



GUIDEBOOK

The Finvex Sustainable Efficient Japan Index (Net Return and Price Return)

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1. Introduction

The Finvex Sustainable Efficient Japan Index (the “**Index**”) is designed to reflect the performance of a dynamic portfolio of Fifty equally weighted equity securities (each, a “**Stock**” and together, the “**Stocks**”) listed on various Japan exchanges. The Index has been developed independently by Finvex (“**Finvex**”).

The Fifty Stocks are selected from a sustainable investment universe delivered by Sustainalytics according to a non-discretionary approach and that are listed on a Selected Stock Exchange in Japan (the “**Sustainable Investment Universe**”) (as defined in section 2.2 below) on each Quarterly Selection Date (as defined in section 2.1 below) using a rules-based selection methodology designed by Finvex acting as Index Sponsor (“**Finvex**” or the “**Index Sponsor**”). The “**Selection Methodology**” (as defined in section 2.3, 2.4 and 2.5 below) ranks first the individual securities within the Sustainable Investment Universe by calculating a score for each stock respectively, after applying a liquidity filter. This score is determined by an analysis based on the quality associated to each stock. Such score leads to the selection of a “**Sustainable Universe Subset**” which is formed of the top 200 stocks ranked equities according to this score. The Sustainable Universe Subset is then ranked on the basis of different risk and risk concentration parameters that are derived from the compounded returns of such individual securities.

The Index objective is to reflect the performance of the Fifty Stocks within the Sustainable Investment Universe that meet the liquidity criteria, have a high-quality score and have the lowest risk characteristics based on the selection methodology.

The quarterly selection of the Stocks within the Sustainable Investment Universe is undertaken by Finvex. Finvex is a specialist research, portfolio construction and index design firm¹.

Sustainalytics, is acting as the index’s environmental, social and governance (“ESG”) research and analysis provider.

S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) (the “**Calculation Agent**”) will act as calculation agent for the Index and organize the daily calculation and dissemination of the Index value.

Two versions of the Index are available as follows:

- Finvex Sustainable Efficient Japan Net Return Index in JPY (Bloomberg® code: **FSJAPYR**)
- Finvex Sustainable Efficient Japan Price Index in JPY (Bloomberg® code: **FSJAPY**)

The Finvex Sustainable Efficient Japan Net Return Index is a total return net index: the value of the proceeds of dividends paid in respect of each constituent Stock, after deduction of any applicable withholding tax, is reinvested into the Index (see section 4.4. Dividend Treatment and section 5.5 Index Formula).

The Finvex Sustainable Efficient Japan Price Index is a synthetic price index: it replicates synthetically the value of an index which does not reinvest the proceeds of the dividends. It is based on the value of the Finvex Sustainable Efficient Japan Net Return Index less a fixed dividend yield of 2.5% per annum (see section 5.5 Index Formula).

¹ Finvex. has its registered offices at Congresstraat 5, 1000 Brussels, Belgium



2. Periodic Review

2.1. Review Dates

Quarterly Review:

The composition of the Index is reviewed on a quarterly basis on the last Business Day of each month (the “**Quarterly Selection Date**”). In case such date is not a Japan Business Day, the Quarterly Selection Date will be the first following calendar day that is a “Japan Business Day”. On each Quarterly Selection Date, Finvex will apply the selection methodology and determine the new Stocks that will become constituents of the Index (each, a “**New Index Constituent**”) as of the Rebalancing Date.

The Index rebalances five Japan Business Days following each Quarterly Selection Date (each, a “**Rebalancing Date**”).

To ensure that the Index is always accurate and is calculated with the most up-to-date constituent data, the component data (i.e. Weighting Factor of each constituent Stock) of the Index is also reviewed on each Quarterly Selection Date and implemented by the Calculation Agent on the Rebalancing Date.

For the purposes of this Guidebook, “**Japan Business Day**” means a day on which the Tokyo Stock Exchange is open for trading during its regular trading sessions.

“**Business Day**” means any weekday (except Saturday and Sunday) with the exclusion of December 25th and January 1st.

2.2. Sustainable Investment Universe

The Sustainable Investment Universe i.e. the stocks that are eligible for inclusion in the Index, is reviewed on each Quarterly Selection Date according to a non-discretionary approach. It comprises all stocks that are, on such Quarterly Selection Date:

- (1) 500 Japanese stocks which are part of Sustainalytics database
- (2) Stocks, within the universe of 500 companies as mentioned above in (1), which have the highest total environment, social, governance (“ESG”) score from Sustainalytics (companies in the bottom 30% of each sector group are excluded) and that pass the controversy screening (companies involved in major controversies, with the highest rating of 5 from Sustainalytics, do not pass the test and are excluded).
- (3) listed on a Selected Stock Exchange²

2.3. Elimination Process

On each Quarterly Selection Date, firstly a liquidity filter is applied to the Sustainable Investment Universe in order to exclude the securities that do not meet the liquidity threshold. The liquidity is determined on the basis of the average daily trading volume during the 6 months prior to the Quarterly Selection Date and the threshold is set to JPY 1 billion.

