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Guide to the Construction and Maintenance of Exclusion Lists used in FTSE Russell Indices

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FTSE RUSSELL
An LSEG Business

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Section 1

Introduction

1. Introduction

This document sets out the guidelines for the construction and maintenance of exclusion lists used in FTSE Russell indices. These are used to remove stocks from FTSE Russell ESG indices on the basis of product involvement or conduct related criteria.

1.1 For exclusion, FTSE Russell identifies business activities in two distinct areas:

1.1.1 **Product involvement activities:** activities of companies with exposure to the products or services that are listed in Section 7.

1.1.2 **Conduct related activities:** activities of companies that are directly or indirectly linked to controversial conduct and diversity as defined in Section 7.

1.2 Companies involved in an identified product or conduct related activity will be placed on a respective exclusion list. These lists are then applied as relevant in the construction of any FTSE Russell ESG index where exclusions are applied.

1.2.1 Following FTSE Russell's market consultation on the application of a minimum set of exclusions to FTSE Russell ESG indices, Section 8 sets out the minimum exclusions that apply to standard ESG indices that reference this in their Ground Rules.

1.3 This Guide should be read in conjunction with the index specific Ground Rules which can be accessed on https://www.lseg.com/en/ftse-russell

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE manages the exclusion lists used in FTSE ESG equity indices.

2.1.2 FTSE is responsible for the maintenance of the exclusion lists and will:

- maintain records of the exclusions data for all companies in the research universe;
- make changes to companies' exclusion status in accordance with exclusion definitions;
- carry out periodic updates to the exclusion lists and apply the changes resulting from the reviews as required by the guide.

Section 3

Exclusion criteria

3. Exclusion criteria

3.1 The research universe for the exclusion lists is the union of the universes for all the underlying indices for which variants are calculated that make use of the exclusion lists. Please see the FTSE Russell website for the list of ESG equity indices. See Section 7 for a full list of exclusions categories and definitions.

3.2 Information is collected from publicly available sources and third-party data (see Rule 3.7) on at least an annual basis for each company.

3.3 Exclusion lists can be populated based on a binary indication of company involvement in excluded product-related activities (i.e. involved vs not involved) or, for some exclusions categories, based on an indication of companies reaching a certain involvement threshold (e.g. revenue generated from activities related to the excluded product as a proportion of total revenues), or an ownership threshold of an excluded product. The Sustainalytics product involvement data methodology applies a most significant involvement (MSI) approach for specific activities (more detail is available in Sustainalytics' published methodology here).

3.3.1 See Section 7 for an indication of which categories this concerns. Involvement threshold data provided by a third party is subject to the requirements stipulated in section 3.7.

3.3.2 The Ground Rules for each FTSE Russell index that employs exclusion lists specify any involvement threshold (or non-application) for exclusions categories applied to that index.

3.4 A parent company that holds shares contributing more than 50% of ownership, directly or indirectly, of a subsidiary company that is involved in an excluded product or activity will be placed on the exclusion list related to that activity.[1]

3.5 In addition to the exclusion lists that are maintained for each excluded product or activity, FTSE Russell maintains a record of companies with "incomplete data" as their exclusion status has yet to be ascertained. This incomplete data record contains companies that are new to the research universe, including IPOs and new entrants to the underlying indices that have yet to be researched. For exclusion lists built with third-party data, the standard approach is to exclude companies with no data available from relevant indices, unless stated in the index ground rules. Exclusions do not typically apply in the following circumstances:

3.5.1 A parent company that holds shares contributing 50% or less of the ownership of a subsidiary company that is involved in an excluded product- or conduct-related activity, will **NOT** usually be added to an exclusion list related to that activity (as the parent company is deemed not to have effective 'control' over the subsidiary company).

Companies with minority ownership (between 10% and 50%) of a company engaged in excluded product-related activities may be added to an exclusion list for a specific index. This will be specified in the index ground rules. See Section 7 for an indication of which categories this concerns.

[1] If voting rights cannot be adequately determined, the parent's ownership stake of the subsidiary will be used instead.

3.5.2 Where a parent company engages in an excluded product- or conduct-related activity, a subsidiary company will **NOT** be placed on the exclusion list provided that the subsidiary itself does not engage in excluded product- or conduct-related activities regardless of the level of ownership by the parent (as the subsidiary company is deemed not to have effective 'control' over the parent company).

