



FTSE INDEX SOLUTIONS: THE FOUNDATION OF SUCCESSFUL ETFs

ABOUT FTSE

FTSE Group (FTSE) is the world-leader in the creation and management of index solutions. FTSE indices are used extensively by investors worldwide for investment analysis, performance measurement, asset allocation, portfolio hedging and the creation of a wide range of index derivatives, funds, Exchange Traded Funds (ETFs), and other structured products.

FTSE has built an enviable reputation for the reliability and accuracy of our indices and related data services. FTSE's flagship global offering, the FTSE Global Equity Index Series, covers 98% of the world's investable market capitalisation and is used by investors worldwide to structure and benchmark their international equity portfolios.

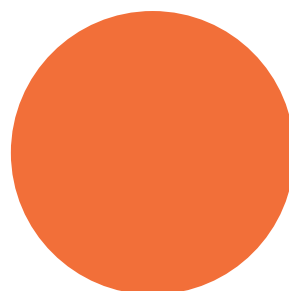
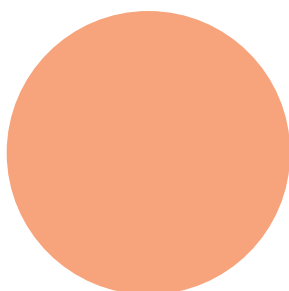
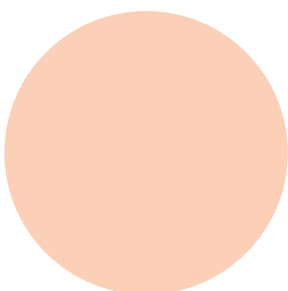
FTSE also collaborates with a variety of organisations to deliver a wide range of index solutions globally. Arrangements exist with exchanges around the world for FTSE to calculate their domestic indices. These include ATHEX, Borsa Italiana, Cyprus Stock Exchange, NYSE Euronext, Johannesburg Stock Exchange, London Stock Exchange, Bolsas y Mercados Españoles, Bursa Malaysia, NASDAQ Dubai, Singapore Exchange, Taiwan Stock Exchange Corporation and the Stock Exchange of Thailand. In addition, FTSE works with a variety of companies and associations to deliver innovative index solutions. These include EPRA, NAREIT, Research Affiliates, EDHEC-Risk Institute, Westpeak Global Advisors, Singapore Press Holdings, Yasaar and APCIMS.

For more information visit www.ftse.com

FTSE INDEX SOLUTIONS:
**DELIVERING AWARD
WINNING EXCELLENCE**

As the award winning global index provider, FTSE creates market leading indices using robust data and methodologies, always keeping tradability top of mind, and thus ensuring that they are highly suitable for the creation of ETFs. As a result of this approach there are now over 130 ETFs based on FTSE indices globally with a total AuM of around US\$50 billion¹.

As a key institution supporting the global market, FTSE's core business is to ensure each one of the 120,000 plus indices we construct and calculate answers the needs of the global investment community. FTSE indices cover a vast array of geographies, asset classes, investment strategies and themes and are used by over 400 investment managers, with over US\$3 trillion benchmarked against them.



FTSE INDEX SOLUTIONS: **DISTINCTIVELY DIFFERENT**

Successful ETFs require a robust benchmark constructed by a well known and well respected index provider. FTSE's index solutions are synonymous with meticulous index design, bringing credibility, transparency and confidence to the market. If there's an ETF to be built, there's a FTSE solution for it.

Transparent

FTSE places a great importance on the transparency of its index design so that index ground rules are accessible at all times, ensuring confidence and minimising risk. FTSE's rules based methodologies are built to detailed specifications either in house or by working with our expert partners.

Impartial

FTSE is an independent company with a sole focus on indexing, assuring clients of objective and dedicated index management. Each of FTSE's indices receives regular reviews by an experienced committee of market practitioners to ensure accurate market representation at all times.

Tradable

As a pioneer in the indexing industry, FTSE was the first to introduce measures for a truly investable stock universe. By introducing liquidity testing and free float screening, FTSE indices are fully investable and represent the share capital of a company that is freely available for trading by investors. These measures are now accepted as the market standard.



TRANSPARENT



IMPARTIAL

Accessible

FTSE index data is available via the leading data vendors including Bloomberg, Thomson Reuters and FactSet, ensuring wide distribution and high visibility across our indices globally.

