July 2023

TABULA

Paris-aligned ETFs

Diversified, core exposure to the economy of tomorrow

✓ Aligned with the Paris climate goals

✓ Robust ESG exclusions

✓ Designed for core allocations

About Paris-aligned benchmarks

Climate change is the defining issue of our age. Investment in climate solutions like renewables, energy efficiency and carbon capture is essential. However, we also need to ensure that broad core investment allocations are better aligned with a low carbon economy and the Paris climate agreement. The EU introduced the Paris-aligned benchmark (PAB) rules to meet this need. By specifying emissions targets, they help investors align portfolios with the Paris goals and avoid misleading or inconsistent "low-carbon" claims. Importantly, PABs aren't just about climate but include strict ESG screens, designed to channel investment away from the most harmful companies.

There are now a growing number of ETFs tracking PABs, spanning equity and fixed income markets. Combining climate goals with ESG exclusions, these are a clear evolution from the first generation of ESG funds, allowing investors to switch passive allocations into more climate- and ESG-conscious investments.

PAB rules at a glance

Emissions targets	**50%** reduction in GHG emissions (Scope 1, 2 and 3) versus broad market benchmark/investable universe and **7%** reduction YoY (subject to revision to maintain alignment with the Paris goals)
ESG exclusions	Violation of global norms (e.g. UN Global Compact)
	Significant environmental harm
	Controversial weapons
	Tobacco
	Fossil fuels (revenue limits on coal, oil, gas and GHG-intensive electricity)
Diversification	Exposure to high-impact climate sectors must be no lower than in the investable universe (required for equity PABs only)

What does a Paris-aligned ETF look like?

While the PAB rules provide minimum standards, ETF and index providers have the flexibility to apply stricter or additional criteria (see *Case Study* overleaf). However, PAB ETFs share some common characteristics:

1. Fund-level emissions reduction
A PAB's GHG reduction targets are applied at index/ETF level. So, unless the ETF applies additional company-level screening, there may be some high-emitting companies included. However, these must still pass the ESG screens and are likely to be underweight relative to the benchmark.

2. Broad exposure with sector diversification
While equity PABs are subject to diversification rules (see above), in practice both equity and fixed income PAB ETFs tend to be well diversified (see *Case Study*). Some PAB ETFs may choose to emphasise issuers with certain characteristics (e.g. green revenues). However, they still aim to deliver broad, core exposures rather than a specialist climate-themed investment.

3. Potential for converging or diverging performance
PABs aim to reflect a Paris-aligned economy with minimum ESG standards. If the wider economy moves in that direction, then standard indices will become more similar to PABs, with similar returns. However, if the wider economy fails to transition, then PABs are likely to diverge further from standard indices.

Capital is at risk.
The value of your investment may go down as well as up and you may not get back the amount you invested.

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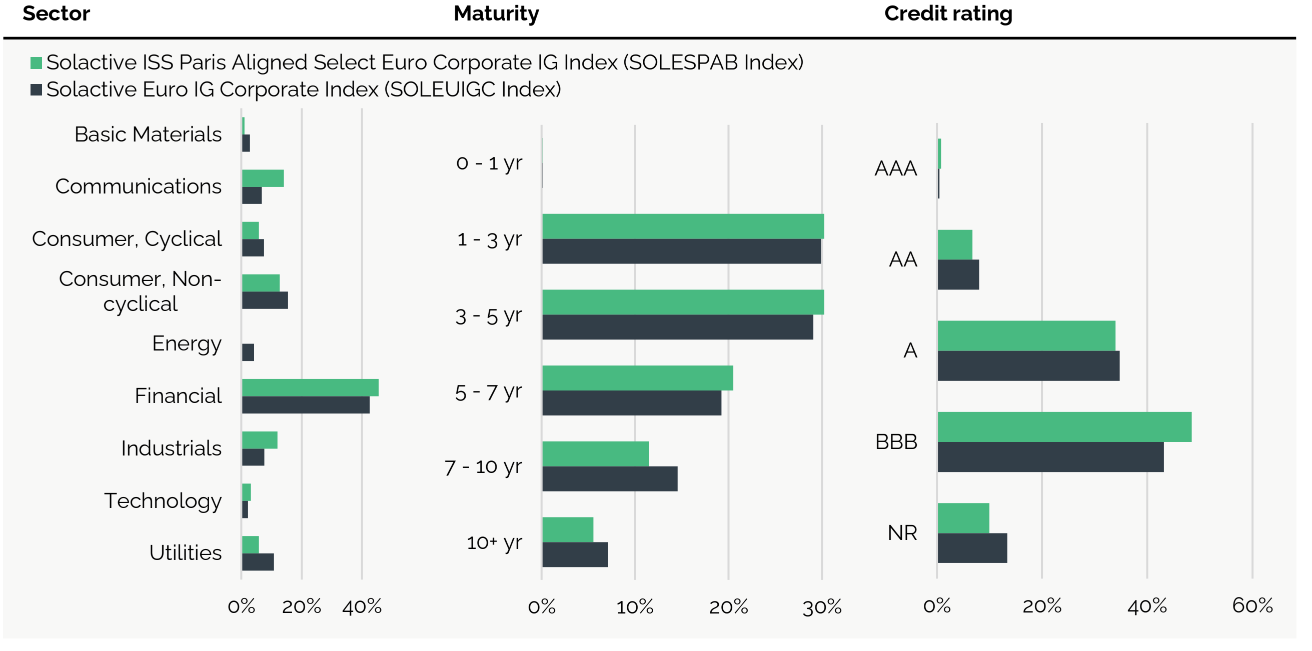
Case study: Paris-aligned exposure to Euro Investment Grade bonds provides similar exposure and characteristics to non-PAB investments

The charts below show the composition of the Solactive ISS Paris Aligned Select Corporate IG Index, the reference index for the Tabula EUR IG Bond Paris-aligned Climate UCITS ETF, relative to a broad Euro IG bond index. This index meets the requirements for a PAB but applies some additional business exclusions. It has very similar sector exposures to the broad market, except that it is underweight energy and utilities because of the fossil fuel exclusions in the PAB rules. It's maturity and credit quality profiles are very similar to the broad market index.

Visit www.tabulagroup.com to see Tabula's range of Paris-aligned ETFs, providing investment grade, high yield and high yield fallen-angels bond exposure.



Data: Tabula/Solactive, as of 1 June 2023

Paris-Aligned ETFs and SFDR

ETFs tracking Paris-aligned benchmarks have a sustainable objective of reducing carbon emissions at portfolio level They are deemed to be making sustainable investments under the EU's Sustainable Finance Disclosure Regulation (SFDR) and **classified under Article 9**. This means that the ETFs must provide detailed pre-contractual and periodic disclosures around its asset allocation and how its sustainable objective is achieved.

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