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# Russell 1000 Enhanced Value Equal Weight Index

v1.5

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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 Russell 1000 Enhanced Value Equal Weight Index calculated by FTSE Russell.
- 1.2 The Russell 1000 Enhanced Value Equal Weight Index has been designed to reflect the performance of securities in the Russell 1000 universe exhibiting upward price momentum and good relative valuation.
- 1.3 The Russell 1000 Enhanced Value Equal Weight Index does not take account of ESG factors in its index design.
- 1.4 These Ground Rules should be read in conjunction with the relevant underlying index Ground Rules which are available at [www.ftserussell.com](http://www.ftserussell.com).
- 1.5 A Price Index, Total Return Index and Net of Tax Index will be calculated on a real time basis.  
The Total Return indexes include income based on ex dividend adjustments. All dividends are applied as declared.

The Net of Tax Total Return Index is 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.

### 1.6 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.

### 1.7 Index Objective and Intended Use

- 1.7.1 The indexes and index statistics are intended to reflect the investment markets included in the index definitions and to facilitate the detailed analysis of such markets.
- 1.7.2 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 should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.7.3 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'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 or any constituent data.

## 1.8 **These Ground Rules**

1.8.1 This document sets out the Ground Rules for the construction and maintenance of the Russell 1000 Enhanced Value Equal Weight Index.

1.8.2 These Ground Rules should be read in conjunction with the Russell US Equity Indexes Construction and Methodology and Corporate Actions and Events Guide for Non Market Cap Weighted Indexes which can be accessed using the links below:

[Russell-US-indexes.pdf](#)

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



## 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.<sup>1</sup>

2.1.2 FTSE is responsible for the daily calculation, production and operation of the Russell 1000 Enhanced Value Equal Weight 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 the 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;
- disseminate the indexes.

### 2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to best reflect the aims of the index. 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.

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.

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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).



## 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 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](#)

#### 3.2 Queries and Complaints

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

[Benchmark Determination Complaints Handling Policy.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 Russell 1000 Enhanced Value Equal Weight Index is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the Russell 1000 Enhanced Value Equal Weight Index 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](#)



## Section 4

# Eligible Securities

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### 4.0 Eligible Securities

4.1 All securities in the Russell 1000 will be considered for inclusion. For information regarding the eligibility of securities to the Russell 10000 Index, please see the Russell U.S. Indexes methodology that can be found at [www.ftserussell.com](http://www.ftserussell.com).

#### 4.2 Selection Criteria

##### 4.2.1 Earnings Screen

Stocks with zero or negative trailing 12 month earnings are excluded.

Earnings is the net income before the deduction of preferred dividends and is sourced from third party data sources..

##### 4.2.2 Valuation Screen

After the the application of the earnings screen (Rule 4.2.1), stocks in the bottom decile by valuation are excluded. Valuation is measured as a composite of cash-flow yield, earnings yield, and sales to price for each constituent in the eligible universe.

A.  $\text{Cash-flow Yield} = \text{Latest Annual Cash-flow} / \text{Full Market Capitalization}$

B.  $\text{Earnings Yield} = \text{Latest Annual Net Income} / \text{Full Market Capitalization}$

C.  $\text{Sales to Price} = \text{Latest Annual Sales} / \text{Full Market Capitalization}$

Annual measures of cash-flow, net income and sales are sourced from third party data sources Z-scores are calculated (See Appendix A) for each value measure and then averaged to create a single z-score.

##### 4.2.3 Momentum Screen

4.2.4 Momentum is the cumulative total return, calculated over the previous twelve months excluding the most recent month. Stocks with less than twelve months history will be treated as missing data.

After application of the valuation screen, stocks are ranked from high to low based on the momentum measure within each ICB industry and stocks at the bottom decile within each ICB industry are excluded. <sup>2</sup>

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<sup>2</sup> Russell US related indexes will migrate to the new ICB classification system in September 2020. Changes to the Russell 1000 Enhanced Value Equal Weight Index will be effective in December 2020.



4.2.4 Valuation, earnings and momentum data are derived as of the cut-off date described in Rule 5.1. Stocks with missing valuation, earnings or momentum data are excluded before the deciles sorts are determined.



## Section 5

# Periodic Review of Constituents

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### 5.0 Periodic Review of Constituents

5.1 The Russell 1000 Enhanced Value Equal Weight Index will be reviewed semi-annually in June and December based on data on the data cut-off dates, as at the close of business on the last trading day of May and November respectively.

5.2 The December review will be implemented after the close of business on the third Friday (i.e. effective on the subsequent business day) of the review month.