The stocks included in the previous Selection must meet the JPY 900 million liquidity threshold to be included in the Investment Universe.

In the event that the application of the liquidity filter reduces the Sustainable Investment Universe to below 300 securities, the Index Sponsor will relax the liquidity threshold to ensure that 300 securities are part of the remaining universe.

² Comprises the following exchange as at the date of this document: Tokyo Stock Exchange.

2.4. Selection Process

After the Elimination Process, the stocks selection is done in two steps.

- (1) On each Quarterly Selection Date, 200 stocks are selected that have the best quality score, the “**Sustainable Universe Subset**”.
- (2) On each Quarterly Selection Date, secondly, among the sustainable universe subset, 50 stocks are selected that offer the best risk characteristics while targeting a sector concentration cap.

These 50 Stocks become the “**New Index Constituents**”.

2.5. Weighting Factors

To ensure that all Stocks in the Index are appropriately weighted and these changes are subsequently reflected in the resulting component weights, the Weighting Factors for each Stock in the Index are reset at the close of business of each Rebalancing Date.

The Weighting Factors are set so that each New Index Constituent is equally weighted as described in section 4.5.

2.6. The Index Committee

The Index committee (the “**Committee**”) will be composed of no less than three members, comprising two Finvex executives and one independent member.

The purpose of the Committee is to review the methodology of the Index without any discretion to change such methodology. Changes to the index methodology can only be undertaken if required by regulations, regulators or in case of force majeure. The Committee shall convene once per year during the month of July and can otherwise convene upon the request of any member.

However, the Committee may assemble additionally on any other day of the year under exceptional circumstances which include (but are not restricted to):

- Continuous adverse trading conditions (e.g. collapse in trading volume of a single Stock or a whole exchange or the whole equity market);
- Trading restrictions imposed by exchanges or regulators;
- Restricted access or suspension of information on Sustainalytics data.

The Committee may in these exceptional circumstances and other situations of force majeure revise the Index methodology and will publish any such changes and revisions. Decisions by the Committee need to be approved by a majority of more than 50% of the members of the Committee.

2.7. Role of parties

Sustainalytics will provide the Index Sponsor, on each Quarterly Selection Date, with the research and scores for the 500 companies mentioned in 2.2. The Index Sponsor will then determine the Sustainable Investment Universe as defined in Section 2.2.

The Index Sponsor will submit to the Calculation Agent the New Index Constituents and the Target Weight per New Index Constituent no later than one Business Day following each Quarterly Selection Date.

One Business Day after the Quarterly Selection Date, the Calculation Agent will determine the Weighting Factors for each New Index Constituent.

The Calculation Agent is responsible for fixing and updating the calendar of the Rebalancing Dates, the maintenance of the Index, calculating the Index value, and its dissemination on each Japan Business Day.



3. Ongoing Maintenance

In addition to the periodic reviews, the Index is also continually reviewed for corporate events which may affect the Stocks comprising the Index – e.g. mergers, takeovers, spin-offs, de-listings and bankruptcy.

3.1. Stock Deletion

For all corporate events that result in a Stock being removed from the Index, such Stock will not be replaced. The Index will be calculated with less than 50 components until the next Rebalancing Date.

3.2. Changes due to Spin-Offs

If a component Stock is split to form two or more companies, the following rules apply:

- If the original Stock is going to be de-listed after the spin-off, the original Stock will be replaced by the eligible spun-off stock or will not be replaced according to the rules set forth in section 3.1 above.
- Otherwise the original Stock will remain in the Index with a price adjustment and the spun-off stock will be added as an additional Stock with a Weighting Factor based on the terms of the spin-off.
- The deletion of a Stock from, or the addition of a Stock to the Index as a result of a spin-off shall be implemented using the same methodology as that used by S&P Opco, LLC in its management of indices.

3.3. Changes due to Mergers & Takeovers

Component & component:

If two or more component Stocks merge or one Stock takes over another or several other component Stocks, the resulting stock shall be included in the Index unless it no longer qualifies for inclusion in the Index (if determined in time by Finvex) in which case it shall not be replaced in accordance with section 3.1 above. The original component Stocks shall be deleted.

Deleted component Stocks due to a merger or takeover shall not be replaced in accordance with section 3.1 above.

The deletion of a Stock from, or the addition of a Stock to, the Index as a result of a merger or takeover shall be implemented using the same methodology as that used by S&P Opco, LLC in its management of indices.

