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Glossary of Terms used in FTSE Russell Equity Methodology Documents

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Section 1

Glossary

A

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Acquiring Company

A company which is attempting to purchase another company.

Acquisition

An *Acquisition* involves an *Acquiring Company* purchasing a *Target Company* without forming a new company.

Alternatively Weighted Indices

Indices whose constituents are weighted according to some formula or rule other than the weights derived from market capitalisation used in traditional *Market Capitalisation Weighted Indices*. They are designed to reflect the performance of investment strategies with specific diversification, risk reduction or factor objectives. FTSE Russell compiles the following alternatively weighted indices, amongst others:

- **Factor (or Smart Beta) Indices**

  Indices which weight constituents so as to mimic popular investment strategies which seek to capture the performance anomalies that have been observed historically to accrue to Value, Size, Quality and Momentum factors.

- **Equally Weighted**

  All index constituents have the same weight regardless of their market capitalisation or economic size.

- **Fundamental**

  Indices which select and weight constituent companies according to measures of fundamental value, for example: assets, revenue, earnings, sales or dividends.

- **Minimum Variance**

  An index in which constituents are selected and weighted in order to minimise the volatility of index level performance using historical data.

Average Daily Dollar Trading Volume (ADDTV)

A measure of liquidity used as an eligibility screen in the construction of certain Russell indices and for determining the most liquid country *Home Country Indicator* when assigning a company to a country. See the Russell US Equity Indices Construction and Methodology document for further details.

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Basis Point

A unit of measurement, equal to 1/100th of 1%, or 0.01%

Benchmark'

Historically the terms *Benchmark* and *Index* have been used interchangeably. Following the publication in July 2013 of the IOSCO Principles, the term *Benchmark* has taken a more specific meaning. The *IOSCO* definition is:

A Benchmark contains prices, estimates, rates, indices or values that are:

a. Made available to users, whether free of charge or for payment;

b. Calculated periodically, entirely or partially by the application of a formula or another method of calculation to, or an assessment of, the value of one or more underlying Interests;

c. Used for reference for purposes including one or more of the following:

   – determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments;

   – determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument; and/or

   – measuring the performance of a financial instrument.

The forthcoming European Regulation of Indices used as Benchmarks in Financial Instruments and Financial Contracts may adopt a related, but not identical, definition; it is possible that this definition will include: an *Index* that is used to measure the performance of an investment fund.

Benchmark Administrator

An organisation that takes responsibility for all stages of the calculation, determination and dissemination of a *Benchmark*. The IOSCO Principles and European Regulation contain such a definition.

Benefit Driven Incorporation (BDI)

Companies may choose to incorporate in certain countries for operational, tax, and political benefits. FTSE Russell identifies these countries as BDI countries. A list of these countries is provided in the Russell US Indices Construction and Methodology document. Companies that incorporate or headquarter in BDI countries are subject to specific treatment when determining their country assignment for Russell US index inclusion purposes.

Buffer Zone

See *Percentile Banding*.

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Capped Index

A *Capped Index* limits the weight of any single security (industry or country) in the index. The aim is to prevent any single security (industry or country) having an excessive influence on the index.

Capped Weight

The level at which the weight of a constituent may be limited at an index review, if it exceeds a certain percentage within a *Capped Index*.

Capital Index

A *Capital Index* sometimes referred to as a *Price Index*, measures the aggregated price performance of constituents, weighted according to the index weighting strategy. Comparing the index at different points in time provides a measure of the change in the value of the market or segment which the Index is designed to represent. In contrast to a *Total Return Index*, a *Capital Index* does not take account of dividend income accruing to the constituents.

Composite Value Score (CVS)

A measure used to assign the weights to constituents of the Russell Value and Growth indices. See the Russell US Equity Indices Construction and Methodology document for further information.

Constituent

A security that is a member of an index.

Corporate Action

A *Corporate Action* occurs when there is a change to a company's capital structure. Unlike *Corporate Events, Corporate Actions* have a prescribed ex-date. The share price will be subject to an adjustment on the ex-date and FTSE Russell will adjust the index *Divisor* to counteract the effect that the price change would otherwise have on the index. Examples of corporate actions include rights or entitlement issues, consolidations, stock splits and capital repayments.

