

# ftsefocus 11/2008

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Our guide to the new  
investment destinations

FTSE OPINION PIECE

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# welcome to ftsefocus

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## A word from our chief executive, Mark Makepeace

**Welcome to the first issue of FTSEFocus, the new bi-monthly newsletter from FTSE. In each issue we'll keep you updated with news and views from the indexing experts at FTSE, including development of our indices, partnership news, and opinions on the issues affecting investors today. We'll also inform you of the major index review dates, and index-related events around the globe.**

Extreme market volatility and the associated uncertain market conditions in our industry have again demonstrated the need for accurate and transparent indexing against which investors can measure and analyse market activity. Front pages around the world have been dominated by the

performance of FTSE and other leading market measures to illustrate the volatile trading experienced in global markets. We take the responsibility of providing accurate and timely information to market participants very seriously, and will continue to develop and enhance our products in line with investor requirements.

In recent weeks we've proved again that FTSE indices are a measure on which the world's markets can depend. In turn, we depend on two-way communication with investors, so please let us know what you want to read about in future issues. We aim to keep FTSEFocus as user-driven and relevant as our index products, so please do share your views. You can email us at [ftsefocus@ftse.com](mailto:ftsefocus@ftse.com).

# ftseopinionpiece

## Our guide to the new investment destinations

**As traditional emerging markets begin to take on some of the risk and return characteristics of their developed counterparts, many investors are turning their attention to nascent equity markets to replace them on the efficient frontier curve. 'Frontier' is a good term to describe these rather disparate markets that are characterised by high volatility, low liquidity and sometimes spectacular performance returns. Frontier markets differ greatly from one another in terms of capitalisation and economic development, as measured by World Bank gross national income (GNI).**

There are a number of reasons for the interest in frontiers. Index investors are seeking the diversity and significantly less correlation against emerging and developed segments of their portfolios, where diversification effects are beginning to blur. Investors who have found emerging markets a safe harbour in the wake of the western credit crisis are emboldened and are now venturing further afield into the frontier. The same is true for investors seeking diversification in some of the frontier countries that have commodity-based economies. Other investors are pursuing secular growth in oil-rich Middle Eastern markets or are trying to capture local consumer-led growth in countries such as Nigeria. Diversification benefits exist – for example, Nigeria's equity market, dominated by the banking sector with the backdrop of an oil economy, has little correlation with Croatia or Sri Lanka.

Economic and regulatory reforms are taking hold as the frontier countries have been beneficiaries of international organisations such as the World Federation of Exchanges, regional stock exchange associations, IOSCO, CESR, ISSA, and the Bank for International Settlements. These organisations have ushered in the standardisation of existing equity markets and the rapid development of frontier and emerging market stock exchanges. Working with financial and academic support from agencies such as the World

Bank, IMF, OECD, and the US Agency for International Development, they have helped frontier countries and newly opened stock markets to develop the necessary regulatory, legal, clearing and settlement systems needed to attract foreign portfolio capital. Most recently, the diffusion and availability of trading technology platforms and electronic communication has further enabled market infrastructure development. Because of the small size of many of these markets, liquidity remains an issue.

### HOW DO YOU KNOW YOU'VE REACHED THE FRONTIER?

Though most index providers agree on what developed markets are, consensus declines as you move along the spectrum away from the developed category, through the emerging category towards the frontier tail. This stems from the need to include hot or rapidly growing, highly capitalised markets for performance bets and/or because inflexible country categorisation systems lack a disciplined methodology. In many ways the frontier markets of today are similar to the emerging markets of ten years ago.

“ The frontier markets of today are similar to the emerging markets of ten years ago ”

It's clear, then, that it is beneficial for investors to have at their disposal a robust and objective country classification definitional system that can be used to assign countries to developed, emerging and frontier categories within a global benchmark. With such a system in place, investors can gain a more objective understanding of the risk and return profile of markets in which they are considering investing.

## KEY FEATURES FOR A COUNTRY CLASSIFICATION SYSTEM

A country classification system should be robust enough to span the continuum from a developed category to emerging, to frontier, and then beyond. Furthermore, it should allow for the promotion and demotion into and out of these categories. Finally, there should be an engagement process whereby the needs of international investors are communicated to the exchanges and regulatory authorities of the countries in the form of rules or criteria.

