Digital Economy

Cache is king

- What makes the internet economy so important?
- How the value chain extends to billions of everyday connections
- Why AI-driven investing in digital economy could help future proof your portfolio

Lyxor's Thematic ETFs - March 2020

LYXOR etf
SOCIETE GENERALE GROUP

Preparing for change

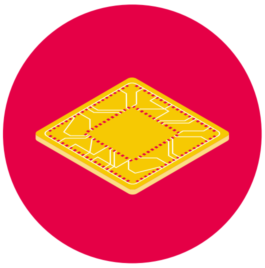
Smart Cities

Digital Economy

Our world is changing. Technological breakthroughs, evolutionary economic forces and the climate emergency are reshaping reality for billions of people. **The question is: will your portfolio keep up?**

At Lyxor, we have identified a series of investment themes we believe will be at the forefront of this new revolution. To access these most powerful of megatrends, we've partnered with data powerhouse MSCI and a board of leading industry experts to build an innovative range of thematic ETFs:

Future Mobility



Disruptive Technology

Millennials

Each of these ETFs combines human insight, cutting edge data science and Artificial Intelligence techniques in a unique way to identify the companies that matter most, and ensure your portfolio stays one step ahead. We use low cost indexing to help maximise your return. And we screen our holdings based on their ESG impact on the world around them.

As a pioneering ETF provider with a history of innovation, we've gone the extra mile to build some truly state-of-the-art funds for a new state of mind. We're incredibly excited about this range and hope you can join us in preparing portfolios for change.

Global e-commerce alone is a fast-growing trillion dollar market, but the full value chain of the digital economy also includes online payments, fintech, cybersecurity, digital advertising and the sharing economy.

Chanchal Samadder
Head of Equities, Lyxor ETF

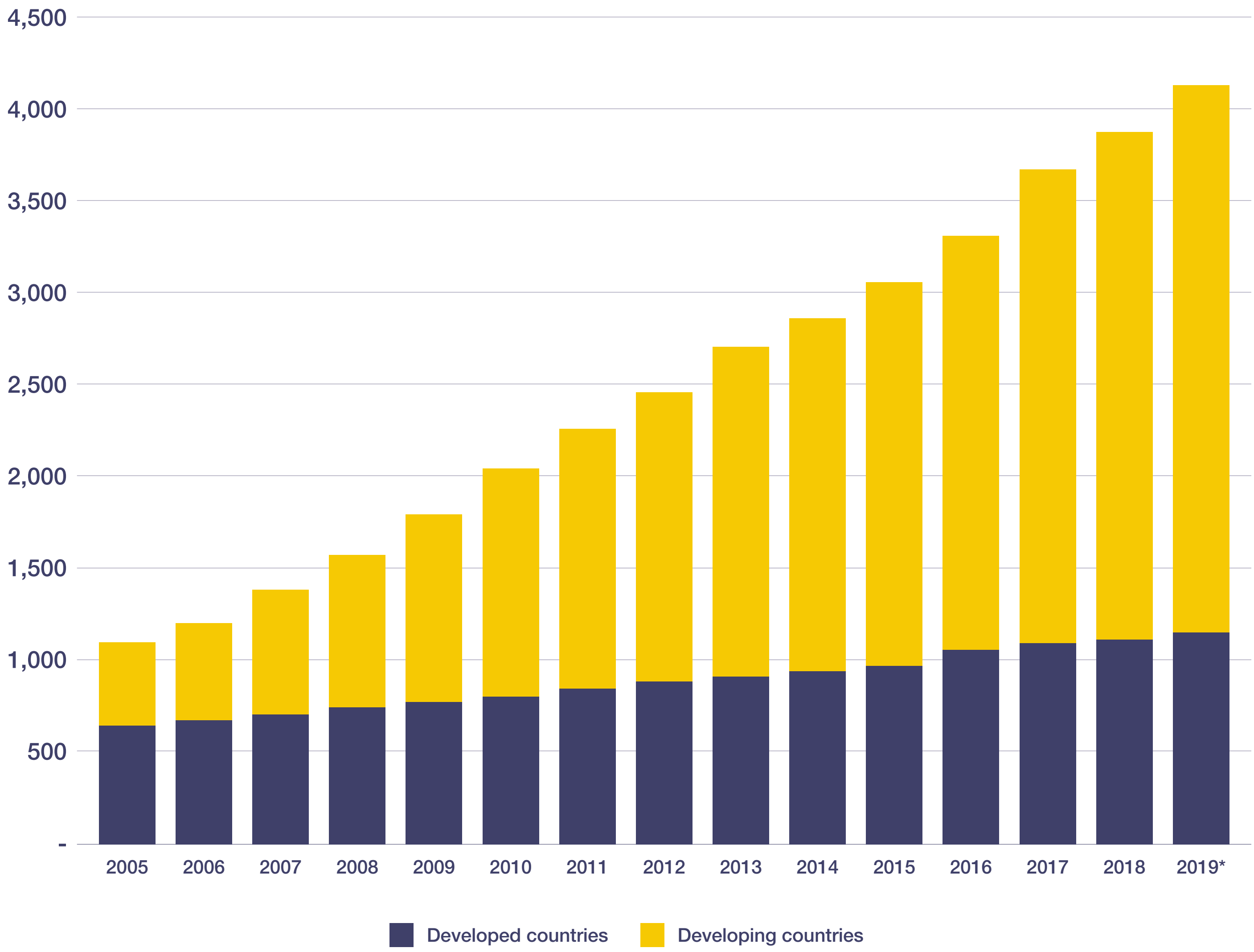
The dawn of the digital age

The digital economy is a broad term for the economic activity that results from online connections between businesses, devices and people. It includes established areas such as e-commerce, online payments and digital advertising, as well as rapidly developing fields such as cybersecurity, financial technology (fintech) and the sharing economy.

