

For professional investors - October 2021

Marketing Communication

# LIQUIDITY SOLUTIONS

## THE CASE FOR SUSTAINABLE CASH MANAGEMENT.



**BNP PARIBAS**  
**ASSET MANAGEMENT**

The sustainable  
investor for a  
changing world

# LIQUIDITY SOLUTIONS

## The case for sustainable cash management

At its heart, sustainability is about protecting investors from reputational, operational and financial risks associated with controversial companies or countries, but it also provides a wealth of new investment opportunities to support a more responsible economy. This is why BNP Paribas Asset Management firmly believes that when selecting companies to invest in on behalf of our clients, our fiduciary duty extends to environmental, social and governance risk management.

**ShareAction»**

Top 3 global responsible investment manager<sup>2</sup>



Global leader in sustainable investing<sup>3</sup>

### WHY CONSIDER SUSTAINABLE INVESTMENTS?

- Sustainability is a long-term driver of investment risks and returns, and these risks may also materialise in the short-term
- Increasingly, global regulators are ruling that sustainability be factored into investment decisions and reporting. These changes are having a significant impact on how investors consider and report on sustainability in their investments.
- Exposure to non-sustainable securities is potentially an investment risk and a long-term liability, especially if issuers are unable to cope with the ongoing transition towards a low carbon economy.

### A PIONEER IN SUSTAINABLE INVESTING

- At BNP Paribas Asset Management, our commitment to sustainable investing began in 2002 following the launch of our first sustainable fund and the establishment of a dedicated environmental, social and governance (ESG) research team.
- Building on our ESG foundations, in 2017 we set up what is now a 25-person strong multi-disciplinary Sustainability Centre<sup>1</sup>, led by sustainable industry veteran, Jane Ambachtsheer.

### A STRUCTURED APPROACH

BNP Paribas Asset Management's Sustainability Centre drives our approach to sustainable investment. It provides investment teams with research, analysis and data at company and sectoral levels, and it supports teams in their efforts to integrate sustainability-related risks and opportunities into investment strategies. This is achieved by our ESG research analysts, whose insights are informed by a variety of external data and research sources, and who provide a range of educational opportunities to colleagues across the organisation. They also carry out specific training for our investment staff and comprehensive ESG training to all staff across multiple business disciplines and regions, helping them to understand the issues as well as the important role they play in delivering on sustainability.

### TAKING OWNERSHIP: THE ROLE OF SUSTAINABILITY IN BNP PARIBAS ASSET MANAGEMENT'S INVESTMENT DECISIONS

Our sustainable investment strategy consists in four clearly defined pillars:

#### ESG Integration

Our analysts and portfolio managers apply ESG criteria at all stages of the investment process, beginning with the investment philosophy and continuing within research and idea generation; portfolio construction; risk management; engagement; voting; and disclosure/reporting.

#### Stewardship

We actively engage with regulators, helping to shape the markets in which we invest and the rules that guide and govern company behaviour. We also believe that meaningful engagement with issuers can enhance our investment processes and better enable us to manage long-term risk for our clients.

#### A forward-looking perspective

We have identified three critical pre-conditions for a more sustainable and inclusive economic system: the energy transition to a low carbon economy; environmental sustainability; and equality and inclusive growth. Together, these '3Es' represent the pathway to the economic sustainability that enables us, as investors, to safeguard long-term returns.

#### Responsible business conduct

In line with the sector policies applied at BNP Paribas Group level, we engage or exclude companies that appear on our watch list for certain activities and exclude, or place on our watch list, companies that are subject to serious controversies and those deemed to be in breach of the United Nation Global Compact and/or the OECD Multinational Enterprises guidelines.

<sup>1</sup> BNP Paribas Asset Management, 2021

<sup>2</sup> ShareAction, Point of No Returns, March 2020

<sup>3</sup> WWF, RESPOND Sustainable Investment Report 2020, <http://resilientportfolios.org/>

## SUSTAINABILITY AND THE MONEY MARKETS UNIVERSE

Given the short-term horizon of money market funds (MMF), some investors may think that integrating ESG into MMF is not worth the effort. We do not agree, as there is evidence that long term risks may crystallise in the short term. Although ESG is not mainstream in fixed income markets yet, things are moving in the right direction. Investors' ESG awareness is increasing and clients are moving from a pure risk/return approach into a sustainable risk/return mindset. Furthermore, issuers understand that ESG considerations should not be underestimated. ESG factors may affect issuers' risk in the medium to long run but can also help reduce the risk of unanticipated concerns when ESG considerations have been underestimated or minimised. Thirdly, even though ESG data remains heterogeneous, it is improving and asset managers, credit rating agencies and data providers are making considerable investments in this field.

