MARKET CONSULTATION SOLACTIVE LGIM ESG GLOBAL DEVELOPED EQUITIES EX-JAPAN AND JAPAN ALL CAP EQUITIES INDICES– CHANGE OF METHODOLOGY

26 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 'Affected Indices'):

NAME	RIC	ISIN
Solactive LGIM ESG Global Developed Equities Ex-Japan Index PR	.SOLEDXJP	DE000SLA99Z3
Solactive LGIM ESG Global Developed Equities Ex-Japan Index NTR	.SOLEDXJN	DE000SLA9907
Solactive LGIM ESG Global Developed Equities Ex-Japan Index TR	.SOLEDXJT	DE000SLA9915
Solactive LGIM ESG Japan All Cap Equities Index PR	.SOLEJPAP	DE000SLA9923
Solactive LGIM ESG Japan All Cap Equities Index NTR	.SOLEJPAN	DE000SLA9931
Solactive LGIM ESG Japan All Cap Equities Index TR	.SOLEJPAT	DE000SLA9949

Rationale for Market Consultation

The last few months saw an extensive emphasis being put on climate change mitigation and multiple countries and entities setting targets to get to net-zero emissions by 2050. This objective is at the heart of the European Green Deal and in line with the EU's commitment to global climate action under the Paris Agreement. Given the recent developments in the investment space, Solactive considers appropriate to enhance the methodology of the Affected Indices in order to explicitly commit to a carbon reduction trajectory. This would be achieved in a similar manner with the recommendations of the EU- Paris Agreement Alignment, targeting an initial reduction in average Index Carbon Intensity by 50% with a subsequent 7% year on year reduction trajectory.

The Affected Indices already achieve a carbon intensity reduction of approximately 50% solely based on the integration of the ESG Score tilting in the determination of the security weighting. Committing explicitly to the respective decarbonization trajectory would thus further serve the index objective, making the index also a suitable opportunity to those investors targeting to contribute to the climate risk mitigation through their investment decisions.

Proposed Changes to the Index Guideline

The following Methodology changes are proposed in the following points of the Index Guideline:

Section 1.1. Scope of the index

Addition to the Strategy Description:

[…]

In addition, the components are weighted based on an optimized algorithm such as to ensure that the portfolio is in line with the climate-neutrality by 2050 objective.

Section 2.3 Weighting of the index

Addition of a description of the carbon reduction initial target and subsequent trajectory:

[…]

2.3.2 Carbon Reduction

The final weight of each INDEX COMPONENT within its regional INDEX is further determined based on an optimization approach that minimizes the cumulative absolute weight deviation from the INTERMEDIATE UNIVERSE weights on each SELECTION DAY.

On the BASE DAY, it is subject to the following constraints:

a. Reduce the average weighted CARBON INTENSITY of the INDEX compared to the average weighted CARBON INTENSITY of the PARENT INDEX by at least 50%.

b. Maximum absolute weight deviation from the weight in the INDEX UNIVERSE of 3%. Individual weights are capped at the minimum between 8% and INDEX UNIVERSE weight * 20 as well as floored at 0.01%.

c. The sum of weights which exceed 5% is capped at 35%.

d. Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is capped and floored at 0.5%.

e. Compared to the INVESTABLE UNIVERSE, the absolute deviation of the regional weights is capped at 0.5%. (This condition is only applied to regional INDICES which consist of multiple regions.)

If no solution can be found, the constraints are relaxed in the following order:

a. Sector constraint: Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is increased by 0.5% in each direction.

b. Regional weight constraint: Compared to the INVESTABLE UNIVERSE, absolute deviation of the region weights is capped at 1%. (This condition is only applied to regional INDICES which consist of multiple regions.)

c. Single weight constraint: Maximum absolute deviation from the weight in the INDEX UNIVERSE is iteratively increased by 0.25% until a solution is found.

The CARBON INTENSITY of the INDEX UNIVERSE is calculated by weighting the CARBON INTENSITY of the components of the INDEX UNIVERSE by the weight of the respective components within the INDEX UNIVERSE.

