

# FTSE US Risk Premium Index Series

v2.5



**FTSE  
RUSSELL**

An LSEG Business

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## Section 1

# Introduction

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## 1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE US Risk Premium Index Series.
- 1.2 The FTSE US Risk Premium Index Series is designed to reflect the performance of stocks representing a specific set of factor characteristics.
- 1.3 The FTSE US Risk Premium Index Series does not take account of ESG factors in its index design.
- 1.4 Price and Total Return indices will be calculated on an end of day basis. The Total Return indices include income based on ex dividend adjustments.
- 1.5 The base currency of the benchmark is US Dollars (USD). Index values may also be published in other currencies.
- 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 FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.
- 1.7 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 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, 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.

## Section 2

# Management responsibilities

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## 2. Management responsibilities

### 2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series<sup>1</sup>.

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 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.

2.1.3 These Ground Rules set out the methodology and provide information about the publication of the FTSE US Risk Premium 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.

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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) 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 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 Capitalisation Weighted Indices through the following link:

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

#### 3.3 Queries and Complaints

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

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

#### 3.4 Index Policy for Trading Halts and Market Closures

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](#)

#### 3.5 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 through 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 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 US Risk Premium 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 through the link below or by contacting [info@ftserussell.com](mailto:info@ftserussell.com).

[Recalculation Policy and Guidelines Equity Indices.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 through 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 meet the requirements of the IOSCO Principles for Financial Benchmarks<sup>2</sup>, the European benchmark regulation<sup>3</sup> and the UK benchmark regulation<sup>4</sup>. The FTSE Russell Governance Framework can be accessed through 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](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

<sup>3</sup> 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.

<sup>4</sup> The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

## Section 4

# Eligible securities

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## 4. Eligible securities

4.1 All constituent securities of the FTSE USA Index ("the underlying index"), as defined by the FTSE All-World Index Series, are eligible for inclusion in the FTSE US Risk Premium Index Series except as listed below.

### 4.2 Single factor indices

The FTSE US Risk Premium Index Series is comprised of a top 40 index, a bottom 40 index and a long/short index for each of the 13 factors, which are listed in the next section.

### 4.3 Multiple lines

If multiple line issues of the same company are eligible for inclusion, only the larger security, as defined by full market capitalisation, is included.

## Section 5

## Factor construction

## 5. Factor construction

The data cut-off date for the calculation of all factor data is the close of business on the last business day of every month.

## 5.1 Factor normalisation and missing data treatment

5.1.1 Individual stock factor values are normalised cross-sectionally within each ICB<sup>5</sup> industry:

$$Z_i^j = \frac{F_i^j - \bar{F}_i^j}{\sigma(F_i^j)}$$

Where,

$F_{i,j}$  is the raw factor value of stock  $i$  for factor  $j$ , and  $\bar{F}_i^j$  and  $\sigma(F_i^j)$  are the cross-sectional factor mean and standard deviation respectively. Factor 5 (seasonality) is not normalised in this manner.

## 5.2 List of factors

5.2.1 Factor 1: price momentum ( $F_i^1$ ) is defined as the 12 month total return of the stock:

$$F_i^1 = TR_i^{12M}$$

Where,

$TR_i^{12M}$  is the total return of eligible stock  $i$  in the 12 month period to the data cut-off date.

5.2.2 Factor 2: low volatility ( $F_i^2$ ) is defined as the negative of the 90-day realised volatility of the stock:

$$F_i^2 = -Vol_i^{90d} = -\sqrt{\frac{1}{89} \times \sum_{t=0}^{89} [\ln(TR_i^t) - Average^{90D}(\ln(TR_i))]^2}$$

Where,

$\ln(TR_i^t)$  is the daily log total return of eligible stock  $i$ ;

$Average^{90D}(\ln(TR_i))$  is the average of the daily log total return of eligible stock  $i$  over 90-day period to the data cut-off date  $t$ .

<sup>5</sup> FTSE indices migrated to the new ICB classification system in March 2021.

- 5.2.3 Factor 3: extended price momentum ( $F_i^3$ ) is defined as the 11 Month total return lagged by one month divided by the 90-day realised volatility:

$$F_i^3 = \frac{TR_i^{11M}}{Vol_i^{90d}}$$

Where,

$TR_i^{11M}$  is the 11 month total return of eligible stock  $i$  over the 11 month period beginning 12 months before the data cut-off date and ending one before the data cut-off date;

$Vol_i^{90d}$  is the 90 day realised volatility of eligible stock  $i$ , defined in 4.2.2 as Factor 2.

