

FTSE Emerging Markets SDG-Aligned Bond Index Series

v1.5

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Section 1

Introduction

1. Overview

1.1 FTSE Emerging Markets SDG-Aligned Bond Index Series

1.1.1 The FTSE Emerging Market SDG-Aligned Bond Index Series (“FTSE EM SDG-Aligned Bond Index”) comprises a set of indices that are designed to align aspects of the United Nation’s Sustainable Development Goals (SDGs) to an emerging markets bond universe while also incorporating additional Carbon Emissions reductions.

The index series comprises of:

- FTSE Emerging Markets USD SDG-Aligned Bond Index (“FTSE EM USD SDG-Aligned Bond Index”);
- FTSE Emerging Markets Local Currency SDG-Aligned Bond Index (“FTSE EM Local Currency SDG-Aligned Bond Index”).

1.1.2 The FTSE EM SDG-Aligned Bond Index Series applies SDG Country and Carbon Intensity criteria by tilting country exposures relative to the Base Index, overweighting countries with a higher aggregate SDG score and lower Carbon Intensity, while underweighting countries with a lower aggregate SDG score and a higher Carbon Intensity. The tilting is based on a relative scoring for the universe of countries in a given universe, ranking the countries in both SDG metrics and carbon intensity metrics. The index series excludes countries with the lowest SDG scores and excludes countries based on certain Freedom House Country designations.

1.1.3 The tilt methodology is designed to align index exposures with the following 4 of the 17 goals of the UN’s SDGs:

- Decent work and economic growth (SDG 8)
- Responsible consumption and production (SDG 12)
- Climate action (SDG 13)
- Peace, justice and strong institutions (SDG 16)

1.1.4 The FTSE EM SDG-Aligned Bond Index Ground Rules should be read in conjunction with the FTSE Fixed Income Index Guide, as well as the ‘Factor Construction’ chapter of the FTSE Global Factor Index Series that can be found at www.lseg.com/en/ftse-russell/.

1.1.5 The FTSE EM SDG-Aligned Bond Index Series does take account of ESG factors in its design.

1.1.6 If a tilting approach is used for an ESG data input, the objective is for the index methodology to overweight and/or underweight securities according to specific ESG criteria. This approach will not remove all securities with exposure to a specific ESG activity or sector.

- 1.2 FTSE Russell hereby notifies users of the index that it is possible that factors, including external factors beyond the control of FTSE Russell, may necessitate changes to, or the cessation, of the index and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
- 1.2.1 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index's 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 for any losses, damages, claims and expenses suffered by any person as a result of:
- any reliance on these Ground Rules, and/or
 - any inaccuracies in these Ground Rules, and/or
 - 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 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 index series¹.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index series 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 the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- 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 best reflect the aim of the index series. 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 As provided for in the statement of principles for FTSE Russell Fixed Income Indices, 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 or by contacting info@ftserussell.com. These policies are reviewed annually and any changes are approved by the FTSE Russell Index Governance Board.

3.1 Statement of Principles for FTSE Fixed Income Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the statement of principles for FTSE Fixed Income Indices which summarises the ethos underlying FTSE Russell's approach to index construction. The statement of principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board.

The statement of principles for Fixed Income Indices can be accessed using the following link:

[Statement of Principles Fixed Income Indices.pdf](#)

3.2 Queries and Complaints

FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

3.3 Recalculation Policy and Guidelines

The recalculation policy and guidelines for Fixed Income Indices document is available from the FTSE Russell website using the link below or by contacting info@ftserussell.com.

[Fixed Income Recalculation Policy and Guidelines.pdf](#)

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

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](#)

3.5 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

3.8 Please refer to the following guide for details of real time status definitions for indices that 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

Index design and methodology

4. Base universe for the FTSE EM SDG-Aligned Bond Index Series

4.1 The FTSE EM SDG-Aligned Bond Index Series follows the monthly rebalancing mechanics of the FTSE Emerging Markets US Dollar Broad Bond Index (“EMUSDBBI”) and FTSE Emerging Market Government Bond Index – Capped (“EMGBI-Capped”) with respect to security inclusion. The market value weight for each security is tilted by the SDG Factor Score of its respective country.

The indices follow the general methodology as outlined in the Index Methodology of the [FTSE Fixed Income Index Guide](#).

4.2 FTSE EM USD SDG-Aligned Bond Index

4.2.1 The base universe for the FTSE EM USD SDG-Aligned Bond Index is the market capitalisation weighted FTSE Emerging Markets US Dollar Broad Bond Index (“EMUSDBBI”). The FTSE EM USD SDG-Aligned Bond Index includes sovereign and agency bonds based on the FTSE Global Industry Code (GLIC) sector scheme, applies a country cap and has a higher minimum amount outstanding than the EMUSDBBI.

4.2.2 The FTSE EMUSDBBI measures the performance of investment-grade and high-yield US dollar denominated debt issued by governments, regional governments, government-sponsored entities, and corporations in over 60 emerging markets.

