



NEXT GENERATION INDICES

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THE INDEX COMPANY

NEXT GENERATION INDICES AT FTSE

Background

While market-cap indices may represent the most straightforward approach to capturing beta returns, it is not always the most desirable. Investors are looking at new alternatives to market-cap weighted indices, not necessarily to replace their market-cap weighted benchmarks, but as an additional tool to diversify their core passive portfolios.

Market Challenge

- Growing investor demand to use a transparent, rules-driven index structure to capture systematic sources of returns
- Better downside protection
- To provide an alternative to active management
- A requirement for more diversified benchmarks

FTSE Provides a Range of Options

FTSE provides an enhanced range of indices offering investors a lower cost alternative to active strategies. The growing index range seeks to capture systematic sources of returns within a low cost, transparent, rules-driven index structure. In this respect, enhanced or strategy indices can be used as an alternative investment approach as well as being complementary to market-capitalized indices.

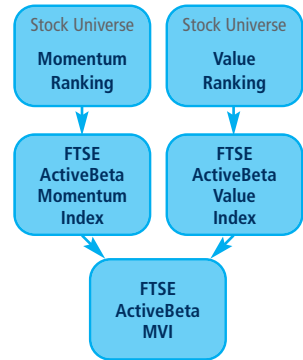
FTSE ACTIVEBETA INDEX SERIES

The FTSE ActiveBeta Index Series, launched in association with Westpeak Global Advisors, combines the notions of value and momentum, used in active management.

Construction and Methodology

The methodology is derived from the premise that a significant portion of traditional active equity management returns, or alpha, is attributable to systematic sources of active returns.

The index series provides an efficient, transparent and cost-effective capture of the systematic sources of active equity returns, and provides the ability to capture them either independently or in combination, based on a given universe of stocks. This index series includes indices based on the Global Equity Index Series, FTSE All-World Series and the FTSE All-Share Index (UK).



Features

Both the Momentum and Value component indices offer high investment capacity through market-cap weighting. Since the components hold about 50% of the parent index, each constituent has roughly twice its weight in the underlying FTSE index. When combined into the FTSE ActiveBeta MVI, a constituent in only one component has a similar weight to the underlying Index, while a constituent in both components has roughly twice its weight.

Relative returns for the Momentum and Value component indices tend to be negatively correlated, thus providing significant diversification benefits when captured in combination through the FTSE ActiveBeta MVI. These benefits include lower relative risk and drawdown than the independent component indices.

FTSE DIVERSIFICATION BASED INVESTING INDEX SERIES

The FTSE DBI Index Series is designed to achieve bear-market protection relevant to the equivalent market-cap weighted benchmark.

Three key beliefs form the foundation of Diversification Based Investing (DBI):

1. Geography and industry are the primary drivers of global/international equity risk and return
2. Market sentiment can produce momentum effects that cause concentration risk in equity indices that tend to build and collapse
3. A diversified portfolio helps reduce concentration risk and downside risk

Construction and Methodology

The index series consists of risk weighted indices which aim to generate higher risk adjusted returns and good downside protection by creating a more diversified portfolio.

To achieve the goal of maximum diversification across countries and sectors, DBI groups stocks into risk themes or “clusters” according to their correlations and then equal-weights the clusters. The result is a diversified portfolio structured according to risk themes in the market based on correlations, rather than market-cap weights. This is achieved through a four step process:



Features

- The index series helps investors to avoid concentration risk or bubbles, in global and international equity markets that tend to build and collapse
- Historically outperforms FTSE market-cap weighted benchmark equivalents over extended periods
- Transparent, intuitive and straightforward portfolio construction process
- Indices are weighted to promote diversification across countries and industry sectors with a high level of liquidity
- Indices seek higher absolute and risk-adjusted returns compared to market-cap weighted indices, with less downside risk
- The methodology addresses macro and behavioral inefficiencies in global and international equity markets by developing a diversified exposure to macro risk factors

