

Research

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From frontier to developed – the FTSE ASEAN Index Series

The FTSE ASEAN Index Series provides a comprehensive range of benchmarks to measure the performance of stocks within an increasingly integrated and fast-growing economic region.

ASEAN

The Association of Southeast Asian Nations (ASEAN) was set up in 1967 and initially included five member states: Indonesia, Malaysia, Philippines, Singapore and Thailand. With the addition of Brunei Darussalam (1984), Vietnam (1995), Lao PDR and Myanmar (1997), and Cambodia (1999), ASEAN's membership has since expanded to ten.

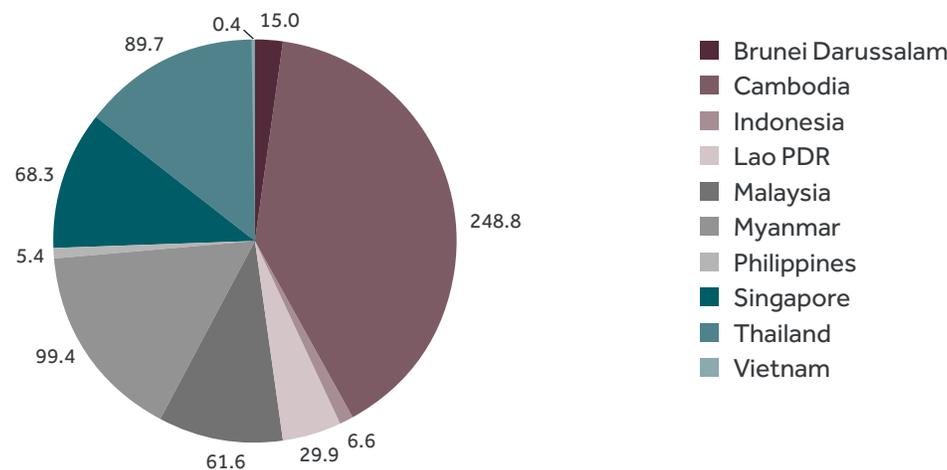
ASEAN's founding aims include the joint pursuit of economic growth, social progress and cultural development¹. In 2007 ASEAN's member states committed themselves to a process of economic integration through the introduction of a single market, called the ASEAN Economic Community (AEC). The AEC has the goal of regional economic integration by 2015, including the free flow of goods, services, labour and capital between ASEAN member states.

Collectively, ASEAN countries command significant economic weight. According to a recent study² by consulting firm McKinsey, ASEAN's member states had a combined GDP of \$2.4 trillion in 2013. If ASEAN were a single country this would place it seventh in a ranking of world economies by GDP, just behind the UK.

Regional Economic Statistics

The ASEAN population of over 600 million represents the third-largest labour force in the world (behind China and India). Indonesia, Philippines and Vietnam are the three most populous states, representing around 70% of the collective ASEAN population in 2012.

ASEAN Population by Country



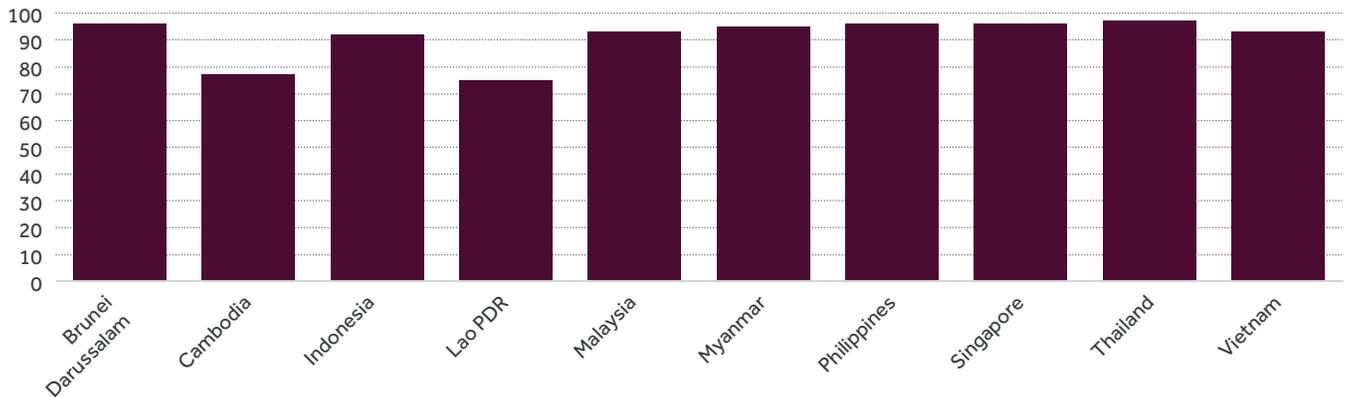
Source: www.asean.org, national estimates of 2013 mid-year populations in million.

