Section 1

Introduction

1.0 Introduction

1.1 This document sets out the Ground Rules for the construction and management of the FTSE Blossom Japan Index. Copies of these Ground Rules are available at www.ftserussell.com.

1.2 The FTSE Blossom Japan Index is designed as an industry neutral benchmark that reflects the performance of companies demonstrating strong environmental, social and governance practices (ESG) in Japan.

1.3 The indexes are calculated in USD and JPY.

1.4 Price and Total Return indexes will be calculated on an end of day basis. The total return index includes income based on ex-dividend adjustments. All dividends are applied as declared.

1.5 FTSE Russell


1.6 IOSCO

1.6.1 FTSE considers that the FTSE Blossom Japan Index meets the IOSCO Principles for Financial Benchmarks as published in July 2013.

1.7 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.

1.8 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.
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 Russell 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 index 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 indexes.

2.2 FTSE Russell ESG Advisory Committee

2.2.1 To assist in the oversight of the FTSE Blossom Japan Index, FTSE Russell 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.

2.2.2 The Committee is responsible for providing guidance on the development of the criteria and the construction of the FTSE Russell ESG ratings and ESG indexes including the FTSE4Good Index Series. The eligibility criteria within the FTSE4Good Index Series Ground Rules is used as part of the eligibility criteria for the FTSE Blossom Japan Index.

2.2.3 The Terms of Reference of the FTSE Russell ESG Advisory Committees can be accessed using the following link:

FTSE_Russell_ESG_Advisory_Committee.pdf

2.3 Amendments to these Ground Rules

These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to meet the current and future requirements of investors and other index users. 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.
2.3.1 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 Corporate Actions and Events Guide

3.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

Corporate_Actions_and_Events_Guide.pdf

3.2 Statement of Principles for FTSE Russell market capitalisation weighted equity indexes (the Statement of Principles)

3.2.1 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 Russell are presented to the FTSE Russell Policy Advisory Board for discussion before approval by FTSE Russell’s Product Governance Board.

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


3.3 Queries, complaints and appeals

3.3.1 A constituent or prospective constituent company (or professional advisor acting on behalf of the company), a national organisation or a group of no fewer than ten users of the index from different organisations acting in their professional capacity may appeal against decisions taken by FTSE Russell.

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

Benchmark_Determination_Complaints_Handling_Policy.pdf

FTSE Russell’s Appeal Process can be accessed using the following link:

Appeals_Against_Decisions.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 FTSE Blossom Japan Index is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE Blossom Japan 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 **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 **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](#)
Section 4

Eligible Securities

4.0 Eligible Securities

4.1 Eligible Universe

4.1.1 Constituents of the FTSE Japan Index are eligible for inclusion in the FTSE Blossom Japan Index.

4.2 Overall ESG Rating

4.2.1 Each company in the FTSE Japan Index universe is given an Overall ESG Rating ranging from 0 to 5, with 5 being the highest rating.

4.2.2 Companies with an Overall ESG Rating of 3.3 or above are added to the FTSE Blossom Japan Index.

4.2.3 Constituents of the FTSE Blossom Japan Index with an Overall 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 FTSE Blossom Japan Index.

4.2.4 FTSE Russell will make reasonable endeavours to inform any companies that are in the FTSE Blossom Japan Index and are at risk of deletion. If a constituent of the FTSE Blossom Japan Index 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.

Further information on the FTSE Russell ESG Ratings can be accessed using the following link:

FTSE Russell’s ESG Ratings

4.3 Nuclear Power Generation and Manufacturers of Infant Formula

4.3.1 Nuclear Power Generation and Manufacturers of Infant Formula

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 all except one of the sector specific indicators in the Customer Responsibility Theme.
4.4 Controversy Monitoring

The controversies assessment of the FTSE Blossom Japan Index complements the ESG Ratings in formulating the Indexes. The treatment of companies by the controversies assessment differs depending on whether the company is a current constituent or not.

4.4.1 Non-constituents

Companies identified as having significant controversies are placed on a watchlist and are not eligible for addition to the FTSE Blossom Japan Index at a review.

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. Companies are ranked based on the significance of their controversies, and those identified to be in the top 5% by the most significant allegations relative to the global universe (FTSE All-World Index constituents) are included in the watchlist at a review. The watchlist also includes companies where any of the world’s largest asset owners (top 20 by aum) currently take a public stance in excluding that company from their portfolios on the basis of environmental, social or governance concerns.

4.4.2 Current FTSE Blossom Japan Constituents

FTSE Russell monitors news outlets for controversies in which current FTSE Blossom Japan Index constituents are implicated.

The controversies assessment for existing constituents is based on two defining parts, an Exposure based on significance and a Score focused on quality of response to the controversy(ies).

 Constituents that have been assessed to have significant controversies (high Exposure) with a poor response (low Score) are suspended from the FTSE Blossom Japan Index for a period of two years.

 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 FTSE Blossom Japan Index, subject to meeting all other criteria.

4.5 Companies with a Low Score in a Theme Assessed as High Exposure

4.5.1 Companies that have a score of zero or one in any applicable High Exposure Theme will not be added to the FTSE Blossom Japan Index.
Section 5

Periodic Review of Constituents

5.0 Periodic Review of Constituents

5.1 The FTSE Blossom Japan Index is reviewed semi-annually in June and December, using market data as at the close of business of the Monday 4 weeks prior to the review effective date.

5.2 Changes arising from the reviews of the FTSE Blossom Japan Index will be implemented after the close of business on the third Friday (i.e. effective Monday) of June and December.
Section 6

Changes to Constituent Companies

6.0 Changes to Constituent Companies

6.1 Removals and new issues

6.1.1 A constituent will be removed from the FTSE Blossom Japan Index if it is also removed from the FTSE Japan Index. The deletion will be concurrent with the deletion from the FTSE Japan Index and its weight will be distributed pro-rata among the remaining constituents of the FTSE Blossom Japan Index. Constituents removed from the FTSE Blossom Japan Index are not replaced between reviews.

