

ftsefocus

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A review of the Italian equity market

FTSE MARKET COMMENTARY

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welcome to ftsefocus

A word from Donald Keith, Deputy Chief Executive, FTSE Group

While market volatility and uncertainty continues, bullish economists are starting to claim that the US recession, at least, will soon be over. The story is similar across Asia, where the recovery in some markets – Australia and China among them – is being helped by strong growth, with China up 65% so far this year. Across Europe, however, tumultuous investment markets have severely dented investments over the past year. Investors are seeking long-term perspectives, lower risk and diversified portfolios, and as such the need for accurate and transparent indexing is paramount. It is with this demand that we continue in our efforts to provide world class products and services, required to meet many of the challenges investors are facing today.

FTSE is expanding its products and partnerships to include the FTSE Currency Forward Rate Bias Index

Series and the FTSE Australia Index Series – designed to address Australia's unique tax application – as well as the FTSE Environmental Markets Classification System and the extension to the FTSE Environmental Opportunities Index Series.

Over the following pages you'll find more information on all of these indices as well as details of our newly established Milan office. Our market commentary focuses on the strength of the Italian equity market, and explores how the need for indexing as an internationally recognised investment tool led to the re-branding of the FTSE MIB Index and the creation of the FTSE Italia Index Series.

Dialogue between investors and index providers is a vital component in our ability to meet investor needs, so please do share your views with us. You can email us at ftsefocus@ftse.com

ftsemarket commentary

A review of the Italian equity market

In recent years the Italian financial market has enjoyed a boom in equities, exchange-traded funds and securitised derivatives, as many new domestic and international investors have taken advantage of the country's regulatory reforms. In addition, a GDP of €1,535bn (2007) and a total market cap of €252bn (FTSE GEIS, 2009), makes Italy the sixth largest market in Europe.

Within mainland Europe, Italy is well known for having historically high household saving rates and net financial assets. Domestic retail investors play an important role in the country's stockmarket, in terms of capitalisation holding and participation in trading, with 831,000 non-professional terminal users, emphasising the large retail market participation.

Approximately 15% of the adult Italian population (around 3.2 million people) invests directly in equity or via equity funds, and retail investors account for 31%¹ of the country's total investment in equity markets. The unusually high ratio of retail to institutional investors is helped by a structure that allows retail investors to access the trading order book directly. This structure – together with a high liquidity of Italian stocks (with more than 100% turnover), and efficient brokers for retail investors – contributes to this phenomenon. As well as appealing to domestic investors, the Italian equity market is an important component of international investment portfolios.

The Italian structured retail products market is one of the largest in Europe. From 2005 to 2008 it grew at a compound annual growth rate (CAGR) of 16% – from €109bn to €179bn – partly due to the explosive growth of mutual funds.

Though this growth predictably slowed during 2008 and 2009, it remains determinedly positive.

Structured products and their distribution are dominated by large Italian banks. Though the ETF industry in Italy is still relatively small, ETFs have experienced a rise in popularity, with around 301 funds and an AUM of €1.06bn at May 2009. This is a substantial increase from September 2008, with 233 funds and an AUM of €0.75bn. The country also has a small but fast-growing derivatives trading market, with €6.8 million index futures contracts and €3.7 million index options contracts traded in 2007. IDEM is among the top European derivatives exchanges: on 8 May 2007 the daily volume of all IDEM products reached a new record of over 451,000 contracts traded². This growth has been supported by both domestic and international investors, and can be traced back to a decision in December 2006 by the Bank of Italy to relinquish its power over sales and offerings of structured products.

With a strong legacy and emphasis on retail investment, investing in the Italian equities market through index-linked products has been limited in the past. However, as Italy continues to compete on a global playing field – and international investment remains an attractive proposition – the need for indexing as an internationally recognised investment tool has grown. The relevance of passive investment options is being revisited on a global scale, with the present tumultuous global market conditions prompting investors to seek low-cost transparent and objective tools.

In order to make this market solution a reality, FTSE was selected by Borsa Italiana, part of the London Stock Exchange

Structured retail products	2005	2006	2007	2008	April 2009
Total products in Italy	1,555	2,742	4,053	5,075	5,098
Total outstanding volume (€million)	109,152	119,477	144,891	169,696	179,234

Source: Structured Retail Products

¹ Household accounts for 26.2%, and mutual funds 4.6%, of Italy's market cap. Source: Borsa Italiana, data as of end of 2005.
² Latest figures from Borsa Italiana, data as of end of 2007.

