

INDEX GUIDELINE

*Solactive Candriam Factors Sustainable
Corporate Euro Bond Index*

Version 3.0

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INTRODUCTION

This document (the "GUIDELINE") is to be used as a guideline with regard to the composition, calculation, and maintenance of the Solactive Candriam Factors Sustainable Corporate Euro Bond Index (the "INDEX"). Any amendments to the rules made to the GUIDELINE are approved by the OVERSIGHT COMMITTEE specified in Section 5.5. The INDEX is owned, calculated, administered, and published by Solactive AG ("SOLACTIVE") assuming the role as administrator (the "INDEX ADMINISTRATOR") under the Regulation (EU) 2016/1011 (the "BENCHMARK REGULATION" or "BMR"). The name "Solactive" is trademarked.

The text uses defined terms which are formatted with "SMALL CAPS". Such Terms shall have the meaning assigned to them as specified in Section 6 (Definitions).

The GUIDELINE and the policies and methodology documents referenced herein contain the underlying principles and rules regarding the structure and operation of the INDEX. SOLACTIVE does not offer any explicit or tacit guarantee or assurance, neither pertaining to the results from the use of the INDEX nor the level of the INDEX at any certain point in time nor in any other respect. SOLACTIVE strives to the best of its ability to ensure the correctness of the calculation. There is no obligation for SOLACTIVE – irrespective of possible obligations to ISSUERS – to advise third parties, including investors and/or financial intermediaries, of any errors in the INDEX. The publication of the INDEX by SOLACTIVE does not constitute a recommendation for capital investment and does not contain any assurance or opinion of SOLACTIVE regarding a possible investment in a financial instrument based on this INDEX.



1. INDEX SPECIFICATIONS

1.1. SCOPE OF THE INDEX

The Index is rules-based. The Index is engineered to exploit the return potential of EUR denominated corporate debt securities using a non-conventional weighting scheme. The universe of eligible companies is derived by applying the sustainable and responsible investing (“SRI”) criteria developed by Candriam Belgium S.A. Only investment grade debt is considered.

The Index is a Total Return Index, i.e. coupon payments will be reinvested directly in the Index.

1.2. IDENTIFIERS AND PUBLICATION

The INDEX is published under the following identifiers:

Name	ISIN	Currency	Type	RIC	BBG ticker
Solactive Candriam Factors Sustainable Corporate Euro Bond Index	DE000SLA3C16	EUR	TR	.SOLCACBE	SOLCACBE

*TR means that the INDEX is calculated as Total Return index as described in the Bond Index Methodology, which is available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>

The INDEX is published on the website of the INDEX ADMINISTRATOR (www.solactive.com) and is, in addition, available via the price marketing services of Boerse Stuttgart GmbH and may be distributed to all of its affiliated vendors. Each vendor decides on an individual basis as to whether it will distribute or display the INDEX via its information systems.

Any publication in relation to the INDEX (e.g. notices, amendments to the GUIDELINE) will be available at the website of the INDEX ADMINISTRATOR: <https://www.solactive.com/news/announcements/>.

1.3. INITIAL LEVEL OF THE INDEX

The initial level of the INDEX on the (the “Live Date”) June 30th, 2017 is 100. Historical values from the LIVE DATE will be recorded in accordance with Article 8 of the BMR. Before this date the index values are backfilled, with the index value based on 100 as at the close of trading on *December 31st, 2015* (the “Start Date”).



1.4. PRICES AND CALCULATION FREQUENCY

The INDEX is calculated and distributed once every BUSINESS DAY based on the Evaluated Bid Price (see 4.2 Further Definitions) of the INDEX COMPONENTS. Bonds added in a rebalancing (see Section 3) are included the INDEX at the Evaluated Ask Price on the relevant REBALANCE DAY (as specified in Section 3.3). Bonds which are excluded from the INDEX in a rebalance are reflected in the calculation of the level of the INDEX for the REBALANCE DAY at the Evaluated Bid Price on the relevant REBALANCE DAY. INDEX analytical values are calculated each BUSINESS DAY using the Evaluated Bid Price based on FIXING TIME. Updated index values and other statistics will not be distributed. In the event that the data required for index calculation purposes is not available or that there are troubles regarding the price marketing of Solactive AG or Stuttgart Stock exchange the Index cannot be distributed.