The June review will be implemented on the same date as the Russell 1000 annual reconstitution. For details of the implementation dates of Russell 1000, please refer to the Russell U.S. Equity Indexes Construction and Methodology available at <https://www.ftse.com/products/indices/russell-us>

### 5.3 Rules at the Periodic Review

5.3.1 All stocks in the underlying universe which pass the screens outlined in Section 4.0 will be selected for inclusion in the Russell 1000 Enhanced Value Equal Weight Index.

### 5.4 Index Weighting

5.4.1 Companies that are selected following the eligibility procedure in Rules 4.2 will be equally weighted at each semi-annual review. For companies that consist of multiple security lines, the company's weight will be distributed across each line in proportion to investable market capitalization. The calculation of the constituent weighting factors will be based on security prices taken on the Wednesday before the first Friday of a review month.

### 5.5 Index Back-Histories

5.5.1 The availability of fundamental data prior to the March 2017 launch date of the Russell 1000 Enhanced Value Equal Weight Index is simulated through the application of three month lag on annual cash-flow, net income and sales used in the earnings and valuation screens.



## Section 6

# Changes to Constituent Companies

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### **6.0 Changes to Constituent Companies**

#### **6.1 Intra-review Additions**

6.1.1 The Russell 1000 Enhanced Value Equal Weight Index will not accept intra-review additions.

#### **6.2 Intra-review Deletions**

6.2.1 A company will be removed from the Russell 1000 Enhanced Value Equal Weight Index if it is also removed from Russell 1000 index and its weight will be distributed pro-rata amongst the remaining companies.

## Section 7

# Corporate Actions and Events

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### 7.0 Corporate Actions and Events

7.1 If a constituent in Russell 1000 Enhanced Value Equal Weight 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, the constituent's weighting in the index remains unchanged pre and post such an event.

7.2 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, 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.

### 7.3 Suspension of Dealing

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

### 7.4 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 Indexes.

## Section 8

# Index Calculation

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### 8.0 Index Calculation

#### 8.1 Calculation Frequency

8.1.1 The Russell 1000 Enhanced Value Equal Weight Index use actual closing mid-market or last trade prices, where available, for securities with local bourse quotations.

#### 8.2 Index Calculation

8.2.1 The index levels will be displayed to eight decimal points.

8.2.2 The index is calculated using the following formula:

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

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 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.
- $d$  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: Z-Score Calculation

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Individual stock factor values are normalized cross-sectionally to create Z-scores within each eligible universe according to:

$$Z_{k,i} = \frac{F_{k,i} - \mu_k}{\sigma_k}$$

where  $F_{k,i}$  is the  $k$ th factor value of the  $i$ th stock and  $\mu_k$  and  $\sigma_k$  are the cross-sectional factor mean and standard deviation respectively. Z-scores that are greater (less) than three (minus three) are truncated to a value of three (minus three).

Stocks with missing factor data are assigned a neutral z-score of zero.



## Appendix B: Index Opening and Closing Hours

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Index	Open	Close
Russell 1000 Enhanced Value Equal Weight Index		
Monday to Friday	9:30	16:10

Notes:

- i) Closing prices are downloaded from Thomson Reuters at 16:30. Since the New York Stock Exchange, NYSE Arca and NASDAQ do not release official closing prices until several hours later, the price used in the index may not match this official close. If the downloaded closing price is subsequently overwritten by the official closing price, the downloaded closing price is retained in the index calculation.
- ii) The indexes will be calculated during normal trading hours of the New York Stock Exchange, NYSE Arca and NASDAQ and will be closed on US holidays.
- iii) Timings are based on Eastern Standard Time (EST).



## Appendix C: Status of Index

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A Price Index, Total Return Index and Net of Tax Index will be calculated on a real-time basis in US Dollars. The Russell 1000 Enhanced Value Equal Weight Index may exist in the following states.

**A) Firm**

The Index is being calculated during Official Market Hours (see Appendix A). No message will be displayed against the index value.

**B) Closed**

The Index has ceased all calculations for the day. The message 'CLOSE' will be displayed against the index value calculated by FTSE Russell.

**C) Held**

During Official Market Hours, an Index has exceeded pre-set operating parameters and the calculation has been suspended pending resolution of the problem. The message 'HELD' will be displayed against the last Index value calculated by FTSE Russell.

**D) Indicative**

If there is a system problem or situation in the market that is judged to affect the quality of the constituent prices at any time when the Index is being calculated, the Index will be declared indicative (e.g. normally where a 'fast market' exists in the equity market). The message 'IND' will be displayed against the Index value calculated by FTSE Russell.

The official opening and closing hours of the Russell 1000 Enhanced Value Equal Weight Index are set out in Appendix A. Variations to the official hours of the Index will be published by FTSE Russell.





## Appendix D: 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 Russell 1000 Enhanced Value Equal Weight Index 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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