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Group, to create a new suite of indices designed to offer greater clarity, transparency and innovation to the Italian equity market. Launched at the beginning of June, the FTSE Italia Index Series is designed to represent the performance of Italian shares listed on Borsa Italiana's MTA and Mercato Expandi markets.

As FTSE currently calculates more domestic blue chip indices than any other global index provider – and works with stock exchanges around the world – we were a natural choice for the Italian market. Our historical presence in London, together with the UK's leading benchmark – the FTSE 100 Index – have ensured an established reputation across Europe.

We are chosen by stock exchanges time and time again for our ability to provide international exposure as well as a globally recognised index methodology and industry classification, helping to increase transparency and attracting international investment flows. By allowing FTSE to undertake the calculations and distribution of indices, these stock exchanges are able to focus on their core business. Our successful exchange partnerships include the JSE, NYSE Euronext, SGX, Taiwan, Thailand, NASDAQ Dubai, and the Athens Stock Exchange. From 6 July, Bursa Malaysia will also transition the calculation of their historic Kuala Lumpur Composite Index (KLCI) over to FTSE, allowing the 30-stock benchmark to carry all the hallmarks global investors expect from a FTSE-calculated index.

The FTSE Italia Index Series represents a standard and transparent basis for investors to assess, measure and gain access to the Italian equity market. Alongside the new indices, we have also assumed responsibility for Italy's existing blue chip index, now known as the FTSE MIB Index. With our help, Italy's primary benchmark captures around 80% of the domestic market capitalisation, and measures the performance of the 40 most liquid and capitalised Italian shares. The index is designed to be used as a basis for a range of ETFs, tracker funds, derivatives and structured products.

Both the FTSE MIB Index and the FTSE Italia Index Series provide the Italian market with a detailed and flexible set of tools to analyse, track and invest in major capital segments of the Italian equity market. As the series represents 95% of the entire Italian market, it provides an accurate range of benchmarks for both domestic and global fund managers. The index series now also includes a small cap index, allowing investors to capture and create additional investment opportunities in small cap stocks. Now, detailed Italian market data – calculated in line with international standards and covering a range of defined segments and sectors – can be distributed globally on a real-time, and end-of-day basis.

Full details of the FTSE Italia Index Series can be found at www.ftse.com/italia. This includes a summary of the indices, volatility and performance and constituent lists. For more information, please email the client services team on info@ftse.com.

Tony Raw, Managing Director, Europe, FTSE Group.

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

product focus recent launches

FTSE Renaissance IPO Index Series **Q2 2009**

The new FTSE Renaissance IPO Index Series has been created in conjunction with Renaissance Capital International LLC to give investors unparalleled exposure to the investable US IPO market. Historically, many IPOs have waited up to three months for inclusion in most major US benchmarks, and their early returns are subsequently missed. The new indices are:

- The FTSE Renaissance IPO Composite Index. The first comprehensive benchmark index for IPO performance, capturing over 95% of the total market value of the IPO universe.
- The FTSE Renaissance IPO Investable Index. The first passive vehicle to properly capture the IPO space, reflecting approximately the top 80% of the FTSE Renaissance IPO Composite Index.

May saw the introduction of three new IPOs, which priced above the mid-point of their respective price range, indicating renewed interest by institutional investors, while five IPOs were announced in June. The FTSE Renaissance IPO Composite Index increased 7% in May, boosting its year-to-date performance to 22% and significantly outperforming the broader US equity market indices.

More information can be found at www.ftse.com/ipo, or contact Bob Ebert on +1 212 641 6174.

RECENT LAUNCHES

FTSE Bursa Malaysia Palm Oil Plantation Indices

18 May 2009

The Bursa Malaysia Index Series has been enhanced to provide investors with exposure to the long-term growth potential of the palm oil industry, both in Malaysia and Asia-wide. The FTSE Bursa Malaysia Palm Oil Plantation Indices focus on palm oil-related companies and are a key step in cementing Bursa Malaysia's position as Asia's centre for commodities-related capital market offerings. The new indices include:

- FTSE Bursa Malaysia Palm Oil Plantation Index - MYR (based on the FTSE Bursa Malaysia EMAS universe)
- FTSE Bursa Malaysia Asian Palm Oil Plantation Index – MYR and USD (Based on the universes of developed, advanced emerging and secondary emerging countries as classified by FTSE in the Asia Pacific region excluding Japan, Australia and New Zealand, available in gross and net of tax versions.)

