
FTSE Private Investor Index Series Methodology Enhancement



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FAQs: FTSE Private Investor Index Series Methodology Enhancement

1. Why is FTSE Russell enhancing the methodology of the FTSE Private Investor Index Series?

FTSE Russell is enhancing the methodology of the FTSE Private Investor Index Series effective on 6 April 2018. The enhancements are in response to private investor/wealth management industry trends and client feedback, in particular responses we received from our methodology change market consultation conducted in Q1 2018. The changes are designed with the following goals in mind:

- Expansion of benchmark indexes choices for clients
- Expansion of asset classes
- Index definition reflective of risk tolerance levels of private investor clients
- A robust, data driven approach for deriving asset allocation
- Improved transparency
- Investability
- Alignment with IOSCO Principles

2. What are the main aspects of the methodology enhancements?

Below is a high level summary of the main methodology enhancements. For details, please refer to Ground Rules at

[http://www.ftse.com/products/downloads/FTSE Private Investor Index Series_new.pdf?20](http://www.ftse.com/products/downloads/FTSE_Private_Investor_Index_Series_new.pdf?20).

- **Asset allocation levels** will no longer be derived from peer group surveys. Instead they will be derived from asset allocation levels of eligible Equity, Fixed Income and Asset Allocation funds reported in Morningstar Direct Fund Database.
- **Definitions of the indexes will change.** Currently the Conservative, Income, Balanced and Growth Indexes are not specifically defined. Going forward, the definitions of these indexes will be reflective of the historical risk (volatility) levels of eligible funds in the Morningstar database for deriving the asset allocation for that index.

- **The number of indexes** within the series will expand from 5 to 7. Specifically, an Ultra Conservative Index and an Ultra Growth Index will be added to the series. The former will reflect allocations for eligible fixed income funds while the latter will reflect allocations for equity funds, as reported in the Morningstar database.
- **Asset Classes** represented in the series will expand. A few new asset classes will be introduced, including Global Equities, Sterling Corporate Bonds, Global Bonds and Global ex UK Bonds.
All current asset class categories are retained, with the exception of the Hedge Fund category (represented by FTSE Custom Hedge Fund Index), which will be replaced as “Other Investments” category (represented by SONIA with a 2% excess return added).
- **There will be a number replacements of Component Indexes** that are used to represent certain asset classes. Specifically:
 - FTSE Actuaries UK Conventional Gilts up to 15 Year Index will replace FTSE Actuaries UK Conventional Gilts All Stocks Index to represent the UK Government Bond asset class
 - FTSE 350 Real Estate Index will replace FTSE Custom All UK Property Index to represent the Commercial Property asset class
 - SONIA (Sterling Overnight Index Average) will replace GBP 1 Week LIBOR for Cash and Other Investments asset classes.
- **Review frequency of asset allocation levels** will change from quarterly to semi-annually. The review of the Component Indexes (e.g. FTSE All-Share Index and FTSE All-World ex UK Index) will follow their own respective Ground Rules.

3. What’s the rationale for using Morningstar Fund Database to derive asset allocation levels?

The Morningstar Fund Database contains asset allocation information for a broad set of asset Allocation Funds, Equity Funds and Fixed Income Funds that are available for sale to UK investors. The range and depths of the database allows us to derive asset allocation levels that are statistically robust, and also reflective and representative of the broader UK fund management industry.

As Morningstar data is broadly available to subscribing market participants, the process for deriving allocation levels will be more transparent compared with the previous survey method.

4. Why does FTSE Russell use a volatility based approach to define the indexes within the series?

With the existing methodology, the indexes within the FTSE Private Investor Index Series are not specifically defined. Our conversations with clients clearly suggest that there has been a trend for UK private investment management firms, wealth managers and financial advisors to recommend investment choices to their clients based on risk tolerance levels. Correspondingly, there is a strong need for benchmark indexes that measure performance against portfolios with various risk levels.

Therefore, FTSE Russell will re-define the existing FTSE UK Private Investor Growth, Balanced, Income and Conservative Indexes, specifically linking them to given risk (volatility) levels. Allocation Funds in the Morningstar database will be grouped into 4 quartiles based on their historical 3-year weekly return volatility levels. The asset allocation levels of these indexes will be calculated as the average allocation levels of funds within the highest, second highest, third highest and the lowest volatility quartile groups.

We trust this change will offer more clarity to clients on choosing the right benchmark for their portfolio.

5. Why is FTSE Russell adding two new indexes to the index series?

Our market consultation indicates a clear demand for a new index with lower risk features compared with the existing Conservative Index, and a new index with higher risk features compared with the existing Growth Index. Therefore, FTSE Russell will add an Ultra Conservative Index and an Ultra Growth Index to the series. The asset allocation levels for these two indexes will be derived from the Morningstar Fixed Income Funds universe and Equity Funds universe, respectively.

6. What asset classes will be represented in the index series? Are there new ones, and replacements?

All current asset class categories are retained, with the exception of the Hedge Fund category which will be placed by the “Other Investments” category. New asset classes will also be added, including Global Equities, Sterling Corporate Bonds, Global Bonds and Global ex UK Bonds.

The table below lists relevant asset classes covered by each of the indexes, effective from 6 April 2018.

