

# CUSTOM



A tailored approach in consultation with you

## ABOUT FTSE

FTSE Group (FTSE) is the world-leader in the creation and management of index solutions. FTSE indices are used extensively by investors world-wide for investment analysis, performance measurement, asset allocation, portfolio hedging and for creating a wide range of index tracking funds.

FTSE has built an enviable reputation for reliability and accuracy in market measurement and adaptability. As risk-managed passive solutions are becoming more widespread, FTSE has enhanced its capability to produce custom indices upon which products such as ETFs, derivatives and structured products can be based. FTSE's custom indices team offer the most innovative, consultative and comprehensive service available in the market today.

The company also collaborates with a variety of organisations to deliver a wide range of index solutions globally. Arrangements exist with exchanges around the world including; ATHEX, Borsa Italiana, Cyprus Stock Exchange, NYSE Euronext, Johannesburg Stock Exchange, London Stock Exchange, Bolsas y Mercados, Bursa Malaysia, NASDAQ Dubai, Singapore Exchange, Taiwan Stock Exchange Corporation and Stock Exchange of Thailand. In addition, FTSE works with a variety of companies and associations, including EPRA, NAREIT, Research Affiliates, Global Wealth Association, Singapore Press Holdings, Yasaar and APCIMS. FTSE also has a collaborative agreement with Dow Jones Indexes and has successfully developed a single sector classification system – Industry Classification Benchmark (ICB), used by both the industry and investors globally.

For more information visit [www.ftse.com](http://www.ftse.com)

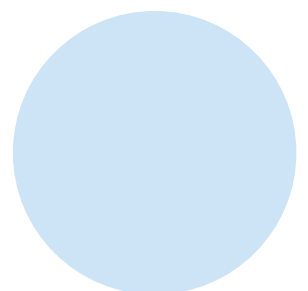
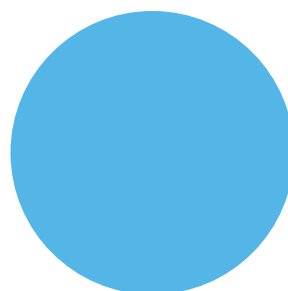
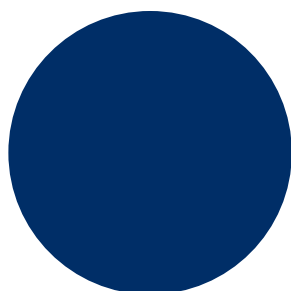


FTSE Custom is focused on providing precision index solutions for clients. From pension funds to derivatives desks, we understand that clients are looking for more tailored measures of performance, and require increasingly complex and sophisticated index solutions for the basis of fund measurement, derivatives and structured products.

Your dedicated FTSE Custom specialist will provide an end-to-end consultative service to fully understand your needs. The Custom team will then design and create an index to suit your specific investment strategy or mandate, whether based on existing FTSE indices or tailored to a defined universe, the Custom team will work with you to build the index best suited to your specific market requirements.

We can also customise products and information for asset owners and fund managers to aid individual performance reporting requirements.

As with all FTSE indices, you can be assured that your custom index will be underpinned by FTSE's world class index design standards of transparency, clarity, independence and technical excellence.



## A CONSULTATIVE APPROACH

The FTSE Custom team will collaborate with you to understand your exact requirements and create an appropriate tailored solution to meet your specific brief. From initial consultation through to design, delivery and ongoing maintenance and support, FTSE offers a comprehensive end-to-end service.

### A Dedicated Team

Benefit from a specialist Custom team and a dedicated FTSE Custom specialist, giving you a constant point of contact and peace of mind that your enquiry will be efficiently managed to deliver the right solution at the right time.

### Expertise

By collaborating with an independent global index design specialist such as FTSE, you gain access to technically superior indices created by our specialist team of custom index designers. This provides a credible, dependable and competitive alternative.

## FOUR STEPS TO YOUR CUSTOM INDEX

1

WORK WITH YOU  
TO DEFINE YOUR  
REQUIREMENT

## Flexibility

FTSE gives you the freedom to create your ideal index through the use of an extensive and constantly evolving database of over 70,000 stocks from 91 countries, along with a wide range of screening criteria and flexible delivery options. Whatever the requirement, FTSE will work with you to design the exact benchmark solution to meet your mandate.

## Speed to Market

FTSE's highly responsive approach to index design means that we'll deliver your customised solution on time without compromising quality – saving you both time and money.

