

# LSEG Information Services Division

## Investor and Analyst presentation

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# Introduction by Xavier Rolet (CEO, London Stock Exchange Group)



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# Background to LSEG Information Services and FTSE

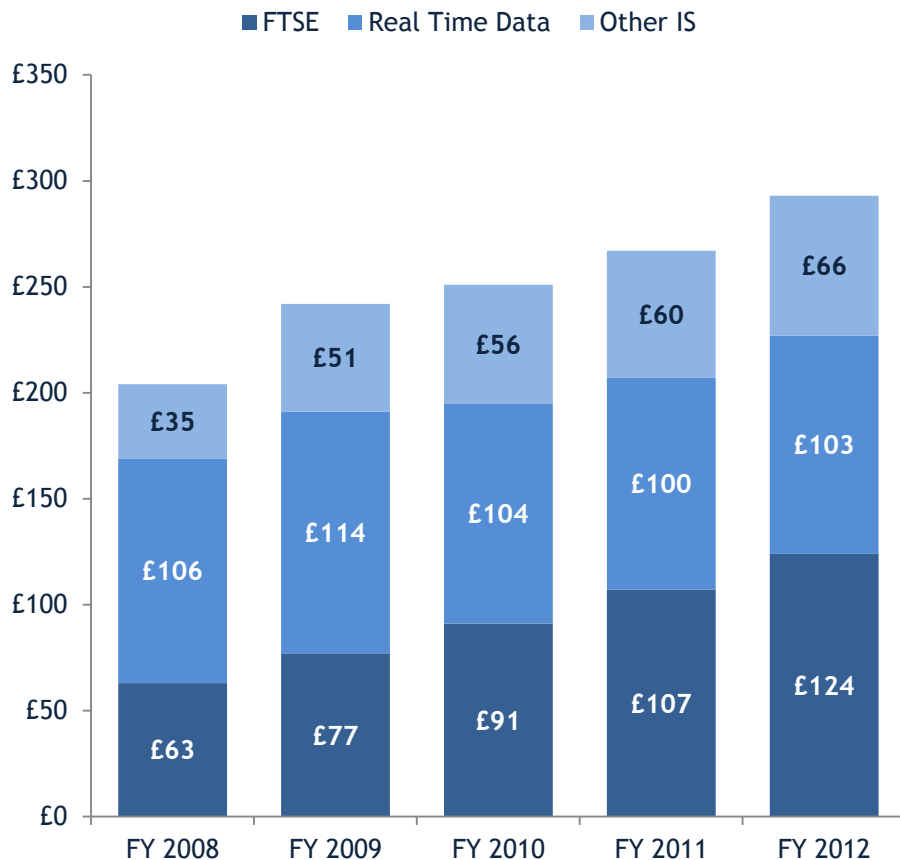


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## LSEG Information Services delivers a range of critical content and innovative IP

### LSE Information Services Division Revenues (£M)



### FTSE

- Global indices
- Index analytics

### Real-time Data

- UK and Italian price, trading and analytical data

### Reference and Historical Data

- Sedol - global standard security coding
- Historical trade data (Datalect)
- UnaVista - post-trade software
- Regulatory News (RNS)
- Corporate actions

### Desktop and Internet

- ProQuote/Market Connect market data terminal
- Order/Execution Management Services
- Retail Service Provider network / FIX
- IR websites

Source: Public filings and company reports.

Note: FY08 Pro forma for Borsa Italiana. Adjustments have been made to reflect segment changes, therefore may differ to previously published numbers



## FTSE: A Leading Global Index Provider

*Wholly-owned by LSEG, FTSE is a worldwide leader in the provision of investment decision support tools*

**£130 million** total sales (LTM Dec. 2012)

**50%** EBITDA margin

**353** employees

**47** global partnerships

**Top 3** global index provider by revenue

**\$148 billion** AUM linked to FTSE ETFs <sup>(a)</sup>

**\$3 trillion** in assets linked to FTSE indices

**94%** aggregate retention rate

**200,000** individual indices

**80** covered countries

*Source: Company data, website and press releases.*

*Note: Data other than sales as of February 2013.*

*(a) Source: Morningstar. Pro forma ETF AUM for FTSE comprised of \$60bn ETF AUM from Vanguard account, \$73bn current FTSE ETF AUM and \$15bn PC-Bond AUM.*

*(b) Source: The Financial Times.*

- Originally launched in 1995 as a joint venture between LSEG and The Financial Times, FTSE has grown into a worldwide franchise
  - Indices include the FTSE All-World, FTSE China A50 and FTSE 100
- Two primary sources of revenue:
  - **Data Subscriptions (60% of revenues):** subscription fees for data services used in the investment process
    - Indices employed as performance benchmarks by investment community
    - Asset classes include equities, real estate, fixed income and alternatives
    - Customers include asset managers, consultants, asset-owners and sell-side firms
  - **Licensing (40% of revenues):** licenses the FTSE trademark for use in financial products
    - Largest component is licensing of passive funds and ETFs
    - Licensing seen as extension of benchmarking business since passive funds and ETFs are linked to benchmark indices
    - Fees based on value of assets managed
- Recent developments:
  - Won \$170 billion AUM <sup>(b)</sup> Vanguard account from MSCI (not all ETF)
  - Announced joint venture with TMX Group's PC-Bond



