

FTSE ESG Global Select Dividend 40 Index – Index Methodology

v1.1

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**Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds*

#The Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (which amends the European benchmark regulation in the United Kingdom)



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1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE ESG Global Select Dividend 40 Index.
- 1.2 FTSE ESG Global Select Dividend 40 Index captures the performance of stocks of companies in FR Global Developed Market Index that actively invest in and promote environmental, social and governance (ESG) values and principles in the running of their businesses.
- 1.3 The index tracks the price return, total return and net total return of selected 40 constituents. The index is a weighted index with a constituents cap of 5%.

2. FTSE Russell

- 2.1 As part of the ongoing work to simplify its brand, London Stock Exchange Group (LSEG) announced that Refinitiv Benchmarks and Indices were moving to FTSE Russell branding with effect from November 2023. As part of the rebranding, the Refinitiv ESG Global Select Dividend 40 Index was renamed as the FTSE ESG Global Select Dividend 40 Index.
- 2.2 FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings S.A.S.
- 2.3 LSEG holds a unique position within the global financial market, operating connected businesses to serve customers across the financial markets value chain.
- 2.4 The FTSE ESG Global Select Dividend 40 Index is calculated by FTSE Russell and will be made available to customers as part of their desktop licence through the LSEG Data & Analytics Platforms or subject to a separate licence agreement.
- 2.5 Neither FTSE International Limited nor Refinitiv Benchmark Services (UK) Limited nor any other member of the London Stock Exchange Group plc group of companies, is the benchmark administrator¹ of the FTSE ESG Global Select Dividend 40 Index.

3. Constituent universe

- 3.1 The constituents' universe is derived from FR Global Developed Index (South Korea is excluded from this index), which is called the parent index. The parent index is free float adjusted market capitalisation weighted index. It is a broad market index including large, mid and small caps. It has following inclusion criteria:
 - A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
 - A minimum of 3 months trading history;
 - Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary listing. For few exceptions where the country of incorporation is not where the security has the primary listing, LSEG uses the security's primary listing to determine membership.
 - Various liquidity measures are used to ensure illiquid companies are not included in the index, and all constituents need to satisfy the following criteria:

¹ As the term administrator is defined in the [IOSCO Principles for Financial Benchmarks](#) and [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation).

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- Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;
 - Be part of the top 99.5% of the trading value of the exchanges under consideration;
 - Trade on at least 90% of trading days; and
 - Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

The parent index is rebalanced biannually every April and October.

For a complete description of the index rules, please refer to the methodology for FR Global Equity indices, [FR Equity Indices | LSEG](#)

4. Construction methodology

4.1 Universe

The Index Universe is made of companies from countries as described in section 3.1

The universe is as observed on the review effective date.

4.2 Data

All stocks in the base universe are first screened for the following indicators:

- Market Cap
- Pricing available on rebalance date
- Share Type
- TRBC
- Company Code from Refinitiv product DataStream
- Dividend Yield (as of rebalance date)
- Dividend Payout Ratio Percent, 5 year average
- Dividend Per Share, Mean, Forward, Next 12 months
- Reuters Knowledge Direct (RKD) identifier (for NAICS data lookup)
- Indicator whether revenue is derived from specific NAICS codes:
 - 212111 Bituminous Coal and Lignite Surface Mining
 - 212112 Bituminous Coal Underground Mining
 - 213111 Drilling Oil and Gas Wells
 - 213112 Support Activities for Oil and Gas Operations
 - 213113 Support Activities for Coal Mining
 - 21111 Oil and Gas Extraction
 - 21211 Coal Mining
 - 2111 Oil and Gas Extraction
 - 2121 Coal Mining
 - 211 Oil and Gas Extraction
 - 333132 Oil and Gas Field Machinery and Equipment Manufacturing
 - 42152 Coal and Other Mineral and Ore Wholesalers

