

# SOLACTIVE ISS EUROPE GOVERNANCE SELECT 50 INDEX

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CORPORATE & INSTITUTIONAL BANKING

GLOBAL MARKETS

JULY 2020



**BNP PARIBAS**

The bank for a changing world

# IN A NUTSHELL



## OBJECTIVE

The Solactive ISS Europe Governance Select 50 PR Index offers exposure to a selection of 50 European companies with an ISS (Institutional Shareholders Services) driven corporate governance structure, seeking to generate over-performance compared to the overall European equity market.



## STRATEGY

Stocks selection is based on 4 equally weighted governance criteria which are believed to enhance returns, in addition to no involvement in controversial activities, liquidity, volatility and dividend constraints.



## GOVERNANCE SCORING

The Index uses the ISS ESG Governance QualityScore in its methodology, a data-driven scoring and screening solution designed to help investors monitor companies' governance quality and assess their governance risk.



## PROVEN EXPERTISE



Solactive AG, one of the market leaders in the indexing industry, calculates and publishes the index.



Institutional Shareholders Services (ISS) is a leading provider of corporate governance and responsible investment solutions.



**BNP PARIBAS**

BNP Paribas acts as the distributor by creating investment products linked to the index.



**BNP PARIBAS**

The bank for a changing world

01

GOVERNANCE, A KEY  
DIFFERENTIATOR



# THE BENEFITS OF GOOD CORPORATE GOVERNANCE

**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 of directors and the CEO. Various corporate governance elements interact with each other and influence an organisation’s performance.

## WHAT ARE THE OVERALL BENEFITS OF GOOD CORPORATE GOVERNANCE?



INCREASES TRUST

ENCOURAGES POSITIVE BEHAVIOURS

ENHANCES SUSTAINABILITY

REDUCES COST OF CAPITAL

REDUCES CORRUPTION AND MISMANAGEMENT RISKS



*Source: Five Benefits of Good Governance, Monique Legair, November 2016*



# THE ESG PERFORMANCE DRIVER

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## WHAT DOES THE RESEARCH SAY

***“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.”***

*Understanding the noise that comes with ESG investing, CFM, November 2018*

***“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.”***

*Good Governance driving Corporate Performance, Deloitte, December 2016*

***“Companies that rank well below average on good governance characteristics are particularly prone to mismanagement and risk the ability to capitalise on business opportunities over time.”***

*Exploring the G in ESG: The Relationship Between Good Corporate Governance and Stock Performance, S&P Global, April 2018*



# ISS ESG GOVERNANCE QUALITYSCORE

FEATURES OF THE SCORING METHODOLOGY BUILT AND TESTED BY ISS, FOCUSED ON QUANTITATIVE AND QUALITATIVE ASPECTS OF REGIONAL GOVERNANCE BEST PRACTICES:

## EMPLOYS ROBUST GOVERNANCE DATA AND ATTRIBUTES

More than 230 governance factors (questions) analysed



## LEVERAGES ISS' GLOBAL FOOTPRINT AND INDUSTRY LEADERSHIP

Including deep legal and language expertise across key global capital markets



## PROVIDES GLOBAL GOVERNANCE FACTOR COMPARABILITY

Core base of factors that are comparable to other companies globally

## INCORPORATES COMPANY DISCLOSURES

Annual Reports, meeting notices, circulars, etc.

## PRESENTS AT-A-GLANCE RANKINGS RELATIVE TO INDEX AND REGION

Features company-level decile scores, presented as integers from 1 through 10

The governance factors are categorised under four topical categories: Board Structure, Compensation, Shareholder Rights, and Audit Practices. An aggregated governance score is obtained by averaging the final decile scores from these 4 categories.



# ISS ESG GOVERNANCE QUALITYSCORE



## BOARD STRUCTURE

Sub-categories:

- **Board composition** →
- **Composition of the committees**
- **Board practices**
- **Board policies**
- **Related party transactions**
- **Controversies**



**Example for board composition:  
What percentage of the board is independent**



The proportion of independent directors on a board is viewed by many as critical to firm performance. 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.



