

MARKET CONSULTATION [SOLACTIVE PHARMA BREAKTHROUGH VALUE INDEX]

17 January 2023



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 Pharma Breakthrough Value Index	.SOLBIOT	DE000SLA30N4

Rationale for the Market Consultation

The Index aims to track the performance of a basket of stocks of companies that are actively engaged in the research, development and/or manufacturing of orphan drugs.

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.

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 1.10 Index Universe

Old text:

On each Selection Day that occurs in the month of March, the Index Universe shall be determined based on orphan drug related company data provided by EvaluatePharma as described below. On each Selection Day that occurs in the month of September, the Index Universe shall remain unchanged from the Index Universe determined on the immediately preceding Selection Day.

[...]



New text:

On each Selection Day that occurs in the month of March, the Index Universe shall be determined based on orphan drug related company data provided by EvaluatePharma as described below. On each Selection Day that occurs in the month of September, the Index Universe shall remain unchanged from the Index Universe determined on the immediately preceding Selection Day.

[...]

On each Selection Day, any company included in the ESG Exclusions Enhanced Index as determined by Solactive is then excluded from the Index Universe. Further, any company that is not a part of the Index Universe of the ESG Exclusions Enhanced Index as of the immediately preceding Selection Day of the ESG Exclusions Enhanced Index, shall be excluded from the Index Universe.

The ESG Exclusions Enhanced Index is reconstituted by Solactive on a semi-annual basis and the methodology by reference to which the ESG Exclusions Enhanced Index is constructed, together with the most recent applicable categories and inclusion criteria, is available on the [Solactive website](#).

The applicable categories and inclusion criteria of the ESG Exclusions Enhanced Index as of 28th of February 2022 are set out in Annex C of this document.

Section 2.2 Ordinary Adjustment

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:

- i. 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%;
- ii. 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
- iii. 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:

[...]

On each SELECTION DAY each INDEX COMPONENT is weighted in accordance with the following steps

- i) 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 refers to the maximum of total assets under management in US Dollars of ETFs tracking the index as listed in Annex D and US Dollars 50 million;

Haircut assumed to be 10%;

Liquidity Measure refers to the 3-month **AVERAGE DAILY VALUE TRADED in US Dollars**;

Market Cap refers to the FREE FLOAT MARKET CAPITALIZATION of a company in US Dollars;

Max Ownership assumed to be 7.5%;

Participation (%) assumed to be 100%;

Turnover refers to 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.



[...]

The Annex C and Annex D is proposed to be included.

Annex C

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	(5% Military Contracting Weapons <OR> 5% Military Contracting Weapons – Related Products/Services)*
Defense – Controversial Weapons	Any direct Involvement or any indirect Involvement through corporate ownership
Small Arms	(5% Civilian customers (Assault and non-assault weapons) <OR> 5% Key Components <OR> 5% Military/law enforcement customers <OR> 5% Retail/Distribution)*
Coal	(5% Thermal Coal Extraction <OR> 5% Power Generation <OR> 5% Supporting Products/Services <OR> Power Generation Capacity Increase)*
Conventional Oil & Gas	(5% Generation <OR> 5% Production <OR> 5% Supporting Products/Services <OR> Capacity Increase) *
Unconventional Oil & Gas	(5% Oil Sands Extraction <OR> 5% Artic Oil & Gas Exploration/Extraction <OR> 5% Shale Energy Extraction <OR> Capacity Increase)*
Nuclear Power	(5% Production <OR> 5% Distribution <OR> 5% Supporting Products <OR> Capacity Increase)*
Alcohol	(5% Production <OR> 5% Retail <OR> 5% Related Products/Services)*



Gambling	(5% Operations <OR> 5% Specialized Equipment <OR> 5% Supporting Products/Services)*
Adult Entertainment	(5% Production <OR> 5% Distribution)*

Note:

- % figures refer to revenue threshold (for degree of involvement). The criterion is fulfilled if involvement is equal to or above such threshold.
- Capacity increase refers to any increase in capacity from the immediately preceding Selection Day of the ESG Exclusions Enhanced Index
- 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 which fulfills any of the criteria set out above shall be a component of the ESG Exclusions Enhanced Index. The primary listing for each company is selected as Index Component of the ESG Exclusions Enhanced Index. 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 from the Data Provider II, shall be a component of the ESG Exclusions Enhanced Index.

Annex D

Name of the ETF used to determine the AuM: L&G Pharma Breakthrough UCITS ETF, ISIN: IE00BF0H7608

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)	
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Solactive is inviting all stakeholders and interested third parties to evaluate the proposed changes to the Methodology for the Solactive Pharma Breakthrough Value 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 *30th of January 2023 (cob)*.

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *13th of February 2023*.

Please send your feedback via email to marketconsultation@solactive.com, specifying "Market Consultation Solactive Pharma Breakthrough Value Index" as the subject of the email, or



via postal mail to: Solactive AG
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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.

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