

## Ground Rules

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# FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index

v1.3

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The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index is not, and are 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 indices as a benchmark as set out in article 3(1)(7) of the European benchmark regulation.

For the avoidance of doubt, neither FTSE International Limited nor any other member of the London Stock Exchange Group plc group of companies, is the benchmark administrator (as defined in article 3(1)(6) of the European benchmark regulation) of the indices.

*[\\*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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## Section 1

# Introduction

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### 1.0 Introduction

- 1.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index. Copies of these Ground Rules are available from FTSE Russell (see Appendix D) and [www.ftserussell.com](http://www.ftserussell.com).
- 1.2 These Ground Rules should be read in conjunction with the FTSE MPF Indices Ground Rules, the FTSE ESG Low Carbon Select Indices Ground Rules, the Corporate Actions and Events Guide for Non Market Capitalisation Weighted Indices, and the FTSE Global Factor Indices Ground Rules which are available at [www.ftserussell.com](http://www.ftserussell.com).
- 1.3 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index is an extension of the FTSE MPF Indices. It is designed to reflect the performance of stocks representing a specific set of ESG and climate change characteristics.
- 1.4 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index takes account of ESG and other sustainable investment factors in its index design. Please see further details in Section 4 and 5.
- 1.5 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index calculated on a hedged and unhedged basis. The FTSE Custom Developed Selected Countries ESG Low Carbon Select Hedged Index is currency hedged back into Hong Kong dollars, as required to meet the regulations of the Mandatory Provident Fund. Please see full details of the currency hedging methodology in Appendix B of the FTSE MPF Indices Ground Rules.
- 1.6 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index is calculated daily.
- 1.7 The base currency of the benchmarks is Hong Kong dollars (HKD). Index values may also be published in other currencies.
- 1.8 Capital and Total Net Return indices are available. The Total Net Return indices are calculated based on actual tax rates applicable to MPF schemes. For details on the tax rates used for each country, please contact FTSE Russell.

## 1.9 **FTSE Russell**

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, The Yield Book Inc and Beyond Ratings.

- 1.10 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.
- 1.11 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, 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 series or any constituent data.



## Section 2

# Management Responsibilities

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## 2.0 Management Responsibilities

### 2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.<sup>1</sup>

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 reviews of the index series 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;
- 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 meet the current and future requirements of investors and other index users. 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.

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<sup>1</sup> FTSE is not the benchmark administrator of the Index Series as the term administrator is defined in the [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

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### 3.0 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 Corporate Actions and Events Guide

- 3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Non-Market Capitalisation Weighted Indices using the following link:

[Corporate Actions and Events Guide for Non Market Cap Weighted Indices.pdf](#)

#### 1.1 Queries and Complaints

- 3.1.2 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

- 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 Policy for Benchmark Methodology Changes

- 3.4.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

### 3.5 **FTSE Russell Governance Framework**

- 3.5.1 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<sup>2</sup>, the European benchmark regulation<sup>3</sup> and the UK benchmark regulation<sup>4</sup>. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE\\_Russell\\_Governance\\_Framework.pdf](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013

<sup>3</sup> 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

<sup>4</sup> The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019

## Section 4

# Sustainable Investment Data Inputs

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### 4.0 Sustainable Investment Data Inputs

#### 4.1 SI Data Inputs

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

[Guide to Third Party Sustainable Investment Data used in FTSE Russell Indexes.pdf \(ftserussell.com\)](#) The following Sustainable Investment datasets are used in the construction of the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index.

#### 4.2 Carbon data

Operational Carbon Emissions and Fossil Fuel Reserves data are subject to regular checks to identify discrepancies and ensure accuracy. These checks include trend analysis to assess data quality and detailed review of underlying data for significant changes in data values.

#### 4.3 Product involvement exclusions and conduct-related exclusions

Data for product involvement exclusions and UNGC controversies exclusions is sourced from Sustainalytics. This data subject to regular quality checks to identify discrepancies and ensure accuracy; these checks include trend analysis to assess data quality and detailed review of underlying data for significant score changes.

