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# FTSE Custom UK 150 ESG Leaders Index

v1.0

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## Section 1

# Introduction

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### 1.0 Introduction

- 1.1 This document sets out the Ground Rules for the construction and management of the FTSE Custom UK 150 ESG Leaders Index.
- 1.1.1 The FTSE Custom UK 150 ESG Leaders Index is designed to reflect the performance of a set of top scoring ESG companies selected from FTSE All-Share ex Investment Trusts Index.
- 1.1.2 Prior to the selection of the highest ESG scoring companies, sustainable investment exclusion lists are applied as well as minimum average daily trading turnover and market capitalisation selection criteria.
- 1.1.3 The FTSE Custom UK 150 ESG Leaders Index takes into account ESG factors in its index design.
- 1.1.4 The base currency of the FTSE Custom UK 150 ESG Leaders Index is GBP.
- 1.1.5 These Ground Rules should be read in conjunction with the FTSE UK Equity Index Series Ground Rules and associated index policy documents which are available at [www.ftserussell.com](http://www.ftserussell.com). Unless stated in these Ground Rules, the index will follow the same process as the FTSE UK Equity Index Series.
- 1.1.6 Price and Total Return Indexes will be calculated on a real-time basis. Decrement Indexes will be calculated on an end of day basis.

### 1.2 FTSE Russell

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, The Yield Book Inc and Beyond Ratings.

- 1.2.1 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 or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.
- 1.2.2 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's 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 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 inaccuracies in the compilation of the index or any constituent data.

## Section 2

# Management Responsibilities

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## 2.0 Management Responsibilities

### 2.1 FTSE International Limited (FTSE)<sup>1</sup>

2.1.1 FTSE is the benchmark administrator of the index series.

2.1.2 FTSE is responsible for the daily calculation, production and operation of the index series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indices.

### 2.2 Amendments to These Ground Rules

2.2.1 These Ground Rules shall be subject to regular review (at least once a year) by FTSE Russell to ensure that they continue to best reflect the aims of the index. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Index Governance Board before approval is granted.

As provided for in the Statement of Principles for FTSE Russell Equity Indices, 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 Rules should subsequently be updated to provide greater clarity.

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<sup>1</sup> The term administrator is used in this document in the same sense as it is defined in [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).

## Section 3

# Custom Inclusion Criteria

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### 3.0 Custom Inclusion Criteria

#### 3.1 Exclusions applied

- 3.1.1 At the quarterly reviews in March, June, September and December the FTSE All-Share ex-Investment Trusts Index is ranked by investable market capitalisation (multiple lines are not combined) and the stock lines exceeding 1.5 billion Pounds Sterling are selected for further screening for inclusion in the FTSE Custom UK 150 ESG Leaders Index.
- 3.1.2 The companies selected in step 3.1.1 above are sorted by average daily turnover in the last 120 trading days<sup>2</sup>. Companies which have less than 120 days of trading history are excluded. Companies with the average daily traded volume in the 120 days prior to the assessment day below 3 million Pounds Sterling are excluded.
- 3.1.3 Following step 3.1.2, any remaining companies with involvement in certain products or conduct (see Appendix A) are excluded.
- 3.1.4 At the final step, the companies remaining after exclusions at step 3.1.3 are sorted by the latest available ESG rating in descending order. In case of equal ESG rating, companies with higher investible market capitalisation are ranked above the companies with lower market capitalisation. The highest ranked 150 companies are selected for inclusion in the FTSE Custom UK 150 ESG Leaders Index. If the number of companies after step 3.1.3 is less than 150 companies, all companies after step 3.1.3 are included in the index.

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<sup>2</sup> Prior to the Wednesday before the first Friday of the review month.

## Section 4

# Sustainable Investment Data Inputs

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### 4.0 Sustainable Investment Data Inputs

#### 4.1 SI data used in this index

4.1.1 This section outlines the sources of data used in the construction of this index.

4.1.2 Please see the Guide to FTSE and Third Party Sustainable Investment Data at the following link for more information on SI datasets and the processes around these:

[Guide to FTSE and Third Party Sustainable Investment Data used in FTSE Russell Indices.pdf \(ftserussell.com\)](https://www.ftserussell.com/Guide-to-FTSE-and-Third-Party-Sustainable-Investment-Data-used-in-FTSE-Russell-Indices.pdf)

#### 4.2 ESG Scores data

4.2.1 ESG Scores are sourced from FTSE Russell Sustainable Investment Data. Detail on this dataset is provided in Appendix A and B of the Guide to FTSE and Third Party Sustainable Investment Data.