## Innovation

FTSE Custom's consultative approach aims to understand your indexing needs better and together with a multi-faceted range of data, research and quantitative capabilities allows us to create a cutting edge design solution for you.

## Extensive Global Coverage

FTSE's extensive and continually growing universe of stocks provides broad and diversified exposure to global stock markets via companies which meet your required criteria.

## Asset Class Options

We can customise an index based on a wide range of asset classes including equities, fixed income and alternatives. Because the index is tailor made for your needs, we also have the capability to create composite indices or select other types of stock such as privately-owned companies, for example.

## Screening Options

A wide range of screening criteria options ensure that your index will be created to your specification. Examples include tax adjusted, capped, hedged and composite, as well as the capability to overlay different screening criteria.



2

DESIGN &  
CONSTRUCT  
YOUR CUSTOM  
BENCHMARK



3

TEST & REFINE  
THE SOLUTION

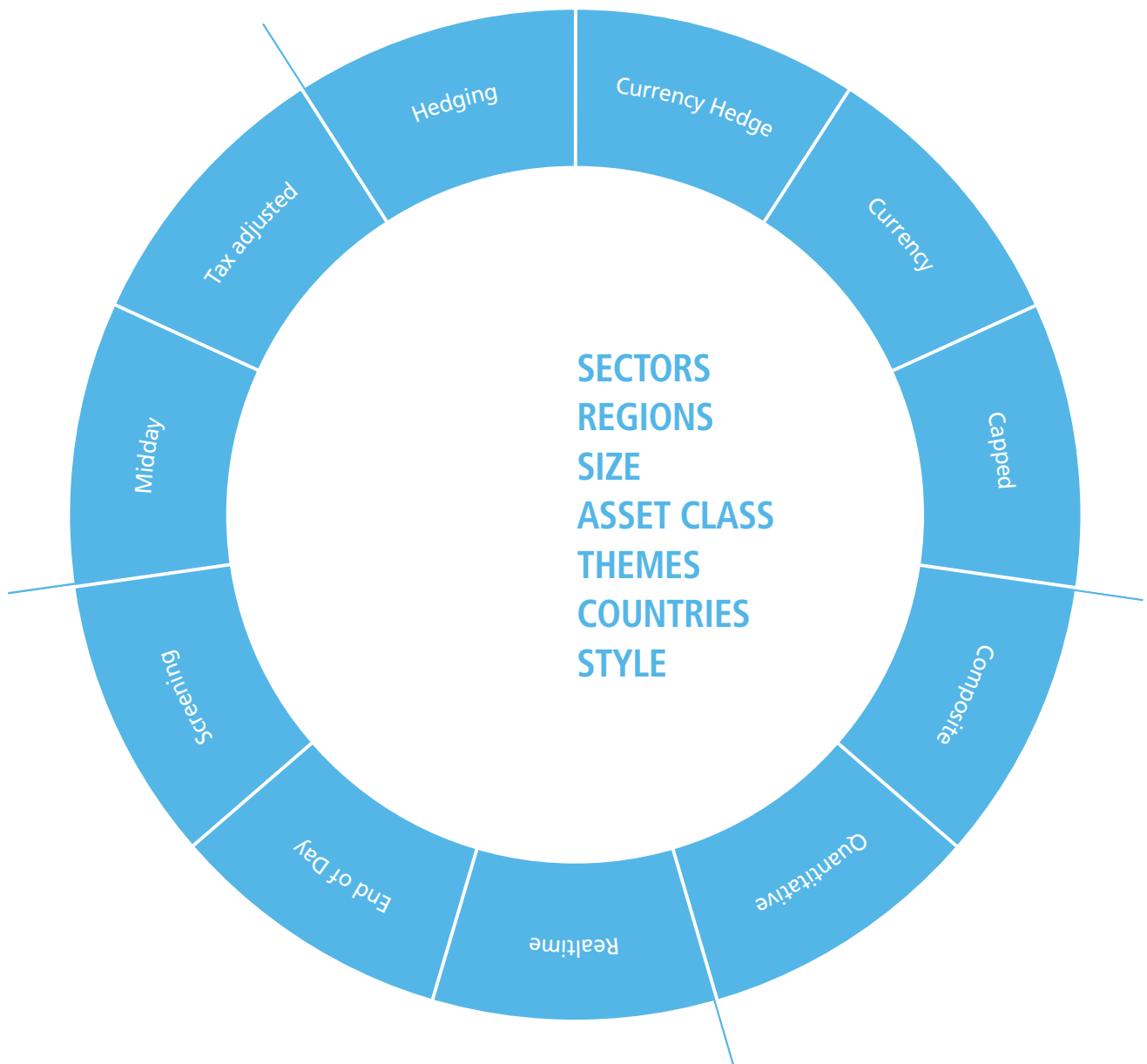


