

# INDEX RULES



# ECPI GLOBAL DEVELOPED ESG BEST-IN-CLASS EQUITY INDEX

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## INTRODUCTION

The present document defines the rules for the calculation and management of the ECPI Global Developed ESG Best in Class Equity Index.

The Index Rules and Index Constituents are available on ECPI's website, [www.ecpigroup.com](http://www.ecpigroup.com), and/or can be requested at [indices@ecpindices.com](mailto:indices@ecpindices.com).

The ECPI Global Developed ESG Best-in-Class Equity Index represents global developed market companies selected on the basis of their ESG performance as measured by ECPI ESG ratings and scores (Best-in-Class approach).

The Index values are available on Bloomberg with the following identifiers:

BLOOMBERG TICKER	INDEX NAME
GALPHBCP Index	ECPI Global Developed ESG Best in Class Price Index
GALPHBCR Index	ECPI Global Developed ESG Best in Class Total Return Index
GALPHBCN Index	ECPI Global Developed ESG Best in Class Net Return Index

### ECPI SUSTAINABLE INDICES

The ECPI Global Developed ESG Best in Class Index is designed to be a member of the broadest family of ECPI Sustainable Benchmark and Tradable Indices.

The objective of ECPI is that of providing the user with tradable indices that in their construction and management take into account, in addition to traditional financial criteria, also non-financial dimensions.

All of ECPI Indices are characterized by (i) either a rigorous exclusion of companies that operate in certain sectors in coherence with the ethical sensibility of the investor or by (ii) a positive selection of companies that demonstrate a solid ESG profile.

ECPI Indices may be used as the basis for various investment vehicles: they allow for an efficient implementation of socially responsible or sustainable mandates as well as index-tracking portfolios and exchange traded funds.

Socially Responsible and Sustainability criteria used to select the indices' constituents, offer a conduit for investors to jointly express their interest in sustainability and, thus, to collectively move the relevant issues up the corporate agenda.

ECPI Indices are managed by ECPI, which is responsible for:

- The index construction, management and distribution.
- The management of the indices selection criteria and of the review of all indices.
- The correct application of the Index Rules in maintaining the indices.
- The Socially Responsible selection criteria.

ECPI may change existing socially responsible criteria, remove existing criteria or add new criteria. ECPI will endeavor to give notice before implementation of changes to selection criteria.

## GUIDING PRINCIPLES

The ECPI Socially Responsible Equity Indices family is built and maintained according to the following principles:

- **Market Representation**  
The indices represent the reference markets and reflect the opportunities available to the investors. The main criteria used to ensure market representation are market capitalization and sector composition.
- **Investible and Replicable**  
The indices should be capable of being replicated by users, this objective is achieved by: free float adjusting of constituent capitalization and selection of securities with reasonable size and liquidity.
- **Disciplined Approach**  
ECPI Indices are constructed and managed using a set of principles, rules and guidelines. This approach is followed to maintain the attributes of a benchmark, such as stability of the index, proper diversification across industries and securities and accurate respect of the socially responsible criteria.
- **Transparency**  
The indices are built and maintained using clear and transparent rules, available on public sources; moreover the indices are published daily on the most important financial info providers worldwide (Bloomberg, Thomson Reuters).
- **Independence and Objectivity**  
The indices are based on independent and objective content decisions. ECPI believes in an open dialogue with its clients, considering with objectivity their suggestions to enhance the indices' provision. Analyzing all the feedback received by its clients, ECPI takes independently the final decision in order to preserve the quality of the indices.
- **Continuity and Indices' Turnover**  
ECPI Indices are managed to ensuring the continuity of the indices. Continuity refers to the consistent application of the index methodology. The indices are also managed with the aim of keeping the level of index turnover relatively low, while at the same time reflecting the evolution of the reference market.
- **Sustainability**  
Every security which composes the indices has to satisfy defined socially responsible investment criteria.

## INDEX CONSTRUCTION

### EQUITY UNIVERSE

The index construction process starts with the identification of the Equity Universe. Equity securities with a minimum market capitalization of € 400 million are eligible for inclusion in the Equity Universe.

Investment trust, mutual funds, Exchange Traded Funds (ETFs) and Equity Derivatives are not included in the Equity Universe. Convertible and preference shares and loan stocks are excluded until converted.

Where there are multiple lines of equity capital in a company, all are included and priced separately in the Equity Universe.

In general, companies and their respective securities are classified as belonging to the country in which they are incorporated.

