

FTSE US Treasury 0-3 Months Index – Japanese Investment Trusts

v1.4

Contents

Section 1 Introduction	3
Section 2 Management responsibilities	4
Section 3 FTSE Russell index policies	5
Section 4 Composition and design criteria	7
Appendix A Further information	11

Section 1

Introduction

1. Introduction

1.1 FTSE US Treasury 0-3 Months Index - Japanese Investment Trust

- 1.1.1 This document sets out the Ground Rules for the construction and management of the FTSE US Treasury 0-3 Months Index - Japanese Investment Trust. Copies of these Ground Rules are available from FTSE International Limited (FTSE).
- 1.1.2 The FTSE US Treasury 0-3 Months Index - Japanese Investment Trust ("Index") measures the performance of the US Treasury bills, US Treasury notes, and US Treasury bonds with maturity less than or equal to 3 months.
- 1.1.3 The Index is designed to serve as a benchmark for performance evaluation by Japanese investment trusts. The calculation methodology is based on the evaluation standards of the Investment Trusts Association of Japan.
- 1.1.4 The FTSE US Treasury 0-3 Months Index - Japanese Investment Trust does not take account of ESG factors in its design.

1.2 FTSE Russell

- 1.2.1 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.,) FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited.
- 1.2.2 FTSE Russell hereby notifies users of the index that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
- 1.2.3 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 or any members of the FTSE Russell Policy Advisory Board (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 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;
- 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 best reflect the aim 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 Fixed Income Indexes, 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 or by contacting fi.index@lseg.com. These policies are reviewed annually and any changes are approved by the FTSE Russell Index Governance Board.

3.1 Statement of Principles for FTSE Fixed Income Indexes (the Statement of Principles)

Indexes 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 for FTSE Fixed Income Indexes 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 for Fixed Income Indexes can be accessed using the following link:

[Statement of Principles Fixed Income Indexes.pdf](#)

3.2 Queries and Complaints

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

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

3.3 Recalculation Policy and Guidelines

The Recalculation Policy and Guidelines for Fixed Income Indexes document is available from the FTSE Russell website using the link below or by contacting fi.index@lseg.com.

[Fixed Income Recalculation Policy and Guidelines.pdf](#)

3.4 Policy for Benchmark Methodology Changes

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

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

3.5 FTSE Russell Governance Framework

3.5.1 To oversee its indexes, 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](#)

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

Composition and design criteria

4. Composition and design criteria

- 4.1 The FTSE US Treasury 0-3 Months Index - Japanese Investment Trust ("Index") measures the performance of the US Treasury bills, US Treasury notes, and US Treasury bonds with maturity less than or equal to 3 months.
- 4.2 The Index is designed to serve as a benchmark for performance evaluation by Japanese investment trusts. The calculation methodology is based on the evaluation standards of the Investment Trusts Association of Japan.
- 4.3 For full details on the design criteria and calculation assumptions for Japanese Investment Trust (JIT), please refer to the FTSE Fixed Income Index Guide which can be accessed using the following link: [FTSE Fixed Income Index Guide](#)

4.4 Design criteria and calculation assumptions for the FTSE US Treasury 0-3 Months Index - Japanese Investment Trust

Coupon	Fixed-rate
Minimum maturity	Less than or equal to 3 months
Minimum issue size	USD 5 billion public amount outstanding (excludes Federal Reserve holdings)
Weighting	Market capitalization
Rebalancing	Once a month at the end of the month
Reinvestment of cash flows	Intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations.
Pricing	US Treasury Bonds and Notes: Previous local market close, Tradeweb FTSE Benchmark Closing Prices 4:00 p.m. (New York) US Treasury Bills: Previous local market close, LSEG Pricing Service 4:00 p.m. (New York)
Exchange Rate	MUFG Bank telegraphic transfer spot middle rate (TTM) as quoted at 10:00 a.m. Tokyo time ⁵
Calculation frequency	Daily
Settlement date	Monthly: Settlement is on the last calendar day of the month. Daily: Same day settlement except if the last business day of the month is not the last calendar day of the month; then, settlement is on the last calendar day of the month.
Fixing date	Each month, the upcoming month's index constituents are "fixed" on the profile fixing date. <u>Each</u> year's scheduled fixing dates are published on the website.
Base date	December 31, 2019
Coupon	Fixed-rate

⁵ LSEG Pricing Service quotes are used for currencies during periods in which MUFG Bank quotes are not available.

4.5 Market Value Computation

4.5.1 The following notations are used in the formulas. The notation of UST and UST-JIT refer to the returns and analytics of each individual bond in the US Treasury 0-3 Months Index under the methodologies of standard (non-JIT)⁶ and JIT versions.

