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FTSE ETF Connect Index Series

v1.9

FTSE RUSSELL
An LSEG Business

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Section 1

Introduction

1. Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE ETF Connect Index Series calculated by FTSE International Limited (FTSE). Copies of these Ground Rules are available from FTSE Russell.

1.2 The FTSE ETF Connect Index Series consists of equity index-level composites (the "Composite Indices") based on underlying component equity indices (the "Component Indices") calculated and maintained by FTSE Russell. The Composite Indices are designed to meet the requirements of ETF Connect program[1].

1.3 The FTSE ETF Connect Index Series do not take account of ESG factors in their index design.

1.4 These Ground Rules should be read in conjunction with the Index Series Ground Rules of the Component Indices which are available at www.lseg.com/en/ftse-russell/.

- Russell US Equity Indexes Ground Rules
- FTSE Southbound Stock Connect High Income Low Volatility Index Ground Rules
- FTSE Custom Southbound Stock Connect High Dividend Index Ground Rules
- FTSE Cash Flow Focus Index Series Ground Rules
- FTSE Asia Tech+ Index Series Ground Rules
- FTSE Global Equity Index Series Ground Rules.

1.5 The FTSE ETF Connect Index Series consists of the following indices:

- FTSE ETF Connect East-West Succession Equity Select Index.
- FTSE ETF Connect HK-Japan Cash Flow Focus Composite Index;
- FTSE ETF Connect HK-Korea Tech+ Index;
- FTSE ETF Connect Asia Tech & Succession Index;
- FTSE ETF Connect Hong Kong - Europe Index
- FTSE ETF Connect HK-US Dividend & Tech Index

[1] Please see information from HKEX website fore more details: Inclusion of ETFs in Stock Connect

1.6 The relevant base currency of each Composite Index is Hong Kong Dollars. Index values may also be published in other currencies.

1.7 Total return and/or net of tax indices will be calculated on an end of day basis.

Total return Composite Indices are comprised of total return Component Indices. Total return indices include income based on ex-dividend adjustments. All dividends are applied as declared in FTSE Total Return Indices.

Net-of-tax return Composite Indices are comprised of net-of-tax return Component Indices. Net-of-tax 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.

1.8 Selected indices of the FTSE ETF Connect Index Series are calculated and disseminated on a real time basis (see Appendix A).

1.9 **FTSE Russell**

1.9.1 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.

1.9.2 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's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE 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 or any constituent data in the Index.

Section 2

Management responsibilities

2. Management responsibilities

2.1 **FTSE International Limited (FTSE)**

2.1.1 FTSE is responsible for the daily calculation, production and operation of the FTSE ETF Connect Index Series and will[2]:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indices.

2.1.2 These Ground Rules set out the methodology and provide information about the publication of the FTSE ETF Connect Index Series.

2.2 **Amendments to these Ground Rules**

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell (at least once a year) 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.

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

[2] 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 **Corporate actions and events guide**

3.2 Full details of changes to constituent companies due to corporate actions and events can be accessed in the corporate actions and events guide for non-market cap weighted indices using the following link:

Corporate_Actions_and_Events_Guide_for_Non_Market_Cap_Weighted_Indices.pdf

3.3 Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Ground Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Product Governance Board.

The Statement of Principles can be accessed using the following link:

Statement of Principles

3.4 **Queries and Complaints**

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

FTSE_Russell_Benchmark_Determination_Complaints_Handling_Policy.pdf

3.6 **Index Policy for Trading Halts and Market Closures**

3.6.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

FTSE_Russell_Index_Policy_for_Trading_Halts_and_Market_Closures.pdf

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

3.7.1 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

3.8 **Recalculation Policy and Guidelines**

3.8.1 Where an inaccuracy is identified, FTSE Russell will follow the steps set out in the FTSE Russell Index recalculation guidelines when determining whether an index or index series should be recalculated and/or associated data products reissued. Users of the FTSE ETF Connect Index Series will be notified through appropriate media.

For further information refer to the FTSE Russell recalculation policy and guidelines document which is available from the FTSE Russell website using the link below or by contacting info@ftserussell.com.

Recalculation_Policy_and_Guidelines_Equity_Indices.pdf

3.9 **Policy for Benchmark Methodology Changes**

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

FTSE_Russell_Policy_for_Benchmark_Methodology_Changes.pdf

3.10 **FTSE Russell Governance Framework**

3.10.1 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[3], the European benchmark regulation[4] and the UK benchmark regulation[5]. The FTSE Russell Governance Framework can be accessed using the following link:

FTSE_Russell_Governance_Framework.pdf

3.11 **Real Time Status Definitions**

3.11.1 For indices that are calculated in real time, please refer to the following guide for details of real time status definitions:

Real_Time_Status_Definitions.pdf

[3] IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.
[4] 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.
[5] The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (the UK Benchmark Regulation).

Section 4

Eligible indices and weightings

4. Eligible indices and weightings

4.1 The FTSE ETF Connect Index Series is made up of following Composite Indices with set weightings allocated to respective Component Indices.

