

Index Focus: FTSE 150



Introduction

Market data supplied from structuredretailproducts.com suggests that more than 90% of structured products sold in the UK during 2015 were linked to the FTSE 100 index, either as a single underlying or as a constituent in a basket.

Whilst it is understandable that investors seek the comfort of linking investments to a market they are familiar with, the FTSE 100 has a number of properties that many investors are unaware of. In particular, because the index is a price return index, structured products are priced using dividend assumptions. These assumptions can undervalue long term dividends and may have a detrimental effect on the pricing of products linked to the index. In addition, because the index is capitalisation weighted, it will overweight stocks that performed well and underweight stocks that underperformed which is akin to a buy high/sell low strategy.

The French retail bank, Natixis, in cooperation with FTSE Russell, has developed a new index based on the above observations with the aim of specifically providing better value than the FTSE 100 when it comes to structured products. Meteor now has the pleasure of offering this new index in their products so that investors can take advantage of the benefits it provides.

At a glance

The FTSE Custom 150 Equally Weighted Discounted Return (FTSE 150) index was developed by Natixis and is sponsored by FTSE Russell. It was designed with the explicit goal of outperforming the FTSE 100 not only in actual price return, but also in the pricing of structured products. The index comprises 100 members of the FTSE 100 index and the 50 largest stocks of the FTSE 250 index although each share has equal weighting in the index.

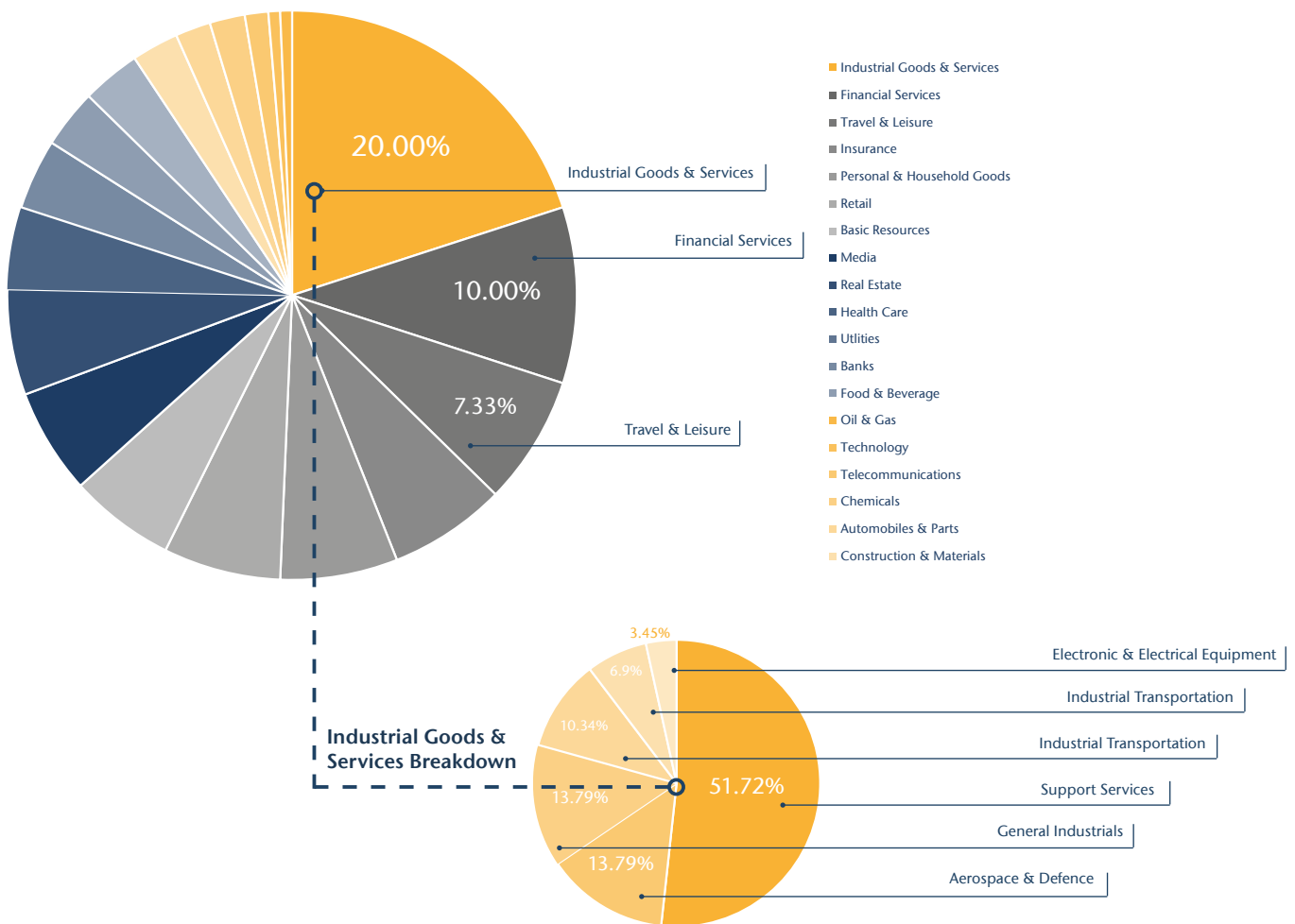
It is a total return index, which uses a dividend discount feature so that inaccurate dividend projections do not damage the pricing value on structured products, as can be prone in structures linked to the FTSE 100. An annualised decrement of 5% is discounted from the index on a daily basis.

