MARKET CONSULTATION SOLACTIVE L&G ESG INDEX FAMILY– CHANGE OF METHODOLOGY

26 April 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 'Affected Indices'):

NAME	RIC	ISIN
Solactive L&G ESG North America PR Index	.SOESGNAP	DE000SLA5HD1
Solactive L&G ESG North America NTR Index	.SOESGNAN	DE000SLA5HE9
Solactive L&G ESG North America GTR Index	.SOESGNAG	DE000SLA5HF6
Solactive L&G ESG Europe ex UK PR Index	.SOESGEUP	DE000SLA5HG4
Solactive L&G ESG Europe ex UK NTR Index	.SOESGEUN	DE000SLA5HH2
Solactive L&G ESG Europe ex UK GTR Index	.SOESGEUG	DE000SLA5HJ8
Solactive L&G ESG UK PR Index	.SOESGUKP	DE000SLA5HK6
Solactive L&G ESG UK NTR Index	.SOESGUKN	DE000SLA5HL4
Solactive L&G ESG UK GTR Index	.SOESGUKG	DE000SLA5HM2
Solactive L&G ESG APAC ex Japan PR Index	.SOESGAPP	DE000SLA5HN0
Solactive L&G ESG APAC ex Japan NTR Index	.SOESGAPN	DE000SLA5HP5
Solactive L&G ESG APAC ex Japan GTR Index	.SOESGAPG	DE000SLA5HQ3
Solactive L&G ESG Japan PR Index	.SOESGJPP	DE000SLA5HR1
Solactive L&G ESG Japan NTR Index	.SOESGJPN	DE000SLA5HS9
Solactive L&G ESG Japan GTR Index	.SOESGJPG	DE000SLA5HU5
Solactive L&G Developed Markets PR Index	.SOESGDMP	DE000SLA6W76
Solactive L&G Developed Markets NTR Index	.SOESGDMN	DE000SLA6W84
Solactive L&G Developed Markets GTR Index	.SOESGDMG	DE000SLA6W92
Solactive L&G Developed Markets PR Index GBP	.SOESGDGP	DE000SLA6ZD1
Solactive L&G Developed Markets NTR Index GBP	.SOESGDGN	DE000SLA6ZE9
Solactive L&G Developed Markets GTR Index GBP	.SOESGDGG	DE000SLA6ZF6
Solactive L&G Developed Markets ex UK PR Index	.SOESGDBP	DE000SLA6X59
Solactive L&G Developed Markets ex UK NTR Index	.SOESGDBN	DE000SLA6X67
Solactive L&G Developed Markets ex UK GTR Index	.SOESGDBG	DE000SLA6X75
Solactive L&G ESG Developed Markets ex UK GBP PR Index	.SOESDBPP	DE000SLA9P80
Solactive L&G ESG Developed Markets ex UK GBP NTR Index	.SOESDBPN	DE000SLA9QA0
Solactive L&G ESG Developed Markets ex UK GBP GTR Index	.SOESDBPG	DE000SLA9P98
Solactive L&G ESG Emerging Markets PR Index	.SOESGEMP	DE000SLA7Z56

Solactive L&G ESG Emerging Markets NTR Index	.SOESGEMN	DE000SLA7Z64
Solactive L&G ESG Emerging Markets GTR Index	.SOESGEMG	DE000SLA7Z72
Solactive L&G ESG Global Markets PR Index	.SOESGGMP	DE000SLA9LR5
Solactive L&G ESG Global Markets NTR Index	.SOESGGMN	DE000SLA9LS3
Solactive L&G ESG Global Markets GTR Index	.SOESGGMT	DE000SLA9LU9

Rationale for Market Consultation

The last few months saw an extensive emphasis being put on climate change mitigation and multiple countries and entities setting targets to get to net-zero emissions by 2050. This objective is at the heart of the European Green Deal and in line with the EU's commitment to global climate action under the Paris Agreement. Given the recent developments in the investment space, Solactive considers appropriate to enhance the methodology of the Affected Indices in order to explicitly commit to a carbon reduction trajectory. This would be achieved in a similar manner with the recommendations of the EU- Paris Agreement Alignment, targeting an initial reduction in average Index Carbon Intensity by 50% with a subsequent 7% year on year reduction trajectory.

The Affected Indices already achieve a carbon intensity reduction of approximately 50% solely based on the integration of the ESG Score tilting in the determination of the security weighting. Committing explicitly to the respective decarbonization trajectory would thus further serve the index objective, making the index also a suitable opportunity to those investors targeting to contribute to the climate risk mitigation through their investment decisions.

Proposed Changes to the Index Guideline

The following Methodology changes are proposed in the following points of the Index Guideline:

Section 1.1. Scope of the index

Addition to the Strategy Description:

[...]