1.5. LICENSING

Licenses to use the INDEX as the underlying value for financial instruments, investment funds and financial contracts may be issued to stock exchanges, banks, financial services providers and investment houses by Solactive AG.

1.6. CONFLICTS OF INTEREST

There are no conflicts of interest identified for this index.



2. INDEX SELECTION

At the launch of the Index, all financial instruments which meet the requirements of the Selection Pool are eligible for inclusion in the Index. Instruments issued prior to the Selection Day and which meet the criteria of the Selection Pool as defined under 4.1 will be added on the quarterly Adjustment Day to the Selection Pool. Additionally, on the quarterly Selection Day, the Index Committee will evaluate whether all current Index Components still meet the requirements of the Selection Pool. Any Index Components that do not pass this screen will be removed from the Index on the next Adjustment day.

2.1. SELECTION OF THE INDEX COMPONENTS

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:

An updated list of eligible companies is posted on the website (<http://indexiq.candriam.com>) quarterly, approximately five days prior to each Adjustment Day of the Index. Once the list is publicly available, Solactive uses the information to complete the index creation process by applying the weighting methodology outlined in 2.2.

(the "INDEX COMPONENT REQUIREMENTS")]

The determination of the INDEX COMPONENTS is fully rule-based and Solactive AG has no discretion.

2.2. WEIGHTING OF THE INDEX COMPONENTS

The weights of the Index Components are determined using a multi-level approach. The final weighting is derived by applying the weighting scheme first on the issuer (Credit parent level: see 4.2 Further Definitions) level and adjusting the resulting weights by issue specific criteria.

The Fundamental Weight is derived on the issuer. For each issuer, the fundamental weight is the average of four specific factor weights. The factors are:

- Average Sales from the previous five years
- Average Operating Cash Flow from the previous five years (If Average < 0 then we consider Average = 0)
- Average Earnings from the previous five years (If Average < 0 then we consider Average = 0)
- Last Book Value



The weight for each factor is the company's value divided by the sum of values for all Index Components. Each component's Fundamental Weight is the average of the 4 factor weights for each component. If a field is missing, the factor is simply ignored from the calculations. If Sales factor is missing, the issuer is removed from universe.

The weight of each factor is determined by putting a company's factor value relative to the sum of all factor values of a specific factor. Expressed as formula a fundamental weight is determined:

$$UFW_{j,i} = \frac{x_{j,i}}{\sum_{j=1}^n x_{j,i}} \text{ with } i = 1,2,3,4$$

where

$UFW_{j,i}$ is the Unadjusted Fundamental Weight of factor i of company j

$x_{j,i}$ is the factor value i of company j

n is the total number of companies

The Unadjusted Fundamental Weight of each company is then the average of the four factors:

$$UFW_j = \frac{\sum_{i=1}^4 UFW_{j,i}}{4}$$

The Fundamental Weight of an issue is derived by dividing the Unadjusted Fundamental Weight by the number of eligible bonds. A cap of 0.5% (50 bps) is applied:

$$FW_j = \text{MIN} \left(\frac{UFW_j}{b_j}, 0.5\% \right)$$

where

UFW_j is the Unadjusted Fundamental Weight of company j

FW_j is the Fundamental Weight of all issues of company j

b_j is the number of eligible bonds of company j



Please note that whenever all sales figures of the previous five years are not available, the issuer is not eligible for the Index.

The Fundamental Weight is then adjusted by issue specific characteristics. For each issue four factors are determined:

- Size: Aggregate Amount outstanding of eligible bonds per issuer (Credit parent level: see 4.2 Further Definitions).
- Value: The percentage difference between the current Option Adjusted Spread (OAS) and the fitted OAS using the following cross-sectional regression model:

$$OAS_{l,t} = \beta_1 * TTM_{l,t} + \sum_{i=1}^{10} (\beta_i * R_{ti}) + \beta_3 * (OAS_{l,t-3M} - OAS_{l,t}) + \varepsilon$$

where

$OAS_{l,t}$ is the Option Adjusted Spread of issue l on the Selection Day t

$OAS_{l,t-3M}$ is the Option Adjusted Spread of issue l three months prior to the Selection Day t

TTM_l is the remaining Time to Maturity (in years) of issue l on the Selection Day t

R_{ti} is a dummy variable which takes the value of 1 if the issue belongs on the selection day to this rating class and 0 otherwise (There are 10 investment grade rating categories). The rating used is the average rating of Moody's and S&P Ratings. In the case the average is between two rating categories, the better rating is used.

