

# INDEX GUIDELINE

*Solactive ISS Euro Corporates 0-3 Years Liquid TR Index*

*Version 1.0*

*09 December 2021*



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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 ISS Euro 0-3 Years Liquid TR 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 Solactive ISS Euro Corporates 0-3 Year Liquid EUR TR Index is a rules-based, market value weighted index engineered to mirror the performance of the EUR-denominated ESG screened corporate bonds with a maturity of not more than 3 years.

## 1.2. IDENTIFIERS AND PUBLICATION

The INDEX is published under the following identifiers:

Name	ISIN	Currency	Type	RIC	BBG ticker
Solactive ISS Euro Corporates 0-3 Year Liquid EUR TR Index	DE000SLOBS43	EUR	TR	SOLEI3TE	SOLEI3TE

\*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](http://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 LIVE DATE is 1000. Historical values from the LIVE DATE will be recorded in accordance with Article 8 of the BMR. Levels of the INDEX published for a period prior to the LIVE DATE have been back-tested.

## 1.4. PRICES AND CALCULATION FREQUENCY

The INDEX is calculated and distributed once every BUSINESS DAY based on the Last Evaluated Bid Prices of the INDEX COMPONENTS. Bonds added in a rebalancing are included the INDEX at the Last 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 Last Evaluated Bid Price on the relevant REBALANCE DAY. INDEX analytical values are calculated each BUSINESS



DAY using the Last Evaluated Bid Price based on FIXING TIME. Prices of INDEX COMPONENTS not listed in the INDEX CURRENCY are converted using the WM Fixing by Reuters.

Should there be no current spot foreign exchange rate available on Reuters the most recent spot foreign exchange on Reuters for the preceding Trading Day is used in the calculation.

## 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.



## 2. INDEX SELECTION

On each SELECTION DAY, all bonds which meet the INDEX COMPONENT REQUIREMENTS are eligible for inclusion in the INDEX and will be added as INDEX COMPONENT on the REBALANCE DAY. Additionally, on each SELECTION DAY, it will be evaluated whether all current INDEX COMPONENTS still meet the INDEX COMPONENT REQUIREMENTS. Each INDEX COMPONENT that does not meet the INDEX COMPONENT REQUIREMENTS will be removed from the INDEX on the next REBALANCE DAY.

### 2.1. SELECTION OF THE INDEX COMPONENTS

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

- a. Eligible bonds should be denominated in Euro (EUR).
- b. Eligible bonds must have a minimum amount outstanding of EUR 500 Million.
- c. Securities & collateralized bonds are not eligible.
- d. Bond issuers that are majority government owned are not eligible.
- e. Plain vanilla FIXED COUPON BONDS are eligible for inclusion. Callable bonds are eligible. ZERO COUPON BONDS are not eligible.
- f. Only senior debt is included (1<sup>st</sup> Lien, Secured and Senior Unsecured).
- g. Bonds must have a minimum EFFECTIVE TIME TO MATURITY of at least 1.5 years, measured as of the REBALANCE DAY when entering the index.
- h. Selected bonds in the index must have a minimum EFFECTIVE TIME TO MATURITY of at least 3 months, measured as of the REBALANCE DAY.
- i. COUNTRY OF RISK is within the Eurozone, Denmark, Norway, Sweden, Switzerland or the United Kingdom.
- j. COUNTRY OF INCORPORATION is within the Eurozone, Denmark, Norway, Sweden, Switzerland or the United Kingdom.
- k. Bonds have a minimum rating (by Moody's and S&P Ratings) of at least BBB-. In case the bond has two different ratings assigned by the rating agencies the worst one is taken into account.
- l. A price from the PRICING PROVIDER must be available for each INDEX COMPONENTS on each SELECTION DAY.
- m. The value of the Freedomhouse Index for the GOVERNMENT-RELATED ENTITIES must be "Free" or "Partly Free" based on the corresponding COUNTRY OF INCORPORATION.
- n. The potential constituents must pass the Issuer-based screening using data from ISS-ESG, as described in the table below:



Exclusion Criteria	ISS Factor	Exclusion Threshold
Revenue from Armament (Production and Distribution)	MilitaryEqmtDistMaxRev	>10%
	MilitaryEqmtProdServMaxRev	
Revenue from Coal (Production and Distribution)	CoalMiningRevShareMaxThermal	>30%
Revenue from Tobacco (Production)	TobaccoProdMaxRev	>5%
Controversial Weapon Involvement	APMinesOverallFlag	Score = 10 (Red)
	BiologicalWeaponsOverallFlag	
	ChemicalWeaponsOverallFlag	
	ClusterMunitionsOverallFlag	
	NuclearWeaponsOverallFlag	
	NuclearWeaponsNonNPTOverallFlag	
	DepletedUraniumOverallFlag	
UNGC	NBSOverallFlag	Score = 10 (Red)

The ISS-ESG data, including the FreedomHouse Index, is updated in January, April, July and October and is applied on the REBALANCE DAY of the corresponding month.

