

ftsefocus 04/2009

The benefits of diversification

FTSE MARKET COMMENTARY

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welcome to ftsefocus

A word from Paul Hoff, Managing Director, FTSE Asia Pacific

Global markets remain in flux as we move into the second quarter of 2009. The financial crisis is truly global, with Asia feeling the full effect of the slowdown. Commentators give mixed opinions about when economies will regain growth. However, Asia, being typically resilient, may recover strongly when equity markets have reduced their volatility.

The emerging economic powerhouses of India and China have growing wealthy populations and asset owners for the funds industry to advise, but implementing successful strategies presents its own challenges. It is likely developed nations such as Australia and Japan will continue to minimise losses and devise new pension diversification strategies to mitigate future risk. The market commentary in this issue explores this idea in more detail.

This diverse mix of investment needs and varying stages of market development is at the heart of Asian finance. Despite this, exchanges continue to move forward with new projects. We've enhanced our research team in the region to work with the unique needs of partners and clients – developing new bespoke indices and providing insight to market participants. We will soon launch innovative indices covering a diverse range of asset classes – including a plantations index, Asian sectors and a Shariah index for Thailand – and continue to work closely with exchanges to develop indices to meet the needs of international investors. This month brought the news that FTSE has retained the coveted Index Provider of the Year award for 2009 from Global Pensions magazine in addition to winning three industry awards in 2008 in the Asia Pacific region; accolades we're very proud to receive.

ftsemarket commentary

The benefits of diversification

DIVERSIFICATION IN ASIA PACIFIC

There have been few investment strategies which have been able to escape the current economic downturn and negative returns. Whether investors have concentrated portfolios or aimed for diversity to mitigate risk over the long term, some are not seeing past the short term losses faced. As a result investors are questioning whether diversification is the answer to protecting and growing their assets.

For sophisticated investors, many still believe that diversification, while also performing poorly in recent times, has somewhat shielded them from the extremes losses of an “all eggs in one basket” investment approach. FTSE is involved with the world's largest asset owners investing in sophisticated and mature markets across Europe, The Americas and Asia Pacific who run diversified portfolios. In the Asia Pacific region specifically, we see a wide range in the maturity levels of markets and asset owner sophistication. Emerging markets such as China, Malaysia and Taiwan are studying the asset allocation models in the developed markets of Australia, Japan and Singapore. After taking quite a hit on concentrated investment, especially in China, they are looking at various strategies to help them diversify their portfolios for the long term.

DIVERSIFICATION AND THE ALTERNATIVE

Let's study how diversified portfolios can benefit investors and why there continues to be a case for this approach. By taking a concentrated approach to investment for long term asset protection and growth, investors are increasing the risk associated with single-minded strategies when performance patterns and investment cycles vary across different asset classes. A well diversified portfolio instead tends to spread risk by investing into vehicles with low correlations such as equities and real estate. Studies show that this imperfect correlation will result in better performance over a long term investment horizon.

THE GROWTH OF SATELLITE STRATEGIES

Australian-based asset owners have set the trend in the region and generally been advocates for diversification. With large pools of assets growing with expansive pension schemes, there is the ability to test various strategies. Many of the large funds have set up core plus satellite strategies, which work hand-in-hand to spread funds into a number of asset classes.

Satellite strategies can be quite varied, including investment into real estate, hedge funds, infrastructure, debt and commodities. While many of these have been under scrutiny with Australian investors avoiding some, there is still a strong case for investing into real estate for example, with several new global mandates being issued recently by Australian superannuation funds against the FTSE EPRA/NAREIT Global Real Estate Index Series. Real estate has a low correlation with equities and has always been a popular choice for diversification in Australia, either as a way to increase market capacity on shore or to expand this strategy to global real estate assets.

