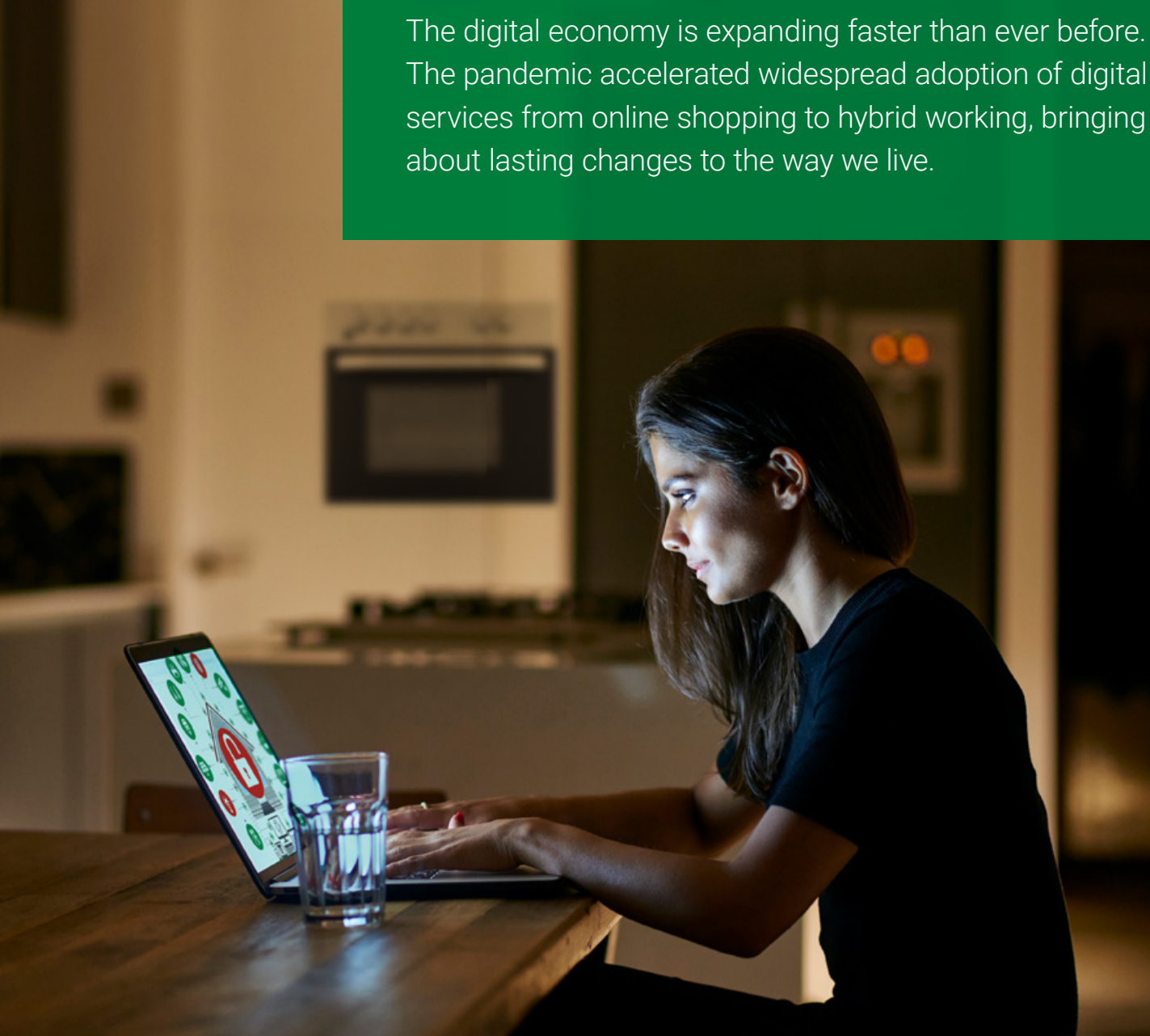


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This is a marketing communication. Please refer to the prospectus of the fund and to the key investor information document before making any final investment decisions.

# L&G Emerging Cyber Security ESG Exclusions UCITS ETF

The digital economy is expanding faster than ever before. The pandemic accelerated widespread adoption of digital services from online shopping to hybrid working, bringing about lasting changes to the way we live.



