

GROUND RULES FOR THE MANAGEMENT OF THE FTSE4Good INDEX SERIES



FTSE4Good

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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the Ground Rules for the management of the FTSE4Good Index Series. Copies of these Ground Rules are available at www.FTSE.com. Further information is available at www.ftse.com/ftse4good
- 1.2 The FTSE4Good Index Series is designed to create a family of benchmark and tradable indices in response to the growing interest in socially responsible investment around the world.
- 1.3 The FTSE4Good Index Series was designed with the support of UNICEF, the United Nations Children’s Fund, and uses data provided by EIRIS, the Ethical Investment Research Service.
- 1.4 The following Indices are calculated:

Benchmark Indices:	Tradable Indices:	Currency:
FTSE4Good Global Index	FTSE4Good Global 100 Index	USD
FTSE4Good USA Index	FTSE4Good USA 100 Index	USD
FTSE4Good Europe Index	FTSE4Good Europe 50 Index	EURO
FTSE4Good UK Index	FTSE4Good UK 50 Index	GBP
FTSE4Good Japan Index		JPY

- 1.5 The FTSE4Good Indices are calculated in real time.
- 1.6 The FTSE4Good tradable Indices are calculated real time during each business day and are available in the same currencies.
- 1.7 Capital and Total Return Indices are available. The FTSE4Good Total Return Indices are calculated on an XD basis.

SECTION 2

2.0 INDEX MANAGEMENT

- 2.1 The FTSE4Good Index Series is managed by the FTSE4Good Policy Committee. The membership of the Committee includes independent investment professionals experienced in socially responsible investment and experts in the principles and criteria used for determining the social responsibility of corporate entities.
- 2.2 The FTSE4Good Policy Committee is responsible for the management of the FTSE4Good selection criteria and for undertaking the review of all FTSE4Good Indices. The FTSE4Good Policy Committee may also approve changes to the Ground Rules.
- 2.3 FTSE is responsible for the calculation of the FTSE4Good 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 semi-annual review or as otherwise required by the Ground Rules.

SECTION 3

3.0 ELIGIBLE SECURITIES

- 3.1 Companies are eligible for inclusion in the appropriate FTSE4Good benchmark or Tradable Index if they are current constituents of the following universe indices:

Benchmark Indices	Constituent Universe Indices
FTSE4Good Global Index	FTSE All-World Developed Index* (Previous methodology)
FTSE4Good USA Index	FTSE All-World Developed USA Index (Previous methodology)
FTSE4Good Europe Index	FTSE All-World Developed Europe Index (Previous methodology)
FTSE4Good UK Index	FTSE All-Share Index
FTSE4Good Japan Index	FTSE All-World Developed Japan Index (Global Equity Index Methodology)

* With the exception of Japanese companies where the eligible universe will be based on FTSE All-World Developed Japan Index (Global Equity Index Methodology)

Constituents of the above FTSE4Good benchmark indices are eligible for the FTSE4Good tradable indices.

- 3.2 Investment Trusts are excluded from the FTSE4Good Indices.
- 3.3 An individual constituent of the FTSE4Good Indices will have the same investibility weighting as that applied in the relevant underlying Constituent Universe Indices based on the appropriate investibility screens of that index. An individual constituent of the FTSE4Good UK Indices will have the same investibility weighting as that applied in the FTSE All-Share Index, based on the appropriate investibility screens of that index.
- 3.4 Ground Rules for the FTSE All-World Index, Global Equity Index Series and the FTSE UK Index Series are available at www.FTSE.com.
- 3.5 The FTSE4Good Indices will be governed by the ground rules of the underlying Constituent Universe Indices with regards to specific criteria concerning liquidity, the suspension of stocks, calculation methodologies etc.

SECTION 3

- 3.6 FTSE4Good Index constituents will have the same open / close times, free float, shares in issue figures and pricing sources as in the relevant Constituent Universe Indices.

SECTION 4

4.0 INDEX QUALIFICATION CRITERIA

- 4.1 Constituents of a Universe Index that pass the eligibility criteria detailed in the FTSE4Good Index Series Inclusion Criteria document are automatically members of the appropriate FTSE4Good Benchmark Index.
- 4.2 The FTSE4Good UK & Europe tradable indices will consist of the largest 50 companies in the relevant FTSE4Good Benchmark Index, by full market value (i.e. before the application of any investibility weightings), at each periodic review. The FTSE4Good USA and Global tradable indices will consist of the largest 100 companies in the relevant FTSE4Good Benchmark Index, by full market values (i.e. before the application of any investibility weightings.)
- 4.3 FTSE4Good tradable indices will be capped using FTSE's capping methodology. The FTSE4Good broad-based benchmark indices for each region will not be capped. (See Appendix A).

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS

5.1 The FTSE4Good Index Series is reviewed semi-annually in March and September, using market data as at the close of the last trading day in February and August respectively. A company's performance against the FTSE4Good selection criteria will be measured using data supplied to the FTSE4Good data supplier up to and including the first working day in February and August respectively.

5.2 Changes arising from the reviews of the FTSE4Good Indices will be implemented after the close of business on the third Friday in March and September.