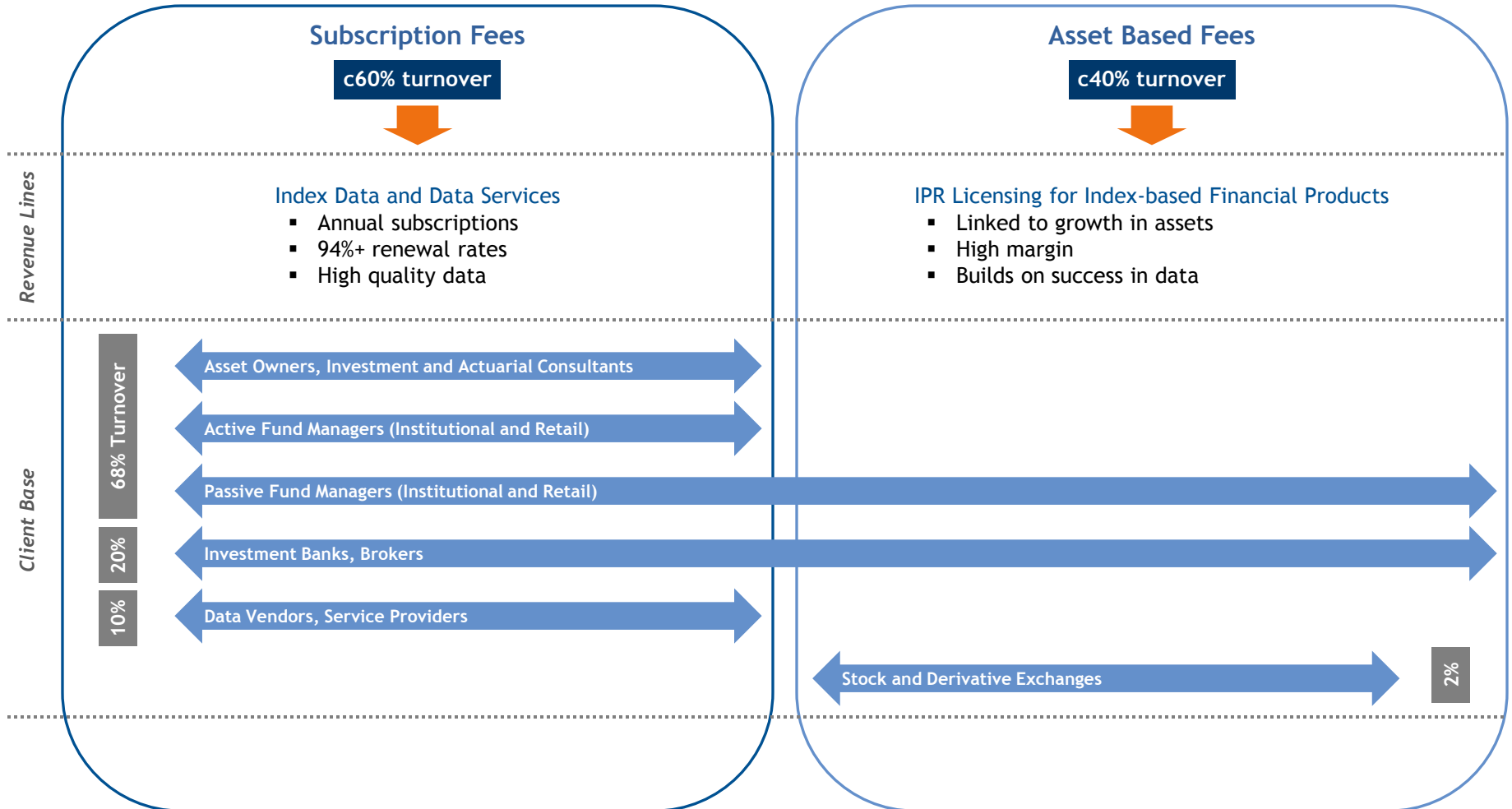
## FTSE's Global Reach

*Fourteen offices in ten countries*





# FTSE's Business Model



Note: Client turnover split as of Year End 2010. Revenue lines split pro forma for newly acquired Vanguard account.



