

# Don't Underestimate the Power of International Buybacks

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International companies have continued to benefit from quantitative easing policies that strengthen corporate balance sheets and provide the necessary cash to implement these programs. Companies in Japan, for example, have announced a record number of buybacks this year due to the Bank of Japan's continued focus on keeping interest rates near record lows<sup>1</sup>.

The Nasdaq International BuyBack Achievers Total Return Index and the corresponding PowerShares ETF (Nasdaq: IPKW) that tracks the index can be used by investors to gain access to international buybacks.

## Stock Buyback Introduction

A stock buyback (or share repurchase) occurs when a company purchases shares of its own stock, often in the open market, thereby reducing the number of shares outstanding. A company typically uses cash to fund the purchase, though some companies finance the purchase.

The decision on whether to finance the purchase or to use cash is based on numerous factors, such as the amount of cash the company has in reserve as well as the state of the lending environment, including current interest rates.

## Why Stock Buybacks Matter

There are a number of ways stock buybacks have been known to benefit shareholders. When a company announces or executes a share buyback, excess returns to the stock price can be attributed to a combination of fundamental and psychological factors. A share buyback reduces the number of shares outstanding. This can also increase the earnings per share growth rate for a company. In its simplest form, a reduction in shares outstanding has a direct inverse relationship to earnings per share and at a constant price/earnings ratio will drive the stock price higher. Share repurchases at prices below a company's book value per share will have the effect of increasing that valuation measure.

1. <http://www.cnn.com/2017/04/25/stock-buybacks-could-boom-under-trump-tax-reform-but-theres-a-catch.html>

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## Nasdaq International BuyBack Achievers Total Return Index

The [Nasdaq International BuyBack Achievers Total Return Index](#) (DRBXUST) is comprised of international securities excluding the United States (U.S.) issued by corporations that have effected a net reduction in shares outstanding of 5% or more in its latest fiscal year. The Index began on December 12, 2013. As of the most recent rebalance on July 31, 2017, the index had 54 securities.

### Eligibility Criteria

To be eligible for inclusion in the Index, a security must meet the following criteria:

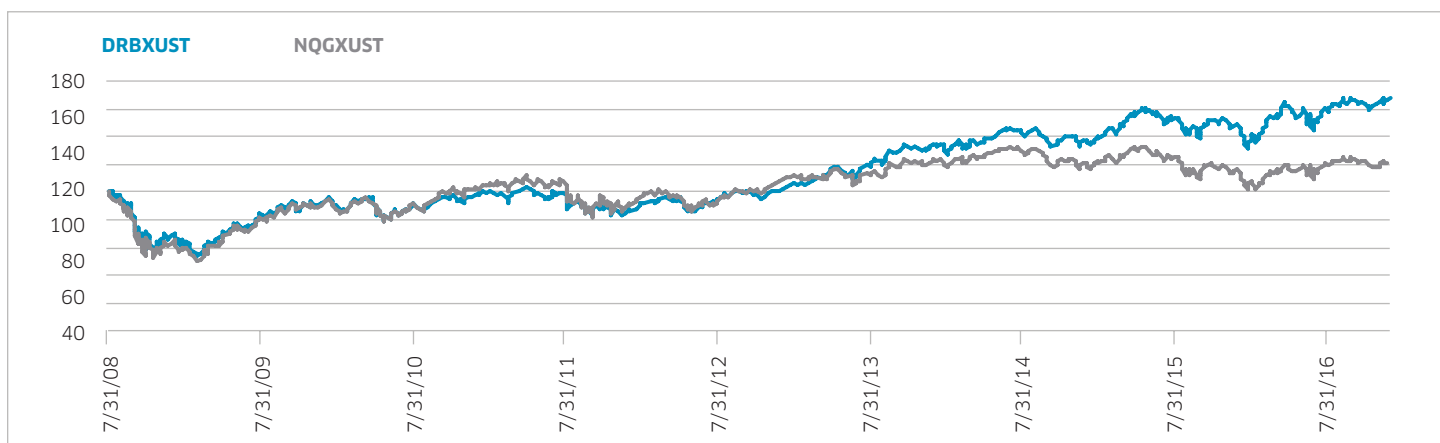
- Be included in the [Nasdaq Global Ex-US Index](#) (NQGXUS), excluding local Russian and Indian securities not represented by depository receipts. If depository receipts are represented for local Russian and Indian securities, then the receipts are reviewed for Index Inclusion instead of the local security and must meet the additional eligibility criteria below. Chinese securities are limited to H-Shares and N-Shares only.
- Have a minimum market capitalization of \$250 million;
- The issuer of the security must have effected a net reduction in shares outstanding of 5% or more in its latest fiscal year;
- Have a minimum three-month average daily dollar trading volume of \$1 million;
- The issuer of the security may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible;
- The issuer of the security may not be issued by an issuer currently in bankruptcy proceedings.

