Paris-Aligned Climate ETFs

ETFs to help finance a 1.5°C world

Our range of Paris-Aligned Climate ETFs were built to help you contribute to the ambitions of the Paris Agreement. The underlying S&P indices aim to meet and exceed the minimum requirements for EU labelled Paris-Aligned benchmarks. They were designed to help build portfolios compatible with a 1.5°C global warming scenario using Trucost's data set and its forward-looking Transition Pathway Model. They also consider the physical risks to business activities deriving from extreme climate events.

Understanding the stakes

The Paris Agreement

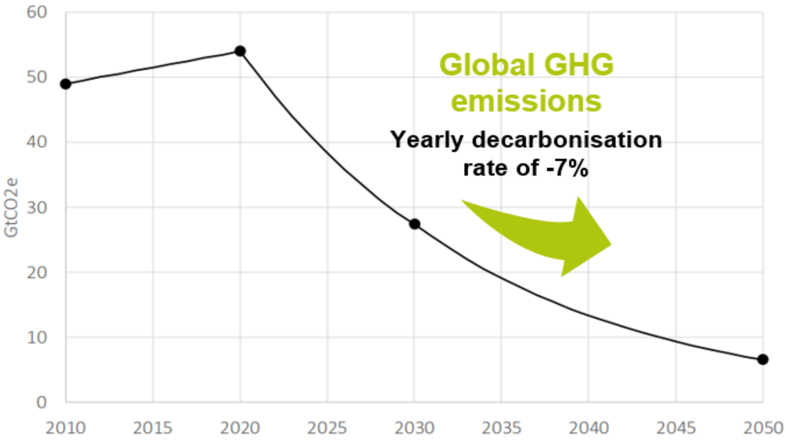
- In 2015, 194 countries across the world signed the Paris Agreement.
- Its key goal: limit global warming to well below 2°C above pre-industrial levels, and pursue efforts to limit it to **1.5°C.**

Why 1.5°C?

- Continued warming above 1.5°C will have a harmful **environmental** impact, including intensification of extreme weather events[1]
- The **financial** impact is real too – a persistent increase in average global temperature by 0.04°C per year is set to reduce world real GDP per capita by **7.2%** by 2100.[2]

Worldwide GHG emissions trajectory – a path to decarbonisation[3]

EU favours the IPCC scenario called "1.5°C with no or limited overshoot"



Net global greenhouse gas (GHG) emissions to reach net zero in 2050; gross emissions would still be positive (offset by carbon dioxide removal techniques).

An evolving regulatory landscape

- EU Action Plan on Sustainable Finance sets out key goals, including directing more capital to sustainable investments
- TEG publish final report on climate benchmarks, with an objective of helping investors decarbonise their portfolios to a 1.5°C pathway
- Draft Delegated Acts unveiled
- EU publish final Delegated Acts on Climate Benchmarks and Benchmarks' ESG disclosures, with details of EU PAB eligibility conditions

[1]Source: IPCC Special Report (SR15) to the UN, October 2018. [2]Source: IMF, "Long-term Macroeconomic Effects of Climate Change" (2019), Kahn et al. [3]Source: EU TEG on Sustainable Finance, based on data from IPCC AR5 Climate Change 2014 Synthesis Report, IPCC SR15 report Chapter 2 and Global Carbon Budget, 2018.

EU Paris-Aligned Benchmarks – key requirements as per the Draft Delegated Acts[4]

EU PAB criteria	Minimum requirements
Carbon intensity reduction Scope 1 + 2, and + 3 for Oil & Gas and Mining (+ Scope 3 for every sector within a 4Y phase-in period)	-50%
Baseline exclusions	• Controversial weapons • Societal norms violators: UN Global Compact, OECD Guidelines Multinationals, 6 Environmental Objectives* (EU Taxonomy) "Do not harm"
Activity exclusions	Coal (1%+ revenues), Oil (10% + revenues), Natural gas, gaseous hydro-carbons (50%+ revenues), Electricity production >100gCO2/kWh, Tobacco
Decarbonisation trajectory	Minimum 7% per annum
Exposure to carbon intensive sectors	At least equal to parent index (no underweight)
Bonus for Science-Based Targets	Index administrators shall consider increasing the weights of companies that set approved SBTs

The S&P Paris-Aligned solution

S&P's indices are designed to minimise deviations from parent indices, while aligning with a 1.5°C warming scenario.

