

GROUND RULES FOR THE FTSE/JSE RESPONSIBLE INVESTMENT INDEX SERIES



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SECTION 1

1.0 INTRODUCTION

1.1 This document sets out the Ground Rules for the construction and management of the FTSE/JSE Responsible Investment Index Series. The FTSE JSE Responsible Investment Index Series comprises the following:

- The FTSE/JSE Responsible Investment Index, a market capitalisation weighted index calculated in ZAR on an end of day basis.
- The FTSE/JSE Responsible Investment Top 30 Index, an equally weighted index calculated in ZAR on a real time basis.

1.2 Unless specifically detailed in this document, all areas of the methodology regarding the management of the FTSE/JSE Responsible Investment Index Series are the same as those set out in the FTSE/JSE Africa Index Series Ground Rules. These Ground Rules should be read in conjunction with the FTSE/JSE Africa Index Series Ground Rules and the FTSE Global Equity Index Series Ground Rules which can be accessed on the FTSE website.

1.3 The index series has been designed to identify South African companies with leading environmental, social and governance practices.

1.4 Capital and Total Return Indexes are available on an end of day basis in ZAR.

1.5 The base value for the Capital and Total Return indexes is 10,000 as at 20 June 2014.

1.6 FTSE Russell hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index series.

1.7 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index series' rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the index series or any constituent data.

1.8 FTSE Russell

FTSE Russell is a trading name of Frank Russell Company (FRC), FTSE International Limited (FTSE) and FTSE TMX Global Debt Capital Markets, Inc. (FTSE TMX). FRC, FTSE and FTSE TMX are each benchmark administrators of indexes. References to FTSE Russell should be interpreted as a reference to the relevant benchmark administrator for the relevant index.

SECTION 1

1.9 Statement of Principles for FTSE Russell Non Market Capitalisation Weighted Equity Indexes (the Statement of Principles)

Indexes need to keep abreast of changing markets and the Ground Rules cannot anticipate every eventuality. Where the Rules do not fully cover a specific event or development, FTSE Russell will determine the appropriate treatment by reference to the Statement of Principles which summarises the ethos underlying FTSE Russell's approach to index construction. The Statement of Principles is reviewed annually and any changes proposed by FTSE Russell are presented to the FTSE Russell Policy Group for discussion before approval by FTSE Russell's Governance Board.

The Statement of Principles can be accessed using the following link:

http://www.ftse.com/Statement_of_Principles_Non-Market_Cap_Equity_Indexes.pdf

SECTION 2

2.0 MANAGEMENT RESPONSIBILITIES

2.1 FTSE is responsible for the calculation of the FTSE/JSE Responsible Investment Index Series. FTSE will maintain records of the market capitalisation of all constituents and will make changes to the constituents and their weightings in accordance with the Ground Rules. FTSE will implement the resulting constituent changes from the semi-annual review or as otherwise required by the Ground Rules.

2.2 Changes to constituent weightings will be made in accordance with the Ground Rules.

2.3 FTSE Russell is responsible for monitoring the performance of the FTSE/JSE Responsible Investment Index Series throughout the day and will determine whether the status of each index should be 'firm', 'indicative', 'held' or 'closed'. FTSE Russell will inform the JSE of all occasions when an index is not firm in the Official Index Period.

2.4 FTSE ESG Advisory Committee

2.4.1 To assist in the oversight of the FTSE/JSE Responsible Investment Index Series. FTSE Russell has established the FTSE ESG Advisory Committee (the "Committee"). The membership of the Committee includes independent investment professionals experienced in environmental, social and governance factors.

2.4.2 The Committee is responsible for advising on the content and management of the FTSE/JSE Responsible Investment Index Series and the FTSE ESG Ratings and may also recommend changes to those Rules.

2.5 Amendments to these Ground Rules

2.5.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to meet the current and future requirements of investors and other index users. The review process will include approval of any proposed changes by the FTSE Russell Governance Board.

2.5.2 As provided for in Rule 1.19, where FTSE Russell determines that the Ground Rules are silent or do not specifically and unambiguously apply to the subject matter of any decision, any decision shall be based as far as practical on the Statement of Principles. After making any such determination, FTSE Russell shall advise the market of its decision at the earliest opportunity. Any such treatment will not be considered as an exception or change to the Ground Rules, or to set a precedent for future action, but FTSE Russell will consider whether the Ground Rules should subsequently be updated to provide greater clarity.

2.6 Recalculations

2.6.1 The FTSE/JSE Responsible Investment Index Series is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the FTSE/JSE Responsible Investment Index Series are notified through appropriate media.

