

Market Consultation | RAFI MULTI-FACTOR INDEX SERIES | Guideline change

23 December 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’):

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| --- | --- | --- |
| **NAME** | **RIC** | **ISIN** |
| RAFI Dynamic Multi-Factor Emerging Markets Index NTR/PR/TR | .RADMFENT  .RADMFEMP  .RADMFEMT | DE000SLA2Z93  DE000SLA2ZR0  DE000SLA20T2 |
| [RAFI Dynamic Multi-Factor Emerging Markets South Africa](http://portal.svc.solactive.com/web/commons/indices/home/43675) Index GTR/NTR/PR | .RADMESAT  .RADMESAN  .RADMESAP | DE000SL0EYD0  DE000SL0EYE8  DE000SL0EYF5 |
| RAFI Multi-Factor Emerging Markets Index PR/TR/NTR | .RAQMFEMP  .RAQMFEMT  .RAQMFENT | DE000SLA21F9  DE000SLA21H5  DE000SLA21G7 |

**Rationale for the Market Consultation**

For the purpose of portfolio construction, companies in the RAFI Global Equity Investable Universe (GEIU), based on their country classification, are assigned to one of the six regions defined as United States, Japan, United Kingdom, Developed Europe (ex UK), Other Developed Markets and Emerging Markets. Currently, China is included within the Emerging Markets (EM) region. The proposal is to break out the one EM region into two regions (EM ex China and China), to be effective for the March 2023 annual reconstitution. Treating China separately as a region on its own have benefits arising from China’s significant market size, its increasing dominance in the EM benchmark, and unique geopolitics and regulatory policy that could affect its performance.

**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).

To reflect the new regions from the proposed separation of Emerging Markets, the following changes will apply to the corresponding sections:

Section 2.1

*From:*

*“Eligible developed and emerging market countries are assigned to one of six regions as defined in Table 1.”*

*To:*

*“Eligible developed and emerging market countries are assigned to one of seven regions as defined in Table 1.”*

*From:*

*“As of March 2022, there are 23 developed market countries and 24 emerging market countries eligible for inclusion.”*

*To:*

*“As of March 2023, there are 23 developed market countries and 24 emerging market countries eligible for inclusion.”*

Section 2.3

*From:*

*”Table 2 outlines the 12 region and size classifications used to construct the single factor indices for value, low volatility, quality, momentum and size.*

*Country groups as outlined in Table 1 consist of major nations or small-country groups within each of the six regions.”*

*To:*

*”**Table 2 outlines the 14 region and size classifications used to construct the single factor indices for value, low volatility, quality, momentum and size.*

*Country groups as outlined in Table 1 consist of major nations or small-country groups within each of the seven regions.”*

Section 2.10

*From:*

*“The RAFI Size Factor Index is the equal weight of the Small Value, Small Quality, Small Low Volatility, and Small Momentum factor portfolios for all regions, except for Emerging Markets.”*

*To:*

*“The RAFI Size Factor Index is the equal weight of the Small Value, Small Quality, Small Low Volatility, and Small Momentum factor portfolios for all regions, except for China and Emerging Markets ex-China.”*

Section 2.11

*From:*

*“The RAFI Multi-Factor Index takes an equally weighted allocation to value, low volatility, quality, momentum, and size factor indices for all regions, except for Emerging Markets where the size factor is excluded.”*

*To:*

*“The RAFI Multi-Factor Index takes an equally weighted allocation to value, low volatility, quality, momentum, and size factor indices for all regions, except for China and Emerging Markets ex-China where the size factor is excluded.”*

Section 2.11.3

*From:*

*“The RAFI Multi-Factor Emerging Markets ex-China Exclusion Screened Index is built using a custom Emerging Markets region that excludes China.”*

*To:*

*“The RAFI Multi-Factor Emerging Markets ex-China Exclusion Screened Index takes an equally weighted allocation to value, low volatility, quality and momentum for the Emerging Markets ex-China region.”*

Section 2.12

*From:*

*“The RAFI Dynamic Multi-Factor Index dynamically allocates to value, low volatility, quality, momentum, and size factor indices for all regions, except for Emerging Markets where the size factor is excluded.”*

