

# Inside Thematics

## MSCI Smart Cities – H1 2021

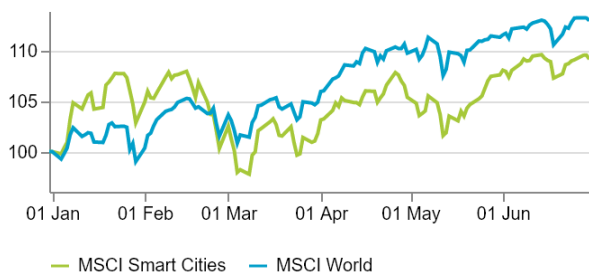
The MSCI ACWI IMI Smart Cities ESG Filtered index aims to represent the performance of companies expected to derive significant revenue from areas like smart connectivity (IoT), smart buildings, smart homes, smart safety and security, smart mobility, smart waste and water management, and smart energy and grids. In this report we provide a comprehensive analysis of the factors driving the performance of this index compared to the MSCI World since the beginning of the year.

### Facts and overview

Globally, there are 33 urban areas hosting over 10 million residents and this number continues to grow. The U.N. has projected this figure will accelerate to 43 within the next decade, mostly in emerging countries\*.

As a result of this rapid urbanisation, innovative companies are building technologies and solutions to help cities operate in 'smarter' and more sustainable ways. From efficient energy usage to smart mobility services, from responsible waste management to the Internet of Things connecting it all together, the end goal of Smart Cities is to improve its residents' quality of life. And with the environmental impact inherent to urbanisation, the future of our planet and public health may very well depend on smart city management.

### Performance (base 100 = 31/12/2020)



Source: Bloomberg, Lyxor International Asset Management. Data as at 30/06/2021. Past performance is not a reliable indicator of future performance.

### Our key takeaways

- ▶ The MSCI Smart Cities index recorded a positive performance of +9.21% in H1 2021 whilst underperforming MSCI World (+13%).
- ▶ With respective total attributions of +4.5% and +3.4% over the same period, Information Technology and Industrials were the main contributors to this performance as shown in the absolute attribution analysis.
- ▶ At stock level, Fortinet and Codan – both belonging to the top 10 holdings – were the largest contributors with stock selection effects equal to 0.8% and 0.5% respectively.

### Risk & return (H1 2021)

#### MSCI Smart Cities vs MSCI World

(in USD, %)	MSCI Smart Cities	MSCI World
Performance	9.21	13.05
Max Drawdown	-9.48	-4.24

Source: Bloomberg, Lyxor International Asset Management. This has been calculated gross of fees. Data as at 30/06/2021. For indices' full names please refer to index glossary on p.13. Past performance is not a reliable indicator of future performance.

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### Summary

#### Index overview

- Index characteristics [2](#)
- Sector focus [3](#)
- Historical performance [5](#)
- Index rebalancing [6](#)

#### Index performance analysis

- Performance overview (Year-to-date) [7](#)
- Active risk analysis [8](#)
- Absolute performance attribution [9](#)
- Relative performance attribution [11](#)

In this report, MSCI ACWI IMI Smart Cities ESG Filtered Index is referred as to MSCI Smart Cities.

\* U.N., World Urbanization Prospects: The 2018 Revision.

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## Overview

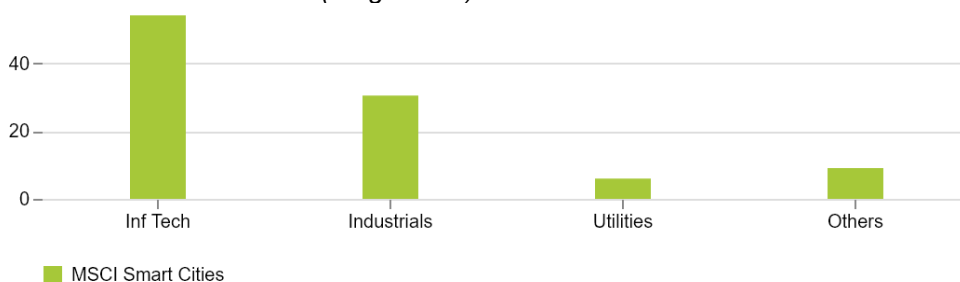
### Index characteristics

The MSCI Smart Cities index holds 129 securities (large, mid and small caps) that aim to derive significant revenue from areas like smart connectivity (IoT), smart buildings, smart homes, smart safety and security, smart mobility, smart waste and water management, and smart energy and grids. It is filtered according to MSCI ESG Ratings, controversy scores and certain business activities. Annually, the expression of the high-level index objective and associated sub-themes are reviewed with the consultative input of a thematic industry expert retained by MSCI.

#### Top 10 constituents (in USD, %)

Name	Weight	Cumulative weight	Industry	Country
TERADYNE INC	2.16	2.16	Inf Tech	United States
FORTINET INC	1.84	4.00	Inf Tech	United States
WIN SEMICONDUCTORS CORP	1.80	5.80	Inf Tech	Taiwan
MIMECAST LTD	1.68	7.48	Inf Tech	United States
AAC TECHNOLOGIES HOLDINGS INC	1.58	9.07	Inf Tech	China
CODAN LTD	1.58	10.65	Inf Tech	Australia
QUALYS INC	1.55	12.19	Inf Tech	United States
TOMRA SYSTEMS ASA	1.49	13.69	Industrials	Norway
AMS AG	1.48	15.17	Inf Tech	Austria
SWITCH INC - A	1.46	16.63	Inf Tech	United States

