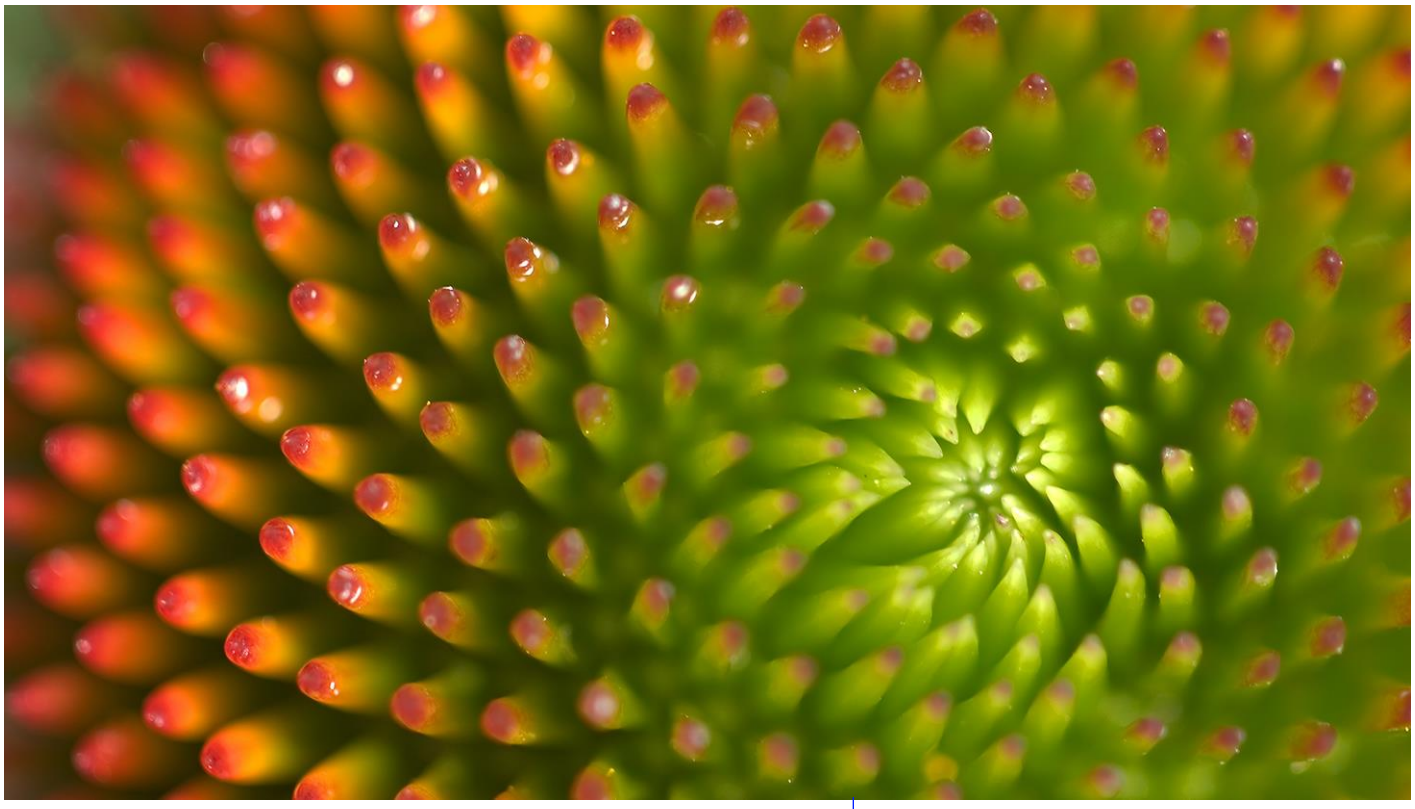

Index Insights | Multi-Asset Investment

Index-based solutions for retirement investing:
Introducing the FTSE Lifecycle Indices

