# About the FTSE 100 EWFD

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

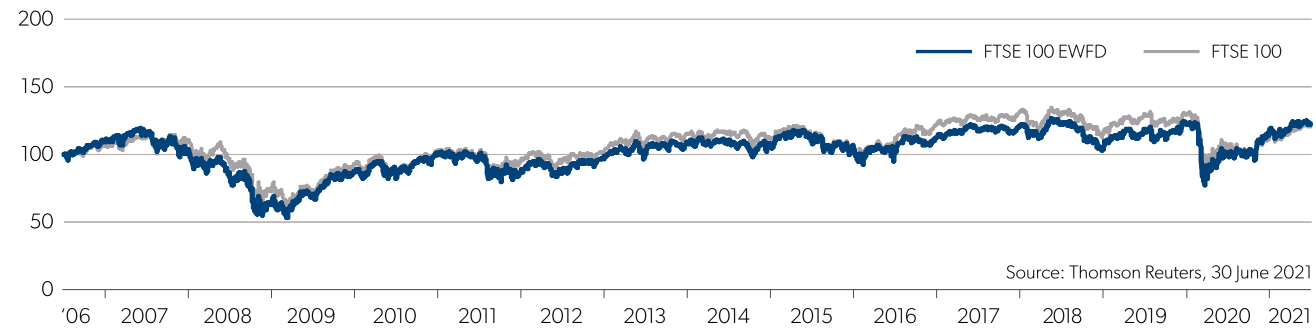
1) The 100 shares in the FTSE 100 EWFD are all equally weighted, at 1% by FTSE Russell, instead of being weighted according to their *'market capitalisation'* (which means how big or small each company is, based on the value of its shares).

**The FTSE 100 EWFD is made up of the same 100 companies which make up the FTSE 100, with two important differences.**

2) The FTSE 100 EWFD 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 A and B. You can find the level of the FTSE 100 EWFD by visiting the ft.com website: https://markets.ft.com/data and using the symbol *'GPSOC002:FSI'*.

FTSE 100 EWFD performance: simulated and actual from 01 July 2006 to 30 June 2021




The FTSE 100 EWFD was launched in March 2017. This chart simulates (in other words, shows) how the FTSE 100 EWFD would have performed up to this date and shows how it has actually performed since this date, compared with the FTSE 100. **Neither simulated nor actual past performance is a guide to future performance. The FTSE 100 EWFD may fall as well as rise.**

**The FTSE 100 EWFD 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. It is important that you carefully consider the current level of the FTSE 100 EWFD, the level of its fixed dividend and the outlook for its future level. This plan is designed for investors who have a positive view of the future level of the FTSE 100 EWFD, over the medium to long term.**

FTSE 100 EWFD FACTS

**FTSE Russell**
The name of the index provider

**100**
The same 100 largest UK companies which make up the FTSE 100 also make up the FTSE 100 EWFD

**£2.03TR**
The total market value of the 100 companies which make up the FTSE 100 EWFD

**78.16%**
The 100 companies in the FTSE 100 EWFD account for 78.16% of the market value of the FTSE All-Share

**Quarterly**
The FTSE 100 EWFD is rebalanced every quarter, to maintain its equal weighting to each of the companies

**Daily**
The level of the FTSE 100 EWFD is calculated by FTSE Russell each day

FTSE 100 EWFD FACTS

Source: Tempo Structured Products | Thomson Reuters, 30 June 2021.

# *'EW'* More about the FTSE 100 EWFD ...What is meant by *'equal weight'*?

The *'EW'* in FTSE 100 EWFD stands for *'equal weight'*. Equal weight 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 FTSE 100 EWFD.

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 30 June 2021, the biggest company in the FTSE 100 accounted for 5.60% of the index and the smallest company was just 0.23% (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 30 June 2021, the top 10 companies in the FTSE 100 accounted for 40.35% of the index. In contrast, on each quarterly rebalancing date, the top 10 companies in the FTSE 100 EWFD 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 *'small companies effect'*, which highlights that small companies have been associated with stronger performance than large companies, particularly in the longer term.

*However, the increased potential returns of small companies is also associated with increased risks which can be part of investing in small companies, compared with large 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 share price goes up and those companies get bigger – and reduce their exposure to companies as their share price goes down and those companies get smaller. Equally weighted indexes do the opposite, increasing their exposure to companies when their share price goes down and reducing their exposure to companies when their share price goes up.

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

**The 100 largest UK companies: equally weighted**

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

Equal weighting means that all of the companies in the FTSE 100 EWFD contribute equally to its performance, increasing stock and sector diversification, reducing concentration risk, and increasing the weighting to smaller companies in the FTSE 100.

Regular rebalancing by FTSE Russell, every 3 months, to maintain the equal weighting, imposes a *'buy low / sell high'* rule in the FTSE 100 EWFD.

Neither equal weight nor market capitalisation weight indexes are better or worse than 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.

# 'FD' More about the FTSE 100 EWFD …What is meant by *'fixed dividend'*?

The *'FD'* in FTSE 100 EWFD 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 EWFD 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 EWFD 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 level of the FTSE 100 EWFD is higher, for example, 1250 points, the 50 points fixed dividend would be equivalent to 4%. However, if the level of the FTSE 100 EWFD is lower, for example 750 points, the 50 points fixed dividend would be equivalent to 6.66%.

As at 30 June 2021, the level of the FTSE 100 EWFD was 1,042.30 points. So, the 50 points fixed dividend was equivalent to 4.80%. As at the same date, the dividend yield of the FTSE 100, on an equally weighted basis, was 2.53% per year. **At this level for the FTSE 100 EWFD and this yield level for the equally weighted FTSE 100, the fixed dividend reduces the level of the FTSE 100 EWFD by 2.27% per year, compared to the FTSE 100 on an equally weighted basis** (source: Thomson Reuters).

If the level of the FTSE 100 EWFD was to fall in the future, for example to 600 points, the 50 points fixed dividend would be equivalent to 8.33%.

The fixed dividend approach of the FTSE 100 EWFD is designed to deal with an issue which 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 which are linked to the FTSE 100 EWFD can offer potentially improved terms (for example: lower end of term barrier levels; lower conditions for potential returns to be generated; and / or higher potential returns) for investors, compared to similar products linked to the FTSE 100.

However, at times when the fixed dividend of 50 points is higher than the level of dividends being paid by companies in the FTSE 100 EWFD (which is increasingly likely the further that the level of the FTSE 100 EWFD is below its start level of 1000 points, and during periods when companies reduce, suspend or cut their dividends), this would be likely to reduce the level of the FTSE 100 EWFD.

**Includes all dividends: with a fixed dividend deducted**

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The FTSE 100 EWFD 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 FTSE 100 EWFD – but reduces the level of the index.

**The fixed dividend approach of the FTSE 100 EWFD is different to the approach of the FTSE 100, where dividends are not included. While the fixed dividend approach may improve the terms of structured products, it can affect the level of the FTSE 100 EWFD negatively, when the fixed dividend of 50 points is more than the average level of dividends paid by the companies in the FTSE 100 EWFD. The impact may be significant during certain conditions for the stock market, such as at times when: the FTSE 100 EWFD is below its starting level, of 1,000 points; the UK stock market moves sideways or falls; companies in the FTSE 100 EWFD reduce the level of dividends which they pay, particularly if such conditions are significant, for even a short time, or persist for a long time.**

**It is important that you carefully consider the current level of the FTSE 100 EWFD, the level of its fixed dividend and the outlook for its future level. This plan is designed for investors who have a positive view of the future level of the FTSE 100 EWFD, over the medium to long term.**