

Climate Transition ETFs

ETFs to help finance a 1.5°C world

Our range of Climate Transition ETFs were built to help you contribute to the ambitions of the Paris Agreement. The underlying MSCI Climate Change indices aim to give higher weights to companies with a capacity to manage and contribute to climate transition through the reduction of carbon emissions. They are expected to transition to the future EU Climate Transition Benchmarks (CTB) aligned with the EU “1.5°C with no or limited overshoot” scenario.*

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 events¹
- 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

An evolving regulatory landscape

- **March 2018:** EU Action Plan on Sustainable Finance sets out key goals, including directing more capital to sustainable investments
- **Sep 2019:** TEG publish final report on climate benchmarks, with an objective of helping investors decarbonise their portfolios to a 1.5°C pathway
- **July 2020:** EU publish final Delegated Acts on Climate Benchmarks and Benchmarks' ESG disclosures, with details of EU CTB eligibility conditions

What you need to know about the indices

Key features today of MSCI Climate Change indices*

Exposure type	Broad and diversified, while re-allocating capital in favour of climate transition leaders
ESG exposure	<ul style="list-style-type: none"> • Reduced weighted carbon intensity vs. parent index • Companies with lower exposure to and stronger management of low carbon transition risks • Better capture of climate transition opportunities / cleantech

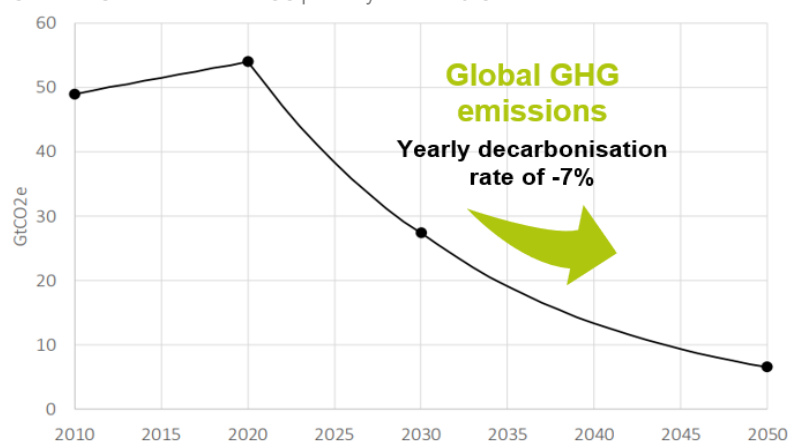
Target features after transition to EU Climate Transition indices*

Sector exposure	Sector neutral vis-à-vis 'High Climate Impact' and 'Low Climate Impact' sectors ³
Decarbonisation	Target of minimum -7% per annum
Exclusions	Violation of global norms, controversial weapons, tobacco

Worldwide GHG emissions trajectory

The path to decarbonisation⁴

Chosen EU scenario is the IPCC pathway 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).

¹Source: IPCC Special Report (SR15) to the UN, October 2018. ²Source: IMF, “Long-term Macroeconomic Effects of Climate Change” (2019), Kahn et al.

³As per NACE European Nomenclature of Economic Activities ⁴Source: 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.

*MSCI intends to transition the methodology of the existing MSCI Climate Changes Indexes to align with EU CTB requirements in Q1 2021. This transition will be subject to a global public consultation as per MSCI's policies.

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EU Climate Transition Benchmarks – key requirements as per EU Delegated Acts⁵

EU CTB 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)	-30%
Baseline exclusions (by 31 December 2022)	<ul style="list-style-type: none"> - Controversial weapons - Tobacco producers/cultivators - 6 Environmental Objectives (EU Taxonomy), "Do no significant harm" * - Societal norms violators: <ul style="list-style-type: none"> • UN Global Compact • OECD Guidelines for Multinational Enterprises
Decarbonisation trajectory	Minimum 7% per annum
Exposure to carbon intensive sectors**	At least collectively 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 MSCI solution

Next generation climate change indices

- Current low carbon benchmarks focus on **relative risk**, while new MSCI Climate Change indices shift the focus to **absolute impact** in terms of global emissions reduction
- Furthermore, current solutions are largely **backward-looking**, while the new indices additionally consider **forward-looking** management criteria

An absolute solution capturing three main dimensions



The Low Carbon Transition Score

- Eligible securities of the parent MSCI index are reweighted based on MSCI's proprietary **LCT Score**
- The LCT Score combines 'transition risk exposure' as measured by carbon intensity with 'transition risk management' criteria
- Companies not rated by MSCI ESG Research for LCT Assessment, and/or involved in controversial weapons businesses are **excluded**