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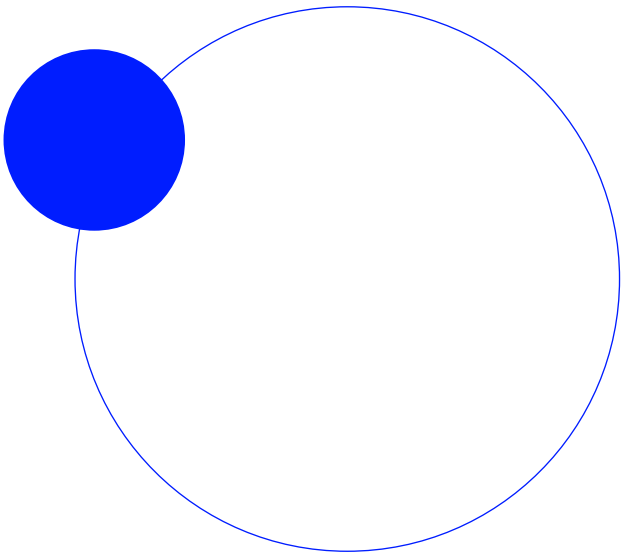
Abstract

In this paper, we explore the innovative structure of Lifecycle indices and profile the new FTSE Lifecycle Screened Select Index Series. By analysing the design, features and objectives of Lifecycle indices, we highlight how these indices can enable a strategic approach to building wealth. We show how they can help in retirement planning and as a tool for investment managers.

Lifecycle indices are multi-asset, index-based savings plans that follow a strategic asset allocation based on a curvilinear approach (also known as the “glidepath”).

This approach considers the increased or decreased risk-taking ability of the end-investor at certain career points. The glidepath also reduces overall portfolio risk as a ‘Target date’ approaches. The Target date is a future date that is aligned either to the point of retirement or to a time-based investment goal (for example, a major life event).

The indices in the FTSE Lifecycle Screened Select Index Series are built using other FTSE Russell asset class indices. Each Lifecycle index combines a strategic asset allocation and a glidepath, based on a changing risk profile, over the index user’s lifetime.



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Target date funds

Definition of target date funds

Target Date Funds (TDFs) have been around since the mid-1990s[1]. They are collective investment schemes that adjust their asset allocation according to a specified target date, which is typically aligned with an investor's retirement date. TDFs aim to provide a diversified portfolio that gradually becomes more conservative as the target date approaches, in theory providing an increasing degree of protection against market volatility over time.

Importance of Lifecycle indices

Lifecycle indices serve as benchmarks for TDFs and reflect the dynamic nature of asset allocation as the target date nears. They allow investors to have a diversified portfolio, whose risk profile automatically changes during the investor's lifespan as their risk-taking ability changes. This helps bring a consistent and simplified strategy to investment goals. Certain FTSE Lifecycle Indices also embed sustainability considerations, aligning financial performance with the sustainability goals desired by target investors.

Overview of target date funds and Lifecycle indices

Target Date Funds (TDFs) and the underlying Lifecycle indices typically have the following objectives and design features:

1. Diversification: TDFs typically invest across multiple asset classes—such as equities, fixed income and cash equivalents—to provide diversification benefits and mitigate idiosyncratic risk. This approach helps to cushion the impact of market fluctuations on the overall portfolio.
2. Long-term wealth accumulation: The primary goal of TDFs is to grow wealth over time. In the early years, when the investor has a higher risk appetite, TDFs generally invest heavily in equities, which offer higher long-term growth potential. They gradually shift towards less volatile fixed income assets as the target date approaches and investors' risk appetite diminishes, focusing on the need to preserve capital for retirement.
3. Alignment with investor's time horizon: TDFs are designed to align with an investor's retirement date or another investment goal timeline. For instance, a fund targeting a 2040 retirement date will initially have a more aggressive asset allocation, before transitioning to a more conservative asset mix as the retirement date approaches.
4. Automatic rebalancing: TDFs rebalance their portfolios automatically to maintain the desired strategic asset allocation. This feature reduces the need for investors to manage their investments actively, simplifying the overall savings and investment process.

[1] Wells Fargo and Barclays Global Investors created the first target date funds in March 1994. See https://www.sec.gov/comments/4-582/4582-3.pdf

5. Glidepath for wealth accumulation and risk de-accumulation: Early in the lifecycle, the fund focuses on capital growth through higher-risk investments. This is followed by a gradual transition from riskier assets to more stable investments as the target date approaches. At the target date, the fund's asset allocation shifts entirely to lower-risk assets, preparing for the withdrawal phase. These changes in the asset allocation mix, which follow a predefined set of rules, are defined as the glidepath.

Investment assumptions

Asset class mix for the Lifecycle indices

The asset classes considered for the Lifecycle indices are a variation on the commonly used theme of a 60:40 portfolio of equities and fixed income[2].

