

**GROUND RULES FOR THE
MANAGEMENT OF THE**

FTSE RAFI
(Research Affiliates Fundamental Index)
FTSE RAFI SWEDEN 100 INDEX
(Multiple Share Class)



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SECTION 1

1.0 INTRODUCTION

- 1.1 This paper sets out the methodology for the management of the FTSE RAFI Sweden 100 Index (Multiple Share Class), which is calculated in association with Research Affiliates.
- 1.2 The FTSE RAFI Sweden 100 Index (Multiple Share Class) represents the performance of the top 100 companies on the Swedish market by fundamental value.
- 1.3 The FTSE RAFI Sweden 100 Index (Multiple Share Class) weights its constituents using specific fundamental factors (see Section 4), rather than market capitalisation. The weights are therefore not dependent upon price-based stock market-based valuations.
- 1.4 Capital and Total Return indices are calculated in SEK, USD, EUR and GBP at the end of the day, using WM/Reuters Spot Rates.
- 1.5 Unless specifically detailed in this document, all areas of methodology relating to the management of the FTSE RAFI Sweden 100 Index (Multiple Share Class) is as detailed in the FTSE Global Equity Index Series Ground Rules. The FTSE RAFI Sweden 100 Index (Multiple Share Class) methodology should therefore be read in conjunction with the FTSE Global Equity Index Series Ground Rules. These rules are available on www.ftse.com.
- 1.6 The FTSE RAFI Sweden 100 Index (Multiple Share Class) has a starting value of 5000, as at 22nd January 2007.

SECTION 2

2.0 INDEX MANAGEMENT

- 2.1 FTSE is responsible for the calculation of the FTSE RAFI Sweden 100 Index (Multiple Share Class). FTSE will maintain records of the weightings of all constituents and will make changes to the constituents and their weightings in accordance with this methodology. FTSE will implement constituent changes resulting from the annual review, or as otherwise required by this methodology.

SECTION 3

3.0 ELIGIBLE SECURITIES

The universe of eligible constituents is the top 300 companies on the Swedish market by full market capitalisation. This universe includes both Swedish listed stocks and depository receipts from around the world.

3.1 FTSE RAFI Sweden 100 Index (Multiple Share Class)

The FTSE RAFI Sweden 100 Index (Multiple Share Class) will consist of the top 100 companies by fundamental value.

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4.0 PERIODIC REVIEW OF CONSTITUENTS

4.1 The FTSE RAFI Sweden 100 Index (Multiple Share Class) will be reviewed annually based on data as at the close of business on the last trading day of February, as per the FTSE RAFI Index Series.

4.2 Changes arising from the annual review will be implemented after the close of the index calculation on the third Friday of March each year.

4.3 The review of the FTSE RAFI Index Series and the calculation of the fundamental weighting of a company is carried out as follows, using the following factors as found in a company's annual returns:

<i>Sales</i>	=	<i>company sales averaged over the prior five years</i>
<i>Cash Flow</i>	=	<i>company cash flow averaged over the prior five years</i>
<i>Book Value</i>	=	<i>company book value at the review date</i>
<i>Dividends</i>	=	<i>total dividend distributions averaged over the last five years</i>

(A more detailed description of these four factors is given in Section 6 of these rules.)

4.4 The fundamental value is calculated for each company as a whole, rather than for individual securities issued by the company. Where a single company is represented by two or more lines of stock, the company's fundamental value is allocated between these lines of stock in proportion to their free float-adjusted market capitalizations as of the date of the rebalancing.

4.5 Fundamental data that is not yet available and/or cannot be derived from pre-existing companies, for example, companies such as recent listings, or recently merged companies or investment entities that do not report the necessary fundamental values will be ineligible for the FTSE RAFI Index review.

4.6 Review Process

- a) A stock universe comprising the top 300 companies by full market capitalisation on the Swedish market from the FTSE RAFI Review Universe:
- b) Calculate the percentage representation of each stock using only Sales figures.
- c) Calculate the percentage representation of each stock using Cash Flow figures.
- d) Calculate the percentage representation of each stock using Book Value.
- e) Calculate the percentage representation of each stock using Dividends. (A stock that has not paid a dividend in the past five years will have a percentage representation of zero.)
- f) For a stock with a non-zero dividend percentage, that stock's RAFI fundamental value is defined as 10,000,000 times the average of the four percentage representation figures. For a stock with a zero dividend percentage, that stock's RAFI fundamental value is defined as 10,000,000 times the average of the three remaining percentage representation figures (for sales, cash flow, and book value).
- g) For those stocks with a domicile outside of Sweden, their fundamental value will be adjusted. This annual adjustment will be calculated based on the number of outstanding shares which are registered on the Swedish Central Securities Depository (CSD) and the number of shares for the main domiciled line of stock.

