

## FTSE UK DC Benchmark Index Series

### Evaluating Defined Contribution Investment Strategies

Automatic enrolment is driving increased focus on Defined Contribution ("DC") pension schemes' investment strategies, particularly regarding the default investment option. Regular evaluation (at least every three years) of the default investment strategy is a key feature of regulatory guidance.

To support the transition to Defined Contribution, FTSE has introduced two sets of indices designed to provide a framework for trustees and decision-makers to assess the performance of DC strategies for discrete cohorts of savers:

**FTSE UK DC Benchmarks** are designed to provide a 'baseline' benchmark for the evaluation of DC strategies against a broad opportunity set.

**FTSE UK DC Custom Benchmarks** are designed to provide a consistently calculated benchmark for specific DC investment strategies, enabling independent evaluation of the value added by strategy design and manager implementation.

By focusing on the overall investment experience of cohorts of savers through to their retirement date, the **FTSE UK DC Benchmark Index Series** facilitates objective assessment of Good Member Outcomes and Value for Money, from an investment governance perspective.

### FTSE UK DC Benchmarks

**FTSE UK DC Benchmark Index Series** represents the performance of major asset classes and the glidepath as a whole over any time horizon, for savers grouped by expected retirement (or target) date.

Performance of the glidepath is a function of the changing asset class weights over time as the index approaches its target date, and the performance of those asset classes.

A consistent index calculation methodology enables the performance evaluation, by cohort, of any given DC investment strategy that changes its asset allocation profile over time (a technique used by pension schemes known as 'lifestyling').

In this way the FTSE UK DC Benchmark Series promotes transparency and can be used as part of a robust investment governance process.

### FEATURES

The FTSE UK DC Benchmark Index Series has been designed specifically to act as performance benchmarks for UK Defined Contribution (DC) Pension Schemes.

The indices use a transparent, rules-based construction process.

The indices measure the performance of major capital markets and incorporate a glidepath as used by pension scheme administrators to progressively change asset allocation as an expected retirement date approaches.

The indices are calculated using price and total return methodologies.

The indices can be used in the creation of index tracking products.

The indices are fully customisable to reflect custom asset allocations and/or glidepaths provided by clients.

## The FTSE UK DC Benchmark Index Series Approach

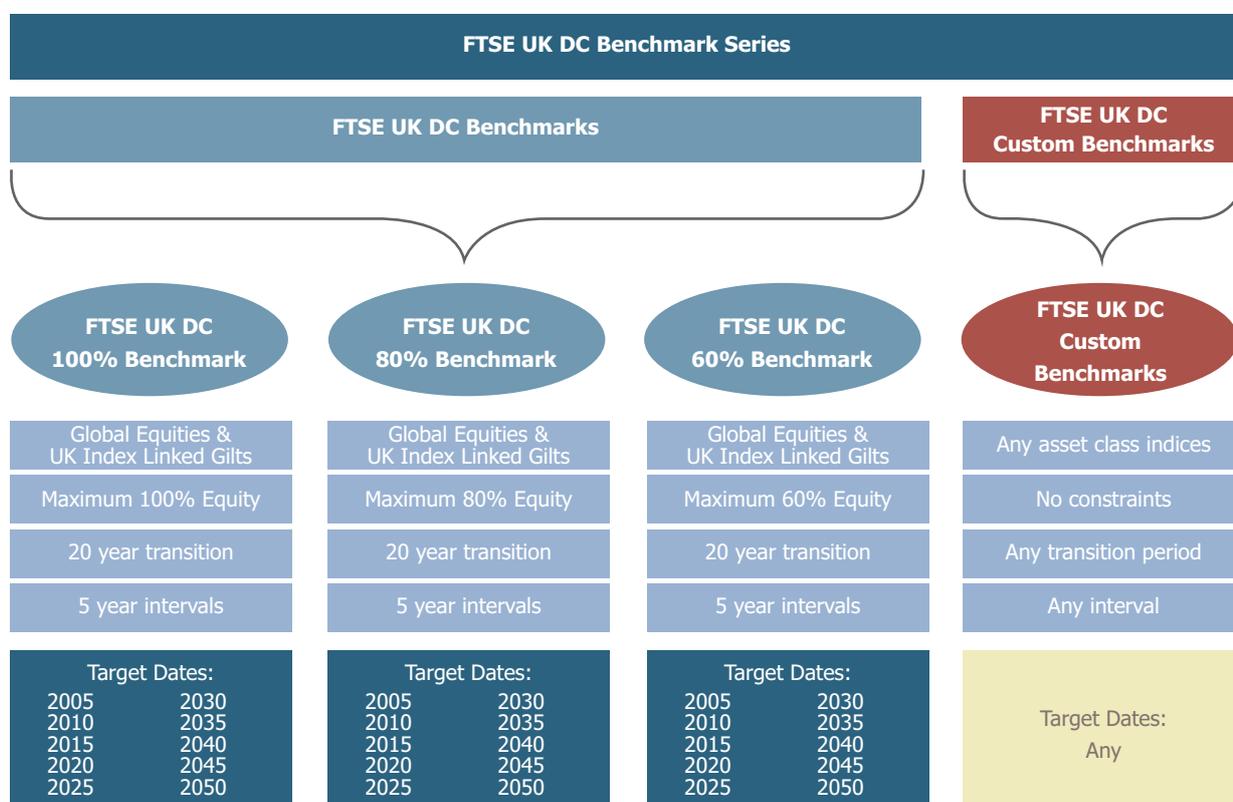
### Opportunity set:

