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# FTSE Divest-Invest Index Series

v1.8

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## Section 1

# Introduction

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### 1.0 Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE Divest-Invest Index Series. Copies of the Ground Rules are available from [www.ftserussell.com](http://www.ftserussell.com).
- 1.2 The FTSE Divest-Invest Index Series is a set of indexes designed to incorporate a combination of rules-based strategies to reduce exposure to companies from certain ICB subsectors associated with a High Carbon Economy and obtain increased exposure to companies engaged in the transition to a Green Economy.
- 1.3 The FTSE Divest-Invest does take account of ESG factors in its index design.
- 1.4 These Ground Rules should be read in conjunction with the Ground Rules for the FTSE Global Equity Index Series Guide to Calculation Methods and the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes which can be accessed using the links below:  
[FTSE Global Equity Index Series Guide to Calc.pdf](#)  
[Corporate Actions and Events Guide for Non Market Cap Weighted Indices.pdf](#)
- 1.5 The FTSE Divest-Invest Index Series consists of the following indexes:  
FTSE Divest-Invest Developed 200 Index  
FTSE Divest-Invest China A50 Index
- 1.6 Price, Total Return and Net of Tax Indexes will be calculated on an end of day basis.  
Total return indexes include income based on ex dividend adjustments. All dividends are applied as declared.  
Selected indexes within the series are calculated on a real time basis.
- 1.7 A series of net of tax Total Return Indexes are also calculated based on the maximum withholding tax rates applicable to dividends received by institutional investors who are not resident in the same country as the remitting company and who do not benefit from double taxation treaties.  
Withholding tax rates used in the net-of-tax indexes can be accessed using the following link:  
[Withholding Tax Service](#)  
Please also refer to the FTSE Russell Withholding Tax Guide which can be accessed using the following link:  
[FTSE Russell Withholding Tax Guide.pdf](#)

**1.8** All indexes are calculated in US Dollars and local currency. The index values are also published in Euros, UK Pounds Sterling, and Japanese Yen.

**1.9 FTSE Russell**

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

**1.10** FTSE Russell hereby notifies users of the FTSE Divest-Invest Index Series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the Index Series and therefore, any financial contracts or other financial instruments that reference the Index Series or investment funds which use the Index Series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the Index Series.

**1.11** Index users who choose to follow this Index Series or to buy products that claim to follow this Index Series should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the index series or any constituent data.



## Section 2

# Management Responsibilities

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## 2.0 Management Responsibilities

### 2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.<sup>1</sup>

2.1.2 FTSE is responsible for the daily calculation, production and maintenance of the FTSE Divest-Invest Index Series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the Index Series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indexes.

2.1.3 Underlying companies are governed by their respective underlying Index Series Ground Rules.

2.1.4 These Ground Rules set out the methodology and provide information about the publication of the FTSE Divest-Invest Index Series.

### 2.2 Amendments to These Ground Rules

2.2.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

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<sup>1</sup> The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation)..

2.2.2 As provided for in the Statement of Principles for FTSE Russell Equity Indexes, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.



## Section 3

# FTSE Russell Index Policies

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### 3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

#### 3.1 Corporate Actions and Events Guide

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes using the following link:

[Corporate Actions and Events Guide for Non Market Cap Weighted Indices.pdf](#)

#### 3.2 Statement of Principles for FTSE Russell Equity Indexes (the Statement of Principles)

Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Product Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

#### 3.3 Index Policy for Trading Halts and Market Closures

- 3.3.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

#### 3.4 Index Policy in the Event Clients are Unable to Trade a Market

- 3.4.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index Policy in the Event Clients are Unable to Trade a Market.pdf](#)

### **3.5 Recalculation Policy and Guidelines**

- 3.5.1 The FTSE Divest Invest Index Series are recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE Divest Invest Index Series are notified through appropriate media.

For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting [info@ftserussell.com](mailto:info@ftserussell.com).

[Recalculation Policy and Guidelines Equity Indexes.pdf](#)

### **3.6 Policy for Benchmark Methodology Changes**

- 3.6.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

### **3.7 FTSE Russell Governance Framework**

- 3.7.1 To oversee its indexes, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to ensure compliance with the IOSCO Principles for Financial Benchmarks<sup>2</sup> and the European benchmark regulation<sup>3</sup>. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013

<sup>3</sup> Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds





## Section 4

# Eligible Securities

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### 4.0 Eligible Securities

4.1 Constituents of the FTSE Divest-Invest Index Series are derived from the following universes:

FTSE Divest-Invest Index	Eligible Universe
FTSE Divest-Invest Developed 200 Index	FTSE Developed All Cap Index
FTSE Divest-Invest China A50 Index	FTSE China A Free Index

4.2 All lines of a company that are constituents of the eligible universes are eligible for inclusion.

4.3 All constituent securities of the eligible universes are eligible for inclusion in the FTSE Divest-Invest Index Series except for securities in the following sectors and subsectors of the Industrial Classification Benchmark (ICB) System<sup>4</sup> which are ineligible for inclusion:

Oil & Gas Producers (ICB 0530) (New ICB Oil, Gas and Coal – 601010)

Oil Equipment, Services & Distribution (ICB 0570) (New ICB Oil Equipment and Services – 60101030)

Coal (ICB 1771) (New ICB Coal – 60101040); and

General Mining (ICB 1775) (New ICB General Mining – 55102000)

4.4 At each semi-annual review, the eligible universe of the FTSE Divest-Invest Developed 200 Index is screened for liquidity and investible market capitalisation as follows:

4.4.1 A minimum average daily traded value (ADTV) of USD 10 million is required, calculated as the average daily traded value in US Dollars over the last 50 trading days prior to the data cut-off date (see Rule 6.3). The minimum number of available trading days required for inclusion is 22. The ADTV calculation includes days on which a stock is suspended.

4.4.2 A minimum investible market capitalisation of US 500 million is required, based on the shares in issue on the review effective date and prices as of the data cut-off date (Rule 6.3) adjusted for any corporate actions between the cut-off date and the effective date (see Rule 6.2).

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<sup>4</sup> FTSE indexes will migrate to the new ICB classification system in March 2021



## Section 5

# FTSE Green Revenues Factor Construction

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### 5.0 FTSE Green Revenues Factor Construction

5.1 The FTSE Green Revenues factor for a company is:

- 1 The ratio of green revenues as classified by the FTSE Green Revenues Classification System to total revenue.
- 2 The FTSE Green Revenues factor used to construct the FTSE Divest Invest Indexes excludes areas of nuclear activity. Nuclear activity is defined as revenue from the following subsectors:
  - i. EG06 - Nuclear Energy Generation
  - ii. EQ06 - Nuclear Energy Equipment
  - iii. ER04 - Mining (where activities specifically relate to uranium)
  - iv. ER05 - Minerals and Metals (where activities specifically relate to uranium)

5.2 All constituent securities are assigned a FTSE Green Revenues factor value. The FTSE Green Revenues factor can be:

- 1 zero, if a constituent company has no exposure to the Green Economy;
- 2 a non-zero value, when exact Green Revenues were disclosed by a constituent company;
- 3 The minimum of the stated range of possible Green Revenues, when a company discloses insufficient information for a precise determination of the FTSE Green Revenues factor <sup>5</sup>

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<sup>5</sup> For further details of the FTSE Green Revenues Classification System, please refer to FTSE Russell Quantitative & Structural Data (QSD) available at <https://qsd.ftserussell.com>.



## Section 6

# Periodic Review of Constituents

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## 6.0 Periodic Review

### 6.1 Review Process

#### 6.1.1 Initial Constituent Selection

- For the FTSE Divest-Invest Developed 200 Index select the largest 200 eligible companies by investible market capitalisation after screening for liquidity and investible market capitalisation (see Rule 4.0).
- For the FTSE Divest-Invest China A50 Index select all companies from the FTSE China A50 Index.

#### 6.1.2 Initial Constituent Weights

- 1 Calculate initial investable market capitalisation weights for each security.
- 2 Remove companies classified within the following Industrial Classification Benchmark (ICB) sectors and subsectors:
  - a) Oil & Gas Producers (ICB 0530)
  - b) Oil Equipment, Services & Distribution (ICB 0570)
  - c) Coal (ICB 1771); and
  - d) General Mining (ICB 1775).
- 3 Calculate the total investable market capitalisation weight of the excluded securities ( $XW$ ).
- 4 Replace excluded companies, one by one with the eligible company with the highest FTSE Green Revenues factor, until all removed companies are replaced. Where companies have equal FTSE Green Revenues factors the company with the highest investable market capitalisation value is selected. This is the new divest-invest index.
- 5 Calculate the initial investable market capitalisation weight for each replacement company and their total weight ( $IW$ ) in the new divest-invest index.
- 6 The new weight ( $\widehat{W}_i$ ) of all companies with exposure to green revenues (Rule 5.2) are increased according to the following formula:

$$\widehat{W}_i = \widehat{W}_i^* + \frac{GRF_i^* MC_i}{\sum_{i=1}^n GRF_i^* MC_i} * (XW - IW)$$

where  $\widehat{W}_i^*$  is the initial investable market capitalisation weight and  $MC_i$  is the investable market capitalisation and  $GRF_i$  is the FTSE Green Revenues Factor (See Rule 5.2).

