

Market Consultation - Solactive Battery Value-Chain Index

11 April 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 Index (the ‘Index’):

|  |  |  |
| --- | --- | --- |
| **NAME** | **RIC** | **ISIN** |
| Solactive Battery Value-Chain Index | .SOLBATT | DE000SLA33F4 |

**Rationale for Market Consultation**

The Index aims to track the performance of a basket of stocks of companies that are providers of certain electro-chemical energy storage technology and mining companies that produce metals that are primarily used for manufacturing batteries.

As per the current selection process of the Index, there is no exclusion criteria for filtering out ESG non-compliant companies. There is however an ever more increasing demand for ESG compliant investments in the market in general which is among others driven by regulatory requirements.

Solactive has determined that the methodology of the Index shall be amended to include the ESG activity screens from a restrictive exclusion list. The suggested enhanced list will screen the companies on various criteria related to ESG. 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 Index as well as reflect the actual liquidity available in the market, the weighting concept is proposed to be amended.

Finally, in order to make the Index much more reactive to the underlying developments in the battery technology market and much more proactive when selecting the index composition, Solactive proposes to determine the INDEX UNIVERSE twice a year in May and the November on each Selection Day.

**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):

**Section 2.1 Index Universe**

*Old text:*

On each Selection Day that occurs in the month of May, the Index Universe shall be determined by the INDEX ADMINISTRATOR as described below. On each Selection Day that occurs in the month of November, the Index Universe shall remain unchanged from the Index Universe determined on the immediately preceding SELECTION DAY unless the companies that were included in the INDEX UNIVERSE no longer qualify as eligible as a result of the occurrence of a spin-off or an extraordinary event. Such companies are excluded from the Index Universe in November if they no longer fulfill the Strategy of the Index outlined in Section 1.1.

[...]

On each Selection Day that occurs in the month of May, the Index Administrator shall determine the Index Universe which shall comprise of Securities of:

[...]

*New text:*

On each Selection Day that occurs in the month of May and November, the Index Universe shall be determined by the Index Administrator as described below.

[...]

On each Selection Day that occurs in the month of May and November, the Index Administrator shall determine the Index Universe which shall comprise of Securities of:

[...]

**Section 2.1.1 Selection of Energy Storage Technology Providers**

*Old text:*

On each Selection Day that occurs in the month of May, the Index Administrator shall determine the list of Energy Storage Technology Providers that shall be considered for inclusion in the Index Universe in accordance with the methodology described below:

[...]

*New text:*

On each Selection Day that occurs in the month of May and November, the Index Administrator shall determine the list of Energy Storage Technology Providers that shall be considered for inclusion in the Index Universe in accordance with the methodology described below:

[...]

**Section 2.1.3 ESG Exclusions**

*New section is proposed to be included:*

On each SELECTION DAY, any company included in the ESG EXCLUSIONS INDEX as determined by SOLACTIVE is then excluded from the INDEX UNIVERSE.

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 Solactive website:.

The applicable categories and inclusion criteria of the ESG EXCLUSIONS INDEX as of 03 March2022 are set out in ANNEX B of this document.

**Section 2.2. SELECTION OF THE INDEX COMPONENTS**

*Old text:*

[...]

1. If such Selection Day occurs in the month of May, the INDEX ADMINISTRATOR shall determine the securities that constitute the Index Universe in accordance with the methodology described in Section 1.10 Index Universe. And, if such Selection Day occurs in the month of November, the Index Universe shall be the same as the Index Universe determined on the immediately preceding Selection Day unless the companies that were included in the INDEX UNIVERSE no longer qualify as eligible as a result of the occurrence of a spin-off or an extraordinary event. Such companies are excluded from the Index Universe In November if they no longer fulfill the Strategy of the Index outlined in Section 1.1

[...]

*New text:*

[...]

