

MARKET CONSULTATION MEDICAL CANNABIS AND WELLNESS EQUITY INDEX

24 July 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
MEDICAL CANNABIS AND WELLNESS EQUITY INDEX PR	.MEDCAWEP	DE000SLA93G6
MEDICAL CANNABIS AND WELLNESS EQUITY INDEX NTR	.MEDCAWEN	DE000SLA93H4
MEDICAL CANNABIS AND WELLNESS EQUITY INDEX TR	.MEDCAWET	DE000SLA93J0

Rationale for Market Consultation

Solactive AG deems the current Index Methodology lacking in regard to the appropriate reflection of the Index Objective. The Index Objective is set to represent securities with significant business activities in the medical cannabis, hemp and CBD industry that are weighted based on their market capitalization to derive weights in the Indices that represent the relevant size of a company in the market. Due to the recent downward movement in the medical cannabis, hemp and CBD industry, market capitalizations and trading volumes in those markets decreased sharply. At the same time, some companies represent a significant portion of the cumulative market capitalization in those industries. Solactive AG proposes to decrease the minimum market capitalization and average daily trading volume to better reflect the new market conditions. In the same vein, Solactive AG proposes to apply the composite average daily trading volume over the whole North American market as securities from the medical cannabis, hemp and CBD industry tend to be traded across multiple exchanges. To avoid weight concentration in smaller stocks, the weight cap in the index will be increased to 15%. This measure acknowledges the development in the market to be affected by a small number of securities with substantial market capitalization. To better reflect the weighting by market capitalization, the fixing mechanism for rebalancing will be switched to share fixing.

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. Section 2.2. Selection of the Index Components

From (old version):



"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**"):

1. Securities in the INDEX UNIVERSE are selected if they have:
 - a. a minimum AVERAGE DAILY VALUE TRADED of at least USD 250,000 over 1 month prior to and including the SELECTION DAY, with existing INDEX COMPONENTS requiring a minimum AVERAGE DAILY VALUE TRADED of at least USD 200,000 over 1 month prior to and including the SELECTION DAY and
 - b. a minimum SHARE CLASS MARKET CAPITALIZATION of at least USD 50 million, with existing INDEX COMPONENTS requiring a minimum SHARE CLASS MARKET CAPITALIZATION of at least USD 40 million. (...)"

To (new version):

"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**"):

1. Securities in the INDEX UNIVERSE are selected if they have:
 - a. a minimum AVERAGE DAILY VALUE TRADED of at least USD 200,000 over 1 month prior to and including the SELECTION DAY, with existing INDEX COMPONENTS requiring a minimum AVERAGE DAILY VALUE TRADED of 10% less over 1 month prior to and including the SELECTION DAY and
 - b. a minimum SHARE CLASS MARKET CAPITALIZATION of at least USD 30 million, with existing INDEX COMPONENTS requiring a minimum SHARE CLASS MARKET CAPITALIZATION of 10% less. (...)"
2. Section 2.3. Weighting of the Index Components

From (old version):

"On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to SHARE CLASS MARKET CAPITALIZATION such that the weight of the company does not exceed 10%."

To (new version):

"On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to SHARE CLASS MARKET CAPITALIZATION such that the weight of the company does not exceed 15%."



3. Section 3.1. Ordinary Rebalancing

From (old version):

“In order to reflect the new selection of the INDEX COMPONENTS determined on the SELECTION DAY (in accordance with Section 2.1 and 2.2) the INDEX is adjusted on the REBALANCE DAY after CLOSE OF BUSINESS.

This is carried out by implementing the weights as determined on the SELECTION DAY. (...)”

To (new version):

“In order to reflect the new selection of the INDEX COMPONENTS determined on the SELECTION DAY (in accordance with Section 2.1 and 2.2) the INDEX is adjusted on the REBALANCE DAY after CLOSE OF BUSINESS.

This is carried out by implementing the shares as determined on the FIXING DAY based on the weights calculated on the SELECTION DAY. (...)”

4. Section 6. Definitions

- Amendment of the definition of “**DAILY VALUE TRADED**”

From (old version):

““**DAILY VALUE TRADED**” means, in respect of an INDEX COMPONENT and a TRADING DAY, the product of (i) the CLOSING PRICE of such INDEX COMPONENT and (ii) the volume traded (measured as a number of shares) of such INDEX COMPONENT on the EXCHANGE during such TRADING DAY.”

To (new version):

““**DAILY VALUE TRADED**” means, in respect of an INDEX COMPONENT and a TRADING DAY, the product of (i) the CLOSING PRICE of such INDEX COMPONENT and (ii) the volume traded (measured as a number of shares) of such INDEX COMPONENT across the United States and Canada (i.e. the composite volume for those two regions) during such TRADING DAY.”

- Definition of “**FIXING DAY**” will be added:

“**FIXING DAY**” is the SELECTION DAY.



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 Medical Cannabis and Wellness Equity 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 30/07/2020.



Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on 31/07/2020.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation Medical Cannabis and Wellness Equity 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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