

A Smart Approach to Energy Exposure: The Nasdaq US Smart Oil & Gas Index™

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There has been no shortage of headlines in recent months surrounding escalating geopolitical tensions and their widespread effects on oil, gas, and the broader energy sector. As a result, many investors are looking for different ways to play the energy space, and in particular, the oil & gas industries. One such index that narrows its focus on this area of the market is the Nasdaq US Smart Oil & Gas Index (NQSSOG™), which has been tracking live since July 8, 2016. In short, the Nasdaq US Smart Oil & Gas Index is designed to provide exposure to 50 of the most liquid US companies within the Energy industry as defined by the Industry Classification Benchmark (ICB), with a focus on the six subsectors relating to oil & gas (laid out in the following section). The Index is reconstituted annually in March and follows a quarterly rebalancing schedule (March, June, September, and December).

Index Eligibility:

To be eligible for the Nasdaq US Smart Oil & Gas Index, a security must be included in the Nasdaq US Benchmark Index™ (NQUSB™). Stocks must be classified in one of six ICB oil & gas subsectors within the broader Energy industry, including 1. Integrated Oil and Gas; 2. Oil: Crude Producers; 3. Offshore Drilling and Other Services; 4. Oil Refining and Marketing; 5. Oil Equipment and Services; and 6. Pipelines. A preliminary liquidity screen is applied by way of selecting those stocks that have at least 20% of their total shares outstanding publicly available for trading (float shares). Only one security per issuer is permitted in the index. Finally, eligible securities are ranked by their trailing three-month average daily traded value, and the top 50 ranked securities are selected for inclusion. The index is reconstituted once annually, using market data as of the end of February, and goes effective at the market open on the first trading day after the third Friday in March.

Factor Values:

To determine the weightings of each stock in the Index, the 50 securities¹ that meet the criteria discussed above receive a blended factor score for Volatility, Value, and Growth at each quarterly rebalance. The definitions for each of the three factors are as follows:

- Volatility is calculated as the trailing one-year volatility as of the last trading day in the prior month.
- Value is defined as the Cash Flow to Price ratio, which is calculated as the most recent reported cash flow data divided by market capitalization as of the previous quarter. (The Value scores are subject to an 80% winsorization: no score can be above the 90% percentile value or below the 10% percentile value.)
- Growth is calculated as the average of the three-month, six-month, nine-month, and 12-month price returns as of the last trading day in the prior month.

¹ Index securities removed at any time during the year other than the Index Reconstitution are not replaced.