More information can be found at www.ftse.com/bursamalaysia or contact Charlene Low on +852 2230 5805.

FTSE Environmental Opportunities Index Series

18 June 2009

At a time when the impacts of climate change and environmental concerns are at a global high, we have enhanced our series of capital investment tools that help investors identify and gain exposure to the rapidly growing environmental technology sector. The introduction of the world's first global environmental markets industry classification system allows those companies who provide essential environmental products, activities and services, to be identified more easily, enabling comparison on a global, regional and pan-regional basis. This also offers levels of granularity and precision that can define this growing area and assist in the design of investment products. There are now 18 environmental markets indices, including the new seven country and regional indices created using the new environmental markets classification system. The recent additions are:

- FTSE Environmental Opportunities UK Index
- FTSE Environmental Opportunities UK AIM Index
- FTSE Environmental Opportunities US Index
- FTSE Environmental Opportunities Japan Index
- FTSE Environmental Opportunities Europe Index
- FTSE Environmental Opportunities Asia Pacific Index
- FTSE Environmental Opportunities Asia Pacific ex Japan Index

More information can be found at www.ftse.com/environment, or contact Tony Campos on +44 (0) 20 7866 8082.

product focus launch horizon

FTSE Bursa Malaysia KLCI July 2009

A significant milestone will be reached in Malaysia on 6 July when the historic Kuala Lumpur Composite Index (KLCI) transitions to the FTSE Bursa Malaysia KLCI. Malaysia has been active in implementing initiatives to stimulate international investment flows and the switch to a 30 stock FTSE calculated benchmark paves the way for the creation of ETFs, structured products and other derivatives to assist this. The FTSE Bursa Malaysia KLCI joins other domestic benchmarks such as the STI in Singapore and FTSE MIB in Italy, which have chosen FTSE to be their index calculator. Malaysia also recently announced that it will be merging its Second Board with the Main Board, and renaming MESDAQ to ACE, with indices reflecting these changes from 3 August.

For more information email us at ftsefocus@ftse.com, or contact Charlene Low on +852 2230 5805.

FTSE Forward Rate Bias Index Series Q3 2009

FTSE and Record, the specialist currency investment manager, have announced the signing of a cooperation agreement for the creation of a new range of innovative currency Forward Rate Bias (FRB) indices. With investors increasingly seeking transparency and diversified portfolios, the new index series will aim to provide a passively managed and transparent benchmark for currency FRB returns, used for portfolio construction, index-tracking and benchmarking.

For more information email us at ftsefocus@ftse.com, or contact Mike Bruno on +1 212 641 6120.

FTSE Australia Index Series Q3 2009

FTSE has been working closely with Australian market participants to understand and address the issues around Australia's unique tax application. The FTSE Australia Index Series is an innovative suite of tax-adjusted domestic indices offering Australian investors a more accurate representation of performance. FTSE is the first global index provider to develop industry standard benchmarks that take into account the franking credits attached to dividend payments and off-market buy-backs.

For more information email us at ftsefocus@ftse.com, or contact Julie Andrews on +61 2 9293 2866.

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
FTSE All-World ex-US Small-Cap ETF	Vanguard	NYSE ARCA	VSS US
FTSE UK Conventional Gifts Up-to-5-Year ETF	iShares	London Stock Exchange	IGLS LN
FTSE MIB ETF*	iShares	London Stock Exchange	IMIB LN
FTSE Developed ex-UK ETF	iShares	London Stock Exchange	IWXU LN
FTSE Japan Green Chip 35 ETF	Nikko Asset Management	Tokyo Stock Exchange	1347 JP
FTSE 100 ETF	Source ETF	Xetra	SF100 GY
FTSE 250 ETF	Source ETF	Xetra	SF250 GY

* Change of fund name from iShares S&P/MIB to iShares FTSE MIB as of 1 June

ftse news & events

Will Oulton to join Eurosif board

In recognition of FTSE's continuing commitment to responsible investment, Will Oulton, Director, Responsible Investment has been elected to the boards of two leading industry initiatives. He is the first board member to be appointed to the European Sustainable Investment Forum (Eurosif) – Europe's sustainable investment and finance association – from an external organization. He also joins the advisory board of the newly formed Australian Responsible Investment Academy (RIAA) – the world's first academic-level centre for training, education and innovation in responsible investment.