The FTSE UK DC Standard Benchmarks are designed to provide a generic 'baseline' reference point for the evaluation of more specific DC strategies against a broad opportunity set.

The FTSE UK DC Standard Benchmarks are constructed as a simple benchmark representing different combinations of a two-asset portfolio, representative of the basic investment opportunity set available to fiduciaries. The two asset classes are Global Equity (as a proxy for the Market Portfolio or 'risk asset') and Index Linked Gilts (as a proxy for a GBP Risk Free Real Income or 'notional risk free asset').

### Risk preference:

To reflect the differing risk preferences there are 3 index groups, where the equity allocation at the outset is a maximum of 100%, 80% or 60%, as indicated in each benchmark's name.



**The FTSE UK DC Benchmark Index Series Approach**

**Time horizon:**

**Lifestyling**

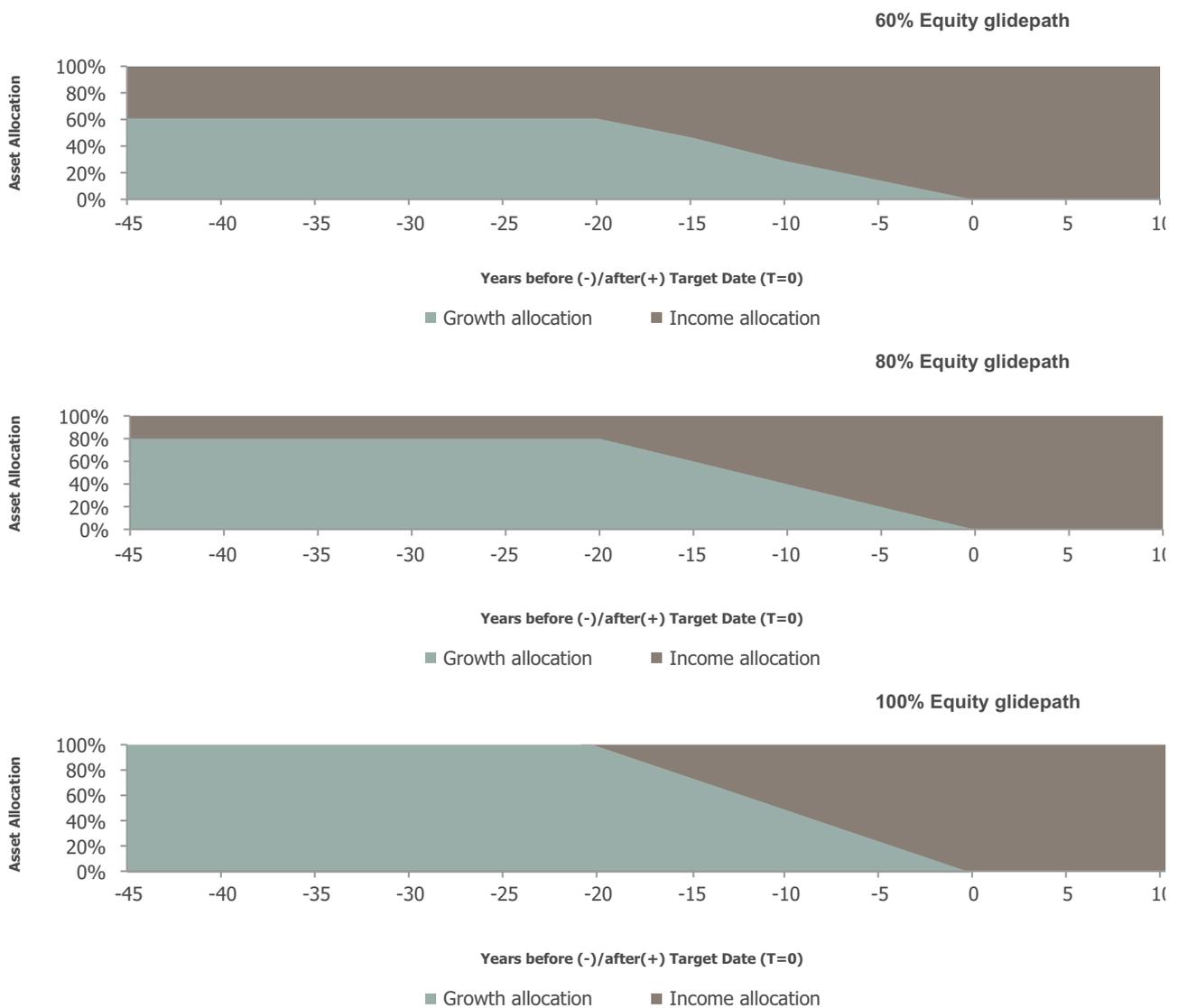
To reflect the 'lifestyling' or de-risking' approach used by DC administrators, the combination of these assets is altered over time, moving gradually (over 20 years) from equities to fixed income, being fully invested in fixed income at and after the Target Date of retirement stated in each benchmark's name.