### DRBXUST vs. NQGXUST (Performance History)

#### July 31, 2008 – December 30, 2016

Taking a look at overall performance comparison between DRBXUST and NQGXUST we can see a large difference in cumulative return between the two with DRBXUST displaying impressive outperformance and yet nearly the same level of annualized volatility (6.42%) as NQGXUST. The real divergence between the two indexes started in the summer of 2013 and has continued to widen since.

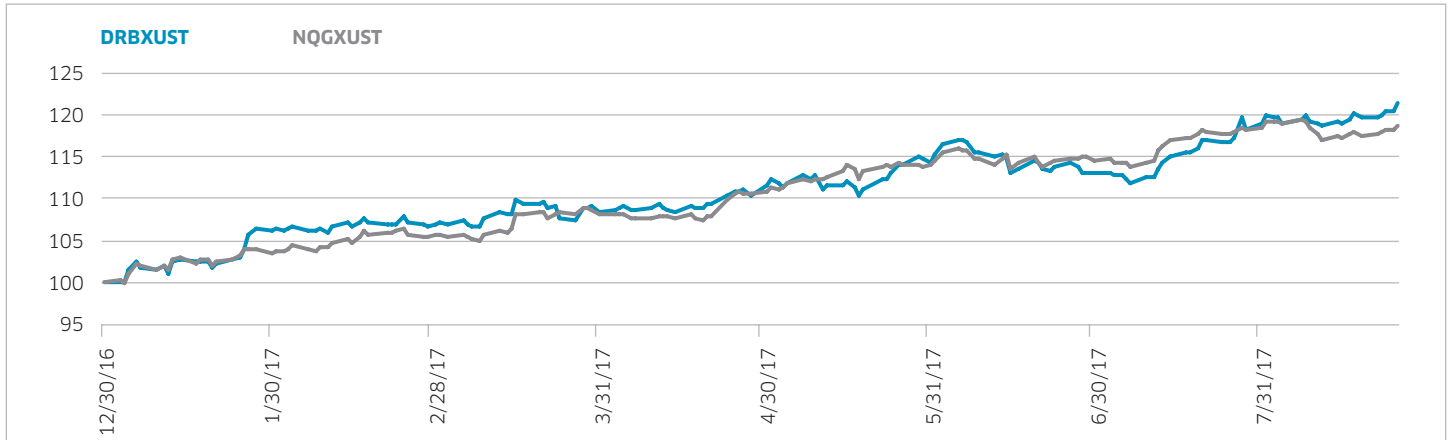
	DRBXUST	NQGXUST
Cumulative Return	68.92%	21.91%
Annualized Return	6.42%	2.38%
Annualized Volatility	19.56%	19.61%



## DRBXUST vs. NQGXUST (Performance History)

December 30, 2016 – August 25, 2017

Taking a look at year-to-date performance (through August 25, 2017), both DRBXUST (+21.55%) and NQGXUST (+18.73%) are off to very impressive starts thus far into the calendar year. As we can see, both indexes have continued to move in nearly lock-step fashion thus far into 2017.



