
FTSE Private Investor Index Series Methodology

Important Information

The proposals set out in this consultation document are included in order to gather feedback and may or may not result in changes to the FTSE Private Investor Index Series.



FTSE Private Investor Index Series Methodology Consultation

Responding to the Consultation

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.co.uk/r/BPFG7GZ>

If you have any questions about this survey, or if you encounter any technical issues, please contact rpawson@FTSERussell.com.

Introduction

As part of our commitment to deliver best possible solutions for our clients, we have reviewed the FTSE WMA Private Investor Index Series and propose a series of enhancements to be implemented in the second half of 2017. The renaming of the index series to the FTSE Private Investor Index Series effective 1 March 2017 is not the subject of this consultation. The purpose of this consultation is to gather feedback on the proposed enhancement plan. The proposal set out in this consultation document is included in order to gather feedback and may or may not result in actual changes to the index series.

Current Index Series	Proposed Index Series
FTSE WMA Private Investor Index Series	FTSE Private Investor Index Series
FTSE WMA Stock Market Conservative Index	FTSE UK Private Investor Ultra Conservative Index
FTSE WMA Stock Market Balanced Index	FTSE UK Private Investor Conservative Index
FTSE WMA Stock Market Growth Index	FTSE UK Private Investor Balanced Index
	FTSE UK Private Investor Growth Index
FTSE WMA Stock Market Income Index	FTSE UK Private Investor Ultra Growth Index
FTSE WMA Stock Market Global Growth Index	FTSE UK Private Investor Income Index
	FTSE UK Private Investor Global Growth Index

The proposed methodology changes for which we would like to gather your feedback can be summarised as follows:

- 1) Method for deriving asset class allocation percentages evolves from the current peer group survey approach to a proposed data driven approach based on the average allocations of public funds available to UK individuals

- 2) Index characteristics based on risk levels
- 3) Expansion of the number of indexes from 5 to 7 to include Ultra Conservative and Ultra Growth
- 4) Expansion of the range of asset classes to include UK corporate bonds

I. Method for Deriving Asset Allocation Averages

Currently, a quarterly survey is conducted to generate average asset allocations for the 5 indexes.

We propose to use databases of publically available UK funds to derive average asset allocations for each index, including Open End Funds, Closed End Funds and Exchange Traded Funds. The aim of this approach is to provide increased transparency and overcome challenges such as low sample size which could occur with the survey methodology.

Current methodology	Proposed methodology
Quarterly peer group survey.	Derive average allocations from funds that are publically available to UK individual investors.

1. Can average allocations derived from funds that are publically available to UK individual investors provide a relevant benchmark for your mixed asset portfolios?

- Yes
- No
- I don't have a strong opinion

2. In relation to Q1 above, which types of public funds (by fund structure) should be included in our sample for calculating asset allocation averages for different portfolios? Please select all that should be included.

	Should be Included in Sample
UK Open Ended Funds	
UK ETFs	
UK Closed End Funds	

3. In relation to Q1 above, which types of public funds (by fund investment scope/asset class) should be included in our sample for calculating asset allocation averages for different portfolios? Please select all that should be included.

	Should be Included in Sample
Fixed Income Funds	
Equity Funds	
Allocation Funds	
Property Funds	

II. Index Characteristics Based on Risk Levels

With the existing methodology, the indexes within the series are not specifically defined. For example, the Conservative Index is "... designed to reflect the portfolio of a client requiring a conservative approach from their investment."

We propose that index characteristics primarily reflect the risk level of the funds. The aim of this approach is to better reflect the practice of wealth managers and financial advisors to recommend investment choices based on investor risk tolerance.

Specifically, FTSE Russell proposes to use risk criteria (primarily historical realised volatility based on standard deviation of returns, supplemented with downside risk thresholds if necessary) to select funds that would represent the Conservative, Balanced, and Growth Indexes.

For the Income Index, FTSE Russell proposes to use the top 20% highest yielding funds from the public funds that are used to calculate the average allocations for the Conservative, Balanced, and Growth Indexes, with additional screening based on dividend payment history and maximum drawdown to eliminate funds with inconsistent income payment history and funds that exhibit high yield percentage primarily due to falling fund prices.

