

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 (PABs). 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

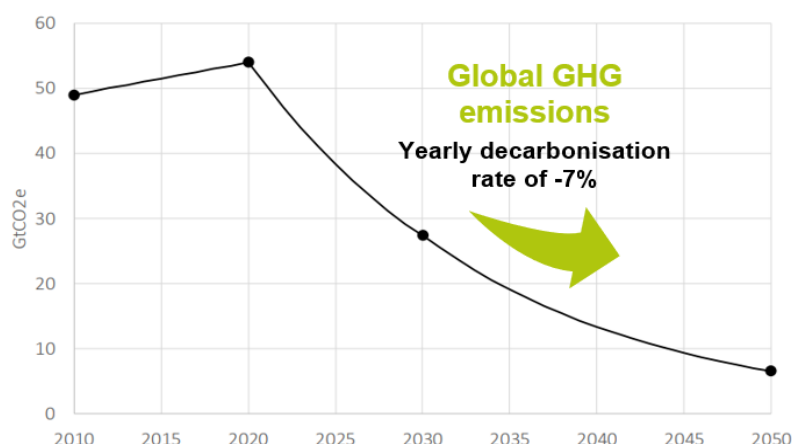
- ▶ In 2015, 194 countries across the world signed the Paris Agreement.
- ▶ Its key goal: limit global warming to well below 2°C above pre-industrial levels, and pursue efforts to limit it to **1.5°C**.

Why 1.5°C?

- ▶ Continued warming above 1.5°C will have a harmful **environmental** impact, including intensification of extreme weather 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

Worldwide GHG emissions trajectory – a path to decarbonisation³

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



¹Source: [IPCC Special Report \(SR15\)](#) to the UN, October 2018. ²Source: IMF, “Long-term Macroeconomic Effects of Climate Change” (2019), Kahn et al. ³Source: 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.

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EU Paris-Aligned Benchmarks – key requirements as per EU Delegated Acts⁴

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, tobacco producers/cultivators - 6 Environmental Objectives (EU Taxonomy), "Do no significant harm" * - Societal norms violators: UN Global Compact, OECD Guidelines
Fossil fuel-related activity exclusions	Coal (>1% revenues), Oil (>10%), Natural gas/gaseous hydrocarbons (>50%), Electricity production (>100gCO ₂ /kWh)
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 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

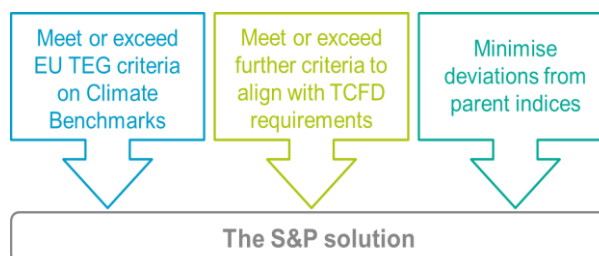
- **TCFD⁵** model for assessing climate-related risks and opportunities
- Science-based framework using data recommended by the **SBTi⁶**, like the SDA-GEVA⁷ approach and the IEA's⁸ sector trajectories

Forward-looking data for issuers' GHG emissions

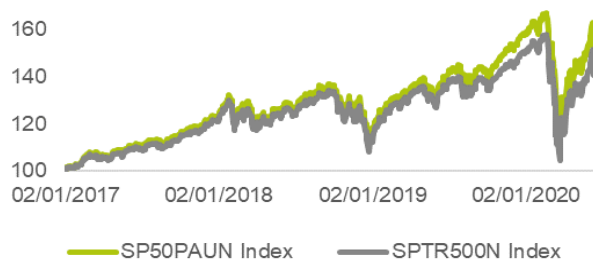
- **Transition Pathway Model by Trucost**, a leader in carbon and environmental data and risk analysis (acquired by S&P Global in 2016)
- Seeks **organic** portfolio decarbonisation, and not only decarbonisation from re-weighting