WEIGHTING YOUR PORTFOLIO

Satellite strategies are the key to diversification but there are also other ways to look at the core portfolio to achieve long term performance gains or loss protection. One approach is to review the equities weightings within a passive portfolio. Passive portfolios tend to be market cap weighted and are affected by speculation and market anomalies. By weighting a portfolio differently, for example based on fundamental factors as in the FTSE RAFI approach, or wealth weights as in the FTSE GWA Index Series, asset owners are finding these indices as an effective tool to manage portfolios and achieve diversity while buying the same or similar stocks in different weightings. Many asset owners are moving into non market cap weighted strategies across Asia, with Australia and Japan leading the way.

THE NEED FOR TRANSPARENCY AND THE ROLE OF INDICES

Besides the question of diversification, there is a growing need to move towards greater transparency and increased simplicity, especially in understanding the base of underlying assets which the portfolio is constructed on. In these tough times, fees are also being questioned with active managers finding it increasingly difficult to beat the benchmark. As a result, passively managed investments are increasing in popularity. This, combined with the broad range of indices covering a range of asset classes including equities, alternatives and fixed income, is driving investors towards alternative index strategies as a way to manage their risk or put risk management into play.

Paul Hoff

To comment on this article email us at ftsefocus@ftse.com

product focus

recent launches

FTSE EPRA/NAREIT Global Real Estate Index Series 23 March 2009

The FTSE EPRA/NAREIT Global Real Estate Index Series has been enhanced to provide investors with greater precision in measuring the performance of global listed real estate. Following the December 2008 expansion of the index series to include emerging markets, the new global composite can now be broken down into developed and emerging subsets, providing a useful tool for real estate investors seeking additional granularity in tracking the real estate market.

Despite recent market turmoil and the devaluation of real estate stocks in line with global equities markets, real estate is widely recognised as one of the four primary core asset classes, representing about 50% of global wealth. Real Estate Investment Trusts (REITs) and other listed real estate offer investors greater liquidity and transparency than private real estate investment. The FTSE EPRA/NAREIT Global Real Estate indices are useful tools for tracking listed real estate markets, and offer the purest and most diverse representation of these markets by both geography and property type.

More information can be found at www.ftse.com/realestate or to call your local office see back cover for details.

The following new regional indices are now available:

- FTSE EPRA/NAREIT Developed EMEA Index
- FTSE EPRA/NAREIT Global Index
- FTSE EPRA/NAREIT Global ex US Index
- FTSE EPRA/NAREIT Americas Index
- FTSE EPRA/NAREIT Asia Pacific Index
- FTSE EPRA/NAREIT EMEA Index
- FTSE EPRA/NAREIT Europe Index
- FTSE EPRA/NAREIT Middle East and Africa Index

RECENT LAUNCHES

FTSE Asian Sector Indices

31 March 2009

The new FTSE Asian Sector Index Series has been created as a comprehensive range of tradable indices for the Asian equity markets. Financial institutions are keen to present clients with new options and alternative strategies in areas such as sector rotation and sector long/short in order to exploit the investment opportunity in Asia, and these new indices offer both passive and active investors a transparent and cost-efficient way to do so. The new series will serve as the basis for ETFs and other index-linked financial products.

Based on the FTSE Asia Pacific Index, the indices draw from the large and mid-cap companies in China, Hong Kong SAR, Indonesia, India, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. Eligible companies are divided into 18 tradable sector indices, as defined by the Industry Classification Benchmark (ICB).

- FTSE Asian Autos & Trucks Index
- FTSE Asian Banks Index
- FTSE Asian Basic Resources Index
- FTSE Asian Chemicals Index
- FTSE Asian Construction & Materials Index
- FTSE Asian Financial Services Index
- FTSE Asian Food & Beverage Index
- FTSE Asian Health Care Index
- FTSE Asian Industrial Goods & Services Index
- FTSE Asian Marine Transportation Index
- FTSE Asian Oil & Gas Index
- FTSE Asian Personal & Household Goods Index
- FTSE Asian Property Index
- FTSE Asian Retail Index
- FTSE Asian Technology Index
- FTSE Asian Telecommunications Index
- FTSE Asian Travel, Leisure & Media Index
- FTSE Asian Utilities Index

More information can be found at www.ftse.com/asiansector or to call your local office see back cover for details.

product focus launch horizon

FTSE SET Shariah Index Series April 2009

The FTSE SET Index Series will be extended with the addition of the FTSE SET Shariah Index, a new Shariah-compliant index designed to meet the Shariah requirements of both domestic Thai and international investors. The Shariah criteria for inclusion in the FTSE SET Shariah Index will consider both business activity and company financials – including asset-based debt screening. The new index is being developed in conjunction with the Stock Exchange of Thailand (SET) and Yasaar Research Inc.