FTSE EDHEC-RISK EFFICIENT INDEX SERIES

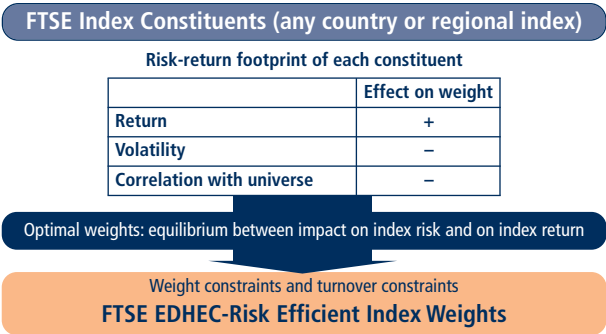
The FTSE EDHEC-Risk Efficient Index Series, launched in association with EDHEC-Risk Institute aims to capture equity market returns with an improved risk/reward efficiency.

Construction and Methodology

The weighting of the portfolio of constituents achieves the highest possible return-to-risk efficiency by maximising the Sharpe ratio. In order to maximize the Sharpe ratio, the methodology seeks to reliably estimate two essential inputs needed for portfolio optimization:

- the expected returns of each stock which are calculated indirectly by the riskiness of each stock
- the covariance matrix of returns for all stocks which is calculated using statistical factor models that describe the co-movement of stock prices through their exposure to common risk factors.

The index series is based on all constituent securities in the FTSE All-World Index Series. Constituents receive weights which result from EDHEC-Risk's portfolio optimization reflecting their ability to maximize the reward-to-risk ratio for a broad market index.



Features

- The indices help investors avoid the high concentration and the poor diversification of market-cap weighted indices
- The indices are designed for the creation of derivatives, index tracking funds and ETFs
- The indices reflect the optimal risk/reward trade-off available to investors in the broad stock market
- Stocks are liquidity screened to ensure that the index is tradable
- Capital and total return indices are available for this index

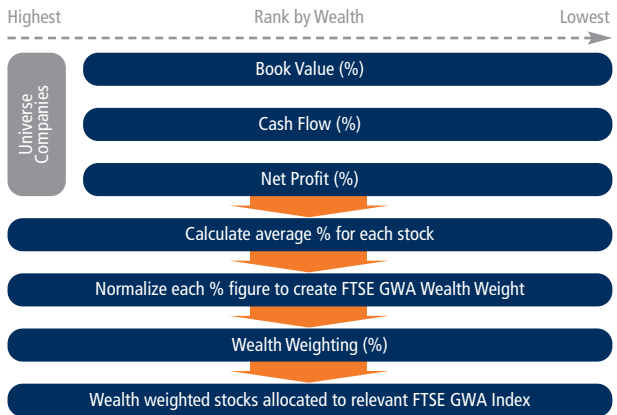
FTSE GWA INDEX SERIES

The FTSE GWA Index Series uses the Wealth Allocation methodology developed by Global Wealth Allocation (GWA).

Construction and Methodology

These wealth weights are calculated from wealth creation factors derived from company fundamentals. The methodology uses audited financial statements to attain the three wealth factors: book value, cash flow and net profit.

Prices, which can be prone to speculation, are not a component of the wealth weights. The constituent weights are therefore less affected by market bubbles that can over expose an investor to individual companies or sectors.



Features

- A non-speculative, long-term complement to the market-cap weighted index
- Wealth weighted strategy to avoid the pitfalls of short-term price volatility and speculation
- Total return indices are available within this series
- Stocks are free-float weighted to ensure that only the investable opportunity set is included within the indices
- Stocks are liquidity screened to ensure that the indices are tradable

FTSE RAFI INDEX SERIES

The FTSE RAFI Index Series uses the Fundamental Indexation™ methodology developed by Research Affiliates LLC. The index derives its constituent weights from company fundamentals.

Construction and Methodology

The methodology uses the audited dollar values of cash flow, book value, total sales and gross dividend to derive each constituent index weight. Prices are not a component of the weights. As the fundamental weightings are regularly reviewed at the index review, the constituent weights are less affected by market bubbles, protecting investors from being overly exposed to any one sector or company.

