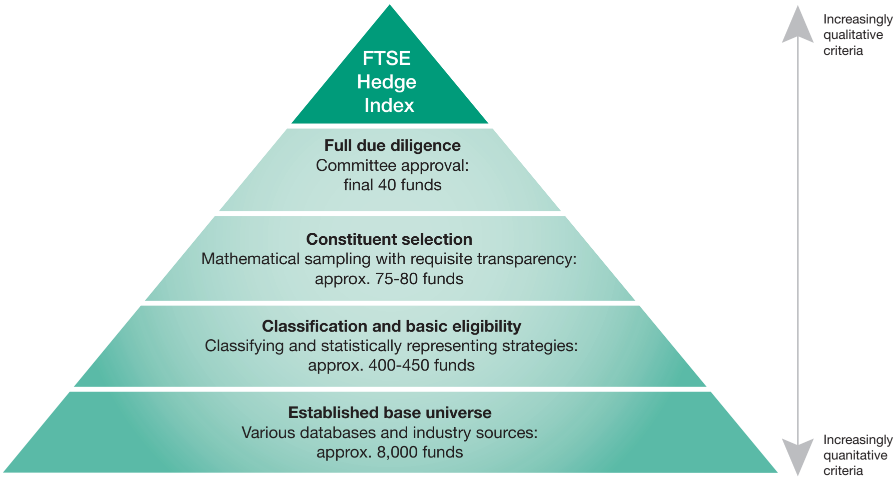
OVERVIEW

FTSE HEDGE METHODOLOGY

FTSE Hedge provides a daily measure of the aggregate risk and return characteristics of the broad based global universe of investable hedge funds. The indices provide the ideal basis for the creation of liquid, structured investment products.

INDEX DESIGN



The construction methodology follows four main processes, each of which is designed to identify appropriate investable index constituents through a combination of quantitative and qualitative techniques as demonstrated above.

Universe: Constituents are chosen from the FTSE Hedge Fund Database (approx. 8000 hedge funds)

Classification system: FTSE Hedge recognises 8 trading strategies within 3 management styles that are specific to hedge fund managers. Funds that broadly meet these strategies are identified and classified accordingly.

Quantitative screenings: Hedge funds that belong to specialist interest strategies and/or are accessible via other indexing alternatives are deemed not to meet the classification criteria. Potential difficulties in daily valuation of some of these strategies underlying holdings mean that they are also not eligible for membership of FTSE Hedge.

Statistical sampling: The remaining hedge funds are then ranked within their allocated trading strategy by statistical methods according to how well they represent the risk and return characteristics of each complete strategy through time. The higher the rank, the more representative the fund is of that trading strategy.

FEATURES

- The FTSE Hedge Index consists of a fixed number of 40 hedge funds
- Each strategy index consists of a minimum of 3 hedge funds
- Constituent funds must meet tightly defined quality, liquidity and capacity requirements
- Gross Asset Value and Net Asset Value indices are calculated for each index

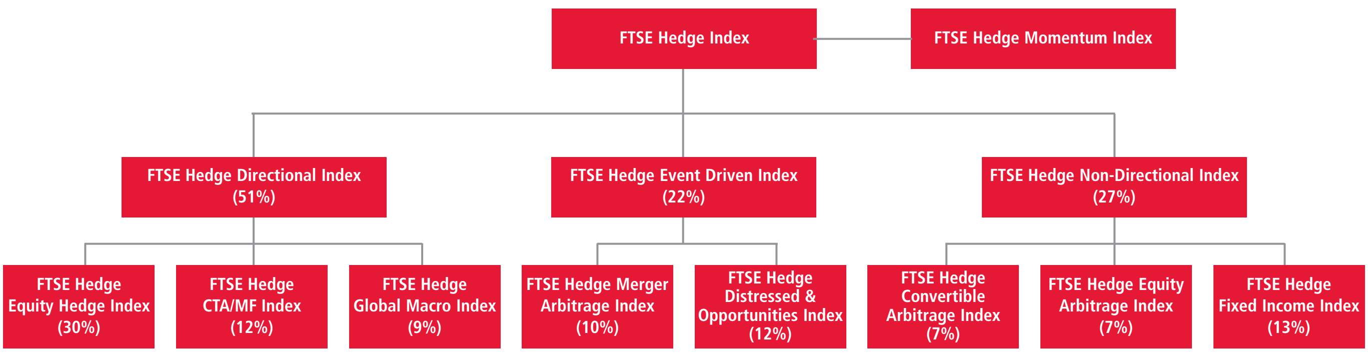
Constituent investability requirements:

