

MARKET CONSULTATION
SOLACTIVE CHINA
HEALTHCARE DISRUPTION
INDEX – CHANGE OF
METHODOLOGY

26 January 2024



Content of the Market Consultation

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

NAME	RIC	ISIN
Solactive China Healthcare Disruption Index PR	.SOLCHCDP	DE000SLOCZU5
Solactive China Healthcare Disruption Index NTR	.SOLCHCDN	DE000SLOCZV3
Solactive China Healthcare Disruption Index TR	.SOLCHCDT	DE000SLOCZW1

Rationale for Market Consultation

The indices aim to represent Hong Kong listed companies that have business operations in various innovative fields in the healthcare sector.

As part of our annual index methodology review, Solactive is suggesting to apply some adjustments to the respective indices to further enhance the alignment of the selection process with its scope.

We would propose to realign the industry selection in the index, as we see that various subindustries in China healthcare segment are going through some notable changes and the index should catch those sectors and names. There are some industry players are undergoing a process of business innovation to create new revenue streams and growth opportunities which we did not yet capture. For example, traditional pharmaceutical companies are spending more and more of their R&D budget on innovative drugs rather than generics drugs. Additionally, more pharmaceutical companies are specializing in certain disease areas. They have deep know-how within their specific realm compared to diversified pharma, and they have the potential to grow, despite their smaller scale now. Therefore, the new methodology fine tunes the structure of pharmaceutical sector to include them.

In this scope, Solactive suggests to exclude the subindustry Pharmacies and Drug Stores from its eligible industry universe as it is not deemed to correspond to the disruptive element of the scope as well as the other sectors. In terms of additions, the eligible universe would now encompass Pharmaceuticals: Other, Chemicals: Specialty, and Pharmaceuticals: Generic, which were previously excluded from the index universe. Furthermore, Wholesale/Generic Pharmaceuticals Distributors would be included for the first time, recognizing their significant contribution to the healthcare segment's value chain moving forward.

Solactive would also suggest to make a distinction between Core and Non-Core companies based on their business focus and solidify the exposure to the first category.

Additionally, we intend to limit the weights of certain group of companies to reflect their lower liquidity. Since the overall liquidity in Hong Kong stock market is shrinking, limiting the number and representation of low liquidity names would be a reasonable adjustment for the index to guarantee its replicability. We



would do that by dividing companies into Focus and Non-Focus Players, which in turn are mainly distinguished based on their market capitalization.

Lastly, we suggest to remove the IPO Review process from the methodology as it no longer carries any significance to the index strategy and might only cause additional turnover.

These changes are also in line with the original index strategy, i.e. to represent companies that have business operations in various innovative fields in the healthcare sector.

Changes to the Index Guideline

Section 1.1. SCOPE OF THE INDEX

From:

“[...]”

The indices are adjusted quarterly in February, May, August and November. Additionally, IPOs can be included on a weekly basis if they meet all criteria outlined in the relevant sections of this document.

[...]”

To:

“[...]”

Quarterly

[...]”

Section 2. INDEX SELECTION

From:

On each SELECTION DAY and IPO REVIEW DAY, the INDEX ADMINISTRATOR will revise the composition of the INDEX.

To:

On each SELECTION DAY, the INDEX ADMINISTRATOR will revise the composition of the INDEX.

Section 2.1. INDEX UNIVERSE REQUIREMENTS

From:

“[...]”



5) Only one share class of each company is eligible for inclusion in the INDEX UNIVERSE. The eligible share class is the share class with the higher minimum AVERAGE DAILY VALUE TRADED over the last two months including the SELECTION DAY or IPO REVIEW DATE.

6) Companies must be classified under any of the following economies, sectors or industries based on FactSet and the FactSet Revere Business Industry Classification System ("RBICS"):

a. FactSet Industry:

i. Biotechnology

ii. Medical Specialties

b. RBICS Sector:

i. Biopharmaceuticals

ii. Healthcare Equipment

c. RBICS Industry:

i. Internet Pharmacies and Drug Retail

ii. Diversified Development and Manufacturing Services

iii. Drug Discovery Services

iv. Pharmacies and Drug Stores: Companies from this subindustry must contain in its business description from FactSet the keyword "online".

d. Companies with an economy classification of "Technology" under FactSet and "Healthcare" under RBICS.

e. Companies with an economy classification of "Healthcare" under FactSet and "Technology" under RBICS.

