

MARKET CONSULTATION - SOLACTIVE CANADIAN SELECT UNIVERSE BOND INDICES

31 March 2021



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 Canadian Select Universe Bond PR Index	.SOLHBBPR	DE000SLA4FB2
Solactive Canadian Select Universe Bond TR Index	.SOLHBB	DE000SLA3FB4
Solactive Canadian Select Corporate Bond PR Index	.SOLHCBPR	DE000SLA4FC0
Solactive Canadian Select Corporate Bond TR Index	.SOLHCB	DE000SLA3FC2
Solactive Canadian Select Short Term Bond PR Index	.SOLHSBPR	DE000SLA4FD8
Solactive Canadian Select Short Term Bond TR Index	.SOLHSB	DE000SLA3FD0

Rationale for Market Consultation

The Indices provide exposure to the investment grade Canadian bond market denominated in CAD, and include specific versions for corporate bonds and short-term bonds (less than 5 year time to maturity). At the time the indices were launched in 2014, they were done so with a specific sampling and optimisation strategy to provide a representative exposure to the respective market. Since then, the Canadian bond market has continued to evolve and grow, and the chosen sampling strategy no longer provides a full representation of the broad Canadian market. At the same time, the sampling strategy can also drive up turnover in specific market conditions, leading to increased replication costs and tracking errors.

Therefore, Solactive AG proposes a simplification of the methodology of the indices, removing large parts of the sampling and optimisation strategy, and clarifying the application of number of selection criteria.

The proposed changes are described in detail below and result in an expansion of the number of constituents of the Solactive Canadian Select Universe Bond TR Index from approximately 290, to more than 1170. Similar increases in the number of constituents can also be observed in the Corporate and Short-Term variants of the Indices.

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):



Section 1.4 Prices and Calculation Frequency

The Indices are calculated based upon Last Evaluation Mid Price, instead of Last Evaluated Ask Price of the Index Components.

From (old version):

The Index is calculated and distributed once every Business Day based on the Last Evaluated Ask Price of the Index Components.

[...]

To (new version)

The Index is calculated and distributed once every Business Day based on the Last Evaluated Mid Price of the Index Components.

Section 2.1 Selection of the Index Components

Clarification that the Indices are composed of bonds where the denomination is CAD, and country of issuance is Canada, and country of issuing entity is Canada. Increase of the Minimum Amount Outstanding for government bonds to CAD 100mio. Addition of DBRS to the ratings agency list.

From (old version):

The initial composition of each Index, as well as any selection for a rebalance (as specified in Section 3) is determined using the following rules:

- a) Denominated in CAD
- b) Amount Outstanding of at least 100m CAD for corporate bonds and 50m CAD for government bonds
- c) Effective time to maturity of not less than 12 months
- d) Only bonds that pay a fixed rate
- e) The securities must have a rating of at least BBB- or its equivalent from S&P , or Moody's.
- f) Floating rate notes, convertibles, mortgage backed securities, asset backed securities, inflation-linked securities, flat trading or defaulted securities are specifically excluded from the available universe.

[...]

To (new version)



The initial composition of each Index, as well as any selection for a rebalance (as specified in Section 3) is determined using the following rules:

- a) Denominated in CAD
- b) Country of issuance and country of issuing entity are Canada
- c) Amount Outstanding of at least 100m CAD for both corporate bonds and government bonds
- d) Effective time to maturity of not less than 12 months
- e) Only bonds that pay a fixed rate
- f) The securities must have a rating of at least BBB- or its equivalent from S&P, Moody's or DBRS.
- g) Floating rate notes, convertibles, mortgage backed securities, asset backed securities, inflation-linked securities, flat trading or defaulted securities are specifically excluded from the available universe.

[...]

Section 2.1.1 Solactive Canadian Select Corporate Bond Index

Significant simplification of the capping & bucketing of issues, reducing to the top 85% of corporate bonds (by Market Value) to be included in the index.

To (new version)

All bonds that meet the criteria in the Solactive Canadian Corporate Selection Pool are selected as index components for the Corporate Universe. In the Corporate Universe, all bonds are weighted according to their respective Market Value in proportion to the aggregated Market Value of all Corporate Universe components.

As a first step the issuer weight for all issuers in the Corporate Universe will be calculated and only the issuers that make up 85% of the Corporate Universe weights are included in the index. Issuers that are already part of the index composition are included, even if they are no longer part of the issuers that make up 85% of the Corporate Universe weights. For greater certainty, only bonds that do not meet the Index Component Requirements will be removed. For each issuer included in the index, all bonds that meet the Index Component Requirements will be included in the index composition.

Section 2.1.2 Solactive Canadian Select Universe Bond Index

Significant simplification of the capping & bucketing of issues, reducing to the top 99% of government bonds (by Market Value) to be included in the index.

