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Empowering Central Banks with ETF Solutions to Meet Their Needs

In June 2024, following a months-long project led by its Board of Directors and Investment Committee, and involving close collaboration with central banks and other official institutions across Latin America, the Latin American Reserve Fund (FLAR) announced its role as a seeding partner of a Global Corporate Highest Rated ESG ETF launched by Amundi ETF, the Amundi Global Corporate SRI 1-5Y Highest Rated UCITS ETF¹.

This initiative aims to leverage FLAR's expertise in responsible investing to create an ETF that central banks and public institutions can utilise for responsible reserve management. This project concluded with a comprehensive RFP process, through which Amundi was selected as the ETF manager.

Introduction to FLAR

The Latin American Reserve Fund (FLAR) is a distinguished supranational organisation comprising nine central banks across Latin America. **Committed to enhancing financial and economic stability in the region, FLAR provides balance of payments and liquidity loans to its member countries.** Over the past 45 years, FLAR has established itself as a credible hub for connection and collaboration among central banks and official institutions, making it a natural partner for innovative investment solutions.

As a member of the Network for Greening the Financial System (NGFS), FLAR continuously seeks to align responsible investing principles with traditional reserves management guidelines – security, liquidity, and return objectives.

Like many central banks, FLAR and its members are required to invest in highly liquid, high-quality, and low-risk securities.

Issuing ESG ETFs

Two critical elements are essential for an ETF issuer to successfully manage ESG ETFs:

1. Capabilities and Experience in Designing Customised ESG Indices

ESG indices have become increasingly complex in recent years due to the expansion of available datasets and portfolio construction methodologies.

Amundi ETF, the largest European ETF issuer², has co-developed **ESG and Climate index solutions for public institutions since 2014**, when it co-created the first series of low-carbon equity indices for two public pension funds in Europe. Since then, our engineering and product teams have **significantly enhanced their capabilities to develop custom index solutions that incorporate the latest ESG and climate datasets and methodologies.**

2. Active Ownership Policy Aligned with ESG ETF Objectives

While the construction of the ESG index – how securities are selected and weighted – is crucial for an ESG ETF to fulfil its purpose, the active ownership policy of the ETF issuer must also be carefully scrutinised to ensure consistency between the responsible investment goals and the effective stewardship of the assets.

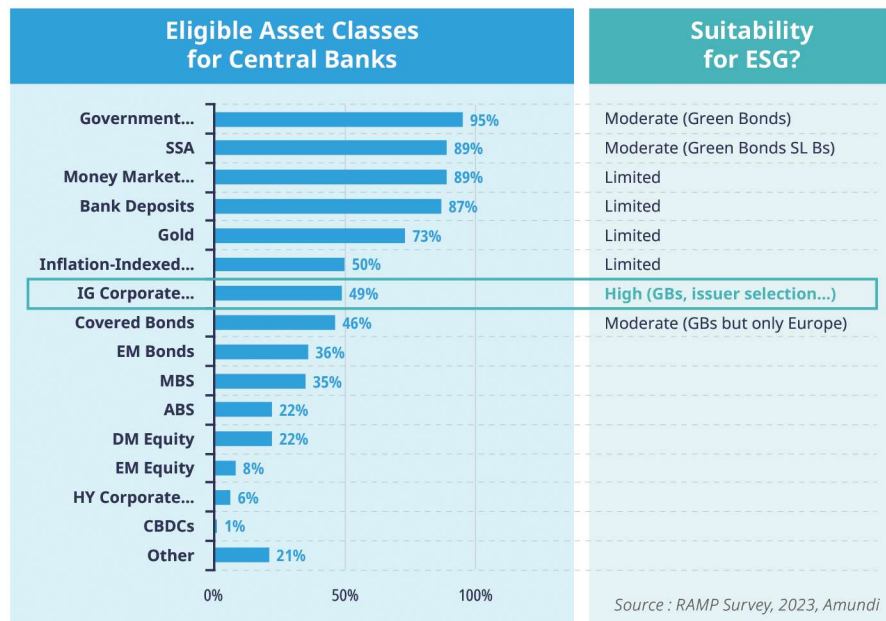
Amundi's active ownership policy consistently ranks among the most assertive globally and positively contributes to achieving sustainable investing objectives³.

