

Nasdaq AlphaDEX Indexes: Beating their Benchmarks since Inception

A look at smart beta in the Eurozone

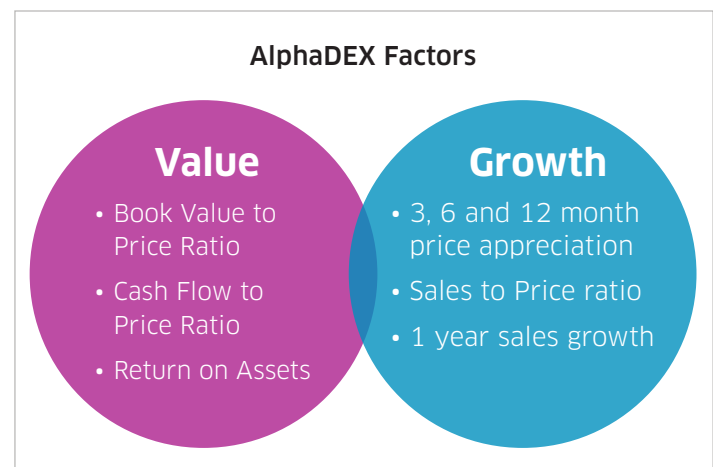
BY CHARLES COLEMAN, ASSOCIATE PORTFOLIO MANAGER, NASDAQ DORSEY WRIGHT

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 Nasdaq AlphaDEX Eurozone Index (NQDXEUROT) utilizes the AlphaDEX index methodology to select companies in the Eurozone countries 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 Eurozone Index (NQDXEUROT) has outperformed the Nasdaq Eurozone Index (NQEUEOT) over the trailing year-to-date, 1-, 3-, and 5-year period ending [September 30, 2018].

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.

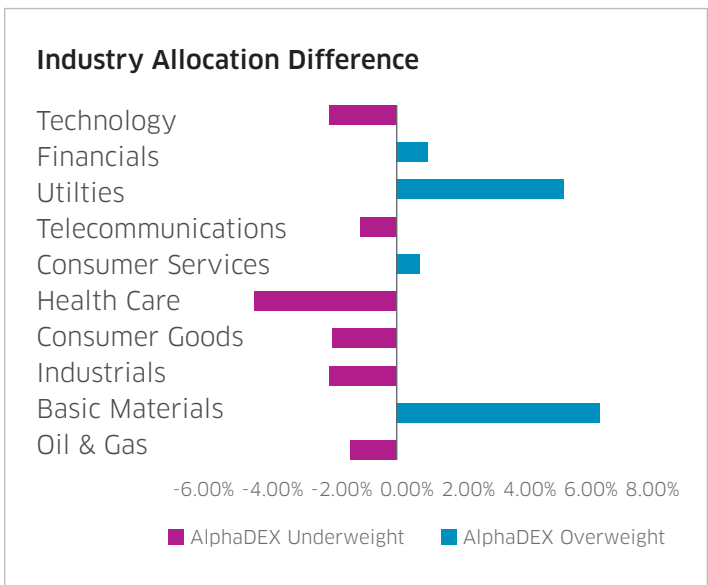


Index Name	Index Ticker	YTD	1 Year	ANNUALIZED		CUMULATIVE	
				3 Year	5 Year	3 Year	5 Year
Eurozone AlphaDEX Index	NQDXEUROT	-1.48%	2.49%	15.90%	8.55%	55.69%	50.74%
Nasdaq Eurozone TR Index	NQEUEOT	-3.06%	-2.25%	10.15%	5.54%	33.63%	30.94%

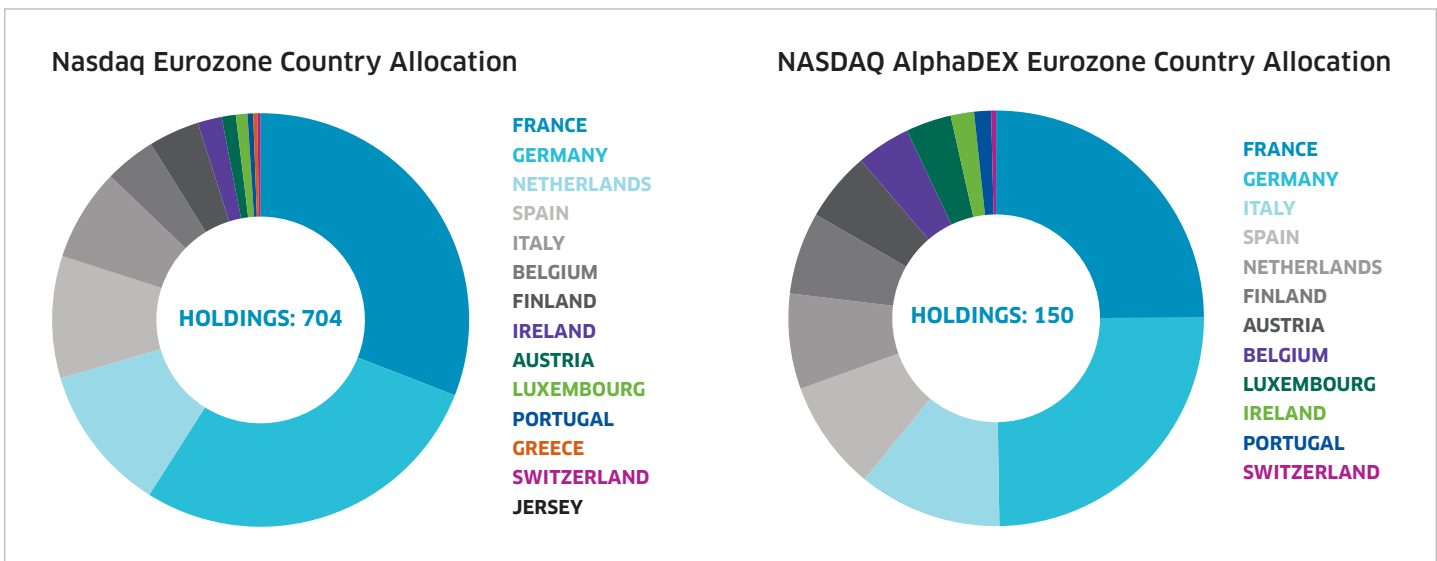
As of September 30, 2018 Source: Nasdaq Past performance is no guarantee of future results. Potential for profits is accompanied by possibility of loss.

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 Financials and Consumer Services is less than one percent different in the indexes, the NASDAQ AlphaDEX Eurozone clearly favors Utilities and Basic Materials over Health Care and Technology, which have a much higher allocation in the Nasdaq Eurozone Index.

The country allocations between the NASDAQ AlphaDEX Eurozone and the Nasdaq Eurozone Indexes both have their largest allocations split between France and Germany. The NASDAQ AlphaDEX Eurozone Index, however, has much smaller allocations to both countries, instead favoring larger allocations to Austria, Finland and Luxembourg.



Data as of September 30, 2018. Source: Nasdaq



Data as of September 30, 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 2014, First Trust launched the First Trust Eurozone AlphaDEX ETF (Ticker: FEUZ) in Europe and in the US to track the Nasdaq AlphaDEX Eurozone Index and, similar to the index, FEUZ has outperformed its benchmark since inception by utilizing the structured, yet flexible, AlphaDEX index methodology.

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