The FTSE Green Revenues Overlay:

1. The Green Revenues Overlay is applied using the following process:
  - i. Constituents with exposure to the Green Economy and non-zero Green Revenues have their investable market capitalisation weights increased by  $(1 + GRF_i)$ , where  $GRF_i$  is the FTSE Green Revenues factor.
  - ii. Constituents with exposure to the Green Economy via a stated range with a minimum of zero Green Revenues retain their investable market capitalisation weights.
  - iii. Constituents with no exposure to the Green Economy have their investable market capitalisation weights reduced in proportion to investable market capitalisation to reflect the aggregate overweighting achieved in 1(i).
2. In the event that the aggregate investable market capitalisation of constituents with no exposure to the Green Economy is less than the aggregate overweighting achieved in 1(i) the following adjustment is made:
  - i. Constituents with exposure to the Green Economy via non-zero Green Revenues have their investable market capitalisation weights increased by a factor  $(1 + \alpha \times GRF_i)$ , where  $\alpha$  is a ratio that reflects the level of over weighting that is feasible:

$$\alpha = \frac{\sum_{j \in G^*} w_j'}{\sum_{i \in G} w_i' \times GRF_i}$$

where  $w_i'$  ( $w_j'$ ) is the market capitalisation weight of stock  $i$  ( $j$ ) in the underlying universe and  $G$  is the collection of constituents with Green Revenues and  $G^*$  is the collection of constituents with no Green Revenues.

- ii. Constituents with exposure to the Green Economy via a stated range with a minimum of zero Green Revenues retain their investable market capitalisation weights.
- iii. Constituents with no exposure to the Green Economy have their investable market capitalisation weights set to zero.

## 6.2 Review Dates

- 6.2.1 The FTSE Divest-Invest Developed 200 Index will be reviewed semi-annually in March and September. The review will be implemented after the close of business on the third Friday of the review month.
- 6.2.2 The FTSE Divest-Invest China A50 Index will be reviewed quarterly in March, June, September and December. The review will be implemented after the close of business on the third Friday of the review month.

## 6.3 Data Cut off Dates

- 6.3.1 The reviews will be conducted using prices as at the close of business on the last business day of the month prior to the review month based on the constituents, shares in issue and free float on the next trading day following the third Friday of the review month.
- 6.3.2 The data cut-off date for the calculation of the FTSE Green Revenues factors is the close of business on the last business day of the month prior to the review month.



## Section 7

# Changes to Constituent Companies

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### **7.0 Changes to Constituent Companies**

#### **7.1 Intra-review Additions**

7.1.1 Additions into the eligible universes will be considered for inclusion in the corresponding FTSE Divest-Invest Index at the next index review.

#### **7.2 Intra-review Deletions**

7.2.1 A constituent will be removed from the FTSE Divest-Invest Index if it is also removed from the eligible universe. The deletion will be concurrent with the deletion from the eligible universe and its weight will be distributed pro-rata amongst the remaining constituents in the FTSE Divest-Invest Index.

## Section 8

# Corporate Actions and Events

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### 8.0 Corporate Actions and Events

- 8.1** If a constituent of the FTSE Divest-Invest Index Series has a stock split, stock consolidation, rights issue, bonus issue, a change in the number of shares in issue or a change in free-float, the constituent's weighting in the relevant Index remains unchanged pre and post such an event.
- 8.2** Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes using the following link:

[Corporate Actions and Events Guide for Non Market Cap Weighted Indexes.pdf](#)

A Corporate 'Action' is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue).

A Corporate 'Event' is a reaction to company news (event) that may impact the index depending on the index rules. For example, if a company announces a strategic shareholder is offering to sell their shares (secondary share offer), this could result in a free float weighting change in the index. Where an index adjustment is required, FTSE Russell will provide notice advising of the timing of the change.

### 8.3 Takeovers, Mergers and Demergers

The treatment of takeovers, mergers and demergers can be found within the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes.

### 8.4 Suspension of Dealing

Suspension of dealing rules can be found within the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes.

## Section 9

# Index Calculation Method

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### 9.0 Index Calculation Method

#### 9.1 Prices

9.1.1 The FTSE Divest-Invest Index Series uses actual closing mid-market or last trade prices, where available, for securities with local market quotations. Further details can be accessed using the following link:

[Closing Prices Used For Index Calculation.pdf](#)

#### 9.2 Calculation Frequency

9.2.1 The Index Series will be calculated on an end of day basis.

#### 9.3 Index Calculation

9.3.1 The Index Series is calculated using the algorithm described below:

$$\sum_{i=1}^N \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where,

- $i=1,2,\dots,N$
- $N$  is the number of securities in the index.
- $p_i$  is the latest trade price of the component security (or the price at the close of the index on the previous day).
- $e_i$  is the exchange rate required to convert the security's currency into the index's base currency.
- $s_i$  is the number of shares in issue used by FTSE Russell for the security, as defined in these Ground Rules.
- $f_i$  is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE Russell for each security in the index.
- $c_i$  is the Weighting Factor to be applied to a security to correctly weight that security in the index. This factor maps the investable market capitalisation of each stock to a notional market capitalisation for inclusion in the index.

$$c_i = \frac{\widehat{W}_i}{W_i}$$

where  $\widehat{W}_i$  are the constituent index weights as calculated in Section 6 and  $W_i$  are the underlying eligible universe investable market capitalisation index weights as at the most recent review date.

- $d$  is the divisor, a figure that represents the total issued share capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.





## Appendix A: Further Information

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A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

[Glossary.pdf](#)

Further information on the FTSE Divest-Invest Index Series is available from FTSE Russell.

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at [info@ftserussell.com](mailto:info@ftserussell.com).

Website: [www.ftserussell.com](http://www.ftserussell.com)

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