LSEG Information Services has maintained growth in difficult market conditions



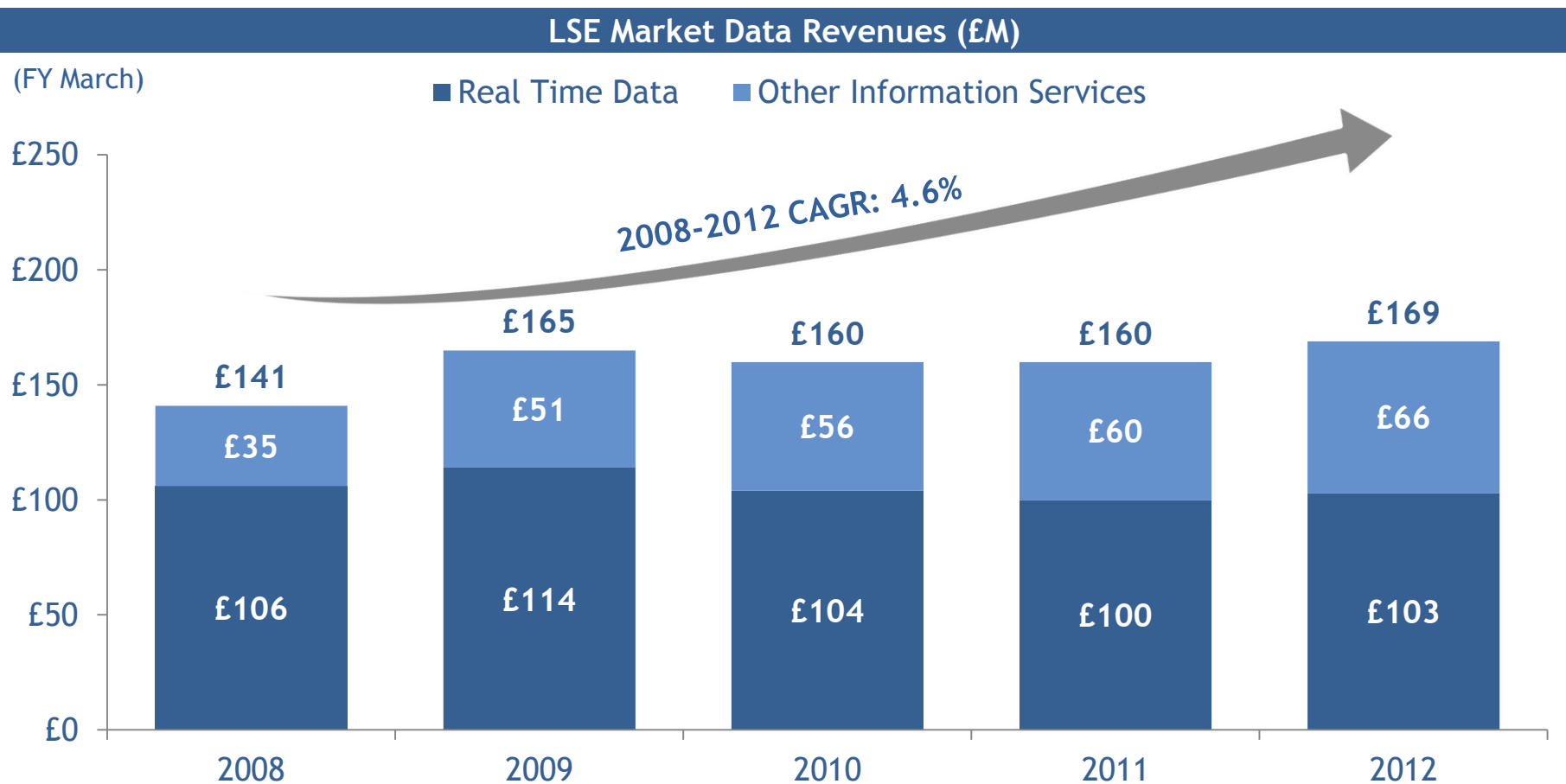
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## LSEG Information Services has maintained growth through the market cycle

- Track record of growing revenues through product innovation supplemented by bolt-on acquisitions (FSA's Transaction Reporting Service in 2011) despite challenging market environment as banks downsize



Source: Public filings and company reports.

# Adding FTSE accelerates growth



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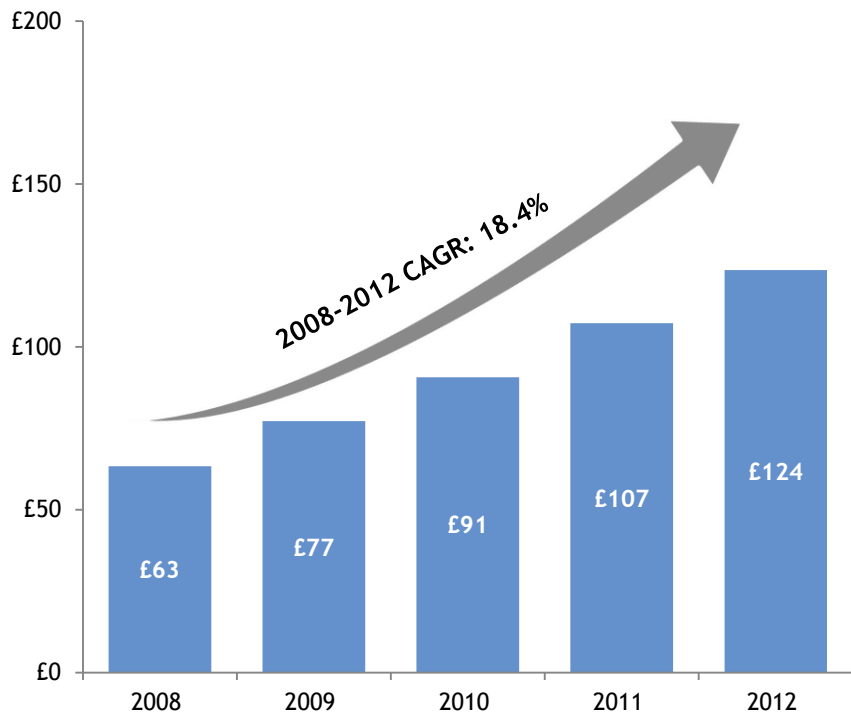
## Adding FTSE accelerates growth

- FTSE’s growth reflects the success of product innovation and building on positive market dynamics, including the move from active to passive management and the emergence of an Asian pool of pension and sovereign wealth assets
- The combination of Information Services with FTSE delivers strong revenue growth over a sustained period

**FTSE Global Index Revenues (£M)**

(FY March)