- 5.2.4 Factor 4: size ( $F_i^4$ ) is defined as the negative of the free float market capitalisation of each company as of the data cut-off date.

- 5.2.5 Factor 5: seasonality is defined as the average excess monthly return of stock  $i$  relative to the FTSE USA index in the review month in each of the prior seven years. No sector normalisation is applied to this factor.

$$F_i^5 = \frac{1}{7} \times \sum_{j=1}^7 [TR_i^{m,y-j} - R_i^{m,y-j}]$$

Where,

$m$  is the review month;

$TR_i^{m,y-j}$  is the total return of eligible stock  $i$  in the review month  $m$  in each of the previous seven years;

$R_i^{m,y-j}$  is the total return of the FTSE USA Index in the review month  $m$  in each of the previous seven years;

- 5.2.6 Factor 6: dividend yield, is defined as the trailing 12 month dividend yield:

$$F_i^6 = \frac{D_i^t}{P_i^t} \times 100$$

Where,

$D_i^t$  is the value of the dividends per share over last 12 months for eligible stock  $i$  as of the data cut-off date  $t$ ;

$P_i^t$  is the price of eligible stock  $i$  as of the data cut-off date  $t$ .

Stocks with zero dividends are treated as missing data.

- 5.2.7 Factor 7: ROE, is defined as the trailing 12 month return on equity:

$$F_i^7 = \frac{Net\ Income_i^t}{Average\ Equity_i^t} \times 100$$

Where,

$Net\ Income_i^t$  is the most recently reported value of the trailing 12 month net profit for eligible stock  $i$  on or prior to the data cut-off date  $t$ . If such a value is unavailable, the value of net income used to calculate earnings per share is used;

$Average\ Equity_i^t$

If the value of the common equity for the previous fiscal year ("FY1H") determined with respect to the data cut-off date  $t$  is available, then

$$Average\ Equity_i^t = (Common\ Equity^{FY0} + Common\ Equity^{FY1H})/2$$

Otherwise,

$$\text{Average Equity}_i^t = \text{Common Equity}^{\text{FY0}}$$

Where,

$\text{Common Equity}^{\text{FY0}}$  is the common equity for the most recent fiscal year ("FY0") for eligible stock  $i$  determined with respect to the data cut-off date  $t$ ;

$\text{Common Equity}^{\text{FY1H}}$  is the common equity for the previous fiscal year ("FY1H") for eligible stock  $i$  determined with respect to the data cut-off date  $t$ .

5.2.8 Factor 8: free cash flow yield is defined as the trailing 12 month free cash flow yield:

$$F_i^8 = \text{FCF Yield}_i^t = \frac{\text{FCF}_i^t}{\text{Market Cap}_i^t}$$

Where,

$\text{FCF Yield}_i^t$  is the trailing 12 month free cash flow yield of eligible stock  $i$  as of the data cut-off date  $t$ ;

$\text{Market Cap}_i^t$  is the full market cap (not free float adjusted) of eligible stock  $i$  as of the data cut-off date  $t$ ;

$\text{FCF}_i^t$  is the trailing 12 month free cash flow of eligible stock  $i$  as of the data cut-off date  $t$ , calculated as:

$$\text{FCF}_i^t = \text{Cash from Operations}_i^t - \text{CapEx}_i^t$$

$\text{Cash from Operations}_i^t$  is the most recently reported value of the trailing 12 months net cash flow from operating activities for eligible stock  $i$  on or prior to the data cut-off date  $t$ ;

$\text{CapEx}_i^t$  is the most recently reported value of the trailing 12 months capital expenditures for eligible stock  $i$  as of data cut-off date  $t$ . Missing CapEx data is treated as zero value.