The country markets included in the Global Developed Equity Universe are:

#### COUNTRY TABLE: ECPI GLOBAL DEVELOPED D ESG BEST-IN CLASS INDEX

Australia	Japan
Austria	Luxembourg
Belgium	Netherlands
Canada	New Zealand
Denmark	Norway
Finland	Portugal
France	Singapore
Germany	Spain
Greece	Sweden
Hong Kong	Switzerland
Ireland	United Kingdom
Israel	United States
Italy	

Finally, Companies which have an ESG rating less than E- (see pages 10-11) are not included in the Equity Universe (minimum ESG Rating).

### INVESTABLE EQUITY UNIVERSE

Investable Equity Universe is derived by applying investability screens to securities in the Equity Universe.

The investability screens used to determine the Investable Equity Universe are:

- Minimum Market Capitalization
- Minimum Free Float Adjusted Market Capitalization
- Minimum Liquidity
- Minimum Free Float

#### Minimum Market Capitalization

In order to be included in the Investable Equity Universe must have a required minimum full market capitalization. The Minimum Market Capitalization is derived as follows:

- Companies in the Equity Universe are sorted in descending order of full market capitalization and the cumulative coverage of the free float adjusted market capitalization of the Equity Universe is calculated at each company.

- When the cumulative free float adjusted market capitalization coverage of 99% of the sorted Equity Universe is achieved, the full market capitalization of the company at that point defines the Equity Universe Minimum Market Capitalization Requirement.
- Companies with a full market capitalization lower than the Minimum Market Capitalization Requirement are excluded from the Investable Equity Universe.

### **Minimum Free Float Adjusted Market Capitalization**

The adjusted market capitalization is defined as the total market capitalization multiplied by a free float factor. Companies with a free float adjusted market capitalization lower than 150% of the Minimum Market Capitalization Requirement are excluded from the Investable Equity Universe.

### **Minimum Liquidity**

Securities which do not turnover at least, on an annual basis, 20% of their current capitalization (after the application of any free float factor) prior to selection as an index constituent, are excluded from the Investable Equity Universe.

In exceptional market conditions, if trading volumes are very low ECPI may reduce the percentage figure stated above in order to avoid a large amount of turnover in the Indices.

### **Minimum Free Float**

ECPI estimate of free float is based on public available information obtained from multiple information sources.

Estimated free float is rounded to the closest 5%.

If the free float is less than 15%, the company is excluded from the Investable Equity Universe.

## **SELECTION ALGORITHM**

Once the Investable Equity Universe is defined, the selection process for the ECPI World ESG Index continues according to the following steps:

- For each Country, companies are sorted in descending order of full market capitalization and the cumulative coverage of the free float-adjusted market capitalization of the Country Universe is calculated at each company. European Countries are aggregated in just one region.

EUROPEAN COUNTRIES	
Austria	Italy
Belgium	Luxembourg
Denmark	Netherlands
Finland	Norway
France	Portugal
Germany	Spain
Greece	Sweden
Ireland	Switzerland
Israel	United Kingdom

- Stocks - already included in the index current composition - comprised in the cumulative free float-adjusted market capitalization coverage of 95% of the sorted country universe are eligible for inclusion in the index.  
New Stocks – not included in the index current composition - comprised in the cumulative free float-adjusted market capitalization coverage of 70% of the sorted country universe are eligible for inclusion in the index.
- All eligible securities in each Country Universe are aggregated into the Index Reference Universe.
- A stratified sampling procedure is applied to the index Reference Universe in order to reproduce the geographical/sector allocation of such universe. In the selection process, eligible stocks are ordered and

selected by ESG score, coherently with the best-in-class approach. Best-in-class approach will be fulfilled by giving selection priority to companies with higher ESG score.

## CALCULATION METHOD

### CALCULATION FREQUENCY

The Index is calculated and published daily, on a next day basis.

The only days the index is not calculated are on days when all exchanges where index's constituents are listed are officially closed.

### PRICES

The ECPI Equity Indices end-of-day calculations use closing trade prices.

GMT WM Reuters Currency cross rates are used for the currency conversion.

### INDEX ALGORITHM

The actual trade price of securities is converted into Euro and the indices are then calculated using the algorithm described below.

The Price index is calculated as follows:

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

Where

$I(P)_t$  = price index value on day t

$P_t$  = closing share price on day t

$N_t$  = number of shares in issue on day t

$ff_i$  = free float factor

$n$  = number of index constituents

The gross (net) total return index is calculated as follows:

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

Where

$I(TR)_t$  = total return index value on day t

$P_{i,t}$  = official closing price in Euro for stock i on day t

$D_t$  = gross (net) dividend in Euro on the ex-dividend date t

$N_i$  = number of shares for stock i

$i$  = number of index constituents

$ff_i$  = free float factor

$\sum P_{i,t} \cdot N_i$  = Index market capitalization on day t

$\sum D_{i,t} N_i$  = index dividend amount on day t

The net total return index uses net dividends instead of gross dividends (see tax rates in Appendix A).