For the equity component, we use the flagship and well-diversified FTSE All-World Developed Index. For the fixed income portion, we use a combination of the FTSE Euro Broad Investment-Grade (EuroBIG®) Corporate Bond Index and the FTSE EMU Government Bond Index.

Together, these two fixed income indices cover both the investment-grade sovereign and investment-grade corporate bond markets, mitigating potential credit risk by focusing on higher-quality issuers. The ratio of corporate bonds to sovereign bonds is maintained at 2:1 to ensure a higher yield while keeping a stable proportion of non-sovereign credits[3]. This ratio remains constant even as the proportion of equity to fixed income changes throughout the glidepath.

The fixed income allocation is restricted to euro-denominated bonds only in view of the targeted investor region (i.e., Europe). To ensure liquidity in funds tracking the Lifecycle indices or using them as a benchmark, the chosen cash-like asset class is a short-dated EMU government bond index (the FTSE EMU Government Bond 0-1 Year Index). The index weight of this near-cash component is kept fixed at 5% throughout.

Measuring the performance of Lifecycle Indices

Below, we use the past return-risk profile for each underlying asset class and a correlation matrix to estimate the returns and the risks for the lifecycle index. We do not make any forward-looking capital market assumptions.

We chose the historical period from 2008 to 2023 to estimate the potential return and risk for the underlying asset classes of the Lifecycle strategy for the following reasons:

1. This period covers multiple market conditions and business cycles:
   (a) Low inflation, low interest rates, and a low-growth environment for the years immediately after the Global Financial Crisis;
   (b) Some normalisation in 2015-2018;

[2] For a recent deep dive, please see Pham, Nga, Bei Cui, and Ummul Ruthbah. "The Performance of the 60/40 Portfolio: A Historical Perspective." (2025).
[3] In the absence of such a rule, as the target date approaches, the corporate bond ratio would increase to relatively high levels. Maintaining a constant ratio of 2:1 between corporate and sovereign bonds therefore allows for higher yields and greater diversification while managing credit risk consistently.

(c) Extreme drawdowns at the time of the outbreak of the Covid pandemic in 2020;

(d) Higher inflation and higher interest rates post-2021, followed by more recent disinflation.

2. During the period, we have seen several structural shocks play out. These were both endogenous (the Global Financial Crisis) and exogenous (the Covid shutdown and the excess demand and supply shocks that followed the reopening of economies).

3. Therefore, the annualised return and volatility statistics calculated using data from June 2008 to June 2023 capture market dynamics over a wide range of outcomes. These may or may not be representative of potential market returns, but they indicate the range of outcomes that a TDF investor might face.

Table 1 presents a comparative analysis of asset class performance, highlighting the trade-offs between return, risk, and diversification potential. Over the period from June 2008 to June 2023, equities exhibited the highest annualised return (8.49%) but also the greatest volatility (15.92%), underscoring their risk-return profile. In contrast, corporate and government bonds offered moderate returns (4.22% and 4.20%, respectively) with significantly lower volatility, while short-term government bonds provided minimal returns (1.12%) with negligible risk (0.38%). Correlation analysis reveals that equities are negatively correlated with all bond categories, suggesting their utility in portfolio diversification. The strong positive correlation between corporate and government bonds (0.72) reflects their shared sensitivity to macroeconomic factors, whereas short-term government bonds exhibit low correlations across the board, reinforcing their role in liquidity management and capital preservation. These findings support the strategic inclusion of diverse asset classes to optimize risk-adjusted returns in multi-asset portfolios.

Figure 1. Asset class returns, risks and correlations

	Annualised returns (%)	Annualised volatility (%)	Correlation of daily returns (%)			
			Equity	Corporate	Government	0-1 Year Govt
Equity	8.49	15.92	1.00	-0.19	-0.17	-0.04
Corporate	4.22	2.75	-0.19	1.00	0.72	0.12
Government	4.20	3.76	-0.17	0.03	1.00	0.26
0-1 Year Govt	1.12	0.38	-0.04	0.26	0.26	1.00

Source: FTSE Russell.

Notes: Equity: FTSE All-World Developed Index; Corporate: FTSE FTSE EuroBIG® Corporate Bond Index; Government: FTSE EMU Government Bond Index; 0-1 Year Govt: FTSE EMU Government Bond 0-1 Year Index. Based on Daily returns from June 30, 2008 to June 30, 2023.

