

MARKET CONSULTATION SOLACTIVE CHINA CONSUMER BRAND INDEX

16 June 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 China Consumer Brand Index PR	.SOLCCBIP	DE000SLA9KF2
Solactive China Consumer Brand Index NTR	.SOLCCBIN	DE000SLA9KG0
Solactive China Consumer Brand Index TR	.SOLCCBIT	DE000SLA9KH8

Rationale for Proposed Changes

Solactive AG deems the current Index Methodology lacking in regards to the corporate governance risk of the companies included in the index universe. Companies with a recent IPO are less thoroughly analyzed by the market and are therefore, to a higher degree, subject to potential corporate governance risk. In order to reflect these economic circumstances, Solactive AG decided to apply one additional criterium, only including securities in index universe with the first trade date not within the past six months from the Selection Day.

Secondly, Solactive AG deems the current Index Methodology lacks the diversification of the index and the accurate representation of the Index Objective. Hence, Solactive AG decided to add one industry to the list of non-eligible industries, "Apparel/Footwear Retail". The focus of companies classified in this industry is the distribution of apparel and footwear, where the brand concept is less relevant.

Additionally, the number of index components shall increase from 20 to 30 to extent the coverage of the Consumer Brand theme. This necessitates an increase of eligible securities per industry from 2 to 3. As this would result in smaller-cap companies included in the index, the weight cap in the index will be increased from 7% to 9%. Underweighting (compared with simply free-float market cap weight) the larger companies in the index while overweighting the smaller companies would deteriorate the index performance compared to actual market conditions and the impact of larger companies. The cap will therefore increase to prevent excessive overweight of companies with smaller market capitalizations.

Proposed Changes to the Index Guideline

The following Methodology changes are proposed in the following points of the Index Guideline (ordered in accordance with the numbering of the affected sections):

1. Chapter 2.1 Index Universe Requirements



- a. an additional bullet will be included after point 4.l):
 - m) Apparel/Footwear Retail
- b. an additional point will be included between points 4. and 5.:
 5. The first trade date of the security should not be within the last six months until and including the SELECTION DAY.
- c. point 9. will be changed as follows:
 9. The companies are ranked in their industries, as defined in step 6, according to TOTAL MARKET CAPITALIZATION. The top 3 per industry are selected and constitute the INDEX UNIVERSE

Therefore, chapter 2.1. Index Universe Requirements will read:

The INDEX UNIVERSE is comprised of all financial instruments which fulfill the below requirements (the "INDEX UNIVERSE REQUIREMENTS"):

1. Headquartered in China or Hong Kong
2. Should be listed on one of the following exchanges:
 - a) Hong Kong: HKEX
 - b) Stock Connect: Shanghai and Shenzhen
 - c) US: NYSE and NASDAQ
3. Should be from the following economies according to the FactSet Industries and Economic Sectors:
 - a) Consumer Services
 - b) Consumer Non-Durables
 - c) Consumer Durables
4. Should not be from the following industries according to the FactSet Industries and Economic Sectors:
 - a) Catalog/Specialty Distribution
 - b) Internet Retail
 - c) Electronics Distributors
 - d) Consumer Sundries
 - e) Department Stores
 - f) Drugstore Chains



- g) Electronics/Appliance Stores
 - h) Wholesale Distributors
 - i) Medical Distributors
 - j) Automotive Aftermarket
 - k) Specialty Stores
 - l) Food Retail
 - m) Apparel/Footwear Retail
5. The first trade date of the security should not be within the last six months until and including the SELECTION DAY.
 6. For each company, the short term revenue growth in HKD over a period in the past that was specified as binding on the LIVE DATE and that ends on (and including) the relevant SELECTION DAY, is calculated. Companies with the highest and the lowest growth in their respective industry for the relevant period are excluded
 7. Based on the remaining securities, the market capitalization weighted average industry revenue growth is calculated. Companies from one of the 15 industries with the highest weighted growth are eligible for inclusion in the INDEX
 8. Securities with an AVERAGE DAILY VALUE TRADED of less than HKD 20 million over 6 months prior to and including the SELECTION DAY are excluded
 9. If a company has more than one share classes then the most liquid share class is eligible
 10. The companies are ranked in their industries, as defined in step 6, according to TOTAL MARKET CAPITALIZATION. The top 3 per industry are selected and constitute the INDEX UNIVERSE

The determination of the INDEX UNIVERSE is fully rule-based and the INDEX ADMINISTRATOR cannot make any discretionary decisions.

2. Chapter 2.2. Selection of the Index Components

The increase in index components results in the adjustment of the buffer rule used in the index selection.

Thus, the Index Methodology will be changed from:

Based on the INDEX UNIVERSE, the initial composition of the INDEX as well as any selection for an ordinary rebalance is determined on the SELECTION DAY in accordance with the following rules (the "INDEX COMPONENT REQUIREMENTS"):

- a) Top 15 by TOTAL MARKET CAPITALIZATION rank are selected for index inclusion
- b) Existing constituents with rank from 16 to 25 are selected for index inclusion until the target constituent count of 20 is reached



- c) If there are less than 20 stocks after step b, non-constituents are selected with rank from 16 to 25 until the target constituent count of 20 is reached

If less than 20 securities pass the selection criteria described above, all such securities will be selected resulting in less than 20 INDEX COMPONENTS.

The selection of the INDEX COMPONENTS is fully rule-based and the INDEX ADMINISTRATOR cannot make any discretionary decision.

To:

Based on the INDEX UNIVERSE, the initial composition of the INDEX as well as any selection for an ordinary rebalance is determined on the SELECTION DAY in accordance with the following rules (the "INDEX COMPONENT REQUIREMENTS"):

- a) Top 25 by TOTAL MARKET CAPITALIZATION rank are selected for index inclusion
- b) Existing constituents with rank from 26 to 35 are selected for index inclusion until the target constituent count of 30 is reached
- c) If there are less than 30 stocks after step b, non-constituents are selected with rank from 26 to 35 until the target constituent count of 30 is reached

If less than 30 securities pass the selection criteria described above, all such securities will be selected resulting in less than 30 INDEX COMPONENTS.

The selection of the INDEX COMPONENTS is fully rule-based and the INDEX ADMINISTRATOR cannot make any discretionary decision.

3. Chapter 2.3. Weighting of the Index Components

The Index Methodology will be changed from:

On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to FREE FLOAT MARKET CAPITALIZATION such that the weight of the company does not exceed 7%.

To:

On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to FREE FLOAT MARKET CAPITALIZATION such that the weight of the company does not exceed 9%. The excess weight will be distributed to the other INDEX COMPONENTS pro-rata in an iterative process.

Implementation of the changes

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective no 26th June 2020.



Feedback on the proposed changes

If you would like to share your thoughts with Solactive AG, 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 AG is inviting all stakeholders and interested third parties to evaluate the proposed changes to the Methodology for the Solactive China Consumer Brand Index 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 *24/06/2020 (cob)*.



Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation SOLACTIVE CHINA CONSUMER BRAND INDEX" as the subject of the email, or

via postal mail to: Solactive AG
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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.



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