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- 4861 Pipeline Transportation of Crude Oil
 - 48611 Pipeline Transportation of Crude Oil
 - ESG composite scores
 - ESG score
 - ESGC score (addition of controversies)
 - ESG controversies score
 - UN Global Compact-related data points:
 - ESG_ControvAntiCompetition
 - ESG_ControvBusinessEthics
 - ESG_ControvChildLabor
 - ESG_ControvCriticalCountries
 - ESG_ControvDiversityOpportunity
 - ESG_ControvEnv
 - ESG_ControvFreedomofAssociation
 - ESG_ControvHumanRights
 - ESG_ControvPublicHealth
 - ESG_ControvWorkingCondition
 - ESG_RecentControvAntiCompetition
 - ESG_RecentControvBusinessEthics
 - ESG_RecentControvChildLabor
 - ESG_RecentControvCriticalCountries
 - ESG_RecentControvDiversity
 - ESG_RecentControvEnv
 - ESG_RecentControvHumanRights
 - ESG_RecentControvPublicHealth
 - ESG_RecentControvWorkingCondition
 - ESG_Strikes
 - ESG_Armaments
 - ESG_ArmamentRevenues
 - ESG_AntiPersonnelLandmines
 - ESG_ClusterBombs
 - ESG_Tobacco
 - ESG_TobaccoRevenues
 - ESG_Nuclear (does company produce nuclear reactors, produce nuclear energy, or is active in nuclear energy industry)
 - ESG_NuclearProduction (percentage of total energy production from nuclear energy)

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- ESG_Nuclear5Pct (are revenues/energy from nuclear greater than 5% of revenues/energy)
 - ESG_Gambling
 - ESG_GamblingRevenues
 - ESG_Pornography
 - ESG_Alcohol
 - ESG_AlcoholRevenues
 - ESG_AnimalTesting
 - ESG_AnimalTestingCosmetics
 - ESG_GMOProducts
 - ESG_BriberyFraudControv
 - Average Daily Traded Value (ADTV), 365 calendar days.

4.3 Composition list

- Filter companies for which no market cap could be established.
- Sector specific filter: Using the LSEG Business Classification (TRBC), remove instruments associated with the following codes (and any descendant codes):
 - 501010 Coal
 - 501020 Oil and Gas
 - 501030 Oil and Gas Related Equipment and Services
 - 591010 Electric Utilities & IPPs
 - 591020 Natural Gas Utilities
 - 591040 Multiline Utilities
 - 52101010 Aerospace and Defense
 - 54101010 Brewers
 - 54101020 Distillers
 - 54102030 Tobacco
 - 5110102012 Pesticide
 - 5120102012 Coke Coal Mining
 - 5330102013 Quick Service Restaurants
 - 5330203016 Adult Entertainment Production and Broadcasting
 - 5330204016 Adult Publishing
 - 5340309025 Adult Products Retailers
 - 5410103011 Carbonated Soft Drinks
 - 5410201013 Red Meat
 - 5410201016 Sugarcane Farming
 - 5410201020 Fur Farming
 - 5410202022 Sugar & Artificial Sweeteners

