

MARKET CONSULTATION SOLACTIVE HYDROGEN ECONOMY INDEX

08 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 Indices (the 'Indices'):

NAME	RIC	ISIN
Solactive Hydrogen Economy Index GTR	.SOHYDROT	DE000SLOB9F2
Solactive Hydrogen Economy Index NTR	.SOHYDRON	DE000SLOB9E5
Solactive Hydrogen Economy Index PR	.SOHYDROP	DE000SLOB9D7

Rationale for Market Consultation

The Indices aim to track the performance of a basket of stocks of companies that are actively engaged in the hydrogen industry. Considering the increasing market demand for ESG compliant indices and the regulatory requirements, Solactive consider to introduce more rigorous, reliable and comprehensive filters than the filters currently in place. In order to further strengthen the ESG profile of the Indices, Solactive has proposed to lower the thermal coal power generation threshold for index inclusion.

Furthermore, Solactive proposes to include a dynamic weighting mechanism that takes into account factors like Assets under Management in the product(s) tracking the Indices, maximum participation, turnover and maximum ownership per company to ensure tradability, reduction of tracking difference of the product(s) tracking the Indices.

A more detailed overview of the proposed changes is provided below in section "Proposed Changes to the Index Guideline".

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 Requirements

From:

[...]



2. Any company listed on the Future Protection List (the "FWPL") produced by Legal & General Investment Management ("LGIM") are excluded from the INDEX UNIVERSE. The FWPL is reconstituted by LGIM on a semi-annual basis and the methodology by reference to which the FWPL is constructed is published at the following link: Future World Protection List Methodology. The most recently published FWPL that is available on a respective SELECTION DAY is applied. It can be found on the following website:

<https://www.lgim.com/uk/en/capabilities/corporate-governance/tracking-esg-progress/>.

[...]

To:

[...]

2. 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 the following website:

<https://solactive.com/downloads/Guideline-Solactive-ESG-Exclusions-Index.pdf>

The applicable categories and inclusion criteria of the ESG EXCLUSIONS INDEX as of 03 March 2022 are set out in ANNEX B of this document.

Section 2.2: Selection of the Index Components

From:

[...]

Finally, companies that are classified as a HYDROGEN PRODUCER or an INDUSTRIAL TECHNOLOGY PROVIDER and are deriving more than or equal to 10% of their revenues from THERMAL COAL POWER GENERATION are excluded; and if such company is an existing INDEX COMPONENT then such INDEX COMPONENT shall be excluded if it derives more than or equal to 15% of its revenues from THERMAL COAL POWER GENERATION. The data is provided by the DATA PROVIDER II.

The selection of the INDEX COMPONENTS is fully rule-based and the INDEX ADMINISTRATOR cannot make any discretionary decisions.



To:

[...]

Finally, companies that are classified as a HYDROGEN PRODUCER or an INDUSTRIAL TECHNOLOGY PROVIDER and are deriving more than or equal to 5% of their revenues from THERMAL COAL POWER GENERATION are excluded; and if such company is an existing INDEX COMPONENT then such INDEX COMPONENT shall be excluded if it derives more than or equal to 10% of its revenues from THERMAL COAL POWER GENERATION. The data is provided by the DATA PROVIDER II.

The selection of the INDEX COMPONENTS is fully rule-based and the INDEX ADMINISTRATOR cannot make any discretionary decisions.

Section 2.3: Weighting of the Index Components

From:

[...]

On each SELECTION DAY each INDEX COMPONENT is weighted in accordance with the following steps: assigned an equal weight such that the total INDEX COMPONENT weight of all INDEX COMPONENTS is equal to 100%, subject to the following constraints:

1. if the three-month 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 three-month 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 three-month 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 1 - 3 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.

To:



[...]

- i) On each SELECTION DAY 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,

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

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

and,

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

Haircut is 10%;

Liquidity Measure means 3-month Average Daily Value Traded;

Market Cap means the market capitalisation of a company in US Dollars;

Max Ownership is 7.5%;

Participation (%) is 100%;

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



Section 3.1: Ordinary Rebalance

From:

[...]

In addition, if the INDEX ADMINISTRATOR determines that the INDEX weight of any INDEX COMPONENT is greater than 15% on any REVIEW DAY, then the INDEX shall be reweighted on the ADJUSTMENT DAY that occurs immediately after such REVIEW DAY according to section 2.3 WEIGHTING OF THE INDEX COMPONENTS. AVERAGE DAILY VALUE TRADED relevant data will be based on the data available as of the REVIEW DAY.

[...]

To:

[...]

In addition, if the INDEX ADMINISTRATOR determines that the INDEX weight of any INDEX COMPONENT is greater than 15% on any REVIEW DAY, then the INDEX shall be reweighted on the ADJUSTMENT DAY that occurs immediately after such REVIEW DAY according to section 2.3 WEIGHTING OF THE INDEX COMPONENTS. All relevant data will be based on the data available as of the REVIEW DAY.

[...]

Section 6: Definitions

From:

[...]

"DATA PROVIDER 1" is GlobalData. For more information, please visit: <https://www.globaldata.com/>. "DATA PROVIDER 1's thematic research tracks companies based on their involvement in specific themes. These include companies that are engaged in any part of the value chain of a specific theme. DATA PROVIDER 1's analysts scan companies across multiple sectors to identify the ones that are involved in activities relevant to the theme. The selected companies include those for which the theme is expected to have a significant impact on their performance in the future.

"DATA PROVIDER 2" is Sustainalytics. For more information, please visit: <https://www.sustainalytics.com/>.

[...]

To:



[...]

“DATA PROVIDER I” is GlobalData. For more information, please visit: <https://www.globaldata.com/>. "DATA PROVIDER I's thematic research tracks companies based on their involvement in specific themes. These include companies that are engaged in any part of the value chain of a specific theme. DATA PROVIDER I's analysts scan companies across multiple sectors to identify the ones that are involved in activities relevant to the theme. The selected companies include those for which the theme is expected to have a significant impact on their performance in the future.

“DATA PROVIDER II” is Sustainalytics. For more information, please visit: <https://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 Controversy	Non-Compliance with the UNGC
Tobacco	Controversies with the Level 5 (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 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 included in the INDEX UNIVERSE which fulfills any of the criteria set out above shall be a component of the **ESG EXCLUSIONS INDEX I**. 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 II, shall not be a component of the **ESG EXCLUSIONS INDEX I**.



ANNEX C

Name of the ETF used to determine the AuM:

L&G Hydrogen Economy UCITS ETF, ISIN: IE00BMYDM794



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 Hydrogen Economy 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 April 26, 2022 (cob).



Market Consultation Solactive Hydrogen Economy index

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on May 03, 2022.

Please send your feedback via email to marketconsultation@solactive.com, specifying "Market Consultation MARKET CONSULTATION SOLACTIVE HYDROGEN ECONOMY 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.

CONTACT

Solactive AG

German Index Engineering

Platz der Einheit 1

60327 Frankfurt am Main

Germany

Tel.: +49 (0) 69 719 160 00

Fax: +49 (0) 69 719 160 25

Email: info@solactive.com

Website: www.solactive.com

© Solactive AG