

# FTSE AFCM Low Carbon Select Index – Index Methodology

v1.1

The FTSE AFCM Low Carbon Select Index is not, and is not intended to be, used by supervised entities in the European Union or the United Kingdom and accordingly, the European benchmark regulation\* and the UK Benchmark Regulation# do not apply to the index. Consequently, supervised entities within the European Union and the United Kingdom are not permitted to use the index as a benchmark as set out in article 3(1)(7) of the European benchmark regulation.

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*\*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 Benchmarks (Amendment and Transitional Provision) (EU Exit) Regulations 2019 (which amends the European benchmark regulation in the United Kingdom)*



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## 1. Introduction

- 1.1 This document sets out the Ground Rules for the construction and maintenance of the FTSE AFCM Low Carbon Select Index.
- 1.2 FTSE AFCM Low Carbon Select Index offers a benchmark for investors wishing to commit capital to companies that actively invest in and promote low carbon activities in the running of their businesses. Since the index includes those companies as constituents that are investing to reduce energy consumption and hence contributing to lower the carbon footprint of the region, it is the best fit and generates the high interest and demand among investors. The index utilises reported CO2 levels of constituents of starting universe and the final index selection reflects the principles and impact of CO2 levels.
- 1.3 The index tracks the price and total return of selected 40 publicly traded equities in selected countries as defined in starting universe.

## 2. FTSE Russell

- 2.1 As part of the ongoing work to simplify its brand, London Stock Exchange Group (LSEG) announced that Refinitiv Benchmarks and Indices were moving to FTSE Russell branding with effect from November 2023. As part of the rebranding, the Refinitiv AFCM Low Carbon Select Index was renamed as the FTSE AFCM Low Carbon Select Index.
- 2.2 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, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings S.A.S.
- 2.3 LSEG holds a unique position within the global financial market, operating connected businesses to serve customers across the financial markets value chain.
- 2.4 The FTSE AFCM Low Carbon Select Index is calculated by FTSE Russell and will be made available to customers as part of their desktop licence through the LSEG Data & Analytics Platforms or subject to a separate licence agreement.
- 2.5 Neither FTSE International Limited nor Refinitiv Benchmark Services (UK) Limited nor any other member of the London Stock Exchange Group plc group of companies, is the benchmark administrator<sup>1</sup> of the FTSE AFCM Low Carbon Select Index.

## 3. Constituent universe

- 3.1 The constituents' universe includes equities traded on Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Saudi Arabia, Qatar, and the United Arab Emirates. To construct the parent index, the universe then follows rules applied to FR Global Equity Indices (FRGEI), which are free float adjusted market capitalisation weighted indices, with the following inclusion criteria:
  - A minimum 15% free float (companies are dropped if free float falls below 10% after inclusion);
  - A minimum of 3 months trading history;
  - Companies with multiple international listings are included on the basis of country of incorporation, security's primary listing and volume. In most cases, the country of incorporation is same as primary

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<sup>1</sup> As the term administrator is defined in the [IOSCO Principles for Financial Benchmarks](#) and [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).

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listing. For few exceptions where the country of incorporation is not where the security has the primary listing, LSEG uses the security's primary listing to determine membership.

- Various liquidity measures are used to ensure illiquid companies are not included in the index, and all constituents need to satisfy the following criteria:
  - Be part of the top 99.5% of the free float market capitalisation of the exchanges under consideration;
  - Be part of the top 99.5% of the trading value of the exchanges under consideration;
  - Trade on at least 80% of trading days; and
  - Have a minimum unadjusted market cap of US\$150mn and free float adjusted market cap of US\$75mn

The parent index is rebalanced biannually in April and October.

For a complete description of the index rules, please refer to the methodology for FR Global Equity indices, [FR Equity Indices | LSEG](#)

## 4. Construction methodology

### 4.1 Universe

The Index Universe is made of companies as described in section 3.1

The universe is as observed on the rebalance effective date.