1. If such Selection Day occurs in the month of May and November, the INDEX ADMINISTRATOR shall determine the securities that constitute the Index Universe in accordance with the methodology described in Section 2.1 Index Universe Requirements.

[...]

**Section 2.3. WEIGHTING OF THE INDEX COMPONENTS**

*Old text:*

[...]

In respect of each Selection Day immediately preceding such Adjustment Day that is a Rebalancing Day, each Index Component is weighted equally such that the total Index Component Weight of all Index Components is equal to 100%, subject to the following constraints:

1. if the 3m Average Daily Value Traded is less than USD 2,000,000, then the Index Component Weight of such Index Component shall be capped at 1% provided the initial weight is greater than 1%;
2. if the 3m Average Daily Value Traded is less than USD 3,000,000 but greater than or equal to USD 2,000,000, then the Index Component Weight of such Index Component shall be capped at 2% provided the initial weight is greater than 2%; and
3. if the 3m Average Daily Value Traded is less than USD 4,000,000 but greater than or equal to USD 3,000,000, then the Index Component Weight of such Index Component shall be capped at 3% provided the initial weight is greater than 3%.

Any residual weight that arises from capping the Index Component Weights shall be distributed equally to the remaining Index Components, subject to the constraints i-iii above. For the avoidance of doubt, Index Components affected from the aforementioned constraints will be excluded from the weight redistribution if this process increases their weight above the defined weight caps.

[...]

*New text:*

[...]

In respect of each Selection Day and/or Review Day immediately preceding such Adjustment Day that is a REBALANCE DAY, each Index Component is weighted in accordance with the following steps:

1. Each Index Component is initially weighted equally ;
2. Then, for each Index Component the maximum weight is calculated as:

where,

Where:

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

Haircut is assumed to be 10%;

Liquidity Measure refers to the 3-month **Average Daily Value Traded in US Dollars**;

Market Cap refers to the **Free Flot Market Capitalization** of a company in US Dollars;

Max Ownership is assumed to be 7.5%;

Participation (%) is assumed to be 100%;

Turnover refers to the hypothetical fund turnover in respect of each rebalancing date and is assumed to be 40%.

1. In respect of Index Components whose initial weight is greater than , the Target Index Weight shall be set to be equal to , and the excess weight is then calculated as follows:

The cumulative excess weight is calculated as the sum of in respect of all Index Components whose initial weight is greater than .

The cumulative excess weight is then proportionally distributed across all Index Components whose initial weight is less than 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.

[...]

**Section 6. DEFINITIONS**

*The following definition is proposed to be included:*

“**Data Provider III**” is Sustainalytics. For more information, please visit: www.sustainalytics.com.

*Old text:*

“INDEX UNIVERSE” is the sum of all financial instruments which fulfill the INDEX UNIVERSE REQUIREMENTS. As of the LIVE DATE, the INDEX UNIVERSE consisted of SECURITIES whose ISINs are listed under column ‘ISIN’ in Table 2: Index Universe in Annex B.

*New text:*

“INDEX UNIVERSE” is the sum of all financial instruments which fulfill the INDEX UNIVERSE REQUIREMENTS.