FTSE ETF Connect Index Series	Component Indices	Currency	Weighting
FTSE ETF Connect East-West Succession Equity Select Index	Russell 1000 Cash Flow Focus Net Tax Index	HKD	40%
	FTSE Custom Southbound Stock Connect High Dividend Net Tax Index	HKD	60%
FTSE ETF Connect HK-Japan Cash Flow Focus Composite Index	FTSE Japan ex-REITs High Income Cash Flow 50 100% Hedged to HKD Net Tax Index	HKD	35%
	FTSE Southbound Stock Connect Cash Flow Focus Net Tax Index	HKD	65%
FTSE ETF Connect Asia Tech & Succession Index	FTSE Asia ex China ex Hong Kong Tech+ 20 Capped Net Tax Index	HKD	35%
	FTSE Custom Southbound Stock Connect High Dividend Net Tax Index	HKD	65%
FTSE ETF Connect Hong Kong - Europe Index	FTSE Europe Index	HKD	35%
	FTSE Hong Kong Index	HKD	65%
FTSE ETF Connect Hong Kong - Korea Tech+ Index	FTSE Korea Tech+ 20 Capped Net Tax Index	HKD	40%
	FTSE Southbound Stock Connect Tech+ 20 Capped Net Tax Index	HKD	60%
FTSE ETF Connect HK-US Dividend & Tech Index	Russell Top 200 Technology HKD Net Tax Index	HKD	35%
	FTSE Southbound Stock Connect High Income Low Volatility Net Tax Index	HKD	65%

Section 5

Periodic review

5. Periodic review

5.1 **Review dates**

5.1.1 The FTSE ETF Connect Index Series is reviewed semi-annually in March and September. At the review, each Composite Index will be reviewed using prices of the underlying Component Indices as at the close of business on the third Friday of the review month and implement the changes after the close of business on the third Friday (i.e. effective the following Monday) of the review month.

5.1.2 An additional rebalance will be conducted for each Composite Index using the prices of the underlying Component Indices as at the close of business on the second last business day of the review month (where the second last business day of the month falls on a Saturday or Sunday for any individual markets, prices will be taken as at close of the last business day before Saturday). Changes will be effective after the open of the last business day of the review month.

5.2 **Review Procedure**

5.2.1 At each review, the underlying Component Indices of each Composite Index will be weighted according to weights specified in Rule 4.1 to form the target index.

Section 6

Index calculation methodology

6. Index calculation

6.1 The FTSE ETF Connect Index Series is calculated at the index business day $\boldsymbol{t}$ according to the below formula:

$$\boldsymbol{I(t) = I(t-1) \times \left(\sum_{i=1}^{N} w_i^o(t) \times (1 + r_i(t)) \right)}$$

where:

– $I(t)$ is the value of the index at the time t

– N is the number of component indices

– $r_i(t)$ is the return of the component index i in the base currency of the composite index at the time t

– $w_i^o(t)$ is the open weight of the index i at the time t

where

$$\boldsymbol{w_i^o(t) = \begin{cases} w_{oi}(t-1) \times \dfrac{1 + r_i(t-1)}{1 + R(t-1)} & , t \text{ is not a rebalance effective day} \\ w_i^{o*} & , t \text{ is a rebalance effective day} \end{cases}}$$

where

– $R(t-1)$ is the composite index return at $t-1$: $R(t-1) = \frac{I(t-1)}{I(t-2)} - 1$

– w_i^{o*} is the review effective weight for component index i

Appendix A

Calculation schedule

Index	Open	Close
FTSE ETF Connect East-West Succession Equity Select Index	09:30	05:10 (+1) *
FTSE ETF Connect HK-Korea Tech+ Index	08:00	17:30
FTSE ETF Connect Asia Tech & Succession Index	08:00	17:30
FTSE ETF Connect HK-US Dividend & Tech Index	09:30	05:10 (+1) *

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

All times are local Hong Kong Time.

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

- FTSE ETF Connect East-West Succession Equity Select Index
- FTSE ETF Connect HK-Japan Cash Flow Focus Composite Index
- FTSE ETF Connect HK-US Dividend & Tech Index

The official closing index value non-base currency for below indices will be calculated after receipt of the WMR Closing Spot Rates™ at 16:00 HK time.

- FTSE ETF Connect HK-Korea Tech+ Index
- FTSE ETF Connect Asia Tech & Succession Index

Appendix B

Status of indices

The Component Indices within the FTSE ETF Connect Index Series may be calculated in real time:

– FTSE ETF Connect East-West Succession Equity Select Index
– FTSE ETF Connect HK-Korea Tech+ Index
– FTSE ETF Connect Asia Tech & Succession Index
– FTSE ETF Connect HK-Japan Cash Flow Focus Composite Index
– FTSE ETF Connect HK-US Dividend & Tech Index

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 Rule documents can be found using the following link:

Glossary.pdf

Further information on the FTSE ETF Connect Index Series is available from FTSE Russell.

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/

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