

# Nasdaq Future Global Sustainability Leaders Index Methodology

## Index Description

An increasing number of Australian investors are seeking a passively managed portfolio of global stocks which takes account of key environmental, social and governance (ESG) concerns. Furthermore, responsible investors are looking to avoid exposure to the fossil fuel industry and climate change risk, and instead are actively seeking investment in those companies considered to be climate leaders.

The Nasdaq Future Global Sustainability Leaders Index is an opportunity for responsible investors in Australia to access a genuinely fossil fuel free and ESG screened passive global investment portfolio.

## Index Calculation

The Nasdaq Future Sustainability Global Leaders Index is a float adjusted modified market cap weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares, of each of the Index Securities multiplied by each such security's Last Sale Price<sup>1</sup>, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for reporting purposes. The Index began on November 23, 2016 at a base value of 1000.

The formula for index value is as follows:

Aggregate Adjusted Market Value/Divisor

The formula for the divisor is as follows:

(Market Value after Adjustments/Market Value before Adjustments) X Divisor before Adjustments

Three versions of the Index are calculated in AUD:

- The price return index (Nasdaq: NQFGSL) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: NQFGSLT) reinvests cash dividends on the ex-date.
- The net total return index (Nasdaq: NQFGSLN) reinvests cash dividends on the ex-date based on an Index security's country of incorporation withholding rate.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated during the trading day and are disseminated once per second, five (5) days a week, Monday through Friday, starting by the earliest time zone Asia/Tokyo

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<sup>1</sup> For purposes of this document, Last Sale Price refers to the last regular way trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used.

and close by the latest time zone America/New York.

## Eligibility

Index eligibility is limited to specific security types only. The security types eligible for the index include common stocks, ordinary shares, depositary receipts, shares of beneficial interest and REITs.

## Eligibility Criteria

To be eligible for inclusion in the index, a security must meet the following criteria:

- listed on an exchange in a developed market country in North America, Europe or Asia, excluding Australia (see country table in next section);
- have a market capitalization of at least \$3 billion USD;
- have a minimum three-month average daily dollar trading volume of \$1 million USD;
- has been identified by the Responsible Investment Committee<sup>2</sup> as a “climate leader,” being a company that has a carbon efficiency that is at least 60% above the average for its industry or is otherwise a superior performer on Scope 4 carbon emissions;
- has been identified by the Responsible Investment Committee as having passed certain eligibility screens designed to exclude companies that have direct or significant exposure to the fossil fuel industry or that are engaged in other activities deemed inconsistent with responsible investment considerations (as further outlined below);
- one security per issuer is permitted<sup>3</sup>;
- may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible; and
- may not be issued by an issuer currently in bankruptcy proceedings.

### *Responsible investment screening exclusions*

<b>Industry/Activity</b>	<b>Exposure Limit Guidelines (% of total revenue)</b>	<b>Explanatory notes</b>
Fossil Fuels - direct	0%	Companies which have fossil fuel reserves, fossil fuel infrastructure, or involved in the mining, extraction, burning of fossil fuels.
Fossil Fuels - indirect	5% for products and services. (not applicable for finance)	Companies which provide products, services or finance which is specific to and significant for the fossil fuel industry, as well as companies with very high use of fossil

<sup>2</sup> The Responsible Investment Committee is an external advisory committee responsible for determining the list of securities that pass the “Climate Leader” and responsible investment screens outlined above.

<sup>3</sup> If an issuer has multiple securities, the security with the highest dollar trading volume will be selected for possible inclusion into the Index.

		fuels.
Gambling	0% for casinos and manufacture of gaming products 5% for distribution of gambling products	
Tobacco	0% for production or manufacture 5% for sale of tobacco products	
Uranium and Nuclear Energy	0% for uranium mining and nuclear energy 5% for products and services to nuclear energy	
Armaments and Militarism	0% for manufacture of armaments and weapons 5% for specific and significant services to military and armaments manufacture	
Destruction of Valuable Environments	0%	Companies which have direct negative impact on recognised World Heritage and High Conservation areas.
Animal Cruelty	0%	Companies involved in live animal export, animal testing for cosmetic purposes, factory farming, or controversial animal products (ivory, foie gras etc.).
Chemicals of Concern	0%	Companies which produce or use chemicals of concern recognised by UN Environmental Program, Gold and Silver miners.
Mandatory Detention of Asylum Seekers	0%	Companies which operate detention centres.
Alcohol	33%	Companies which produce or sell alcohol.
Junk Foods	33%	Companies which produce or sell junk foods.
Pornography	10%	Companies which produce or sell pornography.
Fines and Convictions	n/a	Fines or convictions equal to or above \$10Million USD over the last 3 years.
Human Rights	n/a	Evidence of human rights violations including child labour, forced labour, sweatshops, bribery and corruption.

## Index-Eligible Countries

Austria	Ireland	Singapore
Belgium	Italy	Spain
Canada	Japan	Sweden
Denmark	Luxembourg	Switzerland
Finland	The Netherlands	United Kingdom
France	New Zealand	United States
Germany	Norway	
Hong Kong	Portugal	

## Index Evaluation

The Index is evaluated annually in April. At each evaluation, the Responsible Investment Committee will provide Nasdaq with a list of globally sustainable companies as they have identified. The securities ranked 1-100 by market capitalization are selected. If less than 5 of the 100 securities are Climate Leaders based on Scope 4 carbon emissions then Scope 4 Climate Leader companies will replace the companies with the lowest market capitalization in the index until 5 stocks are Scope 4 Climate Leaders or until there are no additional Scope 4 Climate Leaders to add to the Index. Security additions and deletions are made effective after the close of trading on the last trading day in April.

In order to mitigate turnover in the Index, the following buffer rules are applied:

- A current component in the Index which falls outside the top 100 securities by market capitalization will be retained provided it is ranked within the top 120 securities by market capitalization and provided it satisfies the other eligibility criteria;
- A current component in the Index whose carbon efficiency falls below the 60% threshold will be retained in the Index provided it has a carbon efficiency that is at least 50% above the average for its industry and provided it satisfies the other Index eligibility criteria.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, the security is removed from the Index and is not replaced. Ordinarily, a security will be removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

## Index Maintenance

Index Share changes are not made during the quarter however changes arising from stock dividends and stock splits are made to the Index on the evening prior to the effective date

of such corporate action. In the case of certain spin-offs or rights issuances, the price of the Index Security is adjusted.

A special cash dividend announced by the listing exchange, will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. A corresponding adjustment will be made to the Index Shares of the security such that the weight of the Index Security will not change as a result of the action. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

Ordinarily, whenever there is a change in an Index Security or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends as mentioned above, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

### **Index Rebalancing**

The Index employs a modified market capitalization weighting methodology.

Under the methodology, each security is assigned its market capitalization weight such that:

1. no single security can have a weight of more than 4.0% in the Index; and
2. no single security can have a weight of less than 0.5% in the Index.

At each April evaluation, the Index is rebalanced such that the maximum weight of any single security does not exceed 4.0% of the Index. The excess weight of any capped security is distributed proportionally across the remaining securities in the Index. If, after this process, any security has less than a 0.5% weight, it will be assigned a 0.5% weight by drawing weight proportionately from the pool of securities with greater than a 0.5% weight.

The modified market capitalization weighting methodology is applied to each Index Security using the Last Sale Price of the security at the close of trading on the last trading day in March. Index Shares are then calculated multiplying the weight of the security derived above by the new market value of the Index and dividing the modified market capitalization for each Index Security by its corresponding Last Sale Price. The changes are effective after the close of trading on the last trading day in April.

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

November 2016