4

MANAGE THE  
DELIVERY &  
PROVIDE ON-GOING  
MAINTENANCE  
& SUPPORT

## CUSTOM CASE STUDIES

FTSE Custom provides tailored index solutions for a range of investment market participants, from pension funds to investment banks. The service provides clients with an index specific to their mandate using the expertise and partnerships unique to FTSE. The following case studies provide an insight into the collaborative approach used to create the investment tools required by clients.



## CASE STUDY ONE

### Buy side Market Response Index Solution

#### The Challenge

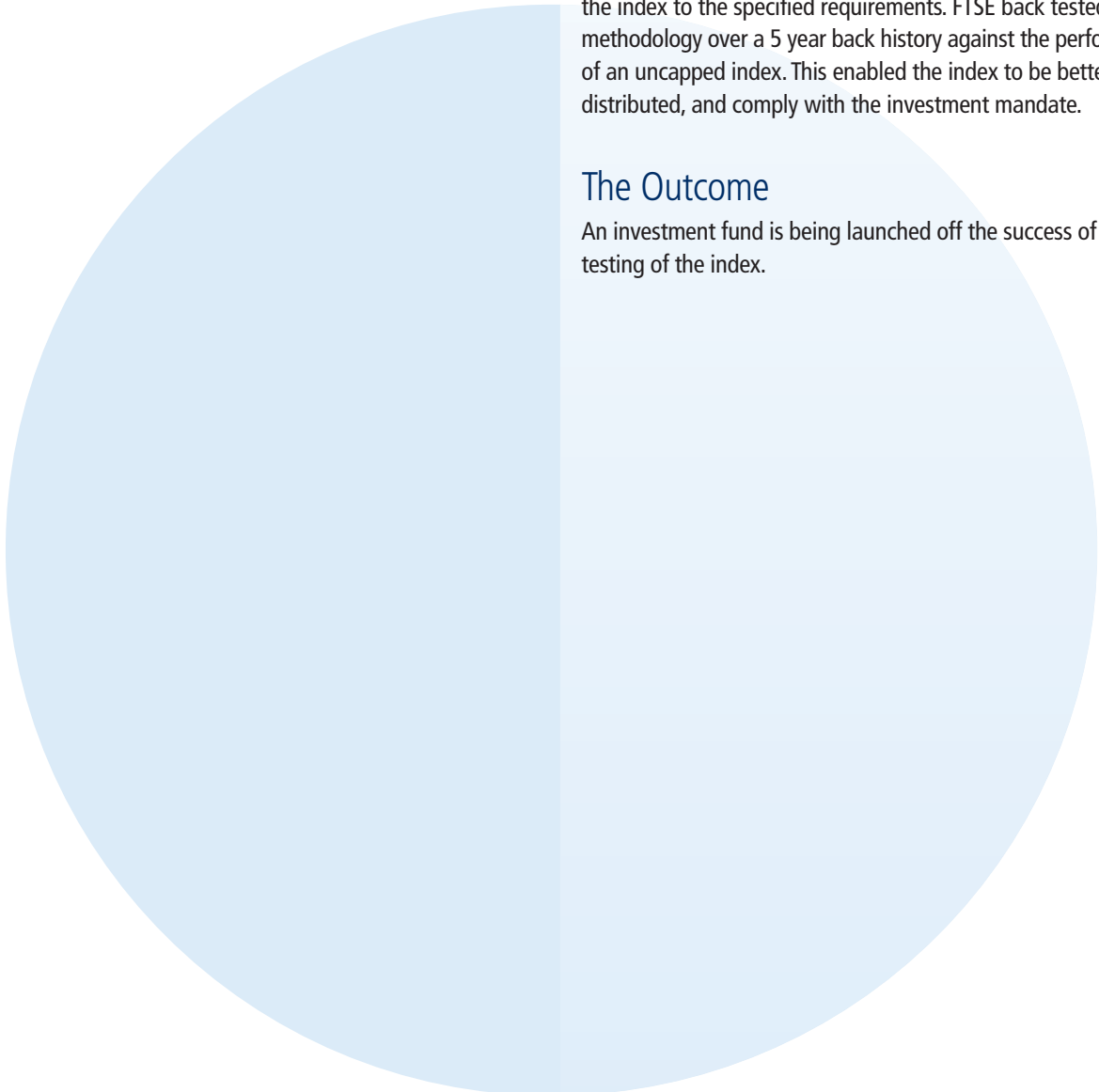
Develop a unique capping methodology to produce a more evenly distributed portfolio based on a specified underlying FTSE universe. The objective is to reduce risk by limiting exposure to large, dominant stocks obtaining a more balanced representation of the universe, by applying the same capping factor to each stock. The index also satisfied the criteria which stated that the sum of all stocks with weights over 5% must not exceed 25%, in order to give a better representation of the investment mandate.