α is the regression intercept

$\beta_1, \beta_2, \beta_3$ are the regression coefficients and

ε is the error term

If one of the necessary input parameters is not available, the specific factor is not being calculated for this bond. However, this does not mean the bond is not eligible for the Index anymore. (If the Rating is not available, the value factor is not being calculated).

The fitted OAS of each issue is calculated using the estimated coefficients (there is no constant to avoid multi-collinearity with binary variable):



$$\overline{OAS}_{l,t} = \widehat{\beta}_1 * TTM_{l,t} + \sum_{i=1}^{10} (\beta_i * R_{ti}) + \widehat{\beta}_3 * (OAS_{l,t-3M} - OAS_{l,t})$$

The Value Factor is then calculated as the difference of the actual OAS and the fitted OAS:

$$VAL_{l,t} = \left(\frac{\overline{OAS}_{l,t} - OAS_{l,t}}{\overline{OAS}_{l,t}} \right)$$

- Momentum: the six-month credit return of the security (versus the duration match Euro Interest Swap Rate). The calculation expressed as a formula is:

$$MOM_{l,t} = \left(1 + \left(-ED_{l,t} * (OAS_{l,t} - OAS_{l,t-6}) + OAS_{l,t-6} * \frac{180}{365} \right) \right)^{-1}$$

where

$MOM_{l,t}$ is the Momentum Factor of issue l on the Selection Day t (measured as the Credit Return + Spread Carry)

$ED_{l,t}$ is the Effective Duration of issue l on the Selection Day t

$OAS_{l,t}$ is the Option Adjusted Spread of issue l on the Selection Day t

$OAS_{l,t-6M}$ is the Option Adjusted Spread of issue l six months prior to the Selection Day t

If one of the necessary input parameters is not available, the specific factor is not being calculated for this bond. However, this does not mean the bond is not eligible for the Index anymore.

- Low Volatility: The volatility of each issue is approximated via:



$$VOL_{l,t} = ED_{l,t} * OAS_{l,t}$$

where

$VOL_{l,t}$ is the approximated volatility of issue l on Selection Day t

$ED_{l,t}$ is the Effective Duration of issue l on the Selection Day t

$OAS_{l,t}$ is the Option Adjusted Spread of issue l on the Selection Day t

Each issue is ranked on each factor. For each issue, an average of all factor percentile ranks is calculated. Based on this average all issues are sorted into quintiles. Issues whose average percentile ranks within the lowest 20% will be assigned to the first quintile. Issues whose average ranks within the next lowest 20% will be assigned to the second quintile and so on. Depending on the quintile an issue is assigned to, an adjustment to the fundamental weight is done:

Quintile	1	2	3	4	5
Adjustment	+10bps	+5bps	+/-0	-5bps	-10bps

The Final Weight of each issue is the sum of the Fundamental Weight and the Adjustment:

$$Final\ Weight_{l,t} = FW_j + Adjustment$$

Finally, the calculated weights are scaled so that the sum of them equals 1.

3. REBALANCE



3.1. ORDINARY REBALANCE

In order to reflect the new selection of the INDEX COMPONENTS determined on the SELECTION DAY (in accordance with Section 2.1) the INDEX is adjusted on the REBALANCE DAY after CLOSE OF BUSINESS.

For more information on the rebalance procedure please refer to the Bond Index Methodology, which is incorporated by reference and available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>.

The composition of the Index is ordinarily adjusted four times a year on the last business day of March, June, September, and the second business day in January. The composition of the Index is reviewed on the Selection Day, which is the 2nd Friday in March, June, September and December. Necessary changes are announced.

SOLACTIVE will publish any changes made to the INDEX COMPONENTS with sufficient notice before the REBALANCE DAY on the SOLACTIVE webpage under the section "[Announcement](#)", which is available at <https://www.solactive.com/news/announcements/>

3.2. EXTRAORDINARY REBALANCE

In addition to the ordinary rebalance, the INDEX is also rebalanced extraordinarily. These adjustments take place outside the rebalancing schedule and follow different rules than the ordinary rebalances. The extraordinary rebalance is triggered by the mechanism described below:

The Index Committee will decide about the future composition and the implementation of any necessary adjustments of the Index if an Extraordinary Event (early redemption, credit event etc.) regarding one or more index constituents occurs. See details under 4.3 Adjustments

The Index Committee will decide on the future composition of the Index as well as the Business Day which marks the starting of the new adjusted Index composition.



