

FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index

v2.1



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Section 1

Introduction

1. Introduction

1.1 FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index

1.2 The FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index comprises local currency government bonds providing a broad measure of sovereign emerging markets while excluding countries with excessive money supply growth and poor current account to GDP measures. Markets classified as emerging include both those considered emerging under the definition used by FTSE Fixed Income indices¹, as well as additional markets that also may be considered emerging by investors (Korea, Czech Republic and Israel).

1.3 The index includes select markets tracked by FTSE Fixed Income benchmarks such as the FTSE Emerging Markets Government Bond Index (EMGBI), the FTSE Asian Government Bond Index (AGBI) and the FTSE Central Eastern Europe, Middle East and Africa Government Bond Index (CEEMEAGBI). The defined bond universe is screened for larger issues based on amount outstanding, representing the more liquid portion of the selected markets, and then ranked by fundamental indicators. Bonds from the lowest ranked 10% of countries are excluded². The remaining bonds from the 90% of markets with lower money supply growth and better current account to GDP are market capitalisation-weighted to form the index. Furthermore, countries' weights are capped at 10% to help manage the concentration risk³.

1.4 The FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index does not take account of ESG factors in its design.

1.5 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.

1.6 FTSE Russell hereby notifies users of the index that it is possible that factors, including external factors 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 For more information on the methodology for classifying a country to be emerging, please see the emerging markets indices section of the index guide on the web at <https://www.ftserussell.com/index>.

² To ensure diversification, if the number of selected countries within the index universe is greater than 17 countries, the number of countries removed is limited so that no fewer than 17 countries remain in the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index. In the event that the number of selected countries is 17 countries or fewer, no more than two countries can be removed and no fewer than 10 countries should form the resulting index. In the event that the number of selected countries is 10 countries or fewer, no countries will be removed or reweighted using the fundamental indicators.

³ If the remaining bond universe of countries is fewer than 17 countries, countries' weights are capped at 15%.

- 1.6.1 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 members of the FTSE Russell Policy Advisory Board (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 Fixed Income LLC is the administrator of the index⁴.

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

⁴ The term administrator is used in this document in the same sense as it is defined in Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation). FTSE Fixed Income LLC administers the index series in line with the third country transitional provisions contained within Article 51(5) of the European Benchmark Regulation and the third country transitional provisions as amended by Article 42(5) of 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 or by contacting fi.index@lseg.com. These policies are reviewed annually and any changes are approved by the FTSE Russell Index Governance Board.

3.1 Statement of Principles for FTSE Fixed Income 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 for FTSE Fixed Income Indices, which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board.

The Statement of Principles for Fixed Income Indices can be accessed using the following link:

[Statement of Principles Fixed Income Indices.pdf](#)

3.2 Queries and Complaints

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

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

3.3 Recalculation Policy and Guidelines

The Recalculation Policy and Guidelines for Fixed Income Indices document is available from the FTSE Russell website using the link below or by contacting fi.index@lseg.com.

[Fixed Income Recalculation Policy and Guidelines.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

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 Benchmarks⁵, the European benchmark regulation⁶ and the UK benchmark regulation⁷. 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 that are calculated in real time.

[Real Time Status Definitions.pdf](#)

⁵ IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013.

⁶ 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.

⁷ The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019.

Section 4

Composition and design criteria

4. Composition and design criteria

4.1 Figure one details the basic design criteria and calculation assumptions for the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index. Additional design criteria and calculation assumptions for the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index are outlined in figure three.

Figure one: basic design criteria and calculation assumptions for the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index

| | |
|-----------------------------------|--|
| Coupon | Fixed rate |
| Minimum maturity | At least one year ⁸ |
| Minimum credit quality | C by S&P and Ca by Moody's |
| Composition | Sovereign debt denominated in the domestic currency. Securities included: fixed-rate, non-callable bonds – unless otherwise stated in figure two. Securities excluded: variable rate, floating rate, fixed-to-floating rate, index-linked, retail directed, bills, stripped zero coupon, convertibles, savings and private placements. For more information on market specific security types, refer to figure two. |
| Weighting | Market capitalisation |
| Rebalancing | Once a month at the end of the month. |
| Reinvestment of cash flows | Intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations ⁹ . |
| Calculation frequency | Daily |
| Settlement date | Monthly: settlement is on the last calendar day of the month. Daily: same-day settlement except if the last business day of the month is not the last calendar day of the month; then, settlement is on the last calendar day of the month. |
| Fixing date | Each month, the upcoming month's index constituents are fixed on the profile fixing date ¹⁰ . Each year's scheduled fixing dates are published on the website. |

⁸ Due to the structure of the South African three-legged instruments, the minimum maturity for R186 (10.50%, 12/21/2026), R2,044 (8.75%, 01/31/2044) and R2,048 (8.75%, 02/28/2048) is one year based on the first maturity date and the three legs from the split of R186, R2,044 and R2,048 will not be eligible for index inclusion. By convention, the stated maturity date of a three-legged bond is the middle maturity date.

⁹ Prior to 1 November 2022, reinvestment income was included in the total return calculation.

