Ground Rules

November 2024

FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index

v1.3

FTSE RUSSELL
An LSEG Business

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Contents

Section 1
Introduction

1. Introduction

1.1 FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index

FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index is designed to align aspects of the UN's Sustainable Development Goals (SDGs) to a global corporate high-yield bond universe. Global high-yield debt investors are exposed to a range of risks and opportunities related to the themes covered by the SDGs, and can adjust exposure to these themes through an alternative weighting scheme.

1.1.1 The FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index is created from the combination of the following universes of (see Section 4):

– FTSE Asian Broad Bond Index

– FTSE Emerging Markets US Dollar Broad Bond Index

– FTSE Middle East and North Africa Broad Bond Index

– FTSE World High-Yield Bond Index

The combination of the four flagship universes, filtering for high-yield issuers with an industrial and utilities sector assignment comprise the starting universe (the "Base Index"). The index aims to improve the portfolio SDG score and carbon footprint relative to the market value weighted base index.

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 SDG Alignment

1.2.1 The FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index measures the performance of USD-, EUR- and GBP-denominated fixed-rate, global high-yield bonds. The index is designed to incorporate a tilting methodology that adjusts index weights according to a specified SDG framework.

1.2.2 The tilts framework is to create alignment with the following four of the 17 goals within the UN Sustainable Development Goals (SDGs) framework:

– Decent work and economic growth (SDG 8)

– Responsible consumption and production (SDG 12)

– Climate action (SDG 13)

– Peace, justice and strong institutions (SDG 16)

1.2.3 These Ground Rules contain two core sections that detail the construction of the index:

1. The Base Index: detailing the methodology of the underlying market value weighted indices, and
2. The SDG-Aligned Index: detailing the methodology to assess and quantify relative SDG Alignment to use these scores to tilt the Base Index.

1.3 The FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index takes account of ESG factors in its index design.

1.4 FTSE Russell

1.4.1 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, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.

1.4.2 FTSE hereby notifies users of the index that it is possible that circumstances, including external events beyond the control of FTSE, 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.

1.4.3 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 nor its subsidiary undertakings (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, 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.[1]

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 indexes.

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 As provided for in the Statement of Principles for FTSE 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 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 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

3.3 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 fi.index@lseg.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

3.5.1 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 Benchmarks[2], the European benchmark regulation[3] and the UK benchmark regulation[4]. The FTSE Russell Governance Framework can be accessed using the following link:

FTSE_Russell_Governance_Framework.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

Base universe: index design and eligibility criteria

4. Base universe: index design and eligibility criteria

4.1 The FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index follows the monthly rebalancing mechanics of the FTSE ABBI, EMUSDBBI, MENABBI and World HY with respect to a subset of security inclusion (see Rule 4.2). The market value weight for each security is tilted by the SDG Factor Score of its respective issuer.

The indices follow the general methodology as outlined in the Index Methodology of the FTSE Fixed Income Index Guide

4.2 The Base Universe for the FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index is a combination of the following:

A. Corporate high-yield bonds with an issuer country assignment of Singapore and Macao that are eligible for the FTSE Asian Broad Bond Index (“ABBI”), excluding bonds with a Financial sector assignment. The ABBI measures the performance of both investment-grade and high-yield US dollar denominated debt issued by governments, agencies, and corporations domiciled in Asia (excluding Japan).

B. Corporate high-yield bonds that are eligible for the FTSE Emerging Markets US Dollar Broad Bond Index (“EMUSDBBI”), excluding bonds with a Financial sector assignment. The EMUSDBBI measures the performance of both investment-grade and high-yield US dollar denominated debt issued by governments, regional governments, government-sponsored entities, and corporations domiciled in over 60 emerging markets

C. Corporate high-yield bonds with an issuer country assignment of Israel that are eligible for the FTSE Middle East and North Africa Broad Bond Index (“MENABBI”), excluding bonds with a Financial sector assignment The MENABBI measures the performance of both investment-grade and high-yield US Dollar denominated debt issued by governments, agencies, and corporations domiciled in the Middle East and North Africa.

D. Corporate high-yield USD-, EUR- and GBP-denominated bonds with a sector assignment of Industrial and Utilities that are eligible for the FTSE World High-Yield Bond Index (“World HY”), excluding bonds with a Financial sector assignment.. The World HY Index is a multi-currency benchmark which measures the performance of CHF, EUR, GBP, and USD denominated high-yield debt tracked by the FTSE US High-Yield Market Index and the Pan-European High-Yield Bond Index.