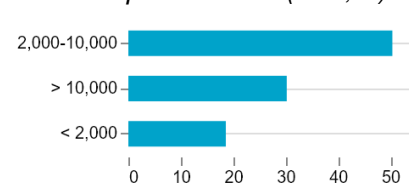
#### GICS sector breakdown (weight in %)



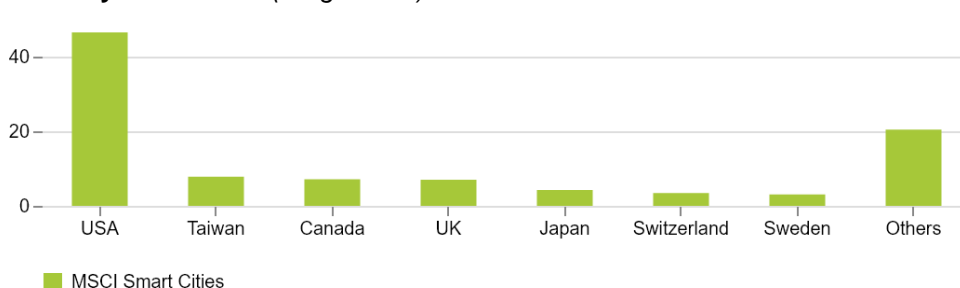
#### Top members by sectors (in USD, %)

Information Technology		Industrials	
TERADYNE INC	2.16	TOMRA SYSTEMS ASA	1.49
FORTINET INC	1.84	POWERCELL SWEDEN AB	1.42
WIN SEMICONDUCTORS CORP	1.80	WEG SA	1.33
MIMECAST LTD	1.68	PLUG POWER INC	1.31
AAC TECHNOLOGIES HOLDINGS INC	1.58	ROCKWELL AUTOMATION INC	0.96

#### Market cap breakdown (USD, M)



#### Country breakdown (weight in %)



Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Data as at 30/06/2021. Past performance is not indicative of future returns.

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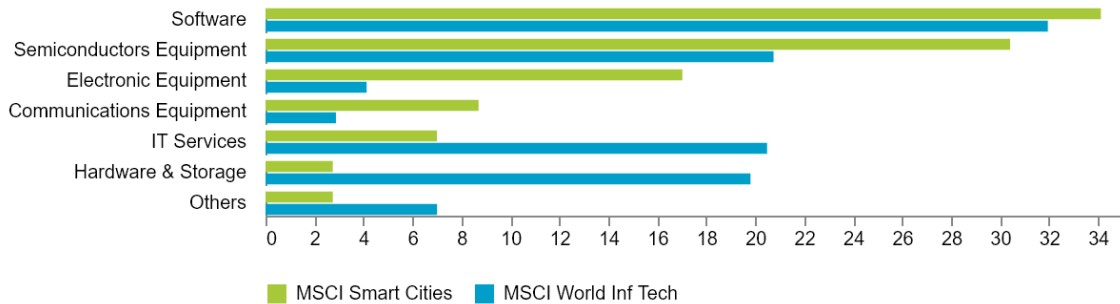
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## Sector focus: Information Technology breakdown

## MSCI Smart Cities vs MSCI World Inf Tech (in USD)

Information Technology	MSCI Smart Cities	MSCI World Inf Tech
Weight (%)	54.10	99.73
Sector performance Year-to-date (%)	9.03	13.06
# of stocks	57	187

## Sub-sector breakdown (weight in %)



## MSCI Smart Cities: top 10 Information Technology constituents (in USD, %)

Name	MSCI Smart Cities weight	MSCI World Inf Tech weight	Performance Year-to-date
TERADYNE INC	2.16	0.17	11.90
FORTINET INC	1.84	0.26	60.36
WIN SEMICONDUCTORS CORP	1.80	0.00	9.23
MIMECAST LTD	1.68	0.00	-6.67
AAC TECHNOLOGIES HOLDINGS INC	1.58	0.00	34.22
CODAN LTD	1.58	0.00	58.25
QUALYS INC	1.55	0.00	-17.38
AMS AG	1.48	0.00	-11.71
SWITCH INC - A	1.46	0.00	29.72
VANGUARD INTERNATIONAL SEMI	1.43	0.00	2.52

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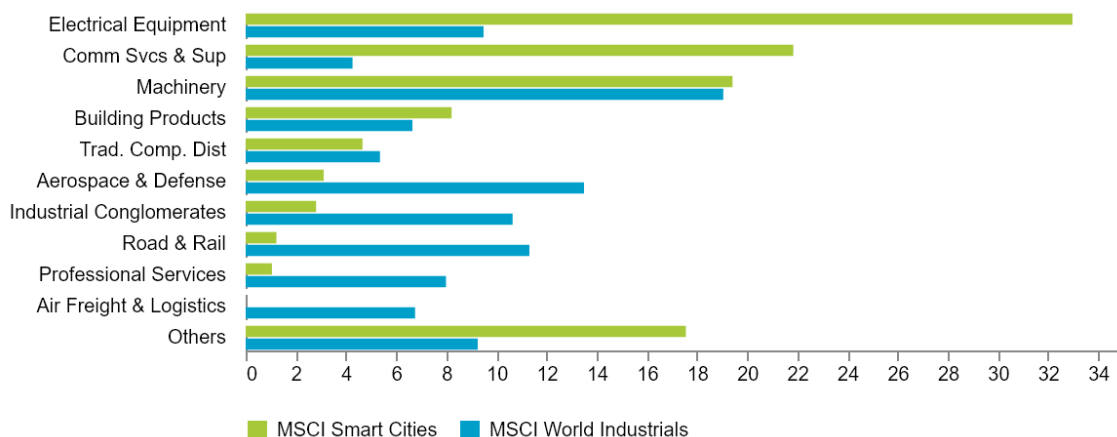
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## Sector focus: Industrials breakdown