Of the different themes captured by our range of thematic ETFs, the digital economy is the one that has already done the most to reshape our world over the past three decades. Almost everything we do has been touched by digitalisation in one way or another: the fact that investors can use online brokers to trade listed securities in a few clicks is a great example of how entire industries have changed since the internet arrived.

Despite that, this revolution is still in its early stages. Almost half the world's population is not yet using the internet[1], most of them living in emerging markets. As these countries become wealthier and their infrastructure improves, the number of internet users is rising rapidly: the total number of users from developing economies has already soared from 400 million in 2005 to more than 3 billion today, with billions more potential users still to join.[2]

Individuals using the internet[2]



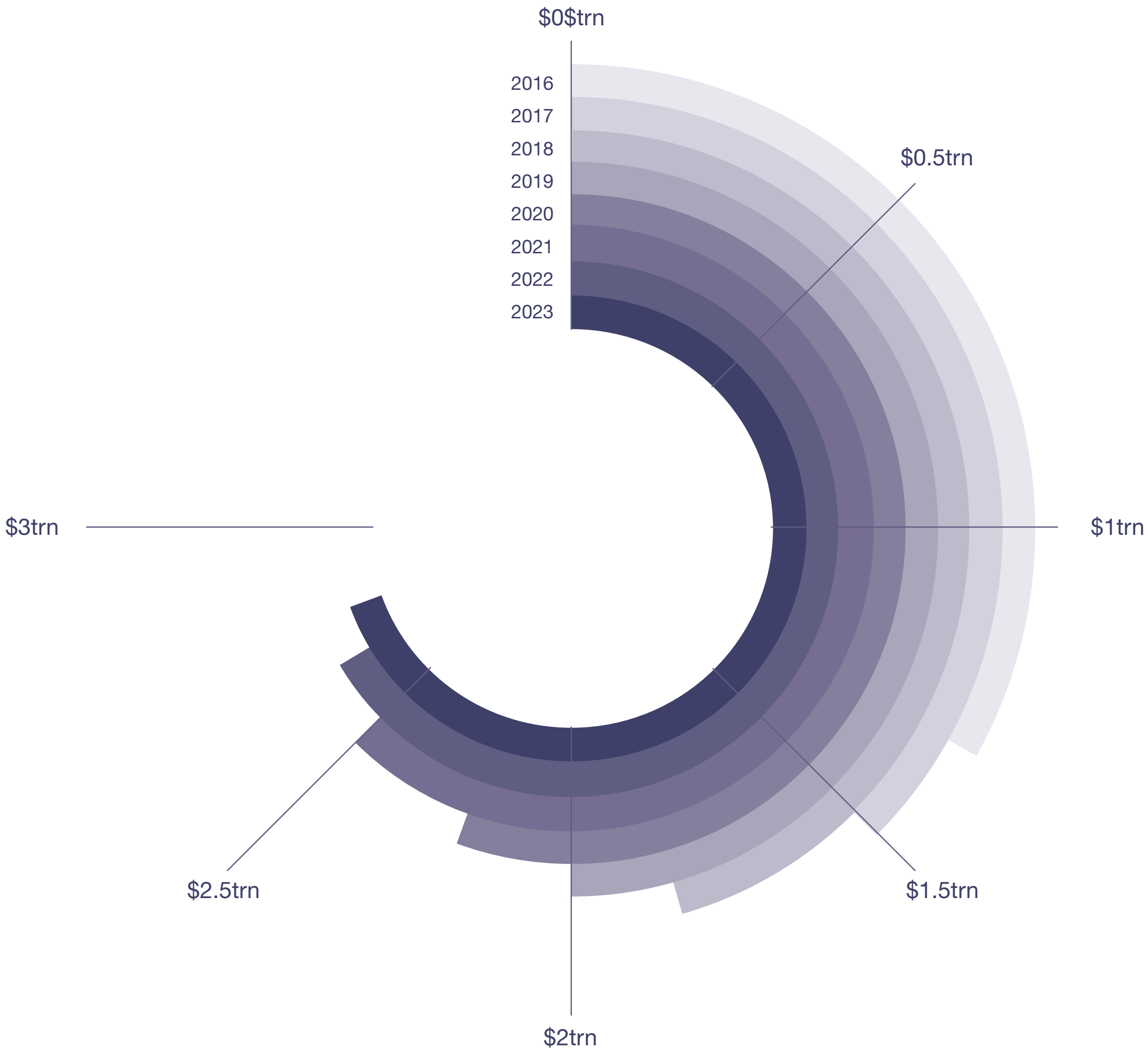
[1]International Telecommunication Union, https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx
[2]International Telecommunication Union, https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx
*Date range from 2005 to 2019. *2019 was an estimate as at time of publication of ITU data in 2019.*

Out with the old

However, it's not just the number of people online that makes the digital economy so exciting – it's how it's upending the way businesses operate and consumers spend money. Time and time again, the internet is destroying old business models and creating new ones, forcing existing companies to change or be swept away.