#### 4.3 Conduct- and product-related exclusion data

4.3.1 FTSE Russell maintains exclusion lists for the purpose of applying product and conduct exclusions to indices. Exclusion Lists are maintained according to the following guide:

4.3.2 [Guide to the Construction and Maintenance of FTSE Exclusion Lists.pdf](#)

#### 4.3.3 Conduct-related data source

Data for conduct-related exclusions is sourced from Sustainalytics. Further details of the use of Sustainalytics data can be found in the [Guide to FTSE and Third Party Sustainable Investment Data](#).

#### 4.3.4 Product involvement exclusion data sources

Product involvement data for exclusions within the categories of Nuclear Weapons, Cluster Munitions, Anti-Personnel Landmines, Chemical & Biological Weapons and Fossil Fuel Reserves are sourced from FTSE Russell Sustainable Investment Data.

Product involvement data for certain exclusions within the categories of Vice Products (Alcohol, Gambling and Tobacco), Non-Renewable Energy (Thermal Coal, Oil and Gas extraction, production and energy generation) and Military Weapons are sourced from a third party provider, Sustainalytics. This data is subject to regular quality checks to identify discrepancies and ensure accuracy; these checks include trend analysis to assess data quality and detailed review of underlying data for significant score changes. Further details of the use of Sustainalytics data can be found in the [Guide to FTSE and Third Party Sustainable Investment Data](#).

#### 4.4 Intra-review Exclusion Changes

If the exclusion status of an existing constituent of the underlying index changes due to a corporate action or event, the consequent change to the membership of the FTSE Custom UK 150 ESG Leaders Index will be considered at the next index review. Further details on the treatment of events leading to intra-review exclusion status changes is set out in Guide to the Construction and Maintenance of FTSE Exclusion Lists which can be accessed using the following link:

[Guide to the Construction and Maintenance of FTSE Exclusion Lists.pdf](#)

#### 4.5 Sustainable Investment Metrics

- 4.5.1 Please see the FTSE Russell [Sustainable Investment Metrics](#) website for the scores and values of the environmental, social and governance (ESG) factors listed in Annex II to Delegated Regulation (EU) 2020/1816 for the benchmarks within this index series.



## Section 5

# Periodic Review of Constituents

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### 5.0 Periodic Review of Constituents

#### 5.1 Index Reviews

- 5.2 The FTSE Custom UK 150 ESG Leaders Index is reviewed quarterly in March, June, September and December.
- 5.3 The index review will use market, ESG and exclusion lists' data as at the close of business on the Tuesday before the first Friday of the rebalance month.
- 5.4 Changes arising from the quarterly review of the underlying index will be implemented after the close of trading on the third Friday in March, June, September and December and will be implemented at the start of the next trading day.
  - 5.4.1 Deletions from the FTSE All-Share ex-Investment Trusts due to quarterly reviews are removed from the exclusion list.

## Section 6

# Corporate Actions and Events

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### 6.0 Corporate Actions and Events

- 6.1 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide using the following link:

[Corporate Actions and Events Guide.pdf](#)

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 will provide notice advising of the timing of the change.

### 6.2 Intra-review additions

- 6.2.1 If a constituent is added to the Underlying Index, for example as a fast entrant, it will not automatically be added to the FTSE Custom UK 150 ESG Leaders Index. Eligibility of the new entity will be assessed in full at the next index review.

### 6.3 Mergers and takeovers

- 6.3.1 Where two FTSE Custom UK 150 ESG Leaders Index constituents merge, or one FTSE Custom UK 150 ESG Leaders Index constituent is acquired by another constituent, the resulting company will remain a constituent
- 6.3.2 If a constituent of the FTSE Custom UK 150 ESG Leaders Index acquires a non-constituent, the resultant entity will remain a constituent of the index.

If an existing constituent is acquired by a non-constituent, the resultant entity will be deleted from the FTSE Custom UK 150 ESG Leaders Index. The eligibility of the resultant entity will be assessed in full at the next review.

#### 6.4 **Shares in Issue**

- 6.4.1 Changes to the number of shares in issue for constituent securities are covered in the Corporate Actions and Events Guide.

#### 6.5 **Investability Weightings**

- 6.5.1 Changes to free float for constituent securities are covered in the Corporate Actions and Events Guide.



# Appendix A: Product and Conduct Exclusion Criteria

As per Rule 3.1.3 of these Ground Rules, at each quarterly review, FTSE Russell will exclude companies from the relevant underlying eligible universe that meet the criteria in the tables below.