Component & non-component:

If a component Stock merges with or takes over a non-component, the following rules apply:

- Then, it shall be included in the Index and shall replace, and shall have the same weight as, the original Stock, unless the newly formed company does not qualify by fulfilling all Index Investment Universe criteria as described in section 2.2 (if determined in time by Finvex) in which case it shall not be replaced in accordance with section 3.1 above.

The deletion of a Stock from, or the addition of a Stock to, the Index as a result of a merger or takeover shall be implemented using the same methodology as that used by S&P Opco, LLC in its management of indices.

3.4. Changes due to Illiquidity

The Calculation Agent shall consider deleting from the Index any Stock that is illiquid for the following reasons:

- Suspension from trading
- Ongoing bankruptcy proceedings

If a Stock is deleted in accordance with this section 3.4 it shall not be replaced in accordance with section 3.1 above.



The changes to the composition of the Index due to the illiquidity of a component Stock shall be implemented using the same methodology as that used by S&P Opco, LLC in its management of indices.

3.5. Changes due to Nationalization or Delisting

Component Stocks that are to be nationalized or de-listed for reasons that have not already been described will be deleted from the Index. The deleted Stock shall not be replaced in accordance with section 3.1 above.

The changes to the composition of the Index due to the delisting of a component Stock shall be implemented using the same methodology as that used by S&P Opco, LLC in its management of indices.

3.6. Changes due to Rights Offerings, Stock Splits or Stock Dividends

Component Stocks that have a right offering, stock split or stock dividend will have their price and/or Weighting Factor adjusted on the ex-date of the event; using the same methodology as that used by S&P Opco, LLC in its management of indices.

3.7. Changes due to Special Cash Dividends

Index components that have a special cash dividend will have their price adjusted on the ex-date of the event; using the same methodology as that used by S&P Opco, LLC in its management of indices.

3.8. Index Disruption Events

In the event that:

(1) Sustainalytics:

- a. permanently cancels or fails to provide the sustainable investment universe; or
- b. makes a material change in the process by which the sustainable investment universe is scored; or
- c. fails to review the sustainable investment universe at least annually,

the Committee shall determine the consequences of such event which may include, but shall not be limited to, (a) the replacement of Sustainalytics with an alternative ESG agent acceptable to the Committee; or (b) permanently cancel the Index.



4. Index Features & Data Dissemination

4.1. History and Index Value

Historical Index values are available since 2 January 2004; the Index started with an Index Value of 1,000.00 on 31 December 2003 (Closing Price).

4.2. Stock Prices

The stock prices used to calculate the Index are:

- The opening price: the first traded price during the official trading hours of the stock's trading system; until this is available, the previous day's closing/ adjusted price is used;
- The intraday price: the currently traded price during the official trading hours of the stock's trading system. As long as the stock is not traded, the last available stock price will be used. This could either be the last available intraday stock price (e.g. if the stock is temporarily suspended) or the last available closing/ adjusted price (e.g. if the stock exchange is closed);
- The closing price: the last traded price or auction price during the official trading hours of the stock's trading system. If the stock has not been traded all day, then the previous day's closing/ adjusted price shall be used;
- The adjusted price: the closing price is adjusted to reflect a stock's corporate action effective the next trading day.

4.3. Dividend Treatment

The Index is available as both a net return index (Finvex Sustainable Efficient Japan Net Return Index, all regular dividends are re-invested proportionately across the Index components) and a synthetic price index (Finvex Sustainable Efficient Japan Price Index) based on the net return index less a fixed synthetic dividend yield of 2.5%. Companies in Japan do not typically confirm cash dividend amounts prior to the ex-dates. The difference between the dividend amount recognized on the original ex-date and the confirmed dividend amount announced by the company will be adjusted. This is done following the public announcement of the actual dividend amount using the same methodology as that used by S&P Opco, LLC in its management of indices.

Dividend payments are included as net-of-tax dividends in accordance with the same methodology as that used by S&P Opco, LLC, meaning the dividend amount received after deduction of withholding taxes. The withholding taxes rates are available at: www.djindexes.com.

4.4. Weighting Factors

On each Quarterly Selection Date, the weightings of the components of the Index are obtained by calculating a Weighting Factor for each component Stock. The Weighting Factor for each component Stock is calculated one Business Day after the Quarterly Selection Date based on the closing prices of all New Index Constituents as of the Quarterly Selection Date.

