

EXPERT OPINION

ESG INVESTING WITH ETFs



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At Lyxor, we made a choice more than a decade ago to put Socially Responsible Investing at the heart of our investment strategy. In our active and passive management, our partnerships with external organisations, and our climate and voting policy, I'm proud to say we've gone the extra mile when it comes to integrating and promoting responsible investing practices ever since.

Today we are privileged to be the oldest European ETF provider, and we firmly believe ETFs can help investors achieve their ESG (Environmental, Social, Governance) goals. At heart, ETFs are transparent, simple, and accountable: all characteristics that align with ESG priorities.

Improvements in data also mean indices can now reflect all sorts of ESG policies: from exclusionary screens, to values-based investing, to selection based on global ESG ratings or carbon ratings, and alignment with the UN's Sustainable Development Goals (SDGs). Indeed, any ESG investment objective can be

achieved using the right indices built with the right data. Socially responsible investing is not just about what you do as a company. It's also about who you do it with. That's why we have partnered with the very best and most experienced organisations and index providers to develop our ESG solutions. Our approach is based on three pillars: building the industry's most innovative ESG products and partnerships; leveraging our DNA as an asset manager with a financial engineering background for data excellence and transparency; and acting as a responsible and engaged shareholder.

LYXOR'S THREE PILLARS OF ESG INVESTING

1 . INNOVATIVE ESG PRODUCTS AND PARTNERSHIPS

Our approach is based on a fundamental truth: that nothing truly excellent is created in a vacuum. That's why we partner with the leading organisations researching and promoting responsible investing, applying the most rigorous selection standards in our search for the right partners.

Built with expert input from MSCI, RobecoSAM, the Climate Bonds Initiative (CBI), and Equileap, our ETFs help address some of the most pressing ESG issues of our time. Our thematic range is the only one in Europe to offer investments helping to contribute to four of the United Nations' Sustainable Development Goals: clean water and sanitation; climate action; affordable and clean energy; and gender equality. Our gender

equality ETF is the first of its kind in Europe, and investors can take comfort in knowing a portion of their money is donated to the Equileap Foundation, which helps women and girls in developing countries.¹ Our green bond ETF is the world's first, offering exposure to investment grade green bonds independently approved by the CBI. It was also the first ETF ever to receive the Greenfin label from the French government, and end-December 2019 reached €180m AuM, making it the largest ETF of its kind in the world².

Our new ESG Leaders ETF range, built with data powerhouse MSCI, offers investors ESG exposure to global, US, European and emerging market equities. These innovative strategies select

¹ Equileap receives 25% of the management fees received from investors in the Lyxor Global Gender Equality (DR) UCITS ETF. Any profits from the licensing of Equileap's data to Lyxor's chosen index provider (Solactive) go to the Equileap Foundation, helping women and girls in developing countries.

² Source: Lyxor International Asset Management, as at 31/12/2019.

stocks that are considered best-in-class for sustainability, as defined by MSCI's ESG Ratings methodology. Within this range, our 'Trend Leaders' funds offer exposure to companies who not only have a robust ESG profile today, but have also taken steps to improve their profile over the past year.

For ESG-conscious fixed income investors, **we recently switched the bulk of our investment grade corporate bond ETF range to Bloomberg Barclays MSCI Socially Responsible indices.** The new indices reflect ESG criteria, ensuring only issuers with an MSCI ESG rating of BBB or higher are included. They also include negative screens for companies involved in certain business activities (e.g. weapons, alcohol, tobacco) and those with a "red" MSCI ESG Controversy Score.

Finally, being one of the leaders within the European ETF market, it's natural that we should be involved in academic discussions and research relating to passive management and portfolio construction. Back in 2015, Lyxor created the Lyxor Dauphine Research Academy, in partnership with the Paris-Dauphine University's House of Finance, to encourage top international researchers from the most renowned universities to work on subjects related to passive management and portfolio construction. Our latest 2019 study examined key topics within ESG investing, and resoundingly concluded that improving the ESG profile of a portfolio does not, as some still believe, compromise performance. It can even lead to improved risk-adjusted returns.³

2 . DATA EXCELLENCE, TRANSPARENCY AND TOOLS

At Lyxor, we pride ourselves on having talented teams with strong financial engineering backgrounds. That has formed our identity and DNA since our inception twenty years ago, and is why we've been able to build cutting-edge systems to help investors assess the impact of their portfolios on the environment.

We want to ensure our investments are as transparent to investors as they can be. That's why we share our proprietary method for carbon-footprint analysis, allowing investors to monitor and measure the portfolio carbon-footprint of our equity ETF range. Additionally, we share ESG ratings breakdowns of companies, their exposure to positive and negative ratings trends, their business activities, the portfolio

³ESG Investing: From Sin Stocks to Smart Beta. Alessandrini, Jondeau, June 2019.

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exposure to ESG controversies, UN Global Compact Controversies and transition risks, carbon risk management, the exposure to issuers offering environmental solutions, and the revenue exposure to environmental solutions which contribute to Sustainable Development Goals. All this information is easily accessible through the product pages of our public website, meaning that any investor in our ETFs has this key information at their fingertips.

In October 2019 Lyxor Asset Management also unveiled [a new Climate Policy](#), placing climate issues at the heart of our responsible investment policy. These principles are available for anyone to read and will guide how we integrate climate issues into everyday business as an asset manager.

3 . PASSIVE MANAGEMENT, BUT ACTIVE AND RESPONSIBLE SHAREHOLDER ENGAGEMENT

With the rise of passive investing has come a growing share of companies' equity held by passive managers. This, in turn, has increased the responsibility of major passive management companies to use the influence of their equity positions to promote sustainable investing practices. Put simply, traditionally 'passive' asset managers now have a duty to engage 'actively' with the companies they hold, especially in critical areas that help accelerate the transition to a low-carbon economy.

Lyxor ETF rigorously exercises its voting rights, contributing to improve the performance and behaviour of the companies in which we invest for our clients. We do this to encourage sustainable investing practices and mitigate the risk that companies suffer from policy mistakes. [Lyxor's shareholder engagement policy](#) is reviewed on a yearly basis and voting policies and reports are available on Lyxor's website. In 2019, Lyxor ETF met 41 companies, analysed 2,637 proposals and voted during 208 general meetings. Through the rigorous practice of voting rights, ETF holders can be authentic active shareholders. As the only truly pan-European ETF provider, with 100% of our teams and portfolio managers based in Europe, we can aim to be "the European" voice of the passive industry, bringing with it a European vision of voting, placing a strong emphasis on how value is split among the various stakeholders. This gives us a unique responsibility, that at Lyxor we are more than willing to embrace.

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