- 50 additional constituents improves diversification across and within sectors.
- Equally weighted index benefits from the mid-cap performance in the next 50 largest companies after the FTSE 100 constituents.
- Discounted dividend feature means stable and fair pricing of structures compared to the uncertain and potential undervaluing of dividends in the pricing model for FTSE 100 structures.
- It is a total return index.
- The FTSE 150 underperformed the FTSE 100 during the 2008 crisis.

	FTSE 100	FTSE 150
Bloomberg ticker	UKX index	UKX150EQ index
Data from	31/12/1983	29/12/2000
Exchange	London Stock Exchange	London Stock Exchange
Sponsor	FTSE Russell	FTSE Russell
Composition	100 largest stocks listed on the LSE by market capitalisation	150 largest stocks listed on the LSE by market capitalisation
Weighting	Market Capitalisation	Equal Weighting
Constituent review	Quarterly	Quarterly
Index weighting review	-	Quarterly
Discounted dividend	-	5%
Website	http://www.ftse.com/products/indices/uk	http://www.ftse.com/products/indices/custom-150

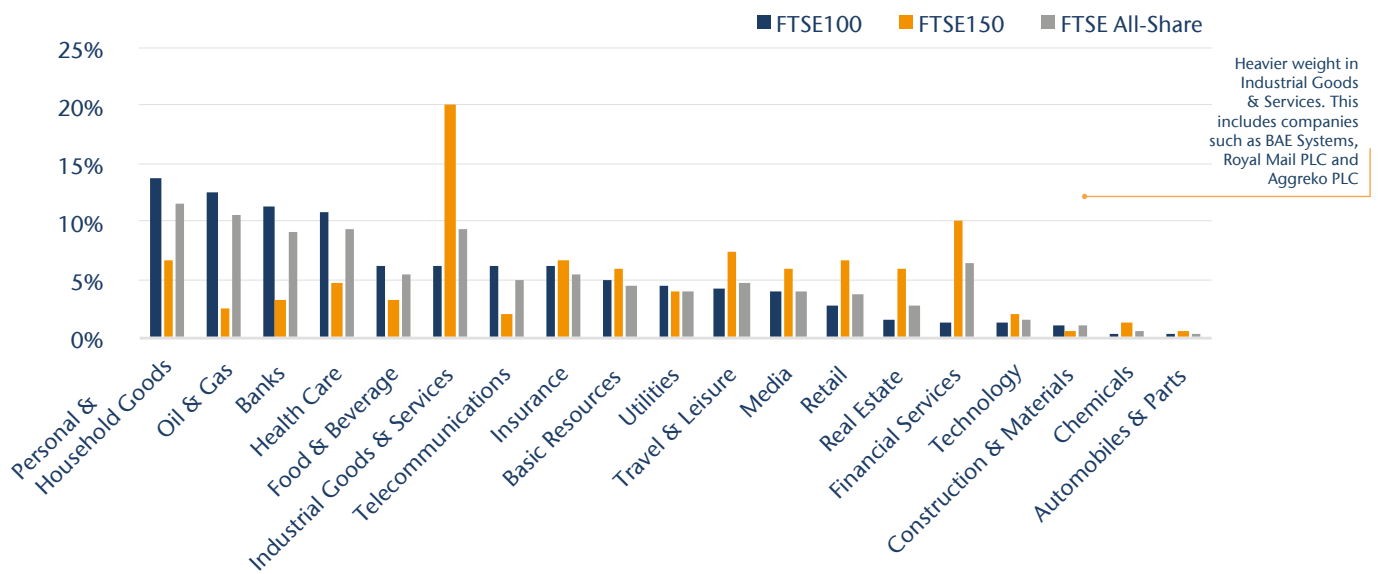
FTSE Russell and Natixis, 9 June 2016

Sector breakdown



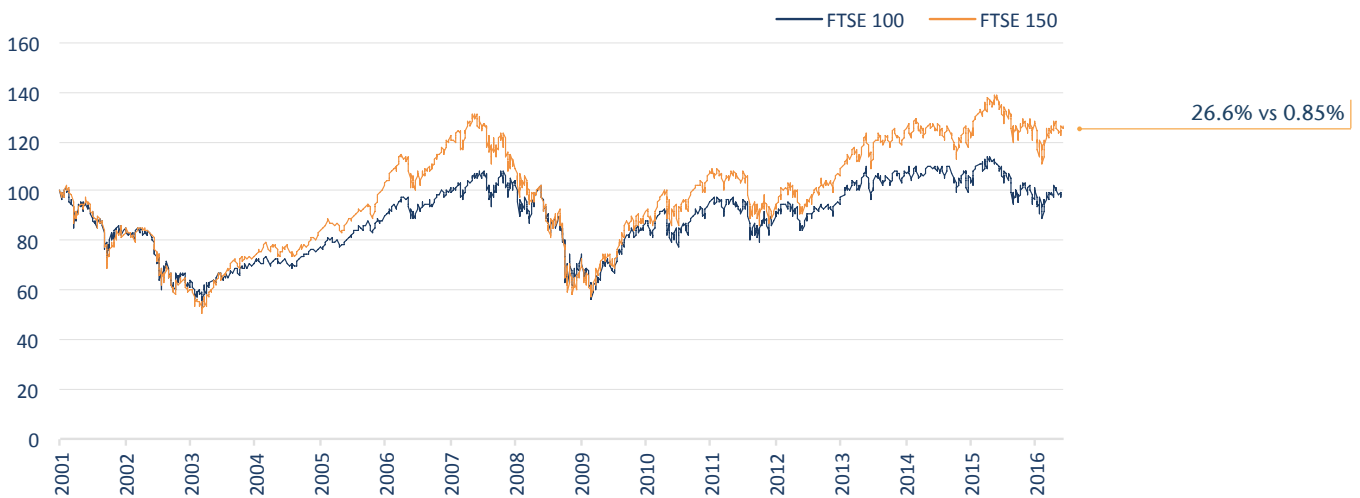
Compared to the FTSE 100, the FTSE 150:

- provides more diversified exposure to the Financials sector with less bias towards Banks and has a broader spread of financial services.
- offers a larger exposure to the property market.
- offers a significantly larger exposure to Industrial Goods & Services, which are regarded as providing more exposure to the domestic economy.
- currently has approximately 93% weighting from the FTSE 100 shares and 7% from the top 50 shares in the FTSE 250.
- constituents, together, have a total market capitalisation of around 2.2 trillion GBP, which is equivalent to approximately 88% of the FTSE All-Share index's total market capitalisation.