¹ <http://www.asean.org/asean/about-asean/history>

² http://www.mckinsey.com/insights/public_sector/understanding_asean_seven_things_you_need_to_know

Eight of the ten ASEAN member states boast literacy rates in excess of 90%.

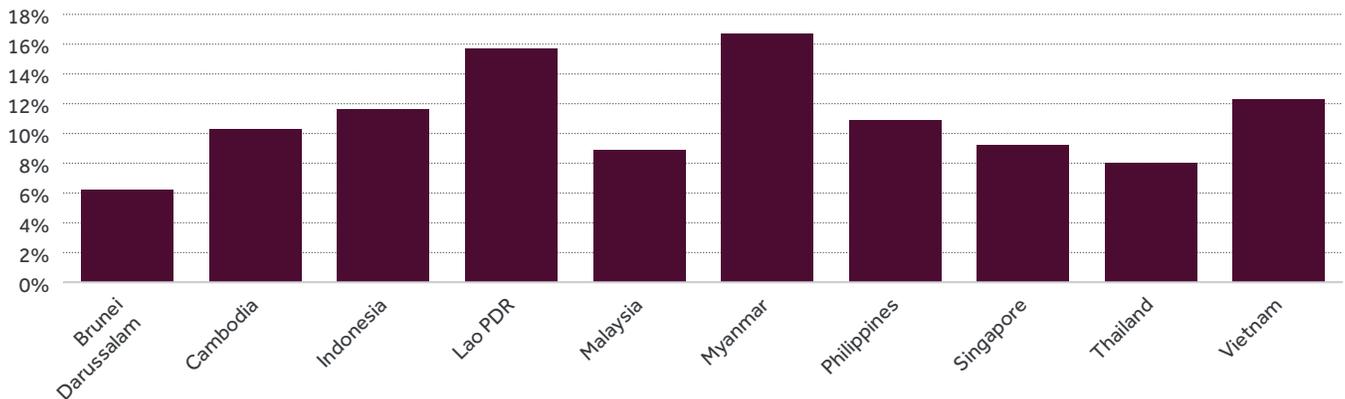
ASEAN Literacy Rates by Country (%)



Source: ASEAN Statistical Yearbook 2013, literacy rates as at 2010 (2008 for Philippines).

The ASEAN region has witnessed dynamic economic growth rates during the last decade. Over the ten-year period from 2005-2014, inclusive, the ten ASEAN member states recorded compound annual growth rates in gross domestic product (GDP) of between 6% and 16%.

Average 10 Year ASEAN GDP Growth Rate by Country (2005-2014)

