

FTSE Quality Growth 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 FTSE Quality Growth Index Series.
- 1.2 FTSE Quality Growth Index Series is designed to represent the performance of securities in the underlying universe exhibiting high quality and growth potential 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; and
 - The Corporate Actions and Events Guide for Market Capitalisation Weighted Indices.
- 1.4 Price, total return and net-of-tax return indices will be calculated on an end-of-day basis.
- 1.5 FTSE Quality Growth Index Series does not take account of ESG factors in its design.
- 1.6 The base currency is CNY. Index values may also be published in other currencies.
- 1.7 The indices may be calculated in real time.
- 1.8 FTSE Russell**
 - 1.8.1 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.
 - 1.8.2 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 FTSE Quality Growth 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 Quality Growth Index Series	Underlying Index
FTSE China A Free Quality Growth Index	FTSE China A Free Index
FTSE China A Free Innovative Enterprises Quality Growth Index	FTSE China A Free Innovative Enterprises All Cap Index

4.2 Screens

4.2.1 Profitability stability screen

Securities ranked within the top 20% of highest EPS variability or 20% of highest EPS growth volatility are excluded. EPS variability is defined as the standard deviation of EPS over the past five consecutive years divided by the median of EPS over the same period. EPS growth volatility is defined as the standard deviation of annual EPS growth rate over the past five consecutive years.

4.2.2 Analyst sentiment screen

Securities ranked within the bottom 20% of lowest analyst sentiment are excluded. Analyst sentiment is defined as the ratio of net upward earning revisions to the total number of earnings estimates over the next 2 years.

4.2.3 Accruals growth screen

Securities ranked within the top 20% of highest accruals growth rate over the past year are excluded.

Section 5

Factor construction

5. Factor construction

5.1 Quality Score

5.1.1 A quality score is calculated for each underlying security using the following metrics:

ROA = Latest 12-month net income/total assets

OCF2A = Latest 12-month operating cash flow/total assets

ACC2A = Latest 12-month accruals/total assets

5.1.2 For ROA, individual stock metrics are normalised cross-sectionally to create Z-scores within eligible universe according to:

$$Z_{ROA,i} = \frac{ROA_i - \mu_{ROA}}{\sigma_{ROA}}$$

Z-scores that are greater than 3 or less than -3 are truncated to 3 and -3, respectively.

5.1.3 For OCF2A and ACC2A, for securities that are not in the Financials (ICB 30) industry, individual stock metrics are normalised cross-sectionally to create Z-scores within universe excluding Financials (ICB 30) industry, according to:

$$Z_{OCF2A,i} = \frac{OCF2A_i - \mu_{OCF2A}}{\sigma_{OCF2A}}$$

$$Z_{ACC2A,i} = -\frac{ACC2A_i - \mu_{ACC2A}}{\sigma_{ACC2A}}$$

Z-scores that are greater than 3 or less than -3 are truncated to 3 and -3, respectively. For securities in the Financials (ICB 30) industry, $Z_{F,i} = null$ where $F \in \{OCF2A, ACC2A\}$.

5.1.4 For securities that are not in the Financials (ICB 30) industry, a quality indicator is calculated as the average of non-missing $Z_{ROA,i}$, $Z_{OCF2A,i}$ and $Z_{ACC2A,i}$ scores. For securities in the Financials (ICB 30) industry, the quality indicator equals $Z_{ROA,i}$.

5.1.5 Individual stocks quality indicator is normalised cross-sectionally to create Z-scores within universe as quality score, according to:

$$Z_{F,i} = \frac{F_i - \mu_F}{\sigma_F} \text{ where } F = \text{quality indicator}$$

Z-scores that are greater than 3 or less than -3 are truncated to 3 and -3, respectively.

5.2 Growth score

5.2.1 A growth score is calculated for each underlying security using the following metrics:

$$FEPS = \frac{EPS_{FY_2} - EPS_{FY_0}}{EPS_{FY_0}}$$

where EPS_{FY_0} is the reported earnings per share for the prior fiscal year. EPS_{FY_2} is the median estimate for earnings per share for the next fiscal year after current one.

$$FSPS = \frac{SPS_{FY_2} - SPS_{FY_0}}{SPS_{FY_0}}$$

where SPS_{FY_0} is the reported sales per share for the prior fiscal year. SPS_{FY_2} is the median estimate for sales per share for the next fiscal year after current one.

