

Indexing the Globe

Though many of us still associate the FTSE mainly with the London Stock Exchange, the company has gone a long way and enjoyed significant growth on its way of becoming truly global. Working across many different geographies, asset classes, and market segments, FTSE relies on its strong brand name and credibility, on understanding and quickly responding to clients' needs, and on building lasting partnerships

Q: What is the underlying philosophy behind creating and managing the FTSE indices?

A: The key aspects of the FTSE index philosophy are openness, transparency, and clarity of the methodology. The market participants do not like the uncertainty; they want to know how an index will behave and to understand how we treat corporate actions when they occur. So when you buy a FTSE Index, you buy it because of the transparency and the methodology. Everything related to our indices is published; people can calculate them for themselves if they want to.

We use a similar range of standards across the world under openly published basic precepts. Most of our indices are also backed by independent committees of market practitioners. Since there might be domestic standards that apply only for a certain market, we work with local experts who advise us on the best construction of the index. But then we apply our clear and transparent methodology so that investors know what they're getting.

The openness is a crucial aspect of our work. When we rebalance the indices, we provide a number of tools to the clients to help them track and use the indices, as well as a decent time period to rebalance their portfolios before the implementation. The tracking tools allow them to know what the index is likely to look like on the actual implantation day, so we don't simply provide data. We also provide the tools to assist them in their portfolio management.

Q: What is the scope of your operations and your growth strategy?

A: Today the FTSE is a global company. Of course, our roots are in the UK, but we have operations in Hong Kong and the U.S., as well as partnerships and sales offices around the world. We approach new markets, both in terms of geography, asset classes and market segments, in a variety of ways. In some cases the market participants, such as investment banks, fund managers, and asset managers, want to use the FTSE as an independent index provider for a particular market niche. In those cases we act in response to demand from market participants.

Separately, we might approach a particular stock exchange that needs regularizing the indices and having them calculated according to internationally accepted standards that are transparent and accepted around the world. Exchanges also seek to create indices that are suitable for the construction of financial products and serve the markets that they operate in.

So we have different approaches based on the geography or the asset class. For example, the FTSE Private Banking Index Series was created due to demand from an organization called Private Banking Index Ltd. But we always seek to serve the markets and to create indices that actually form the basis of proper benchmarks or the creation of structured products.

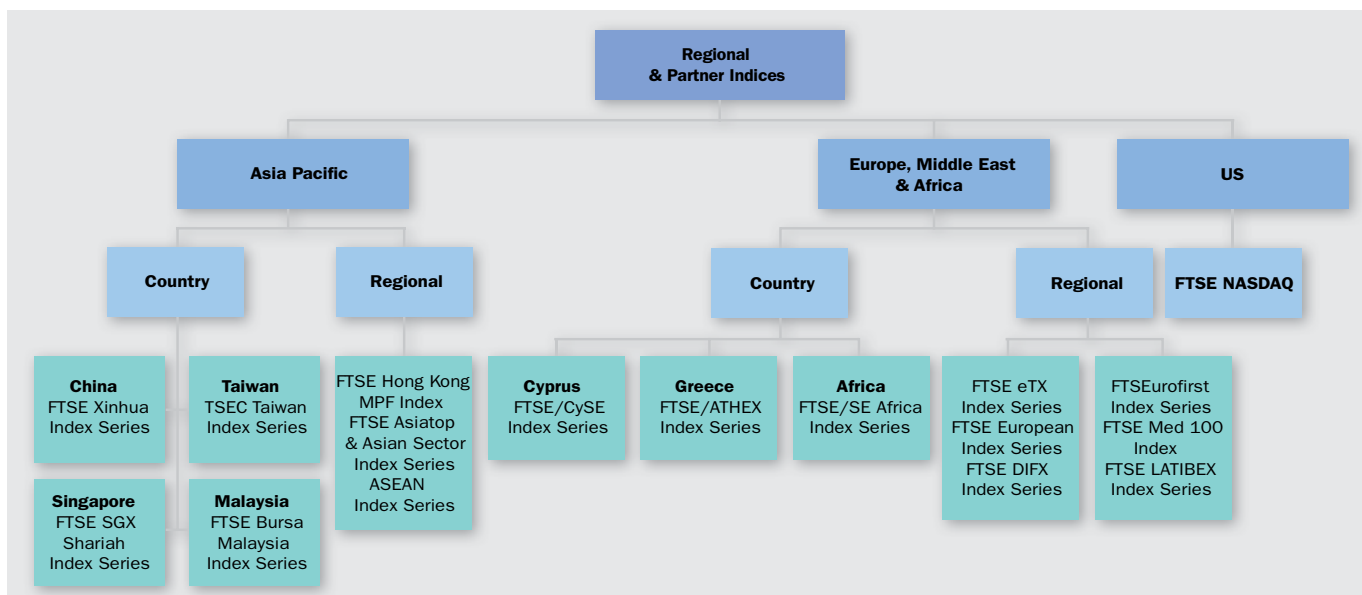
Q: How many indexes do you manage?



