

MFGAM Core Infrastructure Index

v2.4



**FTSE
RUSSELL**
An LSEG Business



**MFG ASSET
MANAGEMENT**

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Section 1

Introduction

1. Introduction

- 1.1 This document sets out the ground rules for the construction and management of the MFGAM Asset Management (MFGAM) Core Infrastructure Index. Copies of the ground rules are available from FTSE Russell.
- 1.2 According to the OECD, infrastructure assets typically show one or more of the following stylised economic characteristics:
- high barriers to entry;
 - economies of scale (e.g. high fixed, low variable costs);
 - inelastic demand for services (giving pricing power);
 - low operating cost and high target operating margins; and
 - long duration (e.g. concessions of 25 years, leases up to 99 years).
- The MFGAM Core Infrastructure Index was designed to include securities of infrastructure companies that derive their earnings from assets that meet strict criteria for infrastructure definition. It is the view of MFGAM that core infrastructure assets should have a structural ability to generate earnings that are robust through the economic cycle and that there should be a structural linkage of those earnings to inflation. The institutional investors who were consulted in the development of the index saw that the infrastructure indices existing at that time contained many stocks that did not exhibit these two characteristics. The MFGAM Core Infrastructure Index has been developed to include those stocks that meet a series of rules designed to ensure they are fulfil these criteria.
- 1.3 The MFGAM Core Infrastructure Index takes account of ESG factors in its index design. Please see further details in rule 4.3.
- 1.4 The MFGAM Core Infrastructure Index is calculated on an end-of-day basis. Price and Total Return Indices are published at the end of each working day. The Total Return Indices are based on ex-dividend adjustments.
- 1.5 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.
- 1.6 FTSE Russell**
- 1.6.1 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.

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 MFGAM Core Infrastructure Index, and will:

- make decisions regarding the interpretation of these ground rules;
- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the ground rules;
- apply the changes resulting from the periodic index reviews as required by the ground rules; and
- disseminate the index.

2.1.3 The weightings of constituents shall be used in the calculation of the end-of-day indices.

2.2 MFGAM

2.2.1 MFGAM conducts the company analysis of potential and current constituents to establish their suitability for inclusion in the MFGAM Core Infrastructure Index. This includes eligibility tests to determine that companies derive their earnings from assets that meet the strict criteria of the infrastructure definition and consideration of ESG factors that may materially impact the investment quality of the company as set out in rule 4.4.

2.2.2 MFGAM provides sufficient information to FTSE, relating to the analysis described within rule 2.2.1, to ensure that FTSE can fulfil its role as benchmark administrator as required by the European Benchmark Regulation, including the outsourcing provisions prescribed in Article 10 of that regulation.

2.2.3 MFGAM also contributes additional research, guidance and clarification with respect to certain aspects of the structure, operations and financial reporting of companies that may bear on their index eligibility.

2.3 Status of these ground rules

2.3.1 These ground rules set out the methodology and provide information about the publication of the MFGAM Core Infrastructure Index.

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).

2.4 Amendments to these ground rules

- 2.4.1 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.
- 2.4.2 As provided for in the Statement of Principles for FTSE Russell Equity 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.

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 Statement of Principles for FTSE Russell Equity 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, 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 can be accessed using the following link:

[Statement of Principles.pdf](#)

3.2 Index Policy for Trading Halts and Market Closures

3.2.1 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 the MFGAM Core Infrastructure Index will be notified through appropriate media.

For further information refer to the FTSE Russell Recalculation Policy and Guidelines document, which is available from the FTSE Russell website using the link below or by e-mailing info@ftserussell.com.

[Recalculation Policy and Guidelines Equity Indices.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 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 For indices which are calculated in real time, please refer to the following guide for details of real time status definitions:

[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 and weighting scheme

4. Eligible securities and weighting scheme

4.1 Companies currently in the FTSE Global All Cap Index, which is part of the FTSE Global Equity Index Series, are eligible for inclusion in the MFGAM Core Infrastructure Index. The list will be screened to determine the constituents for the MFGAM Core Infrastructure Index. For more information on the FTSE Global Equity Index Series, please refer to the FTSE Global Equity Index Series ground rules, which are available on www.lseg.com/en/ftse-russell/.