At BNP Paribas Asset Management, we believe we will make better investment decisions if we systematically and explicitly integrate ESG factors into all of our investment analysis and decision-making, including the MMF universe. While integrating ESG considerations in our MMF, we will also make sure we take into account the specific constraints linked to this asset class (e.g. MMF benchmarks are interest rates and not baskets of securities; money markets are mainly driven by available offers and predominantly made up of financials securities where the weight of governance considerations are paramount).

## SUSTAINABILITY IN BNP PARIBAS ASSET MANAGEMENT'S MMF RANGE

Money Market Funds are finding ways of integrating more ESG criteria. At BNP Paribas Asset Management, we not only exclude companies in breach of sector and United Nations Global Compact and OECD Multinational Enterprises guidelines, but we are committed to implementing a specific ESG approach across our MMF range, leveraging on our independent ESG research team.

Our ESG considerations within all of our Money Market Funds:

- Favouring issuers with better than average ESG scores in our investment process
- To start by engaging with, rather than excluding, lower-rated companies to help improve behaviours and the way companies operate
- Setting minimum average ESG scores at a MMF level while taking into account the characteristics and objectives of each fund
- Considering indicators such as Carbon Footprint in a wider context, by assigning metrics and weights to sectors

## REGULATION AND OUR MMF RANGE

Regulators and investment industry associations are keen on strengthening sustainable reporting standards. The Sustainable Finance Disclosure Regulation (SFDR) is a central plank of the European Commission's 2018 Action Plan for financing sustainable growth, providing greater transparency on the degree of sustainability of financial products. The objective is to channel private investment towards sustainable investing.

In accordance with this regulation, we have categorised our entire fund range. Our MMF range are all classified as Article 8 funds: products promoting environmental or social characteristics.

BNP Paribas Asset Management has managed socially responsible investing MMF for over a decade now. This practice excludes companies with the worst ESG scores from the portfolio, in line with our best in class approach. Within our ESG MMF, lower-rated companies continue to be investable provided there is engagement; however the manager will tend to favour issuers with a good ESG score. On a monthly basis, we report our MMF ESG scores, the Carbon Footprint of our funds and our ESG contribution split between Environmental, Social and Governance.

We are convinced that by integrating ESG factors into our investment analysis and decision-making, and combining the capabilities of our skilled ESG research team, portfolio managers and credit analysts, we will make better-informed investment decisions based on a richer understanding of risks and opportunities. Money market funds incorporating ESG factors will also better meet the needs of long-term investors willing to invest their residual cash positions in a sustainable way.



**Broadridge®**

.....  
**Number 1 in sustainable  
thematic strategies<sup>4</sup>**

For further information  
on our Money Market Funds and  
our Liquidity Solutions capabilities,  
please contact:



- Marc Fleury -

**Co-Head of Liquidity Solutions, Sales**  
**Contact us at:**

[AM.LiquiditySolutions@bnpparibas.com](mailto:AM.LiquiditySolutions@bnpparibas.com)

### CONTRIBUTING AUTHORS:

**Xavier Gandon** – Investment Specialist

**Sheila ter Laag** – ESG Specialist

<sup>4</sup> BNP Paribas Asset Management internal analysis, based on Broadridge data on European cross-border and local funds, as of Dec 2019.

Trademark, copyrights and other intellectual property rights are and remain the property of their respective owners.

BNP PARIBAS ASSET MANAGEMENT UK Limited, "the investment company", is authorised and regulated by the Financial Conduct Authority. Registered in England No: 02474627, registered office: 5 Aldermanbury Square, London, England, EC2V 7BP, United Kingdom.

This material is issued and has been prepared by the investment management company.

This material is produced for information purposes only and does not constitute:

1. an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or
2. investment advice.

Opinions included in this material constitute the judgment of the investment management company at the time specified and may be subject to change without notice. The investment management company is not obliged to update or alter the information or opinions contained within this material. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the financial instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for an investor's investment portfolio.

Given the economic and market risks, there can be no assurance that the financial instrument(s) will achieve its/their investment objectives. Returns may be affected by, amongst other things, investment strategies or objectives of the financial instrument(s) and material market and economic conditions, including interest rates, market terms and general market conditions. The different strategies applied to the financial instruments may have a significant effect on the results portrayed in this material.

This document is directed only at person(s) who have professional experience in matters relating to investments ("relevant persons"). Any investment or investment activity to which this document relates is available only to and will be engaged in only with Professional Clients as defined in the rules of the Financial Conduct Authority. Any person who is not a relevant person should not act or rely on this document or any of its contents.

All information referred to in the present document is available on [www.bnpparibas-am.com](http://www.bnpparibas-am.com)



**BNP PARIBAS**  
**ASSET MANAGEMENT**

**The sustainable  
investor for a  
changing world**