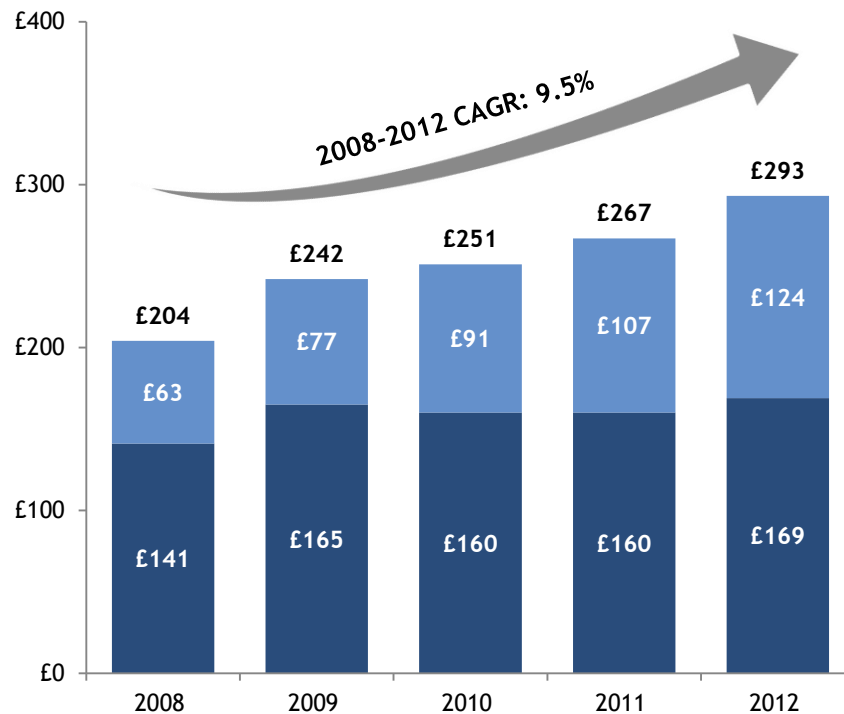
■ FTSE Index Revenues



**FTSE/LSE Global Index and Market Data Revenues (£M)**

(FY March)

■ LSEG IS Revenues ■ FTSE Index Revenues



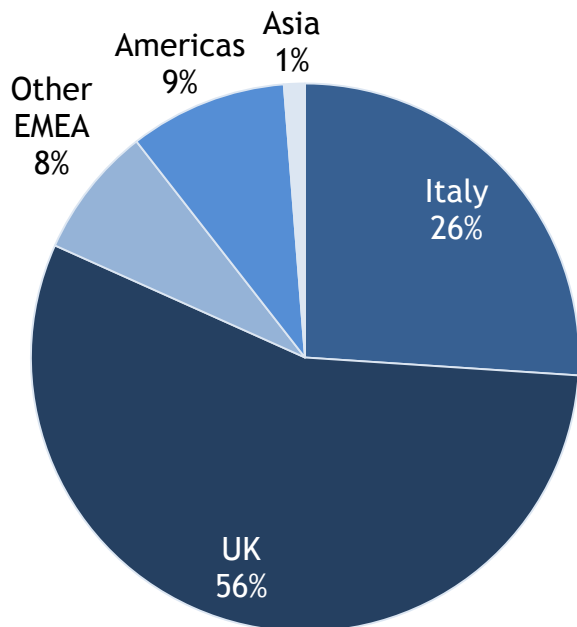
Source: Public filings and company reports.



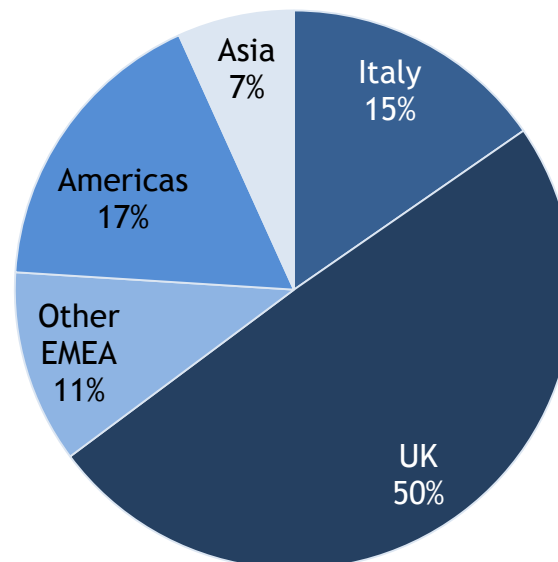
## Adding FTSE also diversifies revenues by geography

- FTSE's global reach complements Information Services' strength in the UK and Italy and brings exposure to high growth Asian markets and the world's largest pool of pension assets in the US

Revenues by location pre-FTSE



Revenues by location post-FTSE



Source: Public filings and company reports.

Note: Data estimated for FY12. Revenue % by location based on clients' billing address.