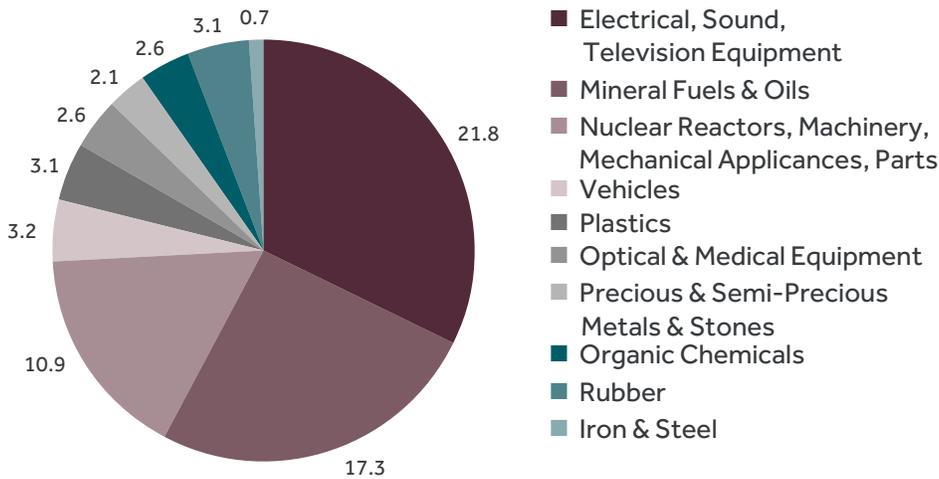


Source: IMF World Economic Outlook, October 2014. GDP is measured in US dollars and in current price terms. 2014 growth rates are estimated.

ASEAN countries have also shown high levels of openness to international and intra-regional trade. According to the ASEAN Statistical Yearbook 2013, both intra-ASEAN and Extra-ASEAN trade levels grew at more than 10% per annum between 2006-2012. As a result, the total trade levels of ASEAN countries more than doubled from US\$1,224 billion in 2005 to US\$2,476 billion by 2012.

The make-up of ASEAN countries' exports is relatively diversified: as illustrated in the chart below.

Share of Total ASEAN Exports by Commodity Group (%)



Source: ASEAN Statistics, data for 2013.

ASEAN Countries within FTSE's Country Classification Framework

Six of the ten ASEAN countries are members of the FTSE Global Equity Index Series (FTSE GEIS)³, FTSE's broadest measure of the global equity markets. The FTSE GEIS covers around 7,400 securities in 47 countries.

The number of countries considered by the average portfolio investor has increased greatly during recent decades, reflecting a trend towards globalisation. For example, according to the IMF the average non-domestic allocation of a US institutional equity portfolio was only 21% in 1997. By 2013, 49% of the average equity portfolio was invested outside the US⁴.

When investing outside their domestic market, many investors wish to distinguish mature, more stable economies with deep, developed capital markets from other countries with relatively underdeveloped equity markets and a less evolved infrastructure for share trading.

To achieve this distinction, FTSE classifies FTSE GEIS countries within one of four development categories: developed, advanced emerging, secondary emerging and frontier.

The FTSE Country Classification Advisory Committee, which meets annually in September, uses a number of criteria to assess a country's classification status (as set out in the table below).

There are standard scorings for countries to qualify for particular levels of development status: a country should meet 21 specified quality of markets criteria to be classified as a developed market, 15 criteria to be classified as advanced emerging, nine to qualify for secondary emerging status and five to be classified as a frontier market.

³ As a result of the size and/or level of development of their local capital markets, ASEAN member states Brunei Darussalam, Lao PDR, Myanmar and Cambodia are not members of the FTSE GEIS.

⁴ IMF Coordinated Portfolio Investment Surveys, 1997, 2013

Criteria Used in FTSE's Country Classification Process

Criteria	Developed	Advanced emerging	Secondary emerging	Frontier
World Bank GNI Per Capita Rating				
Creditworthiness				
Market and Regulatory Environment				
Formal stock market regulatory authorities actively monitor market (e.g., SEC, FSA, SFC)	X	X	X	X
Fair and non-prejudicial treatment of minority shareholders	X	X		
Non or selective incidence of foreign ownership restrictions	X	X		
No objection to or significant restrictions or penalties applied to the investment of capital or the repatriation of capital and income	X	X	X	X
Free and well-developed equity market	X	X		
Free and well-developed foreign exchange market	X	X		
Non or simple registration process for foreign investors	X	X		
Custody and Settlement				
Settlement - Rare incidence of failed trades	X	X	X	X
Custody-Sufficient competition to ensure high quality custodian services	X	X	X	
Clearing & settlement - T + 3 , T + 5 for Frontier	X	X	X	X
Stock Lending is permitted	X			
Settlement - Free delivery available	X			
Custody - Omnibus account facilities available to international investors	X	X		
Dealing Landscape				
Brokerage - Sufficient competition to ensure high quality broker services	X	X	X	
Liquidity - Sufficient broad market liquidity to support sizeable global investment	X	X	X	
Transaction costs - implicit and explicit costs to be reasonable and competitive	X	X	X	
Short sales permitted	X			
Off-exchange transactions permitted	X			
Efficient trading mechanism	X			
Transparency - market depth information/visibility and timely trade reporting process	X	X	X	X

