

FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index

v1.5

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 \(which amends the European benchmark regulation in the United Kingdom\)](#)



Contents

Section 1 Introduction	3
Section 2 Management responsibilities	5
Section 3 FTSE Russell index policies	6
Section 4 ESG data inputs.....	8
Section 5 ESG and Carbon data definitions	10
Section 6 Eligible securities	12
Section 7 Index construction.....	13
Section 8 Periodic review of constituents	16
Section 9 Changes to constituent companies.....	17
Section 10 Corporate actions and events.....	18
Section 11 Currency hedging	19
Appendix A Product related exclusions	20
Appendix B Conduct – Related exclusions.....	21
Appendix C Further information.....	22

Section 1

Introduction

1. 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.lseg.com/en/ftse-russell/.
- 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.lseg.com/en/ftse-russell/
- 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 taking into account 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 factors in its index design. Please see further details in Section 4 and 5.
 - 1.4.1 If a tilting approach is used for an SI data input, the objective is for the index methodology to overweight and/or underweight constituents according to specific SI criteria. This approach will not remove all companies with exposure to a specific SI activity or sector.
- 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

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index series.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 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.

¹ 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

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 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](#)

3.2 Queries and Complaints

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

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

3.3 Index Policy for Trading Halts and Market Closures

3.3.1 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](#)

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

3.4.1 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](#)

3.5 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](#)

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.

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](#)

Section 4

ESG data inputs

4. ESG data inputs

4.1 ESG Data Inputs

The following ESG datasets are used in the construction of the FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index.

ESG data inputs	Details	Used for selection, weighting or exclusion ⁵
FTSE ESG Scores	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. More information can be found here: Guide to FTSE and Third Party ESG Data used in FTSE Russell Indices	Weighting
FTSE Carbon Reserves	FTSE Carbon Reserves data model provides granular coverage of fossil fuel reserve ownership among publicly listed companies in developed markets and emerging economies. More information can be found here: Guide to FTSE and Third Party ESG Data used in FTSE Russell Indices	Weighting
FTSE Carbon Emissions	The FTSE Carbon Emissions Dataset provides reported and estimated Scope 1, Scope 2 and Scope 3 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 Russell Indices	Weighting
Product related data - Sustainalytics	Sustainalytics Product Involvement data identifies the nature and extent of a company's involvement in a range of product and business activities. More information can be found here: https://www.sustainalytics.com/investor-solutions/esg-research/esg-screening/esg-criteria	Exclusion
Conduct related data - Sustainalytics	Sustainalytics Global Standards Screening (GSS) assess companies' impact on stakeholders and the extent to which a company causes, contributes or is linked to violations of international norms and standards. More information can be found: https://www.sustainalytics.com/investor-solutions/esg-research/esg-screening/global-compact-norms-based-screening	Exclusion

4.1.1 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](#)

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

⁵ 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 companies from the index

4.2 ESG Metrics

4.2.1 Please see the FTSE Russell [ESG 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.

Further details on the metrics methodology and calculation are available using the following links:

[Sustainability and ESG data](#)

[ESG Disclosures Methodology and Calculation Guide](#)

Section 5

ESG and Carbon data definitions

5. ESG and Carbon data definitions

5.1 FTSE ESG Scores (E)

Please see the [Guide to FTSE and Third Party ESG 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:

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

where F_i is the F -quantity of the i^{th} stock and μ_F and σ_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)⁶ 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 ESG 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 ESG 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.

⁶ FTSE Indices migrated to the new ICB classification in March 2021.

Section 6

Eligible securities

6. 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 Appendix 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. 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, Φ_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:

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

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:

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

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:

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

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

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

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:

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

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

8. 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 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

9. 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

10. 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

11. 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

Product related 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 Related Exclusions

Exclusions	Involvement Threshold for Exclusions
Weapons	
Anti-personnel mines, nuclear weapons, cluster weapons, biological and chemical weapons, depleted uranium, and white phosphorus munitions 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
Conventional weapons 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	Equal to or greater than 10% of revenues
Tobacco	
Companies manufacturing tobacco products	Greater than 0% of revenues
Companies involved in distribution or retail sales of tobacco products	Equal to or greater than 10% of revenues
Adult Entertainment	
Companies producing adult entertainment and/or owns/operates adult entertainment establishments.	Equal to or greater than 5% of revenues
Companies distributing adult entertainment materials.	Equal to or greater than 10% of revenues
Gambling	
Companies that own and/or operate a gambling establishment.	Equal to or greater than 5% of revenues
Companies manufacturing specialized equipment used exclusively for gambling.	Equal to or greater than 10% of revenues
Companies providing supporting products/services to gambling operations.	Equal to or greater than 10% revenues
Coal	
Thermal coal extraction	Equal to or greater than 10% revenues
Companies generating electricity from thermal coal	Equal to or greater than 10% revenues
Nuclear power	
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 for Exclusions
UN Global Compact (UNGC) Controversies	
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

These Ground Rules may contain Sustainalytics proprietary information that may not be reproduced, used, disseminated, modified nor published in any manner without the express written consent of Sustainalytics. Nothing contained in these Ground Rules shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. The information is provided “as is” and, therefore Sustainalytics assumes no responsibility for errors or omissions. Sustainalytics cannot be held liable for damage arising from the use of these Ground Rules or information contained herein in any manner whatsoever.

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 FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index, the FTSE MPF Indices or the FTSE ESG Low Carbon Select Indices is available from FTSE Russell.

The FTSE Russell ESG Metrics website can be found using the following link: [ESG Metrics](#)

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/

Disclaimer

© 2024 London Stock Exchange Group plc and its applicable group undertakings ("LSEG"). LSEG includes (1) FTSE International Limited ("FTSE"), (2) Frank Russell Company ("Russell"), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, "FTSE Canada"), (4) FTSE Fixed Income Europe Limited ("FTSE FI Europe"), (5) FTSE Fixed Income LLC ("FTSE FI"), (6) FTSE (Beijing) Consulting Limited ("WOFE"), (7) Refinitiv Benchmark Services (UK) Limited ("RBSL"), (8) Refinitiv Limited ("RL") and (9) Beyond Ratings S.A.S. ("BR"). All rights reserved.

The FTSE Custom MPF Developed Selected Countries ESG Low Carbon Select Index is calculated by or on behalf of FTSE International Limited or its affiliate, agent or partner. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator. Refinitiv Benchmark Services (UK) Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL and BR. "FTSE®", "Russell®", "FTSE Russell®", "FTSE4Good®", "ICB®", "WMTM", "FR™", "Beyond Ratings®" and all other trademarks and service marks used herein (whether registered or unregistered) are trade marks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL or BR.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical inaccuracy as well as other factors, however, such information and data is provided "as is" without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or LSEG Products, or of results to be obtained from the use of LSEG products, including but not limited to indices, rates, data and analytics, or the fitness or suitability of the LSEG products for any particular purpose to which they might be put. The user of the information assumes the entire risk of any use it may make or permit to be made of the information.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any inaccuracy (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners, or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or rate containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of LSEG. Use and distribution of LSEG data requires a licence from LSEG and/or its licensors.