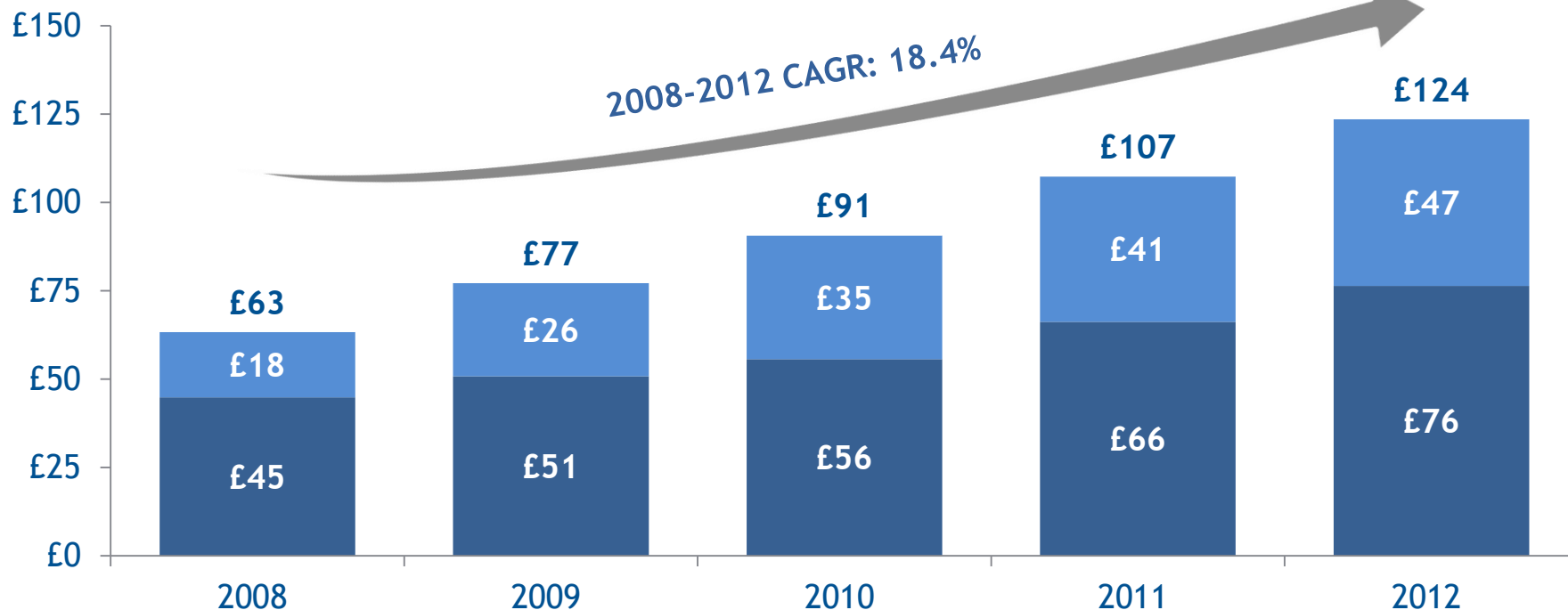
# FTSE has a strong track record of growth

## FTSE Revenues by Category (£M)

(FY March)

■ Data Services ■ IP Licensing

2008-2012 CAGR: 18.4%



|                                  |     |     |     |     |     |
|----------------------------------|-----|-----|-----|-----|-----|
| Growth Rate                      | 12% | 22% | 18% | 18% | 16% |
| Subscription Retention Rates (a) | 97% | 96% | 96% | 97% | 95% |

Source: Company reports.

(a) Based on data services revenue only.

# Information Services - a global growth strategy



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## Information Services - a global growth strategy

### **Mission**

To support the decisions and operations of market participants through the delivery of proprietary content and value-added information

### **Strategy**

- Maintain historical FTSE growth rates through continued product innovation and expansion into additional asset classes
- Further penetration into the US market
- Enhance real time data revenues through the development of commercial models that are less exposed to headcount changes at customers
- Increase sales capacity and global reach, building on FTSE's global sales network and client relationships and cross-selling the full range of Information Services products
- Establish partnerships on a selective basis to expedite market entry and global expansion
- Accelerate growth in key niches through strategic acquisitions



Many opportunities exist to support continued FTSE growth



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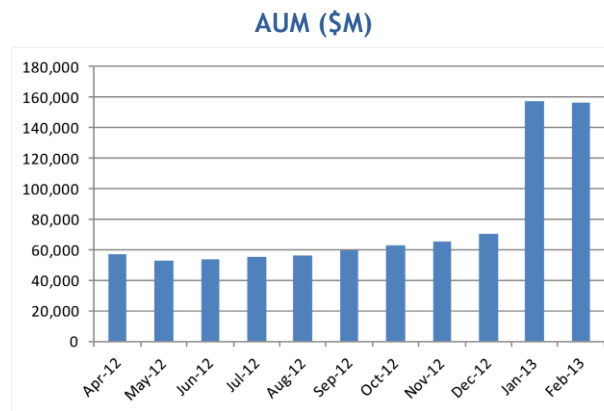
## Many opportunities exist to support continued FTSE growth

- Increasing ETFs assets linked to FTSE
- Adoption of FTSE in North America
- Opening up of China market
- Demand for multi-price fixed income indices



## Increasing ETF assets linked to FTSE

- Rapid growth in ETF AUM and share driven by Vanguard benchmark switch announced in October 2012
- Opportunities for further growth driven by:
  - Continuing expansion in ETF penetration of institutional and retail markets globally
  - Product innovation and brand development
  - Asset class expansion including fixed income through TMX JV



### Global ETP Index Provider Ranking (Q3 2012 & Projected - adjusted for TMX JV )

Before Vanguard Switch and TMX Acquisition: FTSE No. 6 in Equities and No. 7 Overall

| Rank | Index Provider | AUM (\$bn) Q3/12 |
|------|----------------|------------------|
| 1    | S&P DJ         | 472              |
| 2    | MSCI           | 366              |
| 3    | BarCap         | 172              |
| 4    | STOXX          | 93               |
| 5    | Russell        | 88               |
| 6    | Markit         | 71               |
| 7    | FTSE           | 60               |