3.5.3 Financial firms (e.g., banks, asset management, insurance) are **NOT** placed on an exclusion list if they invest in, or provide loans or other financial services to, a company that engages in excluded product- or conduct-related activities.

3.5.4 The treatment of investment trusts will be outlined in the relevant ground rules.

3.6 The treatment of companies with respect to their inclusion on one or more exclusion lists following their involvement in a corporate event is set out in Section 5.

3.7 Data sources

3.7.1 FTSE Russell maintains proprietary data for determining specific product involvement and conduct related exclusions. Where third-party data is used in the construction of exclusion lists, FTSE Russell undertakes due diligence to confirm that appropriate quality controls are in place in data sourcing and ingestion**.** This validation may include the use of the previous data value, such as the latest fiscal year data available at the relevant data cut-off date, to ensure continuity of coverage.

3.7.2 Further details on the specific data sources can be found in the relevant ground rules.

Section 4

Update of exclusion lists

4. Update of exclusion lists

4.1 Exclusion lists are updated in line with the review frequency of the relevant FTSE ESG indices that use exclusion lists.

4.2 The data cut-off dates for ESG data inputs to the exclusion lists are in the Guide to FTSE and Third Party ESG Data used in FTSE Russell Indices.

4.3 The Ground Rules for each index which uses exclusion lists will specify the cut-off date for the exclusions data to be included at the index review.

Where exclusions data is updated after the cut-off date for an index review has passed, the Ground Rules for that index will specify the point when the updated data will be reflected in the index. This might be immediately after the index review is effective, or implementation may be deferred until the next index review.

Constituents added to an underlying index at a review that were not previously in the exclusions research universe will have research undertaken as soon as possible, usually within a year of their addition. In the intervening period these constituents will be added to the incomplete data list. Treatment of new entities as a result of a spin-off or demerger is outlined in 5.1 below.

Section 5

Changes to exclusion lists in the period between updates

5. Changes to exclusions lists

5.1 Exclusion list changes arising from corporate events between updates

A. **Fast entrants**: Fast entrants to the underlying indices will, in the first instance, be based on information in the company prospectus. Until the research has been completed, fast entrants will be added to the incomplete data exclusion list.

B. Spin-offs (including demergers) resulting in a new company: If a new company is added to the underlying research universe as a result of a demerger from a parent company in the research universe, the new company will inherit the parent company's exclusion whilst the exclusion status of the new company is researched. **C. Mergers and acquisitions**: If a company in the exclusion research universe is acquired by another company in the research universe, the merged company will be included in an exclusion list if the acquirer is a member of that exclusion list or the merged entity is determined to be engaging in an excluded activity.

5.1.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the relevant corporate actions and events guide using the following links:

Corporate_Actions_and_Events_Guide.pdf

Corporate_Actions_and_Events_Guide_for_Non_Market_Cap_Weighted_Indices.pdf

5.2 Index implementation

5.2.1 The Ground Rules for each FTSE Russell index that employs exclusion lists will specify when a constituent's status on the lists is reflected in that index.

Section 6

Challenges

6. Challenges

6.1 Challenges

If a company (or professional advisor acting on behalf of the company), an index user or other stakeholder wishes to challenge the exclusion status of a company, they should complete the Exclusion Data Form which can be found at:

Exclusion_Data_Form.pdf

6.1.1 The reasons for proposing a change to the exclusion should be stated having regard to this guide to the construction and maintenance of the FTSE Exclusion Lists and attaching any publicly available documentary evidence in support of the claim. In considering the claim, FTSE Russell may only take account of publicly available information and will place the greatest weight on information in audited reports or official market notices. The form and any supporting evidence should be sent to FTSE Russell Client Services at info@ftserussell.com

6.1.2 If a change to a company's status on an exclusion list is supported, the change will be announced via a FTSE Russell client notice. If a change to a company's status on an exclusion is not supported by FTSE Russell, the complainant will be informed of this outcome via the FTSE Russell Client Services team with the rationale for the decision.

6.1.3 The FTSE Russell complaints procedure can be accessed using the following link:

FTSE_Russell_Benchmark_Determination_Complaints-Handling_Policy.pdf

6.2 Implementation

6.2.1 The index Ground Rules for each index affected by a change to an exclusion list set out the timetable as to when changes will be implemented in the index.

