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# FTSE4Good Index Series

v4.7

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# Contents

<b>1.0</b>	<b>Introduction</b> .....	<b>3</b>
<b>2.0</b>	<b>Management Responsibilities</b> .....	<b>5</b>
<b>3.0</b>	<b>FTSE Russell Index Policies</b> .....	<b>7</b>
<b>4.0</b>	<b>Eligible Securities</b> .....	<b>9</b>
<b>5.0</b>	<b>Sustainable Investment Data Inputs</b> .....	<b>11</b>
<b>6.0</b>	<b>Eligibility Criteria</b> .....	<b>13</b>
<b>7.0</b>	<b>Index Inclusion Criteria</b> .....	<b>17</b>
<b>8.0</b>	<b>Periodic Review of Constituents</b> .....	<b>18</b>
<b>9.0</b>	<b>Changes to Constituent Companies</b> .....	<b>20</b>
	<b>Appendix A: Application of Capping at the Semi-Annual Reviews</b> .....	<b>22</b>
	<b>Appendix B: Foreign Exchange Rates</b> .....	<b>24</b>
	<b>Appendix C: Climate Subsector Groups</b> .....	<b>25</b>
	<b>Appendix D: Further Information</b> .....	<b>28</b>



## Section 1

# Introduction

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### 1.0 Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE4Good Index Series. Copies of these Ground Rules are available at [www.ftserussell.com](http://www.ftserussell.com).
- 1.2 The FTSE4Good Index Series is designed to measure the performance of companies that have an ESG rating above a specific threshold according to FTSE Russell ESG Ratings.
- 1.3 The FTSE4Good Index Series takes account of ESG factors in its index design. Please see further details in Section 5 and 6.
- 1.4 The following Indices are calculated:

<b>FTSE4Good Index</b>	<b>Currency:</b>
FTSE4Good All-World Index	USD
FTSE4Good Developed Index	USD
FTSE4Good USA Index	USD
FTSE4Good Europe Index	EUR
FTSE4Good UK Index	GBP
FTSE4Good Australia Index	AUD
FTSE4Good Developed 100 Index	USD
FTSE4Good USA 100 Index	USD
FTSE4Good Europe 50 Index	EUR
FTSE4Good UK 50 Index	GBP
FTSE4Good Australia 30 Index	AUD
FTSE4Good Japan Index	JPY
FTSE4Good Emerging Index	USD
FTSE4Good ASEAN 5 Index	USD
FTSE4Good Emerging Latin America Index	USD
FTSE4Good BIVA Index	MXN
FTSE4Good Developed Asia Pacific Index	USD
FTSE4Good North America Index	USD
FTSE4Good Brazil Index	BRL

- 1.5 The indices may be calculated in real time.
- 1.6 The following variants are, or if requested may be, calculated for certain indices within the index series:

- Capital and total return indices.
- Net total return indices based on specified withholding tax rates.
- Indices calculated in currencies other than the base currency (USD).
- Currency hedged indices.
- Capped indices; for full details see the FTSE Russell Capping Methodology guide.
- Global, regional and single country indices.
- Sector indices.

Additional customised variants can be calculated on request including indices with security, industry, country and sector exclusions. Selected indices are calculated and disseminated on a real time basis.

- 1.7 Price and total return indices will be calculated on an end of day basis.

Total return indices include income based on ex dividend adjustments. All dividends are applied as declared in FTSE total return indices.

## 1.8 **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.

## 1.9 **IOSCO**

- 1.9.1 FTSE considers that the FTSE4Good Index Series meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

Full details can be accessed at [www.iosco.org](http://www.iosco.org).

Details of FTSE Russell's Statement of Compliance with respect to the IOSCO Principles can be accessed using the following link:

[IOSCO Statement of Compliance](#).

- 1.10 FTSE Russell hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the benchmark to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

- 1.11 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index series 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 for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the Index or any constituent data.



## Section 2

# Management Responsibilities

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## 2.0 Management Responsibilities

### 2.1 FTSE International Limited (FTSE)

FTSE is the benchmark administrator of the index series.<sup>1</sup>

2.2 FTSE is responsible for the daily calculation, production and operation of the index series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indices.

