

The Operating Standards  
of the UK Style Indices  
calculated by FTSE



## **OPERATING STANDARDS FOR THE FTSE 350 STYLE INDICES**

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### **1.0 INTRODUCTION**

1.1 This paper describes the rules used to calculate the FTSE 350 Style Indices.

### **2.0 OBJECTIVE**

2.1 The primary purpose of these indices is to provide investors with a measure of the performance of value and growth companies within the FTSE 350.

### **3.0 INDEX STRUCTURE**

3.1 There will be two indices, representing Value and Growth portfolios. Their official names will be:

#### **3.1.1 FTSE 350 Value Index**

This Index is designed to reflect portfolios focusing on the price and value characteristics of securities, weighted towards those FTSE 350 companies with above average price rise prospects.

#### **3.1.2 FTSE 350 Growth Index**

This Index is designed to reflect portfolios focusing on earnings and revenue growth, weighted towards those FTSE 350 companies with above average growth prospects.

3.2 The Style Indices will use full market capitalisation weighted, i.e. before the application of investibility screens, book to price ratio to assess Value and Growth.

3.3 Each index is calculated once a day at the close of the FTSE 350 Index.

### **4.0 INDEX MANAGEMENT**

4.1 The management and calculation of the Style Indices are undertaken by FTSE International, overseen by the FTSE Equity Indices Committee.

4.2 The Ground Rules governing the management of the indices are reviewed by the FTSE Equity Indices Committee and all changes to the Rules must be approved by Committee prior to implementation.

4.3 The Style Indices are rebalanced annually in December and will take into consideration any constituent changes announced by the FTSE Equity Indices Committee at the quarterly review of the FTSE 350, but will be conducted before the implementation date of these changes. The changes resulting from the annual re-balance will be implemented after the close of the index calculation on the third Friday in December. The annual rebalancing process is described in Rule 5 below.

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- 4.4 Constituent changes to the FTSE 350 that are effective at other times are incorporated within the Style Indices. Stocks deleted from the FTSE 350 are removed from the appropriate Style Index at the same time. Additions are incorporated into the appropriate Style Index at the weights that would have been used had they entered at the last annual review.
- 4.5 The constituent and weighting amendments are published by FTSE International.

**5.0 ANNUAL REBALANCING**

- 5.1 The methodology used for calculating the annual rebalancing of constituents of the Style Indices and for calculating each constituent's weight within each index is provided by the Frank Russell Company and used by FTSE International under licence.
- 5.2 Procedures for conducting the annual rebalancing and for calculating constituent weights are as follows:
- 5.2.1 Rank companies in order of increasing price to book.
- 5.2.2 Compute percentile capitalisation breaks by calculating cumulative percentage ranking by full capitalisation, i.e. before the application of investibility screens, and striking breaks at the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile.
- 5.2.3 Calculate book to price (BTP) as the inverse of price to book.
- 5.2.4 Identify breakpoint scores.
- (i) The Lower Breakpoint Score (LBS) is the BTP value arising just before the 25<sup>th</sup> percentile capitalisation break.
- (ii) The Median Breakpoint Score (MBS) is the average of the BTP values before and after the 50<sup>th</sup> percentile capitalisation break.
- (iii) The Upper Breakpoint Score (UBS) is the BTP just after the 75<sup>th</sup> percentile capitalisation break.
- 5.2.5 Calculate Weights within each index:
- (i) For each company whose  $BTP \geq LBS$ ,  $WEIGHTG = 0.0$  and  $WEIGHTV = 1.0$ , where  $WEIGHTG$  is the weight of that stock that is included in the Growth Index.  $WEIGHTV$  is the weight in the Value Index.
- (ii) For each company whose  $BTP \leq UBS$  (or negative),  $WEIGHTG = 1.0$ ,  $WEIGHTV = 0.0$
- (iii) For each company whose  $BTP < LBS$  and  $BTP > MBS$ ,  $WEIGHTG = 1/(1+e^y)$ , where  $y = ((MBS-BTP) \times 5 / (MBS-LBS))$

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(iv) For each company whose  $BTP < MBS$  and  $BTP > UBS$ ,  $WEIGHTG = 1/(1+e^y)$ , where  $y = ((MBS-BTP) \times 5 / (UBS-MBS))$

(v) For each company,  $WEIGHTG + WEIGHTV = 1$

5.2.6 All stocks with a weight in the Growth Index of  $>0.95$  are placed in the Growth Index at a weight of 1.0 and their weight within the Value Index is removed. Similarly those stocks with a weight of  $>0.95$  in the Value Index are placed in the Value Index at a weight of 1.0 and their weight within the Growth Index is removed. This reduces the number of small holdings which increase complexity and balancing transaction costs. Other stocks are placed in the indices at the weights indicated above. Hence some stocks will be in both indices, although their total weight will be equal to that in the FTSE 350 Index.

**6.0 CALCULATION**

6.1 The Style indices are calculated using the following formula:

$$\sum_{i=1}^n \frac{X_i \cdot (W_i \cdot S_i)}{d}$$

**Where:**

$X_i$  = The latest mid price of the  $i^{\text{th}}$  component security (or the price at the close of the index on the previous day).

$n$  = The number of securities in the index.

$W_i$  = The weighting for the  $i^{\text{th}}$  component security.

$d$  = The divisor (a figure which represents the total issued share capital of the Index at the base date and which can be adjusted to allow changes in the issued share capital of individual constituents to be made without distorting the Index).

$S_i$  = The number of ordinary shares issued by the  $i^{\text{th}}$  component security.

6.2 The Style Indices will be displayed to one decimal place.

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