**Annex B**

*Old text:*

Table 2: Index Universe

| Energy Storage Technology Provider | ISIN | Technology Group |
| --- | --- | --- |
| MAXWELL TECHNOLOGIES INC | US5777671067 | Capacitor |
| DMG MORI AG | DE0005878003 | Flow based batteries |
| REDFLOW LTD | AU000000RFX8 | Flow based batteries |
| REDT ENERGY PLC | GB00B11FB960 | Flow based batteries |
| ZBB ENERGY CORP | US98876R3030 | Flow based batteries |
| SUMITOMO ELECTRIC INDUSTRIES | JP3407400005 | Flow & Lithium based batteries |
| PHOTON ENERGY NV | NL0010391108 | Lead based batteries |
| ENERSYS | US29275Y1029 | Lead based batteries |
| EXIDE TECHNOLOGIES GMBH | N/A | Lead based batteries |
| FURUKAWA BATTERY CO LTD | JP3827600002 | Lead based batteries |
| HAGEN BATTERIE AG | DE0007241259 | Lead based batteries |
| SHIN-KOBE ELECTRIC MACHINERY | JP3376200006 | Lead based batteries |
| ROBERT BOSCH GMBH | N/A | Lithium based batteries |
| VECTRA CO | US6708721005 | Lithium based batteries |
| JOHNSON CONTROLS INTERNATION | IE00BY7QL619 | Lithium based batteries |
| ABB LTD-REG | CH0012221716 | Lithium based batteries |
| BYD CO LTD-H | CNE100000296 | Lithium based batteries |
| ELECTROVAYA INC | CA28617B1013 | Lithium based batteries |
| ENSYNC INC | US29359T1025 | Lithium based batteries |
| EVONIK INDUSTRIES AG | DE000EVNK013 | Lithium based batteries |
| GENERAL ELECTRIC CO | US3696041033 | Lithium based batteries |
| HIGHPOWER INTERNATIONAL INC | US43113X1019 | Lithium based batteries |
| KOKAM CO LTD | KR7040480006 | Lithium based batteries |
| LECLANCHE SA-REG | CH0110303119 | Lithium based batteries |
| LG CHEM LTD | KR7051910008 | Lithium based batteries |
| MITSUBISHI ELECTRIC CORP | JP3902400005 | Lithium based batteries |
| NEC CORP | JP3733000008 | Lithium based batteries |
| NIDEC CORP | JP3734800000 | Lithium based batteries |
| NISSAN MOTOR CO LTD | JP3672400003 | Lithium based batteries |
| PANASONIC CORP | JP3866800000 | Lithium based batteries |
| SAFT GROUPE SA | FR0010208165 | Lithium based batteries |
| SAMSUNG SDI CO LTD | KR7006400006 | Lithium based batteries |
| SANYO CHEMICAL INDUSTRIES | JP3337600005 | Lithium based batteries |
| SK INNOVATION CO LTD | KR7096770003 | Lithium based batteries |
| SONY CORP | JP3435000009 | Lithium based batteries |
| TABUCHI ELECTRIC CO LTD | JP3470200001 | Lithium based batteries |
| TESLA INC | US88160R1014 | Lithium based batteries |
| TOSHIBA CORP | JP3592200004 | Lithium based batteries |
| ULTRALIFE CORP | US9038991025 | Lithium based batteries |
| VALENCE TECHNOLOGY INC | US9189141024 | Lithium based batteries |
| GS YUASA CORP | JP3385820000 | Lithium & Lead based batteries |
| HITACHI CHEMICAL CO LTD | JP3785000005 | Lithium & Lead based batteries |
| NGK INSULATORS LTD | JP3695200000 | Sodium based batteries |
|  |  |  |
| Mining Company | ISIN | Metal |
| ALBEMARLE CORP | US0126531013 | Lithium producer |
| FMC CORP | US3024913036 | Lithium producer |
| OROCOBRE LTD | AU000000ORE0 | Lithium producer |
| QUIMICA Y MINERA CHIL-SP ADR | US8336351056 | Lithium producer |

*New text:*

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/Services)\* |
| 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\* |
| 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 ProviderIIIand 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 included in the Index Universe 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.

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 with the Data Provider III, shall not be a component of the ESG Exclusions Index.

**Annex C**

*The Annex C is proposed to be included:*

Name of the ETF used to determine the AuM:

L&G Battery Value-Chain UCITS ETF, ISIN: IE00BF0M2Z96

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 Battery Value-Chain Index and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.

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Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until 26th of April 2022 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on 6th of May 2022.

Please send your feedback via email to [marketconsultation@solactive.com](mailto:marketconsultation@solactive.com), specifying “Market Consultation Solactive Battery Value-Chain Index” 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. |  |



# Contact

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