

**GROUND RULES FOR THE
MANAGEMENT OF THE

FTSE APCIMS
PRIVATE INVESTOR INDICES**



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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper describes the rules used to calculate the FTSE APCIMS Private Investor Indices.
- 1.2 These Indices are produced by FTSE, in conjunction with the Association of Private Client Investment Managers (APCIMS).

SECTION 2

2.0 OBJECTIVE

- 2.1 The primary purpose of the FTSE APCIMS Private Investors Indices is to provide private investors and trustees with a measure of performance against which to compare their investment portfolios, based upon the assumption they are domestic UK investors with sterling denominated accounts.

SECTION 3

3.0 INDEX STRUCTURE

3.1 There are five indices, which represent a broad number of different portfolios. Their official names are:

3.1.1 FTSE APCIMS Stock Market Income Index
The Income Portfolio Index is designed to reflect the portfolio of a client requiring an income flow from their investment.

3.1.2 FTSE APCIMS Stock Market Growth Index
The Growth Portfolio Index is designed to reflect the portfolio of a client requiring capital growth from their investment.

3.1.3 FTSE APCIMS Stock Market Balanced Index
The Balanced Portfolio Index is designed to reflect the portfolio of a client requiring a balanced approach between income and capital growth in their portfolio.

3.1.4 FTSE APCIMS Stock Market Conservative Index
The Conservative Portfolio Index is designed to reflect the portfolio of a client requiring a conservative approach from their investment.

3.1.5 FTSE APCIMS Stock Market Global Growth Index
The Global Growth Portfolio Index is designed to reflect the portfolio of a client requiring global capital growth based on only equity indices from their investment.

3.2 For Total Return Index calculations please refer to Appendix A.

3.3 Each Portfolio Index consists of a combination of a set percentage of the performance of various indices, to represent the performance of certain elements used to construct investment portfolios, in accordance with the table below.

ASSET TYPE IN PORTFOLIO	REPRESENTATIVE INDEX
UK Equities	FTSE All-Share Index
World Equities	FTSE World ex UK Index, calculated in sterling
Bonds	FTSE Gilts All-Stocks Index
Cash	7-day LIBOR* - 1%
Hedge Funds	FTSE APCIMS Hedge (Investment Trust) Index
Commercial Property	FTSE All UK Property Index (NAV)
Developed World Equities	FTSE All-World Developed Index
Emerging World Equities	FTSE All-World Emerging Index

* London Interbank Offered Rate

3.4 For the current and historic weightings used in each Portfolio Index, please contact FTSE.

SECTION 3

- 3.5 The FTSE APCIMS Hedge (Investment Trust) Index is designed to reflect the portfolio of a client requiring exposure to multi-manager hedge funds. All index constituents are closed-ended UK quoted investment companies and they are classified under FTSE's Industry Classification Benchmark (ICB) in the Subsector Equity Investment Instruments (ICB code: 8985). For more information on ICB, please visit www.ftse.com.
- 3.6 Each day's index value is calculated using the closing value for each of the five component indices. For the FTSE All UK Property Index (NAV), which is calculated three days in arrears as standard, the most recent closing daily indicative index values are used.
- 3.7 The asset allocations will be re-balanced at the end of each month to maintain the chosen weightings for the asset classes within each FTSE APCIMS Private Investor Index.

SECTION 4

4.0 INDEX MANAGEMENT & CALCULATION

- 4.1 The management and calculation of the Portfolio Indices is undertaken by FTSE, assisted by the FTSE/APCIMS Advisory Committee.
- 4.2 The role of the Advisory Committee is to determine which underlying indices should be used in the calculation of the Portfolio Indices, and the weighting of each underlying index in the Growth, Income, Balanced, Conservative and Global Growth Indices.
- 4.3 The Advisory Committee meets quarterly in early March, June, September and December. Its membership is selected jointly by FTSE and APCIMS and aims to represent stockbrokers and investment managers servicing investment portfolios for private investors and trustees. The Committee Chairman is nominated by APCIMS.

SECTION 5

5.0 REVIEW OF WEIGHTINGS

- 5.1 The component indices of each Portfolio Index and the weights each represents within each Portfolio Index are reviewed quarterly by the Advisory Committee.
- 5.2 The decisions of the Committee are published as soon as possible after the Committee meeting is concluded, and are available from FTSE and APCIMS. Decisions are implemented at the committee and FTSE's discretion with a minimum of a month's notice.

