Ground Rules

MFGAM Core Infrastructure Index
v1.7
Contents

1.0 Introduction .............................................................. 3
2.0 Management Responsibilities ........................................ 5
3.0 FTSE Russell Index Policies .......................................... 7
4.0 Eligible Securities ........................................................ 9
5.0 Qualification Criteria & Periodic Review of Constituents ............................................ 11
6.0 Changes to Constituent Companies ................................ 13
Appendix A: Further Information ...................................... 16
Section 1

Introduction

1.0 Introduction

1.1 This document sets out the Ground Rules for the construction and management of the MFGAM Asset Management (MFGAM) Core Infrastructure Index. Copies of the Ground Rules are available from FTSE Russell.

1.2 According to the OECD, such infrastructure assets typically show one or more of the following stylised economic characteristics:

- high barriers to entry
- economies of scale (e.g. high fixed, low variable costs)
- inelastic demand for services (giving pricing power)
- low operating cost and high target operating margins
- long duration (e.g. concessions of 25 years, leases up to 99 years).

The MFGAM Core Infrastructure Index was designed to include securities of infrastructure companies that derive their earnings from assets that meet strict criteria for infrastructure definition. It is the view of MFGAM that core infrastructure assets should have a structural ability to generate earnings that are robust through the economic cycle and that there should be a structural linkage of those earnings to inflation. The institutional investors who were consulted in the development of the index saw that the infrastructure indexes existing at that time contained many stocks that did not exhibit these two characteristics. The MFGAM Core Infrastructure Index has been developed to include those stocks that meet a series of rules designed to ensure they are meet these criteria.

1.3 The MFGAM Core Infrastructure Index is calculated on an end of day basis. Price and Total Return Indexes are published at the end of each working day. The Total Return Indexes are based on ex-dividend adjustments.

1.4 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.

1.5 FTSE Russell

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.
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 MFGAM Core Infrastructure 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;
- apply the changes resulting from the periodic index reviews as required by the Ground Rules;
- disseminate the index.

2.1.3 The weightings of constituents shall be used in the calculation of the end of day indexes.

2.2 MFGAM

2.2.1 MFGAM specifies the constituents for the MFGAM Core Infrastructure Index in accordance with Rule 4.0 and has engaged FTSE Russell to calculate, produce and operate the index.

2.3 Status of these Ground Rules

2.3.1 These Ground Rules set out the methodology and provide information about the publication of the MFGAM Core Infrastructure Index.

2.4 Amendments to These Ground Rules

2.4.1 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.

2.4.2 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 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 Ground 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 the FTSE Russell Product Governance Board.

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


3.2 Index Policy for Trading Halts and Market Closures

3.2.1 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

3.3 Index Policy in the Event Clients are Unable to Trade a Market

3.3.1 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

3.4 Recalculation Policy and Guidelines

3.4.1 The MFGAM Core Infrastructure Index is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the MFGAM Core Infrastructure 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

Index_Recalculation_Policy_and_Guidelines_Equity_Indexes.pdf
3.5 Policy for Benchmark Methodology Changes

3.5.1 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 currently in the FTSE Global All Cap Index Series which is part of the FTSE Global Equity Index Series are eligible for inclusion in the MFGAM Core Infrastructure Index. The list will be screened by MFGAM who will provide the constituents for the MFGAM Core Infrastructure Index. For more information on the FTSE Global Equity Index Series, please refer to the FTSE Global Equity Index Series Ground Rules which are available on www.ftserussell.com.

4.2 Definition of the term “Infrastructure”

4.2.1 To be included in the MFGAM Core Infrastructure Index, a company must meet MFGAM’s definition of an infrastructure company, i.e. at least 75% of the company’s earnings must be derived from assets that MFGAM defines as infrastructure.