- 5.2.2 For FEPS, and FSAL, individual stock metrics are normalised cross-sectionally to create Z-scores within eligible universe according to:

$$Z_{F,i} = \frac{F_i - \mu_F}{\sigma_F} \text{ where } F \in \{FEPS, FSAL\}$$

Z-scores that are greater than 3 or less than -3 are truncated to 3 and -3, respectively.

- 5.2.3 For each eligible security, a growth indicator is calculated as the average of non-missing $Z_{FEPS,i}$ and $Z_{FSAL,i}$ scores.

- 5.2.4 Individual stocks growth indicator is normalised cross-sectionally to create Z-scores within universe as growth score, according to:

$$Z_{F,i} = \frac{F_i - \mu_F}{\sigma_F} \text{ where } F = \text{growth indicator}$$

Z-scores that are greater than 3 or less than -3 are truncated to 3 and -3, respectively.

5.3 Composite score

The composite score is calculated as the sum of quality score and growth score.

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, turnover constraints are applied as detailed in section 7.2.

FTSE Quality Growth Index Series	Target Number of securities
FTSE China A Free Quality Growth Index	50
FTSE China A Free Innovative Enterprises Quality Growth Index	50

6.2 Weighting scheme

For FTSE China A Free Quality Growth Index and FTSE China A Free Innovative Enterprises Quality Growth Index, each security is weighted in proportion of free float market capitalisation. Constituent weights are capped at 15%. The sum of the largest 5 constituent weights are capped at 60%.

Section 7

Periodic review of constituents

7. Periodic review of constituents

7.1 Review dates

- 7.1.1 FTSE Quality Growth Index Series is reviewed quarterly in March, June, September and December.
- 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 quality factor, growth factor and all metrics used for screens 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 quarterly review, eligible companies are ranked within their respective universe in descending order of the composite score.
- 7.2.2 The target number of top ranked stocks shown in the table in 6.1 are selected to form the selection list. An addition ratio is calculated based on the selection list and index constituents as of the price cut-off date.

$$\text{Addition Ratio} = \frac{\text{Number of Additions}}{\text{Target Number of Stocks}}$$

- 7.2.3 If the addition ratio is less than or equal to 30%, the selection list forms the target index.
- 7.2.4 If the addition ratio exceeds 30%, a retention number is calculated as

$$\text{Retention Number} = 70\% \times \text{Target Number of Stocks}$$

- 7.2.5 Eligible existing constituents are ranked in descending order of the composite score; those that rank equal to or below the retention number remain in the index. If eligible existing constituents are fewer than the retention number, additional existing constituents are selected in descending order of the composite score until the count reaches the retention number.
- 7.2.6 The remaining are filled from other eligible securities with highest composite score until the count reaches the target number of stocks listed in 6.1.

7.3 Capping constituent weights at the periodic review

- 7.3.1 At the quarter review, the constituent weights for FTSE Quality Growth Index Series are subject to the following capping rules: single stock capped at 15%, and the sum of largest 5 constituent weights capped at 60%.
- 7.3.2 The weighting process is implemented as follows:
- 1) All constituents are weighted based on their free-float market capitalization, with each constituent capped at 15%.

2) If the sum of the top 5 constituents is greater than 60%,

2.1) reweight the top five constituents based on free-float market capitalization, with a total weight of 60% and each capped at 15%. Let W_m denote the smallest weight among these five stocks.

2.2) reweight the remaining constituents with a total weight of 40% and each stock capped at W_m .

7.3.3 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).

7.3.4 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.

7.3.5 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. EPS variability, EPS growth variability, and accruals growth in rule 4.2, ROA, OCF2A and ACC2A in rule 5.1 incorporates a lag of three months. Analyst sentiment in rule 4.2, FEPS and FSAL in rule 5.2 incorporate data announced 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 In accordance with Rule 9.3, except for spin-offs, FTSE Quality Growth Index Series will not accept intra-review additions. Additions to the index will be considered for inclusion at the next quarter review.

8.2 Intra-review deletions

8.2.1 A constituent will be removed from the FTSE Quality Growth Index Series if it is removed from the corresponding underlying universes. 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

The treatment of takeovers, mergers and spin-offs can be found within the respective Corporate Actions and Events Guide for Market Cap Weighted Indices.

If an existing constituent is acquired by a non-constituent, the resulting entity will be deleted from the FTSE Quality Growth Index Series. The eligibility of the resulting entity will be assessed in full at the following review.

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 FTSE Quality Growth 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 Quality Growth 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 Quality Growth 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 FTSE Quality Growth 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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