MARKET CONSULTATION SOLACTIVE MOMENTUM LONG INDEX

06 July 2020

Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation with regard to a potential change of the selection criteria of the following Indices (the 'Affected Indices'):

NAME	RIC	ISIN
SOLACTIVE MOMENTUM LONG INDEX PR	.GSXUMOLP	DE000SL0ADV4
SOLACTIVE MOMENTUM LONG INDEX NTR	.GSXUMOLN	DE000SL0ADW2
SOLACTIVE MOMENTUM LONG INDEX GTR	.GSXUMOLT	DE000SL0ADX0

Rationale for Market Consultation

Solactive AG deems the current Index Methodology lacking regarding the suitability to potential long/short strategies. The Affected Indices are set up in a way, that they can be used as the long leg in a long/short strategy on the U.S. equity market. Their objective is to include all the securities from the Solactive U.S. Broad Market Index, that are eligible after optimizing for a maximum momentum score under various constraints. In evaluating the Original Screening Criteria and the resulting securities included in the Affected Indices, a lack of consideration of borrowing costs was identified. This makes the Affected Indices not a suitable part of potential long/short strategies. In order to align better with the objective of the Affected Indices, the following changes are proposed.

Proposed Changes to the Index Guideline

The following Methodology change is proposed in the following point of the Index Guideline (ordered in accordance with the numbering of the affected section):

- Exclude all stocks with borrowing costs of more than 2 % at the SELECTION DAY.

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"):

Step 1: For all securities in the INDEX UNIVERSE, exclude stocks with pending mergers, acquisitions, tender offers or spinoffs.

Step 2: Exclude all stocks that have an average daily value traded (ADV) of less than USD 10 million based on the median daily trading volume of the last 20 trading days.

Step 3: Calculate the momentum z-score for every remaining stock. The momentum is defined using each stock's cumulative return over the last 250 trading days minus the last 20 trading days.

Step 4: The 50% of stocks with the highest momentum z-score are included in the optimization.

Step 5: An optimization is performed to maximize the momentum score. The momentum score is defined as the sum product of individual weights and momentum z-scores. The optimization is performed in two steps. In a first step, all stocks with an optimal weight of less than 0.2% are removed from the dataset. In a second step, the reminder is again optimized for the final weights. The method used is Sequential Least Squares Programming (SLSQP). The optimizations are performed with respect to the following constraints:

-   Value Constraint: The aggregate of the weights of each eligible stock in the portfolio must equal 100%.

-   Maximum Weight Constraint: The value of each stock's weight is less than or equal to 2%.

-   Minimum Weight Constraint: The value of each stock's weight is greater than or equal to 0.20%.

-   Sector Constraint: The aggregate of the weights of each eligible stock in each sector must be less than or equal to 25 percent of the portfolio weights. We define sector using the Factset L1 ("Economy") classification. If no solution is found, the constrained is relaxed to 30 percent.

-   Trading Liquidity Constraint: Each eligible stock's weight multiplied by USD 500 million must not exceed 10% of each stock's ADV based on the median daily trading volume of the last 20 trading days.

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

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"):

Step 1: For all securities in the INDEX UNIVERSE, exclude stocks with pending mergers, acquisitions, tender offers or spinoffs.

Step 2: Exclude all stocks with borrowing costs of more than 2 % at the SELECTION DAY. Borrowing costs of each security are determined by the DATA PROVIDER.

Step 3: Exclude all stocks that have an average daily value traded (ADV) of less than USD 10 million based on the median daily trading volume of the last 20 trading days.

Step 4: Calculate the momentum z-score for every remaining stock. The momentum is defined using each stock's cumulative return over the last 250 trading days minus the last 20 trading days.

Step 5: The 50% of stocks with the highest momentum z-score are included in the optimization.

Step 6: An optimization is performed to maximize the momentum score. The momentum score is defined as the sum product of individual weights and momentum z-scores. The optimization is performed in two steps. In a first step, all stocks with an optimal weight of less than 0.2% are removed from the dataset. In a second step, the reminder is again optimized for the final weights. The method used is Sequential Least Squares Programming (SLSQP). The optimizations are performed with respect to the following constraints:

- Value Constraint: The aggregate of the weights of each eligible stock in the portfolio must equal 100%.

- Maximum Weight Constraint: The value of each stock's weight is less than or equal to 2%.

- Minimum Weight Constraint: The value of each stock's weight is greater than or equal to 0.20%.

- Sector Constraint: The aggregate of the weights of each eligible stock in each sector must be less than or equal to 25 percent of the portfolio weights. We define sector using the Factset L1 ("Economy") classification. If no solution is found, the constrained is relaxed to 30 percent.

- Trading Liquidity Constraint: Each eligible stock's weight multiplied by USD 500 million must not exceed 10% of each stock's ADV based on the median daily trading volume of the last 20 trading days.

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

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 Momentum Long 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 July 17th, 2020 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on July 28th, 2020.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation Solactive Momentum Long 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.

CONTACT

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