

2018



REPORTING ON INTEGRATION OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) CRITERIA

Article 173 (D 533-16) of the French Law on the Energy
Transition for Green Growth

EDITO



Florent Deixonne,
Head of Sustainable and
Responsible Investments
LYXOR Asset Management

Article 173 of the **French Law on the Energy Transition for Green Growth** defines the information requirements for institutional investors regarding their **consideration of environmental, social and governance criteria**. This represents a real development **opportunity** for Responsible Investment.

As an asset manager, our **fiduciary responsibility** with respect to our clients is the implementation of all means that could reinforce a **long-term value creation**. To this end, ESG criteria integration and measure within our portfolios, is a great tool.

LYXOR continues to expand its range of ESG investment products, such as **thematic products aligned to four of the UN Sustainable Development Goals** (clean water and sanitation, climate action, affordable and clean energy, gender equality), active equity management solutions, but also ESG integration within private debt management for French SMEs.

In line with its **tradition of innovation and expertise**, LYXOR developed a **proprietary method which allow measuring ESG risks and opportunities** at portfolios level, notably including the climate dimension, thus making possible for investors to dynamically follow these extra-financial considerations.

LYXOR is well positioned to help its clients meet the challenge of sustainable investing. Therefore, the ability to provide indicators is essential. Climate-related measures and their standardization are crucial issues, at the heart of the coming year.

Therefore, **2018 was particularly rich for LYXOR in term of shareholder engagement** both considering the voting rights exercise and dialogue. For its first engagement campaign, **LYXOR wishes to focus on climate transition and thus, naturally joined the international initiative Climate Action 100+**.

Assessment time is approaching: after two years of application, this third “173 report” offers a synthesis of ESG criteria integration within LYXOR.

Have a good reading!

2018 KEY FIGURES

€137,3
bn

Assets under
management and
advisory ⁽¹⁾

€1,1
bn

Sustainable assets ⁽²⁾

€62
bn

Assets covered by an
approach of exclusion ⁽³⁾

A+

UN-PRI rating « Strategy &
Governance », 2018

1st

Green Bond ETF
certified TEEC
in the World

285

Funds assessed by the tool
ESG & Climate Risk Assessment

€14
bn

Voted assets

200

Number of voted
general meetings

22%

Average rate of opposition at
general meetings

⁽¹⁾ Figures as of December 31st, 2018. Included €19.6bn of assets under advisory. Figures concern the entire LYXOR Group including LYXOR Asset Management and LYXOR International Asset Management.

⁽²⁾ ESG Selection, Sustainable Thematic Investments

⁽³⁾ Defense, Norm-based or Thematic exclusions

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INTRODUCTION

LYXOR Asset Management Group ("LYXOR"), composed of two French companies⁽¹⁾, is a European specialist in asset management, expert in all types of investment, active, passive and alternative.

LYXOR creates innovative investment solutions in order to meet the long-term challenges of managing savings.

Thanks to its expertise and its tradition of engineering and research, LYXOR combines pursuit of performance and risk management.

We are a signatory to the Principles for Responsible Investment set out by the United Nations (www.unpri.org). We are committed to respect these principles.

As part of its Responsible Investment Policy, LYXOR's commitments are built around three pillars:

- Providing **innovative solutions** that incorporate ESG criteria
- Acting as an **engaged and responsible shareholder**
- Integrating **ESG criteria in the heart of its model**



LYXOR's 6 commitments as a signatory of the PRI

1

We will incorporate ESG issues into investment analysis and decision-making processes.

2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4

We will promote acceptance and implementation of the Principles within the investment industry.

5

We will work together to enhance our effectiveness in implementing the Principles.

6

We will each report on our activities and progress towards implementing the Principles.

⁽¹⁾ LYXOR Asset Management and LYXOR International Asset Management. The LYXOR group also includes foreign companies.

I. GENERAL APPROACH FOR ESG CRITERIA INCLUSION IN INVESTMENT POLICIES (D533-16-1 II-1°)

I.1 General approach regarding the inclusion of ESG issues in the investment policy and risk management within LYXOR

At present LYXOR's SRI Policy includes the following key areas:

- **A SRI approach in line with our commitments.** LYXOR applies an exclusion of issuers associated with controversial sectors and products such as prohibited weapons. LYXOR also integrates ESG criteria into its exclusion and selection factors in some of its Active and Passive investment vehicles, in order to integrate extra-financial risks into its solutions.
- **Shareholder Engagement.** An Active Ownership activity was implemented through the exercise of voting rights, as well as interaction with companies on specific ESG issues.
- **UN PRI** : LYXOR is a signatory of the UN Principles for Responsible Investment since 2014.