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In this role, Dillion-Hatcher holds responsibility for FTSE's regional business strategy, development, sales, client services and marketing activities, in Europe, Middle East and Africa. She heads a team of financial services professionals, based in London, Paris, Frankfurt and Madrid.

Dillion-Hatcher has worked within the financial sector for over twenty years, and has extensive experience in financial sales and marketing. Prior to joining FTSE Group, she was Head of European Sales and Marketing at Informa Global Markets Ltd. Dillion-Hatcher has also held posts in other leading data vendor companies, including Financial Times Information and Extel Financial Ltd.



A: We manage about 150,000 indices every day. Yes, it is a large number of indexes. A large number of those indices are in the FTSE Global Equity Index Series, which includes large, medium and small-cap companies from countries all over the world. We also cover fixed income securities and all kinds of asset classes.

On top of that, we have a very large number of customized indices that we create for clients. We are increasingly working with investment banks, which used to calculate their own in-house indices for their hedge fund clients. They outsource that work to us because index creation is not their core business. Since their work and their clients are private, their ideas are carefully guarded by us, but we take away the pain of calculating the indices. We also provide management and tracking services for them because, as a third-party provider, we provide objectivity and guarantee the correctness of the calculations.

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Q: What services do you provide to the exchanges? Could you illustrate the nature of those relationships with some examples?

A: One example would be our seven year old relationship with the Johannesburg Stock Exchange in South Africa. Initially, we took over the calculation and the licensing of all the JSE indices of the JSE Africa series, which was re-titled to the FTSE/JSE Africa series. In the process, we applied our classification series, our knowledge and market-cap approach to make sure that the indices are governed by the FTSE ground rules and methodology.

Then we created a number of new indices in response to market demand. For instance, recently we came out with a new benchmark called the FTSE/JSE International Benchmark Index which is designed for offshore investors. It is similar to FTSE All World index, excluding South Africa, so that it can be used as a benchmark by offshore investors. We’ve also just developed non market-cap weighted indices, the FTSE/JSE RAFI Index Series in partnership with Research Affiliates.

In that relationship we started by taking the baseline indices to international standards, and then we continually grew that series. We also do a lot of custom work for clients in South Africa and we’re expanding in response to market demand. That’s a fast growing market, where ETF interest is relatively new, and we are creating tradable products for them.

The five year old relationship with the Madrid Stock Exchange is different. In that case, we don’t actually work on the main IBEX 35 Index. They have maintained their own central benchmark, but we have created some specific products. Such products are the benchmarks for the exposure to Latin America calculated in euro, which is an important feature for the European markets.

Since the Spanish market is particularly keen on the principles of socially responsible investments, or SRI, we work together on developing a specifically designed benchmark that stick to those principles. We have an index series called FTSE4-Good Index Series, which is our corporate SRI series, and we apply those principles to create FTSE4Good IBEX, which will be a tradable index available in March 2008. That request came following good cooperation with the Madrid Spanish Stock Exchange and now we are entering the phase of market consultation to include as many companies as we can.

Generally, FTSE4Good works by setting the bar at a certain standard and excluding companies for a variety of reasons. Then we aim to include more companies and to raise the standards of corporate social responsibility across a particular market. Over the five years of existence of our FTSE4Good Index series, we have excluded 100 companies from the original global universe but we have included 300 companies, because more companies are

keen to engage with us. They see the value of being included in the series because investments follow these indices.