FTSE uses a comprehensive, rules-based approach to country classification, alongside an ongoing market-wide engagement process, making it well positioned to define what constitutes a developed, emerging or frontier market. Recent events have reminded us only too clearly that markets are in a constant process of change, and so for a country classification system to be truly accurate, it needs to be updated regularly. FTSE reviews markets on an annual basis against the quality of market criteria and publishes the results in a transparent matrix format. Results of the September 2008 Country Classification Review can be found at [www.ftse.com/country](http://www.ftse.com/country).

Changes approved at this review included South Korea winning promotion to developed status, and a new set of eight markets being added to the watch list for possible promotion or demotion next year. These are the markets with which FTSE will engage over the next 12 months, bringing together asset managers, investment banks, exchanges and regulators to improve knowledge and understanding of the barriers to efficient international investment across markets. The dialogue is facilitating major

improvements in market practice with real benefits to all participants – whether international investors, or domestic markets' exchanges and their regulators.

A good analogy to underline the need for a consistent and codified country classification system is that of sector classification – systems such as ICB are used by investors everywhere to decide which sector a company belongs to. This enables them to analyse and track their portfolios on a like-for-like basis. It's a natural progression to expect an established framework for country classification within equity benchmarks, not only to compare like with like – emerging market with emerging market – but also for investors to understand the risk profile of new frontier markets, such as Nigeria or Vietnam, and to be confident and comfortable about decisions to include these new markets within portfolios.

Benchmarking can make a valuable contribution to investors' need for a standardised framework for equity market classification. It's worth examining how your index provider approaches this important decision in the investment process, as you consider whether to venture towards the new frontiers.

Full details of FTSE's country classification framework for equity markets can be found at [www.ftse.com/country](http://www.ftse.com/country). This includes an assessment on the quality of markets for each market contained within the FTSE Global Equity Index Series. To receive the country classification report please visit [www.ftse.com/country](http://www.ftse.com/country). For more information email [info@ftse.com](mailto:info@ftse.com).

**Mark Makepeace**

# product focus

# recent launches

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## **FTSE4Good Australia 30 Index** 22 September 2008

**The FTSE4Good Australia 30 Index comprises the top 30 Australian companies that are actively meeting good standards of practice in corporate responsibility. By working towards various corporate responsibility themes – including environmental management, climate change mitigation, countering bribery, upholding human and labour rights and supply chain labour standards – these companies meet the stringent criteria required for inclusion in the FTSE4Good universe.**

The index is designed to enable responsible investors to identify and invest in companies that meet globally recognised corporate responsibility standards. It provides asset managers with a responsible investment benchmark and a tool for the development of responsible investment products, and allows investors to capitalise on the benefits of good corporate responsibility.

The FTSE4Good Index Series is a set of benchmark and tradable indices for responsible investors, derived from the globally recognised FTSE Global Equity Index Series. It forms part of FTSE's wider portfolio of responsible investment solutions, which also includes the FTSE Environmental Technology Index Series.

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## **FTSE RAFI All-World 3000 Index** 6 October 2008

**The FTSE RAFI All-World 3000 Index comprises the top 3,000 constituents by fundamental value selected from the constituents of the FTSE Global All Cap Index, part of the Global Equity Index Series (GEIS). This is the first index within the FTSE RAFI Index Series to cover both developed and emerging markets using RAFI methodology.**

The index is designed to provide investors with a broad benchmark that enables measurement of the top 3,000 companies by fundamental factors – cash dividends, free cash flow, total sales and book equity value – across both developed and emerging markets globally.

FTSE RAFI index-linked products can offer the advantages of a quantitative active management strategy with the highlights of passive investment: lower turnover costs and transparent rules-based selection, while retaining high investment capacity as fundamentals weighting does not increase exposure to high P/E (price/earnings) stocks during episodes of unsustainable P/E expansion. It therefore avoids over-exposure to the more overvalued stocks.

