

FTSE UK Equity Income Index

v1.9



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Section 1

Introduction

1. Introduction

- 1.1 This methodology is to be read in conjunction with the FTSE UK Index Series which is available at the FTSE Russell website (www.lseg.com/en/ftse-russell/)
- 1.2 FTSE Russell**
- 1.3 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.
- 1.4 The FTSE UK Equity Income Index will be available on a real time (price return only) basis in GBP.
- 1.5 The FTSE UK Equity Income Index does not take account of ESG factors in its design.
- 1.6 Total Return will be available on an end of day basis in GBP.
- 1.7 The index and history will be calculated in GBP
- 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 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'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 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 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 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;
- 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 meet the current and future requirements of investors and other index users. 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 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

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

3.2 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](#)

3.3 Queries, Complaints and Appeals

[Benchmark Determination Complaints Handling Policy.pdf](#)

3.4 Index Policy for Trading Halts and Market Closures

- 3.4.1 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](#)

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

- 3.5.1 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](#)

3.6 Recalculation Policy and Guidelines

- 3.6.1 The FTSE Global Equity Index Series are recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE Global Equity Index Series 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.

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

3.7 Policy for Benchmark Methodology Changes

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

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

3.8 FTSE Russell Governance Framework

- 3.8.1 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 ensure compliance with 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](#)

3.9 Real Time Status Definitions

- 3.9.1 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 Review eligible securities

The constituents of the FTSE Equity Income Index are selected from the FTSE 350 Index as of the index review effective date excluding ineligible ICB⁵ sectors (see Rule 4.65.4) and securities without a one year dividend per share forecast.

4.1.1 Forecast One Year Dividend Yield

The dividend yield data used in the review calculation is based on one-year dividends per share forecast/estimates from I/B/E/S. To be able to rank the review universe the one-year dividends per share forecast/estimates are divided by the underlying FTSE stock prices at the index review cut-off date. I/B/E/S data is taken as of the index review cut-off date (see Rule 4.4)

4.1.2 Companies that do not have a one-year dividend per share forecast/estimates from I/B/E/S are ineligible for index inclusion.

4.2 Periodic review of constituents

4.3 Review universe

4.3.1 The constituents of the FTSE 350 Index as of the index review effective date determine the eligible universe.

4.4 Semi-annual review (index review cut-off date)

The FTSE UK Equity Income Index is reviewed semi-annually in March and September using price data based on the close of business on the Tuesday before the first Friday in March and September in line with the underlying FTSE 350 Index.

4.5 Semi-annual review (implementation date)

The semi-annual reviews are implemented in line with the FTSE 350 Index and are implemented after the close of business on the third Friday (i.e. effective the following Monday) of March and September.

4.6 Review methodology

The constituents of the index are selected from the underlying universe by:

1. Removing all real estate investment trusts REITs (ICB Sectors Real Estate Investment and Services 351010 and Real Estate Investment Trusts 351020 and Mortgage Real Estate Investment Trusts 302030) and all closed end funds and investment trusts (ICB Subsector 30204000).
2. Removing all stocks that are not forecast to pay dividends over the next 12 months or where forecast dividend data is unavailable.

⁵ FTSE indices migrated to the new ICB classification system in March 2021.

3. Remove 0.5% Stamp Duty Reserve Tax from the forecast dividend amount for all non-constituents.
4. Rank the remaining universe by forecast annual dividend yield, from highest to lowest.
5. Calculate the percentile yield rank against the eligible universe for each stock. The percentile is calculated by the ranking number divided by the total number of stocks in the ranking universe.
6. Reconstitution Buffers: A non-constituent will be added to the index if its yield rank lies within the 45th percentile or above. An index constituent will be deleted from the index if its yield rank falls below the 55th percentile.
7. All constituent stocks are weighted by float-adjusted market capitalisation.

Section 5

Additions outside of a review

5. Additions Outside of a Review

5.1 Intra-review changes (additions)

There will be no intra-review additions to this index.

5.2 Intra-review Changes (deletions)

A constituent will be removed from the FTSE UK Equity Income Index if it is also removed from the FTSE 350 Index. The removal will be concurrent with a stock's deletion from the FTSE 350 Index.

5.3 Capping

5.3.1 The index will be capped semi-annually in March and September. The constituent capping factors will be based on prices at close on the Thursday before the second Friday using shares in issue and investability weights as designated to take effect after close on the third Friday of the review month (i.e. effective from the open the following Monday).

5.4 Constituent Diversification: Using the float-adjusted market capitalisation, apply a 4.75% index weight cap to each constituent in the index.

5.5 Industry Diversification: Following application of the 4.75% constituent weight cap, apply a 25% index weight cap to each industry in the index. Note that any constituents subject to the 4.75% index weight cap will have to be further reduced in order to preserve the 4.75% limit by constituent.

Section 6

Corporate actions and events

6. Corporate actions and events

- 6.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.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 will provide notice advising of the timing of the change.

6.2 Shares in issue

- 6.2.1 Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide.

6.3 Investability weightings

- 6.3.1 Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.

6.4 Takeovers, mergers and demergers

If two existing constituents merge and the newly formed constituent will remain in the FTSE UK Equity Income Index in line with the FTSE 350 Index.

If an existing index constituent is acquired by a non-constituent, the company will be removed from the FTSE UK Equity Income Index.

If an existing index constituent acquires a non-constituent, it will remain in the FTSE UK Equity Income Index if the newly merged company remains a constituent in the FTSE 350 Index.

If an index constituent has a complex reorganisation or de-merger, the newly spun-off company will remain the FTSE UK Equity Income Index as long as it remains a constituent in the FTSE 350 Index.

Stocks with multiple share classes will be combined to produce a company composite. Tests for inclusion and the application of weight caps are to be applied to the company as a whole. If the company is eligible for index inclusion, all share classes are to be included in the index. If the company free float market capitalisation exceeds 4.75%, the 4.75% weight cap shall be applied proportionately to all share classes of the company such that the aggregate index weight is reduced to 4.75%.

Section 7

Algorithm

7. Algorithm

The FTSE UK Equity Income Index 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 for each security in the underlying index.
- c_i is the Capping 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. This factor is published by FTSE Russell for each security 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](#)

For further information on the FTSE UK Equity Income Index Ground Rules visit www.lseg.com/en/ftse-russell/ or e-mail info@ftserussell.com. Contact details can also be found on this website.

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