

INDEX RULES



ECPI GLOBAL CARBON EQUITY INDEX

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INTRODUCTION

The present document defines the rules for the calculation and management of the ECPI Global Carbon Equity Index. The Index Rules are available on ECPI website, www.ecpigroup.com, and on ECPI Bloomberg page, ECPS <GO>.

ECPI Global Carbon Equity Index is an investable index featuring companies from carbon-intensive sectors such as Utilities, Basic Materials, Industrial and Energy that are best equipped to deal with a world of rising carbon emissions and tougher climate legislation.

BACKGROUND

Since the beginning of the Industrial Revolution, the atmospheric concentration of CO₂, the most prevalent of the greenhouse gases (GHG), has increased from a natural range of 180–300 parts per million (ppm) to 379 ppm in 2005¹. As emerging economies industrialize, that figure is set to rise rapidly in the coming decades, heralding potentially devastating consequences for global climate patterns.

There are implications for economic growth and geo-political stability, too. The scarcity of natural resources coupled with a changing climate, will likely increase government and public pressure on the world's largest corporate emitters, each desperate to remain competitive amid volatile markets.

The more carbon-intensive sectors – Utilities, say, or Energy – can expect to be affected most. As major contributors to climate change, these look set to be the initial focus of legislation aimed at reducing greenhouse gas emissions from industry.

Companies operating in these sectors will need to prepare for a drastically different environment. Threats to their business posed by climate change include:

- § Risks to a company's physical operations
- § Subsequent risks associated with tough climate legislation
- § Products losing cost competitiveness in the marketplace

Staying competitive amid those dangers means first accounting for a firm's carbon emissions; reducing that level of carbon intensity thereafter should be no less of a priority.

SELECTION PROCESS

The ECPI Global Carbon Equity Index selects companies from traditionally carbon-intensive industries with superior carbon management strategies and low carbon intensity levels compared to their peers. These companies are not only likely to prosper in the future but may also cause a significant drop in global atmospheric CO₂.

Arthur D. Little, the global management consultancy, advised ECPI on the selection process, helping fine-tune the carbon assessment of candidates.

SECTOR SELECTION AND PEER GROUPS

The carbon-intensive sectors were selected on the basis of publicly available carbon emissions data.

Sources of information included company documents, information providers, and relevant reports. Among the key sectors identified:

- § Utilities
- § Basic Materials
- § Industrial
- § Consumer (Cyclical and Non-cyclical)
- § Energy
- § Technology

Within these sectors, we identified peer groups or subsectors, enabling the comparison of carbon data between like companies.

¹ Source: IPCC Fourth Assessment Report 2007

STOCK SELECTION

Index components are selected on the basis of their:

§ ESG Rating

Any companies not attaining a positive ESG Rating according to the ECPI Methodology are immediately excluded.

The ESG Rating -- an evaluation by ECPI Research of a firm's Environmental, Social, and Governance performance -- aims to single out companies with the highest unexpressed intangible value

§ Carbon Intensity

Firms are then screened for their carbon intensity.

That amounts to the sum of a company's direct and indirect emissions divided by their net production value².

The screen aims to filter out firms with a carbon intensity higher than their peer-group average

§ Carbon Rating

This rating, developed by ECPI in partnership with Arthur D. Little, assesses the quality of the companies' carbon management strategies for dealing with future physical, reputational, and market hazards along, more importantly, with the regulatory risks posed by climate-change legislation.

The quality, quantity and breadth of information disclosed on the topic are considered a proxy for a company's carbon management.

That information falls under several categories, including:

- GHG Emissions Management
- Energy Procurement Mix
- Governance and Ownership
- Quality of GHG Emission Reporting
- Carbon Risk Management

§ Liquidity Constraints

Minimum Market Cap: EUR 1 billion

Minimum 6-months Average Trading Volume: EUR 10 million

The Global Carbon Equity Index benefits from all ECPI traditional advertising/publication tools and becomes another ideal candidate for direct and derivative investment.

² Net production is defined as sales adjusted for current and previous year inventories

GUIDING PRINCIPLES

ECPI Alpha Indices are constructed and maintained according to the following principles:

§ **ESG Rated Companies**

The index is representative of the positively/highest ESG-rated companies according to the proprietary ECPI ESG Rating Methodology.

§ **Investible and Replicable**

The index should be capable of being replicated by reference to securities of reasonable size and liquidity.

§ **Disciplined Approach**

The index is constructed and managed using a set of principles, rules and guidelines. This approach is followed to maintain the attributes of stability, diversification across industries and securities accurate with respect to the ESG Rating Methodology.

§ **Transparency**

The index is built and maintained using clear and pre-defined rules in the public domain. The index is published on a daily basis through a variety of well known financial services providers.

§ **Independence and Objectivity**

The index is based on independent and objective content decisions. ECPI believes in an open dialogue with its clients, considering with objectivity their suggestions to enhance the index provision. By analyzing all the feedback received from its clients, ECPI takes the final decision independently in order to preserve the quality of the index.

