The Nasdaq Q-50 Index:

The Next Generation of Innovators

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The Nasdaq Q-50 Index® tracks the performance of the 50 securities that are next eligible for inclusion into the Nasdaq-100 Index®. The index deploys the proven methodology behind the time-tested Nasdaq-100 Index, with its emphasis on innovation and growth.

Methodology

The Nasdaq Q-50 (NXTQ) Index tracks the performance of the 50 securities that are next eligible for inclusion into the Nasdaq-100 (NDX) Index. The index begins with the universe of all companies, both domestic and foreign, that are listed on the Nasdaq Stock Market. The index then removes all companies classified as financials from eligibility according to the Industry Classification Benchmark (ICB). Finally, the top 50 market cap names not currently in the Nasdaq-100 are included in the index. The methodology keeps the Nasdaq Q-50 Index aligned with the innovation and growth focus of the Nasdaq-100 Index, but with acute focus on the next generation of market leadership.

Performance

Figure 1 presents the cumulative performance of the Nasdaq Q-50 Index, alongside the Nasdaq-100 Index and the S&P 500 (SPX) / S&P Midcap 400 (MID) Indexes, for the period from the index's launch on October 10, 2007, through September 9, 2020. During that almost 13-year period, the Nasdaq Q-50 outperformed the S&P 500 by 215% on a price basis, and its midcap cousin, the S&P Midcap 400, by 227%. While the Nasdaq Q-50's price performance trailed the Nasdaq-100 over this period by 91%, the key benefit of the Nasdaq Q-50 is diversification into additional disruptive companies beyond the established, mega cap, and large cap leaders in the Nasdaq-100.