Key features

Deeply anchored in international frameworks

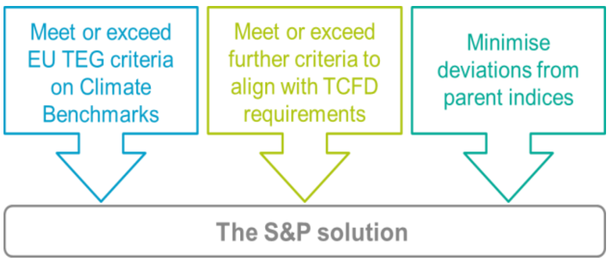
- **TCFD**[5] model for assessing climate-related risks and opportunities
- Science-based framework using data recommended by the **SBTI**[6], like the SDA-GEVA[7] approach and the IEA's[8] sector trajectories

Forward-looking data for issuers' GHG emissions

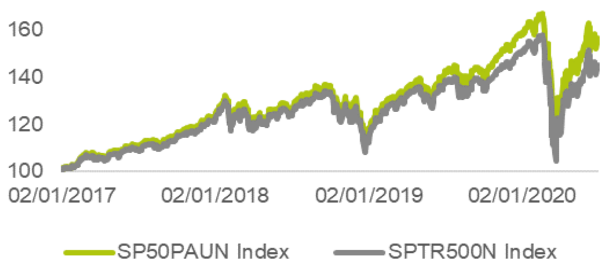
- **Transition Pathway Model by Trucost**, a leader in carbon and environmental data and risk analysis (acquired by S&P Global in 2016)
- Seeks **organic** portfolio decarbonisation, and not only decarbonisation from re-weighting

Beyond minimum EU PAB labelling requirements

- Integrates **Scope 3** emissions from day 1, vs. 4-year phase-in in EU rules
- Adds an additional **physical risk** reduction objective (decorrelated from transition risk)
- Targets strong (4x) improvement in **Green-to-Brown ratio** to better seize transition opportunities
- Improves global Environmental score



Index performance since inception[9]



Risk and return characteristics[9]

		S&P 500 PAB	S&P 500 NTR
Returns	**YTD**	-0.8%	-3.4%
	1Y	12.0%	6.8%
	3Y (p.a.)	12.3%	10.1%
Annualised volatility	**YTD**	46.5%	45.8%
	1Y	34.0%	33.4%
	3Y	21.4%	21.0%
Annualised Tracking Error	**YTD**	2.6%	-
	1Y	2.1%	-
	3Y	1.6%	-

[4]Source: Draft Delegated Acts as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned benchmarks. *Climate change mitigation; Climate change adaptation; Sustainable use and protection of water and marine resources; Transition to a circular economy, waste prevention and recycling; Pollution prevention and control; and Protection of healthy ecosystems. [5]Task Force for Climate-related Financial Disclosure. [6]Science-Based Targets Initiative. [7]Sectorial Decarbonisation Approach, and GHG Emissions per unit of Value Added Approach. [8]International Energy Agency. [9]Source: Lyxor International AM, Bloomberg. Data as at 30/06/2020. Index inception 02/01/17. Past performance is not a reliable indicator of future results.

Operating within TCFD recommendations and EU constraints[10]

EU

Exclusions
Fossil fuels (thresholds apply), Societal norms, "Do no significant harm" principle,* Tobacco

Recommendations

TCFD

Transition risks
Transition may entail policy, legal, technological and market changes to address mitigation and adaptation requirements

Physical risks
Can be event driven (acute) or long-term shifts (chronic) in climate patterns, with potential financial implications (e.g. damage to assets, supply chain disruption…)

Opportunities
e.g. resource efficiency and cost savings, adoption of low-emission energy sources, development of new products/services/markets, building supply chain resilience

Constraints

EU rules

Beyond EU

Initial WACI reduction**
-50%

7% year-on-year decarbonisation

Overweight for SBT* disclosure**
+20%

Forward-looking 1.5°C scenario alignment
Trucost Transition Pathway Model

Fossil fuel reserves reduction
-80%

Physical risk
< 90% parent index

Individual cap per share
inversely proportional to physical risk

Green-to-brown ratio
x4 parent index

Environmental score
+20%

Why Lyxor for Paris-Aligned Climate ETFs?