Fundamental Factors

- **Sales** = company sales averaged over the prior five years
- **Cash Flow** = company cash flow averaged over the prior five years, defined as Operating Income plus Depreciation
- **Book Value** = company book value at the review date
- **Dividend** = total dividend distributions averaged over the last five years, including both special and regular dividends paid in cash

Features

- FTSE RAFI Index-linked products offer the advantages of a quantitative management strategy with the highlights of passive investment
- By using fundamental factors rather than prices to weight stocks, reviews of the FTSE RAFI Index Series take advantage of price movements by reducing the index's holdings in constituents whose prices have risen relative to other constituents, and increasing holdings in companies whose prices have fallen behind. This is effectively a buy-low, sell-high strategy
- Fundamentals weighting does not increase exposure to high P/E stocks during episodes of unsustainable P/E expansion. It therefore avoids over-exposure to the more overvalued stocks
- Similar liquidity and capacity to market-cap weighted indices as well as a superior mean-variance portfolio construction
- The universe of eligible constituents is the FTSE Global Equity Index Series (GEIS)

FTSE SHORT & LEVERAGED INDICES

In addition to the various partner methodologies that form FTSE's investment range, FTSE has created a range of short and leveraged indices on the FTSE 100 and FTSE 250 indices. These enable money managers to exploit the volatility in the UK market by allowing investors to short the market or gear up, and will serve as the basis for ETFs, benchmarks and other index-linked financial products.

Construction and Methodology

The objective of the FTSE 100 and FTSE 250 Short Indices is to replicate the payoff to shorting investment strategies by taking in to account three main components:

1. Capital gains associated with the underlying equity securities
2. Cash dividends paid by the underlying securities
3. Interest earned on the initial capital as well as the proceeds of the short sale

The objective of the FTSE 100 and 250 Leveraged Indices is to replicate the payoff of an investor holding an index portfolio and financing leveraged positions to gain geared exposure to the return of the underlying index. This takes into account three main components:

1. Capital gains associated with the underlying equity securities
2. Cash dividends paid by the underlying securities
3. The finance cost of raising capital to reinvest in the index portfolio to create the leveraged positions

Features

FTSE Short Indices

- FTSE Short Indices are linked to the performance of the FTSE 100 Index(TR) and FTSE 250 Index(TR) but with a leverage factor of minus one
- FTSE Short Indices take into account the three main components of the payoff to the shorting investment strategies: capital gains associated with the underlying equity securities, cash dividends paid by the underlying securities, and interest earned on the initial capital as well as the proceeds of the short sale
- Corporate actions and dividends are reflected in the FTSE Short Indices as they occur

FTSE Leveraged Indices

- These indices consist of a leveraged index with x2 gearing, a super leveraged index with x3 gearing and an ultra leveraged index with x4 gearing
- The indices can serve as benchmarks for the creation of ETFs, structured products or other passive investment vehicles that enable investors to gain exposure to the market or hedge portfolio exposure

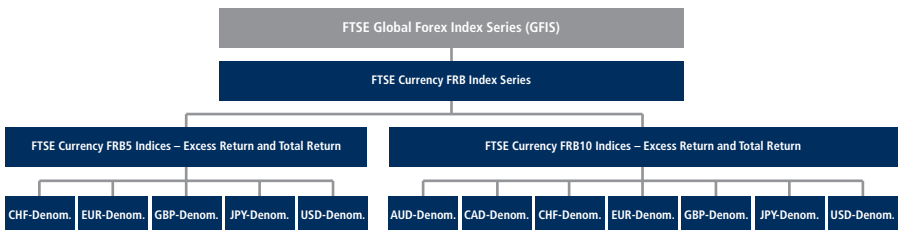
FTSE CURRENCY FORWARD RATE BIAS INDEX SERIES

The FTSE Currency Forward Rate Bias (FRB) Index Series is designed to capture the passive return generated from a defined set of equally-weighted currency pairs. This passive return is attributable to the Forward Rate Bias (FRB), also known as “carry”, in the currency markets.

