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Ground Rules for the Management of the FTSE ECPI Italia SRI Index Series

FTSE
THE INDEX COMPANY

Contents

SECTION 1

1. Introduction

1.1. This paper sets out the Ground Rules for the Management of the FTSE ECPI Italia SRI Index Series. Copies of the Ground Rules are available from www.ftse.com.

1.2. The FTSE ECPI Italia SRI Index Series is designed to create a family of benchmark and tradable sustainable and responsible (SRI)indices for the Italian market that tracks the performance of companies following leading environmental, social and governance (ESG) practices.

1.3. The FTSE ECPI Italia SRI Index Series is made up of the following Indices:

- FTSE ECPI Italia SRI Benchmark Index
- FTSE ECPI Italia SRI Leaders Index

1.4. All indices are calculated in EUR, Price and Total Return versions will be calculated for each index. Price Indices are calculated in real time. Total Return indices are calculated at the end of the day.

SECTION 2

2. Status of Indices

2.1. The FTSE ECPI Italia SRI Benchmark Index and FTSE ECPI Italia SRI Leaders Index are calculated in real time and may exist in the following states:

a. Firm

The Indices are active and being calculated during Official Market hours (see Appendix A).

b. Closed

When the indices have ceased all calculations for the day, the message 'CLOSED' is displayed against the index value.

c. Held

During the firm period, the index has exceeded pre-set operating parameters and calculation has been suspended pending resolution of the problem. The message 'HELD' is displayed against the last index value calculated.

d. Indicative

If there is a system problem or a situation in the market that is judged to be affecting the quality of the constituent prices at any time when the index is being calculated, the index will be declared indicative. The message 'IND' will be displayed against the index value.

e. Part

If the index is being calculated during the normal Official Index Period hours, but there are less than 75% of the constituents by capitalisation available with firm prices, then the index will be displayed with the message 'PART' to indicate that only a proportion of the securities prices are included. With the exception of the message 'PART', the index will continue to be calculated and displayed as if it were firm.

2.2. The official opening and closing hours of the FTSE ECPI Italia SRI Index Series is set out in Appendix A. Variations to the official hours of the Index will be published by FTSE.

2.3. The FTSE ECPI Italia SRI Index Series is calculated and published on all days when Borsa Italiana is open for trading.

SECTION 3

3. Management Responsibilities

3.1. FTSE International Limited (FTSE)

3.1.1. FTSE is responsible for the operation of the FTSE ECPI Italia SRI Index Series. FTSE maintains records of the market capitalisation of all constituents, and makes changes to the constituents and their weightings in accordance with the Ground Rules. FTSE conducts the index reviews and implements the resulting constituent changes as required by the Ground Rules.

3.1.2. Changes to constituent weightings are made by FTSE in accordance with the Ground Rules. FTSE is responsible for recording all constituent weighting changes. Constituent weightings in the real time indices shall be used in the calculation of the end of day indices. .

3.1.3. FTSE is also responsible for monitoring the performance of the FTSE ECPI Italia SRI indices throughout the day and will determine whether the status of each index should be Firm, Indicative, Held or Part (see Rule 2.1).

3.2. ECPI

3.2.1. ECPI has been a leading independent provider of sustainability research since 1997. ECPI research is conducted according to the industry-recognised parameters of ESG, i.e. Environmental risk, Social impact, and Corporate Governance structure. ECPI is responsible for company analysis and rating for the indices.

3.3. Re-Calculations

3.3.1. The FTSE ECPI Italia SRI Index Series is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the Index Series are notified.

3.4. Status of These Ground Rules

3.4.1. These Ground Rules are a guide to the policies and procedures applying at the date of publication to the operation and maintenance of the FTSE ECPI Italia SRI Index Series. They have been prepared and approved by FTSE. However, these policies and procedures, and their precise application, are subject to variation and periodic review.

3.4.2. The purpose of publishing this guide is to provide information about the general basis on which decisions relating to the calculation and publication of the FTSE ECPI Italia SRI Index Series are currently made.

