

Zug, April 14th, 2020

Market Consultation on proposed Changes of the Methodology of STOXX Thematic Indices

Dear Sir and Madam,

STOXX Limited, a leading provider of innovative, tradable and global index concepts, has decided to conduct a market consultation on proposed changes of the methodology of STOXX Thematic Indices. The market consultation may or may not lead to changes in the index methodology.

PROCESS AND TIMELINE

STOXX invites all stakeholders and interested third parties to submit responses to consultation@stoxx.com. STOXX intends to publish the results of the market consultation, as well as an announcement about potential changes to the index methodology, before April 27th, 2020. The consultation is open to all market participants until April 24th, 2020. STOXX intends to implement the proposed changes before the ordinary review of the affected indices on June 19th, 2020.

MOTIVATION FOR THE MARKET CONSULTATION

The current equal-weight weighting scheme of the affected STOXX Thematic indices limits their replicability as smaller and therefore typically less liquid companies are assigned a weight that is high relative to their market cap.

Furthermore, STOXX believes in the importance of sustainable investing and has started implementing sustainability screens in many of its recently launched index families. In order to align the STOXX Thematic index family with this trend such a screen is added to the affected STOXX Thematic indices. The screens follow the widely accepted guidelines of Febelfin.

METHODOLOGY CHANGES

1) Weighting scheme

<u>Current methodology</u>	<u>Proposed methodology</u>
The index constituents are equal-weighted. In case a company is present with multiple listings in an index, the weight of that company is shared equally among its different share lines.	Companies are weighted according to adjusted equal weights. The rule limits the weight for smaller companies to five times their hypothetical weight based on free-float market cap. See the appendix for the detailed calculation.

2) Sustainability screens

Current methodology	Proposed methodology
None.	The indices are also taking ESG considerations into account. Companies that are non-compliant with the Global Standards Screening (GSS) or are involved in Controversial Weapons activities, or display a Severe (Category 5) Controversy Rating, as identified by Sustainalytics, are excluded. Additional exclusion filters are incorporated, screening companies for involvement in Weapons (Small Arms and Military Contracting), Unconventional Oil & Gas (Arctic Oil and Gas Exploration, Oil Sands and Shale Energy), Conventional Oil & Gas, Thermal Coal, Nuclear Power and Tobacco. See the appendix for the detailed screens.

AFFECTED INDICES

Index	Impacted by topic (1)	Impacted by topic (2)
iSTOXX FactSet Digitalisation	+	+
iSTOXX FactSet Ageing Population	+	+
iSTOXX FactSet Breakthrough Healthcare	+	+
iSTOXX FactSet Automation & Robotics	+	+
iSTOXX FactSet Automation & Robotics (TTM) JPY	+	+
STOXX Global Digital Security	+	+
STOXX Global Electric Vehicles & Driving Technology	+	+
STOXX Global Smart City Infrastructure	+	(+) ¹

QUESTION

- A. Do you support methodology change 1)? YES / NO
- B. Do you support methodology change 2)? YES / NO

If your answer to any of the above questions is NO please explain why you oppose the change.

¹ The current methodology already incorporates certain sustainability screens that will be changed to the proposed methodology.

APPENDIX:

Detailed weighting calculation:

Components are weighted by adjusted equal weight with a multiplier set as $L = 5$. This is achieved by following steps 1-5 below. Weight factors are calculated annually in June. They are published on the second Friday of June, based on the stocks' closing prices of the preceding Thursday.

Step 1:

The companies in the portfolio are sorted by their free-float market capitalization in ascending order, and their initial weight is defined as:

$$w_i = \frac{\text{ffmcap}_i}{\sum_{j \text{ in comp list}}^N \text{ffmcap}_j}$$

where:

- ffmcap_i the free-float market capitalization of company i on the Thursday preceding the second Friday of the review month
- N the number of companies in the index

The companies are also assigned a rank from 1, for the company with the lowest free-free float market capitalization, to N , for the one with the highest.

For the purposes of the above weight calculation, if a company is present with multiple listings in the portfolio, then the issuer's weight is calculated by summing the free-float market capitalization of all its listings, and only one rank is assigned to it.

Step 2:

An iterative process takes place where for each company in the ranking list formed in step 1, a cumulative weight is calculated such that:

$$Sw_i = \sum_1^{n_i} \text{ffmcap}_z + (N - n_i) * w_i$$

where:

- w_i the initial weight calculated for company i
- n_i the ranking assigned to company i
- ffmcap_z the free-float market capitalization of the z companies ranking from 1 to n_i
- N the number of companies in the index

Step 3:

The company with rank Z , is identified as the first one in the ranking list where the cumulative weight, exceeds the inverse of the multiplier, i.e.

$$Sw_z \geq 1/L.$$

Step 4:

A normalization factor W_z is calculated, such that:

$$W_z = w_z - \frac{S_{w_z} - \frac{1}{L}}{N - Z + 1}$$

Step 5:

The final weights are calculated as follows:

$$fw_i = \begin{cases} w_i * L, & \text{if } n_i < Z \\ W_z * L, & \text{if } n_i \geq Z \end{cases}$$

Furthermore, in the case where a company is present with multiple listings in the portfolio, then the final weight calculated for the company, is allocated to each share line according to its free-float market capitalization.

Detailed sustainability screen:

Global Standards Screening: STOXX will exclude companies that are non-compliant based on the Sustainalytics Global Standards Screening assessment.

