

LYXOR CLIMATE POLICY

LYXOR Sustainable & Responsible Investment
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LYXOR'S CLIMATE TRANSITION POLICY

In the face of **climate and ecological upheavals**, preserving environmental balances is becoming a real challenge. Changes in the global economy, societies and industries are becoming necessary to meet the **Paris Agreement commitments** to keep global warming below 2°C.

As an asset manager, LYXOR is convinced that responsible investments must be accessible to all, from large institutions to individual investors. We also believe that investment can serve the world around us, helping to allocate assets where they are most needed.

Thus, in conjunction with the integration of ESG criteria into its investment strategy and its shareholder engagement policy, **LYXOR takes climate issues into account as an integral part of its responsible investment policy.**

This **climate policy** includes our actions and strategies to combat climate change and provides a conceptual and operational framework for integrating these issues into our asset management business.

LYXOR's goal is to evolve this policy to better address climate and transition challenges to a low-carbon economy.

LYXOR's climate policy is based on **four fundamental pillars** :



Providing **innovative solutions** for climate transition



Divesting of thermal coal



Acting as a **committed and responsible shareholder**



Assessing portfolio climate risks

INTEGRATION OF SUSTAINABILITY RISK

Integration of sustainability risks by the Management Company in its investment decision-making processes relies namely on practices described in this policy.



"Sustainability Risk" means an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investments made by the relevant fund. Sustainability Risks can either represent a risk on their own or have an impact on other risks and may contribute

significantly to such risks, such as (but not limited to) market risks, operational risks, liquidity risks or counterparty risks. Assessment of sustainability risks is complex and may be based on ESG data which is difficult to obtain, incomplete, estimated, out of date and/or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

Sustainability risk is linked but not limited to climate-related events resulting from climate change (a.k.a Physical Risks) or to the society's response to climate change (a.k.a Transition Risks), which may result in unanticipated losses that could affect the relevant [Sub-Fund]'s investments and financial condition. Social events (e.g. inequality, inclusiveness, labour relations, investment in human capital, accident prevention, changing customer behaviour, etc.) or governance shortcomings (e.g. recurrent significant breach of international agreements, bribery issues, products quality and safety, selling practices, etc.) may also translate into Sustainability Risks.

By implementing exclusion policy in relation to the most exposed players in the thermal coal sector, the Management Company aims to mitigate Climate related Risks. In addition, when a Fund follows an extra-financial approach, through the implementation of the ESG investment process (including but not limited to selection, thematic or impact), such risks intend to be further significantly reduced or mitigated. In both cases, please note that no insurance can be given that Sustainability Risks will be totally removed.



PROVIDING INNOVATIVE SOLUTIONS FOR CLIMATE TRANSITION

LYXOR puts SRI at the heart of its investment strategy by creating **concrete solutions that take into account environmental, social and governance factors** to meet the challenges of the future, including **climate transition** and **growing demand for responsible investment**.

LYXOR's innovation for climate change

LYXOR is convinced of the importance of financing projects with a **positive impact on the environment** (renewable energy, reduction of CO2 emissions, etc.) and considers that green bonds are a real tool to put at the service of the energy transition and sustainable development.

The green bond market has experienced significant growth in recent years (from \$37 billion in 2014 to \$168 billion in 2018), combined with a diversification of issuers, sectors, regions and funded projects, making **climate finance an unprecedented opportunity**.

The **innovation capacity** of LYXOR enabled the launch in 2017 of the **1st ETF Green Bond**, responding to the challenges of the climate transition.

1st Green Bond ETF
launched worldwide¹



1st ETF Green Bond
labeled²

+€M570 million in
AUM³



LYXOR Green Bond

In 2017, LYXOR launched **the world's first Green Bond ETF**. This fund is representative of the performance of green bonds issued by Investment Grade entities.

LYXOR has partnered with the **Climate Bond Initiative (CBI)**, one of the leading players in the green bond market to leverage its knowledge and robust asset selection process (the universe of eligible bonds is limited to the **green bonds** selected by CBI).