I.2 Content, frequency, and means used by LYXOR to inform clients (subscribers, affiliates, beneficiaries and contributors)

- LYXOR's SRI Policy and the other documents presented below are reviewed each year and are available on the Group's website: <https://www.LYXOR.com/en/socially-responsible-investment>
 - Article 173 report of the French Law on energy transition for green growth
 - Voting and engagement Policy
 - Annual Voting reports
- Pursuant to Article 173, LYXOR will integrate a description of the main criteria considered for ESG issues, as well as climate information such as carbon footprint measurement in the relevant fund's annual reports.
- For its sustainable investments funds, LYXOR published a European SRI Transparency Code (Eurosif – FIR - AFG). The Transparency Codes have been updated in 2018 in order to reflect the most relevant practices in Sustainable and Responsible Investment and Sustainable Finance (Article 173, – Task Force on Climate-related Financial Disclosure (TCFD), HLEG recommendations).
- On client demand, LYXOR provides ESG & Climate Risk Assessment factsheets on its vehicles. LYXOR discloses Carbon Footprints of all its Equity ETF vehicles on its website: LYXORETF.com
- LYXOR took part in press articles and conferences concerning ESG integration within Asset Management. Internal experts of responsible finance have provided their views addressing topics like ESG and sustainable ETF, the rise of Voting and Engagement within Asset Management...

I.3 Source of information used for analysis and type of analysis provided (III-1°-a)

LYXOR has a **dedicated ESG/SRI team** (LYXOR Sustainable and Responsible Investments Team), which **oversees SRI development, as well as develops and implements the Responsible Investment Policy**. The team centralizes all ESG/SRI-related matters and represents LYXORLYXOR in the diligence process.

The SRI team has several **internal relays** in particular within the Fund Management, Sales, Marketing, Analysts and Risk teams.

In addition, LYXOR is using a variety of **external information sources**. Each partnership was put in place following rigorous selection and due diligence procedures.



- ISS services (Institutional Shareholder Services) on voting recommendations in addition of LYXOR internal research on corporate governance. The voting recommendations are based on LYXOR's voting policy,
- MSCI as ESG data providers,
- MSCI services on Climate data for listed issuers and sovereign assets,
- Vigeo Eiris services as part of LYXOR's ESG evaluation applied to unlisted SMIDs assets,
- CBI, Equileap, Solactive, MSCI, RobecoSAM, etc as index providers or advisors.

Moreover, in the global context of the Societe Generale Group Environmental and Social Policies, LYXOR used the Global Compact List produced by the Group, based on:

- ISS-Ethix data to identify companies considered in violation of its Defense policy,
- Sustainabilitytics data to identify companies that are associated with serious and repeated breaches of criteria, standards and/or mandatory requirements relating to controversial sectors and products.

I.4 List and % share of funds (in assets under management) that integrate ESG criteria (III-3°-a)

As of December 31st 2018, around 67% of LYXOR's Assets under management is covered by an ESG approach.

ESG Approaches	AUM (€ 12/31/2018)	% of AUM
Exclusion	62,398,399,232	53%
Thematic investment	608,891,156	0.52%
ESG Selection	156,409,407	0.13%
Sub total	63,163,699,796	54%
Shareholder Engagement ⁽¹⁾	16,083,827,772	14%
Total ⁽¹⁾	79,723,44,247	67%

Some of LYXOR's investment strategies do not explicitly consider ESG criteria, because of either specific investment management processes or legal and / or commercial constraints.

⁽¹⁾ AUM in Shareholder engagement included double counting with AUM in ESG approaches described above

I.5 The use of (or membership in) labels, initiatives, charters, and codes related to ESG integration



We are a signatory to the **Principles for Responsible Investment** set out by the United Nations (www.unpri.org). We are committed to respect these principles, by incorporating ESG (Environmental, Social and Governance) issues in our policies and practices in order to influence companies to move towards more sustainable practices.

LYXOR obtained the "A+" rating in Strategy and Governance in 2017.



In 2018, LYXOR has joined the **Climate Action 100+**, an international initiative led by investors in order to systemically engage important greenhouse gas emitters and other companies, across the global economy, that have significant opportunities to drive the clean energy transition and to help achieving the goals of the Paris Agreement.

The choice of the climate change issue as first thematic engagement is in continuity with LYXOR's policy for Socially Responsible Investments.



LYXOR has joined the **Climate Bond Initiative**'s partners program, to demonstrate its determination to contribute to low carbon investment. As a first step in that direction, LYXOR and CBI have unveiled a deep-dive report into the French green bonds market.

