

2019 Index Methodology Review

October 22, 2019

Invesco Indexing has recently completed its annual methodology review. Through this exercise, the team considers index methodology updates that have the potential to enhance the indexes' overall representativeness and consistency with expected exposures and outcomes.

Invesco Indexing recognizes that changes to the methodology may have an impact on organizations that use the indexes as the basis of a portfolio, a performance benchmark, or a comparative index for analytical purposes, among other uses. Therefore, the firm seeks feedback from its clients on proposed changes to better understand the impact from the viewpoint of various stakeholders.

Invesco Indexing will actively solicit feedback from clients on the outcome of this year's methodology review until November 14, 2019. At that time, Invesco Indexing will publish their conclusion and, should any methodology change occur as a result, that change is expected to be incorporated in the Index and its associated rebalance effective December 20, 2019.

In 2019, Invesco Indexing is suggesting one change to an index construction methodology. This proposed change affects a single index – the Invesco Values-Based Developed Markets ex-US Large Cap Value Index. The details for the proposed change follow, along with a discussion of expected index turnover solely related to the proposed change. Expected turnover is an approximation and is subject to change.

Invesco Indexing encourages clients to provide feedback on the proposed change by contacting the team at IndexSupport@invesco.com. Consideration of insights from a range of stakeholders is expected to ensure that the indexes continue to seek to deliver the expected market exposure and outcomes through a clear, thoughtful, and transparent index construction methodology.

Proposal:

Neutralize the Value factor score by Region + Sector rather than Sector only

Affected index:

Invesco Values-Based Developed Markets ex-US Large Cap Value Index

Current index methodology treatment:

At the semi-annual Index rebalances in June and December, factor scores are refreshed. The first step in this process is the computation of raw factor scores for all securities in the Index's investable universe. Each raw factor score is scaled between 0 and 1 within sector, then standardized over the investable universe, combined into a multi-factor score, and transformed to arrive at the final factor score (for more information on factor construction in this Index, please see the Index Details section of the [methodology document](#)).

Proposed index methodology treatment:

In order to account better for regional differences, after raw factor scores are computed for all securities in the Index's investable universe, the process will scale those scores between 0 and 1 within each region *and* sector combination, rather than just within sector. For example, factor scaling will occur for Developed Europe Technology and Developed Asia Technology separately, rather than across all Technology. The remaining steps in factor construction will remain the same.

Expected impact:

There is very little turnover impact expected from the semi-annual index rebalance occurring in December 2019 should the proposed methodology treatment be in effect. Comparing the actual December 2018 rebalance to the theoretical December 2018 rebalance had the proposed methodology been in effect at that time results in 19% turnover for the former case and 20% for the latter case.

For further information, please contact IndexSupport@invesco.com.

Kind regards,

Invesco Indexing LLC