

FTSE Target Diversification Index Series

v1.0



**FTSE
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An LSEG Business

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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 Target Diversification Index Series.
- 1.2 The FTSE Target Diversification Index Series is designed to provide market representation and diversification through the application of the FTSE Russell Diversification Factor and the Target Diversification Algorithm.
- 1.3 This methodology should be read in conjunction with the FTSE Global Equity Index Series Ground Rules, the Russell US Construction and Methodology and the Corporate Actions and Events Guide for Non Market Cap Weighted Indices. These rules are available at www.lseg.com/en/ftse-russell/.
- 1.4 The FTSE Target Diversification Index Series does not take account of ESG factors in its index design.
- 1.5 The FTSE Target Diversification Index Series values are calculated at the end of each working day.
- 1.6 Price, total return and net-of-tax indices will be calculated on an end-of-day basis. The total return indices include income based on ex-dividend adjustments.
- 1.7 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.
- 1.8 FTSE Russell**
 - 1.8.1 FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiary FTSE Global Debt Capital Markets Inc.), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited.
 - 1.8.2 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.
 - 1.8.3 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;
 - 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)

2.1.1 FTSE is the benchmark administrator of the index series¹.

2.1.2 FTSE is responsible for the daily calculation, production and operation of FTSE Target Diversification 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; and
- disseminate the indices.

2.1.3 These Ground Rules set out the methodology and provide information about the publication of the FTSE Target Diversification 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 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)

3.3.1 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 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 Target Diversification 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 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 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

Eligible securities

4. Eligible securities

- 4.1
- The indices comprising the FTSE Target Diversification Index Series consist of the constituents of the corresponding underlying universe of the FTSE All-World Index Series or Russell US Equity Indexes Construction and Methodology.
- 4.2
- Unless stated in these rules, all aspects of the management of the index calculation, underlying index constituent review and company classification of the FTSE Target Diversification Index Series are as described in the FTSE Global Equity Index Series Ground Rules and Russell US Equity Indexes Construction and Methodology.

Underlying index	FTSE Target Diversification Index	Base currency
FTSE Developed	FTSE Developed Target Diversification 400	USD
Russell 1000	Russell 1000 Target Diversification 200	USD
Russell 1000 Growth	Russell 1000 Growth Target Diversification 100	USD

Section 5

Periodic review of constituents

5. Periodic review of constituents

5.1 Review dates

- 5.1.1 The FTSE Target Diversification Index Series will be reviewed quarterly in March, June, September, and December. Changes arising from the reviews will be implemented after the close of business on the third Friday of the review month (i.e., effective from the open of business on Monday). The June review of the Russell Indices in this series will follow the Russell index series review implementation dates.
- 5.1.2 FTSE indices in the FTSE Target Diversification Index Series will use stock prices available as at the close of business on the Wednesday before the first Friday of the review month for the reviews. Russell Indices in the FTSE Target Diversification Index series will use stock prices available as at the close of business on the Wednesday before the second Friday of June and as at the close of business on the Wednesday before the first Friday of the review month for the March, September, and December reviews.

5.2 Review procedure

- 5.2.1 The constituents of each FTSE Target Diversification Index are drawn from the constituents of the underlying index after adjusting for any review changes that are implemented after the close of business on the third Friday in March, June, September and December. In order to calculate market capitalisations used in the review process the constituent weightings will be based on closing prices adjusted for corporate actions taken on the Wednesday before the first Friday in March, June, September and December.
- 5.2.2 The FTSE Russell Diversification Factor (DF) and the Target Diversification Algorithm

A. The FTSE Russell Diversification Factor (DF) provides an intuitive metric that expresses concentration in terms of equivalent equally weighted stocks.

B. For any portfolio with weights $w_1, w_2, \dots, w_n$ for n stocks, the Diversification Factor is calculated as:

$$DF = \frac{1}{\sum_i^N w_i^2}$$

Where the denominator represents the sum of squared weights of the portfolio.

