

FTSE Diversity and Inclusion Index – Index Methodology

v1.1

The FTSE Diversity and Inclusion Index is not, and is not intended to be, used by supervised entities in the European Union or the United Kingdom and accordingly, the European benchmark regulation* and the UK Benchmark Regulation# do not apply to the index. Consequently, supervised entities within the European Union and the United Kingdom are not permitted to use the index as a benchmark as set out in article 3(1)(7) of the European benchmark regulation.

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**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 Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (which amends the European benchmark regulation in the United Kingdom)



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1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE Diversity and Inclusion Index.
- 1.2 The FTSE Diversity and Inclusion Index offers an innovative benchmark for fund managers and investors wishing to commit capital to companies that actively invest in and promote environmental, social and governance (ESG) values and principles in the running of their businesses.

2. FTSE Russell

- 2.1 As part of the ongoing work to simplify its brand, London Stock Exchange Group (LSEG) announced that Refinitiv Benchmarks and Indices were moving to FTSE Russell branding with effect from November 2023. As part of the rebranding, the Refinitiv Diversity and Inclusion Index was renamed as the FTSE Diversity and Inclusion Index.
- 2.2 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, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings S.A.S.
- 2.3 LSEG holds a unique position within the global financial market, operating connected businesses to serve customers across the financial markets value chain.
- 2.4 The FTSE Diversity and Inclusion Index is calculated by FTSE Russell and will be made available to customers as part of their desktop licence through the LSEG Data & Analytics Platforms or subject to a separate licence agreement.
- 2.5 Neither FTSE International Limited nor Refinitiv Benchmark Services (UK) Limited nor any other member of the London Stock Exchange Group plc group of companies, is the benchmark administrator¹ of the FTSE Diversity and Inclusion Index.

3. Index design

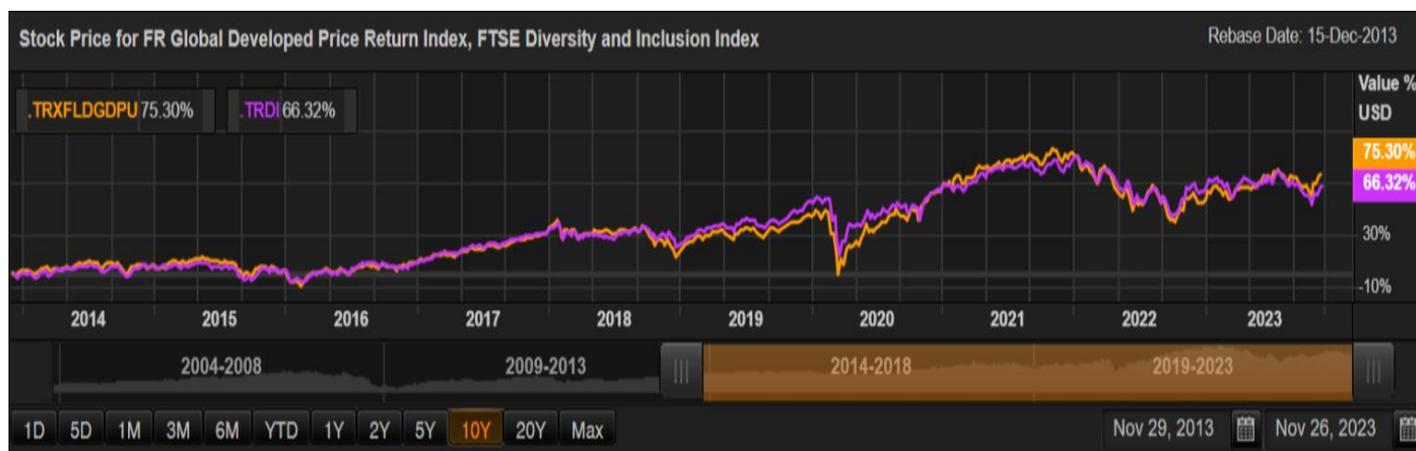
- 3.1 For an initial universe of companies, the FTSE Diversity and Inclusion Index draws on a broad range of publicly traded companies that are representative of global equities as an asset class. The index utilises a Diversity and Inclusion (D&I) score² to filter this initial universe, and the final index selection reflects the principles and impact of diversity and inclusion.
- 3.2 FTSE Diversity and Inclusion Index has been designed on the hypothesis that companies tracking, reporting and achieving the three measures (or pillars) of Diversity, Inclusion and People Development, will collectively and over time, offer diversification away from portfolios constructed using different selection criteria such as market capitalisation alone.³ A fourth pillar (Controversies) provides an additional dimension for measuring corporate performance in this area.
- 3.3 The index tracks the total return and price return of the 100 publicly traded equities across the world that have the highest scores when ranked using these four pillars.

¹ As the term administrator is defined in the [IOSCO Principles for Financial Benchmarks and 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).