Section 7

Exclusion categories

7. Exclusion categories

7.1 Determining Involvement

7.1.1 A company will be added to an exclusion list where available evidence, based on research of the constituent, supports a determination of involvement in an excluded business activity.

7.1.2 Additions to exclusion lists will follow a precautionary principle where evidence is inconclusive or unreliable; a company may be added to an exclusion list at any time until research confirms that there is no involvement in the excluded business activity.

7.1.3 When a company no longer undertakes an excluded business activity due to a corporate action or event, the company may be removed from an exclusion list, where the research:

A. Confirms that the company no longer undertakes the excluded business activity;

B. Determines that an event or action is final.

7.1.4 A company may be removed from an exclusion list at any time as a result of a challenge or appeal (see Section 6).

7.2 Exclusion categories and summary definitions

7.2.1 The table below lists the exclusion categories currently used in different FTSE Russell ESG indices and includes high level descriptions of each category.

7.2.2 The Ground Rules for each FTSE Russell index that uses exclusion lists specify the categories excluded and provide definitions of these categories. The Ground Rules also specify any involvement or ownership thresholds that have been applied to product categories.

7.2.3 Data for these categories may be sourced from FTSE Russell proprietary data or third-party data. This is also specified in index Ground Rules.

7.2.4 Categories referencing ICB classifications equate to the screening out of companies classified in the listed ICB subsector. Details on ICB classification and subsector definitions can be found here:

Industry Classification Benchmark (Equity).pdf

7.3 Involvement and ownership thresholds

7.3.1 As indicated in sections 3.3 and 3.4, involvement thresholds and ownership thresholds are available for selected product categories, using data provided by a third party.

7.3.2 Involvement thresholds

7.3.3 Revenue thresholds indicate the percentage of a company's total revenues derived from the respective product/activity. This data is available for the categories marked with "R" in the table below.

7.3.4 Production capacity thresholds apply to some energy-related product categories, indicating the percentage of a company's total generation or production capacity that is achieved via the respective activity. This data is available for the categories marked with "PC" in the table below.

7.3.5 Involvement data is provided in a series of bands: 0%-4.99%; 5%-9.99%; 10%-24.99%; 25%-49.99%, and 50%+. These bands signify that e.g. between 0% and 4.99% of a company's revenues are generated via involvement in an excluded product-related activity, or that e.g. between 25% and 49.99% of a company's energy generating capacity is generated via an excluded energy source.

7.3.6 Revenue involvement is determined by the third party first by searching company disclosures for reported product net revenue breakdowns, but if these are not disclosed, then by applying a net revenue estimation model.

7.3.7 Ownership thresholds

7.3.8 Some categories also offer an indication of where a company has minority interest (between 10% and 50%) in another entity engaged in the activity. Ownership thresholds are available for these ownership categories, which reflect the size of a company's holding in a subsidiary engaged in the product/activity. This data is available for the categories marked with "O" in the table below.

Product involvement exclusion categories and definitions					
Topic	**Product**	**Involvement**	**Definition**	**Involvement threshold available (R/PC)***	**Minority ownership available (O)****
Non-Renewable Energy	Thermal Coal	Ownership of thermal coal reserves	Companies that own proved or probable reserves in thermal coal		
		ICB: Coal	Companies classified in ICB 60101040 Coal		
		Exploration for or extraction of thermal coal	Companies that mine, process, and market coal	R	O
		Coal-fired energy generation	Companies that generate electricity from thermal coal	PC	O
	Oil & Gas	Ownership of oil or gas reserves	Companies that own proved or probable reserves in oil or gas		
		ICB: Integrated Oil and Gas[2]	Companies classified in ICB 60101000 Integrated Oil and Gas		
		ICB: Oil: Crude Producers[2]	Companies classified in ICB 60101010 Oil: Crude Producers		
		ICB: Offshore Drilling and Other Services[2]	Companies classified in ICB 60101015 Offshore Drilling and Other Services		
		ICB: Oil Refining and Marketing[2]	Companies classified in ICB 60101020 Oil Refining and Marketing		
		ICB: Oil Equipment & Services[2]	Companies classified in ICB 60101030 Oil Equipment & Services		
		ICB: Pipelines[2]	Companies classified in ICB 60101035 Pipelines		
		Oil & Gas Production combined (E&P, Refining, Transportation, Storage)	Companies involved in oil and gas exploration, production, refining,	R	O

[2] See Industry Classification Benchmark (Equity).pdf (ftserussell.com) for definitions of FTSE Russell ICB Subsectors.