The index consists of four different buckets based on the rating and sector of the issuing entity. The four buckets are:

1. Bonds issued by financial corporations which are rated either BBB+, BBB or BBB-
2. Bonds issued by financial corporations which are rated better than BBB+
3. Bonds issued by non-financial corporations which are rated either BBB+, BBB or BBB-
4. Bonds issued by non-financial corporations which are rated better than BBB+

Only one bond per issuer can be in each bucket. This approach caps the maximum number of bonds at 4 per issuer in the entire index. Within the 1st bucket the 20 largest bonds are selected, within the 2nd bucket



the 10 largest bonds are selected. Within the 3rd and 4th bucket the 40 respectively 20 largest bonds are selected.

## 2.2. WEIGHTING OF THE INDEX COMPONENTS

On each SELECTION DAY each Index Component is weighted using the market value based on the LAST EVALUATED BID PRICES and accrued interest as on the SELECTION DAY in order to achieve the aim of the Index. The weighting of the Index Components will be as follows:

5 Business Days before the scheduled REBALANCE DAY any issuer may not have a weight of more than 2% in the Index. In case any issuer has a weight of more than 2%, the weight of its smallest bond, ranked by Market Value, will be reduced such that the issuer will comply with the maximum issuer weight rule.

Furthermore 5 Business Days before the scheduled Rebalance Day bonds within the 2-3-year maturity bucket must have at least a weight of 34%. If the weight of the 2-3-year bucket is below 34% the weight of all bonds in this bucket will be proportionally increased in order to ensure the weight of the 2-3-year bucket is at least 34%.

All capping rules will be applied 5 Business Days before the scheduled REBALANCE DAY.

## 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/>.

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](https://www.solactive.com/news/announcements/)", which is available at <https://www.solactive.com/news/announcements/>

### 3.2. EXTRAORDINARY REBALANCE

The INDEX is not rebalanced extraordinarily.





## 4. CALCULATION OF THE INDEX

### 4.1. INDEX FORMULA

The Index is calculated as a total return index.

The calculation is performed according to the Bond Index Methodology, which is available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>.

A 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 on the monthly basis.

The Index calculation is performed according to the Bond Index Methodology, which is available at [www.solactive.com](http://www.solactive.com).

The standard index 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 standard index formula stipulates further that the Index Level 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 base market value formula can be found in the Bond Index Methodology under section 1.2.2.

### 4.2. ACCURACY

The Index Level will be rounded to 2 decimal places. The Amount Outstanding per bond instrument will be rounded to 0 decimal places.

### 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

"BENCHMARK REGULATION" shall have the meaning as defined in Section "Introduction".

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

"BUSINESS DAY" is a day on which XETRA is open for general business. Saturday and Sunday as well as the 24<sup>th</sup> and 31<sup>th</sup> of December, Good Friday are not considered Business Days.

"CLOSE OF BUSINESS" is a time stamp when an INDEX is calculated.

"COUNTRY OF INCORPORATION" is defined by Solactive based on the assessment of market data providers as the country where the company is incorporated or legally registered.

"COUNTRY OF RISK" is defined by Solactive based on the assessment of market data providers as the country in which the company would be influenced the most by potential changes in the business environment.

"EFFECTIVE TIME TO MATURITY" is the minimum of the next call or put date and the final maturity date.

"FIXED COUPON BONDS" are bonds with a coupon rate that is fixed throughout their life, as opposed to bonds with floating, or variable coupons.

"FIXING TIME" is the time when the prices for the INDEX COMPONENTS are fixed for index calculation. [This is specified in the Bond Index Methodology, which is available on the SOLACTIVE website: <https://www.solactive.com/documents/bond-index-methodology/>].

"GOVERNMENT-RELATED ENTITIES" are the entities that are more than 50%-owned by national governments, their departments or entities which carry out government-sponsored roles, particularly in the public sphere.

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

"LIVE DATE" IS 16.12.2021

"PRICING PROVIDER" is, in respect of an Index Component, specified in the List of Bond Pricing Provider which is incorporated by reference and available on the SOLACTIVE website (<https://www.solactive.com/documents/bond-pricing-provider/>).

"REBALANCE DAY" is the last BUSINESS DAY of January, April, July and October.

"SELECTION DAY" is 6 Business Days before the scheduled REBALANCE DAY, disregarding any potential change of the Rebalance Day.

"ZERO COUPON BONDS" means bonds which do not pay interest but are issued at a discount.



## 7. HISTORY OF INDEX CHANGES

Version	Date	Description
1.0	<i>09 December 2021</i>	Index Guideline creation ( <i>initial version</i> )

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