4. CALCULATION OF THE INDEX

4.1. INDEX FORMULA

The INDEX is calculated as a Total Return index.

A gross total return index seeks to replicate the overall return from holding an index portfolio, thus considering both coupon payments and Corporate Action proceeds in addition to the price changes adjusted for any accrued interest. Coupon and other cash payments will be reinvested directly.

The direct reinvestment formula implies a daily reinvestment in the INDEX of proceeds resulting from corporate actions and coupon payments in respect of the INDEX COMPONENTS on the effective date of such events. The reinvestment will be undertaken proportionately to the weights of the INDEX COMPONENTS. The direct reinvestment index formula stipulates further that the level of the INDEX changes based on the change of the prices of its INDEX COMPONENTS taking into account their weight in the INDEX.

A more detailed description of the mechanics of the Direct Reinvestment formula can be found in the Bond index Methodology under Section which is available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>.

4.2. ACCURACY

The level of the INDEX will be rounded to 2 decimal places. According to the terms of the bond, the Index Administrator will take the following conventions into account:

Act/Act

Act/360

Act/365

30/360

ISMA 30/360

The Index does not take taxes into account and assumes gross coupon payments.

Accrued interests are calculated with settlement convention t+2

4.3. ADJUSTMENTS

Under certain circumstances, an adjustment of the INDEX may be necessary between two regular REBALANCE DAYS. Basically, such adjustment is need to be made if a corporate action (as specified in Section 4.4 below)



in relation to an INDEX COMPONENT occurs. Such adjustment may need to be done in relation to an INDEX COMPONENT and/or may also affect the number of INDEX COMPONENTS and/or the weighting of certain INDEX COMPONENTS and will be made in compliance with the Bond Index Methodology, which is available which is available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>.

4.4. CORPORATE ACTIONS

As part of the INDEX maintenance SOLACTIVE will consider various events – also referred to as corporate actions – which result in an adjustment to the INDEX between two regular REBALANCE DAYS. Such events have a material impact on the price, weighting or overall integrity of INDEX COMPONENTS. Therefore, they need to be accounted for in the calculation of the INDEX. Corporate actions will be implemented from the cum-day to the ex-day of the corporate action, so that the adjustment to the INDEX coincides with the occurrence of the price effect of the respective corporate action.

Adjustments to the INDEX to account for corporate actions will be made in compliance with the Bond Index Methodology, which is available which is available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>. This document contains for each corporate action a brief definition and specifies the relevant adjustment to the INDEX variables.

While SOLACTIVE aims at creating and maintaining its methodology for treatment of corporate actions as generic and transparent as possible and in line with regulatory requirements, it retains the right in accordance with the Bond Index Methodology to deviate from these standard procedures in case of any unusual or complex corporate action or if such a deviation is made to preserve the comparability and representativeness of the INDEX over time.

Solactive considers following, but not conclusive, list of corporate actions as relevant for INDEX maintenance:

- > Early Redemption (an event that leads to a redemption of a bond before the regular maturity date)
- > Flat Trading (e.g. a bond ISSUER fails to meet its coupon payment obligation)
- > Bond Default (e.g. when the ISSUER fails to meet its coupon payment obligation or repay the principal at maturity)
- > Tender Offers (a holder of a bond is invited to tender the bond for a specific price at a specific time before the regular maturity date)
- > Exchange Offers (type of a tender offer where the ISSUER offers its bondholders to exchange their existing bonds for an asset other than cash)
- > Distressed Debt Exchange (form of debt exchange when bondholders agree to reduce the principal amount of debt securities in order to obtain higher payment priority in the form of secured debt)



- > Bond Funge (bond issue that is attached to an existing one (parent bond). On a defined date the parent bond absorbs the funged bond)
- > Payment-in-Kind Bonds (a situation where a bond pay interest in additional bonds rather than in cash)
- > Conversion of [CoCo] Bonds
- > Debt Issuance
- > Bond Maturity

4.5. RECALCULATION

SOLACTIVE makes the greatest possible efforts to accurately calculate and maintain its indices. However, errors in the determination process may occur from time to time for variety reasons (internal or external) and therefore, cannot be completely ruled out. SOLACTIVE endeavors to correct all errors that have been identified within a reasonable period of time. The understanding of "a reasonable period of time" as well as the general measures to be taken are generally depending on the underlying and is specified in the Solactive Correction Policy, which is incorporated by reference and available on the SOLACTIVE website: <https://www.solactive.com/documents/correction-policy/>.

