

# SOLACTIVE ISS EUROPE GOVERNANCE SELECT 50 INDEX



MARKETING COMMUNICATION | FOR PROFESSIONAL CLIENTS ONLY | JULY 2020

ALPHA | BETA | **ENHANCED BETA**

The Solactive ISS Europe Governance Select 50 Index provides exposure to a selection of 50 European companies with an ISS (Institutional Shareholders Services) driven corporate governance structure.

CURRENCY	TYPE OF INDEX	BLOOMBERG CODE	LIVE DATE
EUR	Price Return	SOGOVP Index	10 February 2020

## GOVERNANCE: THE ESG PERFORMANCE DRIVER

Corporate governance is a way of handling “the separation of ownership and control”, where managers of corporations may not have incentives to act in their shareholders’ best interests. Corporate governance as a concept includes the separation of roles and responsibilities, communication channels, and behavior between shareholders, board(s) of directors and the CEO.

“Under the implementation of Environmental Social and Governance (ESG) criteria, the governance factor G is naturally good and does enhance returns, also because it is related to the quality factor. The positive signal of G may decay into noise after inclusion of E and S.”

“Various governance variables have a positive effect on the likelihood that companies improve their financial and non-financial performance, such as board independence, demographic diversity, remuneration, CEO characteristics, and oversight and ownership structure.”

Understanding the noise that comes with ESG investing, CFM, Nov. 2018



Good Governance driving Corporate Performance, Deloitte, Dec. 2016

## GET EXPOSURE TO EUROPEAN COMPANIES WITH THE BEST GOVERNANCE SCORE...

The Solactive ISS Europe Governance Select 50 PR Index offers investors the opportunity to incorporate non-financial data into investments seeking to generate enhanced performance. The Index uses ISS ESG Governance QualityScore in its methodology, a data-driven scoring and screening solution designed to help investors monitor portfolio company governance at an overall company level.



### GOVERNANCE SCORE

On a monthly basis, each eligible company is rated across 4 equally weighted criteria: Board Structure, Shareholder Rights, Compensation, and Audit Practices. The top 50% of companies by aggregated Governance Score are selected from the initial universe of eligible companies.

- Board Composition
- Composition of the Committees
- Board Practices
- Board Policies
- Related Party Transactions
- Controversies

A balanced number of independent board members may improve the board’s objectivity and ability to represent multiple points of view, while not slowing down the decision making process.

- Pay For Performance
- Non-Performance Based Pay
- Use Of Equity
- Equity Risk Mitigation
- Communications and Disclosure
- Termination
- Controversies

Presence of a performance-based pay or other incentive plans for executives could provide incentives for executives to enhance shareholder value creation.

### Board Structure

### Shareholder Rights

- One Share One Vote
- Takeover Defenses
- Other Issues
- Meeting and Voting Related Issues

Companies with low voting rights held by public investors or with weighted voting right structures may incur higher cost of capital on future fund raising.

### Compensation

### Audit Practices

- External Auditor
- Audit and Accounting
- Controversies
- Other Issues

External audit is important for reinforcing the credibility of a company’s financial statements and general financial health. Limiting auditor tenure may ensure auditor independence, reduce the audit failure risks and protect audit quality.

## ... AND WITH NO SIGNIFICANT INVOLVEMENT IN CONTROVERSIAL ACTIVITIES

The Index excludes companies involved in UN\* Global compact violations or that derive more than 10% of their revenue from the following activities:



Alcohol



Tobacco



Military equipment



Gambling



Pornography

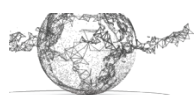


Nuclear Power



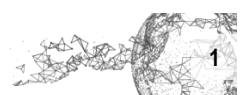
Coal

\*United Nations

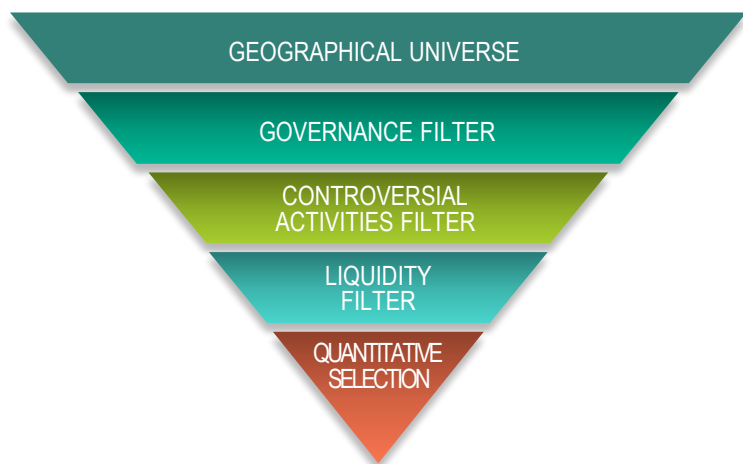


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## OVERVIEW OF THE SELECTION PROCESS

