of the spectrum active fund managers select securities that meet a specific criteria based on the managers preference and market outlooks. The AlphaDEX index methodology blends the passive rules-based approach of index creation with specific factors to enhance the security selection of market cap-weighted benchmark indexes. AlphaDEX focuses on several factors that have been shown to have a positive portfolio impact over full market cycles.

AlphaDEX Portfolio Factors

Value
- Book Value to Price Ratio
- Cash Flow to Price Ratio
- Return on Assets

Growth
- 3, 6 and 12 month price appreciation
- Sales to Price ratio
- 1 year sales growth

The Nasdaq AlphaDEX Emerging Markets Index (NQDXEMT) utilizes the AlphaDEX index methodology to select companies in the emerging markets that demonstrate strong fundamentals based on the factors above. Each company is given a score based on both sets of criteria listed above and only those above a pre-set threshold are included in the index, with the majority of the index weight given to companies with the strongest scores via a tiered equal weighting process. This allows the index to have larger concentrations in smaller and more factor driven names than the traditional market capitalization weighted indexes. A new white paper that does a deeper dive into the Nasdaq non-US AlphaDEX Indexes was just released.
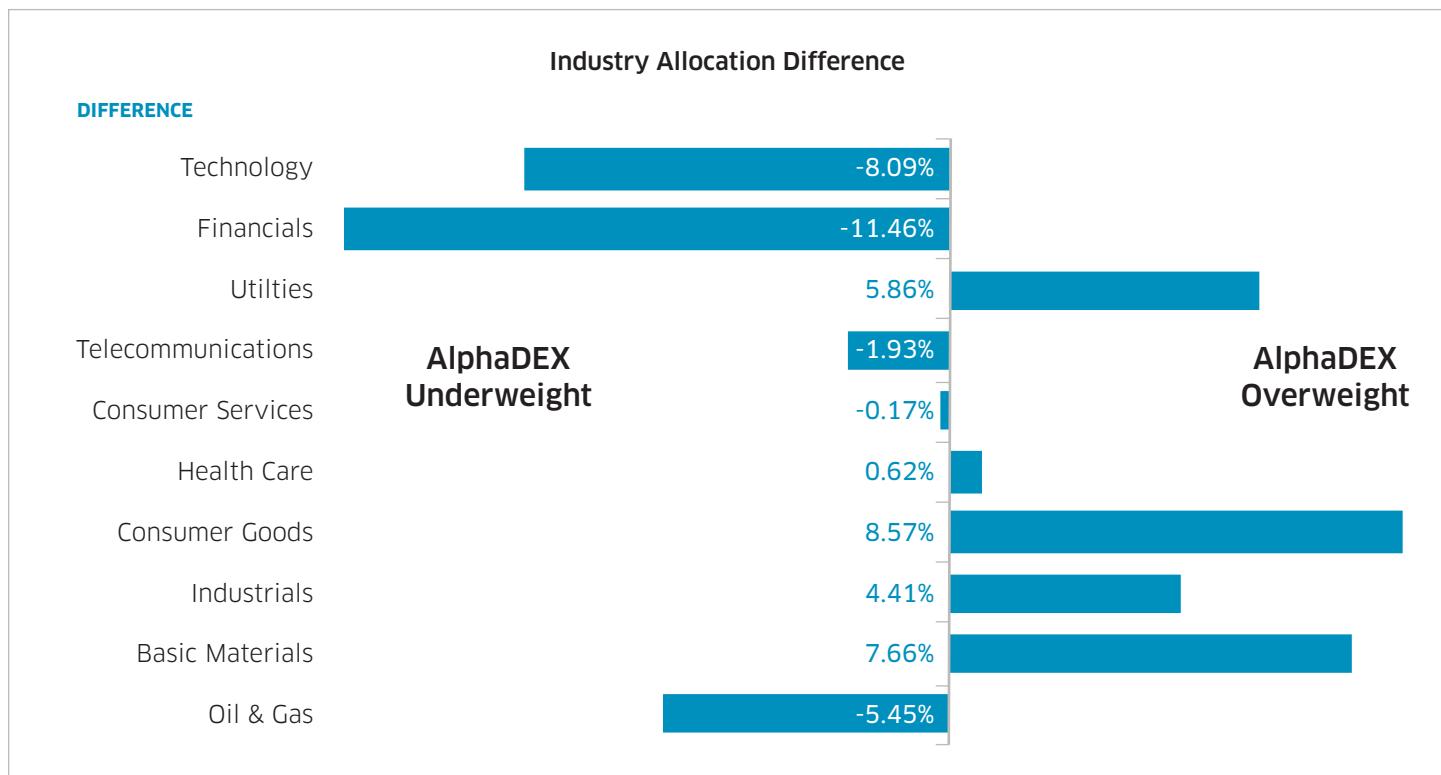
Over the past five years we have seen the AlphaDEX process add additional alpha outside the traditional market cap indexes. The Nasdaq AlphaDEX Emerging Market Index (NQDXEMT) has outperformed the Nasdaq Emerging Market Index (NQEMT) over the trailing year-to-date, 3-, and 5-year periods ending [October 31, 2018].