Asset allocation in the generic Glidepath

The TDF glidepath defines how asset allocations shift over time. For example, the glidepath for a fund aimed at younger investors typically starts with a higher percentage allocation to riskier assets, with a gradual shift towards de-risking as the Target date approaches[4]. In the FTSE Lifecycle Index Series, we make the following assumptions:

- We take a strictly rules-based approach to strategic asset allocation, with specific weights for each asset class at each quarterly rebalancing point. There are no bands around these weights and there is no tactical asset allocation to attempt to capture short-term market mispricing or cyclical events.
- The index construction assumes that the target market is a cohort of 25-year olds looking to retire in 35 years.
- The weights change on the first business day of each quarter and are allowed to deviate during the quarter because of market movements.
- The rule of 100 is followed[5], i.e., $100 - age = weight$ defines the equity allocation at the starting point. For example, the share in equities for a 25-year-old investor would be $100 - 25 = 75\%$
- There is a quarterly re-allocation, catering for a dynamic rebalancing of the underlying asset classes[6].
- A curvilinear glidepath, accounting for a typical career progression path, allows for an initial increase in risk-taking, followed by de-risking.
- For example, between the ages of 25 and 30, the hypothetical investor is establishing his/her career, earning more and increasingly able to take risk. So an equity allocation of 75% at age 25 increases to 80% at age 30.
- Between the ages of 30 and 45, there is a very gradual de-risking to reach an equity weight of 55% at the latter age ($100 - 45 = 55\%$).
- After 20 years of investment (T-15 from the target date), the pace of de-risking increases, insulating investors from market volatility as the intended investment horizon approaches.
- The fixed income exposure is split into three components: (i) corporate bonds are represented by the FTSE EuroBIG® Corporate Bond Index, eurozone government bonds are represented by the FTSE EMU Government Bond Index, and short-term government bonds are represented by the FTSE EMU Government Bond 0-1 Year Index.
- The ratio between corporate and government bonds is maintained at 2:1, allowing for higher yields and greater diversification while managing credit risk effectively[7].
- The weight of short-term government bonds is set at 5%.

Figure 2 illustrates how the glidepath asset allocation evolves over 35 years.

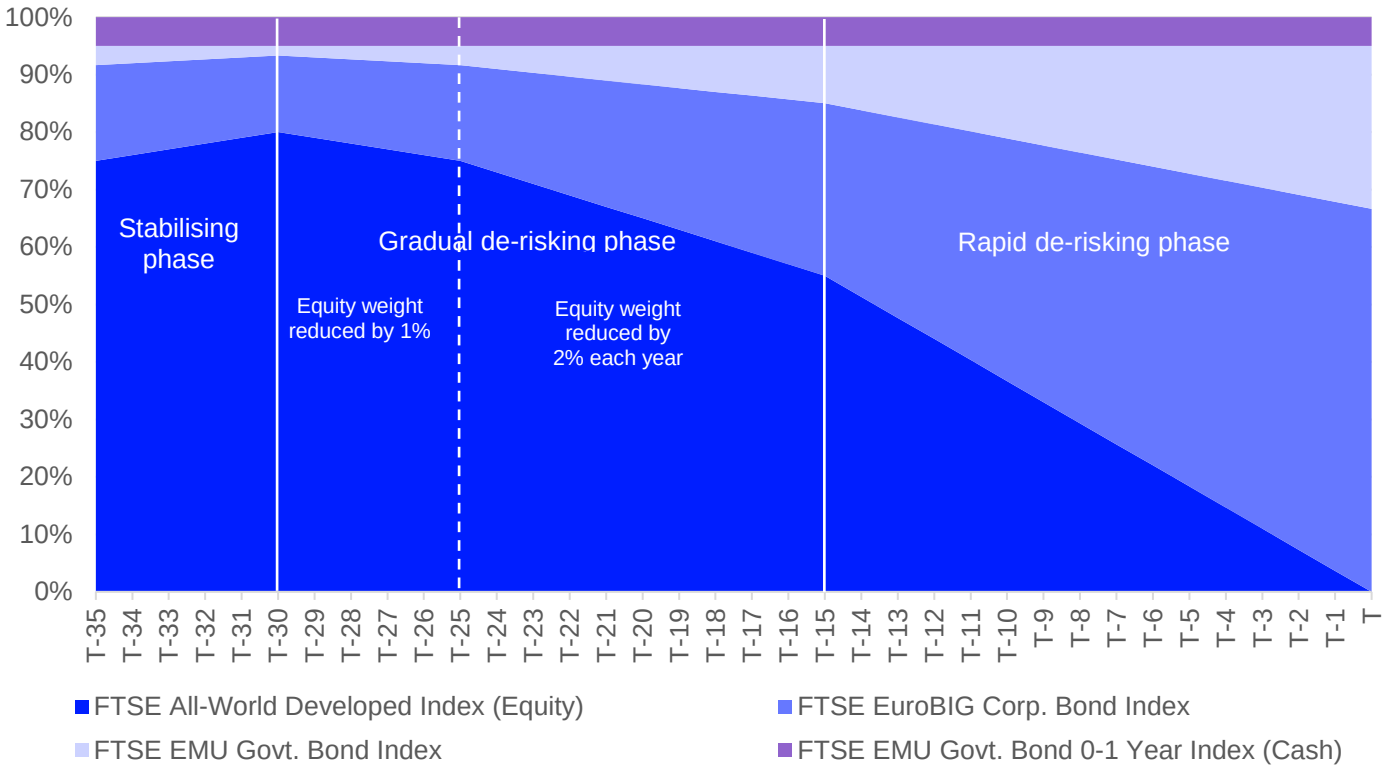
[4] For more details on why declining equity glidepaths align with increasing risk aversion as retirement nears, please see Estrada, Javier. "Target-Date Funds, Glidepaths, and Risk Aversion." (2020).