Innovative

The essence of FTSE's success is our focus on innovation, providing clients with superior index solutions. FTSE has led innovation in index construction and shaped the indexing business by partnering with a number of stock exchanges to open up new markets and with a number of expert partners to lead index innovation.

2000 FTSE introduces free float adjustment to all new stocks, providing investors with information on a stock's available share capital. FTSE has applied this adjustment to all stocks in its global universe since 2001. This measure is in addition to FTSE's liquidity testing of all stocks to ensure our indices are fully investable.

2002 FTSE creates opportunities for investors in the fixed income space with the introduction of the FTSE Global Bonds Series.

2004 FTSE introduces the FTSE Global Equity Index Series, covering 48 countries and 98% of the world's investable market capitalisation.

2004 FTSE and partner Research Affiliates introduce the FTSE RAFI Index Series, a pioneering range of non market capitalisation weighted indices.

2006 Ground breaking partnership with Dow Jones to create the Industry Classification Benchmark (ICB), used widely across the industry for classification and analysis of global stocks.

2008 Significant expansion of the FTSE Global Equity Index Series to include frontier markets, opening up new investment horizons.

2009 Introduction of the first comprehensive Environmental Markets Classification System, allowing investors to identify, analyse and invest in Environmental Markets sectors for the first time.

2010 Introduction of a new range of approaches to investing in the equity market with investment strategy (FTSE ActiveBeta Index Series) and risk optimised indices (FTSE EDHEC-Risk Efficient Index Series), to provide further diversification opportunities.

TRADABLE

ACCESSIBLE

INNOVATIVE

FTSE INDEX SOLUTIONS: **LEADING THE WAY FOR INDEXING**

FTSE indices are chosen by some of the world's largest ETF providers including iShares, State Street Global Advisors, Vanguard, Lyxor Asset Management, db x-trackers and Powershares. As the range of ETFs continues to expand, FTSE's index innovation and calculation capabilities are opening up new approaches for ETFs.

Brand recognition and trust

FTSE is the best known index provider amongst institutional investors². And as FTSE is also the domestic index provider in many of the world's major markets, our indices also enjoy a high level of awareness amongst retail investors too.

Technology and speed

FTSE's nimble approach to indexing means swifter solutions. Using state of the art technology, FTSE offers a competitive index build time, including real time indices, enabling clients to design and achieve regulatory approval for new ETFs within tight time frames.

Global partnerships programme

FTSE's collaborative relationship with over 20 exchanges, asset class specialists and research houses worldwide has enabled us to combine global index expertise with local market knowledge, opening up new markets, new asset classes and new investment strategies to the global investment community.

Customisation

The custom team at FTSE is a dedicated resource for clients looking to create a bespoke solution to meet specific strategies, including ETFs. Using existing indices or a tailored universe, FTSE provides a consultative and flexible approach, offering a plethora of opportunities.

AN INDEX FOR ALL YOUR NEEDS

Institutional usage of ETFs use has evolved rapidly over the last decade. The number of global institutions utilising ETFs in both core and satellite portfolios has risen dramatically from 278 in 1998 to 2,926 in 2008³. In response, FTSE has continued to innovate in order to provide investors with an ever greater range of ETFs enabling them to access new market opportunities and diversify portfolios.

CASE STUDY 1

Accessing the World

FTSE's flagship global offering, the FTSE All-World Index Series, covers 95% of the world's investable market capitalisation and is underpinned by a resilient Country Classification System, ensuring the index series continues to meet the needs of the institutional investor. By diligently working together with the investment community and with exchanges and their regulators, FTSE has continued to lead the way in the development of international equity indices.

The Challenge

- Responding to growing international investor demand for access to global markets in order to give a better representation of the investment mandate.

Market Requirements

- To provide international investors with access to global markets from developed to emerging and frontier economies
- To apply globally recognised standards of index design and management to these indices
- To create indices which meet regulatory requirements worldwide

The Solution

The **FTSE All-World** is the benchmark of choice for investors looking to access global equity markets. Covering an aggregate of 2,700 large/mid cap stocks, it covers 95% of the global investable market capitalisation and uses robust liquidity measures to ensure investor confidence.

In addition to the FTSE All-World, FTSE has developed a range of domestic indices, opening up new markets for both domestic and international investment purposes. The FTSE China Index Series (previously named FTSE Xinhua Index Series) and the more recent FTSE Italia Index Series (a partnership with Borsa Italiana) are examples of FTSE's collaborative initiatives to deliver best-in-class indices for domestic and international use.