ELIGIBILITY CRITERIA

The ECPI Carbon Equity Index is designed to provide exposure to companies from carbon-intensive sectors such as Utilities, Basic Materials, Industrial and Energy that are best equipped to deal with a world of rising carbon emissions and tougher climate legislation.

All Carbon Emission data and calculations have been performed by ECPI with the help of sustainability consulting leader “Arthur D. Little”. All selected companies hold high ECPI ESG Ratings.

The index is equally weighted and rebalanced annually on the third Friday of December.

To be eligible for the ECPI Global Carbon Equity Index, a stock must satisfy the following criteria (in which case, it will be an “eligible stock”):

1. it belongs to one of the following sectors/industries as defined by the GICS Classification:
 - § Electricity
 - § Materials
 - § Health Care
 - § Industrials
 - § Energy
 - § Utilities
2. it belongs to the Global Developed Markets as defined in Appendix A; if a company is based in any other market, only ADR or GDR listed in Global Developed Markets will be considered for inclusion
3. the issuer of the stock must have a minimum market capitalization of € 1 billion
4. the average daily traded value of the stock over the last 6 months shall be equivalent to a minimum of € 10 million
5. it belongs to an “eligible subsector” as defined below
6. it has a positive ECPI ESG Rating (from EEE to E-)
7. it has a Carbon Evaluation score

Additionally, the ECPI Global Carbon Equity Index has to meet the following criteria (selection order):

8. Selection Order – the ECPI Global Carbon Equity Index will be composed of stocks selected in descending order of Carbon Evaluation Score and subsequently of market capitalization
9. Sector Diversification Criteria – for each sub-sector a maximum of 5 companies is selected

DEFINITION OF ELIGIBLE SUBSECTOR

We consider GICS subsectors for the sectors defined in point 1; to be Eligible, a subsector has to meet the following criteria:

- § It has at least ten companies for the calculation of the mean (or sector average)
- § It has at least seven companies with a carbon intensity under the mean (sector average)

REVIEW

Annually, on the Reference Date³ immediately preceding the relevant Rebalance Date⁴, stocks will be selected in accordance with the criteria described above (paragraph 3) as new constituents of the index.

As a consequence, if a constituent company is downgraded between two consecutive review dates so that it doesn't satisfy the eligibility criteria any more, it will be replaced on the immediately following rebalance date.

BUFFER RULE

- § For each reference sector/industry defined in paragraph 3, all current constituents ranked 7 or above in the selection order will remain in the index.
- § For all index constituents, a tolerance of 20% is applied to the market capitalization and 6-months daily average value traded limits. Therefore, a constituent will be allowed to remain in the index if it has a minimum market cap of € 800 million and a minimum liquidity of € 8 million.

STOCK REPLACEMENT

If index constituents are displaced, replacement stocks are selected starting from the highest ranked non-constituent in the reference universe according to criteria defined in paragraph 3.

³ "Reference Date" means the last business day of May.

⁴ "Rebalance Date" means the third Friday of June provided that if such day is not a Scheduled Trading Day the Rebalance Date shall be the next Scheduled Trading Day.
In the event that the scheduled Rebalance Date is a Disrupted Day, the Rebalance Date for such rebalancing will be the next Scheduled Trading Day which is not a Disrupted Day.

CALCULATION METHOD

On the Reference Date, the number of shares of each stock will be determined so that every stock is equally weighted. This number of shares will be effective from the immediately following Rebalance Date.

From that moment till the following Rebalance Date, the number of shares will be fixed and constituent weights will vary according to price changes (see Paragraph 6, "Adjustments for Corporate Actions", for details on possible share changes).

CALCULATION FREQUENCY

The Index is calculated and published daily, on a next day basis.
Calendar for the Index calculation is the TARGET calendar.

PRICES

The Index end-of-day calculations use official closing prices from the relevant exchanges of the constituent stocks. Such prices shall be converted into euro using the relevant GMT WM Reuters Currency cross rates.

INDEX CALCULATION ALGORITHM

The closing price of securities is converted into Euro and the index is then calculated using the algorithm described below.

The price index is calculated as follows:

$$I(P)_t = I(P)_{t-1} * \frac{\sum_1^n (P_{i,t} N_{i,t})}{\sum_1^n P_{i,t-1} N_{i,t}}$$

Where

- $I(P)_t$ = price index on day t
- $P_{i,t}$ = official closing price in Euro for stock i on day t
- $N_{i,t}$ = number of shares for stock i on day t
- n = number of index constituents

The net total return index is calculated as follows:

$$I(TR)_t = I(TR)_{t-1} * \left(\frac{\sum_1^i P_{i,t} N_i + \sum_1^n D_{i,t} N_{i,t}}{\sum_1^n P_{i,t-1} * N_{,ti}} \right)$$

Where

- $I(TR)_t$ = total return index on day t
- $P_{i,t}$ = official closing price in Euro for stock i on day t
- $D_{i,t}$ = gross (net) dividend in Euro for stock i on the ex-dividend date t
- $N_{i,t}$ = number of shares for stock i on day t
- n = number of index constituents

Note:

The Official Closing Price shall be intended as the official closing price for the stock on the relevant Exchange. The price shall be in Euro or converted into Euro using the foreign exchange spot rate, as defined above. In case, the price of a stock is not available due to exchange holiday, previous day's price is used for index calculations.