[5] The rule of 100 minus age for equity allocation is a rule of thumb rather than a rigorously derived academic formula. Its origin is not tied to a single academic paper but rather to traditional financial planning practices that emerged in the mid-to-late 20th century. The rule was notably designed to simplify asset allocation by adjusting risk exposure based on age.

[6] Equity indices typically rebalance on a semi-annual basis, whereas Fixed Income indices rebalance monthly.

[7] This ratio is a strategic asset allocation decision rather than a universally endorsed benchmark. However, for more details on yields, diversification and credit risk management, please see Fama, Eugene F., and Kenneth R. French. "Common risk factors in the returns on stocks and bonds." *Journal of financial economics* 33.1 (1993): 3-56 and Elton, Edwin J., et al. "Explaining the rate spread on corporate bonds." *the journal of finance* 56.1 (2001): 247-277.

Figure 2. Glidepath asset allocation shifts over time



Source: FTSE Russell.

FTSE Lifecycle Screened Select Index Series

The FTSE Lifecycle Screened Select Index Series embeds environmental, social, and governance (ESG) criteria, catering to investors interested in sustainable finance strategies.

In place of the standard FTSE Russell market capitalisation-weighted indices that are used in generic Lifecycle indices (as described in the previous section), we use the following FTSE Russell sustainable indices as the building blocks in the FTSE Lifecycle Screened Select Index Series.

- FTSE Developed Screened Select Index (Equity)
- FTSE Euro Broad Investment-Grade Screened Select Corporate Bond Index (Fixed Income)
- FTSE EMU Government Bond Select Index (Fixed Income)
- FTSE EMU Green Government Bond Select Index (Fixed Income)
- FTSE EMU Government Bond 0-1 Year Select Index (Fixed Income/Cash equivalent)

For more details on the FTSE Lifecycle Screened Select Index Series, please see FTSE Lifecycle Screened Select Index Series | LSEG.