3.4.3. In light of the intended purpose of this guide, and the likely variation and periodic review of the policies and procedures it contains, no liability whether as a result of negligence or otherwise is accepted by FTSE, ECPI (or any person concerned with the preparation or publication of this guide) for any losses, damages, claims and expenses suffered by any person as a result of:

- Any reliance on this guide, and/or
- Any errors or inaccuracies in this guide, and/or
- Any non-application or misapplication of the policies or procedures described in this guide, and/or
- Any errors or inaccuracies in the compilation or any constituent data.

SECTION 4

4. Eligible Securities

4.1. **FTSE ECPI Italia SRI Benchmark Index**

The universe of eligible constituents is large and mid cap constituents from the FTSE Italia All-Share Index (i.e. the FTSE MIB and FTSE Italia Mid Cap index constituents).

4.2. **FTSE ECPI Italia SRI Leaders Index**

The eligible universe are constituents of the FTSE ECPI Italia SRI Benchmark Index.

FTSE ECPI Italia SRI Benchmark Index

SECTION 5

5. Index Qualification Criteria

To be included in the index, a stock must pass free float and liquidity criteria.

5.1. **Free Float**

The entire listed equity capital of a constituent security is included in the calculation of its market capitalisation, subject to exclusion of treasury shares (independently from the size of their stake) and free float restrictions. To be included in the index, a stock must pass free float and liquidity criteria.

5.1.1. **Free float restrictions (strategic holdings) include:**

a. All shareholders holding 5% or more of the shares outstanding of the specific share class.

b. Legally binding control block (patti di sindacato): when their weight is 5% or more, all the individual shareholders with stakes less than 5% are excluded from the free float.

c. Treasury shares are always excluded from the free-float, independently from the size of their stake.

5.1.2. **The following are not considered as restricted free float even when their stakes are above the 5% threshold:**

a. Mutual funds and SICAV.

b. Pension funds.

5.1.3. **Free Float Bands**

Free float restrictions are calculated using available published information. The initial weighting of a constituent in the index will be applied in the following bands.

If the free float is:

Less than or equal to 15%	=	see rule (5.1.4)
Greater than 15% but less than or equal to 20%	=	20%

Greater than 20% but less than or equal to 30%	=	30%
Greater than 30% but less than or equal to 40%	=	40%
Greater than 40% but less than or equal to 50%	=	50%
Greater than 50% but less than or equal to 75%	=	75%
Greater than 75%	=	100%

5.1.4. However, a security that has a free float greater than 5% but less than or equal to 15% will be eligible for the index providing the security's full market Capitalisation (before the application of any investability weight) is greater than USD 5bn. This does not apply to a security, which following a take-over offer, has a remaining free float of 15% or less).

5.1.5. **Free float review**

Underlying data for the calculation of free float is collected on an ongoing basis and the detailed free float percentage as maintained by FTSE is updated accordingly. The primary source of shareholder information for Italian companies is CONSOB (Commissione Nazionale per le Società e la Borsa).

5.1.6. Following the application of an initial free float restriction, a constituent's free float will only be changed if its actual free float moves to more than 5 percentage points above the minimum or 5 percentage points below the maximum of an adjacent new band. This 5 percentage points threshold does not apply if the change is greater than one band; therefore a movement of 10 percentage points for the bands between 20% and 50% and 25 percentage points for the bands between 50% and 100% will not be subject to the 5 percentage point threshold. The 15% limit in section 5.1.4 will also not be subject to the 5 percentage point threshold. On a quarterly basis, all constituents free float are updated to the correct band.

5.1.7. **Corporate events and actions**

A constituent's free float will also be reviewed and adjusted if necessary upon identification of information which necessitates a change in free float weighting or following a corporate event. If the corporate event includes a corporate action which affects the index, any change in free float will be implemented at the same time as the corporate action. If there is no corporate action, the change in free float will be applied as soon as practicable after the corporate event. Please refer to section 7.7.1 for the effect of such a change to the market capitalisation of the FTSE ECPI Italia SRI Leaders Index.