#### 4.4 Sustainable Investment Metrics

- 4.4.1 Please see the FTSE Russell [Sustainable Investment Metrics](#) website for the scores and values of the environmental, social and governance (ESG) factors listed in Annex II to Delegated Regulation (EU) 2020/1816 which are taken into account in the benchmark methodology for the benchmarks within this index series.



## Section 5

# ESG and Carbon Data Definitions

### 5.0 ESG and Carbon Data Definitions

#### 5.1 FTSE ESG Scores (E)

Please see the [Guide to FTSE and Third Party Sustainable Investment Data used in FTSE Indices.](#) for more information on FTSE ESG Scores. 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 September review month.

#### 5.2 Operational Carbon Emissions Intensity (OE)

Operational Carbon Emissions Intensity is defined as the latest annual CO2 equivalent greenhouse gas (GHG) emissions in metric tons scaled by annual sales (in USD). CO2 equivalent GHG emissions data is defined as GHG Protocol Scope 1 and 2 emissions. Annual sales data is sourced from third party data providers. 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 review month.

#### 5.3 Potential Emissions: Fossil Fuel Reserve Intensity (R)

Fossil Fuel Reserve Intensity is defined as the estimated CO2 equivalent GHG emissions in metric tons generated by the combustion of a company's fossil fuel reserves, divided by its full company market capitalisation (in USD). The data cut-off date for the availability of Fossil Fuel Reserve Intensity is the close of business on the last business day of the month prior to the review month.

#### 5.4 Z-Scores and Missing Data Treatment

Individual stock quantities are normalised cross-sectionally to create Z-Scores within each eligible universe according to:

$$Z_{F,i} = \frac{F_i - \mu_F}{\sigma_F} \quad \text{where} \quad F \in \{E, OE, \text{Log}(R)\} \quad (1)$$

where  $F_i$  is the  $F$ -quantity of the  $i^{th}$  stock and  $\mu_F$  and  $\sigma_F$  are its cross-sectional factor 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 (1).

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. Missing data is excluded from this process.

- Missing ESG scores and Operational Carbon Emissions Intensities are assigned a Z-Score of 0 at the end of the process described in 5.4.
- Companies identified as having non-zero Fossil Fuel Reserves Intensities but with no available reserves data are treated as having missing data when calculating the Z-Scores in 5.4. However, at the end of the process they are assigned a Z-Score in accordance with the following rules:
  - Companies in the ICB sub-sector Coal Mining (ICB sub-sector Coal 60101040)<sup>5</sup> are assigned the average Z-score of companies in the Coal Mining sub-sector. If there are no companies in the Coal Mining sub-sector with reserve data, a Z-score of 0 is assigned.
  - Companies in the ICB sector Oil & Gas Producers (ICB sector Oil, Gas and Coal 601010) and Oil & Gas Services & Distributions are assigned the average Z-score of companies in the Oil & Gas Producers sector and Oil & Gas Services & Distributions respectively. If there are no companies with reserve data in such a sector, a Z-score of 0 is assigned.
  - Companies in the ICB sub-sector General Mining (ICB sub-sector General Mining 55102000) which are identified via FTSE Sustainable Investment data to own coal reserves are assigned the average Z-score of companies in the General Mining sub-sector which own reserves and for which data is available. If there are no companies in the General Mining sub-sector with reserve data, a Z-score of 0 is assigned.
  - Companies outside ICB sub-sectors 60101040, 55102000 and ICB 601010 which are identified via FTSE Sustainable Investment data to own coal reserves, are assigned the average Z-score of companies outside the ICB sub-sectors 60101040, 55102000 and 601010 which own reserves and for which data is available. If there are no companies outside the ICB sub-sectors 60101040, 55102000 and 601010 with reserve data, a Z-score of 0 is assigned.
- Companies with zero Fossil Fuel Reserve Intensities are treated as having missing data when calculating the Z-Scores in 5.4. At the end of the process they are assigned a Z-Score of -3.

