Ground Rules

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FTSE India Free Style Focus Index Series

v1.0

FTSE RUSSELL
An LSEG Business

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Contents

Section 1
Introduction

1. Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE India Free Style Focus Index Series. Copies of the Ground Rules are available from www.lseg.com/en/ftse-russell/. The FTSE India Free Style Focus Index Series is designed to reflect the performance of stocks with high scores in factors/style including Value and Growth.

1.2 These Ground Rules should be read in conjunction with the FTSE Global Factor Index Series Ground Rules, FTSE India Free Index Series Ground Rules and the Corporate Actions and Events Guide for Non Market Cap Weighted Indices, which are available at www.lseg.com/en/ftse-russell/.

1.3 Price and total return indices will be calculated on an end-of-day basis.

Total return indices include income based on ex-dividend adjustments. All dividends are applied as declared in FTSE total return indices.

The base currency is Indian Rupee (INR). Index values may also be published in other currencies.

1.4 The indices may be calculated and disseminated on a real-time basis.

1.5 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.

1.6 FTSE Russell hereby notifies users of the 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.

1.7 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 series 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 series or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series[1].

2.1.2 FTSE is responsible for the daily calculation, production and operation of the 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 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; and

– disseminate the indices.

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

3.5.1 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

3.6 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 India Free Style Focus 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

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

Policy_for_Benchmark_Methodology_Changes.pdf

3.9 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 Benchmarks[2], the European benchmark regulation[3] and the UK benchmark regulation[4]. 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 For indices that are calculated in real time, please refer to the following guide for details of real-time status definitions:

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

Data inputs

4. Data inputs

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.

4.1 Average Daily Traded Volume (ADTV)

ADTV is defined as the average daily traded volume of the 63 trading days before the review price cut-off date.

4.2 Growth Score (G)

Growth is defined as the composite of backward- and forward-looking EPS growth Z-scores, backward-looking Sales Growth Z -score and Accruals Growth Z -score. Forward looking EPS growth is defined as IBES 2 year forward looking EPS growth. Backward looking EPS growth is defined as 3 year realized EPS growth. Backward looking Sales growth is defined as 3 year realized Sales growth. Accruals Growth is the growth in accruals compared to prior year with accruals defined as the difference between a company's trailing 12-month total assets less trailing 12-month generic cash and cash equivalents and trailing 12-month total liabilities less trailing 12-month total debt.

Accruals = (Total assets - Cash) – (Total Liabilities – Total Debt)

Accruals Growth is not evaluated for Financials and Real Estate; instead, a value of zero is assigned.

Missing growth rates are assigned a value of 0. Details of Z-scoring can be found in the FTSE Global Factor Index Series Ground Rules 5.2 Z-scores and missing data treatment.

4.3 EPS 5-Yr Growth Variability

EPS 5-Yr Growth Variability is defined as the standard deviation in eps growth over last 5 years.

4.4 Volatility

Volatility is defined as the standard deviation in returns over past 1 year.

4.5 Total Market Cap

Total Market Cap is calculated in INR defined as local price in INR x shares outstanding

4.6 Value (V)

Value is represented by an equal weighted composite of the Z-scores of three common valuation measures. i) Cash-flow yield = Latest Annual Cash-Flow/Full Market Capitalization ii) Earnings yield = Latest Annual Net Income/Full Market Capitalization iii) Sales to price = Latest Annual Sales/Full Market Capitalization

Sales-to-price is calculated in excess of the country median stock level. Annual measures of cash flow, net income and sales are sourced from a third-party data provider.

Section 5

Eligible securities

5. Eligible securities

5.1 The eligible constituents of the index are the constituents of the relevant underlying index:

FTSE India Style Index	Underlying Index
FTSE India Free All Cap Growth Focus Index	FTSE India Free All Cap Index
FTSE India Free All Cap Value Focus Index	FTSE India Free All Cap Index

FTSE India Free All Cap Index comprises the large, mid and small cap Indian companies that comply with SEBI requirements on liquidity, including stock trading frequency and impact cost.

5.2 Liquidity screen

-Constituents of the underlying index with a 3-month (63 days) ADTV in the bottom 10% are excluded from FTSE India Free All Cap Style Focus Indices.