For more information email us at ftsefocus@ftse.com or to call your local office see back cover for details.

FTSE Bursa Malaysia Palm Oil Plantation Indices Q2 2009

The FTSE Bursa Malaysia Index Series will be enhanced to include two new sector-specific indices – FTSE Bursa Malaysia Palm Oil Plantation Index and FTSE Bursa Malaysia Asian Palm Oil Plantation Index – focused on palm oil-related companies, including plantations. A worldwide surge in the usage of biofuels (a by-product of palm oil) has led to palm oil becoming a multi-billion dollar industry in the South East Asian region. With Malaysia being a major producer in this field, many commodities investors have a keen eye on the growth potential of this industry within both the Malaysian market and Asia-wide.

For more information email us at ftsefocus@ftse.com or to call your local office see back cover for details.

Case study

FTSE custom team delivers equity REIT indices

The challenge: As a result of the changing landscape of the US equity REIT equity market and credit market dislocations in 2008, certain FTSE NAREIT indices became highly concentrated which detracts from the investment manager's ability to gain meaningful investment exposures.

The custom solution: The objective was to broaden the investment exposure and find a meaningful risk and reward balance for the FTSE NAREIT indices that were impacted by adversarial market conditions. FTSE's custom team worked with its US-based index partner, the National Association of Real Estate Investment Trusts (NAREIT) to create an overall capping methodology as well as expand the inclusion criteria for two indices.

In addition to the capping of the methodology, the FTSE NAREIT Residential Index inclusion criteria was expanded to include constituents from the health care and self storage sectors. The FTSE NAREIT Mortgage REIT Index inclusion criteria was also expanded to include constituents from the mortgage finance and regional bank sector (which includes US Regional Banks, Savings & Loans and Thrifts).

The output: The FTSE custom team's collaboration with NAREIT helped support four iShares ETFs issued by Barclays Global Investors (BGI), which are benchmarked to the FTSE NAREIT Industrial/Office Index, the FTSE NAREIT Residential Index, the FTSE NAREIT Retail Index, and the FTSE NAREIT Mortgage REITs Index.

For more information email custom@ftse.com

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LAUNCH HORIZON

ETF update

Recently launched exchange traded funds (ETFs) based on FTSE indices.

More information on all FTSE-linked ETFs can be found at: www.ftse.com/ETFs

ETF	Issuer	Primary exchange	Bloomberg ticker
DBS Singapore STI ETF	DBS Asset Management Ltd	SGX	DBSSTI SP
db x-trackers FTSE/Xinhua China 25 ETF	DB Platinum Advisors	SGX	XX25 SP
Global X/InterBolsa FTSE Colombia 20 ETF	Global X	NYSE ARCA	GXG US

ftse news & events

Data distributed in China by Shanghai Wind Info

FTSE Group and Shanghai Wind Info, the leading data and financial software vendor in mainland China, have joined forces to provide FTSE's end-of-day index data to over 1,500 QDII institutions and securities firms via Wind Financial Terminals. The data is a valuable resource for QDII investors to help them manage their global investment portfolios. QDII institutions and other investors can access information such as constituents, market capitalisation and dividend yield, as well as price and total return index values in multiple currencies.

This information will be provided for a range of global indices covering country, sector, investment strategy and alternative asset classes, and can be used for analysis, measurement or management of index linked funds, including exchange traded funds (ETFs).

For more information please email info@ftse.com or to call your local office see back cover for details.