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<sup>5</sup> FTSE Indices migrated to the new ICB classification in March 2021



## Section 6

# Eligible Securities

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### 6.0 Eligible Securities

- 6.1 Only constituents in the FTSE MPF Developed Index are eligible for inclusion in the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index.
- 6.1.1 The relevant underlying universe for the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index include securities in the FTSE MPF Developed Index from USA, Japan, UK, France, Switzerland, Canada, Germany, Australia, Netherlands, Hong Kong, Italy, Spain, Singapore.
- 6.1.2 Securities that are members of the applicable exclusion list (see Appendix A and B) are not eligible for the relevant index.
- 6.2 Please refer to the FTSE MPF Indices Ground Rules available from FTSE Russell for more information and details on eligible securities for the underlying FTSE MPF Indices.

## Section 7

# Index Construction

### 7.0 Index Construction

#### 7.1 General Overview

- 7.1.1 At each September review the product involvement exclusion list (see Appendix A) and the UNGC controversies exclusion list (see Appendix B) are applied to an underlying universe of free-float adjusted market capitalization weights,  $W_{M_i}$ . The weights of the remaining stocks are rescaled in proportion to their size so that they sum to one, yielding stock weights which will be referred to as  $\widehat{W}_{M_i}$ .
- 7.1.2 The weights  $\widehat{W}_{M_i}$  are used as the starting point of a portfolio construction technique (see 7.2) that targets an Operational Carbon Emissions Intensity reduction of 50%, a Fossil Fuel Reserves Intensity reduction of 50% and an ESG uplift of 20% relative to the underlying. All of this is subject to country, industry, maximum stock capacity, maximum company weight and minimum diversification constraints. These “target exposure” weights will be referred to as  $W_{F_i}$ .
- 7.1.3 Finally, at each quarterly March, June, September and December review the UNGC controversies exclusion list (see Appendix B) is applied to the time-evolved September target exposure weights described in 7.1.2. The remaining weights are rescaled in proportion to their size so that they sum to one to yield the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index weights.

#### 7.2 Index Construction

- 7.2.1 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index are constructed using Target Exposure framework. The details of the methodology are set out in the FTSE Global Factor Indices Ground Rules.
- 7.2.2 The weights of the target exposure index satisfy:

$$W_{F_i} = \frac{S_{E,i}^n \times S_{OE,i}^p \times S_{R,i}^q \times C_i \times I_i \times \Phi_i \times \widehat{W}_{M_i}}{\sum_j S_{E,j}^n \times S_{OE,j}^p \times S_{R,j}^q \times C_j \times I_j \times \Phi_j \times \widehat{W}_{M_j}} \quad (2)$$

where  $S_{E,i}^n$ ,  $S_{OE,i}^p$  and  $S_{R,i}^q$  are ESG, Operational Carbon Emissions Intensity and Fossil Fuel Reserve Intensity tilts of strengths  $n$ ,  $p$  and  $q$  respectively,  $S_{F,i} = \text{Exp}(Z_{F,i})$ ,  $C_i$  and  $I_i$  are country

and industry tilts,  $\Phi_i$  is a max capacity/max company weight tilt and  $\widehat{W}_{M_i}$  are the weights defined in 7.1.

The tilts in equation (2) are chosen so that the resultant target exposure weights  $W_{F_i}$  satisfy each of the following targets and constraints. The solution method is described in FTSE Global Factor Indices Ground Rules.

7.2.3 The Operational Carbon Emissions Intensity and Fossil Fuel Reserve Intensity targets are given by:

$$\sum_i W_{F_i} OE_i = 0.5 * \sum_i W_{M_i} OE_i \quad \text{and} \quad \sum_i W_{F_i} R_i = 0.5 * \sum_i W_{M_i} R_i \quad (3)$$

where  $OE_i$  and  $R_i$  are the Operational Carbon Emissions Intensity and the Fossil Fuel Reserve Intensity of stock  $i$ .

