

FTSE TMX Canada Universe Discount Bond Index - Ground Rule Update

28 June 2018

FTSE Russell would like to inform clients of the following updates to the FTSE TMX Canada Universe Discount Bond Index which are effective immediately.

Section 4: Eligibility Criteria

- 4.1.3 On a quarterly basis, securities of the FTSE TMX Canada Universe Bond Index are screened and those securities with a Coupon equal to or less than 1.2 times (multiple) the Yield to maturity (YTM) of the security as of the Selection Date are eligible for inclusion in the FTSE TMX Canada Discount Bond Index. On the quarterly selection date, the multiple may be reviewed and potentially updated as market conditions change to allow for a representative number of securities to be considered as eligible. Any changes to the multiple will be announced in accordance with procedures.

Section 6: Index Rebalancing

6.1 Rebalance Schedule

- 6.1.1 The FTSE TMX Canada Universe Discount Bond Index is rebalanced on a quarterly basis (January, April, July, October), on the last business day of the quarter. The cut-off date (Selection Date) for constituent selection is 1 calendar week before the last business day of the **quarter**.

6.2 Addition of Constituents

- 6.2.1 Bonds which meet the eligibility criteria as defined in Section 4 **as of the Selection Date** are added to the index on the rebalancing date and impact the total returns from the first day of the new quarter.

6.3 Removal of Constituents

- 6.3.1 Constituents will be removed from the index on the **quarterly** rebalancing date, if they no longer meet the eligibility criteria as defined in Section 4 **as of the Selection Date**.
- 6.3.2 **Constituents may be removed from the index in between rebalance dates as a result of a full redemption. The weight of the removed bond(s) will be redistributed proportionally to the remaining constituents.**

6.4 Weights

- 6.4.1 Once the constituents have been selected, their notional amounts are adjusted so that both of the following conditions are met:
1. The weights of the Government (Federal, Provincial and Municipal) and Corporate sectors fall within +/- 1% of their respective weights in the Universe Index, as of the rebalance date. The weights in the universe index are calculated by taking the market value of each sector and dividing it by the market value of the index.
 2. **The Corporate sector ratings are constrained to be within +/- 0.1 of their respective ratings in the Universe Index, as of the rebalance date. In conversion, the AAA rating is 5, AA rating is 4, and so**

on.

3. The overall modified duration of the constituents falls within +/- 0.05 of the Universe Index.

The weights are adjusted by an optimization procedure, which tries to meet the objectives above, whilst staying close to the original market value weights of the constituent bonds in order to maintain liquidity and to limit transaction costs.

An updated copy of the FTSE TMX Canada Universe Discount Bond Index Ground Rules (v2.1) is now available on the FTSE Russell website: www.ftserussell.com

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