

FTSE Focused Value Index Series

v2.1



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Section 1

Introduction

1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE Focused Value Index Series. Copies of the Ground Rules are available from www.ftserussell.com.
- 1.2 The FTSE Focused Value Index Series is designed to reflect the performance of securities in the underlying index universe exhibiting high value characteristics.
- 1.3 These Ground Rules should be read in conjunction with the Russell US Equity Indices Construction and Methodology and the Corporate Actions and Events Guide for Non Market Cap Weighted Indices, which are available at www.ftserussell.com. Unless stated in these Ground Rules, the FTSE Focused Value Index Series will follow the same process as the Russell US Equity Indices construction and methodology.
- 1.4 The FTSE Focused Value Index Series does not take account of ESG factors in its index design.
- 1.5 Price return and total return will be calculated on an end-of-day basis.
- 1.6 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.
- 1.7 The indices may be calculated in real time.
- 1.8 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 FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.
- 1.9 FTSE Russell hereby notifies users of the index 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 and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
- 1.10 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index 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 (or any person concerned with the preparation or publication of these Ground Rules) for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules;
 - any inaccuracies in these Ground Rules;
 - any non-application or misapplication of the policies or procedures described in these Ground Rules; and/or
 - any inaccuracies in the compilation of the index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)¹

2.1.1 FTSE is the benchmark administrator of the index.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index, 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 periodic index reviews of the index 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; and
- disseminate the index.

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 Index Governance Board before approval is granted.

2.2.2 As provided for in the Statement of Principles for FTSE Russell Equity Indices, 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.

¹ 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) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation).

Section 3

FTSE Russell index policies

3. 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

3.2 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 Indices using the following link:

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

3.3 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

Indices 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 FTSE Russell's Index Governance Board.

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

[Statement_of_Principles.pdf](#)

3.4 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark_Determination_Complaints_Handling_Policy.pdf](#)

3.5 Index Policy for Trading Halts and Market Closures

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](#)

[Fixed_Income_Recalculation_Policy_and_Guidelines.pdf](#)

3.6 Index Policy in the Event Clients are Unable to Trade a Market or a Security

3.6.1 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_or_a_Security.pdf](#)

3.7 Recalculation Policy and Guidelines

3.7.1 Where an inaccuracy is identified, FTSE Russell will follow the steps set out in the FTSE Russell Index Recalculation Guidelines when determining whether an index or index series should be recalculated and/or associated data products reissued. Users of the FTSE Focused Value Index Series will be 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.

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

3.8 Policy for Benchmark Methodology Changes

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

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

3.9 FTSE Russell Governance Framework

3.9.1 To oversee its indices, 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 meet the requirements of the IOSCO Principles for Financial Benchmarks², the European benchmark regulation³ and the UK benchmark regulation⁴. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

3.10 Real Time Status Definitions

3.10.1 Please refer to the following guide for details of real time status definitions for indices that are calculated in real time.

[Real Time Status Definitions.pdf](#)

² IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

³ 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.

⁴ The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

Section 4

Eligible securities

4. Eligible securities

4.1 The eligible securities of each index are the constituents of the relevant underlying index:

FTSE Focused Value Index Series	Underlying index
Focused Value Select Index	Russell 1000 Index
Russell 2000 Focused Value Select Index	Russell 2000 Index
FTSE Developed ex US ex Korea Small Cap Focused Value Index	FTSE Developed ex US ex Korea Small Cap Index

4.2 The data cut-off date for the calculation of all factor data is the close of business on the last business day of the month prior to the review month.

4.3 Multiple lines for target index

4.3.1 If a company consists of multiple lines, only one eligible line is included.

4.3.2 The eligible line is the line with the highest average of traded dollar volume (ADDTV) within the number of days in table below. A minimum number of days in table below of daily observations are required to calculate ADDTV.

FTSE Focused Value Index Series	Number of days	Minimum number of days
Focused Value Select Index	252	200
Russell 2000 Focused Value Select Index	60	30
FTSE Developed ex US ex Korea Small Cap Focused Value Index	60	30

4.3.3 If a line has less than the minimum number of days required of daily observations when calculating the ADDTV, the line is excluded.

