



FTSE Emerging Markets USD Government and Government-Related Bond Select Index

FTSE Emerging Markets USD Government and Government-Related Bond Select Index

The FTSE Emerging Markets USD Government and Government-Related Bond Select Index measures the performance of both investment-grade and high-yield US dollar denominated debt issued by governments, regional governments, and government-sponsored entities, domiciled in emerging markets¹.

Composition and design criteria

Figure 1 details the Index's design criteria and calculation assumptions. The Index is based on a sub-sector of the FTSE Emerging Markets Broad Bond Index (EMUSDBBI) that focuses on government and government-related securities². FTSE Fixed Income LLC is the administrator of the index.

Figure 1. Design criteria and calculation assumptions for the FTSE Emerging Markets USD Government and Government-Related Bond Select Index

Coupon	Fixed-rate and fixed-to-floating bonds
Currency	USD
Minimum maturity	At least 3 years for new entries; at least 2 years for all other securities Fixed-to-floating bonds are removed one year prior to the fixed-to-floating rate start date
Minimum issue size	USD 1 billion
Minimum credit quality	C by S&P and Ca by Moody's (excludes defaulted bonds)

¹ For more information on eligible countries, see Figure 1.

² For more details on the FTSE Emerging Markets Broad Bond Index (EMUSDBBI), see the Index Guide on the Web site at www.yieldbook.com/m/indices/

Figure 1. Design criteria and calculation assumptions for the FTSE Emerging Markets USD Government and Government-Related Bond Select Index (continued)

Composition	<p>Securities included: Investment-grade and high-yield US dollar-denominated debt issued by governments, government-sponsored and government-guaranteed entities, regional governments and regional government-sponsored entities domiciled in emerging markets.</p> <p>Securities excluded: Callable zero-coupon bonds, sinking fund bonds</p> <p>Securities replaced: Any 144A ISINs included in the EMUSDBBI are replaced by the corresponding Reg S ISINs in the FTSE Emerging Markets USD Government and Government-Related Bond Select Index</p>
Eligible countries	Only issuers from countries classified as emerging markets with a per capita income below 2x the World Bank definition of “High Income” for three consecutive years are eligible for inclusion in the index. A country is classified to be “emerging” if it is defined by the International Monetary Fund (IMF) World Economic Outlook to be among “emerging and developing economies” or if it is defined by the World Bank (WB) to be among “low-income economies” or “lower-middle-income economies” or “upper-middle-income economies.”
Weighting	Market capitalization
Capping	The maximum par amount per issuing country is capped at USD 25 billion. When the total eligible par amount from a country exceeds USD 25 billion, the par amount of each bond from this country is scaled pro-rata to reduce the total to USD 25 billion.
Rebalancing	Once a month at the end of the month
Reinvestment of cash flow	At daily average of the local currency one-month Eurodeposit rate, calculated from the actual scheduled payment date of the cash flow through the end of the reporting period.
Pricing	Bid-side prices from Intercontinental Exchange (ICE) at 4pm GMT
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” the business day after the profile fixing date ³ . Each year’s scheduled fixing dates are published on the Web site at www.yieldbook.com/m/indices/
Index base date	December 31, 2011

³ 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.

Pricing

Source

The pricing source for the FTSE Emerging Markets USD Government and Government-Related Bond Select Index is discussed in Figure 1.

Timing

Indexes 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.

Index Sectors Classifications

Maturity

In addition to the broad categories published, sub-sector breakdowns are also provided for many of fixed income indexes. One such sub-division is based on the remaining maturity of the underlying securities. The maturity sector buckets are defined by including all underlying issues with a remaining average life at least equal to the lower bound, but less than the upper bound of the particular category. For example, the three-to-five-years sector of the FTSE Emerging Markets USD Government and Government-Related Bond Select Index includes all securities with a remaining average life of at least three years, but less than five years. The set of bonds is then held constant for the calculation month, even if the average life declines below the lower bound of the maturity bucket.

Index quality

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.

Defaults

When an issuer defaults, or is assigned a D rating by S&P, or enters into Chapter 7 or Chapter 11 bankruptcy protection in the US (or equivalent in its local market), its bonds remain in the index until the end of the month. The bonds will be included in the index return calculation and are calculated without coupon payment or accrued interest, where applicable. However, the bonds will not be included in the calculation of the profile statistics of the index.

Exchange rates

The index uses the The World Markets Company Plc ("WM")/Reuters closing spot and forward rates. WM takes several snapshots at regular intervals centered on the fixing time of 4:00 p.m. London time and selects the median rate for each currency. All rates are mid-market quotations and appear on Reuters (see WMRSPOT01).

Return computation

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 for each security are price change, principal payments, coupon payments, accrued interest, and reinvestment income on intra-month cash flows. The total returns are market capitalization weighted using the security's beginning-of-period market value (see Figure 2). In the case of multi-currency or non-base indexes, the total return also includes currency movement (see Figure 3).

Figure 2. 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 + Reinvestment income
Total rate of return (%)	-	[(End-of-period value / Beginning-of-period value) – 1] x 100

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

Figure 3. Total rate of return calculation methodology for base currency returns, unhedged

Total rate of return (%)	-	{[1 + (Local currency return / 100)] x (End-of-month spot rate / Beginning-of-month spot rate) - 1} x 100
--------------------------	---	---

This equation holds true only if the spot rates are quoted as base currency per unit of foreign currency.