### 2.3 FTSE Russell ESG Advisory Committee

2.3.1 To assist in the oversight of the ESG Indices including the FTSE4Good Index Series FTSE has established the FTSE Russell ESG Advisory Committee (the “Committee”). The membership of the Committee includes independent investment professionals experienced in environmental, social and governance factors.

2.3.2 The Committee is responsible for advising on the content and management of the FTSE4Good Index and the criteria for the ESG Ratings Model. They may also recommend and advise on associated changes to the methodology and Index Rules.

2.3.3 FTSE Russell in consultation with the Committee may, at its semi-annual meetings, change existing criteria, remove existing criteria, or add new criteria.

2.3.4 FTSE Russell will endeavour to give six months’ notice before implementation of changes to the selection criteria.

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<sup>1</sup> 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).

## 2.4 **Amendments to these Ground Rules**

- 2.4.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims 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.
- 2.4.2 As provided for in the Statement of Principles for FTSE Russell Equity 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.



## Section 3

# FTSE Russell Index Policies

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### 3.0 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:

3.1 These Ground Rules should be read in conjunction with the FTSE Global Equity Index Series Ground Rules and the FTSE UK Index Series Ground Rules.

#### 3.2 **Statement of Principles for FTSE Russell Equity Indices (the Statement of Principles)**

Indices need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles 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 are presented to the FTSE Russell Policy Advisory Board for discussion before approval by the FTSE Russell Index Governance Board.

The Statement of Principles can be accessed using the following link:

[Statement of Principles.pdf](#)

#### 3.3 **Queries and Complaints**

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

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

#### 3.4 **Index Policy for Trading Halts and Market Closures**

3.4.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

### 3.5 **Index Policy in the Event Clients are Unable to Trade a Market or a Security**

3.5.1 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](#)

### 3.6 **Recalculation Policy and Guidelines**

3.6.1 The FTSE4Good Index Series is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE4Good Index Series are notified through appropriate media.

For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting [info@ftserussell.com](mailto:info@ftserussell.com).

[Recalculation Policy and Guidelines Equity Indices.pdf](#)

### 3.7 **Recalculation Policy and Guidelines – ESG Data and Ratings**

Where an inaccuracy in an ESG data product is identified, FTSE Russell will follow the guidelines set out in this document when determining if an ESG Data Product should be recalculated.

[Recalculation Policy and Guidelines ESG Products.pdf](#)

### 3.8 **FTSE Russell Policy for Benchmark Methodology Changes**

3.8.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy for Benchmark Methodology Changes.pdf](#)

### 3.9 **FTSE Russell Governance Framework**

3.9.1 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 Benchmarks<sup>2</sup>, the European benchmark regulation<sup>3</sup> and the UK benchmark regulation<sup>4</sup>. The FTSE Russell Governance Framework can be accessed using the following link:

[FTSE Russell Governance Framework.pdf](#)

### 3.10 **FTSE Equity Country Classification**

3.10.1 Details of FTSE Russell's equity country classification process can be accessed using the following link:

[Equity Country Classification.pdf](#)

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<sup>2</sup> IOSCO Principles for Financial Benchmarks Final Report, FR07/13 July 2013

<sup>3</sup> 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

<sup>4</sup> The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019



## Section 4

# Eligible Securities

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### 4.0 Eligible Securities

#### 4.1 FTSE4Good Indices and FTSE4Good Tradable Indices

4.1.1 Eligible securities for the FTSE4Good Indices are determined by the eligibility criteria in Section 6.<sup>5</sup>

#### 4.2 Underlying Indices

4.2.1 Companies that are eligible for inclusion in the relevant FTSE4Good, or FTSE4Good Tradable Index (Rule 4.2) must be constituents of the following underlying indices:

##### **FTSE4Good Indices**

FTSE4Good All-World Index  
FTSE4Good Developed Index  
FTSE4Good USA Index  
FTSE4Good Europe Index  
FTSE4Good UK Index  
FTSE4Good Japan Index  
FTSE4Good Emerging Index  
FTSE4Good Emerging Latin America Index  
FTSE4Good ASEAN 5 Index

FTSE4Good Australia 30  
FTSE4Good BIVA Index  
FTSE4Good Developed Asia Pacific Index  
FTSE4Good North America Index  
FTSE4Good Brazil Index

