

# MARKET CONSULTATION SOLACTIVE U.S. LARGE & MID CAP VALUE 100 INDEX | GUIDELINE MODIFICATION

02 September 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 Index (the 'Index):

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Solactive U.S. Large & Mid Cap Value 100 Index TR	.SOUSLMVT	DE000SLA5ZZ6

## Rationale for Market Consultation

The Index aims to track 100 stocks from the US equity market that exhibit strong value characteristics as measured by 3 common value measures (book-to-market, dividend yield, and price-to-earnings). Given that all of the 3 value measures are based on fundamental reported measurements by the company, these end up largely influenced by accounting differences among various industries. This makes it rather difficult to compare company ratios across industries and leads thus to a distorted sector exposure in the index.

In order to ensure the scope of the index is correctly fulfilled, Solactive suggests an adjustment to the normalization procedure applied to the index, so that this is done sector-neutrally, rather than across the entire universe. This approach will bring the methodology in line with broad market standards and balance the sector exposure.

## Proposed Changes 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

#### Old Text:

[...]

For all companies in the Index Universe a Value Score is calculated as follows:

[...]

2. Calculate a z-score for each of the three metrics under 1.a-1.c as:

$$Z_i = \frac{x - \mu}{\sigma}$$

where:

$Z_i$  = Z-score of stock i



- $x$  = B/P, DY or E/P of stock  $i$   
 $\mu$  = average B/P, DY or E/P  
 $\sigma$  = standard deviation of B/P, DY or E/P

3. Calculate the Value Score for each stock as the average of the three z-scores. If a stock has less than 2 z-scores available, it is dropped from the universe

$$Value\ Score_i = \frac{Z_i^{B/P} + Z_i^{DY} + Z_i^{E/P}}{\#z - scores_i}$$

where:

$\#z - scores_i$  = number of z-scores for stock  $i$ :

[...]

[New Text:](#)

[...]

For all companies in the Index Universe a sector-neutral Value Score is calculated as follows:

[...]

2. Calculate a sector-neutral Z-score for each of the three metrics under 1.a-1.c as:

$$Z_{i,t}^{SN} = \frac{x_{i,t} - \mu_{sector,t}}{\sigma_{sector,t}}$$

Where:

- $Z_{i,t}^{SN}$  = Sector-neutral Z-Score of stock  $i$ , at time  $t$   
 $x_{i,t}$  = B/P, DY or E/P of stock  $i$ , at time  $t$   
 $\mu_{sector,t}$  = Sector average of B/P, DY or E/P at time  $t$ . Sectors are defined by the Factset Economy classification.  
 $\sigma_{sector,t}$  = Standard deviation of B/P, DY or E/P at time  $t$ , for each sector

3. Calculate the sector-neutral Value Score for each stock as the average of the three sector neutralized Z-scores. If a stock has less than 2 Z-scores available, it is dropped from the universe

$$Value\ Score_{i,t}^{SN} = \frac{Z_{i,t}^{SN,B/P} + Z_{i,t}^{SN,DY} + Z_{i,t}^{SN,E/P}}{\#z - scores_{i,t}}$$

where:



$\#z - scores_i$  = number of Z-scores for stock i

$Z_{i,t}^{SN}$  = Sector-neutral Z-Score for B/P, DY or E/P of stock i, at time t

[...]

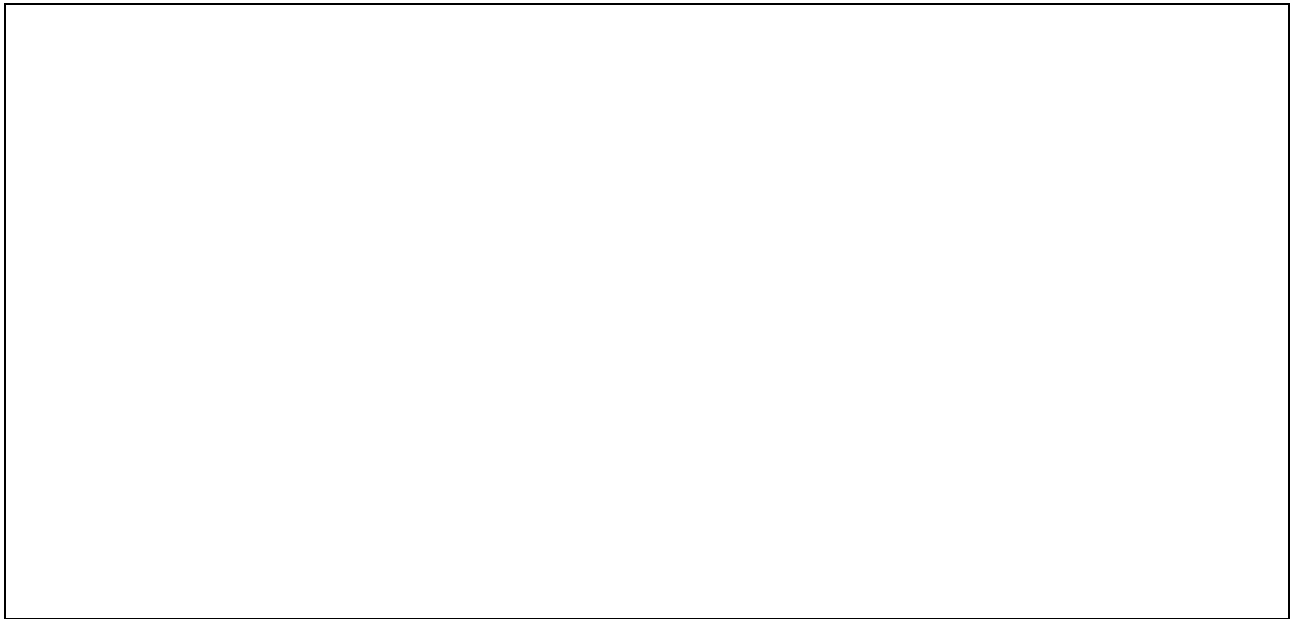
Note: Based on a historical simulation over the live period, one-way turnover of approximately 56% is expected for the upcoming index rebalancing due to the implementation of the above changes to the Index Methodology.

### 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 U.S. LARGE & MID CAP VALUE 100 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 September 29<sup>th</sup>, 2020 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on October 20<sup>th</sup>, 2020.

Please send your feedback via email to [compliance@solactive.com](mailto:compliance@solactive.com), specifying "Market Consultation SOLACTIVE U.S. VALUE 100 INDEX" as the subject of the email, or

via postal mail to:      Solactive AG  
                                 Platz der Einheit 1  
                                 60327 Frankfurt am Main  
                                 Germany

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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