About the FTSE 100 FDEW

The FTSE 100 Fixed Dividend Equal Weight Custom Index ('FTSE 100 FDEW') is developed, calculated and published by FTSE Russell. It measures the performance of the same 100 largest companies on the London Stock Exchange ('LSE') that make up the FTSE 100. However, as its name suggests, the FTSE 100 FDEW is different to the FTSE 100 in two important ways:

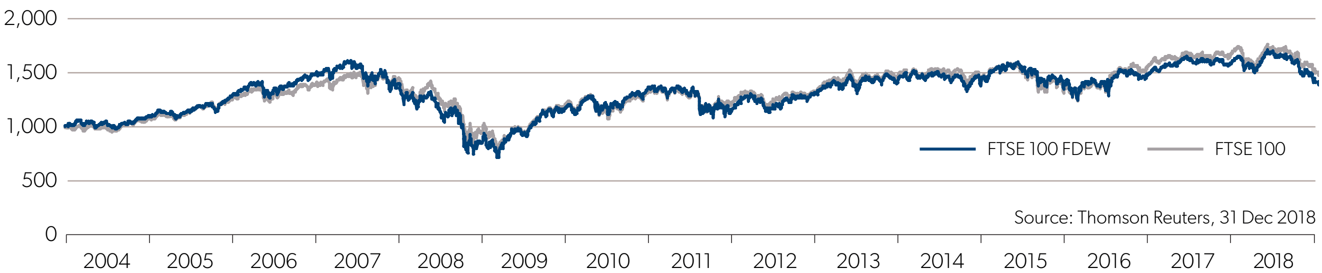
1) The 100 shares in the index are all equally weighted, at 1% by FTSE Russell, instead of being weighted according to their 'market capitalisation' (which means how big or small each company is, based on the value of its shares).

The FTSE 100 FDEW is made up of the same 100 largest companies on the UK's London Stock Exchange that make up the FTSE 100.

2) The index is based on a total return index. This means that all of the dividends paid by the companies are included in the index. However, a fixed dividend of 50 points per year is deducted when FTSE Russell work out the index level.

Both of these features are explained in more detail on pages 2 and 3. You can also find out more about the index and FTSE Russell by visiting their website: www.ftserussell.com.

FTSE 100 FDEW performance: simulated from 01 Jan 2004 to 31 Dec 2018



The FTSE 100 FDEW was launched in March 2017. The chart above simulates (in other words, shows) how the FTSE 100 FDEW would have performed over the last 15 years compared with the performance of the FTSE 100. **Neither past performance nor simulated past performance is a guide to future performance. The FTSE 100 FDEW may fall as well as rise.**

The FTSE 100 FDEW Index will perform differently to the FTSE 100, due to the equal weighting and the total return and fixed dividend approach. This means that the returns from the plan might be higher or lower than the returns from a similar product linked to the FTSE 100.

FTSE 100 FDEW FACTS

FTSE Russell
The name of the index provider

100
The same 100 largest UK companies that make up the FTSE 100 also make up the FTSE 100 FDEW

£1.81TR
The total market value of the 100 companies that make up the FTSE 100 FDEW

79.6%
The 100 companies in the FTSE 100 FDEW account for 79.6% of the market value of the FTSE All-Share

Quarterly
The index is rebalanced every quarter, to maintain its equal weighting to each of the companies

15 seconds
How often the level of the FTSE 100 FDEW is calculated during market opening hours

FTSE 100 FDEW FACTS

Source: Tempo Structured Products | Thomson Reuters, 31 Dec 2018.

‘FD’ More about the FTSE 100 FDEW ...What is meant by ‘fixed dividend’?

The ‘FD’ in ‘FTSE 100 FDEW’ stands for ‘fixed dividend’. This is a term used to explain how FTSE Russell deals with dividends paid by the companies in the index, which is different to the way that this is done for the FTSE 100.

The FTSE 100 is known as a ‘price return’ index. This means that any dividends paid by the companies in the index are not included by FTSE Russell when they work out the index level.

The FTSE 100 FDEW is based on a ‘total return’ index. This means that any dividends paid by the companies in the index are included by FTSE Russell when they work out the index level. However, FTSE Russell deducts a fixed dividend of 50 points per year, when working out the index level.