In addition, the components are weighted based on an optimized algorithm such as to ensure that the portfolio is in line with the climate-neutrality by 2050 objective.

Section 2.3 Weighting of the index

Addition of a description of the carbon reduction initial target and subsequent trajectory:

[…]

2.3.2 Carbon Reduction

The final weight of each INDEX COMPONENT within its regional (or supra-regional) INDEX is further determined based on an optimization approach that minimizes the cumulative absolute weight deviation from the INTERMEDIATE UNIVERSE weights on each SELECTION DAY.

On the BASE DAY, it is subject to the following constraints:

a. Reduce the average weighted CARBON INTENSITY of the INDEX compared to the average weighted CARBON INTENSITY of the PARENT INDEX by at least 50%.

b. Maximum absolute weight deviation from the weight in the INDEX UNIVERSE of 3%. Individual weights are capped at the minimum between 8% and INDEX UNIVERSE weight * 20 as well as floored at 0.01%. The weight floor does not apply to the Global Markets segment.

c. The sum of weights which exceed 5% is capped at 35%.

d. Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is capped at 2% and floored at 3%.

e. Compared to the INVESTABLE UNIVERSE, the absolute deviation of the regional weights is capped at 0.5%. (This condition is only applied to regional INDICES which consist of multiple regions.)

If no solution can be found, the constraints are relaxed in the following order:

a. Sector constraint: Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is increased by 0.5% in each direction.

b. Regional weight constraint: Compared to the INVESTABLE UNIVERSE, absolute deviation of the region weights is capped at 1%. (This condition is only applied to regional INDICES which consist of multiple regions.)

c. Single weight constraint: Maximum absolute deviation from the weight in the INDEX UNIVERSE is iteratively increased by 0.25% until a solution is found.

The CARBON INTENSITY of the INDEX UNIVERSE is calculated by weighting the CARBON INTENSITY of the components of the INDEX UNIVERSE by the weight of the respective components within the INDEX UNIVERSE.

On each following SELECTION DAY each INDEX COMPONENT is assigned a weight based on the same objective function, but the algorithm is subject to the following constraints:

a. A Decarbonization Trajectory is defined by an annual minimum CARBON INTENSITY reduction of 7% compared to the CARBON INTENSITY of the INDEX on the BASE DAY in a geometric progression applied semi-annually. The CARBON INTENSITY of the INDEX is then capped at the minimum of the CARBON INTENSITY of the Decarbonization Trajectory on the SELECTION DAY and 50% of the PARENT INDEX CARBON INTENSITY on the SELECTION DAY.

b. Maximum absolute weight deviation from the weight in the INDEX UNIVERSE of 3%. Individual Weights are capped at the minimum between 8% and INDEX UNIVERSE weight * 20 as well as floored at 0.01%. The weight floor does not apply to the Global Markets segment.

c. The sum of weights which exceed 5% is capped at 35%.

d. Compared to the INVESTABLE UNIVERSE, the deviation of the sector weights is capped at 2% and floored at 3%.

e. Compared to the INVESTABLE UNIVERSE, the absolute deviation of the regional weights is capped at 0.5%. (This condition is only applied to regional INDICES which consist of multiple regions.)

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Section 6. Definitions

"Base Day" is defined as the 8th of April 2021.

"CARBON INTENSITY" on the SELECTION DAY is calculated as:

$$\text{CARBON INTENSITY} = \frac{\text{GHG}}{\text{EVIC}}$$

If the CARBON INTENSITY is not computable for a company due to missing data, the company receives the median CARBON INTENSITY of all the securities in the same industry. If the company is not classified in an industry, the company receives the median CARBON INTENSITY of all companies classified in an industry.

If the simple average EVIC of the PARENT INDEX has increased during the last calendar year, the EVIC of an INDEX COMPONENT shall be adjusted by an adjustment factor. The factor is calculated as the average EVIC of the PARENT INDEX at the end of the latest calendar year, divided by the average EVIC of the PARENT INDEX at the end of the previous calendar year.

"DATA PROVIDER" is ISS and Legal & General Investment Management. For more information, please visit: https://www.issgovernance.com/, and https://www.lgim.com/.

"EVIC" is the Enterprise Value including Cash in USD on the respective SELECTION DAY.

"GHG" are the Greenhouse Gas Emissions of a company as of the Selection Day. According to the GHG Protocol[1], the GHG metric is calculated as the sum of Scope 1 and Scope 2 emissions. In particular:

> Scope 1 emissions: All direct Greenhouse Gas Emissions;

> Scope 2 emissions: Indirect Greenhouse Gas Emissions from consumption of purchased electricity, heat or steam;

"High Climate Impact Sectors" are sectors that are key to the low-carbon transition. High Climate Impact Sectors are the following:

NACE Section Code	NACE Section Name
A	AGRICULTURE, FORESTRY AND FISHING
B	MINING AND QUARRYING
C	MANUFACTURING
D	ELECTRICITY; GAS; STEAM AND AIR CONDITIONING SUPPLY
E	WATER SUPPLY; SEWERAGE; WASTE MANAGEMENT AND REMEDIATION ACTIVITIES
F	CONSTRUCTION
G	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES
H	TRANSPORTATION AND STORAGE
L	REAL ESTATE ACTIVITIES

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[1] See Greenhouse Gas Protocol at https://ghgprotocol.org/.