Corporate Event

A *Corporate Event* arises as a result of a company announcing a course of action that could result in significant changes to the company. *Corporate Events* do not have a defined ex-date. Examples include acquisitions, secondary share offerings and tender offers. Some *Corporate Events* will be subject to shareholder approval by the company shareholders; if the company has made a tender offer, approval will also be required from the *Target Company* shareholders. The treatment of *Corporate Events* is set out in the index *Methodology documents*.

Country Classification

FTSE classifies countries for developmental status according to a transparent rules-based process that assesses each country against a set of Quality of Markets criteria. Countries are classified as Developed, Advanced Emerging, Secondary Emerging or Frontier. The Country Classification Matrix can be found at: FTSE Country Matrix.

Cumulative Market Capitalisation

The cumulative running percentage total of the index constituents' float-adjusted capitalisation usually calculated in descending order of float-adjusted market capitalisation. Cumulative Market Capitalisation may be used to establish size-based percentile breakpoints for the construction of large, mid and small cap subsets of an index.

Cut-off Date

Only information publicly available up to and including this date will be considered when conducting the index review. The cut-off dates may be different for different indices and for different data points. The applicable date for a given index can generally be found in the index ground rules.

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DDS – Data Delivery System

FTSE's File Transfer Protocol (FTP) site, used to distribute end of day data files to clients.

Divisor

A component of the index calculation formula that is adjusted to account for the impact of i) *Corporate Actions and Corporate Events*, and ii) index additions and deletions on the index value. These adjustments ensure that the index values remain comparable over time. On the *Index Base Date*, the divisor is set equal to the aggregate float-adjusted market capitalisation of the index constituents divided by the chosen *Index Base Value* (e.g. 1000).

Dummy Line

Dummy lines are non-tradable instruments which have been temporarily created by FTSE in order to reflect a corporate event. Dummy lines are generally used to reflect the investor experience and to facilitate index replication.

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Free Float/Float

The percentage of a company's shares that are considered to be freely available for public purchase. Determining a company's *Free Float* requires analysis and classification of the company's shareholders. The procedures for this are described in the index methodology documents.

Foreign Headroom

The percentage of shares available to foreign investors as a proportion of the underlying investability weight (i.e. share investability/investability weight).

Foreign Ownership

In some cases, foreign ownership of a company's equity capital may be prohibited or restricted. When foreign ownership is prohibited these securities are excluded from FTSE Russell global indices. When a limit is placed on foreign ownership that is more restrictive than the *Free Float* adjustment, the security will be included in the index but with a weighting which reflects the maximum holding available by foreign investors.

FTSE4Good

The FTSE4Good Index Series contains only constituent companies that meet globally recognised corporate responsibility standards.

Full Market Capitalisation

The combined value of all classes of equity capital for a company obtained by multiplying the number of shares in issue for each class by its market price and summing across the classes. No adjustments are made for *Free Float* or *Foreign Ownership restrictions.*

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Growth Company

FTSE Russell maintains a set of country and global style Indices which allow investors to measure the performance of Growth or Value companies. Growth companies are defined as those with relatively strong growth characteristics assessed on various criteria related to past and expected future revenue and earnings growth.

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Home Country Indicators (HCI)

In determining the nationality of a particular company when reviewing eligibility for the Russell US indices, FTSE Russell tests three home country indicators against reported assets and revenues. The three indicators are location of headquarters, location of most liquid listing and location of incorporation.

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ICB

The Industry Classification Benchmark (ICB) is a detailed and comprehensive structure for sector and industry analysis, facilitating the comparison of companies across four levels and across national boundaries. The classification system allocates companies to the subsector whose definition closely describes the nature of its business as determined by the source of its revenue or the source of the majority of its revenue, and the appropriate sector, supersector and industry classification automatically results.

Index

The European Regulation on indices used as benchmarks[1] contains the following definition of an index:

“An ‘index’ means any figure

a. that is published or made available to the public;

b. that is regularly determined:

   i. entirely or partially by the application of a formula or any other method of calculation, or by an assessment; and

   ii. on the basis of the value of one or more underlying assets or prices, including estimated prices, actual or estimated interest rates, quotes and committed quotes, or other values or surveys;”.

Index Base Date

The date for which the *Index Base Value* applies.

Index Base Value

The arbitrary number (e.g. 1000) set on the *Index Base Date* as the starting value of an index.

Index Shares

The weight adjusted share figure used within the index calculations for a particular index.