For the Global Growth Index, FTSE Russell proposes to use the averaged Developed Markets vs. Emerging Markets Equities allocations of the publically available equity funds.

4. Do you agree that a risk based approach is appropriate for characterising Conservative, Balanced, and Growth Indexes?

- Yes
- No
- I don't have a strong opinion

5. Do you agree with the proposed methodology for the Income Index?

- Yes
- No
- I don't have a strong opinion

6. Do you agree with the proposed methodology for the Global Growth Index?

- Yes
- No
- I don't have a strong opinion

III. Expansion of Indexes in the Series

Currently the series includes 5 indexes representing Conservative, Balanced, Growth, Income and Global Growth asset allocations. With the introduction of the risk-based approach, FTSE Russell has the opportunity to expand the indexes to ensure that the series can be more representative of the risk categories seen in the market.

Specifically, FTSE Russell proposes to add 2 new indexes: an Ultra Conservative Index and an Ultra Growth Index.

Current methodology (5 indexes)	Proposed methodology (7 indexes)
	Ultra Conservative (new): designed to reflect the average asset allocation of the funds with historical return volatility levels at the lowest range of the sample group, and meet additional maximum drawdown criteria.
Conservative	Conservative
Balanced	Balanced
Growth	Growth
	Ultra Growth (new): designed to reflect the average asset allocation of the funds with historical return volatility levels at the highest range of the sample group.
Income	Income
Global Growth	Global Growth

7. Do you agree that FTSE Russell should add in the Ultra Conservative Index?

- Agree
- Do not agree
- I don't have a strong opinion

8. Do you agree that FTSE Russell should add in the Ultra Growth Index?

- Agree
- Do not agree
- I don't have a strong opinion

9. Are there any other indexes FTSE Russell should consider introducing?

Write-in Answer _____

IV. Asset class representation

FTSE Russell proposes to adjust the asset class coverage to best reflect the UK wealth management industry. Specifically, we propose to introduce additional bond asset classes and to remove the current Hedge Funds asset class.

Current asset classes	Proposed asset classes
UK Equities	UK Equities
World Equities	World Equities
<ul style="list-style-type: none"> Developed ex-UK World Equities Emerging World Equities 	<ul style="list-style-type: none"> Developed ex-UK World Equities Emerging World Equities
Bonds – UK Gilts	Bonds – UK Gilts
	Bonds – UK Corporates
	Bonds – Global ex UK
	Bonds – UK Inflation Linked
Cash	Cash
Hedge Funds	
Commercial Property	Commercial Property

10. How important are the current asset classes and proposed new asset classes needs in relation to your mixed asset investment?

Asset classes	1= Not Important	2= Somewhat Important	3= Important	4= Very Important	I don't have a strong view
UK Equities					
World Equities					
<ul style="list-style-type: none"> Developed ex-UK World Equities Emerging World Equities 					
Bonds – UK Gilts					
Bonds – UK Corporates					
Bonds – Global ex UK					
Bonds – Inflation Linked					
Cash					
Hedge Funds					
Commercial Property					

11. For the various types of bonds, what maturity ranges are most relevant to your investment needs? Select all that apply.

	0-5 Years	5-10 Years	10-20 Years	>20 Years	I don't have a strong view
Asset classes					
Bonds – UK Gilts					
Bonds – UK Corporates					
Bonds – Global ex UK					
Bonds – Inflation Linked					

12. How does your firm currently obtain commercial property exposure? Select all that apply:

- Invest in commercial property funds
- Invest in various commercial properties directly
- Invest in listed real estate companies
- Invest in REITs
- We do not currently invest in commercial property

13. For commercial property, FTSE Russell proposes replacing a direct property index with a UK REITs index. Do you agree with this approach?

- Yes
- No
- I don't have a strong opinion

14. Are there any other asset classes, not listed above, that you would like FTSE Russell to incorporate into the Series?

Write-in Answer _____

Thank you for your participation in the survey.

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

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