For further information please refer to the FTSE Russell Recalculation Policy and Guidelines document which is available on the FTSE website using the link below:
www.ftse.com/FTSE_Russell_Index_Recalculation_Policy_and_Guidelines.pdf

SECTION 2

2.7 **Queries and Complaints**

FTSE Russell's complaints procedure can be accessed using the following link:
http://www.ftse.com/products/downloads/Queries_and_Complaints_Policy.pdf

SECTION 3

3.0 ELIGIBLE COMPANIES**3.1 FTSE/JSE Responsible Investment Index**

The eligible universe comprises constituents of the FTSE/JSE Shareholder Weighted All Share Index which are also companies that have securities included in the FTSE All World Index.

3.2 Investment trusts are excluded from the FTSE/JSE Responsible Investment Index Series.

3.3 FTSE/JSE Responsible Investment Top 30 Index

The FTSE/JSE Responsible Investment Top 30 Index comprises the top 30 rated companies included in the FTSE/JSE Responsible Investment Index ranked by FTSE ESG Ratings.

SECTION 4

4.0 INDEX QUALIFICATION CRITERIA

- 4.1 Constituents of the eligible universe that have a FTSE ESG Rating of 2.0 or above qualify as constituent members of the FTSE/JSE Responsible Investment Index. The Methodology for determining FTSE ESG Ratings can be accessed using the following link:

<http://www.ftse.com/FTSE-ESG-Methodology-and-Usage-Summary-Short.pdf?809>

- 4.2 Constituents of the FTSE/JSE Responsible Investment Index with an ESG Rating below 1.8 are at risk of deletion from the FTSE/JSE Responsible Investment Index. If a constituent still has an ESG Rating below 1.8 following a 12 month period they will be deleted unless FTSE Russell approves a longer period.

SECTION 5

5.0 PERIODIC REVIEW OF CONSTITUENTS**5.1 Index Reviews**

- 5.1.1 The FTSE/JSE Responsible Investment Index Series is reviewed semi-annually in June and December, using market data as at the close of the Monday 4 weeks prior to the review effective date.
- 5.1.2 Changes arising from the reviews will be implemented after the close of business on the third Friday (i.e. effective Monday) of June and December.

5.2 Review Process

- 5.2.1 Screen the list of securities for eligibility as detailed in Section 4.
- 5.2.2 The ESG screening will be applied using data as at the close of the last trading day in May and November respectively.

5.3 FTSE/JSE Responsible Investment Top 30 Index**5.3.1 Rules for Insertion and Deletion at the Periodic Review**

Buffers are implemented when reviewing the FTSE/JSE Responsible Investment Top 30 Index to provide stability and reduce turnover in the selection of constituents while ensuring that the Index continues to be representative of environmental, social and governance factors.

- 5.3.2 A security will be inserted at the periodic review if it rises to 27th position or above when the eligible companies are ranked by FTSE ESG Ratings.
- 5.3.3 A security will be deleted at the periodic review if it falls to 34th position or below when the eligible companies are ranked by FTSE ESG Ratings.
- 5.3.4 A constant number of constituents will be maintained in the FTSE/JSE Responsible Investment Top 30 Index. Where a greater number of companies qualify to be inserted in an index than those qualifying to be deleted, the lowest ranking constituents (ranked by FTSE ESG Ratings) presently included in the index will be deleted to ensure that an equal number of companies are inserted and deleted at the periodic review. Likewise, where a greater number of companies qualify to be deleted than those qualifying to be inserted, the securities of the highest ranking companies (ranked by FTSE ESG Ratings) which are presently not included in the index will be inserted to match the number of companies being deleted at the periodic review.
- 5.3.5 In the event two companies have the same FTSE ESG Ratings, the companies will be ranked based on investable market capitalisation.
- 5.3.6 The market capitalisation of a constituent's multiple lines are aggregated for the purposes of ranking.

SECTION 5

5.4 Index Weighting

- 5.4.1 The FTSE/JSE Responsible Investment Top 30 will be equally weighted with each constituent representing 1/30th of the Index at each quarterly review. If a company is comprised of multiple security lines, the weight will be distributed across each line in proportion to their investable market capitalisation.
- 5.4.2 The calculation of the constituent weighting factors will be based on prices taken on the Wednesday before the first Friday of March, June, September and December. The weighting procedure is applied to the FTSE/JSE Responsible Investment Top 30 Index after the close of business on the third Friday of March, June, September and December and will be effective at the start of business on the following business day.

5.5 Intra-review Additions and Deletions

- 5.5.1 There will be no intra-review additions to the FTSE/JSE Responsible Investment Index Series.
- 5.5.2 Any additions to the underlying indexes (see Section 3.0) will be eligible to join the FTSE/JSE Responsible Investment Index Series at a semi-annual review once they have been a constituent of the underlying indexes for a minimum of six months, providing they pass all other eligibility criteria.
- 5.5.3 If a constituent of the underlying indexes is deleted (see Section 3.0) it will also be removed from the FTSE/JSE Responsible Investment Index Series.