1. Index Bloomberg Ticker: H38487US

2. Source: Based on ETFGI data as at end July 2023, Amundi ETF is the leading European headquartered ETF provider within the European market.

3. <https://shareaction.org/reports/voting-matters-2023>

Why a Global Corporate Short Term High-Quality ETF ?



The 2023 Reserve Advisory and Management Partnership (RAMP) survey conducted by the World Bank indicates that **high-quality investment-grade corporate bonds with short durations are highly eligible among central banks due to their low risk and high liquidity**⁴. Furthermore, these bonds are well-suited for an ESG overlay, as ESG data is available for the vast majority of investment-grade corporate issuers.

The high-level index design principles were based on a cap-weighted approach with implementation of selected exclusions. This approach was chosen over a more complex, optimisation-based approach, to ensure a high level of transparency.

Key Characteristics of ESG Index

Criteria	Rule
Index Provider	Bloomberg with MSCI ESG data
Starting Universe	Global Corporate
Credit rating	AAA-A
Maturity filter	1 - 5 years
Hedging	USD Hedged
Seniority	Senior Unsecured (Unsubordinated) or Senior Secured.
EM/DM	Developed Markets only (as per Bloomberg Country of Risk definition)
ESG Ratings	- Securities must have an MSCI ESG Rating of BBB or higher - Unrated issuers from sectors with ratings are excluded.
ESG Controversies	Excludes any issuer with a "Red" MSCI ESG Controversies Score (equal to zero), which measures an issuer's involvement in major ESG controversies and how well they adhere to international norms and principles.
ESG Business Involvement screens	Adult Entertainment, Alcohol, Gambling, Tobacco, Weapons, Nuclear Power, Fossil Fuels, GMO
Minimum ESG exclusions	20% of parent universe

4. <https://openknowledge.worldbank.org/server/api/core/bitstreams/c0c2d54b-53e6-4af5-b2e3-5fcd8ba4e8f6/content>

Despite the high level of ESG stringency in the proposed ESG approach, it is worth noting that the financial characteristics of the designed index align closely to that of the parent, non-ESG index, as illustrated in the table below:

Financial Characteristics of ESG Index vs Parent Index

(as of 2024-07-31, in USD)	Bloomberg Global Corp A and above 1-5Y (USD hedged)	Bloomberg MSCI Global Corp A and above SRI 1-5Y (USD hedged)
Fixed Income metrics		
# constituents	2648	2181
Option Adjusted Duration	2.55	2.54
Yield to Worst	4.25	4.24
OAS	59.64	59.81
Spread Duration	2.59	2.59
Performances		
Perf YTD (%)	2.94	2.96
Perf 1Y (%)	6.91	6.95
Perf 3Y (ann., %)	0.97	0.99
Vol 1Y (Monthly, %)	2.88	2.88
1Y TE (%)	-	0.02
3Y TE (%)	-	0.04

For example, the ESG and non-ESG Global Corp A-AAA 1-5Y indices exhibit very similar duration, yield to worst, and option-adjusted spread, with a minimal tracking error of just 2 basis points over one year. This high level of similarity arises from the fact that the performance of high-quality, short-duration bonds is primarily driven by common factors such as currency or sector, rather than idiosyncratic risks like ESG scores. This makes this ETF exposure particularly attractive. Furthermore, the ESG index demonstrates better performance in terms of ESG metrics, such as average ESG rating and carbon footprint indicators, when compared to the non-ESG index.

Process and Timeline for Co-Designing ETFs

While each ETF co-design project has its own characteristics and objectives, the key milestones of such projects typically include:

1. Selection of Preferred ETF Issuer by Seed Investor

In this step, the seed investor selects the ETF issuer responsible for structuring the new ETF. This process focuses on **understanding the issuer's expertise in the asset class** from both portfolio management and index design perspectives, as well as other relevant considerations such as distribution capabilities and active ownership policy.

2. Construction of the Index Reflecting Seed Investor's Key Investment Guidelines

The index methodology construction requires discussions among the ETF issuer, index provider, and seed investor. The goal is **to identify and address the seed investor's investment guidelines and constraints**, ensuring they can be translated into an investable, transparent index. Some constraints may be contradictory (e.g., low tracking error vs. high ESG score), necessitating careful arbitration between options.