## COMPENSATION

Sub-categories:

- **Pay for performance**
- **Non-performance based pay**
- **Use of equity**
- **Equity risk mitigation**
- **Communications and Disclosure** →
- **Termination**
- **Controversies**



**What is the level of disclosure on performance measures  
for the short-term incentive plan\* for executives?**



Poor or missing disclosure of the financial basis for performance metrics make it difficult for investors to judge the quality and/or rigor of these metrics. ISS looks into performance measures used in awarding short-term incentives or annual bonuses to executives. Best practice is to disclose the target performance metrics at least on a retrospective basis.

*\*Also often referred to as annual incentives*



# ISS ESG GOVERNANCE QUALITYSCORE



## SHAREHOLDER RIGHTS

Sub-categories:

- **One share one vote** →
- **Takeover defenses**
- **Other issues**
- **Meeting and voting related issues**



**Does the company have classes of stock with different voting rights**



The interests of parties with voting control may not be the same as those of shareholders constituting a majority of the company's outstanding capital. Additionally, research suggests that companies with dual-class capital structures often trade at a discount to similar companies without such structures.



## AUDIT PRACTICES

Sub-categories:

- **External auditor** →
- **Audit and accounting**
- **Controversies**
- **Other issues**



**Did the auditor issue an adverse opinion in the past year**



Auditor opinion reports are critical to ensuring a company's financials are presented correctly and free of material misstatements. An "adverse" auditor opinion is when the auditor believes that no part of the company's financial statements should be relied on.





02

## INDEX METHODOLOGY



# SELECTION PROCESS OVERVIEW

GEOGRAPHICAL UNIVERSE

GOVERNANCE FILTER

CONTROVERSIAL  
ACTIVITIES FILTER

LIQUIDITY FILTER

QUANTITATIVE  
SELECTION

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 average governance score (Board Structure, Compensation, Shareholder Rights, and Audit Practices)

## Controversial activities

Exclusion of companies with significant involvement (more than 10% revenue) 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 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%



# THE LOW VOLATILITY ANOMALY

## LIMITS TO THE CAPITAL ASSET PRICING MODEL

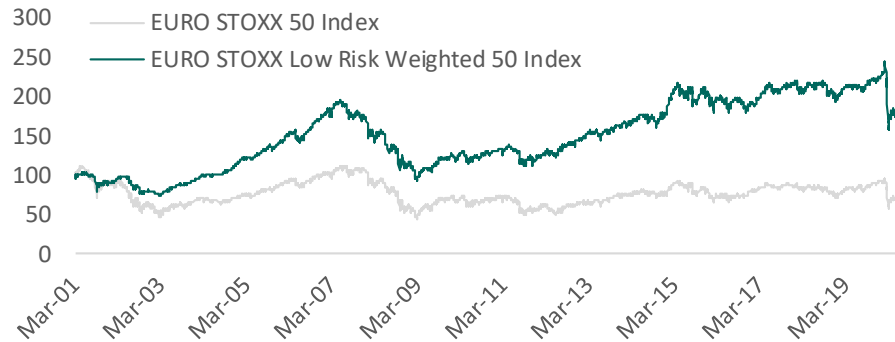
Contrary to the Capital Asset Pricing Model (CAPM) hypothesis, the market has demonstrated a certain number of inefficiencies throughout the years, among which:

- **The irrationality of some investors:** Daniel Kahneman, a Nobel Prize-winning psychologist, considers that individuals' cognitive biases impact decision-making
- **The low volatility anomaly:** securities perceived to have the highest expected returns within a given asset class actually produced lower realized returns than low volatility stocks (see chart)

Different kinds of «players» in the market are attracted by different kinds of stocks:

- Short-term speculators or “lottery players” want to earn money quickly and will bet on volatile stocks, despite the higher risk
- Long-term investors, on the other hand, will look into less volatile stocks, an often more appropriate long-term buy-and-hold strategy that indeed displays a better risk/return profile (see chart)

Source: *The Low Volatility Anomaly: Lottery preferences, Seeking Alpha, July 2015*



Mar. 01 - Jul. 20	EURO STOXX 50 Index	EURO STOXX Low Risk Weighted 50 Index
Annualised Performance	-1.29%	3.49%
Annualised Volatility	23.35%	14.09%
Sharpe Ratio	-	0.25
Correlation	0.88	-
Max Drawdown	-60.50%	-52.33%

Source: Bloomberg, from 19 March 2001 to 31 July 2020. Past performance is not an indicator of future performance.