Global Standards Screening identifies companies that violate or are at risk of violating commonly accepted international norms and standards, enshrined in the United Nations Global Compact (UNGC) Principles, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGPs), and their underlying conventions.

Controversial Weapons: STOXX will exclude the companies that Sustainalytics identifies to be involved with controversial weapons

The following weapons are considered controversial: anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus weapons.

The criteria for involvement are:

- » Internal production or sale of controversial weapons
- » The ultimate holding company owns >10% of voting rights of an involved company
- » >10% of voting rights of a company is owned by the involved company

Product Involvement: STOXX will exclude companies that Sustainalytics identifies as being involved with:

- Weapons:
 - i) Small Arms:
 - »>0% revenues from manufacturing and selling assault weapons to civilian customers
 - »>10% revenues from manufacturing and selling small arms to military / law enforcement customers
 - »>5% revenues from manufacturing and selling key components of small arms
 - »>5% revenues from retail and/or distribution of assault weapons
 - »>5% revenues from retail and/or distribution of small arms (non-assault weapons)
 - »>0% revenues from manufacturing and selling small arms (non-assault weapons) to civilian customers
 - ii) Military Contracting:

- »>10% revenues from manufacturing military weapons systems and/or integral, tailor made components of these weapons
- »>10% revenues from tailor made products and/or services that support military weapons
- Unconventional Oil & Gas:
 - i) Arctic Oil and Gas Exploration:
 - »>0% revenues Oil & Gas exploration & extraction in Arctic regions
 - »>10% significant ownership (extraction) of a company that is involved in Oil & Gas exploration & extraction in Arctic regions
 - ii) Oil Sands:
 - »>0% revenues from extracting oil sands. This category evaluates oil sands' share of total oil and gas average production in barrels of oil equivalent per day
 - »>10% significant ownership of a company that is involved in extraction of oil sands
 - iii) Shale Energy:
 - »>0% revenues from shale energy exploration and/or production
 - »>10% significant ownership of a company that is involved in shale energy exploration and/or production
- Conventional Oil & Gas:
 - »>0% revenues from oil and gas exploration, production, refining, transportation and/or storage. This category evaluates oil and gas related activities' share of total company's revenue. Assessments are made for producers, refiners, transporters, and companies engaged in storage (proxy: revenues).
 - »>10% significant ownership of a company that is involved in exploration, production, refining, transportation and storage of oil and/or gas
 - »>25% revenues from providing tailor-made products and services that support oil and gas exploration, production, refining, transportation and storage (proxy: revenues)
 - »>25% revenues from generating electricity from oil and/or gas (proxy: generating capacity)
- Thermal Coal:
 - »>0% revenues from thermal coal extraction (including thermal coal mining and exploration)
 - »>10% significant ownership of a company that is involved in the extraction of thermal coal
 - »>0% power generation capacity: coal-fired electricity, heat or steam generation capacity / thermal coal electricity production (including utilities that own/operates coal-fired power plants)
 - »>10% significant ownership of a company that is involved in the generating electricity from thermal coal
- Nuclear Power:
 - »>25% revenues from nuclear power production:
 - o Utilities that own/operate nuclear power generators
Note: in this category Sustainalytics tracks the percentage of a company's generating capacity that is based on nuclear power
 - »>25% revenues from nuclear power supporting products / services, including:
 - o Design and construction of nuclear power plants
 - o Design and manufacture of specialized parts for use in nuclear power plants, including steam generators, control rod drive mechanisms, reactor vessels, cooling systems, containment structures, fuel assemblies, and digital instrumentation and controls

- Special services, such as the transport of nuclear power materials, and nuclear plant maintenance;
- Uranium mining and exploration, including companies that mine uranium and convert, enrich, and fabricate
- »>25% revenues from nuclear power distribution, including:
 - The resale or distribution of electricity generated from nuclear power;
 - This applies to distributors, resellers and utilities that distribute nuclear power as a part of their energy mix

Note: In this category Sustainalytics tracks the percentage of a company's energy mix that is generated from nuclear power
- Tobacco:
 - »>0% revenues from manufacturing tobacco products
 - »>10% significant ownership of a company that is involved in the manufacturing tobacco products
 - »>0% revenues from supplying tobacco-related products/services
 - »>10% significant ownership of a company that is involved in supplying tobacco-related products/services
 - »>0% revenues from the distribution and/or retail sale of tobacco products.
 - »>10% significant ownership of a company that is involved in distribution and/or retail sale (>10% total revenues) of tobacco products.

Controversy Ratings: STOXX will exclude companies that Sustainalytics identifies to have a Controversy Rating of Category 5 (Severe).

Sustainalytics assesses companies' involvement in incidents with negative environmental, social and governance (ESG) implications. Controversy involvement is one key measure of ESG performance. A controversy is defined as an event or aggregation of events relating to an ESG topic. An event is assessed on its severity on a scale of 1 to 5 (1- Low, 2- Moderate, 3- Significant, 4- High, 5- Severe). The highest Event rating under a controversy indicator, automatically becomes the Controversy Rating for a given company.

The review cut-off date for the observation of the ESG information is the last index dissemination day in May. Furthermore, on a quarterly basis in September, December and March, current components are screened for their Controversy Rating. The cut-off date for this exercise is the last dissemination day of August, November and February respectively. If a current component is observed to have a Category 5 Controversy Rating, it is removed from the index, effective on the next dissemination day following the 3rd Friday of the month. If no current component has been assessed as such, no further capping applies.