Preparing for the investor of tomorrow

Product enhancement programme

Why is Lyxor changing the range now?

The ETF market is growing faster than ever before. We too are growing fast, capturing nearly €8bn in new assets this year, and becoming Europe's second largest provider*. This is all thanks to our investors who have loyally supported us for more than 16 years.

As we look to the future, our challenge is to ensure we keep pace with the changing needs of our investors. The market is expanding, attracting new investors from new countries every day. Investors from right across Europe, from institutions to retail, are flocking to ETFs. Each has specific needs we need to meet.

New regulations like MIFID 2 and PRIPS are fuelling this rise, attracting new clients like wealth managers to the market. We have to adapt to their needs and ensure they have the necessary tools to satisfy their clients.

The changes we are making now will ensure our range is perfectly adapted to the needs of all our clients. It is critical for me that every investor can find the exposure they want, in a format that is easy to buy, hold and sell.

What are the main changes Lyxor is making to the range?

We are holding nothing back in our efforts to prepare our range for the future. We have assessed every aspect; from fund structure and domiciliation, to replication and liquidity. We are even re-assessing the range in order to remove funds that no longer suit the market.

Re-wrapping ETFs	Moving to physical	Enhancing liquidity	Fund liquidations
Moving away from FCPs	Achieving the best of both worlds	Concentrating liquidity on the primary share class	Removing unpopular funds

All the changes we are making will ensure that we can better serve our investors. Not just now, but for years to come.

The ETF market is more diverse than ever before. We are making the changes now to ensure our ETFs meet the needs of every investor.

Arnaud Llinas,
Head of ETFs & Indexing

Contact us
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Re-wrapping our ETFs

Why are you moving away from FCPs?

The change in structure is to help address the tax concerns of the wealth management sector. We find these investors tend to steer away from FCPs, opting instead for SICAVs, which are much simpler for investors from a tax and accounting perspective.

By eliminating FCPs from the range, and using solely Luxembourg and French SICAVs, we can ensure our range is universally appealing to all types of investor, in all geographies.

By the end of 2018 we will have no FCPs left in the range, making it simpler for all types of investor.

All FCPs will be moved to either a Luxembourg or French SICAV, which are much simpler from a tax and accounting perspective.

What is the advantage of the SICAV structure?

As well as offering greater simplicity to international investors in terms of tax and accounting, the governance structure and ability of a SICAV to appoint an independent panel of directors means they can meet the increasingly stringent safeguard requirements of the wealth management sector today, and into the future.

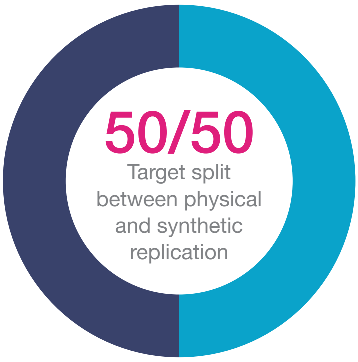
When will the changes take place?

The process has already begun. We moved the first batch to Luxembourg on September 7th, 2017. We will continue a controlled rollout in batches throughout 2017 and into 2018. This way we can ensure absolute care and minimum disruption for investors.

Moving more to physical

Why are you switching more funds to physical replication?

What is important to us is creating high quality funds that track precisely, and trade efficiently regardless of asset class, region or investment style. To help do this we continue to switch funds to physical replication where we believe it can improve performance.



Our focus on ETF efficiency means that we will always take a pragmatic approach to replication.

How will this affect the range?

We've flagged 10 ETFs with combined assets of €4bn for switching over the next 12 months. This is simply the next step in our evolution towards a truly balanced model where simple, liquid exposures are tracked physically, and complex or less liquid strategies or exposures use synthetic replication.

In every case we let the index determine what we do. Every index is different and each fund needs to replicate the way it will deliver the best performance to investors.

Will you move all funds to physical replication?

It is our abilities in synthetic replication that allow us to launch quickly and access parts of the market that simply can't be reached physically. Without synthetic replication we would be unable to offer investors the range of possibilities that we do today, and we can't accept that.

As no one method can deliver the best performance in every case, we have to be pragmatic and let the index determine which way we go.

Our best of both worlds approach is designed to deliver the best possible performance for every index we track.

Enhancing liquidity

How are you planning to improve liquidity?

Liquidity is a key part of an ETF's overall efficiency, and plays an essential role in our bid to reduce trading costs to a minimum. This is an area where Lyxor typically excels. We're number 2 for liquidity in Europe, capturing almost 1 in every 6 euros traded on exchange.

Traditionally we created multiple fund share classes, each with a different currency. These share classes traded individually on separate exchanges that were not fungible on the secondary market. As such, investors who bought the secondary share class did not benefit from the size or liquidity of the larger main share class, and there was no flexibility to trade across exchanges.

To enhance liquidity and streamline cross-border trading, we are merging share classes on ETFs within the main share class. By doing this we can pool liquidity into the main share class, helping to increase liquidity and reduce spreads for investors.

We have already done this successfully on 6 of our funds, and will continue with further mergers between now and quarter one of 2018.

> We are merging share classes to pool liquidity and reduce spreads for investors.

> Merging share classes doesn't create any additional currency risk for investors to be concerned about.

How could this impact investors?

The main thing you could see is a change in ISIN. This will only happen if you hold the secondary share class as it will merge into the main share class. The change in share class currency does not affect the trading or settlement currency as these will remain the same.

To further reduce disruption for investors trading in other currencies than the main share class, we will continue to disseminate multi-currency equivalent NAV values on Bloomberg.

Fund liquidations

Why are you liquidating funds?

Innovation is in our DNA at Lyxor. We have been pioneering new market exposures and investment strategies since the market began at the turn of the century.

To help us continue our journey of discovery, and to fuel new innovations, we will be liquidating 11 ETFs from our current range. This will allow us to continue our investment into new strategies and exposures, helping investors to exploit opportunities in the markets.

Investors in the affected ETFs will be repaid based on the value of the ETFs on their **Final NAV Calculation Date**.

We continually push for newer and better ways for you and your clients to access the markets.

We take a long-term view, and only liquidate funds that fail to gain investor interest after 2 years.

How do you decide if a fund is to be liquidated?

For an ETF to be considered for liquidation it must meet the following criteria:

- Launched more than 2 years ago
- Holds less than EUR 10m in Assets Under Management
- Has traded less than EUR 100k per day on average over the last 3 months

Following these guidelines we can ensure a long term view is taken for new products, and funds will only be removed from the range if they fail to gather enough interest.

Are further liquidations planned?

No further liquidations are planned at this point. However, we will continually monitor the range according to the policy set out above. Our aim is to communicate the funds identified for liquidation at least 3 months prior to liquidation. You can keep an eye on our website to find our latest announcements.

*Source: Lyxor International Asset Management. Data as of September 2017.