On each following SELECTION DAY each INDEX COMPONENT is assigned a weight based on the same objective function, but the algorithm is subject to the following constraints:

    a. A Decarbonization Trajectory is defined by an annual minimum CARBON INTENSITY reduction of 7% compared to the CARBON INTENSITY of the INDEX on the BASE DAY in a geometric progression applied semi-annually. The CARBON INTENSITY of the INDEX is then capped at the minimum of the CARBON INTENSITY of the Decarbonization Trajectory on the SELECTION DAY and 50% of the PARENT INDEX CARBON INTENSITY on the SELECTION DAY.

    b. Maximum absolute weight deviation from the weight in the INDEX UNIVERSE of 3%. Individual Weights are capped at the minimum between 8% and INDEX UNIVERSE weight * 20 as well as floored at 0.01%.

    c. The sum of weights which exceed 5% is capped at 35%.

    d. Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is capped and floored at 0.5%.

    e. Compared to the INVESTABLE UNIVERSE, the absolute deviation of the regional weights is capped at 0.5%. (This condition is only applied to regional INDICES which consist of multiple regions.)

If no solution can be found, the constraints are relaxed in the following order:

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    c. Single weight constraint: Maximum absolute deviation from the weight in the INDEX UNIVERSE is iteratively increased by 0.25% until a solution is found.

Section 6. Definitions

"Base Day" is defined as the 8th of April 2021.

"CARBON INTENSITY" on the SELECTION DAY is calculated as:

$$\text{CARBON INTENSITY} = \frac{\text{GHG}}{\text{EVIC}}$$

If the CARBON INTENSITY is not computable for a company due to missing data, the company receives the median CARBON INTENSITY of all the securities in the same industry. If the company is not classified in an industry, the company receives the median CARBON INTENSITY of all companies classified in an industry.

If the simple average EVIC of the PARENT INDEX has increased during the last calendar year, the EVIC of an INDEX COMPONENT shall be adjusted by an adjustment factor. The factor is calculated as the average EVIC of the PARENT INDEX at the end of the latest calendar year, divided by the average EVIC of the PARENT INDEX at the end of the previous calendar year.

"DATA PROVIDER" is ISS and Legal & General Investment Management. For more information, please visit: https://www.issgovernance.com/, and https://www.lgim.com/.

"EVIC" is the Enterprise Value including Cash in USD on the respective SELECTION DAY.

"GHG" are the Greenhouse Gas Emissions of a company as of the SELECTION DAY. According to the GHG Protocol[1], the GHG metric is calculated as the sum of Scope 1 and Scope 2 emissions. In particular:

> Scope 1 emissions: All direct Greenhouse Gas Emissions;

> Scope 2 emissions: Indirect Greenhouse Gas Emissions from consumption of purchased electricity, heat or steam;

"HIGH CLIMATE IMPACT SECTORS" are sectors that are key to the low-carbon transition. HIGH CLIMATE IMPACT SECTORS are the following:

NACE Section Code	NACE Section Name
A	AGRICULTURE, FORESTRY AND FISHING
B	MINING AND QUARRYING
C	MANUFACTURING
D	ELECTRICITY; GAS; STEAM AND AIR CONDITIONING SUPPLY
E	WATER SUPPLY; SEWERAGE; WASTE MANAGEMENT AND REMEDIATION ACTIVITIES
F	CONSTRUCTION
G	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES

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[1] See Greenhouse Gas Protocol at https://ghgprotocol.org/.

H	TRANSPORTATION AND STORAGE
L	REAL ESTATE ACTIVITIES

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 LGIM ESG Global Developed Equities Ex-Japan And Japan All Cap Equities

Indices and welcomes any feedback on how this may affect and/or improve their use of Solactive indices.

Consultation Procedure

Market Consultation Solactive LGIM ESG GLOBAL DEVELOPED EQUITIES EX-JAPAN and Japan all cap equities Indices– Change of Methodology

Stakeholders and third parties who are interested in participating in this Market Consultation, are invited to respond until May 2nd, 2022(cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *May 5th, 2022*.

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation Solactive LGIM ESG Indices – Change of Methodology" 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.

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