Ground Rules

FTSE4Good US Select Index
v1.6
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Section 1

Introduction

1.0 Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE4Good US Select Index. Copies of these Ground Rules are available at www.ftserussell.com.

1.2 The FTSE4Good US Select Index calculated in real time.

1.3 Capital and Total Return Indexes are available. The FTSE4Good US Select Total Return Index is calculated on an XD basis.

1.4 The FTSE4Good US Select Index has a base date of 31 October 2005 with a starting value of 100.

1.5 FTSE Russell hereby notifies users of the index 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 and therefore, any financial contracts or other financial instruments that reference the index or investment funds which use the index to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.6 Index users who choose to follow this index or to buy products that claim to follow this index should assess the merits of the index’s 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.

1.7 FTSE Russell

1.7.1 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 MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC and The Yield Book Inc.
Section 2

Management Responsibilities

2.0 Management Responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the benchmark administrator of the index.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the Index 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 reviews of the index 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 index.

2.2 Amendments to these Ground Rules

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to best reflect the aims of the index. 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 Product Governance Board before approval is granted.

2.2.2 As provided for in the Statement of Principles for FTSE Russell Equity Indexes, 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

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.

3.2 Statement of Principles for FTSE Russell Equity Indexes (the Statement of Principles)

Indexes 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 Product Governance Board.

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


3.3 Queries and complaints

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

FTSE_Russell_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

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.pdf
3.6 Recalculation Policy and Guidelines

3.6.1 The FTSE4Good US Select Index is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE4Good US Select Index 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.

[Recalculation_Policy_and_Guidelines_Equity_Indexes.pdf]

3.7 Policy for Benchmark Methodology Changes

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

[Policy_for_Benchmark_Methodology_Changes.pdf]
Section 4

Eligible Securities

4.0 Eligible Securities

4.1 Companies are eligible for inclusion in the FTSE4Good US Select Index if they are current constituents of FTSE USA All-World Index.

4.2 Ground Rules for the FTSE Global Equity Index Series are available at www.ftserussell.com.
Section 5

Index Qualification Criteria

5.0 Index Qualification Criteria

5.1 Constituents of a Universe Index that pass the eligibility criteria detailed below are automatically members of the Index.

5.2 The FTSE4Good US Select Index excludes companies based on the impact of their conduct or products on society and/or environment. A summary of the exclusion categories is provided below.

Exclusion Based on Product Categories

<table>
<thead>
<tr>
<th>Company Products</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Renewable Energy</strong></td>
<td></td>
</tr>
<tr>
<td>Fossil Fuel Reserves - Coal, Oil &amp; Gas</td>
<td>Companies that own proved or probable reserves in coal, oil or gas.</td>
</tr>
<tr>
<td><strong>Oil, Gas or Coal-Production, supporting products and services</strong></td>
<td></td>
</tr>
<tr>
<td>Any company with a primary business activity (as defined by their ICB subsector) in:</td>
<td></td>
</tr>
<tr>
<td>• the exploration for and drilling, production, refining and supply of oil and gas products (as defined by the ICB subsector 0533 Exploration &amp; Production)</td>
<td></td>
</tr>
<tr>
<td>• the supply of equipment and services to oil fields and offshore platforms, such as drilling, exploration, seismic-information services and platform construction (ICB subsector 0573 Oil Equipment &amp; Services)</td>
<td></td>
</tr>
<tr>
<td>• the operations of pipelines carrying oil, gas or other forms of fuel (ICB subsector 0577 Pipelines; note that this excludes pipeline operators that derive the majority of their revenues from direct sales to end users)</td>
<td></td>
</tr>
<tr>
<td>• integrated oil and gas companies, providing a combination of the services listed above, including refining and marketing of oil and gas products (ICB subsector 0537 Integrated Oil &amp; Gas)</td>
<td></td>
</tr>
<tr>
<td>• the exploration for or mining of coal (ICB subsector 1771 Coal).</td>
<td></td>
</tr>
<tr>
<td>Nuclear Power - Generation and Uranium Mining</td>
<td>Companies that generate revenues from nuclear power production. This includes: • nuclear power generation • nuclear power plant equipment, components and construction • uranium mining • uranium processing and enrichment</td>
</tr>
<tr>
<td>---</td>
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</tr>
<tr>
<td>Vice Products</td>
<td></td>
</tr>
<tr>
<td>Adult Entertainment</td>
<td>Companies that produce adult entertainment. This includes: • movies • print publications • online content • live entertainment</td>
</tr>
<tr>
<td>Alcohol</td>
<td>Companies that produce alcoholic beverages. This includes: • all companies that are classified in the Industry Classification Benchmark (ICB) Subsectors Brewers (3533) and Distillers &amp; Vintners (3535) • companies that are not classified in ICB Subsectors Brewers (3533) and Distillers &amp; Vintners (3535), but that are identified as having activity in these Subsectors</td>
</tr>
<tr>
<td>Gambling</td>
<td>Companies that provide gambling services. This includes: • all companies that are classified in the Industry Classification Benchmark (ICB) Subsector Gambling (5752) companies that are not classified in ICB Subsector Gambling (5752), but that are identified as having activity in this Subsector</td>
</tr>
<tr>
<td>Tobacco</td>
<td>Companies that produce tobacco products. This includes: • all companies that are classified in the Industry Classification Benchmark (ICB) Subsectors Tobacco (3785) • companies that are not classified in ICB Subsector Tobacco (3785), but that are identified as having activity in this Subsector</td>
</tr>
<tr>
<td>Weapons</td>
<td></td>
</tr>
<tr>
<td>Controversial Weapons - Nuclear Weapons</td>
<td>Companies that produce nuclear weapons systems, or that produce specific and critical parts or services for nuclear weapons systems.</td>
</tr>
<tr>
<td>Controversial Weapons - Chemical &amp; Biological Weapons</td>
<td>Companies that produce chemical or biological weapons, or that produce specific and critical parts or services for chemical or biological weapons.</td>
</tr>
<tr>
<td>Controversial Weapons - Cluster Munitions</td>
<td>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.</td>
</tr>
<tr>
<td>Controversial Weapons - Anti-Personnel Landmines</td>
<td>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.</td>
</tr>
</tbody>
</table>
### Conventional Military Weapons