Product involvement exclusion categories and definitions					
Topic	**Product**	**Involvement**	**Definition**	**Involvement threshold available (R/PC)***	**Minority ownership available (O)****
			transportation and/or storage		
		Oil- or gas-fired energy generation	Companies generating electricity from oil and/or gas	PC	O
		Arctic oil and gas exploration	Companies involved in oil and gas exploration in Arctic regions	R	O
		Oil sands extraction	Companies involved in oil sands extraction	PC	O
		Shale energy production	Companies involved in shale energy exploration and/or production	R	O
		ICB: Gas Distribution[2]	Companies classified in ICB 65102020 Gas Distribution		
	Nuclear Energy	Nuclear power generation	Companies that generate electricity from nuclear energy	R/PC	O
		Uranium mining	Companies that mine uranium		
		Uranium processing and enrichment	Companies that process, transport and enrich uranium		
		Nuclear power plant equipment, components, and construction	Companies that provide dedicated nuclear power plant equipment, components and construction services	R	
Vice Products	Adult Entertainment	Production of adult content	Companies that produce adult content and/or own/operate adult entertainment establishments	R	O
		Distribution of adult content	Companies that are involved in the distribution and/or retail sale of adult entertainment content	R	O
	Alcohol	Production of alcoholic beverages	Companies that manufacture alcoholic beverages	R	O
		Production of alcohol-related products/services	Companies that supply alcohol-related products/services to alcoholic beverage manufacturers	R	O
		Retail or distribution of alcoholic beverages	Companies that derive revenues from the distribution and/or retail sale of alcoholic beverages	R	O

Product involvement exclusion categories and definitions					
Topic	**Product**	**Involvement**	**Definition**	**Involvement threshold available (R/PC)***	**Minority ownership available (O)****
	Gambling	Provision of gambling facilities	Companies that own and/or operate a gambling establishment	R	O
		Production of specialised gambling equipment	Companies that manufacture specialised equipment used exclusively for gambling	R	O
		Provision of non-specialised support to gambling operators	Companies that provide non-specialised supporting products/services to gambling operations	R	O
	Tobacco	Production of tobacco or tobacco products	Companies that produce tobacco or tobacco products	R	O
		Production of tobacco-related products/services	Companies that supply tobacco-related products or services to tobacco producers	R	O
		Retail or distribution of tobacco products	Companies that derive revenues from the distribution and/or retail sale of tobacco products	R	O
	Cannabis	Cultivation or distribution of cannabis	Companies that engage in cannabis cultivation, distribution, and processing, or creation of cannabis derivative products	R	O
Controversial Weapons	Anti-Personnel Landmines	Core Weapon System	Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon	N/A[3]	O
		Technical/administrative system or Supporting System	Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.	N/A[3]	O
	Chemical and Biological Weapons	Core Weapon System	Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-	N/A[3]	O

[3] This exclusion is not revenue based as defence contracts often do not provide continuous revenue flows

Product involvement exclusion categories and definitions					
Topic	**Product**	**Involvement**	**Definition**	**Involvement threshold available (R/PC)***	**Minority ownership available (O)****
			made and essential for the lethal use of the weapon		
		Technical/administrative system or Supporting System	Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.	N/A[3]	O
	Cluster Munitions	Core Weapon System	Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon	N/A[3]	O
		Technical/administrative system or Supporting System	Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.	N/A[3]	O
	Nuclear Weapons	Core Weapon System	Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon	N/A[3]	O
		Technical/administrative system or Supporting System	Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.	N/A[3]	O
		Production of core nuclear weapon systems outside of the Non-Proliferation of Nuclear Weapons Treaty (NPT)	Companies with crucial and direct involvement in production of core nuclear weapons for a state that is not a signatory of the 1968 Treaty on the Non-Proliferation of Nuclear Weapons (NPT),.	N/A[3]	O
		Production of supporting systems for nuclear weapons, or provision of technical or administrative	Companies that provide supporting systems or technical or	N/A[3]	O