##### **Underlying Indices**

FTSE All-World Index  
FTSE Developed Index  
FTSE USA Index  
FTSE Developed Europe Index  
FTSE All-Share Index  
FTSE Japan Index  
FTSE Emerging Index  
FTSE Emerging Latin America Index  
FTSE Indonesia Index  
FTSE Malaysia Index  
FTSE Philippines Index  
FTSE Singapore Index  
FTSE Thailand Index  
FTSE Australia Index  
FTSE Mexico Index  
FTSE Developed Asia Pacific Index  
FTSE North America Index  
FTSE Brazil Index

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<sup>5</sup> China A Shares (available under the Northbound China Stock Connect Scheme) were assigned Secondary Emerging market status beginning in June 2019. Securities will be eligible for inclusion in the FTSE4Good Index Series from June 2020.

A FTSE4Good Index constituent will have the same investability weighting as applied in the relevant underlying index. The FTSE4Good Indices will be governed by the Ground Rules of each underlying index with regards to criteria concerning liquidity, the suspension of stocks, calculation methodologies etc.

- 4.2.2 Changes to the Developed or Emerging market status of a country (see Rule 3.10) will be implemented in conjunction with the FTSE4Good Index Series semi-annual review in June or December. FTSE Russell will endeavor to provide clients with at least 3 months advanced notification prior to a country classification change impacting FTSE4Good Indices.



## Section 5

# Sustainable Investment Data Inputs

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### 5.0 Sustainable Investment Data Inputs

#### 5.1 SI Data Inputs

- 5.1.1 Further information on SI data provided by FTSE Russell and third parties used in this index series can be found in the following guide:

[Guide to FTSE and Third Party Sustainable Investment Data used in FTSE Russell Indices](#)

The following Sustainable Investment datasets are used in the construction of the FTSE4Good Index Series.

#### 5.2 FTSE ESG Ratings

- 5.2.1 Data from the FTSE ESG ratings model are also used for the nuclear power and breast milk substitutes screens.

#### 5.3 Product activity screening for index exclusions

- 5.3.1 Product and activity involvement data are collected from publicly available information by FTSE Russell analysts. Where data is not obtained by FTSE Russell analysts, external sources are used to supplement the data including from Sustainalytics.

- 5.3.2 All data undergo several layers of quality control including consistency checks over time, sector-relative checks, and knowledge checks. Where discrepancies are found analysts refer to primary data sources.

- 5.3.3 Where possible, the definitions for the products and activities refer to international standards and agreements such as the Convention on Cluster Munitions, Ottawa Treaty, and the Biological Weapons Convention.

- 5.3.4 Further information as to the definitions can be found in Section 6.

#### 5.4 Controversy monitoring data

- 5.4.1 Data for the Controversy Monitor is sourced from Reprisk AG. The data are subject to regular quality checks to identify discrepancies and ensure accuracy; these checks include trend analysis to assess data quality and detailed review of underlying data for significant Reprisk score changes.

## 5.5 Sustainable Investment Metrics

- 5.5.1 Please see the FTSE Russell [Sustainable Investment Metrics](#) website for the ratings, scores and values of the environmental, social and governance (ESG) factors listed in Annex II to Delegated Regulation (EU) 2020/1816 which are taken into account in the benchmark methodology for the benchmarks within this index series.



## Section 6

# Eligibility Criteria

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### 6.0 Eligibility Criteria