6.1.2 A new entrant (either fast entry or normal review entry) to the FTSE Japan Index will be eligible to join the FTSE Blossom Japan Index if it has been a constituent of the FTSE Japan Index for at least six months at the semi-annual review effective date.
Section 7

Corporate Actions and Events

7.0 Corporate Actions and Events

7.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Market Capitalisation Weighted Indexes using the following link:

Corporate_Actions_and_Events_Guide.pdf

A Corporate ‘Action’ is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:

- Capital Repayments
- Rights Issues/Entitlement Offers
- Stock Conversion
- Splits (sub-division) / Reverse splits (consolidation)
- Scrip issues (Capitalisation or Bonus Issue)

A Corporate ‘Event’ is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required FTSE Russell will provide notice advising of the timing of the change.

7.2 Shares in Issue

Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide.

7.3 Mergers, Acquisitions and Spin-Offs

7.3.1 Where two FTSE Blossom Japan Index constituents merge, or one FTSE Blossom Japan Index constituent is acquired by another constituent, the resulting company will remain a constituent.

7.3.2 If a constituent of the FTSE Blossom Japan Index acquires a non-constituent, the resulting entity will remain a constituent of the index.

7.3.3 If an existing constituent is acquired by a non-constituent, the resulting entity will be deleted from the FTSE Blossom Japan Index. The eligibility of the resulting entity will be assessed in full at the next semi-annual review occurring at least 6 months after the takeover.

7.3.4 If a constituent splits and forms two or more companies and any of the new entities are retained in the FTSE Japan Index, those new entities will be retained in the FTSE Blossom Japan 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.

7.3.5 FTSE Russell may, in exceptional circumstances, convene a special meeting to advise on the eligibility of corporate entities arising from corporate events where these events give rise to immediate concern as to the eligibility of the resulting companies in FTSE Blossom Japan Index. FTSE Russell may determine that the circumstances are such that one or more of the resulting companies will be ineligible for inclusion in the FTSE Blossom Japan Index.

7.4 Suspension of Dealing

Suspension of dealing rules can be found within the Corporate Actions and Events Guide.
Section 8

Industry Classification Benchmark (ICB)

8.0 Industry Classification Benchmark (ICB)

8.1 Classification Structure

8.1.1 Index constituents are classified into Industries, Supersectors, Sectors and Subsectors, as defined by the Industry Classification Benchmark (ICB).

8.1.2 Details of the Industry Classification Benchmark are available from FTSE Russell and published on the FTSE Russell website (www.ftserussell.com) and can be accessed using the following link:

Industry_Classification_Benchmark
Section 9

Index Weighting

9.0 Index Weighting

9.1 The FTSE Blossom Japan Index applies the following index weighting methodology at each semi-annual index review in June and December:

1) The ICB Industry weight of each industry in the FTSE Blossom Japan Index is equal to the corresponding industry weight of the FTSE Japan Index.

2) The maximum individual stock weight, \( W_{i}^{\text{Max}} \) of stock i in the FTSE Blossom Japan Index is the lower of 15% of FTSE Blossom Japan Index and 20 times its index weight \( W_{i} \) in the FTSE Japan Index.

\[
W_{i}^{\text{Max}} = \min(0.15 \times W_{i}, 20 \times W_{i})
\]

Each industry constraint \( IC_{k} \) is the sum of the maximum stock weights:

\[
IC_{k} = \sum \quad W_{i}^{\text{Max}}
\]

for all stocks in industry \( k \).

3) The industry target weight \( ITW_{k} \) is set equal to the minimum of the industry constraint \( IC_{k} \) and the FTSE Japan Index industry weight \( IW_{k} \):

\[
ITW_{k} = \min(IC_{k}, IW_{k})
\]

The industry target weights \( ITW_{k} \) are then normalized to \( ITWN_{k} \) to ensure the sum of industry target weights is equal to 1. Excess industry weight after normalization \( (ITWN_{k} - IC_{k} > 0) \) is reallocated proportionately to the remaining industries \( (ITWN_{k} - IC_{k} < 0) \). The process is repeated until all industry constraints are satisfied.

4) The weight constituent \( i \), \( W_{ik}^{\text{final}} \) within each industry \( k \) of the FTSE Blossom Japan Index are rescaled to achieve the industry target weight, \( ITWN_{k} \):

\[
W_{ik}^{\text{final}} = W_{ik} \times ITWN_{k}/IW4G_{k}
\]

where \( IW4G_{k} = \sum_{i} W_{ik} \) is the weight of industry \( k \) in the underlying universe. Weight in excess of the maximum stock weight is redistributed pro-rata across the remaining constituents within the same industry. The process is repeated until all the stock constraints are satisfied.
9.2 Index weighting is applied using prices adjusted for corporate actions at the close of business on the first Friday in June and December. Index weighting is implemented after the close of business on the third Friday (i.e. effective the following Monday) of June and December based on the constituents’ shares in issue and free float on the Monday following the third Friday of the review month.
Appendix A: Foreign Exchange Rates

The foreign exchange rates used in the calculation of the FTSE Blossom Japan Index are WM/Reuters real time spot rates.

The Japanese Yen is the base currency for all index calculations. Non-Japanese Yen denominated constituent prices are converted into Japanese Yen in order to calculate the index.

The foreign exchange rates received from Thomson Reuters 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 B: Further Information

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

Glossary.pdf

Further information on the FTSE Blossom Japan Index is available from FTSE Russell or on the website www.ftserussell.com.