5.6 Reserve Lists

- 5.6.1 FTSE Russell will be responsible for publishing the five highest ranking non-constituents of the FTSE/JSE Responsible Investment Top 30 Index at the time of the periodic review (ranked by FTSE ESG Ratings). The Reserve List will be used in the event that one or more constituents are deleted from the FTSE/JSE Responsible Investment Top 30 Index during the period up to the next semi-annual review.

SECTION 6

6.0 CORPORATE ACTIONS AND EVENTS

- 6.1 If a constituent of the FTSE/JSE Responsible Investment Top 30 Index has a stock split, capital repayment, stock consolidation, rights issue, bonus issue, a change in the number of shares in issue or a change in free-float, the constituent's weighting remains unchanged pre and post such an event.
- 6.2 Full details of changes to constituent companies due to corporate actions and events can be accessed in the FTSE Corporate Actions and Events Guide for Non Market Capitalisation Weighted Indexes using the following link:
[FTSE Corporate Actions and Events Guide for Non Market Cap Weighted Indices.pdf](#)
- 6.3 A Corporate 'Action' is an action on shareholders with a prescribed ex date. The share price will be subject to an adjustment on the ex date. These include the following:
- Capital Repayments
 - Rights Issues/Entitlement Offers
 - Stock Conversion
 - Splits (sub-division) / Reverse splits (consolidation)
 - Scrip issues (Capitalisation or Bonus Issue)

A Corporate 'Event' is a reaction to company news (event) that may impact the index depending on the index rules. For example, a company announces a strategic shareholder is offering to sell their shares (secondary share offer) – this could result in a free float weighting change in the index. Where an index adjustment is required FTSE Russell will provide notice advising of the timing of the change.

6.4 Mergers, Takeovers and Demergers

- 6.4.1 The treatment of takeovers, mergers and demergers for the FTSE/JSE Responsible Investment Top 30 Index can be found in the FTSE Corporate Actions and Events Guide for Non Market Capitalisation Weighted Indexes.
- 6.4.2 Where two index constituents merge, or one index constituent is acquired by another constituent, the resulting company will remain a constituent of the FTSE/JSE Responsible Investment Top 30 Index. The highest ranking eligible reserve list company by current FTSE ESG Rating two days prior to deletion will be added to the index. Where two or more of the eligible reserve list companies have the same FTSE ESG Rating, the company with the highest investable market capitalisation will be added to the index.
- 6.4.3 The replacement constituent will be added to the index at the same weight as the company it replaces.
- 6.4.4 If a constituent of the FTSE/JSE Responsible Investment Index Series acquires a non-constituent, the resultant entity will remain a constituent of the index and will be reassessed in full at the next semi-annual review occurring at least 6 months after the takeover.

SECTION 6

6.4.5 If an existing constituent is acquired by a non-constituent, the resultant entity will be deleted from the FTSE/JSE Responsible Investment Index Series. The eligibility of the resultant entity will be assessed in full at the next semi-annual review occurring at least 6 months after the takeover. If such an event occurs in the FTSE/JSE Responsible Investment Top 30 Index, the highest ranking eligible reserve list company by current FTSE ESG Rating will be added to the index at the same weight of the company it replaces. Where two or more of the eligible reserve list companies have the same FTSE ESG Rating, the company with the highest investable market capitalisation will be added to the index.

6.4.6 If a constituent splits and forms two or more companies and any of the new entities are retained in the underlying index (see Section 3.0), those new entities will be retained in the FTSE/JSE Responsible Investment Index Series. The eligibility of the resulting companies will be assessed in full at the next semi-annual review occurring at least 6 months after the demerger. If such an event occurs in the FTSE/JSE Responsible Investment Top 30 Index the lowest ranking constituent by FTSE ESG Rating will be removed from the index. Where both companies have the same FTSE ESG Rating, the company with the lowest investable market capitalisation will be removed from the index.

6.5 Special Circumstances

6.5.1 The FTSE ESG Advisory Committee may, in exceptional circumstances, convene a special meeting to advise on the eligibility of corporate entities arising from corporate events where these give rise to immediate concern as to the eligibility of the resulting companies. FTSE Russell may determine that the circumstances are such that one or more of the resulting companies will be ineligible for the FTSE/JSE Responsible Investment Index Series.

6.5.2 The Committee may examine other special situations that may arise from time to time. It will do so according to a standard framework that allows the Committee to advise on whether changes to the FTSE ESG Ratings Methodology or these Ground Rules are needed as a result of such situations. On extremely rare occasions, individual companies might be deemed by FTSE Russell to be ineligible for the FTSE/JSE Responsible Investment Index Series as a result of such a situation.

APPENDIX A

FURTHER INFORMATION

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

<http://www.ftse.com/products/downloads/Glossary.pdf>

Further information on the FTSE/JSE Responsible Investment Index is available from FTSE.
For contact details please visit the FTSE website or contact FTSE client services at info@ftse.com.

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