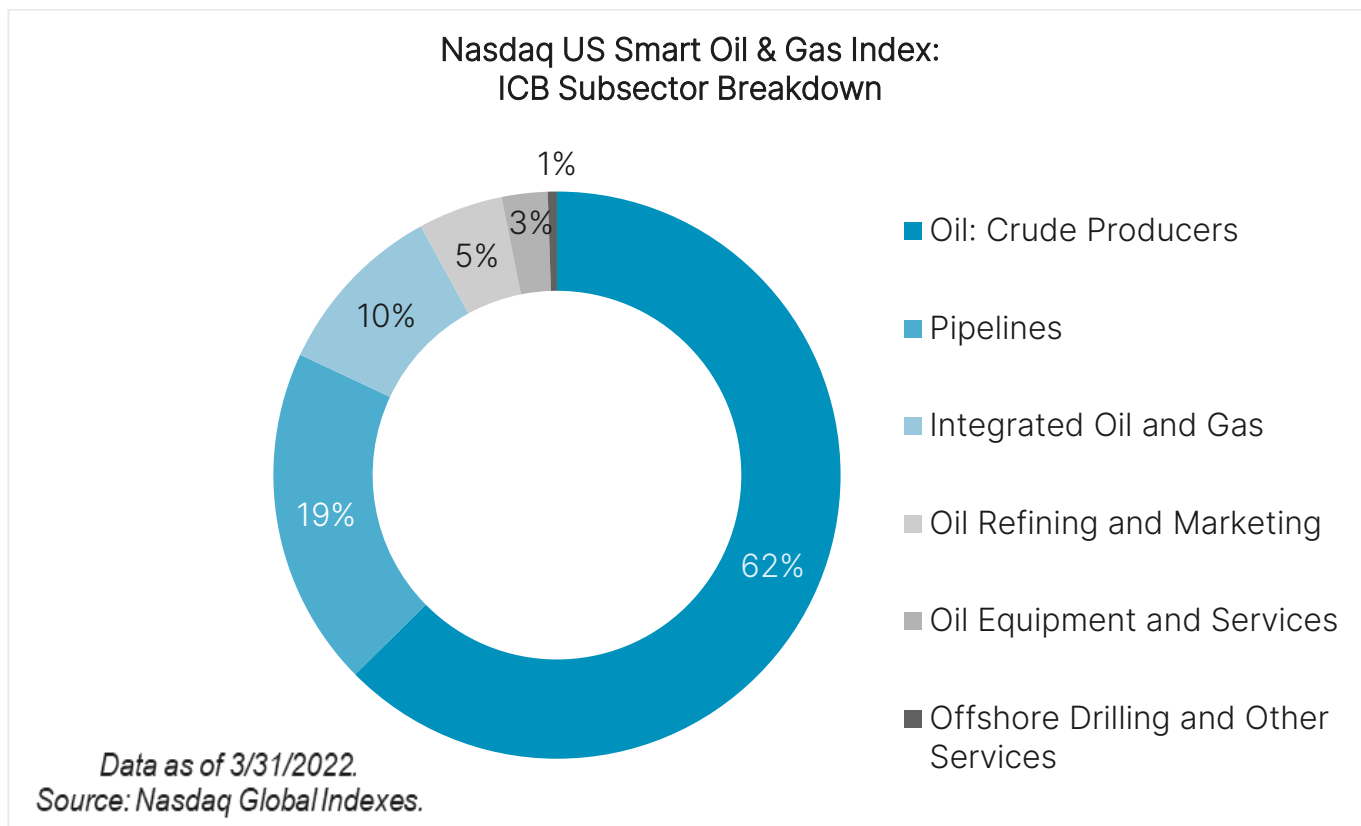
Index Securities' Factor Scores are calculated as the averages of the Index Securities' normalized Volatility, Value, and Growth factor z-scores. Negative Factor Scores are adjusted to equal the minimum positive Factor Score. Initial index weights are calculated as these adjusted Factor Scores divided by the sum of the adjusted Factor Scores of all securities in the Index. The Index then goes through a three-stage weight adjustment process. In the end, no one position may exceed 8%. After the top five securities, no weight may exceed 4%. On the flip side, no security weight may be less than 0.25%. As mentioned above, the Index follows a quarterly rebalance schedule. It uses value factor data as of each previous quarter-end, and volatility and growth factor data as of the prior month's end. Rebalances become effective at market open on the trading day following the third Friday in March, June, September, and December.

The full index methodology can be found here:

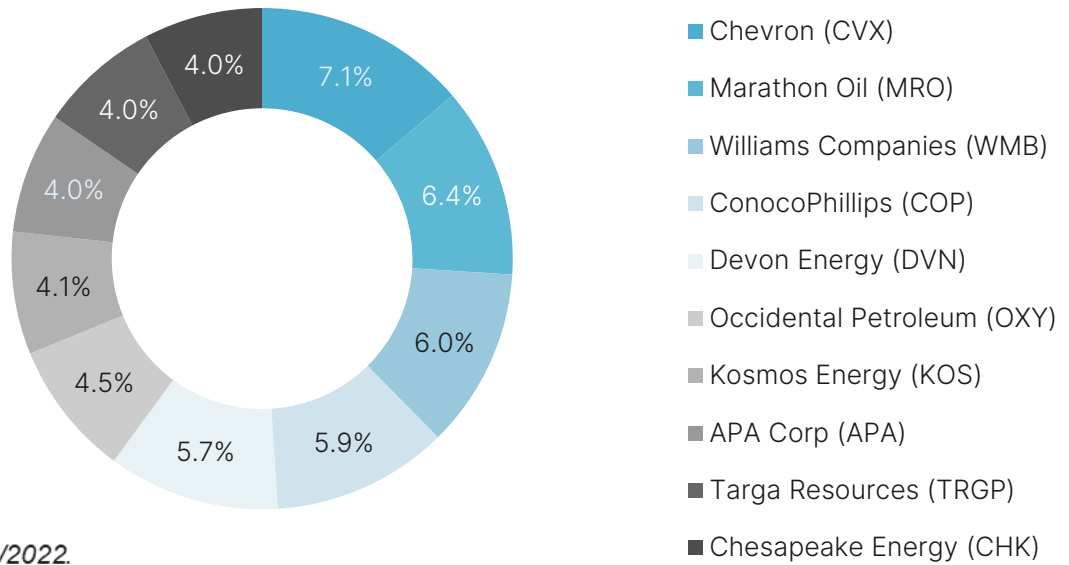
https://indexes.nasdaqomx.com/docs/methodology_USSmartSectorFamily.pdf