## MSCI Smart Cities vs MSCI World Industrials (in USD)

Industrials	MSCI Smart Cities	MSCI World Industrials
Weight (%)	30.44	98.29
Sector performance Year-to-date (%)	10.10	12.20
# of stocks	53	247

## Sub-sector breakdown (weight in %)



## MSCI Smart Cities: top 10 Industrials constituents (in USD, %)

Name	MSCI Smart Cities weight	MSCI World Industrials weight	Performance Year-to-date
TOMRA SYSTEMS ASA	1.49	0.00	14.19
POWERCELL SWEDEN AB	1.42	0.00	-36.22
WEG SA	1.33	0.00	-52.32
PLUG POWER INC	1.31	0.28	0.83
ROCKWELL AUTOMATION INC	0.96	0.54	15.00
KONE OYJ-B	0.95	0.45	1.73
ULTRA ELECTRONICS HLDGS PLC	0.95	0.00	13.99
OTIS WORLDWIDE CORPORATION	0.90	0.55	21.80
ALFEN NV	0.89	0.00	-7.59
SMITHS GROUP PLC	0.85	0.14	7.63

Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Data as at 30/06/2021. Past performance is not indicative of future returns.

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## Historical performance

## Performance since launch (30/09/2014 to 30/06/2021)

MSCI Smart Cities vs MSCI World (base 100 = 30/09/2014)



## Historical risks &amp; net total returns

## Total Return

(in USD, %)	MSCI Smart Cities	MSCI World
Month to Date	1.45	1.49
Quarter to Date	7.29	7.74
Year to Date	9.21	13.05
1 Year	45.99	39.04
3 Year (annualised)	17.62	14.96
5 Year (annualised)	17.73	14.82
Since launch (30/09/2014, annualised)	16.36	10.91

## Volatility

(in USD, %)	MSCI Smart Cities	MSCI World
1 Year	15.06	12.68
3 Year (annualised)	19.19	18.92
5 Year (annualised)	16.34	15.55
Since launch (30/09/2014, annualised)	16.32	15.08

## Max Drawdown

(in USD, %)	MSCI Smart Cities	MSCI World
Year to Date	-9.48	-4.24
1 Year	-9.48	-7.87
3 Year	-33.38	-34.03
5 Year	-33.38	-34.03
Since launch (30/09/2014)	-33.38	-34.03

Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Performance measured gross of fees. Data as at 30/06/2021.

Past performance is not indicative of future returns.

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## Index rebalancing

## Entries as at 28/05/2021 close

Name	Status	Country	Weight (%)	Name	Status	Country	Weight (%)
TOMRA SYSTEMS ASA	Addition	Norway	1.41	ARCADIS NV	Addition	Netherlands	0.57
MELEXIS NV	Addition	Belgium	1.33	COVANTA HOLDING CORP	Addition	USA	0.46
WEG SA	Addition	Brazil	1.32	BEACON ROOFING SUPPLY INC	Addition	USA	0.41
DIGI INTERNATIONAL INC	Addition	USA	1.13	HYUNDAI ROBOTICS CO LTD	Addition	South Korea	0.39
RAPID7 INC	Addition	USA	0.93	OMRON CORP	Addition	Japan	0.37
ABSOLUTE SOFTWARE CORPO	Addition	Canada	0.83	REALORD GROUP HOLDINGS LTD	Addition	Hong Kong	0.36
DYNATRACE INC	Addition	USA	0.80	NAN YA PRINTED CIRCUIT BOARD	Addition	Taiwan	0.32
SMITH (A.O.) CORP	Addition	USA	0.78	WILLDAN GROUP INC	Addition	USA	0.31
WATSCO INC	Addition	USA	0.73	OPTIM CORP	Addition	Japan	0.27
LINDAB INTERNATIONAL AB	Addition	Sweden	0.69	ORGANO CORP	Addition	Japan	0.13
SECURITAS AB-B SHS	Addition	Sweden	0.67	HITACHI ZOSEN CORP	Addition	Japan	0.11
CASELLA WASTE SYSTEMS INC-A	Addition	USA	0.65				

## Exits as at 28/05/2021 close

Name	Status	Country	Weight (%)
T-MOBILE US INC	Deletion	USA	1.68
PENTAIR PLC	Deletion	United Kingdom	0.91
MEGGITT PLC	Deletion	United Kingdom	0.75
SHENANDOAH TELECOMMUNICATION	Deletion	USA	0.66
TELEFONICA DEUTSCHLAND HOLDI	Deletion	Germany	0.61
U-BLOX AG	Deletion	Switzerland	0.56
BALLARD POWER SYSTEMS INC	Deletion	Canada	0.53
LITTELFUSE INC	Deletion	USA	0.50
TECNICAS REUNIDAS SA	Deletion	Spain	0.46

## Top 10 before and after rebalancing

Before				After		
	Name	Weight	Country	Name	Weight	Country
1	CODAN LTD	2.77	Australia	TERADYNE INC	2.15	USA
2	FORTINET INC	1.94	USA	CODAN LTD	1.72	Australia
3	TERADYNE INC	1.84	USA	FORTINET INC	1.70	USA
4	CHINA CONCH VENTURE HOLDINGS	1.74	China	MIMECAST LTD	1.59	USA
5	T-MOBILE US Inc	1.68	USA	WIN SEMICONDUCTORS CORP	1.58	Taiwan
6	VANGUARD INTERNATIONAL SEMI	1.60	Taiwan	QUALYS INC	1.49	USA
7	OTIS WORLDWIDE CORPORATION	1.55	USA	WEST FRASER TIMBER CO LTD	1.47	Canada
8	WIN SEMICONDUCTORS CORP	1.54	Taiwan	AMS AG	1.46	Austria
9	ALFEN NV	1.52	Netherlands	VANGUARD INTERNATIONAL SEMI	1.44	Taiwan
10	MIDDLESEX WATER CO	1.50	USA	SPIRENT COMMUNICATIONS PLC	1.43	UK

Source: Lyxor International Asset Management. Data as at 30/06/2021.