Effect of Vanguard Switch and TMX Acquisition: FTSE No. 3 in Equities and No. 4 Overall

| Rank | Index Provider | Pro Forma AUM (\$bn), Q3/12 |
|------|----------------|-----------------------------|
| 1    | S&P DJ         | 472                         |
| 2    | MSCI           | 366-73+58=235               |
| 3    | BarCap         | 172                         |
| 4    | FTSE           | 60+73+15=148                |
| 5    | STOXX          | 93                          |



Current Position: No 3 in Equities, No. 4 Overall  
Target Position: No. 2

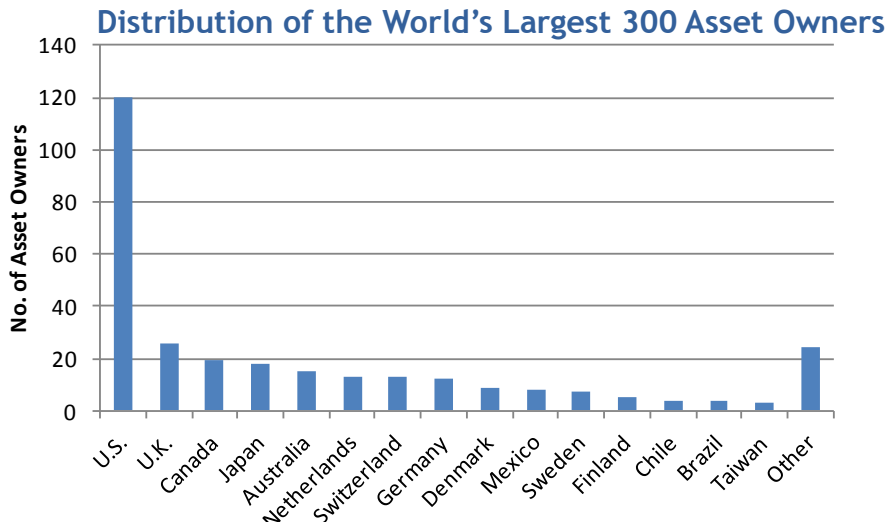
| Rank | Index Provider | AUM (\$bn) Mar/13 |
|------|----------------|-------------------|
| 1    | S&P DJ         | 533               |
| 2    | MSCI           | 287               |
| 3    | BarCap         | 186               |
| 4    | FTSE           | 177               |
| 5    | STOXX          | 93                |

Requires asset growth of \$100BN+ dependent on the source of growth



## Adoption of FTSE in North America

- North America represents the World's largest plan sponsor (pension) market; Canada alone ranks #4 in the world
- Vanguard benchmark switch (\$170 BN in mutual fund and ETF assets, previously benchmarked to MSCI) emphasizes the quality of FTSE's international equity benchmarks and has heightened brand visibility in the North American market
- Consistent focus on “choice” in all client communications and marketing is resonating with US market participants including plan sponsors
- FTSE-TMX joint venture strengthens visibility in Canada and creates the ability to compete more effectively in the fixed income market globally
- Continuing emphasis on building engaged partnerships with key North American clients; delivering investment critical data and licensing innovation and agreements with global impact



Source: P&I Towers Watson.



## China Market

- International investors can only access China ‘A’ Share Market through quota schemes - Qualified Foreign Institutional Investor (“QFII”) & Renminbi Qualified Foreign Institutional Investor (“RQFII”)
  - QFII is a program launched in 2002 in China to allow licensed foreign investors to buy and sell Renminbi-denominated "A" shares in China's mainland stock exchanges
  - RQFII is a policy initiative of Chinese authorities which allows qualified RQFII holders to channel Renminbi funds raised in Hong Kong to invest in Chinese securities markets
- Current QFII quotas granted total \$40bn (1% of ‘A’ shares) with allocation to rise to \$80bn over time. International investors seeking greater quota than current cap allows
- RQFII quota granted totals \$30bn with initial allocation to rise to \$70bn
- Staged relaxation in investment restrictions, i.e. on use of derivatives, length of holdings, split between equities & bonds
- Announcement in December, 2012 of a tenfold increase in both quota schemes
- Growth in availability of investing into China raises question of potential entry of China into the global benchmark indexes and how investors include in their portfolios
- China has weight currently of 2.2% in FTSE Global All Cap benchmark (primarily Hong Kong listed stocks) and is 11<sup>th</sup> largest market globally



## China Market

- Various scenarios emerge depending on the speed of reform:

### China equity market evolution - including A-shares

| China                              | Before A Share Inclusion | After A Share Inclusion       |                                    |                    |                   |
|------------------------------------|--------------------------|-------------------------------|------------------------------------|--------------------|-------------------|
|                                    |                          | Existing QFII Quota / 30% FOR | 10 x Existing QFII Quota / 30% FOR | No Quota / 30% FOR | No Quota / No FOR |
| Number of Constituents             | 355                      | 1,778                         | 1,778                              | 1,778              | 1,778             |
| Net MCap (USDm)                    | 747,953                  | 803,364                       | 1,253,364                          | 1,470,945          | 1,825,032         |
| <b>Index Weights %</b>             |                          |                               |                                    |                    |                   |
| FTSE China All Cap                 | 100.00                   | 100.00                        | 100.00                             | 100.00             | 100.00            |
| FTSE Global All Cap                | 2.23                     | 2.38                          | 3.66                               | 4.27               | 5.24              |
| FTSE Asia Pacific All Cap ex Japan | 16.43                    | 17.26                         | 24.55                              | 27.64              | 32.15             |
| FTSE Asia Pacific All Cap          | 10.48                    | 11.08                         | 16.28                              | 18.58              | 22.07             |
| FTSE Emerging All Cap              | 20.21                    | 21.05                         | 29.37                              | 32.80              | 37.72             |