¹⁰ Fixing dates provide a clear reference point for index users to know in advance of any changes to the composition of the index for the upcoming month. On each fixing date, publicly available securities information is used to determine index eligibility and indicative values for the following month's index profile.

Figure two: FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index composition

| Selected markets | Security type |
|------------------|---|
| Brazil | Excludes LTNs |
| Chile | N/A |
| Colombia | Excludes Tes Control Monetario (TCM) bonds |
| Czech Republic | Excludes zero-coupon bonds |
| Hungary | N/A |
| Indonesia | Excludes recapitalisation bonds and Sukuk bonds |
| Israel | N/A |
| Korea | Excludes monetary stabilisation bonds and 10-year securities issued prior to 1 January 2003 |
| Malaysia | Includes callable bonds Excludes Government Investment Issues (GII) |
| Mexico | Excludes bonds issued prior to 1 January 2003 |
| Peru | N/A |
| Philippines | Excludes zero-coupon bonds and special purpose bonds |
| Poland | N/A |
| Romania | N/A |
| Saudi Arabia | Includes fixed-rate government Sukuk |
| South Africa | Excludes zero-coupon bonds |
| Sri Lanka | Excludes zero-coupon bonds |
| Thailand | Excludes bonds with maturity greater than 30 years from issuance |
| Turkey | N/A |

4.2 Market selection

4.2.1 As the coverage of local currency government bond markets by FTSE Fixed Income indices expands, additional markets will be considered for future inclusion in the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index. Through periodic reviews, the index provider will determine eligibility and the appropriate future entry dates of any local government bond markets. For example, China's government bond market will be eligible to join the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index when through periodic review, an entry date is determined.

Figure three: additional design criteria and calculation assumptions for the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index

| | |
|---------------------------|--|
| Selected countries | <p><u>Americas</u> Brazil, Chile, Colombia, Mexico, Peru</p> <p><u>Europe, Middle East and Africa</u> Czech Republic, Hungary, Israel, Poland, Romania, South Africa, Turkey</p> <p><u>Asia Pacific</u> Indonesia, Korea, Malaysia, Philippines, Sri Lanka, Thailand</p> |
| Minimum issue size | <p><u>Americas</u> Brazil: BRL 5 billion Chile: CLP 650 billion Colombia: COP 3 trillion Mexico: MXN 20 billion Peru: PEN 3 billion</p> |

| | |
|-------------------------------------|---|
| | <p><u>Europe, Middle East and Africa</u></p> <p>Czech Republic: CZK 15 billion Hungary: HUF 250 billion Israel: ILS 5 billion Poland: PLN 5 billion Romania¹¹: RON 4 billion Saudi Arabia: SAR 1 billion South Africa: ZAR 13 billion Turkey: TRY 4 billion</p> <p><u>Asia Pacific</u></p> <p>Indonesia: IDR 13 trillion Korea: KRW 1 trillion Malaysia: MYR 4 billion Philippines: PHP 50 billion Sri Lanka: LKR 50 billion Thailand: THB 30 billion</p> |
| Additional requirements | <p>For a market to be eligible for entry, the majority of index eligible bonds for the market must be priced by the primary pricing source listed for the index.</p> <p>The currency of potential new markets must be open to foreign investment and allow spot foreign exchange transactions. Exchange rates to be used in the index must be available from the primary source listed for the index.</p> |
| Pricing¹² | <p>Refinitiv mid-market price.</p> <p>Americas: 16:00 New York Europe, Middle East and Africa: 16:15 London Asia Pacific: 18:00 Tokyo</p> |
| Reconstitution | <p>After filtering for minimum issue size, the bond universe is screened by two fundamental indicators: (1) money supply growth and (2) current account to GDP, both determined annually in May¹³. The countries are ranked negatively by money supply growth and positively by current account to GDP, accounting for market capitalisation. The percentile rankings of individual indicators are combined to calculate each country's composite rank and the countries with the lowest 10% composite rank are excluded¹⁴. The rankings are recalculated quarterly at the end of February, May, August and November to determine the countries for inclusion in the following quarter's index profile. The remaining bond subset is then market capitalisation weighted to form the index.</p> <p>In the event that all countries with a weight of 5% or greater sum up to more than 50% weight in aggregate, countries with weights closest to 4.5% will be automatically set to 4.5% until the remaining countries with a weight of 5% or greater total less 50% in aggregate weight¹⁵. For the non-quarter-end months, bonds that no longer meet the liquidity, rating or maturity requirements are removed from the profile. Newly issued bonds from the qualified countries of the most recent quarterly rebalancing will be included. The monthly profiles will reflect the latest par amount and market value of all included bonds.</p> |
| Capping | 10% on country weights |
| Index base date¹⁶ | 30 June 2007 |

¹¹ Romania joined the FTSE Emerging Markets Government Bond Index (EMGBI) in May 2018. The FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index includes Romania as of September 2017.

¹² Secondary pricing source: FTSE index price. FTSE prices used for historical calculations (from 30 June 2007 to 31 October 2018).