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## Performance analysis

## YTD performance overview

## Market Commentary

- ▶ The MSCI Smart Cities index recorded a positive performance of +9.21% in H1 2021 whilst underperforming MSCI World (+13%).
- ▶ With respective total attributions of +4.5% and +3.4% over the same period, Information Technology and Industrials were the main contributors to this performance as shown in the absolute attribution analysis.
- ▶ At stock level, Fortinet and Codan – both belonging to the top 10 holdings – were the largest contributors with stock selection effects equal to 0.8% and 0.5% respectively.

## Performance

MSCI Smart Cities vs MSCI World (base 100 = 31/12/2020)



## Index performance and risk characteristics

YTD, % in USD	MSCI Smart Cities	MSCI World
Performance	9.21	13.05
Max Drawdown	-9.48	-4.24

## Fundamentals as at 30/06/2021

(in USD)	MSCI Smart Cities	MSCI World
# stocks	129	1562
Dividend Yield	1.92	2.07
P/B	3.33	3.21
P/E (trailing)	36.51	29.97
P/E (trailing, positive earnings)	23.28	24.55
12M fwd P/E	20.26	19.61
12M fwd P/E (positive earnings)	18.75	19.29
ROE	9.26	10.35

## Key ESG and climate statistics

ESG Data	MSCI Smart Cities	MSCI World
MSCI ESG Score (Industry Adjusted)	5.6	6.2
<b>Carbon Footprint</b>		
Carbon Emissions tons CO2e/\$M invested	61.4	47.5
Carbon Intensity tons CO2e/\$M sales	168.6	150.5
Weighted Average Carbon Intensity tons CO2e/\$M sales	150.6	131.7

Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Performance measured gross of fees. Data as at 30/06/2021. Past performance is not indicative of future returns.

The ESG and Climate metrics are computed using a proprietary methodology developed within Lyxor International Asset Management (SRI team) based on ESG single stock data from MSCI. ESG data as at 30/06/2021.

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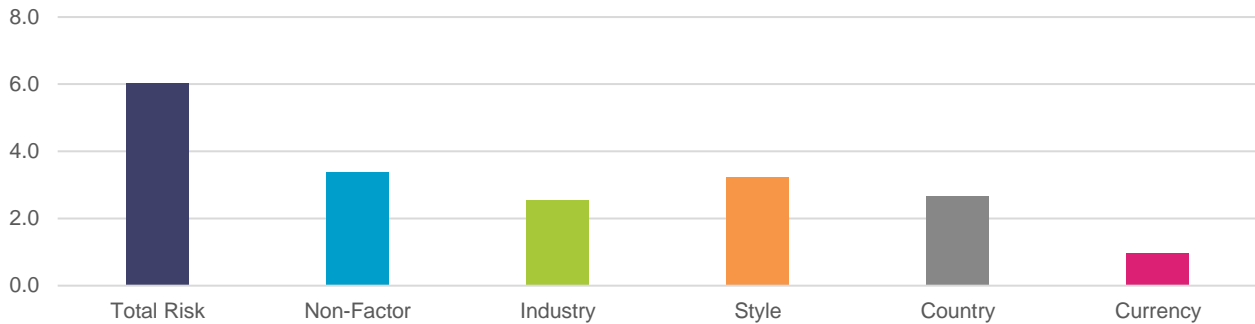
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## Active risk analysis

### Active risk decomposition<sup>3</sup> vs MSCI World

#### The importance of Stock Selection

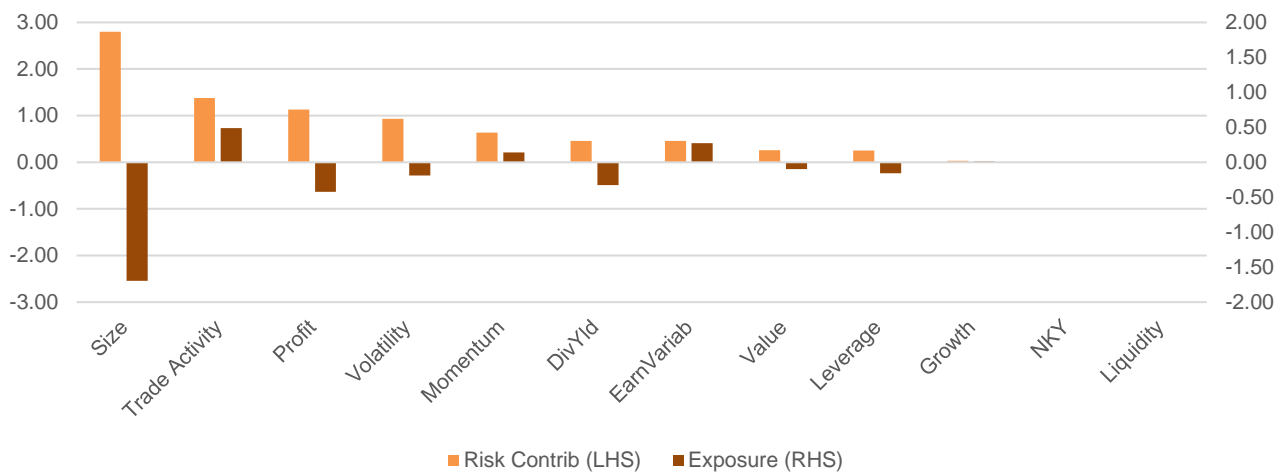
*MSCI Smart Cities vs MSCI World, in %*



### Active style risk decomposition vs MSCI World

#### Size factor, a high contribution on active risk

*MSCI Smart Cities vs MSCI World, in %*



Source: Bloomberg, Lyxor International Asset Management as of 30/06/2021.