SECTION 6

6.0 CALCULATION ALGORITHM

6.1 The Portfolio Indices are calculated using the following formula:

$$\left(\left(\sum_1^c C_c \cdot W_c \right) + 1 \right) \cdot P_c$$

Where:

C_c = Percentage rise (fall) in component index since the last rebalancing date

W_c = Percentage weight of component index in Portfolio index

P_c = Value of Portfolio index on the last rebalancing date

6.2 The Portfolio Indices will be displayed to two decimal places.

APPENDIX A

CALCULATION OF TOTAL RETURN INDICES

Total return index (TRI) values of the FTSE/APCIMS Private Investor Indices are calculated as follows:

- **UK Equities** – as represented by the FTSE All-Share Index:
 - TRI indices use the FTSE All-Share Total Return Index, as published daily.
- **World Equities** – as represented by the FTSE World Ex UK Index:
 - TRI indices use the FTSE World ex UK Total Return Index, as published daily.

The return index calculations add the income a stock's dividend provides to the performance of the index. The calculation can be expressed as:

$$RI_j = RI_{j-1} \cdot X_j / (X_{j-1} - (AD_j / (M_j / X_j)))$$

where

i	=	Time period
RI_j	=	Return Index at time i .
X_i	=	Capital Index at time i .
X_{i-1}	=	Capital Index at time $i-1$.
AD_j	=	Market Value of Dividends effective at time i .
M_j	=	Market capitalisation of constituents at time i .

Note the formula $(AD_j / (M_j / X_j))$ calculates the XD adjustment for an index.

- **Bonds** – as represented by the FTSE Gilts All-Stocks Index:
 - TRI indices use the FTSE Gilts All-Stocks Index.

The Total Return Index for day t , $R_{s,t}$ is calculated from the Price index and XD adjustment by:

$$R_t = R_{t-1} \times \frac{I_t}{I_{t-1} - XD_t}$$

where

I_t	=	price index for day t
XD_t	=	XD adjustment factor for day t .

As the XD adjustment factor for a total return index is zero whenever there are no dividend payments on the day. Hence the percentage movement in the total return index is identical to that of the gross price index whenever there is no dividend payment.

- **Cash** – as represented by the London Interbank Offered Rate (LIBOR) minus 1%.
 - TRI indices use LIBOR – 1%

APPENDIX A

- **Hedge Funds** – as represented by the FTSE APCIMS Hedge (Investment Trust) Index.
 - TRI indices use the FTSE APCIMS Hedge (Investment Trust) Total Return.
- **UK Commercial Property** – as represented by the FTSE All UK Property Index (NAV)
 - TRI indices use the FTSE All UK Property Index (NAV) Total Return.
- **Developed World Equities** – as represented by the FTSE All-World Developed Index:
 - TRI indices use the FTSE All-World Developed Total Return Index, as published daily.
- **Emerging World Equities** – as represented by the FTSE All-World Emerging Index:
 - TRI indices use the FTSE All-World Emerging Total Return Index, as published daily.

APPENDIX B

EXCHANGE RATES

For the FTSE APCIMS Private Investor Indices, the exchange rates used are detailed in the following table:

FTSE INDICES	EXCHANGE RATES
FTSE APCIMS Stock Market Income Index	Spot Rates at the Index closing time (4:30 pm)
FTSE APCIMS Stock Market Growth Index	Spot Rates at the Index closing time (4:30 pm)
FTSE APCIMS Stock Market Balanced Index	Spot Rates at the Index closing time (4:30 pm)
FTSE APCIMS Stock Market Conservative Index	Spot Rates at the Index closing time (4:30 pm)
FTSE APCIMS Stock Market Global Growth Index	Spot Rates at the Index closing time (4:30 pm)
FTSE All-Share Index	Spot Rates at the Index closing time (4:30 pm)
FTSE World ex UK Index	WM/Reuters Closing Spot Rates™ compiled by The WM Company (4:00pm)
FTSE Gilts All-Stocks Index	Spot Rates at the Index closing time (4:30 pm)
FTSE APCIMS Hedge (Investment Trust) Index	Spot Rates at the Index closing time (4:30 pm)
FTSE All UK Property Index (NAV)	WM/Reuters Closing Spot Rates™ compiled by The WM Company (4:00pm)
FTSE All-World Developed Index	WM/Reuters Closing Spot Rates™ compiled by The WM Company (4:00pm)
FTSE All-World Emerging Index	WM/Reuters Closing Spot Rates™ compiled by The WM Company (4:00pm)

APPENDIX C

FURTHER INFORMATION

Further information on the FTSE APCIMS Private Investor Indices is available from FTSE and APCIMS, who will also welcome comments on these Ground Rules and on the Indices.

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