#### The Solution

Build a quantitative capping methodology model, providing the optimum capping factor at each review point and calculate the index to the specified requirements. FTSE back tested the methodology over a 5 year back history against the performance of an uncapped index. This enabled the index to be better distributed, and comply with the investment mandate.

#### The Outcome

An investment fund is being launched off the success of the back testing of the index.



## CASE STUDY TWO

### Asset Owner Custom Index Solution - AP7

#### The Challenge

The Seventh AP Fund (AP7) was set up in connection with the introduction of Sweden's new pension system. The new system has three components: income-determined pension, premium-determined pension and guaranteed pension. The new pension system required a series of indices that excluded a list of stocks and also ensured that they maintained exposure to developed, advanced and secondary emerging countries. The indices would also need to be hedged in Swedish Krona and limit their exposure to exchange rate risk.

#### The Solution

AP7's set of FTSE's Index Solutions are made up of 4 regional indices and 2 composite indices (one hedged, one unhedged) which combine all the underlying regional indices to create an overall index showing the performance of the sub components. Country selection is based on FTSE's standard FTSE World Index (large and mid-cap, developed and advanced emerging markets) where AP7 for some regions have customised that country selection to include countries that are classified as secondary emerging.

An additional index, FTSE All World All Emerging Index, consists of large and mid-cap and are both advanced emerging and secondary emerging countries. All unhedged indices are based in Swedish Krona and the hedged index is hedged into Swedish Krona.

#### The Outcome

- FTSE AP7 Unhedged Composite Index
- FTSE AP7 World Americas Index
- FTSE AP7 Asia Pacific Ex Japan Index
- FTSE AP7 Europe Index
- FTSE AP7 Japan Index
- FTSE AP7 Hedged Composite Index