Construction and Methodology

The currency Forward Rate Bias (FRB) is the observed tendency of higher interest rate currencies to outperform lower interest rate currencies. This can be identified over a given time period as the higher interest rate currency’s appreciation over and above the extent expected from currency forward contract pricing. Hence, this outperformance can be captured through a series of forward contracts.

Each month, the higher interest rate currency of each pair is bought against the lower using one-month forward contracts. Contracts are rolled at maturity or reversed if the direction of the rate differential has reversed. Interest rate differentials are indicated by forward contract pricing.



FRB 10 indices are only denominated in seven out of the 10 currencies included in the indices.

The index series utilizes the top ten traded developed currencies in the world; AUD, CAD, CHF, EUR, GBP, JPY, NOK, NZD, SEK and USD. The top five traded currencies form the constituent currencies in the FRB5 Indices to make ten equally-weighted pairs. The full set of ten currencies form the constituent currencies in the FRB10 Indices to make 45 equally-weighted currency pairs.

Features

- Research by Record Currency Management, a leading currency investment manager, demonstrates that the Forward Rate Bias is a fundamental and sustainable return stream, with a low long-term correlation to other asset classes such as equities and bonds
- The indices provide investors with access to a comprehensive set of ‘G10’ developed market currencies
- All positions are re-balanced monthly to maintain equal weighting
- FX deals are fully costed so the index is investable
- Excess return and total return index values are calculated daily

FTSE STABLE RISK INDEX SERIES

The FTSE StableRisk Indices, designed in association with AlphaSimplex Group, LLC, are a family of risk-controlled multi-asset indices which seek to capture long-term expected returns with less extreme shifts in short-term risk levels.

Construction and Methodology

FTSE StableRisk Indices address the inconsistency in the risk/reward trade-off by providing exposure to an asset class in a long-term framework, while seeking to reduce investors' exposure to variability in the asset class's short-term volatility. This is achieved by constructing an index for each asset class that represents a portfolio of liquid futures contracts. The portfolio is rebalanced, as often as daily, with the objective of maintaining the portfolio's volatility at a stable level.

The FTSE StableRisk Indices cover four asset classes: equities, commodities, interest rates and currencies. Sixty-nine assets are currently used to construct the indices:

- **FTSE StableRisk Equities Index**

Twenty one (21) global market index futures contracts

- **FTSE StableRisk Commodities Index**

Twenty (20) futures contracts (including 2 precious metal, 4 base metal, 6 energy, 1 livestock, and 7 agricultural commodities futures contracts)

- **FTSE StableRisk Currency Index**

Six (6) currency futures contracts

- **FTSE StableRisk Interest Rate Index**

Twenty-two (22) futures contracts (12 global bond and 10 global interest rate futures contracts)

- **FTSE StableRisk Composite Index**

All sixty nine (69) assets included in the Equities, Commodities, Currency and Interest Rate Indices

Features

- Helps investors gain long term exposure to rewarding but risky assets without being fully exposed during volatile periods, which are often associated with market downturns.
- Indices are made up of a basket of futures contracts representing a given asset class. This basket is rebalanced as often as daily in order to meet the index's volatility target. Futures contracts must meet minimum liquidity requirements.
- Volatility targets for each index are calculated using the trailing 10-year average volatility for a traditional long-only index representing each asset class.
- The FTSE StableRisk Index Series includes the FTSE Stable Risk Indices, which are long-only indices; and the FTSE StableRisk Trend indices which follow a simple momentum portfolio policy and hold both long and short- futures contracts.
- Rules-based, transparent, investable and replicable.
- Suitable for the construction of investment vehicles, portfolio structuring, and benchmarking.