Our organization is involved in discussions conducted at domestic and European level within our sector associations (**AFG, EFAMA, PRI**) via dedicated working groups on Responsible Investment ⁽¹⁾. LYXOR is a member of the AFG's Technical committees on:

- **Responsible Investment**,
- **Corporate Governance** to contribute to spread good governance practices among AFG members.

⁽¹⁾ For example, within these bodies, LYXOR notably participated in the 2019 AFG recommendations on corporate governance. Within the context of the EC Action Plan "Financing Sustainable Growth", LYXOR has participated to a recommendation paper. This paper aims to serve as input in the initiative to be launched end of Q2 2018 by the Commission for harmonizing benchmarks comprising low-carbon issuers then publish a report on the design and methodology of the low-carbon benchmark by Q2 2019. LYXOR participated to the PRI's "Spotlight on responsible investment in Private Debt".

Technical committees and working groups feed the work of AFG's commissions, board of directors and strategic committee. They serve as a "Think Tank" for the profession.

II. DESCRIPTION OF ESG AND CLIMATE RISKS, EXPOSURE OF OUR ACTIVITIES AND INTERNAL PROCESS TO MANAGE THEM (D533-16-1 II-2° & III-2°)

LYXOR extends gradually an **ESG & Climate reporting** capacity (including carbon footprint) using a **proprietary methodology** at its investment vehicles level.

This tool covers all asset classes (equities and bonds, including companies, countries, government organizations) and **identifies ESG risks and opportunities** including among other things, indicators that measure risks associated with climate change.

Thus, investors can analyze their exposure to these risks and benefit, thanks to the ESG and Climate Reporting of their investment vehicles.

II.1 Description of ESG criteria considered

II.1.1 ESG Criteria – Listed companies

The consideration of ESG criteria is based on the conviction that extra-financial analysis broadens the selection process and contributes to the robustness of management processes as well as the creation of long-term value.

The ESG factors are subject to weighting, which leads to a prioritization of the E, S and G domains (but also related sub-themes) in relation with the sector of the analyzed company.

The main cross-sectoral ESG criteria covered include:

- In terms of **governance**, structure of Board of Directors / Supervisory Board, independence of committees, remuneration policy and practices, relation with shareholders, functioning of internal audit and control measures, transparency of financial information ...
- In relation to **social** issues, development of human capital (training, quality and management of the workforce, health & safety), quality and safety of the products / services sold, practices regarding suppliers / subcontractors, social opportunities related to the business sector (access to healthcare, healthy nutrition) ...
- In terms of the **environment**, company's policy and strategy, promotion of responsible purchasing, eco-design of products, water management, control of greenhouse gas emissions, carbon footprint of products / services, waste management and hazardous substances control, opportunities in green technologies ...

The rating of LYXOR investment vehicles is calculated monthly and the general methodology is regularly reviewed and at least once a year.

II.1.2 ESG criteria – Unlisted companies

LYXOR analyzes the ESG practices of SMEs (Small and medium-sized enterprises) by setting up an analysis adapted to the specificities of these companies and their sectors. LYXOR integrates these ESG issues within the entire investment life cycle, whether by assessing risks and ESG practices of SMEs before each investment, or by means of annual ESG due diligence of companies in order to identify their areas of improvement and thus, to dialogue with them on their extra-financial management.

The main cross-cutting ESG criteria covered include:

- In terms of **governance**, to promote balance of powers and effectiveness of the governance body, to respect rights of shareholders, to promote effectiveness of internal audit and control systems and to integrate CSR in executive compensation...
- The **social** policy of the company is also considered using criteria such as analysis of compensation systems, training and career development, prevention of discrimination and action for equal opportunities, respect of human rights, protection of employees' health and safety, promotion of a responsibility towards customers and loyalty of commercial practices...
- In the **environmental** field, analysis include the integration of environmental issues in the SMEs' strategy, in the production and distribution of products, performance of its subcontractors / suppliers, the management of natural resources and raw materials is studied, as well as environmental considerations embedded in the use and end of life of company's products...

II.1.3 Specific ESG Criteria– Sovereign bonds

Convinced of the relevance of a specific ESG integration methodology for sovereign issuers, LYXOR relies on MSCI rating, which is based on a risk / opportunity approach (as for corporate issuer) and distinguishes each issue of the E, S and G domains. ESG Government Ratings reflect how countries' exposure to ESG risks and their ability to manage them, may affect the long-term sustainability of their economies.