The most high-profile example of this is online retail. E-commerce is probably the most mature part of the digital economy – and yet even here, there is still plenty of room to grow. The global e-commerce market was worth around $1.8trn last year, and is forecast to grow to $2.8trn by 2023.[3]

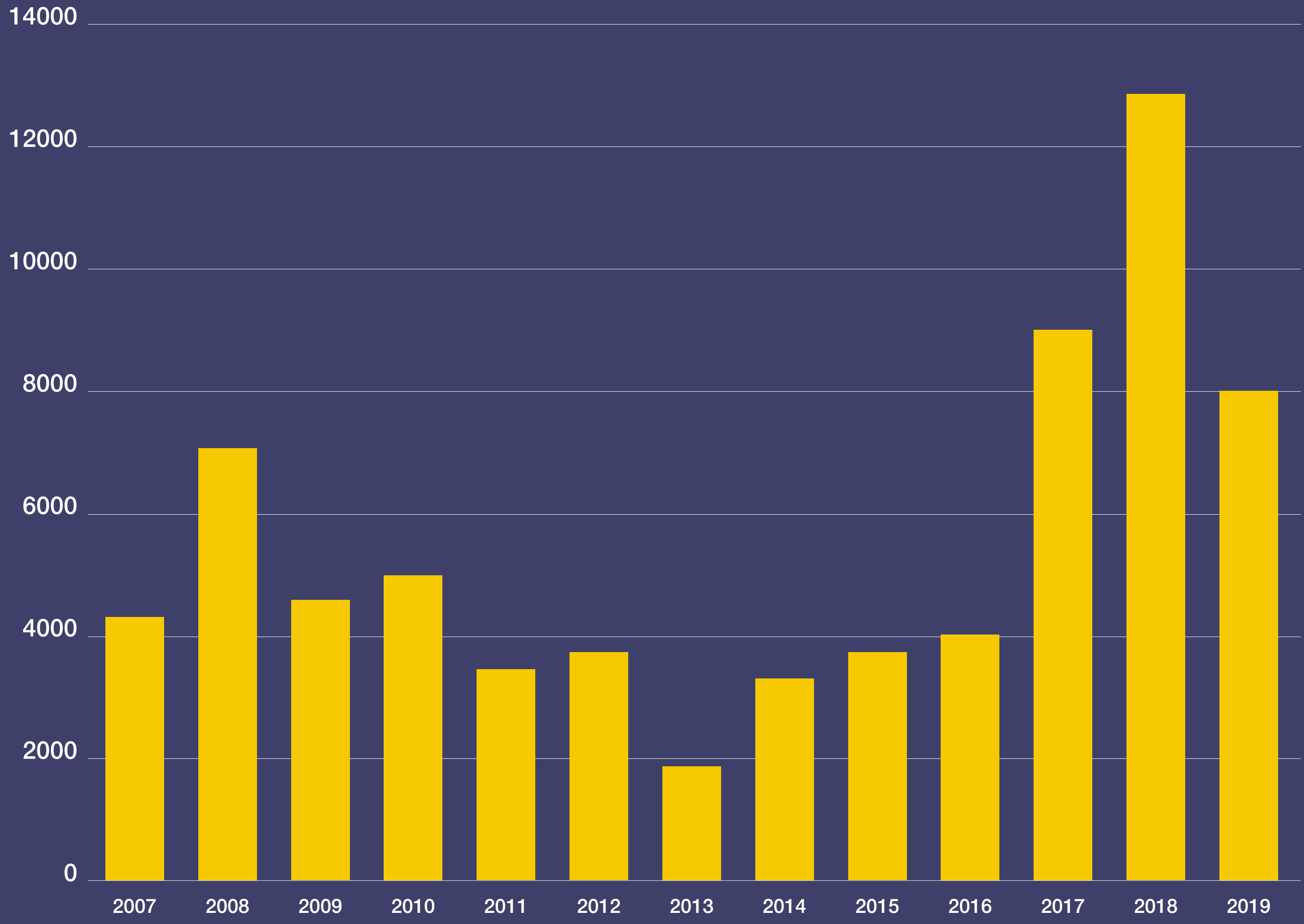
Global e-commerce revenue forecast ($trn)[3]



Yet the success of firms such as Amazon and eBay has come at a cost for traditional retailers. Many long-established firms are being driven out of business by their failure to adapt to this new world. More than 12,000 major retail stores closed in the US alone in 2018.[4]

[3]Statista, July 2019, Digital Economy Compass 2019
[4]Statista, March 2018, Digital Economy Compass 2018

Past and forecast major US chain store closures[4]