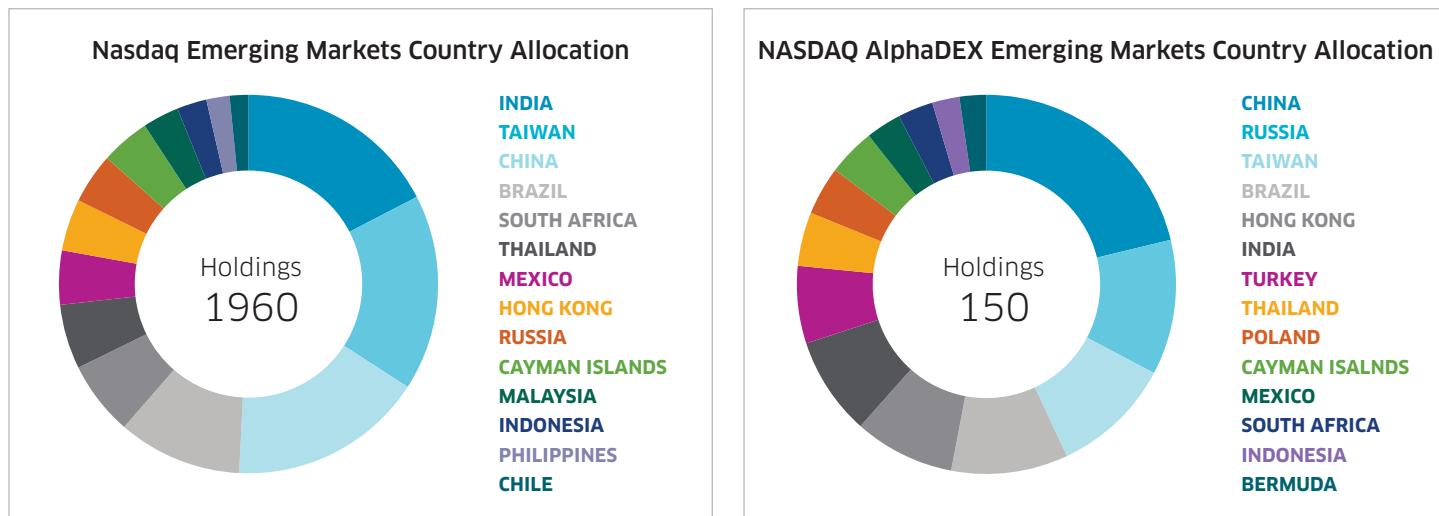| INDEX NAME	INDEX TICKER	YTD	1 YEAR	ANNUALIZED		CUMULATIVE	
				3 YEAR	5 YEAR	3 YEAR	5 YEAR
Nasdaq AlphaDEX EM TR	NQDXEMT	-13.01%	-10.08%	10.81%	5.62%	36.06%	31.45%
Nasdaq Emerging Market TR Index	NQEMT	-13.45%	-9.47%	7.63%	1.94%	24.70%	10.11%

As of October 31, 2018 Source: Nasdaq

Past performance is no guarantee of future results. Potential for profits is accompanied by possibility of loss.

AlphaDEX's alternative weighting scheme produces a portfolio that retains the diversity benefits of a traditional index with a portfolio that is more concentrated in companies with higher factor scores. By weighting the factor scores rather than market cap, the allocation to industries and individual countries changes. While exposure to Health Care is less than one percent different in the indexes, the NASDAQ AlphaDEX Emerging Market Index clearly favors Consumer Goods and Basic Materials over Financials and Technology, which have a much higher allocation in the Nasdaq Emerging Market Index.

Industry Allocation Difference

DIFFERENCE

Technology	-8.09%
Financials	-11.46%
Utilties	5.86%
Telecommunications	-1.93%
Consumer Services	-0.17%
Health Care	0.62%
Consumer Goods	8.57%
Industrials	4.41%
Basic Materials	7.66%
Oil & Gas	-5.45%

AlphaDEX Underweight   **AlphaDEX Overweight**

Data as of October 31, 2018   Source: Nasdaq .

The country allocations between the NASDAQ AlphaDEX Emerging Market and the Nasdaq Emerging Market Indexes further spotlight the different weighting methodologies. While both indexes have China and Taiwan in the top three holdings, the NASDAQ AlphaDEX Emerging Markets Index favors China as the top country holding and a large allocation to Russia, while Nasdaq Emerging Markets Index favor India and has a significantly smaller allocation to Russia.

Nasdaq

Nasdaq Emerging Markets Country Allocation

Holdings
1960

- INDIA
- TAIWAN
- CHINA
- BRAZIL
- SOUTH AFRICA
- THAILAND
- MEXICO
- HONG KONG
- RUSSIA
- CAYMAN ISLANDS
- MALAYSIA
- INDONESIA
- PHILIPPINES
- CHILE

NASDAQ AlphaDEX Emerging Markets Country Allocation

Holdings
150

- CHINA
- RUSSIA
- TAIWAN
- BRAZIL
- HONG KONG
- INDIA
- TURKEY
- THAILAND
- POLAND
- CAYMAN ISALNDS
- MEXICO
- SOUTH AFRICA
- INDONESIA
- BERMUDA

Data as of October 31, 2018   Source: Nasdaq

Accessing the Strategy

The AlphaDEX index methodology can be accessed through First Trust, one of the largest providers of ETFs. Listed in the US, the First Trust AlphaDEX ETF product line includes nine sector funds, 13 size/style funds and 18 global/international funds. Of the 18 global/international funds, four are broad-based Emerging or Developed funds, 10 have single country exposure and four are regionally focused.

In 2011, First Trust launched the First Trust Emerging Markets AlphaDEX ETF (Ticker: FEM) in Europe and in the US to track the Nasdaq AlphaDEX Emerging Market Index and, similar to the index, FEM has outperformed its benchmark since inception by utilizing the structured, yet flexible, AlphaDEX index methodology.