The monthly currency-hedged return is calculated by using a rolling one-month forward exchange contract as a hedging instrument. The face value of the contract is equal to the estimated end-of-month full market value. To calculate this value, the bond's yield is assumed to be unchanged from the beginning of the month. Any known cash flows are then taken into account, such as coupon or principal payments, and interest expected to accrue for the period is also added in. This calculation leaves the intra-month changes in bond prices from yield movements unhedged. Any principal movement resulting from yield change is then settled at end-of-month spot exchange rates. Figure 4 gives an example of the calculation formula from the point of view of a US investor.

Figure 4. Total rate of return calculation methodology, currency hedged

Beginning-of-period value	-	(Beginning price + Beginning accrued) x Beginning par amount outstanding x [Beginning-of-period spot exchange rate (US dollar / Local currency)]
End-of-period value	-	(End-of-period local currency value, assuming unchanged yield + Known intra-month cash flows and interest expected to accrue) x [Beginning-of-period one-month forward exchange rate (US dollar / Local currency)] + [Change in market value of principal amount due to yield change x End-of-period spot exchange rate (US dollar / Local currency)]
Total rate of return (%)	-	[(End-of-period value / Beginning-of-period value) – 1] x 100

Data correction

FTSE Russell strives to produce error-free indexes; however, there are occasions when erroneous data is published. These circumstances may be caused by, but not limited to, calculation or pricing errors, missing data, or incorrect indicative data. On rare occasions, and only in extreme cases, the team may conclude that restatement is required. When determining if restatement is necessary, factors such as the magnitude of the error, the overall impact on the data, the sector affected, and whether the error affects daily and/or monthly results are taken into consideration.

If FTSE Russell finds it necessary to restate, an announcement will be posted on the Web site at www.yieldbook.com/m/indices/ and the data will be redistributed. Subscribers to Index Production News will automatically receive all correction notifications via email.

Periodic review of index methodology

FTSE Russell reviews its indexes periodically to ensure that their composition adequately represents the intended universe. Index users should be aware that various factors, including factors beyond the control of the index provider, might necessitate material changes or termination of an index.

Unless otherwise stated, the index follows the general index methodology. For details, please see the Index Guide on the Web site at www.yieldbook.com/m/indices.

Figure 5. Tickers* for the FTSE Emerging Markets USD Government and Government-Related Bond Select Index

Ticker	Index
SBEKGRUU	FTSE Emerging Markets USD Government and Government-Related Bond Select Index, in USD terms
SBEKGREC	FTSE Emerging Markets USD Government and Government-Related Bond Select Index, currency-hedged in EUR terms

* The tickers can be used to access data for the index on Bloomberg and other vendor platforms.

For more information about our indexes, please visit ftserussell.com.

© 2018 London Stock Exchange Group plc and its applicable group undertakings (the “LSE Group”). The LSE Group 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 GDCM”), (4) MTSNext Limited (“MTSNext”), (5) Mergent, Inc. (“Mergent”), (6) FTSE Fixed Income LLC (“FTSE FI”) and (7) The Yield Book Inc (“YB”). All rights reserved.

The FTSE Emerging Markets USD Government and Government-Related Bond Select Index is calculated by or on behalf of FTSE Fixed Income LLC or its affiliate, agent or partner.

FTSE Russell® is a trading name of FTSE, Russell, FTSE GDCM, MTS Next Limited, Mergent, FTSE FI and YB. “FTSE®”, “Russell®”, “FTSE Russell®”, “MTS®”, “FTSE4Good®”, “ICB®”, “Mergent®”, “WorldBIG®”, “USBIG®”, “EuroBIG®”, “AusBIG®”, “The Yield Book®” 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 the LSE Group or their respective licensors and are owned, or used under licence, by FTSE, Russell, MTSNext, FTSE GDCM, Mergent, FTSE FI or YB. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by any member of the LSE Group nor their respective directors, officers, employees, partners or licensors for any errors or for any loss from use of this publication or any of the information or data contained herein.

No member of the LSE Group nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of FTSE Emerging Markets USD Government and Government-Related Bond Select Index or the fitness or suitability of the Index for any particular purpose to which it might be put.

No member of the LSE Group 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 the LSE Group nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset. A decision to invest in any such asset should not be made in reliance on any information herein. Indexes cannot be invested in directly. Inclusion of an asset in an index is not a recommendation to buy, sell or hold that 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 the LSE Group. Use and distribution of the LSE Group index data and the use of their data to create financial products require a licence with FTSE, Russell, FTSE GDCM, MTSNext, Mergent, FTSE FI, YB and/or their respective licensors.

For more information email info@ftserussell.com; or call your regional Client Service Team office:

FTSE Fixed Income LLC	US	EMEA	Hong Kong	Singapore	Japan
111 Wall Street 14 th Floor New York, NY 10005	+212 816 0700	+44 20 7334 8963	+852 2164 3288	+65 6818 6291	+81 3 4563 6346