

## To Main Contacts

12<sup>th</sup> November 2008

Dear Member,

### Issues relating to the FTSE APCIMS Private Investor Indices

There have been a number of inquiries recently on the APCIMS FTSE indices. It is important that members understand that the calculations for the FTSE APCIMS Private Investor Indices are carried out by FTSE. We are keen that members should have a full understanding of how the indices are calculated by FTSE and how they can be used.

In response to the aforementioned queries relating to the valuations of the Private Investor Indices, FTSE have looked into the calculation methodology and have provided us with a [breakdown](#) of the issue and their findings.

Please find below.

#### Background

The FTSE APCIMS Private Investor Indices are 3 composite indices:

**FTSE APCIMS Stock Market Growth Portfolio Index**  
**FTSE APCIMS Stock Market Income Portfolio Index**  
**FTSE APCIMS Stock Market Balanced Portfolio Index**

They are constructed using 6 underlying indices:

<b>ASSET TYPE</b>	<b>REPRESENTATIVE INDEX</b>
UK Equities	FTSE All-Share Index
World Equities	FTSE World ex UK Index, calculated in sterling
Bonds	FTSE Gilts All-Stocks Index
Cash	7-day LIBOR* - 1%
Hedge Funds	FTSE Hedge Index GBP Daily Indicative (NAV)
Commercial Property	FTSE All UK Property Index (NAV)

\* London Interbank Offered Rate

The current weightings and historical weightings used in each Portfolio Index can be found in the Appendices of the ground rules.

## Issue

Users of the benchmark attempt to attribute the performance of the FTSE APCIMS indices from the relative underlying indices for their reporting to clients on a periodic basis. This has been difficult to carry out as most users take values from redistribution platforms such as Bloomberg or Reuters DataScope days or weeks after the publication dates. There are often differences in the manually calculated performance values and the published values.

## Findings

1. If one of the underlying indices are restated the APCIMS indices are not restated.
2. The indices uses 2 values (FTSE Hedge and FTSE UK Commercial Property) that are produced, on average, on a lag of T-3 and T-2 respectively. For example: the APCIMS index values for the 31<sup>st</sup> Oct would have used the FTSE Hedge value for Oct 28<sup>th</sup> and FTSE UK Commercial property values for Oct 29<sup>th</sup>. Clients trying to replicate the index values are not able to identify which values were used on a particular day using a redistribution platform.
3. The APCIMS index values use month end rebased values for the underlying indices.
4. Investigations into the discrepancies between user calculated values and published values require significant time and resources within numerous departments at FTSE.
5. 99% of users take the values from 3<sup>rd</sup> party distributors and do not pay to use the benchmarks so are not on FTSE databases therefore we are unable to notify the end users of restatements or notify them of issues.

Having received this explanation a sub group of the indices committee met with FTSE on Friday 7th November to discuss solutions to this issue.

**In short it would appear that the values provided were not wrong but that this composite index was not originally designed to be robust enough to withstand attribution analysis.**

On analysis it seems that the discrepancy is mainly caused by the lag effect from the underlying FTSE Hedge Index and FTSE Commercial Property index which are T-3 and T-2 respectively. For this reason we have taken the decision that rather than calculating the daily values of the indices when all the underlying indices are available (this would delay your firms' valuations) it is more sensible to carry on in the current format while at the same time informing all members through this email, our monthly UPDATE publication and a permanent message on the APCIMS website of the issues to bear in mind when performing attribution analysis.

In addition APCIMS will put together a database with FTSE of APCIMS main contacts who will need to be informed when one of the underlying indices is restated – at present most APCIMS members receive values from third party data providers and FTSE are unaware of who should be contacted in the first instance. I would therefore appreciate it if you could inform me as to who the main contact within your firm should be for performance/indices related information.

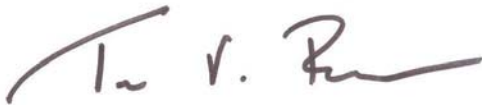
To clarify

APCIMS has decided to:

- Maintain the current format
- Update members on issues to bear in mind when performing attribution analysis
- Put together a database with FTSE of APCIMS main contacts to be informed when indices are restated

While FTSE have informed us that the published values were correct at the time of publication I have included restated valuations up to and including 31st October 2008 provided to me yesterday by FTSE which take into account any restatement of the underlying indices. For further information please contact [info@ftse.com](mailto:info@ftse.com) or 020 7866 1810.

Kind Regards

A handwritten signature in dark ink, appearing to read 'J. V. Baxter', written in a cursive style.

**Jason Baxter**

Head of Investment and Member Services