#### 6.1 Constructing the FTSE4Good Index Series

- 6.1.1 The FTSE ESG ratings are used as the core basis to determine the constituents of the FTSE4Good Index Series.
- 6.1.2 Each company in the research universe is given an ESG Rating ranging from 0 to 5, with 5 being the highest rating.
- 6.1.3 FTSE Russell classifies countries as Developed, Advanced Emerging, Secondary Emerging, and Frontier markets.<sup>6</sup> The nationality of companies in FTSE indices is determined by a transparent, objective and consistent approach.
- 6.1.4 Companies in a Developed market require an ESG Rating of 3.3 or above to be added to the FTSE4Good Index Series, subject to the additional requirements shown in Rule 6.2.
- 6.1.5 Companies in an Emerging Market require an ESG Rating of 2.9 or above to be added to the FTSE4Good Index Series, subject to the additional requirements stated in Rule 6.2.
- 6.1.6 Constituents of the FTSE4Good Index Series in a Developed market with an ESG Rating below 2.9 or having one or more ESG Themes assessed as high Exposure with a corresponding score of 0 are at risk of deletion from the FTSE4Good Index Series.
- 6.1.7 Constituents of the FTSE4Good Index Series in an Emerging market and an ESG Rating below 2.4 are at risk of deletion from the FTSE4Good Index Series.
- 6.1.8 Over time, FTSE Russell intends to gradually raise the addition and deletion thresholds above for both Developed and Emerging Markets and reduce the difference between the two groups.
- 6.1.9 If a constituent does not meet the index eligibility criteria in Section 6.0 during an index review, it will be deleted at the index review one year later if the eligibility criteria are still not met. Index users will be informed of the list of constituents that are at risk of deletion by a client notification, and FTSE Russell will make reasonable endeavours to inform these constituents that they are at risk of deletion from the index.
- 6.1.10 Constituents of the FTSE4Good Indices are considered to be members of the FTSE4Good Index Series. Where a member of the Series becomes eligible for another underlying index in section

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<sup>6</sup>See <https://www.ftserussell.com/equity-country-classification>

4.2.1, the company will be assessed for inclusion as a current constituent and not as a new constituent where these requirements differ.

## 6.2 Additional Requirements

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

### 6.2.1 Excluded Companies

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:

Category	Definitions
<b>Tobacco</b>	Companies that produce tobacco products.  This includes: <ul style="list-style-type: none"> <li>all companies that are classified in the Industry Classification Benchmark (ICB)<sup>7</sup> Subsectors Tobacco (3785) (New ICB Subsector Tobacco 45103010 and Cannabis Producers 20103020)</li> <li>companies that are not classified in ICB Subsector Tobacco (3785) (New ICB Subsector Tobacco 45103010 and Cannabis Producers 20103020), but that are identified as having activity in this Subsector</li> </ul>
<b>Weapons - Chemical &amp; Biological Weapons</b>	Companies that produce chemical or biological weapons, or that produce specific and critical parts or services for chemical or biological weapons.
<b>Weapons - Cluster Munitions</b>	Companies that produce cluster munitions as defined in the Convention on Cluster Munitions, or that produce specific and critical parts or services for cluster munitions.
<b>Weapons - Anti-Personnel Landmines</b>	Companies that produce anti-personnel mines as defined in the “1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction”, or that produce specific and critical parts or services for anti-personnel mines.
<b>Weapons - Nuclear Weapons</b>	Companies that produce nuclear weapons systems, or that produce specific and critical parts or services for nuclear weapons systems.
<b>Weapons - Conventional Military Weapons</b>	Companies that produce other weapons for military use. This includes: <ul style="list-style-type: none"> <li>munitions</li> <li>vehicles designed to carry military weapons (mounted or demountable)</li> <li>weapons delivery systems; including mounting and launching systems as well as targeting and guidance systems</li> </ul>
<b>Weapons - Firearms</b>	Companies that produce firearms or ammunition for non-military use.  This includes: <ul style="list-style-type: none"> <li>handguns</li> <li>shotguns</li> <li>rifles</li> <li>semi-automatic weapons</li> </ul>
<b>Coal</b>	Companies that are categorised within the Industry Classification Benchmark as Coal (Subsector 1771) (New ICB Subsector 60101040).
<b>Investment Trusts</b>	Companies in the ICB Subsectors 8985 (New ICB Subsector Closed End Investments 30204000) and 8995 (New ICB Subsector Open End and Miscellaneous Investment Vehicles 30205000) are ineligible for the FTSE4Good

<sup>7</sup> FTSE Indices migrated to the new ICB classification system in March 2021

Index as these sectors represent a portfolio of stocks and are not included in FTSE Russell's ESG research.

6.2.2 Nuclear power generation, manufacturers of infant formula and breast milk substitutes

In addition to the inclusion criteria set out above, companies involved in more controversial business areas may have to meet a higher requirement for inclusion:

- Nuclear power generation companies must meet all except one of the applicable sector specific indicators in the Health & Safety Theme.
- Companies involved in manufacturing infant formula must meet all except one of the sector specific indicators in the Customer Responsibility Theme.