Past performance is not a reliable indicator of future performance

<sup>3</sup> Ex-ante Tracking error, more details available in the Glossary p.13 ("Active Risk decomposition analysis")



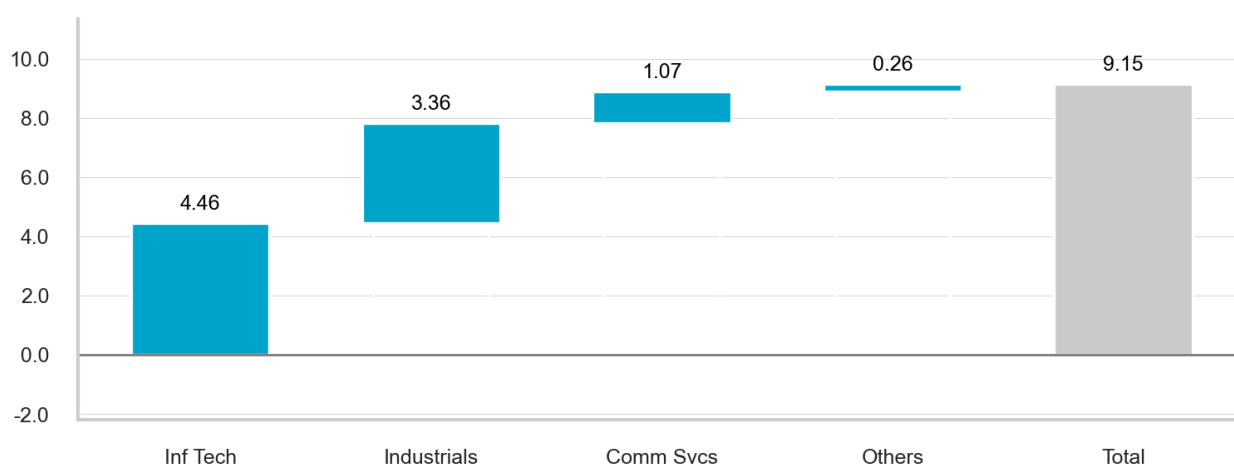
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## Absolute performance attribution\* (Year-to-date)

## Performance attribution breakdown (in USD, %)

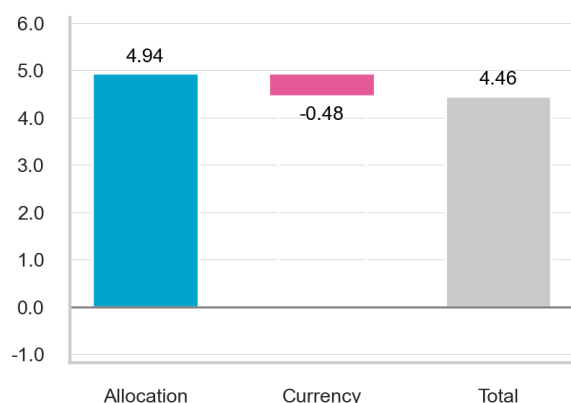
	Ytd perf	Avg wgt	Allocation	Currency	Total Attribution	Residual
<b>MSCI Smart Cities</b>	<b>9.21</b>	<b>100.00</b>	<b>10.43</b>	<b>-1.28</b>	<b>9.15</b>	<b>0.06</b>
Inf Tech	9.03	51.21	4.94	-0.48	4.46	
Industrials	10.10	32.40	4.01	-0.65	3.36	
Comm Svcs	10.28	7.29	1.03	0.04	1.07	
Materials	26.95	1.86	0.21	0.00	0.21	
Utilities	-0.39	5.97	0.32	-0.19	0.14	
Energy	-5.01	1.26	-0.09	0.00	-0.09	

## Performance attribution by GICS sectors (in USD, %)

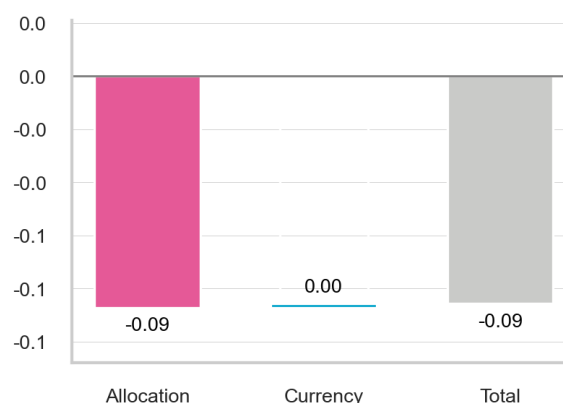


## Performance attribution breakdown (in USD, %)

## Top GICS sector: Information Technology



## Worst GICS sector: Energy



Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Data as at 30/06/2021.

Past performance is not indicative of future returns.

The allocation effect, positive or negative, can be obtained by underweighting or overweighting an underperforming or outperforming industry.

\*Please refer to the glossary section in page 13.