5.3 FTSE4Good Benchmark Indices

5.4 All companies in the FTSE4Good constituent universe indices are reviewed using the FTSE4Good Inclusion Criteria (see the FTSE4Good Index Series Inclusion Criteria document) by the FTSE4Good Policy Committee.

5.5 All companies in each constituent Universe index that, according to data held by EIRIS (or the appropriate FTSE4Good data provider), pass the eligibility criteria detailed in the FTSE4Good philosophy and criteria document at the review date are included in the relevant FTSE4Good Benchmark Index.

5.5 FTSE4Good Tradable Indices

5.6 The rules for inserting and deleting securities at the periodic review are designed to provide stability in the selection of constituents of the FTSE4Good Indices while ensuring that the Indices continue to be representative of the largest securities included in each FTSE4Good Benchmark Index by including or excluding those securities which have risen or fallen significantly.

5.7 The procedure for deciding the addition and deletion of companies to the FTSE4Good tradable Indices is as follows:

5.7.1 All constituents of the relevant FTSE4Good Benchmark Index are ranked by full market capitalisation. The market capitalisation of a constituent's multiple lines are aggregated for the purposes of ranking.

5.7.2 A constituent of the FTSE4Good Global or USA Tradable Index will be inserted at the semi-annual review if it rises to 90th position or above.

5.7.3 A constituent of the FTSE4Good Global or USA Tradable Index will be deleted at the semi-annual review if it falls to 111th position or below.

SECTION 5

- 5.7.4 A constituent of the FTSE4Good Europe or UK Tradable Index will be inserted at the semi-annual review if it rises to 40th position or above.
- 5.7.5 A constituent of the FTSE4Good Europe or UK Tradable Index will be deleted at the semi-annual review if it falls to 61st position or below.
- 5.7.6 A constant number of constituents will be maintained for each FTSE4Good Tradable Index. Where a greater number of companies qualify to be inserted in an index than those qualifying to be deleted, the lowest ranking constituents presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies which are presently not included in the index will be inserted to match the number of companies being deleted at the periodic review.
- 5.7.7 At implementation date, cap each Tradable Index so that no company represents more than 10% of the index (See Appendix A). Companies weightings will be allowed to float between reviews.

5.8 Reserve Lists

- 5.9 The secretary to the FTSE4Good Policy Committee will be responsible for publishing the ten highest ranking non-constituents of each FTSE4Good Tradable Index that are members of the relevant FTSE4Good Benchmark Index. The appropriate Reserve List will be used in the event that one or more constituents are deleted from a FTSE4Good Tradable Index during the period up to the next semi-annual review.

SECTION 6

6.0 CHANGES TO CONSTITUENT COMPANIES

6.1 Removal and Replacement

6.1.1 If a constituent of a FTSE4Good Tradable Index ceases to be a constituent of the relevant FTSE4Good Benchmark Index it will be removed from the FTSE4Good Tradable Index. The removal will be concurrent with its removal from the relevant FTSE4Good Benchmark Index. The constituent will be replaced by the highest-ranking company by market cap eligible in the appropriate Reserve List as at the close of the index calculation two days prior to the deletion.

6.1.2 If a constituent of a FTSE4Good Benchmark Index ceases to be a constituent of the relevant Constituent Universe Index it will be removed from the FTSE4Good Benchmark Index. The removal will be concurrent with its removal from the relevant Constituent universe index. Constituents removed from a FTSE4Good Benchmark Index are not replaced between reviews.

6.2 New Issues

6.2.1 All new entrants (either fast entries or normal review entries) to the Index Universes of the FTSE4Good Benchmark indices will be eligible to join the relevant FTSE4Good Benchmark Index, if they have been in the Index Universe for at least six months, at the semi-annual review. If there are more than 50 companies from any one of the following regions (UK, Rest of Europe, North America or Asia Pacific) that join the Index Universes at any specific FTSE4Good semi-annual review, then only the largest 50 will be eligible. These largest 50 will be identified by gross market capitalisation taken at the last day of trading of the month of the previous semi-annual review (last trading day of the previous September for March reviews, and the last trading day of the previous March for September reviews).

6.3 Mergers and Takeovers

6.3.1 Following corporate events the social responsibility records of new corporate entities will be reconsidered in full at the next semi-annual review.

6.3.2 In the case of a takeover or merger between existing FTSE4Good index constituents, the resulting new company will be eligible for inclusion in the relevant Indices. If such an event occurs in a FTSE4Good Tradable Index, the highest ranking eligible reserve list company will be added to the index.