It is calculated as follows:

$$Weighting Factor_{i,t} = \frac{1,000,000 \times Target Weight_{i,t}}{Price_{i,t}}$$

And,

$$Target Weight_{i,t} = \frac{1}{50}$$



With:

Weighting Factor_{i,t} = the Weighting Factor of Stock_i at time (t)

Target Weight_{i,t} = the target weight of Stock_i at time (t)

Price_{i,t} = closing price of Stock_i as defined in 4.2

4.5. Index Divisors

Index divisors for the Index are adjusted to maintain the continuity of the “Index’s” values across changes due to corporate actions and/or changes in the composition of the Index.

4.6. Index Dissemination

The index dissemination calendar is determined by S&P Opco, LLC, according to its standards available at: www.djindexes.com.

4.7. Calculation Parameters

The Index is calculated as a price and a net return index.

The Index closing value is calculated in JPY, on each Japan Business Day, based on the closing price of each Old Index Constituent (an “**Old Index Constituent**” being a Stock which was a constituent of the Index as of the immediately preceding Rebalancing Date and taking into account all the corporate events since such date) and disseminated at the latest on the next Japan Business Day.

5. Calculation Model

5.1. Input Data Specification

The calculation of the Index is based on the following input data:

- Stock prices (local currency)
- Weighting Factors
- Corporate action information and data
- Divisor

5.2. Input Data Monitoring

Various verification and audit procedures are implemented to ensure that the stock price and currency rate input-data feeds are of the highest accuracy and consistency. These procedures include:

- Data filters
- Quality assurance tools
- Verification against secondary sources

5.3. Input Data Corrections

Every effort is made to prevent erroneous input data.

Incorrect index divisors are corrected immediately if discovered on the effective day.

5.4. Data Accuracy

The accuracy of the input, computational and output data is specified below:

- Exchange rates: rounded to 10 decimal places
- Weighting Factors: rounded to 10 decimal places
- Index divisors: float numbers
- Index values: rounded to 2 decimal places

5.5. Index Formula

The Indexes are calculated using a Laspeyres formula as follows:

- For the total-return Index (Sustainable Efficient Japan Net Return Index):

$$IndexTR_t = IndexTR_{t-1} \times \frac{Index_t + IndexDividend_t}{Index_{t-1}}$$

With:

$$Index_t = \frac{\sum_{i=1}^n p_{i,t} \times w_{i,t}}{D_t}$$

$$IndexDividend_t = \frac{\sum_{i=1}^n (1 - Tax_i) \times Div_{i,t} \times w_{i,t}}{D_t}$$

- For the Synthetic Price Index (Sustainable Efficient Japan Price Index):



$$Price\ Index_t = IndexTR_t \times \left(1 - \frac{SDY}{365}\right)^{Delta(t_0,t)}$$

Where:

IndexDividend_t = Index dividends at time (t)

Tax_i = Withholding tax for Stock_i

Div_{i,t} = Dividend paid by Stock_i at time (t)

w_{i,t} = Weighting Factor of Stock_i at time (t)

D_t = Divisor of the Index at time (t)

IndexTR_t = Finvex Sustainable Efficient Japan Net Return Index value at time (t)

Index_t = Value if the effective price index at time (t)

Delta(t₀,t) = Number of calendar days between time (t) and time (t₀)

t₀ = Index launch date, i.e. 31 December 2003 (Close)

Index_{t0} = 1,000.00

SDY = is the fixed synthetic dividend yield and equal to 2.5%

n = the number of Stocks in the Index, i.e. 50

p_{it} = the price of Stock_i at time (t)

5.6. Index Divisor Adjustments

The index divisors are adjusted as follows in response to corporate actions or Index composition changes:

The following formula will be used for divisor adjustments:

$$D_{t+1} = D_t \times \frac{\sum_{i=1}^n w_{i,t} \times p_{it} \pm \Delta MC_{t+1}}{\sum_{i=1}^n w_{i,t} \times p_{it}}$$

ΔMC – Difference between units in the Index at closing and the units in the Index after calculation parameters have been adjusted: For companies with corporate actions at time t, the units in the Index calculated with adjusted closing prices, the adjusted Weighting Factors at time t+1 minus the units in the Index calculated with closing prices, Weighting Factors at time t.

In general, a company's Weighting Factor is adjusted to offset all price adjustments made as a result of regular corporate actions except for special cash dividends and spin-offs. Divisor adjustments resulting from the regular maintenance of the Index are implemented in accordance to S&P Opco, LLC standard procedures. For spin-offs, S&P standard methodology utilize a zero-price treatment. S&P adds the spun-off company at zero price and then make the adjustment on the first day following its listing.



6. Disclaimer

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The Finvex Sustainable Efficient Japan Net Return Index and the Finvex Sustainable Efficient Japan Price Index are proprietary indices of Finvex. Any use of these indices or their name must be with the consent of Finvex.



Subject to S&P Opco, LLC, the Index's composition and related methodology is the exclusive intellectual property of Finvex.

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The Index has been developed independently by Finvex,