Criteria	Developed	Advanced emerging	Secondary emerging	Frontier
Derivatives				
Developed Derivatives Market	X			
Size of Market				
Market Capitalisation \$mn				
Total Number of Listed Companies				

Source: FTSE, as at 31 December 2014, for illustrative purposes only.

As can be seen from the table below, individual ASEAN countries fall into each of the four development categories: developed, advanced emerging, secondary emerging and frontier.

The table also shows each ASEAN country's equity market capitalisation and its total number of listed companies. As at end-2014, the market capitalisation of ASEAN countries within the emerging markets category outweighed the market capitalisation of the countries classified as developed (Singapore) and frontier (Vietnam).

ASEAN Countries within FTSE's Country Classification Framework

ASEAN Member State	World Bank GNI Per Capita Rating, 2012	Development category within FTSE GEIS	Equity market capitalisation (\$m, as at 31/12/14)	Total number of listed companies (as at 31/12/14)
Singapore	High	Developed	752,831	479
Malaysia	Upper Middle	Advanced Emerging	459,004	900
Thailand	Upper Middle	Advanced Emerging	430,427	585
Indonesia	Lower Middle	Secondary Emerging	422,127	483
Philippines	Lower Middle	Secondary Emerging	261,841	254
Vietnam	Lower Middle	Frontier	52,427	672

Source: FTSE, as at 31 December 2014

Stock Exchange Partnerships

Over 20 stock and derivative exchanges around the world have partnered with FTSE to calculate their domestic indexes.

The FTSE ASEAN index series, launched in 2005, is calculated under a partnership agreement between FTSE and the ASEAN Exchanges. The index series is designed to represent the performance of large-, mid- and small-capitalisation stocks from across the ASEAN region.

When partnering with local exchanges, FTSE applies global standards in index methodology to a range of domestic equity markets, while taking into account local market characteristics. FTSE seeks to implement a consistent approach when constructing partner indices: for example, by using a single industry classification framework and applying a common standard for measuring and reflecting index constituents' free float and shares in issue.

FTSE's approach involves regular discussions with its clients and external advisory committees to ensure that indices meet the requirements of end-users. Publicly available rules provide full transparency of index methodologies.

ASEAN Capital Market Integration

In recent years governments, stock exchanges and regulatory authorities in ASEAN member states have made concerted efforts to increase the level of integration of local capital markets.

In 2011 seven stock exchanges from the ASEAN region—the Bursa Malaysia, the Hanoi Stock Exchange, the Ho Chi Minh Stock Exchange, the Indonesia Stock Exchange, the Philippine Stock Exchange, the Singapore Exchange and the Stock Exchange of Thailand—joined an initiative called the *ASEAN Exchanges*.

According to its member exchanges, this initiative aims to promote the growth of ASEAN capital markets by driving cross-border trading flows, streamlining market access and creating financial products with a focus on the region.

Additionally, as at mid-2014 three of the ASEAN exchanges (Malaysia, Singapore and Thailand) are connected via the so-called ASEAN Trading Link. The link provides a common access point for participating ASEAN exchanges in the network via a single hub, enabling investors within the region to route orders from their domestic stock exchange to other ASEAN exchanges for execution.

The ASEAN exchanges have also announced plans to streamline the post-trade procedures for cross-border transactions conducted via the ASEAN Trading Link.

The FTSE ASEAN Index Series

The FTSE ASEAN index series consists of the following equity indexes and index categories.

The **FTSE ASEAN All-Share index** represents the performance of large-, mid- and small-capitalisation ASEAN companies. The index consists of the constituents of the FTSE ASEAN Indonesia All-Share index, the FTSE ASEAN Philippines All-Share index, the FTSE ASEAN Vietnam All-Share index, the FTSE Bursa Malaysia EMAS index, the FTSE SET All-Share index and the FTSE ST All-Share index.