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- 5410202023 Chocolate & Confectionery
 - Index specific filter
 - ESG and Industry Filtering (in addition to TRBC filtering, above)
 - UN Global Compact
 - For each company, we sum the values of the 19 “controversies” and “recent controversies” data points listed above and take only those candidates with a sum of 0.
 - Include only companies where the “Strikes” data point is FALSE (or NA).
 - Miscellaneous ESG filters
 - Armaments: Retain companies where Armaments data point is FALSE or NA.
 - Armaments Revenue: Retain companies where Armaments Revenue data point is 0 or NA.
 - Anti-personnel Land Mines: Retain companies where Anti-personnel Land Mines data point is FALSE or NA.
 - Cluster Bombs: Retain companies where Cluster Bombs data point is FALSE or NA.
 - Nuclear: Exclude companies where Nuclear data point is TRUE AND Economic Sector is Utilities (59).
 - Nuclear Production: Retain companies where nuclear revenue data point is 0 or NA.
 - Nuclear Revenue/Energy 5Pct: Exclude companies where Nuclear 5% data point is TRUE AND Economic Sector is Utilities (59).
 - Tobacco: Retain companies where Tobacco data point is FALSE or NA.
 - Tobacco Revenue: Retain companies where tobacco revenue data point is 0 or NA.
 - Gambling: Retain companies where Gambling data point is FALSE or NA.
 - Gambling Revenue: Retain companies where gambling revenue data point is 0 or NA.
 - Alcohol: Retain companies where Alcohol data point is FALSE or NA.
 - Alcohol Revenue: Retain companies where alcohol revenue data point is 0 or NA.
 - Pornography: Retain companies where Pornography data point is FALSE or NA.
 - Animal Testing: Retain companies where Animal Testing data point is FALSE or NA.
 - Animal Testing Cosmetics: Retain companies where Animal Testing Cosmetics data point is FALSE or NA.
 - GMO Products: Retain companies where GMO Products data point is FALSE or NA.
 - Bribery/Fraud Controversies: Retain companies where Bribery/Fraud Controversies data point is FALSE or NA.
 - Calculate the ratio Electricity.to.CO2.Ratio_grams_per_kWh. For any remaining utilities that have passed the TRBC screen, exclude any company for which the ratio cannot be calculated, or where the ratio exceeds the threshold value (315).
 - Remove any companies where any revenue is attributed to the NAICS sectors (for coal) indicated by the add-in.
 - Remove any companies without an ESGC (overall ESG + Controversies) score.
 - Remove companies below the median ESGC score.
 - Liquidity Screening

- Instruments that do not meet average daily trading value threshold of €5.000.000.
 - Remove multiple issues from the same company (based on Datastream Company Code identifier). Retained instrument to represent a given company will be the one with the highest free float market cap. Dual issues are identified using a manually curated list, and (if necessary) only the issue with the highest free float market cap is retained.
 - Instruments that are not Ordinary Shares (e.g., Closed Ended Funds, Investment Trusts, Preference Shares) are excluded.
 - Instruments that do not have a price as of the rebalance date are eliminated.
- Dividend Screening
 - Exclude companies with dividend yield of NA or 0.
 - Exclude companies where historical dividend yield payout ratio is NA or 0.
 - Exclude companies where mean forward (next twelve month) dividend yield is 0.
 - Selection of Portfolio
 - Sort by dividend yield, and select portfolio of top 40 companies, ensuring that there is:
 - A maximum of six (6) companies per sector, and
 - A maximum of eight (8) companies per country.
 - Weight by dividend yield (mean estimate, next 12 months; if next 12 month estimated yield is not available [NA or NaN], use historical dividend yield). There is an individual constituent weight cap of 5%.

4.4 Security types

Only the common stocks types are included in the Index. When multiple listings of a candidate stocks are available, the constituent selected is the one with the highest free float market cap.

4.5 Base values and Inception date

100, on 02/11/2009

4.6 Index live date

March 6th 2021

4.7 Index types, currencies, calculation frequency

Price return, Total return and Net Total return. Currency: EUR. Ticks real time, pricing every 15 seconds.

4.8 Index RICs

.RFESGDP1- FTSE ESG Global Select Dividend 40 Price Return Index

.RFESGDT1- FTSE ESG Global Select Dividend 40 Total Return Index

.RFESGDN1- FTSE ESG Global Select Dividend 40 Net Total Return Index

5. Calculation methodology

5.1 The FTSE ESG Global Select Dividend 40 Index is calculated using the FR Global Equity Indices methodology. For further information, please see the Global Equity Indices methodology: [FR Equity Indices LSEG](#).

5.2 Corporate action rules follow the FR Global Equity Indices methodology. A forward-looking corporate actions file is available upon request. For details on corporate action treatment for the indices, please refer to the detailed corporate actions methodology document: [FR Global Equity Indices Corporate Actions Methodology \(lseg.com\)](#).