Q: What are other major areas of activity, other than the partnerships with the exchanges?

A: We have a joint venture with Dow Jones for ICB, or the Industry Classification Benchmark. That means that we actually partner with a competitor, but now the ICB has become the de facto standard for industry classification within indices. It enables investors to slice and dice information in a very accurate way and to formulate their investment strategies on that basis. ICB drills down into industries and sectors, and goes deeper and categorizes more companies than anybody else. Every major stock exchange in the world, except Japan, uses ICB. Every information vendor in the world has ICB as its classification series of choice. Standard and Poor's has its service, but the ICB that we created with Dow Jones a couple of years ago has overtaken the others.

Another key relationship is the one with Research Affiliates for the creation of non-market capitalization weighted indices, or the FTSE RAFI Index Series. In that case index constituents are weighted using four fundamental factors, rather than market capitalization. These factors include total cash dividends, free cash flow, total sales and book equity value. We have licenses all of over the world both for standard mutual funds and for ETFs. Since we started marketing that product aggressively two years ago, it has been one of our fastest growing index series.

We also have an exciting relationship with two organizations, EPRA and NAREIT, which are the European and the North American Real Estate Associations, to create the FTSE EPRA/NAREIT Global Real Estate Index Series. They have asked us to calculate for them benchmark and tradable indices, and the growth has been outstanding. We've expanded these series by adding high-yield versions due to market demand.

In the hedge fund space in the UK, we work with an organization called MSS for the FTSE Hedge index series. Our most recent addition is a clean technology index in a partnership with Impax Asset Managers, a specialist manager in the environmental technology sector. We will be taking over the calculation of their ET 50 and branding it as FTSE ET 50. Currently, we are in discussions about ETF and mutual fund licensing in that space. Then we'll be creating a whole series of environmental indices on the back of that relationship.

So there are many areas of activity but, most importantly, FTSE grows very fast each year. One of the ways is by knowing our customers and their needs, and by getting really close to those clients. The second way is by creating successful partnerships. No two partnerships are ever the same because they exist for different reasons and are handled in different ways, but we bring to those partnerships the index expertise and the knowledge of the financial markets and the participants. Our partners bring knowledge either about a specific geography, or about a particular asset class or market segment. That has proven to be successful strategy.

Q: What opportunities do you find in Eastern Europe?

A: At this stage, we don't have stock exchange relationships in Eastern Europe, but we have a relationship with the Athens Stock Exchange, which is one of the areas of influence. Money managers in that region want us to pursue development on their behalf in the Balkan region.


I believe that especially central Europe will see increasing interest and activity. We classify countries according to their stage of market development, such as developed market, advanced emerging market, and secondary emerging market. The classification is based on a number of criteria around the function of the financial markets, which include economic size, wealth, quality of markets, as well as depth and breadth of markets. Recent-

ly Israel was promoted from advanced emerging markets to developed markets status, while Poland and Hungary were promoted from secondary to advanced emerging market.

The point is that from the total of \$3.5 trillion worth of assets that are benchmarked against the indices around the world, the majority is invested in the developed markets. Clearly, if a market is upgraded in its status, investment flows are likely to increase, so we expect increased interest in Poland and Hungary.

Q: What are the main challenges in managing this type of growth?

A: One of the challenges is learning to say "no" sometimes. Many new ideas are brought to our attention, but we have to assess and consider in a structured way the real growth opportunities. We have to prioritize them because the challenge is that there aren't enough hours in a day.

We are a global company in terms of our client base, revenue distribution, and product distribution. Nevertheless, we are better known in certain pockets around the world. One of the fast growing areas right now is the Middle East, which is the real new territory. Also, some people consider Europe to be a large entity, but the truth is that the European countries have very different characteristics. So there are places where we might not be as strong as some of our competitors, but we are closing the gap where we need to and we are pulling further ahead where we have a lead. We have a lot of momentum but we continue to work on the principles of learning to understand and anticipate the clients' needs and build the products quickly. 

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Additionally, Ticker uncovers consistent and outperforming mutual funds through its FundScreen interviews.

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