**Key risk:** The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.



In April of 2020 Microsoft CEO Satya Nadella summed up this transformative moment:

**“We’ve seen two years’ worth of digital transformation in two months.”<sup>1</sup>**

This digitalisation of our governments, critical infrastructure, and working and personal lives, however, has left us increasingly vulnerable to cyber crime. Attackers are targeting any organisation that can be financially exploited – whether that is a business trying to maintain profitability or a hospital treating the sick.

## The evolution of the cyber security threat

How did the pandemic impact the cyber security industry?



### Rapid digitalisation of our society...

- Digital customer interactions increased by over 65% in the US in the first three quarters of 2020, marking a rapid acceleration of the existing trend<sup>2</sup>
- The average share of products and services partially or fully digitised rose by 60%<sup>3</sup> in the US in the first three quarters of 2020
- Remote working and collaboration
- Online purchasing services and cashless payments
- Migration of assets to the cloud



### ...increased the number of vulnerabilities

- Increase in data generation and personal information online
- Rise in remote working expanded the threat surface
- Increasing complexity of technology stacks
- Third-party risk threat
- Multi-server systems, multi-cloud environments and multiple entry points



### ...leading to a rise in cyber crime

- In 2020, the incidence of malware increased by 358% and ransomware threats increased by 435%<sup>4</sup>
- The average ransomware payment demand rose 518% in 2021 to \$570,000<sup>5</sup>
- By 2023, the global estimated total number of DDoS attacks could reach 15.4 million<sup>6</sup> – double the 2018 number
- Data breaches exposed 22 billion records in 2021<sup>7</sup>

Recent studies highlight the scale of the challenge, with 41% of executives surveyed in one landmark study believing their security initiatives have been unable to keep up with the digital transformation.<sup>8</sup> Research covering the number of attacks suggests their concern is well founded, with one study indicating the number of attacks on corporate networks rose 50% in 2021.<sup>9</sup>

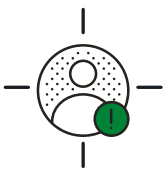
# L&G Emerging Cyber Security ESG Exclusions UCITS ETF

Meanwhile, the ever-increasing use of connected devices from app-controlled thermostats and smart fridges to optical sensors used in industry is expanding the number of potential access points. Research estimates the number of Internet of Things (IoT) devices hit around 14.4 billion active connections in 2021 and will rise to 27 billion by 2025.<sup>10</sup>



## Cyber attacks are becoming more sophisticated

As well as launching more attacks, cyber criminals are deploying new tactics to increase their effectiveness.



### Multi-faceted extortion

To increase pressure on victims, ransomware operators are increasingly<sup>11</sup> publicly naming and shaming targets by posting stolen information online or threatening additional attacks in the form of distributed denial of service (DDoS).



### Supply chain attacks

This rising threat<sup>12</sup> sees criminals target trusted third-party vendors. This allows attackers to potentially exploit a number of companies through a single breach.