**MARKETING DOCUMENT - FOR PROFESSIONAL AND QUALIFIED INVESTORS ONLY****Absolute stock selection analysis\* (Year-to-date)****Performance attribution breakdown (in USD, %)**

Attribution decomposition	
Stock selection: positive contributors	15.38
Stock selection: negative contributors	-4.95
<b>Total selection effect</b>	<b>10.26</b>

**Stock selection: positive contributors (in USD, %)**

Name	Stock selection	Average Weight	Stock Performance	GICS Sector
FORTINET INC	0.83	1.67	60.36	Inf Tech
CODAN LTD	0.53	1.54	16.65	Inf Tech
DIALOG SEMICONDUCTOR PLC	0.52	1.03	42.17	Inf Tech
BLACKBERRY LTD	0.44	0.67	84.59	Inf Tech
AAC TECHNOLOGIES HOLDINGS IN	0.44	1.00	34.23	Inf Tech
FINGERPRINT CARDS AB-B	0.38	0.58	80.07	Inf Tech
SWITCH INC - A	0.37	1.34	29.48	Inf Tech
EBARA CORP	0.35	0.66	52.14	Industrials
NOVATEK MICROELECTRONICS COR	0.32	0.41	29.46	Inf Tech
BINGO INDUSTRIES LTD	0.30	0.35	32.04	Industrials
OTHER POSITIVE CONTRIBUTORS	10.92	60.11		
<b>TOTAL</b>	<b>15.38</b>	<b>69.37</b>		

**Stock selection: negative contributors (in USD, %)**

Name	Stock selection	Average Weight	Stock Performance	GICS Sector
POWERCELL SWEDEN AB	-0.43	1.34	-33.32	Industrials
BLUE PRISM GROUP PLC	-0.39	0.51	-52.38	Inf Tech
FUELCELL ENERGY INC	-0.26	0.28	-47.46	Industrials
KMW CO LTD	-0.25	0.31	-25.70	Inf Tech
CIA DE SANEAMENTO DO PA-UNIT	-0.25	0.28	-27.85	Utilities
QUALYS INC	-0.24	1.44	-17.38	Inf Tech
ALARM.COM HOLDINGS INC	-0.24	0.46	-15.05	Inf Tech
TENABLE HOLDINGS INC	-0.22	0.86	-20.88	Inf Tech
CIA SANEAMENTO DO PARANA-PRF	-0.22	0.28	-26.36	Utilities
CHECK POINT SOFTWARE TECH	-0.18	0.29	-17.06	Inf Tech
OTHER NEGATIVE CONTRIBUTORS	-2.26s	23.04		
<b>TOTAL</b>	<b>-5.12</b>	<b>29.10</b>		

Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Data as at 30/06/2021.

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\* Please refer to the glossary section in page 13.

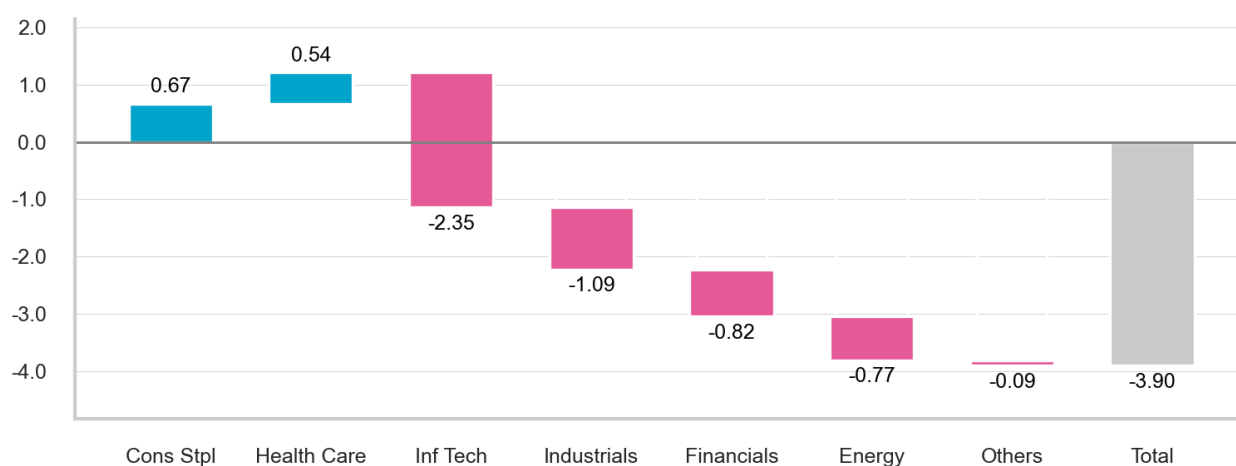
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## Performance attribution vs MSCI World\* (Year-to-date)