The **FTSE ASEAN All-Share ex Developed index** represents the performance of all the companies in the FTSE ASEAN All-Share index, with the exception of those listed in developed markets (i.e., companies listed on the Singapore Exchange are excluded).

The **FTSE/ASEAN 40 index** is designed to represent the performance of the largest companies from across the ASEAN exchanges.

The **FTSE ASEAN Sector indexes** subdivide the FTSE ASEAN All-Share index into industry, supersector and sector indices, following the Industry Classification Benchmark (ICB).

The **FTSE ASEAN Stars index** comprises 30 companies from each of the ASEAN exchanges of Indonesia, Malaysia, Philippines, Singapore and Thailand, and 15 companies each from the two Vietnam member exchanges (Ho Chi Minh and Hanoi). This index is intended to serve as a market barometer and not as the underlying benchmark for financial products.

Investability and Liquidity Screens

In common with other indexes from the FTSE range, the FTSE ASEAN index series is adjusted for free float and screened for liquidity. This facilitates replication by index-tracking financial products.

Companies with a free float of 15 percent or lower are not eligible for inclusion in the index series. In Vietnam the minimum free float is 5 percent to allow some of Vietnam's largest companies to be included.

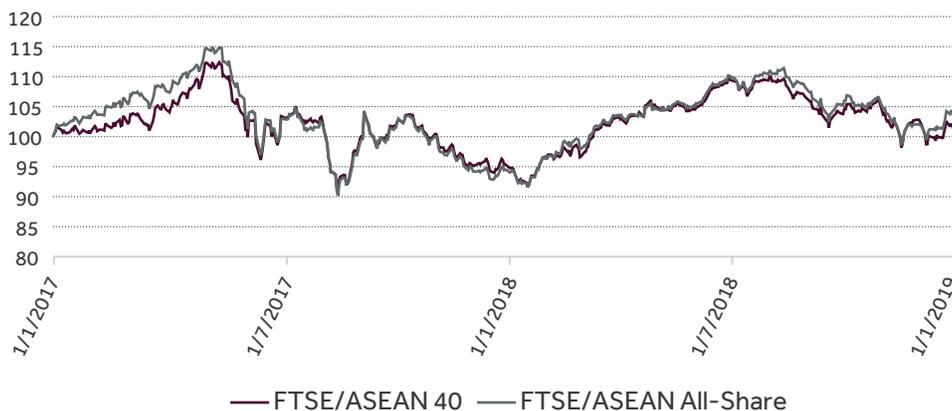
The categories of shares subject to free float restrictions are set out in detail in the index ground rules⁵.

The constituents of the index series are also subject to a screening for liquidity, based upon the monthly median of each security's daily trading volume. In order for a security to be eligible for inclusion in the FTSE ASEAN indexes, its median trading volume must exceed a minimum threshold, also detailed in the index rules. Reflecting the differences in trading volumes across the different ASEAN markets, the minimum turnover threshold is set at different levels for different ASEAN exchanges.

Performance

The total return performance of the FTSE/ASEAN 40 and FTSE ASEAN All-Share indexes since the end of 2012 is shown in the graph below. The table provides a five-year comparison of the return and volatility statistics of the FTSE/ASEAN 40 index with the FTSE Asia Pacific ex Japan index.

FTSE ASEAN 40 and FTSE ASEAN All-Share Index Performance



Source: FTSE, as at 30 January 2015. Index values are rebased to 100 as at 31 December 2012. Past performance is no guarantee of future results.

⁵ See http://www.ftse.com/products/downloads/FTSE_ASEAN_Index_Series_Ground_Rules_new.pdf

Five-year Return Comparison: FTSE/ASEAN 40 and FTSE Asia Pacific ex Japan Indexes

Index (USD)	Return (%)				Return p.a. (%)		Volatility (%)		
	YTD	1YR	3YR	5YR	3YR	5YR	1YR	3YR	5YR
FTSE/ASEAN 40	-2.0	8.7	11.7	54.3	3.8	9.1	9.5	13.0	15.6
FTSE Asia Pacific ex-Japan	1.6	10.9	21.0	44.2	6.6	7.6	9.7	14.2	17.8

Source: FTSE, as at 30 January 2015. 1y volatility is based on daily return data, 3y volatility on weekly return data and 5y volatility on monthly return data. Past performance is no guarantee of future results.