- Have independent audited financial statements
- Have at least USD$50m of unleveraged AUM
- Have a minimum two year track record at the time of annual review
- Have a monthly reporting structure with quarterly liquidity screening
- Be open to investor subscriptions and have significant remaining investment capacity

Weightings:

- Trading strategy indices weighted by investability of all eligible hedge funds for that strategy
- Management style indices weighted by the sum of their respective Trading Strategy indices
- No single constituent can represent more than 40% of its Trading Strategy Index
- No single Trading Strategy Index can represent more than 30% of the FTSE Hedge Index
- Constituent fund weightings are reviewed monthly

FAMILY TREE



Benchmark Indices

FTSE HEDGE CLASSIFICATION SYSTEM

FTSE Hedge includes a headline index, an investment strategy index, management style indices (directional, event driven and non-directional) and trading strategy indices (equity hedge, CTA/MF, global macro, merger arbitrage, distressed and opportunities, convertible arbitrage, equity arbitrage and fixed income). Strategies are outlined below:

DIRECTIONAL STRATEGIES

Equity Hedge: These hedge funds consist of a core holding of long equities hedged at all times with tactical short sales of stocks and/or stock index options. In addition to equities, some hedge funds may have limited assets invested in other types of securities.

Commodity Trading Association (CTA)/Managed Futures: Managed futures funds take long and short positions in liquid financial futures such as currencies, interest rates, stock market indices and commodities

Global Macro: Macros funds make leveraged investments on anticipated price movements of stock markets, fixed interest securities, interest rates, foreign exchange, physical commodities and derivatives on such instruments. Macro managers employ a 'top-down' global approach forecasting shifts in world economies, political fortunes or global supply and demand for resources, both physical and financial and may invest in any markets using any instruments to participate in these movements

EVENT DRIVEN STRATEGIES

Merger Arbitrage: Merger Arbitrage involves investment in event-driven situations such as leveraged buyouts, mergers and hostile takeovers. Normally the stock of an acquisition target appreciates while the acquiring company's stock decreases in value. These strategies generate returns by purchasing stock of the company being acquired and sometimes selling short the stock of the acquiring company

Distressed & Opportunities: Distressed strategies invest in and may sell short, the securities of companies where the security's price has been or is expected to be affected by a distressed situation. This may involve reorganisations, bankruptcies, distressed sales and other corporate restructurings. Depending on the manager's style, investments may be made in bank debt, corporate debt, trade claims, common stock, preferred stock and warrants. Opportunities involve investing in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, bankruptcy reorganisations, recapitalisations and share buybacks. Instruments include long and short common and preferred stocks as well as debt securities and options.

NON-DIRECTIONAL STRATEGIES

Convertible Arbitrage: Convertible Arbitrage involves purchasing a portfolio of convertible securities and hedging a portion of the equity risk by selling short the underlying common stocks. Managers may also seek to hedge interest rate exposure under some circumstances

Equity Arbitrage: This is a market neutral strategy that seeks to profit by exploiting pricing inefficiencies between related equity securities, neutralising exposure to directional market risk by combining long and short positions in broadly equal amounts

Fixed Income Relative Value: This is a market neutral hedging strategy that seeks to profit by exploiting pricing inefficiencies between related fixed income securities while neutralising exposure to interest rate risk. Managers attempt to exploit mispricing between related sets of fixed income securities. The generic types of fixed income hedging trades include: yield-curve arbitrage, corporate versus Treasury yield spreads, municipal bond versus Treasury yield spreads and cash versus futures

FTSE HEDGE INDEX MANAGEMENT

Due Diligence Process: carried out by an independent hedge fund consultant – Harcourt AG, involving full scale annual reviews of each constituent fund, including background, conformity checks and qualitative eligibility as well as regular manager eligibility checks

Committees & Reviews: The indices are managed according to a transparent and public set of index rules, and overseen by an independent committee of leading market professionals to ensure that the rules are correctly applied and adhered to.

Corporate Actions: If a constituent hedge fund is removed from FTSE Hedge, the reserve hedge fund for that strategy will become eligible for inclusion into the index and may be added to the index. Hedge funds can also be added to the index to ensure that the index at all times continues to offer investors a broadly diversified and representative measure of the index objective.

MSS

FOR FURTHER INFORMATION VISIT WWW.FTSE.COM/HEDGE, EMAIL INFO@FTSE.COM OR CALL YOUR LOCAL FTSE OFFICE:

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