4.3 Eligibility for Inclusion

4.3.1 Specifically, the company must meet the following minimum criteria to be eligible for inclusion:

- It must be included in the FTSE Global All Cap Index Series.
- The company’s financial accounts should meet MFGAM’s transparency requirements i.e. the financial accounts should be of sufficient granularity that the earnings of the different segments of the company’s operations can be analysed and that the earnings derived from assets that MFGAM assesses to be infrastructure assets can be identified.
- The company’s assets must be in countries with levels of sovereign and financial risk assessed as acceptable by MFGAM, i.e. typically this will mean that a minimum of 75% of the earnings derived by the company are generated from assets are that domiciled in OECD countries and that such OECD countries possess investment grade weightings from at least one well known credit ratings company.
- The stock must not have financial leverage assessed as excessive by MFGAM. MFGAM has developed separate filters to apply to different sectors of the infrastructure investment universe based on interest coverage ratios. Different ratios are used depending on the volatility of the earnings typically observed in each sector, e.g. the ratio is higher for an airport than a fully regulated utility.
- For companies who derive their earnings from assets subject to formal earnings regulation, the regulatory regime needs to be assessed as acceptable to MFGAM. The earnings regulation
should formally recognise the need for the regulated entity to earn an appropriate return on the capital employed in the business.

Master Limited Partnerships are not eligible for inclusion in the MFGAM Core Infrastructure Index.

4.4 The sectors from which companies included in the MFGAM Core Infrastructure Index are drawn include:

- Regulated electricity transmission and distribution companies;
- Regulated gas transmission and distribution companies;
- Companies involved in the generation of electricity where the activity is either wholly regulated by a government agency, subject to a long term, take-or-pay contract with an acceptable counter-party or where the merchant generation activity represents less than 25% of the company’s earnings;
- Regulated water utilities;
- Toll roads;
- Airports;
- Ports;
- A limited number of companies involved in telecommunications transmission;
- Social infrastructure stocks (specifically UK based stocks involved in the Private Finance Initiative programme).
Section 5

Qualification Criteria & Periodic Review of Constituents

5.0 Qualification Criteria & Periodic Review of Constituents

5.1 Review Dates

5.1.1 The MFGAM Core Infrastructure Index will be reviewed quarterly in February, May, August and November using data as at the close of business six trading days prior to the last day of the review month.

5.1.2 The quarterly review will be implemented after the close of business on the last day in February, May, August and November.

5.1.3 The MFGAM Core Infrastructure Index will be rebalanced monthly for new stocks and weights implemented at the end of the last day of the month.

5.2 Weighting of Stocks

5.2.1 For the purpose of rebalancing the MFGAM Core Infrastructure Index, the weighting of stocks in the MFGAM Core Infrastructure Index is primarily determined on the basis of their free float as calculated by FTSE Russell. However, a number of constraints have been applied to ensure that the MFGAM Core Infrastructure Index is appropriately diversified. These constraints include:

A. Stocks are to have a maximum weight of 3% of the MFGAM Core Infrastructure Index.

B. The maximum weighting of any one sector will be 30% of the MFGAM Core Infrastructure Index. For this purpose, “sector” is as defined by MFGAM and is made up of the sectors set out in Rule 4.4.

C. Limits are also applied to the exposure of the index to geographic regions. Specifically, the following limits apply:

- USA: 45%
- Europe (ex UK): 40%
- UK: 15%
- Canada: 15%
- Australia/NZ: 15%
- Asia: 15%
- Latin America: 15%
For example, a stock that FTSE Russell calculates to have a free float of US$50bn when the combined free float of all stock surviving the filters set out in Section 4 is US$500bn, would have a starting weight in the index of 10.0%. But the formula used to determine stock weights in the index would immediately reduce this weighting to 3.0%. The portfolio construction process developed by MFGAM to determine the weights of individual stocks in the index, as part of the monthly rebalancing process, must ensure that each of the above three constraints are satisfied.
Section 6

Changes to Constituent Companies

6.0 Changes to Constituent Companies

6.1 Additions

6.1.1 When a constituent is added to the underlying index universe, the constituent will be considered for inclusion at the next review of the MFGAM Core Infrastructure Index.

6.2 Deletions

6.2.1 A stock will be deleted from the MFGAM Core Infrastructure Index when the constituent is delisted from its stock exchange or becomes bankrupt, insolvent or is liquidated.

6.3 Splits / Demergers

6.3.1 If a constituent splits and forms two or more companies and any of the new entities are retained in the underlying universe, those new entities will be retained in the MFGAM Core Infrastructure Index with the same MFGAM Factor as their parent company until the next periodic review.

6.4 Mergers / Takeovers

6.4.1 Mergers / Takeovers between constituents

All mergers between existing constituents are treated as cash mergers. The constituent being acquired is deleted on the effective date of the acquisition. The acquiring company will remain a constituent of the MFGAM Core Infrastructure Index and its MFGAM Factor will be recalculated to ensure cap-neutrality for any resulting shares in issue increase.