This non-profit investor-serving organization aims to **promote large-scale green investments to develop a low-carbon, climate-resilient economy**.

LYXOR has also developed internal procedures to bring its Green Bond ETF into compliance with the **Greenfin label**. This label improves transparency (calculation of the impact of funded projects) and the monitoring of bonds in order to avoid funding controversial or not really sustainable projects.

In 2018, the Climate Bonds Initiative and Lyxor Asset Management published the first [report](#) on the French green bond market.

¹ Launch on February 20th, 2017

² Obtaining the Greenfin label (ex-TEEC) on February 2019

³ As of October 30th, 2021

Environment at the heart of LYXOR's investment strategy

The financial impact of the energy and ecological transition is one of the major issues affecting financial actors. Changes in the regulatory framework and climate risks are driving financial institutions to adapt and seize new opportunities.

LYXOR has thus made the environment one of the keys to its investment strategy by contributing to the mobilization of capital for the climate transition. By developing innovative investment vehicles, LYXOR selects actors who help implement real environmental solutions.

+ €1.3 Bn
in AUM¹

LYXOR New Energy

The planet's natural resources are limited and scarce, but the power of nature is great, and remains largely untapped.

We are convinced that an investment strategy targeting alternative energies, including companies in the sectors of decentralized production, renewable energy and energy efficiency, can work towards a cleaner future.

That's why we launched our ETF New Energy more than 12 years ago.

+ €1.2 Bn
in AUM¹

LYXOR World Water

The shortage of drinking water is one of the greatest challenges of our time.

We are convinced that an investment strategy targeting the world's largest water distribution, water infrastructure and water treatment companies can help reverse the trend.

This belief was at the heart of the launch of the ETF World Water in 2007, which is now one of the European leaders in this category.

LYXOR contributes positively to the UN Sustainable Development Goals

Through its Green Bond, New Energy and World Water funds, LYXOR contributes to three of the seventeen United Nations Sustainable Development Goals.



CLEAN WATER AND
SANITATION



CLEAN AND
AFFORDABLE ENERGY



CLIMATE CHANGE

*LYXOR finances actors who help
implement real environmental solutions.*



DIVESTING OF THERMAL COAL

While it is necessary to invest in low-carbon energy in order to meet the commitments of the Paris Agreement, the **divestment of thermal coal** has become **unavoidable in the fight against climate change**.

LYXOR has therefore taken the commitment to **divest** its CIUs **of thermal coal** while **strengthening its dialogue** with the companies concerned in order to encourage them to be more transparent and to take into account the sustainability risks and opportunities associated with the change climate.

Thermal coal exit policy

LYXOR is part of Amundi Group's strategy.

LYXOR thus excludes the following:

- Companies developing or planning to develop new thermal coal capacities along the entire value chain (mining, production, utilities, and transport infrastructures)*,
- Companies generating >25% of their revenue from thermal coal mining extraction,
- Companies with annual thermal coal extraction of 100 MT or more without intention to reduce,
- All companies with revenue in thermal coal mining extraction and thermal coal power generation >50% of their revenue without analysis,
- All coal power generation & coal mining extraction companies with a threshold between 25% and 50% with a deteriorated energy transition score.

*Exclusion policy effective as of 31st December 2020.

LYXOR is thus part of a strategy of Amundi Group.

The Group seeks to align its sectoral policies with the Paris Agreement **by scheduling a 2030 exit from thermal coal financing in European and OECD countries , and by 2040 for the rest of the world.**



ACTING AS A COMMITTED AND RESPONSIBLE SHAREHOLDER

Convinced of the **environmental, social and governance challenges** which civil society has to face, LYXOR has defined – as an extension of its approach as a responsible investor and in line with its adherence to the **United Nations Principles for Responsible Investment (PRI)** – a **shareholder engagement policy** which is reflected in two complementary areas: an **engagement policy** and a **voting policy**.