Low volatility stocks have historically displayed a stronger risk / return profile

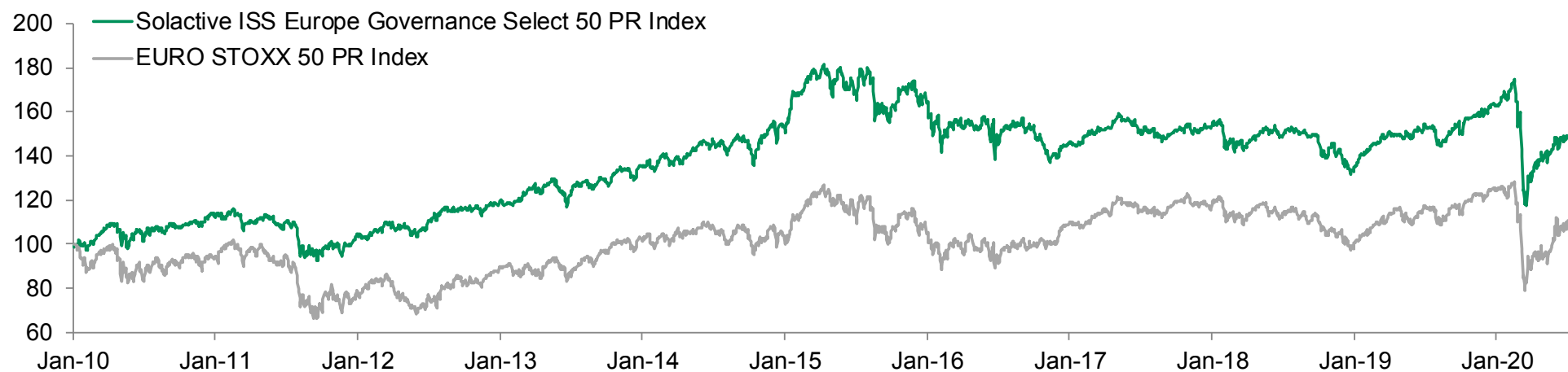


03

PERFORMANCE &  
COMPOSITION



# INDEX PERFORMANCE



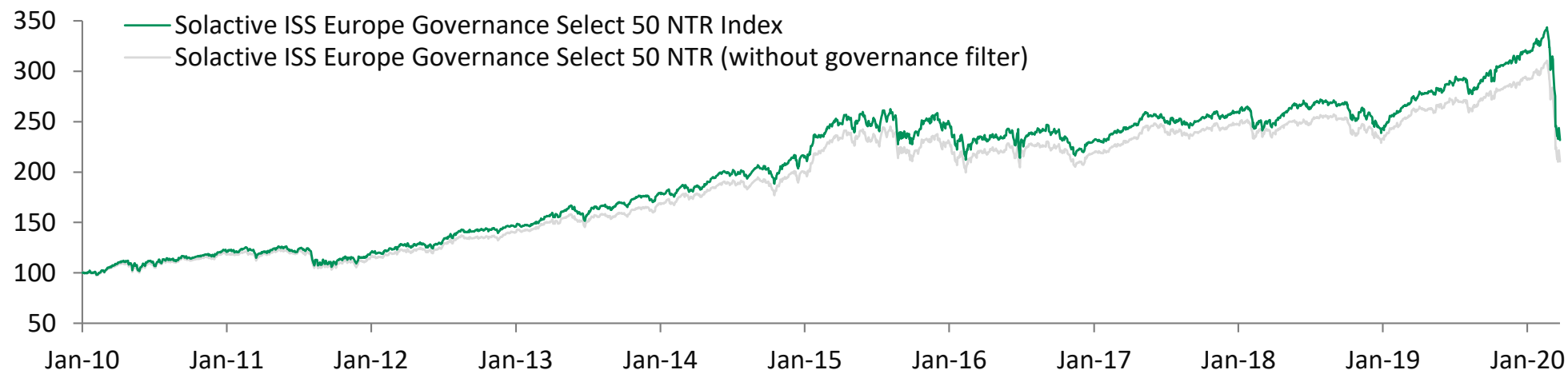
Jan. 10 – Jul. 20	Solactive ISS Europe Governance Select 50 PR Index	EURO STOXX 50 PR Index
Annualised Performance	3.95%	0.48%
Annualised Volatility	14.28%	21.05%
Sharpe Ratio	0.28	0.02
Correlation	0.85	-
Max Drawdown	-35.26%	-38.27%