¹³ The actual current account to GDP for the previous calendar year is published each year, generally in April, by the International Monetary Fund (IMF) in its World Economic Outlook (WEO). Effective July 2020, the money supply growth uses the broad money for the previous calendar year or latest available, published by the IMF in the International Financial Statistics (IFS) database.

¹⁴ To ensure diversification, if the number of selected countries is greater than 17 countries, the number of countries removed is limited so that no fewer than 17 countries remain. In the event that the number of selected countries is 17 countries or fewer, no more than two countries can be removed and no less than 10 countries should form the resulting index. In the event that the number of selected countries is 10 countries or fewer, no countries will be removed or reweighted using the fundamental indicators.

¹⁵ Once the criteria is satisfied where countries with weights of 5% or greater total less than 50% in aggregate weight, a true-up is performed where countries that increased in weight to 4.5% will have their weight reallocated to countries with weights greater than 5% that realised a reduction in weight, such that the criteria is still maintained.

¹⁶ Back-tested data from 06/30/2007 through 11/09/2018. Live data from 11/12/2018 through present.

4.3 Timing

4.3.1 Indices are calculated Monday through Friday except Christmas Day (observed) and New Year's Day (observed). When a market observes a holiday, the closing prices from the previous available day are used as the closing prices for index calculations on such holiday for that market.

4.4 Index quality

4.4.1 An index quality is assigned to each index bond as of profile fixing. The quality is first mapped to the Standard & Poor's Financial Services LLC (S&P) rating. If a bond is not rated by S&P but it is rated by Moody's Investors Service, Inc (Moody's), the S&P equivalent of the Moody's rating is assigned to the index quality. If a bond is rated by neither S&P nor Moody's, the bond is not assigned an index quality. If a bond is rated as investment grade by one rating agency and high yield by the other, the S&P equivalent of the investment-grade rating is assigned to the index quality. These ratings remain unchanged for the entire performance month.

4.5 Exchange rates

4.5.1 The index provider uses Refinitiv closing spot and forward rates. Refinitiv takes several snapshots at regular intervals centred on the fixing time of 16:00 London time and selects the median rate for each currency. All rates are mid-market quotations and appear on Refinitiv (see WMRSPOT01).

4.6 Return computation

4.6.1 Total returns are computed on the assumption that each security is purchased at the beginning of the period and sold at the end of the period. An issue's total rate of return is the percentage change in its total value over the measurement period. The components of total return are price change, principal payments, coupon payments and accrued interest. The total returns are market capitalisation weighted using the security's beginning-of-period market value (see figure four). In the case of multi-currency or non-base indices, the total return also includes currency movement (see figure five).

Figure four: total rate of return calculation methodology

Beginning-of-period value

(Beginning Price + Beginning Accrued) x Beginning Par Amount Outstanding

End-of-Period Value

[(Ending Price + Ending Accrued) x (Beginning Par Amount Outstanding - Principal Payments)] + Coupon Payments + Principal Payments

Total rate of return (%)

$$\left[\left(\frac{\text{End-of-Period Value}}{\text{Beginning-of-Period Value}} \right) - 1 \right] \times 100$$

A note on precision: returns are computed to at least six decimal places but reported to a maximum of five. In addition, owing to rounding inaccuracies inherent in computer floating-point arithmetic, the last digit in any reported value may sometimes be off by one from its true value.

Figure five: total rate of return calculation methodology for base currency returns, unhedged

Total rate of return (%)

$$\left\{ \left[1 + \left(\frac{\text{Local Currency Return}}{100} \right) \right] \times \left(\frac{\text{End-of-Month Spot Rate}}{\text{Beginning-of-Month Spot Rate}} \right) - 1 \right\} \times 100$$

Spot rates are quoted as base currency per unit of foreign currency.

Ticker for the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index

| Ticker | Index |
|----------|--|
| CFIIGEMB | FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index, in USD terms |

4.7 Chronological summary of events

FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index summary of event

| Year | Monthly highlights |
|------|--|
| 2022 | November: intra-month cash flows from interest and principal payments are not reinvested as part of monthly index total return calculations. |
| 2021 | June: change in timing of pricing used in index. April: bonds with maturities equal to or greater than 10 years from issuance, which were previously excluded from the index, became eligible. |
| 2018 | November: effective 15 November 2018: <ul style="list-style-type: none"> – Selected countries expanded to include the Czech Republic, Israel, Korea and Sri Lanka. – To ensure diversification, if the number of selected countries is greater than 17 countries, the number of countries removed is limited so that no fewer than 17 countries remain. In the event that the number of selected countries is 17 countries or fewer, no more than two countries can be removed and limited so that no less than 10 countries remain. – If the remaining bond universe of countries is fewer than 17 countries, countries' weights are capped at 15%. |
| 2017 | September: Romania joined the FTSE Goldman Sachs Emerging Markets Local Currency Government Bond Index. |

Appendix A

Further information

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

[Glossary_of_terms_FTSE_Fixed_Income.pdf](#)

For contact details, please visit the FTSE Russell website or contact FTSE Russell client services at fi.index@lseg.com.

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

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