

FTSE Cash Flow Focus Index Series

v1.0



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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 Cash Flow Focus Index Series.
- 1.2 The FTSE Cash Flow Focus Index Series is designed to represent the performance of securities in the underlying universe exhibiting high cash flow yield characteristics.
- 1.3 These Ground Rules should be read in conjunction with the following index rules and guides, which are available at www.lseg.com/en/ftse-russell/:
- FTSE Global Equity Index Series Ground Rules;
 - FTSE China A All Cap Index Series Ground Rules;
 - FTSE Global Factor Index Series Ground Rules; and
 - The Corporate Actions and Events Guide for Market Capitalisation Weighted Indices.
- 1.4 Price return and total return will be calculated on an end-of-day basis.
- 1.5 The FTSE Cash Flow Focus Index Series does not take account of ESG factors in its design.
- 1.6 The base currency is US Dollars for global or regional indices and local currency for single country indices. Index values may also be published in other currencies.
- 1.7 The indices may be calculated in real time.
- 1.8 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.
- 1.9 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.
- 1.10 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;
 - 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 series 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 index¹.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index, 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 periodic index reviews of the index 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.

2.2 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. 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 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 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:
[Benchmark Determination Complaints Handling Policy.pdf](#)

3.2 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 using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

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

3.3.1 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](#)

3.4 Recalculation Policy and Guidelines

3.4.1 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 Cash Flow Focus Index Series will be notified through appropriate media.

For further information, please refer to the FTSE Russell Recalculation Policy and Guidelines document, which is available on the FTSE Russell website using the link below:

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

3.5 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](#)

3.6 FTSE Russell Governance Framework

3.6.1 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](#)

3.7 Real Time Status Definitions

3.7.1 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 eligible securities of each index are the constituents of the relevant underlying index:

FTSE Cash Flow Focus Index Series	Underlying Index
FTSE China A Free Cash Flow Focus Index	FTSE China A Free Index

4.2 Multiple lines

4.2.1 If a company consists of multiple lines, only one eligible line is included.

4.2.2 The eligible line is the line with the highest average daily trading value (ADTV). ADTV is calculated as the average of trading volume times price. A minimum number of days in table below of daily observations are required to calculate ADTV.

FTSE Cash Flow Focus Index Series	Number of days	Minimum number of days	Calculation Currency
FTSE China A Free Cash Flow Focus Index	252	60	CNY

4.2.3 If a line has less than the minimum number of days required of daily observations when calculating the ADTV, the line is excluded.

4.3 Screens

4.3.1 Liquidity screen

For the FTSE China A Free Cash Flow Focus Index, securities in the bottom 20% of lowest ADTV in the FTSE China A All Cap Free Index or with missing data are excluded.

ADTV is defined in rule 4.2.2.

4.3.2 Quality screen

Securities ranked within the bottom percentage of lowest quality in table below or with missing data are excluded.

FTSE Cash Flow Focus Index Series	% screened
FTSE China A Free Cash Flow Focus Index	20%

Quality is defined in the FTSE Global Factor Index Series Ground Rules.

4.3.3 Growth screen

The expected earnings growth is defined as:

$$\frac{EPS_{FY2} - EPS_{FY0}}{EPS_{FY0}}$$

where EPS_{FY0} is the reported earnings per share for the prior fiscal year. EPS_{FY2} is the median estimate for earnings per share for the next fiscal year after current one.

The expected sales growth is defined as:

$$\frac{SPS_{FY2} - SPS_{FY0}}{SPS_{FY0}}$$

where SPS_{FY0} is the reported sales per share for the prior fiscal year. SPS_{FY2} is the median estimate for sales per share for the next fiscal year after current one.

For the FTSE China A Free Cash Flow Focus Index, securities with a negative expected earnings growth (or missing data) and a negative expected sales growth (or missing data) are excluded.

4.4 Risk screen

After the screens in 4.3, securities ranked within the top percentage of highest risk in table below or with insufficient/missing return data are excluded.