**This version of the Index is Price Return:** dividends paid on the components of the Index are not reinvested in it. The performance of a Price Return index is lower than that of an equivalent Total Return index (where dividends are reinvested). Sources: Bloomberg, BNP Paribas as of 31 July 2020. Performance of the Solactive ISS Europe Governance Select 50 PR Index. 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.

Currency	Type of Index	Bloomberg Code	Launch Date
EUR	Price Return	SOGOESP Index	10 February 2020



# IMPACT OF THE GOVERNANCE FILTER



Jan. 10 – Mar. 20	Solactive ISS Europe Governance Select 50 Net Total Return Index	Solactive ISS Europe Governance Select 50 Net Total Return (without governance filter)
Annualised Performance	8.57%	7.55%
Annualised Volatility	14.08%	13.41%
Sharpe Ratio	0.61	0.56
Correlation	0.98	-
Maximum Drawdown	-32.53%	-32.34%

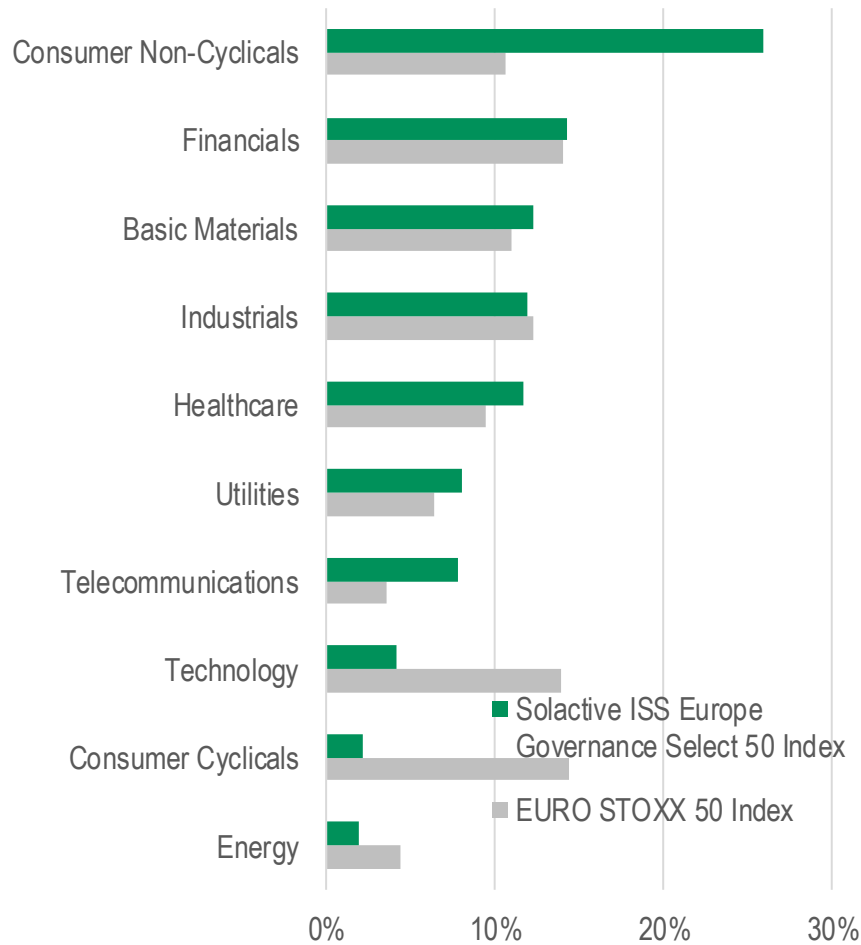
**This version of the Index is Net Total Return:** dividends paid on the components of the Index are reinvested in it. The performance of a Net Total Return index is higher than that of an equivalent Price Return index (where dividends are not reinvested). Sources: Bloomberg, BNP Paribas as of 23 March 2020. Performance of the Solactive ISS Europe Governance Select 50 NTR Index. Index level rebased at 100% on 1 January 2010. Simulated or historical past performance is not an indicator of future performance.