FULL LIST OF INDICES AVAILABLE

FTSE ActiveBeta Index Series

FTSE All-Share ActiveBeta Index Series

FTSE 100 ActiveBeta Momentum Index
FTSE 100 ActiveBeta Value Index
FTSE 100 ActiveBeta MVI Index
FTSE 350 ActiveBeta Momentum Index
FTSE 350 ActiveBeta Value Index
FTSE 350 ActiveBeta MVI Index
FTSE All-Share ActiveBeta Momentum Index
FTSE All-Share ActiveBeta Value Index
FTSE All-Share ActiveBeta MVI Index

FTSE All-World ActiveBeta Index Series

FTSE All-World ActiveBeta Momentum Index
FTSE All-World ActiveBeta Value Index
FTSE All-World ActiveBeta MVI

FTSE Developed ActiveBeta Momentum Index
FTSE Developed ActiveBeta Value Index
FTSE Developed ActiveBeta MVI
FTSE Developed ex US ActiveBeta Momentum Index
FTSE Developed ex US ActiveBeta Value Index
FTSE Developed ex US ActiveBeta MVI
FTSE Developed ex North America ActiveBeta Momentum Index
FTSE Developed ex North America ActiveBeta Value Index
FTSE Developed ex North America ActiveBeta MVI
FTSE Developed Europe ActiveBeta Momentum Index
FTSE Developed Europe ActiveBeta Value Index
FTSE Developed Europe ActiveBeta MVI
FTSE Developed ex Europe ActiveBeta Momentum Index
FTSE Developed ex Europe ActiveBeta Value Index
FTSE Developed ex Europe ActiveBeta MVI
FTSE Developed Europe ex UK ActiveBeta Momentum Index
FTSE Developed Europe ex UK ActiveBeta Value Index
FTSE Developed Europe ex UK ActiveBeta MVI
FTSE Developed ex UK ActiveBeta Momentum Index
FTSE Developed ex UK V ActiveBeta Value Index
FTSE Developed ex UK ActiveBeta MVI
FTSE Developed ex Japan ActiveBeta Momentum Index
FTSE Developed ex Japan ActiveBeta Value Index
FTSE Developed ex Japan ActiveBeta MVI

FTSE Emerging ActiveBeta Momentum Index
FTSE Emerging ActiveBeta Value Index
FTSE Emerging ActiveBeta MVI

FTSE Eurobloc ActiveBeta Momentum Index
FTSE Eurobloc ActiveBeta Value Index
FTSE Eurobloc ActiveBeta MVI

FTSE Japan ActiveBeta Momentum Index
FTSE Japan ActiveBeta Value Index
FTSE Japan ActiveBeta MVI

FTSE US ActiveBeta Momentum Index
FTSE US ActiveBeta Value Index
FTSE US ActiveBeta MVI

FTSE DBI Index Series

FTSE DBI Developed Index
FTSE DBI Developed ex US Index
FTSE DBI Developed ex Japan Index

FTSE EDHEC-Risk Efficient Index Series

FTSE EDHEC-Risk Efficient USA Index
FTSE EDHEC-Risk Efficient UK Index
FTSE EDHEC-Risk Efficient Eurobloc Index
FTSE EDHEC-Risk Efficient Japan Index
FTSE EDHEC-Risk Efficient Developed Asia Pacific ex Japan Index

FTSE EDHEC-Risk Efficient All-World Index
FTSE EDHEC-Risk Efficient All-World Asia Pacific Index
FTSE EDHEC-Risk Efficient All-World Asia Pacific ex Japan Index
FTSE EDHEC-Risk Efficient All-World ex UK Index
FTSE EDHEC-Risk Efficient All-World ex US Index
FTSE EDHEC-Risk Efficient Developed Europe Index
FTSE EDHEC-Risk Efficient Dev Europe ex UK Index
FTSE EDHEC-Risk Efficient Developed Index
FTSE EDHEC-Risk Efficient Emerging Index