5.2. **Liquidity**

5.2.1. Each share is tested for liquidity on a quarterly basis by calculation of its median daily trading per month. The median trade is calculated by ranking each daily trade total and selecting the middle ranking day. Daily totals with zero trades are included in the ranking; therefore a security that fails to trade for more than half of the days in a month will have a zero median trade.

5.2.2. Share which do not turnover at least 0.025% of their shares in issue (after the application of any investability weightings) based on their median daily trade per month in ten of the twelve months prior to a full market review, are not eligible for inclusion in the Index Series.

5.2.3. An existing constituent which does not turnover at least 0.02% of its shares in issue (after the application of any investability weightings) based on their median daily trade per month in eight of the twelve months prior to a full market review, will not be eligible for inclusion in the Index Series.

5.3. **Index Inclusion Criteria**

5.3.1. The indices will select constituents according to the following criteria

- **FTSE ECPI Italia SRI Benchmark Index**

  The index is a broad benchmark composed of ordinary stocks issued by companies that demonstrate good ESG practice. All eligible companies will be given one of nine ESG rankings from EEE (highest) to F (lowest). All companies ranked E+ and above will be included. The index is weighted according to free-float adjusted market-cap and is also capped to reduce the concentration of large constituents (see Appendix B).

- **FTSE ECPI Italia SRI Leaders Index**

  FTSE ECPI Italia SRI Leaders Index is composed of a small basket of Italian ESG Leaders. Only stocks rated EE or above, according to ECPI, will be included. The index will be equal weighted to ensure equal exposure to all Italian ESG Leaders.

5.3.2. The index inclusion criteria measure the quality of a company's environmental and social performance and corporate governance structure through a series of measures in these areas:

Environmental	Environmental Strategy and Policy
	Environmental Management
	Production Process (industry specific)
	Products (industry specific)
Social	Employees and Human Capital
	Community Relations
Governance	Markets
	Corporate Governance & Shareholders

5.3.3. Each company is given a score in two areas: Environmental and Social & Governance, which are combined to produce an overall ESG rating from "EEE" to "F" along nine notches:

Rating	Level	Definition
EEE EEE-	Very good	Companies display innovative long-term strategic attitudes, strong operational management and proactive contribution towards society and the environment.
EE+ EE EE-	Good	Companies display clear long-term strategic attitudes, sound operational management and positive contribution towards society and the environment.

E+ E E-	Fair	Companies display basic long-term strategic attitude, standard operational management and average contribution towards society and the environment.
F	Poor	Companies display poor long-term strategic attitude, weak operational management and ineffective/negative contribution towards society and the environment.

5.3.4. All research and rating of companies is carried out by ECPI.

SECTION 6

6. Periodic Review of Constituents

6.1. Review Dates

6.1.1. The FTSE ECPI Italia SRI Index Series will be reviewed on a quarterly basis in March, June, September and December using market data as at the close of business in February, May, August and November respectively. Changes to the FTSE ECPI Italia SRI Index Series will be implemented after close of business on the third Friday in March, June, September and December.

6.2. Steps for Conducting a Review of the FTSE ECPI Italia SRI Benchmark Index

6.2.1. The eligible universe for the FTSE ECPI Italia SRI Benchmark Index is all the large and mid cap constituents from the FTSE Italia All-Share Index.

6.2.2. All eligible stocks are ranked in descending order by their ESG ranking. There are nine ESG rankings: EEE+ (highest), EEE-, EE, EE-, E+, E- and F (lowest).

6.2.3. All eligible stocks whose ESG rank is E+ or above will be included in the FTSE ECPI Italia SRI Benchmark Index.

6.2.4. Any constituents whose weights are greater than 10 for the FTSE ECPI Italia SRI Benchmark Index are capped at 10% (refer rule 6.4).