- Depending on how China 'A' shares are included in the global benchmarks China could move from current 11<sup>th</sup> place to as high as 4<sup>th</sup> largest market
- RMB Offshore bond market (Dim Sum bonds) developing rapidly as China seeks to establish RMB as a major international currency to rival US & Offshore centres in Hong Kong, London & Singapore growing substantially
- Implications for investors are substantial and opportunities for FTSE significant



## China Market

- FTSE 1<sup>st</sup> global index provider in China in 2000 through J.V. with Xinhua News Agency
- World's largest China ETFs on FTSE China indexes in New York, London & Hong Kong
- FTSE China A50 index has established a strong position in ETFs on QFII & RQFII schemes in Hong Kong; AUM \$11bn and 80% of ETF trading volume on Hong Kong Exchange
- FTSE China 25 ETF is largest China product in U.S. & Europe; AUM \$10bn
- The only Offshore derivatives contract on China Market is in Singapore based on FTSE China A50 - 2m + contracts per month. Open interest 250 - 300,000 contracts
- Largest Chinese asset owners (NCSSF) and Sovereign Wealth Fund (CIC) use FTSE benchmarks
- FTSE will introduce index series for RMB Offshore bond market in conjunction with Chinese partner in late April
- FTSE China A50 ETFs now established in Hong Kong, Korea, Japan & Taiwan and will establish in Europe and U.S. in 2013 & 2014



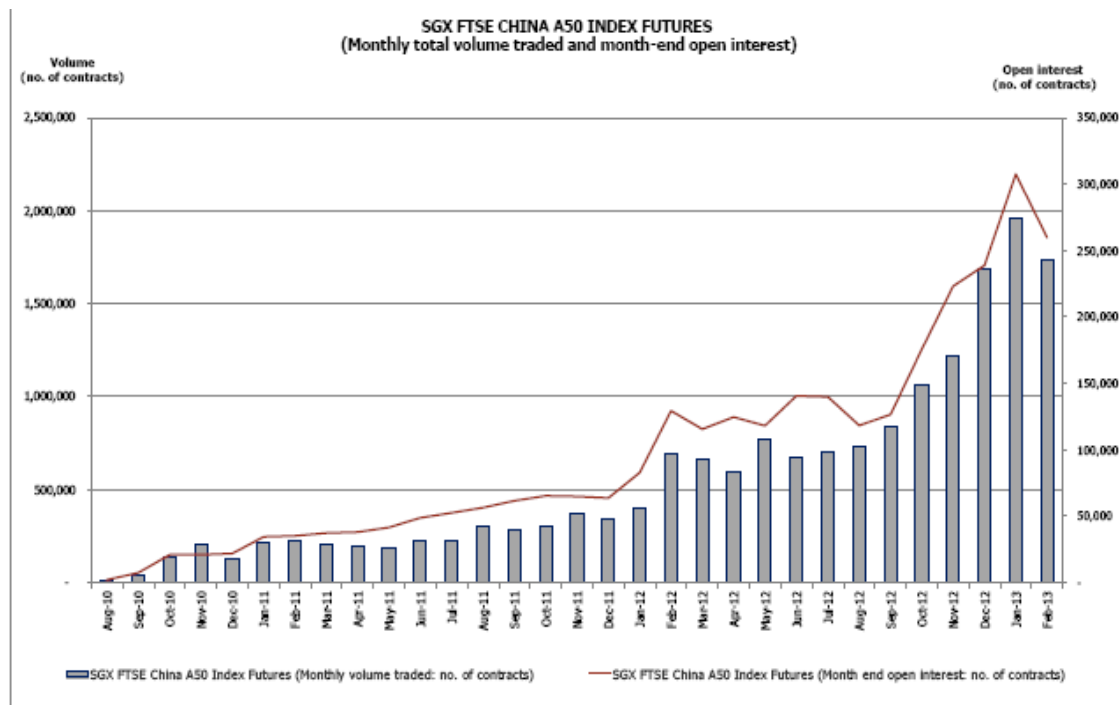
## China Market

- Hong Kong's pension scheme, MPF (assets of £55bn) will soon start to allow investment in China A shares & fixed income - FTSE provides the benchmark indices to MPF

### Market share of Hong Kong listed China

#### ETFs by AUM

| Index Provider | China (A-Share) ETFs |                        |
|----------------|----------------------|------------------------|
|                | AUM (USDm)           | China (A-Share) ETFs % |
| <b>FTSE</b>    | <b>11,173.7</b>      | <b>62.54</b>           |
| MSCI           | 391.7                | 2.19                   |
| CSI            | 6,274.5              | 35.12                  |
| HSI            | -                    | -                      |
| SSE            | 26.0                 | 0.15                   |
| SZSE           | 0.8                  | 0.00                   |
| <b>Totals</b>  | <b>17,866.7</b>      | <b>100.00</b>          |



