Methodology overview

FTSE Low Beta Equal Weight Index Series

Overview

The "low beta anomaly" is based on the observation that stocks with lower market risk historically have offered higher returns than stocks with higher market risk. Low beta indexes offer potential improvement to the risk reward trade-off, while maintaining exposure to the relevant equity market.

There are many sensible ways to capture the "low beta effect" but certain approaches may unintentionally introduce concentration in a small number of large constituents. By equally weighting a basket of low beta securities, the FTSE Low Beta Equal Weight Index enhances diversification by allocating equal amounts to each index constituent. Thus, the methodology provides a neutral approach to achieving low beta exposure.

Additionally, an earnings screen is applied to remove companies which are not profitable.

Stock Selection

Screen for Low Beta
(Exclude stocks that are more sensitive to market volatility)

Screen for Profitability

+

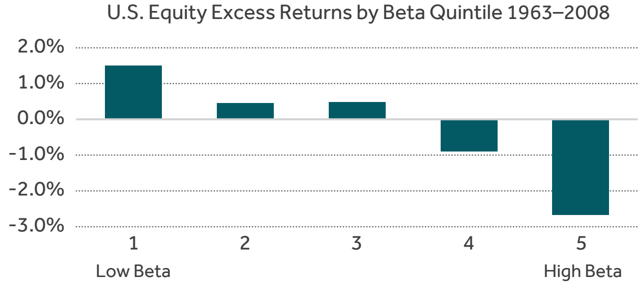
Equal Weighting

Unbiased weighting approach

Enhanced diversification by allocating equal amounts of capital to each index constituent

U.S. Equity Excess Returns by Beta Quintile 1963–2008

Contrary to the common mantra "the higher the risk, the higher the return", research has shown low beta securities out perform their more volatile counterparts over the long-term.



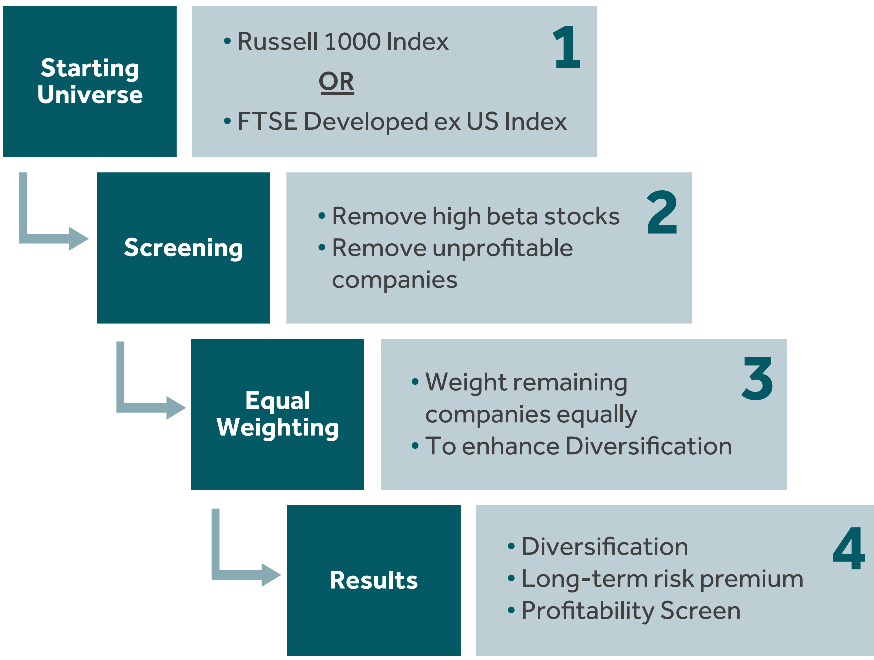
Source: Baker, Bradley, and Wurgler, "Benchmarks as Limits to Arbitrage: Understanding the Low Volatility Anomaly," Financial Analysts Journal, 2011, vol. 67, no. 1 January/February)

Key features

- The eligible securities of each FTSE Low Beta Equal Weight Index are the constituents of the FTSE Developed ex US Index or Russell 1000® Index respectively.
- The indexes are designed for the creation of index tracking funds, derivatives and as a performance benchmark.
- The indexes benefit from a transparent, rules-based index construction process.
- The indexes derived from a FTSE underlying are reviewed semi-annually in March and September. The indexes derived from the Russell 1000 index are reviewed semi-annually in June and December.

Methodology

- Begin with all constituents in the Russell 1000 Index or FTSE Developed ex US Index respectively
- Beta is a measure of volatility compared to the underlying country index over 18 months. Companies with Beta < 1 are eligible for inclusion.
- Stocks with trailing 12 month earnings > 0 are eligible for inclusion



In summary

- The FTSE Low Beta Equal Weight Index Series is designed to capture stocks exhibiting low beta and profitability
- Equal weighting enhances stock level diversification, providing a neutral approach to capturing the "low beta anomaly"

For more information about our indexes, please visit ftserussell.com.

About FTSE Russell

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

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