Product involvement exclusion categories and definitions					
Topic	**Product**	**Involvement**	**Definition**	**Involvement threshold available (R/PC)***	**Minority ownership available (O)****
		support for nuclear weapons outside of the Non-Proliferation of Nuclear Weapons Treaty (NPT)	administrative support for the nuclear weapons program of a state that is not a signatory to the Non-Proliferation of Nuclear Weapons (NPT).		
	Depleted Uranium	Core Weapon System	Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon	N/A[3]	O
		Technical/administrative system or Supporting System	Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.	N/A[3]	O
	White Phosphorus	Core Weapon System	Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon	N/A[3]	O
		Technical/administrative system or Supporting System	Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.	N/A[3]	O
Conventional Weapons	Military Weapons	Production of weapons for military use	Companies that produce military weapon systems and/or integral, tailor-made components of these weapons	R	O
		Production of weapon-related tailor-made products	Companies that produce tailor-made products and/or services that support military weapons	R	O
		Production of non-weapon-related tailor-made products	Companies that produce non-weapons related tailor-made products and/or services to the military or defence industry	R	O
	Civilian Firearms	Production and sale of assault weapons to civilian customers	Companies that manufacture assault	R	O

Product involvement exclusion categories and definitions					
Topic	**Product**	**Involvement**	**Definition**	**Involvement threshold available (R/PC)***	**Minority ownership available (O)****
			weapons for civilian customers		
		Production and sale of small arms (non-assault weapons) to civilians	Companies that manufacture small arms for civilian customers	R	O
		Production of key components of civilian firearms	Companies that manufacture key components of small arms	R	O
		Retail or distribution of assault weapons	Companies that derive revenues from the retail and/or distribution of assault weapons	R	O
		Retail or distribution of small arms (non-assault weapons)	Companies that derive revenues from the retail and/or distribution of small arms	R	O

7.3 Conduct related exclusions

Conduct-related exclusion categories and definitions	
Controversies topics	**Definition**
Human Rights	Controversies related to Principles 1 and 2 of the UN Global Compact, which is derived from the Universal Declaration of Human Rights: Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights, and Principle 2: make sure that they are not complicit in human rights abuses.
Labour	Controversies related to Principles 3, 4, 5, and 6 of the UN Global Compact, which is derived from the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work: Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour, and Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment	Controversies related to Principles 7, 8, and 9 of the UN Global Compact, which is derived from the Rio Declaration on Environment and Development: Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility, and Principle 9: encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Controversies related to Principle 10 of the UN Global Compact, which is derived from the United Nations Convention Against Corruption: Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
Diversity	**Definition**
Diversity	For this criterion a company will be added to an exclusion list if it fails to meet two out of three diversity indicators: 1. Woman/women on the Board; 2. Diversity policies[4]; 3. Diversity management systems[3]

[4] Diversity policies and systems related to non-discrimination on the basis of race, religion, gender, age, sexual orientation, disability or nationality.

If specifically referred to in the ground rules, the following treatment applies:

7.3.1 Companies are excluded from the index if they meet the following criteria:

- Large and mid-cap size companies[15] with a Sustainalytics' GSS Overall Global Compact Compliance Status of 'Non-Compliant'.
- Small-cap size companies with a Sustainalytics' GSS Overall Global Compact Compliance Status of either 'Watchlist' or 'Non-Compliant'.

Company exclusion based on these criteria is reviewed quarterly.

7.3.2 For companies excluded from the index due to point 7.3.1, if their Sustainalytics GSS Overall Global Compact Compliance status changes from Non-Compliant (large/mid/small-cap) or Watchlist (small-cap), the company will only be considered for index eligibility if this additional criteria is met:

- Its RepRisk Index (RRI) score is not in the top 5% of companies in the FTSE Developed universe at the latest review of the exclusion list, nor any of the previous three quarterly reviews.

[5] Large, mid and small-cap size is based on the company's designation within the FTSE Global Equity Index Series.

Section 8

Minimum set of exclusions

8. Minimum set of exclusions

FTSE Russell conducted a market consultation on the application of a minimum set of exclusions to FTSE Russell standard ESG indices, and received support for the proposal.

