

FTSE 100 Enhanced Volatility Equity Navigator Index Ground Rules

v1.2



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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 100 Enhanced Volatility Equity Navigator Index.
- 1.2 The FTSE 100 Enhanced Volatility Equity Navigator Index represents the performance of an investment strategy that seeks to manage expected volatility of the underlying FTSE 100 Index close to 10%.
- 1.3 The FTSE 100 Enhanced Volatility Equity Navigator Index deleverages (leverages) i.e. decreases (increases) the allocation to the underlying equity index as the volatility of the underlying index increases (decreases), in order to target a 10% level of volatility.
- 1.4 The base currency of the index is GBP.
- 1.5 For more information on the underlying index, please refer to the relevant FTSE Russell Ground Rules at <http://www.lseg.com/en/ftse-russell/>.
- 1.6 The FTSE 100 Enhanced Volatility Equity Navigator Index does not take account of ESG factors in its index design.
- 1.7 **FTSE Russell**

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- 1.8 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.
- 1.9 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 for any losses, damages, claims and expenses suffered by any person as a result of:
 - any reliance on these Ground Rules, and/or
 - any 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 inaccuracies in the compilation of the index series or any constituent data.
- 1.10 This index is published at the end of each working day. The total return indices are based on ex dividend adjustments.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series¹.

2.1.2 FTSE will maintain records and disseminate the index.

2.1.3 MerQube is the calculation agent of the index as defined by the IOSCO Principles and is responsible for its daily calculation.

2.2 Status of these Ground Rules

2.2.1 These Ground Rules set out the methodology and provide information about the publication of the FTSE 100 Enhanced Volatility Equity Navigator Index.

2.3 Amendments to these Ground Rules

2.3.1 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.

2.3.2 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 through the links below:

3.1 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 the FTSE Russell Index Governance Board.

The statement of principles can be accessed through the following link:

[Statement of Principles.pdf](#)

3.2 Queries and Appeals

FTSE Russell's complaints procedure can be accessed through 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 through 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 or a Security

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

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

3.5 Recalculation Policy and Guidelines

- 3.5.1 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 100 Enhanced Volatility Equity Navigator Index will be notified through appropriate media.

For further information, please refer to the FTSE Russell recalculation policy and guidelines document which is available from the FTSE Russell website through the link below or by contacting info@ftserussell.com.

[Recalculation Policy and Guidelines Equity Indices.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 through the following link:

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

3.7 FTSE Russell Governance Framework

- 3.7.1 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 through the following link:

[FTSE Russell Governance Framework.pdf](#)

3.8 Real Time Status Definitions

- 3.8.1 Please refer to the following guide for details of real time status definitions for indices which 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

Target risk exposure and return on cash

4. Target risk exposure and return on cash

4.1 Target risk exposure

- 4.1.1 The FTSE 100 Enhanced Volatility Equity Navigator Index controls the risk exposure based on the volatility of the underlying index.
- 4.1.2 The volatility of the underlying index is calculated using equal weighted average based on daily underlying index returns.
- 4.1.3 Two volatility estimates; a short period and a long period estimate, σ_S and σ_L respectively, are calculated over the volatility calculation period of n_S and n_L days at time t :

$$\sigma_S(t) = \sqrt{\frac{252 \sum_{k=t-n_S+1}^t \left(\ln \frac{S(k)}{S(k-1)} - \sigma_{S_avg} \right)^2}{n_S - 1}} \quad (1)$$

$$\sigma_L(t) = \sqrt{\frac{252 \sum_{k=t-n_L+1}^t \left(\ln \frac{S(k)}{S(k-1)} - \sigma_{L_avg} \right)^2}{n_L - 1}} \quad (2)$$

Where,

- $S(k)$ is the underlying index value at time k ;

$$\sigma_{S_avg} = \frac{\sum_{k=t-n_S+1}^t \left(\ln \frac{S(k)}{S(k-1)} \right)}{n_S}$$

$$\sigma_{L_avg} = \frac{\sum_{k=t-n_L+1}^t \left(\ln \frac{S(k)}{S(k-1)} \right)}{n_L}$$