Over the five-year period ending in January 2015, the FTSE/ASEAN 40 index gave an annual total return of 9.1 percent, compared with an annual total return of 7.6 percent on the FTSE Asia Pacific ex Japan index. The five-year annualised volatility of the FTSE/ASEAN 40 index was 15.6 percent, compared with 17.8 percent for the FTSE Asia Pacific ex Japan index.

Country and Constituent Weightings

The country and top ten constituent weightings of the FTSE/ASEAN 40 and FTSE ASEAN All Share indexes are shown in the tables below. As at end-January 2015, Singapore and Malaysia represented the largest country weightings in both indexes.

FTSE/ASEAN 40 and FTSE ASEAN All Share Indexes: Country Weightings

Country	FTSE/ASEAN 40	FTSE ASEAN All-Share
	Weight (%)	Weight (%)
Hong Kong*	–	3.53
Indonesia	18.12	13.76
Malaysia	25.65	21.31
Philippines	3.64	10.04
Singapore	37.46	27.20
Thailand	15.13	22.48
Vietnam	–	1.68
Total	100.00	100.00

Source: FTSE, as at 30 January 2015

* The table shows the nationality of FTSE ASEAN indices' constituents. The constituents with Hong Kong nationality are listed in Singapore, thereby becoming eligible for inclusion in the FTSE ASEAN index series.

FTSE/ASEAN 40 Index: Top Ten Constituents

Constituent	Country	ICB Sector	Net MCap (USDm)	Wgt %
DBS Group Holdings	Singapore	Banks	25,424	7.41
Oversea-Chinese Banking	Singapore	Banks	23,446	6.84
Singapore Telecommunications	Singapore	Mobile Telecommunications	22,085	6.44
United Overseas Bank	Singapore	Banks	20,281	5.91
Public Bank BHD	Malaysia	Banks	15,536	4.53
Bank Central Asia	Indonesia	Banks	12,944	3.77
Astra International	Indonesia	Automobiles & Parts	12,454	3.63
Malayan Banking	Malaysia	Banks	11,418	3.33
Telekomunikasi Indonesia	Indonesia	Fixed Line Telecommunications	11,262	3.28
Bank Rakyat Indonesia	Indonesia	Banks	9,911	2.89
Totals			164,761	48.03

Source: FTSE, as at 30 January 2015

FTSE ASEAN All Share Index: Top Ten Constituents

Constituent	Country	ICB Sector	Net MCap (USDm)	Wgt %
DBS Group Holdings	Singapore	Banks	25,424	2.82
Oversea-Chinese Banking	Singapore	Banks	23,446	2.60
Singapore Telecommunications	Singapore	Mobile Telecommunications	22,085	2.45
United Overseas Bank	Singapore	Banks	20,281	2.25
Kasikombank	Thailand	Banks	16,151	1.79
Public Bank BHD	Malaysia	Banks	15,536	1.72
Jardine Matheson Holdings	Hong Kong	General Industrials	15,261	1.69
PTT	Thailand	Oil & Gas Producers	15,024	1.67
Siam Commercial Bank PCL	Thailand	Banks	14,138	1.57
Bank Central Asia	Indonesia	Banks	12,944	1.44
Totals			180,291	20.00

Source: FTSE, as at 30 January 2015. The second column of the table shows the nationality of FTSE ASEAN Indexes' constituents. The constituent with Hong Kong nationality is listed in Singapore, thereby becoming eligible for inclusion in the FTSE ASEAN index series.

Benchmarking a Fast-Growing Region

By measuring the collective performance of equities listed on the exchanges of a fast-growing and increasingly integrated region, the FTSE ASEAN index series offers a variety of indexing tools to financial market participants. The series includes indexes that can be used as tools for the creation of index-tracking products, derivatives and as a performance benchmark.

For more information about our indexes, please visit ftserussell.com.

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FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

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