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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 is designed to create an index for The Vanguard Group, Inc. in response to the growing interest in socially responsible investment around the world.

1.3 The FTSE4Good US Select Index calculated in real time.

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

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

1.6 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.

1.7 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.

1.8 FTSE Russell

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 Investment Trusts are excluded from the Index.

4.3 An individual constituent of the Index will have the same investability weighting as that applied in the underlying Constituent Universe Index based on the appropriate investability screens of that index.

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

4.5 The FTSE4Good US Select Index will be governed by the Ground Rules of the underlying Constituent Universe Index with regards to specific criteria concerning liquidity, the suspension of stocks, calculation methodologies etc.

4.6 The FTSE4Good US Select Index constituents will have the same open / close times, free float, shares in issue figures and pricing sources as in the relevant Constituent Universe Index.
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 Constituents must be a member of the underlying Constituent Universe.

5.3 Constituents must have zero exposure to the following business activities: Weapons, Gambling, Alcohol, Nuclear, and Adult Entertainment.

5.4 Exclusion Based on Business Activity

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcohol</td>
<td>Manufacturers of alcoholic beverages</td>
<td>Wine, beer, cider, spirits</td>
</tr>
<tr>
<td></td>
<td>Sale of own/in-house brand alcoholic beverages</td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>Manufacturers of tobacco and tobacco products</td>
<td>Cigarettes, tobacco plantations, cigars</td>
</tr>
<tr>
<td></td>
<td>Indirect involvement in tobacco products</td>
<td>Cigarette papers, chemical flavourings</td>
</tr>
<tr>
<td>Adult Entertainment</td>
<td>Producers of adult entertainment</td>
<td>Movies, TV programs, magazines</td>
</tr>
<tr>
<td></td>
<td>Distributers of adult entertainment</td>
<td>Satellite and cable providers of adult channels</td>
</tr>
<tr>
<td>Gambling</td>
<td>Owners and operators of gambling facilities</td>
<td>Casinos, racetracks, online betting websites</td>
</tr>
<tr>
<td></td>
<td>Provide online and offline gambling services</td>
<td>Gaming software and hardware</td>
</tr>
<tr>
<td>Nuclear Power</td>
<td>Owners and operators of nuclear power plants</td>
<td>Nuclear energy utility</td>
</tr>
<tr>
<td></td>
<td>Products or services used for generating nuclear power</td>
<td>Design and manufacture of nuclear power reactors</td>
</tr>
<tr>
<td>Weapons</td>
<td>Conventional military weapons and firearms</td>
<td>Guns, tanks, missiles</td>
</tr>
<tr>
<td>Controversial Weapons</td>
<td>Cluster munitions, anti-personnel mines, chemical/biological weapons and nuclear weapons. Includes weapons systems and components</td>
<td>Nuclear armed missiles, Warheads with submunitions, landmines</td>
</tr>
</tbody>
</table>
Constituents must also pass the screening criteria for the following themes: Environment, Human Rights, Labor Rights, Health & Safety, and Diversity.

**Selection Criteria**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diversity</strong></td>
<td>Companies must meet at least two of the following criteria: at least one woman on the Board; equal opportunities policy; equal opportunities management systems</td>
</tr>
<tr>
<td><strong>Human Rights</strong></td>
<td>Companies will be excluded based on operations in Burma or Sudan, or if they have significant controversies regarding violations of human rights principles, such as the Universal Declaration of Human Rights</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>Companies will be excluded based on significant controversies regarding environmental pollution or severe damage to ecosystems</td>
</tr>
<tr>
<td><strong>Labor Rights</strong></td>
<td>Companies will be excluded based on significant controversies regarding violations of the International Labor Organisation core principles. This applies to first-tier supply</td>
</tr>
</tbody>
</table>
Section 6

Periodic Review of Constituents

6.0 Periodic Review of Constituents

6.1 The FTSE4Good US Select Index is reviewed annually in December, using market data as at the close of the last trading day November. A company’s performance against the Index selection criteria will be measured using data supplied to FTSE Russell up to and including the Friday closest to the 15 in November.

6.2 Changes arising from the reviews of the Index will be implemented after the close of business on the Monday after the third Friday of December.

6.3 All companies in the Index constituent universe indexes are reviewed using the criteria detailed in the FTSE4Good Index Series Ground Rules.
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 Benchmark Index it will be removed from the Index. The removal will be concurrent with its removal from the Benchmark 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 Universes of the Benchmark index will be eligible to join the Index, if they have been in the Index Universe for at least six months, at the review.

7.3 Mergers and Takeovers

7.3.1 Following corporate events the social responsibility records of new corporate entities will be reconsidered in full at the next review.

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 next review.

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 next review.

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 next review.
Section 8

Adjustments to the Selection Criteria

8.0 Adjustments to the Selection Criteria

8.1 The selection criteria can be changed with the agreement of the Vanguard Group and the changes will be reflected at the following review.
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](http://www.ftserussell.com) or e-mail info@ftserussell.com. Contact details can also be found on this website.

Website: [www.ftserussell.com](http://www.ftserussell.com)