The governance filter has been adding 1% annualised performance on the final selected portfolios.  
Simulated or historical past performance is not an indicator of future performance.

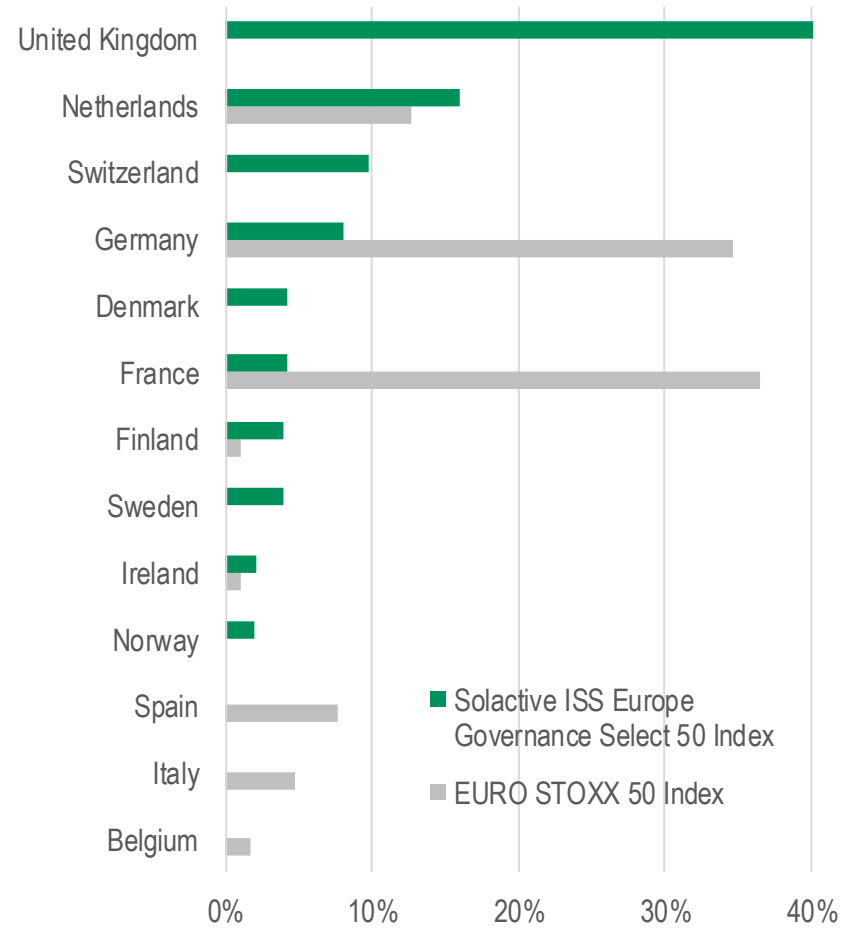


# INDEX SECTOR AND COUNTRY BREAKDOWN

## SECTOR BREAKDOWN



## COUNTRY BREAKDOWN



Source: BNP Paribas, as of 31 July 2020.