C. The FTSE Target Diversification Algorithm applies a non-linear transformation to index weights, maintaining market representation while achieving the desired diversification level. The weight transformation formula is defined as:

$$w_{t,i} = \frac{(w_{m,i})^k}{\sum_{j=1}^N (w_{m,j})^k}$$

Where:

- $w_{t,i}$ is the target weight of constituent
- $w_{m,i}$ is the market weight of constituent i in the underlying index

- k is the parameter to control the degree of deviation from the original weight
- N is the number of constituents in the underlying index

D. The parameter k is calibrated to achieve the specified Target Diversification Factor (e.g. 100,200,400, etc.):

- When $k = 1$, the target weight is identical to the weight in the underlying index
- When $k = 0$, each constituent receives an equal weight $\frac{1}{N}$
- When $0 < k < 1$, the weights become more diversified
- When $k > 1$, the weights become more concentrated

E. The Target Diversification Index Series only allows a FTSE Russell Diversification Factor greater or equal to 100.

Section 6

Changes to constituent companies

6. Changes to constituent companies

6.1 Intra-review additions

- 6.1.1 The FTSE Target Diversification Index Series will not accept intra-review additions. Additions to the FTSE Global Equity Index Series will be considered for inclusion in the FTSE Target Diversification Factor at the next quarterly review.

6.2 Intra-review deletions

- 6.2.1 A constituent will be removed from the FTSE Target Diversification Index Series if it is removed from the corresponding underlying index. The deletion will be concurrent with its deletion from the underlying index and its weight will be redistributed pro-rata amongst the remaining constituents.

Section 7

Corporate actions and events

7. Corporate actions and events

7.1 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 (except for tender offers), the constituent's weighting in the corresponding FTSE Target Diversification Index will remain 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 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. 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.

7.3 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 Indices.

Section 8

Changes to the classification of constituent companies

8. Changes to the classification of constituent companies

8.1 Share classification changes

- 8.1.1 Different classes of shares can exist for companies (e.g. preference and non-preference) and within countries (e.g. China A shares). Eligibility of different share classes in the FTSE Target Diversification Index Series is determined by the FTSE Global Equity Index Series Ground Rules or the Russell US Construction and Methodology.
- 8.1.2 The deletion of constituent share classes from the FTSE Target Diversification Index Series will be concurrent with their deletion from FTSE Global Equity Index Series (rule 6.2) or the Russell US Construction and Methodology
- 8.1.3 New share classes will not be added to any FTSE Target Diversification Index Series index until the next annual review (rule 6.1).

8.2 Industry classification structure

- 8.2.1 The FTSE Target Diversification Index Series constituents are classified into industries, supersectors, sectors and subsectors, as defined by the Industry Classification Benchmark (ICB)⁵.
- 8.2.2 Details of the ICB are available from and published on the FTSE Russell website (www.lseg.com/en/ftse-russell/) and can be accessed using the following link:
[Industry Classification Benchmark](#)

8.3 Industry classification changes

Changes to the ICB classification of a company within the FTSE Target Diversification Index Series will be implemented concurrently with their implementation in the underlying index.

8.4 Nationality changes

- 8.4.1 The FTSE Target Diversification Index Series constituents are allocated to a country as defined by the nationality rules in the FTSE Global Equity Index Series Ground Rules or the Russell US Construction and Methodology. Any change in nationality of a constituent will be concurrent with its change in the underlying index.
- 8.4.2 Details regarding the FTSE nationality process are available from FTSE.

⁵ FTSE indices migrated to the new ICB classification system in March 2021.8.5

8.5 Country classification changes

- 8.5.1 Changes to the classification of a country are announced by FTSE Russell in March and September.
- 8.5.2 When a country re-classification occurs outside of the normal review schedule and results in a developed (or emerging) country being reclassified as emerging (or frontier) the deletion from the FTSE Target Diversification Index Series index will be concurrent with the deletion from FTSE Global Equity Index Series (rule 6.2) or the Russell US Construction and Methodology.
- 8.5.3 The country will not be added to any FTSE Target Diversification Index Series index until the next index review (rule 6.1) or the Russell US Construction and Methodology.

Section 9

Indices algorithm and calculation methodology

9. Indices algorithm and calculation methodology

9.1 Prices

9.1.1 The FTSE Target Diversification Index Series will use actual last trade prices, where available, for securities.

9.2 Calculation frequency

9.2.1 The FTSE Target Diversification Index Series will be calculated on end-of-day basis only.

9.3 Index calculation

9.3.1 The FTSE Target Diversification Index Series will be displayed to eight decimal points.

9.3.2 The FTSE Target Diversification Index Series starting weight (before the diversification adjustment) 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 weight m_i of a stock i to its notional market capitalisation for inclusion in the Index according to the formula $c_i = \frac{w_i}{\hat{m}_i}$ where $\hat{m}_i = \frac{m_i}{(\sum_{j=1}^N m_j)}$. This factor is published by FTSE Russell for each security in the index; and
- 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 Target Diversification 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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