4.2 Definition of the term infrastructure

4.2.1 To be included in the MFGAM Core Infrastructure Index, a company must meet the required definition of an infrastructure company as specified by MFGAM. The primary requirement is that, over the medium-term (two to three years), at least 75% of the company's earnings must be derived from assets that MFGAM classifies within the sectors outlined in rule 4.4.

4.3 Eligibility for inclusion

4.3.1 MFGAM will select the list of constituent securities for the MFGAM Core Infrastructure Index based on the following criteria.

- It must be included in the FTSE Global All Cap Index.
- The company's financial accounts should meet the required level of transparency. The financial accounts should be of sufficient granularity that the earnings of the different segments of the company's operations can be analysed, thus ensuring that the earnings derived from assets can be assessed to identify them as infrastructure assets.
- The company's assets must be in countries with acceptable levels of sovereign and financial risk. Typically, this will mean that the company is either domiciled in an OECD country or that at least 75% of the earnings are generated from assets that are in OECD countries.
- The stock must not have excessive financial leverage. Separate filters are applied to different sectors of the infrastructure investment universe based on interest coverage ratios for a normalised year. Different ratios are used depending on the volatility of the earnings typically observed in each sector, e.g. the ratio is higher for an airport than a fully regulated utility.
- For companies that derive their earnings from assets subject to formal earnings regulation, the regulatory regime needs to be assessed as acceptable. This determination is based on whether the earnings regulation of the market formally recognises the need for the regulated entity to earn an appropriate return on the capital employed in the business.
- The company must not be exposed to ESG risks that are expected to materially (and adversely) affect the reliability of earnings and predictability of cashflows.
- Master Limited Partnerships are not eligible for inclusion in the MFGAM Core Infrastructure Index.

4.4 The sectors from which companies included in the MFGAM Core Infrastructure Index are drawn are specified by MFGAM and include:

- regulated electricity transmission and distribution companies – regulated utility businesses that generate the majority of earnings from local electric distribution networks and/or long-range electric transmission assets;
- regulated gas transmission and distribution companies – regulated utility businesses that generate the majority of earnings from local gas distribution networks and/or long-range gas transmission assets;
- companies involved in the generation of electricity where the activity is either wholly regulated by a government agency, subject to a long-term, take-or-pay contract with an acceptable counterparty or where the merchant generation activity represents less than 25% of the company's earnings;
- regulated water utilities – regulated utility businesses that generate the majority of earnings from water utility assets;
- integrated utilities – utilities that do not fall into the categories of regulated electricity transmission and distribution, regulated gas transmission and distribution and regulated water utilities. These utilities are those with diversified utility operations that derive earnings from a mixture of the above operations and/or regulated generation. In some instances, companies will be included in this category where a reasonable analysis of company's disclosure does not allow us to place the assets conclusively into one of the above categories;
- toll roads – companies that derive the majority of earnings from operating toll road infrastructure on, typically, a user-pays basis, but other payment mechanisms could be considered in this category (including, but not limited to shadow tolling or availability payments) if the economics appear reliable for investors;
- airports – companies that derive the majority of earnings from operating the aeronautical and commercial activities of airport infrastructure;
- ports – companies that derive the majority of earnings from operating port infrastructure;
- communications infrastructure: companies that generate the majority of earnings from contracted or regulated communication transmission assets with limited competition in this core business;
- social infrastructure stocks – companies that deliver public service facilities to the public. Exposure in the listed market is primarily through the PFI programme in the UK. The operators are often receiving sovereign-backed payments on an availability basis for building/maintaining assets like schools, hospitals and government buildings;
- energy infrastructure – mid-stream energy assets that face limited competition, have a reliable future demand profile and/or operate under long-term contracts for pricing/volume. Assets must operate on a fee-for-service basis. Mid-stream assets are assets used in energy logistics, including, but not limited to, assets used in transporting, storing, gathering, processing or distributing natural gas, natural gas liquids, crude oil or refined products. Where contracts with customers of the energy infrastructure assets link back to the underlying commodity price or are subject to processing/refining spreads, then the assets do not qualify as infrastructure assets due to the cash flow volatility that this creates for investors.