This is equivalent to the requirement that the target exposure index has 50% of the weighted Operational Carbon Emissions Intensity and weighted Fossil Fuel Reserve Intensity of the underlying index.

7.2.4 The ESG rating target is given by:

$$\sum_i W_{F_i} E_i = 1.2 * \sum_i W_{M_i} E_i \quad (4)$$

where  $E_i$  is the ESG rating of stock  $i$ .

This is equivalent to the requirement that the target exposure index has a 20% uplift in the weighted ESG rating compared to the underlying index. Where a 20% uplift represents an increase of more than one market capitalization weighted standard deviation, a percentage increase corresponding to one market capitalization weighted standard deviation is targeted.

7.2.5 The aggregate stock weight of the target exposure index in the  $H^{th}$  ICB country  $C_H$  is identical to that in the underlying capitalization weights:

$$\sum_{i \in C_H} W_{F_i} = \sum_{i \in C_H} W_{M_i} \quad \text{where} \quad H = 1, \dots, K \quad (5)$$

This is equivalent to the requirement that the target exposure weights satisfy country neutrality.

7.2.6 The aggregate stock weight of the target exposure index in the  $H^{th}$  ICB industry  $J_H$  satisfies:

$$\sum_{i \in J_H} W_{F_i} = T_{J_H} \quad \text{where} \quad H = 1, \dots, J \quad (6)$$

where  $T_{J_H}$  is a target industry weight that sits between lower and upper bounds satisfying:

$$J_{HL} = \text{Max} \left[ \sum_{i \in J_H} W_{Mi} + P_j, 0 \right] \quad \text{and} \quad J_{HU} = \text{Max} \left[ \text{Min} \left[ \sum_{i \in J_H} W_{Mi} + Q_j, 1 \right], 0 \right] \quad (7)$$

with  $P_j = -0.05$  and  $Q_j = 0.05$  for all ICB industries apart for Energy for which  $P_j = -0.05$  and  $Q_j = 0.0$ .

This is equivalent to requiring that the industrial weightings of the target exposure index deviate by no more than +/-5% from the underlying industrial weightings, apart from those of Energy which is allowed to be as much as 5% underweight but no greater than 0% overweight compared to the underlying.

7.2.7 A maximum capacity constraint is imposed so that:

$$\frac{W_{Fi}}{W_{Mi}} \leq 10 \quad \text{for all } i \quad (8)$$

along with the constraint that the maximum weight of a company is less than or equal to 9%.

- 7.2.8 The tilts in equation (2) are chosen so that all targets and constraints are satisfied simultaneously. The iterative method of solution, outlined in FTSE Global Factor Indices Ground Rules, is allowed to loop 100 times before relaxation without the factor exposure stopping criteria being applied since no factor exposures are considered here.
- 7.2.9 Should relaxation be required the carbon reduction and ESG uplift targets set out in Rules 7.2.3 and 7.2.4 are reduced simultaneously and repeatedly by 2.5% of their original values until a solution satisfying the relaxed targets becomes feasible. This occurs up to a maximum of 40 times.
- 7.2.10 Once a solution is found, a minimum security level weight threshold is applied to the target exposure index. Any security level index weight that is less than the minimum weight threshold is treated as having a zero weight in the relevant target exposure index. The remaining weights are rescaled in proportion to their size so that they sum to one. This may cause small changes in the aggregate ESG rating, Operational Carbon Emissions Intensity, Fossil Fuel Reserve Intensity and breaches of constraints for Rules 7.2.5, 7.2.6 and 7.2.7 of the target exposure index.
- 7.2.11 Table 1 summarises the weighted ESG rating, Operational Carbon Emissions Intensity and Fossil Fuel Reserve Intensity targets and constraints applied to the index.

**Table 1: Targets and Constraints for the Index**

Index	Targets			Constraints				Review
	ESG Scores Increase	Op. Carbon Emissions Reduction	Fossil Fuel Reserves Reduction	Country	Industry	Max Company Weight (%)	Min Stock Weight (b.p.)	
FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index	20%	50%	50%	Neutral	Banded	9	0.5	S*

**Notes:**

Neutral: As per Rule 7.2.5.