4.2.3 The minimum amount outstanding for each security is USD 1 billion.

4.2.4 A country cap of USD 15 billion in par amount outstanding is applied. Any excess par amount is not redistributed across countries below the cap. The amount outstanding for bonds with a capped country exposure is scaled down pro rata based on the total country par amount outstanding.

4.2.5 Eligible Sectors: Sovereign (SVGN), Sovereign Guaranteed (SGTD), Government Sponsored (SGSP), Regional Government (RGOV), Regional Government Guaranteed (RGTD), Regional Government Sponsored (RGSP) based on the FTSE Global Industry Code (GLIC) scheme.

4.3 FTSE EM Local Currency SDG-Aligned Bond Index

The base universe for the FTSE EM Local Currency SDG-Aligned Bond Index is the FTSE Emerging Market Government Bond Index – Capped (“FTSE EMGBI-Capped”). The FTSE EMGBI-Capped includes local currency government bonds with country weights capped at 10% based on market value. Market value weights above the 10% cap are redistributed pro rata to other countries on a market value weighted basis.

4.3.1 SDG country pillars and underlying indicator

4.3.2 Sustainable Development Goals (SDG) are a set of 17 interlinked global goals designed to be a “blueprint to achieve a better and more sustainable future for all”. SDG scores are an assessment of a country’s exposure to and management of SDG risk factors and are sourced from the LSEG Sovereign Sustainability Solutions SDG Factor-In. This includes quantitative assessments across pillars. Each pillar contains multiple underlying indicators, that come primarily from the UN SDG database⁵. Raw data inputs are normalised to ensure countries are scored between 0 and 100 for each indicator. Appendix A contains more details on the underlying Indicators used for the four specific SDGs that are used in this index series.

4.4 Country exclusion based on SDG score

Countries eligible for either the FTSE EMUSDBBI or the FTSE EMGBI-Capped are scored and ranked based on the average of the 4 SDG Country scores at each index fixing date. Countries with the SDG scores in the lowest 20% percentile are removed from the index on each monthly index fixing date.

4.5 Country exclusion based on Freedom House Designation

Countries that are designated as “Not Free” by the Freedom House⁶ as part of the Annual ‘Freedom of the World Report’ are excluded on each monthly rebalance date using the most recently reported date. The data is refreshed in April of each year and applied for May index profiles.

4.6 SDG weighting methodology

4.6.1 Country weights

4.6.2 The starting country weights are adjusted according to product of the SDG-Aligned country scores and Carbon Intensity Score, the SDG Factor Score (SDG_i). The country weights may include Sovereign and Agency bonds in the country weights exposure.

A set of SDG-aligned index weights, θ_i , are calculated for the index:

$$\theta_i = \frac{\omega_i SDG_i}{\sum_{i=1}^n (\omega_i SDG_i)}$$

where,

$$SDG_i = S_i^{Country} \times (1 - C_i^{Country})$$

- ω_i is the market capitalisation weight of the country; (1)
- $S_i^{Country}$ is the SDG Factor score adjustment;
- $C_i^{Country}$ is the Carbon Intensity factor adjustment.

4.7 SDG-Aligned country scores

The country scores are calculated annually in June of each year with an 18-month lag (i.e., the July 2021 index profile will use tilts based on country scores and data from 2019). The average of the country SDG scores for the specific SDG-Alignment are used in the Country SDG factor calculation based on the country cohort in the index.

$$\text{Average SDG Country Score} = \sum \frac{SDG\ 8 + SDG\ 12 + SDG\ 13 + SDG\ 16}{4}$$

⁵ UN SDG Database – <https://unstats.un.org/sdgs/dataportal>.

⁶ Freedom House, [Freedom in the World Report](#).

- 4.7.1 SDG-Aligned country scores are normalised cross-sectionally to create Z-scores within each eligible base universe according to:

$$Z_i = \frac{F_i - \mu}{\sigma} \quad F_i \in S_i^{Country} \quad (2)$$

where F_i is SDG-Aligned Country Score of the i^{th} country and μ and σ are the cross-sectional mean and standard deviation, respectively. Z-scores that are greater (less) than three (minus three) are truncated to a value of three (minus three). Post-truncation, individual Z-scores are renormalised by the re-application of equation (2). All Z-scores, including truncated ones, are included in this re-application. This process is repeated until all Z-scores lie in a range between plus and minus three. Z-scores are mapped $S_i^{Country} \in [0,1]$, using the cumulative normal distribution with mean zero and standard deviation one. The creation of S-scores follows the process described in FTSE Global Factor Index Series Ground Rules.