## Performance attribution breakdown (in USD, %)

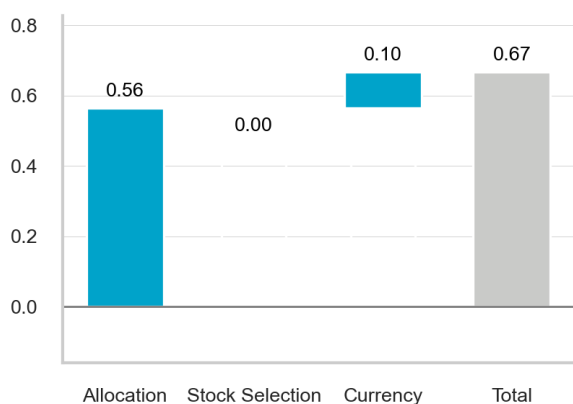
	Ytd perf	Avg wgt	Allocation	Selection	Currency	Total Attribution	Residual
<b>MSCI Smart Cities</b>	<b>9.21</b>	<b>100.00</b>	<b>-1.71</b>	<b>-1.93</b>	<b>-0.26</b>	<b>-3.90</b>	<b>0.06</b>
Cons Stpl	N/A	0.00	0.56	0.00	0.10	0.67	
Health Care	N/A	0.00	0.38	0.00	0.16	0.54	
Cons Disc	N/A	0.00	0.30	0.00	0.18	0.47	
Materials	26.95	1.86	-0.54	0.55	0.06	0.08	
Real Estate	N/A	0.00	-0.10	0.00	0.03	-0.07	
Comm Svcs	10.28	7.29	0.20	-0.57	0.11	-0.25	
Utilities	-0.39	5.97	-0.24	0.08	-0.17	-0.33	
Energy	-5.01	1.26	0.22	-1.00	0.01	-0.77	
Financials	N/A	0.00	-0.95	0.00	0.13	-0.82	
Industrials	10.10	32.40	-0.44	-0.17	-0.48	-1.09	
Inf Tech	9.03	51.21	-1.12	-0.83	-0.40	-2.35	

## Performance attribution by GICS sectors (in USD, %)

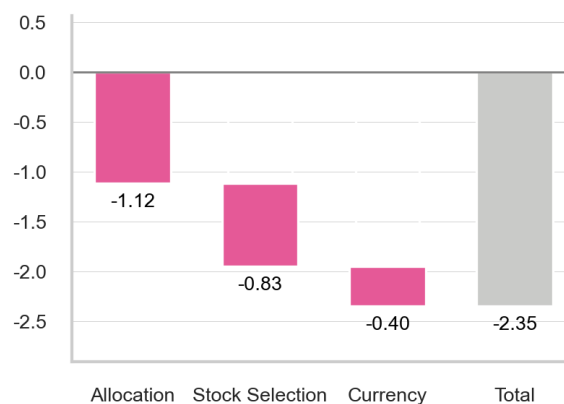


## Performance attribution breakdown (in USD, %)

## Top GICS sector: Consumer Staples



## Worst GICS sector: Information Technology



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## Stock selection analysis vs MSCI World\* (Year-to-date)

## Performance attribution breakdown (in USD, %)

Attribution decomposition	
Stock selection: positive contributors	6.71
Stock selection: negative contributors	-8.64
<b>Total selection effect</b>	<b>-1.93</b>
Allocation	-1.71
Currency	-0.26
<b>Total Attribution</b>	<b>-3.90</b>

## Stock selection: positive contributors (in USD, %)

Name	Stock selection	Average Weight	Average Weight Difference	Stock Performance	GICS Sector
APPLE INC	0.43	0.00	-4.02	3.45	Inf Tech
INTERFOR CORP	0.40	0.66	0.66	40.71	Materials
FORTINET INC	0.26	1.67	1.62	60.36	Inf Tech
CANFOR CORP	0.18	0.58	0.58	26.91	Materials
DIALOG SEMICONDUCTOR PLC	0.18	1.03	1.03	42.17	Inf Tech
CODAN LTD	0.15	1.54	1.54	16.65	Inf Tech
FINGERPRINT CARDS AB-B	0.15	0.58	0.58	80.07	Inf Tech
NOVATEK MICROELECTRONICS	0.14	0.41	0.41	29.46	Inf Tech
BLACKBERRY LTD	0.14	0.67	0.66	84.59	Inf Tech
WALT DISNEY CO/THE	0.13	0.00	-0.60	-2.99	Comm Svcs
OTHER POSITIVE CONTRIBUTORS	4.55	37.91	17.03		
<b>TOTAL</b>	<b>6.71</b>	<b>45.06</b>	<b>19.51</b>		

## Stock selection: negative contributors (in USD, %)

Name	Stock selection	Average Weight	Average Weight Difference	Stock Performance	GICS Sector
RENEWABLE ENERGY GROUP INC	-0.86	1.01	1.01	-11.97	Energy
MICROSOFT CORP	-0.26	0.00	-3.19	22.19	Inf Tech
ALPHABET INC-CL C	-0.25	0.00	-1.18	43.06	Comm Svcs
NVIDIA CORP	-0.24	0.00	-0.66	53.28	Inf Tech
ALPHABET INC-CL A	-0.22	0.00	-1.18	39.32	Comm Svcs
QUALYS INC	-0.21	1.44	1.44	-17.38	Inf Tech
POWERCELL SWEDEN AB	-0.21	1.34	1.34	-33.32	Industrials
BLUE PRISM GROUP PLC	-0.21	0.51	0.51	-52.38	Inf Tech
TENABLE HOLDINGS INC	-0.15	0.86	0.86	-20.88	Inf Tech
NETLINK NBN TRUST	-0.15	0.65	0.65	-0.66	Comm Svcs
OTHER NEGATIVE CONTRIBUTORS	-5.89	49.12	28.92		
<b>TOTAL</b>	<b>-8.64</b>	<b>54.93</b>	<b>28.52</b>		

Source for all data unless otherwise indicated: Bloomberg, Lyxor International Asset Management. Data as at 30/06/2021.

Past performance is not indicative of future returns.

\* Please refer to the glossary section in page 13.