The main extra-financial indicators are the followings:

- In terms of **governance**, analysis include democratic aspects, respect of political and civil liberties, perception levels of corruption, penal and judicial system. The quality of regulation and its application, financial capacities...
- At **social** level, development of human capital (higher and technical study), level of access to basic needs, education, health and retirement systems, as well as the quality of basic infrastructures. The analysis also looks at macroeconomic environment, gender inequalities as well as the business climate ...
- In the field of **environment**, management of country's natural resources is considered, vulnerability of national resources to divers climatic events (water, agriculture, forest, impact of natural disasters) as well as exposure to climate change...

II.2 Methodology and results of the ESG risk exposure analysis (III-2°)

The ESG & Climate Reporting identifies risks and opportunities of the different issuers in our portfolios (companies and governments). This allows investor to analyze its exposure to these risks.

A. ESG Risks

The ESG rating measures the ability of the underlying issuers, to manage key risks and opportunities related to E, S and G factors (in relation to their sectors).

LYXOR carries out an ESG rating for all its vehicles, when their transparency allows it.

Reports include an ESG rating of the investment vehicle which combines the rating of each underlying issuers (let it be corporate or sovereign assets) and their weight within the portfolio.

Rating's granularity is given for each of the pillars E, S and G, as well as at sub-themes' level.

	Portfolio	Core MSCI EMU (DR)
ESG Score	6.2	5.7
ESG Industry Adjusted Score	8.3	7.3
Environmental	6.9	6.4
Social	5.6	5.2
Governance	6.2	5.6
Portfolio rated	100%	100%
Nb Securities rated	135	246

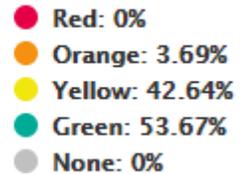
The report details for each of the pillars, the themes assessed and rated:

Corporate				Government		
Pillars	Themes	Score	Weight	Themes	Score	Weight
Environmental		5.9	23.7%		4.0	4.7%
	Climate Change	7.4	6.5%	Environmental Externalities	6.7	1.3%
	Environmental Opportunities	5.3	6.7%	Natural Resources	3.0	3.4%
	Natural Capital	5.0	5.1%			
	Pollution & Waste	5.7	5.3%			
Social		5.1	35.4%		7.8	4.7%
	Human Capital	5.0	15.5%	Human Capital	8.5	2.8%
	Product Liability	5.0	13.9%	Economic Environment	6.7	1.9%
	Social Opportunities	5.5	4.8%			
	Stakeholder Opposition	5.2	1.2%			
Governance		4.4	22.3%		7.0	9.3%
	Corporate Behavior	4.0	6.3%	Financial Governance	5.7	3.7%
	Corporate Governance	4.6	16.0%	Political Governance	7.9	5.6%

B. ESG Controversies

LYXOR identifies the exposure of its portfolios to companies associated with controversies (according to their degree of severity) related to a negative impact of company operations, governance practices, and/or products and services, as well as a violation of international standards (including the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact):

- **Red** indicates at least one very severe controversy,
- **Orange** indicates one or several severe and structural controversies,
- **Yellow** indicates the severe extra-structural controversies,
- **Green** indicates moderate controversies which do not violate these standards.



This controversial analysis is based on four factors:

- The appropriate ESG issues that covers the controversy,
- The severity of the case,
- The status of the case - concluded or ongoing,
- The type of case - whether or not a controversy is based on underlying management problems at the company.

LYXOR report also the exposure of its portfolios to UN Global Compact controversies:

	Portfolio	Core MSCI EMU (DR)
Fail	0.0%	2.7%
Watch List	1.3%	10.5%
Pass	98.7%	86.7%

II.3 Description of criteria related to Climate issues (III-2°)

In addition to this rating, and in the light of the consideration of climate risks and portfolio contribution to energy and ecological transition, as well as LYXOR's alignment with the international objective of limiting global warming to 2 degrees by 2100, LYXOR published new indicators to measure climate risk exposures, such as the share of companies with fossil fuel reserves, in order to better target risks and opportunities for energy companies, in relation to climate change.

LYXOR has decided to publish the following exposures calculated at the portfolio level:

- **Portfolio Carbon Footprint:** the measurement of GHG emissions from investments, gives investors an indication of their current financed emissions.
- In regards with **transition risk** and more specifically, the stranded assets, LYXOR has chosen to present :
 - ✓ The share of reserves (thermal coal, gas, oil) of which an investor would be responsible according to his investment in the portfolio (per/ \$ M invested),
 - ✓ Potential emissions associated to these reserves of fossil fuels (expressed in tCO₂e per/ \$ M invested),
 - ✓ A focus is also presented on potential emissions from high-impact fossil fuel reserves (thermal coal, oil sands, oil and shale gas).
- In regards with **carbon risk management**, LYXOR presents at the portfolio level a classification of issuers based on their efforts concerning energy initiatives (use of cleaner energy sources, energy consumption management and operational efficiency, carbon reduction targets).
- In regards with the **portfolio's exposure to issuers offering environmental solutions**, LYXOR presents the exposure to revenues devoted to environmental solutions that contribute to the Sustainable Development Goals (SDGs).