5.2.9 Factor 9: free cash flow/invested capital is defined as trailing 12 month free cash flow divided by invested capital:

$$F_i^9 = \frac{\text{FCF}_i^t}{\text{IC}_i^t}$$

Where,

$\text{FCF}_i^t$  is the trailing 12 month free cash flow of eligible stock  $i$  as of the data cut-off date  $t$ ;

$\text{IC}_i^t$  is the invested capital of eligible stock  $i$  as of the data cut-off date  $t$ , calculated as:

$$\text{IC}_i^t = \text{Total Capital}_i^t + \text{ST Debt}_i^t$$

$\text{Total Capital}_i^t$  is the most recently reported value of the total capital for eligible stock  $i$  as of the data cut-off date  $t$ ;

$\text{ST Debt}_i^t$  is the most recently reported value of the short term debt and current portion of long term debt for eligible stock  $i$  as of the data cut-off date  $t$ .

5.2.10 Factor 10: free cash flow/invested capital trend is defined as:

$$F_i^{10} = \text{Ratio Trend}_i^t = \frac{\frac{FCF_i^t}{IC_i^t} - \text{Average}^{4Q}\left(\frac{FCF_i}{IC_i}\right)}{\text{Standard Deviation}^{4Q}\left(\frac{FCF_i}{IC_i}\right)}$$

Where,

$FCF_i^t$  is the trailing 12 month free cash flow of eligible stock  $i$  in respect of the data cut-off date  $t$ , as defined in Factor 8;

$IC_i^t$  is the invested capital of eligible stock  $i$  in respect of the data cut-off date  $t$ , as defined in Factor 9;

$\text{Average}^{4Q}\left(\frac{FCF_i}{IC_i}\right)$  is the average of free cash flow to invested capital ratio of eligible stock  $i$  in respect of the last four financial quarters for which the free cash flow and invested capital data is available as of the data cut-off date  $t$ , as calculated above;

$\text{Standard Deviation}^{4Q}\left(\frac{FCF_i}{IC_i}\right)$  is the standard deviation of free cash flow to invested capital ratio of eligible stock  $i$  in respect of the last four financial quarters for which the free cash flow and invested capital data is available as of the data cut-off date  $t$ , as calculated above.

5.2.11 Factor 11: scaled NOA differential is defined as:

$$F_i^{11} = \text{Scaled NOA Differential}_i^t = \frac{NOA_i^t - NOA_i^{t-12M}}{\text{Average}^{4Q}(\text{Total Assets}_i)}$$

Where,

$\text{Scaled NOA Differential}_i^t$  is the 12 month differential of net operating assets scaled by the average total assets of eligible stock  $i$  in respect of the data cut-off date  $t$ ;

$NOA_i^t$  is the net operating assets of eligible stock  $i$  in respect of the data cut-off date  $t$ , calculated as:

$$NOA_i^t = \text{Total Equity}_i^t + \text{Total Debt}_i^t - \text{Cash}_i^t$$

$\text{Total Equity}_i^t$  is the most recently reported value of the total shareholders' equity for eligible stock  $i$  on or prior to the data cut-off date  $t$ ;

$\text{Total Debt}_i^t$  is the most recently reported value of the total debt for eligible stock  $i$  on or prior to the data cut-off date  $t$ ;

$\text{Cash}_i^t$  is the most recently reported value of the cash and short term investments for eligible stock  $i$  on or prior to the data cut-off date  $t$ ;

$NOA_i^{t-12M}$  is the net operating assets of eligible stock  $i$  in respect of the 12 months prior to the data cut-off date  $t$ ;

$\text{Average}^{4Q}(\text{Total Assets}_i)$  is the average of total assets of eligible stock  $i$  in respect of the last four financial quarters for which total assets data is available as of the data cut-off date  $t$ .

- 5.2.12 Factor 12: forward dividend yield trend is defined as the estimated 12 month forward dividend yield. The consensus estimate is sourced from Institutional Brokers' Estimate System (IBES). Stocks will be excluded if the number of analysts contributing to the consensus estimate is less than six. Stocks with zero estimated 12 month forward dividend yield shall be treated as missing data.

$$F_i^{12} = \text{Forward Div Yield}_i^t = \frac{D_i^t}{P_i^t}$$

Where,

$D_i^t$  is the 12 month forward dividend per share forecast using the IBES mean dividend per share estimate measures for the next two fiscal periods (FY1 and FY2) for eligible stock  $i$  as of the data cut-off date  $t$ . Twelve months forward dividend per share forecast reflects a weighted average of the FY1 and FY2 forecasts, with the weights being determined by the length of the respective terms;

$P_i^t$  is the closing price of eligible stock  $i$  as of the data cut-off date  $t$ .

