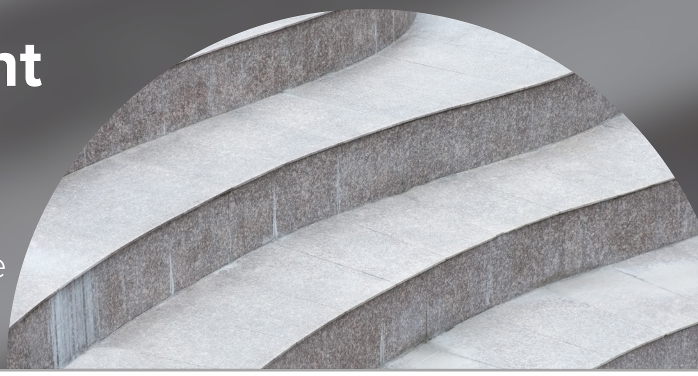
SOLUTION OVERVIEW

FTSE Carry Tilt Government Bond Index Series

Alternative approach to enhancing carry exposure



The FTSE Carry Tilt Government Bond Index Series is FTSE Russell's systematic approach to enhance carry exposure while controlling for duration and country allocations.

The FTSE Carry Tilt Government Bond Index Series applies FTSE Russell's standardized fixed tilt approach to a range of government bond indices to enhance exposure to carry. Indices include:

- FTSE Carry Tilt World Government Bond Index
- FTSE Carry Tilt EMU Government Bond Index
- FTSE Carry Tilt UK Government Bond Index
- FTSE Carry Tilt US Treasury Index

Carry refers to the profit obtained by holding an asset, assuming everything holds constant except for the passage of time. Within fixed income, this is measured through a bond's (1) carry, which refers to the yield earned from holding a bond over time and (2) roll-down, which refers to the capital gain generated as the bond moves down a positively sloped yield curve and its yield declines. FTSE Russell's definition captures the aggregate effect to estimate a bond's expected return, also known as its rolling yield return, which serves as the carry factor in the framework.

To enhance carry exposure, fixed tilts are applied to the market capitalization weights of bonds in the base indices. Carry factors are standardised into Z-scores (showing whether a bond's carry is above or below average) and converted into S-scores (a ranking scale used to size allocations). Bonds with higher scores receive larger weights, while those with lower scores receive smaller weights.

Key features

The index series addresses the need for an alternative approach to existing methodologies that achieve carry enhancement, which are primarily implemented through an optimization framework that are subject to high degrees of complexity and sector concentrations.

The FTSE Carry Tilt Government Bond Index Series addressed key design considerations, including:

Simplicity: the carry factor calculation and weight determination should be easily understood;

Transparency: the implementation of the strategy should be replicable and the index data available; and

Diversification: the weight allocation across country and maturity term sectors should be aligned with the base index weights to control for key risks (eg duration, credit quality)

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Construction of the Carry Tilt Government Bond Index Series:

	FTSE Carry Tilt Government Bond Index Series
Eligibility	Government bonds from: – FTSE Carry Tilt World Government Bond Index – FTSE Carry Tilt EMU Government Bond Index – FTSE Carry Tilt UK Government Bond Index – FTSE Carry Tilt US Treasury Index
Rebalancing	Once a month at the end of the month.
Weighting	Alternatively Weighted.
Carry Factor Scores	Calculated once a month at the end of the month. Rolling yield return is estimated over a twelve-month horizon.
Carry Factor Score Assessment Cohort	Government bond markets are divided into cohorts determined by country of issuance and maturity term sectors.
Carry Factor Tilt Calibration	A geometric tilt power strength of 1 is applied.
Base Date	December 31, 2013.

About FTSE Russell

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

Contact us

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