

Nasdaq Future Australian Sustainability Leaders Index Methodology

Index Description

An increasing number of Australian investors are seeking a passively managed portfolio of Australian-listed stocks which preferences companies engaged in sustainable business activities, and takes account of key environmental, social and governance (ESG) concerns, including avoidance of exposure to the fossil fuel industry.

Index Calculation

The Nasdaq Future Australian Sustainability 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 Price¹, 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 17, 2017 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:

$$\frac{\text{Market Value after Adjustments}}{\text{Market Value before Adjustments}} \times \text{Divisor}$$

Three versions of the Index are calculated in AUD:

- The price return index (Nasdaq: NQFASL) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return index (Nasdaq: NQFASLT) reinvests cash dividends on the ex-date.
- The gross local return index (Nasdaq: NQFASLGL) factors in a withholding rate that is reflective of the tax credit policies employed by Australian companies in relation to rules governing dividend income earned by domestic investors.

All Indexes reflect extraordinary cash distributions.

¹ 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.

The Indexes are calculated during the trading day and are disseminated once per second, five (5) days a week, Monday through Friday, during Australian hours.

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 the Australian Stock Exchange;
- have a float adjusted market capitalization of at least \$100 million USD;
- have a minimum three-month average daily dollar trading volume of \$750,000 USD;
- identified by the Responsible Investment Committee² 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);
- identified by the Responsible Investment Committee as an “additional renewable energy security”³, notwithstanding that the security does not meet the minimum trading volume threshold set out above, but which otherwise meets the eligibility criteria (up to a maximum of three such securities);
- one security per issuer is permitted⁴;
- 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 exclusions⁵

Industry / Activity	Exposure Limit Guidelines (% of total revenue)	Explanatory notes
Fossil Fuels - direct	0%	Companies which have fossil fuel reserves, fossil fuel infrastructure, or involved in the mining, extraction, burning of fossil fuels.

² The Responsible Investment Committee is an external advisory committee responsible for determining the list of securities that pass the responsible investment screens, and meet the “Sustainability Leader” criteria, as outlined in this methodology document.

³ A company will be considered for inclusion as an additional renewable energy security where it derives more than 50% of its revenue from renewable energy or activities that substantially reduce greenhouse gas emissions.

⁴ If an issuer has multiple securities, the security with the highest dollar trading volume will be selected for possible inclusion into the Index.

⁵ Screening is generally applied only to the the relevant company itself and to its subsidiaries. Minority holdings (less than 50% ownership) are generally not considered for screening purposes.

Fossil Fuels - indirect	5% for products and services. Exclude the largest global financiers of fossil fuels, and financiers of significant fossil fuel infrastructure	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 fuels* *except where more than 50% of company revenue is derived from renewable energy, resource efficiency, environmental solutions or energy efficiency products and services
Gambling	0% for casinos, manufacture of gaming products, and poker machine operations 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,

		Producers of agricultural chemicals.
Mandatory Detention of Asylum Seekers	0%	Companies which operate detention centres.
Alcohol	20%	Companies which produce or sell alcohol.
Junk Foods	33%	Companies which produce or sell junk foods.
Pornography	0% for production of pornography 5% for distribution of pornography	Companies which produce or sell pornography.
Human Rights	n/a	Evidence of human rights violations including child labour, forced labour, sweatshops, bribery and corruption.
Board Diversity	n/a	No women on board of directors
Payday Lending	0%	

A company exposed to significant ESG-related reputational risk or controversy may also be excluded where the Responsible Investment Committee considers that its inclusion would be inconsistent with the values of the Index.

From the remaining eligible securities (the "screened universe"), a group of "Sustainability Leaders" is identified by the Responsible Investment Committee. To be classified as a Sustainability Leader, a company must satisfy at least one of the following criteria:

- More than 20% revenue derived from one or more of the following: renewable energy; energy efficiency; water efficiency; recycling, waste remediation and re-use of materials; public transport and energy efficient transport; education; healthcare; animal health; healthy foods and nutrition products; green star rated buildings; community and regional banking; health insurance and personal insurance; social services and social infrastructure (e.g. employment services, child care); sustainability certified products and services (e.g. Fairtrade, certified organic, FSC); sustainable forestry; access to knowledge and information; access to communications
- Recipient of either an "A" or "B" grade (or equivalent) rating from a trusted ethical consumer report (e.g. Ethical Consumer Guide, Baptist World Aid Behind Barcode Reports)
- Certified B Corporation

Securities identified as "Sustainability Leaders" are given preference in the Index composition process (as described further below), although not every security in the Index needs to be a Sustainability Leader.

Index Evaluation

The Index is evaluated annually in August. At each evaluation, the Responsible Investment Committee will provide Nasdaq with a list of eligible Index constituents that have been identified pursuant to the following process:

- The list of eligible companies will comprise a maximum of ten stocks from each sector (in order to promote diversification among the sectors);
- For each sector:
 - If there are more than ten stocks in the screened universe that are Sustainability Leaders, the ten largest Sustainability Leaders by market capitalisation in the sector are included in the list of eligible companies, in order of market capitalisation
 - If there are fewer than ten stocks in the screened universe that are Sustainability Leaders, all of the Sustainability Leaders are first included in the list of eligible companies, in order of market capitalisation, and then additional stocks from the screened universe are added, in order of market capitalisation, until a maximum of ten stocks is reached.

Security additions and deletions are made effective after the close of trading on the third Friday in September.

In order to mitigate turnover in the Index, the following buffer rule is applied: An existing component in the Index will be retained in the Index provided it falls within the top 12 securities in its sector (ranked in the order of security inclusion as set out above), unless operation of this rule would result in:

- retention of an existing non-Sustainability Leader at the expense of a new Sustainability Leader; or
- retention of an existing Sustainability Leader at the expense of a new Sustainability Leader where the new Sustainability Leader ranks within the eight largest Sustainability Leaders by market capitalisation in the relevant sector.

Additionally, if at any time during the year other than the evaluation dates, an Index Security undergoes a fundamental alteration such as, but not limited to, its issuer filing for bankruptcy proceedings, switching its listing to an ineligible listing venue, or if it undergoes major corporate actions such as merger & acquisition (M&A) activity that would make the Index Security ineligible for inclusion in the Index, the security is removed from the Index and is not replaced. In all cases, a security is 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, at 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 year 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. Each security is assigned its market capitalization weight, provided that no single security can have a weight of more than 4.0% in the Index. In addition, no "additional renewable energy security" can have a weight of more than 0.1% in the Index. The excess weight of any capped security is distributed proportionally across the remaining securities in the Index.

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 third Friday in August. 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 made effective after the close of trading on the third Friday in September.

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

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