LYXOR's climate commitments

LYXOR's climate voting policy



Since 2014, LYXOR has been a signatory to the United Nations **Principles for Responsible Investment (PRI)**. For 2018, LYXOR obtained the rating of A+ in the Strategy and Governance category.



LYXOR has joined the **Climate Bond Initiative**, a not-for-profit investor-serving organization that raises capital for a low-carbon economy.



LYXOR adheres to the **Green Bond Principles**, which determine how green bonds are issued, thereby contributing to market integrity.



LYXOR joined the **Climate Action 100+** in 2018, an international initiative that mobilize and engage greenhouse gas emitters to drive the energy transition and thus contribute to the achievement of the Paris Agreement objectives.



LYXOR is a member of the **"Sustainable Finance and Responsible Investment"** Chair whose research aims to understand the role of responsible investment in the economy.

In line with its responsible investor policy and its willingness to act positively in favour of the climate transition, in 2020, Lyxor may refuse to grant discharge to a board of directors or to approve the reappointment of members in the case of environmental controversies or a lack of transparency concerning greenhouse gas emissions.

From 2021, Lyxor may also refuse the chairman re-election of any board where the company refuses to uphold the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)². Furthermore, Lyxor will be able to vote against resolutions concerning executives' compensation if extra-financial measures have not been sufficiently considered within remuneration policies.

Details of LYXOR's votes in general meetings are available [HERE](#).



1.1 B€¹ AUM under climate engagement



ASSESSING PORTFOLIO CLIMATE RISKS

As part of its climate policy, LYXOR believes that it is essential to assess the climate risks of all its managed funds, beyond the ESG risks.

Every portfolio carries a climate risk. Its contribution to the energy and ecological transition as well as its alignment with the international target of limiting global warming to 2 degrees by 2100 can be measured.

Thus, LYXOR has implemented a proprietary methodology to report simple and easily measurable indicators of climate change risks.

Primary Carbon Emissions Indicators



Portfolio carbon footprint: Measuring the greenhouse gas (GHG) emissions of its investments gives investors an indication of their funded emissions.



With regard to **transition risk**, and more particularly to **stranded assets**, it was decided to present:

- The share of fossil reserves held in a portfolio for which an investor would be responsible (per \$M invested),
- Potential emissions of these known fuel reserves (expressed in tCO2e per \$M invested).

Climate Indicators



In terms of **carbon risk management**, a portfolio-level classification of issuers is presented based on their efforts in terms of **energy initiatives** (use of cleaner energy sources, energy consumption management and operational efficiency, carbon reduction targets).



The portfolio's exposure to issuer revenues devoted to environmental solutions contributing to the **Sustainable Development Goals (SDGs)** is also presented.



325 funds already rated by LYXOR on ESG and climate risks

More than 150 criteria analysed per fund

In its [173 annual report related to the integration of ESG criteria](#), LYXOR presents how ESG criteria are integrated and measured within its portfolios.

Additional metrics related to the energetic mix within the portfolios as well as the alignment on a 2° trajectory are under consideration.

ANNEX

Rules of application of the pillar 'Divesting of thermal coal'

In terms of eligible funds, the main exceptions to the thermal coal policy are:

- Index management :
Exclusion rules are applied, with the exception of securities belonging to the replicated index. These securities can be held by each index fund up to their maximum proportion in the index (physical replication and synthetic replication)
- With regard to dedicated funds and dedicated mandates, criteria are applied, unless the client issues an objection.
- With regard to delegated financial management, the application of the criteria will be discussed with the financial manager by delegation, on a best efforts basis.
- Regarding the fund of funds, criteria are applied at the first level. This means that screening is not performed at asset level of the underlying funds.

Case of parent companies and subsidiaries

LYXOR follows the recommendations of the AFG with regard to the cases of parent companies and subsidiaries subject to availability of the data in Lyxor external providers databases.

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