

MARKET CONSULTATION- SOLACTIVE ISS ESG SCREENED INDEX SERIES

06 April 2020



Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation with regard to changing the Index Methodology of the following Indices (the 'Indices'):

NAME	RIC	ISIN
Solactive ISS ESG Screened Europe Index PR	.SESGEUP	DE000SLA6Z99
Solactive ISS ESG Screened Europe Index NTR	.SESGEUN	DE000SLA60A8
Solactive ISS ESG Screened Europe Index TR	.SESGEUT	DE000SLA60B6
Solactive ISS ESG Screened Japan Index PR	.SESGJPP	DE000SLA60C4
Solactive ISS ESG Screened Japan Index NTR	.SESGJPN	DE000SLA60D2
Solactive ISS ESG Screened Japan Index TR	.SESGJPT	DE000SLA60E0
Solactive ISS ESG Screened USA Index PR	.SESGUSP	DE000SLA60F7
Solactive ISS ESG Screened USA Index NTR	.SESGUSN	DE000SLA60G5
Solactive ISS ESG Screened USA Index TR	.SESGUST	DE000SLA60H3
Solactive ISS ESG Screened USA Small Cap Index PR	.SESGUSSP	DE000SLA60J9
Solactive ISS ESG Screened USA Small Cap Index NTR	.SESGUSSN	DE000SLA60K7
Solactive ISS ESG Screened USA Small Cap Index TR	.SESGUSST	DE000SLA60L5
Solactive ISS ESG Screened Developed Markets Index PR	.SESGDMP	DE000SLA60M3
Solactive ISS ESG Screened Developed Markets Index NTR	.SESGDMN	DE000SLA60N1
Solactive ISS ESG Screened Developed Markets Index TR	.SESGDMT	DE000SLA60P6
Solactive ISS ESG Screened Developed Markets Small Cap Index PR	.SESGDMSP	DE000SLA60Q4
Solactive ISS ESG Screened Developed Markets Small Cap Index NTR	.SESGDMSN	DE000SLA60R2
Solactive ISS ESG Screened Developed Markets Small Cap Index TR	.SESGDMST	DE000SLA60S0



Solactive ISS ESG Screened Emerging Markets Index PR	.SESGEMP	DE000SLA7XD4
Solactive ISS ESG Screened Emerging Markets Index NTR	.SESGEMN	DE000SLA7XE2
Solactive ISS ESG Screened Emerging Markets Index TR	.SESGEMT	DE000SLA7XF9
Solactive ISS ESG Screened Global Markets Index PR	.SESGGMP	DE000SLA7XG7
Solactive ISS ESG Screened Global Markets Index NTR	.SESGGMN	DE000SLA7XH5
Solactive ISS ESG Screened Global Markets Index TR	.SESGGMT	DE000SLA7XJ1
Solactive ISS ESG Screened GM Asia ex Japan Index PR	.SESGAJP	DE000SLA7Y08
Solactive ISS ESG Screened GM Asia ex Japan Index NTR	.SESGAJN	DE000SLA7Y16
Solactive ISS ESG Screened GM Asia ex Japan Index TR	.SESGAJT	DE000SLA7Y24
Solactive ISS ESG Screened Brazil Small & Mid Cap Index PR	.SESGBRP	DE000SLA7Y65
Solactive ISS ESG Screened Brazil Small & Mid Cap Index NTR	.SESGBRN	DE000SLA7Y73
Solactive ISS ESG Screened Brazil Small & Mid Cap Index TR	.SESGBRT	DE000SLA7Y81
Solactive ISS ESG Screened EM EMEA Index PR	.SESGEAP	DE000SLA7ZC1
Solactive ISS ESG Screened EM EMEA Index NTR	.SESGEAN	DE000SLA7ZD9
Solactive ISS ESG Screened EM EMEA Index TR	.SESGEAT	DE000SLA7ZE7
Solactive ISS ESG Screened Golden Dragon Index PR	.SESGGDP	DE000SLA7ZJ6
Solactive ISS ESG Screened Golden Dragon Index NTR	.SESGGDN	DE000SLA7ZK4
Solactive ISS ESG Screened Golden Dragon Index TR	.SESGGDT	DE000SLA7ZL2
Solactive ISS ESG Screened DM Health Care Index PR	.SESGHCP	DE000SLA7ZQ1
Solactive ISS ESG Screened DM Health Care Index NTR	.SESGHCN	DE000SLA7ZR9
Solactive ISS ESG Screened DM Health Care Index TR	.SESGHCT	DE000SLA7ZS7
Solactive ISS ESG Screened Latin America Large, Mid & Small Cap Index PR	.SESGLAP	DE000SLA7ZW9