5.3 Market Cap screen

Constituents of the underlying index with a Total Market Cap less than INR100Bn are excluded from FTSE India Free All Cap Style Focus Indices.

5.4 Volatility screen

Constituents of the underlying index with missing data for 1-Yr Volatility or top 10% of 1-Yr Volatility are excluded from FTSE India Free All Cap Style Focus Indices.

5.5 REITs & Partly Paid Shares exclusion screen

For consistency with analysis focused on operating companies, securities classified as REITs (ICB sectors 351020, 302030) as sector as per Industry Classification Benchmark (ICB) and partly paid shares are excluded to avoid distortion in cross-sectional comparisons.

5.6 Missing Growth Factor Data Exclusion Screen **

Growth Factor is a composite of Forecast EPS Growth, Historical EPS growth, Historical Sales Growth. Securities with missing data for any of the above are excluded for FTSE India Free All Cap Growth Focus Index.

5.7 Profitability stability screen **

Securities ranked in the top 10% by EPS growth volatility are excluded from FTSE India Free All Cap Growth Focus Index. EPS growth volatility is defined as the standard deviation of annual EPS growth rate over the past five consecutive years.

5.8 Analyst Coverage Screen **

A minimum of three estimates is required for EPS Growth forecasts to avoid the inclusion of low-coverage stocks and reduce the possibility of growth forecasts being driven by a single analyst estimate.

** Exclusions 5.6 – 5.8 are specific to Growth Factor and apply only to the FTSE India Free All Cap Growth Focus Index

Section 6

Index construction

6. Index construction

6.1 Growth Score

The Growth Score is calculated as a weighted composite of the backward-looking EPS Growth Z-score, forward-looking EPS Growth Z-score, backward-looking Sales Growth Z-score, and the negative of the Accruals Growth Z-score.

Growth Z-score = 0.5 * Z-score (I/B/E/S 2-Yr Forecast EPS Growth) + 0.3 * Z-score (Historical 3-Yr EPS Growth) + 0.1* Z-score (Historical 3-Yr Sales Growth) +0.1 * Z-score (-Accruals Growth)

6.2 Value Score

The value score is calculated as equal-weighted composite of Cash-Flow Yield Z-Score, Earnings-Yield Z-Score and Sales-to-Price Z-Score. Individual value Z-scores are combined to create a single Z-score for value.

6.3 Constituent Selection

Eligible Securities are selected according to Section 5 and are then ranked by factor score in descending order. Initially, **the top 10% of stocks** based on factor rankings are selected from the underlying to form the target index. At each subsequent periodic review, buffer rules are applied as detailed in section 7.2.

6.4 Weighting scheme

The weighting scheme follows the FTSE Russell Fixed Tilt Methodology. It can be found in the FTSE Global Factor Index Series Ground Rules.

6.4.1 Factor Tilt

First, a factor tilt of strength as defined in Section 0 is applied to the selected securities normalized benchmark weight.

6.4.2 *Capacity Tilt*

Next, a maximum stock level capacity ratio of 20x is applied. Any stock level capacity ratio that is greater than 20 will be capped at 20. The resulting excess weight will be redistributed pro rata amongst the remaining constituents. Stock level capacity ratios are recalculated and those over 20 are set to 20. This process repeats iteratively until all stocks have a capacity ratio less than or equal to 20.

The capacity ratio of stock i is defined as CRi =wi/wi' where wi and wi' are the FTSE India Free Style Focus Index weights after the application of factor tilt and the investable market capitalisation weights of the underlying screened universe respectively.

6.4.3 *Minimum Weight Tilt*

After that, constituents with a weight less than the minimum weight (Section 0) are removed, and their weight is redistributed pro rata among the remaining constituents and may lead to breach in constraint 6.4.2.

6.4.4 *Maximum Weight Tilt*

A maximum company weight limit is then applied. Any company weight greater than the maximum weight limit (Section 0) is set to the limit, the resulting excess weight is redistributed amongst the remaining constituent and may lead to breach in constraints 6.4.2 - 6.4.3.