*To:*

*“The RAFI Dynamic Multi-Factor Index dynamically allocates to value, low volatility, quality, momentum, and size factor indices for all regions, except for China and Emerging Markets ex-China where the size factor is excluded.”*

Table 1 in section 2.1 will reflect the two new regions under Emerging Markets as a result of the change:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 1** | | | | |  | |
| **DEVELOPED MARKETS** | | | | | **EMERGING MARKETS** | |
| **United**  **States** | **Japan** | **United**  **Kingdom** | **Developed**  **Europe, ex UK** | **Other Developed Markets** | **China** | **Emerging**  **Markets ex-China** |
| US | Japan | UK | Austria | Australia | China | Brazil |
|  |  |  | Belgium | Canada |  | India |
|  |  |  | Denmark | ***Asia Pacific*** |  | South Africa |
|  |  |  | Finland | Israel |  | South Korea |
|  |  |  | France | Hong Kong |  | Taiwan |
|  |  |  | Germany | New Zealand |  | ***Americas*** |
|  |  |  | Ireland | Singapore |  | Chile |
|  |  |  | Italy |  |  | Colombia |
|  |  |  | Netherlands |  |  | Mexico |
|  |  |  | Norway |  |  | Peru |
|  |  |  | Portugal |  |  | ***EMEA*** |
|  |  |  | Spain |  |  | Czech Republic |
|  |  |  | Sweden |  |  | Egypt |
|  |  |  | Switzerland |  |  | Greece |
|  |  |  |  |  |  | Hungary |
|  |  |  |  |  |  | Kuwait |
|  |  |  |  |  |  | Poland |
|  |  |  |  |  |  | Qatar  Saudi Arabia |
|  |  |  |  |  |  | Turkey |
|  |  |  |  |  |  | UAE |
|  |  |  |  |  |  | ***Asia Pacific*** |
|  |  |  |  |  |  | Indonesia |
|  |  |  |  |  |  | Malaysia |
|  |  |  |  |  |  | Philippines |
|  |  |  |  |  |  | Thailand |

The following sentences will be removed:

Section 2.1 and 2.3

*“The RAFI Multi-Factor Emerging Markets ex-China Exclusion Screened Index described in Section 2.11.3 excludes China from the Emerging Markets Region.”*

Section 2.10

*“As noted, Emerging Market Small is excluded.”*

Table 2 in section 2.3 will be updated to reflect the new regions as follows:

|  |  |
| --- | --- |
| **Table 2** |  |
| **Region & Size Groups** | **RAFI Single Factor Construction** |
| US Large/Mid | RAFI Factor Developed, & US for Value, Low Volatility, Quality, and Momentum |
| Japan Large/Mid | RAFI Factor Developed, & Developed ex US for Value, Low Volatility, Quality, and Momentum |
| UK Large/Mid | RAFI Factor Developed & Developed ex US for Value, Low Volatility, Quality, and Momentum |
| Developed Europe, excluding UK Large/Mid | RAFI Factor Developed & Developed ex US for Value, Low Volatility, Quality, and Momentum |
| Other Developed Markets Large/Mid | RAFI Factor Developed, & Developed ex US for Value, Low Volatility, Quality, and Momentum |
| China Large/Mid | RAFI Factor EM for Value, Low Volatility, Quality and Momentum |
| Emerging Markets ex-China Large/Mid\* | RAFI Factor EM for Value, Low Volatility, Quality, and Momentum |
| US Small | RAFI Size Factor Developed & US |
| Japan Small | RAFI Size Factor Developed & Developed ex US |
| UK Small | RAFI Size Factor Developed & Developed ex US |
| Developed Europe, excluding UK Small | RAFI Size Factor Developed & Developed ex US |
| Other Developed Markets Small | RAFI Size Factor Developed & Developed ex US |
| China Small | None |
| Emerging Markets ex-China Small | None |

**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 Indices and welcomes any feedback on how this may affect and/or improve their use of the 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 *2023-01-10.*

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *2023-01-17*.

Please send your feedback via email to [marketconsultation@solactive.com](mailto:marketconsultation@solactive.com), specifying “**Market Consultation** **| RAFI Multi-Factor Index Series | December 2022**” 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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