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## **FTSE/JSE All Africa Index Series** 6 October 2008

**The FTSE/JSE All Africa 40 Index and the FTSE/JSE All Africa ex South Africa 30 Index are designed to represent the performance of the top African companies listed on the stock exchanges of qualifying African countries – Botswana, Egypt, Ivory Coast, Kenya, Mauritius, Morocco, Nigeria, South Africa and Tunisia.**

Both the FTSE/JSE All Africa 40 Index and the FTSE/JSE All Africa ex South Africa 30 Index provide investors with comprehensive, replicable and transparent indices that provide a gateway to wider investment opportunities across the African continent.

To maintain a diversified basket of stocks, each country is capped at a maximum of 40% of the index; while a maximum of ten stocks are permitted from South Africa and a maximum of seven stocks for each of the other qualifying countries. The indices are suitable for creating financial products such as index funds, warrants, certificates and Exchange Traded Funds.

# product focus launch horizon

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## **FTSE Environmental Opportunities Index Series** Q4 2008

**We will be extending our coverage of companies that have significant involvement in environmental technology and environmental business activities with the launch of the FTSE Environmental Opportunities Index Series.**

This new index series provides investors with nine themed global indices whose constituents must have 20% of their business activities derived from environmental markets and technologies.

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## **FTSE EPRA/NAREIT Emerging Markets Index Series** Q1 2009

**Coverage of the FTSE EPRA/NAREIT Global Real Estate Index Series will be extended with new indices encompassing listed property stocks from the world's emerging real estate markets.**

The criteria for inclusion in the Emerging Markets Index Series will include minimum free float market capitalisation, liquidity and EBITDA (earnings before interest, taxation, depreciation and amortisation) contribution from relevant real estate activities.

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## **FTSE Frontier Index Series** Q1 2009

**The FTSE Global Equity Index Series will be expanded to include coverage of 23 frontier markets alongside its existing developed and emerging market indices. The new index series will cover 23 countries and seven regional indices, and will include all companies with an investable market capitalisation of more than \$50m.**

The indices have been screened using our established country classification methodology that assesses markets against the size requirements, basic governance and market infrastructure elements required by international institutional investors.

By extending coverage within our Global Equity Index Series (GEIS), we can offer investors an objective and rules-based means of managing their exposure to new equity markets as they evolve their market infrastructures and regulatory environments.

## ETF UPDATE

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

ETF	Issuer	Primary exchange	Bloomberg ticker
Lyxor ETF FTSE Coast Kuwait 40	Lyxor AM	LSE	LKUU LN
db x-trackers FTSE 100 Short	Deutsche Bank	LSE	XUKS LN
BBVA-Acción FTSE4Good Ibex	BBVA	BME	BBVAG SM
Daiwa FTSE Shariah Japan 100	Daiwa	SGX	DFSJ SP
Lyxor ETF FTSE RAFI Europe	Lyxor AM	LSE	LREU LN
Lyxor ETF FTSE RAFI US 1000	Lyxor AM	LSE	LRAM LN
NETS™ FTSE 100 Index Fund	Northern Trust	AMEX	LDN US
NETS™ FTSE/JSE Top 40 Index Fund	Northern Trust	AMEX	JNB US
NETS™ FTSE Singapore Straits Times Index Fund	Northern Trust	AMEX	SGT US

# ftse news & events

## **FTSE teams up with China's largest research firm**

**In September, FTSE unveiled a co-operation agreement with China's largest independent securities research and consulting institution, Shenyin Wanguo Research & Consulting Co. Ltd (SYWG).**

FTSE's extensive range of international data will give SYWG comprehensive coverage on key global equity markets – including the US, the UK and Japan – and will be used by SYWG's dedicated Overseas Research Department to publish monthly research reports and research. The research will focus on the needs of QDII institutions and will begin with global market forecasts combining FTSE's equity index data with SYWG's forecast analysis capabilities.

The liberalisation of China's markets is set to continue and international investors will require increasingly detailed analysis on its equity landscape, alongside the economic factors affecting it. FTSE is proud to be associated with SYWG, a leading expert in China and its markets, and to collaborate to produce new and relevant analysis for use by Chinese and international investors alike.

