

# MARKET CONSULTATION SOLACTIVE CHINA ELECTRIC VEHICLE AND BATTERY INDEX

08 August 2024



## 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'):

NAME	RIC	ISIN
Solactive China Electric Vehicle and Battery Index PR	.SOLCEVIP	DE000SLA9J96
Solactive China Electric Vehicle and Battery Index NTR	.SOLCEVIN	DE000SLA9KA3
Solactive China Electric Vehicle and Battery Index TR	.SOLCEVIT	DE000SLA9KB1

## Rationale for the Market Consultation

**Total Market Cap Limit** - The introduction of a minimum total market capitalization limit of HKD 25 billion for non-index constituents and HKD 20 billion for index constituents is a strategic response to the evolving dynamics of the EV industry. This change aims to filter out smaller players who may struggle to compete in an increasingly competitive market. By focusing on larger companies with greater financial stability and advanced technology, the index can provide exposure to the industry leaders who are more likely to sustain their market positions amidst industry consolidation and competitive pressures. The changes are aimed at higher representation of larger, more stable companies. This is critical as industry competitiveness, especially for smaller players, has deteriorated. Companies like BYD, SAIC Motors, and Geely dominate the market. Larger firms with advanced technology and stronger financial positions are better equipped to handle market volatility and intense competition. Furthermore, the Chinese government's policies, including incentives for EV adoption and infrastructure development, have significantly shaped the market. The transition from subsidies to market-driven demand has also influenced market dynamics, favoring larger, established companies that can sustain growth without heavy reliance on subsidies. The government's "Made in China 2025" plan and the New Energy Vehicle Industry Development Plan (2021-2035) are set to further propel the market by prioritizing strategic emerging industries, including EVs and battery technology.

**Number of Constituents** - Reducing the number of index constituents from 35 to a maximum of 30 will help maintain the index's relevance and representativeness. As the industry undergoes consolidation, a more concentrated portfolio will ensure that the index remains reflective of the key players driving the market. This adjustment will also enhance the overall liquidity profile of the index, benefiting investors by focusing on companies with higher trading volumes.

**Weights Calculation** - Changing the weighting methodology from free-float market cap weighted to total market cap weighted will better capture the overall market dynamics and size of the



companies within the index. This adjustment will align the index more closely with the actual economic footprint of its constituents, providing a more accurate representation of the market and improving the investability of the index.

**Single Stock Weight Cap** - Increasing the single stock weight cap from 17% to 20% allows for a higher allocation to the most dominant and stable companies in the industry. This change reflects the need to provide investors with greater exposure to industry leaders who have demonstrated resilience and competitive advantages. By doing so, we can enhance the index's potential for returns while maintaining a balanced risk profile. By capping the number of constituents at 30, the index will remain nimble and reflective of the most relevant and dominant players in the market. This ensures that as the industry evolves, the index can adapt, maintaining its relevance and alignment with market realities.

In conclusion, these methodological changes are designed to provide investors with robust exposure to the leading players in China's EV market, ensuring the index remains a reliable and investable benchmark amidst a rapidly evolving industry landscape. As an index provider, it is our responsibility to continually adapt and refine our methodologies to ensure they remain relevant and representative of the markets they are designed to track. These proposed changes are a testament to this commitment. However, it's important to note that while these changes are intended to improve the index's representativeness and investability, they also come with certain risks. For instance, the increased focus on larger companies might make the index more susceptible to market volatility.

## **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):

### 2.1. INDEX UNIVERSE REQUIREMENTS

- INDEX COMPONENTS should have a TOTAL MARKET CAPITALIZATION of at least HKD 20 billion and non-current INDEX COMPONENTS should have TOTAL MARKET CAPITALIZATION of at least HKD 25 billion on the Selection Day

### 2.2 SELECTION OF THE INDEX COMPONENTS

- 1) All eligible securities are ranked based on their TOTAL MARKET CAPITALIZATION in a descending order.
- 2) Top 25 by TOTAL MARKET CAPITALIZATION rank are selected for index inclusion.
- 3) Existing constituents with rank from 26 to 40 are selected for index inclusion until the target constituent count of 30 is reached.