Wind 資訊

Developing the Singapore market

FTSE and the Straits Times Index (STI) have launched a series of educational webinars, which are now available online for investors considering including the Singapore market in their portfolios.

Visit: http://apac.vividas.com/5936_FTSE/web/ for a detailed view of the Singapore market.

FTSE wins 4th industry award

In March, FTSE was presented for the 4th year with the Index Provider of the Year award from Global Pensions, which is selected by an international panel of asset owners and consultants. We would like to thank the readers of Global Pensions for this award, and assure our clients of our continued commitment to setting new standards in index innovation through the year ahead.

In the Asia Pacific region our work has also been recognised with a set of awards, including Index Provider of the Year 2008 in Asia Asset Management's Best of the Best Awards, Best Provider of Tradable Indexes 2008 in the Asian Investor Services Provider Awards 2008, and Index Provider of the Year in the Structured Products Awards Asia 2008.

Commenting on the awards, Mark Makepeace, Chief Executive of FTSE Group, said, "In what has been a tough year for the industry, we're proud to be recognised as industry leaders around the world. The best accolades are those received from our customers."

For more information please visit www.ftse.com/media

10th Anniversary Awards
GLOBAL PENSIONS
Winner
INDEX PROVIDER OF THE YEAR 2009

New monthly index performance report for Asia Pacific

With global equity markets experiencing high volatility and performance pressures, investors need a good understanding of market conditions to enable them to plan their investment strategies and manage their portfolios. Our research team now provides a comprehensive monthly index performance report to

help Asia Pacific-based clients do just that. The report includes key data such as index values, net market capitalisation, and performance figures.

To receive the reports please register at www.ftse.com/ftsefocus

FTSE events

Event name	Date	Location	FTSE participation
Pension Bridge annual conference	14–16 April 2009	San Francisco, United States	Exhibit/sponsor/speaker
Islamic Finance news forum roadshow	16 April 2009	Hong Kong	Speaker
FTSE EPRA/NAREIT global property update	20 April 2009	Hong Kong	Host
FTSE KLD Jantzi Global Environment event	28 April 2009	Toronto, Canada	Host
CFA Institute annual conference	26–29 April	Orlando, United States	Exhibit/speaker
NCPERS annual conference	3–7 May 2009	Beverly Hills, United States	Exhibit/sponsor/speaker
PAPERS Forum	4–5 May 2009	Grantsville, United States	Sponsor/speaker
SRI Basecamp	18 May 2009	New York, United States	Sponsor/speaker
Fourth annual Asian investment summit	20–21 May 2009	Hong Kong	Sponsor

Index review calendar

Announcement day	Index series	Review frequency/type	Effective (close of business)	Data cut-off
7 April 2009	FTSE/Xinhua Index Series	Quarterly review	17 April 2009	20 March 2009
9 April 2009	TSEC Index Series	Quarterly review	18 April 2009	31 March 2009
28 May 2009	FTSE Global Equity Index Series – Latin America	Annual review	19 June 2009	31 March 2009
10 June 2009	FTSE Global Equity Index Series – Emerging Europe	Annual review	19 June 2009	31 March 2009
10 June 2009	FTSE Global Equity Index Series – Middle East and Africa	Annual review	19 June 2009	31 March 2009
10 June 2009	FTSE/JSE Africa Index Series	Quarterly review	19 June 2009	29 May 2009
10 June 2009	FTSE EPRA/NAREIT Global Real Estate Index Series	Quarterly review	19 June 2009	29 May 2009
11 June 2009	FTSE Bursa Malaysia Index Series	Semi-annual review	19 June 2009	29 May 2009
11 June 2009	FTSE Environmental Markets Index Series	Semi-annual review	19 June 2009	29 May 2009
12 June 2009	FTSE Shariah Developed Indices	Quarterly review	19 June 2009	29 May 2009
17 June 2009	FTSE SET Index Series	Semi-annual review	19 June 2009	29 May 2009
10 June 2009	FTSE All-Share Index	Quarterly review	19 June 2009	9 June 2009

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