3. Structuring, Launch, and Listing of the ETF

Once the index methodology is finalised, the ETF launch process follows a standard procedure involving regulatory filing and approval, opening ETF accounts, seed investment, and ETF listing. Depending on the complexity of the initial requirements, **a typical co-designed ETF can take between 6 and 12 months to launch.**

The Amundi Global Corporate SRI 1-5Y Highest Rated UCITS ETF represents a **significant advancement in the responsible investing landscape for central banks**. By combining Amundi's extensive expertise with FLAR's strategic vision and the valuable insights and collaboration of other reserve managers, **this initiative effectively addresses the immediate needs of central banks to manage their reserves responsibly, and demonstrates that this trend is relevant not only in the developed world but also in emerging markets.** As central banks worldwide increasingly embrace ETFs as powerful tools for diversification and liquidity, Amundi remains committed to supporting their journey toward responsible investment solutions.



Read Amundi ETF's Interview with Iker Zubizarreta Abando, Chief Investment & Financial Officer at FLAR.

[Read the interview](#)

IMPORTANT INFORMATION

It is important for potential investors to evaluate the risks described below and in the fund's Key Information Document ("KID") and prospectus available on our website www.amundiETF.com.

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The Funds are Amundi UCITS ETFs. The Funds can either be denominated as "Amundi ETF" or "Lyxor ETF". Amundi ETF designates the ETF business of Amundi.

Amundi UCITS ETFs are passively-managed index-tracking funds. The Funds are French, Luxembourg or Irish open ended mutual investment funds respectively approved by the French Autorité des Marchés Financiers, the Luxembourg Commission de Surveillance du Secteur Financier or the Central Bank of Ireland, and authorised for marketing of their units or shares in various European countries (the Marketing Countries) pursuant to the article 93 of the 2009/65/EC Directive.

The Funds can be French Fonds Communs de Placement (FCPs) and also be sub-funds of the following umbrella structures:

For Amundi ETF:

- Amundi Index Solutions, Luxembourg SICAV, RCS B206810, located 5, allée Scheffer, L-2520, managed by Amundi Luxembourg S.A.

- Amundi ETF ICAV: open-ended umbrella Irish collective asset-management vehicle established under the laws of Ireland and authorized for public distribution by the Central Bank of Ireland. The management company of the Fund is Amundi Ireland Limited, 1 George's Quay Plaza, George's Quay, Dublin 2, D02 V002, Ireland. Amundi Ireland Limited is authorised and regulated by the Central Bank of Ireland

Before any subscriptions, the potential investor must read the offering documents (KID and prospectus) of the Funds. The prospectus in French for French UCITS ETFs, and in English for Luxembourg UCITS ETFs and Irish UCITS ETFs, and the KID in the local languages of the Marketing Countries are available free of charge on www.amundi.com, www.amundi.ie or www.amundiETF.com. They are also available from the headquarters of Amundi Luxembourg S.A. (as the management company of Amundi Index Solutions), or the headquarters of Amundi Asset Management (as the management company of Amundi ETF French FCPs, Multi Units Luxembourg, Multi Units France and Lyxor Index Fund), or at the headquarters of Amundi Ireland Limited (as the management company of Amundi ETF ICAV). For more information related to the stocks exchanges where the ETF is listed please refer to the fund's webpage on amundiETF.com.

Investment in a fund carries a substantial degree of risk (i.e. risks are detailed in the KID and prospectus). Past Performance does not predict future returns. Investment return and the principal value of an investment in funds or other investment product may go up

or down and may result in the loss of the amount originally invested. All investors should seek professional advice prior to any investment decision, in order to determine the risks associated with the investment and its suitability.

It is the investor's responsibility to make sure his/her investment is in compliance with the applicable laws she/he depends on, and to check if this investment is matching his/her investment objective with his/her patrimonial situation (including tax aspects).

Please note that the management companies of the Funds may de-notify arrangements made for marketing as regards units/shares of the Fund in a Member State of the EU or the UK in respect of which it has made a notification.

A summary of information about investors' rights and collective redress mechanisms can be found in English on the regulatory page at <https://about.amundi.com/Metanav-Footer/Footer/Quick-Links/Legal-documentation> with respect to Amundi ETFs.

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