### Cyber crime as a service

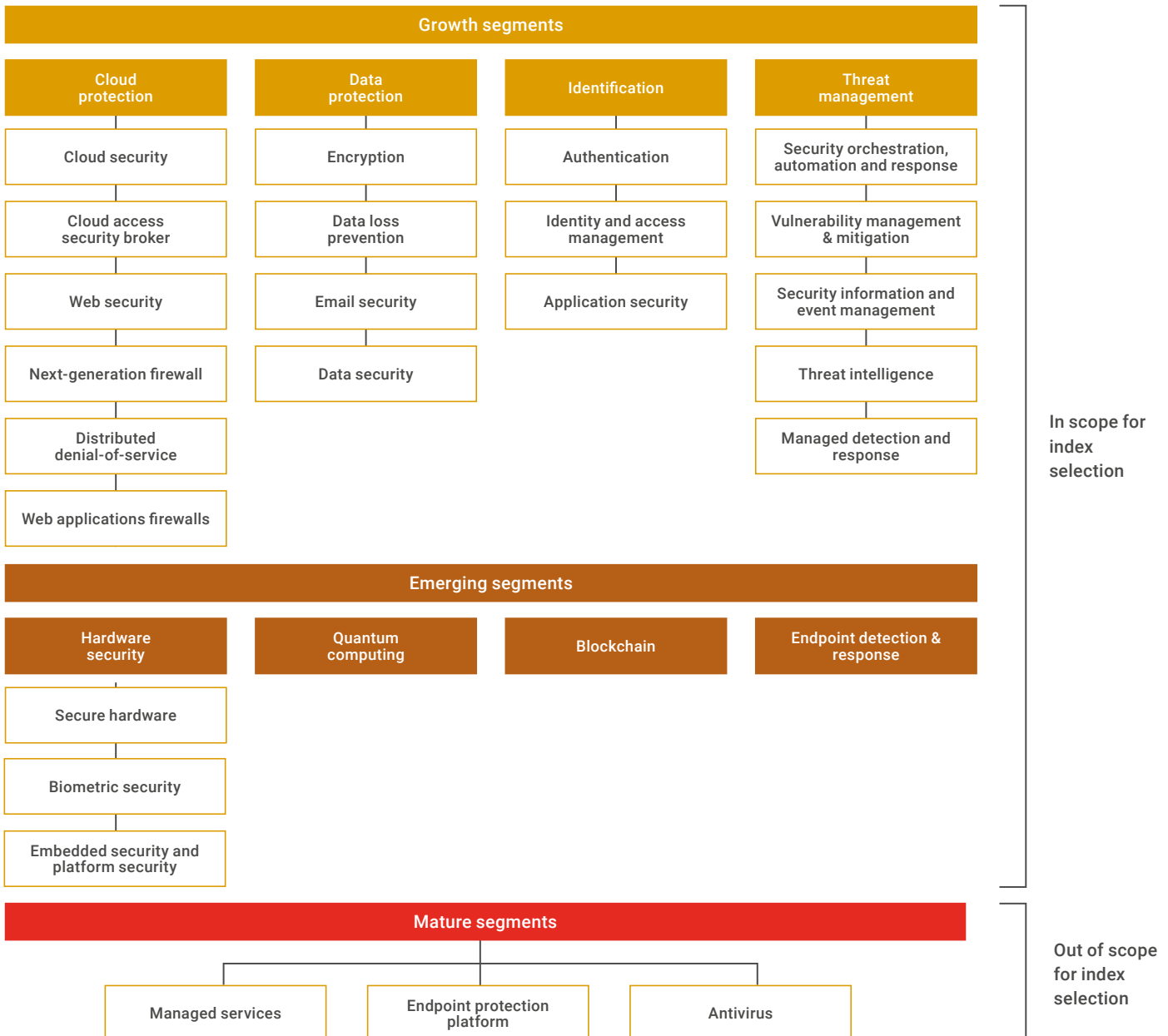
Digital attack capabilities can today be bought off the shelf<sup>13</sup>, lowering the barriers to entry for would-be cyber criminals.

# A theme focused on leaders in a new era of cyber security

While the established cyber security industry has grown in tandem with the expansion of the digital economy, the recent acceleration of digitalisation has highlighted the role of the next generation of cyber security solutions.

- In 2021 the global cyber security industry was worth an estimated \$140 billion<sup>14</sup>
- The industry’s compound annual growth rate (CAGR) between 2022 and 2029 has been estimated at 13.4%<sup>15</sup>

This investment strategy is focused on existing parts of the cyber security industry that we believe have potential to grow in response to the changing threat landscape, and emerging technologies that could present novel solutions.



Note: the above classification doesn't map all potential segments and is meant to be dynamic. The above classification is created and supplied by Juniper Research.

## Growth segments

Examples of growth segments include:



### Cloud protection

As millions of workers rely on cloud-enabled services to work from home, protecting this data has become mission critical. Estimated market size CAGR to 2029: 18.1%<sup>16</sup>



### Identification

Our digital identities have become increasingly valuable targets for criminals, making authentication a growth area. Estimated market size CAGR to 2026: 17.0%<sup>17</sup>



### Threat management

As the number of cyber attacks and attack vectors is continuously growing, attack detection, response and containment solutions are needed to bolster defences. Estimated market size CAGR to 2028: 17.9%<sup>18</sup>

This ETF is designed to dynamically identify those industry segments that are expected to remain dominant in the cyber security space, and experience higher levels of growth over the coming years.

## Emerging segments

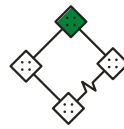
Just as new technologies have been critical to the expansion of the digital economy, innovations could prove instrumental in the fight against cyber crime.