## DRBXUST vs. Other International Indexes (Performance History)

2009-2017

Below is a chart of eight international indexes and their respective ranks in returns for each year from 2009 to 2017. As can be seen, the buyback factor internationally has been a leading performer over the last five years back to 2013 (2013 it was second, 2014 to 2016 it was first) with the exception of 2017. While underperforming some of these other factor indexes in 2017, buybacks still has a return of just under 13% through the end of June 2017. Quite a strong showing for only six months (and that number has drastically grown since with YTD returns of 21.55% through August 25, 2017, an 8.6% increase in return in less than two months).

### International Factor Returns

2009	2010	2011	2012	2013	2014	2015	2016	2017
Global x US 45.66%	Momentum 20.55%	Dividend -1.57%	Global x US 20.12%	Momentum 37.73%	Buyback 2.54%	Buyback 7.98%	Buyback 13.49%	Momentum 19.91%
Momentum 42.82%	Dividend 14.40%	Low Vol -3.29%	DM x US 19.82%	Buyback 33.86%	Low Vol 2.34%	DM X US Growth 4.09%	Dividend 10.77%	DM X US Growth 16.68%
Dividend 37.96%	Global x US 14.26%	DM X US Growth -12.11%	DM x US Value 17.69%	DM x US Value 22.95%	Dividend -0.61%	Momentum 1.06%	Global x US 5.13%	Global x US 14.45%
DM x US 36.76%	Low Vol 14.09%	DM x US Value -12.17%	Buyback 16.99%	DM X US Growth 22.55%	Global x US -2.96%	DM x US -1.30%	DM x US Value 5.02%	Low Vol 14.38%
Buyback 35.90%	DM X US Growth 12.25%	DM x US -12.26%	Momentum 16.96%	DM x US 22.00%	DM x US -3.78%	Low Vol -3.43%	Low Vol 4.01%	DM x US 14.02%
DM x US Value 34.23%	DM x US 11.70%	Buyback -13.11%	DM X US Growth 16.86%	Dividend 19.19%	DM X US Growth -4.43%	Global x US -3.79%	DM x US 3.67%	Buyback 12.94%
DM X US Growth 29.36%	Buyback 8.09%	Global x US -14.13%	Low Vol 14.71%	Low Vol 17.21%	Momentum -5.36%	DM x US Value -5.68%	DM X US Growth -3.05%	DM x US Value 11.12%
Low Vol 20.65%	DM x US Value 3.25%	Momentum -17.37%	Dividend 13.12%	Global x US 15.81%	DM x US Value -5.39%	Dividend -18.73%	Momentum -7.56%	Dividend 8.78%

\* YTD 2017 DATA: December 30, 2016 to June 30, 2017

DATA SOURCE: The returns above are index returns. Indexes are not available for direct investment and do not include fees or transaction costs. Past performance is not indicative of future results. Potential for profits is accompanied by possibility of loss.

Prior to index inception dates performance is based on a back-test of the data

Global x US	Nasdaq Global Ex United States	DM X US Growth	MSCI EAFE Growth	Momentum	Dorsey Wright DM Technical Leaders	Low Vol	S&P Int Developed Low Volatility
DM x US	Nasdaq Developed Ex United States	DM x US Value	MSCI EAFE Value	Buyback	Nasdaq International Buyback Achievers	Dividend	Nasdaq International Dividend Achievers

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## Risk Statistics

### Beta, Volatility, Sharpe Ratio (July 31, 2008 - August 25, 2017)

For some additional perspective, we analyzed a few of the most common performance statistics in terms of gaining a better feel for the risk management associated with DRBXUS when compared to the benchmark index NQGXUS.

The Beta during the allotted timeframe when comparing DRBXUST to NQGXUST is 0.94.

INDEX COMPARISON	BETA
DRBXUST VS NQGXUST	0.94

Annualized Volatility figures over the full time period (December 31, 2008 - August 25, 2017) came very close at 19.01% (DRBXUST) and 18.99% (NQGXUST).