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 L&G ESG Family 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 May 2nd, 2022 (cob).

Subject to feedback received on this Market Consultation, the changes mentioned above are intended to become effective on *May 5th, 2022.*

Please send your feedback via email to compliance@solactive.com, specifying "Market Consultation Solactive L&G ESG Family – Change of Methodology" 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.
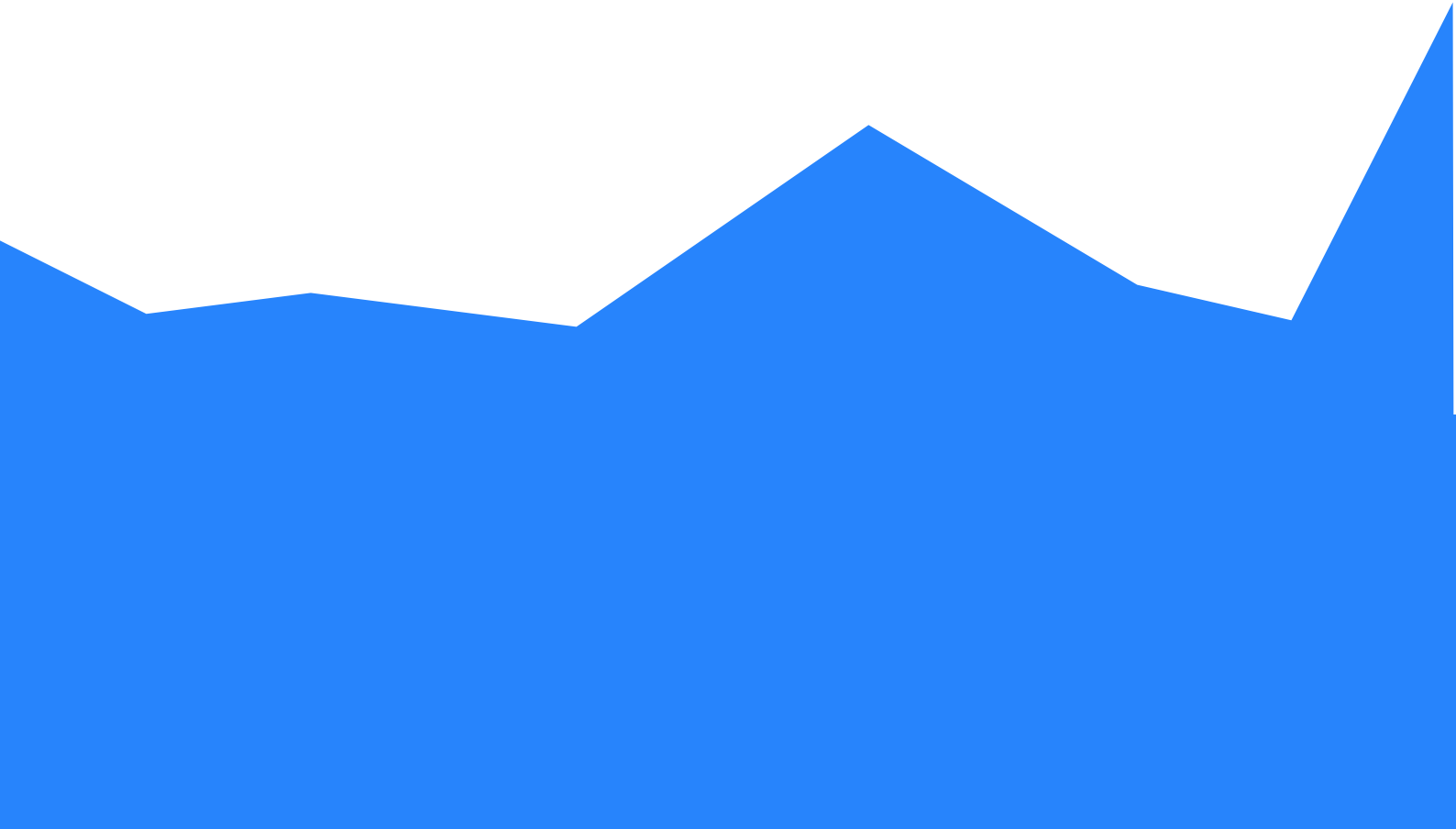
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