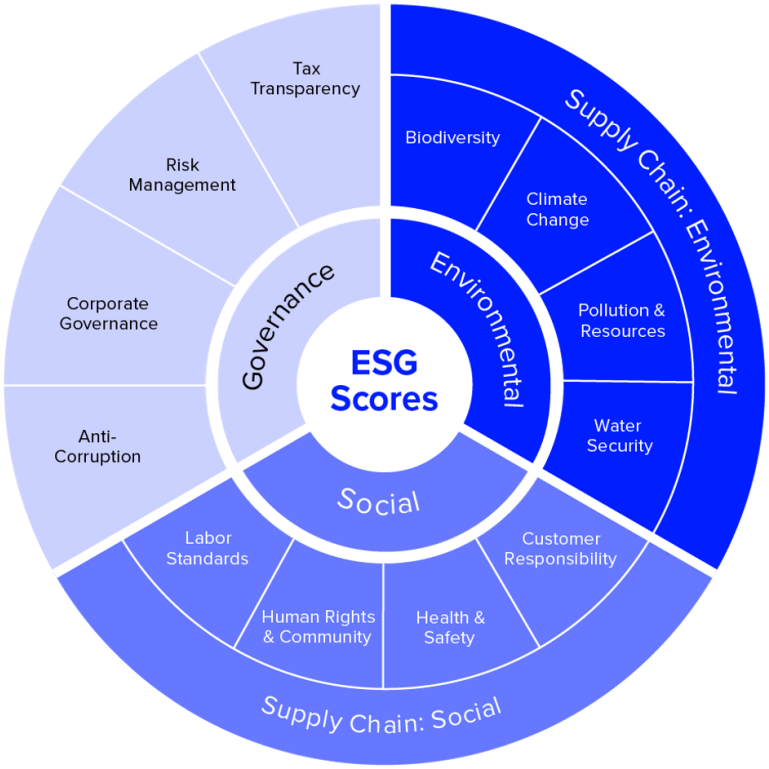
Impact of ESG factors

The integration of ESG factors into the Lifecycle indices impacts both investment performance and investor outcomes. Some empirical research suggests that companies with mature ESG practices may have better long-term performance and risk management capabilities[8]. While this makes ESG screening a potentially attractive option for TDFs from a return and risk perspective, but there may be other factors that motivate an investor to choose sustainable investing.

We build ESG factors into the FTSE Lifecycle Screened Select Index Series in the following way:

For the corporate exposure in the equity and fixed income indices, we use a best-in-class approach: we remove the bottom 20% of issuers in each index universe based on the FTSE ESG assessment. This assessment is ongoing, so that companies excluded from the indices but which improve their ESG performance could over time regain index access. The overall ESG assessment is based on 300 individual indicators, measured across 14 themes under the three pillars (E, S and G). More information on the FTSE ESG scores is available here.

Figure 3. Transparent and objective ESG scores



Source: FTSE Russell.

[8] For more details on positive correlations between ESG performance and financial performance, please see Whelan, Tenise, et al. "Uncovering the relationship by aggregating evidence from 1,000 plus studies published between 2015–2020." (2021).

Additionally, we screen out companies that do not meet established criteria to qualify as an ESG investment. These assessments are made based on the percentage of revenues attributed to these activities and companies are excluded if they breach the revenue thresholds.

A full list of exclusions and revenue thresholds can be found in the FTSE Developed ESG Screened Select Index Ground Rules.

Finally, for the corporate exposure, we remove companies that do not comply with 'United Nations Global Compact' (UNGC) principles. These principles include the protection of internationally proclaimed human rights, the effective abolition of child labour, and a commitment to avoid bribery, extortion and other forms of corruption.

For the Government bonds exposure, a pre-determined 5% allocation to Green bonds is selected for the Lifecycle Screened Select Index Series. Green bonds are government bonds whose proceeds are earmarked to fund more sustainable practices, such as projects supporting the clean energy transition. This includes projects such as improving the energy efficiency of housing and public buildings, investing in renewable energy (i.e., windfarms) and in low-carbon transportation. The indices' Green bond exposure is checked to ensure the on-going use of proceeds for green projects. For this purpose, the indices use the Climate Bond Initiative's[9] research and validation.