Example ETF Solutions

- Vanguard FTSE All-World ex-US ETF
- iShares FTSE A50 China Index ETF
- Lyxor ETF FTSE MIB
- Lyxor ETF Xbear FTSE MIB
- Lyxor ETF Leveraged FTSE MIB
- HSBC FTSE 100 ETF

CASE STUDY 2

Across Asset Classes

FTSE has maintained its commitment to providing the widest choice of indices across a range of asset classes globally. An example of this is the introduction of the FTSE EPRA/NAREIT Index Series, providing investors access to listed real estate.

The Challenge

- Investors require a practical and useful tool to identify and access the investable real estate market globally
- Increasing demand for indexing across asset classes as investors seek greater opportunities to diversify core passive portfolios

Market Requirements

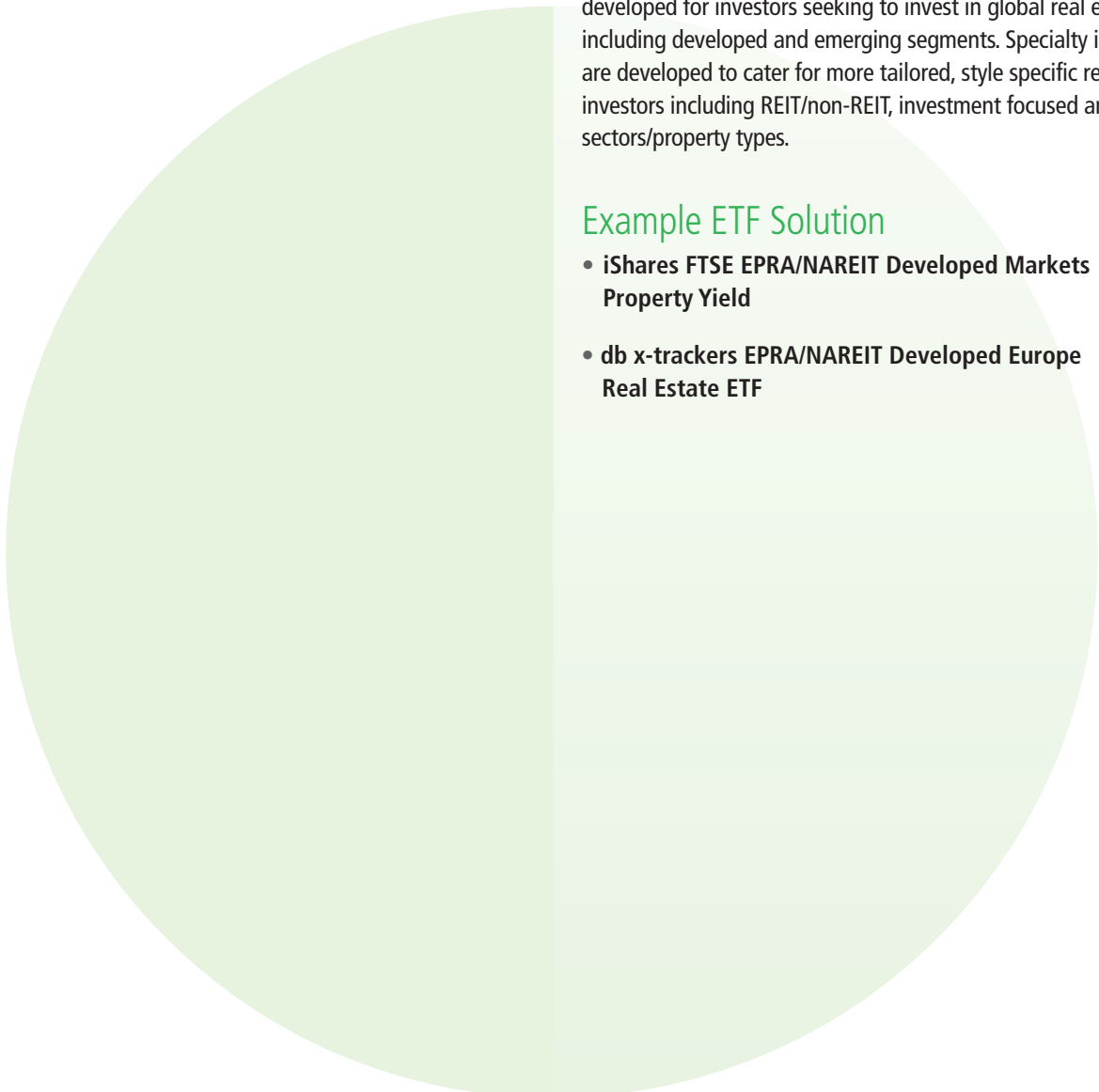
- To provide vehicles for investors to invest in listed real estate across the full range of geographic regions and property types