6.4.2 Mergers / Takeovers between a constituent and a non-constituent

A. If an existing constituent is acquired by a non-constituent for cash or stock, the existing constituent will be deleted and the acquiring non-constituent will not be considered for MFGAM Core Infrastructure Index eligibility until the next review.

B. If an existing constituent acquires a non-constituent for cash or stock, the existing constituent will remain in the MFGAM Core Infrastructure Index at an unchanged weight.

6.5 Suspension of Dealing

6.5.1 If a constituent is suspended on its home exchange it may remain in the index, at the price at which it is suspended, for up to 20 business days. During this time FTSE Russell may delete the constituent immediately at zero value in cases where it is expected that the constituent will not commence trading.
6.5.2 Where a suspension of a constituent lasts beyond noon on the twentieth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the index on the twenty-first trading day at zero value. Where suspension is for a reason not to the detriment of the constituent and its suspension is expected to be short-term, it may be retained at its suspension price.

6.6 Relisting of Suspended Constituents

6.6.1 Securities which on relisting after a period of suspension of less than 3 months are larger than the smallest constituent of the index will be reinstated at the price at which they were removed. The reinstatement will happen after the stock is relisted following a notice period.

6.6.2 If a company relists after a continuous period of suspension lasting more than 3 months, the company will be treated as a new issue for the purposes of index eligibility.
6.7 Corporate Actions for Market Capitalisation Neutral

6.7.1 The MFGAM Factor of a constituent will be adjusted following a corporate action that affects its market capitalisation to ensure its weight remains the same in the index. The table below summarises corporate action treatment in relation to the MFGAM Factor (for market capitalisation neutral).

<table>
<thead>
<tr>
<th>Corporate Event</th>
<th>Market Cap Neutral</th>
<th>Description</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment of all stock mergers between:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Index constituents</td>
<td>No</td>
<td>Company A acquires Company B for stock</td>
<td>Company A will increase shares (neutralised event). Company B will be deleted</td>
</tr>
<tr>
<td>Index constituent acquiring a non-constituent (if &gt;10% &amp; 2bn)</td>
<td>Yes</td>
<td>Index constituent Company A acquires non constituent</td>
<td>Company A will increase shares (neutralised event).</td>
</tr>
<tr>
<td>Non-constituent acquiring an index constituent (cash or stock)</td>
<td>No</td>
<td>Non-constituent B acquiring an index constituent Company A.</td>
<td>Company A will be deleted. Company B not eligible until the next annual review.</td>
</tr>
<tr>
<td>Treatment Spin-Offs:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spun-off entity added to the index</td>
<td>Yes</td>
<td>Company A spins off Company B, with Company B added to the same indexes as Company A</td>
<td>Weight of New Company A &amp; B equals the weight of original Company A</td>
</tr>
<tr>
<td>Spun-off entity not added to the index (capital repayment)</td>
<td>No</td>
<td>Company A spins off Company B, with Company B NOT added to any indexes</td>
<td>Treated as a capital repayment for Company A</td>
</tr>
<tr>
<td>Treatment of Capital Repayments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard special dividend</td>
<td>No</td>
<td>Capital repayment</td>
<td>Price reduces, not applied as a market cap neutral event</td>
</tr>
<tr>
<td>Result of bonus in different line of stock</td>
<td>No</td>
<td>Capital repayment</td>
<td>Price reduces, not applied as a market cap neutral event</td>
</tr>
<tr>
<td>Treatment of Rights Issues</td>
<td>Yes</td>
<td></td>
<td>Market Cap Neutral Event</td>
</tr>
<tr>
<td>Treatment of Splits, Bonus &amp; Scrip issues</td>
<td>Yes</td>
<td></td>
<td>Market Cap Neutral Event</td>
</tr>
<tr>
<td>Treatment of Investability Weight</td>
<td>Yes</td>
<td></td>
<td>Market Cap Neutral Event</td>
</tr>
<tr>
<td>Changes in Shares in Issue (quarterly 1% and intra-quarter &gt;10% or 2bn USD)</td>
<td>Yes</td>
<td></td>
<td>Market Cap Neutral Event</td>
</tr>
</tbody>
</table>
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

Further information on the MFGAM Core Infrastructure Index is available from FTSE Russell.

For contact details please visit the FTSE Russell website or contact FTSE Russell client services at info@ftserussell.com.

Website: www.ftserussell.com