Asset allocation in the Screened Select Glidepath

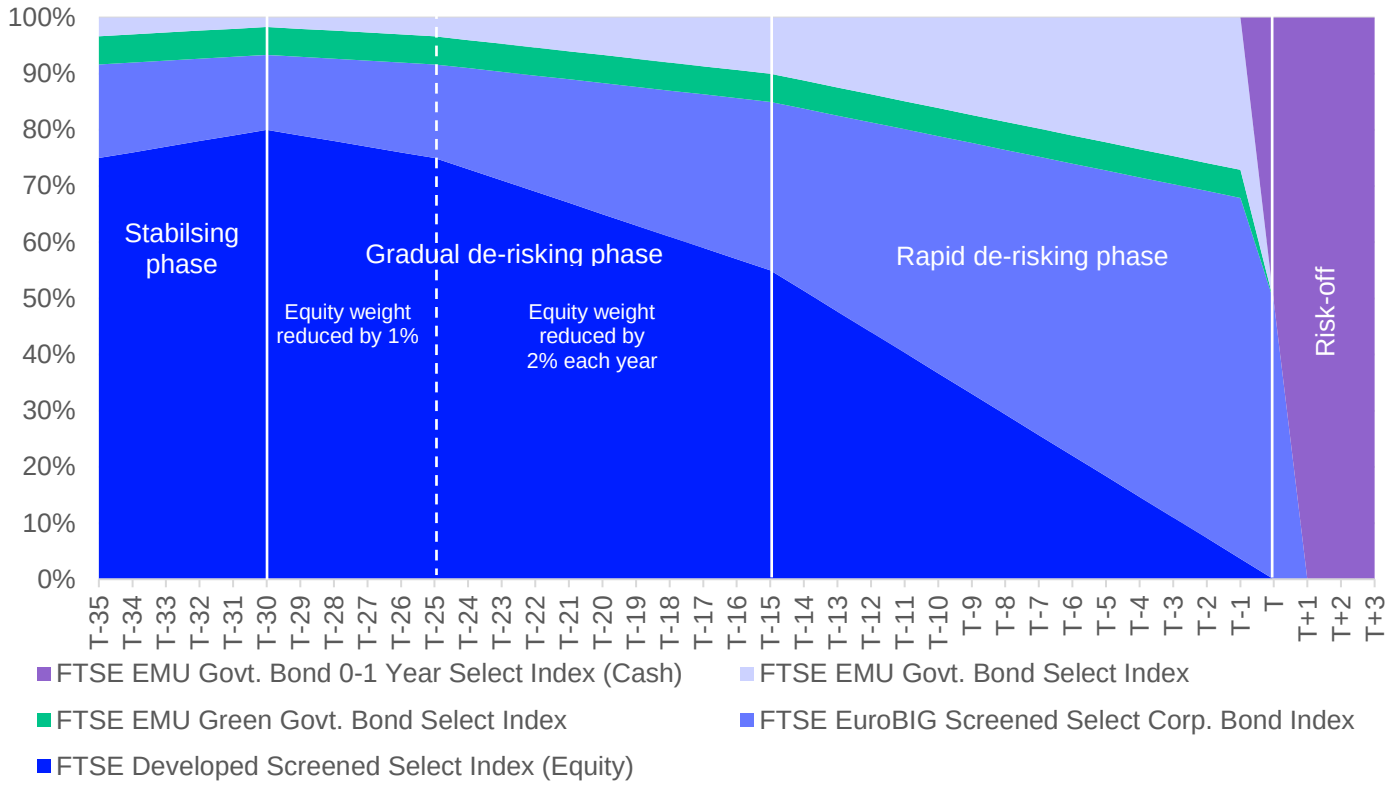
Incorporating ESG criteria into the Glidepath index means that we have made slight modifications to the generic asset allocation. For example, a 5% allocation to sovereign green bonds in the screened index replaces the 5% allocation to short-term government bonds in the generic Glidepath index.

Moreover, we have added a three-year post-retirement phase in the FTSE Lifecycle Screened Select Index Series, reflecting a period after the Target Date where the index is fully invested in short-term Government bonds. This post-retirement phase gives investors more room to withdraw their capital during a final risk-off period.

Figure 4 illustrates how the Screened Select Glidepath asset allocation evolves over 35 years.

[9] Climate Bonds Initiative | Mobilizing debt capital markets for climate change solutions

Figure 4. Screened Select Glidepath asset allocation shifts over time



Source: FTSE Russell.

Conclusion

The FTSE Lifecycle Indices offer a structured, rules-based investment framework that is designed to support long-term wealth accumulation and retirement planning. These indices follow a glidepath model, which adjusts asset allocations over time. The model starts with a higher allocation to equities during the early, risk-tolerant years of an investor's life and shifts gradually towards lower-risk fixed income assets as the target date—typically retirement—approaches.

The generic version of the Lifecycle indices uses a diversified mix of global equities and euro-denominated corporate and government bonds, maintaining a strategic ratio between corporate and sovereign bonds to balance yield and credit risk. This approach provides a simplified, automated investment strategy that aligns with an investor's evolving financial needs and risk profile over time.

In a further application of this model, the FTSE Lifecycle Screened Select Index Series introduces an ESG-focused variant. This version incorporates environmental, social, and governance criteria according to established ESG performance methodology and integrating green government bonds into the fixed-income allocation.

While the core glidepath structure remains consistent with the generic version, the Screened Select indices reflect a growing demand for a sustainable investment approach that aligns financial goals with sustainable investing. This use case demonstrates how the Lifecycle framework can be adapted to meet both traditional financial objectives and investor preferences for sustainable investing.

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