

# FTSE STABLE RISK INDEX SERIES METHODOLOGY

## OBJECTIVE

The FTSE StableRisk Index Series seeks to address inconsistencies between investor expectations and realized risk levels by capturing long-term expected return premia with less extreme shifts in short-term risk levels.

## INDEX METHODOLOGY

FTSE StableRisk Indices address the inconsistency in the risk/reward trade-off by providing exposure to an asset class in a long-only framework, while seeking to reduce investors' exposure to variability in the asset class's short-term volatility. This is achieved by constructing an index for each asset class that represents a portfolio of liquid futures contracts. The portfolio is then rebalanced as often as daily, with the objective of maintaining the portfolio's volatility at a stable level. This level is generally the 10-year average volatility of that asset class. At any given time, including periods of high market volatility, the indices are expected to exhibit relatively stable risk levels.

## INDEX CONSTRUCTION

The FTSE StableRisk Indices cover four asset classes: equities, commodities, interest rates and currencies. Within each asset class, futures contracts are used to represent a market or an asset, and a FTSE StableRisk Index is constructed for each asset class. Sixty-nine assets are currently used to construct the indices:

- **FTSE StableRisk Equities Index**

Twenty one (21) global market index futures contracts

- **FTSE StableRisk Commodities Index**

Twenty (20) futures contracts (including 2 precious metal, 4 base metal, 6 energy, 1 livestock, and 7 agricultural commodities futures contracts)

- **FTSE StableRisk Currency Index**

Six (6) currency futures contracts

- **FTSE StableRisk Interest Rate Index**

Twenty-two (22) futures contracts (12 global bond and 10 global interest rate futures contracts)

- **FTSE StableRisk Composite Index**

All sixty nine (69) assets included in the Equities, Commodities, Currency and Interest Rate Indices

## STABLE RISK TREND INDICES

The FTSE StableRisk Trend Indices are part of the FTSE StableRisk Index Series and employ a simple momentum portfolio policy. Within these indices, assets with prices that appear to be trending upward are held long, and those with prices that appear to be trending downward are sold short. The StableRisk Trend Indices are multi-asset, following the same structure as the FTSE StableRisk Indices.

## ABOUT ALPHASIMPLEX GROUP, LLC

AlphaSimplex Group is a registered investment adviser that specializes in risk-controlled, absolute return portfolios. All investment strategies are systematic and seek to adapt to changing market dynamics, relying primarily on liquid futures and forward contracts.

## UNDERPINNINGS:

The StableRisk concept is built on the following assumptions:

- Over the long term, riskier assets yield higher expected returns.
- Investors require higher expected return to accept incremental undiversifiable risk.
- History has shown that risk premiums are not earned smoothly over time, due to fluctuating levels of return and volatility.
- There is mounting evidence that periods of higher volatility are not usually associated with periods of higher expected return.
- The standard risk/reward trade-off is not constant over time, but is punctuated by periods in which holding risky assets may not be rewarded.

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