## CASE STUDY THREE

### Responsible Investment Custom Index Solution

#### The Challenge

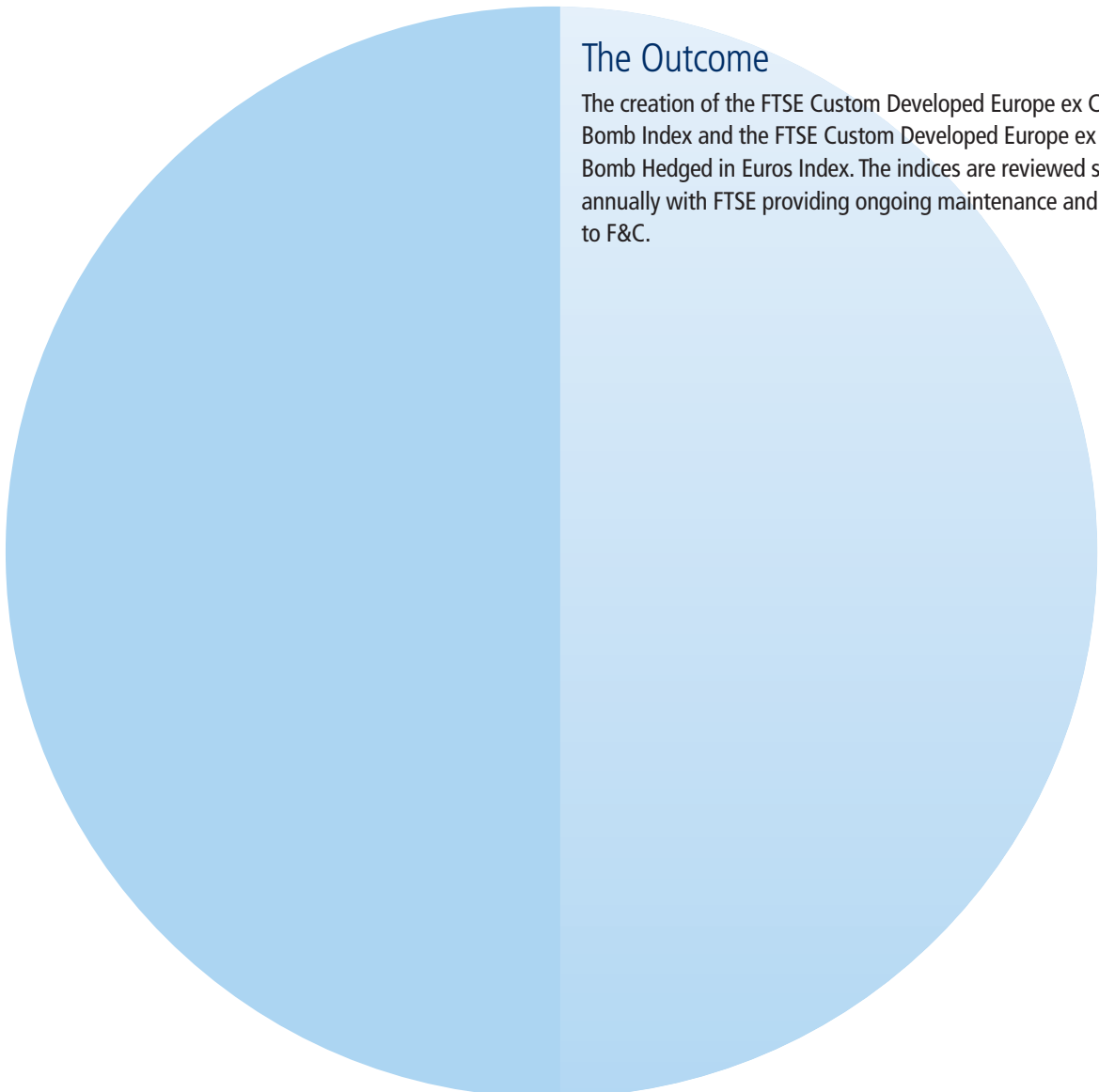
F&C, a worldwide leader in providing responsible investment strategies, required an index that excluded companies involved in the production or supply of cluster bombs and landmines. The index was to include constituents from the Developed Europe region, and was also required to be hedged in Euros.

#### The Solution

FTSE's Custom Solution Team worked with F&C to create a benchmark index to meet their exact mandate. The index consisted of constituents within the FTSE Developed Europe Index universe that met the criteria set by F&C, and was hedged in Euros.

#### The Outcome

The creation of the FTSE Custom Developed Europe ex Cluster Bomb Index and the FTSE Custom Developed Europe ex Cluster Bomb Hedged in Euros Index. The indices are reviewed semi-annually with FTSE providing ongoing maintenance and support to F&C.



## PARTNERSHIPS THAT STRENGTHEN YOUR CUSTOM SOLUTION

FTSE's partner relationships extend to some of the most prominent exchanges and companies worldwide, which have enhanced its global index expertise with local market knowledge. You may decide to build your custom solution around one of FTSE's partner products. A few areas that may interest you include:



## Environmental, Social and Governance

FTSE has a market leading team of professionals in its Responsible Investment Unit, with expertise in the integration of Environmental, Social and Governance (ESG) factors into investment approaches and portfolios. There are a range of market leading ESG indices including the FTSE4Good Series and the FTSE KLD Sustainability Series. FTSE works with a range of leading ESG data providers including KLD Research & Analytics, who are credited with creating the world's first social index.

## Environmental Markets

FTSE has developed a pioneering new classification system which provides investors with clarity regarding the dynamic and rapidly growing environmental technology market. The FTSE Environmental Markets Classification System (EMCS) is the world's first comprehensive global classification system for environmental markets consisting of 6 sectors and 24 sub-sectors. These sectors include renewable and alternative energy, energy efficiency, water technology, waste technology, environmental support services and pollution control. Created in collaboration with environmental technology specialist Impax Asset Management, the FTSE Environmental Markets Index Series measures the performance of companies globally which fall within the definitions set out in the classification system. As with all FTSE indices, an independent committee of environmental technology and investment professionals has been set up to oversee management of the classification system and indices, providing an objective governing role.