A. Carbon Risks

- Portfolios' measurement of GHG emissions gives investors an indication of their current financed emissions and will allow LYXOR to propose actions to implement, in order to reduce this carbon footprint.
- LYXOR developed a proprietary methodology to calculate the carbon footprint of its portfolios. These metrics are partly based on declarative data and / or are estimated.
- To ensure transparency, LYXOR states that main data on GHG emissions are based solely on scopes 1 & 2 due to the lack of availability of other data, particularly those related to scope 3. For carbon footprints, LYXOR indicates the percentage of the declarative and estimated data.

LYXOR reports on all its funds, three Carbon intensities when transparency is allowed:

- Carbon Emissions by million invested (tons CO₂e per \$M invested): it measures the volume of Greenhouse Gas (GHG) emissions for which the portfolio is responsible, in proportion to its share of capital,
- Carbon intensity (CO₂e tones per \$ M turnover): Carbon emissions are calculated based on the estimated volume of a company's direct (scope 1) and indirect (scope 2 only) greenhouse gas emissions, related to its total turnover. Carbon intensity is measured by dividing the volume of greenhouse gas emissions in equivalent tCO₂ by the turnover in millions of euros,
- The weighted average Carbon intensity (in tCO₂ per \$ M income) measures the exposure of the portfolio to intense carbon emitters on scopes 1 and 2.

These measures do not take into account all emissions induced by the company, particularly those related to the use of products, or upstream by suppliers (scope 3).

	Portfolio	MSCI World
Carbon Emissions tons CO ₂ e/\$M invested	107.9	120.7
Carbon Intensity tons CO ₂ e/\$M sales	161.5	207.9
Weighted Average Carbon Intensity tons CO ₂ e/\$M sales	154.2	189.8

B. Nature of criteria related to Transition Risks

- In order to take into account and measure transition to issuers due to climate change, LYXOR also incorporates additional data such as portfolio's exposure to issuers holding fossil fuel reserves, that may become impaired or stranded assets in the context of a low carbon transition.
- In the extent that total potential emissions of known fossil fuel reserves, vastly exceed the limit of emissions indicated by the scientific consensus in order to manage climate change, many of these reserves may not be usable.
- If this is the case, the market values of companies holding reserves, may be overstated because they are partly based on the present value of these reserves, assuming that they can be fully consumed.
- This exposure, which can be described as **brown area share**, defines the portion of the portfolio invested and exposed to fossil fuels

Weight of the portfolio		
	Portfolio	Core MSCI EMU (DR)
Fossil Fuel Reserves	9.9%	10.3%
Thermal Coal	0.6%	0.5%
Natural Gaz	9.3%	9.7%
Oil	9.3%	9.4%

- In regards with fossil fuel reserves, LYXOR presents the **portion of reserves** an investor would be responsible for, based on dollar invested in the portfolio:

Fossil Fuel Reserves		
	Portfolio	Core MSCI EMU (DR)
Thermal Coal (Tons)	0.0	0.0
Gas (MMBOE)	0.0037	0.0029
Oil (MMBOE)	0.0030	0.0023

MMBOE : Million Barrels of Oil Equivalents

- LYXOR also presents potential emissions from fossil fuel reserves and a focus on high-impact reserves:

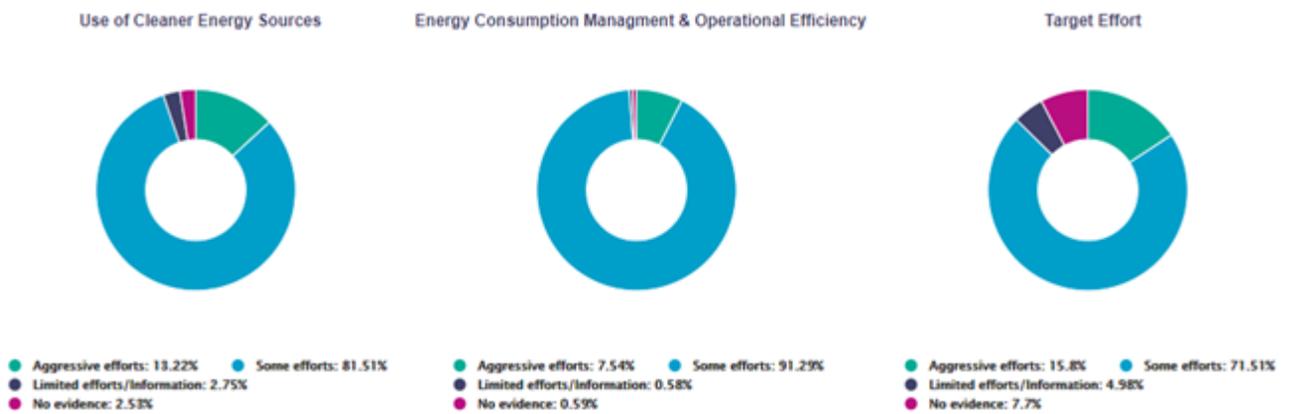
Potential emissions from reserves (tCO2e/ \$M invested)		
	Portfolio	Core MSCI EMU (DR)
Metallurgical Coal	0.0	109.7
Thermal Coal	0.0	0.0
Oil	1,358.8	1,000.1
Gas	1,188.9	932.5
Total	2,547.7	2,042.3