4.3.4 If all lines have no ADDTV, the line with the highest free float market cap is selected.

4.4 Screen for target index

4.4.1 Liquidity screen for small cap

For the Russell 2000 Focused Value Select Index and FTSE Developed ex US ex Korea Small Cap Focused Value Index, securities ranked within the bottom 20% lowest liquidity or with missing data are excluded.

Liquidity is defined in rule 4.3.2.

4.4.2 Screen after liquidity screen

A. Risk screen

Securities ranked within the top percentage of highest risk in table below or with insufficient/missing return data are excluded.

FTSE Focused Value Index Series	% screened
Focused Value Select Index	10%
Russell 2000 Focused Value Select Index	20%
FTSE Developed ex US ex Korea Small Cap Focused Value Index	20%

Risk is defined as the one-year trailing realised volatility of daily total returns. A minimum of 200 days of daily return observations are required to calculate volatility.

B. Leverage screen

Securities ranked within the top percentage of highest leverage in table below or with missing data are excluded.

FTSE Focused Value Index Series	% screened
Focused Value Select Index	10%
Russell 2000 Focused Value Select Index	20%
FTSE Developed ex US ex Korea Small Cap Focused Value Index	20%

Leverage is defined as total debt/total assets sourced from a third-party data provider.

C. Sentiment screen

The sentiment score is calculated using estimates for earnings per share sourced from a third-party data provider. The sentiment screen is defined as:

(Number of upgrades for earnings per share for current and next fiscal year - number of downgrades for earnings per share for current and next fiscal year)/total number of estimates for earnings per share for current and next fiscal year

Price momentum is calculated as:

$$\sum_{\tau=t-1}^{t-11} \text{monthly price return}_{\tau}$$

calculated over the 12 months prior to the data cut-off date, excluding the latest month. A full price history is required to calculate price momentum.

For the Focused Value Select Index and Russell 2000 Focused Value Select Index, securities with a negative sentiment score or missing data are excluded. For the FTSE Developed ex US ex Korea Small Cap Focused Value Index, securities with a negative sentiment score and negative price momentum are excluded.

Section 5

Factor construction

5. Factor construction

5.1 A composite score is calculated using the following metrics:

cfo2p = Latest 12-month cash flow/full market capitalisation

b2p = Latest book value/full market capitalisation

d2p = Latest 12-month dividend yield

e2p = Latest 12-month net income/full market capitalisation

5.2 For each metric, an exponentially weighted moving average (cfo2p_ewma, b2p_ewma, d2p_ewma, e2p_ewma) is calculated with three-month half-life over 12-month trailing period.

5.3 For each exponentially weighted moving average metric, securities with values greater than +/- three standard deviations or with missing data are excluded.

5.4 The composite score is calculated as:

$$\text{com_score} = w_c \times \text{cfo2p_ewma} + w_b \times \text{b2p_ewma} + w_d \times \text{d2p_ewma} + w_e \times \text{e2p_ewma}$$

with weights in table below:

FTSE Focused Value Index Series	w _c	w _b	w _d	w _e
Focused Value Select Index	0.3	0.05	0.5	0.15
Russell 2000 Focused Value Select Index	0.6	0.1	0	0.3
FTSE Developed ex US ex Korea Small Cap Focused Value Index	0.6	0.1	0	0.3

For the FTSE Developed ex US ex Korea Small Cap Focused Value Index, the composite scores are demeaned by countries and winsorised at +/- three standard deviation.

Section 6

Index construction

6. Index construction

6.1 Index construction

Eligible securities are ranked by composite score. The top ranked number of stocks in table below are selected to form the target index. For the Focused Value Select Index and the Russell 2000 Focused Value Select Index, each security is equally weighted. For the FTSE Developed ex US ex Korea Small Cap Focused Value Index, each security is weighted in proportion to market capitalisation weights as of previous month-end.

FTSE Focused Value Index Series	Number of securities
Focused Value Select Index	40
Russell 2000 Focused Value Select Index	250
FTSE Developed ex US ex Korea Small Cap Focused Value Index	25% of underlying index

6.1.1 In the case when there are fewer than the number of required securities in the target index, the focused value indices are not rebalanced. For rules on index rebalance trigger when the target indices have the required number of securities, refer to rule 7.2.

6.2 Country capping

For the FTSE Developed ex US ex Korea Small Cap Focused Value Index, country weights are capped at +/- 10% of the market capitalisation weights of the underlying index as of previous month-end. Weight is re-assigned proportionately to countries that are not in breach of the country constraint.