² Data from the ESG database is widely available for many other uses.

³ Past performance is not necessarily indicative of future performance.

- 3.4 Over 14 years of history is available, with an inception value of 100 as of June 30, 2009. For the back-testing, rebalances were performed on an annual basis. The index is rebalanced quarterly from the time it went live.



Source: LSEG Eikon, Data as at November 26 2023. Past performance is no guarantee of future results. Returns shown prior to index launch reflect hypothetical historical performance.

Orange line: FR Global Developed Index

Purple line: FTSE Diversity and Inclusion Index

Index types: Price only and total return variants are published for this index.

4. Constituent universe

- 4.1 The FTSE Diversity and Inclusion Index uses all the publicly traded companies covered by the LSEG ESG database as the initial candidate universe. For further information about the ESG database, see: [ESG Scores | LSEG](#).
- 4.2 Scores are calculated for each company for the Diversity, Inclusion, People Development and Controversies pillars, and those companies with non-zero scores for all four pillars are assigned an overall score (the arithmetic mean of the pillar scores). The 100 companies with the best overall scores are selected for the index.
- 4.3 For further information about the calculation of the D&I scores, see the methodology document on D&I score-[diversity-inclusion-rating-methodology.pdf \(lseg.com\)](#). All D&I scores are derived using the ESG database.
- 4.4 Potential benchmark limitations**
- 4.4.1 The underlying ESG database contains information on over 15,000 global companies and over 630 metrics. The data is gathered from publicly available information sources and is collected manually to ensure that the information is standardised, comparable and reliable. All the ESG data collected is quality controlled.
- 4.4.2 The public availability of ESG information varies across different countries, industries, and market capitalisations. The ESG database is therefore more reflective of companies with a greater degree of ESG data disclosure. These include companies listed in countries where regulatory or investor demand favours such disclosure, companies in industries with a tradition of ESG transparency, and companies with mid to large market capitalisations.

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- 4.4.3 The calculated overall score is the sole criterion for the selection of companies from the ESG database for inclusion in the FTSE Diversity and Inclusion Index. There are therefore no constraints or caps on:
- TRBC⁴ sector
 - Geographic region
 - Country
 - Market capitalisation categorisation (large, mid, small)
 - Individual constituent weight
- 4.4.4 Consequently, the selected portfolio may be over- or underweight in one or more of the above areas when compared with other market benchmarks.
- 4.4.5 While certain sector, region, country, and market capitalisation values may be statistically significant in predicting overall scores, these factors account for only 25.61% of the variability in the model (adjusted from linear regression, FY2013 scores).

5. Selection methodology

- 5.1 The publicly traded universe of candidates for the FTSE Diversity and Inclusion Index is the set of publicly traded equities tracked by the ESG database at the rebalance date. Each company receives a score on each of the four pillars. Equities with a non-zero score on each of the four pillars will be assigned an overall score, which is simply the arithmetic mean of the pillar scores.
- 5.2 Equities are ranked (in descending order) on the basis of overall score, and the top 100 are selected as constituents. For the complete scoring process, see the methodology document on D&I score [diversity-inclusion-rating-methodology.pdf \(lseg.com\)](#).
- 5.3 By design, there is no assignment of overall scores to companies scoring zero on one or more pillars. This avoids the inclusion of companies that may score highly on some pillars but zero on others, which may lead to an overall dilution in the average score of companies selected for the FTSE Diversity and Inclusion Index or introduce a bias towards or away from any particular pillar.
- 5.4 At rebalance, the companies are weighted by free float market capitalisation.

6. Data sources and data management

- 6.1 For each date on which the FTSE Diversity and Inclusion Index is priced, the market price of each individual asset is used to revalue the portfolio, calculate a return and derive an index value.
- 6.2 The primary exchange for each equity (in the country of domicile) is the source used for the local equity prices. Local prices are converted to USD using the corresponding WMR benchmark's WMSPOTMID – BID prices taken from LSEG.
- 6.3 If a market price is unchanged, the most recent prior price is used. In cases where the securities go for a period without pricing, this matter will be escalated to the LSEG Index Action Committee (IAC) in order to determine course of action.
- 6.4 **Data source: ESG**
The index uses LSEG ESG Scores : [ESG Scores | LSEG](#).

⁴ The LSEG Business Classifications. See: <https://www.refinitiv.com/en/financial-data/indices/trbc-business-classification>.

6.5 Data source: The Reference Data Business Classifications

The Reference Data Business Classifications (TRBC) is an industry classification system that is owned and operated by LSEG. This market-oriented system tracks the primary business of a corporation and reflects global industry practices by grouping together correlated companies that offer products and services to similar end markets.

TRBC is used by the investment community for navigation, aggregation, and benchmarking. It provides a global standard for identifying peers, tagging research, aggregating financial content and transforming news and information into insightful trends. It delivers a solid foundation for aggregating financial ratios, portfolio benchmarking and attribution analysis.