Potential Emissions from High impact Reserves (tCO2e/ \$M invested)		
	Portfolio	Core MSCI EMU (DR)
Thermal Coal	0.0	0.0
Oil Sands	262.8	131.9
Shale Oil or Shale Gas	0.0	0.0
Sum High Impact Reserves	262.8	131.9
Other	2,284.9	1,910.3

C. In regards with carbon risk management

Companies have a variety of strategies to reduce emissions, including setting targets for reductions, using cleaner energy sources and managing energy consumption. While these efforts vary considerably across companies, we categorize them as 'No Efforts', 'Some Efforts', and 'Aggressive Efforts' to make them more comparable.

This information is presented at portfolio level.



D. Portfolio exposure to issuers offering environmental solutions

LYXOR calculates the proportion of "green activities" which corresponds to the percentage of amount invested in companies which activity contributes to climate change mitigation (renewable energies, energy efficiency, green building ...).

This **green area share** allows LYXOR to measure in its funds the share of issuers with activities that foster the ecological transition and are therefore likely to benefit from a low carbon transition.

Weight of portfolio issuers rated in Carbon with a revenue dedicated to environmental solutions between		
	Portfolio	Core MSCI EMU (DR)
[1-19.9%]	30%	29%
[20-49.9%]	10%	7%
[50-100%]	1%	1%

Weight of portfolio issuers rated in Carbon Offering Clean Technology Goods & Services		
Theme	Portfolio	Core MSCI EMU (DR)
Alternative Energy	23.9%	21.4%
Energy Efficiency	28.5%	27.0%
Green Building	2.4%	2.8%
Pollution Prevention	8.4%	7.8%
Sustainable Water	2.3%	7.2%

III. IMPACT ON INVESTMENT POLICIES AND DECISIONS (D533-16-1 II-2°)

SRI IS NOW A CORE INVESTMENT ISSUE FOR OUR CLIENTS. TAKING EXTRA-FINANCIAL CRITERIA INTO CONSIDERATION PLAYS A KEY ROLE IN THE GROWTH OF OUR BUSINESS.

Capitalizing on our financial engineering expertise and ability to innovate, we are already creating solutions for our clients that wish either to have a positive and measurable impact through their investments, or to restrict or refrain from investing in companies with a major ESG risk profile.

III.1 Description of LYXOR's ESG approaches

Taking non-financial criteria into consideration plays a leading role in the growth of our business. By developing the following investment, LYXOR is able to advise its clients **to successfully move their investments towards greater transparency, as well as more social and environmental responsibility.**

- **Funds that apply an exclusion approach:**

- ✓ LYXOR has implemented an exclusion list based on the Defense Sector Policy as a filter to its swap based ETFs, its Absolute Return, Risk Based and Solutions businesses as well as "ex controversial weapons" Managed Account Platform, wherever legally possible and independently enforceable by LYXOR

This core exclusion list applies to companies that deal with the following weapons considered prohibited or controversial:

- Anti-personnel mines, cluster bombs, or their key components,
- Depleted uranium munitions, as well as biological, chemical, nuclear or radiological weapons.

For investment vehicles where it is not yet possible to apply this exclusion list, LYXOR will carefully monitor the percentage held for this type of asset.

- ✓ LYXOR has also implemented an exclusion list based on "Norm-based Policy", that is integrated in LYXOR' sustainable investment solutions, which excludes companies associated with serious and repeated breaches of UN Global Compact Principles.

The Global Compact ten principles derive from international standards and guide the behavior of companies in the following areas: Human Rights, Labor, Environment and Corruption.

- ✓ Moreover, LYXOR offers the possibility to implement tailor-made multi-criteria exclusions which are in line with our convictions and institutional clients' SRI concerns, such as the exclusion of companies associates with a major ESG controversy, or involved in particular activities or sectors.