**MARKETING DOCUMENT - FOR PROFESSIONAL AND QUALIFIED INVESTORS ONLY****Index definition**

Index exposure	Index name	Bloomberg ticker
MSCI ACWI IMI Smart Cities ESG Filtered Index	The MSCI Smart Cities index aims to represent the performance of companies expected to derive significant revenue from areas like smart connectivity (IoT), smart buildings, smart homes, smart safety and security, smart mobility, smart waste and water management, and smart energy and grids. The index methodology employs a set of key words of theme-related products, services and concepts built using natural language processing and data analysis techniques. These key words help identify relevant companies based on the proportion of revenue that can be linked to the Smart Cities theme. Annually, the expression of the high-level index objective and associated sub-themes are reviewed with the consultative input of a thematic industry expert retained by MSCI. The index is filtered based on MSCI ESG Ratings, controversy scores and certain business activities, with final stock weights based on a combined score of three fundamental metrics: 1-year sales growth, Return on Invested Capital, and % sales spent on R&D and Capex.	MXACSMRT Index

**Glossary****Active Risk decomposition analysis**

Analysis of the index ex-ante risk (i.e. predicted tracking error). Tracking errors are annualised volatilities of active returns, expressed in percentages. The analysis can give two sets of information:

- It can decompose this tracking error into isolated tracking errors (Risk contributions) attributed to different risk model factors and Non-factor (i.e. stock picking). The factors used are driven by the risk model of choice. Generally speaking, for equities these include the market, country, industry and style factors. For fixed income, these include curve and spread factors. For global portfolios, it also includes currency factors.
- It can also give you the active exposure of the index to a specific factor.

This analysis can be drilled down into sub factors (see Style sub factors definition below).

**Total return performance attribution**

Allocation effect: active return that can be attributed to asset allocation bets (e.g. under or overweighting a specific sector). It is the difference between the portfolio and benchmark sector weights times the difference between the benchmark and the benchmark total return.

Currency effect: active return that can be attributed to currency allocation bets (e.g. under or overweighting a currency).

Selection effect: active return that can be attributed to security selection within a specific sector (e.g. choosing different securities within a grouping from those in the benchmark). It is the difference between the portfolio and benchmark sectorial returns times the benchmark sector weights.

Interaction effect: active return that can be attributed to simultaneously making both an allocation and security selection bet. In this analysis, this term is added to allocation effect for simplicity purposes.

Residual: the unexplained segment of the relative excess return between the index and the benchmark (e.g. not explained by the attribution performance).

Total attribution: total active return. It is equal to the sum of the allocation, selection, intersection and currency effects.

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## MARKETING DOCUMENT - FOR PROFESSIONAL AND QUALIFIED INVESTORS ONLY

## Bloomberg Style sub factors definitions

Style factor	Definition	Calculation
<b>Momentum</b>	Separates stocks that have outperformed over the past year and those that have underperformed.	Cumulative return over one year (averaged), skipping the most recent two weeks to mitigate the price reversal effect.
<b>Value</b>	Composite metric that differentiates "rich" and "cheap" stocks. Bloomberg combines fundamental and analyst consensus data to calculate this factor.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• Book to Price (13%)</li> <li>• Earnings to Price (19%)</li> <li>• Cash Flow to Price (18%)</li> <li>• Sales / EV (10%)</li> <li>• EBITDA / EV (21%)</li> <li>• Forecast Earnings to Price (19%)</li> </ul>
<b>Dividend Yield (DivYld)</b>	Another dimension of value, but distinct enough to be a standalone factor.	Most recently announced net dividend (annualised) divided by the current market price.
<b>Size</b>	Composite metric distinguishing between large and small stocks.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• log(Market Capitalisation) (31%)</li> <li>• log(Sales) (34%)</li> <li>• log(Total Assets) (35%)</li> </ul>
<b>Trading Activity</b>	Turnover based measure. Bloomberg focuses on turnover which is trading volume normalised by shares outstanding. This indirectly controls for the Size effect.	The exponential weighted average (EWMA) of the ratio of shares traded to shares outstanding (where the average is over 2 years - 504 trading days).
<b>Earnings Variability (EarnVariab)</b>	Gauges how consistent earnings, cash flows, and sales have been in recent years.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• Earnings Volatility to Total Assets (34%)</li> <li>• Cash Flow Volatility to Total Assets (35%)</li> <li>• Sales Volatility to Total Assets (31%)</li> </ul>
<b>Profitability (Profit)</b>	Studies firms' profit margins to differentiate between money makers and money losers.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• Return on Equity (26%)</li> <li>• Return on Assets (28%)</li> <li>• Return on Capital Employed (28%)</li> <li>• EBITDA Margin (18%)</li> </ul>
<b>Volatility</b>	Differentiates more volatile stocks and less volatile ones by quantifying "volatile" from several different angles.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• Rolling Volatility = Return volatility over latest 252 trading days (29%)</li> <li>• Rolling CAPM Beta = Regression coefficient from the rolling window regression of stock returns on local index returns (18%)</li> <li>• Historical Sigma = Residual volatility from the rolling window regression of stock returns on local index returns (28%)</li> <li>• Cumulative Range = The ratio of maximum and minimum stock price over the previous year (25%)</li> </ul>
<b>Growth</b>	Aims to capture the difference between high and low growers by using historical fundamental and forward-looking analyst data.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• Total Asset Growth (23%)</li> <li>• Sales Growth (25%)</li> <li>• Earnings Growth (18%)</li> <li>• Forecast of Earnings Growth (14%)</li> <li>• Forecast of Sales Growth (20%)</li> </ul>
<b>Leverage</b>	Composite metric to gauge a firm's level of leverage.	Combination of the following descriptors: <ul style="list-style-type: none"> <li>• Book Leverage (34%)</li> <li>• Market Leverage (33%)</li> <li>• Debt to Total Assets (33%)</li> </ul>

**MARKETING DOCUMENT - FOR PROFESSIONAL AND QUALIFIED INVESTORS ONLY****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](http://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. In-line with UCITS guidelines, the exposure to a swap counterparty cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk if they use a securities lending program.

**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**

Some ETFs, e.g. 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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