# INDEX COMPOSITION (1/2)

Company	Sector	Country	Div. Yield	Volatility	Weight	ISIN	Bloomberg
ORSTED	Utilities	Denmark	1.38%	38.03%	2.23%	DK0060094928	ORSTED DC
KNORR BREMSE	Industrials	Germany	1.66%	38.41%	2.19%	DE000KBX1006	KBX GY
CRODA INTERNATIONAL	Basic Materials	United Kingdom	1.78%	32.54%	2.17%	GB00BJFFLV09	CRDA LN
SAGE GROUP	Technology	United Kingdom	2.64%	38.89%	2.16%	GB00B8C3BL03	SGE LN
KOJAMO	Financials	Finland	1.93%	37.81%	2.15%	FI4000312251	KOJAMO FH
B&M EUROPEAN VAL.RET.	Consumer Cyclical	United Kingdom	2.39%	39.71%	2.14%	LU1072616219	BME LN
TELEPERFORMANCE	Industrials	France	1.14%	55.68%	2.13%	FR0000051807	TEP FP
L AIR LQE.SC.ANYME. POUR L ETUDE ET L EPXTN.	Basic Materials	France	2.13%	38.69%	2.11%	FR0000120073	AI FP
SEGRO	Financials	United Kingdom	2.39%	38.28%	2.09%	GB00B5ZN1N88	SGRO LN
GIVAUDAN 'N'	Basic Materials	Switzerland	1.80%	31.72%	2.09%	CH0010645932	GIVN SE
UNILEVER	Consumer Non-Cyclicals	Netherlands	3.68%	33.13%	2.08%	NL0000388619	UNA NA
ADMIRAL GROUP	Financials	United Kingdom	5.61%	35.16%	2.08%	GB00B02J6398	ADM LN
SPIRAX-SARCO ENGR.	Industrials	United Kingdom	1.19%	39.37%	2.07%	GB00BWFQGN14	SPX LN
IMCD GROUP	Basic Materials	Netherlands	1.14%	37.23%	2.06%	NL0010801007	IMCD NA
PHILIPS ELTN.KONINKLIJKE	Healthcare	Netherlands	2.14%	39.23%	2.05%	NL0000009538	PHIA NA
DSM KONINKLIJKE	Basic Materials	Netherlands	1.98%	33.57%	2.04%	NL0000009827	DSM NA
RECKITT BENCKISER GROUP	Consumer Non-Cyclicals	United Kingdom	2.30%	32.07%	2.04%	GB00B24CGK77	RB/ LN
KERRY GROUP 'A'	Consumer Non-Cyclicals	Ireland	0.80%	37.01%	2.04%	IE0004906560	KYG ID
HOMESERVE	Consumer Non-Cyclicals	United Kingdom	1.94%	54.11%	2.03%	GB00BYTTFB60	HSV LN
CHRISTIAN HANSEN HOLDING	Consumer Non-Cyclicals	Denmark	1.43%	36.43%	2.03%	DK0060227585	CHR DC
CONVATEC GROUP	Healthcare	United Kingdom	2.25%	39.03%	2.02%	GB00BD3VFW73	CTEC LN
KONINKLIJKE AHOLD DELHAIZE	Consumer Non-Cyclicals	Netherlands	3.39%	31.11%	2.02%	NL0011794037	AD NA
SCOUT24	Technology	Germany	1.09%	32.04%	2.01%	DE000A12DM80	G24 GY
GJENSIDIGE FORSIKRING	Financials	Norway	4.85%	36.72%	2.00%	NO0010582521	GJF NO
COCA-COLA HBC	Consumer Non-Cyclicals	United Kingdom	2.47%	56.48%	2.00%	CH0198251305	CCH LN

Source: BNP Paribas, as of 31 July 2020.