7) Companies must not be classified under any of the following economies, sectors and industries based on FactSet and RBICS:

a. FactSet Industry:

i. Pharmaceuticals: Other

ii. Chemicals: Specialty

iii. Pharmaceuticals: Generic

b. Companies with an industry classification of "Medical Specialties" under FactSet and a sector classification of "Healthcare Services" under RBICS.



c. Companies with an industry classification of "Pharmaceuticals: Major" under FactSet and a sector classification of "Healthcare Equipment" under RBICS.

d. Companies with an industry classification of "Biotechnology" under FactSet and a sector classification of "Healthcare Equipment" under RBICS.

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

To:

"[...]

5) Only one share class of each company is eligible for inclusion in the INDEX UNIVERSE. The eligible share class is the share class with the higher minimum AVERAGE DAILY VALUE TRADED over the last two months including the SELECTION DAY

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

Section 2.2. SELECTION OF THE INDEX COMPONENTS

From:

Based on the INDEX UNIVERSE, the initial composition of the INDEX as well as any selection for an ordinary rebalance is determined on the SELECTION DAY in accordance with the following rules (the "INDEX COMPONENT REQUIREMENTS"):

1) All eligible securities are ranked based on their TOTAL MARKET CAPITALIZATION in a descending order. The top 35 ranked securities are selected for index inclusion. In case less than 35 securities are eligible, all eligible securities are selected and the INDEX consists of less than 35 INDEX CONSTITUENTS.

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

To:

"[...]

Based on the INDEX UNIVERSE, the initial composition of the INDEX as well as any selection for an ordinary rebalance is determined on the SELECTION DAY in accordance with the following rules (the "INDEX COMPONENT REQUIREMENTS"):



1) All securities are selected that are classified as CORE constituent as defined in Appendix 7.1, even if there are more than 30 companies.

2) If the INDEX comprises fewer than 30 stocks, NON-CORE constituents will be added to the INDEX COMPONENTS based on TOTAL MARKET CAPITALIZATION ranking in descending order. Stock selection will cease once the number of INDEX COMPONENTS reaches 30. If the INDEX still consists of fewer than 30 stocks, it will contain fewer than 30 constituents.

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

[...]"

Section 2.3. WEIGHTING OF INDEX COMPONENTS

From:

On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to TOTAL MARKET CAPITALIZATION. Then, a weight cap is applied for each INDEX COMPONENT by re-distributing any weight which is larger than 8.0% to the other INDEX COMPONENT proportionally in an iterative manner.

If an IPO meets the criteria outlined in section 3.1 ORDINARY REBALANCE on the IPO REVIEW DATE, each INDEX COMPONENT is assigned a weight according to TOTAL MARKET CAPITALIZATION as of IPO REVIEW DATE. Then, a weight cap is applied for each INDEX COMPONENT by re-distributing any weight which is larger than 8.0% to the other INDEX COMPONENT proportionally in an iterative manner.

To:

On each SELECTION DAY each INDEX COMPONENT is categorized into its designated FOCUS LEVEL, a classification that holds significance in the subsequent determination of its weighting.

The specific categorization for selected index constituents from point 2.2 can be inferred from the table below:



FOCUS LEVEL	INDEX BASKET Number (see 7. Appendix)	Criteria
Focus	1, 3, 4, 5, 6, 7, 8	Companies from these INDEX BASKETS are determined based on one of the following two scenarios within each INDEX BASKET: <ol style="list-style-type: none"> 1) In case the INDEX BASKET contains less than or equal to 3 stocks, only the companies with the highest TOTAL MARKET CAPITALIZATION will be selected as Focus Player. 2) In case the INDEX BASKET contains more than 3 stocks, the two companies with the highest TOTAL MARKET CAPITALIZATION will be selected as Focus Player.
	2	Companies from this INDEX BASKET are determined based on the two sequential steps: <ol style="list-style-type: none"> 1) Companies within this INDEX BASKET are first ranked by TOTAL MARKET CAPITALIZATION from largest to smallest, and the top half is selected. In case of an uneven number of eligible constituents in that INDEX BASKET, the final number of Focus Player will be rounded up. 2) All companies satisfying step 1 will be further ranked based on their TURNOVER RATIO. Companies belonging to the bottom 25% with the least TURNOVER RATIO will be excluded from the selection process. In the event of the 25% threshold results in an uneven number of excluded companies, the final excluded companies are rounded down to whole integers.
	9	Companies from this INDEX BASKET are determined based on the two sequential steps: <ol style="list-style-type: none"> 1) The company with the lowest average annual GROSS PROFIT MARGIN in the 3 years prior to and including the selection date within the INDEX BASKET shall not be eligible for as Focus Player. 2) From the remaining companies, only the one with the highest TOTAL MARKET CAPITALIZATION will be selected.
Non-Focus	1, 2, 3, 4, 5, 6, 7, 8, 9	All remaining companies from these INDEX BASKETS are classified as Non-Focus Player.



	10	All companies from this INDEX BASKET will be classified as Non-Focus Player.
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On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to TOTAL MARKET CAPITALIZATION. Then the following steps are applied:

- 1) The sum of the weight of Focus Players sums up to 95%.
- 2) The sum of the weight of Non-Focus Players sums up to 5%.
- 3) The maximum weight of an Focus Player is 8%.
- 4) The maximum weight of an Non-Focus Player is 0.50%.

The excess weight that results from implementing these constraints is redistributed proportionally in an iterative manner within its FOCUS LEVEL, such that none of the above constraints are breached.

Section 3.1. ORDINARY REBALANCE

Removal of paragraph related to IPO REVIEW and IPO ADJUSTMENT.

Section 4.3. ADJUSTMENTS

Removal of IPO ADJUSTMENT DAY.

Section 6. DEFINITIONS

SHARE CLASS MARKET CAPITALIZATION- Removal of IPO REVIEW DATE.

TOTAL MARKET CAPITALIZATION- Removal of IPO REVIEW DATE.

TRADING DAY- Removal of IPO ADJUSTMENT DAY.

Following new definitions will be added:

“CORE TYPE” shall have the meaning as defined in the Section 7.1 “INDEX BASKET Classification”.

“GROSS PROFIT MARGIN” is calculated as Gross Income divided by Net Sales or Revenue.

“INDEX BASKET” shall have the meaning as defined in the Section 7.1 “Index Basket Classification”.

“FOCUS LEVEL” is composed of Focus Players and Non-Focus Players.



"**TURNOVER RATIO**" is calculated as the AVERAGE DAILY VALUE TRADED over the last 2 months prior to and including the SELECTION DAY, divided by the TOTAL MARKET CAPITALIZATION.

Following old definitions will be removed:

"**IPO ADJUSTMENT DAY**" is every Friday. If that day is not a TRADING DAY, the IPO ADJUSTMENT DAY will be the following TRADING DAY.

"**IPO REVIEW DAY**" is 3 BUSINESS DAYS before the IPO ADJUSTMENT DAY.

APPENDIX will be added:

7 APPENDIX

7.1. INDEX BASKET CLASSIFICATIONS

CORE TYPE	INDEX BASKET Number	INDEX BASKET	RBICS Subindustry	FactSet Economy	RBICS Sector
Core	1.	Analytical and Bioanalytical Services	Analytical and Bioanalytical Services		
Core	2.	Diversified Biopharmaceuticals	Diversified Biopharmaceuticals		
Core	2.	Diversified Biopharmaceuticals	Other Oncology Biopharmaceuticals		
Core	3.	Diversified Development and Manufacturing Services	Diversified Development and Manufacturing Services		
Core	4.	Diversified Healthcare Services	Diversified Healthcare Services		
Core	5.	General Surgical Devices	General Surgical Devices		
Core	6.	Internet Pharmacies and Drug Retail	Internet Pharmacies and Drug Retail	Technology	
Core	7.	Lower Respiratory Biopharmaceuticals	Lower Respiratory Biopharmaceuticals		
Core	8.	Viral Biopharmaceuticals	Viral Biopharmaceuticals		
Core	9.	Wholesale/Generic Pharmaceuticals Distributors	Wholesale/Generic Pharmaceuticals Distributors	Healthcare	
Non-Core	10.	Non-Core			Healthcare Equipment
Non-Core	10.	Non-Core			Healthcare Services
Non-Core	10.	Non-Core			Biopharmaceuticals