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



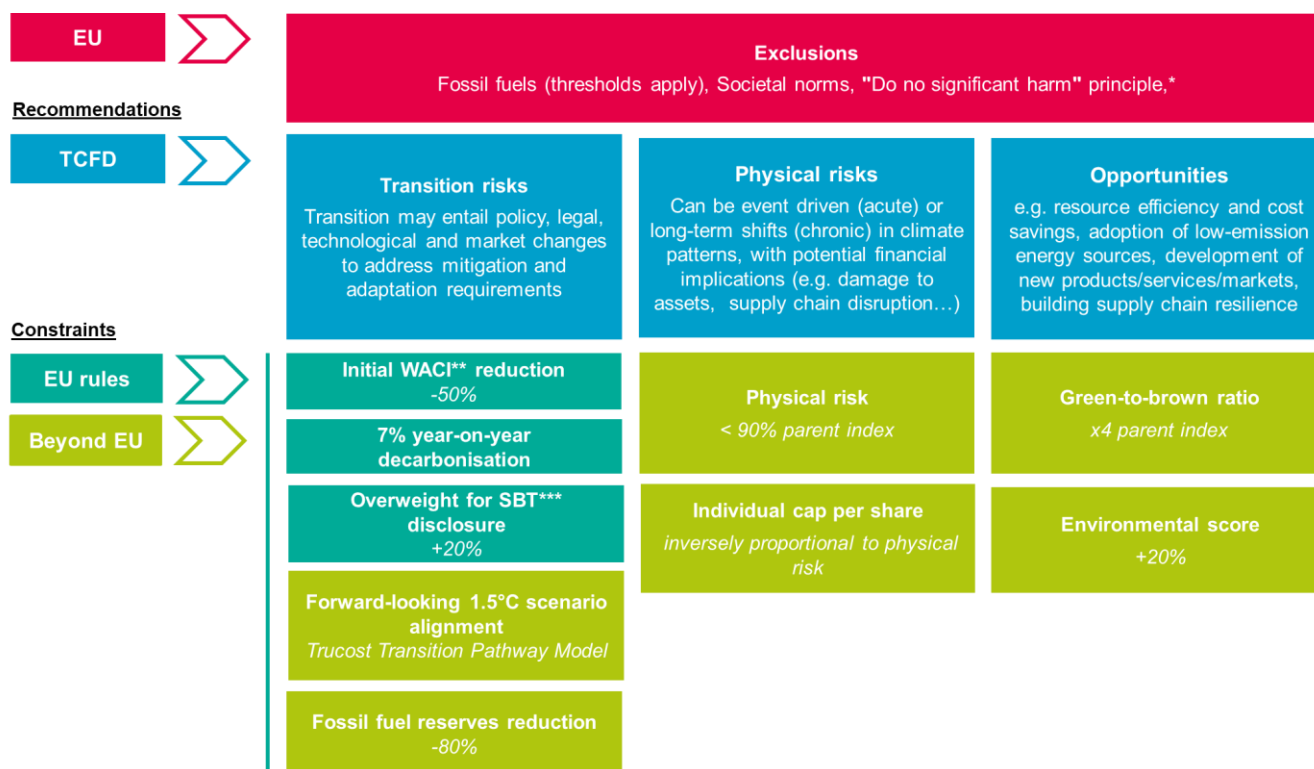
Index performance since inception⁹



Risk and return characteristics⁹

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

⁴Source: Lyxor International AM, 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 ⁵Task Force for Climate-related Financial Disclosure. ⁶Science-Based Targets Initiative. ⁷Sectorial Decarbonisation Approach, and GHG Emissions per unit of Value Added Approach. ⁸International Energy Agency. ⁹Source: 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 constraints¹⁰

*WACI: Weighted average carbon intensity **SBT: Science based targets

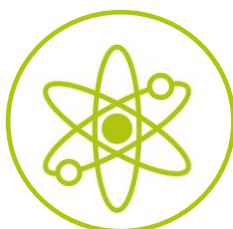
Why Lyxor for Paris-Aligned Climate ETFs?

**Accomplished**

The first range of ETFs designed for EU PAB eligibility¹¹

**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 DJI 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	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	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	Physical	EABE	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	Physical	EABG	EUR, USD	LU2198882362	0.20%

¹⁰Source: 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. ¹¹Source: 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 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.

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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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