4.8 Carbon Intensity Score

Each Bond, whether a Sovereign or Agency is mapped to a specific Country of Risk. Carbon Intensity is calculated as Total Territorial GHG emission scaled by the total population of the country (GHG per Capita).

$$Carbon\ Intensity = \frac{Total\ GHG\ Territorial\ Emissions\ including\ LULCUF^7}{Population}$$

- 4.8.1 Country level Carbon Intensity Scores are normalised cross-sectionally to create Z-scores within each eligible base universe according to:

$$Z_i = \frac{F_i - \mu}{\sigma} \quad F_i \in C_i^{Country} \quad (3)$$

where F_i is SDG-Aligned Country Score of the i^{th} country and μ and σ are the cross-sectional mean and standard deviation respectively. Z-scores that are greater (less) than three (minus three) are truncated to a value of three (minus three). Post-truncation, individual Z-scores are renormalised by the re-application of equation (2). All Z-scores, including truncated ones are included in this re-application. This process is repeated until all Z-scores lie in a range between plus and minus three. Z-scores are mapped $C_i^{Country} \in [0,1]$, using the cumulative normal distribution with mean zero and standard deviation one. The creation of S-scores follows the process described in FTSE Global Factor Index Series Ground Rules.

- 4.8.2 Countries with missing SDG Scores are allocated a neutral Z-score of zero.

⁷ LULCUF – Land Use, Land-Use Change, and Forestry.

Section 5

ESG data inputs

5. ESG data inputs

5.1 The following ESG datasets are used in the construction of the indices.

ESG data inputs	Details	Used for selection, weighting or exclusion ⁸
LSEG Sovereign Sustainability Solutions SDG Factor-In 2.0	SDG Factor-In 2.0 (the Sovereign SDG assessment) aims to measure to what extent a country is achieving Sustainable Development Goals. For the methodology, please refer to SDG Factor-In . For more information on the selected indicators, see Appendix A.	Weighting and Exclusion
Freedom House Data	Freedom House measures the level of democratic governance in countries through its annual Nations in Transit report. More information can be found: https://freedomhouse.org/countries/nations-transit/scores?sort=asc&order=Total%20Score%20and%20Status	Exclusion

5.1.1 Further information on ESG data provided by FTSE Russell and third parties used in this index (index series) can be found in the following guide:

[Guide to FTSE and Third Party ESG Data used in FTSE Russell Indices](#)

5.1.2 This includes information on the data and standards used for these ESG data inputs. These data sets may include estimated data.

⁸ Definitions

Selection- ESG data is used to select or rank constituents, or calculate minimum scores or thresholds

Weighting- ESG data is used to calculate the weight of a constituent in an index

Exclusion- ESG data is used to exclude securities from the index

Section 5

Chronological summary of events

6. Chronological summary of events

FTSE ESG Diversified Emerging Markets US Dollar Government Bond Index event summary

Year	Highlights
2022	October: FTSE Emerging Markets USD SDG-Aligned Bond Index launched FTSE Emerging Markets Local Currency SDG-Aligned Bond Index launched

Appendix A

SDG Factor-In 2.0 key performance indicators (KPIs)

The SDG Country methodology (SDG Factor-In 2.0) uses 220 KPIs (across all 17 SDGs): 184 coming directly from the UN and the other 36 from ESG Factor-In (WB, WRS, Enerdata and BR modelled KPIs).

The Country SDG Key Performance Indicators for each SDG 8, 12, 13, & 16 are:

Goal	SDG label	Underlying KPIs
8	Decent Work and Economic Growth	Annual growth rate of real GDP per capita (%) Proportion of adults (15 years and older) with an account at a financial institution or mobile-money-service provider Unemployment rate Proportion of youth not in education, employment or training Level of national compliance with labour rights (freedom of association and collective bargaining) based on International Labour Organisation (ILO) Existence of a developed and operationalised national strategy for youth employment
12	Responsible Consumption and Production	Domestic material consumption per capita, by type of raw material (tonnes) Domestic material consumption per unit of GDP Parties meeting their commitments and obligations in transmitting information as required by Basel Convention on hazardous waste and other chemicals Installed renewable electricity-generating capacity (watts per capita) Fossil-fuel subsidies (consumption and production) as a proportion of total GDP Fossil-fuel subsidies (consumption and production) per capita GHG emissions Annual freshwater withdrawals Chemicals (% of value added in manufacturing) Total natural resources rents (% of GDP)
13	Climate Action	Number of deaths attributed to disasters 30 years average (per 100,000 population) Number of affected persons attributed to disasters 30 years average (per 100,000 population) GDP per unit of energy use (PPP \$ per kg of oil equivalent) Emitted GHG per capita including LULUCF (territorial emissions) Share of oil, gas and coal in total primary Consumption Land area where elevation is below 5 meters (% of total land area) Population living in areas where elevation is below 5 meters (% of total population)

Goal	SDG label	Underlying KPIs
16	Peace, Justice and Strong Institutions	Number of victims of intentional homicide per 100 000 population Detected victims of human trafficking, by age and sex (per 100 000 population) Rule of Law: Estimate Regulatory Quality: Estimate Losses due to theft and vandalism (% of annual sales of affected firms) Control of Corruption: Estimate Government Effectiveness: Estimate Political Stability and Absence of Violence/Terrorism: Estimate Voice and Accountability: Estimate Ratio for female members of parliaments Proportion of youth in parliament (age 45 or below) Proportion of children under 5 years of age whose births have been registered with a civil authority

Date input sources: UN SDG Database, WB, WRS, Enerdata.

Appendix B

Further information

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

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

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