DRBXUST	NQGXUST
19.01%	18.99%

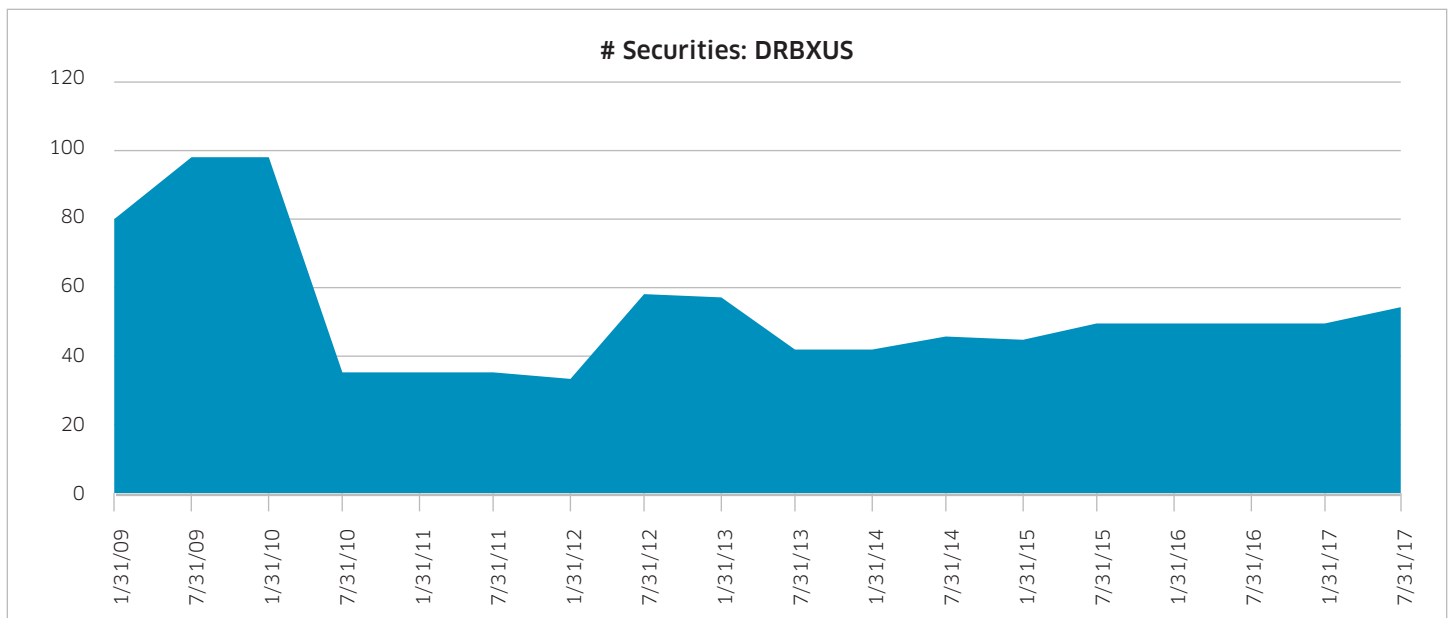
Finally, the Sharpe Ratio, which is one of the most commonly reviewed Risk metrics, came in at 0.39 (DRBXUST) and 0.17 (NQGXUST).