Examples of emerging segments include:



### Hardware security

Cyber security protection installed directly on hardware. With the number of connected devices rising, the transistor density of semiconductors increasing and remote access to hardware becoming normalised, demand for hardware protection is set to rise. Estimated market size CAGR to 2032: 16.2%<sup>19</sup>



### Blockchain

A digital distributed database or ledger, which could be used to help make networks more resistant to DDoS attacks. Estimated market size CAGR to 2029: 56.3%<sup>20</sup>



### Quantum computing

Devices that use quantum properties to solve certain computational tasks far more quickly than conventional computers. This has clear implications for cryptography, as current cryptographic standards such as RSA 2048, which would take billions of years to decrypt using conventional computers, could potentially be broken in hours with quantum computers.<sup>21</sup> Estimated market size CAGR to 2027: 28.5%<sup>22</sup>

This ETF is designed to dynamically identify emerging segments in within the cyber security industry.

# About the investment strategy

## Expert research

To actively identify cyber security companies exposed to growing areas and innovating new solutions, we have partnered with the research specialist Juniper Research, which has more than 20 years' experience in identifying new, high-growth market segments within the digital ecosystem.

Juniper Research's proprietary research tools and methods provide a comprehensive and reliable picture of markets, offering competitive insights and incisive analysis of the structure and future shape of key digital markets.

## Actively designed systematic investment methodology

From our starting universe of more than 100 companies based on Juniper Research's proprietary dataset, we then apply an actively designed, rules-based guidelines to create a portfolio of stocks:

### ESG overlay

This aims to exclude companies that have been subject to severe controversies, are not compliant with the United Nations Global Compact or are involved, to a certain degree, in harmful activities. To learn more, see the Solactive Enhanced ESG Exclusions Index methodology<sup>23</sup>

### Better liquidity

To make it as easy to buy and sell this ETF as possible, we screen to maximise the liquidity of the underlying assets. Conditions include:

- Minimum free-float adjusted market cap of \$200 million
- Minimum three-month average daily volume traded (ADTV) of \$1 million
- Liquidity constraints applied to companies' weights on rebalance day:
  - Maximum liquidity weight threshold (three-month ADTV)
  - Maximum ownership threshold (7.5% for each company)

### Thematic screen

The thematic screen applies the following criteria:

- Companies must retrieve at least 50% of revenues from cyber security-related activities
- Companies engaged in the 'growth' and 'emerging' segments must derive at least 10% of their revenues from cyber-security-related activities
- Companies engaged in 'mature' cyber security segments are excluded
- Semi-annual rebalance

### ETF listed on multiple exchanges

- London Stock Exchange
- Deutsche Börse
- Borsa Italiana
- SIX Swiss Exchange
  - Intra-day ETF liquidity provided by market makers



## Product details

Fund name	L&G Emerging Cyber Security ESG Exclusions UCITS ETF		LSE (USD) – ESPY
Index	Solactive Emerging Cyber Security Index		LSE (GBP) – ASPY
ISIN	IE000ST40PX8	Listings and Tickers	Borsa Italiana (EUR) – ESPY
TER	0.49%		Deutsche Börse (EUR) – ES6Y
Base currency	USD		SIX Swiss Exchange (CHF) – ESPY

This ETF complements the L&G Cyber Security UCITS ETF, which primarily provides exposure to software and infrastructure providers within different segments of the theme. For more details on that ETF, please visit <https://fundcentres.lgim.com/uk/en/fund-centre/ETF/Cyber-Security/>

## Contact us

For further information about LGIM, please visit [www.lgim.com/uk-etf](http://www.lgim.com/uk-etf) or contact your usual LGIM representative



<sup>1</sup> Source: <https://www.microsoft.com/en-us/microsoft-365/blog/2020/04/30/2-years-digital-transformation-2-months/>

<sup>2</sup> Source: <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>

<sup>3</sup> Source: <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>

<sup>4</sup> Source: <https://www.deepinstinct.com/news/cyber-threat-report-on-2020-shows-triple-digit-increases-across-all-malware-types>

<sup>5</sup> Source: <https://www.grcworldforums.com/ransomware/ransomware-demands-soar-by-518-in-2021/2357.article>

<sup>6</sup> Source: <https://www.cisco.com/c/en/us/solutions/collateral/executive-perspectives/annual-internet-report/white-paper-c11-741490.html>

<sup>7</sup> Source: <https://www.riskbasedsecurity.com/2022/02/04/data-breach-report-2021-year-end/>

<sup>8</sup> Source: <https://thoughtlabgroup.com/cyber-solutions-riskier-world/>

<sup>9</sup> Source: <https://blog.checkpoint.com/2022/01/10/check-point-research-cyber-attacks-increased-50-year-over-year/>