Other parts of the digital economy are set to grow even faster. Annual revenue from online ticketing is forecast to grow from $65bn in 2018 to $105bn by 2023. Over the same period, projected revenue from online food delivery could reach $134bn, up from $82bn.[5] Much of this growth is happening in emerging markets such as China and India – where 77% and 66% of users order meals online, compared to just 38% in the UK.[4] Digital payments was already a $3.6trn business in 2018 – but is forecast to grow to more than $6.7trn in the same time. Again, China is leading the way, making up around 35% of the total.[6]

[4]*Statista, March 2018, Digital Economy Compass 2018*
[5,6]*Statista, July 2019, Digital Economy Compass 2019*

The power of platforms

The key characteristic of e-commerce and of many other fast-growing digital services is the power of platforms. A digital platform is simply a mechanism for bringing together two or more parties to interact online. This can be an online shopping or auction site bringing together buyers and sellers, a social media site connecting friends or business contacts, or a sharing service linking up drivers with car users or property owners with renters.

The more users who connect to these services, the better they typically work. That's because there is a greater chance that any user will be able to connect with somebody who is selling what they want.

This is known as the 'network effect' and means that the most successful platforms often dominate their field and earn an outsized share of the potential rewards. The immense scale that the winners can achieve is one reason why six of the ten largest listed companies by market cap operate platforms that play a key part in driving the development of the digital economy.*

**FXSSI, January 20th 2020, https://fxssi.com/top-10-most-valuable-companies-in-the-world*

A complete digital economy in one app

We see the network effect at work in many of the stocks that are held by our digital economy ETF – none more obvious than Chinese internet giant Tencent.

This company could be described as China’s equivalent of Facebook, but that doesn’t convey quite how prominent a role it occupies in many users’ lives - it’s more accurate to say that its WeChat app is what Facebook would like to become.

Tencent has successfully expanded its services far beyond social media and messaging to include payments, online gaming and more – you can book a taxi or arrange a food delivery without ever leaving WeChat. This makes Tencent an outstanding example of how dominant platform companies can use their position to expand into different areas and find new opportunities for long-term growth.

Profiting all the way down the value chain

Many of the biggest beneficiaries of digitalisation are firms that don't directly deal with consumers and may have a lower profile. The more sophisticated digital services become, the more powerful computer processors have to be to deliver a good user experience.

This has meant rapid growth for Nvidia, which designs some of the key processors that go into smartphones, tablets and gaming devices. Perhaps more importantly for its future prospects, Nvidia's chips are also used in data centres – the huge collections of computer systems used to store and process the data that the digital economy generates.

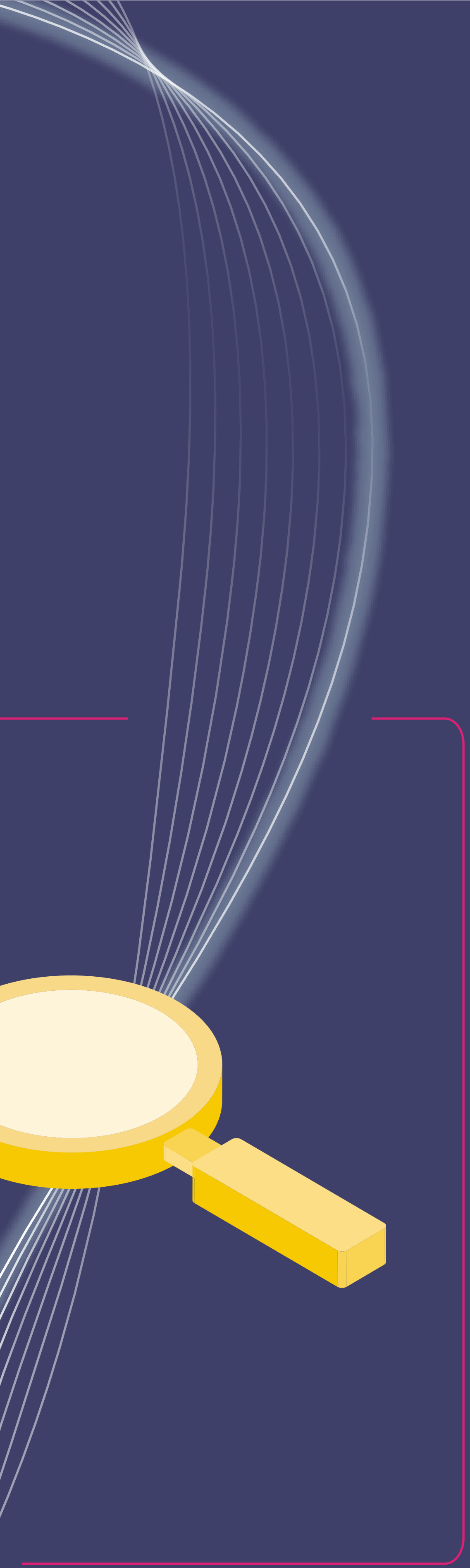
This market is likely to grow rapidly in the years ahead, not least due to anticipated breakthroughs in many artificial intelligence (AI) applications such as image and speech recognition. These will greatly increase demand, potentially almost doubling the size of the broader digital economy from $12.9trn in 2017 to $23trn by 2025.[7]

Seeking out big winners before they get big

Not all the firms that could capitalise on the growth of the digital economy are as large as Tencent or Nvidia yet. Many are smaller firms – and this is where the approach used by our digital economy ETF may offer different opportunities to other funds that are biased towards larger tech firms.