### 4.2 Data

All stocks in the base universe are first screened for the following indicators:

- i. Price available as of rebalance date
- ii. Share Type
- iii. TRBC
- iv. ESG Analytic Estimated CO2 Total
- v. ESG CO2 Estimation Method
- vi. Average Traded Value (182 calendar days)

### 4.3 Composition list

- i. Remove all companies where price is not available as of rebalance date.
- ii. Ensure that all candidates are classified as Ordinary Shares.
- iii. Remove all companies without ESG coverage (i.e., NA value for ESG Analytic Estimated CO2 Total)
- iv. Identify the economic sectors represented, and calculate the corresponding thresholds
  - Identify sector counts in starting universe, following the screens identified above.
  - Threshold for each sector is calculated as ceiling ( $\text{MAX\_CONSTITUENTS} * \text{SECTOR\_COUNT} / \text{SUM}(\text{SECTOR\_COUNTS})$ ). As an example, if the starting universe has 49 candidates, and Financials sector has 20 candidates, the threshold for Financials in the final portfolio would be: ceiling( $40 * 20 / 49$ ) = 16.
- v. Order the candidates by ESG Analytic Estimated CO2 Total (ascending) and add the top equity for each country to the index.
- vi. The remaining constituents in the final portfolio of 40 constituents are then selected by the following method:

- ESG Analytic Estimated CO2 Total are examined, considering the CO2 Estimation Method (possible values are “Reported”, “CO2”, “Energy”, and “Median”). Priority is given to all companies that have a “Reported” CO2 value, meaning that they have provided a current number.
  - If the 40 constituent threshold has not been reached using companies with reported values, the selection is then repeated using values based upon “CO2” model estimation. The process is repeated as necessary, using “Energy”, and then “Median” (a model based only upon on peer group reporting)<sup>2</sup>.
  - Constituents are added subject to the sector and country thresholds established above.
- vii. Determine weight based upon free float market cap. Sectors are to be capped at 30% and individual constituents are to be capped at 9%.
- Begin with free float market cap weights.
  - Sum weights for each sector, order listing from largest to smallest sector weight
  - For each sector:
    - a. Is weight over sector cap? If so:
      - i. Identify amount of weight over threshold (currently 30%) as sector excess
      - ii. Shrink individual weights for all equities within sector, proportionally, to 30% cap.
    - b. Are there still individual constituents in sector over individual cap threshold (currently at 9%)? If so:
      - i. Cap weights
      - ii. Distribute excess of individual weights above cap proportionally among uncapped equities within sector (If nowhere to reallocate in sector—for example, only one large equity in sector, or all equities in sector are at individual cap—add this weight to sector excess)
      - iii. Check if re-distribution has put any constituents over the individual cap threshold. If so, repeat this sub-process.
    - c. After sector adjustment, if any sector is still weighs over 30%, distribute excess weight proportionally to all equities in unadjusted sectors. Once sector weights are adjusted, no further weight will ever be added into the sector, otherwise the sector/individual capping could be exceeded.

#### 4.4 Security types

Only common stocks trading on exchanges stated in Section 3.1 are included in the Index.

#### 4.5 Base values and Inception date

100, on 30/6/2015

#### 4.6 Index live date

31/8/2020

#### 4.7 Index types, currencies, calculation frequency and trading days

Price and Total return, Currency: USD. Ticks real time, pricing every 15 seconds, calendar: Saudi Arabian Trading Calendar. Historic calculation follows Monday-Friday calendar. Live index follows Sunday-Friday calendar.

#### 4.8 Index RICs

FTSE AFCM Low Carbon Select Price Return Index - .RFAFLCP1

FTSE AFCM Low Carbon Select Total Return Index - .RFAFLCT1

<sup>2</sup> Carbon Estimation methods are discussed in detail in [https://www.refinitiv.com/content/dam/marketing/en\\_us/documents/fact-sheets/esg-carbon-data-estimate-models-fact-sheet.pdf](https://www.refinitiv.com/content/dam/marketing/en_us/documents/fact-sheets/esg-carbon-data-estimate-models-fact-sheet.pdf).

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## 4.9 Index revision

Index methodology was revised and implemented with June 2021 rebalance with an effective date of July 1st 2021. The methodology was revised to increase number of constituents to 40, introduce sector capping at 30% and update constituents' capping at 9%.

