

# MARKET CONSULTATION CANNABIS INDEX – CHANGE OF METHODOLOGY

03 March 2023



## Content of the Market Consultation

Solactive AG has decided to conduct a Market Consultation with regard to changing its Index Methodology of the following Indices (the 'Affected Indices'):

NAME	RIC	ISIN
Cannabis Index	.POTX	DE000SLA9PD6
Cannabis Index (PR)	.POTXPR	POTXPR000000
Cannabis Index (TR)	.POTXTR	POTXTR000000

## Rationale for Market Consultation

Due to lasting cannabis market conditions in terms of drops in stock prices and liquidity as well as to ensure that for future Selections weighting requirements as reflected in Section 1.5 of the Affected Indices can be fulfilled, Solactive is proposing to increase the weight cap for Pure-Play companies to 16% and the aggregated weight cap for Pre-Revenue companies from 10% to 15%. Furthermore, in case that under the new weighting scheme the weighting requirements still cannot be met, the steps of relaxations as reflected in Section 2.12 & 2.1.3 for current components will be reduced stepwise by 10% until the necessary amount of index member is met to fulfill the weighting requirements, i.e. no caps are breached. Lastly, we propose a switch to an effective Market Capitalization weighting scheme which determines the weighting basis as the lesser of Free Float Market Capitalization and Average Daily Trading Value within the last six months multiplied by 100, to reduce the risk of a concentration of illiquid stocks within the underlying compositions.



## Changes to the Index Guideline

### Section 1.5 WEIGHTING

“[....]

From:

On each Selection Day, the Index Components of the Cannabis Index are weighted according to Free Float Market Capitalization subject to the following constraints:

- a) The maximum weight of a company is 8.0%.
- b) The minimum weight of a company is 0.3%.
- c) The aggregate weight of companies with weight above 4.5% cannot exceed 48% of the index weight.
- d) The aggregate weight of Pre-Revenue Companies (as defined in Section 4) cannot exceed 10% of the index weight, and the maximum weight of a Pre-Revenue Company is 4.5%.

The excess weight that results from implementing these constraints is redistributed proportionally such that none of the above constraints are breached.

[...]”

To:

“[...]

On each Selection Day, the Index Components of the Cannabis Index are determined by applying an effective Market Capitalization weighting scheme that accounts for liquidity in determining final weights:

- 1) The weight of a selected Index Component will be determined based on the lesser of:
  - a. Free Float Market CapitalizationOR
  - b. Average Daily Trading Value within the last six months multiplied by 100
- 2) The maximum weight of a company is 16.0%.
- 3) The minimum weight of a company is 0.3%.
- 4) The aggregate weight of companies with weight above 4.5% cannot exceed 48% of the index weight.
- 5) The aggregate weight of Pre-Revenue Companies (as defined in Section 4) cannot exceed 15% of the index weight, and the maximum weight of a Pre-Revenue Company is 4.5%.The excess weight that results from implementing these constraints is redistributed proportionally such that none of the above constraints are breached.



The excess weight that results from implementing these constraints is redistributed proportionally such that none of the above constraints are breached.

[...]"

## Section 2.1 SELECTION OF THE INDEX COMPONENTS

Adding the following paragraph:

"[...]"

Lastly, if the application of the above-mentioned steps of relaxations results in an insufficient amount of Index Components to fulfill the requirements reflected in Section 1.5, Paragraph 2.1.2. will be relaxed stepwise by 10% for companies that are Index Components on the applicable Selection Day until the requirements mentioned in Section 1.5 are met. If this still results in an insufficient amount of Index Components to fulfill the requirements reflected in Section 1.5, , Paragraph 2.1.3. will be relaxed stepwise by 10% for companies that are Index Components on the applicable Selection Day until the requirements mentioned in Section 1.5 are met

"[...]"

Defined terms used in this Market Consultation document, but not defined herein, have the meaning assigned to them in the respective index guideline of the Index.



### 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 Cannabis 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 March 17<sup>th</sup>, 2023 (cob).

Please send your feedback via email to [marketconsultation@solactive.com](mailto:marketconsultation@solactive.com), specifying "Market Consultation Solactive Cannabis 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

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