SECTION 6

- 6.3.3 In the case of a non-constituent taken over by a FTSE4Good Index constituent, the resultant entity will remain eligible for inclusion in the relevant Indices. The eligibility of the resultant entity will be assessed in full at the next semi-annual review.
- 6.3.4 In the case of a constituent taken over by a non-constituent, the resultant entity will not be eligible for inclusion in the FTSE4Good indices. The eligibility of the resultant entity will be assessed in full at the next semi-annual review. If such an event occurs in a FTSE4Good Tradable Index, the highest ranking eligible reserve list company will be added to the index.
- 6.3.5 In the case of a demerger of a FTSE4Good Index constituent the resultant companies will be classified as eligible and remain eligible for inclusion in the FTSE4Good indices. The eligibility of the resulting companies will be assessed in full at the next semi-annual review. If such an event occurs in a FTSE4Good Tradable Index the lowest ranking constituent will be removed from the index.
- 6.4 The Committee may, in exceptional circumstance, convene a special meeting to consider the eligibility of corporate entities arising from corporate events where these give rise to immediate concern as to the eligibility of the resulting companies.
- 6.5 **Special Situations**
- 6.5.1 The Committee may examine special situations that may arise from time to time. It will do so according to a standard framework that allows the Committee to ascertain whether changes to the FTSE4Good Selection Criteria are appropriate as a result of such situations. On extremely rare occasions, individual companies might be deemed ineligible for FTSE4Good as a result of such a situation, it indicates that they are in breach of the best practice framework.
- 6.5.2 In exceptional circumstances (e.g., the index becomes distorted by a major corporate event), the FTSE4Good Policy Committee may agree to re-cap the tradable indices, providing at least 5 days notice is given.

SECTION 7

7.0 ADJUSTMENTS TO THE FTSE4GOOD SELECTION CRITERIA

- 7.1 The FTSE4Good Policy Committee is responsible for the FTSE4Good Selection Criteria.
- 7.2 The FTSE4Good Policy Committee may, at its semi-annual meetings, change existing criteria, remove existing criteria, or add new criteria.
- 7.3 FTSE will publish a Roadmap of intended development for FTSE4Good, on www.FTSE4Good.com.
- 7.4 Notice of changes: FTSE will endeavour to give six months notice before implementation of changes to the selection criteria.

SECTION 8

8.0 APPEALS AGAINST DECISIONS OF THE COMMITTEE

- 8.1 A constituent or prospective constituent company (or advisor acting on behalf of the company) may appeal against decisions of the Committee only on grounds that the Committee acted outside of the FTSE4Good Ground Rules.
- 8.2 Companies that wish to update data, or who believe that data used for FTSE4Good is incorrect should contact FTSE. If there is a dispute, the Committee shall make a final decision.
- 8.3 Submissions as to the suitability of FTSE4Good criteria, and submissions suggesting future directions for FTSE4Good are always welcome.
- 8.4 Appeals and submissions should be made initially via email to the following address.

Secretary to the FTSE4Good Policy Committee
FTSE Group
info@FTSE.com

APPENDIX A

APPLICATION OF CAPPING AT THE SEMI-ANNUAL REVIEWS

Capping is applied to the constituents of each FTSE4Good Tradable Index, if required, by the following methodology:-

The constituents in the appropriate sector index are ranked by investible market capitalisation and the weight for each constituent in the Index is determined.

STAGE 1

Any constituents whose weights are greater than 10% are capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

STAGE 2

Following the application of Stage 1, if the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, the procedure moves onto Stage 3 below. Otherwise no further action is required.

STAGE 3

- a) If more than one stock is capped at 10%, then weights of all subsequent constituents previously capped at 10% are changed in accordance with the rules detailed below. For example, if the second largest stock is capped at 10% its weight will be reduced to 9% as given in 1) below. The process is then continued from the relevant point in the steps below. Thus, if it is necessary to apply the provisions of Stage 3, only one constituent will have a 10% weight in the index.
- b) If the weight of the second largest constituent is greater than 9% the constituent's weight is capped at 9% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- c) If the weight of the third largest constituent is greater than 8% the constituent's weight is capped at 8% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.

- d) If the weight of the fourth largest constituent is greater than 7% the constituent's weight is capped at 7% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- e) If the weight of the fifth largest constituent is greater than 6% the constituent's weight is capped at 6% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.
- f) If the weights of the sixth largest constituent and any lower ranking constituents are greater than 4% those constituents' weights are capped at 4% and the weights of lower ranking constituents are increased correspondingly.

STAGE 4

Following the application of Stage 3, the weights of each constituent are checked. If the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required. Firstly if the largest constituents' weight has risen above 10% the weight is again capped at 10% and the weights of other constituents are adjusted accordingly. Then Stage 3 is repeated.

In exceptional circumstances the FTSE4Good Tradable Indices will be re-capped outside of the time of the semi-annual reviews if the impact of a corporate action is of a magnitude to warrant re-capping.

FOREIGN EXCHANGE RATES

APPENDIX B

The foreign exchange rates used in the calculation of the FTSE4 Good Index Series are Reuter's real time spot rates.

The US Dollar is the base currency for all index calculations. Non US Dollar denominated constituents prices are converted into US Dollars in order to calculate the Indices.

The real time foreign exchange rates are used throughout the period of calculation. Therefore foreign exchange movements are taken into account in the Index calculation for each country even though the underlying market for that country may be closed.

The foreign exchange rates received from Reuters at 1610 hrs (New York time) are the bid rates and are used to calculate the final Index levels. These are termed the "closing foreign exchange rates".

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