Banded: As per Rule 7.2.6.

Review\*: S=September

## Section 8

# Periodic Review of Constituents

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### 8.0 Periodic Review of Constituents

- 8.1 The FTSE MPF Developed Selected Countries ESG Low Carbon Select Index will be reviewed annually in September. The index review will use prices available as at the close of business on the Wednesday before the first Friday of the review month (price cut-off date). The review will be implemented after the close of business on the third Friday of the review month.
- 8.1.1 FTSE Russell will apply the UNGC controversies exclusion list outlined in Appendix B to the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index on a quarterly basis after the close of business on the third Friday of March, June, September and December.
- 8.1.2 Existing constituents which appear on the list of UNGC controversies exclusions will be removed from the index and the weight of excluded constituents will be distributed pro-rata among the remaining constituents so that the total weight sums to one. The resulting index is the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index. This procedure may cause changes in the achieved levels of aggregate ESG Scores, Operational Carbon Emissions Intensity and Fossil Fuel Reserve Intensity and breaches of the constraints set out in Table 1.
- 8.1.3 The treatment of companies which have yet to be researched is set out in the Guide to the Construction and Maintenance of FTSE Exclusion Lists which can be accessed using the following link:

[Guide to the Construction and Maintenance of FTSE Exclusion Lists.pdf](#)

The review schedule of the underlying FTSE MPF Indices are detailed in the FTSE MPF Indices Ground Rules:

[FTSE MPF Indices Ground Rules](#)

- 8.2 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index is subject to a 9% capping so that no constituent accounts for more than 9% of the index on a monthly basis. This is in line with the SFC Code on Unit Trusts and Mutual Funds.
- 8.3 The constituents of the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index are capped monthly at 9% using prices available on the close of the second Friday of the month. The capping is implemented after the close of business on the third Friday of each month based on the constituents, shares in issue and free float on the next trading day following the third Friday of each month.



## Section 9

# Changes to Constituent Companies

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### 9.0 Changes to Constituent Companies

#### 9.1 Intra-review Deletions

- 9.1.1 If a constituent ceases to be a constituent of the FTSE MPF Developed Index, it will be removed from the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index. The removal will be concurrent with its removal from the FTSE MPF Developed Index.
- 9.1.2 In addition, if a constituent becomes ineligible under the current or any new Hong Kong Mandatory Provident Fund regulations, it will be removed from the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index. The removal will be concurrent with its removal from the FTSE MPF Developed Index after giving users of the index sufficient notification of the changes before their implementation.
- 9.1.3 Upon a deletion, such removed constituent weight will be distributed pro-rata among the remaining constituents in the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index.

#### 9.2 Intra-review Additions

- 9.3 Additions to the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index will be considered for inclusion at the next annual review only if they exist in the underlying index.
- 9.4 For any fast entry security to the FTSE MPF Developed Index, it will be considered for inclusion in the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index at the next annual review.

#### 9.5 Intra-review Exclusion Changes

- 9.5.1 If the exclusion status of an existing constituent of an Underlying Index changes due to a corporate action or event, the consequent change to the membership of the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index will be considered at the next index review. Further details on the treatment of events leading to intra-review exclusion status changes is set out in Guide to the Construction and Maintenance of FTSE Exclusion Lists which can be accessed using the following link:

[Guide to the Construction and Maintenance of FTSE Exclusion Lists.pdf](#)

## Section 10

# Corporate Actions and Events

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### 10.0 Corporate Actions and Events

- 10.1 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index will follow the same corporate actions and events treatment as the FTSE Global Factor Indices Ground Rules.
- 10.2 If a constituent in the underlying index has a stock split, stock consolidation, rights issue, bonus issue, a change in the number of shares in issue or a change in free float (with the exception of tender offers), the constituent's weighting in the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index will remain unchanged pre and post such an event.
- 10.3 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 Capitalisation 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. The index will be adjusted in line with the ex-date.