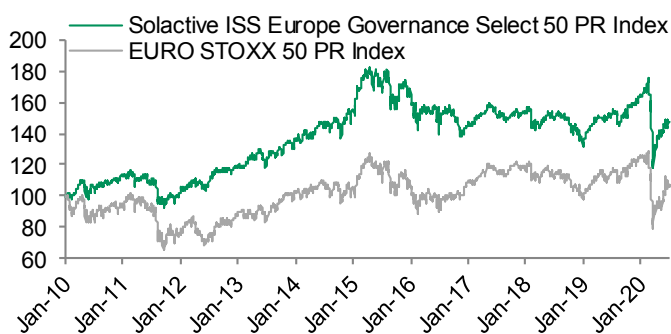


50 STOCKS

MONTHLY REBALANCING

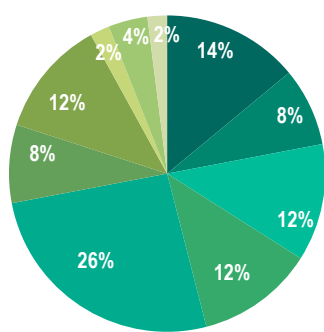
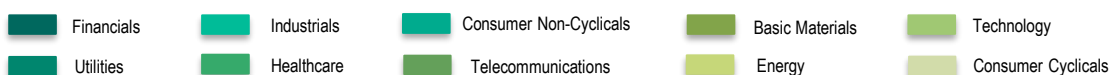
- **European listed stocks**  
Included in the Solactive Europe 600 Index
- **ISS ESG Governance QualityScore**  
Selection of the top 50% companies by Board Structure, Compensation, Shareholder Rights, and Audit Practices
- **Controversial activities**  
Exclusion of companies with significant involvement in controversial activities such as tobacco, gambling, pornography, alcohol, military equipment, nuclear power, coal or in UN Global compact violations
- **Liquid stocks**  
> 5 million EUR (1-month Average Daily Traded Value)
- **Dividend and Volatility filtering**
  - Remove the top 33% stocks with the highest 6-month price volatility
  - Select up to 25 companies paying a dividend in the coming month
  - Complete the selection to 50 stocks with the lowest 6-month price volatility
  - The above should be done while respecting a sector cap of 30% and a country cap of 50%.

## INDEX PERFORMANCE AND COMPOSITION



Jan. 10 - Jul. 20	Solactive ISS Europe Governance Select 50 PR Index	EURO STOXX 50 PR Index
Annualised Performance	3.95%	0.48%
Annualised Volatility	14.28%	21.05%
Sharpe Ratio	0.28	0.02
Correlation	0.85	-
Max Drawdown	-35.26%	-38.27%

Sources: Bloomberg, BNP Paribas as of 31 July 2020. Performance of the Solactive ISS Europe Governance Select 50 PR Index (in EUR). Comparative Index: EURO STOXX 50 PR Index (in EUR). Bloomberg Code: <SX5E Index>. Index level rebased at 100% on 1 January 2010. Simulated or historical past performance is not an indicator of future performance.

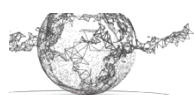


UNILEVER	TESCO	KNORR BREMSE	GLAXOSMITHKLINE	NATIONAL GRID
RECKITT BENCKISER GROUP	TATE & LYLE	TELEPERFORMANCE	NOVARTIS 'R'	E ON N
KERRY GROUP 'A'	SAINSBURY J	SPIRAX-SARCO ENGR.	CRODA INTERNATIONAL	SUNRISE COMMUNICATIONS
HOMESERVE	KOJAMO	PENNON GROUP	L AIR LQE.SC.ANYME. POUR L ETUDE ET L EPXTN.	TELIA COMPANY
CHRISTIAN HANSEN HOLDING	SEGRO	WOLTERS KLUWER	GIVAUDAN 'N'	TELE2 B
KONINKLIJKE AHOLD DELHAIZE	ADMIRAL GROUP	RELX	IMOD GROUP	SWISSCOM 'R'
COCA-COLA HBC	GJENSIDIGE FORSIKRING	PHILIPS ELTN.KONINKLIJKE	DSM KONINKLIJKE	SAGE GROUP
NESTLE 'N'	VONOVIA	CONVATEC GROUP	UPM-KYMMENE	SCOUT24
MORRISON(WM)SPMKTS.	ASSURA	ASTRAZENECA	ORSTED	KONINKLIJKE VOPAK
HEINEKEN	PRIMARY HEALTH PROPS.	DECHRA PHARMACEUTICALS	SEVERN TRENT	B&M EUROPEAN VAL.RET.

Sources: BNP Paribas. Index composition as of 31 July 2020.

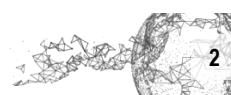
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