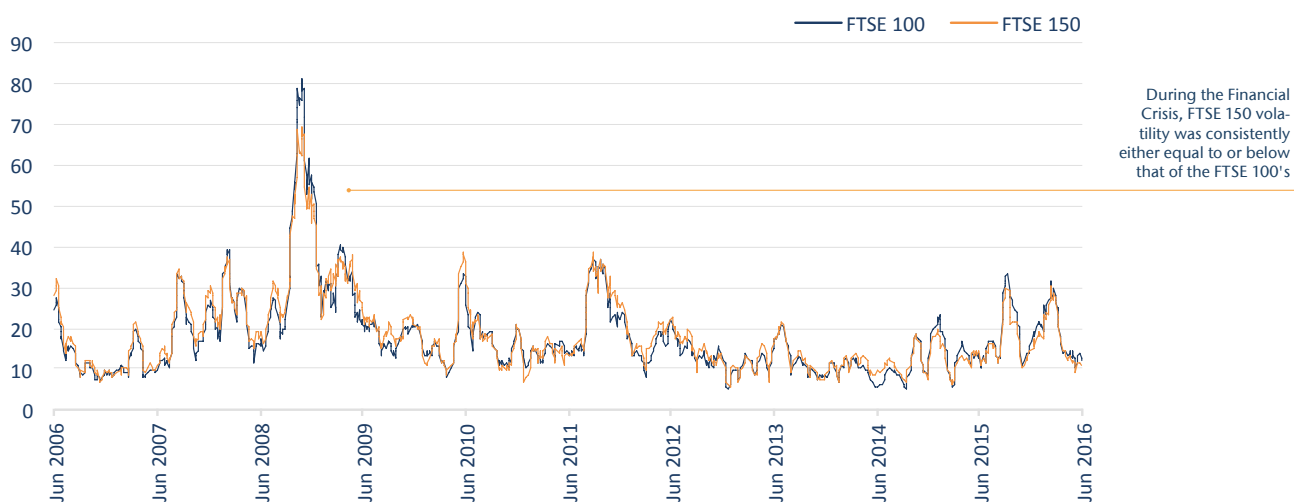
Bloomberg, 9 June 2016

Cumulative price performance



Bloomberg, 9 June 2016

Rolling monthly realised volatility



Bloomberg, 9 June 2016

Calendar price returns

	2015	2014	2013	2012	2011
FTSE 100	-4.67%	-2.26%	0.46%	3.47%	-5.22%
FTSE 150	1.80%	0.43%	0.34%	11.85%	-12.48%
FTSE All-Share	-2.27%	-1.75%	0.39%	5.81%	-6.26%

Bloomberg, 9 June 2016

Relative historical price returns

	YTD	1 Year	3 Year	5 Year	8 Year
FTSE 100	1.91%	-10.66%	-4.84%	6.06%	2.51%
FTSE 150	1.40%	-8.61%	6.41%	18.10%	29.15%
FTSE All-Share	1.45%	-9.79%	-0.80%	11.69%	10.88%

Bloomberg, 9 June 2016

Historical simulation

We have simulated the frequency at which possible maturity scenarios in a vanilla kick-out structure would have produced had it been available continuously between 29 December 2000 and 7 June 2016. This is the full sample for which both indices had data available. It should be recognised however, that the economic conditions necessary to create a structure like this may not have ever existed over these simulated cycles.

Term: 6 Years

Underlying index: FTSE 100 or FTSE Custom 150 Equally Weighted Discounted Return index.

Kick-out condition: At or above its opening level at any anniversary; year 1, year 2, year 3, year 4, year 5 and year 6.