# INDEX COMPOSITION (2/2)

Company	Sector	Country	Div. Yield	Volatility	Weight	ISIN	Bloomberg
NESTLE 'N'	Consumer Non-Cyclicals	Switzerland	2.62%	27.44%	2.00%	CH0038863350	NESN SE
ASTRAZENECA	Healthcare	United Kingdom	0.00%	36.64%	1.99%	GB0009895292	AZN LN
MORRISON(WM)SPMKTS.	Consumer Non-Cyclicals	United Kingdom	4.81%	35.42%	1.99%	GB0006043169	MRW LN
VONOVIA	Financials	Germany	3.18%	37.24%	1.98%	DE000A1ML7J1	VNA GY
ASSURA	Financials	United Kingdom	3.77%	39.01%	1.97%	GB00BVGBWW93	AGR LN
SUNRISE COMMUNICATIONS	Telecommunications	Switzerland	0.00%	27.93%	1.97%	CH0267291224	SRCG SE
PRIMARY HEALTH PROPS.	Financials	United Kingdom	0.00%	37.86%	1.97%	GB00BYRJ5J14	PHP LN
SEVERN TRENT	Utilities	United Kingdom	0.00%	37.26%	1.97%	GB00B1FH8J72	SVT LN
HEINEKEN	Consumer Non-Cyclicals	Netherlands	1.70%	35.33%	1.96%	NL0000009165	HEIA NA
TELIA COMPANY	Telecommunications	Sweden	5.50%	38.44%	1.95%	SE0000667925	TELIA SS
DECHRA PHARMACEUTICALS	Healthcare	United Kingdom	0.00%	32.53%	1.95%	GB0009633180	DPH LN
TELE2 B	Telecommunications	Sweden	6.26%	37.88%	1.93%	SE0005190238	TEL2B SS
TESCO	Consumer Non-Cyclicals	United Kingdom	4.15%	30.68%	1.93%	GB0008847096	TSCO LN
KONINKLIJKE VOPAK	Energy	Netherlands	2.52%	33.77%	1.93%	NL0009432491	VPK NA
NATIONAL GRID	Utilities	United Kingdom	5.65%	41.11%	1.93%	GB00BDR05C01	NG/ LN
TATE & LYLE	Consumer Non-Cyclicals	United Kingdom	4.48%	39.07%	1.92%	GB0008754136	TATE LN
SWISSCOM 'R'	Telecommunications	Switzerland	0.00%	32.49%	1.92%	CH0008742519	SCMN SE
PENNON GROUP	Industrials	United Kingdom	3.21%	37.76%	1.91%	GB00B18V8630	PNN LN
E ON N	Utilities	Germany	4.80%	37.47%	1.90%	DE000ENAG999	EOAN GY
WOLTERS KLUWER	Industrials	Netherlands	0.00%	33.82%	1.88%	NL0000395903	WKL NA
SAINSBURY J	Consumer Non-Cyclicals	United Kingdom	5.36%	37.28%	1.87%	GB00B019KW72	SBRY LN
GLAXOSMITHKLINE	Healthcare	United Kingdom	0.00%	33.32%	1.86%	GB0009252882	GSK LN
NOVARTIS 'R'	Healthcare	Switzerland	3.73%	32.06%	1.78%	CH0012005267	NOVN SE
UPM-KYMMENE	Basic Materials	Finland	5.24%	38.96%	1.75%	FI0009005987	UPM FH
RELX	Industrials	United Kingdom	2.62%	38.11%	1.72%	GB00B2B0DG97	REL LN

Source: BNP Paribas, as of 31 July 2020.



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BNP Paribas has positioned itself as a leader in Equity Derivatives, by developing new products that complement investors' traditional portfolios



These products are enhanced by the ability of BNP Paribas to select, hedge, price and trade innovative underlyings

Allocation of the right underlying  
to the right Structured Product

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Solactive is a full service index provider focused in offering reactive, reliable and tailor-made services to financial institutions



Solactive is a Germany-based index provider operating globally  
Foundation date: 2007

Solactive has the ability to develop:

- Value added equity thematic indices: Deep Value, Exporters, Brand Leaders, Low Carbon, etc.
- For all kinds of products: ETF, ETN, Structured Products, etc.

Index Sponsor and  
Calculation Agent

A valuable collaboration, capitalising on complementary skills and standards



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