DRBXUST	NQGXUST
0.39	0.17

## Historical Number of Securities

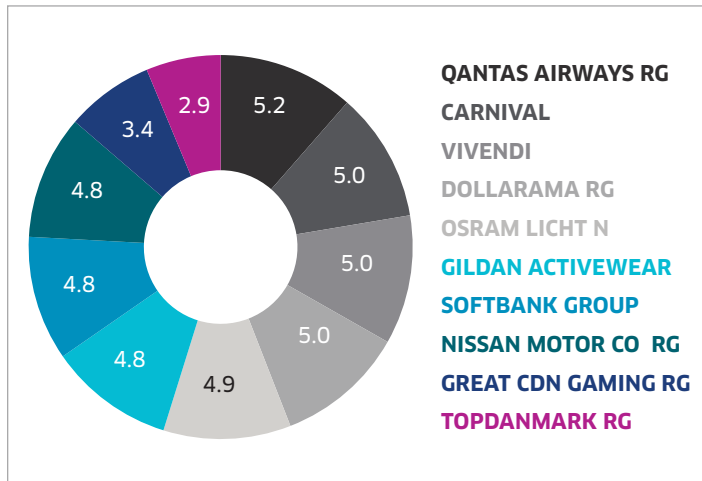
Regarding each respective annual rebalance in the below table, July 31, 2009, had the largest number of securities at 98. The period with the fewest number of securities was July 31, 2013, at 42 securities. The Index has held 50 securities after each July annual rebalance in 2015 and 2016. After the latest rebalance on July 31, 2017, the index held 54 securities.

DATE	# SECURITIES: DRBXUS
1/31/2009	80
7/31/2009	98
1/31/2010	98
7/31/2010	35
1/31/2011	35
7/31/2011	35
1/31/2012	34
7/31/2012	58
1/31/2013	57
7/31/2013	42
1/31/2014	42
7/31/2014	46
1/31/2015	45
7/31/2015	50
1/31/2016	50
7/31/2016	50
1/31/2017	50
7/31/2017	54



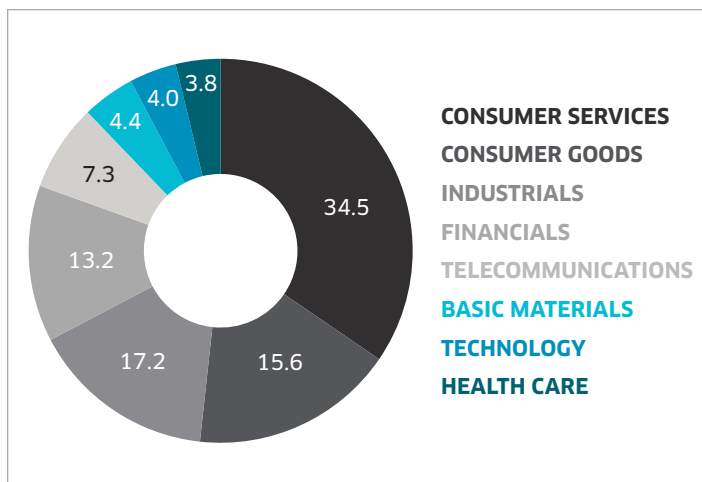
## Top 10 Allocations

Below are the top 10 allocations for DRBXUST as of August 25, 2017. The largest allocation was Qantas Airways at 5.22%, followed by Carnival at 4.98%. The smallest allocation within the top 10 holdings is Topdanmark 2.98%.



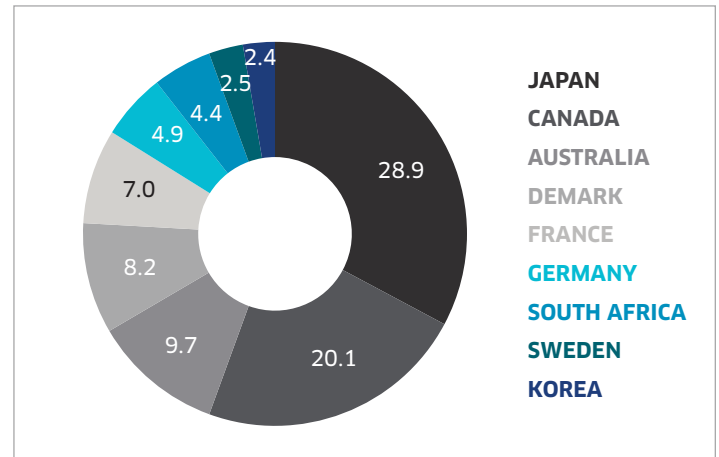
## Industry Allocations

As of August 25, 2017, the Nasdaq International BuyBack Achievers Total Return Index is most heavily allocated towards Consumer Services (34.5%), Consumer Goods (17.2%), and Industrials (15.6%). The smallest allocations remain in Basic Materials (4.4%), Technology (4.0%), and Health Care (3.8%). The index currently has no exposure towards Utilities or Oil & Gas.