## REVIEW

Every three months ECPI reviews the index constituents in order to ensure market representation.

The rebalancing of the indices considers the financial and extra-financial evolution of the reference market. The evolution may be due to economic and financial developments – such as a change in the composition or structure of an industry (e.g. changes in the market capitalization and representation of a company) - as well as to changes in the sustainability profile of the constituents.

The environmental, social and governance performance of companies eligible for inclusion in the Indices is monitored by ECPI; each constituent has to pass the ESG Screening.

The rules for inserting and deleting securities at the periodic review are designed to provide stability in the selection of constituents of the indices, while ensuring the indices continue to be representative of the reference market.

The Market Capitalization data used to update the investment universe and rebalance the indices are referred to the day of selection' previous business day closing (see timetable below).

The timetable of the quarterly review is reported below.

Below the reference calendar for the quarterly review.

If the review day falls on a holiday, the subsequent working day will be considered.

### REVIEW TIMETABLE

TIME REFERENCE	ACTION	WHEN
$t_0$	Selection of the new constituents	1st Friday of Dec, Mar, Jun, Sep
$t_1$	Communication of the new constituent	1st Friday of Dec, Mar, Jun, Sep
$t_2$	Effective Date: the new index is effective	3rd Friday (closing) of Dec, Mar, Jun, Sep

## ADJUSTMENTS FOR CORPORATE ACTIONS

Corporate actions are treated by the index agent, S&P Dow Jones Indices, according to S&P Dow Jones Indices' Corporate Actions Policies & Practices Methodology.

The following is an extract of S&P Dow Jones Indices Index Mathematics Methodology for Cap Weighted Indices:

There are a large range of different corporate actions ranging from routine share issuances or buy backs to unusual events like spin-offs or mergers. These are listed on the table below with notes about the necessary changes and whether the divisor is adjusted.

CORPORATE ACTION	INDEX ADJUSTMENT	DIVISOR ADJUSTMENT
Company added/deleted	Net change in market value determines the divisor adjustment.	Yes
Change in shares outstanding	Any combination of secondary issuance, share repurchase or buy back – share counts revised to reflect change.	Yes
Stock split	Share count revised to reflect new count. Divisor adjustment is not required since the share count and price changes are offsetting.	No
Spin-off	If the spun-off company is not being added to the index, the divisor adjustment reflects the decline in index market value (i.e., the value of the spun-off unit).	Yes
Spin-off	Spun-off company added to the index, no company removed from the index.	No
Spin-off	Spun-off company added to the index, another company removed to keep number of names fixed. Divisor adjustment reflects deletion.	Yes
Change in IWF	Increasing (decreasing) the IWF increases (decreases) the total market value of the index. The divisor change reflects the change in market value caused by the change to an IWF.	Yes
Special Dividend	When a company pays a special dividend the share price is assumed to drop by the amount of the dividend; the divisor adjustment reflects this drop in index market value.	Yes
Rights offering	Each shareholder receives the right to buy a proportional number of additional shares at a set (often discounted) price. The calculation assumes that the offering is fully subscribed. Divisor adjustment reflects increase in market cap measured as the shares issued multiplied by the price paid.	Yes

With corporate actions where cash or other corporate assets are distributed to shareholders, the price of the stock will gap down on the ex-dividend day (the first day when a new shareholder is not eligible to receive the distribution.) The effect of the divisor adjustment is to prevent this price drop from causing a corresponding drop in the index.

*For more information on the treatment of corporate actions, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices document.*

## RETROSPECTIVE CHANGES TO PREVIOUSLY PUBLISHED INDEX VALUES

The ECPI Index Methodology does not allow retrospective changes to previously published index values (“**Backfilling**”). Divisor corrections, index input changes due to late dividend announcements and other similar adjustments are not considered “backfilling”.

## ECPI ESG SCREENING METHODOLOGY AND RATING

ECPI research process follows an objective, rigorous and disciplined proprietary methodology that translates qualitative data into quantitative indicators, assigning to each issuer an Environmental, Social and Governance (**ESG**) score and a rating.

ECPI uses a rule-based non-discretionary approach considering approximately 100 key performance indicators to evaluate an issuer’s environmental, social and governance sustainability.