SECTION 4

- h) Stocks are ranked in descending order by their RAFI company fundamental value.
- i) Securities with a full market capitalisation of less than US\$ 100 million will not be eligible for index inclusion.
- j) A liquidity screen is then applied. Each security will be tested for liquidity 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.
 - A non-constituent which turnover at least 0.05% of their shares in issue (after the application of any free float weightings) based on their median daily trade per month for at least ten of the twelve months prior to the annual review will be eligible for inclusion in the Index.
 - An existing constituent which does not turnover at least 0.04% of its shares in issue (after the application of any free float weightings) based on its median daily trade per month for at least eight of the twelve months prior to the annual review will be removed.
 - New issues which do not have a twelve month trading record must have a minimum three month trading record when reviewed. They must turnover at least 0.05% of their shares in issue (after the application of any investability weightings) based on their median daily trade per month in each month since their listing.
- k) The top 100 companies by their fundamental value which pass the liquidity screen will be included in the index.
- l) The FTSE RAFI Sweden 100 Multiple Share Class Index has been designed to include multiple lines:
 - If multiple lines are eligible according to FTSE GEIS Ground rules, then they are included. However, to avoid double counting, each line included takes into account the stock level fundamental value. As a consequence, this Index has at review 100 companies, but it may have more than 100 stocks.
 - Otherwise, only the largest most liquid line of stock will be included in the index. Generally, the largest line of stock will be included. The multiple line screen will be based on the most liquid line by the twelve months total volume traded prior to the review. In that case, companies take into account the full company fundamental value.
- m) These will be the FTSE RAFI Sweden 100 Index (Multiple Share Class) constituents and their weights in this index will be set proportional to their fundamental values.
- n) Divide the company RAFI fundamental value of each stock by its free-float adjusted market capitalisation (please also refer to Rule 4.6(g) above). This is the weighting factor for use in the index calculation. Please note that for multiple lines included in the Index, the calculation of the weighting factor takes into account the stock level fundamental value. For all the other stocks included in the Index, the calculation takes into account the full company fundamental value (please also refer to Rule 4.6(l) above).

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- o) A company which has a percentage that is excluded from the underlying FTSE RAFI universe but has a percentage that is freely floating and is included in the FTSE RAFI universe will have its investability weighting equal to the whole company that is freely available for foreign investors.

For example, consider a company which is 90% owned by the state through a domestic share class (which is excluded from the underlying FTSE RAFI Sweden universe) and a 10% share class which is freely floating and is available to foreign investors (which is included in the underlying FTSE RAFI Sweden universe at a 100% investability weight). The weight assigned to the company will therefore be 10%, which is freely available to foreign investors.

SECTION 5

5.0 CHANGES TO CONSTITUENT COMPANIES

5.1 Additions

- 5.1.1 FTSE RAFI Sweden 100 Index (Multiple Share Class) will not have intra-review additions and new issues will be reviewed for index inclusion at the next annual review, in line with FTSE RAFI Index Series. When a constituent is added to the universe, it will be therefore considered for inclusion at the next annual review of the FTSE RAFI Sweden 100 Index (Multiple Share Class).

5.2 Deletions

- 5.2.1 If a constituent of the universe is removed, the constituent will be removed from the FTSE RAFI Sweden 100 Index (Multiple Share Class). The FTSE RAFI Sweden 100 Index (Multiple Share Class) has 100 companies at review, but the number of constituents of the Index is not fixed and it may vary between annual reviews, in line with FTSE RAFI Index Series. If an index constituent is deleted, the FTSE RAFI Sweden 100 Index (Multiple Share Class) may have less than 100 companies.

5.3 Splits / Demergers

- 5.3.1 If a constituent company is split and forms two or more companies and any of the new entities are retained in the eligible universe, those new entities will be retained in the FTSE RAFI Sweden 100 Index (Multiple Share Class), with their FTSE RAFI factors calculated such that their overall percentage representation within the Index remains the same. The FTSE RAFI Sweden 100 Index (Multiple Share Class) may have more than 100 companies after review only in the event that a constituent company is split and forms two or more companies by issuing new equity to existing shareholders. The resulting companies will be eligible to continue to be included in the Index.

5.4 Mergers / Takeovers

5.4.1 Mergers / Takeovers between constituents

All mergers between existing constituents are treated as cash mergers. The constituent being acquired is deleted on the effective date of the acquisition. The acquiring company will remain a constituent of the FTSE RAFI Sweden 100 Index (Multiple Share Class) and its FTSE RAFI factor will be recalculated to ensure cap-neutrality for any resulting shares in issue increase.

5.4.2 Mergers / Takeovers between a constituent and a non-constituent

- a) If an existing constituent is acquired by a non-constituent for cash or stock, the existing constituent will be deleted and the acquiring non-constituent will not be considered for FTSE RAFI Sweden 100 Index (Multiple Share Class) eligibility until the next annual review.
- b) If an existing constituent acquires a non-constituent for cash or stock, the existing constituent will remain in the FTSE RAFI Sweden 100 Index (Multiple Share Class) at an unchanged weight.