6.3 Climate requirements

6.3.1 Minimum Climate Change Score Thresholds apply<sup>8</sup> in assessing eligibility for existing and new constituents of the FTSE4Good Index Series. Thresholds are determined by FTSE's classification for the market according to the FTSE Country Classification scheme, and by the company's ICB subsector assignment. Primary and Secondary Subsectors are listed in Appendix C.

	Developed Markets	Emerging Markets
Primary Impact Subsectors	Climate Change Score of 3 required	
Secondary Impact Subsectors	Climate Change Score of 2 required	Climate Change Score of 1 required

6.4 Controversy Monitoring

The FTSE Russell controversies assessment complements the ESG Ratings in formulating the FTSE4Good Indices. The treatment of companies by the controversies assessment differs depending on whether the company is a current constituent or not.

6.4.1 Non-constituents

Companies identified as having significant controversies are not added to the FTSE4Good Index Series at a review and placed on a watchlist. The watchlist is determined through a process which systematically analyses the seriousness of ESG incidents, criticism, and allegations against companies and projects worldwide to determine how controversial a company is. The top five percent of companies in the FTSE All World universe with the most significant allegations are included in the watchlist at a review; companies in wider FTSE4Good Universes that meet the threshold for the watchlist are also not added to their respective FTSE4Good Indices. The watchlist also includes companies where any of the world's largest asset owners (top 40 by assets under management) currently take a public stance in excluding that company from their portfolios on the basis of conduct-related environmental, social or governance concerns.

6.4.2 Current Constituents

FTSE Russell monitors news outlets for controversies in which current FTSE4Good Index constituents are implicated; this controversies assessment is based on two defining parts, an Exposure based on significance and a Score focused on quality of response. The Assessment is

<sup>8</sup> From June 2021

applied in a systematic manner and constituents are suspended from the FTSE4Good Index for a period of two years where the Assessment breaches a threshold level that equates to the most extreme ESG controversies. Following a two year suspension a company must demonstrate that it has taken appropriate action to rectify the effects of the controversial incident and prevent a reoccurrence before it can be permitted to reenter the FTSE4Good Index, subject to meeting all other criteria.

#### **6.5 Companies with a Low Score in a Theme Where Assessed as High Exposure**

Companies within a developed market that have a score of zero or one in any applicable High Exposure Theme will not be added to the FTSE4Good Index Series. Companies within an emerging market that have a score of zero in any applicable High Exposure Theme will not be added to the FTSE4Good Index Series.



## Section 7

# Index Inclusion Criteria

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### 7.0 Index Inclusion Criteria

7.1 Eligible securities (other than the FTSE4Good ASEAN 5 Index) that pass the eligibility criteria detailed in Section 4 are automatically members of the appropriate FTSE4Good Index.<sup>9</sup>

Where the FTSE4Good index inclusion criteria change FTSE Russell may phase in resulting changes to the indices.

7.2 Subject to the country capping rules below, constituents of the FTSE4Good ASEAN 5 Index that pass the eligibility criteria detailed in Section 4 are automatically members of the FTSE4Good ASEAN 5 Index.

There is a ceiling weight for every country in the FTSE4Good ASEAN 5 Index as follows:

- A. if any market has a weight in the index greater than 33.3%, the smallest constituent in that country by full market capitalisation will be removed,
- B. the implementation of Rule 7.2A will be repeated until all countries have a weight in the index less than or equal to 33.3%.

7.3 The FTSE4Good UK & Europe Tradable Indices will consist of the largest 50 companies in the relevant FTSE4Good Index, by full market value (i.e. before the application of any investability weightings), at each periodic review. The FTSE4Good USA and Developed Tradable Indices will consist of the largest 100 companies in the relevant FTSE4Good Index, by full market values (i.e. before the application of any investability weightings).

7.4 The FTSE4Good Australia 30 Index will consist of the largest 30 companies from the FTSE Australia Index that are in the FTSE4Good Index ranked by full market capitalisation.

7.4.1 FTSE4Good Tradable Indices will be capped using FTSE Russell's capping methodology. The FTSE4Good Indices for each region will not be capped (see Appendix A).

The FTSE4Good Australia 30 is capped at 10%.