Figure 1. Nasdaq Q-50 vs. Key Indexes: Cumulative Performance

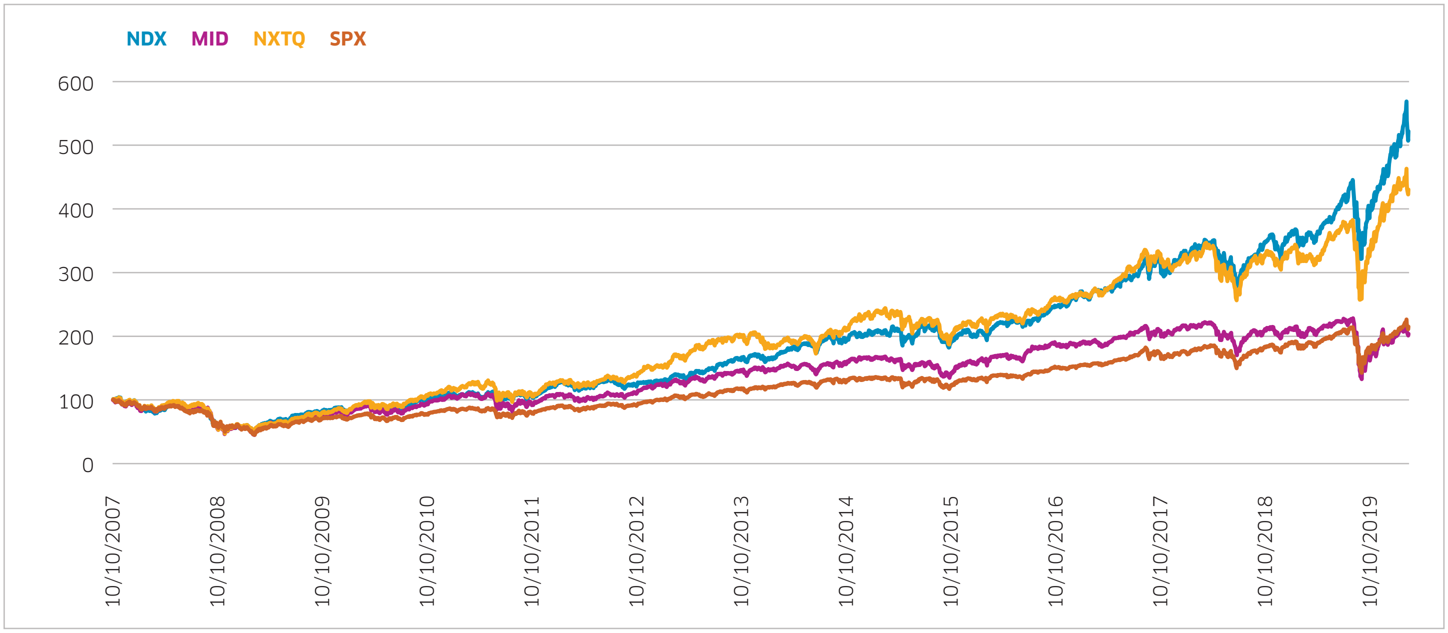
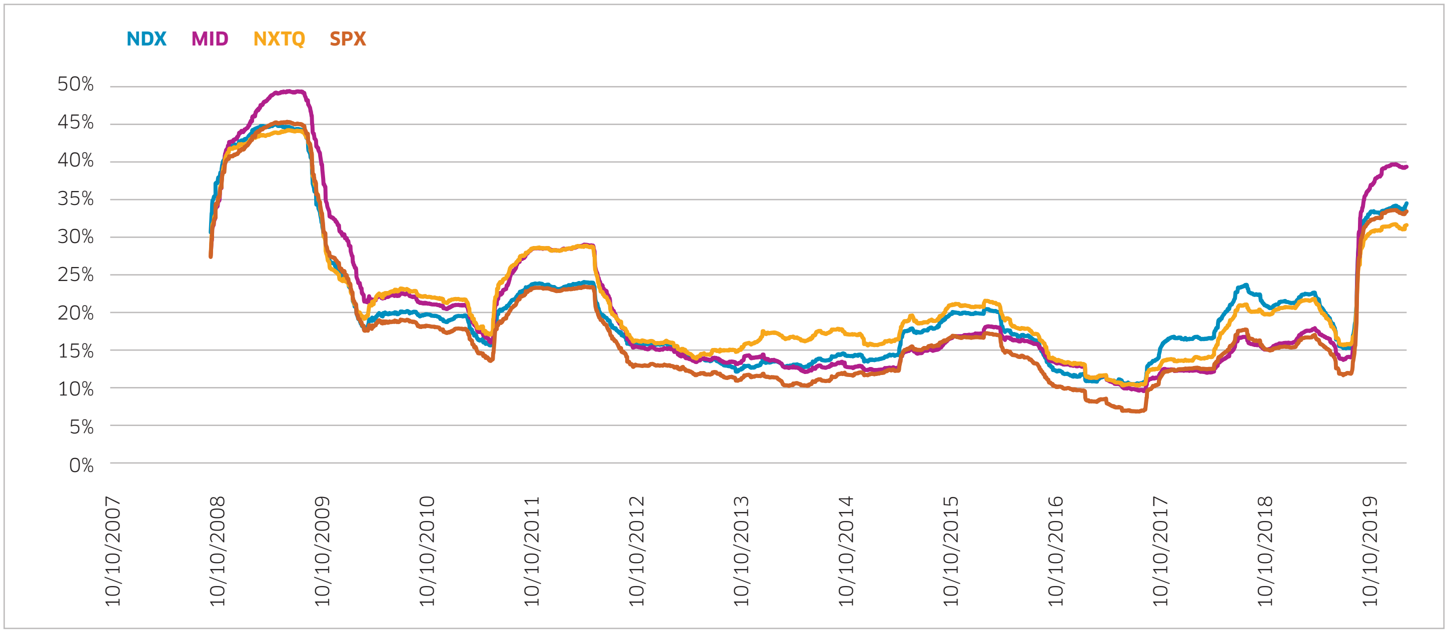