In some particular funds, LYXOR also excludes companies involved in activities or sectors deemed as controversial (Gaming, Tobacco, Human cloning...) or having the majority of their income from sector with important ESG risk (Coal...).

- **Sustainable Thematic Investment Funds**

The ESG thematic approach consists in selecting companies active in themes or sectors related to sustainable development, such as renewable energies, water, health, or more generally climate change mitigation.

LYXOR currently offers ETFs that invest in four of the UN's Sustainable Development Goals (set of international goals to reduce poverty, protect the planet, ensure prosperity for all, etc.), namely the Climate Action (Green Bonds), Clean water and Sanitation (World Water), Clean and Affordable energy (New Energy) and gender equality (Gender).

	<p style="text-align: center;">Focus on a fund that promotes ecological and energy transition</p>
	<p>In 2017, LYXOR launched the UCITS ETF Green Bond (DR). This fund replicates an index that is exclusively composed of investment in green bonds, allowing LYXOR's clients to participate in financing the energy and ecological transition, by investing in the green bond market.</p> <p>These green bonds are securities which proceeds are dedicated to projects that have positive impacts on the environment, whether through the development of innovative solutions or projects that limit the ecological impact of issuers.</p> <p>LYXOR has decided to set up a partnership with the Climate Bonds Initiative (CBI), one of the major players in this green bond market, in order to benefit from its knowledge and robust process in asset selection.</p> <p>The criteria of the index developed in partnership with LYXOR are rigorous, indeed to be able to integrate the Index green bonds must follow a four-step process that includes.</p> <ul style="list-style-type: none"> ✓ Identification of environmentally themed Bonds ✓ Reviewing eligible bond structures, ✓ Evaluating the use of proceeds and screening ✓ Eligible green projects or assets for adherence with the Climate Bonds Taxonomy. <p>In addition, in order to comply with the requirements of the Energy Transition and Ecological Climate Label (TEEC label), LYXOR has added specific requirements:</p> <ul style="list-style-type: none"> ✓ Minimum of 75% green bonds in the portfolio in accordance with the requirements of the TEEC label, ✓ Analysis and exclusion of Green Bond financing activities excluded by the Label, ✓ Application of ESG supervision and exclusion on highly controversial bond financing projects, ✓ Reporting on the positive impact of funded projects including the calculation of avoided emissions at the portfolio level.

- **ESG Selection investment vehicles**

This kind of approach involves the selection or weighting of the best-performing companies, as identified by the ESG analysis, within a defined investment universe. ESG selection can take several forms: Best-in-Class, Best-in-Universe, and Best-Effort. This approach allows the integration of ESG issues into the selection of assets in a portfolio, favoring the most virtuous companies in terms of ESG management.

	<p style="text-align: center;">Focus on innovative fund that applies ESG Selection</p>
	<p>LYXOR has launched a new range of ETF that combines ESG selection with the innovative ESG Momentum score that measures the trends of company ESG score.</p> <p>These LYXOR MSCI ESG Trend Leaders launched in 2018 aims to create a positive selection by awarding companies striving to improve their extra-financial ratings. Four market exposures are offered to investors (European, US, World and Emerging), providing an alternative to core portfolio allocations, with better ESG ratings.</p> <p>The LYXOR MSCI ESG Trend Leader vehicles take the ESG criteria into account as follows:</p> <ul style="list-style-type: none"> ✓ Exclusion of companies active in sensitive sectors : alcohol, gambling, tobacco, civilian firearms, nuclear energy, conventional and controversial weapons: ✓ Exclusion of companies involved in a major ESG controversy (based on the MSCI ESG Controversy score): ✓ Companies are ranked according to their ESG ratings and ESG trends (annual improvement or deterioration of ESG ratings) ✓ The Index is constructed using a "Best in Class" strategy: the top ranked companies in each sector (in accordance with the Global Industry Classification) are selected to build the Index.

- **Shareholder engagement**

LYXOR's clients also benefit from our shareholder engagement in certain investment vehicles to influence companies in order to improve their ESG practices over the long term.

Convinced of the environmental, social and governance challenges, LYXOR has defined – as an extension of its approach of responsible investor and in line with its adherence to the United Nations Principles for Responsible Investment (PRI) – a shareholder engagement policy attached to securities held by the CISs (AIFs and UCITS) which it manages.

This shareholder engagement policy is reflected in two complementary areas: **a shareholder policy** and **a voting policy**, thereby fulfilling the fiduciary obligations to LYXOR's clients.