Companies that produce other weapons for military use.

This includes:
- munitions
- vehicles designed to carry military weapons (mounted or demountable)
- weapons delivery systems; including mounting and launching systems as well as targeting and guidance systems

### Firearms

Companies that produce firearms or ammunition for non-military use.

This includes:
- handguns
- shotguns
- rifles
- semi-automatic weapons

5.3 Constituents must also pass the screening criteria for the following themes: Environment, Human Rights, Labor Rights, Anti-Corruption, and Diversity.
5.4 Exclusion Based on Company Conduct

<table>
<thead>
<tr>
<th>Company Conduct</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Controversies</strong></td>
<td></td>
</tr>
</tbody>
</table>
| **Anti-Corruption** | Controversies related to Principle 10 of the UN Global Compact, which is derived from the United Nations Convention Against Corruption.  
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery. |
| **Environment** | Controversies related to Principles 7, 8, and 9 of the UN Global Compact, which is derived from the Rio Declaration on Environment and Development.  
Principle 7: Businesses should support a precautionary approach to environmental challenges;  
Principle 8: undertake initiatives to promote greater environmental responsibility; and  
Principle 9: encourage the development and diffusion of environmentally friendly technologies. |
| **Human Rights** | Controversies related to Principles 1 and 2 of the UN Global Compact, which is derived from the Universal Declaration of Human Rights.  
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and  
Principle 2: make sure that they are not complicit in human rights abuses. |
| **Labor Rights** | Controversies related to Principles 3, 4, 5, and 6 of the UN Global Compact, which is derived from the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work.  
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;  
Principle 4: the elimination of all forms of forced and compulsory labour;  
Principle 5: the effective abolition of child labour; and  
| **Diversity** | For this criterion, an “Excluded Company” will fail to meet two out of three diversity indicators:  
1. Woman/women on the Board  
2. Diversity policies  
3. Diversity management systems |
Section 6

Periodic Review of Constituents

6.0 Periodic Review of Constituents

6.1 The FTSE4Good US Select Index is reviewed quarterly in March, June, September, and December using data as at the close of business on the Monday 4 weeks prior to review effective date.

Any constituent changes resulting from the quarterly reviews will be implemented after the close of business on the third Friday (i.e. effective from the open on the following Monday) of March, June, September and December.
Section 7

Changes to Constituent Companies

7.0 Changes to Constituent Companies

7.1 Removal and Replacement

7.1.1 If a constituent of the Index ceases to be a constituent of the Universe Index it will be removed from the Index. The removal will be concurrent with its removal from the Universe Index. Constituents removed from the Index are not replaced between reviews.

7.2 New Issues

7.2.1 All new entrants (either fast entries or normal review entries) to the Index Universe will be eligible to join the Index following the completion of an assessment of the new entrant against the index qualification criteria set out in Section 5.

7.3 Mergers and Takeovers

7.3.1 Following corporate events new corporate entities will be considered at the review following the completion of an assessment of the new entity against the index qualification criteria set out in Section 5.

7.3.2 In the case of a takeover or merger between existing Index constituents, the resulting new company will be eligible for inclusion in the Index.

7.3.3 In the case of a non-constituent taken over by an Index constituent, the resultant entity will remain eligible for inclusion in the Index. The eligibility of the resultant entity will be assessed in full at the review following the completion of an assessment of the new entity against the index qualification criteria set out in Section 5.

7.3.4 In the case of a constituent taken over by a non-constituent, the resultant entity will not be eligible for inclusion in the Index. The eligibility of the resultant entity will be assessed in full at the review following the completion of an assessment of the new entity against the index qualification criteria set out in Section 5.

7.3.5 In the case of a reverse-take over, the eligibility of the resultant entity will be dependent of the status of the dominant company within the merger/acquisition.

7.3.6 In the case of a demerger of an Index constituent the resultant companies will be classified as eligible and remain eligible for inclusion in the Index. The eligibility of the resulting companies will be assessed in full at the review following the completion of an assessment of the new entity against the index qualification criteria set out in Section 5.
Appendix A: Further Information

A Glossary of Terms used in FTSE Russell’s Ground Rule documents can be found using the following link Glossary.pdf

For further information on the FTSE4Good Index Series visit www.ftserussell.com or e-mail info@ftserussell.com. Contact details can also be found on this website.

Website: www.ftserussell.com