4.6. MARKET DISRUPTION

In periods of market stress SOLACTIVE calculates its indices following predefined and exhaustive arrangements as described in the Solactive Disruption Policy, which is incorporated by reference and available on the SOLACTIVE website: <https://www.solactive.com/documents/disruption-policy/>. Such market stress can arise due to a variety of reasons, but generally results in inaccurate or delayed prices for one or more INDEX COMPONENTS. The determination of the INDEX may be limited or impaired at times of illiquid or fragmented markets and market stress.

5. MISCELLANEOUS

5.1. DISCRETION

Any discretion which may need to be exercised in relation to the determination of the INDEX (for example the determination of the INDEX COMPONENTS or any other relevant decisions in relation to the INDEX) shall be made in accordance with strict rules regarding the exercise of discretion or expert judgement established by the INDEX ADMINISTRATOR.

5.2. METHODOLOGY REVIEW

The methodology of the INDEX is subject to regular review, at least annually. In case a need of a change of the methodology has been identified within such review (e.g. if the underlying market or economic reality



has changed since the launch of the INDEX, i.e. if the present methodology is based on obsolete assumptions and factors and no longer reflects the reality as accurately, reliably and appropriately as before), such change will be made in accordance with the Methodology Policy, which is incorporated by reference available on the SOLACTIVE website: <https://www.solactive.com/documents/methodology-policy/>.

Such change in the methodology will be announced on the SOLACTIVE webpage under the Section "Announcement", which is available at <https://www.solactive.com/news/announcements/>. The date of the last amendment of this INDEX is contained in this GUIDELINE.

5.3. CHANGES IN CALCULATION METHOD

The application by the INDEX ADMINISTRATOR of the method described in this document is final and binding. The INDEX ADMINISTRATOR shall apply the method described above for the composition and calculation of the INDEX. However, it cannot be excluded that the market environment, supervisory, legal, financial or tax reasons may require changes to be made to this method. The INDEX ADMINISTRATOR may also make changes to the terms and conditions of the INDEX and the method applied to calculate the INDEX that it deems to be necessary and desirable in order to prevent obvious or demonstrable error or to remedy, correct or supplement incorrect terms and conditions. The INDEX ADMINISTRATOR is not obliged to provide information on any such modifications or changes. Despite the modifications and changes, the INDEX ADMINISTRATOR will take the appropriate steps to ensure a calculation method is applied that is consistent with the method described above.

5.4. TERMINATION

SOLACTIVE makes the greatest possible efforts to ensure the resilience and continued integrity of its indices over time. Where necessary, SOLACTIVE follows a clearly defined and transparent procedure to adapt index methodologies to changing underlying markets (see Section 5.2 "Methodology Review") in order to maintain continued reliability and comparability of the indices. Nevertheless, if no other options are available the orderly cessation of the INDEX may be indicated. This is usually the case when the underlying market or economic reality, which the INDEX is set to measure or to reflect, changes substantially and in a way not foreseeable at the time of inception of the INDEX, the INDEX rules, and particularly the selection criteria, can no longer be applied coherently or the INDEX is no longer used as the underlying value for financial instruments, investment funds and financial contracts.

SOLACTIVE has established and maintains clear guidelines on how to identify situations in which the cessation of the INDEX is unavoidable, how stakeholders are to be informed and consulted and the procedures to be followed for a termination or the transition to an alternative index. Details are specified in the Solactive Termination Policy, which is incorporated by reference and available on the SOLACTIVE website: <https://www.solactive.com/documents/termination-policy/>.



5.5. OVERSIGHT

An oversight committee composed of staff from SOLACTIVE and its subsidiaries (the “OVERSIGHT COMMITTEE”) is responsible for decisions regarding any amendments to the rules of the INDEX. Any such amendment, which may result in an amendment of the GUIDELINE, must be submitted to the OVERSIGHT COMMITTEE for prior approval and will be made in compliance with the Methodology Policy, which is available on the SOLACTIVE website: <https://www.solactive.com/documents/methodology-policy/>.