Indeed, LYXOR is convinced that good corporate governance can contribute to the improvement of long-term financial performance of companies in which it invests on behalf of its clients. Thus, the aim is to encourage the adoption of best practices and to mitigate the risks of corporates failure.

in the long term result, improve corporate performance and therefore, improve shareholder value. In exercising its voting rights, LYXOR can contribute to enhance the economic and financial performance of the companies of which shares it manages on behalf of its clients, with the aim of driving best practice and reducing the Risk of corporate failure.

The engagement policy that can be divided into two distinct and complementary actions :

- **A proactive dialogue before general meetings** in order to enrich the analytical work and vote in perfect knowledge, and to push companies to adopt best practices in terms of corporate governance.
- **A thematic engagement** related to environmental, social, societal or governance issues with the goal of influencing companies to improve or adopt the Corporate Social Responsibility best practices.

Indeed, the key areas of good corporate governance in the context of LYXOR's voting policy are the following:

- ✓ Protection of the long-term interests and rights of shareholders, supporting the "one share, one vote" principle, where shareholders have voting rights in direct proportion to their economic interest in a company,
- ✓ Independence and diversity of boards of directors to avoid conflicts of interests and to foster optimal effectiveness and efficiency,
- ✓ Balance of the company's financial structure allowing both to have the essential conditions to deploy its strategy while preserving the position of the shareholder,
- ✓ Fair and transparent executives' remuneration policy, in line with the performance of the company.
- ✓ Quality and integrity of financial information and related communication to shareholders,
- ✓ Integration of corporate environmental and social responsibility in the company's operations for the benefit of the company, its shareholders and other stakeholders,

In 2018, the Sustainable and Responsible Investments team of LYXOR had the opportunity to carry out 36 engagement campaigns among 32 European companies. These campaigns could specifically concern the issuer's general meeting or being broader and address environmental, social or governance issues.

In addition, LYXOR increased the exercise of its voting rights, by participating in 200 General Meetings in 2018 (+27% compared to 2017). LYXOR has voted on 2613 resolutions and opposed or abstained on 583 of them, thus, which induces an opposition rate of 22% (compared to 13% in 2017). By opposing a resolution, LYXOR expresses its disagreement on certain topics (composition of the board of directors or supervisory board, remuneration policy, dilution of capital, etc.). In 2018, LYXOR opposed at least one resolution in 154 General Meetings, i.e. 77% of the General Meetings voted.

Our voting policy and the voting reports are available on the LYXOR website:

<http://www.lyxor.com/fr/nous-connaitre/gouvernance/investissement-socialement-responsable/>

APPENDIX

Information to be provided under Article 173 of the Energy Transition Law for Green Growth	References to the articles of the decree (D533-16-1)	Matching in the Report
<ul style="list-style-type: none"> General approach regarding the inclusion of ESG issues in the investment policy and risk management within LYXOR Content, frequency, and means used by the LYXOR to inform clients (subscribers, affiliates, beneficiaries or contributors) 	II-1°	Part 1 – p 4
<ul style="list-style-type: none"> Source of information used for analysis and type of analysis List and the % share of funds (in assets under management) that integrate ESG criteria The use of (or membership in) labels, initiatives, charters, and codes related to informing on the 'quality' of ESG practices 	IIII-2° IIII-3°a II-1°	Part 1 – p 5
<ul style="list-style-type: none"> Description of criteria related to Climatic issues <ul style="list-style-type: none"> Carbon risks Nature of criteria relating Climate physical risks Nature of criteria relating Climate transition risks 	II-2° IIII-1°-a	Part 2 – p 7 to 9
<ul style="list-style-type: none"> Methodology and results of the ESG risk exposure analysis 	IIII-2° IIII-3°a	Part 2 – p 9 to 10
<ul style="list-style-type: none"> Nature of criteria taken into consideration regarding climate issues <ul style="list-style-type: none"> Carbon Risk Physical Risk Transition Risk 	IIII-2° IIII-1°b IIII-2°	Part 2 – p 11 to 12
<ul style="list-style-type: none"> Impact on Investment Policies and decisions 	II-2°	Part 3 – p 13 to 16
<ul style="list-style-type: none"> Focus on an example of a fund that promotes ecological and energy transition 	II-2°	Part 3 – p 14
<ul style="list-style-type: none"> Shareholder Engagement 	II-2°	Part 3 – p 15 to 16

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LYXOR
Asset Management
GROUPE SOCIÉTÉ GÉNÉRALE

Lyxor Asset Management – Tours Société Générale
17 Cours Valmy – 92987 La Défense Cedex – France
www.lyxor.com - solutions@lyxor.com

Lyxor Asset Management – SAS au capital de 161 106 300 euros – RCS Nanterre No 418 862 215
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