- 5.2.13 Factor 13: forward earnings yield is defined as the estimated 12 month forward earnings yield. The consensus estimate is sourced from IBES. Stocks will be excluded if the number of analysts contributing to the consensus estimate is less than eight.

$$F_i^{13} = \text{Forward Earnings Yield}_i^t = \frac{EPS_i^t}{P_i^t}$$

Where,

$EPS_i^t$  is the mean earnings per share forecast for the unreported financial year one for eligible stock  $i$  as of the data cut-off date  $t$ ;

$P_i^t$  is the closing price of eligible stock  $i$  as of the data cut-off date  $t$ .

## Section 6

# Index construction

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## 6. Index construction

- 6.1 Individual factor scores are calculated as described in Rule 5.2. All factors with the exception of factor 5 seasonality are normalised cross-sectionally within ICB industry to form Z-Scores. The entire eligible universe is ranked by Z-Score.
- 6.1.1 For each factor, three indices are created. The top 40 index includes the 40 stocks with the highest rankings based on normalised scores; the bottom 40 index includes the 40 stocks with the lowest rankings.
- 6.1.2 The top and bottom 40 indices are equally weighted. The long/short index return is calculated as the top 40 index return minus the bottom 40 index return adjusted for a 1% annualised fee on a daily basis and for a 4bp transaction cost estimate on the monthly turnover. The calculation of the indices is detailed in Section 9.
- 6.2 **Index back-histories**

In order to simulate the availability of factor data prior to the December 2014 launch date of the indices, all index reviews prior to this date utilise fundamental data that is lagged by a period of three months.

## Section 7

# Periodic review of constituents

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## 7. Periodic review of constituents

### 7.1 Review and price dates

7.1.1 The FTSE US Risk Premium Index Series will be reviewed monthly, based on data and stock prices as of the close of business on the last trading day of the previous month incorporating underlying index constituent changes according to the implementation dates shown in Rule 7.1.2.

7.1.2 Changes arising from the monthly reviews are announced on the third business day of each month. The review will be implemented after the close of business on the fifth business day (i.e. effective on the subsequent business day) of each month.

### 7.2 Market disruption events

7.2.1 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](#)

### 7.3 Data availability

7.3.1 For factors 1- 3 and 5, all daily price observations are required for the specified time period. If all are not present, the calculated metric will be considered missing data for the security in question. If the necessary data is not available for at least 25% of stocks by number in the underlying index as of the data cut-off date, the indices for that factor for that month will remain unchanged. If more than 25% of stocks have available data, the review will proceed normally using only the stocks where data is available.

## Section 8

# Changes to constituent companies

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## 8. Changes to constituent companies

### 8.1 Intra-review additions

8.1.1 There are no intra-review additions to these indices.

### 8.2 Intra-review deletions

8.2.1 A constituent will be removed from a FTSE US Risk Premium Index if it is also removed from its corresponding underlying index. The deletion will be concurrent with its deletion from the underlying index and its weight will be distributed pro-rata amongst the remaining constituents in the respective FTSE US Risk Premium 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 US Risk Premium Index 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 capitalisation weighted indices through 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);
- 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 Takeovers, mergers and demergers

The treatment of takeovers, mergers and demergers can be found within the corporate actions and events guide for non-market capitalisation weighted indices.

### 9.4 Suspension of dealing

Suspension of dealing rules can be found within the corporate actions and events guide for non-market capitalisation weighted indices.

## Section 10

# Algorithm and calculation method

## 10. Algorithm and calculation method

### 10.1 Prices

- 10.1.1 The FTSE US Risk Premium Index Series use actual closing mid-market or last trade prices, where available, for securities with local market quotations. Further details can be accessed through the following link:

[Closing Prices Used For Index Calculation.pdf](#)

### 10.2 Calculation frequency

- 10.2.1 The FTSE US Risk Premium Index Series will be calculated on an end of day basis.

### 10.3 Index calculation

- 10.3.1 Long index calculation

The top 40 long index (IL) for each custom factor is calculated as:

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

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.