## Investment Strategy

FTSE has a range of investment strategy indices designed to offer some of the benefits of active management along with the traditional benefits of a passive strategy. In addition to providing high capacity, transparency and ease of implementation, these indices help investors develop strategic investment tools, which, relative to standard cap-weighted benchmark indices, provide them with the potential for positive returns over a period of time. They include the FTSE RAFI Index Series, the FTSE GWA Index Series, the Dividend+ and Short and Leveraged indices for the UK market.

## Real Estate

The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to measure the opportunity set for investment in real estate. The indices represent real estate defined as the ownership, disposal and development of income-producing real estate (commercial). The index series includes Developed and Emerging market indices as well as a range of regional and country indices, Global Sectors, Dividend+ indices, Investment Focus indices and a REITs and Non-REITs series. The FTSE EPRA/NAREIT Index Series has been significantly expanded upon to provide investors with opportunities for diversification, with its low correlation to the equity asset class.

## ICB

FTSE together with Dow Jones Indexes offers a definitive classification system called Industry Classification Benchmark (ICB) launched in 2005. The system is supported by the ICB Universe Database, which contains over 70,000 companies and 75,000 securities worldwide from the FTSE and Dow Jones universe respectively. The coverage makes the database a comprehensive tool for global sector analysis. ICB is a detailed and comprehensive structure for sectors and industry analysis, facilitating the comparison of companies across four levels of classification and geographical boundaries. The system allocates companies to the subsector that most closely represents the nature of its business. The capture of a company's business is determined by its source of revenue or where it constitutes the majority of revenues. FTSE Custom can create indices based on specific sectors or with specific exclusions based on your investment mandate.

## WHO USES FTSE CUSTOM

FTSE Custom products are used across a number of market segments.

### Buy Side

Aligning fund constraints and legal requirements between indices and the fund objectives to obtain greater transparency for clients. This enables more sophisticated indices to be established for passive and active fund management.

### Sell Side

Establishing a more liquid or tradable universe allows ease to identify trading ideas for proprietary trading desks and institutional investors. FTSE Custom can also be used as an independent calculation agent to create white-labelled indices for structured products, baskets and complex quant methodology products.

### Custodians

The ability to accurately track and report performance using a specified benchmark to ensure transparency to clients and to also closely monitor sources of performance. Net of tax, hedge and composite indices are frequently required by custodians.

## Asset Owners

Creation of indices that reflect the true tax benefits experienced by pension funds to better track and identify performance. Ensuring fund managers performance is accurately measured to reflect costs. Many Asset Owners use custom benchmarks for strategic allocation transition from active to passive fund strategies and across asset class.

## Exchanges

FTSE Custom works closely with exchanges to create more complex futures products to better suit investor demand.

## Investment Consultants

Emphasise the benefits and added transparency gained by utilising custom benchmarks for asset allocation strategies recommended to pension plan clients and for active or passive fund management strategies.

## ETF Providers

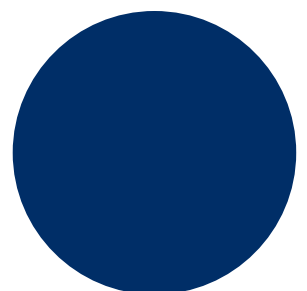
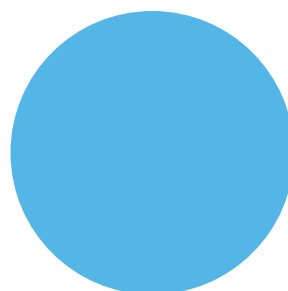
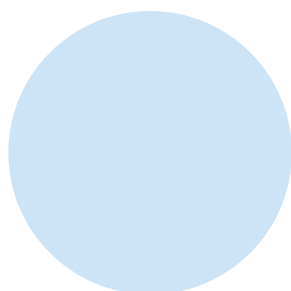
ETF providers utilise FTSE Custom to create sophisticated and more niche indices for ETFs to satisfy a growing investor base and establish themselves as a unique strategy provider.



## FTSE DIFFERENCE

FTSE's core business is the creation of indices, with over 120,000 calculating daily. By being at the heart of the markets that we serve, we can understand the needs of our clients and deliver the best solutions.

The "Calculated by" FTSE Custom stamp allows our clients to leverage the fact that their index solutions are calculated by FTSE Custom an independent, third party whose expertise lays solely in index calculation. The FTSE Custom stamp is made available to all clients who rely on FTSE Custom to calculate and distribute their index solution.





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LONDON +44 (0) 20 7866 1810 BOSTON +1 888 747 FTSE (3873) FRANKFURT +49 (0) 69 156 85 144 HONG KONG +852 2230 5800  
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