6. DEFINITIONS

The "Selection Pool" comprises bonds that fulfill the following conditions:

- (a) The issuer (Credit parent level: see 4.2 Further Definitions) is part of the Candriam Investors Group SRI universe. The universe is publicly accessible via <http://indexiq.candriam.com>. A further explanation of the Candriam Investors Group SRI universe is provided in Section 4.2.
- (b) Denominated in EUR
- (c) Amount Outstanding of at least 500 m EUR
- (d) Time to maturity of at least 18 months for new issues entering the index. The minimum time to maturity for bonds in the Index is 12 months.
- (e) Bonds that switch from fixed to floating rate coupons qualify provided they are callable within the fixed rate period and have at least one year prior to the date the bond transitions from a fixed to a floating rate coupon structure.
- (f) A minimum rating of BBB- by Standard & Poor's or Baa3 by Moody's Investors Service is required. For the avoidance of doubt if one of the rating agencies rates the bond as Investment Grade it is eligible for inclusion in the Index.
- (g) Fixed Coupon Bonds, Zero Coupon Bonds, Payment-In-Kind Bonds and Step-Up Coupon Bonds are eligible for inclusion in the Index.
- (h) Bearer Bonds are eligible for inclusion in the Index.
- (i) For a bond to be included in the Index, a price must be available from a recognized bond price provider as determined by the Index Committee.
- (j) Sinking Fund Bonds, Floating Rate Bonds, Convertible Bonds, Inflation-linked Bonds, Contingent Capital Securities, Covered Bonds, Preferred Securities, Securitized or Collateralized Bonds or Collateralized Debt Obligations (CDOs) are not eligible for inclusion in the Index.
- (k) Callable perpetual securities qualify for inclusion in the Index provided they are at least one year from the next call date.
- (l) Bonds sold by supranational entities are not eligible for inclusion.
- (m) Bonds sold by entities that are 100%-owned by national governments or their departments, or that are guaranteed by them are excluded from the Index. Bonds sold by entities which carry out government-sponsored roles, particularly in the public sphere, are also excluded.
- (n) Private placements are not eligible for inclusion in the Index.
- (o) Per issuer, only 10 bonds are included in the Index. The issues are ranked in a descending order by amount outstanding, issue date, and Yield to Maturity.



- (p) Only one bond per tranche with exactly the same parameters (coupon, maturity, etc.) will be selected for inclusion in the Index. If several tranches (with the same parameters) are available bonds that are issued domestically, and under Euro MTN program are preferred.

“Component Universe”

The list of Index Components is available free of charge on Candriam's website located at <http://indexiq.candriam.com>.

For information, the “Component Universe” in respect of a Selection Day are companies that fulfill the following criteria:

- They are covered by the following ESG analysis based on Macro and Micro socially responsible criteria:
 - o Sector Specific criteria for the following Macro factors (Exposure to Global Sustainability Trends):
 - Climate Change-renewable energy producers are enjoying growing markets
 - Resource Depletion-as rational resource use becomes inevitable, companies offering efficient resource utilization technologies stand to benefit
 - Developing Economies-companies providing infrastructure services will benefit from growing and developing populations
 - Demographic Evolutions-as people grow older, the need for tailor made service and products will be in string demand
 - Health & Wellness-healthy products offered by companies have a beneficial effect on health
 - Interconnectivity-as people interact across borders, companies offering video-conferencing tools address a genuine need
 - o Sector Specific criteria for the following Micro factors (Stakeholders Management):
 - Customers-after sales services impact customer loyalty
 - Employees-the quality of employee contracts, training and career management are all positive factors in attracting, developing and retaining talent
 - Environment-new environmental legislation may require a significant investment for some companies while others that already observe higher standards can focus on increasing market share
 - Suppliers-abuse of labor rights in the supply chain has a considerable impact on reputation and brand image of companies
 - Investors-the effective management of corporate governance issues is vital to maintain investor's confidence in a company



- Society-in developing countries, integrating the expectations of the local population with the company's activities is a real asset

Companies that are not ranked "High Risk" based on their Combined Macro and Micro scores are then further reviewed to see if they violate the Controversial Activities criteria or the United Nations Global Compact as detailed below:

- Controversial Activities:
 - Armament: are involved in the production or sale of anti-personnel landmines, cluster bombs, depleted uranium, and/or chemical/nuclear/biological weapons/white phosphorous, regardless of the revenues involved and/or generate more than 3% of their turnover from the production or the sale of conventional weapons
 - Activities in oppressive regimes: large presence (Revenues > 1%) in highly oppressive regimes
 - Adult content: Revenues > 5%
 - Alcohol: Revenues > 10%
 - Animal Testing: Responsible policy of no legal requirement or breaches to legislation
 - Gambling: Revenues > 5%
 - Genetic modification: Revenues > 10%
 - Nuclear: Revenues > 30%
 - Tobacco: Revenues > 5%
 - Thermal Coal:
 - Revenues > 5% and
 - no SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment and
 - more than 10% of CapEx dedicated to thermal coal-related activities or less than 10% with the objective of increasing revenue and
 - have less than 50% of CapEx dedicated to contributing activities,

If the issuer does respect at least one of these criteria, it is in compliance with Febelfin requirements

- Unconventional Oil & Gas:
 - revenues > 5% and
 - no SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment and



- have less than 50% of CapEx dedicated to contributing activities

If the issuer does respect at least one of these criteria, it is in compliance with Febelfin requirements

- Conventional Oil & Gas:
 - revenues > 5% and
 - no SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment and
 - more than 15% of CapEx dedicated to thermal coal-related activities or less than 15% with the objective of increasing revenue and
 - have less than 15% of CapEx dedicated to contributing activities

If the issuer does respect at least one of these criteria, it is in compliance with Febelfin requirements

- Electricity Generation*:
 - Carbon Intensity > 393 (GCO₂/kWh)
 - no SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment and
 - derive less than 50% of its revenues from contributing activities
 - have less than 50% of CapEx dedicated to contributing activities

If the issuer does respect at least one of these criteria, it is in compliance with Febelfin requirements:

- *In 2022, 2023, 2024, 2025, the following new thresholds will be applicable: Carbon intensity > 374, 354, 335, 315 (gCO₂/kWh)
- For more details regarding the Revised Towards Sustainability Quality Standards eligibility and thresholds with regard to controversial activities: https://www.towardssustainability.be/sites/default/files/files/RevisedQS_Technical_20210531.pdf
- In case where above criteria are stricter than the applied criteria by the Revised Towards Sustainability Quality Standard, the strictest criteria will be applicable.

- The United Nations Global Compact consists of 10 principles covering:
 - Human rights-businesses should:
 - Support and respect the protection of internationally proclaimed human rights; and
 - Make sure that they are not complicit in human rights abuses
 - Labor rights-businesses should:



- Uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Eliminate all forms of forced and compulsory labor;
- Abolish the child labor;
- Eliminate discrimination in respect of employment and occupation.
- Environment-businesses should:
 - Support a precautionary approach to environmental challenges;
 - Undertake initiatives to promote greater environmental responsibility; and
 - Encourage the development and diffusion of environmentally friendly technologies.
- Corruption-businesses should:
 - Work against corruption in all its forms, including corruption and bribery
- The United Nations Guiding Principles on Business and Human Rights (UNGPs)
- The OECD Guidelines for Multinational Enterprises (as far as relevant)
- The ILO Conventions

Companies that are not excluded based on the preceding criteria form the basis of the Index ("Index Components").

"Adjustment Day" is the last business day of March, June, September, and the second business day in January.

"Amount Outstanding" is the face value of the respective bond.

"Bearer Bonds" are unregistered debt securities.

"Benchmark Regulation" shall have the meaning as defined in Section "Introduction".

"BMR" shall have the meaning as defined in Section "Introduction".

"Committee" shall have the meaning as defined in Section 1.6.

"Index Committee" shall have the meaning as defined in Section 1.6.

A "Eurobond" is a bond denominated in a currency not native to the issuer's home country.

A "Business Day" in relation to the Index is each day Monday to Friday except common European banking holidays. Common European banking holidays are Good Friday, Easter Monday, Christmas Day, Boxing Day and New Year's Day.

"Call" means that a bond with a callable feature will be redeemed before the actual maturity date of the bond. The callable feature allows the issuer of the bond to retain the privilege of redeeming the bond before the actual maturity date.