LSE event: unlocking the potential of the low carbon economy

FTSE launched the pioneering Environmental Markets Classification System and new regional Environmental Opportunities indices on 18 June at the London Stock Exchange. The UK index launch event – which was attended by the media and consultant firms including Mercer and Watson Wyatt – included speakers from the world of British politics and the responsible investment industry who welcomed the new classification initiative and called on investors to recognise investment returns in a low carbon world. Speakers included George Osborne MP (Shadow Chancellor of the Exchequer), David Kidney MP (Under Secretary of State, Department for Energy and Climate Change), James Cameron (Chairman of the Carbon Disclosure Project) and Jonathan Porritt (Chairman of the UK Sustainable Development Commission). A panel was led by Donald Keith, Deputy CEO of FTSE Group, which included Will Oulton, Director of Responsible Investment at FTSE Group.

For more information email us at info@ftse.com or contact Tony Campos on +44 (0) 20 7866 8082.

New FTSE office in Milan

FTSE recently opened a new office in Milan as part of our ongoing drive to support business activities worldwide. The new office – our fifth in Europe – enables us to offer increased international visibility for the domestic Italian market, and to provide local and international investors with a range of state-of-

the-art index tools to access new investment opportunities in Italian equities.

For more information please contact Pito Nadal on +39 02 7242 6641 or email pito.nadal@ftse.com

FTSE events July to September

Event Name	Date	Location	FTSE participation
FTSE TWSE Seminar – ETF Trends and Product Development	9 July 2009	Taiwan	Host
FTSE4Good/UKSIF Survey 2009 results breakfast	9 July 2009	London, UK	Host
SRI Basecamp	9 July 2009	Seattle, United States	Sponsor/Speaker
New York Institute of Finance “Talk To” Series with NAREIT “REITs in the Market Today”	14 July 2009	New York, United States	Speaker (NAREIT)
FTSE Bursa Malaysia KLCI Conversion Seminar	22 July 2009	Hong Kong	Host
IFSA Key Issues Briefing	28 July 2009	Sydney, Australia	Speaker
ASFA Victorian Investment Discussion Group	29 July 2009	Sydney, Australia	Speaker
ASFA New South Wales Investment Discussion Group	30 July 2009	Melbourne, Australia	Speaker
Islamic Finance News Asia: Issuers and Investors Forum 2009	3–5 Aug 2009	Malaysia	Sponsor
FTSE Custom Seminar	4 Aug 2009	Singapore	Host
2009 IFSA Annual Conference	5–7 Aug 2009	Gold Coast, Australia	Speaker
FTSE Custom Seminar	10 Aug 2009	Sydney, Australia	Host and Speaker
FTSE Custom Seminar	11 Aug 2009	Hong Kong	Host
FTSE Australia Index Series Launch Event	9 Sept 2009	Sydney, Australia	Host and Speaker
FTSE Australia Index Series Launch Event	10 Sept 2009	Melbourne, Australia	Host and Speaker

Index review calendar

Announcement day	Index series	Review frequency/type	Effective (close of business)	Data cut-off
8 July 2009	FTSE/Xinhua Index Series	Quarterly review	17 July 2009	22 June 2009
9 July 2009	TSEC Index Series	Quarterly review	17 July 2009	30 June 2009
1 Sept 2009	FTSE Global Equity Index Series – Japan	Annual review	17 July 2009	30 June 2009
9 Sept 2009	FTSE Global Equity Index Series – Developed Europe	Annual review	17 July 2009	30 June 2009
9 Sept 2009	FTSE/JSE Africa Index Series	Quarterly review	17 July 2009	31 Aug 2009
9 Sept 2009	FTSE Multinationals Index Series	Annual review	17 July 2009	30 June 2009
9 Sept 2009	FTSE All-Share Index	Quarterly review	17 July 2009	8 Sept 2009
10 Sept 2009	FTSE EPRA/NAREIT Global Real Estate Index Series	Quarterly review	17 July 2009	31 Aug 2009
10 Sept 2009	FTSE ST Index Series	Semi-annual review	17 July 2009	31 Aug 2009
11 Sept 2009	FTSE4Good Index Series	Semi-annual review	17 July 2009	31 Aug 2009
11 Sept 2009	FTSE Shariah Developed Indices	Quarterly review	17 July 2009	30 June 2009

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