Figure 2 shows a tendency for slightly elevated volatility for the Nasdaq Q-50 vs. the Nasdaq-100 as well as the S&P 500 / S&P Midcap 400, with the notable exceptions of the most recent period encompassing the Coronavirus pandemic disruption, as well as the 2008-2009 Financial Crisis. One explanation for generally elevated volatility is the smaller number of constituents and resulting higher concentration of the index: with only 50 members (vs. 100 or 500/400), the Q-50 is more sensitive to the price swings of each name. Further, this elevated volatility fits the profile of up-and-coming disruptors who are likely still early in the growth stage of their business life cycle; on average, firms in the Nasdaq Q-50 went public 18 years ago, vs. 26 years ago for the Nasdaq-100. In contrast, the crisis period of 2008-2009 saw overall market volatility driven by Financials, which are excluded from the Q-50 as in the Nasdaq-100, while 2020's volatility was somewhat more diffuse but still largely concentrated outside of the Q-50's leading sector exposures.

Figure 2. Nasdaq Q-50 vs. Key Indexes: Annualized Volatility (%)



Exposure

Figure 3 displays the market capitalization of each index as of August 31, 2020. We present three different variations of the market capitalization calculation (position-weighted, average, and median), to help illuminate the intense skew that can arise in the position-weighted calculation. As you can see, the Nasdaq Q-50 indeed has a significantly lower market cap tilt than the Nasdaq-100, to some degree expected by virtue of the index filtering for the next 50 largest market cap companies outside of the 100 that define the Nasdaq-100. We also observe a significant tilt towards lower market caps as compared to the S&P 500, while still maintaining approximately three times the levels of the S&P Midcap 400. This tilt towards smaller, up-and-coming companies that have nonetheless broken into the ranks of large caps, is a key ingredient to the index's angle towards the next generation of innovators.

Figure 3. Nasdaq Q-50 vs. Key Indexes: Market Cap Exposure ($bn)

	NASDAQ Q-50	NASDAQ-100	S&P 500	S&P 400
Weighted Market Cap	18.6	837.9	482.9	6.5
Average Market Cap	17.4	136.3	59.9	4.5
Median Market Cap	14.5	42.4	23.4	3.7

Figure 4 displays the sector exposure of each index as of August 31, 2020. As you can see, the Nasdaq Q-50 continues to carry the tech torch from its older sibling, the Nasdaq-100. But the Nasdaq Q-50 is lighter by 15% in technology. In addition, the Nasdaq Q-50 is 5% lighter in consumer services and 4% lighter in consumer goods. These underweights relative to the Nasdaq-100 translate into overweights within industrials and health care. These marked differences in market cap and sector exposures between the Nasdaq-100 and Nasdaq Q-50 can make for a compelling case for diversification between the two.

Figure 4. Nasdaq Q-50 vs. Key Indexes: Sector Exposures (%)

	NASDAQ Q-50	NASDAQ-100	S&P 500	S&P 400
Technology	42	57	30	10
Industrials	18	4	11	23
Consumer Services	17	22	15	14
Health Care	17	6	13	12
Consumer Goods	4	8	7	8
Oil & Gas	0	0	2	3
Basic Materials	0	0	2	5
Telecommunications	0	1	2	0
Financials	0	0	15	22
Utilities	2	1	3	4

Liquidity

Figure 5 illustrates the liquidity characteristics of the securities in each index as measured by turnover, which is the average daily dollar trading volume (trailing 6 month) for an index divided by its average market capitalization, as of August 31, 2020. Although the Nasdaq Q-50 Index is skewed towards the lower end of the capitalization spectrum, the index touts greater constituent liquidity than both the Nasdaq-100 and the S&P 500.

Figure 5. Nasdaq Q-50 vs. Key Indexes: Constituent Liquidity (%)

	NASDAQ Q-50	NASDAQ-100	S&P 500	S&P 400
Turnover	1.12	0.86	0.75	1.08

Products tracking the Nasdaq Q-50 Index include the VictoryShares Nasdaq Next 50 ETF (Nasdaq: QQQN).