

FTSE Eurozone ESG Select Index -Index Methodology

v1.1

This index is administered by Refinitiv India Private Limited and is permitted for use as a benchmark in the European Union and United Kingdom under the Transitional Provision Regime of the EU Benchmark Regulation and the UK Benchmark Regulation respectively.

*[*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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Contents

1. Introduction3

2. FTSE Russell3

3. Constituent universe3

4. Construction methodology4

5. Calculation methodology.....6

6. Index Maintenance and Rebalancing methodology.....6

7. Quality control7

8. Governance8

1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE Eurozone ESG Select Index.
- 1.2 The FTSE Eurozone ESG Select Index captures the performance of stocks of European companies in selected countries 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 with a synthetic dividend of 5%. The index is an equal weighted index with a constituent cap of 10%.

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 Eurozone ESG Select Index was renamed as the FTSE Eurozone ESG Select 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 Eurozone ESG Select 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 Eurozone ESG Select Index.

3. Constituent universe

- 3.1 The constituents' universe is derived from FR Europe 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).

- 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](#)

3.2 Exclusions

To select the universe for the FTSE Eurozone ESG Select Index, the following exclusions apply: Only EUR countries are selected from FR Europe Index. This limits the potential countries to: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain. While LSEG does not have a Luxembourg index, some companies domiciled in Luxembourg may have their primary exchange in one of the countries above and may therefore be included.

The composition obtained represents the Parent Index.

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

- TRBC
- ESG data (from LSEG product ADC/Eikon). Data values retrieved are those as of the rebalance date (i.e., current). Controversy data for “FY-1” are taken as of “rebalance date-365 days.
- BankTotalRevenue (from LSEG product ADC/Eikon)
- DPSActualValue (from LSEG product ADC/Eikon)
- DPSCmonStock (from LSEG product ADC/Eikon)
- EPSFRActValue (from LSEG product ADC/Eikon)
- NetIncome (from LSEG product ADC/Eikon)
- TotalRevenue (from LSEG product ADC/Eikon)

4.3 Composition list

1. Remove companies for which a market cap could not be established in the parent index as of the parent rebalance date.
2. Index-specific filter
 - Remove companies for which a market cap could not be established as of the index rebalance date.
 - Restrict candidates to the top ~200 by free float market cap.
 - Remove companies for which a TRBC classification (economic sector) could not be found.
 - Remove any candidates for which a price is not available on the rebalance date.
 - Remove any candidates without ESG coverage

- In case of multiple share classes from same company candidate, only the issue with the highest market cap is retained.
- Create intermediate tables for controversies, for both rebalance FY (see ii) under 2.2 above) and FY-1. If company data for desired FY is unavailable, the most recent available FY is used. Create controversy sums for each company.
- Calculate a recent controversies sum and add it to the FY sheet.
- Compute a controversies score as a weighted mean.
- Calculate controversy score mean (average) and standard deviation on top n universe.
- Compute a total revenue number.
- Perform the ESG scoring:
 1. For scoring of items indicated as “discrete variable,” 5 points are allocated to a TRUE (“Yes”) value, while 0 points are allocated to a non-“Yes” answer (“No” or NA).
 - If multiple KPIs are to be combined for a single score, a logical AND of the indicated KPIs is performed to yield a single TRUE/FALSE value, which is then scored.
 2. For scoring of items indicated as “continuous variable,” a helper function was created. This function, for each economic sector:
 - Takes the subset of rows for that sector;
 - Identifies the number of unique non-NA scores;
 - If more than 5 unique non- NA scores, calculate the quintile breaks. The resulting quantile estimates are approximately median-unbiased regardless of the distribution of x.” In the case of non-unique breaks, an extremely small amount of “jiggle” is added out beyond the 13th significant digit, since assignment of scores based on quantile breaks depends on uniqueness. Finally, scores are assigned
 - If fewer than 5 unique non-NA scores, scores are assigned by rank (e.g., if an increasing function, all companies with highest score are assigned 10).
- Points are assigned for each KPI-level item (e.g., CO2 emissions/Turnover), the KPI-level items are summed to create a topic level score (e.g., Climate Change), and the topics summed to create a pillar score (e.g., Environment). The pillar scores (Environment, Social, Governance) are summed to create the ESG score.
- Intermediate files are generated to capture all scored candidates.
- Controversial companies are filtered out. The final configuration of the controversy filter is:
 1. Exclude the instruments where the controversy score is equal to the 10th ranked controversy score. This may exclude more than 10 instruments. Note that only equities with positive (non-zero) controversy scores can be screened by this filter, i.e., if only nine instruments have non-zero controversy scores, only those nine would be screened.
 2. Exclude instruments where the controversy score is higher than mean controversy score + 2 standard deviations (where mean and standard deviation were computed earlier). Due to the earlier screen of the top 10 constituents by controversy score, this screen may exclude zero or more instruments.
- If the candidates remaining are above the maximum constituents threshold (currently set at 50), the top n constituents (by ESG score) are kept. Note that, in the current implementation, the threshold is soft: we sort by ESG score, take the ESG score of the nth ranked company, then keep all companies with that ESG score or higher. Consequently, the index may have more than 50 constituents in a given rebalance. This can obviously be changed to a hard maximum and use another column (e.g., market cap) as a tie-breaker if exactly 50 constituents are required.

- The index is equal weighted. Note that there is currently an individual weight cap of 10% on any individual constituent, although because of the equal weighting, the configured cap is not necessary.

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 average traded value.

4.5 Base values and Inception date

100, on 31/03/2005

4.6 Index live date

December 23rd 2019

4.7 Index types, currencies, calculation frequency

Price return, Total return and Net Total return with synthetic dividend of 5%. Currency: EUR. Ticks real time, pricing every 15 seconds.

4.8 Special rebalance at index live date

A special rebalance was applied just before index went live to ensure that updated ESG scores i.e. no lag in ESG scores were used

4.9 Proforma rebalance

Starting September 2020 rebalance, there will be a proforma rebalance implemented five business days before rebalance effective date. As on rebalance effective date (as of market open on the first trading day following the third Friday of the month), proforma will be converted into actual rebalance i.e. same constituents as proforma with weights as on third Friday of the month. A 10% constituent cap will be applied as on proforma rebalance effective date that may change by rebalance effective date due to change in prices of index constituents.

4.10 Index RICs

.RFTREES1- FTSE Eurozone ESG Select Synthetic Index

.RFTREESG1- FTSE Eurozone ESG Select Total Return Index

.RFTREESN1 - FTSE Eurozone ESG Select Net Total Return Index

.RFTREESP1- FTSE Eurozone ESG Select Price Return Index

5. Calculation methodology

5.1 The FTSE Eurozone ESG Select 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 is quarterly (after close of business on third Friday of calendar quarter).

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 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 Eurozone ESG Select 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 Eurozone ESG Select 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.
- 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 Eurozone ESG Select 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 Eurozone ESG Select 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 Eurozone ESG Select 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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EMEA +44 (0) 20 7866 1810

North America +1 877 503 6437

Asia-Pacific

Hong Kong +852 2164 3333

Tokyo +81 3 6441 1430

Sydney +61 (0)2 7228 5659



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