

**RULES FOR THE
MANAGEMENT OF THE
FTSE Global Wealth Allocation (GWA)
INDEX SERIES**

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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE Global Wealth Allocation (GWA) Index Series, calculated in association with Global Wealth Allocation Limited.
- 1.2 The FTSE GWA Index Series weights the constituents of the FTSE All-Share Index and the FTSE All-World Index according to the constituent's ability to create shareholder wealth measured by net profit, cash flow and book value (see Rule 4). The FTSE GWA Index Series is not market capitalisation weighted, but each constituent weight is based upon its ability to create wealth.
- 1.3 The FTSE GWA Index Series is based on the following FTSE Indices:

Using the FTSE All-Share Index: -

FTSE GWA UK Index

Using the FTSE All-World Index: -

FTSE GWA US Index
 FTSE GWA Japan Index
 FTSE GWA Australia Index
 FTSE GWA Eurozone Index
 FTSE GWA Asia Pacific ex Japan ex Australia ex New Zealand Index
 FTSE GWA Developed Asia Pacific Index
 FTSE GWA Developed Asia Pacific ex Japan Index
 FTSE GWA Developed Index
 FTSE GWA Developed Net of Tax Index
 FTSE GWA Developed ex US Index
 FTSE GWA Developed ex Japan Index
 FTSE GWA Developed ex Australia Index
 FTSE GWA Developed ex Eurozone Index
 FTSE GWA Developed ex North America Index
 FTSE GWA Developed ex UK Index
 FTSE GWA Developed Europe Index
 FTSE GWA Developed Europe ex UK Index
 FTSE GWA Emerging Index
 FTSE GWA North America Index
 FTSE GWA Shariah Developed Index
 FTSE GWA All-World Index

Note: The FTSE All-Share Index and the FTSE All-World Index are referred to as the underlying indices in these rules.

- 1.4 The FTSE GWA Index Series is calculated at the end of each business day in US Dollars, Japanese Yen, Australian Dollars, Euro and Sterling. Additionally the FTSE GWA US Index will be calculated on a real-time basis every 15 seconds in US Dollars.
- 1.5 Capital and Total Return indices are calculated.
-

SECTION 1

- 1.6 Unless contained in these ground rules, all other areas of the methodology relating to the FTSE GWA Index Series are governed by the Ground Rules of the relevant underlying FTSE Index. These ground rules should therefore be read in conjunction with the Ground Rules of the relevant underlying FTSE indices (see Section 8 for contact details).
- 1.7 Unless specifically detailed in this document, all areas of the methodology regarding the management of the FTSE GWA Index Series are related to the FTSE Global Equity Index Series Ground Rules. The FTSE GWA Indices methodology should therefore be read in conjunction with the FTSE GEIS Ground Rules. For further explanations on the Shariah methodology, please refer to the FTSE Shariah Global Equity Index Series Ground Rules. These rules are available on www.ftse.com.

SECTION 2

2.0 MANAGEMENT RESPONSIBILITIES

2.1 Global Wealth Allocation Limited (GWA)

2.1.1 GWA is responsible for the calculation of the quarterly reviews of the FTSE GWA Index Series. For each FTSE GWA Index, GWA builds wealth-weighted portfolios; see Rule 4 for further details. These portfolios are rebalanced on a quarterly basis to be synchronised to the underlying FTSE quarterly reviews. The new wealth adjustment factor for each constituent is derived from the portfolio weights that GWA supply to FTSE on a quarterly basis.

2.2 FTSE

2.2.1 FTSE is responsible for the calculation of the FTSE GWA Index Series. FTSE will maintain records of the market capitalisation of all constituents and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE will implement the resulting constituent changes from the quarterly reviews or as otherwise required by the Ground Rules. FTSE is responsible for publicising and keeping a record of all changes to constituent weightings.

SECTION 3

3.0 ELIGIBLE SECURITIES

- 3.1 Constituents of the FTSE All-Share Index and FTSE All-World Index are eligible for inclusion in the FTSE GWA Index Series.
- 3.2 The constituents of the FTSE GWA Index Series will match exactly the constituents of the underlying FTSE Index.