Current Index Composition:

As of the most recent annual reconstitution in March 2022, the Nasdaq US Smart Oil & Gas Index was comprised of 50 stocks. While the Nasdaq US Smart Oil & Gas Index is a pure energy play, its unique subsector exposures set the Index apart from a typical, market-cap-weighted energy index. Looking at the subsector breakdown as of March 31, 2022, the Nasdaq US Smart Oil & Gas Index was overweight Oil: Crude Producers at 62%. The Pipelines subsector was the next largest subsector at 19%, followed by Integrated Oil and Gas at 10%. Chevron (CVX) was the index's largest weighting at 7.1%, followed by Marathon Oil (MRO) at 6.4%. Meanwhile, a handful of names including Phillips 66 (PSX), Hess (HES), and Laredo Petroleum (LPI) were relatively underweight near the lower bound of 0.25%. The top 10 largest stocks in the Nasdaq US Smart Oil & Gas Index accounted for over 51% of the total weight.



**Nasdaq US Smart Oil & Gas Index:
Top 10 Holdings = 51.7%**

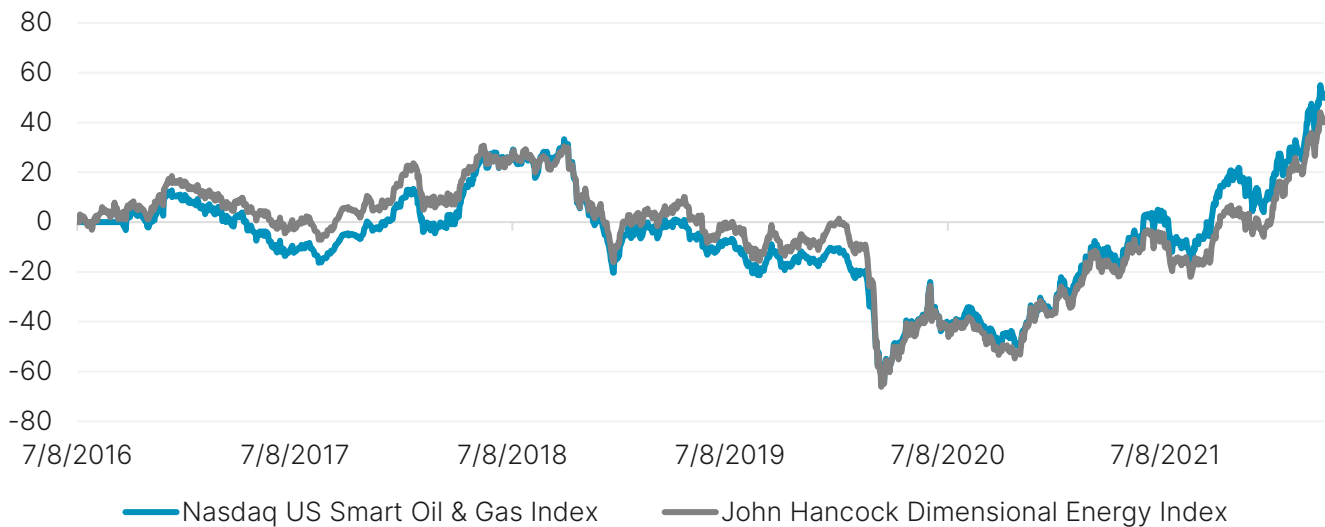


Data as of 3/31/2022.
Source: Nasdaq Global Indexes.