Solactive ISS ESG Screened Latin America Large, Mid & Small Cap Index NTR	.SESGLAN	DE000SLA7ZX7
Solactive ISS ESG Screened Latin America Large, Mid & Small Cap Index TR	.SESGLAT	DE000SLA7ZY5
Solactive ISS ESG Screened Europe Small Cap Index PR	.SESGEUSP	DE000SL0AU40
Solactive ISS ESG Screened Europe Small Cap Index NTR	.SESGEUSN	DE000SL0AU57
Solactive ISS ESG Screened Europe Small Cap Index TR	.SESGEUST	DE000SL0AU65

Rationale for Market Consultation

The Solactive ISS ESG Screened Index Series aims to track various size and regional segments of the global stock market including only companies operating in accordance with market standards on ESG controversy screens. Those standards are based on established norms such as the United Nations Global Compact and the exclusion of significant involvement in defined sectors. Solactive deems the current Index Methodology lacking with regards to Norm-Based Research. The Methodology excludes companies involved in a verified violation of international norms and conventions. To be excluded, the violation needs to 'have been verified by an authoritative body that the company is engaging in the activity or conduct'.

However, given the reliance of Norm-Based Research on verification and on the transparency granted by a free press, it must be acknowledged that in some countries there will be restrictions on information that would provide verification. This is the case in territories involved in military conflict, and in authoritarian or repressive regimes, where human rights standards are low, and where independent media is all but absent and unable to report on the plight of citizens. Given the non-negligible risk that state-owned enterprises in these countries may benefit from lax regulatory standards and an opaque media environment, and may even be involved in furthering the state's violation of civil rights (such as through surveillance), the methodology updates are proposed, offering an expansion of ISS ESG's Norm-Based Research methodology.

Proposed Change to the Index Guideline

The following Methodology changes are proposed in the following point of the Index Guideline:

Section 2.1 Selection of the Index components

The following additional section will be included in the theme "Norms-Based Research" to further refine the norms violations that shall be excluded from the Index:



Theme	Exclusion criterion
Norms-Based Research	Companies incorporated in countries identified with high social risk
	More than 50% ownership by the state Alleged failure to respect established norms

Explanation: High social risk countries will be updated annually based on new information. This is aimed at incorporating risks associated with a repressive state violating fundamental civil rights via its controlled entities

Therefore, chapter 2.1 will read as follows:

The initial composition of each Index of the Solactive ISS ESG Screened Index Series as well as any ongoing adjustment are based on the following non-discretionary rules. On the Selection Days, Solactive AG defines the respective Index Universe as outlined in Section 4. The selection of the Index Components proceeds as follows:

Solactive evaluates all companies in the respective Index Universe based on the criteria outlined in the table below. The evaluation is based on data provided by ISS ESG:

Theme	Exclusion criterion
Norm-Based Research	Environment
	Human Rights
	Corruption
	Labour Rights
	Companies incorporated in countries identified with high social risk
	More than 50% ownership by the state Alleged failure to respect established norms
Controversial Weapons Research	Chemical weapons
	Biological weapons
	Nuclear weapons
	Depleted Uranium
	Nuclear weapons outside the NPT
	Cluster munitions
	Anti-personnel mines
Sector-Based Screening	Fossil Fuel
	Oil sands
	Military
	50% Services <OR> 5% Production <OR> 5% Distribution <OR> 5% Exploration
	0% Production <OR> 0% Exploration
	50% Services <OR> 5% Production <OR> 5% Distribution



Pornography	5% overall <OR> 0% Production
Tobacco	50% Services <OR> 0% Production <OR> 5% Distribution
Gambling	50% Services <OR> 5% Production <OR> 5% Distribution
Alcohol	50% Services <OR> 5% Production <OR> 5% Distribution
Cannabis	50% Services <OR> 5% Production <OR> 5% Distribution

Explanation: % figures refer to revenue threshold (for degree of involvement) above which criterion is breached; High social risk countries will be updated annually based on new information. This is aimed at incorporating risks associated with a repressive state violating fundamental civil rights via its controlled entities

All companies violating any of the exclusion criteria above are excluded. All companies for which an evaluation of these exclusion criteria is not possible due to insufficient and/or missing information or data are excluded.

The remaining companies constitute the respective Index.

Feedback on the proposed changes

If you would like to share your thoughts with Solactive, please use this consultation form and provide us with your personal details and those of your organization.

Name	
Function	
Organization	
Email	
Phone	
Confidentiality (Y/N)	

Solactive is inviting all stakeholders and interested third parties to evaluate the proposed changes to the Methodology for the Solactive ISS ESG Screened Index Series and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.



Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until *15th April 2020 (cob)*.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation- Solactive ISS ESG Screened Index Series" as the subject of the email, or

via postal mail to: Solactive AG
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 60327 Frankfurt am Main
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Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us via above email address.

CONTACT

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