"Contingent Convertible Capital Securities" are bonds that will be converted into equity if a certain trigger event takes place or written down.

"Convertible Bonds" are bonds that can be converted into a predetermined amount of the company's equity at certain times during its life.

"Covered Bonds" are bonds backed by [cash flows](#) or [mortgages](#) or [public sector loans](#).

A "Credit Event" is the suspension of debt service, insolvency or failure to pay on time.

"Credit Parent" refers to "FREF_ENTITY_CREDIT_PARENT" FactSet field. This code returns a credit parent to active entities that have issued corporate debt (e.g., bonds, notes, and loans).

"Early Redemption" includes every event that leads to a redemption of a bond before the actual maturity date.

"Evaluated Bid Price" is the last available evaluated bid price by the designated Pricing Provider.

"Ex-dividend" means that the next coupon is detached from the bond several days in advance of the coupon payment date.

"Exchange Offer" means that the holder of a bond is invited to exchange the existing bond to another debt security.

In particular, an "Extraordinary Event" is

- an early redemption of the bond
- a credit event

"Fixed Coupon Bonds" are bonds with a fixed coupon rate, as opposed to floating rate coupons.

A bond is "Flat Trading" if the bond issuer will not meet its coupon payment obligation which means that the buyer of a bond is not responsible for paying the interest that has accrued since the last payment.

"Floating Rate Bonds" are bonds with a variable or floating interest rate, i.e. coupons fluctuate in line with the underlying level of interest rates, as opposed to fixed-rate coupons.

A "Fungible Bond" is a new issue that has all the same specifications as an existing issue (bonds with the same parameters can be issued in different tranches). At a specific date, the tranches will be combined into one bond. After this date, the parent tranche will include the Amount Outstanding of all new tranches.

"Guideline" shall have the meaning as defined in Section "Introduction".

A bond is "In Default" when the issuer is not able to fulfil its bond payment obligations anymore after the 30 days' grace period.

"Index" shall have the meaning as defined in Section "Introduction".

"Index Administrator" shall have the meaning as defined in Section "Introduction".

"Index Components" are all bonds in the Selection Pool.



The "Index Currency" is EUR.

"Inflation-linked Bonds" are [bonds](#) whose principal is indexed to [inflation](#).

"Investment Grade" are all ratings above or equal to BBB- by Standard & Poor's or Baa3 by Moody's Investors Service.

"Issuer" is the issuing entity of the respective bond.

"Last Evaluated Price" generally is (aside from the rules referred to in "Extraordinary Events") the last available Evaluated Bid Price.

"Live Date" is June 30th, 2017.

"Paid Cash" is either the value of the coupon payments between Adjustment Days or the resulting payment when a bond is removed from the Index between Adjustment Days. On the next Adjustment Day "Paid Cash" will be reinvested in the index.

"Payment-In-Kind Bonds" are a type of bonds that pay interest in additional bonds rather than in cash.

"Preferred Securities" combine both debt and equity characteristics.

"Pricing Provider" is Intercontinental Exchange (ICE).

"Securitized Bonds" are bonds secured against specific assets or receivables (ABS), mortgages (MBS) or cash flows.

"Selection Day" is the 2nd Friday in March, June, September and December.

"Selection Pool" shall have the meaning as defined in Section 4.1.

"Sinking Fund Bonds" are bonds that are backed by a fund that sets aside money on a regular basis. A sinkable bond issuer is required to buy a certain amount of the bond back from the purchaser at various points throughout the life of the bond.

"Solactive" shall have the meaning as defined in Section "Introduction".

"Start Date" is December 31st, 2015.

"Step-Up Coupon Bonds" are bonds whose coupons increase while the bond is outstanding. The coupon amounts are determined at issuance.

"Tender Offer" means that a holder of a bond is invited to tender the bond for a specific price at a specific time before the actual maturity date.

A "Total Return Index" measures the performance of the index components by assuming that all distributions are reinvested into the Index, i.e. the Index does not only reflect pure price movements.

"Zero Coupon Bonds" do not pay interest but are issued at a discount.



7. HISTORY OF INDEX CHANGES

Version	Date	Description
1.0	<i>24 January 2022</i>	Index Guideline creation (<i>initial version</i>)
2.0	<i>22 October 2019</i>	Callable bond change
3.0	<i>24 January 2022</i>	Definition of Starting Universe change due to ESG label

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