FTSE Private Investor Index Series	Asset Type
FTSE UK Private Investor Ultra Conservative Index (New Index)	UK Government Bonds, Sterling Corporate Bonds, Global ex UK Bonds, Cash, Global Equities, Commercial Property, Other Investments
FTSE UK Private Investor Conservative Index	UK Government Bonds, Sterling Corporate Bonds, Global ex UK Bonds, Cash, UK Equities, Global ex UK Equities, Commercial Property, Other Investments
FTSE UK Private Investor Income Index	UK Government Bonds, Sterling Corporate Bonds, Global ex UK Bonds, Cash, UK Equities, Global ex UK Equities, Commercial Property, Other Investments
FTSE UK Private Investor Balanced Index	UK Government Bonds, Sterling Corporate Bonds, Global ex UK Bonds, Cash, UK Equities, Global ex UK Equities, Commercial Property, Other Investments
FTSE UK Private Investor Growth Index	UK Government Bonds, Sterling Corporate Bonds, Global ex UK Bonds, Cash, UK Equities, Global ex UK Equities, Commercial Property, Other Investments
FTSE UK Private Investor Ultra Growth Index (New Index)	Global Bonds, Cash, UK Equities, Global ex UK Equities, Commercial Property, Other Investments
FTSE UK Private Investor Global Growth Index	Developed Market Equities, Emerging Market Equities

7. What component indexes are used to represent the performance of each of the asset classes?

Each of the asset types listed in Q7 will be represented by a specific index as follows:

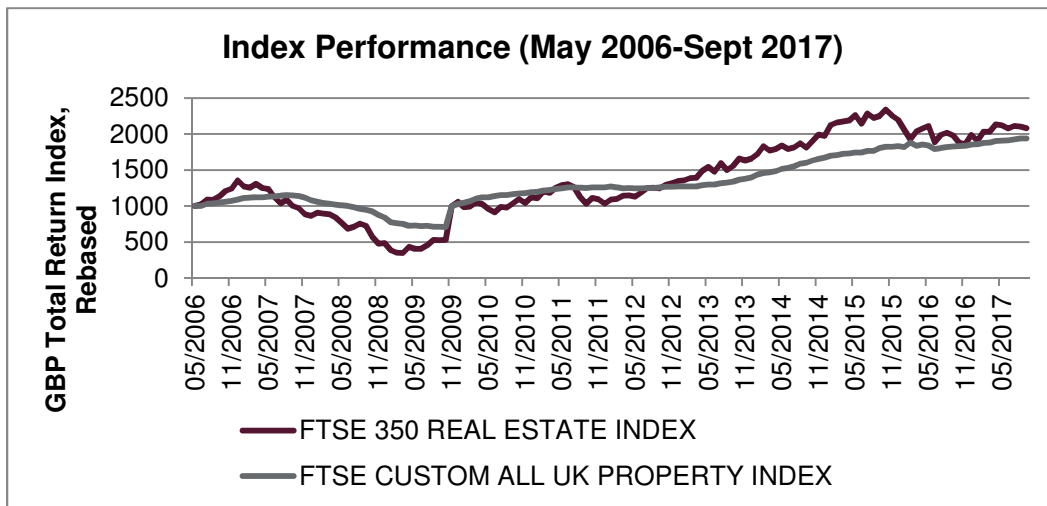
Asset Class	Component Index
Global Equities	FTSE All-World® Index
UK Equities	FTSE All-Share® Index
Global ex UK Equities	FTSE All-World ex UK Index
UK Government Bonds	FTSE Actuaries UK Conventional Gilts up to 15 Year Index
Global Bonds	FTSE WGBI-DM Hedged into Sterling
Sterling Corporate Bonds	FTSE WorldBIG® GBP Corp Index
Global ex UK Bonds	FTSE WGBI-DM ex-UK Hedged into Sterling
Commercial Property	FTSE 350 Real Estate Index
Developed Market Equities	FTSE Developed Index
Emerging Market Equities	FTSE Emerging Index
Cash	SONIA
Other Investments	SONIA (For calculating Benchmark indexes, 2% will be added to this rate.)

8. Why is FTSE Russell replacing the real estate index used for the Commercial Property Category?

At the moment, the Commercial Property category is represented by the FTSE Custom All UK Property Index. From 1 February 2018, Commercial Property will be represented by the FTSE 350 Real Estate Index, which is an existing ICB® Supersector Index within the FTSE UK Index Series, encompassing both Real Estate Investment & Services and Real Estate Investment Trusts ICB Sectors.

Historical correlation analysis suggests that the FTSE Custom All UK Property Index and the FTSE 350 Real Estate Index has a high level of correlation (>0.8), on a quarterly or semi-annual returns basis.

FTSE 350 Real Estate Index and FTSE Custom All UK Property Index Performance



Source: FTSE Russell. Data as at 29 September 2017. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

9. What asset allocation weights will be used for the enhancements on 6 April 2018?

The asset allocation weights for implementation on 6 April 2018 can be found at:

http://www.ftse.com/products/downloads/FTSE_Private_Investor_Index_Series_Asset_Allocation_Levels.pdf

10. Will historical index data for the 5 existing indexes continue to be used?

The historical data for the 5 existing indexes will continue to be used.

For the 2 new indexes (Ultra Conservative and Ultra Growth Indexes), simulated 5-year historical index data can be provided upon request.

11. Will the index codes, file formats, and index delivery method change?

The existing indexes will have the same index codes as before. The two new indexes (FTSE UK Private Investor Ultra Conservative Index and FTSE UK Private Investor Ultra Growth Index) will have new index codes to be advised by FTSE Russell in Q1 2018.

The column headings for the Private Investor Index Series will not change. New rows will be added to the index valuation product files for the new index values.

The index delivery method will continue to be via DDS subscription. Current clients will automatically have access to the new product files starting from 6 April 2018.

12. When will the methodology change become effective?

The implementation date for replacing the real restate index will take effect on 1 February 2018.

All other changes will be implemented from 6 April 2018 (start of the new UK financial year).

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

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