## 5. Calculation methodology

5.1 The FTSE AFCM Low Carbon Select Index is calculated using the FR Global Equity Indices methodology. For further information, please see the Global Equity Indices methodology: [FR Equity Indices | LSEG](#).

5.2 Corporate action rules follow the FR Global Equity Indices methodology. A forward-looking corporate actions file is available upon request. For details on corporate action treatment for the indices, please refer to the detailed corporate actions methodology document: [FR Global Equity Indices Corporate Actions Methodology \(lseg.com\)](#).

## 6. Index Maintenance and Rebalance

6.1 The securities which form the Index are re-weighted due to changes in the price of the underlying securities change.

The index is maintained on a daily basis by a dedicated support team. This team is in direct collaboration with the LSEG Data Operations Global Corporate Actions teams, and is responsible for identifying all corporate action events that affect the capital structure of a constituent in the index including stock splits, delisting, and symbol changes and ensure these changes are implemented into the index. The team also monitors divisor movements and performs constituent pricing comparisons between independent constituent price sources to ensure the accuracy of the index return values. Where a security in the Index is subject to a merger or acquisition activity or delisting, the security will be deleted from the Index as set out in the Corporate Action Methodology.

6.2 FTSE AFCM Low Carbon Select Index rebalances bi-annually i.e. after close of business on last trading day of June and December.

This rebalance is the major source of additions and deletions to index. There are no additions to the Index outside of the rebalance process.

## 7. Quality control

7.1 Quality control procedures are in place to monitor any prices – whether they are obtained from a regulated exchange or another market – prior to calculation of indices, as well as prior to publication.

### 7.2 Error reporting

7.2.1 The Index Action Committee (see section “Governance” below) may determine if a retrospective recalculation is required.

7.2.2 A retrospective recalculation will only be made when there has been a material error. The feedback from the stakeholders may also be sought.

7.2.3 Any retrospective recalculation will be notified to users via the alert system on LSEG Eikon.

### 7.3 Insufficient data and market disruption

7.3.1 The FTSE AFCM Low Carbon Select Index is based on equity prices published by the exchange (in the country of domicile) for each equity. Each exchange is a regulated marketplace and a well-established supplier of equity price discovery.

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- 7.3.2 In the event that certain data is not available in time to publish the FTSE AFCM Low Carbon Select Index as indicated in the methodology, or if the index cannot be published at all over one or more planned publication times, a new publication time will be communicated to subscribers and licensors of the index.
- 7.3.3 Should a period of market stress or a disruption affect the calculation of the index, FTSE Russell reserves the right to take any action with respect to the index it deems appropriate given the circumstances, subject to the index governance procedures (see section “Governance” below). FTSE Russell will first consider the effectiveness of the actions taken by each primary exchange in producing the equity prices used in the index calculation.
- 7.3.4 If additional action is required by FTSE Russell it will attempt to notify interested parties of any such action with as much notice as is practical. There is no assurance, however, that the actions taken by FTSE Russell in response to such a period of market stress or disruption will not have an adverse effect on the value of the index or the manner in which it is calculated.

#### **7.4 Cessation of an index**

- 7.4.1 In the event that FTSE Russell determines that the calculation of the index should be ceased, a notice will be published via LSEG Eikon, an LSEG desktop product.

## **8. Governance**

- 8.1 The FTSE AFCM Low Carbon Select Index is calculated and managed by FTSE Russell which makes all decisions regarding index calculations and changes to the index methodology.

#### **8.2 Index team**

- 8.2.1 The Index team is responsible for the maintenance, calculation and distribution of the FTSE AFCM Low Carbon Select Index as set out in this methodology.

#### **8.3 Index Action Committee**

- 8.3.1 The IAC is an internal group of subject matter experts (indices as well as asset classes) that provide advice related to methodology interpretation or changes.

#### **8.4 Methodology review**

- 8.4.1 The FTSE AFCM Low Carbon Select Index methodology is reviewed once a year and, if required by market events, more frequently.
- 8.4.2 Any changes to the methodology are approved by the IAC and will be announced prior to implementation. All reasonable efforts will be made to provide at least one month’s notice of any such changes prior to their implementation.

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