4.3 The minimum par amount outstanding for each issuer is USD 500 million, EUR 500 million, GBP 250 million

4.4 An issuer cap of 2% is applied. The excess market value weight of bonds over the 2% cap is redistributed pro-rata across the other bonds in the index.

Section 5

SDG-aligned index design and eligibility criteria

5. SDG-aligned index design and eligibility criteria

5.1 Index Construction

5.1.1 Each corporate bond is mapped to a listed parent entity. Each listed entity is then assessed against 4 pillars (SDG Score, Carbon Emissions Intensity, Green /SDG Revenue, Issuer Green Bond Ratio, CBI Green Bond Ratio). For the SDG Score and Carbon Emissions Intensity pillars, the data is converted into z-scores and then mapped to s-scores from a range of 0 to 1 using a cumulative normal distribution function. Each pillar is geometrically tilted by a power listed in Figure 1.

The final tilt is then applied to each bond weight. To remove unnecessary turnover, Issuers will only be eligible if its tilt score is greater than 0.05. If the issuer is a member of the index, it will be removed if its respective tilt score falls below 0.04.

5.2 SDG Score Assessment Cohort

5.2.1 The SDG Score ($SDG_{i)}$ is evaluated relative to an index assessment cohort and reviewed on each monthly fixing date. The resulting final issuer tilt is then applied for each monthly rebalance until the next monthly fixing date.

5.3 Tilting Methodology

5.3.1 A set of SDG-Aligned Index weights, w_i, are calculated for each index:

$$\boldsymbol{\omega_{i_i}} = \frac{\boldsymbol{\omega_i SDG_i}}{\sum_{i=0}^{n}(\boldsymbol{\omega_i SDG_i})}$$

*w*here:

$$SDG_i = S^1_{SDG,i} \times S^{0.5}_{OE,i} \times Max(S^1_{GR,i}, S^1_{SDI,i}) \times \pi_{GBR,i} \times \pi_{GB,i}$$

and

- $\boldsymbol{\omega_i}$ is the market capitalization weight of bond i in the Base Universe
- SDG_i is the aggregate SDG Tilt of bond i
- S_{SDG} is the aggregate SDG-Aligned score of bond i (see Rules 5.2)
- S_{OE} is the carbon emissions intensity for bond i (see Rule 5.3)
- S_{GR} is the Green Revenue adjustment (see Rule 5.4)
- S_{SDI} is the SDG Revenue adjustment (see Rule 5.5)

– π_{GBR} are multipliers based on bond i issuers' Green Bond Ratio (GBR) where $M_{GBR,i} = 1 + GBR_i$ (see Rule 5.6)

– π_{GB} are additional tilts on specific CBI-Labelled Green Bond (see Rule 5.7)

Figure 1. Tilt powers

Sector	SDG Score Tilt	Carbon Emissions Intensity Tilt	Green/ SDG Revenues Tilt	Issuer Green Bond Ratio Tilt	Green Bond Tilt
Corporate	1	0.5	1	1	1

5.3.2 Companies with no data for a given Pillar are assigned a neutral score within the Pillar. The neutral score depends on the Pillar and can be 0.5 or 1.

Companies with no data are assigned an underweight factor that is applied to the average cohort tilt. The underweight factors have been quantitatively derived by looking at the historical distribution of the sector average tilts relative to a neutral score (See table below)

GLIC	GLIC Code Name	Underweight Factor
ICON	Industrial - Consumer	0.5x
IEGY	Industrial - Energy	0.25x
IMAN	Industrial - Manufacturing	0.25x
IOTH	Industrial - Other	0.5x
ISRV	Industrial - Service	0.25x
ITRN	Industrial - Transportation	0.25x
UELC	Utility - Electricity	0.8x
UGAS	Utility - Gas	0.9x
UOTH	Utility - Other	0.9x
UTEL	Utility - Telecom	0.9x

5.3.3 SDG, Green Revenues, Carbon data and SDG Revenues are mapped to the parent entity on a monthly basis. In the event of an acquisition, the bonds of the company that is being acquired will be assigned the data of the parent company at the next available monthly rebalance.

5.3.4 A final issuer weight capping of 2% is applied as the final step to ensure diversification, with any excess market value redistributed pro rata across the other bonds in the index

5.3.5 Bonds issued by companies on a controversial weapons (CW) exclusion list are not eligible. This exclusion list contains companies that manufacture or provide specific parts for anti-personnel mines, cluster munitions, chemical and biological weapons. The controversial weapon (CW) exclusions are reviewed on a quarterly basis quarterly basis in March, June, September, December and applied at the next month-end rebalance.