FTSE Cash Flow Focus Index Series	% screened
FTSE China A Free Cash Flow Focus Index	50%

Risk is defined as the one-year trailing realised volatility of daily total returns. A minimum of 200 days of daily return observations are required to calculate volatility.

Section 5

Factor construction

5. Factor construction

5.1 A composite score is calculated using the following metrics:

fcf2p = Latest 12-month free cash flow/full market capitalisation

b2p = Latest book value/full market capitalisation

d2p = Latest 12-month dividend yield

e2p = Latest 12-month net income/full market capitalisation

5.2 For each metric, an exponentially weighted moving average (fcf2p_ewma, b2p_ewma, d2p_ewma, e2p_ewma) is calculated with 6-month half-life over 24-month trailing period.

5.3 For each exponentially weighted moving average metric, securities with missing data are excluded.

5.4 Individual stock metrics are normalised cross-sectionally to create Z-scores with each eligible universe according to:

$$Z_{F,i} = \frac{F_i - \mu_F}{\sigma_F} \text{ where } F \in \{\text{fcf2p_ewma, b2p_ewma, d2p_ewma, e2p_ewma}\}$$

Z-scores that are greater than three are truncated to a value of three.

5.5 The composite score is calculated as:

$$com_score = w_c \times Z_{fcf2p_ewma} + w_b \times Z_{b2p_ewma} + w_d \times Z_{d2p_ewma} + w_e \times Z_{e2p_ewma}$$

with weights in table below:

FTSE Cash Flow Focus Index Series	w_c	w_b	w_d	w_e
FTSE China A Free Cash Flow Focus Index	0.4	0.2	0.2	0.2

Section 6

Index construction

6. Index construction

6.1 Constituent selection

Eligible securities are ranked by composite score in descending order. Initially, the top ranked number of stocks shown in the table below are selected to form the target index. At each subsequent periodic review, buffer rules are applied as detailed in section 7.

FTSE Cash Flow Focus Index Series	Number of securities
FTSE China A Free Cash Flow Focus Index	50

6.2 Weighting scheme

For the FTSE China A Free Cash Flow Focus Index, each security is weighted in proportion to free float market capitalisation. Constituent weights are capped at 5%.

Section 7

Periodic review of constituents

7. Periodic review of constituents

7.1 Review dates

- 7.1.1 The FTSE Cash Flow Focus Index Series is reviewed semi-annually in March and September.
- 7.1.2 The constituents will be reviewed using prices as at the close of business on the Wednesday before the first Friday of the review month (review price cut-off date) and incorporating underlying index constituent changes as of the next trading day following the third Friday of the review month.
- 7.1.3 The data cut-off date for the calculation of the ADTV, quality factor, earnings growth, sales growth, volatility and all metrics used to calculate composite score is the close of business on the last business day of the month prior to the review month.
- 7.1.4 The review including any constituent changes and capping will be implemented after the close of business on the third Friday of the review month.

7.2 Review process

- 7.2.1 At the semi-annual review, eligible companies are ranked within their respective universe in descending order of composite score.
- 7.2.2 A security will be added at the periodic review if it rises to a rank equal to or above the inclusion threshold in table below. An existing security will be deleted at the periodic review if it falls to a rank below the deletion threshold in table below.

FTSE Cash Flow Focus Index Series	Inclusion threshold	Deletion threshold
FTSE China A Free Cash Flow Focus Index	20	80

- 7.2.3 A constant number of constituents will be maintained in each index at the periodic review. If there are more than the number of constituents listed in 6.1 after the application of rule 7.2.2, the lowest-ranking constituent(s) will be deleted to ensure the number of constituents remains at the number listed in 6.1. Conversely, if there are fewer than the number of constituents listed in 6.1 after the application of rule 7.2.2, the highest-ranking non-constituent(s) will be added to ensure the number of constituents remains at the number listed in 6.1.