FTSE GWA Index Series

FTSE GWA Developed Index
FTSE GWA Developed ex US Index
FTSE GWA Developed Europe Index
FTSE GWA Developed ex UK Index
FTSE GWA Developed ex Japan Index
FTSE GWA Developed ex Australia Index
FTSE GWA US Index
FTSE GWA Japan Index
FTSE GWA UK Index
FTSE GWA Australia Index
FTSE GWA Asia Pacific ex Japan ex Australia ex New Zealand
FTSE GWA Developed Europe ex UK Index
FTSE GWA Developed ex Eurozone Index
FTSE GWA Eurozone Index
FTSE GWA Developed Index (Net Tax)
FTSE GWA North America Index
FTSE GWA Developed Asia Pacific Index
FTSE GWA Dev Asia Pacific ex Japan Index
FTSE GWA Emerging Index
FTSE GWA Developed ex North America Index
FTSE GWA All-World Index
FTSE GWA Developed Shariah Index

FTSE RAFI Index Series

World / US

FTSE RAFI All-World 3000 Index
FTSE RAFI US 1000 Index
FTSE RAFI Developed 1000 Index
FTSE RAFI Developed ex US 1000 Index
FTSE RAFI US 2000 Index
FTSE RAFI US 3000 Index
FTSE RAFI Developed Mid Small 1500 Index
FTSE RAFI Developed ex US Mid Small 1500 Index
FTSE RAFI US Small 500 Index
FTSE RAFI BRIC Index
FTSE RAFI Canada Index

Asia Pacific

FTSE RAFI Developed Asia Pacific ex Japan Index
FTSE RAFI Developed Asia Pacific ex Japan Mid Small Index
FTSE RAFI Kaigai 1000 Index
FTSE RAFI Australia Index
FTSE RAFI Hong Kong, China Index
FTSE RAFI Japan Index
FTSE RAFI New Zealand Index
FTSE RAFI Singapore Index

Europe

FTSE RAFI Europe Index
FTSE RAFI Eurozone Index
FTSE RAFI Europe ex UK ex Switzerland Index
FTSE RAFI Austria Index
FTSE RAFI Belgium / Luxembourg Index
FTSE RAFI Denmark Index
FTSE RAFI Finland Index
FTSE RAFI France Index
FTSE RAFI Germany Index
FTSE RAFI Greece Index
FTSE RAFI Ireland Index
FTSE RAFI Italy Index
FTSE RAFI Netherlands Index
FTSE RAFI Norway Index
FTSE RAFI Portugal Index
FTSE RAFI Spain Index
FTSE RAFI Sweden Index
FTSE RAFI Switzerland Index
FTSE RAFI UK Index
FTSE RAFI Nordic Index
FTSE RAFI Sweden 100 Index
FTSE RAFI Sweden All-Cap Index
FTSE RAFI Developed Europe Mid Small Index
FTSE RAFI Italy 30 Index
FTSE RAFI UK 100 Index

Real Estate

FTSE RAFI Global ex US Real Estate Index
FTSE RAFI US 100 Real Estate Index

FTSE Short Leveraged Indices

FTSE 100 Short Index (with -1 leverage)

FTSE 250 Short Index (with -1 leverage)

FTSE 100 Leveraged Index (leveraging with X2 gearing)

FTSE 250 Leveraged Index (leveraging with X2 gearing)

FTSE 100 Super Leveraged Index (leveraging with x3 gearing)

FTSE 250 Super Leveraged Index (leveraging with x3 gearing)

FTSE 100 Ultra Leveraged Index (leveraging with x4 gearing)

FTSE 250 Ultra Leveraged Index (leveraging with x4 gearing)

FTSE StableRisk Index Series

FTSE StableRisk Equity Index

FTSE StableRisk Trend Equity Index

FTSE StableRisk Commodity Index

FTSE StableRisk Trend Commodity Index

FTSE StableRisk Currency Index

FTSE StableRisk Trend Currency Index

FTSE StableRisk Interest Rate Index

FTSE StableRisk Trend Interest Rate Index

FTSE StableRisk Composite Index

FTSE StableRisk Trend Composite Index

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