4.5 Weighting of stocks

4.5.1 For the purpose of rebalancing the MFGAM Core Infrastructure Index, the weighting of stocks in the MFGAM Core Infrastructure Index is primarily determined on the basis of their free float market capitalisation as calculated by FTSE Russell. However, a number of constraints are applied to ensure that the MFGAM Core Infrastructure Index is appropriately diversified. These constraints include:

- A. Stocks are to have a maximum weight of 3% of the MFGAM Core Infrastructure Index.
- B. The maximum weighting of any one sector will be 30% of the MFGAM Core Infrastructure Index. For this purpose, sector is as defined by MFGAM and is made up of the sectors set out in rule 4.4.

C. Limits are also applied to the exposure of the index to geographic regions. Specifically, the following limits apply:

- USA: 45%
- Europe (ex-UK): 40%
- UK: 15%
- Canada: 15%
- Australia/New Zealand: 15%
- Asia: 15%
- Latin America: 15%

For example, a stock that FTSE Russell calculates to have a free float market capitalisation of USD 50 billion and the aggregate free float market capitalisation of all stocks passing the filters set out in Section 4 is USD 500 billion would have a starting weight in the index of 10%. The formula used to determine stock weights in the index would immediately reduce this weighting to 3%. The portfolio construction process ensures that each of the above three constraints are satisfied as part of the monthly rebalancing process.

Section 5

Periodic review of constituents

5. Periodic review of constituents

5.1 Review dates

- 5.1.1 The MFGAM Core Infrastructure Index will be rebalanced monthly for new stocks and the weights resulting from capping process described in rule 4.5.1 are implemented at the close of business on the last day of the month. The rebalancing process is undertaken six business days prior to end of each month using closing market data from the day immediately prior to the rebalance date.
- 5.1.2 The MFGAM Core Infrastructure Index will be reviewed quarterly in February, May, August and November (the review month(s)) using data as at the close of business 15 trading days prior to the last day of the month preceding the review month.
- 5.1.3 The quarterly review will be implemented after the close of business on the last day in March, June, September and December. This review implementation will also incorporate any monthly changes described in rule 5.1.1.

Section 6

Changes to constituent companies

6. Changes to constituent companies

6.1 Additions

- 6.1.1 When a constituent is added to the underlying index universe, the constituent will be considered for inclusion at the next quarterly review of the MFGAM Core Infrastructure Index.

6.2 Deletions

- 6.2.1 A stock will be deleted from the MFGAM Core Infrastructure Index when the stock is deleted from the underlying index.

Section 7

Corporate actions and events

7. Corporate actions and events

- 7.1 With the exception of the treatment of mergers and takeovers, which is subject to the methodology set out in rule 7.2, the full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Non Market Cap Weighted Indices using the following link:

[Corporate Actions and Events Guide for Non Market Cap 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 Russell will provide notice advising of the timing of the change.

7.2 Mergers and takeovers

7.2.1 Mergers/takeovers between constituents

All mergers between existing constituents are treated as cash mergers. The constituent being acquired is deleted on the effective date of the acquisition. The acquiring company will remain a constituent of the MFGAM Core Infrastructure Index and its MFGAM Factor will be recalculated to ensure cap-neutrality for any resulting shares in issue increase.

7.2.2 Mergers/takeovers between a constituent and a non-constituent

- A. If an existing constituent is acquired by a non-constituent for cash or stock, the existing constituent will be deleted and the acquiring non-constituent will not be considered for MFGAM Core Infrastructure Index eligibility until the next review.
- B. If an existing constituent acquires a non-constituent for cash or stock, the existing constituent will remain in the MFGAM Core Infrastructure Index at an unchanged weight.

Appendix A

Further information

A Glossary of Terms used in FTSE Russell's ground rule documents can be found using the following link:

[Glossary.pdf](#)

Further information on the MFGAM Core Infrastructure Index is available from FTSE Russell.

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

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

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