7.3 Capping constituent weights at the periodic review

- 7.3.1 For the FTSE China A Free Cash Flow Focus Index, at the semi-annual review the constituent weights are capped at 5%. Weight in excess of the maximum stock weight is redistributed pro-rata across the remaining constituents. The stock capping process is repeated until all the stock constraints are satisfied. Following capping, the weight of each constituent in the index moves freely in line with price movements.
- 7.3.2 The capping will be based on prices at close on the second Friday of the review month (capping cut-off date) with constituents, shares in issue and investability weights as designated to take effect after close on the third Friday of the review month (i.e. taking effect on the review effective date).

7.3.3 The calculation will take into account any corporate actions/events that take effect after close on the second Friday of the review month up to and including the review effective date if they have been announced and confirmed by the second Friday of the review month.

7.3.4 Corporate actions/events announced after the second Friday of the review month that become effective up to and including the review effective date will not result in any further adjustment.

7.4 Index back histories

The availability of factor data prior to the launch date of the index is simulated through the application of lag on factor data. All index reviews prior to the index launch date incorporate the following treatments. Quality factor incorporates a lag of six months prior to September 2019. Earnings growth and sales growth in rule 4.4.3 incorporates data announced three months prior to the data cut-off date. fcf2p, b2p, and e2p used in determination of the composite score in rule 5.1 incorporate data announced three months prior to the data cut-off date.

Section 8

Changes to constituent companies

8. Changes to constituent companies

8.1 Intra-review additions

8.1.1 The FTSE Cash Flow Focus Index Series will not accept intra-review additions. Additions to the index will be considered for inclusion at the next semi-annual review.

8.2 Intra-review deletions

8.2.1 A constituent will be removed from the FTSE Cash Flow Focus Index if it is removed from the corresponding underlying universe. The deletion will be concurrent with the deletion from the underlying universes and its weight will be distributed pro-rata amongst the remaining constituents in the index.

Section 9

Corporate actions and events

9. Corporate actions and events

9.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Market Cap Weighted Indices using the following link: [Corporate Actions and Events Guide for Market Capitalisation 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 will provide notice advising of the timing of the change.

9.2 Shares in issue

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

9.3 Takeovers, mergers and spin-offs

9.3.1 Where two FTSE Cash Flow Focus Index Series constituents merge, or FTSE Cash Flow Focus Index Series constituent is acquired by another constituent, the resulting company will remain a constituent.

9.3.2 If a constituent of the FTSE Cash Flow Focus Index Series acquires a non-constituent, the resulting entity will remain a constituent of the index.

9.3.3 If an existing constituent is acquired by a non-constituent, the resulting entity will be deleted from the FTSE Cash Flow Focus Index Series. The eligibility of the resulting entity will be assessed in full at the next semi-annual review occurring at least 6 months after the takeover.

9.3.4 If a constituent splits and forms two or more companies and any of the new entities are retained in the underlying index, those new entities will be retained in the FTSE Cash Flow Focus Index Series. The eligibility of the resulting companies will be assessed in full at the next semi-annual review occurring at least six months after the demerger.

9.4 Suspension of dealing

9.4.1 Suspension of dealing rules can be found within the Corporate Actions and Events Guide.

Section 10

Index algorithm and calculation method

10. Index algorithm and calculation method

10.1 Prices

10.1.1 The FTSE Cash Flow Focus Index Series uses actual closing mid-market or last-trade prices, where available for securities with local market quotations. Further details can be accessed using the following link: [Closing Prices Used For Index Calculation.pdf](#)

10.2 Calculation frequency

The FTSE Cash Flow Focus Index Series will be calculated on an end-of-day basis and displayed to eight decimal points.

10.3 Index calculation

10.3.1 The FTSE Cash Flow Focus Index Series 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 Russell 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; 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 Rules documents can be found using the following link:

[Glossary.pdf](#)

Further information on the FTSE Cash Flow Focus Index Series is available from FTSE Russell.

For contact details please visit the FTSE Russell website or email FTSE Russell client services at info@ftserussell.com.

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

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