The fund invests in many lesser-known companies, such as The Trade Desk, whose platform lets buyers of online advertising manage their spending more effectively by ensuring their ads are shown to the right audiences, and Shopify, which makes it simpler for small merchants to set up online stores, handle payments and manage marketing. More than 60% of the portfolio is invested in mid-sized and smaller stocks, meaning that investors will be exposed to these firms when they are still at an earlier stage of their potential growth.[8]

[7]Huawei, May 2018, Global Connectivity Index 2018
[8]Lyxor International Asset Management, as at 28/02/2020.



Investing for digital growth

The internet has already transformed the way that the global economy works, but we are still in the early stages of the digital revolution. Established online platforms in e-commerce, social media and technology are set to grow still larger, while nascent trends such as the Internet of Things and the real-world applications of artificial intelligence will create entirely new market opportunities.

To adapt to this ever-changing age of information, our digital economy fund is designed to invest in a wide range of key platforms and technologies shaping how individuals spend money, and how companies do business. It strikes a balance between firms that have already followed these trends to success and those that could grow to be the stars of the next decade.

To achieve this, we partnered with data powerhouse MSCI. We use cutting-edge artificial intelligence techniques combined with advice from experts in the field to identify companies that are in a prime position to exploit these trends. We also include an ESG filter to build a more responsible exposure.

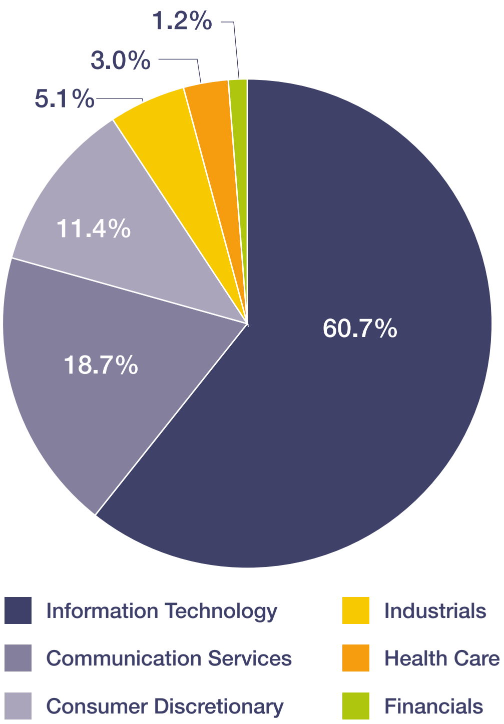
Our unique investment process helps us identify the companies that can change the world, and make obsolescence a thing of the past. When it comes to making sure your investments keep up with the economy of the future, our ETF could be an ideal solution.

A look inside the basket

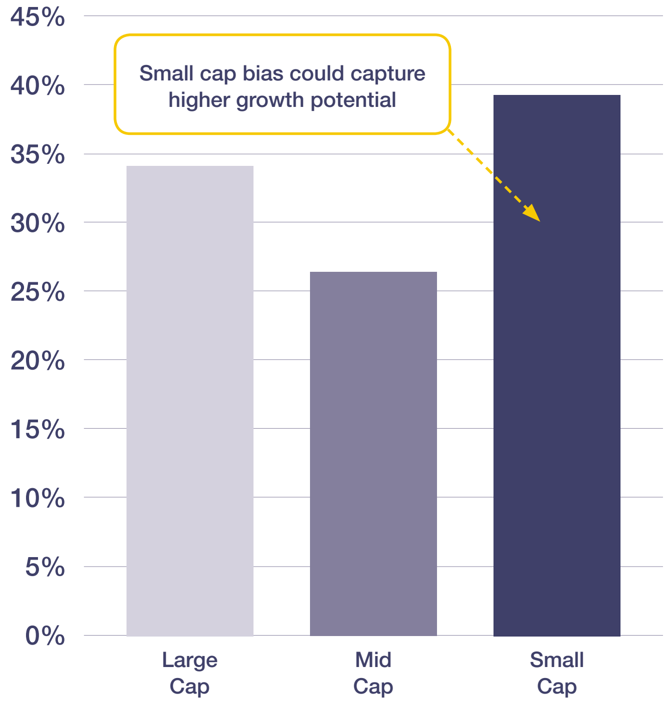
Related concepts, products and services

- Robotics
- E-commerce
- Social Media
- Cybersecurity
- Digital Payments
- Sharing Economy
- Cloud Computing

