FTSE 100 FDEW: at a glance

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A FTSE Russell index: not a proprietary index

The FTSE 100 FDEW has been created and is calculated and published by FTSE Russell, the leading index provider. It is not a proprietary index, developed by a bank: it has been developed by FTSE Russell as an addition to its range of index options.

Same stocks and methodology

The FTSE 100 FDEW comprises the same 100 stocks as the FTSE 100, with the same FTSE Russell defined methodology for quarterly reviews and constituents. The FTSE 100 FDEW adheres to the same FTSE UK Index Series Ground Rules as the FTSE 100.

Why was the FTSE 100 FDEW developed by FTSE Russell?

The FTSE 100 FDEW was developed by FTSE Russell to help investment banks provide potentially better terms for certain types of structured product, mainly due to the way that dividends are accounted for when investment banks hedge structured products that are linked to the FTSE 100. Providing a fixed dividend avoids a problem that investment banks encounter when accessing the futures market, which discounts future dividend levels.

Two key differences

1 The FTSE 100 FDEW is equally weighted (not market capitalisation weighted).

2 The FTSE 100 FDEW is based on a total return index, including all dividends paid by the constituent stocks, with a fixed dividend reduction included in the calculation of its daily level.

Three key benefits of equal weighting: supported by academia

1 Equal weighting reduces sector and stock concentration risk, providing better diversification: 100 x 1% for all stocks, as opposed to the FTSE 100 having c.45% weighting to just 10 stocks*. Many commentators suggest that investors in the FTSE 100 may be unaware of this risk. In the FTSE 100 FDEW, the top 10 stocks equal 10%, as do the bottom 10 stocks (at quarterly rebalancing dates).

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

3 Equal weighting imposes a 'buy low/sell high' value rule, due to the regular rebalancing of each stock to 1% every quarter (as opposed to the FTSE 100 market cap weighted index, which does the opposite: buying high and selling low).

* FTSE Russell | Thomson Reuters, 31 Dec 2018

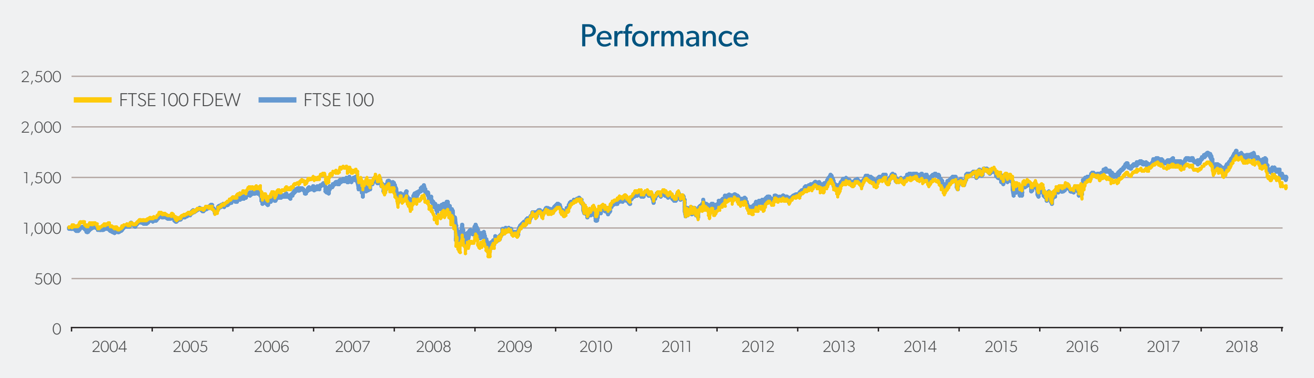
Past performance comparison and analysis: forward-looking considerations

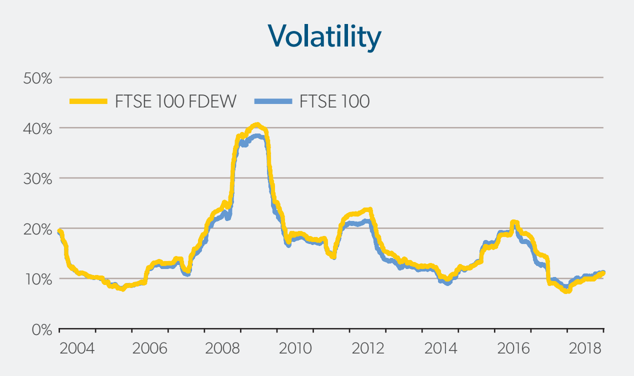
Comparison and analysis of past performance, including sharpe ratios, volatility and correlation, for the FTSE 100 FDEW and FTSE 100, highlights the attributes, merits and risks of both indices, and the potential benefits of using both in diversified and balanced portfolios.

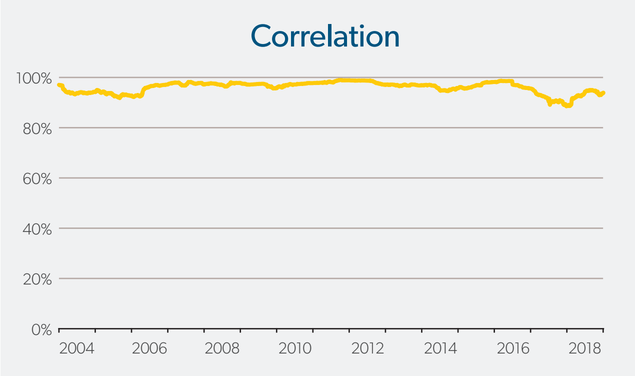
It is important to understand that the FTSE 100 FDEW Index will perform differently to the FTSE 100, due to the equal weighting and the total return and fixed dividend approach:

- **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.**

Past performance comparison and analysis: FTSE 100 FDEW vs FTSE 100
15 years: 02 Jan 2004 – 31Dec 2018*







* Source: Thomson Reuters, 31 Dec 2018. The FTSE 100 FDEW was launched in March 2017. The charts above simulate how the FTSE 100 FDEW would have performed, including volatility and correlation, over the last 15 years, compared with the FTSE 100.

A comparable index: but potentially better structured product terms

Overall, both indices are highly comparable, with similar volatility and high correlation, as would be expected for two indices based on the exact same stocks. However, there are certain types of structured product strategies where linking to the FTSE 100 FDEW can add significant value for investors, through improved terms.

Portfolio diversification benefits: without changing market, stocks or index provider

Despite the similarities, using plans linked to the FTSE 100 FDEW can help diversify portfolios, without changing market, stocks or index provider, for investors who may be overweight structured products linked to just the FTSE 100 market capitalisation index.

Access and visibility

The FTSE 100 FDEW is a public index, published in real time each day. Access to the daily level (including the ability to compare it with the FTSE 100) is possible through the FT website. In addition, Tempo's website includes a page for professional advisers, with links to the FT website daily level and Societe Generale's resources (including a video overview and monthly factsheets).

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. This means that the returns from structured products that are linked to the FTSE 100 FDEW might be higher or lower than the returns from a similar product linked to the FTSE 100.

Neither past performance nor simulated past performance is a guide to future performance. The FTSE 100 FDEW can fall as well as rise.