SECTION 4

4.0 PERIODIC REVIEW OF CONSTITUENTS

- 4.1 The FTSE GWA Index Series will be reviewed quarterly based on data as at the close of business on the Tuesday, following the first Friday of March, June, September and December, taking into account any additions and deletions in the underlying indices.
- 4.2 At the quarterly review the wealth adjustment factor is calculated, and is applied to the investable market capitalisation of each constituent (see details below). Changes arising from the quarterly review will be implemented after the close of business on the third Friday in March, June, September and December.
- 4.3 The wealth creation of a company is defined in terms of the following three measures, as found in a company's profit and loss account, and balance sheet:

$$\textit{Net Profit, Cash Flow, Book Value} = \textit{Wealth Creation}$$

- 4.4 Book value and cash flow are included because they are the only two variables used in the internal rate of return or discounted cash flow valuation of a company's worth. Net profit is included as a complement to the cash flow variable. Dividends are not used to avoid double counting; they are paid out of earnings.
- 4.5 GWA makes no forecasts. The latest twelve month figure for each wealth measure reported by the company whether quarterly, semi-annually or annually, is used.
- 4.6 If a company has more than one stock issue or a stock issue has more than one listing in the index, a wealth measure will be applied to each stock issue/listing.

4.7 Sub Portfolio Construction

- 4.7.1 The first step of constructing the Wealth Portfolio is to build a sub portfolio for each of the three wealth measures.
- 4.7.2 For portfolio construction, GWA converts the local currency wealth to US dollars using the spot exchange rate.
- 4.7.3 The sub portfolio weights are constructed by dividing each company's wealth measure by the sum of the wealth measures for that index. Section 6 shows formulae for this step in more detail.
- 4.7.4 If a company does not report a wealth measure, it enters that sub portfolio at its weight in the underlying FTSE Index (market capitalisation weighted index).
- 4.7.5 The sub portfolios are long only. Companies reporting negative wealth measures will have a zero weight in that sub portfolio.

SECTION 4

4.8 Wealth Portfolio Construction

- 4.8.1 The final step in Portfolio Construction is to build the Wealth Portfolio from the three sub portfolios.
- 4.8.2 The Wealth Portfolio weights are the average of the three sub portfolio weights.

4.9 Wealth Adjustment Factor

- 4.9.2 In order to simplify construction of the FTSE GWA Indices, it is convenient to make use of the ratio of the independently developed wealth portfolio weight to the underlying index weight. This ratio is defined as the Wealth Adjustment Factor and is constant for each company between rebalancing dates in the FTSE All-Share Index and FTSE All-World Index.
- 4.9.3 The Wealth Adjustment Factor remains constant between rebalancing dates and is used by FTSE to make the necessary changes to the appropriate FTSE GWA Index weights following mergers and other corporate events.

4.10 Treatment of Multiple Classes of Shares

- 4.10.1 Wealth is measured at the company level and divided between the different classes of shares issued by the company.
- 4.10.2 When a company has two classes of shares, both present in the same FTSE GWA Index, GWA allocates the wealth measured for a company between the share classes that own this wealth in proportion to the market capitalisation of the different classes of shares.
- 4.10.3 When a company has multiple classes of shares, not all of which appear in the FTSE GWA Index, the same approach as Rule 4.10.2 above is followed and the total wealth is split between the classes of shares in the ratio of their market capitalisation.

4.11 Treatment of Dual Listed Companies

- 4.11.1 Dual listed companies consist of two entities that exist as separate companies, but operate as a combined group. GWA allocates the wealth of the combined group to each separate company according to the ratio of their market capitalisation.

SECTION 5

5.0 CHANGES TO CONSTITUENT COMPANIES

5.1 Additions including New Issues

5.1.1 When a new issue is added to an underlying index it will be included in the relevant FTSE GWA Index. In the event that this addition occurs between index review dates, the new constituent's initial weight in the FTSE GWA Index will be the same as its underlying index weight in the FTSE All-World/FTSE All-Share Index. The wealth adjustment factor of the new constituent will be reviewed at the next quarterly review.

5.2 Deletions

5.2.1 If a constituent ceases to be a constituent of its underlying index it will be removed from the relevant FTSE GWA Index. The removal will be concurrent with its removal from the relevant underlying index.

5.3 Mergers and take-overs

5.3.1 If a constituent is acquired by a non-constituent, the company will be removed from the relevant FTSE GWA Index, in line with the removal from its underlying index. If the non-constituent is subsequently added to the underlying index, it will be included in the FTSE GWA Index and retain the same wealth adjustment factor as the acquired constituent until the next quarterly review.

5.3.2 Where two index constituents merge, or one index constituent is acquired by another, and the new entity remains eligible for inclusion in its relevant underlying index, the new entity remains at the same weight within the index as the combined pre-merger index weights.

5.3.3 If an index constituent has a complex reorganisation or de-merger, the newly spun-off company will remain in the index as long as it remains a constituent of its underlying index. The newly spun-off company will retain the same wealth adjustment factor as its parent company until the next quarterly review.