See Appendix B for Dividend Withholding Tax Rates used for the calculation of Net Dividends.

ADJUSTMENTS FOR CORPORATE ACTIONS

CORPORATE ACTION	ADJUSTMENT MADE TO INDEX	DIVISOR ADJUSTMENT
DIVIDENDS	Dividends are reinvested in the Index	Unchanged
SPECIAL DIVIDENDS / RETURN OF CAPITAL	Price of the stock making the special dividend payment is reduced by the per share special dividend amount after the close of trading on the day before the dividend ex-date. Cash from the special dividend is reinvested in the index	Yes
STOCK DIVIDENDS / BONUS ISSUES	No weight change. This event is characterized by a free distribution of new shares to existing shareholders on a pro rata basis. Market Prices and number of shares of securities are adjusted accordingly.	Unchanged
SHARE ISSUANCE OR REPURCHASE	None	Unchanged
SPIN-OFF	The price is adjusted to Price of the parent company minus price of the spun-off company/share exchange ratio. Index shares change so that the company's weight remains the same.	Unchanged
STOCK SPLIT / REVERSE SPLIT / CONSOLIDATIONS	Company shares are multiplied by and the price is divided by the split factor.	Unchanged
RIGHTS OFFERING	Price is adjusted to the price of parent company minus price of the rights offering/rights ratio. Index shares change so that the company's weight remains the same.	Unchanged
DELISTING, ACQUISITION OR ANY CORPORATE ACTION RESULTING IN THE DISPLACEMENT OF A STOCK	When a constituent company is acquired or merged or displaced for any other reason, its shares are removed from the index. The company will be replaced at the next rebalancing.	Yes

APPENDIX A: GLOBAL DEVELOPED MARKETS

GLOBAL DEVELOPED MARKETS

Australia

Austria

Belgium

Canada

Denmark

Finland

France

Germany

Greece

Hong Kong

Ireland

Israel

Italy

Japan

Netherlands

New Zealand

Norway

Portugal

Singapore

Spain

Sweden

Switzerland

United Kingdom

USA

APPENDIX B: DIVIDEND WITHHOLDING TAXES

COUNTRY NAME	COUNTRY ISO	TAXATION
Austria	AT	0.25
Australia	AU	0.3
Belgium	BE	0.25
Bermuda	BM	0
Brazil	BR	0
Canada	CA	0.25
Switzerland	CH	0.35
Chile	CL	0.1875
China	CN	0
Czech	CZ	0.15
Germany	DE	0.26375
Denmark	DK	0.28
Spain	ES	0.19
Finland	FI	0.28
France	FR	0.25
Great Britain	GB	0
Greece	GR	0.21
Hong Kong	HK	0
Hungary	HU	0
Indonesia	ID	0.2
Ireland	IE	0.2
India	IN	0
Iceland	IS	0.15
Italy	IT	0.27
Japan	JP	0.07
South Korea	KR	0.22
Luxembourg	LU	0.15
Mexico	MX	0
Netherlands	NL	0.15
Norway	NO	0.25
New Zealand	NZ	0.15
Philippines	PH	0.3
Poland	PL	0.19
Portugal	PT	0.215
Russia	RU	0.15
Sweden	SE	0.3
Singapore	SG	0
Thailand	TH	0.1
Taiwan	TW	0.2
USA	US	0.3
South Africa	ZA	0

APPENDIX C: DEFINITIONS

Index Constituent or Constituent

Any security comprised in the index, provided that on any Reference Date and in the relevant Rebalance Period, Constituent shall include any stock which will be included in the index as of the next Rebalance Date at the end of such Rebalance Period.

Rebalance Period

It is the timeframe between Reference Date and Rebalance Date.

Exchange and Related Exchange

Each exchange on which any Index Constituent is, in the determination of ECPI, principally traded.

Scheduled Trading Day

Any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading session.

Disrupted Day

Any Scheduled Trading Day on which: (i) a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session; or (ii) a Market Disruption Event has occurred.

Market Disruption Event

The occurrence, in respect of the Index Constituent of:

- § a Trading Disruption
- § an Exchange Disruption
- § an Early Closure

where the aggregate of all Index Constituents in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs, comprises 20 per cent or more of the aggregate number of all Index Constituents for which the Exchange and Related Exchange were scheduled to be open for trading for its regular trading session on such day.

Trading Disruption

Any suspension of or limitation imposed on trading by the Relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the Relevant Exchange and Related Exchange or otherwise.

Exchange Disruption

Any event that disrupts or impairs (as determined by the ECPI) the ability of market participants in general (i) to effect transaction in, or obtain market values for the Index Constituents.

Early Closure

The closure on any Exchange Business Day of the Relevant Exchange or any Related Exchange prior to its Scheduled Closing Time.

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