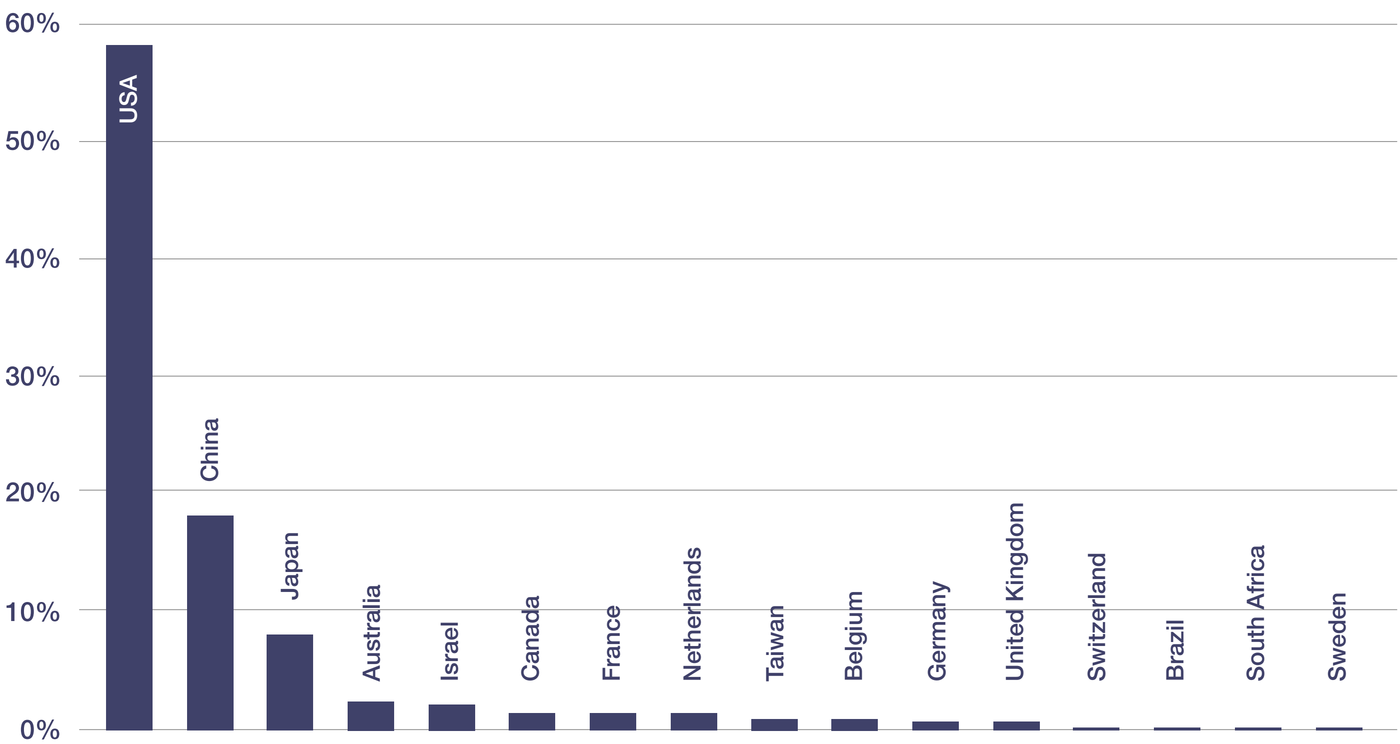
Sector breakdown



Market cap breakdown



Country breakdown



Source for all data: Lyxor International Asset Management, MSCI, as at 28/02/2020.

Top 10 holdings

Security name	GICS Sector	Country	Weight
TRADE DESK A	Information Technology	USA	1.90%
ALTERYX A	Information Technology	USA	1.70%
SHOPIFY A	Information Technology	Canada	1.64%
FACEBOOK A	Communication Services	USA	1.59%
KINGSOFT	Information Technology	China	1.53%
SQUARE	Information Technology	USA	1.46%
ZSCALER	Information Technology	USA	1.46%
ADYEN NV	Information Technology	Netherlands	1.45%
YONYOU NETWORK A (HK-C)	Information Technology	China	1.37%
WUHU SANQI A (HK-C)	Communication Services	China	1.37%
Total			15.48%

ETF name	Replication type	Bloomberg tickers	ISIN	Current temporary TER*	Target TER*
Lyxor MSCI Digital Economy ESG Filtered (DR) UCITS ETF	Physical	EBUY, DIGE	LU2023678878	0.15%*	0.45%*

Source for top 10 holdings data: Lyxor International Asset Management, MSCI, as at 28/02/2020.
**Source: Lyxor International Asset Management, as at 10/03/2020. Target TER is 0.45% but has temporarily been decreased to 0.15% until September 2021.*

Discover the rest of our range covering Future Mobility, Smart Cities, Millennials, and Disruptive Technology at lyxoretf.com

A note on investing in megatrends

Time horizons are long, and portfolios may be concentrated

- Megatrends take time to shape the world; your investment horizon should be **long term**

- Thematic indices are more narrow than traditional cap weighted indices
- As a result of this increased concentration, **volatility may be higher**

- Unconstrained by traditional allocations based on countries and sectors, thematic ETFs could be used as '**satellites**' to strengthen the core of your equity portfolio

This document is for informative purposes only, and should not be taken as investment advice. Lyxor ETF does not in any way endorse or promote the companies mentioned in this document.

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

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 with Société Générale. In-line with UCITS guidelines, the exposure to Société Générale cannot exceed 10% of the total fund assets. Physically replicated ETFs may have counterparty risk if they use a securities lending programme.

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.

Concentration risk
Thematic 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.

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 Société Générale. 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.