6.3 Index back-histories

The availability of factor data prior to the launch date of the index is simulated through the application of lag on factor data. All index reviews prior to the index launch date incorporate the following treatments. Total debt/total asset in rule 4.3.2 incorporates data announced three months prior to the data cut-off date. Sentiment data in rule 4.3.3 incorporates data announced one month prior to the data cut-off date. cfo2p, b2p, and e2p used in determination of the composite score in rule 5.1 incorporate data announced three months prior to the data cut-off date.

Section 7

Periodic review of constituents

7. Periodic review of constituents

7.1 Review and price dates

7.1.1 The FTSE Focused Value Index Series will be reviewed monthly.

7.1.2 For the Focused Value Select Index and Russell 2000 Focused Value Select Index, the review will be implemented after the close of the ninth business day of the month. For the FTSE Developed ex US ex Korea Small Cap Focused Value Index, the review will be implemented after the close of the third Friday of the month. Business days account for non-trading days for US equity markets, i.e. if the first business day of a month is a non-trading day for US equity markets, then the next trading day is counted as the first business day.

7.1.3 The FTSE Focused Value Index Series are reviewed based on the stock prices available at the close of previous month-end (price cut-off date) incorporating underlying index constituent changes according to the implementation date shown in rule 7.1.2.

7.2 Index rebalancing

7.2.1 The current index is not rebalanced if the target index has fewer than the required number of securities. (rule 6.1.2)

7.2.2 The composite score (rule 5.4) is calculated for the target index (see rule 6.1.1) and the current index (as of previous month-end).

7.2.3 The current index is rebalanced to the target index if any of the following conditions are met.

A. The current index composite score is less than percentage in table below of the target index composite Score.

FTSE Focused Value Index Series	%
Focused Value Select Index	80%
Russell 2000 Focused Value Select Index	90%
FTSE Developed ex US ex Korea Small Cap Focused Value Index	90%

B. The current index has fewer than the number of securities in table below.

FTSE Focused Value Index Series	Number of securities
Focused Value Select Index	40
Russell 2000 Focused Value Select Index	200
FTSE Developed ex US ex Korea Small Cap Focused Value Index	20% of underlying index

C. For the Focused Value Select Index, the current index has security with weight greater than 20%.

D. For the Focused Value Select Index, the largest five securities by weight in the current index have a weight that is greater than 50%.

7.2.4 If no rebalance is triggered, the index weights and constituents remain unchanged.

7.2.5 The Focused Value Select Index is set to the target index for the March 2019 review.

Section 8

Changes to constituent companies

8. Changes to constituent companies

8.1 Intra-review additions

Additions to the underlying index will be considered for inclusion in the FTSE Focused Value Index Series at the next review.

8.2 Intra-review deletions

A constituent will be removed from the FTSE Focused Value Index Series if it is also removed from the underlying index. The deletion will be effective concurrent with the removal from the underlying index provided a minimum of two days' notice can be provided. Otherwise, the deletion will be effective with two days' notice and its weight will be distributed pro-rata amongst the remaining constituents.

Section 9

Corporate actions and events

9. Corporate actions and events

9.1 If a constituent in the underlying index 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 (with the exception of tender offers), the constituent's weighting in the FTSE Focused Value Index Series will remain unchanged pre and post such an event.

9.2 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 Indices using the following link:

[Corporate Actions and Events Guide for Non Market Cap Weighted Indices.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. The index will be adjusted in line with the ex-date.

These include the following:

- capital repayments;
- rights issues/entitlement offers;
- stock conversion;
- splits (sub-division)/reverse splits (consolidation); and
- 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, 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 will provide notice advising of the timing of the change.

9.3 Suspension of dealing

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

9.4 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 Indices.

Section 10

Indices algorithm and calculation method

10. Indices algorithm and calculation method

10.1 Prices

The FTSE Focused Value 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](#)

10.2 Calculation frequency

The FTSE Focused Value Index Series will be calculated on an end-of-day basis and displayed to eight decimal points.

10.3 Index calculation

The FTSE Focused Value 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 underlying index.
- c_i is the weight adjustment 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.
- 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

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 Focused Value 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.

Website: www.ftserussell.com

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