6.2.5. Constituents in the FTSE ECPI Italia SRI Benchmark Index are weighted by their investable market capitalisation (free float adjusted).

6.3. Steps for Conducting a Review of the FTSE ECPI Italia SRI Leaders Index

6.3.1. The eligible universe for the FTSE ECPI Italia SRI Benchmark Index is all the large and mid cap constituents from the FTSE Italia All-Share Index.

6.3.2. All eligible stocks are ranked in descending order by their ESG ranking. There are nine ESG rankings: EEE (highest), EEE-, EE, EE-, E+, E-, and F (lowest).

6.3.3. All eligible stocks whose ESG rank is EE or above will be included in the FTSE ECPI Italia SRI Leaders Index

6.3.4. Buffers are implemented when reviewing the FTSE ECPI Italia SRI Leaders Index to provide stability and reduce turnover in the selection of constituents while ensuring that the index continues to be representative of the market by including or excluding those securities which have risen or fallen significantly.

- If an index constituent falls below the ESG Rating inclusion threshold of EE but retains an ESG Rating of EE-, the constituent will not be removed from the index.

6.3.5. Constituents in the FTSE ECPI Italia SRI Leaders Index will be equally weighted quarterly using prices adjusted for corporate events as at the close of business on the close of business on the last trading day in February, May, August and November.

6.4. Capping Date

6.4.1. The constituents of the FTSE ECPI Italia SRI Benchmark Index are capped quarterly at the close of business on the third Friday in March, June, September and December. The Index is capped using prices adjusted for corporate events as at the close of business on the third Friday in March, June, September and December based on the constituents, shares in issue and free float.

6.4.2. Capping Methodology

The constituents of the FTSE ECPI Italia SRI Benchmark Index are capped at the time of the quarterly reviews to reduce concentration for constituents that are considered overweighed in the index. The capping methodology is described in more detail in Appendix 'B'.

SECTION 7

7. Changes to Constituent Shares

7.1. Additions

There are no intra review additions for the FTSE ECPI Italia SRI Index Series. If a constituent is added to the underlying universe (see section 4.0), it will only be considered for inclusion at the next quarterly review.

7.2. Deletions and Replacements

7.2.1. A security will be deleted from the FTSE ECPI Italia SRI Index Series when the constituent is removed from the FTSE Italia All-Share Index.

7.3. Mergers, Restructuring and Complex Takeovers

7.3.1. Mergers / Takeovers between Constituents

If the effect of a merger or takeover is that one constituent in a particular index is absorbed by another constituent, then the resulting company will remain a constituent of the appropriate index.

7.3.2. Mergers / Takeovers between a Constituent and a Non-Constituent

In the case of a constituent taken over by a non-constituent, the resultant entity will not be eligible for inclusion in the particular index. The eligibility of the resultant entity will be assessed in full at the next quarterly review.

If an existing constituent is acquired for cash, or ineligible paper, or by a non-quoted security in its own or another country, then the existing constituent is deleted on the effective date of the acquisition from the relevant Index.

In the case of a non-constituent taken over by a constituent, the resultant entity will remain in the particular index. The eligibility of the resultant entity will be assessed in full at the next quarterly review.

7.4. Splits / Demergers

7.4.1. If a constituent security is split and forms two or more companies, then the resulting companies remain constituents of the appropriate index.

7.5. **Suspension of Dealing**

7.5.1. Where a constituent is suspended it may remain in the FTSE ECPI Italia SRI Index Series, at the price at which it is suspended for up to 10 business days. During this time on advice from FTSE may agree to delete the constituent immediately either at its suspension price or at a value of zero. This change will be effected after the close of the index calculation and prior to the start of the index calculation on the following day. Removing a constituent at zero indicates that the stock is believed to be valueless.

7.5.2. When a suspension of a constituent lasts beyond noon on the tenth business day (and the option to remove the constituent has not been exercised), the constituent will normally be deleted from the index on the eleventh trading day, either at its suspension price or at zero.