Accomplished
The first range of ETFs designed for EU PAB eligibility[11]

Green
A simple way to help transition to a low carbon world (+1.5°C pathway)

Science-based
Grounded in IPCC scenarios & SBT, TCFD and TEG recommendations

Dependable
Indices built by S&P using Trucost data, leaders in indexing and carbon data

Far reaching
Four broad based exposures → USA, World, Eurozone and Europe

UCITS ETF	Index Name	Replication Type	Bloomberg Tickers	Trading Currencies	ISIN	TER[11]
Lyxor S&P 500 Paris-Aligned Climate (EU PAB) (DR)	S&P 500 Paris-Aligned Climate Net Total Return Index	Physical	PABU	EUR, USD	LU2198883410	0.20%
Lyxor S&P Eurozone Paris-Aligned Climate (EU PAB) (DR)	S&P Eurozone LargeMidCap Paris-Aligned Climate Net Total Return Index	Physical	EPAB	EUR	LU2195226068	0.20%
Lyxor S&P Europe Paris-Aligned Climate (EU PAB) (DR)	S&P Europe LargeMidCap Paris-Aligned Climate Net Total Return Index	Physical	TBC	EUR	LU2198884491	0.20%
Lyxor S&P Global Developed Paris-Aligned Climate (EU PAB) (DR)	S&P Developed ex-Korea LargeMidCap Paris-Aligned Climate Net Total Return Index	Physical	TBC	EUR, USD	LU2198882362	0.20%

[10]Source: Lyxor International Asset Management, TCFD, S&P. For illustrative purposes only. *Economic activity contributing to one EU environmental objective must not significantly harm the other five. **WACI: Weighted Average Carbon Intensity. ***SBT: Science-Based Targets. [11]Source: Lyxor International Asset Management, as at 08/07/2020. TERs correct as at 08/07/2020. Statements about Lyxor credentials refer to the European UCITS ETF market only. Underlying indices are not currently considered EU PAB benchmarks but will aim to be depending on final requirements of EU Delegated Acts as regards EU Climate Transition Benchmarks. The index methodology will be reviewed by S&P and updated if required to align with any relevant changes to these requirements.

Knowing your risk

It is important for potential investors to evaluate the risks described below and in the fund prospectus on our website www.lyxoretf.com

Capital at risk

ETFs are tracking instruments: Their risk profile is similar to a direct investment in the Underlying index. Investors' capital is fully at risk and investors may not get back the amount originally invested.

Replication risk

The fund objectives might not be reached due to unexpected events on the underlying markets which will impact the index calculation and the efficient fund replication.

Counterparty risk

With synthetic ETFs, investors are exposed to risks resulting from the use of an OTC swap with Societe Generale. In-line with UCITS guidelines, the exposure to Société Générale cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk if they use a securities lending programme

Underlying risk

The Underlying index of a Lyxor ETF may be complex and volatile. For example, when investing in commodities, the Underlying index is calculated with reference to commodity futures contracts exposing the investor to a liquidity risk linked to costs such as cost of carry and transportation. ETFs exposed to Emerging Markets carry a greater risk of potential loss than investment in Developed Markets as they are exposed to a wide range of unpredictable Emerging Market risks.

Currency risk

ETFs may be exposed to currency risk if the ETF is denominated in a currency different to that of the Underlying index they are tracking. This means that exchange rate fluctuations could have a negative or positive effect on returns.

Liquidity risk

Liquidity is provided by registered market-makers on the respective stock exchange where the ETF is listed, including Societe Generale. On exchange, liquidity may be limited as a result of a suspension in the underlying market represented by the Underlying index tracked by the ETF; a failure in the systems of one of the relevant stock exchanges, or other market-maker systems; or an abnormal trading situation or event.

Important information