Important Information

This document is for the exclusive use of investors acting on their own account and categorised either as “eligible counterparties” or “professional clients” within the meaning of markets in financial instruments directive 2014/65/EU. Except for the United Kingdom, where the document is issued in the UK by Lyxor Asset Management UK LLP, which is authorized and regulated by the Financial Conduct Authority in the UK under Registration Number 435658, this document is issued by Lyxor International Asset Management (LIAM), a French management company authorized by the Autorité des marchés financiers and placed under the regulations of the UCITS (2014/91/EU) and AIFM (2011/61/EU) Directives. Société Générale is a French credit institution (bank) authorised by the Autorité de contrôle prudentiel et de résolution (the French Prudential Control Authority). Some of the funds described in this brochure are investment companies with Variable Capital (SICAV) incorporated under Luxembourg Law, listed on the official list of Undertakings for Collective Investment, authorised under Part I of the Luxembourg Law of 17th December 2010 (the “2010 Law”) on Undertakings for Collective Investment in accordance with provisions of the Directive 2009/65/EC (the “2009 Directive”) and subject to the supervision of the Commission de Surveillance du Secteur Financier (CSSF). These funds are sub-fund of either Multi Units Luxembourg or Lyxor Index Fund and have been approved by the CSSF. Alternatively, some of the funds described in this document are sub-funds of Multi Units France a French SICAV incorporated under the French Law and approved by the French Autorité des marches financiers. Each fund complies with the UCITS Directive (2009/65/ CE), and has been approved by the French Autorité des marches financiers. Société Générale and Lyxor AM recommend that investors read carefully the “risk factors” section of the product’s prospectus and Key Investor Information Document (KIID). The prospectus and the KIID are available in French on the website of the AMF (www.amffrance.org). The prospectus in English and the KIID in the relevant local language (for all the countries referred to, in this document as a country in which a public offer of the product is authorised) are available free of charge on lyxoretf.com or upon request to client-services-etf@lyxor.com The products are the object of market-making contracts, the purpose of which is to ensure the liquidity of the products on NYSE Euronext Paris, Deutsche Boerse (Xetra) and the London Stock Exchange, assuming normal market conditions and normally functioning computer systems. Units of a specific UCITS ETF managed by an asset manager and purchased on the secondary market cannot usually be sold directly back to the asset manager itself. Investors must buy and sell units on a secondary market with assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units and may receive less than the current net asset value when selling them. Updated composition of the product’s investment portfolio is available on www.lyxoretf.com.