Competitor Performance:

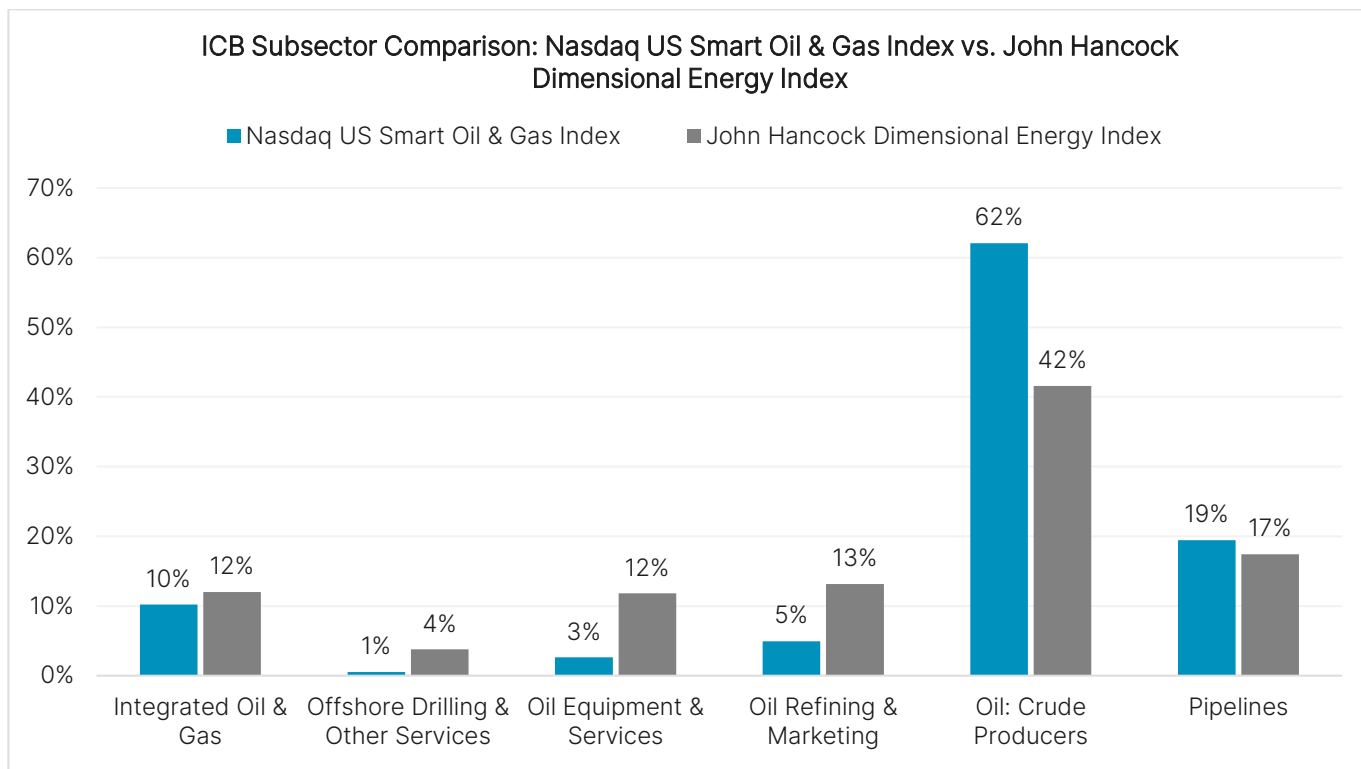
Despite some year-to-date underperformance in 2022, the Nasdaq US Smart Oil & Gas Index has outperformed the John Hancock Dimensional Energy Index, a multi-factor energy index competitor, since inception. From July 8, 2016, through March 31, 2022, the Nasdaq US Smart Oil & Gas Index has gained 49.93% on a total-return basis, vs. 40.08% for the John Hancock Dimensional Energy.

**Performance: Nasdaq US Smart Oil & Gas Index vs John Hancock
Dimensional Energy Index
7/8/2016 - 3/31/2022**



Data 7/8/2016 - 3/31/2022.
Source: Nasdaq Global Indexes, Bloomberg.

