

TEMPO STRUCTURED PRODUCTS

FTSE 100 EWFD: at a glance

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FTSE 100 EWFD: A FTSE Russell index

The FTSE 100 Equal Weight Fixed Dividend Custom Index ('FTSE 100 EWFD') is a FTSE Russell index, calculated and published by FTSE Russell.

The FTSE 100 EWFD comprises the same 100 companies as the FTSE 100, with the same FTSE Russell defined methodology for quarterly reviews of constituent companies, and adheres to the same FTSE Russell FTSE UK Index Series Ground Rules as the FTSE 100.

Why FTSE Russell developed the FTSE 100 EWFD

FTSE Russell developed the FTSE 100 EWFD, in collaboration with Societe Generale, which has an exclusive license for the index, in order to address an issue which investment banks may encounter when structured products are linked to the FTSE 100, with the aim of improving structured product terms for investors. Improved product terms which can be achieved through use of the FTSE 100 EWFD can include: lower end of term barrier levels; lower conditions for positive returns to be generated; and higher potential returns.

FTSE 100 and FTSE 100 EWFD: based on the same companies, with two key differences

The FTSE 100 EWFD 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:

'EW' The FTSE 100 EWFD is equally weighted (not market capitalisation weighted).

'FD' The FTSE 100 EWFD is based on a total return index, including dividends paid by the companies in the index. However, FTSE Russell deducts a fixed dividend of 50 points per year when calculating the daily index level.

Three features and potential benefits of equal weighting: identified by academia

1 Equal weighting reduces stock (and usually sector) concentration risk, providing better diversification: 100 x 1% weighting of all companies, as opposed to c.40% - 50% weighting to the top 10 companies in the FTSE 100*. Many investors in the FTSE 100 may be unaware of this risk. In the FTSE 100 EWFD, the top 10 companies equal 10% (as do the bottom 10 companies), at quarterly rebalancing dates.

2 Equal weighting of the FTSE 100 EWFD increases exposure to smaller companies within the FTSE 100. Academic studies of stock market history have identified 'size', i.e. 'the small companies effect', as one of the long term drivers of potential outperformance.

3 Equal weighting imposes a 'buy low / sell high', 'value' rule in the FTSE 100 EWFD, due to the regular rebalancing of each company to 1% every quarter. This contrasts with the FTSE 100, which does the opposite: 'buying high / selling low', as a 'momentum' rule, due to its market capitalisation methodology.

* Source: Thomson Reuters, 31 Dec 2020.

Important points to understand about the fixed dividend approach

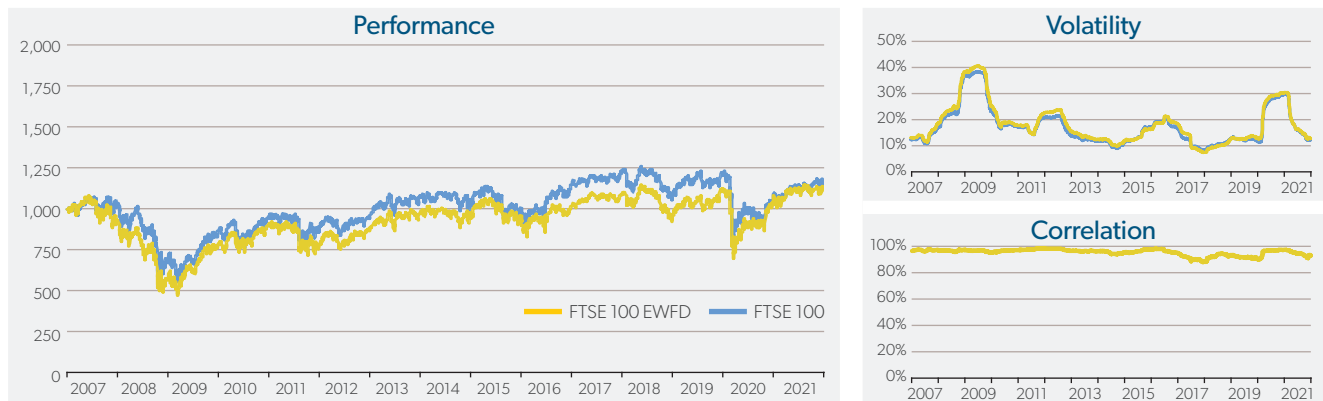
The FTSE 100 EWFD is based on a 'total return' index. This means that dividends paid by the constituent companies are included in the index. However, FTSE Russell deducts a fixed dividend of 50 points per year when calculating the daily index level.

The FTSE 100 EWFD 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 is equivalent to 4%. However, if the level of the FTSE 100 EWFD is lower, for example 750 points, the 50 points fixed dividend is equivalent to 6.66%.

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 which are linked to it. 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.

Past performance: FTSE 100 EWFD vs FTSE 100 15 years: 02 Jan 2006 – 31 Dec 2021*



* Source: Thomson Reuters, 31 Dec 2021. The FTSE 100 EWFD was launched in March 2017. The charts above simulate how the FTSE 100 EWFD would have performed, including volatility and correlation, over the last 15 years, compared with the FTSE 100.

Comprehensive and granular performance analysis and comparison

While it is important to understand the differences between the FTSE 100 EWFD and FTSE 100, both indexes are based on the same companies and have historically shown similar volatility and high correlation. Granular and comprehensive analysis of the past performance of the FTSE 100 EWFD, including sharpe ratios, volatility and correlation, and comparisons to the FTSE 100, highlights the features, attributes, issues and risks of both indexes and the potential merits of using structured products linked to both indexes in diversified portfolios.

Portfolio diversification benefits: without changing index provider or constituent companies

Certain types of structured product linked to the FTSE 100 EWFD can offer improved terms, compared to similar products linked to the FTSE 100. Using structured products linked to the FTSE 100 EWFD can help diversify investment portfolios, without changing index provider or constituent companies, for investors who may be overweight structured products linked to just the FTSE 100.

Access and visibility

The FTSE 100 EWFD is published each day. Access to the daily level (including the ability to compare it with the FTSE 100) is possible through the FT.com website: <https://markets.ft.com/data/indices/tearsheet/summary?s=GPSOC002:FSI>.

In addition, Tempo's website includes a 'ticker' at the top of every page, displaying the daily level of both the FTSE 100 EWFD and the FTSE100 and providing the FT.com link.



The FTSE 100 EWFD will perform differently to the FTSE 100, due to the equal weighting and fixed dividend:

- while the fixed dividend can help provide higher potential returns or lower risks for structured products, it can affect the level and performance of the index 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 to carefully consider the level of the FTSE 100 EWFD and the level of its fixed dividend.



Neither equally weighted nor market capitalisation weighted indexes are better or worse than the other. Each offers a different approach, with different attributes, merits and risks. Risk and return will be different and will depend on the future stock market environment and the performance of the companies in each index.



Neither past performance nor simulated past performance is a guide to future performance. The FTSE 100 EWFD can fall as well as rise. The returns from structured products which are linked to the FTSE 100 EWFD might be higher or lower than the returns from similar products linked to the FTSE 100.