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<sup>9</sup> Those companies that are in the FTSE4Good Bursa Malaysia Index and are large or mid cap companies in the FTSE ASEAN Index at the commencement of the FTSE4Good ASEAN 5 Index will be deemed to be eligible for inclusion in the FTSE4Good ASEAN 5 Index from the date of that commencement, but thereafter be subject to the normal eligibility rules for the FTSE4Good ASEAN 5 Index.



## Section 8

# Periodic Review of Constituents

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### 8.0 Periodic Review of Constituents

- 8.1 The FTSE4Good Index Series is reviewed semi-annually in June and December, using market data as at the close of business of the Monday 4 weeks prior to review effective date.
- 8.2 Changes arising from the reviews of the FTSE4Good Index Series will be implemented after the close of business on the third Friday (i.e. effective Monday) of June and December.

Please note: the FTSE4Good BIVA Index is reviewed semi-annually June and December in line with the FTSE4Good Index Series. Any additional changes arising from the review of the FTSE BIVA Index Series will be implemented after the close of business on the third Friday (i.e. effective Monday) of March and September.

### 8.3 FTSE4Good Indices

- 8.3.1 All companies in the underlying FTSE4Good universes are reviewed by FTSE Russell using the Eligibility Criteria shown in Section 6.
- 8.3.2 All companies in each underlying universe that pass the relevant eligibility criteria detailed in Section 6 at the review date are included in the relevant FTSE4Good Index.

### 8.4 FTSE4Good Tradable Indices

- 8.4.1 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 Index by including or excluding those securities which have risen or fallen significantly.
- 8.5 The procedure for deciding the addition and deletion of companies to the FTSE4Good Tradable Indices is as follows:
  - 8.5.1 All constituents of the relevant FTSE4Good Index are ranked by full market capitalisation. The market capitalisation of a constituent's multiple lines are aggregated for the purposes of ranking.
  - 8.5.2 A constituent of the FTSE4Good Developed or USA Tradable Index will be inserted at the semi-annual review if it rises to 90th position or above.
  - 8.5.3 A constituent of the FTSE4Good Developed or USA Tradable Index will be deleted at the semi-annual review if it falls to 111th position or below.
  - 8.5.4 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.

- 8.5.5 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.
- 8.5.6 A constituent of the FTSE4Good Australia 30 Index will be inserted at the semi-annual review if it rises to 27<sup>th</sup> position or above.
- 8.5.7 A constituent of the FTSE4Good Australia 30 Index will be deleted at the semi-annual review if it falls to 34<sup>th</sup> position or below.
- 8.5.8 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.
- 8.5.9 At implementation date, cap each Tradable Index so that no company represents more than 10% of the index (see Appendix A). Company's weightings will be allowed to float between reviews.
- 8.6 **Reserve lists**
- 8.6.1 FTSE Russell will be responsible for publishing the ten highest ranking non-constituents of each FTSE4Good Tradable Index that are members of the relevant FTSE4Good 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.
- 8.6.2 FTSE4Good Australia 30
- FTSE Russell will be responsible for publishing the three highest ranking non-constituents of the FTSE4Good Australia 30 Index that are members of the FTSE Australia Index. The Reserve List will be used in the event that one or more constituents are deleted from the FTSE4Good Australia 30 Index during the period up to the next semi-annual review.



## Section 9

# Changes to Constituent Companies

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### 9.0 Changes to Constituent Companies

#### 9.1 Removal and replacement

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

#### 9.2 New issues

- 9.2.1 All new entrants (either fast entries or normal review entries) to the Index Universes of the FTSE4Good Indices will be eligible to join the relevant FTSE4Good 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 December for June reviews, and the last trading day of the previous June for December reviews).

#### 9.3 Mergers and takeovers

- 9.3.1 Where two FTSE4Good Index constituents merge, or one FTSE4Good Index constituent is acquired by another constituent, the resulting company will remain a constituent. If such an event occurs in a FTSE4Good Tradable Index, the highest ranking eligible reserve list company will be added to the index.
- 9.3.2 If a constituent of the FTSE4Good Index acquires a non-constituent, the resultant entity will remain a constituent of the index.
- 9.3.3 If an existing constituent is acquired by a non-constituent, the resultant entity will be deleted from the FTSE4Good Index. The eligibility of the resultant entity will be assessed in full at the next semi-annual review occurring at least 6 months after the takeover. If such an event occurs in a FTSE4Good Tradable Index, the highest ranking eligible reserve list company will be added to the index.