7.5.3. A stock, whose trading halt is lifted after it has been removed from an index, will be reviewed for index eligibility at the next quarterly review.

7.6. **Re-listing of Suspended Constituents**

Eligible relists will be included as long as such securities are constituents in the FTSE Italia All-Share Index and subject to the required ESG rankings.

7.7. Other Corporate Actions

7.7.1. The FTSE ECPI Italia SRI Leaders Index is an equally weighted index. In order that the weight of constituents in this index is unchanged due to corporate actions the market capitalisation of the FTSE ECPI Italia SRI Leaders Index will be adjusted following a corporate action or event. The table below summarises the appropriate treatments:

Corporate Actions and Events	Adjustment to Constituent Index Market Capitalisation
Treatment of all stock mergers between:	
Index constituents	Yes
Index constituent acquiring a non-constituent	Yes
Treatment of stock & cash merger between	
Index constituents	Yes
Index constituent acquiring a non-constituent	Yes
Treatment Spin-Offs:	
Spun-off entity added to the index	No
Spun-off entity not added to the index (capital repayment)	Yes
Treatment of Capital Repayments	
Standard special dividend	No
Result of bonus in different line of stock	No
Treatment of Rights Issues	Yes
Treatment of Splits, Bonus & Scrip issues	No
Change in Shares in Issue (if >10% or 2bn)	Yes
Corporate Event that results in a free float change	Yes

SECTION 8

8. Changes to Constituent Weightings for the FTSE ECPI Italia SRI Benchmark Index

8.1. For the purposes of computing the FTSE ECPI Italia SRI Benchmark Index and to prevent a large number of insignificant weighting changes, the number of shares in issue for each constituent security is amended only when the total shares in issue held within the calculation system changes by more than 10% on a cumulative basis.

8.2. Adjustments to reflect a major change in the amount or structure of a constituent security's issued capital are made before the start of the index calculation on the day on which the change takes effect (e.g. the Ex Date for a rights or Capitalisation issue), for all cases where there is a placement guarantee. In case of absence of placement guarantee, adjustments are done once the closing of the corporate action is publicly announced. Announcements of corporate events, which are made after the close of the index calculation, are normally deemed to be made on the following day.

8.3. Changes of shares in issue not arising from corporate actions, amounting to less than 10% of the number of shares in issue are made quarterly after the close of business on the third Friday of March, June, September and December.

8.4. If accumulated changes in the number of shares in issue add up to 10% or more or when an accumulated share change represents USD 2bn of a security's total market capitalisation, they are implemented between quarters. A minimum of 4 days notice will be given to users of the index. WM/Reuters Spot Rates will be used to convert the market capitalisation into USD. The USD 2bn threshold may be adjusted annually in December by FTSE. If an adjustment is made, it will be applied for the first time at the next review in June of the following year.

8.5. All adjustments are made before the start of the index calculations on the day concerned, unless market conditions prevent this.

SECTION 9

9. Index Calculation

9.1. Prices

The FTSE ECPI Italia SRI Index Series will use the last price from actual trades on MTA electronic share trading platform, of the Borsa Italiana during Official Market Hours.

9.2. Calculation Frequency

The FTSE ECPI Italia SRI Index Series will be calculated in real-time and published every 15 seconds during their opening hours using real time prices.

9.3. Index Calculation

9.3.1. All indices within the FTSE ECPI Italia SRI Index Series will be displayed to two decimal points.

9.3.2. The FTSE ECPI Italia SRI Index Series is calculated using the following formula:

$$\sum \frac{((p^n_1 \bullet e^n_1) \bullet s^n_1 \bullet f^n_1 \bullet c^n_1)}{d}$$

n = 1,2,3..........,n

Where,

n	=		The number of securities in the Index.
p_i	=	Price	The latest trade price of the component security (or the at the close of the Index on the previous day).
e	=	Exchange Rate	The exchange rate required to convert the security's home currency into the index's base currency.
s_i	=	Shares in Issue	The number of shares in issue used by FTSE for the security, as defined in these Ground Rules.
f_i	=	Investability Weight	The factor to be applied to each security to allow amendments to its weighting, expressed as a number between 0 and 1, where 1 represents a 100% free float.