6. Index Maintenance and Rebalance

6.1 The securities which form the Index are re-weighted due to changes in the price of the underlying securities change.

The index is maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the LSEG Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delisting, and symbol changes and ensure these changes are implemented into the index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. Where a security in the Index is subject to a merger or acquisition activity or delisting, the security will be deleted from the Index as set out in the Corporate Action Methodology.

6.2 Rebalance frequency of FTSE ESG Global Select Dividend 40 Index is annual (after close of business on last trading date of October)

This rebalance is the major source of additions and deletions to index. There are no additions to the Index outside of the rebalance process.

6.3 Dividend Cancellation and ad-hoc Rebalance - If an index constituent cancels the dividend in a financial year, the constituent is deleted without replacement. If due to dividend cancellation triggered deletion of constituents causes index constituents to drop 30 or below, an index rebalance is triggered i.e. an ad-hoc rebalance is performed.

6.4 Removal of index constituents due to trading suspension - If an index constituent is suspended for trading for minimum 40 trading days, it is removed from the index, with no replacements and without any consideration to add them back if their trading resumes between rebalances. They may become candidates in next rebalance and will be evaluated like other candidates for inclusion in the index.

7. Quality control

7.1 Quality control procedures are in place to monitor any prices – whether they are obtained from a regulated exchange or another market – prior to calculation of indices, as well as prior to publication.

7.2 Error reporting

7.2.1 The Index Action Committee (see section “Governance” below) may determine if a retrospective recalculation is required.

7.2.2 A retrospective recalculation will only be made when there has been a material error. The feedback from the stakeholders may also be sought.

7.2.3 Any retrospective recalculation will be notified to users via the alert system on LSEG Eikon.

7.3 Insufficient data and market disruption

7.3.1 The FTSE ESG Global Select Dividend 40 Index is based on equity prices published by the exchange (in the country of domicile) for each equity. Each exchange is a regulated marketplace and a well-established supplier of equity price discovery.

7.3.2 In the event that certain data is not available in time to publish the FTSE ESG Global Select Dividend 40 Index as indicated in the methodology, or if the index cannot be published at all over one or more planned publication times, a new publication time will be communicated to subscribers and licensors of the index.

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- 7.3.3 Should a period of market stress or a disruption affect the calculation of the index, FTSE Russell reserves the right to take any action with respect to the index it deems appropriate given the circumstances, subject to the index governance procedures (see section “Governance” below). FTSE Russell will first consider the effectiveness of the actions taken by each primary exchange in producing the equity prices used in the index calculation.
- 7.3.4 If additional action is required by FTSE Russell it will attempt to notify interested parties of any such action with as much notice as is practical. There is no assurance, however, that the actions taken by FTSE Russell in response to such a period of market stress or disruption will not have an adverse effect on the value of the index or the manner in which it is calculated.

7.4 Cessation of an index

- 7.4.1 In the event that FTSE Russell determines that the calculation of the index should be ceased, a notice will be published via LSEG Eikon, an LSEG desktop product.

8. Governance

- 8.1 The FTSE ESG Global Select Dividend 40 Index is calculated and managed by FTSE Russell which makes all decisions regarding index calculations and changes to the index methodology.

8.2 Index team

- 8.2.1 The Index team is responsible for the maintenance, calculation and distribution of the FTSE ESG Global Select Dividend 40 Index as set out in this methodology.

8.3 Index Action Committee

- 8.3.1 The IAC is an internal group of subject matter experts (indices as well as asset classes) that provide advice related to methodology interpretation or changes.

8.4 Methodology review

- 8.4.1 The FTSE ESG Global Select Dividend 40 Index methodology is reviewed once a year and, if required by market events, more frequently.
- 8.4.2 Any changes to the methodology are approved by the IAC and will be announced prior to implementation. All reasonable efforts will be made to provide at least one month’s notice of any such changes prior to their implementation.

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