SECTION 5

5.5 **Suspension of Dealing**

- 5.5.1 If a constituent is suspended on its home exchange it may remain in the indices, at the price at which it is suspended, for up to 10 business days. During this time, on advice from FTSE, the Chairman and Deputy Chairman of the relevant Regional Committee (or their deputies) may agree to delete the constituent immediately either at its suspension price, or at zero.
- 5.5.2 Where 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 indices on the eleventh trading day at zero or the suspension price. Where suspension is for a reason not to the detriment of the constituent, it may be retained or removed at its suspension price with the approval of the Chairman and Deputy Chairman (or their deputies) of the relevant Regional Committee.

5.6 **Relisting of Suspended Constituents**

- 5.6.1 Securities which on relisting, are larger than the smallest constituent of the index, will be re-instated in the index at the price at which they were removed. The re-instatement will happen after the close of business on the first day after the stock is re-listed.
- 5.6.2 If a deleted constituent (that has been suspended at a price other than zero) is subsequently delisted and deemed to be of nil value, the stock will be included for one day's calculation in the index (from which it was removed) to enable the fall in the stock's value to be reflected in the index value.
- 5.6.3 In this situation, the stock will be re-included at the suspension price, and its price will be zero throughout that day's calculation, including the closing price.
- 5.6.4 If a company relists after a continuous period of suspension lasting more than a year, the relevant Regional Committee reserve the right to treat the company as a new issue for the purposes of index eligibility.

SECTION 5

5.7 Corporate Actions for Market Capitalisation Neutral

5.7.1 The FTSE RAFI adjustment factor of a constituent will be adjusted following a corporate action that affects its market capitalisation to ensure its weight remains the same in the index. The table below summarises corporate action treatment in relation to the FTSE RAFI adjustment factor (for market capitalisation neutral).

Corporate Event	Market Cap Neutral	Description	Action
Treatment of all stock mergers between:			
Index constituents	No	Company A acquires Company B for stock	Company A will increase shares (neutralised event). Company B will be deleted
Index constituent acquiring a non-constituent (if >10% & 2bn)	Yes	Index constituent Company A acquires non constituent	Company A will increase shares (neutralised event).
Non-constituent acquiring an index constituent (cash or stock)	Yes	Non-constituent B acquiring an index constituent Company A.	Company A will be deleted. Company B not eligible until the next annual review.
Treatment Spin-Offs:			
Spun-off entity added to the index	Yes	Company A spins off Company B, with Company B added to the same indices as Company A	Weight of New Company A & B equals the weight of original Company A
Spun-off entity not added to the index (capital repayment)	No	Company A spins off Company B, with Company B NOT added to any indices	Treated as a capital repayment for Company A
Treatment of Capital Repayments			
Standard special dividend	No	Capital repayment	Price reduces, not applied as a market cap neutral event
Result of bonus in different line of stock	No	Capital repayment	Price reduces, not applied as a market cap neutral event
Treatment of Rights Issues	Yes		Market Cap Neutral Event
Treatment of Splits, Bonus & Scrip issues	Yes		Market Cap Neutral Event
Treatment of Investability Weight	Yes		Market Cap Neutral Event
Changes in Shares in Issue (quarterly 1% and intra-quarter >10% or 2bn USD)	Yes		Market Cap Neutral Event

SECTION 6

6.0 INDEX CALCULATION

- 6.1 The FTSE RAFI Fundamental value for each stock is applied to the calculation by way of the FTSE RAFI adjustment factor, c_i . This factor adjusts the conventional investable market capitalisation of the constituent to the FTSE RAFI Fundamental Weight of the constituent. It is calculated by dividing the FTSE RAFI fundamental value (please refer to Rule 4.6(n) above) for each stock by its free-float adjusted market capitalisation at review.
- 6.2 The application of the FTSE RAFI adjustment factor to the conventional investable market capitalisation ensures that any actions that may impact the price of a constituent (such as rights or scrip issues) are accounted for.

Thus:-

$$\frac{\sum_{i=1}^n ((p_i \cdot e) \cdot s_i \cdot f_i \cdot c_i)}{d}$$

For other factors in this formula please refer to the FTSE Global Equity Index Series Ground Rules.

6.3 Descriptions of the RAFI Factors

<i>Sales</i>	=	<i>company sales averaged over the prior five years</i>
<i>Cash Flow</i>	=	<i>company cash flow averaged over the prior five years, defined as Operating Income plus Depreciation</i>
<i>Book Value</i>	=	<i>company book value at the review date</i>
<i>Dividend</i>	=	<i>total dividend distributions averaged over the last five years, including both special and regular dividends paid in cash</i>

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7.0 FURTHER INFORMATION

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

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