5.4 Exceptional Circumstances

5.4.1 In exceptional circumstances (e.g., an index becomes distorted by a major corporate event), FTSE may agree to re-weight an index, providing at least five days notice is given.

SECTION 6

6.0 INDEX CALCULATION METHODOLOGY

6.1 Index Review Calculation

6.1.1 Once the three wealth measurements have been obtained (see Section 4), the corresponding sub-portfolio is constructed as follows (for clarity, the formula for Book Value is shown; the other sub-portfolios are congruent).

6.1.2 If every company has reported a Book Value, and it is positive, then the Book Value sub-portfolio weight, P_i^{BV} for company i is given by:

$$P_i^{BV} = \frac{BV_i \times f_i}{\sum_j BV_j \times f_j}$$

Where: -

BV_i = the most recent reported book value applicable to stock i in US dollars.

f_i = the investability weight for security i (i.e. the free-float weight).

6.1.3 In general, not every company will have all wealth measures available. To describe this, we define an indicator function I_i^{BV} where $I_i^{BV} = 1$ if book value is available for company i and $I_i^{BV} = 0$ otherwise. Further, to keep the portfolio long only, negative wealth measures are set to zero. For the Book Value sub-portfolio this allows:

$$P_i^{BV} = I_i^{BV} \times \frac{\text{Max}(BV_i, 0) \times f_i}{\sum_j I_j^{BV} \times \text{Max}(BV_j, 0) \times f_j} \times \frac{\sum_k I_k^{BV} \times MC_k}{\sum_l MC_l} + (1 - I_i^{BV}) \times \frac{MC_i}{\sum_m MC_m}$$

Where: -

MC_i = the market capitalisation of stock i after the application of any investability weighting in US dollars.

6.1.4 In this way, companies without reported wealth measures exist in the index at their investability-adjusted market capitalisation weight, at exactly the same weight as the underlying FTSE index.

6.1.5 To convert the sub-portfolios to the wealth-weighted portfolio, P_i , we take the average:

$$P_i = \frac{P_i^{BV} + P_i^{CF} + P_i^{NP}}{3}$$

Where: -

P_i^{BV} = the Book Value sub portfolio weight.

P_i^{CF} = the Cash Flow sub portfolio weight.

P_i^{NP} = the Net Profit sub portfolio weight.

SECTION 6

6.1.6 For convenience in converting between mandates, we define a wealth adjustment factor c_i as follows (c_i is constant across indices and through time between rebalancing):

$$c_i = \frac{P_i}{i w_i}$$

Where: -

$i w_i$ = The securities weight in the underlying index:

$$i w_i = \frac{MC_i}{\sum_j MC_j}$$

6.2 Index Calculation

6.2.1 Calculation of the FTSE GWA Index Series is carried out by way of the wealth adjustment factor, c_i . This factor adjusts the investable market capitalisation of the constituent to take into account the wealth creation for each constituent.

6.2.2 For the other factors included in this formula please refer to the ground rules of the relevant underlying index series (see Section 8 for contact details).

Thus: -

$$\frac{\sum_{i=1}^n ((p_i \cdot e) \cdot s_i \cdot f_i \cdot c_i)}{d}$$

p = the price of the security.

e = the relevant exchange rate.

s = the shares in issue for each security.

f = the investability weight of the security.

c = the wealth adjustment factor of the security.

d = the index divisor.

SECTION 7

7.0 DEFINITIONS OF WEALTH

- 7.1 The sources for the wealth measurement data include data provided by Worldscope Database, and in some cases, individual company annual reports.

Book Value - A rough proxy for the liquidation value or replacement cost, the Balance Sheet value of a company is broadly defined as the total assets minus the total liabilities. It is often referred to as total shareholders' equity and represents the sum of preferred stock and common Shareholders Equity.

Cash Flow – The measure of profitability of the company's assets on a cash basis. It is the sum of net profit and all non-cash charges or credits. It includes, but is not restricted to, depreciation, amortization of intangibles and deferred taxes, and it excludes extraordinary items and changes in working capital.

Net Profit – The second measure of profitability is net profit after tax. Net profit is income after operating and non-operating expense, reserves, income taxes, and minority interest but before extraordinary items, preferred dividends and common dividends.

SECTION 8

8.0 Further information on the FTSE GWA Index Series

8.1 Further information on the FTSE GWA Index Series is available from FTSE and GWA.

8.2 Enquiries should be addressed to:

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