

MARKET CONSULTATION
SOLACTIVE L&G ENHANCED
ESG DEVELOPED MARKETS
AND UNITED KINGDOM INDEX –
CHANGE OF METHODOLOGY

24 August 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 'Affected Indices'):

NAME	RIC	ISIN
Solactive L&G Enhanced ESG Developed Markets Index NTR	DE000SLOAF31	.SOEESGDN
Solactive L&G Enhanced ESG Developed Markets Index PR	DE000SLOAF23	.SOEESGDP
Solactive L&G Enhanced ESG Developed Markets Index TR	DE000SLOAF49	.SOEESGDT
Solactive L&G Enhanced ESG United Kingdom Index NTR	DE000SLOBP79	.SOEESGBN
Solactive L&G Enhanced ESG United Kingdom Index PR	DE000SLOBP61	.SOEESGBP
Solactive L&G Enhanced ESG United Kingdom Index TR	DE000SLOBP87	.SOEESGBT

Rationale for Market Consultation

The last few months saw an extensive emphasis being put on climate change mitigation and multiple countries and entities setting targets to get to net-zero emissions by 2050. This objective is at the heart of the European Green Deal and in line with the EU's commitment to global climate action under the Paris Agreement. Given the recent developments in the investment space, Solactive considers appropriate to enhance the methodology of the Affected Indices in order to explicitly commit to a carbon reduction trajectory. This would be achieved in a similar manner with the recommendations of the EU- Paris Agreement Alignment, targeting an initial reduction in average Index Carbon Intensity by 50% with a subsequent 7% year on year reduction trajectory.

The Affected Indices already achieve a carbon intensity reduction of approximately 50% solely based on the integration of the ESG Score tilting in the determination of the security weighting. Committing explicitly to the respective decarbonization trajectory would thus further serve the index objective, making the index also a suitable opportunity to those investors targeting to contribute to the climate risk mitigation through their investment decisions.

Proposed Changes to the Index Guideline

The following Methodology changes are proposed in the following points of the Index Guideline:



Section 1.1. Scope of the index

Addition to the Strategy Description:

[...]

In addition, the components are weighted based on an optimized algorithm such as to ensure that the portfolio is in line with the climate-neutrality by 2050 objective.

Section 2.3 Weighting of the index

Addition of a description of the carbon reduction initial target and subsequent trajectory:

[...]

The set of securities and their weights will consist of the INTERMEDIATE UNIVERSE, and their weights will be referenced as $w_{int,i}$.

The final Weight of each INDEX COMPONENT is further determined based on an optimization approach that minimizes the cumulative absolute weight deviation from the INTERMEDIATE UNIVERSE on each SELECTION DAY.

On the BASE DAY, it is subject to the following constraints:

- a. Reduce the CARBON INTENSITY of the INDEX compared to the CARBON INTENSITY of the INDEX UNIVERSE by at least 50%.
- b. Maximum absolute weight deviation from the weight in the INVESTABLE UNIVERSE of 3%. Individual Weights are capped at the minimum between 8% and INVESTABLE UNIVERSE weight * 20 as well as floored at 0.01%.
- c. The sum of weights which exceed 5% is capped at 35%.
- d. Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is capped at 2% and floored at 3%.
- e. Compared to the INVESTABLE UNIVERSE, the absolute deviation of the regional weights is capped at 0.5%. [This point is applicable only to the Solactive L&G Enhanced ESG Developer Markets Index]

If no solution can be found, the constraints are relaxed in the following order:

- a. Sector constraint: Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is increased by 0.5% in each direction.



- b. Regional weight constraint: Compared to the INVESTABLE UNIVERSE, absolute deviation of the region weights is capped at 1%. [This point is applicable only to the Solactive L&G Enhanced ESG Developer Markets Index]
- c. Single weight constraint: Maximum absolute deviation from the weight in the INVESTABLE UNIVERSE is iteratively increased by 0.25% until a solution is found.

The CARBON INTENSITY of the INDEX UNIVERSE is calculated by weighting the CARBON INTENSITY of the components of the INDEX UNIVERSE by the weight of the respective components within the INDEX UNIVERSE.

On each following SELECTION DAY each INDEX COMPONENT is assigned a weight based on the same objective function, but the algorithm is subject to the following constraints:

- a. A Decarbonization Trajectory is defined by an annual minimum CARBON INTENSITY reduction of 7% compared to the CARBON INTENSITY of the INDEX on the BASE DAY in a geometric progression applied semi-annually. The CARBON INTENSITY of the INDEX is then capped at the minimum of the CARBON INTENSITY of the Decarbonization Trajectory on the SELECTION DAY and 50% of the INDEX UNIVERSE CARBON INTENSITY on the SELECTION DAY.
- b. Maximum absolute weight deviation from the weight in the INVESTABLE UNIVERSE of 3%. Individual Weights are capped at the minimum between 8% and INVESTABLE UNIVERSE weight * 20 as well as floored at 0.01%.
- c. The sum of weights which exceed 5% is capped at 35%.
- d. Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is capped at 2% and floored at 3%.
- e. Compared to the INVESTABLE UNIVERSE, the absolute deviation of the regional weights is capped at 0.5%. [This point is applicable only to the Solactive L&G Enhanced ESG Developer Markets Index]

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- c. Single weight constraint: Maximum absolute deviation from the weight in the INVESTABLE UNIVERSE is iteratively increased by 0.25% until a solution is found.



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 L&G Enhanced ESG Developed Markets and United Kingdom 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 6th, 2021(cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *September 24th, 2021*.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation Solactive L&G Enhanced ESG Developed Markets and United Kingdom Index – Change of Methodology" 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

Solactive AG

German Index Engineering

Platz der Einheit 1

60327 Frankfurt am Main

Germany

Tel.: +49 (0) 69 719 160 00

Fax: +49 (0) 69 719 160 25

Email: info@solactive.com

Website: <http://www.solactive.com>

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