8.1 The following set of minimum exclusions apply to standard ESG indices that reference this in their Ground Rules:

Minimum exclusions	Definition	Threshold
Tobacco	Production – Companies engaged in the production of tobacco and/or tobacco products	Greater than 0% of revenues
Thermal Coal	Extraction – Companies that extract thermal coal	Greater than or equal to 50% of revenues
Controversial Weapons	Chemical & Biological Weapons, Cluster Munitions, Anti-Personnel Landmines – Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. – Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon	Not Applicable[6]
Controversial Conduct	Violations of the United Nations Global Compact Principles – The principles are classified into four categories: Human Rights, Labour, Environment, and Anti-corruption	All companies deemed non-compliant

8.1.1 These minimum exclusions will be reviewed internally every 2 years. This may not result in any changes. Market conditions or regulatory changes may also lead to a review. Any changes will be proposed in line with the FTSE_Russell_Policy_for_Benchmark_Methodology_Changes.pdf

[6] This exclusion is not revenue based as defence contracts often do not provide continuous revenue flows

Section 9

Exclusion guidelines for FTSE Fixed Income ESG indices

9. Exclusion guidelines for FTSE Fixed Income ESG indices

9.1 This section sets out the guidelines for the exclusion rules used in FTSE Russell Fixed Income (FI) ESG indices. These are used to remove constituents from FTSE Russell FI ESG indices on the basis of product involvement or conduct related criteria.

9.2 Exclusion rules are based on companies' ESG related product involvement and conduct.

Product involvement exclusions use three data sources:

- The Refinitiv Business Classification (TRBC)
- FTSE Corporate Bond Sector (COBS) classification
- Sustainalytics product involvement data

UNGC conduct exclusions use Sustainalytics Global Standards Screening (GSS) data.

9.3 If Sustainalytics product involvement or conduct data is not available for an issuer, the data of its parent issuer will be applied if available.

9.4 Corporate issuers that have no applicable Sustainalytics product involvement or conduct data will be excluded from the index. This rule applies to FTSE Russell FI ESG indices with corporate constituents.

9.5 Non-corporate issuers with no applicable Sustainalytics product involvement or conduct data will not be excluded from the index unless further specified. Non-corporate issuers are in the government/government sponsored and collateralized categories as determined by the FTSE Corporate Bond Sector (COBS) classifications. This rule applies to FTSE Russell FI ESG indices with non-corporate constituents.

9.6 Academic Institutions, Charities or Social Organisations, and Hospitals

Issuers with the TRBC code of 631020 "Schools, Colleges & Universities", 611010 "Institutions, Associations & Organizations", or 561020 "Healthcare Providers and Services" will not be excluded when product involvement or conduct data is not available.

9.7 For FTSE Russell FI ESG indices that apply the minimum set of exclusions, please see Section 8 for details.

9.8 In addition to the minimum set of exclusions, FTSE Russell FI ESG indices may apply further exclusions which are specified in the relevant Ground Rules

Section 10

Minimum PAB Aligned Exclusions for ESMA Guidelines

10. Minimum PAB Aligned Exclusions for ESMA Guidelines

10.1 ESMA 'Guidelines on fund names' using ESG or sustainability-related terms' apply to EU funds using specific terms in the fund name. The Guidelines apply to Funds and not Benchmark Administrators, however we note that some clients of our indices may exclude investments in companies referred to in Article 12(1)(a) to (c) of CDR (EU) 2020/1818 (Climate Transition Benchmark/CTB exclusions) or Article 12(1)(a) to (g) of CDR (EU) 2020/1818 (Paris Aligned Benchmark/PAB exclusions) to meet specific ESMA Guidelines. These PAB related exclusions would remove companies with specific involvement in controversial weapons, tobacco, controversies, coal, oil, gas and electricity generation.

10.2 Following a market consultation on the proposed definitions to meet minimum PAB aligned exclusion requirements for ESMA Guidelines, the list of exclusions is below.

10.2.1 The following set of exclusions apply to indices that reference the Minimum PAB Aligned Exclusions for ESMA Guidelines in their Ground Rules:

PAB exclusion category	BMR rules	Exclusions
Controversial weapons	12(a) Companies involved in any activities related to controversial weapons For the purposes of point (a), controversial weapons shall mean controversial weapons as referred to in international treaties and conventions, United Nations principles and, where applicable, national legislation.	Biological & Chemical weapons Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon. Cluster Munitions Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon. Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon. Anti-Personnel Landmines Companies directly involved in the core weapon system, or components/services of the core weapon system that are considered tailor-made and essential for the lethal use of the weapon.