SYWG rolled out a UK roadshow in October, a highlight of which was a half day seminar in London. 'China's Value Revealed' featured a number of excellent speakers from SYWG and provided participants with a detailed and informative insight into the opportunities for international investors in today's Chinese equity market including:

- The future of China's A-share market
- Investing in Hong Kong-listed China equity
- The transformation of China's transportation industry
- The technology sector in China
- The opportunity of residential property in China
- A roadmap to invest in China

For more information please visit  
[www.sw108.com/english.asp](http://www.sw108.com/english.asp)



## **Triple award success for FTSE**

**FTSE's commitment to delivering indices for all asset classes to meet market needs around the world has been recognised by three major industry awards this year.**

Earlier in the year we were awarded the Global Pensions 2008 'Index Provider of the Year' award, for the third time. This was followed in September by the 'Index Provider of the Year' at the inaugural Structured Products Asia Awards and 'Best Provider of Tradable Indices, Asia-Pacific' in Asian Investor's 2008 Service Providers Awards announced in October.



## FTSE events Q4 2008

Event name	Date	Location	FTSE participation
ASFA 2008 National Conference & Super Expo (The Association of Superannuation Funds of Australia)	12–14 November 2008	Auckland, New Zealand	Speaking role
IFEFP International Foundation of Employee Benefit Plans	16–19 November 2008	San Antonio, United States	Exhibit
Superbowl of Indexing	07–10 December 2008	Scottsdale, United States	Speaking role
Public Fund Boards Forum	13-16 December 2008	San Francisco, United States	Exhibit/speaking role
Islamic Finance News Forum Brunei	10 December 2008	Brunei, Borneo	Exhibit
Investment Consultants Forum	15 December 2008	New York, United States	Speaking role

### Webinars

Hedging Risk in Uncertain Markets, Real Estate in the Global Portfolio	6 November 2008	<a href="http://www.emii.com/ftse.aspx">www.emii.com/ftse.aspx</a>	FTSE sponsored webinar with Euromoney/ Institutional Investor
Environmental Technology	18 December 2008	<a href="http://www.emii.com/ftse.aspx">www.emii.com/ftse.aspx</a>	FTSE sponsored webinar with Euromoney/ Institutional Investor

## Index Review Calendar

Announcement Day	Index Series	Review Frequency/Type	Effective (Close of business)	Data Cut-off
Mid Oct	FTSE/ATHEX 20 Index	Semi-annual review	28-Nov	30-Sep
04-Dec	FTSE Global Equity Index Series (incl. FTSE All-World)	Annual review/North America	19-Dec	30-Sep
10-Dec	FTSE/JSE Africa Index Series	Quarterly review	19-Dec	05-Dec
10-Dec	FTSE UK Index Series	Annual review	19-Dec	09-Dec
10-Dec	FTSE techMARK 100 Index	Quarterly review	19-Dec	28-Nov
10-Dec	FTSE Euromid Index	Quarterly review	19-Dec	28-Nov
10-Dec	FTSEurofirst 300 Index	Quarterly review	19-Dec	28-Nov
10-Dec	FTSE EPRA/NAREIT Global Real Estate Index Series	Quarterly review	19-Dec	05-Dec
10-Dec	FTSE eTX Index Series	Quarterly review	19-Dec	28-Nov
12-Dec	FTSE NAREIT US Real Estate Index Series	Annual review	19-Dec	28-Nov
12-Dec	FTSE NASDAQ Index Series	Annual review	19-Dec	28-Nov

## **WWW.FTSE.COM**

Contact us about FTSEFocus at [ftsefocus@ftse.com](mailto:ftsefocus@ftse.com)

For your nearest office please contact:

**LONDON +44 (0) 20 7866 1810**

**BOSTON +1 888 747 FTSE (3873)**

**FRANKFURT +49 (0) 69 156 85 144**

**HONG KONG +852 2230 5800**

**BEIJING + 86 10 5864 5277**

**MADRID +34 91 411 3787**

**NEW YORK +1 888 747 FTSE (3873)**

**PARIS +33 (0) 1 53 76 82 89**

**SAN FRANCISCO +1 888 747 FTSE (3873)**

**SYDNEY +61 2 9293 2866**

**TOKYO +81 3 3581 2811**



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