**Cohorts**

The methodology enables the evaluation of performance of both lifestyling and target date glidepaths from the perspective of discrete cohorts of savers grouped by target (retirement) date.

**Glidepaths**

The movement in asset allocation over time of the three FTSE UK DC Standard Benchmarks can be presented as follows:



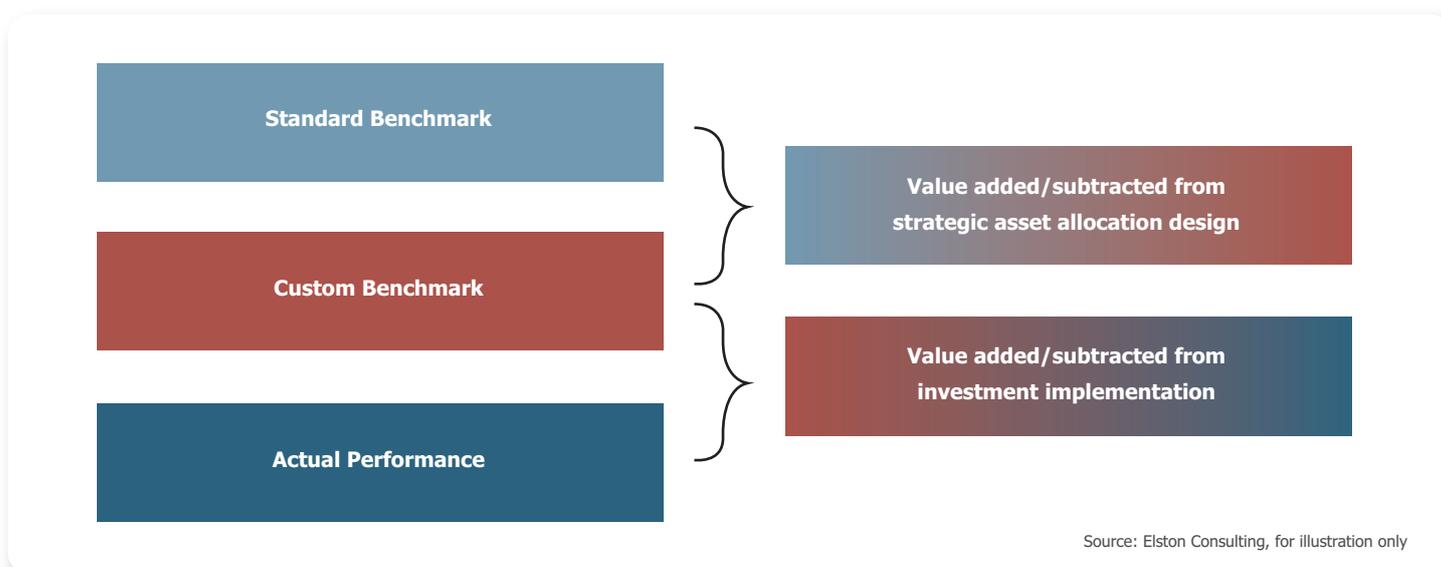
Source: FTSE Group. Data as at 18th September /2014

### FTSE UK DC Custom Benchmarks

Custom benchmarks can be calculated using the same methodology and rules but applied to a custom asset allocation and/or glidepath as required by a provider, asset manager or investment consultant, to reflect their selected asset classes and respective weights over time.

	FTSE UK DC Benchmarks	FTSE UK DC Custom Benchmarks
<b>Consistencies</b>	<ul style="list-style-type: none"> <li>• Index calculation methodology</li> <li>• One index for each cohort of savers, grouped by target date</li> </ul>	
<b>Variations</b>	Weights of different assets in the allocation 'glidepath' designed to reflect broad investment opportunity set, hence restricted to: <ul style="list-style-type: none"> <li>• Two major asset classes representative of the investment opportunity set</li> <li>• De-risking over 20 years</li> <li>• Standard methodology in line with ground rules</li> </ul>	Weights of different assets in the allocation 'glidepath,' can reflect any DC investment strategy, hence may include: <ul style="list-style-type: none"> <li>• Multi-asset classes in any proportion</li> <li>• De-risking over any time frame</li> <li>• Diversification, optimisation, duration, and other custom perspectives</li> </ul>

### Example Defined Contribution Evaluation Framework



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