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Section 1

Introduction

1.0 Introduction

1.1 The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices.

1.2 This document sets out the criteria for inclusion and exclusion from the FTSE4Good Index Series. It should be read in conjunction with:

- The FTSE4Good Index Ground Rules
- FTSE4Good Index Series Ground Rules
- Background on FTSE Russell’s ESG Ratings
- ESG Ratings
Section 2

The ESG Ratings Model

2.0 The ESG Ratings Data Model

2.1 The ESG Ratings data model contains over 300 indicators across 14 Themes and 3 Pillars. Please see the diagram below for an overview. Details of the data model are provided on the FTSE Russell website.

2.2 The ESG criteria are based only on publicly available data, and in assessing ESG practice FTSE Russell does not accept data or information privately provided by companies. This improves the credibility of data and enhances transparency across the market.

2.3 The ESG Ratings fall under the oversight of an independent committee comprising experts from the investment community, companies, NGOs, unions and academia. The committee meets regularly to oversee ESG Rating reviews and methodology development.
Section 3

Constructing the FTSE4Good Index Series

3.0 Constructing the FTSE4Good Index Series

3.1 The ESG Ratings are used as the core basis to determine the constituents of the FTSE4Good Index Series.

3.2 Each company in the research universe is given an ESG Rating ranging from 0 to 5, with 5 being the highest rating.

3.3 FTSE Russell classifies countries as Developed, Advanced Emerging, Secondary Emerging, and Frontier markets. The nationality of companies in FTSE indexes is determined by a transparent, objective and consistent approach.

3.4 Companies with a nationality in a Developed market require an ESG Rating of 3.1 or above to be added to the FTSE4Good Index Series, subject to the additional requirements stated in Section 4.

3.5 Companies with a nationality in an Emerging Market require an ESG Rating of 2.5 or above to be added to the FTSE4Good Index Series, subject to the additional requirements stated in Section 4. FTSE Russell intends to revise this inclusion threshold to reduce the difference with the Developed Market inclusion threshold.

3.6 Constituents of the FTSE4Good Index Series with a Developed market nationality and an ESG Rating below 2.7 are at risk of deletion from the FTSE4Good Index Series from December 2017.

3.7 Constituents of the FTSE4Good Index Series with an Emerging market nationality and an ESG Rating below 2.1 are at risk of deletion from the FTSE4Good Index Series from December 2017.

3.8 FTSE Russell will make reasonable endeavours to inform any companies that are in the FTSE4Good Index Series and have an ESG Rating below the required level. If a constituent of the FTSE4Good Index Series still scores below the required level following a 12 month period they will be deleted unless FTSE Russell, following consultation with the FTSE Russell ESG Advisory Committee, approves a longer period to apply.

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1See http://www.ftse.com/products/indices/country-classification
Section 4

Additional Requirements

4.0 Additional Requirements

4.1 In addition to the requirements set out in Section 3, the following considerations also apply in assessing eligibility for inclusion in the FTSE4Good Index Series.

4.2 Exclusions

Companies which manufacture or produce the products below are not included in the FTSE4Good Index Series. Constituents of the FTSE4Good Index Series which subsequent to their inclusion become involved in the manufacture or production of the products set out below will be removed from the FTSE4Good Index Series at the next Index review:

- Tobacco
- Weapons systems
- Components for controversial weapons; cluster munitions, anti-personnel mines, depleted uranium, chemical/biological weapons and nuclear weapons.
- Coal – Companies that are categorised within the Industrial Classification Benchmark (ICB\(^2\)) Subsector of 1771 Coal.

4.3 Nuclear Power Generation and Manufacturers of Infant Formula

In addition to the inclusion criteria set out in Section 3, companies involved in nuclear power generation must meet at least 16 of the 17 applicable sector specific indicators in the Health & Safety Theme in order to be included in the FTSE4Good Index Series.

4.3.1 In addition to the inclusion criteria set out in Section 3, companies involved in manufacturing infant formula must meet 19 of the 20 sector specific indicators in the Customer Responsibility Theme in order to be included in the FTSE4Good Index Series.

4.4 Controversy Monitoring.

FTSE Russell is developing a “Controversies Service” to complement the ESG Ratings. Any companies that have been identified as having significant controversies\(^3\), and otherwise meet the inclusion criteria set out in Section 3, are not added to the FTSE4Good Index Series.

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\(^2\) http://www.icbenchmark.com/

\(^3\) Companies with significant controversies are identified by FTSE Russell quarterly based on a systematic analysis and ranking of companies according to the severity and volume of negative coverage in relation to ESG incidents, criticism, and controversies worldwide from public sources including news, regulators, NGOs and company websites.
4.5 **Companies with a Low Score in a Theme Where Assessed as High Exposure**

Companies with a Developed market nationality that have a score of zero or one in any applicable High Exposure Theme will not be added to the FTSE4Good Index Series.
Section 5

Further Information

5.0 Further information

5.1 Further information on the ESG Ratings can be accessed here: [ESG Ratings]

5.2 FTSE4Good Index Ground Rules can be accessed here: [FTSE4Good Index Series Ground Rules]

5.3 Should you require more information please contact the FTSE Russell ESG team using the following email address: ftse4good@ftserussell.com