The return of the long index ( $R_t^L$ ) is calculated as

$$R_t^L = \frac{I_t^L}{I_{t-1}^L} - 1$$

### 10.3.2 Short index calculation

The same formula as for the long index above is applied to the bottom 40 constituents to calculate the return of the bottom 40 short index ( $R_t^S$ ) for each factor index.

### 10.3.3 Long/short index calculation

The return of the long/short index is calculated as the top 40 long index return minus the bottom 40 short index return, adjusted for a 1% annualised fee on a daily basis and for a 4 basis points transaction cost estimate on the monthly turnover.

$$Index^t = \max \left( 0, Index^k \times (1 - RAF^t) \times \left( 1 + \frac{Long\ Basket^t}{Long\ Basket^k} - \frac{Short\ Basket^t}{Short\ Basket^k} - 0.01 \times \frac{DC^{k,t}}{360} \right) \right)$$

Where,

$Index^t$  is the index level in respect of calculation date  $t$ ;

$Index^k$  is the index level in respect of the review implementation date  $k$  immediately preceding calculation date  $t$ ;

$RAF^t$  is the transaction cost estimate on the monthly turnover incurred from the review immediately preceding calculation date  $t$ , as calculated below:

$$-RAF^t = 2 \times 0.0004 \times \frac{n}{RN}$$

$n$  is the number of unique constituents that are to be included in the index on the review effective date.

Where,

Unique constituent is:

A constituent that did not have a long or short index weight immediately preceding review effective date but has a long or short index weight on review effective date;

Or,

A constituent that had a long index weight immediately preceding review effective date but has a short index weight on review effective date;

Or,

A constituent that had a short index weight immediately preceding review effective date but has a long index weight on review effective date.

$RN$  is the required number of constituents for the long and short indices. At present this is set to 40;

$DC^{k,t}$  is the number of calendar days from but excluding the immediately preceding review implementation date  $k$  to and including calculation date  $t$ .

## Appendix A

# Available indices

Index name
FTSE US Risk Premium Index Series: Price Momentum Long Only Total Return Index
FTSE US Risk Premium Index Series: Price Momentum Short Only Total Return Index
FTSE US Risk Premium Index Series: Low Volatility Long Only Total Return Index
FTSE US Risk Premium Index Series: Low Volatility Short Only Total Return Index
FTSE US Risk Premium Index Series: Extended Price Momentum Long Only Total Return Index
FTSE US Risk Premium Index Series: Extended Price Momentum Short Only Total Return Index
FTSE US Risk Premium Index Series: Size Long Only Total Return Index
FTSE US Risk Premium Index Series: Size Short Only Total Return Index
FTSE US Risk Premium Index Series: Seasonality Long Only Total Return Index
FTSE US Risk Premium Index Series: Seasonality Short Only Total Return Index
FTSE US Risk Premium Index Series: Dividend Yield Long Only Total Return Index
FTSE US Risk Premium Index Series: Dividend Yield Short Only Total Return Index
FTSE US Risk Premium Index Series: ROE Long Only Total Return Index
FTSE US Risk Premium Index Series: ROE Short Only Total Return Index
FTSE US Risk Premium Index Series: Forward Dividend Yield Long Only Total Return Index
FTSE US Risk Premium Index Series: Forward Dividend Yield Short Only Total Return Index
FTSE US Risk Premium Index Series: Forward Earnings Yield Long Only Total Return Index
FTSE US Risk Premium Index Series: Forward Earnings Yield Short Only Total Return Index
FTSE US Risk Premium Index Series: Cash flow Yield Long Only Total Return Index
FTSE US Risk Premium Index Series: Cash flow Yield Short Only Total Return Index
FTSE US Risk Premium Index Series: Cash flow/Invested Capital Long Only Total Return Index
FTSE US Risk Premium Index Series: Cash flow/Invested Capital Short Only Total Return Index
FTSE US Risk Premium Index Series: Cash flow/Invested Capital Trend Long Only Total Return Index
FTSE US Risk Premium Index Series: Cash flow/Invested Capital Trend Short Only Total Return Index
FTSE US Risk Premium Index Series: Scaled NOA Differential Long Only Total Return Index
FTSE US Risk Premium Index Series: Scaled NOA Differential Short Only Total Return Index

## Appendix B

# Further information

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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 US Risk Premium Index Series is available from FTSE Russell.

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