

MARKET CONSULTATION- SOLACTIVE CLEAN WATER INDEX | FEBRUARY 2022

10 February 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
Solactive Clean Water Index NTR	.SOLWATR	DE000SLA6Z81
Solactive Clean Water Index PR	.SOLWATRP	DE000SLA8HB9
Solactive Clean Water Index TR	.SOLWATRT	DE000SLA8HC7

Rationale for Market Consultation

The Indices aim to track the performance of a basket of stocks of companies that are actively engaged in the international clean water industry through the provision of technological, digital, engineering, utility and/or other services.

As per the current selection process of Indices, the companies on the Future Protection List (the "FWPL") provided by Legal & General Investment Management ("LGIM") are not included as the Index Components. The FWPL includes companies which meet any of the following criteria:

- Involvement in the manufacture and production of controversial weapons,
- Perennial violators of the United Nations Global Compact (UNGC),
- Involvement in mining and extraction of thermal coal

Solactive has determined that the methodology of the Indices shall be amended to enhance the ESG activity screens from the existing FWPL to a more restrictive exclusion list. The suggested enhanced list will screen the companies on all of the above criteria as well as additional activities. A more detailed overview of the considered activities can be found below in section "Proposed Changes to the Index Guideline".

Additionally, to ensure investability of the Indices as well as reflect the actual liquidity available in the market, the weighting concept is proposed to be amended.



Proposed Changes to the Index Guideline

The following Methodology changes are proposed in the following points of the Index Guidelines: (ordered in accordance with the numbering of the affected sections):

Section 2.1 Index Universe Requirements

Old text:

[...]

2. Any company listed on the Future World Protection List (the "FWPL") produced by Legal & General Investment Management ("LGIM") are then excluded. The FWPL is reconstituted by LGIM on a semi-annual basis in March and September. The methodology by reference to which the FWPL is constructed is published on [Future World Protection List Methodology](#). The Calculation Agent will use the most recently published FWPL list that is available on a respective Selection Day.

[...]

New text:

[...]

2. On each SELECTION DAY, any company included in the ESG Exclusions Index as determined by SOLACTIVE is then excluded from the INDEX UNIVERSE. To clarify, due to the methodology of the ESG Exclusions index, which only consists of companies that are covered by the DATA PROVIDER II and are fulfilling the set of ESG criteria, companies that do not have full ESG data coverage and are therefore not represented in the ESG Exclusions Index might be included in the INDEX UNIVERSE and could be selected as INDEX COMPONENTS. This could be the case for, but is not limited to, companies that went public recently and for which no ESG data coverage as provided by the DATA PROVIDER II is immediately available.

The ESG Exclusions Index is reconstituted by SOLACTIVE on a semi-annual basis and the methodology by reference to which the ESG Exclusions Index is constructed, together with the most recent applicable categories and inclusion criteria, is available on the [Solactive website](#).

The applicable categories and inclusion criteria of the ESG Exclusions Enhanced Index as of 28th of February 2022 are set out in ANNEX B of this document.



Section 2.2 Ordinary Adjustment

New text:

The composition of the Index shall be adjusted on each Adjustment Day that is deemed to be a Rebalancing Day by the Calculation Agent.

Each Adjustment Day that occurs in the month of March and September shall be deemed to be a Rebalancing Day. In addition, if the Calculation Agent determines that the Index Component Weight of any Index Components is greater than 15% on any other Review Day, then the Adjustment Day that occurs immediately after such Review Day shall be deemed to be a Rebalancing Day.

On each SELECTION DAY each INDEX COMPONENT is weighted in accordance with the following steps

- I. Each Index Component is initially weighted equally w_i^* ;
- II. Then, for each Index Component the maximum weight $w_{i,max}$ is calculated as:

$$w_{i,max} = \text{Min}\{w_{i,max}^{liquidity}, w_{i,max}^{ownership}\}$$

where,

$$w_{i,max}^{liquidity} = \frac{(1 - \text{Haircut}) \times \text{Liquidity Measure} \times \text{Participation (\%)}}{\text{AuM} \times \text{Turnover}}$$

$$w_{i,max}^{ownership} = \frac{\text{Market Cap} \times \text{Max Ownership}}{\text{AuM}}$$

Where:

AuM - the maximum of total assets under management in US Dollars of ETFs tracking the index as listed in Appendix C and USD 50 million;

Haircut - assumed 10%;

Liquidity Measure - 3-month USD **AVERAGE DAILY VALUE TRADED**;

Market Cap - the company full market capitalisation in USD;

Max Ownership - assumed 7.5%;

Participation (%) - assumed 100%;

Turnover - assumed 40%.

- III. In respect of Index Components whose initial weight w_i^* is greater than $w_{i,max}$, the Target Index Weight w_i shall be set to be equal to $w_{i,max}$, and the excess weight is then calculated as follows:

$$w_{i,excess} = w_i^* - w_{i,max}$$



The cumulative excess weight is calculated as the sum of $w_{i,excess}$ in respect of all Index Components whose initial weight w_i^* is greater than $w_{i,max}$.

The cumulative excess weight is then proportionally distributed across all Index Components whose initial weight w_i^* is less than $w_{i,max}$ such that the above maximum weight cap condition is fulfilled. This can be an iterative process until 100% weight is fully allocated and all conditions above are fulfilled.

The composition of the Index shall be determined on each Selection Day in accordance with the methodology described in Section 2.1 Selection of Index Components. The Calculation Agent shall publish any changes made to the Index composition on the Selection Day and consequently with sufficient notice before the Adjustment Day.

Section 7: Definitions

The following definition will be included.

"DATA PROVIDER II" is Sustainalytics. For more information, please visit: www.sustainalytics.com.

Annex B

As of February 2022, the following inclusion criteria for the categories below were applicable.

Please refer to the most recent document available under the URL as specified in section '2.1. Index Universe Requirements' above for the most recent applicable categories and inclusion criteria.

Categories	Inclusion Criterion
Established norms around Environment, Human Rights, Corruption and Labour Rights	Non-Compliance with the UNGC
Controversy	Controversies with the Level 5
Tobacco	(5% Production <OR> 5% Retail <OR> 5% Related Products/Services)*
Defense – Weapons	(10% Military Contracting Weapons <OR> 10% Military Contracting Weapons – Related Products)*
Defense – Controversial Weapons	Any direct Involvement or any indirect Involvement through corporate ownership
Coal	(30% Thermal Coal Extraction <OR> 30% Power Generation <OR> 30% Supporting Products/Services)*



Conventional Oil & Gas	25% Production*
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Note:

- % figures refer to revenue threshold (for degree of involvement). The criterion is fulfilled if involvement is equal to or above such threshold.
- The terminology used in the table above is specific to the DATA PROVIDER II and may change from time to time.

*this includes significant corporate ownership (were a company holds a stake greater than 50% in an involved company, the revenues of the involved company are attributed to the company).

Any company which fulfills any of the criteria set out above shall be a component of the ESG Exclusions Index. The primary listing for each company is selected as Index Component of the ESG Exclusions Index. For the avoidance of doubt, any company for which an evaluation of the criteria is not possible due to the non-availability of relevant data from the DATA PROVIDER II, shall not be a component of the ESG Exclusions Index.

Annex C

Name of the ETF used to determine the AuM:

L&G Clean Water UCITS ETF, ISIN: IE00BK5BC891

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 CLEAN WATER 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 23rd of February 2022 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *3rd March 2022*.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation SOLACTIVE CLEAN WATER 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.



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