A 3-step approach



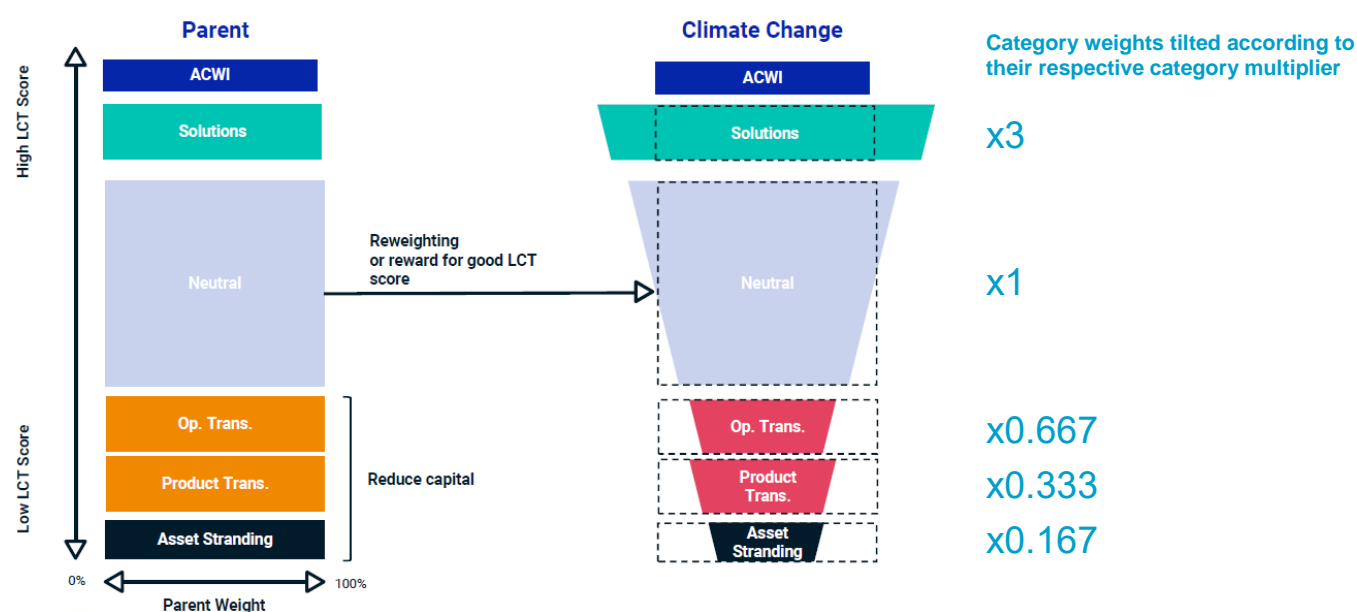
⁵Source: Lyxor International Asset Management, EU Delegated Acts as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-Aligned Benchmarks, July 2020.

*EU 6 Objectives (Taxonomy): 1) Climate change mitigation, 2) Climate change adaptation, 3) Sustainable use and protection of water and marine resources, 4) Transition to a circular economy, 5) Pollution prevention and control, 6) Protection and restoration of biodiversity and ecosystems **As defined under the European NACE sector classification system

What are the MSCI LCT Categories?⁶

Category	Asset Stranding	Product Transition	Operational Transition	Neutral	Solutions
Risk / Opportunity	Potential to experience "stranding" of physical/natural assets due to regulatory, market, or technological forces arising from low carbon transition (e.g. coal mining)	Reduced demand for carbon intensive products and services. Leaders and laggards are defined by the ability to shift product portfolio to low carbon products (e.g. oil & gas exploration)	Increased operational and/or capital cost due to carbon taxes and/or investment in carbon emission mitigation measures leading to lower profitability (e.g. fossil fuel-based power generation)	Limited exposure to LCT carbon risk, though companies in this category could have exposure to physical risk and/or indirect exposure to LCT risk via lending, investment...etc (e.g. consumer staples)	Potential to benefit through the growth of low carbon products and services (e.g. renewables)

Redistributing index weights based on MSCI LCT Score and Category⁶



Why Lyxor for Climate Transition ETFs?



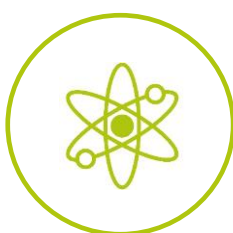
Accomplished

The first ecosystem of ETFs designed for EU CTB eligibility⁷



Green

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



Science-based

Grounded in IPCC scenarios and SBT, TCFD & TEG recommendations



Dependable

Indices by MSCI, a leader in indexing and ESG Research



Far reaching

Four broad reaching exposures → USA, EM, World and Europe

UCITS ETF	Index Name	Replication Type	Bloomberg Tickers	Trading Currencies	ISIN	TER ⁷
Lyxor MSCI USA Climate Change	MSCI USA Climate Change NTR	Synthetic	CLUS	EUR, USD	LU2055175025	0.15%
Lyxor MSCI EM Climate Change	MSCI Emerging Markets Climate Change NTR	Synthetic	CLEM	EUR, USD	LU2056738144	0.25%
Lyxor MSCI World Climate Change (DR)	MSCI World Climate Change NTR	Physical	CLWD	EUR, USD	LU2056739464	0.20%
Lyxor MSCI Europe Climate Change (DR)	MSCI Europe Climate Change NTR	Physical	CLEU	EUR, USD	LU2056738490	0.15%

⁶Source: MSCI. For illustrative purposes only. ⁷Source: Lyxor International Asset Management, as at 01/10/2020. TERs correct as at 01/10/2020. Statements about Lyxor credentials refer to the European UCITS ETF market only. Underlying indices are not currently considered EU CTB benchmarks but will aim to be depending on MSCI's implementation of final requirements of EU Delegated Acts as regards EU Climate Transition Benchmarks.

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.

Concentration risk

Thematic and Smart Beta ETFs select stocks or bonds for their portfolio from the original benchmark index. Where selection rules are extensive it can lead to a more concentrated portfolio where risk is spread over fewer stocks than the original benchmark.

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