These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- 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.

### 10.4 Suspension of Dealing

Suspension of Dealing rules can be found within the Corporate Actions and Events Guide for Non-Market Capitalisation Weighted Indices.

### 10.5 Takeovers, Mergers and Demergers

The treatment of takeovers, mergers and demergers can be found within the Corporate Actions and Events Guide for Non-Market Capitalisation Weighted Indices.

## Section 11

# Currency Hedging

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### 11.0 Currency Hedging

- 11.1 To comply with the Hong Kong Mandatory Provident Fund regulations, the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Hedged Index is hedged back into Hong Kong dollars, if necessary.
- 11.2 The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Hedged Index will follow the same currency hedging treatment as the FTSE MPF Indices.
- 11.3 The regulations stipulate that at least 30% of a fund's exposure must be to Hong Kong dollar risk assets. The index series will hedge non-Hong Kong dollar currency exposure in excess of 65% to ensure they stay well within the regulations.
- 11.4 The percentage of a fund's exposure to the Hong Kong dollar will be reviewed twice a year at the same time as the FTSE All-World Index review in March and September to determine if the index needs to be hedged in the coming six months. At each review if it is decided to hedge, a hedging factor will also be calculated and then carried forward until the next review. Please see Appendix B of the FTSE MPF Indices Ground Rules for definition.
- 11.5 The currency hedged indices are calculated daily using one-month forward currency rates. Due to the lack of liquidity in some Hong Kong dollar forward currency rates, all hedging is calculated as a two stage process. The respective foreign currency is first hedged into the United States dollar and then hedged from the US dollar to Hong Kong dollar.
- 11.6 Full details of the currency hedging methodology is described in Appendix B of the FTSE MPF Indices Ground Rules.

## Appendix A: Core Exclusions

At each September review, FTSE Russell will exclude companies from the underlying eligible universe of the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Index that meet the criteria in Table 2.

**Table 2 : Product Involvement Exclusions**

Exclusions	Involvement Threshold for Exclusions
<b>Weapons</b>	
<b>Anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium, and white phosphorus munitions</b> Companies providing core weapon systems, or components/services of the core weapon system that are considered tailor-made and essential for these weapons.	Greater than 0% of revenues
<b>Conventional weapons</b> Companies providing tailor-made products and/or services that support military weapons or companies manufacturing military weapon systems and/or integral, tailor-made components for these weapons	Over 10% of revenues
<b>Tobacco</b>	
Companies manufacturing tobacco products	Greater than 0% of revenues
Companies involved in distribution or retail sales of tobacco products	Over 10% of revenues
<b>Adult Entertainment</b>	
Companies producing adult entertainment and/or owns/operates adult entertainment establishments.	Over 5% of revenues
Companies distributing adult entertainment materials.	Over 10% of revenues

Exclusions	Involvement Threshold for Exclusions
<b>Gambling</b>	
Companies that own and/or operate a gambling establishment.	Over 5% of revenues
Companies manufacturing specialized equipment used exclusively for gambling.	Over 10% of revenues
Companies providing supporting products/services to gambling operations.	Over 10% revenues
<b>Coal</b>	
Thermal coal extraction	Over 10% revenues for thermal coal
Companies generating electricity from thermal coal	Over 10% revenues for thermal coal
<b>Nuclear power</b>	
Companies generating electricity from nuclear power	25% of generating capacity

## Appendix B : Conduct-Related Exclusions

FTSE Russell will apply the UN Global Compact (UNGC) controversies exclusion list outlined in Table 3 on a quarterly basis after the close of business on the third Friday of March, June, September and December to create the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index.

**Table 3: UNGC Controversies Exclusions**

Exclusions	Involvement Threshold form Exclusions
<b>UN Global Compact (UNGC) Controversies</b>	
Companies involved in controversies related to the UNGC principles. The principles are classified into four categories: Human Rights, Labor, Environment and Anti-corruption.	All companies deemed to be non-compliant



## Appendix C: Further Information

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