			The Investability Weighting factor for each security is published by FTSE.
c	=	Capping Factor	The factor applied to each security to allow its weight within the index to be Capped, expressed as a number between 0 and 1 where 1 represents 100%, i.e. no Cap. The Capping factor is published by FTSE.
d	=	Divisor	A figure that represents the total issued share Capital of the Index at the base date. The divisor can be adjusted to allow changes in the issued share Capital of individual securities to be made without distorting the Index.

APPENDIX A: Index Opening and Closing Hours

Index Opening and Closing Hours

Index	Open	Close
FTSE ECPI Italia SRI Leaders Index	09:01	17:30*
FTSE ECPI Italia SRI Benchmark Index	09:01	17:30*

Notes:

- *Subject to receipt of final closing prices.
- Timings are CET.
- The index will not be calculated when Borsa Italiana markets are closed.

APPENDIX B: Capping Methodology

The algorithm is applied to each constituent of the FTSE ECPI Italia SRI Benchmark Index that requires capping.

$$\text{Constituent capping factor} = \frac{\left(\left(\frac{\sum(P^n{}_1 \bullet S^n{}_1 \bullet F^n{}_1)}{I}\right)Z\right)}{cap_a}$$

P	=	the official closing price of the uncapped security
S	=	the shares in issue for each uncapped security
F	=	the free float factor of the uncapped security
I	=	percentage of the index represented by all uncapped constituents
Z	=	percentage capping level
cap_a	=	Uncapped investable market capitalisation of the constituent to be capped (P * S * F)

Capping is applied to the constituents of the FTSE ECPI Italia SRI Benchmark Index by the following methodology:-

Stage 1

Any constituents whose weights are greater than 10% are capped at 10%. The weights of all lower ranking constituents are increased correspondingly. The weights of lower ranking constituents are then checked and if they exceed 10% they are also capped at 10%. This process is repeated until no constituent weight exceeds 10%.

Stage 2

Following the application of Stage 1, if the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, the procedure moves onto Stage 3 below. Otherwise no further action is required.

Stage 3

a) If more than one stock is capped at 10%, then weights of all subsequent constituents previously capped at 10% are changed in accordance with the rules detailed below. For example, if the second largest stock is capped at 10% its weight will be reduced to 9% as given in b) below. The process is then continued from the relevant point in the steps below. Thus, if it is necessary to apply the provisions of Stage 3, only one constituent will have a 10% weight in the index.

b) If the weight of the second largest constituent is greater than 9% the constituent's weight is capped at 9% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.

c) If the weight of the third largest constituent is greater than 8% the constituent's weight is capped at 8% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.

d) If the weight of the fourth largest constituent is greater than 7% the constituent's weight is capped at 7% and the weights of the lower ranking constituents are increased correspondingly. Following this procedure if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.

e) If the weight of the fifth largest constituent is greater than 6% the constituent's weight is capped at 6% and the weights of the lower ranking constituents are increased correspondingly. Following these procedures if the total index weight of those constituents whose individual weights exceed 5%, is greater than 40% the procedure moves onto the next stage below.

f) If the weights of the sixth largest constituent and any lower ranking constituents are greater than 4% those constituents' weights are capped at 4% and the weights of lower ranking constituents are increased correspondingly.

Stage 4

Following the application of Stage 3, the weights of each constituent are checked. If the total index weight of those constituents whose individual weights exceed 5% is greater than 40% in aggregate, then further capping is required. Firstly, if the largest constituents' weight has risen above 10% the weight is again capped at 10% and the weights of other constituents are adjusted accordingly. Then Stage 3 is repeated.

APPENDIX C: Contact Details

For further information and enquiries log on to: www.ftse.com

Enquiries should be addressed in the first instance to:

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