- 4) If there are less than 30 stocks after step 3, non-constituents are selected with rank from 26 to 40 until the target constituent count of 30 is reached.

If less than 30 securities pass the selection criteria as described above, all such securities will be selected resulting in less than 30 INDEX COMPONENTS.

2.3. WEIGHTING OF THE INDEX COMPONENTS

- Before: On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to FREE FLOAT MARKET CAPITALIZATION such that the weight of the company does not exceed 17%. The excess weight will be distributed to the other INDEX COMPONENTS pro-rata in an iterative process.
- After: On each SELECTION DAY each INDEX COMPONENT is assigned a weight according to TOTAL MARKET CAPITALIZATION such that the weight of the company does not exceed 20%. The excess weight will be distributed to the other INDEX COMPONENTS pro-rata in an iterative process.

6. DEFINITIONS

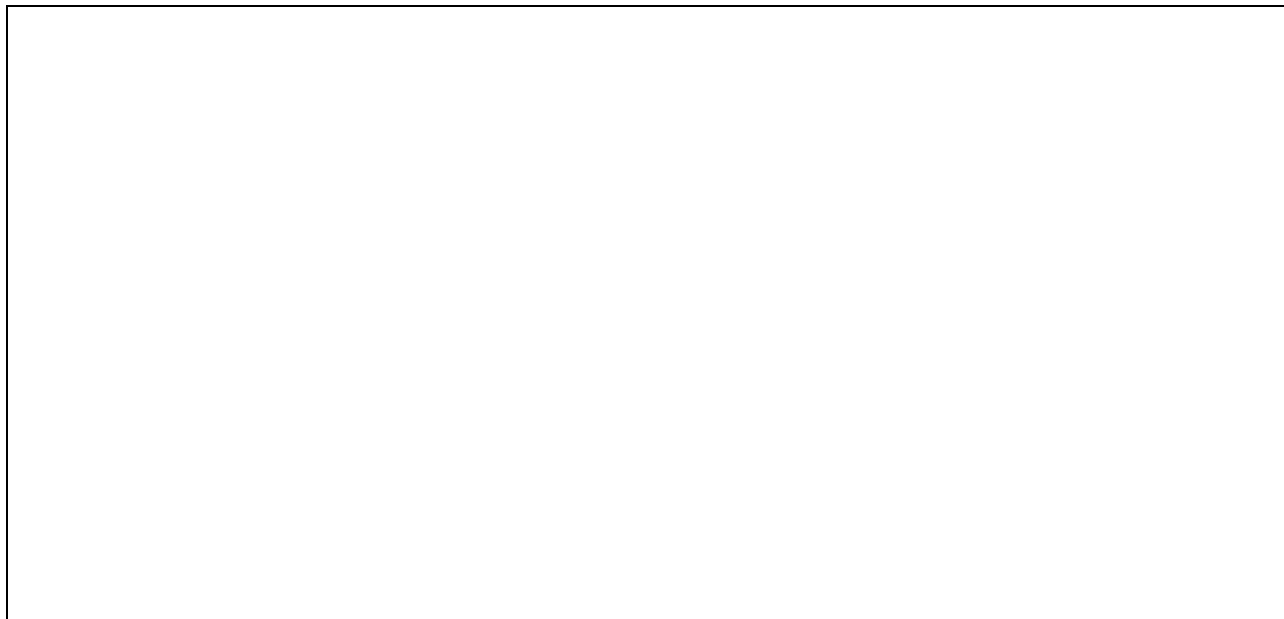
- The “TOTAL MARKET CAPITALIZATION” is with regard to each of the securities in the INDEX on a SELECTION DAY the sum of all SHARE CLASS MARKET CAPITALIZATIONS of a company.

**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 Electric Vehicle and Battery 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 2024-08-22.

[Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on 2024-09-05.

Please send your feedback via email to [marketconsultation@solactive.com](mailto:marketconsultation@solactive.com), specifying “**Market Consultation** Solactive China Electric Vehicle and Battery Index” as the subject of the email, or

via postal mail to: **Solactive AG**  
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60327 Frankfurt am Main  
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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.

# CONTACT

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