<sup>10</sup> Source: <https://iot-analytics.com/number-connected-iot-devices/>

<sup>11</sup> Source: <https://unit42.paloaltonetworks.com/2022-ransomware-threat-report-highlights/>

<sup>12</sup> Source: <https://www.crowdstrike.com/resources/reports/global-security-attitude-survey-2021/>

<sup>13</sup> Source: <https://resources.infosecinstitute.com/topic/cybercrime-as-a-service/>

<sup>14</sup> Source: <https://www.globenewswire.com/news-release/2022/06/14/2461786/0/en/With-13-4-CAGR-Global-Cyber-Security-Market-Size-to-Surpass-USD-376-32-Billion-in-2029.html>

<sup>15</sup> Source: <https://www.globenewswire.com/news-release/2022/06/14/2461786/0/en/With-13-4-CAGR-Global-Cyber-Security-Market-Size-to-Surpass-USD-376-32-Billion-in-2029.html>

<sup>16</sup> Source: <https://www.globenewswire.com/news-release/2022/04/11/2419729/0/en/At-18-1-CAGR-Cloud-Security-Market-Size-2022-2029-to-Reach-USD-106-02-Billion.html>

<sup>17</sup> Source: <https://www.globenewswire.com/en/news-release/2022/02/21/2388512/28124/en/Global-Identity-Verification-Market-Forecast-to-Reach-17-7-Billion-in-2026-at-a-CAGR-of-17.html>

<sup>18</sup> Source: <https://www.prnewswire.co.uk/news-releases/at-17-96-cagr-threat-intelligence-market-to-hit-usd-26-15-billion-in-2028-says-brandessence-market-research-894291832.html>

<sup>19</sup> Source: <https://www.futuremarketinsights.com/reports/hardware-security-module-market>

<sup>20</sup> Source: <https://www.globenewswire.com/en/news-release/2022/06/06/2456388/0/en/With-56-3-CAGR-Blockchain-Market-To-Be-Worth-USD-163-83-Billion-by-2029.html>

<sup>21</sup> Source: <https://quantum-journal.org/papers/q-2021-04-15-433/>

<sup>22</sup> Source: <https://www.prnewswire.com/news-releases/at-28-5-cagr-quantum-computing-market-size-to-hit-usd-2074-6-mn-by-2027--says-brandessence-market-research-301433773.html>

<sup>23</sup> Solactive Enhanced ESG Exclusions Index methodology: <https://solactive.com/downloads/Guideline-Solactive-ESG-Exclusions-Enhanced-Index.pdf>

## Key risks

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

The Fund invests in technology companies whose products may face rapid obsolescence due to technological developments and frequent new product introduction. Such companies may face unpredictable changes in growth rates, competition for the services of qualified personnel and intense domestic and international competition, including competition from foreign competitors with lower production costs. Such companies are heavily dependent on patent and intellectual property rights. The loss or impairment of these rights may adversely affect the profitability of these companies. Additionally, companies in the cyber security field may be the target of cyber-attacks themselves, which, if successful, could significantly or permanently damage a company's reputation, financial condition and ability to conduct business in the future. As the Index includes micro, small and medium-sized publicly traded companies, the Fund is subject to the risk that such companies may be more vulnerable to adverse business or economic events and greater and more unpredictable price changes than larger companies or the stock market as a whole. Third party service providers (such as counterparties entering into FDIs with the Fund or the Company's depository) may go bankrupt and fail to pay money due to the Fund or return property belonging to the Fund. If the Index provider stops calculating the Index or if the Fund's license to track the Index is terminated, the Fund may have to be closed. It may not always be possible to buy and sell Shares on a stock exchange or at prices closely reflecting the NAV. There is no capital guarantee or protection on the value of the Fund. Investors can lose all the capital invested in the Fund. The fund may have underlying investments that are valued in currencies that are different from the currency of this share class, USD, in which case exchange rate fluctuations will impact the value of your investment. In addition, the return in the currency of this share class may be different to the return in your own currency. Please refer to the "Risk Factors" section of the Company's Prospectus and the Fund Supplement. In addition, the below risks relate to the L&G Cyber Security ETF Fund. As the Index includes small and medium-sized publicly traded companies, the Fund is subject to the risk that such companies may be more vulnerable to adverse business or economic events and greater and more unpredictable price changes than larger companies or the stock market as a whole.

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