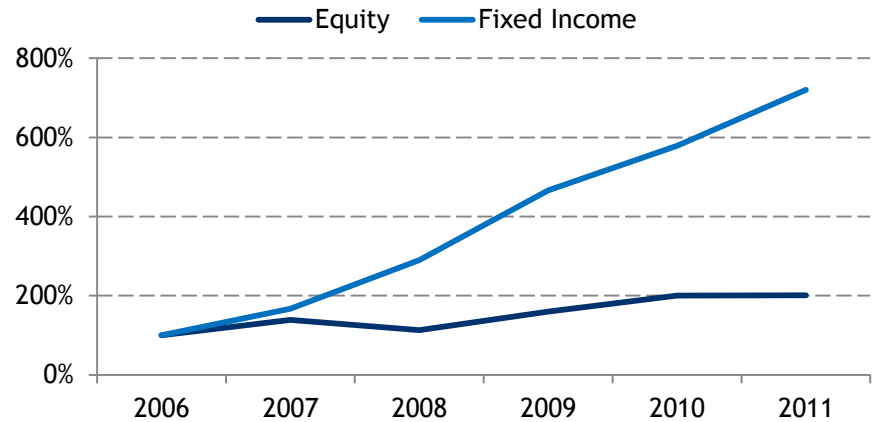




# Demand for multi-price fixed income indices

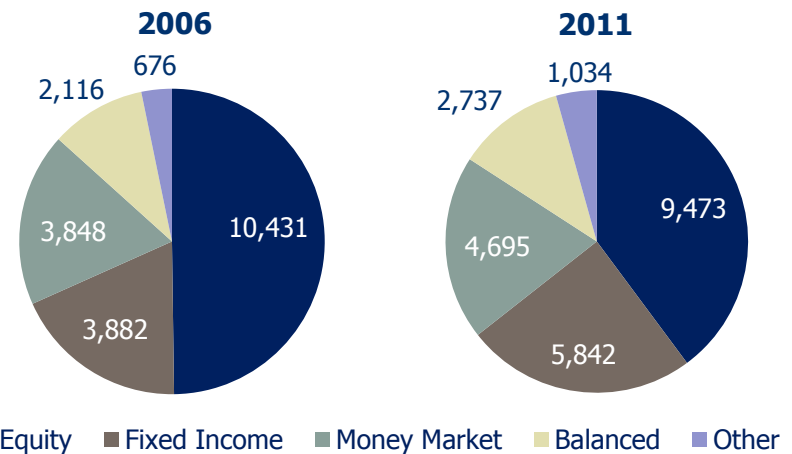
- Fixed income is the fastest growing asset class in the ETF and mutual fund segments
- Fixed income accounts for 17% of total ETF assets globally, growing by 24% in 2011 to US\$253.5bn
- The most used fixed income indices are operated by BarCap and Markit, but there is demand for an alternative from FTSE clients
- Changes in regulation are encouraging more transparent pricing from multiple suppliers
- PC-Bond is the third largest fixed income index provider; FTSE runs the UK Gilt indices; together some US\$18bn of ETF assets are linked to these indices
- FTSE has capitalized on an opportunity to provide an alternative to current index providers by acquiring a majority stake in PC-Bond
- FTSE can continue to expand this platform initially focusing on single country domestic bond indices

Relative growth in Equity and Fixed Income ETFs



Source: BlackRock.

Global mutual fund assets by asset class US\$bn



Source: ICI.

# Appendix



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## Pro forma revenues (£M)

| Information Services Revenues           | FY08        | FY09        | FY10        | FY11        | FY12        | 4-yr. CAGR |
|---|-------------|-------------|-------------|-------------|-------------|------------|
| Data services                           | £45         | £51         | £56         | £66         | £76         | 14%        |
| IP Licensing                            | 18          | 26          | 35          | 41          | 47          | 26%        |
| <b>Total FTSE</b>                       | <b>£63</b>  | <b>£77</b>  | <b>£91</b>  | <b>£107</b> | <b>£124</b> | <b>18%</b> |
| Real Time Data                          | £106        | £114        | £104        | £100        | £103        | (1%)       |
| Other Information Services              | 35          | 51          | 56          | 60          | 66          | 17%        |
| <b>Total Other Information Services</b> | <b>£141</b> | <b>£165</b> | <b>£160</b> | <b>£160</b> | <b>£169</b> | <b>5%</b>  |
| <b>Total Information Services</b>       | <b>£204</b> | <b>£242</b> | <b>£251</b> | <b>£267</b> | <b>£293</b> | <b>9%</b>  |

| Growth Rates                            | FY08 | FY09       | FY10        | FY11       | FY12       |
|---|------|------------|-------------|------------|------------|
| Data services                           |      | 13%        | 10%         | 19%        | 15%        |
| IP Licensing                            |      | 43%        | 33%         | 18%        | 15%        |
| <b>Total FTSE</b>                       |      | <b>22%</b> | <b>17%</b>  | <b>18%</b> | <b>15%</b> |
| Real Time Data                          |      | 8%         | (9%)        | (4%)       | 3%         |
| Other Information Services              |      | 46%        | 10%         | 7%         | 10%        |
| <b>Total Other Information Services</b> |      | <b>17%</b> | <b>(3%)</b> | <b>0%</b>  | <b>6%</b>  |
| <b>Total Information Services</b>       |      | <b>19%</b> | <b>3%</b>   | <b>7%</b>  | <b>9%</b>  |