PAB exclusion category	BMR rules	Exclusions
		Companies directly involved in providing components/services for the core weapon system, which are either considered not tailor-made or not essential for the lethal use of the weapon.
Tobacco	12(b) Companies involved in the cultivation and production of tobacco	Companies producing tobacco products which includes cigarettes, roll your own tobacco, pipe tobacco, cigars, cigarillos, bidis, gutka, smokeless tobacco, and heated tobacco products (HTPs), electronic cigarettes (or 'e-cigarettes') and electronic nicotine delivery systems. This includes: • companies that are classified in the ICB Subsector Tobacco 45103010 and Cannabis Producers 20103020 • companies that are not classified in ICB Subsector Tobacco 45103010 and Cannabis Producers 20103020, but that are identified as having any activity in these Subsectors
Controversies	12(c) Companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Controversies are assessed related to the UN Global Compact principles. Companies are excluded if they meet the following criteria: • Large/Mid cap: Companies have a Sustainalytics Global Standards Screening (GSS) non-compliant status, or have previously been non-compliant and are on FTSE's internal watchlist • Small cap: Companies with a GSS watchlist or non-compliant status Please see rule 7.3.1 in this Guide for more information.
Coal	12(d) Companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite	Thermal Coal Reserves Companies with proved or probable reserves in coal Threshold: Greater than or equal to 50% ownership Thermal Coal Extraction Companies that extract thermal coal Thermal Coal Supporting Services Companies that provide tailor-made products & services that support thermal coal extraction. This includes companies that provide storage & transportation, mining, and coal refining services Threshold: Greater than or equal to 0% of revenues
Oil	12(e) Companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels	Oil & Gas Production Companies involved in oil and gas (including Oil Sands) exploration, production, refining, transportation and/or storage Oil & Gas Supporting Products & Services Companies providing tailor-made products and services that support oil and gas (including Oil Sands) exploration, production, refining, transportation, and storage. Threshold: Greater than or equal to 10% of revenues
Gas	12(f) Companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or	

PAB exclusion category	BMR rules	Exclusions
	distribution of gaseous fuels	
Electricity generation	12(g) Companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh	Oil, Gas and Thermal Coal Power Generation Companies generating electricity from oil and/or gas, and/or thermal coal Threshold: Greater than or equal to 50% of revenues

10.3 **These exclusions** are applied quarterly at review dates in March, June, September and December.

Section 11

Controversies and human rights in FTSE Russell indices - FAQ

1. What is FTSE Russell's approach to human rights and human rights due diligence?

London Stock Exchange Group (LSEG), which includes FTSE Russell, is committed to operating in accordance with the International Bill of Human Rights, comprising the Universal Declaration of Human Rights (UDHR), and takes into account the UN Framework and Guiding Principles on Business and Human Rights (the Guiding Principles) and the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work. The Group strongly supports these conventions, which promote freedom of association and equality and abolish forced labour and child labour.

LSEG monitors all current and emerging human rights-related regulation and as a UK headquartered business is committed to adhering to the UK Modern Slavery Act 2015.

We respect and promote human rights of our employees through our human resource policies and practices, of our suppliers through our supply chain management and through the provision of our products and services.

LSEG has several policies that promote the protection of human rights either directly or indirectly, which are consistent with relevant UDHR articles and the Guiding Principles. These policies include:

Policy	Policy summary
LSEG code of conduct	This code outlines the ethical principles governing all activities across LSEG. The policy is not intended to be a comprehensive description of all factors that may impact behaviour; rather it provides a framework to operate within. It covers in particular our human rights and anti-slavery commitments.
Sustainability Policy and Human Rights Statement	The Sustainability Policy, approved by the LSEG Board, includes human rights within its overarching commitments and is supported by a Human Rights Statement
Supplier Code of Conduct	This Code outlines LSEG's expectation of suppliers to ensure adherence to our standards, including those related to human rights. Before entering into relationships with key suppliers our due diligence process establishes whether suppliers are adhering to the Code.
LSEG financial crime	This policy outlines the approach and arrangements that LSEG has in place to prevent the occurrence, facilitation or furthering of financial crime. It also sets out LSEG's approach to compliance with applicable legislation, regulation and guidance.
LSEG enterprise-wide risk management framework	This policy outlines LSEG's enterprise-wide risk management framework, which is designed to assist in the identification and assessment of risks facing the Group in order that they can be managed in an efficient manner and that informed decisions can be taken to manage threats and exploit opportunities.
LSEG Speak up	This policy outlines the whistleblowing arrangements in place to report any concerns regarding malpractice or misconduct within LSEG. LSEG encourages its staff to speak up should they witness improper, illegal or negligent behaviour by anyone in the workplace.