A company is assigned to a CORE TYPE and INDEX BASKET through the combined use of the RBICS and FactSet classifications. If there are multiple occurrences of either RBICS and/or FactSet within a single row, it indicates that the respective industry classifications have to be collectively satisfied in order for a company to be included in the respective CORE TYPE and INDEX BASKET. An INDEX BASKET may potentially include multiple classifications from either RBICS and/or FactSet.

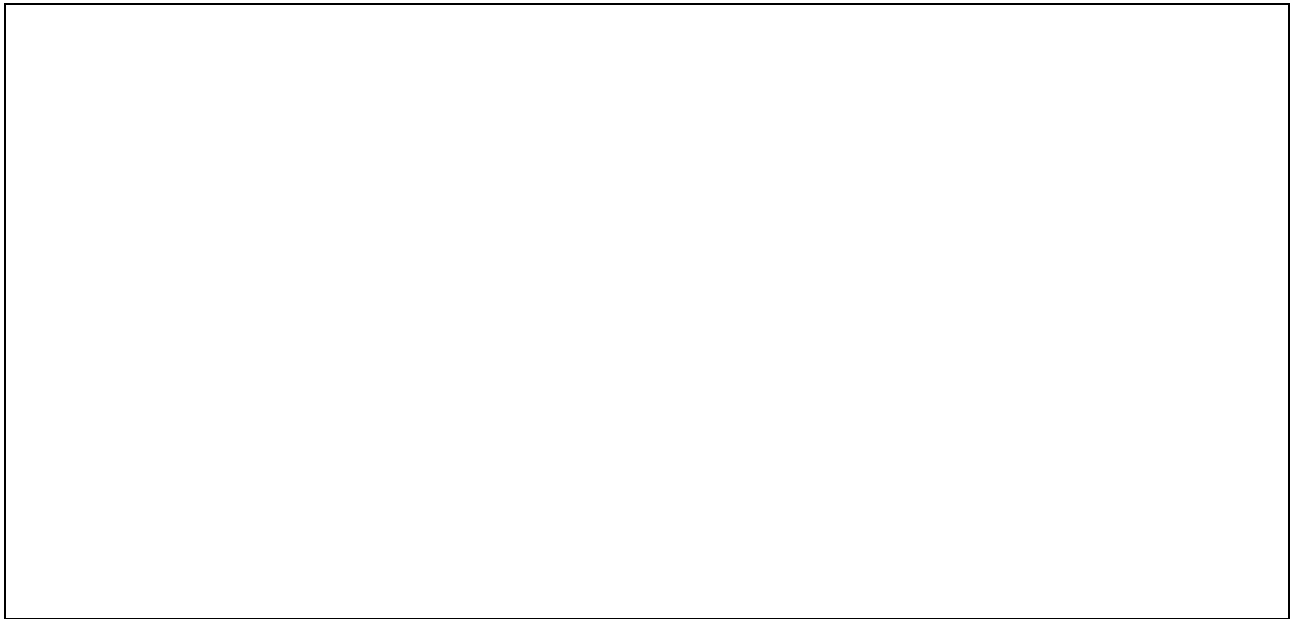
Furthermore, one company cannot be included in multiple INDEX BASKET. If a stock is eligible for inclusion in multiple INDEX BASKETS, it will only be included in the INDEX BASKET containing the industry with the highest granularity, where RBICS Subindustry represents the highest granularity level. In case multiple industry classifications are necessary to assign a company to an INDEX BASKET, the industry classification within this INDEX BASKET with the lowest granularity will be taken for reference.

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 China Healthcare Disruption 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 February 08, 2024 (cob).

Please send your feedback via email to marketconsultation@solactive.com, specifying "Market Consultation Solactive China Healthcare Disruptions Index" 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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