To (new version)



All bonds that meet the criteria in the Solactive Canadian Aggregate Selection Pool are selected as index components for the Aggregate Universe. The Aggregate Universe is divided into the Corporate Universe (see 2.1.1) and the Government Universe.

In the Government Universe, all bonds are weighted according to their respective Market Value in proportion to the aggregated Market Value of all Government Universe components.

All government issuers that make up 99% of the Government Universe weights are considered. Government issuers that are already part of the index composition are included, even if they are no longer part of the government issuers that make up 99% of the Government Universe weights. For greater certainty, only bonds that do not meet the Index Component Requirements as specified in section 2 will be removed. For each government issuer included in the index, all bonds that meet the Index Component Requirements will be included in the Index.

Additionally, to the government bonds selected, the Solactive Canadian Select Universe Bond Index consists of all components of the Solactive Canadian Select Corporate Bond Index.

Section 2.2 Weighting of the Index Components

Specification that the weighting of the Index Components is based upon their respective Market Values and no longer related to issuer's weighting.

To (new version)

"[...]

The Index Components of each Index are weighted according to their respective Market Values in proportion to the aggregated Market Value of all Index Components in the Index.

[...]."

The following section will be added.

Clarification that Bonds (Government or Corporate) are only removed from the Indices if they no longer meet the minimum rating criteria (>BBB-), or no longer meet the Index Component Requirements.

New section

Section 3.1.1 Removal of Constituents

Index Constituents that are downgraded and no longer have a rating of at least BBB- will be removed from the index on the Rebalance Day following the downgrade.

Index Constituents will only be removed from the Index if they no longer meet the Index Component Requirements as specified in Section 2. For greater certainty, Index Constituents will not be removed



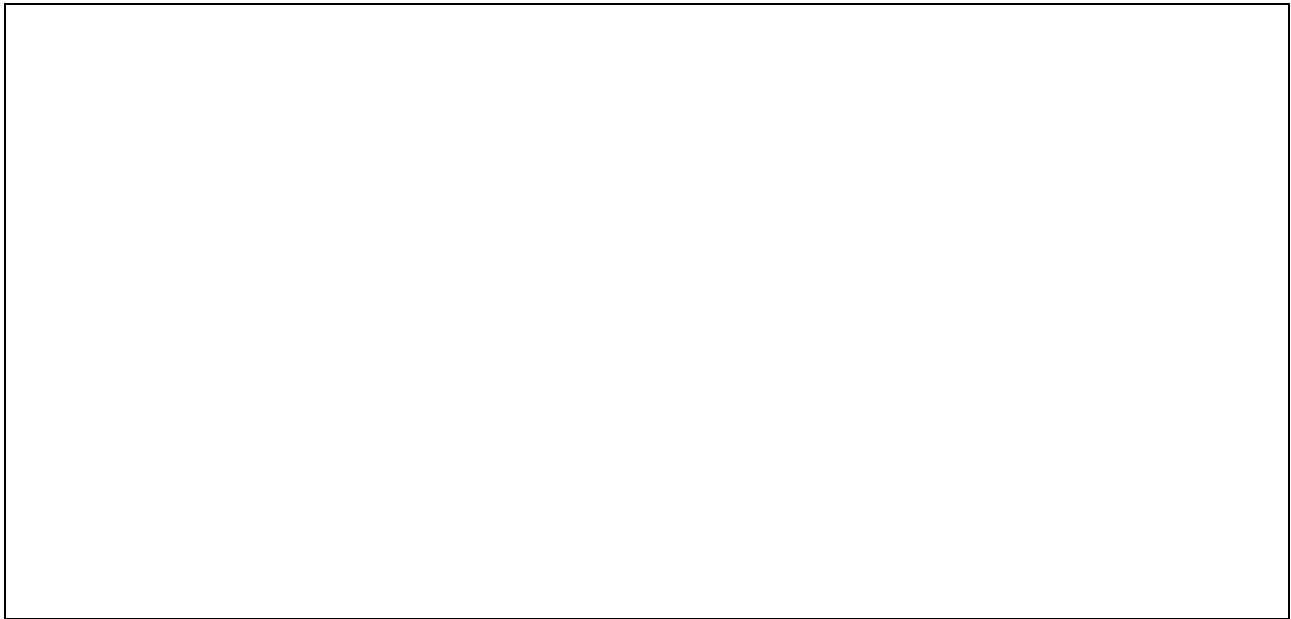
from the index if their respective Issuer is no longer part of the issuers that make up 85% of the Corporate Universe weights or 99% of the Government Universe, as applicable.

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 Indices 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 close of business 12 April 2021 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on 21 April 2021.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation-Solactive Canadian Select Universe Bond Indices" as the subject of the email, or

via postal mail to: Solactive AG
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 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.

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