- 9.3.4 If a constituent splits and forms two or more companies and any of the new entities are retained in the underlying index (see Section 4), those new entities will be retained in the FTSE4Good Index. The eligibility of the resulting companies will be assessed in full at the next semi-annual review occurring at least 6 months after the demerger. If such an event occurs in a FTSE4Good Tradable Index the lowest ranking constituent will be removed from the index.
- 9.3.5 Index constituent changes resulting from a split will be determined based on market values at close on day one of trading and applied with two days' notice. Consequently a FTSE4Good Tradable Index may have more than its fixed number of companies for three days.
- 9.4 FTSE Russell may, in exceptional circumstances, convene a special meeting to advise on the eligibility of corporate entities arising from corporate events where these give rise to immediate concern as to the eligibility of the resulting companies. FTSE Russell may determine that the circumstances are such that one or more of the resulting companies will be ineligible for the FTSE4Good Index.
- 9.5 **Special situations**
- 9.5.1 FTSE Russell may examine special situations that may arise from time to time. On extremely rare occasions, individual companies might be deemed by FTSE Russell to be ineligible for FTSE4Good Index Series as a result of such a situation.
- 9.5.2 In exceptional circumstances (e.g., the index becomes distorted by a major corporate event), FTSE Russell may agree to re-cap the Tradable Indices, providing at least 5 days notice is given.



## Appendix A: Application of Capping at the Semi-Annual Reviews

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

At the semi-annual review, the constituents of the FTSE4Good Developed 100 Index, the FTSE4Good USA 100 Index, the FTSE4Good Europe 50, FTSE4Good Australia 30, FTSE4Good Brazil Index and the FTSE4Good UK 50 Index are capped at the close of business on the second Friday in June and December. The capping is implemented after close of business on the third Friday in June and December based on the constituents, prices adjusted for corporate actions, shares in issue and free float on the next trading day following the third Friday of the review month.

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 companies whose weights are greater than 10% are capped at 10%. The weights of all lower ranking companies are increased correspondingly. The weights of lower ranking companies 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

#### (a) Capping the largest company at 10%

If more than one company is capped at 10% in Stage 1, then weights of all subsequent companies previously capped at 10% are changed in accordance with the rules detailed below.

For example, if the second largest company is capped at 10% its weight will be reduced to 9% as detailed in Stage 2b below. Thus only one company will have a 10% weight in the index.

#### (b) Capping the second largest company at 9%

If the weight of the second largest company is greater than 9% the company's weight is capped at 9% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto stage 2c.

Please note: Where the 40% threshold is breached we move to stage 2c even if the second largest company has not been capped.

**(c) Capping the third largest company at 8%**

If the weight of the third largest company is greater than 8% the company's weight is capped at 8% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto stage 2d.

Please note: Where the 40% threshold is breached we move to stage 2d even if the third largest company has not been capped.

**(d) Capping the fourth largest company at 7%**

If the weight of the fourth largest company is greater than 7% the company's weight is capped at 7% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto stage 2e.

Please note: Where the 40% threshold is breached we move to stage 2e even if the fourth largest company has not been capped.

**(e) Capping the fifth largest company at 6%**

If the weight of the fifth largest company is greater than 6% the company's weight is capped at 6% and the weights of the remaining companies are increased correspondingly.

Following this procedure if the total index weight of those companies whose individual weights exceed 5%, is **NOT** greater than 40% then no further capping is required.

However, if the total index weight of those companies whose individual weights exceed 5%, **IS** greater than 40% then the procedure moves onto stage 2f.

Please note: Where the 40% threshold is breached we move to stage 2f even if the fifth largest company has not been capped.

**(f) Capping the sixth largest company at 4%**

If the weights of the sixth largest company and any lower ranking companies are greater than 4% those companies' weights are capped at 4% and the weights of lower ranking companies are increased correspondingly.

The process then moves to Stage 3.

**Stage 3**

Following the application of Stage 2, the weights of each company are checked. If the total index weight of those companies whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required and Stage 2 is repeated.