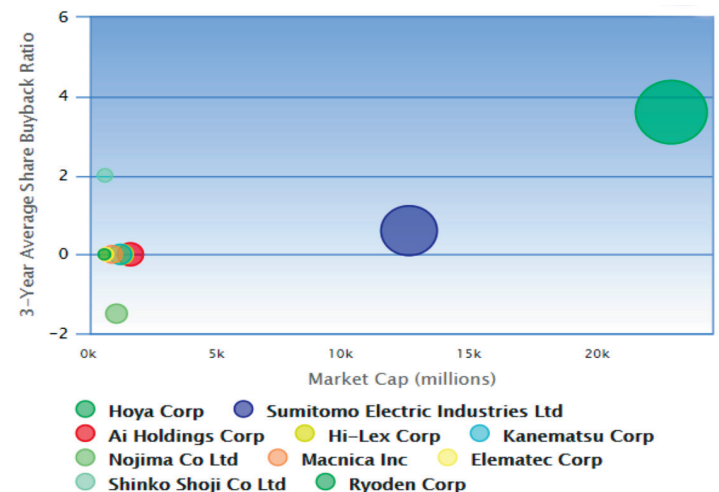


## Country Allocations

As of August 25, 2017, the Nasdaq International BuyBack Achievers Total Return Index was most heavily allocated towards Japan (29.4%), Canada (19.6%) and Australia (9.3%). The smallest allocations remain in South Africa (4.2%), and Sweden (2.6%) and Korea (2.5%). The remaining allocations can be found below. Given the record number of buybacks occurring in Japan this year, it's certainly an added benefit to the index to have such a high allocation towards Japanese equities.



We analyzed a number of Japanese companies that were held in the index prior to the most recent rebalance to see if any of them completed share buybacks over the past three years. Hoya Corp, which completed a number of share buybacks during this time period, saw an impressive 69% gain between July 31, 2016, and August 25, 2017. Hoya Corp also currently has a three-year average share buyback ratio, much higher (3.6) than a number of its peers. In fact, this number is ranked higher than 95% of the 1366 companies listed within this study under the Global Electronics Distribution Industry<sup>2</sup>.



<sup>2</sup> [https://www.gurufocus.com/term/total\\_buyback\\_3y/OTCPK:HOCPP/3-Year-Average-Share-Buyback-Ratio/Hoya-Corp](https://www.gurufocus.com/term/total_buyback_3y/OTCPK:HOCPP/3-Year-Average-Share-Buyback-Ratio/Hoya-Corp)

Below we've listed the amount of shares repurchased on the announcement dates as well as the actual amounts repurchased.

YEAR END	# SHARES REPURCHASE ANNOUNCEMENT (M)	ACTUAL AMOUNT SHARES REPURCHASED (M)
2014	10.0	9.23 Mln
2015	31.5	29.59 Mln
2016	16.4	14.82 Mln

Source: Bloomberg

## More Information

For more information on the Nasdaq International BuyBack Achievers Index, please visit [BUSINESS.NASDAQ.COM/INDEXES](https://business.nasdaq.com/indexes).

## PowerShares International Buyback Achievers Portfolio (IPKW)

### Growth in 2017

The corresponding ETF to the Nasdaq International BuyBack Achievers Index is the PowerShares International Buyback Achievers Portfolio (IPKW). The impressive growth in shares outstanding thus far into the year has gone from 3.85M on December 30, 2016, to 5M as of August 25, 2017. Total assets as of August 25, 2017, were just over \$170M, up from \$95M at the start of the year. On August 25, 2017, the fund hit a new all-time high at \$34.32.

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