Although both are considered multi-factor energy indexes, the John Hancock Dimensional Energy Index selects constituents according to their market capitalization, relative price, and profitability; it currently holds 14 fewer names than the Nasdaq US Smart Oil & Gas Index. When we compare the ICB subsector exposure, we find that the Nasdaq US Smart Oil & Gas Index has over 20% more exposure to Oil: Crude Producers, which has significantly contributed to returns over the last month.



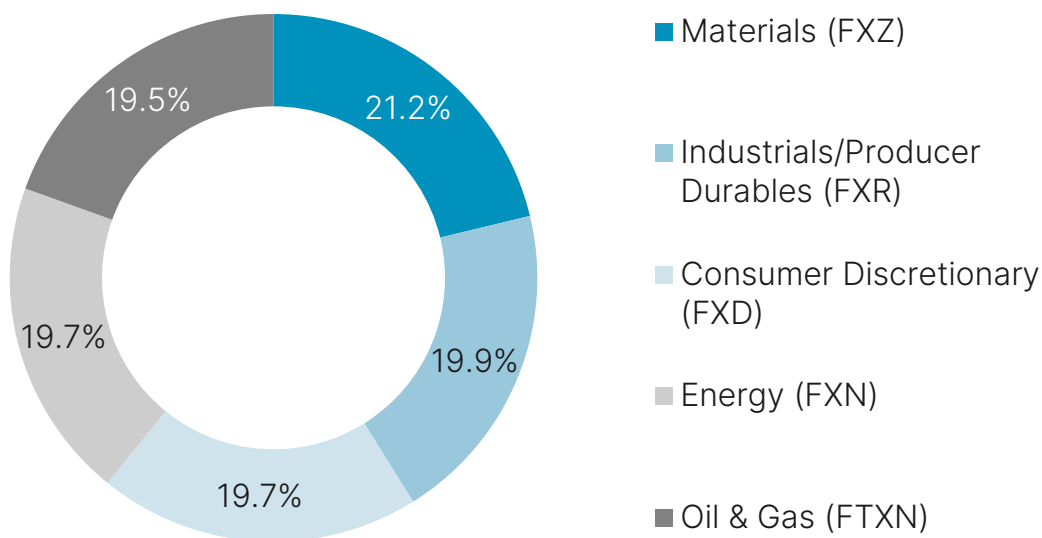
Data as of 3/31/2022.

Source: Nasdaq Global Indexes, Bloomberg.

Relative Strength:

The Nasdaq US Smart Oil & Gas Index has gained momentum over the past few months, which is reflected in the rotation that occurred in the Dorsey Wright Focus Five Index™ last December. The First Trust NASDAQ Oil & Gas ETF (FTXN) – a product that tracks the Nasdaq US Smart Oil & Gas Index – rotated into the Relative Strength-driven Dorsey Wright Focus Five Index, taking the place of the First Trust Technology AlphaDEX Fund (FXL), which had been a long-term holding in the strategy since 2017. This reduced the Dorsey Wright Focus Five Index's exposure to Technology and added Oil & Gas exposure for the first time in the Index's history. In short, the Dorsey Wright Focus Five Index selects five sector-based exchange-traded funds from the First Trust Portfolios product line with powerful Relative Strength characteristics. Relative Strength is calculated using daily price movement. Based on the most recent reconstitution and rebalance, the Dorsey Wright Focus Five Index provides exposure to Consumer Discretionary, Energy, Industrials, Basic Materials, and Energy. Although the Dorsey Wright Focus Five Index is down -0.44% on a year-to-date basis through 3/31/22, it is outpacing the S&P 500 Index by over 4%. When we dive deeper into the Dorsey Wright Focus Five Index performance attribution over this timeframe, we find that the FTXN ETF has contributed 6.78% to total performance, the most of any of the five ETFs currently held in the Index.

Dorsey Wright Focus Five Index Holdings & Weightings



*Data as of 3/31/2022.
Source: Nasdaq Global Indexes.*

ETFs currently tracking NQSSOG include the First Trust Nasdaq Oil & Gas ETF (Nasdaq: FTXN).

Sources: FactSet, Bloomberg, Nasdaq Global Indexes.

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