Companies are capped using prices as at the close of business on the second Friday in March, June, September and December and shares in issue and free float adjusted for corporate actions as at the Monday after the third Friday. The capping is implemented after the close of business on the third Friday of March, June, September and December.

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.



## Appendix B: Foreign Exchange Rates

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The foreign exchange rates used in the calculation of the FTSE4Good Index Series are WM/Refinitiv 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 Refinitiv at 16:00 (UK time) are the bid rates and are used to calculate the final Index levels. These are termed the “closing foreign exchange rates”.



## Appendix C: Climate Subsector Groups

Primary Impact Subsector Category		Secondary Impact Subsector Category	
533	Exploration & Production	583	Renewable Energy Equipment
537	Integrated Oil & Gas	587	Alternative Fuels
573	Oil Equipment & Services	2717	Defense
577	Pipelines	2723	Containers & Packaging
1353	Commodity Chemicals	2727	Diversified Industrials
1357	Speciality Chemicals	2733	Electrical Components & Equipment
1733	Forestry	2737	Electronic Equipment
1737	Paper	2757	Industrial Machinery
1753	Aluminium	2771	Delivery Services
1755	Nonferrous Metals	2775	Railroads
1757	Iron & Steel	2777	Transportation Services
1771	Coal	2791	Business Support Services
1773	Diamonds & Gemstones	2793	Business Training & Employment Agencies
1775	General Mining	2795	Financial Administration
1777	Gold Mining	2797	Industrial Suppliers
1779	Platinum & Precious Metals	3355	Auto Parts
2353	Building Materials & Fixtures	3357	Tires
2357	Heavy Construction	3533	Brewers
2713	Aerospace	3535	Distillers & Vintners
2753	Commercial Vehicles & Trucks	3537	Soft Drinks
2773	Marine Transportation	3573	Farming & Fishing
2779	Trucking	3577	Food Products
2799	Waste & Disposal Services	3722	Durable Household Products
3353	Automobiles	3724	Nondurable Household Products
7573	Gas Distribution	3726	Furnishings
7575	Multiutilities	3728	Home Construction
5751	Airlines	3743	Consumer Electronics
7535	Conventional Electricity	3745	Recreational Products
		3747	Toys
		3763	Clothing & Accessories
		3765	Footwear

3767	Personal Products
3785	Tobacco
4533	Health Care Providers
4535	Medical Equipment
4537	Medical Supplies
4573	Biotechnology
4577	Pharmaceuticals
5333	Drug Retailers
5337	Food Retailers & Wholesalers
5371	Apparel Retailers
5373	Broadline Retailers
5375	Home Improvement Retailers
5377	Specialized Consumer Services
5379	Speciality Retailers
5553	Broadcasting & Entertainment
5555	Media Agencies
5557	Publishing
5752	Gambling
5753	Hotels
5755	Recreational Services
5757	Restaurants & Bars
5759	Travel & Tourism
6535	Fixed Line Telecommunications
6575	Mobile Telecommunications
7537	Alternative Electricity
7577	Water
8355	Banks
8532	Full Line Insurance
8534	Insurance Brokers
8536	Property & Casualty Insurance
8538	Reinsurance
8575	Life Insurance
8633	Real Estate Holding & Development
8637	Real Estate Services
8671	Industrial & Office REITs
8672	Retail REITs
8673	Residential REITs
8674	Diversified REITs
8675	Speciality REITs
8676	Mortgage REITs
8677	Hotel & Lodging REITs
8771	Asset Managers
8773	Consumer Finance
8775	Speciality Finance
8777	Investment Services
8779	Mortgage Finance

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8985	Equity Investment Instruments
9533	Computer Services
9535	Internet
9537	Software
9572	Computer Hardware
9574	Electronic Office Equipment
9576	Semiconductors
9578	Telecommunications Equipment

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## Appendix D: Further Information

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

[Glossary.pdf](#)

The FTSE Russell Sustainable Investment Metrics website can be found using the following link: [Sustainable Investment Metrics](#)

Further information on the ESG Ratings can be accessed here:

[ESG Ratings](#)

Further information on the FTSE4Good Index Series is available from FTSE Russell or on the website [www.ftserussell.com](http://www.ftserussell.com).

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