FTSE ETF Connect High Income Low Vol Index

v1.0

The index is not, and is not intended to be, used by supervised entities in the European Union or 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 index 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 index.

**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)*

For avoidance of doubt, the Index methodology does not use AI technology.

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Section 1

Introduction

1. Introduction

1.1 This document sets out the Ground Rules for the construction and management of FTSE ETF Connect High Income Low Vol Index.

1.2 FTSE ETF Connect High Income Low Vol Index is designed to represent the performance of securities in the US and Hong Kong markets exhibiting high dividend yield and low volatility characteristics.

1.3 These Ground Rules should be read in conjunction with the following index rules and guides, which are available at www.lseg.com/en/ftse-russell/:

- FTSE Global Equity Index Series Ground Rules;
- FTSE Southbound Stock Connect Index Series Ground Rules; and
- The Corporate Actions and Events Guide for Non Market Capitalisation Weighted Indices.

1.4 Price and net-of-tax return indices will be calculated on an end-of-day basis.

Net-of-tax Total Return Indices are calculated based on the maximum withholding tax rates applicable to dividends received by institutional investors who are not resident in the same country as the remitting company and who do not benefit from double taxation treaties.

1.5 FTSE ETF Connect High Income Low Vol Index does not take account of ESG factors in its design.

1.6 The base currency is HKD. Index values may also be published in other currencies.

1.7 The index may be calculated in real time.

1.8 FTSE Russell

1.8.1 FTSE Russell hereby notifies users of the index 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 and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.8.2 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index 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;
- any inaccuracies in these Ground Rules;
- any non-application or misapplication of the policies or procedures described in these Ground Rules; and/or
- any inaccuracies in the compilation of the index or any constituent data.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index[1].

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index, 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 periodic index reviews of the index 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; and
- 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 best reflect the aims of the index. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

2.2.2 Where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.

[1] FTSE is not the benchmark administrator of the Index Series as the term administrator is defined in the IOSCO Principles for Financial Benchmarks and Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (the UK Benchmark Regulation).

Section 3

FTSE Russell index policies

3. FTSE Russell index policies

These Ground Rules should be read in conjunction with the following policy documents, which can be accessed using the links below.

3.1 Queries and Complaints

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

3.2 Index Policy for Trading Halts and Market Closures

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 should be recalculated and/or associated data products reissued. Users of FTSE ETF Connect High Income Low Vol Index will be notified through appropriate media.

For further information, please refer to the FTSE Russell Recalculation Policy and Guidelines document, which is available on the FTSE Russell website using the link below:

Recalculation_Policy_and_Guidelines_Equity_Indices.pdf

3.5 Policy for Benchmark Methodology Changes

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

Policy_for_Benchmark_Methodology_Changes.pdf

3.6 FTSE Russell Governance Framework

3.6.1 To oversee its indices, FTSE Russell employs a governance framework that encompasses product, service and technology governance. The framework incorporates the London Stock Exchange Group's three lines of defence risk management framework and is designed to meet the requirements of the IOSCO Principles for Financial Benchmarks[2], the European benchmark regulation[3] and the UK benchmark regulation[4]. The FTSE Russell Governance Framework can be accessed using the following link:

FTSE_Russell_Governance_Framework.pdf

3.7 Real Time Status Definitions

3.7.1 Please refer to the following guide for details of real time status definitions for indices which are calculated in real time.

Real_Time_Status_Definitions.pdf

[2] IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013
[3] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds
[4] The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019

Section 4

Eligible securities

4. Eligible securities

4.1 The eligible securities of FTSE ETF Connect High Income Low Vol Index consist of:

Eligible securities	Index universe
US listed stocks	FTSE USA Index
Hong Kong listed stocks	FTSE Southbound Stock Connect Index

4.2 Screens

4.2.1 Dividend Continuity screen

Securities are excluded if they have not distributed any dividends or have distributed dividends in only one of the most three recent fiscal years.

4.2.2 Payout Ratio screen

Securities whose average payout ratio over the past three fiscal years is no more than zero or exceeds 150% are excluded.

4.2.3 Liquidity screen

Hong Kong listed stocks whose average daily trading value over the past year ranks in bottom 20% among FTSE Southbound Stock Connect All Cap Index are excluded.

4.2.4 Profitability and Earnings Quality screen

Within each of the US listed and Hong Kong listed markets, securities with profitability or earnings-quality scores ranked in bottom 10% of the eligible securities from 4.2.1, 4.2.2 and 4.2.3 are excluded on a market-by-market basis.

A profitability score is calculated as the average of ROE(TTM) over the most recent 8 consecutive quarters minus the standard deviation of ROE (TTM) over the same period.

A earnings-quality score is calculated as $\begin{cases} \frac{1}{2}Z_i^{NP2S} + \frac{1}{2}Z_i^{FCF2S} & (\forall i \notin \text{Financials or Real Estate industry}) \\ Z_i^{NP2S} & (\forall i \in \text{Financials or Real Estate industry}) \end{cases}$, where:

- NP2S = Net Profit/Sales for the latest fiscal year;
- FCF2S = Free Cash Flow/Sales over latest 12 months;
- Z_i^{NP2S} is the Z-score derived by cross-sectionally normalizing NP2S across eligible securities from 4.2.1, 4.2.2 and 4.2.3 within each corresponding market;

- Z_i^{FCF2S} is the Z-score derived by cross-sectionally normalizing FCF2S across eligible securities from 4.2.1, 4.2.2 and 4.2.3, excluding those in the Financials (ICB 30) or Real Estate (ICB 35) industries, within each corresponding market.