The FTSE 100 FDEW index was launched by FTSE Russell in March 2017, with a level of 1000 points, meaning that 50 points was equivalent to 5% when it was launched. If the index rises, for example, to 1250 points, the 50 points fixed dividend would then be equivalent to 4%. However, if the index was to fall, for example to 750 points, the 50 points fixed dividend would then be equivalent to 6.66%.

The fixed dividend approach of the FTSE 100 FDEW is designed to deal with an issue that is created by dividends not being included in the FTSE 100, which can affect the terms of structured products that are linked to it. As a result, certain types of structured product that are linked to the FTSE 100 FDEW can offer potentially improved terms (in other words, higher potential returns or lower risks) for investors, compared to similar products linked to the FTSE 100.

Includes all dividends: with a fixed dividend deducted

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The FTSE 100 FDEW includes all dividends paid by the companies in the index. A fixed dividend of 50 points per year is deducted when FTSE Russell work out the index level.

This helps increase the terms of structured products linked to the index – but reduces the level and performance of the index.

The fixed dividend approach of the FTSE 100 FDEW is different to the approach of the FTSE 100, where dividends are not included. The fixed dividend of 50 points per year may be more than the average level of dividends paid by the companies in the index, which would reduce the level and performance of the index. While the fixed dividend approach can help provide higher potential returns or lower risks for structured products, it can affect the level and performance of the index negatively, including during periods when the UK stock market moves sideways or falls.

'EW' More about the FTSE 100 FDEW ...What is meant by 'equally weighted'?

The 'EW' in 'FTSE 100 FDEW' stands for 'equally weighted'. Equally weighted means that the index provider, FTSE Russell, gives each of the 100 companies that are included in the index an equal weighting of 1%, on each quarterly rebalancing date (in other words, every 3 months). Simply explained, this means that each of the companies contributes equally to the level and performance of the index.

Equal weighting is an alternative to the way that FTSE Russell calculates the FTSE 100, where each of the 100 companies is weighted according to their 'market capitalisation' (in other words, how big or small they are). For example, on 31 Dec 2018, the biggest company in the FTSE 100 accounted for 10.5% of the index and the smallest company was just 0.2% (source: FTSE Russell).

There is increasing investor interest in alternative approaches to market capitalisation weighted indexes, for a number of reasons, including:

1. Increased diversification and reduced concentration risk.

Market capitalisation indexes can create a bias towards a small number of the biggest companies. This is referred to as 'concentration risk'. For example, on 31 Dec 2018, the top 10 companies in the FTSE 100 accounted for 45.91% of the index. In contrast, on each quarterly rebalancing date, the top 10 companies in the FTSE 100 FDEW will always account for 10% of the index (in other words, 10 x 1%).

Equal weighting an index can reduce concentration risk and increase diversification, which is generally considered to be a sensible and potentially beneficial approach for investors, from a risk-and-return perspective.

2. Increased effect of smaller companies.

Equal weighting an index can also increase the weighting in the smaller companies in the index. Academic analysis of stock market performance in the past has identified the 'smaller companies effect', which highlights that smaller companies have been associated with stronger performance than bigger companies, offering more growth potential, particularly in the longer term.

However, you should understand that the increased potential returns of smaller companies is also associated with increased risks that can be part of investing in smaller companies, compared with bigger companies.

3. Index rebalancing.

There is also a basic difference in the way that equally weighted and market capitalisation weighted indexes increase and reduce the weighting of companies in the index. Market capitalisation indexes increase their exposure to companies as their price goes up and those companies get bigger. And they reduce their exposure to companies as their price goes down and those companies get smaller. Equally weighted indexes do the opposite, increasing their exposure to companies when their price goes down and reducing their exposure to companies when their price goes up.

As well as highlighting the 'smaller companies effect', academic analysis of stock market performance in the past has also identified that buying companies that reflect good 'value' can contribute to superior long-term performance for investors.

The 100 largest UK companies: equally weighted =

The FTSE 100 FDEW includes all 100 of the UK's largest companies that are in the FTSE 100.

Equal weighting means that all of the companies in the index contribute equally to its performance, increasing stock and sector diversification, reducing concentration risk, and increasing the weighting to smaller companies.

Regular rebalancing by FTSE Russell, every 3 months, to maintain the equal weighting, imposes a 'buy low / sell high' rule in the index.

Neither equally weighted nor market capitalisation weighted indexes are better or worse that the other. Each offers a different approach and different merits and points for you to consider. Risks and returns will be different for each and will depend on the future stock market environment and the performance of the companies in each index.