Bonds issued by companies on a tobacco exclusion list are not eligible. This exclusion list contains companies involved in the manufacture and production of tobacco products. The tobacco exclusion list is reviewed on a quarterly basis in March, June, September, December and applied at the next month-end rebalance.

5.4 SDG-Aligned ESG scores (S_{SDG})

5.4.1 The ESG Scores are derived from the FTSE ESG ratings as detailed in the FTSE4Good Index Series Ground Rules. The data cut-off date for the availability of ESG scores is the close of business on the last business day of the month prior to the review month.

5.4.2 The SDG-Aligned ESG Scores are used for the SDG-Aligned Indices.

5.4.3 The SDG-Aligned ESG Score is calculated as the exposure weighted average Theme Score:

$$F_i = \frac{\sum_j Exp_{i,j} * Theme_{i,j}}{\sum_j Exp_{i,j}} \tag{1}$$

where F_i is SDG-Aligned ESG Score and $Exp_{i,j}$ and $Theme_{i,j}$ are the Theme Exposure and ESG Theme score of the i^{th} stock and j^{th} theme respectively. The applicable individual ESG themes are shown in Table 2. The Theme Score measures the quality of a company's management of the issues related to each Theme; Theme Exposure measures the relevance of each Theme.

5.4.4 The SDG-Aligned ESG themes are drawn from the FTSE Russell ESG data models included in Table 2.

Table 2: SDG matrix

		Decent Work & Economic Growth	Responsible Consumption & Production	Climate Action	Peace, Justice & Strong Institutions
Environmental	Biodiversity		✓		
	Climate Change			✓	
	Pollution & Resource		✓		
	Supply Chain (Environmental)		✓		
	Water Use				
Social	Customer Responsibility				
	Health & Safety				
	Human Rights & Community				✓
	Labor Standards	✓			
	Supply Chain (Social)	✓			
Governance	Anti-Corruption				✓
	Corporate Governance				
	Risk Management				
	Tax Responsibility				

5.4.5 SDG-Aligned ESG Scores are normalised cross-sectionally to create Z-Scores within each eligible universe according to:

$$Z_i = (F_i - \mu)/\sigma \qquad (2)$$

where F_i is SDG-Aligned ESG Score of the i^{th} stock 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 renormalized 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. Companies having no data are excluded from the Z-score calculation processes. Companies are allocated a neutral Z-Score of zero.

5.5 Fixed tilt ESG index construction

5.5.1 Normalised SDG-Aligned Z-Scores are mapped to a score S_i^{ESG} or $S_i^{SDG} \in [0,1]$, 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.

5.5.2 A final Linearization step is performed to ensure SDG tilt with a floor of 0.1.

5.6 Operational Carbon Emissions adjustment ($\boldsymbol{S_{OE}}$)

5.6.1 Operational Carbon Emissions Intensity is defined as the latest annual CO2 equivalent greenhouse gas (GHG) emissions in metric tons scaled by annual sales (across the same currency, in this case stored in USD). CO2 equivalent GHG emissions data is defined as GHG Protocol Scope 1 and 2 emissions. Annual sales data is sourced from internal data collection. The data cut-off date for the availability of Operational Carbon Emissions Intensity is the close of business on the last business day of the month prior to the annual review month.

5.6.2 Operational Carbon Emissions are converted to a Z-Score and subsequently to an S-Score as detailed in FTSE Global Factor Index Series Ground Rules to form the Low Operational Carbon Emissions adjustment of each stock: A_i^{CE}.

5.6.3 Missing Operational Carbon Emissions Intensities are assigned a Z-Score of 0 at the end of the process.

5.7 Green Revenues adjustment ($\boldsymbol{S_{GR}}$)

5.7.1 Green revenues tilt is based on the exposure to the Green Economy and non-zero Green Revenues where the tilt it defined as $(\mathbf{1} + \boldsymbol{GRR_i})$, where GRR_i is the FTSE Green Revenues ratio.

5.7.2 All constituent securities are assigned a FTSE Green Revenues factor value. The FTSE Green Revenues factor can be:

- Zero if a constituent company has no exposure to the Green Economy.
- A greater than zero value, when exact Green Revenues were disclosed by a constituent company.
- The minimum of the stated range of possible Green Revenues, when a company discloses insufficient information for a precise determination of the FTSE Green Revenues factor[5].
- Companies with no GR data are awarded a score of 1: S_{GR}=1

[5] For further details of the FTSE Green Revenues Classification System, please refer to FTSE Russell ESG Data available at https://qsd.ftserussell.com.