4.2.5 Volatility screen

Within each of the US listed and Hong Kong listed markets, securities with daily return volatility over the past year ranked in bottom 20% of the eligible securities from 4.2.1, 4.2.2 and 4.2.3 are excluded on a market-by-market basis.

Section 5

Factor construction

5. Factor construction

5.1 Composite score

5.1.1 Within each of US listed and Hong Kong listed markets, a composite score for high-dividend and low-volatility factors is calculated for each eligible security as $\frac{1}{2}Z_i^{High\ Div} + \frac{1}{2}Z_i^{Low\ Vol}$.

5.1.2 $Z_i^{High\ Div}$ and $Z_i^{Low\ Vol}$ are Z-scores of high-dividend and low-volatility factors obtained by cross-sectional normalization across eligible securities within each corresponding market, according to:

$$Z_{F,i} = \frac{F_i - \mu_F}{\sigma_F},\ F \in \{High\ Div, Low\ Vol\}$$

where high-dividend and low-volatility factors are forecast 12-month dividend yield and weekly return volatility calculated from Thursday to Wednesday over the past five years, respectively.

Section 6

Index construction

6. Index construction

6.1 Constituent selection

6.1.1 Eligible securities are ranked by the composite score in descending order. A total number of 50 stocks are selected to form the target index, comprising the top 20 ranked securities from the US listed market and the top 30 from the Hong Kong listed market.

6.2 Weighting scheme

6.2.1 Constituent weightings in the FTSE ETF Connect High Income Low Vol Index are based on free float market capitalisation adjusted by forecast dividend yield.

6.2.2 The unconstrained index weight of each constituent in the FTSE ETF Connect High Income Low Vol Index is:

$$w_i = \frac{v_i}{\sum_j v_j},$$

where:

$$v_i = w_i' \times A_i^{DY},$$

where:

- w_i' is the free float market capitalisation weight of constituent i in the index.
- A_i^{DY} is the forecast dividend yield adjustment for constituent i (rule 6.2.3).

6.2.3 For each constituent i in the FTSE ETF Connect High Income Low Vol Index, forecast dividend yield adjustment is calculated as:

$$A_i^{DY} = \frac{R_i^{DY}}{N},$$

where R_i^{DY} is the ranking of forecast 12-month forward dividend yield in ascending order within the index constituent, and N is the target number of securities listed in 6.1.

6.2.4 The weighting of the FTSE ETF Connect High Income Low Vol Index is allocated to following markets.

Market	Weighting
US listed	35%
Hong Kong listed	65%

6.2.5 A maximum weight cap of 5% is applied to all companies (rule 7.3).

Section 7

Periodic review of constituents

7. Periodic review of constituents

7.1 Review dates

7.1.1 FTSE ETF Connect High Income Low Vol Index is reviewed quarterly in March, June, September and December.

7.1.2 The constituents will be reviewed using prices as at the close of business on the Wednesday before the first Friday of the review month (review price cut-off date) and incorporating underlying index constituent changes as of the next trading day following the third Friday of the review month.

7.1.3 The data cut-off date for the calculation of the composite score and all metrics used for screens is the close of business on the last business day of the month prior to the review month.

7.1.4 The review including any constituent changes and capping will be implemented after the close of business on the third Friday of the review month.

7.1.5 An additional rebalance of the index will be conducted at month-end of every March and September according to 7.3.2. Changes will be effective after the open of the last business day of both US and Hong Kong market in the review month using the prices three days before effective date.

7.2 Review process

7.2.1 At the quarterly review, eligible companies are ranked within their respective market in descending order of the composite score.

7.2.2 Select the top 20 stocks from the US market and the top 30 stocks from the Hong Kong market, respectively, as constituents.

7.3 Capping constituent weights at the periodic review

7.3.1 At the quarter review, constituent of FTSE ETF Connect High Income Low Vol Index are weighted based on their adjusted free-float market capitalization (v_i in 6.2.2), with each company weight capped at a maximum of 5% and corresponding market weight allocated according to rule 6.2.4. Excess weight is distributed pro rata across all companies within markets with spare capacity. Following capping, the weight of each constituent in the index moves freely in line with price movements.

7.3.2 An additional rebalance of the index will be conducted at month-end of every March and September.

7.3.2.1 If on T-3 of last business day of the review month, the total weight of US listed constituents is less than 35%, the weight of US listed constituents and Hong Kong listed constituents will not be rebalanced to 35%/65%.

7.3.2.2 If on T-3 of last business day of the review month, the total weight of US listed constituents is greater than 35%, the weight of US listed constituents and Hong Kong listed constituents will be rebalanced according to rule 6.2.4 (35%/65% rule) effective after the open of the last business day of the review month using the prices three days before effective date.