ECPI evaluates companies in the following areas

<b>PUBLIC INFORMATION SOURCES</b>	7	Environmental Strategy and Policy	<b>ENVIRONMENTAL</b> Score max 60 Rating (9 notches) F=>EEE	<b>ESG RATING</b> Score max 120 Rating (9 notches) F => EEE
	13	Environmental Management		
	3/4	Products - <u>sector specific</u>		
	6/11	Production Process - <u>sector specific</u>		
	9	Employees and Human Capital	<b>SOCIAL &amp; GOVERNANCE</b> Score max 60 Rating (9 notches) F=>EEE	
	12	Community Relations		
	11	Markets		
	19	Corporate Governance & Shareholders		

The traditional pillars of ESG scrutiny are the following:

- “**E**” Environmental strategy, policy and management system. Industry-specific environmental impact of production processes and products.
- “**S**” Social strategy and policy: assessing the quality of the company’s relationships with its stakeholders (customers, competitors, employees, management, public agencies and regulators, shareholders, creditors, local government and international institutions), market positioning and competitor analysis.
- “**G**” Governance structure: assessing both market and internal management issues, identifying the structure of the company’s governing bodies, its main operating characteristics, as well as the political and regulatory/legal specifics of the firm’s country of affiliation.

The analysis produces a score and a rating. A company’s overall rating is the sum of the scores from each indicator; the higher the final score, the higher the final rating.

ECPI’s proprietary rating scale ranges from “F” to “EEE”, along 9 notches.

RATING	LEVEL	DEFINITION	ECPI COMPANY RATING	
EEE	Very good	The company shows an <b>innovative</b> long-term strategic attitude, <b>strong</b> operational management practices and <b>proactive</b> actions to tackle social and environmental needs.	VERY GOOD	EEE EEE-
EEE-				
EE+	Good	The company shows a <b>clear</b> long-term strategic attitude, <b>sound</b> operational management practices and <b>positive</b> actions to tackle social and environmental needs.	GOOD	EE+ EE EE-
EE				
EE-				
E+	Fair	The company shows a <b>basic</b> long-term strategic attitude, <b>standard</b> operational management practices and/or <b>average</b> actions to tackle social and environmental needs.	FAIR	E+ E E-
E				
E-				
F	Poor	The company shows a <b>poor</b> long-term strategic attitude, <b>weak</b> operational management practices and/or <b>ineffective-negative</b> actions to tackle social and environmental needs.	POOR	F

## COMPLIANCE STATEMENT

ECPI Group keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units ECPI group may have information that is not available to other business units.

ECPI Group has established policies and procedures that prohibit constituents to its indices to be included in an index on the basis of payment volunteered from them.

## APPENDIX A: DIVIDEND WITHHOLDING TAXES

COUNTRY NAME	TAXATION	COUNTRY NAME	TAXATION
Argentina	0%	Macedonia	10%
Australia	30%	Malaysia	0%
Austria	27.50%	Malaysia REITs	10%
Bahrain	0%	Malta	0%
Bangladesh	20%	Mauritius	0%
Belgium	30%	Mexico	10%
Bosnia	5%	Mexico REITs3	30%
Botswana	7.50%	Morocco	15%
Brazil	0%	Namibia	20%
Brazil (Interest on Capital)	15%	Netherlands	15%
Bulgaria	5%	New Zealand	30%
Cambodia	14%	Nigeria	10%
Canada	25%	Norway	25%
Chile	35%	Oman	0%
China (Mainland Incorporated)	10%	Pakistan	15%
China (Offshore Incorporated)	0%	Panama	10%
Colombia	5%	Peru	5%
Côte d'Ivoire	10%	Philippines	30%
Croatia	12%	Poland	19%
Cyprus	0%	Portugal	25%
Czech Republic	35%	Qatar	0%
Denmark	27%	Romania	16%
Ecuador	0%	Russia	15%
Egypt	10%	Saudi Arabia	5%
Estonia	0%	Serbia	20%
Finland	30%	Singapore	0%
France	30%	Singapore REITs	10%
Georgia	5%	Slovakia	0%
Germany	26.375%	Slovenia	15%
Ghana	8%	South Africa	20%
Greece	15%	South Korea	22%
Hong Kong	0%	Spain	19%
Hungary	0%	Sri Lanka	14%
Iceland	18%	Sweden	30%
India	0%	Switzerland	35%
Indonesia	20%	Taiwan	20%
Ireland	20%	Thailand	10%
Israel	25%	Trinidad & Tobago	10%
Italy	26%	Tunisia	5%
Jamaica	33.33%	Turkey	15%
Japan	20.42%	U.K. Corporations	0%
Jordan	0%	U.K. REITS	20%
Kazakhstan	15%	U.S.	30%
Kenya	10%	Ukraine	15%
Kuwait	0%	United Arab Emirates	0%
Latvia	0%	Venezuela	34%
Lebanon	10%	Vietnam	0%
Lithuania	15%	Zambia	15%
Luxembourg	15%		

Data as of September 1, 2017

## APPENDIX B: 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 the ability of market participants in general 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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**Bloomberg: ECPS**

**Reuters: ECAPITAL**

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