Index innovation

FTSE

This year FTSE has concentrated on partnerships to bring new investment ideas to the Asia market. Keeping ahead of the game, it has created indexes to offer its clients the next big thing in Asian investment.

An example of this is the FTSE Value-Stocks China Index, which is the first in a series of indexes, created on a custom basis with Value Partners. The index captures the value stocks that have traditionally been popular with investors.

The stocks in the index are screened by their value, taking into account H-shares (mainland Chinese companies incorporated in China and listed in Hong Kong), red chips (companies from mainland China incorporated outside China and listed in Hong Kong – the main way for foreign investors to access Chinese growth) and P-chips (other Hong Kong-listed companies that derive 50% of their sales revenue or operating assets from mainland China).

Paul Hoff

A further screening tool is then applied to try to find the often overlooked value stocks in the Chinese market. Factors such as price/earnings ratio, dividend yield and operating profit margin are taken into account to find these stocks.

"The methodology starts with that basic approach but then it applies additional contrarian screening to try to take out of the valuation the companies that really will be capable of delivering a much stronger share price return," says Paul Hoff, head of business development for Asia-Pacific at FTSE in Kuala Lumpur. "It is quite unique and it also performs very well. If you look at the back-test performance it is outstanding."

There is a Hong Kong-listed exchange-traded fund (ETF) based on the index from Sensible Asset Management (a subsidiary of Value Partners), which has assets under management of $60.9 million. There are also other Asian-based fund managers reviewing the methodology of the index and one Korean asset manager is using the index to replace its current benchmark.

William Chow, managing director at Value Partners in Hong Kong, says it chose to work with FTSE because of its flexibility and ability to work on custom indexes. "The pricing is fair, the customer level is high, and it is flexible about customisation." He adds that the branding of a well-known indexing company is also important to him.

Another product created from a partnership is the FTSE Renaissance Asia-Pacific IPO Index, for which FTSE worked with Renaissance Capital to capture the growth of the Asian initial public offering (IPO) market.

"We have been working with Renaissance in the US for a couple of years now. It did an analysis of IPOs globally and saw there had been a shift of IPOs to Asia, so on the basis that this is where the supply of companies is. It was felt this kind of an IPO index would be useful," explains FTSE's Hoff.

"Typically companies will be listed at a discount and have aggressive or good growth going forward. You would hope that for a year or two new companies would outperform against a market."

The index tracks the IPOs for 500 trading days after they are listed, and rather than selecting which new companies look promising an investor can simply buy the index. It takes stocks from the Asian market, ex-Japan, and there is a sub-index of the top Hong Kong and Chinese stocks.

In the past year, FTSE has also worked with asset managers to educate them about the benefits of ETFs and get them to create and list ETFs as part of an initiative run by the Shanghai Stock Exchange. Under this scheme FTSE has licensed its 100 Index to Hua An Asset Management. Separately, the FTSE BRIC 50 Index has been licensed to China Southern Fund Management for their first passive QDII fund.

Hua An's head of product development in China, Yuan Yuan Gu, says the company chose to work with FTSE because of its "innovation and service" and "because it is world-leader in the creation and management of indexes. It is innovative and has a broad range".

This focus on getting new parties interested in using indexes and ETFs has also extended to traditional fund managers. To that end, FTSE has worked with mutual fund managers who have never launched an ETF or had to deal with the listing process. This educational effort includes the exchanges, which FTSE has regular communication with.

Trying to get Asian clients interested in ETFs and equities is not always easy, says Hoff. "Right now people are more focused on fixed income and high yields as opposed to looking at the equity market for capital appreciation."

But FTSE has worked on educating fund managers and investors about the benefits of using its indexes and it has taken some of its Asian themes to investors all over the world.

"We have had some successes with [fund managers] coming from the Asia market and going to Europe, the Middle East and the US, and working together on the marketing. We talk about the index and the fund managers talk about the ETFs."