Industry Neutral

An index is deemed ICB industry neutral if it is rebalanced so that, at each review, the ICB industry exposures and/or constituent weights of the index match those of the underlying investable universe.

Informative Notice

A provisional notice published on the Index Announcements page of the FTSE Russell website communicating indicative index treatment of an event which is complex or high profile in advance of implementation. A Technical Notice is released subsequent to the Informative notice confirming index treatment, once the event is considered final.

Investable Market Capitalisation

A company’s *Full Market Capitalisation* adjusted for *Free Float* restrictions and *Foreign Ownership* limits.

[1] 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 and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

Investability Weighting

See “Free float adjustment”.

IOSCO

The International Organization of Securities Commissions.

IOSCO Principles

The principles set out in the final report of the Board of IOSCO on the Principles for Financial Benchmarks published in July 2013.

IPO (Initial Public Offering)

Process by which a company offers to sell shares to the public for the very first time.

- **Direct Listing IPO**

  Shares are sold directly to the public without the use of underwriters or other intermediaries, and there are no new shares issued. As a result there is no guarantee for the share sale.

- **Variable or Best Efforts IPO**

  Underwriters (in their capacity as marketing agents) agree to use their best efforts to sell all of the shares that are being offered by the issuer in the IPO. However, the underwriters only purchase from the issuer shares that its clients have agreed to buy. Any shares that have not been sold will be returned to the issuer. As a result, there is no guarantee for the full share sale.

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Liquidity Screen

To be eligible for inclusion in a FTSE Russell index, a security must pass a liquidity screen. These screens are specific to each index series.

Lockdown Period

The period when the forthcoming index review changes are considered to be final. Updates during the lockdown period are generally avoided, however, egregious data inaccuracies may require remedial action in accordance with the FTSE Russell Recalculation Policy and Guidelines.

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Market Adjusted Breakpoints

In some Russell US indices, new security additions, such as IPOs, are assessed against *Market Adjusted Breakpoints*. These breakpoints are determined by applying the performance of the Russell 3000E Index between the latest rebalance and current date to the latest reconstitution size breakpoints.

Market Capitalisation Weighted Indices

Indices in which the weight of a constituent is determined by market capitalisation adjusted for *Free Float* and *Foreign Ownership* Restrictions.

Merger

The combination of two companies to form a new company.

Methodology

The set of documents that describe how an index is determined. For FTSE indices, the *Methodology* documents include the index Ground Rules, the Guide to Corporate Actions and Events, the Guide to Calculation Methods, and

various policy documents that set out how the index will respond to unusual events. For the Russell US indices, the *Methodology* is set out in the Russell US Equities Construction and Methodology document.

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Non-Domestic Exchange (NDE) Country

Some investable companies may be incorporated in countries that do not have domestic stock exchanges or exchanges that FTSE Russell recognizes as valid. Within the Russell US indices, when assets or revenues do not match with an HCI, these companies are assigned to the countries of their most liquid listing. .

Non-Linear Probability Algorithm (NLP)

The NLP is used within both the Russell style and stability products and implements a nonlinear function to standardize or normalize, the values of security characteristics on a scale ranging from zero to one. For further details see the Russell US Equity Indices Construction and Methodology document.

Non-Trading Days

Non-Trading Days are days during which a country's primary market is closed. On such days, no prices are available. However, within global indices, country level index values are updated to reflect changing exchange rates. Indices that span more than one country will be calculated on days provided at least one country's primary market is open.

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Percentile Banding

Percentile Banding is used to create a buffer zone around the *Cumulative Market Capitalisation* breakpoints that are used to create large, mid and small capitalisation sub-indices from a broad universe. The use of *Percentile Banding* allows previous membership to be considered in order to limit unnecessary index turnover. Its use places a higher threshold for new index constituents than existing members and restricts index memberships changes to those resulting from significant movements.

Price Cut-Off Date

Security close prices on this date are used to calculate market capitalisations for the purposes of index review membership and eligibility. For non-market capitalisation weighted indices, the index review weights are calculated using the close prices on this date. The price cut-off date is usually defined in reference to the index review month (for example, Wednesday before first Friday of the review month).

Pricing Vehicle

As defined by FTSE Russell, the share class of a company with the highest two-year trading volume as of the Russell reconstitution rank date.

Q

Query Period

The period after the indicative index review changes have been published when FTSE Russell will consider queries on the review data, and update if required.