5.8 SDG Revenue adjustment (S_{SDI})

5.8.1 SDG revenue[6] adjustment is based on the revenues attributed across all 17 SDGs scaled to total revenues of a company, where the tilt is defined as $(\mathbf{1} + \boldsymbol{SDGR_i})$, where SDGR is the SDG Revenues Ratio of SDG Revenues / Total Revenues.

5.8.2 Companies with no SDG Revenues data are awarded a score of 1: $\boldsymbol{S_{SDI}} = 1$

5.9 Green Bond Ratio (π_{GBR})

5.10 Green bonds are specifically designated to finance green projects that have environmental and/or climate benefit. CBI screens each labelled green bond against its Climate Bonds Taxonomy based on issuer's public disclosure and assists investors to understand if the bond use of proceeds is in eligible categories that are in line with the Paris target. For more information, please see section 6.1. Green bond issuers are assigned a Green Bond Ratio (GBR) value as described in Rule 5.10.1, as well as a multiplier at the issue level.

5.10.1 The Green Bond Ratio (GBR) is the ratio of total par amount outstanding of green bonds[7] to total par amount outstanding of index-eligible bonds for the same issuer.

$$\pi_{GBR} = 1 + \frac{\sum Par\ amt\ of\ green\ bonds\ in\ portfolio}{\sum Par\ amt\ of\ bonds\ in\ portfolio}$$

5.11 Green Bond Tilt (π_{GB})

5.11.1 The Green Bond Tilt is a multiplier at the bond-level to uplift CBI-labelled green bonds in addition to the issuer level tilt. Such bonds are assigned multipliers of 2 in the index weighting formula.

[6] SDG revenues are sourced from the Sustainable Development Investments Asset Owner Platform (Home (sdi-aop.org))
[7] Green Bonds

Section 6
ESG data inputs

6. ESG data inputs

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

ESG data inputs	Details	Used for selection, weighting or exclusion[8]
FTSE Green Revenues	FTSE Russell's Green Revenues data model identifies companies providing green products and services and classifies associated revenues based on the Green Revenues Classification System (GRCS). GRCS is a taxonomy used to define and measure the industrial transition to a Green Economy. More information can be found here: Green Revenues 2.0 Data Model | LSEG	Weighting
FTSE Carbon Emissions	The FTSE Carbon Emissions Dataset provides reported and estimated Scope 1 and Scope 2 emissions data for both the assets and activities controlled by global publicly listed companies and their entire value chain (upstream and downstream activities). More information can be found here: Guide to FTSE and Third Party ESG Data used in FTSE Indices (lseg.com)	Weighting
Climate Bond Initiative (CBI) Green Bond data	The Climate Bond Initiative (CBI) provides independent analysis on green bond use of proceeds and provides opinions on the green credential of the intended proceeds allocation. CBI assesses each labelled green bond against its Climate Bonds Taxonomy based on its issuer's public disclosure, to understand if the bond use of proceeds is in line with the CBI eligible categories. More information can be found here: CBI Methodology	Weighting
FTSE ESG Score	FTSE Russell's ESG Scores and data model allows investors to understand a company's exposure to, and management of, ESG issues in multiple dimensions. The ESG Scores are comprised of an overall Rating that breaks down into underlying Pillar and Theme Exposures and	Weighting

[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

	Scores. The Pillars and Themes are built on over 300 individual indicator assessments that are applied to each company's unique circumstances. The SDG scores are derived from the subset of ESG Pillars and Themes. Guide to FTSE and Third Party ESG Data used in FTSE Indices (lseg.com)	
SDG Revenues	SDGs Revenues are revenues associated with a company's products and services, based on the SDI Classification. More information on the data methodology is available. SDI Classification (sdi-aop.org)	Weighting
Exclusion List provided by the client	See Rule 5.3.5	Exclusion

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

Guide_to_FTSE_and_Third_Party_ESG_Data_used_in_FTSE_Russell_Indices

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

Section 7

Additional index design features

7. Additional index design features

7.1 Rolldown methodology

7.1.1 The index will feature rolldown mechanism, that will hold bond to maturity from the 'Rolldown date'.

7.1.2 'Rolldown date' is December 31, 2023

7.2 Chronological summary of events

Year	Highlights
2023	November: Launch of the Global HY SDG-Aligned Bond Index

Appendix D

Further information

For further information on the FTSE Global High-Yield ex Financial SDG-Aligned 2% Capped Bond Index Ground Rules please visit https://www.lseg.com/en/ftse-russell or e-mail fi.index@lseg.com. Contact details can also be found on this website.

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