7.3.3 The capping price date is defined as follows:

- For the review conducted under section 7.3.1, the capping price date will be the second Friday of the review month.
- For the additional rebalance conducted under section 7.3.2, the capping price date will be the T-3 of last business day of the review month.

7.3.4 The capping will be based on prices at close on the capping price date of the review month and forecast dividend yield adjustment calculated at close of business on the last business day of the month prior to the review month (data cut-off date) with shares in issue and investability weights as designated to take effect after close on the on the review effective date of the review month.

7.3.5 The calculation will take into account any corporate actions/events that take effect after close on the capping price date of the review month up to and including the review effective date if they have been announced and confirmed by the capping price date of the review month.

7.3.6 Corporate actions/events announced after the capping price date of the review month that become effective up to and including the review effective date will not result in any further adjustment.

7.4 Index back histories

The availability of factor data prior to the launch date of the index is simulated through the application of lag on factor data. All index reviews prior to the index launch date incorporate the following treatments. Dividends distributed, payout ratio, ROE(TTM), NP2S and FCF2S in rule 4.2 incorporate a lag of three months. Average daily trading value in rule 4.2, forecast dividend yield in rule 5.1 and return volatility in rule 4.2/5.1 incorporate data announced prior to the data cut-off date.

Section 8

Changes to constituent companies

8. Changes to constituent companies

8.1 Intra-review additions

8.1.1 The FTSE ETF Connect High Income Low Vol Index will not accept intra-review additions, subject to the treatment of spin-offs as detailed in Section 9. Additions to the index will be considered for inclusion at the next quarter review.

8.2 Intra-review deletions

8.2.1 A constituent will be removed from the FTSE ETF Connect High Income Low Vol Index if it is removed from the underlying universes (Section 4.1). The deletion will be concurrent with the deletion from the underlying universe, and its weight will be distributed pro-rata amongst the remaining constituents in the index.

Section 9

Corporate actions and events

9. Corporate actions and events

9.1 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

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 will provide notice advising of the timing of the change.

9.2 Shares in issue

Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide for Non Market Capitalisation Weighted Indices.

9.3 Takeovers, mergers and spin-offs

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

9.4 Suspension of dealing

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

Section 10

Treatment of dividends

10. Treatment of dividends

10.1 Declared dividends are used to calculate the Standard Net Total Return Index. All dividends are applied as at the ex-div date.

10.2 The net of tax Total Return Index also calculated based on the maximum withholding tax rates applicable to dividends received by institutional investors who are not resident in the same country as the remitting company and who do not benefit from double taxation treaties.

Withholding tax rates used in the net-of-tax indices can be accessed using the following link:

Withholding_Tax_Service

Please also refer to the FTSE Russell Withholding Tax Guide which can be accessed using the following link:

FTSE_Russell_Withholding_Tax_Guide.pdf

Section 11

Index calculation

11. Index algorithm and calculation method

11.1 Calculation frequency

11.1.1 FTSE ETF Connect High Div Low Vol Index use actual closing mid-market or last trade prices, where available, for securities with local bourse quotations.

11.2 Index calculation

11.2.1 FTSE ETF Connect High Div Low Vol Index will be calculated to an accuracy of eight decimal points.

11.2.2 FTSE ETF Connect High Div Low Vol Index are calculated using the following formula:

$$\sum_{i=1}^{N} \frac{(p_i \times e_i \times s_i \times f_i \times c_i)}{d}$$

Where,

- *i=1, 2, …, N*
- *N* is the number of securities in the FTSE ETF Connect High Income Low Vol Index.
- p_i is the latest trade price of the component security (or the price at the close of the index on the previous day).
- e_i is the exchange rate required to convert the security's currency into the index's base currency.
- s_i is the number of shares in issue used by FTSE Russell for the security, as defined in these Ground Rules.
- f_i is the Investability Weighting Factor to be applied to a security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float. This factor is published by FTSE Russell for each security in the eligible index.
- c_i is the weight adjustment factor (WAF) to be applied to a security to correctly weight that security in the index.
- *d* is the divisor, a figure that represents the total issued share capital of the index at the base date. The divisor can be adjusted to allow changes in the issued share capital of individual securities to be made without distorting the index.

Appendix A

Calculation schedule

Index	Open	Close
FTSE ETF Connect High Income Low Vol Index	09:30	05:10 (+1)*

**The "+1" represents for the next calendar day.*

All times are local Hong Kong Time.

The FTSE ETF Connect High Income Low Vol Index is calculated on public holidays whenever at least one eligible exchange is trading. The indices will not be calculated on 1 January.

The official closing index value non-base currency will be calculated after receipt of the WMR FX Benchmarks Closing Spot Rates™ at 16:00 UK time.

Appendix B

Status of indices

The FTSE ETF Connect High Income Low Vol Index will be calculated in real time.

For further details of real-time definitions, please refer to the following guide:

Real_Time_Status_Definitions.pdf

Appendix C

Further information

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

Glossary.pdf

Further information on FTSE ETF Connect High Income Low Vol Index is available from FTSE Russell.

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

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

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