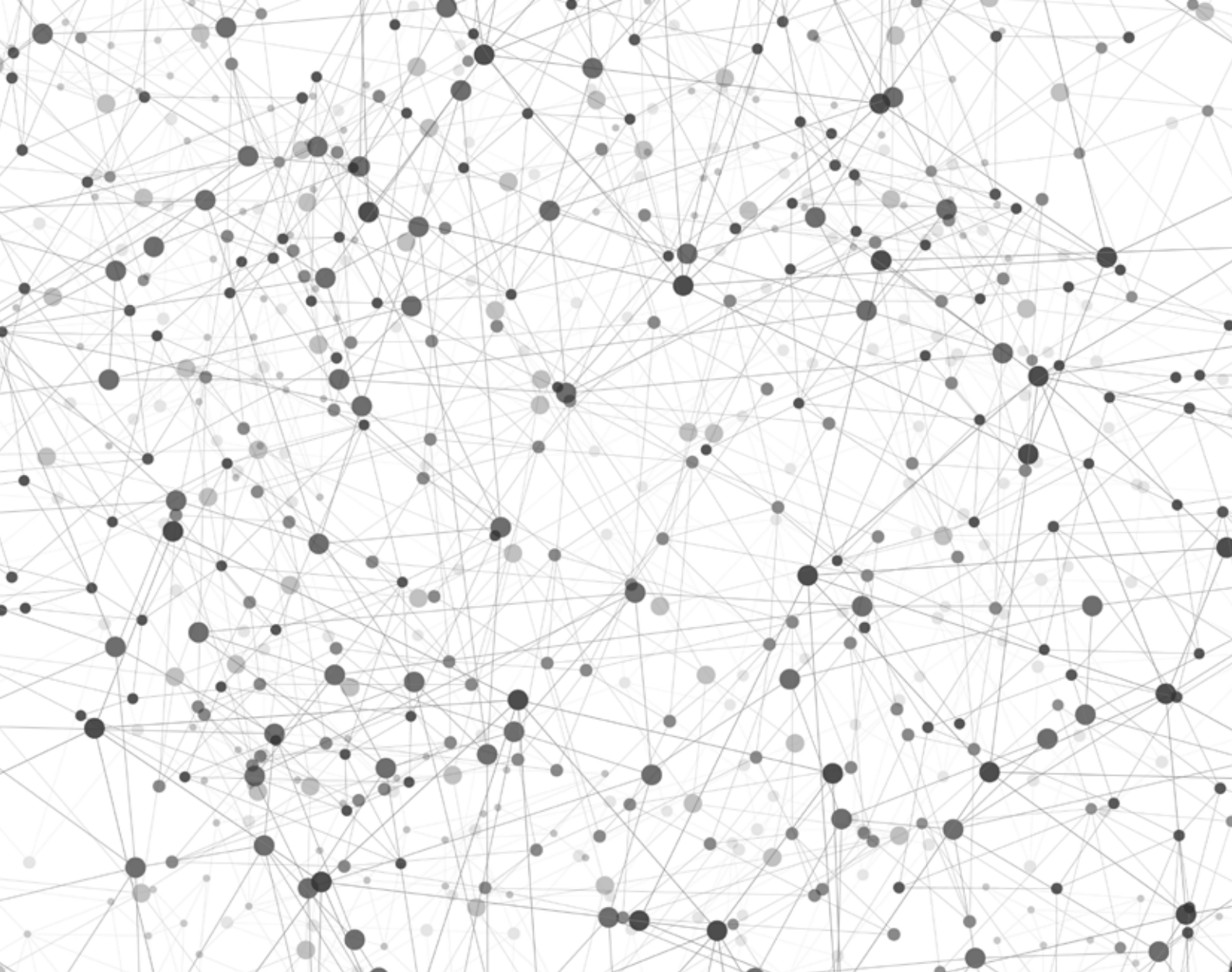
Capital protection barrier: 60% European on the relevant index.

FTSE 100		
Total Cycles	2383	
Capital Returned Only	107	4.49%
Capital Loss	0	0.00%
Start Date	29/12/2000	
End Date	07/06/2016	
Autocalls		
Observation Period	Total Calls	Percentage
1	1541	64.67%
2	46	1.93%
3	107	4.49%
4	209	8.77%
5	145	6.08%
6	228	9.57%

FTSE 150		
Total Cycles	2383	
Capital Returned Only	193	8.10%
Capital Loss	0	0.00%
Start Date	29/12/2000	
End Date	07/06/2016	
Autocalls		
Observation Period	Total Calls	Percentage
1	1525	63.99%
2	102	4.28%
3	220	9.23%
4	112	4.70%
5	131	5.50%
6	100	4.20%

Bloomberg and Meteor Research Department, 9 June 2016

Simulated and/or past performance is not a reliable indicator of future performance and should not be used to assess future returns or risks.



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