

MARKET CONSULTATION | RAFI VALUE FACTOR DEVELOPED EUROZONE FOSSIL FUELS CAPPED

25 January 2022



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 |
|--|-----------|--------------|
| RAFI Value Factor Developed Eurozone Fossil Fuels Capped GTR | .RAVEFFCT | DE000SLA7158 |
| RAFI Value Factor Developed Eurozone Fossil Fuels Capped NTR | .RAVEFFCN | DE000SLA7141 |
| RAFI Value Factor Developed Eurozone Fossil Fuels Capped PR | .RAVEFFCP | DE000SLA7133 |

Rationale for the Market Consultation

The Indices aim to limit the exposure to companies involved in the fossil fuels industry by capping them to a certain exposure. With an increasing demand for more restrictive exposure, especially towards fossil fuels, the exposure shall be adjusted in a way to cap the overall carbon intensity of the Indices. Therefore, Solactive has determined to introduce this new approach by implementing it over a period of 4 rebalances, starting in March 2022 and being finalised with the rebalance in December 2022.

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. To align the index name to the objective the name in section 1 will be changed:

From:

RAFI Value Factor Developed Eurozone Fossil Fuels Capped Index

To:

RAFI Value Factor Developed Eurozone Carbon Neutral Index

2. To reflect the changes highlighted in the rationale, section 2.6 and 2.6.1 will be amended as follows:

2.6 RAFI Value Factor Developed Eurozone Carbon Neutral Index Construction

The RAFI Value Factor Developed Eurozone Carbon Neutral Index consists of companies with a high ratio of company fundamental weight to its market capitalization weight, and tilts index constituent weights in order to reduce the overall index carbon intensity to roughly match the carbon intensity of the market.



Eligible securities are Large/Mid securities as defined in Section 2.2 from the following eligible countries, which are a subset of the Developed Europe ex-UK country group defined in Section 2.3.

| |
|-----------------------|
| Developed Eurozone |
| Austria |
| Belgium |
| Finland |
| France |
| Germany |
| Ireland |
| Italy |
| Netherland |
| Portugal |
| Spain |

For the Developed Eurozone Large/Mid region/size group the ratio of fundamental weight to market capitalization weight for each stock is calculated as defined in Section 2.4. Stocks are then ranked in descending order by the ratio, the top 25% by cumulative adjusted fundamental weight as defined in Section 2.4.1 are selected for inclusion, subject to a minimum of 15 stocks. Selected companies are then re-weighted by their adjusted fundamental weight subject to the application of liquidity limit Rule 2.15 and maximum stock weight of 10%. The minimum stock weight is 0.05%. Stocks below the minimum weight are removed and the excess weights are distributed across the remaining stocks in the index

The RAFI Value Factor Index is rebalanced quarterly using a quarterly staggered approach described in Section 2.15.1. At each staggered quarterly rebalance, the processes as defined in Sections 2.13 and 2.14 are applied to limit turnover.

2.6.1 Carbon Intensity Reduction Methodology

The following methodology is applied to the underlying RAFI Factor Developed Eurozone strategy described in Section 2.5.1.

1. Determining Company Level Carbon Intensity:

For the purpose of index construction, company level carbon intensity is calculated as follows:

Carbon Intensity (CI):

$$\text{Carbon Intensity}_i = \frac{GHG_i}{Sales_i}$$



With:

GHG_i = Green House Gas Emissions Scope 1 and Scope 2 in tons CO2 equivalent

If a company's GHG emissions data are estimated by the provider rather than reported, that company is assigned a 5% penalty such that

$GHG, Estimated_i$ = $GHG_i \times 1.05$

$Sales_i$ = Sales represents a company's most recent reported sales in millions of dollars.

2. Baseline and Index Carbon Intensity:

Baseline carbon intensity is the weighted average carbon intensity of a market capitalization weighted portfolio defined in step 3.

$$Baseline\ CI = \sum_{i=1}^{N_{MCap}} CI_i \times w_i^{MCap}$$

The carbon intensity of the Underlying Index is the average carbon intensity of the Index constituents weighted by their corresponding portfolio weight such as

$$Underlying\ Index\ CI = \sum_{i=1}^{N_{Index}} CI_i \times w_i^{index}$$

3. Construction of Market Capitalization Weighted Strategy for Determining Baseline Carbon Intensity:

For the purposes of determining Baseline CI, a market capitalization portfolio is constructed. Eligible companies classified as large/mid company by market capitalization weight within the Developed Eurozone country group make up the constituents of this portfolio. Selected constituents are weighted by free-float adjusted market capitalization weight as described in Section 2.4.1.

4. Target Carbon Intensity:

The target carbon intensity is calculated as follows each quarter:

$$Target\ CI_t = \min(Baseline\ CI_t, Underlying\ Index\ CI_t)$$

5. Index Tilt Methodology:



If the Underlying Index carbon intensity is higher than the baseline carbon intensity as defined in Section 3.1.2, a tilt toward lower carbon intensity companies is applied as follows:

$$w_i^{Index} = \begin{cases} w_i^{Index} \times (1 + mZ_i)^\lambda & \text{if } mZ_i \geq 0 \\ w_i^{Index} \times \frac{1}{(1 - mZ_i)^\lambda} & \text{if } mZ_i < 0 \end{cases}$$

Where:

mZ_i = modified z-score, which is the standardized log of carbon intensity after taking into account its distribution,

w_i^{Index} = weight in the index of component i , and

λ = tilting parameter.

6. Maximum Weight and Liquidity Constraint

After applying the Index Tilt methodology, a 10% security-level maximum weight constraint and liquidity limit rule as defined in Section 2.15 is applied to the Index.

7. Iteration Process

After applying the carbon intensity reduction process, the carbon intensity of the Index is determined. If the Index carbon intensity exceeds the target carbon intensity, we repeat the process until the target carbon intensity target is met or 100 iterations have occurred.

Note: As of the 2/11/2022 index selection date for the RAFI Value Factor Developed Eurozone Carbon Neutral Index the index methodology was changed to reflect a carbon neutral (relative to cap-weight) carbon intensity reduction approach. Prior to 2/11/2022 the index achieved carbon intensity reduction by capping fossil fuel companies at 80% of an equivalent cap-weighted index. The new carbon intensity reduction methodology will be phased in over 4 quarterly rebalances from 3/2022 – 12/2022.

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 RAFI Value Factor Developed Eurozone Fossil Fuels Capped 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 *February 8, 2022 (cob)*.

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *February 11, 2022*.



Please send your feedback via email to marketconsultation@solactive.com, specifying "Market Consultation | RAFI Value Factor Developed Eurozone Fossil Fuels Capped" 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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