- 4.1.4 $\sigma_S(t)$ and $\sigma_L(t)$ are calculated each day. The larger of the short and long horizon volatility estimates $\sigma_{MAX}(t)$, is used to determine the target level of risk exposure.
- 4.1.5 On any business day t , the target level of risk exposure of the FTSE 100 Enhanced Volatility Equity Navigator Index to the underlying index is calculated as:

$$E(t) = \begin{cases} \min \left(L_M, \frac{\alpha_T}{\sigma_{MAX}(t-lag)} \right), & \left| \frac{\min \left(L_M, \frac{\alpha_T}{\sigma_{MAX}(t-lag)} \right)}{E(t-1)} - 1 \right| \geq Buffer \\ E(t-1), & \left| \frac{\min \left(L_M, \frac{\alpha_T}{\sigma_{MAX}(t-lag)} \right)}{E(t-1)} - 1 \right| < Buffer \end{cases} \quad (3)$$

Where:

- L_M is maximum leverage;
- α_T is the volatility target.
- lag represents the number of days prior to t .

4.1.6 The parameters used in 4.1.3 to 4.1.5 are detailed in Appendix D and D for the FTSE 100 Enhanced Volatility Equity Navigator Index.

4.2 Cash Return

4.2.1 The FTSE 100 Enhanced Volatility Equity Navigator Index uses the relevant overnight interbank rate as the return on cash.

$$r_c(t) = r(t-1) \times \frac{d(t,t-1)}{DayCount}$$

where,

- DayCount is the number of days in a year used in the convention of the corresponding interest rate.
 - $r(t-1)$ is the overnight interbank rate. The rate applicable to each index is detailed in Appendix C.
 - $d(t,t-1)$ is the number of calendar days between $t-1$ and t

Section 5

Calculation of index

5. Calculation of index

5.1 Price return indices

5.1.1 The FTSE 100 Enhanced Volatility Equity Navigator Index is calculated as follows:

$$PI(t) = PI(t - 1) \times (1 + E(t) \times r_U(t))$$

where,

- $PI(t)$ is the price return index;
- $E(t)$ is the target level of risk exposure on day t
- $r_U(t)$ is the underlying index return on day t

$$r_U(t) = \frac{(Underlying\ Index\ Value_t - Underlying\ Index\ Value_{t-1})}{Underlying\ Index\ Value_{t-1}}$$

5.2 Calculation frequency

5.2.1 The FTSE 100 Enhanced Volatility Equity Navigator Index is calculated end-of-day (EOD) after the close of the underlying index.

Section 6

Periodic rebalancing

6. Periodic rebalancing

6.1 Periodic rebalancing

6.1.1 The target level risk exposure is re-estimated daily.

Appendix A

Index volatility calculation details

Index Name	Volatility Method	Lag	Volatility Target	nS	nL
FTSE 100 Enhanced Volatility Equity Navigator Index	Equal Weighted	2	10%	20	80

Appendix B

Underlying index

Index name	Underlying
FTSE 100 Enhanced Volatility Equity Navigator Index	FTSE 100 Index (Price Return)

Appendix C

Calculation

Index Name	Calculation	Fixed Cost Applied	Fixed Point (FP)	Percentage (P)	Days
FTSE 100 Enhanced Volatility Equity Navigator Index	Price	N	NA	NA	NA

Appendix D

Other index parameters

Index Name	Leverage Change Buffer	Max Leverage
		L_m
FTSE 100 Enhanced Volatility Equity Navigator Index	5%	100%

Appendix D

Further information

A glossary of terms used in FTSE Russell's Ground Rule documents can be found through the following link:

[Glossary.pdf](#)

Further information on the FTSE 100 Enhanced Volatility Equity Navigator 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.

Website: www.lseg.com/en/ftse-russell/

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