We regard all forms of modern slavery and human trafficking as a crime and a violation of fundamental human rights. We are committed to implementing and promoting practices which combat modern slavery in

all its forms. LSEG operates in an industry where the risk of modern slavery and human trafficking is inherently low. However, we operate globally and acknowledge the risks of partnering with a broad spectrum of global suppliers and the possibility of modern slavery occurring deeper in those complex supply chains. Our Modern Slavery Act Statement can be found here.

LSEG is a Living Wage Foundation-accredited employer in the UK and as such all UK colleagues are paid on or above the living wage. Our contracts with suppliers that have staff working on LSEG premises in the UK (including temporary and contract workers) include a clause mandating the payment of the Living Wage or London Living Wage as applicable.

As part of the supplier-onboarding process, a risk segmentation is carried out with a determination of low, medium or high risk based on a range of factors. Due diligence is conducted based on the segmentation to ensure the appropriate assessment is carried out. Suppliers are also monitored throughout the year via LSEG's World-Check RiskIntelligence database (World-Check). Specialist research analysts across the globe collate information from reliable and reputable sources. WorldCheck also assesses publicly available information to identify association with key words that could raise concern. Where this is the case, we investigate and address appropriately. We are consistently evolving our Third-Party Risk Management and Supplier Relationship Management functions to play a key role in building a stronger partnership with our suppliers

2. How are human rights issues assessed and taken into consideration in FTSE Russell ESG indices?

FTSE Russell publishes the index methodologies and ground rules for its ESG indices online. The ground rules for each of these index series explain which ESG data inputs are used. Regarding human rights, relevant data inputs can include environmental, social and governance (ESG) scores and UN Global Compact controversy exclusions.

For example, the FTSE Russell ESG scores include assessments of whether companies meet global standards such as the United Nations Global Compact Principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. This is part of the human rights and community pillar in the social pillar of the FTSE Russell ESG scores.

As part of the regular reviews of FTSE Russell ESG indices, the current and prospective constituents' ESG scores are reviewed and updated, including their human rights and community score. Companies are given the opportunity to review the data inputs to the ESG score and provide any new public information. Companies are aware of what needs to be improved to achieve index eligibility, as the criteria for index inclusion are publicly available in published ground rules.

Public reporting on a company such as reporting of alleged human rights abuses is in some cases covered by third-party data providers and index ground rules are applied to this data. The ground rules of an index will explain whether it is updated on a quarterly, semi-annual or annual basis and so when new information such as regarding a controversy or human rights issue will be taken into account.

3. How to you respond to questions about constituent involvement?

If a company, index user or other stakeholder wants to raise a challenge or complaint about human rights or other ESG issues associated with a company, there is a published challenges and appeals process in the FTSE Russell Guide_to_the_Construction_and_Maintenance_of_FTSE_Exclusion_Lists.pdf. The reasons for proposing a change to the exclusion should be stated by having regard to the guide and attaching any publicly available documentary evidence in support of the claim.

4. How do you engage with third-party suppliers of ESG data?

We engage proactively with the third-party providers of ESG data used in FTSE Russell indices (Guide_to_Third_Party_ESG_Data_used_in_FTSE_Russell_Indices.pdf) to understand their approaches to controversies and human rights and how this impacts index methodologies.

5. How do you ensure that ESG index methodologies remain up to date and in line with best practice regarding controversies and human rights?

To ensure that FTSE Russell indices are constructed, maintained and operated to the highest standards, FTSE Russell employs a robust governance framework to approve new indices and changes to the methodologies of existing indices. The framework combines specialist decision-making bodies with members drawn from first-line executive management, an oversight committee with members drawn from second line (risk and compliance) and third line (audit) management, supported by a set of independent external advisory committees formed of market practitioners with specialist expertise on benchmark methodologies, input data and the underlying market.

The advisory committees help FTSE Russell to ensure that its indices reflect the underlying market and index methodologies (a set of strict rules by which all FTSE Russell indices are governed) evolve appropriately. For more information on the FTSE Russell Sustainable Investment Advisory Committee, please see External Advisory Committees and FTSE_Russell_Governance_Framework.pdf.

Appendix B

Further information

A glossary of terms used in FTSE Russell's Ground Rule documents can be found using the following link:

Glossary.pdf

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

Website: www.lseg.com/en/ftse-russell/

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