## Product-Related Exclusions

	Product Involvement Categories	Involvement Threshold for Exclusion	Data Source
Non-Renewable Energy	<b>Fossil Fuel Reserves - Coal, Oil &amp; Gas</b>		
	Companies that own proved or probable reserves in coal, oil or gas	Equal to or greater than 50% ownership	FTSE Russell
	<b>Thermal Coal - Extraction</b>		
	Companies extracting thermal coal	Greater than 0% of revenues	Sustainalytics
	Companies with significant ownership of other companies extracting thermal coal	Greater than 10% ownership	Sustainalytics
	<b>Thermal Coal - Generation</b>		
	Companies generating electricity from thermal coal	Equal to or greater than 10% of capacity	Sustainalytics
	Companies with significant ownership of other companies generating electricity from thermal coal	Greater than 10% ownership	Sustainalytics
	<b>Oil &amp; Gas - Production</b>		
	Companies involved in oil and/or gas exploration, production, refining, transportation or storage	Equal to or greater than 10% of revenues	Sustainalytics
	<b>Arctic Oil &amp; Gas Exploration</b>		
	Companies involved in oil and gas exploration in Arctic regions	Equal to or greater than 10% of revenues	Sustainalytics
	<b>Oil Sands Extraction</b>		
	Companies involved in oil sands extraction	Equal to or greater than 10% of revenues	Sustainalytics
	<b>Shale Energy</b>		
	Companies involved in shale energy exploration and/or production	Equal to or greater than 10% of revenues	Sustainalytics
Vice Products	<b>Alcohol</b>		
	Companies manufacturing alcoholic beverages	Equal to or greater than 5% of revenues	Sustainalytics
	Companies supplying alcohol-related products/services to alcoholic beverage manufacturers	Equal to or greater than 10% of revenues	
	Companies involved in distribution and/or retail sale of alcoholic beverages	Equal to or greater than 10% of revenues	
	<b>Gambling</b>		
	Companies that own and/or operate a gambling establishment	Equal to or greater than 5% of revenues	Sustainalytics
	Companies manufacturing specialized equipment used exclusively for gambling	Equal to or greater than 10% of revenues	

	Companies providing supporting products/services to gambling operations	Equal to or greater than 10% revenues	
	<b>Tobacco</b>		
	Companies manufacturing tobacco products	Greater than 0% of revenues	Sustainalytics
	Companies supplying tobacco related products/services	Equal to or greater than 5% of revenues	
	Companies involved in distribution and/or retail sale of tobacco products	Equal to or greater than 5% of revenues	
<b>Weapons</b>	<b>Chemical &amp; Biological Weapons</b>		
	Companies that produce chemical or biological weapons and their components, including all precursors, munitions, devices or equipment specifically designed for, and used directly in connection with, these weapons	Greater than 0% of revenues	FTSE Russell
	<b>Cluster Munitions</b>		
	Companies that produce cluster munitions as defined in the Convention on Cluster Munitions, or that produce specific and critical parts or services for cluster munitions	Greater than 0% of revenues	FTSE Russell
	<b>Anti- Personnel Landmines</b>		
	Companies that produce anti-personnel mines as defined in the “1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction”, or that produce specific and critical parts or services for anti-personnel mines	Greater than 0% of revenues	FTSE Russell
	<b>Nuclear Weapons</b>		
	Companies that produce nuclear weapons or their components. This includes companies that provide delivery systems (e.g. ballistic missile submarines) or critical services (e.g. maintenance or IT) that are directly related to and specifically designed for nuclear weapons	Greater than 0% of revenues	FTSE Russell
	<b>Conventional Military Weapons</b>		
	Companies manufacturing military weapons systems and/or integral, tailor-made components or these weapons	Greater than 0% of revenues	Sustainalytics
	Companies providing tailor-made products and/or services that support military weapons	Equal to or greater than 5% of revenues	
	Companies providing non-weapons related tailor-made products and/or services related to the military or defense industry	Equal to or greater than 5% of revenues	

## Conduct-Related Exclusions

	Exclusions	Data Source
Controversies	<b>Human Rights</b> Companies causing or contributing to, or at risk of causing or contributing to, severe or systematic violations of norms related to Principles 1 and 2 of the UN Global Compact, which are 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.	Sustainalytics
	<b>Labour</b> Companies causing or contributing to, or at risk of causing or contributing to, severe or systematic violations of norms related to Principles 3, 4, 5, and 6 of the UN Global Compact, which are derived from the International Labour Organization'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.	
	<b>Environment</b> Companies causing or contributing to, or at risk of causing or contributing to, severe or systematic violations of norms related to Principles 7, 8, and 9 of the UN Global Compact, which are 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.	
	<b>Anti-Corruption</b> Companies causing or contributing to, or at risk of causing or contributing to, severe or systematic violations of norms 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.	



## Appendix B: Further Information

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

[Glossary.pdf](#)

For further information on the FTSE Custom UK 150 ESG Leaders Index please email FTSE Russell client services at [info@ftserussell.com](mailto:info@ftserussell.com).

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