6.5 Index Characteristics

Index Name	Liquidity screen	Market Cap Screen	Volatility Screen	Profitability stability screen	REITs & Partly Paid Shares exclusion screen	Tilt strength	Capacity Limit	Min weight (%)	Max weight (%)
FTSE India Free All Cap Growth Focus Index	Bottom 10% of last 3M ADTV *excluded*	Minimum Total Mkt Cap of INR 100 Bn	Top 10% of 1-Yr Volatility excluded	Top 10% of 5 Yr EPS Growth Variability excluded	REITs and partly paid shares excluded	1	20x	0.02	7
FTSE India Free All Cap Value Focus Index	Bottom 10% of last 3M ADTV *excluded*	Minimum Total Mkt Cap of INR 100 Bn	Top 10% of 1-Yr Volatility excluded	NA	REITs and partly paid shares excluded	1	20x	0.02	5

Section 7

Periodic review of constituents

7. Periodic review of constituents

7.1 Review and price dates

7.1.1 The FTSE India Free Style Focus Index Series is reviewed quarterly in March, June, September and December.

7.1.2 The constituents will be reviewed using prices as at the close of business on the Wednesday before the first Friday of the review month (*review price cut-off date*) and incorporating underlying index constituent changes as of the open on the Monday following the third Friday of the review month.

7.1.3 The data cut-off date for the calculation of all metrics used to calculate Growth Score and the Value Score is the close of business on the last business day of the month prior to the review month.

7.1.4 The review including any constituent changes and capping will be implemented after the close of business on the third Friday of the review month.

7.2 Review Process

7.2.1 At the quarterly review, eligible companies are ranked within their respective universe in descending order of factor score.

7.2.2 A security will be added at the periodic review if it rises to a rank equal to or above the inclusion threshold in table below. An existing security will be deleted at the periodic review if it falls to a rank below the deletion threshold in table below.

Index Name	Inclusion Threshold	Exclusion Threshold
FTSE India Free All Cap Growth Focus Index	7% percentile	13% percentile
FTSE India Free All Cap Value Focus Index	7% percentile	13% percentile

7.2.3 Overall, only 10% of the underlying index will be maintained in the FTSE India Free Style Focus Index at the periodic review. If there are more than the number of constituents listed in 6.3 after the application of rule 7.2.2, the lowest-ranking constituent(s) will be deleted to ensure the number of constituents remains at the number listed in 6.3. Conversely, if there are fewer than the number of constituents listed in 6.3 after the application of rule 7.2.2, the highest-ranking non-constituent(s) will be added to ensure the number of constituents remains at the number listed in 6.3 .

Section 8

Changes to constituent companies

8. Changes to constituent companies

8.1 Intra-review additions

8.2 Subject to the treatment of spin-offs, as covered in Section 9, additions to each FTSE Russell underlying index will be considered for inclusion at the next review of the relevant FTSE India Free Style Focus Index.

8.3 Intra-review deletions

8.3.1 A constituent will be removed from a FTSE India Free Style Focus Index if it is also removed from its corresponding underlying index. The deletion will be concurrent with the deletion from the underlying index and its weight will be distributed pro-rata amongst the remaining constituents in their respective FTSE India Free Style Focus Index.

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 corresponding FTSE India Free Style Focus 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 Russell 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

10.1.1 The FTSE India Free Style Focus Index Series use 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

10.2.1 The FTSE India Free Style Focus Index Series will be calculated on an end-of-day basis and displayed to eight decimal points.

10.3 Index calculation

10.3.1 The FTSE Global Factor Indices are calculated using the algorithm described below:

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

Where:

- $i = 1,2, \ldots, N$
- 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

Index opening and closing hours

Stock market trading times:

	Open	Close
India	09:15	15:30
	(03:45)	(10:00)

The indices will not be calculated on Indian public holidays.

Timings are local hours (GMT hours in brackets)

Appendix B

Status of indices

The FTSE India Free Style Focus Indices may be calculated in real time.

For further details of real-time definitions, please refer to the following guide:

Real_Time_Status_Definitions.pdf

Appendix C

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 India Free Style Focus 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.lseg.com/en/ftse-russell/

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