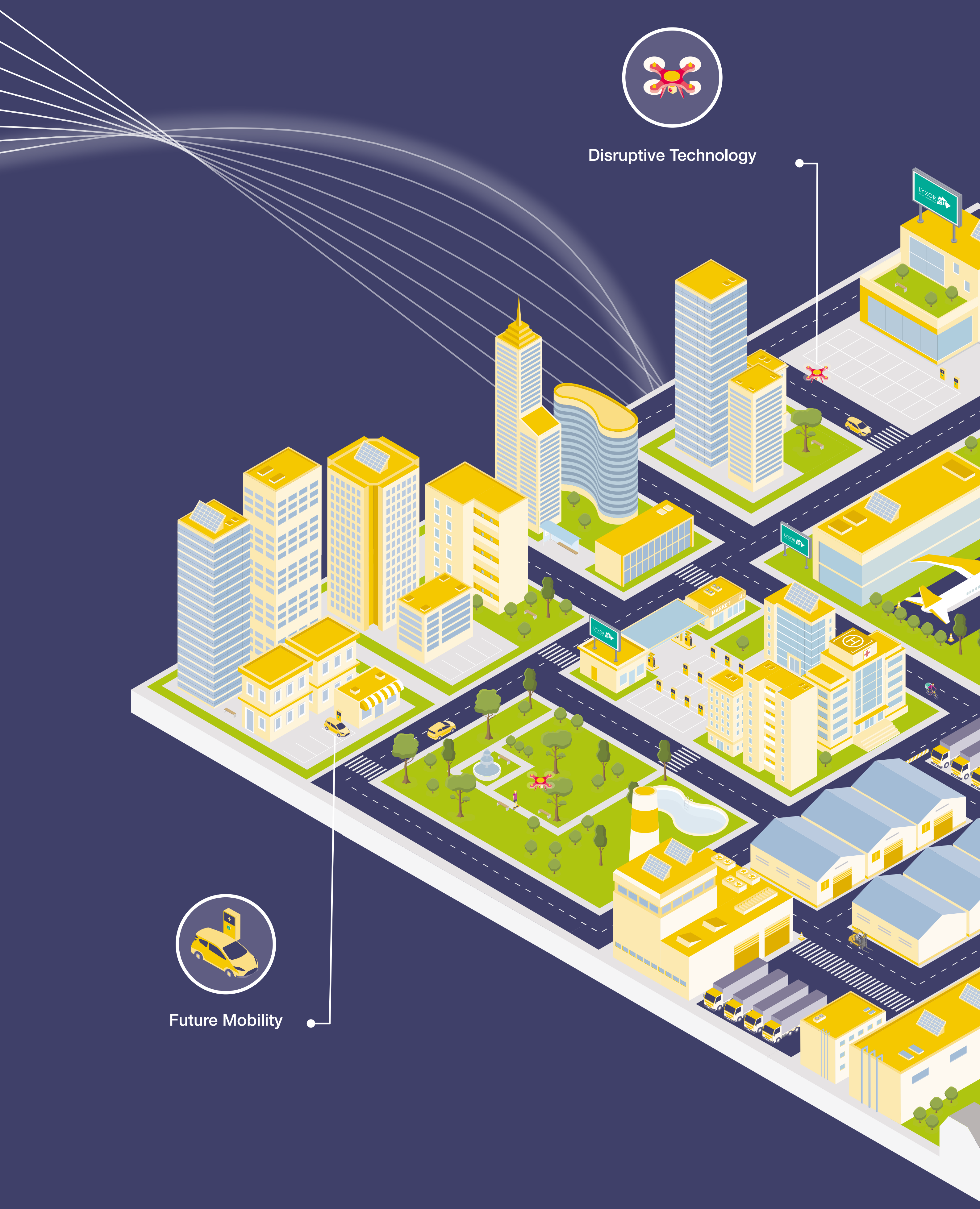
In addition, the indicative net asset value is published on the Reuters and Bloomberg pages of the product, and might also be mentioned on the websites of the stock exchanges where the product is listed. Prior to investing in the product, investors should seek independent financial, tax, accounting and legal advice. It is each investor's responsibility to ascertain that it is authorised to subscribe, or invest into this product. This document together with the prospectus and/or more generally any information or documents with respect to or in connection with the Fund does not constitute an offer for sale or solicitation of an offer for sale in any jurisdiction (i) in which such offer or solicitation is not authorized, (ii) in which the person making such offer or solicitation is not qualified to do so, or (iii) to any person to whom it is unlawful to make such offer or solicitation. In addition, the shares are not registered under the U.S Securities Act of 1933 and may not be directly or indirectly offered or sold in the United States (including its territories or possessions) or to or for the benefit of a U.S Person (being a "United State Person" within the meaning of Regulation S under the Securities Act of 1933 of the United States, as amended, and/or any person not included in the definition of "Non-United States Person" within the meaning of Section 4.7 (a) (1) (iv) of the rules of the U.S. Commodity Futures Trading Commission). No U.S federal or state securities commission has reviewed or approved this document and more generally any documents with respect to or in connection with the fund. Any representation to the contrary is a criminal offence. This document is of a commercial nature and not of a regulatory nature. This document does not constitute an offer, or an invitation to make an offer, from Société Générale, Lyxor Asset Management (together with its affiliates, Lyxor AM) or any of their respective subsidiaries to purchase or sell the product referred to herein. These funds include a risk of capital loss. The redemption value of this fund may be less than the amount initially invested. The value of this fund can go down as well as up and the return upon the investment will therefore necessarily be variable. In a worst case scenario, investors could sustain the loss of their entire investment. This document is confidential and may be neither communicated to any third party (with the exception of external advisors on the condition that they themselves respect this confidentiality undertaking) nor copied in whole or in part, without the prior written consent of Lyxor AM or Société Générale. The obtaining of the tax advantages or treatments defined in this document (as the case may be) depends on each investor's particular tax status, the jurisdiction from which it invests as well as applicable laws. This tax treatment can be modified at any time. We recommend to investors who wish to obtain further information on their tax status that they seek assistance from their tax advisor. The attention of the investor is drawn to the fact that the net asset value stated in this document (as the case may be) cannot be used as a basis for subscriptions and/or redemptions. The market information displayed in this document is based on data at a given moment and may change from time to time.

About MSCI Inc.

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit www.msci.com.

MSCI Disclaimer

The information contained herein (the "Information") may not be reproduced or redisseminated in whole or in part without prior written permission from MSCI. The Information may not be used to verify or correct other data, to create any derivative works, to create indexes, risk models, or analytics, or in connection with issuing, offering, sponsoring, managing or marketing any securities, portfolios, financial products or other investment vehicles. Historical data and analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the Information or MSCI index or other product or service constitutes an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product or trading strategy. Further, none of the Information or any MSCI index is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. The Information is provided "as is" and the user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF MSCI INC. OR ANY OF ITS SUBSIDIARIES OR ITS OR THEIR DIRECT OR INDIRECT SUPPLIERS OR ANY THIRD PARTY INVOLVED IN MAKING OR COMPILING THE INFORMATION (EACH, AN "INFORMATION PROVIDER") MAKES ANY WARRANTIES OR REPRESENTATIONS AND, TO THE MAXIMUM EXTENT PERMITTED BY LAW, EACH INFORMATION PROVIDER HEREBY EXPRESSLY DISCLAIMS ALL IMPLIEDWARRANTIES, INCLUDING WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. WITHOUT LIMITING ANY OF THE FOREGOING AND TO THE MAXIMUM EXTENT PERMITTED BY LAW, IN NO EVENT SHALL ANY OF THE INFORMATION PROVIDERS HAVE ANY LIABILITY REGARDING ANY OF THE INFORMATION FOR ANY DIRECT, INDIRECT, SPECIAL, PUNITIVE, CONSEQUENTIAL (INCLUDING LOST PROFITS) OR ANY OTHER DAMAGES EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.


Disruptive Technology
Future Mobility


Digital Economy
Millennials
Smart Cities

Find us online
lyxoretf.com