Notation	
t	Today
m	Current month
e	Last business day of previous month
P_UST	UST clean price
A_UST	UST accrued interest
P_USTJIT	UST-JIT clean price
A_USTJIT	UST-JIT accrued interest
UST_PAR	UST par amount
UST_MODDUR	UST modified duration
UST_RORP	UST daily principal return
UST_MTDROP	UST month-to-date principal return
UST_MTDROI	UST month-to-date income return
USTJIT_RORP	UST-JIT daily principal return
USTJIT_MTDROP	UST-JIT month-to-date principal return
USTJIT_MTDROI	UST-JIT month-to-date income return
USTJIT_MTDROT	UST-JIT month-to-date total return

4.5.2 For the UST, the current month's index profile market value is calculated using the prices and accrued interests of the last business day of the previous month for all its constituents. For the UST-JIT, the prices of the previous business day would be applied.

$$\text{USTJIT_MKV}(m) = (\text{P_USTJIT}(m) + \text{A_USTJIT}(m)) \times \text{UST_PAR}(m) = (\text{P_UST}(e-1) + \text{A_UST}(e)) \times \text{UST_PAR}(m)$$

4.5.3 To convert the market value into JPY, the spot exchange rates used are the telegraphic transfer middle (TTM) rates provided by MUFG Bank.

$$\text{USTJIT_MKV}(m)_{\text{JPY}} = \text{USTJIT_MKV}(m) \times \text{FX_SPOT}(e)$$

4.6 Return Computation

4.6.1 The returns are computed by modifying the previous day's principal return as well as the current day's income return.

4.7 Month-to-date returns in local currency terms

Step 1: Calculate the first business day principal return

The first business day principal returns of UST-JIT constituents are computed first as they will be utilized throughout the UST-JIT calculations. For the existing bonds of the UST/UST-JIT, their principal returns of the first day are calculated using the UST prices and accrued interests of the last two business days before month end.

⁶ The standard (non-JIT) methodology refers to index methodology as defined in the FTSE Fixed Income Index Guide

$$\text{USTJIT_RORP}(1) = \frac{P_UST(e) - P_UST(e-1)}{P_UST(e-1) + A_UST(e)} \times 100$$

For the bonds that are newly added to the UST/UST-JIT, their principal returns of the first day are calculated based on the UST-JIT principal returns of the bonds that have the closest WAL (weighted average life) to each of them respectively. These UST-JIT principal returns are adjusted by duration ratios to account for the differences in modified duration.

$$\text{USTJIT_RORP}(1) = \text{USTJIT_RORP}_{\text{CLOSEST}(1)} \times \left(\frac{\text{UST_MODDUR}(m)}{\text{UST_MODDUR}_{\text{CLOSEST}(m)}} \right)$$

Step 2: Calculate the month-to-date principal return

The month-to-date principal return is calculated by compounding the previous day's UST_MTDROP and the first business day's USTJIT_RORP. This is equivalent to shifting the prices of all securities by one day.

$$\text{USTJIT_MTDRORP}(t) = \text{USTJIT_RORP}(1) + \text{UST_MTDRORP}(t-1) \times \left[1 + \left(\frac{\text{USTJIT_RORP}(1)}{100} \right) \right]$$

Step 3: Calculate the month-to-date income return

The month-to-date income return is calculated based on the current month's market value at the beginning of the month. It is adjusted by the first business day principal return.

$$\text{USTJIT_MTDRORI}(t) = \text{UST_MTDRORI}(t) \times \left[1 + \left(\frac{\text{USTJIT_RORP}(1)}{100} \right) \right]$$

Step 4: Calculate the month-to-date total return

The total return is the sum of the month-to-date UST-JIT principal and income returns.

$$\text{USTJIT_MTDRORT}(t) = \text{UST_MTDRORP}(t) + \text{USTJIT_MTDRORI}(t)$$

4.7.1 Month-to-date total return in JPY terms

The UST-JIT uses the same standard calculation to convert the local currency returns to base currency returns. The exchange rates used are the telegraphic transfer middle (TTM) rates provided by MUFG Bank. If the TTM rates are not available, the LSEG Pricing Service rates are used.

$$\text{USTJIT_MTDRORT}(t)_{\text{JPY}} = \left\{ \left[1 + \left(\frac{\text{USTJIT_MTDRORT}(t)_{\text{LCL}}}{100} \right) \right] \times \left[1 + \left(\frac{\text{CRCY_RTN}(t)_{\text{TTM}}}{100} \right) \right] - 1 \right\} \times 100$$

4.7.2 Daily total return in local currency and JPY terms

Daily total return is calculated using today's and the previous day's month-to-date returns.

$$\text{USTJIT_RORT}(t) = \{ [(1 + \text{USTJIT_MTDRORT}(t) / 100) / (1 + \text{USTJIT_MTDRORT}(t-1) / 100)] - 1 \} \times 100$$

$$\text{USTJIT_RORT}(t)_{\text{JPY}} = \{ [(1 + \text{USTJIT_MTDRORT}(t)_{\text{JPY}} / 100) / (1 + \text{USTJIT_MTDRORT}(t-1)_{\text{JPY}} / 100)] - 1 \} \times 100$$

4.8 Exchange Rates

4.8.1 MUFG Bank telegraphic transfer spot middle rate (TTM) as quoted at 10:00 a.m. Tokyo time. LSEG Pricing Service quotes are used for currencies during periods in which MUFG Bank quotes are not available.

4.9 Chronological Summary of Events

The construction of FTSE US Treasury 0-3 Months Index - Japanese Investment Trust is driven by the same events that mark the FTSE US Treasury 0-1 Year Index, for more information, please see the FTSE Fixed Income Index Guide.

4.10 Ticker for the FTSE US Treasury 0-3 Months Index - Japanese Investment Trust

Ticker	Index
TBD	FTSE US Treasury 0-3 Months Index - Japanese Investment Trust, in JPY terms

Appendix A

Further information

A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link:

[Glossary_of_terms_FTSE_Fixed_Income.pdf](#)

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at fi.index@lseg.com.

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

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