

# LYXOR CLIMATE POLICY

LYXOR Sustainable & Responsible Investment

October 2020



**LYXOR**  
Asset Management  
SOCIETE GENERALE GROUP

## 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**



## 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 worldwide<sup>1</sup>



1<sup>st</sup> ETF Green Bond  
labeled<sup>2</sup>

+€M407 million in  
AUM<sup>3</sup>



### 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.

<sup>1</sup> Launch on February 20<sup>th</sup>, 2017

<sup>2</sup> Obtaining the Greenfin label (ex-TEEC) on February 2019

<sup>3</sup> As of September 30<sup>th</sup>, 2019

## 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.

+ €527 M  
in AUM<sup>1</sup>

### 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.

+ €671 M  
in AUM<sup>1</sup>

### 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<sup>1</sup> 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 risks and opportunities associated with the change climate.

### Extraction of thermal coal

According to the latest United Nations [Global Resources Outlook](#) report released in early 2019, extractive industries account for half of global carbon emissions.

In addition, the extraction of thermal coal has many additional impacts, particularly in environmental (impact on air and biodiversity, etc.) and social (working conditions in mines, impact of pollution on the health of surrounding communities, etc.). Its divestment will therefore become the standard in line with a transition to a low-carbon economy.

LYXOR has thus decided to divest from the most exposed players by excluding companies whose turnover from activities related to the extraction of thermal coal is greater than 10%.

### Production of electricity from thermal coal

According to [IPCC](#)<sup>2</sup> data, a kWh produced from coal generates 820 g of CO<sub>2</sub>, by far the most polluting energy, equivalent to 1.6 times more CO<sub>2</sub> than using gas and more than 70 times the impact of a kWh via wind.

Today, coal accounts for nearly 40% of the world's electricity production<sup>3</sup>.

In the context of a transition to a low-carbon economy, it is therefore essential to limit coal-fired electricity generation and promote the development of clean and renewable energy.

Thus, LYXOR has decided to divest from the most exposed players by excluding companies that belong to the energy sector and from which more than 30% of the electricity production (mixed energy) comes from thermal coal.

*These criteria are applied by the entities of the LYXOR's Group according to the notion of 'best efforts' and taking into account legal and commercial constraints. The rules of application are described in the annex to this document.*

LYXOR is thus part of the Societe Generale Group's strategy for the **total exit of coal by 2030 for companies with assets in the EU and the OECD and 2040 for the rest of the world**.

<sup>1</sup> As of October 2020

<sup>2</sup> Intergovernmental Panel on Climate Change

<sup>3</sup> Technology Cost and Performance Parameters 2018 – IPCC; Electricity Information 2019 – IEA



## 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

 **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)<sup>2</sup>. 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€<sup>1</sup> AUM under climate engagement**

<sup>1</sup> As of September 30<sup>th</sup>, 2020

<sup>2</sup> TCFD : Task Force on Climate-related Financial Disclosures



## 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

### Climate 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).



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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