7. Calculation methodology

7.1 The FTSE Diversity and Inclusion Index is calculated using the FR Global Equity Indices methodology, unless stated otherwise in the FTSE Diversity and Inclusion Index methodology. For further information, please see the Global Equity Indices methodology: [FR Equity Indices | LSEG](#).

7.2 Corporate action rules follow the FR Global Equity Indices methodology. A forward-looking corporate actions file is available upon request. For details on corporate action treatment for the indices, please refer to the detailed corporate actions methodology document: [FR Global Equity Indices Corporate Actions Methodology \(lseg.com\)](#).

8. Rebalancing methodology

8.1 Introduction

8.1.1 The FTSE Diversity and Inclusion Index is rebalanced on a quarterly basis after close of business on the final business day of each calendar quarter (determined using the New York Stock Exchange trading calendar). It references the D&I scores based on the most recent bi-weekly data update from the LSEG ESG database

8.1.2 The new rebalance is effective at market open on the first business day of the new calendar quarter.

8.1.3 Publicly traded equities are selected for the FTSE Diversity and Inclusion Index using the D&I scores.

8.1.4 The top 100 companies when ranked by overall score are included in the FTSE Diversity and Inclusion D&I Index.

8.2 Company selection and classification

8.2.1 The rebalancing procedure starts by taking the universe of companies covered by the ESG database. The candidate set is then further refined to include only those candidates for which a D&I score is available at the rebalance date.

8.2.2 Companies are ranked in descending order by overall score and the top 100 are selected as the index portfolio. Each of the equities in the index is weighted based on its free float market capitalisation.

8.2.3 The final list of constituents and their weights is published in the Index Constituent and Weight (ICW) file available on LSEG Eikon and to index clients via SFTP download.

9. Calendar

Days	Index ticking start time	Index ticking end time
Monday-Friday	6:00 p.m. EST on a previous day	4:00 p.m. EST
Saturday	Not trading	Not trading
Sunday	Not trading	Not trading

The index RICs for publication on Eikon are

- FTSE Diversity and Inclusion Index (price only): .TRDI
- Global D&I Total Return Index: .TRDIT

10. Quality control

10.1 Quality control procedures are in place to monitor any prices – whether they are obtained from a regulated exchange or another market – prior to calculation of indices, as well as prior to publication.

10.2 Error reporting

10.2.1 The Index Action Committee (see section 11, Governance below) may determine if a retrospective recalculation is required.

10.2.2 A retrospective recalculation will only be made when there has been a material error. The feedback from the stakeholders may also be sought.

10.2.3 Any retrospective recalculation will be notified to users via the alert system on LSEG Eikon.

10.3 Insufficient data and market disruption

10.3.1 The FTSE Diversity and Inclusion Index is based on equity prices published by the exchange (in the country of domicile) for each equity. Each exchange is a regulated marketplace and a well-established supplier of equity price discovery.

10.3.2 In the event that certain data is not available in time to publish the FTSE Diversity and Inclusion Index as indicated in the methodology, or if the index cannot be published at all over one or more planned publication times, a new publication time will be communicated to subscribers and licensors of the index.

10.3.3 Should a period of market stress or a disruption affect the calculation of the index, FTSE Russell reserves the right to take any action with respect to the index it deems appropriate given the circumstances, subject to the index governance procedures (see section 11, Governance below). FTSE Russell will first consider the effectiveness of the actions taken by each primary exchange in producing the equity prices used in the index calculation.

10.3.4 If additional action is required by FTSE Russell it will attempt to notify interested parties of any such action with as much notice as is practical. There is no assurance, however, that the actions taken by FTSE Russell in response to such a period of market stress or disruption will not have an adverse effect on the value of the index or the manner in which it is calculated.

10.4 Cessation of an index

10.4.1 In the event that FTSE Russell determines that the calculation of the index should be ceased, a notice will be published via LSEG Eikon, an LSEG desktop product.

11. Governance

11.1 The FTSE Diversity and Inclusion Index is calculated and managed by FTSE Russell which makes all decisions regarding index calculations and changes to the index methodology.

11.2 Index team

11.2.1 The Index team is responsible for the maintenance, calculation and distribution of the FTSE Diversity and Inclusion Index as set out in this methodology.

11.3 Index Action Committee

11.3.1 The IAC is an internal group of subject matter experts (indices as well as asset classes) that provide advice related to methodology interpretation or changes.

11.4 Methodology review

11.4.1 The FTSE Diversity and Inclusion Index methodology is reviewed once a year and, if required by market events, more frequently. In reviewing the methodology, attention is paid to the suitability of the index calculation methodology in representing the four pillars of Diversity, Inclusion, People Development and Controversies.

11.4.2 Any changes to the methodology are approved by the IAC and will be announced prior to implementation. All reasonable efforts will be made to provide at least one month's notice of any such changes prior to their implementation.

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