The Solution

The **FTSE EPRA/NAREIT Global Real Estate Index Series** is developed for investors seeking to invest in global real estate, including developed and emerging segments. Specialty indices are developed to cater for more tailored, style specific real estate investors including REIT/non-REIT, investment focused and global sectors/property types.

Example ETF Solution

- **iShares FTSE EPRA/NAREIT Developed Markets Property Yield**
- **db x-trackers EPRA/NAREIT Developed Europe Real Estate ETF**



CASE STUDY 3

Environmental Markets

The growing interest in investing in environmental technology is becoming a key factor in asset allocation, with capital markets playing an influential role in the mitigation of climate change.

The Challenge

- Increasing demand for investment opportunities in international environmental technology markets

Market Requirements

- To provide investors opportunities to identify and analyse companies belonging in the environmental technology sector
- To give investors access to companies that are best placed to succeed in a low carbon world

The Solution

FTSE has developed a family of indices under the FTSE Environmental Markets umbrella to cater for various investment needs. This includes the creation of a pioneering Environmental Markets Classification System.

The **FTSE Environmental Classification System** defines those global companies which provide products and services delivering solutions to meet environmental challenges.

The **FTSE Environmental Opportunities Index Series** is designed for investors who want to invest in companies involved in environmental markets. It includes global companies that have at least 20% of their business derived from environmental markets and technologies.

The **FTSE ET 50 Index** caters for investors who are focused on maximising environmental growth opportunities and are looking to invest in pure play environmental technology companies. It includes companies who have at least 50% of their business derived from environmental markets and technologies.

Example ETF Solution

- **EasyETF FTSE Environmental Opportunities 100**

CASE STUDY 4

Investment Strategies

Investors are increasingly looking for lower cost index based tools with which to replicate active strategies. FTSE has responded by developing an ever growing range of investment strategy indices.

The Challenge

- Growing investor demand to use a transparent, rules-driven index structure to capture systematic sources of alpha returns

Market Requirements

- To provide investors with a transparent, low cost tool for generating alpha
- To provide a lower cost alternative to active management

The Solution

FTSE RAFI Index Series weights index constituents according to fundamental factors, such as total sales, cash dividends, free cash flow and book equity value, rather than market capitalisation. The series offers a range indices across global markets.

FTSE ActiveBeta Index Series is a new approach to investing in equities, derived from the premise that a significant portion of traditional active equity management returns or alpha is attributable to systematic sources of active returns, rather than a manager's stock selection skill. The index series provides an efficient, transparent and cost-effective vehicle for capturing these sources of active equity returns.

Example ETF Solution

- **Several popular ETFs are based on the FTSE RAFI Index Series including the PowerShares FTSE RAFI US 1000**

CASE STUDY 5

Quantitative Expertise

FTSE's established quantitative team serves an increasing demand from investors seeking to replicate sophisticated trading strategies, within a passive structure.

The Challenge

- Enable proprietary trading strategies to be made available within a passive vehicle

Market Requirements

- To enable investors to replicate trading strategies at lower cost and with greater transparency

The Solution

- The formation of a FTSE dedicated quantitative team to create strategy indices
- A range of short and leveraged indices across the FTSE 100, FTSE 250, the FTSE MPF Index Series in Hong Kong and the Straits Times Index Series in Singapore, as well as the FTSE China 25 Index (previously the FTSE Xinhua China 25 Index).
- The creation of volatility and risk adjusted indices

Example ETF Solution

- **db x trackers FTSE 100 Short Daily ETF**
- **db x trackers FTSE 100 Leveraged Daily ETF**

¹ Lipper data (December 2009)

² Independent research conducted amongst institutional market participants (April 2009)

³ Global ETF Research & Implementation Strategy Team, BlackRock (ETF's landscape November 2009)

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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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PARIS +33 (0) 1 53 76 82 88 SAN FRANCISCO +1 888 747 FTSE (3873) SYDNEY +61 2 9293 2866 TOKYO +81 3 3581 2811