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Rank Day

The day on which the data that determine index rebalance positions are collected. For the annual June Reconstitution of the US Russell Indices, *Rank Day* is preannounced and occurs on the last business day in April.. The security values used to determine index eligibility are taken from the close of business on that day.

Rebalance

See *Review*.

Rebasing

The process of scaling the time series values of two or more different indices so that they have the same value at a given point in time. Rebasing facilitates direct comparisons between the performance of the different indices.

Reconstitution

The semi-annual process in which the Russell Indices are completely rebuilt, taking into account changes in relative size and fundamental characteristics. *Reconstitution* ensures that companies continue to be correctly represented within appropriate market segments and that the indices reflect the appropriate opportunity set.

Reverse Merger

A merger in which an index constituent is acquired or merged with a private, non-publicly traded company or OTC-traded company resulting in a publicly traded entity which is potentially eligible for index inclusion.

Review

The regular process (typically quarterly, semi-annually or annually) in which the eligibility and weights of constituents of FTSE indices are reassessed. The Review process ensures that the indices continue to accurately represent the market or segment that the indices are designed to measure.

Review Announcement Date

Preliminary review changes such as changes to index memberships and changes to shares and free floats are published and disseminated to clients via the various distribution channels. After this date there will be a query period where feedback and client queries on the index reviews are considered.

Review Effective Date

The date (from the open) on which the previously announced index review changes are reflected within the indices. This includes (but not limited to) updated shares and free float data, membership changes, WAF changes, and capping factors.

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Sharia (or Shariah) Indices

Sharia indices are indices designed to meet the requirements of Islamic investors, as defined by Sharia law.

Shares in issue

As used in legacy FTSE index documentation and product files, *shares in issue* is defined as the number of shares outstanding excluding shares held in treasury and unissued shares. In recognition that in the US, *shares in issue* is frequently understood to include treasury shares, this term is being replaced in FTSE Russell documentation and product files by the term *shares outstanding*.

Stability Probability

A measure of company “stability”, used in the calculation of the Russell Stability Indices, which split companies into those with primarily “defensive” or “dynamic” characteristics. See the Russell US Equity Indices Construction and Methodology document for further information.

Static Basket

A basket of securities intended to remain the same over time. No updates will be made to the composition of the basket with the exception of updates triggered by corporate events. If a security is removed from the basket due to a delisting or acquisition (for example), there will be no replacement company added.

Style Probability

A measure of company "style" used to separate companies into those exhibiting primarily "value" or "growth" characteristics. See the Russell US Equity Indices Construction and Methodology document for further information.

Synthetic Price

A *Synthetic Price* for an index constituent is used when the constituent has ceased to trade, or has yet to commence to trade, but where its value can be determined through its relationship to some other index constituent or tradable security. As an example, the shares of a *Target Company* may be suspended whilst an Acquisition completes, but in the cases of share, or share and cash, offers their value can be deduced from the offer terms and the share price of the *Acquiring Company*.

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Target Company

A company which is the subject of an Acquisition or take-over. The *Target Company* is the firm that is being acquired.

Technical Notice (Index Announcement)

A notice published on the Index Announcements page of the FTSE Russell website communicating confirmed index treatment of a complex corporate event, changes in index membership or a change to index methodology. Full versions of Index Announcements are available to subscribed users.

Tokenised Shares

Tokenised shares are blockchain-based tokens that represent shares of publicly traded companies. Listed tokenized shares typically trade on specialized blockchain platforms.

Total Return Index

An index that calculates the performance of its constituents assuming that equity regular cash dividends or bond coupons are re-invested into the index on the ex-dividend date.

Tracking Stock

A line of stock issued to "track" the investment performance of a particular division, business unit, subsidiary or group of assets of the issuing company (the "parent").

Treasury Shares

Treasury shares held by the company, either via a buy-back/repurchase program or never issued to the public. Treasury shares are excluded from the FTSE shares in issue figure.

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Value Company

FTSE Russell maintains a set of country and global style Indices which allow investors to measure the performance of Growth or Value companies. Value companies are defined as those with relatively low valuation measures.

Velocity

A measure of liquidity. It is calculated as the number of shares traded over a given period divided by the free-float adjusted shares in issue at the end of that period.

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Weight Adjustment Factor (WAF)

A factor applied to securities to achieve the appropriate index weighting in a non-market capitalisation indices.

Further information

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